



Basis Points – February 7, 2019

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Above the Fold

- In 2018, 75 percent of automobile sales were trucks and 25 percent were cars, which is a complete flip from 30 years ago. Minivans, SUVs and crossover vehicles, such as the Toyota 4Runner, are all classified as trucks, so there are very few traditional sedan cars being sold these days. Due to strong sales of heavy-duty pickup trucks, Mary Barra's tough turnaround plan at General Motors has already started paying off. GM reported net income yesterday of \$2.1 billion or \$1.40 a share, compared with a loss of \$5.1 billion, or \$3.46 a share a year ago. GM's numbers beat Wall Street expectations due to both tighter cost controls and higher truck sales. Average transaction prices for GM in the quarter reached a record of nearly \$36,000, and sales of the Chevrolet Silverado, GMC Sierra, Chevrolet Colorado and GMC Canyon pickups rose 3 percent in the quarter. GM is implementing a plan to cut 14,000 jobs from its workforce and the cuts will save about \$6 billion in costs by 2020. Sales of GM heavy-duty pickups in the U.S. have grown to more than 600,000 vehicles a year, up more than 20 percent since 2013.
- The increase in the labor force participation rate over the past year has been driven by women entering the workforce. Since December 2007, the rate of labor force participation among prime-age women has climbed 0.5 points. By contrast, the participation rate for prime-age men is still 1.5 points below its December 2007 level. Labor force participation rates among men could climb in the quarters ahead, however. Housing activity appears to be picking up and factory conditions appear healthy. These industries are male-dominated as men represent about 70 percent of factory jobs and 90 percent of construction employment, so more men may enter the workforce going forward vs. women.

Three Things

- A common technical analysis indicator measures the percent of S&P 500 stocks that are trading above their 50-day moving average. The 50-day moving average is

simply the average closing price of a stock over the last 50 trading days. At the recent washout low market close on Christmas Eve, when the S&P 500 closed down 19.8 percent off its recent high, only 1.8 percent of stocks traded above their 50-day moving average — a 10-year low. After a sharp rally that has lifted the S&P 500 16 percent since Dec. 24, 88.1 percent of stocks now trade above the 50-day. The market has traded from a very oversold level to a very overbought level today. While an interesting stat, long-term investing works best when investors refrain from making emotional decisions to buy or sell at either extreme.

- The Rolling Acres Mall, in Akron, Ohio, was once a bustling shopping center with 140 retail tenants. Built in 1975, it featured a food court, movie theater and anchor stores Sears, JCPenney and Montgomery Ward. Traffic at the mall declined steadily over the decades, plagued with the same retail store flu felt by the rest of the industry, and the mall finally closed in 2008. The abandoned mall was covered in overgrowth and became a prime location for area teens to ride their dirt bikes. It was all but demolished by the city in 2016, who left the privately-owned anchor stores standing. In a fitting sign of an economy in transition, Amazon has purchased the site and plans to build a \$100 million, 695,000 square foot distribution center with 58 loading docks and parking space for 2,000 employees. Construction on the site will begin this September and will be completed in early 2020.
- While online media publishers are off to a bad year, with outlets like BuzzFeed, Vice and Verizon Media Group all recently announcing major layoffs, some traditional media sources are doing very well selling digital content. The New York Times reported earnings yesterday and announced Q4 2018 earnings that beat expectations, boosting the company's stock more than 12 percent. The reason was not a resurgence in its print publications, as print ad revenues dropped 6.5 percent from 2017 to 2018, and total print subscription revenues were up only 3.4 percent for the year. It is the company's digital business that is thriving. The Times said it booked \$709 million in digital revenue in 2018, bolstered primarily by 17.7 percent growth in digital subscription revenue for the year. The company added 265,000 digital subscribers during the quarter, for a total of 3.4 million digital subscribers, up 27 percent from the end of 2017. The Washington Post is also growing its digital business sharply, from behind its paywall. The CEO noted, "This industry spent 20 years teaching everyone in the world that news should be free. The truth is, readers are smarter than that. They know high-quality journalism is expensive to produce, and they are willing to pay for it, but you have to ask them. We've tightened our paywall, and every time we've tightened our paywall, subscriptions go up."

Did You Know

A placebo button is a push-button that appears to be helpful but has no functionality at all when pressed. Placebo buttons can be psychologically rewarding to the presser as the action may give the illusion of control in that situation. These buttons are usually

seen in locations where the button was once operable in the past, but now the system proceeds automatically.

A common but frustrating example of placebo buttons is the door-close buttons on elevators. After the enactment of the Americans With Disabilities Act in 1990, the door-close buttons were required to be disabled. This legislation required that elevator doors remain open long enough for anyone who uses crutches, a cane or a wheelchair to board an elevator. Pressing a disabled door-close button will not make the door close any faster. However, the good news is that the door-open buttons still work.

Crosswalk signals at street corners do not work either. In the past, before automobile traffic was so congested on city streets, pedestrians controlled the streetlights with these crosswalk buttons. But the traffic signals long ago became automated to better control and coordinate street traffic, and the cross buttons disabled. In New York City today, there are only 120 working cross signals out of a total of 3,250 walk buttons. The city calculated that it would cost more than \$1 million to have the buttons removed, so they decided to just leave them there.

Don't get heated, but your office thermostat does not work either. Seventy-three percent of office thermostats are "dummy thermostats" that are not connected to the main heating and air conditioning system. People feel better when they feel like they can control the thermostat in their workspace, and that feeling of control cuts down on the number of service calls to the office significantly.