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Cc:

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Subject: Happy New Year; book reviews, etc.

Happy New Year!

The Christmas mugs have been returned to the top cupboard; this morning I am drinking coffee from my usual Boy Scout mug. This little ritual is to remind me that it's time to transition out of holiday mode and get my nose back to the grindstone. I reckon you're going through a similar transition too, so let's do it together.

I hope you had a great holiday season. We sure did. We've really enjoyed having my son Johann, who is now twelve years old, spend the holidays with us. Yesterday we made a short pilgrimage to a local monastery together; today we're going to hang out with Grandpa, maybe help him deal with some downed trees, weather permitting; tomorrow we hope to play in the snow on Mt. Baker if the roads are passable; and Sunday he flies back to Hawaii to resume school, to finish sixth grade. This summer he might return to Washington for good, God willing. We'll see.

Over the holidays I read a couple of books: [The Tipping Point](#) by Malcolm Gladwell, and Bill O'Reilly's [Culture Warrior](#). I had requested the former and received it as a Christmas present; the latter I inadvertently retrieved from the trash of some in-laws (professing liberal/Democrats) while gathering burnables to light the wood stove. Normally I think of liberal/Democrats as being for freedom of expression and against destruction of books. My curiosity was piqued by a book that would motivate them make an exception to their principles. I offer the below reviews as a New Year gesture of my good will for your, and our, general edification.

I'm a little slow on the uptake with [The Tipping Point](#): it was published in 2000, and appended in 2002 with remarks about e-mail and the Internet, so some of you may already recognize it. It's subtitled, "How Little Things Can Make a Big Difference."

Gladwell examines both literal and figurative epidemics like the flu, AIDS, yawning, fashion trends, rumors, and crime; tries to identify the causes of their exponential growth; then suggests replicating the causes and applying them toward things like marketing and sales, wealth, and/or positive social change. Since as an Economist people hire me to help them improve their economic lot, I felt obliged to learn as much from this book as possible, obviously to improve the level of service that I deliver.

He identifies a few special types epidemic promulgators whom he calls "Connectors, Mavens, and Salesmen" - the critical few people who account for most, if not all growth. He also recognizes the importance of what he calls "stickiness" (memorability, persistence), and of context, showing how they work, and why they

matter. One example he cites repeatedly is Paul Revere, whose famous ride saved the American colonies: what exactly did Paul do? Who was he, and why did people listen to him? Gladwell answers these questions, and applies the answers to other situations in enlightening, encouraging, and thought-provoking ways.

One obvious "tipping point" with which I've repeatedly dealt during the latter half of last year is the **break-even point**, the point at which Contribution Margin equals Overhead.

Huh?

Yeah, you know: Contribution Margin. Overhead. Don't you know what those are? No?

Neither do a lot of others. As an Economist, one of the things I do is help people identify the two and understand how they work together to determine profit or loss.

Contribution Margin is Revenue or Sales less all costs of creating them, both direct and indirect, collectively known as "Variable Costs" or all costs that vary proportionately with revenue. If you sell stuff, then your Variable Costs would include the cost of your stuff, plus energy costs of buying, moving, making, storing, and delivering it; production-related payroll and taxes; advertising and promotion; revenue-based taxes like B&O, loan interest if your business activities and growth are debt-financed, etc.

Overhead is the fixed cost of just being in business, regardless how busy you are. It includes things like rent or mortgage, insurance, fixed utilities, administrative payroll and taxes, administrative supplies and equipment, etc.

One of the first things I do with a new business client is format his/her/their accounting records to define Overhead and Variable Costs, to help ascertain the break-even point. What has continued to amaze me, over all the years I've been doing this kind of work (which if you include preparation and apprenticeship type experiences exceeds twenty years) is that I have yet to encounter an accounting system or software vendor who provides a Chart of Accounts out of the box that is set up to define these two vital numbers. Some pointy-headed guru like me must invariably intervene and tweak the system to produce these numbers - numbers which are routinely taught in any "bonehead" Management Accounting 101 course.

A couple of ways the Break-Even Point can be expressed are in revenue dollars, and in units. One who knows their Break-Even Point can confidently say, "If I sell less than X, I will lose money. If I sell more than X, I will make money." It provides a very powerful focus. Without it, money is just a blurr: it comes in, it goes out. The end result is anybody's guess, until it's too late. Knowledge of the Break-Even Point puts business owners in control; it helps them master cause-effect relationships in their businesses; it helps the dog wag the tail instead of letting the tail wag the dog.

So that's one "tipping point" that has been really obvious to me lately. (If you'd like some help ascertaining your BE point, please [contact me](#).) But there are others.

It turns out there is no such thing as a "big thing." Big things are just the sum of a lot of little things. So it's all about the little things, really. For example, crime in New York was radically reduced by simply keeping subway cars consistently cleaned of graffiti, and by arresting scofflaws who were not paying their fares. Those two initiatives also reduced other crimes that were not obviously subway related. Two little things made a huge difference. Reading this book left me feeling grateful for how the Marines taught me to pay attention to detail.

So the question is, what are the little things in your life, and in my life, that will make the huge difference? What are your tipping points? What are mine? I'm not sure. I'm still thinking about it, but the question has given me a very helpful focus.

For me, one possible tipping point is the principle that people value what they pay for. Cheap or free things seem of little or no value, and vice versa. Price affects perception. For over ten years I have researched and identified those mutual funds performing at the top 1% over both the long-run and the short-run, and shared the results completely and openly, free of charge, and as far as I can tell, not much use had been made of the results, even though personally they've been very valuable.

I've decided to stop doing that. I'm not going to publish the report any more, although I'll still update it every Spring, just as I have. I'm not even going to sell it. I might cite examples from it on appropriate occasions. On request I'll query it.

But mainly, I'm going to use it to do portfolio makeovers. For example, if my research improved your return on investment, in thanks would you be willing to share a reasonable portion of the improvement over a reasonable time? Late last year I spent some time researching the state of the art, and the pertinent laws, in the investment advisory field, and learned some very interesting lessons on which I'll be building in 2007, so stay tuned. For now this is just a brief FYI. If you'd like to learn more about it, please [drop me a line](#).

The other book, Bill O'Reilly's Culture Warrior, I'll discuss much less. It's a political book, designed to excite. But I did gain a couple of helpful things from it. One was about political labels. Bill says the old conservative/liberal, Republican/Democrat labels aren't sufficient to describe the current reality. The labels he offers instead are "secular-progressive" or "S/P" and "traditionalist."

I didn't encounter one conflict in his book that I hadn't already recognized and pondered on my own, but what I did find striking was his presupposition that we all know and agree what "traditional" means. From my point of view, the United States is too young and dynamic to really have or understand tradition. In my observation & experience, to use the word "traditional" in the United States and assume others know what you mean and agree with you, is a huge leap, that will

often result in a fall.

But the conflicts he describes are real and consequential; the research he has done about individuals is substantive, informative, and worthy of consideration; his intentions are noble; and his experiences are instructive. He has chosen to fight in arenas where many of us have opted out. In his book he provides post-mortems of his battles, analyses which can be helpful to anyone interested in choosing their battles wisely.

I hope you've found these reviews helpful. In conclusion, please accept my best wishes for a wise, blessed, and prosperous 2007.

Kind regards,

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Attachments: