



To: Clients, Associates & Friends of Pro@ctive CPA
From: Mark Wyssbrod, Managing Member
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Re: Volatility Is The New Normal

I spent my day in continuing education classes on Thursday, August 18, 2011. The teachers were professional, knowledgeable and educational. The subjects I learned about started with Fraud, US Deficit, the life of the “Catch Me If You Can” character, Fraud Prevention, How to Spot Fraud On Financial Statements, and economic updates.

My take away from the day was everyone has the capability to commit fraud and, therefore, should be a suspect and our economy and society (and our nation) cannot handle its current and future deficit. On top of that, the stock market decline 400 points today. It is days like this which are mentally difficult and distracting.

With so much noise out there distracting you from your business it is easy to get off track. As business owners, managers and investors we must be careful to handle these distractions. We need to stay focused on the important information and operations. We need to use our energy on solutions, not on worry. Do we have laggards or leaders?

So, am I a Bear once again? Did I just have the shortest case of being a Bull in history? Not exactly! In my update titled “Paradigm Shift” on July 6, 2011 I mentioned that there are major changes in our economy, society and communication styles. However, I was not certain what some of the major changes were.

Over the last six weeks I have had some time to ponder on this subject. Some of the changes which have snuck up on individuals minds include continued increase of US Federal Deficit, prolonged high unemployment, we either have one political party marketed as two or two very polarized parties (I am not sure which), continuation of fear throughout life, modern day mental stress pushing our limits, individual personal financial stress.

Additionally, the US Federal Reserve (the Fed) increases liquidity and reduces interest rates when trying to control the pop of a bubble. However, we have witnesses every time the Fed begins to stop adding liquidity, interest rates begin to rise and the economy begins to slow. The Fed then begins to inject more liquidity and the cycle continues. We end up with a lot of liquidity and manipulated low interest rates.

The result of all of these issues has been uncertainty hanging over corporations and individuals. The uncertainty is delaying strategic decisions which results in delayed hiring, capital investments and research and development. Delayed hiring is increasing, causing an increase in fear in individuals by having high unemployment rates. The fear is leading to financial stress, which has increased mental stress, which is causing individuals to act irrationally. The delay in capital investments is delaying an increase in productivity and efficiency. Additionally, it is delaying a material amount of purchases in equipment, talent and consulting. Finally, our economy is the most creative one in the world. Our



innovations have fueled the world economy (think computer and iPad). When our companies discontinue research and development we lose our creative and innovative edge.

I have also observed, during the past few years, the light switch quickness of small business attitudes. A business owner used to be overly optimistic. Then a slow switch to only being optimistic until attitudes crashed into a pessimist state. Their world view and attitude began bouncing back and forth between an optimist to a pessimist and then back to being an optimist to a pessimist depending on how their day was going. Now that is volatile!

Was the economist from Georgia Tech and the former Comptroller of the US incorrect when talking about the doom of the deficit? Not necessarily. Someone needs to scare Congress into acting like adults. But I cannot stop thinking how economists helped fuel our bubbles sometimes. For example, at the height of the real estate and financial bubble, most economists did not see any problems; now, during challenging times, economists see no hope.

What are the solutions for this? We must sacrifice, work harder and work smarter. None of which are politically viable solutions (i.e. if a politician told you this you would not vote for him or her). Additionally, none of these are palatable to our society. We live in an age of entitlement and everyone gets a trophy. These characteristics clash with sacrifice, working harder and working smarter.

I am forecasting a very volatile economy over the next few years. Due to the unpredictable small business and individual attitudes, extreme political rhetoric, likelihood for higher taxes and interest rates in the future and long-term decline of the dollar. We have seldom had to deal with any or all of these issues over the past 30 years.

On a side note, yes we must sacrifice, work harder and work smarter. Will our customers appreciate this? I hope so, but probably not. There is an alarming growth in the rude behavior of customers as well as overly high expectations. The trend also includes customers' last minute planning and expecting a miracle from you. If a flake of dust is on the end result there is no thank you for the miracle or for covering their poor planning, but there is a demand for a discount. As an employee you would not work for a boss like this, so as a business owner do not be fearful of firing for customers like this. A solution is to be clear in expectations and payments at the beginning of a project; clearly communicate your value proposition; explain to them you will be sacrificing and working hard to cover their poor business practices (re-phrase this when saying); and brand yourself to do business with the individuals you want to do business with (i.e. not everyone). ***You must do the right thing, even when others do not appreciate you and bad mouth your character. Be confident in yourself as the others are re-directing their personal and financial challenges onto you instead of facing their demons themselves.***

America's economic power can be associated with innovation. My observations indicate America is burnt out: from the small business owner to corporate manager. The number of hours business has demanded from owners and managers has increased dramatically during the past 4 years. If our creative forces are burnt out, how does the economy innovate and become more efficient?



How do you survive? Prepare for volatility. Have a lean overhead. Be able to scale up and scale down your operations quickly. During the short-term improvements in the economy, strike, profit and build business position. During the short-term contractions in the economy, play defense, review overhead, re-position your business and look for opportunities.

This environment calls for creative thinking, powerful leadership and effective communication to clients, vendors and employees.

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