



Minimum Wage Increases Hurt All Small Businesses

EDITORIAL

I often hear from business owners that recruiting talent is an ordeal that no person in the company looks forward to. Part of this frustration comes from the government's interference in wage and overtime rules. Fortunately, the new overtime rules remain suspended by a court. If they go into effect, however, workers subject to time-and-a-half will be anyone making less than \$47,436 rather than those making less than \$23,660 under the old law. Now, let's look at the impact of minimum wages.

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The minimum wage is an hourly rate that originally was meant to apply to entry level workers. Previously the minimum wage was earned primarily by teenagers working part-time during the school year and summer vacation. Recently, however, this is the wage earned by immigrants supporting families – a situation the minimum wage was never meant to cover.

In medium and large metropolitan areas (cities with populations of more than 50,000) the minimum wage often is irrelevant because there is a shortage of reliable workers with English-language skills. Accordingly, businesses have to pay wages that are higher than the required minimum to attract and keep good workers. The wages paid are driven purely by the labor market.

This may lead people to believe that there is no problem in raising the minimum wage because everybody is being paid above this wage – but this is not true. Increases in the minimum wage raise the pay scale for everyone – from fast food workers to entry level, and skilled workers. Union contracts have provisions for automatic raises based on increases in the minimum wage. Think about this, if the business owner has to raise the minimum wage, wouldn't he have to raise everybody's wage scale in order to preserve peace among all the other staff above minimum wage rate. See the table below for an example.

As the table shows, a rise in the minimum wage mean that wages for a company have risen as much as 21 per- cent. In this exam- ple, the business must raise its prices by 10 per- cent just to maintain the same level of profit.

Skill Level	Current	Increase
Skill level 4	\$ 20.00	\$ 22.75
Skill level 3	\$ 15.00	\$ 17.75
Skill level 2	\$ 10.00	\$ 12.75
Minimum wage	\$ 7.25	\$ 10.00

This may work for some retail businesses, but the situation is different for doctors

Taxes- Tax Scams— BEWARE!

According to the IRS, tax scams are becoming more frequent in number and type. The biggest tax scam is fraudulent filing using someone's Social Security Number that has been obtained through identity theft – this is a problem that our clients generally do not have because of the steps we take to secure and protect your personal and financial information.

The next two biggest tax scam problems come from phone calls and “phishing” Emails. “Phishing” is when you receive fake Emails or you are sent to fake Web sites so that scammers can steal your personal and financial information.

Beware if you receive a phone call or Email, purporting to be from the IRS or a State tax agency, informing you that you need to pay taxes immediately or that you need to send them additional personal or financial information. The IRS and State tax agencies will never, ever contact you via phone or Email, and they rarely will contact you in person. They correspond to taxpayers via the U.S. Postal Service.

Do not EVER make any payments over the phone if you receive one of these calls. If you really feel that a phone call may be legitimate, get the caller's phone number and name and tell them your CPA will call them back. Then contact my office immediately.

Do NOT click on any link or open any attachment in an Email that is tax-related. Just delete the Email immediately. If you have any questions about the authenticity of an Email, call my office.

It is very rare, but possible, that a tax official will show up at your door. Do NOT volunteer or give ANY financial, personal, or tax information. Do not show any ID. You do not have to identify yourself to the person at this point. Call my office immediately. If you are unable to reach us, get the person's name and contact information (or business card) and say that your CPA will get back to them. If they are too persistent – a definite sign that they are scammers – tell them they will have to leave immediately or you will call the police.

To recap, remember these golden rules when it comes to tax scammers:

- 1.** Call our office first when you are contacted by any tax authorities – whether you think they are legitimate or not.
- 2.** Disregard all Emails sent from purported tax agencies; do not click on any links or open any attachment.

Cash Flow Enhancement- Business Valuation Certification

I am now certified in Business Valuation by the American Institute of Certified Public Accountants (AICPA). The full title of this certification is “Accredited in Business Valuation-ABV.”

The requirements to qualify for this certification include passing a one-day exam and having significant practical experience. My experience includes preparing valuations for the last four years for a variety of clients in a number of different businesses and situations. For the past 15 years I have been involved in approximately five transactions per year assisting clients in buying and selling businesses.

The concept of valuation is to determine the *fair market value* for a business. Fair market value is defined as the price, expressed in terms of cash equivalents, at which a property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller. These two parties must be acting at arm's length in an open and unrestricted market where neither party is under compulsion to buy or sell and when each party has reasonable knowledge of the relevant facts.

Although many valuations are done when a business is being bought or sold so that a correct fair market value can be established and so that the buyer and the seller are aware of the correct value, there are many other reasons to value a business. These reasons include the following:

- Estate planning
- Buying out a business partner
- Giving property to another person
- Settling a marital disputes
- Assessing the impact of lost profits
- Fulfilling the requirements of a bank or other lender

I have my own database of completed transactions that provide rule-of-thumb metrics for valuing a business, but valuing a business requires more than searching comparable transactions in a database. This is why the ABV certification is so important.

If your business needs to be valued for any reason, you need to understand the two types of engagements that are available from a professional analyst for valuing a business: 1) a valuation and 2) a calculation.

A valuation provides the business's value based on applying various approaches and methods that the analyst deems appropriate. This type of valuation is more extensive and is the gold standard for valuing a business. A calculation is derived when the analyst and client agree on the specific approach and methods to use to reach a calculated value.

Personal Financial Planning

Small Cap Stocks and Mutual Funds Outperform Other Options in the Long Run

Stocks and mutual funds with a total capitalization under \$2 billion – so-called “small caps” –outperform stocks and mutual funds with capitalization of more than \$10 billion – “large caps” -- over the long run of 5 years to 30+ years. (An example of a large cap stock is Apple. An example of a small cap stock is Celsion-Bio Tech).

The following chart shows the average holding time in months of large cap versus small cap stocks (top line). The percentages given in the LARGE and SMALL lines show the percentage of time large cap stocks and small cap stocks outperformed the other.

In month 1, large caps outperformed small caps 53 percent of the time. By month 60, however, small cap stocks were outperforming large cap stocks more than half the time. At the 20-year mark, small caps outperformed large caps by 82 percent, and by the 30th year small cap stocks were the outperformers 91 percent of the time.

	Return	Risk	Range of Returns		
			Low	Median	High
Large	10.1%	16.8%	-6.7%	10.1%	26.9%
Small	13.4%	24.7%	-11.3%	13.4%	38.1%

As the above data demonstrate, small cap stocks will outperform large cap stocks the longer you hold the small cap stocks; however, at any one point in time small cap stocks are subject to more risk. Risk can be defined as how the actual return differs from the expected return 68 percent of the time.

To truly understand the magnitude of the risk of small caps, returns can be multiplied by a factor of 3 for large caps and a factor of 5 for small caps during market crashes.

Small caps are subject to so much risk because their cash flow history is just beginning and is not yet stable, they are subject to a lot of competition from other companies and from technological and demographic changes, and they rarely pay cash dividends.

The chart below shows an example of possible outcomes over a 35-year period taking into account the degree or risk.

	Average Holding Period in Months				
	1	60	120	240	360
Large	53%	42%	29%	19%	9%
Small	47%	58%	71%	81%	91%

(Source of data-U.S. Stock Database and CRSP U.S. Indices and

Personal Financial Planning (Con't)

Even given the risks, everyone’s portfolio needs to contain small caps. Someone who is 20 years away from retirement should consider having 25 percent to 50 percent of assets in small caps. When you are within five years of retirement you should begin to restructure your portfolio to have no more than 25 percent in small caps. This should gradually be reduced to having no more than 10 percent of your portfolio invested in small caps by the time you fully retire.

Technology- Passwords

A major source of password hacking is using Internet sites and programs such as Facebook, LinkedIn, Google, and Outlook. Another thing that will make you vulnerable to password abuse is using one password for all your logon needs. Storing your passwords by using your browser’s security function or by creating a password file also is a bad idea. Today it is impossible to totally avoid sites and programs such as Facebook, LinkedIn, Google, and Outlook, but taking the following precautions will provide some protection against the worst password abuse:

- Have strong passwords that are not dates, numbers, or words that are relevant to your life.
- Passwords are made stronger the more characters they have and the more they intersperse lower case, upper case, and special characters.
- Have multiple passwords for logging on to different sites and programs.
- If you need a record of your passwords, make one the old-fashioned way: on paper that you do not carry with you (NOT on a sticky note stuck to your computer or laptop or on a file labeled PASSWORDS and kept on your desktop!)
- Change your passwords on an regular frequent basis.

Also consider staying away from social media sites, and consider using alternatives to very insecure sites such as Google. A good, secure option to the Google search function is



BLB: Banks are Lending, But Bank Consolidation is Worrisome

Banks are still lending at a brisk pace to small businesses, but there is a worrisome cloud that is approaching local-based banks: bank consolidation where a local bank is bought by a larger bank. This is part of a larger problem in our country caused by low interest rates, an overvalued stock market, and the situation of “flipping” businesses.

Under current economic conditions, larger companies are paying extremely high prices to buy businesses now. It is not unusual for a company to pay a multiple of 5 times net income for a business and later sell it for 10 times net income to someone else who then sells it to a public company for 15 times net income. There is a huge profit to be made in such transactions!

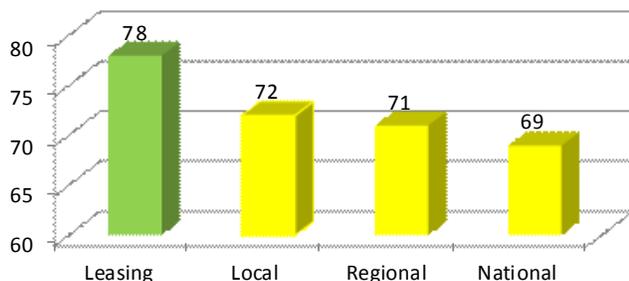
This just encourages transactions such as bank takeovers, which generally occur because the bank being bought was not run profitably or the bank’s senior officers wanted a big cash-out for themselves at the expense of their shareholders and customers.

When local small banks are bought, lending shuts down in spite of what the bank says. This means that businesses will have to deal with new accounts, new online banking systems, and other problems that go with such a major change.

One of the major problem businesses must confront with a bank takeover is that the new bank will evaluate your loans un-

Bank Lending Barometer

**BLB Index - Forecast
Winter-Spring 2017**



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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