Johnston Investment Counsel
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Protecting Your Business from Cyber Threats
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Protecting Your Business from Cyber Threats

Risk management is a key component in any successful business plan. In today's world--where data breaches are common occurrences--it's especially important for business owners to understand the digital risks they face. Are you doing all you can to mitigate the risk of a cyber attack?

Understanding the risks

Many small-business owners may think their organizations hold little appeal to hackers due to their small size and limited scope. However, according to the Small Business Administration (SBA), this naivete may actually make them ideal targets. Small businesses are keepers of employee and customer data, financial account information, and intellectual property. Their systems, if not adequately protected, may also inadvertently provide access to larger supplier networks. "Given their role in the nation's supply chain and economy, combined with fewer resources than their larger counterparts to secure their information, systems, and networks, small employers are an attractive target for cybercriminals," reports the SBA on its cybersecurity website.

Consider the following tips compiled from information supplied by the SBA, the Federal Trade Commission (FTC), and the Federal Communications Commission (FCC).

Cybersecurity tips

1. Assess: To protect your organization, you must first understand your vulnerabilities. How are your systems protected? Do you collect and store personal information of customers and employees, such as credit-card information, Social Security numbers, and birth dates? If so, how is this information stored and who may access it? Do you have a Wi-Fi accessible to employees and customers? How do your vendors and other third-party service providers protect their information? It may help to engage a professional to help identify your risks.

2. Protect: Ensure you have firewall and encryption technology protecting your Internet connections and Wi-Fi networks. Make sure your business's computers have antivirus and antispyware software installed and updated automatically. Require employees and others who access your systems to use complex passwords that are changed regularly. Keep only personal data that you actually need and dispose of it securely as soon as it no longer serves a business purpose. Back up critical information and data on a regular basis, and store the backups securely offsite. Assign individual user accounts to employees and permit access to software and systems only as needed. Be especially cautious with laptops and company-assigned smartphones. Question third-party vendors to ensure that their security practices comply with your standards.

3. Document: Establish clear security policies and procedures and put them in writing. Cover such topics as handling sensitive or personal information, appropriate use of Internet and social media, and reporting vulnerabilities. Clearly spell out consequences for failing to follow the policies.

4. Educate: Develop a mandatory employee training program on the importance of cybersecurity. Explain the basics of personal information, as well as what is and isn't acceptable to post on social media. Employees could unknowingly release information that could be used by competitors or, worse, by criminals. Ensure that employees understand the risks associated with phishing emails, as well as "social engineering"--manipulative tactics criminals use to trick employees into divulging confidential information.

For more information

Business owners who want to learn more can find a wealth of helpful information online. In addition to visiting the SBA's cybersecurity website, business owners might want to review "Protecting Personal Information: A Guide for Business" and "Start with Security: A Guide for Business," both available on the FTC's website.

Cost of Living: Where You Live Can Affect How Rich You Feel

Americans on the move

Americans are picking up and moving again as the recession fades, personal finances improve, and housing markets recover. Counties in Florida, Nevada, and Arizona had larger influxes of people, while some counties in Illinois, Virginia, New York, and California saw more people moving out. (Source: The Pew Charitable Trusts, Americans Are on the Move--Again, June 25, 2015, www.pewtrusts.org)

Do you find yourself treading water financially even with a relatively healthy household income? Even with your new higher-paying job and your spouse's promotion, do you still find it difficult to get ahead, despite carefully counting your pennies? Does your friend or relative halfway across the country have a better quality of life on less income? If so, the cost of living might be to blame.

The cost of living refers to the cost of various items necessary in everyday life. It includes things like housing, transportation, food, utilities, health care, and taxes.

Single or family of six?

Singles, couples, and families typically have many of the same expenses--for example, everyone needs shelter, food, and clothing--but families with children typically pay more in each category and have the added expenses of child care and college. The Economic Policy Institute (epi.org) has a family budget calculator that lets you enter your household size (up to two adults and four children) along with your Zip code to see how much you would need to earn to have an "adequate but modest" standard of living in that geographic area.

What areas have the highest cost of living? It's no secret that the East and West Coasts have some of the highest costs. According to the Council for Community and Economic Research, the 10 most expensive U.S. urban areas to live in Q3 2015 were:

Rank	Location
1	New York, New York
2	Honolulu, Hawaii
3	San Francisco, California
4	Brooklyn, New York
5	Orange County, California
6	Oakland, California
7	Metro Washington D.C./Virginia
8	San Diego, California
9	Hilo, Hawaii
10	Stamford, Connecticut

Factors that influence the cost of living

Let's look in more detail at some of the common factors that make up the cost of living.

Housing. When an area is described as having "a high cost of living," it usually means housing costs. Looking to relocate to Silicon Valley from the Midwest? You better hope for a big raise; the mortgage you're paying now on your modest three-bedroom home might get you a walk-in closet in this technology hub, where prices last spring climbed to a record-high $905,000 in Santa Clara County, $1,194,500 in San Mateo County, and $690,000 in Alameda County. (Source: *San Jose Mercury News,* Silicon Valley Home Prices Hit Record Highs, Again, May 21, 2015)

Related to housing affordability is student loan debt. Student debt--both for young adults and those in their 30s, 40s, and 50s who either took out their own loans, or co-signed or borrowed on behalf of their children--is increasingly affecting housing choices and living situations. For some borrowers, monthly student loan payments can approximate a second mortgage.

Transportation. Do you have access to reliable public transportation or do you need a car? Younger adults often favor public transportation and supplement with ride-sharing services like Uber, Lyft, and Zipcar. But for others, a car (or two or three), along with the cost of gas and maintenance, is a necessity. How far is your work commute? Do you drive 100 miles round trip each day or do you telecommute? Having to buy a new (or used) car every few years can significantly impact your bottom line.

Utilities. The cost of utilities can vary by location, weather, usage, and infrastructure. For example, residents of colder climates might find it more expensive to heat their homes in the winter than residents of warmer climates do cooling their homes in the summer.

Taxes. Your tax bite will vary by state. Seven states have no income tax--Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming. In addition, property taxes and sales taxes can vary significantly by state and even by county, and states have different rules for taxing Social Security and pension income.

Miscellaneous. If you have children, other things that can affect your bottom line are the costs of child care, extracurricular activities, and tuition at your flagship state university.

To move or not to move

Remember The Clash song "Should I Stay or Should I Go?" Well, there's no question your money will go further in some places than in others. If you're thinking of moving to a new location, cost-of-living information can make your decision more grounded in financial reality.

There are several online cost-of-living calculators that let you compare your current location to a new location. The U.S. State Department has compiled a list of resources on its website at state.gov.

Pros and Cons of Working from Home

Telecommuting, or working from home, is offered by many employers to their employees. Find out whether the financial advantages and disadvantages of working from home make it a viable option for you.

Imagine that your employer gives you the choice between either working from home or commuting to the office throughout your work week. You might think the obvious choice is to work from the comfort of your own home; after all, staying in your pajamas all day and avoiding stressful commutes sound appealing. But there are some considerations to think about before you decide that telecommuting is right for you.

Advantages

Working from home could end up saving you a considerable amount of money. It eliminates the cost of commuting by cutting down what you spend on gas, public transportation and parking fees, and car maintenance. And depending on your company's dress code, you could save what you might spend on expensive work-related clothes.

Besides reducing some of your daily expenses, working from home could provide you with more opportunities and increased productivity. Telecommuting might mean you are no longer tied to a single location, which could allow you to explore more flexible work opportunities within the company. Working from home may also motivate you to use your time more effectively and accomplish more for your company because you'll save time commuting.

Balancing work and family life could be easier when you work from home, as well. Time that you might spend traveling to work, appointments, and family obligations will be saved when you no longer have to schedule around a daily drive to and from the office. Depending on your company's flexibility and the demands of your job, working from home may even eliminate or reduce child-care needs for your children, giving you more time to spend with your loved ones in addition to saving you money.

It's possible that you could be healthier by working from home. Your exposure to co-workers who come to work with a cold or the flu is reduced, which prevents you from having to take a sick day to visit your doctor. You may also wind up feeling less stressed when you don't have to worry about commuting or potential work-life issues.

Disadvantages

Before you get too excited about the appeals of working from home, consider the drawbacks. For instance, telecommuting could affect your work performance. Isolation from the office may result in your professional achievements being overlooked, which could potentially delay a promotion or raise.

Less opportunity to interact regularly with co-workers might mean missing out on important information, as well as feeling lonely. Plus, distractions around your home can interfere with your daily responsibilities and could result in a negative response from your employer.

Another financial downside of working from home is the prospect of providing your own office materials. Does your company provide you with supplies such as a computer, printer, and fax machine? Will you need to pay for office setup, postage services, or scanners, among other items?

You might think that a home office tax deduction could alleviate the cost of home office expenses, but you'll need to be careful with your home office use in order to qualify. The space you claim a deduction for must be used for business-only purposes. Any use of this space not related to your work may prevent you from taking this tax break. For more information, review IRS Publication 587, Business Use of Your Home.

You'll also need to think about how your increased presence at home may result in an increase in your home utility usage. Specifically, you'll probably spend much of your time using energy-consuming technology to perform your job. In turn, this could cause your electric bill to spike. Practicing energy efficiency may help reduce the bill, but you still might have to pay more than you'd like each month as the cost of working from home.

What works for you?

If your employer allows you to work from home, think about a few other things besides how it would affect your wallet:

- Consider whether your home has appropriate space to accommodate a home office.
- Understand that you may need to seek remote tech support on occasion to perform your job.
- Think about whether you're self-directed and able to work well independently in a home setting.
- Set expectations for yourself.
- Be familiar with any company policies that may apply to remote employees.

It's possible that you can strike a balance and choose to work from home one or two days a week, thereby reaping more of the telecommuting positives than negatives. You could also ask to undergo a trial period to make sure that working from home is truly what works best for both you and your employer.

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Can you separate college financial aid myths from facts?

For all you parents out there, how knowledgeable are you about college financial aid? See if you know whether these financial aid statements are myth or fact.

1. Family income is the main factor that determines eligibility for aid. Answer: Fact. But while it's true that family income is the main factor that determines how much financial aid your child might receive, it's not the only factor. The number of children you'll have in college at the same time is also a significant factor. Other factors include your overall family size, your assets, and the age of the older parent.

2. If my child gets accepted at a more expensive college, we'll automatically get more aid. Answer: Myth. The government calculates your expected family contribution (EFC) based on the income and asset information you provide in its aid application, the FAFSA. Your EFC stays the same, no matter what college your child is accepted to. The cost of a particular college minus your EFC equals your child's financial need, which will vary by college. A greater financial need doesn't automatically translate into more financial aid, though the more competitive colleges will try to meet all or most of it.

3. I plan to stop contributing to my 401(k) plan while my child is in college because colleges will expect me to borrow from it. Answer: Myth. The government and colleges do not count the value of retirement accounts when determining how much aid your child might be eligible for, and they don't factor in any borrowing against these accounts.

4. I wish I could estimate the financial aid my child might receive at a particular college ahead of time, but I'll have to wait until she actually applies. Answer: Myth. Every college has a college-specific net price calculator on its website that you can use to enter your family's financial information before your child applies. It will provide an estimate of how much aid your child is likely to receive at that college.

5. Ivy League schools don't offer merit scholarships. Answer: Fact. But don't fall into the trap of limiting your search to just these schools. Many schools offer merit scholarships and can provide your child with an excellent education.

Should I loan my child money for a down payment on a house?

For a lot of young people today, it's difficult to purchase a home without at least some financial assistance. As a result, many young adults turn to their parents or other family members for help with a down payment.

If you plan on lending your child money for a down payment on a house, you should try to assume the role of a commercial lender. Setting the terms of the loan in writing will demonstrate to your child that you take both your responsibility as lender and your child's responsibility as borrower seriously.

While having an actual loan contract may seem too businesslike to some parents, doing so can help set expectations between you and your child. The loan contract should spell out the exact loan amount, the interest rate and a repayment schedule. To avoid the uncomfortable situation of having to remind your child that a payment is due, consider asking him or her to set up automatic monthly transfers from his or her bank account to yours.

This type of loan documentation is also important for IRS purposes because there may be potential income and gift tax issues with these types of loans. For example, interest paid by your child will be considered taxable income, and if adequate interest is not charged for the loan, special imputed interest rules may apply.

If you don't feel comfortable lending your child money, you may want to consider making a smaller, no-strings-attached gift that doesn't have to be repaid. Currently, you can gift up to $14,000 annually per person under the gift tax exclusion. However, if you do gift money for a down payment, your child's lender may still require him or her to put up some of his or her own money, depending on the type of mortgage chosen.

Keep in mind that lending money to family members can be a tricky proposition. Before entering into this type of financial arrangement, you should take the time to carefully weigh both the financial and emotional costs.

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Avoiding The Pain

There's no question that we experience emotional pain and anxiety when our portfolios are losing money due to market downturns. Behavioral scientists tell us that we feel losses twice as keenly as positive returns.

But that doesn't tell us what we really want to know, which is: other than selling at the wrong time and locking in losses, how do we make these downturns less painful?

Economist Richard Thaler conducted a stock market experiment that offers us all some insight. He asked people to select one of two investment options, one heavier weighted in stocks with higher returns and higher volatility, the other with fewer stocks, lower returns and less bouncing around. Half of the people were shown how that investment would have panned out eight times in the next year, while the other half were only shown the result once a year. In other words, some were looking at the stock market roller coaster eight times as often as the others.

You can probably guess the result: those who saw their results eight times a year only put 41% of their money into stocks. Those who saw the results just once a year invested 70% in stocks. ***According to Thaler, the more often you look at your portfolio, in good times and bad, the more pain and anxiety you are likely to experience, and the more cautious you tend to be***.

In a recent blog post, a market analyst looked at all the bear and bull markets going back to 1928, and found something interesting. The bull market rallies, on average, delivered 57% returns, while bear markets, on average, took away 24% of the market's value. The bull runs lasted, on average, 474 days, while bear market drops were more intense, compressed into an average of just 232 days before the next upturn.

In other words, the significant declines were only about half as large as the market gains, but they were much faster, lasting about half as long as the slow, incremental rises that are habitual to bull runs.

Combine these statistics, and you come to a few simple conclusions: bull markets don't attract a lot of attention, and move more gradually than the eye-catching downturns. Bull markets, over time, generate twice the upside as bear markets do downside. And the best way to avoid the mental anguish of these occasional sharp downturns is to spend less time looking at your overall returns.

Source:

- http://awealthofcommonsense.com/2016/02/why-bear-markets-are-so-painful/

Buying Guaranteed Losses

Surely one of the strangest trends on the world investment markets these days is banks paying negative rates to depositors, and bonds issued with negative interest rates. Basically that means that these institutions, and issuers, are guaranteeing a loss when you invest in their bonds or otherwise lend them money.

This unusual trend, which has been growing quietly in the background throughout Europe, became news last month when the Bank of Japan, the Japanese equivalent of the Federal Reserve banking system, announced that, starting February 16, it would pay minus 0.1% to Japan's lending institutions on all new money deposited into the central bank's reserve accounts. (The central bank will pay 0% on deposits required for regulatory reasons, and will continue to pay +0.1% on existing deposits.)

For the past year and a half, the European Central Bank has been "offering" sub-zero rates to its member banks—currently charging 0.3% for holding banks' cash overnight. The Central Bank of Sweden, meanwhile, leads the world in negative deposit rates, at -1.1%. The central banks of Switzerland (-.75%) and Denmark (-.65%) also charge dearly for the privilege of loaning money to their governments.

By the end of last year, roughly a third of all the bonds issued by Eurozone governments also carried negative yields—meaning that it wasn't just banks that were willing to buy investments guaranteed to lose money. French government bonds with a two-year maturity paid investors a handsome -.292%, and German two-year bonds reached a record low of -.348%. Now Japan is joining the fun, with two-year bond yields at minus 0.85% and bonds with 5-year maturities "paying" a negative .08%. This is the obvious reason why global investors are flocking to Treasuries and dollar-denominated bonds. The yield spread between U.S. corporate bonds and the bonds issued by foreign countries have seen a dramatic rise over the past 12 months.

Negative payments are considered to be a particularly effective way to shoo money out of the parking lot and force banks to start lending it into the economy—driving up the supply of available money and thereby driving down rates. It's a form of economic stimulus to everybody but the banks themselves, and also lowers the value of the currency—which, in turn, stimulates exports and raises profits of companies doing business overseas. A double stimulus, if you will.

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