

The Horsch *Business Report*



Helping you grow your career, company, and economic wellbeing



LARRY HORSCH

INTRODUCTION

We are publishing another Interim Report since we find the changes in the world sufficiently important to not delay until our normal publishing date.

In this Interim Report we will focus only on the Russian-Ukrainian issue, the U.S. stock market, and gun control in the U.S.

As usual, we encourage you to introduce the Report to your friends who might find it helpful.

THE RUSSIAN / UKRAINIAN ISSUE

Overview

Russia is moving to control the eastern and southeastern portions of Ukraine from the Donbas region to Odessa to cutoff Ukrainian access to the Black Sea and their ability to ship grain (particularly wheat) and seed oils. While the free world is asking Russia to allow Ukrainian exports from Odessa, its plea is falling on deaf ears, and this will cause food shortages, which could cause disruptions in some underdeveloped countries where wheat, particularly, is a main ingredient in their diet.

Russian Communications Control

Russia has spun a story to its citizens that is in direct conflict with the truth regarding its invasion of Ukraine. With all TV in Russia controlled by the government and most Internet sites shut down, only the young and electronically sophisticated citizens know how to get around all of this to find the truth.

Despite the penalty for telling the truth in Russia, some retired and current members of the Russian government are beginning to speak out. So, there is some hope that the Russian public will learn about this over time, which is Putin's biggest nightmare. Also, with Russian soldiers' deaths in Ukraine approaching 25,000, the Russian public will learn of this over time and resent Putin's effort in Ukraine.

U.S. Support

After the recent passage of a bill in the U.S. Government to give \$40 billion to Ukraine, the U.S. total war support given to Ukraine is increasing dramatically. In some ways the competition is between Russian determination in Ukraine and the U.S. willingness to fund Ukrainian war effort, particularly if this becomes an extended war.

Commercial Fallout

With relations between the U.S. and Russia falling sharply, U.S. and western companies are increasingly shutting down their businesses located in Russia, with significant write-downs of their assets. BP (British Petroleum) leads the pack with a write down of \$25 billion.

The Holy War

Putin currently has the Russian Orthodox Church on his side as the Church describes the invasion of Ukraine as a "holy struggle." This is an important endorsement of Putin's actions because 61% of Russians identify with the Russian Orthodox Church.

To put this in perspective, Pope Francis has warned the Russian Orthodox Church leader not to be an altar boy for the Russian war machine.

Other Russian Issues

Bill Browder, author of the recent book, *Freezing Order*, reviews his experience as a portfolio manager for a fund that invested exclusively in Russia for many years. The central issue in the book is Russian corruption. He estimates that Putin is now personally worth \$200 billion. In a news interview, he recently estimated that \$1 trillion has been stolen from the Russian Treasury by Putin and his associates during the 22 years that Putin has been in power.

Some U.S. military leaders wonder how much of the funds directed to build up Russia's defense capabilities ever arrived at the proposed destination. If the funds never arrived, then who received the money?

THE U.S. STOCK MARKET

Overview

Excesses are being wrung out of the U.S. stock market, particularly highflying Internet stocks, stocks favored by amateur day traders, and crypto currency, some of which are becoming almost valueless.

Jamie Dimon of JPMorgan Chase has cautioned against using crypto coins in place of real money, and Warren Buffett, the Oracle of Omaha, recently said he wouldn't pay \$25 for the whole cryptocurrency industry.

The supply chain difficulties (caused partially by the lockdowns in major areas of China to address variations of the coronavirus), fuel inflation in transporting goods, and a continuing tight labor market are negatively affecting many companies' earnings, which also affects equity pricing.

The Federal Reserve policy of getting tougher on inflation by tightening credit aggressively will continue to lower the prices of most U.S. equities and may cause a recession in late 2022 or early 2023. If this occurs, it won't revive the Great Recession since there are not large excesses in the U.S. economy.

If the general market indexes (Dow and Standard and Poor's 500) decline by 30% from their recent highs (the Dow and Standard and Poor's 500 have already declined by 18% at their low point, and the Nasdaq has declined about double that), a great buying opportunity will occur. You may have noticed that Warren Buffett has already begun to buy cheap stocks since he usually buys when everyone else is discouraged and looking at their shoes.

It should be noted that many young professionals on Wall Street and money managers have only seen up markets. They are likely to be disoriented if this decline continues.

While the U.S. stock market is usually a reflection of the U.S. economy, history tells

us that if the market decline is large enough, then the market has a negative effect on the U.S. economy as more citizens feel less wealthy.

So, cash and its equivalents have been the best liquid investments in 2022, even with high inflation.

GUN CONTROL IN THE U.S.

Overview

Today the U.S. has substantially more guns than people. It is the only advanced country in the world that continues to experience significant mass shootings.

When the Sandy Hook Elementary School shooting took place 10 years ago, many felt action would occur on gun control. Now with another mass shooting in Uvalde, Texas, we again wonder why we've made almost no progress on gun control, particularly as it has impacted young children. Many would point to the lobbying efforts by the NRA, but they've become a weaker organization in recent years.

There is a fundamental challenge in the makeup of the U.S. Senate as designed by our founders. As we all know, the House of Representatives is structured based on the population of each state, but each state, no matter how small in population, has two Senators. Many small western and rural states tend to resist gun control thinking the U.S. Constitution guarantees individuals the right to bear arms (actually, the Constitution guarantees militias appointed by the Government to bear arms, not individuals). All these states have two Senators and small

populations. On the other hand, many large population states with large metro areas often believe that there should be gun control because most of the killings occur in large metropolitan areas in those states, but they only have two Senators.

Today, an overwhelming majority of Americans are in favor of gun control in general, but the Senate with its two Senators for each state ends up with a 50-50 split position on gun control because the smaller states are overrepresented in light of their small population.

Our Founders may have had a good idea of structuring the Senate this way, but it is a challenge to pass legislation on gun control because of the facts above.

Currently, Senate minority leader McConnell has asked Senator Cornyn of Texas, a fellow Republican, to be the point person to open a discussion with Democrats on this matter. Let's hope there will be some progress in the near future. The world is watching.

Respectfully submitted,



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