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Don't put off deals until after the election

Ever found it near-impossible to balance your checkbook, fill out a government form, figure out your Rubik's Cube, or do anything that requires concentration when the neighbor is running a stump grinder? So, you just wait till the racket stops so you don't mess up what you're doing, right?

That's roughly what we're seeing in some parts of the business and investment world, but in this case, the noise is political — and deafening.

Many people are afraid to take new risks because they want to wait out the elections, reasoning that unless the two parties end up deadlocked in Washington, fiscal policy — especially taxes — will change. It's worth noting that, historically, the capital markets have liked periods of congressional gridlock.

But in the merger and acquisition business, starting around Labor Day, we started seeing the private equity markets ignoring the distraction, as well as the whole sky-is-falling pandemic/economic storyline. They have been sitting on a lot of cash while the coronavirus disrupted supply chains, altered buying patterns, and jacked the jobless rate in certain sectors.

Regardless of all these disruptions, they are awakening to the reality that there are too many industries and markets requiring investment, and they really need to spend the cash. Regardless of politics or pandemic, neither of which they can control, anyway, they see the world is not over: It's just a new reality—with endless fresh opportunities and business owners willing to sell at historically high valuations.

Also, frankly, even if you wanted to predict what changes might occur because of an election outcome, you certainly couldn't use the cacophony of conflicting political information coming from the media, the talking heads, or the pollsters (wasn't Hillary supposed to win?).

Fiscal and legislative policy decisions are never certain, and to wait for any type of certainty would never allow for the timely action required to close a potential market opportunity.

Making their move

So, now determined to ignore the noise, private equity is ramping up the M&A deals fast, which has begun to exacerbate an already strong seller's market, and that drives up valuations. And borrowing money is not a big problem — the banks are eager and willing, and interest rates are the lowest they have ever been.

Oh, sure, there are some sectors, like hospitality and retail, that are between a rock and a hard place, but there are lots of other industries with huge opportunity. They include a tenfold predicted increase in sales (over $80 billion) by 2030 of home health technology to meet the reality of having to support an aging population with at-home diagnosis and treatment.

Additional market disruption is occurring in information technology, biomedical R&D, an overtaxed transportation system trying to cope with a tidal wave of preholiday orders, and a big increase in sales of home-related products that require shipping, as well as manufacturing generally.

In the case of the latter, I've written about the nationalization of manufacturing to reduce our dependence on Chinese factories, but it's not happening fast enough — Chinese exports are growing again. And there's a big demand for talent coming, too, with some M&A deals designed just to own a workforce that has in-demand skills.

There's no shortage of cash to do these deals: Private equity and venture capital firms have a record $2.65 trillion in cash already committed and ready to deploy, according to The Wall Street Journal, citing data provider Preqin Ltd. Many of these firms have also been actively seeking deals across the struggling travel, entertainment, and energy industries, a half-dozen investment bankers told CNBC recently.

"They have been waiting for this type of market dislocation," the head of mergers at a major Wall Street firm told the network.

"These are fundamentally good businesses that are going to have a terrible year," an investment banker told CNBC. "There's an opportunity for private equity to go in there and take a meaningful stake or buy the company at a valuation they could not have gotten before."

But what about the scary 'tax' word? No, the private equity investors doing the deals aren't worried about taxes going up because they're valuing businesses on a pre-tax basis and buying things to watch their value go up, not to raise cash to dole out to owners or stockholders.

One indicator that the boom in deals has already begun? Think attorneys. Every deal needs a flock of legal eagles on both sides, and the lawyers' phones are ringing off the hook now.

So, the smart money knows the economy hasn't ground to a halt because of the pandemic and that the fallout from any political outcome will be fleeting — and likely overstated on slow news days.

So, the smart money's new motto? Stay positive, avoid the ballot-box chatter, go shopping, and as Winston Churchill so eloquently stated, "Keep calm and carry on."

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