

## “Real” Versus “Relative” Return: Does this *Really Relate* to You?

By Charles Auerbach,  
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Investment managers will frequently report their performance to you by comparing their returns to a benchmark or set of benchmarks. For example, U.S. equity manager returns are often compared to the S&P 500 Index. By so doing the manager is giving you a measurement of relative return which tells you how he/she did—as compared to a specific measuring stick. For example, if the manager reports an annual return of 12% and the S&P 500 Index reports a return of 10%, one might reasonably conclude that the manager generated a relative return of 2% above the benchmark, which

of course would be commendable. However, what if the manager’s return was a negative 18% and the S&P 500 Index was negative 20%? The manager still produced a relative return that was 2% better than his benchmark, but in real dollar terms, you lost 18%. In other words, your real return was negative 18%. Should we commend the manager? Perhaps, since he or she did beat the benchmark. Nevertheless, you experienced a significant reduction in account value. So we ask the question: If my account is losing value, am I happy that I beat the benchmark? When markets are rising, investors tend to focus on relative returns. In falling markets,

however, *real* returns are much more critical. Psychology tells us that human beings are affected much more by loss than gain. In uncertain times such as these, we believe that investment management should focus on opportunities to produce real (positive) returns rather than relative returns.

Superfluous  
wealth can  
buy superflui-  
ties only.

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## Focus On Small Business Owners: WSG Introduces Business Enhancement Associates, LLC

According to the U.S. Small Business Administration (as quoted by Grove and Prince 2004), small businesses generate 40% of the nation’s sales, employ 50% of the private workforce, create 75% of the new jobs, and represent 99.7% of all U.S. employers. We are all affected by them, and many of us *are* them—*owners* of small businesses.

Small Business Owners (SBO’s) face many challenges at various stages of their business lifecycle. While the SBO knows the product or service in which the business trades, he or she often doesn’t have the time, knowledge, awareness or even motivation to address the issues that must be settled to get the business to the next level. To paraphrase Michael Gerber, author of “The E-Myth: Why Most Small Businesses Don’t Work and What to Do About It,” small business owners are too busy working *in* their business to work *on* their business.

“These business enhancement activities are a key part of a sound, overall financial plan for the owner of any small business,” says Charles Auerbach, Wealth Strategies Group President. “That business is most often the greatest single asset the owner has. Just like any other sound investment, it needs to be managed to ensure the greatest possible return. Business Enhancement Associates, LCC was created to fill that need.”

BEA operates on the notion that the business consulting process is comprised of five phases—although all



David Williams, BEA Chief Operating Officer, and Charlie Auerbach premiered BEA services at the Small Business Expo at the Agricenter this May.

businesses are not ready to proceed through all of the phases. The five phases are: Strategic Planning, Value Creation, Structured Design, Transition Planning, and Exit Strategies.

Phase I, Strategic Planning, is the most important phase that all businesses must re-visit whenever the previous strategic plan has been implemented. BEA believes it is absolutely essential that the business strategic plan be designed in conjunction with the owner’s personal financial plan. The owner’s personal goals determine the nature of the final business disposition—Do you harvest value then terminate the business, sell it, or pass it to certain beneficiaries? The personal financial plan also indicates what must come out of the business in the form of income and/or sales proceeds, and during what time periods. Alternatively, the owner’s personal goals may need to be adjusted if the business can’t feasibly achieve its objectives within those constraints.

### In this Issue:

- Real versus Relative Returns
- For Better or for Worse—Marriage, Divorce and the Small Business Owner
- 2nd Quarter Market Commentary

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## Marriage: A Very Special “Business Issue”

By Steve Silver,  
CFP®, CDFA, CLU,

Well, you’ve finally done it. You’ve accepted his proposal...through thick and thin...till death do you part. You’re ready to show the world what a *true* partnership looks like. Right? Maybe.

Today’s entrepreneurial couples face yet another tribulation—growing a business while growing a marriage. Whether a business that’s been in the family for generations or one that the young couple has built together, the financial objective should be the same—To build through hard work a particular lifestyle. (All other goals, i.e. tax incentives, helping the family, protecting the environment, etc. are secondary for purposes of this article).

It’s not easy to discuss business protection planning. In fact, it’s a sure fire way to absolutely *kill* the romance of the moment! But a little bit of discomfort on the front end can prevent a world of hurt down the line. We all know the importance of insurance in case of death, disability, or fire, but what about planning in the event of differences or disagreements.

What if you both agree on the big picture, but have two different approaches? What if you have a silent partner who lent you money but has no expertise in your particular business? What if the business has been in

her family for generations, but *you’ve* been growing it since marriage? Don’t you have a share in it? Do you have a legal say-so? What happens in the event of a divorce? Or in the case of two siblings running a business, what happens in the event of the death of one partner? Will the remaining sibling be forced to partner with a non-working spouse who has no expertise or desire for the business?

These issues can certainly be sticky, but certainly *not* as sticky to discuss on the front end as it will be to sort them out *after* they present themselves. As with so many other financial planning issues, getting things in writing can avoid a lot of problems down the road and give everyone involved the peace of mind that comes with knowing exactly what part they play in the life of the business.

For example, who breaks the tie in the event of a disagreement on the direction of the business? One partner’s sleeping on the couch for a few nights just won’t make good business sense.

What if “Bob” marries “Jane” and works for *his* family’s business. As the years go by, Bob works hard growing the business while Jane devotes herself to raising *their* children. Unfortunately, the marriage ends in divorce, but they agree to continue the successful business. What rights does Jane have in a business whose ownership was *legally* never transferred to her name? Is she automatically a 50/50 partner? The answer may surprise you. While the business *can* end up as a marital asset in the event of a divorce, it could be subject to negotiation.

As one client who shares a business with an ex-spouse said, “I was shocked to find out that in Tennessee, marriage doesn’t automatically mean you own part of the business...”

The role of the Certified Financial Planner in business matters extends well beyond the management of retirement assets or availability of proper insurances. A well thought-out plan is vital for every family and *just* as crucial for every business.



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## Our Take: 2nd Quarter Market Commentary

The broad major U.S. stock market indices made a healthy recovery in the second quarter but, with the exception of the Mid Cap market, all are showing negative returns on a year to date basis. This continues to provide further confirmation to our belief that we are now firmly entrenched in the fifth year of a secular (longer term) bear market. As discussed in our last issue, a secular bear market is generally characterized as a long period of market volatility (both positive and negative markets), but with little if any total return on a point to point basis. As an example, the past five years have exhibited periods of extreme volatility yet, for the five year period ending June 30, 2005, the S&P 500 Stock Index with dividends reinvested has experienced an annual negative return of 2.37% (1).

The broad developed foreign stock and bond indices were mostly lower for the quarter and the year in large part due to strengthening in the U.S. dollar. U.S. bonds gained some traction as the benchmark 10 Year Treasury dropped to 3.92% at the end of the quarter.

As the quarter ended, the big talk on the street was about oil prices and short term interest rates. Crude oil futures are now hovering near \$60 per barrel and concern over the impact of rising energy costs is clearly having a psychological impact on the market. And at quarter end the Federal Reserve Board, as expected, raised the discount rate it charges member banks another ¼%, bringing the rate to 3.25%. This is the 9<sup>th</sup> consecutive increase in rates over the last year with more rate increases expected. In response to the Fed action, all major banks raised their prime lending rate to 6.25% making most consumer loans and short term debt more expensive to carry. On the other end of the scale

### Major Market Indices

	2nd Quarter	Year to Date
S&P 500	+1.37%	-8.1%
Nasdaq 100	+2.56%	-5.45%
S&P 400 (Mid Cap)	+4.26%	+3.85%
Russell 2000 (Small Cap)	+4.32%	-1.25%
MSCI EAFE (Foreign)	-1.01%	-1.72%
Lehman Aggregate Bond	+1.92%	+2.17%

\*Standard & Poor’s Reports 7-1-2005

long term rates including those charged for home mortgages were relatively unchanged this quarter. With short term rates rising and long term interest rates remaining steady, we are now in danger of having an inverted yield curve (one in which short rates are higher than long). Since 1960 an inverted curve has preceded every recession. (2)

**Indices Disclosure:** Indices are unmanaged measures of market conditions. It is not possible to invest directly into an index. Past performance is not a guarantee of future results.

**Source:**

(1)Standard & Poor’s Reports 7-1-2005  
(2)“Yielding clues about Recessions”  
Stojanovic and Vaughan, *Regional Economist*, October, 1997

## Business Enhancement Associates, LLC (cont.)

Business Enhancement Associates functions as the expert source to develop a customized comprehensive plan that coordinates the complex needs of a business owner to complete a successful business life cycle.

“BEA acts as a resource center for small to medium sized businesses,” says David M. Williams, Chief operating Officer of BEA. “The strategic alliance we’ve formed with WSG makes both of us stronger—Each company providing separate but equally important pieces to the same puzzle.”

BEA designs and coordinates a comprehensive, business-building and management plan. Services include providing to its clients access to financial advisors who specialize in planning for business owners and their key executives, tax attorneys focused on income and estate-tax planning for business owners, and professionals with extensive financial experience in valuing businesses. BEA brings these resources together to effectively structure businesses, acquire appropriate financing, negotiate mergers and acquisition offers, and maximize the value of a business upon the owner’s exit from it.

Business Enhancement Associates can provide your small business with strategic plan mentoring, marketing research, management team building, recruitment and compensation design, and other specialties as needed.

Call David Williams or Charlie Auerbach at 901-473-9000 for more information.