



## Basis Points – March 12, 2019

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### Above the Fold

- The widely quoted headline in January was that China had just experienced its slowest quarterly GDP growth since 2009. What was lesser known at the time was that the Chinese government had introduced 57 stimulus measures in fourth quarter 2018 to shock economic growth back to an acceptable level. These measures included tax cuts, easing of bank lending standards and added monetary liquidity in the financial system. These programs should flow through to spur sharply higher economic growth numbers in the second half of this year, and investors in the Chinese stock market have already noticed. The Shanghai Composite index has risen 26% so far in 2019, after suffering a tough year in 2018, down 22%.

- A Businessweek cover story this week details the battle at the highest levels of the new AT&T/Time Warner merger, which is now complete. The article notes that in 2006, Time Warner's prized division, HBO, began beta-testing a streaming service based on HBO content, which was a very novel idea at the time. Netflix was still tiny, and some HBO execs pushed Time Warner's management to buy Netflix to speed up HBO's broadband streaming rollout efforts. Time Warner executives balked at the \$1.5 billion that it would have taken to buy Netflix and squashed the idea. Today, Netflix generates \$1.2 billion in profit per year and is valued by the stock market at \$154 billion.
- More and more MBA graduates are choosing fields other than traditional banking and investments, even though salaries in these fields have risen 25% over the last five years in order to attract needed talent. The share of full-time MBA grads choosing the financial services segment has fallen from 36% in 2012 to 25% today. The share choosing Technology as a field rose from 13% to 20%, and Consulting was also popular, rising from 29% of grads from 27%. The traditional 90-hour work week at Wall Street banking firms has become very unpopular as a lifestyle choice for new grads, so many large firms have put a limit on work weeks for employees.

### Three Things

- The Financial Times reports that U.S. spending on music soared to nearly \$10 billion in 2018, its highest level in a decade. Services such as Spotify drove revenue growth as the industry finished its fourth year of recovery, as sales jumped 12% to \$9.8 billion in 2018 in the U.S., the world's largest music market. The last time the industry made \$10 billion in sales was 2007. The music business has been in a recovery in the past few years as more people sign up to stream music through Spotify, Apple and Amazon. More than 50 million Americans now pay for a music-streaming service, up strongly from only 10 million in 2015. Streaming now makes up three-quarters of all recorded music sales in the U.S. Revenues from streaming grew 30% to \$7.4 billion last year, which essentially amounted to all the industry revenue growth for the year. However, even at \$10 billion, the business is only half the size of the CD-era peak in the 1990s.

- A benefit from single people waiting longer in life to get married is that more of them are taking on the responsibility of paying for their own weddings. Wedding website, The Knot, now includes members of Generation Z — those born from around 1995 to 2010 — in its 2018 Real Weddings Study. Of Gen Z members surveyed, 87% see themselves getting married in the future, though they plan on executing the event on their own terms. Ninety-two percent reported that being financially stable before marriage is important to them when it comes to paying for the future celebrations, and 33% predicted that they, along with their partner, will pay for their weddings on their own. Only 6% of respondents said they believe their parents would solely pay for the wedding. Couples are marrying later in life and have often established themselves as working professionals and have the income to support the event, and they want more control. Inviting 50 of dad's work friends to the wedding is not attractive to the younger generation these days. Being socially conscious is also important, as nearly 60% of Gen Z respondents said they are likely to include a charity in their wedding registry as a way to give back and use the event to make a social impact.
- Jason Trennert at Strategas Research notes how the younger generation has little interest in investing in common stocks, compared with past generations. That indifference has made this current nine-year stock advance the least loved bull market in history. A recent survey showed that only 35% of millennials own any stock, compared to 52% in the generation prior. Jason muses that the reasons could include: this generation is much more concerned about social issues than money; the average share price of stocks is at an all-time high at \$111, so high share price stocks are out of reach for the small investor; all the interesting companies have not come public, i.e., Uber, Airbnb, etc.; and young investors are much more likely to take a flier on bitcoin. This trend has implications for wealth management, as our customers transfer wealth to younger generations, who may not see the need or value of owning equities or paying for wealth management advice.

### Did You Know

Lent, a religious tradition observed during the 40 days before Easter, began last Wednesday and is an important time of the year for many Christians, especially Catholics. For 57% of those who observe Lent, that includes fasting, but not in the traditional sense of the word. The most common Lenten fasting practice is the consumption of fish and the forgoing of meat during the period.

This fish-eating tradition goes back to the time of the Roman Empire. The Lenten diet has traditionally consisted of the food an average person could obtain during the Roman period, specifically fish and vegetables. Red meat and chicken are omitted from this diet, since it was considered a food for the upper class and Lent is a time to eat as the poor would have. Lent observers pay respect by not eating meat or chicken on Ash Wednesday and all Fridays during Lent.

Although Lou Groen died in 2011 at age 93, he surely made his mark on the fast-food industry and observers of the traditions of Lent. In 1962, Groen owned the Cincinnati area's first McDonald's restaurant, but his business was struggling as his customers were heavily Catholic. At the time,

Catholics abstained from eating meat every Friday, not just during Lent. On Fridays, Groen's restaurant usually rang up only \$75 in sales, and Groen's desperation led to inspiration.

Groen saw a huge niche in the fast-food marketplace that needed filling and persuaded McDonald's founder Ray Kroc to let him introduce a fish sandwich at his restaurant. Groen sold 350 fish sandwiches on the first day and the quick popularity of the sandwich led to it soon being added to the national menu. The Filet-O-Fish sandwich was the first ever addition to the McDonald's national menu, and the chain now sells more than 300 million every year, a quarter of which are sold during Lent.

By the time he retired and sold his restaurants in 1986, Groen owned 43 McDonald's in the Cincinnati area. He did not make a penny from his fish sandwich invention, although his creation saved his struggling business and earned him legendary status with Catholics and in the fast-food business.

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