

The Horsch *Business Report*



Helping you grow your career and your company



LARRY HORSCH

INTRODUCTION

We are pleased with the growing readership and responses.

While we thought the timing of the initial report in mid-summer this year might be good, world events as they are unfolding are confirming that assumption. Some of the events including the trade war with China put us in uncharted waters. Even the Chairman of the US Federal Reserve Bank confirmed that recently.

We have recently initiated a blog regarding “Bad Bosses” with a set of facts and a question. We will be announcing the winner soon, together with their response and a modest prize. You can enter by going to our website listed below.

If you enjoy reading this free Report, extend an invitation to others that might find it useful. It can be viewed on the website listed below.

ECONOMICS:

As China and the US deepen their positions, we move from a trade war to a cultural clash and competition to see which nation will lead the world in significant matters in the years ahead. If this continues, it will lead to a new Cold War with China. With significant Chinese cyber-attacks aimed at the United States now, we may already be in a quasi-Cold War. President Trump’s recent description of President Xi of China as the “enemy” and directing American companies to stop doing business with China puts all of this in focus.

Ultimately, if we end up in a real Cold War situation, trade with China will be minimal. Nations don’t trade much with their enemies. This will cause supply chains for goods currently coming from China to be reorganized but it will take some time for the various supply chains to be established elsewhere. The end result is that the US balance of trade will still be negative, but

China won't be pocketing the extra funds previously available. In the final analysis once everything calms down and new supply chains are established, the price of goods imported to the United States should not change very much. Until that happens, however, the US consumer and business importers from China will carry much of the burden of rising prices caused by the tariffs.

The overall economic picture has the US slipping a bit with strong consumer spending holding up the economy. Business spending is slowing somewhat with international confusion affecting confidence. The US stock market is weakening as mixed earnings reports are being released. It is important to note neither the US Federal Reserve with low interest rates, nor the US Treasury with ballooning deficits are in a strong position to moderate any oncoming recession.

THE WASHINGTON SCENE:

Democratic Politics:

The Democrats have pushed Joe Biden's fortunes upward while pushing others downward. Elizabeth Warren and Bernie Sanders are staying in about the middle of the pack. It's early but many Democrats are focusing on who can beat the President rather than specific policy issues.

Gun Control:

President Trump has flip-flopped on gun-control recently with apparent pressure from the NRA. It's difficult initially to understand how politicians in general cannot at least pass legislation to check on purchasers of guns when 80% of the population is in favor of it, including many NRA members. Certain rural areas supporting Trump apparently aren't in favor of it and this is part of his political strength. So much for doing the right things that are supported by most Americans.

North Korea:

Imagine a little boy throwing a temper tantrum when he is ignored and you have the picture of Kim Jong-Un, head of North Korea, shooting off rockets into the sea every so often to get attention. It would be interesting to know how long a poor nation can do this before they run out of rockets.

Immigration:

While President Trump is attempting to stop the flow of immigrants regardless of their story, Turkey is preparing to send 700,000 immigrants back to Syria and Italy is no longer accepting any immigrants regardless of their situation. Since Chancellor Merkel in Germany has lost a lot of her power by being liberal on this issue in the beginning, many countries have decided enough is enough.

In the US, the political conversation has confused the major differences between legal immigration (who helped build this nation) and illegal immigration. This is not a minor distinction. Many recent legal immigrants who have obtained citizenship through a lengthy process resent the illegals moving ahead in the process, not showing up for court appearances and hiding in the United States.

The immigration issue has frustrated the last three Presidents, including George W. Bush, who as a former Texas governor knew a lot about the situation. With gridlock in Washington it does not seem this issue is going to be resolved near-term with an updated and effective set of rules accompanied by real penalties for violations.

Civility:

A few years ago, the City Council in Duluth, Minnesota, voted to have new rules requiring civility in conducting its business because of strong personal attacks that had been occurring from both sides of the political aisle.

Today in Washington we have almost total gridlock as progress on most major issues facing

the nation have stalled. The easiest way to avoid gridlock is to establish civility in discussions about policy issues. There's plenty of room to debate issues without attacking people personally. Once a person is attacked they do one of two things:

- At a minimum, they avoid discussions with the attacker while they heal their emotional wounds.
- At a maximum, they lash out with their own personal attack and make things worse.

Either way there is little effective communication if civility is absent.

Perhaps Washington should gain insights from Duluth, Minnesota, to get back to addressing the nation's business.

MANAGEMENT:

Health Insurance:

For those of you who have your health insurance in a plan sponsored by your employer, it is helpful to get beyond seeing the insurance company as a bogeyman every time you need assistance that isn't covered or have high deductibles or co-pays. The CEO or CFO of your company have many choices to consider in sponsoring a health insurance program. If they choose a cheap one, since they're paying 75% of the premium normally, your wrath should be focused on them and not the insurance company.

There are have been several issues plaguing health insurance programs recently.

- The original Obama health care insurance program was about 85% aimed at getting increased coverage and figuring out who is going to pay for it. It was only about 15% aimed at cost control and costs continue to spiral upward.
- The Republicans have tried to eliminate parts or all of the Obama program but as John Boehner said a few years ago as the

Republican Speaker of the House of Representatives: "In the 25 years that I served in the United States Congress, Republicans never, ever, one time agreed on what a health care proposal should look like. Not once."

President Trump's attempts to encourage the FDA to liberalize its rules by allowing US citizens to buy drugs much cheaper outside the United States is a very powerful idea in lowering drug costs as is the idea of letting Medicare negotiate directly with drug companies to lower drug costs.

While politicians are gridlocked on these issues, corporate sponsors of healthcare plans are changing lifestyles and attempting to particularly reduce obesity and smoking. It's working, but it's very slow.

Investors vs. Stakeholders:

Recently, the Business Roundtable made up of CEOs of 192 of the largest corporations in America, decided to challenge the age-old fiduciary rule that corporations are in business to serve its shareholders. They're suggesting that they need to balance the needs of others involved not just the shareholders but also the employees, suppliers and communities.

The driving force behind this thinking is income inequality (including excess executive pay versus average worker pay) and the challenge to the entire system being proposed by liberal Democrat candidates for the Presidency.

Our website listed below, we address this issue in quote number 6. We would add that these executives report to the board of directors who report to the shareholders. The CEO's are not the final arbiters of this issue The current system establishes the state laws of incorporation and eventually the court system as the final arbiter. However, the CEO's are the frontline players when consumer boycotts and other pressures are levied against their companies by people who don't like the current system.

The easiest way of cutting through all of this and keeping the emotions under control, is to realize that shareholders are best served by attracting and retaining good employees who then attract and retain profitable customers. There is really no other way of serving the shareholders and in doing so we have circled the three keys to corporate success; shareholders, customers, and employees. The suppliers and community have to be considered but they are not as important as those listed above. This may not satisfy liberal Democrat candidates for the Presidency, but it represents business reality today.

INVESTING:

Benjamin Graham, the mentor of Warren Buffett at Berkshire Hathaway, once said the stock market is like your crazy business partner who wants to sell you his share of the company at two times what it's worth in one situation and later he wants to sell it to you at half of what it's worth. Such are the emotions in the stock market.

It is not unusual for a company to have a P/E ratio of 12 in bad times and 18 in good times which represents a 50% swing in valuation from the bottom value. In some ways it's like investors have eyeglasses with one lens involving a rosy lens and the other a grey lens. In looking at the same phenomena, they are getting encouraged or discouraged depending on which lens they choose to focus on.

Consider this:

If a stock has a one dollar of earnings per share and an 18 P/E multiple or \$18 per share and the company's P/E ratio drops to 12, it takes over three years for the stock to get back up to \$18 if the earnings-per-share growth continues at 10% a year over that period.

The best antidote to protect you from getting trapped in a sequence of buying high and selling low based on emotions is to realize that the value you're buying matters. Everyone knows the price of investments but only the knowledgeable understand the value they are receiving.

A PARTING SHOT:

Mark Twain once said:

"The two most important days in your life are the day you are born and the day you find out why"

Oprah Winfrey adds her more recent thoughts to this issue with the following quote:

"Everybody has a calling so your real job in life is to figure out why you are here and get about the business of doing it."

The purpose of anything is very important and it's especially true of human life. There are two extremes possible when focusing on the purpose of life. One involves people who are focused, disciplined and who know who they are and what they want to accomplish. At the other extreme are people who drift through life like a piece of cork on the ocean being blown in various directions. Most of us are probably in between these two extremes still working out the right answers, but the clock is ticking.

This topic reminds us of an old German saying:

"We are too soon old and too late schmart"

Respectfully Submitted,



Larry Horsch
Minneapolis, MN
September 6, 2019©

¹ The Wisdom of Sundays by Oprah Winfrey. Page 172. Published by Flatiron Books in October 2017.