The Economic Recovery Process

For the last several months, I have received numerous telephone calls and emails from clients and Advisory readers asking me what my personal take on the US economy and the world economy is. It's very difficult for me, as an analyst and transportation consultant, to make any statements because 9 out of 10 times, no matter what I say in reference to the economy, it offends someone. **However, I believe that statistics, put things in proper perspective.** Therefore, I have decided to provide some statistics and allow you to come to your own conclusion.

Early in 2008, if someone would have told me that Lehman Brothers and Bear Stearns would be gone, I would have thought that they were suffering a concussion;

- If someone had told me that AIG, the world's largest insurer would go out of business, I would have called them a pessimist.

- If someone had told me that Congress would be forced to pass an $850 billion bail out to save the US and the global economy from a total meltdown, I would have called them insane.

- If any financial analysts would have told me that the Fed's would end a 30 year inflation fighting streak by buying US treasuries, I would have laughed in their face.

- If someone would have told me that unemployment, on a National basis would exceed 10% annually, I just wouldn't have believed it.

However, all of the above statistics have a direct bearing on;

- The world economy, and;

- The US economy; as well as a direct impact on the trucking industry and a direct impact on the products that the trucking industry delivers.

From my perspective, trucking is one of the most difficult businesses to be in, because there are so many intangibles that you can't control;

- You can't control fuel "spikes".

- You can't control an accident.

- You can't control the cost of equipment, and;

- You can't control constant legislation that makes it increasingly difficult for a trucking company to operate and survive.

At the same time, one of the things that amazes me is how quickly we forget.

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in this issue

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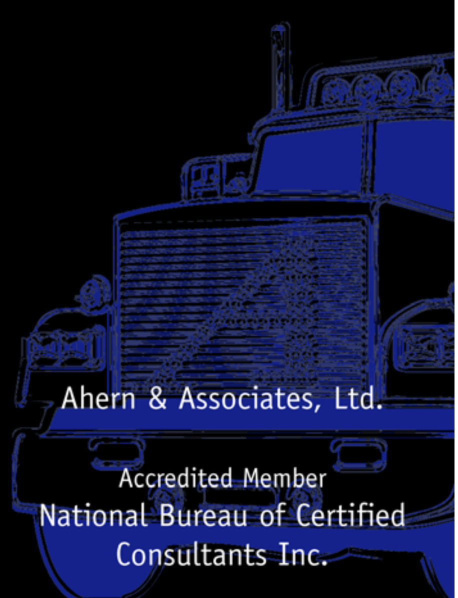

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When oil was trading at $27 a barrel, it didn't seem to be too much of a concern. However, the dynamics of the global oil market started to change in 1999;

- Oil prices became supply – driven.
- That was largely due to Opec.

For the first time in Opec's history, they just weren't another player in the oil arena, they were the controlling player. From 1982 – 1998, the major oil producing companies outside Opec had the ability to increase oil production in order to accommodate global growth;

- **However, in 1999, these oil producing countries hit a point where they could no longer increase production** by any significant amount.
- **The only countries outside Opec,** with the ability to increase production, were a handful from the Soviet Union and Africa.

However, the increase in those regions, in the past decade, have been negligible. The result;

1. **We are now completely dependent on Opec** whose members are situated in the politically unstable region to make up any shortfalls in our global energy supplies, and;
2. **China, India and many other emerging economies** are undergoing sweeping industrial transformations.

That means that;

- Pumps are running at full capacity.
- Populations are exploding, and;
- **Our energy needs, according to the US Information Administration, will soar a staggering 49% by the year 2035** – these are all facts.

Do these facts impact the trucking industry? Yes! Could these facts impact the profitability of trucking companies? Yes! Do these statistics make it difficult for small trucking companies to survive? Yes!

The point I'm making; understanding the world economy and understanding the energy situation is the beginning to formulate a plan to stay in business. Is it going to be easy? Absolutely not! Can it be done? Yes, but it's going to take companies that are;

- Very creative.
- Companies that look for alternatives to survive, and;
- Companies that outsource as many things as they can.

in 1999, oil accounted for 22% of agriculture's overhead, but;

- At $70 a barrel, it accounted for nearly 50%.
- At $100 a barrel, that percentage climbed to 70%, and;
- $200 oil would be a devastating 83% - **it's not possible to have $200 oil. Why?** Because oil is currently around $85 - $90 a barrel?

Look at the statistics! We're in the biggest financial mess in history and the train is coming around again;

- Retirement accounts, for most American's, have been battered severely.

- The real estate market is in the proverbial toilet, and;

- **Washington can't balance the budget and they never will be able to because the only way they know to balance the budget is to increase taxes because they don't practice cost control.**

I read an article from Stephen Leeb, who is the Research Chairman for Leeb's Income Performance Letter. He review's the stock market, the world economy and provides his opinions on where you should look for investments.

At the same time, he relies on statistics and past trends to substantiate his portfolio predictions. Unfortunately, each time I've read his letter, he's been "right on" in reference to the economic blight of our country.

Recently, in one of his newsletters, he stated that;

- Oil will be headed for $200 a barrel.

- **This is due primarily to the fact of the exploding world population.**

- He also indicated, because the United States has not positioned themselves for alternative fuel quick enough, the US economy could experience substantial problems.

After I read his article, I did some research and according to the US Energy Information Administration, our energy needs will soar a staggering 49% by the year 2035. From a trucking perspective, if pumps are running at full capacity (today) and populations are exploding; and China and India and other countries are undergoing sweeping industrial transformation, **it means that we need to start planning for the inevitable; substantial increases in prices.** Does that mean that the trucking industry is going to collapse? **No. However, it does mean that we're in for some very difficult times, if we don't implement proper strategies.**

My point; if you believe that;

- The cost of tomatoes, corn, cotton, beans, are headed for the clouds, and;

- All of these agricultural products rely on oil in more ways than you know; then it stands to reason.

- **There is going to be a substantial impact on rising oil prices for agriculture, which will in turn affect the global economy and trucking.**

Do these statistics take a political stance? No; these are statistics. However, I am a firm believer that statistics provide owners of companies valuable information to operate and grow their business.

The problem that we have, as humans beings, is that we don't seem to learn from our past experiences. From 1967 – 1982, America's stock markets went through a 15 year period that was worse than the Great Depression. The P/E ratio of the S & P crashed from 16 to less than 8. **Retail stores, cosmetics, beverages and even food stocks – all plummeted with cosmetics leading the way.** However, when things seemed to subside, we forget about the past. The same thing is happening now. **Since fuel has taken a temporary breather, we seem to forget; but if you're going to keep your business another 10, 15 or 20 years,** you need to plan for the inevitable – increased cost.

The problem that nobody likes to face is that, unlike the 80's, we are now drowning in a sea of debt. That's what took down Bear Stearns and Lehman Brothers, but it's not just the banks that are in a world of danger;

- The total public debt outstanding for the US is $14.26 trillion.

- The budget deficit, just for 2012, is $1.1 trillion.

Most of us can remember when that would have been an outrageous number for the entire US debt;

- **The present value of unfunded obligations like Medicare and Social Security is a horrifying $45.8 trillion. Why is that and why and who borrowed that money? There used to be a $2 trillion surplus.**

In closing, what do you do? That's a decision that each of us that own a business has to come to grips with. I've always been a firm believer that, if you're a small business;

- Outsource.
- Outsource.
- Outsource, as much as possible.

I'm also a firm believe that there is safety in numbers. As the economy continues to go through its challenges and politicians don't know how to control cost; increased taxes are a fact of life. **Do increase taxes stimulate the economy? No. Do increase taxes stimulate spending? No.** Are increases in taxes a necessity to stabilize the US economy? **It depends who you talk to!**

One of my clients indicated that;

- If the Federal Government was operated as a business, and;
- If Warren Buffett or someone such as Warren Buffett ran the Federal Government, they wouldn't have pilfered from Social Security and Medicare, etc, and;
- The budget would be balanced.

Maybe yes, maybe no! The one thing I do know is that; if you understand statistics and you understand history, you can plan your company's survival and growth. **Statistics are just that - statistics**. However, accurate statistics demonstrate and substantiate what many of us choose to ignore.

QUOTE OF THE WEEK:

"If you want to succeed, you better look as if you mean business" (Author: Jeanne Holm)