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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.

2. Peak. 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.

3. Decline, 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.

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.

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

Economists and analysts 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.

As an investor, your level of concern for economic fluctuations will depend on several factors. You may pay less attention to them if you have a long-term approach and your portfolio is positioned to weather the ups and downs.

Alternatively, you may see this as a time of opportunity to reposition holdings or even sell” attractive priced securities to your portfolio.

Angel investors: Watch business in action

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 startups entrepreneur-ship in action, compliments of Ariel Savan- nah Angel Partners (www.savanannahangelpartners.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.

The basics of angel investing is best left to another column, but briefly, angel investors fit somewhere between banks and venture capitalists. VCs get all the press and fame. They invest large sums of money in later-stage companies—companies that generally have evolved to a tipping point where the business can be scaled up quickly.

Angel groups invest moderate sums of money in very early stage enterprises that typically have exhausted startup funds from owners, family members, government grants, and/or bank loans. The business may or may not have a revenue stream from sales. Angel groups rarely attract much attention from the media, but serve as lifeblood to companies that need immediate money to continue operations. However, angel investing is ultra high risk.

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

That brings us to Optima Neuroscience (http://www.optimaneuro.com), a medical software and device company out of Gainesville, Ga.

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