

## J. Michael Locke

### Musings

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#### #236: Musing August 25, 2023

Fed soft landing still looking possible. Long term bond yields have crept up based on strong economic indicators. Sometimes you get a simple look at the health of the American consumer (which is 70% of GDP). I was at an outlet mall last weekend. You could not find a parking spot. I have never seen it so crowded. It is also part of the “trade down” where lower price retailers are doing better than more expensive ones. Walmart sales strong. TJ Maxx line out the door etc. Meanwhile, Foot Locker, Dicks and Macy’s disappoint. The “restarting” of student loan payments is a meaningful headwind as over 30% of folks who were on a break paying student loans took on a new auto loan.

In contrast to the strength in US, China is in trouble. Anemic growth. Deflation. High youth unemployment. Government cutting interest rates. The government attacking the tech sector because it had too much power looks to be rivaling Putin decision to enter Ukraine on list of generationally bad decisions (behind Bears drafting Trubisky).

As interest rates rise, our government’s finances become more precarious. Interest on the federal debt now makes up over 75% of discretionary, non-defense spending. Medicare and Social Security are not discretionary nor really is defense spending. According to WSJ, this is why the federal government is described as “an insurance company with an army.”

We have a breakdown in corporate governance for public companies. Too many bad CEOs never get fired despite disastrous acquisitions and cratered stock prices. Part of the problems is who votes. With the rise of mutual funds, index funds etc., the real votes are not from those with economic interest but from the intermediary. According to Harvard Law Professor [John Coates](#), the three largest index fund providers — Blackrock, State Street and Vanguard — “now control more than 20 percent of the votes on the S&P 500.” It is like politicians negotiating with the public sector unions who elected them. No one is protecting the people who are actually putting up the money.

Executives need to make sure that accounting doesn’t get in the way of knowing your expense structure and cash flows. Two dangerous areas are capitalization and allocations. With capitalization, expenses get put on the balance sheet (ostensibly to be matched to the revenue streams they correlate to in the future). This is still cash out the door so the income statement is less representative of true cash flows. With allocations, expenses get recorded in an area differently from where they are controlled. They still run through the P&L but you can “lose control” as the owner of the P&L does not own the expenses which are allocated into it. IMO, you should try to minimize capitalization and allocation. When doing diligence on a potential acquisition, I recommend starting with the balance sheet and cash flows so you can see what is going on. Income statements can get “juiced up” since companies generally trade on a multiple of ebitda even though they should really trade on their cash generation.

A lot of companies are now realizing that leases are basically debt. They are long term fixed commitments with an outflow of cash. With the move to remote/hybrid work, companies have excess space but limited ability to reduce their lease obligations. The group that oversees accounting rules put out a new rule (FASB) on lease accounting to try and get more of these commitments onto the balance sheet as debt. You should always be careful about signing big long-term leases.

Interesting stat – 56% of women in US over 15 are in the workforce compared to only 25% of women in India (WSJ).

Surprising stat — YouTube is most watched streaming platform with 9.2% overall viewing time ahead of Netflix at 8.5% (WSJ).

Nielsen needs to figure out how to equate social media / OTT viewing with cable viewing. Tucker Carlson's interview with Donald Trump on X had 236 million total view "impressions" by Wednesday afternoon. Nielsen on Thursday said about 12.8 million watched the Republican primary debate on Fox News and Fox Business. Those aren't really apples to apples numbers. *"On X, impressions account for the total number of times a post was seen, which can include multiple views by a single user, according to X's website. TV ratings generally are the average number of viewers who tuned in to a telecast at any given time."* (wsj)

I am a big fan of SoLoMo which is a term invented by famed venture capitalist John Doerr for Social / Local / Mobile. That is where the world is going. I especially believe in mobile. Providers/suppliers must now take their products/services to the consumer rather than making the consumer come into their establishment. DoorDash brings the food to the home. Mobile dog grooming vans will take care of your pets. Hospitals are creating clinics closer to people and more healthcare is actually happening in the home. Trunk club will let you pick your clothes at home. Where is the barber with in home haircuts?

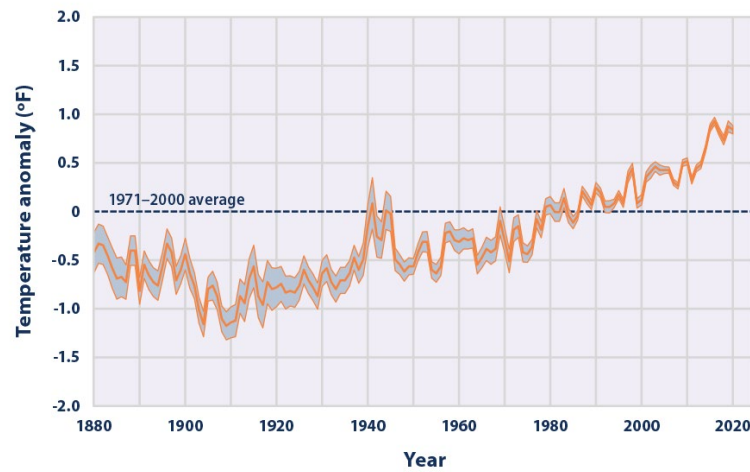
New term – "Brotox" for men getting botox. No thanks.

I stay out of politics in these musings but just a couple comments. Watch Vivek Ramaswamy. I am not saying this because I support him but because he is like Trump without the criminal indictments and baggage. I wish the Republican party would take to Nikki Haley but it seems dominated by the Trump wing. Ramaswamy put out his ten commandments:

1. *God is real.*
2. *There are two genders.*
3. *Human flourishing requires fossil fuels.*
4. *Reverse racism is racism.*
5. *An open border is no border.*
6. *Parents determine the education of their children.*
7. *The nuclear family is the greatest form of governance known to mankind.*
8. *Capitalism lifts people up from poverty.*
9. *There are three branches of the U.S. government, not four.*
10. *The U.S. Constitution is the strongest guarantor of freedoms in history.*

He speaks of only defending Taiwan until we have "semiconductor independence" as the largest supplier of semiconductors is currently a Taiwanese company called TSMC. He also said climate change

was a hoax. Not sure how he says that when you look at this graph of the ocean temperature over decades.



I am not promoting him nor supporting him but believe he will get traction as "Trump" without Trump so needs to be watched.

jml