

J. Michael Locke

Musings

#252: Musing February 18, 2024

The yield curve is still way inverted with investors making more money on overnight money market than on US 10 yr bonds. Here is the US Treasuries yield by duration:



Don't be too late rotating out of cash. Right now, it is the easy trade as investors can make risk-free 5.3% when lending it to the government for 10 years only gets you 4.3%. The challenge is the pile up in cash will quickly rotate once the front end of the yield curve comes down and money market rates plunge. Personally, I would start easing out of excess cash allocations before the other asset classes run up in price.

Those with capital have an edge. Now is time to buy in the private market vs selling. Some investors are being forced to sell due to liquidity needs and buyers with cash are in a position to get good deals. If a smart person is trying to buy something, you shouldn't be selling. Someone is going to make a killing buying commercial office buildings at 50% of what they last traded at.

In today's world, you have to "get the team on board." Gone are the days of a military model of leadership. You have to persuade your organization. Good HBR article on the art of persuasion. *"Effective persuasion is a difficult and time-consuming proposition, but it may also be more powerful than the command-and-control managerial model it succeeds. As Allied Signal's CEO Lawrence Bossidy said recently, "The day when you could yell and scream and beat people into good performance is over. Today you have to appeal to them by helping them see how they can get from here to there, by establishing some credibility, and by giving them some reason and help to get there. Do all those things, and they'll knock down doors." In essence, he is describing persuasion—now more than ever, the language of business leadership.....In the workplace, credibility grows out of two sources: expertise and relationships."* <https://hbr.org/1998/05/the-necessary-art-of-persuasion>

Good CEO highlighted for me how he looks for a "growth mindset" when hiring and evaluating his

people. You want a cultural expectation that everyone gets better constantly. Look for intellectual curiosity. People that ask questions and listen. Feedback should never be subject to defensiveness and “leave me alone.”

The workforce is changing and leaders must adapt their overall strategies. From Rishad Tobaccowala: *“Three forces are fusing and re-sculpting employment and the workplace. 1) Technology. 2) Unbundled and Distributed work. 3) Just in time global marketplaces. A board room that is not planning on how to leverage some combination of the exponential productivity power of AI, the ability to hire talent anywhere due to unbundled distributed work, and the availability of global marketplaces for just in time resources from talent to technology to re-imagine, re-think and re-invent their business will soon lose their board seats or control of their company.”*

Great quote: “The only known cure for presidential ambition is embalming fluid” the late Sen. John McCain.

An executive once taught me it is easier to go up market than down market. If you are selling to smaller companies, they tend to have smaller budgets and you will have a leaner, cheaper solution. You can add to it if necessary as you go up market. It is far harder to have an expensive solution for bigger clients and try to take it (and your larger cost structure) down market.

Demand elasticity is back. It is important to separate revenue growth from price vs volume in today’s world. With the high inflation over the last couple years, lots have revenue growth has come from price increases. That growth is temporary. Quality revenue growth if from increases in volume. Consumers are increasingly “trading down” to lower priced alternatives.

Interesting stat: the college enrollment rate for recent high schools grads in US has dropped from 70% in 2009 to 62% in 2022.

The Super Bowl was an enormous waste of shareholder money for advertisements. It was \$7 million for a 30 second ad. Did anyone change their purchasing interest based on one of the mediocre ads (maybe an exception was Dunkin)? I don’t think so. A large amount of the inventory was used by CBS itself or other Viacom-owned companies like Paramount.

No newspapers in all of LAX. I am officially a Luddite.

Jml