

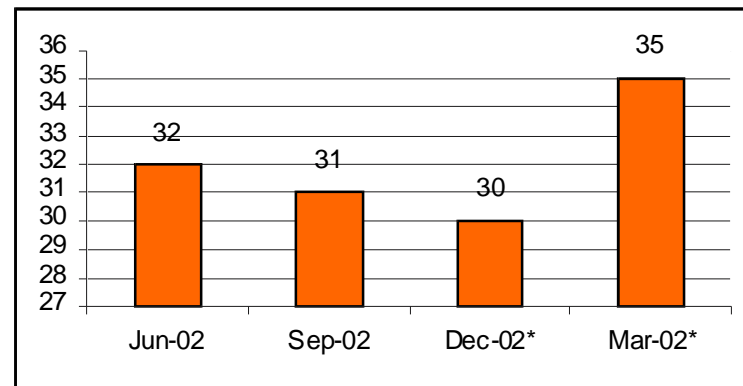
## Does Poor Performance Mean Firing Is In Order?

**Q.:** Are banks lending money to small businesses now?

**A.:** I frequently hear this question from my clients, and as a result I have decided to put together the Bank Lending Barometer (BLB) Index, which is a barometer of bank lending to small businesses. The BLB Index is based on data I gather from other CPAs, business brokers, my clients, and other sources. I then make a computation based on subjective mathematical formulas to arrive at the BLB Index number.

The Bank Lending Barometer Index:

Score	Lending	Color Zone	Description
76-100	Jackpot	Green	Here's the Money! We will do the paperwork later.
51-75	OK	Yellow	Let's see what we can do.
26-50	Tight	Orange	I would lend you the money, but underwriting is killing most of my deals now.
0-25	Very Tight	Red	I know you have 100% cash pledged for the loan, but we don't have the money.



\* =Forecasted

Local banks have continued to curtail lending to small businesses, this was slightly offset by increased lending by statewide banks. National banks continue to look at small business lending as an alien.

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**MONEY TALKS Publication Information**

**Money Talks** - a Publication of Gregory A. Barford, CPA, P.C.  
**Publisher** - Gregory A. Barford  
**Writer/Editor** - Gregory A. Barford and Muphen R. Whitney, InfoPro, Westminster, MD  
**Graphics Design/Layout** - A Great Design Printing Co., Hampstead, MD

**Publisher's Address:**  
3970 Rye Lane, Monrovia, MD  
**Phone:** (301) 865-4648  
**Fax:** (301) 865-0305  
**E-Mail:** gab@gabcpa.com

Controlled circulation publication. To receive a copy, contact the Editor at (410) 751-2353 (phone and fax) or by E-Mail at whitney@carr.org.



# MONEY TALKS

Fall 2002

## News to Use From Gregory A. Barford, CPA

### "Goodbye to Terry Klein and the Allfirst Merger"



Terry Klein, President of First Nationwide Mortgage located in Frederick Maryland, will be leaving the area. The company he works for, which is a subsidiary of a large national bank, is being sold. Terry contributed generous amounts of money to many non-profit organizations in the Frederick area, helping them meet some budget shortfalls. His greatest contribution, however, was his active participation in the board rooms of these organizations. Terry continually stressed that these organizations had to be financially responsible and accountable to their goals. His presence will be sorely missed.

Terry, we should have gotten you involved in State and local government, where your wisdom and responsibility is sorely needed! We wish you the best of luck in your next post, and we hope you are as valued by your colleagues there as you have been here.

### Allfirst Bank Acquired by M&T

Allfirst Bank, formerly known as First National Bank, has been sold to M&T Bank of New York. I have banked there since 1975. The bank and its people were first class. They were shrewd lenders who took calculated lending risks, and they seldom had losses on their business loans. The character of the borrower was just as important as the numbers to them. The Bank lent to borrowers who could not borrow elsewhere, and today many of these borrowers are very wealthy. Thank you Allfirst Bank!

Bank mergers can be messy, especially if it is your bank that is being acquired. The usual scenario is that fees will go up and lending will dry up. Allfirst is stressing that this merger will be different, but all banks tend to say the same thing. All we can do is wait and see.

A Note: the so called "fraud" at the bank for \$750M (the bank lost the money to poor employee judgment and lack of oversight controls) was a fluke that hurt only the shareholders of the bank. ■

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Buying Computers

Clients frequently ask me what kind of desktop computer to buy for their small business. I make my recommendations based on the specific features that are necessary and on specific models that are available.

Dell makes very good computers, and they have the edge on product quality and customer support. I recommend them over all other brands.

Be aware that the "Dimension" from Dell is not suitable for small businesses. Instead, I recommend the "Optiplex" from Dell - this model is more suited to running the necessary software and performing the necessary functions needed by small businesses. I also recommend that you buy the mini-tower and avoid the space-saver computers.

I DO NOT RECOMMEND BUYING GENERIC or UNKNOWN BRANDS -- they will become headaches. I never recommend buying the cheapest model. Stay away from the come-on specials. Some of my clients have used these generic and bargain computers, and they have found them to be very slow and prone to breakdowns.

For instance, it usually takes about 30 minutes to install Quick-Books on a name-brand computer. It has taken me up to 2 1/2 hours, 2 crashes, and one customer support call, however, to install the same software on a client's brand-new generic "bargain" computer.

One exception to the generic recommendation is if you buy a computer from a local computer hardware/software dealer. This can work very well if you do your homework. Make sure that the dealer has been in business for a substantial period of time, and get references from previous customers. Call my office if you have any questions about working with a local dealer.

My recommendations on specific features are listed below. The average price will range from \$1,300 to \$1,650 for this type of system, depending on your choice of monitor and speakers.

<b>Processor:</b>	Pentium 4 only: <i>(No Celeron)</i>	<b>Operating System:</b>	Windows XP Pro or Windows 2000
<b>Speed:</b>	1.75 GHz and greater	<b>Software:</b>	Microsoft Small Business: <i>(No Works)</i>
<b>Monitor:</b>	Your choice	<b>Speakers:</b>	Your Choice
<b>Ram:</b>	MINIMUM of 256 DRAM	<b>Other:</b>	NIC Card-connect 2 or more computers
<b>Hard Drive:</b>	40 gigabytes	<b>Warranty:</b>	3-year, on site
<b>CD Rom:</b>	48 speed, rewritable drive for backups	<b>Printers:</b>	HP Desk Jet 960 <i>(Avoid multi function)</i>
<b>Modem:</b>	56K 3 com <i>(No WIN modems)</i>		<i>printers: copier, fax and printer)</i>



"Employee Incentives"

Employees will do what you pay them to do. For instance, if you pay an employee only to take orders from customers, that is what he will do. But what if you also want your employee to sell add-on products or services and to provide good customer service?

There are a lot of incentive plans that could be used to increase sales. One obvious solution is to compensate on a straight-commission basis. Straight commissions work best for highly skilled and motivated employees; however, using this strategy at lower skill levels usually does not work very well. Instead, it produces low sales results and a lot of employee turnover.

I like the Simple Bonus Method for compensating lower-skilled employees. In this method, the Sales Manager sets up the sales budget for the month. If the sales numbers achieved by employees exceed those in the budget, each full-time employee receives a bonus.

This type of program must be set up properly to ensure that the company will benefit. A simple program is best. You can add other elements, such as service programs and unit sales, to the program; but a program with few qualifiers is best. There are other important aspects to this program to ensure that it works in the best possible way for your company and your employees: 1) the bonus plan must be thoroughly explained to the employees; 2) employees must be given comprehensive training in how to increase sales; and 3) budget targets must be realistic so that employees feel they can achieve the targets (it is better to set the budget low initially so employees can reach the target; the targeted amounts can then be raised in subsequent months as employees gain more experience with the system).

Balanced Funds

The stock market has gone through some wild price changes in the last 5 years, and it has been tough for some of my clients to hang in there with their stocks. Traditional asset allocation plans dictate that a certain percentage of your assets should be invested in certain asset classes such as stocks and bonds.

For example, one way to allocate assets would be 60 percent in stocks and 40 percent in bonds. With this allocation we would typically invest 60 percent in stock mutual funds and 40 percent in separate bond funds. A problem may arise, however, when the stock fund drops 15 percent and the bond fund rises 5 percent for a loss of total assets of 7 percent.

Frequently, my clients will focus only on the stock fund loss of 15 percent and say "I lost 15 percent of my assets" when in fact the overall loss of total assets is 7 percent. A balanced fund, also known as a domestic hybrid fund, can help put things in a better perspective because it invests a certain percentage of its assets in stocks and a certain percentage in bonds to generate a return that averages these two types of investments.

Many available balanced funds invest various percentages of their assets in stock, bonds, and cash. The portion invested in stocks may be invested in growth or value stocks, large cap stocks, or small caps stocks. If you invest in a balanced fund, be sure to invest in one fund that invests in stocks and bonds directly and does not purchase other mutual funds. Also, make sure your balanced funds do not invest in international stocks.

The following chart compares the Vanguard Wellesley, a well-performing balanced fund that invests 35 percent of its assets in stocks and 65 percent in a combination of bonds and cash, to popular stock indexes.

Growth of \$10,000 from 9/1992 through 9/2002

	Value	Return	Risk
Vanguard Wellesley, Inc.	\$26,761	9.6%	7
Dow Jones average.	\$24,611	8.7%	18
S&P 500	\$24,235	8.6%	17

Risk refers to the range that return for the period could have been, the Vanguard ranged from 16.6% to 2.6%. Add 7% of risk to 9.6% and subtract 7%. The lower the risk the better.



Sloppy Accounting by the State of Maryland

I usually do not write about complying with State or federal tax forms, but during the last two years the State of Maryland has become very sloppy in handling tax forms and payments from its taxpayers, and I want my clients to be aware of these problems. In most of these cases, taxpayers are overbilled for a State mistake that may generate many threatening notices to the taxpayer.

To make things even more difficult for the taxpayer, it is a real "adventure" to try to talk to a person about the problem. It has been very difficult recently to reach people in the State offices. A message is taken, but it takes forever for them to get back to you -- if they get back to you at all.

When you are able to reach State employees, they do not seem interested in doing any research to solve the problem. Their attitude is "just pay the money". After you send the canceled checks to them to prove payment, however, they say: "Well, we had the money posted to your account. It's always been there. You don't owe anything." Why can't they do the proper research and solve the problem when they are first contacted?

I have seen incorrect posting in all types of returns and payments for sales, withholding, income, and personal property taxes. Some of the errors are obvious human posting errors - for instance the amount on Line 3 of the return is entered into the computer as the amount on Line 5. The mistakes are so obvious I can point out the exact mistake the State made.

It did not used to be this way in Maryland. The State once had a first-class accounting system with good customer service. The State claims that a hiring freeze has limited its ability to hire and train staff. I question this excuse, since the State budget has doubled over the last five years and there are more State employees than ever. For instance, Maryland's current Lieutenant Governor has a staff of 19 compared to the previous Lieutenant Governor's staff of 4.

What accounts for the bad customer service? Perhaps because we have a Governor who has focused more on political patronage jobs than on serving the State's taxpayers. I have found that the solution is to deal directly with State employees at the supervisor level or higher. Better still: call the Governor's office and complain! ■

