

**Get Rich Slowly - Blog**

# **Recognizing economic seasons: recovery and growth**

by [William Cowie](#)

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*(Since April is Financial Literacy Month, a number of articles will be devoted to more educational topics. This is Part II in a series about how understanding economic cycles could inform your financial decisions. Part I is [Understanding economic cycles: An introduction.](#))*

In Part I of this series, the introductory post about economic cycles, we discussed the fact that the economy, while growing over the long term, moves in up-and-down cycles and that each cycle can be broken down into four phases that mirror the four seasons of nature. In this section, we will explore what we identified as the spring and summer seasons of the economic cycle by considering two fictional crop farmers (Farmer Fred and Farmer Claude) whose livelihoods depend on how well they manage their work each season.

Farmer Fred is a successful farmer; but his neighbor, Claude, less so. (We'll just call him Farmer Clod.) But let's dive into the seasons and see what each does that causes them to be successful or not. Nature programs always begin with the newness of spring, so why don't we start there?

## **Spring: the season of early recovery**

Without a calendar or a weather anchor to remind us, it is impossible to tell when winter actually turns to spring. It is just as cold and dark one day as it was the day (or week) before.

Farmer Fred, though, trusts the calendar. He knows that he needs to get up and get his seeds planted in the ground in the springtime regardless of whether it is still cold and dark outside.

On the other hand, Farmer Clod isn't so sure. I mean, just look at the devastation winter brought. Who is to say things are going to be any different now? It is risky to put a lot of expensive seed in the ground only to see the entire crop fail before it even gets started. He reasons that it is far better to wait until there is no doubt that spring is here.

### **Outward appearances**

The economy is much the same. It is impossible to tell when the winter of recession turns to the spring of the early recovery. It is still cold and dark outside. The stores that closed during the recession are still closed. The companies that laid off thousands show no signs of hiring. The

number of foreclosed homes and bankruptcies hasn't lessened. The mood across the country is grim.

It is important to grasp the *zeitgeist*, the feeling of the time. Depression is everywhere — news headlines are dominated by budget cuts, more layoffs, and banks and businesses failing. Ponzi schemes get exposed as people withdraw their money, quarterly reports for 401(k) plans and falling home prices in the neighborhood create fear for the future. Some wonder if the world as we know it is doomed.

“Hope” is a four-letter word you dare not utter at a time like this. If you were to offer an encouraging word and explain that the recovery has begun, people would wonder how you could be so blind to the overwhelming evidence around you. They are likely to hold you in lesser esteem after such a statement and relegate you to the extremely naive, ignorant, or delusional bunch. Either that, or you must be completely insensitive. (Ahem. Don't ask me how I know this.)

### **It's only natural**

It's a well-known trait of the human brain to project today's conditions into the future. If it is hot today, it is hard to imagine a cold winter's day. Likewise, it is hard to imagine an upturn in the economy when you drive by shuttered strip malls and empty parking lots every day.

The early years of an economic recovery still feel very much like the recession for many. In other words, Farmer Clod's thinking is the norm. Outward appearances cause fear and depression to dominate everyone's thought process, and the simple facts of logic have a difficult time penetrating such a thick fog of feelings.

However, spring is the resilient season of opportunity. It is the best time to plant, and that is true of money in many respects as well.

### **So what about your money?**

If you had plans to start a business, spring (early recovery) is the best time to put your plans in motion. You can do it for pennies on the dollar. You will never have fewer competitors, and you can easily pick up customers who became stranded when their previous vendors bit the dust. In fact, buying businesses is never so cheap as in the springtime of the economic cycle.

The best place to be in spring is auctions. If you had plans to furnish your home (or even to buy a home), you can do that at auctions and save yourself some serious money. If you ever contemplated taking a cruise, you get the biggest discounts by far at the tail end of a recession and in the early recovery. That advice pretty much applies to most major purchases.

Needless to say, it can apply to investments too. As Warren Buffett often puts it: Everything is on sale, so that is the time to buy, buy, buy.

## If so, then why?

Sounds logical, right? So why do so few people do that, then? Two reasons:

1. **Fear:** The biggest reason people don't want to spend money (or invest) in the season of early recovery is the close memory of what has just taken place, which breeds fear that recession will last another ten years. If that happens, then that cash will be gone, sunk into something which is either used up (such as a cruise) or went down even further (such as an investment).
2. **Cash:** Very few people think five years ahead. In times like 2015, people find it hard to believe another recession is imminent and that there will be a recovery from that recession, a recovery abounding in bargains and opportunities which will require cash in order to participate. I call that "dry powder" to go hunting when the weather is still cold and clammy.

You can see where this is going: In order to get the most out of what I term "bargain season," you need to prepare several years ahead, at a time when it doesn't feel like that season at all.

My wife and I go through this often. We're from South Africa where the season at any date on the calendar is the exact opposite of what it is here in the United States. When we travel, it is hard to pack jackets and warm clothes because it is 90 degrees outside, just like it runs contrary to apparent logic to pack shorts when the snow lies four inches on the ground. However, if you fail to trust what you know to be true and instead rely on outward appearances, you will be unprepared when you arrive at your destination on the other side of the world.

Thinking ahead may sound logical, but it is not always easy to pull off.

## Summer — the season of economic growth

Unlike spring, summer is not a season of change — it's "more of the same," only warmer. In nature, everything is lush and green. It gets light early and it feels like the right time to be out there planting, so that's what Farmer Clod does. Only, we all know that it is too late to be planting seed in the summertime. His crop may turn nice and green; but when the first cold snap of fall comes, his plantings will not have had enough time to mature and yield its crop.

Fred knows the seasons. He knows one season follows the other, and he knows **the measure of his harvest in fall is set with the spring planting.**

That doesn't mean there is no work to be done in summer. Water, bugs and fertilizer keep both farmers busy. Everything grows. The rising tide lifts all boats. The summer in the economy is when employers (government and private) have more spending power. That's when raises, promotions and bonuses become more common. It is also when budgets for things like training and travel free up.

Summer is when companies begin to hire again. The departments which shrank in the recession grow back to their previous size, and sometimes expand even more. The people who managed to

hold their jobs in the recession become candidates for promotion. In fact, the summer of the economy is what most of us would consider normal. Fortunately, it usually is the longest season of the four (measured in years).

As summer progresses, competition intensifies on all fronts — for promotions, bonuses, customers, materials, you name it. Home prices go up and new home construction picks up too.

Also in summer, bad practices look as healthy as good practices. Debt seems like a reasonable choice in the summer of the economy: “Hey, look, I can make these payments easily!” Not surprisingly, putting money aside regularly in a [savings account](#) seems to fall out of favor as well.

Thankfully, summer is the most forgiving of the seasons and feels the best overall.

It is easy to see the correlation between spring and summer in nature and the economy. However, that is not true for fall, perhaps the most important season of all (and also the trickiest, as you will see in the next post). After that, we’ll see what conclusions we can draw to protect our finances from the nasty winter of recession.