

## Memorandum

To: Clients, Friends, Family & Associates of Pro@ctive CPA  
From: Mark Wyssbrod, Managing Member  
Date: May 18, 2013  
Re: Economic Update – The Bottom Of An Economic Cycle

In this memorandum you will receive information about:

- The Great Retirement of Corporate Managers
- The Small Business Economic Cycle

Please contact me should you have any questions. Be aware of your changing economic environment – as it might just be improving in front of your eyes! Are you prepared for it?

### **The Great Retirement of Corporate Managers**

The stock markets continue to be on the rise and many market professions expect the bull rally to continue to new heights. At the same time you have an increase in insider and manager selling shares. I would expect the majority of these shares were issued as stock compensation and with stock prices at new highs many want to cash in profits.

As new wealth is created in these transactions you can expect to see mortgages paid off as retirement approaches and for life styles to increase. People tend to spend more money when they do not have a mortgage and when they have a lot more money. This new round of spending should continue to fuel small business revenues; although it may take 12 months (perhaps more) to trickle down.

Additionally, as corporate managers come into immense wealth they may begin to exit the corporate world. Although retirement may sound like a no brainer, these types of individuals may not be satisfied with sleeping in and playing golf. These are the “go getting” types and I believe there is a good chance many of them will begin to invest (or purchase) small businesses to stay active and alive to them.

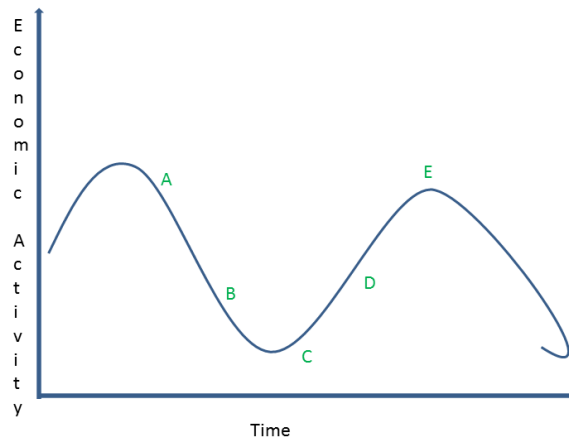
The newly created wealth may take over a year to trickle down, but I do believe it's on the way. Will your business be in position to reap the rewards?

As I said in Scouting, Be Prepared!

Mark W.

## The Small Business Economic Cycle

Below I have provide my opinion based on my years of writing, research and observation of a simplified version of the small business economic cycle and a few of the major phases.



A – ~Winter 2007 – Small Business economic indicator have hit their peak and begin to decline. However, small businesses have a sense of safety, ignorance and arrogance fueled by popular myths which causes them to believe recessions can no longer occur, assets (especially housing) can only increase and there is no risk in overloading in debt. Any realist which points any concerns is immediately labeled a pessimist and disregarded. Cash flow is strong, but cash flow is a bad indicator for the small business financial position is beginning to erode. Balance Sheets being to contract as a warning sign. This is the time when business owner’s feel the best due to profits and cash flow, but is the worst part of the economic cycle for them to be caught offguard.

B – ~Summer 2012 – Small Business economic indicators are beginning to bottom out. Revenue growth is strong, however margins contracted resulting in working more, taking on increased transaction risk for the same or less net profit. A false sense of optimism is felt and it fuels hope once again for a better tomorrow. Attitudes are poor and thoughts of “what else do I have to do” and “what else can go wrong” begin to occur. Any realist which points out the future will be better soon is disregarded as a cheerleader. The surviving small businesses are waiting on the final flush out of weaker competition which after several years of lower sales, lower margins can no longer support the extraordinary amount of debt. Business owners are wondering how their books can show profit, but they do not have any cash; the answer is their profits are being forced to pay down debts. Balance Sheets and Income Statements have or are close to bottoming out and will soon be expanding once again.

C – Spring 2013 (Currently!) – Small Business economic indicators appear to be rebounding. Although revenue is not particularly strong, margins are stable (and for some finally improving). The economic environment feels weak, but surviving companies have less competition and consumer spending as well as confidence is increasing. The iron is hot and the time to strike is now! What is holding small business confidence back? The lack of working capital and access to lines of credit (capital) is translating into enormous cash flow stresses. A realist would point out the opportunities and the business owner would actually agree, but add to the lack of resources to go after them.

D – Fall 2013 to Spring 2013 (near future!) – Small Businesses should begin to grow, perhaps significantly. A rebound in revenues and margins will make the business owners happy and provide a fresh ground of energy which is desperately needed after multiple years of physical and/or mental fatigue which has created exhaustion for many. The stress on cash flow will catch many small business owners off guard as growth will not necessarily feel good. When a business grows its working capital requirements increase; since small business has minimal working capital in this part of the cycle and still needs to repair the balance sheet by reducing debts, profits will appear, but cash will not. This is when business owners may feel the worst due to cash flow stresses and working longer hours, but is one of the best parts in the economic cycle for them.

E – Winter 2014 – Winter 2015 (A few years to prepare) – Small Business cycle may peak due to economic forecasts and demographic issues. Interest rates will begin to increase for the first time in years. Small businesses will need to correct their financial position by this time. However, after a few years of solid profits and positive cash flow, many owners may be naïve and forget the past. When the business was not making any money, they were thankful for everything; after success arrives once again complacent may take over and an entitlement of “I deserve” and arrogance may replace work ethic. Thus the economic cycle, just as history, will repeat itself. This could be an excellent time for a sale of your business.

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