



Rodney's Take

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The Fred Sanford Economy

Many of the sitcoms of my youth wouldn't be allowed on television today, because they would surely offend someone. But even though we don't see them in syndication, some characters just stick with you. One of those memorable characters was Fred Sanford (Red Foxx) of *Sanford & Sons*. Every time he heard bad or shocking news, he would clutch his chest, look up at the sky, stagger around as if he were having a heart attack and yell, "This is it! This is the big one! I'm coming, Elizabeth!"

Fred comes to mind as I think about the weirdness in the business world as reported by the biggest banks in America.

On one hand, most of them reported fabulous earnings. We bought Goldman Sachs (NYSE: GS) in mid-March because I expected the incredible volatility to favor the savvy investment bank, and that's exactly what happened. Goldman and its brethren cashed in on the crazy trading and pocketed a fortune in both trading fees and Fed-induced gains.

On the other hand, when the banks reported earnings, they set aside billions of dollars for loan loss provisions. Collectively, the biggest banks held back more than \$30 billion to guard against what they see coming in the third and fourth quarters, a string of bankruptcies across the economic landscape.

As Congress reconvenes this week I (and everyone else) expects them to come up with yet another plan to hand out trillions of dollars to stave off the inevitable. We might not keep the weekly unemployment bonus checks at \$600, but we'll definitely make arrangements to keep the money flowing at some level.

And, of course, we'll cover city and states. We might even make the main street loan program from the Fed more accessible.

But we can't fix the changing models of consumption and work. Even when the virus passes, it's unlikely that venues built on density, like theme parks, hotels, sports arenas, big restaurants, and even Broadway theaters will see the same demand as they did pre-pandemic. Unless we find a quick, painless cure for COVID-19, we'll still worry about the disease.

On the work front, some of our habits have changed for good. Demand for commercial and office space in densely populated urban areas likely has passed its peak.

As we sort through our new approach to work and play, there will be winners and losers. It won't be like it was at the end of 2019. Pretending that if we can just keep everyone hanging on until the virus passes ignores the changes that have already occurred. We Zoom. We don't wear a lot of

business clothes. We hate commuting even more, because we recognize spending every day at the office isn't necessary.

So maybe Uncle Sam can peel a few trillion more dollars off of his bank roll and splash it around, saving this group and that for another couple of months. But eventually, we'll have "the big one." The money will run out, companies will go bankrupt, and we'll have to adjust to the next phase of American life at work and play, whatever that is.

We've already seen the most obvious changes, as companies like J.C. Penney, Hertz, and GNC have gone under. Now some unexpected names, like Brooks Brothers, are making the list. Energy sector names, like Chesapeake and Diamond Offshore, are joining the list of the recently departed, and more are on the way.

Before you feel too sorry for many of these companies, consider that in some ways we're simply accelerating a process that was already in motion. With the Fed handing out cash like candy through exceptionally low interest rates for the past decade, many companies with questionable businesses or zero profits took on way too much debt and are now buckling under the weight. The economic crisis that banks see on the horizon should be cathartic as we clear the decks to make way for new businesses to grow.

And don't feel bad for the executives. As we've found out from their filings, many of the bankrupt companies either already have paid, or still intend to pay, millions of dollars in executive bonuses. Chesapeake will give out \$25 million, while J.C. Penney will hand out \$10 million. They pay such princely sums to ensure "continuity." It's questionable whether shareholders will like the same people at the helm who steered the boat onto the rocks in the first place.

Rodney

Got a question or comment? You can reach us at info@hsdent.com.