



QUARTERLY NEWSLETTER 2009 WINTER ISSUE

NEWSLETTER ANNOUNCEMENT

Welcome to the first issue of the BBJS quarterly newsletter! We hope to cover financial and tax issues that affect you in today's economy. We will also feature articles written by our staff in some of our future issues. In this issue, our very first article is written by David Keene which talks about some useful tips and strategies that will hopefully help you with your financial planning.

Want to know more about the people at BBJS? See "Who We Are—Meet BBJS" on page 5.

We hope you find our newsletter both informative and interesting. Please let us know what you think.

BRAINTEASERS

Q: The captain of a big ship was telling this interesting story: "Once I saw two marines standing on the opposite sides of the ship. One was looking to the west and the other one to the east. And they saw each other very well." How can that be possible?

A: The marines were standing back to the edge of the ship so they were looking at each other. It does not matter where the ship is (of course it does not apply to the north and South Pole).

Q: Why are manhole covers round?



A: Round manholes covers, unlike square ones, cannot accidentally fall through their holes. (Because a square's side is shorter than its diagonal, a square cover can slip into the hole when held vertically and turned 45 degrees.) Other reasons: Round covers can be rolled and thus transported short distances by one person without a dolly... round covers never need to be rotated to fit... round holes are easier to dig.

ON THE LIGHTER SIDE

When men do dishes, it's called helping. When women do dishes, it's called life. ~ Anna Quinlin

Retirement: Twice as much husband, half as much pay. ~ Dick Enberg

Anyone who thinks that the art of conversation is dead ought to tell a child to go to bed.
~ Robert Gallagher

WINTER CALENDAR

- January 26 ~ Chinese New Year of the Ox
- February 2nd ~ Groundhog Day
- February 14 ~ Valentine's Day
- February 16th ~ President's Day
- February 24th ~ Mardi Gras
- February 25th ~ Ash Wednesday
- March 8th ~ Daylight Savings Time starts
- March 17th ~ St. Patrick's Day
- March 20th ~ First Day of Spring

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"FINANCIAL GUARDIANS FOR THOSE WHO GROW THE NORTHWEST"

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GOOD STRATEGIES FOR TOUGH FINANCIAL TIMES

BY DAVID D. KEENE

Financially, these are interesting times. Even the most conservative and secure of us has suffered some setback in our financial picture and wish for a speedy journey to less exciting times. But instead of wishing for the recovery and commiserating about the world's economic woes, a more useful approach is to look at what can be done to help get you through this economic cycle and come out financially healthier and happier through the actions you can take now. So what we are offering in the following is what we know to be good advice but, also, we are willing to be your cheerleader and coach when that is helpful.

Individuals and Families

Whether you came into this downturn laden with debt or nearly debt-free, a key to success is the ability to manage your debt. The first rule is to avoid taking on more debt. This means the end of "spending money you don't have to impress people you don't like." Even if this quip does not sound at all like something you would do, most of us could profit from being more frugal – which we will discuss later.

Another strategy is to refinance existing debt. There are two objectives that can be accomplished by refinancing—reducing the interest rate or extending the term of the debt. Either will result in lower monthly payments. Though the advantages from reducing the interest rate are obvious, extending the term of the loan may seem counterintuitive. For example, it is often recommended to secure a 15-year mortgage as opposed to a 30 year, so as to extinguish the debt sooner. This is a worthy strategy when finances allow it. However, if cash flow is tight, the lower monthly payment schedule for a 30-year loan may be the best choice. Plus, you can accelerate payments on a 30-year mortgage if your financial situation improves. (But make sure the loan document allows an expedited payoff without penalties.) Though interest rates are low, obtaining financing is not as easy as in the past, but it is available and the following guidance will improve your chances.

- *Pay your bills on time.* Lenders are much more skittish about lending to people who do not do this and paying your bills consistently on time will improve your FICO score, which is critical to obtaining financing on the best terms.
- *Talk to a number of lenders.* Being turned down by one financial institution or being offered a deal you feel is not that good should not stop your quest for financing.
- *Talk to the smaller community banks.* Frequently these banks are more willing to tailor a loan to suit your needs when the larger banks – which are more driven by fairly rigid qualification templates – might turn you down or not offer reasonable terms. It is impressive what these smaller banks have been able to offer clients as compared to the larger banks. Credit unions can also be a good source for individuals looking for financing.
- *Be prepared.* Before walking into the bank be prepared with information on what you have (your assets and liabilities), what you need (amount of loan), why you need the loan, and how you will be able to pay the loan in a timely manner.

Finally, be sure to make your loan payments on time which is most easily accomplished by setting up an automatic withdrawal from your bank account.

Be frugal. If you manage your debt and are frugal, most of the rest of your financial concerns will take care of themselves. To put you at ease – we are not going to talk about budgets, like putting cash for your entertainment budget into an envelope at the beginning of each month, etc.

Continued on page 3

GOOD STRATEGIES FOR TOUGH FINANCIAL TIMES

One good reason to avoid this kind of discussion is that we have never seen this particular approach work for anyone for any length of time. What can be said is that families who are successful in managing their finances are governed by an attitude more than a set of rules for budgeting. That attitude expresses itself in the thousands of purchasing decisions we all make.

There is, however, one mechanical rule that is valuable: set aside an agreed amount to savings each month. This can be changed over time (hopefully increased), but following this tends to compel a natural budgeting of household finances.

Couple this monthly saving with attitudes on your purchases – as expressed in the following – and you should have an easy time managing your finances.

- Is there a less expensive alternative that accomplishes the same result? For instance, why not buy the cheaper generic laundry detergent rather than the name brand?
- Do you really need this? Can you do without another suit or another car?

Most of your purchases do not seem significant, but when you approach all your purchases with these attitudes, thousands are saved every year. Likewise, most of us waste a lot in a year. If you look at avoiding waste as “going green” or simply being responsible rather than a restriction on your lifestyle, then the habit of not being wasteful is a lot easier to adopt. Avoiding waste can also save thousands of dollars over a year.

Combining these strategies of spending less and avoiding waste is powerful toward achieving financial security. A recommended reading is “*The Millionaire Next Door*” (by Thomas Stanley and William Danko) where these strategies are explained in detail. A significant conclusion of this book is that a person’s lifetime earnings and their retirement financial situation are not significantly related; many with average jobs and wages retired well while many with superior earnings over their working lives did not.

Overall, you are more likely to end up financially secure by being frugal (or if it sounds less menacing – living within your means) than trying to earn your way into security. If being frugal sounds like sacrifice, it might help to know that Warren Buffet is known for enjoying shopping for bargains at St. Vincent de Paul. You do not have to buy the most expensive stuff to have a happy life.

As for those who have accumulated enough resources to have no concerns about outliving their money – the current financial cloud may have a silver lining. Securities, real estate and most other assets subject to valuation changes are at a historical low-point for now. These low valuations offer an opportunity for making gifts of these assets to children and grandchildren at a reduced gift/estate tax cost. You should be able to look back at such gifts in 5 to 10 years and marvel at how clever you were to take advantage of the low valuations when everyone else was paralyzed into inaction from the economic bad news. If you are interested at looking into this – and your estate planning situation in general – BBJs has an Excel spreadsheet capable of computing the federal estate and gift tax and Washington estate tax. This spreadsheet is available to clients free of charge.

Another avenue for making the most of the current situation is to engage in income tax planning. It appears tax rates should stay fairly constant in the near term. Under these conditions, a common strategy is to optimize your tax situation by deferring income (e.g., putting off the closing of the sale of an asset into the next year) and accelerating deductions (e.g., paying for deductible items in the current year rather than the next year). However, it is also nearly certain that income taxes will increase sometime in the not-too-distant future. If this can be anticipated, then the strategy should be reversed so as to accelerate income (into the lower tax year) and defer deductions. By checking in with BBJs toward the end of the upcoming tax years, you will have the opportunity to take advantage of such tax planning efforts.

Continued on page 4

GOOD STRATEGIES FOR TOUGH FINANCIAL TIMES

Tough economic times prompt us to look more seriously at our finances. That is not all bad – because most of us will learn a few things about managing our finances that we did not know before – and be better managers for it. The biggest benefit for many will be a greater appreciation of friends and family and less reliance on the things money can buy for our happiness.

Businesses

The same general advice given above for individuals regarding managing debt and being frugal apply to businesses as well. On the subject of managing business debt, a few business-specific comments are worth making.

- *Research smaller community banks.* Just as recommended above for individuals, the smaller community banks can be a better choice for small businesses. Many of these banks have come through the banking crises stronger (and ready to lend) as they often did not engage in the markets or activities that damaged the larger banks. Plus, these smaller banks are often more receptive to the situations small business clients operate under.
- *Have a secondary line of credit.* Some healthy small businesses have had their ongoing financing pulled for what do not appear to be rational reasons. Banks have been paranoid for obvious reasons and the current atmosphere has led to what appear to be unjustified decisions on their part. Based on the concern that your ongoing line of credit might evaporate, it is good to have a plan B should this occur. Accordingly, one recommendation would be to keep your current banking relationship but go out and secure a second line of credit which you can keep in the standby mode or occasionally tap so as to create a history with the second bank.

On the issue of being frugal, the Whole Foods Market CEO John Mackey says that this new era “requires a different mind-set – we have to be more frugal, to think about every expense, every capital investment – because we won’t be bailed out by growth.” Unlike our practical recommendation for individuals, a business should benefit from the process of implementing and following a formal budget. Simply sitting down to go over where the money has been spent and where savings can be had is a process that likely will compel the managers and employees to reduce waste and increase savings. This budgeting process is something BBJS can help you with.

Other considerations for businesses in this economic climate are listed below.

- *Keep an eye on your competitors.* You may have opportunities to acquire inventory at bargain prices, and competitors may be losing key employees who you would benefit from having in your company.
- *Communicate with your customers.* Whether these customers are individuals or other businesses – their lives have probably changed due to the changes in the economy. These customers may want different products or services – possibly products or services your company is especially competent in delivering. Be the first to get to them with what they currently need.
- *Evaluate your employees.* Many companies have some deadwood in their staff. Management may have hoped they would improve and tolerated them during the good times. Now would be a good time to reevaluate these employees and let go of those not performing.

Overall, if you surround yourself with good people and take action to respond to the changes that affect your company and its customers your company will come out of this with a stronger competitive advantage.

◆◆ WHO WE ARE - MEET BBJs ◆◆

Melinda Buckley, CPA

Melinda has been practicing in the field of fiduciary accounting and financial services for approximately 30 years. She is a native of the Pacific Northwest, growing up on a large farm in Eastern Washington. She was educated at the University of Washington and has lived and worked in Seattle since graduating. Substantially all of her professional career has been with BBJs, where she has been a Partner for the past 20 years.

John Johnston, CPA, CMA

John has been practicing in the field of accounting and financial services for approximately 20 years. He is a native of the Pacific Northwest; he was educated in Virginia at Washington & Lee University. John joined BBJs in 1997 after working with both a large international public accounting firm as well as a local firm. John, his wife and two daughters live on Bainbridge Island.

Bill Serres, CPA, CFP

Bill has been practicing in the field of public accounting and financial services for approximately 15 years. He is a native of the Pacific Northwest and was educated at the University of Washington. After starting out his career with a large international accounting firm, he came to BBJs in 1997. Bill currently resides with his wife and three daughters in Bellevue.

Ed Bancroft, CPA

Ed's association with BBJs began on October 1, 1973. Ed has over 33 years of audit and tax experience. A graduate in finance from the University of Washington, Ed continues to work as a consultant on special projects when he is not on the golf course.

Cathy Baroletti, CPA

Cathy moved to Seattle and joined BBJs in April 2008. She is originally from Long Island, NY where she was born and spent the majority of her life. She received her accounting degree from SUNY College at Old Westbury, NY and spent the majority of her accounting career in small to medium sized public firms. She enjoys helping the disadvantaged and disabled.

Don Cooper, CPA

Don has over 20 years experience as a CPA and has worked in both the public and private arena. Don grew up in Idaho where he attended Idaho State University. He has resided in the Seattle area for over twenty years and he and his wife currently reside on Bainbridge Island.

David Keene, CPA

David received his accounting degree from the University of Oregon in 1975. He has practiced in local accounting firms since 1976 and most recently he joined BBJs after operating his own accounting firm for the past 21 years. David has written several articles and has also been a speaker at numerous seminars. When he gets the chance, David enjoys fishing and working on his cabin on Vancouver Island, Canada.

Janet Key, CPA

Janet joined BBJs as a staff accountant in 2006. She is a native of California and graduated Summa Cum Laude from California State University, Sacramento. Prior to entering public accounting, she worked within the accounting and finance realm for the Department of Defense.

Continued on page 6

WHO WE ARE - MEET BBJs

David Lamp, CFP

David joined BBJs in 2007 and before coming to work with BBJs, he worked for a financial services firm in the Washington, D.C. area for three years. Within BBJs, David's primary focus is comprehensive financial planning and wealth management with new clients. He graduated from the University of Arizona in 1995 from the school of Business and Public Administration. David, who was born and raised in Spokane, moved back to Washington state with his wife and three children after spending ten years in Arizona and Maryland.

Hochuen Leung, CPA

Hochuen has 20 years of finance and accounting experience. He graduated from the University of Washington in July 1997 and passed the CPA examination the same year. Hochuen immigrated to the United States from Hong Kong in 1993 and is also fluent in Cantonese. In his free time, he enjoys scouting for old watches in local antique stores.

Larry Martinell, CPA

Larry has been an integral part of BBJs since 1968. Larry's vast knowledge and experience in the accounting field have been invaluable to this firm. Larry has a keen ability to unravel complex tax issues. Larry, a native Washingtonian, lives in the Snoqualmie area.

Dan Requarth, MS

Dan is our go-to guy at BBJs. Dan's background in accounting and also the technology world has kept BBJs up to date. Dan has been with BBJs since 1999. A native of Illinois, Dan lives in Ballard with his wife and two sons. His hobbies are model trains and railroad history.

Johnathan Smith

Johnathan is a graduate of Carroll College in Helena, MT with a Bachelors of Arts, majoring in accounting and business administration with a finance emphasis. He joined BBJs in the summer of 2008 and prior to that, he has worked with a variety of organizations. When he is not hard at work he enjoys spending time with family, sailing and the outdoors.

Linda Annala

Linda has been with BBJs since 1998, moving to the area from Montana. She is an avid reader and enjoys spending time with her family.

May Heng

May graduated from the University of Oregon with a bachelor's degree in Business Administration in 2002. She has also received formal education in legal studies in Singapore where she was a paralegal prior to coming to the United States in the fall of 2000. May is fluent in Mandarin.

Paige Maliff

Paige has been with BBJs since 2003 and she graduated from City University in 2003 with a BS in Computer Science and currently serves in the United States Coast Guard Reserves. Paige grew up in rural Skagit County, Washington but now calls Seattle home. She enjoys snowboarding and hiking.

Taylor Lane

Taylor is currently a junior at Seattle University and is pursuing his degree in Accounting. Our newest addition to the BBJs team is a Seattle native. Taylor also enjoys snowboarding and playing soccer.