

Bad economic news often offers good opportunities to those who know to look for them. Perhaps my favorite example to illustrate this point comes from when I was a student. One of my professors told a story of how he went down to North Carolina in the aftermath of severe hurricanes to make bids on property. He bought damaged property, or property from landowners who feared the next storm, for shockingly low prices. Over time, he made substantial profits on these real estate deals because he was able to buy at temporarily low prices and sell the properties when the area's real estate prices returned to their normal levels.

Having learned a bit of a lesson from my professor's story, I try to time my purchases so that I can find bargains, which are often available when there is bad economic news. For instance, a recession is certainly an event that many people dread. A lot of people lose their jobs and those that do keep their jobs often get paid less than they are accustomed to making. However, recessions do offer some opportunities. For example, for a professor like myself with a secure job, a recession is a good time to buy a new car. In contrast, people working in the private sector worry about losing their jobs during a recession. This fear causes them to put off expensive purchases. They do not want to take out a three-year loan to buy a car if they are not confident that they will still have their jobs in a year. In this environment, car dealerships will not sell the number of cars that they typically sell, which will cause their inventories to increase. To get rid of some of this extra inventory, the auto dealers will drop their prices. I try to wait for these low prices and time my car purchases so that I can buy a car at a recession induced low price.

On June 23, Great Britain's citizens voted to leave the European Union, an event that qualifies as bad economic news, but which offers opportunities for the people who know to look for them. First consider why the vote is bad economic news. Even though Great Britain has not pulled out of the European Union yet, its economy is being hurt by the uncertainty caused by the vote. As a way of illustrating, consider the following example. In previous years, an English brewery sold beer in France and earned Euros, which is the currency used in France. At the same time, a French vineyard sold its wine in England earning Pound Sterling, which is the currency used in Great Britain.

The brewery and the vineyard both want to exchange the foreign currency they had just earned for the currency that is used in their own countries — mostly, because each firm uses its nation's currency to pay its bills, such as employee wages and bills from local merchants for ingredients. A bank will be able to facilitate the currency exchange, so firms from both countries can sell their products across the English Channel and still be confident that they can obtain their national currency in an exchange.

Now that Great Britain is leaving the European Union, France will place tariffs, quotas and other restrictions on trade that will make it more expensive for these two countries to trade with each other. Now, when the British beer is sold in France, the French consumer will have to pay a tax levied on all goods produced outside of the European Union. This tax may increase the price of British beer by enough that French consumers no longer want to purchase it. The British brewery will have to cut back its production of beer because it is no longer selling beer in France.

This is also a problem for the French vineyard which sold wine in Great Britain and earned Pound Sterling. The British brewery is no longer bringing Euros to the bank for exchange, so there will not be Euros available for the vineyard to exchange. Even if the French vineyard can still earn Pounds in Great Britain, the French vineyard will stop selling wine in Great Britain because it wants Euros, not Pounds.

All of this does not mean that the British will have to make their own wine. They may obtain their wine from Chile, California, or Australia. However, it is unclear what the British will trade for the wine. Chile may want British medical equipment, while Australia may want British wool suits. Until these new trade patterns emerge, the British will put off new business investments. In my example, the British would know that they should not invest in a new beer plant to allow the brewery to expand capacity. However, they would not know whether to put their investment money into expanding the production of medical equipment factories or into expanding wool suit factories.

Because companies do not want to invest in Britain until it becomes clear how its exit from the European Union will influence its trade, the demand for the Pound Sterling has declined dramatically. Because fewer foreigners want to buy the British currency in order to invest in the factories in Britain, people that want to exchange their British Pounds will have to accept a lower price. Here are some actual numbers to illustrate. On June 23, before the vote outcome was known, someone with U.S.

dollars had to pay \$1.49 in order to buy £1 (one Pound Sterling). At the time I wrote this article, the person with U.S. dollars only had to pay \$1.24 for a £1.

The opportunity here, amidst all of the bad economic news, is that it is a good time for an American to travel to Great Britain. This trip just became a lot cheaper. Suppose Rick wanted to spend a week in London. If he planned to stay for seven days, a hotel that costs him £150 a day will cost him £1,050 for a week (which comes from seven days times £150 a day). On June 23, he could buy £1,050 for \$1,564.50. At the current exchange rate, he could buy the pounds for his hotel room for only \$1,302. He saved \$262.50 (U.S. dollars) on his hotel room just because of the change in the exchange rate. If Rick plans to spend another £1,050 on food and entertainment, the exchange rate movement saved him another \$262.50. His total savings from the change in the exchange rate, when measured in U.S. dollars, is \$525. This is a pretty significant saving. U.S. residents have the opportunity to purchase a vacation in Great Britain for much less money than it would typically cost them.

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