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Musings

#221: Musing April 29, 2023

I can't figure out where the economy is going right now. Slower growth in Q1 with GDP up 1.1% but consumer spending still strong and unemployment claims mild. So much for my writing a month ago that recession was here and consumer was running out of savings to spend. Employment costs up 4.8% from last year and core inflation up 4.6%, so inflation is stubbornly high. Fed likely to keep pushing interest rates up.

Economy might be "too hot" right now but there are long term challenges. GDP (gross domestic product) is heavily driven by the number of people working and their productivity. While technology and other factors can help boost productivity, in the long run you have to have population growth. Immigration is one way to increase your population but the easiest is more kids. Unfortunately in the US, people are simply not having enough kids. Here is a quick table showing some other countries and fertility rates per woman.

Rank	Country	2022 Fertility Rate
1	Nigeria	6.6
25	Congo	4.2
53	Egypt	3.2
	<i>World</i>	2.4
96	India	2.1
103	Mexico	2.0
126	France	1.8
133	US	1.8
147	China	1.7
165	Germany	1.6
<i>Data Source: UN on Wikipedia</i>		

We need young men to stop playing video games and get out and date, and we need to improve childcare availability so women don't feel tension between working and being a mom. India is about to overtake China as world's largest country (China blew it with the one child rule). I don't know much about India but was stunned to learn its labor force participation rate is only 40%. Hard to have a decent standard of life when most people don't work. If they get more businesses going and more of those people working, could become a huge economic force.

I am a big believer in passive equity investing. That is, rather than picking individual stocks or putting

money into a stock mutual fund where a manager picks some stocks (“active management”), invest in an exchange-traded fund or ETF which is designed to mimic the overall market like the S&P. Simply put, stock mutual funds underperform the market on average and across long periods of time. Certainly there are some managers who beat the market but the overall category does not, so most people are paying fees to a manager to underperform. Doesn’t make any sense. *“Consider a new study that looked at the returns of more than 7,800 U.S. stock mutual funds from 1991 through 2020. It measured their returns against those of a market-matching S&P 500 exchange-traded fund and the total U.S. stock market. The comparisons covered monthly, annual and 10-year periods, as well as each fund’s longest track record, within those three decades. On average, only 46% of funds outperformed the total market over monthly horizons; 39% beat the market over 12-month periods; 34% over decadelong horizons; and a mere 24% for their full history.”* [active-vs-passive-index-fund-beat-the-stock-market](#). Some recent research also highlights that some of this underperformance is structural. Between having to charge fees, needing to meet redemption requests in down markets and only owning a limited number of stocks, the funds are almost set up not to outperform.

If you can accept the lack of liquidity, the private market may represent a better opportunity than public stock ETFs. From CNBC: *“The structure of corporate America has changed over the last 20 years. In short, companies are staying private for longer. The typical time to an initial public offering (IPO) during 1999-2005 was three years from formation, during which 40% of the value creation occurred. Since 2016, time to IPO is now 10 years from formation, during which 80% of the value creation occurs.”*

The State of Texas is working on launching a digital currency backed by gold (thanks Mike Schodrof). Part of the Cryptocurrency “craze” is the desire by many to escape centralized federal government control of money. The challenge is the lack of any “inherent” value in things like Bitcoin. Enter Texas with a digital currency (not subject to the Federal Reserve) with inherent value (backed by gold and exchangeable for gold). [Texas-May-Launch-Its-Own-Gold-backed-Digital-Currency](#). I am not saying this is a good thing, but fascinating. The Federal Reserve does need more accountability and limitations. Right now, it is an economists toga party doing whatever they want.

CEO compensation is out of control. IMO Google had some major missteps last year such as getting outmaneuvered on AI by OpenAI with ChatGPT. Advertising revenue is declining and their cash juggernaut is at risk. In short, no great moves and yet the CEO made \$226 million last year! (mostly in stock awards). [alphabet-ceo-sundar-pichais-compensation-topped-200-million-in-2022](#). The CEO compensation market is like a racketeering enterprise where consultants get big fees to create comparables and everyone makes more money as levels move up. Sometimes I think the CEO is clearly exceptional (Tim Cook, Satya Nadella, Reid Hastings) but others are just “doing” the job and I don’t see anything exceptional. I bet there are lieutenants at Google who could do just as good a job for \$5-10mm rather than \$220mm.

Great quote from an Insta video shared with me by John Carolan: *“Tough times create strong men. Strong men create easy times. Easy times create weak men. Weak men create tough times. Many will not understand but you have to raise warriors.”*

A good metric to watch to evaluate managerial performance is employee turnover. People want to work for someone who supports them, cares about them, challenges them, teaches them, and helps them grow. Under Cook County Prosecutor Kim Foxx, nearly one-third of prosecutors and staff quit in a 12-month period between 2021 and 2022 (NBC). Glad she is not running again.

Some amazing stats from Jeff Selingo. I think most people realize the College Board sells names of SAT taker to colleges for marketing but the number is amazing – *“As of 2019, a student’s name was sold to colleges, on average, 18 times over her high school career, and some names have been purchased more than 70 times—all at a cost now of 53 cents.”*

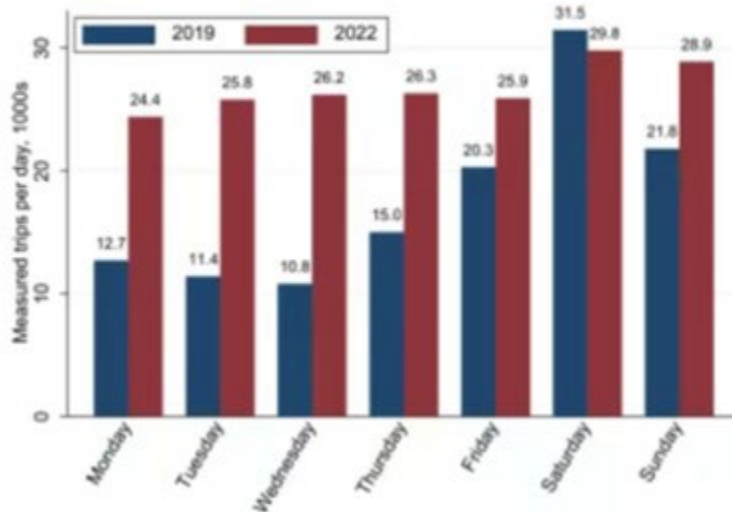
Deflation continues in America’s private colleges. According to a new NACUBO study, private college tuition discount rates hit a record 56.3 percent. Schools are having to “buy” students with big discounts which they package as “institutional scholarships.” Don’t be fooled by the published tuition rate as on average you get half off. I like the model where the school is open about these numbers. At Miami University in Ohio, they publish a chart showing what discount/scholarship you will get so you have a better sense of the real price.

Hope people didn’t follow my recent comment on shorting McDonalds due to food quality. They just reported same store sales up 12% which is amazing.

Crazy story out of Russian. Struggling to get soldiers to fight in Ukraine, they are increasingly turning to “Wagner soldiers” who are recruited from prison by a private company named Wagner. *“Upon completing their time in Ukraine, the prisoners earn a full pardon and return to their previous lives, such as in the case of Alexander Tyutin, a 66-year-old real estate agent who had hired hitmen to kill his business partner and his family as well as his own niece.”* [mercenary-warlords-troops-terrorize-russia-ukraine-service](#)

Before the pandemic, I would have said that the country club/golf business was a bad one. Turns out Covid was great to both. Initiations fees are up, wait lists are longer and golf rounds are at a record pace. The move to remote/hybrid work and employees having more flexibility is part of it. From the FT: *“Last month researchers at Stanford University and data analytics firm INRIX published a study documenting the extraordinary boom in midweek golfing in the US. Using anonymized mobile phone and GPS data, the authors conclude: 1) Working from Home (WFH) has powered a huge boom in golfing 2) Golfers are playing more golf on weekdays, for example 143% more on Wednesday in 2022 vs 2019 3) Golfers are playing more mid-afternoon, for example 278% more on Wednesday 4pm in 2022 vs 2019.”* Here is a graph showing the data by day:

The golf increase has been powered by mid-week golfing, which rose by an incredible 83% vs 2019



Note: Data for August 2019 and August 2022 for a sample of trips. Those included are trips in the INRIX database, which includes trips in vehicles with GPS and phones with location tracking turned-on. The trip needs to be to one of the 3,400 satellite identified golf courses and to have lasted more than two hours. We estimate we sample about 5% of total golf trips.

For those planning international travel, watch this one which I never knew about (a friend learned the hard way.) Most countries will not permit a traveler to enter their country if the passport is set to expire within six months after the final day of travel. It takes roughly 12 weeks / 3 months to get a passport renewed so basically renew now if you want to travel abroad over the holidays.

RIP the broadcast news business. It has become the opinion/commentator business (such as Tucker Carlson and Don Lemon) and young people don't care about it. According to BusinessWeek, "39% of 18- to 24-year-olds considered social media their main source of news last year."

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