

**Market Outlook:**

**Systemic Inequality**

With so much anticipation and focus being directed towards "earnings season", it's helpful to reflect upon what constitutes "an earning", and why there are differences amongst them. Think about it....we have all read recently about unfortunate passenger-versus-airline experiences. It's no coincidence that cutbacks in customer service, seat spacing, and fare increases are directly attributable to a culture of financial restraint that insists upon getting the most with the least amount spent. At least that is what the narrative appears to be from our perspective. These short-sighted decisions fail to take into account the most critical element of any business equation: customer satisfaction and repeat business.

Thus, big business puts cost in front of service.... an homage to Wall Street biases.... delivering earnings based exclusively upon appeasing analyst expectations. But rest assured this is not only an issue for the airlines industry. Every one of us has a story to tell about a diminution in customer service reflective of a change in mindset that puts the balance sheet ahead of moral suasion.

Let you think this thesis is an indictment of all businesses, a broad-brush condemnation of all corporate decision-making and government culpability, consider that even amongst earnings performers there is a hierarchy of responsible, well respected companies, as well as an "asterisk" placed next to those whose sole purpose is to reward stakeholders at the risk of alienating customers. The paradigm is never all black or white. Somewhere in the middle resides the preponderance of well meaning, well intentioned do-gooders.

**Reformation**

This missive hopes to open a dialogue about what constitutes meticulous, competent equity analysis and why it is important to identify ineradicable earnings performers versus the one-shot-wonders and hangers-on. Reckless use of common accounting practices in order to fabricate surpluses and profits places the supremacy balance at risk, and modifies the true structure of portfolio management by rewarding the alchemists equally as well as conscientious citizens.

**Simply because a company has the ability to increase quarterly dividends by one penny does not indicate anything deeper about their value system or how they view their obligation to their environment, their neighborhood, or their customers.** Rather, it says only that they have figured out how to oblige their stakeholders to make a profit. The analysis, however, must be deeper than that.

Sometimes it seems as if the corporate "bar" has been set so low that profitability is merely "one more widget sale away".

The fact that the stock market is sometimes oblivious to this dichotomy between earnings and socially responsible governance speaks volumes about what moves the needle on Wall Street. When bull market rallies occur, even bad news is not sufficient to penalize companies that refuse to adhere to societal standards of good behavior.

The next time you're treated rudely at the bank; bumped from a seat on an airplane; paying more for less service; or pleading for technical assistance to no avail, think about the board of directors of these companies sitting in their offices who frankly don't give a damn.

There is a reasonable argument to be made that in today's cost conscious environment the relationship between *quality service* and *expenses paid* has become inverted. The reason why businesses can get away with such rude behavior is because they can!! The demand cycle in our economy is still not such that business feels any responsibility to respond to a decline in civility or to train employees that service is a right, not an option. When the economy improves to such a point that financial power really does shift back to the consumer, perhaps then we will see a gradual shift in the culture of sales and service.

That is when earnings analysis will become more of a precise and rewarding science, and shareholders might finally be on equal footing when comparing data with which to gain a competitive edge.

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