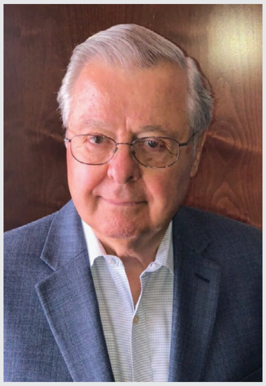
The Horsch *Business Report*

Helping you grow your career and your company



LARRY HORSCH

INTRODUCTION

We decided that an Interim Advisory Report was needed to address the current challenges in worldwide economic and financial matters caused by the coronavirus.

The coronavirus has taken priority over U.S./China trade issues, Brexit, and the US presidential campaigns. While we are in uncharted water economically, China's initial recovery is encouraging but demand for its products is still soft based on problems outside China. If the U.S. coronavirus outbreak has a similar pattern to China, the problems could be under control by June/July 2020, but the economic damage will linger.

ECONOMICS

U.S. Economy

The 2nd quarter GNP will nosedive in the U.S. based on layoffs even if the $2.2 trillion federal bailout money flows according to plan.[1] It is a patch on the economy that was beginning to fade before the coronavirus, and we are now faced with a real recession.

The good news is the federal government will add more support if this initial effort is insufficient to calm the economic scene. The bad news is the economy has gone into reverse, and the negative psychology of consumers and businesses is not easily reversed in a month or two. So, the recovery could be delayed to late 2020 or later.

While the vaccine is the final solution for the coronavirus, it could be a year away according to health experts.

THE WASHINGTON SCENE

Current Events

President Trump has converted his daily coronavirus briefing into a partial campaign rally while the presumed Democratic candidate, Joe Biden, is having trouble getting his home tv studio connected to any networks for coverage of a news conference.

President Trump is getting reasonably good approval scores on his handling of the coronavirus after a basic slow start. His ideas of having significant parts of the U.S. back to work by Easter is in conflict with his health experts, so it is not likely to happen on any significant scale.[2]

It was encouraging to see the Senate vote 96-0 on the $2.2 trillion bail out fund (with four senators absent because of quarantine), putting aside historical differences to get this bill into law. A key aspect of getting this done was handling the $500 billion loan arrangement for larger businesses. It was eventually changed to force the Secretary of the Treasury to report to a committee with inspector general oversight to be sure the plan carried out the wishes of Congress.

MANAGEMENT

Executive Compensation

This will be the first year in a decade that a key executives will have their compensation reduced through bonus reductions and the fall in value of their equity incentives. It will be greeted with cheers by those who believe that executive compensation is excessive compared average worker income. The problem for most board of directors is that executive pay is a matter of a competitive market for good talent and one company cannot overcome that issue even if they chose to. Eventually, however, they'll realize that real teamwork has a dimension of fairness, and smart executives will gain more through the power of teamwork driving long-term results.[3]

In some companies, as conditions grow more difficult, smart executives will cut their own pay and that of their senior management team rather than extracting all the savings from the layoff of lower level employees. This move solidifies real teamwork and gets better long term results.

Public Company Reporting

As more public companies decide not to give guidance to Wall Street on the balance of 2020, we are reminded of an old Robert Burns quote;

"The best laid plans of mice and men off times go awry."

INVESTING

The Market

After falling about 30%, The Dow Jones Industrial Average reversed itself for a few days. It was interesting to watch the fast-paced recovery in the Dow Jones while the economic news was still bleak. While the Dow Jones and other equity indexes are lead indicators, it's doubtful they can help sustain the recovery when the bad economic news has just started. (Wall Street refers to this as a dead cat bounce).

The rush to safety in the stock market was one of the most swift in modern history, with days of trading when equities declined, gold declined, oil declined, and bonds declined, an unusual combination often referred to as a flight to cash. When professional money managers are interviewed and their response in an interview is, "I don't believe what I'm seeing," you know that unusual events are occurring.

While many investors study earning reports to uncover investment opportunities, a shift in focus is occurring to also study balance sheets to see if the companies are overleveraged in debt and could get into deep financial trouble as the economy softens further. Warren Buffett's historical comment on this was,

"When the tide goes out we find out which swimmers have been swimming naked."

As you know there are some sophisticated observers that have forecast the current economic decline to be as big or bigger than the Great Recession. This seems a bit extreme since the excess in the U.S. economy before the coronavirus issue was not as extreme as those in place before the Great Recession. Nevertheless, we're likely to see a real recession and another possible leg down in the Dow Jones Industrial Average (DJIA is at 21,000 when this report was drafted).

A PARTING SHOT

As in the 9/11 event in New York, with terrorists crashing airplanes into the World Trade Center, the public is being brought together throughout the country. The tougher the restrictions, the more U.S. citizens see themselves in the same boat and are trying to help out those most affected. Could this be the beginning of a new trend in community building? Perhaps.

Respectfully Submitted,

Larry Horsch

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Founder and Editor
Minneapolis, MN
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[1] Goldman Sacks recent forecast projects the 2nd quarter U.S. GNP to drop 24% at an annual rate.

[2] Freeing up Montana and North Dakota from restrictions won't matter much.

[3] We have had three instances as chair of the compensation committee of the board of publicly owned companies where the executives suggested the compensation package proposed for them was too generous and would distance them from their team. We agreed with their observation and made the changes. These executives produced very strong, long-term results.

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