



OAKWORTH
CAPITAL BANK

COMMON CENTS

Our company is currently participating in a hunger drive for a local charity's food pantry. Being a competitive bunch, we have turned it into an "Alabama vs. Auburn" contest, where Tide fans put their offerings in a red box, and Tiger fans put theirs in an orange and blue one. There is a week to go, and it is way too early to declare a winner.

Now, I love food drives like this, and particularly like to win them. So much so, I took my kids to the Wal-Mart on Wednesday night to help me stock up for "my team." It is important my kids see me acting in a charitable way every now and again, and even more important they understand the need to be charitable.

With that said, I had to resist the strong urge to buy \$30 worth of ramen noodles, because that is, without a doubt, the easiest way to win a hunger drive. Since most contests are determined by units, \$30 worth of ramen noodles is about 125-150 individual units. Let the other team spend \$30 on Ragu spaghetti sauce; that is only about 15 units, maybe 30 if it is "buy one get one free." Yes, I had to resist that strong urge to set a good example for my kids.

So, I started putting the Wal-Mart brand pasta noodles and sauce in the cart. Then I loaded up on the generic boxes of macaroni & cheese, before adding some cans Chef Boyardee, peas & carrots, green beans, limas, and corn. However, I couldn't pass up on the 6-pack of ramen, the kind in the cup, for \$1.58, and threw 3 of them in the cart. One of them advertised "dried shrimp" on the side, and I can't imagine what kind of shrimp are to be had for such a paltry sum. Undoubtedly the same kind sold as "sea monkeys" in the back of Grit magazine. Come to think of it, is Grit magazine even around any more?

Throw in a Sprite for Annie, a back of baseball cards for John, a box of Capri Suns for lunches, and I mostly filled up a shopping cart for \$38.45. Seriously, it was a surprising amount of food I had, enough to feed, I don't know, a North Korean for a month or more, and maybe even his wife as well.

Hmm. \$1 for a pound of spaghetti noodles; \$1.53 for a jar of Good Value pasta sauce, and \$3.00/lb. for ground beef, at the Wal-Mart, and you have a meal that could easily feed four, pretty tastily. Compare that to 2 Happy Meals, and 2 #1 combos at McDonald's, which will run you upwards of \$20, and not be anywhere near as wholesome.

Recently, I read the fast food worker protest is starting to gain steam nationally, or at least seemingly so. I was shocked when the folks in New York City started to complain, so this buffalos me completely. Frankly, I am not exactly sure what it says about our economy and society. Fast food workers wanting to unionize and double their pay? Big, bad fast food restaurants making too much money, and exploiting their workers? Hmm.

This is the type of ethical dilemma you can only have in an otherwise wealthy country. Either that or a country which up to now has had numerous opportunities for people with

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All you need is ignorance and confidence and the success is sure.

Mark Twain

Something to Think About Cont.

varying skill sets. The minimum wage of \$7.25/hour is a paltry wage for an adult American. Heck, babysitters in affluent neighborhoods make substantially more, as do pimply faced teenagers pushing lawn mowers. Shouldn't we value the labor of mothers, fathers, and grandparents more than that of, goodness gracious, high school students? Shouldn't they get a living wage to live life with dignity? It reminds me of what George Bailey said to Mr. Potter in "It's a Wonderful Life," you know:

"Just a minute... just a minute. Now, hold on, Mr. Potter. You're right when you say my father was no businessman. I know that. Why he ever started this cheap, penny-ante Building and Loan, I'll never know. But neither you nor anyone else can say anything against his character, because his whole life was... why, in the 25 years since he and his brother, Uncle Billy, started this thing, he never once thought of himself. Isn't that right, Uncle Billy? He didn't save enough money to send Harry away to college, let alone me. But he did help a few people get out of your slums, Mr. Potter, and what's wrong with that? Why... here, you're all businessmen here. Doesn't it make them better citizens? Doesn't it make them better customers? You... you said... what'd you say a minute ago? They had to wait and save their money before they even ought to think of a decent home. Wait? Wait for what? Until their children grow up and leave them? Until they're so old and broken down that they... Do you know how long it takes a working man to save \$5,000? Just remember this, Mr. Potter, that this rabble you're talking about... they do most of the working and paying and living and dying in this community. Well, is it too much to have them work and pay and live and die in a couple of decent rooms and a bath? Anyway, my father didn't think so. People were human beings to him. But to you, a warped, frustrated old man, they're cattle. Well in my book, my father died a much richer man than you'll ever be!"

Unfortunately for George Bailey, he hit the nail square on the head: his father was no businessman. While there is more than a grain of truth to what George says here, much more, business is business, and there is no shortage of people who can work in a fast food restaurant.

Before I run the risk of sounding too cold, if I am not too late, answer me this: why do you, or would you, buy anything at a fast food restaurant like, say, McDonald's or Burger King or Wendy's or whatever happens to be your personal favorite? Do either of the words 'cheap' or 'reasonably priced' make it into your decision making along with maybe tasty, convenient, fast, or dependable? Maybe you a difficult sort who respond: "because I get a lot of what I like for not a lot of money," thereby eschewing both cheap and reasonable.

Now, what if your favorite fast food joint were now everything else but not as cheap? What if McDonald's suddenly increased the price of its food & drink 17.0%? How would that strike you? Oh, you might not quit going there, but, over time, you would likely go less frequently, because that starts adding up. But where in the world did I come up with 17%? I backed into using the company's 2012 Income Statement: how much would revenue have to grow, keeping all other costs constant, in order to accommodate a 100% increase in 'salaries & benefits,' and keep EPS (earnings per share) the same. After all, these folks are screaming for \$15/hour.

Is the food that good? I can't answer that for you, but what if the company doesn't have any pricing power. What if revenue stays the same AND those 'salaries & benefits' increase 100%? Well, if that happens, EPS falls from a reported \$5.47/share to \$2.28/share, which is still a LOT of money in absolute terms, I mean literally billions of dollars.

However, McDonald's currently has a trailing Price/Earnings ratio, or multiple, of 17.43x. So, \$2.28 times 17.43 = \$39.74 per share. How does that sound? Consider it is currently trading, as I type, at \$95.11, it should sound awful. With 999.44 million shares outstanding, or thereabouts, the difference between the two shares prices equals about \$59 billion in lost market capitalization IF the multiple stays the same.

Of course, that is "back of the envelope" chicken scratch which makes a lot of assumptions, but the point re-

Something to Think About Cont.

mains: because stocks trade at a positive multiple to their earnings, ANY substantial increase in costs which has a negative impact on earnings will either drive down the stock price or increase the price investors must pay for the stock relative to earnings. There are no other options: someone else is getting the rook to accommodate the pay increases, either consumers or investors.

So, if being “fair” to lower paid employees means being unfair to someone else, how is that really being fair?

Now, the articles I have read on the matter certainly seem to be pro-employee. There are any number of single parent interviewees who complain about having to support a family on such a wage. Employers are greedy scoundrels who generate all this profit, and all of it. The long and short of it is: big, bad companies are exploiting low wage labor while generating obscene profits.

Here is a excerpt from a recent article in the Los Angeles Times written by a Tiffany Hsu:

“El Pollo Loco cashier Jose Puac Peneleu said he'd be happy with \$11.50 an hour.

The 23-year-old lives in Arleta with his sister, her infant and their mother and commutes five days a week to a Sherman Oaks strip mall.

Peneleu, a Guatemalan immigrant, was hired five years ago when he was a recent high school graduate and living in the country without legal status. Since then, his hourly wage has increased only \$1.65, to \$10.15.

Each month, Peneleu's pay goes to his \$110 phone bill and \$75 car insurance payment. He and his sister, a manager at another El Pollo Loco, split his family's \$120 grocery list and \$800-a-month rent.”

Written another way, you could say: Illegal Immigrant Gets 19.6% Pay Increase Over Five Years Working at Local Restaurant, Enjoys His Cell Phone, and Wants More. Either that or: Local Illegal Immigrant Leads Life He Couldn't Imagine Having in Guatemala Thanks to His Job at Local Chicken Shack.

Besides, lets do some math: \$10.15 times, say, 34 hours per week works out to be right at \$1,495/month assuming he works all 52 weeks. His share of the rent is \$400, and \$240 for the groceries. As noted, he has \$185 in other expenses. That equals \$825, leaving Jose with another \$670/month for other expenses. Hey, I admit he ain't getting rich and joining the country club, but he is getting by, and probably could put some money in a savings account if he really wanted to do so. Besides, I am also assuming Jose has enough time in his week to take on some additional work should he so desire, and he probably does (but doesn't let the IRS or anyone else outside of his apartment know). In essence, Ms. Hsu probably would have been wise choosing another person to interview.

Now, being fair to these workers, like Jose, and presumably future ones, doesn't mean increasing their pay without a corresponding increase in productivity...this to the detriment of employers and investors. No. Being fair to these workers would mean having a society and institutions which better equipped its adults with marketable skills **and** ever increasing abilities and potential. That is being fair. Should we be giving out fish OR teaching people how to fish?

Is that El Pollo Loco or McDonald's fault? No; come on. Those places are in business to generate a return to its shareholders. It is NOT their job to be altruistic. However, you know, IF our society IS going to educate people like Jose Puac Penleu, who came to our country without following the rules, perhaps it would be in our best interest to actually train the man for something other than a life in a greasy spoon.

Better than Guatemala? Apparently, or else he would move back there. Living up to the potential thought he would have in this country? Not hardly.

Something to Think About Cont.

In the end, here is what I propose: we revamp our education system to ensure the citizens who complete it are trained for some type of productive employment in a knowledge-based global economy. In other words, we start taking this stuff seriously. If we don't like adults working at McDonald's for minimum, well, lets do something about it. Lets teach these people how to fish, as it were.

Here I am all worked up, because I think it stinks...all of it. From the fact people are, quite literally, making a career out of hourly work at fast food joints; to journalists and others who don't understand that for every action is a reaction; to business journalists who don't seem to understand business; to a society which doesn't adequately train its workforce; to a country of so much plenty where people still have to run food drives for the hungry. Whew.

In the end, we still have the potential in this country to do anything we want. We just need to know what it is we want, and figure out a way to get there. As for me, and as for the hunger drive, I want to win AND fill that food pantry's shelves. So, I will check on Thursday night to see who is winning, and if my team isn't, it is off to the Wal-Mart for more pasta and canned goods. Then, for good measure, I might just get some extra ramen as well.

...those hunger drive contests are all about the number of units you know.

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