



Basis Points – December 4, 2018

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Above the Fold

- Stocks rallied yesterday after a positive trade meeting at the G20 conference on Saturday. President Trump and Chinese President Xi Jinping approved a deal that offers China a delay from a planned increase in tariffs on \$200 billion in Chinese exports to the U.S. These tariffs were scheduled to rise to 25 percent from 10 percent on Jan. 1. In a tweet on Monday, Trump said China had agreed to cut tariffs on American cars from the current 40 percent rate, although no more specifics were detailed.
- Qatar announced that it plans to leave OPEC in January, a surprise decision for a long-time oil cartel member, but one that has recently clashed with oil titan Saudi Arabia. Qatar is a small oil producer but has in recent decades become a natural gas giant, and yesterday Qatar said it was leaving the group to concentrate on boosting its gas production. Qatar will focus on increasing its natural gas production from 77 million tons per year to 110 million tons in the coming years and does not want the oversight and production limits that OPEC requires.

Three Things

- December is typically the best month of the calendar year for the S&P 500 index, showing a positive return in 75 percent of Decembers since 1950. The best industry group in December is Industrials, and the worst is Technology.
- The White House last week was investigating measures to punish GM for its plan to close plants and lay off 15 percent of its salaried employees. President Trump tweeted that his administration was “looking at cutting all GM subsidies, including for electric cars.” However, this retribution will not have much effect on GM, as the only subsidies associated with GM’s cars are the tax credits that consumers get for buying electric vehicles. GM does not receive that cash, so it is only electric car-buying consumers that would be potentially hurt by that move. And if the White

House did propose the removal of tax credits for GM's electric cars, it could not be enacted without congressional approval, and it would be a change affecting the whole industry, not just GM.

- Next week marks the 10th anniversary of the arrest of Bernie Madoff and the unraveling of the largest Ponzi scheme in history. At the time, news reports pegged the size of the fraudulent Madoff fund at \$65 billion. However, the actual amount of investor losses was later lowered to \$17.5 billion. Irving Picard, the court-appointed trustee, has spent 10 years overseeing the painful process of trying to recover all the money and distribute what is left to harmed investors. Typically, in the aftermath of a Ponzi scheme, investors only recover between 5 and 10 percent of their original investment. However, Picard's team of hundreds of investigators has been able to recover and distribute \$13.3 billion to investors, a remarkable 75 percent of the stolen amount. Large settlements by large feeder funds and the recovery of funds from large investors who withdrew their ill-gotten gains prior to the funds' meltdown have helped in that large recovery. Most investors have at least received their original principal, as the rules approved by the court working with Picard state that if an investor originally invested \$1 million with Madoff, but the amount had "grown" by efforts of the Ponzi scheme to \$4 million, the investor would only recover the original \$1 million. Picard's toil to recover additional funds could keep him at work for five more years. His firm's large fees are being paid by SIPC, and do not come out of investor funds.

Did You Know

When You Lose Weight, Where Does it Go?

The answer is mostly into thin air.

Your body needs energy to function, and it gets that energy from food. When you consume more food than you burn, it gets stored in fat cells as triglycerides, which are made of carbon, hydrogen and oxygen. When you consume less energy than you expend, those fat cells are released into the bloodstream and are used by the body as fuel. These fat cells are broken down into their component parts again, to be burned by the body. As this carbon, hydrogen and oxygen are burned, the byproducts are a lot of carbon dioxide and water. Specifically, the weight leaves your body as 84 percent carbon dioxide, which is exhaled from your lungs, and 16 percent water, which can leave your body as sweat, saliva or in trips to the bathroom.

And if you are wondering if the release of all that carbon dioxide into the air will contribute to global warming, no worries, it does not, so don't quit your diet for the good of the planet. When a carbon atom is exhaled by a human, it is simply returning to the atmosphere a few months or years after it was trapped in a plant or animal before you consumed it. The amount of carbon atoms above the ground is constant; the carbon just

moves around a lot between the air, plants and animals. The carbon that causes global warming is the additional carbon atoms that are brought up to the surface and unlocked from very old carbon atoms that were trapped underground in fossilized organisms. These newly released carbon atoms are adding to the constant amount of carbon atoms already present above the ground, which can result in problems for the atmosphere.

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