

Monday, January 30, 2006

I may as well....

Get ahead of the "pundits" here! You will, without a doubt, hear that Exxon-Mobil's profits of \$10 billion were "obscene", and constitute "gouging". What isn't in the headlines, though, is their gross sales " \$99.6 billion. The raw profit number is meaningless. What's important is the **percentage** of profit earned. Exxon's, at 10.04%, is actually quite low, as profit margins go. Over historical periods of time, you can make about 11% (pre tax) simply by buying the S&P 500 in the stock market. If you do this, instead of running a business, you have your risk spread over 500 different firms; if any of them fail only 1/500th of your money goes away. If you run your own firm, and blow it, all your money is at risk. Here's reality folks " a 10% profit margin is not "gouging." If Exxon had reported profits of 20%, that might raise some eyebrows. If they had reported 30%, 40% or 50% margins, that would support a claim that something's funny. 10% is barely enough to be worth running a business with all the risk that it entails. There will be many who will take cheap shots at Exxon. Before you become one of them you might want to use your brain.

Posted by Karl Denninger at 09:45