



To: Clients, Associates & Friends of Pro@ctive CPA  
From: Mark Wyssbrod, Managing Member  
Date: October 17, 2011  
RE: Small Business Economic Update: No Recession, But What Can You Control?

The good news is I am not convinced there is not a significant chance of another recession for small businesses in the United States for the remainder of 2011 or the first half of 2012. This is good news since the media is trying to stir up a more murky future. The bad news is the so-called recovery will stay extremely volatile. We, as investors and small business owners, may have become fatigued with the volatility, but the volatility has not grown fatigued at all.

There is a lot of confusion and contradictory information in the world today (i.e. print money = inflation; supply > demand = deflation). The markets and economy are having a difficult time deciphering the data. Michael Santoli described it well in his Barron's September 26, 2011 article "A Market in the Twilight Zone". Mr. Santoli describes the current market and economic conditions similar to what sailors call the nautical twilight. A nautical twilight occurs when sailors cannot use the Sun or the Stars to navigate. This occurs twice a day during dawn and dusk. For about an hour each time sailors become nervous, perhaps terrified, for not fully knowing which way they are going (of course, this is before the days of GPS and depth finders). This seems like an accurate description of today's economy to me.

You can read the entire article at:

<http://online.barrons.com/article/SB50001424052702303741704576580920287505758.html>

Small businesses are in their own "nautical twilight". Small business has been stable across the board and solid in the technology sectors. However, the lack of confidence, frustration and financial stress have all increased during a time when small business has stabilized or grown.

Why is there a disconnect between the financial progress and the business owner's feelings? Perhaps, it is:

- A part of being human which includes being filled with emotions
- Our expectations have increased more rapidly than the economic conditions
- It is an election year and the political rhetoric is getting louder (and I am sure it will be screaming during the next 12 months)



- It is due to patience: we have sacrificed for so many years and have not seen a reward for our efforts
- Staying in business (without filing bankruptcy) is our reward?

Writing this update took longer than usual. I went through several drafts. The first draft was entitled “2012 The Year of the Great Small Business Default”. I am prone to reading too many articles and facts. However, the more I wrote and thought about the news I was hearing the more I was convinced that the media got me! The fear we are bombarded with is an awesome power. We give emotional reactions without clearly thinking if the event or information directly affects us, our business or our investments.

I have begun calling these emotional issues (especially fear and greed) “red lights”. Red lights are out of our control. We get stopped by red lights a fraction of the time, but we get worked up and stressed (and upset) by getting caught by a red light. We begin to feel as if the lights are against us! The “red lights” in the economy right now are unemployment, financial conditions of financial institutions, US government debt, European debt and the financial crisis in Greece.

However, we can control how we travel, our route and the time we depart. I call the items we can control “green lights”. We can control whom we do business with, collection practices, gross profit margins, overhead expenses, team members attitudes just to name a few. So why are we spending so much of our energy being stress out about the “red lights” when we should be focusing on the “green lights” we can control?

Even though we believe the remainder of 2011 and first half of 2012 will be stable for small business, we do recommend closing business deals (performing the work and receiving payment) as quickly as possible. We recommend expediting business transactions any way you can. **We make this recommendation for the following four reasons:**

1. Our observations indicate the optimistic mindset of small business owners is beginning to fade. Even though business is steady to brisk at the moment, there remains no confidence this current stability is permanent; therefore, no additional hiring or investment is being made. When speaking to some small business owners we sense their feeling is that they have struck out before they even picked up the bat and swung. These attitudes are difficult to change and usually require a longer duration of time to adjust.



2. Our concerns of rule changes of the new economy will be influenced by the wealthy. The wealthy, who own more than 90% of world assets, for the first time ever have less than 50% in equity positions in their investment accounts. Why would the owners of 90% of assets not want to own assets? This may signal the wealthy and most astute investors do not see the reward versus the risk of owning stocks.
3. The middle and lower classes of net worth do not have the resources to invest more in assets as they are trying to correct their personal balance sheet by reducing debts while not harming their life styles. This means these types of individuals have less money to spend on the basic consumption as well as luxury items. Additionally, these individuals do not have the resources to invest in asset purchases (retirement, small business, etc.).
4. Our observation of a major transition of attitudes in our community. The attitude shift is “I would rather live a life style instead of building net worth”. As a result, you have a growing middle class wage earners’ living an upper class life style with a lower class net worth. The balance has shifted to short-term satisfaction from long-term sacrifice. Why sacrifice so much to build net worth when I deserve it today and can file bankruptcy and collect unemployment tomorrow?

On a more positive note, we also believe opportunity has a chance to improve due to the economic numbers and data points are so weak (consumer confidence, unemployment, manufacturing, etc.), especial for a “recovery stage” that they only have one place to go, up. Of course, in this volatile environment there are no guarantees.

We continue to urge our clients to focus on solutions for today and tomorrow; spend your energy on solutions you can control (the “green lights”) instead of worrying about issues you cannot control (the “red lights”); and make the most of 2011 as the second half of 2012 potentially may be more challenging. I cannot wait to escape this “nautical twilight” and have the calm of safe navigation!

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