

The Horsch Business *Report*



Helping you grow your career, company, and economic wellbeing



LARRY HORSCH

INTRODUCTION

We have three goals for the *Report*. The *Report* should:

- Have several unique insights of consequence
- Be highly readable (logical flow of information)
- Be user-friendly in length

We appreciate any feedback you may have to assist us in continuing to improve the *Report*.

As always, we encourage you to invite your friends to check out the *Report* on our website listed below.

THE ECONOMY

Overview

With the Consumer Confidence Index at a low level, consumers are continuing to spend but more on necessities rather than discretionary items. Supply chain issues have abated somewhat, but a recession of a sort looks like it will occur fairly soon despite the stock market rallies that have been underway.

With inflation a bit off its peak but still very high, the Federal Reserve is likely to raise rates again in September, but possibly by less than the three-quarters of a percentage point in its previous moves. As they continue with this process, the odds of a recession continue to rise, but the action is necessary to fight high inflation.

The clamor by some to get the Federal Reserve to stop raising rates further reminds us of a 400-pounds man worried about getting too thin after he's lost just 25 pounds.

WASHINGTON SCENE

Political Party Leadership

This just in from our maritime department:

“The SS Trump is taking on water and the SS Biden is listing in heavy seas.”

It seems quite likely that neither of these men will be in the 2024 Presidential race. Trump has too many legal issues and Biden is too old for the job, which is an enormous job even for a 60-year-old.

If the above is correct, it is interesting to speculate about who might lead each political party. The situation has become more complicated as shown below:



We would probably eliminate Kamala Harris because she doesn't seem to have accomplished much for whatever reasons. We've eliminated Nancy Pelosi as being too old and Kevin McCarthy lacks sufficient consistent focus.

If Donald Trump is able to run again, we should note that Liz Cheney's decision to stop him might mean she forms an independent party that would be a spoiler party if it's able to attract five to 10% of the overall vote. It is rare for a party to win a national election for the presidency when it is divided by its own. Our case in point is Ross Perot dividing the Republican Party in 1992. The election is still a long way off, and obviously new candidates will appear.

While the 2022 Fall election favors the party out of control (Republicans), the margin of victory for the Republicans may have gone down a bit in House races due to the abortion issue and Democrats' success in passing bills, while Senate control is still a tossup.

Fraud

Reports are now coming in on the five trillion dollars spend by the Federal Government during the two-year COVID time period to avoid a sharp recession. Currently, the estimate of fraud is about 5% of the total or \$241 billion. Many cases are so blatant that they are comical as pointed out by investigators.

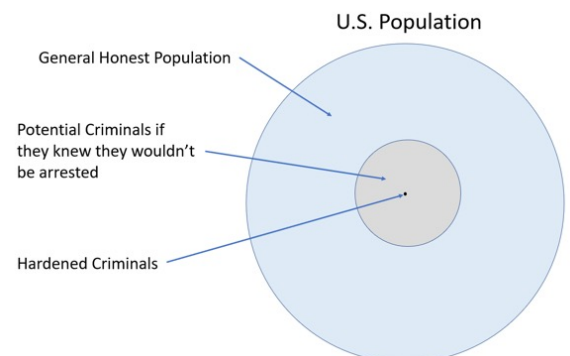
If you recall, the Federal Government had a great desire to keep private sector payrolls in place, and if you follow the rules, the loans turn into grants. The missing issue in all of this is that nobody verified the information supplied by the applicants and checks were sent out in such a short period of time, which led to substantial fraud.

Many years ago, an economist suggested, only half in jest, that in an economic emergency the Federal Government might consider filling helicopters with cash and simply dumping the money on the population below. While that approach was never used, we came close to it in the free money distributed during the two-year 2020 and 2021 COVID-19 pandemic.

ELSEWHERE

Lawlessness

As we experience more and more shootings, carjackings, and other violence, we wonder if the drawing below might explain part of it.



When law enforcement numbers in many urban areas are still down significantly, many potential lawbreakers become actual lawbreakers because they don't think they will be caught. Hopefully, as we recruit and rebuild law enforcement numbers, lawbreakers will be caught, and others will see this and choose to play it safe. Unfortunately, the process of recruiting new law enforcement personnel is going slowly, since many people today don't want to be a law enforcement officer in this political environment. The penalty for not moving more quickly can be that significant lawlessness becomes the new normal.

The Russia-Ukraine War

Over and above the high number of injuries and deaths of both military and civilians on both sides in this war, the constant bombardment by Russia of cities in Ukraine is turning many of them into vast junk piles.

The head of the European Investment Bank recently estimated that it would cost \$1.1 trillion to rebuild Ukraine as of July 1, 2022. It appears that if Russia can't win the war, then Russia is determined to destroy as much as possible.

It has been reported recently that Russia has been recruiting mercenaries using a company in Russia that has been allowed to recruit even in Russia's prisons. With about 80,000 Russian soldiers killed or wounded in the war, this mercenary effort really brings into focus the Russian military staffing issues.

All eyes are on the southern area of Ukraine, where the Ukrainians are trying to win back land lost earlier in the war, and where Russia is moving more troops into the area to defend it. Fortunately, farther south in Odessa, many ships are moving grain around the world after a blockade of the area was lifted. The President of Turkey, Recep Erdoğan, who has caused North Atlantic Treaty Organization (NATO) heartburn by buying Russian military

equipment while being a member of NATO, has been instrumental in convincing Putin to let the grain shipments occur to prevent malnutrition in many countries. Erdoğan has also become active with the United Nations (UN) to protect the largest atomic energy plant in Europe located in Ukraine to prevent further attacks by the Russians on it to reduce the chance of a massive radioactive accident.

The European Union (EU) Energy Issue

As Russia reduces the national gas supplies to the EU and particularly Germany, the odds favor rationing of this fuel this coming winter. While reversing plans to scrap three atomic energy plants in Germany may help address this issue, it is going to be a long winter for many in the EU.

MANAGEMENT

Overview

Business management everywhere will be tested as the business cycle moves into a recession mode. Even the well-managed Target Corporation just about destroyed its recent quarterly earnings with excessive inventory liquidation from the two-year COVID time period ending recently. At the same time in the retail arena, Kohl's is struggling as is Bed Bath & Beyond. Recessions are business killers of weak competitors.

While serious struggles are occurring above, Tesla CEO Elon Musk insists on making news with fake announcements and continuing his style of shooting from the hip and attacking the SEC whenever possible. Good sense doesn't always come with visionary talent.

On the issue of home/work balance, many managers are realizing that the Prussian general and military theorist Carl von Clausewitz was right in saying that winning a war is difficult if you are battling on two fronts, as the Germans realized in WWII.

Applying that to the management situation, it is best for the manager to have domestic tranquility so that the focus can be on the battle in business.

Incentive Compensation

Give yourself a break and take the pressure off your managerial skills by inserting incentive compensation whenever possible – bonuses, profit sharing, and equity involvement – to self-motivate your people. In the choice between using carrots and sticks, you're adding energy-loaded carrots, particularly if they have a short-term payout.

Integrity

There is a long history of executives and managers who have built a good reputation over the years only to destroy it in one bad event. How many CEOs have been removed from their position in the past five years in the U.S. due to inappropriate sexual encounters in addition to other integrity killers? An extra dose of discipline could save the day.

INVESTING

Overview

Successful investing involves the art of anticipation long before all the facts are in. Stock markets bottom and then begin to rise many months before the business cycle recovers because investors concentrate on what's next. The same ideas apply in down cycles in the economy and the stock market.

Some investors believe that the current recovery in the stock market signifies the end of the economic contraction. The odds don't favor that view. The recession has not yet started, so it is too early to anticipate good times before the market focuses on reduced earnings by companies that are caught in high labor costs, high transportation costs, lack of

consumer confidence about the future, and rising interest rates.

In all serious corrections in the stock market, the gross speculations are the first to be crushed such as cryptocurrency and SPACs acquiring something undescribed in the future. We probably have that phase of the correction behind us.

PARTING SHOT

Who would have thought, coming out of a two-year COVID-19 pandemic period where many worked from home, that a new working environment would be established going forward? Imagine the situation when it is not necessary to go to the office often and a person can move from San Francisco to a peaceful lake 1,000 miles away with adequate computer and cellphone connections. It is happening before our eyes and allowing workers to redesign the work/home life issues to fit their idea of a better world.

For employers not convinced that this is a big change in the employment situation, we cite a recent study by Robert Half International that indicated half of the respondents working from home would look for a new job if their company required them to return to the office fulltime.

Respectfully submitted,



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