MONEY TALKS

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BUSINESS & FINANCIAL ADVISORS

INSIDE

EDITORIAL

The New Tax Plan and Health Insurance Update

As of this writing the U.S. House of Representatives has introduced the "Tax Cuts and Jobs Act," also known as the Trump Tax Bill. This bill is not law yet, and there still may be numerous changes – especially during the reconciliation process with the Senate's version of the Bill.

I have read some parts of the 429-page Bill. It is written in bureaucratic legalese that is not easily understood. However, I subscribe to two sources that have provided good summaries and some actual details.

It is not clear what the final bill will be. One thing is clear, there will be very little benefit for individuals whose income exceed $175,000 of income. Overall small businesses may get some benefit. However, professional service businesses (medical, legal, etc.) may be subject to additional taxes under this new tax bill. There is a possibility that no tax bill will pass.

Our year end tax memo will provide guidance on the final version of the tax bill that may have application to the 2017 tax year. We will provide a special tax memo early in 2018 to summarize changes if any to the tax law.

Health Insurance Update:

Letters from health insurance carriers have gone out to individual policy holders; the premium increases range from 61% to 80%. We will send each one of our clients a memo in mid December regarding using Health Care Sharing Ministries in place of

Your 2018 Plan Information

- Effective January 1, 2018, you will be automatically enrolled in BluePreferred PPO HSA Bronze $6,550, which is the same as (or is most similar to) your current plan, BluePreferred PPO HSA Bronze $6550.
- Your monthly premium in 2017 was $1431.46. Beginning January 1, 2018, your monthly premium will be $2576.32.
- Changes in 2018 are outlined in the enclosed mandated notice.

The changes in benefits and rates are required by law and regulation at the state and federal levels. We deeply regret the steep increase in rates and the concern we know this will cause for you.

traditional health insurance for REPEAL OBAMACARE medical expenses.

Cash Flow Enhancement:
What is Your Business Worth?

Pratt Stats, a private company transaction database, has released its 2016 results showing the median sales multiple for all businesses sold during 2016. Pratt Stats receives information from business brokers who provide financial details on more than 25,000 businesses that have been sold each year.

The sales multiple is derived by dividing the Purchase Price by the amount of Sales – the higher the number is, the better the multiple is. Although Pratt Stats provides data on other multiples such as net income, owner's discretionary income, EBITDA (earnings before interest, income taxes, and depreciation) the sales method generally is more useful than other multiples because the data for other methods are not always reliable, and annual sales are easy to determine and are easily understood.

The Chart below shows data for 2007 (as the base-line year)

Historical Multiple		
Year	Purchase Price Sales	% Change
2007	0.60	-
2008	0.50	-17%
2009	0.47	-6%
2010	0.50	6%
2011	0.52	4%
2012	0.50	-4%
2013	0.50	0%
2014	0.53	6%
2015	0.46	-13%
2016	0.45	-2%

through 2016.

Cash Flow Enhancement (Con't)

Industry Breakdown	
Category	Purchase Price Sales
Finance, Insurance, Real Estate	1.10
Manufacturing	0.65
Transportation	0.65
Services-Includes Medical	0.60
Agriculture	0.50
Wholesale Trade	0.40
Construction	0.37
Retail Trade-Includes Food Service	0.36

If your business sector has a .6 (60 percent) multiple, and your sales are $500,000, then a number that you can use as a starting point for the value of your business is 60 percent of $500,000, or $300,000.

Keep in mind that any long-term liabilities will need to be subtracted from the starting value. Another factor is profitability -- if your profitability is below industry standards your value will have to be adjusted downward to reflect this.

Personal Financial Planning I
Passive Mutual Funds Versus Actively-Managed Mutual Funds

Investing in Indexed Mutual Funds – considered to be passive mutual funds -- has become all the rage. These types of funds are being touted as low cost, and many investors are flocking to them. In the last seven years Index Funds (the S&P Index is a popular one) have grown from $1 trillion to $4 trillion.

Actively-managed mutual funds have $10 trillion in assets, but asset volume and cost of the fund are not the only things an investor should consider. Profit, or total return to investors, is the most important factor. In the last 10 years passively-managed mutual funds have outperformed actively-managed funds by a ratio of 3 to 1.

There is one major advantage that actively-managed funds have over passive funds: active funds have less

Personal Financial Planning I– (Con't)

The S&P 500 Index stock weightings are shown in the Chart below. *Note that the first three categories have been very risky in the last 15 years.* (Remember the dot.com bubble and the banking crisis in 2008).

S&P 500 Index Stock Weightings	
Sector	**Weight**
Technology	20%
Financials	16%
Healthcare	15%
Consumer Discretionary	13%
Industrials	10%
Consumer Staples	10%
Energy	7%
Utilities	3%
Materials	3%
Other	3%

Here is an example of why the S&P index has more risk: Apple stock is 3.7 percent of the total Index. If this stock suddenly crashes and decreases to $10 a share from $171 a share, the Index would sink dramatically. However, if you invested in an actively-managed fund, the managers would be following Apple closely and would sell the stock before it reached $10 a share. If the active managers sold the Apple stock at $130 instead of letting it slide to $10 a share, which type of management do you want -- active or passive?

Another reason why indexed bond funds are far riskier than actively-managed bond funds is because of credit risk. An active manager would most likely sell bonds in a timely manner before a company filed for bankruptcy. Disposing of the bonds is a more pro-

Active vs Passive

Personal Financial Planning II-
Asset Class Risk and Return

A ten-year period is a good time frame for evaluating the performance of various asset classes such as your investments in stocks, bonds, commodities, small and large companies, and corporate and government bonds. You never should make a decision based on a single year's performance -- especially when there was a major down year such as 2008 when average investments were down 27 percent. The gold standard to use when evaluating a portfolio's performance is how an investment performed over a 10-year period and how risky it was.

The Chart below shows the 10-year return and risk figures for nine asset classes for the 10-year period ending in 2016. *Return* refers to the compounded rate of return. *Risk* refers to the amount of loss that may occur as measured by standard deviation (the higher the number, the riskier the investment is). With *Risk/Return-Risk Per Unit of Return*, the lower the number the less risky the investment is in relation to its return.

The light green-shaded classes are the less risky ones. The dark green-shaded category (Large Cap Stocks) is more risky. The yellow-shaded classes have more risk, but they also have a higher return. The red classes are never suitable to invest in. Emerging markets are new markets in foreign countries -- such as Vietnam, Pakistan, and Turkey -- that have restricted forms of economic freedom. Commodities are items such as gold, silver, copper, farm goods, and diamonds.

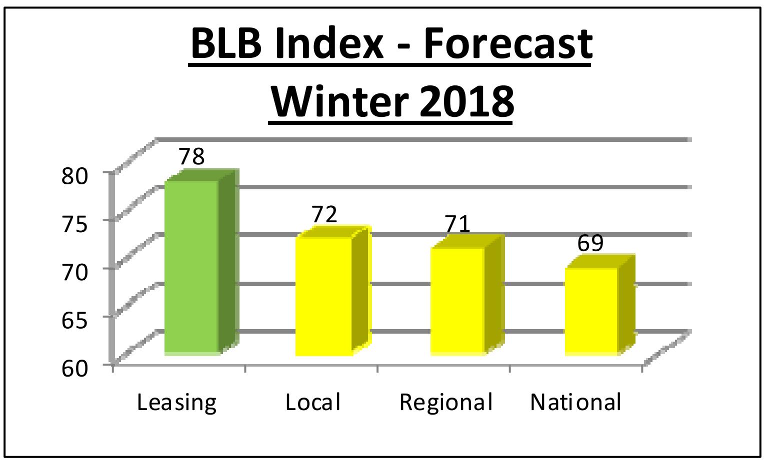
10 Year Return and Risk For The 10 Year Period Ending 2016			
Asset Class	**Return**	**Risk**	**Risk Return**
Intermediate Corporate Bonds	5.7%	2.9%	0.51
US Treasury Intermediate Bonds	4.5%	4.2%	0.92
High Yield Bonds	7.6%	10.6%	1.40
Large Capital Stock	7.4%	14.8%	1.99
Small Capital Stock	8.1%	19.9%	2.46
Moderate Portfolio	5.6%	14.9%	2.66
Emerging Markets Stock	4.0%	23.2%	5.79
International Developed Stocks	2.7%	19.1%	7.06
Commodities	-3.0%	17.7%	(5.90)

Bank Lending Barometer (BLB): Are Bankers Desperate?

It may be that bankers are desperate to lend money; some commercial loan rates have dropped below 5% in the last 60 days. The rates were averaging 5.25% to 5.75% just 90 days ago. When the demand for loans goes down the rates also go down. For the most part, businesses are still cautious about borrowing money in this recovery. Only borrow for equipment that you need and will use.

A lot of leasing deals with finance companies offer better rates then banks can offer. Leasing companies can turn deals around much quicker then banks. Please make sure that your lines of credit are in place now, even if you do not need the money now.

Bank Lending Barometer (BLB)



Score	Lending	Description
76-100	Jackpot	Here's the Money! We'll do the paperwork later.
51-75	OK	Let's see what we can do.
26-50	Tight	I would lend you the money, but under-writing is killing most of my deals now.
0-25	Very Tight	I know you have 100% cash pledged for the loan, but we don't have the money.

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