



Basis Points – August 16, 2018

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Above the Fold

- There is a rather large wrinkle in Elon Musk's plan to take Tesla private, and his desire to bring most of his current shareholders with him. Typically, when a large company buys a smaller company and pays with stock, the share exchange is treated as a non-taxable event. However, smart corporate tax accountants in D.C. are reporting that for current Tesla shareholders to convert their now public Tesla stock into private Tesla shares, they would first have to liquidate those shares in a taxable event, before buying shares in a new private investment vehicle that would strictly own Tesla shares. This fact may change the vote of many current Tesla shareholders, who would owe big tax bills to the IRS if they have unrealized gains in Tesla. A key to Musk's go-private plan is that two-thirds of current shareholders would make the conversion from public shares to private, so he would not really need to raise much outside funding to complete the deal. The taxable nature of a go-private transaction may significantly increase the amount of capital he needs to raise, and may even imperil the idea of going private.
- The U.S. dollar has been strong this year, up 5 percent versus a basket of global currencies. Strength has come due to a very strong domestic economy, the relative attractiveness of our government bond yields, and the flow of repatriated cash back into dollars. Emerging market currencies have weakened markedly vs. the dollar, due to trade and tariff tensions, sanctions and financial unrest in Turkey. What does this dollar strength mean for our economy? We should see slowing inflation, as imported goods are cheaper now. We should see lower U.S. bond yields, as lower inflation will dampen bond yields. And we should see softer U.S. manufacturing activity, as dollar strength is a headwind to exports, as our goods are now more expensive abroad.

Three Things

- Due to changing dietary tastes in the U.S. and Europe in the past few years, the price of sugar on world markets has plunged, amid flagging demand and production surpluses. The price of sugar has declined 31 percent this year and is by far the worst-performing commodity on world markets. Food producers are reducing the amount of sugar in their products and moving toward alternative sweeteners amid health concerns including diabetes, obesity and heart disease. Sales of soft drinks in the U.S. have declined by \$1.2 billion a year over the past five years, while sparkling water sales have increased by \$1.4 billion. The price of sugar could continue to decline, as producing countries are in fact increasing their production, in the face of slowing demand.
- The Small Business Association published its yearly look at what business owners are worried about most in the current economic climate. The number one concern for business owners over the next year is the quality and quantity of available labor, and how much that labor will cost them. With the unemployment rate at a 40-year low, that is an understandable concern. Over the many years of this survey, the primary concerns of small business owners were usually focused on revenue growth, tax policy and government regulations, but the tax reform bill passed in 2017 has allayed these fears for the time being.

- The value of the Turkish lira has declined rapidly this year vs. major currencies, as the lira has fallen from trading at one lira per U.S. dollar to seven lira per dollar this week. The Turkey crisis brings back echoes of past emerging market chaos, such as the crash of the Mexican peso in 1994, and the fall of the Thai baht in 1996. Both the peso and the baht fell about 60 percent during their country's periods of economic turmoil, and the Turkish lira has fallen a very similar 54 percent over the past 18 months. Can the U.S. stock market continue to prosper even with turmoil in emerging markets? Yes. The S&P 500 was flat over the period of 1993-96 while these emerging currencies collapsed, so a threat of contagion where currency crises in small countries spill over into U.S. weakness may be overstated for the time being.

Did You Know

The enemy of long-term wealth management is short-term thinking. Very rarely does anything that happens today, whether very good or very bad, matter or will even be remembered a year from now. Often a client or prospect will come to a meeting to discuss long-term wealth management but is armed with scary news that he or she saw that morning on CNN or financial business networks. We can remind investors that very little of what is presented on *CNBC* or *Fox Business* is actual news, and most of it will only help to derail their long-term financial success. And that everyone on their TV screen is selling something. The networks sell commercial spots. The anchors sell their own broadcasting skills, with hopes of getting promoted or more pay. The pundits sell the expertise of their advisory service. Public company managements sell the benefits of buying their stock. Stock analysts sell their own brokerage company's service. Politicians sell themselves to their constituents. Fund managers sell the virtues of stocks they already own. There is nothing wrong with all this; it can only hurt if clients tune in daily looking for objective advice, or something new to worry about. The vast majority of clients come to us with a very long timeframe, of 20 to 30 years or more, but their minds may only focus on what iceberg *CNBC* says we may hit tomorrow, or next week. While TV guests may be intelligent, absolutely nobody knows what will happen tomorrow, next week or in a year. What we do know for sure is: Corporate profits in the U.S. have steadily grown for 240 years, except for a few short, temporary downturns. Our population will continue to grow. Productivity will continue to increase, led by advancements in science and technology. And stocks are the best place to invest money for future growth of capital. Since 1802, stocks have produced average annual returns, net of inflation, of 6.8%, compared to 3.5% for bonds, 2.8% for T-bills, 0.55% for gold and -1.4% for the dollar. Given that stellar long-term record of growth, attempting to time the market based on short-term fears is a fool's errand and can only hurt long-term financial success.

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