There is an article titled “The Structure of Closed-End Fund Discounts” by Bruce D. Niendorf and Kristine L. Beck, both associate professors of finance at the University of Wisconsin. I can’t vouch for the article but it makes interesting reading. The authors state, “In recent years, discounts on closed-end funds of 10-15 percent have been the norm.” They also pose various hypotheses when studying discounts on 46 closed-end domestic stock funds in 2004. Using regression analysis they studied the relationship of the size of the discount to various factors. A summary of the factors and their conclusions follows:

• Dividend yield - “... investors may seek compensation for dividend-related tax costs by paying less than NAV...”
• Discount variance - “...the discount may be caused in part by investors seeking to compensate themselves for the risk they bear due to fluctuations in fund market price...”
• Unrealized capital appreciation - “This study finds no support for...the idea that the larger a fund’s tax liability [unrealized capital gains], the larger the compensating discount.”
• Managerial performance - “The next hypothesis involves the relationship between managerial performance and the discount...This study finds no support for this hypothesis.”
• Managerial expense ratios - “Hypothesis...relates managerial expense and the discount. If managerial fees are a dead weight loss, there should be a positive relationship between managerial fees and the discount. This study finds no support for this hypothesis.”
• Trading volume - “If low liquidity contributes to inefficiency in asset pricing, then the greater (lower) the trading volume, the less (greater) the mispricing and resulting discount. This study finds no support for this hypothesis.”
• Block ownership - “...if large block holders can use their voting power to secure private benefits that are not available to smaller investors, investors may discount the market price of the fund relative to NAV to recover the cost of the block holder’s private benefits.”
• Portfolio turnover - “The study finds no significant relationship between turnover and the discount.”

**Answer by:** Jim Hitchner, CPA/ABV, ASA, Valuation Products and Services and The Financial Valuation Group (Atlanta) jhitchner@fvginternational.com
RATES OF RETURN FOR HIGHER RISK COMPANIES

Question 2: What information is out there for rates of return for higher risk businesses including venture capital return data?

Answer 2: One of the most well known and often cited data sources is the 1987 QED Report on Venture Capital Financial Analysis by James L. Plummer. It is dated and hard to find but is still relevant.

Professor Josh Lerner at Harvard Business School has compiled one of the most current, comprehensive bibliographies on venture capital as well as private equity analysis, available at http://www.people.hbs.edu/jlerner/bib.html

Professor Lerner also offers that the new textbook by Wharton’s Andrew Metrick, Venture Capital and the Finance of Innovation (Wiley, September 2006) is definitely worth checking out, as it covers the relationship between risk and return in venture capital, historical statistics on V.C. investment performance, total and partial valuation methods and data, and more (available at www.amazon.com and most online sellers).

The HVA/VentureOne study examines private venture capital financing of high tech (electronic, semiconductor, software, and communications) and life sciences (biotechnology and medical devices) companies that went public from January 1993 to June 1997. The Pricing of Successful Venture Capital Backed High Tech and Life Sciences Companies, Houlihan Valuation Advisors/VentureOne Study, San Francisco, Ca.


Answer by: Eva Lang, CPA/ABV, ASA, the Financial Consulting Group (Memphis), coauthor of The Best Websites for Financial Professionals, Business Appraisers and Accountants, Wiley www.gofcg.org

Jim Hitchner, CPA/ABV, ASA, Valuation Products and Services and The Financial Valuation Group (Atlanta) jhitchner@fvginternational.com

PRACTICE AND RISK MANAGEMENT

Question 3: What expertise do BV people who do traditional entity business valuations have to value intangible assets such as customer lists, software, etc? What happens on the first Daubert challenge?

Answer 3: Every professional has a duty to obtain appropriate skill, education and expertise in whatever professional service is offered. BV practitioners have a number of FV for Financial Reporting texts with which to train from. Further, all AICPA practitioners must comply with SSVS #1 regarding competency provision before accepting an engagement. Daubert challenges are limited to litigation, not financial reporting, but similar competency satisfaction must be presented. It would be a good idea to mentor with someone in this area as you gain experience.

CONFLICTS OF INTEREST

Question 4: I am involved in a divorce case where I represent the business-owner husband in valuing his business. The business is a tax client but not an attest client. The expert on the wife’s side recently joined my firm as my employee. That employee has resigned from representing the wife. I wish to continue to represent the husband. I have offered to put up a Chinese wall between me and my employee on the case, but wife’s attorney seeks to exclude me. What should I do?

Answer 4: This scenario does happen from time to time. Since the new employee has resigned, there is no technical conflict of interest in your continuing to represent the husband. The employee (a CPA also) is bound by his/her CPA ethics to keep all information on his/her former client confidential and since the wife is no longer his/her client and never has been a client of yours, there should be no technical prohibition from your continuation to represent the husband. Having said that, there could be an appearance of a conflict of interest in this situation. It is possible that the court could exclude you, but that is a matter for the courts. Absent a court order to exclude you, you could continue to represent the husband, but you have to consider that a court might look askance at your continued representation given the circumstances. Therefore, you should discuss with your client and your client's attorney whether it is in the best interest of your client for you to withdraw from representation in the case also.


Answer by: Jim Alerding, CPA/ABV, ASA, CVA, Clifton Gunderson, LLP (Indianapolis) jim.alerding@cliftoncpa.com

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SIX MONTHS LATER
June 17, 2008 - 1:00 pm EDT

Ed Dupke, CPA/ABV,
Jim Alerding, CPA/ABV, ASA, CVA
Jim Hitchner, CPA/ABV, ASA

All three panelists were members of the AICPA BV Standards Writing Task Force for the entire six-year period leading up to their release.

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