

POSSIBILITIES

INSIGHTS FOR BUSINESSES & INDIVIDUALS

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2015 Market Outlook

What a predictable and very unpredictable year 2014 was. Yet, that could be said about every year.

For starters, the U.S. economy picked up steam throughout 2014, and the S&P 500 Index racked up another double-digit gain following 2013's 30 percent advance. Still, who would have forecast utilities, which are normally a defensive sector, would lead the way to that double-digit return? Credit the higher dividends they offer and falling bond yields.

Finally, few could have predicted the outright collapse in oil prices. We began the year near \$100 per barrel and ended just north of \$50 per barrel. When and where oil will stabilize is anyone's guess, but the decline in crude is responsible for the 10 percent drop in the S&P Energy sector. It was the worst performing of the 10 industry groups that make up the S&P 500 Index.

There were times when we hit a patch of volatility, however, the fundamentals quickly reasserted themselves, driving stocks to new highs. These included:

1. Growing economic activity, which led a pickup in earnings growth. S&P 500 earnings improved from a modest increase of 5.6 percent in Q1 to a solid 10.3 percent by Q3, according to Thomson Reuters.
2. A pledge by the Federal Reserve to keep short-term interest rates at rock bottom levels for a "considerable time." Low interest rates provide little in the way of formidable competition for stocks.
3. Stock buybacks by corporations continue to rise. According to S&P Dow Jones Indices, combined dividend and buyback expenditures set a new record of \$892.66 billion for the 12 months ended September

30, with stock repurchases representing 62 percent of the total. Stock buybacks reflect confidence as well as real demand for shares.

Looking Ahead

The fundamentals that have fueled equity gains in recent years remain in place. Even as the Federal Reserve ended its controversial bond-buying program last October, the federal funds rate is expected to remain at historically low levels through at least the end of 2015 and possibly beyond.

While strong fundamentals remain in place, risks never disappear, even in a diversified portfolio. Risk can be managed but not eliminated. So that leads to the next question—what are some of the events that could create volatility in 2015?

Oil and Energy

The year ended with oil near \$50 per barrel. The stock market will continue to adjust based on the movement of oil prices until the price of oil finds a place to settle. There will be winners and losers at current prices, though the net gain to the economy should be positive.

Then there has been the sharp selloff in junk bonds tied to the energy sector. While Treasury and investment grade yields fell last year, high-yield debt rose. Some of the rise can be blamed on expectations the Federal Reserve will eventually raise interest rates, which could impact some highly-leveraged borrowers. But a big part of the increase can be blamed on default fears in the energy patch amid a re-pricing of risk in high-yield energy bonds. If concerns were to spread into other sectors of the junk bond market, we could see a spillover into stocks.

Overseas

Slowing growth in China and Europe's slow recovery could dampen growth at home.

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CPAs & BUSINESS ADVISORS

Who's Going to Buy Your Business?

As you and your business mature, you may be starting to think about selling or transferring your business within the next few years. The big question is: who will buy it?

Options to Consider

There are a number of options that may be viable transition solutions, including the following:

- *Sale to family members*

There are some great companies with great stories about long-term family ownership. We also know many examples, however, where family ownership has been rife with problems and where company value has declined when the next generation has run the business poorly.

- *Sale to employees*

This is very appealing to some owners who want to take care of their people, and there are various strategies to structure these types of transactions, such as ESOPs. However, relatively few employee groups have the financial capacity to pay an owner what the business is worth.

- *Sale to outside party*

The majority of sales are actually to competitors, or other potential buyers.

- *Sale to a private equity firm*

Private equity groups (PEGs) are firms that raise funds, invest in companies and then exit, hopefully at a gain. Each group generally has certain types of industries and company sizes they like to invest in. Their deals might start with an ownership interest of 70 percent for example, as they sometimes like to have the owner involved in continuing to grow the business and business value. This gives both the PEG and the owner an upside. Some PEGs are also interested in minority positions.

- *Sales to family offices*

A family office is a private investment firm established for the purpose of managing a family's wealth. This type of firm establishes a new approach for wealthy families to directly invest their wealth in private companies or other investment vehicles. Such organizations supposedly date back nearly a century to the times of John D. Rockefeller, but more recently have become a popular structure versus traditional investment firms. They can come in the form of single-family or multi-family offices, and typically hire tenured investment professionals to manage the office and invest their capital.



Next Steps

There are several steps to take if you are thinking about selling or transitioning your business now, or in the future. First, it is important to get a realistic expectation of what your business is worth now and how to increase that value. In addition, it is helpful to truly understand what your options are. Talking to a valuation or transaction specialist can help make this process smoother. You may face a challenging and highly competitive market when the time comes to sell your business, and it's important you are able to maximize your ability to see a return on the investment you've made through many years of hard work. ■

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Slimming Down in the New Year: Expense Reducing Strategies

It seems like every year goes by just a little faster. The busier we get, the harder it is to plan—but it's also the most important time to plan. For many small business owners, the start of a new year is filled with planning activities with a focus on improving the operating results of the prior year.

One part of this strategic plan should be to evaluate expenses and consider alternatives to current processes in order to reduce excess costs and make operations more efficient. Here are some ideas on a few common expense areas where savings and benefits can be found.

Telephone/Telecommunications

This expense category includes local and long distance land lines, Internet access charges and mobile phone plans.

- Technology has come a long way, and many companies likely haven't reviewed their systems within the last three to five years. If you still have a PBX system, it might be time to evaluate this and look into Voice Over Internet Protocol (VOIP) systems. The newer technologies are basically run through your computer system and the Internet. This provides for cheap rates and much better functionality and access. A great resource to help you evaluate this is www.getvoip.com. If you have multiple offices or need to operate from remote office locations, VOIP can offer many benefits. Even if you don't change phone systems, it's always a good idea to contact competing phone service providers and have them provide you with a quote so you can see how your current rates compare.
- Internet access rates change on a regular basis. You might be costing yourself money if you don't have a fast-enough connection. Call your Internet provider and let them know you want your current plan evaluated because you are rate shopping.

Employee Health Care Costs

- With the Health Care Reform laws that were put into place last year, you've probably already visited this area within the last 12-18 months. If you haven't, you need to ensure you are compliant by talking with a knowledgeable advisor. The bigger question is that of improving the health of your staff to reduce the premiums. There are several companies now that will help you put health wellness programs in place for your company so that you can start reducing premiums and have a healthier company.

Cloud Technologies

- Accounting/financial reporting systems can help you streamline your back-office and information-sharing costs. If you are not happy with the timing, level of detail or inflexible reporting you are currently getting, take a look at what the cloud-based accounting systems might be able to do for you. A few of the top players are NetSuite, Intacct and QuickBooks Online.

Outsourcing

This is an idea to consider if you have any departments or functions that you may not have the right talent for, or just don't want to manage. The newer technologies in each of the areas listed below allow for great collaboration, visibility and accountability between the provider and the business. Many CPA and consulting firms have substantial resources dedicated to whatever function you may be interested in outsourcing, including:

- Accounts payable
- Billing/collections
- Bookkeeping
- Payroll
- Controller/CFO
- IT support

Retirement Plan

Are you maximizing the benefits available with your retirement plan? Retirement plans can provide a very efficient use of cash, reducing taxes and providing great benefits for employees and owners. Make sure you review your retirement plan with your financial advisor, and if you don't have a retirement plan, you owe it to yourself to learn about how a well-designed plan can help you achieve some of your goals in a very efficient manner.

2015 is just beginning, giving you time to execute your strategic plans. The areas above are just a few ideas and areas that could be evaluated. In reality, every aspect of your business should be evaluated on a regular basis to ensure your business is operating effectively and efficiently. ■

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Intangible Property

Considerations for Entrepreneurs Thinking Globally

Many entrepreneurs begin their business with a focus on becoming successful in their current markets and eventually expanding across state lines. As time goes on, they may test their business concept across international borders. Many U.S. companies often head first to Canada and then move on to Europe as a springboard to a global business. From a U.S. tax perspective, these companies soon learn that the profits can either be taxed immediately in the U.S., or taxed when repatriated, depending on the structure they choose. For those who prefer deferral, it is often the long-term goal to use earnings generated internationally to fund growth outside of the U.S.

Intangible Property

Although deferral is allowed, it is not just a matter of incorporating in another country and replicating there. As an example, let's assume that a U.S. company designs and manufactures products. After creating a sales office in Europe and having some success, they decide to open a manufacturing facility in Europe. From a U.S. tax perspective, the company has likely developed intangible property (IP) by way of manufacturing and technology know-how or trade secrets. When this IP is used outside of the U.S. by a related party, the tax authorities will require the U.S. company to be compensated.

IP can be found in service businesses as well. For example, when an entrepreneur develops a process that differentiates them from the competition or builds a well-known brand, they have created IP. If the company takes the IP across borders, the U.S. tax authorities (IRS) will expect compensation for the IP use.

Importance of Advanced Planning

The above examples result in a surprisingly large portion of income being taxed in the U.S. prior to the company's intention. However, planning can be used to minimize this over the long term. For example, a U.S. company can transfer the rights to use the IP outside

of the U.S. to a foreign subsidiary. As a result, the income for the use of the IP outside of the U.S. will accrue to the subsidiary, going forward, and not to the U.S. company. Given that the corporate tax rate outside of the U.S. is generally lower, this results in increased cash flow. This concept is commonly referred to as an IP migration. The initial transfer of IP is subject to taxation to the extent gain is recognized, which it often is. If a company is in a start-up phase, the income may be offset by net operating losses. A net present value calculation will likely show that the current taxation on the transfer is less than tax on a payment to the U.S. for the useful life of the IP.

As you can surmise, the younger the IP, the lower the estimated tax value, because it may not be proven or otherwise valuable in other markets. This presents an opportunity for start-up companies that have a global vision. The challenge becomes determining when benefits of an IP migration outweigh the cost of such a structure. The costs of such a structure include legal, accounting, valuation or transfer pricing, and having substance in a foreign jurisdiction to manage the use and development of the IP.

If the U.S. and/or the foreign subsidiary continue to develop IP, it is important for them to enter into an agreement to split the cost and rights to use the further development of the IP in their respective jurisdictions. This concept is commonly referred to as "cost sharing" and prevents new IP from being developed by one jurisdiction and an additional transfer needed to obtain the desired result. ■

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Eide Bailly Partners Elected to Leadership Positions in HLB

Two Eide Bailly partners have been elected to leadership positions in HLB International, one of the leading global accountancy networks with presence in 130 countries, and its affiliate HLB USA.

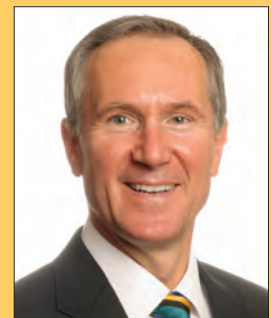
Dave Stene has been elected as the chairman of HLB International, which is a three-year term. He most recently served as the chairman of HLB USA. He also has served as

the chair of the Minnesota Society of CPAs and is a member of the American Institute of Certified Public Accountants Governing Council.

Bryan Ross has been elected to the executive committee of HLB USA. Bryan has more than 30 years of tax and consulting experience and has played an integral role in growing Eide Bailly's international tax services area.



Dave Stene



Bryan Ross

Eide Bailly Expands into Nevada

Growth in the western region of the United States is part of Eide Bailly's strategic plan, and it added to that goal in a big way in late 2014 with the addition of four offices in a new state—Nevada.

Two Firms Added

Eide Bailly made its debut in Nevada in November with the addition of Muckel Anderson CPAs, located in Reno. Then in December, Kafoury, Armstrong & Co. joined Eide Bailly, adding offices in Las Vegas, Fallon and Elko, as well as an additional office in Reno, which will integrate with existing staff in that city.

"We are excited to share our small firm/large firm approach to service with more businesses in Nevada," said Eide Bailly Managing Partner/CEO Dave Stende. "As the first regional firm in Nevada, we are a new alternative for clients in the state and the surrounding regions."

The Right Timing

Butch Anderson, former CEO of Muckel Anderson, serves as the partner-in-charge of the Nevada offices.

"Muckel Anderson and Kafoury Armstrong were friendly competitors for years, and it's exciting for all of us to have joined forces under the Eide Bailly name," Anderson said. "It's also a great time to enter Nevada. The state continues to emerge from the recession and strengthen its resources for businesses."

Eide Bailly's growth in Nevada gives the firm a total of 26 offices in 12 states with 1,500 staff and 224 partners.

"It's an exciting time at Eide Bailly, and we're happy to be a part of what's being built here," said Anderson.

For more information, visit our newsroom at www.eidebailly.com.



Taking the Mystery Out of Social Security Benefits

You may not realize it, but the timing of when you elect to draw social security is one of many important decisions you'll make in retirement. It will impact the amount of income you receive, the amount of taxes you pay, and how you are able to utilize your other assets.

Determining the best strategy for when to draw social security depends on many factors, and the choice you make could mean the difference between gaining or losing upwards of \$100,000 over the course of retirement.

For more information on Social Security planning, visit www.eidebailly.com/socialsecurity.

Enterprise Resource Planning: Connecting the Web of Your Processes

Traditional explanations of Enterprise Resource Planning (ERP) can become so complex that the value it provides your organization goes unnoticed amidst the tangle of words. In short, ERP is simply a methodology for connection. This basic concept has since been translated into a number of software solutions available in the marketplace today that integrate the numerous disparate “back-end office” systems of a business—from accounting, sales and customer relationship management (CRM) to manufacturing and distribution—into a single interface for value-added insights across an organization.

A Tangle of Data

All organizations are comprised of a spider web of processes and data. At the foundation of every business is interaction, and each interaction, large or small, contributes to the value exchange between your company and your customer. While most organizations have an established framework for monitoring and evaluating ongoing interactions, as your business grows and processes multiply, past methods depreciate and provide less

meaningful insight. Additionally, as we all know too well, teams are not always the best at communicating across “party lines.” As a rule, the more people and processes between pockets of data, the more challenging it becomes to share information that is accurate and valuable. Key performance indicators can provide helpful progress reports, but an increase in the number of applications used to manage these growing processes creates “silos” of this information, making it less readily accessible for all involved.

A Holistic Approach

ERP joins the dispersed procedures, tasks and accomplishments throughout a business and makes it possible to manage and examine the organization as a whole. Compiling data spanning departments, processes and interactions provides a holistic, comprehensive representation of your business; it establishes accountability and allows your organization to become progressively reactive to situations that reduce value creation, while improving your ability to be proactive in the future.



ERP weaves together the elements of your business.

The key focus of an ERP solution is to create a dynamic, actionable structure encompassing all areas of a business to clearly identify relationships and patterns in the data. This evolving interface allows teams and executive leaders to become agile and responsive to changing conditions within the business or marketplace—they can easily identify what is and isn't working through defined, easy-to-understand facts and figures. Connecting your financial systems to your value-producing systems, human resources and even customer relationship management allows you to track, analyze and automate workflows and processes across your business. All these touch points across the business are recorded and later sorted, contextualized and presented in a useful format from one application. This will result in customers that are better served, staff that are more informed and capable, and leadership that is more aware and responsive.

“

All organizations are comprised of
a spider web of processes
and data.

The Right Vantage Point

Within a business, it is not always clear which practices are performing well, which ones suffice, and which desperately need to be altered. Patterns go unseen and inconsistencies between sales orders, inventory needs and manufacturing remain unaddressed. Identifying how individual processes are performing in isolation and against one another allows an organization to discover strategies for real improvement.

By integrating otherwise separate—yet interdependent—data from all aspects of your business, you gain a complete vantage point of your organization from which you can make analysis, reporting and compliance needs not only more convenient, but also more accurate. Enterprise Resource Planning can be a powerful tool to provide visibility into the big picture of your business and provide insights to think critically, identify opportunities to improve and, ultimately, create more value in an increasingly competitive marketplace. ■

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Eide Bailly Adds Technology Resources



Eide Bailly has grown its ERP and CRM services with the addition of business, accounting and ERP solution provider Accounting Systems, Inc. (ASI).

ASI joined Eide Bailly Technology Consulting in November, adding 10 experienced professionals to the Firm, including Bredt Eggleston, former ASI chief solution officer, who joined Eide Bailly as a principal. Bredt has nearly 25 years of experience in the accounting software industry; he founded ASI in 1991 with his father-in-law, Jerry Reinan.



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Odds are fairly low, however, as the U.S. simply isn't dependent on overseas demand to drive its economy. So far, U.S. growth has accelerated in the face of global jitters.

Interest Rates

Will we get volatility around the Federal Reserve's first rate hike in nearly a decade? There are no guarantees when it comes to Federal Reserve policy, but if U.S. employment and economic growth continue at the current pace, the Federal Reserve has signaled rates will start rising in 2015, although it is doing its best to telegraph its intentions.

Emerging markets

A stronger dollar and a Federal Reserve that is expected to begin raising rates could pressure developing countries that have sold bonds in greenbacks instead of their local currencies, forcing them to repay loans in more expensive dollars. Foreign reserves could minimize any pressure, but it's something that bears watching.

Cyber-attacks

North Korea's alleged attack on Sony quickly comes to mind. It's impossible to forecast,

but the outside chance of a big event can't be completely discounted.

Geopolitical Concerns

War or geopolitical instability has historically caused short-term volatility in the market. Heightened uncertainty is not a friend of investors.

The Bottom Line

One really does not know what the future holds, or how the markets will behave. As an investor it is important to manage and mitigate risk within a portfolio and to take the time to recalibrate. Two things to consider when managing risk within a portfolio: First, make sure there is a plan in place and it is followed when making investment decisions. Second, be sure to rebalance the portfolio back to the original allocation on a regular basis. ■

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