



Basis Points – September 11, 2018

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Above the Fold

- Tesla stock had a bad week, declining 14 percent, after the chief accounting officer gave notice that he is resigning after only one month on the job, citing the level of scrutiny on the electric-car maker. Dave Morton, a former CFO for computer-drive maker Seagate, joined Tesla one day before his boss Elon Musk tweeted that he was considering taking the company private at \$420 a share, an effort which has since been abandoned. Tesla has long struggled with high turnover among its senior executive ranks. In his resignation filing to the SEC, Morton stated that he believes strongly in Tesla, its mission and its future prospects, and has no disagreements with Tesla's leadership or its financial reporting. Adding to their executive rank's woes, the company's head of HR confirmed that she won't rejoin the company after taking a leave of absence. The resignation of a chief financial officer is always seen negatively, and when it happens on the same day as the CEO and founder smokes marijuana on a televised radio show, that only makes matters worse.
- Wage growth for the American worker was the star in the Jobs report issued last Friday. Wages picked up in August, a sign the very strong labor market is pressuring employers to offer higher pay packages as the overall cost of living ticks up. Hourly wages for all private-sector workers increased 2.9 percent from August last year. That was the strongest year-over-year rise in earnings since the current expansion began in mid-2009. The unemployment rate remains very low at 3.9 percent. U.S. employers have added to payrolls for 95 straight months, extending the longest continuous jobs expansion on record. Although wage growth did rise at a 2.9 percent rate, it should not increase the market's fear of inflation, as historically, wage growth can rise to a 4.0 percent rate before it leads to a material increase in inflation. Wage growth has been far below the current rate since 2009, so we still have way to rise before the problem zone.

Three Things

- Coffee future prices are plunging, but don't expect the weakness to percolate into a lower price for your morning Starbucks, as the savings rarely gets passed on to consumers. Prices for coffee futures have fallen to their lowest level in more than a decade, as the recent rout in emerging markets and their currencies is rattling global trade. Arabica coffee futures have lost 23 percent so far this year, and dropped below \$1 a pound early this week, the lowest level since 2006. The declines were sparked by surging production and a sharp decline in the Brazilian real, which is encouraging exports from the world's largest coffee producer. That surge in supply has dealt a blow to other major producers of beans, including Colombia and Honduras.
- While the S&P 500 returned to new highs in August, eclipsing the old high of January 26, there has been a pronounced change in sector leadership over the past three months that definitely bears watching. The S&P 500 has risen 5 percent over the past three months, but the best performing sectors over that time are decidedly defensive sectors, which is a big change from first half leadership. The best performing sectors in the last three months are Utilities (up 12 percent), Consumer Staples (up 9 percent) and Health Care (up 9 percent). Notably on the cyclical side, the Technology sector has sputtered over the past three months, rising only 1.4 percent.
- People often speak of "sunrises" and "sunsets," but we all know the sun does not move up or down at all, it is the Earth and other planets moving relative to the sun that causes the apparent movement of the sun. We can look at the "movements" of the value of the U.S. Dollar in a similar way. We speak about the "strength" or the "weakness" of the dollar. However, the value of the dollar is static, and it is only the movement up or down of other world currencies relative to the dollar that change its apparent value.

Did You Know

Cartographers create maps based on what exists in the real world. Or do they? GPS and satellite imaging has made the creation of accurate maps a relatively simple task in 2018. However, in the early 1900s, map making was a very laborious task, taking skilled cartographers many years to map even a small geographical area. Due to the difficulty and effort put forth, copyright law in the map making industry was serious business, lest competitors simply copy your map and sell it. After all, how do you prove that a map is a copy if it is based on identifiable geographic points known to everyone who looks?

That is why in 1930 cartographers Lindberg and Alpers, who were drawing a detailed map of New York state, created a "paper town." They inserted a made-up town named Algoe in the middle of nowhere, at the intersection of two dirt roads. If competitors stole their map to call as their own, the theft would be easily provable if their map contained

their map to sell as their own, the threat would be easily provable if their map contained the town of Algoe on their map. In the mid-1950s, the large map company Rand McNally published a map of New York that included the town of Algoe. The original map makers of course threatened to sue the large company. However, their suit was unsuccessful, as in the 30 years since they invented the fictional town of Algoe, so many travelers using their map went to see what was in Algoe that a town with a general store and gas station had sprung up at the corner of the two dirt roads to serve the puzzled travelers. A fictional dot on a map had become an actual town, just by being included on a map.

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