



## Basis Points – November 13, 2018

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### Above the Fold

A buffet of negative news items made for a challenging Monday in the equity markets. A rising dollar was seen as a cause of the equity market weakness yesterday, as well as perceived weakness in Apple iPhone supplier orders, and global regulatory risks for Goldman Sachs. The dollar has been rising on trade war concerns, rising U.S. interest rates and weaker growth rates outside the U.S. Investors also worry about a hit to corporate profits that a strong dollar would create, as about 40 percent of S&P 500 earnings are generated from sales outside the U.S.

The dollar index hit a high of 97.58, its highest level since June 23, 2017. The U.S. currency also hit a one-year high against the euro and Swiss franc. Continued threats of a trade war with China and with European automakers have continued to put upward pressure on the dollar.

Large technology stocks have not fared well over the past six months, and the FAANG index is now approaching bear market territory after a terrible Monday performance, down 4.1 percent. The FAANG index has declined 19.3 percent since its all-time high on June 20. Large tech stocks were the former leaders of the upward move in the market, and the market has struggled to find new leadership as these large stocks have broken down.

### Three Things

- The price of crude oil fell again yesterday to \$59.10 a barrel and is now down 23 percent from the recent high of \$76.50 on Oct. 3. While Saudi Arabia's energy minister said OPEC and its allies may need to cut crude production by about 1 million barrels a day to prevent the market from moving into oversupply, President Trump tweeted at noon that Saudi Arabia should not cut production. This proclamation caused crude prices to decline further. The administration did not enact any new sanctions on Saudi Arabia after the Khashoggi murder, so the president may now feel that he has some leverage over Saudi Arabia's oil production plans. Rising oil supplies from the United States, OPEC and Russia and forecasts for weaker-than-expected demand growth have kept downward pressure on prices. The U.S. is now producing about 11.6 million barrels per day, more than 10 percent of global demand.
- The Labor Department is trying to make it easier for companies to transfer small balances in 401(k) accounts to the employee's next employer and is implementing new language around the automatic transfer of balances less than \$5,000. Balances greater than \$5,000 require employee consent. The catalyst for the change is that a large amount of 401(k) accounts are simply cashed out and spent when an employee with a small balance leaves a job. On average, about 30 percent of people leaving jobs elect to cash out their 401(k) accounts and pay taxes — and often penalties — rather than leave the money or transfer it to another tax-advantaged retirement plan. As many as 80 percent of people leaving jobs with less than \$5,000 in their accounts eventually cash out. This leakage is bad for the asset management industry, so the big 401(k) asset management firms are strong proponents of this new initiative.

- Business Insider notes that Amazon's search for a new headquarters campus, known as HQ2, provided Amazon with huge tax breaks from the winning bid cities. But the search process has also given Amazon something that's potentially far more valuable than any subsidies it may have been awarded: a treasure trove of economic, demographic and city planning data. Amazon received proposals from 238 cities vying to be chosen as the home of its second headquarters, and every one of those bids came with confidential demographic data and city plans for future growth. "Amazon has a godlike view of what's happening in digital commerce, and now cities have helped give it an inside look at what's happening in terms of land use and development across the U.S. Amazon will put that data to prodigious use in the coming years to expand its empire," said Stacy Mitchell, director of the Institute for Local Self-Reliance, a D.C. think tank. While the information in many of those proposals is sealed from public view, we can assume that most HQ2 bids contain details about optimal sites for development, current and future land use and development projects, planned infrastructure investments, and demographic information. Amazon could use this data to aid in the future expansion of the company, as it selects sites for new stores, warehouses, data centers, fulfillment centers and other brick-and-mortar needs.

### Did You Know

There are 535 members of the United States Congress: 100 seats in the Senate, and 435 seats in the House of Representatives. Each of the 50 states holds two Senate seats, regardless of the population size of that state. Each seat in the House today represents an average of about 750,000 Americans. But why are there 435 seats in the House? There is no static or constitutionally mandated number. At the time of the country's founding, the House of Representatives had 65 members when it was first seated in 1789. The Constitution's framers set a baseline of 30,000 citizens per representative and intended for the House to grow along with the population. But it was a baseline, not a law or established guideline.

The New York Times notes that to ensure that the number of representatives continued to grow, James Madison proposed a constitutional amendment for a formula that explicitly tied the size of the House to the total number of American citizens. The amendment failed, but Congress still expanded the size of the House throughout the first half of the nation's existence, and it grew in every decade but one until 1911. Since that year, it has remained at 435. In 1929, Congress passed a law capping the size of the House and shifting responsibility for future reapportionment onto the Commerce Department. There is no constitutional basis for a membership of 435; it's arbitrary, and it could be undone by Congress at any time.

Some people say that we need to expand the number of representatives in the House, as 750,000 citizens are simply too large and diverse a group of people for one person to listen to, understand and represent. Other folks feel that 435 bums in Congress are quite enough, thank you.

When the U.S. was founded, it was a country of only 3 million people all living on the East Coast, so it would have been very difficult for the founders to plan for the country of 330 million people that we are today. The original standard of one per 30,000 citizens would not work, as we would now have 11,000 House members.

But some have proposed that the number of representatives should be based on a clear pattern for mature democracies, such as Canada and Japan, a number which is the cube root of the population. In the U.S., that cube root standard would total 593 House members instead of the current 435.

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