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Advantages and Disadvantages of Self-Employment

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If you can handle the responsibilities, perhaps being your own boss is right for you. You've grown tired of commuting to a job where you sit in a cubicle and do someone else's bidding. You've got a better idea, you can build a better mousetrap, you know you have the knack for being in the right place at the right time, and so you're thinking of self-employment. But how do you determine if this is a pipe dream or an idea worth pursuing?

Can you handle it?

Whether you're running your own business or working as an independent contractor, you'll soon realize that working for yourself isn't just another job, it's a way of life.

Are you someone who likes a nine-to-five routine and collecting a regular paycheck? When you're self-employed, you must be willing to make sacrifices for the sake of the job. You're going to work long hours, which means that you won't have as much time as you used to for family or leisure activities. And if the cash flow becomes a trickle, you're going to be the last one to get paid.

Can you get along well with all types of people? Being self-employed is all about managing relationships--with your clients or customers, your suppliers, perhaps with your employees, certainly with your family, and probably with your banker, lawyer, and accountant, too. If you're the type who wants to be alone to do the few things that you're good at, then you should do that--for someone else.

Are you a disciplined self-starter? Being self-employed means that you're your own boss. There may be days when you'll have to make yourself sit at your desk instead of going for a long lunch, or (especially if you work out of your home) place those business calls instead of reading the newspaper.

Finally, do you enjoy wearing many hats? Depending on your line of work, you may be involved in handling marketing and sales duties, financial planning and accounting responsibilities, administrative and personnel management chores--or all of the above.

Your dream come true

Think about how great it will feel to get paid to do what you'd love to do anyway. If you're working for yourself, chances are you'll be doing work that you enjoy. You'll get to pick who you'll work for or with, and in most cases you'll work with your customers or clients directly--no go-betweens muddying the waters. As a result, you may have days when it hardly feels as if you're working at all. Such harmony between your working life and the rest of your life is what attracted you to self-employment in the first place.

Being your own boss means that you'll be in control of all of the decisions affecting your working life. You'll decide on your business plan, your quality assurance procedures, your pricing and marketing strategies--everything. You'll have job security; you can't be fired for doing things your way. As you perform a variety of tasks related to your work, you'll learn new skills and broaden your abilities.

You'll even have the flexibility to decide your own hours of operation, working conditions, and business location. If you're working out of your home, your start-up costs may be reduced. You'll also experience lower operating costs; after all, you'll be paying for the rent and utilities anyway. If the location of your work isn't important (perhaps you're a freelance writer or a consultant), you can live wherever you want. At any rate, if you work at home, you'll greatly reduce your daily commuting time and expense.

If all goes well and you're making money, chances are you can make more than you did working for someone else. And since you're working for yourself, you may not have to share the proceeds with anyone else. The fruits of your labor will be all yours, because you own the vineyard.

On the other hand . . .

When you're self-employed, particularly if you're starting your own business, you may have to take on a substantial financial risk. If you need to raise additional money to get started, you may need a cosigner or collateral (such as

your home) for a loan. Depending on how much or little work you can line up, you may find that your cash flow varies from a flood to a trickle. You'll need a cash backup so you can pay your bills while you're waiting for business to come in or waiting to be paid for completed work. Since you'll have to pay your own creditors first, this means that sometimes you may eat cereal instead of steak.

Remember that you're not making any money if you're not working. You don't have any employer benefit package, which means that it's going to be hard for you to go on vacation, take a day off, or even stay home sick without losing income. It also means that you'll have to provide your own health insurance and retirement plan. Remember, too, that you can choose your clients or customers, but you can't control their expectations or actions. If you don't come through for them, or if you do something that offends them, you might not get paid for your work.

Because you're working for yourself, you're going to have to take care of everything yourself, from figuring your taxes to watering the office plants. You'll probably need some new skills, such as bookkeeping and filing quarterly taxes. You can learn to do these things yourself--many software programs are designed just for this market--or you can hire others (e.g., an accountant) to take care of them for you. If you're not careful, however, you may find that you're spending more time on the business of being in business for yourself than you are on the work that attracted you to self-employment in the first place.

The bottom line

If you can work long and hard, tolerate risk and stress, cope well with potential disaster and failure, and work well alone and with others, then perhaps self-employment is right for you. If not, then perhaps you should keep that job in the cubicle.

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