

# 3 Ways Small Business Owners Can Combat Declining Economic Confidence



**Mark Avallone**, CONTRIBUTOR

*I help people on their path to Financial Freedom.* [FULL BIO](#) ✓

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This past month, The National Federation of Independent Business (NFIB) released their January 2016 Small Business Economic Trend Report. This monthly report tracks small business confidence via NFIB's proprietary Index of Small Business Optimism that surveys small business owners on their plans to increase employment, make capital outlays, and increase inventories. It also asks about economic expectations and other related items. This first report of 2016 showed that U.S. small business confidence fell in January to its lowest level in nearly two years – the Small Business Optimism Index fell 1.3 points to 93.9 which is its weakest level since February 2014.

In its report, NFIB noted that a decrease in two key components played the largest roles in the overall Index's decline – expectations for business conditions and expected real sales volumes. NFIB's Chief Economist, William Dunkelberg, cited the recent weak performance of GDP growth as a major component in the Index's decline, and also mentioned that this slow GDP growth did not correlate with the rise in job creation. Dunkelberg posed the question, "What are all these workers making? It's not showing up in GDP."



*SAGUACHE, CO - JANUARY 18: Saguache Crescent owner and editor Dean Coombs takes a phone call about an obituary to be included in the next edition of the Saguache Crescent newspaper on January 18, 2016 in Saguache, Colorado. The Saguache Crescent newspaper is the last newspaper in the United States that is produced using a Linotype hot metal typesetting machine. Dean Coombs, the paper's owner and editor, has been publishing the small town newspaper once a week using a Linotype machine that was purchased new in 1921, a few years after his family took over the paper in 1917. Coombs has been running the business by himself for the past 38 years and has no plans of shutting its doors anytime soon. Most newspapers discontinued the use of Linotypes over 40 years ago and were replaced with offset lithography printing and computer typesetting. (Photo by Justin Sullivan/Getty Images)*

## Impact to Business Owners

It's clear that a predicted or assumed slowdown in economic growth impacts business owners' confidence. I've advised enough small business owners over the years to know that when an owner's confidence in his/her business wanes, he/she hunkers down, works harder, and may become reluctant to hire and expand.

While an eagle-eye focus is a great entrepreneurial quality, it's also important for business owners to look beyond a slowing economy today, focus on the long-term strength of their enterprise, and remember their broader picture which includes their personal and family's financial goals. To help business owners divide their focus during this period of low confidence, I've included below my top three tips for small business owners.

1. Tighten up your banking relationship(s). As a former commercial banker, I have seen how a solid working relationship with your bank can make a difference in an economic downturn. This includes knowing the people that make the decisions that affect your business, communicating any issues your business is facing, and building a stellar reputation at the bank. For example, if your profit margins are thinning, or sales are slowing, tell your banker and outline how you are countering this trend. If the banker asks for additional secondary sources of payment in order for them to continue extending credit, don't automatically resist. Demonstrating your long-term commitment to your business and your banking relationships may solidify your working relationship. Conversely, when times are good, they can also show you more favorable terms. At the end of the day, if the lines of communication are open and both sides understand what is important to each other, like most relationships, your banking ties may strengthen.

2. Build a Strong Balance Sheet. The downturns in the economic cycle are inevitable, but can be a blessing in disguise for stronger, better-capitalized companies. Tough economic times can weed out your inefficient competition and allow you to emerge in an even stronger position. Anticipating for the lean times and having a company with a strong balance sheet and cash reserves can help you be one of the survivors. When the slowdown hits, banks can tighten up credit, bonding companies can get tougher on you, and vendors can revisit your credit terms. But remember, they also need to get through the slowdown and remain profitable, and they want to work with the strong companies. That is why it pays off to maintain financial discipline and use your capital wisely as you grow. Remember, as a local business, your sources of capital are limited so be sure to keep some accumulated cash in your company.

3. Continue to accumulate personal wealth. Many business owners not only put their heart and soul into their business but also much of their personal wealth. Of course, for reasons noted above, the business needs a strong balance sheet, but saving for your own retirement is also critically important. Plus, assets held in your qualified retirement plan may be creditor-protected in the event the business experiences major difficulty or even bankruptcy. So, be sure to pay yourself first and build your own net worth. You may face some bank covenants and restrictions on the amount you can contribute to yourself, but if this is the case, I suggest revisiting point #1 above and finding a banker that will work with you. And sometimes, for a small business owner the best banker for your small business is a local community banker.

I know that it's in our blood to have laser focus and unyielding drive when business seems shaky, but periods of low confidence demand that you also continue to maintain a strategic focus. Be sure to strengthen your banking relationships and sources of capital, wisely manage your balance sheet, and be mindful of staying committed to your personal financial plan.

## Contributor's Bio

Mark Avallone is the author of *Countdown To Financial Freedom*, and founder and President of Potomac Wealth Advisors, LLC a financial advisory firm serving clients through holistic financial planning and wealth management. Avallone writes on a variety of financial topics, and his contributions have appeared in the *Wall Street Journal* as well as in *Forbes* where he is a regular contributor. He has appeared on CNBC and has been a repeat guest on the Fox Business Network. His insights have also appeared in *USA Today*, *U.S. News & World Report*, *The Washington Post*, and other leading publications.

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