



Basis Points – January 3, 2019

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Above the Fold

- After the close of the market yesterday, Apple cut its revenue and profits estimates for the current quarter due to much lower than expected sales in emerging market countries, with specific weakness in China. CEO Tim Cook explained: “We expected economic weakness in some emerging markets. This turned out to have a significantly greater impact than we had projected. In addition, these and other factors resulted in fewer iPhone upgrades than we had anticipated.” Cook also noted that China’s economy began to slow in the second half of 2018. “We believe the economic environment in China has been further impacted by rising trade tensions with the United States. As the climate of mounting uncertainty weighed on financial markets, the effects appeared to reach consumers as well, with traffic to our retail stores and our channel partners in China declining as the quarter progressed. And market data has shown that the contraction in Greater China’s smartphone market has been particularly sharp.” Apple’s stock price declined 30 percent in fourth quarter 2018, likely reflecting the slowing business in China.
- U.S. same-store sales rose a sharp 9.3 percent for the week ending Dec. 29, as financially confident consumers finished up their Christmas shopping.
- The stock market rarely declines two years in a row. Since World War II, the S&P 500 has only declined two years in a row three times: in 1973-74, 2001-02 and 2002-03.
- It took America 224 years to grow into a \$10 trillion GDP economy in 2000. It has taken just 18 years for it to double to a \$20 trillion economy in 2018.

Three Things

- If oil prices remain at \$45 a barrel for the full year 2019, these lower prices would translate into \$210 billion of savings for consumers due to much lower gas prices at the pump. However, a sustained lower oil price would be a large negative to the domestic energy industry. More than half of the drilling rigs in the U.S. are at work in the Permian Basin these days, and a low oil price has caused domestic drillers to decrease their exploration budgets for 2019, as they make cuts to activity to match their budgets to expected operating cash flow. The lower level of capital spending will be seen in lower revenue for industrial companies and oil firms that service drilling companies.
- The International Energy Agency notes that during 2018, 120 million people around the globe gained access to electricity, which means that for the first time since the invention of electricity service in 1882, less than a billion of the world's population now lives without the benefit of electric service in their homes.
- The domestic movie business generated record sales at the box office in 2018, with superhero movies like Black Panther driving 2018 revenue to \$11.8 billion, up 6 percent from last year. Theater ticket sales are very top-heavy these days, as three Disney movies, Black Panther, Avengers: Infinity War, and The Incredibles 2 accounted for nearly \$2 billion in domestic sales, or 17 percent of the total. For the first time, three movies in 2018 collected more than \$600 million each at the domestic box office. Disney has dominated the box office in recent years, and its movies accounted for 26 percent of all domestic ticket sales in 2018. Disney releases fewer films than other major studios, instead prioritizing titles tied to franchises like Marvel Studios and Star Wars, a strategy that has paid off handsomely for the studio in recent years.

Did You Know

Joltin' Joe DiMaggio did not actually drink coffee. Due to an ulcer in his stomach, DiMaggio refrained from drinking a daily cup of coffee, even made by the Mr. Coffee machine that he helped make ubiquitous in the 1970s. But his abstinence did not prevent him from being the chief celebrity endorser of the Mr. Coffee brewing machine that was introduced in 1973. With DiMaggio as its spokesperson, the company sold over 1 million units by the end of 1974. Although a childhood idol for millions of baseball fans during his heralded career, he was famously private in his personal life, and the idea that DiMaggio would publicly shill for a coffeemaker surprised his adoring public, his friends and his family.

The inventor of Mr. Coffee, Vincent Marotta, knew he had a great new product but needed a well-known celebrity to endorse it. Marotta was a huge Yankees fan as a child and used his network of friends to obtain DiMaggio's private phone number. Marotta dialed the number, and DiMaggio picked up on the first ring. "Yes, I have

heard of Mr. Coffee. I won a golf tournament last week and was given a Mr. Coffee for my troubles,” DiMaggio replied. Although initially reluctant to attach his pristine brand name to the product, DiMaggio eventually agreed, after the two men of Italian descent hit it off over many meetings. DiMaggio worked as the chief spokesperson for Mr. Coffee for 15 years, and to this day, if you mention Mr. Coffee to anyone over 40 years old, their first vision is of a smiling DiMaggio next to a Mr. Coffee machine.

While decades ago celebrities were very hesitant to endorse consumer products lest it blemish their good names and the public trust with their fans, in today’s world of social media it has become a badge of honor for celebrities to represent products and services, and they can earn tremendous compensation by doing so. Celebrities with millions of followers on Instagram, such as The Rock, Selena Gomez and Kim Kardashian, can earn up to \$1 million each time they post a picture of themselves promoting a product. Being popular enough to earn huge fees by quickly posting a picture with a product enhances their public stature and celebrity even further.

Among those lesser known celebrities and social media stars, it is now a goal to become an “influencer,” someone who leverages a social-media following to influence others and make money doing so. Some would-be influencers are even blurring the lines between paid endorsements and free publicity, as they create and post Instagram photos endorsing a product such as Maybelline, Nike or Chanel, in hopes of being hired by the company to endorse the product for money once their free post proves successful in promoting the product. Under FTC guidelines, a paid sponsor must disclose this relationship in a post, but there are no rules that require disclosure that a product endorsement is not paid, if it is done for free. Children as young as 7 years old are creating their own ads for products that they then post on social media, in hopes of securing an advertising and promotion deal with that company.

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