

The Efficient Practice

Newsletter and Archive Service for
Financial and Business Professionals

Is It Over Yet?

Last month was quite possibly one of the most frightening months in the history of the US Stock market since the Great Depression. It was, in fact, a perfect storm of events that all collided at the same time to compound and magnify the severity of things. The Credit Crisis made more clear in the wake of bank failures, credit tightening and the inability of large corporations to raise cash, collided with the Mortgage Crisis, with record number of foreclosures on variable

interest loans with payment escalations forcing homeowners who over-borrowed to give up their homes, which collided with the stock market's rapid and steep decline due in large part to investor panic. Add to this a global banking and economic meltdown, massive layoffs, gas prices soaring and oil speculators cashing in and you have the makings of a perfect storm. The question that must be asked, though, is to ask if this was a natural or

man-made series of occurrences. The answer is that it most definitely was man-made. We only need to look at ExxonMobil's quarterly profits over the past two quarters to see why. ExxonMobil recorded its highest profit ever in the second quarter of this year and then proceeded to beat that number significantly in the third quarter. The mortgage Crisis was the result of unrestrained greed—greed on the part of homeowners buying up property—*Continued on Page 4*

The Efficient Practice Advisor Network: A Quick Look

Offering Financial Advisors a new, low-cost portal to access a wealth of resource and operational efficiency coaching, The Efficient Practice has launched its new Advisor Network. At only \$195 per year, it unquestionably offers a very low-cost approach for advisors to access advice, assistance, resources and a

directory of partner providers that offer special discounts to members of the Network. Ongoing benefits include:

- Access to our heralded coaching services
- Access to the Efficient Practice resource directory

- Access to a huge financial plan paragraph library
- Full subscription to the monthly efficient practice Newsletter (a \$99.95/yr value alone)

Each of these features are explained in detail at:

www.efficientpractice.com/advisor_network.htm

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Special points of interest:

- > Is It Over Yet?
- > The Advisor Network
- > AUM Fees?
- > Cloud Computing
- > Managing Employees
- > Business Planning

Check out
our new
look!

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Are Percentage AUM Fees The Best Choice?



Many independent advisors believe that, through new client acquisition and proper investment management, the AUM should be positioned to grow in most market conditions.

In the wake of what many consider to be one of the most volatile periods in stock market history, advisors who base their income on a percentage of Assets Under Management (AUM) are questioning the wisdom of this practice.

Typically, what happens is that during a market downturn, revenue for the firm falls at a time when the firm is providing more services to the client. This would seem, on its face, to be counterintuitive. Compensation should, in a pure sense, be based on the amount and value of service provided. Unless a firm's AUM is directly managed by the firm, having a loss of revenue during a market downturn is paying someone less for the same or more services. Many independent advisors believe that, through new client acquisition and proper investment management, the AUM should be positioned to grow in most market conditions. The reality is that many established firms and/or their advisors depend less on marketing for new investment dollars once AUM reaches a certain point. The comfort level associated with managing a set

number of clients and hoping the assets grow over time lures many advisors into a false sense of financial security. It is in times like these that the vulnerability of this thinking comes to light.

This is not to say that other forms of income are any less vulnerable. Commission-based products require constant feeding. New dollars are required to maintain income levels, despite commission trails. Thus, that same established advisor who loathes the prospect of beating the bushes for new business may disdain using such products.

Hourly fees (under say the Sheryl Garrett model) suffer from the issue of having to constantly market for new clients as well. Although, the Garrett model has recently relented somewhat on AUM as a component of overall earnings. So, if all of above is flawed, what is left? The answer may lie in two concepts for fee alignment.

The first is an AUM model that uses percentages to determine the fee, but expresses it to the client as a dollar amount. This fixed amount concept would

be subject to annual adjustments and measured based on a complex formula that weighs the value of services delivered with the cost of delivery plus a reasonable profit.

As an example, a \$100,000 portfolio that is charged 1% or \$1,000 would be presented with an invoice for \$1,000. In the following year, it might be determined that the value and cost had risen by 7%. The new invoiced amount would then be \$1,070. This concept would remove the risks associated with Percentage AUM fees, but be a bit more difficult to explain to the client.

The second method is a hybrid fee (or a la carte) system. This would involve breaking out all the various components of what you do for a client and charging fixed fees for some and variable fees for others. As an example, breaking out administrative costs as a fixed cost, financial planning or retainer fees as a fixed expense and keeping AUM as a percentage (albeit a much lower percentage) would not eliminate the risks, but mitigate them with a fixed revenue component that would, in effect smooth out firm profit.

What Exactly is Cloud Computing?

Cloud computing is Internet-based ("cloud") development and use of computer technology. The *cloud* is a metaphor for the Internet and is an abstraction for the complex infrastructure it conceals. It is a style of computing in which IT-related capabilities are provided "as a service", allowing users to access technology-enabled services from the Internet ("in the cloud") without knowledge of, expertise with, or control over the technology infrastructure that supports them.

According to a 2008 paper published by *IEEE Internet Computing* "Cloud Computing is a paradigm in which information is permanently stored in servers on the Internet and cached temporarily on clients that include desktops, entertainment centers, table computers, notebooks, wall computers, handhelds, sensors, monitors, etc."

Cloud computing is a general concept that incorporates **Software as a Service** (SaaS), Web 2.0 and other recent, well-known technology trends, in which the common theme is reliance on the Internet for satisfying the computing needs of the users. For example, Google provides common business applications online that are accessed from a web browser, while the software and data are stored on the servers.

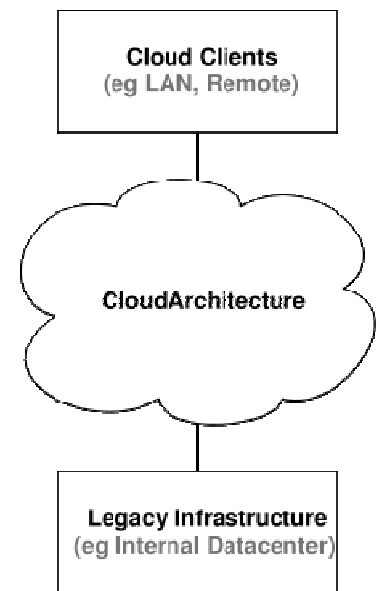
However, GNU founder and free software advocate, Richard Stallman warns, "The concept of using web-based programs like Google's Gmail is worse than stupidity". According to

Stallman, founder of the Free Software Foundation and creator of the computer operating system GNU, said that cloud computing was simply a trap aimed at forcing more people to buy into locked, proprietary systems that would cost them more and more over time.

His comments echo those made recently by Larry Ellison, the founder of Oracle, who criticized the rash of cloud computing announcements as "fashion-driven" and "complete gibberish". "The interesting thing about cloud computing is that we've redefined cloud computing to include everything that we already do," he said. "The computer industry is the only industry that is more fashion-driven than women's fashion. Maybe I'm an idiot, but I have no idea what anyone is talking about. What is it? It's complete gibberish. It's insane. When is this idiocy going to stop?"

The growing number of people storing information on internet-accessible servers rather than on their own machines, has become a core part of the rise of Web 2.0 applications. Millions of people now upload personal data such as emails, photographs and, increasingly, their work, to sites owned by companies such as Google and Amazon. But there has been growing concern that mainstream adoption of cloud computing could present a mixture of privacy and ownership issues, with users potentially being locked out of their own files.

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Is It Over Yet?: (continued from Page 1)



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and greed on the part of lenders who were giving them the money even when they were questionable loans.

Flipping houses and/or condos became the national pastime. Many people were buying up houses with no money down using a type of loan that offered payments based on an interest rate of 1 1/2 percent while the loan interest rate was more like 6.5%. This meant that each time a payment was made, the loan grew in size. The purchaser thought that the equity growth was so high and dependable that it did not matter the terms of the loan. They would hold the property for 6 months to a year and then 'flip-it'.

All this came to a screeching halt when the market for homes stopped growing and people stopped buying. Many flippers were left with 5 and 6 homes they could not sell and would be unable to afford once the loans turned to a normal payment basis. Loan defaults caused lenders to pull back from re-financing these loans and the housing crisis was then in full swing.

The gas price crisis has

generally been attributed to oil speculators who ran up the price of oil in a run at greed. Greed forced the price of gas at the pump to nearly double within one year. This is far beyond the scope of inflation or normal price increases and it points to a vulnerability in the US to dependence on foreign sources of oil. Because most households in America were affected, consumer spending dropped dramatically, which has affected and continues to affect retail businesses and the economy. Airlines were hit with the triple whammy of rising oil prices, dropping demand for flights and ticket price pressure from discount carriers.

All of this points to market and economic contraction. What generally happens during a contraction is massive layoffs, inflation of prices for goods and services and company mergers/acquisitions.

Now let's look at what the government has done in response. The economic relief package, originally designed to salvage homeowners in the wake of the mortgage crisis, has resulted in banks and other lend-

ers snapping up government money to use as leverage to buy other less fortunate banks and institutions. Bank of America is purchasing Merrill Lynch at fire-sale rates. Wells Fargo is purchasing Wachovia Bank and so on. This is textbook contraction economics and we will likely see more (Chrysler vs. GM, Yahoo vs. Google, Northwest vs. Delta, etc.).

It gets us back to the first question, is it over yet? The answer is probably not. In 1987, we saw similar circumstances, though not on this scale. The good news is that the market recovered by year end. In 2000, we saw the tech bubble burst, yet it recovered in time. These are points to make with clients. Staying the course, increasing cash positions (which should have been done last summer) would give your clients the chance to buy back into the market (as others are now doing) at historically low prices.

After everything is said and done, the old adage still applies ...

Buy low and sell high.

The Small Office: Managing Employees with HRTools.com

Managing employees for small business owners has always presented itself as a challenge. Without necessarily having the budget to afford a full-time HR department, staff or person, the small business owner often finds that they must do it themselves. There is a tool that potentially makes this set of tasks easier. It is offered through hrtools.com. People Manager® makes it easy to keep accurate personnel records and document actions like hiring, promotions, reviews or terminations. It reminds you about important events like benefits eligibility dates, and it gives you flexible options for tracking attendance and interfacing with your payroll service.

Key features include:

Attendance Tracking

Flexible, accurate attendance and time-off tracking.

Reminders & Documentation

Daily reminders and automatic documentation for important tasks.

Employee Data Storage

Stores employee information, salary history, benefits information and performance ratings.

Reports

Automatically creates detailed reports and graphs summarizing strategic information.

Payroll Service Integration

Calculates work hours and exports time keeping data.

Forms, Checklists & Tools

Contains dozens of employment forms, letters, checklists and an exemption tester

If you're not a Human Resource expert, you may not even realize the risks involved when employee management tasks aren't handled properly — or what you stand to gain when they are. That's why you may want to check out People Manager.

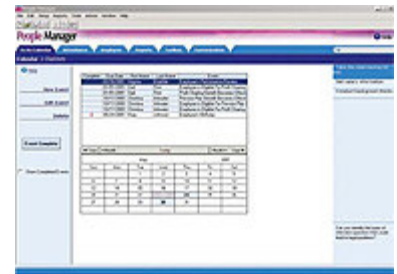
It centralizes all your employee information, alerts you to the legal significance of employee management issues and provides you with HR advice.

Spend less time wondering about what you might have overlooked. Protect your company from litigation, and build employee confidence by making sure nothing falls through the cracks!

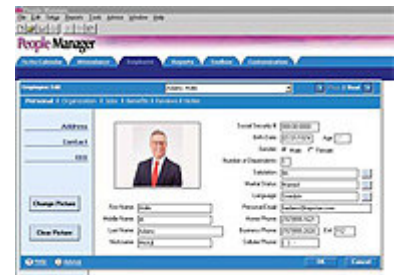
For details, visit:

www.hrtools.com/products/PeopleManager.aspx

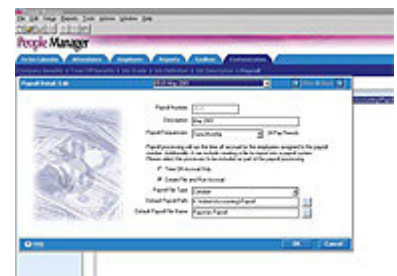
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Your daily "to-do" calendar alerts you to current and past-due personnel tasks. With helpful checklists and automatic documentation for tasks completed, you'll have confidence that everything from scheduling performance evaluations to confirming benefits eligibility is handled properly and on time.



Store detailed employee information hire and review dates and benefits information to emergency contacts and personal information to photo IDs.

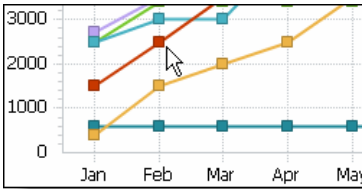


Prepare your payroll information and calculate normal work hours for each payroll period. People Manager features easy-to-use export features and allows you to calculate a summary of attendance data adjustments.

Cost is \$199.00 (one-time)

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Tools for Efficient Business: Business Planning Software



Graphic Forecaster tool

Create forecasts visually with a "drag and drop" graphic forecaster. The graphic Forecaster is a simple and powerful tool to streamline the forecasting process. You can change your sales and expenses estimates by simply clicking your mouse button to move the line on your forecast chart or apply a specific growth rate to the whole year. Build forecasts using visual common sense.

This is the time of year when business planning is considered for the next calendar year. The question for many firms is how to approach a business plan, given all that has occurred in 2008. One approach is to use a top-rated business planning software that makes the process of building a business plan quick and easy.

Business Plan Pro 11.0 is the world's most popular business plan software — outselling all others combined. There's no faster, easier way to write a business plan today. This business plan software walks you through the entire planning process with clear instructions and helpful advice at every step. It couldn't be easier. Just answer a series of straightforward questions, and the software determines the next steps based on your specific answers.

Whether you are planning a new business or simply revising your business strategy, the step-by-step guides and resources will make the planning process simple and easy.

Create a foundation for your cash-flow projections with their start-up wizard. Plan for growth with a Forecaster tool, using an intuitive, visual graphic forecaster to complete your sales and expense tables.

Make realistic projections using a break-even analysis tool, which helps you understand when you will break even and when you will start making money. Business Plan Pro's linked financials guide you through completing an accurate cash flow and balance sheet you can take to the bank.

Profit & Loss		Nov
Sales		\$5,000
Direct Cost of Sales		\$750
Other		\$0
Total Cost of Sales		\$750
Gross Margin		\$4,250
Gross Margin %		85.00%

Spreadsheets in the software include:

- Balance Sheet
- Break-Even Analysis
- Cash Flow
- Financials
- General Assumptions
- Inventory Analysis
- Investment Analysis (Premier Edition Only)
- Investment Offering (Premier Edition Only)
- Payback (Premier Edition Only)
- Long-Term
- Market Analysis
- Milestones
- Past Performance
- Payment Detail
- Personal Net Worth
- Personnel
- Profit and Loss
- Ratios
- Receivables Detail
- Sales Forecast
- Sources and Uses (Premier Edition Only)
- Start-up Table



Cost is:

\$ 99.95 for Standard Version
 \$199.95 for Premier Version
 visit

www.businessplanpro.com

Commentary: The State of Things

Sameness! It is the disease that has afflicted many industries, but nowhere is it more apparent or more pandemic than in the financial services profession. Countless thousands of financial advisory firms position themselves identically to their direct competition often without so much as a second thought. Part of this disease of sameness is borne from the perception of a lack of need for a cure. This may be due, in part, to the overabundance of clients willing to suffer the ordinary.

However, this all may soon change. With a massive market melt-down, clients now have cause to re-examine their advisor relationship and to consider looking elsewhere. Let's face it, there is nothing quite so motivating to a retired client as when their advisor informs them that, due to over-reliance on equity investments, their portfolio is now down 40% and they need to consider going back to work. Such a conversation was the case recently with a firm particularly hard hit by the stock market movements. A bitter pill!

Firms who face this shocking dilemma may actually have to consider going out and finding new clients (heaven forbid). This is when the disease of sameness is particularly damaging. If all you have to offer is the same set of stuff as the last guy, you will not stand out and you will not prevail. I wrote about the Blue Ocean Strategy in my column in the August Issue of Financial Advisor Magazine.

(www.fa-mag.com/past_issues.php?id_content=3&idArticle=1797&idPastIssue=137)

Differentiation is the key to curing sameness. The Blue Ocean Strategy suggests that, rather than fight amongst the competition in a red ocean (red with blood from the competitors), a firm who truly wants to differentiate itself will embark on the path to a blue ocean, where competition is rendered irrelevant. How you accomplish this is to create an uncontested market space. An example is Tyson Vacuums that turned the vacuum industry on its ear with the introduction of a bagless vacuum that never loses suction and can turn on a dime. It so captured consumers imagination that they could charge whatever they wanted for the vacuums and did. The rest of that industry is still struggling to catch up.

The concept here is innovation. If you truly want to differentiate your firm from others, find a new way to do business, innovate new concepts, new (fresh) ideas that are so compelling that the marketplace is drawn to you, not only because of the products or services that are offered, but the way in which they are presented.

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Tyson Vacuums that turned the vacuum industry on its ear with the introduction of a bagless vacuum that never loses suction and can turn on a dime.

-David L. Lawrence

We're on the web!
www.EfficientPractice.com

We assist our clients in realizing additional profits through a thorough analysis of your business operations from a variety of tactical perspectives that stress the efficient use of resources. We have identified **four broad areas of operational efficiency** which form the basis of our evaluative process. We do this by taking the time to learn everything we can about your business and then offer recommendations based on where you want to take it. And we offer on-going support and coaching to ensure that your path to increased profit continues unabated.

Note: No software, service, product or company mentioned in this newsletter paid for such mention. This newsletter remains totally independent.

The Efficient Practice

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- Access to our huge financial plan paragraph library
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For details and to sign up

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