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Musings

#249: Musing January 28, 2024

The soft landing continues to be on track as the government reported good GDP growth (3.3% in Q4 and 2.5% in 2023) while inflation (using the Fed's preferred Core PCE) is down to 2.9% (1.9% annualized over the last six months). Increasingly looking like the Fed will leave rates where they are and not start reducing them like some investors were projecting ("higher longer" with 10 yr staying above 4%).

Have the Magnificent Seven become a safety trade? Those stocks (Nvidia, Meta, Microsoft, Google, Amazon, Apple and Tesla) account for 28% of the S&P 500 index. With so many investors relying on passive index/ETF trading, to some extent they represent the market. Valuation logic would say those companies should go down as more people see rates staying higher for longer (future earnings would get discounted back at higher rate and thus not be worth as much). However, they recently have rallied as they have become the "safe" trade — you know what you are getting investment (although, some are advocating a move to 6 with Tesla's recent challenges). Might be time to look at value stocks.

A big reason for the Magnificent 6/7 strength is the rapid adoption of AI. It is coming everywhere, even hiring. A report from SHRM found that 64% of companies were using artificial intelligence or other forms of automation to review or screen applicant résumés.

You often read about the need to be "omni-channel" in your marketing for customer acquisition by using web, TV, social media etc. I also think you need to be "omni-modality" in the delivery of your service providing in person, blended and online only delivery. Look at this table showing how enrollments are spread across the modalities in higher education (from Phil Hill) showing about 50% of students are in "face to face" classes while the other half is split between fully-online and hybrid (DE stands for distance education). Schools (and other consumer businesses) need to be "modality agnostic" and let the student consume in the way that works for them and adjust delivery capacity accordingly.

US Higher Ed Enrollment by DE Type and Adjusted Sector
Source: IPEDS database, Fall Enrollment 2022
US Degree-Granting Institutions, 2 & 4-year Sectors
Undergraduate + Graduate Programs



	DE Type						
Adjusted Sector	Exclusive DE		Some DE		No DE		Grand Total
Public 4-year	1,476,047	18.1%	2,860,072	35.0%	3,830,177	46.9%	8,166,296
Private 4-year	1,118,837	27.1%	712,678	17.2%	2,302,245	55.7%	4,133,760
For profit 4-year	620,006	76.1%	109,980	13.5%	84,233	10.3%	814,219
Public 2-year	1,715,269	32.2%	1,432,688	26.9%	2,185,060	41.0%	5,333,017
Private 2-year	10,065	38.6%	3,529	13.5%	12,499	47.9%	26,093
For profit 2-year	25,401	14.3%	49,221	27.7%	102,881	58.0%	177,503
Grand Total	4,965,625	26.6%	5,168,168	27.7%	8,517,095	45.7%	18,650,888

Of course, government incompetence is holding back online adoption in some industries as every state requires separate registration etc. This is happening in healthcare as telemedicine adoption restrained

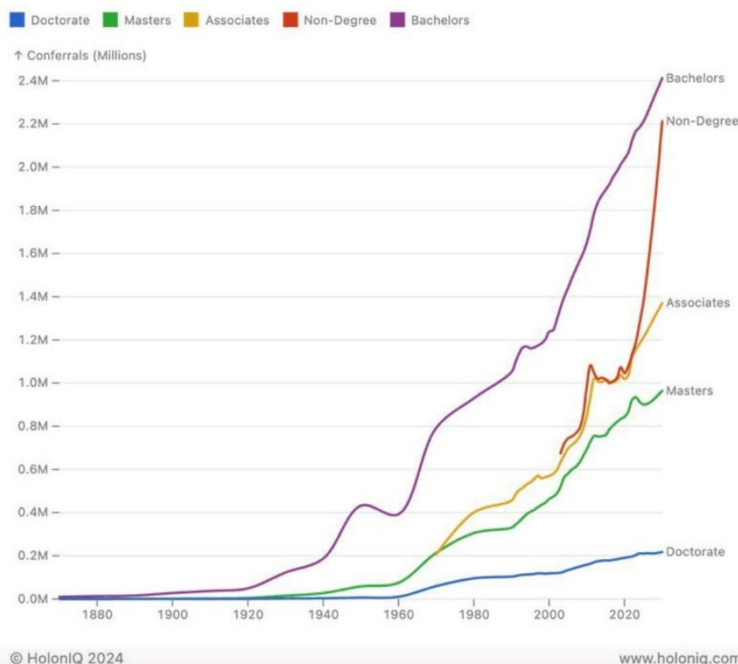
by the need for a physician to be licensed in a patient's state. I am a federalist on these matters and think states should get out of the way of hindering online delivery adoption which expands access, increases competition and benefits consumers.

Employment is also turning into a multiple modality construct with remote, blended and in office. For example, per CNBC, Atlassian software adopted a "Team Anywhere" policy in 2020 that allows employees to choose between remote, in-person or hybrid work. However, the relationship between employers and their remote employees is still "fragile." Companies and their managers are trying to figure out how to connect and build culture without face to face interaction. From WSJ: *"Workers logging on from home five days a week were 35% more likely to be laid off in 2023 than their peers who put in office time, according to an analysis... by Live Data Technologies [and]...remote workers are also more likely to quit. 12% of fully remote workers left their company and began a new job within two months in 2023, compared with 9% of those who worked on a hybrid or in-person basis."* Student retention is no different. Virtual connectivity is not as strong as face to face at this point in a human community so churn is higher.

Back to colleges, the public acceptance of "you should go to college" is gone. Prices are too high and there are good employment opportunities without a college degree. Most don't realize that the "everyone go to college" movement is relatively modern. Also interesting to note the rapid ascent of credential other than a degree. This is where the action is.

150 years of US Higher Education Conferrals, now showing a sharp rise in non-degree credentials

US Higher Education Credentials Conferred, 1870 – 2030P (Millions of Conferrals)



This also means that for many, high school is the new college. Watch the resurgence of "vocational tech" paths in high schools but instead of cars and welding, it will be STEM and Google certificates (Google is an example of an employer who no longer requires college degrees). Our tax laws also need

to adjust. 529s are limited in their ability to be used for high school and you don't have the tax exempt \$5,250 a year benefit that employers can offer in tuition reimbursement for college. Teacher unions have prevented that but that will change. The line between work and school is blurring. Rather than a segmented approach where you go to school and then go to work, it is now an integrated approach. As Brandon Busteed writes, *"The future won't distinguish between places of learning and places of work. There will be so much work-integrated learning taking place in schools and colleges and so much learning-integrated work required by our places of employment that it will feel like they are one and the same."*

More research showing that walking is not only good for your physical health but your mental health as well. You even learn better after exercise. A research team at the University of Illinois, led by Dr. Chuck Hillman, concluded: *"Single, acute bouts of moderately-intense aerobic exercise (i.e., walking) may improve the cognitive control of attention...and further supports the use of moderate acute exercise as a contributing factor for increasing attention and academic performance."* How about this graphic of the brain:

Walking also reduces stress which will reduce your cancer risk. Researchers at the Siteman Cancer Center at Washington University have shown that stress increases metastasis of breast cancer.

So go for a walk with your spouse or boyfriend/girlfriend or both. Apparently the assumption of marital monogamy is under pressure. I always thought it was weird how Warren Buffett had both a wife and a longtime live in girlfriend. According to an article in the WSJ, he is one of almost 25% of marriages. *"Twenty-two percent of Americans say they have engaged in consensual non-monogamy, which is also sometimes called ethical non-monogamy, at some point in their life, according to a nationally representative study by researchers at the Kinsey Institute at Indiana University. That's almost the same percentage—23%—as people living in the U.S. who have a bachelor's degree as their highest degree."*