Make Things!

The wealth imbalance

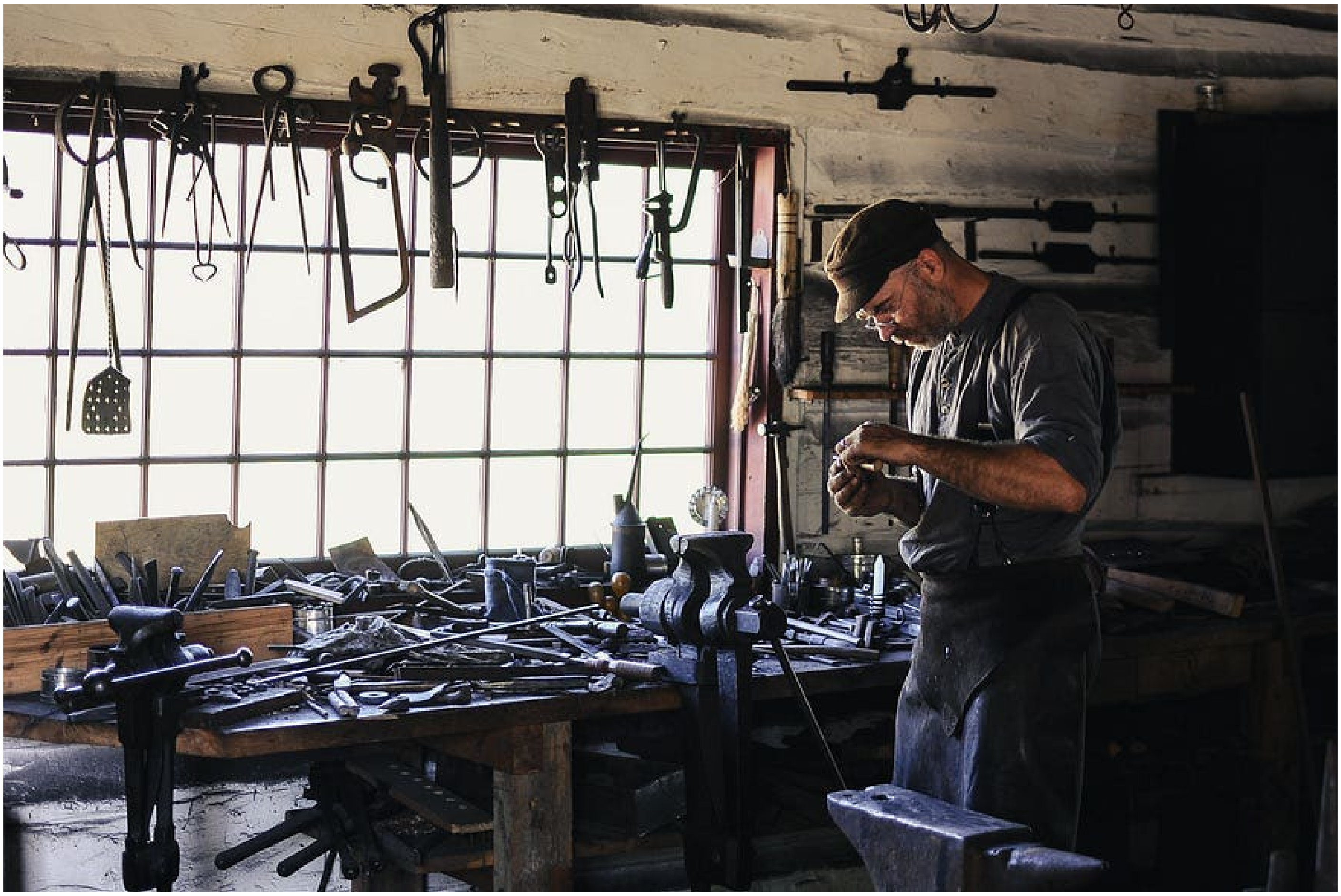

Photo by Clark Young on Unsplash

My first job as a freshly schooled accountant was working for a company that made filter presses. This is a device built to separate liquids from solids by squeezing them between a configuration of plates and frames.

Some were used to collect liquid, think grape juice, and some were used to collect solids.

It was 1976.

I like companies that make things.

I make a good living working for manufacturers. Companies that make filter presses, particle size reduction equipment (machines that make powder), companies that make cardboard (but you must call it corrugated), and finally a company that makes rubber.

But…

One cannot get wealthy working for companies that make things, nor companies that sell things.

Real wealth comes from those who ***Trade Things.***

The names of those who trade are brokers, contingency fee collectors, investment bankers, hedge fund managers, real estate agents, insurance companies, insurance brokers, and anyone who wants your money to help you get rich (think of Bernie Madoff).

Recently two stocks demonstrate my point. Bed, Bath and Beyond (BB&B) and GameStop. Both are companies that sell things.

The market capitalization of BB&B is currently $690 million; at its 52-week high $2.4 billion. They sell sheets and towels, kitchen stuff, and scented candles. It is a solid business with a known brand.

The same numbers for GameStop are the current market cap of $8.33 billion; a 52-week high $19.3 billion. They sell and rent video games. Opposite of BB&B, GameStop is a declining business due to subscription-based and streaming competitive technologies.

Think buggy whips and try to find a Blockbuster store.

In short, market capitalization is a function of investors' perceptions of the current and future value of a company.

Business is simple. Find a product or service. Make it, buy it, or provide it and sell it for more than it costs.

What can possibly explain the roller coaster ride of these two stocks for the past 52 weeks?

Was there a shortage of smelly candles driving the demand up for BB&B? Perhaps an exclusive, proprietary video game only to be sold at GameStop?

For these stocks, think of Ferris wheels, slow, steady, and safe. Get on, see some sights, and get off feeling better than when you got on.

So, what turned these ferris wheel stocks into roller coasters?

TRADERS (Stock Brokers, what is known as Pump & Dump)

In 1929 the stock market crashed causing the Great Depression. What happened?

TRADERS (Margin Buys)

What have we learned since then?

1980s Savings & Loan crisis

TRADERS (Condominiums and Realtors)

Dot.Com Bubbles

TRADERS (Investment Bankers and IPOs)

Junk Bonds

TRADERS (Stock Brokers, Investment Bankers and Acquisition Frenzy)

2008 recession

TRADERS (Round two for Realtors and Sub-Prime Mortgages)

Crypto Currency

TRADERS (All of them)

TRADERS: YOU WIN, THEY WIN…YOU LOSE, THEY WIN

What a deal! One that has flourished in the history of our free markets.

Let's talk about real estate. Does the realtor work for the buyer or the seller? If they work for the buyer, they will get the lowest price to the seller. If they work for the seller, they would get the highest price for the buyer.

They work for neither. They work for their commission.

How about Wall Street? I bought my first stock in 1977 based on a broker recommendation. I spent $300. The stock went to $350 and my broker said sell and purchase a new one for $350. Sounded good until stock number two had a ten for one ***reverse*** stock split.

My $350 investment was now worth $35.

I lost but my broker still got paid.

It is okay for brokers to get paid. We all need to make a living. It's when brokers *create* the market, things get muddy, and the brokers get rich.

Back to GameStop and BB&B. Traders created impressive market caps which incentivized a bandwagon of investors looking to get rich. How many got out before it crashed?

Note: A pending investigation by the SEC of BB&B looking into a pump and dump scheme forced the CFO of BB&B to get out... by taking his life.

The majority on the bandwagon got out too late and collectively lost $12.7 billion.

The traders, assuming a 2% commission, collected $254 million, not counting the commissions on the upside.

Traders are driven by their commissions to the extent that it doesn't matter if it is a good deal, but that the deal gets done.

Stock traders on steroids are called investment bankers. There continues to be rampant acquisitions, business combinations and Initial Public Offerings (IPOs) for billions, check that *trillions* of dollars for which the investments bankers earn commissions.

Now Here's the Point:

Businesses that drive the free-market economy sell things. The commissions earned on business combinations and IPOs are substantial. So much so, the major investment banking houses now own the World's largest banks. (What bothers me about that is for a different post.)

***The greatest economy known to man is built on its workforce*. *Almost One Hundred and Sixty Million people currently*.**

What do they get from the government as life-long taxpayers? Not enough to comfortably retire, nor health security.

What do they get from the traders? Maybe a comfortable retirement when a company's shares get to their 401(k). Oops, here's where Enron torpedoes that thought.

So, they get little to nothing even when the market cap (legitimately) is created and traded upon as a direct result of their hard work.

Simply, it is time for traders to share commissions with those that created them — *the workers*.

The people that "Make Things."

The proposal is this. One percent of commissions earned annually goes to all those that work.

One percent of:

- Investment banker commissions
- Stockbroker commissions
- Hedge fund managers' commissions
- Realtor commissions
- Insurance broker commissions

The caveat is, keep it out of government hands. Legislation for the concept will be corrupted by special interests and lobbies, so it is up to the traders to stand up and do what's right for those that made them wealthy.

The challenge is the Social Security Administration is needed to allocate the collected one percent annually to one hundred and sixty million hard working Americans.

The Wealth Imbalance

Simple math for the concept. Assume $1 billion in the commission fund and divide it equally by 160 million people — $6.25 per person. Point is everyone gets the same.

Assume each year:

$100 billion-$625

$500 billion-$3,125

$1 trillion-$6,250

Before compounded interest, $3,125 a year for 40 years $125,000, compounded? $296,000 at 4%.

Just a thought from “The Cost Guy”. Thanks for reading.

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