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Musings

#112: Musing
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Is Apple CEO Tim Cook the "kingslayer"? Uncharacteristically, Facebook CEO Mark Zuckerberg (the King) has openly complained about Apple's decision to launch a new feature this spring where users can "opt out" of an app's tracking when they launch it. If there is material opt-out, it will make Facebook's advertising offering far less compelling (remember, Facebook is an advertising company….they use your data to sell ads…that is their revenue.) From the Chicago Tribune, *"Part of the power of Facebook's business is how it gathers data from mobile apps – what people do on the apps, what they search for, what they buy and more. More than 85,000 iOS apps had installed Facebook code that relays data back to the company."* So Tim Cook has gone on the offensive. Great quote from him in a recent speech: *"Technology does not need vast troves of personal data stitched together across dozens of websites and apps in order to succeed. Advertising existed and thrived for decades without it, and we're here today because the path of least resistance is rarely the path of wisdom. "If a business is built on misleading users on data exploitation, on choices that are no choices at all, then it does not deserve our praise. It deserves reform."* tim-cook-may-have-just-ended-facebook

This is all about the attention economy. From a great article in NYT (thanks Travis Hughes) *"One of the most finite resources in the world is human attention. To describe its scarcity, he latched onto what was then an obscure term, coined by a psychologist, Herbert A. Simon: "the attention economy…Attention has always been currency, but as we've begun to live our lives increasingly online, it's now* the *currency. Any discussion of power is now, ultimately, a conversation about attention and how we extract it, wield it, waste it, abuse it, sell it, lose it and profit from it…"* *michael-goldhaber-internet*

The biggest attention grabber of all right now is YouTube. YouTube revenue grew 46% last quarter. From WSJ: *"The company said the platform now reaches more users between the ages of 25 and 49 than all cable networks combined."*

Congrats to Amazon founder and CEO Jeff Bezos who is stepping down. Amazing what he has built from scratch. While I don't agree with his relationship and photography choices, you have to admire him as an executive. He is being succeeded by the head of Amazon Web Services (AWS) which is their invention which took their huge tech infrastructure and started selling it to others for their use. AWS is roughly 12% of Amazon revenue but 62% of its profits.

The populist uprising in the equity markets hit the rational world of investing this week. Gamestop was down from $175 per share to $63 per share. Still overvalued but getting better.

The reddit crowd is not all uninformed gamblers looking to "stick it to the man." The whole Gamestop trade was started by a guy who goes by "Roaring Kitty" (real name Keith Gill) who did some real analysis and bought GME at $5 with the thesis the company could rotate to the online world focusing on selling the devices/platforms, leveraging its brand and now with the Chewy founder on its board to lead the way. $5 implies a $350mm equity value --- it is now around $5bn.

Some are saying it wasn't a populist uprising after all. As data has come available, it looks like there were a lot of hedge funds cheering on the "reddit mob" to create the short squeeze on other hedge funds. [gamestop-mania-may-not-have-been-the-retail-trader-rebellion]

While stocks in general have appreciated nicely over the last year, they don't appear overvalued when compared to other asset classes (i.e. places to invest). Interest rates are so low that you can justify current equity levels. One way the Fed looks at this is by comparing the S&P 500 forward earnings yield (i.e. what "income" you would get from the earnings of the stocks you own) compared to the income you would get by owning U.S. 10 year bonds. The equity yield should be higher since you are taking more risk (especially compared to US government bonds) but that difference between the two or "spread" should give some sense of value. The chart below shows that spread is actually relatively high, indicating stocks are not overvalued. At the top of the dot.com bubble in 2000, there was no spread.

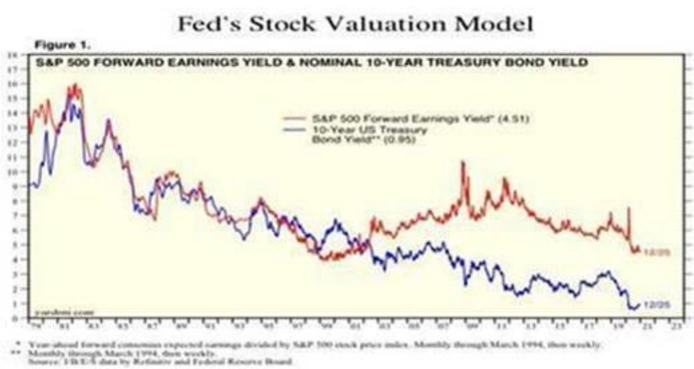

Figure 2.

Enough of stock market stuff. A couple musings on management. You have to lead by example. Leaders set the tone. How you dress, when you come and go, how you interact with individuals "down" the organization chart, where you spend your time, how often you travel. Be market centric. Hit the road. Get in early and work late. Be curious. Know your competition. Try new things. Treat everyone with caring and respect – you are no better, you just have a different job.

Great quote I heard attributed to a friend's father: "better to pull the reigns than crack the whip." Encourage employees to take the initiative.

Get your expenses presented by "function" and not just natural account. You need it both ways. Need to see how much is going to compensation, rent, travel (the natural account view) but also how much is going to sales & marketing activities, research & development and g & a.

Remember I am happy to add anyone to the musings list. Just send me his or her email.

jml