

# A Financial Primer for Career Farriers



## Business Management—Now

by Ken Roby

As much as we might like to believe otherwise, it is largely economic factors that shape and direct our lives. Whether we are aware of it or not, many farriers are small businessmen who own and operate small businesses. Since most farriers' businesses are sole proprietorships, a farrier's business and personal finances are closely intertwined.

It is widely accepted that small businesses which fail usually do so as a result of poor management, not bad market conditions. This can also occur within the horseshoeing industry. The existence of "farrier burnout" may, in part, also be a result of less than adequate management, forcing a farrier to overwork himself playing financial catch-up that could perhaps have been avoided or reduced through better management of one's assets and liabilities. Such management, however, is an extensive topic and cannot be completely covered in an article such as this.

Since most of us are not MBAs or financial planners, I would like to briefly address the following important topics: 1) managing business income and expenditures, 2) insurance, 3) taxes, 4) investments, and 5) retirement. Understandably, many farriers shoe horses strictly on a part-time basis. However, these topics will be addressed largely as they pertain to the career farrier. The part-time farrier will find much of the following information useful, but he should be aware that the areas of tax and retirement planning, as well as insurance, may differ significantly between the part-time and career farrier.

### Managing Business Income and Expenditures

It is important to remember, especially for career farriers, that personal and business finances are virtually the same: The money that buys your supplies comes from the same money that feeds your family. The money you make from your business has one of three places to go: 1) personal use, 2) back into your business (reinvestment and overhead), and 3) taxes.

One important aspect of managing your business is striking a balance between the amount of supplies and equipment you maintain in stock and the demand to use up those supplies per unit of time. What this comes down to is your net profit for that period. Ideally, you would want to acquire just enough supplies, say on a monthly basis, to be completely used up at the end of the month when new supplies would arrive. Since this is not always realistic, a farrier should study the different supplies he carries and the demand for those supplies to determine what is the minimum or most efficient amount of each item that should be kept in stock between deliveries of new supplies. The idea is to reduce costs while maintaining the same income. As a general rule, the less money you have tied up in supplies (quantity, not variety), the better off you are, for the leftover money can be put to work for you.

Buying large quantities of supplies, e.g., coal, is not necessarily a true savings: You may be better off spending less and buying smaller amounts, even at a higher per unit cost, and investing the money you save to offset and perhaps

## Business Management—Now

gain on any discount you might have received. However, if groups of farriers get together to make large purchases, the savings are hard to beat.

Always shop around before purchasing supplies. Prices can vary significantly from distributor to distributor. If you must pay sales tax on supplies purchased in your state, consider purchasing out of state. Shipping charges may not change dramatically if you buy from a neighboring state, and in some cases may actually be less. In this manner, you do not pay any sales tax, and don't forget to deduct 100% of the shipping costs, as well as the cost of the supplies, from your gross income on IRS Schedule C. But don't count on deducting all your sales tax from your gross income under new tax law.

One trick I use to get the most for my money is to make my purchases on a major credit card near the first day of each billing period, then pay the bill in

full a day or two before the payment due date. In this manner, I have the supplies in hand as much as a month or more before paying for them. Supplies may actually be used up, and thus paid for by the consumer, without my ever having actually spent any money for them. This method accrues no interest expense (which should still be deductible as a business interest expense under new tax law anyway), positively affects my credit rating, and makes record-keeping and check-writing simpler and cheaper. In addition, the money that would have been spent had I paid cash for the supplies remains in my accounts to earn interest for an extra month. Month after month, it pays off.

Basically, clients who do not pay their bills should be dumped unless special circumstances are involved. There is often little you can realistically do, short of repeated phone calls, to economically recoup bad debts of less than one or two

hundred dollars. Small claims court may not always be worth the expense. I have my payment policy printed on business cards, and I attach them to bills as I feel is wise. Though not legally binding, these cards state that, in part, payment must be made in thirty days or a \$2 service charge must be added to the bill. It usually works.

Keep good records and statistics for your business. They will help you understand the health and dynamics of your business and may suggest areas of change. What percentage of your income goes back into the business? What does it cost to operate your rig? Could it be done more efficiently? How much do you expect to make and spend each month of the year? Is your business growing, shrinking, or remaining stable? Incidentally, the IRS would be very interested in good records should you ever be audited. Take the time to review your business, go over the concepts I've mentioned, and carefully determine what will benefit you the most in the long run.

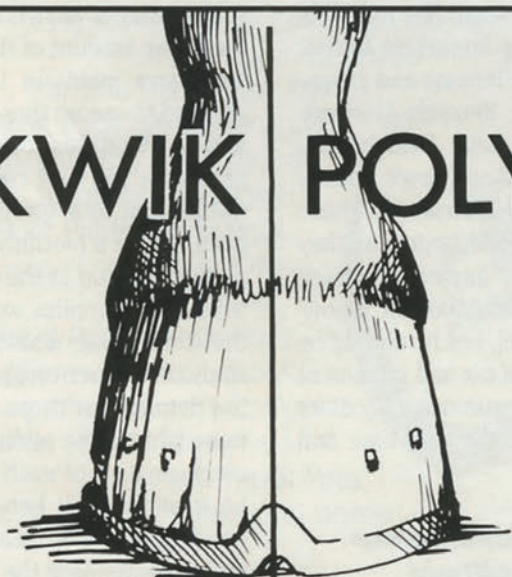
### Insurance

The basic premise of all insurance is to protect yourself against large losses, not small ones. Insuring yourself against small losses is a waste of money. If you can afford a particular loss, you probably don't need to insure yourself for it. Always shop around when looking for insurance, and know ahead of time what your insurance needs are so that you don't wind up with coverage that is unnecessary or expensive.

*Life:* If you do not have any dependents, you probably have no need for life insurance, no matter how hard an agent tries to sell you any. If you do need life insurance, there are two major types, with several variations. The first type is term insurance, which is pure protection for a specific period of time. This is often the cheapest type of insurance, and it is usually best suited to people in their twenties and early thirties for short periods of need.

Whole life is more expensive, but it contains a savings element, which is tax

# KWIK POLY.



the first and last word  
in hoof repair

John W. Claudon  
Anvil Brand Shoe Co.



500 S. Spencer Street  
P.O. Box 68  
Lexington, IL 61753

Ask your dealer for Kwik Poly (RSP) or call (309) 365-8270 (309) 365-8207

Dealer inquiries invited

Circle reader service card no. 159



free, that term insurance does not. Some financial planners feel that whole life policies should never be used. However, whole life may be worth investigating if you have a long-term need for life insurance, want level premiums, and are in a position to benefit from the tax-exempt savings element of whole life insurance. Universal life is similar to whole life but offers you more control (and risk) over the savings element by separating the protection and savings elements within the insurance contract.

**Health:** If you are not a career farrier, you may have health insurance provided, at least to an extent, by your employer. If not, look for a major medical plan (high deductibles and high benefits) or look into a group insurance plan. One company offers disability income protection and hospital protection to regular AFA members at association group rates (contact the AFA for more information). Avoid basic medical coverage, as benefits may not be adequate and premiums may even be more expensive due to low deductibles. Another alternative may be an HMO (Health Maintenance Organization) to which you pay a fixed rate and are allowed unlimited visits to member doctors. Though cost efficient, this may not allow the flexibility in seeking health care that a regular insurance policy might.

**Disability:** Most people tend not to have enough disability insurance, yet it is truly something we need the most of. Get the most coverage you can (coverage is usually based on your monthly income), take the longest waiting period you can afford (6 months is a good figure) to reduce premium payments, and make sure the policy cannot be canceled so that you are guaranteed protection at least until retirement. This is important; you don't want your policy to be canceled when it is up for renewal, possibly leaving you without benefits should you be disabled. Also make sure that the term "disability" in the contract refers to the inability to do your present work. If not, you might be unable to receive benefits after throwing your back out because you

can still lick envelopes. Be careful.

**Homeowners:** If you own a home, you probably only need to insure about 80% of its value, as total losses are a rare occurrence. But it might not be a bad idea to insure its contents for 100% of their cost, and take the highest deductibles you can afford to reduce your premium amounts.

**Vehicle:** Make sure you have plenty of liability insurance on your vehicles: \$300,000 to \$½ million. Collision and comprehensive coverage should be appropriate to the condition of the vehicle: An older or less valuable vehicle may not be worth the expense of such coverage. Again, take the largest deductibles you can afford, using \$500 as a good figure. If your auto policy has medical coverage and you also have health insurance, then you can probably do without the medical coverage in your auto policy. You may also find that a commercial or business policy may be less expensive than regular auto insurance rates.

**Liability:** Liability coverage for you and your business is a must in this era of the liability lottery. Rates have already doubled and tripled from last year's 1986 rates, but coverage for farriers in amounts of \$300,000 is still available for less than \$350 per year, depending on circumstances. You may want to acquire a policy covering you for up to \$1 million. While not a bad idea, you will pay a higher rate for coverage. If you do not already have one, obtain a business liability policy as soon as possible; you risk losing everything if you do not.

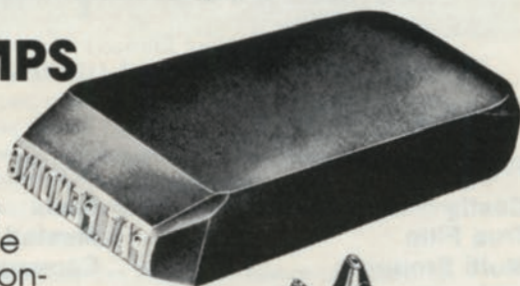
### Taxes

It will probably take all of us awhile to adjust to tax reform and to get a feel for what it means to each of us. Despite some drastic changes in tax code, some important rules of thumb still apply. Remember to deduct all of your business-related expenditures from your income on Schedule C. While deductions on such extraneous things as business

# centaur forge ltd.

## HAND STAMPS

Be proud of your work! Put your symbol, name, or initials on your handmade horseshoes, knives, ironwork, etc. We can supply number and letter sets or special heavy bevel stamps made to order. Quotations on request (special designs, please send your drawing).



—catalog upon request—

**centaur forge ltd.**

P. O. Box 340AD • Burlington, WI 53105 • (414) 763-9175

Circle reader service card no. 263

## Quality Leather • Aprons • Horseshoe Pads •



Free Brochure

- ☆ American made from the finest quality leather available
- ☆ High quality, long lasting and durable
- ☆ Designed and constructed for years of service

Write or call today for a copy of our Free product brochure.

**Berman . . .**

**the Farriers favorite since 1905!**

• Dealer Inquiries Welcomed •

**Berman Leathercraft, Inc.**  
25 Melcher Street  
Boston, MA 02210-1599  
(617) 426-0870 Telex: 24-0442



**BERMAN**

• 1 9 0 5 •

Circle reader service card no. 173

## McCarthy's Horseshoeing Company

*"Maryland's most up-to-date supplier."*

Carrying a full line of:

**PADS**

Castle  
True Flite  
Multi Products  
and various other brands

**NAILS**

Izumi  
Mustad  
Capewell

**RACING PLATES**

Victory  
Diamond  
St. Croix  
Thoro'Bred  
Triple Crown

**TOOLS**

Diamond  
GE Forge  
Dale Sprout

**STANDARD BRED SHOES**

Niagara Forge  
Equine Forging

**RASPS**

Bellota  
Save Edge

*. . . plus many products associated with shoeing horses.*

McCarthy's Horseshoeing Company

1232 Magothy Road  
Pasadena, MD 21122  
(301) 255-5766—Jack

Box 189, Pine & Front  
Crumpton, MD 21628  
(301) 928-5296—Pat

or Henry at (301) 255-1236

Circle reader service card no. 230

lunches will see some change, your supplies, equipment, and other expenses all remain 100% deductible, if in fact they pertain 100% to your business. Remember to keep taxes in mind when you do your record-keeping; sort and retain those receipts and other important financial documents, and keep them in an organized manner—use a file cabinet, not a shoe box.

You may very well still be able to use an IRA or Keogh plan to protect your income from the tax bite. More on IRAs and Keoghs later. However, if these are no longer available to you, you may still put your money into tax-deferred or tax-exempt instruments such as municipal bond funds where your money will grow without the burden of taxation (and without the deduction of an IRA or Keogh, however) and can be withdrawn before age 59½ without penalty. Also remember to keep track of mileage on your rig, especially if you use your vehicle for anything other than shoeing. You *must* keep a log of all business miles, for deductions and depreciation on your vehicle are based on the percentage of business use.

Unfortunately, the IRS has taken to changing tax law mid-year rather frequently now, making tax computation a nightmare of number-juggling if you have anything but the simplest of business operations. In some cases, new tax codes passed at the start of the year were repealed halfway through the year, meaning you had to abide by one set of rules for the first part of the year and another for the remainder of the year. Needless to say, you should keep an eye open for such mid-year switches. The way in which you keep track of vehicle mileage was recently one of them. Suffice it to say you may be well advised to have an accountant or other qualified person prepare your return. Not only can these people possibly save you money, but the peace of mind and the freedom from hassling over your own taxes might well be worth the expense. And don't forget to pay your estimated taxes four times a year, or the IRS may come knocking!

### Investments

How should you handle your cash? That depends on how much you have to work with. Taking into account taxes and inflation, I feel it is realistic to say that a penny saved is two pennies earned plus interest or dividends and capital gains. The point is to put your money to work for you. Any financial planner will tell you that your money should work as hard for you as you did for it. But how do you do this?

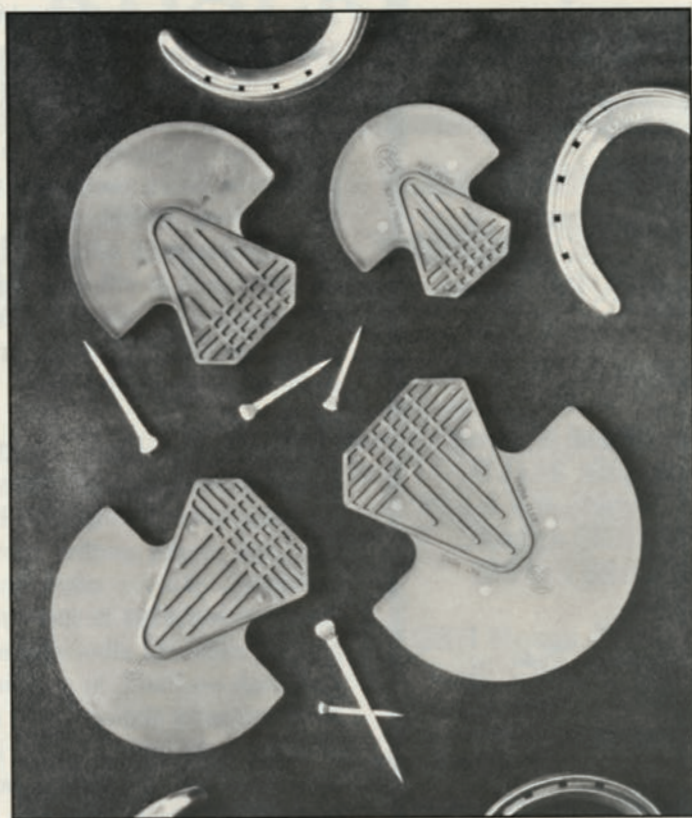
First of all, don't use a passbook savings account or certificate of deposit at a bank unless they are the only instruments you can afford. Due to the tax bite and the effects of inflation, you may actually lose some of the value of your money with these instruments.

There are many investment vehicles for your dollars, and you should examine the pros and cons of each and pick one best suited to your own goals. Don't be afraid to use the services of a qualified financial planner to assess your situation and determine some realistic financial goals. Bear in mind that the greater the potential risk of an investment, the greater the potential return (or loss). Most farriers might find a nice balance in a portfolio consisting of several no-load mutual funds, a money market account, and an interest-bearing, unlimited checking account. Mutual funds are definitely worth the time it takes to investigate them, some having returns of as much as 50% in recent years, though 15% to 25% might be a more realistic average. But you can lose money in a mutual fund, too. Minimum investments range from \$250 to \$2,000 or more. Investment strategies vary widely, so you should be able to find one that you are comfortable with and that has done well in recent years. Remember that your peace of mind should be considered a good investment, also.

Money market accounts are not currently earning high interest rates, but they are a fairly safe, interest-earning haven for funds you wish to have some liquidity.

Here is one effective way farriers might

# THERA-FLEX



**Thera-Flex pads - a new concept in a therapeutic aid to the speedy recovery of horses with laminitis, quarter cracks, or contracted heels - with a 98% success rate!**

The Thera-Flex pad is the result of careful, extensive research and considerable practical use which has shown remarkable results. This specially developed pad can help quarter cracks heal without the necessity of taking the horse out of training with the resulting loss of condition and time. It will aid in the spreading of narrow heels, especially valuable in preparing a youngster for the sales ring. These pads also have been proven very beneficial in promoting healing in various types of laminitis.

Thera-Flex pads add support to the frog and relieve pressure on the walls, allowing the foot to heal much more readily. In fact, a horse can train, race AND win while fitted with Thera-Flex.

Thera-Flex costs only a small fraction of many other procedures, causes less trauma to the horse, and saves much valuable training time.



Thera-Flex pads are available in four sizes and cost less than \$20.00 per pair.

Dealer Inquiries Invited

## THERA-FLEX

1368 Harrodsburg Road • Lawrenceburg, Ky. 40342  
Call toll free (800) 248-6365 or (502) 839-4154

Circle reader service card no. 260

# Shop Supply Company

Box 398, Route 19  
(near Exit 3 PA Turnpike)  
Warrendale, PA 15086

## Horseshoes & Pads

Diamond  
Breckenridge  
St. Croix  
Nordic  
Izumi

## Race Swedges

## Aluminum Shoe

## Leather & Plastic Pads

## Snow Pads

## Hoof Care Products

## Nails

Cooper  
Capewell  
Izumi  
Mustad

## Rasps

Simonds  
Nicholson  
Save Edge  
Bellota

## Shoeing Tools & Equipment

Diamond  
G.E. Forge  
Breckenridge  
N.C. Tool  
Frost  
Victoria

## Gas Forges and Anvils

## Hard Facing

EME-CW  
E-BOR  
Stoody Borium

## Complete Carriage Parts

## Complete Harness Hardware

Phone (412) 776-1450

Circle reader service card no. 165

## Business Management—Now

handle their cash flow: 1) Establish an unlimited, interest-earning checking account at a local bank or savings institution. This will be your primary account for receiving and distributing funds. Add the amount of your average monthly expenditures, plus a safety margin of a couple hundred dollars, to the minimum investment amount set by the institution, and start each month with this amount of money in your checking account. During the month, deposit all income, and make all expenditures, from this same account.

2) At the end of each month, take all monies in excess of your monthly starting balance (profit) and distribute them into your money market account, mutual funds, and any other financial instruments you might be investing in. This method allows for all of your money, except cash on hand, to earn interest or dividends, and allows you to save on a monthly basis, which is an important aspect of good investing. If you have a loss for any month, you can replenish your checking account with funds from your money market account (mutual funds should generally be left alone as a longer term investment). Depending on how you choose to balance the percentages of money in your different accounts, this system allows for a great degree of flexibility and diversification.

There are many ways of handling your money. It is important to find the method best suited to your needs and goals. This may require a lot of thought and research, but it is well worth it; a difference of 1% on a \$10,000 investment can mean thousands of dollars over the years. You can take it or leave it.

### Retirement

If you are a full-time farrier, you are probably not covered by a pension plan. Do not count on Social Security in the future. It is quite possible that our already floundering Social Security system will only be able to provide subsistence level funds by the time many of us in our twenties and thirties reach retirement. In other words, you must be able to pro-

vide for much of your own retirement, and no matter what your age, start planning now!

Despite tax law change, if you do not have a pension plan or your individual income is less than \$25,000 per year, you can still deduct the maximum \$2,000/year investment in an IRA from your gross income. Do it now. As a self-employed person, you may also use a Keogh plan or SEP-IRA in the same manner, except that you can put up to 25% of your income or \$30,000, whichever is less, into such an account. Again, do it now. Your earnings are also tax deferred. You can establish one of these plans with a mutual fund or money market fund just as easily as you can establish one with a bank.

If you have another job that provides for your retirement in any way, you must be careful about how the IRS will view the manner in which you help fund your own retirement. Retirement always comes quicker than you think, and it is never too soon to start preparing for it.

### Conclusion

Money is a complicated subject and a very important one. There is no real excuse for not understanding at least some general principles. It is imperative to learn about your money, how best to handle it, and to start preparing for the future now. By being efficient and knowledgeable, you can make your money do more for you, so you have to do less for it. Money begets money, and that money begets more money. So said Benjamin Franklin. If you are smart with your money, early retirement can be a real possibility if you wish. Or maybe you would like a new car. Or to only work four days a week. Put your mind behind your money and your business, not just your back, and the benefits might surprise you, now and in the years to come. ■

---

*Ken Roby is a full-time farrier from Chagrin Falls, Ohio and a graduate of Kent State University.*

---