

The Horsch Business *Report*



Helping you grow your career, company, and economic wellbeing



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INTRODUCTION

We are witnessing unusual times as a Russia-Ukraine war turned into a slog similar to trench warfare in World War One, rising interest rates affect select businesses and consumers as the Federal Reserve battles inflation, the rebuilding of law enforcement addresses a general lawlessness in the U.S., and businesses struggle to determine where employees will work in the future (home versus office).

As usual, we encourage you to let your friends know about the free *Report*. Refer them to the website listed below if they would enjoy the *Report*.

THE ECONOMY

Overview

With labor markets starting to cool and some stress beginning to appear in consumer credit, the Federal Reserve efforts are beginning to bear fruit, which has cut the inflation rate approximately in half from a few months ago.

While discussions of a soft landing continue, the fact is that all periods following WWII where the Federal Reserve significantly raised interest rates were followed by a recession. The focus should be on how serious the recession will be, not whether or not there will be a recession. A truly soft landing is rare.

Concerns about continuing federal government deficits and substantial additions to the federal debt are finally beginning to be discussed seriously on Wall Street. Two of the three credit rating agencies have now downgraded the

quality of the U.S. federal debt. Unfortunately, it will take a lot of pressure from voters to get politicians' attention on this matter.

Supply and Demand

Most of us are very aware of the fact that supply and demand factors are at work in the free enterprise economy. We know that when there is too much demand, prices will rise. When supply is limited, prices can also rise, but the area of supply is more subtle. Note the following:

- About 25 years ago, the Minnesota Department of Natural Resources stated that it would not allow any new marinas to be built on a major navigable river. By limiting supply, the price of dockage in the present marinas has more than tripled.
- When China began to move millions of people from rural areas to the cities with jobs in manufacturing, they needed materials for factories and apartment buildings, but the supply of metals needed for building these facilities could not increase since it takes three years to open a new mine, and so prices of base materials rose sharply.
- Original art can skyrocket in value if demand increases because only one item is involved, the original art.

The moral of this story is to keep your eyes on the supply issue as well as demand to see where prices are headed.

WASHINGTON SCENE

The Supreme Court

According to the Associated Press and University of Chicago National Opinion Research Center, just 26% of the public reported a great deal of confidence in the U.S. Supreme Court in 2021, falling to 18% in 2022. (According to the Pew Research Center, in 2022 just 2% of Americans say they trust the government in Washington to do what

is right "just about always" and just 19% "most of the time.") Since the Supreme Court is established to be independent from any political pressure from the Executive Branch and Congress, as well as involving a lifetime appointment, it is a critical piece of our democracy. Over the years it has been dominated by both liberal and conservative points of view, and currently it is dominated by conservative justices appointed by the Trump administration.

Supreme Court confidence is currently suffering because two justices, Samuel Alito Jr. and Clarence Thomas, have been given expensive trips from conservative political donors. Apparently, the Court does not have a real code of ethics for conflicts of interest, which they currently need to restore confidence in the Court. In addition to the ethics rules, they need a mandatory retirement age of 75 or 80 to refresh the Court's thinking from time to time.

We would note that currently, all federal judges in the U.S. must report these types of trips and other gifts received by Justice Alito and Justice Thomas.

The Trump Effect

As Donald Trump keeps being indicted for serious crimes, his hardcore followers do not seem to care, and he is using the events to raise funds from his loyal followers.

While many national TV hosts wring their hands over this matter, we believe it is time to ask a deeper question: What is the motivation of his followers and what has Trump done to satisfy them?

We suggest you make your list, but here is a starting point:

- Some believe we need revolutionary change in Washington since only 21% of the people have faith in the Federal Government.
- Some have been badly hurt economically by the closing of auto plants and steel mills several decades ago, which created a "Rust Belt." Those

affected believe that Trump can save their areas economically by providing good jobs.

- Many in rural areas feel that the best jobs are in the metro areas of their state and that some small towns are drying up. All of this frustrates them.
- Some are frustrated by personal matters and Trump has shown an empathy for their pain.

If we believe conservative politicians are the problem, then we are focusing on the symptoms and not the problem. The problem is our citizens demand loyal representation that carries their point of view regardless of the current facts about certain issues.

While there is not an easy fix, we need to focus on the issues that are bothering these people and see if we can address their needs. Maybe the government incentives for battery plants and computer chip plants should be located in the Rust Belt and not in Phoenix, Arizona or Austin, Texas.

While the solutions are difficult, the starting point is having some empathy for these people and their issues, if you believe that we are all Americans.

Without progress on the above, substantial gridlock will continue in Washington and citizens will continue to have little faith in their government, which is a major negative for a democracy.

ELSEWHERE

Russia and Ukraine War

As an update on this activity the following observations may be helpful:

- Unable to win the war, Russia has decided to destroy Ukrainian buildings and infrastructure, which is increasing the cost of recovery.
- Volodymyr Zelenskyy's idea of recovering all his country, including the areas that Russia has occupied

since 2014 and 2015, is unrealistic.

- Putin needs a face-saving situation to withdraw his "expeditionary troops."
- While NATO nations in Europe have a strong resolve to continue support of Ukrainian war efforts over an extended period of time due to their fear of Russia's expansion affecting them, U.S. support is beginning to decline as we spend many billions of dollars with little progress in the war.
- Putin's grip on his country has been lessened by the Wagner Group leaders' activities, all of whom were apparently killed in a recent airplane crash. Russian citizens are gradually learning more real facts about the war and particularly the Russian casualty rates.

We continue to believe that a peace treaty will be adopted after the Ukrainians have successfully completed their counter offensive attack with the addition of U.S. F-16 fighters donated by Denmark and the Netherlands, with U.S. approval.

MANAGEMENT

Great Leaders

Great companies are led by great leaders. Great leaders usually have the following characteristics:

- **Integrity**
You can't lead if employees don't trust you, and they won't trust you unless you have integrity (walking your talk).
- **Vision**
The future of the shareholders and the employees lies to some degree in steering the ship in the right direction and having a clear destination.
- **Communication Skills**
The leader must effectively share his or her vision with employees in order to build powerful teamwork and reach the goal.

- **Courage**
A business can't be built successfully without its leader taking risks, and this risk-taking is paced by courage.
- **Understanding People**
The task of building a great company involves many people. Unless you are running a one-person popcorn stand, you are in the people business.
- **Creativity**
Management of great companies needs to provide truly unique products and services that are the result of creative insight.

There has been and always will be a shortage of great leaders because of all the talent and character skills needed for the job. Most of us will be lucky in our business lifetime to be associated with even one of them.

INVESTING

Overview

The stock market is still segmented into big tech companies, some other companies with artificial intelligence, and everything else.

The reality is beginning to set in that higher interest rates are producing credit investments that can compete to some degree with equities. Because of this, stocks are no longer "the only game in town."

The Federal Reserve seems to be on a pause in raising interest rates and the job market is beginning to cool, which will assist the Federal Reserve in controlling inflation.

PARTING SHOT

We need a day brightener from time to time to restore our faith in humanity, such as the event below as published recently in the Star Tribune daily newspaper in Minneapolis:

A 65-year-old fisherman was fishing in Lake of the Woods located between northern Minnesota and Canada on a 1,000,000-acre lake. In returning to the dock located miles from the fishing area, the 65-year-old realizes that he is missing his wallet. After searching the boat, he realizes that his wallet is gone forever.

One year later a 14-year-old boy and his family were fishing in the same area and the boy thought he had caught a nice fish. The landing net was ready, and they recovered a wallet with \$2,000 in cash. Inside the wallet was a business card with a telephone number on it. They called the number on the card, which was a customer of the 65-year-old man, and he directed them to the owner of the wallet. The owner was so impressed with the honesty of this family that he told them to keep the \$2,000. The 14-year-old and his family said this wasn't right, and they returned his money. He later visited the 14-year-old and his family in northern Minnesota and bought them dinner. His final thought was, "This is an experience that I will never forget, and I get a new grandson out of this."

Respectfully submitted,



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