

Surviving the Economic Downturn

余政昌 Cheng-Chung Yu, MBA, CA, CFA, CFP
Cheng-Chung Yu Professional Corp.
Chartered Accountant & Business Advisor

「橫看成嶺側成峰，遠近高低各不同，不見廬山真面目，只緣身在此山中」~ 蘇東坡

“Situated in the middle of Mountain Lu, we don't get to see the real overall look of it,” so wrote an ancient Chinese poet Su. Likewise, we don't feel the gusting winds and pouring rains in the midst of the hurricane eye. This is when and where we should step back, take a deep breath, assess where we are from a bigger picture, and then re-position and re-energize to see where we want to go.

What goes up comes down. What comes down will eventually go up again as well, as history repeats itself. These are the inevitables of economic cycles of expansion and contraction. Even strong bull markets are subject to occasional downturns or corrections. Some might have the wishful thinking if the economy had only one way of going up, then we would not have to suffer the pains of economic downturns. In that case then the price, inflation and demand would keep going up until one day not many people can afford to buy. That's when the bubble would burst and the reality kicks in. Nonetheless, even we accept the inevitable economic cycles, there are still plenty of thoughts and actions that allow us to make a difference to survive the tough times.

Most of the economic theories come down to the fundamentals of demand and supply. During the economic downturns, demand is weak, forcing prices to come down. This applies to all the production factors including materials, capital, land and labour. People could lose their jobs and income. Businesses see the demand for their products and services to become weaker. So, people start to become conservative. The vicious cycles continue to last until the prices come to a bottom to eventually attract the demand, or buying power, back. In the meantime when we are still struggling, more argue that it could get worse before things start to turn around. Nevertheless, give it some time and all will become history. My personal memory goes back to the time when we went through the Asian financial crisis in 1998. It did not take long before things turned around and stock markets gathered strength to challenge the historical highs again.

On the personal side and household level, the advice is to spend based on the affordability and your income level. We want to be conservative and careful. We hold on to our jobs. We build more flexibility and save for the future. Some would take the opportunity to go back to school and consider a change in career. The lesson learned is to try to obtain a credit line in good times to prepare for the downturns. Although the average investor would not know the bottom for sure, it may be advisable to buy shares when the prices are low. After all, buy low and sell high is the only way for investors to make money. The same logic could be said if you are considering real estate investments.

For a business, while it is always advisable to evaluate the business plan and business model at all time, it is even more critical that we take the time during the downturns to re-visit our corporate strategies and conduct a competitive advantage analysis. We want to evaluate our profitability, and if sales and cash flows are falling down, we'd need to look for ways to reduce costs and improve productivity. However, if we can afford it, some of us would actually in a way operate against the tide. That is, we invest prudently to improve the products and services. We increase customer satisfaction and enhance public relations. We keep the productive employees. We could even look for opportunities to buy cheap assets from our fallen competitors.

Governments of all levels typically would become the counter force against the downturns. Although they would still need to cut the corners for their falling tax revenue dollars, it is the time they invest and spend more to revive the economy while balancing the risk not to eventually crowd out the investment or consumption from the private sector.

All in all, we want to be prudent, proactive and patient. We don't lose our focus and insist that we stick to the fundamentals. It could be said that risk is opportunity in disguise. We should look for innovative ideas and never lose sight of potential new opportunities during the tough times. Take some small calculated risks, if we can afford them. Remember while monetary and physical resources are important, it could be the psychology and mindset that gets you to win competitive games, as professional athletes would testify. Perseverance will eventually tide us over the ups and downs.