

The Poison Jellybean Conundrum

Isn't social media wonderful. You get to connect with all your "friends", share life experiences, buy and sell stuff and if you're really lucky make interesting discoveries about people and places.

Recently I was included in a popular post that's being shared on one particular platform. The premise is pretty simple and is designed to make an argument relating to Covid 19 risk management. An image of a bowl of 100 jellybeans is used with a caption suggesting that the aim of the exercise is to show stupid people how dangerous Covid really is. The proposition is that if 2 of the 100 jellybeans were poisonous would you randomly eat them or stay away entirely. Put another way it is proposed that only the stupid among us would choose to congregate publicly if there was a 2% chance of contracting Covid 19. Currently we have a mortality rate of 1% so if you were unlucky enough to pick up the wrong jellybean your statistical chance of being cut down is .02%. Now, layer over that your age and the pre-existing health issues you'd need to have and you'd be more likely to be taken by a great white. Meanwhile, on average, 3 people a day die in road accidents in Oz and I see no discernible panic.

To say this is a lazy argument is an understatement. To accept the proposition, we must first assume that there is no way of differentiating risk and no way to determine a percentile downside. This may well be the case with the bowl of sweets but it's most certainly not the case in real life. Fortunately, the apparent support for the jellybean theory and the anger with which counter arguments are confronted does help us understand the manner in which our society sees risk. That is, given enough negative and frenzied press coverage and a lack of comparative risk data there is a reasonable portion of our population who will hide under the bed, regardless of the real risk or the downside of said strategy.

Don't get me wrong. This pandemic is scary as hell and I understand the fear that's out there. If being isolated is your strategy go for it. Unlike the other risks I've alluded to the Covid end game is unknown and may get a whole lot worse before it gets better. The trick I think is to understand the downside of isolation and the potential long-term damage that an economic collapse may cause. We can only print money for so long before Paul Keating's famous banana republic comes back to haunt us.*

And all this, in a roundabout way, leads me to management rights and motel finance. When Covid 19 first raised its ugly head we took a view that lenders would move to a deal by deal assessment process. That is, accommodation businesses would confront a range of possible risks and as such each finance application would need to be treated on its merits. For a while that is exactly what happened but as time has passed, we've seen an interesting development. Some management rights and motel financiers have done their best to appear to be open for business while adopting the jellybean approach. In the case of one of the majors that means zero lending for these assets until further notice. One of their competitors has a similar policy but won't own up to it.

As management rights and motel finance brokers these developments concern us. Choosing to abdicate any individual risk assessment in favour of a blanket approach sidelines viable business transactions and runs the risk of contributing to an already challenging situation. Thankfully there are still lenders out there who are prepared to look at opportunities on a deal by deal basis. Indeed, elsewhere in this esteemed publication you will find a story reflecting a very positive outcome and an example of the value add contributed by specialist finance brokers like us (shameless plug!).

Mike Phipps. **0448 813 090**
mike@mikehippsfinance.com.au

Paul Grant. **0448 417 754**
paul@mikehippsfinance.com.au

Cameron Wicking. **0477 776 859**
cameron@mikehippsfinance.com.au

Head Office
4/31 Mary Street
NOOSAVILLE QLD 4566

Office. 07 5470 2194
Fax. 07 5455 6626
www.mikehippsfinance.com.au



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MIKE PHIPPS FINANCE ACL (364 314)

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Our advice to anyone seeking finance right now is to be very selective in terms of lenders. Even within the same banks we are seeing different views of policy and some disconnects between the front line and credit departments. A lot of time and angst can be saved by engaging a specialist management rights and motel finance broker and ensuring you are not wasting your time, to say nothing of your money.

I should stress that I mean no criticism of the banking sector. By and large the support given to the business community has been exemplary and I can't really blame lenders for taking a pause. We note that in all likelihood repayment support measures will continue post September for those businesses that require it and we don't anticipate any lender aggressively enforcing loan payment conditions at this stage. Of course, loan deferrals can't go on forever but for now they are a positive support for our clients.

We also welcome the federal government's announcement of an extension to the Coronavirus SME Guarantee Scheme. The original scheme, announced in March this year, sought to offer a 50% guarantee for new unsecured business loans via 44 approved lenders. Treasury have revealed that the scheme is to be extended with the maximum loan size being increased from \$250K to \$1M per borrower. The maximum loan term will go from 3 to 5 years and working capital only restrictions will be lifted. Importantly, secured lending will now be permitted, excluding commercial or residential property.

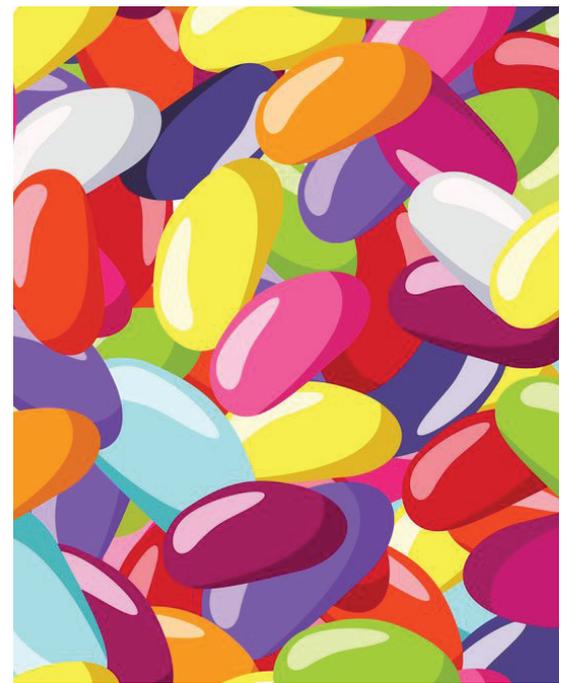
In summary, if you are chasing management rights or motel finance avoid being a jellybean. You may not be as risky as the bank thinks.

* Keating said, in 1986:

We took the view in the 1970s – it's the old cargo cult mentality of Australia that she'll be right. This is the lucky country, we can dig up another mound of rock and someone will buy it from us, or we can sell a bit of wheat and bit of wool and we will just sort of muddle through ... In the 1970s ... we became a third world economy selling raw materials and food and we let the sophisticated industrial side fall apart ... If in the final analysis Australia is so undisciplined, so disinterested in its salvation and its economic well being, that it doesn't deal with these fundamental problems ... Then you are gone. You are a banana republic.

Ring any bells?

Mike Phipps
Director | Phippsfin PL



Mike Phipps. **0448 813 090**
mike@mikehippsfinance.com.au

Paul Grant. **0448 417 754**
paul@mikehippsfinance.com.au

Cameron Wicking. **0477 776 859**
cameron@mikehippsfinance.com.au

Head Office
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NOOSAVILLE QLD 4566

Office. 07 5470 2194
Fax. 07 5455 6626
www.mikehippsfinance.com.au

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