

The Horsch *Business Report*



Helping you grow your career and your company



LARRY HORSCH

INTRODUCTION

We have delayed the Report for a few days to see how the Senate race in Georgia turned out with control of the Senate at stake. With the Democrats winning both Senate seats, control of the Senate now resides with the Democrats along with control of the House and the presidency. The mob scene on January 6, 2021 at the Capitol Building in Washington, D.C., further reduces President Trump's future in the Republican Party as we will review later.

As we say goodbye to 2020, we are sure that we're all looking forward to a better 2021. We welcome your comments on the Report and hope you will find it helpful in 2021.

THE ECONOMY

Overview

The economy is still suffering from the COVID-19 virus with hope that the vaccines available now, and others available shortly, will turn the tide in early to mid-2021.

The nine-billion-dollar stimulus package may prove to be too little, but the Democrats now control Congress and will probably pass a supplemental program.

At some point, the rent forgiveness ideas will have to end so that landlords can pay their bills. Historically, if you couldn't afford your rent, then you moved in with relatives or friends, hopefully on a temporary basis. Commentators who say that it is not the renter's fault do not have a grasp of business downturns since it is never the renter's fault in a recession.

As the virus comes under control, the disaster that has occurred in the hospitality industry (bars, restaurants, hotels, airlines, etc.) will moderate and a long-term recovery will begin. Teachers and students will resume school in person in the fall of 2021, which will be particularly important for younger children who need a more formal program.

As the economy begins to recover, the Federal Reserve can play a more normal role, and interest rates will return to more normal levels. For all the fanfare about low mortgage rates being a positive event, retired citizens living on interest from bonds and bank deposits have been seriously shortchanged. In addition, the Federal Government can return to much smaller deficits.

WASHINGTON SCENE

The Polling Errors

Those who conduct political polls have struck out twice in the last four years. They forecasted Hillary Clinton's lead in the 2016 election, and she lost, and they forecasted Joe Biden to win by 10 percentage points, and he won by less than half of that. After the Biden election, pollsters went back to their sources and found that 18% of the Republican voters responding did not tell the truth in their answers to the questions, and 8% of the Democratic voters didn't tell the truth in their answers to the questions. Obviously, if voters don't tell the truth to questions posed by the pollsters, then the poll results aren't worth much.

The Republican Party Going Forward

With President Trump still claiming the November election was rigged against him, he has raised about 250 million dollars since the election from his true believers to perpetuate a shadow government headed by him when he leaves Washington. Since his hardcore followers represent about 25% of registered voters in the US, they are a formidable voting

block but not large enough by themselves to win national elections.

Trump's legal actions in losing all of his lawsuits (over five dozen) has lessened his credibility and his recent action to inciting mob violence at the Capitol Building in Washington, D.C., further reduces his influence in the Republican Party.

Two matters become likely:

- The Republican Party has to move more to the middle on the political spectrum to be a stronger political party willing to compromise to pass legislation.
- When President Trump no longer has the bully pulpit as President, his tweeting at 2:00AM is not likely to make the major broadcast news that evening. Recently, both Twitter and Facebook have banned him from using their services.

As President Trump fades from the scene, particularly with such erratic behavior, we will find out who will rise to the top of the Republican Party. Four years is a long time before the next presidential election for this plot to thicken. In addition, President Trump's hotel business has been hit hard by the virus, and he may have to rescue it before barnstorming around the country to rally his base as a private citizen.

The Joe Biden Presidency

It is likely that President Biden will move quickly to repair relations with friendly nations, NATO, WHO, Paris Climate Accord, etc., that have been de-emphasized during the Trump Administration. He will still be faced with having to bring the COVID-19 virus under control, getting the US economy out of a blue funk, and confronting the China issue. His experience working both sides of the political aisle will help the country move from tribal warfare in Washington to a more normal condition of working on matters that are good for the country, with less working on matters that only good for each political party!

MANAGEMENT

Overview

If you were employed in strategic planning for a major corporation in 2020, then you may have been reminded of the old Robert Burn's quotation, "The best laid plans of mice and men often go awry." Who could have possibly forecast a restaurant chain not having any real revenue for an extended period of time causing huge losses because of the virus? Who could have forecast airlines being only 20% to 30% full for an extended period causing massive losses? Fortunately, this type of black swan event doesn't occur very often, and normal forecasting tools are still quite useful.

On the positive side, the virus impact has opened our minds to new possibilities:

- As a corporation, do we really need high-cost downtown office buildings if employees can work rent free from home?
- Do we need to spend 50 to 100 thousand dollars in a large city for a sales meeting if it can be conducted over a Zoom meeting?
- If our employees don't go to an office complex 45 minutes each way from their home, then don't they have more time to reflect on their job rather than on bumper-to-bumper traffic?²
- The growth of Internet sales is opening up opportunities for entrepreneurs to market their products and services on a national scale with minimal expenses.

As the economy begins to recover, the focus will move from layoffs and maximum expense control to expansion and more hiring, which is always a more exhilarating experience.

Stakeholders Versus Shareholders

The CEOs of America's largest companies represented in the Business Round Table have continued to discuss serving stakeholders (customers, employees, suppliers, stockholders, communities, and the environment) as

contrasted to solely serving stockholders. While this has a large element of political correctness, in the courts of the land, the law indicates officers and directors must serve stockholders only in about 50% of states, and in the other 50% of states the officers and directors can give some attention to communities, employees, and other stakeholders.

The easiest and most practical way to think about this is to recognize that these stakeholders need to be divided into two groups. The primary group is made up of stockholders, customers, and employees. The secondary group includes all the other stakeholders who are less important in the overall picture.

In the final analysis, if a company attracts and retains good employees, who attract and retain good customers, then the stockholders will be well served. End of the confusion.³

Peter Drucker, the great business consulting guru in the last half of the 20th century said, "It is very difficult to serve multiple gods." If a company does well in serving the community and environment, but the business has experienced a significantly reduced profit, the stockholders are hardly going to be a happy group, and the management team's future will be at risk.

INVESTING

Overview

History tells us that overvaluation of equities can continue for some time. Benjamin Graham, the godfather of securities analysis and mentor to Warren Buffett, when asked about this said, "We never know when the overvaluation will end," and with a twinkle in his eyes he said, "but it always does end." We would add that when amateur speculators are buying naked short-term options and the initial public offering market is opening with wild gains in prices, the end is near.⁴

It has been said that the equities market in the US is the only game in town since interest rates are so low. We should add that while that is true, the door swings both ways, and it is an opportunity to either make or lose money.

It is time to review more moderately priced equities of companies with strong balance sheets instead of chasing equities that are overpriced.

PARTING SHOT

We have concluded one of the most difficult years in modern history as it relates to public health, unemployment, small business failures, and Washington in disarray. Hopefully 2021 will be a much better year for most of us.

Happy New Year and make one of your New Year's resolutions a BIG IDEA.

Respectfully submitted,



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Minneapolis, MN
January 13, 2021©

Published by the EM&F Communications Division of Eagle Management and Financial Corp. founded in 1988.

¹ If congressional members are spending 50% of their time raising money for their reelection and significant time on tribal warfare, that leaves little time and energy to promote the public good.

² The Economist Magazine estimates worldwide that only 10% of the jobs paying under \$40,000 can be done effectively at home, while 60% paying over \$100,000 can be performed effectively at home.

³ Companies routinely change suppliers and communities, and the environment is a very long-term issue. None of these stakeholders can be ignored, but they are not in the primary stakeholder group.

⁴ Naked options exist when the option holder does not own the underlying stock and can lose all his or her investment if their judgement on short-term price changes is not correct.