THE SHERIDAN ROAD MAP

The Best Route to Financial Success

July 2009 Volume 3 • Issue 7

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.

ETF ADVISOR: ETFs FOR CASH

The rise of cash-equivalent exchange traded funds

With investor interest in exchange traded funds seemingly endless, fund sponsors are busy exploring new fund ideas. Over the past year, ETFs holding money market securities—Treasury, municipal, and corporate bonds that mature in less than a year —have sprung up to give investors a "cash-equivalent" ETF option. Money market ETFs have several attractions: they tend to offer higher yields than bank CDs and have lower expense ratios than most money market mutual funds. Like mutual funds, they pay interest once a month, and give investors access to a portfolio of bonds that would be impossible for an individual investor to assemble. Unlike money market mutual funds, there's no minimum investment. Most shares in money market ETFs can be sold instantly.

NEED A PLACE TO PARK YOUR CASH?
AVAILABLE CASH-EQUIVALENT EXCHANGE TRADED FUNDS

FUND	TICKER	EXPENSE RATIO (GROSS)	YIELD
CLAYMORE U.S. CAPITAL MARKETS MICRO-TERM FIXED INCOME	ULQ	0.57	0.41
ISHARES BARCLAY SHORT TREASURY BOND	SHV	0.15	1.69
ISHARES S&P SHORT TERM NATIONAL MUNICIPAL BOND	SUB	NA	NA
MARKET VECTORS -- SHORT MUNICIPAL	SMB	0.16	2.63
POWERSHARES VRDO TAX-FREE WEEKLY	PVI	0.25	1.82
SPDR BARCLAYS CAPITAL SHORT TERM MUNICIPAL BOND	SHM	0.20	2.16
WISDOM TREE U.S. CURRENT INCOME	USY	0.25	NA

SOURCE: STANDARD & POOR'S ETF REPORTS, NEW YORK STOCK EXCHANGE; AS OF MAY 8, 2009.
NA-NOT AVAILABLE

Money Market ETFs' Shortcomings. There are some downsides to money market ETFs that make them less attractive. While the ability to sell shares in an ETF more quickly than a mutual fund may be attractive to some, it's really most valuable to investors looking to dabble in highly volatile securities rather than relatively stable short-term paper. Their expense ratios may be low, but expense ratios don't include the commissions money market ETF investors have to pay when buying shares, fees that can add up quickly if making regular deposits and withdrawals. Also, unlike a money market fund there is no check-writing capability. Furthermore, the much touted tax advantages of an ETF over mutual funds—their avoidance of long term capital gains that actively managed mutual funds sometimes incur—are less valuable for an ETF holding short-term fixed income securities that don't vary much in value.

Several money market ETFs are now trading in the United States, and there are several others in Europe and Canada as well. Most seek to replicate an index, though the WisdomTree U.S. Current Income Fund is actively managed. The iShares Barclays Short Treasury Bond ETF is by far the largest, with $2 billion in assets, while the PowerShares VRDO Tax-Free Weekly Portfolio and the SPDR Barclays Capital Short Term Municipal Bond ETF have about $450 million in assets.

When choosing ETFs for the cash allocation in your clients' portfolios, it is important to check that the ETFs really are cash instruments. One way to do this is to look into the average weighted maturity. Keep in mind that the typical money market fund has an average weighted maturity of only 30 to 90 days. If the ETF in question has a longer average weighted maturity, it may be more suitable for the short-term bond portion of a client's portfolio.

Like mutual funds, ETFs that own Treasury and municipal bonds pay interest that is free from federal and, sometimes, state taxes.

All ETF products are subject to market risk, which may result in the loss of principal. This report is for informational purposes only and is not an offer, solicitation or recommendation that any particular investor should purchase or sell any particular security or pursue a particular investment strategy. Each investor needs to review a security transaction for his or her own particular situation. This information is not intended to be a substitute for specific individualized tax, legal or investment planning advice.

By Vaughan Scully • Investment Advisor, June 2009

Best Practices for Retirement Planning

A new study identifies the evolution of best practices

According to an in depth survey of experienced advisors who devoted a significant portion of their practices to retirement planning, demands from clients are driving the evolution of retirement services. While responding to the push from clients to deliver more in the way of lifestyle services and to provide more financial education, advisors have not uniformly adjusted their fees to respond to the added service-weight on their practices. These are the conclusions that appear in late fall 2008 report, Advisor Best Practices: Delivering Retirement Income and Transition Support, which was undertaken by Dennis Gallant of GDC Research, and Howard Schneider of Practical Perspectives, located in Sherborn and Boxford, MA, respectively.

The researchers interviewed advisors across delivery channels to include professionals working in wirehouse, RIA, regional, bank, insurance, and independent firms who devoted a significant portion of their practice to retirement income and transition support for more affluent clients—and had been doing so for at least 10 years. Their collected views and approaches provide a pragmatic list of best practices for advisors who specialize in retirement and valuable guidance for those who are more generalists.

"The advisors told us there are two kinds of clients," notes Schneider. Those that we've "been working with for an extended period of time and where retirement is something they they've talked about and planned. They get to retirement, and there're no surprises. And then, there's the other kind of client who parachutes in right before retirement.

The study illuminated several trends in the delivery of retirement support:

- More services beyond the typical asset management and retirement income strategies to now include health care, elder care and more family office types of support
- Additional analysis of the client's emotional component as he or she considers transitioning and various lifestyle options
- Increased calculations for longevity planning to accommodate a range of life-stage needs, such as new career to nursing care
- Evolving practice models leading to more independent, fee-based team practices, with RIAs and independent broker/dealers take the lead in serving this marketplace
- Greater use of comprehensive planning as opposed to isolated product solutions
- Improved advisor listening and emotional analysis ability where listening skills are coupled with technical skills.

In general, advisors view their retirement clients as differing in significant ways from their younger clients in accumulation mode. They view retirement as requiring a higher degree of overall integrated planning given the larger number of life issues that need to be addressed within a context of living off investment income without knowing the actual time horizon.

There are a number of services that almost all advisors deliver to retirement clients, such as selecting and managing investments, establishing and executing draw down strategies for income distributions, delivering estate planning guidance, or providing tax planning.

The study found that almost all advisors had considerable experience in these areas and apply them as a regular part of the client solutions. Advisors either consult directly with clients or coordinated solutions with the help of outside specialists attorneys, CPAs, and insurance experts.

"Beyond the study, we would expect with more and more advisors, if they really want to deliver retirement income and retirement transitions that address a client's needs well, they are going to need to broaden the scope of what they do," states Schneider. "They can do it one of two ways. They can either bring some of that resource into their own practice so they can handle it internally, or network with others. Especially with the smaller practices, it's much more likely that they're going to network with others."

Driving Change

With clients considering new scenarios for retirement lifestyles, they're bringing more non-financial issues to discussions with advisors. Beyond satisfying client needs, broadening a practice focus often reflects a business strategy for positioning as the key trusted advisor for any challenge or issue clients face. "For most clients, life decisions are more crucial than investment choices," notes one advisor in the study.

Advisors viewed several drivers in the expansion of additional retirement services: higher client expectations, shifted financial responsibility to the individual from the safety of pension plans, increased longevity, more complicated family and personal situations, and greater need for self-fulfillment in retirement years.

The emerging services advisors are adding to their practices fall into five groups:

Elder care. Many advisors have relationships with care facilities and elder care specialists who can work with them to resolve the financial and logistical issues clients confront. Advisors may:

- Help identify eligibility for assistance programs
- Identify local care givers
- Secure space in a nursing home or assisted living facility
- Find a local elder day care facility

Personal Development. They guide clients to counselors, other resources, and also:

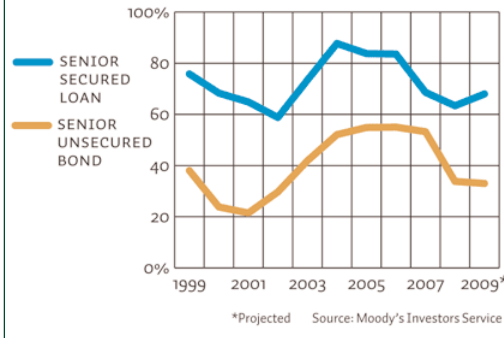
Continued on page 4

World Turned Upside Down

In the "insolvency zone," creditors exert a strong pull that often throws CFOs off balance.

The economy has weakened most companies, but it has strengthened the hand of creditors. Banks are once again imposing stiff covenants and pricing risk profitably. Bondholders, determined not to bear the brunt of restructurings, are beating back offers to exchange their notes at a discount. Commercial lenders are extracting highly prized collateral from companies needing working capital.

In short, creditors have their groove back. They're peering over the shoulders of CFOs to make sure that company assets, many of which are at risk, are preserved. With good reason: Moody's Investors Service projects that the recovery rate for senior unsecured bonds will average 33% in 2009, the lowest rate since 2002. "If there are fewer funds to pay out to creditors, they always look for ways to increase their recovery," says Sam Alberts, a partner in restructuring at law firm White & Case.



The revival of the creditor class presents a major challenge for CFOs of financially stressed companies—particularly those approaching the "zone of insolvency," a legal term for when a company is in imminent danger of going bankrupt. Since 1991, the Delaware courts have found that when companies are in the zone of insolvency, management and boards are not just the agents of shareholders. They have a fiduciary obligation to a wider community of interests, particularly creditors. Delaware case law has evolved over the past two years to shelter directors and officers from direct creditor claims , but the zone-of-insolvency issue is far from resolved.

But when does a company enter the zone of insolvency and trigger that new obligation? The law offers no bright-line test. And how do you run a company for the simultaneous benefit of shareholders and creditors? Their demands can be vastly different. Shareholders have a strong incentive to avoid bankruptcy, even if that means dissipating the firm's assets with last-ditch strategies. But creditors want to preserve capital, so a sale of those assets —or even the company's liquidation—may be their preference. To whom do CFOs owe their fiduciary duty, and to what degree? One thing is clear: the finance chief is the company's point person in navigating this poorly defined terrain.

Where Is the Zone?

Identifying the zone of insolvency is anything but simple. Delaware law sets out two tests for determining insolvency. In the balance-sheet test, a company is insolvent if liabilities exceed assets, with no reasonable prospect that the business can be continued. The cash-flow test says a company is insolvent if it is unable to meet maturing obligations as they fall due in the ordinary course of business. Neither standard is definitive. Insolvency is often clear only in the rear-view mirror.

"[Asset] valuations right now are so ridiculous, you could venture to say many companies are in the zone of insolvency and they don't even know it," says William Lenhart, national director of restructuring at BDO Consulting. If a company is in the middle of a quarter and asset values are fluctuating wildly, the fair value of its assets and liabilities would be hard to pin down. Certain items, such as intangible assets, could be worth nothing if a company is liquidated. Other assets might be too illiquid for a company to pay its bills.

And how far behind on its debt payments does a company have to be to be considered insolvent? The prospect of recovery is one way to frame the question. "Are there reasonable expectations that the shareholder is money-good?" asks Jim Fogarty, a managing director at Alvarez & Marsal.

The due diligence for an insolvency test is similar to what auditors perform for a going-concern opinion. Recurring operating losses, negative cash flow, adverse key financial ratios, payables growing in number and aging, denial of trade credit—all are negative indicators. But a qualification on a going-concern opinion doesn't equal insolvency; a company that earns a qualification could be solvent for months. (Studies show that only half of firms that go bankrupt earn going-concern opinions prior to bankruptcy.)

Dealing with Denial

Once management determines insolvency to be an issue, it should test for it regularly, says BDO's Lenhart. But it isn't just the numbers that trigger the expansion of fiduciary duties. If a company hires a workout firm, an investment banker, or an attorney because of its lack of liquidity, "it needs to be prudent about its practices from that point," says Sheila Smith, a principal at Deloitte Financial Advisory Services.

Rallying management around this necessity is not easy. CEOs and even boards dwell in denial, and many third parties have an interest in keeping a company operating as long as possible.

It's not the CFO's role to declare that a company is in the zone of insolvency, but rather to report that financial risks are elevated. The attorneys have the job of informing the board that the company is in the zone and that decision-making therefore requires a new filter—the interests of creditors as well as shareholders. CFOs must incorporate the filter into all decisions going forward.

Staying Short

Fortunately, much of what's legally prudent fits with what is financially so. Since part of the battle now is to preserve assets,

Continued on page 4

Best Practices
(continued from page 2)

To really deliver retirement income and *transitions* that address a *client's* needs well, advisors need to *broaden* the scope of what they do.

- Provide career counseling including skills assessment
- Identify employment opportunities
- Assist in establishing a new business
- Find clients volunteer opportunities
- Guide clients through employment transitions

Healthcare. Advisors typically discuss long-term-care insurance, other financial and protection issues, and special needs, and they may:

- Identify supplemental health care coverage
- Analyze benefits of long-term coverage options
- Guide clients through intricacies of Medicare coverage
- Identify caregivers for particular medical issues
- Act as advocate to insure appropriate medical proxies are in place as needed

Real Estate. They may:

- Identify mortgage options
- Analyze potential real estate deals
- Examine opportunities for downsizing
- Consider the impact of vacation home purchase
- Assist with relocation decisions
- Provide perspective on local real estate market conditions

Family. Advisors seek to:

- Provide business transition support
- Educate younger family members about key financial subjects
- Resolve family disputes related to wealth issues
- Establish funding mechanisms for special needs situations
- Help develop wealth transfer strategies

Some Surprises

After conducting the study, Schneider was surprised that there really was no agreed-upon best practice on how to manage money for retirement income clients. Advisors express little concern that clients would return in 10 or 15 years to complain about inadequate retirement income, as long as they regularly checked in with clients to make sure no major issues have arisen. Over spending by the client could disrupt any carefully plotted plan, they felt.

Advisors are still being compensated primarily through asset management fees, which surprised Schneider and Gallant. Advisors talk about providing more retirement support and the extra effort and time it requires, and the additional follow-up conversations. Yet the fees they're charging are for assets under management and they have not moved aggressively to charge any kind of retainer or project fee or other kinds of non-asset management fees. "We think that that will ultimately happen, but it hasn't happened yet," notes Schneider.

By Lewis Schiff • Investment Advisor, June 2009

World Turned
(continued from page 3)

it's time to shorten up, say experts. Purchase inventory and pay bills in smaller increments and don't make long-term buying commitments. Pull back capital investments, too.

Conserving cash doesn't rule out new borrowing. In the past two years, the Delaware courts have ruled that management can increase leverage when a company is insolvent. Now the fact that management drove a firm deeper in the red by borrowing is not a valid cause of action for creditors.

Whether creditors will allow a company to continue borrowing when it is already bleeding capital is another matter. Banks are clamping down on the growth plans of cash-strapped firms, especially if covenant violations loom.

When confronted with major decisions on assets—the sale of a division, for example—management of a near-insolvent company needs solvency and fairness opinions from a third party, says Tim Cummins, a managing director at Stout Risius Ross. Creditors could accuse management of not obtaining a market-clearing price, and an opinion provides some defense. In a bankruptcy court, a below-market price could translate into a fraudulent conveyance—a transfer done with the intent of moving the asset outside creditors' reach.

Delicate Decisions

Once firmly in the zone of insolvency, finance officers should be open and up-front with creditors to best maintain the relationship, says Jacen Dinoff, CEO of KCP Advisory Group. "Don't promise that you're going to pay them when your cash flow will not provide for payment and don't tell them your business won't file for bankruptcy. "You can say, 'Our intention is not to file,'" says Dinoff. "But you're going to need credibility in your dealings." If executives misrepresent the reality of the business's position, they may pay for it later in a forum like bankruptcy court, he says.

Adhering to a deliberate and meticulously documented decision-making process puts management on stronger footing. The documentation should include board minutes, as well as a record of what information and analysis were examined to arrive at a decision, says Alberts of White & Case. The documentation advice goes double for any transaction that affects an insider—bonuses, dividends, loans, asset sales.

Overprotecting against future second-guessing by plaintiffs has a drawback: it slows decision-making dramatically. Ironically, creditor lawsuits often arise when a CFO acts with too much deliberation—delaying a layoff, for example, when cash levels demand it be done immediately. The answer is to lay an adequate paper trail, not the longest one possible.

Even so, the zone of insolvency is a realm into which CFOs would rather not venture. But they can't ignore it. A management team that is monitoring insolvency measures and keeping creditors' interests in mind gives itself more options in a restructuring. And it grasps problems earlier.

By Vincent Ryan • CFO Magazine, May 2009

Good Sports

CFOs have to build teams and play on them. It isn't easy.

Aside from the occasional coaching stint, most CFOs' Little League days are long past, but the lessons learned from them may hold the key to their future success. Learning to take a leadership role on a team and to collaborate with other team members are critical for any finance executive who aspires to advance.

CFOs face two distinct team challenges: they must lead the finance team as well as play on the senior management team, where the dynamics can be fraught with tension as members compete for resources, the CEO's favor, and even his job.

Building a strong team is critical because the CFO role is now so varied and demanding that no individual can effectively manage and execute all parts of it alone. Finance executives who hope to put their time to best use must rely heavily on their supporting cast.

"CFOs need to get results through others," says Fred Adair, a leadership consultant and former partner at executive search firm Heidrick and Struggles. "The demands on different subfunctions in finance are becoming much greater, and if the CFO has not created an organization with competence at each level, he gets pulled back into the details."

As an entry point, Adair often asks executives to think about the best sports team they were ever on and try to recall what was great about it. "The answers are always the same," he says. "People say, 'We knew each other. We knew what it took to win. We had a common goal. We had fun.' You need to draw on that experience."

Taking the Lead

Building and leading a strong team is easier said than done and that may be particularly true in finance. "CFOs are numbers people," Adair says. "Building an organization is where they tend to fall down."

Experts on team behavior cite a few important steps that finance chiefs can take to build better teams. Having the right mix of skills and people is an important starting point, but the nuts and bolts of the team's processes are also critical, says Harris. The most effective teams establish ground rules for how they're going to communicate, make decisions, handle conflict, and evaluate performance.

The best teams then coalesce around a "point of ignition," or an inspiring goal or mission, says Lynda Gratton, a professor of management practice at London Business School. While never easy to come by, such a goal can prove particularly elusive for finance.

High-performing teams also work across company boundaries, says Gratton. When team members reach out to users of finance information throughout the organization, for instance, better ideas or practices can result. But this, too, can be difficult for finance.

Highly skilled groups like finance or research-and-development also struggle with what amounts to a language barrier — their technical vocabulary can hinder communication with their colleagues throughout the rest of the company. But attempts to bridge that gap and share ideas prove worthwhile, helping finance staffers raise their profiles and find new ways to contribute throughout the business. Some of the most innovative work in the finance function, for example, occurs when finance works with marketing or sales.

Playing Well with Others

The CFO faces a different set of challenges as a member of the senior management team. A recent study by Adair and Heidrick and Struggles partner Rich Rosen shows a striking gap between the CEO's evaluation of the management team's performance and the team members' evaluation of their performance. While the CEOs surveyed rated their teams 5.4 out of 7 on overall effectiveness, the other top executives studied rated themselves only 4, on average. Management team members also gave themselves lower scores on important executive team functions, including sharing information, building a common culture, strategy formulation, problem-solving, and aligning the organization with the company's strategy.

This is partly because many compensation structures provide incentives for management team members to compete rather than collaborate, says Gratton. With each member jockeying to advance his or her own agenda and score points with the chief executive, team goals often fall by the wayside.

To reduce such counterproductive competition, Gratton advises companies to consider designing incentives based on meeting group goals. Adair cites a CEO who changed the compensation structure for his top lieutenants to tie their bonuses to the achievement of his own companywide goals, thus encouraging them to work together to meet the company's broader agenda.

Barring such significant company- or teamwide changes, finance chiefs can improve their own performance within the management team by attempting to see the company through their fellow executives' eyes, says Adair. Perhaps adopting that broader perspective is the best thing CFOs can do.

By Kate O'Sullivan • CFO Magazine, May 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.

Securities offered through NRP Financial, Inc. Member FINRA/SIPC.
Advisory services provided by NRP Advisors, Inc.