RECESSION PROOFING®

The effects of the financial market meltdown that began in the last quarter of 2000 will ripple through society in 2001. Shaken by the enormous losses, real and paper, investors large and small will be further rocked by the uncertainty of a contentious and polarizing presidency.

The resulting leadership vacuum and financial instability will drive Americans to retreat from risky investments and force them to seriously retrench in the face of stagnant or declining incomes and lost profits.

The coming period of business-not-as-usual will require a new set of old-economy survival strategies. For businesses, the old standbys of opening a new market, expanding a current product line, or reformulating an old product, won't work in a climate of declining consumer consumption and shrinking profit margins. For investors, buying on the dip will not fully re-inflate deflated portfolios. Bottom-fishing for blue chips, whether old standards or digital wonders, won't yield rewards until a true bottom that reflects true valuations is reached.

Absent an unforeseeable wildcard event, we do not anticipate recession to hit in 2001 but we do see pre-recessionary conditions that will shape markets and attitudes in the coming years. Ignored or thought inconsequential during the boom times, record corporate and consumer debt levels and a record high trade deficit will be viewed as dangerous conditions that threaten economic life. Pressure to bring down debt, whether personal or corporate, will further shrink consumption and slow expansion.

While recession is on the horizon, the date of its arrival may be forestalled. Anticipated and actual moves by the Federal Reserve to lower interest rates will boost investor confidence and could provide enough of a lift to revivify the economy. However, while the gross domestic product (GDP) may increase as a result of more liquidity, cheap money alone won't be enough to pump up the battered, yet still over valued, stock market.

Although the Fed has enormous power to control the U.S. economy, it lacks the ability to steer the entire global economy. In Japan, for example, the shrinking trade surplus and political crisis will deepen the entrenched recession. For the rest of Asia, only recently recovered from the 1997 currency crisis, the contraction of consumer demand from developed nations will push them to the edge of relapse. The economic turmoil occurring in Argentina will spread throughout South America, leading to a series of financial crises. The European Union, already feeling the pressures of slowdown and further hampered by the weak Euro, will slip into pre-recessionary conditions similar to those that will eventually occur in the U.S.

THE TREND SAVVY

Traditionally, the first line of defense against the effects of recession includes cost cutting, downsizing, plant closings, and price chopping. While these survival measures may soften the blow to the bottom line, they aren't the sort of strategies that allow a company to continue to thrive. It's important to remember that just as the boom times weren't forever, the recession won't continue indefinitely. And even in the midst of recession, not all sectors of the marketplace are equally affected.

The smart money will look beyond its traditional business borders to identify current and emerging opportunities for growth. It will maintain the flexibility needed to take advantage of the massive amounts of disposable income available, and bargain-hunt by buying into sectors that are irrationally depressed.

The smartest money will position itself to swiftly forge ahead when the economy snaps back. For the individuals paying off debt, the greatest investment opportunities will be found in retiring outstanding bills: The savings gained from paying down high interest loans will be greater than one can reasonably expect from most financial investments.

The essence of Recession-Proofing® can be expressed in two words... trend savvy. The trend savvy will identify change before it happens and develop proactive strategies in anticipation of future events.

Note: *Following the 1987 stock market crash, the word on the street was that the financial slaughter had no real effect on the economy. We disagree. The seeds of the 1990 recession were planted following the October crash.*

What existed between the crash and 1990 were pre-recessionary conditions similar to those that will exist beginning 2001. The cheerleaders and market makers will do their best to paint a rosy picture and encourage investors to place their bets on the Wall Street wheel of fortune. But prosperity isn't just around the corner. Investing in the stock market will not produce guaranteed returns. Going into 2001, we recommend caution, conservatism, and a healthy respect of traditional market principles.