

## J. Michael Locke

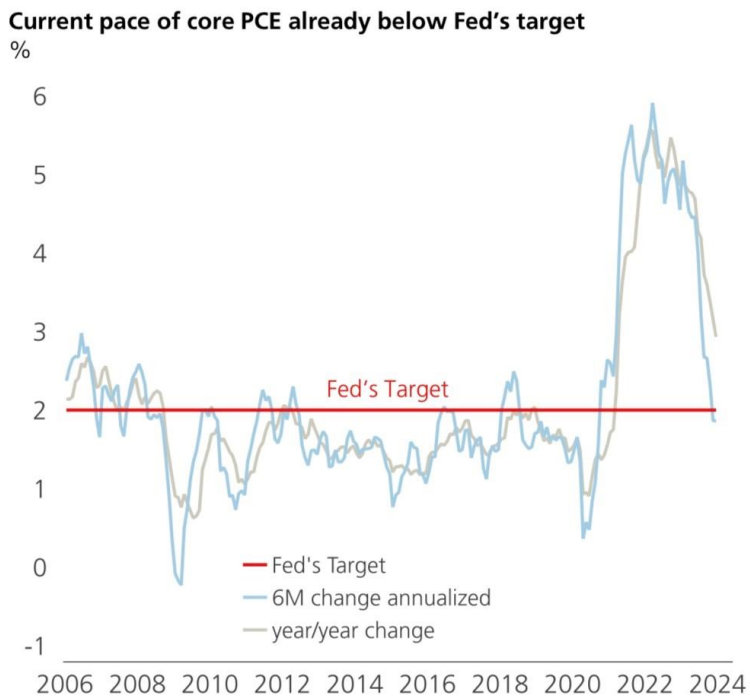
### Musings

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#### #256: Musing March 17, 2024

Glad I am not a trader. Our tools for measuring economic health are primitive and yet swing billions of dollars when they are released. Look at the last jobs report. The Labor Department announced that January's initial estimate of 353,000 new jobs was revised down to 229,000. They were 35% off!! I think this is also why you saw limited reaction to this week's CPI print of 3.2% because the Fed prefers the more accurate PCE number.

I wish we could give all Americans a lesson in monetary policy. The rapid rise in inflation was heavily caused by the large fiscal stimulus programs combined with Covid supply issues. More money in the system chasing fewer goods and services. A politicized Fed was too slow to raise rates so then had to hit the brakes hard vastly disrupting markets. Look at this graph from UBS:



Source: BEA, UBS, as of 7 February 2024

I feel sorry for bank executives. Since the financial crisis of 2008, federal regulators have amped up their oversight and imposed stronger capital requirements on banks. Meanwhile, other pools of capital (so called private credit) have formed which are not regulated and competing for the same loans. So you have a heavily regulated business competing with unregulated firms. Not fair.

The legislative proposal to require US ownership of TikTok is not radical. The FCC has rules prohibiting foreign ownership of TV stations etc. TikTok is the nation's largest and most influential media company. TikTok users spend on average 97 minutes a day on the app (WSJ). It shouldn't be owned and controlled by Chinese interests.

Good saying: America innovates, China replicates, and Europe regulates (thanks Andy Siepker).

I think there is an art form in capitalizing businesses. Private equity firms often maximize the debt (leverage) as that maximizes returns as long as the cash flows can support the debt. It creates a culture of focus on expenses and cash flow. It also can inhibit innovation and risk-taking and if market conditions change, it can be a problem. On the other hand, an all equity structure with extra cash on the balance sheet can create the equivalent of a trust fund kid with limited attention to expenses and cash flow. The art form is figuring out the right capital structure and adjusting it in light of the maturity of the business and volatility of the market.

Read a good quote "tell me, and I forget. Teach me, and I remember. Involve me, and I learn."

Technology has altered the way products are tested for safety and integration. Now, digital versions of a new product (so called "digital twins") can be used so you don't have to go all the way to building something before testing it. <https://www.ibm.com/topics/what-is-a-digital-twin> Thanks Bill O'Neill.

Most parents have always factored in the quality of schools when choosing where to live. Zillow now even lets you search by school district boundaries. That choice of where to raise kids is growing even more important with remote/hybrid work. Today's younger workers are not in the office building new friendships but rather at home playing video games / scrolling instagram with their childhood friends. Where you choose to live while raising kids is now determining their lifelong relationships in a way it didn't in the past. Good article in WSJ.

<https://www.wsj.com/lifestyle/workplace/gen-z-remote-workers-social-lives-29d9f663?page=1>

Here come the moms. Energized mothers are one of the most powerful forces in our society. MADD (mothers against drunk driving) profoundly changed the national trajectory on that behavior. Now they are taking on social media. Mothers Against Media Addiction (MAMA) has been formed and I predict it will really gain steam. (Washington post)

I am all for supporting your team but it is crazy that 12 fans who attended a Dolphins-Chiefs game with subzero temperatures in January had to undergo amputations, according to Research Medical Center in Kansas City.

Who cares about the Oscars and Hollywood?

Happy St. Patrick's Day

Jml