Reaction to Presidential Election of 2016

Aired on November 9, 2016 with Dr. Bill Meier on Faith Radio. We discuss the Presidential election returns, how the markets adjust after an election and then give various reactions to Trump’s remarks. We also discuss coming recessions and what Trump can do to help get us ready for the future. We also discuss a Christian’s responsibility to pray for this country.

After the Election....Now What?

Originally aired on Faith Radio with Dr. Bill Meier on November 9, 2016. In this episode, we discuss what to expect from a business and economic perspective now that Mr. Trump has won the Presidential election. We discuss how Mr. Trump needs to unite this nation. We also discuss Bill’s view that a recession is inevitable during his first term. We also discuss what Mr. Trump can do to lessen the effects of this coming recession.

How to Prepare Your Company
It doesn’t take a starburst of insight to realize that in spite of the President’s recent comments in Elkhart, Indiana, we’re heading into another recession. Since 1960, we have had eight recessions, occurring every 7-10 years on average. The Long Expansion chart indicates that we’ve had seven recessions since 1960 with the longest expansion between recessions being 10 years. Our last recession officially ended in 2008, so we’re eight years into the stretch before the next recession.

The May 2016 job numbers report coupled with a 0.8% growth rate in Q1 of 2016 is an indication to me that our economy is stalling. We need to be creating at least 200K jobs per month in order to keep up with population growth. This monthly jobs number has been below 250K more often than not since 2014 and in May, it stalled at 38,000 jobs. The GDP has been declining since Q2 of 2015 – from nearly 4% down to under 1%. We need at least a 2% growth just to keep up with population growth. Since 2012, our GDP growth has been below 2% for ten out of the 16 quarters.
When the next recession occurs – assuming a Keynesian approach to managing the recession will be the default option selected by this President – one can be forgiven if there is bewilderment about how Congress and the President would pump life into this economy. We have borrowed so much money to keep our present economy going that it would be foolish and downright stupid to borrow similar amounts moving forward. During President Obama’s tenure, we have seen our national debt skyrocket from $10.6 trillion to $19.2 trillion – an increase of 84% (calculator [here](#)). This debt suppresses our abilities to respond swiftly to a crisis, whether military or economic. The reality is that we have bought the lie that we can strengthen our economy by weakening our central government.

In the face of all this negative information, what can you do as a small business owner to prepare your business now to weather the next recession? Let me offer several concrete steps that you can take right now to ensure your company remains strong during the next recession.

### Calculate your break even, then get under it and stay there

Knowing what your break-even point is should be on your radar screen on a monthly basis. The calculation is simple. So incorporate into your monthly financial reviews where your break-even point is. Once you know what it is, get your expenses under that point and stay there.

### Pay off as much debt as possible with any excess cash you have

Relieving yourself of monthly payments on long-term debt will help increase disposable cash and decrease your fixed expenses. If your sales decrease during the coming recession,
you’ll need to have a lower fixed expense base from which to operate. Now, you might think to yourself: “I’ll save this money, keep the payment and pay it out of my cash reserves during the downturn”. That plan will work too as long as you have other areas in your budget in which you can decrease expenses and you’re willing to make those tougher choices. For example, if you’re planning to downsize payroll, that’s a legitimate way to reduce fixed expenses, but it’s a tougher way to do than to pay off debts.

**Introduce variability into your cost structures as much as possible**

What we’re after here is variability to sales, so that as sales decrease, your cost structures decrease as well. A good place to do this is with your sales team. Let’s assume your team’s normal salary mix is a 70% base salary with commissions making up the remaining 30% of their overall compensation (not including benefits). I would suggest changing this structure to be much more variable to at least 50%-50% or even a 35%-65% structure. Some will leave, for sure, when you introduce this type of change. The one’s who remain may scoop up on the “open” accounts created by those who left and increase their overall compensation.

Another way to introduce variability into your cost structure is to lower your inventory as much as possible. If you can get to the point where you’re doing Just in Time (JIT) inventory, then so much the better. The more inventory you have, the more sunk costs you have, unless that inventory can be returned to the manufacturer.

**Streamline your processes and**
eliminate activities that don’t contribute to increased customer value

While there is an upfront cost for process improvement, the long-term soft cost savings of working with lean processes usually outweighs the up-front costs. You’ll realize these costs savings in reduced payroll, office expenses, inventory and general overhead.

Re-negotiate your fixed expenses to lower monthly payments

This will take some effort, but it will be worth it. For example, go to your landlord and negotiate a lower monthly payment in exchange for a longer lease period. Or contact your insurance agency and ask for a higher deductible in exchange for a lower monthly insurance cost. Drop the questionable perks such as auto leases, free product or

Obtain favorable loan or line of credit terms from your bank

While the economy is not in a recession and your business is doing well, negotiate a better line of credit or a line with a lower interest rate. Talk to your bank and see what they can do for you. If you’re a company with excellent credit and the right ratios, the bank is likely to do more for you than what they have done in the past. Don’t be afraid to shop around your interest in obtaining better terms that includes a larger line that what you have now. If needed, use a third part, like the Platinum Group, to help you find the right credit facility to meet your present and future needs.
Develop an advisory board with people skilled in managing a business during a recession

Having the right advisers is important. Proverbs 15.22 says that “plans fail for lack of counsel, but with many advisers they succeed.” Having people who are willing to help you out as you manage your business during a recession is something that will help you immensely. You’ll have a place to go to “wonder” our loud. You’ll have people who can give you sage advice and who will see things that you’re not seeing. An advisory board, constituted correctly, can be invaluable to your success in thriving during a recession.

Unload marginally profitable product or service lines and invest in the most profitable and service lines

I can’t stress enough that you’ll need to shed the marginally profitable product or service lines as part of your strategy of preparing for a recession. If you don’t shed them through liquidation or a sale, then they will be the parts of your business that will likely cause you the most headaches and need the most financial support. Yes, you might need to shrink the size of your business and perhaps some customers, but it might be the right choice. For example, if you keep your marginally profitable lines, you might end up going from a $20M company to a $14M company, but if your profits rise by 5% and you’re able to build cash at a faster rate, then it seems to me that this would be the right thing to do. In addition, the time to sell these products or services is when your competitors are doing well. Trying to sell them during a recession will be more difficult and you’ll get a lower price
for them too. Sell now, stock up on cash and focus your business on the most profitable lines you have.

**Increase marketing and advertising – but have tight ROI metrics**

The one thing you don’t want to do is to decrease marketing and sales during a recession. So, plan to maintain your marketing and sales budget or even increase it. During a recession, it is likely that your competition will be “feeling the heat”. Some of them may not know how to manage during a recession and you’ll find that they will decrease their marketing in order to save costs. This is exactly what you want to see – and you’ll want to exploit their weaknesses. Increasing your marketing, offering attractive options and incentives for customers to switch from your competitors to you will help you gain market share, new customers and increased revenue and profits. So, do not cut marketing and advertising before or during the recession.

Having said this, pay very (and I mean very) close attention to the results you’re getting from your marketing efforts. Marketing people are notoriously resistant to being measured and held accountable for the results of their efforts. While it is true that marketing as a number of moving parts with variables, it is also true that the right campaign to the right audience with the right offer and the right time will often result in rich rewards. Spend money on market segmentation and matching up the offer to the right customer. Some of what you’ll be spending on is demographics and research, but if done correctly, it should be yield very good results. If your CMO hates to be measured, then it’s time for a transition in that position.
Make sure you have excellent accounting skills and information

Every business I’ve ever encountered who needed to be turned around lacked two core elements: Good leadership and excellent accounting. You simply cannot substitute anything for a set of good financials, a 13-week cash flow forecast, and a CFO or Controller who knows when to “sound the alarm” because they can see trouble brewing on the horizon. Bookkeepers are a dime a dozen. But really good CFOs or Controllers are hard to find. If you’re wondering at all about the financial health of your organization, then bring in an outside firm to review your books and your processes. I’m not thinking your accounting vendor here. I’m thinking of someone who does turn-arounds for a living and can look at your financials and spot trouble within 10-15 minutes. If you know how to read these documents, trouble isn’t difficult to discern if it is present. Be sure you’re getting top-notch, high quality financial information from someone who thinks like an owner and who is willing to give you the hard, unvarnished truth. You need this. Believe me. You need this.

Build cash – but don’t stop giving away as God directs

Cash is really your only defense against a deteriorating economy. It’s no wonder that so many corporations are continuing to build cash on their balance sheets. With the uncertainty in key areas of the market and the government, companies are building cash as their first line of defense. Build as much cash as you can (yes, you’ll pay taxes on it), but don’t stop giving as God directs. Remember that you’re a steward of that which God has given to you – a business. So you’re ultimately responsible to the Lord for how wisely and effectively you manage that business. The cash in it belongs
to God, not you. So build cash, but continue to fulfill the core purpose of Philanthropy. Just because you’re facing a recession doesn’t mean you have the right to jettison obedience in one or more of the core purposes for business.

A final word

Sometimes, shrinking your business can be the best thing you can do for your business as well as preparing for the recession. I know of one successful business that does process improvement project for customers. When they saw the steep decline in the market during 2007, they got ahead of the curve just a bit and cut 12 positions out of their 32 employees. It was painful, to say the least. They were profitable, but they also knew that companies would cut back their spending on process improvement projects during a downturn, so they purposefully shrank their business by 33% and then began to schedule new customers will in the future so that they could finish servicing current customers. Rumors abounded that they were “near bankruptcy” and that they “weren’t doing so well.” But as the recession hit bottom and then the slow improvement started, this company was not only financially strong, it was one of the strongest in their sub-market. They were able to acquire a competitor of nearly the same size as a result of being stronger and their competitor being weak and “cheap” to purchase. They were able to absorb all of their competitor’s projects while downsizing that staff by 35%. As a result of purposefully shrinking and building cash, they were able to be strong during the recession and acquire a competitor, which helped them grow top line revenue, grow profits, increase market share and gain key customers that they were unable to penetrate in the past.

Going smaller to get bigger can be the right strategy if you have the management skills to both downsize and upsize and you can actually come out of a recession thriving and growing instead of limping across the finish line, as so many of your
competitors are likely to do.

Bill English

What’s a Few Billion between Friends?

I’ll keep a running list of articles here about the Bailout that I find interesting. Some of the links require a subscription to the Wall Street Journal Online.

This Reuters FactBox helped us see that the total bailout had grown to $1.6 trillion. Add to that the $787 Billion stimulus package, a proposed $275 Billion housing bailout package and Obama’s budget proposal that includes a whopping $1.75 Trillion dollar deficit – all of this funded with borrowed money. When one adds up these numbers, the last 6 months of Bush’s Presidency coupled with the first 18 months of Obama’s Presidency could (and likely will) result in $4.4 Trillion dollars added to our current $11 Trillion Dollar Deficit. A recent WSJ article indicated that the total bailout packages, summed up, could top 5 trillion dollars – looks like that article was more accurate that anyone knew. American Express is requesting $3.5 Billion in Aid while after pumping another $40 billion into AIG plus another $30 billion, a revised AIG Rescue of $150 billion is seen as a boon to other banks, such as Goldman Sachs, Merrill Lynch, UBS and Deutsche Bank. Banks are lending at a record pace but this isn’t easing the credit problems. The reason for this is because banks have plenty of cash, but as the housing market devalues, accounting rules force the banks to write down their asset base, creating book asset values that are lower than what they would normally be in a strong economy. Those lower values are exacerbating this crisis because they make the banks look worse off than they actually are.

This bailout has pushed the limit on who is a bank. GMAC was successful in being declared a bank – even though they do little of what traditional banks do – so that they could get $5B in government aid. American Express and others have done this too.

As municipalities experience less revenue, they also are lining up for bailout money. Some have temporarily declined to see those funds, but others continue to pursue a part of the $700B TARP (Emergency Economic Stabilization Act outlines the Troubled Assets Relief Program) package. GM, Ford and Chrysler are also after some of this money with GM indicating that if it goes bankrupt, it will have dire
consequences in the market. And the UAW President is blaming the economy for Detroit’s’ woes, not their high-priced contracts. But let’s not stop with Detroit. Some of the nation’s largest real estate developers are lining up for their part of the TARP money too. The number of piglets sucking on the mother pig’s nipples are increasing. So, as Toyota finds itself losing money, one wonders how long it will take before the foreign owned auto makers come looking for bailout money from the Feds.

However, Paulson is now refocusing a portion of the TARP money on Consumers to increase the availability of student loans, auto loans and credit cards. The intention is to jump start consumer demand for goods and services. But even as Paulson tries to jump start the economy, today’s investors are losing faith and trust in the stock market. In addition to the huge equity losses from February of 2008 to December of 2008, investors have pulled out another $72 billion from the stock market to place that money in more traditional, safe instruments, such as CDs.

The focus on consumers might be welcome news to retailers, but it’s probably too little too late. It is predicted that there will be a wave of retailers going bankrupt in the coming months. No surprise there.

But there are upsides to this economy too. Banks are waging rate wars to attract depositors. In addition, the price of oil continues to plummet, leading some locations in the United States to now enjoy per gallon prices below $2. This week, I filled up my Suburban at $1.85/gallon. Also, the gun industry is enjoying a huge boon, but this mostly due to the political climate, not the financial climate. Even the Journal is indicating there might be an upside to this mess.