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Angel Investors: Watch Business in Action

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Navigating today's unstable economy

While changes in the economy occur regularly, what we have experienced recently is anything but a "normal" change. The challenges of the current economy haven't been seen or experienced in our nation in decades. Like most investors, you might wish you could figure out some way to know when economic conditions were about to change or what adjustments you should make in your portfolio based on current conditions. It's a tricky topic, and even economists disagree about the nature and causes of economic cycles.

But we can at least take a look at some of the issues you need to be aware of and help familiarize you with how the economy works.

Some people tend to refer to changes in overall economic conditions as "economic cycles" or "business cycles." However, it could be a misnomer to label these changes this way. Because they are not, in fact, predictably cyclical, some economists prefer to call them "economic fluctuations.

Regardless of the terminology you choose, changes in economic activity generally follow four phases:

1. Advance or expansion. When times are good and the economy is growing, we typically see indications such as falling unemployment rates and factories taking advantage of excess capacity, to name a couple.

   While the news during this phase is typically positive, you may soon start to see signs of problems ahead. If inflationary pressures begin to creep in, this is typically when the Fed raises interest rates in an attempt to help keep the economy from overheating.

2. Peak. By the time we get to this point, the economy tends to be operating at full employment, factories have generally used up their excess capacity, and inflationary pressures are usually building.

   When rising labor and materials costs squeeze companies' profit margins, the Fed will usually move more aggressively in an attempt to slow growth by raising rates to help ease inflationary pressures.

3. Decline or slowdown or recession. Ideally, action by the Fed to tame inflation should allow the economy to gradually adjust to a sustainable long-term growth rate without the threat of inflation.

   In reality, however, the combination of the Fed's tightening and the need to correct accumulated imbalances in labor and materials supplies typically slows growth to a level that's actually below the economy's long-term potential.

   Unemployment rises, factories slow down, and inflationary pressures ease.

4. Trough. At this point in the cycle, inventories are depleted. The Fed lowers interest rates in an attempt to help stimulate the economy, and businesses and homeowners may consider refinancing mortgages to take advantage of lower rates.

   Companies will eventually purchase new equipment and expand operations, helping inventories to grow and marking the beginning of a new expansion.

   As you can see, there are telltale signs that can at least give some idea of where the economy is in its cycle.

   However, to make matters more complicated for you as an investor, the stock market tends to move in advance of the economy, usually in response to investors' anticipation of what they see down the road.

   The biggest challenge is knowing when the shift to the next phase will occur because predicting the market and the economy is a bit like forecasting the weather.

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Have you ever heard someone say, "You don't want to see sausage being made"? The implication is that the process of making sausage may be revolting to watch.

Conversely, seeing "businesses being made" is the opposite of sausage-making; it's exciting.

In Savannah, you can watch entrepreneurs in action, compliments of Ariel Savannah Angel Partners (www.savannahangelpartners.com).

Ariel has regular meetings to give fledgling business owners an opportunity to explain their value propositions and convince Ariel members to invest in them.

Free enterprise at its best: smart people with new ideas who need capital to grow or survive.

Fla. Football fans reading this column will recognize that location as the home of the University of Florida and, sure enough, this company evolved out of the university's medical school.

Dr. Ryan Kern, president, attended the most recent Ariel meeting and explained that his company has a software product called CereScope, that work hand-in-hand to analyze brain waves and assess the likelihood of seizures.

Here is a scenario that Optima Neuroscience addresses: Someone comes into a hospital's ICU with trauma to the head from an auto accident or fall. How bad is the head injury? Hospital personnel hook up an EEG to monitor brain activity. The machine spits out a continuous stream of squiggly lines that trained personnel can read and interpret. The problem is those "trained personnel" are not constantly watching the monitor to see how the injury is progressing.

Should a seizure occur, brain cells and brain function may be destroyed. If you can predict when a seizure is likely to occur, drugs can be administered that will lessen or prevent damage. The question is: When do you administer treatment?

Optima Neuroscience believes its neurological monitoring technology will "...improve the diagnosis and management of patients with seizure disorders ... by allowing the physician to quickly focus on areas of interest." In other words, by constantly monitoring brain waves the technology can assess on a 0 percent-to-100 percent scale whether a patient is trending toward or away from a potential seizure.

In addition, the real-time CereScope monitor can be placed in the ICU and hooked up to pagers, a nursing station, etc., with sounds and symbols that alert nurses and doctors to a potential problem.

Intriguing, right? It's a long way from proof-of-concept to actual implementation in an ICU, but Kern and his staff seem to be headed in the right direction.

If you would like to attend Ariel meetings as an observer, contact Ray Wenig, president and COO at rwenig1@earthlink.net. See you next week.

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