

FOCUS ON BANKING & FINANCE

5 QUESTIONS WITH RAY MELCHER

President and CEO of Marathon Capital Advisors in Wyomissing



1 How is the local economy?

As the economists have reported, there are pockets of strength and also pockets of weakness in our local economy. Through my personal lens related directly to the segments of the business community that we are involved with every day, I see significant strength and continuing improvement in business profitability and revenue growth compared to what we saw during the recession and up to late 2012.

Because we see the financial statements and tax returns of companies for a minimum of the last three years and often as many as five or more years of financials, the positive trends are clear and very encouraging about how the economy has rebounded, at least in many segments of the community.

2 Are business people confident? Why or why not?

Because of the significant business improvement that many companies have experienced that we work with ... I believe the confidence

level is guardedly positive across the business community.

In spite of recent good times, many business owners and executives keep their eye on uncertainties surrounding the presidential election, the ineffectiveness of the current administration, terrorism threats, the onerous tax burden and the cumbersome tax code, the volatile stock market, international economic distress, workforce shortages for key jobs, increasingly burdensome and expensive regulations and other such issues of national and international importance that can reverse the positive business trends of the past few years.

3 How is the climate for a business looking for capital or a loan?

There seems to be huge amounts of equity capital and debt financing available from private equity groups, angel investors, strategic acquirers and even the commercial banks. We are regularly in contact with hundreds of equity investors from around the U.S. who are seeking

investment opportunities in existing businesses who desire to sell, merge or recapitalize their company.

Their investment appetites run the gamut across every industry, size of company, stage of growth, profitability, etc. There is a buyer or investor for just about every company looking for capital or a loan.

The challenge, and even art of the process, is finding the right equity investor or lender from among the huge number of possibilities. For sure, commercial banks are not the only source of financing, especially given the extremely constraining regulatory environment in which they must now operate, but banks are wanting to lend and have plenty of money to lend to qualifying borrowers.

4 What advice would you give to someone in terms of financing the purchase of a business?

There are several fundamentals that apply to obtaining financing for the

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acquisition of a business. Some of them are:

(1) Always prepare a logical, complete, relevant, compelling and accurate loan request in writing that explains what the loan is for, what are the facts that justify the loan and detailed financials showing how the loan will be repaid (cash flow).

(2) Select a bank(s) or other lenders who you have determined have an appetite for your type and size of loan and for your industry.

(3) Realize that a commercial bank is a “lender,” not an “investor.” Thus,

banks require strong evidence of ability to repay from cash flow and require collateral just in case you can't pay.

The risk-adjusted interest rate charged by a bank lender does not contain the risk premium that an equity investor or a lesser regulated nonbank lender expects. So, if your loan request doesn't meet a bank lender's risk profile, then consider a nonbank lender or investor who has a different risk appetite and will price the investment or loan appropriately for the embedded risk in the transaction.

Also, just because one lender turns down a loan request, do not assume all lenders will turn it down. You may have to shop around.

5 What's the best piece of professional advice that you have ever received?

I have worked with so many brilliant mentors who have shared so many nuggets of wisdom with me, it's tough to pick one. But, the general categories of advice that have meant the most to me center on the concept that “the customer is king/queen.”

Related to that, my mentor Art Habbergerger, told me years ago that “it all starts with the customer.” Nothing matters until you have a customer.

Another category of advice relates to activity level. I had a great boss, Larry Jilk, who told me many years ago that, in the context of continuous improvement, it's

better to throw 10 ideas against the wall because at least two or three will stick vs. only throwing two or three ideas against the wall, whereas maybe none will stick.

The last dominant category of advice that I received by Art, Larry and others that I cherish is about integrity, honesty, keeping your word, being committed to helping others and establishing yourself as a reliable, trustworthy resource that people can count on.

Editor's note: Appearing periodically, 5 Questions With spotlights a business professional's take on the economy and other industry issues. If you have a suggestion for a subject for this feature, please email Bill Kline at billk@lvb.com.

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■ Re-evaluate the changes in your life as they might affect your portfolio.

■ Rebalance by selling and buying investments to return your portfolio to its previously established asset mix (tax implications should be considered here).

■ Exchange assets for other assets, if you choose, but don't change the overall asset mix or risk-and-return trade-off profile.

■ Redetermine which investments your contributions will go toward in the future and in what amount.

You've already done the hard work of compiling your financial information for tax reporting. Why not also review your investment portfolio and make appropriate changes to assure your investments are working toward your goals?

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foundation or other sponsor can serve as a buffer between corporations and grant-seekers. The fund's asset size, gifts received and grants made are kept private and confidential.

On the other hand, a private foundation's detailed tax forms are filed with data on grants issued, investment fees, trustee fees, staff salaries, etc. These returns are public records.

It is easy to see why companies small

and large have turned to donor-advised funds to give back to their communities.

In the Lehigh Valley, companies ranging in size from Kressler, Wolff & Miller Insurance and Client First Financial, to very large entities such as Talen Energy and BB&T Bank (formerly National Penn Bank), have established corporate DAFs.

Bernard Story is president and CEO of the Lehigh Valley Community Foundation (www.lvcfoundation.org), based in Allentown. LVCF has been connecting people who care to causes that matter for 50 years. Contact him at bernie@lvcfoundation.org or the foundation at 610-351-5353.