

The Horsch Business *Report*



Helping you grow your career, company, and economic wellbeing



LARRY HORSCH

INTRODUCTION

Joseph Chamberlain, a British statesman, said in 1898, “May you live in interesting times.” Since the initial *Report* in mid-2019, we have experienced a once-in-100-year virus, a significant war in Europe, the top of a speculative stock market followed by declines, and a current economy teetering on the edge of recession as the Federal Reserve fights inflation. In addition, police reform is ongoing and the U.S. political system is struggling to get beyond gridlock. What an interesting time to write a *Report*.

We encourage you to let your friends know about the free *Report* if they may find it useful. It is available on our website listed below.

THE ECONOMY

Overview

The Federal Reserve continues to fight inflation, which is moderating a little, but the Fed is being frustrated in its efforts by a strong labor market. The primary issue in the labor market is a low participation rate of workers during their prime working years.

As consumers run out of their covid money given to them by the government, we see a decline in the savings rate and an increase in delinquencies in car loans. Business has been wary of the economic situation for a while. Meanwhile, the federal government spending on infrastructure will help support some of the construction industry in the years ahead.

Overall, we continue to believe that the economy will be in a recession mode in the last half of 2023 and a recovery mode in 2024. When listening to economic forecasts, we suggest you ignore just about everything coming out of Washington because it is mostly political babble. Pay attention to independent economists and surveys.

WASHINGTON SCENE

When Integrity Still Mattered

Seventy-five years ago or so in the U.S., many issues in business and in life itself could be resolved with a handshake. In doing so, it expressed a confidence that you could trust the other person to do what was agreed to and they did the same. Gradually, that trust diminished, and legal documents took over, often with immense details. We have all learned in business that all possibilities may not be covered even by an extensive legal document.

Warren Buffett once advised that integrity was the first issue to be aware of since a person with a high intelligence and experience will eventually use their strength against you if he or she does not have integrity.

George Santos

We've all heard occasional lies from people around us and many exaggerations, but the George Santos position puts his situation at an all-time low in telling the truth. Almost nothing he has stated about the relevant facts supporting his candidacy for Congress contain any truth. To arrive at this advanced stage of fiction, he must be delusional and requires psychiatric help.

Republican leadership in Santo's home district in Long Island is now embarrassed and upset about what has happened. They would do well to reflect a bit on an old U.S. Navy philosophy about responsibility when things go badly, as follows:

It may be that you didn't know the facts causing the problem at that time, but based on your absolute responsibilities you should have known, so you are being held responsible for the bad event.

We can only hope that the Brazilian government will ask for him to be extradited on a theft charge, and he will make a quiet exit from Congress and our lives.

The Federal Debt Ceiling

Here are some basic facts about the issue:

- Any type of failure to pay our federal debt or other federal obligations on time would be a disaster for the United States. The political battle on this matter in 2011 caused Standard and Poor's to downgrade the credit rating of the U.S. federal debt.
- If Congress passes legislation to spend money on a number of issues, it has no right not to issue the debt needed to cover this past spending if current tax revenues can't cover it.
- Federal debt issues are a symptom of the problem; the U.S. budget deficits are the cause of the problem.
- On federal budget discipline, we give the Democrats an "F" grade and the Republicans a "D" grade. Almost nobody is "tending the store" on this issue.
- If one attempts to reduce total spending and not reduce defense spending, interest expense, Social Security, Medicare, and Medicaid, then there is only a small amount of the budget left to address and reducing it will not save enough to solve the problem.
- The IRS estimates that about \$1 trillion per year is lost in revenue because of tax cheaters.
- In the U.S., the spending on all U.S. healthcare continues to grow and is about 18% of GNP currently. About 65% of all healthcare spending occurs with patients in the last six months of their lives.
- The U.S. federal debt is now 121.2% of GNP and it is entering a danger zone.
- Countries that have lost control of their accumulating federal government debt and have higher interest costs eventually must beg for money from the IMF and others to continue to function. Their currency also usually declines, which makes them a lesser player on the international scene. Not a pretty picture.

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- Most politicians realize they are passing the debt burden onto their children and grandchildren, but they want to give out the goodies to their constituents and not ask them to pay for them with increased taxes in order to get reelected. They also believe that the roof will not collapse until they are comfortably out of office.

With the above in mind, it is probably time to put a limit on the ratio of federal debt to the GNP except for war periods when the war is officially approved by Congress. We can no longer rely on the political will of the people in Washington to address this problem.

ELSEWHERE

The Russia-Ukraine War

In recent weeks, the Russians have made some progress in eastern Ukraine by moving great numbers of mercenaries to the front line who are then treated as cannon fodder and killed or wounded in large numbers (up to 80%). The Ukrainians face wave after wave of such activity and they are wearing down. In the meanwhile, the much-promised new military equipment and supplies are slow to arrive, and some of it takes time for special training.

We have expressed our thoughts on a peace plan in past *Reports*. In the meanwhile, we have seen many more retired military officers on TV forecasting a war of long duration. What is missing in these conversations is that if the Ukrainians receive the military equipment and supplies and are able to successfully counterattack and begin to win the war, then they are faced with a desperate Putin who will not hesitate to use tactical nuclear weapons. Because of this, it is in our interest to wrap up a peace pact as soon as possible to avoid the above event. President Putin would be given a face-saving possibility by retaining the eastern providences of Ukraine and Crimea that he controlled before the current war.

Cornering a desperate person often results in that person's taking desperate measures to survive.

Free Speech Versus Effective Listening

The *Economist* recently had an article on free speech pointing out that it is protected by the U.S. Constitution. What is really missing in its view in a polarized political system, is effective listening. To have effective listening, it is critical that the listener have respect for the person speaking, even if they disagree with the message.

Maybe someone has to invent a hearing aid with an attachment that will improve effective listening.

MANAGEMENT

Reflecting on Major Decisions

While our first impression of some person or issue may be helpful, it is often a good idea to take some time to reflect on it over time. Some would say you should “sleep on it.”

When Alfred Sloan was building General Motors 100 years ago, he developed an interesting technique, that has stood the test of time, for making major decisions, particularly in promoting his executives. When he was considering a new president for the Chevrolet division, his biggest division, he was deliberate in his approach, as follows:

- After considerable deliberation, he listed the top four candidates for the job in the order of their likelihood of getting the job and put the file away.
- After two weeks he did the same thing, and the candidates were rearranged in the likelihood of getting the job.
- After two more weeks he did the same thing again.
- On thinking about his process, he said the person listed as the number one candidate in the first session was almost never the one who got the job. Thus, the value of quiet reflection.

INVESTING

Overview

Wall Street continues to look for a soft landing in the economy while the Federal Reserve continues its interest rate increases and companies are producing weaker earnings. As a result, a lot of Wall Street “happy talk” is out of alignment with economic reality.

As we said in the past, we are approaching the last leg downward in the U.S. stock market, which could be a good buying opportunity for investors who have cash to acquire stocks.

We should note, that if the federal debt limit is not handled well in Washington by June 2023, the U.S. could suffer a short-term stock market decline, but once the political dance by the parties is over, the debt limit will be raised, as needed. All of the suggestions about a trillion-dollar coin to be issued by the U.S. Treasury and partial nonpayment of federal obligations are gimmicks and are of no value in this serious matter.

Financial Advisors

For a long time, bank trust departments and other financial advisors have used a variation of the 60/40 concept (60% equities and 40% bonds) to manage portfolios adjusted for the client’s age. Unfortunately, in recent times with interest rates at all-time lows, the bond portion of a portfolio has declined almost as much as equities. When interest rates are at an all-time low, there is only one direction for them to go, which is up, which causes the bond with any real duration to decline in value.

This all leads us to the conclusion that sometimes historical formulas need rethinking.

PARTING SHOT

After years of rising healthcare drug costs, the Biden administration recently was able to address the issue of Medicare’s ability to buy drugs on a negotiated basis with the drug companies over time.

Historically, Medicare has been forced to purchase drugs at the retail price, and why this hasn’t been corrected earlier is a mystery.

This is good news for those purchasing drugs, particularly seniors.

Respectfully submitted,



Larry Horsch
Founder and Editor
Minneapolis, MN
February 24, 2023 ©