

J. Michael Locke

Musings

#259: Musing April 20, 2024

Goldman Sachs believes most are misreading the latest inflation data. *"The market's reaction over the prospect of sticky inflation is likely overblown, says David Mericle, Goldman Sachs Research's Chief US Economist. The largest recent upside surprises in the inflation data are examples of lagging indicators or "catch-up inflation," such as car insurance and owners' equivalent rent. "The key point here is that that catch-up eventually comes to an end," Mericle says on Goldman Sachs Exchanges. "What we are not seeing is a reigniting of overheating inflation. We are not seeing a retightening of the labor market, an increase in wage growth, a worrying rise in inflation expectations," he says. "The problems that would give you a sustained inflation problem...were solved quite a while ago."*

Bob Thompson reminded me that consumers don't focus on the rate of price changes (which is the inflation metric) but on the prices themselves and with the high inflation since Covid, many prices are 20% higher than they were.

Interesting stat: 70% of mortgages are more than 3% below current rates (MorningBrew). No one can afford to sell their house and lose their cheap debt. While 7% mortgages are not really high by historical standards, the speed of the rate increases has created the dislocation.

We have kicked off earnings season. A lot of life is managing expectations. You can have poor results but they are received to be alright if you have set expectations. Bank of America posted an 18% drop in earnings in the first quarter but here is the CNBC headline: "Bank of America tops estimates on better-than-expected interest income, investment banking." You want to under promise and over deliver. Key to have a sales leader who thinks this way and under promises as you have to manage expenses against the anticipated revenue line.

Well run companies manage from lead flow. This is the leading indicator which gives the most visibility. A well run sales operation will turn the lead flow into bookings with predictable conversion rates (assuming they are doing their activities) which then turns into revenue. With the visibility in lead flow and the length of the sales cycle, expenses can be matched up and managed and target profits will be achieved. So good CEOs manage the growth rate and quality of the lead flow generated by marketing.

Asking good questions has always been a key managerial skill. A good question serves to pull out information and also challenge the receiver. See this HBR article -- <https://hbr.org/2024/05/the-art-of-asking-smarter-questions>. It is becoming a critical skill in the new world of data and AI in the form of queries. There is a real art form in how you word your query of a data tool or your prompt for a Large Language Model (LLM). Asking the good questions, writing good queries and creating human connectivity and motivation are the core skills of the future.

Speaking of Ai and LLMs -- good quote from Dave Wong on their accuracy and hallucination risk. They “are not factually correct, they are technically correct.”

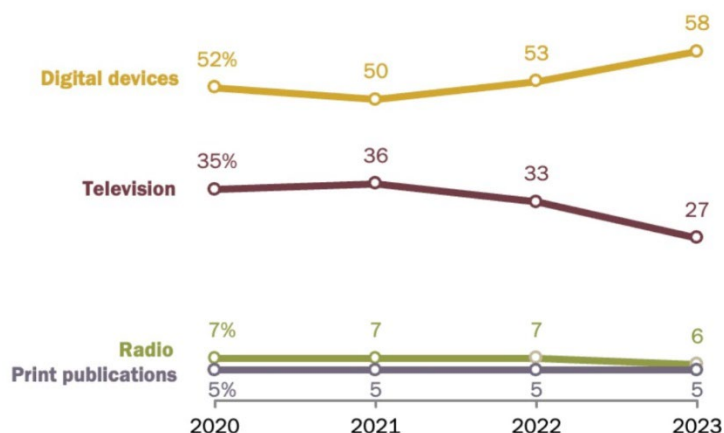
Our scientists don’t get enough credit. Our society is now obsessed with the impact of GLP-1 drugs (ex. Ozempic) on our chronic obesity. Credit John Eng in the Bronx. GLP -1 drugs had been known for a while to increase insulin and reduce blood sugar but they rapidly get broken down by enzymes in the body. Dr. Eng discovered a hormone in the venom of a poisonous lizard called a Gila monster that was similar to GLP - 1 but did not break down so rapidly. It took a decade but a synthetic version of this hormone was created leading to Ozempic which slows the rate of “gastric emptying” so people have less of an appetite. (This paragraph is basically lifted from an article in the Economist on March 30 — thanks Ed Lhee).

Stemming chronic obesity is a key to managing healthcare costs. From the CDC: “42.4% of US adults have obesity, including severe obesity. This is up from 30.5% in 1999–2000, and the prevalence of severe obesity has increased from 4.7% to 9.2% during the same time.... Obesity is linked to many health issues, including diabetes, high blood pressure, kidney disease, and heart disease.” I know at least one regional hospital where the severely-obese Type-2 diabetic cases (commonly on Medicaid) are the dominant driver of expenses. Some made fun of Michelle Obama trying to improve school lunch quality but it is a major issue. Kids should not be getting government purchased Oscar Meyer lunchables with their ultra-processed foods which can actually be dangerous. Consumer Reports issued a warning last week about Lunchable’s lead levels. <https://theweek.com/health/lunchables-lead-health#>

Millenials are getting their news from TikTok but “buyer beware with internet content and social media. Here is an interesting graph from the Pell Research Center:

News platform preferences

% of U.S. adults who **prefer** ____ for getting news



The problem is malicious actors are spinning up “content farms” with interesting news like names in minutes for under \$100 and pushing out falsehoods. <https://www.bleepingcomputer.com/news/security/content-farm-impersonates-60-plus-major-news-outlets-like-bbc-cnn-cnbc/amp/>

You don't have to be a Swiftie to admire her creative marketing and use of social media. In Chicago, her team painted a big mural with a huge QR code in a hip neighborhood. Initially, you got an error message when you scanned the code, then a day later a YouTube short referencing a song and then Thursday night a new YouTube short with her new surprise double album. She is a very impressive businesswoman.

Are we on our way to a professional college football league where the school is really just a brand? NIL has ruined college sports for me. I believe that is another driver of the viewership on NCAA women's basketball — they were students staying for four years and really trying vs the men who do a year and transfer or go pro and are saying "show me the money" like Cuba Gooding.

Our daughter Cate has turned me on to the field of positive psychology. People want to follow positive people. Good leaders are authentic and realistic but tilt positive. Cate will be pursuing a Masters in Clinical Psychology from Pepperdine after she graduates from TCU in a couple weeks. Through TCU, I have also had the pleasure of meeting Jim Madrid who is a leader in this field. He had a long post about positivity. Enjoy it.

jml

Jim Madrid (<https://jimmadrid.com/>)

"A positive mindset is a powerful tool that can greatly impact how you navigate through the challenges of life, both big and small. It is the belief that you have the ability to overcome obstacles and find solutions, even in the face of adversity.

In life, challenges are inevitable. From the daily struggles we face to the major hurdles that come our way, having a positive mindset can make all the difference.

Even in our everyday lives, we encounter various challenges. From managing time and responsibilities to dealing with setbacks and disappointments, a positive mindset can help us stay motivated and focused. Instead of dwelling on the negatives, a positive mindset allows us to reframe these challenges as opportunities for personal growth and learning. It encourages us to seek solutions and develop strategies to overcome them, ultimately leading to a sense of accomplishment and fulfillment.

In life, we often face significant challenges that can be overwhelming and daunting. Whether it's a career setback, a personal loss, or a health issue, a positive mindset can provide us with the strength and resilience needed to persevere. It helps us maintain a hopeful outlook and believe in our ability to overcome even the most difficult circumstances. With a positive mindset, we can approach these challenges with a sense of determination, adaptability, and a willingness to learn and grow from the experience.

A positive mindset not only helps us overcome challenges but also contributes to our overall emotional well-being. It allows us to manage stress, anxiety, and negative emotions more effectively. By focusing on the positive aspects of life and practicing gratitude, we can cultivate a sense of optimism and contentment. This, in turn, enhances our mental and emotional resilience, enabling us to face challenges with a clear and calm mind.

Resilience is the ability to bounce back from setbacks and adversity. A positive mindset plays a crucial role in building resilience. It helps us develop a belief in our own abilities and strengths, enabling us to face challenges head-on. By viewing failures as opportunities for growth and maintaining a positive outlook, we can bounce back stronger and more determined than ever before. A positive mindset allows us to learn from our mistakes, adapt to change, and persevere in the face of adversity.

A positive mindset is a powerful tool that can help you navigate through the daily challenges of life to major challenges. It empowers you to approach obstacles with resilience, determination, and a belief in your own abilities. By cultivating a positive mindset, you can find opportunities for growth and success, even in the most difficult situations. So embrace the power of positivity and unlock your true potential to overcome life's challenges.”