Long Island BusinessNEWS
Where Business Gets Down to Business

Financial experts counsel hunkering down

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As the curtain is coming down on 2011, insiders in the financial services industry are remembering a year best summarized by volatility and contraction. And the consensus is the industry will continue to stagger along in the current state of despondency well into next year.

Massive amounts of private debt will continue to suppress any economic growth, according to Martin Melkonian, professor of economics at Hofstra University. While the concern about the nation's public debt drowns out most other issues, Melkonian is much more concerned about private debt. "As long as consumers continue to have huge debt repayment responsibilities, there won't be much of a revival," he said.

Banks, continually balking at making both commercial and residential loans, should be held accountable for delaying the growth of the industry, Melkonian charged. Despite interest rates at historic lows, loans are not readily available to companies or homeowners. "Banks have to be forced to write down a lot of the debt that exists and then ordinary people can begin to spend again," Melkonian said, although conceding this will be a painful, yet necessary step, on the road to the recovery of the Long Island and United States economy.

In addition to banks needing to be cut down in size – "We can't deal with 'too big to fail'" – Melkonian believes there needs to be some form of re-regulation in separating investment banks from ordinary commercial banks, which are deposit-insured.

During the late 1990s, the economy was fueled by the leverage of capital markets and the tech boom, said Ian Weinberg, CEO of Family Wealth and Pension Management in Woodbury. After the dot-com bust, stock returns that had doubled and tripled were cut in half. From 2002 to 2007, the stock market experienced another run fueled by the real estate industry, which came to a crashing halt after the sub-prime mortgage catastrophe in 2008. The current problem, as Weinberg sees it, is there's no leverage that can power double-digit growth cycles anymore.

To be sure, 2011 was a year in which the markets ebbed and flowed on the political and non-economic factors which ruled the headlines and less on the fundamentals, said David Katz, principal and senior portfolio strategist at Weiser Capital Management, a division of Weiser Mazars, in Lake Success.

"Markets like direction, for better or for worse," Katz said, noting during the last three to four weeks of the third quarter particularly, the markets were held hostage by the volatility coming out of Europe.

When the markets are on the down side, it becomes even more crucial for investors to understand where they are on the risk/reward spectrum, Katz said. His priority is ensuring clients properly manage their money in the middle, rather than at the extremes. "We're not going to let non-fundamental headlines change the way we invest," he said.

Weinberg concedes the stock market will continue to be a roller coaster ride while uncertainty remains. "Savings accounts are growing, but not because people are saving, because they're scared to death," he said.

One way businesses can fight a stagnant economy, Weinberg suggested, is to be aware of what's going on from a tax perspective, shielding businesses from liability issues and maintaining good labor practices and internal risk controls. He anticipates future trends will revolve around efficiencies, risk control, managing wealth that's been created and having realistic expectations about what's going on in our economy and the rest of the world.

"I recommend making sure you protect your money before looking to pursue an expansionary strategy," Weinberg said. "Re-evaluate your lawyers, accountants and providers, getting every piece of information you possibly can to prosper in a long, slow turnaround."

Melkonian suggests a significant shift in the way people think will be necessary before a recovery can occur. "If enough people get activated and put pressure on our public officials to focus on the real problems – jobs, infrastructure repair, climate change, debt – our politicians may have to respond.

"There's a lot of money wasted in this country – not just in the financial services industry – in the overindulgence of our geopolitics," he said, noting the federal government's staggering $15 trillion debt. "Some of that money could be redirected to make lives better for a lot of people. Then, just maybe, we could pull out of this thing."