

The Horsch *Business Report*



Helping you grow your career, company, and economic wellbeing



LARRY HORSCH

INTRODUCTION

We continue to have historically important information about US inflation, Federal Reserve actions, evolving COVID-19 activities, and a very disturbing Russia-Ukraine War. We encourage our readers to give us feedback about what they like and dislike about the *Report* and what might be added. Our goal is always to make the *Report* more useful for our readers.

THE ECONOMY

Overview

The US economy is slowing after large Federal Government spending to overcome COVID-19 issues in 2021. While the liberal wing of the Democratic Party has tried to continue large spending of this type, the momentum has disappeared, and the focus has gone to controlling inflation and assisting Ukrainians with their war.

The Federal Reserve has been timid with its control of inflation until recently, when consumer inflation has reached 30-year highs. They're finally talking about significant moves to control it.

The labor market remains tight, even with people rejoining it after leaving it during 2020 and 2021. This tightening and inflation will cause continued higher wage demands and labor strife.

As interest rates rise, some younger citizens will be startled to find that the 2.6%

mortgage rates we had several months ago are not normal and that we're quickly returning to normal rates experienced over the last 50 years.

Usually, a slowdown in Federal Government spending and a rise in interest rates indicates a slowdown in the economy ahead, but it often takes time for this to occur, so the full impact may not be felt until 2023.

WASHINGTON SCENE

Immigration Control

While high inflation, particularly with gasoline and food prices, along with other economic issues, have captured the public's attention in the US, recent polls indicate the number-three issue is effective immigration control, which is almost nonexistent.

While an overall useful immigration policy and programs have eluded many US presidents of both political parties, the Democrats under both Obama and Biden have done a particularly poor job and it will cost them power in Washington in the coming November election. Not only will they likely lose control of the House, they also risk losing control of the Senate, which means that they go from total control of the political process in Washington to little control.

Simply stated, most of the citizens of the underdeveloped world would like to move to the US, but we can only accommodate a limited number each year. The policy of "catch and release," where a foreign-born family walks through two and a half feet of water in the Rio Grande River, stretches out their hands to be handcuffed, booked for a court date that they never attend, and then disappears into the vast reaches of the US, is a total failure. This policy, or any similar to it has lasted for many years excluding the Trump years when ex-President Trump got tough on this issue and sent many back to

Mexico, even if some of his other related policies on this matter were handled in a clumsy manner.

ELSEWHERE

NATO

Under the stress of the Russia-Ukraine War, NATO has been strengthened. It has gone from receiving critical comments by Macron of France and Trump of the US to a unified organization with a clear purpose. Currently, Sweden and Finland are reconsidering their non-aligned status as they see the fierceness of the Russian invasion of Ukraine. Ukraine itself may not be a candidate for NATO membership, if the Russians have anything to say about it, but it is considering European Union membership as an interim step.

NATO members must increase their defense spending to the agreed two percent of GNP so that the US isn't carrying a disproportionate burden, with many NATO members free-riding.

China

While the Chinese have endorsed the Russians initially in their invasion of Ukraine, under the theory that anything Russia could do to diminish the status of the US is good for China, they have been relatively quiet recently knowing that they can't overly antagonize their big export markets in Europe and the US. The next test will be to see if China provides a side door for Russia to avoid oil and banking sanctions imposed by the West. Our guess is that their efforts will be minimal. They will spend more time reflecting on their plans for Taiwan as they see Russia failing in Ukraine.

On China's domestic front, the coronavirus variant has caused countrywide shutdowns to manage the disease. Having chosen a low-tech Chinese vaccine that is only about 55% effective, China is forced to execute a massive lockdown to control the disease, but in the process, they are slowing their economy.

Ukraine

A distinguished historical military leader once said that a military force properly trained, committed, and lead by an inspirational leader defending its homeland against invaders, could count each soldier as being the equivalent of three invading soldiers in battle due to their dedication. This is what we are seeing in the Ukrainian battle with Russians abandoning their original plan of a three-day conquest and then a retreat from Kyiv to concentrate on the Donbas area. The inspiration presented by President Zelenskyy to his troops and fellow countrymen has been outstanding.

As the Russians retreated from the Kyiv area, many graves have been discovered involving large numbers of innocent civilians executed by Russian soldiers. This has accelerated the cry to prosecute Putin for war crimes. No matter how grim the facts, we believe that personalizing this issue with Putin is a bad idea. Many years of experience in handling differing views has convinced us that personalizing things only causes the other person or entity to dig in deeper defensively. As emotions rise, in this case, it can lead to a war of gas warfare, chemical warfare, tactical nuclear warfare, and intercontinental nuclear warfare. The situation simply degenerates into deeper problems. It is better to let specialized lawyers in The Hague determine quietly which charges are appropriate and to process the matter accordingly.

If Ukraine is to be the victor in this war, then the US and its allies must continue sending substantial military hardware and ammunition to help the outnumbered but motivated Ukrainian forces. This continuing need will test the will of the US and its allies. At the moment our shipments are akin to salving our conscience for not properly defending Ukraine because it is not part of NATO. The focus has to change to win the war for the Ukrainian people.

MANAGEMENT

Overview

It is useful to occasionally spotlight success stories, particularly of US companies that have sprung from humble beginnings. In the process, we realize how important small-business formation is, particularly for those businesses aiming to be much larger (not family restaurants, nor bait shops, nor drycleaners, nor antique shops). Listed below are some businesses that come to mind and their humble beginnings:

- Hewlett-Packard started in a garage with two engineers, and launched what has become Silicon Valley.
- Walmart was founded by Sam Walton who owned a few dime stores with a skill in promoting closeouts in the Bentonville, Arkansas area. He was threatened by the franchisor of the dime stores if he opened a true discount store. He proceeded anyway.
- Nordstrom was founded by John W. Nordstrom and Carl F. Wallin in the Pacific Northwest. It started as a shoe store.
- Kendall-Jackson was founded by Jess Jackson, a lawyer with an interest in growing grapes. He broke the industry tradition by blending wine focused on consumer taste so that each year the wine tasted the same as the prior year.
- McDonald's was founded by Richard and Maurice McDonald. It was acquired by Ray Kroc, who revolutionized the hamburger franchise industry by structuring the franchisor-franchisee relationship in a way that the franchisor did not succeed if the franchisee didn't succeed.
- 3M was founded as a sand and gravel company outside of Duluth, Minnesota, and found a way to use sand to create a rotary sanding device for the autobody repair industry.

While the US government is looking for more tax revenues to fund itself, it occasionally proposes to amend the long-term capital gains tax on corporate securities, particularly equity investments. The people working on this may have political savvy and a grasp of Federal Government budgeting, but they show little grasp of how the free-enterprise system has built America. If the tax system discourages risk-taking by removing the incentive for risk-taking (particularly early venture capital investors and company founders), it will contribute to diminishing the US economy.

INVESTING

Overview

As interest rates rise via the Federal Reserve's tightening policies to control inflation, equities in the US have mostly become volatile and have not corrected meaningfully enough from their high valuations. Part of this is that equities are "the only game in town," and the US is probably the best place to invest in the world, both politically and economically. The old strategy of "buying on dips" will be challenged as equities become repriced to more reasonable levels. Going forward, "buying on dips" may in fact be buying into a "dead-cat bounce."

In our November / December 2021 *Report* we suggested that, in 2022, the best investment in the US might be cash. We'll stick with that assessment, despite high inflation. As bonds of any duration are becoming money losers due to rising interest rates, and equities will be repriced to reflect reality, cash will become more valuable. This does not mean equities are not a strong long-term investment concept, properly researched, but it does mean we have to lower our expectations temporarily in this category.

PARTING SHOT

We are going through coronavirus variants, high US inflation, lawlessness in major cities, and an ongoing war in Ukraine.

To put this in perspective:

- We have almost solved the coronavirus issues as a showstopper.
- The Federal Reserve is finally moving to control inflation.
- We are rebuilding our police forces with new rules to reduce lawlessness.
- We are realizing that we must fund Ukrainian needs in its war with Russia.

Some would like to think that all these problems are new to a modern civilization and are unfairly placed on their shoulders at this time. Factually, they aren't new, and we are in fact confronting these with reasonable programs. While we love our freedoms and our democracy, we also know that democracies move slowly to address issues. We are moving forward on these issues.

Respectfully submitted,



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