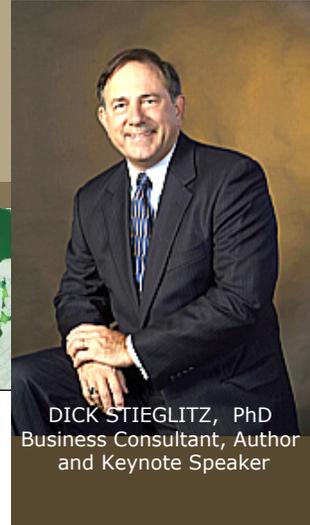


November 1, 2011



DICK STIEGLITZ, PhD  
Business Consultant, Author  
and Keynote Speaker

## Welcome to the Change Challenge Newsletter

Welcome to the November issue of The Change Challenge. I'm usually optimistic, but lately I've been making ultra-conservative investment and spending decisions waiting for the economy to improve. How are you doing in these challenging days? That's the subject of the feature article titled "**Uncertain Times.**"

This month's *Leading Change* article titled "**Getting a Root Canal**" says that people at all levels in an organization must know the rules under which they operate and be accountable for the results they produce. The *Personal Change* article titled "**Taxes & Tithes**" focuses on our attitude of scarcity toward taxes and our resistance to the possibility that they will increase.

Your feedback and recommendations to improve this e-letter are always appreciated via return email or through The Change Blog at [www.dickstieglitz.com](http://www.dickstieglitz.com).

*Dick Stieglitz*

[Uncertain Times](#)

[Getting a Root Canal](#)

[Taxes & Tithes](#)

[Buying & Selling a Company](#)

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**[Buying or selling a  
business can be a  
lucrative but risky  
transaction](#)**

## Feature Article UNCERTAIN TIMES

My father told me how difficult it was living in the Great Depression, but he also told proud stories of how the Greatest Generation won World War Two and worked to build the world's #1 economy. As a result of that generation's efforts, I've lived through the country's peak years - but the last few years have been the most difficult and uncertain times I've seen. The only period that came close was the Carter years when we had double-digit inflation, interest rates over 15%, and didn't know where to find a tank of gas. I'm usually optimistic, but lately I'm making ultra-conservative investment and spending decisions until the uncertainty goes away. How are you making it through these challenging times?

**Is the U.S. Going Bankrupt?** When you own stock, the company will mail you a glossy annual report that shows income and expenses, and describes future prospects. If the federal government were a Fortune-500 company, its annual report would say USA Inc. was on the brink of bankruptcy because:

- Expenses exceeded income by \$3 trillion in 2010 and 2011,
- Debt increased from \$10.0 to \$14.8 trillion in the last five years,
- Standard & Poors downgraded its bond ratings for the first time, and
- Customers complain loudly that they want to get more and pay less.

The government isn't a company, of course, so it can't outsource or shutdown under-performing units like Medicare and Medicaid (the U.S. spent twice as much per-capita on health care as Sweden, but has a shorter life expectancy) or the Education Department (the U.S. spent more per-student than any other country, yet our teenagers rank 25th in math skills). If I was a shareholder in such a company, at a minimum I would expect the Board of Directors to take decisive action. But the Board of Directors of USA Inc. (i.e., Congress) is gridlocked on how to increase income, cut spending, or curtail entitlements - all of which are essential to resolve the crisis. Future government policies and taxes are very much uncertain.

**Congress Plays Russian Roulette.** The truth is Congress has been over-spending, under-investing, and promising unsustainable entitlements for decades. In the August agreement that avoided default, neither Republicans nor Democrats sacrificed sacred cows - Republicans avoided tax increases and Democrats avoided Medicaid, Medicare or Social Security cuts. President Obama hit the nail on the head when he said: "*Our economy didn't need Washington to manufacture a crisis and make things worse.*" The willingness of some Congressmen to threaten default on federal bonds, pensions and paychecks to push their agenda is a frightening new low in partisanship. Both parties claim they want to create jobs, but neither blinked when the Federal Aviation Authority's spending authority expired, causing thousands of workers to be laid off and airport construction projects to stop. Everyone focuses on the November deadline for the Congressional Super-Committee, but they are struggling - the members prefer rhetorical fairy tales to hard-nosed budget decisions. Because of cutbacks, government employment is down everywhere, particularly in the Washington area (my home) which people thought was recession-proof. The future economy across the country is uncertain - even more so in my hometown.

**Political Extremism.** Extreme partisanship isn't surprising given the mixed messages citizens are sending. On one hand, the Tea Party bashes big government, fights for individual freedoms, and pushes the Republican Party to the right. On the other hand, the Occupy Wall Street movement bashes big business, fights for social justice, and pushes the Democratic Party to the left. The two extremes are incensed by myths about painless solutions like eliminating government waste and taxing millionaires - both are required, but neither is a panacea. President Obama empathizes with the Occupy Wall Street folks, of course, but at the same time expects big donations from Wall Street for the 2012 Presidential campaign. The positive side of the protest movements is that they highlight the misery millions of Americans are feeling from the economic slump. But to effect real change in a real democracy, we need real politics - not political

BY THE AUTHOR OF THE BESTSELLING BOOKS "THE GREAT MISTAKES OF BUYING & SELLING COMPANIES" AND "HOW TO AVOID THE 100 MOST COMMON MISTAKES OF COLLECTING STOCKS"

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Richard G. Stieglitz, PhD  
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## TAMING THE DRAGONS OF CHANGE IN BUSINESS



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RICHARD G. STIEGLITZ, PhD

extremes like the United States. I don't see an end to the uncertainty about what Congress will do - nothing looks like their most likely action.

**Volatile Financial Markets.** Talk about uncertainty: the stock market has gone up or down more than 1% in eight of the last ten working days. The civil war in Congress creates two problems for businesses: paralysis and uncertainty. At the same time, U.S. companies have high profits and cash reserves, but nowhere to spend the money - Apple alone says it has \$76 billion in the bank. They are making conservative decisions just like I am. Why? Business leaders blame the dysfunctional Congress for their reluctance to hire and invest. For example, in a Brookings Institution poll 33% of U.S. business leaders said political instability is a major constraint on hiring - by comparison the equivalent result in France was 15%. These leaders say they would tolerate higher taxes if the increases were linked to a broad plan that clarified the country's policies for taxes, Social Security, health care, the environment, etc. Making matters worse, President Obama pushes his \$474 billion "American Jobs Act" and begs companies to hire employees, but in his next breathe he vilifies the banks, insurance companies, oil industry, and other businesses he expects to do the hiring. He should heed former President Clinton who said: "*I don't understand how you can love jobs, but hate the people who create them.*" The sooner Obama realizes how his rhetoric contributes to unemployment, the sooner the country will return to growth. Uncertainty is the mortal enemy of corporate investment and hiring.

**Uncertain Weather.** Uncertainties aren't limited to politics - even weather is more unpredictable than ever. February's snowmageddon in Washington, floods in Vermont, droughts and wildfires in Texas, more than 1,000 tornadoes across the U.S., a melting Arctic ice cap - our world is tearing itself apart and we do nothing about global warming. The National Oceanic & Atmospheric Administration (NOAA) says warmer temperatures produce more severe and frequent weather extremes. NOAA reported 2010 as the hottest year in the 100+ years it has kept records - 2011 is likely to beat the 2010 record. Extreme weather is destructive and deadly: 2011 was first year in history with ten weather events that caused over \$1 billion in damage each. Despite visible and expensive signs of global warming, the U.S. is unlikely to limit greenhouse gas emissions before 2013 - if then. Many Congressmen and some scientists deny that human activities contribute to global warming. As a PhD scientist, I don't know what causes global warming, but it's suicidal (and stupid) to do nothing about it. Last month my wife and I had over \$10,000 in flood damage in our house - the first damage in the 36 years we've lived here. Weather uncertainty is scary, expensive and unlikely to abate.

**Cyber Insecurity.** I don't even feel safe in my own home these days - more because of cyber-attacks than home intrusions. Twice this year hackers penetrated my wife's AOL account and blasted out an email asking friends to wire \$1,000 because we had been robbed in London. Since the Internet's early days, hackers have tried to penetrate government, industry and personal computers. But hacking has changed from a game for geeks to a way for countries to attack each other and for criminals to steal. The lack of federal standards and oversight leaves us open to cyber-attacks on the power grid or individual power plants. Unfortunately, there's no way to know what systems have been penetrated. Even as I type these words, I wonder if dangerous sleeper code is in my computer that could destroy my records and the draft of my new book. On a cyber-warfare level, I wonder if the U.S. is as good at hacking as the Chinese. More uncertainty.

**Bottom Line.** As a superpower, the U.S. isn't super anymore. Most people see the 20th century as American's century - just like Great Britain dominated the 100 years before World War One. It now looks like the 21st century will belong to China. With a president and Congress whose primary goal is to get re-elected, few people have confidence in their ability to fix trillion-dollar deficits, high unemployment, under-performing schools, energy policies that ignore global warming, crumbling infrastructure, or a moribund housing industry - have I left something out? The country is likely to crawl through the 2012 election hoping things will change thereafter. History will remember the 112th Congress as the "Nero Congress" that played foolish partisan games while the country's economy sank and millions suffered. This sure doesn't feel like the country my father was so proud of. As Bill Gates said: "*Where's all that good stuff we used to make and other people copied?*" On the other hand the 112th could be the "Hero Congress" that turned the country toward prosperity. I'd like to believe that, but I'm hedging my bets until I see hard evidence. I know I sound negative, but I'm really scared about my future. How about you?

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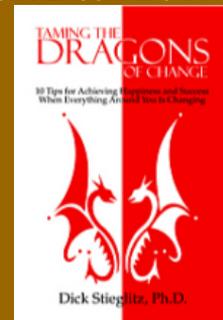
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## I GVVPI 'C'TQQV'ECPCN

Quarterly meetings of my company's Board of Directors often felt like a root canal in the dentist's office. The Board had seven members: myself, the President, and five seasoned executives whose only connection to the company was their role as Director. Their probing questions made us prepare diligently for each meeting, have a plan to resolve performance issues, and compile data to back-up our assumptions and projections.

This governance process was valuable because it held us accountable to openly and honestly examine our quarterly results and projections for the future. No place to hide at those meetings. The Board forced us to make difficult and frequently uncomfortable choices. Far from resenting those painful discussions, I was grateful for the Board's counsel which helped the company succeed. I was thankful when the Directors told me I was doing something stupid - before I did it!

Jack Welch, former CEO of General Electric, said: "*Too many managers avoid making hard choices and thereby hurt not only their companies but, in the long run, the people whom they are trying to protect.*" Welch was famous for, among other things, his rank-and-yank staffing policy. He made managers rank employees annually and fired the bottom ten percent. That sounds harsh, but Welch felt that top-grading was good for the company and the people who were fired - many of whom went on to great success in other companies.

Governance and accountability are cornerstones of successful governments, businesses and non-profits. In your organization, people at all levels must know the rules under which they operate and be accountable for the results they produce. You'll know your approach is working by observing how the people in your organization think, talk and act as they pursue the goals you have set for them to achieve.

"

### *Personal Change*

## TAXES & TITHES

**Most of us have an attitude of scarcity toward taxes and resist possible increases. We work hard to earn what we have, and should be able to keep more of it. In my case, the President, the Governor of Maryland, and the Montgomery County Executive take (I don't willingly give) 60% of my income for federal and state income taxes, Medicare, FICA, property tax and sales tax. I resent paying so much income to support welfare, special-interest, and other programs that I don't agree with or benefit from.**

**On the other hand, I don't tithe either. Tithing is giving 10% of my earnings to benefit others as an expression of gratitude for my well-being. The giving could be cash, goods or services to a church or charity. It also can be helping a needy family, or being a big brother. I give money, goods and time to charities whose work I support, but the sum is less than 10% of my earnings.**

**Is it possible taxes are high because I don't tithe? Many of us would rather "*let the government take care of them,*" than support those in need directly without the government as an exceedingly expensive middleman. Statistics show the number of registered churches, synagogues, mosques and other tax-exempt places of worship in the United States is about half the number of families enrolled in federal welfare and social aid programs. If each congregation (that's you and me) would help just two families currently on welfare, we might eliminate welfare programs and reduce our taxes substantially. The point is, instead of giving 10% tithe and offering our time and resources in an attitude of abundance, we pay absurdly high taxes with an attitude of scarcity - 60% in taxes is six times what the Bible suggests that I give in tithes.**