

The Horsch *Business Report*



Helping you grow your career and your company



LARRY HORSCH

INTRODUCTION

We are moving beyond the initial shock of the coronavirus in the developed countries of the world to the coronavirus affecting less-developed countries that have fewer resources to cope with this issue. As we gradually open up parts of the U.S. economy from the lockdown orders, we will see social distancing, masks, and more testing for some time until the virus is brought under control by an effective vaccine.

We continue to seek your reaction to the Report and suggest you refer your friends to our website for the Report listed below.

THE ECONOMY OVERVIEW

The U.S. Recession

The economy in the U.S. is falling sharply with the lockdown efforts by the states to limit the spread of the coronavirus. The sharpest decline may be in the second quarter of this year. With a vaccine probably a minimum of 12 months away, economic recovery will be slowed.¹

In the meantime, the federal government and Federal Reserve in the U.S. have pulled out all the stops to assist individuals and businesses during these tough times, with probably more funding to come.

No one in policy positions in government or business has a validated playbook to handle this virus-driven downturn. They have learned some things in the Great Recession, but this round seems more troublesome. However, various state governors are really providing leadership in addressing this situation.

U.S. UNEMPLOYMENT

While we are probably looking at a 16% unemployment rate in the U.S. currently, the numbers have to be interpreted differently than previous unemployment figures. Normally, a laid off worker would get 50% or less of their current wages from state unemployment funds. Under the current setting, for a few months, these laid off-workers also get a Federal supplement. Many will make more money not working than working, so the financial pain level is very different in the short run.

SBA Loans

The lending program for small businesses in the U.S. was rushed to market and ran out of money in a few days because it did not define small business adequately. It allowed companies like Ruth's Chris Steak House with almost \$400MM in revenues to receive \$20MM in loans by defining each restaurant as a separate small business with fewer than 500 employees.²

The Secretary of the Treasury changed the rules after these problems occurred to essentially get publicly-held companies with a significant market value to return the money before May 7, 2020 and apologize for their actions. Many companies have returned the money.

Today's Manhattan Project

There is a growing amount of cooperation between scientists, academics, and business people to get a fast-track solution to the coronavirus via a vaccine. It has been referred to as a modern-day Manhattan Project. It may shorten an earlier estimate of 18 months to develop a vaccine.³

Looking Ahead

As expected, consumer confidence has plummeted, and unemployment has soared with the coronavirus. In some ways it is useful

to look at 2021 for insights into the economic recovery both in the U.S. and elsewhere. Too much of 2020 is a lost cause due to the coronavirus and the near-term path to recovery will be slow.

WASHINGTON SCENE

The Whitehouse Race

It has been repeated many times over the years in the U.S. that an incumbent president operating in a strong economic climate is hard to beat in an election year. All of this was true at the beginning of 2020 before the real impact of the coronavirus, which changed everything. The incumbent president today is presiding over an extremely weak economy and polls in many swing states showing Biden taking the lead, with national polls showing him leading by six percentage points. President Trump has not helped himself in his daily briefings.

Joe Biden's next moves are to clear himself of a sexual attack charge from a staffer employed many years ago and to choose a vice presidential candidate. He has already committed himself to choosing a female running mate. At his age there will be pressure to choose someone who is sufficiently experienced to be president should his health fail.

CNN and President Trump

We have arrived at the sixth round of a boxing match between CNN and President Trump. While President Trump bristles at the criticism of his early performance relating to the coronavirus and has been highly critical of CNN, CNN has gone on a rampage to criticize all efforts by President Trump. Having watched CNN for many years, we find their current performance very disappointing.

Somewhere in the privilege of having been granted a license from the FCC to broadcast, there must be some reference to public service and objectivity. To watch every evening, at least three broadcasters criticize the president,

is probably not fulfilling the conditions of having a broadcasting license.

A wise relative once said, “If someone criticizes you unfairly, do not stoop to his or her level; rise above it for your own good.” That idea has worked well for many of us for a long time.

Reopening a Retail Business in the U.S.

In attempting to open up retail businesses with close personal interaction, it will be important that an owner or manager chooses to provide significant changes in the operation, which would cause potential customers to feel safe from the coronavirus. If handled poorly, it will be like throwing a party with almost nobody attending. Certainly, spacing of customers, sanitation, masks, and related precautions will be necessary to gradually win over consumer confidence particularly when the incidence of coronavirus is still occurring. Similar concerns would also be shown by those working in this environment.

MANAGEMENT

Harder Work in Tough Times

It was once said:

Managements are not as good as they think they are in good times, and not as bad as others think they are in bad times.

In the economic contraction phase, everyone works harder for more marginal results, but that is the way it is in a free-market economy that has business cycles. In this particular case, the coronavirus really has blindsided many companies and has done particular damage to the hospitality industry.

Strengthening the Team

As always, the key is to maintain as many of the key management and employees as possible in a downturn to prepare for the next recovery. Currently, the process is aided by small-business loans and the government generally assisting citizens in other ways.

As we wrote in the Interim Advisory Report, dated April 10, 2020, some smart executives are cutting pay at the top to shift part of the burden onto executives, which builds strong teamwork going forward. Management and employees that have lived through a downturn often come out the other side as a stronger team. Remember the old adage by German philosopher Friedrich Nietzsche: “*That which does not kill us makes us stronger.*”

INVESTING

The Market

We tend to talk about the stock market as a sort of united investment activity, but at this point it is really a market of stocks with varying outlooks.

- High-tech companies continue to perform relatively well (Apple, Microsoft, and Alphabet, etc.).
- Banks are still trying to measure their reserves for loan losses versus actual losses likely with the coronavirus.
- Retailers are trying to figure which stores to reopen and which stores to close permanently.
- Companies with troubles before the coronavirus (Wells Fargo, GE, Boeing, J.C. Penney, Neiman Marcus, etc.) are continuing to struggle.
- Companies with solid dividends and balance sheets in a world of very low interest rates are of some comfort to investors.
- Venture capitalists are sobered by having made investments in fake unicorn companies and are grouping around biotech and other breakthrough ideas. They have given up investing large amounts of cash in companies that are too easily duplicated.

We are entering a period when some of the best investment opportunities for the next many years will occur as the stock market becomes more reasonably priced.

In the very long run, Warren Buffett is quoted as saying in his recent annual meeting, “*Nothing can basically stop America.*” We just have to get through the impact of the epidemic.

A PARTING SHOT

While there will be gloomy economic statistics being released in the U.S. and the world, the government emergency funding is also significant and will buy time to start a gradual recovery.

For the first time since China admitted to having a real virus threat in late January 2020,

we can begin to see a small light at the end of the tunnel representing the first phase of economic recovery. If the second wave of the coronavirus occurs, all of the developed nations, including the U.S., are in a strong position to contain it with greater knowledge developed from addressing it in the first round. Hopefully, in 2021 a vaccine will be ready, and the virus will fade gradually into the history books.

Respectfully Submitted,



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¹ The herd immunity concept will take two years to develop, and a vaccine will probably be in existence before then. Also, there are growing questions about the effectiveness of immunity generally.

² Realize Ruth's Chris receiving a \$20MM loan results in 1,000 small restaurants applying for \$20,000 loans and receiving nothing.

³ For those who are not students of history, the Manhattan Project was a super-secret program to invent the atomic bomb that ended World War II.