

THE SHERIDAN ROAD MAP

The Best Route to Financial Success



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PENSIONS, SOCIAL SECURITY FACE CHALLENGES

Funding levels drop; Social Security predicted to go broke in 2043

Pension plans' funded status and the outlook for Social Security continue to appear bleak.

A new study by global consulting firm Mercer has found that after having seen some rebound in 2008 year-end lows, the funded status of pension plans for S&P 1500 companies fell again in July for the third consecutive month. "Although equity values are increasing," Mercer says, "so is the value of plan liabilities—caused by falling yields on corporate bonds—so that the net impact in July was a decline in funded status."

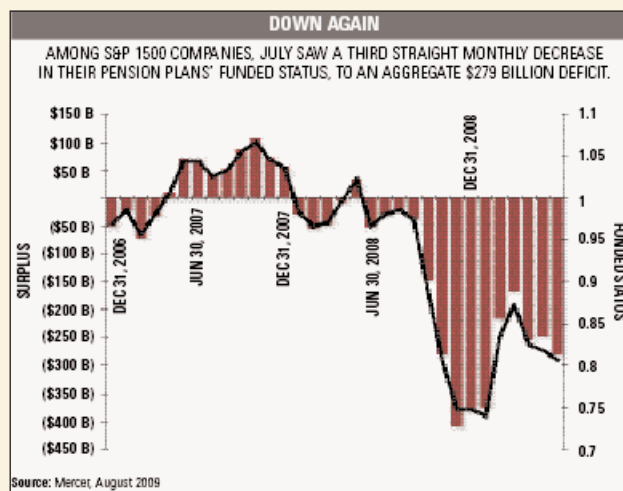
Meanwhile, other troubling news about Social Security was released in August by the Congressional Budget Office (CBO). The CBO stated in its long-term Social Security

projection that without changes in law, CBO expects that the Social Security trust funds will be exhausted in 2043. "If that point is reached," CBO said, "the Social Security Administration will not have the legal authority to pay full benefits and the amounts that could be paid would be about 17% less than those scheduled under current law." The CBO states that "Social Security's annual revenues currently exceed its annual outlays, but as the baby-boom generation continues to age, growth in the number of Social Security beneficiaries

will pick up, and absent legislative changes, outlays will increase much faster than revenues."

As for the Mercer study, it found that the funded status of pension plans sponsored by S&P 1500 companies deteriorated by \$34 billion during the month of July, bringing the estimated aggregate deficit to \$279 billion, up from \$245 billion at the end of June. "The aggregate funded status was 81% as of July 31, down from 82% as of June 30," Mercer said. The 2008 year-end deficit was \$409 billion, equivalent to a funded status of 75%, the consulting firm said.

According to Adrian Hartshorn, a member of Mercer's Financial Strategy Group, the strong positive return from equities of 7.4% during July "helped increase the estimated aggregate value of assets in pension plans sponsored by S&P 1500 companies by 6.2%." However, Hartshorn continues in a prepared statement that "falling yields on AA corporate bonds (the yield on the Mercer Yield Curve fell from 6.79% to 6.10% in July) means that the liability values of pension plans for the same companies increased by 7.6%. Companies should focus attention on the return relative to the liabilities, which was negative 1.3%."



THE INNER GAME: THE 10 AFFLUENT COMMANDMENTS

The financial advice game may have changed, but here are some old standbys that are essential for working with the affluent.

It's amazing how empirical data can provide you with a blinding glimpse of the obvious. Our most recent study tells us that today's affluent consider it extremely important that their primary financial advisors provide unbiased financial advice. Can you imagine? Essentially, today's affluent want a financial advisor to be exactly what the industry has been promising for the past 10 years: a trusted advisor. I recognize this is a broad statement, but we can break it down into very specific criteria.

Our most recent research has identified the 10 most important factors today's affluent are looking for in their primary financial advisor. I've taken to referring to this list as the 10 Affluent Commandments.

The 10 Affluent Commandments

My financial advisor must...

1. Always have my family's best interest in mind when he makes decisions.

That the affluent feel compelled to identify this factor as a commandment speaks volumes. We are dealing with a very skeptical consumer.

2. Fully disclose all fees.

This is textbook and a result of years of confusing pricing and mistrust in the industry. However, this doesn't mean that the affluent are looking for steep discounts. They want to pay a fair price for the services they are receiving, but they want to know what exactly they are paying.

3. Resolve all problems quickly and to my satisfaction.

It's always easier for financial advisors to talk with clients during bull markets. Yet, the affluent need good counsel during these tough times more than ever. Solve whatever problems you can, and remember unnecessary client worry is a problem that good communication can resolve.

4. Consistently meet my investment expectations.

The only way to meet a client's investment expectations is to successfully manage those expectations. Incorporating an Investment Policy Statement into your practice would be advisable.

5. Provide me with clear and timely communication.

This should be a simple matter, but from the affluent client's perspective there is room for improvement. Be careful about relying too heavily on impersonal contact (emails, newsletters, etc.) — the affluent want direct communication.

6. Deliver high-level personal service to my family.

You must consistently deliver Ritz-Carlton-quality service — and improve upon it.

7. Focus on overseeing my family's financial affairs, not marketing his/her practice.

Do not let the sales person in you shine through. The affluent are very mistrustful of sales and marketing people, so you need to have nearly invisible sales skills.

8. Should possess industry knowledge in breadth and depth.

The affluent want you to be a true knowledge worker and to grasp the complexities of their families' financial affairs. The more you know the more value you can provide.

9. Keep me informed of any events that might impact my family's portfolio.

Good or bad, whatever the news, the affluent want to be informed. This requires timely communication during tough times.

10. Care more about me than just my investments.

The affluent do not hold their financial advisor responsible for this category five financial tsunami (they blame "Wall Street" and "the government"). But they do want to be reassured that their financial advisors truly care

about their families. This requires knowledge, empathy, and is defined by actions.

The common thread woven throughout these 10 Affluent Commandments is commitment and principles. The affluent want their financial advisor to be totally committed to them as well as their profession. They also are demanding integrity. The game has changed, but in a way, all of this is back-to-basics. If you approach it with the right attitude, crisis can bring out the best in you.

*The affluent want
their financial advisor
to be totally committed
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Your office door may be closed for a good reason, but there are many better reasons to open it — and walk through it.



It is certainly much easier to be a motivational leader when the news is good and there are plenty of perks to dole out. When your latest pep talk includes a mention of free

baseball tickets or, better yet, bonuses, you can be sure the troops will love you. But when the company is under intense pressure and there is little to announce other than wage freezes and plant closings, even the most fearless leader can be tempted to hunker down and keep his office door closed.

While the urge to hide is an understandable impulse, it is precisely the wrong thing to do. As the recession drags on, many workers are dragging, too, and in need of inspiration. Employees are looking more carefully than ever at their company's executives, not only hanging on every word but also observing nonverbal cues like facial expressions or other seemingly innocent behaviors: Is that door closed because the CFO is on a personal call, or because layoffs are being discussed?

Robert Sutton, a professor of management science and engineering at the Stanford Engineering School, says that when employees feel threatened they become distracted from their work and devote more attention to watching what their bosses are doing in an effort to figure out what's going to happen next. "People in the organization are carefully watching every word and action from the CFO to know whether their jobs are at risk," agrees Alexander Grashow, managing director of Cambridge Leadership Associates. "They're looking to see what the CFO says while he's getting lunch, while he's in meetings, while he's in the hallway."

Finance executives can boost their leadership quotient by taking several specific steps to improve communication; some of these actions will serve any executive in a leadership role, but one is unique to finance — and offers an opportunity to not only help the company but also raise the CFO's profile.

Show Yourself

One of the most important ways to provide crisis leadership is also one of the easiest: be there. People take comfort in knowing that top managers are on the job, working alongside them through the business's challenges. "In a difficult environment, I think employees and external constituents look more than ever to a leader for cues about the state of the business," says Steven Kafka, vice president of finance at biotech firm Infinity Pharmaceuticals. "One thing I'm trying to do is to be more visible. I'm very optimistic about our business, and I think it's important for my finance team and the rest of the company to

see that optimism." Kafka says he builds time into his schedule to roam the halls and tries to eat lunch in the cafeteria regularly.

"You have to get out from behind your desk," agrees Cosmo Alberico, finance chief at Odyssey Logistics and Technology, a transportation- and supply-chain-management firm. "You need to communicate more than ever, not only with staff but with your customers and analysts, both formally and informally." Alberico now travels more frequently to Odyssey's various far-flung locations to hold small-group meetings. He and the firm's CEO hold formal, companywide meetings once or twice a month instead of every other month as they had in the past. The CFO also holds face-to-face meetings rather than conference calls with his direct reports in the finance, IT, and facilities groups. "I think people feel better when they see a C-level guy coming and spending an hour with them," he says.

Say Something

CFOs aren't always known for their communication skills, but with employees, investors, vendors, and customers eager to hear the financial details straight from the source, it's time to get more comfortable with public speaking. "If communicating isn't your strong suit, you may need someone to help you," says Robert Duboff, CEO of communications consulting firm HawkPartners. Duboff suggests identifying a strong communicator in the finance department or working with someone in marketing or elsewhere in the company to craft the appropriate message and practice delivery and presentation before a company town hall, Webcast, or conference call.

Not every communication needs to be momentous. Sometimes just hearing from a senior finance executive can reassure nervous staffers; in the absence of news, many assume the worst. "People I'm coaching will say to me, 'I don't really have anything to say.' A good communicator can always think of something to say," says Duboff. "Try, 'Here's what I'm working on, here's what we have coming up, here's what we're waiting to hear about,' or simply, 'There's no news. We're still here. We're making progress. Here's what you can do to help.'"

At Infinity, Kafka recently participated in a half-day, companywide learning session, which he describes as "a kind of room-to-room event" in which members of each department gave a 15-minute presentation about what they do and how they support the firm's goal of developing cancer-fighting drugs. "It's a way to build community and create a sense of a shared mission. It also gives people the chance to ask questions," says Kafka.

One way that a finance executive can play a unique leadership role today is by making sure the rest of the business has all the data necessary to piece together a forecast for the days ahead. With the entire organization now intently focused on the core concerns of finance, including cash management, cost reduction, and risk, the stage is set for the CFO to take

ADVISE AND SHINE (continued from page 3)

the lead in critical discussions throughout the business. Pamela Craig, finance chief at Accenture, the global business-services firm, says, "Finance can be helpful in times of stress because you can provide some certainty. Looking at how the business did in prior downturns gives people something to react to, something to work with." Conversations that center on scenario planning can provide a valuable starting point for the management team as it tries to develop a strategy for survival and recovery.

"If you don't allow your detailed knowledge to bog you down, your expertise can be very helpful to a business-unit leader," says Alberico, who recently worked with Odyssey's sales staff to help them understand the profitability levels of the company's different services. "We've been able to help the head of sales focus on the type of services that he should be pushing in order to drive higher margins, which is really a different approach than, 'We've just got to get out there and sell,'" he says.

Grashow of Cambridge Leadership urges CFOs to seize the opportunity to get more involved in strategy development earlier in the planning process. Finance chiefs should work on building informal relationships throughout the organization so that they are included in strategic conversations at the earliest stages, he says. Then they can provide information about budgets and the costs of various ideas to the rest of the company and encourage them to decide how to make the best use of limited resources, rather than weighing in at the end of the analysis with a yes or no. "Try to take the approach of saying, 'Here's our budget,' and then give the choices back to others," says Grashow.

Spread Hope

While providing useful data to business-unit heads can help a finance chief enhance his or her existing role, to expand that role and earn credentials as a strategic leader it is critical to go a step further and address the future of the business. A CFO who takes the long-term view can challenge the stereotype of finance executives as shortsighted "Dr. No's" who are solely focused on cutting costs.

"This is an ideal chance for the CFO to show that, while he understands the need to keep costs down, he has a deeper appreciation for the sustenance of the business," says Duboff. "It's a good time to be asking questions like, 'What are we investing in?' 'What's our longer-term game plan?'"

"As hard as it is to do, especially in this economic climate, we need to look well beyond next quarter," says Alberico. Odyssey recently upgraded its technology platform and is

also hiring, hoping to take advantage of the greatly improved market for talent. Alberico touts these investments both inside and outside the business in an effort to reinforce the message that Odyssey plans to make it through the recession.

While it may be tempting to deal with the stress of the moment by shutting the door and obsessing over every detail of the budget, those CFOs who recognize the importance of their words and actions as business leaders have a real chance to both help their careers and ease some of the anxiety in their organizations. As Accenture's Craig says, "It's an opportunity for finance to have a stepped-up role in the business. Let's not waste it."

By Kate O'Sullivan • CFO Magazine, September 2009

ADVISOR SHUFFLE

Turnover at the wirehouses has accelerated in the current market. In the first quarter, UBS and Wells Fargo Advisors were net winners of advisors, but every firm lost heads in the second quarter. (Granted, Wachovia/Wells Fargo just lost one.) UBS seems to have benefitted handsomely from the mergers of its rivals with big banks. "UBS was seen as the only stable firm," says one recruiter. "There was no merger happening. Plus, UBS was offering a competitive deal at the time. They had a hot deal and it was a hot place," he says. As for the big loss at Morgan Stanley Smith Barney in the second quarter, the recruiter says while the number is significant the devil is in the details. "They are trying to weed out low end producers anyway. If a majority of those advisors leaving are under a certain level of production, then it's a different story."

Firm	Reps Gained	Q1 Reps Lost	Net	Reps Gained	Q2 Reps Lost	Net
Smith Barney	109	711	-602	n/a	n/a	n/a
Morgan Stanley	457	500	-43	n/a	n/a	n/a
Morgan Stanley/ Smith Barney	n/a	n/a	n/a	369	1194	-825
Merrill Lynch	349	916	-567	215	484	-269
UBS	945	353	+592	354	499	-145
Wachovia/ Wells Fargo	522	312	+210	333	343	-1

Source: Discovery Database

By Halah Touryalai • Registered Rep, September 2009



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