

# The Horsch *Business Report*



## Helping you grow your career and your company

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LARRY HORSCH

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### INTRODUCTION

As we digest the results of President Trump's impeachment trial, watch England leave the EU, continue to monitor the China trade war and adjust for the coronavirus, we are hardly living in a tranquil time.

We continue to encourage your referring friends who might find the Report helpful. They can see it on our website listed below.

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### ECONOMICS

#### China Math Problem

Over the last decade or so China has reported very high growth rates of Gross National Product (GNP). In the last year they have reported it slowing to about 6% per year.

A few years ago, a Chinese American economist living in China suspected that their growth rates were inflated so she took it upon herself to reconstruct the national number by analyzing key industries that are involved. At that time, China was reporting 7% GNP growth. Her analysis indicated that the real GNP growth was about 3 points lower or 4% annual growth.

About two years ago the Vice Premier of China indicated that the numbers were inflated because the province chiefs wanted to endear themselves to the key members of the Communist Party leadership and simply inflated their economic activities to do so. The Vice Premier did not suggest a solution.

In general, if you subtract the three points from the current 6% annual GDP growth, you have a 3% real growth rate that is slightly higher than that of the U.S. growth rate. The biggest

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difference between the two countries is that China's GNP per capita is about 1/6 of that of the United States because of the vast Chinese population.

With the coronavirus spreading, it is likely that the first quarter of 2020 GNP growth in China will be about zero. This slower Chinese growth rate is lowering demand for many commodities from other countries, which will slow the international growth rate.

## THE WASHINGTON SCENE

### Current Events

While President Trump was acquitted in his recent impeachment trial, it appears he strengthened his political position in recent polls. These same polls also indicate the leading Democratic candidates are continuing to beat him in the general election later this year.<sup>1</sup> While many things can happen before the national election in November, President Trump needs a realistic briefing by someone on his staff who could get him to better manage his erratic behavior.

This whole impeachment event reminds us of the difficulties in getting a fair trial in civil and criminal courts when the attorneys on both sides have such strong legal and oratory skills that the jury has trouble discerning the truth. In such cases the outcome can be decided as much by the attorney skills as the facts. So it is with the impeachment process in the Senate, with strong advocates on each side, leaving the American voter fairly confused. Since we don't want lawyers to be less skilled, the solution has to be a growing level of public literacy regarding the legal system and the Constitution. (See Parting Shots.)

The Democratic primary is being reduced to the struggle between the big change advocates (Sanders and Warren) and the electability issue (Biden and Bloomberg). If one of the latter is the nominee, Amy Klobuchar could be the

Vice-Presidential candidate. Remember that Minnesota is a strong producer of Vice Presidents in the past.

## MANAGEMENT

### Taking Time Out Daily Limits

The fast pace of business today, particularly in large publicly held businesses reaching to achieve quarterly goals, puts extra stress on management personnel even more so if they travel internationally. It is only the person who is involved in this process who knows their own limits, so they have to be the ones to set outer boundaries particularly on hours worked. There are two major considerations:

- If you are to lead a balanced life, you can't spend all your energy working. At the extreme you could end up in the hospital.<sup>2</sup>
- As you move up the management ladder in your organization, you will be presented with problems that others aren't solving and often imagination and creativity play a role in the solution. The bad news is that the creative part of your brain heads for the exit long before you exhaust your body and you're left with a limited capacity to address big problems

Based on the above, it's a good idea to decide when your creativity is gone and get on with the rest of your life.

### Vacation Time

Long ago some U.S. corporations encouraged their execs to take two weeks off when they take vacation rather than one week. The first week is spent coming off a tough schedule, while the second week is viewed as really a restful event.

Currently some U.S. corporations allow their execs to take time off without regard to a vacation schedule because they are often working 60 hours or more per week.

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## Exercise

It is well known in medical circles that one of the best antidotes for fatigue is exercise. Many medical insurance programs provide for YMCA or similar visits to facilitate this. Some reduce your premiums if you have a regular exercise program and a program of weight control. Your lifestyle controlled by you will have a major bearing on your general health.

## Exiting the Workforce

At the executive level with pressure growing for performance, the average CEO in the Fortune 500 lasts only five to six years in the job. It is less likely these people will work to age 65. Fortunately for them, their compensation is high enough to allow them to bow out early if they so choose.

## INVESTING

### Update

While capital spending in the U.S. is still weak, consumer spending is still strong and consumer confidence has experienced a recent uptick.

While U.S. equities have been fully priced, a market correction has occurred based on the coronavirus. The current coronavirus may or may not be strong enough to have a lasting effect, but an unpredictable event involving the Mideast, North Korea, China, or Russia could trigger it, and any of these events would be the “Black Swan” of the risk world.<sup>3</sup>

### Executive Punishment

Recently the former CEO of Wells Fargo was fined \$17.5 million and the company fined \$3 billion for failing to properly monitor the activities of their employees that engaged in creating two million fake accounts promoting an illusion of growth.<sup>4</sup> It is rare that the government fines executives since they find it easier to fine companies when trouble occurs.

*If anyone is looking for a recipe to stop future executive misbehavior, it is not fining the company nor fining the executives, it is putting an errant executive in jail. There are no corporate compensation programs that offset the risk of jail time. Lawyers will tell you it's much easier to fine corporations or execs than proving a criminal case beyond a reasonable doubt. That may all be true but one bad behaving executive going to jail will eliminate dozens of future bad behavior events by others.*

We've cited the Wells Fargo example because it was the premier bank in America before the tragic event and they're still struggling to recover.

## A PARTING SHOT

Over the years, we found that there are two things everyone must pay attention to in their daily lives for their own wellbeing:

*It's important to know as much as possible about good health and what you can do about it as well as a grasp of navigating the medical services industry. The penalty for not doing so can be poor health or, at the extreme, premature death.*

*It is important to understand money and your finances and what you can do about them. The penalty for not doing so can be a lesser standard of living or, at the extreme, bankruptcy.*

After watching most of the recent impeachment trial in Washington, we'd add a third factor:

*It is important to understand our Democratic principles and the Constitution so that we will be able to be informed voters. The penalty for not doing this is a likely loss of, “Life, Liberty and the pursuit of Happiness,” and, at the*

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*extreme, the election of demagogues hungry for maximum power in political leadership.*

In noting the struggles between socialism and capitalism in the Democratic primary, we would add a fourth factor:

*It is important that we understand how we've created the country's wealth based on a free enterprise system. The penalty for not understanding it is passing laws that help derail it and, at the extreme, advocating socialist policies that have failed around the world over the last many decades.*

These four ideas are really four legs on a platform that help support our daily existence and give us hope for the future.

Respectfully Submitted,



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<sup>1</sup> The spread on the votes in the polls is almost totally offset by the margin of error in these polls.

<sup>2</sup> While work and home-life balance is a big topic, it's increasingly clear that clearing your head of work makes you more effective in your work going forward. Working extremely long hours shows good faith but may not help your overall performance and it can create health risks.

<sup>3</sup> The "Black Swan Theory" was well explained in *The Black Swan: The Impact of the Highly Improbable* book written by Nassim Nicholas Taleb and published by Random House in 2007.

<sup>4</sup> The accompanying article on this matter indicated that the CEO of Wells Fargo had earned over \$300 million in his term as CEO, so the financial pain is still slight.