

## J. Michael Locke

### Musings

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#### #217: Musing March 25, 2023

Great quote in the wake of SVB. *“Capitalism without failure is like religion without hell,”* Berkshire Hathaway Inc. Vice Chairman Charlie Munger has said (WSJ) but he also added *“I’d prefer to live in a world where nobody did anything undisciplined or stupid and so forth, but we don’t live in that kind of a world. And therefore the decisions have to be made for the way the world is, not the way we’d like it to be.”*

Our financial system is sound and our financial institutions are appropriately capitalized. All of the current “noise” is mostly about psychology and confidence rather than fundamentals.

A new bewildering aspect of the SVB collapse has come to light. When the bank was getting crushed with withdrawals and it needed backing from the Fed, it couldn’t get it because the Fed doesn’t move money after 4pm est. So the VC crowd is pulling its money out via iPhone in California and the systems in DC are done for the day (according to Bloomberg’s Matt Levine).

The SVB collapse and resulting financial system fragility has finalized the ending of Fed rate increases (some argue it is worth 100bps or 1% worth of higher rates) and I think it is time to start buying some equities (stock). Credit going to be tighter and economic growth slowing (housing prices down year over year). Some good companies selling at pretty low valuations. Talked to a VC who indicated a mezzanine round priced to yield over 20% so what does that imply on equity returns priced into today’s valuations – 25%-30%? I bet we see Warren Buffett doing some big bargain hunting next time he reports.

A senior Starbucks executive once said “every company is now a technology company” as she referenced the importance of their mobile app, online payments and drink processing systems. You could also say “every worker is now a technology worker.” Everyone is operating in productive applications (like Microsoft office), using collaborate technologies like Microsoft Teams, Slack or Zoom and increasing having to work in excel processing data and even building models and pivot tables to help make decisions. [technology-skills-employees-should-have](#). Universities should be modernizing their General Education requirements to include technology. I don’t think anyone should get a bachelor’s degree in today’s world (certainly not in business) without some understanding of an application, database and machine learning.

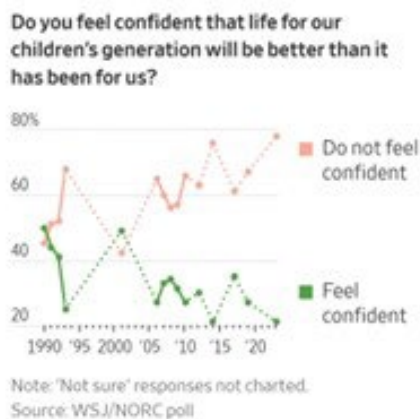
You had to admire the patience of TikTok CEO Shou Chew as he was berated by members of Congress in a hearing this week. I don’t know what I think should be done or not about TikTok. The Chinese government having all of that data on the 150mm US users is concerning but TikTok has taken steps to protect the data. From Chew’s testimony: *“We (TikTok) have formed a special-purpose subsidiary, TikTok U.S. Data Security Inc. (USDS), that currently has nearly 1,500 full-time employees. We expect that number to grow significantly over the coming year. USDS includes the functions that oversee protected U.S. user data and the underlying TikTok U.S. platform. To ensure that the data of all Americans is stored in America and hosted by an American headquartered company, we have contracted with Oracle, an*

*industry leader in cloud-based services, to store TikTok's U.S. user data. Currently, 100 percent of U.S. user traffic is being routed to Oracle and USDS-controlled infrastructure in the United States. USDS is running our recommendation system for U.S. users, which determines what appears in the For You feed, in the Oracle Cloud Infrastructure. Moreover, Oracle has already begun inspecting TikTok's source code and will have unprecedented access to the related algorithms and data models. No other social media company, or entertainment platform like TikTok, provides this level of access and transparency. As of January 18, 2023, TikTok's access to systems containing new protected data are exclusively controlled by USDS."*

Generally, I found the work of "sell-side" equity research analysts lacking in rigor. These individuals work for the investment banks and help "promote" the bank's clients by providing insights on stocks. I am always amazed at the acceptance of the company management's "story" and reluctance to engage in hard questioning. The "buy-side" (hedge funds, mutual fund managers etc.) are more rigorous IMO as they are risking capital buying something and really dig in.

The English pound is undervalued by over 10% against the dollar. At least that is according to the Big Mac index created by the Economist. *"THE BIG MAC index was invented by The Economist in 1986 as a lighthearted guide to whether currencies are at their "correct" level. It is based on the theory of purchasing-power parity (PPP), the notion that in the long run exchange rates should move towards the rate that would equalise the prices of an identical basket of goods and services (in this case, a burger) in any two countries.....Burgernomics was never intended as a precise gauge of currency misalignment, merely a tool to make exchange-rate theory more digestible. Yet the Big Mac index has become a global standard, included in several economic textbooks and the subject of dozens of academic studies. For those who take their fast food more seriously, we also calculate a gourmet version of the index."* [big-mac-index](#)

Parents are increasingly pessimistic that their children are going to have better lives. Another reflection of the negative mood of our country.



Maybe we all need a puppy. I am a big fan of dog ownership (and pets in general). To me, it is part of raising kids and building a home where they learn responsibility and the inability to have total control of things. According to the AVMA, 45% of U.S. households own a dog (cats – 26%). I was quite surprised by the most popular dog according to CNBC --- the French Bulldog! Here is the Top 10:

1. French Bulldogs
2. Labrador Retrievers
3. Golden Retrievers
4. German Shepherd Dogs
5. Poodles
6. Bulldogs
7. Rottweilers
8. Beagles
9. Dachshunds
10. German Shorthaired Pointers

French bulldogs? Show how off center I am on this one. Some believe this represents shifting societal norms post-Covid. *“The French bulldog’s popularity is not just a reflection of a desire to imitate the habits and predilections of the rich and famous, however. My personal theory is that it reflects the changing nature of what many Americans are looking for in a family pet. In the post-Covid era, these more inward-looking times call for a pup that is less demanding, a pet whose company you can enjoy within the quiet and solace of your four walls.”* [french-bulldog-most-popular-over-labrador-retriever-khan](#)

Selena Gomez has over 400mm followers on Instagram. Crazy. More than the entire US population.

The City of Chicago issues a camera-based traffic ticket every 12 seconds. Accidents are actually up since they got put in. Speed cameras are just a revenue grab.

The Japanese love their baseball. From Google: *“Japan’s World Baseball Classic win over Korea drew 62 million viewers in Japan alone — more than the most-watched World Series game ever. Nearly half of all Japanese households were tuned in.”* (thanks Rich “the champ” Schumacher).

If you are headed to Florida for spring break – keep an eye out for Seaweed. Apparently, there is a gigantic blob of seaweed (bigger than the whole US) coming our way. [sargassum-seaweed-blob-explained-florida](#). I have not read anything about it being connected to global warming but I think the rising temperature of the ocean’s is wreaking havoc on the marine ecosystem.

jml