

J. Michael Locke

Musings

#232: Musing July 23, 2023

I find the standard measurements of stock market performance suboptimal --- talking about the indices. Historically, it was all about the Dow Jones which technically is the “industrial index” and is biased towards old, mainline businesses and only has 100 companies. As technology grew, many people starting tracking the Nasdaq composite index with more than 2,500 companies (all Nasdaq listed companies) but biased towards tech (55%). I think most professionals use the S&P 500 which is diverse and picks up lots of companies. The challenge is that the S&P (along with the Nasdaq) is market-cap weighted so more valuable companies are more important to the measurement. Over the last decade, a small group of stocks have started to dominant the market-cap weighted indices. Nasdaq is even “rebalancing” its Nasdaq 100 this weekend. From Goldman Sachs: *“On July 24, the Nasdaq 100 (NDX) will undergo a “special rebalance,” which is meant to curb the high concentration in the index of a handful of tech stocks. The weight of the seven largest stocks in the index will be reduced by 12 percentage points (from 56% to 44%).”* My approach is simply to watch all three major indices: S&P, Nasdaq and Dow (and sometimes the Russell 2000 which is smaller companies).

Most CFOs need to do a better job tracking the key metrics which drive the business model of a company. Controllers can do the accounting which is really “scorekeeping” and looks backwards. The good CFOs identify the key metrics which drive revenue and expenses and ultimately free cash flow. For social media companies, one of the key operating metrics is “daily active users.” You may have lots of people signed up for a service but you want to track how many are using it regularly and thus receiving the ads presented (Instagram’s new Threads offering got over 100mm signups but only has 15mm daily active users). Ad pricing is based on daily active users etc.

I have repeatedly talked about the death of advertising as people look to ratings and referrals from other buyers rather than ads from the company. So far, I have been wrong. One reason is that Americans are too cheap and would rather watch ads than pay a subscription fee. Netflix is earning more money per subscriber from its free ad-supported services than its subscription “ad free” service.

Part of my prediction on the decline of advertising is the growing distrust of companies and institutions in general. There was a time when society believed Walter Cronkite’s news, the Catholic priests words and a business’ advertisements. Now, many (if not most) people believe the news has a partisan bent, church clergy are hypocritical and companies lie about their products. The Trump polling is amazing to me as he does not see deterioration in support besides multiple criminal indictments and ongoing investigations as many people don’t trust the prosecutors at the federal and state level. We have to get trust back in our institutions.

In our rapidly evolving economy, change is key and yet it is very hard for a lot of people. Good tips from BCG on how best to lead a team to embrace change:

Be empathetic. *Imagine yourself as an employee in a cubicle farm, home office, shop floor, hospital ward, or retail store of your organization. How strong is the case for change from this new perspective? What can you do as a leader to address concerns? What channels can you create for stronger listening?*

Encourage agency. *Lay out the facts for employees and bring them along on the change journey. Employees are more likely to change if they are invested in the process. Jeanie Duck, BCG's first change management consultant, used to say, "Insight discovered beats insight delivered."*

Train frontline leaders. *One way to close the change-distance gap is to bring your frontline leaders into the circle of change. Frontline leaders are often first-time managers who oversee operations such as call centers, bank branches, or manufacturing shifts. They are your ambassadors, who can explain the need for change to employees and convey employee concerns back to you. Frontline leaders manage up to 80% of employees at many organizations but often receive only basic management training and limited access to senior leaders. It's no wonder they struggle to be effective at translating lofty change ambitions for their people.*

Offer authentic praise. *Employees may be more willing to embrace change if they feel they are noticed. Our research has shown that the number-one request that employees have of their leaders is more appreciation and recognition. To some extent, these are not new lessons, but they're relevant today, when the ability of large organizations to change is a great differentiator and a source of enduring advantage.*

One industry that resists change is grocery stores. I don't have much exposure to the grocery store business model but this one surprised me. Generally, stores put the fresh produce, deli etc. on the outside and the packaged goods in the middle or "center aisle." From Bloomberg: *"Yet supermarkets have resisted reinventing their center aisle because they rely heavily on the money that national brands such as General Mills and J.M. Smucker pay them to promote their products, whether through in-store displays or coupons. **So-called trade funding can account for more than a half of supermarkets' operating profits [emphasis added],** according to Matthew Hamory, partner at consulting firm AlixPartners."* When you think AI, you think about huge data centers running incredibly complicated mathematical models and computer code. Underappreciated is the menial block and tackling that also goes into training the model. Great article from the Verge on folks in Africa and other places making \$10 an hour tagging content (thanks Troy Noard). *"Much of the public response to language models like OpenAI's ChatGPT has focused on all the jobs they appear poised to automate. But behind even the most impressive AI system are people — huge numbers of people labeling data to train it and clarifying data when it gets confused. Only the companies that can afford to buy this data can compete, and those that get it are highly motivated to keep it secret. The result is that, with few exceptions, little is known about the information shaping these systems' behavior, and even less is known about the people doing the shaping. For Joe's students, it was work stripped of all its normal trappings: a schedule, colleagues, knowledge of what they were working on or whom they were working for. In fact, they rarely called it work at all — just "tasking." They were taskers."* [artificial-intelligence-data-notation-labor-scale-surge-remotasks-openai-chatbots](#) I listened to a WSJ podcast that also discussed the emotional wear and tear as some individuals sat for hours and tagged child pornography images and other troubling content so the model won't present it. Sad stat: in 1960 roughly 5% of American children were born to unmarried mothers. Today that number is [40%](#).

The role of regular provider in our healthcare system has moved from an MD to a Nurse Practitioner or

Physician Assistant. In California, Nurse Practitioners are even suing to overturn a rule that says they can't use "Dr." even if they have a PhD. The physician assistant (PA) role is odd for me. My understanding is PAs go to two year Masters programs after college and then are licensed to do almost everything a doctor is (they are supposed to operate under the supervision of an MD but I recently had an appointment with a PA and never saw an MD). Meanwhile, doctors go to four years of med school and 3-4 years of residency and some do fellowships after that. What gives? We need to make the path to MD easier. Lot of smart kids can't get into medical school because of a lack of spots. Would be great to shorten the training post-school or increase the wages – it is such a long journey that many individuals who would have been good physicians are dissuaded.

Loved this dad quote on Instagram: *"my son played travel ball for 5 years and now wants to take a break. No problem. You owe me \$57,457 and 447 hours if my life back."*

jml