

The mattress thing is really dumb

If you're a homeowner who saw the next recession coming and went to an adjustable-rate mortgage as a hedge for interest rate risk — OK, no one could have guessed it'd start with a pandemic, but we were overdue — you're probably on easy street right now with interest rates at historic lows. But, of course, there's an ugly flip side for investors.

Consider that 5-year Treasuries are paying about .21 percent now, having come crashing down from 1.68 percent last year, which was hardly an attractive rate in the first place.

And with the economy still struggling — GDP fell 33 percent in the second quarter amid the new waves of COVID-19 — and the Fed having abandoned the idea that inflation should determine policy, interest rates aren't going up any time soon.

But bonds are safe, right? So, should we park our money in short-term paper and make no money? Or should we take a risk in things like publicly traded equities? Or is there another strategy with better growth and less risk than a stock market that's completely disconnected from current economic realities?

And then consider that all someone on Wall Street has to do is make more money than bonds to call themselves brilliant. Great. And think about this: You have little control over the outcome in publicly traded equities. Ditto for things like the biggest fear factor of them all, gold, which is up 30 percent year to date, way outperforming the stock market. But then you'd be buying at a record high, and we know what happens next. Again, no control. But when will we make that decision? When the economy is normal, right?



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Commentary

Defining normal

At their peril, however, as I've mentioned before, too many institutional investors are just sitting on their hands, waiting for some semblance of that economic normal, before making a move.

The problem is, there's a wild divergence of opinion on what COVID-19 normal is, or what it will be, partly because many of the experts are applying disparate means of measurement.

Some postulate that a vaccine will fix things. But can they really produce two doses for 330 million people in any short period of time? There are not enough health care workers to stick all those needles. So, are you going to wait two years to make an investment?

Some others said we needed to flatten the COVID-19 curve, but that's not panning out.

Or will normal be when ICUs are full again with non-COVID patients? That's already happening and changes little.

Then there's the tax thing: We went from an appalling \$21 trillion national debt to something like \$26 trillion in just a few months of crisis bailouts, so we are guaranteed higher taxes.

And many business owners do not like the directions taxes are going in and really want to sell now. For those who are qualified with cash to invest, the private business market is still a great market for investment. Given the economic

uncertainties, many businesses may be available at attractive prices for those qualified investors with the skill to run them and possibly combine several to satisfy new demands being placed on the U.S. supply chain as a result of the move to nationalistic thinking.

So, now, for M&A investors as one example, the hunt is on to determine what's for sale. I'm seeing it every day now.

Other investors with some backbone are trying to put their money in private equity real estate deals, which are becoming quickly oversubscribed.

But even when — not if — tax rates go up, M&A, as an example, historically has offered a better return than bonds and far more control than publicly traded equities or gold, and all with less uncontrollable risk, especially if the investor picks the right target companies and manages them correctly.

Bottom line? Opinion is being led by the news media, politicians and postulating talking heads, but nobody knows what normal will look like or when it'll happen — they may not even recognize it when it gets here, which means a great opportunity for a calculated bet. Consider that while many businesses are on the ropes, others are booming: People still need bananas, toilet paper, Clorox, and health products.

So, the mattress thing is dumb. Making no money with taxes going up is equally dumb. For those who have available capital and are qualified to run a company, it's time to take a risk, make a bet. Safety has zero return.

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