Economy 2013:

Looking Ahead from the Turnaround Consultant's Point of View

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Many are asking where the economy is heading in 2013.

There are numerous opinions of this topic and, since *The Secured Lender* has many outstanding contributing lenders on this topic, our view is from the consultant's perspective of the varying conditions, outlook and opportunities flowing through the market in 2013. With the same president and a new four years, the same uncertainty remains.

So, where do we go from here?

The economy is truly a living entity with peaks and valleys, more the latter than the former, for the last decade. If you think otherwise, just check your 401K plan balance. Although the Federal Open Market Committee has raised its outlook for 2013, the overall impact will not be felt by most for some time and early indicators suggest it will be a trying year.

Here are our predictions for the coming year:

Middle-Market Lending

There will be more opportunities to refinance loans from the lender's perspective. Interest rates are predicted to remain low throughout 2013. However, while money is plentiful, the majority of funding is chasing the same deals. Due to this, we believe there will be an increase in orphan middle-market companies unable to refinance.

Also, the lending dynamic has changed. Much of lending no longer pertains to growing a business or product line. Instead, it is used for refinancing existing loans so companies can take advantage of the low rates. These opportunities will continue into 2013 for middle-market lenders. However, following years of flat or declining performance, fewer lenders will offer stretch pieces which may be necessary for middle-market companies to grow. However, those willing to finance these opportunities will be able to reap benefits from higher and more opportunistic pricing and fee structures.

There doesn't appear to be a reason to believe that bankruptcy filings will increase; that is, levels will continue to be modest due to the availability of capital coupled with low interest rates, resulting in the further kicking of the proverbial can down the road for troubled credits. Large retailers who fared poorly during holiday season may file bankruptcy in early 2013 creating short-term opportunities for turnaround and restructuring professionals

Consumer Spending

Consumer spending will increase slowly, mainly in primary goods. Retailers in the luxury market, including high-end apparel and luxury goods, have proved their resilience in a tough economy and will continue to grow. The question is: when will consumers and businesses feel comfortable about spending again on capital projects both individually and for their businesses? Retailers must find ways to re-engage consumers on a more sustainable basis. Until they can do this and consumer confidence improves, growth will remain sluggish. And, as long as confidence remains sluggish or impaired, there will be resilience to make substantial capital investments.

The Fiscal Cliff and the Economy

At the time this article was written, the fiscal cliff had not yet been resolved. A resolution of the fiscal cliff should lead to more stability in the financial markets and relieve some investor uncertainty. If there is no resolution, then fiscal instability will likely worsen with tax increases, elimination of unemployment benefits and defunding of government services. This would exacerbate an already tenuous U.S. economy.

American companies are feeling the labor squeeze as wages increase overseas; it would likely have substantial benefits for companies to bring their work force back to the United States. As manufacturing slowly returns to the United States, GDP will increase as we shift dependency from Asia and other low-cost producing regions. As the United States works to re-position and create manufacturing jobs locally, this offers an opportunity to increase domestic growth.

However, much of the incremental growth will be from lower-skilled, lower-wage jobs, as many skills associated with higher wages are no longer needed. Companies and organizations will be looking for assistance in migrating facilities and operations back domestically. Being able to provide this advice and integration will enable the consultant to differentiate him or herself.

Financial Markets

Despite dismal economic growth and earnings results, we will continue to see further attempts at quantitative easing, as this appears to be the preferred method to stimulate the economy by the Federal Reserve. So far, the results have been less than satisfactory, as it has created an artificial stimulus that has not been sustained.

The amount of debt without the increase in GDP around the world has caused currencies to be devalued on a global basis.

The world continues to watch the Chinese economy slow, which could seriously affect local economies around the world. China's growth rate is robust for a developed nation, but not the rate necessary to maintain current levels to sustain its economy. With the Chinese growth slowing and European crisis worsening, investors have fewer places to put their money.

On a micro-level, as the current technological markets reach saturation, including smart phones, mobile devices and social media, we will start to see a decline in those industries. which will have a negative impact on the financial markets.

Could Real Estate Be Making a Come Back?

While few have the patience and intestinal fortitude that comes with real estate investing, an opportunity exists for those that do. Following years of depressed prices, opportunities now exist for investors to purchase both commercial and residential real estate at opportunistic pricing.

Investors should understand that there will be a moderate-to-substantial carrying time before reaching their desired return on investment. Buying real estate early in 2013 may be just the ticket to start off the first quarter strongly.

So Where Do We Go From Here?

As central banks around the world continue monetary stimulus programs, global economic issues will continue to plague the economy and may contribute to another recession. At some point, policy makers will have to stop monetary stimuli to allow the economy to cleanse and deleverage itself. This should result in the turnaround of the economy with the start of real growth.

The need for deleveraging and creating incremental cash flows and value is of the utmost importance for a foundation for a sustained recovery.

The keywords for 2013 are creativity and flexibility. Finding ways to support our clients and their customers, being more resourceful and finding value opportunities to generate cash flow will be paramount. Over the last few years, employees have been asked to do more with less, resulting in higher worker productivity. Helping clients to continue to find ways to continue to increase productivity, retain and reward good employees, maintain focus on their customer needs, and execute on their strategic plans is integral to success.

Clients that have fared better over the last several years are those that have not only been able to weather the storm, but have been able to grow organically. Their leaders have a clear vision and have been able to develop and execute a business plan that supports that vision. Helping clients to forge ahead in economic uncertainty, while staying grounded in their vision, represents a continued opportunity for turnaround professionals in 2013.

Also, there are a few industries that are in favor. For example, with the federal government stimulus, providers of goods and services to the government are poised for growth. Turnaround professionals can seize these opportunities to identify companies in these in-favor industries that need their assistance to build organizations and balance sheets to support their growth plans.

So, when you are proposing on that new lending opportunity and the stress is mounting, or a client needs an additional advance, as turnaround professionals, we're looking at chances to maximize the value and the creativity, consider this: there is a microscopically fine line between being brilliantly creative and being the most gigantic idiot on earth…so go ahead and leap.

Here's to an outstanding 2013. **TSL**

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