



Strothman & Company PSC

Financial News & Views

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Financial News

A New Year Sparks Optimism

We start 2010 with a much brighter situation than a year ago. The Standard and Poor's 500 Index climbed more than 24 percent in 2009 after taking a precipitous 37 percent decline in 2008. This reversal represents one of the biggest two-year swings in stock returns since 1974. The housing sector decline seems to have bottomed out, and many economists have pronounced the recession in the U.S. to be over. However, some noted that the celebrations were not universal as the job market continues to be in the doldrums, with younger and less educated job-seekers posting jobless rates significantly higher than the overall average. The banking industry seems to have failed to absorb the lessons of its recent behavior, earning taxpayers' fury as performance bonuses and pay at some Wall Street banks soared at year's end. There is worry that Wall Street's powerful lobbying efforts will stymie government policymakers' attempts to rein in excesses, resulting in puny regulations incapable of preventing a similar crisis in the future.

The job market and the balance of power between Washington and Wall Street remain wild cards as we enter 2010. High unemployment – the nation's jobless total hit 10.2 percent in October – is still causing consumers to limit spending. Economists believe it won't feel like a recovery until the jobless statistics improve. As the administration considers additional means to stimulate the economy and spur job creation, some analysts predict a rebound as soon as spring – others believe it might not be until late 2010 or 2011.

Stock market experts increasingly expect the overall health of the economy to influence the performance of the stock markets. This might seem like an obvious correlation, but it has not been a favored viewpoint of some investment professionals, who believe that a good stock would perform regardless of other circumstances. There are many historical precedents prior to the financial meltdown in 2008 to back this up, but we are now in uncharted territory with no real consensus on where the markets are headed. The economy might not follow predictable patterns, but it will be a factor in stock market performance. Here are some of the key issues:

- Many individual investors waited too long and missed out on the rebound in stock prices. This happens following sharp market turns when investors fail to predict the upswing, missing the

major gains that tend to occur early in the rally.

- Experts caution individual investors against chasing performance. This urge might strike those who mistimed their re-entry into the markets in 2009, as investors have a tendency to look to the past to guide their current strategy. Analysts caution against interpreting recent events as the new norm, and suggest that if you wish to mine the past for insight go back a good 15 years or so.
- Investment professionals note that those who stayed in the market during the 12-month period of volatility earned the gains. Again, patience pays off for savvy investors. Analysts suggest that investors now review their portfolio with counsel from their tax and financial professionals and rebalance to make sure their holdings still reflect their original strategy.
- Some commentators are recommending stocks based on a no-frills economy. They suggest favoring blue-chip quality companies with cash, and others say look for companies with the ability to generate internal growth – rather than growth by acquisition.
- Most commentators urge investors to think globally. Business spending is expected to be more consistent than consumer spending over the next year. With that in mind, some investment pros recommend considering energy, technology and materials companies with strong overseas markets.

We are not out of the woods yet, but the consensus is that recovery is under way. Just as the recession was atypical, we are told that the path to recovery will be equally hard to predict. No one knows where 2010 is headed, but the economy has turned a corner. We could see slow growth for the first half of the year, but analysts are anticipating modest market gains fueled by corporate earnings growth.

If you're not sure what to do, Strothman & Company would like to offer to "stress test" your investment program. We have developed a comprehensive program to test your investment program to see how it will react in seven different economic environments. Our test will reveal how much risk you are taking, how well your portfolio has performed compared to the peer group and a number of other variables. For your free "stress test" please call us at 502.585.1600 today.



Tip of the Month

A Better Bottom Line in 2010

As the New Year dawns, it might be time to take an honest appraisal of your business and set some goals for improved cash flow and profitability. Here are a few thoughts for you to consider.

First of all, a realistic assessment of your business is the starting point. Don't focus only on sales or income – look closely at profit and loss statements, payroll and payroll-related costs, employee retention and major capital expenditures. Get an accurate view of where last year's money came from and where it went. Get input from your tax professional and financial advisors. In order to measure results, you need a clear picture of the business' strengths and weaknesses.

List your goals for this year and put them in order of priority. Are you looking to increase your income, expand your business or create a strong enterprise to sell in a few years? Your goals might not be attainable in one year. That's why an honest assessment and outside input is important. Both enable you to assess your business more accurately against comparable ventures, to set priorities and to devise a realistic plan. The following steps will help you plan and implement your strategy:

1. Determine which business services/products are most popular. Look at previous customers – especially repeat customers – is there a specific segment in your line of business that commands most of your time? If so, that's your niche. Don't try to be everything to everybody. It goes against the grain not to pursue every business lead when times are tough, but conserving your time, resources and efforts to target customers in your particular niche is key.
2. Develop a marketing message that addresses your clientele. Keep it simple and in everyday laymen's terms. No one wants to decipher a long statement to figure out where your company excels.
3. Ask current customers how they found your business and/or your products. This will help you

identify the best way to reach new customers – online, social networking, local newsletters, flyers, yellow pages. With existing customers, have a formal contact program in place and keep in touch with special offers, new product news, etc.

4. Invest in technology that will improve productivity and effectiveness, and the training needed to use it. Would your salespeople be more productive if they had smartphones with applications that let them log orders or check on accounts receivable from the road? Don't neglect the basics. If your invoicing procedures are cumbersome and collections haphazard, your first priority is to upgrade with the right hardware and software. Don't forget to check out the software available through Internet-based computer technology known as cloud computing. This pay-as-you-go option gives small businesses access to cutting-edge solutions and applications they could not otherwise afford.
5. Hiring and firing in a small business environment can be an uncomfortable task, but in a small enterprise it's crucial that each person have the skills and commitment to do the job well. You might start by having each employee write up their own job description with a list of essential skills and compare this with your version. Write job descriptions for each position essential to your operation. If your current workforce does not have the skills you need, perhaps the situation can be fixed with additional training. If this is not viable, you might need to look for someone else who is adequately qualified and able to do the work.



Technology News

What's Ahead in 2010?

The experts have looked at the fastest-growing segments of the technology sector – and those that are faltering – to try to anticipate what might shape technology's growth in the New Year. Of all the prevailing forces, the impact of cloud computing on software and web services is perhaps the single most dynamic catalyst for change in the technology world. Here are some predictions from the experts for 2010:

1. The cloud computing revolution will continue. Cloud computing is the Internet-based development and use of computer technology that allows providers to deliver business applications online to their customers. Many observers consider it a paradigm shift comparable in impact to the innovations that created the Industrial Revolution. Typically, clients access the applications they want from a web browser. The software and data are stored on servers. Cloud computing customers don't have to fund and own the physical infrastructure or have top-notch expertise in technology infrastructure to participate. This provides small- and medium-sized businesses with high-tech access and the ability to pay only for what they use. Users pay either for resources consumed (similar to paying a utility company for electricity usage) or on a subscription basis. In addition to access to new technology these businesses couldn't otherwise afford, they also have immediate access to a variety of applications and the ability to terminate the contract without major return-on-investment risks.
2. IT spending is expected to increase slightly in 2010, with budgets directed primarily to manufacturers who offer products that enhance Customer Relations Management, Enterprise Resource Planning – used to integrate data and processes in a single system – and Product Lifecycle Management. The forecasters also expect to see a moderate rate of conversion to the new Windows 7.
3. The use of smartphones and netbooks and an increasingly mobile workforce will require developers of interface applications to create business-related products better suited to these devices.
4. Multilingual applications and web content will increase. In an effort to compete with overseas enterprises and find new markets, technology companies are making real moves to adapt content and applications to suit different geographical markets with varied cultural and language requirements.
5. Records management will attract scrutiny from business owners and executives. More stringent legal and regulatory requirements have kept records management in the spotlight for almost a decade, but the software and services have failed to respond to the challenge of electronic communications and email and lag behind in effectiveness.
6. In the interest of promoting increased productivity, companies will attempt to restrict

employees' access to social networking sites. Some experts predict that Twitter will run out of gas, while others think that professional networking sites such as LinkedIn will thrive.

Whatever 2010 brings, we can be sure of one thing: the rapid rate of change and our increasing reliance on the Internet mean we can expect another year of innovation and excitement from the technology sector.

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General Business News

Employee Turnover and Corporate Culture

With a high unemployment rate, you might think it's easy to find employees these days, but successful business owners know that finding the right person for a position is essential. They also know that corporate culture is almost as important to attract and retain a good workforce as the compensation offered.

The High Cost of Employee Turnover

Why does employee turnover matter? The short answer is simple: money – every employee requires an investment of management time, training costs and other factors that can make replacing the person very expensive.

When an employee leaves your business, some estimates show that the cost to you equals or exceeds 150 percent of that worker's annual salary. While that might sound high, consider the following and it begins to make sense.

1. The extra time (and fatigue) of remaining employees performing the tasks of the employee who left
2. The overtime paid to continuing employees
3. Lost productivity while you are searching for a replacement
4. The time and expense of training
5. The cost of advertising (and management time) spent searching for a new employee

Clearly, seeking new personnel can have a detrimental effect on your bottom line.

What's Culture Got To Do With It?

According to BusinessDictionary.com, corporate culture can be defined as the “pervasive, deep, largely subconscious and tacit code that gives the ‘feel’ of an organization and determines what is considered right or wrong, important or unimportant, workable or unworkable in it, and how it responds to the unexpected crises, jolts and sudden change.” Corporate culture is essentially the tone of your business and is generally set by top management, though not always.

Ideally, the culture of a business inspires the best in all employees and contributes to its profitability. In practice, however, this is not always the case. Unless top management lives the values it desires, those down the line will not take them seriously. For example, part of a business' mission statement might be to create a team atmosphere. If the rewards of that business go only to the few (those adept at company politics), sooner or later the word team will become a joke and the business will surely suffer.

On the other hand, when management lives the values it professes, the company can excel. For example, Southwest Airlines' culture is based on its mission statement to employees.

We are committed to provide our employees a stable work environment with equal opportunity for learning and personal growth. Creativity and innovation are encouraged for improving the effectiveness of Southwest Airlines. Above all, employees will be provided the same concern,

respect and caring attitude within the organization that they are expected to share externally with every Southwest customer.

Southwest management takes this mission statement seriously and in return, it has been able to excel as a low-cost airline in the midst of turbulent economic times. By all accounts, it has happy employees who work for the good of the company and not just for their own self-interest.

How Do You Build Corporate Culture?

There are four essential steps. The first one is the most important: determine what values matter to you. Take time to examine what you believe is important for creating business success. Look into management books and try what others say will work. Examine your personal values and determine how you are willing to live day to day. As your business' leader, you must have a clear vision of the following:

1. How employees should be treated
2. How employees should treat you
3. How employees should treat each other
4. And how you and employees should treat customers and other business partners.

Once you have defined your own core values, your next step is to engender buy-in from company personnel. Soliciting input from your employees is an effective step in gaining their agreement with those values. Depending on the size of your business, you might circulate a proposed mission statement and seek input, hold small meetings with your staff or speak one-on-one with key employees. Whichever way you choose, it is important that the entire workforce sees the process as collaborative.

Part of any organization's success is hiring the right people, but it can be difficult to determine if a candidate is suitable in just one sitting. The task is further complicated by the questions you cannot ask during the interview process. Design your hiring process with this in mind, and whenever possible, assemble a team to evaluate potential employees. In many companies, managers will perform the initial interview, and then the candidate will spend some time with employees who will be their coworkers. This informal atmosphere might bring out the candidate's personality more readily than a formal interview setting.

Finally, reward the behaviors that align with your corporate goals. Recognition for a task well done or an innovative idea is powerful. Even more powerful is rewarding those who exhibit the behaviors you value. When employees see that there are both tangible and intangible results to living your business' values, they are more likely to perform at their peak. The result is increased profitability.

Conclusion

Every business organization has a culture. One that inspires and rewards its workers will enhance employee retention. If you don't guide your business, others in the company will – and you might not like the results. Spend a little time this month to evaluate how your company's culture aligns with your core beliefs and how your employees fit in with the environment you want. Then, take steps to make any necessary changes.

We look forward to serving you in 2010 and wish you a happy and prosperous New Year!

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2010 Seminar Series

**Thursday
January 21, 2010**

Business Ethics

Get on Board - Conduct Your Business in an Ethical Way

Owl Creek Country Club

Registration 7:30 AM
Seminar 8:00 AM – Noon
Refreshments Provided

With the ethical lapses in corporate America over the last few years, the topic of business ethics has once again come to the forefront. In fact, Kentucky State Board of Accountancy recently added an ethics requirement to the continuing education needed by CPAs. Our firm has conducted several seminars on the topic of business ethics over the years, and now is a good time to offer another seminar on this subject.

This "Business Ethics" seminar will cover the following topics, and more:

- Common areas that result in difficult business decisions, such as dealing with customer satisfaction, pricing and billing, and personnel matters.
- Reasons that otherwise ethical people become tempted to compromise their principles.
- Strategies we can employ to prevent being drawn into potential ethical lapses.
- Can the Golden Rule become the basis for ethical business decisions?
- Are there other lessons from the Bible we can learn to apply towards becoming a more ethical business person?

This seminar will be designed for all business people. However, for all of our CPA attendees, we will point out areas where CPAs may have an even higher ethical standard than the regular business person.

Please invite friends and associates to attend this seminar. This Strothman & Company seminar is designed to qualify for two hours of Continuing Professional Education for CPAs. In addition, we have specifically designed this seminar to fulfill the new CPA Ethics requirements.

The fee for the 2010 Strothman Seminar Series is \$25 per seminar or \$100 for the entire seminar series.

Please make your reservations by **Monday, January 18, 2010** in one of the following ways:

- Call Cathy at 502.585.1600
- Email rsvp@strothman.com
- www.strothman.com - Events section - 'Sign up today' and include your Name and Company

**Directions to
Owl Creek Country Club
12400 Osage Road**

From Hurstbourne and Shelbyville Road: On Hurstbourne turn east on Shelbyville Road. Go to the 6th stoplight (Evergreen Road) and turn left. Go through 3 stop signs. At the 3rd stop sign, drive directly across the road and over the railroad tracks. After the tracks, take a right on the 3rd street on the right (Osage Road). Follow Osage around about ¼ mile to Owl Creek Country Club.

From Hurstbourne Parkway: Take Hurstbourne Pkwy to the 146 exit, which is LaGrange Road. At the bottom of the exit turn left at the stoplight. Go approximately 1 ½ to 2 miles to stop sign. Go through the stop sign and turn right at Anchorage Post Office. This street will fork to the left and right at Evergreen Rd. Take the left fork and then make the immediate right (Osage Road). Follow

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Osage around to Owl Creek Country Club

From Downtown: Take 64 East to 265 North (Gene Snyder) to the 3rd exit, Anchorage – Pewee Valley. At the bottom of the ramp, turn left and go approximately ¾ of a mile and turn right onto Lucas Lane and cross railroad tracks. Staying straight on Lucas Lane, go to 2nd stop sign and turn left (Osage Road). Owl Creek Country Club is about ¼ mile on the right.

More details and directions to Owl Creek can be found at www.strothman.com.

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If you have any questions, please call us at 502.585.1600 or email info@strothman.com



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