Home (/) / Articles (/articles/) / COVID-19 Winners And Losers

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COVID-19 Winners And Losers

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< (/articles/2020/august/covid-19-challenges-the-substance-of-economic-substance-rules/)

> (/articles/2020/august/back-to-the-new-normal-future-covid-reinforces-imperative-for-ifcs-to-collaborate-in-fight-against-common-threats/)

Back to the 'New Normal' futur...

We are between Pre-COVID and Post-COVID economies. Governments across the globe intervened with the idea of freezing the economy so the economy could emerge the same after the virus passed, if a bit damaged. All will be back to normal. The global governmental reaction to the pandemic of ordering shut downs and offering stimulus packages is historically the largest peacetime government economic interference. The gradual disintermediation of the middlemen with the application of technology was happening in measured steps. As a result of governments' interference, it is now happening at lightening speed. Many traumatised companies and industries are unable to adapt and will not survive. This is the Shock-COVID economy.

The advantages of asymmetric information and the economics of the Coasean firm have been stripped away. Many, including myself, expect the Shock-COVID economy to be in place until late 2021. Here are some insights to the winners and losers in the transition from the Pre-COVID economy to the Post-COVID economy.[i]

Loser – Big cities and the Central Business Districts. They were already under pressure from online retailers, the increasing use of distributed business models, and outrageous rents. The recent development of lockdowns and closed offices was the wake-up call that they are not needed. Businesses located in CBDs were rapid adopters of technology for the distributed workforce and realised, there are more options than an expensive central office. The police's inability or unwillingness to control looters is salt in a festering wound. Adios CBDs, your days of dominance are gone. As a consequence, the value of CBD commercial space and dwellings is dropping precipitously. The decrease in rents and property values indicate the market forces and foreshadow that landlords and their lenders are in trouble.

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Winner – Suburbia and rural areas. The white-collar workers are finding an ability to use technology and live their lives away from 2-hour commutes and working in cubicles. Home sales remind solid in suburbia and rural areas across North American and Europe. Many call centres have not been call centres for years, but people working out of their spare rooms with Voice Over Internet Protocol (VoIP) technology. Now we have technology that can do video and share big data at speeds only dreamt of a few years ago. Work from home is here to stay.

Loser – Big government is a big loser. Their prediction foolishness about the virus and getting it wrong while crashing economies across the world with their heavy-handed reactions and dictums has created a memory that will last a long time.

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Compounding big government foolishness were the little tiny stimulus checks and bridge loans to nowhere. The checks did not cover anything, and a large chunk of the hasty bridge loans are unlikely to be repaid. The stimulus programmes were an idea to address the consequences of the lockdowns. Ordering business to close and edicts when and how people can be evicted for non-payment of rent was a massive intervention in economies and a full-throttle confiscation of property rights. Economies have intricate and delicate relationships like the gears of a watch. Tinker without thinking and stopping to consider the cascade of failures you will precipitate is a classic iatrogenic risk. Think of all of those loans on homes and apartment buildings, offices, and more that will default because the property owner's property rights have been ignored.

Governments are trying to "freeze" the economy, so when we resume or get back to normal, everything will be alright. This is reminiscent of Nixon's wage-price freeze with aftershocks lasting decades. The Nixon shock had the US exit the Bretton Woods agreement, massively disrupted currency values, and turned international trade on its head. The "COVID Freeze" will echo for at least two decades.

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Loser – The taxpayer is going to get slammed. The hole dug by government bailouts and economic interference is too big for just the income tax to balance the books. Uses taxes, wealth taxes, transfer taxes, carbon taxes, import duties, and consumption taxes are all being eyed to pay for the intervention. The tax increases proposed by many countries range from 1 to 3 per cent of GDP.

Winner – Those companies helping workplaces and private lives pivot to the COVID reality of work and recreation. Workplace pivot assists range from group meetings, cloud security, monitoring the distributed workforce, and firms helping adaptations such as a firm specialising in temporary conversions of passenger aircraft to cargo aircraft. Private life pivots include delivery service and retail groceries. The recreation pivot has been to those offering staycations, motor homes, travel trailers, and private aircraft. There has also been a drastic increase in cycling sales on and off-road. Many trails have seen ridership increases of well over 100 per cent compared to the same time last year.

Winner – A big score for Business to Consumer (B2C) business and those platforms that assist.   Amazon and Alibaba and just a few examples of platforms. However, they will evolve to service niche markets and retailers. Larger brands and retailers will go direct to the customer.

Loser – Middlemen in everything. Like travel agents and bookstores, middlemen are being dispensed with, and B2C is dominating the future commercial landscape's genetics. The Post-COVID landscape. It is not just the big box clothiers, such as Nordstrom's, Zara, Macy's, Laura Ashley, Brooks Brothers, Debenhams, etc. It has been hitting financial services, with more peer to peer lending, alternative remittance systems, crowd- sourcing, sale of insurance. and financial products are nearly all online, and the rise of FinTech including the likes of robo advisors. The middleman in knowledge, such as Universities and even accountants and lawyers, are being replaced with AI applications. The middlemen using asymmetric information to profit from inefficiency in the Post-COVID marketplace are going away.

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Loser – Charities of all kinds. 97 per cent of all charities survey by TheNonProfit Times have been negatively impacted by our reaction to COVID. Charities typically raise money from events such as dinners, galas, even festivals. They put the fun into giving. However, with current prohibitions, they are back to calling, writing, and begging for money on the television. At the current level of uncertainty, checkbooks are staying closed. The Association of Fund Raising Professionals saw an 11 per cent year on year drop in March, and 2019 was not a good year for donations. I have spoken to other charities who see a reduction in contributions and revenue from functions off 60 per cent from last year.

So what does all of this mean of the IFCs of the world in the Post-COVID environment?

Dark Clouds

The OECD and EU will continue to howl at the IFCs and vilify the IFCs for allowing vague, amorphous tax dodging "corporates" to dodge their tax-paying duty. Further, they will allege, but for the existence of IFCs, the rest of the world could have weathered the downturn caused by the virus and various government's reactions to the virus. They must deflect blame for their domestic failures. The IFCs must be prepared to rebut and correct the spurious and incorrect assertions. I half expect to see the OECD and EU staffers burning IFC flags for the media and stomping on them.

Many funds will fail. Real Estate Investment Funds (REITs) and Credit Funds currently appear to be the hardest hit. Many have suspended redemptions. Margin calls are causing forced selling of assets, lowering the value of illiquid assets further and trigging more margin calls and forced selling. It is a familiar death spiral for leveraged funds. Also, look for the death spiral for funds that deal in collectibles such as antiques, fine art, jewelry, as well as peer-to-peer lending and crowdfunding operations.

Equipment leasing funds for aircraft, cruise ships, and maritime cargo, and intermodal facilities is of concern. As banks continued to exit these sectors, non-bank financing has stepped in with a combination of leasing, charter, and user fees. With aircraft usage off 80 per cent, cruise ships off 94 per cent, and cargo off 40 per cent - many companies and their lenders are in trouble. Most have enough cash for 2020, but not 2021.

As many move to cash, the pressure on redemption increases; many funds with illiquid assets will have no choice but to suspend redemptions.

Disinformation and misinformation will rule the airwaves. Manipulation of public opinion and sentiment will make any ditch a chasm, a ripple a title wave, and any grievance a right. This is permitted as many are very poor and uncritical consumers of information. Thus, the delta in markets will grow ever larger for the foreseeable future.[ii]

Shiny Opportunities

The acquisition and Mergers and Acquisitions (M&A) frenzy is just around the corner. Those with cash and a willingness to be aggressive will swoop up foundering business and technology startups at bargain-basement prices. Those involved in M&A should not get too excited. At these prices, good accounting, legal, and due diligence documentation will be considered more expensive than the risks.

The fund wind-up business should be excellent. Receiverships of every kind will be booming - some from the marketplace and some from frauds.

Short Funds and Alternative Investment Funds will grow in their market share. The distressed assets funds will do well, and so will new funds looking to grab new opportunities. Many of the older market funds, looking for “value investment” can find no value. 90 percent off the Presidential Stateroom on the Titanic after it grazed an iceberg is not a bargain.

Additional citizenships – the inquiries are already up over 40 per cent from this time last year. The only exception is the US-EB5, mostly due to the uncertainty of the next United States’ election cycle. The professionals looking to assist those looking for additional citizenships will do well but beware of new entrants to the marketplace.

Post-COVID FinTech will be a big thing. In the 1960s it was plastics, in 2020 it is AI and FinTech. AI tied to FinTech will lessen the cost and increase the quality of information. It will expand the population that could possibly avail itself to IFC services. It is also a key part of the pressure on the intermediaries.

Summary

Firms dependent upon asymmetric knowledge are in trouble. Firms locked in the brick and mortar business are in trouble. Firms that cannot pivot to the new distributed markets space with quality brands, appeal, and service are toast. Environments and economies that are heavily regulated will pivot too slowly to survive. Smaller, customer-focused firms will do well. Those delivering value and information to family offices, funds, serious investors, and strategic investors, not the old pabulum, will see their day. The nimble armed with even a small modicum of foresight will be the leaders in the Post-COVID Economy.

Footnotes:

[1] After months of working alongside a virologist, a medical doctor, and many a discussion with several economists, I have come to these observations. The work we did was done to provide insight and guidance for Alternative Expert Networks – short sale insights. Our insights are being shared with permission from Alternative Expert Network.

[2]I share this out of theme paragraph as a choice to open the reader’s eyes to what I am seeing around the world in July 2020 with the burning of cities by intolerant thugs. The events remind me of a Karl Popper quote, "Unlimited tolerance must lead to the disappearance of tolerance. If we extend unlimited tolerance even to those who are intolerant, if we are not prepared to defend a tolerant society against the onslaught of the intolerant, then the tolerant will be destroyed, and tolerance with them.”

ABOUT THE

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Mr. Files is President of Financial Examinations & Evaluations, Inc. He is an international financial investigator and due diligence expert who has run cases in over 130 countries and has visited over 100 countries. Mr. Files has tackled investigations running from a few hundred thousands dollars to over 20 billion. Along the way he became familiar with the knowledge of what people need to do, for due diligence, preventing corruption, and to avoid helping criminals launder money. He brings this experience of hands on investigating and problem solving experience to his lectures on Due Diligence, AML, and Anti-Corruption. Prior to founding FE&E, Inc. he served as the Director of Corporate Finance for American National an investment bank focused on development stage venture capital. He was also employed by Oppenheimer/Rouse as a commodities specialist trading customer accounts in Agri-Business and 24-hour gold, silver, and foreign currency trading. Mr. Files has authored six books, and many white papers and articles. He has been quoted in major publications including The Guardian, The Financial Times, Forbes, US Newsweek and more. He is the author of the award wining book Due Diligence For The Financial Professional 2nd Edition. Mr. Files serves on the board of directors for several private companies, funds, and non-profits. Mr. Files is active in several civic organizations. In the past Mr. Files has served as a member of the Arizona Governor's Board on Solid Waste Management, as an advisor to the Governor's Board on Economic Planning and Development. Mr. Files has also received a Commission and a Medal of Merit from the President of the United States.


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