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Cashing in on economic confusion

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Commentary

If we were to believe everything we read in the financial news, it would seem impossible to craft a long-term plan for growth — or even the survival of your business in the coming year and beyond.

The predictions and descriptions of underlying economic forces are all over the map. Sure, many in the business community are bracing for the next recession, but, when it comes, it's not going to freeze up the money markets like the last one. And some think it's just not happening in the near-term.

For instance, you've got those saying that the world's biggest economy — which really has its own domestic market and relies less on exports than any other major economy — is essentially healthy. They'll point out to what they say will be a strong holiday retail season, despite looming China tariffs that are supposed to raise prices and dampen consumer demand, which is two-thirds of our GDP.

But manufacturers and retailers saw that one coming and pre-ordered all manner of stock at the lower prices, while shoppers bought early, too.

On the flip side, you've got the Fed reluctantly lowering rates, moves that seem at odds with a supposedly healthy economy. But they'll tell you the trade war poses a threat to growth. There are also experts who believe that's not the primary reason for easing, but that corporations have gorged themselves on debt in a cheap-money period — of course, when rates go back up, they're all in deep trouble.

More uncertainty

But then what? The Fed may think there's already a lack of liquidity in the market, but it can't cut much more without heading into negative interest-rate territory. One victim of that move would be banks, since their earnings could be crushed by negative rates on portfolios of variable-rate loans.

So what threats would that poses to companies and investors? And what does that mean to people sitting on lots of cash, like the private equity funds that we deal with at SC&H?

Many will conclude it's better to spend it, rather than paying what is essentially a tax.

But others might take a wait-and-see approach and pay that fee until they see the right M&A or other opportunity.

As an aside, the M&A market is not seeing a downtick brought on by all these end-is-near predictions. In fact, many investors are more interested than ever to look at deals to get their money working.

That's because some companies hurt by the turmoil — or thinking they will be — will sell quicker by lowering their asking price, so investors could pick up some winners.

Want more uncertainty? What about the upcoming presidential election? As soon as Trump was elected, the markets spiked, so the outcome can matter. And how do any of the Democrats propose to lift the middle class with the wealth disparity at record levels?

Sure, Wall Street's doing great: It's gone from Dow 6,000 in 2008 to 27,000, but the benefit is felt by a tiny percentage. If you have nothing in the market, you have no growth.

The politics remains an unknown, but we're already seeing the financial talking heads putting a spin on what each candidate would do if he or she ended up on Pennsylvania Avenue, knowing that any policy that takes money out of the system will inherently slow it down — and vice versa.

Plan B, etc.

But let's circle back to those manufacturers, distributors, retailers, and consumers who, starting as early as last summer, saw the China-tariff writing on the wall in advance of the approaching holiday season.

They had a Plan B, similar to what companies did in the U.K. as the Brexit drama got sillier and sillier. They just pre-ordered like crazy. And that's a very simple example of what's called scenario planning, which involves figuring out what variables you can and cannot change.

In the scenarios used by farmers, they know they can't dodge a drought or anticipate the weather, but they can change what they plant, when to sell product, when to hoard it, when to buy more seed.

Militaries use scenario planning to cope with any unlikely situations. And Royal Dutch Shell came up with such a plan during the (manufactured) energy crisis in the 1970s to vault from a nobody to world leader.

As an example, I'm actively talking to people that do distressed M&A deals, because they know that in any scenario they can control what markets they go after.

So, basically, companies and investors need to come up with Plans B, C, and D. Then once the economic or market outcome is clear, it becomes a race to implement the best plan.

Want to wait for tell-tale signs before drawing up plans? Sorry, you're too late already.

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