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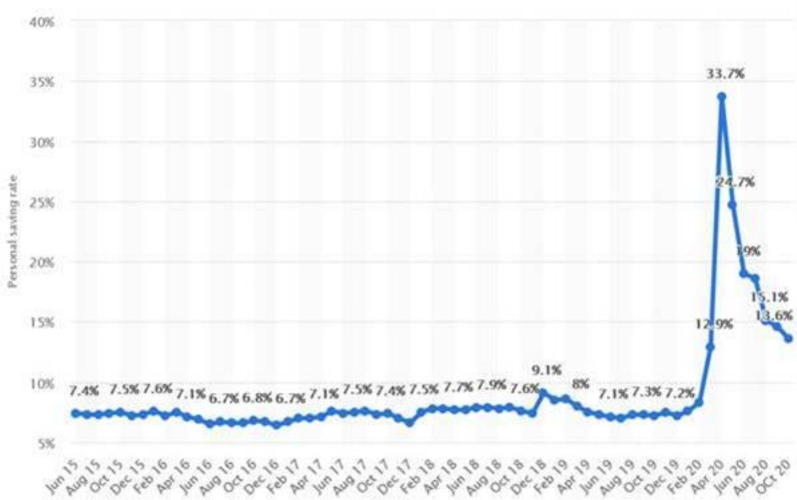
Musings

#111: Musing
January 30, 2021

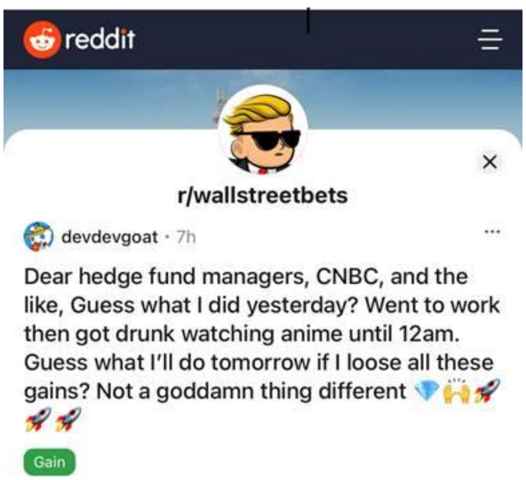
Financial planners historically have used the “4% rule” which was that you needed to save up an amount that you could live of the income generated by your savings at a 4% rate in order to retire. With low interest rates suppressing returns, I had been in conversations about whether that is now 2-3%. Now, the originator of the rule says it might be 4.5% due to expanding asset classes. the-originator-of-the-4-retirement-rule-thinks-its-off-the-mark-he-says-it-now-could-be-up-to-4-5

Billionaires don’t need to worry about the 4% rule. Davos occurred virtually last week. For those not familiar, this is an annual gathering of the world’s elite (formally called the World Economic Forum) which usually happens in Davos, Switzerland. In the lead up to Davos, Oxfam put out their report on wealth inequality. *“The world’s 2,153 billionaires have more wealth than the 4.6 billion people who make up 60 percent of the planet’s population.”* worlds-billionaires-have-more-wealth-46-billion-people. Oxfam said the world’s 10 richest men, including Elon Musk, Jeff Bezos, Bill Gates, Mark Zuckerberg and Warren Buffett, saw their fortunes increase by half a trillion dollars since the pandemic began even though the global economy remains smaller than when the pandemic started a year ago. Watch the building momentum for a one-time wealth tax in an attempt to reduce wealth disparity coming out of Covid.

An underreported dynamic of the Covid crisis has actually been an *increase* in the American consumers rate of savings (see graph below). In general, a higher savings rate is a healthy thing allowing consumers to absorb unexpected financial shocks but right now it is holding back economic growth (remember that consumption is 70% of GDP.) Stimulus checks were intended to help on this but according to the Wall Street Journal, “just under a third of the stimulus payment, 29%, got spent, while 36% was saved and 35% used to pay down debt.”



Wealth disparity, extra Covid stimulus money and social media came together in a toxic stew this week in the financial markets. I have previously written about the perils of the popular app RobinHood which has gamified stock brokerage allowing you to trade free on your phone and deploying techniques more similar to candy crush than Charles Schwab. Now social networking is becoming a major force with individuals promoting stocks on TikTok and Reddit. One particularly active subgroup of Reddit called "wallstreetbets" caused wild fluctuations in the stock of Gamestop forcing the NYSE to stop trading. The "mob" is now expanding its trading to AMC theaters and Blackberry. Part of this is a "populist" movement against the fancy wall street crowd who has shorted these struggling companies (betting they will go down). Personally, I don't believe short selling should be legal as it is not about allocating capital but rather betting against a company. This has thus become a battle of David (individual investors using social media) and Goliath (hedge funds who have shorted stocks and go on CNBC). Here are some screenshots from wallstreetbets to give you a feel:



Gamestop is not a healthy company. Sales are currently decreasing 30% per year and it is losing money. It is currently trading at a value that implies a valuation of $20bn and I am not sure it is worth anything. It is Blockbuster #2 – a bricks and mortar retailer selling an obsolete product (games are all downloaded online now). From a corporate finance point of view, I think the short sellers are right but this has become a political flashpoint and a trading equivalent of "Occupy Wall Street." The reddit crowd's investment philosophy is "Find the most shorted stocks, buy calls, write about it, buy the stocks and jam it higher." This sticks it to the short seller who get "squeezed" and lost a lot of money. However, this will not end well for the Reddit crowd either. Just like the capitol hill riots, social media is leading to emotional group think – amplifying judgments that are often erroneous. The algorithmic echo chamber than creates a FOMO (fear of missing out) feeling. This is not good. People are going to lose a lot of money. Yolo (you only live once) is not a way to invest. #deletesocialmedia

Taboola is going public. The company runs a content recommendation platform helping companies place "chumbox" ads on websites. That is right. Big business in putting "clickbait" ads on websites. Just like throwing chum into the water to attract fish when angling, the business of enticing the web viewer is booming. What a world.

We are midway through earnings season (remember companies which have their stock traded publicly have to report their financial results every quarter). Huge numbers posted by Microsoft, Apple, Facebook, Tesla. Terrible numbers from Boeing. Welcome to the digital world.

RIP Larry King. What made him successful is also a key to success in the business world – simple curiosity. While most hosts leverage their platforms to pontificate, King asked short, simple questions – and *listened closely* so he could follow-up. Leaders need to so the same when interacting with employees in the organization, customers or even competitors. Most human beings like to share if asked and if you listen closely you will pick up lots of intelligence.

Congrats to the GOAT Tom Brady on getting to another Super Bowl (GOAT is slang for greatest of all time). He was 7th on the depth chart at University of Michigan when he started and does not possess any particularly exceptional athletic skills. His distinguishing qualities are around decision making and leadership.

For those interested in our healthcare system, the Graham School of Professional Studies at the University of Chicago is running a three-part public webinar series on the effects of Covid on hospitals with professionals from the University of Chicago hospital. Join us (it's free). roundtable-discussion-series-graham-covid-19-healthcare-and-beyond

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