

RISPIN FINANCIAL

THE BOTTOM LINE

NOVEMBER 2008

WHEN WILL CONFIDENCE RETURN?

Over the last 12 months we have seen the biggest drop in equity markets that I can remember. Markets are trading on historical lows and most Australians have seen their superannuation balances drop significantly.

The markets at present are being driven on fear which is one of the most powerful emotive forces on the planet. This fear has arisen from the sub-prime credit crisis on the US but has now worked its way into the credit markets, property markets and stock exchanges world wide.

Fear has caused a lack of confidence in the western economies fueled by uncertainty in the banking systems. There have been times in recent months when banks were not even lending to each other.

However in recent weeks we have seen governments around the world, including our own, putting in place measures to stimulate their economies and restore confidence in the banking systems.

Our own government has moved quickly to guarantee bank deposits, reduce interest rates and release funds to pensioners with the view of increasing economic activity. The government guarantee on bank deposits has caused some problems in the non-bank mortgage funds but these are working towards a solution for investors which won't be far away.

As governments around the world introduce similar measures we are seeing some confidence return to the banking systems and this should be reflected in the property and equity markets. When confidence returns to the markets we should see values returning to a more normal level.



The chart below shows the re-bounce which was achieved in the Australian share market following recent periods where the market dropped by more than 20%:

Period	Drop in market (negative)	Next 12 months (positive)
Feb 80 - Mar 80	-23%	30%
Nov 80 - Jul 82	-46%	46%
Oct 87 - Nov 87	-49%	38%
Aug 89 - Jan 91	-30%	42%
May 92 - Nov 92	-20%	50%
Feb 94 - Feb 95	-20%	20%
Mar 02 - Mar 03	-24%	26%
Nov 07 - Oct 08	-42%	???

The lesson from history is not to sell when markets are at their lows but wait for the re-bounce to occur. It can't be far away.

Patience and discipline are always rewarded. If you have any concerns about your investments do not hesitate to contact us.

Best regards, Neil

In this issue:

- | | |
|---------------------------------------|---|
| • From the Editor | 1 |
| • Business Entities - Companies | 2 |
| • Business Succession Planning | 3 |
| • Cash Flow Management in Tough Times | 4 |
| • Networking | 4 |

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BUSINESS ENTITIES - COMPANIES



There are two types of companies which will have an effect on small/medium sized businesses. These are public companies and private companies.

The most popular entity for small businesses is a private company. A private company need only have one director and one shareholder.

A company is a separate legal entity from its shareholders and directors and is not subject to a time requirement relative to being wound up, such as a discretionary trust.

A company's shareholders can decide whether the company will have a separate constitution or adopt what is known as the "replaceable rules" that are specified within the Corporations Act.

Every company has to have a registered office. A private company's registered office does not have to be open to the public. A private company only needs one shareholder and can have a maximum of 50 shareholders. Shareholders do not play any direct day-to-day role in the administration of the company unless they are directors.

A private company has a pre-emptive rights requirement, which means that, before directors of a private company can issue additional shares in the company or approve a share transfer, they should offer those shares to the existing shareholders (who have the same class of shares) first. The board of directors can also reject a proposed purchaser of shares in the company from becoming a shareholder.

The Corporations Law is administered by the Australian Securities and Investments Commission (ASIC).

ASIC allocates each company an Australian Company Number (ACN). The ACN must be displayed on letterhead, invoices etc.

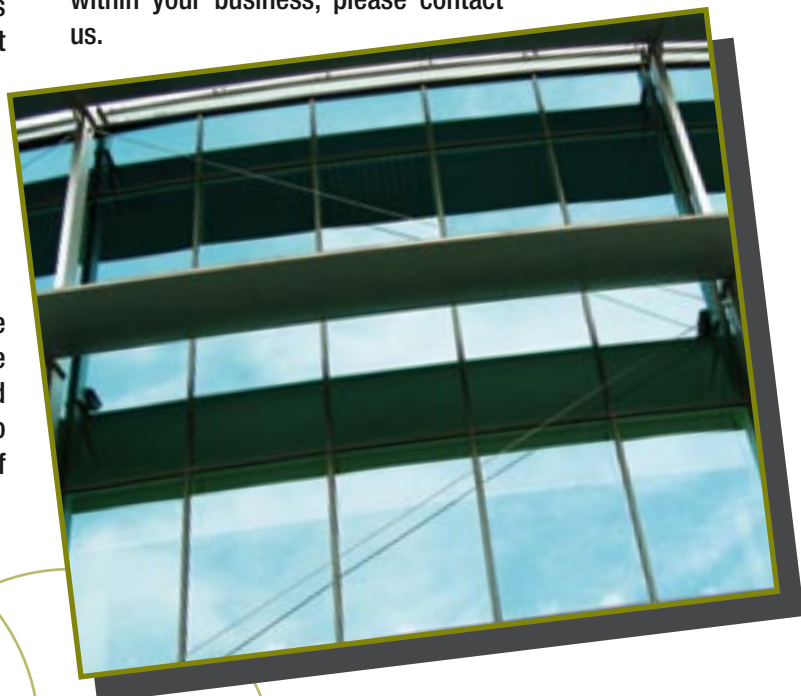
The company is required to lodge an annual return with ASIC.

A company can be sued, can sue and has the power to operate virtually every type of business unless prohibited by its own constitution. The company is liable for the debts that the company incurs and not the shareholders and directors, unless the shareholders and directors have given a personal guarantee to any external party for debts relating to the company.

Directors can be liable if they have allowed the company to incur debts whilst the company has been insolvent or they have committed any criminal or environmental offences.

The taxation rate applying to companies is 30% of taxable income.

If you would like to discuss any aspect of utilising a company within your business, please contact us.



BUSINESS SUCCESSION PLANNING

One of the most important issues that needs to be considered in succession planning is where is the business going?

Every business needs growth and where the business is going to go in the next phase of its development is very important.

Questions to consider include what type of succession planning are you contemplating? Are you looking to only change the management and the current owners will continue to own the business and will continue to serve on the board of directors setting policy etc., or is it a complete sale of the business so that there'll be a management and shareholder/owner change that is going to occur.

There needs to be at least 2 years of planning on the business issues relative to succession planning.

What is a realistic sales price? Could the sale price be improved by the implementation of more detailed systems manuals, accurate customer lists, improved staff training, better appreciation of the market opportunities. If you did these things then you would probably improve the price earnings multiplier that is used in the valuation of your business, because the purchaser would pay you a premium for having implemented a wide range of systems which contribute to the business' success.

If you are contemplating retirement over the next few years, then you can significantly improve the prospects of achieving a sale at a price that you would be happy with, by understanding the growth prospects in your business and preparing a strategy as to how the growth will be achieved.

Establishing systems; training your team members; and understanding the needs of the business, will be very important if it is going to expand and succeed in the market place.

Many small business operators leave a lot of money on the table in their succession exit because the process has been rushed or they have given insufficient time to the important planning issues that are involved in planning an orderly succession.

WHAT'S IT MEAN?

Net Profit Percentage Of Sales... measures the net profit before tax earned on sales and is expressed as “% of Sales”.

Net Profit After Tax Percentage Of Sales... probably the more accurate way of showing the owners' or shareholders' percentage of each sale dollar that they have actually earned from their business endeavours (other than the salary or directors' fees paid to owners/shareholders).

Example:		
Sales	\$3,000,100	
Net Profit Before Tax	\$156,000	= 5.03%
Net Profit After Tax (if a company using corporate tax rate of 30%)	\$109,200	
Net Profit After Tax Percentage of Sales		= 3.52%



CASH FLOW MANAGEMENT IN TOUGH TIMES

If you find that your customers are delaying their payments to you, communicate with them and find out what the problem is and whether you can negotiate alternative arrangements regarding payment.

Don't sit back and wait, because it might be too late. Keep an ear to the ground as to what is happening in the market place and, in particular, how your key customers are trading.

If you are having problems in paying your own bills then communication with your creditors can be very important.

If you can present to them plans on how you are going to overcome the short term cyclical nature of business, then you will probably be able to negotiate an on-going repayment schedule that is able to be effective within your changed cash flow circumstances.



Disclaimer: The contents of this publication are general in nature and we accept no responsibility for persons acting on information contained herein without consulting your Accountant or Financial Planner. Liability limited by a scheme approved under Professional Standards Legislation. It is our intention to improve the financial well being of our clients. We will work hard to make sure that your association with us is a positive interactive experience.



NETWORKING

This is a new segment in our "Bottomline" newsletter. This edition features a Melbourne based business "dpimages".

Owner of dpimages, David Paul is a professional photographer with over 20 year's experience. dpimages was recently awarded the Bayside Leader Business Achiever Award for Business/Professional Services 2008, a great addition to his numerous Australian Institute of Professional Photography Awards. David understands the importance of quality images for all mediums be it web or print media. "The images of your business should sell and communicate the essence of what you do."

dpimages works with all types of industries to create meaningful personal portraits and images for all types of marketing strategies to create a personal illustration of what your business is about.

"Present your business as you really are and what you really do...simply."

Sometimes people can overlook the impact of quality images in preference to design and other production costs often reducing the impression of the business.

The people that make it work, the care taken in attending to client needs and the quality of the finished product is the key to dpimages. Ensure the images of your business do the work for you.

For more information you can contact David via email on david@dpimages.net visit his website www.dpimages.net or to discuss your needs call him on 0438 897 744.