



Basis Points – November 1, 2018

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Above the Fold

- The market closed a very volatile month of October on a high note yesterday, as the Dow gained more than 675 points in the final two days of the month. The S&P 500 is now up 3.0 percent for the year, after declining 6.8 percent in October. Growth stocks remain in a winning position in 2018, with the large growth index up 6.8 percent vs. a loss in the large value index of (1.3) percent.
- While October was rough for equity investors, the S&P 500 did not reach correction territory, as its worst market close was a loss of 9.8 percent from its recent all-time high. Since 1927, the equity market has seen 218 different corrections of 5 percent or greater. Corrections of 10 percent are far more rare, as the market has endured only 26 of them during the past 50 years.

Three Things

- A controversial ballot initiative in San Francisco is pitting billionaires in a war against each other. Proposition C is on the ballot in the Nov. 6 election, and it would initiate a new tax on large businesses that have offices in San Francisco. The proceeds of the \$300 million in new taxes would be used to alleviate the homelessness crisis on the streets of the city. Seven thousand homeless people clog the streets and contribute to crime and a “crisis of cleanliness.” The streets have never been dirtier or more unsafe, say proponents of the bill. The major benefactor of the Prop C movement is Mark Benioff, founder of Salesforce.com, who has donated \$2 million to push its passage. Salesforce.com is the world’s largest customer relationship management software (CRM) platform, and recently built a large headquarters building in downtown San Francisco. Benioff has led the corporate responsibility movement over the last decade, believing that business is the greatest platform for social change. Benioff stated that “You can’t live in the most prosperous and beautiful city in the world and allow a humanitarian crisis in its streets.” Benioff has engaged in a Twitter war with fellow Silicon Valley billionaire Jack Dorsey, who supports homelessness spending but feels that this bill is the wrong way to go about it.
- The *WSJ* reports that there is a severe oversupply problem in the senior housing market. Anticipating the mass retirement of the Baby Boomer generation, builders have added 750,000 units since 2012, which is more than double the units built in the six years prior. Many Boomers have remained fitter, more independent or have stayed closer to their families than many developers anticipated, so the demand for assisted living facilities has been far less than expected. Occupancy rates for senior housing stood at 87.9 percent last quarter, the lowest rate since 2011. Developers are not throwing in the towel yet, however, as data suggests that the average age of a new assisted living client is 82, and the Boomer generation is slowly approaching that age range.
- Parents these days are worried about how much “screen time” their children are spending on their tech devices, and how that time may hurt their development or socialization skills later in life. However, in the 1990s, it was video games that were going to harm their kids and turn them into zombies. In the 1980s, the Walkman was going to cause teenagers to walk into traffic without looking. In the 1970s, the danger was staring at a television all day, and especially sitting too close to the TV, which would surely make you “cross-eyed.” But at one time, parents even worried about how much time their kids spent reading books. In 1938, *The St. Petersburg Times* published an article titled, “Too Much Reading is Harmful,” and the author bemoaned the popularity of novels with the children of that day. Parents were directed to “Withdraw all encouragement relating to the reading of books. Reduce the number of books available. Make it impossible to read because of other engagements, such as going to a movie, shopping, running errands or performing household duties. Children who prefer to stay at home and read a good book when all others are out at play can be suspected of using reading as a sedative. Books have their place, but they cannot take the place of life.”

Did You Know

Although the issue of birthright citizenship will most likely be off the front page after the election next Tuesday, it is interesting to remember the history of the idea, why it was enacted and why it is controversial even in 2018. As you remember from watching *Lincoln*, the 13th Amendment was passed by Congress and ratified by the states in 1865. This amendment abolished slavery, so thereafter all former slaves were free men and women. However, the amendment did not make them citizens. The U.S. Constitution as originally written was silent on the matter of who was a citizen and who was not. It took the passage of the 14th Amendment in 1868 to grant citizenship stating that, "All persons born or naturalized in the United States, and subject to the jurisdiction thereof, are citizens of the United States."

The text of this amendment seems very clear. However, the problematic wording in that statement is *subject to the jurisdiction thereof*. The authors of the amendment included these words as they wished to exclude certain people, such as the children of visiting foreign diplomats, the children of occupying armies, and those with their own sovereign nations at the time, such as Native Americans.

The *jurisdiction* wording is what is being argued about this week. Some people contend that undocumented immigrants are not under the jurisdiction of the United States, so therefore should not be granted birthright citizenship under the 14th Amendment. The Supreme Court has never ruled on the issue of undocumented immigrants and birthright citizenship. The last time it heard a similar case was in 1898, when a legal Chinese immigrant gave birth after coming to America. The court ruled that the baby was in fact a U.S. citizen, even if his parents were not. That ruling has been the legal precedent ever since.

The Supreme Court could, in theory, interpret and clarify the meaning of the *jurisdiction* wording in the future if the case came before them. But if it did not, altering the 14th Amendment would require a new constitutional amendment to exclude undocumented immigrants from the protections of the 14th Amendment. The amendment would need to be approved by two-thirds of Congress and then ratified by three-quarters of the states. These requirements are, as designed, a very high bar to clear, so the chances for passage are nil.

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