



Pardon Me, Would You Care to Dance...Again?

by Jay Mesinger

It always looks the same. First we get reports of alarming economic news. The stock market weakens. Next we see the leading economic indicators slipping. Unemployment starts to increase. What happens next? You guessed it—the aircraft industry starts to slow. Utilization falls off, inventories of available aircraft rise and sales begin to cool off. Some days, it feels like the market is standing still.

I always liken this phenomenon to a high school dance. Girls on one side of the room, boys on the other. Curious glances from across the gymnasium, but no one seems willing to cross the line at center court. Finally, after what seems like hours, some brave boy or frustrated girl crosses over to the other side. Slowly the others follow. Then a few couples start to dance, followed by others. Finally a crowded dance floor comes to life.

I don't mean to oversimplify the process of a market redefining itself and coming back to life, but there are some similarities. Think about it. Inventories of available aircraft rise as more owners decide to reduce expenses or people back out of purchases while they "wait and see." A downward pressure is felt on prices. Sellers take the position that they'll continue to wait, hoping that the market eventually comes back. Buyers begin to say, "It's going to get worse—maybe even much worse—I'll just wait until prices hit bottom." Get the picture? Boys on one side, girls on the other. No one dancing! Just curious glances. But remember what happens next? One brave soul makes a move, and before long, the dance floor is full.

So eventually some sellers say, "It might get better, but I can't wait. I need to sell now." A few buyers begin to say, "Sure prices might go lower, but we can benefit from a new acquisition immediately. Let's go ahead and buy."

So a few brave souls go back to the center and make the best deals they can. There are even some advantages to a market that is just starting to heat back up, but is still far from warm. Competitive pricing can create cash flow for the seller and a motivating deal for the buyer. The buyer is able to say, "I made a very good purchase, even in what appears to be a declining market." The seller can say, "Sure, we took less than we initially had hoped, but we sold the aircraft." That begins the redefinition of the market and the beginning of a new dance.

Even if we aren't at the warming up stage quite yet, we are probably pretty close. And the cycle will repeat itself over the next few years, just as it has for decades. As always, an experienced and knowledgeable broker or dealer is a key to maximizing the benefit of buying or selling at any time, but especially in transitional markets like today's. Hey, it looks like the dance floor is starting to fill up!

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