

J. Michael Locke

Musings

#251: Musing February 11, 2024

Can we trust the government's numbers? China has always been known for fudging its economic data but is the US now following suit? Some investors believe that last week's jobs report was artificially inflated with seasonal adjustments and reductions in the assumption of hours worked. They note there is some inconsistency between the survey results from employers and the survey results from households. To give you a flavor from one commentator *"And speaking of revisions, we had a lot of those: in January, the BLS conducted its annual 'annual re-benchmarking and update of seasonal adjustment factors.' Long story short, what was until December a decline in jobs has now been miraculously transformed into gains."* [inside-most-ridiculous-jobs-report-recent-history](#) (Thanks Steve Peake). I don't understand the specifics enough to opine on the merits of the argument but it creates a difficult dynamic if you can't trust the government numbers – how do you make good investment decisions?

A good thing to watch is consumer debt. Since consumption makes up 65-70% of GDP, our economy grows or slows with consumer finances. I think we have the green shoots of economic deceleration based on softening consumer finances. According to NY Fed, the rates in which consumers are falling 30 days behind on their payments for car loans and credit cards has increased to levels not seen in over a decade. All of those 3% mortgages are saving people but debt which moves more with current rates is starting to create stress.

Couple interesting earnings releases. Great numbers from Uber. If you want proof that leadership matters, look at what has happened in the Uber vs Lyft rivalry since Dara Khosrowshahi took over Uber. He spent some shifts as a driver to see their experience as he recognized that they are his service. He saw the need to leverage their infrastructure across more revenue streams and got into food delivery etc. Uber market cap is now \$148 billion while Lyft has had poor leadership and is now worth \$5 billion.

I was also fascinated to see how much of the profits for retailers are from their credit cards. To some extent, they are financing companies using retailing for customer acquisition. According to WSJ, *"Credit income accounted for about 49% and 44% of Macy's and Nordstrom's operating income in 2022, according to estimates from BofA Global Research equity analyst Lorraine Hutchinson."* *At Macy's, for example, revenue excluding credit cards shrank 5.7% from 2016 to 2022, but credit-card income rose 53%. BofA Global Research and Citi Research estimate that late fees represent between roughly 14% and 30% of their overall credit-card-portfolio revenue"* This late fees are coming under regulatory scrutiny.

Along with its great earnings, Meta declared a dividend. It is about time. These big tech companies are sitting on enormous amounts of cash. For example, Apple has over \$160 billion in cash on its balance sheet. That cash belongs to shareholders. If it is not needed for investments to drive the business, keep a rainy day fund and give the rest back as a dividend or share repurchase. I always liked how former

Strayer CEO Robert Silverman used to call operating cash flow minus Capex “Owners Distributable Cash Flow.”

Companies on a calendar fiscal year are also starting to file their annual reports (10k) which contain a list of “risk factors” that investors need to consider. This is usually boring lawyer land of all of the things that could go wrong, but how about this one from Meta: *“We currently depend on the continued services and performance of our key personnel, including Mark Zuckerberg. Mr. Zuckerberg and certain other members of management participate in various high-risk activities, such as combat sports, extreme sports, and recreational aviation, which carry the risk of serious injury and death. If Mr. Zuckerberg were to become unavailable for any reason, there could be a material adverse impact on our operations.”*

Last week I wrote about the need to offer your product or service in multiple modalities – in person or online. In the retail world, just because a person consumes/purchases online doesn’t mean a local footprint is irrelevant. Usually, a company has lower customer acquisitions costs if it has a local footprint with supporting branding. This is why JP Morgan Chase just announced it is opening a lot of new branches even as more of banking activity moves online. Consumers want a branch “just in case.”

Don’t invest in Australia. They just passed legislation giving workers the legal right to ignore messages from their employers outside official working hours.... a so-called “right to disconnect” law. Give me a break.

Our healthcare system is broken. We have lots of good physicians but the system for access and navigation needs to change. By and large, the system assumes you have a primary care physician who helps navigate and orchestrate but my experience is most people don’t really have a primary care physician who serves that role. Families are left on their own to orchestrate and figure out what to do. It leaves families frustrated and feeling helpless.

Standardized tests are making a comeback. Covid challenges combined with the “they are structural racist” argument led most colleges to abandon admissions requirements around SAT/ACT. Now some schools are starting to bring them back. Research from Dartmouth showed that high school grades are far inferior in predicting academic success in college. In particular, *“The average college GPA for students who got a 4.0 in high school was only 0.1 points higher than for students who got a 3.2 in high school....Higher SAT/ACT scores have a much stronger correlation with post-college success than the high-school GPA does”*

Are shrooms the new glass of wine? There is a growing view that microdoses of mushrooms can safely improve performance and reduce anxiety. Technically it is called psilocybin and can be consumed in a capsule or a gummie. WSJ has article focusing on its use by multi-tasking mother professionals. [microdosing-mushrooms-psilocybin-trend-women](#)

Enjoy the Super Bowl. Rooting for Brock Purdy who makes \$800k a year to match Patrick Mahomes who makes over \$50 million.

Jml