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## **The white knuckle business cycle of the finance market**

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As the ink dries on the first half of financial 2008, we seem to be huffing and puffing up a steep hill that keeps getting higher and higher. Press speculation about our approaching the summit continues to fade into the recycling bin with increasing regularity. The Fed is concerned about inflation, but the treasury department says it's more disturbed about anemic growth, and the financial markets are spooked by the price of oil. Interest rates are low, but getting financing is a bear as the banks, the economy's call-girls, who, seduced by profits from products meant only to make capital accessible to lower-income households, opened the spigots too wide, and have now slammed the door shut, other than to dance on each other's graves a la` Bear Stearns. The Australian and Canadian dollars have almost reached parity with the U.S. dollar, the Euro is at \$1.57, and the pound is at \$2. That's good for foreign investors in U.S. based assets and U.S. exporters, but it all adds up to an environment in which it's becoming increasingly difficult to get a deal done locally. Understandably, this is a trying time period -- as hopes surge that the housing correction is bottoming out, massive flooding in the midwest threatens lives and crop production; oil soars to over \$140 per barrel; and the Dow Jones average regurgitates the gains of the bull market. It is clearly difficult to earn a dollar these days.

The commercial real estate market is experiencing a hangover as the players who can obtain financing are embracing a spectator role by holding out on capturing assets that they expect to continue to fall in value. The preferable strategy is to make moves now that can position you well in the upward cycle. We cannot buy at the bottom and sell at the top in any event. We just have to hold on, and stay in the game. Granted, it's a white knuckle time, but the point of this article is that the current market events represent a necessary fallout; not only will the economy be better off for it, but it needs it. Consider the case of Cambridge Park 125 Realty Corp., et al. v. Board of Assessors of the city of Cambridge (Lawyers Weekly No. 20-034-08) in which the Appeals Court held that "[w]here the owner of commercial real estate in Cambridge seeks a real estate tax abatement, that request should be granted because the subject properties were overvalued for fiscal years 2004, 2005 and 2006." Realigning real estate that was subject to higher tax rates and increased rents because of overinflated assessments is clearly a needed correction.

Fundamentally, we need to rebuild the foundation that has become necessary to be competitive in today's globally linked grouping of economies. Yesterday's building blocks are just that, as inconsequential as yesterday's news.

We are the world's largest economy, but we are not as dominant as we once were. That, however, is a challenge not unlike the one we faced in the early 20th century when our economy needed a new level of ingenuity in order to transition to industrialization. We are going to have to adapt our

fundamental underpinnings to accommodate the new global marketplace to continue to enable us to lead. Currently, however, we have lost our edge. I see this period as the natural re-ordering of things. Our economy is flushing out the toxic waste that we fed off for years and years. It's not that it's a correct strategy, but while India and China were playing to their core strengths and seeking growth without regard to inflation, we were recycling the same old business strategies, but picking up only debris. Collateralized debt obligations are just an example of how we survived by churning leveraging strategies that were meant only to expand the inventory of available capital to fuel growth and development. We put the system into overdrive until the engine burned out, and now we need to replace the engine. It's a cycle, just like the body ridding itself of unnecessary and unusable waste. It's not pretty when it happens; it can be painful, and very challenging, but it's necessary. After this cycle is completed, I have no doubt the economy will be able to clear the hurdles, and reach the summit of the hill, regain its strength and be able to add building blocks that are sustainable and necessary.

The issues facing our economy have never been about a subprime loan bust, overly aggressive mortgage brokers, or the failure of mortgage based hedge funds, as has been widely speculated and implied.

Remember, this is a cycle, and it will flesh itself out. In the meantime stay on the playing field.

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