

Trucking 101 Back to the Basics

Market Volatility

In the last several weeks, I've received numerous telephone calls from many of Ahern customers indicating that:

- They're concerned about the economy.
- They're afraid that we're in for "a long hard recession", and;
- They're going to preserve as much capital as possible.

It is true that this has been a "roller coaster" year. The week before last was one of the worst the market has ever experienced.

However, it was followed, last week, by one of the strongest showings we've had in terms of an advance/decline. It was certainly the best week the stock market's had in the past 40 years and possibly the best since the Great Depression. The volatility has been extreme. However, the question is whether the gains will continue, and why is that important? Because it directly affects trucking;

- The current supply does not equal the demand.
- Freight is scarce in our industry.
- Freight rates are still at depressed levels, and;
- Because of manufacturing's previous market strategy, we have lost multiple movements when manufacturers went over seas to have their products manufactured.

The question becomes; will 2009 be a good year for the trucking industry? You can ask 10 different people and probably get 10 different responses. My estimate is that we're going to be in for a couple of hard years, but with those years offers opportunity;

- When the opportunity exists;
- We must seize that opportunity.

In order to understand the economy, all you have to do is look at the stock market. Advancers out numbered decliners last week in an astonishing 13.1 ratio. The only example that this comes close to occurred in 1982 when the market was entering a secular bull market. And even then, the AD ratio was only 10.1. In other words, last week was the best week ever on the market by a wide margin.

Clearly, this indicates we're in a market of extreme volatility and extreme moves in every direction;

- Investors are confused and anxious for a clear sign that the economy will pull out of its current situation.
- At the same time, they're nervous about making any bets on a better future.

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Many are simply “parking their money in T bills” which has pushed T bill yields to virtually nothing. In fact, Steven Leeb, who is a PHD and authors the “Complete Investor”, indicates that the return offered on \$100 in T bills was 1¢. Now, it’s up to 4¢ but that’s still next to nothing. The “bottom line”, everybody is scared of deflation and the terrorist attacks in Mumbai, India last week did nothing to reassure the world on the peace and stability. That coupled with the fact that British and American citizens were the target certainly reminded us that the world remains very dangerous, and that coupled with the decline in industrial production in China, does little to reassure any of us on the economic front.

The market indicates we’re going to continue to have these “ups and downs”. You will continue to see a pull back in stock prices as traders take a little of their gains off the table, but there are many positive things. It’s almost a given that the government will continue to pour massive amounts of money into the financial system. In addition to the \$700 trillion dollars that is committed in terms of guarantees or direct deposits, they will continue to do whatever is necessary to stabilize our company. Meanwhile, prospects for an additional stimulus package grow by day. The NY Times recently announced that an amount as high as \$1 trillion cannot be ruled out. It’s interesting; we toss the world “trillion” around as though it were as common place as a Chevy or a Ford, which just goes to show you how fast the money supply is growing.

China responded to their decline in manufacturing with a huge cut in interest rates. Its government, unfettered by checks and balances, can do whatever it wants to get the economy moving. So far, China has committed \$580 billion, but that sum could grow as high as \$1 trillion in the month ahead. With the Chinese economy still much smaller than ours, such an amount of spending constitutes a much higher degree of stimulus.

The question becomes whether all this new money will be put to good use. Whether the banks will start lending and consumers will start spending. My personal opinion is that, there is a ray of hope.

Black Friday sales this year are estimated to be up approximately 7%. That is much higher than anyone expected. This suggests that Americans, who have received the equivalent of a \$250 billion tax cut in the form of lower gasoline prices, believe Obama’s promise that he will do what it takes to get the economy back on track. It appears, that currently we’ve resumed the great American past time of shopping. Will the shopping continue? Not according to many economists who argue that the national response to tough times is to give up shopping for savings. But research has shown shopping to be as seriously addictive as any other compulsive behavior such as smoking, drinking or gambling. Therefore, it makes shopping a difficult habit to break.

When it comes to human psychology, we all know how difficult it is to break addictions and shopping is an addiction. Recently, I had a very good friend of mine that developed prostate cancer;

- He was very worried.
- Very concerned about his health.
- He went through a series of chemo therapy treatments and surgery to correct the situation, and;
- The end result was that the surgery was successful and he no longer had to be worried about prostate cancer.

The problem; he has smoked for 45 years and he was continuing to smoke while he had prostate cancer. In other words, smoking is too hard of a habit to break.

Because addictions are so powerful, I believe Americans will not give up shopping easily and as long as they don’t give up shopping, they will continue to stimulate the economy and as they continue to stimulate the economy, more products will be sold, manufactured and therefore, more products will be available for trucks to deliver.

We know there are 2 kinds of problems; those that can be solved with money and those that can’t. Resource shortages are an example of a problem that can’t be solved with money, and we will tackle that problem in the future. However, unless consumers suddenly go “cold turkey” on shopping, recessions will remain problems that can be solved with money. With that in mind, the current financial crisis will end as massive amounts of money make their way into the pockets of consumers. That’s far and away the most likely scenario.

In closing, nobody can predict the future. You can only look for signs and make your business decision on your instincts. However, it’s important to note that the world economy is injecting significant amounts of money so that the economy will not collapse. This is not a US problem, this is a global problem and as long as it’s a global problem and money is injected into the financial system, the likelihood of the recession or depression ending quicker, is a probable result.

QUOTE OF THE WEEK “EVERY PROBLEM IS AN OPPORTUNITY”.