South Jersey Biz
https://www.southjerseybiz.net/article/2118/Nobody-Has-a-Crystal-Ball

Volume 12, Issue 10 (Oct. 2022)

Nobody Has a Crystal Ball'

While South Jersey's financial experts point to the past year as unwelcome evidence of how unpredictable the economy can be, concerned clients' across-the-board rise in face time with trusted advisors has illustrated just how important it is to develop those relationships for the best, most personalized guidance on how to weather the storm.

by Madeleine Maccar

If anything has become apparent in the past year, it's that even the most carefully constructed plans are at the mercy of life's unpredictabilities. And while plans of all kinds can come spectacularly unraveled at any time, it's especially daunting and destabilizing when one's financial future is in question, whether their investment portfolio has taken an unexpected hit or because macroeconomic factors have fostered unprecedented and far-reaching instability.

Plotting all manners of financial roadmaps is never a guaranteed science, as reputable experts are quick to emphasize. To best protect their clients from too much of a blow, even temporarily, it's not about the impossible but still tantalizing task of predicting the future, but rather making thoughtfully considered and strategically implemented financial decisions designed to withstand the inherent uncertainties of the world at large while still accommodating each individual's unique goals and financial positions.

"We consistently see the effects of the national economy on a local level," confirms Daniel Sulpizio, First Harvest Credit Union EVP & COO. "When interest rates were low, we saw members take advantage of the opportunity to buy homes, refinance their existing mortgages and improve their homes with home equity loans and lines of credit. Now that rates are climbing, we see more requests for consolidation loans to pay off high-interest credit card debt, and more members focusing on adding to their deposit accounts to earn more interest."

Working with qualified experts is one of the best ways to ensure your goals, risk tolerance and timeline targets proactively adapt to always-mutable economic conditions. That's why it's no surprise that banks, wealth managers, financial advisors and investment experts have reported 2022 saw a sharp increase of client requests for one-on-one time, when previously, once- or twice-a-year check-ins typically were enough to afford clients all the peace of mind they needed.

"[Last year,] you were coming into what we thought were uncertain times and higher interest rates, as we have obviously seen," says Stan Molotsky, president and CEO of full-service retirement firm SHM Financial Group. "Higher interest rates critically affect what and where you put your money in. Plus, you also have this inflationary factor, which is costing everybody more than what it did in the past—and it's going to be that way, I think, for the next six, 12, 18, 24 months. … This chaos and confusion means we're seeing our clients a lot more than in rosier times. But because we stress having an exit strategy and taking a balanced approach … our advice is pretty much the same as it was about a year ago."

A Turbulent 2022

Even though the pandemic's initial concerning blip corrected itself fairly quickly, there's no doubt its reverberating consequences have contributed to 2022's legacy as a rocky year plagued by the uncertainty that's always just beyond the horizon but rarely strikes so dramatically.

"The biggest hurdle is just adjusting to a significant market correction that's lasted for more than just a short period of time," says John Torrence, managing partner of Masso Torrence Wealth Management. "We've been spoiled over the last few years, even during the pandemic. … When bad things happen, clients just assume it will turn around rather quickly, but things are probably going to be this way for a while. If you threw as much money as we needed to to make it to the other side of the pandemic, you now have a significant inflation issue, and the Fed has to be extremely aggressive to get it under control. And now we're living with that."

From community banks to wealth advisors, local financial experts have been fielding all kinds of questions about what still lies ahead and contextualizing current financial data for their worried clients, as sky-high inflation is just one economic factor making more and more people worry that a recession is imminent.

"We're not in a recession … but we are going to be in a slow-growth area," says Frankie Fontanez, PNC Bank's Private Bank Head of Wealth for Southern New Jersey. "Equities are going to, and have been, a little bit weaker because of where interest rates are, and [Federal Reserve] Chairman [Jerome] Powell is raising rates for reasons he deems appropriate to combat inflation."

While Cornerstone Bank's EVP-CLO Joseph Tredinnick points out that "COVID hasn't gone away and isn't going away," nor will its peripheral long-term repercussions and challenges, there are some bright spots in the past year, like how many companies have found that their "agility has been rewarded" as necessity nudges them to embrace updated, more successful operational models, or how much help has been available.

"There's a lot of resources out there," he says. "We work with New Jersey EDA [Economic Development Authority], who just came out with this Main Street lending program [for qualified businesses], which is a forgivable loan, a grant, for up to $50,000—so for small businesses, it's something great to take advantage of. We pride ourselves on being a resource directing people to programs like that, and are always looking for opportunities to make connections like that so we can add value to and enhance our relationships. The greatest part of my job is seeing people thrive."

Indeed, both the programs that attempted to repair COVID's damage and the unexpected business opportunities that come from shifting demands have been regarded as assets to the region's overall economic health.

"The South Jersey region has benefitted from businesses taking advantage of the SBA's [Small Business Administration's] Paycheck Protection Program loans to keep operations running and staff employed," observes Robert White, president and CEO of 1st Colonial Community Bank. "Through the pandemic, certain industries saw it as an opportunity to make significant investments in technology and digitization. In addition, the residential construction industry saw increased demand from people working from home to create home offices. This created a ripple effect in the economy with the employment of contractors, supply of building materials, and other services, which have driven increases in home values."

An Uneven Recovery

There are plenty of industries that found their services in high demand in recent years while others found ways to stay buoyant despite the current economic landscape's myriad challenges. Construction companies, whether they focused on interior or exterior work, are still seeing a boom in projects, regardless of stubborn supply-chain snarls, while commercial and residential real estate professionals reaped the rewards of South Jersey's market at its red-hot peak. And ever since lockdown orders and mask mandates have relaxed, health care providers of all kinds are benefitting from the pent-up demand following so many patients' reluctance to risk contracting COVID for regular checkups and consultations they felt they could put off for a year or two.

But there are still a number of companies fighting for survival in the face of seemingly insurmountable odds, with small businesses bearing the brunt of those hardships. And as the issues born of high inflation wear on, the cost of doing business will continue to climb.

"Enemy No. 1 is still inflation: Everything costs more, which takes money out of the economy because you're paying interest, as opposed to using that interest payment for another purpose," says Mark Wander, a founding partner of the certified public accounting firm Baratz & Associates.

Sulpizio emphasizes the current economy's household impact, noting that "as a result of rising interest rates, fuel prices and food costs, the need for community assistance remains high." And with so many families left without a disposable income at best or struggling to make ends meet at worst, the neighbors who rely on their patronage take a hit, too.

"We have a lot of business owners as clients and, historically, they're all talking about how inflation has significantly affected what they do," Torrence notes. "In this instance, I would say we're seeing the effects of trickle-up economics. If you're so squeezed that you can't afford to spend money on non-essentials like dining out, that affects local businesses."

No matter how well an industry or company has bounced back, though, there is one prevailing challenge facing every employer across the board: too many open positions and not enough people to fill them.

"The biggest issue that we see—as many, many business owners are seeing—is labor and staffing, without a doubt," says Lee Sheilds, co-office managing partner at accounting and advisory firm Marcum's Marlton location. "We still have clients struggling to get adequate staffing for whatever industry they're in: restaurants, retail, even warehousing and manufacturing."

After the pandemic encouraged many on the precipice of retirement to bow out a few years early or had others reevaluating their lives to the point of pursuing a better work/life balance, the remaining workforce was left to work harder than ever. Those employees are—and have been—showing signs of burnout in a trend with one worrisome potential domino effect.

"COVID scared the daylights out of a lot of people, which is one reason why they were retiring early," observes Greg Carlisle, South Jersey market president for TD Bank. "Everybody's mentally fatigued, and nobody’s immune to it. If 75% of the workforce is feeling that beaten down, that’s a real concern. There are people who are thriving, don’t get me wrong, but that 25% who are still feeling like they can forge ahead, they can’t do it by themselves. A big concern for 2023 is the mental health and stability of those people who want to stay in the workforce.”

Looking Toward 2023

While it’s a trend born from a combination of anxiety, worry and unsteady ground, South Jersey’s financial experts do resoundingly agree that everyone should continue seeking more frequent contact and facetime with their trusted advisors, beyond those requisite annual or biannual check-ins.

“We urge our clients to prepare, prepare, prepare,” Molotsky says. “We counsel holding more cash than you normally would in this kind of an economic market. When you hold cash, sometimes you are going to suffer a little bit from the inflation that we’re currently confronted with but, as we’ve stressed in our practice, the market strategy today is all about survival. And having cash on hand is the essence of survival. That’s how you recover from the dark days.”

With more people than usual running to financial experts and advisors of all kinds for professional guidance and assurance, it’s apparent that those relationships are more important than ever to keep nurturing, even after the markets normalize.

“Start utilizing your professionals!” Tredinnick encourages. “Building a professional banking relationship is an important component in helping you find the direction you should be going in.”

Even the most cutting-edge technology still can’t predict the future, a truth widely acknowledged by financial-industry longtimers. That’s why it’s important to develop client relationships, allowing those trusted advisors to understand each individual’s unique risk tolerance and financial goals well enough to offer the most beneficial, individually tailored advice.

“The one thing I've learned in my 30-plus-year career is that nobody has a crystal ball,” Fontanez says. “What holds true is that this is a relationship-based business. You have to earn people’s trust, prove your integrity, and that happens over time. You build that trust by being there and communicating with your clients and becoming embedded with them so they trust you to advise them through the hard times.”

South Jersey’s financial experts do feel confident venturing a few expectations for 2023, citing some of the metrics, patterns and indicators that shape those outlooks.

“One year ago, interest rates were 3%; [at the end of September, they were] 6.75%,” Sheilds says. “That’s crippling to many industries: title insurance, mortgage companies, home sales. Until that subsides and inflation gets a little more under control, that’s going to be tough for certain industries to battle through.”

“All of the data suggests we are headed into a recession,” adds White. “We will continue to see an economic slowdown in growth and continued pressure on employment and inflation. But I remain confident that South Jersey will perform better than most other regions of the county: We are very adaptable, have diversity in employment, and rental rates are appealing across South Jersey with the stability of the job market."

Wander, however, says that while "the picture I paint isn't a pretty one," it is important to realize that New Jersey is seeing an overall exodus and shrinkage, whereas its Northeast neighbors like New York and Delaware are not.

"There's some evidence that policies impact people's behavior," he explains. "There's been a migration of people out of the state caused by policy: policy of regulation, tax policy, the policies that create problems that are maybe or maybe not anticipated. … I see some pain ahead of us, I think you'll see energy prices begin to rise, and I see some issues for companies that are heavily energy-dependent. That impacts anybody who's using a lot of energy, from delivery companies to companies that manufacture goods, to storage companies—which will affect food prices."

But most of all, no matter how much uncertainty lies again, area experts are sure of one thing: Even the toughest markets and scariest trends are temporary, and a proactive approach to the future offers plenty of ways to soften whatever blows will come.

"Be cautious, be prudent, but be optimistic," Carlisle advises. "Consult with your banker, your CPA and your attorney. You're going to be need to stay educated in 2023 because there's even more changes coming. But having come out of the '08-'09 crisis when I was a younger banker, when I thought the world was over, the people with the mental fortitude to keep pushing forward, they came out of it ahead—and financially stronger. I know these roller coasters are exhausting, but take a deep breath and look at things historically: This, too, will pass, and it's going to be OK."