

J. Michael Locke

Musings

#222: Musing May 6, 2023

Hopefully the Fed is done. This relentless march up in rates is freezing the deal world and making investment decisions very difficult. They have created the banking crisis by leaving rates too low for too long forcing the rapid escalation. Part of the Fed's current conundrum is that it is not clear that raising interest rates will dampen the demand for labor because of the structural labor shortage. Another strong jobs report this week (although decelerating growth especially with downward revisions of previous months). We simply don't have enough workers so wage rates still increasing over 4%. From Bloomberg: *"Some economists pin the sticky cause on a worker shortage that pushes up wages, which in turn feeds the inflation cycle."*

I wrote last week how active stock fund managers generally underperform the market as they can only have a limited amount of stocks. Market performance is generally driven by a handful of stocks so if you don't have them in your small group, you will miss out (so you want a larger spread of holdings). The indices can also be dominated by a handful of names. For instance, AMD, Google parent Alphabet, Amazon, Apple, Meta, Microsoft, Netflix, Nvidia and Tesla combine to make up about a quarter of the S&P 500's market cap. Just choose your allocation, go passive and be patient. Avoid panic selling. From UBS: *"Unless you're a droid, it's likely that you suffer from a behavioral bias known as 'loss aversion,' which means that you will tend to feel the pain of losses about twice about as powerfully as you feel the pleasure from gains."*

One positive from technology and social media is the "outing" of bad bosses. Platforms like Glassdoor, 360-degree feedback, and more sophisticated HR practices are making it impossible for a mean "devil wears Prada" boss to succeed. That said, you can't be too nice. Too many organizations end up customizing solutions, having underperforming people on staff and taking on too many activities because they are too nice. You have to say no and manage conflict (not avoid it) to be successful.

A lot of people don't like Musk's management style but I like what he is doing at Tesla. He moved early and got to profitability. Now he is cutting prices as others try to build up their electric car capacity. This will make it harder for competition as they will have to match the lower prices and burn more capital. It also keeps the volumes up of new Teslas hitting the road which will create a big installed base for services. Eventually it can create a car-sharing, Uber like service where people opt-in to have their Tesla used for autonomous ride sharing when they are not using it. Apple has successfully pursued a similar strategy where the profits are becoming more about apps and other things delivered via the iPhone installed base rather than the phones themselves.

I am not a "Musk Groupie" but let's wait and see how the Twitter situation plays out. The reach of the platform is unbelievable. 250 million people use Twitter for an average of 30 minutes a day so 125 million user hours. I am going to start using it more. You can follow me @jmichaellocke if interested.

The best “value added” investors in consumer businesses are starting to be movie stars and athletes. Look at Ryan Reynolds. He uses his platform as a megaphone to market brands. Instead of just getting some cash for it, he smartly is taking ownership positions. He helped build Mint Mobile which sold for \$1.35 billion (he owned around 25%) and now look at what he is doing with the Wrexham soccer club. From LinkedIn: *“The world has been captivated by the story of Wrexham AFC. A Cinderella sports story that focused on the heart of the matter: the people. Ryan Reynolds and Rob McElhenney paid \$2.5 million for the world's third-oldest football club. Promotion to the #PremierLeague seems like a far (somewhat impossible) reach, but the investment has been a brilliant business move and story. Ryan and Rob shot and sold a docu-series to track their purchase, investment in the club, and the team's journey back to prominence. (Welcome to Wrexham) As Wrexham was owned by the fans, the series highlighted the people who support the club, the town who is affected by them, and the players, coaches and staff who work there. The show received a 97% audience score and was immediately green-lit for a second season. [It had] roughly \$3.2 million in revenue. The team now has sponsorship deals (kit) from TikTok, #Expedia, #Vistaprint and Aviation American Gin, nearly tripled season ticket sales since 2019 and sold media rights”*

Could ChatGPT be better than a physician in answering patient questions? Medical schools don't spend much time developing future doctors' bedside manner so maybe it was a low bar but a new study said patients preferred ChatGPT (thanks Lyle Berkowitz). *“In fact, after comparing doctor and AI responses to nearly 200 medical questions, a team of health care professionals concluded that nearly 80% of the answers from ChatGPT were more nuanced, accurate and detailed than those shared by physicians. ChatGPT was no slouch on bedside manner, either. While less than 5% of doctor responses were judged to be “empathetic” or “very empathetic,” that figure shot up to 45% for answers provided by AI. “For the first time, we compared AI and physicians' responses to the same patient messages, and AI won in a landslide,” said study leader [John Ayers](#), vice chief of innovation with the division of infectious disease and global public health at the Qualcomm Institute at University of California, San Diego.”*
[patients-rated-chatgpt-better-than-real-doctors-for-empathy-advice](#)

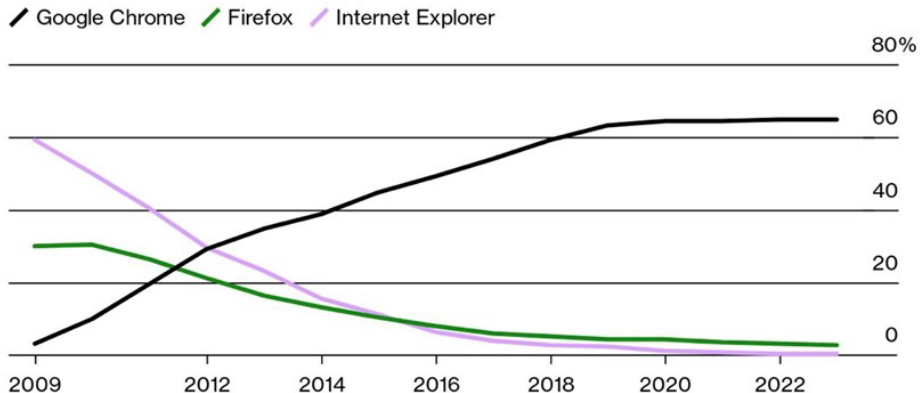
First real disruption by ChatGPT in my world as Chegg reported soft results and stock dropped 50%. Chegg sells web-based study tools to college students. Who needs that when you can just ask ChatGPT?

I think you can learn a lot about an organization simply by attending a management meeting. Does it start on time? Are people engaged? Is there clear ownership of areas/topics? Is it efficient? Lots of PowerPoint or short, key reports. How you run a meeting is how you run a company.

One thing that is critical in running anything is holding people accountable. You can't have a “best efforts” culture where someone works hard but comes up short. What matters is results. It is hard to have accountability without clear ownership. One challenge with the movement toward matrix management is blurred accountability. If two people own it, no one owns it. “One throat to choke” might not be a good saying in today's workplace but you get the point. This was one of the important aspects of Apple's success under Steve Jobs. There was no confusion on who was responsible. Every task had a DRI – Directly Responsible Individual. A good basic practice is to ask at the end of every meeting for a review of the follow-up items and identify the DRI. No ambiguity on who owns it.

I didn't realize what a small community I was by using Mozilla Firefox as my browser:

Global Web Browser Market Share



Source: StatCounter
Figures as of 4/28

We desperately need a generational change in our political class. The issues around technology and data privacy require a certain understanding of the platforms. Both Republicans and Democrats have a number of members who have been in office for decades and need to pass the torch (Feinstein, Grassley, Pelosi, McConnell). From Bloomberg: *"The median incumbent Republican House member is 59, with the Democrat equivalent 61. Compare that with France's lower house, the Assemblée Nationale, where members have an average age of 49, and Germany's Bundestag, where they're a sprightly 47. American politicians are old!"*

One place where future leaders are being developed is Bennett Day School where I am proud to serve as Lead Director. Two of our high school teams just won a competition sponsored by Jeff Bezos' Blue Origin. Cool stuff. [bennett-day-high-school-students-win-national-space](#)

Don't put your medicine down the toilet! In a recent study on the Florida Gulf Coast, 94% of redfish tested positive for human pharmaceuticals (opioids, psychoactive medications etc). We have to do a better job taking care of things.

Enjoy the derby.

jml