

J. Michael Locke

Musings

#215: Musing March 11, 2023

The strength of FOMO (fear of missing out) was on display this week as Silicon Valley Bank collapsed Friday in a good, old-fashioned bank run happening in warp speed. Customers lost confidence that their deposits were safe and as withdrawals accelerated, SVB had to sell assets at big losses to meet the withdrawal requests (\$41bn worth) and a dangerous spiral developed. This is the second largest bank failure in history. Based on what I know, this does not reflect a broader fragility in whole financial system and people should not be overly spooked. SVB was heavily focused on banking tech startups. The challenge is that this meant holding the money they had raised from VCs and not necessarily lending them money so the SVB balance sheet was deposits from tech companies and then it bought a lot of long-term US treasuries. Where it went over the cliff is that rising rates have killed both sides of this and the duration of the assets and liabilities were mismatched. Tech companies are not raising money because their hypothetical future cash flows are now discounted back to present day at higher rates and their values have plummeted. They were withdrawing money to fund the operating losses and new funding has been scarce so no new cash coming in. On the bank's asset side, the value of SVB's big positions in US treasuries have gone down as yields have gone up. This has hurt other banks as well but according to the FT: *"Few other banks have as much of their assets locked up in fixed-rate securities [US treasuries] as SVB, rather than in floating-rate loans [usually to client businesses]. Securities are 56% of SVB's assets. At Fifth Third, the figure is 25%; at Bank of America, it is 28%."* SVB had to sell bonds at big losses to give the tech companies their money. So the SVB collapse is more of a derivative of VC-backed early stage tech and not the commercial banking business. It also shows poor management of risk. I am really glad it happened on a Friday so everyone didn't panic and we can sort through it and process the implications before market trades again Monday. I bet a savvy bargain hunter steps up over the weekend. The stock was at \$250 just a couple days ago (implying company worth over \$15bn) and now effectively zero.

While SVB management is the real culprit, the Fed deserves some blame. From WSJ editors: *"This week's bank failures are another painful lesson in the costs of a credit mania fed by bad monetary policy. The reckoning always arrives when the Fed has to correct its mistakes."*

The Fed is forecasting more rate increases as the economy continues to be healthy. I think the economists don't know what to do as the structural shortage of labor is preventing softness from developing in the labor market. Even as the Fed raises rates, people are still finding jobs and unemployment is under 4%. The Fed should stop obsessing on the labor market numbers. Unemployment is not going to materially move up as there are not enough workers. Fortunately, more women are coming back into the workforce and women are back to representing 50% of all employment in the US. An increase in the labor force participation rate will take some of the pressure of rising salaries and their potential impact on inflation.

Great line in WSJ: *"Good news here is the underlying demand generated by the pandemic's retreat might*

in effect foam the runway, lessening the chance the Fed will take the economy in for a hard landing.”

Hard to limit government spending when 40% of government expenses are Medicare and Social Security and we have an increasingly old population due to birthing patterns. It made for good theater in the State of the Union but we must address these two entitlements. For example, the age to start receiving the benefits should be pushed back. It was set at 65 when life expectancy was much shorter. We don't have enough younger workers putting money into the system to support everyone hitting 65 with many living into their 90s. Rising rates also means more of the government budget will go to servicing the debt and no discretion in that line item.

I often write about the move to referral-based purchasing where consumers don't pay attention to ads but rather check out Google reviews, Yelp etc. when evaluating a provider. One problem is the “grade inflation” in customer reviews. The average rating on AirBNB that renters give their hosts is 4.74 (on a scale of 5!) Hosts have to maintain a 4.8 or better to be a “Superhost.” So basically, if you give a host a 4, you are hurting them. My personal Uber rating is 4.75. Didn't realize I should be embarrassed by that.

Good quote from Scott Galloway on the advertising models of social media companies and their negative effects: *“Old media is populated with beautiful people, usually in sleeveless dresses, as sex sells. It turns out, rage and tribalism sell better.”*

Our world is moving to competency-based hiring but we can't forget we are hiring people and not just compilations of competencies. The underlying DNA of a person is important. I often write about the need to find people who are intellectually curious and good listeners. An individual from Google wrote a good post on how they focused on finding people who are self-aware. *“Sure, your experience and skills matter, but they can be learned. And when someone is highly self-aware, they're more motivated to learn because they're honest about what they need to work on. They also relate better to their colleagues and managers....I always watch for two words: Too much “I” is a red flag that they may not be humble or collaborative; too much “we” may obscure what role they played in the situation. There needs to be a balance.”* [former-google-vp-shares-no-1-skill-she-looked-for-at-job-interviews-that-people-rarely-had](#)

Get rid of the “blurred” or “graphic” Zoom background. Give your colleagues a view into your apartment, home and life. I am not saying a messy bed but how about a picture of your kids or something regarding a hobby. People will ask and it will give you an opportunity to connect on a more personal life in this remote, disconnected world.

Can everyone take a chill pill on switching to Daylight Savings Time. One hour does not matter that much. Congress is seriously considering the “Sunshine Protection Act” to eliminate the practice. C'mon man. Move to Arizona or Hawaii which don't change if you really care that much.

I hate complainers. In my experience, real winners seek accountability and never position themselves as a “victim” of others' subpar performance. The Philadelphia Eagles were great about this after the bad call in the Super Bowl. They didn't blame the refs but rather noted how they should never have been in a position for that one call to matter. The mayor in Chicago is terrible about this. Everything is always someone else's fault. She also had a high “a**hole” factor. I think part of leading is having some level of “likeability” or “relatability.” Nobody follows a jerk, especially if they simply are not very good.

Talked to a talented entrepreneur who is leveraging ChatGPT to write web content. Apparently, the Google search algorithm is trying to flag AI generated content and reducing its ranking. Enter “AI laundering.” Put your ChatGPT content into Quillbot and it will modify it enough so Google’s algorithm doesn’t consider it AI.

Make sure and thank your service providers (lawyers, bankers, healthcare brokers). It is easy to take the view they are just doing the job you are paying them for but acknowledging their good work will build loyalty and allow you to lean on them for something extraordinary if you ever need it.

Skip the Oscars. Watch the Murdaugh Netflix show.

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