

The Best Recession <> Depression Chat Ever

Goals for this chat:

- prepare to be our **very best as humans**, regardless...
- prepare to be our **very best as investors**, regardless...
- focus on a level of **well-being** that gives us (and those around us) **resilience**

Definitions:

Recession – a period of temporary economic decline

- fall in GDP for 2 successive quarters

Depression – a period of extended economic decline

- real GDP drops 10%
- a recession lasting 2 or more years

Past Recessions:

1980: 6 months; ~10% US unemployment; - 2.2% GDP

1990: 8 months; ~7.8% US unemployment; -1.4% GDP

2000: 8 months; ~6.3% US unemployment; - 0.3% GDP

Past Great Recession:

2008: 18 months; ~10% US unemployment; - 5.1% GDP

Past Depression:

1933: 43 months; ~25% US unemployment; - 27% GDP

Recession Characteristics:

- usually returns to the previous norm
- markets & customers are often left mostly intact
- A/R is stretched but not 'broken'
- price compression is often the result of a recession
- the pressure on personal well-being & resilience is lower

+ Cash flow is the key to survival; a strong balance sheet is important but not as critical

Great Recession Characteristics:

- the path to recovery was hard to call
- markets mostly unchanged but customers were lost
- A/R was stretched and often broken
- price compression lasted longer (than expected)
- the pressure on personal well-being & resilience was more prevalent

+ Cash flow was critical and a strong balance sheet was important

1933 Depression - conditions:

- the war had crippled Europe/ a drought crippled the US
- trade policies dragged the US into the depression
- governments did not respond well; they did the opposite
- real-time information/ data/ etc., was not available
- a tech enabled *work from home* option did not exist

Things to consider:

1. was this a perfect storm?
2. can we even compare 1933 to 2020?
3. it seems unlikely that these conditions will be repeated

What is driving the Depression dialog?

- a highly leveraged population & business environment
- reliance on artificially low interest rates
- governments have responded well, and, have they exhausted their financial tool box?
- can governments fight off (risk based) interest rates?
- will debt to GDP ratios trigger new conditions?
- will trade policies & a trade war accelerate a decline?

With all that in mind, some business thoughts:

- opinions range from 'a minor economic twitch' to '10 yrs of suffering & pain'
- there is NO certainty; there are NO experts
- if this is a hurricane, consider a defensive posture
- customer retention is a major priority; revenue innovation likely next
- keep your powder (\$) dry & keep your eyes open

**Balance sheet strength becomes a super critical item;
+ve cash flow is important but may NOT be sufficient**

With all that in mind, some personal thoughts:

- for those that believe in Jesus, giving your worries to Him, over and over, produces peace and freedom
- take notice if you are binging (food, media, exercise, working or a combo); this is a well-being flag
- forcing quiet time into your calendar (force it!!)
- a good sign.... you are being generous with your wisdom, time and resources
- a great sign... you are relating, laughing and praising