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Don't fear change, use it: A guide to where the opportunities lie

By Carol Clark

I will never forget how we clustered around a single Quotron watching market prices plunge more than 23 percent that fateful day back in 1987. I distinctly remember the shock and horror everyone from newly minted analysts to gray-haired veterans felt as we watched the seemingly impossible happen right before our eyes. Having survived one "500-year flood" event, I never imagined I'd still be in the business when another one came along.

While it took four more days this time around, history has repeated itself with an even bigger bang. And not just in a single asset class, but in virtually every asset class of every country on the planet. When individuals had to (or believed they needed to) question the safety of their cash in traditional banking institutions, it was apparent we were in epochal territory.

Over the past few decades, we became used to ultra-cheap gas, cheap imports, low commodity prices and the presumption of a relatively "risk-free" operating environment. Credit became broadly available to more and more people and businesses at lower and lower prices and on easier terms. Huge cuts in the capital gains, dividend and ordinary income tax rates drove the liquefaction of billions, if not trillions, of dollars of previously illiquid family assets. Financial innovation increased the velocity of trading and more accommodative tax and pension laws (such as those that created the 401(k) in the early 1980s) added to demand for more liquid-asset creation. Risk was parsed out into more hands, creating the illusion of an almost risk-free environment.

But that was then, and this is now. We suspect the next couple of decades are highly unlikely to be anywhere near as accommodating.

Since we're still capacity constrained, gas probably won't remain cheap once the economy stabilizes. Prices for core commodities such as steel, aluminum and aggregates face similar issues. Real interest rates can't really go much lower (they're already below zero) but may well rise, given all the paper the government has committed itself to print to keep the promises made during recent months. Tax rates are almost certain to go up at some (all?) levels of governance. Credit is obviously more expensive and harder to get, and there is a greater appreciation for risk in the system.

Welcome to the "Brave New Order."

We Americans don't adapt easily to change. We seem to react even worse when the change is large and/or sudden. But change also is a necessary and productive part of keeping a capital market system functioning well. While it's easy to get caught up in hand wringing over the fact that things are likely to be different, it's actually more productive to focus on what might prove to be positive outcomes of a new status quo. In other words, what if "they're" wrong and the world doesn't utterly end? Where might the new opportunities lie? How do you batten your business and/or your financial wherewithal to survive, adapt and thrive? More specifically:

• What if high oil prices meant producers wanted to manufacture their goods closer to their end markets? Could we see a manufacturing/distribution-led renaissance of the middle class?

• What if banks didn't fail, but started lending the old-fashioned way — to credit-worthy customers who could afford a down payment and the monthly payments?

• What if consumers learned to save for a reasonable down payment for any major purchase, rather than put everything on credit and walk away when they got tired of it or couldn't afford the payments?

• What if the overall global pie of free and open markets got bigger so the many billions of us could participate in capitalism — rather than the United States being the primary consumer of the rest of the world's goods?

• So what if the United States wasn't the only "Global Super Power?" What if we were one of several very powerful, free-market-based economies — basically, a smaller piece, but of a much bigger pie?

• What if the cheap dollar brought more foreign investment in hard assets within the United States borders? Could this hasten the end of the real estate crunch?

• Will our intellectual expertise, coupled with the cheap dollar and more accommodative good will amortization laws outside the United States, spawn more global-services businesses?

Granted, I am brainstorming for longer term, but the "long term" seems to get here before we know it. And usually long before it's broadly recognized. In the interim, there undoubtedly will be opportunities for the watchful and nimble.

CAROL CLARK is an investment principal at Lowry Hill. She can be reached at (612) 667-1058 or cclark@lowryhill.com.