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Musings

#82: Get the Money when you Can June 15, 2020

When the Coronavirus first hit, a common move by executives was to pull down their credit line. Most companies have a “standby” credit line with a bank or other provider of debt capital which can be tapped when needed. However, depending on the terms, the banks also have some rights not to extend it. So, the move was to pull down the full line now to maximize liquidity. This was smart. Get your money when you can.

The market for money – the capital markets – functions like other markets with buyers and sellers. There are those who want capital and those who provide it. Generally, when a company is doing well it can easily raise either equity or debt capital. However, if the business is profitable and generating cash, it doesn’t really need money. Don’t wait until you need it. Too many people do this and then seek capital when the business is soft and the lenders/investors are not there (or at least not on decent terms). Raise money when you don’t need it. Hard for a lot of companies to get money now.

Right now, Covid-19 has greatly reduced visibility. None of us really know where things are going. IMO, the market is overly bullish. I don’t know exactly what “a second wave” looks like but people are going too far in opening up. I thought we were too draconian in closing down but now am feeling we are too relaxed in opening up. Infection rates are climbing and in some places, hospital capacity is becoming an issue. Consumer confidence is up but still far below pre-Covid levels. NOW, is the time to get money if you can. You want to have excess liquidity as we continue in the unknown.

Loading up on cash now will give protection during the second wave and allow you to take advantage of opportunities which are going to present themselves as other businesses mismanage the situation.

Back to work but with social distancing.

Jml

Second Thoughts

According to WSJ, “About 80% of Americans who have died of Covid-19 are older than 65 and the median age is 80.....For most people under the age of 65, the study found, the risk of dying from Covid-19 isn’t much higher than from getting in a car accident driving to work.” We need to open back up for the economy but more thoughtfully protect those over 65.