Merchandisers' Corner

Get rich quick:

Details inside!

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During the past decade it seemed easy to get rich quick. The stock markets soared and the technology and biotech sectors glittered like gold. Small companies were bought up, large companies merged and entire sectors joined with ideas of linked markets, new dynamics and sure success.

Corporate chieftains flourished and moved around like so many pro sports managers, with stock analysts and reporters accepting their pronouncements with little question. Investors' portfolios glittered, but many investors bought stock with little regard for whether the target company's business approach made sense or what a mutual fund's holdings represented.

Occasionally a company hit the skids, but a "take-over" specialist was always available to come in and clean house. The result was a streamlined company, but likely manned by cynical employees and scorned by ex-employees discarded in the name of necessity. The ex-chieftain probably walked away with an eight-digit golden parachute. Loyalty and tenacity by the rank and file seemed little more than naiveté in this New World order.

Businesses crashing

Fraud and greed have always existed, but the business events of recent months are staggering in scope and audacity. From

Enron to WorldCom, with dashes of the disillusionment with Arthur Andersen and AOL-Time/Warner thrown in, the collapse of so many megafirms in such short order has sent world stock markets into shock.

What can you trust: A balance sheet, an annual report or the certified audit? What about the analyst's report from a Wall Street securities firm? Now those all may be viewed as just so many words or numbers, rather than valid barometers of a firm's health.

It's easy to shrug these events off as irrelevant to grain businesses, but the ag sector has not been immune. Fraud and corruption haven't been common in agriculture, but the number and size of failures is noteworthy.

Ag has suffered mainly from low grain-handling margins, the cutthroat agronomy trade, and in some cases, firms' inability to weather the inevitable downturns after they've aggressively expanded and diversified.

The revelation of WorldCom's $3.8 billion "misstatement" of earnings is a signal event. Their misclassification of operating expenses as capital expenses was bad enough, but their auditor's — Arthur Andersen — explanation that "they weren't told about the expenses" throws fuel on the fire.

What confidence can lenders or business partners have in balance sheets and financial statements when independent auditors have to be told about basic and obvious errors or deliberate misclassifications in order to recognize them?

Be a proactive business

The ripples could spread directly to the doors of your business. The daily "mark to market" system in futures trading offers many advantages to both longs and shorts, but volatile markets can put even small firms on huge margin calls in short order. Futures firms are tightening their scrutiny on their financial risk, often requiring updated financial statements from customers with large futures positions.

Protect your business by being proactive. Keep financial statements current, in solid order and meet margin calls immediately. Nothing sends up a red flag faster to a clearing firm than a business that suddenly starts "the clerk at the bank forgot to wire the money today" routine. Meeting margin calls is less costly than being forced to maintain surplus funds in your account if your brokerage firm deems that necessary for their protection.

The loss of confidence in even the big, seemingly solid, firms could easily keep the stock market on the defensive for a long time. Some money will look for other investment vehicles, and commodities are one logical area: Investors would still have risk, but at least it would be across an entire area rather than one firm.

Securities money would logically focus on the buy side in commodities, and grains and soybeans are finally showing serious signs of bullish potential. If more money flows into commodities, the probability of increasingly volatile markets rises, which would accelerate a firm's scrutiny on margin exposure.

Ag lenders will also step up their scrutiny of balance sheets and financial statements. Don't be surprised if lenders request additional documentation that their collateral is protected and that their credit lines are being used appropriately.

Learn from others

The ultimate lesson from the debacles of Enron, WorldCom and the others, however, is that they didn't know something that you don't. They don't know how to "get rich quick." (Or if they did, greed did them in.)

But let's face it: Running a solid business that provides products or services at a respectable margin and makes a reasonable return over time isn't flashy like Enron's being able to buy the rights to name the Houston stadium.

Growth and diversification — by themselves — have not proven to be assurances of long-term success. Scrutinize proposed expansions in your business to be sure they cash-flow properly and aren't being done just to satisfy patrons or clients or to "catch a trend."

Figure that any capital expansion or improvement depreciates 50% on the day you finish construction. Hard assets aren't bringing much in ag these days, but the ability to make money from them does have value.

One elevator manager summed it up well just recently when he said, "I've always wondered how I could be so dumb — just running an elevator while those guys flew around in their jet and bought each other out. What did they know that I didn't? Now I understand: They may have had a scheme, but at least I'm still in business."

You can survive and even prosper by doing basic things well. It may not be exciting, but remember who won the race — the tortoise, not the hare. F&G

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