Two articles in this issue ask you to assess your work life. The first, “Shake Loose of Sunk Costs,” introduces you to a fallacy that clogs the decision-making ability of many a business owner. The question is: Are you letting past investments prevent you from moving freely to more promising opportunities? The second, a review of The 4-Hour Workweek, introduces a compelling new book that urges you to find breakthrough ways to become radically more efficient. More than that, it gives you a role model (author Timothy Ferriss) and scores of suggestions for working less, making more money and getting more out of life. I suggest you read my review and then pick up a copy.

Also in this issue, several articles provide important information about funding higher education costs and passing wealth to your heirs in a tax-advantageous way. After all, the stock market is back to pre-crash levels and the economy continues to improve.

There’s more, so dig in. It’s a pleasure to serve you.

Sincerely,

David L. Perkins, Jr.
Managing Editor
The Business Owner Journal
Shake Loose of Sunk Costs

Are you laboring to salvage a past investment? Letting a large, failed investment influence your current decisions? No matter the amount of time and money you or your business have invested in something or someone, current decisions should be based solely on a sober estimate of present value of future returns. That is, time and money previously invested should not enter into the equation you use to assess which course of action will provide the highest future yield. This is the principle of sunk costs — a well-established and widely accepted principle of rational investing and sound decision-making.

For example, your decision whether to sell an automobile should be based solely on the value you place on owning it relative to the price at which it can now be sold. The amount you have invested in it should have no bearing whatsoever on your decision.

Accepted methodology in the field of appraisal, aka valuation, imbibes the microeconomic theory of sunk costs. Value is derived from two main sources: cash flow ("income approach") and the price at which the asset could be sold ("market approach," aka the comparable sales approach). The amount of money invested in the asset or business is not an input in the value equation. Why? Buyers don’t care about how much was originally invested. Buyers care only about — and will pay for — value that can be derived from the asset going forward. Trained appraisers know this. The value of a piece of land, for example, has nothing to do with what the owner paid for the land. Since raw land rarely throws off any cash flow, the value is derived using the market approach, i.e., by attempting to find comparable sales and comparing them to the subject asset.

Are you letting sunk costs impede your decisions?

The odds are very good that you are. It’s human nature. It’s not logical, but humans are not always logical. After all, to err is human.

Overly Optimistic Probability Bias: Studies have shown that investors, once they make an investment, tend to overestimate the likelihood of a favorable return. Such leads investors to irrationally stick with failed investments and impedes their pursuit of more promising investments.

Loss Aversion: People tend to place greater importance on avoiding loss than acquiring gains. Such has been proven in numerous studies, such as one conducted by Kahneman and Tversky, the results of which were published in a 1991 article in the Quarterly Journal of Economics. Loss aversion causes people to irrationally hold on to failed investments, even when more promising investment opportunities are available. This fallacy plays out in investors who sell winning stocks and hold on to losers, often cutting gains short but staying in underperformers long enough to suffer large losses. This mistake is sometimes called “chasing losers.”

Throwing Good Money After Bad: In an attempt to salvage a failing investment, many will “double down” on their prior commitment. There is nothing innately “wrong” with doing so, so long as the decision was based on an objective evaluation of the available opportunities. If, ignoring the monies already invested, the highest-yield opportunity for the remaining available investable funds is “doubling down on the prior failing or underperforming investment,” then the choice is a rational one. But if a higher return can be achieved elsewhere, the rational decision is to walk away from the prior investment. Unfortunately, investors tend to place a higher value on “proving myself right” or “salvaging my investment.” The result is commonly referred to as “throwing good money after bad.”

Life’s short. Your time and money are valuable. Are you making rational choices about where you spend your time and money? That is, allocating your scarce time and money toward investments that objectively offer the highest return? Or are you getting stuck in a rut? Are you making the entirely human mistake of letting sunk costs influence your decisions? Letting sunk costs block you from pursuing more promising endeavors? 

“A man is rich in proportion to the number of things he can afford to let alone.”

Henry David Thoreau
Before creation of the Educational Savings Account (ESA) and Qualified Tuition Programs (QTP, also referred to as 529 plans), parents who wished to give money or property to their minor children could do so in four basic ways:

1. Give it outright.
2. Give it in a trust.
3. Give it by means of special guardianship.
4. Give it using a custodial account.

These options still exist, but each has limitations. For example, many parents are reluctant to give property outright to their children for fear they would squander it. Trusts offer parental control but can be costly to set up and manage. The special guardianship is often impractical and leaves overly broad powers with, and sometimes places a burdensome responsibility on, the guardian. For these reasons, the custodial account was long favored by parents and their advisors.

**Custodial Account**

Most state laws provide a way to establish a custodial account under either UGMA (Uniform Gifts to Minors Act) or UTMA (Uniform Transfers to Minors Act). A custodial account is often referred to as a “poor man’s trust.” To set one up, all you need to do is open an account at your financial institution and tell it to set up a custodial account. It’s so easy, common and standardized now that few consult a lawyer.

But bear in mind that though the mechanics of setting up the account are simple, serious legal and tax consequences result once a parent funds a custodial account. For example, the account is irrevocable. Once funded, you can’t get the money or assets back. And the property in the account must be distributed to the child when he or she reaches the age of majority — typically either 18 or 21, although it can be extended to age 25 in some cases. None of the above-mentioned options offer tax shelter or deferral.

For the above-cited reasons, the new ESA and QTP/529 accounts have become preferred options. A big reason is their tax-sheltering and/or deferral characteristics.

**Coverdell ESA vs. QTP/529**

The Coverdell Education Savings Account (ESA) program and the Qualified Tuition Program (QTP/529) are similar in many ways. Both feature the ability to invest monies into accounts that allow tax-free growth and tax-free withdrawal for higher education expenses. Both allow contributions, considered gifts by the IRS, to be made by either individuals or companies, and neither offer federal tax deductibility of contributions. Both offer the ability for the donor/contributor to retain control of the funds if the account is set up in a way that provides for this. Both allow the design...
nated beneficiary to be changed to members of the family of the original beneficiary.

So what are the differences? The ESA program has a few more restrictions. While the QTP has no restriction on who can contribute or how much can be contributed annually, the ESA excludes certain high-income earners and limits the annual contribution to any one beneficiary to $2,000. The ESA also does not allow contributions if the beneficiary is 18 years or older, and requires that all account funds be distributed by the time the beneficiary turns 30. The QTP does not have such restrictions. Some states allow for contributions to their state QTP plans to be deducted from state taxes. Finally, the QTP is unique in that it has a prepay option, which allows a contributor to prepay tuition.

But the ESA does have one attribute not matched by the QTP. ESA funds can be used for elementary and secondary school expenses.

So which to choose? Well, you don’t really have to choose, as contributions can now be made to both an ESA and a QTP for the same beneficiary in the same year. But given that the QTP has almost all the attributes of the ESA and far fewer limitations, many will choose to convert existing ESA accounts to the QTP (which is easy and penalty-free), and set new accounts up as a QTP.

**Coverdell Education Savings Account (“ESA”)**

Anyone with a modified adjusted gross income less than $220,000 (married filing jointly) may contribute up to $2,000 per year to any person under the age of 18 (beneficiary) via a Coverdell Education Savings Account (ESA, formerly called an Education IRA). In fact, a qualifying contributor can donate, within these limits, to as many ESA beneficiaries as he or she wishes. Any business, regardless of its size or income, can similarly contribute to an ESA account.

If the distributed funds are used to pay qualifying higher education expenses of the beneficiary, no tax will be due. Otherwise, the earnings portion of withdrawals is taxed at the ordinary income rate of the beneficiary plus a 10 percent penalty (on the earnings portion only).

Monies in an ESA must be withdrawn before the beneficiary reaches the age of 30 and can be moved penalty-free to another ESA account of the same beneficiary or any relative of the beneficiary under the age of 30. Unused ESA monies cannot be rolled over into a retirement account, but ESA account monies can be rolled into a QTP account anytime without penalty. Talk to a bank or investment firm for more information or to set up a Coverdell ESA.

**Qualified Tuition Program (QTP or 529 Plan)**

Formerly known as the Qualified State Tuition Program (QSTP) and commonly referred to by the Internal Revenue Code section that brought it to life (Section 529), the QTP is a government program that allows you to either prepay a student’s tuition or contribute to an account established to pay a student’s higher education costs. The QTP is attractive in that it allows:

a. Prepayment Option: Guarantee higher education for a future student by purchasing vouchers or credits today that can be exchanged in the future for post-secondary school expenses.

b. Savings Option: Invest money today in a way that allows for tax-free growth and withdrawal if used to pay higher education expenses.

The ability to prepay tuition is attractive because it eliminates the uncertainty as to whether sufficient funds will be available to pay tuition when the beneficiary or future student is ready. The ability to invest tax-free is attractive, as invested funds will grow much faster without the “tax man” asking for a yearly donation.

Anyone may set up a QTP account, which is simply an investment account held by an approved administrator, such as Merrill Lynch, T. Rowe Price, TIAA-CREF or Alliance Capital. The person who sets up the account can name anyone he or she wants as the account owner and as the beneficiary, including himself or herself.

The account owner controls the account and decides how and where the funds will be invested and distributed. The account owner can change the beneficiary to any family member of the original beneficiary once per year. But if withdrawn funds are not used to pay higher education expenses of the designated beneficiary, the earnings on the invested funds will be taxed at the applicable rate of the person who received the distribution plus 10 percent.

**continued on page 6**
The only limit to contribution is that QTP plan monies for a single beneficiary may not exceed the total estimated cost of higher education, which is estimated by the chosen QTP plan administrator. QTP plans currently use limits in the $225,000 to $300,000 range.

A person can invest in a state’s plan no matter where he or she lives. Monies in an account can be used to pay the expenses of virtually any public or private institution of higher education, regardless of which plan is chosen or where the beneficiary may live. Monies can be moved freely from one QTP account to another, without penalty. Some states allow for contributions to their QTP plan to be deducted from state income taxes. Finally, most state-sponsored plans provide that, if the beneficiary is a resident of the state the plan resides in, no state income tax is due on earnings or withdrawals.

Unlike the Coverdell, there are no income limits on who can contribute, and there is no age limit on when funds can be contributed or must be withdrawn. But QTP plans have more stringent restrictions on how funds can be invested. The choices are unique to each QTP plan and generally include a range of money market, bond fund or stock fund options. As such, before selecting a plan, you should consider the available investment choices, competency of the investment managers and the expense loads and fees.

The account owner of a QTP can be either an individual, a trust or a 501(c)(3). Monies can be moved from an ESA to a QTP account anytime without penalty.

Moving Monies from UGMA and UTMA to QTP/529

Luckily, most QTP plans allow assets held in UGMA and UTMA accounts to be transferred to a QTP. But be aware that resulting capital gains or losses may cause the account to incur commissions, fees and tax liabilities. In addition, although the UGMA/UTMA assets may be transferred to a QTP plan account, the UGMA/UTMA rules of the state where the original account was established will likely continue to apply.

This may limit some of the benefits that generally would be available to you when you contribute to a QTP plan account. For example, you usually can determine the age at which the beneficiary may access the funds in the QTP Plan account. But for QTP plan accounts funded with UGMA/UTMA assets, the beneficiary may become the account owner upon reaching the age of majority. To avoid this, you might want to consider leaving the funds in the UGMA/UTMA account and establish a QTP account for the same beneficiary. This way, you can continue funding your child’s or grandchild’s education, with the new funds enjoying the benefits of the QTP program. The assets in the UGMA/UTMA account can then be used for other expenses of your child, grandchild or other beneficiary.

FINANCE

Cautions for Setting Up a QTP/529 Plan

Laws that gave rise to the Qualified Tuition Program (QTP), aka 529 plan, restrict the type of investments that may be offered by QTP plan administrators such as Merrill Lynch and Alliance Capital. The purpose was to limit choices to those that tend to be lower risk. Still, there are significant differences in investment options offered by each plan. When selecting one, consider investments that you or your advisor deem appropriate for the beneficiary, then find a plan that offers compatible investment options.

Watch the plan fees and expenses.

No matter which plan or plan administrator you choose, the administrator has operating expenses. These expenses are passed on to the account holder. Expenses and associated fees vary considerably, just as they do with mutual funds. Moreover, just as with mutual funds, the expense burden has a tremendous impact on returns. When considering which QTP to use, consider the fees.

continued from page 5

continued on page 8
**Q&A: Estate and Gift Taxes**

**Question:** What are estate and gift taxes, and how are they calculated?

**Answer:** Estate and gift taxes are used to tax large transfers of wealth among individuals. Gift taxes are imposed on transfers made during an individual’s lifetime, and estate taxes are imposed on transfers made at the time of death. Although gift taxes and estate taxes are paid separately, they are a unified tax in the sense that a single graduated rate schedule applies to the cumulative total of taxable transfers made through gifts and estates. The accompanying table shows the rate schedule.

Although taxation of gifts and estates may seem complicated at first glance, calculation of estate and gift taxes is actually quite similar to calculation of personal income taxes. As with income tax, exemptions and credits are applied before the progressive rate schedule is applied. But estate taxes are different in one important way: They are calculated over a lifetime, not year by year.

For income tax purposes, that is, taxable income for 2010 is the total taxable income earned from January 1 to December 31 of 2010. In other words, it doesn’t matter how much you earned in 1997 or 2009; all that counts is how much you earned in 2010. For estate and gift tax purposes, on the other hand, it does matter how much a taxpayer has given away in the past. The gift tax rate for 2011 depends on the total amount of taxable gifts a taxpayer has given since 1976 (when the estate and gift taxes were unified).

**Exemptions:** Each taxpayer is currently allowed to give $13,000 ($26,000 for married joint filers) in gifts to any single individual in the course of a year tax-free. This is a per-recipient exemption. For example, a taxpayer wishing to give away $65,000 to her five grandchildren could do so tax-free (if the gifts were split evenly) in 2011.

**Credits:** Most gifts and estate above the annual exemption are not subject to tax. This is because each taxpayer is allowed a lifetime credit against taxable gifts and estate. In 2011, the credit amount is $1,730,800. Under the rate schedule shown in the table, this credit is equivalent to a $5 million exemption from the gift and estate tax. This means that even if a taxpayer gives more than the exemption amount to a single recipient in a given year, the excess amount is not subject to tax unless this taxpayer has already given a total of $5 million in taxable gifts since 1976.

**Other Exemptions:** If qualified family-owned business interests make up more than 50 percent of your taxable estate, you may benefit from a special provision that can increase your total exemption. In some cases, you can give more than the annual exemption amount without facing the gift and estate tax. These include gifts to a spouse (unlimited), gifts to pay tuition or medical expenses, and gifts to charities or political organizations.

**Calculating the Tax:** Any gifts or estate value left over when all exemptions and credits are taken into account are taxable according to the adjoining table. The tax rate ranges from 18 percent on the first $10,000 of taxable gifts and estate, to 49 percent on taxable gifts and estate over $2 million. But since the $1,730,800 credit has the effect of exempting the first $5 million of taxable gifts and estate, the lowest rate ever applied is the 41 percent rate.

TAXABLE ESTATE VALUE INCLUDES THE VALUE OF ALL PROPERTY OWNED AT THE TIME OF DEATH PLUS ANY GIFTS MADE IN THE THREE YEARS PRIOR TO DEATH. BUT THIS VALUE IS REDUCED BY THE VALUE OF DEBTS, FUNERAL EXPENSES, AND COSTS OF ADMINISTERING AND SETTLING THE ESTATE. FINALLY, OF COURSE, ANY PORTION OF A DECEDENT’S ESTATE GIVEN TO A SPOUSE OR TO CHARITY IS NOT TAXED.

**2011 Federal Estate and Gift Tax Rates**

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<th>If the amount by which the tentative tax to be computed is:</th>
<th>The tentative tax is:</th>
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<td>Not over $10,000</td>
<td>18% of that amount</td>
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<td>$1,800 + 20% of excess over $10,000</td>
</tr>
<tr>
<td>Over $20,000 but not over $40,000</td>
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<td>Over $40,000 but not over $60,000</td>
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<td>$70,800 + 34% of excess over $250,000</td>
</tr>
<tr>
<td>Over $500,000</td>
<td>$155,800 + 35% of excess over $500,000</td>
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Two Lesser-Used Higher Education Funding Options

For many of the reasons discussed in this issue of The Business Owner Journal, the Coverdell Education Savings Account ("Coverdell ESA" or "ESA") and the Qualified Tuition Program ("QTP," also referred to as a "529 Plan") are the programs most selected by persons setting aside monies to pay for future higher education expenses. But two other options merit mention.

Education Savings Bond Program
The education savings bond program allows investors in U.S. series EE (after 1989) and series I savings bonds to cash them in without reporting the interest income — as long as the proceeds are used to pay qualified expenses for the person the bond is issued to, or such person's spouse or dependent. Qualified expenses include higher education expenses or contributions to an ESA or QTP.

Restrictions exist as to who may participate. For example, couples who wish to take advantage of this program must file a joint return and must not exceed certain income limits ($71,100 for single filers, $106,650 for joint filers in 2011). This program is little used because the rate of return on government bonds has historically been inferior to equity investments and some corporate bonds.

Individual Retirement Accounts (IRAs)
If you are in the rare position of having excess retirement funds, you can withdraw assets from any of your IRA accounts to pay qualified higher education expenses for yourself, your spouse, or the children or grandchildren of you or your spouse. Typically, a withdrawal from an IRA account before age 59½ is assessed a 10 percent penalty.

If you are saving for your own higher education, IRA plans offer similar benefits to the programs that are specifically designed for college savings (i.e., ESA and QTP), which is the ability to invest funds into an account that grows and can be withdrawn penalty tax-free.

But if you want to dedicate funds toward the future higher education expenses of another, IRA accounts offer few advantages. First, IRAs have strict annual contribution limits, which make the QTP’s liberal limits more appealing. Second, if you are over 70½ years of age, you will not be able to contribute to your own IRA but must bestow the monies on the intended beneficiary so he or she can then contribute them to his or her own IRA. When you do so, you lose control of the funds, and the beneficiary can use the money as he or she wishes. And, due to strict qualification requirements, your targeted beneficiary may not be able to accept such funds.

Finally, don’t forget that any withdrawal from a traditional IRA will be taxed as ordinary income even if funds are used for higher education expenses. The exclusion allows only the early withdrawal penalty to be avoided, not elimination of taxes that otherwise would be due.

Check for state tax breaks.
Most states have piggybacked the federal tax code and shelter QTP plan income from state taxes. But be sure to check your state’s tax laws. Some states have limited the tax benefits, while others have expanded them. Some states also allow contributions to their state QTP plan to be deducted from state income taxes. Check out the various plans at www.savingforcollege.com.

continued from page 6

Watch for hidden fees as well. While all plans charge a management fee typically ranging from 0.25 to 0.95 percent a year, some also will sock you with an enrollment charge, an annual maintenance fee, and annual expenses charged by the underlying mutual funds in your portfolio.

QTP plan funds may affect qualification for financial aid.
Need for financial aid is based in part on assets owned by the applicant and his or her family. In fact, 35 percent of an aid applicant’s assets are considered in calculating the portion of education expenses that must be paid by the applicant and his or her family, and 5.6 percent of an applicant’s parents’ assets are considered. As such, monies in QTP accounts that designate a parent as the account owner will count for less on the aid application (which improves chances that aid will be granted) than if the applicant/student is named as the account owner. This is because it is the account owner, not the designated beneficiary, who is considered the “owner” of the QTP account assets. ESA accounts are different as the beneficiary is considered the “owner” of ESA account assets.

Check for state tax breaks.
Most states have piggybacked the federal tax code and shelter QTP plan income from state taxes. But be sure to check your state’s tax laws. Some states have limited the tax benefits, while others have expanded them. Some states also allow contributions to their state QTP plan to be deducted from state income taxes. Check out the various plans at www.savingforcollege.com.
Value is the utility, worth or desirability of an asset, right or privilege. All things of value can be generically referred to as assets. In our society, assets are bought and sold with money (no offense to the barter folks). Therefore, value is expressed in dollars. The value that an asset has to any person or entity is simply the amount he or she is willing to pay to obtain it. A business is simply a group of assets.

Business valuation is the process of assigning a dollar value to a business by estimating what someone would pay to obtain the ownership rights. For the most part, an asset or group of assets has value only if it:

1. Can be sold and turned into cash, or
2. Generates cash.

The former is called liquidation value and the latter is called going concern value.

Going Concern Value. A business has value as a going concern only to the extent that it generates cash. If a business is to be operated as a going concern (i.e., its assets won’t be liquidated), then its value is a function of the amount of cash or profit it will generate over time.

Liquidation Value. The amount of net cash obtained by selling the assets of a business piecemeal (not as a going concern) is liquidation value. “Net cash” means the sale proceeds minus expenses incurred in carrying out the sale. For example, the value of a parcel of real estate would be the price for which the asset could be sold, less any expenses of the sale such as commission, legal and closing fees.

Many assets don’t generate income, such as a home that is lived in by its owner, or baseball cards, automobiles, furniture, equipment, etc. Assets, like these, that don’t generate income, have no going concern value — only liquidation value. The value of these assets is determined by the cash that could be generated from their liquidation.

Liquidation Value vs. Going Concern Value. It can be said that every business has two potential sources of values: liquidation value and going concern value. We use the term “potential” because a business does not necessarily have value of both types. For example, a business that consistently loses money may not have value as a going concern. Theoretically, such a business may have a negative going concern value. But this is meaningless because the owner of such a business would quickly sell it to eliminate the economic erosion. The value received would be the liquidation value, or the sale price less sales expenses.

But it is important to mention that a business that is losing money COULD sell as a going concern (i.e., for more than its liquidation value). This would occur only if a buyer believed that he or she could operate the business profitably as a going concern. For the seller to obtain a price exceeding what could be obtained via liquidation, this buyer would have to be willing and able to pay more than the liquidation value. This would mean the buyer was willing and able to pay the seller for value the buyer brings to the business because of the buyer’s skills, abilities, assets or competencies. Often, shrewd buyers will not do this unless they are worried that a competing buyer might purchase the business or group of assets for a price greater than liquidation value.

The concepts of going concern value and liquidation value also can lead to interesting predicaments. For example, consider a business that has assets that could be liquidated (i.e., “sold off” individually) for $2 million but generates only $100,000 per year in profits. What is the value of this business? If the assets of the business are to be sold off, the value is clearly $2 million. If the business will not be liquidated, then the value is simply the income stream it generates.

So what is the value of a $100,000 annual income stream? The answer depends on: (1) certainty with which the $100,000 will be received in the future (risk), and (2) value today of dollars received in the future (time value of money). Both of these topics will be covered in future issues of The Business Owner Journal.
Family-owned businesses make up approximately 80 percent of all businesses in the U.S., and it is estimated they account for 60 percent of the total output of goods and services in the United States (i.e., gross domestic product, referred to as “GDP”). Some are small “mom and pop organizations,” while others are multigenerational, multibillion-dollar companies like Ford Motor Company or Cargill. Taken together, they represent one of the hearthstones of American business and “The American Dream.”

Despite playing a major part in our economy and our society, many private business owners who long to see their businesses “carried on” by their children and grandchildren are discouraged by these statistics. It is estimated that only 30 percent pass to the second generation and only 15 percent to the third. The reasons for these outcomes are varied but include:

1. The first-generation owner was an entrepreneur who developed an innovative product or service. After early success, not enough attention was paid to the need to continually improve and to respond to competition and a changing marketplace.

2. The founder had the energy and passion for the business but had not transmitted the enthusiasm and emotional ownership to the next generation.

3. Family needs, including “making each family member happy,” took precedence over business needs, and — over time — the business became uncompetitive, unfocused, unproductive and undercapitalized.

4. Family members didn’t know how to communicate, confront issues and/or manage conflict. Problems festered and people left or acted out the problems through the business.

5. The business was run like a family — ad hoc, random, informal and without good business practices.

6. Home and work roles conflicted. People reacted to one another according to their family roles, not business roles.

These challenges, and others, are difficult but not impossible to overcome. Family members must be able not only to work together to make their businesses successful but to promote positive family feelings. Families that succeed in business together share several common characteristics worth noting. For example, they come together as adults and overcome the emotional baggage that sometimes accumulates during the “growing up” years. They shift away from a “parent-child” way of relating to one another and move to an “adult-adult” orientation. Parents move away from needing to be “in charge,” which allows the family to connect on a more level playing field.

Successful families develop the skills, trust and mutual respect necessary to openly confront and deal with sensitive issues without becoming defensive. Solving difficult and complex business problems requires open communication so the issues can be identified and every potential solution explored. Sometimes these problems are associated with a family member who tends to inhibit candid discussions. Successful families have developed constructive methods of handling the most difficult topics.

Families that succeed in business together work on effective interpersonal boundaries and are aware of the limitations of influencing anyone else’s behavior. They don’t try to “fix” others. They realize you cannot control other people and events; you can control only your reaction to them. For example, parents must realize they can offer counsel and support but must ultimately leave it up to others to make choices and experience the consequences.

Flourishing families recognize when a conflict is escalating and have ways of making sure a situation doesn’t spin out of control. All too often, conflicts escalate as events are misinterpreted and responses are given in the heat of the moment. These types of responses are hard to take back and overcome. Ultimatums are dangerous. Successful families are able to circumvent such situations to avoid long-term damage to the family and the business.

Most important, these families value and commit resources to spending time together, celebrating the family and nurturing the relationships that bind them together. Family gatherings receive a high priority. Setting time aside to reconnect, have fun and just enjoy one another’s company are of utmost importance.

Together, these factors all combine to keep a family positively connected through time, and able to thrive through the difficulties and perils they are sure to encounter. And, to be fair, few families manage to practice these things every time. Nevertheless, successful families have a special compass that keeps them headed in the right direction and brings them back on course when things get off track.
Unsettling. That’s the word that first comes to mind when I ponder the message in *The 4-Hour Workweek*. Yes, it’s also interesting. And exciting, in a way. But unsettling because it makes me question everything.

Why do I work so hard? Is there a better way? Am I efficient and effective in my work? Timothy Ferriss’ answer is unquestionable. “No, David Perkins. You work 50 hours per week and thus you are a sucker.”

I have always believed, and often say, “Hard work is good for the soul.” So do I simply fill up my plate with work so I can feel good about myself?

More to the point, am I really happy working this much? Is there a better way? A more rewarding way?

Timothy Ferriss, author of *The 4-Hour Workweek*, is one strange dude. He’s apparently a best-selling author, highly paid speaker, angel investor, and owner of a profitable business (so he says), but he also says he answers email just once a day, has not had an in-person meeting in something like five years, keeps phone conversations to minutes, and spends half his time traveling overseas and does not accept any phone calls while away — even for “emergencies.”

Unquestionably, Ferriss is a different breed of cat. He says he does not answer his own phone, but rather lets all calls go to voice mail, which then automatically emails him a text version of the message. He’s just 32 years old; he says he was accepted to Princeton despite being vastly unqualified; and he became world champion of Chinese kickboxing in 1999 after just four months in the sport. How? He dropped shocking amounts of weight (doctor assisted) before weigh-in and then using his size/strength advantage to throw every single one of his opponents out of the ring. Oh, and he holds the Guinness Book of World Records record for most consecutive tango-spins in one minute. Huh?

Of course, innovations are not made by conformists. It’s the oddballs who change everything. Darwin would have loved this guy.

*The 4-Hour Workweek* is packed with tools, tips and tales designed to shake us out of our “work like a dog until retirement” style of living and get us to start living today. How? By redesigning our work lives so we reduce our workload and quadruple productivity and profit. He says it’s more than possible. He’s living proof.

Throughout the books, he shows his youth. He seems to think happiness is about being able to regularly take exotic, extreme adventures around the world. Even so, I guess we can do what we want with any spare time and cash we’re able to carve out by applying his suggestions. tbo
The common mistakes business plan authors make?

- Overemphasis on technical or functional aspects of the product
- Overreliance on the size of the market
- Failure to base projection on and/or anchor projection by cold hard facts

Mullins goes on to share the commonly used words and phrases that cause venture capitalists to send plans from their hands to the trash bin:

- “No competition.” Of course your business will have competition! Buckle down and figure out who they are or where it will come from. Further, competition is not a bad thing. Competition suggests that someone besides you thinks there’s a problem worth solving.

- “Huge.” Instead, why don’t you collect and provide reliable data on the market size as well as the narrow niche in which you intend to initially focus.

- “Conservative.” Let the numbers speak for themselves. Just make your best estimates. Capital providers know that the projection rarely pans out.

- “Assumptions.” Investors aren’t interested in investing in a business based on “assumptions.” Instead, find credible evidence that supports each of the figures used in your financial model.

- “We believe.” Similar to “assumptions,” above. Do the research and locate the data necessary to move from “we believe” to “the evidence shows” and “our research reveals.”

Just as anybody can talk about an opportunity or idea, anybody can write a business plan. But if you want to make the effort worth your while, John W. Mullins’ advice seems credible. 

\[1\] In an article titled Why Business Plans Don’t Deliver that appeared in the Wall Street Journal on June 22, 2009.

**RECENT BLOG POSTS**

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**The Wealthy Must Pay More**
April 8, 2011

Bark all you want about taxes — the only way we’re going to balance the budget is for the wealthy to pay more. Deficits have occurred because people with money can afford to pay lobbyists and contribute large sums to campaigns and toward “conservative” efforts that put Republicans in office, who in turn vote for lower taxes on the rich.

Why won’t Republicans/the rich agree to let us lower federal entitlement obligations (Social Security and Medicare) by allowing a means testing of the benefits? In other words, why won’t wealthy persons who can afford to pay for their own medical care and retirement forgo the benefits?

The free market economy is rough and tumble. A few thrive and many don’t. It makes sense to have a bit of a safety net to provide sustenance for those who cannot compete and therefore cannot save for their own care later in life. Why won’t the rich forgo their benefits since they are fortunate enough to thrive and pay their own way?

**Lots of Economic Fuel Still in the Tank**
April 22, 2011

Business owners and investors, our broader economy is definitely growing again. The most widely accepted and used gauge of overall economic activity in the United States — gross domestic product (GDP) — pegs growth of 2.6 percent (annualized rate) in the third quarter of 2010 and 3.1 percent in the fourth quarter. And one should keep in mind that residential construction — a significant contributor to overall GDP — remains moribund. According to an analysis of U.S. Census Bureau data performed by the managing editor of The Business Owner Journal, residential construction in 2010 was 72 percent below what it was in 2005 and basically unchanged from 2009. In fact, only 587,000 houses were built in the United States in 2010; 554,000 in 2009; and 905,000 in 2008. In no other year since 1950 were housing starts below 1 million units!

In short, our economy is growing despite getting NO help from the residential construction sector. Residential construction has long been an essential engine for economic activity in the United States. Residential construction provides jobs and uses massive amounts of materials and finished goods. The good news is that residential construction will soon get going again. And when it does, the U.S. economic fire will burn even more brightly.

“A schedule defends from chaos and whim.”

*Annie Dillard*
### Housing Starts in the U.S.

- *Source: U.S. Census Bureau*

### Consumer Price Index (Inflation)

- *Source: United States Bureau of Labor Statistics*

### Industrial Capacity and Industrial Production

- *Source: Federal Reserve*

  **Note:** The shaded areas are periods of business recession as defined by the National Bureau of Economic Research (NBER).

### Industrial Capacity Utilization

- *Source: Federal Reserve*

  **Note:** The shaded areas are periods of business recession as defined by the National Bureau of Economic Research (NBER).

### S&P 500 Historical Price to (P/E) Earnings Ratio

- *Source: Standard & Poor’s*

### Historical S&P 500 Price to Dividends Ratio (“Dividend Yield”)

- *Source: Standard & Poor’s*
You work hard to increase sales and reduce costs. Both are essential for profitable growth. But it may surprise you to learn that, from a pure cash-in-your-pocket point of view, a tax dollar saved is much more valuable than an additional sales dollar or cost-savings dollar.

The reason: A tax dollar saved is a full dollar retained in the business. Federal and state taxes take a bite out of every other business dollar. Here’s the proof.

**Tax Savings vs. Sales Increase.** The following formula yields the sales necessary to match any amount of tax dollar savings.

\[
\text{Tax Dollar Savings} \times (1 - \text{Tax Rate}) \times (\text{Profit Margin \%}) = \text{Sales Equivalent}
\]

**Example:** Company A has a 10 percent pretax profit margin (pretax profit divided by revenue) and is in an overall 35 percent tax bracket (federal and state). Tax planning saved $10,000 in taxes. The tax savings is equivalent to the profit on $153,846 in additional sales, computed as follows:

\[
\frac{10,000}{(1 - .35) \times 10 \%} = 153,846
\]

The $10,000 tax savings provided Company A with the after-tax equivalent of $153,846 in additional sales. Any tax dollar saved would yield the after-tax equivalent of $15 in increased sales ($154,000/$10,000).

**Tax Saving vs. Cost Cutting.** Now let’s compare the value of a $1,000 tax savings with that of a $1,000 cost reduction. Use the table below, which again assumes an overall 35 percent tax rate.

<table>
<thead>
<tr>
<th>Pretax Profit Margin</th>
<th>Sales Necessary to Match $1,000 Tax Reduction</th>
<th>Sales Necessary to Match $1,000 Cost Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>20%</td>
<td>$7,692</td>
<td>$5,000</td>
</tr>
<tr>
<td>15%</td>
<td>$10,256</td>
<td>$6,667</td>
</tr>
<tr>
<td>10%</td>
<td>$15,385</td>
<td>$10,000</td>
</tr>
<tr>
<td>8%</td>
<td>$19,231</td>
<td>$12,500</td>
</tr>
<tr>
<td>6%</td>
<td>$25,641</td>
<td>$16,667</td>
</tr>
<tr>
<td>4%</td>
<td>$38,462</td>
<td>$25,000</td>
</tr>
</tbody>
</table>

1. See first formula above.
2. To compute the sales equivalent, simply divide your cost savings by the profit margin (e.g., $1,000 divided by 20 percent equals $5,000 in sales).

As shown, if your profit margin is 15 percent, a $1,000 savings in taxes is equivalent to additional sales of $10,256—about 1.5 times the $6,667 amount you would realize from cutting costs by $1,000. And the lower your pretax profit margin, the more valuable tax savings are to you. For example, if your profit margin is only 5 percent, a $1,000 tax savings is equal to $38,462 in sales!

When the goal is after-tax cash in your pocket, adding revenue and lowering expenses is paramount. But tax reduction is critical as well. Dollar for dollar, the value of a tax dollar saved is unmatched.

Visit nmea.thebusinessowner.com for more articles on Tax and Tax Planning.
Excerpt from *The Quiet Exit*

To Sell for Max Value, Your Business Needs More Than Potential

Business sellers whose primary pitch is “This business could...” are wasting their time. They're also throwing away their money, squandering their credibility and wasting the time of their prospective buyers. This is because the price that buyers are willing and able to pay is based on things more manifest. On things more in the here and now, like how much profit the business generates. How rapid is the growth of revenue and profit? How valuable are the tangible assets? How diversified and stable and established are the revenues and profits?

Sure, potential is important for price maximization. As a buyer’s confidence in the future of the business grows, the price can be pushed higher. As such, it’s important to sell growth potential, but the bedrock is the here and now.

A business that does not have profit has little value. Yes, a business with high revenues alone can be sold, as high revenue yields the potential for future profit, but it’s hard to obtain high prices for a business with little or no profit.

Low revenue and no profit? The owner is better off working on the business and booking a few years of profit before going about the sale.

What if the business has low revenue and no profit and the owner just wants to do something different now? That’s fine, too, but don’t expect it to sell for much. What we say, in this case, is the buyer is buying his or her freedom more than selling his or her business.

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Map Guides Business Owners to Maximum Value and Payday

What should you do today to build the value of your business? To maximize the eventual sale price? Acquisition Advisors has put it on paper. A single piece of paper. This amazing map contains all the things that drive value higher and, conversely, sap value — from a business buyer’s perspective.

The Path to Absolute Maximum Sale Price (of a Business) map has four main sections dedicated to how a business owner should go about preparing, packaging and executing the sale to garner absolute maximum. Each section is a phase in the journey that — if the steps are followed — will lead to a sale at absolute maximum:

This is a must-have for every business owner. It clearly displays everything about building value and preparing for a sale at absolute maximum.

Yes, please send me my Best Practice Map:
The Path to Absolute Maximum Sale Price (of a Business)

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