

J. Michael Locke

Musings

#178: Musing May 21, 2022

Sorry I didn't publish last week. Didn't feel I had a lot of meaningful thoughts so didn't want to pollute your inbox.

Inflation is providing a great teaching lesson on the use of appropriate metrics. The headline number often cited is the Consumer Price Index or CPI. Last month, it was up 8.3% which was a slower rate of growth than the 8.5% posted the month before. Some have pointed at this as showing that inflation is losing momentum (like a second derivative where the rate of change (derivative) is slowing). However, many watch the "core CPI" which excludes food and energy which can be quite volatile (ex. Ukraine situation). Core CPI growth is not decelerating. Core CPI was up 6.2% in April which was faster than March. We are in a bad place with real wages declining (wages adjusted for inflation) and the Fed entering a long cycle of raising rates. I wish we had more accountability at the Fed. They blew it over a year ago when they said inflation was "transitory" and left rates low and now we are in for a bumpy ride. All asset classes falling. I am a buyer at this point --- ease into it with a dollar cost averaging mentality where you buy a little every day so not trying to time the exact bottom but more the inflection point.

Put me in the Elon Musk camp on the government's contribution to inflation. Musk tweet: *"I mean, the obvious reason for inflation is that the government printed a zillion amount of more money than it had, obviously. So it's like the government can't just, you know, issue checks far in excess of revenue without there being inflation, you know, velocity of money held constant. If the federal government writes checks, they never bounce. So that is effectively creation of more dollars. And if there are more dollars created, then the increase in the goods and services across the economy, then you have inflation, again, velocity of money held constant."*

The discussion on rate of growth and whether it is accelerating or decelerating is exactly how growth company results should be discussed. If you are building a business and in a growth company, every quarter should be a record. To say we had record sales this quarter is meaningless (as are most comparisons to budget). The question is what is happening with the rate of growth. You see this in the conversation around digital advertisers. They are still posting double digit growth rates but those rates have been significantly decelerating over the last 2-3 quarters. This deceleration around paid digital ad models is in part driven by the movement of consumers to referral-based purchasing where they seek to get input from other buyers. This is driving the growth of influencer marketing as company ads are increasingly ineffective. Focus on social vs paid ads. Watch the move to "micro influencers." I recently heard a story describing someone as a "food delivery driver influencer." Another company

discussed how the use of a “farm radio broadcaster” helped drive sales of chicken coops. Every market has individuals who have influence, and the key is discovering who they are.

So much for Bitcoin as an inflation hedge. One of the bull arguments on Bitcoin is that it would hold its value in the face of inflation. Over the last six months, Bitcoin has basically lost half of its value going from \$60k to \$30k. Cryptocurrencies also got a jolt last week when the head of SEC pointed out that places like Coinbase are not regulated like a bank and your assets might not be segregated and protected in bankruptcy. If Coinbase went down, you might just be an unsecured creditor in bankruptcy and your “deposits” are not necessarily protected by bankruptcy law. [coinbase-says-users-crypto-assets-lack-bankruptcy-protections](#)

Keep your investments focused in US. China slowing due to Covid lockdowns. According to Fortune, not a single car was sold in Shanghai last month. One of the less covered stories is how the US dollar is currently strengthening as people seek safety in US economy. One dollar is worth .95 euro, up from .8 euro a year ago. Book your European vacation now.

Remember that advertised tuition prices at private colleges are very different from actual prices. Report out this week that the average tuition discount for freshman for this Fall reached a record high of 54.5%. Enrollments in higher education are declining and so economics 101, price must come down to rebalance supply and demand. In higher education, this is done in this funky way through discount rates where the advertised price stays high but then the schools grant “institutional aid” (parents often reference schools giving students money) and knock the price down. So instead of paying \$50,000 in tuition, the average freshman at private schools next year will pay \$22,750. [tuition-discounts-hit-all-time-high](#)

I like the movement in some states to eliminate the “Certificate of Need” requirement before a new hospital or ambulatory care center is built. The logic behind these CON laws is that it prevents excess capacity as a new entrant has to prove there is unmet need. Unfortunately, this prevents competition and protects incumbents. I believe markets work and everyone should have competition.

One thing we learned from the pandemic was how Americans culturally do not like being limited, controlled and told what to do. Businesses should think about this quality as they design things. The availability of robust data sets now allows for a good prediction of consumption so you can do things like an “all you can eat buffet” because it is pretty predictable exactly what folks will consume on average. The latest is the “unlimited vacation days.” Studies are showing that people do not materially increase the number of vacation days compared to the three- or four-week model. There is value in telling someone “unlimited” because they then feel they have control and you can still manage your expenses because how individuals consume the unlimited is pretty predictable.

Interesting stat: more than 50% of infant formula purchased in the US is under a federal government program for the poor called Women, Infant and Children or WIC.

Another interesting stat: TikTok has [1.6 billion](#) monthly active users — more than Twitter, Snapchat, and LinkedIn combined (source: Scott Galloway).

The “equal pay” issue in US soccer is more complicated than presented. The women do everything the men do and have had more success. However, the payments from places like the World Cup are very different. According to Sporting News, the winning women’s team in the last World Cup got \$4 mm while the men’s got \$38 mm. I assume these differences are based on media rights, sponsorships and how men’s generates more revenue from consumers than women’s. So Is “equal” based on effort or is it relative to revenue generated? US men agreed to put their prize money into pot with women’s and everyone gets same pay. Will be interesting to see if other countries or sports follow the model as argued in this piece [us-soccer-agreement-equal-pay-bass](#). For instance, if you look at the pro basketball, *“There are only 14 [female] players making \$200,000 or more....By comparison, 17 NBA players earn at least \$35 million per season”* according to Sporting News. One difference is US soccer is a quasi-public entity vs a private business.

What’s with the obsession with the Johnny Depp – Amber Heard trial and their totally dysfunctional relationship? I don’t get it.

jml