the Rockland Group™ inc.
ACTION NOT JUST ADVICE

June 2009
Watch Out For The Bogeymen

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The Realist

Some of my clients are optimists. Some of my clients are pessimists. Me, I am a realist. Two of the most valuable assets I bring to the table are objectivity and realism. Although I tend to be optimistic by nature I am always on the lookout for economic, political, and business forces that can quickly and/or dramatically change the landscape. The ones I watch the closest are the ones that my clients and I have no inherent control over but must be prepared to react to immediately should they occur. This can only successfully be accomplished if there is a rehearsed contingency plan in place. What I never do is deny their existence or adopt a "what can you do?" attitude toward them. These forces are much too dangerous for that. I call them the Bogeymen.

As I write this we are heading toward the end of Q2 with the economy seeming to have bottomed with an expected upturn beginning in the second half of the year. I, like many, believe this is the most probable path to recovery. However, I am also watching several Bogeymen lurking that could dramatically alter this timeline. Let's take a look at some of the most dangerous and influential.

Terrorism

Without question the most dangerous and influential Bogeyman today is terrorism. In the 1960's and 70's a terrorist act consisted of some person or group who would hijack an airplane and hold hostages or demand to be flown to some foreign country. Other than for the unfortunate people directly involved these acts had little lasting impact on the world economic and political scene.

As we all know since September 11, 2001 modern terrorism can have a much greater global impact. Even though the global economy in 2001 was in much stronger condition than it is currently this one terrorist event set it back for two years.

Fast forward to 2009. We are now facing imminent potential threats from North Korea, Iran, and Pakistan that could all include the use of nuclear weapons. What do you think the impact on today's fragile global economy would be if even a limited nuclear crisis occurred? What about another 9/11 like incident, particularly on American soil? Today, these are very real and imminent dangers that you must monitor and be constantly prepared to weather.

US National Debt

As a business owner how would you feel if the total amount of debt your business owed was over 80% of your annual revenues? How would you feel if a large portion of this debt was held by your main competitors? How would you feel if your main competitors had the option on a monthly basis to purchase or not purchase your debt obligations, and this affected the interest rate you had to pay? That is the situation the United States government is in right now.

The Bogeyman here is that the US government is no longer in control of many key interest rates. The Fed can still set internal rates such as the prime rate and the discount rate but as evidenced by rising mortgage rates they can no longer directly control many key rates that affect the economy. One of the reasons the Fed drastically reduced the prime and discount rates was to drive down mortgage rates to revive the housing market. Although these rates are near zero mortgage rates have been rising as these rates are now being driven more by external forces such as the purchase of our debt by countries like China and Russia. It will be very difficult to manage and predict the economy if key interest rates are subject to the actions of outside interests. Hence, the Bogeyman.

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The US Dollar

The value, and hence the exchange rate, of the US dollar has always been somewhat subject to outside influence and perception. This is particularly true as the dollar has historically been looked at as a safe haven in times of crisis. However, this is not so true today.

First, the national debt as outlined above has increased the perceived risk of the dollar by some countries which has resulted in a decrease of the dollar vs. foreign currencies. Second, and more ominously the dollars value can be deliberately moved by the purchase (or not) of our securities used to fund the growing national debt. This means that the ability of the US government to maintain or manipulate the value of the dollar versus foreign currencies, particularly that of China and Russia, are greatly diminished. In addition, both of these countries are now calling for a review of the use of the US dollar as the standard global currency. Our negotiation strength on currency valuation with these countries is at an all time low. Hence, the Bogeyman.

What To Do

The first step you need to take as a business owner or manager is to become aware and at least basically educated on these issues. It is easy, especially in difficult economic times to adopt a tunnel vision mentality and only concentrate on your local business or industry issues. However, we are now truly in a global interdependent economy and you can no longer allow yourself this luxury. All of the Bogeymen outlined in the above paragraphs share a common trait. Both you and the US government have very little to no control over their direction. This is historically new ground for our country. This gives rise to other potential Bogeymen such as oil prices and inflation in general.

All of the above issues can have a dramatic affect on both your business and personal future. You need to recognize that you have almost no direct control over any of them but you do have direct and total control over how you prepare and react to them. In many cases this may determine your very financial and business survival.

* If you are a small to medium size business owner who could use some objective and realistic advice to help navigating this challenging terrain visit The Rockland Group. If you know of someone who would benefit from this newsletter please feel free to forward a copy to them.

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