



Fake Promises

EDITORIAL

In this editorial I am focusing on the latest “fake promises” that are being heavily advertised right now that promise if you invest you will be taken care of for life.

Real Estate – Fake promise: Now is the time to invest in real estate to secure your financial future! Guaranteed! Come in and sign up and pay for our seminar to show you how to do it!

The truth: After the seminar they push additional products and services to buy. *These seminars always pop up when real estate is overvalued, and it is overvalued now.* I have seen the real estate market crash four times in my career. People buy at the height of the market, the market drops, they have negative cash flow, they cannot sell the property, they have to borrow more money, they must liquidate savings and retirement funds, and then they likely will face bankruptcy. Almost none of my professional real estate investors (the positive cash flow guys) have bought anything in the last 3 ½ years.

Business Investment – Fake promise: A company pitches that a company is getting ready to go public in the next nine months and needs a bridge investment from you of \$50,000. They promise that this investment will be worth \$250,000 nine months later.

The truth: Twelve months later they stop returning your phone calls, and then you get a call from the justice department telling you that you have been scammed.

Business Financing – Fake promise: Numerous banks have turned you down for a business loan because of over leverage and weak cash flow. You search the Internet and find someone who guarantees that they can get you financed for \$15,000 cash up front. They do not get you financed from the first source, but they mention they have another lender and need another \$15,000.

The truth: You will never get the loan. I know of three cases where this has happened.

Investment Option Trading and Futures – Fake promise: A stock broker calls you and tells you can you can double your investment of \$50,000 into \$100,000 by investing in put and call options of stocks and futures (a type of investment on whether a stock or bond price will go up or down) .

The truth: This is a form of gambling for nonprofessionals. Three months later you will be lucky if the \$50,000 is worth \$7,500.

Bitcoin – Fake promise: Bitcoin originally promised a decentralized digital currency, executed through a peer-to-peer electronic cash system, that would not be controlled by a singular entity.

The truth: I have researched this, and I have been to a few seminars. The original prom-

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Personal Financial Planning- How Long Will \$1 Million Last in Each State at Retirement?

The table below shows in each state how long \$1 million in savings would last in years and months at age 65.

More Than 24 Years	20-24 Years		Less Than 20 Years
Alabama– 24.1	Arizona–22.7	New Mexico– 23.2	Alaska– 16.10
Arkansas– 25.0	Colorado– 21.2	N. Carolina– 23.1	California– 15.0
Georgia– 24.1	Delaware– 21.5	N. Dakota– 22.1	Connecticut– 18.10
Indiana– 24.1	Florida– 22.2	Ohio– 23.8	D.C.– 14.2
Kansas– 24.5	Idaho– 23.11	Pennsylvania– 21.6	Hawaii– 13.1
Michigan– 24.2	Illinois– 22.6	S. Carolina– 22.2	Maine– 19.7
Missouri– 24.4	Iowa– 23.10	S. Dakota– 21.11	Maryland– 17.2
Mississippi– 25.6	Kentucky– 23.5	Utah– 22.11	Massachusetts– 16.8
Oklahoma– 24.4	Louisiana– 23.1	Virginia– 21.5	New Hampshire– 19.6
Tennessee– 24.5	Minnesota– 21.11	Washington– 20.2	New Jersey– 17.10
Texas– 24.1	Montana– 21.8	W. Virginia– 22.10	New York= 16.7
	Nebraska– 23.10	Wisconsin– 22.5	Oregon– 16.7
	Nevada– 20.8	Wyoming– 22.7	Rhode Island– 17.11
			Vermont– 18.1

My clients continue to ask me, “Do you have any suggestions where I should retire?” I give them suggestions based on my Winter 2012 Newsletter (see my website-gabcpa.com; Resources tab, “Where should I retire to?”) I continue to recommend Tennessee, Florida, and the Rocky Mountain States.

Money Magazine’s August 2018 issue (Retirement Section, page 32 through page 35) has a wonderful colorful map that identifies the good retirement states. Each state is ranked by how many years it would take to deplete \$1 million of savings based on the average annual expenditures for a household headed by a 65-year-old person. For example, the state of Mississippi had expenditures of \$39,062; therefore, \$1 million would last 25 years and 6 months. Annual expenditures include housing, grocery, taxes, transportation, health, and other costs.

The source data for the Money Magazine article comes from www.howmuch.net, “Can you retire on \$1 million? Here is how long you can survive in every State....”

In the states I recommend your \$1 million will last a minimum of 24 years: Tennessee (24.5), Michigan (24.2), and Texas (24.1). The three worst states are Hawaii (13.1), DC (14.2), and California (14.2). However, I disagree with the rankings for Illinois and West Virginia because both states are financial disasters that require massive tax increases or spending cuts in the near future. The suburbs and rural areas are the best place to retire in any given state.

Cash Flow Enhancement- Pricing, Pricing, Pricing

I continue to run into business contactors that are underpricing the fees they charge their customers. The result of this underpricing is lower profit and cash flow to the business owner. I ask the business owner, a simple question; “What percentage of the bids do you get?” If they answer more than 50% I suspect there is a problem. Then I review their company financial statements and see the owner has low personal income from the business.

An excellent indicator of contractor profitability is the percentage of jobs they win, see the chart on the next page:

Cash Flow Enhancement (Con't)- Pricing, Pricing, Pricing

Contractor Profitability		
% of Bids Won	Profitability	Energy Required
20%	High-But Risky*	Little
30%	Optimal	Optimal
40%	Average	Busy
50%	Average	No spare time
60%	Lower	Overload
70% & Higher	Low	Numb

*At 20% of bids won, the risk is that there is little referral from these customers, and what referrals are obtained tend to be negative. I have also completed another chart below that can be used for service and retail businesses. The goal is not to compete for every customer. Focus on customer classes that are middle class and upper mid-above.

Service and Retail Business Profitability				
Price	Service	Profitable Level	Customer Value	Result
High	High	Maximum	Maximum	Win-Win Empire Builder
High	Medium	Maximum	Somewhat	Customer turnover more likely
High	Low	Maximum	None	The police are on your trail
Medium	High	Somewhat	Maximum	Leaving money on the table
Medium	Medium	Somewhat	Somewhat	Government work
Medium	Low	Somewhat	None	Customer turnover more likely
Low	High	None	Maximum	Close down now-Work for somebody else
Low	Medium	None	Somewhat	Close down now-Work for somebody else
Low	Low	None	None	Lose-Lose; Go back to government job

Business Taxes- 20% Deduction for Pass-Through Entities Update (Section 199A).

The new 20 percent income deduction from business income for pass-through entities (S Corporations, Partnerships, and LLC's) applies to most businesses beginning in 2018. The potential tax savings per \$100,000 of income on average could be \$5,000. That is real money. However, service business such as medical services, law, performing arts, consultants, financial services and other service businesses are limited in this deduction for taxable income above \$315,000. There is a partial deduction for taxable incomes from \$315,000 to \$450,000 for married taxpayers. The deduction for non-service businesses is unlimited.

We are awaiting further guidance from the IRS on certain technical issues. The section 179 deduction does not reduce business income. However, bonus depreciation does reduce business income, and since bonus depreciation is now 100%, we can use the bonus depreciation instead of the section 179 deduction.

To get the service businesses below the \$315,000 amount there are a variety of things we can do such as:

1. ~~Maximize regular 401K deductions for taxpayers and spouses, do not do any Roth 401K deductions.~~
2. Put your children on the payroll and where appropriate put them on a 401K plan.
3. Shift some ownership of the business to your children.

There may be the possibility of setting up new entities for equipment leasing, retail product sales, etc.; *do nothing now on*

BLB: Banks are Still Hungry and Borrowing Rates are Still Low

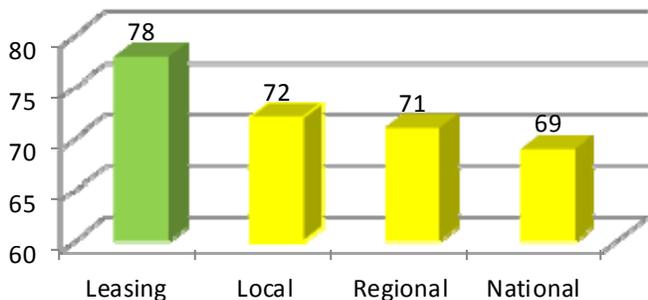
Banks are still hungry to lend, and the competition to lend is causing some rate wars. The prime rate lending rate is at 5% now, this is an increase of 1% in the last year. Nevertheless, major national banks are offering rates of 4.25% for term loans over a 10-year period. Every business has to have a line of credit in place from your bank for at least \$25,000 to \$50,000. Just recently I discovered three of my clients who were carrying credit balances at 17.5% and could have used the bank line of credit at 7%. Replace the credit card balance with the bank line of credit as long as you do not run up the credit card balance again.

CD rates have risen to 3.0% for a five-year CD (Certificate of Deposit). If you have excess cash sitting in your checking account, now is the time to open a CD for this rate.



Bank Lending Barometer

BLB Index - Forecast Summer 2018



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 underwriting 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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