CONNECTIONS

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Twelve Lessons Learned from Volatile Markets

By K. Kenneth Wu • Insurance Consultant

"Experience is the name everyone gives to their mistakes."
Oscar Wilde

As such, we should learn from mistakes. This list of 12 volatile market strategies should help you plan future market strategies, so you can do less learning and more earning:

1. **"Short-term investing" is an oxymoron.** Put bluntly, a short-term financial focus is speculation, not investing. Investing is a fundamental commitment of your capital to the pursuit of the greater goals in your life–an independent retirement, the education of your children or grandchildren, a legacy for your heirs.

2. **Valuation still matters.** When valuations are far above historic levels, there's reason for concern. Good companies may remain good companies, but they may not continue to be good stocks. When this basic principle of investing is ignored, you'll eventually pay the price.

3. **Markets go through cycles.** Effective investing during market cycles requires uneasy decision-making. When markets are optimistic and exuberant, we should be cautious and ask why. When they're pessimistic, we should see long-term investing opportunity. At all times, follow a written plan for discipline to help through the tough times. Sir John Templeton, a founder of modern investing, believes the real buying opportunities are at the time of maximum pessimism when "blood is in the streets."

4. **Asset allocation is a diversification strategy that works.** It can't offer a guarantee against short-term market losses, but it is an effective investment risk management tool. Sector concentration, no matter how attractive the sector may appear, is speculation.

5. **There's no opportunity for return without risk.** If you don't see the risk...keep looking. It's there. Once you find it and understand it, it may be acceptable. But until you identify the risks, they're unacceptable.

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Con-nec-tions

1. The act of connecting, or the state of being connected.
2. That which joins or relates, a bond or link.
3. Group of associates, often considered influential in some way.
4. **Small Business Resource Network.**

As We Move On, Opportunities Abound

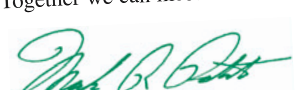
Dear Reader,

Reflecting over the first two years of this millennium, much in our lives have changed. Our security is controlled by new agencies and requires that we allow extra time for performing everyday activities. Our federal government is under new leadership in two of its three branches. The landscape of our city boasts of new construction and a fresh look in all directions. Our investment portfolio is likely somewhat less than it was for much of the last decade. Interest rates are down substantially and insurance premiums are up substantially. I know I've changed how I look at both my personal and business life; not in a negative way, but hopefully with more caution and wisdom.

What I see most coming from these changes is that we need each other more that we ever have before. The self-made millionaire perhaps is now an unemployed executive. The successful, frugal middle class recent-retiree is likely looking for a job to supplement their income–since that well-planned portfolio has lost its luster–while the long-time retiree is wondering how to pay for both food and medicine. The challenges are immense, but the opportunities are just as great. We still maintain the best economic system in the world and a collective attitude that we *will* succeed, whatever the obstacles.

The last two years have been personally fulfilling by having the opportunity to serve as president of the SBRN. Hopefully my presence has made a difference for small businesses in our community. I owe a great portion of gratitude to the many people who have served on the networks and committees that allow us to serve these businesses. **The new year brings you new leadership: Howard Caplan is your new Steering Committee president. He is a well-established attorney who has a deep concern for the small businesses of Jacksonville.**

We look forward to working with him to make Jacksonville area businesses an even stronger component of our economy. When you need help with any aspect of your business, the people of SBRN will do their best to fill that need. Together we can meet the challenges and seize the opportunities.



Mark Patrick, CPA
2002 SBRN President

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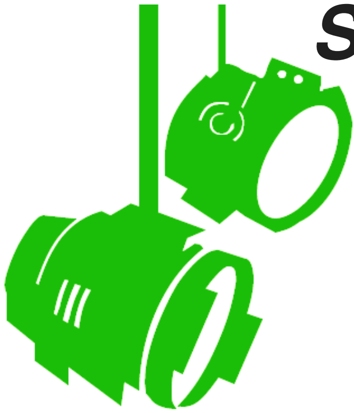

Spotlight on…

Dealing with Difficult People

By Bob McKenzie • Human Resources Consultant

Newman, the two-faced character from TV's *Seinfeld*, strikes a familiar chord in all of us.

His "nice to some, nasty to others" persona is also a model I discuss in many of my training classes.

Fictitiously, Newman holds a low-level job maintaining historical product data, making copies and gathering information as requested. He's been with the same company for 15 years; has a great attendance record and his files are maintained in an impeccable manner. Many of Newman's co-workers rely heavily on him for information and they flatter him with compliments. Newman responds by giving special treatment to those who sweet-talk him.

Newman is also responsible for assembling mass mailings to customers. These mailings must be sorted in a particular order and delivered to a group of six women who work quickly to mail them on a timely basis. The women rely on Newman for their jobs to be completed correctly and on time. Deadlines are generally met, but not without some degree of turmoil caused by Newman's indifference toward the work needs of the women in his department. The women are stretched and stressed and hate working with Newman's seemingly uncooperative nature and tendency to give selective special treatment.

At this stage in my workshop, I ask participants, "What do you do with Newman?"

Responses have included:

"Promote him and give him a raise. He's underutilized."

"Newman has a superiority complex. Send him to a sensitivity class."

"Give him a written warning."

"Fire him."

"Do nothing, the job is getting done."

"Tell the people who give him compliments to stop."

There's usually a healthy debate concerning what to do with Newman. Many people try to analyze the psychological motives for his behavior and treat the symptoms instead of the outcomes.

However, with some prodding, the answer becomes apparent. Newman has been working without standards and expectations. Give him a deadline a day or two in advance of the mailing deadline, and his performance can be measured. We often over-complicate and over-analyze things by trying to determine an individual's motivation and make excuses for shortcomings or other non-work related items.

In this particular case, the answer is simple and allows Newman's supervisor to objectively monitor his performance. Newman will also recognize he's being measured. With measurable standards, employees are more likely to live up to expectations.

Set a resolution for 2003 and develop ways to measure employee performance. If you have no measurements, develop a baseline.

Bob McKenzie is president of McKenzie & Company, and can be reached at (904)273-8637 or Bobm@mckenziehr.com.

Welcome New Members

NETWORK	NAME	ORGANIZATION
Accountant	Ellen Bushnell, CPA	Haring & Bushnell, P.A.
Accountant	John Howard, CPA, ABV, CVA	Grenadier, Howard & Associates, P.A., CPAs
Accountant	Jim Karpowicz	Hartman, Blitch & Gartside
Agency	Kathy Frederick	Internal Revenue Service
Agency	Julio Fuentes	Hispanic Business Alliance
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Finance Consultant	Brent Ross, CPA	Meeks, Ross, Paulk & Associates, CPAs, LLC
Human Resources Consultant	Karen Gallagher, SPHR	Johns & Associates, Inc.
Insurance	Susan Knight	AFLAC
Insurance	Troy Tummond	Florida Pension Group, Inc.

HRA's: A New Paradigm in Group Health Insurance Cost Control

By Kenneth L. Smith, CLU, FLMI • Insurance Consultant

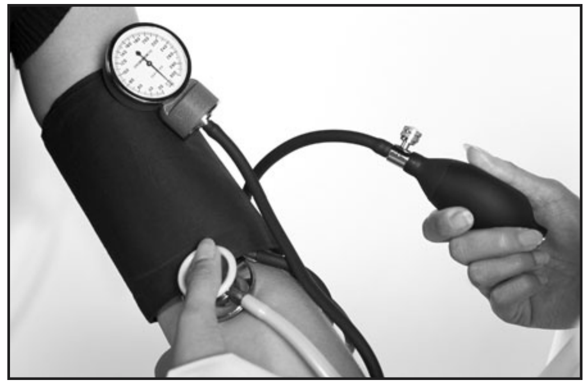
How will we cope with the ever-increasing premiums on health insurance? One way to get a handle on the costs is to subject the health care delivery system to free market forces. That's not new. Adam Smith postulated it 200 years ago.

Over the past several months, we've heard rumblings about "defined contribution" health insurance plans, wherein the employer puts dollars into an employee's account for the purpose of paying medical expenses, including health insurance premiums. However, the income tax consequences of such a plan have been uncertain...until now.

The IRS published a ruling declaring that **money provided by employers for employees' out- of-pocket medical expenses will not be subject to federal income tax**. The ruling also stated that unspent funds can be rolled over year-to-year and retained by the employee upon change of employer or at retirement.

That new IRS ruling removed much of the uncertainty attached to money purchase health insurance plans, and established what the IRS calls "Health Reimbursement Arrangements" (HRAs), subject to the same rules as now apply to other employer sponsored health insurance plans.

A few such plans were established in 2002 by some major US corporations, betting the IRS decision would fall in their favor. Recall that the siren song of the HMO's was they would control fees and thus control costs. However, never discount the rule of unintended consequences. Usage of HMO services by its members skyrocketed–and why not when you can get an $1,800 test for a $10.00 co-payment? Over time, insured members lost track of costs for services and prescription medicines.



Employers are no longer able to pay the cost of these plans, yet they're unwilling to jettison them and set their employees adrift. A recent study indicated that since 1960, the average share of health care expenses paid by employees covered by group health insurance has dropped to 20%, with someone else picking up the remaining 80% of the tab. No wonder there's little incentive to shop for cheaper drugs and health care services.

HRA's are not HMO's. They are *see-any-doc, go-to-any-hospital* plans. Here's how they work:

If you already own a Medical Savings Account Plan (MSA), you own a solo practice version of HRA. The employer purchases a high deductible major medical health insurance policy to act as a stop loss vehicle for the employee. The employer next contributes specified dollars into an HRA for the employee. For the employer this action should result in a savings of premium dollars. The employee then taps his or her HRA for medical expenses as needed. That sets up an incentive for the employee to shop around for health related services, because whatever's left in the employee's HRA kitty at year-end rolls over to the next year. If the employee has a year in which medical expenses equal the deductible on his or her stop loss policy, the insurance kicks in to pay covered expenses for the rest of that year. Younger employees who see little need for health insurance during those "bullet proof" years, should be attracted to HRA's, as they see an opportunity to retain control of dollars that formerly flew away to the HMO for potential services never used. Older employees should obtain relief from high HMO premiums.

According to a July 2, 2002 editorial in the *Wall Street Journal*, "The health insurer Humana, which offered the product to its own employees this year, saw an expected 19% increase in health costs drop to less than 4%."

In Florida, the state legislature must initiate necessary changes to the group health insurance regulation before Florida businesses can provide HRA plans to their employees. Contact your state representatives and senators to urge them to tackle this task. HRAs are an idea whose time has come.

Ken Smith, CLU, FLMI, owns Insurance Planning Services. He may be reached at 904-285-5255 or ksmith6288@aol.com.

Introducing ABC Plus

By Troy Tummond • Insurance Consultant

Regulation is often perceived negatively within the business community, but it sometimes brings welcome changes.

Non-discrimination regulations for pension and profit-sharing plans, for example, have actually enhanced the ability of employers to meet business and personal objectives on a cost-effective basis.

Recently passed regulations in the same areas modify and simplify the earlier versions released in September 1991. The updates have produced a plan called the Age-Based Contribution Plus (ABC Plus)–designed to offer selective benefits for key employees.

What Makes The ABC Plus Possible?
Pension and profit sharing plans may not discriminate in favor of highly paid employees. To ensure this, the IRS drafted regulations establishing standards that all plans must satisfy.

These regulations permit a plan to satisfy the non-discrimination requirement by providing employees with either non-discriminatory contributions (input) or non- discriminatory benefits (output). Historically, defined benefit plans have satisfied the non-discrimination requirement by providing all employees with equivalent benefits (output), and defined contribution plans have provided employees with equivalent contributions (input).

The non-discrimination regulations provide standards that permit "cross testing." This means defined benefit plans may satisfy the non-discrimination standards based on contributions (input), and defined contribution plans may test based on benefits (output).

Enhanced Cross Testing Options
The regulations proposed provide two alternative testing methods. A plan may prove compliance at the individual participant level, or a plan may group participants and base the test on the average benefits provided to each group. Testing at the group level using average benefits creates a unique plan sometimes referred to as "new comparability."

By applying this technique, a plan can provide one contribution rate to a select group of employees, with a different and much lower rate (or rates) for employees who aren't part of the select group. As long as the plan demonstrates the average benefits of the highly paid employees are equivalent to those of the non-highly paid group, the plan will be non-discriminatory.

The beauty of ABC Plus is that employers completely decide which employees are included in the select group. For example, the select group could include:

- Highly compensated employees
- Owners and key executives
- Salaried employees
- Long service employees
- Officers and managers

In this respect, ABC Plus offers advantages similar to executive benefit plans, yet it retains the tax advantages of pension and profit sharing plans.

Who Should Consider ABC Plus?
ABC Plus will be attractive in a variety of situations where key employees are older. This includes:

- Businesses with existing defined contribution plans where there is a desire to increase amounts allocated to select personnel.

- Businesses with defined benefit plans that need to increase contribution flexibility or minimize administrative costs.

- Businesses that have never established or terminated a plan because costs of covering non-key employees was too great compared to benefits provided to the select group.

- Businesses looking for tax-deductible methods to pay for a second-to-die policy to meet estate planning needs.

It's now possible to design a plan with the power of a pension, the simplicity and flexibility of profit-sharing and desired selectivity. This is no doubt welcome news, even if it does come from more regulation.

Troy Tummond is president of Florida Pension Group, Inc. He can be reached at (904) 281-9010 or flpensiongrp@aol.com.

The Employee Handbook: An Indispensable Business Tool

By Karen J. Gallagher, SPHR • Human Resources Consultant

Employee handbooks protect your company and educate your employees about what they should expect from you, and what you expect from them. Every company, no matter how large or how small, should have one.

Creating an employee handbook develops concrete policies and procedures for employees to follow while at work. The book also helps them understand the formality of the workplace rules and that everyone works with the same guidelines.

A company handbook protects you in legal situations. With regulations becoming increasingly invasive, you can't afford to hire, fire and manage employees without a written explanation of how your company officially handles employment issues.

A handbook's goal is to define rules and expectations without limiting an employee's individual ability to shine. Employees don't need direction on every little thing and should make some decisions on their own. With this in mind, concentrate on concise writing covering the major issues.

Bottom line: the more clearly you communicate with your staff, the more profitable your business will be with less misunderstandings.

According to an article in *Inc*. magazine, "The (Handbook) Handbook" by Tom Ehrenfeld, an employee handbook should:

- communicate indispensable company policies and practices;
- make explicit the mutual agreements between employees and employer without actual contracts;
- state and express company philosophy;
- motivate employees about the job;
- convey a broader sense of the company mission.

In addition, it needs an effective "look." An employee handbook should be easily read with graphics and lists, and arranged in a logical format.

When distributing the handbooks, each employee should receive one and later sign a receipt acknowledging they did read and comprehend it. Don't fall into the trap of thinking of this document as just a tool to cover yourself from problems. That tone will turn employees off. However, the wording used in an employee handbook can be used against you, so any materials created should be reviewed by an expert with extensive experience developing and writing employee handbooks.

The following items are included in typical employee handbooks:

Mission Statement
The first step is to formulate and clarify your company's mission statement. Your mission statement should include direction on company goals and manner of operations.

Work Environment
Such issues as equal employment opportunity, job posting, hours, performance, absences, and jury duty should be covered in this area. Include a special section on specific, individual job requirements. Add information on promotion, reporting for work, time recording, tools and equipment, personal property, security, personal phone calls, car parking, lockers, and notice boards. Include information on any probationary periods for new hires.

Compensation & Benefits
This section covers regular and overtime pay, health, dental, life and disability (both short and long term) insurance, workers' compensation, vacations and holidays, personal and sick days, retirement programs, tuition reimbursement, tool reimbursement, mileage reimbursement, and employee-assistance programs.

Employee Conduct
Include information on hygiene, dress code, vehicle conditions, radios or snacking on the job. What about drugs or alcohol? Smoking?

Organization Chart
Reveal your chain of command and prevent bottlenecks as employees know who to see about specific problems.

Legal Requirements
Most employers are now subject to more than 100 federal and state laws affecting the content in employee handbooks. Laws such as the Americans with Disability Act, Immigration Reform Act, the Family and Medical Leave Act, and other non-discriminatory statutes may seem burdensome but you could pay a great deal for not including them. A clause also must be included regarding sexual harassment. Be sure your handbook isn't construed as a contract for employment by including a disclaimer such as, "This handbook is not a contract, express or implied, guaranteeing employment for any specific duration. Either you or the company may terminate this relationship at any time, for any reason, with or without cause or notice."

Include warning that the company can change, rescind or add to any policies in the handbook at its discretion. These clauses must be posted clearly and conspicuously to meet legal requirements. Also, think specifically about which policies apply to whom. Do they apply to all people or just to full time employees? Are they just for salaried or hourly employees, too? Does the employee have to work for your company for a certain amount of time before they can receive certain benefits? Be sure to have your attorney review any handbook before distributing it.

(Continued on page 6)

Employee Handbook

(continued from page 5)

Staff Development
This area should address the appraisal of staff performance, opportunities for advancement, and training and education.

Discipline and Termination
Let employees know what it takes to get fired. Many companies use a three-offense system: the first offense is a verbal warning with a write up to the employee's file, the second is a written warning and possible suspension, and the third means dismissal.

Grievance Procedures
If there's a complaint against another employee, how should employees report it to management? Will you work through arbitration?

Safety and Security Policies
Make a commitment to safety through written policies. Workplace injuries can cost your company dearly so be adamant about safety procedures. Include materials on accident prevention, reporting on-the-job accidents, and fire emergencies.

Confidentiality Clause
Confidentiality can be crucial in today's competitive environment. Employees should understand the importance of confidentiality regarding vendors, customers and private financial information. Former employees should also respect this request.

These details should be included in any employee handbook worth its salt. It's well worth your efforts to put policies and procedures in writing before your company grows or before a misunderstanding occurs. If you desire informed employees with a clear understanding of their responsibilities, an employee handbook is an indispensable business tool.

Karen Gallagher is a human resources consultant with Johns & Associates. She can be reached at (904) 224-1439 or kgallagher@johnsassociates.net.

Twelve Lessons Learned

(continued from page 1)

6. **Most dollars flow into high-performing investments *after* the performance has occurred.** The single most abused tactic is for investors to chase last year's performance. Disciplined investors avoid this mistake.

7. **Market indexes can tell a very distorted story.** The success or failure of your investment plan shouldn't be measured against any single index, only whether it meets your long-term goals over a full market cycle.

8. **A well-balanced portfolio should be diversified among the major asset classes.** Cash. Fixed income. Large and small companies. Growth and value. Domestic and international. The only guarantee is that some of these areas periodically disappoint. But you never know which ones or when. Your plan will succeed only if you stick with it and remain diversified.

9. **Years of high returns can be reversed by one bad year.** That's why you shouldn't use short-term criteria to judge long-term results. Consistency is more important than an occasional "home run."

10. **The traditional rules of investing are still true.** While they can be adjusted to fit changing economic environments, never abandon the core principles of diversification, sound values, patience, sound planning and maintaining a long-term perspective.

11. **Raw information isn't knowledge.** The financial media–TV, radio, newspapers, magazines, the Internet–survives on stimulating emotion, rather than discipline and sound planning.

12. **Market timing doesn't work.** Moving in and out of markets based on anticipation is speculation–not investing.

Reviewing these 12 principles should reaffirm your basic investment planning process and strengthen your resolve to remember and apply these lessons in the future.

K. Kenneth Wu, MBA, ChFC is a registered representative and investment advisor of Lincoln Financial Advisors Corp. He can be reached at (904) 354-3726 or kwu@lnc.com.

Duval County Business Owners: Advantage in Financing

Small Business Owners in Duval County may be at an advantage if they're looking to expand or grow their business as 2003 begins.

Interest rates have been around 7% for the past several months and with lower rates offered to businesses located in Duval County, now is the perfect time to expand using SBA loan programs.

Jacksonville Economic Development Company (JEDCO), an SBRN agency member, is one of almost 300 certified development companies (CDCs) nationwide, licensed to do business by the Small Business Administration (SBA). The SBA's 503/504 Bond Debentures, supported by JEDCO, sell quickly and have been funding business in Duval County for more than 20 years.

JEDCO takes a second mortgage position, says JEDCO's Jim Taylor. "We help mitigate risk to the first mortgage lender. By offering most borrowers a 10% equity injection, it also reserves borrower's working capital." The first mortgage holder is issuing a conventional mortgage with minimal restriction.

Since its incorporation in 1981, JEDCO has funded more than $210 million in small business loans and has helped to create more than 4,000 jobs in Duval County. For more information, call (904) 398-9411.

JEDCO
Jacksonville Economic Development Company

Why Your Business Won't Sell

By Nancy Cofield • Business Broker

What are the odds of your business actually selling once you've decided to sell?

If your business' annual sales are $750,000 or less, research indicates that the odds of your business selling are only 18 percent. If your annual sales are $750,000 to $2 million, your odds increase to 25 percent. With annual sales above $2 million, the odds increase to more than 30 percent. Keep in mind that approximately 75 percent of all businesses have annual sales of less than $750,000.

Put bluntly: if you're thinking of selling your business, you have about a one in five chance of it actually selling.

So, why are the odds so poor? Here are some reasons why some businesses don't sell–as explained by various business brokers and intermediaries. They're excerpted from an article in *Inc.* magazine, April 2002:

• The business is no longer for sale. Cash flow was strong, but buyers thought the deal was overpriced.

• Buyers were intrigued, but the deal's economics wouldn't make sense, and the seller wouldn't negotiate.

• There was serious interest, but the owner got distracted by an arrangement with a friend to solicit offers. None came through.

• We almost had a deal, but financing was impossible to find.

• We had three offers, including an accepted bid for $4 million, but the buyer couldn't get financing.

• The deal dragged on for months but fell apart for lack of financing.

When selling, timing is everything. Many business owners wait until the economy is down, but sellers should keep in mind that the best time to sell is when their business is doing well.

One major factor that emerges from the comments by intermediaries above is the lack of financing. Three of the comments stated the reason deals didn't go through was "financing was impossible to find," " the buyer couldn't get financing," and "...fell apart for lack of financing."

Obtaining financing is difficult because (1) a business doesn't qualify for financing, (2) the buyer doesn't qualify for financing, and, most importantly, most small businesses aren't financeable. Banks generally aren't interested; the Small Business Administration, although certainly an option, is only involved in less than 10 percent of deals. If lenders aren't interested in financing the sale of the business, only two choices exist: buyers pay all cash or the sellers finance the sale.

Want to increase your odds? Here are two major ways to increase the odds your business will be the one in five that sells:

• Make sure you're serious before putting your business up for sale. You should be willing to accept, within reason, what the marketplace is willing to pay. Find out if your asking-price is in the "ballpark" before going to market. Your local business brokerage professional is a good place to start for such research.

• Be willing to finance the sale of your business. Counting on the business selling for all cash or assuming that the business can be financed will most likely make your business one of the four that don't sell. And you reassure the buyer you have confidence in the business' ability to finance itself.

These guidelines should serve to increase your selling odds. Almost any business will sell under the right circumstances.

Nancy Cofield,CBI, is president/broker with Corporate Investment International of North Florida, Inc. She can be reached at 996-1666 or ncofield@cii-ma.com

SBRN: Celebrating the First 10 Years

SBRN "went cruisin'" to celebrate a decade as Jacksonville's premier connection to small business resources. Needless to say, the celebration was grand and SBRN kicked off a second decade in style.

More than 60 people were on-board for the fall event which included lunch, a presentation ceremony and an invigorating perspective of the St. Johns River from the *Jacksonville Princess*, a 90-foot yacht docked at downtown's Riverfront Hilton.

The river bound event wouldn't have been possible if it weren't for the support of two main sponsors: Ward Rainnie, CNB National Bank; and Beth Barron, CIT Small Business Lending. Ward is vice president of SBA lending at CNB National Bank where they specialize in commercial real estate loans, retail loans, private/professional, small business, SBA 7(a) and 504.

Beth is senior regional accounts manager for CIT handling SBA loans for business acquisitions, machinery and equipment, real estate, construction or renovation, inventory, working capital, and debt refinancing.

Many thanks to these great sponsors and the other members who made SBRN's 10th anniversary celebration a success...and a precursor of what's to come in the *next* 10 years.

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