THE SHERIDAN ROAD MAP

The Best Route to Financial Success

January 2010 Volume 4 • Issue 1

Welcome to the Sheridan Road Map! Your source of monthly insight into the financial world. Sheridan Road provides a one stop financial solution for middle-market companies, their executives and employees. We are the premier provider of Corporate Advisory, Corporate Retirement Advisory, and Wealth Management Services, by providing holistic and independent advice to our corporate and individual clients. The Sheridan Road Map will provide insight into both historical and topical issues, a calendar of upcoming events, industry news and analysis. "Let us help you navigate your Financial Road!" Visit us at www.sheridanroad.com.

CEO CONFIDENCE STUMBLES

After showing signs of improvement in August and September, the CEO Confidence Index fell 8.9% in October to 77.8. All five components of the Index fell with the Employment Confidence Index showing the largest decline, down 23.4% to 51.60. The fall reflects concerns over the increase in the unemployment rate to 9.8% — the highest unemployment rate seen since the beginning of the CEO Confidence Index in 2003. To date, the CEO Confidence Index has anticipated the employment rate six months ahead, suggesting that most CEOs don't expect employment to improve in the near term. Nearly half of the CEOs surveyed (49.7%) believe that unemployment will increase next quarter, up from 36.6% in September.

The Future Confidence Index fell 12.3% to 84. 50. One CEO commented, "Things seem to have bottomed out, but we're not seeing any significant movement upward yet."

In October, the Business Conditions Index fell 7.8% to 76.90. Several CEOs stated that they expect the economy to show slow improvement over the next several quarters. A few CEOs are taking advantage of weak competitors and expanding market share.

The Investment Confidence Index fell to 98.60, a decrease of 3.9%. One CEO stated, "Investment opportunities are good; however, due to current lending practices, most companies are unable to capitalize on these opportunities." Another CEO lamented, "Banks need to keep lending to the small businessman." Mitch Bloom, president of Aviva Labs stated, "We feel that many of our competitors are in a bunker mentality, so we have chosen to invest aggressively for growth." The Current Confidence Index showed the smallest rate of decline at 2.5%, having fallen to 67.80.

The unanswered question is, when will we hit bottom? Fully 48% of CEOs believe there will be no change in the economy in the next quarter. Only 31.2% expect gradual growth, while 20.2% predict gradual decline.

Employment remains the impediment to an improving economy. One CEO stated, "I believe that these new levels of unemployment are the 'new normal' as companies continue to right-size."

Many CEOs are poised for an uptick in the economy; one CEO commented, "Our business is leaner and smarter than ever before. As the economy evolves, we are better prepared to respond to the right opportunities when they present themselves."

Index	September, 2009	October, 2009	Monthly Change(%)
CEO Index	84.7	77.8	-6.9%
Current Confidence Index	69.5	67.8	-1.7%
Future Confidence Index	94.9	84.5	-10.4
Business Condition Index	82.9	76.9	-6.0%
Invest Confidence Index	102.4	98.6	-3.8%
Employment Confidence Index	63.7	51.6	-23.4%

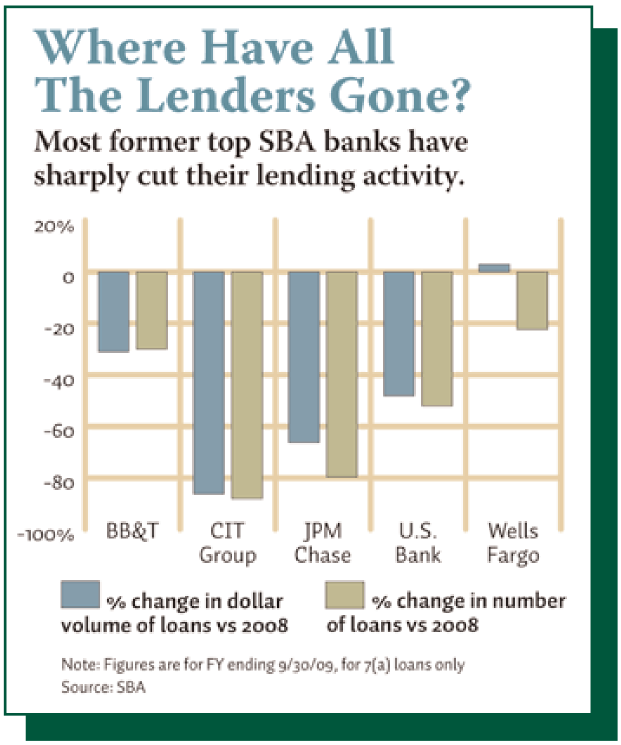
Chief Executive, November/December 2009

Small Consolation

Despite the lip service paid to the importance of small businesses, efforts to ease their credit woes have come up short.

Late last year, Michael Doherty, founder and president of Boston-area IT service provider Mikrodots Inc., went in search of a loan. He approached several local banks, hoping to borrow as much as $200,000 in order to step up marketing and hire more people. In business (and profitable) for nearly 15 years, Doherty thought he had a good chance of obtaining a Small Business Administration–backed facility, despite the economic climate. The community banks he approached, however, told him that he needed more collateral, and that being cash-flow positive was not enough. “They said they wanted not one but two ways to repay the loan [in the event of a default],” says Doherty. The backing of the SBA didn’t count.

In February, Congress put several measures in the American Recovery and Reinvestment Act that should have helped Doherty, including increasing some SBA guarantees to 90% of principal (up from an 85% maximum) and waiving loan fees for 2009. The stimulus act also created the SBA’s new America’s Recovery Capital (ARC) loan program, which floats small businesses up to $35,000 in expenses over six months, interest-free. “I will do whatever it takes to help the small business that can’t pay its workers,” President Obama said in a speech to Congress shortly after signing the bill.



Unfortunately for Doherty, banks haven’t taken a similar pledge. He has investigated the new ARC loan — specifically designed to help struggling companies make debt and interest payments — with two local banks but has concluded that “it’s a myth.” Among the many reasons he believes banks were reluctant: the risk and administrative hassles associated with the small amount made it a nonstarter for them.

Meanwhile, Doherty lost a $15,000 line of credit and a corporate credit card, and the rate on an existing card rose from 9% to a whopping 30%. He has had to lay off three employees, his growth plans are on hold, and he still needs money. “It’s truly not a lack of work, it’s a lack of working capital,“ he says.

Doherty is emblematic of a growing number of small-business owners who say the federal efforts to aid them have missed their target. “Two or three years ago, I was helping entrepreneurs realize their dreams. Now, more often than not, I’m talking them down off the ledge,” says Walter Manninen, former CFO of publishing company CXO Media and a senior counselor at a Boston-area Small Business Development Center.

The number of small-business bankruptcies is up 50% for the first three quarters of the year, says credit-reporting firm Equifax, with 9,361 closing their doors in September alone. According to a recent survey of 150 business owners commissioned by consulting firm Angrisani Turnarounds, 65% are concerned or very concerned that their business will fail within the next two years.

So there is little optimism about the newest round of proposals designed to help small businesses, including President Obama’s October push to increase SBA loan amounts and to lower the cost of capital to smaller banks, elements of which were passed by the House of Representatives in the Small Business Financing and Investing Act. “The government can put a whole bunch of changes out there, and they’re good ones, but if the private sector doesn’t buy into them, they don’t mean anything,“ says Steve Bloom, past chair of the Atlanta chapter of Service Corps of Retired Executives. Bloom says he’s seen plenty of good businesses turned down for funding.

Lacking Credit, or Customers?

Clearly, federal efforts are not leading to more borrowing by small businesses. The SBA’s primary programs, the 7(a) and 504, yielded 35% fewer bank loans between September 2008 and September 2009 than the same period a year before. Since ARC loans became available in June, just $116 million of the $255 million allocated had been loaned out as of the end of October (the program can run as late as September 30, 2010).

Meanwhile, small-business owners speculate that government efforts at banking reform may be exacerbating problems associated with other forms of finance. In particular, credit-card issuers are rushing to raise rates and apply them to existing balances ahead of new federal restrictions slated to take hold in February 2010. In response, Sen. Christopher Dodd (D–Conn.) has proposed an emergency ban on applying the new rates to existing balances.

Some argue that the contraction in small-business credit is actually due to a lack of demand. Most entrepreneurs self-finance as much as possible, say experts, and seek a loan only as a last resort or for an extraordinary growth project. Now that new hiring and many capital expenditures are on hold, debt is the last thing small businesses want.

(continued on page 3)

Small Consolation (continued from page 2)

In fact, only 10% of the 827 small-business owners surveyed by the National Federation of Independent Business (NFIB) in September said they couldn't get the financing they wanted, and only 4% named financing as their top concern. "The primary problem facing small-business owners right now in terms of job creation is not access to credit, but a lack of sales, customers, and confidence," says William Dunkelberg, chief economist for the NFIB and also chairman of regional lender Liberty Bell Bank. "You could give them more money, but for what?"

But plenty of small-business owners and advisers say the problem is that banks are sitting on the funds they've received from federal programs in order to boost their balance sheets. "More than half of our customers would be able to accelerate growth plans and add jobs with access to additional capital, but they're absolutely handcuffed right now," says Jamie Pennington, co-founder of Flexible Executives, a temporary-staffing firm.

Banks counter that an increase in SBA guarantees doesn't increase the funds they have available for SBA lending. Ted Morgan, senior vice president at BNB Bank, says "it's still the banks' money" getting loaned out, and that SBA loans still mean a loss for banks if a borrower defaults, even with the government backing. While the increased guarantee level helps a lot, he says, the SBA is simultaneously tightening its standards for what qualifies as a reimbursable loan loss, meaning many banks are increasingly wary of being left holding the bag. Morgan says, the government's efforts in the stimulus package had a huge impact on lenders, and the 35% drop in SBA loan volume "was a heck of a lot better than it would have been otherwise."

That drop in volume can also be attributed to a drop in the number of lenders. CIT Group, once the top SBA originator, cut its loans by 86% (in dollar volume) between September 2008 and September 2009, as the firm teetered and then fell into bankruptcy. "For every CIT, you have to come up with 25 community-bank lenders," says Charles "Tee" Rowe, CEO of the Association of Small Business Development Centers.

Small banks are inherently at a disadvantage to larger lenders, says Paul Merski, senior vice president and chief economist for the Independent Community Bankers of America, since they generally have to get pre-approved by the SBA, a process that can take months thanks to backlogs. "The [federal] programs are set up to work; it's really just an execution issue [at the SBA]," he says. Reining in "overzealous" bank regulators and continuing to bolster the secondary market for SBA loans (one component of last February's stimulus bill) will also help entice more lenders, Eastern Bank CEO Richard Menzies told a House committee.

Calling on Angels

If current government actions aren't working, what would? The NFIB, for one, advocates a business-payroll tax holiday, broad-based tax breaks, tax holidays for consumers, or all three. Bloom suggests having the SBA become a direct lender for a limited span of time, say, 12 to 18 months. (The agency already does this for individuals and businesses affected by national disasters.) Pennington and others say more stimulus money and more pressure from banking regulators is what's needed. "Dedicating only one half of one percent of the total stimulus package toward small businesses, which have created two-thirds of the nation's jobs in the past 15 years, is just ridiculous," she says of the $5 billion total set aside so far.

In the interim, many small-business owners are tapping resources outside the banking sector, namely, private investors. The landscape there is only slightly less bleak. Angel investors, usually the first source of outside equity for small businesses, shelled out 27% fewer dollars in the first half of 2009 compared with the same period in 2008, according to the Center for Venture Research at the University of New Hampshire. The one bright spot? The number of deals increased 6%.

Venture capitalists were even more tightfisted. In the first three quarters of 2009, 463 firms received their first infusions of venture capital, down 50% from 2008, and the dollar volume of such deals dropped 58%, year over year, according to the MoneyTree Report by PricewaterhouseCoopers and the National Venture Capital Association. The third quarter, in particular, showed the lowest dollar volume for such financings in the nearly 15-year history of the survey.

Perhaps the best hope for companies eager to tap federal resources is to take another route: become a government contractor. Federal agencies are required to give a certain percentage of work (the SBA's recently declared goal is 23%) to small and minority-owned businesses, says small-business counselor Manninen. He is crafting such a plan with Doherty.

By Alix Stuart • CFO Magazine, December 2009

2009 Is No 1982

Much has been made of the similarities between the huge market surge off March lows this year, and the dramatic rally in 1982: in August, 1982, unemployment was near 10% and would rise for several months more, many thought the economy was in its worst shape since the Great Depression, oil prices had collapsed, the U.S. auto industry was falling apart, the household sector was thought to be hugely overextended and American households were massively in debt.

The significance is that the 1982 rally marked the end of a recession.

Could the same be true today? The Big Picture blogger and FusionIQ research director Barry Ritholz says not so fast. Using data from Gluskin Sheff, S&P and Bloomberg on the Dow Jones Industrial Average, he notes that there are vast differences between then and now: Equities are trading at much more inflated multiples these days, while money is being pumped into the system by the Fed, deficits are surging, balance sheets are contracting, trader barriers are being erected and taxes are rising. We may have a ways to go.

By Christina Mucciolo • Registered Rep, December 2009

529s Trump Savings Bonds

With the end-of-the-year holidays approaching, many generous grandparents are looking for ways to pass on some financial gifts to their grandchildren. But letting clients give savings bonds as presents only guarantees the family will be stuck with an investment that offers a low rate of return and a high degree of hassle.

Here are several reasons why helping those well-intentioned clients use 529 college savings plans instead will make the grandparents and their grandchildren happier now, as well as in the future.

Low Risk, Less Reward

The EE and I bonds issued by Uncle Sam are not completely without merit, as the principal and interest are backed by the full faith and credit of the United States Treasury.

But like most other safer paper, yields on savings bonds are currently near all-time lows. Right now EE bonds pay just 1.7% interest. The I bonds have a fixed rate of 0.3% that is added to an inflation-adjusted rate of 3.06%, for a total current yield of 3.36%.

Compare those figures to the inflation rate in college costs over the last 40 years or so — which, according to the College Board, have increased at a yearly rate of about 7.2%, versus 4.4% annual general inflation over the same period.

True, the equity and bond fund options within the 529 accounts also have a downside risk that the savings bonds don't. But at least the variable college savings plan investment choices give families a fighting chance of meeting or beating the rise in the cost of going to college — as opposed to savings bonds, which only guarantee that they won't keep pace.

Besides, even conservative savers can find a safer haven within 529s, as several plans now offer federally-insured certificates of deposit on the investment option roster.

Tricky Tax Savings

It is possible for families to cash in savings bonds and avoid paying taxes on the accrued interest when the proceeds are used to pay for college costs. But the restrictions are more difficult to decipher than an advanced-level calculus lecture.

First, the bonds must be owned by the parent, not the student (and forget about getting the tax breaks for bonds owned by grandparents). Then the proceeds can only be used tax-free for tuition expenses, not room and board.

Finally, the parents' income must be below stringent limits that are adjusted each year. So not only may the family make too much money to qualify, they don't even know what the figure will be when they cash in the bonds.

Contrast that with the 529 plans, which have no income or wealth restrictions on depositors. And withdrawals from 529 plans are tax-free for all qualified higher education expenses — not just tuition, and with no regard for family's income.

Low limits

Both 529 plans and savings bonds offer the ability to make small initial and ongoing deposits — usually as little as $25 a pop.

But current savings bonds rules only allow purchases of up to $10,000 per Social Security number per calendar year: $5,000 in person, and $5,000 electronically (i.e. via the Treasury Direct program at savingsbonds.gov).

There is a much higher ceiling on the amount of money that can be deposited into a 529 plan for a particular beneficiary. Current rules say that each grandparent can contribute up to $13,000 to a 529 plan each year, as long as no other gifts are made from the donor to the beneficiary.

And using the five-year exemption available only to 529 plans lets grandparents make five years worth of maximum deposits all at once, for a total right now of $65,000.

So in theory, today a grandmother and grandfather could give separate gifts totaling $130,000 to a 529 plan for each fortunate grandchild, without running afoul of the tax code.

Lower Estate Taxes

That special exemption highlights another advantage uniquely available to 529 plans. Remember that to cash in savings bonds proceeds tax-free, the expenses are limited to tuition incurred by the dependent children of the bonds' owners.

In theory, benevolent grandparents could give the money to their adult children, who would (hopefully) buy bonds for the grandchildren that then one day might (or might not) be redeemed tax-free. As a side benefit, in the process the gift will be removed from the grandparents' taxable estates.

But grandparents who make deposits into 529 plans for grandchildren can also remove the money from their taxable estates, yet still maintain ownership of the accounts.

So if your clients need the money for other purposes, they can pull it out of the 529, pay a small amount in taxes and penalties on the earnings portion of the withdrawal, and do what they please with the net proceeds.

Please read the offering statement and participation agreement carefully before investing. For 529 plans, an investor's or a designated beneficiary's home state may offer state tax or other benefits that are only available for investments in that state's qualified tuition program. Please consider this before investing.

By Kevin McKinley • Registered Rep, December 2009

Sheridan Road Financial, LLC
707 Skokie Blvd, Suite 250
Northbrook, IL 60062
Tel: 847-205-9073
Fax: 847-205-9385
www.sheridanroad.com

For more information please call Sheryl Lewis at 847-205-9073.