



INVESTMENT  
RESEARCH

A satellite-style image of the Earth, showing the Americas and parts of Europe and Africa, set against a dark blue background. The text is overlaid on the center of the image.

# 5 Warning Signs of Impending Recession & How to Safeguard YOUR Business

Presented by: Andrew Stotz, PhD, CFA

24 August 2023

*A. Stotz*  
ACADEMY

**Be prepared.**

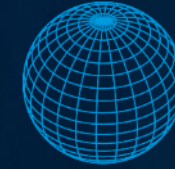


# I follow (and teach) the CFA code of ethics, but I particularly adhere to one part...

## THE CODE OF ETHICS

Members of CFA Institute (including CFA charterholders) and candidates

- Act with integrity, competence, diligence, respect and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.
- Place the integrity of the investment profession and the interests of clients above their own personal interests.
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.

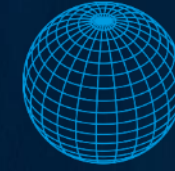


**FVMR INVESTING**  
A. STOTZ INVESTMENT RESEARCH

**Andrew Stotz, PhD, CFA**

# I noticed the same word on Page 3 of IOD's Chartered Director Applicants Handbook

- ★ “This person is sufficiently broad-based, capable of maintaining strong independence and upholding good standard of integrity and business ethics in performing the duties of a director in line with international best practices recognized by IOD.”



**FVMR INVESTING**  
A. STOTZ INVESTMENT RESEARCH

**Andrew Stotz, PhD, CFA**

# Consensus is soft landing

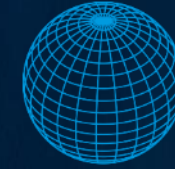


**Douglas A. Boneparth** ✓  
@dougboneparth

Subscribe



The US economy avoiding a recession...



**FVMR INVESTING**

A. STOTZ INVESTMENT RESEARCH

**Andrew Stotz, PhD, CFA**

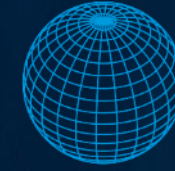


INVESTMENT  
RESEARCH

# In the US, recessions are mostly engineered by the government

---

- ★ By increasing taxes
- ★ Decreasing government spending
- ★ Tightening bank regulations
- ★ Tightening the money supply
- ★ Increasing interest rates



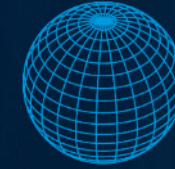
**FVMR INVESTING**  
A. STOTZ INVESTMENT RESEARCH

**Andrew Stotz, PhD, CFA**

# Then what happens is business activity slows

---

- ★ This leads to a reduction in investment in new projects
- ★ After that, banks begin to slow lending to businesses



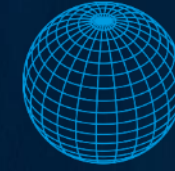
**FVMR INVESTING**  
A. STOTZ INVESTMENT RESEARCH

**Andrew Stotz, PhD, CFA**

# This leads to consumers having less to spend

---

- ★ This leads to a slowdown in the hours that employees work
- ★ Hence, workers make less money
- ★ This leads to a slowdown in consumer spending



**FVMR INVESTING**  
A. STOTZ INVESTMENT RESEARCH

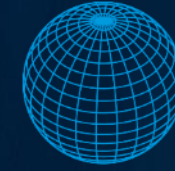
**Andrew Stotz, PhD, CFA**



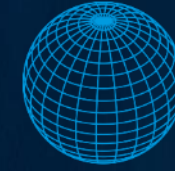
# Eventually people start losing jobs

---

- ★ A slowdown in consumer spending means falling retail sales
- ★ This brings another wave of reduction in factory orders
- ★ Higher interest rates and lower purchasing power reduce the demand for housing
- ★ This leads to falling home sales, prices, and the construction of new projects
- ★ Eventually, we see layoffs and rises in unemployment benefit applications

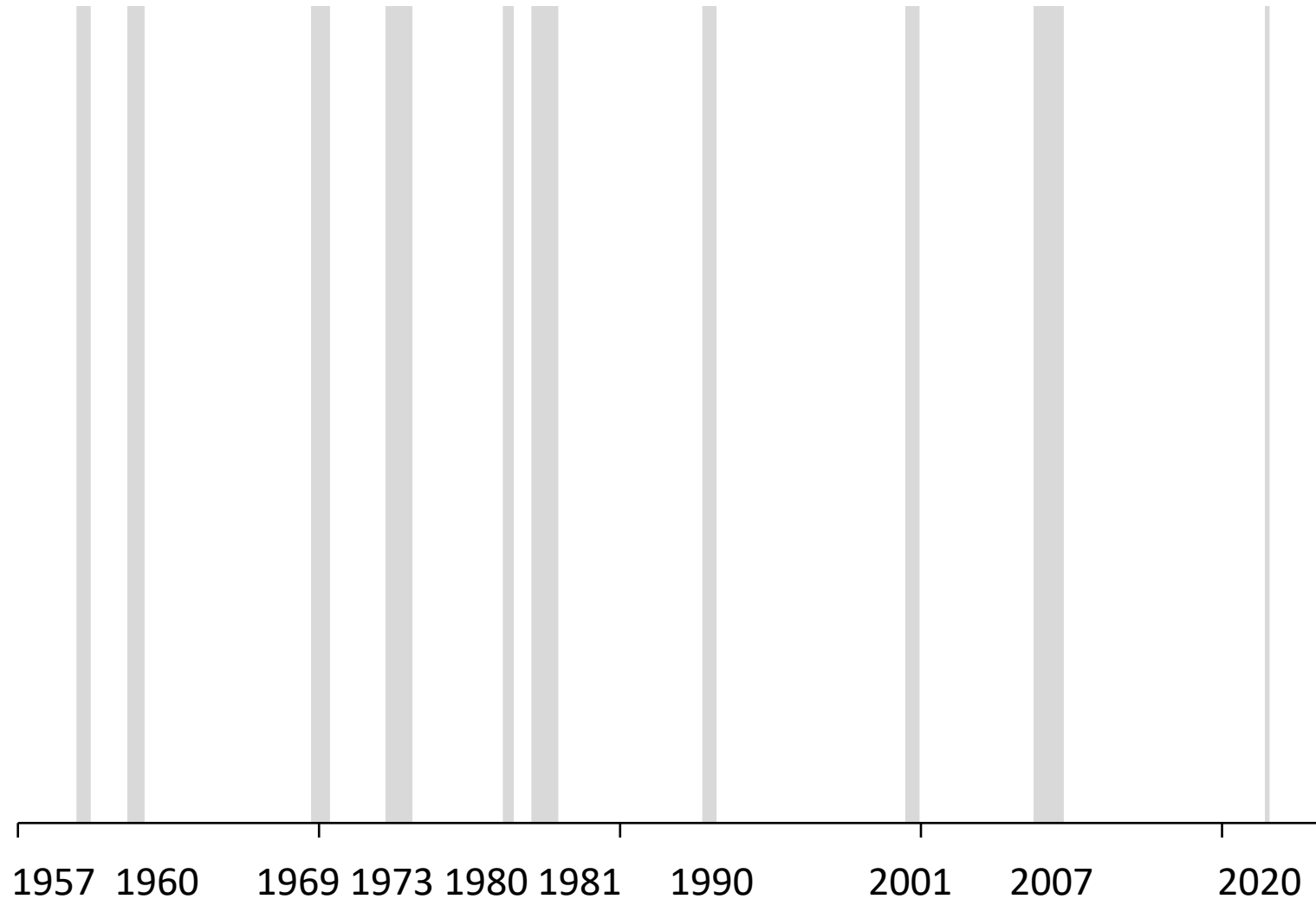


# The US has had 10 recessions since 1957, and I think that we are heading for number 11



**FVMR INVESTING**  
A. STOTZ INVESTMENT RESEARCH

**Andrew Stotz, PhD, CFA**



24 August 2023



INVESTMENT  
RESEARCH

**5 Warning Signs of**

**Impending Recession**



**Warning Sign #1**

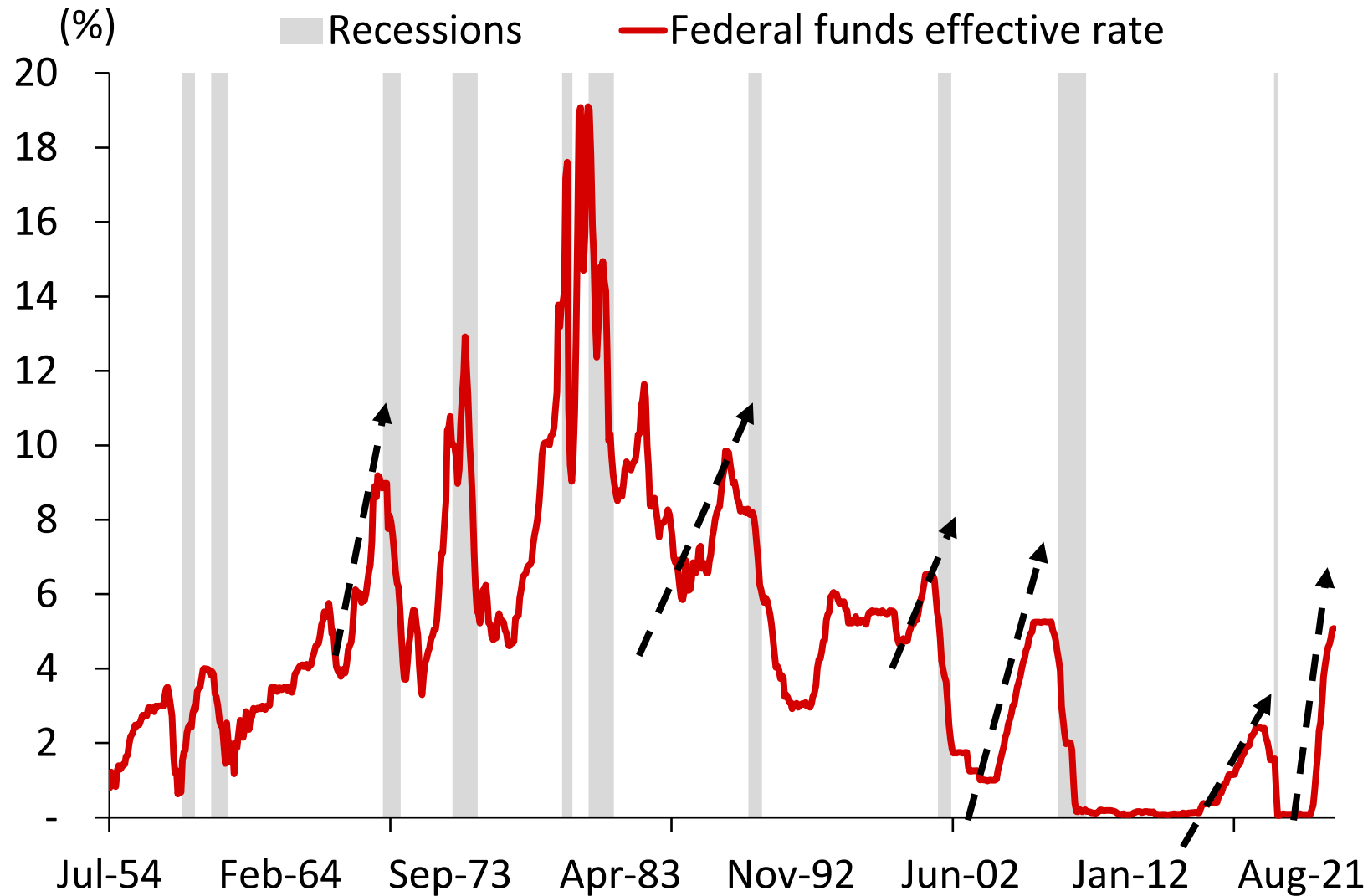
**Inverted yield curve**



# Steep rate hikes have historically preceded recessions



**FVMR INVESTING**  
A. STOTZ INVESTMENT RESEARCH



**Andrew Stotz, PhD, CFA**

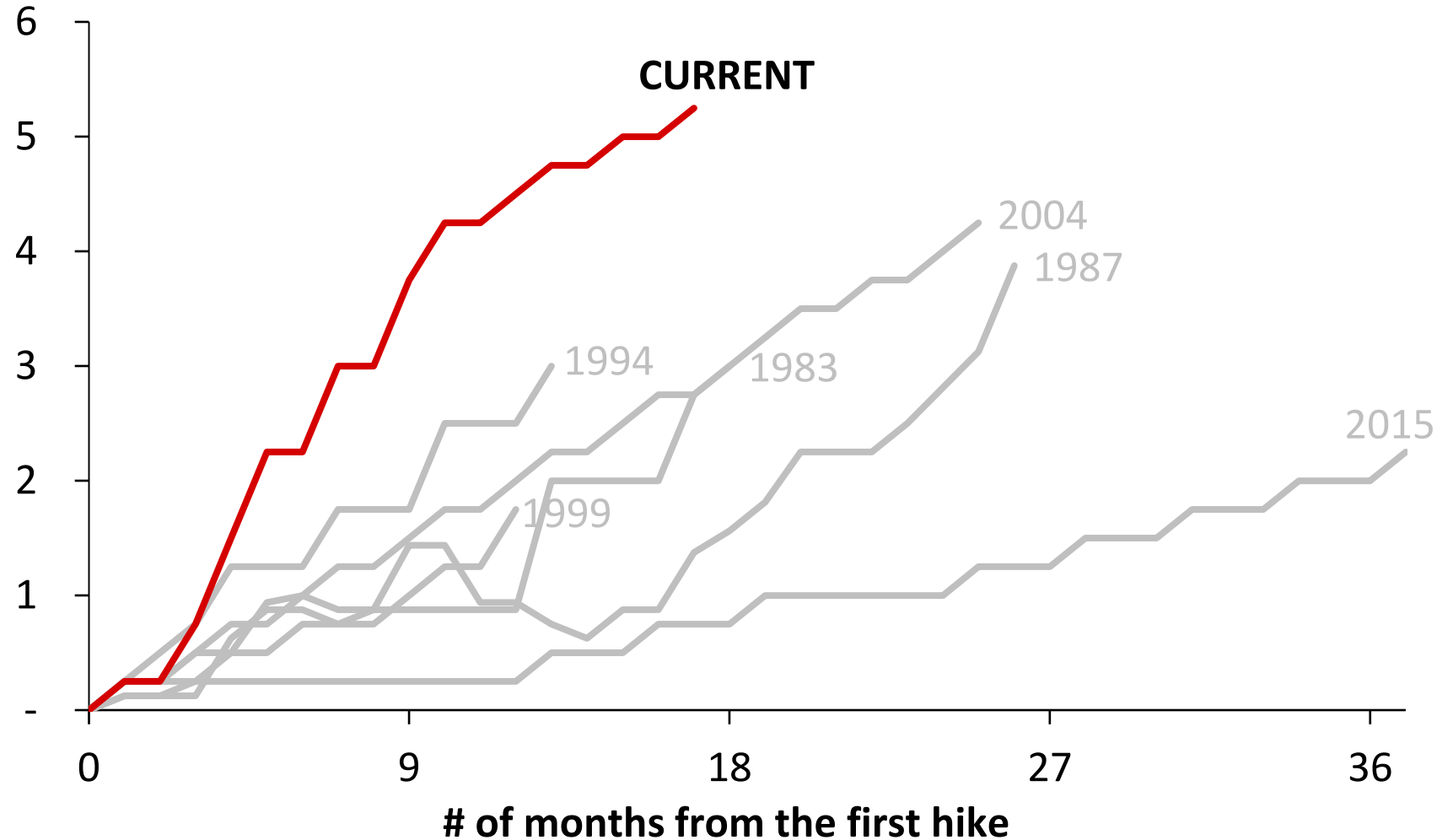
- 🌐 Fed's tool to fight inflation is raising the federal funds rate

# This is the fastest and most aggressive rate-hike cycle by the Fed since the 1980s



**FVMR INVESTING**  
A. STOTZ INVESTMENT RESEARCH

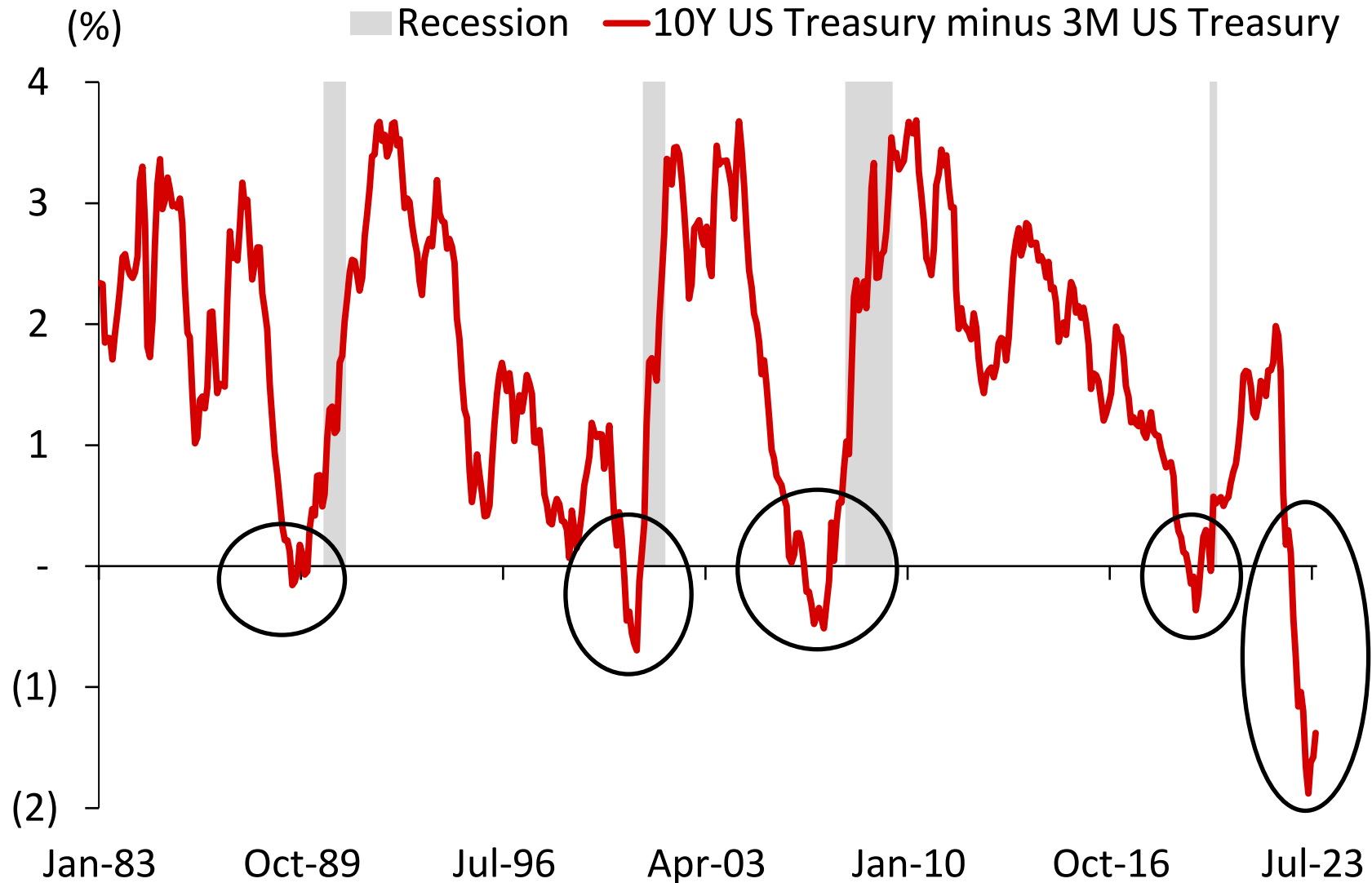
Change in Fed's target rate (%)



**Andrew Stotz, PhD, CFA**

- After the 0.25%-hike in Feb 2023, the current rate-hike cycle became the most aggressive since the 1980s
- The Fed has hiked rates by 5.25% in the current cycle
- This has resulted in short-term rates becoming higher than long-term (yield-curve inversion)

# Yield-curve inversion signals 4Q23 US recession



Sources: A. Stotz Investment Research, FRED.  
Note: Data as of 23 August 2023.

24 August 2023



**FVMR INVESTING**  
A. STOTZ INVESTMENT RESEARCH

**Andrew Stotz, PhD, CFA**

- All recessions in the US since 1968 were preceded by an inverted yield curve
- As it turns, recession typically follows
- Average time from inversion, until the recession started, was about 1 year (so 4Q23)

**Warning Sign #2**

**Peak employment**

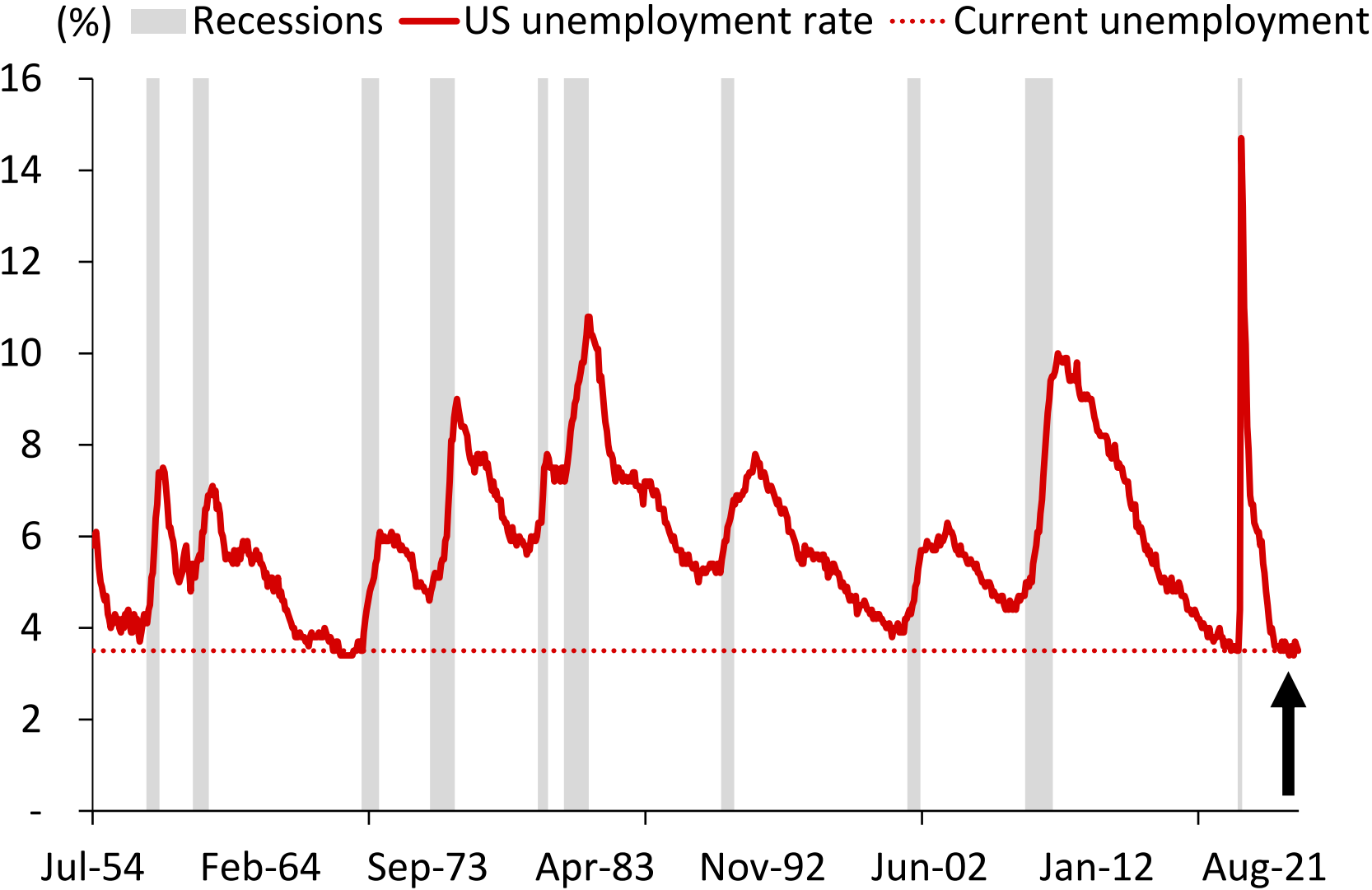




# US is now at peak employment



**FVMR INVESTING**  
A. STOTZ INVESTMENT RESEARCH



**Andrew Stotz, PhD, CFA**

- Puts upward pressure on wages, which is inflationary
- Lowest unemployment since 1969; peak employment precedes recession

Sources: A. Stotz Investment Research, FRED

24 August 2023

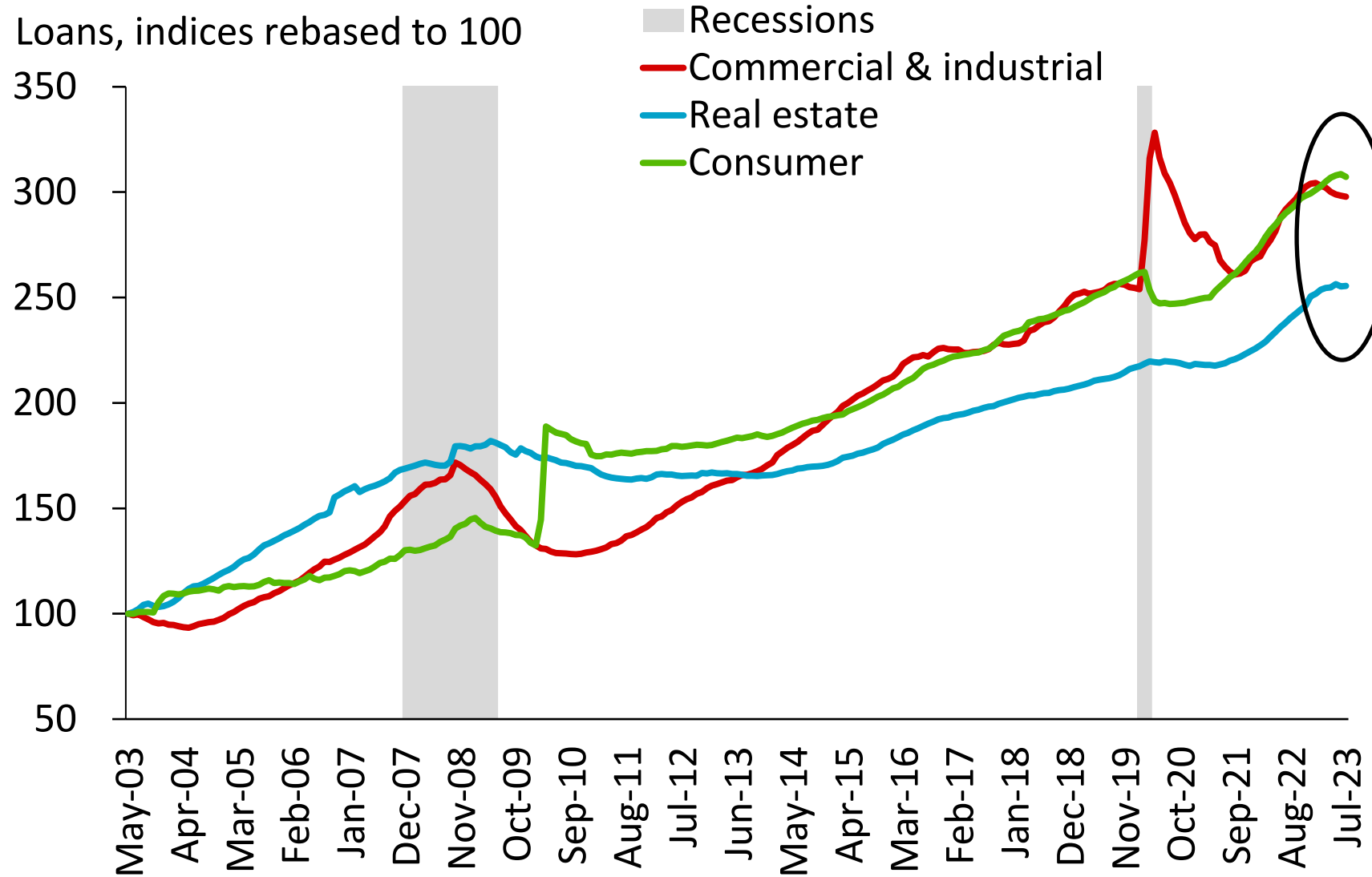
## **Warning Sign #3**

**Slowdown in bank lending**



# Business lending has slowed; real estate loans to follow soon

Loans, indices rebased to 100




Sources: A. Stotz Investment Research, Fed, FRED

24 August 2023



**FVMR INVESTING**  
A. STOTZ INVESTMENT RESEARCH

**Andrew Stotz, PhD, CFA**

 Warns about a slowdown in business activity

*A. Stotz*

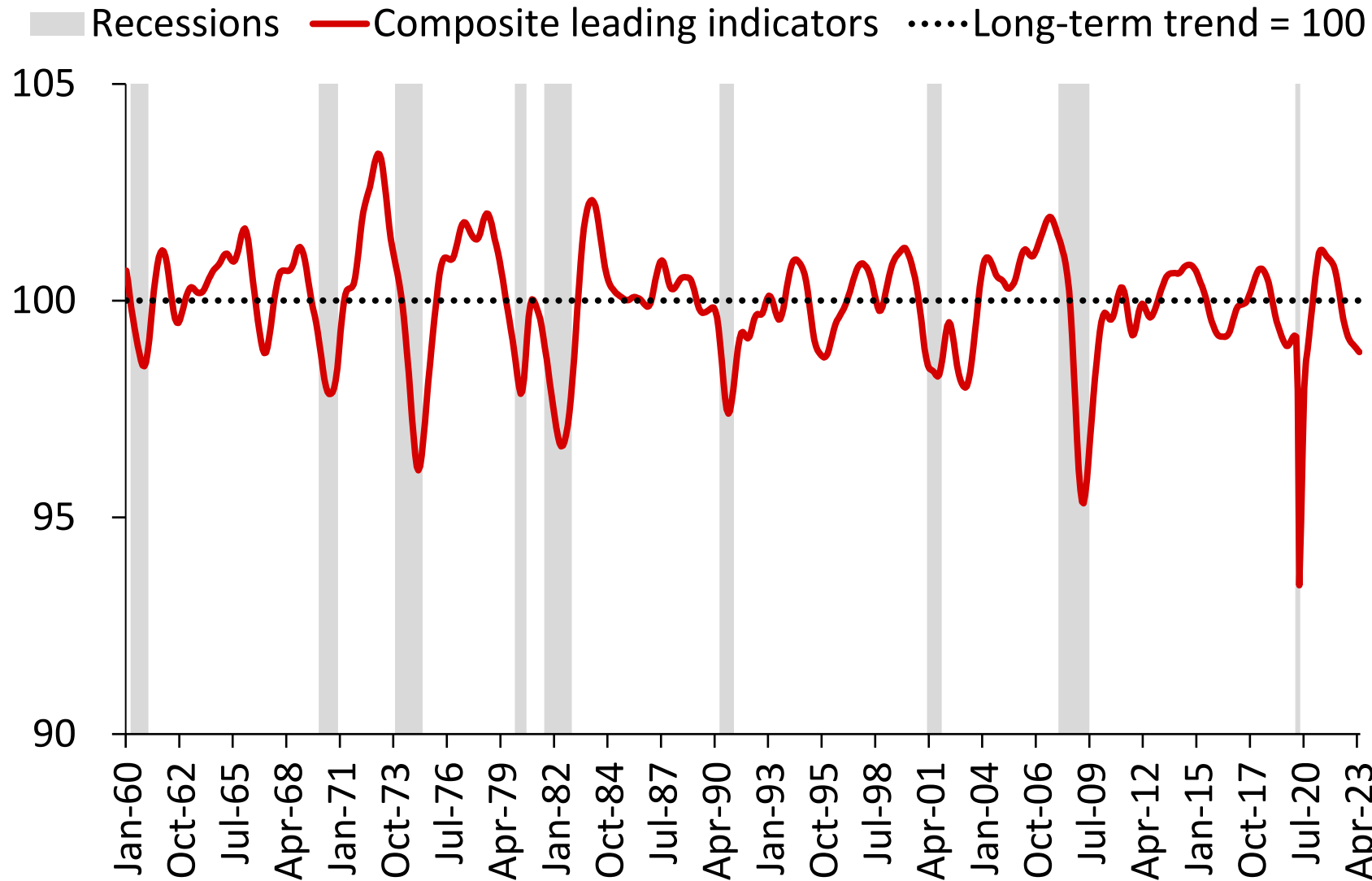
INVESTMENT  
RESEARCH

## **Warning Sign #4**

**Leading indicators falling**



# Composite leading indicators falling



Sources: A. Stotz Investment Research, FRED, OECD

24 August 2023



**FVMR INVESTING**  
A. STOTZ INVESTMENT RESEARCH

**Andrew Stotz, PhD, CFA**

- The indicator looks at factors aimed at providing early signals of turns in the business cycle
- While the indicator has given false signals before, recessions have typically followed large falls

*A. Stotz*

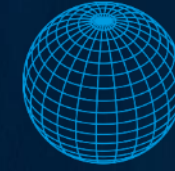
INVESTMENT  
RESEARCH

**Warning Sign #5**

**Weakening consumer**

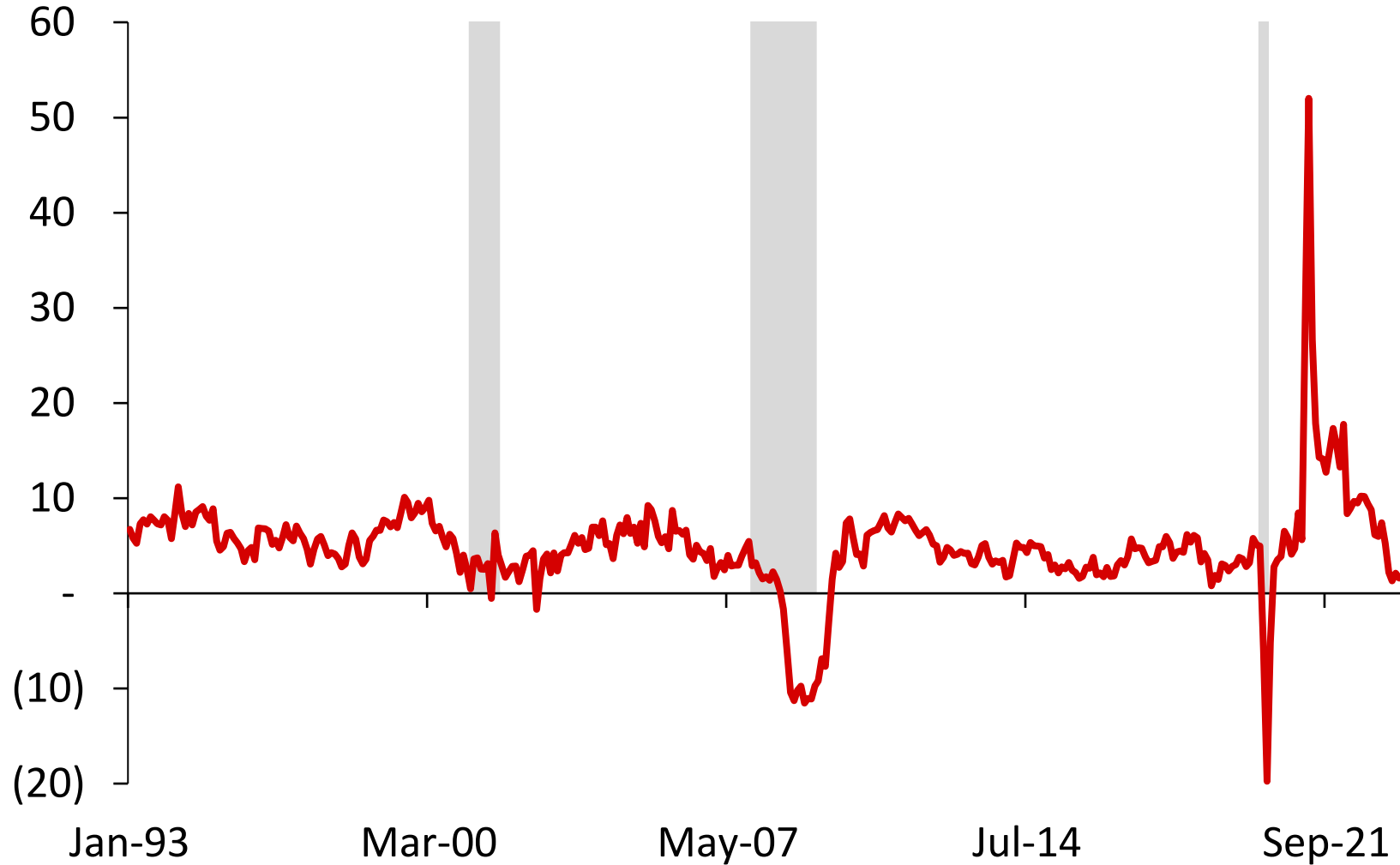


# Retail sales have been slowing, which typically precedes a recession



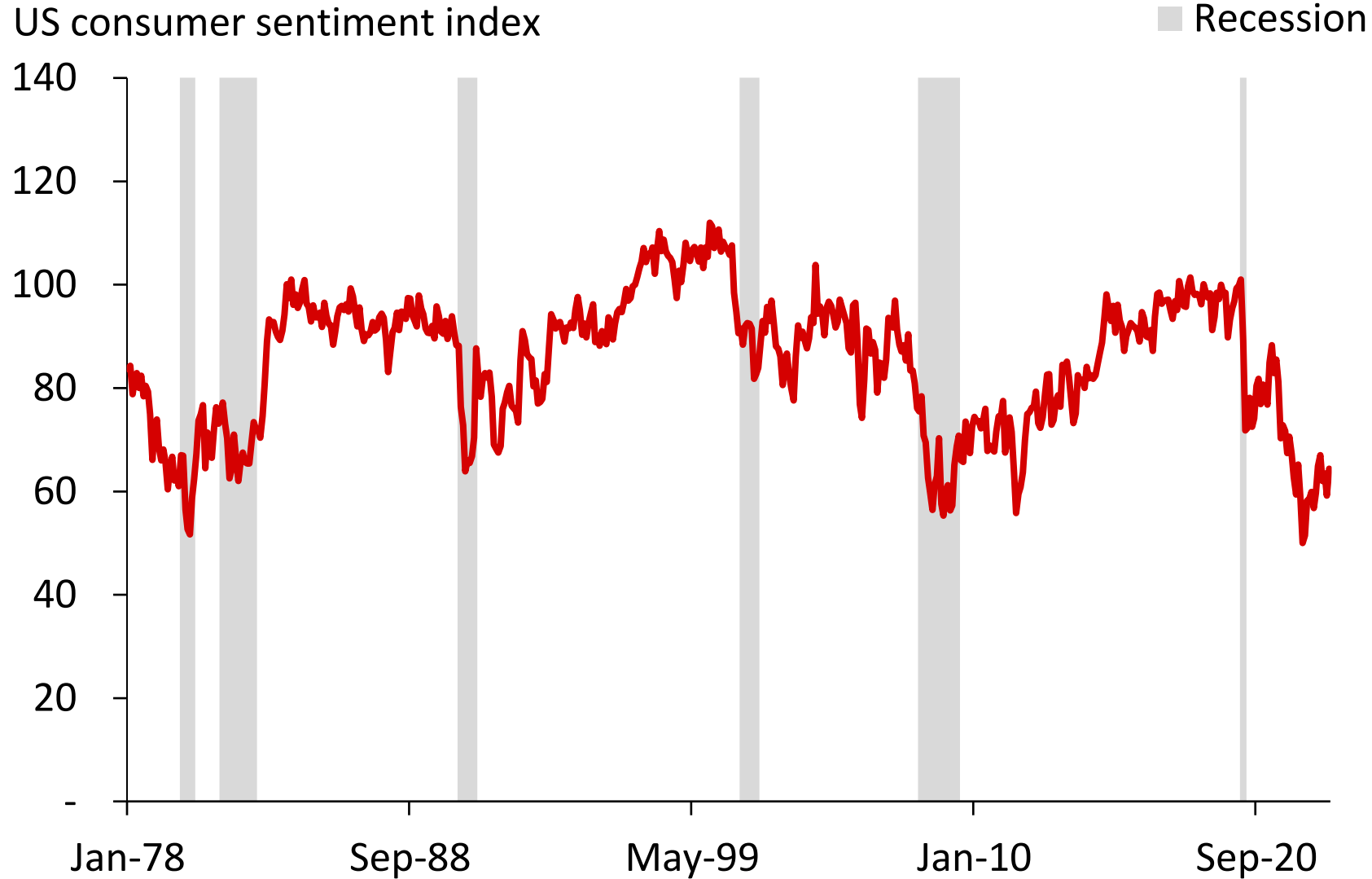
**FVMR INVESTING**  
A. STOTZ INVESTMENT RESEARCH

US retail sales: Retail trade & Food services (% YoY) ■ Recession



**Andrew Stotz, PhD, CFA**

# Consumer sentiment has fallen since 2020



Sources: A. Stotz Investment Research, FRED

24 August 2023



**FVMR INVESTING**  
A. STOTZ INVESTMENT RESEARCH

**Andrew Stotz, PhD, CFA**



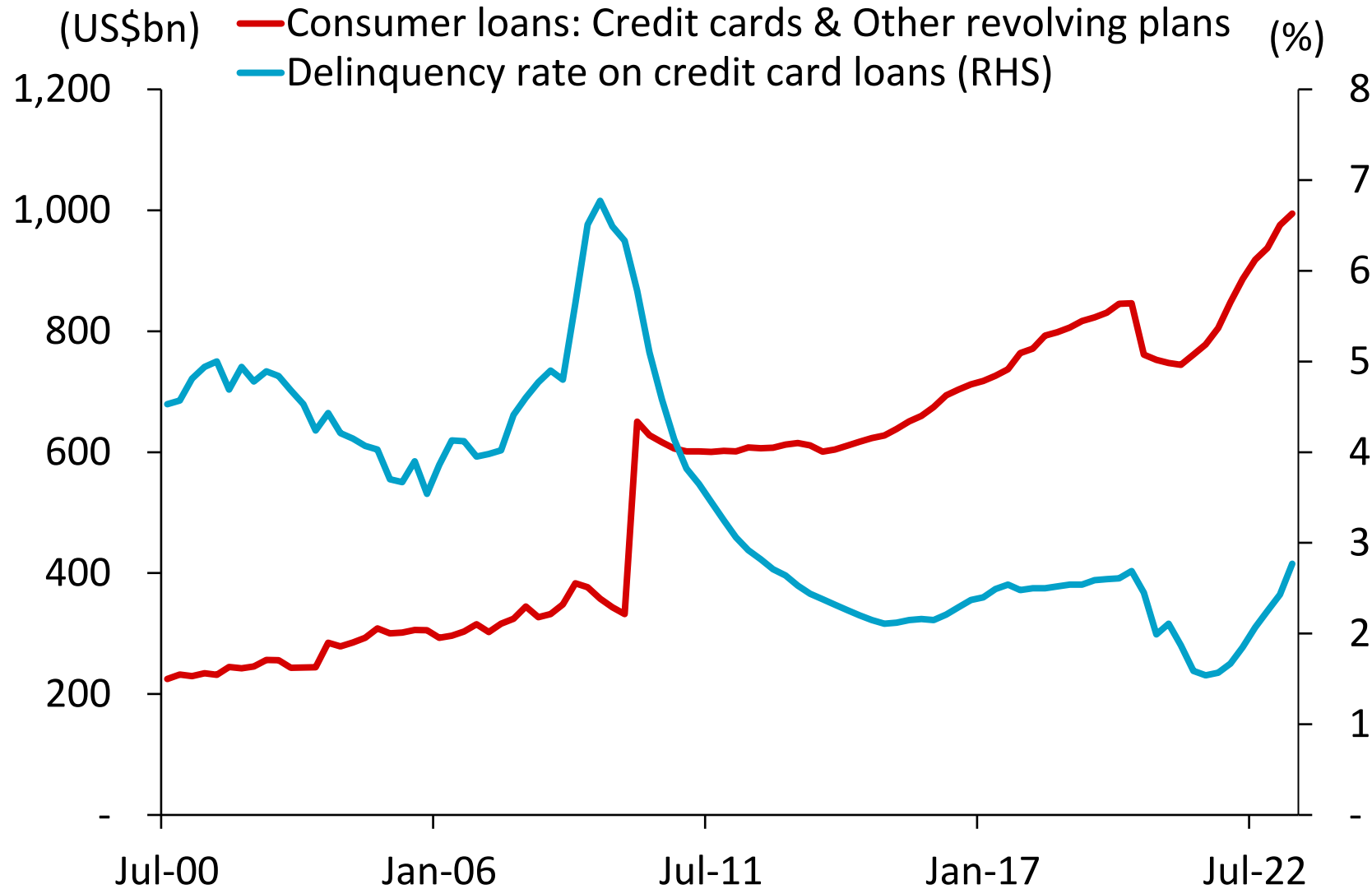
INVESTMENT  
RESEARCH



# Credit card debt at US\$1trn and growing while past due bills are rising



**FVMR INVESTING**  
A. STOTZ INVESTMENT RESEARCH



**Andrew Stotz, PhD, CFA**

The background of the image is a collage of various US dollar bills, including a prominent one hundred dollar bill featuring Benjamin Franklin. A white, torn-edge paper strip is placed horizontally across the middle of the image, containing the text 'Recession Proof' in a large, bold, black serif font. The text is centered on the strip and partially overlaps the dollar bills.

**Four things to focus on to**

**Recession Proof**

**your business**

**Assets**

**Profit**

**Recession Proof**

**Revenue**

**Cash**

# Is your company prepared for a recession?



**WORLDCLASS  
BENCHMARKING**  
A. STOTZ INVESTMENT RESEARCH

Andrew Stotz, PhD, CFA



Here's the method I use as  
an **investor** and **business**  
**owner** to measure a  
company's **competitive**  
**position**



**WORLDCLASS  
BENCHMARKING**  
A. STOTZ INVESTMENT RESEARCH

Andrew Stotz, PhD, CFA



INVESTMENT  
RESEARCH



# The **World Class** **Benchmarking** score card we developed 10 years ago



# Here's how we construct the scorecard for any company

---



**WORLDCLASS  
BENCHMARKING**  
A. STOTZ INVESTMENT RESEARCH

- ★ We gather the yearly and quarterly financial data of 26,000 companies worldwide
- ★ We then calculate each company's **Profitable Growth** score
  - Which is a composite measure of both profitability and growth

Andrew Stotz, PhD, CFA

# Here's how we construct the scorecard for any company

---



**WORLDCLASS  
BENCHMARKING**  
A. STOTZ INVESTMENT RESEARCH

- ★ After that, we rank the subject company relative to sector peers of similar size
  - Decile ranking is from **1 (best)** to **10 (worst)**
  - A score of **1 or 2** is financially world class
- ★ We assess the company's performance over the prior four years and the past 12 months (PTM)

Andrew Stotz, PhD, CFA

**Is the company  
financially  
world class?**



A collage of US dollar bills, including a prominent \$100 bill featuring Benjamin Franklin. A white rectangular box with a thin black border is positioned in the upper left quadrant, containing the word "Assets" in a bold, green, sans-serif font.

**Assets**

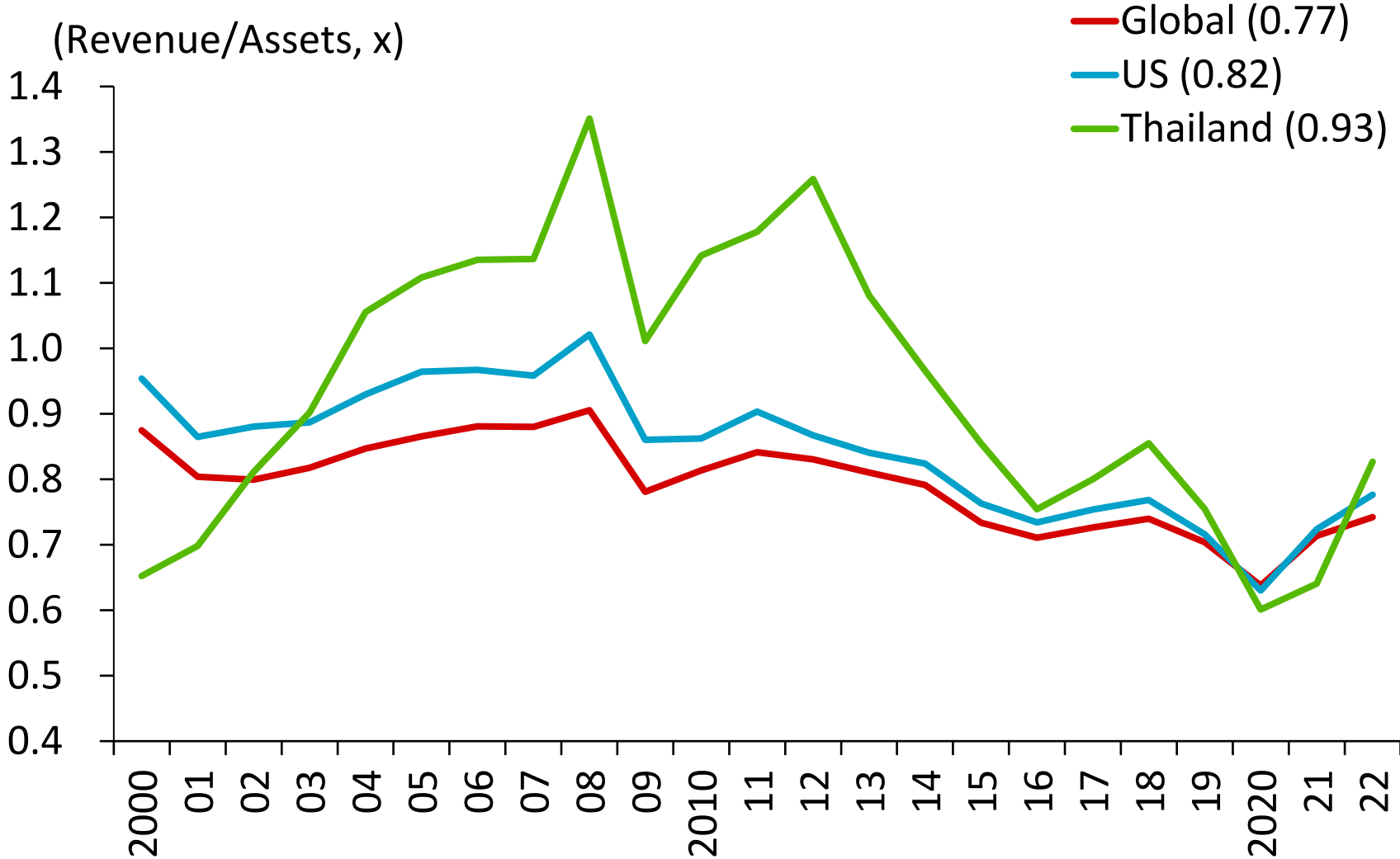
A white, torn-edged piece of paper is placed horizontally across the center of the image. It features the words "Recession Proof" in a large, bold, black serif font. The paper's edges are irregular and ragged, giving it the appearance of a torn document or a scrap of paper.

**Recession Proof**

# Keep revenue at or above 1x assets

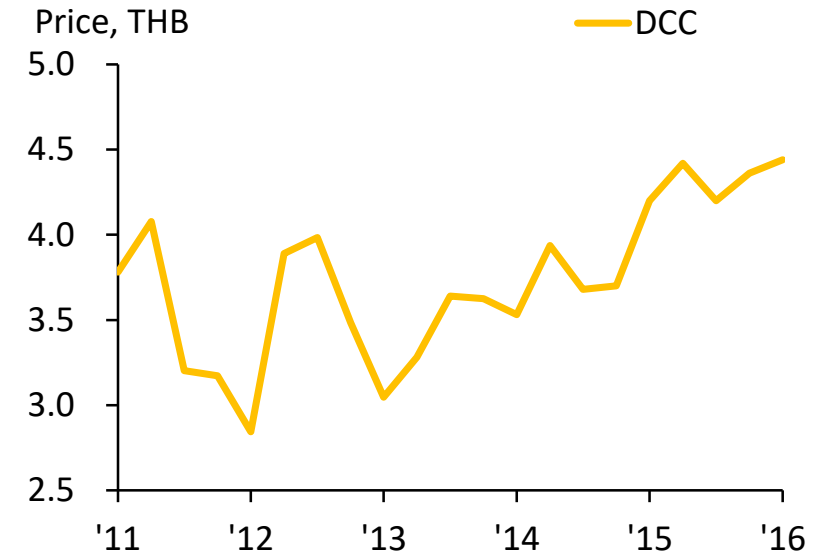
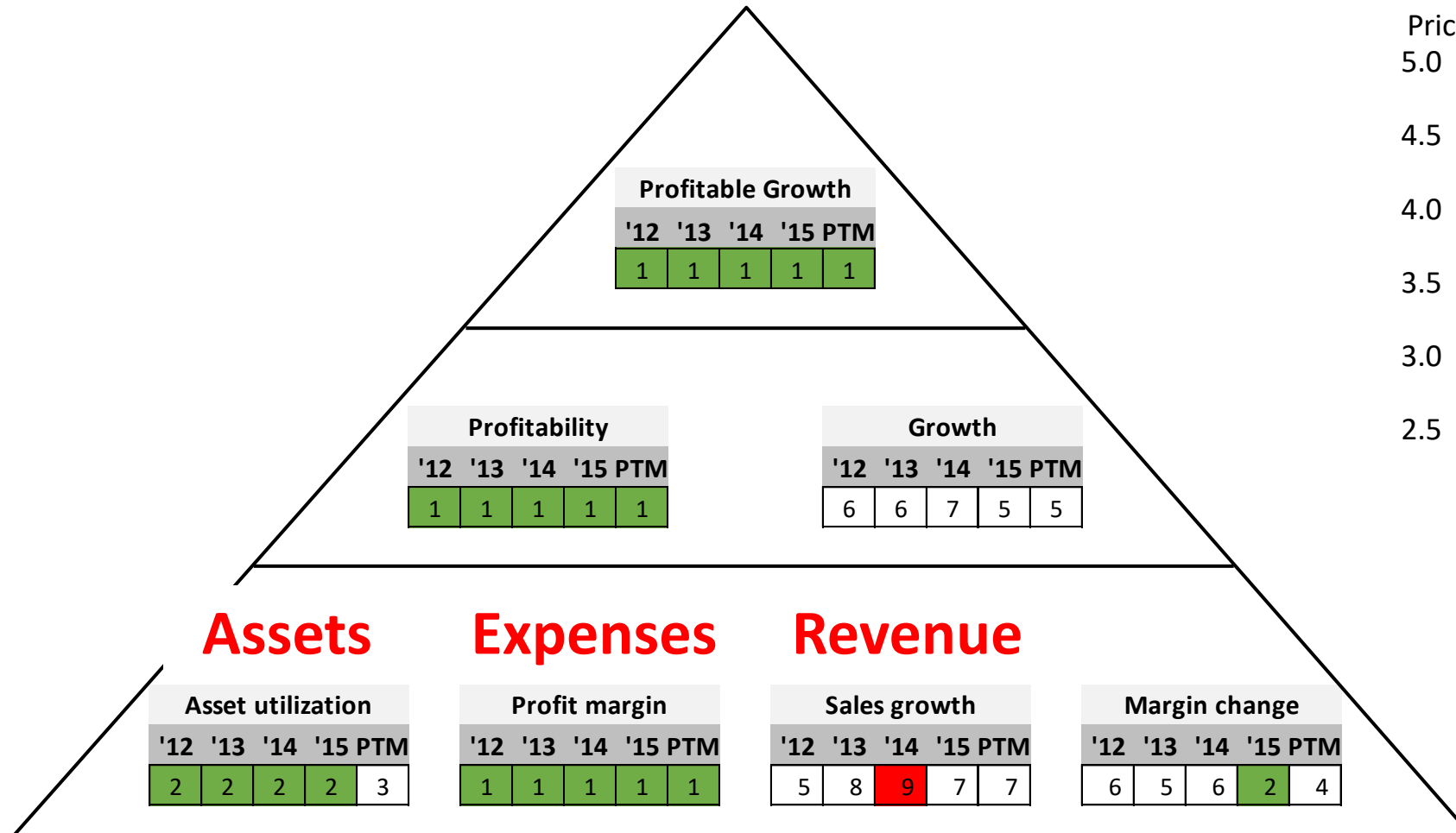


**Andrew Stotz, PhD, CFA**



Sources: A. Stotz Investment Research, Refinitiv

# DCC: A. Stotz Profitable Growth



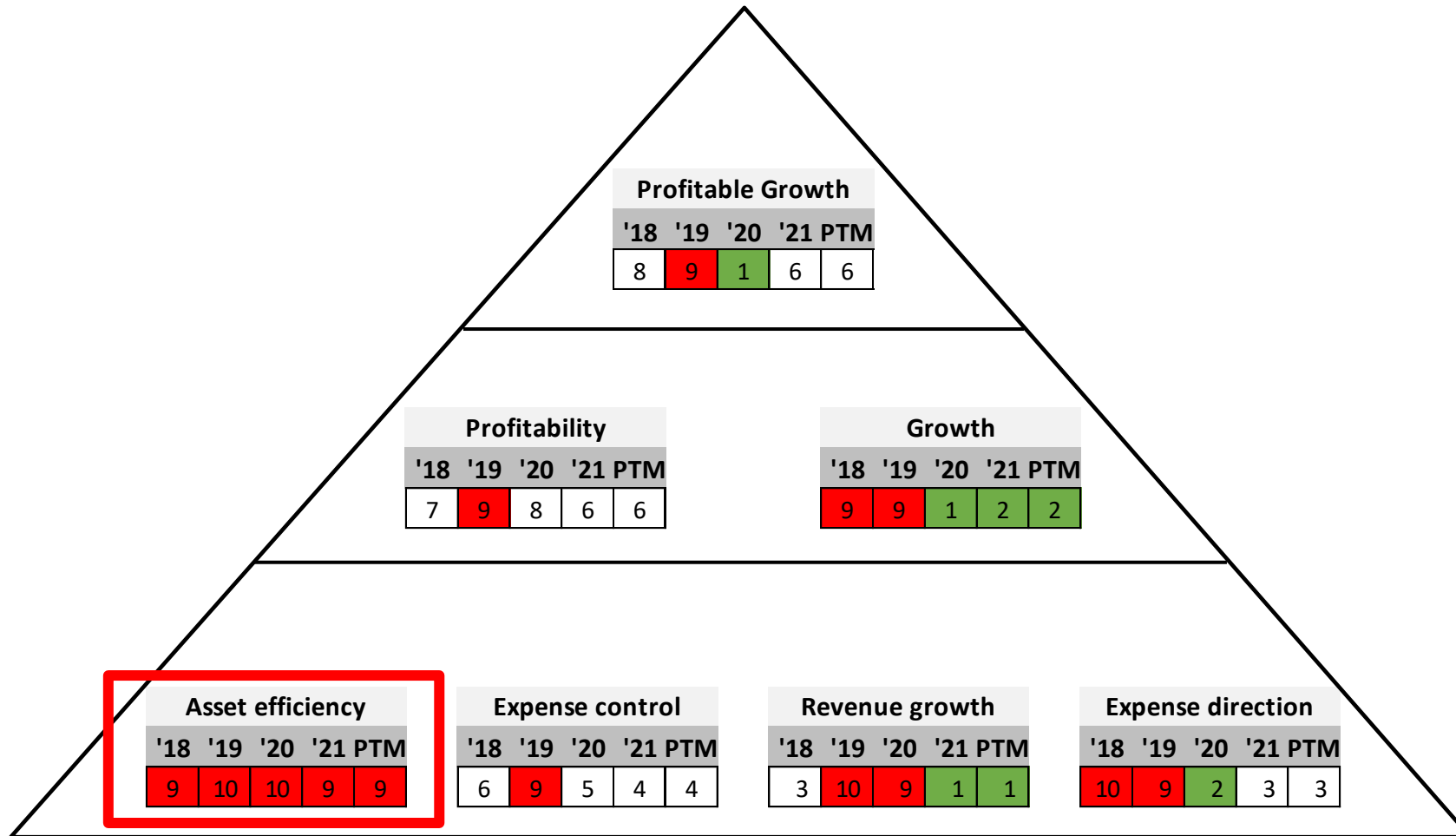
Benchmarked against 1,440 medium Industrials companies worldwide.

# KSL: A. Stotz Profitable Growth



**WORLDCLASS  
BENCHMARKING**  
A. STOTZ INVESTMENT RESEARCH

Andrew Stotz, PhD, CFA



Benchmarked against 440 medium Cons. Staples companies worldwide.



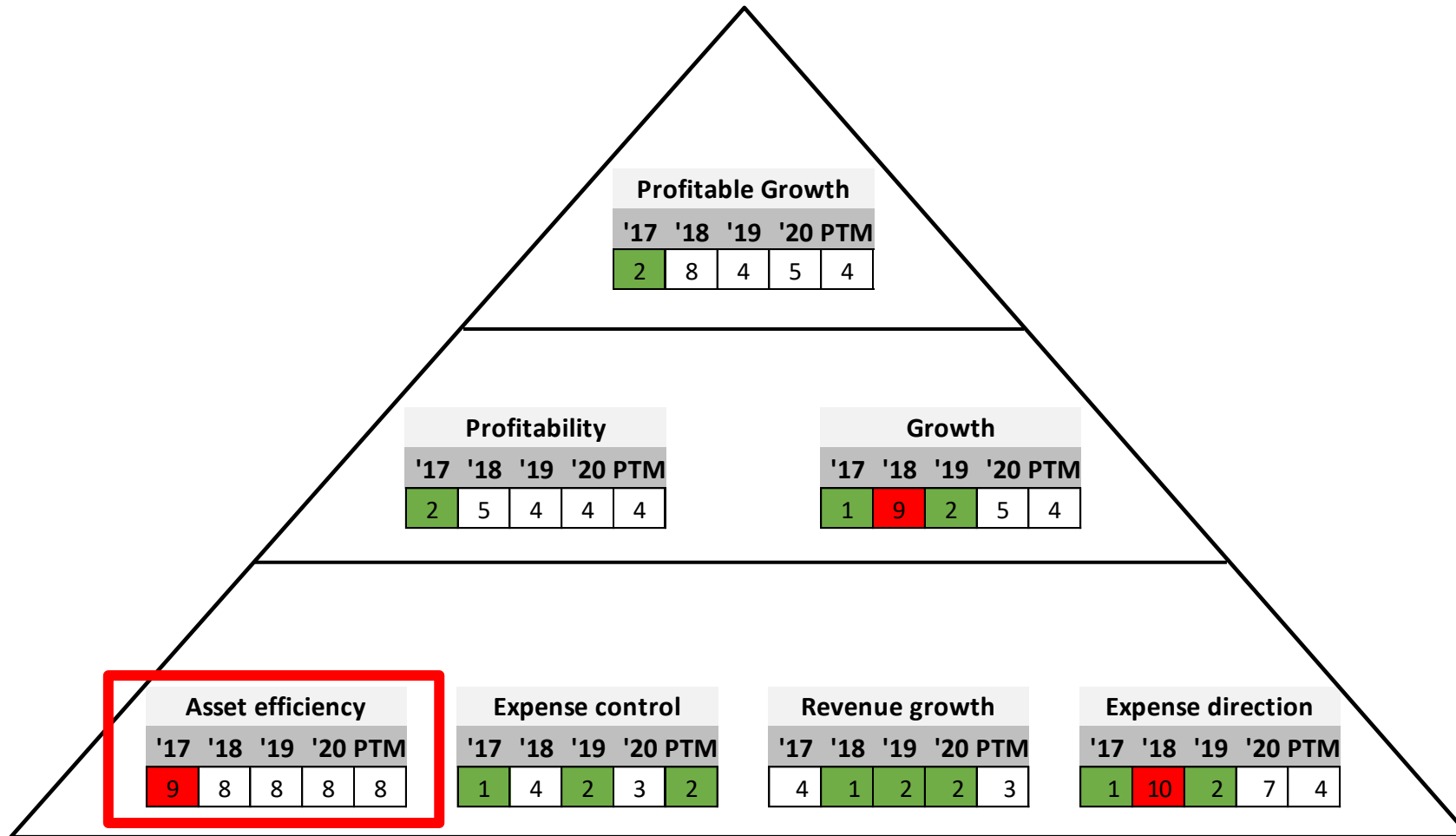
INVESTMENT  
RESEARCH

# JWD: A. Stotz Profitable Growth



**WORLDCLASS  
BENCHMARKING**  
A. STOTZ INVESTMENT RESEARCH

Andrew Stotz, PhD, CFA



Benchmarked against 1,010 medium Cons. Disc. companies worldwide.



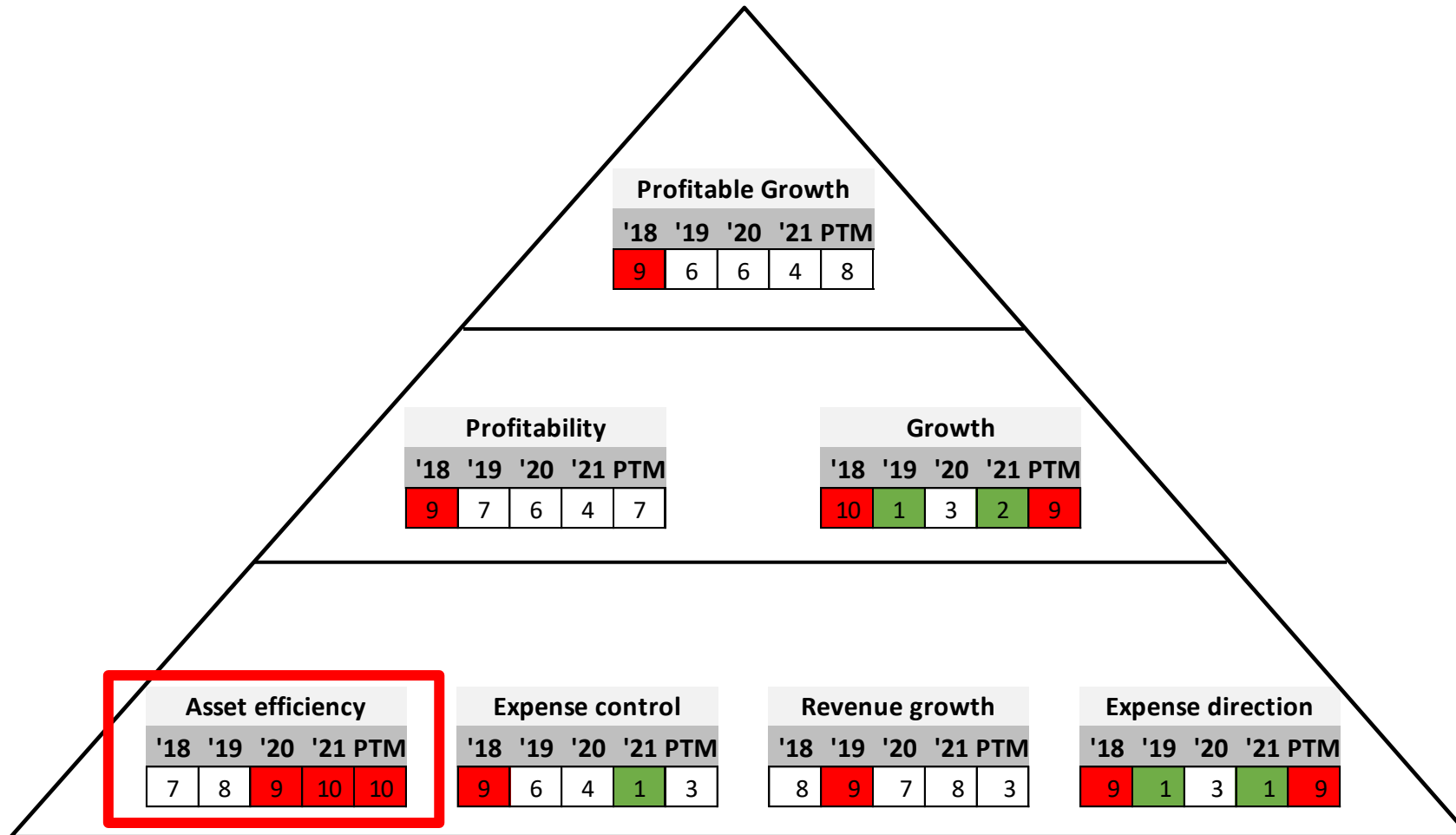
INVESTMENT  
RESEARCH

# JMART: A. Stotz Profitable Growth



**WORLDCLASS  
BENCHMARKING**  
A. STOTZ INVESTMENT RESEARCH

Andrew Stotz, PhD, CFA



Benchmarked against 820 medium Info Tech companies worldwide.



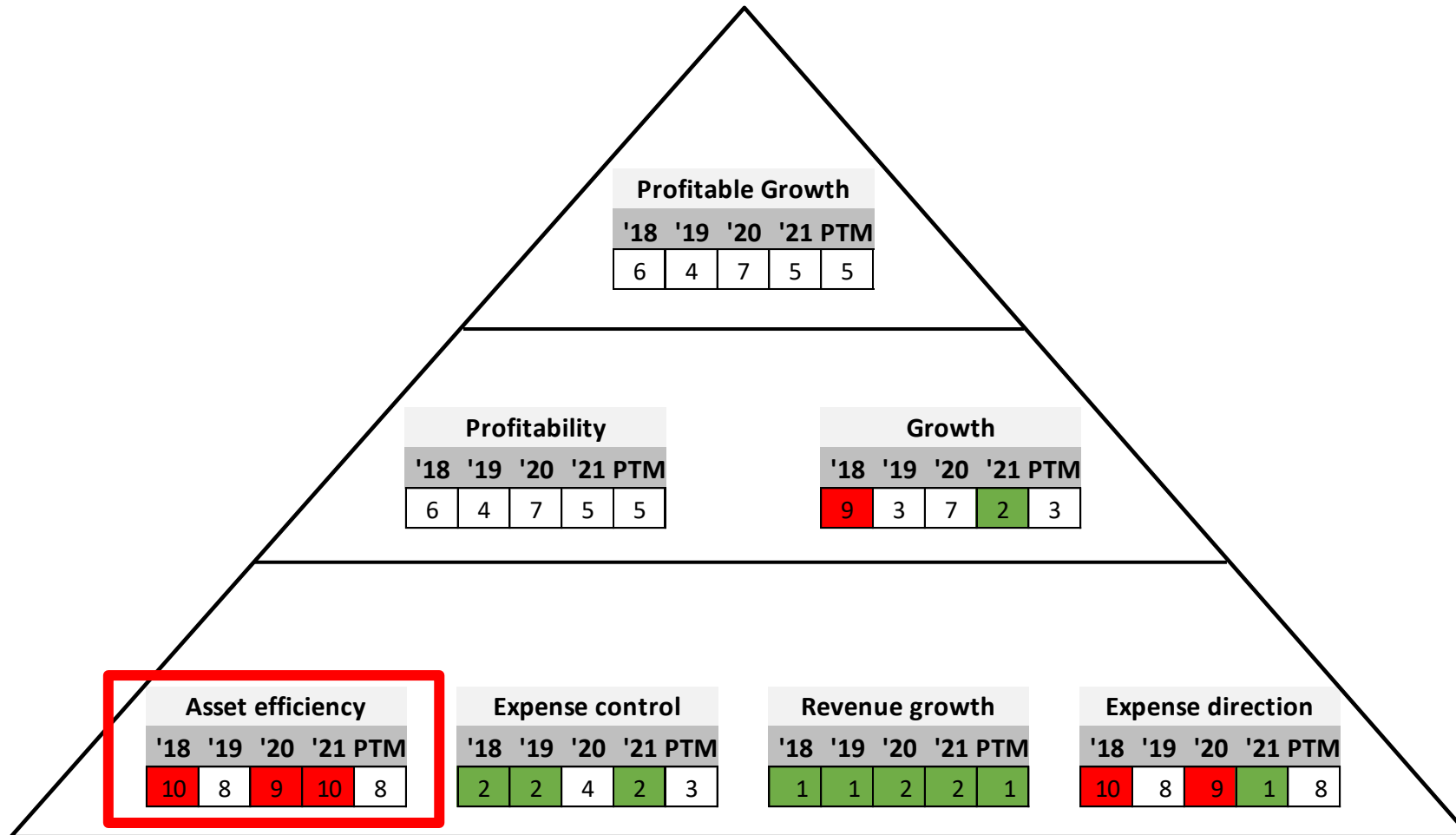
INVESTMENT  
RESEARCH

# GULF: A. Stotz Profitable Growth



**WORLDCLASS  
BENCHMARKING**  
A. STOTZ INVESTMENT RESEARCH

Andrew Stotz, PhD, CFA



Benchmarked against 300 large Utilities companies worldwide.



INVESTMENT  
RESEARCH

# Most common asset problems

---

- ★ Giving too long credit terms to customers
- ★ Getting too short credit terms from suppliers
- ★ Holding too much inventory
- ★ Overinvested in fixed assets
- ★ Low asset efficiency
- ★ Poor asset management system



**WORLDCLASS  
BENCHMARKING**  
A. STOTZ INVESTMENT RESEARCH

**Andrew Stotz, PhD, CFA**



**Assets – 1x**

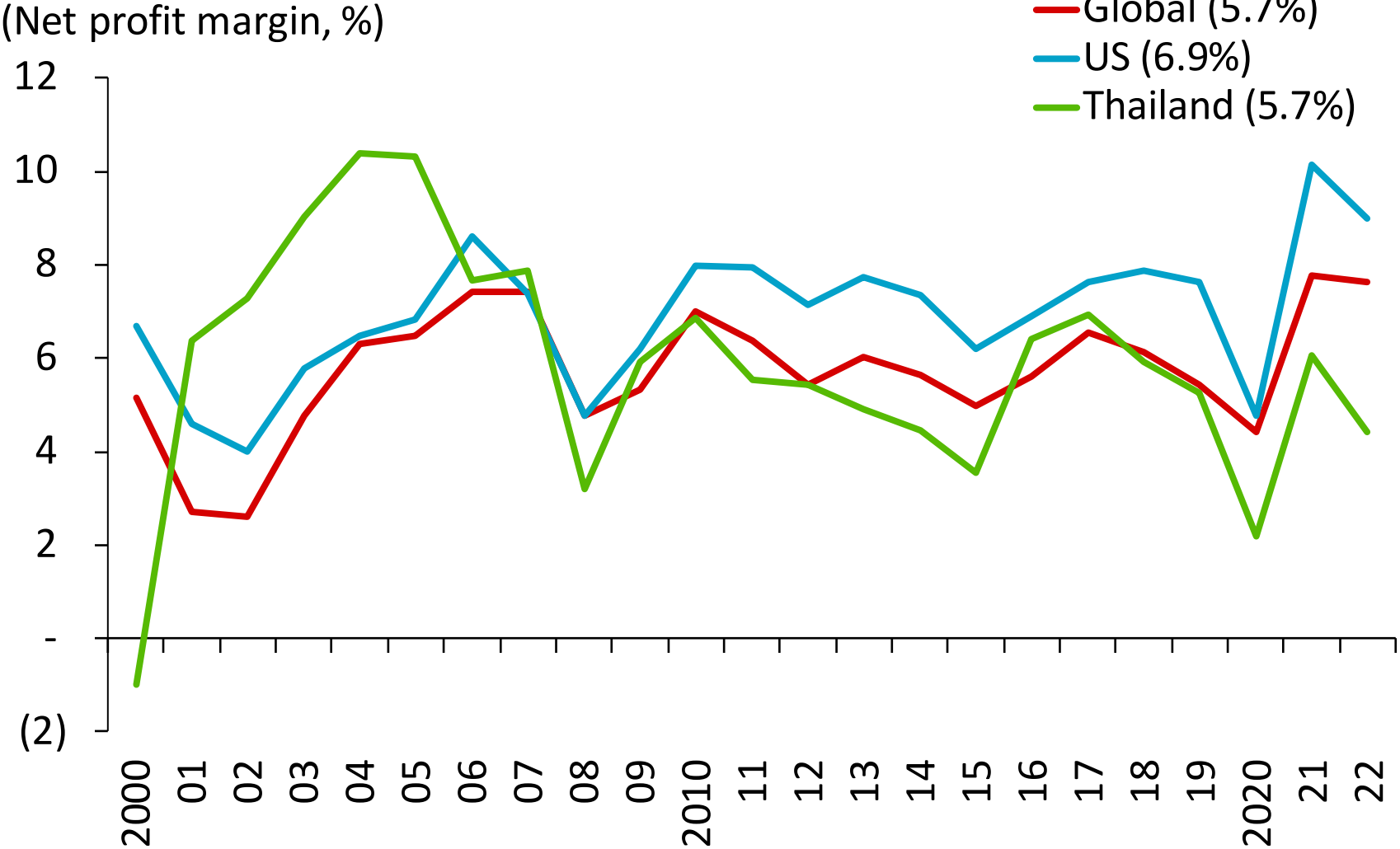
**Profit**

**Recession Proof**

# Keep net profit margin above 6%

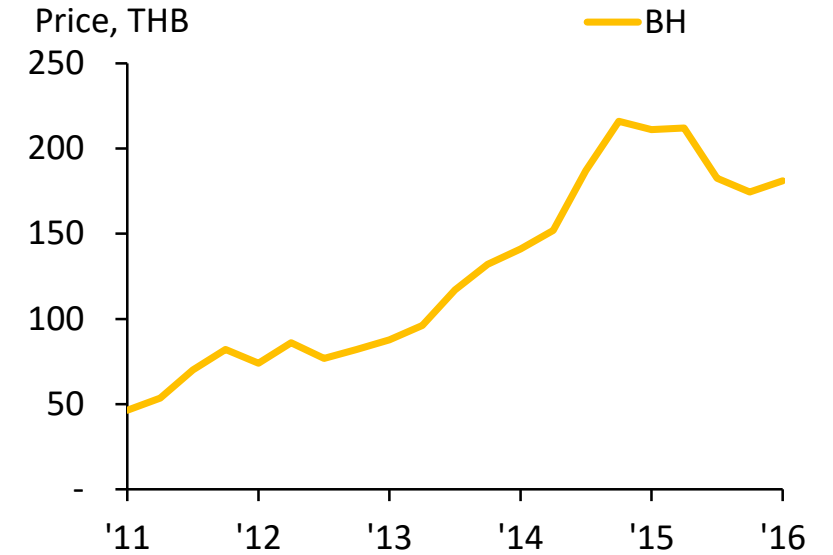
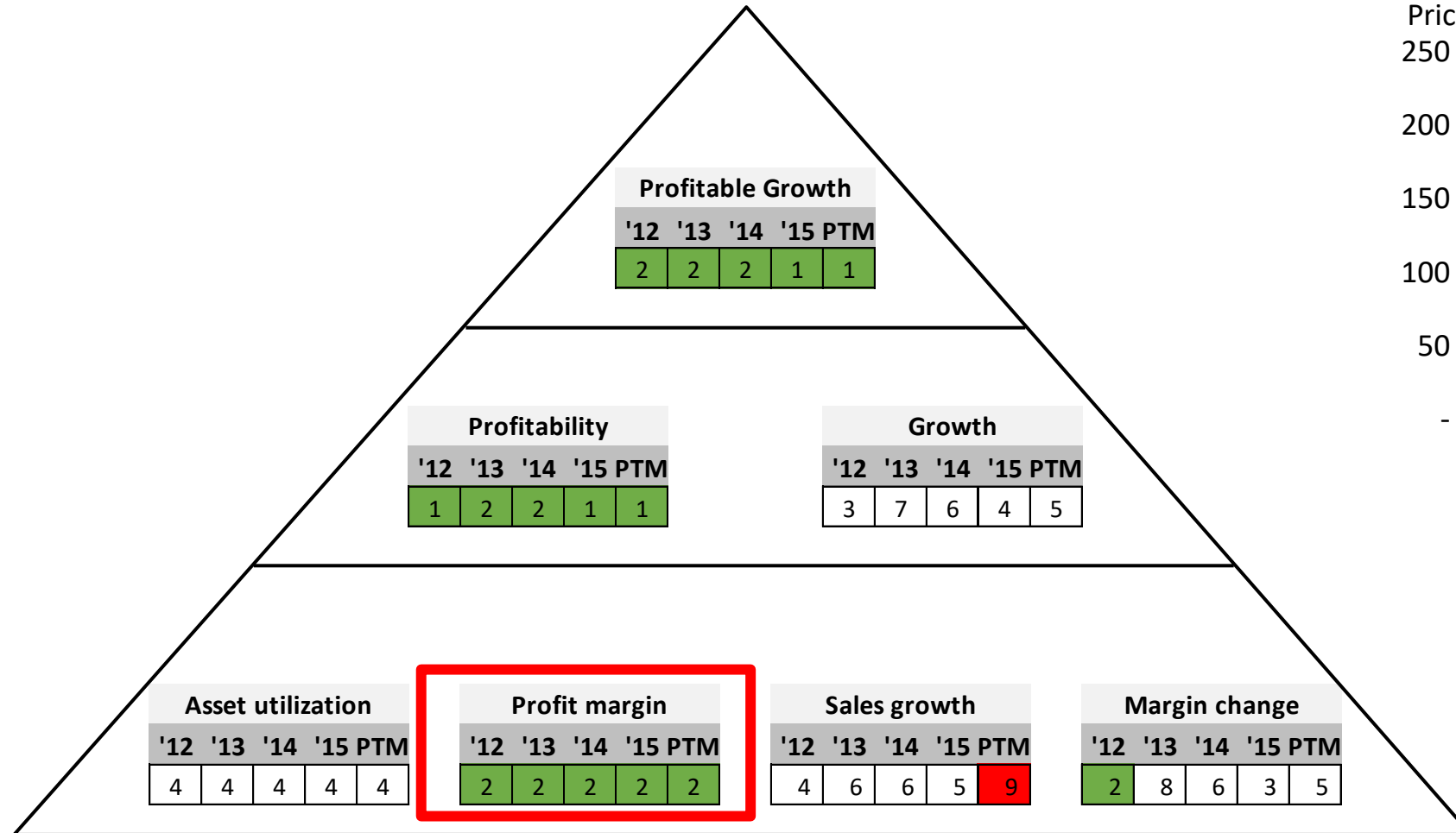


**FVMR INVESTING**  
A. STOTZ INVESTMENT RESEARCH



**Andrew Stotz, PhD, CFA**

# BH: A. Stotz Profitable Growth

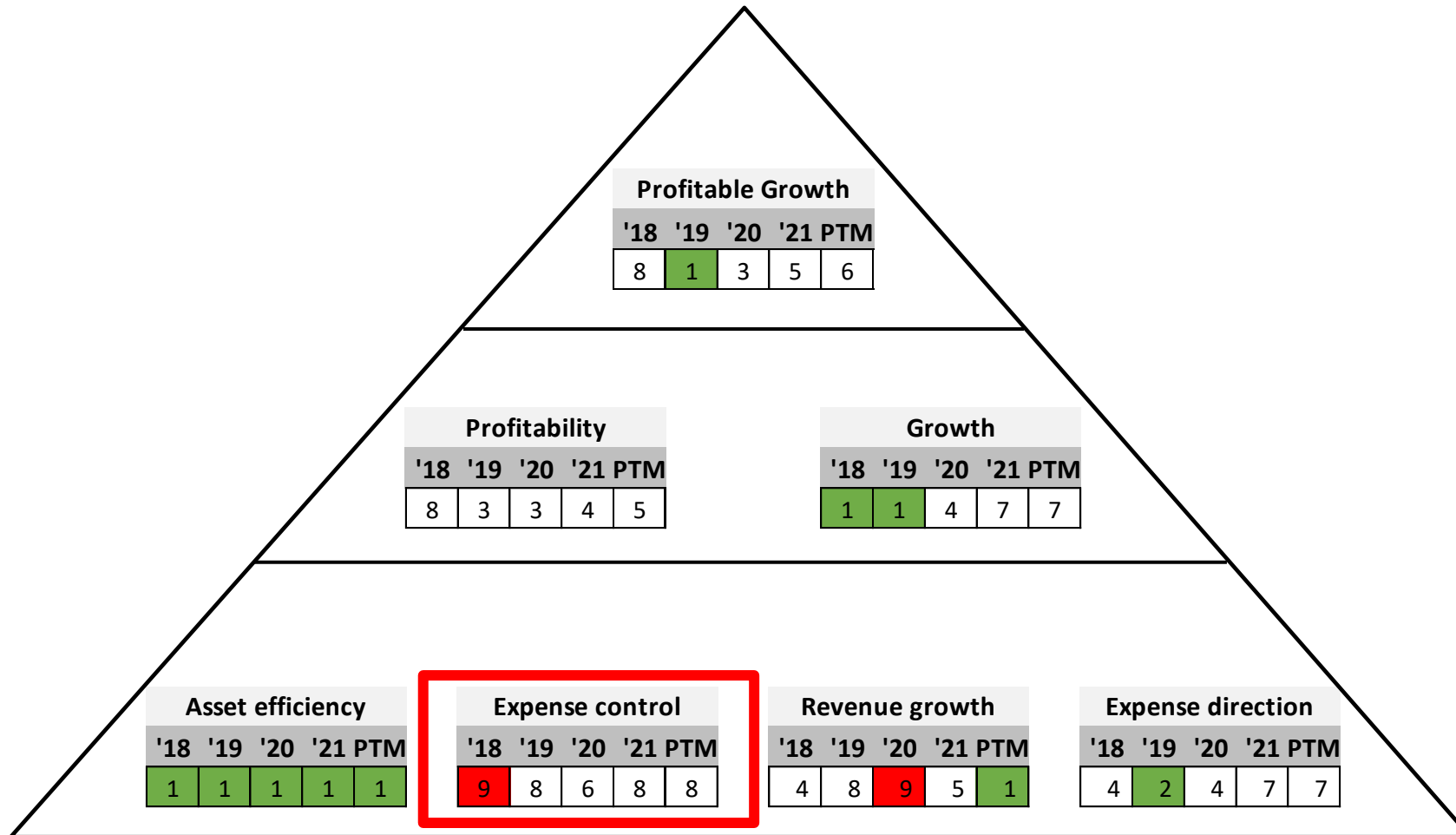


Benchmarked against 390 medium Health Care companies worldwide.

# OR: A. Stotz Profitable Growth



Andrew Stotz, PhD, CFA



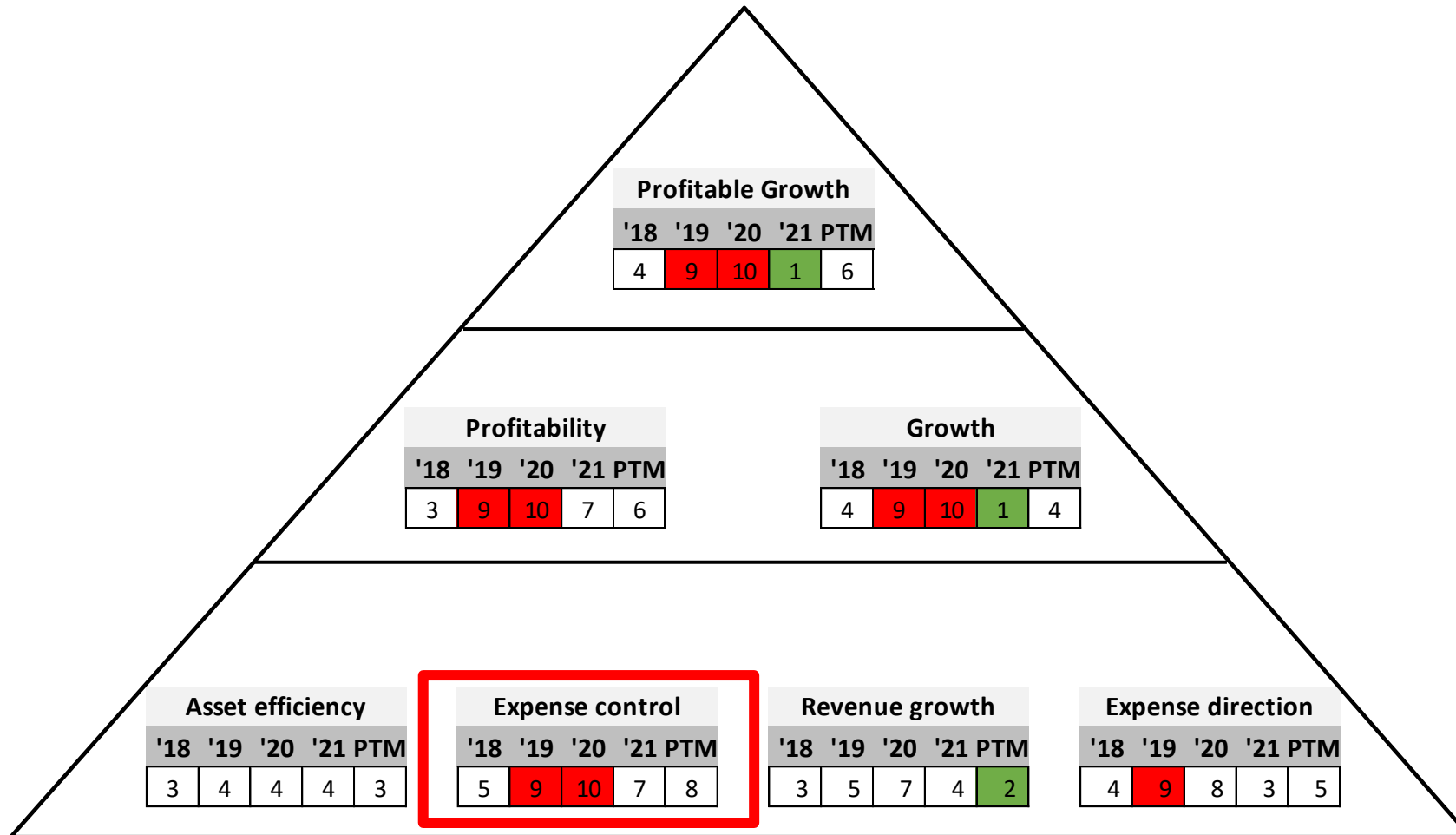
Benchmarked against 960 large Cons. Disc. companies worldwide.

# IVL: A. Stotz Profitable Growth



**WORLDCLASS  
BENCHMARKING**  
A. STOTZ INVESTMENT RESEARCH

Andrew Stotz, PhD, CFA



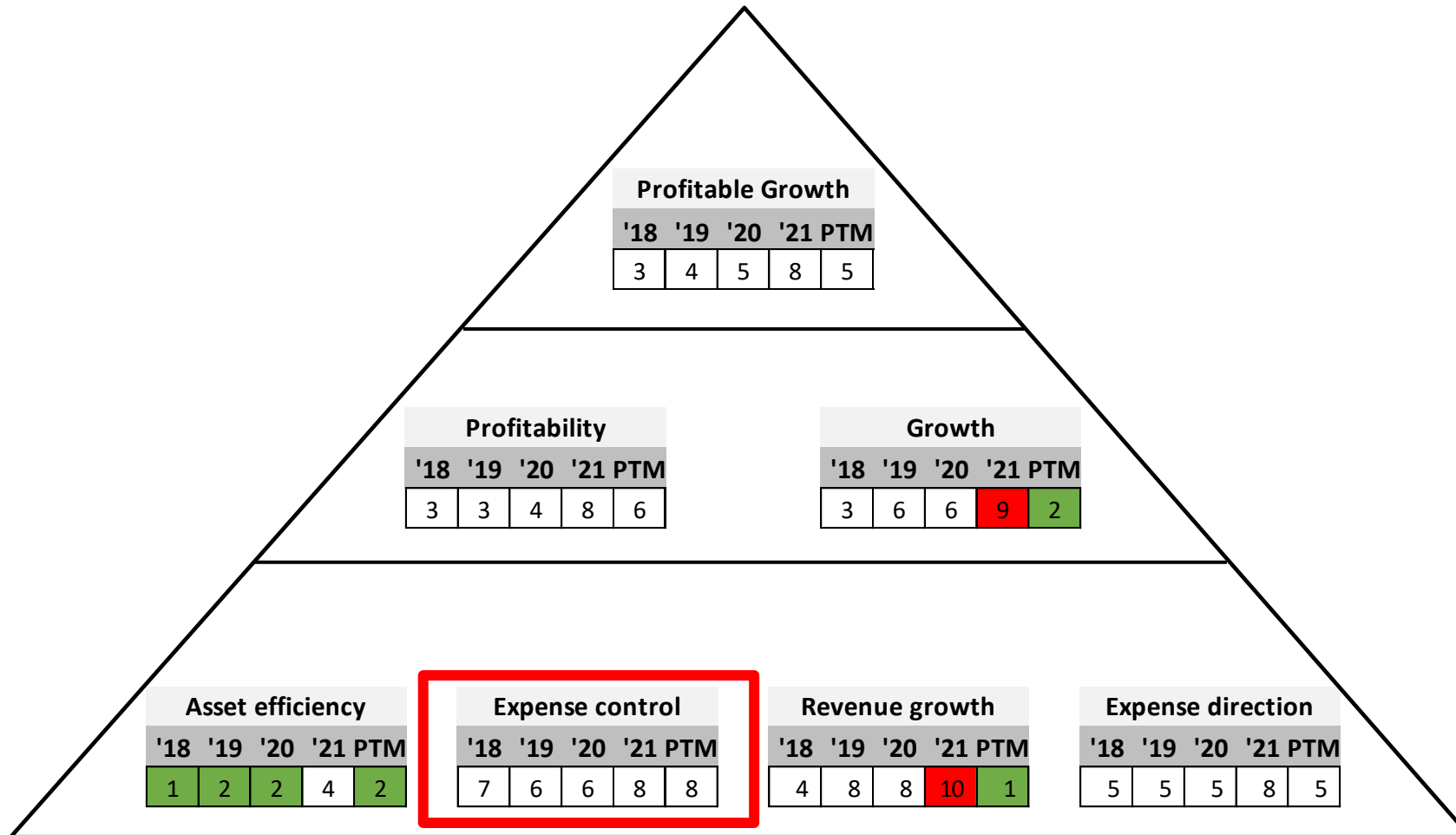
Benchmarked against 840 large Materials companies worldwide.

# LPN: A. Stotz Profitable Growth



**WORLDCLASS  
BENCHMARKING**  
A. STOTZ INVESTMENT RESEARCH

**Andrew Stotz, PhD, CFA**



Benchmarked against 340 medium Real Estate companies worldwide.



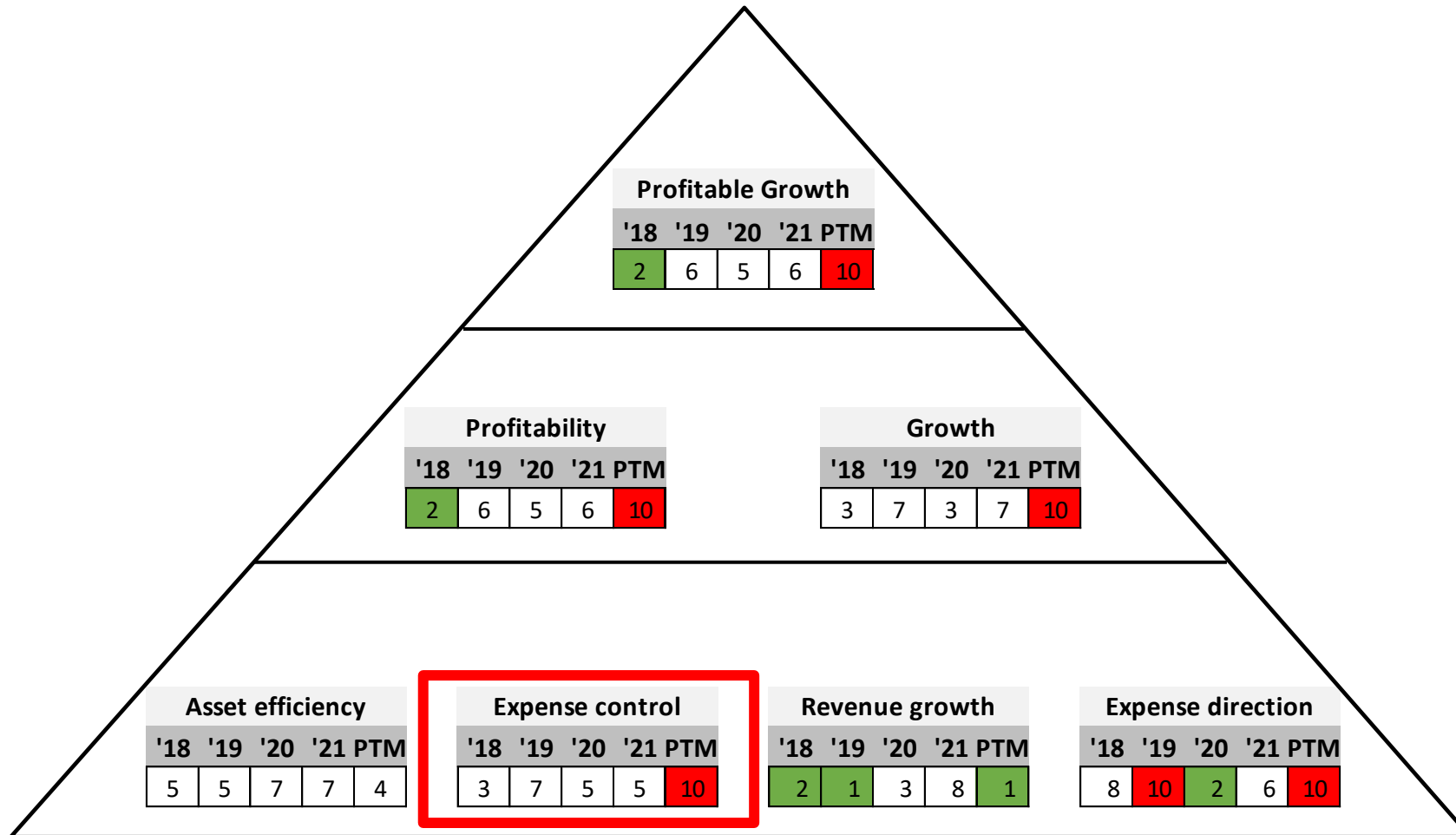
INVESTMENT  
RESEARCH

# GPSC: A. Stotz Profitable Growth



**WORLDCLASS  
BENCHMARKING**  
A. STOTZ INVESTMENT RESEARCH

Andrew Stotz, PhD, CFA



Benchmarked against 300 large Utilities companies worldwide.



INVESTMENT  
RESEARCH

# Most common expense problems

---

- ★ Poor sourcing of incoming raw materials
- ★ Lack of price discipline
- ★ Low sales volume
- ★ High fixed costs
- ★ Expensive marketing
- ★ Ineffective operating systems



**WORLDCLASS  
BENCHMARKING**  
A. STOTZ INVESTMENT RESEARCH

**Andrew Stotz, PhD, CFA**



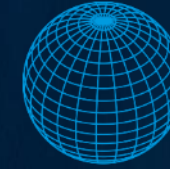
**Assets – 1x**

**Profit – 6%**

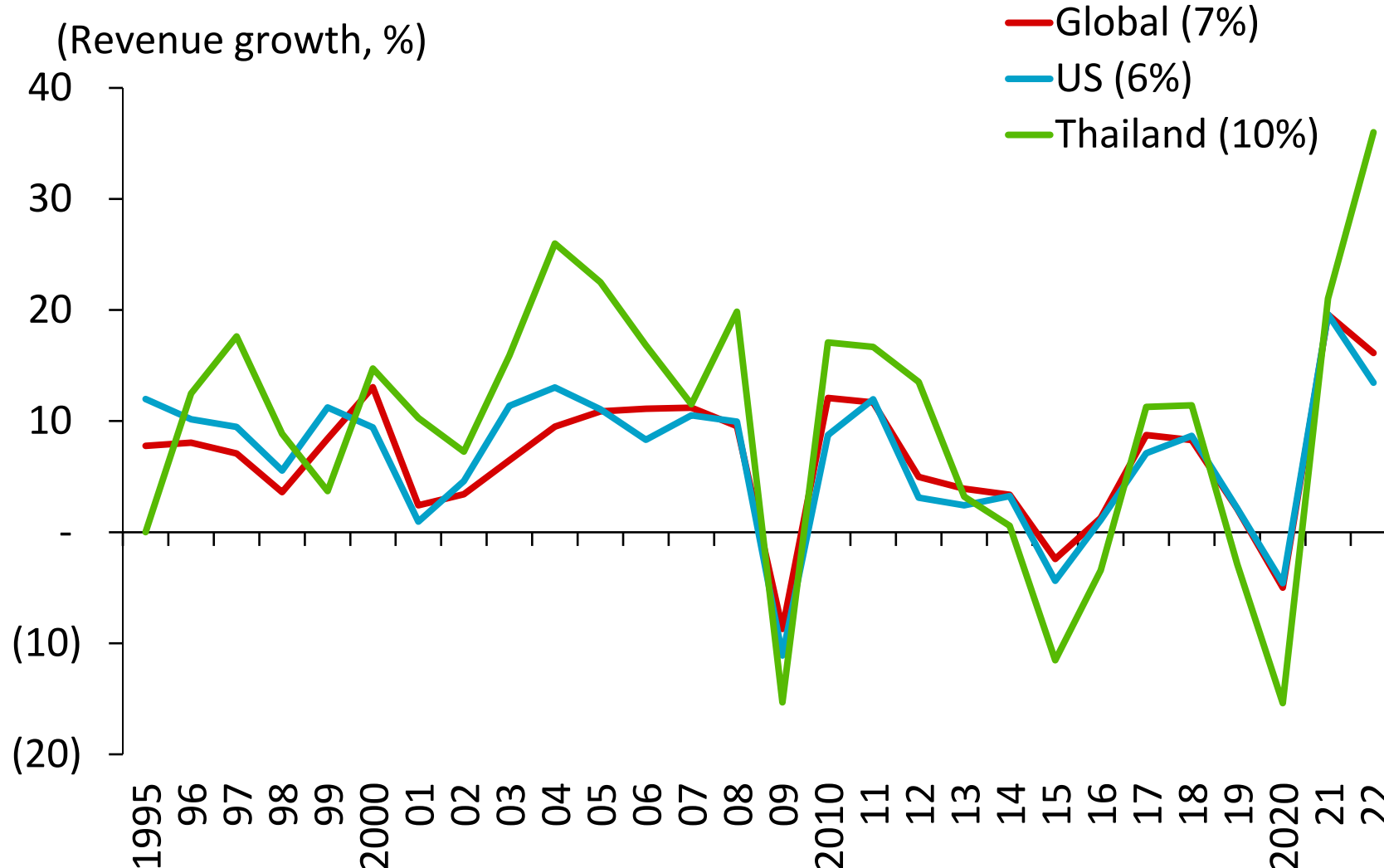
**Recession Proof**

**Revenue**

# Keep revenue growth above 10% (maybe 6% is good enough)

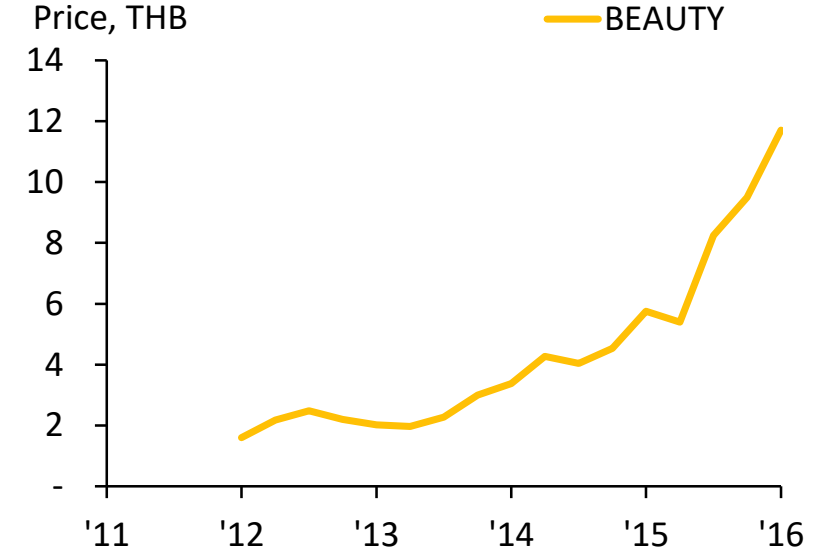
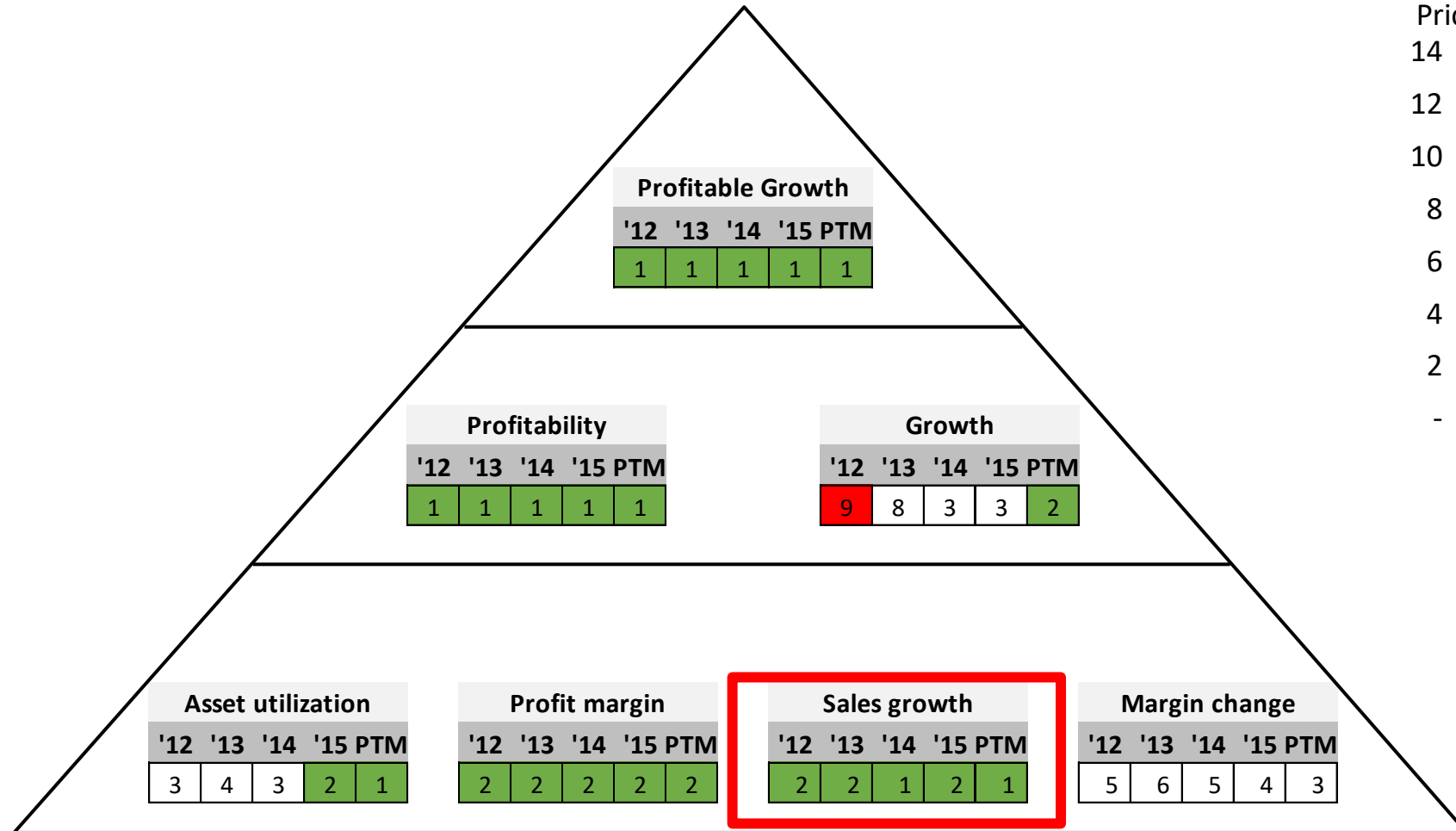


**FVMR INVESTING**  
A. STOTZ INVESTMENT RESEARCH



**Andrew Stotz, PhD, CFA**

# BEAUTY: A. Stotz Profitable Growth



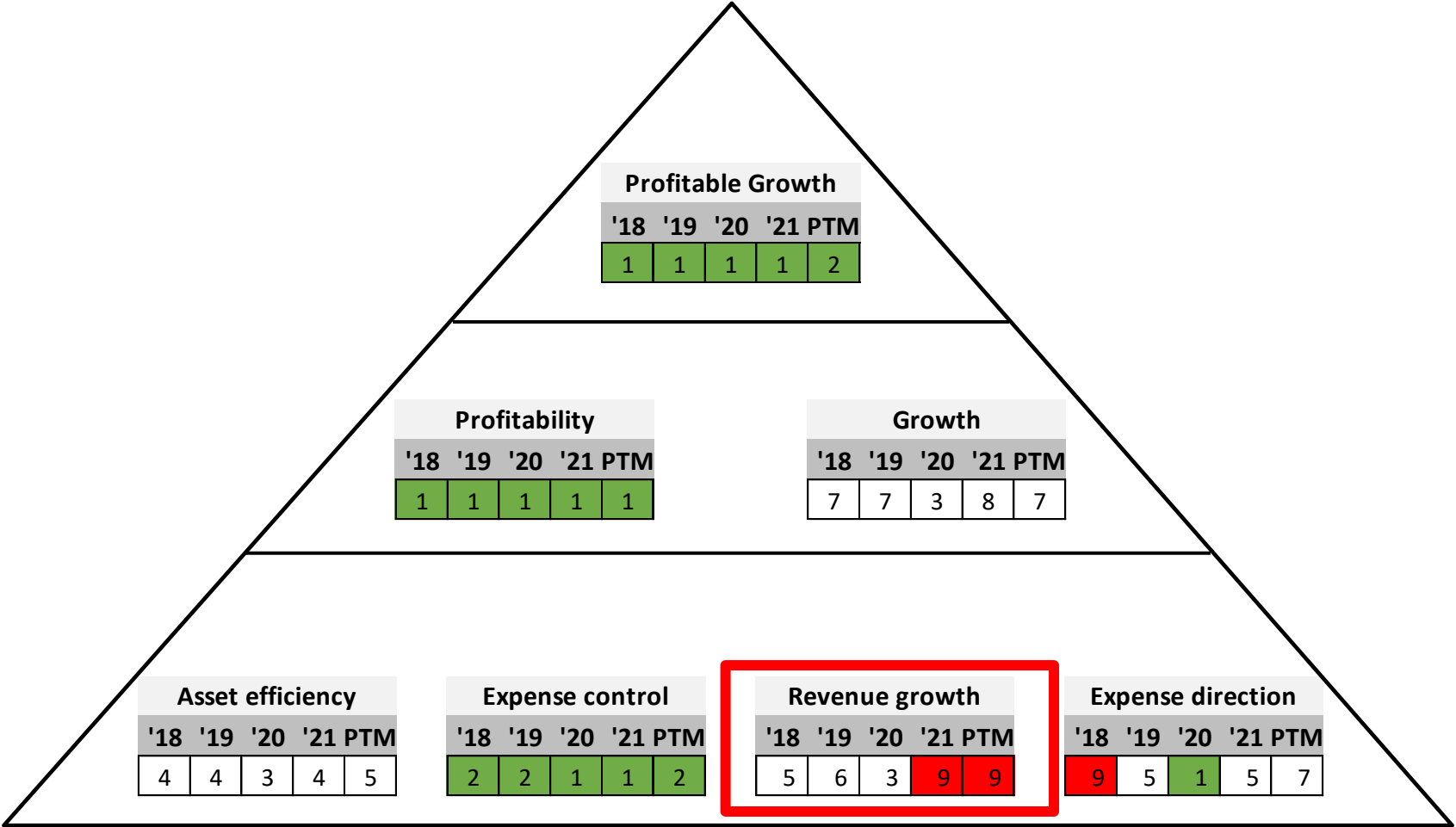
Benchmarked against 890 small Cons. Disc. companies worldwide.

# DCC: A. Stotz Profitable Growth



**WORLDCLASS  
BENCHMARKING**  
A. STOTZ INVESTMENT RESEARCH

**Andrew Stotz, PhD, CFA**



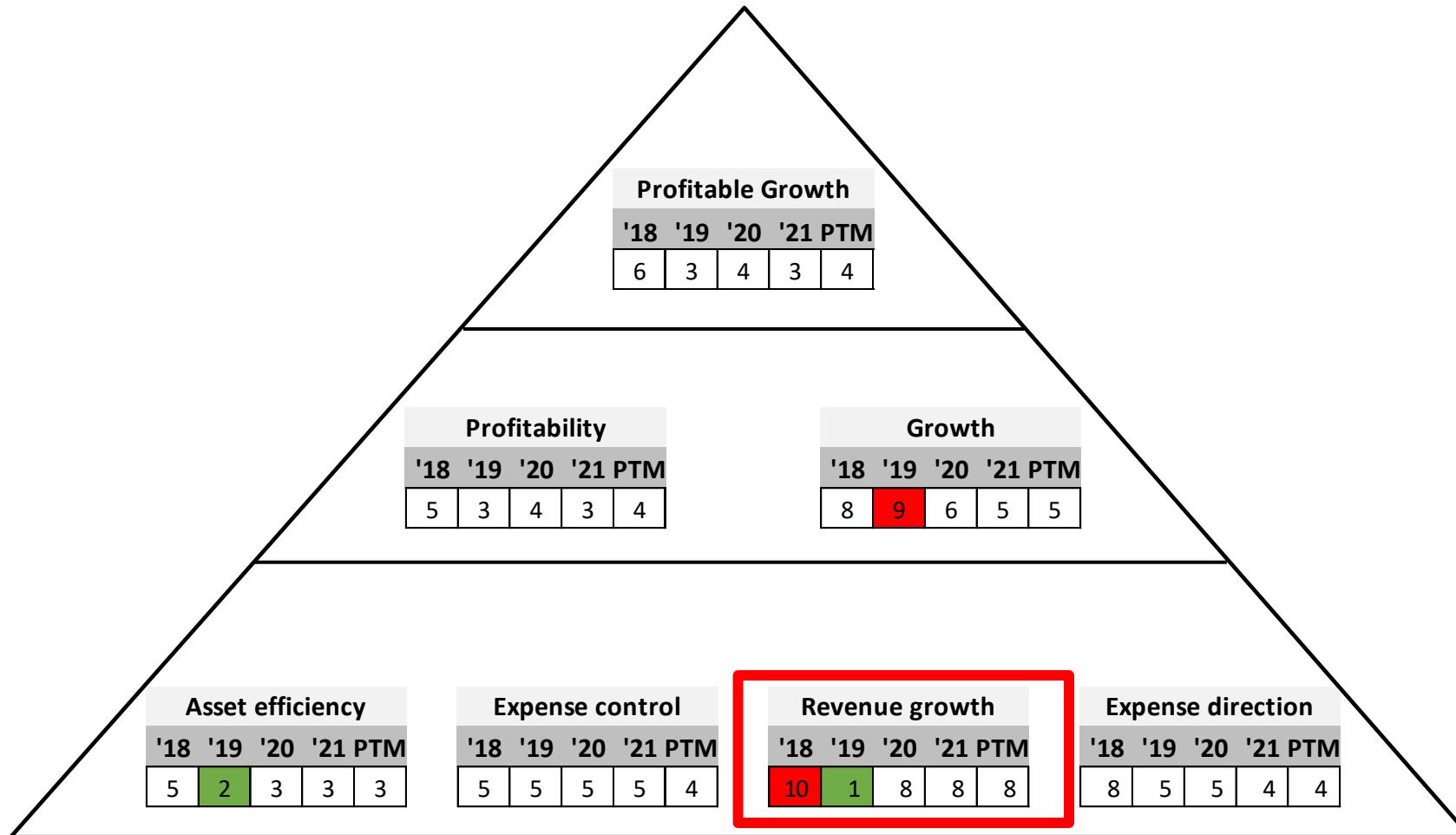
Benchmarked against 1,250 medium Industrials companies worldwide.

# AIT: A. Stotz Profitable Growth



**WORLDCLASS  
BENCHMARKING**  
A. STOTZ INVESTMENT RESEARCH

**Andrew Stotz, PhD, CFA**



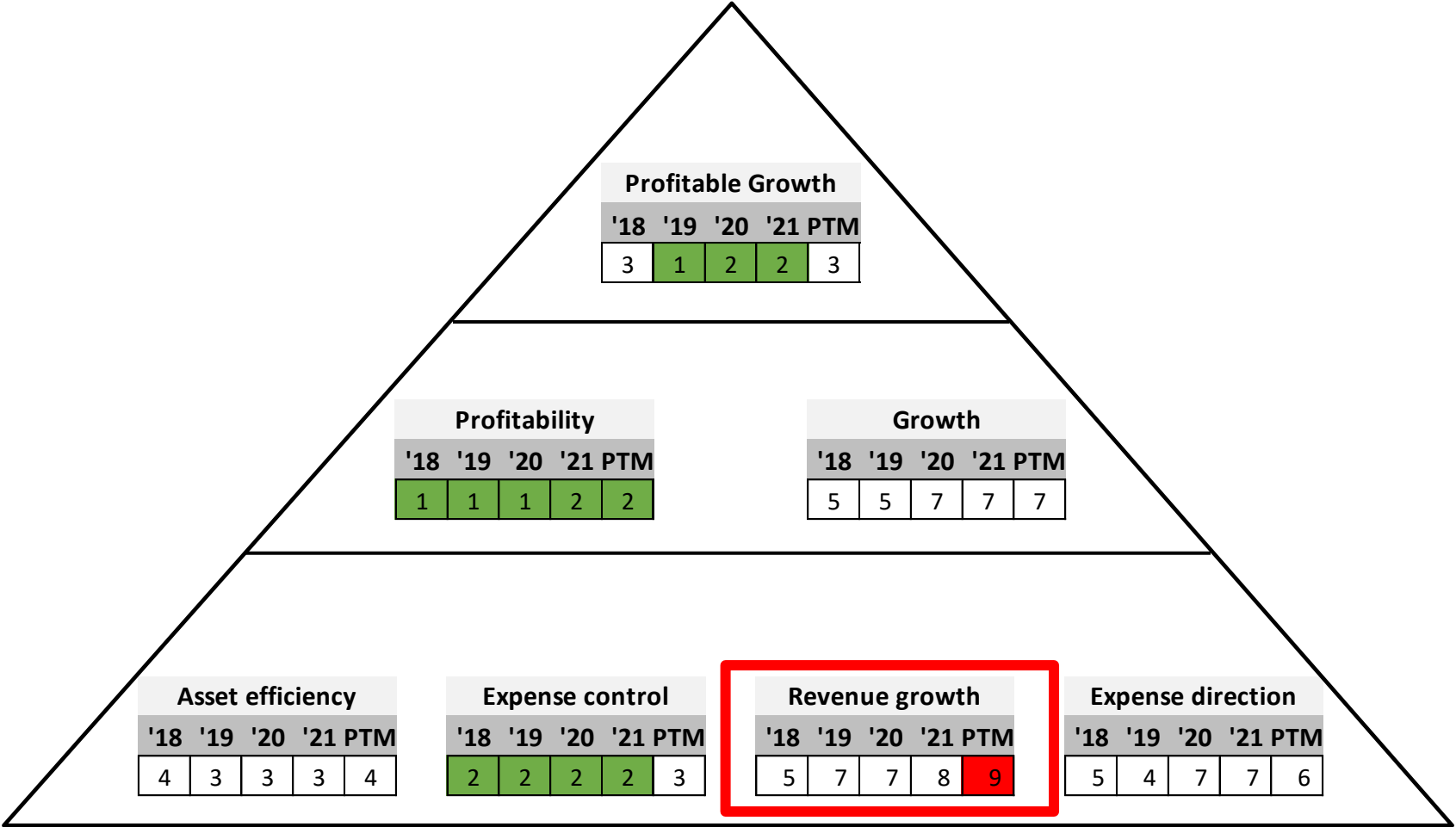
Benchmarked against 820 medium Info Tech companies worldwide.

# FSMART: A. Stotz Profitable Growth



**WORLDCLASS  
BENCHMARKING**  
A. STOTZ INVESTMENT RESEARCH

**Andrew Stotz, PhD, CFA**



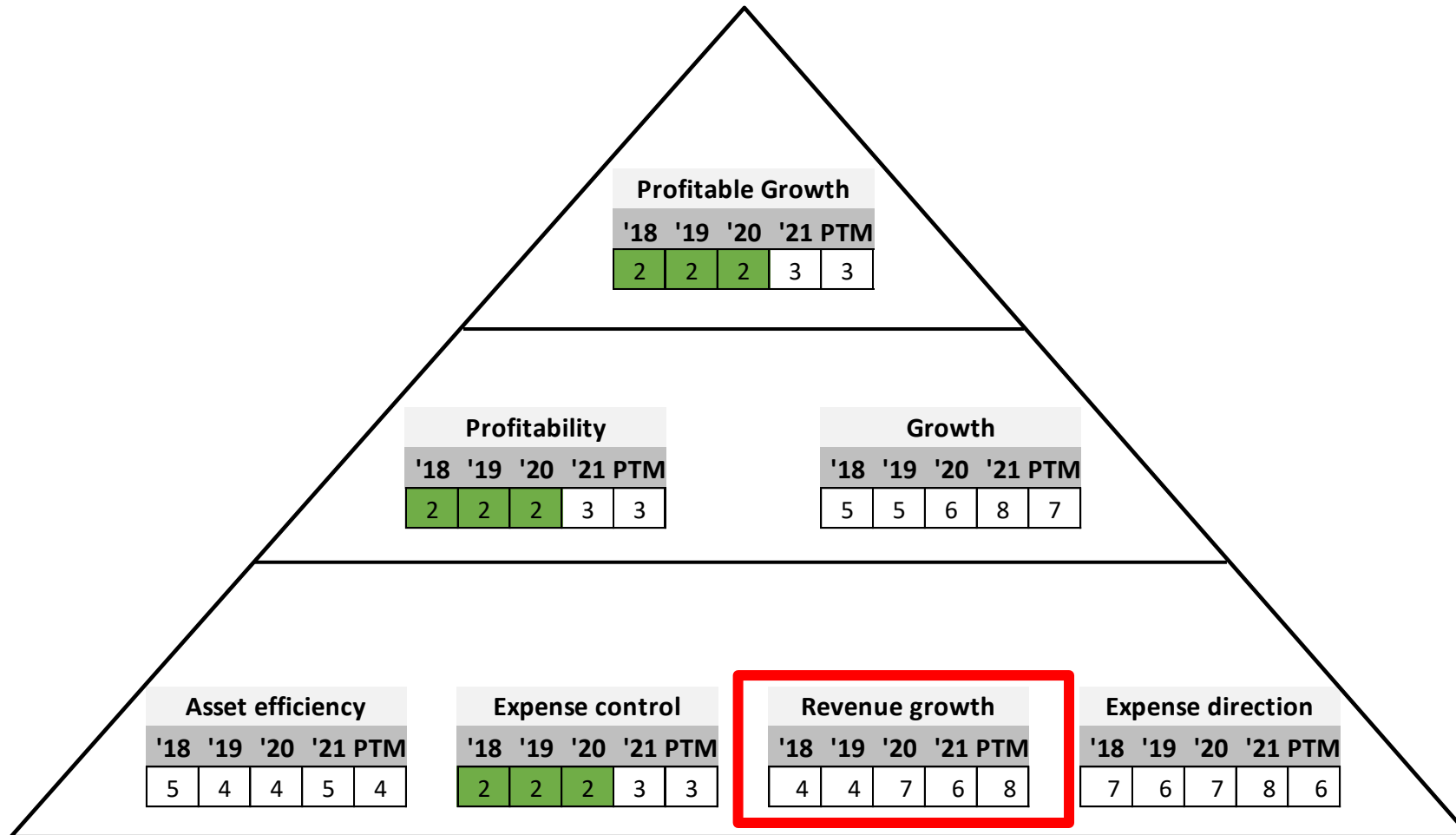
Benchmarked against 740 small Info Tech companies worldwide.

# ADVANC: A. Stotz Profitable Growth



**WORLDCLASS  
BENCHMARKING**  
A. STOTZ INVESTMENT RESEARCH

Andrew Stotz, PhD, CFA



Benchmarked against 260 large Comm. Serv. companies worldwide.

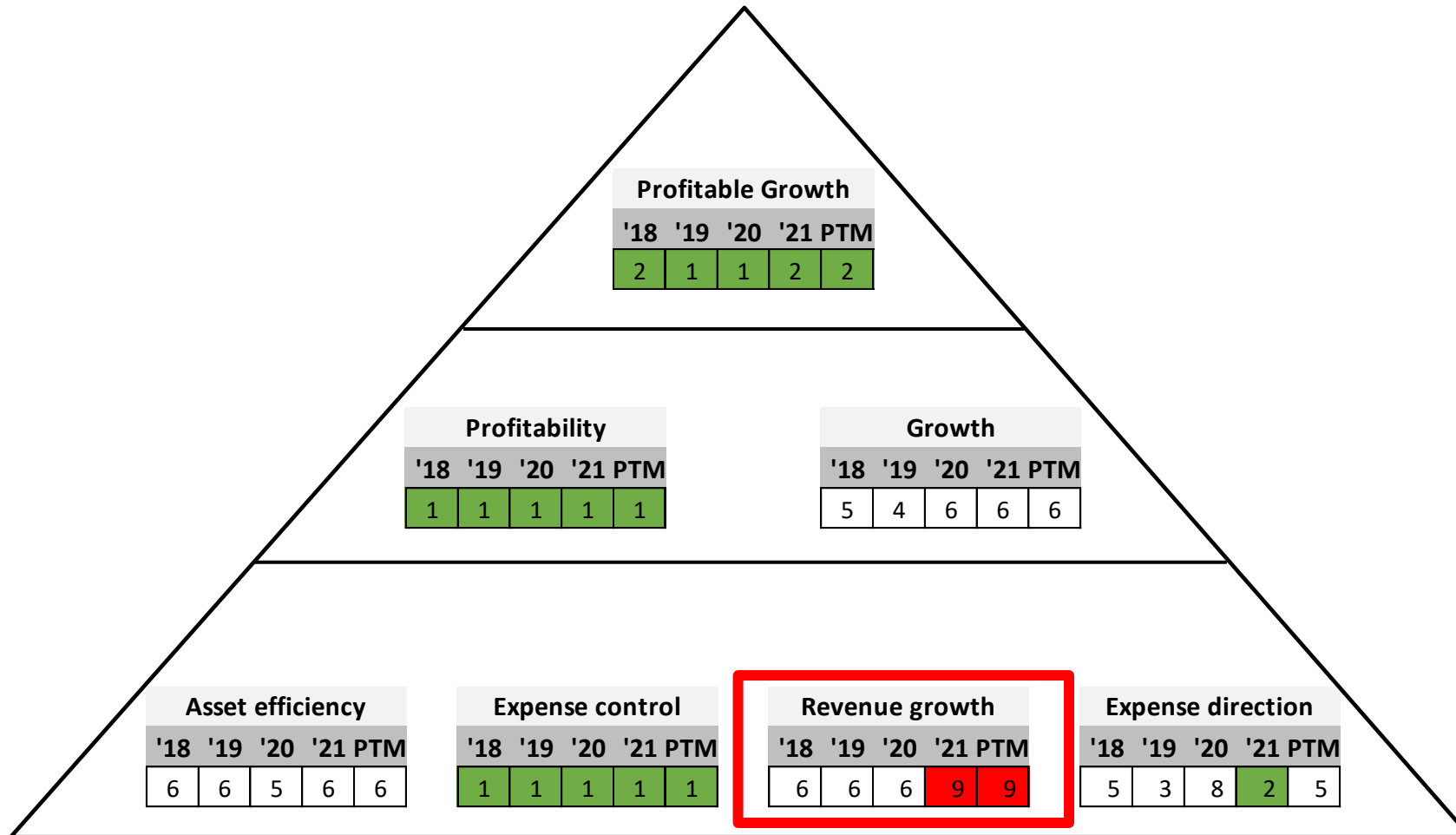


INVESTMENT  
RESEARCH

# TTW: A. Stotz Profitable Growth



Andrew Stotz, PhD, CFA



Benchmarked against 130 medium Utilities companies worldwide.



# Most common revenue problems

---

- ★ Weak sales team
- ★ Poor product
- ★ Poor service
- ★ Bad pricing
- ★ Inadequate marketing
- ★ Losing customers almost as fast as you gain them



**WORLDCLASS  
BENCHMARKING**  
A. STOTZ INVESTMENT RESEARCH

**Andrew Stotz, PhD, CFA**

**Assets – 1x**

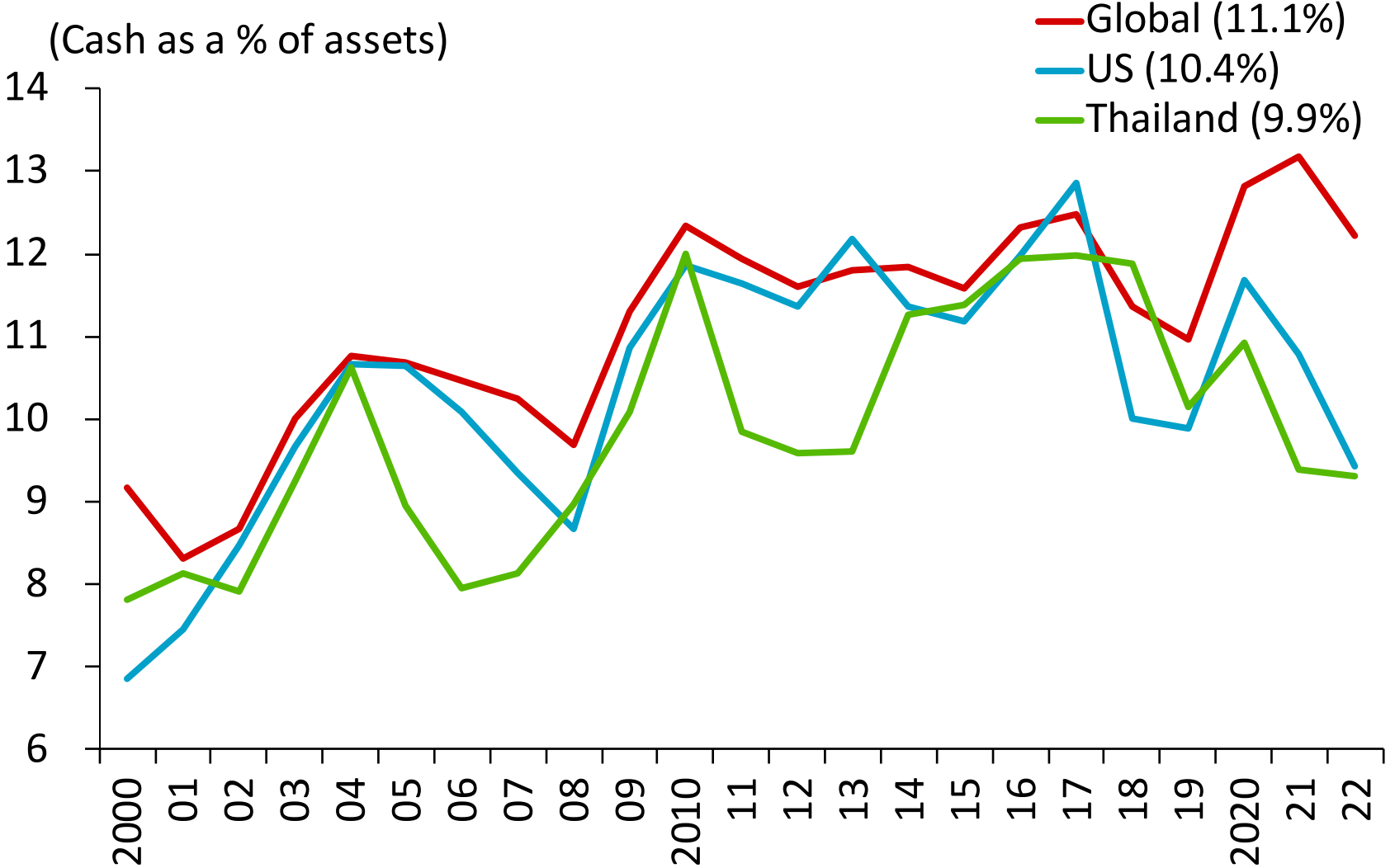
**Profit – 6%**

**Recession Proof**

**Revenue – 6%**

**Cash**

# Have at least 10% of assets as cash



**FVMR INVESTING**  
 A. STOTZ INVESTMENT RESEARCH

**Andrew Stotz, PhD, CFA**

**Assets – 1x**

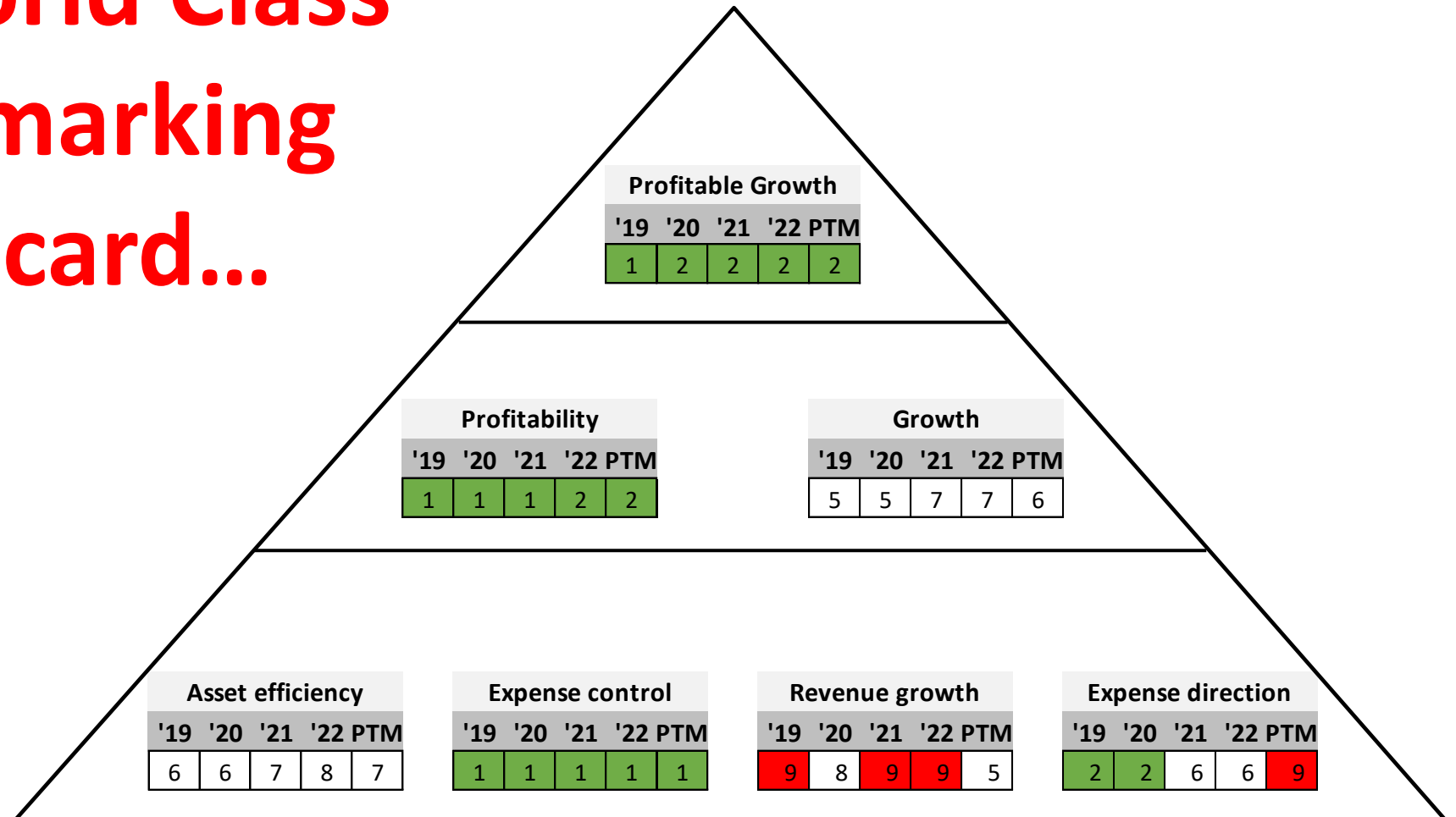
**Profit – 6%**

**Recession Proof**

**Revenue – 6%**

**Cash – 10%**

# If you would like to see your World Class Benchmarking Scorecard...



Benchmarked against 120 medium Utilities companies worldwide.

**Message me on Line**

