J. Michael Locke
Musings

#122: Musing
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John Maynard Keynes must be smiling. The large deficit spending by the federal government through the pandemic has left most households in good shape and kept many businesses from failing. Now as we all get vaccinated, the economy is starting to gain real momentum with retail sales up 9.8% in March, fewer people filing for unemployment and strong earnings from banks who are reversing the accrued loan loss reserves they had taken at the beginning of pandemic assuming a lot of businesses would default on their loans. Now if we could only live up to the other side of Keynesian principles and run a surplus as the economy does well. The seemingly limitless demand for U.S. debt (especially by foreign buyers who hold 1/3 of it) is keeping rates down so the interest cost is not ballooning like the debt. Cross your fingers that China's announced digital currency (or Bitcoin) don't start to challenge the U.S. dollar as the world's reserve currency as that would reduce the need to hold U.S. dollar denominated debt and rates would rise.

About 39% of the U.S. population has received at least one vaccination and 24% is fully vaccinated, according to the CDC. I heard a commentator say "vaccine policy is economic policy." The countries which lead in vaccinations will have better economies. We are going to have a K-shaped global economic rebound with wealthier countries heavily-vaccinated way outperform developing countries with less vaccine. Watch this with your equity allocations between U.S. stocks vs emerging or developing international stocks.

Let's hope the J&J pause is short-lived. Only something like 6 cases out of over 7mm shots. At the end of this musing, I have reprinted a communication on the topic from a doctor I really respect. I did not realize that J&J is also using a newer approach – not messenger RNA (mRNA) like Moderna and Covid but "viral vectoring." From the CDC website: *Viral vector vaccines use a modified version of a different virus (the vector) to deliver important instructions to our cells.*

1. *First, the vector (not the virus that causes COVID-19, but a different, harmless virus) will enter a cell in our body and then use the cell's machinery to produce a harmless piece of the virus that causes COVID-19. This piece is known as a spike protein and it is only found on the surface of the virus that causes COVID-19.*
2. *Next, the cell displays the spike protein on its surface, and our immune system recognizes it doesn't belong there. This triggers our immune system to begin producing antibodies and activating other immune cells to fight off what it thinks is an infection.*
3. *At the end of the process, our bodies have learned how to protect us against future infection with the virus that causes COVID-19. The benefit is that we get this protection from a vaccine, without ever having to risk the serious consequences of getting sick with COVID-19. Any temporary discomfort experienced after getting the vaccine is a natural part of the process and an indication that the vaccine is working.*

Amazing how science is advancing. Great quote from Walter Isaacson when discussing the coming decades: "the molecule is the next microchip."

Are we going to lose the art of conversation with "strangers"? I recently stood in line at a Chipotle and was struck by two things. First, every person in line was looking at their cell phone with no communication between them (every elevator ride has the same dynamic.) Second, the line moved slowly as the majority of workers were focused on the preparation and delivery of orders to the relentless stream of take-out delivery drivers. McDonald's already got 70% of its business from drive-thru before the pandemic. Are we headed to a world of no polite exchange of niceties among strangers and where everybody goes through drive-thru or has their food delivered to their house by Doordash so we operate just amongst their known groups (reinforced by social media algorithms?) By comparison, I recently spent some time with my mother on the beach in Florida who engaged anyone that walked by and was interested in conversation. Fascinating some things she learned from those interactions. Fight the trend to "isolation" and "echo chambers" and embrace your Judy Locke talking to whoever stands next to you in line next time.

Coinbase – kind of like an exchange for cryptocurrencies – went public and is valued at over $80 billion dollars -- almost as much as Goldman Sachs. I would encourage investors to think carefully about the "tech disruptor stocks" and follow the advice of famed venture capitalist Bill Gurley. Many of these stocks lose money right now (Coinbase actually makes money) and trade based on a multiple of their revenue. Way back in 2011, Gurley wrote a great piece and recommended looking at the following items when evaluating a business trading on a multiple of revenue (full article here: all-revenue-is-not-created-equal-the-keys-to-the-10x-revenue-club/)

1. Sustainable Competitive Advantage (Warren Buffet's Moat)
2. The Presence of Network Effects
3. Visibility/Predictability Are Highly Valued
4. Customer Lock-in / High Switching Costs
5. Gross Margin Levels
6. Marginal Profitability Calculation
7. Customer Concentration
8. Major Partner Dependencies
9. Organic Demand vs. Heavy Marketing Spend
10. Growth

On this last item, he expounded: "*While growth is quite important, and even though we are in a market where growth is in particularly high demand, growth all by itself can be misleading. Here is the problem. Growth that can never translate into long-term positive cash flow will have a negative impact on a DCF model, not a positive one. This is known as "profitless prosperity."*

If you are like me and still struggling to understand NFT, you can always turn to that beacon of technology education --- SNL: SNL on NFT youtube

Jml

Dr. Will Harper on the J&J Vaccine:

Johnson & Johnson Vaccine on Pause

As many of you have heard the CDC and FDA have recommended a temporary pause in the administration of the Johnson & Johnson vaccine because of concern about blood clots. For those of you who have received the vaccine from us or elsewhere I want to reassure you that we still have confidence in the vaccine.

What's the concern? Similar to what has been identified with the Astra-Zeneca vaccine, a very small percentage of people have developed blood clots in the veins in the brain around the time that they received the vaccine. It's called cerebral venous sinus thrombosis (CVST) and can lead to severe headaches and other neurologic symptoms. It is treatable.

We do not yet know if the vaccine caused these cases of CVST.

It's not clear whether the vaccine caused the problem or whether the issue would have happened whether the vaccine was given or not. Keep in mind, "correlation does not prove causation." Just because two events happen at the same time doesn't mean one caused the other. Here's an example: The Major League Baseball team that I follow, the San Francisco Giants, were in the World Series in 2002. In Game 6 they were winning in the seventh inning. If they had won that game they would have won the World Series for the first time in my lifetime. A friend and his wife were over for dinner and as the seventh inning progressed, Sarah turned to me and said, "Will, you must be really excited!" Ugh. The Giants went on to lose that game and the Series. Now one – except me at the time – could say that Sarah was the cause of the loss because her early congratulations jinxed the Giants. But, really, correlation doesn't prove causation. She's not the reason they lost. (It was the damn Rally Monkeys.)

So, now the CDC and FDA have to determine whether this is just a random event or something we need to be concerned about. Did the vaccine cause the CVST? If so, do we pull the vaccine? Or do we limit the age and gender for those eligible for the vaccine? Or do we screen folks medically prior to the J&J vaccine? There may be a booster down the road, so these questions are important even if you're beyond the risk period for the vaccine.

Who did this happen to? The six cases of CVST have been in women between the ages of 18 and 48. Notably they have also had low platelets, a natural substance in our blood that supports the clotting of our blood when we bleed. It is EXTREMELY RARE to have low platelets in the first place, let alone not know about it.

When did this happen? These events happened within 6 to 13 days of vaccine administration. For those of you who received the J&J vaccine from Harper Health earlier this month, we are still in that window.

How often has this happened? In the U.S. there have been six cases of this syndrome in the 6+ million doses of J&J vaccine that have been administered. That's fewer than one case per million vaccines. The background rate of this disorder – the rate at which it happens randomly – is estimated to be somewhere between three and four per million people. So, this observed number after the vaccine is actually LESS than the background rate. However, we can't ignore the timing *of the issue related to the vaccine, which is why the CDC and FDA hit pause on J&J vaccine administration.*

Either way, this issue is EXTREMELY RARE! Frame of reference: each year there are 80 DEATHS from auto accidents per million people in the state of Illinois. Also keep in mind that COVID-19 KILLS between 1 and 2 out of 100 people. Not 1 to 2 out of a million, but 1 to 2 out of one hundred. COVID-19 is 10,000 times worse. You did the right thing if you got the J&J (or Moderna or Pfizer) vaccine.