



Basis Points – December 20, 2018

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Above the Fold

- The Fed increased short-term rates by a quarter point as expected yesterday. The Fed sees 2019 GDP growth of 2.3 percent, down from 2.5 percent previously, and inflation of 1.9 percent for the year. The Fed board plans to raise rates twice in 2019, down from the three planned hikes they targeted earlier this year. The stock market clearly believes that the Fed is raising rates too quickly, given the many pressures on the financial markets this quarter.
- Due to a very low unemployment rate and a tight job market, American workers are quitting their jobs at rates not seen since 2001. The share of U.S. workers quitting their jobs rose to 2.4 percent in July 2018, a 17-year high.
- FedEx stock fell sharply yesterday, down 10 percent on the day. FedEx lowered earnings expectations for the coming year and the CEO stated the reasons on the conference call: “Most of the issues that we’re dealing with today are induced by bad political choices; I mean, making a bad decision about a new tax, creating a tremendously difficult situation with Brexit, the immigration crisis in Germany, the mercantilism and state-owned enterprise initiatives in China, the tariffs that the United States put in unilaterally. So, you just go down the list, and they’re all things that have created macroeconomic slowdowns.”

Three Things

- Americans are addicted to Hallmark Christmas movies. More than 85 million people are expected to watch Hallmark Channel this holiday season, and Hallmark was the most-watched cable network among 18- to 54-year-old women in November. Mass production of these formulaic but charming films began in 2008 when Hallmark produced just two films. Production grew to 12 films in 2014, and 33 original movies were made in 2018. On average, Hallmark holiday movies cost about \$2 million to produce and take only three weeks to shoot. The large group of viewers translates into a large gift of advertising revenue for Hallmark, as Christmas movies account for one-third of Hallmark Channel's annual ad revenue of \$390 million. Hallmark is also expanding its production to include other holidays to capitalize on its adoring and captive audience. This weekend, Hallmark will premiere its new original movie, "Royal New Year's Eve," and kick off its Winterfest programming in January, with four new original winter-themed movies.
- The average stock price of an S&P 500 company recently hit an all-time high of \$106. While the absolute price of a stock has no economic effect, it does affect two groups of market participants: small investors, who are less likely to buy stocks at high absolute prices rather than small prices; and brokers and traders, who earn money on a per-share traded basis. Higher prices cause fewer amounts of shares to trade, so brokers make less money on a given trade.
- It is more difficult than ever to gain admission to elite universities, with admission rates at Harvard College of just 4.6 percent of all applicants, 5.5 percent at Princeton and 4.3 percent at Stanford. Admission standards and decision-making can be an opaque process, as the pool of applicants is of such high quality. Harvard admits only 1,962 students to each class, while they receive more than 8,000 applicants a year who had a perfect high school GPA, and more than 3,400 that have perfect SAT math scores. Given those remote odds for admission even among the academically perfect, students can increase their chances for admissions. One way is to be the offspring of an alumnus. At Harvard, 33.6 percent of legacy applicants gain admission. Another way is to be a huge donor to the endowment fund. At Harvard, the "Dean's Interest List" is a suggested list of applicants that the fundraising committee submits to the admission committee. These applicants also have a far higher acceptance rate than the average applicant.

Did You Know

The WSJ noted last week that superstar music artists are dominating the popular music charts like at no time since The Beatles ruled the music business in the mid-1960s. Although it would seem that the widespread use of the internet and music

streaming services would make it easier for a new artist to gain recognition for its music, it has actually grown more difficult over the past decade for a new artist to break into the business.

The Billboard Hot 100 music chart, published weekly by Billboard magazine since 1958, ranks songs based on sales, radio play and, these days, online streaming. Today, the Hot 100 list is now dominated by the most well-known artists, and it's not uncommon for the most popular performers to have 10 or more songs listed on the Hot 100 at one time.

Mega-popular music artists like Drake, Post Malone and The Weeknd are very popular, but they are crowding out the field, so far fewer lesser-known artists get to see their names on the chart. In mid-July, all 25 songs from Drake's album, "Scorpion," simultaneously made the chart. Drake also performed on two other songs for a record-breaking 27 Hot 100 hits in a single week. Drake broke his own record from last year when he had 24 songs on the list in one week.

For decades, The Beatles held the record with 14 simultaneous hits, an achievement that now ranks 17th behind Drake and other artists. Today, the Hot 100 typically features about 75 different lead artists, the performers whose names appear first on a song. In the 1970s, the number was closer to 100.

At the same time, the hits now include far more cameos by featured performers than in the past. Until the mid-1990s, typically 10 songs on the list had two artists teaming up to perform the song. Today, closer to 45 out of the 100 songs are collaborations. The common use of cameos by other artists has become a very popular way to broaden both artists' appeal to a different style of music. A Tim McGraw song featuring Drake will be exposed to both country music lovers and hip-hop enthusiasts and may increase sales of the record to that wider audience.

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