J. Michael Locke
Musings

#1: Triage as Crisis Begins
March 15, 2020

You guys are all leading companies on this unprecedented time. Here are my 2 cents

Watch your liquidity — run sensitivity models. Business (and society) is coming to a halt. You likely have no visibility. People are not focused on making buying decisions. Bookings will dry up. Halt any hiring.

I assume everyone has already moved to remote work. Keep people connected. Host synchronous sessions. Over communicate. Daily virtual huddles at the department level. My point is don't let team get "disconnected"

Lean in and help customers if you can. Call client CEOs and checkin. Show you care

Innovate! You are all leaders in technology. Society just became more tech centric (I had a virtual cocktail party last night with FaceTime). Now is a time to quickly adjust, innovate using technology and lead. Speed is key

Watch your bandwidth. Networks are going to get stressed. Make sure you have enough.

Personally I think the health aspect is overblown and this is a bad storm that will blow over in 3-6 months.

Hope this unsolicited advice might be helpful

J. Michael Locke
Musings

#2: One Week of Combat
March 20, 2020

Getting healthcare issue under control but going to be brutal on economy / hourly workers / unemployment

Watch your liquidity! I hear more about folks drawing their credit lines. Banks are in pretty good shape so I don't worry about bank run. You have no visibility on revenue right now. Watch expenses. Move early on layoffs if you can. Start stretching payables in case a/r gets soft.

Run various forecasts of P&l and cash flow. Like a stress test. Moderate / bad / really bad. Can the business absorb really bad without raising money?

Communicate/communicate/communicate. Folks are stressed. Life is uncertain. They are stuck at home. Human beings need social interaction and community. Have to do it virtually right now but connect with your team. Be a therapist and listen

Friday night rumination

J. Michael Locke
Musings

#3: Reflecting after Initial Battle
March 24, 2020

The danger of a leverage

They teach you in business school to lever to the point of "financial distress" to take advantage of tax shield of debt and minimize equity. Problem is when you have a shock and can't pay your debt, all of sudden your business is at risk. Businesses should either not lever at all (overcapitalize with equity) or at least run "stress tests" like they did with government did with banks after 2008. This applies to personal live as well.

Surround yourself with smart advisors

In times like this, you just want to talk to a lot of smart people. Board members / friends / advisors. Gather as much info as you can. Just ask questions and see what they say. Look for patterns. You have to make the final judgment call but having lots of input helps.

Value of communication

Human beings hate ambiguity. They want community especially in times of stress. You have to over communicate. Even if you don't have a lot to share just provide the platform.

Crisis creates opportunity

In times of turmoil, the teams that react quickly and innovate can improve the competitive position. Slow/bureaucratic/top down organizations struggle. Nimble teams with deep benches of creativity excel. According to my friend Trent Teti, " the Kanji symbol for the word 'crisis' is made of two subsidiary symbols; one for the word 'danger' and the others from the word 'opportunity"

Urgency matters

You have to move to 24x7 mentality. Everything needs to happen as quickly as possible. There are no "off" hours.

J. Michael Locke
Musings

#4: What is Good Leadership in Crisis
March 26, 2020

It's about servant leadership IMO. The leader's job is to empower the team to excel and provide top quality service to the clients. Right now, that mostly means being grateful and present.

Teams are overworked, stressed, anxious. Leaders need to show appreciation with a quick email / text / note. Leaders need to over communicate in times of "war."

Crisis also creates opportunities. Teams are so intensely focused on survival and operations, leaders can help by looking around at other organizations and the market and identifying potential opportunities.

J. Michael Locke
Musings

#5: Communication in Crisis
March 27, 2020

A leader's pace of communication needs to reflect the pace of the environment. Right now, we are in warp speed as the virus grows exponentially. What you used to do monthly, you need to do weekly. What you used to do weekly, you need to do daily. This also applies to managing your financials. Monthly reports need to become weekly reports etc. this is tough with accounting books closing monthly but get your KPI reports on a more frequent basis.

People need "rhythm" and structure right now. Set stuff to happen at the same time everyday. Look at what Andrew Cuomo has been doing. This is why synchronous learning is shining while asynchronous struggles right now IMO.

Your communications don't have to just be about your business. Business is family. 30% of US households have 1 person. Good leaders are leaders across the spectrum – not just at work.

My 2 cents (not to be confused with Elizabeth Warren's who is not on this list)

J. Michael Locke
Musings

#6: The New Order for Consumers
March 28, 2020

Consumers have been shell-shocked and are shutting down. According to the Univ of Michigan which tracks consumer sentiment as reported by CNBC *" U.S. consumer sentiment fell to a three-year low as the coronavirus outbreak takes a toll on the economy. The index of consumer sentiment dropped to 89.1 in March — its lowest level since October 2016 — from 101 in February. Economists polled by Dow Jones expected a fall to 90. March's decline in sentiment was the fourth-largest in nearly 50 years, according to Richard Curtin, chief economist for the Surveys of Consumers. "*

Companies need to de-risk the purchasing commitment. I worry about deflation but rather than just focusing on price, consider other variables like length of commitment. As a landlord, I would offer month to month lease. Make it an "opt-out" so the consumer is not locked into a big $, multi-year commitment but rather can make an incremental purchase and then see where things are in 30/60/90 days. Push back deadlines for making a decision if you can (like enrollment for school next fall). Forcing a big decision on a consumer in the midst of uncertainty is difficult and likely to yield lower rates IMO.

The technology adoption curve just got crushed. In two weeks, everyone has become "leading edge". My 83 year old mother is having a virtual cocktail with family on Zoom (not the easiest accomplishment ☺ The biggest opportunities might be around technology use by folks further in their life. By necessity, they are now digital. I am part of a business called IN2L (www.in2l.com) that sells technology solutions to senior living for engagement and communication. The team is working 24x7 helping our clients ramp up capacity. Think about new markets that might be opened up with everyone living a digital first lifestyle.

Let's all lament the "death of the snow day" (compliments of friend Kersten). Why would a school every need a snow day --- just put out the automated call recording that flipping to online instruction because we have 3 inches of snow for the day.

Be safe.

J. Michael Locke
Musings

#7: The Bad Side of Being in Charge: Layoffs
March 29, 2020

Feel free to forward these emails onto anyone or send a name you want added. I promise they won't continue daily once Governor Pritzker says I can leave home.

Layoffs are the worst thing a leader has to do. You are taking away a family's income. However, you have responsibility to protect the business and protect the income of the other employees (those not being let go). If you have to let folks go, a couple thoughts. Do it all at once. Don't have some reductions one week and then more later. Overestimate how "deep" you have to go, do it once and be done. Be precise in your communication planning --- don't have the organization hear about layoffs through a rumor mill. Be direct and genuine to everyone about what has happened. Leaders must always be authentic but especially in times of stress.

Go long telemedicine. There are certain practice areas that don't really need face to face. My wife had her first telemedicine appointment recently due to the CV and afterwards asked "why would I ever need to go to the doctor in person for that?" The crisis will force a digital approach in ways the consumer otherwise might not have tried. If it is a good experience, the consumption pattern will change. Personally, I recommend everyone take a "digital first" approach to their business whatever it is. Look at every business process and say "how can this be done online?" This will require rotation of expense structure towards IT, data and analytics. Short commercial real estate and airlines.

Tidbit – with phone lines/circuits/waves running out of capacity – start your conference calls at odd times and not at top of hour. Start your call at 9:50 vs 10:00.

Be safe and remember that boat stores are essential businesses in Wisconsin and Gamestop thinks it is essential everywhere.

J. Michael Locke
Musings

#8: The Value of a Leader's Time
March 30, 2020

Our former Chicago Mayor Rahm Emanuel taught us not to "waste a crisis" when negotiating difficult items. But how about another take on the opportunity presented -- from Cameron Smith, Co-Founder of Bennett Day School -- "Newton invented calculus and discovered gravity during the bubonic plague in 1665." In our time efficient, information overload world, the opportunity to step back is precious. Use it. The best investors I know don't sit watching CNBC all day (thanks Steve Wallman). They reflect on market trends, focus on good companies and play long ball. Who cares what Bill Ackman has to say on Power Lunch today?

There is a biological concept around "getting in the flow" where your brain releases a set of chemicals which allows for superior performance. Think about athletes getting "in the zone." Time slows down and productivity sky rockets. Different individuals get "in the zone" in different environments. For me, it is quiet morning solitude. Take this quiz if you want to see yours: https://www.flowgenomeproject.com/flow-profile. Personally, I think organizations can "get in the flow." Organizations are just aggregated individual human behaviors.

Speaking of time management, are you a "schedule maker" or a "schedule taker"? The adoption of shared calendars online like Outlook has led to tremendous time misallocations by leaders IMO. The "norm" is to have your schedule online and folks can look at when you are free and they can book time on your calendar or maybe with your assistant. I would NOT do this. As a leader, you have to allocate your time to highest value use. Only you can make that decision. Control your own calendar! Personally, I don't let Jennifer put something on my calendar without checking with me first. Even worse is the "mutually open time seeking game" where folks try to find the one hour that five people all have free. Don't play that game. As a leader, you set the priorities and groups need to move around other meetings which may be less important.

Be safe. Give thanks to the doctors/nurses/healthcare providers in your network (thanks to my brothers Jon and Mark). Not only can they not isolate and work from home, they have to walk right into the war. Let's "Imagine," compliments of orthopedic residents at Mayo clinic (RIP GRL III): https://www.youtube.com/watch?v=fG97djdaMxU

Happy 18th to our daughter Cate. The hip recipients can give her a shout out on Insta.

J. Michael Locke
Musings

#9: The Difference between Information and Data
March 31, 2020

Technology is creating an explosion of data as every action is now cached on a server. Attached are some slides from a presentation I made in the Fall pre-C19 (the answer to the question posed on slide 6 is PewDiePie). The data is mostly from Mary Meeker's (the famed internet analyst turned Kleiner Perkins partner and most importantly a DePauw grad) lengthy annual report which is a must read (https://www.businessinsider.com/mary-meeker-2019-internet-trends-report-2019-6). These statistics on the growing use of digital and the resulting data were all before the C19 crisis which has only accelerated digital adoption! Unstructured databases, machine learning and AI are growing like crazy. However, this ramp in volume of data is exacerbating an issue I see in lots of organizations with lots of presenters.

There is a difference between "data" and "information." Too often, people just put lots of data on a slide or report and publish. This is suboptimal IMO. Don't accept (or prepare) PowerPoint pages with lots of numbers which don't provide an interpretation. Ask your team to put bulleted takeaways on the side. Ask your team to bold/highlight/differentiate the numbers that the receiver needs to focus on. If dealing with finance, ask for your CFO to write the equivalent of an MD&A which is required in public company documents and provide summary takeaways. (For example, I am a big fan of scenario or sensitivity tables which show the key metrics under different sets of assumptions in one table.) Not only will this make your life easier as the recipient, it will help grow the presenter as they have to reflect and synthesize the data and turn it into actionable information.

The information tracked can also reflect culture. Too often finance leaders just focus on results vs budget and provide variance in $ and %. IMO, budgets are managerial mechanisms to provide "organizational control" but in the business world, hitting budget doesn't create value. Most of you are in younger companies and it is all about growth! I care more about the growth rate than I do the actual number. Whether revenue is $15mm or $20mm matters less than whether it is up 15% or 30%. Personally, I focus on the "second derivative" and look at what is happening with the growth of the growth rate. Every month, quarter or year should be a "record" if you are a growth company. Change the mentality to the "record growth rate." Is the rate of revenue growth accelerating or decelerating? If you have a business where it bounces around, you might use an LTM / trailing concept. A quant measure used by stock traders is when something breaks through its 365 day moving average (either up or down).

Right now very few things are growing so focus on the rate of decline or deceleration. For instance, in one business I work with, we have seen a reduction in the rate of decline of website traffic each day for the last seven days. This appears to be a greenshoot on stabilization.

A specific comment to this in marketing and especially higher education. The historical algorithms you could use to predict results are out the window in this type of environment. The key funnel metrics from interested consumer down to enrolled students are going to change. I encourage all to launch "intense engagement efforts" to manage your yield and make sure those who said they were purchasing (or coming in the Fall) stick with their decision.

For those in SAAS businesses, I am a fan of the "Rule of 40." Not sure who invented it but it is simply your revenue growth + your profit growth. Should be over 40. This shows the balance between the two especially in money losing businesses. So if you are growing the topline 50%, you can lose 10%. If you are growing the topline 30%, you should be making 10% or more. Too many software business justify losing money because they are rapidly growing. The Rule of 40 will help you tease out the structurally unprofitable business model from the good business just investing in customer acquisitions with good CAC/LTV. CAC is customer acquisition cost --- how much did you spend to acquire that customer. LTV – lifetime value. I am a fan of using gross profit LTV. So, what did you spend to acquire that customer and how much gross margin will you make off them in their lifetime?

Leaders need to make decisions based on data. This is part of current problem with Covid 19. What is the mortality rate? Without proper testing, we really don't know because the denominator (those with the disease) is underestimated. An example of good presentation of information is the Johns Hopkins tracking website: https://coronavirus.jhu.edu/map.html

I recommend you invest in a good set of analytics professionals who can work with you to identify the KPIs and build the relevant data infrastructure to be leveraged. This usually involves some needed integrations between various software platforms.

Be safe. My guess is we are all hunkered down for a while. Never has there been a more important time for good leadership.

J. Michael Locke
Musings

#10: Leader as Coach
April 1, 2020

I will never forget my first memo as a CEO. My mentor Bob King returned the draft with one change over and over again – crossing out "I" and putting in "we." He said "I never want to hear you say I again, you don't do anything, the team does it."

There has never been a more critical time to have a great team. As a CEO, building that team is your #1 job. You are not a player on the field, you are the coach on the sidelines. Your job is to identify, attract, grow and retain talent. Your job is to figure out who should play what position. When interviewing folks, I often go to the whiteboard and draw the standard triangle org chart with CEO on top but then flip it and put CEO at bottom. IMO, the job is to create an environment for your "team members" (never use the word subordinate) to excel and they in turn to do the same so the person at the "bottom" of the org chart is the person at the "top" of the value creation pyramid. They are the ones interacting with the customer on the phone, in the store, on the campus or in today's world, on zoom.

Successful coaches are great leaders. For real football fans, Sir Alec Ferguson is a hero (record setting manager of Manchester United). Sir Alec has written a good book on leadership that's worth a read (https://www.amazon.com/Leading-Learning-Years-Manchester-United/dp/0316268100 . His keys to leadership were laid out in an October 2013 HBR article https://hbr.org/2013/10/fergusons-formula):

1. Start with the foundation: Invest in young talent and inspire them to be better
2. Set High Standards – and hold everyone to them: Everyone seeking to do better
3. Encourage as much as possible but be candid about shortfalls
4. Rely on the power of observation
5. Never stop adapting

As to #2, it can become cultural. Many of my colleagues know TIGBINTY. Someone would preface a presentation of results by saying "***T***his ***i***s ***g***ood ***b***ut ***i***t's ***n***ot ***t***here ***y***et" as they knew the follow-up questions would be about how to improve and be even better.

Personally, I recommend you spend an extraordinary amount of time "selling" employment at your organizations. Talented professionals are scarce (even in the future 20% unemployment world). They have choices. Why should they work with you? I always share with prospective team members that interviews are "match making" exercises and not "selection" exercises. Is the organization and its culture the right place for the individual to grow, develop and excel? If you can develop a "learning mindset" where every individual is trying to get better every day, the whole organization becomes a learning "organism" which will grow and excel. Almost like organizational AI.

A last few thoughts. The CHRO must report to the CEO and not the CFO. Second, hire competitive, ambitious people. I believe in hiring "people" rather than a robot-like set of competencies. What is

their life story? Have they shown ambition? Personally, I am a big fan of hiring athletes especially of dynamic team sports. The midfielder in soccer doesn't necessarily score a lot, but they must understand the field, the opposition, their teammates position and constantly adjust (no parental bias due to our DePauw midfielder Skip). Isn't that what you have to do in today's business world?

Be Safe. As they said in the movie The Blind Side (we are all watching a lot of movies right now), "the team is your family Michael….are you going to protect your family?" No different in a business.

J. Michael Locke
Musings

#11: Be Authentic and Personal
April 2, 2020

I want to highlight that much of what I share I've learned from Robert E. King over the last twenty years. Bob's track record in building businesses is unparalleled and like many who receive this email, he taught me (and continues to) every day. Leading and building an organization is an art form. Can't teach it in school. You need to learn the craft from others. Hopefully, I am contributing to that effort with these musings.

By definition of their role, leaders can be intimidating. They have power and authority. Even if you don't realize it, you are intimidating. One way to reduce this intimidation is to be open and personal. Show your vulnerability. Laugh about a time when you messed up or failed. Use your children's names in conversation or share your questionable attempt to film a TikTok video. Open up your home and invite people to come over for a company event.

One interesting byproduct of the current remote "work from home environment" is we are getting a peek at everyone's home. Position yourself with thought about what is behind you in your videocall – pictures of kids or something you enjoy that creates a personal connection. If the kids invade by accident, don't be embarrassed, introduce them. Let your team see you as a mother, father, spouse, partner just like they are.

Andrew Cuomo has been very good at this. Telling family stories like his failed attempts to host traditional Sunday Italian family dinner as a poor- cooking divorcee provides comfort / stability / relatability. I admire his authenticity and willingness to be personal to a national audience.

Being personal does not mean you should be "besties" with your team. There is a line. While you should know your teams' spouses/partners/kids, you also need to be able to deliver them news they don't want to hear. You need to have a personal relationship where they know you care, and they respect you, without having such a tight emotional connection you can't make appropriate business decisions.

This is why you need a set of "outside the company advisors" who you can discuss confidential things with. I am a big fan of a strong board of directors who will push back on you. Some individuals like YPO. Others have an informal set of individuals they can call on. Of course, it starts with a strong spouse or partner.

How about a positive result of C19? Have you ever had more family dinners? From Mitch Daniels' WaPo opinion piece a couple weeks ago: *Might the family meal make a slight resurgence? A YouGov survey in October found that 44 percent of Americans eat together fewer than four times a week, and 10 percent only on special occasions. Maybe a little extra togetherness could ensue. "Social distancing"*

doesn't mean eating in separate rooms. (You should put your Google alerts on and read anything Mitch puts out.)

I read once that the most common attribute of Rhodes Scholars was not their wealth, school or reading level but rather that they grew up having family dinners. I believe that is causation and not correlation. Family dinners force interaction among different personalities (see tomorrow's musing on conflict). It is also a multi-generational event which brings historical context to the conversation.

Be Safe. I appreciate any feedback you have.

Please remember you are free to forward, send a name you want added or request to be removed from this list. We are working on an accessible database of previous musings. More to come. If you want copies now, let Jennifer know.

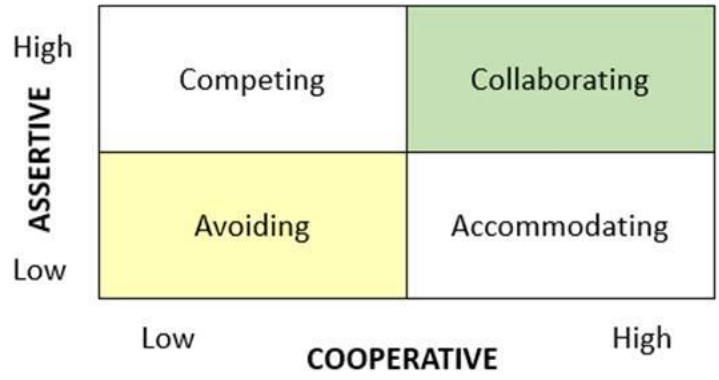
J. Michael Locke
Musings

#12: Positive Conflict
April 3, 2020

Most human beings do not like conflict. We are innately friendly, social creatures. Look at how little kids interact in pre-school.

That said, there is going to be conflict within a business. Team members will have different points of view on a pricing strategy or where a new location should be opened. A diverse team with open robust exchanges will produce the best decisions, but how do you manage the conflicting views?

I believe in assessing individuals for how they handle conflict to make this easier. Dr. Richard (Dick) Olson taught me there are different ways people manage conflict. These are the categories according to the Thomas-Kilmann Conflict Mode Instrument (TKI):



I am a fan of hiring collaborators (high assertive and high cooperative). These are people who are competitive and assertive but recognize that to win, they need the other person to cooperate. Do not hire avoiders. These individuals will not provide appropriate feedback to their team members and may let the organization go down the wrong path because they don't want to speak up. The whole family will end up in Abilene (The Road to Abilene is Dr. Jerry B. Harvey's parable about a family trip to Abilene where everyone goes because they think the other wants to go).

My experience is that certain cultures may trend more to certain places on the matrix. For years I worked with a polite English gentleman who had lots of value to add but you needed to "pull him into the fray"…he was low on assertiveness and highly accommodating. As a leader, you have to manage the conversation amongst your team to ensure full participation. You may have to tell some individuals to be quiet while others will have to be pulled into the conversation Socratic method style.

Comfort with conflict is especially important to teach and grow your team. You have to give them negative feedback when warranted. As my mentor Bob King would say, "have you said it to them, just

like that?" as I lamented someone coming up short. You have to be candid and tell the person if they aren't getting the job done. You owe it to them --- like a leader's fiduciary duty. Everyone deserves to be in a place where they can perform and if it isn't happening on your team, tell them.

However, remember, always leave them on a good note. If you have a difficult conversation, don't just end it there. End it with something positive like "I am committed to your success and we will work on improving this."

Be Safe. Can't get to Abilene right now anyway.

J. Michael Locke
Musings

#13: The Power of Positivity
April 4, 2020

There is a growing academic field called Positive Psychology. I was first exposed to it through a fellow DePauw alum, Doug Smith, who was a very successful businessman who found himself in a battle against cancer. This battle led him to significant reflection and resulted in a book which I highly recommend as a quick read (Happiness, the Art of Living with Peace, Confidence and Joy).

Yale launched a course along these lines and it was their most popular class ever. It is now being offered free online through the MOOC company Coursera.

My experience is people do not follow someone who is negative. This is especially important in a growing, entrepreneurial company. You are building something. I am not saying you have to be Mr. Happy like the Roger Hargreaves kids' books, but positive. Especially in times of challenge (like our current environment) folks want to know it is all going to work out (which it will!)

I think this is why you see more leaders coming from sales than from finance or law. Sales people skew towards the positive. They bet on themselves with unlimited compensation via commissions. They spend their time persuading others to join them. Accountants and lawyers skew more negative. They think critically and break down larger concepts into detail. They are paid to make sure things are protected from potential negative events in the future. Certainly, someone with a finance and legal background can be a good leader, but they have to fight their skeptical orientation.

A couple Covid 19 related items. Zoom usage has risen from 10mm users in December to 200mm this month! Be careful about "Zoombombing" where folks randomly dial in and prank your calls – protect passwords. I am hearing from smart doctors (and now the CDC) you should cover your mouth and nose if you go to places like grocery store. It doesn't have to be a N95 mask but rather can just be a cloth mask or you can pull up your turtleneck. Personally, I ordered a Huk Neck Gaiter like the southern fishing guides wear.

Let's also have a shout out to the beauty of entrepreneurship in this crisis. It can come from unexpected places. Here is one from Jeff Dobosh. A kindergarten teacher who was trying to adapt to shelter at home posted on Facebook live and has gone from scratch to 650k daily views. Click here for the news story.

Be Safe.

Jml

Here is my latest in new office design (Chenequa, Wisconsin). Maybe more remote working is another positive C19 result?



J. Michael Locke
Musings

#14: Creating a Culture of Accountability
April 5, 2020

One thing that is critical in running anything is holding people accountable. You can't have a "best efforts" culture where someone works hard but comes up short. What matters is results. (See a good old movie with management takeaways called *Twelve O'Clock High*.)

Netflix is good at this. I have never had the pleasure of meeting Reed Hastings, but what he has done at Netflix is really impressive. I think their culture is a big part of that and the PowerPoint deck on their culture is the best I have seen. Worth a read here.

It is hard to have accountability without clear ownership. One challenge with the movement toward matrix management is blurred accountability. If two people own it, no one owns it. "One throat to choke" might not be a good saying in today's workplace but you get the point. This was one of the important aspects of Apple's success under Steve Jobs. There was no confusion on who was responsible. Every task had a DRI – Directly Responsible Individual. For my paddle tennis playing colleagues, this is why you do the reset lob down the middle….no DRI.

A good basic practice is to ask at the end of every meeting for a review of the follow-up items and identify the DRI. No ambiguity on who owns it.

Another technique is to have clear deadlines. When you give an assignment, along with identifying the DIR, set a date for its completion. As a leader, you should track those dates and begin your day with what is "due" to you that day. If someone misses a deadline, make your disappointment known. Sometimes individuals will need to ask for an extension, but that needs to be done before it is due. Deadlines never should just be missed.

In this way, you can "delegate" but not "abdicate." The leader is responsible for everything that happens on his/her team. It is not acceptable to say "[insert name] on my team didn't get it done." The leader selects the team, grows the team, and manages the team – the leader is accountable.

One final recommendation is to make individuals present in front of their peers. I mean literally stand up in the front of the room and present the results from their area of ownership. Pride is the best motivator of all.

Be Safe.

Jml

J. Michael Locke
Musings

#15: Why You Need to Know the Kardashians
April 6, 2020

Did you roll your eyes on that one?

Just because you might not be a social media person, don't underestimate its reach. There are approximately 330 million people in the U.S. (140 million voted in the 2016 election.) Now look at the followings of the top celebrities on Instagram:

#	@username	Followers
1	Cristiano Ronaldo @cristiano	210.1M
2	Ariana Grande @arianagrande	179.2M
3	Therock @therock	177.1M
4	Selena Gomez @selenagomez	172.1M
5	Kylie Jenner @kyliejenner	168.6M
6	Kim Kardashian West @kimkardashian	164.3M
7	Leo Messi @leomessi	146.6M
8	Neymar @neymarjr	136.5M
9	Justin Bieber @justinbieber	131.2M
10	Taylor Swift @taylorswift	129.2M

Obviously the followers on Insta are skewed to the younger demographic, but these are the purchasers of the future. This is why media companies focus heavily on the 18-49 demographic.

But beyond scale, there is another reason you should know Kim is married to Kanye and Kylie Jenner Cosmetics is worth $1.2bn (she sold 51% last year and she is 22…do the math!)

Leaders need to be relatable. You need to be as comfortable talking to the cab driver (they still exist!) as the owner of a company. Real leaders do it because they truly care about every human being. You are no better than the receptionist – you just have a different job. Younger workers tend to be more focused on pop culture than Green Egg recipes. Every individual has something to teach you. Take the time to talk to everyone. The "retail" level employee probably has the best information on how consumers are behaving or reacting to their experience (remember the inverse organization pyramid on value creation.)

Influencers are also becoming the driving force in marketing. Consumers no longer trust advertising. This has led to the rise of Trip Advisor, Yelp and Google reviews. The current trend is away from celebrity influencers like the Kardashians as a way to reach consumers and towards "micro influencers." These are not fancy celebrities, but more "regular people" in a smaller networks. For example, in Chicago, the NPN (Neighborhood Parents Network) is a popular forum for young parents to get advice on strollers and schools et al.

Michael Bloomberg is a smart guy and he tried to leverage this channel. According to The Daily Beast: "for a fixed $150 fee, the Bloomberg campaign pitched micro-influencers—someone who has

from 1,000 to 100,000 followers, in industry parlance—to create original content "that tells us why Mike Bloomberg is the electable candidate who can rise above the fray, work across the aisle so ALL Americans feel heard and respected."" Sorry it didn't work but there is only so much a paid influencer can do.

Covid 19 thoughts. According to Laura Tyson, the amount of stimulus the federal government will inject this quarter is roughly 20% of GDP. As DePauw Professor Gary Lemon taught me, GDP = ***c***onsumption + ***i***nvestment + ***g***overnment expenditures + net ***ex***ports. Consumption is almost 70% now so with everyone stuck at home, the government trying to soften the blow as Keynes would suggest. Unfortunately, as we learned in 2010, it is hard to push that much money out quickly in a wise way and there is likely to be a lot of waste and fraud.

So learn your Kardashians (don't worry about Rob), reminisce about the '76 Olympics and be safe.

My editorial board which helped on this one:



J. Michael Locke
Musings

#16: The Importance of Listening
April 7, 2020

An underappreciated skill is the art of listening. I mean *really* listening.

If you are wired to learn, you must listen. If you are talking, you can't be learning – you are the one transmitting information. The best executives / leaders I know are the best listeners. They give the air time to others and "manage" the discussion like a conductor to make sure every instrument gets heard. Some years ago we brought in the famed Second City to train our team on improvisation. The basic technique of improvisation is to play off the other person by saying "yes and." The flow stops if you express disagreement. Instead, you have to listen closely and build off what the other person is saying.

Listening can be difficult. In all honesty, I sometimes write "Shut Up" at the top of my notes as I sit down for a meeting (I still talk too much!). After a meeting or exchange, you should reflect on how much of the "air time" went to you versus the other people. One danger of Twitter and most social media is that they are broadcast mechanisms vs exchange mechanisms. Many individuals achieve success because they had knowledge to contribute and ideas they wanted to share. However, when you are in the corner office, it can't be you.

Build on your listening skills and develop the skill of asking good questions. Don't interrogate with pointed questions, but ask broader "what do you think" questions which give the other person a platform to share what they know. For example, don't underestimate the knowledge of the receptionist on what is going on in an organization. They probably know more than you do. After someone comes in for an interview, the first feedback you should get is from the receptionist. How did she or he treat you? It is an analog version of Candid Camera where you can get a glimpse of someone's true DNA.

Your final ingredient is "pattern recognition." If you are asking questions and listening, you will get lots of information. Often you get small data points which may seem insignificant but if you "register them" and then see a similar data point somewhere else, eventually you may recognize a pattern and be able to act faster. These can be patterns on the market or patterns on an individual employee.

Remember, you can't really listen if you are multitasking. Focus on the topic at hand and the person in front of you. Listening takes practice at work and at home.

Be safe.

jml

J. Michael Locke
Musings

#17: The Value of Structure
April 8, 2020

Today we debut a website you can use to access older musings and provide feedback. Check out https://gilesrichard.com . Thanks to Jennifer Walsh for all of her work.

For those who have babies, let me recommend a book by Pediatrician Marc Weissbluth – *Healthy Sleeps Habits, Happy Child*. It saved us in the early years. The basic construct is that most babies cry because they are overtired. They should be sleeping 18 hours a day. Get on a system and create structure. Nap time becomes the #1 priority.

Why is this relevant?

Human beings need structure. Babies need it to get in a rhythm of good sleep. Older kids need it for school. Currently, asynchronous online (where your kid goes online whenever and gets what the teacher sent) is performing worse than synchronous online (where you kid has to be online at a given time with classmates and teacher.) I believe families need structure and one of the challenges of the current environment is all of that is thrown out of the window. Monday is no different from Saturday. You don't have to be at the bus stop at 7:45 etc. Kaplan leader Jonathan Grayer had some good tips on creating homeschool structure on a recent *Today* show segment – watch here.

Professionals also perform best when there is a structure or rhythm. Like a good basketball player getting the rhythm stepping into the shot. Most people I know have a "workout routine," the when, where and what don't change very much. I assume you have 1:1s with all of your direct reports every week. Make those the same time every week and don't adjust. Same for the executive team meetings. It takes a while to get the "rigidity" established but folks generally start to adjust and fly out Monday night because the exec team meeting is Monday morning etc. There will obviously be exceptions every now and then but too often I hear how the 1:1 has been cancelled for three weeks in a row because schedules didn't work out. I say bull_hit.

For your 1:1, request a brief write up every week before your meeting. Like the "flipped classroom," this lets you digest the update and spend the meeting time exchanging ideas and not getting a recitation of activities. I am a fan of having a discrete set of topics which the executive covers every week – areas of focus – so you know the conversation is appropriately skewed to the areas of value creation. It is not a meeting to review what someone did on Tuesday of last week. It is about how they as DIR moved the ball forward.

This structure of individual meetings and group meetings should allow everyone to get in a rhythm and be more effective.

So get some structure and rhythm other than the 5:00 pour!

Be safe.

Jml

The Covid 19 world:



J. Michael Locke
Musings

#18: Picking Your Partners
April 9, 2020

Go to https://gilesrichard.com for past musings.

We all know the importance of picking your life partner. While not quite as important, you need to also be very careful about picking your "business partners."

In other musings, I have written about the importance of your team – folks that work with you in the same organization. By "business partners," I am describing those in your ecosystem that aren't employees.

One group is your service providers – ex. lawyers, bankers, auditors, brokers. Don't view these as transactional relationships where you put out RFPs and seek the lowest cost. The services provided might seem comparable but the people doing the work are not. Just like you focus on finding top talent to work in your organization, you want to find top talent within a service provider organization and then stick with those individuals (sometimes they change firms!) Often, like in law firms, these talented individuals are growing their own teams and the "family connection" can have multiple generations.

Part of the art form is mutual respect and investing in the relationships. They are partners NOT vendors. Bring them in and give them company updates. Ask them for suggestions when you are looking for talent. See if you can help them build their organizations. Of course their fees/prices need to be competitive, but in times like these, you want to be in the foxhole with people you have known for years and can trust.

It is always good to have a lending relationship. While I have written about the dangers of debt (leverage), it is a good practice to have a little on the balance sheet to have a relationship. This might even mean you have negative interest arbitrage as you pay interest on a loan more than the interest the cash generates (which you probably have right at the same bank). View this as a necessary investment so when you need the bank, they are there.

One particular area to highlight is insurance brokers. This is a rapidly changing area and you need a good partner. Historically, fees were paid out of the "sell side" (the provider paid the broker). This creates loyalty questions as they represent you but get paid by the other side. Don't accept that model. Pay your brokers from the "buy side" so you have their loyalty. This also creates greater transparency on fees (the same thing on real estate brokerage – beware of "soft costs.") Pay a flat fee rather than a percentage of your expense.

Ideally, you will have members of your team who might then become partners. No one better to trust with your business and provide good service than someone who "grew up with you."

Many of my "partners" – lawyers (Stan, Jeff, Lindsay), tax accountants (Vince), bankers (Bob), financial advisors (Andy) – receive these musings. To them, I say thanks for your help.

Be safe. I think we are starting to come out the other side of the health crisis. Now, the economic crisis hits. Make sure you are tipping extra.

jml

J. Michael Locke
Musings

#19: Managing Forward
April 10, 2020

Go to https://gilesrichard.com for past musings. We have created a "Musings in Return" section for you to see thoughts of other recipients. I am also putting a "second thoughts" section after my initials with some follow-up thoughts on previous musings.

Good leaders are always looking over the horizon. They are the captain of the ship ensuring no icebergs ahead.

I am frustrated when I read about organizations surprised by developments in the market that creates an existential threat. I am not talking about a Black Swan event like the current Covid-19 situation. I am talking about any retailer who in 2020 does not have meaningful online capabilities. Amazon became a public company in 1997!

The leader's job is to manage forward and predict what is going to happen in the market and with employees. The job is to take preemptive action to mitigate risks. One way to do this is to constantly seek inputs from competitors, customers and other constituents. Asking questions and listening (see Musing #16: The Importance of Listening).

To have something bad happen is business. To be surprised by it is inexcusable.

You need to establish KPIs (key performance indicators) which provide you with visibility. The better the KPIs, the more time you have to react. Like your car's headlights on high beam. Sales create the revenue which then covers the expenses. However, good management should be able to forecast sales. Especially in today's digital world, you should be able to measure traffic on your website or volumes of calls. Then you should have the statistic models on how those potential buyers convert in various steps through the funnel. While every specific buyer is unique, when you aggregate them up, the demand should behave in statistically consistent ways. Make your sales leader give you a projection not just the budgeted number.

Think about how the healthcare system has been preparing for Covid-19. They have models on the rate of infection and what percentage will need hospitalization. They know how many days from test result to needing a ventilator so they can take the testing results today and figure out the ventilators needed in a week.

One unfortunate model is the correlation of third grade reading level and adult incarceration. Some states using their third grade reading tests to figure out how many prison beds they will need in 10 years. That is managing forward in a sad way.

In a business, your CFO needs to be your partner in this endeavor. I am not a fan of the basic annual budgeting cycle where a budget is set and a year later, wash and repeat. Rather, executives need a

rolling four quarter forward projection. As you finish a quarter, you add another one on the other end. This should be a complete three statement model: income statement, balance sheet, *and cash flows*.

One common mistake people make is to do annual budgets and miss the "run rate" they have going into next year. You need to know the full year amount of the expense structure you have built up by either taking the fourth quarter x 4 or December x 12. When you add an expense midyear, it only hits your P&L for a part of the year and you can miss the annualization of the impact.

The Covid-19 crisis has made managing forward difficult. There are so many unknowns. Don't let that stop you from projecting! Rather, project ranges rather than specific numbers as volatility has increased and create scenarios under different assumptions.

The best leaders I know right now are discussing the equilibrium of reversion (thanks Jamie Cowie for the term). Things will not go back to where they were before Covid. The world will be more digital now – more telehealth, more online education, more remote work. The question is how much reversion will there be? How far back to the pre-Covid world will we go?

The best leaders are also contingency planning. What if we are still dealing with latent Covid issues in the fall? Right now, consumers have accepted subpar quality of online delivery because it was rushed out in a crisis. The consumer won't be as forgiving in the fall. Good leaders will invest in their digital capability now so if they have to use it in the fall, they are ready. They are managing forward. No Leo and Kate on the bow of their ship.

Be safe.

Jml

Second Thoughts:

I failed to mention institutional equity investors in my Partners musing. Don't just take the highest valuation when raising money. Really assess if the investors are someone you can be in the foxhole with. You might want to take more dilution for a better partner as you will probably make more money on the second transaction.

J. Michael Locke
Musings

#20: What We Can Learn From Peloton
April 11, 2020

Go to https://gilesrichard.com for past musings. We have created a "Musings in Return" section for you to see thoughts from others and have added a "Second Thoughts" section with my follow-up thinking on previous musings.

Let me start by saying we do not own a Peloton nor did I give Heather one for Christmas. Clearly, it has been an amazing success story. So what does Peloton say about human behavior and the future of consumption?

Peloton gives the consumer flexibility – you can ride live with a class taking place in the SoHo studio (or in London if you like the accents like Matt R.), you can ride synchronously with other individuals, you can ride with others asynchronously using a recorded ride, or you can just ride by yourself old style. Consumers want modality choice. They don't want a binary decision to be either online or in person. They want to be hybrid. They want to move between modalities on a daily basis. I want a bank that has branches and good online so I can do a mobile deposit and then go in for a cashier's check.

With respect to choice, I have to praise Netflix again with the creation of a "choose your own adventure" movie called *Black Mirror: Bandersnatch*. The viewer literally makes decisions using their remote control and the movie has been shot with the underlying decision tree so the next scene is based on the user's decision. In this way, the viewer is "writing" the movie.

Flexibility and choice give the consumer control. Society has moved from standardization for mass production (the Model T) to mass customization. Every consumer gets it exactly how s/he wants it. Chipotle's system is designed to efficiently let you create your custom burrito bowl. Starbuck's has created options we didn't know we needed – was there an untapped demand for pumpkin lattes with coconut milk? DIY (do it yourself) is a growing category where consumers can get components from various providers and the consumer is the integrator.

Along with modality control and flexibility, Peloton has taught us about the value of "star" teachers. These instructors get their own followings and people want to ride with a specific person. The consumer gets to pick the style he or she likes – the personality and the music. The star teachers have become social media influencers (see Musing #15 on the Kardashians).

Finally, Peloton has taught us that innately most people want to compete. It doesn't have to be athletic, it can be *Jeopardy*, but we want to benchmark ourselves against others to know where we stand. Some folks in online education have been talking about "gamification" for a while. Are we going to see the "Pelotonization" of higher education post-Covid? Students have gotten more exposure to online (some good and some bad) during the crisis, and I predict they will want more good-quality online post the crisis as it gives them more flexibility and control.

From a straight business perspective, you have to like the Peloton business model. After you lay out a couple of thousand dollars for the bike (probably 50% gross margin), you get to pay $60 a month for the subscription (probably 80%+ gross margin). Subscription revenue allows them to manage forward easier by providing greater visibility (yesterday's musing). That is a good business model and why the company is worth over $7.5bn now. Great entrepreneurial story.

Be safe. Make sure your offering provides consumers modality choice, flexibility and control.

jml

Second thoughts

In Musing #13: The Power of Positivity, I referenced the popular class at Yale. The teacher of that class was on the *Today* showing giving five tips to be happy in the current environment: Watch it here .

J. Michael Locke
Musings

#21: How Google Works
April 12, 2020

Happy Easter! My guess is many of us will have our first exposure to "Telechurch" this morning.

I wanted to go tactical today. Almost every consumer decision starts with a Google search. It is now a verb. I would bet most of us "googled" to see if our respective church was streaming a service today. It is one of the most amazing developments in business over the last twenty years. As a leader, you have to understand how Google works.

Google has developed its dominant position (it has almost 90% of search engine market share) by providing superior results when the user searches. There are two types of results: organic and paid. The paid results are how Google makes money. These are ads that appear above the organic results. They are preceded by "**Ad.**" Advertisers have an account called Google Adwords where they can set how much they are willing to pay for their ad to come up when certain search terms are queried. Google also looks at how users behave and judges how relevant the ad is (i.e. you can't just buy your way to the top of ads). It is basically a real time auction. Google constantly optimizes the placement of ads and the advertiser can constantly adjust bidding strategies. This is all done by computer algorithms. Important note, Google doesn't get paid when the ad appears, it gets paid when the user clicks on the ad. This is why the channel is called "pay per click" or PPC.

There is an art form in writing the couple sentences in the ad to try and drive the user to click through. Most advertisers create a "landing page" where the searcher will go when they click through (i.e. don't have the consumer go to the generic website and get lost, but to a relevant and actionable landing page.) One oddity of PPC is that most advertisers bid when the searcher queries that advertising company's name (this is called branded PPC). The consumer knows the company and often just wants to get to the site but the company will still bid to get an ad in the search results as to not cede that ground to competitors. While some consider it a "black hat" (implying not good) practice, advertisers can bid on their competitors' brand name queries. Think about it like putting a billboard across the street from your competitor.

Mobile queries exceed desktop searches now which has changed the PPC game. There is less "space" for Google to monetize – fewer ads. While the cost per click for mobile and desktop are similar, the mobile lead is less valuable as it is "higher up the funnel" and less ready to transact. So as an advertiser, you are paying a higher cost of acquisition.

Personally, I never click on a Google ad. I go past the ads to the organic results. Here is where the Google search algorithm brings back what it believes are the most relevant sites. This is the SEO game (search engine optimization). Companies have SEO teams and there is an entire industry of SEO consultants. It is a cat and mouse game. Google does not share its search algorithm (think KFC secret recipe). The SEO community tries to figure out how Google is evaluating worth. Every so often Google

updates its algorithm and the SEO world tries to figure how it has changed its methodology on judging the relevancy of a website. The objective of SEO is to be in the top three of organic results and absolutely on the first page. No one goes to the second page of results. The way to do this is to create highly relevant and valuable content for your target and optimize your site technically for SEO. You also want other websites to link to your site, which is a signal to Google that the content is high quality.

Google is hyper focused on having a "wall" between the search side of their operation and the ad side. They are like two different companies. Think about it like the Bernie Sanders progressive movement on the search side trying to give the consuming searcher what they want for free, and the Donald Trump capitalist side trying to sell ads to make money. When it went public in 2004, Google founders Larry Page and Sergey Brin did an unusual move and wrote a letter in its prospectus. This letter laid out their principles and vision and stated: *Sergey and I founded Google because we believed we could provide an important service to the world—instantly delivering relevant information on virtually any topic…….We aspire to make Google an institution that makes the world a better place……With our products, Google connects people and information all around the world for free.* Not to be cynical but the business is worth $830 billion and made $47.6 billion in the last twelve months (buys a lot of Marxist t-shirts.)

When it first launched, the Google algorithm didn't delineate the searcher or where s/he was. Everybody got the same results. Now, Google has a detailed profile of you (remember you usually are signed in) and knows where you are so it serves up hyper-targeted results. A fun game is for different people to do the same search and see the difference in results. (Another fun digital game is to do over/under on Uber ratings. Just click on the three lines on the top left in the app and your rating will be under your name next to your picture. In the ultimate grade inflation, you don't want to be under 4.7). The Google algorithm also applies geographically as well, so advertisers can do "geo-fencing" where they only want their ads coming up for searches in a certain area.

Finally, Google is changing to become more of an "answer engine" vs a "search engine." If you look at results, Google is pulling up more information and giving it right on the results page so you don't click off their site but stay there. This will create opportunities for them to be more of a media property vs a gateway that just passes searchers off to other sites.

I think you will see Google broken up AT&T style in the next decade (I have not even addressed how they offer various software tools to help advertisers manage all of the above.) It will be a victim of its own success. Do you even consider another search engine? I have never heard my son challenge my dinner story with "I am going to BTS (Bing That Shi_)." Many consider it too dominant and the politicians are circling already.

I also believe the trend to pass legislation to restrict the use of personal data will continue. It started in Europe with GDPR and then California with CCPA. Many economists are arguing that your personal web activity data is an individual property right and the user must be compensated for the company sell it (or leverage it for advertising sales). Google, Facebook, YouTube, Twitter, Instagram all provide their application or service for free. They "monetize" you and your usage by extensive tracking what you do and then selling the opportunity to advertise more precisely.

Be safe. Wear a mask.

Jml

Second Thought

Musing #18 Picking Your Partners discussed always having a banking relationship. A number of folks have just experienced one of the reasons why, with the chaotic PPP program rollout for small businesses. From the Dispatch (https://thedispatch.com, founded by fellow DePauw alum Steve Hayes), "Companies without existing banking relationships were left in limbo as banks granted preference to current customers."

J. Michael Locke
Musings

#22: Making Decisions in a Crisis
April 13, 2020

Making decisions in the middle of a crisis is difficult. Speed is vital yet you don't have the information you need. Here are some recommendations:

Get a lot of input from smart people. You won't have the data you need (and usually have) so crowdsource intelligence by talking to wise people with different perspectives.

Act incrementally. Don't bet the company. Respectfully, one of the worst decisions in a crisis was Ken Lewis at Bank of America buying Countrywide. It looked like a great deal. It wasn't. It has taken over a decade for Bank of America to deal with all of the crap it inherited from the poor mortgage portfolio and practices of that business.

Preserve optionality. If you can, make decisions that don't eliminate the ability to go a different direction in the future. Many high school seniors are doing this right now by putting down deposits at multiple institutions since they have not been able to attend an admitted students' day or spend a social weekend on campus. On the other side of this dynamic, college admissions professionals need to be careful about using historical algorithms on yield. Unfortunately, political leaders can't really act incrementally and preserve optionality on the decision to "reopen" from the Covid-19 lockdown. Talk about a hard decision. The "reopening" will also require business leaders to make difficult decisions on "how to go back to work" and think through questions like having people come back in stages or how to handle working parents when school is out for the rest of the year.

Create a "T" chart with positives and negatives and visit it every so often after you get input. This should be a dynamic analysis. When it settles down and stops moving, you are ready to make a decision.

Have a moral compass. One college president used to tell me, "I always make decisions by what is in the best interest of the student." Recently, during a discussion about an employee matter, a great executive said "What is in the best interest of the employee? We have to do what is best for him."

In normal times, I recommend getting buy in from key executives on a decision so you know they will be fully behind the implementation. In a crisis, the leader has to make the call. It is not a time for a democracy but rather more of a benevolent dictatorship. The leader must lead. I believe in servant leadership but in urgent times, your style needs to change.

It is all about judgment. The decision won't clearly be right or wrong for a while. Everything is gray. Trust your gut.

Don't look back. The goal is to get more right than wrong, not to be perfect. No regrets, plow forward.

Be safe.

Jml

Second Thought

In Musing #7, I wrote about layoffs. Let me be more specific on the options. When you furlough an employee, they stay on your healthcare plan (you still pay the company share of the monthly healthcare premium) but they don't get compensation and can file for unemployment. The thought is you plan to bring them back on when business resumes (ex. the gym reopens). When you terminate an employee, they can take COBRA and stay on your healthcare benefits but they pay the full premium. Hopefully, you can provide severance but you are not legally obligated to. The stimulus bill added some additional federal money to regular state unemployment benefits so an employee may temporarily not receive a significant change in income. See the WSJ article here .

J. Michael Locke
Musings

#23: Fostering Innovation
April 14, 2020

Go to https://gilesrichard.com for past musings.

Every leader wants his or her company to be creative and constantly innovate in today's dynamic world. This is how you gain competitive advantage, hit a market early and succeed. However, there are ways to foster, or kill, innovation in an organization.

Don't seek too much specificity too early. Innovation is a process. It starts with an idea that develops and matures as more people contribute and additional data is accumulated. As a leader, if you drill in the way you would on a quarterly operating review of a mature product line, you will kill the innovation. You need to apply a different standard and let the details be unchecked for a while.

Do give a forum to employees "at all levels" to present ideas. Of course you can do a suggestions box or email, but I am a bigger fan of an in-person forum with top executives listening (not interrogating like Shark Tank.)

Don't immediately say no or express resistance. This will shut the creative personality down out of the gate. Start by agreeing and supporting and then move to more critical feedback later.

Do create a separate group with a diverse set of individuals (seniority, functional expertise, personality) to explore the innovative idea.

Don't underfund trials. You have to take some money from the "core" business and try some things. (My favorite HBR article of all time is a May 2005 paper called: *Building Breakthrough Businesses Within Established Organizations*. https://hbr.org/2005/05/building-breakthrough-businesses-within-established-organizations In this article, the authors describe "CoreCo" and "NewCo" where a leader must establish a small group of people in NewCo and protect them using the power of the position to give them the room to innovate. NewCo must then forget, borrow and learn. The "skunkworks" group must not get caught in the old way of doing things, must leverage what it can from the historical business and must learn as rapidly as possible.)

It is difficult to stay innovative in bigger organizations. Large organizations suffer from the inevitable establishment of bureaucracy. To scale, the organization must establish standard operating procedures. Entrepreneurship and innovation often become evils to the system. A key to success is keeping a "general manager mindset" where individuals think like an owners. If it was your money on the table, it was your business, what would you do? There is a difference between a general manager who thinks across functions and owns a complete P&L and a staff executive who has important responsibilities but not P&L authority (ex. VP of Marketing or HR). To keep this "general manager mindset" as the organization scales, consider breaking down the overall company P&L into smaller components. Like Lego building blocks of P&Ls. This keeps the general manager mindset closer to the

market. It also lets you attract talent. Many talented people want to run a business. By breaking down a larger business into smaller P&Ls, you can attract these types of individuals.

Be safe. Try something new today yourself.

jml

Second Thought

In Musing #11, I wrote about being authentic and personal. Isn't it nice to see TV personalities at home without professional make-up seemingly more normal? I think it is more effective. In Musing #17, I wrote about the value of structure which is lacking in this quarantine world. It is so bad, a Cleveland News station does a quick segment called "What Day is It?" https://www.youtube.com/watch?v=2bErtwnj6cA

J. Michael Locke
Musings

#24: Choose Your Words Carefully
April 15, 2020

Go to https://gilesrichard.com for past musings.

While politicians generally exhibit very little in the way of good leadership and management, there is one thing we can learn from them. They are very good at choosing their words carefully and creating naming conventions which might influence perception before you even dig into the topic.

Think about "illegal aliens" vs "undocumented immigrants." The latter creates a feeling of a mistake in the paperwork. The former creates a feeling of a criminal invader. How about the "Affordable Care Act"? How could someone be against that? Legislators are even getting good with acronyms. The huge stimulus bill is actually the "Coronavirus Aid, Relief, and Economic Security Act" or "CARES Act."

Leaders should choose their words and naming conventions carefully. You can frame a conversation to your advantage by how you name it. The most common approach is to just be descriptive when doing things like setting up a meeting. Instead, I recommend you name the outlook meeting invite with the outcome you want. As an example, if you are meeting with the VP of Sales to talk about how to get more traction – call the meeting "Strategies to Accelerate Bookings" rather than just "Sales Meeting."

This is especially important when you are trying to motivate. Recently, I was involved in a business where we created a special team to explore a new area for expansion. We gave the team the project name of "Go Big." That kind of sets the framework doesn't it?

When building PowerPoint slides, use active titles which frame the message. Rather than saying, "Q1 Expenses" say "Gross margin expanded in Q1." Make the takeaway point in the title of the slide. That way, the ppt flipper will get the message just by quickly reading the slide titles. You will know the message got delivered.

Let me digress on PowerPoint for a second. It is ruining management discourse. Too much time is going into the preparation of PowerPoint slides and not enough into actually thinking and discussing. Executives are becoming TV anchors reading the teleprompter when they recite their slides. Enough. Tell your team you want a 1-2 page memo and then a conversation. #killpowerpoint.

Choosing words carefully can even apply to simple things like email addresses and platform decisions. Personally, I think someone's email address says a lot. I will never forget the younger candidate who had an email with 420 in the name. Seriously? Casual nicknames are also suboptimal. Use some form of your official name as your work email. Sorry for those who like Meg Ryan and Tom Hanks but an aol.com email shows a lack of technology sophistication. Obviously, the most digitally fluent will have their own domain. Gmail is probably the core of digital crowd. Outlook use implies a more 'standard' person who is probably on a Wintel machine and not Apple.

Slow down and think about your words. Colleague *not* subordinate. Partner *not* vendor. Disappointed *not* mad. We *not* I.

Ad (See Musing #21: How Google Works)

I am really proud of the innovative team at Bennett Day School (where I serve on the board.) They have introduced two hours of daily, free educational programming for parents trying to juggle everything. Those with little ones can join them from 11 am-12 pm central for Creative Play with Mrs. Cunningham (for PreK-Grade 1) and 2-3 pm central for Exploring with Mr. Reynolds (Grades 2-6). To learn more and to download the Weekly Learning Guide for Parents and Educators visit: https://bennettday.org/bennettlive/

Be safe.

Jml

Second Thought

In Musing #6, I wrote about de-risking decisions for consumers who have been shell shocked by the Covid shutdown. My nephew Chip shared this ad from an apartment building he was considering.



J. Michael Locke
Musings

#25: Email and Meeting Etiquette
April 16, 2020

Go to https://gilesrichard.com for past musings.

Some more tactical thoughts today.

Email has become today's communication lifeline for working adults. I fear to count how many I get and send on a daily basis. It is a beautifully efficient communication medium but the simplicity also ramps up volumes and leads to challenges. Here are some of my rules:

1) **Always respond to an email**. Even if it is a short "ok" or "thx." If you don't respond, the sender doesn't know the communication was received. Maybe it went into a spam folder? Maybe the address was wrong?
2) **Rarely use "Reply All"**. This might be the cardinal sin. Someone sends and email to a big group and someone hits reply all saying "I'll be there." Only use Reply All if it is information that everyone needs to know.
3) **Delineate "To" and "CC".** Email CC has become the biggest CYA in the modern workplace. If you are a CC on an email, you are an observer to the communication tennis match. You really should not respond. You were not the recipient. You were copied because the sender wanted you to know, not to respond.
4) **Never put on the "out of office**." I am sorry, but if you have an important job you are never "out of the office." You might not check them as often, but you should be checking regularly on weekends and vacations.
5) **Don't use your inbox as a database**. I try to be zero inbox person. While I am no superman, the i-Phone red circle is my kryptonite. I don't accept that folks can have thousands of emails in their inbox and then use the search function to find the relevant one like querying a database. (see a funny WSJ article on the red circle and relationships here)

Now to meetings.

1) **They start on time**. To quote Greg Finkelstein, "two minutes early is five minutes late." People are trying to manage their time and need certainty. Think how much more pleasant going to the doctor would be if everything happened on time.
2) **Ideally, computers down and phones off**. I think society has moved beyond this possibility unfortunately. Multi-tasking means someone is not listening completely. Going green and the substitution of taking notes on the computer from writing on paper has become the Trojan horse for multi-tasking.
3) **Don't let Outlook say meetings have to be an hour**. I don't like the default in Outlook that everything is an hour. Some meetings can be 15 minutes. I see a growing use of daily scrums. Invented by software developers doing agile development where it is critical to know what others are doing, the relevant group of people have a quick, standing up meeting every

day and review what each team member is doing to check interdependencies – physically somewhat like a scrum in rugby. In today's fast moving, interdependent world, this may be the standard of the future.

4) **Push out materials at least 24 hours beforehand**. The meeting should be about the exchange of ideas. Like "flipping the classroom" in education, the transfer of content from one "speaker" / "presenter" should happen before hand and everyone should be expected to have read the material. The meeting can then be the exchange of thoughts about the material.

And now onto video meetings, I am not particularly accomplished in the use of video for meetings, having only recently become a heavy Zoom user, but here is what I have noticed so far:

1) **Find the best place in your home.** Figure out the lighting, camera angle etc.
2) **Make everyone's camera be on.** You want to limit multi-tasking and need to know what the attendee is doing. I think it also is better for communication when you can see someone.
3) **Open up with some personal "banter."** Some call it the check-in. Stay personally connected.
4) **Slow down pace of exchange and limit attendees.** Pretty hard if you go over a number like six. The flow is difficult as people "interject" so you have to slow it down and make sure someone has finished their thought.

Be safe.

jml

J. Michael Locke
Musings

#26: Creating Community
April 17, 2020

Few individuals want to operate in isolation. There is a series on YouTube called "Study with Me" where you can virtually sit with the YouTube poster while you both study. Viewership is up 52%! This is one of the worst parts of the Covid 19 crisis. Everyone is stuck at home and roughly 30% of US households have one person.

Leaders need to make their organization a community. It is good business. Employee retention is directly correlated to employee engagement. Is it "just a job" or does the employee feel s/he is part of a team and community? A happy and engaged employee leads to a happy customer.

Creating a healthy community starts with how new members join. How is your orientation program? Not the "read the manual, HR policy stuff" but the true onboarding. My guess is many of you don't even have a set orientation program. Create one. Start with a rudimentary – here is a schedule of lunch and learns – where you can meet the various departmental leaders. Assign the new employee a "buddy" from a different department who can make their first months easier. The highest rates of attrition are always in the first six months. If you can get someone over this hump (as Dr. Henry Bienen taught me the statistical "hazard" in the hazard model), your outcomes will be much better.

For those running schools, this same logic applies to students. Make sure you are measuring retention by quarter or semester so you can see that first period drop rate. The Chancellor of Texas Christian University (TCU) knows the importance of this. Leveraging the work of Michael Stallard who wrote *The Connection Culture*, TCU created a Connection Center at TCU. According to Chancellor Boschini, "their only job is to program and provide a myriad of opportunities for people across campus to connect with one another in ways they might not have otherwise done. They have the charge to work across all lines: student, faculty, staff and even alums." Students who are engaged will not drop out.

Technology and the resulting availability of data have created new opportunities to measure engagement and proactively get in front of a retention issue. For example, most schools offering online learning programs measure when students are in the learning management system and for how long. This data on activity shows you if someone is engaged or not. Good schools run it every day and create "warning systems" for those who are not active. There are differing views on doing this with employees. There are software packages you can get to monitor employee screens or track the number of emails sent. I am not a fan of monitoring employee email or "log on" time. I think you have to trust your team. Still, you can measure engagement the old school way – do individuals come the company social events? Do they ask questions in company town hall? Do they wear company logo apparel if it is provided?

Organizations where all members are engaged in the community are more successful.

Speaking to our community at large, the Covid 19 crisis is magnifying the segmentation of our workforce. The difference in impact between hourly, retail workers and salaried, knowledge workers is dramatic. If you combine the last four jobless claims reports, the number of Americans who've filed for unemployment is 22 million. Disney furloughed 43,000 amusement park workers last week while Google is hiring. On the stump, Bernie Sanders would commonly note that three people (Bezos, Buffett, Gates) have more wealth than the bottom 50% of the U.S. population (160mm people / $245 billion). We must fix this disparity. Societal cohesion will depend on it. Famed investor Ray Dalio had a good piece on this last April: read it here.

Businesses / employers are an increasingly important part of building community in our society. Church is no longer a cornerstone. According to the Wall Street Journal, less than half of American adults attend church regularly, while 26% claim no religious affiliation. Employees are more geographically mobile so the local town is less influential than it was historically.

Building community in your company is not only good business practice, it is morally important.

Be safe. If you are receiving this, you are most likely a salaried, knowledge worker. Tip $20 when you get your carry-out lunch today.

jml

Second Thought

In Musing #20 "What We can Learn from Peloton", I discussed how education needs to look at modality flexibility and the future of blended or hybrid models. See the following email from Ted. Is this the future education modality?

Introducing **TEDx**Chicago TED Circles!

With our main stage event in flux, we wanted to bring the community together while we're physically distancing. We welcome you to join **TEDx**Chicago TED Circles.

A TED Circle is hosted by volunteers. Circles watch and discuss a TED Talk and then engage in meaningful dialogue encouraging the diversity of thought, fostering genuine intimacy through the exchange of ideas, and learning from each other's perspectives.

J. Michael Locke
Musings

#27: The First 90
April 18, 2020

Prominent senior living executive John Rijos once taught me about the "First 90." John's background is in hospitality and research has shown that consumers form 90 percent of their impression in the first 90 seconds and first 90 feet. So what are the implications of this 90/90 rule?

You need to have a world class website. As we have moved to a digital world, the first 90 feet virtually have become the home page. It needs to load superfast. In fact, Google penalizes your website in its search algorithm if your site takes more than a couple seconds to load. Google also evaluates if your website is mobile friendly. Viewers are more likely to be on an i-Phone than a desktop. The basic 10 second message you would deliver in an elevator ride needs to be clearly communicated right away. Your website needs to be easy to navigate so visitor can access the information they want quickly.

The first 90 feet obviously is a physical construct. If you have a unit model, make sure you have good landscaping and the outside of the building looks nice. I will never forget when I was visiting a location of one of our businesses and there were empty cans in the grass. When I asked the general manager about it, he lamented the quality of the cleaning crew. I demanded we get two trash bags and he and I walked the grounds picking up the trash! General managers need to "think like an owner" and do what has to be done. Unkempt grounds, dirty carpets, cluttered corners or conference table chairs spread in disarray are all simply unacceptable.

If you are running an office-based business, the first 90 feet is your reception area. What have you put on the walls? What does it say about your company and its culture? Pastel portraits should probably be replaced with client logos and testimonials or employee awards.

In this Covid 19 world, the first 90 feet might be your picture on Zoom. Software executive John Hughes was recently interviewing new marketing agencies and he shared how many of them had done their pitch from their bedrooms! To quote ESPN ….C'Mon Man! Reminds me of my visit to a potential datacenter and they took us to a conference room with a kegerator. Not sure I want my mission critical data there.

The first 90 seconds are usually a human interaction. Don't be too casual about choosing the receptionist. Don't make the mistake of viewing them as another administrative resource and assign lots of paperwork tasks. I have seen visitors patiently waited while receptionists finished their paperwork. Priorities! Jeff Bezos has credited much of Amazon's success to its "Customer Obsession." A customer should never have to wait while staff does paperwork.

Increasingly, the first human interaction is a call center. Again, don't underestimate the importance of this role. Invest in your call center talent. While you need to ensure the productivity and measure call

time, don't let efficiency KPIs drive the culture of how the team engages with customers. In this "peer influenced" purchasing world, consider staffing your call center with individuals like the caller. For instance, use current students to help field questions from existing students. This is why the student-led tour has become such a staple of the college decision process.

While I don't know what will happen in the post-Covid world, the first 90 seconds have usually involved a handshake. No wet fish shakes. Nor should you follow Trump and try to establish dominance with an aggressive, pull them towards you, handshake (If you haven't focused on this, a fascinating little window on the President. See https://www.youtube.com/watch?v=T84se4fc4KU) Your handshake should be firm, eyes straight at the individual you are greeting. Simple stuff that matters. Teach your kids.

So over allocate time and attention to the First 90.

Be safe.

Jml

J. Michael Locke
Musings

#28: Don't Stop Short or Oversteer
April 19, 2020

Many of us have had the pleasure of teaching a child how to drive. Two basic challenges our kids had (which I think are a shared experience) are abrupt braking (ala Seinfeld "Stop Short") and the oversteer, where a turn quickly goes from 90 degrees to 120 or more. Developing executives can have the same problems.

When the future path looks bad or full of risk, executives can quickly brake. Sometimes to the extreme. A particular business line might hit a soft patch and less developed executives will recommend it be closed down. "It is losing money, lets close it." While clearly you should not accept money losing endeavors, let me encourage you to work on fixing it. It is an important cultural statement to not walk away from a challenge but work through how to solve the riddle. My mentor Bob King once said to me "we are builders not closers" when I wanted to exit a struggling partnership. Even if you end up having to shut the relevant activity down, the whole team will be better for trying and many times will fix things.

This also applies to personnel. Developing executives can be quick to label the team member as nonperforming and want to fire him/her. Remember that the manager's job is to develop talent *not* just assess it. I am from the growth vs assessment camp in the K12 evaluation debate. A teacher should be evaluated by pre- and post-assessments to see how much learning occurred. Similarly, the best executives are the ones who can "grow" their talent.

The social media and influencer world is leading to oversteering. The heat goes from zero to boiling in a matter of days in today's viral world. Too many people then oversteer in reaction to the pressure. I recommend holding out, focusing long term and stay on course. Remember the Governor of Virginia and his KKK picture? You might be surprised to learn he is still there and leading through the Covid 19 crisis. It is a marathon not a sprint. Remember, "insecurity is loud, confidence is quiet" (not my quote but don't know the source.)

Good strategic thinkers who may have plenty of experience can also oversteer. They often believe they know where the market is going (and often maybe right) but fail to factor in time. It takes a while for markets to turn and adjust. So you can't move too abruptly and oversteer like a teenage driver. Along with talking too much, this is the weakest part of my game. Even if you have confidence on where a market is going to be in five years, the market isn't there now. You have to stay leading edge and not bleeding edge. Remember, the tip of a knife is known as the bleeding edge. While the tip pierces and breaks through, the cutting edge is the part of the knife that does most of the work (and will create the most value).

Be safe.

jml

Second Thought

Daniel Diermeier is finishing up as Provost of The University of Chicago and will be taking the helm at Vanderbilt University on July 1. He shared with me a great paper on leading through a crisis which is attached.

J. Michael Locke
Musings

#29: Lemmings Don't Create Value
April 20, 2020

Go to https://gilesrichard.com/ for past musings.

Using a golf analogy, executives will sometimes say "keep it in the middle of the fairway." The basic construct is not to deviate too much from the norm. It is hard to get in trouble if you stick in the middle of the pack. It is also impossible to win the race!

Leaders must lead. You cannot be a lemming and follow the herd. This is especially important in our society today. Like most investors, I am spending lots of time on the phone or in zoom with executives talking about how to save expenses with the lack of revenue visibility. Sometimes I will hear the idea to cut 15% across the board. I couldn't disagree more. You have to be thoughtful about the expense reductions and right now, I would consider increasing your marketing spend. That is right. The lemmings are all cutting their marketing budgets to save expenses. According to the Chicago Tribune, the prices of Facebook ads are at record lows (having declined 35% to 50% in recent weeks) and "once abundant travel and entertainment ads have all but disappeared from Google." Google cost per click prices are down. Now is the time to go left when they go right. If you have the right value proposition to communicate, you just received a less-crowded market place to engage those consumers in your market who can still transact. So certainly don't cut your marketing budget and consider increasing it to take share while the lemmings are on the sidelines.

This "spend more in marketing" mentality assumes you are using measurable digital channels so you can calculate your cost of customer acquisition (CAC). As long as your CAC is lower than the lifetime value of that consumer (LTV), it is a profitable move over the long run – the marginal revenue exceeds the marginal expense. I am a fan of using gross margin lifetime value so you truly are measuring the profits the incremental consumer will generate. CAC/LTV ratio has become a key valuation metric for Software as a Service (SAAS) companies but there is no reason it can't be applied to other business models.

The herd mentality has been reinforced by the rise of social media and 24x7 news channels. Think about it. News stations are covering what random people are tweeting. What happened to proving your expertise so you earned the right to communicate on a broad platform like national TV? The challenge is that Ted Turner's 24x7 invention means the station needs something to talk about. It has to create news. This can create a false momentum where random social media participants get picked up by TV station #1 which gets picked up by TV station #2 and everyone is headed to the next Woodstock in Abilene. One tweet turns into a heard with amazingly quick speed. Don't follow them!

This is also playing out in the stock market. Historically, it is well documented that the majority of active managers underperform their benchmark index. This led to the creation of Exchange Traded Funds (ETFs) pioneered by Jack Bogle and Vanguard. An ETF is a basket of stocks meant to represent the market. You don't pay Vanguard to pick an individual stock – they just buy the basket and thus can

charge lower fees. Tons of money has moved into the ETF/Passive Index space so now basically everyone owns the same stocks. The index gets momentum on the way up and momentum on the way down. The lemmings are riding a roller coaster with increasing volatility magnified by algorithmic trading. All of the action is in the last 30 minutes of the trading day when the computer's lemming-based algorithms decide where they want to close out. Now is the time to find a good active fund manager who can run counter the market trends.

Very smart people can unwittingly become lemmings. Think about the investors in Theranos (great book *Bad Blood*) or WeWork. They are some of the most accomplished in our capital markets. However, they lost their bearings and just followed the crowd. They lost all of their money. Sam Zell was calling the fallacy of WeWork long before its demise and against the trend. He is a leader.

Now is the time to innovate. Now is the time to think differently. A very successful private equity investor once told me that he got his best returns when he invested into a dislocating market and picked the right horse. There will be winners on the other side of the Covid 19 storm. Now is not the time to follow what others are doing. Now is the time to lead.

Be safe.

jml

Second Thought

The rapid rise in unemployment is not just an economic issue. According to David Brooks, "It is a giant stress test of our social solidarity." There is value in the "dignity of work." Most individuals do not want to be dependent on handouts. They want to work and take care of their families. To quote a recent good McKinsey piece: "*when people are stripped of their work, they suffer losses not just of income but also of dignity, meaning, and hope."* See this link for the full McKinsey report click here

J. Michael Locke
Musings

#30: The Power of Recognition
April 21, 2020

Go to https://gilesrichard.com for past musings.

Companies spend multitudes of hours designing and implementing their compensation systems. I wish the same effort would go into employee recognition systems.

Individuals want to be fairly compensated, but most are not *just* working for the money. They want to be paid fairly but they also want to be challenged, they want to learn, and they want to work with people they like. Millennials place a high importance on alignment with the employer mission. Most importantly, individuals want to be recognized and pride is the best motivator of all.

A benefit of motivating the team through pride is that it does not impact the P&L. You can do it through tough times like these as much as in good times.

One technique is to create a rotating trophy where an award is given every month or quarter. Go to a local antique store and buy an old trophy or go to the trophy store and have a new one made. I have even seen folks use a candy dish of jelly beans as the "trophy." The team knows what it is and keeps an eye out to see who has it. It is usually most effective to award the trophy in some kind of ceremony.

An "Employee of the Month" with a plaque highlighting previous winners is always effective. Consider naming it after a well-liked colleague. A unique one I have seen is the wall of gold-plated patents at the headquarters of Ecolab. If you want to create a culture of innovation, there you have it. Get a patent and you get a gold plaque on the wall, almost like the Football Hall of Fame.

You can also use job titles. Our Deltak team created a progression of titles – Program Manager I and then Program Manager II etc. While this promotion did not necessarily mean more money, it showed good performance and knowledge attainment (a test was required.)

The military is obviously the most accomplished at this technique. There is a clear hierarchical system of titles. You earn the next title not through time but performance. You know a Brigadier General represents someone "above a colonel but below a major general." In addition to the well-known title hierarchy, you have the symbols – a three-star general or someone with a Purple Heart.

Finally, the most powerful recognition system may be handwritten notes from "the boss."

When is the last time you received a handwritten letter at home? If you are like me, it certainly is a rare occurrence, so think how special it is when it happens. I am a big proponent of writing notes and letters to your team. It does not have to be lengthy, but team members really enjoy it when you take your pen and write a note of thank you or congratulations. Sometimes I see them hanging in a person's cubicle

almost like a trophy. If you are like me, you might have some old ones you have received years ago still in a drawer that you pull out and reread once and a while.

Be safe. Write a note today to someone who has done good work (email doesn't count).

Jml

Second Thought

In Musing #10 *Leader as Coach*, I wrote about using "we" instead of "I." This also applies to the possessive adjectives. You should use "our" and not "my." So it is "our team" that accomplished something not "my team." I want to throw something at the TV every time I hear Trump speak of "my administration." Personally, I think it would be interesting if a Presidential candidate not only picked their Vice President running mate but picked some of the key cabinet jobs like Treasury, State and Education. You could vote for the team not the person. The team gets the job done.

J. Michael Locke
Musings

#31: The Insights from Observation and Going Retail
April 22, 2020

In today's world of excessive stimuli, it is easy to get lazy and not observe closely. You can miss valuable nuggets amidst the volume. Don't let this happen. Think of it like looking for gold. According to Google, "most people who go out panning do not find any gold at all. The reason for this is simple: *they don't go down into the sediment far enough.*"

A short anecdote to drive this home. I was once touring a college campus in Florida with an administrator and we walked by a room with a group of students looking at a large screen in front with a faculty member presenting via video (while this may seem normal in our Covid world, but this was a 15 years ago.) I stopped our walk and asked the administrator what was going on. Apparently, a faculty member had invented a format he called the "flat instructor" where he leveraged expertise from around the country and had them teach class via video. I asked to talk to the inventing instructor and fast forward and this technique was deployed in campus locations across the country. Individual acts of innovation can go unleveraged because the creator doesn't realize how special it is. The leader must get into the field and observe.

You must observe everything. The cluttered physical desk is a warning flare for me. How can an executive be on top of their game if they can't organize their space? The cluttered computer desktop is the same. Having 30+ icons on the desktop is the virtual equivalent and shows a lack of focus and too much multi-tasking. Running late is another one. Anyone who is late for an interview should not even get one. The talented prospect will get organized ahead of time, know directions and build in flex time in case there is an accident.

A great technique is to put yourself on the mailing list for any distributions from your organization (Heather taught me this one with our Christmas card distribution.) See how it comes to you as if you were the consumer. An analog is to respond to advertising inquiries from your organization. Once I called the phone number on a billboard for one of our organizations and the number was wrong!

A simple method is to call team members "lower" in the organization chart and ask "what is going on?" If you have been an authentic and personal leader, you will know these individuals and have a relationship such that a call will not be awkward. With the advent of the cell phone, every minute in a car is a minute you can be "going retail and observing" by calling people and talking to them. If an executive between you and the recipient of these calls complains and says "come to me if you want something and not my team," you have a big warning. As long as you aren't giving directions, there should be no problem with you talking to team members. I have found that the complaining executive is often trying to control messaging and worried you are going to discover they have been "shading" things to look better than they are.

Leaders can't just sit in fancy rooms with lots of smart people and wax philosophical. They need to be in the field, at the ground level, looking at displays on store shelves and calling billboard numbers. You don't have to be *Undercover Boss*. One higher education leader I respect would sit with the student services professionals taking phone calls. My friend runs a transportation company and talks to the drivers after their routes as they fill-up with gas (learned during his military service where I believe it is called an "after-action review"). My mentor Bob King would show up early to the IBM branch to grab coffee and talk to "lower level staff" before the big executive meeting.

Leaders need to get out there, observe closely and listen carefully. You will be amazed what you learn that isn't in your KPI reports.

Be safe.

Jml

Second Thought

My first professional mentor was a Partner at Sullivan & Cromwell named Bob Craft. One thing he taught me was to "go to weddings and funerals. Make it happen. It means a lot to people." Bob's son Gerard is a Beard award-winning chef in St. Louis. He wrote a good piece on his growth from individual performer to leader and the value of team called "Why My Kitchen Went from Oui to We" which you can read here.

J. Michael Locke
Musings

#32: No Dolly Parton Executives
April 23, 2020

Go to https://gilesrichard.com/ for past musings.

With the passing of the Gambler (RIP Kenny), we have seen lots of Dolly Parton lately and have heard some old songs like *Working 9 to 5*. Sorry, but if you want to be successful, there is no working 9 to 5. Successful leaders and organizations simply work harder than others.

It is like the athlete who practices harder. Kobe Bryant's off-season workout was called the 666 program because he spent 2 hours running, 2 hours on basketball, and 2 hours weightlifting (for a total of 6 hours a day, six times a week, for six months). I bet his teammates weren't working as hard. The old adage is that the leader should be the first one in and the last one to leave. I am old school and still believe in that.

As parents, don't you miss the kids being able to have a newspaper route or a job detasseling corn (central Illinois humor)? Fortnite does not teach our young ones the work ethic they need like these traditions.

Working really hard at your job makes your holistic life more difficult and you need your partner to be on board. You also need to develop the skill of integrating your work/home life without never being present. So coach the little league team, don't check email from the pitcher's mound as you do, just get back online after the kids are asleep. Don't underestimate the difficulty of this task.

If you are intellectually engaged, the need to work shouldn't feel forced. You are thinking about key company strategies or issues in the middle of the night. You don't "turn off."

In this crisis, I am seeing the hard working teams step up and move faster. They are doing calls at night and on weekends. They will be better prepared and ahead when the storm passes. Think about it literally. If we have a two month shutdown and one management team works every weekend and one does not, the hard working team has an extra 16 days so roughly 56 vs 40 – 40% more has been accomplished!

Be safe. Work hard.

Jml

Second Thoughts

A couple days ago I wrote about the First 90 and referenced the importance of handshakes. CBS news just ran a story on it. Watch it here.

Here is small excerpt:

Anthropologist David Givens, of Gonzaga University in Spokane, Washington, described the handshake as "a very primal sort of a connection, very emotional." He said the handshake reaches back 60 million years: "Chimpanzees and gorillas do much the same thing. They long for tactile contact. They basically reach out with the forelimbs, and especially with the palm." "So, it's not an accident that we greet each other by shaking hands?" asked Rocca. "No. Because hands have all the neurological circuitry and the emotional parts that we need to make good contact with our fellow humans."

J. Michael Locke
Musings

#33: Adjusting to the Rise of the Technologists
April 24, 2020

With the accelerated adoption of technology, the size of the technology workforce within your organization is going to grow rapidly. I would suspect that in one year, you will have twice as many people in IT, data and analytics as you do now as you rotate to a "digital first" mode of operating and providing services. As a leader, this will require some adjustments to your game.

In my experience, really good technologists are a different breed. They are lower in their emotional intelligence (EQ) and higher in their IQ. Still, don't confuse that with a lack of desire for recognition. Like all employees, that want their good work to be acknowledged, especially publicly.

They aren't the best people managers, as they are used to a digital world of ones and zeros with definitive outcomes versus the human world of gray. You will need to give them some extra time as their coach to develop this part of their game.

They can be over-confident. It is hard to push back on them because of the knowledge asymmetry. How do you know if the server is configured correctly or if Postgres is the right database to use? The best you can do is ask basic questions and see if the answers makes sense. You can also "buy insurance" by having things checked by an "outside" group of IT professionals. There are a lot of individual IT consultants out there doing project work on a 1099 basis.

With the digital revolution, you as a leader need to know the basics about technology. I am not saying you need to code but you need to know that Ruby on Rails is not a Starlight Express character. You should visit your datacenter (if your organization has one) or know where "in the cloud" your valuable data is sitting. "The cloud" has a mystic connotation but fundamentally your software application and data are being run on someone else's server in someone else's datacenter (likely Google, Amazon Web Service or Microsoft Azure). It is a critical dependency that you need to understand as you have limited control if something goes wrong.

Finally, there is zero unemployment with technology workers. You are going to have to work hard to retain good ones and need to be constantly training up newer ones like a professional baseball manager stocking his minor leagues with talent.

If you have a good CIO doing a great job, make sure to write him or her a note today!

Be safe.

Jml

Second Thought

In Musing #26 *Building Community*, I spoke of the competitive advantage of having an engaged team. I remembered the attached slide which applies Maslow's Hierarchy of Needs to employee engagement. Enjoy.

J. Michael Locke
Musings

#34: It is all about Cash
April 25, 2020

In case we needed a pandemic to remind us, running a business is all about cash. Like the old Greek restauranteur in Tarpon Springs, Florida once told me, "I put the cash coming in my pocket and pay my expenses out of it and hope there is some leftover." Unfortunately, GAAP accounting rules and professional investor valuation approaches can lead one to lose sight of cash. Stay focused on it.

I understand the logic behind GAAP and the need to match revenue and expenses, and to capitalize items to spread the expense against the future revenues. That said, it can obscure the true cash dynamic of a business by putting things on the balance sheet as accruals or capitalized expenses. Those less ethical can prop up their income statement by how aggressive they are with these accounting methods. This is why you always need the three statements (income statement, cash flow statement and balance sheet) when looking at a business and can't just accept an income statement. You also should start any diligence with the balance sheet.

The same basic businesses can have different cash needs. This is an underappreciated dynamic. Most businesses in today's services world have labor as their largest expense and run payroll every couple of weeks. You don't build up accounts payable (AP) for payroll, it is basically pay as you go. Rent is basically the same thing as well. So the only way to manage cash outflows is the percentage of the business expenses related to outside vendors. While it is possible to stretch your payables to improve cash, you don't want to screw your partners (not vendors).

The way to improve the cash dynamic of your business is by the payment terms of your revenue. Obviously, the best option is to get paid in advance and have a negative working capital business. Basically, the customers are financing the business and you take the cash up front (for the quarter or year) and credit deferred revenue. The growth rate of this deferred revenue becomes a key metric on what is happening. Too many businesses just don't try to require payment up front and instead go for the 30 or 45 days after the invoice is sent! Obviously, a less aggressive option is to get paid part up front and part later. This option more likely matches your cash inflow with outflow as you pay your employees and rent. In all cases, you need to have a good, tight collections process so you don't let money owed to you build up in accounts receivable.

An entrepreneur friend of mine launched a business with "pay up front" dynamics and he never had to raise money! You get pretty good returns when you own 100%.

The GAAP rules on capitalization are a real Siren. You spend a lot of cash on something now, but don't run it through the P&L because it is capitalized as the value of the activity is deemed to be realized in the future. Capitalization is thus a way to park expenses on the balance sheet and make the business look more profitable than it really is. I was taught to minimize any capitalization so you can really see what is

going on. Even if the auditors make you capitalize, do it as an end of year audit entry so the audit is compliant but your monthly and quarter income reports are burdened by the expense.

Adjusted EBITDA is another dangerous one. Technically, ebitda (earnings before interest, taxes, depreciation and amortization) was created to be a short proxy for the cash flow of a business. Private businesses are generally value on a multiple of ebitda which might not properly account for what is happening on the balance sheet with working capital and capitalization. Even worse, the standard model is now "adjusted ebitda" where various items are added back and not included in the expenses. The logic is that certain items what are unique to this owner and not to a potential buyer, but it has become a way for some to put anything nonrecurring "below the line." Don't fall prey to that. Businesses have non-recurring items all of the time, it is part of business.

Watch your capital budget. Capex often doesn't get the same level of scrutiny as operating expenses but it is still cash going out the door.

I encourage you to build your management incentive plans around good old cash flow in addition to ebit. Get the team focused on the balance sheet and minimizing any cash needed for working capital and making the business the most efficient generator of cash it can be.

Be safe.

Jml

Second Thought

In Musing #6 *The New Order for Consumers*, I wrote about how consumers were shutting down and locking up due to Covid 19. The University of Michigan is known for its reporting on consumer sentiment and yesterday released results. The decline in sentiment from March to April was the largest ever. This comes just after the most positive sentiment was ever recorded in February. One silver lining is that sentiment appears to be stabilizing. CNBC coverage here

J. Michael Locke
Musings

#35: Where are the Opportunities?
April 26, 2020

During a virtual cocktail hour recently, some friends were discussing where the opportunities are due to Covid 19. A couple thoughts.

There is a lot of discussion about reopening the economy and the "post-Covid world." I would like to suggest that there is no post Covid world, but simply a Covid world. There is going to be a Covid-20. What we have learned from this crisis is that certain viruses can be especially disruptive due to their rapid viral infection rates and the possibility of asymptomatic transmission. Combine this with the unknowns around why certain individuals are tremendously impacted while others don't even know they have it, and this marks the beginning of a new era. I am sure most of you saw the coverage of the Director of the CDC recently saying *"there's a possibility that the assault of the virus on our nation next winter will actually be even more difficult than the one we just went through. We're going to have the flu epidemic and the coronavirus epidemic at the same time."*

We know that President Trump will be pushing to reopen the economy and resume normal activity. He will do this based on his capitalistic instincts, a true desire to help the unemployed and stop the destruction of our economy, and probably some political calculations with the November election. The current situation is not sustainable with forecasted negative 10%+ GDP, 20% unemployment and societal shutdown. We know that this reopening will occur earlier than most medical experts would advise. As a result, we are likely to continue to see high rates of infection. We have bent the curve but rather than going down the back slope, we may ride the plateau like Crazy Horse's arm (go check it out if you haven't been there in forty years like me). What this means is the Covid world represents a new world where larger gatherings will be few and few between and technology will be used in replacement of many face-to-face human interactions. As a result, leaders need to plan for the future, not "post Covid" like a temporary state that has passed, but simply the new normal.

Some look at this new normal optimistically. According to CNBC, "famed investor Ray Dalio thinks people should be "very excited" about the phase that will come…, pointing to leaps forward in digitization, data and human thinking. [His] assessment reflects wider observations from economists and historians that we are currently in the midst of a technological revolution."

The Wall Street Journal ran an interesting article yesterday on "Seizing the Opportunity of the Restart" imploring leaders to reinvent their businesses. It stated "this crisis, like any crisis, is a once-in-a-lifetime opportunity to make significant, lasting changes."

Here are my best guesses on the future:

Remote working will be part of the normal rhythm and all employers need to update their work from home policy. You should consider what functions require onsite attendance and job sharing where

different people work different days of the week. You should know when your current leases expire and start planning a downsizing of your corporate office space. I would consider investing in real estate in pretty places from which remote workers might operate.

If you're in the school business, I would not assume your fall classes will start on time in person like they would historically. Rather, you need to have the online delivery system improved from where it is today and ready to go. The norm will be more about at hybrid/blended learning. Build your capacity which will allow you to flip between modalities or to break up your classes into smaller groups with one group coming to class and one attending online.

If your business involves the provision of healthcare services, you need to have the technology system in place as well as gaining approval for the payors to deliver via telemedicine rather than face-to-face. CMS will be slow to update its codes so work through the payment processes now.

If you are in a site-based business, you need to develop new guidelines which more limited access into your facility from outsiders. Technology will replace some visitors for interaction. Bulk up your "site to store" capability where the consumer can transact online and swing by the store to pick up the products.

Here is Jim Cramer from CNBC thoughts which I basically agree with:

Bucket 1: Buy big firms that are "big enough and deep pocketed enough" to weather the economic impact of the coronavirus crisis. The bucket includes IBM and Union Pacific

Bucket 2: Buy businesses made for "stay at home world" like online retail (Amazon, Walmart, Target); food for pantry (Hormel, General Mills); and stay at home entertainment (Zoom, Domino's, Netflix)

Bucket 3: Short businesses at risk of needing a bailout, shutting down altogether or nearing bankruptcy. Those industries include banking, oil, most retailers, airlines and the travel and leisure cohort.

While I try to stay away from political topics in these musings, let me say that one opportunity from this crisis is to reset the dismal financials of states like Illinois. Under federal law, cities can go bankrupt (ex. Detroit) but states cannot. Washington needs to change the law and Illinois needs to declare bankruptcy and deal with its pension issue. Illinois has unfunded pension liabilities of $138 billion! I wish Governor Pritzker would approach this issue with the same zeal he does shelter at home due to 1,800 deaths from coronavirus.

State bankruptcy would be a form of debt jubilee which is a historical concept. A lot of IOUs are being written right now. While I don't advocate it, here is an interesting article shared with me by Dave Heyer. Washington Post on Debt Jubilee

We are all going to have different perspective on this situation. The hospitality worker in Manhattan is having a far different experience than the knowledge worker in Decatur, Illinois. See a great article by Peggy Noonan on these differences here

Be safe. Be glad you are not in the professional sports business.

Jml

J. Michael Locke
Musings

#36: The Talent Acquisition Opportunity
April 27, 2020

An issue with these musings is they are "one way broadcasts." I would enjoy hearing and learning from you.

Yesterday, I wrote about investment opportunities. The unprecedented dislocation in our economy is also presenting a unique talent acquisition opportunity. For those businesses which were conservatively capitalized and made the right decisions quickly, they now are looking at the horizon and have an opportunity add to their team. It is like the sports team general manager entering free agent season with lots of room under the salary cap. Hopefully, you are in a position to hire. A couple thoughts before you start signing people up.

Beware of those who have been laid off. I am not saying good people can't find themselves in a hard position but when companies are creating plans for a reduction in force, they don't let their A players go. Rather, target the individuals a company under stress chose to keep. They have shown you who the performers are.

Don't feel compelled to "match plus" their current compensation. The standard thinking is that you have to give someone an increase in compensation from their current level to attract them. That is not a truism. Smart executives will look at the trajectory of the potential new employer, the future opportunity for promotion and increases in equity compensation value. I believe compensation levels in general are going to experience some deflation. The labor market is a market like any other with demand and supply. With 20% unemployment, supply of available workers has just increased and demand is down. As we learned in Economics 101, wages will go down.

Beware of big to small switchers. There is a different skill set for those who succeed in larger organizations and those who succeed in smaller, entrepreneurial organizations. One is not better than the other, just different, and switching is hard. The large organization executive is used to established systems and procedures. They probably have had significant administrative support and "title and status" are important. These individuals often struggle in a world of ambiguity where you might have to take out the trash and book your own flight.

In the venture-backed technology world, the movement of talent may be from small to big. According to the Wall Street Journal, "the current moment may give well-capitalized tech companies a chance to poach skilled workers who until recently were gravitating to smaller upstarts……Apple hired aggressively during the financial crisis (2008-2010)….and Tim Cook has indicated in communication with staff it will do so again."

Don't wait for them to come to you. Go get them. Think about that executive you met at a meeting or someone you saw present at an industry conference. With the beauty of LinkedIn, you can directly

reach out to them and see if they are happy or thinking about moving. You have to be careful with these "passive" candidates to ensure you don't waste time dancing with them only to have them stay.

As a leader, building your team is your #1 responsibility. Why do you think Nick Saban sits in family rooms of high school football players? Selling employment at your organization is your job as a leader – not the recruiting department's job.

Be safe. Go get some talent!

Jml

Second Thought

Yesterday I wrote about Covid-related opportunities. It is unclear to me what the future is of zoom socializing. Am I the only person whose social life has actually increased with the shutdown? That said, the zoom cocktail hours are starting to wear me down. They also have unusual dynamics like "how do they end?" Article on this from the Wall Street Journal: https://www.wsj.com/articles/zoom-fatigue-is-real-11587652460 and an article in National Geographic (thanks Kelly Page) on the science behind Zoom Fatigue zoom fatigue.

J. Michael Locke
Musings

#37: Don't Let Negative Employees Fester
April 28, 2020

Organizations are like the human body with interconnecting parts working in harmony when in good health. Individuals are the cells and unfortunately a bad employee can be like a cancer. You cannot let negative employees fester! While you might think you are being nice, letting a problem employee remain in an organization is one of the worst things a leader can do as they usually "metastasize" and spread ill-will throughout an organization.

Problem employees often signal themselves early. Don't blow off immaterial things. Note who comes to the voluntary company events and who doesn't (ex. holiday party). Note who signs up to organize the company softball team compared to who is watching the clock and "punching out at 5."

You have to nip it in the bud. At a company I worked with, we had "garbage gate" as one individual refused to take her collective turn emptying out the small company office trash can. WARNING! You have to address upfront directly and quickly. To ensure no confusion, do it in writing.

If you provide notice and it is not fixed in relatively quickly, call it a day. I have never heard an executive lament moving too fast on terminating an employee. I have innumerable times heard an executive lament moving too slowly. You also can't live in fear of a lawsuit. Do what you have to do in order to lead the organization. Don't abdicate the decision to HR.

Ideally, all of your employees should be "at will." I would discourage you from entering into written agreements which provide for set severance etc. All these agreements do is make it more expensive to make a change. If everyone is "at will," you can change your team much easier.

Good leaders can develop a talent but that is different than changing a negative employee. Don't have any Dennis Rodman's on your team.

Be safe.

Jml

Second Thoughts

I have mentioned the shift to telehealth a couple of times in these musings. NBC ran a story on it here. Meanwhile, Peloton set a record Wednesday when more than 23,000 participated in a live workout.

I have previously shared my admiration for Mitch Daniels, the President of Purdue. Here he is "managing forward" regarding Fall classes on CNBC yesterday: Mitch Daniels

J. Michael Locke
Musings

#38: Grooming Your HiPos
April 29, 2020

For those not versed in HR speak, a HiPo is a high-potential employee. These are the members of the team who are exhibiting great potential for future leadership. They deserve some special attention.

First, you have to identify them. I look for the person who "wants the ball." Rather than avoiding accountability, they want it. Ryan Holmes (CEO of HootSuite) identified five characteristics of a "Unicorn Employee" that I agree with:

1) **Not limited by job title:** Flexible and intellectually curious
2) **Thinks big AND small:** Sees big picture of market but also in the details
3) **True grit:** Dogged persistence even during choppy times
4) **Respectful by nature:** Ability to work with others at all levels
5) **Gets shit done:** Produces actual results

Right now in a time of crisis, you see the people who "step up." To Ryan's #1 characteristic, you see the employee who offers to order the dinner for the late night meeting or help someone carry a box. You see the employee who is creative and offers ideas on how to handle a problem. These are your HiPos.

After identifying them, you can't let bureaucracy get in the way. The standard organization rule is to invite all people at a certain level of seniority to certain meetings or events. So a meeting might be for the Vice Presidents and "above." Ignore that standard and invite a HiPo with a "lower" title. The bureaucracy-loving VP will complain but your organization needs to be a meritocracy regardless of title. Send that message.

Most organizations do salary adjustments once a year. Consider a mid-year move if you see superior performance. A HiPo's market value will accelerate quicker than the norm. Think, if my HiPo came in tomorrow and resigned because someone had made him or her a better offer, what would I do? Then, do that now before the HiPo gets poached. Hopefully, your organization will become known for growing good talent. The poachers will be in the parking lot. You need to protect your team.

Keep giving them more. HiPos will want as much as you can give them. Push them into areas outside of their comfort zone. I know one company which takes general managers and makes the HiPos serve a stint in HR. Give them responsibility for a "unit" if you are in a multi-site model even if the model is for someone to own all stores in a given area. See what they do with that one unit.

Finally, create a discrete development program for HiPos. Many of the recipients of these musings were members of a leadership institute we created some years ago. It was far from perfect but the program allowed us to directly message to these HiPos that we were going to invest in them and they had a bright future.

Remember that the smartest people are usually the hardest to manage. They won't just accept something but rather question it and maybe suggest a different path. Don't immediately get defensive – be open. They likely will teach you something. HiPos will test your patience but you don't want the compliant lower-potential employee even if it makes your life temporarily easier.

Inevitably, you will lose some HiPos. No matter how fast your organization might be growing and how much you can give them. They may get poached. Don't get too down about it. It is something to be proud of.

Be safe.

Jml

Second Thoughts

A Wall Street Journal editorial page on telehealth popularity. zoom doctor

J. Michael Locke
Musings

#39: Managing Turnover
April 30, 2020

Turnover of talented people is a killer in business. You spend all of the time and effort to select and grow talent and then losing it really hurts. Some industries (like childcare or fast food) have models with turnover in excess of 100%. It is almost impossible to ensure quality in those models. Here are some thoughts on managing turnover in a professional services type business.

First, you need to measure turnover every month and then present it on an annualized basis. If you have 100 employees and you lost 5 one month, you could say turnover is 5%. While technically that is your turnover that month, you need to annualize it and say your turnover rate is 60%. Having to replace 60% of your employees in a year gives you a far different picture of things.

You should breakdown turnover measurement between voluntary and involuntary. If you are properly managing performance, you will have some terminations where you push someone out. Some amount of involuntary turnover is healthy and necessary. What you don't want is voluntary turnover where you wanted someone to stay but they chose to leave. So 15% annualized turnover is about normal but if you have 10% involuntary and 5% voluntary, I think you are doing an exemplary job leading the team.

You should measure turnover by job classification and tenure. Certain occupations will have a higher turnover rate. For instance, your call center will likely have 25%+ annualized turnover. You also need to look at it by how long people have been there. Typically, employees with under one year on the job will have the highest turnover rate. Personally, I would hold the hiring manager and recruiting department responsible for any turnover within the first year. That was a bad hire. The wrong fit. I even like to build one year retention into any contracts to use outside search firms. Most of them will give you a "replace for free" clause if the person leaves within six months but push to extend that.

Don't give up on someone once you hear they are leaving. Sometimes there is a window to change someone's mind. I was a big fan of having a "resignation alert" any time you heard someone was leaving and the top executives could get all over it and try to change the outcome if it was a high performer.

Once folks have left, I recommend you use an outside group to do exit interviews or call directly as the leader. If you have someone too close to the situation do the exit interview, they will bring a bias to the dialogue. The departing employee might also hold back the truth. Third parties usually get better info.

Turnover is not just about losing someone good, it is expensive. From Google: "some studies (such as SHRM) predict that every time a business replaces a salaried employee, it costs 6 to 9 months' salary on average. For a manager making $40,000 a year, that's $20,000 to $30,000 in recruiting and training expenses."

Back to *Musing #10 Leader as Coach,* turnover is a report card on the manager. If you have exceptionally high turnover, you probably have the wrong person in charge.

Be safe.

Jml

Second Thoughts

It seems to me that our elected leaders have deferred to the medical experts in making the decisions about the Covid-19 crisis. The result is a prioritization of optimal health outcomes (almost at all costs) despite the economic damage occurring (Q1 GDP down 4.8% and some projecting Q2 GDP down 47%). Did we oversteer? My understanding is that we need herd immunity or a vaccine and the current shelter at home is delaying herd immunity. Sheltering might have been necessary to stretch need out to match up with healthcare capacity but now that the curve has been slowed/flattened and healthcare capacity increased, there is a strong argument that we should be opening up (at least in certain rural or less affected geographic areas). An interesting opinion piece by Thomas Friedman on Sweden's different approach is attached.

J. Michael Locke
Musings

#40: Driving Margins
May 1, 2020

There are some individuals who are good at growing revenue. These are often sales-oriented people who are watching the market and driving customer purchases. There are other individuals who are good at managing expenses. These are usually finance-oriented people who recognize that little expenses add up and pay attention to things like how much color toner costs.

The key to good margins is combining these two perspectives. You can't drive margins through cost containment only. You also can't drive revenue regardless of expenses (unless you are backed by Softbank).

Margins are a state of mind. You need to drive this mentality into the organization. Are we getting the maximum amount out of our expenses? How do our margins compare to the market? How can we get more out of every dollar?

I respect the cultures which *assume* annual improvement. The baseline for next year is that the same amount of people will produce 10% more. It is assumed. Continual improvement must occur. This drives leaders to constantly look at everything – what is sent by fedex, could you save money routing digital phone calls through the datacenter, do we need that same software seat license for all of those employees (Watch this one. Software companies like Salesforce are very good at persuading clients to over-license. Every seat is 100% profit for them.)

A big part of margins comes out of the annual budgeting exercise. Rather than "cost plus" budgeting where you start with this year's expenses then increment, consider "zero based" budgeting where every item must be justified like you are starting from scratch. In services businesses where the largest expense item is labor, make sure you work from productivity ratios. You can't operate in an environment where an executive says "we need another person in that department. People are working too hard." The question is whether they are working smart. How many customer service reps do you need per 1,000 customers? Can you create an FAQ to answer questions without labor expense? Can you use chat to provide more efficiency?

My experience is that most individuals look at the budgeting exercise like "asking for the wish list" because you are going to get scaled back. Expenses are always way overstated in round one of budgeting. Even when you get to the end, there is probably another 10-15% of expenses you could get if you really push.

Now, don't get too good at driving margins. They can get too high. That is right, margins can get too high and expose yourself to competition. Our Economics professors taught us that abnormal returns do not last in competitive markets. You should put more money into sales and marketing or product to block out competition and create a competitive moat if margins are extraordinarily high. In a labor-

based professional services business, I do not think you can sustain EBIT margins over 20% -- the model is a 15-20% ebit margin model. Software companies can drive higher margins if they are early to a market.

Be safe.

Jml

Second Thoughts

Ad

Our IN2L business is doing great things getting technology into the hands of seniors to fight social isolation during this pandemic. We formed a great partnership with the Alzheimer's Association in Florida to get tablets to seniors. See News story on IN2L tablets

J. Michael Locke
Musings

#41: The Dangerous Side of Data
May 2, 2020

Usually, I write positively about the ubiquity of technology and the opportunities presented by the growing amounts of data it generates. As a business leader, you can harvest this data to improve your market segmentation, consumer targeting and expense management. Today, I write about the danger of that data for our society.

Technology has created a plethora of media options. The Chicago Cubs once gained national popularity because you could listen to them on WGN am radio on a national basis when there was nothing else on the radio. Remember your car trips turning the radio dial to see if you could find a local radio station of interest? How about television and the big three channels of ABC, CBS and NBC? The family all had to sit and collectively agree on what to watch – Bosom Buddies or Fantasy Island?

Now, every individual consumer gets exactly what he or she wants. SiriusXM offers hundreds of radio stations but most people pair their iPhone and launch a streaming app like Spotify and use their personally-curated playlist. This is leading to a collective loss of sacrifice and diminished flexibility. In all seriousness, I worry about the future of relationships when individuals have grown up getting things exactly as they want it and not having to share or sacrifice.

Tim Wu wrote an interesting piece in the New York Times a couple years ago on the how this technology-driven convenience can have negative consequences: The Tyranny of Convenience. In this piece, he wrote about how the consumer desire for convenience actually contributes to "Big Tech" dominance. He also wrote: "With its promise of smooth, effortless efficiency, it threatens to erase the sort of struggles and challenges that help give meaning to life. Created to free us, it can become a constraint on what we are willing to do, and thus in a subtle way it can enslave us."

The proliferation of media and data is also driving our polarization. Individuals can now live in a self-reinforcing "echo chamber" where they are only exposed to views they are aligned with. Data filters watch what you consume and then serve up similar information thus creating a "filter bubble." See Eli Pariser's Ted Talk filter bubbles. This is why I purposefully read things by Robert Reich and visit the CNN webpage at the same time I will visit Fox news. The data filter becomes quite confused!

Data is also structurally driving political polarization. Congressional districts can now be drawn using big data to basically ensure the election outcome. The politicians are picking their voters rather than vice versa! According to the Cook Political Report, only about 50 house seats out of 435 are really competitive: that is only 12%. This pulls congressional representatives towards the extremes and the 'middle' becomes no-man's land. Just ask my recently primary-defeated congressman Dan Lipinski. The Supreme Court recently decided not to get involved in the gerrymandering issue. It is up to us as voters to get the state referenda pushed through on how congressional districts are drawn.

So watch a different station's news tonight and then let someone else pick a radio station as you drive to get your takeout rather than Doordash.

Be safe.

jml

Second Thoughts

In Musing #28 I discussed not "oversteering" and how you can be too early to a market. As I walked around the supermarket recently, there were as many workers picking groceries for home delivery as there were individuals like myself shopping in person. It made me feel sorry for George Shaheen who famously left as head of Andersen Consulting (now Accenture) in 1999 to run the internet grocery business Webvan. Webvan raised over $800 million and went public with great fanfare but eventually went bankrupt and Shaheen was widely derided. It was just too early.

J. Michael Locke
Musings

#42: Choose Your Words Carefully II and New Order for Consumers II
May 3, 2020

On April 15 in Musing #24, I wrote about choosing your words carefully as a leader to frame discussions. The Covid-19 crisis is a real time example. I think politicians have been mistaken to focus on *shelter at home*. Between all of the essential businesses which are open and basic life needs, the great majority of people are leaving their home every day. Rather, I think the focus should be on *social distancing*. Technically, staying at home is just the extreme form of social distancing but it is also the most controlling if imposed by a government official. Thus, the rant by Elon Musk during his earnings call: "The extent of shelter in place or frankly what I would call it forcibly imprisoning people in their homes is against all their constitutional rights … and erasing peoples freedoms in ways that are horrible and wrong and not why people came to America or built this country, what the f—k." The protests are growing in state capitols. Governors should be all about *social distancing* and stay away from quarantine or shelter at home.

Schools are also making mistakes in describing themselves as "closed." Tuition is still getting paid at private schools. Schools are not closed, the learning has just moved off campus. "Remote" learning sounds like someone is on Mars. "Distance" learning doesn't sound warm and endearing. "Online" learning implies the focus on the computer. Personally, I would describe it as "at home" learning. The children used to be learning at school but now they are learning at home.

For colleges, the question is whether you can move back to "on campus" learning in the Fall not whether you will be "open." Leaders should talk about welcoming students back to campus to use campus facilities and separate that from the modality in which courses will be delivered. You simply don't know right now whether a course will be in person, online or blended. Per Musing #19 Managing Forward, I recommend you do scenario planning when the future is particularly uncertain like now. Here is an excerpt from the Indiana University President's letter (thanks Kim DeBoer):

Scenario 2 is a "hybrid" reopening in the fall involving both in-person and virtual teaching and research. At this point, this is the scenario we believe is the most likely, though this could change rapidly with some new positive or negative development. The balance between in-person and virtual teaching would emerge from the impact of continuing public health directives. This scenario has several variations, each of which would require a high level of flexibility to accommodate rapid change in the course of the pandemic, as well as the need to accommodate students and faculty who are unable to attend class in-person -- whether due to illness, self-isolation, special vulnerability to COVID-19 or travel restrictions.

Flexibility could take many forms. It could involve classes offered <u>both</u> in-person and virtually. It could also involve prioritizing some classes for in-person or for virtual instruction, based on their size, content or other characteristics; creating modular classes that are designed to include both in-person and virtual elements, or that can switch from one mode to another very quickly; rethinking the weekly schedule, to

spread out larger classes, for example, to allow for smaller sections; or, most likely, some combination of these and other measures.

On March 28 in Musing #6, I wrote about the new order for consumers. Things are pretty ugly. It was reported on Wednesday that consumer spending (which represents almost 70% of GDP) was down 7.6% in Q1 (and that only partially reflects the Covid 19 lockdown). People need to be earning money to spend it.

Another 3.8mm Americans filed for unemployment (and more are trying but poor government technology a problem). Remember, there are roughly 331 million Americans. If you take out those not eligible for work, or those who don't want to, and we only have 162.9 mm seeking to work and now 30 million of them have filed for unemployment in six weeks! Econ geeks can see data tables here. Our economy does not work when less than 50% of folks are earning income to pay bills and spend money. We have to get back to work!

Leaders can also shape conversation by the data they present. Every day we hear about the number of new Covid-19 cases and deaths. Personally, I need more context. How many people are dying from other causes every day? Recently, I heard some news stories on how total deaths now exceeded those in Vietnam War but is that the right comparison? How many usually would die from car accidents or the regular flu during the same time frame? We don't shut down society for those. Personally, I need that data to form an educated opinion.

Be safe.

Jml

Second Thoughts

Former Treasury Secretary and Alcoa CEO Paul O'Neill passed last week. My friend Jeff Kupfer had a chance to serve as his Deputy Chief of Staff and shared a letter on his leadership you can read Paul O'Neill leadership . I love the three questions O'Neill demanded his team be able to answer yes: (1) Am I treated with dignity and respect? (2) Do I have the tools I need to do my job? and (3) Did anyone notice? That is good leadership.

J. Michael Locke
Musings

#43: Serving as an Ethical Beacon
May 4, 2020

Unfortunately, we live in a world where some individuals do not have the right moral compass. For a variety of reasons, they can make bad, unethical decisions.

As a leader, you have to reduce this risk as much as possible. You can't eliminate it, human beings are fallible, but you can manage it.

Make clear from "the top" that cutting corners will not be allowed. You have to act swiftly and move someone out if they cross the line – even if they are a good performer. This is what happened with the CEO of McDonalds, Steve Easterbrook. By all accounts, he was doing a good job. However, he violated the company policy on workplace relationships (consensually) and he was gone. Kudos to the McDonald's board. This is one area that can't be gray.

The leader sets the tone and must always operate with straightforward honesty and fair dealings internally and externally. Especially in larger organizations, there can be a lot of "positioning" where facts get shaded and eventually may become misleading. Don't let that happen.

Bad decisions aren't just illegal ones, or ones that violate company policy. There are some decisions which just aren't right. For example, if you are engaged in merger discussions, you can't "retrade." Once you have given your word, you must keep it. Others are watching you as the leader. Business is done between individuals and you must have trust to be successful.

This is one of the real negative impacts of today's political class. They all lie. Whether it is Bill Clinton saying he did not do anything with "that woman" as he waved his finger or Donald Trump's constant embellishments and alternative facts. We need business leaders to be our moral beacon.

You can manage the risk of others by setting up the right procedural mechanisms such as an internal audit department that reports directly to CEO or Board, recording phone calls or videotaping customer interactions, and doing unannounced spot reviews. The best protection is establishing the culture so one employee with tell the other employee to stop before a line is crossed. Think of Wells Fargo. Something definitely got off the tracks there for hundreds of employees to open up false accounts to hit sales quotas. The CEO deserved to be fired.

If you are in a regulated business, you must be absolutely transparent with your regulatory bodies. Think how bad the Boeing emails were about the FAA – unacceptable. I am not saying Jim McNerney knew anything about them but obviously there was a culture in that part of the company which allowed the individuals to feel they could type those emails.

Be safe. Do what is right.

J. Michael Locke
Musings

#44: Using Public Company Comps
May 5, 2020

Some tactical advice today. Often when running a business, you would love to have an inside look at another company in your space. What is their ebit margin? How much do they spend on capex? Obviously, you cannot do this with privately-held companies. However, securities laws allow you to do this with public companies. Take advantage of that source of information and learn what a specific company is doing or what is going on in a market. Here is how.

Let's start with "earnings season" which we are in the middle of right now. Every company which has publicly-traded securities must file information with the SEC on the prior quarter's earnings. For the first quarter of this year (ending March 31), most companies take a couple of weeks to close the books and earnings are announced from Mid-April to May 15 (the 45 day deadline). Most companies do telephone calls with analysts that you can listen to (or read a transcript from a free service like Seeking Alpha) and some will create presentations. You can use this to get insights on a market (for example, what is going on with the growth rate in Amazon's cloud business called AWS).

Publicly-traded companies must also share material information with the general public under Regulation FD. So each company has an "investor relations" section of their website where they will post things like presentations made at industry conferences. This is also where they will post recordings of their earnings calls. For instance, here is the link to Facebook's investor relations page and their earnings release Facebook Q1 earnings

Publicly-traded companies have to do filings with the SEC every quarter and when major things happen. These filings are all available through the SEC website (sec.gov) and their EDGAR document retrieval system. You can look up an issuer and it will give you links to all of their filings. Here are the ones to focus on:

10K – this is the lengthy annual report which must be filed within 90 days of the end of the company's fiscal year. Look at the business description and Management's Discussion & Analysis ("M,D&A") sections. Exhibits also contain things like material contracts

10Q – this is the quarterly report that must be filed within 45 days of the end of the quarter. It will give most recent quarter's financial performance and M,D&A.

8K – this is the "special event" report that must be filed within a couple days of anything major.

I recommend you establish a list of public companies relevant to your area and track them. Set up your Google alerts to get any press releases they put out, list to their earnings calls and read their SEC filings. You will learn a lot.

Be safe. Happy Cinco de Mayo. In case you were wondering, Cinco de Mayo, also called Anniversary of the Battle of Puebla, celebrates the Mexican Army's victory in 1862 over the French forces of Napoleon III.

Jml

Second Thoughts

Yesterday, I wrote about serving as an ethical beacon. Compliments to Daniel O'Day, Chairman and Chief Executive Officer at Gilead Sciences, who shared that they have donated their entire supply of Remdesivir to the U.S. government, which will determine which cities are "most vulnerable and where the patients are that need this medicine."

In Musing #35, I wrote about opportunities due to Covid-19 and what to avoid. J.Crew has declared bankruptcy and Warren Buffet has sold all of his airlines stocks. Validation of the third bucket referenced by Jim Cramer in that musing.

On our need to be more surgical about restrictions, an interesting data point in Illinois. 44% of deaths from coronavirus are in nursing homes. nursing homes 44%

J. Michael Locke
Musings

#45: Where does all of the Money come from?
May 6, 2020

I enjoying hearing from folks. Send me your reactions or your own musings. I will be starting a "guest musings" feature next week. Go to https://gilesrichard.com/ for old musings and feedback.

The government continues to dole out money in response to the Covid-19 crisis. I am not saying it is wrong but you have to ask "where is all of the money coming from?"

Basically, the federal government is putting it on the "credit card" by borrowing. Since 2000, the federal government has run a deficit every year where cash outflows exceed inflows. In 2019, it is estimated that deficit was $984 billion, a 26% increase over 2018 ($3.46 trillion *in* and $4.45 trillion *out*). Those annual deficits are financed by borrowing money and the total debt owed by the federal government is now $22 trillion. That is $22,000,000,000,000. It was just announced that the government is going to borrow another $2.99 trillion *just this quarter*! The government issues IOUs to raise that debt which is heavily purchased by foreign countries. It is estimated that China and Japan own $6.2 trillion in U.S. Government debt.

These numbers are all so crazy large that lets put them in perspective by drawing an analogy to a US household. If the household earned $100k in *after-tax* income, it would spend $129k. These are not payments on a mortgage where there is an asset. This is simply spending everything you make and putting another $29k on the credit card. The problem is the credit card balance is already $635k ($22 trillion adjusted to the household income)! Taxpayers are going to have to pay this bill. Last year, 58 million federal tax returns were filed, so the $22 trillion in federal debt is $380k for every federal tax filer. Congress is spending taxpayer money and running up bills that will have to be paid by our future generations. It is crazy. For those interested, attached is detail.

It is true that the government can borrow at very low rates but that will not always be the case. We can't keep running up the debt. Now, states are borrowing from the federal government (which is borrowing from China) to pay state unemployment benefits. California just borrowed $350mm from the federal government to pay unemployment.

I am not against deficit spending during a recession like the current situation which we all learned from Keynes. The problem is we also deficit spend in times of prosperity. Our elected officials have no reason to not keep handing out goodies until the voters hold them accountable.

There used to be tension between "raise taxes and redistribute wealth by increasing government programs for the poor" democrats and "lower taxes and reduce government spending" republicans. Trump has brought in a new era and now both parties load up legislation with things they want spending more money ("if I get my wall, you can have your increase in Medicaid"). Makes me miss Bill Clinton and 2000/2001 when we actually only spent what we brought in. A friend of mine who

works on budget issues in Washington was lamenting that no one pays attention to budget scoring at all anymore.

The other problem is the general ineptitude of the government. Witness the PPP mess. Now, our 15 year old daughter, who is claimed as a dependent and has never worked, gets a $1200 stimulus check yesterday! So much waste.

Our two party system is broken and leading down a bad path. Famed Harvard Business School professor Michael Porter and a childhood friend of Heather's and successful business executive, Katherine Gehl, have teamed up on some interesting work applying antitrust, business-like thinking to the two political parties. You can see more here: https://gehlporter.com/

We need to reestablish the middle.

Be safe.

Jml

Second Thoughts

I think we are starting to have the right "balance" conversations on health outcomes Covid-19 and economic destruction. Interesting article in WSJ on "risk-based social distancing" which makes point that schools should probably be open while churches closed. https://www.wsj.com/articles/risk-based-social-distancing-is-key-to-reopening-11588672800?tesla=y&mod=article_inline

WSJ also had a good editorial. targeted-lockdowns-are-better

J. Michael Locke
Musings

#46: Don't Let HR and Legal Run the Business
May 7, 2020

We live in a litigious world. Obviously, you must manage risk and protect your organization from lawsuits or governmental fines. However, in doing this, you can't let HR and legal run the business.

Human resources departments are primarily staffed by nice, risk –averse people. That is simply their DNA. This aversion is reinforced by the labor practices of law firms which constantly say "don't do this or that." By definition, lawyers look at all risks, regardless of probability, and try to eliminate them. This leads to a culture of conservatism which is not unhealthy but needs to be balanced. Many developing executives will ask HR or legal if they can do something and then come back saying "HR said I can't let them go or legal said we can't do that." The decision makers have become the HR and legal departments.

How do you avoid this?

You must be smart enough about the law and regulations to understand where the "gray" is. For example, you should actually read the non-compete language of a prospective employee's agreement before legal says you can't hire him or her. If you are told, "you can't do that", ask for the specific contractual or regulatory language that prevents the action. Often, group think has taken over and there are not supporting regulations – it is just the way everybody has operated.

Younger lawyers can also be too black and white. I remember making an argument as a young lawyer telling a company that a certain activity would be considered "gun jumping" under securities laws. The older, wiser counsel from the company took me aside and said nicely "you are technically right but do you really think the risk is that high? What would happen if they did the interview?" The best lawyers say "if I understand it, here is what you want to do, how about doing it this way?"

You also need to hire a "how can we" executive to run these areas. My former colleague George Fogel once made buttons for his compliance team to wear to a management meeting simply saying "Yes we can" to set the tone.

You also have to size up the risk. Let's say your desired action clearly falls across the line. What is the chance that it actually will end up in litigation? I am not encouraging rogue behavior but rather not wanting leaders to be "gun shy dogs." For those who didn't grow up pheasant hunting, that means your hunting dog becomes afraid of gunfire. Think about the power of the electric fence for dogs. They become so scared of "the line" they don't even go close.

One thing I learned in law school was that ambiguity favors the enforcer. If there is no formal speed limit, how fast do you drive? Sophisticated regulatory folks understand this and try to keep things foggy and thus gain maximum power. They then can selectively enforce where they want. We all should want tight, specific definitions so you know where the lines are.

Happy 84th Birthday to my mom!

Be safe.

jml

Second Thoughts

Peloton reported its first quarter earnings. Revenue up 66%

Airbnb announced it was cutting 25% of its workforce. I have never met the co-founder and CEO Brian Chesky but have seen him interviewed and he appears to be a good leader (no Adam Neumann type). He is known to have sought out lots of mentors and vociferously sought best practices. It shows. Here is his memo to employees on the layoffs which I thought was excellent – honest, authentic, transparent, managing forward, making decisions based on principles. Pretty generous benefits using shareholder money while they are still unprofitable.

This is my seventh time talking to you from my house. Each time we've talked, I've shared good news and bad news, but today I have to share some very sad news.

When you've asked me about layoffs, I've said that nothing is off the table. Today, I must confirm that we are reducing the size of the Airbnb workforce. For a company like us whose mission is centered around belonging, this is incredibly difficult to confront, and it will be even harder for those who have to leave Airbnb. I am going to share as many details as I can on how I arrived at this decision, what we are doing for those leaving, and what will happen next.

Let me start with how we arrived at this decision. We are collectively living through the most harrowing crisis of our lifetime, and as it began to unfold, global travel came to a standstill. Airbnb's business has been hit hard, with revenue this year forecasted to be less than half of what we earned in 2019. In response, we raised $2 billion in capital and dramatically cut costs that touched nearly every corner of Airbnb.

While these actions were necessary, it became clear that we would have to go further when we faced two hard truths:

1. *We don't know exactly when travel will return.*
2. *When travel does return, it will look different.*

While we know Airbnb's business will fully recover, the changes it will undergo are not temporary or short-lived. Because of this, we need to make more fundamental changes to Airbnb by reducing the size of our workforce around a more focused business strategy.

Out of our 7,500 Airbnb employees, nearly 1,900 teammates will have to leave Airbnb, comprising around 25% of our company. Since we cannot afford to do everything that we used to, these cuts had to be mapped to a more focused business.

A more focused business

Travel in this new world will look different, and we need to evolve Airbnb accordingly. People will want options that are closer to home, safer, and more affordable. But people will also yearn for something that feels like it's been taken away from them — human connection. When we started Airbnb, it was about belonging and connection. This crisis has sharpened our focus to get back to our roots, back to the basics, back to what is truly special about Airbnb — everyday people who host their homes and offer experiences.

This means that we will need to reduce our investment in activities that do not directly support the core of our host community. We are pausing our efforts in Transportation and Airbnb Studios, and we have to scale back our investments in Hotels and Lux.

These decisions are not a reflection of the work from people on these teams, and it does not mean everyone on these teams will be leaving us. Additionally, teams across all of Airbnb will be impacted. Many teams will be reduced in size based on how well they map to where Airbnb is headed.

How we approached reductions

It was important that we had a clear set of principles, guided by our core values, for how we would approach reductions in our workforce. These were our guiding principles:

- *Map all reductions to our future business strategy and the capabilities we will need.*
- *Do as much as we can for those who are impacted.*
- *Be unwavering in our commitment to diversity.*
- *Optimize for 1:1 communication for those impacted.*
- *Wait to communicate any decisions until all details are landed — transparency of only partial information can make matters worse.*

I have done my best to stay true to these principles.

Process for making reductions

Our process started with creating a more focused business strategy built on a sustainable cost model. We assessed how each team mapped to our new strategy, and we determined the size and shape of each team going forward. We then did a comprehensive review of every team member and made decisions based on critical skills, and how well those skills matched our future business needs.

The result is that we will have to part with teammates that we love and value. We have great people leaving Airbnb, and other companies will be lucky to have them.

To take care of those that are leaving, we have looked across severance, equity, healthcare, and job support and done our best to treat everyone in a compassionate and thoughtful way.

Severance

Employees in the US will receive 14 weeks of base pay, plus one additional week for every year at Airbnb. Tenure will be rounded to the nearest year. For example, if someone has been at Airbnb for 3 years and 7 months, they will get an additional 4 weeks of salary, or 18 weeks of total pay. Outside the US, all employees will receive at least 14 weeks of pay, plus tenure increases consistent with their country-specific practices.

Equity

We are dropping the one-year cliff on equity for everyone we've hired in the past year so that everyone departing, regardless of how long they have been here, is a shareholder. Additionally, everyone leaving is eligible for the May 25 vesting date.

Healthcare

In the midst of a global health crisis of unknown duration, we want to limit the burden of healthcare costs. In the US, we will cover 12 months of health insurance through COBRA. In all other countries, we will cover health insurance costs through the end of 2020. This is because we're either legally unable to continue coverage, or our current plans will not allow for an extension. We will also provide four months of mental health support through KonTerra.

Job support

Our goal is to connect our teammates leaving Airbnb with new job opportunities. Here are five ways we can help:

- *Alumni Talent Directory — We will be launching a public-facing website to help teammates leaving find new jobs. Departing employees can opt-in to have profiles, resumes, and work samples accessible to potential employers.*
- *Alumni Placement Team — For the remainder of 2020, a significant portion of Airbnb Recruiting will become an Alumni Placement Team. Recruiters that are staying with Airbnb will provide support to departing employees to help them find their next job.*
- *RiseSmart — We are offering four months of career services through RiseSmart, a company that specializes in career transition and job placement services.*
- *Employee Offered Alumni Support — We are encouraging all remaining employees to opt-in to a program to assist departing teammates find their next role.*
- *Laptops — A computer is an important tool to find new work, so we are allowing everyone leaving to keep their Apple laptops.*

Here is what will happen next

I want to provide clarity to all of you as soon as possible. We have employees in 24 countries, and the time it will take to provide clarity will vary based on local laws and practices. Some countries require notifications about employment to be received in a very specific way. While our process may differ by country, we have tried to be thoughtful in planning for every employee.

In the US and Canada, I can provide immediate clarity. Within the next few hours, those of you leaving Airbnb will receive a calendar invite to a departure meeting with a senior leader in your department. It

was important to us that wherever we legally could, people were informed in a personal, 1:1 conversation. The final working day for departing employees based in the US and Canada will be Monday, May 11. We felt Monday would give people time to begin taking next steps and say goodbye — we understand and respect how important this is.

Some employees who are staying will have a new role, and will receive a meeting invite with the subject "New Role" to learn more about it. For those of you in the US and Canada who are staying on the Airbnb team, you will not receive a calendar invite.

At 6pm pacific time, I will host a world@ meeting for our Asia-Pacific teams. At 12am pacific time, I will host a world@ meeting for our Europe and Middle East teams. Following each of these meetings, we'll proceed with next steps in each country based on local practices.

I've asked all Airbnb leaders to wait to bring their teams together until the end of this week out of respect to our teammates being impacted. I want to give everyone the next few days to process this, and I'll host a CEO Q&A again this Thursday at 4pm pacific time.

Some final words

As I have learned these past eight weeks, a crisis brings you clarity about what is truly important. Though we have been through a whirlwind, some things are more clear to me than ever before.

First, I am thankful for everyone here at Airbnb. Throughout this harrowing experience, I have been inspired by all of you. Even in the worst of circumstances, I've seen the very best of us. The world needs human connection now more than ever, and I know that Airbnb will rise to the occasion. I believe this because I believe in you.

Second, I have a deep feeling of love for all of you. Our mission is not merely about travel. When we started Airbnb, our original tagline was, "Travel like a human." The human part was always more important than the travel part. What we are about is belonging, and at the center of belonging is love.

To those of you staying,

One of the most important ways we can honor those who are leaving is for them to know that their contributions mattered, and that they will always be part of Airbnb's story. I am confident their work will live on, just like this mission will live on.

To those leaving Airbnb,

I am truly sorry. Please know this is not your fault. The world will never stop seeking the qualities and talents that you brought to Airbnb…that helped make Airbnb. I want to thank you, from the bottom of my heart, for sharing them with us.

Brian

J. Michael Locke
Musings

#47: The Benefit of Diversification
May 8, 2020

Financial advisors will always speak to you about having a diversified portfolio. It is widely accepted that you should spread your investments across "asset classes" (stocks, bonds, alternatives) so as to not be overly exposed to one asset class.

The same basic construct applies to your revenue line. It is best to have diversification: by client, by channel, by product/service, by geography. Note that I did not say to diversify what business you are in. I am not a fan of the conglomerate model – Tyco, old ITT, GE. To me, you should focus in one business area and drive value. This also lets investors choose what business they want to be in when providing capital.

With respect to diversification by client, the value of your enterprise will be directly affected by revenue concentration. Professional investors will calculate value using a discounting cash flow (DCF) model or comparable transactions ("comps") but then discount it if you have too much of your revenue coming from one client. There is not a black line on the amount but I would say anything over 25% reduces value. You want big customers, so you just have to sell more to others to keep the percentage manageable. Also, get the big client on a multi-year contract with long notices of cancellation or nonrenewal so you have time to adjust if they decide they are going to end the relationship.

On channel, watch "playing with the big boys." Certainly, it seems exciting if Walmart decided to pick up your product line or Amazon ranked it high in their recommendation engine. However, those entities are so big and influential that they could end up driving a majority of your business and inflict major damage if they ever went away. In this respect, I consider Google a channel. I was on the board of a business that lost more than 25% of its volume due to a change in the Google search algorithm. We were over 90% reliant on SEO and Google made an algorithm change and off of page 1 we went. Results plummeted. Shame on us for not mitigating the risk ahead of time and being diversified in our customer acquisition approach!

With respect to product or service, think about Disney. If it was only a theme park and cruise line company right now, it would be dead. Bob Iger's good leadership had them launch a streaming service last year that was wildly successful. Still a hard time at the Mouse but can you imagine it without the media services. Below is their revenue by segment reported earlier this week (per the musing on watching public company filings):

- Media Networks: $7.26 billion, up 28%
- Parks, Experiences and Products: $5.54 billion, down 10%
- Studio Entertainment: $2.54 billion, up 18%
- Direct-to-Consumer and International: $4.12 billion, up more than 100%

Finally, if you are in a site-based business, think about geography. One Northeastern university president once told me, "I am trying to live off a double-digit declining group of high school graduates in upstate New York. I have to open up elsewhere" and down to Florida he went.

Be safe.

Jml

Second Thoughts

In a previously musing, I referenced starting with the balance sheet when you are looking at the health of a business. Vince Blume properly pointed out to me that you have to also look at what liabilities are not on the balance sheet. The $22 trillion in U.S. federal debt does not include the underfunding of social security or pensions. Some have estimated that IOU to be another $50 trillion. Need to bring it on the balance sheet at the federal and state level.

Meanwhile, Jeff Dobosh hit it on the head. "I've long believed that possibly the biggest problem in our country was the gerrymandering combined with 2-party duopoly. The 10% fringes control almost everything - there is just no incentive to come together and find middle ground. All of the incentives are to be disruptors. While China works on a 50-year plan, we've regressed to 18th century Ireland"

J. Michael Locke
Musings

#48: The Feminization of our Society
May 9, 2020

Before anyone "arms up" based on the title, let me state that this is not a bad thing. I am writing to describe a transformation happening in our society, not to oppose it. I think it is positive.

Historically, the United States (and most of the world) has been culturally-biased towards men. In some cultures, women were literally considered the property of the man. In the United States, one only has to look back one generation to a time when women couldn't vote and the few who pursued post-secondary education were welcome only in certain professions like teaching or nursing. Justice Ruth Bader Ginsburg (the notorious RBG) could not get a job with a good New York law firm in the 1960s.

Culturally, this sexism also led to the classification of qualities more generally associated with men as superior. Aggressive. Powerful. Strong. Commanding. These were the traits of leaders in business and in the community. The "hunters" were in charge while the "gatherers" supported them. The physical appearance of men was not a focus while women painted their faces, wore undergarments to alter their body image and dressed to try and attract men. Playboy was a large national brand with an enormous following.

Things are a changing and changing quickly. There are more women than men by far in college today. There are now more women than men in the workforce. Ruth Bader Ginsburg is on the Supreme Court and Playboy is bankrupt. According to Inc. Magazine, "women drive almost 80% of all consumer purchasing through a combination of their buying power and influence."

The qualities valued by our culture are also rapidly changing. Leaders need to practice "servant leadership" rather than a military model. Mahogany executive suites have given way to open landscapes where all are treated equal. Collaborative. Caring. Committed. These are the traits of today.

Yes, there are the "last gasps" of the historical male culture. Not only is Hooters still alive but the category is growing faster than all others with new entrants so you can now have scantily-clad Scottish women (Tilted Kilt) or Northwoods' females (Twin Peaks). But don't count on that lasting too long. Trump is a "last gasp" as well.

Part of the Trump phenomenon is today's men searching for their footing. Many are struggling in the workforce as robotics takes away basic manufacturing jobs like an automobile line while the job openings are in healthcare taking care of people. This economic challenge becomes a psychological challenge as these men cannot "provide" for their families the way they feel they should. Substance abuse is up as frustrated men unemployed at home don't know where they fit in.

The next generation will be fine. Today's high school student has no issue with "transgender" and our girls feel no limitation in what they can accomplish. I lament the loss of societal norms like chivalry (why should a man pull the seat out for a woman in the new construct?) or having one last name for your family (why should the woman change her name to the man's?) But this is the uncomfortable nature of change.

Far from a glass ceiling, I predict there will more female than male CEOs in the Fortune 100 within 20 years. Standard employee benefits will include paternity leave and work from home flexibility. We will have our first female President (ironically likely to be Republican Nikki Haley in 2024). Designer, hyper-allergenic "poodle + another breed" dogs will outnumber labs and retrievers.

While I refuse to "manscape" and eat kale, I think this is all progress.

Be safe. Buy Lululemon stock, wear some pink Nikes and grab some claws.

jml

Second Thoughts

Really sad employment numbers yesterday. 14.7% unemployment (doesn't factor in folks who can't get through our government's antiquated systems to file). Highest since Great Depression. Looks like Sweden might have gotten this right by not destroying its' economy. Same health numbers without closing

Neiman Marcus bankrupt. Short all retailers without large online capabilities.

J. Michael Locke
Musings

#49: Hunters vs Gatherers
May 10, 2020

Happy Mother's Day to all of the moms out there. As I wrote yesterday, women (and especially moms) are the lynchpin for the future of our society and business. From the title, you might think this is a follow-up to yesterday's musing. It is not. Today, I write about how best to organize your efforts around new sales, upsells and account management in a B2B business.

Bookings come in two forms --- new relationships and more business from current clients (upsells). Every B2B company must decide how to organize these efforts. In addition, you must determine your account management strategy and who owns the care and feeding of a client after it has signed. Personally, I believe it is best to separate the professionals seeking new business (the hunters) from the professionals taking care of clients (the gatherers).

New client bookings are the hardest to achieve. The sales executive must develop a relationship, effectively communicate a value proposition, find budget dollars, box out competition and manage the process through legal and finance. I believe society generally underestimates the sophistication of this activity and thinks sales is about three martini lunches. Good B2B salespeople are talented practitioners of a craft, not entertainers. Fortunately, the under appreciation for the art form of B2B sales is changing and you even see more development of sales programs in higher education as it is seen more as a profession.

Selling new business is harder than selling into an established account. With an existing client, there already is a relationship. The client has received services and is hopefully satisfied. They will be inclined to buy more from you if you are doing a good job. As such, I recommend you keep your hunters focused on selling new business. Make sure they have the proper incentive compensation. Usually, sales people are competitive and they will want to bet on themselves with lower base salaries and higher overall compensation potential based on their success. There is nothing wrong with a salesperson making more than the CEO if they do an exceptional job and deliver an extraordinary amount of bookings.

It is critical *not* to have sales and account management together. There will certainly be some transition period where you need the sales team involved (they have developed the relationship and established the solution) but after a smooth handoff, sales needs to go hunting again. Otherwise, sales executives can get comfortable "clipping client coupon commission checks." Have you ever met a hardworking State Farm agent? They leave account management with sales. Once a person has built up a book of business, it becomes an annuity and off to the golf course they go. Mine was never in the office. This expensive distribution technique is why they are losing share to Geico and Progressive.

With account management separated from sales, you need to train your account managers on sales techniques. There is likely lots of additional business to be had in the installed base of clients and they need to be looking for it. Some companies have a dedicated sales executive within the account

management department. What is clear is that you need someone who is constantly looking for new revenue in the client base. Give account management an assigned quota of bookings they must generate with some variable compensation tied to success. Make them submit opportunities and manage a pipeline of upsells.

Be safe.

Jml

Second Thoughts

I have commented in musings on the peek into individual homes we are getting with the zoom phenomenon. Well, the ratings are out on who has best background (thanks Jean Locke). Rating Zoom backgrounds

Most companies are thinking through how to "reopen" their offices. Good PPT deck attached put together by some business leaders in Seattle (thanks Travis Hughes).

J. Michael Locke
Musings

Guest Musing #1: Should I Open Campus in the Fall?
May 11, 2020

I wanted to share a "Guest Musing" today by Daniel Diermeier. Daniel has just finished as the Provost of the University of Chicago and will be the Chancellor of Vanderbilt University starting July 1. https://news.vanderbilt.edu/2019/12/04/daniel-diermeier-ninth-chancellor/. I previously shared a paper he had written on leading through a crisis but here he addresses the question being asked on every college campus. From Daniel:

"In times of profound and persistent uncertainty, as in case of the COVID-19 crisis, there is substantial value in making a decision as early as necessary, but not earlier. We will know more in July than in May about the features of the pandemic, and the world will have changed, e.g. antibody testing accuracy may have dramatically improved. This is nothing else but the option value of waiting known from finance now applied to management. See the classical paper by Donald and Siegel (1986). (Here is a free version https://www.nber.org/papers/w1019).

An example is the decision on whether and how to open college campuses in the Fall. There is substantial value in waiting to see how the reopening of the economy in various states will play out and what additional diagnostic and therapeutic tools are available. Yet, people tend to have a very hard time dealing with long periods of uncertainty. Unresolved uncertainty increases fear and anxiety. This is well known from the literature on risk perception. Here is a good source on this literature by the undisputed leader in the field. (https://www.amazon.com/Feeling-Risk-Perspectives-Perception-Earthscan/dp/1849711488). As a consequence people rush to decisions, which then have to be walked back or significantly adjusted, which undermines the leader's credibility. The recent announcements by various schools to open in the Fall are examples of this. They are laudable in their clarity and transparency but exposed their leadership to significant risk if the situation takes a turn for the worse, e.g. because of a second wave of infections, or some other calamity. Of course, there can be other considerations, e.g. the need for students and parents to plan or concerns that many students may take a gap year or defer attending, but these need to be balanced against the option value of waiting. And, as we have seen, an announcement to "re-open" followed by a decision to go online will sure trigger additional class-action law-suits. Much of good crisis management consists in deciding what needs to be decided now and what can and should wait.

A better way to handle these situations is to engage in good old scenario planning and develop 2-3 scenarios in great depth and detail that can then be activated at a moment's notice. Developing such scenarios also alleviates the anxiety of team members: engagement calms fears."

Be safe.

Jml

Second Thoughts

In Musing #33, I wrote about how it can be difficult to manage technology professionals because they have expertise you lack. I think we are seeing some of these mistakes in the politicians' management of public health professionals. There is knowledge asymmetry as no Governor has a background in infectious disease. They have to "listen to the experts." That does not mean they have to let the experts make the decisions! The elected official must balance the position of a public health official (which by definition will be over weighted to healthcare) with the economic damage the decision might create. We as a society aren't great on these tradeoffs, but we do make them. For instance, the speed limit is not 35 on the highway although that would save lives. Personally, I think it is crazy that Governor Pritzker in Illinois has already decided (does he have that right?) that restaurants will be closed until June 26 at the earliest. They are the largest employer in the state.

J. Michael Locke
Musings

#50: Defending Capitalism
May 12, 2020

It crushes me to have to write about this but in today's world I feel the need. While far from perfect, capitalism is clearly the best model.

Have you ever seen a government service delivered well? I haven't. I dread the trip to the DMV (took me three hours to get my REAL ID driver's license). How about the long line at the post office? How about the work ethic and customer friendliness of the TSA staff? Don't try calling the city office after 5:00, god forbid they would work a couple more minutes.

Government workers are not bad people. This behavior flows from a lack of incentives. Owners who have capital at risk will drive a culture of client attentiveness. They realize that the business won't succeed if the client isn't happy. No one serves that role in a government office. The government staff is inward focused. It is about working the least amount possible. Generally, they can't be fired (don't get me going on public unions – where exactly is Sinclair's Jungle in that context?) and promotions are based on tenure, not meritocracy (see "step and lane" systems in public education.) Why work hard and try to do well if you get the same result as a colleague who does not?

Shareholders also instill fiscal discipline. They want to maximize their returns and not have to invest more money so they ensure that the most is achieved with every expense dollar. No one serves this role in government systems. How many times have you seen handfuls of workers standing idle in a construction zone on the highway? Take today's Covid situation, my understanding is that there have been no layoffs in the city of Chicago or State of Illinois employees. We are paying librarians in Chicago while the library is not open and they don't work (probably can't furlough them under their union contract.) The federal government will describe expense "cuts" when what they are doing is reducing the rate of growth of an expense. Chicago and Cook County will just increase taxes to drive more revenue to cover the lack of expense management.

While non-profits are not as bad as the government, I am struck by the new "idealization" of non-profits. You see it in advertisements as a badge of honor. In many cases, non-profits should really be called "non-tax paying". Nonprofit is a designation under the IRS code which eliminates any need to pay taxes. It does not mean profit is not being made. Many non-profits make money – they just call it surplus and not profits. In the fiscal year ending June 2018, Southern New Hampshire University had revenue of $807 million with a net surplus of $133 million after expenses. Do we really think that big hospitals or universities should not pay property taxes at the same time they have million dollar executives and millions on their balance sheets?

The profits (if they exist) of a non-profit just build up on the balance sheet since there are no shareholders to dividend it to. This can lead to extreme waste. Recently, I was interacting with a large non-profit that had accumulated over $1 billion on its balance sheet. It proceeded to literally waste a

couple hundred million dollars on a failed attempt to enter a new area. There were no shareholders to hold it accountable. Capital is a societal resource that drives economic growth. Money wasted like that hurts society.

I don't think capitalism is perfect and should go unchecked. Those who say the only fiduciary duty of boards is to maximize profits for shareholders (even to the detriment of workers or communities) have it wrong. I support the move by the Business Roundtable in the fall to revise its statement on the purpose of a corporation to be for the benefit of all stakeholders – customers, employees, suppliers, communities and shareholders. There are unethical people who will hide behind the shield of capitalism who might do harm to the environment or otherwise who need to be called out. The growing role of "social impact investing" is great.

Be safe. Work hard. As you drink your Starbucks, remember it wouldn't exist if Howard Schultz didn't put capital at risk and watch every dollar.

jml

J. Michael Locke
Musings

#51: Knowing your Costs
May 13, 2020

There is a difference between knowing your expenses and knowing what things cost. Let me explain.

The standard model is to track expenses in a general ledger by "type" or "natural account." So you get a monthly report that shows labor expenses of X and rent expenses of Y. You can see which ones are growing faster than revenue (inspect!) and which ones are growing slower than revenue and thus giving you leverage in your operating model.

If you are in a smaller environment, you might look through the payables check run every two weeks and certainly should sign any checks over a certain amount.

However, to really know what is going on, you need to have good reporting which matches up the expenses to the revenue they generate and thus really know your costs. Obviously, this starts with gross margin accounting and tracking those expenses related to a product or service line. These direct expenses are usually pretty easy to identify. With a services business, you will need to track time and allocate labor costs accordingly. It is key to make sure you fully burden your labor costs with the nonproductive time, benefits. There are 2080 work hours in a year using standard 40 hour week but between vacation, sick days etc, most people use a number like 1600 for the calculation of per hour costs. You also then need to include the costs of your benefits programs which vary with labor but are usually between 20-30% additional expense. This benefits expense is often undermanaged and underappreciated. This is why California is suing Uber and Lyft on their classifications of drivers. 1099 contractors do not get the benefits programs while W-2 employees do.

The real art form comes when you get to "overhead" and allocations. There is true overhead that comes with running a business like the C suite and corporate office. The category that can swell on you and be under-scrutinized is the "middle management" overhead. For instance, if you have a project management office who helps organize activities of the delivery team, you need to make sure their time is tracked and allocated up into delivery expense. If you have one activity that uses more real estate than another (let's say a culinary program vs a business program), that real estate expense needs to be allocated accordingly.

Many universities do a poor job of this. Often expenses are just tracked at an institutional level and there are not department P&Ls tracking costs against tuition revenue. Many schools also apply a huge overhead allocation to any new revenue stream making innovation difficult. In 2004, I was encouraging a university to offer an online program that would generate 20% incremental margins and the CFO said that when he allocated his overhead they would then be losing money and so they couldn't do it. This ignores the incremental nature of the new margin which would help absorb some of that overhead.

Hospitals have also been notoriously bad at really knowing their costs. When the government rolled out DRG (Diagnosis Related Group) codes in 1983 which said how much CMS would reimburse for a given activity, most hospitals didn't know what that would mean financially because they didn't know there costs for that activity.

I am a big fan of running a "contribution margin" line between gross margin and your overall operating margin. The contribution margin would factor in the "overhead" associated with that particular product line, program or service that is not direct costs but is not overall corporate expense. In a unit model, these would be your store margin. These contributions lines than need to throw off a margin to cover the overall corporate overhead and make money. This way you would know the contribution margin of the new business program, the new store in Peoria or the new office supplies product line.

Sales and marketing expenses need to be measured against the bookings they generate. Client acquisition costs (CAC) is a key metric to ensure you are getting the return on your sales expense.

I would use public comps (discussed last week) to get an idea of what your margins should be. If you truly know the costs of your product, plant, business, you can drive appropriate pricing and create competitive advantage. I think you will see some deflation coming out of Covid-19 as those with good technology capabilities leverage them with the increasingly digital consumer and offer lower prices. Free enterprise at work to the benefit of the consumer.

Be safe. Work hard.

jml

Second Thoughts

JC Penney filing for bankruptcy on Friday.

House democrats have proposed another $3 **trillion** in stimulus. We must get the economy going again. The government can't just write checks.

J. Michael Locke
Musings

#52: Speed Musings
May 14, 2020

Twitter is letting their employees work from home permanently. The genie is out of the bottle. Future work models will be a blend of in office and at home like education. As previously mused, short office space related companies.

Uber trying to buy Grubhub. You have to feel for Matt Maloney (Grubhub CEO). He was first to market and ran a business to make profits like you should. The venture capital market provided endless amounts of capital for competitors to lose money and now he is going to have to sell. Capital markets not working in this context. Food delivery business is now structurally unprofitable. This is even as they screw the restaurant owners. So bad that Chicago just announced rules requiring transparency and having to show how much the restaurant is getting and how much delivery service is getting. It's a broken business model.

CPI down .8% in April (still down .4% if you eliminate volatile food and energy). Is deflation coming? There is some discussion of negative interest rates by the Fed. This is how much damage has been done to the economy. Policy makers discussing "forcing" people to spend and penalizing them for saving.

Lots of people would like to see deflation in higher education prices. Covid-19 might drive it. The number of HS seniors filling out the financial aid forms with the federal government (FAFSA) for stafford loans and pell grants is down 2.8%. Schools are losing tons of money from Covid 19. $90mm loss at Northwestern and $220 mm at University of Chicago (College financial losses).

These losses are before the need to move technology-enhanced instruction. Blended or hybrid. More online. Some are even predicting the entrance of the big technology companies who need new large markets to keep going. Thanks Keith Watson for this article: Big tech into Higher Ed?

Apparently Clarence Thomas likes the old fashioned phone call. He didn't ask a single question from 2006-2016 and now asked 7 ½ minutes of questions last week when Supreme Court heard arguments by phone for the first time ever (including a whodunit toilet flush).

The new category of socially responsible investment funds – ESG (environmental, social, governance) – got more than double the amount of inflows in the first four months of 2020 than the prior year. Performing pretty well with 70% beating benchmarks. This shows the movement to moderate capitalism to ensure right outcomes.

In Daniel Deirmeier's piece on leading in a crisis previously sent, he spoke of the need to move to a "community orientation" during a crisis. Google is advertising that their premium video meeting

software is currently free. They likely also realize they missed a huge opportunity and let zoom race buy (pun intended).

Kelly Page rightly pointed out that knowing your costs is important (yesterday's musing) but also key to know the perceived value of your solution. Too many companies figure out their costs and desired margin and then back into price. Your price should be set based on the customer's perceived value of what you are offering. You then have to make sure you have the right cost structure to make money at that price.

I usually would not support lawlessness but kind of like what Elon Musk is doing. 10,000 employees and wants to conduct commerce. Gavin Newsome gets to individually decide he can't?

Be safe. Work hard.

jml

J. Michael Locke
Musings

#53: The Waste of Many Employee Benefits
May 15, 2020

Recently, there has been an arms race on who could offer more free benefits to the younger, digital workforce. Wear a hoodie and flip flops, bring your dog to work, free lunch, beer on tap and even yoga classes. Companies are seeking to attract talent by adding giveaways as part of the total "value" package.

Many companies don't truly know the cost of their benefits programs. The standard model in finance is to apply a "burden rate" to the salaries expense to cover all of the benefits programs. Leaner, well-run organizations can have a burden rate of under 20%. You really can't get under 15% as this rate must cover mandatory things like state unemployment taxes (SUTA) and federal payroll taxes (FICA). It also must cover healthcare benefits which you need offer. The discretion comes in things like the design of the healthcare benefits (not zero deductible, zero copay like government programs which we pay for as taxpayers) and retirement benefits (401k match or pension programs for the old school employers). We once sold a business and the buyer had a benefits rate of over 30% compared to our 18%. Apply that to the 55% of expenses which were salaries and you lose 600 basis points of margin!

Personally, I think many of these new generous company benefits are not only expensive, they are unnecessary. Sure, it is nice to get free things but what talented employees really want, is to learn. Studies have shown they want to know who their boss (coach) is going to be and what career path is available. Think back to your best boss – was it the nicest one who gave you things or rather the tougher one who you respected and made you better?

A friend of mine had a company which will helped its clients with recruiting. They did a study of job applicants. What came out of it was that there are six key questions that a company needs to answer that increase the number of top candidates:

1) What is your recruiting process/timeframe? (aka is there an actual job behind this posting)
2) How much money will I make? (telling people or just telling people that you'll have that conversation in the first phone interview is equally effective)
3) Who is my boss going to be?
4) Who am I going to work with / who is on the team?
5) Where does this opportunity lead? - showing examples was effective
6) How should I apply? sending an email to the leader of the department (a couple of steps up) changed the distribution from lots of bottom and middling candidates to 10x as many top candidates.

Note that top candidates do not ask about the benefits program. They are joining a team and want to know who the coach and colleagues are and how they can get promoted if they do well.

Be safe. Work hard. Move to Wisconsin – bars are open.

jml

Second Thoughts

For those in the Mitch Daniels Admiration Society, read his great commencement speech. Purdue Commencement Speech . Great point on how the explosion of social media and digital interaction is actually leading to loneliness. This is part of why I believe the future of undergraduate education is more blended / hybrid versus fully online.

J. Michael Locke
Musings

#54: Don't Look for the Shooting Star
May 16, 2020

When searching for talent, don't go looking for "shooting stars" but rather, avoid them.

By "shooting star," I am referencing certain individuals who show well and "shine bright" only to fizzle out. I was particularly prone to this mistake in the past and hope you can avoid my pain. Some suggestions.

Shooting stars do very well in the first interview. They are polished, have the right answers and are ready with questions. However, like Wendy's, if you spend more time with them you ask: "where is the beef?" Rather than doing a series of 45 minute interviews with different people, you smoke out the shooting star by having a number of interviews with the same person. As a hiring manager, I recommend you meet with someone three or more times before hiring them. These interviews should range from in the office for 30 minutes to over lunch for an hour. For senior executive hires, I recommend a long dinner – partners included.

If you are stuck with the "lots of interviews with lots of people" model, make sure to gather the various interviewers collectively on a call after the prospective employee visits. While some worry about group think, I have found you can quickly pull out themes by comparing different conversations. The shooting star tends to repeat his or her stories and questions so that comes out when you compare notes.

Interviewing prospective employees should also be a little nervous. That is just human nature. I will never forget Shari Harlan (RIP) tugging at her suit coat as I interviewed her. She was quite nervous and did fine but did not overwhelm in the first interview. Every interview after that, she got stronger. She ended up being a fantastic hire who had great endurance.

Shooting stars also tend to move around. It takes six months to really see if someone is good and unfortunately probably another three to six months to move them out. If you see someone with one year stints, beware. Even if they have a good "story" on why things didn't work out, I would just move on and take the risk on someone else. Another red flag is a pre-written reference. I interpret that as part of a "settlement" as they departed and wanted to ensure they could control the reference check.

Be safe. Work hard.

Jml

Second Thoughts

We need to be talking more about social distancing and safe opening vs shelter at home. A Janesville, Wisconsin gastropub owner said: "We're not looking for a handout, we're not looking for a loan to dig

ourselves deeper in debt — we've already taken out a second mortgage on our home, we've drained our savings and we took out the bank loan. We're just looking for the opportunity to work hard, get back to work and we think we have a safe manner in which we can do so." Rather than government officials deciding what businesses are "essential", lets focus on how commerce can be conducted safely.

Learned a new one this week. EbitdaC. That is ebitda and then add back Coronavirus expenses. You decide.

J. Michael Locke
Musings

#55: Don't Blame Others and Pushing Encouraged
May 17, 2020

In my opinion, you should never blame someone else. As a leader, if something goes wrong, you own it. Importantly, this applies even when the subpar performance is by someone else.

As the leader, you set the strategy, pick the team, organize the players and coach. If a member of the team is not performing, you have to either help develop him or her or make a change. You also develop the playbook and need to factor in the talent you have. So at the end of the day, you own the performance of the team. Let me us an everyday life analogy. If I have a complicated order at a fast food restaurant, I will intentionally present it in a methodical way to increase the likelihood of understanding. I might have them read it back to me to ensure they got it right. I shouldn't have to do that but I want to manage the risk of the skills of the person taking the order and ensure I get the desired outcome.

Leaders can't blame others and nor should team members. If you are working in a group and someone isn't pulling their weight, you have to compensate and adjust. While it may not seem "fair," you need to get the end result desired for the group. As an example, I have heard lots of complaints about the poor performance of faculty in today's online world. Again, my response is not one of empathy but rather asking what the student did to adjust to the reality of what was going on. Schools were not ready to go online and some faculty are not good at it. Still, you have to manage that situation as a student and adjust. If the faculty member isn't answering email, call him or her and figure out the best way to engage.

I fear that our society is moving to a "blame someone else" culture and away from individual accountability. Blaming others is not healthy. Trump should not blame Obama and the House should not blame the Senate. Just get the job done and stop complaining.

Now to pushing.

As a leader, you have to push. Individuals will set their objectives based on their historically-experienced limits. Too often, there is more progress that could be made if an external force pushed. Think of an athletic trainer pushing for one more rep. I would rather see a revenue budget which may be beyond reach and will ensure the maximum outcome versus one that is more easily accomplished. This creates some challenges with bonus structures and you have to be more conservative on expenses with this approach (and you certainly can't be a public company) but you want to stretch the team as far as you can.

In this context, I like Trump's "Operation Warp Speed" plan to develop and manufacture hundreds of millions of Covid-19 vaccine doses by the end of 2020. The experts are saying it can't be done. I don't

know if it can or can't, but I know the possibility of it happening just got much higher by the leader pushing and challenging the team.

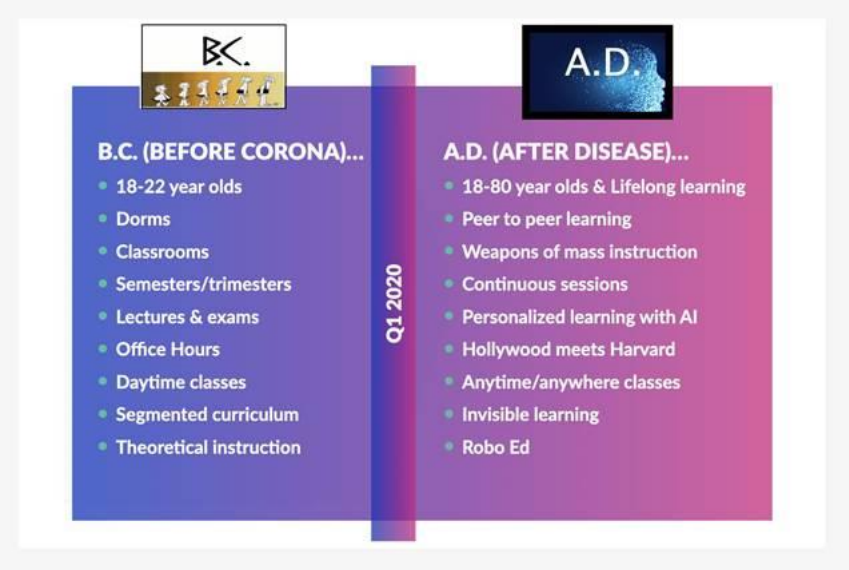
As we have seen in the Last Dance, Michael Jordan was a pusher. So was Steve Jobs. According to WSJ: *"My job is not to be easy on people," Apple's co-founder once said. "My job is to make them better." Or as Jordan put it: "Winning has a price. And leadership has a price. So, I pulled people along when they didn't want to be pulled."*

Be safe. Work hard.

jml

Here is a list of what colleges are doing in the fall for those interested:
https://www.chronicle.com/article/Here-s-a-List-of-Colleges-/248626?cid=RCPACKAGE

One of my first leaders in education investing, Michael Moe, speaks of the arrival of digital learning. His full paper is attached but here is an interesting graphic:



J. Michael Locke
Musings

#56: Directional Accuracy can be OK
May 18, 2020

Far different from an NFL quarterback, as a leader, there can be value in "directional accuracy" where you are not exactly on target, but in the right direction. Whereas Mitch Trubisky deserves all of the criticism he receives when he misses a receiver on the fly, a leader should expect to have a certain lack of precision as he or she sets the direction for their organization especially in uncertain times or farther out. When managing forward, it often matters whether you are directionally accurate versus being specifically in the middle of the bull's eye.

Right now, everyone is having to speculate on what life is going to look like post COVID-19. Obviously, none of us know. However, a good leader will properly predict the general trends that will be in place following the crisis. For example, you can anticipate that the greater leveraging of technology that consumers have experienced during the crisis will continue. With this greater use of technology there will be deflationary pressure as companies can deliver their service at a lower cost. I would be quite cautious of price increases where there is a cheaper online alternative. Another example, folks have gotten used to working from home, and in many cases, are even more productive. They will not all go back to the office like pre Covid-19. Office planning should factor in a more blended model with some people in the office and some not depending on job function and seniority. See WSJ article: when-its-time-to-go-back-to-the-office-will-it-still-be-there

One interesting dynamic of more remote models of operation is the lower cost labor it will open up. A business I am involved with just filled a difficult technology role with a talented professional from Puerto Rico at an attractive rate. I would predict a greater use of technology and data professionals from far-away places and be working on how best to orient them into the culture of the organization and oversee their work.

This concept of directional accuracy makes it difficult to for many individuals who come from a background deep on specificity. For example, my mentor Bob King would often tell me he had to "keep the lawyer out of me" as I would get caught up on a detail and miss the big picture. That might make for a good lawyer, but not a great CEO.

Directional accuracy can work because it may lead to something else. Don't overly focus on the specifics. Discuss the general direction. Some of the best ideas start from an idea "next door" that then gets iterated as it gets explored. Famously, the 3M post-it note came out of work on an adhesive for a different purpose.

Be safe. Work hard.

Jml

Second Thoughts

In Musing #48, I wrote about how there are more women than men in the US workplace now. Unfortunately, a lot of those jobs were service, personal contact type jobs which have been decimated by current crisis. Women are getting more impacted than men. See coronavirus-employment-shock-hits-women-harder-than-men

The disparity in effects of Covid based on wealth are sad. 40% of households earning less than $40,000 a year experienced a job loss while only 13% of those earning more than $100,000 did.

Often the Covid 19 situation is framed as health outcomes vs economic outcomes. Let us not forget the bad health outcomes coming due to neglected care and the media's incessant dramatization. See Avoiding the hospital

J. Michael Locke
Musings

#57: Leveraging the Gig Economy
May 19, 2020

Much has been written about the "gig economy" where individuals contract to do work on a project basis. Most of the writing focuses on the "supply" side of individuals lining up gigs like Uber driving. I would like to focus on the "buy" side and companies leveraging this development.

In 2018, Gallup conducted a study that found that 36% of U.S. workers are gig workers. They wrote: "Gallup estimates that 29% of all workers in the U.S. have an alternative work arrangement as their primary job. This includes a quarter of all full-time workers (24%) and half of all part-time workers (49%). Including multiple job holders, 36% have a gig work arrangement in some capacity." This works out to about 57 million Americans.

Many policy makers are concerned about this trend as these "gig workers" don't have access to healthcare and retirement benefits. Under the Obama administration, the Department of Labor and the NLRB applied a stringent five part test you had to pass for someone to be a contractor vs being deemed an employee. Some states like California have passed new controversial legislation "drawing the line" much differently forcing companies to treat "gig economy workers" as employees and benefits eligible.

Keep an eye on these regulatory trends but I recommend you embrace and leverage the gig workforce by tapping into new talent without increasing fixed costs. When you hire someone in the "gig economy," they don't hit your regular payroll and you don't have the 20-30% of salary cost of benefits. By definition, they also are a variable cost. You don't have to keep paying them after the project. This gives you more flexibility as you face a volatile revenue line. Ideally, you would have fixed costs only for the revenue which has certainty and then flex up with the variability of demand with contracted labor.

Ideally, you develop a stable of contractors who you know and trust. You don't have to explain the company and its culture because they already know it. Certain fields are known to have personalities more accustomed to this work structure like creative, digital marketing or website development. Many software coders and project managers are also free-lancers. On the other hand, I don't know many gig economy accountants.

Make sure you have a contract form that ensures the work product belongs to the company and not the contractor. It needs to be "work for hire" especially with technology contractors.

You need to have a "control system" where these contracts are budgeted and managed. A common mistake is to have tight financial control of hiring employees and salary increases but not to have oversight of a manager signing up a contractor. This can become an "end around" on a hiring freeze and an unexpected expense when you close the books.

Technology has created numerous "matchmakers" for the gig economy. From broad sites like www.upwork.com or www.freelancer.com to vertical sites like www.fieldengineer.com to demographic sites like www.themomproject.com , there are lots of ways to tap into the talent.

Netflix famously used the gig economy in a competitive style. In 2009, it launched a $1 million prize contest to the development team who could best increase the accuracy of its recommendation engine (ironically, it never deployed the code due to engineering costs to put it in production).

If you put in a system to ensure quality, the gig economy is something to be leveraged especially as we enter a deflationary environment in many sectors.

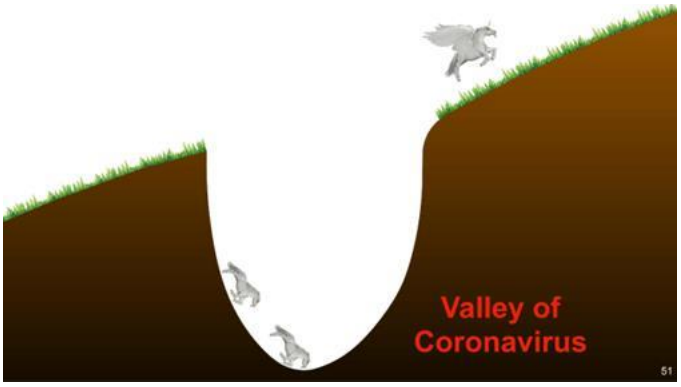
Be safe. Work hard.

Jml

Second Thoughts

Yesterday I mentioned the hiring of a talented technology professional in Puerto Rico as an example of the future of remote work. Relevant article in the WSJ: silicon-valleys-next-big-office-idea-work-from-anywhere

It must be nice to "play" with someone else's money. According to CNBC, "SoftBank recently gave WeWork a valuation of $2.9 billion as of March 31 based on a discounted cash flow method, down from $7.3 billion as of Dec. 31, following its failed IPO. SoftBank has reportedly invested $18.5 billion in the company. WeWork's private valuation was as high as $47 billion before its botched IPO last year." ***So they invest $18 billion of shareholder money to own part of a company worth $3 billion now.*** "We made a failure on investing in WeWork and I've been admitting that several times I was foolish," Son said. Here is a slide from the presentation --- two unicorns (that is over $1bn in value each) die and one makes it to the other side? No thanks.



J. Michael Locke
Musings

#58: Through the Others' Eyes
May 20, 2020

A common development need for young professionals is to move from focusing on their point of view to focusing on the others' point of view. They have not had to take care of a baby or an elderly parent. They basically have operated in a world about them with "snowblower parents" who take all obstacles out of their path. With our mass customizable world, everything is just how they want it. They have to learn to "see it through the other persons' eyes" if they want to be effective.

Unless you are a tradesman practicing a craft, your success will be tied to others' behavior. What matters is not what you think, but rather, how the other person views the topic. Will they agree with you? Will they follow you? You have to persuade or convince them. As a result, you have to think about a topic based on how the other person will view it.

This is the key skill of a good salesperson. They think about the pressures on the buyer – what are the buyers' bosses priorities, how much risk can the buyer take, is cash timing a key consideration. A great idea does not win the day. The idea accepted with enthusiasm by the recipient does. So, when presenting information, it is not how you want to present it but rather how they want to receive it. This can be as simple as whether the recipient likes word documents, powerpoint or just conversation. It can be that they want a digital document be formatted to print with page numbers. What the recipient wants (needs) rules the day, not what you think.

Positioning your idea becomes important. I have written in earlier musings that nomenclature matters. There is a difference between a "hiring freeze" and slowing down new hires. There is a difference between budget "cuts" and not growing expenses until there is more visibility on revenue. Ideally, you want to position your idea in a way that aligns with the core values and objectives of the recipient.

I think this inability to see it from the other person's perspective is part of our political divide. Governor Pritzker here in Illinois is not irrational or obsessed with power. He is making logical decisions based on his context (I just don't agree with his judgment!) I do think he needs to work on "seeing it through the eyes" of an ADM worker in Decatur who just wants to go fishing.

Second Thoughts

We are entering an era where five stocks dominant the market. The FAANG stocks (Facebook, Amazon, Apple, Netflix and Google) have given way to the Big 5 (thanks to the reversal of Microsoft which is a story on its own as it required an outside push from ValueAct capital). From CNBC: *"The S&P 500 was buoyed by the performance of its five largest constituents—Microsoft, Apple, Amazon, Alphabet and Facebook—which were up 10% as a group through April, while the median stock in the S&P 500 was*

down 16%. Together, those stocks represent approximately 20% of the index—the highest concentration the S&P 500 has ever seen from its five biggest members and much larger than the 40-year average of 14%." This concentration is only going to increase with the Covid crisis and more rapid adoption of technology. Makes ETF investing dangerous. Go active.

J. Michael Locke
Musings

#59: Don't Waste
May 21, 2020

Most successful business leaders I know are driven crazy by waste. It is in their DNA. It applies to their lives in and outside of the workplace. Waste is wrong for a business and for society. When you are thinking like an owner, waste is your money being thrown away.

Waste increases expenses and hurts margins. How does the rent bill feel right now when no one is using the space? I hope it drives you crazy. Per my earlier musing on capitalism, I am really frustrated when I see municipal workers getting paid and not working. In most businesses, labor is the largest expense. Usually there is not waste where someone isn't working. No executives allow that (unless they are required to overemploy like the auto companies having to pay thousands of employees to do nothing in Job Banks due to union contracts.) So "waste" in labor usually becomes a question of efficiency. Are people working hard and smart? Technology can help by taking tasks and making them easier to accomplish.

Reducing waste can come in the form of matching the expertise of the person doing the task with that of the task being performed and not overstaffing. You see this in healthcare with everyone looking to maximize the "scope of practice." If a nurse can do it, a doctor shouldn't. If a medical assistant can do it, a nurse shouldn't. An Anesthesiologist can now cover four or five operating rooms becomes they have a nurse anesthetist in each OR. You also see a movement towards this "leverageable" labor model in online higher education. Georgia Tech can charge only $7,000 for its online Masters in Computer Science because the highly credentialed and expensive faculty member has supporting course assistants who take much of the administrative load off his or her plate as well as teaching assistants to handle student academic questions. With this lower instructional expense, they can charge less (the on ground version is $63,000).

Personally, I think there is waste in the online curriculum side of higher education where every school starts from scratch in building their courses. There is no reason schools couldn't start with pieces or modules of content that were developed outside and then assemble those and customize their course at a far cheaper cost. The difficulty for students in transferring credit is also big waste in higher ed. Using DOE transfer data, the GAO estimated that students who transferred lose, on average, an estimated 43 percent of their credits. Some estimate that this costs $6bn a year in wasted tuition.

Back to business side, waste can also be simple things. With today's fancy printers, you can print things two sided (or do you need to print at all?) to save paper. Do you have an office for salesperson who spends 80% of his or her time on the road?

Anything on "autorenewal" should be inspected because their might be waste. Society has moved to a subscription model where almost everything is "per month." Unfortunately, what can happen is you lose sight of the subscriptions. Apple certainly makes it hard to track those down on your iPhone. Third

party services have even developed to help inspect your subscriptions. Consumers can use Truebill, Subby and Bobby to make sure there is not a leak out the door of something forgotten. One of the businesses I am involved with discovered a monthly charge for toner that a departed employee had set up and current employees did not know about.

Ideally, not wasting money becomes part of an organization's culture. Overcapitalization can lead to waste. If you have a lot of cash sitting on the balance sheet, you are not as attentive to cash outflows. Having some debt and payments which must be made can help drive fiscal discipline.

Sometimes I hear people lament the "cheap" boss but the core value is avoiding all waste. Famously, the billionaire owner of Ikea, Ingvar Kamprad, still buys second-hand clothes to save money. Why do I need a brand new iPhone with a couple of new features I don't care about? Apple has created an "I must upgrade" phenomenon which is incredible. What a waste of money. My used iPhone 7 and wired headphones are just fine thanks.

Be safe. Work hard. Don't waste.

jml

Second Thoughts

I didn't realize Bud Light would benefit from the coronavirus. According to WSJ: *"the coronavirus crisis has shut restaurants, bars, tap rooms and other out-of-home venues that together make up about 18% of U.S. beer sales. A jump in retail-store beer sales hasn't entirely made up for those losses, but it has given new life to flagging mainstream beer brands. Sales of mainstream beers like Bud Light and Coors Light in U.S. retail stores fell 3.1% in 2019. Since coronavirus pantry-loading began in early March, sales in that category have jumped 10.7% from the same period a year ago, according to an analysis of Nielsen data by beer-industry consultant Bump Williams."*

J.B. Pritzker seems to be waking up to the "over the top" nature of some of his mandates. Restaurants (the largest employer in IL) are going to be able to provide outdoor, socially distant dining in his Phase 3 which will hopefully be in a couple of weeks. I hope economically it is not too late for all of these businesses.

J. Michael Locke
Musings

#60: You must be a Pseudo-Accountant
May 22, 2020

Even if you are not from the finance department, you must be comfortable reviewing financials and understanding the numbers. This is not something that you can just blindly depend on finance to do. The numbers are the ultimate report card of the business. Despite the craziness of Silicon Valley, if a business cannot drive enough revenue to cover its expenses and deliver profits, it does not have value. In fact, the level of profits and the return on the shareholders equity need to exceed those of safer alternatives. The numbers tell you if you are creating value by growing revenue and free cash flow.

If you somehow left college or grad school without taking financial accounting, take it now. You must understand GAAP and debits / credits. You need to know how the three statements: income statement, cash flows and balance sheet interact with each other. You need to review the footnotes of audits which often provide hidden treasures of information.

There are two components to good financial management: (1) accounting and (2) financial, planning and analysis (FP&A). Simplistically, the accounting side is keeping score by booking entries. You should close your books every month and get a GAAP compliant set of financials within a couple weeks of month end. Instill the discipline of having the close done by the 15th of the following month and don't let it drag. You should also have audits done every year as a matter of good governance.

FP&A is where you do your analyses and especially your projections. You should have a rolling four quarter set of projections (all 3 statements). This basically involves building a model that gets updated every month so you have visibility on where you are going. Without forecasts, you are always talking yesterday's news when reviewing financials and cannot be managing forward.

Key to the model will be the assumptions and these should be highlighted on the first page and easily changed so you can see how key metrics drive results. Remember you want to look at YoY (year over year) growth rates of all key revenue and expense lines as well as the common size income statement showing margins. Revenue should be growing faster than every expense line thus giving you increasing margins and faster growing profits.

The invention of excel has been great but dangerous. Underneath this model will be formulas developed by your FP&A staff that they could get wrong. I recommend you literally get out a pencil and calculator and spot check some of the numbers. You can't just assume they got it right. My experience is this tactile activity can also help with comprehension. You should also play with the assumptions and see if the resulting changes in the forecast make sense.

I would make your lead finance executive present the numbers every month to the team in an M,D&A style reviewing top trends and drivers. Often folks in these fields are less comfortable presenting so

make them get up in front and do it publicly to help develop this game. You might also assign other executives to present the numbers to ensure their comprehension and develop their finance skills.

Be safe. Work hard.

Jml

Second Thoughts

To have economic growth over the long term, you need population growth. The U.S. is headed for trouble unless we start having more babies (Heather and I did our share). According to the WSJ: *the total fertility rate—a snapshot of the average number of babies a woman would have over her lifetime—ticked down to 1.7 in 2019, a slight decline from the previous year and another record low. In almost all years since 1971, that rate has been below the level of 2.1 needed for the population to replace itself, without accounting for immigration.*

Love this which was posted in sub Reddit by University of Chicago student:



J. Michael Locke
Musings

#61: The Most Precious Resource --- Time
May 23, 2020

Earlier this week I wrote about not wasting resources. Time is your most precious resource. As a leader, how you allocate your time is critical and I have previously written about being a "schedule maker" rather than a "schedule taker." You cannot waste time personally nor as an organization.

By not wasting time as an organization, I mean you need to ensure the organization is spending time on the highest value creating activities. What are the key strategic elements that will drive value creation? That is where you need to be focused. Certain items can become major organizational distractions. Be careful about unanswerable topics which can take a life of their own. Be careful of big group meetings with all of the top executives. Assigning individuals to own things (IDR – individual directly responsible) rather than groups, task forces or committees saves organizational time and helps develop people.

For instance, I would hate to measure the amount of time wasted on PPP loans. First, everybody raced to get in front of the line with their banks. Then there were questions about the "affiliate" rules and everybody had to understand how that worked. Then the "political shaming" started and led to the government moving the goalposts and threatening audits. Teams then raced to return the money. A complete 360 degrees and waste of time for many companies, thanks to poor implementation by the US government.

Lawsuits can be a big time suck. Even if your case is very strong, don't underestimate the time spent on discovery, depositions, meeting with your lawyers and negotiating potential settlements. Tracking Washington and potential regulatory changes can be a huge time suck as you pay attention to what one congresswoman said or did.

Email can be a problem. I set a bad example constantly checking email. Is that the right allocation of my time? It also then "trickles down" as the team checks email constantly because their might be an email from you. According to an HBR article (thanks Kelly Page): *The average professional spends 28% of the work day reading and answering email, according to a McKinsey analysis. For the average full-time worker in America, that amounts to a staggering 2.6 hours spent and 120 messages received per day.* HBR article: how-to-spend-way-less-time-on-email-every-day . We actually created "email amnesty days" at one of our companies and forced executives out into the halls to interact face to face and to call people.

Not wasting time does not mean to be hyper-efficient and robotic. When you are dealing with human beings, you have to allow for flexibility. Spending time listening as colleagues share personal stories is not a waste of time. It is connecting. Build some flex time between appointments and some free time for walking around. Be careful about overscheduling. You can't operate like a physician with back to back appointments and then get way behind. The result is you wasting others' time in the "waiting

room." I read a story once where it described executives waiting for hours for a scheduled appointment while Marissa Mayer of Yahoo ran late. Not good.

Creative thinking also takes time although it might seem unproductive. Build in this "free time" in for yourself, your team and thus the organization.

Be Safe. Work hard. Don't waste time.

Jml

Second Thoughts

More colleges going "test optional." The University of California announced it was doing that yesterday. The SAT was invented to expand access back in the day where you could only get into the Ivy League by going to a certain prep school. Now, test scores have become directly correlated to wealth. Who can afford a tutor and knows that "super scoring" means you can take the test multiple times with no downside? More than 1,000 colleges and universities have gone "test optional." I think this is a good thing. Need to move from GPA (weighted / unweighted etc) and test scores to a more comprehensive portfolio approach. Think of all of the wasted time "engineering" the system to get your kids into school.

J. Michael Locke
Musings

#62: No Ambiguity in Decision Rights
May 24, 2020

One of the challenges I see in our societal response to Covid-19 is the ambiguity in decision rights. President Trump says it is his decision and the Governors say it is theirs. Governors take positions and then the state legislators sue saying they have the decision. Governor Pritzker says outdoor dining is alright then Mayor Lightfoot says not in Chicago. Personally, I think it is best for the decision right to rest as "close to the action" as possible. I would rather have the local mayor making decisions than someone from Washington. I think all of this applies to business as well.

As a leader, you have to make clear who has decision rights. This is easier said than done. You won't have a binding document like the Constitution and decades of court decisions to lead the way. You have to get there "by feel" working with your team. What do they need to run by you and what do they not? I recommend you lay out some bright lines on certain matters. As an example, the CFO should not engage in things to change the capitalization of the business without CEO approval (actually should have board approval). However, he or she certainly should have the decision right to manage the collection process and try to change how much accounts receivable is on the balance sheet. Generally, decision rights are kept to "high and centralized" in my view. Push them "down and out." If you have built the right team and culture, you will get good decisions.

Be careful about getting involved in any decision that is presented to you. Some individuals will abdicate and just bring you everything. Don't let them. Even if you have an opinion on the right decision, demur and just say "that is your call." The more decision making you can push "down" the organization and closer to the market and line level employees the better. Our daughter's soccer coach showed me this. After watching him sit on the sidelines with minimal commentary during the game, I asked why he wasn't standing up, yelling directions and coaching like the opposing coach. He told me that the girls needed to develop their judgment and make the decisions. They wouldn't do that if he was telling them what to do. Then, he would review their decisions with them at half time and after the game. Good coaching.

I think we all have experienced how many companies have taken all discretion away from customer-facing employees. You ask for some slight variation in policy at a hotel or restaurant or store and you hear "Sorry, that is the policy, I am not allowed to do that." You might then ask for a manager who has some broader decision rights. Compare that to the empowered customer-facing professional who can handle your request on the spot. Recently at a Marriott, the front desk let me use a room for free for a conference call. Simple gesture but probably against policy.

Matrix reporting is becoming popular but it creates decision rights issues. Matrix reporting involves "blackline" reporting to one boss and "dotted line" reporting to the other. Usually, this is combination of reporting to a geographical manager and reporting to a functional manager. Which boss has the

decision right on the raise for the employee? What is lost in matrix reporting is who owns developing the employee? You need clarity on who is the coach held accountable for the development.

Every parent knows the decision rights issue raised by matrix reporting. Did mom say "no" and now they are coming to me in some attempt to get a different answer? We simplified in our house. Mom has the decision rights on sleepover and other requests. No second opinion needed.

Be safe. Work hard.

Jml

Second Thoughts

In an earlier musing I wrote about the Kardashians and the power of social media as a marketing tool. If you needed more proof, this week Joe Rogan (who you probably have never heard of) cut a deal with Spotify to stream his vodcasts (a video podcast) for over $100 million. That is more than twice what Michael Jackson paid for the rights to the Beetles catalog ($47.5mm in 1985). Rogan is a comedian, television host and mixed martial arts commentator. According to the WSJ: *Mr. Rogan, 52 years old, had so far withheld his podcast from Spotify, saying the streaming service doesn't pay enough and he had been generating significant revenue on other services such as Alphabet Inc.'s YouTube. His full library, dating back 11 years, is to hit the service Sept. 1, and become exclusive to Spotify after that, before the end of the year. His video podcasts, which will also appear on Spotify, will no longer be available on YouTube.*

J. Michael Locke
Musings

#63: Go Agile
May 25, 2020

In the software development world, a growing number of companies deploy the "agile" process. In the agile process, the overall task of writing the code is broken down into smaller increments or "sprints" versus one huge project. Agile develop then provides optionality as the team steps back after every sprint and evaluates where they are and what adjustments need to be made. Part of agile coding is also the use of a "scrum" where an interdisciplinary team gathers in a brief session and team members report to each other what they did the previous day toward their team's iteration goal, what they intend to do today toward the goal, and any roadblocks or impediments they can see to the goal.

I am seeing a growing use of these practices in general management outside of software coding. In a dynamic world with increasing velocity, it is becoming difficult to develop elaborate longer-term plans. Things move around too much. Look what has happened since the end of January! The premium on business is becoming flexibility and adaptability. Your organization and its leaders must be agile.

To be agile, you must minimize your fixed, long-term commitments. Renting rather than owning real estate. Shorter leases of office space. Heavier use of contractors and outsourcing. Rolling four-quarter forecast with quarterly adjustments rather than just annual budgeting. Real time inventory management rather than warehouses full of product.

Your team must also be agile. Based on what they hear in a morning management scrum, they might need to change their plans for the day. Personally, I find athletes from team sports to be good hires. Especially dynamic team sports where there is a flow and things are moving around with interdependencies like soccer, lacrosse or basketball. You can even test individuals for agility when interviewing my making that an agile experience. For example, you might say "let's go for a walk while interviewing" rather than sitting in a conference room and see their reaction. You might ask them to go up to the whiteboard unexpectedly and do something. I am certainly bias but I think people who grew up in larger families are more agile as they could not have things there way but had to "go with the flow."

Be safe. Work hard.

Jml

Second Thoughts

The State of Georgia results I have seen show no noticeable uptick in infections or deaths from Covid 19 following their "opening up" for which the governor was highly criticized. It has been over the 14 day incubation period so you would expect to see it by now. Has the media totally overblown this whole

thing? I just don't know who to trust anymore which is sad. Interesting to read Rahm Emanuel's comments an Axelrod podcast. From Chicago Tribune: *He's for reopening the economy, and we're sitting there being reluctant and hesitant and hiding behind Dr. Fauci. I think we should be for rebuilding America, and then have McConnell say, 'Not so fast. Let's slow down, etc.,'" Emanuel said, suggesting a major infrastructure program.*

J. Michael Locke
Musings

#64: Embrace Redundancy in Critical Areas
May 26, 2020

Let me start with an apology. I failed to thank our veterans and service members in yesterday's musing on Memorial Day. No excuse for that. We can't get too tied up in daily life to miss the big picture. I want to express my gratitude and honor those we have lost defending our country. Sorry.

Sometimes you need to invest in redundancy. It is expensive to have two of something where you only need one. However, one tenet of building a business is that you should never have something that if it goes awry, you irreparably harm or lose your business. For anything like that, you should have redundancy.

First, let's talk technology. Your technology infrastructure must be built with redundancy. What if the web server goes down? There should be a second server that can carry the load by itself so you never want to run of the servers above 50% capacity if it is filling a key function. For those in ecommerce, what if the datacenter went dark (it happened to me with a bug in the switch taking traffic into the datacenter)? Ecommerce businesses should have redundant datacenters. Even if you aren't an ecommerce business, every business should have a backup plan to go to another datacenter (and you need to practice doing it!) What if the construction crew accidentally puts the backhoe through the fiber cable into the building? Again, has happened to me and all of a sudden many of your employees can't do anything without internet access. For those where uptime is a must, you would have redundant fiber coming in a different way into the building.

Think about airplanes. Most can fly on one engine but would you want to take that risk on a new one-engine Boeing? Their two engines provide redundancy in case one fails or has a bird strike (unfortunately Sully experienced two). On the human side, there is a reason there is a co-pilot.

It is difficult to have redundancy in employees but there are techniques. I am a big fan of having an Executive Chairman and a separate CEO. While the CEO runs the business, the Executive Chairman is involved. This provides a second set of eyes and redundancy if something happens. You can break a large sales team into two divisions each with a VP of Sales. If you lost one of the VPs, you are not void of leadership. You can cross train others on certain functions. If the accounts receivable manager gets sick, someone else needs to know how to ensure the cash inflow keeps going.

You should have some redundancy in your supply chain. A lot of companies have been experiencing this lately with a total dependence on China for critical supplies. Savvy managers understand geopolitical risk and would have alternative suppliers.

Don't get carried away with redundancy. Jeff Immelt having a second private plane follow him around when he was running (and destroying value at) GE is just ridiculous.

The key question becomes one of cost and risk. You can't have a complete second cost structure to provide redundancy so identify the mission critical elements that can't go down and build redundancy there.

How many pairs of reading glasses do you have?

Be safe. Work hard.

Jml

Second Thoughts

As society slowly opens up, it is notable to me how dependent we are on experiences. Recently, our daughters and I went out to eat at a restaurant operating at 25% capacity in Florida. Same good food as always but none of us really enjoyed it. The pleasure of eating out is the vibrancy of the crowd, the banging dishes and folks ordering from the bartender while they wait. Four tables in an empty room just didn't cut it. It will be interesting to see how we operate in our "experience economy" post Covid-19. Good NYT article: public-gathering-events-coronavirus

J. Michael Locke
Musings

#65: Framing the Conversation - Coronavirus
May 27, 2020

I believe our society is being poorly served by the media and many elected officials in how the Coronavirus situation is being discussed and managed.

The focus on "shelter at home" and "quarantine" has created a closed vs open mentality. It is not a black and white issue. Part of why the Georgia numbers are not deteriorating is that it is only "kind of open." The emphasis of the conversation and policy should be on social distancing rather than open/closed. I have been moving towards the "open up" camp but am troubled like others when I see the pictures in Lake of the Ozarks or Lake Geneva. That is just stupid. However, for the last month, we should have been discussing social distancing rather than mandating people stay at home. We should not be talking about essential vs nonessential businesses. Businesses should be able to open if they can operate within the constraints of social distancing and safety.

The U.S. is a noncompliant society. We don't like the government telling us what to do -- that is why the U.S. exists. I think this is positive trait but also means that forcing society to close down can only last so long. Officials acting like royalty and telling folks they must stay at home and lose their job doesn't sit well.

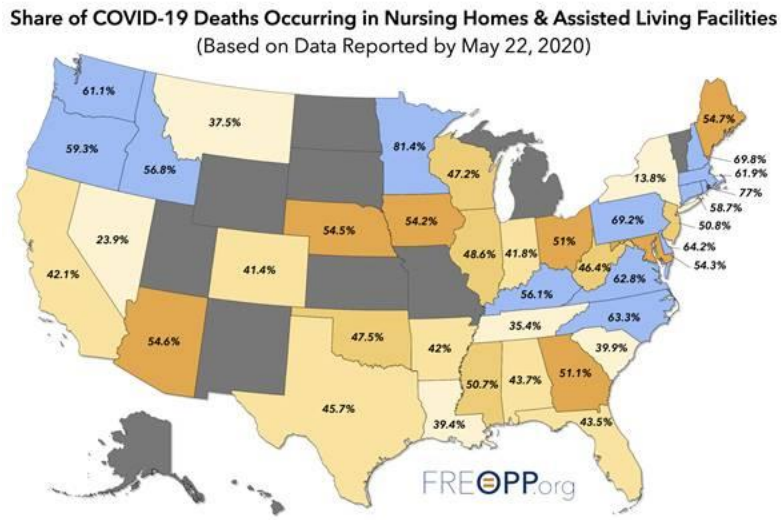
Announcing daily how many people are infected is not particularly helpful. We all know that our testing capacity has been woefully inadequate. As testing becomes more available, we will have more cases. A decline in the positivity rate (one of Illinois' three KPIs) is self-fulfilling as more tests are administered. The unused capacity in ICU beds (another Illinois KPI) is more relevant. The model of how many of infections will result in a severe health problem or death is key but unknown. We don't know the mortality rate because we don't truly know the denominator.

The death count is more relevant but also needs context. As we come up to 100,000 deaths from coronavirus in the U.S., I wondered how many people die of other things. I don't see this covered. Below are the leading causes of death in U.S. from the CDC. These are annual figures so this must be considered when comparing to Coronavirus' three month number.

- Heart disease: 647,457
- Cancer: 599,108
- Accidents (unintentional injuries): 169,936
- Chronic lower respiratory diseases: 160,201
- Stroke (cerebrovascular diseases): 146,383
- Alzheimer's disease: 121,404
- Diabetes: 83,564
- Influenza and Pneumonia: 55,672
- Nephritis, nephrotic syndrome and nephrosis: 50,633

- Intentional self-harm (suicide): 47,173

Approximately 40% of the coronavirus deaths in the U.S. have been connected to nursing homes. This is tragic and has showed a real gap in our "system." However, that is a very definable risk group which can have its own protocols. Here is an interesting map (I can't vouch for source but seems legit):



Over 38 million people have now lost their jobs. The destruction of lives is immeasurable. Houses are going to be foreclosed. Suicide and domestic violence are up materially. The use of drugs for anxiety is up 34%. Small businesses are closing with entrepreneurs losing all of their life savings.

I recognize the human cost of 100,000 deaths (and am blessed that no one I know has died or even been infected) but worry that we have less visibility on the costs of a multi-month quarantine and shut down of most economic activity.

Be safe. Work hard. Time to get back to work and school.

jml

J. Michael Locke
Musings

#66: It is Alright to Beat the Dead Horse
May 28, 2020

Not sure where the saying came from, but you hear "don't beat a dead horse" sometimes in business. I disagree. When diagnosing the reasons for a failure, beat away.

I have previously written that most individuals are conflict averse. They would rather move past conflict to reconciliation. Most humans also don't like to dwell on the negative. People are inherently attracted to positive thinking. However, if you want a learning culture you can't always do this. If something goes wrong, you need to figure out why. This may mean discussing something bad and uncomfortable for a while.

I am experiencing this real time right now. An idea which I promoted at one of our companies has caused problems. I am trying to figure out "what went wrong." That is an important part of learning as an individual and as an organization. It would be easier to move on, but that would reduce long-term growth. So, I have asked for multiple follow-up calls after the initial surfacing of the problems. I will stay "on topic" until I can mentally reconcile what I got wrong with the idea. Mistakes happen. That is being human. The same mistake happening twice is a failure to learn and not acceptable. Beat the dead horse until you have learned.

Often, the problem comes in implementation and dynamics between individuals. To work on this, you must get the relevant parties on the phone or in person at the same time. I would recommend this as a basic technique whenever there is discord between individuals. Don't provide a listening ear while one person complains about another, get them together hashing it out in front of you.

"Going wrong" can mean financially underperforming plan. A good practice is to maintain your original projections or pro formas which justified an investment or supporting pricing on a new client. Then, go back and compare actual results to these initial models. I know some good private equity professionals who go through the "underwriting" process on their investments every year even after they have been made. This discipline of going back and figuring out where you got things wrong helps improve your game.

Be safe. Work hard.

jml

Second Thoughts

Astronauts were scheduled to be carried to the Space Station yesterday on top of a SpaceX rocket. Getting lots of coverage because it is the first time a private company has operated the rocket

rather than NASA. A positive development. If private enterprise will do it, why does the government need to? I trust a good private company way more than I trust the government to do something well.

J. Michael Locke
Musings

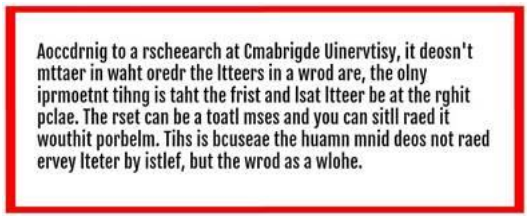
#67: The Invasion of Typos
May 29, 2020

Modern technology has unleashed a world of typos. I find this sad as it normalizes sloppiness.

Start with mobile devices. It is very difficult to write a lengthy email or text using your thumbs and get everything right. Some people proactively apologize for the inevitable typos with a line under their signature.

Add to this, the dreaded "autocorrect" where the software assumes it knows better than you and will change what you type. If you don't go back and reread, you often will send a message which might be incoherent due to the autocorrect "god."

Volume and lack of a second reader leads to typos. These musings are a good example. You likely can tell which ones Heather had a chance to review before they went out and which ones she did not. I am embarrassed when folks email back pointing them out (but appreciate the emails) and often ask "how did I miss that?" The human brain is agile and you can read what you think you wrote. I love this poster at Jimmy John's (the source of much scholarly thought and a quick, good sandwich):



I don't have a recommendation on what to do about this. If we accept typos, we accept mistakes. We embrace being casual. We will all start dressing like Mark Zuckerberg. Call me old fashioned but I think work should demand more. No T-shirts, sandals and accepted typos for me.

Back to work.

jml

Second Thoughts

Mitch Daniel's interesting oped in Washington Post: *"Forty-five thousand young people — the biggest student population we've ever had — are telling us they want to be here this fall. To tell them, "Sorry, we are too incompetent or too fearful to figure out how to protect your elders, so you have to disrupt your education," would be a gross disservice to them and a default of our responsibility".* Full article: [why-we-have-a-responsibility-to-open-purdue-university-this-fall]

J. Michael Locke
Musings

#68: The Loss of Trust in our Institutions
May 30, 2020

I worry about a development in our society. We are losing faith and trust in institutions. Not just one but many. Hard for society to work that way.

Start with church. There has been a drastic decline in church membership over the last two decades from 70% to about 50% according to Gallup. The child abuse scandal within the Catholic church has gone to the core of trust. Not only were there "bad actors", the institution by and large attempted to cover it up. We personally have sharply reduced our church going due to travel soccer (Sunday morning not protected anymore) and the politicization of our pulpit. Sad.

Move to law enforcement. Hard to digest the George Floyd video. Tragic. Laquan McDonald was shot 16 times unnecessarily and then the police in Chicago tried to bury it. How can you blame the African American community for not trusting the police? This anger has been amplified due to the Covid crisis. Much has been written about the disproportionate impact of the Coronavirus on communities of color. This is not only a health comment but an economic comment. Times are fragile. However, this doesn't excuse looting and violence. We need a modern MLK right now.

I don't know what was going on with the FBI and the Michael Flynn investigation but doesn't seem like a group you should totally trust.

Move to the news. We live in parallel universes if you watch CNN then turn to Fox. They seem more like advocacy channels rather than neutral reporters. Listen to the language chosen when covering a story – the words imbed a bias. Where is Walter Cronkite? At least Judy Woodruff appears close.

How about school leadership? The Chicago Public Schools Superintendent (Barbara Byrd Bennett) was caught cutting a lucrative side deal with a company that was then receiving a huge contract from CPS. From my viewpoint, the teachers union is about the teachers and not about the kids.

Many have commented about my "distrust" of government which has come across in these musings. My experience has been that government is not a source of good. Unelected bureaucrats yield enormous power with unlimited resources. How about the CFPB (accountable to no one) going after auto lenders for racism based on a statistical model of "assumed race" based on zip code and last name?

Mike Madigan has been running the House of Representatives in Illinois for decades. He had an "attractive" challenger file to primary him – articulate, Harvard-educated Hispanic man. What did Madigan do? He had his cronies get two additional Hispanic individuals on the ballot so voters might be confused.

By and large we still have trust in our judicial system but it is delicate. Trump criticisms of individual judges is dangerous. I am with Chief Justice Roberts: "*We do not have Obama judges or Trump judges, Bush judges or Clinton judges, What we have is an extraordinary group of dedicated judges doing their level best to do equal right to those appearing before them.*"

Hard for society to work well if the institutions at its core are not trusted. Obviously, one "bad actor" does not mean an institution is bad but there are too many bad actors in the system right now. Too many pedophile priests, over-aggressive cops and shady politicians. We need to call them out and get them out.

I believe this loss of trust in institutions is why many consumers are moving to referral-based purchasing. They only trust their network of friends. Seems like the only common ground for our citizens right now are weather, sports, puppies and ice cream.

Society is kind of a tinderbox of emotion right now. I would encourage all readers of these musings to be forces of calm and help others reduce their stress, anxiety and anger.

Back to work.

jml

Second Thoughts

Can't say I agree but an interesting perspective shared with me that professional standards (like the lack of typos discussed in yesterday's musing) perpetuate a white supremacy culture. Here is an article taking that view (thanks Kate McNamara): the_bias_of_professionalism_standards

J. Michael Locke
Musings

Guest Musing #2: Trust in Institutions: Denison President Adam Weinberg
May 31, 2020

I wanted to share a guest perspective following yesterday's musing on the decline in trust in institutions. Here are some thoughts from the President of Denison University, Dr. Adam Weinberg.

I am really struck by the views of Yuval Levin in a new book called A Time to Build. Levin talks openly about the need to rebuild institutions. Levin's fundamental call is for institutions that help us develop the capacity and willingness to lead with a commitment to things larger than ourselves, where leadership less as performance and more as service to society. Everything you wrote about today is about institutions that are really nothing more than platforms for people to perform totally divorced from values or service.

Colleges can play a role by helping students understand why institutions matter and helping students develop the skills, values and habits to reform institutions. College presidents can play a role by leading with values. In a wonderful quote towards the end of the book, Levin writes, "We don't have to figure out how everyone else might do this; we just have to do it ourselves. You and I. We can do it in small ways- in thinking about how to use our time and energy; how to pursue our goals, how to judge success and failures, how to identify ourselves when other people ask us who we are, how to measure our responsibilities."

Here is what I said to our students in a recent ceremony, "Leadership is something we do with others in our communities, places of work, friendship networks, associations, and so forth. We all act as leaders and how we do it matters. The COVID crisis has forced me to peer deep inside myself to ask what kind of leadership I will lend to this college that I love and what kinds of leadership I hope this college will help our students take out into the world. For me, I am trying to lean into our values. To lead in ways that serve the needs of the Denison community, that gives people hope, and perhaps deepens their belief in and connection to the college. I don't always get it right. And I can't do everything that I want to do. But, I can follow Levin's advice and act with purpose, intent and clarity. To use practical wisdom to make decisions that I believe are right and in service of the common aspirations we hold."

Adam Weinberg
President
Denison University

http://twitter.com/AdamAtDenison
https://www.linkedin.com/in/adweinberg/recent-activity/posts/

Second Thoughts

Good article on distrust and contact tracing by Peggy Noonan: *We came from people being pushed around, and mistrust of authority is in our DNA. Americans are exactly the people who won't like trackers asking them who they've seen and where they've been, and telling them where they can't go and what they can't do.* *the-challenge-of-contact-tracing-in-america*

I don't want Google tracing me by my cell phone. Personally, I have moved to DuckDuckGo (no tracking) for a search engine and unplugged from Facebook.

J. Michael Locke
Musings

#70: When to Go First
June 1, 2020

Before turning to today's topic, I have to comment on the unrest over the weekend. In my opinion, a large part of the frustration expressed is a lack of economic opportunity and participation. It is hard to be vested in the positive development of your community if you have no money, no job, no house. The employment rate and home ownership rate of communities of color are materially lower. We must ensure all get a good education and skills to participate in today's knowledge economy. As I have written, the Covid-19 crisis has provided significant visibility to this disparity. Now to today's leadership comment.

Sometimes in a group setting, it is not predetermined who should go first. As a leader, let me recommend when, and when not, to go first.

I think it is a good practice to go first if your contribution will show by example it is alright to fail or be wrong. This is an important statement for the team to know. At one of our companies, we had an outside coach who wanted every manager to identify his or her biggest mistake and to offer it publicly to the group. The leaders went first to set the tone.

I also think it is good to go first if you are getting personal. When interviewing, I seek to provide some type of personal or intimate comment about my own life in hopes the person being interviewed will reciprocate. The HR people will tell you that you should not ask personal questions but if you volunteer personal information first, most individuals will reciprocate.

You should *not* go first when there is going to be some type of vote or seeking of unanimity. For instance, if you get a group on the phone discussing a potential new executive that everyone interviewed, you shouldn't go first because that will "taint" the process as folks won't like to disagree with the boss openly.

You should *not* go first when negotiating. Let's say you are selling. You don't know what value the potential buyer may put on the business, ask them to make an offer first. Also, some individuals negotiate by never taking a position. Be careful not to negotiate with yourself. If you have an offer on the table and they simply say they don't like it, make them put up a counter. You have to be patient. From expert negotiator Stan Goldblatt: *In negotiations, it is particularly important sit still and be quiet – sometimes to the point of creating discomfort. Everything the person across the table says is important and sometimes uncomfortable silences produce amazing results. Being quiet and listening adds greater weight to what you do say.*

Don't go first when setting a deadline for a team member to deliver a work product. Ask them when they can have it ready. This may be an earlier date than you would have requested and puts the

establishment of the deadline on them so they can't complain. If you have hired right, the team member will want to "impress" and put up an aggressive date.

Be safe. Work hard.

jml

Second Thoughts

Consumption is 70% of GDP. U.S. consumer spending fell by a record 13.6% in April, the steepest decline for records tracing back to 1959. Not good.

With all of the retail bankruptcies, it is important to remember there are two types of bankruptcies: Chapter 7 which is a liquidation bankruptcy and Chapter 11 which is a reorganization bankruptcy. Most of these retailers will be Chapter 11 where the equity gets wiped out, they can close stores and not be stuck with leases and will stay alive just with the debt holders now owning the company. Some may start at Chapter 11 but then have the debt holders decide they would rather just take the liquidation proceeds (ex. Toys R Us).

Interesting world when you don't know who is really making things. Those GE appliances are not made by GE. They sold the business years ago and just licensed the name. They just did the same with their lighting business. The GE rotation out of consumer towards infrastructure and aviation doesn't look so hot right now.

J. Michael Locke
Musings

#71: Keep Hiring Salespeople
June 2, 2020

While I don't want to write daily about the social unrest, hard not to comment. Most Americans believe in protests but not riots. The violence against police and rampant looting are taking the focus away from the real dialogue which needs to occur on racial inequities. Good essay by Obama: how-to-make-this-moment-the-turning-point-for-real-change . The organized anarchists (whoever they are) need to be arrested. Now to business.

I see a lot of companies make a simple mistake. They underinvest in salespeople and marketing.

Most companies will set a revenue target and then figure out the sales and marketing resource they believe they need to hit it. But what if they could drive more revenue if they invested more in the front end? If the market share is there and they don't, they have left an opening for the competition.

First, you need tight metrics on the cost of your sales and marketing efforts – the client acquisition costs (CAC). This would include things like the ramp time to full productivity for a new sales rep and the amount of travel you should expect per rep. You need attribution models on marketing to know which activities drove which leads. These aggregate costs (including the benefits burden and managerial expenses) are your full sales and marketing cost.

Now that you know the costs, you need to measure the return. You can afford a higher CAC if you have a higher gross margin product or service. You also can afford a higher CAC if you have a good lifetime value (LTV). In my opinion, you should invest in sales and marketing as long as the market is there to be taken. You can even afford some deterioration in your CAC as long as that CAC is below the gross profit of the business it brings in. Think about marginal revenue and marginal cost from Economics 101 – you maximize total profits by going until marginal revenue equals marginal cost *not* by maximizing the difference (margin).

The key is the available market and how much more room there is if you made the sales investment. You need to have good market sizing and competitive share information. Hopefully, you are in a growing market. Even if not, you can grow by taking share although usually has a higher cost.

If you are in a B2B business, your sales team will push back on continual hiring. They would prefer larger geographic territories so it is easier to meet and exceed their numbers. More salespeople will mean smaller territories and they will have to dig harder. That is what you want.

Let's get back to work.

Jml

Second Thoughts

Appears Kylie Jenner and her mom were inflating the numbers of her cosmetics company to make her one of the youngest billionaires. inside-kylie-jennerss-web-of-lies-and-why-shes-no-longer-a-billionaire . All about promotion with those Kardashians.

J. Michael Locke
Musings

#72: The Private Equity Debate
June 3, 2020

A newer target of the progressive political class is private equity. If you listen to Elizabeth Warren, private equity is bad segment of our capitalistic system which destroys companies and jobs. She has introduced legislation called the Stop Wall Street Looting Act (per earlier musings, note the framing the conversation with naming), it would impose a 100% tax on fees paid from companies to the PE firms that buy them and prohibit dividends for two years after an acquisition. So what is the deal?

Private equity professionals raise money from limited partners to invest. These limited partners are pools of capital like endowments, insurance companies and pension funds. The managers of the pools of capital are charged with generating returns so they allocate the money across asset classes with some going to "alternative" asset classes like private equity. David Swensen (who manages Yale's endowment) pioneered the allocation of much larger amounts to alternatives and has generated enormous returns for the university. Now, everybody does it. Lots of money has been going into private equity over the last thirty years.

The PE professionals get the money for a set period of time (typically ten years although fund lives are getting longer). The basic concept is they buy private companies, grow their profitability and then sell them within that time period. The PE team usually gets "2 and 20" meaning a 2% annual management fee on the fund (to pay for offices, salaries etc) and 20% of gain in value/profits on the sale (called carried interest). So what is the issue?

PE firms are usually more aggressive in their use of debt ("leverage") when buying a company. So just like having a bigger mortgage on a house, they typically put up less money themselves and maximize the money from the banks. This increases the equity returns for investors. However, it also makes the business more precarious if times get bad. Many of the retailers and companies which have been gone bankrupt are due to heavy debt loads from private equity buyouts.

There is nothing wrong with using some leverage. It is a matter of risk. When a company gets over-levered and goes under, the PE firm loses all of its money so it is not something they want. In business school corporate finance, you are taught to lever "to the point of financial distress." The judgement call is how much in debt payments a company can afford and having cushion for tough times. For example, with all of the uncertainty in the world right now, leverage should be limited in my opinion. In my opinion, you should never have 5+ leverage multiples (debt/ebitda) on a business. Max it out at 4sh and pay down to 1-2x as soon as you can.

PE professionals are usually very smart and bring a lot of value to running a business. Increasingly they are vertically-focused and really know what is going on in a given market. They bring significant fiscal discipline. Often, companies are run in cash-inefficient ways and PE ownership can change business processes and create a more efficient company (why did Sears own all of that real estate?) PE-owned

companies also know how to effectively do acquisitions and can create large organizations in a way that non-institutional ownership could not.

In one of the great ironies, a large beneficiary of the above market returns from private equity are teacher and other public worker pension funds. So while many members of these professionals protest with Elizabeth Warren against capitalism and private equity, their retirement pension is being made possible by the work of their targeted evil.

The issue is that raised in the guest "trust in institutions musing" by Adam Weinberg. It is not about the organization but the individuals. PE can't be about maximizing the income of the PE professional. It has to be about building great companies. If a PE firm gets too aggressive with leverage and dividends, it can leave a business in a precarious state and ultimately things might not work out and jobs lost. The best PE people I know are not aggressive with leverage.

It is also hard to argue why the compensation of the PE professional in carried interest is treated as capital gains for taxes rather than ordinary income. This is "profit-sharing" and they did not write a check to invest and take risk. It should be taxed at the higher ordinary income tax rate.

Like most things, there is nothing inherently wrong with private equity. It is how it is practiced.

Back to work.

jml

Second Thoughts

Good essay on the racial unrest from Kareem Abdul-Jabaar. dont-understand-the-protests-what-youre-seeing-is-people-pushed-to-the-edge

For those waiting to know, the court gave Carol Baskin the zoo. carole-baskin-tiger-king-zoo-trnd

J. Michael Locke
Musings

#73: The Case for Small Towns
June 4, 2020

Let me acknowledge the bias inherent in this musing. I grew up in Decatur, IL. A town of 71,000 in the middle of the state most famous for its unusual smells as large agricultural businesses turn corn and soybeans into products like high fructose corn syrup. While I was growing up, Decatur had over 90,000 residents but has been dying a slow death like many Midwestern industrial towns. Is that about to reverse course? Are people about to leave the cities for smaller communities? Here is the argument.

Remote working has been gaining traction over the last decade or so. This is especially true amongst the technology crowd. Covid-19 made everyone go remote. Quite a few employees like it. A number of employers also like the idea of less office rent and tapping into cheaper labor markets. Twitter and Facebook have announced plans to go all remote. Stitch Fix is moving jobs out of California to more affordable communities. stitch-fix-is-laying-off-1400-in-california-18percent-of-workforce . I believe that the newer model for employers will be more blended.

Smaller communities are simply cheaper. remote-work-could-spark-housing-boom-in-suburbs-smaller-cities . The average home price in Decatur is $76,332. I used to do a lot of business in Fargo and spent time on the Microsoft campus there. The executives at Microsoft told me that Fargo had become their largest office outside of Washington because of the value. They could get a great worker for $50,000 - $60,000 in Fargo and in the Seattle area it would cost 50% more.

In a world where people have lost faith in institutions, it becomes important to truly know the individual you are dealing with. Your personal brand matters in a small town. You can't get away with "screwing people" because word gets out. Members of the community are more integrated and invested. There aren't different parts of town operating like different countries. You live, work and socialize with the same people. This creates a greater sense of "ownership" in what happens in your community.

I would "go long" on smaller towns, especially those in "pretty" areas. Just need someone to figure out affordable air transportation so you can still fly somewhere easily if you need to. Small propeller commuter planes don't cut it. Maybe our modern Tony Stark (Elon Musk) can create a good jetpack.

Jml

Second Thoughts

Economy is in an ugly place. Some are projecting GDP to fall over 50%! gdp-is-now-projected-to-fall-nearly-53percent-in-the-second-quarter . 40 mm people have filed for unemployment in recent months

(unfortunately the federal supplement of state unemployment benefits is disincenting folks from going back to work since they will make less money).

Update from Sweden. Maybe too far the other way? Thanks Jeff Dobosh. https://www.bbc.com/news/world-europe-52903717

J. Michael Locke
Musings

#74: Some Good News
June 5, 2020

Fans of The Office have likely been watching John Krasinski's latest concept – a YouTube show called *Some Good News*. The show, which highlights positive snippets of audience submitted content, has a million followers on Instagram and 2.58 million YouTube subscribers and draws up to 17 million for each show. Recently, Krasinski cashed in by selling the rights to ViacomCBS. Have to love entrepreneurship and capitalism. Mary Poppins is happy.

I wrote in Musing #13 about the power of positivity. Humans want to be positive. Courses in happiness and positive psychology are enormously popular. It is an ugly world right now so let me steal from Krasinski and give some good news.

Great story from the bridge in Minneapolis. After the truck driver almost ran people over, the angry protestors pulled him from the truck and start beating him up. A different protestor jumped on top of the driver and shielded him. "This all started because of a senseless killing, we couldn't have another one" he said.

SpaceX successfully got the U.S. astronauts to the space station. The rocket "returns" after launch not like the kid rockets you had to chase down in the park. Just a couple days later SpaceX did it again launching 60 communication satellites. Engineering ingenuity.

Multiple generations in my family had a very constructive conversation about BLM and structural racism during zoom cocktail hour. Not all in agreement but good discourse. As my sister-in-law wrote, "I think that was exactly what we are supposed to be doing to honor the life of George Floyd."

Love seeing strong, accomplished black women running our cities in Atlanta, Washington and Chicago. Also impressed by Val Demings who ran Orlando police, is now in the House of Reps and the frontrunner for Biden VP in my opinion.

Our Illinois dictator JB Pritzker is letting restaurants open up.

Yes, you can have a "graduation celebration" even if that means walking in front of a TV streaming YouTube where you name is announced. Congrats to our daughter Cate off to TCU.
https://share.icloud.com/photos/0KXiHFcsR3fc1DVs6nuY0z0Xg

Thanks for the Bush family. Class acts. Here is W's statement: statement-by-president-george-w-bush. I agree with Mad Dog Mattis that leaders, especially Presidents, need to unite people.

Do something positive today. Write someone a note of thanks. Buy someone a drink. Say hello to strangers and wave to people as they drive by.

jml

Second Thoughts

To the loss of trust in institutions, how about this crazy story. We all heard with great fanfare about the study showing negative experiences using hydroxychloroquine to treat Covid-19 after Trump promoted it for consideration and said he was taking it. Seems like the study may have been a political hit job. WSJ editorial: the-lancet-hcl-and-trump. Now, the publishing journal has pulled the story. lancet-retracts-covid-19-paper-that-raised-safety-concerns-about-drugs

This sums up my opinion on the recent looting:



J. Michael Locke
Musings

#75: Make Your Team Give Projections and NPS
June 6, 2020

No one knows the future and what will happen. Still, it is a good managerial practice to make your team give you projections.

Your head of sales should project bookings for the quarter. This isn't him or her knowing the decision making of each client but they should be tracking sales activity and know how much business is in each stage of a pipeline. They should have the metrics of historical conversion rates from one step in the pipeline to the next. The result is they can take that data and give you a projection. Most good sales leaders will sandbag it a little so they can outperform what they tell you.

Your head of finance should be able to take the sales projection and project out revenue. Expenses generally don't have that much volatility. Most have a connection to labor and you have trends that can be used. You should thus be able to get a projected P&L for the quarter and for the year.

Making the executives give you a projection puts a stake in the ground. You don't want a "best efforts" culture where the team simply does "the best they can." You want an outcomes culture where they deliver the result, whatever it takes. Executives will not want to miss their projections so getting them helps ensure the outcome.

As a leader, you can't "manage forward" without projections from your team. You also need to learn the tendencies of your team to project aggressively or conservatively so you in turn can provide your projection to the relevant constituencies.

Admittedly, projections are hard right now with the loss of visibility in the Covid world but don't stop trying to make them even if they are ranges.

Now to NPS.

We all have experienced the customer survey phenomenon. Maybe it was an automated message when you called in – "If you are willing to take a quick customer survey after this call, please press 1." Or maybe it was the lengthy mailed survey which is still sitting on my desk after a purchase two years ago.

I am a big fan of the Net Promoter Score methodology (NPS). The framework is simple. One question – Would you recommend our product/service to someone else? Score 1 (no way) to 10 (absolutely). The art form is that NPS then takes the 8, 9 and 10s and calls them "promoters." These are folks who are out in the bar sharing how they just bought a great new product (ex. Tesla). They are promoting the product (unpaid) because they simply like it so much. A VP of Marketing's dream. The 1-5s are called "detractors." Ask anyone who has tried the "Twitching Lure." These hurt sales. The methodology blows off the 6 and 7s like middle children. You then take the "promoters" minus the "detractors" and have a

net promoter score. This is how many people (on a net basis) are out there telling people to buy your product.

I am also a fan of using NPS for employee satisfaction. Just slightly alter the question, would you recommend working here? Same methodology. Obviously you want a high NPS especially in your targeted labor segment.

Some companies like United Healthcare are using NPS to run their business. The ask it in various ways throughout the organization and create consolidated NPS results.

Jml

Second Thoughts

Recently, I told my assistant Jennifer that she had made a mistake and that there were not two spaces after the periods in a memo I had drafted with her. Only then did I learn about "the debate." people-who-type-two-spaces-after-a-period-just-cant-win. Apparently I am a dying breed.

I am hearing some conversation about a new pandemic – a cybersecurity pandemic. With everyone going virtual and folks focused on the racial unrest, cybersecurity criminals might be having a field day. Be careful.

Some Good News in May jobs report. From CNBC: *Employment stunningly rose by 2.5 million in May and the jobless rate declined to 13.3%, according to data Friday from the Labor Department that was far better than economists had been expecting and indicated that an economic turnaround could be close at hand. Economists surveyed by Dow Jones had been expecting payrolls to drop by 8.33 million and the unemployment rate to rise to 19.5% from April's 14.7%.*

J. Michael Locke
Musings

#76: Jobs and Karens
June 7, 2020

The stock market is rocking based on an assumption of a V-shaped recovery. I am dubious but the bulls were supported by Friday's job report. The government releases the statistics on employment the first Friday of every month. The jobs report was better than expected but still shows structural differences. This is part of the national angst. Here are some more specific unemployment rates: adult men (11.6%), adult women (13.9%), Whites (12.4%), and Hispanics (17.6%). The jobless rates for teenagers (29.9%), Blacks (16.8%), and Asians (15.0%) for May. Women have been doing better than men before Coronavirus, the change is layoffs in healthcare during Covid. White unemployment fell to 12.4% from 14.2% in April, while black unemployment rose to 16.8% from 16.7%. For more data see: https://www.bls.gov/news.release/empsit.nr0.htm. IMO, it all comes down to having a job and being vested in your community. We need to figure out how to improve the economic opportunity for minority communities.

Have your kids called you or your spouse "a Karen"? This has replaced "boomer" as the most recent insult – this time for the "privileged" vs the "old." We all saw "Central Park Karen" as part of the racial news lately. Ryan Craig creatively takes this and talks about colleges. *"Last month Washington Monthly reported that elite and wealthy business schools like Northwestern, MIT, Columbia, and Cornell are refusing to grant deferrals to international students concerned about paying full price for what could very well be an online MBA, and also refusing to return deposits to students who withdraw. And just as the University of Southern California was making scandalous national news (again) as Full House's Aunt Becky and her designer husband admitted committing fraud to get their two daughters in, USC announced it was raising tuition 3.4% for next year and, simultaneously, that it would not provide any discounts if classes are held online. I read this while wearing my favorite new T-shirt (You can't spell "suck" without USC), and a question crossed my mind: are America's top universities becoming Karens?"* Full article: covid-is-turning-top-colleges-into-karens

So I have to apologize again. I forgot to comment on Memorial Day on Monday, May 25th and now I forgot to comment on D-Day. On June 6, 1944, Operation Overlord was executed with approximately 150,000 American, British and Canadian troops landing on the beaches of Normandy in France. Approximately 4,500 young Allied men died that day with about 2,000 of them being Americans at Omaha beach. If you ever have a chance to go see the actual place, I highly recommend it. I also recommend the first 15 minutes of *Saving Private Ryan* if you want a sense of what it must have been like. Thanks to those who serve.

Back to work.

Jml

Second Thoughts

Paul DeBoer taught me I was slightly off on NPS scoring: “The scoring is actually a 0 to 10 and the 9 and 10s are promoters, 7 and 8 passive and 0-6 detractors.”

J. Michael Locke
Musings

Guest Musing #3: Twenty Characteristics of a Good Leader
June 8, 2020

The following was shared with a group of HiPOs at one of our companies by Jim Phillips who is the very successful Athletic Director of Northwestern University. The twenty characteristics of a good leader:

1. Always sets a good example
2. Genuinely cares about his or her staff
3. Challenges people to do their best
4. Does not seek the limelight
5. Will not let you give up
6. Is firm but fair
7. Listens well – ALWAYS
8. Works harder than anyone else
9. Maintains an open door policy
10. Inspires loyalty
11. Is enthusiastic – ALWAYS
12. Has terrific communication skills
13. Truly wants staff to be successful
14. Operates well under pressure
15. Can be tough and tender
16. Has a strong sense of urgency
17. Corrects matters in private
18. Is always straightforward
19. Celebrates successes together
20. Does not hide from bad news

Back to work!

Jml

Second Thoughts

In a sad sign of our times, one of the most popular apps right now is Citizen. It is a safety app for major cities. *Citizen listens to thousands of police, fire, and energy service radio calls and, using your smartphone's GPS location, alerts you to emergencies nearby. With Citizen, you can see ongoing emergencies on a map, receive live updates on the situation, upload videos of the event, and post comments. During the last week of protests, residents have used the app to avoid violence, protestors to stay updated on police activity, and the media—and spectators—to track and follow the action. Full article:*

how-safety-startup-citizen-surpassed-twitter-to-become-apples-top-news-app-amid-the-george-floyd-protests

From the Chicago Tribune coverage of the looting. *The Rev. Marshall Hatch said the looting was a result of "vast income inequality … This is what people do when they're at the bottom. They don't see authority as legitimate. They've been screwed, and they're quite clear on that," he said. "They're at the bottom of the empire. It's almost predictable that you've got all of this pent-up anxiety, anger, desire."* I wanted to point you again to a piece by famed investor Ray Dalio on this topic from last year on how the growing economic disparity could create social cohesion issues. Give it a read. dalio-says-capitalism-s-income-inequality-is-national-emergency

J. Michael Locke
Musings

#77: Don't Accept Constraints
June 9, 2020

As a leader you have to push. You can't accept constraints.

Businesses and markets develop customs and norms. Some are good and some are not. As a leader you can't just accept them, you have to question them and ensure they are justified and valid.

Let's take a look at the system for airlines. You bought an expensive ticket, got assigned a seat and had to pay change fees. Herb Kelleher didn't accept that. He founded Southwest Airlines flying only one type of plane, no assigned seats, no change fees and quick gate turnarounds.

Carmax created a new approach to used cars only to now be outdone by Carvana. Who said you had to see a car before you bought it?

Howard Schultz didn't accept that you couldn't charge $5 for a cup of coffee.

Steve Jobs didn't accept that phones couldn't be computers costing over $600.

Charles Schwab didn't accept wall street normal high commissions on stock trades.

They say don't take a fence down until you know why it was built, but you should ask "why is this fence here?"

If the team says "we can't do that," the immediate response is "why not?" Push when constraints are posed, don't just accept them.

Did we all just accept the whole Coronavirus lockdown? I am starting to wonder if this was all necessary. WHO now saying asymptomatic transmissions are very rare. asymptomatic-coronavirus-patients-arent-spreading-new-infections-who-says

Back to work.

jml

Second Thoughts

Social media is major part of our society's issues. It amplifies negativity. Learned a new term this week called "doomscrolling" or "doomsurfing" where you spend hours reading coverage of negative things. Great article. doomscrolling-why-we-just-cant-look-away Don't let the algorithms and infinite scroll control you. Unplug from facebook, twitter and Instagram.

Great article on powerful impromptu speech by Mayor of Atlanta the night of the riots. Thanks Jean Locke. when-violence-erupted-one-mayor-found-all-the-right-words

AMC theaters may seek bankruptcy. First rental videos, now movie theaters. Will folks ever leave home?

J. Michael Locke
Musings

#78: Don't be like Fonzie
June 10, 2020

For those of us who grew up watching *Happy Days*, Fonzie was the man. He had the leather coat, the motorcycle and got the music he wanted by hitting the jukebox. However, one thing you should not admire when you look back at Fonzie was his inability to say "sorry" and "wrong."

No one is perfect or even close. However, those in positions of greater authority (I refuse to say "higher") are generally perceived to be "more perfect" and not subject to making as many mistakes or being wrong. It is important to show your fallibility and admit when you mess up. I recently had expressed strong disagreement with an action taken by a CEO that I work with. I truly believed he had gotten something wrong but now that time has passed, he was right and I was wrong. Importantly, I shared that with him. Our relationship is better for it.

Sorry to continue some "Trump bashing" but he is like the Fonz. He never admits mistakes. He should. Just not in his DNA. Most politicians would be better off saying "I am sorry" or "I was wrong" more often. We are a forgiving society.

Don't we all long for Happy Days. I am a big fan of Peggy Noonan's. From her latest column: *Following the killing of George Floyd, America would totally accept protests and demonstrations, would understand expressions of anger and pain. What Americans wouldn't accept was looting, violence, arson. They wouldn't accept that shopkeepers just out from lockdown were pulled from their stores and beaten. They won't accept this because they will not accept more battery. We're now supposed to hate cops. No. Hate bad cops, help good ones.* on-some-things-americans-can-agree

Back to work.

Jml

Second Thoughts

Many of us saw this headline the other day. "Eighty percent feel country is spiraling out of control, according to Wall Street Journal/NBC poll." Fascinating to me what a small sample supported it. "The Journal/NBC News poll surveyed 1,000 registered voters from May 28 through June 2. The margin of error was plus or minus 3.1 percentage points." I am not in a position to question the statistical methodology but 1,000 folks leading to major headlines seems light to me in a country of over 325mm.

My small business owner friend John McWeeny called Zoom a "great equalizer." Usually when pitching big companies, they have the "home field advantage" as you go to their big headquarters, check-in and wait in the lobby until they are ready for you to go into their conference room. There is a superiority in

it all. Zoom negates that. Just two people talking and exchanging ideas over video. Will be sad when we get back to the old model.

J. Michael Locke
Musings

#79: Get Buy in from the Team
June 11, 2020

In today's world, it is important to get buy-in. Military models of authority-based leadership don't work anymore. The team needs to understand and support the cause.

Buy-in is critical as you take the strategic vision and turn it into operational plans that must be executed by others. You want full energy and enthusiasm for those plans so the team needs to understand how it all comes together.

Some thoughts on this from Kelly Page, the Director of Bennett Labs: *"If a leader/manager and their teams have too many ideas and too many priorities, plus all big ideas and priorities or their leadership flip-flops between ideas as to why … it can impact a team's performance. Teams also need to be a part of the conversation not just as to which priorities are important strategically, but how they will work towards them and achieve any goals or targets operationally. People need to see themselves in the work, as well as the why of the work. This is especially important when we pivot or need to be agile."*

Teams also need to understand how everything comes together because they will have to make judgment calls. Plans cannot cover every contingency and things will happen. At that point, the team member will have to make a call --- like a player making an adjustment to a called play by the coach – and it is all about judgment. If the team understands the moral foundation of the organization (which hopefully is embedded in the culture) and the strategic vision, the judgment call is easier.

Getting buy-in can't mean that decision making is all made by committee and the leader loses his or her ability to run the show. The process best works when it is built into the timetable and the team sees things in draft form and has chances to comment and recommend changes. The leader needs to lay out "the why" and thoughtfully consider recommended changes. Then, the leader makes the call.

To quote Colin Powell: *"When we are debating an issue, loyalty means giving me your honest opinion, whether you think I'll like it or not. Disagreement, at this state, stimulates me. But once a decision is made, the debate ends. From that point on, loyalty means executing the decision as if it were your own."*

Back to work.

Jml

Second Thoughts

WHO backtracking on lack of asymptomatic transmission of Covid. [who-scrambles-to-clarify-comments-on-asymptomatic-coronavirus-spread-much-is-still-unknown]

Our current culture has a propensity to develop narratives. Like a Shakespearean play, there are protagonists and antagonists, good and evil etc. The media is a major contributor as it seeks to "tell an emotional story" to drive viewership and fill up 24 hours. I encourage you to stay inquisitive, question narratives and do research. In essence, I am encouraging you to develop a progressive model of education. The Reggio Emilia model for primary school was invented in Italy following WWII. The town's educational establishment had been destroyed and the leaders never again wanted its citizens to "blindly" follow like they had the fascist Mussolini. Students "own" their learning and are encouraged to ask questions and inquire.

J. Michael Locke
Musings

#80: Colin Powell's 13 Rules of Management
June 12, 2020

In his 2012 book, General Colin Powell laid out is 13 Rules of Management. Here they are:

1. It Ain't as Bad as You Think! It Will Look Better in the Morning. Leaving the office at night with a winning attitude affects more than you alone; it conveys that attitude to your followers.

2. Get Mad Then Get Over It. Instead of letting anger destroy you, use it to make constructive change.

3. Avoid Having Your Ego so Close to your Position that When Your Position Falls, Your Ego Goes With It. Keep your ego in check, and know that you can lead from wherever you are.

4. It Can be Done. Leaders make things happen. If one approach doesn't work, find another.

5. Be Careful What You Choose. You May Get It. Your team will have to live with your choices, so don't rush.

6. Don't Let Adverse Facts Stand in the Way of a Good Decision. Superb leadership is often a matter of superb instinct. When faced with a tough decision, use the time available to gather information that will inform your instinct.

7. You Can't Make Someone Else's Choices. You Shouldn't Let Someone Else Make Yours. While good leaders listen and consider all perspectives, they ultimately make their own decisions. Accept your good decisions. Learn from your mistakes.

8. Check Small Things. Followers live in the world of small things. Find ways to get visibility into that world.

9. Share Credit. People need recognition and a sense of worth as much as they need food and water.

10. Remain calm. Be kind. Few people make sound or sustainable decisions in an atmosphere of chaos. Establish a calm zone while maintaining a sense of urgency.

11. Have a Vision. Be Demanding. Followers need to know where their leaders are taking them and for what purpose. To achieve the purpose, set demanding standards and make sure they are met.

12. Don't take counsel of your fears or naysayers. Successful organizations are not built by cowards or cynics.

13. Perpetual optimism is a force multiplier. If you believe and have prepared your followers, your followers will believe.

Back to work. Normal never felt so good.

Jml

Second Thoughts

On not accepting narratives from yesterday, thanks to Chance McNamara for the reference to Epsilon Theory which uses NLP (natural language processing) to quickly identify what narratives form and how they are interconnected. https://www.epsilontheory.com/a-truth-thats-told-with-bad-intent/

On the "stay at home society", Starbucks announces it is opening 40-50 "pickup-only" stores while it closes others. Grubhub sells for $7.2bn. Ghost Kitchens are booming as they trim the costs of real estate, labor and menu innovation by condensing the restaurant model to accommodate off-premise food sales without a traditional dine-in space.

You should have known yesterday's stock sell-off was coming. The rise made no sense.

J. Michael Locke
Musings

#81: Dealing with Bullies
June 13, 2020

Unfortunately, we are increasingly a society of bullies. Rather than looking for discourse and discussion, we are often confronted with orders and demands. On the business side, you undoubtedly will come across bullies in your organization or in your market. It is difficult for bullies to succeed in the long run because they are transactional in nature. They don't build good relationships as they force their position on others. Still, you have to work with them and manage the situation.

Bullies can have some success because so many individuals are conflict averse. Too many people just fold up and get bullied in things like negotiations. A hard-nose bully will just not move, even after rational and thoughtful push back. Don't give in and capitulate! You can't let them have their way or it reinforces the approach for the next time.

Be patient. You can't let a bully wear you down. Grind it out like when you were trying to get your kid potty-trained. It can be an endurance test.

It is also helpful to "punch back" selectively. You always hear about "hitting the bully right in the nose." Look for opportunities to go right back at them. It could be on a certain point or filing a counter lawsuit (bullies like to sue). Jeb Bush tried to take the elegant, high road when Trump bullied him during the last primary campaign. He needed to punch back.

Bullies often are Fonzies who will never say they were wrong. Try getting them to delegate to someone else if you have to get a deal done. We were buying a business once and one co-owner kept the other co-owner out of the entire negotiation. I guess he was kind of a bully and she knew a deal would never get done with him in the details. We got a deal done with the non-bully co-owner and built a great business.

Back to work. Stay socially distant. No handshakes. Can't go backwards.

Jml

Second Thoughts

Recently, I wrote about the potential for a cybersecurity pandemic. Example in higher ed as "pirates" grab personal info and demand payment: colleges-face-evolving-cyber-extortion-threat

Police unions are part of the problem just like teachers' unions. You have to allow some separation of good performers from bad performers. WSJ editorial the-problem-with-police-unions

J. Michael Locke
Musings

Guest Musing #4: Failing Grades: How to Motivate Students to Learn Without Keeping Score
June 14, 2020

Today, I share a guest musing from Cameron Smith, the Co-Founder, CEO and parent at Bennett Day School. With our nation's children finishing up school at home and attending online, the question of assessment is a topic at a lot of dinner tables.

Failing Grades: How to Motivate Students to Learn Without Keeping Score

We must replace our traditional, antiquated grading system in the United States. Its inadequacies have been laid bare by the COVID-19 pandemic.

Most colleges and universities have moved to some form of pass/fail grading for this semester in light of the shift to online learning and assessment issues. Many primary and secondary schools are following the lead. When announcing that we would utilize distance learning for the rest of the school year, Governor Pritzker of Illinois said this about grades: "Grades should deliver feedback and not be used as a tool for compliance." But do we need grades at all? Even in normal times?

We don't. If you think about it, sitting in desks and rows, filling students with information, is an educational model of *compliance*, to use Pritzker's word. We have followed that same model since the 1840s. And now, for months in the middle of the pandemic COVID-19 crisis, that neatly organized format of delivering education has come to a screeching halt. It should not surprise us that a two-hundred year old factory model cannot serve us in modern times, especially now as distance learning is put into place for children all over the world.

What should our educational goal be during distance learning: that students gain skills and knowledge that are developmentally-appropriate, or that they work quickly and exactly in the way defined by their teacher? One answer is based on *competency*, and the other is based on *compliance*. I can say, as a parent, the model based on competency is refreshing and exactly what our children need right now.

Our country's antiquated letter grading system, based only on scores and percentages, assumes you must stay within the lines, be taught the one right way to solve a problem, and quickly repeat that way back in a test setting. That system pays little respect to creativity, diversity of thinking, and cultural background. We need to wake up. Life is not a multiple choice test.

Some of us have had the opportunity to sit in a lecture with an accomplished, published professor who struggles to engage her/his students. This perfectly illustrates limitations of traditional grading -- on paper, someone may score highly in a subject, but that says little of their ability to convey knowledge to others. Traditional letter grades are a one-dimensional illustration of knowledge at a given point in time.

Renowned author and advocate Alfie Kohn has been preaching for years about the failings of letter grades. As Kohn emphasizes, research shows us that without a doubt, ***letter grades do three things: (1) they diminish student interest; (2) they incentivize students to take the easiest road; and (3) they lead to the student mindset becoming shallow with questions like 'why do I need to know this, and will this be on the test?'***

If grades are a crutch for teachers, how do we instill that Iggy Pop 'Lust for Life' in our students? Teachers are passionate and skilled, and they entered the field because they love teaching and learning. Why force teachers and students to do what we know, from nearly two centuries of experience, will do the exact opposite of encouraging a love of learning? Letter Grades Deserve an F. We now know: a Love of Learning is More Predictive than Grades when it comes to long term success.

Inside of the education crisis that confronts us now, there is an opportunity. We must seize it quickly to forge a better way before it is too late and it floats away from our grasp. College admissions now recognize talent beyond grades and scores, and our K-12 schools need to catch up, fast.

Students need to learn by doing -- through problem-solving, project-based learning and being creative. Parents, myself included, need to *let go* of a system we grew up with and recognize how we experienced school will not prepare students for now, or much less 2040, when two thirds of the jobs that will exist then do not even exist today. We don't need a faster horse, as Henry Ford told us when he brought the Model-T to life. We need a new rocket ship for the Fourth Industrial Revolution. We need a better way to measure student progress while supporting a love of learning.

Our traditional, familiar school conventions reward docile compliance, not creativity. Einstein reminds us about insanity, defined as doing the same thing repeatedly but expecting a different result. Continuing to educate K-12 students as if we're preparing them all to be factory workers will not produce the creative output we so desperately need!

Knowledge and passion are not well reflected by traditional letter grades. But they can be instead with **standards-based grading**. My own children at Bennett Day School have standards and goals to reach, but they reflect my children's competencies. **Competency-based grading** measures if students are 'approaching', 'at', or 'beyond' proficiency according to these standards, plus feedback is provided by teachers against those standards. As students move into middle and high school, you can simply convert such standards to an A, B, or C, but letters and percentages alone are empty vessels.

Studies repeatedly show that students retain and apply upwards of three-quarters of what they learn this way, compared to far lower retention with a purely rote 'academic' approach. My fourth-grader still talks about building a savannah, grassland, and desert project from kindergarten, six years ago. ***In layman's terms, learning by doing, in early childhood and through high school, is the best way to learn and get knowledge to stick.*** That doesn't suddenly change when a child enters third grade.

But wait, what about college!?! There is an educational machine, and industry for that matter, that was once upon a time addicted to grade point averages and standardized test scores via the Common Application that is still accepted by close to 900 schools. Well, the system woke up and in *just the past five years*, over 150 colleges and universities started accepting the Coalition Application, including every

Ivy League school like The University of Pennsylvania, Harvard University, Yale University, and Princeton University as well as Northwestern University, The University of Chicago, Stanford University, California Institute of Technology, The Ohio State University, The Pennsylvania State University, and more ("The Coalition").

The Coalition was created by the Ivy League and Stanford initially and it essentially says that grades and test scores are not enough to understand a college applicant. They are no more than a few numbers on a piece of paper. Instead of just grades, students maintain a digital locker with the Coalition where they can upload projects, essays, art, video, extracurricular activities, and other examples of their work and pursuits. This digital portfolio provides college admission officers an opportunity to view student progress and developing interests over years through tangible projects.

How refreshing: instead of being filtered from a stack of 40,000 applications to 8,000 just based on grades and test scores, the college now wants you to *show them* how you love to learn, what your purpose might be, and where your passion intersects with your skills to serve a need in the world.

The traditional letter grade system needs to go away. Students retain and apply at best one-quarter of what they learn that way; they forget and move on to the next thing, worried about what is on next week's test. There are beautiful programs and videos being shared for free with the world right now as well (like Bennett Live, for example, from Bennett Labs as the R&D arm of our K-12 school) that bring joy and a love of learning into our living rooms with creative play, STEM, and project-based learning.

Teachers recognize the damage that the traditional letter grading system is having, especially now. "The Chicago Teachers Union has decried Chicago Public Schools' decision that students will receive third-quarter grades, despite the coronavirus disrupting education", reported the *Chicago Tribune*. By the time they reach high school, students are typically motivated to complete schoolwork mainly by threat of tests and grades, and now many are flailing without those external motivators. Teachers know the most important thing is that the students learn, but it's late in the game for them to engage students without the carrot or stick of testing and grades to which these students have become accustomed.

Starting this fall, we need to move to a standards-based grading system to cultivate a love of learning and not an obsession with letter grades or test scores. So, when we are in distance learning next time, and we must plan that there will be a next time, we can hit the virtual ground running. Not only will this approach prepare teachers and families, it will also ensure our children are prepared for an unknown future. Students in school now will be retiring around 2070. We must be forward-thinking, now in 2020.

If you agree, first write a letter to your teachers and say 'thank you' or how grateful you are for their tireless efforts now and to come. But then, write to your school principal, your school board, your state board of education, the Department of Education, and tell them enough is enough. We want *competence* and not *compliance*. We want our children to #LoveToLearn. And the system has to change, starting this fall.

J. Michael Locke
Musings

#82: Get the Money when you Can
June 15, 2020

When the Coronavirus first it, a common move by executives was to pull down their credit line. Most companies have a "standby" credit line with a bank or other provider of debt capital which can be tapped when needed. However, depending on the terms, the banks also have some rights not to extend it. So, the move was to pull down the full line now to maximize liquidity. This was smart. Get your money when you can.

The market for money – the capital markets – functions like other markets with buyers and sellers. There are those who want capital and those who provide it. Generally, when a company is doing well it can easily raise either equity or debt capital. However, if the business is profitable and generating cash, it doesn't really need money. Don't wait until you need it. Too many people do this and then seek capital when the business is soft and the lenders/investors are not there (or at least not on decent terms). Raise money when you don't need it. Hard for a lot of companies to get money now.

Right now, Covid-19 has greatly reduced visibility. None of us really know where things are going. IMO, the market is overly bullish. I don't know exactly what "a second wave" looks like but people are going too far in opening up. I thought we were too draconian in closing down but now am feeling we are too relaxed in opening up. Infection rates are climbing and in some places, hospital capacity is becoming an issue. Consumer confidence is up but still far below pre-Covid levels. NOW, is the time to get money if you can. You want to have excess liquidity as we continue in the unknown.

Loading up on cash now will give protection during the second wave and allow you to take advantage of opportunities which are going to present themselves as other businesses mismanage the situation.

Back to work but with social distancing.

Jml

Second Thoughts

According to WSJ, "About 80% of Americans who have died of Covid-19 are older than 65 and the median age is 80…..For most people under the age of 65, the study found, the risk of dying from Covid-19 isn't much higher than from getting in a car accident driving to work." We need to open back up for the economy but more thoughtfully protect those over 65.

J. Michael Locke
Musings

#83: Don't Miss your Deal Window and Taking a Break
June 16, 2020

The daily musings have run their course. I think the recipients and I both need a break. As one reader shared, "reading your musings has become like work….too much." This will mark the end of the daily distribution. For those of you who joined during the journey, old musings are at https://gilesrichard.com. I am going to come back after July 4th with Saturday Musings (not daily). If you would like to come off the list, just email Jennifer.walsh1@collegiseducation.com.

There are times when two parties can reach an agreement and do a deal. Usually, that is not a permanent state but rather a temporary one. Don't miss your deal window. Get it done.

This may be a business deal between two companies or a personal deal between two individuals. These windows of opportunity can disappear. One party might change his or her mind or something might happen "externally."

On the corporate transaction side, even if you have "signed a deal", you want to get it closed. Most contracts have a "Material Adverse Change" or MAC clause which allows the buyer to get out if something big happens – like the Coronavirus. Or maybe you have a signed LOI which does not formally commit the parties in which case either can walk way. Get to closing as fast as you can to reduce risk of external events or a competing bid.

The hiring of a key executive is "a deal" where you want to get closed. This means having a start date earlier rather than later, and getting them out of their current employer. I am a fan of coaching new hires through the process of their resignation from their current employer – remind them why they are leaving, get them nailed down on a date, and call them that afternoon and make sure it went alright. Good employees often get counter-offers to stay so your deal isn't done until your new executive is showing up every day at your company.

When selling B2B, if the potential buyer says yes, shut up and stop talking. Then, get your deal paperwork completed asap. Don't let it linger in legal. Once the buyer has committed, get it papered as soon as you can so things won't change.

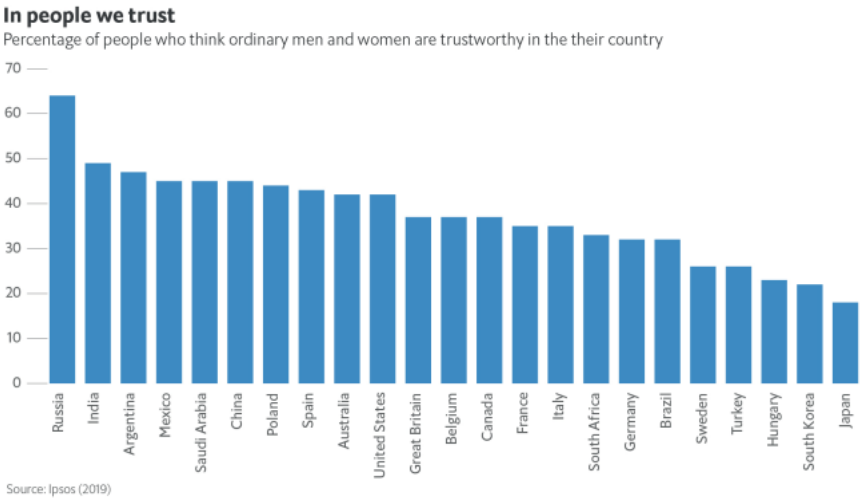
Look for a new musing July 11.

Jml

Second Thoughts

Great to see Neil Gorsuch surprise everybody on the application of non-discrimination legislation to the gay and transgender communities. Good judges are not political. It is about the law passed by Congress.

I wrote about a loss of trust in institutions. We also are simply losing trust in each other. David Brooks recently commented on the PBS Newshour that "if you ask Gen Z are most people trustworthy, 65% say no. If you ask them are most people selfish and out for themselves, 73% say yes." Don't think this is just a Gen Z issue. Interesting, and sad, chart from the Economist below. We all need to spend more time with our neighbors and go to church.



J. Michael Locke
Musings

#84: Patience
July 11, 2020

Hope everyone had a good break from the musings. No more daily distribution. Musings will now be Saturday only going forward.

Usually, I would argue that impatience is a key quality of a good leader. An impatient leader will push to move quicker and not allow any imperfections to sit unaddressed. They will ask "why is this taking so long?" and set up weekend calls so the organization can move quicker than its competitors.

However, right now is a time for patience. The external environment we are all operating in is volatile, unpredictable and emotional. We have three significant crises – the Covid-19 pandemic, the economic collapse and the racial unrest. The world changes from January to July have been massive. No one really knows what lies ahead public health wise, socially or economically. Basic institutions like a police force are under question. This uncertainty creates anxiety. With the previously discussed decline of church and local community, the role of business leaders is more important than ever.

Leaders must be sources of calm and patience. Resist the fever that gets created by the 24x7 mainstream media which now reports on social media. IMO, social media is like the Id and right now there is no Ego or Superego (for those who don't remember their psychology class https://www.simplypsychology.org/psyche.html). The pressure can be intense but leaders must be patient and focus on the long term. Hopefully, your company has a "true north" which is known to all employees and a culture of authenticity. This provides a foundation to have open, honest dialogue. Communication should be robust and all voices should be heard.

Don't make any rash decisions. Certainly some decisions can be made – brands like Aunt Jemima need to go away. But don't make any big decisions on a rushed basis --- like Facebook/Twitter announcing they were moving to entirely remote workforces (ask Yahoo and Best Buy how well that worked).

M&A is a tricky area. One would argue for patience and being very careful about buying or selling. Ken Lewis thought Bank of America was getting a steal on Countrywide during the credit crisis but what a disaster that decision was. That said, companies will be available for purchase at better terms than historically existed and some good acquisitions can be done. It is hard to believe that debt capital will get any cheaper.

Rationality will return to our world. While the media is driving polarization supported by big data, the middle will get reestablished. If nothing else, it will because there is a business opportunity. The new CEO of NBCUniversal (Jeff Snell) has been reported to be looking at taking CNBC into primetime programming to appeal to moderates and libertarians (see announcement on Shepherd Smith last week).

We also need to be patient even within our own families. There is much discord as everyone tries to be their own epidemiologist and figure out the Covid issue. Sibling 1 might feel different than sibling 2 about getting together with Grandma. Good WSJ article: families coronavirus conflict . Don't lose sight of the big picture. Be patient.

I would also be patient with your investing. The stock market doesn't make sense to me right now. Lots of economic fragility and the Fed is buying corporate bonds to push liquidity into the system yet the equity market notches daily new records. I wouldn't chase it. Leave extra in cash.

Final note. I was one of the ignorant on "Juneteenth." It was on my Microsoft automated list of holidays and I never bothered to look up what it was. Great history lesson for me and our family. I am all for making it a holiday.

Be positive and patient. The world needs it.

jml

J. Michael Locke
Musings

#85: Just Don't Say It
July 18, 2020

I have previously written on the importance of listening. If you are talking, you are not learning as you are the one transmitting information. To modify Hamilton's Burr, "Talk less, Listen more."

I want to also highlight the importance of not saying things. This is a key growth area for many young executives. Rather than engaging on every topic and every issue, it is important to "pick your shots." I think this applies in both a group and individual context.

In a group meeting or discussion, there is a flow. Before you interject your comment or question, you need to evaluate how it will affect the flow. Is your thought material enough? You might not understand a footnote to a table, but does it really matter? Will your question change the result of where things are headed? Many bright executives are full of thoughts they want to offer but have to develop the "governor" on participating. IMO, you set up a level of deviation from your preferred path and as long as the topic is moving within that deviation, no need to jump in.

Your level of involvement also depends on role. I have had the pleasure of serving on a board with a very prominent private equity executive for the last 17 years. During the first years, I was taken aback by his lack of participation. Why was this titan of industry not really active in the discussion? I have since learned, it is because he knows how to be an effective board member. He will ask 2 or 3 questions during a 3 hour meeting. This scarcity heightens the importance of what he has to say. He is always right on point (he has been listening). He gets involved when he feels the issue is material enough or the direction potentially going far enough the wrong way, that he needs to get it back on track. That is a difference between being a board member and operating executive.

This applies in a personal context as well. I am a fan of an candid, open relationships with your team. If they screw up, tell them that. However, you need to look at this in context. Can a certain conversation wait until Monday rather than happening over the weekend? Maybe they have something going poorly in their personal life and you should let this one pass. Evaluate context and decide if your critical comment will move the ball forward. Make sure it won't be counterproductive. This also applies to choosing the modality of communication. Do it verbally and not by email!

One exception. Never hold back on sharing positive comments, compliments or thanks. You cannot show your appreciation enough.

Jml

Second Thoughts

I am surprised by the relatively silence of the Latinx (I have learned Latino is masculine so the growing trend is to be gender neutral with Latinx) community in the current social dialogue. From the U.S. Census Bureau, 18.5% of US is Hispanic/Latino while 13.4% is Black and 60.1% is White Non-Hispanic. It will be interesting to watch the playing out of the recent issue around the comments by the CEO of Goya and whether the Latinx community will engage in the cancel culture.

The stock market continues to rise. It is pricing in a vaccine and the return to normal business. I continue to believe "risk off" is the more appropriate path right now. We have just begun "earnings season" and the public companies are all starting to give their results. The U.S. banks have set aside enormous amounts of money for bad loans (loan loss reserves in excess of $30bn amongst them so far). This is not an indicator of a healthy economy.

CNN's Fareed Zakaria believes part of the weak US response on Covid is the shrinking federal government. According to Zakaria: *Federal spending as a percentage of GDP is where it was 40 years ago, but that statistic conceals more than it reveals. Spending on entitlement programs — Social Security, Medicare and Medicaid — has gone up massively as the population ages and health-care costs soar. But most of the agencies of the federal government have been starved of resources while being given more tasks and mandates….The number of federal employees is smaller per capita than in the 1950s, despite the fact that real U.S. GDP is seven times larger. The government barely hires new recruits anymore. …..Stephen K. Bannon, the ideologist of the Trump revolution, made clear that his central goal is the "deconstruction of the administrative state." Guess what? It was already happening.*

Zakaria is focused on number of federal employees. Spending at Fed level is rising quickly. The federal deficit for Fiscal 2020 is on pace for $3.7 trillion and a post-WWII record as a % of GDP. The federal government spent $5.005 trillion in the nine months ended June 30 up 49%. Entitlement programs and stimulus bills are the drivers. Right now the government can borrow at historically low interest rates but that won't always be the case. I long for Bill Clinton's balanced budget right now (he had surpluses in his last 4 budgets).

So the NBA is allowing players to put sayings rather than their names on their jerseys. According to reports, here are the approved sayings "Black Lives Matter; Say Their Names; Vote; I Can't Breathe; Justice; Peace; Equality; Freedom; Enough; Power to the People; Justice Now; Say Her Name; Si Se Puede (Yes We Can); Liberation; See Us; Hear Us; Respect Us; Love Us; Listen; Listen to Us; Stand Up; Ally; Anti-Racist; I Am A Man; Speak Up; How Many More; Group Economics; Education Reform; and Mentor." Kind of interesting.

Let's all pray for the notorious RBG as she battles liver cancer. Quite a lady.

J. Michael Locke
Musings

#86: College and Covid
July 25, 2020

A lot of people have asked for my thoughts on the pending Fall and college "reopening." The dislocation and uncertainty is creating significant strain on families across the country.

Most colleges are welcoming students back with various hybrid models (here is a list maintained by the Chronicle of Higher Education college plans). Our two college age children recently received their schedules and while they will be on campus, their classes are 75% and 100% online (I am calling this hybrid). The cynics say this is because the universities need the dorm money but I don't attribute any ill motives. Everyone wants to get back to normal – administrators, students, teachers – and this is the best university leaders think they can do and protect the health of everyone.

I encourage university leaders to take this hybrid model and really innovate. It should be the model of the future as I wrote about some months ago drawing an analogy to Peloton (see attached). Just like bricks & clicks in retail where you buy online and pick up at the store or the combination of your mobile banking app and some branches, the preferred path is to leverage technology. Classrooms should be flipped with content transfer from expert to student happening with a website or streaming lecture and then the classroom should be a vibrant, interactive laboratory like exchange.

Smaller private schools should be looking at the Oxford model. TedX has been rolling a form of this out ted-circles . You have the Ted talk and then a small group gathers to interact on the topic.

An unfortunate outcome of the emergency shift to online this spring was a lot of bad online education. Many folks see online as inferior because of what they experienced. It doesn't have to be. As someone who has been working in online education since 1999, it can be a rich, vibrant learning experience. However, that takes a well-designed course and trained instructor with supporting technologies. A professor emailing a PDF and using zoom is not an online course.

Having experienced poor online this Spring and now getting online schedules, many parents are looking at the cost and saying "is it worth it?" A large part of the value of a traditional, post-secondary education is the residential experience. The high price of private schools is not worth it unless administrators figure out how to keep the vibrancy of the campus. This is not easy. My guess is there will be no Fall sports of any material kind. Most schools are mandating masks outside of personal living space. This is where administrators need to focus. I would encourage them to be realistic about the behavior of 18-21 year olds. Gatherings are going to happen. I like Purdue's "test everybody" approach and the colleges which have shifted schedules to basically end by thanksgiving and limit coming/going. Based on my experience, Covid impact on healthy kids this age is pretty minimal.

I do think we will see deflationary pressure building on schools. The national discussion on student debt combined with concerns regarding online will drive parents/adult students to look for lower prices. See

some-colleges-discount-tuition-prices-online-fall. This has been happening pre-Covid but in an opaque way. The average discount rate for Freshman this past fall at private colleges was 52%, up from 42% a decade ago. So while private schools publish tuition rates of $50k or more, the average person is paying ½ of that by receiving institutional aid which is really just a price discount. Many small schools are going to struggle to survive these changes. Here is an interesting article by a Stern professor (thanks Bob King Jr). https://www.profgalloway.com/uss-university.

You are starting to see some colleges address the cost side of their operation. See Illinois Wesleyan recent move illinois-wesleyan-university-liberal-arts-program-cuts. How about this statistic at that school. *About 630 students were majoring in financial and nursing subjects in 2019 — programs that have only 18 tenure-track positions — compared with 83 majoring in traditional humanities fields that have 23 faculty members on hand.*

Be safe.

Jml

Second Thoughts

Is "Karen" a racist term? According to Urban Dictionary it is "the stereotypical name associated with rude, obnoxious and insufferable middle aged white women." I think it is inappropriate for the Mayor of Chicago to call the White House spokeswoman a "Karen."

We should all being wearing masks when we can't socially distance but I view there to be a difference between saying we should all be doing something and saying the federal government should mandate it. I guess I am a libertarian. I don't look to the federal government to solve issues which is an assumption underlying much of the media coverage.

Maybe I should have been a Packer fan as I believe in Lombardi Time. From google: "Basically, it worked like this: Lombardi expected his players and coaches to be 15 minutes early to meetings and practices. Not on time -- 15 minutes early. If they weren't, he considered them "late." Thus, it came to be called Lombardi time." The clock outside Lambeau Field is actually set to 15 minutes ahead.

J. Michael Locke
Musings

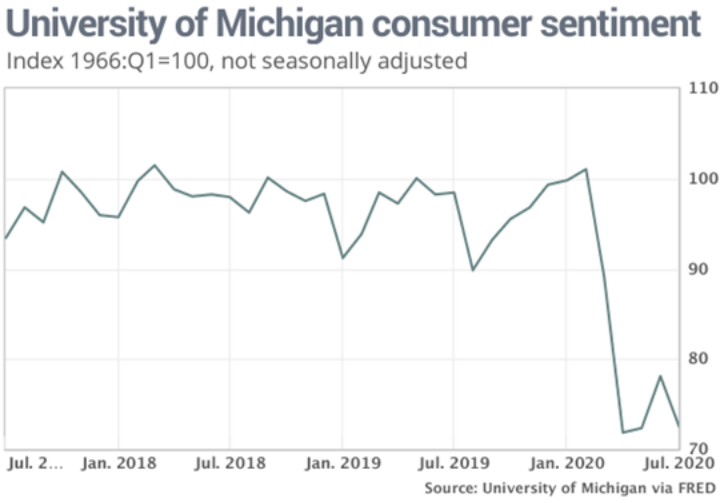
#87: Saturday Thoughts
August 1, 2020

I am really struggling with greetings during Covid. Personally, I would elbow or not have any physical contact but others go in warmly for a hug etc. You don't want to be rude. Hard to reset basic social norms.

Where are the state legislatures? I am struck by the power being wielded by the executive branches of our government at the state level. Governor Pritzker in Illinois has unilateral right to decide our daughter's private soccer club can't play? I understand the executive branch must have power in emergency but we are in month five or so of the pandemic. The state legislators should be debating issues and passing laws in my opinion. Why are they getting paid to do nothing?

I continue to believe you should not chase the stock market. GDP for Q2 was down a record 32%. Consumer confidence as measured by University of Michigan is low. Washington continues to be dysfunctional and extra $600 in unemployment pay provided by Fed just expired. Economy is not good.

Here is the Michigan report:



Part of the market exuberance is individual investors coming into the market through free trading and apps like Robinhood. Individual investors have doubled their volume to 25% of trades. They are creating bubbles in things like Kodak which went from $2 to $60 in a week (now at $22).

Wish we could have a reasonable debate about the extra $600 a week in federal supplement to unemployment insurance. It is causing some workers to stay on sidelines since you can make more not

working if your job is under $55k or so. Republicans want to go to $200 and then 70% of wage replacement. Some reduction is not irrational but clearly we need to continue helping those displaced.

I disagree with Trump that mail in election will necessarily mean fraud but it will extend time to get results. Let's see how we our immediate gratification culture does when results aren't known for days or weeks.

I predict the "cancel culture" is going to be met by a pullback in charitable giving. Many folks have generously supported nonprofits to try and ameliorate societal inequities and help people. Being attacked as bad or racist or undeserving does not incent one to donate. Rather than "leaning in," I find myself in many conversations with people pulling back which is sad. The polarization of our country is just going to expand. (Good opinion piece by Orrin Hatch attached. Obviously, a conservative point of view.)

I continue to believe kids should be going to college campuses. Good article from WSJ showing how the bad health outcomes are heavily associated with older patients and those with co-morbidities. covid-19-poses-more-risk-to-patients-with-chronic-illnesses .

Last week I commented on the use of the Oxford model or Ted Circles at colleges. I read this week how creative parents are doing it at K-12 level with "micro schools" or "pods" which either supplement or replace online primary school. coronavirus-pandemic-pods-micro-schools-remote-learning

For those interested in the world of search and Google, fascinating article

google-search-results-prioritize-google-products-over-competitors showing how Google is taking its dominant position in search and now building up its own web properties rather than having searcher go to another site.

Be safe.

jml

J. Michael Locke
Musings

#88: Pick up the Phone
August 8, 2020

I am sure our kids will call me "boomer" for this one but we all need to pick up the phone more.

Digital communication – email, text etc – have taken over as the primary source of interaction. All parents lament their children who don't answer the $1,000 device we have but in their back pocket. If you want them, probably better to text them.

In the business world, it is more about email. I have previously written about my "rules of email" but I want to lament the lost art of the phone call. Short of a face to face interaction (which you basically can't do in our weird Covid world right now), a phone call is the best way to connect and communicate. Communicating is not just about transferring information. That is what email does. Effective communication involves more of a connection. A phone conversation lets you provide context, color and nuances. The other participant can ask for clarification etc. Phone calls allow you to build a relationship.

Personally, I think a lot of people use email under a guise of efficiency (I don't have time to talk right now, just want to transfer the facts) but end up being more inefficient as things are misconstrued or confused.

So next time you want to tell someone something, pick up the phone! With everyone having a mobile phone, there is no reason not to.

Be safe. For those with college kids going to school, let's hope we aren't driving to pick them up in 30 days.

Jml

Second Thoughts

The loss of trust in institutions is really hurting our response to Covid. Don't know whether to believe what is reported on the news. A Knight Foundation-Gallup survey released this week showed 86% of Americans seeing "a great deal" or "a fair amount" of political bias in news coverage. I bought saliva tests which were shipped overnight to a lab in Kansas and our family tested negative. Is that in the numbers somewhere? It is all disorienting when you don't have trust. Despite my capitalistic orientation, PBS is the best answer right now.

Tony Fauci has had to get security for his family due to death threats. Where is human decency?

Good oped by Adam Weinberg, the excellent President of Denison – which has kids coming back! how-covid-19-change-higher-education-long-term-column

Kudos to Cuomo for opening the NY public school system.

J. Michael Locke
Musings

#89: Walk around to get a Feel
August 16, 2020

We recently had the pleasure of dropping off our daughter for her freshman year at Texas Christian University (TCU). We had a great experience and it reminded me of the good management practice of walking around to get a feel for an organization. Whether it is a school, a business or some other organization, you learn a lot by just walking around and observing.

Are the employees friendly? Do they look you in the eye and say hello? Every single member of the TCU community gave us a warm welcome. It was genuine. They were happy to see us.

Are the employees engaged? Are they just going through the motions of "a job" or do they "feel ownership"? From the first interaction with the campus police directing traffic, every employee went out of their way to be helpful. They were welcoming us "to their house" as they stood outside in 104 degrees. They felt ownership and pride in their organization, usually ending the interaction with the Horned Frog hand symbol (that's right – the mascot is a Horned Frog – long story there).

Are employees available? At TCU, they were everywhere. Almost on every corner. There was simply no way you were not going to be able to get help or get lost. Compare this to places like Best Buy or Home Depot where you go searching for help.

Is the organization "customer centric"? TCU had looked at everything from the moving in student's perspective. Big construction garbage bins outside the dorm for you to throw away your boxes (even emptied during the day so as to not fill up!). RAs walking the halls to greet everyone. Every dorm room furnished with refrigerator/microwave.

Compare all of this to Theranos (good book "Bad Blood" if you haven't read it). The author discusses closed doors, pulled shades, employees looking down etc. That should have been enough to pass on the investment.

My mentor Bob King taught me to show up early if you are doing "branch inspections." You get a real feel by the unstructured, unplanned interactions with the folks really doing the work "at the staff/line level." This basically the premise behind the TV show "Undercover Boss."

So if you want a feel for an organization, just walk around. Go Frogs!

Be safe.

Jml

Second Thoughts

I am surprised by the lack of "philosophical" discussion on the request by Democrats that the Federal government give large amounts of money to state and local governments in the next Coronavirus package. I don't deny the poor fiscal position of many state/local governments and the damage the pandemic has caused. However, they have their own taxing authority and borrowing capability. Why should the federal government borrow to give money to the state/local government? Isn't that asking state/local taxpayers in healthier places to share burden for state/local taxpayers in places with more difficulty? Governor Pritzker in Illinois has not done any reductions in the state workforce despite individuals not working. Should our friends in Indiana pay for that?

Interesting statistic from Wall Street Journal. If the federal government "extra unemployment benefit" is $300, 50% of workers will make as much from unemployment as they did while working.

DOJ threatening to sue Yale for discriminating against White and Asian Americans. From the DOJ letter: *"For the great majority of applicants, Asian Americans and whites have only one-tenth to one-fourth of the likelihood of admission as African American applicants with comparable academic credentials. Yale rejects scores of Asian American and white applicants each year based on their race, whom it otherwise would admit."*

You have to love entrepreneurship. Many colleges are telling students they need to take their classes online and can't come to campus. Some see an opportunity. Why does that mean the student has to study from home? Why not study from Hawaii?

princeton-grads-bubble-campus-hotels-remote-hawaii-college

J. Michael Locke
Musings

#90: Saturday Musing
August 22, 2020

Management Thought

A key distinction in building a successful, competitive organization is to reward outcomes and not efforts.

As a leader, you are likely naturally inclined to be pleased based on someone's effort. It is hard to be disappointed if someone is giving their all. Unfortunately, I believe you have to be a tougher. Yes, you want people to work hard but efforts alone don't matter. Is the person getting the job done?

To do this, you must have discrete metrics and ways to measure results. The best example is sales. Their job is to hit the bookings number. Period. No exceptions. Don't let nice people stay on the team who keep falling short.

If you are looking for a new hire to happen, put a time frame on it. Measure HR by turnover rate. Measure your collections department by days in AR outstanding. Develop KPIs for every role and evaluate performance based on KPIs.

You should also always set deadlines. ASAP is meaningless. Have a set date upon which an activity is to be completed. Be relentless on those dates being met. The executives job is to manage the various contingencies to make sure it is delivered by that date.

High performing employees want to be in a place where outcomes attainment are the rules of the game. Nice people who work hard but don't achieve their KPIs need to be graciously moved out.

Other Thoughts

I thought Democrats put on a good virtual convention all things considered. Interesting to see how they are using the management of the Coronavirus as a key campaign issue. They also worked hard to appeal to the middle – giving more speaking time to John Kasich than AOC. Made you admire Joe Biden and highlighting his personal empathy, character, decency. Per some previous musings, Biden also appealing to "positivity" and framing it almost like Star Wars with hope and light vs darkness and despair.

Noticeably absent was lots of policy conversation. Will see if Trump goes after the policy positions especially on taxes. Biden wants to tax capital gains at ordinary income rates which would mean an increase of capital gains taxes from 20% to 40% high income individuals (who provide much of the investment capital in our economy). That will greatly reduce investment. While I don't like it, I am more

understanding of higher individual rates as we have too much wealth disparity in our country and need to help those with less.

Democrats also overwhelmingly pushed to get out the vote and lots of discussion about mail-in voting and the post office. The whole post office story was fascinating. By no means do I think there should be actions to suppress anyone voting but let's talk about the USPS. Chuck Todd on "Meet the Press" commented how everybody loves the Post Office and how politically risky for Trump to criticize it. I guess I am an outlier because I find the Post Office to be another government agency where workers are indifferent to the customer (post office lines and staff rudeness only outdone by DMV). The USPS is a dying "business." According to Marketwatch, *"The U.S. Postal Service reported Thursday a fiscal 2019 net loss that more than doubled $8.81 billion, from $3.91 billion a year ago."* From Jack Shafer at Politico: *"What about those vanishing USPS mail collection boxes? As it turns out, the USPS has been culling the boxes since 2000, when their numbers peaked and 365,000 of them stood sentinel on U.S. streets. Today, their numbers have dwindled to 142,000. Why has the USPS deleted them? Because the volume of first-class has nose-dived. In 2010, the USPS delivered 77.6 billion pieces of first-class mail, but by 2019 that number was 54.9 billion. Reduced volume makes it cost-inefficient to collect from so many scantly used boxes, so USPS has done the logical thing and removed them. (That's why the USPS removed those mail-processing machines, too.)"* The USPS has seven unions. Imagine trying to change work processes and reduce overtime.

The Covid 19 pandemic is creating a significant separation between larger, technology-sophisticated organizations and smaller, non-technology operators. Walmart and Target posted record results with e-commerce sales almost doubling at Walmart and tripling at Target while many other retailers (most without good online capability) go under (JC Penney) or struggle (Kohls, TJ Maxx). I think the same is going to happen in higher education. Schools with good online capability which allow them to deliver a quality online or hybrid model will take share from those relying solely on in-person delivery. You are already seeing a separation this fall with well-run schools beating their enrollment goals while less well-run schools fall short and blame Covid-19.

Good WSJ article on how the current discourse may increase racism rather than reduce it. the-dangerous-consequences-of-putting-race-first .

Do we really have to say "primary bedroom" rather than "master bedroom" when discussing a home or "first year students" rather than "freshmen?"

Congrats to our Collegis team for acquisition of Education Management Solutions (EMS) which is a market leader in software for hospitals/schools to run simulated clinical training. https://www.simulationiq.com/. Weird to do a deal having never met the seller in person or actually going to the business.

J. Michael Locke
Musings

#91: Musing
September 5, 2020

The core value proposition of technology in the workplace is increased efficiency. Recently, I found myself engaging in a once prohibited practice which technology has now mainstreamed: multi-tasking during a meeting. By encouraging multi-tasking, I believe technology is leading to inefficiency.

Multi-tasking is not new. Passing notes in grade school 40 years ago was a form of multi-tasking. However, using technology to do another activity during a meeting was frowned upon ten years ago. Now it is accepted. It started with the environmental movement leading executives to move from handwritten notes to typing on a computer. Email ubiquity on the computer and the smartphone has now made most professionals "multi-screen addicts" like the millennials. Just like a millennial being on their phone using snapchat as they watch TV, I note that most executives are checking email/texts on their phone or computer during meetings. I once prohibited it but now find myself doing it. Some argue it promotes efficiency but it distracts from the value of the meeting/zoom call. There is no way you are paying attention with the same intensity if you are typing an email. Meetings are thus becoming less effective as information gets missed and not transmitted. I long for the days of all people in a meeting focused on the topic at hand, phones turned off and laptops closed. Let's get back to that. Shorten the meetings and ban multi-tasking.

I am saddened at the demise of our community. I am intentionally being vague on the definition of community as it is different for every individual. We started with the loss of trust in institutions that used to bond us together like church. The information age widened the income gap and labor market returns between individuals (2017 study showed the top 3 Americans had more wealth than the bottom 50%!!! It has only gotten more disparate since then). Big data and tech led to surgical, partisan gerrymandering, media echo chambers and the tyranny of convenience so you never need to leave your home. Now the trifecta of crises: Covid pandemic, racial unrest and economic downturn has exploded any fragile cohesion we had. I don't know where we go from here but let us all try to be forces of calm and healing. We need to rebuild community.

Amazed to get an email from our high school principal asking parents not to participate in zoom discussions as the students are online (I can assure you it was not Heather or me). Learned a new one this week: drone parenting. From Google: "Unlike a noisy helicopter parent, the aerial Drone Parent is silent in their movement, limiting the child's awareness to their presence."

In the current dislocation there will be good investment opportunities. Don't be afraid to be contrarian. Maybe you buy in downtown Chicago right now -- it will come back. To quote Warren Buffett (who turned 90 this week and has created the majority of his wealth since turning 65): "be fearful when others are greedy, be greedy when others are fearful."

The power of the algorithm and curators on full display this week. China passed new law banning the export of artificial intelligence technology which includes content recommendation engines like that used by TikTok. US bidders for TikTok not sure they want to proceed without the algorithm…that is where the value is. The internet has lowered the cost of producing content (see YouTube, Soundcloud etc) so the power has moved from content creator to the curator. Picking the Spotify "if you like" song list is where the action is.

I mentioned the separation of where students live from their college in the online world. Good article in NYT: college-collab-houses-coronavirus

US debt to exceed our GDP shortly. We join Italy, Japan and Greece for that amount of leverage. Do we want to be in that group?

Be safe. Wear a mask.

jml

J. Michael Locke
Musings

#92: Musing
September 12, 2020

Here is to being ordinary. I guess that is what made Charli D'Amelio the most famous person you likely have never heard of. The famous TikTok algorithm recommended her to new users due to her "everyday girl" profile. how-charli-damelio-became-the-face-of-tiktok She has 83mm followers on TikTok. 83 million! She also loves Dunkin Donuts so a savvy marketing person at DD convinced the company to name a drink after her. Available nationwide for a limited time, "The Charli" is a cold brew with whole milk and three pumps of caramel swirl. Guess who went to DD for the first time this week --- our daughter. All marketers must be all over the social media phenomenon. A tweet from Popeye's challenging Chick Fil A led to a nationwide chicken sandwich shortage. Amazing.

One downside of the many digital marketing professionals is they have lost focus on the consumer as a "person" vs a "lead." The ability to track web behavior has created enormous focus on where a lead came from (instagram vs website etc) and how it progressed during conversion funnel. You get great information on cost per acquired customer. However, don't lose sight of the need for good information on "who the buyer is" with demographic, psychographic information. Facebook and others try to keep this information mostly to themselves in their "walled garden."

Some economists worried about a "K" shaped recovery where one segment of individuals sees improving prospects while some see degradation. The concentration of financials assets is part of the dilemma. 52% of stock is owned by top 1%. IMO the current racial unrest is heavily about income and wealth disparity.

Decent jobs report last week but speaking of data and metrics, the unemployment rate is an outdated KPI. It only measures those actively seeking work and unable to get any job. There are many folks in part-time jobs who want full-time jobs and even more people who sit on sidelines during tough times. Need to focus on the labor participation rate and underemployment rate. 22mm jobs got lost in spring with Covid. Only about half of those have come back. We are still over 10mm lower than where we were. 1.4mm jobs were added last month but that included temporary government hiring of census workers so only about 1mm private jobs. Would take almost a year at that rate to get back to where we were.

Feel sorry for the citizens of the six battleground states: Wisconsin, Florida, North Carolina, Pennsylvania, Michigan and Arizona. Nonstop presidential election ads and we have two months to go. National polls don't matter. What matters is the outcome in these six states.

Here is a new one: Maskne. Acne caused by wearing mask. Cotton masks better because they allow moisture to get out.

I am with those calling for a changed approach to testing. Let's distribute broadly the cheaper, less reliable antigen test. It can be as low as $10. They are around 80% accurate. However, you get results basically right away and because they are cheap, you can do them often. So if you test someone every day for three days, the 20% miss rate becomes under 1%....i.e. it is under 1% chance that you would get wrong result three times in a row. Compare that to highly reliable, expensive PCR test but then has to be shipped to a lab and it takes three days.

My libertarian leaning is increasingly frustrated. Last week the CDC banned landlords from evicting tenants. The CDC!! No legislation. No hearings. The healthcare agency of the federal government tells a landlord in Decatur IL that she can't evict a nonpaying tenant as long as the tenant says they can't pay because of the pandemic. The intransigent partisanship of legislatures is leaving governing to individuals making huge, unilateral decisions.

Be safe.

jml

J. Michael Locke
Musings

#93: Musing
September 20, 2020

RIP Notorious RBG. We differed significantly in our political views, but I have the utmost respect for her and what she accomplished. I particularly applaud how she conducted herself. She could be friends with someone with opposing views. She didn't yell and demand but rather talked softly and carefully with each word having impact. An example for all of us. Simply an amazing lady.

Fascinating to see the press coverage of some of Bill Barr's comments this week. He emphasized how the political leadership running the DOJ had the ultimate decision making authority rather than career prosecutors. Not sure how that is debatable. I believe DC career bureaucrats are a dangerous group. They wield the awesome, an almost unlimited power, of the federal government with little oversight or accountability. Here is a copy of the full remarks: remarks-attorney-general-william-p-barr-hillsdale-college

We attended a wedding in rural America this weekend. Stunning differences in culture between rural and urban areas like Chicago as it relates to anxiety and concern about Covid. Almost like two Americas. Good article by David French on this. yes-america-could-split-apart

Election night is going to be a mess. Pennsylvania court decision counting ballots received for days after election day (remember one of the key states). I am concerned people are going to lose trust in our election result just like they have lost trust in most institutions.

So sad to see the destruction from the fires on the West Coast. I don't know enough to wade into the debate on climate change vs lack of forest management. Just hope all affected families are able to rebuild.

Not a lot of good news this week. Pay it forward at Starbuck's tomorrow. World needs kindness.

Be safe.

jml

J. Michael Locke
Musings

#94: Musing
September 27

I recommend going back and watching the RBG documentary or the film "On the Basis of Sex." Amazing to see what RBG accomplished in her lifetime from not being able to get a job because she was a Jewish woman to being the first woman to lie in state in the Capitol Rotunda. She once said "Real change, enduring change, happens one step at a time." Other good quotes at 17-powerfully-inspiring-quotes-from-ruth-bader-ginsburg. Hope we can move our society to more of an RBG culture vs a Trump culture. Put the "superego" back in control of the "id" if I remember my psychology class from 35 years ago.

I don't really know anything about Amy Coney Barrett but you have to respect anyone who has seven children including adopting two from Haiti and one with Down's Syndrome.

Moore's law is dead. The principle that the number of transistors on a microchip will double every 18 months to 2 years held true for decades but now chips are so small it has stalled out. According to WSJ, it is now being replaced by Huang's law after Nvidia founder. Huang's law is that silicon chips that power artificial intelligence more than double in performance every two years. huangs-law-is-the-new-moores-law. Technology has created amazing things in the business world. Unfortunately, I think one major downside is what social media is doing to our children.

I am increasingly from the camp that the general government approach on Covid 19 is overly restrictive. Good article in The Hill (thanks to my brother Mark for sharing) - the-data-are-in-stop-the-panic-and-end-the-total-isolation. Governor of Florida doing a student "bill of rights" to push back on restrictive campus policies. More parents pushing to get their kids back in elementary/secondary schools. We need to protect teachers (especially those in higher risk groups) but I think you can do that and have kids come to school. In Illinois, private club teams playing all of their games out of state where Governor Pritzker cannot control them.

I encourage everyone to dig into facts of the various cases dominating the news and not just trust the media. Narratives can become disconnected from the actual facts of a situation with our national media deliberately exaggerating to drive viewership. See this from Eric Zorn, a liberal Chicago Tribune writer: column-breonna-taylor-lightfoot-pritzker-preckwinkle-justice-zorn. For those who want to "reestablish the middle" like me, suggest you turn off Fox News, CNN and MSNBC and turn on the new news channel from WGN called NewsNation.

Lots of discussion in higher education about the "Hyflex" model which combines in classroom with online. The student decides if they want to go in person or not. Our daughter has a Hyflex class at TCU and has yet to attend in person because she has gotten used to attending from her dorm room. You need the relevant video hardware and software but I think this modality will continue to be popular. As

a I wrote about Peloton months ago, giving the consumer the control of choosing how they want to consume is a winning approach.

Be safe.

jml

J. Michael Locke
Musings

#95: Musing
October 4, 2020

Crazy that the Trumps and many WH people got Covid. They were in the most protected bubble on the planet. Shows how transmissible the virus is. Wish them all well.

The Presidential debate was just embarrassing. Civil discourse in our society is basically gone. According to a recent survey, 36% of Ivy League students said that it was acceptable to shout down a speaker they don't like (university-chicago-top-honors-depauw-university-worst-free-speech-poll). We need more RBG ("I'm a very strong believer in listening and learning from others") and Bob Zimmer, President of The University of Chicago, "A university should not be a sanctuary for comfort but rather a crucible for confronting ideas" (WSJ opinion piece attached from a couple years ago.)

California continues to expand the role of government. Just because something is a good idea, doesn't mean the government should mandate it! New California law requires all public companies headquartered in California to have at least one board member from an underrepresented community by 2021 and for companies to have a minimum of three by the end of 2022, depending on the size of the board. Directors from an underrepresented community include those who self-identify as Black, African American, Hispanic, Latino, Asian, Pacific Islander, Native American, Native Hawaiian or Alaska Native, or who self-identify as gay, lesbian, bisexual or transgender.

Another four hours at the DMV for me this week because they messed up our daughter's license the first time. The government is incapable of operating efficiently IMO.

I think our Covid KPIs are out of sync. Infection by itself does not mean much. Young people especially fight it pretty well. Positivity rate almost meaningless as it is measured against a set of people getting tested which may have all kinds of biases. I prefer hospitalizations and deaths. Challenge is these are lagging but they are the real marker of damage. Telling me 250 students at a college are infected doesn't give a lot of information.

According to the WSJ, "University of Chicago economists recently estimated that 76% of unemployed workers made more from the $600 weekly jobless benefit enhancement than by working." congresss-covid-income-redistribution

You might be surprised by some supporting Trump. " Where I come out as a businessman, I will take the devil I know over the devil I don't know anytime of the week," BET founder Robert Johnson said of the presidential election according to CNBC. "I know what President Trump has done and what he's said he will do. I don't know what Vice President Biden has said he will do other than masks, listen to the scientists," the 74-year-old Johnson said. This is the same guy who was advocating reparations a month or so ago.

Two more “direct listings” on the public equity market this week. The traditional method of going public where the company sold stock through an underwriter (investment bank) who got 7% and was in charge of distributing the stock to institutional investors may be on the way out. Under the traditional method, banks often set a price lower when going out to get the “first day bump” and create positive buzz. This resulted in more dilution than necessary for the company. Direct listings don’t go through this process but rather just start trading at whatever price creates buying and selling.

Be safe.

jml

J. Michael Locke
Musings

#96: Musing
October 10, 2020

Monthly job report shows the continuing bifurcation of our labor market and the "K shaped" recovery. Professionals with white-collar jobs can work from home while the hospitality, restaurant and service sectors get crushed. From WSJ: *"By September, workers with bachelor's degrees or higher had nearly fully recovered jobs lost in early spring. But those with just a high-school diploma held 11.7% fewer jobs in September than in February, according to Labor Department data, and high-school dropouts had 18.3% fewer."* The majority of Americans do not have savings to fall back on. According to the Fed, 47% of Americans could not pay an emergency $400 expense. *"Financial insecurity or, as I think of it, "financial impotence," because it has many of the characteristics of sexual impotence, not least of which is the desperate need to mask it and pretend everything is going swimmingly. In truth, it may be more embarrassing than sexual impotence. "You are more likely to hear from your buddy that he is on Viagra than that he has credit-card problems," says Brad Klontz, a financial psychologist who teaches at Creighton University in Omaha, Nebraska, and ministers to individuals with financial issues."* See my-secret-shame (thanks Dave Heyer).

Leaders need to be really focused on engagement and zoom fatigue in this remote world. General Stanley McChrystal: *"Many of the things we do in the workplace are nonverbal," he said. "We've got to find ways to fill that void now—what's not happening. We've got to remember that we're all separated, and many people feel very, very alone."* The conference call is making a comeback. Productivity may be the same (or even up with one third of companies reporting productivity increases) but you need employees to be emotionally engaged and connected. Time to open offices back up with appropriate protections.

Great quote from Simon Sinek, an executive coach according to WSJ: *"Crisis is the great revealer," he said, adding that an often overlooked aspect to leadership is the ability to humble oneself. "Humility is being open to the ideas of others."* I think this applies to leadership of any organization. IMO schools which are well run are open for business with students attending classes with hybrid formats and having sports with managed risks. Younger people do not generally have a problem fighting the virus. Good statistics in this article. group-most-likely-to-get-covid-19-is-least-likely-to-die-from-it

House democrats released a big report calling for breakup of big technology companies on antitrust grounds. Key issue is where they use their platform to then push their product like Amazon using data on what third-party products are selling to decide what to build and sell itself. Good article a couple years ago in the NYT on how Google quashes competition by how it displays search ranking (it controls over 90% of search traffic). the-case-against-google

I have written about my concern of social media on kids. Netflix documentary called "the social dilemma" on the topic. This software is intentionally designed to manipulate the brain. Interesting interview here: former-google-design-ethicist-on-big-techs-big-problems

On the positive side, Microsoft making some improvements in outlook. I have previously written how a leader needs to control his/her schedule and be a schedule maker vs a schedule taker. I don't think you should allow others to book time on your calendar. Only you can determine the priority of your time and whether to accept a meeting request. George Fogel shared with me that Outlook 365 has a new feature that lets you "automatically schedule daily focus time."

Companies on calendar year all heading into budgeting. My two cents on some best practices. The board should work with CEO on setting guardrails. Ideally done on a multiyear basis. Sales/bookings need to grow faster than GAAP revenue which grows faster than expenses. After guardrails set, management team nails down the revenue line first by building up your bookings plan ideally by product and channel using historical sales productivity. If you are in a SAAS business, use CAC/LTV metrics. The expense budget should "fall out" of the revenue budget. Expenses should be assumed to have increasing productivity. A given resource should be able to do 10% more next year vs this year because they do it better. Implicit assumption on learning and growing and improving. To quote my mentor REK, "margins are a state of mind."

Be safe.

jml

J. Michael Locke
Musings

#97: Musing
October 24, 2020

I recently heard the CEO of IBM say "Growth is a proxy for sustainability." What a good life mantra. Whether as a business or a person, you have to keep growing to stay relevant and successful. Don't tell me how your results compare to budget, tell me what your growth rate is. Keep growing personally as well through travel, reading or other activities.

The federal government filed its antitrust suit against Google. Bipartisan concern on the power of Big Tech. The core complaint is around search. Google has 88.1% market share with Microsoft's Bing at 6.7% and DuckDuckGo at 1.7%. Google pays Apple billions so that Google is the default search engine on iPhones. Don't underestimate the "power of the default option." You can change it but most people don't. Consumers are somewhat lazy so the default option has enormous power. This is why you always want to have an "opt-out" provision if you are seller rather than an "opt-in." Free trials become permanent customers because many are just too lazy to "opt out." Another example is 401k participation rates among employees. If you automatically enroll new employees and make them act to "opt out", you will have much higher participation rates than asking employees to enroll. If you do use an automatic enrollment, make sure to put your employees in a target-date fund which matches the risk asset allocation to the age of the employee.

Hope some of you watched "The Social Dilemma" documentary. According to the Mental Health Association, 50% of children 11-17 have had suicidal thoughts. To quote Eric Schmidt (former CEO of Google), "social media should not be an amplifier for idiots."

Watch the results of Prop 22 in California. The progressive government out there passed a law (AB5) that goes against the "gig economy" and will make employers treat gig workers as full-time employees and offer them benefits like sick days and health insurance. Uber/Lyft say they would only be able to hire 3 out of every 10 drivers due to extra costs and rates would rise 20%-100% and they may pull out of markets altogether. Prop 22 would reverse that. Will be an interesting data point between consumers and progressive politicians.

The economy is surprisingly strong (heavily thanks to huge fiscal stimulus). New unemployment applications continue to decline and sales of previously-owned homes rose to a 14 year high in September. My anecdotal experience matches some of the data that travel is coming back. My flight this past weekend was the busiest by far I have had in the last 2-3 months. The TSA reported that it screened over 1 million passengers last Sunday, the highest number since the coronavirus crisis began. Unilever (owner of products like Ben & Jerry's Ice cream and Hellman's mayonnaise) said sales grew 9.1%.

An underreported part of the Presidential campaign is the differential in tax plans. After taxes called for in Biden plan, in California, New Jersey and New York City, taxpayers earning more than $400,000 a year could face combined state and local statutory income tax rates of more than 60%. This money is used to fund large new government programs. Personally, I think it provides a disincentive and will hurt economic growth.

A couple Covid peculiarities. A shortage of canned corn. Really? Also an increase in double-chin plastic surgery (doesn't look so good on zoom) and other plastic surgeries – easier to recover privately at home (thanks Pat Wilson). I have previously written about the blending gender dynamic in our culture. Ulta Beauty sees opportunity. mens-nail-polish-is-taking-off

CDC changed is definition of "close contact" requiring quarantine this week. From the Washington Post: *"The CDC had previously defined a "close contact" as someone who spent at least 15 consecutive minutes within six feet of a confirmed coronavirus case. The* ***updated guidance,*** *which health departments rely on to conduct contact tracing, now defines a close contact as someone who was within six feet of an infected individual for a total of 15 minutes or more over a 24-hour period, according to a CDC statement Wednesday."*

I have written about my believe that schools should be open. See end-the-school-shutdown. Our Bennett Day primary and upper school have been open all Fall without any major incidents (but a lot of hard work by the team). One thing I did not anticipate is how hard it is on teachers when you add all of the logistics, monitoring, health management. Along with the kids, schools need to be open for parents. Women are dropping out of the labor force to take care of loved ones. This has highlighted "how our economy has been built on the back of women's unpaid labor" to quote Melinda Gates.

Personally, I think most Americans have decided they are done with Covid lockdowns and the unilateral despot-like decision rights being given to Governors. Here in Illinois, Governor Pritzker has tightened up restrictions and some restaurant owners are simply going to ignore it. at-least-three-new-lenox-restaurants-plan-to-defy-gov-pritzker. Chicago Mayor Lightfoot is saying you can't have 8 people in your house. As a society, we don't like being told what to do by individual "ruling" politicians. Where are the legislatures?

Be safe.

jml

J. Michael Locke
Musings

#98: Musing
October 31, 2020

Great to see such a turnout for voting in Tuesday's election. Civic engagement is a healthy sign of a community. I hope everyone can be patient as the election results are likely not to be known for a while with the counting of mail in votes.

Watch the Covid fatique. Governors need to be careful not to "overplay" their power to limit citizens behavior. Here in Illinois, the state high school association decided to have winter basketball despite the Governor's directives. Chicago Tribune headline "IHSA won't play ball with Pritzker." I like the move in France and Belgium to reduce quarantine time to increase compliance. They are reducing quarantine from exposure to seven days rather than 14. While it increases risk for that individual still spreading, the community risk will be reduced through higher overall compliance.

California Governor going to the other way. He released guidelines requiring the host of any private gathering to limit attendance to no more than three households and the duration to no more than two hours. Does he really think the government should tell its citizens they can only have their grandma and two siblings but no more for Thanksgiving?

Turning to management. As a leader, don't allow "victimization." If a member of your team starts blaming other people or factors, cut them off. Individuals must manage those dynamics. This is why the group learning method in business schools is so effective. You learn how to manage having a suboptimal member of your team and still deliver outcomes. You also must manage the environment you operate in by "looking around the corner" and predicting things with decent probabilities and making contingency plans. It can be simple things like flying in the night before an important meeting so you are not dependent on the morning flight being on time or leaving early for a car commute in case you hit a train. Or having someone read back your order so you can ensure they got it right. Good operators are held accountable and are never victims. They simply get the job done.

The economy in general is coming back. GDP grew 7.4% in the third quarter from the prior quarter. However, prior quarter was a record decrease so still have a way to get back to pre-pandemic levels. Current surges in Covid and resulting government "lockdowns" are going to hurt.

Tech continues to be an area of strength in earnings season. The Amazon juggernaut continues. Revenue soared 37% and profit nearly tripled propelled by strong online sales as well as digital advertising and growth in its lucrative cloud-computing arm. Facebook revenue grew 22% based on strong digital advertising. Not to miss out, the Alphabet empire was clicking. *"Helped by stay-at-home trends, YouTube pulled in more than $5 billion in advertising for the first time, gaining 32% over the same period a year earlier. Google Cloud revenue climbed 44%, topping $3 billion for the quarter. Even "Other Bets," a company category that includes areas such as self-driving cars and internet hot-air balloons, eked out more revenue than previously."*

A positive social move by Apple. According to the WSJ, *"Starting in early 2021, Apple's operating system will require apps to get "opt-in" permission from users to collect their advertising identifier, a key number used to deliver targeted ads and check how ad campaigns performed."* The beginning of the pushback on the addictive nature of social media as discussed in previous musings and "The Social Dilemma." Per last week's comment on the power of the default position, opt-in will create far fewer participants than opt-out.

Happy Halloween.

jml

J. Michael Locke
Musings

#99: Musing
November 7, 2020

While this "publication" is not intended for political discourse, hard not to comment. Assuming the Republicans hold on in Georgia senate races, I am quite happy with the results of the election. The "Trump show" is tiring and he is not the type of leader I find effective. As discussed in previous musings, leaders are humble, listen hard, emphasize "we" and not "I", give credit, accept blame, and attract the best talent. That said, I did not think a progressive policy agenda is in the best interest of our country and so want Republicans to keep the Senate. I don't think the majority of Americans want government run healthcare, higher taxes, elimination of right to work laws and the Green New Deal. Divided government probably best result right now and great to see the highest turnout in a century with over 150mm people voting or 65% of the electorate.

My biggest takeaway was also the push back on "government growth and dominance." I am a limited government guy. Delighted with California referenda results where gig workers don't have to be full time employees (voters overruling the legislation) and no explicit affirmative action in college admissions. Happy that Illinois' "raise revenue by taxing the rich" approach with no corresponding expense management got rejected. I liked how the Latino voter with experience with socialistic regimes in Miami Dade expressed concerns about more government power with their vote. While I am not a 420 person, fascinating the marijuana legalization has gone mainstream (although our little suburb rejected ordinance to allow a retail shop).

I am a fan of using Google search volumes to understand demand or what people are thinking. Interesting tidbit from election day. Terms like "anxiety," "breathing activities," "liquor store near me," and "fries near me" also reached all-time highs as people looked for ways to cope with uncertainty surrounding the election.

The political cancel culture has now permeated youth friendships. Our daughter received texts demanding she represent that she did not vote for Trump because the sender could not be friends with someone who did. Amazing.

Let's take the words of John Meacham to heart: "Division is the oxygen of democracy" and "Democracies don't work without empathy."

Never bet against human ingenuity. Governor Pritzker will not allow kid soccer games in Illinois. So, the leaders in Portage, Indiana (just over the border) see their opportunity and hundreds of Chicagoans are over in Portage every weekend spending money at their newly-upgraded soccer facility. Scientists looking to develop cures for cancer want to test things. It takes a while for mice to grow and reproduce so someone figures out instead that you can use Zebra fish (here is a link to a video from a great organization I am involved with called the Cancer Research Foundation (https://www.cancerresearchfdn.org/ and the video at https://youtu.be/RFnhMSEUHSc). Balding men don't get as many interested women on dating match sites so they invent "hatfishing" where they only

post pictures with them wearing hats. Finally, hotels struggling for demand and see parents' struggling to work from home with kids roll out "daily rates" where you can use a hotel room as your office for a break from the homefront.

Let's all commit to kill the addiction to powerpoint. It has become a crutch and reduces the quality of conversation. Everybody gets focused on preparation and page flipping. Go old school and just have a conference call (no video) and no powerpoint. #justtalk

Congrats to the Rasmussen University team on their announced sale to American Public Education Inc. American-Public-Education-Inc.-APEI-Announces-Transformational-Deal-to-Acquire-Rasmussen-University-the-Largest-Educator-of-ADN-Nurses. Starting our nursing business in 2004 was not easy but the hard work paid off.

Great email from a concierge medicine Dr I really respect on Covid is attached.

Be safe.

jml

J. Michael Locke
Musings

#100: Musing
November 14, 2020

The musings turn 100 today. Not sure where this is going but I get enough positive feedback that I am going to keep writing.

If you want a window on the future of the core American consumer, watch fast food operators. McDonald's is focused on collaborations with celebrities (social media influencers) and adding more chicken and plant-based products (the move away from red meat.) Chipotle is opening its first digital-only restaurant today in Highlands, New York. The design does not include a dining room or a line for ordering. In our new world, we all stay at home and everything comes to us or is picked up and taken home. Doordash Q3 revenue tripled.

This drastic move to online is not just an American phenomenon. Wednesday was "Single's Day" in China which is like their Amazon prime day. Chinese e-commerce giants Alibaba and JD.com racked up around $115 billion in sales across their platforms during the Singles Day shopping event, both setting new records. From Wikipedia: *The Singles' Day, originally called Bachelors' Day, is a Chinese unofficial holiday and shopping season that celebrates people who are not in relationships. The date, 11 November (11/11), was chosen because the numeral 1 resembles a bare stick, which is Chinese Internet slang for an unmarried man who does not add branches" to the family tree. The four '1's also abstractly refer to the demographic group of single people.*

Growth stocks have been outperforming value stocks. This has even led to famous value stock managers closing their funds. But maybe we have value defined wrong? Historically, value definitions were based on tangible book value -- the balance sheet value of your tangible assets and liabilities. However, in today's technology vs manufacturing world, intangible assets become more important. value-stocks-may-have-done-a-lot-better-than-you-think

When we talk about "performance enhancing drugs," we immediately think of professional athletes. Unfortunately, we have growing epidemic of performance enhancing drugs in college and Silicon Valley. There is a growing trend of "micro-dosing" with LSD amongst professionals especially in Silicon Valley. micro-dosing-lsd or youtube. If you take a small enough dose, you don't get hallucinations but just heightened acuity. Another example of using drugs to affect your brain's behavior is the use of drugs to treat ADHD. These are stimulants (yes, a sufferer of ADD is given "speed" to help focus) and many non-ADHD students are using them to improve performance creating a black market on college campuses. Your kid with an Adderall prescription might be making a little money on the side as other students seek to buy it. Chemically, Adderall et al. are very close to Meth but society doesn't look at it like Breaking Bad. This also plays into the mania around college admissions. Testing accommodations at a prominent North Shore high school here in Chicago are 4x higher than the national average. Get an ADD diagnosis, get a prescription, get extra time on the SAT.

Human ingenuity can sometimes be applied in a suboptimal way. Watch your cybersecurity and other theft. Criminals are grabbing mail and changing the payee on checks. mail-stolen-checks-altered

Watch employee burnout. Covid is wearing on everybody. Rising spread will mean more lockdowns. Your employees are fatigued and remote which is not a good combination. Some ideas in this WSJ article: companies-offer-creative-solutions-to-worker-burnout

"Smart" money is not always so smart. All of the media giants put money into a new company called Quibi which was founded by Jeffrey Katzenberg and run by Meg Whitman. They raised $1.75bn for a new model of entertainment with short form videos delivered on your phone. It lasted under two years and is closing. quibi-was-supposed-to-revolutionize-hollywood-heres-why-it-failed . Not fraud like Theranos but the same FOMO dynamic in the investing world.

Targeted ads are coming to your TV. Just like you receive different ads than others on your phone based on your profile, this will now happen with your TV in the coming year thanks to a change by Nielson on how it measures. From WSJ: *The targeted-advertising television market is about $2 billion annually. That pales in comparison to the roughly $70 billion advertisers spend on traditional U.S. TV advertising, according to research firm emarketer, which tracks both categories. Advertisers are expected to spend $142.3 billion on digital ads in the U.S. this year, eMarketer said.*

IMO we need to reset societal expectations on retirement. The "rule of thumb" embedded in our culture through things like Medicare eligibility is 65. However, that was set decades ago when the life expectancy was shorter. Since 1970, the average life expectancy has increased from roughly 70 to 80 (it varies by gender and race...see attached). As a society, we should encourage our seniors to keep working. 75 is the new 65. We need them in the labor force

I don't get Republican challenges on the Affordable Care Act. We have a suboptimal system in US where healthcare benefits are connected to employment. Healthcare is a human right. To get coverage to those who can't get healthcare through their employer, the ACA set up exchanges where premiums were subsidized by the government and forced healthy individuals to sign up by having the individual mandate. In this way, the risk pool was not just sick people. IMO, this let us get healthcare to almost everybody (including those with pre-existing conditions) without going to a government-run system. Basically, the ACA works. Leave it alone.

Can someone tell me how a fully-enclosed tent in a parking lot is different than inside a restaurant for Covid risk? Also, why do all governors have a sign language person standing next to them but never at the federal level?

Be safe. Wear a mask. I don't intend to let government officials tell me what I can do for Thanksgiving but be smart about it. I still am wondering where the state legislatures are? Why are they getting paid?

jml

J. Michael Locke
Musings

#101: Musing
November 21, 2020

As I have written, I believe Biden won mostly due to the "turnoff" nature of Trump's style and personality. One quality emphasized by Biden was empathy. Leaders must be empathetic and see the other person's point of view. However, don't confuse empathy with being nice. A leader's job is to be respected and followed not necessarily to win a popularity/nice contest. You have to make decisions that may seem unempathetic (like firing a nice person who is not getting the job done). Good article on this in WSJ: joe-biden-promises-empathy-but-thats-a-difficult-way-to-lead

Part of getting the job done is creating the culture of accountability. I am a big fan of having an IDR (individually directly responsible) for every area or project. It needs to be a singular IDR. If two people own something, no one owns it. That IDR then needs to have the room to execute. I used a technique to create ownership forms which were signed by the IDR and myself showing the areas of ownership, objectives and ways of measuring success. It was like an accountability contract. Then give him or her room to operate. Don't abdicate your responsibility but delegate and inspect.

I have espoused the move to a "digital first" world and how it has been accelerated by Covid. However, that does not mean that bricks & mortar doesn't have a role. A network of smaller but highly-visible locations support an overarching online approach. Like branches for a bank. Great quote from the former CEO Kate Spade, "Stores are a demand-generation machine…..Consumers don't automatically go to your website. It's very expensive to get the eyeballs."

Fascinating to see development of a Twitter alternative by the libertarian/conservative crowd. Parler is one of the most downloaded apps right now. No content algorithm, no vetting of posts. Just a free for all. Maria Bartiromo is one of the most followed. Is America going to divide into two camps on what applications they use?

One of the brightspots of Covid business is mixed paper recycling. Originally, the waste haulers took your recycling for free because they could turn around and sell it. That market collapsed and you started having to pay for recycling pick up because the waste company had to pay to get rid of it. Mixed paper recycling is back big time. Prices for mixed paper have risen from zero at the beginning of the year to about $30 a ton this month according to WSJ. all-those-used-delivery-boxes-are-a-hot-commodity

One of the downsides of Covid IMO is the accelerated move to casual dressing for work. Before you mutter "old school," there is actually a scientific term for the interplay of how you dress and how you work. It is called "enclothed cognition." Obviously Mark Zuckerberg doesn't believe in it. From Wikipedia: ***Enclothed cognition*** *is a term coined by Hajo Adam and Adam D. Galinsky in their experiment from 2012. It relates to the effect which clothing has upon a persons mental process and the way they think, feel, and function, in areas like attention, confidence, or abstract thinking.*

The “Covid dilemma” is a real lesson in risk evaluation. A key executive skill is the management of risk. Not the avoidance of risk but the thoughtful management of it. We constantly have to make decisions which involve risk and the amount of risk to take depends on the context. We are in “open enrollment” season where families must decide what plan to take from their employer and that involves the allocation of risk between the insured and the insurer. A high deductible HSA plan puts more risk on the insured. Be thoughtful and review historical medical claims and your current finances to figure out how much monetary risk to take. The financial markets are all about risk and return. Personally, the positive vaccine news means to me indicates you can take more risk and invest in stock/equity vs debt or other safer investments. Target date funds assume a risk tolerance based on your retirement age and move the asset allocation between equity (higher risk appropriate for those with longer horizons) vs debt or cash. You want your executives to take “smart” risk. Size up the environment and look at the alternatives.

Back to Covid, the extremes are the easiest but need to be avoided. You can’t lockdown nor ignore it. Be thoughtful about the risk. Personally, I think you see friends outside. Sit a little further apart. Maybe hold off on seeing older friends. Wear a mask. Quarantine for 4-5 days (that is when most symptoms develop) if you think you have been in a riskier situation (obviously full 14 day quarantine if close contact with a positive individual). Get tested every now and then, even when no symptoms.

Happy Thanksgiving. Be safe. This will end next year.

Jml

J. Michael Locke
Musings

#102: Musing
November 28, 2020

Hope everyone had a good Thanksgiving and stayed healthy.

Many executives speak of their software being "in the cloud" without really understanding it. "In the cloud" just means on servers being managed by someone else in their datacenter. You still need to know what is going on. Historically, most folks hosted their software locally "on prem(ises)." Software companies pushed their SAAS models (software as a service) where they run the software on their servers (or one of the major cloud providers) and basically rent it to you (Salesforce really pioneered this model.) Amazon Web Services (AWS) is the leading cloud provider. Google and Microsoft (Azure) are playing catchup. But cloud providers can have availability issues as well. AWS was having major issues Wednesday affecting everyone using them. So folks like Roku couldn't offer their streaming service and there was nothing they could do about it. You have no control. I am not saying it is wrong to be "in the cloud" but important to understand exactly what that means and the risks involved. I like the hybrid-cloud approach with some things at places like AWS but also having some in your own private datacenter.

As a leader, you have to create a sense of urgency. Things should get done as soon as possible. If the entire organization works this way, the company gets speed as a competitive weapon. Don't be "big company" and get to it next week with folks going home at 6pm and not checking in again until 9am the next day. Demand that minutes come out the night the meeting was held. Expect your team to check email at night, on weekends and on vacation. Don't have key executives turning on the "out of office" email message. Hopefully you are all reading this on Saturday after Thanksgiving.

I have written on the "feminization" of our society. Here is another example. The country of Scotland is making menstrual products (tampons and pads) free and available in public locations. I guess there is a term called "period poverty." Another example, Vanderbilt will have a female kicker today.

Spent some time with my brother who runs the medical staff at a hospital recently. He spoke of the nursing/allied health worker crisis. They have unused beds and equipment because they don't have the staff. An underreported story along with the fact that 40% of Covid deaths occurring in nursing homes.

According to WSJ, "the Coronavirus is now killing around 0.6% of people it infects. The death rate of seasonal influenza is 0.1%."

Another "winner" from Covid – the game of chess. Record sign-ups at Chess.com. Also helped by a Netflix movie – The Queen's Gambit.

RIP Diego Maradona (and compliments to anyone who can do his signature move) and Tab (the first diet cola in 1963.) For a sign of how times have changed, check out this old Tab commercial – imagine this now. Be a mindsticker

Be safe.

jml

J. Michael Locke
Musings

#103: Musing
December 5, 2020

In a first, digital advertising this year is expected to account for the majority of U.S. ad spending. Madison avenue has officially moved to Sandhill road (that is Silicon Valley's prominent street by Stanford). Of the 51% of ads which will be digital, here is the market share: 29.8% Google, 23.5% Facebook, 10.2% Amazon and 32.9% Other (according to sMarketer as reported in WSJ).
Interesting discussions on the negatives of zoom calls. We all have zoom fatigue but there is more downside. Scott Galloway recently commented on his podcast (Pivot with Kara Swisher) on the loss of empathy due to zoom world. You just don't connect in the same way. Galloway likes the idea of national service. With our divided society seeking elements of commonality, how about some kind of "national service" requirement like Americorps, Peace Corps, Teach for America? Mayor Pete had this in his platform. Here was a quote from him: *"National service can help us to form connections between very different kinds of Americans, as was my experience in the military," Buttigieg said in a statement. "I served alongside and trusted my life to people who held totally different political views. You shouldn't have to go to war in order to have that kind of experience, which is why I am proposing a plan to create more opportunities for national service."*

Good article in WSJ on tricks to be charismatic on a zoom call. do-you-have-e-charisma-on-zoom-heres-how-to-get-it
Private company valuations are pretty frothy just like public equity market. Lots of cash seeking a place to invest. 2020 is the year of SPACs (special purpose acquisition companies) which are public pools of capital that then seek an acquisition. There are 255 SPACs. Only 70 have found a company and 185 are searching with $65bn in equity. They have to something to buy in 18-24 months or give the money back. On the lower end of the market, there are roughly 200 "search funds" where individuals raise initial capital by selling units and seek smaller businesses to buy and run (and then call the unit holders to put up the equity to buy the business.)

Welcome to the world of "connected cars." The majority of vehicles sold in US today have a modem. GM rolling out its own insurance based on driving data collected via its "On Star" service.

I look forward to the next decade of the Supreme Court discussions. I am not commenting on the political leanings of the current court but rather the intellectual engagement of the justices. Interesting decision last week on Cuomo's Covid restrictions on religious gatherings in New York. Here is a great line from Justice Gorsuch's opinion on the definition of essential businesses not subject to restriction: *"So, at least according to the Governor, it may be unsafe to go to church, but it is always fine to pick up another bottle of wine, shop for a new bike, or spend the afternoon exploring your distal points and meridians. Who knew public health would so perfectly align with secular convenience?"* Another good line: *"Even if the Constitution has taken a holiday during this pandemic, it cannot become a sabbatical."* If you have never read a judicial opinion, this is an easy read and is attached.

Covid is creating all kinds of interesting questions on governance and democracy. Hamilton time. I believe everyone should be wearing a mask but that doesn't mean I think it should be ordered by the government. I am still looking for the state legislatures. Why are governors operating like rulers 10 months into the pandemic? Here in Illinois the state legislators are drawing full pay and building credit for their generous pensions while not having a meeting during the pandemic?! Also fascinating issue of Federal vs State on the coronavirus. States can tax to raise revenue so why should they get money from federal government (if not a federal mandate like Medicaid)? One of state budget issues is the growth of Medicaid which is now over 30% of state budgets according to the National Association of State Budget Officers.

To the K-shaped recovery, interesting data point from CNBC: *"Researchers found that 51% of Black, 53% of Hispanic and 51% of Native American workers hold a job that must be done in-person."* Nasdaq really leaning into the national diversity discussion. A proposed new rule would require one female director and one from an underrepresented minority. According to NYT, 75% of the exchange's roughly 3,200 companies do not meet the criteria.

Empty nesters no more. Not since the Great Depression have so many young adults lived with their parents. In July, 52% of young adults ages 18 to 29 years old resided with one or both of their parents, surpassing the previous peak in 1940, according to a Pew Research Center analysis of Census Bureau data.

Mark Cuban is talking about "American 2.0" after pandemic. Key trends according to him: 1) ongoing remote work; 2) less travel (Bill Gates predicts 50% of business travel will go away); 3) digitization of business; and 4) accelerated innovation.

RIP Tony Hsieh who built Zappos. He looked at happiness as a science. *"Most of the frameworks for happiness conclude that there are four things required: perceived control, perceived progress, connectedness and being part of something bigger than yourself."* He built the Zappos culture around this concept. Here were five customer-service lessons he espoused: 1) Put the service first (not the product); 2) Don't hide the phone number (the company's service number at the top of every page on website); 3) Recognize the bigger role of customer service; 4) Pay workers to quit (they offered new staff a month's pay to quit so they wouldn't stick around unable if didn't fit); and 5) Create community.

Be safe. Vaccines are coming.

jml

J. Michael Locke
Musings

#104: Musing
December 11, 2020

Nothing wrong with being early!

Hats off to Brian Chesky at Airbnb. Unlike some of his Silicon Valley colleagues, he stays more low-key and has done a tremendous job managing the organization from a startup where he and his friends rented an air mattress on the floor of their apartment (thus Air Bed & Breakfast) to a company valued at closing Thursday of $86.5bn. He made hard decisions like laying off over 25% of his staff during the pandemic with empathy. He deliberately sought to learn from others along the way and listened. https://fortune.com/longform/brian-chesky-airbnb/

I am less a fan of Mark Zuckerberg (who stole the idea of Facebook) and his negative impact on society. Not sure about the merits of the FTC and states' antitrust lawsuit on trying to break it up; however, I wish we could shut it down.

Speaking of Airbnb, the drastic first day increases in the prices of Airbnb and Doordash show a broken IPO market. It is almost like bribery with investment banks allocated stocks to favorite institutional clients – not you and me. kelly-evans-the-airbnb-pop-that-wasnt. Day one values of $100 *billion* and $55 *billion* and they have never made money. Crazy.

We are moving from a credit economy to a debit economy. Volumes on debit cards growing double digits while credit card use down double digits. This is healthy. Credit card debt is terribly expensive. Bad future for credit card issuers only magnified by the loss attraction of travel cards which airlines have relied on as a major source of revenue.

Feel sorry for BioNTech. Everyone is talking about the Pfizer vaccine but it was developed by BioNTech which is small German company set up by a couple scientists. Let's call it the Sahin/Tureci vaccine. europe/biontech-pfizer-vaccine-team-couple-intl. *"It uses the never-before-approved technology called messenger RNA, or mRNA, …. to trick cells into producing bits of protein that look like pieces of the virus. The immune system learns to recognize and attack those bits and, in theory, would react fast to any actual infection."* Pfizer is the marketing/distribution partner. Big pharma is growingly not pharma at all but sales & marketing companies.

According to a Quinnipiac study, only 61% of people are going to get the Covid vaccine. I am more trusting. Employers can mandate it but will they? IMO, an emergency-approved vaccine using a novel technique (mRNA) should not be forced on people. your-boss-can-fire-you-if-you-refuse-the-coronavirus-shot. Interesting debate on "Vaccine Passports." Should folks who have been vaccinated have different abilities to move around and conduct themselves vs those who haven't?

Big exit for podcast creator Wondery to Amazon for over $300mm. Good article on leadership lessons from its founder (entrepreneur.com/article/359546):

1. Your idea needs to be something you're so passionate about that you would do the work for free
2. Mentorship can help you navigate sensitive areas as you progress
3. Trying times can often be the catalyst for positive change
4. How you accept your "no" is one of the greatest tests as an entrepreneur
5. Raising money is part of the journey that every entrepreneur has to take
6. Find another successful business you can model yourself on
7. Get out if you have a toxic manager
8. In your 20s, realize that just doing your job is not enough
9. Thinking that the grass is always greener can lead to unhappiness
10. Have a consistent routine that keeps you mentally and physically grounded improves your productivity
11. Have one foot on the creative side and the other foot on the business side
12. Interviewing is the most important thing any executive can do
13. If you are in a specific role, do something outside of the box to reach your potential

Business is conducted between people and you are most effective if you build relationships. Not "client vs vendor" or overly dependent on contractual language. I think this is especially important in times of stress on businesses like today's world. This is part of Trump's failure IMO. As a real estate developer, he was transactional. He viewed the world as a set of zero-sum combats. He also believed in that you want to be famous and in the news for anything. Fame is the objective. No thanks.

You have to be a good listener to be a good leader. To paraphrase Hamilton, "Talk less, Listen more." Article on some techniques here. 7-things-great-listeners-do-differently

JML pet peave. Hate it when someone starts an answer with "that is a good question." Just a stalling technique. Doesn't add any substance to the exchange. Don't do it.

Congrats to our Certica Solutions team and New Harbor Capital. They are bringing great technology and data solutions to K-12 and it has been a pleasure being a part of it. instructure-to-acquire-certica-solutions-to-make-learning-personal-for-every-student

Be safe. Happy 50th to my wife Heather!

jml

J. Michael Locke
Musings

#105: Musing
December 18, 2020

Lots of technology this week.

Internet is the new utility. Amazing how dependent we have become on internet access in our personal and professional lives. I made the mistake of ordering faster Comcast service at home which was supposed to be just "plug in the new router" and of course that didn't work (does anybody have worse customer service than Comcast?) An unhappy Locke household as kids couldn't do their online learning without internet access and Wifi. Many schools also had this experience on Monday as Google had a major outage. I don't know the nuances of the FCC decisions on "net neutrality" and deeming the internet as a public utility. Certainly seems like a utility – certainly during this Covid period.

We are beginning to see the market changes in web firms as privacy gets more attention. Apple will be changing the "opt out" process for users to stop allowing apps to track their behavior. apples-seismic-change-to-the-mobile-ad-industry-draws-near. Potentially some significant effects on digital advertising.

Huge hack of federal government disclosed last week. Actually a hack of the "supply chain" as Russians had put some bad code in an update of Orion software from a company called Solarwinds which people us to manage their networks. solarwinds-at-center-of-massive-us-government-hack A couple interesting items. First, it was the supply chain that was broken into. You are only as good as your vendors. This is what happened with Target a couple years ago. It was their HVAC company that got hacked. Second, it is estimated that 18,000 clients downloaded the hacked software (i.e. it wasn't just a government hack). Finally, it happened back in March!! Just now being uncovered. In an earlier musing, I commented on the third "pandemic" likely going on with little visibility – cybersecurity. More will be coming.

Sometimes it takes a while to see how bad a decision was. In 2006, the CEO of Intel turned down a request by Steve Jobs to build an affordable chip for the iPhone. Apple was forced to build a chip around Arm Holding which is now taking share from Intel especially around mobile. Intel took a "proprietary / closed" approach to business where Arm took an open architecture approach. Anyone can license the Arm instruction set which allows it to leverage all chip designers across the globe and clients can build custom chips. Intel stayed closed. Bad decision.

I am an open architecture guy in general. Build the power of your "platform" by letting others plug into it. Think of the Apple App Store. A different approach is the big EMR company in Wisconsin called Epic. They dominate the space but there time will come as they are notoriously difficult to work with and don't facilitate integrations where others can "plug into" their EMR. They will eventually lose for this approach. This "collaborative" vs "proprietary" approach to software can be applied to people as well. Be a collaborative person who leverages others through relationships and learning. Take meetings with anyone you can learn from.

New videogame called Cyberpunk 2077 had 8 million pre-orders when it came out recently. A couple good moves. They leveraged an influencer by having Keanu Reeves in the game. They also built it to run on all platforms – xbox, playstation, PC etc.

If there ever was a good example on why you must move as quickly as possible, look at Moderna. We spent the last week lauding the rollout of the Pfizer vaccine. Unbelievable amounts of non-paid advertising ("earned media") this past week as every news organization reported form Pfizer plant in Michigan. Bet the CEO of Moderna wished they moved a couple weeks faster. I also personally experienced the challenge with not moving as fast as possible as an acquisition prospect we had identified announced it was being acquired by someone else. You simply need to act with urgency. Calls on weekend mornings, emails at night.

One area we don't need speed is government regulation. The next PPP program being discussed has a much better design to ensure the right small businesses get the money. It requires a lower employee size and proven revenue declines. The first one was done to hastily.

The system of states in US provides a great example of competition. I love that Peter Thiel, Keith Rabois, Tony Stark☺ and Oracle have announced they are leaving California for Florida and Texas. J.P. Morgan and Goldman Sachs are looking at moving to Florida (jamie-dimon-open-to-relocating-chunks-of-jpmorgan-chase) You don't have to agree with me but great that we have some states that prioritize business-friendliness and others government control. Individuals and businesses can decide which they prefer with where they locate. My bet is on Texas, Florida, Carolinas and Tennessee. Migration out of California, New York and Illinois. This will create a vicious cycle of declining state revenue with high cost structures. Under U.S. bankruptcy law, states can't go bankrupt (cities can as we saw in Detroit) so will be a painful adjustment cycle.

Wouldn't you like a job with guaranteed lifetime employment and no performance review? Tenure for faculty is an anachronistic concept which needs to go. It is a big part of the cost issue of higher education. Some college presidents are looking to "void" tenure with the Covid crisis. hit-by-covid-19-colleges-do-the-unthinkable-and-cut-tenure

On the positive side in education, you have to love creativity. Bennett Day has launched an app for families to do project-based learning activities at home. Turn off Minecraft and Fortnite and get some good educational programming on your android phone (apple coming). https://bennettlive.com/

Companies are becoming the new major player in education. Good article on how McDonald's is leaning into the issue (kudos to friend Lisa Schumacher who leads this effort) restaurant-workers-education-remains-essential. Amazon also tired of waiting on schools so they are going to teach cloud computing. amazon-wants-to-train-29-million-people-to-work-in-the-cloud

Be safe.

jml

J. Michael Locke
Musings

#106: Musing
December 25, 2020

Merry Christmas to those celebrating.

Good quote I heard (sorry don't remember who) – "You can't control your circumstances but you can control your response." For example, very critical to conduct yourself appropriately when leaving an organization. Goodwill built over years of work will be lost if you behave badly as you walk out the door. Ask how you can be helpful in transition. Thank the organization for the opportunity etc. See our current President for how not to act when departing.

I have previously written about the dangers of a leveraged balance sheet. Servicing debt didn't seem so difficult and then things like the pandemic hit and shareholders are getting wiped out. However, you also can overcapitalize a business. Personally, I think this was part of the WeWork problem. They raised so much money it never had to be disciplined about its cost structure. You can be too good at raising money and develop bad business habits. This also happens in higher education. Schools with large endowments often lose fiscal and operating discipline like a spoiled trust fund kid.

Great salespeople create demand. Good salespeople know how to position a product/service when you have an active buyer but great salespeople turn someone into a buyer.

You also can drive revenue by ensuring that your organization is "easy to deal with." Be responsive. Make sure your contract is not overly burdensome. Eliminate obstacles to buying or partnering with you. I recently have had some experience getting an app loaded up into Google/Android and the Apple app store. Night and day with Google easy to deal with and Apple very difficult.

Remember that Ebitda (earnings before interest, taxes, depreciation and amortization) is not cash flow. Private companies generally trade on enterprise value as a multiple of Ebitda. Ebitda is used so the capital structure is ignored (no interest) and non-cash expense (no depreciation/amortization). Enterprise value minus net debt is your equity value. But remember that Ebitda, and especially adjusted ebitda, is not cash. A business should be valued based on the cash it generates. So start your diligence with the balance sheet and cash flow statement. Check for capitalized expenses on the balance sheet. Figure out the working capital dynamics around accounts receivable/accounts payable. Use the cash flow statement to see actual cash generated by operations (often much less than ebitda) and see how much capex is needed. Too many operators don't focus enough on payment terms and cash flow. Get paid upfront if at all possible.

For those in recurring revenue software businesses (which are all of the current rage), focus on the "Rule of 40." Invented by Brad Feld, it speaks to the tension between revenue growth rate and sales & marketing expenses. You add your revenue growth rate and the your operating margin to calculate the

Rule of 40. So, if you are growing 50% per year, investors don't mind if you lose 10% in operating income so you are at 40. If you are only growing 20%, you should be making 20% operating income. However, it is key that the expense investment be around sales & marketing which will generate revenue and not around overhead expenses.

I am a big fan of using trailing averages if you have a metric that bounces around with volatility. For example, many stock investors focus on the 365 day moving average of a stock as the stock prices moves around day to day. Personally, I think the Covid metrics should be discussed on a three month trailing average and looking at that over time. Daily metrics not particularly insightful.

Stock market looks pretty pricey with stocks trading at a forward price / earnings (pe) multiple of 22x compared to historical norms of 15-16x. However, when compared to what your money can earn in other asset classes like debt, maybe not overbought? has-the-fed-rewritten-the-laws-of-investing

Lots of discussion on Tesla joining the S&P 500 but not enough on why it was delayed. Tesla is the largest company ever to be added (usually companies get added when they are much smaller) and was delayed in joining because it didn't have the profitability required. Even when it made an annual profit, it didn't get added because so much of the profit was from selling government credits. In the second quarter of this year Tesla made $428 million from sales of these credits. From CNBC: *"Here's one way Tesla racked up these credits over the past year…: selling them to other auto makers who want to avoid big fines. In California, and at least 13 other states, any auto manufacturer who wants to sell their cars into that state must sell a certain amount of electric, hybrid electric or other zero emission vehicles (or ZEVs). Auto makers who are not selling these vehicles yet, or not selling many of them anyway, will buy credits from someone who is for compliance. Since Tesla only sells ZEVs, it doesn't need to keep the credits that it earns and can sell them before they expire."*

Encourage all of you to lock your credit with the credit bureaus. Identity theft is booming. Lots of fraud with unemployment. Best to just go to the bureaus and freeze your credit so no one can do anything in your name.

While Amazon is in antitrust trouble, you have to admire how the business has kept its sense of urgency as it scaled to be a gigantic company. From WSJ, *"built Amazon.com Inc. from his garage with an underdog's ambition to take on the establishment. He imbued staff with an obsession to grow fast by grabbing customers using the biggest selection and lowest prices…..That ethos helps keep Amazon booming. Aggressive competition—including wresting market share from rivals—is often a hallmark of a successful business…..[Bezos] still exhorts employees to consider Amazon a startup. "It is always day one," he likes to say. Day two is "stasis, followed by irrelevance, followed by excruciating, painful decline, followed by death." Mr. Bezos originally considered calling his company Relentless, and www.relentless.com still redirects to Amazon's site."* There is a reason he is the richest man in the world.

Keep pushing through the holidays. Many companies "take these two weeks off" and you can get a step on your competition by making sure the organization is still working.

jml

J. Michael Locke
Musings

#107: Musing
January 1, 2021

Happy New Year. Good riddance 2020.

A key to success is seeing things from the consumers' perspective. You have to think "outside in" and from the "demand side." Call your own 800 number for support. Put an inquiry on the website. Another example is directions. Christmas always brings me some frustration as you try to assemble a product or start a service. Who wrote the often horrific directions? This is one of the lessons from Apple. I remember the first Mac computer our family purchased -- color coded, 1-2-3 steps on "getting started." I recently had a similarly positive experience with Sonos. Make it easy!

Another good move is having different price points with different levels of features to meet the various consumer segments -- "Goldilocks pricing." The three-tier of good, better, best with corresponding prices works best. Look at southwest airlines fares. Apple went this direction with their phone rollouts in 2020. Peloton headed this direction with a higher price new bike with big, swivel screen but also a more affordable one.

Everyone agrees that Covid has accelerated digital adoption from online shopping to telehealth. A derivative affect will be the business processes around data aggregation and analysis. The digital world means consumer behavior is all captured in bytes. How long were they on a given web page? Which color "buy now" button works best? Where was the consumer before they came to your web page (the tracking I hate)? Get ready for voluminous data sets and if you haven't already, staff up your business intelligence/data analytics function.

There is no work/life balance but rather work/life integration. Covid has just made this even more important. As readers know, I don't think you should ever turn on your "out of office" message and you should check emails regularly at nights and on weekends. Conference calls outside of 9-5 are totally fair and appropriate. That said, it is also totally fair and appropriate to do something personal in the middle of the "work day." Work has extend into evenings and weekends so personal life needs to extend into weekdays. Integrated.

Amazing how Bob Crandall's invention lives on in so many ways. He was the CEO of American Airlines who invented frequent flyer miles. Now most consumer companies are rolling out loyalty programs. They really serve to increase switching costs in otherwise commodity markets. Doordash has recently done it. You build up "points" at one provider which creates benefits and thus you are reluctant to switch. I am a Southwest/Marriott/Jimmy Johns/Starbucks guy. Probably some psychological profile in there somewhere.

Here are the top Google searches of 2020 in US. Shows the power of the entertainment world -- Naya Rivera and Chadwick Boseman (may they rest in peace) are up there with the election and coronavirus? Sorry but I could care less about Prince Harry and Meghan Markle. Google Top 10:

1) Election results
2) Coronavirus
3) Kobe Bryant
4) Coronavirus update
5) Coronavirus symptoms
6) Zoom
7) Who is winning the election
8) Naya Rivera
9) Chadwick Boseman
10) PlayStation 5

Happy New Year.

Jml

J. Michael Locke
Musings

#108: Musing
January 9, 2021

A while ago, I made the decision to avoid politics in these musings. Folks did not sign up to hear my thoughts on that. However, there is a leadership lesson as it relates to communication. Good leaders speak in "moderated" tones and do not use "extreme" language. Leaders must serve as the "super-ego" on the "id" impulses that individuals might have.

The stock indices are increasingly dominated by a handful of stocks. This makes them less useful as a metric for overall company performance or economic activity. The so-called "FAANG" stocks -- Facebook, Apple, Amazon, Netflix, Google plus Microsoft make up 25% of the S&P 500 with the other 494 stocks making up 75%. They have also contributed 77% of the return in 2020 according to Melody Hobson. So it is a "best and rest" deal. She recommends you look for buying opportunities in small stocks like Russell 2000.

I believe our basic model of corporate governance is losing its effectiveness. Under law, the shareholders (as the owners) control who sits on the board and must approve major decisions (specifics vary by state). As more investors go through mutual funds or ETFs, these "intermediaries" need to step up their oversight and exertion of authority IMO. Too many ineffective CEOs get way overpaid and keep their jobs because the boards are asleep (see GE and Jeff Immelt for a prime example). There is also a troubling trend where the Silicon Valley crowd is using two-class stock structures where the founder/CEO has a different class of voting stock and thus can still control the decisions even though they don't own a majority of the stock. For instance at Lyft, co-founders, Logan Green and John Zimmer, retain their control of the company, even though they only own 7% of the stock. Shareholders need to be more active!

Part of our social division is the enormous disparity of wealth. A friend of mine shared this on LinkedIn (I have not verified the math): *"Jeff Bezos in 2020...Net worth rose 67% to $192 billion....Charity donations equaled 0.5% of his net worth...Amazon's higher worker pay and bonuses equaled 1.3% of his net worth.....Amazon could have quadrupled its worker pay and bonus increases and still been more profitable than last year. Bezos could personally have given every one of Amazon's 1.2 million employees a bonus of $60,000 and still been richer than he was at the start of the pandemic."* Economists study national income and how much is going to the capitalists/owners and how much to labor. Labor is getting a declining share. We need to ensure overall fairness of distribution. For the policy wonks, here is a McKinsey article on the topic. a-new-look-at-the-declining-labor-share-of-income-in-the-united-states

There is currently a tension between the macroeconomic perspective and microeconomics. Due to the unprecedented fiscal stimulus, the overall economic numbers are not bad. However, the pandemic has drastically impacted the economic position of large amounts of workers -- especially those in

retail/restaurant hourly jobs. A good article taking the macro view in the WSJ: yes-it-is-possible-to-have-too-much-stimulus

Watch the increasing deployment of "zero-trust" models where you have to multi-authenticate every time you use an app or website. Hacking and cyber theft out of control right now. I guess I filed for unemployment insurance on the Illinois website last week!

Surprising facts: The Naked Cowboy is 50, the median salary of a Google employee is $258,708 and the Queen got a rose.

Be safe. Go Bears!

jml

J. Michael Locke
Musings

#109: Musing
January 16, 2021

Our country's political situation has raised some interesting technology issues – specifically the power of big tech in digital public conversation. After the Capitol Hill riot, Twitter permanently blocked Donald Trump and Facebook blocked him indefinitely. Then, Google and Apple remove Parler from the App Store after it had risen to #1 (Parler is a barely moderated Twitter competitor favored by the libertarian crowd). Then the final blow, Amazon refused to host Parler on Amazon Web Services (AWS) effectively shutting it down. These are private businesses which have every right to make these decisions but the fact that they can essentially muzzle the President makes you step back in awe of their power – acknowledged even by Jack Dorsey, CEO of Twitter.

The core issue is around content moderation. What are the platforms' responsibility to manage what users post? This is the policy issue on Section 230. Under the Communications Decency Act from decades ago, technology platforms were deemed not to be publishers and do not have liability for user posted content. Should that stay the case? The AWS decision also validates my previous endorsement of a "hybrid cloud" model where you are not 100% dependent on one of the major cloud hosting companies.

My conviction that social media is a major negative on society continues to grow. It is facilitating the aggregation of fringe segments of our society as shown by the Capitol Hill riot. It is feeding into the insecurities and challenges of adolescence in a terrible way. We should all start shutting it down. Good article on this (thanks Heather): why-im-taking-a-social-media-sabbatical. Sorry but the Kardashians should not be admired.

As much as I despise social media, streaming is a positive technology development. The results from 2020 are in and Ozark and Office are the big winners. Ozark was the top streamed original series with over 30mm minutes streamed almost double #2 Lucifer. The Office was the stop streamed "acquired" series with 57mm minutes streamed which was 50% higher than #2 Grey's Anatomy. Full results: tops-of-2020-nielsen-streaming-unwrapped

Great employees take initiative. They are proactive vs reactive. A *good* employee will take an assignment and deliver it on time (if not early) with quality. A *great* employee will move without being asked to. They don't wait to be given an assignment, but rather pre-emptively move to get you a draft of a document or presentation or come up with a new analysis s/he thinks should be considered.

Can someone please keep focused on the alarming rate at which our federal government is borrowing money to fund deficits? Rates are low now but that is not a permanent state. In the quarter ending December, federal government revenue was flat from prior year at approximately $800 billion while expenses increased 18% to $1.4 trillion leading to a loss/deficit of a record $573 billion. That loss/deficit is 61% higher than the same quarter last year. Imagine if you ran your household finances this

way. There are approximately $150mm individuals in the US paying federal taxes so that December quarter loss funded with debt is $4,000 for each taxpayer just for the quarter borrowing from China and other U.S. debt purchasers. This is all before Biden's proposed massive $1.9 trillion new stimulus bill. I am not necessarily against it but we need to have open conversation about the growing national debt and its consequences on our children.

Some new terms this week:

- "Smile states" – California – across the southern part of US – then up the east coast to Carolinas
- "Baby Chaser" – Baby boomers who are following their kids and relocating nearby so they can be near grandkids
- "Sharent" – the parent who overshares on social media

Anybody else annoyed by the "assumed tipping" that is coming with technology. With tablet-based point of sale devices, the employee turns it around and you are presented with various tip options. Now, I am supposed to tip the person for making my subway sandwich or getting my bagel? Danny Meyer (Shake Shack founder) tried to eliminate tipping at his restaurants by just baking it into higher prices. Unfortunately, Meyer's experiment didn't work.

Good riddance to Mike Madigan who has basically run Illinois government since 1983 and overseen the demise of the state to become the largest net exporter of people with the worst unfunded pension obligations. Too bad we can't fire Virginia McCaskey who owns the Bears and perpetuates mediocrity with who she has running the organization. Kudos to Third Point for getting the CEO of Intel changed. That once great company missed the move to mobile, custom chips and outsourced manufacturing and has lost its once dominant leadership position.

Be a source of positivity in your community.

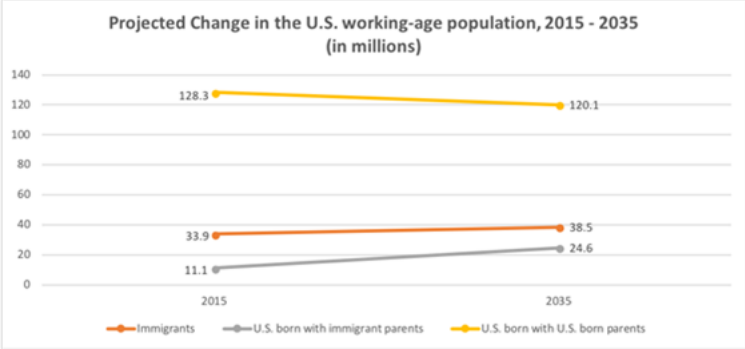
jml

J. Michael Locke
Musings

#110: Musing
January 22, 2021

Congratulations to President Joe Biden and Vice President Kamala Harris. The President's inaugural address is located here inaugural-address-by-president. Our 20 year old son better pickup his game. Amazing performance by 22 year old Amanda Gorman whose poem is here amanda-gorman-inaugural-poem but watch a video if you can because the delivery was half the magic.

An underappreciated factor in immigration policy is its impact on economic growth. GDP growth requires either growth in your labor pool or growth in labor productivity (ideally both). Productivity is not easily expanded so most economists look to grow the number of working adults. Unfortunately, for a variety of reasons, our society is moving to one of smaller families with birth rates declining. The result is a decline in US born workers which would threaten GDP growth if not for the increment that comes from immigration. See the following from the Pew Research Center:



For those who spend time reviewing financials, watch the danger of allocations. Under management accounting principles, costs usually get allocated to a certain business unit or product even if that is not where they are controlled. In this allocation, you can lose transparency on what the overall cost of the department/activity because it is split up and allocated. Make sure to look at allocated costs totaled up and look at business units without allocations. I am a fan of keeping expense reporting aligned with expense ownership and control so you can look at a financial report and have an IDR (individual directly responsible) for the management of every expense item on the report.

Part of success is simple persistence. Leaders can never give up. They must push on and continue advocating and pushing on strategies, improving execution, eliminating waste and getting a deal done. It may seem repetitive but keep going at it until the other sides joins you.

I intend to be persistent in my criticism and advocacy against big tech and social media. It is a threat to the health of our society. Algorithms are controlling people by deciding what you see in your feeds. The algorithm is designed to elicit biological responses --- the rapid receipt of "likes" accompanied by chimes gets the recipients brain to release dopamine. See dopamine-smartphones-battle-time It thus becomes

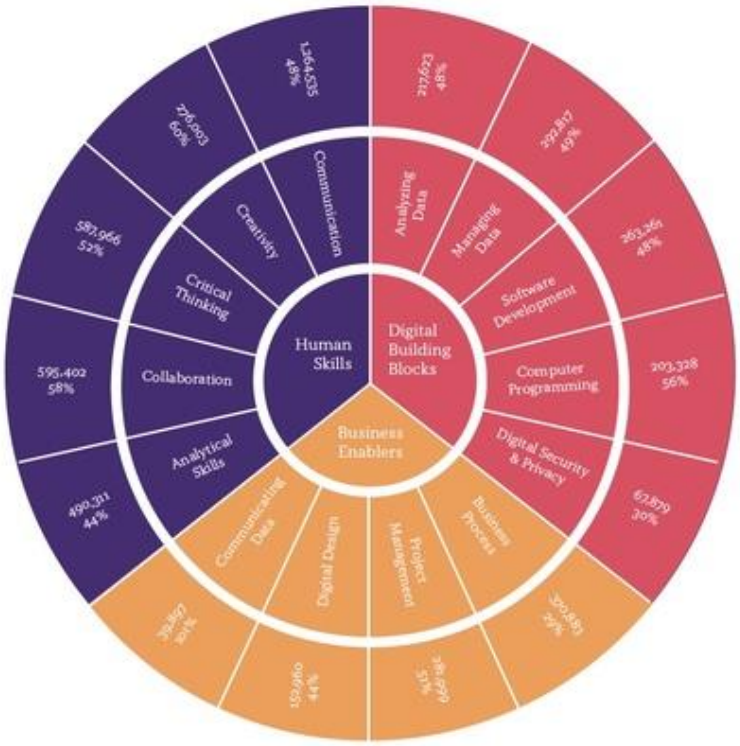
addictive. Good article in WSJ on how to fight back: social-media-algorithms-rule-how-we-see-the-world-good-luck-trying-to-stop-them. The author shares three ideas: 1) "No algorithms. No ads." I guess there is a Facebook competitor called MeWe which operates this way; 2) "Deprioritize the destructive" which is the content moderation move; and 3) "Give back control" where you choose what you see rather than the algorithm. By amplifying the incendiary, the algorithms have "pushed us further into our own hyperpolarized filter bubbles" and thus are guilty of "algorithmic promotion of extremism."

Our economy is fundamentally shifting and our institutions of higher education are too beholden to vested interests and not changing fast enough. A labor analytics firm called Burning Glass and an education analyst named Jeff Selingo have done some interesting work (thanks Adam Weinberg). Here is an excerpt from Selingo:

> ***What is clear is that for learners of all ages breaking into the post-college job market is increasingly about the skills they possess****, and less about where they go to school or their specific degree.*
>
> - *Burning Glass has identified 14 foundational skills (see graphic below) critical to unlocking millions of jobs, even in this economy.*
> - *These skills across a range of domains - digital, human, and business - are the building blocks of successful careers, not only facilitating the first step but also gaining importance over the span of a working life.*
> - *While each skill is valuable on its own, students who develop multiple competencies across skill groups earn significantly more and experience increased job mobility and advancement.*

14 Foundational Skills Key for All Graduates

These 14 skills are in high demand both for digitally intensive jobs and the wider economy. The outer ring shows the total open entry-level postings (March 2019-Feb. 2020) and the growth in number of postings (2017-2019).



Source: Burning Glass Technologies

The New Normal Economy

Being ready for the post-pandemic economy means colleges and universities need to step in aggressively to plan for the academic programs that will be the lifeblood of their institution and drive enrollment for the long term.

Four distinct economies are likely to emerge from the crisis that will provide opportunities for institutions to step in to meet learners:

1. ***The Readiness Economy.*** *To get ready for the next crisis, whether it's a public health emergency or an environmental one, will require investments in health care, biotech, cybersecurity, green technology, and infrastructure. This, in turn, will spur demand for graduates with the skills to address these vulnerabilities. Biotech hiring, for example, was already up 36% last spring and summer.*
2. ***The Remote Economy.*** *Remote work may be the most influential legacy of the pandemic. The result will be a growing reliance on the data, software, and infrastructure that powers working from anywhere*

3. ***The Logistics Economy.*** *Global supply chains that were interrupted by the virus are already being reimagined. These changes will require new types of logistical support, which is one reason why FedEx Ground and FedEx Logistics plans to 35,000 new employees in the next five years.*
4. ***The Automated Economy.*** *The pandemic is likely to only accelerate the adoption of artificial intelligence, especially in knowledge work—and that may drive demand for graduates in fields like autonomous systems and advanced manufacturing.*

Bottom line: *Colleges that offer the right mix of academic programs to serve the four emerging economies post-Covid will shore up their financial sustainability, while ensuring students' career opportunities. In many ways, institutions already have the mix of courses or programs in their catalog; they might just need to reorganize them to match growth areas.*

Read more: Download the paper, Good Jobs in Bad Times, here.

Interesting facts – 90% of the US population lives within 10 miles of a Walmart. 52% of 18- to 29-year-olds are living with their parents surpassing the previous peak during the Great Depression era. If other houses are like ours, the 20 year olds need to go back to college. The vampire schedule with 3am arrivals and cooking doesn't work well for those who have to get up.

Leave your cell phone in the other room tonight. Enjoy your family dinner. #deletesocialmedia

jml

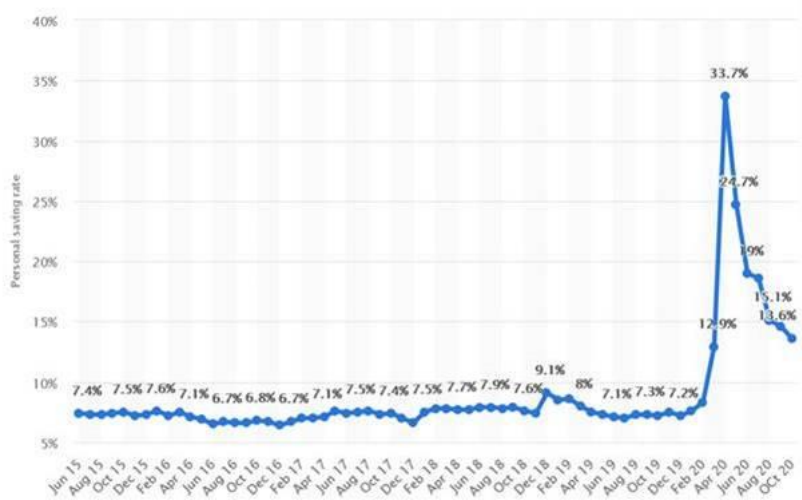
J. Michael Locke
Musings

#111: Musing
January 30, 2021

Financial planners historically have used the "4% rule" which was that you needed to save up an amount that you could live of the income generated by your savings at a 4% rate in order to retire. With low interest rates suppressing returns, I had been in conversations about whether that is now 2-3%. Now, the originator of the rule says it might be 4.5% due to expanding asset classes. the-originator-of-the-4-retirement-rule-thinks-its-off-the-mark-he-says-it-now-could-be-up-to-4-5

Billionaires don't need to worry about the 4% rule. Davos occurred virtually last week. For those not familiar, this is an annual gathering of the world's elite (formally called the World Economic Forum) which usually happens in Davos, Switzerland. In the lead up to Davos, Oxfam put out their report on wealth inequality. *"The world's 2,153 billionaires have more wealth than the 4.6 billion people who make up 60 percent of the planet's population."* worlds-billionaires-have-more-wealth-46-billion-people. Oxfam said the world's 10 richest men, including Elon Musk, Jeff Bezos, Bill Gates, Mark Zuckerberg and Warren Buffett, saw their fortunes increase by half a trillion dollars since the pandemic began even though the global economy remains smaller than when the pandemic started a year ago. Watch the building momentum for a one-time wealth tax in an attempt to reduce wealth disparity coming out of Covid.

An underreported dynamic of the Covid crisis has actually been an *increase* in the American consumers rate of savings (see graph below). In general, a higher savings rate is a healthy thing allowing consumers to absorb unexpected financial shocks but right now it is holding back economic growth (remember that consumption is 70% of GDP.) Stimulus checks were intended to help on this but according to the Wall Street Journal, "just under a third of the stimulus payment, 29%, got spent, while 36% was saved and 35% used to pay down debt."



Wealth disparity, extra Covid stimulus money and social media came together in a toxic stew this week in the financial markets. I have previously written about the perils of the popular app RobinHood which has gamified stock brokerage allowing you to trade free on your phone and deploying techniques more similar to candy crush than Charles Schwab. Now social networking is becoming a major force with individuals promoting stocks on TikTok and Reddit. One particularly active subgroup of Reddit called "wallstreetbets" caused wild fluctuations in the stock of Gamestop forcing the NYSE to stop trading. The "mob" is now expanding its trading to AMC theaters and Blackberry. Part of this is a "populist" movement against the fancy wall street crowd who has shorted these struggling companies (betting they will go down). Personally, I don't believe short selling should be legal as it is not about allocating capital but rather betting against a company. This has thus become a battle of David (individual investors using social media) and Goliath (hedge funds who have shorted stocks and go on CNBC). Here are some screenshots from wallstreetbets to give you a feel:





Gamestop is not a healthy company. Sales are currently decreasing 30% per year and it is losing money. It is currently trading at a value that implies a valuation of $20bn and I am not sure it is worth anything. It is Blockbuster #2 – a bricks and mortar retailer selling an obsolete product (games are all downloaded online now). From a corporate finance point of view, I think the short sellers are right but this has become a political flashpoint and a trading equivalent of "Occupy Wall Street." The reddit crowd's investment philosophy is "Find the most shorted stocks, buy calls, write about it, buy the stocks and jam it higher." This sticks it to the short seller who get "squeezed" and lost a lot of

money. However, this will not end well for the Reddit crowd either. Just like the capitol hill riots, social media is leading to emotional group think – amplifying judgments that are often erroneous. The algorithmic echo chamber than creates a FOMO (fear of missing out) feeling. This is not good. People are going to lose a lot of money. Yolo (you only live once) is not a way to invest. #deletesocialmedia

Taboola is going public. The company runs a content recommendation platform helping companies place "chumbox" ads on websites. That is right. Big business in putting "clickbait" ads on websites. Just like throwing chum into the water to attract fish when angling, the business of enticing the web viewer is booming. What a world.

We are midway through earnings season (remember companies which have their stock traded publicly have to report their financial results every quarter). Huge numbers posted by Microsoft, Apple, Facebook, Tesla. Terrible numbers from Boeing. Welcome to the digital world.

RIP Larry King. What made him successful is also a key to success in the business world – simple curiosity. While most hosts leverage their platforms to pontificate, King asked short, simple questions – and *listened closely* so he could follow-up. Leaders need to so the same when interacting with employees in the organization, customers or even competitors. Most human beings like to share if asked and if you listen closely you will pick up lots of intelligence.

Congrats to the GOAT Tom Brady on getting to another Super Bowl (GOAT is slang for greatest of all time). He was 7th on the depth chart at University of Michigan when he started and does not possess any particularly exceptional athletic skills. His distinguishing qualities are around decision making and leadership.

For those interested in our healthcare system, the Graham School of Professional Studies at the University of Chicago is running a three-part public webinar series on the effects of Covid on hospitals with professionals from the University of Chicago hospital. Join us (it's free). [roundtable-discussion-series-graham-covid-19-healthcare-and-beyond]

jml

J. Michael Locke
Musings

#112: Musing
February 6, 2021

Is Apple CEO Tim Cook the "kingslayer"? Uncharacteristically, Facebook CEO Mark Zuckerberg (the King) has openly complained about Apple's decision to launch a new feature this spring where users can "opt out" of an app's tracking when they launch it. If there is material opt-out, it will make Facebook's advertising offering far less compelling (remember, Facebook is an advertising company….they use your data to sell ads…that is their revenue.) From the Chicago Tribune, *"Part of the power of Facebook's business is how it gathers data from mobile apps – what people do on the apps, what they search for, what they buy and more. More than 85,000 iOS apps had installed Facebook code that relays data back to the company."* So Tim Cook has gone on the offensive. Great quote from him in a recent speech: *"Technology does not need vast troves of personal data stitched together across dozens of websites and apps in order to succeed. Advertising existed and thrived for decades without it, and we're here today because the path of least resistance is rarely the path of wisdom. "If a business is built on misleading users on data exploitation, on choices that are no choices at all, then it does not deserve our praise. It deserves reform."* tim-cook-may-have-just-ended-facebook

This is all about the attention economy. From a great article in NYT (thanks Travis Hughes) *"One of the most finite resources in the world is human attention. To describe its scarcity, he latched onto what was then an obscure term, coined by a psychologist, Herbert A. Simon: "the attention economy…Attention has always been currency, but as we've begun to live our lives increasingly online, it's now* the *currency. Any discussion of power is now, ultimately, a conversation about attention and how we extract it, wield it, waste it, abuse it, sell it, lose it and profit from it…"* *michael-goldhaber-internet*

The biggest attention grabber of all right now is YouTube. YouTube revenue grew 46% last quarter. From WSJ: *"The company said the platform now reaches more users between the ages of 25 and 49 than all cable networks combined."*

Congrats to Amazon founder and CEO Jeff Bezos who is stepping down. Amazing what he has built from scratch. While I don't agree with his relationship and photography choices, you have to admire him as an executive. He is being succeeded by the head of Amazon Web Services (AWS) which is their invention which took their huge tech infrastructure and started selling it to others for their use. AWS is roughly 12% of Amazon revenue but 62% of its profits.

The populist uprising in the equity markets hit the rational world of investing this week. Gamestop was down from $175 per share to $63 per share. Still overvalued but getting better.

The reddit crowd is not all uninformed gamblers looking to "stick it to the man." The whole Gamestop trade was started by a guy who goes by "Roaring Kitty" (real name Keith Gill) who did some real analysis and bought GME at $5 with the thesis the company could rotate to the online world focusing on selling the devices/platforms, leveraging its brand and now with the Chewy founder on its board to lead the way. $5 implies a $350mm equity value --- it is now around $5bn.

Some are saying it wasn't a populist uprising after all. As data has come available, it looks like there were a lot of hedge funds cheering on the "reddit mob" to create the short squeeze on other hedge funds. [gamestop-mania-may-not-have-been-the-retail-trader-rebellion]

While stocks in general have appreciated nicely over the last year, they don't appear overvalued when compared to other asset classes (i.e. places to invest). Interest rates are so low that you can justify current equity levels. One way the Fed looks at this is by comparing the S&P 500 forward earnings yield (i.e. what "income" you would get from the earnings of the stocks you own) compared to the income you would get by owning U.S. 10 year bonds. The equity yield should be higher since you are taking more risk (especially compared to US government bonds) but that difference between the two or "spread" should give some sense of value. The chart below shows that spread is actually relatively high, indicating stocks are not overvalued. At the top of the dot.com bubble in 2000, there was no spread.

Fed's Stock Valuation Model

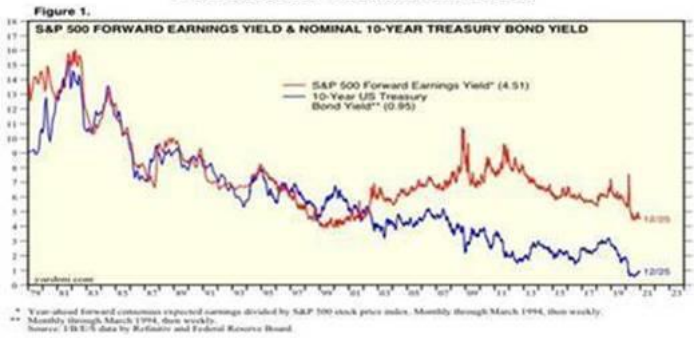


Figure 2.

Enough of stock market stuff. A couple musings on management. You have to lead by example. Leaders set the tone. How you dress, when you come and go, how you interact with individuals "down" the organization chart, where you spend your time, how often you travel. Be market centric. Hit the road. Get in early and work late. Be curious. Know your competition. Try new things. Treat everyone with caring and respect – you are no better, you just have a different job.

Great quote I heard attributed to a friend's father: "better to pull the reigns than crack the whip." Encourage employees to take the initiative.

Get your expenses presented by "function" and not just natural account. You need it both ways. Need to see how much is going to compensation, rent, travel (the natural account view) but also how much is going to sales & marketing activities, research & development and g & a.

Remember I am happy to add anyone to the musings list. Just send me his or her email.

jml

J. Michael Locke
Musings

#113: Musing
February 13, 2021

I fear the move to digital payments is going to encourage consumption and reduce savings. From the WSJ: *"A Deutsche Bank survey in January 2020 found that 43% of Americans tend to think less about the money they spend when using a card, and 36% think less about the amount when using a digital wallet."* Go old school, use cash and certainly make your children do. Otherwise, money becomes abstract like Bitcoin.

The Bitcoin craze simply doesn't make sense to me. I believe there is a future for the underlying blockchain technology which allows you to maintain ledgers across disparate servers, but I can't believe that society is going to accept currencies over which there is no control or transparency. As I understand it (and maybe I don't), no one knows who has what bitcoin. You have your personal code to access your bitcoin and better not forget it like the guy with over $150mm worth who can't remember the passcode to his flashdrive. Cyberthieves and other black market operators like it because it can't be tracked. Tesla – the publicly traded company – bought $1.5bn worth this past week. How do you have the "cash" on your balance sheet subject to wild fluctuations in value? Bitcoin has gone from $15,000 to $45,000 over the past six months. It is like the Gamestop trading saga meets Davy Crockett and the barter system.

With the arrival of everything digital, the access to broadband is becoming essential. Right now you can't go to school or the doctor without it. Policy makers should lean into the expansion of broadband infrastructure. Personally, I like the model where a city blankets itself with wifi access as a municipal service. The economic studies have shown there is a direct correlation between broadband access and GDP growth.

Salesforce is joining the large employers letting employees keep working from home post-Covid. I don't agree with this move. Culture is critical to organizational success and is built by informal connections between people, unscripted interactions and the establishment of collective principles. I can't see this happening with everyone working from home. Employees are not just "productive widgets" doing transactional work. They are human beings who you need to connect with personally to motivate and develop. I do believe you will see more hybrid models with more working from home part-time to make life easier for employees (especially those with kids) but I don't see the "all remote" move working. On a separate note, we appear to finally be getting consensus that we have to get kids back in school for their own mental health and also to let their parents get back into office.

Don't know about you but my Zoom fatigue continues to grow. I think conference calls are more productive now. Tired of looking at myself! Lots of momentum in the social media world towards audio. The hot thing right now is the social audio app called Clubhouse. You have to get invited and then join "rooms" where there are discussions on a given topic.

Invest in the graying nature of our economy. From WSJ – "As people live longer and have fewer babies, the number of over 65 year olds surpassed those under 5 globally for the first time in 2018. older-shoppers-are-the-hot-new-thing-for-consumer-brands . Personally, I am involved with a business selling technology into senior living (https://in2l.com).

I have written about my concern for the indifference both sides of our political system are showing about deficit spending. Interest rates will not always be so low and the huge amounts of debt the US government is building will come back to haunt us. Mitch Daniels believes we have passed the point of doing anything about it. His Washington Post opinion piece is at the bottom of this musing. We need to get Mitch to run for President.

Congrats to GOAT Tom Brady. He credits his prolonged peak performance to his sleep and diet routine. Count me in on the former (goes to bed at 9, gets up at 6, no screens in bedroom, 65 degrees in bedroom) but not the latter (no caffeine, alcohol, sugar, salt, processed foods). I also don't share his like of avocado tequila.

jml

Opinion: We were right to worry about the nation's fiscal future. But I know when to fold 'em.
By Mitch Daniels

Like most people, I really hate to admit defeat. Okay, some take it a little further than others, but it's among the most common of human traits. On a matter in which I've invested no small amount of time and worries, I'm throwing in the towel: Regarding our national fiscal future, as the man said, you've got to know when to fold 'em.

In a variety of public employments and from various posts in private life, I've been among those urging that we take greater care with our public finances, to ward off serious, permanent damage to the economy and, just as important, to the safety net on which so many vulnerable Americans rely.

Until recently, I've held on tightly to two beliefs essential to long-term fiscal survival.

The first, grounded in actuarial reality, was that, if we began acting now, we could keep the promises of Social Security, Medicare and the other so-called entitlement programs.

The second, always as much a matter of faith as of proven fact, was that the American people could engage in an adult conversation about the subject and support the needed changes, before it was too late. Surely someone eventually would appeal successfully to our reason and to our concern for our children, grandchildren and the country's future.

I conclude, reluctantly and dejectedly, that it's time to face the unpleasant facts. The past decade demonstrates amply that our political process is not capable of the kind of decisions that are necessary. The temptation to savage anyone proposing safety-net reform (the sine qua non of any serious fiscal rescue, really the only issue that matters) remains electorally irresistible and invariably effective.

From very different directions, either of the past two presidents could have led the nation to a safer place, but neither had any interest in doing so. Instead, both perpetuated the "noble lies" —

"You're just getting your own money back," "We owe it to ourselves," etc. — by which the public has been misled through the years.

Even the modest, painless actions we could have started with, such as means-testing, or small, distant future increases in the age of eligibility, or correction of the system's over-adjustment for inflation, have never had a ghost of a chance.

Meanwhile, the inexorable arithmetic of dollars times demography has taken us past the point of no return. It's no longer possible to say that, by starting now, we can avert massive, and massively unfair, changes in the promises we have made, or that current beneficiaries have nothing to worry about. That line was crossed even before the emergency budget blowout of 2020 added trillions to the debt tab we will dump on younger generations.

There are parallels with other long-term, nation-threatening challenges of our time. We should have seen the pandemic coming and prepared for it. If the climate change computer models prove accurate, it is already too late to prevent the world's thermometer from rising to levels deemed unacceptable. While calling on us to take what preventive measures we can, the more serious leaders on these topics are hard at work on the goals of mitigation and adaptation.

However likely the climate problem or next pandemic is, the unraveling of the safety net is far more so. No computer models are needed to see that there is zero chance of delivering on the promises already in place, let alone the fresh, astonishing proposals in Washington to make these commitments even larger.

A start on mitigation would be for the Social Security Administration to begin including in beneficiary bulletins a disclosure that, starting soon, the system cannot fulfill all of its commitments. The disclosure could then provide sample calculations of the amount of savings a given recipient will need to replace those expected payments under alternative scenarios. Something similar could be done for doctors and medical students, projecting the deep cuts in reimbursement rates to which Medicare will resort.

Allowing the fiction of full-payment-for-all to persist will only add the rage of betrayal to the hardships imposed by the now-inevitable sudden cuts in benefits and huge tax increases. If you think confidence in the federal government is shaky now, wait until it starts reneging on these "sacred" promises. Better to come clean, and help people plan, starting now.

I recall watching with sad admiration, decades ago, the dauntless activism of what was once known as the Captive Nations lobby, those brave refugees and descendants from the Baltic states then subjugated by Soviet communism. One had to feel sorry for people pouring their energy into such a just but hopeless cause. I'm beginning to see those of us still pleading for safety-net reform in much the same way.

Of course, for the Captive Nations activists, a miracle happened. A cataclysm only Ronald Reagan and a few other visionaries foresaw brought the liberation that their lobbying and demonstrations never could have achieved. It's too late for any such rescue of America's safety net. Might as well face it, and shift our efforts to the task of getting ready.

J. Michael Locke
Musings

#114: Musing
February 20, 2021

Readers of the Musings know of my angst and dislike for the social media companies. Great quote from NYT article by Robert Frank: *"The algorithms that choose individual-specific content are crafted to maximize the time people spend on the platform. As the developers concede, Facebook's algorithms are addictive by design and exploit negative emotional triggers. Platform addiction drives earnings, and hate speech, lies and conspiracy theories reliability boost addiction."* IMO, the solution is regulation eliminating data aggregation to then sell to advertisers. Make them go to a subscription business model. #deletefacebook

An interesting byproduct of our digital world is the elimination of the "three ways to value" taught in business school. I was taught a company could really create value by focusing on one of three things: product innovation (ex. Apple), operational excellence (ex. UPS) or customer intimacy (ex. Ritz Carlton). In the digital world, Amazon has used its operational excellence around data and analytics to create a more customer intimate offering with relevant recommendations. I think smaller/local businesses are going to have to really lean into customer intimacy and service as they won't be able to match prices of the larger technology-intensive operators.

I received lots of feedback on my comments on Bitcoin from enthusiasts and detractors. Everyone is struggling to understand it. Some more of my understanding. Bitcoin was launched in 2009 by a pseudonymous person named Satoshi Nakamoto. The maximum number of Bitcoins that can be created is 21 million under the original cryptocurrency design. Lots of money and computing power is necessary to "mine" (which is the process of solving complex mathematical puzzles) new Bitcoin. Thanks to David Rintz for the link to an interesting tutorial here: how-are-bitcoin-created. So what you have is a digital currency (no actual coins/bills) operating without government or bank involvement.

There appears to be a consensus that the future will depend on how governments respond. One reader pointed out that the Mitch Daniels' Op-Ed on runaway government spending and the ultimate inflation actually reinforces the window for Bitcoin. The US dollar got detached from gold decades ago so has no anchor of value whereas Bitcoin has a finite supply. Per one friend: *"Bitcoin, as incomprehensible it is to many, is programmed to allow the release of just enough bitcoins via mining to grow the supply a couple percentage points per year. That's the key to currency stability."* Broad acceptability is a hindrance but more companies are getting on board.

Here is a bull versus bear argument from CIBC:

Bitcoin advocates say:

- *Bitcoin is digital "gold." It's a scarce asset with fixed supply, and the underlying blockchain technology helps cement it as a legitimate store of value.*
- *Investment demand has accelerated for Bitcoin, greatly outstripping its limited supply.*

- *Major companies——PayPal, J.P. Morgan, Tesla, BlackRock, PayPal, J.P. Morgan, Tesla, BlackRock——have started using Bitcoin and/or blockchain, giving investors confidence for its long--term potential.*
- *Outside the US, more countries are recognizing Bitcoin as a valid financial entity and are creating regulations for its use.*
- *Bitcoin could be an effective hedge against the threat of runaway inflation and government debt when the global economy recovers.*

Bitcoin skeptics argue:

- *Bitcoin is highly volatile and too unstable to be a reliable store of value. Bitcoin crashed six times between March and December in 2017, fell 83% in 2018, and surged to a record--high of $41,958 (from $8,000) in less than one month in early January 2021.*
- *Bitcoin has existed since 2009, and its usage is still limited. While blockchain technology is beneficial in helping institutions manage financial transfers, Bitcoin itself is not a widely accepted medium of exchange.*
- *Unlike dollars, which are backed by the full faith and credit of the US government, Bitcoin isn't backed by any established central authority.*
- *Bitcoin is drawing the ire of environmentalists. Annual electricity use to mine new Bitcoin equals that of Chile, a nation of 20 million people. One Bitcoin transaction uses the same amount of power as 436,000 credit card transactions processed by Visa.*
- *The Bitcoin brand could be tarnished by its use in high--profile illegal activities, like ransomware attacks and money laundering profile illegal activities, like ransomware attacks and money laundering.*

I have written about how wealth disparity is ripping at our societal cohesion and to watch the momentum for a "wealth tax." Here is the latest from the State of Washington: jeff-bezos-would-owe-2-billion-in-state-taxes-under-washington-wealth-tax . Bezos' limited philanthropic activities (limited in terms of his overall wealth) makes him an easy target. With great wealth comes responsibility and the billionaire crowd must "give back" like Bill Gates. Interestingly, Bezos' ex-wife (Mackenzie Scott) has been enormously generous in her giving post-divorce --- $5 billion last year. She also is "going direct" or "embracing dispersion" (as Scott Galloway would call it) by bypassing the historical infrastructure around large giving. mackenzie-scott-charitable-giving

The SPAC craze continues. Special Purpose Acquisition Companies (SPACs) are just pools of capital – blank check companies. Individuals/sponsors/promoters raise money from public investors in an IPO without an operating business! They promise to buy a promising private company within two years and that is what the shareholder will own part of. A colleague recently focused me on the fact that the money is put in trust before a private company is bought and investor gets like 50 basis points or so (0.5% for the nonfinancial crowd – 1% is 100 basis points) so you can park money there and get it back. The sponsors/founding investors front the transaction fees of going public in exchange for the promote, so that is their bet. For private companies discussing an IPO, it is an end-around the traditional IPO process dictated by the SEC with all kinds of rules and takes lots of time. Here is a good overview article about what is going on: when-spacs-attack-a-new-force-is-invading-wall-street

I guess lots of kids share my fatigue at looking at themselves on videocalls. the-latest-remote-learning-battle-requiring-kids-to-keep-cameras-on

A lot of readers have joined along this journey. I am going to start republishing some of my favorite old musings after my initials each week.

Jml

4/1 Musings: Leader as Coach

Please remember that you are free to forward, send a name you want added or request to be removed from this list.

I will never forget my first memo as a CEO. My mentor Bob King returned the draft with one change over and over again – crossing out "I" and putting in "we." He said "I never want to hear you say I again, you don't do anything, the team does it."

There has never been a more critical time to have a great team. As a CEO, building that team is your #1 job. You are not a player on the field, you are the coach on the sidelines. Your job is to identify, attract, grow and retain talent. Your job is to figure out who should play what position. When interviewing folks, I often go to the whiteboard and draw the standard triangle org chart with CEO on top but then flip it and put CEO at bottom. IMO, the job is to create an environment for your "team members" (never use the word subordinate) to excel and they in turn to do the same so the person at the "bottom" of the org chart is the person at the "top" of the value creation pyramid. They are the ones interacting with the customer on the phone, in the store, on the campus or in today's world, on zoom.

Successful coaches are great leaders. For real football fans, Sir Alec Ferguson is a hero (record setting manager of Manchester United). Sir Alec has written a good book on leadership that's worth a read (https://www.amazon.com/Leading-Learning-Years-Manchester-United/dp/0316268100 . His keys to leadership were laid out in an October 2013 HBR article https://hbr.org/2013/10/fergusons-formula):

1. Start with the foundation: Invest in young talent and inspire them to be better
2. Set High Standards – and hold everyone to them: Everyone seeking to do better
3. Encourage as much as possible but be candid about shortfalls
4. Rely on the power of observation
5. Never stop adapting

As to #2, it can become cultural. Many of my colleagues know TIGBINTY. Someone would preface a presentation of results by saying "***T***his ***i***s ***g***ood ***b***ut ***i***t's ***n***ot ***t***here ***y***et" as they knew the follow-up questions would be about how to improve and be even better.

Personally, I recommend you spend an extraordinary amount of time "selling" employment at your organizations. Talented professionals are scarce (even in the future 20% unemployment world). They have choices. Why should they work with you? I always share with prospective team members that interviews are "match making" exercises and not "selection" exercises. Is the organization and its culture the right place for the individual to grow, develop and excel? If you can develop a "learning mindset" where every individual is trying to get better every day, the whole organization becomes a learning "organism" which will grow and excel. Almost like organizational AI.

A last few thoughts. The CHRO must report to the CEO and not the CFO. Second, hire competitive, ambitious people. I believe in hiring "people" rather than a robot-like set of competencies. What is their life story? Have they shown ambition? Personally, I am a big fan of hiring athletes especially of

dynamic team sports. The midfielder in soccer doesn't necessarily score a lot, but they must understand the field, the opposition, their teammates position and constantly adjust (no parental bias due to our DePauw midfielder Skip). Isn't that what you have to do in today's business world?

Be Safe. As they said in the movie The Blind Side (we are all watching a lot of movies right now), "the team is your family Michael….are you going to protect your family?" No different in a business.

Jml

J. Michael Locke
Musings

#115: Musing
February 27, 2021

I am going to focus on the future of higher education today. As most of you know, that is where I spend the majority of my time.

Like other sectors of our economy, higher education is undergoing rapid digital transformation accelerated by the pandemic. Even the most traditional of schools are now online out of necessity. The interesting questions are where things will go post-Covid.

I am from the camp that the primary source of delivery will become "Hyflex" which is the industry term for offering a class simultaneously to people sitting in a classroom, others dialed in remotely and also recording it so others can take it later. (See my older musing on Peloton reprinted at bottom.) Like telehealth, the consumer likes the power that the online modality has given them and won't go back to having to be in a set place at a set time dictated by the provider. Similar to the reduction of space needed for commercial offices, schools are going to need less classroom space and all classrooms should be set up to deliver Hyflex.

This move to a hybrid pedagogical model will be accompanied by a broader digitization of the whole campus. Students will demand that all services be available through an app or portal. That is simply the way they consume services now. Standing in line for the registrar is a thing of the past just like going to a travel agent to get physical plane tickets. Attached is an interesting article by Jeff Selingo on the "hybrid campus" along with a link to a longer report by Deloitte. Schools need to significantly increase their focus and investment in technology to be ready for the future.

With the ubiquity of online, some large scale providers serving the national market are emerging akin to the Amazon movement in retail. These "mega-universities" (Southern New Hampshire, Western Governors, Arizona State etc.) have over 70,000 students online each. Last fall, ASU grew 20% and Southern New Hampshire grew 18% while overall enrollments in higher ed were down 2.5%. They primarily serve "nontraditional" adult students (not 18-24 going full-time) which is the growth area of the market. I think they will use their scale and data to their price advantage and lower tuition which is stubbornly high. SNHU has already introduced a $10k a year tuition for their campus students. Rasmussen University is "one-upping" them with a $10K online MBA (the whole degree is $10k not per year.) Deflation can't come soon enough as the inefficient cost structures of higher ed have continually been passed onto students supported by a poorly designed federal student loan program.

We will see increasing differentiation between the various segments of higher education – large online adult-serving institutions, research institutions, community colleges, smaller private schools focused on traditional age students etc. Pricing, service models and delivery models will vary based upon the segment; however, I think they will all be more "digital first" in their approach.

Consumers are going to demand a better ROI because unfortunately these high tuition levels (and the corresponding debt many take on) have not necessarily translated into improved economic status especially with the pandemic. Too many 20yr old college graduates are living at home unemployed.

Colleges can still teach the liberal arts and the humanities. Students need communication and critical thinking. However, there must be an investment in STEM. I believe computer science should be a general education requirement in today's technology world. Similar to the hybrid modality delivery, the skills required for professionals of tomorrow are hybrid. See WSJ article attached. This may open up an opportunity for liberal arts to be delivered more at the post-baccalaureate level. I know one employer in Chicago who is offering classic humanities courses to employees as professional development.

The number of students enrolled in college is currently declining. Some of this is demographically based on birthing patterns decades ago but there is also a higher level of skepticism about getting a degree. The internet is delivering voluminous amounts of free educational content – youtube videos, MOOCs etc. Companies (especially large tech) are getting into the game directly with things like Google certificates in cloud computing or the Disney Institute. See 2025-google-u-vs-microsoft-u. Schools need to up their game on assessing the learning in these "non-school" programs and deciding whether to award credit. Peter Smith has written that "assessment will be the new pedagogy" as schools focus on assessing what students have learned from other sources and granting credit under Prior Learning Assessment (PLA) and less on what they are actually delivering themselves.

Higher education has to be more agile, cheaper, digital and user friendly like everything else in today's economy. Market share will move to those who get more tech-savvy, move quicker and have (or quickly develop) a good brand. My two cents.

Jml

Reprint of older musing: 4/11 Musing #20: What We can Learn from Peloton

Let me start by saying we do not own a Peloton nor did I give Heather one for Christmas. Clearly, it has been an amazing success story. So what does Peloton say about human behavior and the future of consumption?

Peloton gives the consumer flexibility – you can ride live with a class taking place in the SoHo studio (or in London if you like the accents like Matt R.), you can ride synchronously with other individuals, you can ride with others asynchronously using a recorded ride, or you can just ride by yourself old style. Consumers want modality choice. They don't want a binary decision to be either online or in person. They want to be hybrid. They want to move between modalities on a daily basis. I want a bank that has branches and good online so I can do a mobile deposit and then go in for a cashier's check.

With respect to choice, I have to praise Netflix again with the creation of a "choose your own adventure" movie called *Black Mirror: Bandersnatch*. The viewer literally makes decisions using their remote control and the movie has been shot with the underlying decision tree so the next scene is based on the user's decision. In this way, the viewer is "writing" the movie.

Flexibility and choice give the consumer control. Society has moved from standardization for mass production (the Model T) to mass customization. Every consumer gets it exactly how s/he wants it. Chipotle's system is designed to efficiently let you create your custom burrito bowl. Starbuck's has created options we didn't know we needed – was there an untapped demand for pumpkin lattes with coconut milk? DIY (do it yourself) is a growing category where consumers can get components from various providers and the consumer is the integrator.

Along with modality control and flexibility, Peloton has taught us about the value of "star" teachers. These instructors get their own followings and people want to ride with a specific person. The consumer gets to pick the style he or she likes – the personality and the music. The star teachers have become social media influencers (see Musing #15 on the Kardashians).

Finally, Peloton has taught us that innately most people want to compete. It doesn't have to be athletic, it can be *Jeopardy*, but we want to benchmark ourselves against others to know where we stand. Some folks in online education have been talking about "gamification" for a while. Are we going to see the "Pelotonization" of higher education post-Covid? Students have gotten more exposure to online (some good and some bad) during the crisis, and I predict they will want more good-quality online post the crisis as it gives them more flexibility and control.

From a straight business perspective, you have to like the Peloton business model. After you lay out a couple of thousand dollars for the bike (probably 50% gross margin), you get to pay $60 a month for the subscription (probably 80%+ gross margin). Subscription revenue allows them to manage forward easier by providing greater visibility (yesterday's musing). That is a good business model and why the company is worth over $7.5bn now. Great entrepreneurial story.

Be safe. Make sure your offering provides consumers modality choice, flexibility and control.

jml

J. Michael Locke
Musings

#116: Musing
March 6, 2021

There is a lag effect which needs to be remembered in evaluating leader performance. Good and bad decisions can take a while to manifest themselves in results. For example, I am no Jeff Immelt fan but I think he inherited a bad situation from Jack Welch at GE. Welch was treated as exemplary but he laid the foundation for real issues at GE by playing games with pension accounting to manipulate earnings (there is lots of discretion around your accruals for pension expenses based on what rates of return you assume on saved up money) to turning the industrial company into a leveraged bank by focusing all investment on GE Capital. Immelt made a disastrous power acquisition but I agree with his own statement that "[He] became CEO of a company where perception didn't equal reality." When hiring, watch out for the serial "mover" who may change jobs every 2-3 years before their true track record is known.

Sometimes the art form is about "managing up." There is a skill around influencing your boss to change his or her mind and see things your way. This is especially important with strong personalities at the top. Interesting article about this dynamic with Steve Jobs persuading-the-unpersuadable in Harvard Business Review. Remember to use third parties when making your case. If you and a colleague disagree on something, it is just your view vs their view. Identify unbiased third parties who you can use for your case. Send these outside reports, articles or interviews as a way to influence toward your point of view.

One thing you have to like about older executives is their candor. No time for games. Everyone knows Warren Buffett but not as many people know Charlie Munger who is his 97 year old partner of over 50 years. Munger recently discussed some of the foolishness around Robinhood and Reddit subgroups. *"I hate this luring of people into engaging in speculative orgies…..Robinhood may call it investing, but that's all bullshit."* Full article: munger-renews-robinhood-criticism-likens-app-to-racetrack-betting . For those in business, the annual Buffett letter came out last weekend. I consider this to be a must read every year. Link to the letter here: berkshirehathaway.com/letters

Bill Clinton once lamented the power of bond traders. According to Bob Woodward's book, Clinton said *"You mean to tell me that the success of the program and my reelection hinges on the Federal Reserve and a bunch of ------- bond traders?"* Well the bond traders are controlling the action right now. They fear the huge amounts of fiscal stimulus are going to drive inflation. The amount of money (as measured by M2 by the Federal Reserve) in our system is up 26% which is the largest annual increase since the Great Depression. The personal savings rate has shot up to 20.5%! The government has flooded the market with money before the huge new stimulus package about to pass the Senate. Bond traders are not buying the new supply (the government issues bonds/notes/IOUs in an auction and institutional investors buy them) so economics 101 -- supply goes up with no increase in demand and prices go down. As the price of bonds go down, yields go up (price of bonds and yield move inversely). The 10 year rate has moved up from .93% to 1.5% (over a 50% increase) just in 2021 which then in turn drives things like mortgage rates. Challenging time right now because equities and bonds

are moving in correlation down due to inflation fears not based on a healthy economy (which would help stocks) but excessive government stimulus. The excessive amounts of money are also leading to inflated values in all kinds of markets from Bitcoin to SPACs to real estate and even baseball cards.

The SPAC craze might be coming to an end. Some are trading below their IPO price and some are doing unusual deals. From CNBC: *"Last month, Leisure Acquisition Corp., a SPAC that was initially targeting a leisure company as its name suggests, announced a $200 million deal with Ensysce Biosciences, a biopharmaceutical company fighting drug overdoses. Stable Road Acquisition Corp , a cannabis SPAC, also did a major pivot and is closing a deal with space company Momentus."* spacs-are-becoming-less-of-a-sure-thing . However, not everyone agrees. Hamilton taught us about the power of music to educate. Add in the new world of investing around Reddit and Robinhood and you get this youtube video on SPACs that would make Lin Manuel proud. Give it a watch. spac rap

For those who want to continue evaluating Bitcoin. This is a good article: can-governments-stop-bitcoin/

When it absolutely, positively, has to be there overnight, don't fedex it. Last week, 25% of fedex packages did not arrive on time. My recent experience is 3 out of 4 packages not getting there as promised. Tough deal when your value proposition is based on certainty and the consumer loses trust.

Google announced last week that it will stop ad sales based on individual's web browsing. Currently, you can be tracked as you move from one site to another and a profile is built to then sell targeted ads. In the name of privacy, Google is saying they will be stopping this. Not sure this is all "privacy good Samaritan" as Google will benefit as they have a "walled garden" with lots of data and goodies that only they will have. Smaller companies without their own data on their customers will see reduced ad effectiveness.

Personally, I think it is time for B2B execs to start travelling. Like Nascar under the yellow, get a jump on the green light. Hit the road now. People are starting to take meetings. Coming to visit shows you really care about your clients or really want business from new prospects. I talked to a friend who did a trip "off the books" on his own dime (company still not supporting travel) and he said the client loved it and was effusive in their gratitude for a nice work dinner.

Jml

Reprint: 4/15 Musing #22 – Choose Your Words Carefully

While politicians generally exhibit very little in the way of good leadership and management, there is one thing we can learn from them. They are very good at choosing their words carefully and creating naming conventions which might influence perception before you even dig into the topic.

Think about "illegal aliens" vs "undocumented immigrants." The latter creates a feeling of a mistake in the paperwork. The former creates a feeling of a criminal invader. How about the "Affordable Care Act"? How could someone be against that? Legislators are even getting good with acronyms. The huge stimulus bill is actually the "Coronavirus Aid, Relief, and Economic Security Act" or "CARES Act."

Leaders should choose their words and naming conventions carefully. You can frame a conversation to your advantage by how you name it. The most common approach is to just be descriptive when doing things like setting up a meeting. Instead, I recommend you name the outlook meeting invite with the outcome you want. As an example, if you are meeting with the VP of Sales to talk about how to get more traction – call the meeting "Strategies to Accelerate Bookings" rather than just "Sales Meeting."

This is especially important when you are trying to motivate. Recently, I was involved in a business where we created a special team to explore a new area for expansion. We gave the team the project name of "Go Big." That kind of sets the framework doesn't it?

When building PowerPoint slides, use active titles which frame the message. Rather than saying, "Q1 Expenses" say "Gross margin expanded in Q1." Make the takeaway point in the title of the slide. That way, the ppt flipper will get the message just by quickly reading the slide titles. You will know the message got delivered.

Let me digress on PowerPoint for a second. It is ruining management discourse. Too much time is going into the preparation of PowerPoint slides and not enough into actually thinking and discussing. Executives are becoming TV anchors reading the teleprompter when they recite their slides. Enough. Tell your team you want a 1-2 page memo and then a conversation. #killpowerpoint.

Choosing words carefully can even apply to simple things like email addresses and platform decisions. Personally, I think someone's email address says a lot. I will never forget the younger candidate who had an email with 420 in the name. Seriously? Casual nicknames are also suboptimal. Use some form of your official name as your work email. Sorry for those who like Meg Ryan and Tom Hanks but an aol.com email shows a lack of technology sophistication. Obviously, the most digitally fluent will have their own domain. Gmail is probably the core of digital crowd. Outlook use implies a more 'standard' person who is probably on a Wintel machine and not Apple.

Slow down and think about your words. Colleague *not* subordinate. Partner *not* vendor. Disappointed *not* mad. We *not* I.

Be safe.

Jml

J. Michael Locke
Musings

#117: Musing
March 13, 2021

This past week marked one year from the first "musing." At that time, there was no idea of an ongoing "publication." It started simply by me creating an email list of CEOs I worked with as an investor and wanting to provide some advice as Covid hit. Great to see what it has turned into. Thanks for reading and engaging in our "old school" exchange of ideas by email. (Let me know if you want to add someone or be deleted from my recipient list.)

The first "musing" was pretty simple. Here it is (unlike Jack Dorsey, not trying to sell the NFT…more later on that):

You guys are all leading companies at this unprecedented time. Here are my 2 cents

Watch your liquidity — run sensitivity models. Business (and society) is coming to a halt. You likely have no visibility. People are not focused on making buying decisions. Bookings will dry up. Halt any hiring.

I assume everyone has already moved to remote work. Keep people connected. Host synchronous sessions. Over communicate. Daily virtual huddles at the department level. My point is don't let team get "disconnected"

Lean in and help customers if you can. Call client CEOs and check in. Show you care

Innovate! You are all leaders in technology. Society just became more tech centric (I had a virtual cocktail party last night with FaceTime). Now is a time to quickly adjust, innovate using technology and lead. Speed is key

Watch your bandwidth. Networks are going to get stressed. Make sure you have enough.

Personally I think the health aspect is overblown and this is a bad storm that will blow over in 3-6 months.

Hope this unsolicited advice might be helpful

Besides the huge miss on how long this would all last and how severe the health situation would be, the rest stills looks ok. The basic message of this first communication was about "managing forward." You have to be looking ahead and around the corner. Reprint of old musing this week about this practice below.

It is a good practice to look back at predictions. For example, many private equity firms go back and "re-underwrite" their deals looking at how companies have performed against what was modeled when agreeing to buy the business. Where there are significant diversions, it is important to understand why

so you model better next time. For instance, the much predicted shortfall in states' tax revenue due to Covid did not happen. states-expected-covid-19-to-bring-widespread-tax-shortfalls-it-didnt-happen

I have written about zoom fatigue which is affecting everyone. A friend shared this with me: *"There is the 7-38-55 "rule" which is a concept concerning the communication of emotions. The rule states that 7 percent of meaning is communicated through spoken word, 38 percent through tone of voice, and 55 percent through body language. Video can optimistically get us to about 50 percent of the way to fully emoting, but that is a lot left unsaid. The punchline is that most communication is "nonverbal" in nature. Communication is certainly greater than 50 percent just to transact effectively, and much more to establish a meaningful and sustaining connection."* Get your teams back in the office interacting with each other.

The move to digital continues. Now we have NFTs – "non-fungible tokens." These are digital collectibles which leverage blockchain technology (which is behind cryptocurrencies like bitcoin) to prove authenticity and indicate ownership. The Twitter CEO is selling his first tweet as an NFT. There is a booming market for sports moments like NBA. Listen to a quick story on NPR: whats-an-nft-and-why-are-people-paying-millions-to-buy-them. A digital piece of art sold online at Christie's for almost $70mm! I must say I don't get it because others can still view the digital asset online and there are no royalties so unclear to me what ownership gets you. Let me know if you understand it.

Congrats to Jack York, Lisa Taylor and the iN2l team on their deal with Vista Equity Partners. in2l-announces-strategic-growth-investment-from-vista-equity-partners. It has been a pleasure to serve as Chairman. It is a classic entrepreneurship story with Jack York leaving a successful career selling technology to launch a business focused on providing technology to senior living. He was driven by his mom Dorothy and the mission. Lots of credit card debt, worries about making payroll, and last minute runs to UPS to get product shipped. For Jack and most successful entrepreneurs, the financial reward is secondary to the pride in building an organization and creating jobs. To quote Jack – *"people living with dementia had as much to gain from tech as anyone else."* Here is a great email I received from a member of the team – *"Because of iN2L, I have been able to purchase my first home, my first car, pay off $30,000+ in student loans (almost done!), and launch my career in senior living*." That is what it is about. "Entrepreneur" is actually a French word which referred to people in the building industry that set up sites with various tradesmen.

Personally, I think one of our societal issues is the wealth being generated by some without a corresponding creation of good jobs for others. Bill Ackman is a very successful hedge fund manager. His net worth is approximately $3 billion and his firm has generated tens of billions in gains. According to smartasset.com, *"In March 2020….Ackman informed investors in the firm's public fund that it had made $2.6 billion off a $27 million bet that the coronavirus pandemic would cause U.S. stocks to sink."* The firm employs under 30 people. We need more people following Jack York and less following Bill Ackman. Say what you want about Jeff Bezos but last year Amazon hired over 400,000 people.

One challenge for Jack York wannabes is access to capital. Enter search funds. While I find the SPAC craze to be irrational, I do like search funds which are growing in popularity. In a search fund, the "searcher" sells units (let's say 10 units of $30,000 each) to raise money to pay the bills while they look for a small business to buy. The searcher then goes hunting and has two years to do a deal. If they get one signed up, the initial investors have an opportunity to buy their share of the equity or get their initial money back. The searcher then moves to wherever the business is and runs it with an established

incentive equity plan based on investor returns. With the graying population, there are lots of business owners who don't have a family member to pass a business to and searchers are generally talented, entrepreneurial executives (many of who receive the musings!) Returns have been good. Here is a primer from Stanford: search-funds/primer

Do I really care about Harry and Meghan? Great article from Peggy Noonan on why so many do.

why-we-care-about-the-royal-family-feud

Jml

Reprint: 4/10 Musing #19 – Managing Forward

Good leaders are always looking over the horizon. They are the captain of the ship ensuring no icebergs ahead.

I am frustrated when I read about organizations surprised by developments in the market that creates an existential threat. I am not talking about a Black Swan event like the current Covid-19 situation. I am talking about any retailer who in 2020 does not have meaningful online capabilities. Amazon became a public company in 1997!

The leader's job is to manage forward and predict what is going to happen in the market and with employees. The job is to take preemptive action to mitigate risks. One way to do this is to constantly seek inputs from competitors, customers and other constituents. Asking questions and listening (see Musing #16: The Importance of Listening).

To have something bad happen is business. To be surprised by it is inexcusable.

You need to establish KPIs (key performance indicators) which provide you with visibility. The better the KPIs, the more time you have to react. Like your car's headlights on high beam. Sales create the revenue which then covers the expenses. However, good management should be able to forecast sales. Especially in today's digital world, you should be able to measure traffic on your website or volumes of calls. Then you should have the statistic models on how those potential buyers convert in various steps through the funnel. While every specific buyer is unique, when you aggregate them up, the demand should behave in statistically consistent ways. Make your sales leader give you a projection not just the budgeted number.

Think about how the healthcare system has been preparing for Covid-19. They have models on the rate of infection and what percentage will need hospitalization. They know how many days from test result to needing a ventilator so they can take the testing results today and figure out the ventilators needed in a week.

One unfortunate model is the correlation of third grade reading level and adult incarceration. Some states using their third grade reading tests to figure out how many prison beds they will need in 10 years. That is managing forward in a sad way.

In a business, your CFO needs to be your partner in this endeavor. I am not a fan of the basic annual budgeting cycle where a budget is set and a year later, wash and repeat. Rather, executives need a rolling four quarter forward projection. As you finish a quarter, you add another one on the other end. This should be a complete three statement model: income statement, balance sheet, *and cash flows*.

One common mistake people make is to do annual budgets and miss the "run rate" they have going into next year. You need to know the full year amount of the expense structure you have built up by either taking the fourth quarter x 4 or December x 12. When you add an expense midyear, it only hits your P&L for a part of the year and you can miss the annualization of the impact.

The Covid-19 crisis has made managing forward difficult. There are so many unknowns. Don't let that stop you from projecting! Rather, project ranges rather than specific numbers as volatility has increased and create scenarios under different assumptions.

The best leaders I know right now are discussing the equilibrium of reversion (thanks Jamie Cowie for the term). Things will not go back to where they were before Covid. The world will be more digital now – more telehealth, more online education, more remote work. The question is how much reversion will there be? How far back to the pre-Covid world will we go?

The best leaders are also contingency planning. What if we are still dealing with latent Covid issues in the fall? Right now, consumers have accepted subpar quality of online delivery because it was rushed out in a crisis. The consumer won't be as forgiving in the fall. Good leaders will invest in their digital capability now so if they have to use it in the fall, they are ready. They are managing forward. No Leo and Kate on the bow of their ship.

Be safe.

jml

J. Michael Locke
Musings

#118: Musing
March 20, 2021

The former CEO of Intel (the successful one not the recent ones) Andy Grove famously wrote "Only the paranoid survive." Especially if your organization is really successful, you need to look around the corner and identify potential risks or disrupters. It might feel like you are chasing windmills but "being content" is very dangerous. Tesla is worth more now than the Big 3 automakers combined. Similarly, Airbnb is worth more than the other major hotel chains combined. To quote, Wilfred Brimley's (RIP) security chief character in the Firm (the movie not the Royals) "I get paid to be suspicious when I've got nothing to be suspicious about."

The legacy of Bob Crandall's invention of the frequent flier program has gained another component. As CEO of American Airlines, he invented the idea to drive loyalty. Now, the airlines are using the programs to secure financing. The airlines get paid to provide "points/miles" to credit card companies and others. These payments are now being used to back (provide collateral for) debt being issued by the airlines.

The ubiquity of cellphone usage is creating a memory issue on phone numbers. The "standard" human brain can remember seven digits in short term memory. There is a variation up or down of two but the magic number of seven drove phone numbers because you generally were calling locally and didn't have to dial an area code. Enter cell phones and number portability (actually a good regulation from DC). Now most people have to get a name from contacts and don't have phone numbers memorized. I can tell you my landline phone number from growing up or Jenny's number (867-5309) but don't ask me my close work colleagues numbers or even my kids numbers. Maybe we need to assign a jingle to everything. 588 2300 anyone in Chicago?

Some good recommendations for interviewees from Google executive. Here is what she looks for (6-things-to-say-during-job-interviews)

1. Talk about transferable skills, experience
2. Ask questions—lots of them
3. List accomplishments, but don't make it all about yourself
4. Take ownership of your mistakes
5. Personal agility
6. Show that you work well with others

Why can't Washington figure out the spam caller issue? No partisan divide on that one. How many calls that my car warranty is up before I go crazy? How do they get that data anyway?

My friend Alan Brown taught me a saying "Too close, Too fast." This is the mistake people make to quickly get into a deeper relationship before they truly know someone. Same applies in business and relationships with new recruits, other organizations etc. Be patient. For instance, a good technique

when considering a strategic acquisition is to find a client that you might work on together before putting the two companies together. See if the solutions and people mix well before you do a deal.

One common mistake by many executives is simply talking too much. This includes when you are selling. My mentor once said to me after a meeting with a prospect ("you needed to shut up and close your bag, you had gotten the order"). A recent study showed that conversations in general simply last too long. ending-conversations-harvard-research-talking-too-long . Conversations need to be managed like everything else. Pay attention to how much "air time" is being taken by various individuals. Watch body language. And of course, listen. To change Hamilton, Talk less --- Listen more. This week I am reprinting an old musing on the value of listening. Good article on how the strongest people listen and learn and don't talk. quiet-people-in-meetings-are-incredible

Jml

Reprint: 4/7 Musing # 16 – The Importance of Listening

An underappreciated skill is the art of listening. I mean *really* listening.

If you are wired to learn, you must listen. If you are talking, you can't be learning – you are the one transmitting information. The best executives / leaders I know are the best listeners. They give the air time to others and "manage" the discussion like a conductor to make sure every instrument gets heard. Some years ago we brought in the famed Second City to train our team on improvisation. The basic technique of improvisation is to play off the other person by saying "yes and." The flow stops if you express disagreement. Instead, you have to listen closely and build off what the other person is saying.

Listening can be difficult. In all honesty, I sometimes write "Shut Up" at the top of my notes as I sit down for a meeting (I still talk too much!). After a meeting or exchange, you should reflect on how much of the "air time" went to you versus the other people. One danger of Twitter and most social media is that they are broadcast mechanisms vs exchange mechanisms. Many individuals achieve success because they had knowledge to contribute and ideas they wanted to share. However, when you are in the corner office, it can't be you.

Build on your listening skills and develop the skill of asking good questions. Don't interrogate with pointed questions, but ask broader "what do you think" questions which give the other person a platform to share what they know. For example, don't underestimate the knowledge of the receptionist on what is going on in an organization. They probably know more than you do. After someone comes in for an interview, the first feedback you should get is from the receptionist. How did she or he treat you? It is an analog version of Candid Camera where you can get a glimpse of someone's true DNA.

Your final ingredient is "pattern recognition." If you are asking questions and listening, you will get lots of information. Often you get small data points which may seem insignificant but if you "register them" and then see a similar data point somewhere else, eventually you may recognize a pattern and be able to act faster. These can be patterns on the market or patterns on an individual employee.

Remember, you can't really listen if you are multitasking. Focus on the topic at hand and the person in front of you. Listening takes practice at work and at home.

Be safe.

J. Michael Locke
Musings

#119: Musing
March 27, 2021

I have always believed that simply working really hard is a key to success. However, it is one thing to work hard on your own choosing and another because it is demanded of you. There are limits. While I struggle to empathize with a 23 year old Goldman analyst making $150k complaining, 95 hours a week is over the top. Powerpoint went viral this past week on the poor work conditions for GS analysts – link here: Goldman analyst powerpoint . The amazon unionization vote occurring this month in Alabama is another example. Amazon applies its data centric management to labor cost and tracks how long it takes someone to pack a box, how many boxes they pack an hour and tracks their steps. From a Verge article: *"The [Amazon tracking] system goes so far as to track "time off task," which the company abbreviates as TOT. If workers break from scanning packages for too long, the system automatically generates warnings and, eventually, the employee can be fired. Some facility workers have said they avoid bathroom breaks to keep their time in line with expectations."* *amazon-warehouse-fulfillment-centers-productivity-firing-terminations* . Everybody loves the low price that comes with tightly managed labor cost but there is a limit. On the other end of the spectrum, my niece got in trouble for working past five. Under the federal labor rules, every employee is classified as "exempt" or not from overtime laws. Entry level people are not exempt and by sending an email at 5:30, she was triggering a required OT payment from the employer at time and a half. That is the wrong incentive structure. For individuals, work hard. For those running operations, ensure your employees have a suitable work environment.

One key in management is to watch and manage your dependencies. This can come in many forms. In advertising, the battle right now is to manage dependencies on google which controls over 90% of search and has announced moves which will make it harder for others to compete (build your SEO engine!) Technology firms build infrastructure to have redundancy so you are not dependent on one web server or datacenter. Putting things in the cloud creates a dependency without control which is why I like the hybrid-cloud model. Dependency can also be about people where you have one individual within the organization who is the only one who knows something or does something. I bet the various transportation executives wish geography had not created a Suez canal dependency right now. While it is likely impossible or impractical to afford redundancy everywhere and not have some dependencies, key to management is to watch them, know about them and minimize them.

In a statement on our society, according to an analysis by a prominent Silicon valley venture capital firm, the hottest area for mobile apps is those which help you find a friend. From WSJ: *"apps like Itsme, Wink and Yubo are some of the fastest-growing apps nationwide, solving for various pain points that exist in social media today. Itsme, for example, lets you make friends as your avatar to avoid getting judged based on a photo; Wink allows you to make friends safely without the awkwardness of exchanging phone numbers or traditional social-media handles."* Full article: youve-got-a-friend-in-new-social-media-apps

I have written about the deflation coming to higher education due to demographics (less high school graduates) and more alternatives (google certificates etc.) For anyone with a younger person, I would encourage getting a google certificate. inside-googles-plan-to-disrupt-college-degree. Demand down / Supply up. Good overview article from CNBC. fewer-kids-going-to-college-because-of-cost

One of the terrible developments in our social media / press driven society is the establishment of the "famous." I am not talking about great athletes, artists or business people. I am talking about people whose only skill is being famous. Businesses need to understand the social media influencer world (not societally health but important for business). Reprint of old musing on this below. This world is now descending on investing with the wallstreetbets roaring kitty dynamic.

YOLO

Jml

Reprint

4/6 Musing #15: Why You Need to Know the Kardashians

Did you roll your eyes on that one?

Just because you might not be a social media person, don't underestimate its reach. There are approximately 330 million people in the U.S. (140 million voted in the 2016 election.) Now look at the followings of the top celebrities on Instagram:

#	@username	Followers
1	Cristiano Ronaldo @cristiano	210.1M
2	Ariana Grande @arianagrande	179.2M
3	Therock @therock	177.1M
4	Selena Gomez @selenagomez	172.1M
5	Kylie Jenner @kyliejenner	168.6M
6	Kim Kardashian West @kimkardashian	164.3M
7	Leo Messi @leomessi	146.6M
8	Neymar @neymarjr	136.5M
9	Justin Bieber @justinbieber	131.2M
10	Taylor Swift @taylorswift	129.2M

Obviously the followers on Insta are skewed to the younger demographic, but these are the purchasers of the future. This is why media companies focus heavily on the 18-49 demographic.

But beyond scale, there is another reason you should know Kim is married to Kanye and Kylie Jenner Cosmetics is worth $1.2bn (she sold 51% last year and she is 22…do the math!)

Leaders need to be relatable. You need to be as comfortable talking to the cab driver (they still exist!) as the owner of a company. Real leaders do it because they truly care about every human being. You are no better than the receptionist – you just have a different job. Younger workers tend to be more focused on pop culture than Green Egg recipes. Every individual has something to teach you. Take the time to talk to everyone. The "retail" level employee probably has the best information on how

consumers are behaving or reacting to their experience (remember the inverse organization pyramid on value creation.)

Influencers are also becoming the driving force in marketing. Consumers no longer trust advertising. This has led to the rise of Trip Advisor, Yelp and Google reviews. The current trend is away from celebrity influencers like the Kardashians as a way to reach consumers and towards "micro influencers." These are not fancy celebrities, but more "regular people" in a smaller networks. For example, in Chicago, the NPN (Neighborhood Parents Network) is a popular forum for young parents to get advice on strollers and schools et al.

Michael Bloomberg is a smart guy and he tried to leverage this channel. According to The Daily Beast: "for a fixed $150 fee, the Bloomberg campaign pitched micro-influencers—someone who has from 1,000 to 100,000 followers, in industry parlance—to create original content "that tells us why Mike Bloomberg is the electable candidate who can rise above the fray, work across the aisle so ALL Americans feel heard and respected."" Sorry it didn't work but there is only so much a paid influencer can do.

Covid 19 thoughts. According to Laura Tyson, the amount of stimulus the federal government will inject this quarter is roughly 20% of GDP. As DePauw Professor Gary Lemon taught me, GDP = ***c***onsumption + ***i***nvestment + ***g***overnment expenditures + net ***ex***ports. Consumption is almost 70% now so with everyone stuck at home, the government trying to soften the blow as Keynes would suggest. Unfortunately, as we learned in 2010, it is hard to push that much money out quickly in a wise way and there is likely to be a lot of waste and fraud.

So learn your Kardashians (don't worry about Rob), reminisce about the '76 Olympics and be safe.

jml

J. Michael Locke
Musings

#120: Musing
April 3, 2021

One breakdown in our public equity markets is the poor oversight/governance provided by institutional money managers. U.S. corporate law puts the ultimate power in the hands of the "owners"-- the shareholders. However, with the rise of mutual funds, the "owners" with their money at risk now go through a middleman. Too many mutual fund managers ignore their oversight responsibility. Wall Street contributes to this failure by looking through "one-time charges." Case in point: last month, ATT announced a deal to spin-off DirectTV which it bought in 2015. ATT paid $48.5bn. The spinoff valued DirecTV at $16.25bn. They lost $32bn on the acquisition! Mispriced it by over 60%. Where is the accountability? It will be written off as a one-time reduction in goodwill.

On the opposite end of the spectrum are good activist investors like ValueAct capital started by Jeff Ubben. In 2013, ValueAct bought roughly 1% of Microsoft for $2bn and pushed for a change of CEO and strategy. They got underperforming CEO Steve Ballmer out and helped push the hiring of one of the most underappreciated CEOs today (Satya Nadella). Microsoft stock has gone from $35 to $232 since ValueAct came in. We need more stock held by activist investors with their own money on the line and less held by mutual fund managers just collecting fees based on AUM (assets under management) regardless of performance. A good investment strategy might be just to follow firms like ValueAct who buy public equities and must disclose their position. BTW – one of the takeaways from the Archegos debacle is how Bill Hwang's firm was able to take huge "economic" positions in companies without actually owning the stock via "Total Return Swaps" so he didn't have to disclose his positions to the public. Regulations need to change to capture that.

The financial markets are currently being driven by inflationary expectations. The fed has openly and passionately emphasized the full employment pillar of its "dual mandate" (the other being controlling inflation) and the government is currently undertaking massive deficit spending. Good article in the Economist (thanks Bob Thompson) on how consumer inflationary expectations determine the strength of the anchor (Economist article here just-how-anchored-are-americas-inflation-expectations). The disruption in the supply chain due to the Suez canal situation is not going to help as consumers already are seeing rising gas prices and six month waits for a couch. Add in the rapidly expanding vaccination numbers and I think there is going to be a blow-out in consumer demand.

The labor market is starting to reflect this building economic momentum. A surprisingly high number of jobs were created and unemployment went down according to the monthly jobs report released yesterday. I wish we could move the focus away from unemployment rate and towards the labor participation rate or the employment-population ratio. These latter two measures show that only 55-60% of our population is working. Long term it is hard to grow an economy when 1 out of 2 people are not working. I also think work has broader positive social effects like greater cohesion and added meaning to life. *For the macroeconomic wonks in the readership, the actual BLS (Bureau of Labor Statistics) press release is printed at the bottom of this musing after my initials.*

Modern management theory has moved from a "command and control" military style to one of "empowerment," especially of millennial employees. I worry it is going too far and we are now "enabling" employees (and many children) in a way that hurts their development and ultimately their capabilities. We need to stop "snowplowing" and using purple pens (yes, some teachers have moved away from red when grading because it is "too harsh"). Development comes from having to work hard on something and figure things out. Employees need to struggle to grow. Great article from a couple years ago on the "Tyranny of Convenience" which describes how technology is making things too easy. tyranny-convenience In contrast, go rewatch the 2004 movie "Miracle" about the 1980 Olympic hockey team. We need more Herb Brooks' leadership where individuals are challenged to perform to their peak potential not coddled. (Fun fact: Mike Eruzione still gets $25,000 to give a speech. Or you can get go cheap and get a customized video message from Dennis Rodman on Cameo for $750.)

Kudos to new Citibank CEO Jane Fraser who has called for "Zoom Free Fridays" to combat Zoom fatigue. She also announced that when folks return to the office, most will do three days in the office and two at home. The "norm" for returning to the office post-pandemic seems to be settling in around a hybrid work model with some days in the office and some days from home. While some companies have announced moving to a fully remote model (ex. Salesforce), I think it is hard to build company culture in a fully remote model. Managers need to be working extra hard to connect with employees working from home doing things like building in non "productive" time. Good article about Microsoft addressing this challenge. microsoft-message-to-managers-after-decline-in-team-connections . I also think employees will be more interested in working from the office than some people think. Working from home can be lonely. Good article: zoom-remote-work-loneliness-happiness. So I think the art form is to provide the employee with some control – flexibility at their discretion -- so they aren't required to come in 5 days a week but many will.

One beneficiary of a move to blended work model is WeWork. After the debacle of the attempted IPO and the transparency our securities laws provided on the shortcomings of former CEO Adam Neumann (I have been told "Billion Dollar Loser" is a good read) and the poor corporate governance, WeWork has actually been fixing its problems and recently announced a deal to go public via a SPAC. Still losing money but in a much better place and projected to make money next year. In a hybrid model, companies may ditch the long term fixed office lease and what more flexible arrangements like that provided by WeWork.

A Covid innovation is the arrival of "virtual brands" where existing operators in the restaurant space have created brands and products only offered online via food delivery. Example is Applebee's which created "Cosmic Wings" to offer Cheeto-covered chicken wings (applebees-launches-cheetos-inspired-virtual-wings-brand). This move allows product extensions without brand confusion. It is also often using "demand side product development" where you use search results/website behavior to figure out what customers want. The food delivery operators share what consumers are looking for and the restaurants can then respond (or they can just create a whole new delivery-only restaurant with a ghost kitchen.) This dynamic is happening in other spaces like children's books. Digital book company Epic has used website tracking to launch big hits. Per WSJ: *"Epic's team knows that children prefer owls to chickens and chickens to hedgehogs. Kids hunt for unicorns almost twice as often as they look for mermaids. Volcanoes are more popular than tsunamis, which are more popular than earthquakes. The Titanic is bigger than cowboys, pizza is bigger than cake, science is bigger than art and "poop" is bigger than all of them."*

RIP Libor. Stands for the London Interbank Offering Rate. A survey is done on what rate banks in London are charging each other to borrow money. Most commercial loans are priced at Libor + "x" bps. With bps being basis points (one bps is .01%). The x is the increased rate necessary to compensate for risk so this spread over Libor goes up the riskier the credit. There was a scandal roughly a decade ago where folks were manipulating the survey to control Libor leading to its demise. Unclear what the alternative will be but the Fed is demanding banks stop doing loans in Libor by year end.

jml

From the Dept. of Labor for the economic geeks:

THE EMPLOYMENT SITUATION -- MARCH 2021

Total nonfarm payroll employment rose by 916,000 in March, and the unemployment rate edged down to 6.0 percent, the U.S. Bureau of Labor Statistics reported today. These improvements in the labor market reflect the continued resumption of economic activity that had been curtailed due to the coronavirus (COVID-19) pandemic. Job growth was widespread in March, led by gains in leisure and hospitality, public and private education, and construction.

This news release presents statistics from two monthly surveys. The household survey measures labor force status, including unemployment, by demographic characteristics. The establishment survey measures nonfarm employment, hours, and earnings by industry.

Household Survey Data

The unemployment rate edged down to 6.0 percent in March. The rate is down considerably from its recent high in April 2020 but is 2.5 percentage points higher than its pre-pandemic level in February 2020. The number of unemployed persons, at 9.7 million, continued to trend down in March but is 4.0 million higher than in February 2020.

Among the major worker groups, the unemployment rate for Asians rose to 6.0 percent in March, following a decline in the previous month. The jobless rate for Hispanics edged down to 7.9 percent over the month, while the rates for adult men (5.8 percent), adult women (5.7 percent), teenagers (13.0 percent), Whites (5.4 percent), and Blacks (9.6 percent) changed little.

Among the unemployed, the number of persons on temporary layoff declined by 203,000 in March to 2.0 million. This measure is down considerably from the recent high of 18.0 million in April 2020 but is 1.3 million higher than in February 2020. The number of permanent job losers, at 3.4 million, was little changed in March but is 2.1 million higher than February 2020.

The number of long-term unemployed (those jobless for 27 weeks or more), at 4.2 million, changed little over the month but is up by 3.1 million since February 2020. In March, these long-term unemployed accounted for 43.4 percent of the total unemployed. The number of persons jobless 5 to 14 weeks declined by 313,000 to 1.9 million. The number of persons jobless less than 5 weeks, at 2.2 million, was essentially unchanged over the month.

The labor force participation rate changed little at 61.5 percent in March. This measure is 1.8 percentage points lower than in February 2020. The employment-population ratio, at 57.8 percent, was up by 0.2 percentage point over the month but is 3.3 percentage points lower than in February 2020.

The number of persons employed part time for economic reasons, at 5.8 million, changed little in March but is 1.4 million higher than in February 2020. These individuals, who would have preferred full-time employment, were working part time because their hours had been reduced or they were unable to find full-time jobs.

The number of persons not in the labor force who currently want a job was about unchanged at 6.9 million in March but is up by 1.8 million since February 2020. These individuals were not counted as unemployed because they were not actively looking for work during the last 4 weeks or were unavailable to take a job.

Among those not in the labor force who currently want a job, the number of persons marginally attached to the labor force, at 1.9 million, was essentially unchanged in March but is up by 416,000 since February 2020. These individuals wanted and were available for work and had looked for a job sometime in the prior 12 months but had not looked for work in the 4 weeks preceding the survey. The number of discouraged workers, a subset of the marginally attached who believed that no jobs were available for them, was 523,000 in March, essentially unchanged from the previous month.

Household Survey Supplemental Data

In March, 21.0 percent of employed persons teleworked because of the coronavirus pandemic,

down from 22.7 percent in the prior month. These data refer to employed persons who teleworked or worked at home for pay at some point in the last 4 weeks specifically because of the pandemic.

In March, 11.4 million persons reported that they had been unable to work because their employer closed or lost business due to the pandemic--that is, they did not work at all or worked fewer hours at some point in the last 4 weeks due to the pandemic. This measure is down from 13.3 million in the previous month. Among those who reported in March that they were unable to work because of pandemic-related closures or lost business, 10.2 percent received at least some pay from their employer for the hours not worked, little changed from the previous month.

Among those not in the labor force in March, 3.7 million persons were prevented from looking for work due to the pandemic. This measure is down from 4.2 million the month before. (To be counted as unemployed, by definition, individuals must be either actively looking for work or on temporary layoff.)

These supplemental data come from questions added to the household survey beginning in May

2020 to help gauge the effects of the pandemic on the labor market. The data are not seasonally adjusted. Tables with estimates from the supplemental questions for all months are available online at www.bls.gov/cps/effects-of-the-coronavirus-covid-19-pandemic.htm.

Establishment Survey Data

Total nonfarm payroll employment increased by 916,000 in March but is down by 8.4 million, or 5.5 percent, from its pre-pandemic peak in February 2020. Job growth in March was widespread, with the largest gains occurring in leisure and hospitality, public and private education, and construction.

In March, employment in leisure and hospitality increased by 280,000, as pandemic-related restrictions eased in many parts of the country. Nearly two-thirds of the increase was in food services and drinking places (+176,000). Job gains also occurred in arts, entertainment, and recreation (+64,000) and in accommodation (+40,000). Employment in leisure and hospitality is down by 3.1 million, or 18.5 percent, since February 2020.

In March, employment increased in both public and private education, reflecting the continued resumption of in-person learning and other school-related activities in many parts of the country. Employment rose by 76,000 in local government education, by 50,000 in state government education, and by 64,000 in private education. Employment is down from February 2020 in local government education (-594,000), state government education (-270,000), and private education (-310,000).

Construction added 110,000 jobs in March, following job losses in the previous month (-56,000) that were likely weather-related. Employment growth in the industry was widespread in March, with gains of 65,000 in specialty trade contractors, 27,000 in heavy and civil engineering construction, and 18,000 in construction of buildings. Employment in construction is 182,000 below its February 2020 level.

Employment in professional and business services rose by 66,000 over the month but is down by 685,000 since February 2020. In March, employment in administrative and support services continued to trend up (+37,000), although employment in its temporary help services component was essentially unchanged. Employment also continued on an upward trend in management and technical consulting services (+8,000) and in computer systems design and related services (+6,000).

Manufacturing employment rose by 53,000 in March, with job gains occurring in both durable goods (+30,000) and nondurable goods (+23,000). Employment in manufacturing is down by 515,000 since February 2020.

Transportation and warehousing added 48,000 jobs in March. Employment increased in couriers and messengers (+17,000), transit and ground passenger transportation (+13,000), support activities for transportation (+6,000), and air transportation (+6,000). Since February 2020, employment in couriers and messengers is up by 206,000 (or 23.3 percent),while employment is down by 112,000 (or 22.8 percent) in transit and ground passenger transportation and by 104,000 (or 20.1 percent) in air transportation.

Employment in the other services industry increased by 42,000 over the month, reflecting job gains in personal and laundry services (+19,000) and in repair and maintenance (+18,000). Employment in other services is down by 396,000 since February 2020.

Social assistance added 25,000 jobs in March, mostly in individual and family services (+20,000). Employment in social assistance is 306,000 lower than in February 2020.

Employment in wholesale trade increased by 24,000 in March, with job gains in both durable goods (+14,000) and nondurable goods (+10,000). Employment in wholesale trade is 234,000 lower than in February 2020.

Retail trade added 23,000 jobs in March. Job growth in clothing and clothing accessories stores (+16,000), motor vehicle and parts dealers (+13,000), and furniture and home furnishing stores (+6,000) was partially offset by losses in building material and garden supply stores (-9,000) and general merchandise stores (-7,000). Employment in retail trade is 381,000 below its February 2020 level.

Employment in mining rose by 21,000 in March, largely in support activities for mining (+19,000). Mining employment is down by 130,000 since a peak in January 2019.

Financial activities added 16,000 jobs in March. Job gains in insurance carriers and related activities (+11,000) and real estate (+10,000) more than offset losses in credit intermediation and related activities (-7,000). Financial activities has 87,000 fewer jobs than in February 2020.

Employment in health care and information changed little in March.

In March, average hourly earnings for all employees on private nonfarm payrolls fell by 4 cents to $29.96. Average hourly earnings for private-sector production and nonsupervisory employees, at $25.21, changed little (+2 cents). The large employment fluctuations over the past year--especially in industries with lower-paid workers--complicate the analysis of recent trends in average hourly earnings.

The average workweek for all employees on private nonfarm payrolls increased by 0.3 hour to 34.9 hours in March, following a decline of 0.4 hour in the prior month. In manufacturing, the workweek increased by 0.2 hour to 40.5 hours over the month, and overtime increased by 0.1 hour to 3.3 hours. The average workweek for production and nonsupervisory employees on private nonfarm payrolls rose by 0.3 hour to 34.3 hours.

The change in total nonfarm payroll employment for January was revised up by 67,000, from +166,000 to +233,000, and the change for February was revised up by 89,000, from +379,000 to +468,000. With these revisions, employment in January and February combined was 156,000 higher than previously reported. (Monthly revisions result from additional reports received from businesses and government agencies since the last published estimates and from the recalculation of seasonal factors.)

J. Michael Locke
Musings

#121: Musing
April 10, 2021

The results of our broken college admissions process have been coming out. Many schools went "test optional" this year due to Covid and applications have surged, especially at the fancy Ivy schools with Harvard and Yale applications up 43% and 33% respectively. The historical emphasis on test scores is problematic. The SAT – which was designed to create greater access (you didn't have to go to a private boarding school to get into Harvard anymore) – has become a perpetuator of privilege ("The Big Test" by Nicholas Leman is a good read.) There is almost a 100% correlation between SAT scores and wealth as families "work the system" by hiring tutors, doing multiple takes to facilitate super scoring, getting extra time due to doctor note etc. I think "test optional" is one of the "Covid changes" that is here to stay but evaluating the relative merits of applicants without quantitative measures is difficult. It will be interesting to see the various "portfolio approaches." For example, Goucher College went to a two minute video and two pieces of high school work. Applicants video themselves answering this question: *"We want to know about your combination of talents and passions, and how you see those talents and passions specifically flourishing at Goucher. Let us know how you fit into our community of learners, thinkers, and doers."* Not sure that "submit a video" approach works but movement away from the crazy system reinforced by the "industrial testing/admissions complex" is good. I believe the "system" is over-engineered and parents worry way to much about what school their kid will get into (Netflix documentary on the Aunt Becky et al. admissions scandal now out – Operation Varsity Blues.) My counsel is for everybody to relax, don't focus on stretch schools but rather, focus on fit.

There are good values to be had at less prestigious private schools which are giving robust merit scholarships to bring down price. If you want to know the real tuition price of a school go to https://collegescorecard.ed.gov run by the US Dept. of Education. Each school has a scorecard which shows the "average annual cost" which is the amount after scholarships (so what people are really paying). For example, DePauw University's average annual cost is $23,873 while published tuition, room and board is over $65,000.

Make sure you are training your managers on how to identify when a remote worker is struggling. From a good article -- *"We're really advocating for what we're calling 'empathy-based management… Pre-pandemic, employers could see when employees were struggling. Now, it's not so clear. When you apply this approach, it has a huge impact on trust. We must train managers to ask the right questions to learn how to be vulnerable, to take into account factors that are not just related to work but that are outside of work, too."* Full article here: hybrid-workers-are-stressed-out-but-empathy-based-management-could-help/. I don't think mandating the vaccine (which you are allowed to do) is the right answer. Agree with this CNBC comment: *"People don't react well to mandates. They react better to incentives and to encouragement."*

Amazon fought off a unionization movement at their facility in Bessemer, Alabama. Private sector union membership is down to just 6.3% of workers. Unfortunately for taxpayers, the public sector membership rate is five times higher at 34.8% according to the federal government.

Jamie Dimon, the excellent CEO of JP Morgan Chase, put out his annual letter. It is increasingly rivalling Warren Buffet's as a good overall read (albeit lengthy). Full 65 page letter at this link ceo-letters . He provides a summary of his points which I have put under my initials at the end of the musing. Here are my favorite three paragraphs:

Respect and learn from your people. *Managers and leaders get spread pretty thin. While they should have a wide grasp of many subjects, they could not possibly know everything their people know. Leaders should continually be learning from their people. They should go to a sales conference and ask lots of questions of their salespeople. Gather technology people in the room with branch managers and ask, "How are things working?" Taking a road trip should not be only for the purpose of showing the flag but also for learning from your employees and customers.*

Have curiosity. *It's important to ask questions to try to understand varying points of view. Be willing to change your mind. Read everything. Don't defend decisions of the past. Leaders should be happy when their people prove them wrong. Do not have a rigid mindset. And do not be complacent.*

Skip hierarchy. *If everything in a large organization must go up and down the hierarchical ladder, bureaucratic arteriosclerosis along with CYA sets in, and that company's life expectancy is substantially shortened. It should be routine that data, memos and ideas are shared – skipping hierarchies – and aren't vetted by all in the chain of command. This makes people more responsible for what they are doing, improves the dissemination of new information and new ideas, and speeds things up overall. In addition, it's good to have a few mavericks who are not afraid to shake things up. The ones who challenge authority or convention often get far more done than the ones who go along to get along. Collaboration is wonderful, but it can be overdone.*

One area Dimon addresses is the remote vs office work debate (he is reducing their humongous footprint). Commercial office owners are nervous. From WSJ: *Office rents for more expensive space, including concessions, fell around 17% over the past year in New York and San Francisco and 13% nationwide, according to real-estate firm JLL.* Interesting thoughts from my friend Joe Brady who is in this market: *"The composition of space is changing from 70% individual work / 30% collaboration to something like the inverse... 70% collaboration / 30% workspace. Onsite is the new offsite. Purposeful presence will dictate if and when you travel to an office. Passive attendance (think "Office Space" and the TPS Reports) is yesterday….The next 12-24 months will be a series of tests & learns. We need to monitor & measure how employees (consumers of space) vote with their feet. That will determine the future of square feet."*

Big picture, I think Covid and the accelerated adoption of digital engagement is going to move power from the institution to the individual. From school to student, from hospital to patient, from employer to employee. Remote delivery gives the consuming individual options. They can more easily choose where to go to school, what doctor to go to and who to work for. Faculty, physicians and employers will need to move from a "supply side" model where they dictate things to a "demand side" model where the individual consumer desires are paramount. Digital transformation will be key where business processes are redesigned for the new world. There was a lot of "digitization" for Covid (ex. a class delivered synchronously by zoom) but organizations need to look at the whole experience through the digital lens. For example, do a mobile audit and see how everything works for your customer from a cell

phone. Good HBR article on this (thanks Dr. Lyle Berkowitz): digitizing-isnt-the-same-as-digital-transformation

Jml

Jamie Dimon's summary points - "Within this letter, I discuss the following:

I. *The Corporate Citizen: The Purpose of a Corporation*
   1. *Businesses must earn the trust of their customers and communities by acting ethically and morally.*
   2. *Being a responsible community citizen locally is critical, and it is easy to understand why.*
   3. *Being a responsible community citizen nationally, or globally, is more critical and more complex.*

II. *Lessons from Leadership*
   1. *Enforce a good decision-making process.*
   2. *Examine raw data and focus on real numbers.*
   3. *Understand when analysis is necessary and when it impedes change.*
   4. *Before conducting an important analysis, assess all factors involved.*
   5. *Always deal with reality.*
   6. *Remain open to learning how to become a better leader.*

III. *Banks' Enormous Competitive Threats — from Virtually Every Angle.*
   1. *Banks are playing an increasingly smaller role in the financial system.*
   2. *The growth in shadow and fintech banking calls for level playing field regulation.*
   3. *AI, the cloud and digital are transforming how we do business.*
   4. *Fintech and Big Tech are here … big time!*
   5. *JPMorgan Chase is aggressively adapting to new challenges.*

IV. *Specific Issues Facing Our Company*
   1. *Cyber risk remains a significant threat.*
   2. *Brexit was finally accomplished — but uncertainties linger.*
   3. *New accounting requirements affect reserve reporting but not how we run our business.*
   4. *While we disbanded Haven, we will continue to build on what we learned.*

V. *COVID-19 and the Economy*
   1. *Bold action by the Fed and the U.S. government effectively reversed financial panic.*
   2. *Banks entered this recent crisis in great shape and were part of the solution coming out.*
   3. *The confusing interplay of monetary, fiscal and regulatory policy continues through recessions.*
   4. *The regulatory system needs to keep up with the changing world — and finish Dodd-Frank to get it right.*
   5. *The pandemic accelerated remote working capabilities, which will likely carry forward.*

VI. *Public Policy. American Exceptionalism, Competitiveness and Leadership: Challenged by China, COVID-19 and Our Own Competence*
   1. *Laying out the problems is painful.*
   2. *Why did — and didn't — these failures happen?*
   3. *We need a comprehensive, multi-year national Marshall Plan, and we must strive for healthy growth.*
   4. *We need to take specific action steps.*
   5. *America's global role and engagement are indispensable to the health and well-being of* ***America.***

J. Michael Locke
Musings

#122: Musing
April 17, 2021

John Maynard Keynes must be smiling. The large deficit spending by the federal government through the pandemic has left most households in good shape and kept many businesses from failing. Now as we all get vaccinated, the economy is starting to gain real momentum with retail sales up 9.8% in March, fewer people filing for unemployment and strong earnings from banks who are reversing the accrued loan loss reserves they had taken at the beginning of pandemic assuming a lot of businesses would default on their loans. Now if we could only live up to the other side of Keynesian principles and run a surplus as the economy does well. The seemingly limitless demand for U.S. debt (especially by foreign buyers who hold 1/3 of it) is keeping rates down so the interest cost is not ballooning like the debt. Cross your fingers that China's announced digital currency (or Bitcoin) don't start to challenge the U.S. dollar as the world's reserve currency as that would reduce the need to hold U.S. dollar denominated debt and rates would rise.

About 39% of the U.S. population has received at least one vaccination and 24% is fully vaccinated, according to the CDC. I heard a commentator say "vaccine policy is economic policy." The countries which lead in vaccinations will have better economies. We are going to have a K-shaped global economic rebound with wealthier countries heavily-vaccinated way outperform developing countries with less vaccine. Watch this with your equity allocations between U.S. stocks vs emerging or developing international stocks.

Let's hope the J&J pause is short-lived. Only something like 6 cases out of over 7mm shots. At the end of this musing, I have reprinted a communication on the topic from a doctor I really respect. I did not realize that J&J is also using a newer approach – not messenger RNA (mRNA) like Moderna and Covid but "viral vectoring." From the CDC website: *Viral vector vaccines use a modified version of a different virus (the vector) to deliver important instructions to our cells.*

1. *First, the vector (not the virus that causes COVID-19, but a different, harmless virus) will enter a cell in our body and then use the cell's machinery to produce a harmless piece of the virus that causes COVID-19. This piece is known as a spike protein and it is only found on the surface of the virus that causes COVID-19.*
2. *Next, the cell displays the spike protein on its surface, and our immune system recognizes it doesn't belong there. This triggers our immune system to begin producing antibodies and activating other immune cells to fight off what it thinks is an infection.*
3. *At the end of the process, our bodies have learned how to protect us against future infection with the virus that causes COVID-19. The benefit is that we get this protection from a vaccine, without ever having to risk the serious consequences of getting sick with COVID-19. Any temporary discomfort experienced after getting the vaccine is a natural part of the process and an indication that the vaccine is working.*

Amazing how science is advancing. Great quote from Walter Isaacson when discussing the coming decades: "the molecule is the next microchip."

Are we going to lose the art of conversation with "strangers"? I recently stood in line at a Chipotle and was struck by two things. First, every person in line was looking at their cell phone with no communication between them (every elevator ride has the same dynamic.) Second, the line moved slowly as the majority of workers were focused on the preparation and delivery of orders to the relentless stream of take-out delivery drivers. McDonald's already got 70% of its business from drive-thru before the pandemic. Are we headed to a world of no polite exchange of niceties among strangers and where everybody goes through drive-thru or has their food delivered to their house by Doordash so we operate just amongst their known groups (reinforced by social media algorithms?) By comparison, I recently spent some time with my mother on the beach in Florida who engaged anyone that walked by and was interested in conversation. Fascinating some things she learned from those interactions. Fight the trend to "isolation" and "echo chambers" and embrace your Judy Locke talking to whoever stands next to you in line next time.

Coinbase – kind of like an exchange for cryptocurrencies – went public and is valued at over $80 billion dollars -- almost as much as Goldman Sachs. I would encourage investors to think carefully about the "tech disruptor stocks" and follow the advice of famed venture capitalist Bill Gurley. Many of these stocks lose money right now (Coinbase actually makes money) and trade based on a multiple of their revenue. Way back in 2011, Gurley wrote a great piece and recommended looking at the following items when evaluating a business trading on a multiple of revenue (full article here: all-revenue-is-not-created-equal-the-keys-to-the-10x-revenue-club/)

1. Sustainable Competitive Advantage (Warren Buffet's Moat)
2. The Presence of Network Effects
3. Visibility/Predictability Are Highly Valued
4. Customer Lock-in / High Switching Costs
5. Gross Margin Levels
6. Marginal Profitability Calculation
7. Customer Concentration
8. Major Partner Dependencies
9. Organic Demand vs. Heavy Marketing Spend
10. Growth

On this last item, he expounded: "*While growth is quite important, and even though we are in a market where growth is in particularly high demand, growth all by itself can be misleading. Here is the problem. Growth that can never translate into long-term positive cash flow will have a negative impact on a DCF model, not a positive one. This is known as "profitless prosperity."*

If you are like me and still struggling to understand NFT, you can always turn to that beacon of technology education --- SNL: SNL on NFT youtube

Jml

Dr. Will Harper on the J&J Vaccine:

Johnson & Johnson Vaccine on Pause

As many of you have heard the CDC and FDA have recommended a temporary pause in the administration of the Johnson & Johnson vaccine because of concern about blood clots. For those of you who have received the vaccine from us or elsewhere I want to reassure you that we still have confidence in the vaccine.

What's the concern? Similar to what has been identified with the Astra-Zeneca vaccine, a very small percentage of people have developed blood clots in the veins in the brain around the time that they received the vaccine. It's called cerebral venous sinus thrombosis (CVST) and can lead to severe headaches and other neurologic symptoms. It is treatable.

We do not yet know if the vaccine caused these cases of CVST.

It's not clear whether the vaccine caused the problem or whether the issue would have happened whether the vaccine was given or not. Keep in mind, "correlation does not prove causation." Just because two events happen at the same time doesn't mean one caused the other. Here's an example: The Major League Baseball team that I follow, the San Francisco Giants, were in the World Series in 2002. In Game 6 they were winning in the seventh inning. If they had won that game they would have won the World Series for the first time in my lifetime. A friend and his wife were over for dinner and as the seventh inning progressed, Sarah turned to me and said, "Will, you must be really excited!" Ugh. The Giants went on to lose that game and the Series. Now one – except me at the time – could say that Sarah was the cause of the loss because her early congratulations jinxed the Giants. But, really, correlation doesn't prove causation. She's not the reason they lost. (It was the damn Rally Monkeys.)

So, now the CDC and FDA have to determine whether this is just a random event or something we need to be concerned about. Did the vaccine cause the CVST? If so, do we pull the vaccine? Or do we limit the age and gender for those eligible for the vaccine? Or do we screen folks medically prior to the J&J vaccine? There may be a booster down the road, so these questions are important even if you're beyond the risk period for the vaccine.

Who did this happen to? The six cases of CVST have been in women between the ages of 18 and 48. Notably they have also had low platelets, a natural substance in our blood that supports the clotting of our blood when we bleed. It is EXTREMELY RARE to have low platelets in the first place, let alone not know about it.

When did this happen? These events happened within 6 to 13 days of vaccine administration. For those of you who received the J&J vaccine from Harper Health earlier this month, we are still in that window.

How often has this happened? In the U.S. there have been six cases of this syndrome in the 6+ million doses of J&J vaccine that have been administered. That's fewer than one case per million vaccines. The background rate of this disorder – the rate at which it happens randomly – is estimated to be somewhere between three and four per million people. So, this observed number after the vaccine is actually LESS than the background rate. However, we can't ignore the timing *of the issue related to the vaccine, which is why the CDC and FDA hit pause on J&J vaccine administration.*

Either way, this issue is EXTREMELY RARE! Frame of reference: each year there are 80 DEATHS from auto accidents per million people in the state of Illinois. Also keep in mind that COVID-19 KILLS between 1 and 2 out of 100 people. Not 1 to 2 out of a million, but 1 to 2 out of one hundred. COVID-19 is 10,000 times worse. You did the right thing if you got the J&J (or Moderna or Pfizer) vaccine.

J. Michael Locke
Musings

#123: Musing
April 24, 2021

Does the capital gains tax rate effect investment and entrepreneurship? We may be about to find out with Biden expected to propose moving the long-term capital gains tax rate from 20% to 43.4% for wealthy individuals. Famous venture capitalist Tim Draper posted *"43.4% capital gains tax might kill the golden goose that is America/Silicon Valley. People need an incentive to build long term #startups of value. In California, that would be a 56.4% tax burden. >50% Spells death to job creation."*

Jeff Bezos put out his shareholder letter. Whatever you think about him, it is unbelievable what he has built at Amazon. An interesting couple paragraphs from his letter (Full letter here: 2020-letter-to-shareholders):

"If you want to be successful in business (in life, actually), you have to create more than you consume. Your goal should be to create value for everyone you interact with.

We all know that distinctiveness – originality – is valuable. We are all taught to 'be yourself.' What I'm really asking you to do is to embrace and be realistic about how much energy it takes to maintain that distinctiveness. The world wants you to be typical – in a thousand ways, it pulls at you. Don't let it happen."

Median price for existing homes sales rose 17.2% in March from the prior year!

While I have committed to stay apolitical in this musings, I feel compelled to comment on the reluctance of many professors/teachers to get back in the classroom. All of the data I see is that schools are not "super spreader locations" and in-person classes can be managed safely. Many schools have been doing it all year. Unfortunately, I think many faculty members are indifferent to the poor experience of their students. To quote an educational leader recently – "Teaching used to be a calling. Now it is just a job." Kids need to be in the classroom. Colleges should be open. The data shows that the health risks for kids are minimal and the health risks for teachers can be managed. IMO, the availability (or absence) of in person classes is a direct proxy for executive competence and student centricity.

Office re-openings are connected to the school decisions with so many working parents (especially moms). Few families now have a full-time stay at home parent so if kids are not in school or childcare, tough for parents to work. The questions all organizations are facing right now is what the work week looks like post-Covid. Good article from the economist here: the-rise-of-working-from-home. According to one research paper, *"the average employee would like to work from home nearly half the time. Employers are less keen, but their expectation that a fifth of working time will be spent at home (one day a week) is a big change from the previous norm."* Salesforce has been reopening its offices around the world. In a memo, the Chief People Officer shared this interesting learn: ***"Thursday is the New Monday.*** *The most popular day for employees to come to the office is Thursday. Employees prefer*

to start the week from home with only about half of collaboration space being used. By Wednesday and Thursday, that jumps up to 80%."

Historically, much of management and the evaluation of work was based on time. How "hard" was someone working? It is difficult to use that method when the worker is remote. Managers are going to have to learn new skills and come up with greater measures of productivity so they can start managing the outputs rather than the inputs (time). Same issue exists in higher education. There is a growing trend towards "competency-based education" or CBE where student progress is measured by the mastery of the subject (or competency). "Credit hours" are actually derived from work long ago by the Carnegie Foundation to measure time to evaluate labor capacity. For a class to be "so many credits", it must meet so many hours and have so much homework. But why is time relevant? If a student can show they know the material, why can't they do a semester course in one week by showing their competency? CBE allows for a more efficient "production model" as students move as fast as they can at an individual level by showing mastery and not lockstep by sitting in class.

Should the "elite universities" expand their enrollment? It is a concept being advocated by some. As I have previously written, the "test optional" move has led to surges in applications so the "highly selective" schools are accepting only 3-4% of their applications. Is that a good thing? Jeff Selingo calls them the "highly rejective" schools and advocates for them expanding their enrollment. Here is a link to his Washington Post OpEd: harvard-and-its-peers-should-be-embarrassed-about-how-few-students-they-educate . Ryan Craig wrote an article in Forbes on the missed opportunity to expand access to these elite universities. covid-is-turning-top-colleges-into-karens/

When demand exceeds supply, you better be checking your email. Interesting story (thanks Diana Heyer) how Notre Dame Law School admitted more than it could accept and then took those who put their deposit in first. They made their class "first deposit / first serve." When class was full, folks went from admitted to waitlist. It basically happened in a day so the story has a guy working his landscaping job so only looked at email at night and lost chance to go to ND. notre-dame-law-asks-students-compete-each-other-deposit-fastest

The marijuana crowd had their big day on Tuesday, April 20th. 420 has become a symbol for marijuana enthusiasts. For your trivial knowledge, the term 420 is said to have started with high schools kids in northern California called Waldos who would gather at 4:20 in the 1970s to smoke. https://420waldos.com/

RIP Chuck Geschke who created Portable Document Format technology (PDF) and co-founded Adobe. What a great innovation. Like many other great technology leaders and developers, Geschke worked at Xerox' Palo Alto Research Center (commonly called Xerox PARC). Xerox is not usually associated with innovation but Xerox PARC was at the forefront of much of today's modern ubiquitous technology innovations. https://www.parc.com/about-parc/parc-history/

Also RIP the new European "Super League" for soccer. That didn't last long.

jml

J. Michael Locke
Musings

#124: Musing
May 1, 2021

With expansive federal government stimulus and vaccination progress, the economy is beginning to rock. GDP grew at a 6.4% annual rate in the first three months of 2021. Large technology companies are one of the drivers of growth. We are in the middle of earnings announcements for publicly-traded companies with large tech posting stunning results: Tesla revenue up 74%, Microsoft sales up 19%, Google sales up 34%, Apple profit more than doubled and Facebook advertising revenue grew 46%. These huge companies growing at these rates is pretty incredible. According to the Microsoft CEO *"Over a year into the pandemic, digital adoption curves aren't slowing down. They're accelerating."* Tech isn't the only hot area, so is chicken. McDonalds posted US same-store sales up 13.6% compared to flat last year. *"Chicken-focused menu items, like the Spicy Chicken McNuggets and Crispy Chicken Sandwich, helped fuel sales this quarter"* according to CNBC.

The federal reserve left interest rates at their historically low levels mostly due to labor market softness. Fed Chair Jerome Powell said *"For the economy as a whole, payroll employment is 8.4 million below its pre-pandemic level. The unemployment rate remained elevated at 6% in March, and this figure understates the shortfall in employment, particularly as participation in the labor market remains notably below pre-pandemic levels. The economic downturn has not fallen fully on all Americans, and those least able to shoulder the burden has been the hardest hit."* My anecdotal experience is inconsistent with this view and it appears to me the labor market is getting tight. Friends running factories complaining about the difficulty in getting people hired to keep up with demand; McDonald's lobby closed in Arkansas with sign indicating it is because they can find enough staff to open; and our pier installer in Wisconsin ends our business relationship because he can't get enough people to work our lake. Part of the issue is the enhanced federal unemployment insurance benefit which makes the "breakeven" on going to work versus staying at home around $50k a year depending on state. Another is the material decline in labor participation by women with children due to schools not operating normally. A final contributor is the embracement of a YOLO mentality by many workers in light of pandemic (thanks Ellie Locke) technology/welcome-to-the-yolo-economy . Labor shortages are not just about entry level jobs. I have received data points on law firms struggling to staff their associate classes and accounting firms who can't get tax managers.

We need to do a better job tapping into experienced women in our labor market. Kudos to LinkedIn as according to Fortune *"LinkedIn will add stay-at-home mom' and other job titles to enable parents and caretakers to describe their gaps in employment more accurately."* I have had great experience with the hiring of moms "returning to work" after raising kids. They have dealt with real issues and aren't going to complain about stupid stuff like many millennials. Some companies creating "returnships" to tap into this talented labor pool. An investment firm I work with -- OCA ventures -- has invested in a business focused on this talent pool https://themomproject.com/

While stocks have been on a nonstop march upward, they may still be an alright buy. Stocks should trade based on a multiple of their forward earnings (shortcut for the discounted value of their future

cash flows). The market forward P/E multiple is 22x. If you look at that in relation to inflation rates which drive bond yields, it is not out of historical norms (from Factset and Mid Continent Capital):

1954-Present			
Inflation	Average P/E	Max P/E	Min P/E
0-1%	16.9	23.1	10.6
1-2%	18.6	29.8	9.8
2-3%	19.0	29.6	11.8
3-4%	17.5	28.9	9.9
4-5%	15.3	23.4	8.5
5-6%	14.6	18.0	7.3
6-7%	10.9	15.5	7.3
>7%	9.2	15.1	7.0

On the private company value side, I think it is important to look at how much money was invested to judge the success on how much a company is worth. MOIC or multiple of invested capital is the metric for me. WeWork is being purchased by a SPAC at an enterprise value of $9 bn. As a reminder, enterprise value is the value of the business regardless of capitalization so it is equity plus debt (this is why you look at enterprise value as a multiple of ebitda so you don't factor in debt/equity mix vs equity value where you look at multiple of net income). Most of the discussion has been about how WeWork's $9bn value was down from when they raised money at a $47bn valuation. But how about the fact that they raised $20.6 bn in debt and equity according to Crunchbase. So the management of WeWork has taken $20 bn in other people's capital and turned it into a business worth $9 bn. No thanks! They haven't created $9bn in value; they have destroyed $11bn in value.

Anyone running a "consumer comes to me" business should rethink their model and take their service to the consumer. Restaurant delivery is the obvious one but think about things like churches. I visited our daughter at TCU who "goes to church" by walking to college coffee shop where a church takes over and delivers a contemporary service with great music. Heard from a friend whose barber was coming to his garage. Will the doctor house call come back with a nurse practitioner coming out of the local Walgreens like the geek squad coming out of Best Buy? Humana just bought a big home-care provider.

Speaking of Best Buy, I have written about how value is created "inverse to the organization chart" with those interacting with consumers being the key more than the person at the top. Hubert Joly has done a great job as CEO rebuilding Best Buy. He recently wrote a book and here is an excerpt: *"Wearing my khaki pants and Best Buy's uniformed blue polo shirt with a "CEO in Training" tag, I spent my first day meeting the staff, listening, asking questions, walking the store and visiting every department. After my shift, I had dinner with the store management team at a local pizzeria. They knew a lot about what was really going on at Best Buy. A lot! During that dinner, for example, one employee pointed out that the bestbuy.com website's search engine was a problem. She demonstrated just how bad by typing "Cinderella" in the search bar. Inexplicably, the search engine spat out a list of Nikon cameras. I couldn't believe it. Over dessert, I found out that employees were also unhappy about a reduction in worker discounts—a perk they valued since many loved electronics."* That is leadership!

I previously wrote a musing on the "power of positivity" and the growing field of positive psychology. My experience is people do not follow someone who is negative. This is especially important in a growing, entrepreneurial company. Now some are trying to measure your "positive intelligence" and literally give you a score. According to some research, those with a higher "positive intelligence" live

longer, sell more and are better team members. Get your score: https://www.positiveintelligence.com/pq-score/

The new Apple operating software rolled out with the new privacy controls. I encourage all to "opt out" of cross-site tracking and don't let Facebook et al. follow you as you surf the web. Your data should be your property and not for others to get rich selling it so you get customized ads. The ad-based business model drives all activity to center around engagement. To quote an ex-Google employee who testified to Congress this week: *"Their business model is to create a society that is addicted, outraged, polarized, performative and disinformed. That's just the fundamentals of how it works."* That drives engagement and engagement drives advertising sales.

Great quote I heard - - "Everything someone says before *but* is bullshit."

The migration south accelerated with Covid. It was augmented by a move out of big cities to suburbs. Census results showed the longer term "move south" dynamic with Texas and Florida gaining seats while Illinois, New York and others lost seats. pandemic-supercharged-changes-in-where-americans-live . New WSJ index on hot home markets gave top spot to Coeur D'Alene, Idaho followed by Austin, Springfield OH and Billings, Montana.

Let's wish positive things for India and other countries being ravaged by Covid right now.

Jml

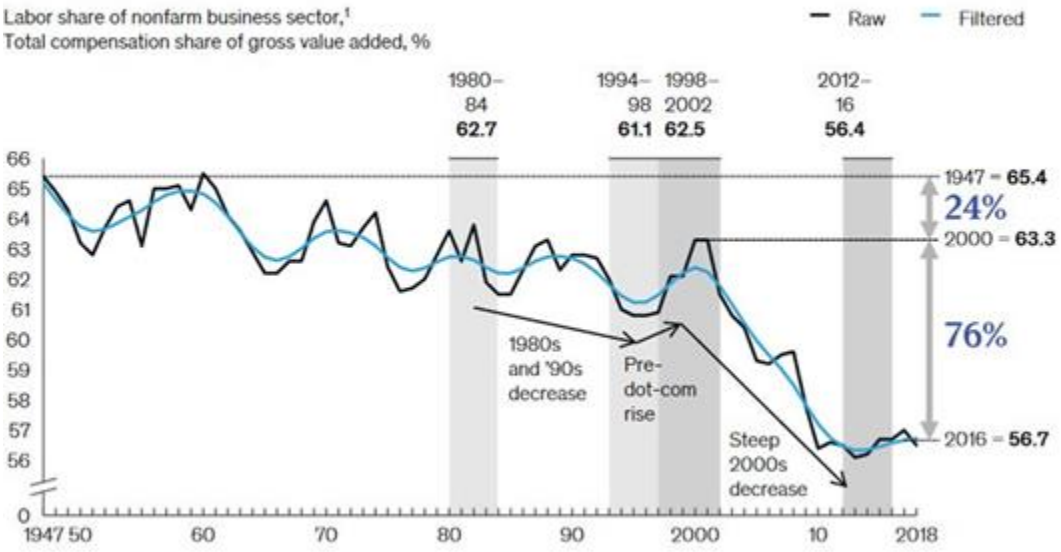
J. Michael Locke
Musings

#125: Musing
May 7, 2021

A metric economists look at is how income is split between labor and owners. With the arrival of a knowledge economy and technology, there has been a noticeable decline in the aggregate share of national income going to labor. Many of our jobs have gone from $60,000 a year factory worker to $13 an hour hospitality which is roughly $26,000 a year (2080 hrs a year on standard 40 hour work week). The fundamental question is what is "fair" or necessary for a healthy society? There is no right answer on this but the material decline in the share for labor is part of the current societal discussion around wealth disparity and the "death of the middle class." Here is the relevant table (full report - mckinsey on labor share of income):

Three-fourths of the decrease in labor share in the United States since 1947 has come since 2000.

The accelerating decline in labor share in the United States



[1] Detrended using Hodrick-Prescott filter (restriction parameter = 6); adjusted for self-employed income (non-farm business sector, 75% of total economy), from Labor Productivity and Costs database, Bureau of Labor Statistics.

Source: BLS (March 2019 release); McKinsey Global Institute analysis

The rise of "gig workers" is part of this dynamic. An interesting topic to watch will be the classification of workers between those who are benefits eligible employees and receive a W-2 versus those who are deemed independent contractors and receive a 1099. This classification is guided by the Fair Labor Standards Act. Many technology platforms like Uber classify their "employees" as independent contractors. Labor activists are fighting against this classification because it eliminates benefits and overtime eligibility. The UK made Uber reclassify drivers as employees and Uber took a $600mm charge this quarter for additional expense. Biden's NLRB gave labor a win by repealing a pro gig-worker regulation this week. biden-blocks-trump-era-gig-worker-rule. While I am no labor activist, our societal

structure assumes that individuals get benefits like healthcare and 401k from their employer and we must design a system for gig-workers to have these benefits. I bought health insurance for our family once "in the retail market," not a good experience.

Wealth disparity met European soccer last week. Manchester United fans stormed the field in protest against American owner Glazer family and the scuttled plans for a Super League designed to get more of the spoils for a select group of teams. Even JP Morgan Chase had to apologize for its role in providing funding for the planned league. I like the Green Bay Packer community ownership model for pro sports teams.

Ted Lasso knows European soccer. Now he is becoming a political phenomenon. From Politico: "*And everyone seems to agree that the show is an antidote to a deep cultural problem. There's a swelling idea that we've reached a national topping-off level of bile, a moment when every negative thought can be instantly unleashed on the world and picking fights on Twitter has become its own sport, and whether you blame Trump or the woke left, you can acknowledge that it's gone too far. For a politician, trying to do the best possible job amid an ever-evolving pandemic, the desire for some grace is irresistible."* Full article: ted-lasso

The number of children born in the US hit a 41 year low last year according to the WSJ. On average, US women are now having 1.64 babies. If our economy is going to keep growing long term, we need more children!

And then there was one. The only remaining pit open on the floor of the CME (the merc and board of trade combined) in Chicago will be the Eurodollar options. All others have "gone to the screen."

An underappreciated issue in management is the establishment of "decision rights" -- when do you need to go to your boss to make a call vs making it on your own. I think the general tendency is for individuals to underestimate their decision rights and instead of using judgment to decide something, bring everything to their boss. Don't enable this. If you are the boss, refuse to make the decision; rather, force the colleague to make the decision him/herself and further develop. They will make some good and bad calls but developing that judgment is key. Personally, I recommend the same approach when parenting. Don't be a "snowplow" parent. Make them figure it out.

One of the key traits shared by successful executives IMO is curiosity. They ask the follow up question, read the article, listen to someone else's perspective and don't just accept historical ways because they are curios.

It is estimated that more than **$63 billion** was fraudulently disbursed due to fraud in federal unemployment benefits to as much as 10% of the recipients.

The WSJ reported that 42% of US adults have an unwanted weight gain during the pandemic. The average weight gain of this group is 29lbs!

I have shared how I believe that "naming conventions" are an underutilized tool in framing a discussion and merit more consideration. Politicians get it. Senator Amy Klobuchar is working to rename "antitrust" (it was originally about breaking up trusts) to "competitive policy." Epic Games doing its part taking on the 30% "tax" Apple takes for in game purchases by requiring they be made through the app store. Shows the power of controlling customer access. Speaking of monopolies, is there anyone worse at customer service than Comcast? Example 1 on why markets need good competition.

Isn't it ironic that the firm which preaches that it is democratizing investing with its app (Robinhood) earns its revenue selling "order flow" to big hedge funds like Citadel so they can have an advantage on the market? I am with Warren Buffett who said that Robinhood has "*become a very significant part of the casino aspect, the casino group, that has joined into the stock market in the last year or year and a half,"* while his partner Charlie Munger added *"I think it's just God awful…..It's deeply wrong. We don't want to make our money selling things that are bad for people."*

Speaking of the "Oracle of Omaha" Warren Buffet, appended to this musing after my initials at the end is a list of some of Buffett's best quotes compiled by Yahoo finance. Really grounded and rational.

Take the Buffett approach in contrast to today's "flash mob investing" world where a tweet by a prominent person drives billion dollars in value for a fictional currency created as a joke. From CNBC: *"Dogecoin was started as a joke in 2013, at a time when the cryptocurrency boom was in its infancy and there was a flood of small, primitive coins entering the market. Doge has regained popularity, apparently boosted by attention from billionaires like Musk and Mark Cuban and easy access through free-trading app Robinhood."* Below is the actually tweet which is moving the market in Dogecoin.



A $1,000 dogecoin purchase on Jan. 1, 2021 would be worth $121,052 at Wednesday's high, a gain of more than 12,000% according to CNBC calculations. Not to be outdone, Carole Baskin decided lions were better than dogs and launched her own "$cat" cybercurrency tiger-king-carole-baskin-crypto-coin. Anybody want to buy some Dutch tulips? tulip-mania-financial-crash-holland

Don't let the IRS trip you up (thanks Terry for this one). They have added a new question to the 1040 filing form: "At any time during 2020, did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency?" Remember how they got Capone.

Jml

Warren Buffet Quotes

1. **Trust in American ingenuity.** "American magic has always prevailed, and it will do so again."
2. **Don't be a fearmonger.** "Fear is the most contagious disease you can imagine. It makes the virus look like a piker." (A piker is one who gambles with small amounts of money.)
3. **Learn the language.** "You've got to understand accounting. You've got to. That's got to be like a language to you,"
4. **Go long.** "[Our] favorite holding period is forever. We are just the opposite of those who hurry to sell and book profits when companies perform well but who tenaciously hang on to businesses that disappoint. [American investor] Peter Lynch aptly likens such behavior to cutting the flowers and watering the weeds."
5. **Invest in companies you believe in.** "It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price."
6. **Price and value aren't always the same: Don't pay too much.** "Price is what you pay. Value is what you get."
7. **Reputation is everything.** "Lose money for the firm, and I will be understanding; lose a shred of reputation for the firm, and I will be ruthless."
8. **Be skeptical. If something looks too good to be true ...** "A simple rule dictates my buying: Be fearful when others are greedy, and be greedy when others are fearful."
9. **Don't invest in something you don't understand.** "The important thing is to know what you know and know what you don't know."
10. **Don't do a deal with someone you don't trust.** "You cannot make a good deal with a bad person."
11. **Don't buy a stock unless you think it's undervalued.** "Just buy something for less than it's worth."
12. **Price dips are an opportunity to increase your positions.** "Whether we're talking about socks or stocks, I like buying quality merchandise when it is marked down."
13. **The future is never clear.** "Uncertainty actually is the friend of the buyer of long-term values."
14. **It's usually the buyer who encounters unpleasant surprises.** "As in the case with marriage, business acquisitions often deliver surprise after the 'I do's.'"
15. **Park your money in index funds rather than in individual stocks.** "In my view, for most people, the best thing is to do is owning the S&P 500 index fund. There are huge amounts of money people pay for advice they really don't need."
16. **Use a bucket, not a spoon.** "Every decade or so, dark clouds will fill the economic skies, and they will briefly rain gold."
17. **Seize an opportunity while you can.** "Don't pass up something that's attractive today because you think you will find something better tomorrow."
18. **Stay cool.** "The sillier the market's behavior, the greater the opportunity for the businesslike investor."
19. **It's during hard times that the winners — and losers — get exposed.** "You only learn who has been swimming naked when the tide goes out."
20. **Read and think A LOT. Buffett spends the majority of his day — 80% — reading and thinking.** "The best way to think about investments is to be in a room with no one else and to just think. If that doesn't work, nothing else is going to work."
21. **Buffett has long said it doesn't take a high IQ to be successful in business — knowledge is more valuable.** "What we do is not beyond anyone else's competence. I feel the same way about managing that I do about investing: It's just not necessary to do extraordinary things to get extraordinary results."

22. **Follow the rules (Though Buffett readily admits to making a few mistakes of his own.)** "Rule No. 1 is never lose money. Rule No. 2 is never forget Rule No. 1."
23. **Keep this in mind if you're looking for a board position:** "When seeking directors, CEOs don't look for pit bulls. It's the cocker spaniel that gets taken home."
24. **Be frugal. With the exception of his private jet, Buffett is famously sparing and has lived in the same house since 1958.** "I have every possession I want. I have a lot of friends who have a lot more possessions. But in some cases, I feel the possession possesses them, rather than the other way around."
25. **You're your own best asset.** "Your best investment is yourself. There is nothing that compares to it."

J. Michael Locke
Musings

#126: Musing
May 14, 2021

I am usually a fan of Reid Hoffman who built LinkedIn but I am not a fan of "Blitzscaling" which he espouses. This is the business practice of growing as fast as possible generally accompanied with massive losses and capital needs. Doordash CFO: *"We're focused on maximizing scale as opposed to increasing our Ebitda."* Hoffman teaches a class on this at Stanford and has written a book. My issue is about the wasted capital which typically goes along with this approach. You waste money when you grow too fast and this leads to lost operating discipline and cultural issues IMO. The food delivery business is currently a battle of blitzscalers between Uber and Doordash while poor Grubhub, who pioneered the market and tried to run a rational, less capital intense business model becomes an also ran. Doordash just reported a great quarter as did Softbank on the back of Blitzscaling but I think Masa's approach will only work so long.

Readers of the musings know I am concerned about the loss of privacy control as technology companies gather and sell data. Here is another reason to worry – this "data market" includes the locations of our military personnel. You can buy a map showing where the mobile phones of soldiers are. the-ease-of-tracking-mobile-phones-of-u-s-soldiers-in-hot-spots Everyone should turn off "location services", put their browser on private or use DuckDuckGo. iPhone users are figuring it out. Only 4% of users have "opted in" to allow apps to track them after the recent iOS update! ios-users-opt-out-of-ad-tracking Short Facebook? Those really interested should create their own virtual private network (VPN) which will prevent any tracking of activity. As an example, for $5 a month you can use a Mozilla VPN which encrypts your activity. https://www.mozilla.org/en-US/products/vpn/ .

This also applies to your house. Before you embrace the "smart home" with wifi-enabled appliances controllable from everywhere, understand the risk. Nefarious individuals can hack any internet-connected device (man-hacks-ring-camera-8-year-old-girl-s-bedroom.) Do you want someone to be able to take over your thermostat, appliances and security system? The recent hack of our gas distribution system is concerning. As I wrote many months ago, there has been a another pandemic going on which was hidden – the move to a digital world created a heyday for hackers and you are going to see an endless stream of cybersecurity issues now.

These hackers are not kids in a basement drinking Red Bull but rather businesses run like many others with websites and go to market models. For instance, the DarkSide group that hacked the pipeline has written the software but then uses "affiliates" like VARs to do the actual hacking and then splits the ransom. Ransomware as a service. colonial-hacker-group-s-dark-web-site-no-longer-accessible

Speaking of homes, I encourage readers to open up their homes for business colleagues and other friends. Business is done between people and it helps to really know someone. Have your team from work over for a cocktail or dinner. Have them meet your family. This familiarity will only enhance your effectiveness in working together. I also encourage readers to "entertain" more. Having someone in your home is more intimate and creates greater connections than going to dinner at a restaurant. Some

folks are big fans of "Jeffersonian Dinners." Google: "*The tradition of Jeffersonian Dinners began at Monticello, the home of Thomas Jefferson, in the 1700s. Jefferson thrived on surrounding himself with a host of thought leaders and used his dinner table as the centerpiece for the free-flow exchange of ideas and diplomacy."* how-to-host-a-jeffersonian-dinner

There are a record 8.1mm jobs open in the US, 5.3% of all jobs. Time to get back to work. The business world is rapidly opening back up. Hit the road and see your clients like the old United commercial. Loved this quote from the CEO of WeWork who is a proven industry executive: *"Those who are uberly engaged with the company want to go to the office two-thirds of the time, at least. Those who are least engaged are very comfortable working from home."* One interesting dynamic is that the younger professionals who often use the office for social purposes are more anxious to get back than the law firm and consulting firm partners who commute from the suburbs.

Don't forget the foundational rule of improv comedy which applies to any team. To foster creative collaboration, you never want to say "no" flat out. In improv, they teach you to say "yes and." So you take what the other person offers, start with agreement then add onto it or redirect it. If you just shut it down in opposition, the flow stops. From Wikipedia: "*Yes, and...", also referred to as "Yes, and..." thinking, is a rule-of-thumb in improvisational comedy that suggests that a participant should accept what another participant has stated ("yes") and then expand on that line of thinking ("and"). It is also used in business and other organizations as a principle that improves the effectiveness of the brainstorming process, fosters effective communication, and encourages the free sharing of ideas."*

I have previously encouraged parents to not get "caught up" in the college admissions process and stretch schools but rather to focus on fit. Malcom Gladwell calls it "Elite Institution Cognitive Disorder" or EICD and has some data that shows you would be better off being in the top part of a class at a "less prestigious" school (thanks Paul DeBoer). Here is a link to a YouTube lecture by Gladwell on the topic: https://www.youtube.com/eicd

Surprising fact: LeBron James and Larry Bird are left-handed. lebron-james-lefty-mixed-handed

RIP the largest donor ever to Yale. He wasn't a wealthy philanthropist. He was the creator of the modern endowment investment model – David Swensen. Rather than staying only in liquid stocks and bonds, Swensen invented the model of moving much heavier into illiquid alternative asset classes which provided superior returns. Under his leadership, the Yale endowment went from $1 billion in 1985 to $31 billion in 2020. david-swensen-yale-endowment-chief

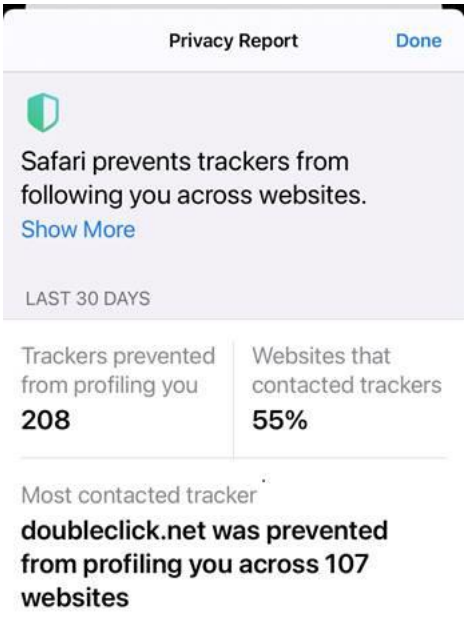
Goodbye masks!

jml

J. Michael Locke
Musings

#127: Musing
May 22, 2021

Want to see how your opt-out of tracking in your iPhone is working? In Safari, tap on the "aA" on the top left next to URL bar and choose privacy report. Here is mine. It will be interesting to see the degradation of digital advertising efficacy when Google Analytics / Doubleclick can't gather the user information like it used to.



While the federally mandated $15 an hour minimum wage did not make it in the final stimulus package, the rest of the package has brought it in through the side door. The enhanced unemployment benefits are forcing employers to increase their wages to attract individuals. Major retailers and others are moving hourly wages north of $15 and closer to $20. Bank of America just announced a minimum wage of $25. If that was all by design by Biden administration, pretty clever. Many feel the core problem holding back folks from returning to work is childcare. See a good OpEd with this point of view after my initials at the end.

One of the paradoxes of investing is that good economic news can hurt stock market valuations. The current stock market is obsessed with prospective inflation and has had some rough days when information comes out indicating inflation is coming and the Federal Reserve might stop its "easy money" programs. Right now the Fed is amazingly accommodative --- making it easy to get money by not only keeping its discount rate low (what it charges for lending to banks) but actually buying bonds to artificially manipulate bond market to keep rates down (to the tune of $120bn a month in bond purchases according to WSJ). Stocks trade off on inflation expectations as yields go up so debt is more

attractive as investment. The equity sell off is healthy in that it is taking speculation out of the market on things like SPACs and crypto-currencies.

Combine the Fed easy money with Congressional spending bills and you get this WSJ cartoon:



The SEC has its hands full with Elon Musk. Bitcoin has plummeted in part because Tesla said it would not accept Bitcoin anymore because of the bad environmental impact of Bitcoin mining (not new?) Folks start speculating that Tesla sold the Bitcoin it had purchased and then Musk tweets diamond hands (see below) indicating he is bullish Bitcoin. What is the SEC supposed to do with this kind of corporate communication?



This structural shift towards more working (and eating via DoorDash) at home continues to bode well for Home Depot. Comparable store sales up 30%. Big ticket sales (over $1,000) up 50%. Folks are going to be spending more time in their homes in the future. Also go long the move to healthier eating: chicken (Burger King now in the game with the Ch'King sandwich), non-dairy (oatly-ipo-how-the-swedish-oat-milk-became-popular-in-us) and protein heavy. My Decatur upbringing of whole milk, bologna and red meat is a thing of the past.

Does our political polarization now even apply to our investments? Some conservative money managers are raising "anti-woke" money. portfolios-targeting-unwoke-investors

No matter your politics, Randall Stephenson (retired ATT CEO) will waste your money. ATT now spinning out Time Warner at a value over $40 billion less than what they paid. This is after the debacle of DirectTV which they spun-off recently at a huge loss. No accountability. No one loses their job. Broken corporate governance.

Last week, I wrote positively about some comments from WeWork CEO Sandeep Mathrani on engaged employees using the office. He received fierce pushback in today's virtual world and felt a need to clarify. He posted this on LinkedIn:

"I want to clarify that it was not my intent to cast a negative light on those who are working from home and I apologize if my comments were not clear.

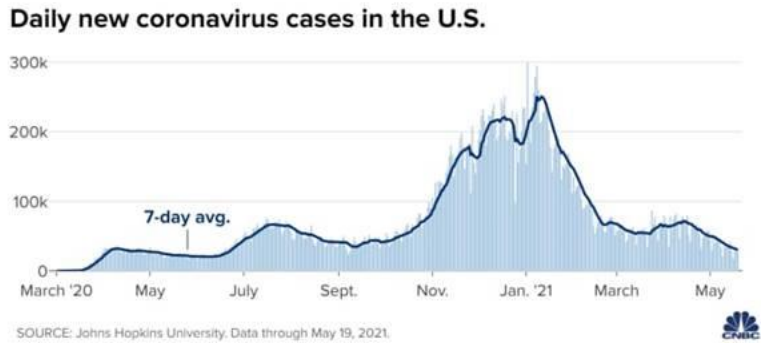
In April, we published a report on the data collected from a national blind survey conducted in partnership with Workplace Intelligence, which asked 1,000 C-suite level executives and 1,000 non C-suite employees across the US a variety of questions about their perspectives on the hybrid model of work.

Ultimately the findings overwhelmingly demonstrated that employees are energized about choice, about finding new ways to work - and CEOs are equally committed to providing options that work best for their people. As the CEO of a company that is proud to offer employers and employees greater flexibility than ever before, we will always continue to champion solutions that can actually meet the diverse needs of our workforce - whether that be working from home, utilizing drop-in space, going to a corporate office, or a hybrid of these options.

What we know, from this new report, and from the conversations we continue to have with business leaders across industries, is that the future of work is hybrid and it is flexible - and our intent is to enable both."

Private colleges continue to have to cut prices to attract students. Remember that the "advertised tuition" is meaningless as the school will usually give a "merit scholarship" (not need based) to reduce cost. In the industry, this is called the "discount rate." From InsideHigherEd.com: *"Average tuition discount rates among private, nonprofit college for first-time undergraduates reached 53.9 percent -- an all-time high -- during the 2020-21 academic year….In other words, for every $100 in tuition colleges appear to charge on paper, they do not collect $53.90 from first-time undergraduate students."*

The positive virus news continues in US. Time to get back to traveling, entertaining, working in office etc. Good chart below. Now we need to help the rest of the world as the "Inequality Virus" is wreaking havoc in India, Brazil and other less developed countries.



Fortunately for me, there are other aging sports enthusiasts with short attention spans. The tennis and golf industries are adapting. Large volumes of players to paddle/platform tennis, pickleball and pop tennis which all require less running on a smaller court. Golf courses are promoting nine holes so you don't need 4-5 hours to enjoy the sport. golf-courses-target-those-who-think-18-holes-is-just-too-many

RIP Microsoft's Explorer browser.

Jml

Op-ed: The dangerous mythology about the US labor shortage

By KARIN M. NORINGTON-REAVES @ CHICAGO TRIBUNE

MAY 14, 2021 AT 6:01 PM

In explaining the unimpressive quarterly jobs data recently, there is a dangerous mythology surfacing, a common refrain among pundits, that people don't want to work because of stimulus checks and extended unemployment benefits.

Some argue that unemployed low-wage workers make more from these benefits than from their previous employment. This may be true, but in my nearly 10-year tenure as CEO of what has become the nation's largest publicly funded workforce development system, where we have facilitated training and employment of over 70,000 people, I have never once heard anyone say they didn't want to work. THIS IS A HARMFUL, CORROSIVE NARRATIVE ROOTED IN CLASS, GENDER AND RACE BIAS; IT IS A FALLACY MEANT TO DEMEAN AND STIGMATIZE. The truth underlying what's being touted as a "labor shortage" is far more nuanced than glib jabs at the working class. Examining reality invites us to reassess our beliefs about work and workers in this country.

The unemployment insurance benefit is one that we pay into. It is meant to be a safety net, there to catch us if the bottom falls out. Congress approved additional funds because a struggling national economy demanded it. With over 1.4 million claims filed in Illinois alone, the bottom had surely given way. Yet the polarizing debate suggests that there is something wrong with, even shame attached to, people accepting and utilizing the benefits their tax dollars created, as though they have no right to them. To be clear, the "people" in this case are overwhelmingly female, and also service workers who are predominantly Latino, African American or low-income and white.

According to a recent survey by the Illinois Economic Policy Institute, 40% of working mothers in Illinois reported losing their jobs or being forced to reduce work hours to care for children. With schools in varying states of in-person, hybrid or exclusively remote instruction, there is a continuing need for reliable, affordable child care combined with flexible work hours — and family-sustaining income. These women wanted to work. No doubt they had an unenviable choice to make —providing for their families financially or providing for their family's physical, psycho-social/emotional well-being.

Heather Long writes in the Washington Post that the recently released and persistently low jobs numbers are rooted in something other than a lack of desire to return to work. Long posits that the data reflect a shift taking place across the country — a demand for family-friendly workplaces that recognize the daily juggling act of managing work demands while navigating life's obligations. That change must also encompass an insistence on a cultural shift from subsistence-wage jobs with no benefits and few options for advancement to career pathway roles.

Tragically, the very people we've deemed essential aren't paid enough to cover their actual essentials. They contracted COVID-19 at higher rates, they died at higher rates. Yet we balk at them for utilizing the very benefits to which they have contributed; benefits created for a time such as this.

It would be more honest to admit what some of us really mean is that they are essential to our lifestyle, but we don't really care much about theirs, particularly if it inconveniences us.

Another reality: People are in pain. More than 575,000 people have died from COVID-19 over the past year in the U.S. An estimated 40,000 American children lost a parent to the virus. The suicide rate skyrocketed. And many of those who contracted COVID-19 continue to suffer long-term effects. Add to this the depression from extended confinement and loss of normalcy, and it becomes clear why our collective mental health is more fraught now than since the Great Depression.

Millions of people lost their jobs. Many of those jobs now no longer exist and aren't forecast to return soon, if at all. The hospitality, tourism and retail industries in the U.S. were pummeled. Many of those workers will need to pivot to other industries or acquire new skills in order to obtain employment. If you listen carefully to what is being telegraphed, it's that the service workers — those who were already barely scraping by often with multiple jobs — need to simply return to work. To add insult to injury, several states have moved to eliminate the added $300 weekly federal benefit as a negative incentive.

There is dignity bound up in work — the ability to provide for oneself and one's family is sacred. Our identities, often our self-worth, confidence and joy are connected to it. That dignity supersedes class divides.

We stand on the precipice of a new economy, one that has the opportunity to treat all people as though they are, well, essential. One that must honor not only the bottom line but also our humanity.

Karin M. Norington-Reaves is CEO of Chicago Cook Workforce Partnership, the largest workforce development organization of its kind serving employers and jobseekers in Chicago and Cook County.

J. Michael Locke
Musings

#128: Musing
May 28, 2021

Getting an early start on the holiday weekend. Some who have joined the Musings "along the way" have asked about older ones. A full compilation (for those looking for boring weekend reading to fall asleep) can be found here: https://gilesrichard.com/

I just don't get pharmaceutical companies marketing directly to the consumer. In one sitting watching TV recently, I was told about Stelara for Crohn's disease, Ubrelvy for migraines and Trulicity for Type 2 Diabetes. Do people really go in and ask their doctor for a specific medication? I guess I am more trusting and take whatever the doctor orders. Most insurance policies require generics anyway. Want to reduce the cost of prescription drugs, get rid of all the money spent on TV commercials (as well as PBMs – Pharmaceutical Benefits Managers which are hugely powerful middleman in the supply chain to places like Walgreens).

Is it time to update the HIPAA privacy protections (the Healthcare Insurance Portability and Accountability Act)? They were implemented by Clinton during the AIDS epidemic to protect those suffering from negative insurance actions. It has become a huge part of business processes as tech firms must ensure proper encryption and providers have to be careful about what they say. University health centers can't talk to a parent about her 18 year old kid without a HIPAA waiver. It held back telehealth. Personally, my view is that Google and Facebook know a lot more about me than the hospitals and doctors. No one is protecting that data.

The discussion about when / how to return to work continues. According to a McKinsey study, "the majority of executives expect that (for all roles that aren't essential to perform on-site) employees will be on-site between 21 and 80 percent of the time, or one to four days per week." what-executives-are-saying-about-the-future-of-hybrid-work The author of a New Yorker piece thinks companies should pay for a "third place" for people to work from (not office nor home) with some interesting comments about the higher level of distraction at home because of the stronger emotional connection to the surroundings. remote-work-not-from-home (thanks Jean Locke)

The conference call is making a Mickelson-like comeback. stop-with-the-video-chats-already-just-make-a-voice-call

According to a study, FedEx deliveries were 71% on-time in April. US postal service was 90%. When the post office is beating you, not good.

I believe great coaches are great leaders and there was no one better than legendary European soccer manager Sir Alex Ferguson. A new movie about him "Never Give In" has just launched in cinemas and on Amazon. Here is a good quote from him:

"Psychology, I've never considered part of my job. The management thing is based on communication, loyalty and trust. When I went to Aberdeen, you have to give your trust to the players and you hope in time you get it back. I did exactly the same at United….My communication was really important to me, recognizing and valuing my staff. I would never let anyone pass me in the corridor or in the dining room without saying 'good morning'. If you think back to when we won the league or the cup or whatever, I had all the staff in the dining room on the Monday. It was their cup. If you value them and give your consideration to the job they're doing, they'll pay you back."

Professional relationships are just like personal relationships --- you must give as much as you take. Too many professionals forget the need to invest in a relationship and "give" by doing things like sending something to read which might be of interest to someone else's business, referring a potential employee or client, giving some business, waiving a minimum investment level or just offering advice. I don't believe in the RFP/procure at lowest cost/don't do business with friends model. Quite the opposite – I say pick some good partners and build your respective businesses in a mutually beneficial way.

Great line by a stock market pundit – "Robinhood is like Tinder for investing with easy swiping, but the big difference is you can't get rejected."

The failures of corporate governance continue at WeWork – the "Billion Dollar Loser" Adam Neumann gets another $245mm out of SoftBank. They agreed to reduce the "participation threshold" for his "profits interests" which is like lowering the strike price of an option. Profits interests are a way to give the recipient capital gains tax treatment for an incentive equity vehicle. Options get taxed at normal tax rates. Neumann showed great skill raising $11 billion to create a company worth $9 billion! The reason he has leverage on SoftBank is because he created a dual-class stock structure which gave him extraordinary voting (and thus control) rights. IMO investors should run away when they see the Napoleonic dual-class move.

While I don't consider Heather and I to be "free range parents" who would let our 9 yr old ride the NYC subway alone (i-let-my-9-year-old-ride-the-subway-alone), we do think providing greater autonomy is important to develop and too many parents are busy "snowplowing" – as in, getting all obstacles out of the way. Kids need to learn how to figure things out and make mistakes. Cell phones have de-risked a lot of this (if they get lost, they can actually just call you). Out of a place of love, too many parents IMO are making life too easy for their kids. We are now starting to see it in the workplace with anecdotes of interns quitting because they didn't like the negative feedback on performance or parents actually calling HR departments. how-can-hr-deal-with-parents . Toughen up America, let your kids fail!

Watching Phil Mickelson win the PGA last Sunday (the oldest winner of a major US golf tournament ever at just 50), I couldn't help but be amazed how many people waste important moments focused on their cellphone camera recording instead of experiencing the situation. Put the phones down and be in the moment.

RIP Instagram likes (or at least those who want them to die.) Facebook is rolling out a setting where likes can be hidden. Our youth's obsession with the number of likes in the social media world is not healthy.

Happy Memorial Day weekend. Thanks to our active service members and veterans for their sacrifice.

jml

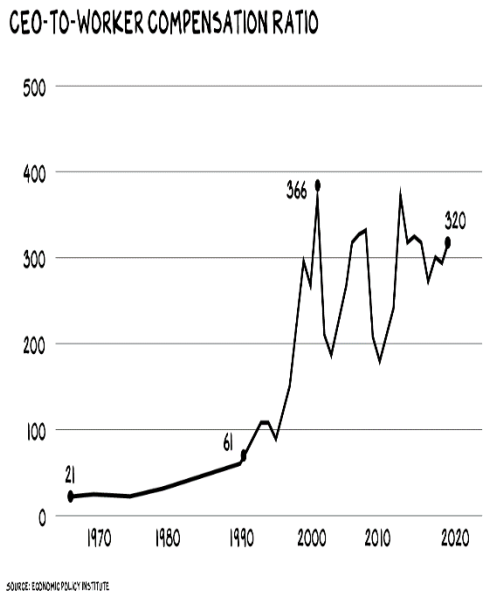
J. Michael Locke
Musings

#129: Musing
June 5, 2021

We have not pulled the trigger yet but everyone is "cutting the cord" and turning to internet-based media on their TV rather than cable. In this world, YouTube overtook Netflix as the #1 "Over the Top" media service based on watch time according to Comscore. The average length of a YouTube video is 11.7 minutes. As more of our children are raised consuming information in these "bite size chunks," I bet other providers will change their length from the standard 1 hour. How about a 30 minute church service or college course?

There was a simple lesson we were taught back in business school, don't assume you are the typical consumer. This was readily apparent to me as I watched the pre-game for the European soccer version of the Super Bowl – the Champion's Cup – last weekend. The entertainment was done by a DJ named Marshmello who hides his appearance more than Kiss with a big marshmallow over his head (like the unknown comic on The Gong Show.) Marshmello. I could barely understand what was going on while our son hummed away in his Man City jersey (sorry). Good reminder of this marketing lesson – he was the targeted consumer not me.

Famed investor Mohamed-El-Erian (former leader of the Harvard endowment and PIMCO) calls the pandemic "the great unequalizer." covid-pandemic-the-great-unequalizer. The pandemic has magnified an already bad trend of disparity and excessive CEO compensation packages. The WSJ reported that the CEO of Paycom's pay package was valued at more than $200mm and the median pay reached a record $13.4mm. Here is an interesting chart from Scott Galloway's newsletter:



I predict you will start to see this reverse as workers gain more bargaining leverage. There are over 8mm unfilled jobs. Unemployment is under 6%. Our labor participation rate is too low at 61%. We need more people working. China just eliminated its' one kid rule — you get three now. They need more people to grow just like the US. Economic firms are warning about the ensuing "Sansdemic" where the combination of retiring baby boomers, declining birth rate and reduced labor participation by women result in us simply not having enough workers (Pandemic implies all people while Sansdemic means without people). demographic-drought

This shortage of labor also plays into the "return to work" post-Covid conversation. Interesting opinion piece here on Apple news predicting increases in resignations as people have reprioritized their lives during the pandemic. a wave of resignations?

I recently attended the funeral of one my parents' good friends growing up (My first mentor – Sullivan & Cromwell partner Bob Craft taught me to make the effort to go to weddings and funerals because your attendance is really appreciated.) The deceased was a big fan of the Rotary Club and they recited the "four questions of the Rotary" which guide decision-making which I find interesting. We need more organizations like this. From the Rotary website:

The Four-Way Test is a nonpartisan and nonsectarian ethical guide for Rotarians to use for their personal and professional relationships. The test has been translated into more than 100 languages, and Rotarians recite it at club meetings:
Of the things we think, say or do

1. *Is it the TRUTH?*
2. *Is it FAIR to all concerned?*
3. *Will it build GOODWILL and BETTER FRIENDSHIPS?*
4. *Will it be BENEFICIAL to all concerned?*

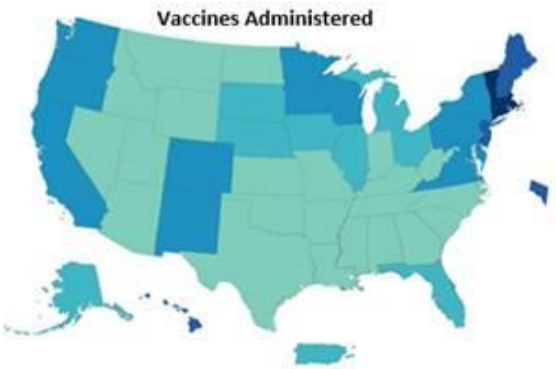
RIP Captain Stubing (Gavin MacLeod). Isaac making drinks for everyone.

jml

J. Michael Locke
Musings

#130: Musing
June 12, 2021

It's unfortunate that the vaccine has become so political. IMO, it has become a proxy for how much faith an individual has in government and the mainstream media. Those more trusting are getting vaccinated while those less trusting are not. In this way, vaccination has become a marker of political view and the following maps show it. Basically, the rate of vaccination map mirrors the 2020 presidential election results map. According to CNN recently: "*82% [of democrats] said they were vaccinated compared to a mere 45% of Republicans.*"





In my hometown in central Illinois, only 32% are vaccinated which prevents the major local hospital from mandating vaccination as it would lead to a staffing crisis (they are already struggling to fill allied health jobs – nurses, radiology technicians etc – like the rest of the country). A major hospital in Chicago has the same issue. The reduction in labor force participation by women is leading to healthcare capacity issues.

I am a big fan of the "bricks & clicks" model where retailers combine a good online experience with local physical stores. The local stores become more of a distribution and service unit. I had a great customer experience with "Click and Collect" from IKEA. Speaking of IKEA – how about this one about the entrepreneur/founder. From Newsweek: *"the billionaire founder of Swedish flat-pack furniture chain Ikea says he saves money by only buying second-hand clothes. Ingvar Kamprad, who is reportedly worth over $40 billion, forgoes the Guccis, the Pradas and the Ralph Laurens; instead, he gets his clothes at flea markets."*

Last week, I commented on the growing scarcity of workers and the demographic trends which indicated trouble ahead as the "system" needs to provide for more retirees from fewer working contributors. Add this one to the mix, according to Dr. Claudia Kawas from the University of California Irvine's 90+ study: *"Half of all children born today in the United States and Europe is going to reach their 103rd or 104th birthday."* This is a good example of the danger of averages. From Google: "*Life*

expectancy at birth is defined as how long, on average, a newborn can expect to live if current death rates do not change. The life expectancy in the United States, before COVID, was 78.7 years." So the distribution is quite wide with many dying young but many living past 90. If you want to be in the latter, add some weight and cut out alcohol as you age. From the UCI 90+ study, *"people who drank moderate amounts of alcohol or coffee lived longer than those who abstained while people who were overweight in their 70s lived longer than normal or underweight people did."*

Unfortunately, many of our elderly develop Alzheimer's or Dementia. Illinois even has a Silver Alert on the highways (not to be confused with Amber alerts for abducted children) to help find and safely return people with Alzheimer's or dementia that go missing. Our society to quickly dismissed the capabilities of those with Alzheimer's or dementia. Their brain still works, sometimes in unbelievable way. An example is music. I will never forget how my brother could sing Happy Birthday while suffering from post-stroke Speech Aphasia but struggled to say other words. Music is processed differently by the brain. Check out this YouTube video on the power of music for those suffering from dementia and Alzheimer's: alive inside henry

Help might be on the way for those suffering. The FDA approved the first drug (made by Biogen) promising to slow the progression of Alzheimer's "based on evidence it reduces a sticky substance in the brain called amyloid." drug-to-slow-disease-is-approved. This comes after a study showing drug efficacy fighting early stage BRCA breast cancer. breast-cancer-pill-reduced-recurrence-death . Give our scientists some love next time you can.

Apple continues to take up the privacy cause. I don't care what the motives are, I like what they are doing. Safari is now going to block websites from grabbing your IP address (basically a way of identifying you) and they are introducing a function which is basically like a private VPN by having your activity bounce among different servers (relay) to make anonymous.

One management thought this week: never underestimate the benefits of a basic sales pipeline review. Make your sales leaders walk through the near term opportunities in detail. Look for the specificity of their answers. Have they been to the account. Ask about the benefits to the clients. You will know quickly whether your leader is on top of his or her game.

jml

J. Michael Locke
Musings

#131: Musing
June 19, 2021

Chiquita Brooks-LaSure is the most powerful woman you have never heard of. She runs the Center for Medicare & Medicaid Services (CMS) in Washington. Our healthcare system and its strategies are driven by the decisions of CMS on what is "reimbursable" under those two huge programs which drive the majority of revenue in many (if not most) hospitals/providers. More money is spent by Medicaid+Medicare than by private health insurance companies. With our silver tsunami, Medicare is growing the fastest. Healthcare investor Travis Hughes commented that *"interesting trend is the growth of the managed programs – Medicare Advantage and Managed Medicaid. The federal government is outsourcing to commercial health plans. Which one might argue, in effect, gets us closer to a single payer system without actually going single payer."* Telehealth exploded when it became reimbursable during Covid at the same rate as in person visits. Preventive measures need to become more "chargeable." For instance, obesity has a direct correlation to innumerable conditions but programs to manage obesity are not covered. Our system is focused on treating the symptom or result and programs to prevent disease are less covered by CMS.

One challenge with a more preventative approach is the diminishing availability of primary care physicians. More doctors are going into specialties and it is harder to just get a good old fashioned primary care doctor to build a relationship with and manage your health. The boom in urgent care clinics reflects this. Fortunately this role is being transformed to be filled by nurse practitioners and physician assistants who are in more supply and can handle the great majority of the responsibilities. (Following my initials at the end of the musing is a "public service announcement" on the importance of a preventative approach from my friend and founder of iN2L Jack York.) Some real opportunities to improve health outcomes with population management. You get better incentives when the provider "drives care to manage the health of patients, as opposed to treating what walks in the door" says Chip Locke.

Stunning stat: approximately 1 in 3 women and 1 in 2 men will develop cancer in their lifetime according to the University of Chicago Cancer Center.

Interesting stat: the average age of US automobile is 12.1 years.

For those working on "return to office" plans (don't say "return to work" – people have been working just at home), tread carefully. According to WSJ, employees in the US are quitting at the highest rate since 2000 with 2.7% of workers leaving their jobs in April (last year it was 1.6%). forget-going-back-to-the-officepeople-are-just-quitting-instead

Don't forget the stock market is a weighing machine in the long-term and not a voting machine based on Reddit posts. Meme stocks could make you forget this. From Morningstar: *"The father of value investing, Benjamin Graham, explained this concept by saying that in the short run, the market is like a voting machine--tallying up which firms are popular and unpopular. But in the long run, the market is like*

a weighing machine--assessing the substance of a company. The message is clear: What matters in the long run is a company's actual underlying business performance and not the investing public's fickle opinion about its prospects in the short run."

I am not a big fan of most graduation speeches. Can you remember who talked at your college graduation? Usually it is some kind of celebrity with questionable qualifications to give great life advice. One good one was Steve Jobs' Stanford speech years ago. He had fought off his first bout with cancer and was reflective. *"You've got to find what you love….your work is going to fill a large part of your life, and the only way to be truly satisfied is to do what you believe is great work. And the only way to do great work is to love what you do. If you haven't found it yet, keep looking and don't settle."* His final advice to the graduates: *"Stay hungry, stay foolish."* Full video here: *jobs speech*

Effective communication requires some volatility. What I mean is you can't constantly be at one level. I struggle with our current Mayor in Chicago who appears to always be speaking in high intensity (almost shouting) and lecturing. The fact that she is always talking that way leads the listener to start ignoring. Save the strong words/higher levels for key points of emphasis. One of the most impactful presentations I ever heard was by a person speaking in almost hushed tones. His "quietness" captured the room.

I believe that the vast majority of businesses don't have enough sales people. Territories are too big as sales representatives push back on any narrowing which would make them dig harder into their market. If you have a good system of tracking the cost of acquisition (what revenue/bookings is a rep bringing in compared to their costs), theoretically you should hire until the CAC increases to equal the gross margin of the business delivered. Until that point, the rep is paying for himself/herself delivering incremental gross margin which covers the sales costs and contributes to covering overhead and generating more margin. This approach maximizes profits (though not profit margin).

Supreme Court decisions are coming out from the last term. So far, not a major shift "to the right" that some had predicted. One commentator calls it a 3-3-3 court with Roberts, Coney-Barrett and Kavanaugh in middle. roberts-kavanaugh-barrett-supreme-court

Remember it is Juneteenth today. Good history lesson for your children. It marks the day in 1865 that federal troops got to Galveston, Texas and issued an order freeing the last slaves (the war had ended a couple months earlier and Lincoln had signed the Emancipation Proclamation a couple years earlier.)

Jml

PSA

Greetings loyal Michael Locke readers. I'm sure you're like me and enjoy the relevant bits of education we get every week on these posts, its been worth the price of admission to learn through Michael about crypto currency! My name is Jack York, co-founder of a company (IN2L) that had the good fortune to have Michael as the Chairman of the Board. Michael, along with our CEO and two private equity companies, helped orchestrate a very successful exit in March of this year. I asked Michael to allow me a few words in his post, maybe the first PSA announcement he has had. On Wednesday of this week I underwent successful prostate surgery at MD Anderson Cancer Center in Houston, a fantastic facility. The robotic surgery was fascinating, and it was a complete success, in removing the prostate all of the cancer is gone. My message to all of you is the importance of testing. I had zero symptoms, I'm 61,in relatively good shape, nothing that would have warranted any concern. But through testing it was

discovered that I had extremely aggressive prostate cancer, but it was caught early and small in size. The biopsy in February picked it up, and the Mayo Clinic told me if left untreated would probably have ***killed*** me within2-3 years. So for your sake, and your families, put on your big boy pants and get tested! And if anyone sets up a company to find a new way to get a prostate biopsy done I will invest!

J. Michael Locke
Musings

#132: Musing
June 26, 2021

Pay attention to the NY mayoral election. Not because of the candidates but because of the voting procedure. They are trying "ranked choice" voting for the first time where the voter doesn't just vote for one person but ranks the candidates. The winner must have a majority so after every count, the lowest candidate is thrown out and those votes then go to the voter's "second choice." ranked-choice-voting-new-york-city-mayors-race Family friend Katherine Gehl has been promoting this model to eliminate the current move to extremes in our two-party political system. Her research with Michael Porter of Harvard Business School has applied a competitive framework to our political parties. Good Ted talk by Katherine here: us_politics_isn_t_broken_it_s_fixed. One question is whether our "immediate gratification society" will wait while results are not immediate.

Another thing to watch in New York is the movement to eliminate "at will" employment. Most people are employed "at will" and can be fired without cause (except for prohibitions on discriminating against certain groups). Effective July 4, fast food employers in NYC can no longer have "at will" employment but rather must show cause on why they are letting someone go. Watch the lawsuits and cost of doing business on this one. At-Will Employment Challenged by New NYC Ordinance (shrm.org)

Good Warren Buffett quote: *"Leave the children enough so that they can do anything, but not enough that they can do nothing."* I guess "anything" includes being the sheriff of my small central Illinois hometown: howard-buffett-to-run-for-macon-county-sheriff-in-2022

Learned a new economics concept – the Beveridge Curve -- which looks at the job openings rate vs the unemployment rate. That relationship is currently out of whack with historical norms indicating structural issues in the skills of those seeking work vs where the jobs are. We need better training.

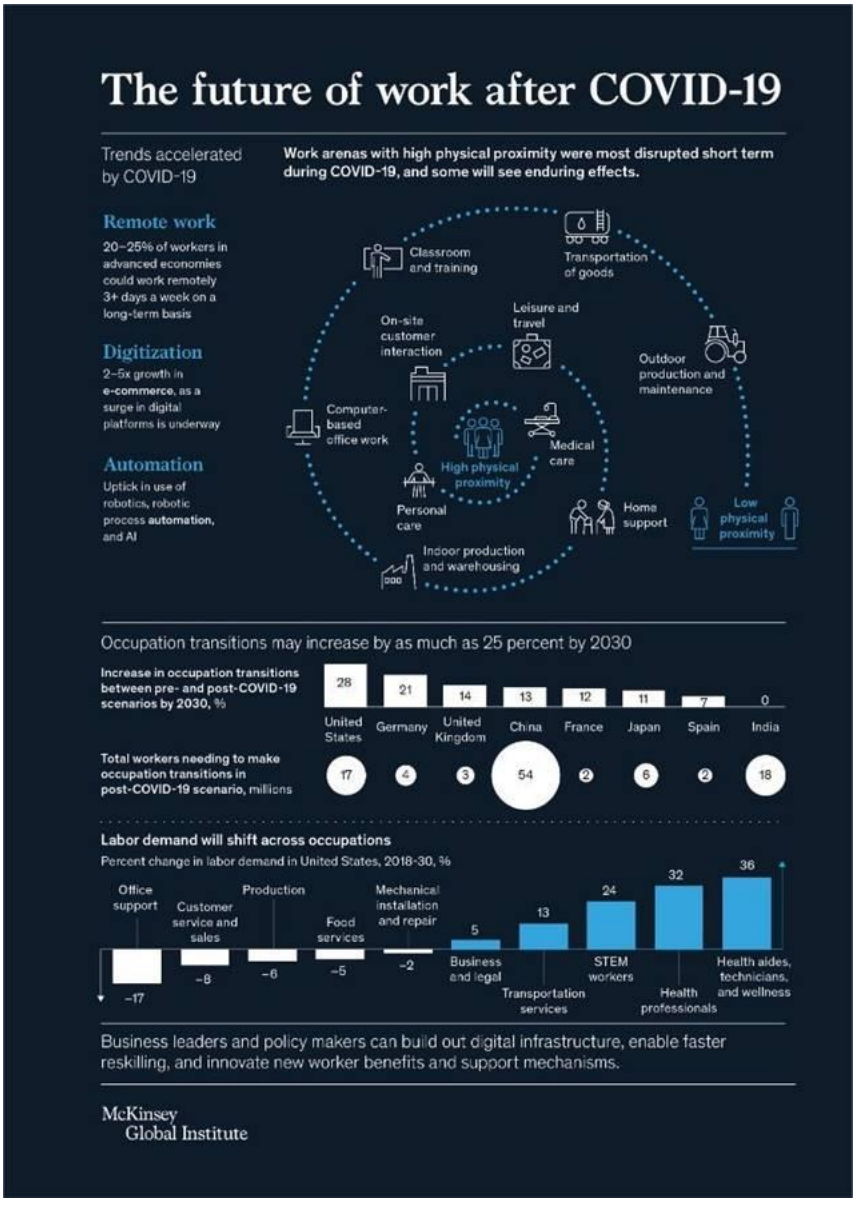
Some interesting commentary on the future of work and jobs from Matt Sigelman, Founder of labor analytics company Burning Glass. His company projects "*the changes will drive growth in five new 'economies,' likely to create 15.5 million to 18 million job openings in the next five years alone: the Readiness Economy (e.g., cybersecurity), the Logistics Economy (e.g., advanced manufacturing), the Green Economy (e.g., renewables), the Remote Economy (e.g., AR/VR), and the Automated Economy (e.g., AI). These economies are projected to grow at double the rate of the job market overall and will come to constitute one in six American jobs by 2026 – jobs that pay well above the national average."*

A good graphic by McKinsey on Future of Work is at the end of Musing after my initials.

Watch the mental health crisis coming out of the pandemic especially amongst our youth. I am stunned by how many parents we interact with are dealing with these challenges. I hope our healthcare professionals (and schools) are ready for this wave of need. Good article in WSJ on eating disorders. eating-disorders-surged-among-adolescents-in-pandemic

The “market constraints” are coming off the higher education market. Historically, schools operated in ways that prevented competition. For an example, College A would not recruit a student who put down a deposit at College B after May 1. Last year, the DoJ was pursuing an antitrust case and forced a change so now colleges recruit students right up to the Fall even if they have enrolled at another school. Last week, the Supreme Court ruled that colleges could not be constrained in their ability to use “educational benefits” to attract college athletes. It is a new day in competition amongst higher education institutions.

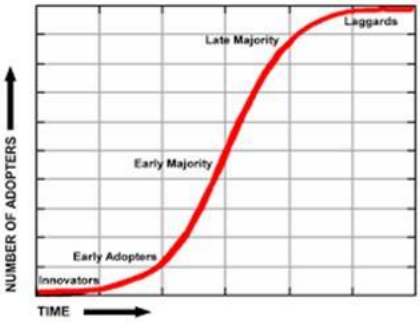
jml



J. Michael Locke
Musings

#133: Musing
July 3, 2021

Recently, I was discussing the future adoption of digital practices post-pandemic and brought back the good old S curve of technology adoption. Famed tech thinker Geoffrey Moore wrote: "*Every truly innovative high-tech product starts out as a fad-something with no known market value or purpose but with "great properties" that generate a lot of enthusiasm within an "in crowd. That's the early market. Then comes a period during which the rest of the world watches to see if anything can be made of this; that is the chasm. If in fact something does come out of it-if a value proposition is discovered that can predictably be delivered to a targetable set of customers at a reasonable price-then a new mainstream market forms, typically with a rapidity that allows its initial leaders to become very, very successful."* The result is an adoption along an S - curve which is slow at first then hits an inflection point and rapidly accelerates until mass adoption occurs and it plateaus.



The pandemic has accelerated the move to the early majority on things like telehealth and online learning.

Are we headed to a world of HR by computer algorithm? Amazon manages its contracted delivery drivers this way. The computer tracks the drivers and then measures performance. Fired contractors apparently struggle to have any human interaction about their situations. fired-by-bot-amazon-turns-to-machine-managers-and-workers-are-losing-out

With the scarcity of workers, Amazon better be careful. 850,000 new jobs were filled in June with 343,000 in leisure and hospitality. This category is now only 13% behind pre-pandemic levels. I am hearing more and more about the "firing" of clients by various service providers. Lawn services, window washers etc. can't find enough workers so getting rid of the clients they don't like. Good WSJ article on the various factors leading to a lack of workers. jobs-are-hard-to-fill-and-ideology-makes-it-hard-to-understand-why This is more than an economic question. There is dignity in work. I recently was meeting with a Cuban immigrant whose father lost everything in the communist revolution. They migrated to the US and he refused to take any government help — his statement — "we work for our money." I am not criticizing those who receive governmental benefits but highlighting the dignity of

earning through work. I worry that large governmental support programs combined with big tech making everything too easy (our kid — "why would I drive to get that when DoorDash will bring it right here?") is going to lead to a lost cultural value around hard work.

I believe part of leadership success is the simple practice of being persistent and following up. Unfortunately, we don't live in a world where people do what is asked. It is not necessarily out of opposition or "insubordination" but more commonly a matter of forgetfulness. This issue is increasing in today's digital age of multi-tasking, zoom calls and emails. Sometimes the person receiving the request simply misses it in the form of communication. The best employees and service providers don't miss things but rather grab the request and get it done. However, with most, you have to follow up, make sure they got the request and stay persistent to ensure its completion.

Good quote from senior Microsoft executive on the "turnaround" from old CEO to new CEO: *"We went from a know it all culture to a learn it all culture."*

Interesting commentary by Jeff Selingo on the incoming college freshman class: "*Now, as college officials begin planning for the return to some normalcy on campuses this fall, they're worried about how students will handle the re-entry to college life…the Class of 2021 lost not only regular in-person learning during a chunk of their junior year and all of their senior year of high school, but also extracurricular and social activities, such as proms, sports, and simply hanging out. Those last years of high school are a period when students typically experiment with alcohol and sex. While Gen Z (those born since 1995) were as a cohort less likely to drink and have sex in high school compared to previous generations, according to experts, rates of binge drinking and sexual assault hadn't declined in college pre-pandemic. The concern among those in student affairs—and even some parents of recent graduates—is that these pandemic teenagers didn't have a chance to exercise their social development and evolve in their maturity over the last 15 months. The consequences of college-going students being cooped up with parents and siblings and hitting pause on their social development is still unclear. A very unscientific poll that I took about this question on LinkedIn recently among my 500,000 followers garnered more than 700 responses: 43% think the fall on campus will be like Animal House."*

RIP Rummy. Quite a character.

Happy July 4th. If you ever have a chance to attend fireworks on the National Mall in Washington DC on the 4th, I recommend it.

Jml

J. Michael Locke
Musings

#134: Musing
July 9, 2021

This is the first week using an email automation tool. If you are reading this, we were successful. The length of the recipient list was causing my other email accounts to be identified as spam spreaders. Thanks to Jennifer Walsh for her work.

I just returned from some time in Northern Minnesota and the shortage of labor for restaurants is stunning. Fast food lobbies closed. 40 minutes to get a Culver's burger. Signs from owners pleading for patience. Good video from WSJ: employers-competing-for-workers-turn-to-signing-bonuses-and-freebies We can't survive on a 61% labor participation rate, declining fertility rate and a disfunctional immigration system. We need more workers.

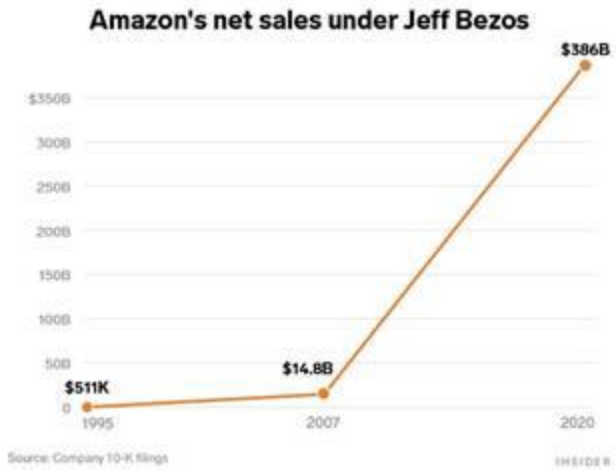
The "return to work" debate is more clearly falling along industry lines with technology being the most "remote friendly" (to the chagrin of San Francisco restaurants who remain empty) while finance is the most "in office" oriented.

Quote from Scott Galloway when evangelizing the value of straight up hard work: *"If someone tells you to follow your passion, they are already rich."*

Every market should have good price transparency. The customer needs to understand what they are paying to judge value and support real competition. A couple markets with opaque pricing are healthcare and higher education. Most folks can only quote their co-pay amount and not the actual cost of a doctor visit or procedure. The government has implemented new regulations requiring hospitals to disclose their pricing and it is flagging enormous variations in cost based on your particular insurance. Soon you will be able to more effectively negotiate.

Higher education's true price is hidden behind: 1) the "per credit model" (is that a quarter credit or a semester credit? How many credits for the degree?); 2) institutional scholarships (discounts from "retail" quoted tuition) and 3) all of the additional fees/charges. Why isn't it like a car --- X$ for the bachelor degree – all inclusive? That is the product you are buying. Hate to reference the failed experiment of Saturn but I think you will see more of that in higher education.

Last week I wrote about the S curve for technology adoption and how an inflection point gets hit where adoption accelerates. How about this graph on Amazon sales (amazon-facts-stats-how-bezos-grew-sales):



Count me out on investing in Chinese companies. They are at the unilateral control of the government. First Ant Group, now Didi. Doesn't matter how large a consumer market if the government can just decide they don't like what you are doing and tell you to stop.

I might have to eat my words as the meme stock crowd might end up winning on GameStop. The underlying business fundamentals are terrible and in no way support the valuation but now the company has raised so much money it is basically like a SPAC which can buy its way into other businesses. Wallstreetbets is today's new equity underwriter.

Lumber prices down 50%. Part of the art form in management right now is not overreacting to transitory issues as the economy reopens.

Cybersecurity issue are now just a way of life. At work, make sure you have good data backup, minimize personal info on company servers and have a process already in place in case you are hacked. At home, put double authentication on financial websites and apps. Purchase credit monitoring or even better, freeze your credit if not too disruptive.

Do people really care about the Olympics? Put me in the camp that doesn't and won't be watching. Like many things in our society, the purity and national cohesion provided by things like Bruce Jenner winning the decathlon (yes kids, he was famous before the Kardashians) has been lost.

It's a sad day in Chicago when you feel compelled to download the "Citizen" app so you can track police activity to feel safe when your kid goes downtown. "Flash mobs" creating havoc in the middle of tourist areas. Not good.

On the lighter side. Are the scalloped edges of Ritz crackers designed to cut cheese? TikTok users want to know. ritz-crackers-scalloped-edge-tiktok . Join the movement to match the number of hot dogs in a package and the number of buns – "10 Wieners. 10 Buns. It's time." https://www.change.org/p/hot-dog-lovers-heinz-hot-dog-pact. Important issues!

jml

J. Michael Locke
Musings

#135: Musing
July 16, 2021

There is an "unsubscribe" link at the bottom of this email for those who want to come off the Musings distribution list. Just email me for anyone who wants to be added.

Tell your kids to go into sales. In today's technology-based world, the keys to success are about building a good product (engineering/coding) and effectively taking it to market (sales/marketing). You hear lots about coding boot camps and the shortage of engineers but not enough about sales. Software companies generally have very high gross margins so can afford to spend more on sales and marketing. The key operating metrics become the LTV/CAC which is the "lifetime value"/"customer acquisition cost." Unfortunately, historical frameworks have some professionals wary of sales. Good sales operations are not boiler room but rather psychology and chess. WSJ article: the-pay-is-high-and-jobs-are-plentiful-but-few-want-to-go-into-sales. With all of the data you can aggregate on prospective buyers, sales has also become an "engineering exercise." Remember, without sales, a company is just a lot of expenses. Funny throwback clip takes on a Few Good Men scene: a few good expenses.

Not sure I agree with this, but Goldman Sachs research says employees are more productive working from home. From Bloomberg: *"The Covid-19 pandemic is fueling a productivity boost for the U.S. economy by speeding up workplace digitization….Since the crisis began, annualized growth in output per hour has risen 3.1%, compared with 1.4% in the previous business cycle, Goldman economists wrote in a note. "Stronger productivity growth has been one of the silver linings of the pandemic," they said."*

Never forget the consumer psychology of getting a deal when planning your marketing and pricing activities. Just go to Costco at lunchtime if you want to see it real time. Free food samples (or the $1.50 hot dog and Pepsi) draw people in and next thing you know you have a 5-pack of toothpaste that you didn't really need. There is a difference between saying "25% off" vs "50% off when you buy 2." Best yet, make it free. A study published in the Journal of Marketing found that most shoppers prefer to get items for free, rather than at a discount—mostly because they find difficulty in comprehending fractions, while "free" is always understood…thus the buy one, get one free approach. For some reason, we can't pass up on free --- just ask the airlines about their beverage service. Giving something for free also exploits the psychological concept of "reciprocity" where most people feel the need to give something back when something is received (ever have a homeless person wash your windshield at a light without it being requested? You feel bad not giving him/her money). Discounts also get associated with brands. Famed investor Bill Ackman missed this when he hired an Apple executive to run JC Penney and eliminated the discounting-centric marketing approach. Apple doesn't discount. JC Penney plummeted when it stopped.

Speaking of consumer psychology, what does your car selection say about you? Red car owner -- someone who likes being noticed; Minivan owner -- practical. Pickup truck owner? While most people would say male, country boy, not so fast -- 46% of pickup buyers were women last year according to the

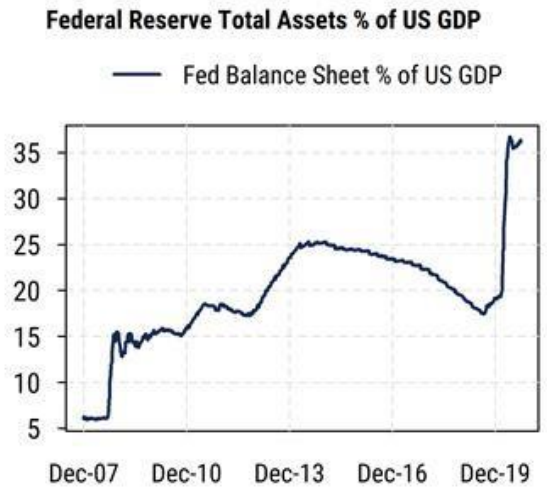
Car Guide. Look for a greater appreciation of "rural" America with the reshuffling of the population that has gone on during pandemic. Media narratives dominated by urban coastal viewpoints while pickup trucks continue to be the top-selling cars in the US:

These are the top 20 vehicles sold in the U.S. ranked by 2020 full-year sales, according to Motor Intelligence U.S. Market New Vehicle Deliveries Report.

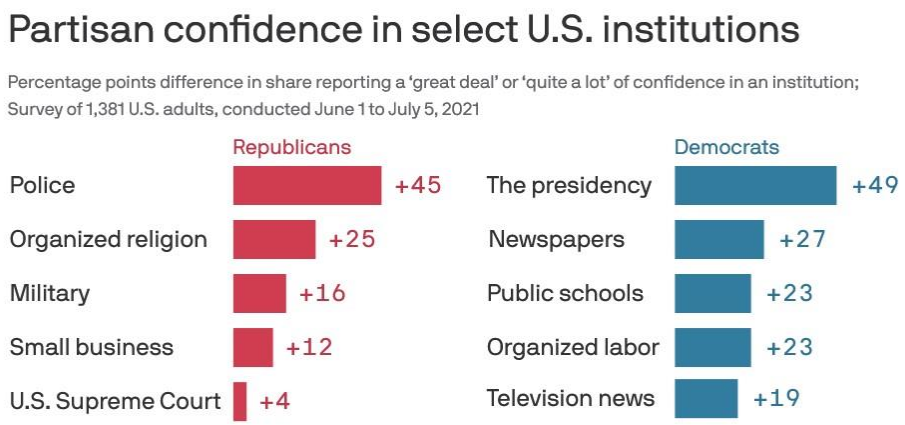
Rank	Model	2020	2019	Change
1.	Ford F-Series	787,422	896,526	-12.2%
2.	Chevrolet Silverado	586,675	570,639	+2.8%
3.	Ram Pickup	563,676	633,694	-11.0%
4.	Toyota RAV4	430,387	448,071	-3.9%
5.	Honda CR-V	333,502	384,168	-13.2%
6.	Toyota Camry	294,348	336,978	-12.7%
7.	Chevrolet Equinox	270,994	346,048	-21.7%
8.	Honda Civic	261,225	325,650	-19.8%
9.	GMC Sierra	253,016	232,323	+8.9%
10.	Toyota Tacoma	238,806	248,801	-4.0%

Good quote from the FT (Financial Times – the pink paper from London) – "Diversification is the only free lunch in finance." In case you ever wanted to know why it was pink. From Google: *"In 1893, The Financial Times, a prominent London newspaper, decided to start printing its articles on light salmon-pink paper. The pink background was meant to distinguish the paper from the Financial and Mining News. ... Plus, it was also marginally cheaper to print on unbleached, slightly pink paper at the time."*

Time for the Federal Reserve to stop the easy money train! They are still buying $120 billion in bonds every month -- this increases demand and pushes down yields -- so the "government" manipulates the market, so you have a 10-year bond at under 1.4% and low mortgage rates! Look at what the Fed has done in the last 15 years below (Graph from Mills Street Research). Get Powell away from the High Noons and hope he starts fighting inflation (CPI up 5.4% last month).



Interesting statistics on the trust level in various institutions and how it varies between Republicans and Democrats. From Axios (thanks Mark Locke):



Have you seen the famous digital cat in Tokyo? Watch out for the growing use of ultra-high resolution curved video signage: digital monster cat

We might be witnessing the end of communism in Cuba. Technology opened up communication and Covid has crushed the economy. Seeds of revolt planted and the protesters have rallied around a slogan and song "Patria y Vida" which means "homeland and life." bbc on cuba. Unfortunately, Hong Kong going the other direction.

jmelo

J. Michael Locke
Musings

#136: Musing
July 23, 2021

Hope you are not in the market for a new car. The continued supply chain issues (mostly chips which Intel CEO says is going to last a while) are creating real issues. According to Edmunds, the average new car transaction in June was just shy of the record $41,000 set in May, and up 10% from June 2019. Dealers selling many cars over MSRP. The average used car price soared even more, rising 28% in that two-year period to reach a record $26,500.

Note the use of a two-year growth rate. This is a good technique when you have something go way up or down. When you have a hard or easy "comp" (benchmark you are comparing to), use two years to get the real story. Key question right now is where things are compared to pre-pandemic rather than compared to last year.

Historically, most exemplary companies had "demanding" cultures where the competitive "A" performers were attracted and excelled. With cultural changes, the preferred culture of many newer employees is changing. Rather than a demanding coach like Sir Alex Ferguson, more want a friend like Steve Kerr. From the WSJ: "*Tyranny is out. Empathy is in. Coaches are getting the most of players by relating to them, not dictating to them, while keeping them accountable without coddling them. They are behaving more like Ted Lasso*." ted-lasso-nba-coaches.

I am not confident that "friendly" cultures will accomplish as much as "demanding" cultures. Human beings often "need to be pushed" to accomplish things they otherwise might not. Rewatch "The Miracle" about the US hockey team and demanding coach Herb Brooks. I highly doubt they beat the Russians with a Ted Lasso style coach. My advice to younger professionals is to find someone you can learn from and respect, which is different than someone you "like."

"Demanding" doesn't mean Napoleonic. Great quote from Adam Grant, "*When you only listen to the smartest person in the room, you miss out on discovering what the rest of the room is smart about. Everyone you meet knows something you don't – and has wisdom from experiences you haven't lived. Every conversation is a chance to learn something new*".

Welcome to the post-pandemic Zoom and remote work world. Not all good. "*We were already on the road to meeting burnout before the pandemic. A shift from hierarchical organizations to de-layered, matrixed ones means more bosses and teams to coordinate with. Increasingly global business means invites for times when we'd normally be in bed. Caroline Kim Oh, a leadership coach based near New York City, says that in recent years, many of her clients have started feeling like meetings are just something that happens to them."* pain-of-the-never-ending-work-check-in.

We often hear about videos "going viral" with the implication of someone creating something of interest that happens to catch on. Like most things in today's world, it is not always as it appears. TikTok has an elaborate AI-engine which drives content recommendations. They literally reach out to individuals and

tell them what they should record. The curation algorithm is controlling the creator. The result – we get Megan Thee Stallion (who is also going to be on the cover of Sport Illustrated swimsuit edition along with Naomi Osaka). how-to-go-viral-on-tiktok-like-megan-thee-stallion-play-the-app.

Call me boring but I just don't care about a couple of billionaires going to space, although one positive is the creation of a common topic among disparate people.

So much for Bitcoin as an inflation hedge.

Congrats to the Greek Freak and Chick Fil A extends its appreciation for the millions in free advertising.

jml

J. Michael Locke
Musings

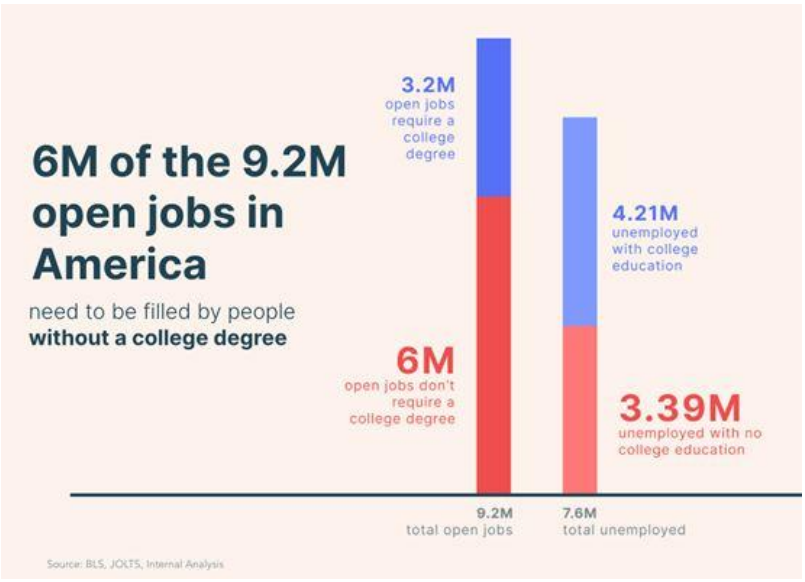
#137: Musing
July 30, 2021

Crazy good financial results from big tech this quarter again — Apple, Amazon, Google, Facebook, Microsoft and Tesla. Extraordinary growth. Almost too much. Need more competition.

Demographics are changing the dynamics of the labor market. With aging baby boomers and the decline in average births per family, we literally are not going to have enough workers to fill the jobs we need and keep our economy growing. There are over 9 million unfilled jobs in the US. "In half of all states last year, more people died than were born, up from five states in 2019. Early estimates show the total U.S. population grew 0.35% for the year ended July 1, 2020, the lowest ever documented, and growth is expected to remain near flat this year." population-growth-slows-birth-rate-decline-economic-risk. We need a rationale immigration policy to supplement our population growth and keep our economy growing.

China has a similar challenge which is why they eliminated the one-child rule. Last week, China also took on private tutoring and education, announcing a new rule that tutoring companies must be non-profit, tanking a number of stocks. $16 billion in shareholder value wiped out. One of the drivers was to reduce the cost to families of educating their children and encourage larger families (thanks Kosta Bourlas). A recent survey conducted by China National Statistic Bureau shows that more than 60 percent of Chinese families spend one-third of their income on their children's education.

Here are current labor market numbers. 7.6mm people looking for work and 9.2mm jobs open. As you see we also need to get more people educated:



This new paradigm where there are more open jobs than employees seeking work is changing the leverage in the employment market with workers having more power. This is driving wage increases and cultural changes. Last week, I wrote about "demanding" cultures vs "friendly" cultures and received feedback that this was a false choice. I agree that demanding does not have to equal "mean". "Research has shown that feelings of warmth and positive relationships at work have a greater say over employee loyalty than the size of their paycheck." why-compassion-is-a-better-managerial-tactic-than-toughness. Thanks Betsy Morton.

An example is law firms, where big firms are in desperate need of associates. Some firms have raised starting pay to over $200,000 or are giving big retention bonuses. salary-boost-for-big-laws-overwork-heralds-more-change-to-come.

I am a proponent of using the Net Promoter Score (NPS) as it relates to employment. As a reminder, NPS is calculated from one question. No need for a lengthy survey. Just ask – "on a scale of 1 – 10, how likely are you to recommend…." You add up the 9s and 10s (the promoters), ignore the 7 and 8s and add up the sum of the 1-6s (the detractors). Take the % of promoters and subtract the % of detractors so you end up with a "net promoter". The positive of people out there evangelizing a product, company or school and the countervailing negatives. I recommend using it for employment. So just ask – "how likely are you to recommend working at company x?"

Last week I wrote of the psychology of reciprocity, two other examples of its use. When you are meeting with another company and want to know more (like the size of their revenue line), offer the information about your own company first, then ask for their equivalent answer. Hard for them to say no after you have gone first. I also like to use it when interviewing. The labor lawyers tell you not to ask any personal questions, but I think you have to understand who someone is (they are not just a compilation of skills). Personally, I volunteer information about myself like discussing our children. The natural move by the interviewee will be to open up correspondingly without you asking.

Robinhood went public and is supposedly worth $30 billion. No thanks. The great majority of its revenue comes from selling its order flow to folks like Citadel. SEC is looking at banning order flow. Robinhood revenue would be gone.

Airlines need to stop changing their schedules. You book at ticket with times that work for you only to have an email come later with changed flights. Customer complaints skyrocketing.

Can someone please change the zoom phone hold music?!

Looks like I'm not the only curmudgeon. Olympic viewership way down: 2020-summer-olympic-ratings-take-a-hit.

RIP kids show Arthur. Didn't realize you were an aardvark. I thought you were a rabbit.

jml

J. Michael Locke
Musings

#138: Musing
August 6, 2021

Hard to believe but I agree with Lina Khan (Chairwoman of FTC) that we need more competition in many of our markets. The "Big Companies" taking share is not just a technology phenomenon. From WSJ: "Industry concentration, defined as the ratio of sales of the top four firms to the sales of the top 20 firms in the market, has increased by more than 30% since 1980, according to IMF research across industries and countries. After the pandemic, the top four firms will hold 60% of those sales on average…." Historically, scale gave an advantage in access to capital but I believe in the future it will be about access to talent.

The talent war is only going to increase. Not just among companies but among countries. Germany has a real worker supply problem coming. This is why Angela Merkel was more open to migration from the Middle East. Good Ted Talk on the worldwide labor supply issue (thanks Paul DeBoer) and how countries and companies can manage it starting with culture. "Employees are resources, are assets, not costs, not headcount…." The workforce crisis of 2030 -- and how to start solving it now.

As more people work remotely, company culture is going become the "glue" that keeps employees engaged and prevents them from leaving. An employer's vision is going to be increasingly important. While Steve Jobs was notoriously a very difficult person, he built something special at Apple where talented people wanted to go. steve-jobs-explained-1-clear-way-to-build-a-team-that-people-will-love-to-work-for.

It is ok to say "I don't know" (thanks Rich Schumacher and Mike Matteucci). Too many executives worry about looking stupid. Just follow it up with "I will find out and get back to you." Right next door is acknowledging your weaknesses which shows confidence not inferiority. Famed investor Ray Dalio opines that this is the single most common trait of successful people. ray-dalio-most-successful-people-are-better-at-doing-this-one-thing.

With the voluminous amount of information transmitted with the arrival of digital communication, your reading speed is critical. I never have taken a course but I like to focus on the "whole paragraph." I have always found this poster from that famed education group Jimmy John's kind of fascinating:

"The brain is a wonderful thing isn't it? Aoccdrnig to a rscheearch at Cmabrigde Uinervtisy, it deosn't mttaer in waht oredr the ltteers in a wrod are, the olny iprmoetnt tihng is taht the frist and lsat ltteer be at the rghit pclae. The rset can be a toatl mses and you can sitll raed it wouthit a porbelm. Tihs is bcuseae the huamn mnid deos not raed ervey lteter by istlef, but the wrod as a wlohe and the biran fguiers it out aynawy. WOW."

Pet peave – the response "That's a good question." Personally, I would prefer just going to the answer. Great example recently: Interviewer – "How are things at the Olympics in Tokyo?"…. Respondent – "that is a good question." Really? So penetrating.

Surprising fact: 44% of American households have a gun. I am always taken by the diversity of customers at the shooting range when I go — lots of women and racial diversity. As a white male, I am usually in the minority.

I have heard vaccine hesitancy due to the "emergency approval" of current vaccines. From WSJ: "The FDA set special requirements for the Covid-19 vaccines, including requiring two months of clinical-trial subject data. The full approval process for biologics requires at least six months of evidence as well as plant inspections and other measures to fully vet the assembly process." Pfizer has now filed for full approval and it is expected before Labor Day. I hope this gets some unvaccinated off the fence.

Happy 40th anniversary MTV and the original VJs – Mark Goodman, Alan Hunter, Nina Blackwood, JJ Jackson and my fav Martha Quinn.

jml

J. Michael Locke
Musings

#139: Musing
August 13, 2021

Preliminary census data is out and our population grew just 7.4% during the decade which is the slowest rate on record other than Great Depression. Approximately half of the growth came from the Latino population. Results show stronger growth in urban areas, but this was all pre-pandemic and does not reflect how Covid has reshaped where people live.

Last week I wrote again about the increasing issue of labor supply in our economy. Since then, the labor department reported that there were 10.1 million open jobs at end of June up from 9.2 million in May. "*The jump came as the quits rate increased while the layoffs and discharges rate was unchanged, reflecting increased bargaining power and employment options for workers."* job-openings-surge-above-10-million-for-first-time-ever. One thing the shortage will drive is the use of technology. For tasks that are repetitive and require little judgment, technology will be introduced. Your French fries at White Castle in some places are now being cooked by a robot. restaurant-robots-kitchen-labor-shortage.

Make sure the technology underneath your website is good. Google increasing the important of "user experience" when it decides how to rank results in a search. From WSJ: "*A new "page experience" update from Alphabet Inc.'s Google that will be introduced to all users by the end of August aims to cut down on frustrating episodes like those. If two websites are identical in every other way, the one that launches faster, jiggles around less when loading and lets users interact with it more quickly will be placed higher in Google Search. These three metrics, which Google calls core web vitals, will let the company rate a page's user experience, alongside existing Google measurements of how mobile-friendly it is, whether its connection is secure and whether it contains intrusive elements such as pop-ups*".

Personally, I don't think NASDAQ should be telling companies who should be on their board. The exchange's new diversity rule got blessed by the SEC. Under the rule, companies must have at least two diverse directors, including one who self-identifies as female and one who self-identifies as either an underrepresented minority or LGBTQ+. Shareholders should decide the board composition and not Nasdaq.

Decent overall leadership article in Inc. (great-leadership-brutal-truths) laid out these Top 7 actions of leaders:

1. Leaders must face conflict to solve problems
2. Leaders must grow people
3. Leaders must put employees ahead of customers
4. Leaders must make the workplace safe
5. Leaders must be willing to listen to feedback
6. Leaders must apply the strength of vulnerability
7. Leaders must act with love and care

I am not knowledgeable on the science behind climate change but clearly something is happening. Big report put out this week (climate-change-effects-may-be-irreversible). The volatility of weather is way up --- big droughts, record heat waves, devastating wildfires. It is factually proven that the average temperature is rising. The effects are not linear in that a 1-degree difference in temperature has an exponential impact on things like water vaporization as warmer air holds more moisture. This will have major economic effects. For instance, grapes are very sensitive, and vineyards are moving north. Look for Pinot from Canada to overcome Oregon in years to come. Italy is now growing Avocados (changing agricultural production). The prime areas for lobster is moving north and will eventually be in Nova Scotia rather than Maine (lobster-population-shift-maine).

Social media at its worst. Young women watch altered images on TikTok and then fly to Florida and get a Brazilian Butt Lift from a dermatologist so they can look like Jlo (bbl-brazilian-butt-lift-miami-cost-tiktok). As Randy Moss would say — C'mon man.

Seems like there are lots of curmudgeons like me. From WSJ: "*The Summer Games drew an average of 15.5 million prime-time TV viewers over their 17-day run, the lowest audience for the Summer Games since NBC started broadcasting them in 1988 and a 42% decline from the Rio de Janeiro Olympics in 2016*".

We have to stop blaming our weight gain on declining metabolism. Big study just published which says metabolism is steady from age 20-60! "*Central to their findings was that metabolism differs for all people across four distinct stages of life*" (metabolism-weight-aging):

- There's infancy, up until age 1, when calorie burning is at its peak, accelerating until it is 50 percent above the adult rate.
- Then, from age 1 to about age 20, metabolism gradually slows by about 3 percent a year.
- From age 20 to 60, it holds steady.
- And, after age 60, it declines by about 0.7 percent a year."

jml

J. Michael Locke
Musings

#140: Musing
August 20, 2021

I do not believe that companies can optimize their performance in a fully remote model like what is now being embraced by some. Companies are nothing more than the aggregated set of activities of people. It is a community. A team. Optimal performance for the team is heavily based on relationships amongst its members. You need to *know* your team members – really know them as humans, not some compilation of competencies. Employees in turn need to know their leaders – to want to follow them and trust them. A culture which provides unwritten guidance needs to be established and new members need to be "assimilated". IMO, this all cannot be done via zoom with individuals living hundreds of miles apart and interacting by phone, email, text and video. Teams need to come together in person. To me the key question is how often. Today's workforce (especially parents who typically don't have a "stay at home" spouse) value flexibility so I am not promoting the traditional five days in an office model but encourage readers not to embrace a fully remote model. I know employees might like it but overall organizational performance will suffer. This is different than saying productivity of a given worker will diminish. An individual might do his/her job well, but the aggregate performance of the team might still be inferior without the close relationships.

Consumers continue to drive unbundled pricing. While I personally prefer simplicity and would rather have an "all-in" price, most consumers respond to pricing with a base cost and add-ons. Airlines have gone this way over the last decade where you now pay for bags, pre-assigned seats or even a snack on top of the base airfare. Colleges load on all kinds of extra fees. Now hotels are getting in the mix. Pay an additional fee for daily housekeeping or using the pool. Unbundled pricing. hotels-try-out-fees-for-using-the-pool-and-checking-in-early. The logic is that this empowers a consumer to determine their own price by making a decision on what "extras" are worth it to them and thus match up their utility and indifference curves (for the econ geeks). One odd result is that consumers often end up paying more. The unbundling gives them the option to control their price and reduce it, but they end up buying everything and paying a higher price. The "control premium" if you will. You see this in higher education with "time-based" competency models where the student can take classes as fast as they can pass the final and so it becomes an all-you-can-eat as fast as you can. Most results though show no Joey Chestnuts but folks actually taking longer. They like having the control to go faster even though most choose not to.

I am a believer in separating operating businesses from real estate ownership. Lots of small business owners have value tied up in the real estate. Some large businesses do the same (ex. Sears). Owning real estate is capital intensive and has different dynamics around creating value. Be a real estate investor or run a company. Don't do both. Farmers starting to move in this direction. heres-why-the-ultra-wealthy-like-bill-gates-investing-to-farmland.

Good WSJ quotes: "Amazon marketplace is an endless bazaar"… "computer chips have become the 21st century equivalent to oil".

The extreme volume of videogaming being done by our youth is not healthy. It is a scientific fact. Games are designed to trigger the release of dopamine and the relentless dopamine release has damaging effects on the brain leading to more depression etc. digital-addictions-are-drowning-us-in-dopamine. Thanks Heather Locke for the article.

I am fascinated by Mackenzie Scott and her enormous philanthropic giving. No fancy foundation with a lot of "stuffy" staff. Just direct checks. Good article on it. 2021-mackenzie-scott-donations.

I recently visited Las Vegas. Felt like I was spending the entire time with Cheech & Chong. Smoking of marijuana everywhere (including the hotel lobby) with the accompanying odor. Is this really our new norm?

Pray for the citizens of Afghanistan – especially the women. Over 6,000 American soldiers/contractors died. The US spent over $2 trillion – $300 million per day for 20 years. Appears for nothing. World is probably going to be more dangerous now than when we first went in. Tragic.

Jml

J. Michael Locke
Musings

#141: Musing
August 27, 2021

Kind of a dark musing this week but I feel that is the world we are now in. Where is John Krasinski and SGN when you need him?

Make your sales leaders/account managers give you projections. It is not a "best efforts" job. His/her job is to deliver the number so make her/him give one to you every week and back it up with detail like pipeline coverage and specific account forecasting. They in turn should do the same for their team.

Borrow money and lock in your low interest rates now. The core personal consumption expenditures price index rose 3.6%, the highest level since May 1991. I do not believe that inflation is transitory. The shortage of labor is a structural issue and will continue to drive up compensation expenses for all businesses. why-inflation-isnt-going-away/? . The costs of running a business are going up everywhere and prices will be increased for consumers. Looks like the Fed is also going to stop its manipulation of rates by "tapering" its purchases of bonds every month which drive up bond prices and push down yields.

I often find myself lamenting with other parents on how it is so much harder to raise kids now compared to our parents. Maybe we need to look in the mirror. Out of a place of love, are we making parenting harder than it needs to be and actually hurting our kid's development? From a good article: "It's like the way our body's immune system develops …. you have to be exposed to pathogens, or your body won't know how to respond to an attack. Kids also need exposure to discomfort, failure, and struggle. I know parents who call up the school to complain if their kid doesn't get to be in the school play or make the cut for the baseball team. I know of one kid who said that he didn't like another kid in the carpool, so instead of having their child learn to tolerate the other kid, they offered to drive him to school themselves. By the time they're teenagers, they have no experience with hardship. Civilization is about adapting to less-than-perfect situations, yet parents often have this instantaneous reaction to unpleasantness, which is 'I can fix this.'" how-to-land-your-kid-in-therapy . Managing people has some similarities. You must let professionals figure stuff out, fail and learn and resist a temptation to help them out to be a nice boss. If an employee brings you an issue, don't answer the question but rather push them to come up with a solution.

Unfortunately, I am pessimistic about the coming months and Covid. With the great majority of kids unvaccinated and returning to school, cases will likely continue at high levels. There is a difference between cases and serious health risk but now data is showing that children hospitalizations rapidly increasing. more-kids-are-hospitalized-with-covid-19 . I hope our school leaders can manage the situation and keep kids in school. Only 60% of eligible Americans are fully vaccinated. Hopefully the full approval of Pfizer will help but I personally doubt it. It might help as more employers are comfortable mandating and Pfizer can advertise. However, IMO the unvaccinated are a symptom of the broader loss of trust which we now have in our leaders and institutions like CDC which has been amplified by the exaggerating media. Lecturing and moral superiority will not convince people to change their minds.

Money might? Delta is going to charge higher healthcare premiums for the unvaccinated and some health insurance companies are no longer waiving cost-sharing for Covid treatment for unvaccinated.

Interesting stat – only 1% of pets in the US have medical insurance compared to 30% in Sweden and 25% in U.K. Tell your kid to be a vet. I have never walked out without putting down a credit card for hundreds of dollars. Great cash business.

Good quote – the various private entities using technology to try and locate and help the stranded in Afghanistan are a "Digital Dunkirk".

Curmudgeon comment of the week – who cares who hosts Jeopardy?

C'Mon man – the 30-year-old man whose picture as a naked baby in the pool was the cover of Nirvana "Nevermind" is suing for child pornography and saying he has suffered mental distress. I wish we had the British system where loser pays the legal fees of the winner.

Pray for everyone in Afghanistan. What a mess.

jml

J. Michael Locke
Musings

#142: Musing
September 3, 2021

I received great advice in response to last week's musing: "Embrace the Suck." We all have low points as individuals, as a family and currently as a society. Rather than "wallowing", the key to success is to slow down, reground yourself and step back to focus on the long run. how-to-deal-with-stress-in-your-life-embrace-it . Thanks Heather Locke.

The "return to office" debate seems to be finding more of a norm. According to a survey by Willis Towers Watson, 51% of companies reported they will have a vaccine mandate by the end of the year. Many schools are mandating vaccine for staff as well as the military and many government entities. With full FDA authorization, appears the Covid vaccine will go the way of Polio or MMR. The "remote work" debate is still less settled. I don't hear many arguing for a return to full in the office 5 days a week, so it is a question of "how much remote". Likely to be dependent on type of job and industry. I just participated in a face to face two day management meeting and there is no comparison to a zoom call in terms of connecting as individuals and as a team.

Weak job growth last month due to anxiety and uncertainty around Covid. Interesting stat posted by the CEO of Sweetgreen (I have not independently verified): "78% of hospitalizations due to COVID are Obese and Overweight people".

It never works when the decision maker is paying with "Other People's Money". Our elected officials waste money on government contracts using your money. Kids waste their parent's money. Buy-side representing brokers getting paid by the sell-side often get overpaid. Employees can waste the shareholders money. Important to make everyone "think like an owner" and act as if it was their money on the line.

I have never understood why service providers and many retailers still follow a 1950s model where they are open 9-5 assuming there is a stay-at-home adult who can shop then. Less than 20% of households have a stay-at-home parent. The barber and salon should be open until 10pm as should all retailers. With the decline in religious observance, I think stores should also be open on Sunday. Fast Food operators get it – some McDonalds open 24x7. Be available when your clients/customers need you to be open for new sales or for customer support.

Are we headed to a "Metaverse"? Tech companies evangelizing it. Metaverse is a virtual world – fortnite + VR + cryptocurrency + zoom. Your personal existence in a digital world with all of the accompanying dating, commerce, and socializing. No need for plastic surgery or Rogaine in the Metaverse – just change your avatar.

Don't be a ghoster. According to WSJ, 77% of job candidates have experience ghosting from prospective employers and 25% of individuals have been ghosted by someone they were dating. Have the courtesy and professionalism to "close it out" and just tell someone no.

Don’t underestimate the power of “sex workers”. OnlyFans reversed course on banning sexually explicit content was swift. I predict prostitution will follow the path of marijuana and become legal and thus subject to regulatory oversight. The terminology itself – “sex worker” – and the general acceptance of them as important parts of the creator economy show the normalization.

I think President Biden is making a leadership mistake. Acknowledging a mistake shows strength and not weakness. It was a good decision to end the war, but the manner of exit was suboptimal. IMO he should just say that and not argue that the withdrawal was perfectly executed. He loses credibility using words like “extraordinary success” to describe the exit. 5 of the 13 lost soldiers in Afghanistan last week were just 20 years old. As a parent of a son that age, important to remember who we have at war in these dangerous places.

Maybe China has it right. “Starting this week, minors will be allowed only an hour of play time between 8 pm and 9 pm on Friday, weekends and public holidays.” china-ban-video-games-minor.

RIP the “996” in China. Many tech companies in China have made employees work from 9:00 am to 9:00 pm, 6 days per week; i.e. 72 hours per week. Government stepping in.

Also RIP Google health. Hundreds of millions of dollars spent by Google trying to build out a healthcare focused effort. They lost their lead guy to the EMR company Cerner last week and decided to fold their cards.

Jml

J. Michael Locke
Musings

#143: Musing
September 10, 2021

It is not good when your customers are so frustrated that they build a website to track your broken ice cream machines: www.mcbroken.com. Surprised McDonald's can't figure this one out. 32% of machines in New York are currently broken according to the site.

The Theranos trial is reminding us that smart people can be really stupid. The power of FOMO in the financial community is stunning. Always be skeptical/critical when analyzing investments. Dig into the details. Interesting that Elizabeth Holmes is predicted to use a Svengali defense where an accused is not capable of being guilty of intent because they were under the control and influence of an evil Svengali. elizabeth-holmess-last-pitch.

Learned a new one this week – CARR: contracted annual recurring revenue (thanks Travis Hughes). SaaS businesses are valued on ARR and banks lend money on ARR lines. CARR takes that one step further by counting business which is contracted but implementation hasn't occurred yet so not recognizing gaap revenue or arr. This one actually makes sense to me.

Don't lose the big picture when implementing your executive bonus programs. The basic principle is to drive the behavior you seek by using the carrot of additional compensation and to align incentives between managers and owners. Still, sometimes – especially in younger companies – targets can be missed irrespective of executive performance and execution. I believe you have to then adjust the goalposts. If the team did all they could and what you asked but externalities prevented success, change the targets midstream. This is also why important to accrue full bonus funding throughout the year.

Sanity is returning to the capital markets with SPACs plummeting in value. Gamestop still way overvalued.

An under-discussed issue is the disappearance of men from colleges and universities. At private four-year schools, women make up 61% of enrollments now. college-university-fall-higher-education-men-women-enrollment-admissions. Good overall piece on the pandemic and education by Scott Galloway is "reprinted" after my initials at the end of this week's musing.

LinkedIn is becoming a non-toxic Facebook. Our personal and professional lives are intertwined. Our work colleagues are our friends and we want to share personal news as well as work news.

The press doesn't always want to get into the details which can mislead. The Supreme Court declined to implement an injunction against the new, restrictive Texas abortion law. This decision was not focused on the abortion rights issue but rather procedural questions. In a novel approach, the Texas law relies on private citizen enforcement and not government officials. This raises a different set of procedural questions. The court was not taking a position on the constitutionality of the law itself.

It will be interesting to see the constitutionality of Biden forcing private employers to mandate vaccines? Federal government can't mandate individuals directly so is doing a "workaround" by using employers through OSHA. *"The New York Times pointed out that OSHA is tasked with overseeing workplace safety and has the authority to "quickly issue a rule, known as an emergency temporary standard, if it can show that workers are exposed to a grave danger and that the rule is necessary to address that danger. The rule must also be feasible for employers to enforce." (Fox News).*

Great quote on change management from Ross Alexander: "Resource the willing, convince the skeptical and ignore the resistant."

Interesting stat. Less than 2% of Africa's population is vaccinated.

RIP online comment section? I am noticing more and more media properties eliminating the cesspool of online comments. Australia courts just opined that the media company is responsible for what is said in the online comments. Good riddance. australias-top-court-finds-media-companies-liable-for-other-peoples-facebook-comments.

Prayers for those lost in 9/11. It is one of two dates in my life where you remember exactly where you were when it happened. Unfortunately, the other is the OJ white Bronco chase although it was nice when Kardashian meant a good lawyer and not inane TV show.

Jml

No Mercy/No Malice

Scott Galloway @profgalloway
September 10, 2021

Back to School

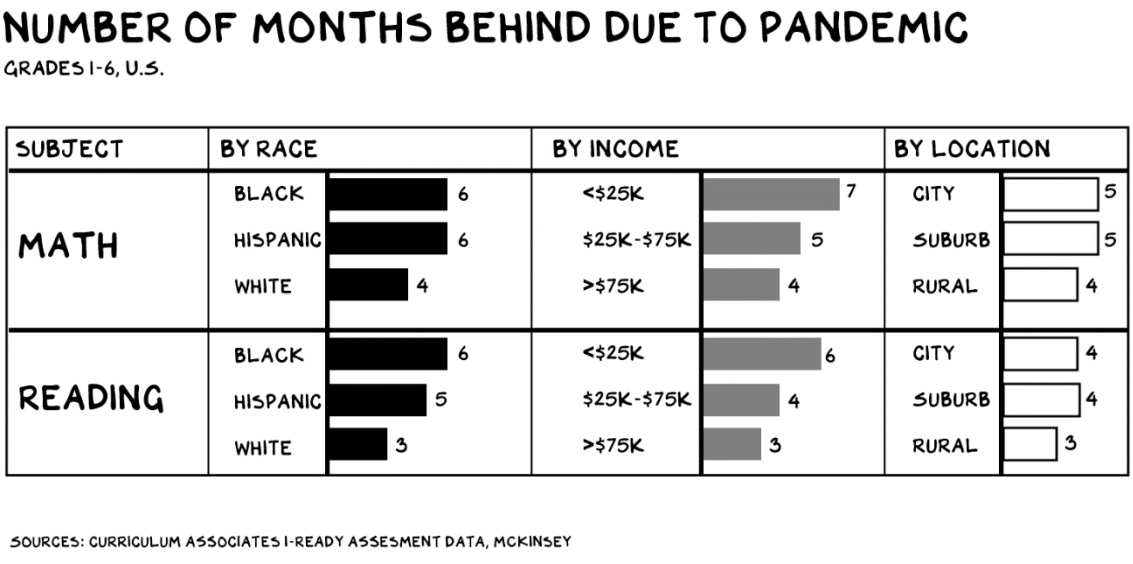
Miles of plexiglass, masks, and deranged parents. Back to school 2021 feels more like Stranger Things than the fall ritual we grew up with. Yet there's an eerie sameness between this fall and the previous most-unusual-back-to-school year of our lives … last year. Classrooms are experiments on viral transmission rates, and school board meetings are proof that antipsychotic meds are dangerously underprescribed.



Whitney Was Right

The children are indeed our future. In my book, Post Corona, I offered this thesis: "The pandemic's most enduring impact will be as an accelerant." And that's proving out in many areas. In health care, office work, food delivery, banking, and more, we are seeing "decades happen in weeks" as Lenin said. (Note: He didn't say it, but attributing the quote to Lenin is gangster.)

In one sector, however, everything is moving slower. Education. Our elementary school kids are learning less, and some are nearly a full school year behind where they would have been pre-pandemic.



While their parents harass doctors at school board meetings and fight epic Facebook comment wars, our

kids are not learning to read or count. McKinsey projects that this learning gap will reduce lifetime earnings for K-12 students by an average of $49,000 to $61,000. By the time the majority of these kids have joined the workforce in 2040, it's estimated we'll have lost as much as $188 billion a year in GDP due to unfinished learning during the pandemic.

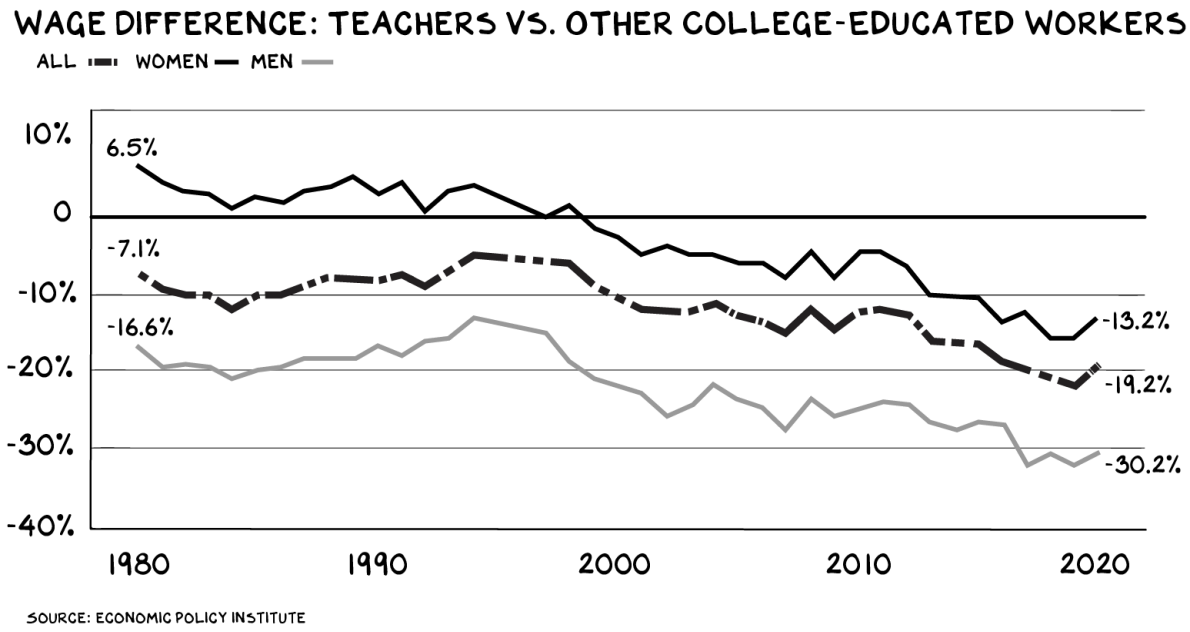
As with most things, these ill effects are falling disproportionately on the poor and children of color. Black kids are six months behind in math and learning, whereas white kids are "only" four and three months behind.

Meanwhile, the U.S. educational system has been losing ground to those of our international peers for years. American students routinely score lower on tests of basic skills than students in other countries, a trend that isn't likely to reverse.

Not for Teacher

Who will get these kids back on track? Don't count on teachers. It turns out that if you underpay, under-resource, and fail to accord equal respect to people for long enough … they'll quit. Two-thirds of our school districts face a teacher shortage, and 28% of teachers are likely to retire or leave the profession earlier than expected.

Who can blame them? Since 1980, their income relative to other college graduates has been in steady decline. Men have always taken a pay cut to enter the classroom, but it's gone from a 17% haircut to a 30% scalping. Teaching used to be an economically attractive profession for women, relative to their other options — though I'd guess that wasn't because we paid female teachers so well — but now a female college graduate makes 13% less than her peers if she goes into teaching.



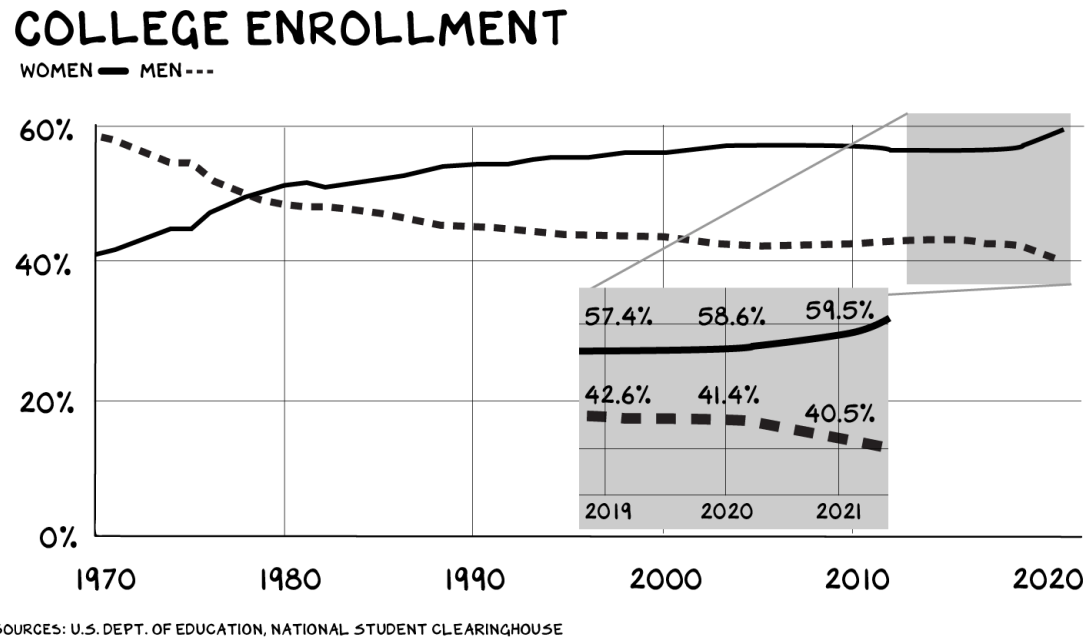
In addition to underpaying them, we're now asking teachers to stand in a room full of potential delta variant factories, and to referee QAnon vs. anti-vaxxer brawls on parent-teacher night.

Teaching is arguably the most important job in society. Our future is in their care. And something has gone very, very wrong. We'll know the profession has hit a new low when we start referring to them as "heros" or (worse) "essential workers" — the lip-service labels liberals bestow on those we exploit to maintain our creature comforts through pestilence, poverty, and war.

The Ivory Tower

I write often about higher education — not only because it's my day job, but also because it's an integral part of the innovation and economic mobility at the heart of the American dream. College has become too expensive. It's morphed from the ultimate lubricant of upward mobility to the enforcer of the caste system. Every day, it becomes less American. I thought Covid would inspire partnerships with tech firms to dramatically expand access. I was wrong. Our elite universities have doubled down on exclusivity rather than embrace the opportunity for change.

But while I and many others were worrying about rising costs, administrative bloat, and a lack of teaching innovation, another worrying trend was gathering momentum. Young men are opting out of college.



In 1970, men accounted for 60% of college enrollment. That number has decreased to 40%. This largely reflects a dwindling male applicant pool. Women now submit 35% more college applications than men, which is forcing some schools to quietly prop up male admission rates. Yes, you read that right. Men are receiving affirmative action for being men.

This decline is a Rorschach test for pundits and comment-section warriors. People who think college is too woke declare that's what's driving men out. People who hate video games, THC, or feminism can blame them.

Employment economics probably explains the trend to an extent. Young men without college degrees have better options than young women. Many fields that don't require a degree are gender imbalanced,

and the traditionally male-dominated jobs tend to pay better. Thus, as the value proposition of college gets worse (higher costs, worse experience), men opt out because they can. Women stick around because they have fewer choices. With traditionally male-dominated skilled labor trades in high demand, we should expect to see even more decline in male college attendance.

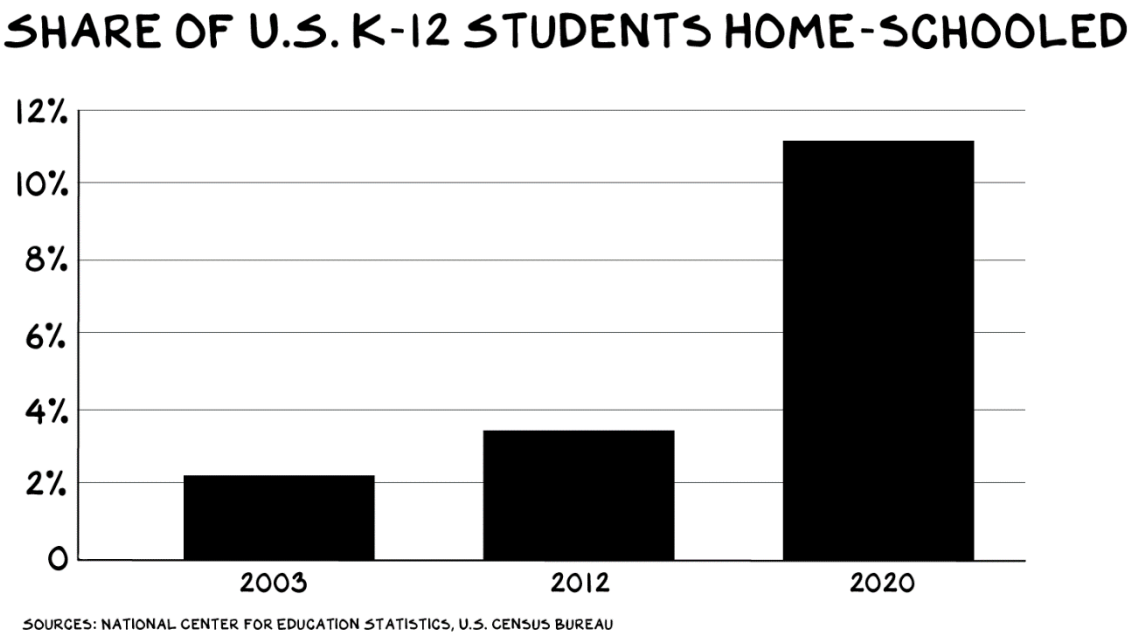
But is that enough to explain how far women have pulled ahead? UCLA has expanded its enrollment by 3,000 students since 2013, and 90% of that increase is attributed to women. The essence of this data is too much of a good thing. An overdue correction may have, as often happens in markets, inspired an overcorrection.

We've lost young men in the shuffle, made them objects of our political arguments and targets of our algorithms. It's easy to shrug it off. "Someone else's turn to eat," so to speak. Sure. But hungry young men without role models or prospects are, to be blunt, dangerous. The wheel doesn't need to turn, it needs to be broken.

Specifically, we need to dramatically expand enrollments at our great public universities and invest in vocational and apprenticeship programs (for young women and men). I've given up on elite private schools — we've become Birkin Bags posing as public servants whose arrogance and self-aggrandizement is noxious. This week, I was invited to an NYU faculty education session on the use of pronouns. If the supposedly most brilliant among us can't keep track of he/she/they, what hope is there that we'll ever tackle have/have nots and how we (faculty and administrators drunk on luxury) are making the problem worse?

Abandoning Ship

For a rapidly increasing number of American families, the answer to the problems with our schools is not to attend them. Home-schooling, growing in popularity for years, skyrocketed during the pandemic. Today, more than 1 in 10 kids are home-schooled. It may indeed be a solution for some families, but it's impractical or unappealing for millions of households who rely on public and private schools to teach critical skills.



Hope
There are real signs of hope and change, though. U.K.-based Multiverse offers non-college-bound kids apprenticeships at many of the world's premier firms. Promising kids get an onramp to the American dream that bypasses the arrogance and debt of admissions departments and outrageous tuition fees, respectively. In addition, this summer, the University of California sent out more than 160,000 admissions offers for Fall 2021, a record high. And institutions like the UC system that are taking positive steps got a boost this week from, of all places, the college-ranking industrial complex. Forbes magazine changed its ranking system in a way that could inspire a huge shift back to where higher ed needs to be.

Rankings are devastatingly important to the demand a school registers. Young people are inexperienced and insecure, which are the pillars upon which margin from brand equity rests. The next time you see a ranking of the "world's strongest brands," recognize that it's left off the uber brands … universities. If Apple were a school, it could have paid for its $5 billion spaceship with naming rights across the side of the building, on each lecture hall, and over every urinal. Coke and McDonald's don't hold a candle to MIT and Michigan. Anyway, the most insidious input to these paramount rankings is the rate of admission. More accurately, non-admission. The more people they turn away, the higher the ranking, the more apps, the more margin power, the more student debt, the higher the pay of administrators, the more incentive to reject more students … and the wheel turns.

Forbes's most recent ranking, however, includes "access" as a factor (specifically, the percentage of kids at the school who received a Pell grant). When that essential element is taken into account … UC Berkeley is the top-ranked school in America. Four UC campuses are in the top 25, as are five other public universities. This. Is. Big.

Ms. Jensen
My iPhone keeps serving pictures of my boys from years ago. It is very rewarding and, at the same time, heartbreaking. I feel a rush of happiness, and then longing sets in. I will never have back the 5-year-old who let me grow his curls out. Gone is the 8-year-old who'd sleep naked unless you found pajamas with

Jedi Master Yoda on them. If you don't find the preceding two sentences nauseating, it means one thing: You have kids.

Back to school, one week in, has been wondrous in our household. There's been a step change in our 11-year-old. He left the fourth grade a boy who swore every morning he had unbearable stomach pain and had to be literally dragged out of bed. As a new fifth grader, he's asking us to help him organize his homework the night before, as he wants "to impress Ms. Jensen."

When he said this, I told him that a man expresses quiet confidence — we talk a lot about "what a man does" — and that one of the ways you develop quiet confidence is by being prepared, and that I'm really impressed with him as he's clearly developing into a man. He beams … I mean beams. A feeling of reward and confidence visibly washes over him, and he lurches to hug me, only he evades my embrace, runs into his older brother's room, hits him in the face, and screams "nobody likes you!" Everyone celebrates in their own way.

I tell him to stop (being a dad means issuing several million verbal warnings each day) and say he needs to get to bed right away. He responds, as he does dozens of times each day, with "why?" Because … we're back to school.

Life is so rich,
SCOTT

J. Michael Locke
Musings

#144: Musing
September 17, 2021

Be glad you don't administer the SAT as a business. With pandemic accelerating the trend to "test optional", the College Board reported on Wednesday that the number of students who took the SAT from the high school Class of 2021 fell by a whopping 32%. Fewer students taking the test meant the average test score rose a bit from 1051 to 1060. (Source: Jeff Selingo).

Learned a new one: decency quotient (DQ). Some believe the key skills for management have moved from IQ (smartest) to EQ (emotionally intelligent) to DQ where it is about getting along with others etc.

Don't chase the current salaries some are offering in the market. Less "mature" operators are throwing money around to fill their jobs and are going to get stuck on an abnormally high cost structure. Rather, I recommend you really invest in your talent acquisition department and employment "value prop". You need to sell "working for your organization" no differently than selling your product or service with a good value proposition and effective communication. I am a fan of the recruitment process outsourcing (RPO) market.

I fear that some leaders view their role as "saying nothing" so as not to offend. If you listen to the Chicago Bears current coach be interviewed, he literally offers nothing of substance and always insists things are good. I would rather have a passionate leader who will show some emotion, compete and call things as they are – good and bad. Where is Woody Hayes when you need him. The Bears defensive backs were horrific.

I hate it when people call online learning: "Remote learning". It implies a lack of connectivity and community. While I don't argue that online can replicate F2F on those two criteria, it is not "remote".

Even Taco Bell on the MRR wave. From CNBC: *"Taco Bell is testing a 30-day pass for a free taco a day in Tucson, Arizona restaurants."*

Why can't Apple create a better weather app? For all of the talent within that company, you would think they would create a better one so everyone doesn't have to go download a third-party app. Weather occupies a rare position in society of almost unanimous interest. This is why the news programs highlight it so prominently. From the Atlantic: *"Keeping up with weather has always been a ubiquitous and routine activity; the elements play a part in how we dress, what we do, where we travel. The accessibility and universality of weather talk can bind a community together"* C'mon Tim Cook – you are better than this, get a better app.

Private capital markets access needs to be expanded. Over the last couple decades, all of the action has moved to the private markets. According to Marketwatch: *"Since peaking at around 8,000 sometime in the mid-to-late 1990s, depending on your data source, the number of companies publicly listed on U.S. exchanges has steadily declined. In 2016, according to Credit Suisse, that number got down to around*

3,600. Today, closer to 6,000 companies trade on the NYSE and Nasdaq". Returns are better in the private market, yet most people don't have access. The investor protection laws limit those who can participate in "unregistered offerings" to people with certain levels of income or wealth (so-called accredited investors). SEC needs to address this.

I am always amazed when individuals are so clueless on conversation time management. To have a good conversation, time among speakers should be roughly evenly distributed. All too often, one person dominates a conversation making it more of a "broadcast". Don't hire that kind of person.

Median household income in US was $67,500 in 2020.

According to WSJ, half of new gun buyers are women.

Look out for the rise in small town living. With more remote work, many can separate where they live from their job. I am biased having been raised in a smaller community, but it seems to me life is just simpler. Less hassle. People are nicer because they know each other. Your personal brand matters so you don't screw people. Also look for companies to stop cutting employee salaries if they move from more expensive urban to cheaper small communities. If the employee is producing the same output, why does their worth go down? Go long small-town real estate.

Rolling Stone updated its best songs of all time. The top 20 are listed below, with the full list of 500 available on Rolling Stone's website. Spotify has a playlist out if you want to listen to them.

20. Robyn: "Dancing on My Own"
19. John Lennon: "Imagine"
18. Prince and the Revolution: "Purple Rain"
17. Queen: "Bohemian Rhapsody"
16. Beyoncé feat. Jay-Z: "Crazy in Love"
15. The Beatles: "I Want to Hold Your Hand"
14. The Kinks: "Waterloo Sunset"
13. The Rolling Stones: "Gimme Shelter"
12. Stevie Wonder: "Superstition"
11. The Beach Boys: "God Only Knows"
10. Outkast: "Hey Ya!"
9. Fleetwood Mac: "Dreams"
8. Missy Elliott: "Get Ur Freak On"
7. The Beatles: "Strawberry Fields Forever"
6. Marvin Gaye: "What's Going On"
5. Nirvana: "Smells Like Teen Spirit"
4. Bob Dylan: "Like a Rolling Stone"
3. Sam Cooke: "A Change Is Gonna Come"
2. Public Enemy: "Fight the Power"
1. Aretha Franklin: "Respect"

Happy Mexican Independence Day (September 16th NOT May 5th).

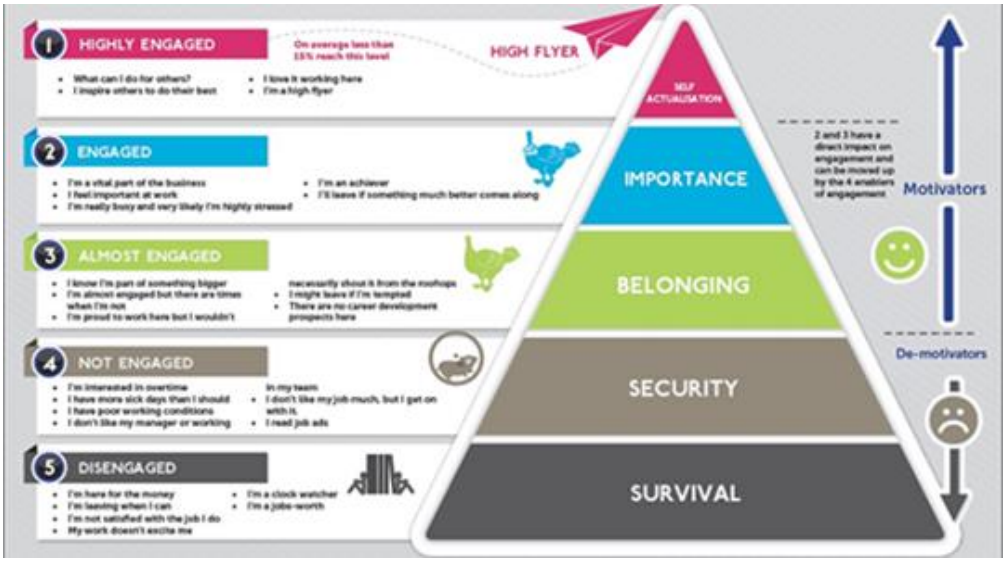
jml

J. Michael Locke
Musings

#145: Musing
September 24, 2021

Some great inside looks at the evil empire of Facebook last week by WSJ. I hate leaks but, in this case, I praise an insider for giving reporters lots of internal documents. The Facebook algorithm focuses on MSI – Meaningful Social Interactions. It looks at how many people react to your post (like it, share it, comment on it) and how close in your network they are. The problem is that "extreme"/partisan content drives higher level of reaction and thus has better MSI and thus gets promoted by the algorithm. The algorithm actually predicts the potential of a post to go viral and thus serves up this type of content – "outrage bait". The result: our hyper-partisan, filter bubble world! Here is a tweet from the former head of Facebook's civic team: "When you treat all engagement equally (irrespective of content), increasing feed engagement will invariably amplify misinfo, sensationalism, hate, and other societal harms. I wish this weren't the case, but it is so predictable that it is perhaps a natural law of social networks". Get off Facebook!

Remote/hybrid work is leading to more fragile employee/employer connections and thus higher levels of resignation and turnover. HR needs to think about employee engagement like Maslow's hierarchy and create programs to drive to self-actualization. Interesting graphic on this:



It is not just important for employee development and engagement to get workers into the office but also for their own mental health. Employees need to interact F2F with other people. Good article (thanks Sunny Chico): work-home-burnout-is-lot-more-complex-you-think

A couple follow-ups from recent topics:

I shared that I find the “milquetoast” communication by many coaches to be poor leadership. Don’t count Northwestern coach Pat Fitzgerald in that group. He calls it like it is. After a recent loss, he said “I would like to stop doing what losing teams do. Losing teams turn the ball over. Losing teams have self-inflicted wounds. Losing teams give up explosive plays. Losing teams have communication issues. That’s why you lose games. This is not hard”.

According to Merriam-Webster it is “milquetoast” and not “milk toast”: “*Caspar Milquetoast was a comic strip character created in 1924 by the American cartoonist Harold T. Webster. The strip, called "The Timid Soul," ran every Sunday in the New York Herald Tribune for many years. Webster, who claimed that Milquetoast was a self-portrait, summed up the character as "the man who speaks softly and gets hit with a big stick." The earliest examples for Milquetoast used as a generic synonym for "timid person" date from the mid-1930s. Caspar's last name might remind you of "milk toast," a bland concoction of buttered toast served in a dish of warm milk.”*

I also highlighted the declining percentage of college students who are men. We are now at 60% women/40% men. Good opinion letter on why in WSJ (why more women in college) identifies four reasons: 1) the rapid rise in female labor participation with later marriages and fewer kids; 2) labor market shifts towards industries where women outperform like healthcare; 3) women doing better academically; and 4) lots of men are in prison compared to women.

The WSJ came out with their college rankings. They weigh economic outcomes (graduates debt, salaries) more than inputs . Rich schools win because they can be more generous with scholarships. best-colleges-us-rankings . Top 10 are:

1. Harvard University
2. Stanford University
3. Massachusetts Institute of Technology
4. Yale University
5. Duke University
6. Brown University
7. California Institute of Technology
8. Princeton University
9. Johns Hopkins University
10. Northwestern University

Personally, I would focus on those schools with great engagement. That is what makes for a good community. Top Schools for Engagement:

1. Dordt University
2. Samford University
3. Harvard University
4. Baylor University
5. Brigham Young University-Provo
6. Cedarville University
7. University of Michigan-Ann Arbor
8. University of Notre Dame
9. Oral Roberts University
10. Purdue University West Lafayette

11. University of Southern California

Interesting stats: according to Bill Maher, AOC's dress is already happening as "the richest 65,000 New Yorkers out of 8 million people pay 51 percent of taxes."

jml

J. Michael Locke
Musings

#146: Musing
October 1, 2021

With all of the discussion of remote or hybrid work, I encourage readers to focus on work-life *integration* vs work-life *balance*. Technology has eliminated the "segmentation" of our lives between work and home. First it was voicemail (remember the days of pink slips with messages that came into office after you went home?) then email then cell phones. Executives can now be contacted 24x7 and the speed of commerce has accelerated, so checking emails, etc. at night and on weekends is now expected. Personally, I don't believe top professionals should ever turn on their "out of office email message" and should respond to emails within a couple hours on nights and weekends. I have the honor of interacting with some very successful executives later in their careers and they still are "online" all of the time as that is just part of having an important role.

The key is that work can't become all-consuming so that no personal life exists. You must *integrate*. Professor Stew Friedman at Wharton has created an entire institute on this --- http://worklife.wharton.upenn.edu/ . He believes there are four aspects of life that must be balanced: work, home, community, and the private self (mind, body, spirit). I have heard others describe the same four as a "cross" that must be balanced. One key is pulling the non-work segments "into the workday". Run your errand, work out or attend a volunteer meeting in the afternoon. Work doesn't get to push into evenings and weekends and still hold exclusivity on 8am-5pm Monday through Friday. Integrate!

Most companies have a fiscal year which matches the calendar year. As we head into Q4 and the annual budgeting process, keep your eyes on "run rate". If you are growing, you have added expenses during 2021 but the annual 2021 results will only reflect part of that cost increase. It is key to look at your annualized run rate expense number by taking the latest month x 12 (or Q4 forecasted x 4). Same on the revenue line (if you are a recurring revenue business) as you have added or lost clients during 2021 which is only partially impacted. This run rate tells you where you are headed into 2022.

As you run the budget process, I recommend setting guardrails for revenue and profits. Don't just ask for first cuts from the team without any guidance as this will result in a long wish list of expense increases and the whole budgeting process will be about dialing that back in. One CEO I have worked with always started with a productivity improvement assumption. His view was that employees should constantly improve so absent external factors, their productivity should go up like 10% and that should be assumed. Great cultural result if you can get a relentless focus on improvement. Some CEOs also like "zero-based budgeting" where the department leader must defend every staff member and expense rather than taking existing spend as a given that gets added to. Finally, get external benchmarks. What our "market margins"?

Great quote from Bill Shaddock (successful TX businessman): *"Your ability to build and maintain relationships will determine your professional and personal success."* Couldn't agree more and that doesn't happen over Zoom.

Never underestimate the power of a positive culture. When organizations develop it and leaders drive it home in every interaction, wonderful things happen. We recently experienced it when visiting our daughter at TCU. The faculty and staff there are committed to providing students (and all constituents) a vibrant, enjoyable college experience. You see it in every interaction – whether asking a faculty member a question or having a young staffer walk you to where you need to go when you are lost. Kudos to Chancellor Boschini and his team. Go Horned Frogs! (that is right, quite the mascot).

Part of creating a positive community is focusing on support and encouragement rather than division. I strongly disagree with the developing models of "turning every citizen into an enforcer" whether it is the new TX abortion law or schools where students are encouraged to "turn other students" in for behavioral issues. Let's focus on helping each other like the rule of improvisation of "I got your back".

According to Scott Galloway, 43% of tech companies now go public with a dual-class structure. That is crazy. In a dual-class structure, some shareholders have a type of stock with superior voting rights so although those shareholders might be in the minority from an ownership perspective, they still control the business through enhanced voting rights. IMO, if you want access to the public equity market, you should have to adopt a one share – one vote model.

Watch the growth in non-alcoholic drinks. an-ex-drinkers-search-for-a-sober-buzz

jml

J. Michael Locke
Musings

#147: Musing
October 8, 2021

A new operator has submitted a proposal to the SEC for a 24x7 stock trading exchange. Count me in. We are in a global and technology-based world. Things should be available when the consumer needs them (I had to explain to our 15-year-old son why his Fidelity app-based trade didn't go through at 6pm.) It doesn't make sense for stocks to only trade from 9:30 to 4:00 east coast time. IMO help desk and customer support lines should be open at night and on weekends. Many McDonalds are open 24 hours and 7-Eleven's don't lock their doors. I am amazed that car dealerships stay closed on Sunday here in Illinois. How does that compete with Carvana where I bought a car online at 10pm at night last week? We need to get out of a Monday – Friday 9 to 5pm mentality. Less than 10% of households have an "at home parent" so more than 90% of households need to do much of their consumption outside of "normal" work hours. Per last week's musing, it then becomes about work/life integration.

Tough week for Facebook. A very articulate former employee "whistleblower" on 60 minutes and before Congress giving an inside look at their suboptimal management of content (this on top of a botched configuration which led to big outage). Readers of the musings know I am very anti-Facebook so I am delighted to see the discussion get such coverage. AI algorithms use "engagement based rankings" to determine what you see which leads to a proliferation of extreme content. It plays right to Freud's "Id" and the topics which get dopamine released. From an MIT study: "*The machine-learning models that maximize engagement also favor controversy, misinformation, and extremism: put simply, people just like outrageous stuff."* Good article here for those who want to understand more: facebook-whistleblower-frances-haugen-algorithms. The whistleblower wants a government managed "oversight" group – the "federal reserve of algorithms." I don't know about that, but FB is bad news. King Zuckerberg's response post is pasted at the end of this musing in case you are interested.

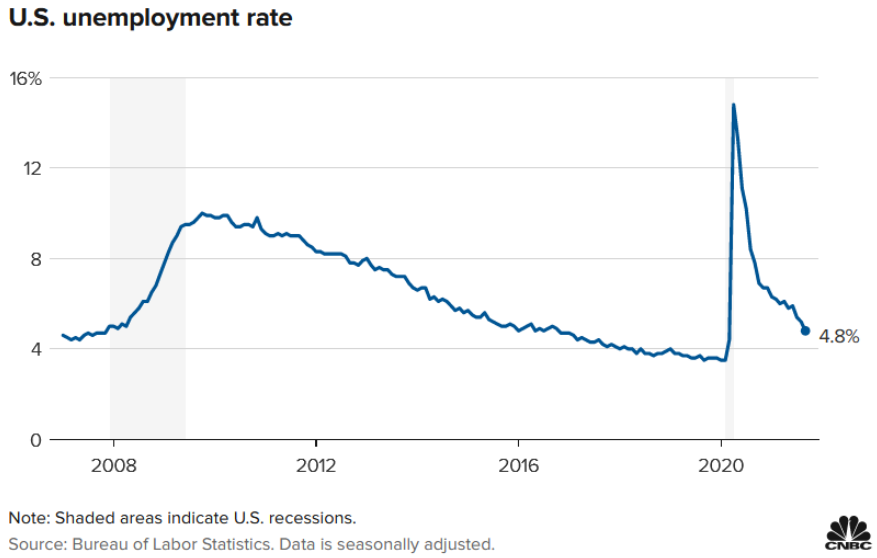
The FB situation also highlights the problem with dual-class stock structures. Mark Zuckerberg controls 58% of the votes of a $1 trillion company. Crazy. Running a public company like a private company (thanks Russ).

Remember to always respond to digital communications. IMO you can't trust when you send an email or text that it was received, so like sending something "registered mail," you need a response. For me, it is a simple "thanks." Otherwise, the email might be sitting in spam or accidentally get deleted on the recipient's cellphone. Recently I was wondering why someone hadn't responded to a text invitation. Turns out my text defaulted to the business number in my contacts rather than the mobile, so it went into the "text Bermuda triangle" where I thought my invitation had been extended and the recipient never got it.

Watch insurance companies drive vaccination through rates. Ochsner Health System in Louisiana recently announced that it would charging workers $200 per month next year for spouses and partners who aren't vaccinated against COVID-19. *"This fee is similar to what's been in place for tobacco users and is in line with the benefits offered by many healthcare organizations and companies."* Interestingly,

spouses usually cost more than the employee. The Employee Benefit Research Institute estimates that spouses typically cost more than $1,000 more than employees to cover, and some companies choose not to cover spouses or assess fees if spouses select coverage if other options are available.

Friday's September jobs report showed the continued tightness in the labor market. Overall "headline number" increase of 194,000 in the month (below most expectations of something closer to 500,000) masked the good rotation away from government to private with 123,000 decline in government payrolls, while private payrolls increased by 317,000. Unemployment is closing in on historical lows again. See this graph from CNBC:



My libertarian side is really bothered by the idea being proposed in Washington for banks to report any account activity over $600. That is right. The IRS would know if you had a $750 transaction in your bank account. I am not trying to avoid taxes, but I don't want a government bureaucrat watching my commercial banking transactions.

Interesting stat: On Hinge, the top 10% of men receive nearly 60% of the "likes" — the comparable figure for women is 45%.

Another interesting stat: there are more than 34,000 dollar stores in the United States, more than all Walmart, Starbucks and McDonald's combined. Foot traffic at the largest such chain, Dollar General, is up 32 percent from pre-pandemic levels, far outpacing the 3 percent increase at Walmart.

Thanks John McWeeny for this interesting post from Chris Herd via Twitter:

I've spoken to 1,500+ people about remote work in the last 9 months. A few predictions of what is likely to emerge before 2030:

- ***Rural Living**: World-class people will move to smaller cities, have a lower cost of living & higher quality of life These regions must innovate quickly to attract that wealth. Better schools, faster internet connections are a must*

- ***Asynchronous Work**: Offices are instantaneous gratification distraction factories where synchronous work makes it impossible to get stuff done Tools that enable asynchronous work are the most important thing globally remote teams need. A lot of startups will try to tackle this*
- ***Hobbies Renaissance**: Remote working will lead to a rise in people participating in hobbies and activities which link them to people in their local community. This will lead to deeper, more meaningful relationships which overcome societal issues of loneliness and isolation*
- ***Diversity & Inclusion:** The most diverse and inclusive teams in history will emerge rapidly Companies who embrace it have a first-mover advantage to attract great talent globally. Companies who don't will lose their best people to their biggest competitors*
- ***Output focus**: Time will be replaced as the main KPI for judging performance by productivity and output Great workers will be the ones who deliver what they promise consistently Advancement decisions will be decided by capability rather than who you drink beer with after work*
- ***Private Equity**: The hottest trend of the next decade for private equity will see them purchase companies, make them remote-first. The cost saving in real-estate at scale will be eye-watering. The productivity gains will be the final nail in the coffin for the office*
- ***Working Too Much**: Companies worry that the workers won't work enough when operating remotely. The opposite will be true and become a big problem Remote workers burning out because they work too much will have to be addressed*
- ***Remote Retreats**: Purpose built destinations that allow for entire companies to fly into a campus for a synchronous week Likely staffed with facilitators and educators who train staff of how to maximize effectiveness*
- ***Life-Work Balance**: The rise of remote will lead to people re-prioritizing what is important to them. Organizing your work around your life will be the first noticeable switch. People realizing they are more than there job will lead to deeper purpose in other areas*
- ***Bullshit Tasks**: The need to pad out your 8 hour day will evaporate, replaced by clear tasks and responsibilities. Workers will do what needs to be done rather than wasting their trying to look busy with the rest of the office*
- ***Health & Wellbeing**: A lack of commute will give workers 25 extra days a year to do other things. Workers will exploit the freedom they have to organize things more freely in their day. Afternoon runs, morning meditation, 2 things a lot of people I know now do*
- ***Personal RPA**: Robotic process automation will transform work for individuals No-code tools that enable workers to built bots that automate menial parts of their roles will be huge*
- ***Death of HQ**: The office is dead but offices will persist. They'll be used less frequently then hardly at all. Co-working, subscription clubs, will emerge that let workers who prefer that mode of work to operate from there*
- ***Remote Living:** Work from anywhere RVs will become huge business. Associated business parks and services will spring up. This will happen even more rapidly as self-driving tech emerges. Expect a @Tesla product in this space*

- ***Life-work balance****: Massive increases in part-time and freelance work A recognition that we no longer have to sacrifice work for living, we can organize work around our lives*
- ***Community Led SaaS****: As no-code continues to grow, tech is barely a barrier Communities become the most important most a company has*
- ***Remote Visa****: Small nations coming together in order to attract remote workers at different stages of the year. Huge opportunity to synchronize education to enable families to be more fluid in their locations*
- ***Meeting Death****: Wasting 2 hours travelling to a meeting will end. The benefits of in-person are eroded by the benefits you get of not travelling Conferences and quarterly networking events will becomes more important for cultivating in-person relationships*
- ***Personal choice****: The smartest people I know personally are all planning to work remotely this decade The most exciting companies I know personally all plan to hire remotely this decade ~90% of the workforces we've spoken to never want to be in an office again full-time*
- ***Written over spoken****: Documentation is the unspoken superpower of remote teams. The most successful team members remotely will be great writers Companies are searching for ways to do this more effectively. Tools that enable others to write better will explode*

Jml

Mark Zuckerberg Post

I wanted to share a note I wrote to everyone at our company.

Hey everyone: it's been quite a week, and I wanted to share some thoughts with all of you.

First, the SEV that took down all our services yesterday was the worst outage we've had in years. We've spent the past 24 hours debriefing how we can strengthen our systems against this kind of failure. This was also a reminder of how much our work matters to people. The deeper concern with an outage like this isn't how many people switch to competitive services or how much money we lose, but what it means for the people who rely on our services to communicate with loved ones, run their businesses, or support their communities.

Second, now that today's testimony is over, I wanted to reflect on the public debate we're in. I'm sure many of you have found the recent coverage hard to read because it just doesn't reflect the company we know. We care deeply about issues like safety, well-being and mental health. It's difficult to see coverage that misrepresents our work and our motives. At the most basic level, I think most of us just don't recognize the false picture of the company that is being painted.

Many of the claims don't make any sense. If we wanted to ignore research, why would we create an industry-leading research program to understand these important issues in the first place? If we didn't care about fighting harmful content, then why would we employ so many more people dedicated to this than any other company in our space -- even ones larger than us? If we wanted to hide our results, why would we have established an industry-leading standard for transparency and reporting on what we're doing? And if social media were as responsible for polarizing society as some people claim, then why are

we seeing polarization increase in the US while it stays flat or declines in many countries with just as heavy use of social media around the world?

At the heart of these accusations is this idea that we prioritize profit over safety and well-being. That's just not true. For example, one move that has been called into question is when we introduced the Meaningful Social Interactions change to News Feed. This change showed fewer viral videos and more content from friends and family -- which we did knowing it would mean people spent less time on Facebook, but that research suggested it was the right thing for people's well-being. Is that something a company focused on profits over people would do?

The argument that we deliberately push content that makes people angry for profit is deeply illogical. We make money from ads, and advertisers consistently tell us they don't want their ads next to harmful or angry content. And I don't know any tech company that sets out to build products that make people angry or depressed. The moral, business and product incentives all point in the opposite direction.

But of everything published, I'm particularly focused on the questions raised about our work with kids. I've spent a lot of time reflecting on the kinds of experiences I want my kids and others to have online, and it's very important to me that everything we build is safe and good for kids.

The reality is that young people use technology. Think about how many school-age kids have phones. Rather than ignoring this, technology companies should build experiences that meet their needs while also keeping them safe. We're deeply committed to doing industry-leading work in this area. A good example of this work is Messenger Kids, which is widely recognized as better and safer than alternatives.

We've also worked on bringing this kind of age-appropriate experience with parental controls for Instagram too. But given all the questions about whether this would actually be better for kids, we've paused that project to take more time to engage with experts and make sure anything we do would be helpful.

Like many of you, I found it difficult to read the mischaracterization of the research into how Instagram affects young people. As we wrote in our Newsroom post explaining this: "The research actually demonstrated that many teens we heard from feel that using Instagram helps them when they are struggling with the kinds of hard moments and issues teenagers have always faced. In fact, in 11 of 12 areas on the slide referenced by the Journal -- including serious areas like loneliness, anxiety, sadness and eating issues -- more teenage girls who said they struggled with that issue also said Instagram made those difficult times better rather than worse."

But when it comes to young people's health or well-being, every negative experience matters. It is incredibly sad to think of a young person in a moment of distress who, instead of being comforted, has their experience made worse. We have worked for years on industry-leading efforts to help people in these moments and I'm proud of the work we've done. We constantly use our research to improve this work further.

Similar to balancing other social issues, I don't believe private companies should make all of the decisions on their own. That's why we have advocated for updated internet regulations for several years now. I have testified in Congress multiple times and asked them to update these regulations. I've written op-eds outlining the areas of regulation we think are most important related to elections, harmful content, privacy, and competition.

We're committed to doing the best work we can, but at some level the right body to assess tradeoffs between social equities is our democratically elected Congress. For example, what is the right age for teens to be able to use internet services? How should internet services verify people's ages? And how should companies balance teens' privacy while giving parents visibility into their activity?

If we're going to have an informed conversation about the effects of social media on young people, it's important to start with a full picture. We're committed to doing more research ourselves and making more research publicly available.

That said, I'm worried about the incentives that are being set here. We have an industry-leading research program so that we can identify important issues and work on them. It's disheartening to see that work taken out of context and used to construct a false narrative that we don't care. If we attack organizations making an effort to study their impact on the world, we're effectively sending the message that it's safer not to look at all, in case you find something that could be held against you. That's the conclusion other companies seem to have reached, and I think that leads to a place that would be far worse for society. Even though it might be easier for us to follow that path, we're going to keep doing research because it's the right thing to do.

I know it's frustrating to see the good work we do get mischaracterized, especially for those of you who are making important contributions across safety, integrity, research and product. But I believe that over the long term if we keep trying to do what's right and delivering experiences that improve people's lives, it will be better for our community and our business. I've asked leaders across the company to do deep dives on our work across many areas over the next few days so you can see everything that we're doing to get there.

When I reflect on our work, I think about the real impact we have on the world -- the people who can now stay in touch with their loved ones, create opportunities to support themselves, and find community. This is why billions of people love our products. I'm proud of everything we do to keep building the best social products in the world and grateful to all of you for the work you do here every day.

J. Michael Locke
Musings

#148: Musing
October 15, 2021

More evidence of you really never know in this world. Turns out the FB whistleblower was in tight coordination with DC operatives. She put out a new twitter account just before testifying before congress and has a history of activism. So the whole thing might have been a setup against FB. Doesn't change the substance of the argument but a good reminder of always to be cautious when judging a situation. Unfortunately, we now live in a world where you can't simply trust what is presented. Still, I encourage readers to get off Facebook. It is not necessarily easy. From Washington Post: *"The truth is, leaving Facebook isn't possible for everyone. That's by design. With nearly 3 billion users around the world, Facebook has a reach that's closer to a public utility than a fun social app. It's impractical and even unfair to ask that many people just quit. But for those who can and want to, here's where they can go next."* leave-facebook-alternatives.

I continue to be surprised by the "negative framing" of the September jobs report. Basically good with unemployment down and private sector strong job creation. Only negative was declining workforce participation (especially among women). The challenge, to quote Andy Kessler, is "Nuance is not narrative friendly." You can't simplify the jobs report to one tagline. Wages also continue to grow at a rapid clip pointing to future inflation. *"Average hourly earnings rose 0.6% for the month, making the year-over-year increase 4.6%. Over the past six months, wages are running at an average 6% annual gain."* (CNBC) Social security announced a large 5.9% cost of living adjustment (COLA). Inflation is here and wages are rising. It is a job seeker's market. Watch the unions take advantage. You need to make employment at your company more than "just a job" and commercial transaction --- need to have the employees heart and mind.

There is much writing about millennials seeking "values and mission alignment" with their employers. They don't look at it just as a job and want to be furthering their interests when they go to work. There is *"a movement called Effective Altruism, which relies on science and data to determine how individuals can use their time, money and skills to do the most good….. Through a nonprofit called 80,000 Hours, the movement has since expanded into helping people design do-good careers tailored to their talents and skills. The London-based organization…gets its name from the 80,000 hours you are likely to spend working over a 40-year career, assuming you work 40 hours a week, 50 weeks a year."* can-your-career-help-change-the-world-you-have-80-000-hours-to-try.

Communities also understand that they need a good supply of quality workers to attract

employers. The result is smaller communities "rolling out goodies" to entice workers to move there. It has become so common that a third party built a website to track it all. www.makemymove.com.

If you really want to maximize your career opportunities, get trained in logistics, cybersecurity, green jobs and artificial intelligence which are projected to represent one in six jobs in five years. worker-retention-talent-acquisition-jobs-workplace.

Great quote from Adam Grant: *"Don't confuse being a fast talker with being a deep thinker. Speaking quickly signals confidence, not complexity. Don't mistake volume for expertise. Speaking loudly reflects conviction, not credibility. Sometimes the best ideas come from the least assertive voice in the room."*

Jack Welch was never the least assertive voice in the room. A little "Napoleonic" for me but had some good thoughts on leadership. He shared these eight lessons (full article -- 8-simple-rules-of-leadership-from-jack-welch-are-more-important-now-than-ever-before)

1. Leaders relentlessly upgrade their team, using every encounter as an opportunity to evaluate, coach, and build self-confidence.
2. Leaders make sure people not only see the vision, but they also live and breathe it.
3. Leaders get into everyone's skin, exuding positive energy and optimism.
4. Leaders establish trust with candor, transparency, and credit.
5. Leaders have the courage to make unpopular decisions and gut calls.
6. Leaders probe and push with a curiosity that borders on skepticism, making sure their questions are answered with action.
7. Leaders inspire risk taking and learning by setting the example.
8. Leaders celebrate

Quote of the Week: "There may be no I in team, but there are two in narcissist." – Anonymous

I am not a big fan of the move by some to use a "self-service calendar." In particular, when the calendar owner asked for the meeting. It goes like this --- someone asks you for a meeting by email or text and you say ok. S/he then sends you an email with a link to their calendar so you can find a time that works for you. Don't do this. If you ask for a meeting, don't then make the person do work to set it up. Make yourself available when it works for them. You are the requester. Not a good signal to use a "self-service calendar" which implies your time is more valuable than mine.

Twitch suffered a big hack and info was posted about earnings/payments. Amazing how much money people are making streaming themselves playing video games. That is the basic construct — you watch someone play a video game. Here are the top five earners from August 2019 - September 2021. This captures their share of advertising revenue which runs along their stream and maybe the share of subscriptions (data file unclear). It does not include

sponsorships. Unclear why such a gap between the Top 2 and the rest especially since some of the lower earners have more subscribers but maybe fewer folks actively watching them.

1. CriticalRole $9,626,712
2. xQcOW $8,454,427
3. summit1g $5,847,541
4. Tfue $5,295,582
5. NICKMERCS $5,096,642

This is a talent market like any other with the streaming sites fighting for talent. A third party website lets you look at all of the analytics on user base/followers. You can check out any specific personality and site so this is youtube and pewdiepie https://socialblade.com/youtube/user/pewdiepie (thanks to our son Graham for the tutorial).

jml

J. Michael Locke
Musings

#149: Musing
October 22, 2021

Welcome to supply chain hell. Our world has become so globally connected that our daily existence depends on containers coming on ships across oceans from lower cost labor markets to major ports on the coast to the back of semi-truck or train to an intermodal facility and then to our local store. There are as many as 500,000 containers sitting on ships outside of Long Beach Port and LA right now. When they get unloaded, there are not enough truck drivers to get them where they need to go. This won't be cleared up for years. Higher inflation here for a while. P&G raising prices on your toothpaste. half-a-million-shipping-containers-waiting-ports-la-long-beach

Don't underestimate the value of a little "cushion." While it wouldn't have prevented the Long Beach crisis, it is simply a good management philosophy to not depend on perfection. Leave yourself some room on your cash flow forecasts to make your debt payments. Leave yourself some room by flying in the night before a key meeting in the morning in case there is bad weather. In today's labor market, I would make sure you are "overstaffed" in critical roles in case you lose a key person. Give yourself some cushion by diversifying your supply chain dependencies.

Who has the real power in the world of technology-based distribution of content? Last week I wrote about the vast sums of money being made by streamers on Twitch etc. Some refer to it as "the Creators' economy" and point to people like Shonda Rhimes or Chance the Rapper who didn't sign with a label (distributor) but instead went on free services like SoundCloud and built his fan base. However, Squid Game points the other way. It is now Netflix's largest series ever topping 111 million viewers globally. From CNBC: *"Netflix revealed in its shareholder letter Tuesday that 142 million of its subscribers have seen at least two minutes of the wildly popular South Korean drama. That's exactly two-thirds of the company's 213 million global customers."* The creator of Squid Game wrote it years ago and couldn't get anyone to pick it up. Give credit to someone at Netflix who saw the potential. Joe Exotic is nowhere without the power of Netflix. I think that (and the algorithm within it) is the real power in the value chain. To me the key is who "controls" the consumer. Netflix has great data on user preferences and then can source the right content. We are starting to see this play out with Apple who is cutting off some of the information historically used by application companies like Snap. Apple "controls" the end user and the new privacy rules have less data being shared. From the WSJ: *"This shows the Achilles' heel in Snap's model," said Truist Securities analyst Youssef Squali. "That is effectively a lack of massive first-party data, which is what you need to be successful in this business."* Call it a "Distributors' economy."

Chicago Mayor Lori Lightfoot clearly has not read my musings on getting the hearts and minds of your team and to be careful with specific words and nomenclature to frame a discussion. Last week, she lectured the police in the media speaking of "obeying a direct order" and not doing so would be "insubordination." Moral indignation and statements about positional authority are not a way to win support. An effective boss never has to say s/he is the boss.

A new workplace and school topic coming out of the pandemic will be air quality. From CNBC: *"Amazon chief health officer Vin Gupta says the biggest health challenge for public and work spaces this century will be ventilation and air quality. This is not because of Covid alone, but the current pandemic should reinforce and elevate what existing public health research has shown: air quality at work is directly correlated to brain function and productivity. Air quality researchers estimate we spend 90% of our lives, or 72 years of an 80-year life, indoors."*

Excel can be really dangerous. Obviously not dangerous in Squid Game-style but because it leads you to assume the numbers are right. A good habit is to get out your old calculator and check some of them. If you really want to understand a set of numbers, don't just accept the excel spreadsheet but rather work through some of the calculations yourself. You might be surprised how often formulas are wrong.

Interesting fact: standard YouTube model pays the creator of the video 55% of any advertising revenue which runs before it while YouTube retains 45%.

Another interesting fact: 22% of existing home sales in August were cash buyers.

One more fact: "Alternative" investments now comprise 24% of public pension fund portfolios. Harvard's endowment has 34% just in private equity and grew 33.6% to $53.2 billion! Think about the size of that number. Basically, Harvard is a huge hedge fund with a small school operating entity on the side. endowment-big-but-lagging

Amherst has ended the practice of giving preference in admissions to legacies. Will be interesting to see if this gains traction broadly.

RIP Colin Powell. American hero. I included his leadership rules in an earlier musing but repeat them here in his honor. We need more people emulating him versus some of our society's current leaders:

1. It ain't as bad as you think. It will look better in the morning.
2. Get mad, then get over it.
3. Avoid having your ego so close to your position that when your position falls, your ego goes with it.
4. It can be done!
5. Be careful what you choose.
6. Don't let adverse facts stand in the way of a good decision.
7. You can't make someone else's choices.
8. Check small things.
9. Share credit.
10. Remain calm. Be kind.
11. Have a vision. Be demanding.
12. Don't take counsel of your fears or naysayers.
13. Perpetual optimism is a force multiplier.

jml

J. Michael Locke
Musings

#150: Musing
October 29, 2021

Employers are dying for workers. Our Starbucks drive-thru has a sign advertising their employee benefits as do the billboards on a major highway for McDonalds. The economy has momentum but companies can't find the workers to fill their jobs. Here is the official job openings graph from the US Bureau of Labor Statistics (BLS):



According to BLS, 4.3 million Americans quit their jobs in August. It has been coined "The Great Resignation." This isn't just about women leaving the workforce due to childcare issues. *"UC Berkeley economist Ulrike Malmendier suggests there's something existential behind the Great Resignation: The pandemic and the rise of remote work have changed the way we view our lives and the world."* [why-are-so-many-americans-quitting-their-jobs?]

Leaders should be really drilling down on their employment recruitment operation to make sure they are up for the tough task ahead. IMO, you should break it out from traditional HR, create a well-defined value proposition for being employed at your organization, put money into employment marketing, search engine optimize the career section of your website, play "customer" and drop in a job application and see the experience yourself, and make sure you have a generous employee referral program.

Watch the growing involvement of employers in education. They will exert more control of their human capital supply chain. More companies picking up the full cost of tuition as an employee benefit / retention tool. Good quote (can't remember source) "You used to go to college to get a job, now you get a job to go to college."

Employers need to recognize it is not just about compensation and benefits. Individuals want to grow and learn and "be a part of something." You can't just throw free lunch and college tuition at it, but rather create a dynamic, positive culture where people are challenged, empowered and grow. If you just view the employment relationship as transactional with the employer proving compensation and

benefits, you will have runaway costs. The labor department reported this morning that compensation costs rose 1.3% in the third quarter bringing the year-over-year increase to 3.6% which is the fastest acceleration since the second quarter of 2002. Wages and salaries rose 4.6%.

Good news for parents with kids considering college. Higher Ed is a market like any other and demand is down and supply is up (online) so prices under pressure. According to the National Student Clearinghouse *"Freshman enrollment continued to slip this fall. First-year student numbers declined by 3.1 percent overall and 3.9 percent among traditional-age students (18-20).* college-enrollments-continue-drop-fall

A little background info on higher education pricing. The following table from the College Board shows the *published* tuition levels by type of school:

Full Time Published Tuition for 2021-2022			
Community College	Public 4yr In state	Public 4 yr Out of state	Private 4 year
$ 3,800	$ 10,700	$ 27,560	$ 38,070

The reason community colleges and public schools are cheaper than private schools is that they receive your taxpayer money as an appropriation to subsidize the operation. Community Colleges only depend on tuition for 29% of their revenue while public four year schools get 44% from tuition with the difference coming from state and federal appropriations (College Board). Private nonprofits are more heavily dependent on tuition and then use their endowments to provide a subsidy to reduce effective price. For 2021, the net price after grants was $14,990 (compared to the published tuition of $38,070) at private schools. This discount rate is higher for the less selective institutions so your "best values" may be "down" the brand hierarchy but I would argue the difference among schools is overrated.

Good quote from Adam Grant via LinkedIn "*Seeking advice doesn't reveal incompetence. It reflects respect for another person's insight. Requesting feedback doesn't signal insecurity. It demonstrates that you care more about your learning than your ego. Asking for help doesn't display weakness. It builds strength."*

Crazy stat: the average American kid between 4 – 15 spent on average 87 minutes a day on TikTok in 2020 (The Economist)

"Meta" really? Facebook changed its name to Meta. I have no desire to live in Zuckerberg's virtual world. I vote for real in person life. https://www.foxbusiness.com/technology/facebook-new-name-metaverse

Jml

J. Michael Locke
Musings

#151: Musing
November 5, 2021

It is an absolute imperative that we expand our workforce. Only 61.6% of those deemed eligible to work currently do so (from Investopedia: *"The labor force participation rate is a measure of an economy's active workforce. The formula for the number is the sum of all workers who are employed or actively seeking employment divided by the total noninstitutionalized, civilian working-age population."*) We need to make it easier for working moms who (to quote notorious RBG) "make up at least half of the talent pool in our society." Over 43% of women leave the workforce after having children and 2.5mm women left the workforce during Covid (source: presentation by Allison Robinson, Founder of The Mom Project – a great business I encourage folks to use https://www.themomproject.com/). Another contributor is the retirement of many baby boomers. Financial assets have appreciated considerably during the pandemic allowing some to now call it quits for good. *"The share of the population in retirement from February 2020 to April this year was higher by 1.5 million people than it would have been if the 2019 retirement trend had continued, according to the Dallas Fed."* covid-19-pushed-many-americans-to-retire-the-economy-needs-them-back. Finally, IMO our governmental policies need to encourage work and some of the social safety net programs currently being discussed do not do that. Our economy is headed into real trouble if we don't get a higher labor participation rate. One example, according to the American Trucking Association, we need 80,000 more commercial drivers to get our supply chain going well again. Finally, business leaders need to push on their elected officials to fix our immigration system so we can have growth in available employees from legal immigrants.

Some employers are rolling out unique perquisites to compete for employees. "*Beef and pork giant JBS USA Holdings Inc. is helping to build homes for employees to buy. Jeans maker Levi Strauss & Co. is offering free computer coding classes. Target Corp., Walmart Inc. and Amazon.com Inc. are offering to help pay for college tuition and books. Staffers at Chicago technology firm project44 can use a company-subsidized van—complete with a bed, a toilet and shower, and Wi-Fi—so they can combine work with family road trips." when-bonuses-and-raises-arent-enough-try-manicures-and-free-clothes*

Watch the John Deere strike for a proxy on the extent of the power shift towards employees due to labor scarcity. The union rejected a pretty robust offer of additional compensation and is staying on strike. From CNN: *"The company said the newly rejected deal included an immediate 10% wage increase and 30% wage increases over the term of contract, an $8,500 signing bonus and health care coverage with no out-of-pocket costs for members for premiums, deductibles and coinsurance, improved retirement benefits and new paid parental leave."* It will be interesting to see if the union has that much leverage.

With the "shift in power" between employers and good employees, leaders need to figure out how to get team members to want to come back to the office. A couple themes covered in this good article: 1) Remove the pain points (make it safe); 2) Make it fun to see each other; and 3) Remind them home isn't

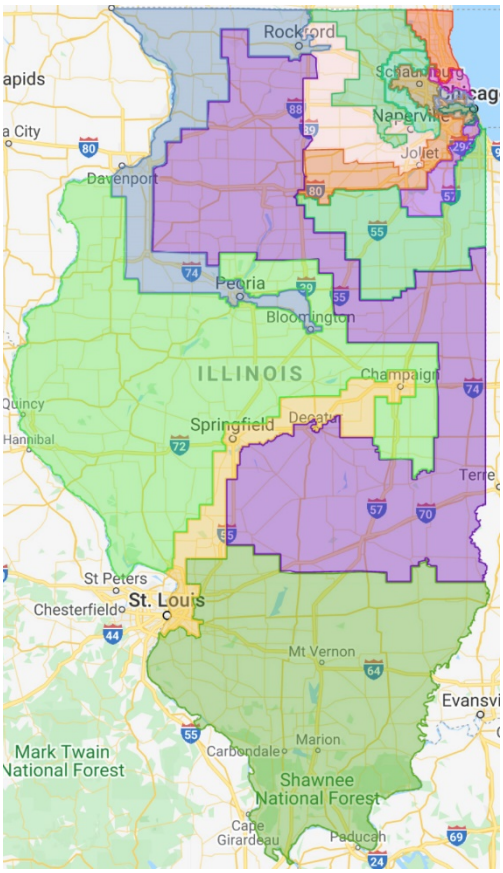
so great (can you handle another dog barking during a conference call?) boss-get-remote-workers-back-office.

I hope everyone locked in their low mortgage rates. Interest rates are going to continue to rise. This inflation is not transitory. It all starts with labor costs moving up based on scarcity which will turn into to higher prices for goods and services. The Fed announced it is going to stop its market manipulation (fancily called Quantitative Easing) where it is buying bonds to push up prices and thus down yields (effective interest rates). Buying bonds is another way for Fed to "juice" the economy by keeping rates low so folks can take on debt to buy a new house or car, etc. The economy no longer needs that stimulus.

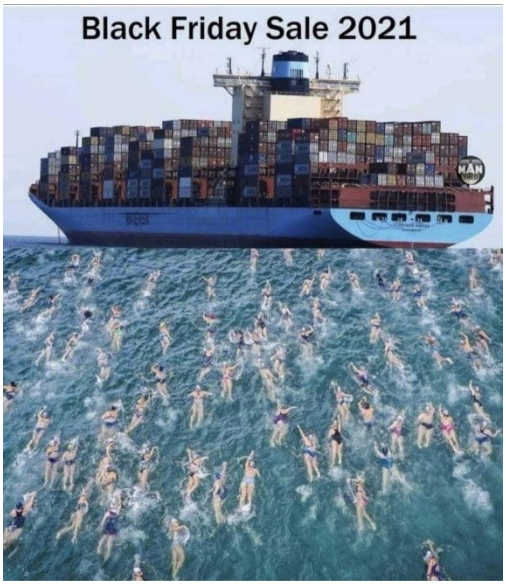
Successful executive Harry Kraemer believe that the basics of good leadership never change. *"The requirements to be a leader have always remained pretty constant. It's leading yourself, leading others, communicating like crazy, listening carefully, demonstrating you care," says Kraemer."* However, during difficult times leaders need to really focus on 1) double down on self-reflection; 2) double down on communication; and 3) focus on how you relate to others. leadership-during-crises.

Our society seems to be increasingly subject to the Dunning-Kruger effect. *"In their 1999 paper, published in the Journal of Personality and Social Psychology, David Dunning and Justin Kruger put data to what has been known by philosophers since Socrates, who supposedly said something along the lines of "the only true wisdom is knowing you know nothing." Charles Darwin followed that up in 1871 with "ignorance more frequently begets confidence than does knowledge."….Put simply, incompetent people think they know more than they really do, and they tend to be more boastful about it."* The media has created an entire industry of Dunning-Kruger impacted individuals. (I recognize the irony of this statement as I publish these "musings.")

Gerrymandering is an example of the downside of good data. Politicians can now design the congressional districts with precision to ensure a person from a certain party will win. There is no political "middle" as you don't have to appeal to anyone other than your party's ardent advocates. Look at the new Illinois map:



A little twitter humor from Chad Benson:



jml

J. Michael Locke
Musings

#152: Musing
November 12, 2021

Quick reminder to readers: you are free to share this as you like. I am also happy to add anyone if you want to provide me an email address. A compilation of all the musings can be found at gilesrichard.com. I am also happy to remove anyone. With our move to an "email service" a couple months ago, you can unsubscribe at the bottom or just let me know (no hard feelings.)

Someone should tell Elon Musk that pure populism doesn't work. There is a reason we have a representative democracy rather than simply having a national poll on all decisions. Musk put up a twitter poll for a $21billion decision on selling stock? elon-musk-asks-twitter-if-he-should-sell-stock. That said, he really doesn't have a choice as he has deep in the money options expiring so had to exercise them/sell them which will create enormous tax bill at ordinary income rates. Musk has options for 22,862,050 shares at $6.24 due to expire on Aug. 13, 2022 and the stock currently trades around $1100 per share. Nice investment. Personally, I would unload as much stock as I could if I were Musk. The valuation is crazy. Valued at over $1 trillion when it only has revenue of $41bn and barely makes money. It is worth more than the rest of the entire car and aviation industry. I credit Musk with the vision and what he has created – love my Tesla; however, this valuation is nuts.

One factor in Tesla's favor is the enormous dislocation in the labor models of existing car makers which will take place as we pivot to electric vehicles. The service employees at your normal dealerships are experts in pistons, gaskets, and carburetors. They are not like your local IT professional. We have experienced enormous frustration in our household with our local car dealer's inability to service our vehicle because it's really a technology issue. Running a company to support millions of internet devices with wipers and wheels is a totally different beast. This is the logic behind electric truck maker Rivian getting almost a $100bn valuation even though it has just started delivering its first vehicles. It is already worth more than GM?

Corporate leaders also need to remember the "limits on management by popular demand." Yes, you have to attract and retain labor so employee satisfaction is very important, but you can't run a business doing what will make employees happy and that is your North Star. Make the right decisions and effectively communicate why to your team even though some decisions may not be liked by the majority. Be open and honest on why you made the decision. As Jamie Dimon recently commented on leadership *"[H]umility, openness, fairness [and] being authentic" are most important – "not [being] the smartest person in the room or the hardest working person in the room,"* jpmorgan-ceo-jamie-dimon-on-what-makes-the-most-successful-leaders (thanks Jeff Dobosh). The return to office issue is going to take some great leadership. According to the Economist, 75% of executives who are working remotely want to get back into the office 3 days a week or more while only 34% of non-executives feel that way.

Ideally, you want to run your business by managing metrics "above" revenue. That is, identify the key metrics around sales and customer acquisition which will eventually lead to revenue. With the ubiquitous deployment of customer relationship management software (CRM) and use of digital

marketing, you now have troves of data to use to build models and project outcomes. B2C businesses usually can be managed around lead volumes, traffic to website etc. and then apply historical conversion models to how many people will actually buy. B2B businesses can be managed by meetings held, opportunities and overall $ value in the pipeline at a given time and how the weighted probability of the overall pipeline has turned into sales/bookings historically. You can also "build up" from the number of salespeople you have, their productivity ramps and historical levels of production. Personally, I recommend managing all of these by growth rates. What is the growth in the pipeline, in the Google search volumes or in the sales force? You should obsessively seek to maximize the conversion rate of opportunities and eliminate friction but over the long haul you have to grow top of funnel and things that drive sales to then grow bookings to then grow revenue and manage expense growth to get leverage, so profits and free cash flow grow fastest of all.

The C-suite is getting full. When my career started, there was a Chief Executive Officer and Chief Financial Officer. Some companies had a Chief Operating Officer. In the late 90s, came the Chief Information Officer (CIO) and more recently, the Chief Revenue Officer and the Chief Human Resources Officer (CHRO). Lots of Chiefs. On the CHRO front, I do like the model where the person running human resources reports straight to CEO rather than through CFO. HR has become a mission critical function. It is not just about benefits administration and compliance. It is now more about talent procurement and retention. It is growingly complex as the world has moved from having a set of full-time employees coming to your office location to having full time/part time/contractors, job sharing, remote work, employees in multiple states creating payroll issues, and pressure to expand benefits to include paying student loans or elder care.

We are in a shortage of labor crisis and with demographic trends, this is all going to get even harder. Today's September jobs report shows us treading water with basically as many people leaving work as getting hired. From CNN: *"The nation had 10.4 million open jobs….Employers hired 6.5 million people, while separations — which include voluntary quits — stood at 6.2 million…A record 4.4 million Americans quit their jobs in September as the sheer volume of available jobs is empowering workers to have their pick."* Companies have to figure out their labor shortage issue without just paying more. Consumers can't take the downstream price increases. CNBC: *"The Labor Department reported that its consumer price index, or CPI, jumped 6.2% in October from a year ago, the largest acceleration since December 1990 and the fifth straight reading above 5%."* Society must also figure it. Per Stan Goldblatt *"Strong and continuing inflation reduces the effective income for everyone (other than the very rich) and particularly for those on fixed incomes without adequate inflators. With the kind of cultural divisions that we have today such reductions will only fan the flames."* This is the dynamic that led to the rise of Hitler in the 1920s.

I have to admit that I never knew what as "flywheel" was as people talked about it on a business model. Good Economist article on the food delivery companies and the theory. *"In the real world a flywheel is a mechanical contraption that stores rotational energy. In Silicon Valley it has come to mean something else: a perpetual-motion business that not only runs forever but is self-reinforcing. Thanks to powerful network effects, the theory goes, a digital platform becomes more attractive as it draws in more users, which makes it even more attractive and so on. The end state is a venture that has gathered enough energy to self-levitate and throw off tons of cash."* [uber-doordash-and-similar-firms-cant-defy-the-laws-of-capitalism-after-all] Let's see if it works. Personally, I think Masa Son and Softbank's Vision Fund are wasting money and disrupting rational valuations.

Interesting stat from CNBC: *"The average hiring professional spends 7.4 seconds scanning a resume before deciding whether to look at the candidate more closely, a 2018 Ladders study found."*

Good quote: *"Most people do not listen with the intent to understand; they listen with the intent to reply."* (Steven Covey)

Video killed the radio star, but Covid saved the country club. After years of declining demand as society moved away from golf and being "male-centric", golf rounds are way up with work from home and country clubs are generating surpluses and raising prices.

RIP the big conglomerate. GE decision to split up shows the fallacy of a holding company in the public markets operating in lots of disparate industries. Jack Welch's legacy doesn't look so hot anymore. His real skill was using the flexibility provided by pension benefits accounting to manipulate earnings and drive stock price.

Thanks to all of our veterans.

jml

J. Michael Locke
Musings

#153: Musing
November 19, 2021

Readers are probably tired of my commentary on the labor shortage, but I wanted to drill down and give some specific examples.

As I have written, a real issue is the decline in workforce participation by women at least in part due to the lack of childcare availability. From the WSJ: "*About 13,000 centers representing more than 20% of the nation's child-care capacity, including those offering before- and after-school programs, shut down during the pandemic and haven't reopened.*" Part of the challenge in expanding childcare availability is the labor shortage so it becomes circular. Families are being turned away because operators can't hire. To quote a childcare company CEO: "*We have 10% of our work force unfilled. We have families that want to enroll, we want to enroll them, but we can't service them because we don't have the staff. We have raised wages, sign on bonuses, referral bonuses, etc. Childcare rates are going to rise significantly as these wages won't slide back down once there is a bit more equilibrium in the labor market*."

The impact of the decline in participation by women due to childcare challenges will vary by industry. According to BLS report this spring: "*Women accounted for 51.8 percent of all workers employed in management, professional, and related occupations in 2019, somewhat more than their share of total employment (47.0 percent). The share of women in specific occupations within this large category varied. For example, 18.7 percent of software developers, 27.6 percent of chief executives, and 36.4 percent of lawyers were women, whereas 88.9 percent of registered nurses, 80.5 percent of elementary and middle school teachers, and 61.7 percent of accountants and auditors were women*."

Back to the Childcare CEO – "*We can't even get a recruiter hired. We have made four offers to recruiters and their current firms have outbid us on counter offers at unreasonable levels*." Go long talent acquisition companies. Here are some specifics on the tightness of hiring a recruiter. From a search firm CEO: "*In 2021, we've helped companies hire 150 recruiters. Look at the trends in average salary for recruiters: Q1 = $86k, Q2 = $102k, Q3 = $118k*."

The John Deere strike got settled and pretty amazing what workers received: $8,500 restart bonus, immediate 10% raise, two 5% raises and two large bonuses through 2026 and more retirement benefits. From a recent ADP report: "*job switchers in the information services and professional and business services fields goosed their wages by 10.5% and 10.6% respectively*" great-resignation-has-put-many-workers-in-the-drivers-seat. I think we are in a structural reset on the share of income which goes to owners (in the form of profits) and employees (as a reminder from Musing #108 in January, the labor share of income has been declining. In advanced economies it has fallen from 54% to 50% in the last couple decades). As such, corporate profits will face headwinds and I would start looking at your investment asset allocations and consider moving money from equities to fixed income.

This increase in wage rates will make our current high inflation not transitory and persistently high inflation will also tear at our social cohesion. Inflation tends to impact the middle class much more than

upper class. From Scott Galloway: "*The middle 60% now own less wealth than the top 1%. In 1989, the American middle class claimed 36% of the nation's wealth. The top 1% owned less than double that share at 17%. The middles class's share has steadily declined since then, while that of the super-rich has skyrocketed. This year, for the first time ever, the top 1% owns a greater share of U.S. wealth than the middle 60%*." This is what led to the rise of Hitler in Germany in the 1920s. From one of my mentors Stan Goldblatt: "*strong and continuing inflation reduces the effective income for everyone (other than the very rich) and particularly for those on fixed incomes without adequate inflators. With the kind of cultural divisions that we have today such reductions will only fan the flames*."

CEOs need to be all over the issue of talent acquisition and retention. Develop good reports. Engage directly in the activity with the CHRO or whoever runs HR. Leaders should be skipping their lieutenants and directly engaging with folks "lower" in the org chart to make sure they have a feel for what is going on. Remote work is going to make things even harder, and the scarcity issue is going to make companies hesitant to force employees back into the office. From a technology recruiting firm: "*Remote work isn't slowing down. In Q3, 95% of the roles we saw were 100% remote (or allowed for fully remote work). We placed one engineer (out of 80+) that was onsite 100%*."

Enough on the labor crisis, to some managerial topics. Most companies are in the midst of budget season as their fiscal year matches the calendar year. I think the annual budget process is broken. Our economy and business move too rapidly. IMO, you should keep a constant four quarter forward "budget." That is, every time you finish a quarter, plan out a new one which starts 9 months in future. If you just do annual budget, you lose any planning as you get to the second half of the year and when you get to mid-November, you don't have good plans for 45 days away. Not a way to promote "managing forward" (a "reprint" of Musing #19 on Managing Forward from April 2020 is at the end of this week's).

Watch the development of "super apps." From Infopulse: "*Originally, the term 'super app' was coined by BlackBerry founder Mike Lazaridis back in 2010. He defined it as "a closed ecosystem of many apps" that people would use every day because they offer such a seamless, integrated, contextualized and efficient experience." In short, a super app is a marketplace of services and offerings, delivered via in-house technology and through 3rd party integrations*." Part of the driver is the poor user experience of moving between so many apps. From the WSJ: "*research finds people switch screens an average of 566 times a day.*" There has to be a better way and "Super apps" may be it.

Get your flu shot. Big outbreaks on college campuses. flu-virus-grips-college-campuses

The seven deadly sins social media style (copied from Renee Selzer on LinkedIn):

Lust	Tinder
Gluttony	UberEats
Greed	Amazon
Sloth	Netflix
Wrath	Facebook
Envy	Instagram
Pride	LinkedIn

A sign of the times — Lakers' Staples arena now to be called the Crypto.com Center.

Can we stop obsessing about Covid infection rates? The vaccine will not stop infection completely, but it will greatly reduce likelihood of serious illness, hospitalizations and death. Let's have the media focus more on those statistics.

Happy Thanksgiving!

Jml

Musing #19: Managing Forward

April 10, 2020

Good leaders are always looking over the horizon. They are the captain of the ship ensuring no icebergs ahead. I am frustrated when I read about organizations surprised by developments in the market that creates an existential threat. I am not talking about a Black Swan event like the current Covid-19 situation. I am talking about any retailer who in 2020 does not have meaningful online capabilities. Amazon became a public company in 1997!

The leader's job is to manage forward and predict what is going to happen in the market and with employees. The job is to take preemptive action to mitigate risks. One way to do this is to constantly seek inputs from competitors, customers and other constituents. Asking questions and listening (see Musing #16: The Importance of Listening). To have something bad happen is business. To be surprised by it is inexcusable.

You need to establish KPIs (key performance indicators) which provide you with visibility. The better the KPIs, the more time you have to react. Like your car's headlights on high beam. Sales create the revenue which then covers the expenses. However, good management should be able to forecast sales. Especially in today's digital world, you should be able to measure traffic on your website or volumes of calls. Then you should have the statistic models on how those potential buyers convert in various steps through the funnel. While every specific buyer is unique, when you aggregate them up, the demand should behave in statistically consistent ways. Make your sales leader give you a projection not just the budgeted number.

Think about how the healthcare system has been preparing for Covid-19. They have models on the rate of infection and what percentage will need hospitalization. They know how many days from test result to needing a ventilator so they can take the testing results today and figure out the ventilators needed in a week.

One unfortunate model is the correlation of third grade reading level and adult incarceration. Some states using their third grade reading tests to figure out how many prison beds they will need in 10 years. That is managing forward in a sad way.

In a business, your CFO needs to be your partner in this endeavor. I am not a fan of the basic annual budgeting cycle where a budget is set and a year later, wash and repeat. Rather, executives need a rolling four quarter forward projection. As you finish a quarter, you add another one on the other end. This should be a complete three statement model: income statement, balance sheet, and cash flows.

One common mistake people make is to do annual budgets and miss the "run rate" they have going into next year. You need to know the full year amount of the expense structure you have built up by either taking the fourth quarter x 4 or December x 12. When you add an expense midyear, it only hits your P&L for a part of the year and you can miss the annualization of the impact.

The Covid-19 crisis has made managing forward difficult. There are so many unknowns. Don't let that stop you from projecting! Rather, project ranges rather than specific numbers as volatility has increased and create scenarios under different assumptions.

The best leaders I know right now are discussing the equilibrium of reversion (thanks Jamie Cowie for the term). Things will not go back to where they were before Covid. The world will be more digital now– more telehealth, more online education, more remote work. The question is how much reversion will there be? How far back to the pre-Covid world will we go?

The best leaders are also contingency planning. What if we are still dealing with latent Covid issues in the fall? Right now, consumers have accepted subpar quality of online delivery because it was rushed out in a crisis. The consumer won't be as forgiving in the fall. Good leaders will invest in their digital capability now so if they have to use it in the fall, they are ready. They are managing forward. No Leo and Kate on the bow of their ship.

J. Michael Locke
Musings

#154: Musing
November 25, 2021

Decided to do an early release this week. If you are reading this before your turkey, you are my kind of worker! Hopefully these musings provide some non-political holiday conversation.

Let's be positive on this Thanksgiving Day. Too many individuals are wired to the negative. It is easy to be so in today's hyper-partisan, conflict-oriented society. However, if you want to lead and influence, I posit that you have to be positive. No kid has ever read the Little Engine that Couldn't. Individuals and organizations need to develop confidence and believe that they will be successful.

There is some science that we are wired to be negative. *"Neuroscientist Rick Hanson has a great analogy for this strange quality of the mind. "Your brain," he writes in his book Buddha's Brain, "is like Velcro for negative experiences and Teflon for positive ones." When you lose a client, when the investors don't come calling, or when you face the hundreds of other daily disappointments of life, you're wired to forget all the good things and to instead obsess over the negative."* Train yourself to focus on the positive. try-this-neuroscience-based-technique-to-shift-your-mindset-from-negative-to-positive

This isn't just about being rah-rah. Great quote from Adam Grant – *"It's easy to be a critic or a cheerleader. It's harder to be a coach. A critic sees your weaknesses and attacks your worst self. A cheerleader sees your strengths and celebrates your best self. A coach sees your potential and helps you become a better version of yourself."*

As I wrote back in April 2020 in Musing #13, there is a growing academic field called Positive Psychology. I was first exposed to it through a fellow DePauw alum, Doug Smith, who was a very successful businessman who found himself in a battle against cancer. This battle led him to significant reflection and resulted in a book which I highly recommend as a quick read (Happiness, the Art of Living with Peace, Confidence and Joy). Yale launched a course along these lines and it was their most popular class ever. It is now being offered free online through the MOOC company Coursera. https://www.coursera.org/learn/the-science-of-well-being

My experience is people do not follow someone who is negative. This is especially important in a growing, entrepreneurial company. You are building something. I am not saying you have to be Mr. Happy like the Roger Hargreaves kids' books, but positive. Especially in times of challenge (like our current environment) folks want to know it is all going to work out (which it will!) I think this is why you see more leaders coming from sales than from finance or law. Sales people skew towards the positive. They bet on themselves with unlimited compensation via commissions. They spend their time persuading others to join them. Accountants and lawyers skew more negative. They think critically and break down larger concepts into detail. They are paid to make sure things are protected from potential negative events in the future. Certainly, someone with a finance and legal background can be a good leader, but they have to fight their skeptical orientation.

Part of being positive is also being thankful. Don't underestimate the value of acknowledging a team member's good work. Do it in person, by phone or even in writing (NOT in text or email.) Most of us just don't compliment others enough. Make sure to extend our acknowledgements and thanks to "service providers." Yes they are paid to be your lawyer or accountant but they are no different in being human beings who take pride in their work and appreciate getting a call complimenting them and thanking them.

Hopefully you are gathering with friends and family on this Thanksgiving holiday. Be positive and thankful.

jml

J. Michael Locke
Musings

#155: Musing
December 3, 2021

I argue that all executives need some level of technology expertise as technology is changing all aspects of business operation. To quote the Starbuck's COO from a couple years ago: "every company is a technology company." Admittedly I had not thought about what this means for internal organization. Does it still make sense to have one centralized IT department? I know many in the marketing area who advocate for a small group of dedicated technologists within the department to allow quicker response time around website changes and data analytics. Should every operating group have their own set of technologists? get-rid-of-the-it-department
There are limits to technology. Thanksgiving Black Friday sales don't give you lots of confidence in Zuckerberg's Metaverse. In-person sales grew strongly while online sales actually decreased compared to prior year for the first time ever. People want to be in person. Call me a "Boomer" but human beings want real social interaction and not just digital life.

The key to success in the future is the combination of technology and soft skills. *"During a time when so much can be automated or delivered digitally, it is a combination of technical ability and uniquely human skills and behaviors that will set workers apart into the future. These are combinations of artificial intelligence and emotional intelligence, forecasting and ethics, or data science and communication. This isn't traditionally how we think about the role of postsecondary and workforce training, but this pairing will be essential to supporting the long-term economic advancement of individuals whose career trajectories have been interrupted by the pandemic."* hybrid-skills-are-ascendant-in-the-post-pandemic-talent-economy/, or here is another good article on it from WSJ a couple year ago the-hybrid-skills-that-tomorrows-jobs-will-require. I hope schools adapt their curricula accordingly.

Is the need for civility another reason to get employees back in the office and students to school? That was the opinion of a university President I respect. In her view, the social isolation of remote work and learning is a contributing agent to the increase in rudeness and hostility towards other humans (including flight attendants). Good oped along these lines on K12 from Leslie Bienen. school-closures-arent-just-for-covid-anymore-education-children-shutdown-remote-learning.

Some thoughts on "influencer marketing" from Kellogg professors Sawhney and Russell. It is not about identifying the "influencer" like a social media star but about really understanding your market and then seeing who they follow and listen to. Technically, influencer marketing is not a new concept it has just accelerated with technology. Sawhney "We use to have word of mouth now we have word of mouse." They caution against getting held up by tight reporting. Russell: "Direct attribution isn't possible because we are human….measurement is a narrative which includes facts and stories. Avoid swim lane reporting where you just look at last click."

I believe we are seeing a redistribution between sales and marketing in the B2B world. Historically, go to market dollars were heavily invested in the salesforce and marketing investment was

limited. Marketing created leads for sales professionals to work. In today's skeptical buyer world, marketing needs to more actively create and nurture demand (heavily using technology) and sales becomes more about the design of the solution --- almost more of a solution architect/sales engineer role. Marketing needs more investment and works the prospect top of funnel and then sales professionals need to have deeper expertise on the products/services and the design of the solution. Allocate your money and adjust your hiring profiles accordingly.

Our labor shortage crisis may not only be an economic issue. Talked to a hospital administrator who has an entire wing of fully operational beds sitting empty because they can't get the nurses they need to service the patients. The federal mandate could really hurt staffing in rural settings where vaccine hesitancy much higher. some-hospitals-prepare-to-lose-staff-over-covid-19-vaccination-mandate.

I have commented on the published vs effective tuition at most private colleges. Playing off the economic principle of Veblen Goods --- many believe higher tuition in higher education indicates higher quality and selectivity. As a result, schools do not show their real prices which are tuition after institutional grants (price discounts). Many expensive schools may actually be affordable. Here are stats from Yale per CNBC: *"At Yale, for example, tuition and fees plus books, room and board averaged $77,750 this year, according to data from The Princeton Review, but the average need-based scholarship award — or free money — was just over $59,000 bringing the total out-of-pocket cost down to roughly $22,000."* more-colleges-face-bankruptcy-but-top-schools-experience-record-wealth.

Inflation hits the Dollar store business. Dollar Tree stores will begin offering everything at $1.25 store. Fed seems to be acknowledging that inflation not as "transitory" as originally forecast. Good overall economic snapshot Powell's comments below.

Hope everyone is enjoying open enrollment hell. Deductibles, copays, in network/out of network, co-insurance, out of pocket maximum, FSA, HSA. Could we make it more complicated? Ever try to really read and understand the "explanation of benefits" you get from the insurance company? Ridiculous system.

jml

Fed Chairman Powell's congressional statement:

The economy has continued to strengthen. The rise in Delta variant cases temporarily slowed progress this past summer, restraining previously rapid growth in household and business spending, intensifying supply chain disruptions, and, in some cases, keeping people from returning to work or looking for a job. Fiscal and monetary policy and the healthy financial positions of households and businesses continue to support aggregate demand. Recent data suggest that the post-September decline in cases corresponded to a pickup in economic growth. Gross domestic product appears on track to grow about 5 percent in 2021, the fastest pace in many years.

As with overall economic activity, conditions in the labor market have continued to improve. The Delta variant contributed to slower job growth this summer, as factors related to the pandemic, such as caregiving needs and fears of the virus, kept some people out of the labor force despite strong demand for workers. Nonetheless, October saw job growth of 531,000, and the unemployment rate fell to 4.6 percent, indicating a rebound in the pace of labor market improvement. There is still ground to cover to reach maximum employment for both employment and labor force participation, and we expect progress

to continue.

The economic downturn has not fallen equally, and those least able to shoulder the burden have been the hardest hit. In particular, despite progress, joblessness continues to fall disproportionately on African Americans and Hispanics.

Pandemic-related supply and demand imbalances have contributed to notable price increases in some areas. Supply chain problems have made it difficult for producers to meet strong demand, particularly for goods. Increases in energy prices and rents are also pushing inflation upward. As a result, overall inflation is running well above our 2 percent longer-run goal, with the price index for personal consumption expenditures up 5 percent over the 12 months ending in October.

Most forecasters, including at the Fed, continue to expect that inflation will move down significantly over the next year as supply and demand imbalances abate. It is difficult to predict the persistence and effects of supply constraints, but it now appears that factors pushing inflation upward will linger well into next year. In addition, with the rapid improvement in the labor market, slack is diminishing, and wages are rising at a brisk pace.

We understand that high inflation imposes significant burdens, especially on those less able to meet the higher costs of essentials like food, housing, and transportation. We are committed to our price-stability goal. We will use our tools both to support the economy and a strong labor market and to prevent higher inflation from becoming entrenched.

The recent rise in COVID-19 cases and the emergence of the Omicron variant pose downside risks to employment and economic activity and increased uncertainty for inflation. Greater concerns about the virus could reduce people's willingness to work in person, which would slow progress in the labor market and intensify supply-chain disruptions.

To conclude, we understand that our actions affect communities, families, and businesses across the country. Everything we do is in service to our public mission. We at the Fed will do everything we can to support a full recovery in employment and achieve our price-stability goal.
Thank you. I look forward to your questions.

J. Michael Locke
Musings

#156: Musing
December 10, 2021

Much of business (and life) is risk management. Evaluating risk and deciding how much risk to take. The most successful people are those who take appropriate risk IMO. Right now, many are moving to a "risk off" way of life.

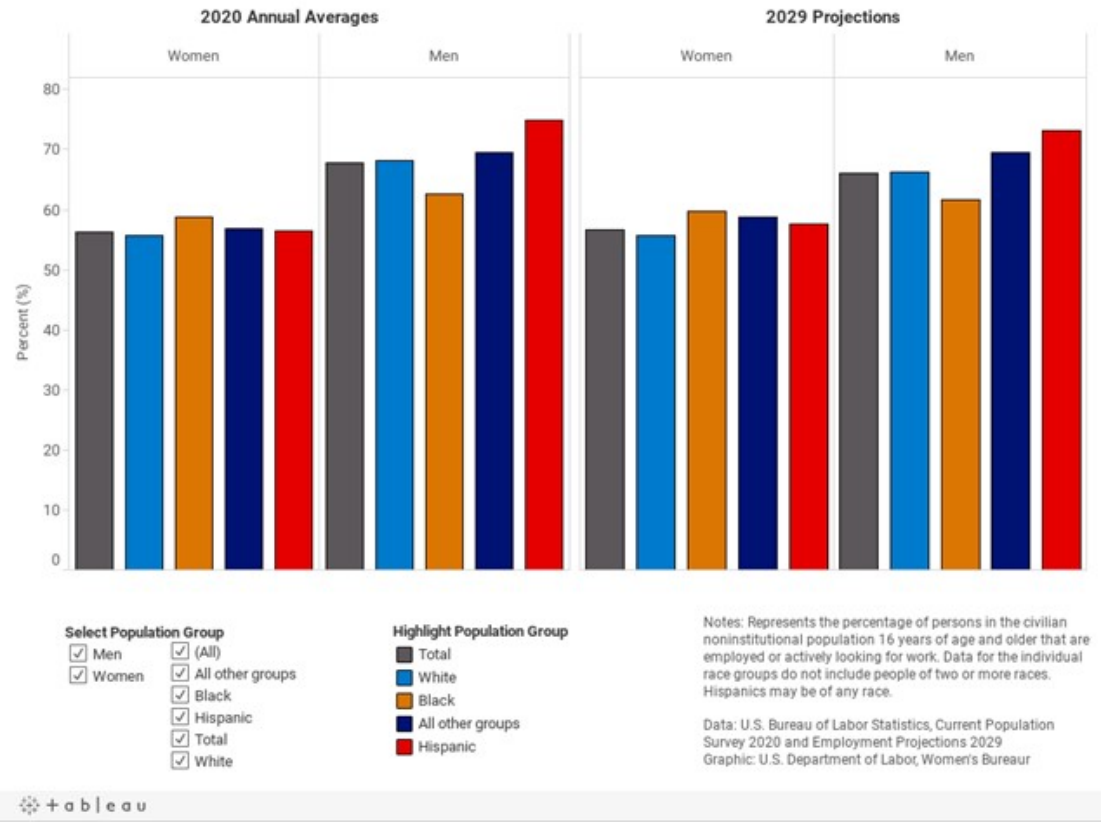
On the personal side, this is manifesting itself with lower marriage rates and lower birth rates. *"Last year the marriage rate fell to 33 per 1,000 of the unmarried population, and the lifetime fertility rate to 1.64 per woman—"levels never seen before in American history," as per the study. (Fertility has been below the "replacement rate" of 2.1 for more than a decade.)"* social-distancing-was-a-problem-before-covid-family-marriage-pandemic-religion. This is going to create even larger labor supply issues in the future let alone the social dynamics. On the investment side, this is manifesting itself with more allocation of portfolios to cash or buying the same large cap equities as everyone else.

When you see others going risk off, go risk on. Unfortunately, many (if not most human beings and investors) fall into a "lemming" mode where they follow the pack. This is why FOMO (fear of missing out) is such a powerful dynamic. If you have the emotional fortitude and the right conservative capitalization, this provides opportunities for those willing to take the risk. Be the first to cut prices if you have a declining demand market. Be the first to market with a new product idea. As a mentor once taught me, "Many of the best decisions are lonely decisions."

Speaking of "risk on", chalk me up as "Covid exhausted." Tired of wearing a mask and all of the government rules. Not sure government can try to control things at this point and individuals are going to engage in their own risk management (getting my booster next week). Frequent testing is going to be a part of our life going forward. I think society is exhausted and we may see a meaningful decline in purchasing decisions or other forms of action. Watch the velocity of your sales pipeline. Not sure what is going to happen with "return to office" plans in light of Omicron. To quote an accomplished HR exec, employees want "belonging" (level two in Maslow hierarchy after safety) so we need to get some level of office interaction going again for in person engagement to create community.

The labor crisis continues. From WSJ: *"There were 11 million job openings in October, up from 10.6 million in September, according to the Labor Department. By contrast there were 7.4 million unemployed workers that month, a sign of the tight labor market."* We need to get everyone participating in the labor force at over 70% like Hispanic men. Labor participation rates by gender and race are:

Labor force participation rate by sex, race and Hispanic ethnicity



celebrity customers." virgil-abloh-dead

So this musing in summary: take smart risks, get married, have a lot of kids, go to work, push back on big government and wear cool sneakers.

jml

J. Michael Locke
Musings

#157: Musing
December 17, 2021

The Fed finally waking up and leaving the punch bowl. Stopping their bond purchases which push down rates and signaling they are likely to raise rates next year. I think they are late to do so and really blew it with their initial view of inflation as "transitory." Last week's reported CPI increase of 6.8% is the highest in forty years. Yes, the supply chain will normalize over time and the chip shortage will get fixed and meliorate car price increases but at the core is the labor issue and wages. That is not going away.

You have to like the product innovation at Tuttle Capital. They created a FOMO ETF. From MarketWatch this ETF *"offers investors exposure to meme assets, and all the trending investments that social media has to offer….investing in all the buzziest "meme stocks" and funds, from SPACs—to crypto-adjacent investments."* Can someone create an "anti-FOMO" ETF? Sit-out when others are running in.

While it is always a good leadership practice to acknowledge good work by individuals on your team, it is especially important right now. We are in a tumultuous period as a society and positive interactions go a long way. Professionals take pride in their work and want it recognized. Better yet, they prefer leaders who appreciate them as individuals. To quote this HBR article: *"Appreciation is about acknowledging a person's inherent value…. It's their worth as a colleague and a human being. In simple terms, recognition is about what people do; appreciation is about who they are."* why-employees-need-both-recognition-and-appreciation Appreciation is really about empathy. *"The reason empathy is so necessary is that people are experiencing multiple kinds of stress, and data suggests it is affected by the pandemic—and the ways our lives and our work have been turned upside down."* empathy-is-the-most-important-leadership-skill.

Being empathic and appreciative doesn't mean you can't still be demanding. Short the Portugal economy. I believe in work-life integration not the 40 hour work week. In Portugal, it is now illegal for your boss to email you after hours. Are you kidding me? portugal-employer-contact-law

Americans continue to become less religious. 29% of folks say they are not religious up from 16% in 2007 (WSJ), 40% say they are Protestant and 21% are Catholic. This is not a good thing as religion facilitates community not the metaverse.

Next time you are getting ready to entertain, get your ice from Sonic. That is right, Sonic – the drive – in with the milkshakes. Apparently they have awesome ice and you can buy it by the bag. Lest you think all ice is alike, I guess you need to try this. From GQ, it is *"called pellet ice or nugget ice, its shape is something like a tater tot or a beer keg, only tiny...the ice's high surface area, as compared to traditional cubed ice, as a primary selling point: "The ice melts at an optimal speed without diluting the drink flavor too much." The goal is to have some ice left over once you've finished your drink for, um, snacking."*

We are not big believers in the “smart home” and seek to minimize the connectivity of our house and appliances to the internet. For us it is about privacy and security risk but it also creates a dependency. Last week’s AWS outage allowed folks to directly see how dependent they were in their daily lives on connectivity. It was irrelevant for us while others had their cats unable to eat b/c internet connected auto feeder didn’t release food, dirty floors because the Rumba could not be summoned from the cell phone and some loneliness without Alexa.

For many, wifi is the new first level for in Maslow’s hierarchy of needs (thanks Seth Green):



A request of the musing readership. Pick up the phone after reading this musing (no email or text) and call a team member or someone else in your world to check on them and express your appreciation. No agenda just appreciation and thanks.

jml

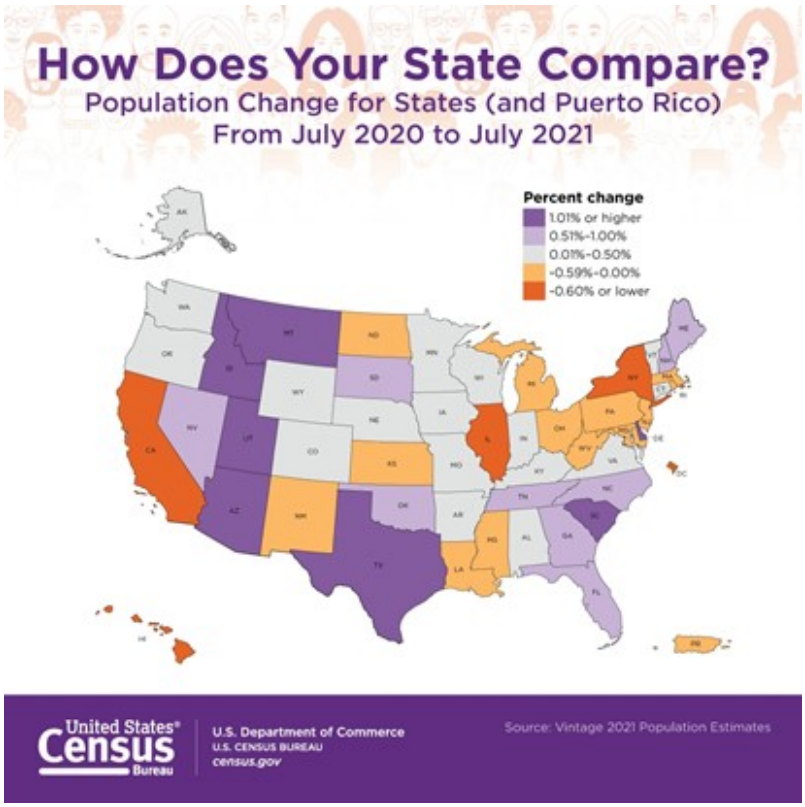
J. Michael Locke
Musings

#158: Musing
December 25, 2021

Business is like a big competition. You are competing for new customers, for contract renewals or for employees. Key to success is a passion for winning. Losing a client, losing a sale to a competitor, or losing a good employee should really bother you. Operate with a Vince Lombardi frame of mind. "Winning is not a sometime thing; it's an all the time thing. You don't win once in a while; you don't do things right once in a while; you do them right all of the time. Winning is a habit. Unfortunately, so is losing." (Thanks Matt Bailey….vincelombardi.com). When you do lose, drill down hard and figure out why. Make those accountable answer why and what will be different next time. Individuals will not necessarily mean to be deceiving, but they likely will "color" the situation and want to move on. Don't let them. Inspect yourself. Do exit interviews yourself or call a client that didn't renew.

I also look for proven winners when hiring such as former collegiate athletes. Ideally, team captains from sports which require collective execution (basketball, soccer, lacrosse, football). Individual passion for winning can turn into organizational passion which is a key competitive advantage.

According to the U.S. Census Bureau, "the population of the United States grew in the past year by 392,665, or 0.1%, the lowest rate since the nation's founding. The slow rate of growth can be attributed to decreased net international migration, decreased fertility, and increased mortality due in part to the COVID-19 pandemic. "Population growth has been slowing for years because of lower birth rates and decreasing net international migration, all while mortality rates are rising due to the aging of the nation's population," said Kristie Wilder, a demographer in the Population Division at the Census Bureau. "Now, with the impact of the COVID-19 pandemic, this combination has resulted in a historically slow pace of growth."" Illinois is at the bottom of the table actually declining in population (IMO due to government mismanagement).



Unless people starting having a lot more kids or we fix our immigration system, we are in for a tough sled to get economic growth. From Peter Zeihan: "Here in the United States, our demographic realities have long been dominated by the Baby Boomers. The largest generation in American history, they have had an outsized impact on the rapid social and economic transformation of the American post-War era. And as the Boomers enter mass retirement, their exit from the labor force is going to have a similar impact on the American economy. But these impacts won't be felt equally across the board. Cultural and generational differences mean that in certain fields--such as the trades--American Boomers occupy an outsized percentage of jobs. Society pushed Gen X and millennials toward higher education and away from things like blue-collar work. The United States was able to lean on immigrant labor, chiefly from Mexico, to fill gaps. But it was still mainly Mexican Boomers coming to do the work. With the Baby Boomers aging out of the labor pool en masse, and with immigrant flows from Mexico unlikely to ever reach their heyday of the late 1990s, significant pressures on the US labor market are here to stay. One of the industries most impacted? Trucking. And the reverberations of that reality are being felt across the entire US supply chain."

Be careful with your compensation adjustments in the middle of this labor crisis. As one successful executive put it, "compensation changes only go one way and never go back." Similar to government entitlement programs, it is basically impossible to ever take them away. As such, you have to be especially careful when putting them in. Try to attract and retain talent with culture, engagement and learning opportunities rather than just money.

I think our public policy leaders in healthcare need to update their thinking. I laugh when I hear "consult your doctor" about the vaccine etc. In my world, most people don't have a primary care physician they can call. In my entire adult life, I have never spoken to a doctor on the phone. It is a transactional world now with most primary care being done by urgent care clinics. Gone are the days of a meaningful

primary care doctor/patient relationship where the primary care physician managed the overall care of the patient. Unfortunately that coordination now falls on the patient (and his or her family) to coordinate care among specialists etc. Our public policy leaders need to recognize this change.

Don't underestimate the power of the default option. Individuals can be pretty lazy and just go with something that is presented as the default choice. Studies have shown dramatically different rates in 401k participation based on whether new employees are automatically enrolled (by default) or have to do something to enroll. I recently experienced it with tipping in a restaurant. The payment tablet brought to the table had an assumed 22% tip (party of 2) and rather than changing it to what I thought was appropriate, I just went along.

An interesting outcome of the pandemic — an increase in foul language. from WSJ: "Mentions of f***, shit and asshole, or related variations, rose 41% from full-year 2019 to 2021 through the of November on Facebook…..Cursing is the yoga pants and Uggs of language."

We have been moving away from ownership and towards renting throughout our daily lives. Now a new trend in England — rent your live Christmas tree. It is more environmentally friendly as the tree gets replanted in a pot and you can get it back next year. tree-rentals-provide-eco-friendly-alternative

Sharing some thoughts from friend Doug Smith who writes around happiness and positive psychology. He points to the need to live in peace with the past through forgiveness and gratitude. "Forgiveness is one of the most important…skills that enable one to thrive or to be happy, and yet it may be the most difficult. Forgiveness is actually two separate skills, forgiveness of others, which is about releasing the desire for vengeance, and forgiveness of self, which is about achieving self-esteem. The second skill of the past is gratitude. This skill is important as it seems to underly all the other skills of happiness. As Cicero pointed out "Gratitude is not only the greatest of virtues but the parent of all others." Live with gratitude and we almost by definition live with joy. It may also be one of the least practiced…With the advent of social media, we now live in a world where we have become experts at counting other people's blessings. Getting back to counting our own blessings and becoming more grateful is [critical.]"

Merry Christmas to those celebrating.

jml

J. Michael Locke
Musings

#159: Musing
January 1, 2022

Much has been written about the power of algorithms in social media applications. A related topic is the rise of curation in general. Technology has led to a proliferation of content. The easy self-service tools for user-generated content means that everyone can record a song, post a video or write a newsletter! Content is no longer king, now it is curation. In this world of unlimited content, individuals cannot absorb everything and lean on "curators" either in human or bot form. The TikTok algorithm is curating videos it thinks will engage the user. Getting a friend's Spotify playlist is leaning on him or her as a curator. These musings are mostly just curation where I try to pass on interesting articles etc. IMO, the key to success is to create your own network of curators feeding you information. You can also work on your own curation skills – speed reading, quick judgment on informational value, and pattern recognition – so you can process more content efficiently.

The angst being expressed by some on the CDC moving the guidance on quarantine length reminds me of a basic management tenet -- the world is gray. People often seek black/white guidance and a set of rules (exactly what should I do if someone tests positive etc.) but at the end of the day, most issues do not have a black/white resolution. It would be easier if things had clear answers but that simply is not where leaders have to operate. Leaders need to make risk-based decisions, preserve flexibility and optionality, avoid getting painted into a corner, and don't give ultimatums. Focus on picking and developing people who have good judgment in a dynamic environment and are comfortable with ambiguity. Real performers love ambiguity because it empowers them and gives them the space to be creative and innovative. When interviewing, consider giving "assignments" without clear rules and see how the prospective employee handles the ambiguity.

Directions on how to assemble your product should not be gray. It drives me nuts how little attention manufacturers give to the clarity and ease of the assembly instructions given to consumers. Christmas always highlights the issue. Kudos to Sonos who has followed Apple's lead and created simply 1-2-3 processes to get the product in use.

Put me in the Hubert Joly camp on running business for omni-channel and customer first rather than separating out your digital business. Use your physical locations as support centers for your digital operation. Make sure all management has right incentives to put customer experience first. should-retailers-split-e-commerce-from-stores

I often comment on the importance of naming conventions. Here is the latest example. The CDC is thinking about changing from "fully vaccinated" to "up to date vaccinated." The booster now has created a problem with the old definition of "fully vaccinated." If someone has two shots of Pfizer but not yet boosted, are they fully vaccinated? "Defund the police" will go down as one of the worse naming conventions. I believe there are some legitimate policy discussions to be had about the use of police for mental health situations and other social services but very few really want to "defund" those who serve and protect.

Never give a ROFR (right of first refusal). The Denver Broncos are in the middle of a lawsuit on this right now. ROFRs diminish the value of your asset when you go to sell it because potential buyers will be hesitant to put in all of the work if at the end of the day someone else can then buy the asset using their ROFR. Don't let someone advocating for a ROFR tell you it is no big deal.

The data continues to come out on the rapid increase in compensation as a result of the talent shortage. "U.S. professionals toward the end of this year saw their compensation jump at the fastest rate in nearly 20 years, federal data show.…Wages for all private-sector workers grew 4.6% year over year in the third quarter, according to federal data, with the biggest gains going to workers in service occupations and industries such as retail and hospitality." salaries-start-to-swell-for-white-collar-workers

Interesting fact: for the first time ever, less than 50% of doctors work in private practice (AMA). Most work for a larger physician practice management company or for a hospital.

Another fact: Apple, Microsoft, Alphabet (google), Amazon and Meta (Facebook) account for 27% of the value of the S&P (WSJ).

Rip John Madden. I think he had two great traits — passion and relatability. The latter was heavily influenced by his practice of taking a bus across the country to wherever he was going (he never flew). There are lots of good people in "flyover country" and spending time with them is a treat. Don't get caught up in our coastal influenced media narratives.

Happy New Year!

jml

J. Michael Locke
Musings

#160: Musing
January 7, 2022

I am always amazed by how many companies drop the ball on simple customer service. They understaff their help desk and support lines, don't communicate what is going on or leave you standing in a long line to check out and spend money with them. Companies spend enormous amounts of money attracting clients but then treat them poorly when the client wants some help. My colleague Jennifer spent 1 hour and 34 minutes waiting from someone to talk to at United Airlines…they kept pushing "go to our website" but in this situation, the website could not be used. I battled the Carvana "text bot" as they sought to use AI to answer my questions. Comcast/Xfinity is simply horrific to deal with. Keep it simple – have someone answer the phone and help your customer. Overstaff your help desk. As they say, it is cheaper to keep a customer than to get a new one.

The same "prioritize the new" and "neglect the old" can happen with employees. Priority number one should be keeping your good employees. A record 4.5 million workers quit their jobs in November. To quote Tom Gimbel of The LaSalle Network, this currently means you have to "re-recruit your current employees" as they likely are getting calls from outside. It also means that now may not be the time to follow the generally accepted "rule" against counteroffering when an employee gets an offers and resigns to go to a new employer. In general, you don't want to be reactive and should periodically do market checks and make sure your employees are being paid appropriately. In tight labor markets like this, you need to step out of the annual "raise" cycle every now and then and adjust if you are off market. In today's labor crisis, I also think "countering" an offer from outside to one of your people might make sense. It all depends on the situation.

Much of life is how you perform against expectations. The actual performance almost takes second seat to what expectations were. Today's job report is good example. CNBC headline is framed negative: *"Hiring falters in December as payrolls rise only 199,000, though the unemployment fell to 3.9%."* Those are good numbers. The labor market remains very tight. The issue is economists had higher expectations. It is key to set expectations at an achievable level with your boss or with clients.

Our society seems infatuated with trials – Elizabeth Holmes, Ghislaine Maxwell, Kim Potter, Kyle Rittenhouse etc. It makes me think about a statement a prominent law school professor once taught me. In his words: "*Our jury trial system is not meant to discover the truth, it is meant to provide judgments acceptable to the public*." This is in part why the rules around jury secrecy. We don't know what happens in that jury room when deliberations are occurring and usually juror names are kept confidential. I am not saying juries provide a bunch of bad verdicts, but the overall system is designed so society accepts the results. The system works pretty well IMO.

Short the beer industry. Today's youth are turning to hard alcohol. Rum & Cokes and High Noons have replaced Budweiser and Milwaukee's Best as the college staple. Not sure this is a good development overall as the inherit volume dynamic with beer made it harder to be abused. covid-america-alcohol-

beer-brewer-liquor-spirits-rivalry



Interesting stat from WSJ: *"Roughly 18% of online sales are returned….11% of total retail sales were returned….up from 8.1% in 2019."*

Sony announced at the annual big electronics show (CES) that it is going to make a car. Tesla deliveries grew 80% last year. The change in the car market is amazing. The core capabilities of the diesel engine incumbents look to no longer be relevant. It is about software now.

Time to change the way we discuss and react to Covid. It is here to stay. We should stop closing down in reaction. Decent article here: stop-counting-learning-live-coronavirus-risks . I think this also means we never fully return to office. Need more training for everyone in managing remote employees.

What does it say about me that I go to Costco for lunch?

RIP the Blackberry. It had the pole position to take the business community into the smart phone age and blew it. At one point, it was indispensable. What a terrible job of "looking around the corner" by the leadership to understand where market was going. blackberry-pulls-life-support-once .

jml

J. Michael Locke
Musings

#161: Musing
January 14, 2022

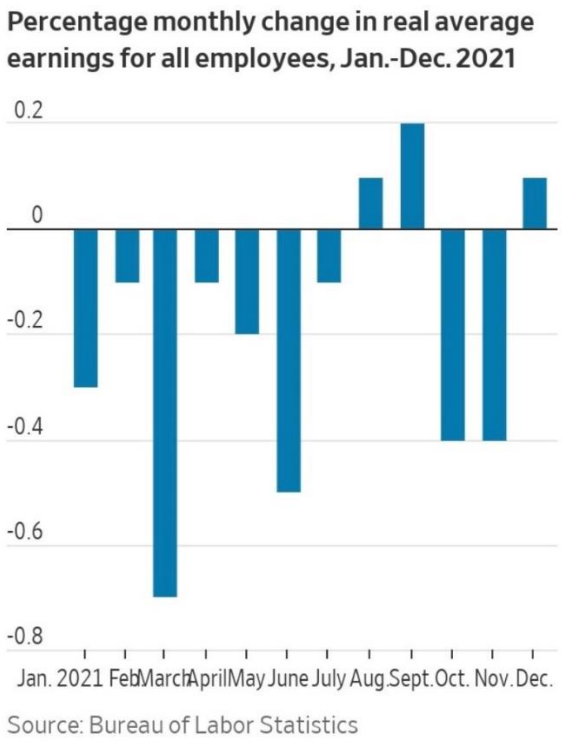
Time to go "risk on." IMO it is clear that Omicron represents the transition of Covid to an endemic virus like the flu. Following the patterns in South Africa and the UK, we are going to see a rapid decline in cases and hospitalizations in coming weeks. After two years, we know what the future is going to look like – no more 9 to 5 in the office, telehealth for basic medical appointments, more population in "scenic" areas and less in dense major cities, more population in warmer places like Florida and Texas, hybrid learning in schools, more time and money spent at/on home, labor shortages, inflation (7% in December) and higher interest rates. All of this will drive greater technology adoption and offshoring to lower cost labor markets. Place your bets / make your investments accordingly.

Not that we need to spent more time with technology. According to Datareportal (thanks Pat Wilson), we now spend 42% of our waking lives online, the same amount of time as sleeping.

Omicron has shown the importance of having the right KPIs (key performance indicators). The reporting on number of infections or positivity rate is not particularly meaningful (especially with at home tests which don't get reported). The hospitalizations metric got misinterpreted as it reported the people in the hospital *with* Covid and not necessarily *due to* Covid. Deaths still a good metric and it has not spiked.

Important to get good metrics and reporting in place on employee retention with labor shortage. Look at annualized turnover (turnover for month x 12 divided by total employee count) broken down between voluntary and involuntary. You don't want to hold on to subpar performers so you want some involuntary turnover where folks are pushed out but you want to minimize voluntary turnover. I would argue that 5-10% annualized turnover on each is a good target. Also break it down and look at turnover by department/division/function as well as by tenure with the company. Make sure to measure against the population within that segment – to say 25% *of* departing employees were from a certain department is meaningless without knowing what percentage of employees are in that department. It is tough to have business models with extreme turnover (amazon, mcdonalds, childcare can exceed 100% so most employees don't last a year). Experts estimate that turnover can cost 1.5-2.0x the annual salary of the position with recruiting costs, training costs and lost productivity.

Employees are going to keep demanding higher compensation because in "real terms" they are going backwards as inflation exceeds wage increases. Below is graph from WSJ which shows real earnings changes (compensation increase minus inflation). We have real risk of wage/price spiral:



The pandemic has been tough on college enrollments. Undergraduate enrollments decreased 3.1% from last year and have declined by nearly 7% since pandemic began.

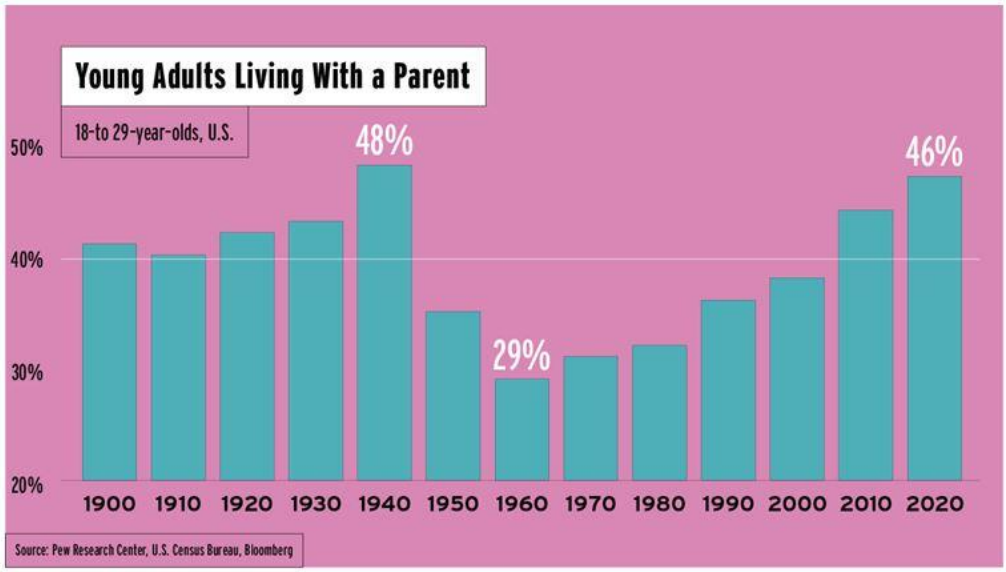
IMO, the pandemic has provided transparency on the quality of leadership of education institutions and the culture of schools. Well-managed schools have figured out the testing and other protocols to stay open for in-person learning. Schools that are run for the students (vs the faculty) are in person. I recommend future college students and parents ask current students and parents about the last two years for an easy proxy on good schools.

Remember the difference between marketing and advertising. Too much time, attention and money is spent on advertising (especially broadcast TV). Consumers are increasingly "referral focused" where their purchases are based on what their network of influencers say (supercharged by social media connectivity). An ad during the football game is basically irrelevant and wasted money. On the other hand, marketing needs more investment. A high-performing marketing team is the interpreter of what is happening in the market. What is going on with competition, how best present your services to activate and create demand, and what segmentation (size, location, demographic) makes the most sense. Manage your Google reviews.

Did you know that apps like OpenTable charge the restaurant a booking fee of roughly $1.25 per person in the party? App still gets paid even if reservation cancelled. Book directly with restaurants.

Good quote (thanks Cooper Schodrof): "*A true leader has the confidence to stand alone, the courage to make tough decisions, and the compassion to listen to the needs of others. He does not set out to be a leader, but becomes one by the equality of his actions and the integrity of his intent*." ~GEN Douglas MacArthur

If your young adult is still living at home, don't feel bad. You are almost a majority (Scott Galloway chart):



From the wtf world of NFTs, ownership of this "piece of art" just sold for almost 10k?



We are in an ugly world right now. Conflict everywhere. Lost community with social isolation and demise of institutions like church. Be a source of positivity and kindness. Fight your road rage temptations. Greet the stranger. Hold the door for someone.

jml

J. Michael Locke
Musings

#162: Musing
January 21, 2022

Some rational behavior in the equity market at last. "Story" stocks with big valuations based on earnings way in the future have been beaten up with the rapid increase in rates. This is logical as those future earnings need to be present valued and the rate used to factor in the time value of money should go up with interest rates. Near term cash is much more valuable than long term cash in a higher interest rate environment. Pandemic favorites also adjusting to the new norm of endemic world. Peloton reducing production because of such a decline in demand. Netflix missed subscriber metric. Don't go long cruise lines yet but rotate out of your pandemic positions.

Greg Ip from the WSJ does not share my "risk on" view of endemic Covid life. He writes: *"Covid-19 might have boosted efficiency in some industries by speeding up digitization and adoption of remote work. Goldman Sachs economists estimate this delivered a 3% to 4% boost to U.S. productivity. But some of the shift to remote operations is involuntary, and some of the rise in productivity might reflect an overworked workforce. Indeed, the pandemic has left the labor force smaller, sicker and less happy. Absences due to illness among employed workers have averaged 50% higher in the last two years. In early January, nearly 12 million people weren't working because they were sick with Covid-19, caring for someone with coronavirus, or concerned about getting or spreading the disease, according to a regular Census Bureau survey. The figure hasn't been below 4 million since June 2020."*

Good quote from Michael Dell: *"Our world is truly hybrid and sometimes ambiguous. We will not always be in charge of what we can do, when and where. There is no magic moment for when we return to the office or in-person events. There is a continuum of risk and reward, and that balance will move back and forth over time."*

Remote work eliminates national borders when it comes to talent. *"According to research firm IDC, more than forty percent of the global workforce—at least 1.5 billion people—is "location independent." The capacity for remote work has graduated from latent to actual."* americas-brain-drain-economy *"From Tulum, Mexico, to Athens, Greece, to Phuket, Thailand, entire colonies have sprung up catering to mobile youth in search of sunny, low-tax hubs. Digital nomads are geographically mercenary, using websites like Expatistan and nomad-themed message boards to calculate where to find the best balance between cost of living and quality of life. And those websites are steering them towards Berlin, Prague, Tbilisi, and Bali—not New York and Los Angeles."* Good leaders will figure out how to build culture through zoom with employees. Personally, I say don't turn on the "picture" backdrop or blur your surroundings. Rather, let the others see what the inside of your house looks like and be more personal.

Life is a grind right now. Feels like Groundhog day with Covid. Don't underestimate the power of humor. Laughter actually triggers chemical releases in the brain around pleasure. There is actually a class at Stanford business school on Humor and Leadership. Leaders need to bring some levity right

now. You don't have to be a comedian but be real and lighten the surrounding dark world.

Always remember to really listen. *"Listening is hard. We come into conversations with our own agendas and low attention spans, and that can be a dangerous combination. When you're doing the talking, though, it's frustrating if you're not being heard. You can build better relationships and get ahead in business if you learn how to actively listen, says Cash Nickerson, author of The Samurai Listener*." youre-a-bad-listener-heres-how-to-remember-what-people-say.

Good quote for Sir Richard Branson "*Clients do not come first. Employees come first. If you take care of your employees, they will take care of your clients*." This also applies to prospective clients. Focus on your sales and marketing professionals. My friend Tom Slagle would quote the three Cs – Clarity leads to Confidence which leads to Commitment. Don't get too complex with your sales team.

Got to love government run institutions. According to one source, over the past 20 years, Chicago Public School enrollments has declined by about 25% (100,000 students) while the budget has grown over 80%.

Fun quote from Scott Galloway: *"[Theranos' founder Elizabeth] Holmes cost her investors less than a billion dollars, didn't make any real money herself, and is going to prison. Adam Neumann [WeWork founder] cost his investors $11 billion, received a 10% commission on those losses [he took away over $1bn], and is going to Coachella. Note: Ms. Holmes's vision progressed to the exaggeration/fabrication of contracts and clients, whereas Mr. Neumann's "only" went so far as accounting irregularities."*

Good thoughts from excellent Northwestern business school professor Mohan Sawhney:

As we fasten our seatbelts for a bumpy 2022, here are some reflections on the metaphor of life as a journey. I hope you take away some inspiration for your own journey in the new year!

1. Let passion be your sail, effort be your wind, humility be your anchor and values be your compass as you captain the ship of life.
2. By running faster, we believe we make progress. But what if we are running in circles?
3. On the road less travelled, there are no carpools.
4. We celebrate birthdays as milestones. We should focus less on milestones and more on the journey. And we should celebrate every moment with gratitude that we are here. Now.
5. I search the world for answers to my questions. But the answers are always within me. I am like the musk deer that spends its life searching the forest for the scent that lies deep within its body.
6. You came with nothing. You will leave with nothing. Build your Karmic assets. I believe you can take these with you.
7. Temporary! Temporary! Temporary! This too shall pass.

jml

J. Michael Locke
Musings

#163: Musing
January 28, 2022

Companies are still trying to figure out the "new norm." The leverage shift to employees due to labor shortages is a key driver of what future office life will look like. This is especially true about "knowledge workers" who are primarily on their computers. From the WSJ: *"A November survey of more than 10,000 knowledge workers found that 95% want flexible hours, compared with 78% who want location flexibility."* workers-care-more-about-flexible-hours-than-remote-work For some, working from home has not been the nirvana expected. Part of the challenge is the bias towards "presenteeism." Much of our work culture has been centered around being with someone and watching them work hard. This is difficult to replicate in a remote environment. why-presenteeism-always-wins-out-over-productivity *"If an employer sets up hybrid without trusting their workforce, it can become little more than a token gesture: workers feel pressure to show their boss they're not taking advantage of home working."* Personally, I think it is about building relationships. Employees are not just "production widgets" measured by output. They are human beings who need to be developed, motivated and led. It is an open question for me about how well this can be done remotely using only technology interactions.

An underappreciated topic is that of decision rights. Many of the court decisions around Covid and other matters relate to "who gets to make the decision" rather than the merits of a decision. Does a Governor or Mayor get to mandate something or does a legislative body need to be involved? Same applies in business. Leaders need to develop clarity amongst their teams on what decisions can be made at what level. I am a fan of pushing "down" decision rights as close to the customer as possible. The individual in the market interacting with the customer has the best information.

So much for Bitcoin as an inflation hedge. One of the bull case arguments for Bitcoin is that it would be a hedge on inflation like gold since it had a fixed supply of a "harder" asset than regular currency. So far, that is not playing out. As inflation has ramped up, Bitcoin has plummeted in value. It is down almost 50% in three months from a high of $67,0000 down to $37,000. (I have republished part of Musing #114 which discussed Bitcoin at length after my initials below.)

Watch the consumer "downshift" from premium to discount offerings as a way to manage inflation. Ford overwhelmed by orders for its $20,000 pickup. Luxury product Peloton sales plummet. Inflation is exceeding wage growth so people are going backwards in purchasing power and looking for cheaper options.

Some interesting stats on the car market from WSJ. *"Almost three times as many used cars were sold in 2021 as new vehicles in the U.S.…. Dealers reaped 17% more gross margin on used vehicles than new ones….Some 42% of used cars sold by dealers were sourced through trade-ins."* Need to also keep the hype around electric cars in perspective. From Wired: *"EVs made up just 4 percent of vehicles sale last year [in the US]."*

Thanks Cameron Smith for sharing this: *"We are not taught how to learn in school, we are taught how to pass tests. Learning allows you to adapt. As Darwin hinted, it's not the strongest who survives. It's the one who easily adapts to a changing environment. Learning how to learn is a part of a 'work smarter, not harder' approach to life—one that probabilistically helps you avoid becoming irrelevant. Your time is precious, and you don't want to waste it on something which will just be forgotten."* - Farnam Street blog from Shane Parrish and friends.

One thing I am terrible about learning is new names. Too often I meet someone and five minutes later can't remember their name. *"The primary approach used by memory champions like Horsley and Kilov is to make compelling associations that stick in the mind like a TV commercial jingle. They do this by linking the information they want to remember to people, characters or things they're already familiar with. The more vivid and the more personal your imagery, the likelier it is to stay in your mind."* remember-peoples-names-once-and-for-all-by-using-this-technique-from-memory-champs/

Good quote from Adam Grant via Twitter, "*There's nothing wrong with being wrong. To err is human. It becomes a problem when you choose to stay wrong. To deny error is willful blindness. New information is an invitation to question old opinions. The faster you are to recognize your mistakes, the less wrong you become*."

It might be time to rethink our juvenile criminal justice system. The spike in car jackings in Chicago is mostly being done by young men under the age of 18. Due to their "juvenile" status, the crime is only a misdemeanor and does not have heavy consequences. These "boys" are being recruited by gangs who are manipulating the system. Something has to change.

Another interesting stat: Google's Chrome has approximately 65% of the browser market. That screams anti-trust to me as they are using their dominant position in other categories to tie-in and favor their browser over competition (déjà vu Netscape vs Microsoft) from the 90s.

Jml

From Musing #114 in February 2021 on Bitcoin:

Bitcoin was launched in 2009 by a pseudonymous person named Satoshi Nakamoto. The maximum number of Bitcoins that can be created is 21 million under the original cryptocurrency design. Lots of money and computing power is necessary to "mine" (which is the process of solving complex mathematical puzzles) new Bitcoin. So what you have is a digital currency (no actual coins/bills) operating without government or bank involvement. There appears to be a consensus that the future will depend on how governments respond. One reader pointed out that the Mitch Daniels' Op-Ed on runaway government spending and the ultimate inflation actually reinforces the window for Bitcoin. The US dollar got detached from gold decades ago so has no anchor of value whereas Bitcoin has a finite supply. Per one friend: "Bitcoin, as incomprehensible it is to many, is programmed to allow the release of just enough bitcoins via mining to grow the supply a couple percentage points per year. That's the key to currency stability." Broad acceptability is a hindrance but more companies are getting on board.

Here is a bull versus bear argument from CIBC:

Major companies——PayPal, J.P. Morgan, Tesla, BlackRock, PayPal, J.P. Morgan, Tesla, BlackRock—— have started using Bitcoin and/or blockchain, giving investors confidence for its long--term potential.

- Outside the US, more countries are recognizing Bitcoin as a valid financial entity and are creating regulations for its use.

- Bitcoin could be an effective hedge against the threat of runaway inflation and government debt when the global economy recovers.

Bitcoin skeptics argue:

- Bitcoin is highly volatile and too unstable to be a reliable store of value. Bitcoin crashed six times between March and December in 2017, fell 83% in 2018, and surged to a record--high of $41,958 (from $8,000) in less than one month in early January 2021.

- Bitcoin has existed since 2009, and its usage is still limited. While blockchain technology is beneficial in helping institutions manage financial transfers, Bitcoin itself is not a widely accepted medium of exchange.

- Unlike dollars, which are backed by the full faith and credit of the US government, Bitcoin isn't backed by any established central authority.

- Bitcoin is drawing the ire of environmentalists. Annual electricity use to mine new Bitcoin equals that of Chile, a nation of 20 million people. One Bitcoin transaction uses the same amount of power as 436,000 credit card transactions processed by Visa.

- The Bitcoin brand could be tarnished by its use in high--profile illegal activities, like ransomware attacks and money laundering profile illegal activities, like ransomware attacks and money laundering.

J. Michael Locke
Musings

#164: Musing
February 4, 2022

Most companies need to do a better job of managing CAC / LTV, that is the cost of customer acquisition (CAC) compared to the lifetime value (LTV) created by that customer. This looks at every customer like a profit center, how much it costs to get them, and how much profit they generate, which will then cover overhead expenses. SaaS businesses do a decent job but the basic rubric applies to all businesses. Personally, I prefer using gross margin rather than revenue for the LTV. You shouldn't pay $5,000 to attract a customer who will spend $6,000 with 50% gross margin. That business will never make money. Time also needs to be considered. By definition, LTV happens over time so you could lose money on that customer for a while since the CAC happens first. I believe the breakeven point should be a year or less but it depends on renewal rates/recurring purchases and access to capital fund CAC early.

With the arrival of high inflation, many companies will raise prices to offset increases in their cost structure. Another option is to change your bundling. According to the WSJ, one fast food restaurant is changing the number of chicken nuggets in its' offering from 10 to 8. Pretty clever. Would you have even noticed? Look for other reductions in food volumes or unbundling like hotels no longer defaulting to daily housekeeping.

It is best to match the dynamics of your revenue line to the dynamics of your cost structure. WeWork totally violated this principle as it signed fixed commitment expensive long-term leases (its' cost) and then sought to sell "fractional" shares month to month (its' revenue). Spotify is an interesting model. It gets $15-$20 per month flat fee but then pays out royalties based on usage. It makes decisions harder – does it matter if Neil Young comes off the list of artists available? I bet they have some really good analytics to "infer" the value of a given artist to the bundle based on how often they are listened to. My guess is Joe Rogan listening minutes beat Neil Young and Joni Mitchell by 100,000 to 1. Compliments to Neil Young on standing behind his principles as he will lose 60% of his streaming income by coming off Spotify.

Earnings season showing a divergence amongst tech companies. Good results for Amazon, Google, Apple and Snap. Bad results for Facebook, Spotify and PayPal. Not sure of the pattern. Clearly, the iOS privacy change on cross-app tracking hurt Facebook to the benefit of Google.

Lots of Washington conversation about forgiving student debt. College students can borrow cheaply from the federal government to attend school (Stafford loans). There is no underwriting --- so credit worthiness does not matter --- if you are a student at an accredited school you can borrow the money. Unfortunately, many of these borrowers are not paying back their debt. Payments have been "on hold" due to Covid but even before that as many as 50% of borrowers were not making any principal payments. In a case of Washington "gimmickry," the government keeps the loans on the balance sheet at full value assuming it will get paid back (student debt does not get wiped out in

bankruptcy). Since the government can borrow money so cheaply, under its' accounting, it is making tons of money on student loans and it is a "pay for" in Washington speak. Unfortunately, that is all hocus pocus. The loans are not getting repaid and now the political momentum is to forgive them. This isn't great for the taxpayers who have put up the money which is being lent out. It also sets terrible precedent on "not paying your debts" for our young people IMO. Student debt is a problem that has broader ramifications like delaying household formation but let us focus on modifications rather than just straight forgiveness.

Nomenclature example: heard someone change the nomenclature from "non-profit" and "for-profit" to "tax exempt" and "investor owned."

Good opinion piece in WSJ: end-covid-panic-now. *"The seemingly unto-eternity extension of the Covid crisis is now doing more nonmedical damage to the country than the virus itself. Masking and testing have turned life into a Rubik's Cube of detail and wheel-spinning decisions. .Isolation has become its own pandemic. Untended friendships have eroded."*

Some interesting commentary on return to office from Joe Brady: *"The world is no longer binary (home/work; work/home). The tectonic shift caused by Covid-19 changed "Work" from a noun to a verb. From a place we went, to a thing we do, irrespective of place. Workers are now consumers. They will act with agency, autonomy and optionality. They will choose to earn their money the same way they spend it. Retail (spending money) moved from centralized to decentralized (think rise of Amazon). Omni-channel retail became do or die. Shop morphed from a place we went, to a thing we do…Hybrid working is the equivalent of multi-channel retail. We, as consumers, like having choice and optionality. Now with this tectonic shift, we can earn out money the same way we spend it. So… saying "return to the office" is tone-deaf to the real and complex wants and desires of the professional working population. No one knows what the next normal will bring. But, if we remain curious, empathetic and apply an anthropological examination regarding the change in human behavior, we will better understand how to make the built environment (i.e. $4T office asset class) more agile to run at the speed of business. The future will be more quantum (existing in multiple states / places in the same day) than digital (home/work, work/home)."*

Demographic tailwinds and more flexible work-from-home arrangements are supporting housing demand. The large millennial cohort is starting to buy homes at a rapid rate. Homeownership could become more attractive with a shift to more work-from-home arrangements. Technology like ride-sharing and food delivery apps could make living in the suburbs more convenient. Housing demand could exceed supply for years as the pace of new construction has recovered slowly since the housing crisis, resulting in a shortage of homes. Some millennials are "flipping the script" by buying vacation home first and still renting primary residence. vacation-house-starter-home-trend . In a sign of the robust market, according to Redfin, almost two-thirds of home buyers made an offer without seeing a house in person in 2020. Cash offers are way up (although that is a misnomer because all offers are cash. The question is the source of cash and whether they are all equity offers vs depending on mortgages).

Beware of the new IRS rule which just went into effect. They are making Venmo and PayPal report commercial transactions over $600 annually so they can issue a 1099 to the recipient. Washington could come after your babysitter. https://www.nbcnews.com/news/amp/rcna11260.

Count me out on hiring in NYC. Under a new local regulation, companies must include salaries in job

opening advertisements. The policy argument is that “transparency” will reduce the reported discrepancies in pay based on gender and race. I view salaries as a private matter and an employee doesn’t need to know what all other employees are making. If someone feels discrimination is occurring, sue the company and get the data and make the case. In the meantime, I encourage employers just to put in their remote work advertisements that residents of New York City are not eligible.

jml

J. Michael Locke
Musings

#165: Musing
February 11, 2022

January CPI up 7.5%. I am generally a fan of Fed Chairman Jerome Powell but the "it's transitory" position on inflation six months ago may go down as one of the worst calls in a long time.

The shortage of labor is driving companies to raise prices to try and protect profits. For instance, Amazon is raising its prime membership 16% from $119 to $139 to offset the fact that it has to pay $22 an hour and give away college education in order to attract workers. The strong January jobs report continues to show the challenge employers are going to have in meeting their human capital and talent needs. This is not a transitory phenomenon. The "Great Resignation" represents a resetting of employer/employee dynamics. Some companies are adapting by sharing more ownership with employees. *"Employee-owned companies..provide ownership stakes at no cost to their workers in a type of retirement account governed by the same law that created 401(k) accounts. Companies owned by their workers tend to pay higher wages, have lower turnover, better benefits and more inclusive cultures, research shows. Academics say these companies exemplify the idea of "shared capitalism." With the wealth gap widening across the U.S. and more Americans expressing dissatisfaction in their jobs, employee-owned companies say their structure is the solution."* workers-companies-aren-t-rushing This is a very expensive approach (coming in dilution of ownership rather than higher wages) but might make sense for some.

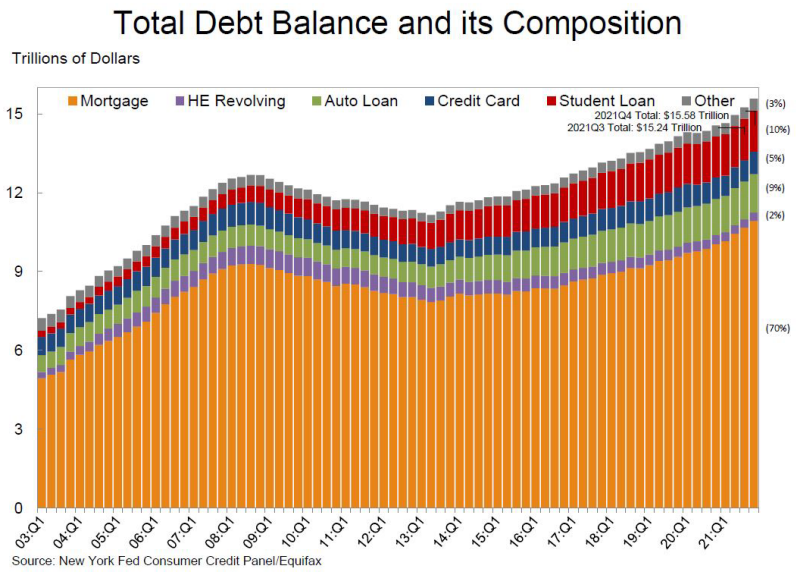
Personally, I think employers need to focus more on non-wage / non-benefits issues. Company culture and how leadership treats employees is huge. One critical segment of the workforce is mothers. A company cannot truly reach its potential unless it has an attractive employer for working moms. The includes flexibility in your work structure but also, and probably more importantly, a higher EQ for leadership and the company culture. Interesting article on this post-pandemic (thanks Lisa Taylor): these-women-left-the-workforce-heres-what-they-want-in-their-next-jobs/

Employers also need to be more open to non-college educated workers. Skills can be attained in a variety of ways. This shift away from a bachelor degree requirement is accelerating. From Burning Glass: *"Employers are resetting degree requirements in a wide range of roles, dropping the requirement for a bachelor's degree in many middle-skill and even some higher skill roles. This reverses a trend toward degree inflation in job postings going back to the Great Recession. And while the Covid-19 pandemic accelerated this process, this reset began before the crisis and is likely to continue after it. This reset could have major implications for how employers find talent and open up opportunities for the two-thirds of Americans without a college education. Based on these trends, we project that an additional 1.4 million jobs could open to workers without college degrees over the next five years."*

The diverging prospects of Google, Amazon and Facebook seem to rest on where you are "in the funnel." Marketers talk about a funnel with potential buyers coming in the top based on "awareness" or "indications of interest" and then some portion move through a process and ultimately purchase at the

bottom of the funnel. Google's search is more at the bottom where someone is actively looking for something. Amazons new booming search business is even lower basically helping the consumer buy. On the other hand, Facebook is way at top of funnel where there is an assumed interest based on display ads which is much more tentative demand and the Apple privacy changes made it even more tenuous and less valuable.

Is the American obsession with home ownership, right? Our public policy supports it through the tax deductibility of mortgages and the backstops on credit provided by Fannie Mae etc. I believe the idea is ownership creates a more committed member of a community and an opportunity for wealth creation. I look at the following chart from the NY federal reserve on consumer debt and how much is mortgages and wonder:



Interesting stat: according to Edmonds, 82% of new car purchases in January were above MSRP (up from 2% last year).

I am all for right to repair laws. Drives me nuts when a manufacturer makes it that you can only go to them for repair (ex. Apple). Tides seem to be turning. Late last year, Apple announced a new program to allow for self-service repairs (apple-iphone-mac-self-service-program-repair-diy). Legislatures are also getting involved and passing laws which will open up opportunities for independent repair shops. fight-right-repair-cars-turns-ugly

For the economics wonks, interesting debate on the role of the Federal Reserve currently taking place in Washington. Historically, the Fed focused on monetary policy and its dual mandate of low unemployment and low inflation. Some of the new nominees have a more socially active view of how the fed should operate including factoring in climate change as a monetary policy risk. Not sure how this will play out.

Good thought from Scott Galloway on mentors: *"Don't make an important decision without getting input from others. Perspective matters … it's difficult to read a label from inside the bottle. A mentor isn't necessarily someone smarter than you, and they likely won't know more about your situation, but their standing outside it is what's valuable. Besides, the ask itself matters. Asking for someone's advice is an*

expression of trust — that's why it's intimidating. Trust builds trust and deepens relationships. Seek counsel, and your mentor will be invested in your success. Asking for advice doesn't mean you have to take it. Often, what's most valuable about advice isn't a recommended course of action, but the questions a mentor asks you — pressure testing your reasoning. You might not follow their advice, but don't ignore what they say."

Watch the "dark side" of Apple AirTags. This is a new product they rolled out which allows you to basically put a tracking device on an object so you can locate it like "Find my iPhone." However, it also can be used to track people and some bad people are using them that way. women-who-say-apple-airtags-used-to-track-them

The pandemic lockdown is over. The end will be "choppy" and vary geographically but people are just kind of "done" with government/institutionally imposed rules and want to make their own health risk decisions. Get ready for a great summer.

Finally, first we had NFTs and now we have YATs. Maybe Prince had it right when he changed his name to a symbol. Apparently the current rage is to identify yourself through a series of emojis called YATs. If you want to reserve one yourself, go to www.y.at. So much for the old fashion needlepoint life belt. nft-yats-emoji-investment

https://y.at/🪡🏠🎧🐱
(formerly known as jml)

J. Michael Locke
Musings

#167: Musing
February 26, 2022

Sorry for the delayed distribution. Not a lot of stuff this week.

Can the US still effectively compete and innovate post-Covid in the same way it did before? I am worried that our society is simply getting "soft" and there is a diminishing drive and work ethic. One study reported that 54% of Americans are currently re-examining their life priorities and only 17% of adults now cite their job or career as a source of meaning (WSJ). There is a reason we, as a country, have had more economic success than France or Greece and thus have the dollar as the world's reserve currency. We don't want to lose that. For too many individuals, work does not have any "meaning" beyond a paycheck. Employers need to fix that and create environments where people are actively engaged, develop deep relationships, feel appreciated and learn and grow. If not, we will continue to see high levels of resignation and growing distaste for work. Good NYT article (thanks Jon Locke) anti-ambition-age

Speaking of the dollar as the world's currency, we are seeing the power of that with the situation in Ukraine. Many of the sanctions deployed by US revolve around the financial ecosystem and the fact that much of it flows through U.S. banks and leverages the dollar. This also highlights a risk of the cryptocurrency movement. If the world moves to Bitcoin et al., we lose a powerful international affairs negotiation lever.

I agree with Macy's decision to resist pressure from an activist hedge fund to break up and separate out its online business. IMO the integrated "omnichannel" approach where you leverage your physical stores in support of your online business is the model of the future. The stores can be smaller and have less inventory (more like showrooms) but they provide an opportunity provide service to customers including fulfillment of orders and returns. According to WSJ, *"roughly a quarter of Macy's digital sales was fulfilled by stores in fiscal 2021."*

There is an underreported downside to the Covid vaccine. The technology behind Pfizer and Moderna is called mRNA which triggers responses in the human immunity system. Real progress was being made using mRNA to help with fighting cancer. This work got delayed/halted as the scientists pivoted to creating a Covid vaccine. I am not saying this was wrong but it will be great to get the efforts fully ramped again to help those fighting cancer. (Thanks to Tom for teaching me this one.)

There are not many markets like the Ketchup market. Can you name another provider than Heinz? It has a 70% market share. Chalk it up to good marketing back in the day. There were not 57 varieties. That was simply a marketing technique created by H.J. Heinz. *"Visiting New York City in 1896, Heinz spotted an advertisement for "21 styles" of shoes. He found it memorable and thought attaching a number to his own brand would help it stick with consumers."* heinz-ketchup-57-varieties-history

Many of you might have seen the “situation” that occurred in an NCAA basketball game last week where during the standard post-game shaking of hands, a fight erupted including the coach of Michigan. In the aftermath, some have suggested getting rid of the handshake custom. You have to love Michigan State’s coach Tom Izzo’s reaction to that idea: izzo on handshake elimination

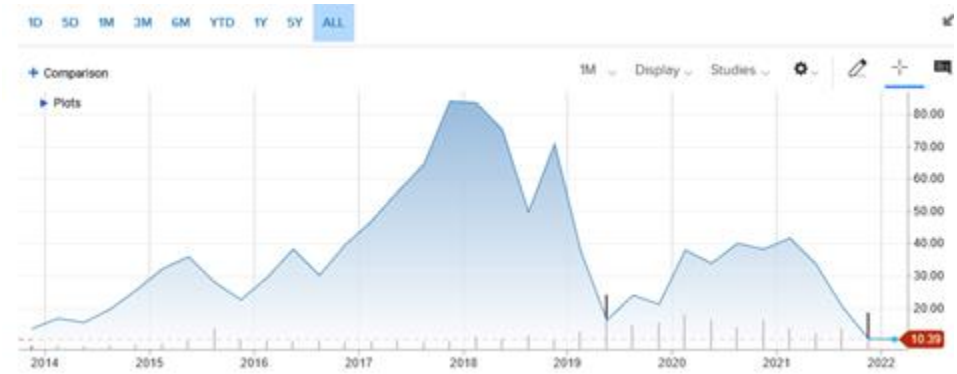
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J. Michael Locke
Musings

#168: Musing
March 5, 2022

As technology is increasingly ubiquitous throughout an organization and SAAS models proliferate allowing easy implementation, I am increasingly a fan of decentralized IT. The model of everything running through central IT like the politburo is not well-suited for today's world. Rather, central IT should focus on security, data integrity, networks and interoperability. Every department might end up with its own IT shop starting with marketing. diffuse vs centralized IT

The basic corporate governance model in US companies is that all power rests with the shareholders who are the owners. In recent times, public equity ownership has shifted to be mostly mutual funds. We need these fund managers to step up to their governance responsibility. Too many companies are underperforming and no one is home at the board level and shareholders only act by buying/selling stock. Take this company (TWOU) which is in the education technology market. This graph is the entire time it has been a public company. Every person who has bought stock in the public market is now underwater and the same CEO continues to run the business.



Watch the siren song of data. Lots of companies have too much data and not enough information. Executives have numbers on everything but end up not absorbing it all because it is overload. Keep it simple. What are the levers that will drive growth of cash flow which ultimately determines value? Those are the key KPIs. Right now, executives should be identifying the KPIs around employee recruitment, retention and engagement.

With the end of the pandemic, employers are starting to re-open their offices. The key is to provide employees with some level of flexibility. You don't need to go all-remote IMO but you can't go back to five days in the office. The world has shifted and employees (who are in the

driver's seat in today's labor market) want the flexibility to work from home part of the time. This is playing out in employee recruitment. "*New research found that jobs allowing employees to work from home full or part-time saw seven times more applications than in-person roles last month.*" flexible-jobs-are-attracting-7-times-more-applicants (thanks Jeff Dobosh).

While his background is atypical, Ukrainian President Zelensky is showing great leadership skills. He is a savvy user of social media and communicates well. Here is a table which compares "bosses" to "leaders" which someone posted on LinkedIn. Good quote from Adam Grant - *"Ukraine's president is more than a lion who found his roar. He's a lion protecting his pride. Charisma attracts attention. Courage earns admiration. But commitment to a group inspires loyalty. We follow leaders who fight for us. We make sacrifices for leaders who serve us."* Part of the post-Covid world is employees emphasis on having good leaders. It is critical to talent acquisition and retention and employers should lean into more leadership training.

BOSS	LEADER
Says "I"	Says "We"
Takes Credit	Gives Credit
Micromanages	Delegates
Criticism	Encourages
Focuses on Weaknesses	Focuses on Strengths
Blames Others	Takes Responsibility
Directs	Coaches
Speaks More	Listens More
Inspires Fear	Inspires Enthusiasm
Commands	Asks

I am usually "preaching" caution around cybersecurity and the need for companies to bolster their defenses. In this case, I am rooting for the hackers who have come out against Russia (thanks John Carolan). how-is-anonymous-attacking-russia-disabling-and-hacking-websites

One big question for me is how the war is going to affect the equity market in US. Ukraine does not comprise a material part of many companies' revenue; however, the real action is around energy and how the world (especially Germany) is dependent on Russian oil and natural gas. An unintended consequence of the push to renewable energy is more power to Russia. Interesting conservative oped on this (thanks Andy Siepker): energy-and-american-power-vladimir-putin-russia-ukraine. Higher energy prices will drive even higher inflation and hurt US consumers which may play out in lower retail sales etc. as they spend more on the pump and heating their homes.

jml

J. Michael Locke
Musings

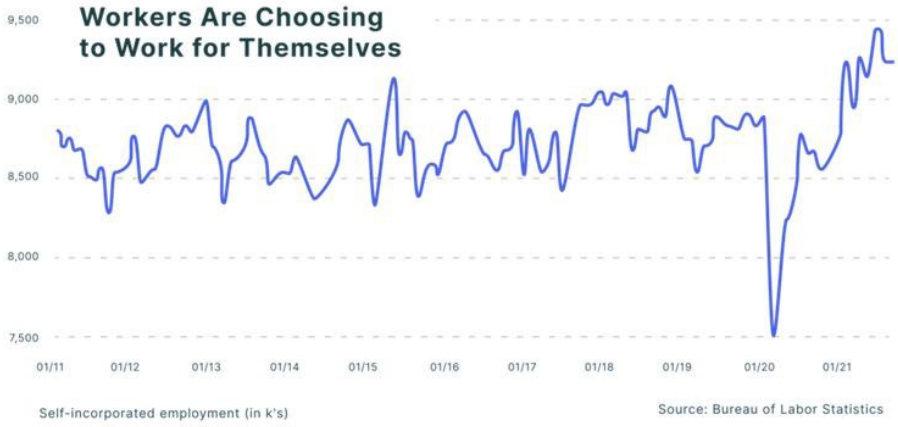
#169: Musing
March 12, 2022

With the dislocation created by the pandemic, it is sometimes hard to measure growth through "comps" or comparables. The standard of comparing to last quarter (if the business has no seasonality) or to the same quarter last year (if a business has seasonality so can't look at sequential quarters) is hard. I think comparing to pre-pandemic levels is now the way to go. For instance, at Uber gross bookings from airports were up 50% in February compared with a month earlier but that doesn't really give the long term health of the business because last month was during Omicron. The better stat is that Uber ride hailing volumes in February were down 10% from where they were February 2019.

Anyone who is a parent knows the value of structure in human behavior. Starting with babies' sleep schedules, kids do better when they have routines and structure. Adults are no different. The romantics who preach remote work and total flexibility for employees underappreciate the value workers get from structure. Good article on this (thanks Heather Locke): working-at-home-remote-work-office-anxiety-depression-drinking.

Office time will be different. Not a required 9-5/5 days but rather coming in for meetings, connections and gathering. Forward thinking companies are redoing their "landscaping" of cubes and figuring out how to foster connections. From Salesforce (thanks Joe Brady): *"Creating a "destination workplace. Over the past few months, we've seen a steady increase in people coming into our offices for events, customer meetings, and team workshops. Today, 88 of our 110 global offices are open to employees, and we've found that Tuesdays and Wednesdays are the most popular days for employees to come in. Our offices are key to how we connect, but we also know that they are just one place where work gets done."* I think Goldman Sachs and other financial firms demanding full return to office are in for a surprise.goldman-sachs-return-to-work-employees

Employers also need to more robustly leverage gig economy workers as part of their labor model. Many individuals do not want to go back to work full time and would rather work on a project or "gig" basis. The following graph shows the expansion of individual workers. Companies should have a "stable" of gig workers who they routinely go to especially in difficult to fill jobs like digital marketing.



A good technique to galvanize a group of individuals/company is to create an "enemy." Coke vs Pepsi or Burger King vs McDonalds. This is what makes sports rivalries so popular. IMO Putin has inadvertently done just this with the western world. A year or so ago, most Americans would probably have voted to reduce funding for NATO. Not now. The nightly news of Russia's action in Ukraine is galvanizing the world and bringing life back to NATO.

I hate $5+ gas like anyone but from a macro-economic perspective, let's not overstate the impact. According to Labor Dept., spending on gasoline accounts for only about 3.7% of consumer expenditures. This is more of a headline issue than a true economic issue. That being said, overall inflation is a problem with CPI up 7.9% from last year (largest increase since 1982 according to WSJ). My point is that it is not about the Russian invasion and energy but more about excessive fiscal stimulus, supply chain issues and labor shortages creating a wage/price spiral.

I am surprised by the persistence of a couple items reflective of our historically sexist (and often misogynistic) society. Hooters, Twin Peaks and Tilted Kilt continue to do major business with the simple marketing message around a woman's chest. Secondly, look around next time you are driving. 80% of couples in cars have the man driving. No rational reason why. Will be interesting when the day comes of as many men riding in the passenger seat as driving.

Speaking of cars, the dealership model doesn't make sense to me. State franchise laws prohibit Ford et al. from selling direct and also from being open on Sundays. How about we stop protecting politically-connected dealers and allow companies to respond to what the consumers want?

RIP pitchers batting in the major leagues — National League to adopt the designated hitter model. American sports consumers like scoring/points/offense — thus the three point line in basketball or the reduction in goalie pad size a couple years ago in hockey.

Don't forget to switch your clocks in the Midwest tonight. I don't have a strong feeling about

daylight savings time and whether it should be eliminated but we should not overstate the impact. It is kind of a pain but I can't believe that it creates health events, psychological challenges and is difficult to adapt to like some argue. One day of transition and it is over. Stop being dramatic.

jml

J. Michael Locke
Musings

#170: Musing
March 18, 2022

An often overlooked step in talent acquisition is onboarding and "app to start." Just because someone accepts an offer doesn't mean you have him or her. It is really critical to keep in touch and keep the enthusiasm for joining your organization. You need to counsel them through their resignation (who are you going to talk to? What are you going to say? Call me after you resign.) to ensure you don't lose to a counter-offer. Remind them why they have chosen to join your organization. Personally, I like giving the new employee some work assignments before they even start to get them ramped up (HR people don't like that.) Finally, you need a thoughtful onboarding especially if remote. Good article on that step here (thanks Jennifer Walsh): why-upping-your-employee-onboarding-game-is-more-important-than-ever.

An underutilized managerial technique is "playing consumer." Pretend you are the buyer and go through your company's process --- submit an interest form on the web and see how long before you get a call or maybe even invent an identity and listen to the sales pitch. I am a big fan of this "undercover boss" move as it relates to walking through the web experience. In today's market, you also should "pretend" to be a potential employee. Google search, check out the career section on the website, submit a resume etc. and see the experience potential employees are having when engaging your business.

The best weapon right now in the labor battle is good leadership – not in the corner office but throughout the organization from every individual who has managerial responsibilities. One underappreciated bad leadership trait to watch for is the absentee leader. *"Absentee leaders are people in leadership roles who are psychologically absent from them. They were promoted into management, and enjoy the privileges and rewards of a leadership role, but avoid meaningful involvement with their teams. Absentee leadership resembles the concept of rent-seeking in economics — taking value out of an organization without putting value in."* the-most-common-type-of-incompetent-leader.

Interesting stat and quote from WSJ Editorial page: *"As finance scholar Emre Kuvvet wrote recently…among economists in the Federal Reserve System, Democrats outnumber Republicans by 10.4 to 1 in 2021……This leads the Fed to overestimate the growth effect of federal spending but underestimate the growth benefits of regulatory and tax reform."*

Another interesting stat from WSJ: *"The share of workers categorized as freelance…was 36% in 2021."*

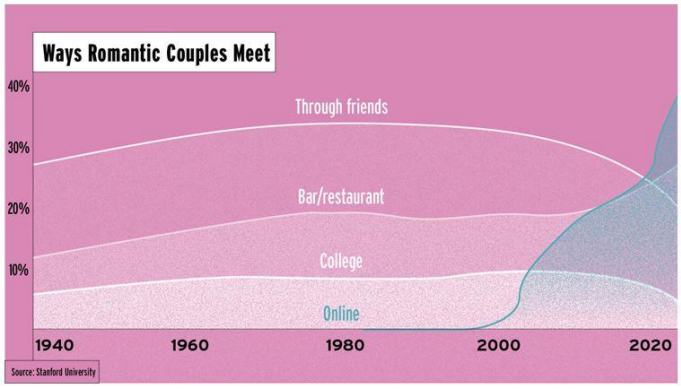
One more from William Blair: *"for the next decade, more than 10,000 people will turn 65 each day."*

Many of those 65+ (and growingly younger) folks are playing pickleball. For those not familiar, it is a "miniature tennis" game with a whiffle ball. Why "pickleball"? Apparently the creator's dog's name. "*While the game originated in Bainbridge Island, Washington in the 1960s—and Washington State is currently considering making the game its official sport—the precise origins of its name are unclear; some say it's because one of the founder's dogs was named "Pickles." Once people move past the matter of the name and try the sport for themselves, however, they generally get hooked very quickly."* (thanks Keith Watson) pickleball-trend-one-percent/.

We need some of the pickleball players to get back into the workforce. Great report from EMSI (demographic-drought/) -- here is the thrust. *"Fifty years of birth rates below replacement levels, combined with a recent precipitous drop in immigration has left us with fewer and fewer young, working-age people. This decline is happening as a record number of Americans are reaching retirement age, compounding the problem. What's more, a steadily falling labor force participation rate means fewer people are looking for work or filling available jobs. It's a one-two punch that has left the labor market reeling."* One key to getting labor participation rates back up is solving the childcare dilemma. Too many talented women are not in the workforce because of cost and availability of quality childcare. The other big lever is immigration. We need to have a rational immigration system which increases the flow of immigrants into the US.

Have to be suspicious when Amazon executives have moved their internal chats onto Signal which provides encryption and destroys after consumption.

Where did you meet your spouse? Amazing change. Graph from Scott Galloway.



RIP globalization and international supply chains. The pandemic plus Russian invasion will drive companies to reduce dependency on volatile international markets. Need your chips built in US. Need more domestic energy production. Step backwards for movement to one global, interconnected market.

jml

J. Michael Locke
Musings

#171: Musing
March 26, 2022

I think we are headed to the demise of most advertising as consumers make purchasing decisions based on referrals and influencers. Consumers don't want to hear the company ad or pitch but rather want to hear what other consumers think about the product or service. Manage your Google reviews as best you can. Survey your clients for net promoter score. Identify the influencers in your market.

Who needs spies when you have TikTok and social media? Apparently, lots of intelligence was gathered on Russian troop movements based on soldiers and citizens posting on TikTok etc. Intelligence officers even reverse engineered from those posting what specific battalions were involved. Amazing power of social media. Every company needs to be engaging it big time for offensive and defensive purposes.

IMO, social media and the web should continue to make unions generally irrelevant. Employers cannot "take advantage" of workers like Sinclair's jungle — it would be all over the internet and consumers would revolt. Glassdoor provides an open platform to find out what employers are like. Talented employees have leverage in today's labor market. The unionization activities at Starbucks and Amazon are a step backwards. One reason for the unionization push is the deployment of big data management without human touch. Good article on Starbuck's issues which have led Howard Schultz to have to step back in. starbucks-how-a-progressive-company-lost-its-way

I feel sorry for Bob Chapek — CEO of Disney. Running a company now involves being a politician. He is under lots of criticism for not weighing in on legislation in Florida around elementary schools. So much for focusing on running the business. This legislation also shows the battle of nomenclature to "frame the narrative" — supporters call it the "parental rights in education bill" while opponents call it the "don't say gay bill."

Keep it simple. How does your product or service help the customer? What is the ROI? Too many smart people make things too complicated. Too much obsession on features rather than benefits. Too much talking rather than listening.

16mm people are about to lose their health insurance. During the pandemic, states stopped evaluating Medicaid eligibility on an emergency basis. This is about to end.

Watch the issues around the dollar as the world retreats from globalization and stops buying

Russian oil. The US dollar is the world's reserve currency. From Investopedia: *" Central banks held 59% of their reserves in U.S. dollars during the fourth quarter of 2020, according to the International Monetary Fund (IMF). Many of the reserves are in cash or U.S bonds, such as U.S. Treasuries."* Saudi Arabia and Russia have historically been paid for their oil in US dollars providing them with lots of the currency and helping support the value of the dollar. With the recent geo-political conflicts, some of those oil trades now being settled in Chinese yuan. US also needs to get its act together on having digital currency. We are going to lose out to China on currency matters if not careful and the cost to finance our relentless deficit spending will drastically increase.

Good primer on cryptocurrency in New York Times: cryptocurrency-crypto-guide

Is the movement to larger houses hurting our children's development? Driving around our suburb almost every house has an addition since its original construction. The modern movement to larger houses provides members of the family with their own space. Combine this with mobile phones and digital content proliferation and gone are the days of the family sitting together in the family room watching a show agreed to in a democratic/sacrifice process. Now everybody watches exactly what they want in their place. This abundance of convenience and customization is throwing off the pain/pleasure balance in our brains and leading to constantly increasing thresholds of satisfaction to stimulate Dopamine releases. This in turn is creating more addictions (thanks Cate Locke). Family time is almost gone for all practical purposes. Not a lot of sacrifice going on with today's youth. A smaller house also frees up money for travel which is when you still can get some family time. Take your kids to the Grand Canyon and DC rather than having a bigger house.

You have to like how our society focuses on Supreme Court nominations and engages in a public discussion about judicial philosophy, the constitution and the role of the Supreme Court. That said, I bet less than 1% of people can name all nine justices. Give it a try.

Important Trump strategist Stephen Miller attempted to block a subpoena of his phone records because he is still on his parents' plan. Are you kidding me? He was making top level White House decisions and he doesn't pay his own cell phone bill? According to WSJ, 39% of 18-24 year olds still on parents plan. So much for adulthood after college.

Rip Ned Johnson who built Fidelity into the powerhouse it is. A real innovator. From CNN: *"In 1974, he broke the mold by selling mutual funds directly to individual investors instead of through traditional brokers. After the 401(k) was created by Congress in 1978, he introduced a retirement fund management system, which is now a foundational element of millions of Americans' retirement plans. As the stock market began a sustained period of growth in the 1980s, Fidelity was the first companies to supply discount brokerage services to individuals. In 1995, it became the first fund company to create a website."*

Rip Stephen Wilhite who made all of our lives better by inventing GIFs. From NBC: *" In 1987, while at Compuserve, he created the Graphics Interchange Format, or GIF, to compress images*

to make them accessible for early modem speeds. Years later, it became social media's primary method of conveying emotion and memetic communication. The GIF format has been used as a convenient way to show graphs, drawings and simple animations. ..Many over the years debated how GIF is supposed to be pronounced. In 2013, Wilhite settled the debate, declaring that it is pronounced with a soft "g," like the peanut butter brand Jif."

jml

J. Michael Locke
Musings

#172: Musing
April 1, 2022

Apple has a looming issue with its supply chain. From Google: *"Out of the 30 countries where Apple devices were manufactured in 2020, six accounted for over 80% of annual production. China contributed 42%, followed by Japan (16%), the US (9%), Taiwan (6%), South Korea (5%), and Vietnam (4%)."* Not sure this model works in the future. From a supply chain guru in HBR *"Over the last three decades, firms have taken advantage of reliable, low-cost transportation and a benign trading environment to leverage low-cost labor in Asia to deliver a plethora of products to distant markets. But now supply-chain "resilience" is getting tangled with economic and technological "sovereignty," a euphemism for more localized production…….Managers who have relied on labor arbitrage or distant global sourcing strategies increasingly will have to develop regional alternatives. This likely will mean more balancing of production capacity and consumption within geographic trade blocs."* are-the-risks-of-global-supply-chains-starting-to-outweigh-the-rewards The movement is towards a "supply web" rather than a supply chain. Like Intel building outside of Columbus, Ohio, this may be the rebirth of rural America with cheap land and labor.

Watch the disruption in the world's food supply coming as a result of the Russian invasion. According to Peter Zeihan, the world's largest wheat exporter invaded the world's fourth-largest wheat exporter. We are coming into planting season in Ukraine which increasingly looks unlikely. There are also issues in the global fertilizer market according to Zeihan with reduction of exports from Russia and China.

Too many companies and executives try to eliminate judgment calls and instead opt for "black and white" rules. This leads to suboptimal consumer experiences when the service professional has no room to exercise judgment. It can lead to missed opportunities to invite high performers to certain events or meetings (this meeting for vice presidents and above). It can even apply to wedding list compilation. Everyone needs to operate more "in the gray" and use judgment on what is right.

We hear a lot about Unicorns in the venture capital world but how about Dragons? *"Fund managers are often blinded by the idea of investing in Unicorns (companies with a valuation in excess of $1B). However, the true secret to outsized fund returns lies in the pursuit of Dragons. A Dragon is a portfolio company that, upon its exit, returns the entire fund at least 1x, regardless of the return multiple on the individual investment. A company does not need to be a Unicorn to be a Dragon. The fund manager needs only to own a meaningful stake in the company – to "have enough skin in the game", if you will. Ownership will ultimately determine*

which exit will be more impactful for returns." Good blog on portfolio construction (thanks John Hughes) vc-portfolio-construction

Let the battle of the dress code begin. The business world was already going more casual but post-pandemic is putting more stress on the topic. Does the dress code apply to remote workers participating in zoom meetings? Can employers ask employees who have been in hoodies and leggings for two years to dress up as they come back in the office sometimes? I say "business casual" --- no sandals or t-shirts but nice sneakers and leggings ok. dress-code-office-blazers-hoodies-sneakers-boss

Can a nurse's medical error be a criminal act? A jury convicted a former Vanderbilt nurse of criminally negligent homicide based on her giving the wrong medication to a patient which led to death. Count me out on this. Doctors and nurses operate in a complex, dynamic and stressful world (especially now) and unfortunately mistakes happen. Now they have to worry about getting criminally charged?

Are you a two spaces after the period person? This is what I learned thanks to Strunk & White but apparently that is old school. Younger folks are taught one space is ok. nothing says over 40 like two-spaces-after-period

Do executives get to "check out"? Of all the things I have written in these musings, this topic is the one which led to the most "I disagree emails." As I write this from my Spring Break vacation, I continue to believe that executives simply cannot "check out." I understand the need to slow down sometimes and relax a little but IMO you have to stay connected. I don't think you should ever turn on the "out of office email message." This doesn't mean you work just like normal on vacation but there is a difference between not participating in "regular weekly calls" and not being available for "special calls" on important topics (ex. negotiating a big deal or trying to recruit a key executive). Work/life integration rather than work/life balance. Gray vs black/white.

Interesting comment from President of NAACP Legal defense fund on Will Smith incident: *"I know we're all still processing, but the way casual violence was normalized tonight by a collective national audience will have consequences that we can't even fathom in the moment."*

Rip the cover letter. Who even reads them anymore? Send me your LinkedIn profile and let me check with folks you have worked with on how good you are (note this is the same behavior I ascribed to consumers last week using referrals and customer ratings to make purchasing decisions).

jml

J. Michael Locke
Musings

#173: Musing
April 8, 2022

I have previously written about the importance of culture as employers seek to attract and retain top talent post-pandemic. I particularly like the concept of a "coaching culture" as discussed in this article. *"Leaders develop a coaching culture when they use coaching skills to facilitate daily conversations. Engaging in active listening, showing curiosity, asking questions that invite other perspectives, and providing feedback objectively and without judgment are examples of these skills."* coaching-culture-why-organisations-need-it-now-more-than-ever/

New applications for federal unemployment benefits fell to a 54 year low last week!

Oscar winner for best picture this year was from Apple streaming - kind off. Turns out Apple didn't create the film nor finance its production. They bought it for $25mm after seeing it at Sundance. Kind of like Big Pharma where smaller biotech companies create the drug but then one of the big pharmaceutical companies promotes it and sells it (Pfizer didn't create the Covid vaccine, BioNtech did.) So the core skills of the major brands are marketing and distribution while the real brains are small companies you never heard of. Technology redistributed power in the value chain between creators and distributors in music (Chance never signed with a label). It is happening in television (Shonda Rimes vs ABC). Will see if it happens with movies.

Let's see if Howard Schultz can work his magic at Starbucks again. He has stepped back in as CEO. I wouldn't bet against him. He certainly understands that the key to a great customer experience is having engaged and happy employees. Take care of your employees and they will take of your customers. Here is a quote from his speech to employees this week: *"We have to reimagine, most importantly the experience for our partners [employees]. And what does that mean? It's not just wage. It's the environment in the store. It's the joy. It's the sense of community, its fulfillment,"*

Interesting stat: according to WSJ, 70% of US Starbucks orders are to go.

Coming off the NCAA tournament and the surprise run by St. Peter's, we have all experienced the joy of rooting for the underdog. It is really satisfying. However, it is not the best mentality when picking employees, companies, colleges or stocks. Winners win. Some people and organizations are just winners. Tom Brady vs Jay Cutler. The latter was more gifted with quarterback skills but he wasn't a winner — ever — not in college and not in the pros. In investing, *"George Soros pioneered the idea of reflexivity—things that are doing well will probably get better, and things that are doing badly will probably get worse. There are people*

who root for the underdog in the financial markets—these are the people who will buy a stock on its ass and hope for a turnaround. Turnarounds are rare." (thanks Dave Heyer). Underdogs

I am always amazed by individuals who have one way "conversations." To me there is no easier way to judge someone's capability and whether they are a "winner" as seeing whether they ask you any questions. People who talk and never ask questions will not grow. They are not intellectually curious. Usually, they are somewhat "self-absorbed." You can learn something from every individual you interact with in life but you need to pull out the knowledge through questions. The smartest person in the room is usually the one not talking.

Great visualization of the migration away from large urban areas to more "beautiful" and rural places during Covid can be found here. where-counties-are-growing.html (thanks Mike Schodrof). I always like looking at things by county (like election results) vs state. State level information gets dominated by the major cities so Illinois basically is Chicago etc.

Along with migrating to prettier, low cost states, people are moving away from work on Friday afternoons or just Fridays in general. Not sure much work got done Fridays before the pandemic but maybe now it is just out in the open (thanks Jenn Holiday). four-day-workweek-friday

Interesting stat: 41% of all new vehicles in the first quarter were sold within the first week of sitting on a dealer lot.

Is the SAT structurally racist? Many schools are getting rid of the admissions requirement for a test score, in part, due to concerns about inherent racism in the test. MIT sees it differently and will require a test. From the Atlantic: *"But the income-related disparities we see in SAT scores are not evidence of an unfair test. They are evidence of an unfair society. The test measures differences in academic preparedness, including the ability to write a clear sentence, to understand a complex passage, and to solve a mathematical problem. The SAT doesn't create inequalities in these academic skills. It reveals them. Throwing the measurement away doesn't remedy underlying injustices in children's academic opportunities, any more than throwing a thermometer away changes the weather…. Getting rid of testing just deprives us of a valuable tool for seeing the results of our current policies. Indeed, it is ironic that the coronavirus pandemic accelerated the movement to drop standardized-testing requirements in higher education, because the course of the U.S. pandemic offers a clear lesson: Without tests, the problem is harder to see and harder to solve."* mit-admissions-reinstates-sat-act-tests

Good reminder on not just accepting narratives but getting facts. Also how some college campus administrators have political agendas. Ohio Supreme Court upheld $31mm verdict for local family-owned bakery against Oberlin College which supported a false racist narrative. oberlin-colleges-loses-appeal-suit-filed-local-bakery

Enough already with masks in airports and on planes. The airline CEOs don't want them. Most passengers don't want them. Medical experts say they are of questionable

protection. Thousands gather to watch a basketball game but I witness an autistic kid denied boarding a plane because he had no mask. Enough.

Ever wonder what H.E.R. stands for? For those not into music, there is a very popular young female musician who goes by H.E.R. (she did America the Beautiful at the Super Bowl a couple years ago). H.E.R.'s real name is Gabriella Wilson but she goes by the acronym which stands for "Having Everything Revealed" apparently in reference to her songwriting.

RIP awards shows from Hollywood. They just aren't relevant anymore. I bet most folks can't name who won Best Picture. In 1998, 55 million people gathered around the TV to watch *Titanic* win Best Picture. In 2022, 15 million TV viewers watched *Coda* win. "The Slap" is now an adjective, with someone referring to lapse of judgment as a "Will Smithian moment" in conversation with me this week.

jml

J. Michael Locke
Musings

#174: Musing
April 15, 2022

Most organizations I know are in the middle of "return to office" implementations (other than those who have made the leap of faith and gone all remote.) Interesting Harvard study just came out and looked at outcomes (not preferences) of various models. According to the study, *"Just one or two days in the office is the ideal setup for hybrid work, according to a new study, as it provides workers with the flexibility they crave without the isolation of going fully remote."* I am a fan of "office intentional" where the focus is on the use of the office time rather than punching the clock for a given number of days. *"The key with hybrid arrangements, though, is organizing things so that teams are in the office together on the same days, preventing the problem of workers commuting in only to spend half their day on Zoom calls with remote colleagues. You want people to try and come in together, so office time is together time…..Well-organized hybrid does seem to be the sweet spot."* one-or-two-days-in-the-office-is-the-sweet-spot-of-hybrid-work.

Some companies are really trying to make the office a desirable place to be by turning to alcohol. *"As businesses work to settle employees into offices, some are pulling out the stops—literally, on kegs, casks and wine bottles—in an attempt to make workplaces seem cool. Sure, executives could simply order people to return to their cubicles, and some have, but many want their workers to come back and like it."* your-office-is-open-and-the-liquor-is-flowing I can't say I agree with this one.

I am not a fan of cost structures which are too dominated by fixed or variable costs. You need some fixed to give you operating leverage so revenue growth turns into higher growth in profitability. For example, tough to have a labor services business like a consulting firm where you need more labor to generate every dollar of revenue. However, too much fixed costs can be difficult if you have a business stop growing and declining. For example, Fitch bond rating estimates that commercial landlords will lose 40% of their net operating income for every 10% reduction in rental income. Look for lots of defaults by commercial landlords in years to come as remote work reduces office space demand.

I have previously written about the movement to referral based purchasing by most consumers (and employees when picking at job) which will reduce the effectiveness of advertising. Great example for me this week as my dentist provided a "google review" sheet and link with discharge papers asking for me to post a positive review.

The tug of war between unmoderated social networks and controlled publishing has reached a

new height with Elon Musk's attempt to takeover Twitter. Musk is from the libertarian crowd who thinks Twitter should be wide open like a town square including opening up its source code. Others are pushing for a model with some publishing/moderated content rules. Musk has made an offer to buy Twitter for $54.20 a share (playing the marijuana 420 reference as a joke). The people who make a living betting on whether mergers will go through (merger arbitragers or "merger arbs") say it is not a real deal as the stock continues to trade around $45.

There is a corresponding "moderate or not" issue coming up within employers with the development of chat/collaboration technologies. Should an employee be able to post whatever they want on an internal chat software (obviously exempting threating/dangerous stuff) or should the public dialogue within these tools be "controlled?" Personally, I don't think any group of individuals (company or society) can operate with no filtering of the "ids" by some equivalent of the "superego" (If I remember by Freud terms right).

Interesting stat: Google, Facebook and Amazon received 64% of digital advertising revenue last year according to Insider Intelligence.

We have a national emergency with the mental health of our children and young adults IMO. Needs more open discussion. According to the National College Health Report (which came out before the pandemic), over 40% of college students are too depressed to function most days, over 65% are overwhelmingly anxious and 10% have considered suicide. BigTech and its algorithms focused on "engaging content" play to the worst in youth and adolescence.

Peggy Noonan recently referenced "Chatham House Rules" which I had never heard about. When a meeting is held under the Chatham House Rule, participants are free to use the information received, but not identify any speaker or participant.

We are entering "shareholder letter" season as public companies on a December 31 fiscal year file their annual reports. The new CEO of Amazon, Andy Jassy, had some interesting comments in his letter: *"In every business we pursue, we're constantly experimenting and inventing. We're divinely discontented with customer experiences, whether they're our own or not. We believe these customer experiences can always be better, and we strive to make customers' lives better and easier every day. The beauty of this mission is that you never run out of runway; customers always want better, and our job is both to listen to their feedback and to imagine what else is possible and invent on their behalf."* Here are his recommendations on how to create a "building" organization:

1. *"**Hire the Right Builders**: We disproportionately index in hiring builders. We think of builders as people who like to invent, who look at customer experiences, dissect what doesn't work well about them, and seek to reinvent them. We want people who keep asking why can't it be done? We want people who like to experiment and tinker, and who realize launch is the starting line, not the finish line.*

2. ***Organize Builders into Teams That Are as Separable and Autonomous as Possible****: It's hard for teams to be deep in what customers care about in multiple areas. It's also hard to spend enough time on the new initiatives when there's resource contention with the more mature businesses; the surer bets usually win out. Single-threaded teams will know their customers' needs better, spend all their waking work hours inventing for them, and develop context and tempo to keep iterating quickly.*

3. ***Give Teams the Right Tools and Permission to Move Fast****: Speed is not pre-ordained. It's a leadership choice. It has trade-offs, but you can't wake up one day and start moving fast. It requires having the right tools to experiment and build fast (a major part of why we started AWS), allowing teams to make two-way door decisions themselves, and setting an expectation that speed matters. And, it does. Speed is disproportionally important to every business at every stage of its evolution. Those that move slower than their competitive peers fall away over time.*

4. ***You Need Blind Faith, But No False Hope****: This is a lyric from one of my favorite Foo Fighters songs ("Congregation"). When you invent, you come up with new ideas that people will reject because they haven't been done before (that's where the blind faith comes in), but it's also important to step back and make sure you have a viable plan that'll resonate with customers (avoid false hope). We're lucky that we have builders who challenge each other, feedback loops that give us access to customer feedback, and a product development process of working backwards from the customer where having to write a Press Release (to flesh out the customer benefits) and a Frequently Asked Questions document (to detail how we'd build it) helps us have blind faith without false hope (at least usually).*

5. ***Define a Minimum Loveable Product (MLP), and Be Willing to Iterate Fast****: Figuring out where to draw the line for launch is one of the most difficult decisions teams must make. Often, teams wait too long, and insist on too many bells and whistles, before launching. And, they miss the first mover advantage or opportunity to build mindshare in fast-moving market segments before well-executing peers get too far ahead. The launch product must be good enough that you believe it'll be loved from the get-go (why we call it a "Minimum Loveable Product" vs. a "Minimum Viable Product"), but in newer market segments, teams are often better off getting this MLP to customers and iterating quickly thereafter.*

6. ***Adopt a Long-term Orientation****: We're sometimes criticized at Amazon for not shutting much down. It's true that we have a longer tolerance for our investments than most companies. But, we know that transformational invention takes multiple years, and if you're making big bets that you believe could substantially change customer experience (and your company), you have to be in it for the long-haul or you'll give up too quickly.*

7. ***Brace Yourself for Failure****: If you invent a lot, you will fail more often than you wish. Nobody likes this part, but it comes with the territory. When it's clear that we've launched something that won't work, we make sure we've learned from what didn't go*

well, and secure great landing places for team members who delivered well—or your best people will hesitate to work on new initiatives."

Next time instead of saying "bit off more than he could chew," you could say "he went for a Nantucket sleigh ride." From Wikipedia: *"A Nantucket sleighride is the dragging of a whaleboat by a harpooned whale while whaling. It is an archaic term from the early days of industrial whaling, when the animals were harpooned from small open boats. Once harpooned, the whale, in pain from its wound, attempts to flee, but the rope attached to the harpoon drags the whalers' boat along with it."*

Happy Easter for those celebrating it.

jml

J. Michael Locke
Musings

#175: Musing
April 23, 2022

Executives need to spend more time reviewing the capitalization of software expenses. In too many cases, wasted spending is going unmanaged because it ends up on the balance sheet through capitalization rather than running through the P&L. It is still cash out the door and capitalized expenses should be subject to a rigorous ROI process. What features/products are being developed, how much will it cost and what is expected in incremental revenue and profits. Technologists (especially coders) like to tinker and will constantly be writing new features etc. You need a rigorous intake/management system to ensure it is the proper use of resources. Netflix went many years without such a system and spent unbelievable amounts of money developing content (an underreported fact is how they have even recently been burning cash even though they reported profits because of the capitalization of content development.) Those times have come to an end with the recent reporting of a decrease in subscribers. *"We should right-size budgets depending on what the creative dictates, and what the size of the audience is," Bela Bajaria, the head of global TV for Netflix, said in a recent interview."* *netflix-facing-reality-check-subscriber-loss-stock-plummet-cut-costs-vows-to-curb-its-profligate-ways*

The new norm of hybrid work has arrived. There is already a movement by some to go from three days into the office to two according to some experts. *"The combination of having been almost two years out of the office and the labor market becoming incredibly tight, now firms realize that three-two, rather than being seen as generous and appealing, is average at best,"* the-optimal-workweek-is-two-days-in-the-office-not-three. As we all manage remotely, don't underestimate the value of the simple "check in" call to see how someone is doing, discuss personal stuff to stay connected and listen closely for any "hints" of challenges. Personally, I like the "hybrid remote" model where even those who are working remote have some type of local office to gather in every now and then. So those companies going remote might have a group of employees in Columbus, Ohio and rent a WeWork office for them to get together to increase connectivity. Companies often did this historically with local sales offices of B2B reps.

In today's world, everybody is multitasking during meetings usually with two screens (laptop open and cell phone resting next to it). Emails, chat room in Microsoft Teams, and texts on the cell phone are all being monitored and responded to while someone attempts to run a meeting and convey important information or have a meaningful discussion. I say it is time to go old school and require everyone to close their laptop, turn off the phone and focus on the meeting. Shorten meetings to 30 – 45 minutes and mandate dedicated

attention. Effectiveness will go up.

One of the challenges with the new "remote" work is that office phones are going away and everyone goes directly to calling a cell phone. However, you can't screen anything for urgency so often "unimportant" calls are taken in the middle of a meeting or other activity when they don't need to be. Answer your cell phone less often. Stay focused on the task at hand. If it is urgent, the caller will usually call again or reach you some other way.

The silicon valley inspired model of "ask for forgiveness not permission" is really problematic. It started with Travis Kalanick and Uber explicitly challenging municipal authorities to stop their model. The mobile-phone scooter rental companies (eg. Lyme) followed suit dumping hundreds of scooters in the downtowns of cities overnight. Trump normalized it with his debate approach (who cares what the rules are or what the moderator says) and now comes Elon Musk. He basically disregards SEC guidance. He filed the relevant paperwork late on his accumulation of over 5% of Twitter (costing selling shareholders over $150mm as they sold not knowing he was a 5% holder). twitter-investors-sue-elon-musk-for-failing-to-promptly-disclose-stake. We can't have a society or business world where people don't play by the rules. There should be severe consequences for brash disregard for laws, regulations and rules. Let's have more SMU death penalty enforcement and less Houston Astros "slap on the wrist" enforcement.

What goes up often comes down. A nonfungible token of Twitter founder Jack Dorsey's first tweet, which once sold for $2.9 million, now might fetch under $14,000. jack-dorsey-tweet-nft-once-sold-for-2-9-million-now-might-fetch-under-14-000.

Count me out on the salary transparency movement. I think what someone gets paid is between them and their employer. It should not be public information. More municipalities are pushing for more disclosure of wages. Colorado was one of the first but now comes New York. *"The New York City Council passed a bill requiring employers to give a minimum and maximum wage range in every job post. The legislation is meant to help correct pay inequities and discrimination."* what-nycs-new-salary-transparency-law-will-mean-for-you

The speed of mask repeal was pretty stunning (only outdone by the 30 day launch/struggle/closing of CNN's streaming service.) One federal judge rules that the CDC did not follow the rules that exist when new regulations are going to be passed (under the Administrative Procedures Act) and within a day, no more masks on airplanes and in Uber. Shows how our society is done with the limitations on life.

jml

J. Michael Locke
Musings

#176: Musing
April 30, 2022

Don't pay attention to the media narrative about economic growth and a potential recession. Yes, GDP declined in the first quarter by 1.4% compared to last year but things are not bad. Consumer spending is 70% of GDP and it grew 2.7%. Business investment grew 9.2%. The labor market is tight, wages are up (although not as much as inflation so real wages down), and personal balance sheets are healthy. The overall decrease was because government expenditures decreased and net imports increased (Long Beach finally caught up to the freighter logjam). Less government spending is good and the import/export market is working through the pandemic dislocation.

I am not a fan of big strategic planning processes. Certainly, it is helpful to keep your eye on the horizon and understand where you are going. However, too many strategic plans are simply aspirational and don't help run the business. Lots of time goes into them and they then get put on the shelf. Instead, I recommend a three-year operating plan. It will inherently involve key strategies and vision discussions and open the aperture to a multi-year thinking but it will be more actionable. Anything further out than three years is simply conjecture.

Starbucks certainly needs to do some planning. The third-place to hang out is now a productivity kitchen serving take-out and workers are not happy. I like how Howard Schultz is attacking things by first going on a listening tour across the country sitting with small groups of "retail level" employees. Good Inc. article (thanks Jenn Walsh). *"In order to build trust, you have to listen first….Finally, by personally visiting with store leadership in cities around the country, Schultz accomplishes a further goal: Beyond just empowering employees, he teaches other leaders within Starbucks to do the same."* schultz-how-to-build-trust-problem-solving-emotional-intelligence . If you ever want to know what is really going on, talk to the individuals interacting with the customer. Skip middle management who will inherently adjust information based on bias (usually unconsciously).

The continuum of models from full return to office to full remote just got extended. AirBnB announced the ultimate "all remote" model. Employees can work from anywhere *in the world*. Pay will not be adjusted. AirBnB is going to figure out all of the tax and other regulatory implications and "open source" their system to encourage others. They are working with governments to create "digital nomad visas." Let's see if a company can effectively work this way.

There is a movement towards skills-based hiring and away from college degrees. Historically,

degrees served as a rudimentary labor market "signal" where one could assume a level of competence and knowledge on the basis of someone having a certain type of degree from a certain school. More and more people are shunning the extravagant costs of higher education (mostly due to inefficient cost structures starting with tenure) and building skills in other ways. Employers are following suit and reducing the requirement that someone have a degree and instead checking out what specific competencies someone has. Good article (thanks Bill Carroll) why-many-employers-have-ditched-4-year-degree-requirements.

Make sure not to lose the human element in this world of evaluating competencies of a potential employee. Employees are not just robotic compilations of skills and competencies. They are human beings who need to be nurtured, grown, challenged, mentored and developed. I have always hated how the HR "rules" push out personal conversation on getting to know someone. You are not supposed to ask about someone's personal life (are you married? Do you have kids? or how old are you?) I like to hear the life story about where someone grew up, do they have siblings (birth order is a huge driver of personality IMO), why did they pick where they went to school and what did their parents do. It gives me a picture of the person. Give me the candidate who was raised by a single mom, is a middle child who had to fight for attention, went to community college to save money and then transferred to finish the bachelor's degree and worked while they attended school any day of the week (ironic as I look in the mirror.) Real value in employees with grit.

The question of the day is how elastic your demand curve is. For the non-economics majors, this means how much demand will change based on changes in price. With today's inflationary environment, most companies are raising prices and some are really surprised that demand has not diminished (ex. Chipotle recently posted great earnings on pricier burritos and McDonald's raised prices 8%). Really important to figure out your competition's pricing and identifying whether you have room to raise prices.

The most amazing thing about the Musk/Twitter deal is the simple scale of the deal and the risk Musk is taking. This isn't a private equity firm or group of firms in a "club deal", but rather an individual taking on enormous amounts of personal debt to buy a company for $44 billion. He is borrowing massively against his Tesla stock to get the money (this is not good for Tesla shareholders — he already sold $8bn worth of stock). Whatever you think about him, the man has courage and takes risks. That said, I could do without his sophomoric behavior like this tweet from Fall 21 *"Am thinking of starting new university: Texas Institute of Technology & Science"* Think MIT as a corollary acronym.

Second only to Apple's terrible weather app is the iPhone autocorrect function. In this world of AI and machine learning, it is amazing how much we still battle with autocorrects we didn't want. Good article in WSJ: *"Here's what's going on. When you type, the autocorrect algorithms are trying to figure out what you mean by looking at various things, including where your fingers landed on the keyboard and the other words in the sentences, while comparing your word fragment to the words in two unseen dictionaries: • Static Dictionary: Built into iOS, this contains dictionary words and common proper nouns, such as product names or sports teams.*

There were over 70,000 words in this when the first iPhone launched and it's gotten bigger since then. • *Dynamic Dictionary:* Built over time as you use your phone, this consists of words that are unique to you. The system looks at your contacts, emails, messages, Safari pages—even the names of installed apps."/autocorrect-explained-why-your-iphone-adds-annoying-typos-while-fixing-others

I never realized that menthol cigarettes target the black community. FDA wants to ban them. From the New York Times: "*The ban would most likely have the deepest impact on Black smokers, nearly 85 percent of whom use menthol cigarettes, compared with 29 percent of white smokers, according to a government survey*."

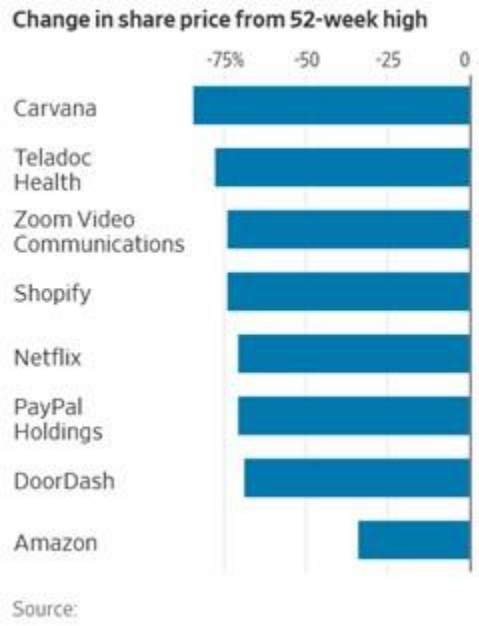
There is a biological concept around "getting in the flow" where your brain releases a mix of chemicals which allows for superior performance. Think about athletes getting "in the zone." Time slows down and productivity sky rockets. Different individuals get "in the zone" in different environments. For me, it is quiet morning solitude. Take this quiz if you want to see yours: https://www.flowgenomeproject.com/flow-profile . Personally, I think organizations can "get in the flow." Organizations are just aggregated individual human behaviors. Just like individuals need the right setting to get into their flow, organizations need the right leadership and culture.

jml

J. Michael Locke
Musings

#177: Musing
May 7, 2022

So much for the value of diversification with your investments. Stocks and bonds both crushed lately as interest rates rise. Maybe the big decline in the equity market will drive some of those early retirees back into the workforce. The decline in stock prices for many of the high flyer digital pandemic names is simply stunning. As of closing Thursday here are some of the declines:



Those who had short positions are making a killing. For those not stock market focused, "shorting" is when you sell a stock you don't own (you borrow it from custodian) and then buy it back later (and return it to custodian). So you are betting that a stock will go down in price so you sell high now and buy back low later. I hate the practice because it has nothing to do with allocating capital to the companies that will generate the best return which is what the capital markets are supposed to be about. Apparently, Bill Gates does some shorting. Musk ticked off because Gates had a $500mm short position on Tesla.

How tight is the labor market? There are currently 11.5mm job openings and 6mm people seeking work. Almost 2 openings for every job seeker. About 1 out of 153 American workers is an Amazon employee (thanks Mark Rankovic).

Great line from Scott Galloway: *"TikTok is the modern opium den"* …spend of couple of hours relaxing and getting your fix.

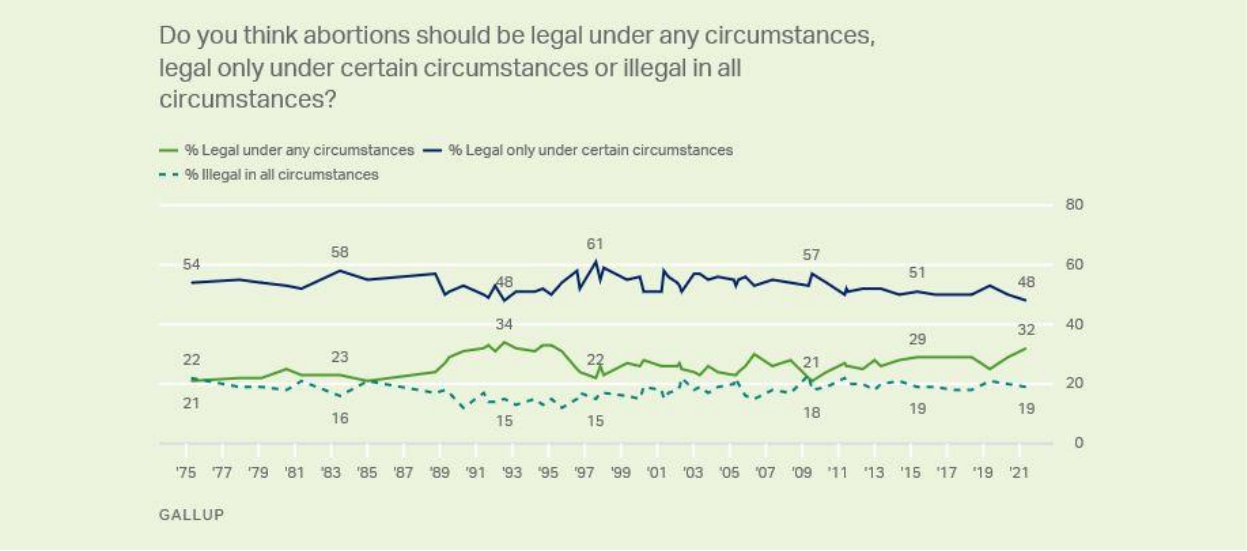
I just don't get the practice of taking pictures of your food and posting on Instagram (sorry Cate).

"*If you're surprised by the feedback you get at a performance review, your boss has failed. Good managers don't wait for formal meetings to help you grow. They make it a daily priority. The sooner you get feedback, the sooner you can break bad habits and learn better ones*." Adam Grant

Learned a new term: a "shent" which is a combination of shirt and tent created by Barefoot Contessa's Ina Garten to describe her large loose fitting shirts.

The Supreme Court draft opinion release is a pretty stunning leak. I hate this part of Washington. As to the substance of the draft opinion, I wish we could have a more sophisticated discussion of the abortion issue. The Supreme Court is not deciding whether abortion should be illegal or not. That decision rests with publicly-elected officials at the state level. The SC is deciding whether there is a constitutional right to an abortion under an inferred right of privacy (there is not explicit privacy right enumerated in the Constitution). From the Washington Post: *"Drawing on the First, Fourth, Ninth, and 14th amendments, the court said the Constitution protects an individual's "zones of privacy." Citing cases in which it was ruled that contraception, marriage and child rearing were activities included in these zones, the court found that the zone was "broad enough to encompass a woman's decision whether or not to terminate her pregnancy."* Apparently, 20-25 states have indicated they would ban (or close to it) abortions if they were constitutionally allowed to. I fear we are going to see a "segregation" of our population in the decades to come. With the arrival of remote work and the labor shortage, individuals can generally decide where they want to live and will pick states that align with their views. I think we will see a development of red states which have right to work laws, limit abortion, have lower taxes etc. and blue states which support unions, allow abortion and have higher taxes etc. We obviously have that somewhat already but my argument is that the "segmentation" will become stronger and more polarizing.

For all of the coverage of the abortion topic, opinions haven't changed much over the decades. See below from Gallup.



One interesting change is that 54% of abortions are completed by woman taking two pills (approved by FDA 20 years ago) rather than through a procedure (WSJ). With pills flying across state lines, it will be much harder for the conservative states to eliminate abortion.

Happy Mother's Day to everyone. Good WaPo article by Mitch Daniels below

Jml

Opinion: Hail to mothers, even those who can't let go of their college-age kids

Mitch Daniels
Contributing columnist
May 6, 2022

Can I get something on the record? I love moms. I really love moms. A caring mother provides the best chance, sometimes the only chance, a young person has of turning into a responsible, self-reliant, high-character adult. No mission is nobler.

However. Ahem. Even moms are subject to that fundamental caveat of life: "up to a point." Working daily with and on behalf of tens of thousands of other people's children, as I do as the president of Purdue University, one encounters mothers who, let's just say, carry things a little far.

Like the one who insisted, without ever providing any documentation, that her child was allergic to all nonorganic food. She ordered food multiple times a week, accompanied by specially selected spices, and had it delivered to our dining courts with a demand that the staff cook it separately for him, to her specs. (They did, for a year, until the demands, or maybe the "allergies," ceased.)

Or the mom who wrote and called eight times to complain about her daughter's accommodations. She was sure there was mold (the test she ordered came back negative) and that the water was tainted (she sent it out for tests — negative again). The oven handle was loose. (Has the college student tried using a screwdriver?)

My school often receives helpful advice about adding streetlights or other measures to enhance physical security — on a campus found every year to be one of the safest in the nation. After the university acceded to one mother's demands and moved her daughter to different housing, she continued to complain on behalf of other people's children who apparently hadn't realized the extent of their own jeopardy.

Of course, many of the grievances are justified, and we try to act on them promptly. But after years on the receiving end of such entreaties, I find that the term "helicopter parent" no longer seems adequate to capture the closeness of the hovering. "Mom mowers" might be more descriptive.

This is not to exonerate the fathers. Although paternal complaints make up a much smaller fraction of the campus mailbag, they can be just as difficult. One father was the source of 13 emails and three phone calls about how miserably lonely his son was, insisting he be moved to a different residence. When visited, the student reported having lots of friends, several extracurricular involvements and zero interest in being moved.

Such parent-student disconnects are not uncommon. One mother was persistent and belligerent because her son's bed was too short for his 6-foot-3-inch frame. When visited to see if the university could make a different accommodation for him, he picked up his cellphone, called home and bluntly asked Mom to butt out.

As extreme as such examples are, it is impossible not to empathize with parents who, rationally or not, worry about the physical safety or comfort of their child. More dubious are parents' attempts to shield their offspring from failure or the academic challenges that higher education, if it's doing its job, presents to its young clients.

Like the mother who insisted that we gather all her son's homework assignments daily and fax them to her so that they could work on them together every evening. Or the one who requested an "advance interview" for herself the day before her daughter's own interview regarding a possible academic award, so that she could "explain her daughter's qualifications" for the honor in question.

Or, a personal favorite, the mom who impersonated her son — yes, son — at his teaching assistant's virtual office hours, to present his homework solution and push for a 100 percent grade. Even with the Zoom camera off, the TA detected the subterfuge.

Years ago, when my wife and I took the eldest of our four daughters to start college, the arrival

day’s welcome program ended abruptly midafternoon. Parents and kids had attended separate orientation sessions at lunchtime, and when we saw our daughter again it was for only five minutes, before the adults were politely excused. The message was clear: A new era has begun for your child, and that means for you, too.

In a country where so many social sadnesses are the consequence of irresponsible, neglectful parenting, one cannot fault those who love their children to the point of overprotection. But protection from challenge — and from the occasional failure that is often the best teacher — can be endangerment of a different kind.

So, bless all the moms, and dads, including those who go a little over the edge. We’ll do our best to be responsive. But remember: When your kid graduated from high school, maybe it was time for you to graduate, too.

Happy Mother’s Day to all.

J. Michael Locke
Musings

#178: Musing
May 21, 2022

Sorry I didn't publish last week. Didn't feel I had a lot of meaningful thoughts so didn't want to pollute your inbox.

Inflation is providing a great teaching lesson on the use of appropriate metrics. The headline number often cited is the Consumer Price Index or CPI. Last month, it was up 8.3% which was a slower rate of growth than the 8.5% posted the month before. Some have pointed at this as showing that inflation is losing momentum (like a second derivative where the rate of change (derivative) is slowing). However, many watch the "core CPI" which excludes food and energy which can be quite volatile (ex. Ukraine situation). Core CPI growth is not decelerating. Core CPI was up 6.2% in April which was faster than March. We are in a bad place with real wages declining (wages adjusted for inflation) and the Fed entering a long cycle of raising rates. I wish we had more accountability at the Fed. They blew it over a year ago when they said inflation was "transitory" and left rates low and now we are in for a bumpy ride. All asset classes falling. I am a buyer at this point --- ease into it with a dollar cost averaging mentality where you buy a little every day so not trying to time the exact bottom but more the inflection point.

Put me in the Elon Musk camp on the government's contribution to inflation. Musk tweet: *"I mean, the obvious reason for inflation is that the government printed a zillion amount of more money than it had, obviously. So it's like the government can't just, you know, issue checks far in excess of revenue without there being inflation, you know, velocity of money held constant. If the federal government writes checks, they never bounce. So that is effectively creation of more dollars. And if there are more dollars created, then the increase in the goods and services across the economy, then you have inflation, again, velocity of money held constant."*

The discussion on rate of growth and whether it is accelerating or decelerating is exactly how growth company results should be discussed. If you are building a business and in a growth company, every quarter should be a record. To say we had record sales this quarter is meaningless (as are most comparisons to budget). The question is what is happening with the rate of growth. You see this in the conversation around digital advertisers. They are still posting double digit growth rates but those rates have been significantly decelerating over the last 2-3 quarters. This deceleration around paid digital ad models is in part driven by the movement of consumers to referral-based purchasing where they seek to get input from other buyers. This is driving the growth of influencer marketing as company ads are increasingly ineffective. Focus on social vs paid ads. Watch the move to "micro influencers." I recently heard a story describing someone as a "food delivery driver influencer." Another company

discussed how the use of a “farm radio broadcaster” helped drive sales of chicken coops. Every market has individuals who have influence, and the key is discovering who they are.

So much for Bitcoin as an inflation hedge. One of the bull arguments on Bitcoin is that it would hold its value in the face of inflation. Over the last six months, Bitcoin has basically lost half of its value going from $60k to $30k. Cryptocurrencies also got a jolt last week when the head of SEC pointed out that places like Coinbase are not regulated like a bank and your assets might not be segregated and protected in bankruptcy. If Coinbase went down, you might just be an unsecured creditor in bankruptcy and your “deposits” are not necessarily protected by bankruptcy law. coinbase-says-users-crypto-assets-lack-bankruptcy-protections

Keep your investments focused in US. China slowing due to Covid lockdowns. According to Fortune, not a single car was sold in Shanghai last month. One of the less covered stories is how the US dollar is currently strengthening as people seek safety in US economy. One dollar is worth .95 euro, up from .8 euro a year ago. Book your European vacation now.

Remember that advertised tuition prices at private colleges are very different from actual prices. Report out this week that the average tuition discount for freshman for this Fall reached a record high of 54.5%. Enrollments in higher education are declining and so economics 101, price must come down to rebalance supply and demand. In higher education, this is done in this funky way through discount rates where the advertised price stays high but then the schools grant “institutional aid” (parents often reference schools giving students money) and knock the price down. So instead of paying $50,000 in tuition, the average freshman at private schools next year will pay $22,750. tuition-discounts-hit-all-time-high

I like the movement in some states to eliminate the “Certificate of Need” requirement before a new hospital or ambulatory care center is built. The logic behind these CON laws is that it prevents excess capacity as a new entrant has to prove there is unmet need. Unfortunately, this prevents competition and protects incumbents. I believe markets work and everyone should have competition.

One thing we learned from the pandemic was how Americans culturally do not like being limited, controlled and told what to do. Businesses should think about this quality as they design things. The availability of robust data sets now allows for a good prediction of consumption so you can do things like an “all you can eat buffet” because it is pretty predictable exactly what folks will consume on average. The latest is the “unlimited vacation days.” Studies are showing that people do not materially increase the number of vacation days compared to the three- or four-week model. There is value in telling someone “unlimited” because they then feel they have control and you can still manage your expenses because how individuals consume the unlimited is pretty predictable.

Interesting stat: more than 50% of infant formula purchased in the US is under a federal government program for the poor called Women, Infant and Children or WIC.

Another interesting stat: TikTok has 1.6 billion monthly active users — more than Twitter, Snapchat, and LinkedIn combined (source: Scott Galloway).

The "equal pay" issue in US soccer is more complicated than presented. The women do everything the men do and have had more success. However, the payments from places like the World Cup are very different. According to Sporting News, the winning women's team in the last World Cup got $4 mm while the men's got $38 mm. I assume these differences are based on media rights, sponsorships and how men's generates more revenue from consumers than women's. So Is "equal" based on effort or is it relative to revenue generated? US men agreed to put their prize money into pot with women's and everyone gets same pay. Will be interesting to see if other countries or sports follow the model as argued in this piece us-soccer-agreement-equal-pay-bass. For instance, if you look at the pro basketball, *"There are only 14 [female] players making $200,000 or more….By comparison, 17 NBA players earn at least $35 million per season"* according to Sporting News. One difference is US soccer is a quasi-public entity vs a private business.

What's with the obsession with the Johnny Depp – Amber Heard trial and their totally dysfunctional relationship? I don't get it.

jml

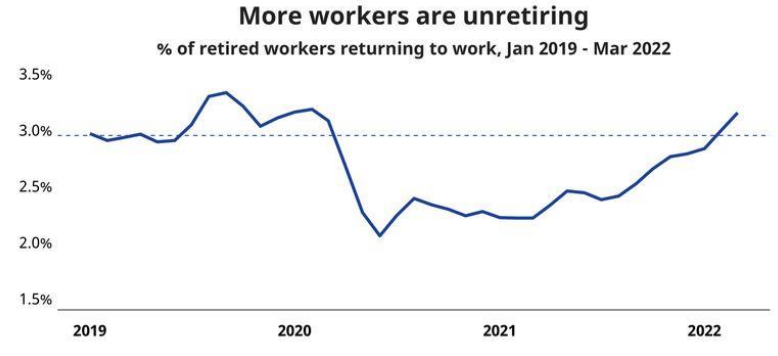
J. Michael Locke
Musings

#179: Musing
May 27, 2022

Burning Glass Institute put out a new report on skills in today's labor market. From President Matt Sigelman — *"Our new report shows that 37% of the average job's top skills have been replaced just over the past 5 years. A bigger risk to our workforce than automation may be the ability to keep up with the changing skill requirements of an increasingly dynamic economy. Has 37% of the average college or university curriculum changed over the past five years? Without an infrastructure for lifelong learning, workers could find themselves without the skills they need to stay relevant."* Make sure you are assessing people for their intellectual curiosity, ability to learn and willingness to be agile rather than just looking at current competencies. The world of work and requisite skills are rapidly changing.

Individuals are increasingly looking to get the relevant skills outside of traditional higher education. Enrollments in US higher education undergraduate programs decreased 4.7% this Spring compared to last year (National Student Clearinghouse).

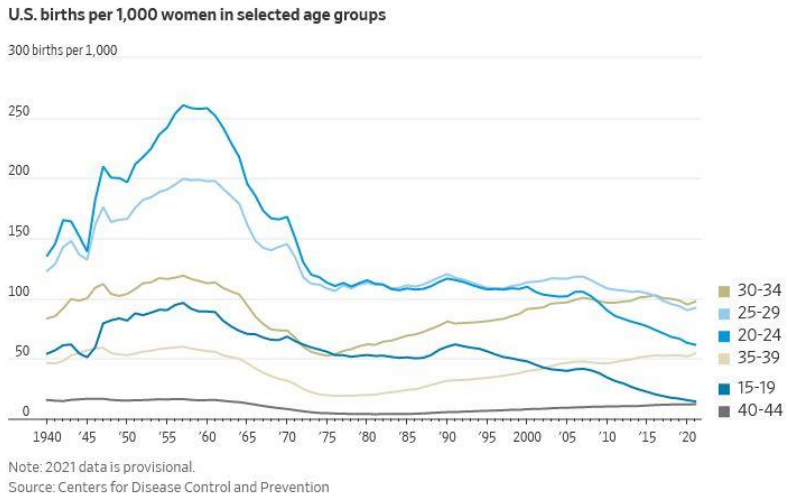
Two good signs on the future of labor market: more older individuals unretiring and more babies (still need more immigrants!) The following chart shows the percentage of the labor force of people coming out of retirement.



A line graph titled "More workers are unretiring." With a vertical axis from 1.5% to 3.5%, the graph shows the rate at which retired workers are employed a year later from January 2019 to March 2022. The line shows that 'unretirement' flows were 3.2% of all retired workers in February 2020. The rate then fell to 2.1% in June 2020 and slowly rose before speeding up in fall 2021. The unretirement rate was 3.2% as of March 2022.

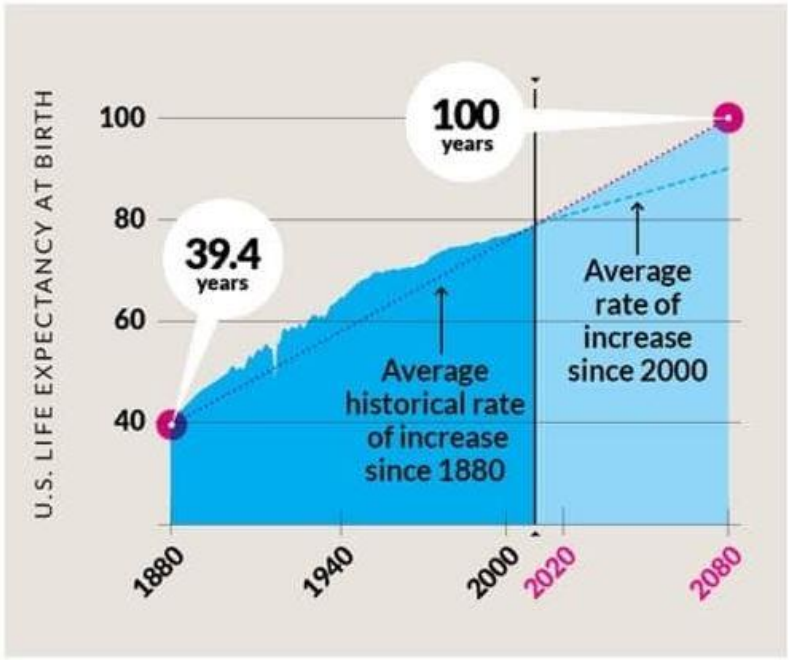
Birth rates increased for first time in seven years. However, we still need people to have more kids. Most people have just one or two kids. *"The total fertility rate—a snapshot of the average number of babies a woman would have over her lifetime—was 1.66 last year, up from*

1.64 the prior year, when it fell to the lowest level since the government began tracking it in the 1930s." [u-s-births-increase-for-first-time-since-2014]



Feel sorry for new moms with the baby formula fiasco. Government incompetence on full display. The Abbott plant itself was over 20% of the market and over 30 state WIC contracts. The minute it was closed, the US Government should have been planning.

With declining birth rates and extending life expectancies, we are going to see a dramatic shift in the age distribution of our population. We have to increase the eligibility age for social security and cultural thoughts on when retirement is appropriate. Some are calling it "The Rise of the Centenarians" (thanks Seth Green)



Strong comments from European Central Bank President Christine Lagarde on Bitcoin and crypto in general: *"My very humble assessment is that it is worth nothing…It is based on nothing…There is no underlying asset to act as an anchor of safety."* (CNBC)

I am a big believer in constantly managing your inbox and striving to have zero unread/unprocessed new emails. This article argues that my method is very inefficient, and I misapply my focus operating this way. Instead, the author argues you should set aside certain times for processing email and make it clear to those you work with that emailing you is not the way to get your near-term attention. how-to-care-less-about-your-email.

The pandemic has driven many employees to rethink priorities. *"Nearly two-thirds of Americans said their idea of a happy life shifted during the pandemic, according to a new survey by The Harris Poll of more than 2,000 U.S. adults. The shift among younger workers was even more dramatic: 74% of millennials and 68% of Gen Z are reassessing their lives and goals. "There's a great reassessment happening," says Libby Rodney, chief strategy officer at The Harris Poll. There's this kind of "awakening" that Americans are having now where they're realizing that making money is no longer the most important thing for them, she adds."* americans-are-redefining-what-success-looks-like.

Interesting stat: Average ride-hailing pricing in April was up nearly 30% from 2019 (YipitData.) The major ride companies have basically been offering rides below their cost --- burning tons of investor money in the process. That time is coming to an end.

I am a big believer in being on time. In fact, I like to be early. While I don't understand it, some people are just "wired" to be late according to this piece. *"Being consistently late might not be your fault. It could be your type. The punctually-challenged often share personality characteristics such as optimism, low levels of self-control, anxiety, or a penchant for thrill-seeking, experts say. Personality differences could also dictate how we experience the passing of time. In 2001, Jeff Conte, a psychology professor at San Diego State University ran a study in which he separated participants into Type A people (ambitious, competitive) and Type B (creative, reflective, explorative). He asked them to judge, without clocks, how long it took for one minute to elapse. Type A people felt a minute had gone by when roughly 58 seconds had passed. Type B participants felt a minute had gone by after 77 seconds."* why-some-people-are-always-running-late.

I think the "casualization of our society" is going a little too far. Got dressed up and went to an expensive restaurant and sat next to a guy in a baseball hat and t-shirt. I know a lot of clubs are debating dress codes and whether to allow jeans. I am not arguing to go back to suits and ties, but it has become a little much for me. Mark Zuckerberg should take off his sweatshirt and at least put on a golf shirt.

The numbers are out on the migration out of big cities to smaller towns and rural America over the last year. San Francisco lost 6.3% of its population. I think this will ultimately be a great societal development as we reshuffle our population with remote work and have more people

living and working in smaller communities where you can't be anonymous. In smaller communities, there is an expectation of community service and your personal "brand" mattered. big-u-s-cities-lost-more-residents-as-pandemic-stretched-on.

Say prayers for the small Uvalde community. What a tragic event. As a hunter and owner of five guns, I can say that I have no issue with many of the gun control policies (e.g. universal background check) proposed. In our local community, I have to register my Golden Doodles but not my guns. Doesn't make sense. However, I am not sure more gun control will fundamentally change the issue. I agree with WSJ *"today's young killers are typically from middle class families access to smartphones and x-boxes. Their deficit is social and spiritual. The rise of family dysfunction and the decline of mediating institutions such as churches and social clubs have consequences."* In this digitally connected world, many young men are actually incredibly alone.

Also remember our service men and women on Memorial Day. The reason for the holiday often gets lost in the official start of summer. Happy Memorial Day.

jml

J. Michael Locke
Musings

#180: Musing
June 4, 2022

Are recession worries becoming self-fulfilling? Consistent headlines about people worrying about recession has led to "risk off." Consumers (70% of GDP) start pulling back on spending so softer sales at some retailers and businesses move from "can't find people" to tech layoffs as venture capital funding pulls back (https://www.trueup.io/layoffs) connected to slide in stock market. The job market is still strong with low unemployment claims and decent new hire numbers. Inflation is a problem along with Ukraine war but how quickly we move from "go go days" to "Armageddon and hurricanes" is concerning. I worry our economy and markets have become overly subject to emotion like children. Good overall summary here: economy-jobs

Don't count Elon Musk in on the move to hybrid and remote work. Quite the contrarian, he has ordered Tesla employees back in the office 5 days a week. He wrote: *"Everyone at Tesla is required to spend a minimum of 40 hours in the office per week. Moreover, the office must be where your actual colleagues are location, not some remote pseudo office. If you don't show up, we will assume you have resigned. The more senior you are, the more visible must be your presence. That is why I lived in the factory so much – so that those on the line could see me working alongside them. If I had not done that, Tesla would long ago have gone bankrupt. There are of course companies that don't require this, but when was the last time they shipped a great new product? It's been a while. Tesla has and will create and actually manufacture the most exciting and meaningful product of any company on Earth. This will not happen by phoning it in."* There is a difference in the "work model debate" between manufacturing companies and tech-services companies.

Remote hiring does not have to mean "one – off." The key to employee retention is engagement and that is hard when someone operates in an isolated way. I am not arguing everyone has to been in the office but if you do go with a remote hiring model, consider "clustering" your hires into groups so they have some connectivity and co-workers around them. Historically, this was done with regional sales offices. It also will facilitate network effects with employee referrals so you might end up with a group of individuals working in Sioux Falls, Iowa which is better than one person in Sioux Falls and one person in Fargo and one in Decatur.

Some good data on the population shifting out of major urban to nicer locations from Instant Group (Thanks Joe Brady.) *"The pandemic has eroded the geographical boundaries of work, freeing businesses to relocate their or disperse their workforce across hub locations. Due to the shifting economy, rise in hybrid work opportunities and a growing desire to improve work-life balance, new migration patterns are emerging across the U.S.* ***Work has evolved from a noun***

to a verb, from a place we went, to a thing we do, irrespective of place*(emphasis added)….Lifestyle cities are also experiencing an influx of demand for agile workspaces, with Florida leading the race to flexibility. Orlando (+84%) and Tampa (+50%) have seen demand rebound at phenomenal rates, but Miami has experienced the highest growth in demand of any city nationally since pre-pandemic (+143%).”* [the-great-workforce-migration-is-shaping-the-flexible-office-landscape-in-the-u-s]

Great quote: Mitch Daniels on $10k student loan forgiveness idea. “This dead fish doesn’t smell any better the older it gets.”

While I am usually a pretty hard core capitalist, I share Ray Dalio’s (famous hedge fund manager) view on the risk to our social cohesion due to income inequality (for those interested, you can read his writing from a couple years ago here: [https://www.linkedin.com/pulse/why-how-capitalism-needs-reformed-parts-1-2-ray-dalio]). One metric to look at is the share of profits going to owners vs workers. While there is no “right” answer on this metric, obviously there should be some overall sense of balance on how much owners should make and how much they should pay workers in aggregate. This metric has been going the wrong way IMO with workers getting diminishing share of the pie. This in part is leading to the unionization drive. *“In principle, the share of an economy’s income that goes to worker compensation and the share that goes to capital in the form of profits and interest on business debt should not vary much because relying too much on one or the other would be inefficient.”* [workers-share-of-economic-pie-isnt-growing]



I think the biggest difference between a "big company" culture and a "young, scrappy, entrepreneurial" culture is a sense of urgency. Big company people do what can be done working from 8 to 6 Monday through Friday. Entrepreneurial culture people get it done as fast as possible with regular calls on weekends etc.

The baby formula fiasco is even worse because breast feeding has fallen off in recent years. *"Since 2020, the share of breast-fed one-year-olds has plummeted from an estimated 34% to an estimated 14% this year."* baby-formula-shortage-worsened-by-drop-in-breast-feeding-rates

Interesting commentary by Peggy Noonan in WSJ: *"I think I am seeing a broad and general decline in professionalism in America, a deterioration of our pride in concepts like rigor and excellence…. I'm saying we are losing old habits of discipline and pride in expertise—of peerlessness. There was a kind of American gleam. If the world called on us—in business, the arts, the military, diplomacy, science—they knew they were going to get help. The grown-ups had arrived, with their deep competence."* Not so much anymore.

Congrats to all of the graduates out there during this season of celebration. I haven't heard of any particularly good or bad graduation speeches but I did enjoy this quote: "You will never have more energy or enthusiasm, hair or brain cells than you have today" (Tom Magliozzi)

jml

J. Michael Locke
Musings

#181: Musing
June 17, 2022

Took last week off (in case anyone noticed). Going forward, the musings might become a little more sporadic as I enjoy the summer.

Terrible print of record 8.6% growth in CPI compared to last year released on Friday. This is a level of inflation not seen since early '80s. Kind of interesting to see the 8.6% growth broken into its buckets. This table from the Bureau of Labor Statistics.

	Unadjusted 12-mos. Ended May 2022
All items	8.6
Food	10.1
Food at home	11.9
Food away from home	7.4
Energy	34.6
Energy commodities	50.3
Gasoline (all types)	48.7
Fuel oil	106.7
Energy services	16.2
Electricity	12.0
Utility (piped) gas service	30.2
All items less food and energy	6.0
Commodities less food and energy commodities	8.5
New vehicles	12.6
Used cars and trucks	16.1
Apparel	5.0
Medical care commodities	2.4
Services less energy services	5.2
Shelter	5.5
Transportation services	7.9
Medical care services	4.0

The dire financials of social security will take a hit if this continues through fall which is likely. The annual COLA (cost of living adjustment) is calculated by comparing third-quarter data over the same three months for the previous year. Therefore, the increase for next year will depend on CPI-W data for July, August and September.

Fed big move of 75 basis points (.75%) shows they are going to prioritize "price stability" over "full employment" (this is their "dual mandate"). I predict the extremely tight labor market will quickly loosen as economic conditions deteriorate with higher rates. Layoffs at high flying tech firms will push people to seek more stable employers and lighten on their demands for remote work. Like most things, our society overreacts and now pendulum will swing back to the middle with a real focus on hybrid work models.

We will need to improve hybrid meetings which can be a challenge in this new world of work. Ironically, you see the remote individuals much more clearly than the group around the conference room table with one camera. Interesting article here on suggestions for improvement. For instance, have everyone individually dial in on laptop even if in conference room. meetings-are-broken-tech-is-trying-to-fix-them. I encourage people to not blur out your zoom background. In a virtual world, showing your real background "personalizes" the video medium and usually leads to some questions (who is the picture of? Where are you?).

Another driver of some more "in office time" will be the development of our younger professionals. New employees need to learn from experienced ones and that is difficult remotely where all exchanges are basically organized/planned/structured.

Being a CEO in today's world has the whole new layer of complexity on how to handle social issues. Personally, I think companies should be neutral and just focus on their business but employees are pushing leaders to engage in social policy discussions. Howard Schultz embraces it. Disney and Netflix trying to figure it out.

You have to like Elon Musk's candor and focus on results not everyone getting a ribbon. Quotes from his twitter town hall: "*It's like, if somebody is getting useful things done, then that's great. But if they're not getting useful things done, then I'm like, okay, why are they at the company?….. So with Tesla, I have simply asked for a list — that the manager has to confirm — that they're an excellent contributor, and if they do, they're allowed to work remotely*."

Make sure the "retail" level employee has the right motivations. Frustrating when a consumer wants to spend money but the employee is trying to minimize work and has no incentive. Recent experience in Cambridge MA as bartender rudely pushes out group rather than serving 15 minutes before close and making a lot of money. Different experience in Decatur IL when the owner is there early to open the store. He gladly let me in 30 minutes before opening time to sell me some goods.

Organizations need to get out of the practice of using Facebook for community messaging. Many folks like myself have unplugged from this "evil empire" and I don't think it should be the official place to get communication for an alumni association, parent group or a company.

As a side note, make sure to go to reunions. It can be a hassle but always worth it to reconnect with old friends. I don't share the anxiety of how I will be perceived at reunions which I guess many do. *"The fear of rejection that typically accompanies large social gatherings can cause people to overestimate how much people are paying attention to their appearance and behavior, says Jessica Ayers, a social psychologist and incoming assistant professor at Boise State University. This phenomenon, known as the spotlight effect, is particularly prevalent in situations where we are reminded of our younger selves."* class-reunions-are-back-so-is-the-social-anxiety-that-comes-with-them

Interesting fact -- *"Humans can typically focus and perform well in 90-minute bursts"* says a professor at University of Toronto who advocates for lunch breaks (WSJ).

Another example of government ineffectiveness and negative consequences — commercial pilots have to retire at 65 contributing to significant pilot shortage.

Good quote from Kara Swisher: "*Google has the database of all human intention*."

So George Washington's teeth were not made of wood. Some have written they were made from teeth pulled from slaves. Specifics are unclear but more than you ever wanted to know here: https://www.mountvernon.org/george-washington/health/teeth/

Happy Father's Day.

jml

J. Michael Locke
Musings

#182: Musing
June 26, 2022

Small business owners are not bullish on our economy. From the NFIB (National Federation of Independent Businesses): *"The NFIB Optimism Index fell 0.1 points in May to 93.1, marking the fifth consecutive month below the 48-year average of 98. Owners expecting better business conditions over the next six months decreased four points to a net negative 54%, the lowest level recorded in the 48-year-old survey. Expectations for better business conditions have deteriorated every month since January".*

Consumers are not more bullish with consumer sentiment falling to a record low. consumer-sentiment-at-record-low-is-another-ominous-sign-for-economy.



I am starting to think the recession is already here. Mortgage applications plummeting. Existing home sales are down. Consumers (including our house) have pulled back on expenses with the market plunge. I think we will see a negative GDP growth number next time it is reported which is two in a row.

Some have argued that we have moved to an "asset economy" where those with money buy all of the assets and then lend them to others. This has been supercharged by low interest rates. Interesting Atlantic article: *"Over time, wealth inequality became more pernicious to society than income inequality. The problem is not just that a chief executive at a big company makes 33 times what a surgeon makes, and a surgeon makes nine times what an elementary-school teacher makes, and an elementary-school teacher makes twice what a person working the checkout at a dollar store makes—though that is a problem. It is that the chief executive also owns all of the apartments the cashiers live in, and their suppressed wages and hefty student-loan payments mean they can barely afford to make rent. "The key element shaping inequality is no longer the employment relationship, but rather whether one is able to buy assets that appreciate at a faster rate than both inflation and wages," Adkins, Cooper, and Konings argue in their excellent treatise, The Asset Economy. "The millennial generation is the first to experience this reality in its full force."* *asset-economy-high-interest-rates-inflation.*

Innovation needs to be part of personal and organizational DNA. You should always be thinking how something could be done better. The PGA tour now wishes it was thinking that way as the LIV tour guarantees golfers compensation like other major league sports and golfers leave the PGA. The Savanna Bananas are sold out playing minor league baseball in a fun way starting with a running clock that guarantees a two hour game rather than the insufferable pitcher changes and 3+ hours in regular pro ball. savannah-bananas-cure-baseballs.

Interesting article on the lost growth and advancement from remote work (thanks Jeff Dobosh). "*If you want a job, stay remote all the time and be efficient in a very limited way," said Handler yesterday. "If you want a career, engage with the rest of us in the office and use WFH only when smart..."*remote-work-banking.

The Uvalde tragedy is providing a painful lesson in leadership and clarity around ownership. Dedicated, well-intentioned officers sat in the hallway for an hour while the door was not even locked because they believed those were the orders from their leader. It is unclear who was in charge and no one seems to be displaying ownership for the decisions made. Organizations only work effectively if there is one individual directly responsible and there is clarity to the group on who that is.

The overturning of Roe v Wade shows the challenges facing today's corporate leaders. As I wrote last week, I do not think CEOs should be wading into social issues but many feel otherwise. I am pro-choice but I can't agree with the people like the CEO of Dick's Sporting Goods who posted this:

EVERY SEASON STARTS AT DICK'S SPORTING GOODS

e-NEWS
Company News & Information

A MESSAGE FROM ED STACK & LAUREN HOBART

Dear teammates,

You are the heart of our business, and we are committed to protecting your health and well-being.

Today, the Supreme Court announced a decision to overturn Roe v. Wade, removing the federal right to an abortion and leaving the decision up to each state.

While we do not know what decision each state will make in response to this ruling, we at DICK'S Sporting Goods are prepared to ensure that all teammates have consistent and safe access to the benefits we provide, regardless of the state in which you live.

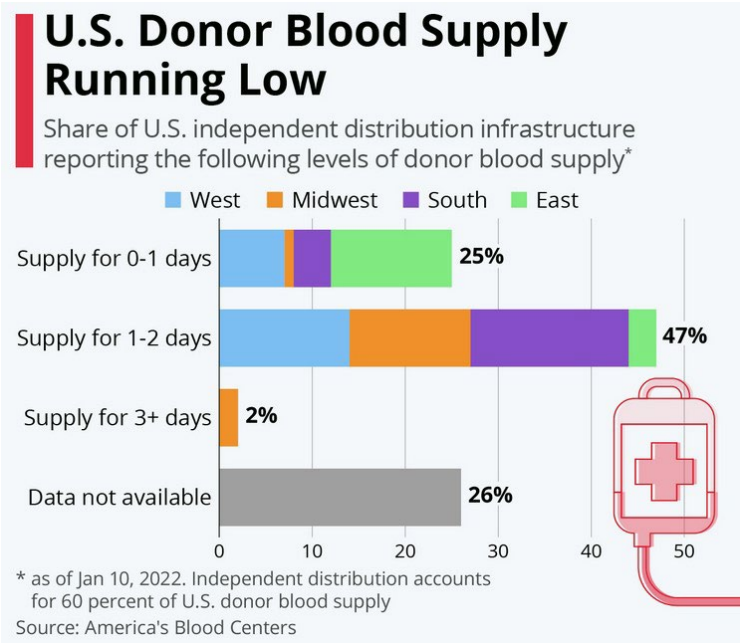
In response to today's ruling, we are announcing that if the state you live in restricts access to abortion, DICK'S Sporting Goods will provide up to $4,000 in travel expense reimbursement to travel to the nearest location where that care is legally available. This benefit will be provided to any teammate, spouse or dependent enrolled in our medical plan, along with one support person.

We recognize people feel passionately about this topic -- and that there are teammates and athletes who will not agree with this decision. However, we also recognize that decisions involving health and families are deeply personal and made with thoughtful consideration. We are making this decision so our teammates can access the same health care options, regardless of where they live, and choose what is best for them.

e-NEWS is your resource for company news and information.
If you have feedback or questions, please reply to TeammateCommunications@dcsg.com.

Simple recommendation for Iphone users – name your phone. Settings / General / About / Name. No more "which Iphone on Bluetooth am I?" or "mlocke iPhone" dialed into Teams call.

It is not getting much coverage but we have a real shortage of blood for our healthcare providers. We need everyone who can to go out and donate blood. blood-donors-needed-now-as-omicron-intensifies.

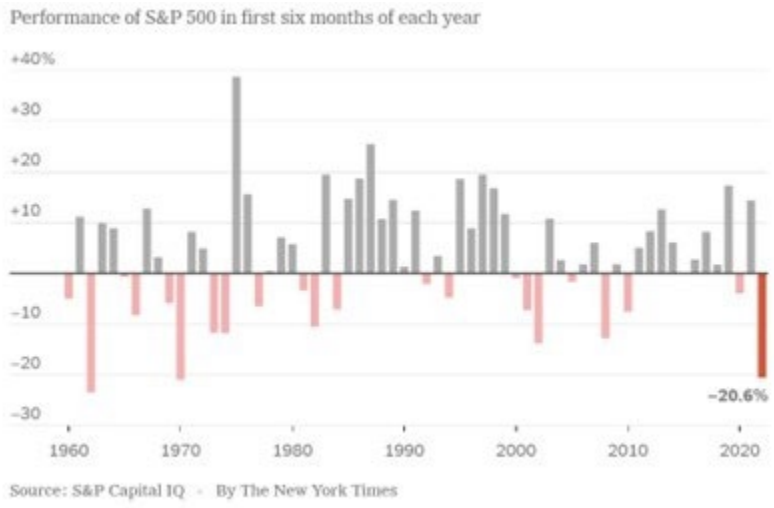


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J. Michael Locke
Musings

#183: Musing
July 4, 2022

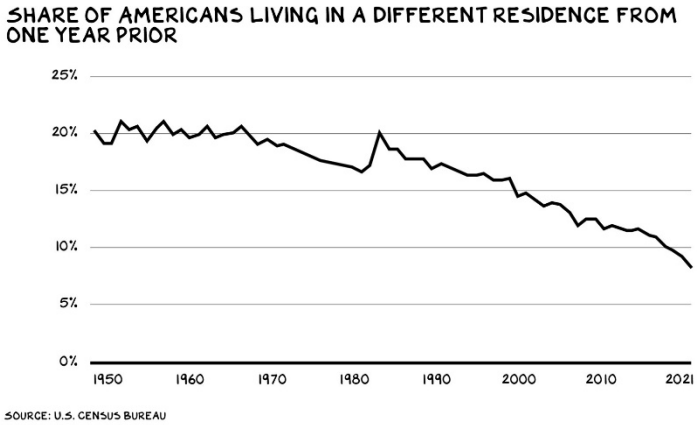
What a brutal first six months in the equity market. The S&P had the worst performance in over 50 years. Bonds not much better. Let's hope for a better last half of the year.



The reason so many disagree with me and think company leaders need to be political is because workers are demanding it. *"In a recent survey by Qualtrics, more than half of U.S. employees — 54% — said they would be willing to take a pay cut to work at a company that shares their values. And 56% said they wouldn't even consider a job at a company that has values they disagree with."* most-workers-want-their-employer-to-share-their-values

Whatever your politics, you have to admire Cassidy Hutchinson. She is only 26 years old. Amazing composure in that setting for someone that age.

Interesting graph from Scott Galloway showing the long trend of fewer people in the US have been moving.



Women are starting "No Clubs" to help manage their careers by saying no to work unrelated to their specific function. *"These non-promotable tasks… they matter to the organization, but you don't get rewarded for doing them," said Linda Babcock, an economics professor at Carnegie Mellon University and co-author of "The No Club: Putting a Stop to Women's Dead-end Work." "Not everything counts on your performance evaluations – there's lots of work that is done that is never tracked, thanked or evaluated." When we have a non-promotable job to do, we think of women first and we ask them more than men," said Babcock. According to research she conducted with three other professors, managers are 50% more likely to ask a woman than a man to do these invisible tasks. She also found that women are also more likely to volunteer for these tasks."* Talking about things like taking notes in a meeting or sitting on an employee engagement committee. non-promotable-work-saying-no.

Important to remember that the overturning of Roe v Wade was about decision rights. The court opinion does not "criminalize abortion" as one reporter commented. Here in Illinois, it will continue to be widely available (which I think is good). The court ruled it is a matter up to the elected branch. To quote the majority opinion directly: *"It is time to heed the Constitution and return the issue of abortion to the people's elected representatives. "The permissibility of abortion, and the limitations, upon it, are to be resolved like most important questions in our democracy: by citizens trying to persuade one another and then voting." Casey, 505 U. S., Scalia…. That is what the Constitution and the rule of law demand."*

With all of the coverage of Roe v Wade, I was curious how many abortions happen in the US each year. It is not officially tracked but is estimated between 620k and 900k (pewresearch/what-the-data-says-about-abortion-in-the-u-s). To put that in perspective, here are the leading causes of death from 2020 (don't infer I am making an anti-abortion argument about "death" just getting volumes in context). cdc.gov/nchs/fastats/leading-causes-of-death

- Heart disease: 696,962
- Cancer: 602,350
- COVID-19: 350,831
- Accidents (unintentional injuries): 200,955
- Stroke (cerebrovascular diseases): 160,264
- Chronic lower respiratory diseases: 152,657
- Alzheimer's disease: 134,242
- Diabetes: 102,188

- Influenza and pneumonia: 53,544
- Nephritis, nephrotic syndrome, and nephrosis: 52,547

Probably a better way to look it is compared to the number of births every year. There were 3.6mm births in 2020 according to CDC (cdc.gov/nchs/fastats/births) so roughly one abortion for every 5-6 births. Surprisingly to me, 40.5% of these births were to unmarried parents with a mean female age of 27.1.

While I recognize that the recent Supreme Court decisions have angered a lot of people, I think it is great that we are having societal discussions about the constitution, rights and how we think government should work. It is not getting much attention but personally I think the case overturning EPA rulemaking might have a serious impact on how Washington regulates.

Quote from Adam Grant – "*The loudest voices rarely represent the majority. They're usually speaking for the extremes. You won't understand the views of a group until you've invited the quieter voices into the discussion. Don't mistake silence for disengagement. It's often a sign of deep reflection."*

Our daughter's retail job at the mall is giving me a firsthand look at the challenges of today's hourly employees. Great that a 17-year-old is making $20 an hour but challenging when she is told she will have to work (or not) on less than 24 hours' notice. How would this work if she was an adult with responsibility for others?

Had a friend refer to his obsession with looking at potential real estate – "Zillowporn." Why is it some many of us are always looking at new housing?

Happy July 4th. Go out and have some old-fashioned fun. No politics.

jml

J. Michael Locke
Musings

#184: Musing
July 9, 2022

Like our societal discourse, these musings have drifted too much into political topics. I will be getting back to their historical roots around business, management, leadership and technology.

The equity market seems confused to me. Friday's job report was good. 372,000 new jobs, 5.1% wage growth from last year and unemployment at 3.6%. Unfortunately, markets are obsessed with interest rates and the strong jobs report reinforced concern about future rate hikes and markets struggled to digest. One challenge on jobs report is the labor participation rate is stuck in low 60%. We need to figure out this structural issue to keep the economy growing. Better childcare options are the key to getting more women back into the workforce.

Many individuals won't go back to work at all but more won't go back to the office. Office usage rates in big cities are not coming back. Less than 45% of big city downtown offices being used. office-remote-work-new-york. Makes you really feel bad for all of the small businesses in downtown places like the loop here in Chicago which used to have thousands of commuting office workers consuming a sub sandwich or a beer after work. Hybrid models are struggling to create the vibrancy during the days in the office.

A key management principle is to "manage forward." I find too many executives spend time discussing results from last month rather than forecasting next month. Good executives create KPIs around items which will lead to revenue (calls, opportunities in pipeline, traffic in a store) to allow them to project revenue more accurately and thus manage expenses to deliver appropriate profitability. Technology has only increased the ability to manage forward with all of the data you can get on website visits, search volumes etc. Don't let a leader tell you they can't predict the future because that is his/her job. Yes, individual accounts might not be predictable but in aggregate they will follow normalized data patterns. Identify your leading indicators and manage the hell out of them. Just as they close out the books every month to report results, I believe finance departments should extend their projections every month and have a constantly updating rolling 12 month forward projection.

I think really good executives also manage forward on their team and predict the future performance of individuals. Good leaders carefully study patterns of behavior and "read the tea leaves." Is the desk (or in today's digital world the desktop or email box) cluttered signaling disorganization? Is someone's body language signaling disengagement? Like a major league manager getting prospects into his/her farm system, good leaders are looking down the organization to identify their "high potential" individuals and investing in them. They then create depth charts and succession plans on what will happen if someone leaves.

Make sure to read the materials before your meeting. Too often, the materials come out last minute and attendees don't review in advance and the meeting is really just a presentation by the

author. Mandate that materials get out sufficiently in advance and all attendees read ahead of time so the meeting is an interactive discussion and engagement on questions. It is like "flipping the classroom" in Higher Ed where non-interactive knowledge transfer should occur separate from the meeting/class interaction.

Excellence comes in many forms. Joey Chestnut won his 15th Nathan's hot dog contest by eating 63 hot dogs in 10 minutes while second place ate 37.5. He even had to manhandle a protestor in the middle of eating.

Good article from Mitt Romney pushing the need for leadership. *"President Joe Biden is a genuinely good man, but he has yet been unable to break through our national malady of denial, deceit, and distrust. A return of Donald Trump would feed the sickness, probably rendering it incurable. Congress is particularly disappointing: Our elected officials put a finger in the wind more frequently than they show backbone against it. Too often, Washington demonstrates the maxim that for evil to thrive only requires good men to do nothing."*[mitt-romney-republican-denial-biden-election]

With the cutoff of supply from Russia, Germany is taking extreme measures to reduce natural gas use – rationing hot water and landlords reducing heat at night. Shows strategic value of energy independence.

I assume most parents have had experiences like us where your middle schooler/pre-teen discussed what "group" of friends they are "in." In our community this is reinforced by what table you sit in for middle school lunch. Technology is reinforcing this "suburban gang" mentality through text groups where communication only happens among the defined group. I have mistakenly employed this dynamic many times by using an old text string and inadvertently not including someone in an invitation. Open up your aperture and don't let text reinforce "group lines." Encourage your kids to have open borders as well. We all need to spend more time "opening" rather than "closing."

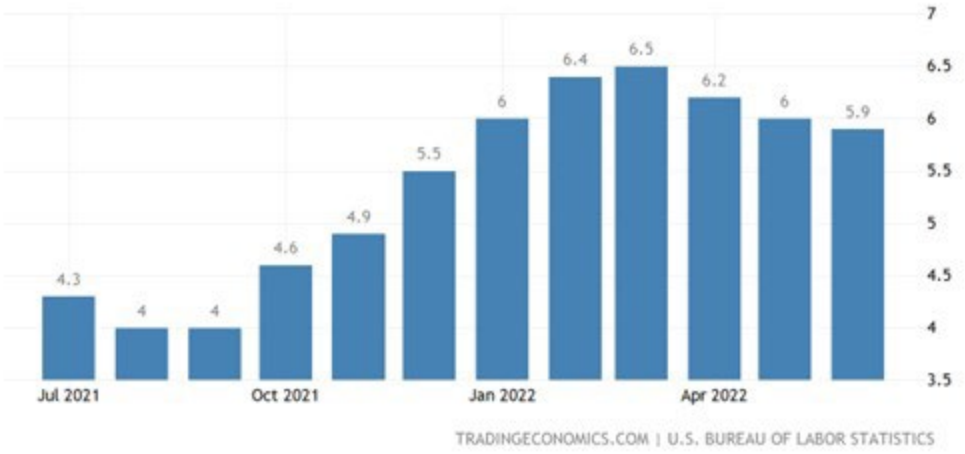
While I opened saying I was going to avoid politics, I must comment on the Highland Park shooting which was not far from where we live. How was this kid allowed to buy these weapons? I know stereotyping is dangerous but cmon, look at this guy, his background and social media posts, he should not have been able to go buy an assault rifle. God bless those lost and injured.

Jml

J. Michael Locke
Musings

#185: Musing
July 16, 2022

You can make a lot of money in the markets if you can figure out where inflation and the economy are going. 9.1% CPI growth over last year was crazy high in June. If you look at details, gas up 59.9% and airline fares up 34.1%. However, core inflation (no food or energy) up 5.9% which is the third month of a decelerating growth rate:



"Consumers are flush but glum" or "welcome to the full-employment recession" says WSJ. Pretty confusing what is going on right now.

The largest expense at most businesses is personnel costs. The low labor participation rate, aging workforce and reduced immigration is putting real stress on the labor market and driving up wages. To increase profits, businesses have to manage, an ideally reduce, labor expenses. A big part of this is business process. Any time you ask an executive to reduce headcount, the immediate general reaction is that s/he cannot because those people are needed but that generally assumes no change in business process. More leaders need to engage in business process mapping and redesign. This will likely allow you to "replace a person dependency with a process dependency" (to quote a CEO I was recently interacting with).

Is there a generational divide on helping strangers? Any time I pause when concerned that someone might need help, our kids tell me to leave them alone. In their world, I am infringing on someone's privacy. In my world, I am being helpful. I worry this is just another data point on our societal move away from community and towards isolation. Doordash delivers to your house so you don't even have to get into a car. If you do get into a car, more than 70% of orders at fast food or Starbucks is now drive-thru or takeout. Text is the preferred communication method over an actual phone call. Finally, if Mark Zuckerberg has his way, we will just all put on our headsets and enjoy the virtual world. IMO, human

beings need connection and personal interaction. All of the aforementioned trends are not positive for societal cohesion and mental health.

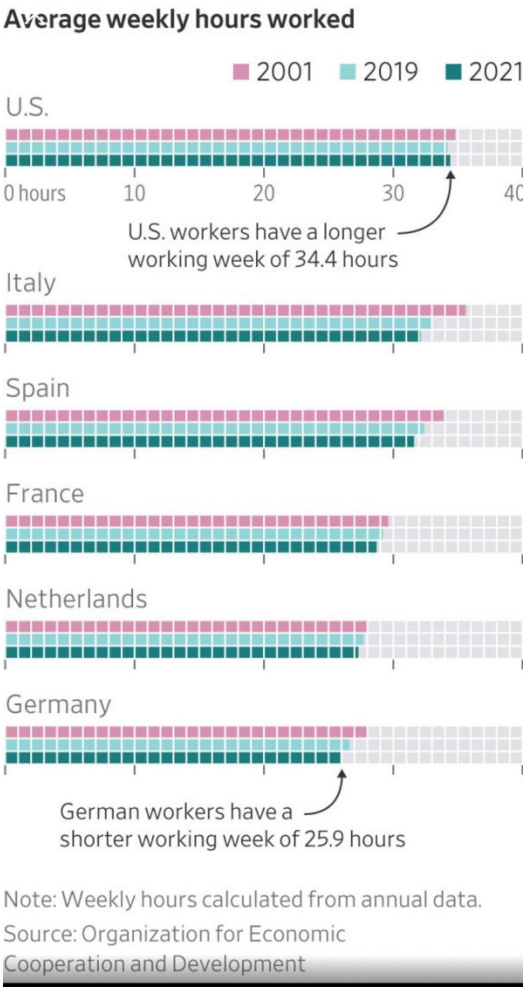
This all applies to the workplace as well. Too much done by email. My CEO friend Pete Ruppert once lamented how he would walk around headquarters and see all of his talented executives sitting in front of a computer screen. I implemented "email amnesty days" in an effort to force people out of their office to interact with others. The new remote world post-covid is going to make this harder. Leaders will need to hit the road and visit their employees. CEOs may have to live the life of the commercial truck driver if they want to really know what is going on.

Hospitals and physicians are no exception to the isolation prevalent in today's work. Good article (thanks Pat Wilson) on how the physician's lounge has become a ghost town as doctors spend more time on administrative tasks, inputting into electronic medical records systems and basically not interacting with other physicians. *"One of the most powerful antidotes to burnout is engagement, and it actually doesn't take a lot of engagement to mitigate burnout," said Penn Medicine's Dr. Bellini.* hospital-physician-relationships/physician-lounges-are-dying-how-hospitals-now-foster-connection

The challenges of remote work are becoming more apparent. Good Atlantic article: *"First, remote work is worse for new workers. Many inexperienced employees joining a virtual company realize that they haven't joined much of a company at all. They've logged into a virtual room that calls itself a company but is basically a group chat…. Second, remote is worse at building new teams to take on new tasks… Third, and relatedly, remote work is worse at generating disruptive new ideas… Why might the quality of ideas degrade when people collaborate remotely? My favorite explanation is that collaboration requires trust, and trust implies a kind of intimacy, and it's hard to build true intimacy via Zoom and chat. One of the most profound things that I've heard in my two years reporting on remote work is the idea that digital communications can be a minefield for trust."* remote-work-wfh-debate-management

"Trust, not technology, is the issue of the decade" …Tom Peters. It is hard to establish trust without a real, personal relationship built through in person interactions, dining together, meeting each other's families.

I think everyone needs to work a little harder. I was stunned by this:



Lots of bad reporting on the Twitter deal. Buying a company is like buying a house. You sign a contract with closing later (usually) with conditions to closing. The Twitter purchase agreement did not contain a financing contingency nor a diligence contingency which was very "seller friendly." Musk is arguing Twitter breached its covenant to provide information and operate in ordinary course and it's representation that it's SEC filings were accurate. He argues this has created a "material adverse event" which is a standard provision which allows buyer to walk away. Neither side is going to want to spend the next year litigating this so it will be settled somewhere between the $1 billion break-up fee and the $16 billion difference between the merger price and current trading value. I bet $5 billion in next 30 days give or take.

Interesting quote from successful Silicon Valley venture capitalist Roger McNamee: *"I view Elon Musk as being the figurehead for a business culture that has just gone completely off the rails. We've gotten into this mode in Silicon Valley that we use technology to exploit human weakness rather than empower people, and we've supported a management culture that is so self-centered it has no respect for the people who are touched by the product, has no respect for the rules. And in the long run, that's bad for investors, bad for the economy, and bad for the country."*

A new National Suicide Prevention Lifeline has been rolled out analogous to 911 for emergencies. It is 988.

It is expensive to have a baby. *"Women who give birth via cesarean section spend an average of $26,280 more on health care than those who do not give birth, including an average of $3,214 out of pocket. Those with a vaginal delivery spend an average of $14,768 more, including $2,655 out of pocket."* women-who-give-birth-incur-nearly-19000 If we want to get the fertility rate up to feed population growth, we need to make it more affordable to have kids starting with birth.

Interesting commentary from veteran CEO and happiness guru Doug Smith: *"You can break intelligence into two types – "vertical intelligence" and "horizontal intelligence," or as some psychologists refer to it, "fluid intelligence" and "crystallized intelligence." In our younger years, we are great at vertical/fluid intelligence. It is the stuff of remembering facts, events, etc. It is about the ability to accumulate and recall knowledge. And yes, this type of intelligence declines as we pass midlife. By the time we are 50, we probably carry around enough facts and experiences to fill your local library. So if we meet up with someone we haven't seen in some time and can't remember his name, we send off our "librarian" to find out who the hell he is. Our librarian moves a little more slowly, is more easily distracted, and has to search through dozens of stacks and several floors. By the time our librarian comes back with the desired information – "his name is Mike" – Mike is long gone and we are on to something else. And of course, we punish ourselves for not remembering Mike's name and wonder if it is a sign of dementia. It probably isn't, it is just a normal process of aging. But interestingly, another type of intelligence begins to grow as we age. Horizontal/crystallized intelligence begins to blossom as the vertical/fluid intelligence declines. Horizontal/crystallized intelligence is the ability to understand and use concepts, to connect things that we might previously have seen as unrelated, and to make connections with people at perhaps a deeper level. We get better at interpreting ideas and expressing them to others. Put most simply, in our youth we have the knowledge and the ability to recall that knowledge quickly and fluidly. But as we age, what comes to us is perhaps most easily expressed as wisdom. Hence the adage "with age comes wisdom" – although I have noticed at times age comes alone!"*

#nopolitics

jml

J. Michael Locke
Musings

#186: Musing
July 30, 2022

Not sure why there is such an obsession on whether we are technically in a recession. Who cares? We have two quarters of negative GDP growth but we also have a strong consumer and low unemployment. Fed trying to engineer things to bring down inflation without hurting labor market. I think the Fed rate hikes are working with declining commodities, housing etc. It will take a while for the inflation metrics to reflect what is happening so don't be surprised of CPI next, announced is still over 8%. Inflation is coming down.

Good leaders are like human AI — they digest as much input as possible. Defensiveness is not a good trait. A good executive wants all the input s/he can get and present themselves as open and desiring of feedback. They don't have to agree with what they hear but if you are not listening and taking feedback, you aren't learning and growing.

So much of life is managing expectations. What often matters most is not the actual results but how they compare to expectations. Last week Goldman Sachs reported that their revenue was down 23% from last year and earnings were down 47%; yet, the stock popped and the headline on CNBC was "Goldman crushes expectations." Netflix reported a decline in subscribers but less than expected so stock goes up. This applies to regular operations as well. Managers should always manage boss' expectations. You should even manage expectations on when things are going to be done. Imagine how you would feel if housing contractor finished early! Underpromise and overdeliver. #woodyharrelson #billoneill

I like the move to a "peer review" consumption society. You leave the doctor's office and many of them will send you a text asking you to rate the customer experience and provide a google review. I watch our daughters do a "taste test" and post on Instagram their review of the new egg white bites at Dunkin' Donuts. Today's consumer will no longer respond to advertising claims by the provider but rather want to hear from other consumers what they thought. Consumers are learning how to spot the fake "nothing but 5 star reviews" on Amazon or the flaming discontent user on Reddit. At the end of the day, companies should move some money from advertising to delivery and up the quality of their product or service. I think the disappointing results this quarter from Facebook/Meta, Snap, Roku etc. are the beginning of a structural slowdown in digital advertising (at the end of the day they are all just advertising companies).

"*In the future marketing will not be a department, it will be woven into every touchpoint of business strategy.*" Northwestern business professor Amanda Russell.

Don't be a "ghoster." Always respond and close it out — whether a friend, co-worker or business partner. I heard the story of a company looking to lease space in a building— they engaged landlord but then ghosted when they heard of a sublet. Surprise — the landlord withheld consent to the sublet.

Some great points by Ben Cohen in WSJ when discussing the golf rivalry between PGA and new LIV league: *"There is something counterintuitive at the heart of so many clashes like golf's civil war: What seems like an existential risk is really an opportunity for reinvention. Complacency breeds competition, then competition sparks rivalry, and rivalry kindles innovation. Ford and GM were driven to get serious about electric vehicles by the threat of Tesla, for example, but the auto giants have followed the lead of the upstart and now are zooming into the future."* Ideally, you want to get every individual in your organization thinking this way – how can I do my job differently and better.

The psychology of human consumption is fascinating. Why do I buy a lottery ticket when it gets to huge number but never buy one otherwise? $50 million not interesting enough but $1 billion is? It certainly is not because the odds get better! From Des Moines NBC: *"Your chances of winning the jackpot always remain one in 302.5 million, regardless of whether the big prize is $20 million or the current $1.02 billion."* You just hope the state set the odds right and didn't screw up like our friends in Michigan, how they messed up the "model" and a retired math professor figure out how to make a winning purchase in one lottery game. math prof figures out MI lottery

jml

J. Michael Locke
Musings

#187: Musing
August 7, 2022

Great July jobs report. 528,000 new jobs marking the recovery of all jobs lost during the pandemic. Unemployment at 3.5%. Basically, anyone who wants a job can get one with twice as many openings as unemployed. Only 62% of eligible individuals are actually looking to work. Have to get that up, facilitate more legal immigration and encourage adults to have more kids to have the labor supply we need for sustained growth.

I think the structural labor shortage will create an ongoing disconnect in metrics. Fed will keep raising rates until we get inflation down. Gas prices have decreased 50 days in a row and oil is back to pre-Ukrainian invasion levels so it is happening. CPI will still be high this week because it is not "real-time" but lags on many inputs like housing. Decreasing commodity prices are your leading indicator. Inflation can come down while still having strong employment market.

You really have something special in an organization if you can create a culture which assumes continual improvement. If you can get every employee to be constantly reflecting on how they can do their job better and more efficiently and how you can constantly improve the experience for your customers, you really have something. To me, this is heart of capitalism where competition creates a constant need to innovate and improve. Government funded models have no such incentive – look at the DMV or the US post office. If you go to www.relentless.com, you get redirected to Amazon as Bezos built this into the DNA of that business. Here is a great quote from his 2017 letter to shareholders: *"One thing I love about customers is that they are divinely discontent. Their expectations are never static—they go up. It's human nature. We didn't ascend from our hunter- gatherer days by being satisfied. People have a voracious appetite for a better way, and yesterday's "wow" quickly becomes today's "ordinary." I see that cycle of improvement happening at a faster rate than ever before. It may be because customers have such easy access to more information than ever before —in only a few seconds and with a couple taps on their phones, customers can read reviews, compare prices from multiple retailers, see whether something's in stock, find out how fast it will ship or be available for pick-up, and more. These examples are from retail, but I sense that the same customer empowerment phenomenon is happening broadly across everything we do at Amazon and most other industries as well. You cannot rest on your laurels in this world. Customers won't have it."*

Be careful with your P&L integrity and cost allocations. Ideally, you have an individual directly responsible (IDR) for the P&L of a certain segment of the business. For s/he to be effective, they need to control the expenses that hit that P&L and allocations can be dangerous. Central expense departments which have their costs allocated out to P&Ls tend to grow too large and lack accountability as there is no incentive to manage costs hard. I think you want a "general manager culture" where you break the business into smaller P&Ls with owners and these owners can buy their services from outside or from the central services staff function. This creates competition for the central expense department and gives the general manager true ownership. Some companies even have "intra-company" contracts

signed up.

Heard a great reference. A clumsy, poorly-managed situation called “a goat rodeo.”

I would love to see statistics on what percentage of consumers are tipping in this new world where take-out fast food has a tip “menu” as you pay with your debit card (thanks Chipotle for not doing it.) So I pay $12 for my sub sandwich and diet coke and then the dreaded moment at Subway when the cashier watches my decision on whether to tip or not.

As we head into college decision season, some advice for parents. Don’t get caught up in the hype. College enrollments are decreasing for a variety of reasons so most schools are working to get your child and offering discounts (called institutional scholarships). I disagree with the “reach school” concept and the obsession with rankings. Figure out the school which is a good fit for your child. Certainly, there are popular and elite schools which are very hard to get into but there are over 4,000 colleges in the US. It is also easier in many places to get in as a transfer than as a freshman (colleges have fixed costs and want to keep the seats full so look to backfill dropouts). Find schools which work geographically and programmatically where your child can excel and have leadership opportunities. Sure, Harvard grads have a jump start right after college but 10 years out, I think most people don’t even know what school people went to.

Great article by Peggy Noonan connecting remote work with the polarization of society. Working together in an office forced collaboration among diverse individuals. *“The primary location of daily integration in America—the coming together of all ages, religions, ethnicities and political tendencies, all colors, classes and conditions—has been, during the past century, the office. It is where you learn to negotiate relationships with people very different from you, where you discover what people with different experiences of life really think. You discern all this in the joke, the aside, the shared confidence, the rolled eyes….Daily life in America happened in the office. If it doesn’t, where will America happen?....The end of the office will contribute to polarization. Receding from office life will become another way of self-segregating. People will be exposed to less and, in their downtime, will burrow down into their sites, their groups, their online angers. Their group-driven information and facts.”*the-lonely-office-is-bad-for-america-work-from-home-polarization. Workers like the convenience of work from home but it is unclear if it is in their, or society’s, best interests.

jml

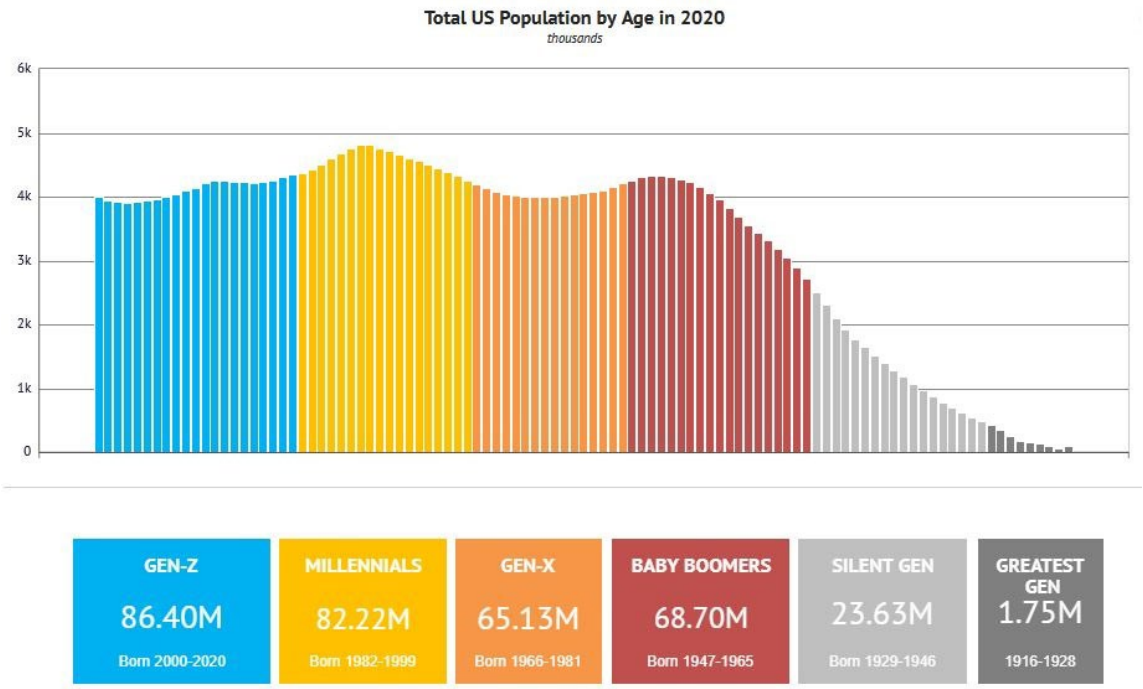
J. Michael Locke
Musings

#188: Musing
August 14, 2022

I often write about the need to manage forward. Good business executives know what metrics to watch and other information to allow them to predict where things are going and adjust accordingly. The financial markets are always looking forward. Buy/Sell decisions are all based on what you think is going to happen in the future. This is why markets reacted enthusiastically to an 8.5% CPI. That is huge by any standard but the markets are focused on the sequential deceleration from 9.1% last month as an indicator that inflation is coming down and thus maybe less aggressive Fed rate hikes.

Retirees are also rejoicing. Social Security is adjusted once a year based on third quarter inflation. Rather than the composite CPI, Social Security uses the CPI for Urban Wage Earners which was up 9.1%. If August and September follow suit, social security recipients are about to receive a record COLA (cost of living adjustment) for next year.

The basic "system" of our society where current productive employees pay for those later in life who are no longer working is in real trouble. Look at this chart on population in the US. We need our baby boomers to keep working! us-population-by-age-and-generation-in-2020



The pendulum looks to be swinging back towards employers. While we still have a structural labor shortage, layoffs are increasing (especially at tech and retail). Some who left during the "great

resignation" are finding grass is not always greener. There is a continuum in leadership styles from the historical military/command and control/authoritarian style to the benevolent/servant leadership style. The latter had been winning out during pandemic but now many are moving towards more demanding style. ceos-ditch-the-warm-talk-as-economy-shows-signs-that-winters-coming-

I was recently reminded of one of the big learns from Steve Jobs' success in running Apple. From an HBR article: ***"Customers should run the firm.*** *Steve Jobs is above all an Apple customer. He and Steve Wozniak built devices that both of them wanted to use themselves. Wozniak brought exceptional engineering chops. Even more important, Jobs (who can't program) brought the perspective of a passionate and non-technical customer into the design, the look and feel, and the excitement of Apple products. What made and still makes Apple products great — and what other tech firms can't seem to grasp — is that Jobs and Wozniak didn't apply their talents to make money or demonstrate engineering prowess. They applied their talents, fiercely, in the service of creating something that would excite them as customers — which they could do because they were passionate customers, as are the employees of the organization they built"* Tesla is doing this with the car ownership and service experience. You schedule your appointment on your app. They have mobile service that comes to your house and you can pay through the app using Apple Pay. You don't have to get out of your chair.

The "text war" is heating up between Google and Apple. The two companies use different texting technology which creates problems when texting among people. If you are an Iphone user (55% of US), a text sent from an android phone shows up as a different color and won't work on Wifi. Apple is trying to keep people on its proprietary technology. From CNBC "*Apple's systems detect when an iPhone texts another iPhone and, instead of sending that message through the SMS system, it uses Apple's own proprietary iMessage network. Users see the text they sent as a "blue bubble," as opposed to the green color seen on SMS texts, like those to Android users. The inferiority of "green bubble" texts has become a meme and inspired a song by the musician Drake. iMessage chats provide a better user experience than SMS chats on an iPhone. Many of Apple's features, like adding emoji reactions to a single text message, barely work on SMS chats. iMessage chats feel faster because of Apple's animations and include features like read recipes, bubbles that indicate whether a user is typing, and superior group chats*." google-pushes-apple-to-adopt-rcs-text-messaging

Never take the "warranty / service" option when buying something IMO. They wouldn't be selling it to you if they thought they were going to lose money on it. Take the risk. Often, consumers even forget they have the policy and it is 100% margin. Don't have "purchase exhaustion" and let them jam you at the end with upsells in the business office of the car dealer or whatever.

I wrote last week about declining enrollments in higher education. In large part, this is due to a massive shift in perception on the value of higher education. Relentless price increases (schools are terrible about managing expenses) supported by practically unlimited capital from the government in student loans have created a very weak value proposition which has been exposed with the strong labor market and the arrival of other forms of post-secondary learning like the Google certificates. Google is offering some tech related certificates for $39 a month (grow.google/certificates). According to Reuters: "*Over 70,000 people in the United States and 205,000 globally have earned at least one certificate, and 75% receive a benefit such as a new job or higher pay within six months, according to Google*." In comparison, only 32% of Americans think college is worth the cost (according to Strada Group). how-higher-education-lost-its-shine/

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J. Michael Locke
Musings

#189: Musing
August 27, 2022

Sorry I took last weekend off. Congrats to our nephew Chip and his new bride Sam.

Avoid management by anecdote. I hate it when an executive describes one or two interactions with a client, prospect or employee as the basis for a decision or recommendation. Manage from the numbers. It is much more impactful to say x% of our clients have expressed dissatisfaction with this or that. For example, how is client retention and scores in the last client satisfaction survey? Same with employee retention and metrics on engagement. You have to operate systematically in order to scale.

This doesn't mean it is nothing but reports. The successful baseball manager who brought World Series wins to Boston and Chicago (Theo Epstein) famously trained sitting between the data/analytics people and the old school talent scouts. Personal interaction with customers, prospects and employees are critical and provide potential nuggets of valuable information but those nuggets then should drive analytics on a particular topic which is where decisions should be made.

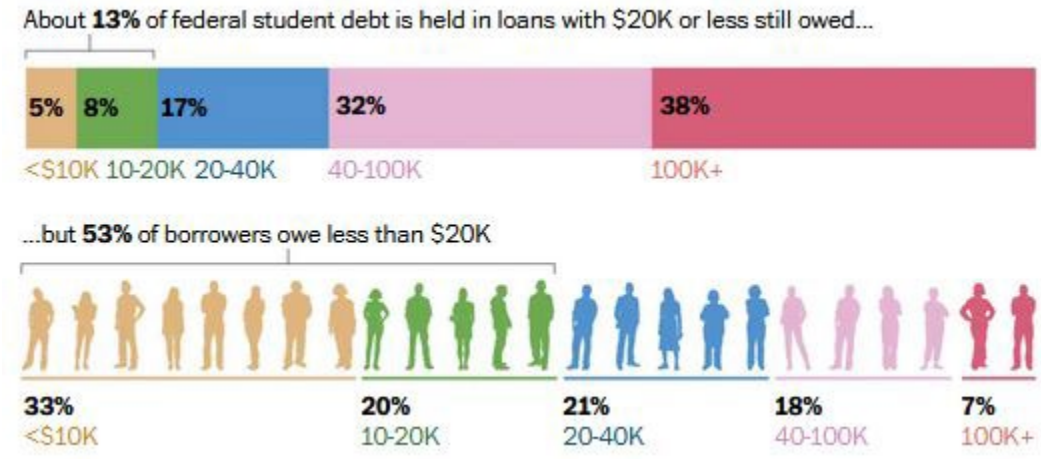
I think market returns will be structurally lower "forever." We have an excess of capital compared to history. Technology has allowed companies to operate for more efficiently (ex. real time inventory rather than sitting on excess). Starting a technology company does not require the same capital as starting a manufacturing business. Society is also getting more efficient. Lots of capital was historically tied up in houses, parking lots, and cars which sat unused much of the time. Businesses like Airbnb, SpotHero, and Zipcar are now exploiting that "unused capacity." Autonomous taxis are not that far away and will reduce car purchases. We are even getting to the point where you can rent clothes or buy them second hand at lower rates with retailers at H&M piloting the concept of a store as a service center for used clothes (h-m-aims-to-reduce-emissions-and-grow-salesall). Capital simply is not needed like it was historically so as demand goes down, so will returns. I heard an individual planning on 7-9% equity returns over the long run — I would say plan on 4-5%.

Consider investing in water if you want to juice your returns. Climate change is reducing water supplies and the southwest is in trouble. Lake Mead is 175 below where it was in 2000 and the states which depend on the Colorado river are fighting about who gets what amount of water. colorado-river-lake-mead-water-drought . The Salt Lake is 25% of where it was in 1987 and releasing arsenic.salt-lake-city-climate-disaster TBoone Pickens was way ahead on this one calling "water the new oil" over a decade ago. t-boone-pickens-a-water-baron-for-the-21st-

century/. Go long Minnesota and lake country Wisconsin real estate.

Heard a new term -- "Tattleware" – software that some companies are using to track what employees are doing on their computers (especially now with most working from home.)

Our student loan system is broken. There are 40mm borrowers who owe $1.75 trillion. Experts say only about half of those borrowers are "current" and paying down their principal. Over 25% are in delinquency or default. This debt is never going to get paid back and is an issue delaying household formation and adults having children. Something needs to be done. Here are some interesting stats from the Washington Post:



That said, I am not sure that it was Biden's decision. I often write about decision rights. I don't understand how a President has the unilateral authority to wipe out $300 billion in student debt (I guess he is invoking some kind of emergency powers.) Whether you like it or not, seems to me it should be a congressional decision.

I don't think it will be inflationary as payments are not being made right now but tough precedent to just wipe it away and stick the taxpayers with it. I would hate to be someone who ate Ramen and scraped by to pay off their debt (or chose not to go to college to avoid debt) only to watch others just have it wiped away. I would have been for aggressive restructuring.

From the "are you kidding me?": Andreessen Horowitz VC is investing in a startup led by disgraced WeWork CEO Adam Neumann? The guy blew through $12billion with a drug and alcohol frat-boy culture. Wtf?

Maybe I am a bad parent but I love the fall when school resumes and life gets some structure back. #yearroundschool.

jml

J. Michael Locke
Musings

#190: Musing
September 3, 2022

I am not a big fan of committees. IMO there should be a single individual who is held personally responsible for most things. Steve Jobs was adamant about this. Quick excerpt from HBR article on lessons from Jobs: ***"Always assign responsibility for everything.*** *At Apple, everyone knows who's responsible for what. This approach even has an acronym — the "DRI" (directly responsible individual). When a DRI's project appears on the Monday meeting agenda, so does his or her name. DRI names also appear next to action items on the action lists that result from meetings."*

I am also not a big fan of meetings. They tend to proliferate in number and attendees. Some companies going to "standing" meetings to make them more efficient. Musk just wants to get rid of them. You have to run them tightly and not let them take up too much time. in-just-4-sentences-elon-musk-gave-tesla-employees-a-masterclass-on-how-to-run-efficient-meetings.html (thanks Jack York).

Heard a good phrase from Collegis' CEO Jamie Cowie – focus on the "customers' customer" and in that way, you make your clients successful.

The negative impacts of our lockdown approach to Covid are now starting to become more apparent. This week it was the tremendous loss in our childrens' proficiency in english and math. *"This year, for the first time since the National Assessment of Educational Progress tests began tracking student achievement in the 1970s, 9-year-olds lost ground in math, and scores in reading fell by the largest margin in more than 30 years."* national-test-scores-math-reading-pandemic Particularly sad is that those most impacted were public school children as most private schools got back in person far quicker. The negative health outcomes are also starting to come in with undiagnosed cancers presenting in a more advanced state with corresponding negative outcomes. I hope we all learn from some of the bad policy decisions.

A good managerial tool — if you are going to "inspect" a branch, retail store or department, arrive early. It is easy for a team to "dress up and put on a show" which might not reflect true state of affairs. By arriving early and engaging in unscripted interaction, you get a real feel.

From WSJ: *"Over 80% of people in the US read their texts within 15 minutes of receiving them."* Guess I need to start moving from email to text.

Watch the cost of hearing aids tumble. Historically you had to have a prescription which limited

suppliers and hiked prices (can be over $5,000). The FDA recently changed rules to allow over the counter hearing aids (for moderate loss). fda on hearing aids. This is especially welcome as there is growing evidence of connection between hearing loss and mental decline (ex. Dementia) as you age. hearing-loss-and-the-dementia-connection We need to eliminate the societal stigma and get more hearing aids on people (yours truly included.)

Really impressive on and off court performance by Ajla Tomljanovic.

Happy Labor Day!

Jml

J. Michael Locke
Musings

#191: Musing
September 10, 2022

There is a lot of conversation now about "quiet quitting." how-quiet-quitting-became-the-next-phase-of-the-great-resignation This is a misnomer because it does not involve actually quitting but just becoming disengaged and not putting in the extra effort. Some of it is a cultural backlash to the "all in" approach of many in business (like myself.) Gallup estimates that as much as half of the American workforce has disengaged and become quiet quitters. quiet-quitters-make-up-half-the-u-s-workforce-gallup I would argue that there is a reason Greece is bankrupt and you struggle to identify major innovations and companies in Spain. Life is nicer for employees to work from home and not "go the extra mile" but I worry it will cost our country economically in the long run.

Most companies have implemented a hybrid approach but are struggling with getting vitality back in the office. Is this "middle ground" sustainable? According to Blueprint CEO Matt Riley, "hybrid is the worst of both worlds" as employers try to entice people in. Blueprint went all remote, and while it has plenty of challenges with a dispersed workforce (county employment taxes for example) it has opened up the labor market to the entire country and even Puerto Rico. Key is figuring out how to stay connected with "managerial roadshows" or "popup regional offices."

Are you good about asking questions? Most people default to talking rather than listening. The best executives are those who ask a lot of questions. *"Questioning is a uniquely powerful tool for unlocking value in organizations: It spurs learning and the exchange of ideas, it fuels innovation and performance improvement, it builds rapport and trust among team members. And it can mitigate business risk by uncovering unforeseen pitfalls and hazards."* the-surprising-power-of-questions *"follow-up questions seem to have special power. They signal to your conversation partner that you are listening, care, and want to know more. People interacting with a partner who asks lots of follow-up questions tend to feel respected and heard."* IMO, intellectual curiosity and grit are the two things to really look for when recruiting.

It is amazing to me what a position in society the company Apple has achieved. The news covers its product rollouts! What a dream of "earned media." The products aren't actually new…just newer versions…but it gets covered as societal news. Amazing.

Some interesting comments from Scott Galloway on Labor Day *"We don't honor workers, we throw loaves of bread at them and give them circuses to distract them from their servitude to capital, which captures more of the spoils each year. Over the past five decades, U.S. GDP*

growth has outpaced wage growth by 63% — in years prior, GDP and wages expanded at the same rate. In 1970 the American middle class received 62% of the country's aggregate income; today it's 42%. The top 1% now owns 32% of our nation's wealth, and the bottom 50% owns 3%. America has never been so disdainful of its workers.." I don't agree with this view but I do believe society must have balance just like the Force in Star Wars and we are getting too much wealth disparity.

Last week I wrote about the connection between hearing loss and dementia. Now, a big study came out on the benefits of walking to reduce dementia risk. *"People between the ages of 40 and 79 who took 9,826 steps per day were 50% less likely to develop dementia within seven years, the study found. Furthermore, people who walked with "purpose" – at a pace over 40 steps a minute – were able to cut their risk of dementia by 57% with just 6,315 steps a day."* step-dementia-risk-wellness So put in those hearing aids and go walking!

Watch the use of social media for medical advice — especially for teens. There is a growing trend of young women fighting medical conditions to find questionable communities online called "Spoonies." Girls can get negatively influenced by these groups worsening their situation. *"The blogger Christine Miserandino, who has lupus, coined the term spoonie in a 2003 post called "The Spoon Theory." A spoon, Miserandino explained, equates to a certain amount of energy. The Healthy have unlimited spoons. The Sick—the spoonies—only have a few. They might use one spoon to shower, two to get groceries, and four to go to work. They have to be strategic about how they spend their spoons."* hurts-so-good (thanks Heather Locke).

Ever wonder why the speedometer goes up to 160mph in a car that probably can't go 90 and in the US with maximum speed limits of 80mph? From CNN *"Toyota spokesman Paul Hogard said the automaker wants speedometers to be easy to read, so there's value in placing the typical operating speed of American cars, 45 mph to 70 mph, he said, at the top of the speedometer, which is the easiest place on the speedometer for the driver to read. To do this -- while maintaining a visually-appealing, symmetrical speedometer -- requires a gauge that displays well past operating speeds, he said." So vehicles, like some Toyota Corollas, have a 160-mph speedometer despite coming nowhere close to reaching such speeds."*

As a society, we seem to be losing our manners. We should not allow rudeness to be normalized nor bad sportsmanship like Kyrgios throwing his rackets at the US open. This is happening at home and in the workplace partially fueled by the loss delineation between them. What you wear and the formality in which you write have drastically changed. Good WSJ article: what-the-happened-to-our-manners-at-work I am not advocating for the return to suits and ties but let's just bring some common courtesy and niceness back. Don't ghost anybody, hold the door for someone this week, let others out of elevator first, don't curse, give someone a compliment and say thank you. Do it for her majesty, may she rest in peace.

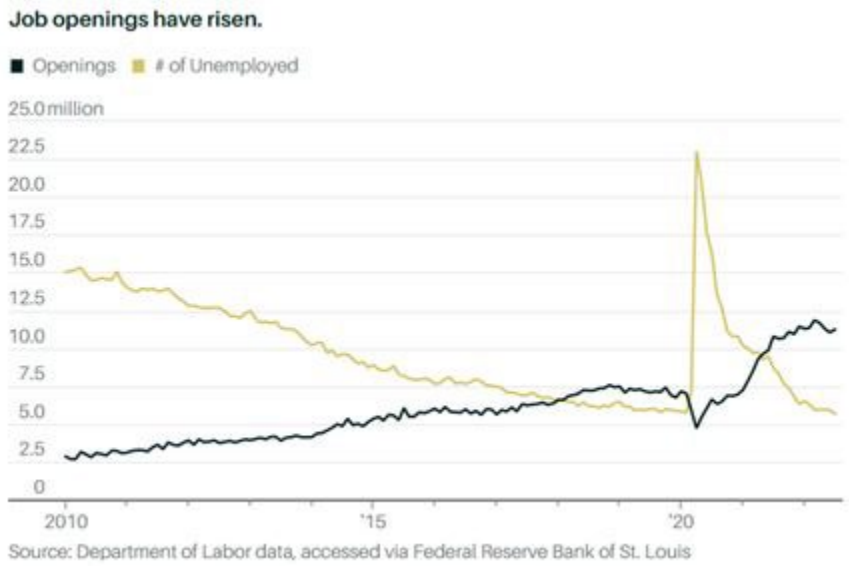
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J. Michael Locke
Musings

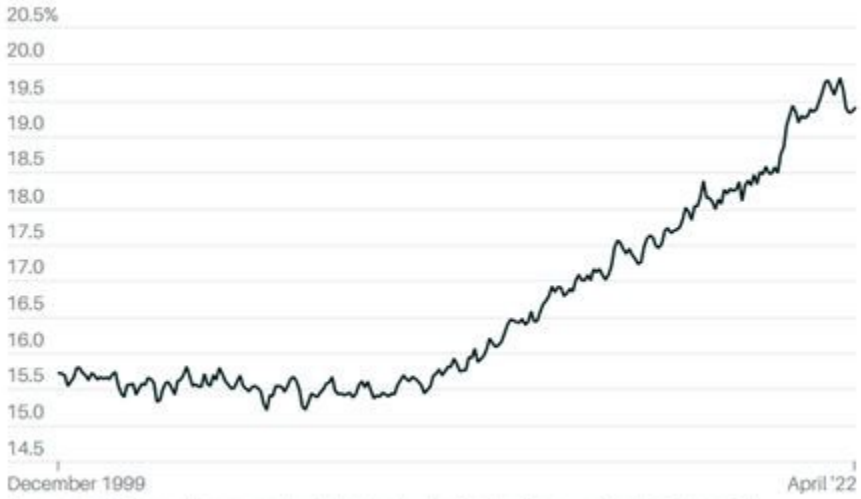
#192: Musing
September 17, 2022

Ugly week in the stock market. Market is obsessed with the Fed and what it is doing with interest rates. New data came in showing inflation still running hot with so-called core CPI, which excludes often volatile energy and food prices, up 6.3% in August. This is an accelerating rate of inflation compared to the 5.9% in June and July so would indicate Fed tightening not working. This is leading most to think we now have another .75% or 75 basis point increase coming in rates. Hope you got your mortgage refinanced last year when rates were so much lower. Many starting to wonder if Fed is going to overshoot and drive recession (Cathie Wood, Elon Musk, Barry Sternlicht.) I think Fedex announcing weak results gives a lot of support to their concern.

Part of the conflicting metrics on health of economy is the structural labor market shortage. Economists are used to seeing job market weaken with economic deterioration but that is not happening because we are so short of workers. Here it is in three graphs from Barron's and Matt Massucci of Hirewell:

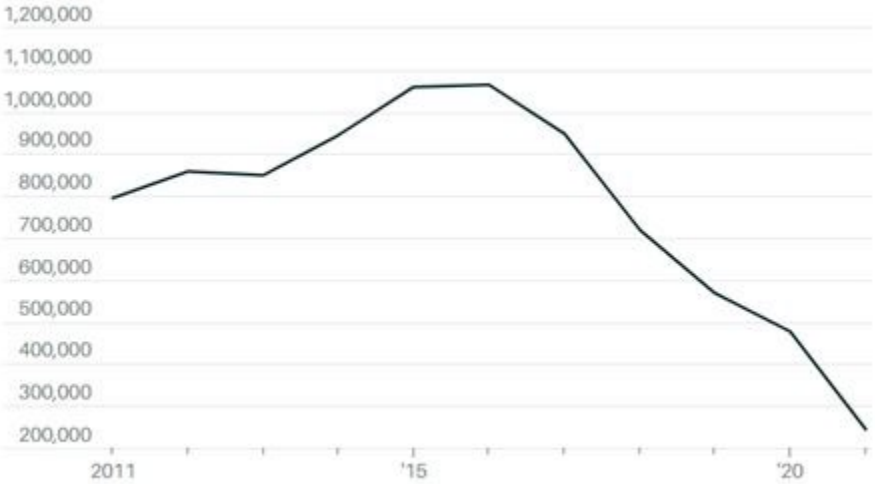


Retirees as a % of the population has climbed.



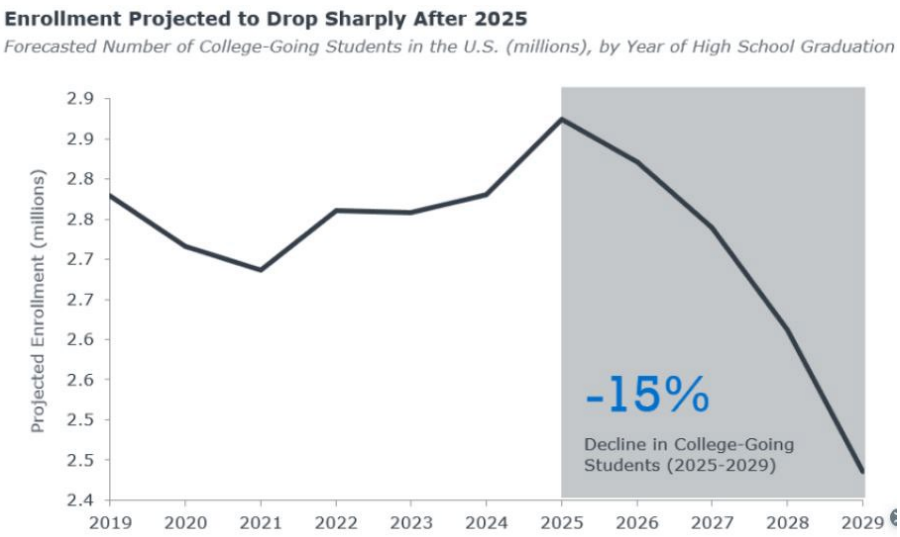
Sources: U.S. Census Bureau and calculations by the Federal Reserve Bank of Kansas City

Immigration to the U.S. has declined.



Note: Data for fiscal year ended June; includes armed forces movement.
Source: U.S. Census Bureau

We need more babies! Encourage everyone you know to have more kids. Higher education leaders are really worried about the demographic cliff. Look at this graph on high school graduate numbers by year of graduation:



Capitalism works because incumbents get used to their position and new entrants disrupt them. LIV is doing this to the PGA. Now turns out the PGA commissioner (who no one can name) gets private air travel for his family, just built a new $81mm headquarters and makes over $7mm a year in a job thousands of people could do.

You have to admire people who "walk the walk" on their beliefs. Whether I agree with someone or not, I respect people most who are genuine and not posing. Count the founder of Patagonia in that group. From CNBC: *"Patagonia founder Yvon Chouinard, his spouse and two adult children are giving away their ownership in the apparel maker he started some 50 years ago, dedicating all profits from the company to projects and organizations that will protect wild land and biodiversity and fight the climate."* Their ownership position is worth roughly $3 billion. patagonia-founder-donates-entire-company-to-fight-climate-change

Incredible stat: people spend 197.8 million hours **a day** watching TikTok according to WSJ.

People in Wisconsin are doing a lot of drinking as they watch TikTok. *"More than half of Wisconsin counties landed on a recently published list of the "drunkest" counties in the United States. In fact, the Badger State had over four times as many counties listed in the Top 50 (41) than all other states combined. Going down the list, Badger State counties filled the top 11 spots on the list and 90% of the top 30 counties. The survey, conducted by 24/7 Wall St., ranked each county by their excessive drinking rates, which included adults who either binge drink or drink heavily. It defined binge drinking as four drinks for women or five drinks for men in a single session, while an average of a drink a day for women or two per day for men is considered heavy drinking. Using those metrics, the author found 41 Wisconsin counties placed in the top 50 of the 3,143 counties (or their equivalent) in the United States."* top-11-drunkest-counties-us-are-all-wisconsin

Is America really dumbing down (maybe killing brain cells)? Less than half of Americans can name the three branches of government per the 2022 Annenberg Constitution Day Civics

Survey.

Two Americana experiences recently which helped me get “regrounded”: High school rivalry football game (congrats LT) and high school teacher open house. Turn off your TV and stop looking at social media and go to a high school football game. It is good for the soul.

RIP the inventor of two-buck Chuck wine Fred T. Franzia. I think the whole fancy wine thing is way overrated.

jml

J. Michael Locke
Musings

#193: Musing
September 24, 2022

Ugly week in the markets. So much for the value of diversifying between equity and fixed income – both getting crushed. Congrats to those who had a decent allocation to cash entering the year because it looks like a buying opportunity to me – especially real estate in London or Europe – as the dollar has strengthened enormously to parity with the Euro and almost the pound. Personally, I think the Fed is overplaying increases and the economy is rapidly weakening. To quote Chairman Powell: "*Reducing inflation is like to require a sustained-period of low-trend growth. Moreover, there will likely be some softening of labor market conditions*." The Fed "undershot" keeping rates too low for too long and now is going to "overshoot" raising rates too high IMO (thanks Wally Sparks).

That softness can't come quick enough for employers. The rates of increase in employee compensation are stunning. According to Fortune, a new ADP report shows that *"Those who changed jobs got a median raise of 16.1%. That's nearly double the median change in yearly pay for those who stayed in their jobs: 7.6%."* *great-resignation-job-hoppers-earning-double-the-raise. "The share of LinkedIn workers switching jobs is up by 37.6% this year since 2021, according to data the careers network provided Fortune*." (thanks Betsy Morton).

I believe the current capital markets environment is highlighting a soft spot in our data gathering "system." Too many of the key indices being used to evaluate economic health operate in an "old-school" way using surveys and often are lagging actual activity by 30-60 days. The velocity of our world has increased significantly and what happened 60 days ago is almost irrelevant now. We live in a "real-time" world and our information processes need to adjust. This applies to the workplace as well. Annual surveys and performance reviews are out of date. For employee engagement you need real-time feedback on a daily or weekly basis using tools like TinyPulse, Energage or other tracking mechanisms. For reviews, I recommend weekly coaching sessions and quarterly long sit-downs. Annual budgets need to become rolling four-quarter forward budgets. Everything needs to speed up.

I don't know who trains NFL coaches on communication but they need work. All too often, coaches basically say nothing and are always positive. The Bears lose to the Packers for the 7th time in a row and the coach is not critical of anything. IMO, leaders need to be genuine and honest and when something is wrong, call a duck a duck. It is ok to be critical and say "we have to do better." You don't have to be mean about it but don't act like all is good. Some espouse an approach to communication in the workplace as "radical candor." *"Radical Candor — Caring Personally while Challenging Directly — is guidance that's both kind and clear, specific and*

sincere. The antidote to toxic company cultures, it's a simple concept that's not always easy to practice." *https://www.radicalcandor.com/*. One of the worst human traits for professional effectiveness is conflict avoidance. As a matter of personal respect for someone else, you need to tell them the truth even if that is difficult news for them to hear. A key skill to develop is being direct and clear in communicating negative feedback without demotivating or losing a personal relationship.

Are we headed to a "zero-trust" society? I borrow the term from cybersecurity. The vast majority of hacks now come from tricking an "inside employee" to click on a link or share some credentials so the move is to not trust anyone – even those on the inside and have more double-authentication etc. I find the same trend happening in society in general. We don't know our neighbor so we don't trust them. Companies seem to be out to trick us and exploit us with overpriced bad products so we head to Google reviews or Reddit to check out what others say. This is a hard way to live. We need to bring some trust back.

Do you have a kid with ADD or ADHD? Try karate. Turns out it can really help focus. kids-karate-adhd-focus-exercise . I believe technology and the design of devices and apps to constantly stimulate dopamine release are rewiring our children's neural pathways and making a large percentage of our children ADD. Some younger adults are even turning on closed captioning to help keep attention (so maybe I am not as much of a "boomer" as my kids would indicate.) why-do-all-these-20-somethings-have-closed-captions-turned-on.

You never know what will go viral. How about a $40 water bottle? If you are hip, you have a Stanley (yes the old coffee thermos maker). *"The Stanley Adventure Quencher Travel Tumbler is a clear internet favorite. The 40-ounce tumbler, which has been simply dubbed "the Quencher" or "the cup" by its loyal following of fans, often sells out within hours, if not minutes, of restocks. And at one point, it had a waitlist of 150,000 people."* stanley-adventure-quencher-40-oz-tumbler (thanks Cate Locke).

Rip the SPAC craze. It never made sense.

jml

J. Michael Locke
Musings

#194: Musing
October 1, 2022

Starbucks has a major problem if our local store is indicative. The staff exudes misery as it tries to keep up with the onslaught of online orders. Frustrated customers impatiently stand watching the sloppy production activity of the 4 or 5 discontented workers. Not much of the romantic third-place Schultz envisioned on his trip to Italy. The shift to online ordering and labor shortages have disrupted the whole business.

I worry that our workforce is losing its grit. Our young people are growing up with everything at their digital fingertips. They can customize their food anyway they want and have it delivered to their door. Streaming and DVR allow them to watch what they want, when they want. God forbid they be asked to do household chores. Tim Wu wrote a famous opinion piece called "The Tyranny of Convenience." tyranny-convenience.

Now coming out of Covid, it is an open question how hard folks want to work. Andy Kessler had a new opinion piece in the WSJ calling us a nation of quitters and questioning why no one wants to work. *"Too many got a taste of not working and liked it. A lot. Until recently, many people could make more money by not working and became glued to screens, Insta-Tok-ing and living the easy life by sponging off the rest of us. What's not to like? Parisians called those with unconventional lifestyles "bohemians." Now we have unemployed, perpetually plugged-in, dopamine-addled Cyber Bohemians—let's call them Cy-Bos."* a-nation-of-quitters-great-enabling-exodus-working-age-men-parents-stimulus-covid-quit-retirement-bohemian-videogame *"It is cultural malaise, motivational submission. Society now promotes mediocrity and calls it equity—witness the scarcity of SAT test-score requirements for college. Sadly, once you get a taste of the easy life, it is difficult to pull up your socks and try hard again—self-induced avolition."*

The employer is starting to strike back. Employers were overly patient with suboptimal worker behavior due to the tightness of the labor market but as the economy weakens and companies are looking to trim costs, the power in the relationship is shifting. Enter "quiet firing" where employers are lining up to let people go who are not leaning in. quiet-quitting-firing-productivity-paranoia.

One area we specifically need more employees is teaching. Many schools are operating with open positions this Fall. From Encoura: *"Over the 2008-09 to 2019-20 period, total enrollment in teacher preparation programs fell from 719,081 to 448,967 while total teacher preparation program completions fell from 221,439 to 152,853—declines of 38% and 31% respectively."*

Teachers are having to deal with more anxious kids. According to a recent survey by Stanford, 77% of middle and high school students experience stress-related health symptoms (thanks Jackie Miller).

I think job titles are overrated. Everyone wants to be a chief. It started with CEO and CFO but now includes Chief Information Officer (CIO), Chief Revenue Officer (CRO), Chief Operating Officer (COO), Chief Human Resources Officer (CHRO), Chief Commercial Officer (CCO) and Chief Marketing Officer (CMO). Give me someone who delivers and doesn't care about title; rather, they let their work and contributions do the talking. Ryan Holmes once wrote about the five traits of a superstar employee:

1. **Not limited by job title**: Flexible and intellectually curious
2. **Thinks big AND small**: Sees big picture of market but also in the details
3. **True grit**: Dogged persistence even during choppy times
4. **Respectful by nature**: Ability to work with others at all levels
5. **Gets shit done**: Produces actual results

More government incompetence. An audit revealed that the IRS sent $1.1 billion in child tax credits to people who shouldn't have received it and did not send $3.7 billion to people who did qualify.

Surprising stat: according to Rasmussen Reports, 33% of Americans have a tattoo.

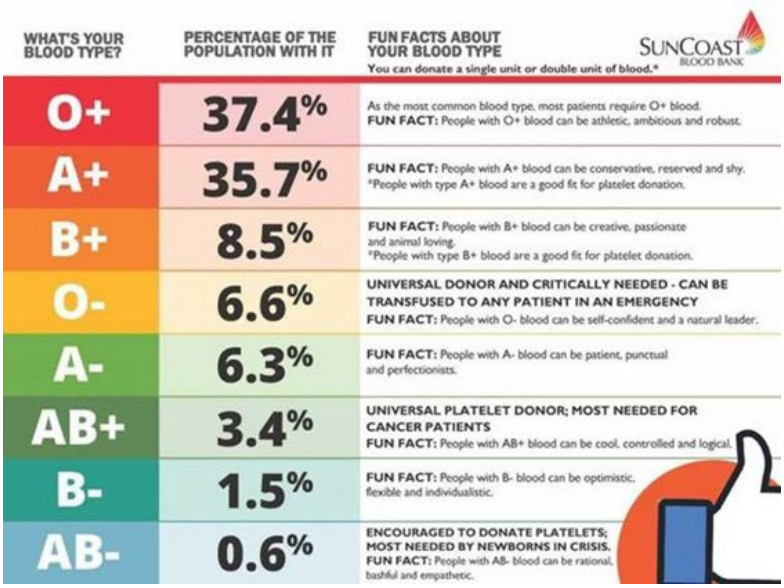
I am not a tattoo supporter but count me in on the nascent move towards authenticity and being genuine in reaction the perfect Insta / "fakebook" world. A new popular app called BeReal gives you no warning on the time of your daily post so you can only snap what is truly happening in your world (thanks John McWeeny). Women are growingly embracing their grey hair and curls in the workplace. gray-hair-is-a-new-power-move-for-women-at-work.

Great quote from higher education executive: "Today's Business student is just a more socially-accepted undecided student."

Another stat: 92% of content consumed on YouTube is education / skill based (ex. How to).

One more stat: "87% of survey respondents say their organization will be more successful when frontline workers are empowered to make important decisions in the moment."

Some of the Covid coverage prompted me to try and remember what blood type I was. Maybe others are better than me, but I didn't know (turns out I am B+). An interesting table on blood type:



Prayers for all of those suffering from the destruction of Hurricane Ian. I had a crash course in hurricanes as our little piece of paradise in Boca Grande took the direct landfall hit of the eye. Turns out that is better than being on the eastern edge (think 3 o'clock) where the winds and torque on the outside whip the highest speeds and storm surge. This is why Fort Myers had worst impact which is an hour south. right-side-hurricane-dangerous.

RIP: "*As I walk through the valley of the shadow of death, I take a look at my life and realize there's not much left, 'Cause I've been blastin' and laughin' so long, that even my mama thinks that my mind is gone."*

jml

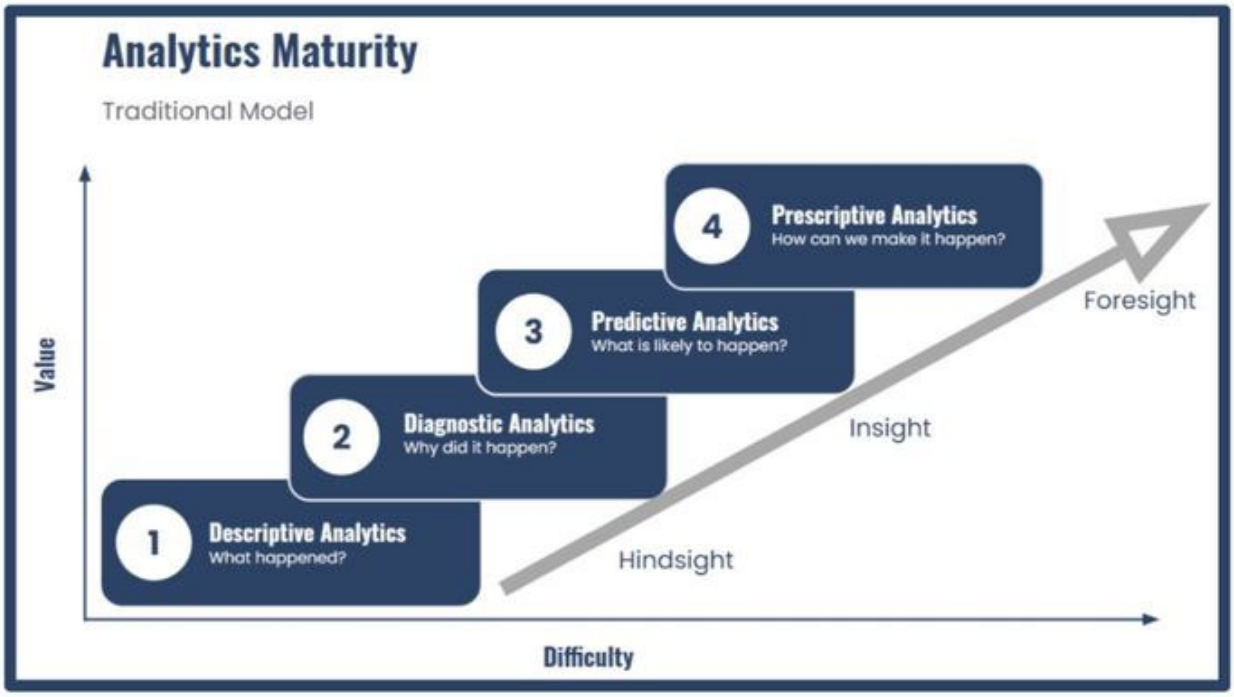
J. Michael Locke
Musings

#195: Musing
October 8, 2022

Great Netflix words on culture --- *"we are a team, not a family. We're like a pro sports team, not a kid's recreational team. Netflix leaders hire, develop and cut smartly, so we have stars in every position."* I am all for building personal relationships at work. Knowing someone on a personal level makes you more effective as colleagues. However, there is a line on how personal you should get. Your relationship at work should be different than with your neighbor. This is especially true if you are the boss and speaking about folks on your team. You might have to take an "adverse action" against an individual and your judgment might get clouded if you are too close. Watch the old movie Twelve O'Clock High for a good example of the difference.

I think the best places to work are growth companies. Growth creates opportunity for everyone. It is a mindset. Every quarter should be a record quarter. The question is how fast you can grow. This creates upward mobility opportunities for the performers, economic opportunity for everyone and ultimately, returns for shareholders. Everyone should constantly strive to improve what they do and the business processes they are involved with.

Learned about the analytics maturity curve this week. Starts with just reporting historical results then using data to figure things out and then on to predicting the future. Good example — Macy's credit-card data early in the year revealed changes in shopping trends (more on gas, hotels and travel which they predicted would mean less on clothes) so they cut back on some merchandise orders and now don't have an inventory glut like the other retailers (according to WSJ). Great management with data.



Wow have times changed. Witnessed a guy go up to a cashier and ask if they accepted cash. Guess we should call it a cardier.

New term for me — "bug bounty" — where software makers pay someone who has found a bug in their code.

Twitter CEO Parag Agrawal has done a nice job handling Elon Musk and now his shareholders are about to be rewarded with a transaction at a value probably twice the real value of the company.

Don't sit on bad news. Go ahead and get it out to your team. Be genuine, honest and appropriately transparent. Ideally then you can have an event or activity post the bad news to help the team "move on."

I am a big believer in "if you are on time, you are late." A good executive should in their seat or on the zoom call (or at the paddle court) 5 minutes before start. I am not a packers fan but the clock in Green Bay is set 15 minutes ahead to reflect this concept which they call "Lombardi Time."

With the "casualization" of our society, swearing is on the rise with sweatpants. From a recent study (https://preply.com/en/blog/cities-that-swear-most/):

- The average respondent swears 21 times per day.
- The U.S. city that swears the most frequently is Columbus, Ohio, at 36 times per day.
- The average age Americans start using swear words is 11.

- "Taboo" situations Americans are most likely to swear in include work (69%), in front of strangers (67%), and at the dinner table (63%).

Tough week for me as a graduate of Decatur, IL public school system. Dismal results as highlighted by WSJ. *"In Decatur, 2% of black third-graders are reading at grade level and only 1% are doing math at grade level."* I have been told that some states forecast their prison populations and requisite capacity needs based on third grade reading level because there is such a strong correlation (back to predictive analytics). "*This year 100% of Chicago teachers were evaluated as excellent or proficient. The students are failing but the teachers are great? That contradiction shows the system is corrupt as well as incompetent."* illinois-shocking-report-card-reading-math-grade-level-decatur-teachers-school-

You know high noons have gone mainstream — now an option on Southwest Airlines. Hope readers aren't in the sugar business.

Rip House of Dragon. I give up — the show is just not good — Game of Thrones can only give you so much loyalty viewership.

Jml

J. Michael Locke
Musings

#196: Musing
October 15, 2022

Inflation is persisting at high levels if you trust the CPI metric which was up another 8.2% compared to last year. Social Security recipients will get an 8.7% increase in their benefits in 2023 which is the highest increase in 40 years. Fed will definitely increase another 75 basis points (.75%) next meeting. The question is whether Fed is going to overshoot. *"None of the post-war economic expansions died of old age. They were all murdered by the Fed."* Rudiger Dornbusch, MIT quote shared by CIBC.

We are getting back to a normalized rate environment. Long end of yield curve providing decent returns for the first time in a long time. Experts say you can get 4-5% return without taking much risk. Be careful though as my understanding is that rating agencies changed their scale (like grade inflation) and some muni bonds with A credit rating now are riskier.

The capital markets serve as a healthy governor on elected officials. Bill Clinton once famously complained on how his decisions had to be approved by f***ing bond traders. The new UK Prime Minister learned this hard lesson recently as she had to reverse her planned tax cut designed to stimulate growth as markets reacted violently. She fired her Treasury executive after just 30 days. Not a good start for her.

Famed management professor Peter Drucker once wrote about what makes an effective executive. *"Great managers may be charismatic or dull, generous or tightfisted, visionary or numbers oriented. But every effective executive follows eight simple practices:*

1. *They asked, "what needs to be done?"*
2. *They asked, "What is right for the enterprise?"*
3. *They developed action plans.*
4. *They took responsibility for decisions.*
5. *They took responsibility for communicating.*
6. *They were focused on opportunities rather than problems.*
7. *They ran productive meetings*
8. *They thought and said "We" rather than "I."*

The first two practices give the knowledge needed. The next four practices help convert this knowledge into action. The last two ensure the whole organization feels responsible and accountable. https://hbr.org/2004/06/what-makes-an-effective-executive

One common characteristic of leaders also IMO is that they make decisions. Right or wrong….they don't let decisions "hang out" but rather make the call. The goal is to get more right than wrong and thus always have forward momentum. Being reluctant to make a judgment call can really slow a growth company down and hurt the culture.

Are gig employees unleashed entrepreneurs who can work on their terms or exploited labor who would prefer full-time employment? The answer to this question probably determines your view on the movement by California and federal government to get more gig workers considered employees. I am talking Uber drivers, free lance photographers, and dog-walkers who get paid on a per job (or gig) basis which has boomed with the arrival of apps. The federal government wants more people classified as employees. *"The proposed rule would allow the determination of whether to classify a worker as a contractor or employee to rely on a more holistic assessment, including whether the work is an "integral" part of the employer's business. The goal is to protect workers from being classified improperly while providing consistency for businesses that wish to employ independent contractors, the agency wrote."* uber-doordash-plunge-as-labor-dept-proposes-gig-worker-change Historically, an employer looked at four areas to determine status -- The factors are (1) the degree of control that the employer has over the manner in which the work is performed; (2) the worker's opportunities for profit or loss dependent on his managerial skill; (3) the worker's investment in equipment or material, or his employment of other workers; (4) the degree of skill. The decision is key as employees get a number of benefits (healthcare eligibility, tuition assistance, unemployment taxes) that contractors do not.

How fast is fast food? New ranking of drive-through times. KFC fastest at 5 min and 3 sec while Chick-fil-A slowest at 8 min 29 secs. Maybe it is because no one is going to KFC and everyone is going to Chick-fil-A. Whoever has been running KFC for the last 5 years should be fired. Look what Chick-fil-A has done through good service and simple chicken sandwiches while KFC slowly dies.

Not totally surprising but ACT scores have tanked for high school seniors who spent the last two years with subpar education under Covid. *"Scores on the ACT college admissions test by this year's high school graduates hit their lowest point in more than 30 years — average ACT composite score was 19.8"* -education-covid-

Learned a new one this week — silent disco. Popular activity at Ole Miss at least. From Wikipedia: A silent disco or silent rave is an event where people dance to music listened to on wireless headphones. Rather than using a speaker system, music is broadcast via a radio transmitter with the signal being picked up by wireless headphone receivers worn by the participants.

According to CBS, 80% of all home insurance losses in country are from Florida. Not in Babcock Ranch. Near Fort Myers, this is an eco-friendly 91,000 acre hurricane-proof development using solar power. All electric and phone lines buried. No one lost power. https://www.cbsnews.com/news/babcock-ranch-solar-power-hurricane-ian-60-

minutes-2022-10-09/ (thanks Jerry McBride).

We all live in a productivity-obsessed culture, constantly looking at the iPhone screen and hurrying to the next kid activity or work meeting. Natural disasters stop time and bring us back to basic humanity. I visited the Southwest Florida area directly hit by Hurricane Ian last weekend. The devastation is incredible but the "natural" human spirit is equally amazing. Neighbors helping each other clean up, strangers volunteering to handout water, employees trying to get their place of business back in order. Most importantly, the "first responder" individuals trying to get infrastructure back – the emergency cell phone tower from Verizon, the electrical crews from out of state, the extra firefighter from the other side of Florida. I left depressed about the physical state of the place but inspired by the window on core human decency it provided which is usually lost in today's Twitter/social media histrionics.

Mitch Daniels recently wrote about a meeting of the Optimist Club he made in Warsaw, Indiana. I don't know this organization but share Mitch's enthusiasm for the principles as expressed in their creed and excerpted by Mitch:

"*Make all your friends feel that there is something in them. Be just as enthusiastic about the success of others as you are about your own. Give so much time to the improvement of yourself that you have no time to criticize others. Be too large for worry, too noble for anger.*"
https://www.optimist.org/member/creed.cfm

Hotty Toddy.

jml

J. Michael Locke
Musings

#197: Musing
November 5, 2022

Sorry for not publishing the last couple of weeks but Covid final caught me after three years.

Well the dog caught the car. Let's see what Musk does with Twitter. Amazingly bad job of protecting yourself with a good purchase agreement with appropriate outs for such a successful guy. Just like you have conditions on buying a house (financing, inspection etc.), you usually have conditions on buying a company (due diligence, financing etc.) and for some reason Musk committed without them. He ends up having to buy something for $54 a share which is probably worth half that. I am in the 80% of U.S. adults who don't even use the platform. I like how he is aggressively going after costs. Companies have a way of building up their expense structures and at the end of the day, the business could be run on a lot fewer people. Musk cutting 50% of the employees. Every employee must pass an ROI analysis IMO — does that person create more value than what they are paid? Is that activity worth the salary?

I hate how politicized business is becoming. As far as I know, Musk has made no material changes around content moderation yet advertisers are halting their business based on speculation.

Facebook/Meta shareholders are now seeing the downside of a dual-class stock structure. Zuckerberg individually controls the company because he has a special type of stock that has much greater voting rights. He is going "all in" on the metaverse and cranking up expenses even as revenue declines. The numbers so far on his metaverse vision are dismal but there is nothing shareholders can do about it. They can't vote him out and change the board. Never buy the stock of a company with a dual-class voting structure.

Ray Dalio recently stepped down from building and running one of the nation's most successful hedge funds. Ray-Dalio-Makes-His-Exit-From-Bridgewater. Along with delivering exceptional returns, Dalio became known for his "radical transparency" managerial philosophy. While I don't totally subscribe, I do think conflict avoidance is a major issue in most companies and management teams (and even marriages). Under Dalio's "radical transparency" approach meeting participation is recorded, shared and graded on almost all interactions (including Dalio's). TedTalk here -- https://www.youtube.com/watch?v=HXbsVbFAczg. *"I wanted to find the smartest people who would disagree with me to try and understand their perspective or to have them stress test my perspective. I wanted to make an idea meritocracy. In other words, not an autocracy where I would lead and others would follow and not a democracy where everyone's view was equally valued but I wanted to have an idea meritocracy where the best*

ideas would win out. In order to do that, we would need radical truthfulness and radical transparency where people say what they really believe." Some companies assess executive candidates for their approach to conflict. One approach classifies people into four groups: avoiders, accommodators (give in), competitors (dig in) and compromisers. You want compromisers. These individuals fight for their position but compromise with someone with an opposing view to move forward.

Chalk up another one for employees as they leverage their bargaining power in a tight labor market. At many companies, they no longer have to cover their tattoos. To my chagrin, tattoos are going mainstream and employers are changing policies to reflect it. why-companies-like-ups-disney-are-allowing-workers-to-show-tattoos.html

Good old quote from Milton Friedman on how inflation is at its core about money supply. "*Inflation is made in Washington because only Washington can create money…Too much government spending and too much government creation of money*." friedman on inflation

Liz Truss went the way of a new formula for Coke as she resigned after just 44 days as UK Prime Minister. Her major error was not socializing/selling her new mini-budget package before announcing it. We no longer live in a world where a leader can just roll-out a dictate. You have to get others on board which is best accomplished by floating a concept and discussing it with key influencers, getting input, making adjustments and getting folks on board before formally deciding and announcing.

An under-appreciated fact by most is the level of consolidation that has occurred along hospitals or "providers" of healthcare. Chances are your local hospital is owned by a national or regional conglomerate. CommonSpirit is one of the nation's largest and you probably have never heard of it. According to Wikipedia: CommonSpirit Health is the largest Catholic health system and the second-largest nonprofit hospital chain, in the United States operating more than 700 care sites and 142 hospitals in 21 states and employing over 150,000 people.

These large providers need to use their scale to reduce prices. Kaiser Foundation recently reported that the annual premiums for an employer-provided family plan were $22,463 with employees paying $6,106 and the rest of the cost borne by the employers. employers-family-health-insurance-holds-at-about-22-000-in-2022

Cars are parked approximately 95% of the time. What a waste of money. This is part of the bull case for Tesla, Uber and Lyft as some predict folks would rather jump in an autonomous car owned by someone else rather than borrowing and making monthly payments for something to sit in their driveway.

Make sure to change your clock tonight and vote on Tuesday.

jml

J. Michael Locke
Musings

#198: Musing
November 12, 2022

Thank god the midterms or over (kind of…glad we don't live in Georgia). I find our political system totally dysfunctional. There is no space for moderation and independent thinking. Everything is about the extremes. One commentator stated: "*Members of the two parties have gone to their corners and candidate quality matters less than what color jersey you wear*." Over $16.5 billion spent to basically change nothing. What a waste of money.

This political polarization is in part driven by social media where the extreme left and right (7-8% of people) dominate the shares in the viral world. Good 60 minutes piece on it. 60minutes politics and social media "The business model is to ruin Thanksgiving dinner." I didn't know TikTok has a different version for kids in China which is far more positive (science videos etc.)

Markets rallied on a CPI report of 7.7% inflation. Kind of amazing as Fed goal is 2% but shows how forward-oriented the market is. It is focused on the second derivative where the rate of increase (the first derivative) appears to have peaked with 8.2% CPI last month. Logic is that this decrease in the rate of growth shows Fed increases in rates are working and combined with data on collapsing commodity prices and transportation pricing shows the days of high inflation are going to end and Fed will likely slow down raising of rates.

Musk's acquisition of Twitter not looking so good right now. Reports are the "upfronts" where advertisers secure placements were disastrous and lots of companies pulling their ads. Read one description of Musk management style as "hands on obsession over product decisions, a distaste for corporate culture and a focus on speed." I like those three tenets but worry he bit off too much on this one and some of his early moves make no sense to me. Awfully aggressive for him to eliminate any remote work. Here is his first all company email on Wednesday:

To: Team

Sorry that this is my first email to the whole company but there is no way to sugarcoat the message.

Frankly, the economic picture ahead is dire especially for a company like ours that is so dependent on advertising in a challenging economic climate. Moreover, 70% of our advertising is brand, rather than specific performance, which makes us doubly vulnerable!

That is why the priority over the past ten days has been to develop and launch Twitter Blue Verified subscriptions (huge props to the team!).

Without significant subscription revenue, there is a good chance Twitter will not survive the upcoming economic downturn. We need roughly half of our revenue to be subscription.

Of course, we will still then be significantly reliant on advertising, so I am spending time with our sales & partnerships teams to ensure that Twitter continues to be appealing to advertisers.

The road ahead is arduous and will require intense work to succeed. We are also changing Twitter policy such that remote work is no longer allowed unless you have a specific exception. Managers will send the exception lists to me for review and approval.

Starting tomorrow (Thursday), everyone is required to be in the office for a minimum of 40 hours per week. Obviously, if you are physically unable to travel to an office or have a critical personal obligation, then your absence is understandable.

I look forward to working with you to take Twitter to a whole new level. The potential is truly incredible!

Thanks,
Elon

Welcome to the Crypto world. FTX (crypto exchange) went from being worth $32 billion in January (it was started in 2019!) to bankrupt this week. Unregulated finance is not a place to play. The whole thing never made sense.

Good simple managerial practice – schedule all of your meetings/zooms to 45 or 50 minutes rather than the default hour to give you time to transition between meetings.

Computer chip makers are experiencing whiplash going from limitless demand to having to cut expenses as some chips now face a glut. "*The belt-tightening represents a turnabout after two heady years characterized by sky-high demand for computers, smartphones, cars and internet services that rely on chips. While the chip industry is notoriously cyclical, this wave rose higher and lasted longer than one has in decades, propelled by a pandemic that drove a societal shift toward working and learning from home.*" chip-makers-flip-from-shortage-glut-intensifies

Great quote from Ron Johnson in Wisconsin -- *"I would be like a mosquito in a nudist colony. It would be a target-rich environment."*

Learned the term "Pig butchering" which relates to scams often done by text where the fraudster lures the recipient into a relationship before taking their money.

Thanks to all of our veterans for their service.

Jml

J. Michael Locke
Musings

#199: Musing
November 20, 2022

The tug-of-war between companies and employees continues. The softening of the economy and major technology layoffs are leading some companies to start demanding more "in office" hours. I think employees have fallen in love with the hybrid / "work from home" flexibility and would caution employers on demanding too much in office time. I am not saying this is what is best for productivity or our overall society but view it simply as what is doable with younger workers. Good WSJ editorial by Andy Kessler on the declining work ethic of many younger professionals. whats-work-worth-unions-profit-value-life-balance-human-capital. Like this quote from Mike Rowe (the dirty jobs guy): "*Stop looking for the 'right' career, and start looking for a job. Any job. Forget about what you like. Focus on what's available. Get yourself hired. Show up early. Stay late. Volunteer for the scut work. Become indispensable*." Especially important for younger professionals to get into the office where mentorship and learning happens in unstructured ways not replicated on zoom calls.

The layoff barrage continues. Too many executives got over their skis with their cost structures. Target, Amazon, Facebook, Carvana, Twitter etc. Always fascinating to see how "good" a company is at handling this negative event. The best practices are: 1) just do it once. Go deeper than you think you need to. Have to avoid multiple rounds of layoffs which creates permanent anxiety; 2) be organized and systematic with implementation. Don't have news dribble out. Be candid and transparent (Zuckerberg did well on this with his video taking full responsibility); and 3) provide generous severance if you can. Vary it with tenure. Ideally continue help with healthcare benefits which is a difficult issue for unemployed.

Elon Musk is showing how not to handle human capital. I don't know what in the world he is doing. After his layoff of 50% of employees, he then forced more out the door with an ultimatum by email. Here is excerpt:

From: Elon Musk

To: Team [at Twitter]

Subj. A Fork in the Road

Date: Nov. 16, 2022 [time stamp removed]

Going forward, to build a breakthrough Twitter 2.0 and succeed in an increasingly competitive

world, we will need to be extremely hardcore. This will mean working long hours at high intensity. Only exceptional performance will constitute a passing grade.

Twitter will also be much more engineering-driven. Design and product management will still be very important and report to me, but those writing great code will constitute the majority of our team and have the greatest sway.

At its heart, Twitter is a software and servers company, so I think this makes sense.

If you are sure that you want to be part of the new Twitter, please click yes on the link below:

[Link removed]

Anyone who has not done so by 5pm ET tomorrow (Thursday) will receive three months of severance.

Whatever decision you make, thank you for your efforts to make Twitter successful.

Elon

I am always amazed how "smart money" can be so stupid. By "smart money," I mean the professional investors like venture capital firms. They repeatedly get "caught up" in the hope of a young charismatic visionary with no real track record. Last week, it was crypto king Sam Bankman-Fried at FTX where he was taking client money and transferring it to another firm he controls to trade. He was a 30 year old running a company based in the Bahamas, had no real board of directors and lived with a bunch of other young people in an MTV type house. Before that we had Travis Milton at Nikola, Adam Neumann at WeWork, and Elizabeth Holmes at Theranos. The professional investor class gave millions and sometimes billions to unproven young operators. Amazing.

An undercovered story is Biden's continuation of a National Emergency related to Covid. Trump first declared it in March 2020 and it has been extended multiple times. It is important because it has legal implications related to government programs (e.g. Medicaid, Cobra, landlord rights etc.) and sometimes corporate contracts contain clauses related to emergency conditions. Time to get back to normal operations.

As we return to normal operations, some folks are going to be upside down on their expenses as they have been using "artificial government support" to temporarily prop up revenue or hide expenses. An example is the PPP loan program where companies were not bearing the full cost of their payroll. Well run companies keep two sets of numbers and watched results without temporary government programs.

Glad I am not in the moving business. The rapid rise in mortgage rates is bringing a halt to transactions in the home market and I think will drastically reduce mobility for a while. Existing

home sales are down 32% from January. If you have a 2-3% mortgage, it is hard to sell and buy something new with a 6-7% mortgage. Owners will stay put (thanks John McWeeny).

RIP the tie. I recently attended an investor meeting in downtown Chicago of a traditional firm so even I put on a tie. The great majority of men did not have one on even in this most traditional of settings. I think the tie is dead. Don't know when I will ever wear one again.

jml

J. Michael Locke
Musings

#200: Musing
November 23, 2022

Happy Thanksgiving! Thought I might get this out early to give you some cocktail topics with the family if you needed them.

This is #200. Every now and then I think about quitting but I get enough positive feedback to keep this going. Remember you can just email me to "unsubscribe" or to add someone. This is not exclusive. Happy to send to anybody.

Watch Carvana go bankrupt. The bad business model is being undressed. They actually lose money on buying and selling cars. That activity created a financing need and they were making money on the cost of their capital and what they could charge consumers in loans. Rising interest rates and their deteriorating finances have raised their cost of capital and now they are upside down on financing as well. There is no business there.

Pretty wild ride for Disney CEO Bob Chapek who got fired by the Board last weekend after just having his contract extended in June. Disney had bad earnings this past quarter with too much build-up of expenses but seemed like a rushed exit for Chapek. Turns out the bigger issue is he was losing the faith of his team and employees. The CFO reportedly complained directly to the Board in an "Et Tu Brute" fashion. Success in management is about leading the employees. Culture is increasingly the key. I think you are going to see a drastic increase in the number of women running organizations. I realize it is sexist to say, but I believe women have higher EQs, are more empathetic and simply better at understanding (and thus motivating) people. The Jack Welch authoritarian model is no longer effective.

Remember to manage your intermediaries / advisors / brokers. Too many executives take an outsourced "that is their job" approach to healthcare brokers, investment bankers or search firms. While they have expertise that you don't, you need to stay engaged, teach them the specifics of your business and help them craft your story.

Watch the economic headwinds from the wind down of all of the extra government money which has been flowing to individuals during Covid (not having to pay student loans, earned childhood tax credit, expanded Medicaid eligibility). These are starting to come to an end and you see it in the declining savings rate and increase in consumer debt. Biden understands this and is moving to extend the pause in student debt payments and the childhood tax credit despite their inflationary effect. Retailers will need to be careful and look for strength around "value" offerings to the consumer.

We are in the midst of college admissions decisions. Glad I am not a VP of enrollment at a university trying to decide what to do with test scores. Unclear what they mean anymore. Most schools are test optional so the only students sending them in are high test scores (artificially inflated by "super scoring" where you can take the test multiple times and they pick your best result from each section.) More schools focused on how "engaged" the prospect is during the process so they can allocate their financial aid awards to those most likely to come. Good article by Jeff Selingo in New York magazine. what-does-an-sat-score-mean-in-a-test-optional-world . *"Before it became the subject of editorial pages and Twitter spars between college deans, the SAT was seen as a purely egalitarian tool. In the 1930s, the then-president of Harvard University, James Bryant Conant, persuaded his fellow elite-college presidents to adopt the exam so they could expand their student bodies beyond pedigreed young men from East Coast boarding schools. As the number of teenagers going to college swelled in the second half of the 20th century, colleges used the SAT and later the ACT to quickly sort through applicants. By the late 1980s, U.S. News & World Report had started using scores as a metric in its college rankings; as a result, colleges felt obligated to report high scores to move up in the rankings. But at the turn of this century, colleges increasingly began to see the tests as an unnecessary barrier, particularly for low-income and minority students."*

I encourage high school seniors to focus on fit and not how to maximize their chances of getting into the "best" school. Twenty years from now few people will know where you went to college. It is about what you accomplish in the workplace so focus on schools where you feel comfortable, can get involved in leadership opportunities, maybe play a sport or instrument. US News rankings are irrelevant and I am glad to the growing momentum against them (Harvard and other elite law schools said they would no longer participate last week.)

Watch the elite school "mafia" come under pressure in light of FTX collapse. Turns out Sam Bankman-Fried's parents are both well-known professors at Stanford. Sounds a little like how Elizabeth Holmes of Theranos got credibility by being endorsed by Professor Channing Robinson at Stanford.

Never underestimate the power of good marketing. I recently learned that Chilean Sea Bass has no connection to Chile nor is it bass. It is actually Patagonian toothfish and was considered a cheap, nothing fish until the 1970s when an entrepreneurial marketer named Lee Latnz rebranded it and pitched it to chefs as versatile and good for creativity because it was bland. Now it is wildly popular and expensive. chilean-sea-bass-a-marketing-miracle

In a similar vein, InBev repositioned Stella Artois when they brought it to the US. In England, it is sometimes called "wife beater" because its higher alcohol content made it a favorite of that ugly criminal crowd. InBev rolled out the fancy glasses, put it on tap where Budweiser used to be (after they bought Anheuser Busch) and now Stella is a fancy beer. why-was-stella-artois-known-as-wife-beater-in-britain

I hope everyone has a good Thanksgiving. Really a great holiday with its centricity around family, gathering and giving thanks. Need more of that year round. Go USA soccer.

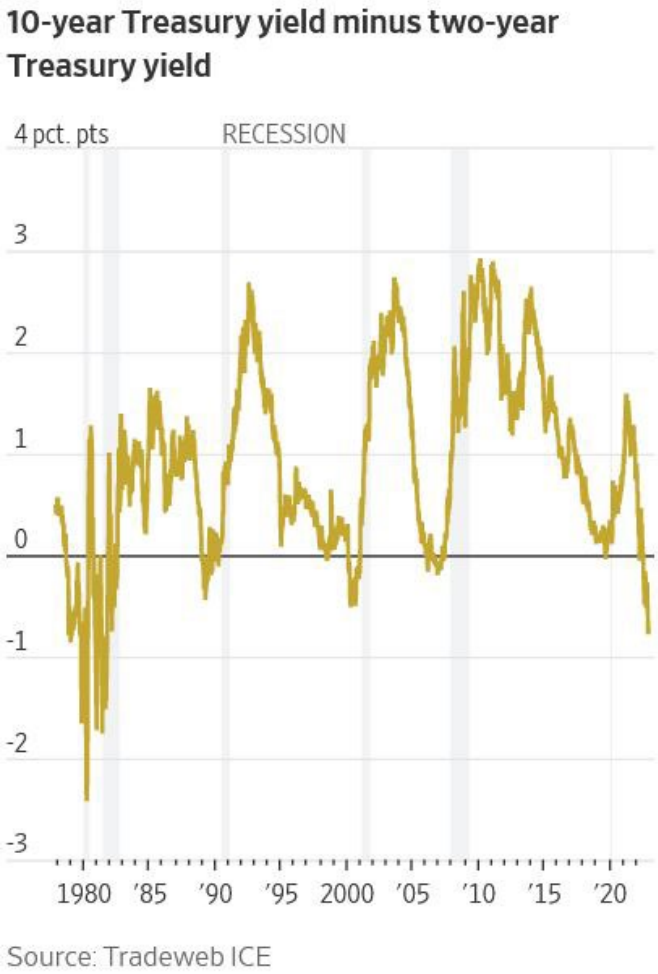
jml

J. Michael Locke
Musings

#201: Musing
December 4, 2022

I am from the camp that the inflationary spike is already over. The price of shipping containers is down 74% from a year ago. Retailers have a glut of inventory and are discussing the value trade down with families looking to get the most for their money. High end (Louis Vuitton) and low end retailers (Dollar General) are doing well but those in the middle are struggling (Target, Kohls). Home sales have stalled with higher mortgage rates. Finally, employees are losing their bargaining leverage for higher wage rates as more and more companies do layoffs.

Bond traders seem to agree with me as the yield curve is really inverted which means long-term rates are lower than short-term rates. Interesting graph on the level of inversion on WSJ:



Disruption of supply from China domestic turmoil may delay normalization. Much of the country is currently in a hard lockdown under the Chinese "zero-Covid" approach but citizens are pushing back in an unusually open way. China didn't use western vaccines (instead using a homegrown inferior vaccine) and kept everybody home in 2020 and 2021 so no immunity has developed. Now Covid is raging again (cases are now higher than they have ever been) and they are locking down again. Our global economy is so interconnected now with supply chains that the US needs China to resume normal operation. An example is Apple which is warning of inventory issues. Most iPhones are made in Zhengzhou, China where over 200,000 employees are actually resident at the manufacturing facility of FoxConn living in dorms (called iPhone City). apple-iphone-china-foxconn. There is a wage dispute and workers can't leave their dormitories because of "zero-Covid" approach.

I am always fascinated by companies' customer acquisition strategies and the use of pricing of disparate products. Gas stations breakeven on gas to get you inside to sell you overpriced candy. Dry cleaners use breakeven pricing on shirts to get the margin on your suits. Betting companies are giving new customers some "house money" to make their first bets free. Sam' Club has reduced their hot dog/pepsi pricing to $1.38 to beat the $1.50 at Costco and get you in their big warehouse to buy stuff you don't even need. Finally, Facebook (like many others) gives you a free app to get your data and monetize your eyeballs as an advertising business.

These customer acquisition strategies are even more powerful if customer then signs up for a subscription (vs just an individual transaction). Locking in customers on an ongoing (ideally long term) basis provides visibility on your revenue stream and allows you to manage expenses with less volatility. ARR and MRR (annual or monthly recurring revenue) are the new contractual backlog. Creditors and investors resultantly provide more and cheaper debt financing leading to an overall superior valuation. The result is transactional businesses experimenting with subscription. Panera offers unlimited drinks for $11.99 a month. Now, even travel companies are trying it with Frontier rolling out an "all you can fly" model for $599. https://simpleflying.com/frontier-all-you-can-fly-pass-599-usd/

As readers of these musings know, I am a big proponent of individual accountability. One throat to choke. One individual directly responsible. As such, I have never agreed with the "Co-CEO" model. Bret Taylor is leaving his position as co-CEO of Salesforce. I don't have any insight on why but think it is a good thing so only Benioff is accountable.

Technology-based communication has created an interesting dilemma for doctors and lawyers. Do you charge for answering a email? More healthcare providers are starting to. "Sending an electronic message to a Cleveland Clinic physician could cost as much as $50 per message, due to a change in procedures announced Monday. The Clinic will begin billing patients' insurance for messages that require 5 minutes or more of the healthcare provider's time to answer."



[Some electronic messages to Cleveland Clinic healthcare providers could cost $50
cleveland.com]

Elon Musk has 10 children by three different mothers. Nick Cannon (comic, Mariah ex-husband and Masked Singer host) has 11 children by six different women. While we need to increase the birth rate to enhance our population growth for economic purposes, this really troubles me. How can you be a decent father operating this way?

Spotify released its "most streamed" results. Shows how out of it I am. Puerto Rican artist Bad Bunny was the most-streamed artist this year for the third time in a row — I have never heard of him.

RIP Irene Cara. I hate how fame has become a thing in and of itself. You used to become famous because you created a piece of work (song, book) or accomplished something (business, science). Now, fame has become a thing on its own (creating a sex tape does not qualify as a piece of work). The Kardashians are the poster child. You have to credit the mom's entrepreneurial spirit and marketing acumen that millions of people watch their inane show and now we care what Kim says about public policy issues.

jml

J. Michael Locke
Musings

#202: Musing
December 11, 2022

The push away from law enforcement is now becoming an economic issue. Walmart is warning it will need to raise prices to cover rising losses from theft. At Target, shoplifting has jumped about 50% costing over $400 million. walmart-ceo-says-shoplifting-could-lead-to-price-jumps-store-closures. Retail employees are trained to just get out of the way. Not good.

Another economic issue is the labor participation and societal participation of younger men. The decline in men going to college, moving out of home, getting a job and having good relationships is stunning. Some stats from an article by Michael Moe (a-few-good-men):

- Seven million men ages 25–54 aren't working or looking for work.
- Over 50% of men between 19 and 29 live with their parents and just 25% get their drivers license when they turn 16.
- Women are 2X more likely to graduate from college and 70% of the high school valedictorians are women.
- 1/3 of men under 30 haven't had sex in the past year compared to just 1 in 10 in 2008.

I often write about the leader's need to be focused on the collective "we" and empowering her/his team to achieve excellence. All individuals deserve respect and there is no room for Trumpian narcissism. Here are a couple simple ones: 1) Don't make people wait. Run your schedule on time like the commuter trains. Build buffer if you need it. It is disrespectful to make someone wait. Notoriously, former Yahoo CEO Marissa Mayer would have people waiting for hours for their meeting. No wonder she wasn't successful. 2) Clean up after your meetings in conference rooms. Straighten the chairs. Get everything off the table and even wipe it down. Why is that someone else's job?

Make sure to "circle back" when someone gives you an introduction. All too often the recipient of a connection "takes it and runs with it" but never tells the initial referrer what happened. As a matter of courtesy, make sure to circle back and tell them if an introduction worked out or not.

Learned a new one from John Hughes: "Unicorpse" which is a company that was previously valued at $1 billion dollars but that is now worth much less.

In healthcare, payors (the insurance companies) and providers (doctors/hospitals) are merging. United Healthcare is buying physician groups and now employs 70,000 doctors making it the largest MD employer in the country. Hospital systems are fighting back and starting to create their own insurance programs. Meanwhile, our family often goes to an urgent care because accessing the "system" is so difficult. This is all messed up.

From the WSJ on declining professionalism of today's leaders: *"Cynical behavior has a different meaning when it comes from people at the top of the ladder. In the age of social media, some of the wealthiest*

and most famous people on Earth have found that the best way to gain even more attention is to display contempt for ordinary standards of discourse and behavior. Elon Musk has long been a master of this strategy, as when he smoked a marijuana blunt during a livestreamed interview in 2018."

Our kids have persistently challenged me on my acceptance of alcohol and opposition to marijuana. I am starting to think they might be right and I am just beholden to historical norms. We need some long-term studies of THC impact on body. *"Are edibles actually better for you than alcohol—or at least less bad? More people are asking the question as edible products containing cannabis, often in gummy form, become widely available. As people explore other ways to relax, cannabis aficionados say that compared with alcohol, edibles have fewer calories, don't disrupt sleep and aren't linked to diseases like cancer."* *marijuana-edibles-alcohol-questions-answered*

Google released its top searches for 2022. Here is the top 10 in the US. What does it say about our society when the vast majority are so shallow:

1. Wordle
2. Election Results
3. Betty White
4. Queen Elizabeth
5. Bob Saget
6. Ukraine
7. Mega Millions
8. Powerball Numbers
9. Anne Heche
10. Jeffrey Dahmer

From my curmudgeonly side:

I don't know exactly what the pre- boarding rules are for airplanes but I think they need to be reviewed. Increasingly, I see as many as 20 people pre-boarding who appear to be in fine health. I also love the wheelchair pre-boarders who then pop up when you land and deplane first.

Enough with the Covid protocols. The virus has mutated and weakened so it is now no more dangerous than the flu. The national emergency should end. Student borrowers should start payments on their loans. Landlords should be free to evict nonpaying tenants. Enough.

Stop playing the Mariah Carey song.

Who cares about the royals.

jml

J. Michael Locke
Musings

#203: Musing
December 18, 2022

I would consider shorting Apple (you short a stock when you sell it and buy it back later. Brokerage firms lend out stock so you borrow it and sell it now because you think the price is going down and buy it back later to close out your position.) There is growing pushback on the 30% Apple charges for you to buy an app on their app store (as well as for in-app purchases). Epic games is in a legal battle and Elon Musk recently introduced two – tier pricing for Twitter subscription verification charging more for Apple iOS version to make up for their charges, like gas stations and other retailers charge more for credit card. Look for more momentum advocating "Sideloading" where the hardware device maker does not have a monopoly but instead allows alternate and competing app stores so users aren't restricted on their phones. On the other side, Tesla is starting to look like a value play. It is down over 50% and declining because of Musk and Twitter (including Musk continued selling of tons of Tesla stock to finance Twitter.) I agree with the critics who think it should have a full-time CEO and Musk can't run Tesla, SpaceX and Twitter at same time. That said, it is nicely profitable and there is lots of "optionality" into other areas like autonomous cars or batteries. Musk actually made the analogy to how Apple has thrived creating the app store, services revenue, accessories to build on top of the iPhone franchise.

Fascinating stat from William Blair: *"Multiples of unprofitable software stocks had a significant correction from 35x NTM (next twelve months) revenue to 5.7x NTM revenue (down 84%) between November 2021 and May 2022."*

I think ESG investing is just window dressing. ESG stands for environment, social and governance. Certain companies get categorized so oil is bad and a solar energy company is good. Investors obviously may deploy their capital as they choose but ESG is totally political. The leader on electric cars (Tesla) doesn't qualify because it is non-union. People like Blackrock CEO Larry Fink virtue signal but give me the money manager who is focused on returns and leave policy for the politicians.

One of the good things technology and social media have created is self-determined "affinity groups." If you go on Reddit, you can pick the sub-Reddit that most interests you so those obsessed with kayakfishing can communicate (141 thousand members on that one). The gamers are going to an app called Discord. *"Discord is a chat app that's similar to programs such as Skype, TeamSpeak, and professional communications platforms like Slack. It's geared specifically toward video game players, providing them with ways to find each other, coordinate play, and talk while playing. It supports video calls, voice chat, and text, allowing users to get in touch however they please."* Your geographic location or small friend group no longer limits your ability to deep dive into a topic or activity.

A couple of weeks ago I wrote about the reduction in mobility which is likely to come as people can't sell their house with a low mortgage and buy and get a new mortgage due to the rapid increase in rates. A similar issue is playing out with cars. People borrowed at low rates against inflated car prices and now

are under water as they owe more than the car is worth. They would have to write a check to trade the car in. Some lenders are getting aggressive and to keep the wheels going which is not good. twitter.com/guydealership (Thanks to Mike Schodrof).

Not sure the compensation market in professional sports is working. You have to wonder whether the difference between the $15mm a year player and the $900k player is right. Brock Purdy from San Francisco was the last selection in the 2022 draft and called "Mr. Irrelevant" and he totally outplayed the GOAT Tom Brady. I feel the same way about CEO packages at many companies. The outside consultants use "comparables" of other CEOs and so it is a mutually reinforcing escalation that doesn't make sense.

Heard this one from a healthcare executive: "Lack of communication breeds hostility." I really like that as it applies to customers, employees and partners. Even if you don't have the answer, communicate that you are working on it. A tragic example of this is the recent murders at University of Idaho where public is "in the dark" and not getting much information communicated.

IMO, approach to Covid at a college now is a direct data point on whether a school is run for student experience vs for faculty. I think it is ridiculous that students at Yale University, University of Notre Dame, Tufts University, Harvard University and Fordham College are all being required to obtain an updated COVID-19 bivalent booster vaccine.

Amazing fact — Kate Winslet held her breath for 7 minutes underwater while filming Avatar 2.

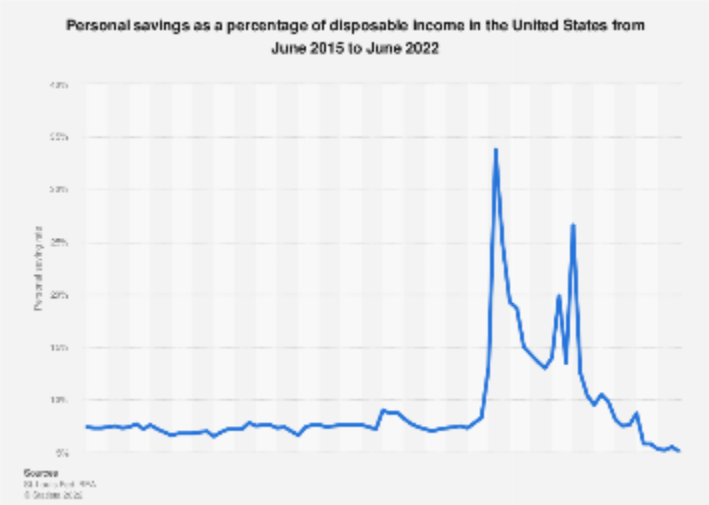
I was recently praising an app called SpotHero and my colleague never had heard of it. Let me give a big endorsement for this app which gives you discounted parking in urban areas (my last spot was 50% below "list price" had I just pulled in.)

jml

J. Michael Locke
Musings

#204: Musing
December 25, 2022

One concerning economic indicator is the decline in the personal savings. Our economy lives and dies by the consumer with consumption over 65% of GDP. Government stimulus artificially boosted savings during Covid but we are now below pre-Covid rates. Buy now - pay later is not a good thing as it is like an economic sugar high for retail sales. Consumers are spending money at an unsustainable rate and consumption will not keep up at this pace.



I don't get the Cathie Wood thing. For those who don't know her, she has become a very famous investor focused on disruptive technologies. From Wikipedia - *"In 2014, after her idea for actively managed exchange-traded funds based on disruptive innovation was deemed too risky by AllianceBernstein, Wood left the company and founded Ark Invest. The company is named after the Ark of the Covenant; Wood was reading the One-Year Bible at the time."* Her publicly traded fund has the ticker ARKK. It is down 65% this year owning things like Zoom, Tesla and Bitcoin. She recently predicted Bitcoin will go to $1 million by 2030 (it is currently under $17k). No thanks.

The new movement in travel is "bleisure" where you combine a business and personal trip.

I consider myself a reasonable moderate but feel some of the college "woke movement" is out of control. Stanford has now published a list of words that would be taken out of its website and any official Stanford material. Words like American or immigrant. This is crazy. [the-stanford-guide-to-acceptable-words]

I think the obsession with silicon valley and tech is diminishing. From wsj: *"A bigger question might be whether tech guys still want to look like textbook tech guys, said Simeon Siegel, managing director at BMO Capital Markets. With each WeWork crash and FTX crypto crisis, not to mention a widely reported culture of toxic masculinity, the industry's glow dims further."*

CDC released preliminary data on deaths in 2021. Here are Top 10:

1. Heart Disease
2. Cancer
3. Covid-19
4. Unintentional Injuries
5. Stroke
6. Chronic Lower Respiratory Diseases
7. Alzheimer Disease
8. Diabetes
9. Chronic Liver Disease and Cirrhosis
10. Kidney Disease

You note Alzheimer's at #7 which is a form of Dementia. Over the past decade, research has shown that compared to those with normal hearing, people with hearing loss have a much higher risk of developing dementia. hearing-loss-dementia I got my hearing aids this week. What a difference. Go get your hearing tested.

Merry Christmas

Jml

J. Michael Locke
Musings

#205: Musing
January 2, 2023

What a year in the markets. I hope others were better than me as my roughly 60/40 (equity/bonds) got crushed with S&P down 19%. (We need the public to start using S&P btw and not the Dow which is only 30 stocks). Good quote on markets from Dan Lieb: *"I tend to be more of a bottoms up analyst but 2023 should prove to be a year of a battle of two narratives. Rates and inflation on one hand versus GDP growth, margins and ultimately earnings on the other. Markets will be further determined by participant's outlook from current company performance versus '24 and beyond. I don't think camping out in the last decade's darlings, with rosaries in hand, hoping for a comeback, will be the winning strategy. We have already seen the revenge of the value nerds. I think more to come."* IMO, 2023 will be much more positive as inflation is coming down and Putin will take an off ramp.

One positive is the diminishing adoration of big tech. I liked this thought from Scott Galloway: *"As search engines and iPhones replace mythical and spiritual beings as our sources of truth, our worship shifts to the gods responsible — the wealthiest person in tech has a 1 in 3 chance of being Time's Person of the Year. Our new gods: Bill Gates, Steve Jobs, Larry and Sergey, Elon Musk, Elizabeth Holmes, Sam Bankman-Fried…Our gross, nonsensical adoration of tech innovators may have peaked. It's been a tough couple of months for the Church of Technology: Elizabeth Holmes was sentenced to 11 years, and her colleague to 13 years; Nikola founder Trevor Milton was convicted of fraud; Celsius Network went bankrupt and faces federal investigations; and SBF's Oops I Did it Again apology tour was cut short due to an outbreak of law. I hope a fresh round of bankruptcies, margin calls, and orange jumpsuits dethrones our modern-day gods and sobers up the media, the public, and elected leaders who worship them."*

TikTok is democratizing book reviews. The majority of the New York Times Best Seller list is driven by the book talk on the social media platform. So we have gone from publisher promotion, to Oprah choosing to the viral book crowd on TikTok. This is a positive use of social media. tiktok-books-booktok Thanks Annie Locke.

Someone at Southwest Airlines should be fired. Must have accountability in your culture to get performance. Don't delay mission critical software upgrades.

Congrats to the Horned Frogs! I love that a small private school (only 12,000 students) can compete with these huge public universities in sports.

My New Year's resolution— pass out more compliments.

Happy New Year

Jml

J. Michael Locke
Musings

#206: Musing
January 7, 2023

Market participants need to remember the imprecise nature of much of the government data. For instance, investors are very focused on wage growth to judge whether inflationary pressures are subsiding and thus the Fed will stop raising rates. The problem is that wage growth is gathered through a survey and initial estimates are often wrong and get revised later. Each month, BLS surveys approximately 131,000 businesses and government agencies, representing approximately 670,000 individual worksites to get its' estimate. Investors need to be patient and not jump the gun when initial data is released. Look at this revision from November:



Good quote from Steve Jobs — "*in weak companies, politics win, in strong companies, best ideas win*." The best ideas are becoming those generated from an analysis of voluminous information through AI. For instance, this is why a our Collegis business teamed up with Google and their cloud platform. collegis-partners-google-cloud-unlock-value-higher-education-data. Making data informed decisions is a key executive attribute.

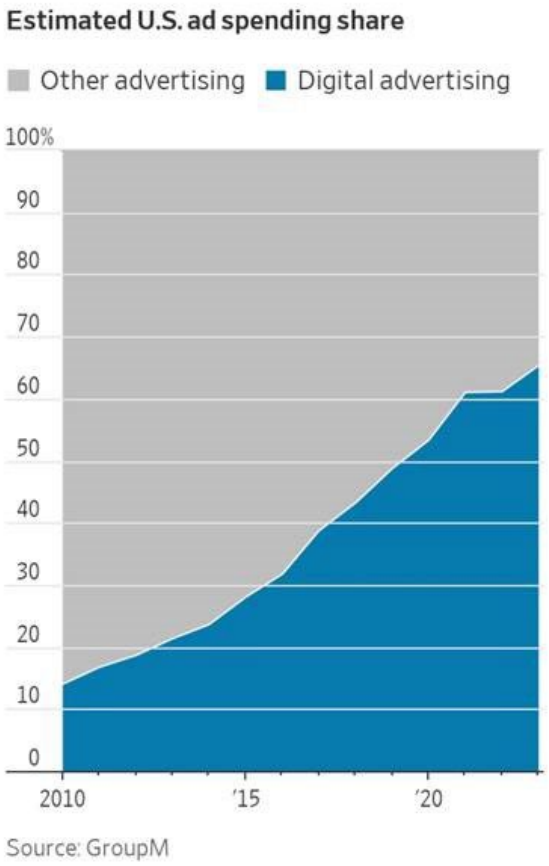
Lots of people are talking about ChatGPT. This is an AI chatbot which was released for public use and has a general language processing model derived from enormous amounts of text. *"The idea behind ChatGPT was first conceived by OpenAI's CEO, Ilya Sutskever, to create a chatbot that could converse in natural language and understand context. Since its inception, the team has been making steady progress toward the development of their vision."* why-the-world-is-buzzing-about-chatgpt Pretty soon you aren't even going to need me for these musings. See the ChatGPT created musings written by AI based upon my nephew Chip's query which is below after my initials.

As a country, we need to redesign our healthcare and retirement systems. Our legacy systems connect these crucial benefits to employment. People stayed at a job for decades, got healthcare and earned a pension. Our labor model is now more transient. The average time in a job is now roughly four years. The ACA ("Obamacare") helped improve availability of health insurance separate from employment but not much has been done on retirement savings. 401k is just a way to minimize taxes and money set aside for retirement. We are going to have a bunch of older people struggling to make ends meet.

While Alabama didn't have their best year in college football, I am really impressed by Nick Saban. Good quote from him: *"mediocre people don't like high achievers and high achievers don't like mediocre people."*

Social media is literally wiring our children's brains differently. *"For youth who habitually check their social media, the brain is changing in a way that is becoming more and more sensitive to social feedback over time," said lead study author Dr. Eva Telzer, assistant professor of psychology and neuroscience at the University of North Carolina at Chapel Hill. "And this is setting the stage for how the brain continues to develop into adulthood."* social-media-checking-teen-development-wellness If this continues, we will have to adjust our employee management systems to increase positive feedback and created dopamine releasing events.

Amazing how Madison Ave. completely missed how its industry was going to change. Digital advertising now controls almost 2/3 of company ad spending from a nothing start 15 years ago.



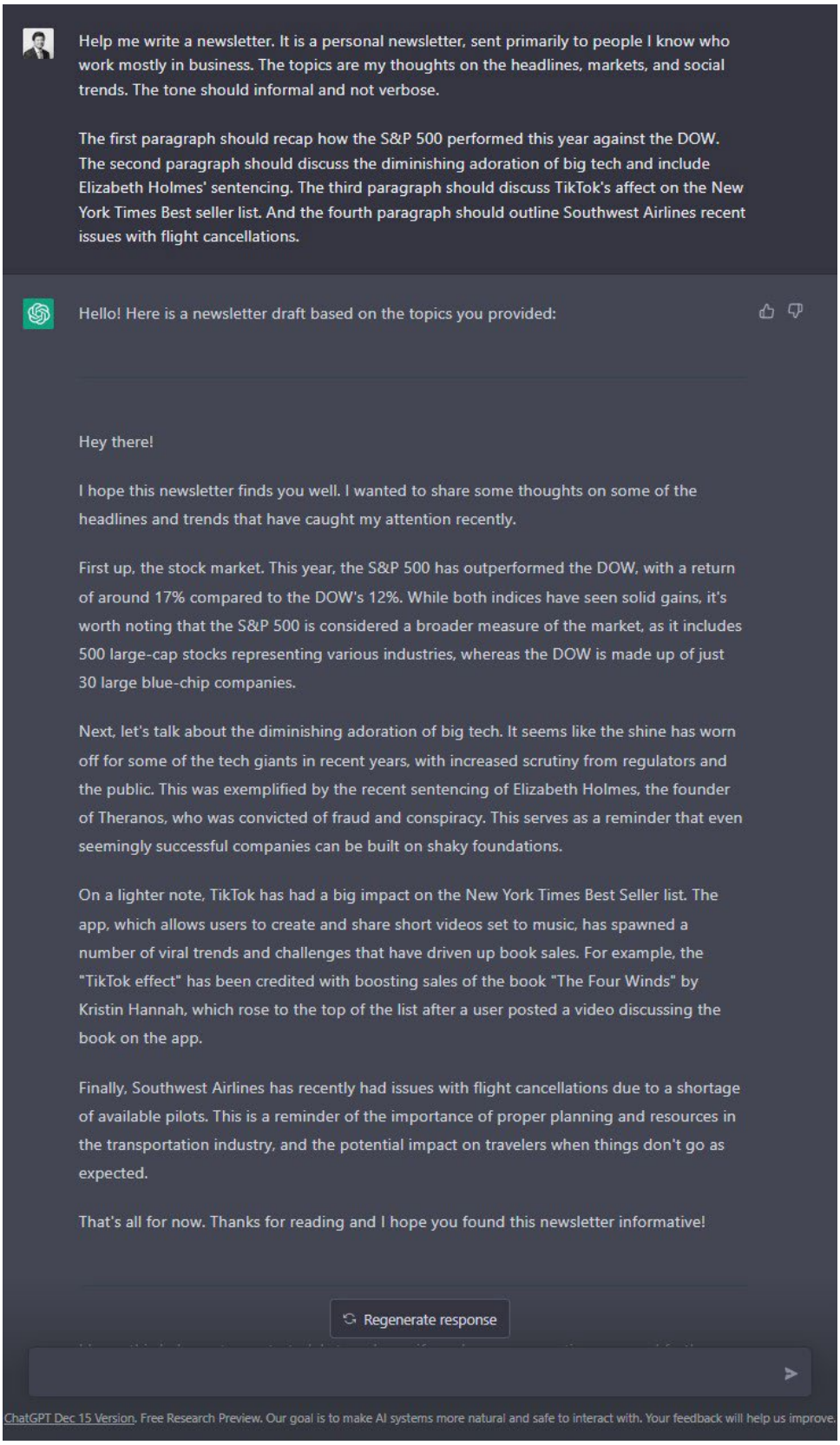
However, this shift will likely decelerate as pushback on the assault on privacy and user control got a big boost in Europe. The EU (which tends to lead the US on these topics) ruled that Facebook/meta can't do behavioral ads which are targeted based on the users activity. Apple had already dealt a huge blow to tracking across apps and now the EU says you can't require users to allow tracking within the app (i.e. the terms of service can't require it and users need to be given an opt-out.)

For all the crap that Elon Musk receives, let's acknowledge that the provision of Starlink service (his satellite communication company) for free is playing a key role in Ukraine's ability to fight Russia surprisingly well.

Does a "damp" January count for anything?

Good luck TCU!

Jml


Help me write a newsletter. It is a personal newsletter, sent primarily to people I know who work mostly in business. The topics are my thoughts on the headlines, markets, and social trends. The tone should informal and not verbose.
The first paragraph should recap how the S&P 500 performed this year against the DOW. The second paragraph should discuss the diminishing adoration of big tech and include Elizabeth Holmes' sentencing. The third paragraph should discuss TikTok's affect on the New York Times Best seller list. And the fourth paragraph should outline Southwest Airlines recent issues with flight cancellations.
Hello! Here is a newsletter draft based on the topics you provided:
Hey there!
I hope this newsletter finds you well. I wanted to share some thoughts on some of the headlines and trends that have caught my attention recently.
First up, the stock market. This year, the S&P 500 has outperformed the DOW, with a return of around 17% compared to the DOW's 12%. While both indices have seen solid gains, it's worth noting that the S&P 500 is considered a broader measure of the market, as it includes 500 large-cap stocks representing various industries, whereas the DOW is made up of just 30 large blue-chip companies.
Next, let's talk about the diminishing adoration of big tech. It seems like the shine has worn off for some of the tech giants in recent years, with increased scrutiny from regulators and the public. This was exemplified by the recent sentencing of Elizabeth Holmes, the founder of Theranos, who was convicted of fraud and conspiracy. This serves as a reminder that even seemingly successful companies can be built on shaky foundations.
On a lighter note, TikTok has had a big impact on the New York Times Best Seller list. The app, which allows users to create and share short videos set to music, has spawned a number of viral trends and challenges that have driven up book sales. For example, the "TikTok effect" has been credited with boosting sales of the book "The Four Winds" by Kristin Hannah, which rose to the top of the list after a user posted a video discussing the book on the app.
Finally, Southwest Airlines has recently had issues with flight cancellations due to a shortage of available pilots. This is a reminder of the importance of proper planning and resources in the transportation industry, and the potential impact on travelers when things don't go as expected.
That's all for now. Thanks for reading and I hope you found this newsletter informative!
Regenerate response
ChatGPT Dec 15 Version. Free Research Preview. Our goal is to make AI systems more natural and safe to interact with. Your feedback will help us improve.

J. Michael Locke
Musings

#207: Musing
January 15, 2023

In today's world, all companies are technology companies and all executives need a base amount of knowledge around technology. Otherwise, you end up like Southwest over the holidays and the FAA. At Southwest, their logistical software is very old and customized and was not ready for the loads when the bad weather occurred. It is inexcusable that they had allowed a mission critical piece of software to fall this behind. This is often referred to as "technical debt" and you have to eliminate it. My guess is the CEO did not even know the risk he was sitting on. At the FAA it was more about poor processes. An individual contractor corrupted a file which brought down the NOTAM system and all takeoffs for the entire US had to be halted. It is crazy that they did not have better processes to prevent this from happening. IT is not just an administrative department now. Every organization needs a top notch CIO reporting to the CEO and the CEO (if they are not a technologist) needs to understand enough to manage risk and ensure the right investments are made. CFOs also need to be tech savvy. With the movement to SAAS (software as a service) models, much expense is moving from capex to operating expenses. Companies are buying fewer servers and eliminating on premises data centers. It is now all about "renting" in the cloud and that is going to increase your opex.

One technology to keep watching is ChatGPT. Its public launch has caused a Code Red at Google as they are worried about the cash cow search business. Microsoft is working on putting ChatGPT under its Bing search engine. chatgpt-caused-code-red-at-google Schools are trying to figure out how to leverage it and students are using it to cheat. Who needs to do homework when ChatGPT will write your assignment for you just with some simple prompts? Some are fighting back and one individual wrote code to try to identify AI written essays called GPTZero. *"GPTZero uses "perplexity" and "burstiness" to determine whether a passage was written by a bot. Perplexity is how random the text is in a sentence, and whether the way a sentence is constructed is unusual or surprising to the app. Burstiness compares these sentences to one another, determining their samey-ness. Human writing has more burstiness — which is to say, we tend to write with more sentence variation."* chatgpt-plagiarism-app-gptzero-artifical-intelligence-ai I am going to go back and rewatch the movie Her where Joaquin Phoenix falls in love with an AI engine.

Interesting stat from WSJ: the average new car has about 1,200 computer chips.

The 10 best jobs in America according to US news factoring in demand growth, stress, compensation and work-life balance (the-10-best-us-jobs-of-2023). Young people should go into healthcare or technology (or ideally the combination thereof).

1. Software developer
2. Nurse practitioner
3. Medical and health services manager
4. Physician assistant

5. Information security analyst
6. Physical therapist
7. Financial manager
8. IT manager
9. Web developer
10. Dentist

You have to give Lina Khan at the FTC credit for ambition. She doesn't like non-compete agreements and so announces that FTC is going to make a new rule outlawing them! I don't think she has the legal authority. Agencies are supposed to write implementing regulations for laws passed by Congress. Executive branches (under both parties) have started acting like legislatures but the Supreme Court is starting to rein this in (reversing the Chevron deference doctrine where courts were more deferent to the agency). I agree that non-competes have gotten a little out of hand – many "low level" retail employees are being required to sign them (ex. Hairdresser) and they really should only be used for executives who have vast amounts of inside knowledge and are paid quite well.

Fortunately most people don't manage their household finances like our federal government:

	Dec. 21	Dec. 22	Change	Change
	($ in billions)			
Revenue	$ 487	$ 455	$ (32)	-7%
Expenses	$ 508	$ 540	$ 32	6%
Deficit	$ (21)	$ (85)	$ (64)	305%

Many folks are working on their new year resolutions to be healthier — eating better, less sugar, reduced alcohol etc. I don't hear people talk about the one thing that studies show is the biggest contributor to a long, healthy life — good, strong relationships. Harvard has a group tracking people closely for over 80 years: *"Through all the years of studying these lives, one crucial factor stands out for the consistency and power of its ties to physical health, mental health and longevity. Contrary to what many people might think, it's not career achievement, or exercise, or a healthy diet. Don't get us wrong; these things matter. But one thing continuously demonstrates its broad and enduring importance: good relationships. In fact, close personal connections are significant enough that if we had to take all 85 years of the Harvard Study and boil it down to a single principle for living, one life investment that is supported by similar findings across a variety of other studies, it would be this: Good relationships keep us healthier and happier. Period. If you want to make one decision to ensure your own health and happiness, it should be to cultivate warm relationships of all kinds."* the-lifelong-power-of-close-relationships

jml

J. Michael Locke
Musings

#208: Musing
January 21, 2023

The biggest driver of financial markets and economic activity right now is the Fed's dramatic escalation in rates. Unclear when it will end. Historically, the Fed has raised rates until the Fed funds rate exceeded the inflation rate and we are not there yet. While there is a developing consensus that inflation has peaked, the question now is will it return to historical norms or stay higher. The determinant might be the arrival of some softness in the labor market and wages, but Covid is still relevant. *"[A] new academic paper finds that about 7% of US adults, or around 19 million people, still suffer from long covid. And of those with long covid, 25%, or about 5 million people, report that their day-to-day activities are impacted 'a lot'. The bottom line is that long covid is why the labor force participation rate has not recovered to pre-pandemic levels, even in a situation with solid wage growth*" (https://academic.oup.com/cid/advance-article/doi/10.1093/cid/ciac961/6948437). Thanks Michael Schodrof.

Here is the view of CIBC on markets in 2023:

1. Inflation pressures should abate in 2023, but likely at the price of a global recession.
2. The Federal Reserve (Fed) will likely tighten further in early 2023 but is not far from the end of its rate hike cycle.
   Markets may be disappointed when the Fed does not immediately shift to rate cuts.
3. Gathering risk of recession and falling inflation likely means that long-term government bond yields have peaked in this cycle. Credit spreads may experience further widening as economic conditions worsen.
4. The equity bear market is likely in its final stage, but it could last for much of the first half of the year. Corporate
   earnings are likely to falter, and current valuations may not have fully priced in a recessionary environment yet.
5. While there may be more economic gloom in the months ahead, stock markets have typically begun to rise in the
   midst of recessions. Thus, we expect a new bull market to begin sometime in 2023.

Companies are all getting a good feel for their demand elasticity. Remember your college economics course where demand volume goes down as price goes up but the key question is the rate of the slope (the elasticity) and thus what is the best way to maximize revenue. We are now at a point where companies like P&G are reporting declining volumes but still revenue increases because they raised prices so much. I think this strategy has run its course as consumer sentiment has deteriorated and I would not count on future price increases.

The labor market is increasingly moving to a competency model where jobs and people are identified by a composite of the requisite skills sets. The college degree used to be a labor market signal on the competencies of the holder but now things are getting more refined and this "blunt instrument"

approach is antiquated. Burning Glass Institute does a lot of work in this area and recently released a big report (how-skills-are-disrupting-work) They identified four of the fastest-growing, highest-demand emerging skill sets:

1. Artificial intelligence / machine learning
2. Cloud computing
3. Product management
4. Social media

One challenge is the first competency may take over the rest as AI gets unleashed. A senior Tesla software engineer (Andre Karpathye) is using an AI coding tool from Microsoft called Github Copilot to do some of his coding. He tweeted: *"Copilot has dramatically accelerated my coding, it's hard to imagine going back to "manual coding". Still learning to use it but it already writes ~80% of my code, ~80% accuracy. I don't even really code, I prompt. & edit."*

The ChatGPT momentum continues to grow. Microsoft announced it will go into all MSFT products. Interesting back story on how the organization behind it - OpenAI - was originally formed as a non-profit to counter the secret projects underway at Google and others but then switched to a for-profit company to access capital. Good short podcast here: podcasts.apple.com/us/podcast/the-journal/chatgpt

Staying on ChatGPT – a crazy story on how OpenAI hired a bunch of Kenyan workers at $2 an hour to screen its algorithms to prevent magnifying and repeating the toxicity found by scraping the web. Thanks Barbara Kandemir. *"The work was vital for OpenAI. ChatGPT's predecessor, GPT-3, had already shown an impressive ability to string sentences together. But it was a difficult sell, as the app was also prone to blurting out violent, sexist and racist remarks. This is because the AI had been trained on hundreds of billions of words scraped from the internet—a vast repository of human language. That huge training dataset was the reason for GPT-3's impressive linguistic capabilities, but was also perhaps its biggest curse. Since parts of the internet are replete with toxicity and bias, there was no easy way of purging those sections of the training data."* openai-chatgpt-kenya-workers

In 2022, 6% of private sector employees are in a union compared to 33% of public employees. Who do public employees need protection against? The vicious school board which easily hands out taxpayer money? Doesn't make sense.

New term for me — Green Markets. From BCG: *"Green markets are broadly defined as goods and services exchanged that are lower in carbon than their traditional alternatives and are based on the use of sustainable materials, such as biogas and low-carbon hydrogen, biofuels and synthetic low-carbon fuels, low-carbon steel, and cement produced with renewable energy and carbon capture and storage."*

All the fancy global jet set crowd was in Davos for the World Economic Forum. The world's richest 1% got nearly two-thirds of all new global wealth over the last two years, amassing $26 trillion out of $42 trillion. I feel these elitists are out of touch with the mainstream of our society and should go have a Budweiser at the local bar like JCs. Some critics go way out there and call it a cult. davos-is-a-grift-and-a-cult-but-its

China is in trouble. Declining population (even though they eliminated one child rule about six years ago), slowing economic growth at only 3% and now major Covid outbreaks as limited immunity has been

built up due to previous hard lock down approach. They cracked down on their internet sector (Ant group, alibabi, didi) so now have lost momentum there. Not very good leadership.

Some interesting statistics on the growth of female physicians. 37% of practicing physicians are now female and growing as 47% of medical students are female. Interesting though on the difference in specialties. 86% of Ob/Gyn residents are female but only 10% of sports/orthopedic residents. (Stats from Association of American Medical Colleges).

Scott Galloway quote: "*Harry and Meghan are the Covid-19 of monarchies.*"

Satya Nadella quote: when describing the challenge of hybrid work and how to make the office more vibrant – "*the new management technique is that we are all event managers*."

I believe that our education system is biased against lower socio-economic groups. This starts with poor elementary schools which rely on shallow real estate tax funds (this is why I support school choice) but continues to the labyrinth of the college admission process. The trend of private colleges to more heavily lock-in their freshmen classes through early decision (where the student must make a binding commitment without knowing of institutional scholarships) works against those who are very cost sensitive. From Inside Higher Ed "M*ore significantly, colleges began to realize they could limit demands on their financial aid budgets by attracting and locking in high-wealth students for whom college cost is a small consideration in deciding where to matriculate," they added. "In fact, according to a review of Common Data Set reports submitted by institutions of higher education, students from the wealthiest zip codes are twice as likely to apply early decision. International students are three times as likely to apply early decision. Those who attend private schools are three and a half times as likely to apply early as their public school counterparts."*

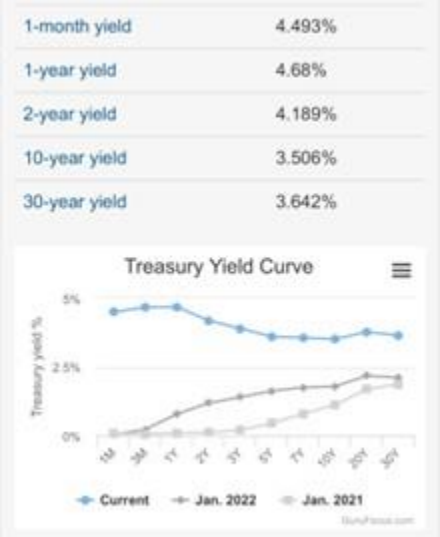
I am stunned by what can "catch on" and go viral with social media. Now, apparently if you want to be cool by Tik Tok standards, you should buy a flip-phone, eat tuna from a can and go watch Livvy Dunne do gymnastics. Seriously, 25 million views of videos with hashtag #tinnedfish. the-latest-tiktok-star-is-canned-tuna Also say Hello Moto with your flip razor bejeweled on the back. why-is-gen-z-ditching-smartphones-for-flip-phones. Finally, Dunne is making over $2mm a year licensing her NIL (name, image, likeness) rights.

jml

J. Michael Locke
Musings

#209: Musing
January 28, 2023

Interesting to see what the bond traders think is happening with the economy. The "yield curve" which shows the how much you make based on a bonds maturity (term) is determined by the buying and selling of bonds everyday (not by the Fed). As bond prices go up (and they have an interest rate assigned to their face value), their yield goes down and vice versa. Right now, the yield curve is really inverted meaning it slopes down. You can borrow money for 10 years at a materially lower rate than 2 years. This shows traders think the economy is softening, inflation is coming down and rates will be decreasing as we enter 2024.



I think the bond traders have it right. Personal consumption is decelerating. The housing market is in a free fall. Almost all measures of inflation were lower in December than November. The only sticking part is labor shortage which will keep wage increases going.

I strongly encourage folks to pay attention to this ChatGPT "story." Thanks to Travis Hughes for first highlighting it for me. AI tools like it are on the verge of fundamentally changing work and school. Humans will need to focus on what makes us human. For example, my brother radiologist is focusing on patient interaction and the communication of diagnostic results as IBM Watson and other AI tools get more proficient on reading X-rays and MRIs. Here is an NPR story on the guy working on the tool to identify something written by AI vs a human. this-22-year-old-is-trying-to-save-us-from-chatgpt-before-it-changes-writing

One researcher had ChatGPT take the tests which are required to become a doctor and it passed! *"We evaluated the performance of a large language model called ChatGPT on the United States Medical*

Licensing Exam (USMLE), which consists of three exams: Step 1, Step 2CK, and Step 3. ChatGPT performed at or near the passing threshold for all three exams without any specialized training or reinforcement. Additionally, ChatGPT demonstrated a high level of concordance and insight in its explanations. These results suggest that large language models may have the potential to assist with medical education, and potentially, clinical decision-making." usmle Thanks Chip Locke.

Good quote on ChatGPT: "A personal calculator for words".

Managerial reminders from Chuck Feltz: *"make certain you are strong in these baseline employee expectations:*

1. *Your daily work environment is not toxic; employees are respected and know what the cultural expectations are and that they are respected and followed*
2. *Your leaders and managers provide regular honest, developmental feedback to employees that moves them along a career trajectory they can see*
3. *Your employees feel they are both heard and listened to. They feel that no matter what the direction, their perspective is respected*
4. *You employees feel "in the know" – what the most important things are that are going on and why. They do not feel they are outside trying to look in to a black box*
5. *Their roles are clear enough to understand how what they do each day matters in the larger vision and what successful performance looks like for their roles in that context. And they have leaders who guide/coach them on that pathway*
6. *Your teams feel you take the time to understand their career aspirations and support and provide development opportunities that help them achieve them"*

Like most things – Elon Musk goes to extremes but the fact that he laid off 2/3 of the employees of Twitter and the business and software is still functioning is really telling. More companies are going to look around and realize how much extra expense they have. Just because someone is doing an activity doesn't mean that activity has to be done and the company is getting an ROI on that resource. Watch for more aggressive cost cutting and a redefinition of what is "essential" as we enter a recession.

The price war in electric vehicles is on which will delight consumers. After losing share in 2022 (Tesla's US market share dropped from 72% in 2021 to 65% in 2022), Tesla aggressively cut prices by as much as 20%. This will have an accelerating effect on demand as the lower prices also create more eligibility for tax credits. Tesla already has scale / healthy margins and those just getting into the business are going to burn lots more capital with lower pricing.

Good quote from Adam Grant: *"The most valuable participant in the room is not the person who talks the most. It's the person who says the most with the fewest words. The best way to contribute more is not to take up more airtime. It's to increase your ratio of insight to airtime."*

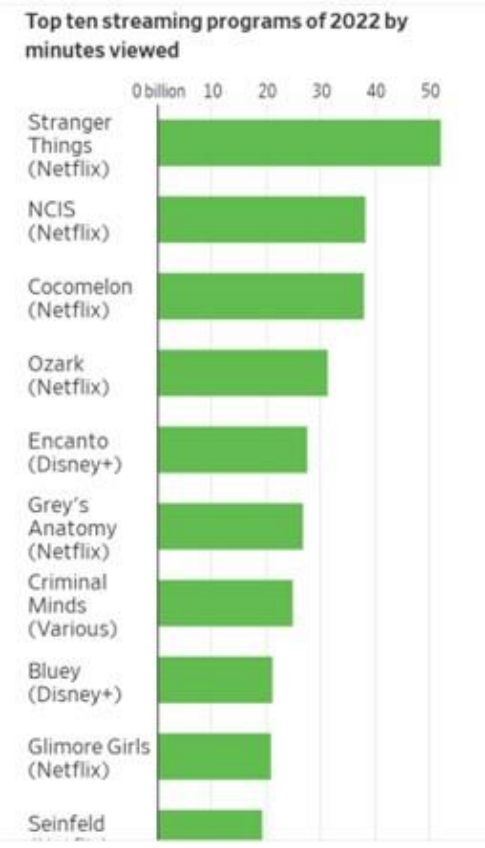
We need more doctors! I have innumerable examples of talented young men and women who can't get into med school yet most of our society is going without a primary care physician. The American Association of Medical Colleges operates as a trade guild keeping a tight supply by not accrediting too many new med schools so the supply of doctors doesn't keep up. Add on top of that the high hurdles we put on foreign-trained doctors and you see why people are going to Walgreens for their primary care. why-does-the-us-make-it-so-hard-to-be-a-doctor

Interesting Oped by Leslie Bienen on how our government systems are leading to an over counting of Covid. *"Public-health experts are increasingly acknowledging what has long been obvious: America is overcounting hospitalizations and deaths from Covid-19. Hospital patients are routinely tested for Covid on admission, then counted as "Covid hospitalizations" even if they're asymptomatic. When patients die, Leana Wen notes in a Washington Post column, Covid is often listed on their death certificates even if it played no part in killing them. Government programs create incentives to overestimate Covid's toll, and poor data make it difficult to pinpoint who's still at risk and how effective boosters are."* the-vicious-circle-of-covid-boondoggles-and-bad-data-fema-cdc-states-death-certificates-overcounting

We might be on the precipice of a breast cancer vaccine. *"News of a groundbreaking vaccine via The Happy Broadcast: Over seven million women suffer from breast cancer, making it one of the deadliest cancers across the globe. A team of researchers at the University of Washington School of Medicine (UWSM) has been working on a breast cancer vaccine for over the last 20 years. In their recently published study, they finally revealed the results of the phase one human trials of their breast cancer vaccine…During the phase one trials, the experimental breast cancer vaccine has proved to be safe and highly effective in preventing the growth of human epidermal growth receptor 2 (HER2) cancer tumor cells [which] are responsible for causing the most complex, aggressive, and rapidly spreading type of breast cancer in women."*

On another cancer, Dr. Milan Chedda at Washington University in St. Louis is having good outcomes using the Zika virus to attack the stem cells on a bad brain tumor called Glioblastoma. Stay tuned.

Interesting to see what people are streaming from Nielsen:



RIP my friend Jerry McBride. Jerry was a role model in “how to age” building relationships with folks like me a generation younger and taking on new passions like paddle tennis. He was always the first to volunteer and always was there to support others. He will be sorely missed.

jml

J. Michael Locke
Musings

#210: Musing
February 4, 2023

So much for the argument that we are in a recession. Great jobs report came out Friday showing unemployment at a 53 year low (3.4%), two jobs available for every person looking for a job and wage gains (annualized at 4.4%). I think we are seeing the death of the Phillips curve which states there is an inverse relationship between inflation and unemployment due to the structural issues in the labor market. Personally, I like the strong jobs report because inflation is coming down and if that can happen without hurting the job market – great.

I think the "big unknown" for economists and markets is the return to a normal labor market. It will be difficult to get to 2% inflation if we continue to have the strong increases in wages due to shortage of workers. Labor participation rate is down in part due to long Covid (only 62.4% of those eligible to work are seeking employment.) While I don't personally know anyone with it, apparently it is pretty common "*Up to 30% of Americans develop long Covid after a Covid infection, affecting as many as 23 million Americans, the U.S. Department of Health and Human Services said in November."* long-covid-has-underappreciated-role-in-labor-gap-study. Fortunately, more young men stopped playing video games in their parents' basement and went to work according to jobs report (871,000 more went to work). Now, let's fix our immigration system. If someone is willing to walk across Mexico to get to US, let's let them in and put them to work.

I totally disagree with those who argue that America is full of workaholics and it is not healthy. There is dignity in work along with the economic productivity that results. There is a reason you can't name any great companies that were started and built in Spain (I guess our daughters would argue Zara as the one exception.) I used to seek out individuals who grew up on a dairy farm where they would have to work at 6am before going to school. My worry is we are losing that work ethic. The younger generations are prioritizing "lifestyle" and our economic prospects may resultantly deteriorate.

Last week, I wrote about the shortage of doctors. Lots of coverage this week of how Walgreens et al. are reducing pharmacy hours because of a lack of pharmacists (even offering $75k signing bonuses). Part of the issue is the move about a decade ago to require that you get a doctorate to be a pharmacist (so 8 years of school after high school). A less discussed issue is the lack of leverage in the labor model. Pharmacists are supported by pharmacy technicians who don't need a college degree and make an average of $17 an hour according to BLS (pharmacists make $125k). We need more roles "in the middle" to give the pharmacist more leverage. My friend Dr. Lyle Berkowitz also points out that technology and some change in business processes could reduce the physician shortage (especially time spent on data entry.) *"we would have a travel agent shortage if we still insisted that all travel booking needed to be done in person with a travel agent handling all the data!"*

Tell your kids to major in psychology. Success in business is mostly about persuading someone to do something (a prospect to buy, an employee to complete work, a venture capital firm to invest). Look at

the power of FOMO (FTX, Theranos, WeWork). The markets are increasingly about reading investor psychology vs true value. The economy is 2/3 consumption, so consumer sentiment becomes key indicator. This is in part why I believe that women will outperform men as leaders in the coming decades because they have higher EQs (emotional quotient.)

As more stories come out questioning the safety of Covid mRNA vaccines, the hashtag #diedsuddenly is trending. (Thanks Mike Schodrof). I don't have the scientific background to automatically deny the veracity of these stories and feelings but seems sketchy to me. From the Atlantic: *"The Twitter account @DiedSuddenly_, which has about 250,000 followers, also started tweeting about it immediately, using the hashtag #DiedSuddenly. Over the past several months, news stories about any kind of sudden death or grave injury—including the death of the sports journalist Grant Wahl and the sudden collapse of the Buffalo Bills safety Damar Hamlin—have been met with a similar reaction from anti-vaccine activists. Though most of the incidents had obvious explanations and almost certainly no connection to the vaccine, which has an extremely remote risk of causing heart inflammation—much smaller than the risk from COVID-19 itself—the idea that the shots are causing mass death has been boosted by right-wing media figures and a handful of well-known professional athletes."* died-suddenly-documentary-covid-vaccine-conspiracy-theory

RIP the federal government declared public health emergency due to Covid. Will end in May. About time.

Can someone please kill the groundhog tradition.

jml

J. Michael Locke
Musings

#211: Musing
February 11, 2023

AI is finally bringing competition to the internet search market. Google has a 93% share of this market. It is a good example of FTC commissioner Lina Khan's view that antitrust law should not just look at consumer harm but also competitive dynamics. Microsoft's embedding of ChatGPT in its Bing search engine is going to make Bing relevant. Brilliant move by OpenAI CEO to release ChatGPT and develop first mover advantage. My understanding is an improved version is going to be ready in just a couple of months but rather than wait, the CEO made the call to go public and move first. Now Google playing catchup. Great move also by Microsoft CEO to invest in OpenAI and make Bing relevant. Google is suffering from the classic dilemma of being too successful. It has such a large share and compelling economics that it hasn't really innovated. Good article by WSJ tech columnist. i-tried-microsofts-new-ai-powered-bing-search-will-never-be-the-same

With AI, these tools are going to become answer engines rather than search engines. Google was already deploying techniques to keep you on their site - the panels on the right describing a business or school - rather than having you click off. The big question will be trusting the answers you are given.

Good recommendation from the minister of Boca Grande Methodist Church – don't be an "as soon as" person. This person talks about how s/he will do something "as soon as" something else happens / context changes. Do things now. Don't blame context or others and do it "as soon as" things change.

I like how Scott Galloway describes the anomalies that came from a long period of "free money" through low interest rates: *"Many strange new market phenomena emerged as a result of this new normal: Crypto, SPACs, billionaires flying to "space," tech workers filming TikToks at their company's kombucha bar, pet bereavement leave, car companies IPOing on zero revenue, CNBC platforming carnival barkers, VCs doing zero diligence before investing hundreds of millions of dollars in Adam Neumann (again), unprofitable tech stocks quintupling, 50-person Diversity, Equity & Inclusion departments, 30% headcount increases, Cathie Wood."*

Don't be a self promoter in the workplace. There seems to be a growing trend of professionals who comment / brag / highlight how good they are. Give me the humble hard worker any day.

Our discourse on compensation typically revolves only around annual salary. There are tremendous amounts of "compensation" in benefits and we really need to talk about "total compensation." The 10 weeks that a teacher gets off in the summer should be part of the overall compensation level discussion. Healthcare benefits are very expensive for a company to provide and plans which have low deductibles / co-pays put money in employees' pockets. 401(k) matches are straight company donations to employee retirement funds (let alone a pension program.) Forward thinking companies pull all of this together and try to provide employees with visibility on total compensation and not just salary.

I have written about the shortage of physicians caused by the overly restricted supply of medical schools. One way the "system" is adapting is to expand the "scope of practice" for nurse practitioners and physician assistants. Some states like California and New York are eliminating the need for physician oversight. The most cost efficient model is for all healthcare professionals to practice at the top of their scope of practice (we shouldn't pay an RN to change a bed pan which could be done by a CNA etc.)

Give it to the young people to figure out how to drink a lot and not be hung over. Introducing the "Borg" which is an acronym for Blackout Rage Gallon, is made with half water, half vodka, a caffeinated flavor enhancer and an electrolyte powdered garnish. *"Videos touting the new way to get soused continue to flood TikTok — the hashtag #Borg has now garnered 65 million views."* the-borg-or-blackout-rage-gallon-transforms-college-drinking/ Thanks Jennifer Walsh.

Heard good advice from some commentator on NPR — "it is great to go to the funeral but go back six months later and visit."

Enjoy the Super Bowl. $7mm for a 30 second ad. I like the move to release the commercials early. super-bowl-2023-commercials Good strategy by Molson Coors which is taking "prop" bets on its commercial through DraftKings (what kind of dog will appear etc.) to drive attention. molson-coors-ad-with-draftkings-for-contest-predicting-super-bowl-ad-content. I am rooting for KC as I am not a big fan of the city of Philadelphia or its teams. Also, taking the over on the prop bet on how long Chris Stapleton will take to sing the national anthem — 1 minute 59 seconds.

jml

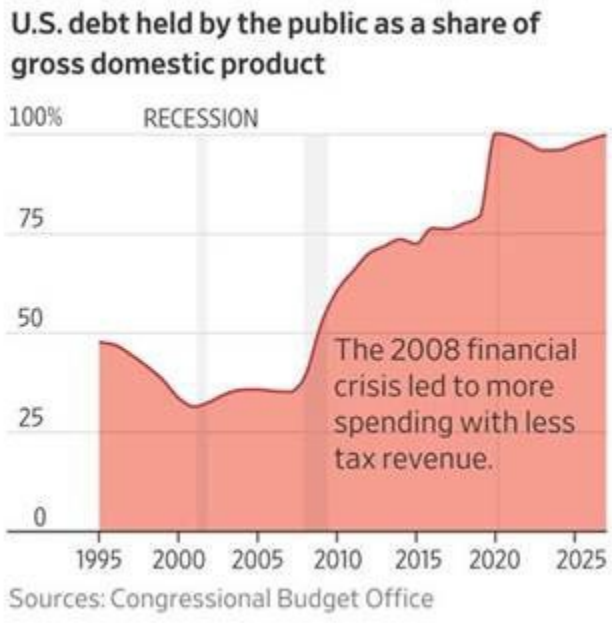
J. Michael Locke
Musings

#212: Musing
February 18, 2023

Long one today…bear with me.

The markets are obsessed with the Federal Reserve's interest rate policy. The CNBC commentary crowd is like royals watchers -- out of control obsessing about everything -- billions and billions swing on speeches by Fed governors and what adjectives they use. In light of this, you would think our CPI data would have great precision as it is the quantitative input to the dialogue. Housing is the largest individual component of CPI. The formula for figuring out what is happening with housing pricing is convoluted and all based on rents/rent equivalents and measured by surveys with a large lag! It is ripe for imprecision. New home purchases fell 40% in the fourth quarter but the CPI formula focused on rents doesn't reflect that. From CNBC: *"The CPI for "shelter" has historically lagged home price changes by four quarters… The lag effect is largely due to how long it takes for leases to roll over into a new contract. Landlords typically renew leases every 12 months, which means current price dynamics won't be reflected in new contracts for a year."*

We have to get honest and deal with our federal government financial situation. We need to raise taxes **and** cut spending. Look at this graph comparing federal debt to income (GDP). We can't keep borrowing from China (they are a big purchaser of US treasury bonds) and surviving on the US dollar as the world's reserve currency. The projections are for only further deterioration.



The shortage of labor is driving technology adoption. Aging baby boomers, declining birth rates and our

dysfunctional immigration system mean companies don't have enough workers. Don't get thrown off by the headlines of big tech layoffs. As a result, companies are adopting technology – self checkout at the grocery store, kiosks in McDonalds, check-in on your hotel on the app. Good article on the labor market by Andy Kessler. "*It's a new jobs paradox: We have both a shortage and a glut of workers. Expect more jobs lost and better jobs gained as we embrace tele-doctors and pharmacists, food subscriptions, custom-fit-clothing services, paperless government, campus-less degrees, smart toilet diagnostics, concierge plumbers, drone delivery and soon (please) autonomous trucks and cars. This, in fits and starts, will drive the next cycle….Bell Labs invented the transistor in 1948, but its parent, AT&T, had 10 to 20 years of old vacuum-tube inventory and so delayed using transistors. Similarly, for decades the economy had an inventory of baby boomers to throw at growth. But not for much longer—the fertility rate in the U.S. was 1.6 in 2020. This will be a year of re-rationalizing workers."* one-puzzling-job-market-employment-unemployment-productivity-tech-layoffs-help-wanted-technology-automation-robots-ai-chatgpt

Boston Consulting Group calls it the decade of innovation: " *Absent pricing power, growth and margin expansion will often come down to innovation. Advances in digital and AI are leading to new paths toward deeper relationships with customers and more customized offerings. The huge transition underway to a decarbonized economy is revealing new vectors for growth. And deep tech is offering new midterm opportunities. Distractions made it easy to lose sight of a hard-core innovation agenda in 2022, but this will be a critical determinant of value creation in the remainder of this decade."*

I believe innovation mostly comes from smaller organizations. Companies have a crazy ability to get in their own way, especially as they get larger. Under the guise of "scalability" and "standardization", entrepreneurial thinking gets lost and the bureaucrats, project managers and HR take over. Good article on how this has happened at Google (thanks Greg Hafemann). bureaucracy at Google....the-maze-is-in-the-mouse. "*Google has 175,000+ capable and well-compensated employees who get very little done quarter over quarter, year over year. Like mice, they are trapped in a maze of approvals, launch processes, legal reviews, performance reviews, exec reviews, documents, meetings, bug reports, triage, OKRs, H1 plans followed by H2 plans, all-hands summits, and inevitable reorgs. The mice are regularly fed their "cheese" (promotions, bonuses, fancy food, fancier perks) and despite many wanting to experience personal satisfaction and impact from their work, the system trains them to quell these inappropriate desires and learn what it actually means to be "Googley" — just don't rock the boat….The way I see it, Google has four core cultural problems. They are all the natural consequences of having a money-printing machine called "Ads" that has kept growing relentlessly every year, hiding all other sins: (1) no mission, (2) no urgency, (3) delusions of exceptionalism, and (4) mismanagement."*

Being a good leader can sometimes come down to very basic things like being respectful of employees. Aretha Franklin had it right decades ago. A study was published in Harvard Business Review (thanks Jeff Dobosh): *"According to the study's authors, being treated with respect was more important to employees than recognition, getting feedback, and even professional development opportunities. Employees who reported getting respect from their leaders experienced positive outcomes like (what-will-make-people-really-stay-at-their-jobs-you-can-sum-it-up-in-1-word):*

1. *56 percent better health and well-being.*
2. *55 percent more engaged at work.*
3. *1.72 times more trust and safety.*
4. *89 percent greater enjoyment and satisfaction with their jobs.*
5. *92 percent greater focus and prioritization.*

6. *1.26 times more meaning and significance in their work.*
7. *1.1 times more likely to stay with their organizations than those that didn't".*

Bad management is also part of our nation's mental health crisis. "*The common saying that workers don't leave a job, they leave a manager, may be borne out in the UKG data. Previous surveys have backed up the finding. But bad managers are more than just an annoyance, UKG data showed — they have a serious impact on workers' wellness."* managers-influence-mental-health-more-than-therapists-employees-say

Being a good employee can also be about basic attributes: show up on time, be nice and pitch in when needed (even if not "your" job). Ryan Holmes went a step further and identified these five characteristics of a superstar employee:

1. *Not limited by job title: Flexible and intellectually curious*
2. *Thinks big AND small: Sees big picture of market but also in the details*
3. *True grit: Dogged persistence even during choppy times*
4. *Respectful by nature: Ability to work with others at all levels*
5. *Gets shit done: Produces actual results*

Good two minute TedTalk by Angie Duckworth who opines it is all about Grit and developing a growth mindset. best-predictor-of-success-isnt-iq-social-activity . Well intentioned parents need to not answer the kids' cell phone call, make them get their own lunch, turn off Life 360 and make the kid figure it out.

We have a mental health crisis in our youth, especially girls. *"Nearly three out of five high-school girls in the U.S. who were surveyed reported feelings of persistent sadness or hopelessness in 2021, a roughly 60% increase over the past decade, new research from the Centers for Disease Control and Prevention found."* The same challenges in boys are about half the rate. teen-girls-experiencing-record-levels-of-sadness-and-suicide-risk

A retired CEO friend had a good quote on sloppiness. "*How you do something is how you do everything*." Don't let an executive dismiss sloppiness by saying it was a trivial matter (having room wrong or being late). Precision and attention to detail is a way of life – a habit – for any good executive. Show me an executive with a cluttered desktop (virtual or real) or tardiness and I would bet against him/her.

Interesting point from Bloomberg on ChatGPT — apparently it is the ultimate bullshitter who makes stuff up if it doesn't know. *"Mistakes are inevitable, because large language models don't have any inherent sense of truth. ChatGPT has a tendency, when confronted with a question it can't answer, to simply make up something. These "hallucinations," as AI experts call them, can be extremely convincing. Last year, Meta Platforms Inc. pulled down a large language model known as Galactica, which was supposed to be "a curated corpus of humanity's scientific knowledge," after critics pointed out it had a tendency to invent science behind queries such as "the benefits of eating crushed glass."*

I am amazed at the traction algorithmic online dating apps have gotten. According to Pew Research, 30% of US adults say they have used a dating site or app. Match Group serves over 100 million people through its 15 apps like Match, Hinge and Okcupid and is rolling out a premier $500 a month service for its top platform Tinder (unclear what you get for that amount of money.) the-virtues-and-downsides-of-online-dating

I would bet against the mass adoption of virtual reality (VR). Microsoft reducing its investment. Facebook/Meta user numbers continue to disappoint. People don't want to put something over their eyes and be in a virtual world. If you haven't done it, give it a try. Kind of a weird experience which is fun at first but I would not want to be in it often.

From Jeff Selingo -- A new think tank study on what Americans want out of K-12 education revealed that getting kids ready for college has plummeted from the 10th highest priority to 47th. *"It's not that they don't want kids prepped for what's next but colleges no longer have the monopoly on that opportunity. It's not clear that the value proposition of college is what it used to be."* Many colleges in the US are losing their bearings and focusing on amenities. High Point University has taken it to a whole new level with valet parking and a steakhouse. Good article by Ryan Craig on what this says about higher education. when-the-college-of-last-resort-is-a-resort

Really don't agree with this one. Apparently, some school districts are eliminating honors courses under racial equity initiatives because some have low percentages of black and Latino students (example; Culver City CA). From WSJ: *"The district earlier this school year replaced the honors classes at Culver City High School with uniform courses that officials say will ensure students of all races receive an equal, rigorous education."*

Press is saying Rihanna Super Bowl halftime show was awesome. Personally, I thought it was boring. I give her credit for doing it while pregnant. I give her even more credit as the second wealthiest black female entrepreneur (behind Oprah). Apparently she has very successful businesses in makeup and lingerie which have given her a net worth over $1.5 billion at age 34.

jml

J. Michael Locke
Musings

#213: Musing
February 25, 2023

Big Supreme Court case for big tech was argued this week. Platforms like YouTube, Twitter, Facebook etc. have been protected from any liability for what users post under Section 230 of the Communications Decency Act of 1996 which generally provides immunity for website platforms with respect to third-party content. This has been called the "Magna Carta" of the internet. The challenge is that Section 230 has eliminated the "ego and superego of content moderation" and we are left with the "Id" supercharged by recommendation algorithms. The worst of our society gets amplified to drive engagement under the advertising business models of most firms. A family sued whose kid was killed in the Parisian attacks by a terrorist radicalized by YouTube videos. Interesting legal argument is that 230 doesn't protect YouTube (owned by Google) because it wasn't just about hosting the videos but that their algorithm recommended their viewing by presenting them to the developing terrorist. The logic of this argument is that the algorithm moves the platform from a conduit of information to a publisher. supreme-court-google-twitter-section-230. Twitter also had a case before the court related to aiding and abetting a terrorist and was arguing it was protected by Section 230. As a society, I believe we need more governance of social media and can't just have the "Id free for all", so support modifications to Section 230.

Left unchecked, social media is dramatically harming our youth. Good NPR story on the topic: 10-things-to-know-about-how-social-media-affects-teens-brains. Here are the 10 takeaways for parents:

1. Social interaction is key to every child's growth and development.
2. Social media platforms often traffic in the wrong kind of social interaction.
3. It's not all bad.
4. Adolescence is a "developmentally vulnerable period" when teens crave social rewards, but don't have the ability to restrain themselves.
5. "Likes" can make bad behavior look good.
6. Social media can also make "psychologically disordered behavior" look good.
7. Extreme social media use can look a lot like addiction.
8. The threat of online bullying is real.
9. It's hard not to compare yourself to what you see in social media.
10. Sleep is more important than those "likes."

I am increasingly starting to believe that the hybrid work model doesn't work. Tough to maintain the "middle". It limits your available labor pool to regionally around the office, turns off those who want full remote and generally the office is still dead. I don't think it is great for culture or productivity, but I am starting to think the new norm is to allow fully remote which then opens up the whole country for recruiting talent. Companies need to put more focus on their recruitment capability and figure out how you identify and attract talent on a national (and potentially even international) basis.

Study released in UK endorsing the four-day work week. The majority of companies who tried it as part

of the study are going to keep doing it. after-testing-four-day-week-companies-say-they-dont-want-to-stop. I just don't think it works unless you job-share and have two different people in same job. The velocity of business is increasing, and we are moving to a 24x7 world. Don't know how that works if an employee is off for three days. I would go more to six hours for seven days.

Watch your Glassdoor profiles. I often write about how consumers are moving to "referral purchasing" where they don't care about ads and don't trust the seller but rather want to hear about other customer experiences (Google reviews, Reddit, micro influencers). I think the labor market is going the same way and good employees (who have options and leverage) are going to check with others about working at a company and Glassdoor is the largest player right now.

Be careful of those who say "they have an open door policy." Every leader will have an "open door policy" but that neglects the reality that it takes a lot for someone "lower in the organization" to come through that door. Instead, leaders need to *seek out* information and feedback throughout the organization (and not just through their lieutenants) by walking around, asking questions, and having a personal relationship with members of the administrative team who usually know everything. A friend who served in the army told me how he would do "post mission reviews" by going to the warehouse and talking to drivers as they came back from their deliveries.

Always be looking for themes across data points. For instance, in a B2B business, looking for commonality in the people buying, the solutions being purchased or the context of the sale. It is a real advantage if you can get an early read on market trends by identifying these themes before others. An example in B2C is how Brian Chesky from AirBNB noticed early in Covid that people were renting places closer to their homes and changed his promotional algorithms to play to that change in behavior.

I got a lot of pushback for my position last week that good executives are well organized with an uncluttered desktop. The most common response was that clutter can be organized if you know where everything is. Here is a piece making that argument 21mess.html (thanks Brad Frank). *"An anti-anticlutter movement is afoot, one that says yes to mess and urges you to embrace your disorder. Studies are piling up that show that messy desks are the vivid signatures of people with creative, limber minds (who reap higher salaries than those with neat "office landscapes") and that messy closet owners are probably better parents and nicer and cooler than their tidier counterparts. It's a movement that confirms what you have known, deep down, all along: really neat people are not avatars of the good life; they are humorless and inflexible prigs, and have way too much time on their hands."* Not sure I am a humorless and inflexible prig. You can be creative and messy as an individual contributor or member of a creative team but if you are having to manage hundreds or thousands of people and participate in a lot of meetings, travel etc., you have to be structured and organized IMO. You have to start and end meetings on time. Marissa Mayer (the Google executive who got hundreds of millions of dollars to fail as CEO of Yahoo) was notorious for making people wait hours in her reception area for their scheduled meetings. You can't lead that way.

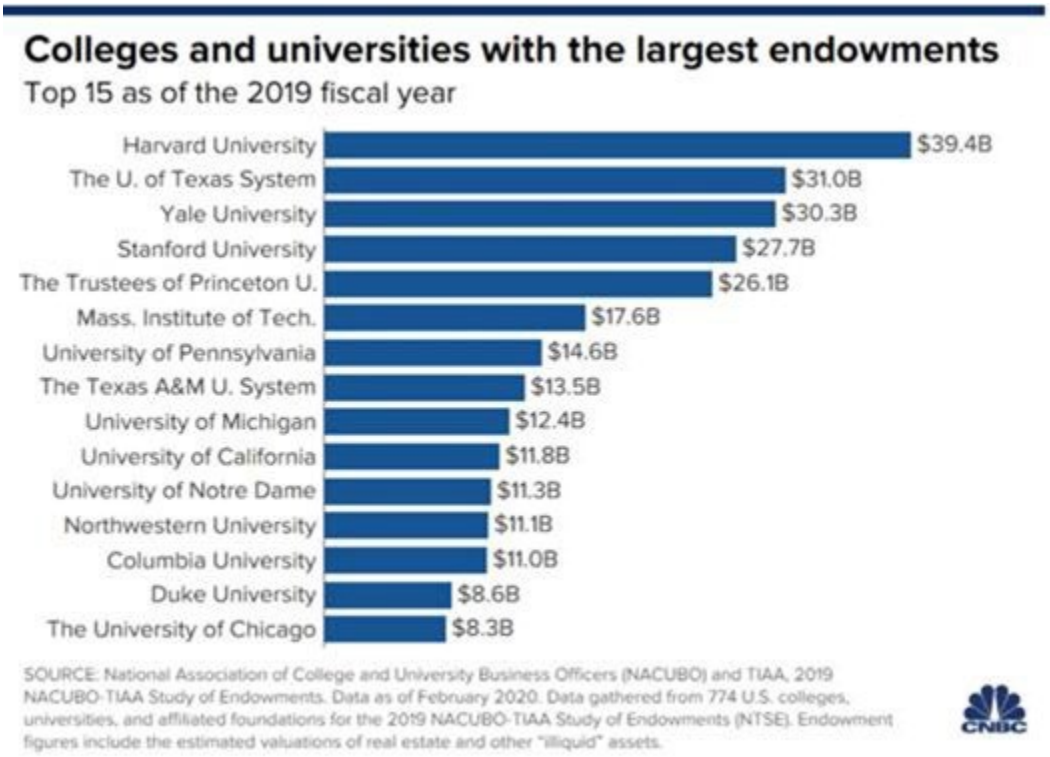
Interesting article where ChatGPT is asked how AI should be regulated (thanks Barbara Kandemir). how-should-government-regulate-ai-we-asked-a-robot.

Always leave an organization graciously and treat everyone respectfully. The business world is much smaller than you would think and often things come around and you interact with a person again.

New one for me: Sentiment Analysis. Software is measuring call center agents and customers tone,

pitch and cadence to judge the "relationship" the agent is building with the caller and ability to keep negative emotions minimized.

I have always found higher education endowments to be a curious thing. Why do people feel such a drive to donate to their alma mater compared to other causes? The size of some of these endowments is breathtaking, leading one person to call Harvard "a hedge fund that runs a school" with its $39 billion endowment, which is increasingly invested in alternative asset classes like hedge funds and private equity. They are following the "Yale Model" pioneered by Yale Chief Investment Officer David Swensen (who died last year). Swensen focused on the limited needs for liquidity and thus the ability to invest majority of an endowment in illiquid, higher returning asset classes. With all of this money (see chart below), it is hard to rationalize the tax exempt nature of schools who pay no real estate taxes in their college towns.



Maybe Congress can actually function like a legislative body on the issues around healthcare training. Senate Committee had a hearing this week and some interesting comments and stats are printed below my initials. When Bernie Sanders and I agree on something, Congress should be able to get something done.

46% of Medicare recipients now get their Medicare benefits through private insurance companies via Medicare advantage plans rather than straight from the government.

If you want a good laugh, watch the South Park episode mocking Harry and Meghan.

Good commentary by Peggy Noonan on Super Bowl ads as a reflection on our society. *"What do we discern from them about how the nation's ad makers see their country? That we're a nation of morons, a*

*people with fractured concentration, a people with no ability to follow even a 60-second spot, a people who need loud noises and obsess on media and respond only to movie stars playing movie stars spoofing movie stars. The feeling was one of exhaustion, of a culture folding in on itself."*america-longs-for-authenticity-nikki-haley-super-bowl-ads-will-smith-oscars-trump-presidential-campaign I thought the Maya Rudolph M&M commercial may be one of the worst ever. The creators are "in their own world" and didn't realize audience had no idea what they were talking about.

You have to love when life gives you a great positive surprise — thanks Mac McClung — white men can jump.

RIP Jimmy Carter. Not a great President but a great man. I am not particularly religious but really admired his dedication to his faith and helping others. He said "*My faith demands that I do whatever I can, wherever I am, whenever I can, for as long as I can with whatever I have to try to try and make a difference."* I also miss his brother's beer. https://en.m.wikipedia.org/wiki/Billy_Beer

Jml

Senate committee hearing titled, "Examining Health Care Workforce Shortages: Where Do We Go From Here?"

Chairman Bernie Sanders (I-VT):

Today we are holding a hearing to examine the healthcare workforce challenges that our country faces…..

We don't have enough doctors, nurses, nurse practitioners, dentists, dental hygienists, pharmacists, mental health providers, and other medical professionals.

And what is the impact of those health provider shortages? It means that nearly 100 million of our people live in a primary care desert where they are unable to gain timely access to a doctor when they need it. It means that nearly 70 million live in a dental care desert, unable to get dental care while teeth are rotting in their mouths. And it means that some 158 million Americans – nearly half the population – live in a mental health care desert at a time when this country is facing a major crisis in mental health…..

In my view, this reality is a contributing factor to the declining life expectancy we are seeing in many parts of our country, and the fact that our overall life expectancy is significantly lower than many other industrialized countries. Life expectancy is not simply a factor of healthcare access, but it is an important factor. If people do not get to a doctor when they should, if they cannot afford the prescription drugs their doctors prescribe they will die earlier than they should and suffer unnecessary, debilitating pain.

….A shortage of healthcare personnel was a problem before the pandemic and now it has gotten worse.

….According to the best estimates, over the next decade, our country faces a shortage of over 120,000 doctors – including a huge shortage of primary care doctors.

Over the next two years, it is estimated that we will need up to 450,000 more nurses.

Today, it is estimated that we need about 100,000 more dentists – right now.

And in America today, there is a massive shortage – many, many hundreds of thousands – of mental health service providers – psychiatrists, psychologists, social workers, counselors, addiction specialists and many more.

…,,First, it is a no brainer to understand that, when over 10,000 medical school graduates are unable to find residency slots every year, we must significantly expand and improve the Graduate Medical Education program. Further, and in the jurisdiction of this committee, we must also greatly expand the Teaching Health Center program which will allow us to grow significantly the number of primary care physicians and nurses we desperately need.

…..Further, in terms of nursing, despite a major nursing shortage, we have the absurd situation that in many parts of this country, including Vermont, nursing schools are rejecting applicants because they don't have the nurse educators and facilities they need.

In Vermont, as an example, nurse educators earn about $65,000 a year – nearly half of what nurses with similar degrees earn working in a hospital. We need to make sure that nursing schools throughout the country have the staffing and facilities to educate the number of new nurses that we will need. In my view, that means we also need to substantially expand and reform, the Nurse Corps and the Nurse Faculty Loan Program, among many other programs.

And let's be clear – the issues we are talking about today are just part of the problem. Our committee must also grapple with broader health care workforce challenges. Pharmacies across the country are having trouble hiring pharmacists. We don't have enough home healthcare workers. We don't have enough nursing home staff, etc., etc. …..

Ranking Member U.S. Senator Bill Cassidy, M.D. (R-LA):

Thank you, Mr. Chairman. The COVID-19 pandemic strained our health care system, placing a huge burden on health care workers. As we come out of the pandemic, this hearing is an opportunity to address workforce issues. Why are there still shortages post-pandemic? Which shortages are most pressing? Understanding this should precede moving to solutions.

Doctors and hospitals in Louisiana tell me they need nurses. Speaking as a doctor who had the good fortune to work beside incredibly talented nurses for decades, nurses are essential to the health care system.

There are different things we can do, for example—"upskilling," or increasing nursing educational opportunities, to help certified nurse's assistants to be LPNs, the LPN to be a certificate RN, and the certificate RN to be a bachelor's RN. Perhaps federal support can encourage entry and then upskilling. I once worked with Linda, who began working in our clinic as a medical assistant. She continued her studies and earned her LPN. She continued her studies to get a BSN, then a Masters of Nursing. Eventually, she was the nurse manager in the clinic she began in as a medical assistant. The power of education transformed her life and demonstrated for her children the power of education and of delayed gratification, and oh by the way, added to the nursing workforce.

Some has to be done on a state level. In my home state of Louisiana, education requirements for nursing educators are being examined to see how this impacts the supply of nursing faculty, which in turn impacts the number of nursing students. As a physician who practiced for over three decades: a good RN can teach a nursing student no matter if she has a masters or a bachelor's of nursing, and we need to be practical. States have to ask—what does that student need to know to effectively care for patients and whom can they learn it from?

That will be a way to remove a real choke point in terms of educating these nurses.

…..A study published just before the pandemic in the Annals of Internal Medicine found that physicians spent over 16 minutes per patient filling out electronic health records (or E-H-Rs). As a doctor, it's no wonder we are seeing huge rates of physician burnout when they are spending as much time, if not more, staring at a computer screen than into the eyes of the patients they want to help…..

J. Michael Locke
Musings

#214: Musing
March 4, 2023

Warren Buffett is widely recognized as one of the best investors ever. I enjoy his annual letter to shareholders. Along with owning businesses completely, they invest in some stocks. Here is a good quote from Buffett on publicly-traded stocks -*"it's crucial to understand that stocks often trade at truly foolish prices, both high and low. "Efficient" markets only exists in textbooks. In truth, marketable stocks and bonds are baffling, their behavior usually understandable only in retrospect."*…..this is why I do no stick picking. Index funds for me. Make your real returns in private operating businesses.

Less well known is Buffett's lifelong partner Charlie Munger. He is just as important and impressive as Buffett. Munger has a reputation for straight talk and they included some of his best quotes in this year's letter:

1. *The world is full of foolish gamblers, and they will not do as well as the patient investor.*
2. *If you don't see the world the way it is, it's like judging something through a distorted lens.*
3. *All I want to know is where I'm going to die, so I'll never go there. And a related thought: Early on, write your desired obituary – and then behave accordingly.*
4. *If you don't care whether you are rational or not, you won't work on it. Then you will stay irrational and get lousy results.*
5. *Patience can be learned. Having a long attention span and the ability to concentrate on one thing for a long time is a huge advantage.*
6. *You can learn a lot from dead people. Read of the deceased you admire and detest.*
7. *Don't bail away in a sinking boat if you can swim to one that is seaworthy.*
8. *A great company keeps working after you are not; a mediocre company won't do that.*
9. *Warren and I don't focus on the froth of the market. We seek out good long-term investments and stubbornly hold them for a long time.*
10. *Ben Graham said, "Day to day, the stock market is a voting machine; in the long term it's a weighing machine." If you keep making something more valuable, then some wise person is going to notice it and start buying.*
11. *There is no such thing as a 100% sure thing when investing. Thus, the use of leverage is dangerous. A string of wonderful numbers times zero will always equal zero. Don't count on getting rich twice.*
12. *You don't, however, need to own a lot of things in order to get rich.*
13. *You have to keep learning if you want to become a great investor. When the world changes, you must change.*

More important cases before the Supreme Court this week. My prediction is you are going to see the Court rule against the government and the increasingly active regulatory approach taken by Presidents (Democratic and Republican) in the last couple decades. The way our system is supposed to work is Congress passes laws and then the executive branch implements them with specific regulations. With the general dysfunction in Congress, Presidents have started "legislating" through more active

regulatory actions. I think the Court will strike down Biden wiping away billions in student debt through executive action, the framework of the Consumer Finance Protection Bureau (CFPB) which was set up outside of congressional funding and gets its money from the Federal Reserve, so Congress has no oversight, and eventually, the FTC move to ban non-competes. I am not taking a side on the actual issues but rather pointing out decision rights. These are Congressional issues and not ones for the executive branch to do on their own.

You don't necessarily want all of the business you can sign up. Some clients are not good partners and might have unreasonable expectations or abuse your team with relentless demands. The client is not always right and your team needs to say no and not be too responsive. There comes a point where you might even need to fire a client. Everyone underestimates the "cost" in time, dollars and pride that comes with a problem client and the management of a business spending all of their time trying to satisfy.

Heard a new term: "Digital intimacy." With everything happening through technology and the resulting abundance of data, companies can have a crazy, detailed window on the consumer.

Interesting stat: 90% of people in the US live within 10 miles of a Walmart. This is part of why Walmart is pushing into medicine and setting up primary care clinics.

I was interviewing someone this week and they used this line which I agree with: *"I think you have to listen and learn before you lead."*

Great old quote from Netflix on their culture*: "We're a team, not a family…..We're like a pro sports team, not a kid's recreational team……Netflix leaders hire, develop and cut smartly, so we have stars in every position."* Every leader I know retrospectively feels they moved too slow on eliminating subpar performers. Good leaders are empathetic, confident and positively-oriented so often falsely believe they can help someone improve their performance rather than firing them.

RIP the use of cash. According to the WSJ, cash and checks are 14% of payments down from 42% in 2010.

Jml

J. Michael Locke
Musings

#215: Musing
March 11, 2023

The strength of FOMO (fear of missing out) was on display this week as Silicon Valley Bank collapsed Friday in a good, old-fashioned bank run happening in warp speed. Customers lost confidence that their deposits were safe and as withdrawals accelerated, SVB had to sell assets at big losses to meet the withdrawal requests ($41bn worth) and a dangerous spiral developed. This is the second largest bank failure in history. Based on what I know, this does not reflect a broader fragility in whole financial system and people should not be overly spooked. SVB was heavily focused on banking tech startups. The challenge is that this meant holding the money they had raised from VCs and not necessarily lending them money so the SVB balance sheet was deposits from tech companies and then it bought a lot of long-term US treasuries. Where it went over the cliff is that rising rates have killed both sides of this and the duration of the assets and liabilities were mismatched. Tech companies are not raising money because their hypothetical future cash flows are now discounted back to present day at higher rates and their values have plummeted. They were withdrawing money to fund the operating losses and new funding has been scarce so no new cash coming in. On the bank's asset side, the value of SVB's big positions in US treasures have gone down as yields have gone up. This has hurt other banks as well but according to the FT: "*Few other banks have as much of their assets locked up in fixed-rate securities [US treasuries] as SVB, rather than in floating-rate loans [usually to client businesses]. Securities are 56% of SVB's assets. At Fifth Third, the figure is 25%; at Bank of America, it is 28%."* SVB had to sell bonds at big losses to give the tech companies their money. So the SVB collapse is more of a derivative of VC-backed early stage tech and not the commercial banking business. It also shows poor management of risk. I am really glad it happened on a Friday so everyone didn't panic and we can sort through it and process the implications before market trades again Monday. I bet a savvy bargain hunter steps up over the weekend. The stock was at $250 just a couple days ago (implying company worth over $15bn) and now effectively zero.

While SVB management is the real culprit, the Fed deserves some blame. From WSJ editors: *"This week's bank failures are another painful lesson in the costs of a credit mania fed by bad monetary policy. The reckoning always arrives when the Fed has to correct its mistakes."*

The Fed is forecasting more rate increases as the economy continues to be healthy. I think the economists don't know what to do as the structural shortage of labor is preventing softness from developing in the labor market. Even as the Fed raises rates, people are still finding jobs and unemployment is under 4%. The Fed should stop obsessing on the labor market numbers. Unemployment is not going to materially move up as there are not enough workers. Fortunately, more women are coming back into the workforce and women are back to representing 50% of all employment in the US. An increase in the labor force participation rate will take some of the pressure of rising salaries and their potential impact on inflation.

Great line in WSJ: *"Good news here is the underlying demand generated by the pandemic's retreat might*

in effect foam the runway, lessening the chance the Fed will take the economy in for a hard landing."

Hard to limit government spending when 40% of government expenses are Medicare and Social Security and we have an increasingly old population due to birthing patterns. It made for good theater in the State of the Union but we must address these two entitlements. For example, the age to start receiving the benefits should be pushed back. It was set at 65 when life expectancy was much shorter. We don't have enough younger workers putting money into the system to support everyone hitting 65 with many living into their 90s. Rising rates also means more of the government budget will go to servicing the debt and no discretion in that line item.

I often write about the move to referral-based purchasing where consumers don't pay attention to ads but rather check out Google reviews, Yelp etc. when evaluating a provider. One problem is the "grade inflation" in customer reviews. The average rating on AirBNB that renters give their hosts is 4.74 (on a scale of 5!) Hosts have to maintain a 4.8 or better to be a "Superhost." So basically, if you give a host a 4, you are hurting them. My personal Uber rating is 4.75. Didn't realize I should be embarrassed by that.

Good quote from Scott Galloway on the advertising models of social media companies and their negative effects: *"Old media is populated with beautiful people, usually in sleeveless dresses, as sex sells. It turns out, rage and tribalism sell better."*

Our world is moving to competency-based hiring but we can't forget we are hiring people and not just compilations of competencies. The underlying DNA of a person is important. I often write about the need to find people who are intellectually curious and good listeners. An individual from Google wrote a good post on how they focused on finding people who are self-aware. *"Sure, your experience and skills matter, but they can be learned. And when someone is highly self-aware, they're more motivated to learn because they're honest about what they need to work on. They also relate better to their colleagues and managers….I always watch for two words: Too much "I" is a red flag that they may not be humble or collaborative; too much "we" may obscure what role they played in the situation. There needs to be a balance."* former-google-vp-shares-no-1-skill-she-looked-for-at-job-interviews-that-people-rarely-had

Get rid of the "blurred" or "graphic" Zoom background. Give your colleagues a view into your apartment, home and life. I am not saying a messy bed but how about a picture of your kids or something regarding a hobby. People will ask and it will give you an opportunity to connect on a more personal life in this remote, disconnected world.

Can everyone take a chill pill on switching to Daylight Savings Time. One hour does not matter that much. Congress is seriously considering the "Sunshine Protection Act" to eliminate the practice. C'mon man. Move to Arizona or Hawaii which don't change if you really care that much.

I hate complainers. In my experience, real winners seek accountability and never position themselves as a "victim" of others' subpar performance. The Philadelphia Eagles were great about this after the bad call in the Super Bowl. They didn't blame the refs but rather noted how they should never have been in a position for that one call to matter. The mayor in Chicago is terrible about this. Everything is always someone else's fault. She also had a high "a**hole" factor. I think part of leading is having some level of "likeability" or "relatability." Nobody follows a jerk, especially if they simply are not very good.

Talked to a talented entrepreneur who is leveraging ChatGPT to write web content. Apparently, the Google search algorithm is trying to flag AI generated content and reducing its ranking. Enter "AI laundering." Put your ChatGPT content into Quillbot and it will modify it enough so Google's algorithm doesn't consider it AI.

Make sure and thank your service providers (lawyers, bankers, healthcare brokers). It is easy to take the view they are just doing the job you are paying them for but acknowledging their good work will build loyalty and allow you to lean on them for something extraordinary if you ever need it.

Skip the Oscars. Watch the Murdaugh Netflix show.

jml

J. Michael Locke
Musings

#216: Musing
March 18, 2023

A large part of the SVB bank run was the immediacy of our lives on smartphones and on Twitter. After SVB reported a plan to raise capital because of losses on its bond portfolio, influential VCs tweeted that their portfolio companies should pull their money which every venture-backed CEO then immediately got on his/her cellphone and within seconds you have a viral bank run implemented by iPhone. *"It turned out that one of the biggest risks to our business model was catering to a very tightly knit group of investors who exhibit herd-like mentalities,"* said an SVB executive. We now have unnecessary fragility in our whole financial system because of the California VC crowd.

I think the Fed got it right last weekend stepping into backstop the depositors at Silicon Valley Bank, Signature Bank et al. Some are confusing the backstopping of deposits with the protecting the investments of the shareholders. The latter are getting wiped out. If Fed hadn't made depositors whole, the entire system was in trouble. This backstop is going to be financed by fees imposed on banks so taxpayers shouldn't be paying the bill.

How about some accountability at the Fed? They have put our economy in a very difficult position by leaving rates way too low for too long. The "inflation is transitory" position may go down as one of the worst judgment calls of all time. Now they are rapidly jacking up rates to try and catch up and creating situations like Silicon Valley Bank's demise. They also have dropped the ball on bank oversight. SVB was way overexposed to rising interest rates with a huge book of US treasuries and only short-term deposits. From BusinessWeek: *"Silicon Valley Bank's failure boils down to a simple misstep: It grew too fast using borrowed short-term money from depositors who could ask to be repaid at any time, and invested it in long-term assets that it was unable, or unwilling, to sell."* Where were the "stress tests" to understand what would happened in various scenarios? I guess the regulations only require that for the nation's largest banks, but others do it as a good managerial practice. where-were-the-regulators-as-svb-crashed Some people should be losing their jobs.

SVB also shows the fallacy of accounting around bonds purchased as investments (thanks for the reminder Matt Darnall). Under GAAP, the holder categorizes bonds as "available for sale" or "held to maturity." The former are "marked to market" where the holding value on the balance sheet must reflect the current value. Since interest rates are rising, values of bonds purchased in the past are going down. If the securities are deemed "held to maturity," they are not marked to market and an owner can have a huge potential loss which is not recognized on the balance sheet. This accounting then plays into any analysis of the capitalization of a business and gave a misleading look at SVB health. As Matt Darnall wrote "You only hold to maturity until the run begins!" The FDIC should have been all over this. Here is a table from JP Morgan showing the losses in bonds under these two categories with the rapid rise in rates:

FDIC Q4 unrealized bank losses on investment securities

US$, billions



Source: FDIC. Q4 2022.

The mismanagement by bank executives is becoming even more stunning. Their Chief Risk Officer left last April and wasn't replaced. They kept buying long term treasuries even when rates were projected to go up. From WSJ: "*Last year, SVB terminated or let expire rate hedges on more than $14 billion of securities throughout the year, according to its year-end financial report. The bank reported virtually no interest-rate hedges on its massive bond portfolio at the end of 2022.*"

There are some who believe some of the VC crowd that triggered the run had ulterior motives. Scott Galloway: "*In sum, venture capital firms that have a vested interest in destabilizing the banking system and the dollar, via crypto investments, have morphed from Americans to agents of chaos.*" Bitcoin is up since this all started.

The SVB debacle has made the Fed's decision on rates harder. Before SVB, consensus expectation was for .5% (50 basis points or bps) next week but now people are expecting 25bps with a decent probability of nothing. Swaps are now pricing in 100bps of rate cuts by end of year.

JPMorgan is loving the SVB debacle as it can't handle all of its deposit inflows. If you are an SVB depositor and want to move to JP Morgan Chase you have to wait four months.

Enough about SVB. Here is a simple but good graphic:



Companies are tightening their belts, especially in technology, and streamlining. People like Facebook CEO Mark Zuckerberg are talking about how "flatter is faster" and "leaner is better," From WSJ: "*a renewed emphasis across U.S. companies on cutting costs and stamping out waste….After years of emphasizing growth, many executives have turned their focus inward in recent months, looking for any chance to improve operations and speed up decision making."* Zuckerberg wrote a letter to employees when announcing layoffs which appears at end of this post.

ChatGPT4 is out and the race is on. Learned a new term as higher education tries to figure out the impact on cheating — "AIgerism."

Is competition between employees a good management technique? I believe so if you have the right employee pool. Hiring ambitious, competitive people (like former college athletes) and giving them clear accountability and results transparency always worked for me. lost-your-drive-at-work-maybe-you-need-a-rival The trend is away from this model to a "can't we all get along and collaborate." Some schools use purple pens rather than red to make comments/grading less harsh. Go to France if that is what you want.

Don't expect a French pension if you move. Last week I wrote about how our aging demographic makes the current Medicare and Social Security programs headed to insolvency. This is not a unique problem to the US. The French government is trying to change its pension system and facing all kinds of protests. It is almost impossible to ever take away a government entitlement program. From WSJ: "*France had more than four workers for every retiree in the early 1960s, according to the government. That figure stood at 1.7 in 2020, and it is projected to fall to 1.5 over the next decade,"* You have to respect Macron who did the right thing and invoked powers to make changes without Parliament and moved the retirement age from 62 to 64 despite public protests.

Crazy stat: There are more than 500 Americans still missing in Mexico according to NPR. I can't believe that is true but here is the story spring-break-mexico-travel-advisory-violent-crime

Want a quick way to judge how well a school is run? Look at the clocks. High correlation between accurate clocks and the quality of a K-12 school.

Has the magical diet pill finally arrived? Lots of attention being paid to GLP-1 drugs like Ozempic. Developed to treat Type 2 diabetes, these drugs reduce the speed with which the stomach empties and thus suppresses appetites. People are seeing drastic weight losses. Technically, patients are only supposed to receive if their BMI is over 30, there is lots of off-label use going on and even WeightWatchers has purchased a telehealth provider focused in this area. However, watch out for "Ozempic face". todayonozempic

RIP the "college for all" movement where it was assumed you should go to college. Tenure and faculty are killing higher education. The excessive cost built into the financial model and the opposition to innovation have led to an unsustainable system which has now received a fatal blow based on structural shortage of labor. Employers no longer care if you went to college. The "college for all" model is dead. Alternative credentials and pathways to a job are booming. more-students-are-turning-away-from-college-and-toward-apprenticeships

Jml

Update on Meta's Year of Efficiency (link)

March 14, 2023

Mark Zuckerberg just shared the following with Meta employees:

Meta is building the future of human connection, and today I want to share some updates on our Year of Efficiency that will help us do that. The goals of this work are: (1) to make us a better technology company and (2) to improve our financial performance in a difficult environment so we can execute our long term vision.

Our efficiency work has several parallel workstreams to improve organizational efficiency, dramatically increase developer productivity and tooling, optimize distributed work, garbage collect unnecessary processes, and more. I've tried to be open about all the work that's underway, and while I know many of you are energized by this, I also recognize that the idea of upcoming org changes creates uncertainty and stress. My hope is to make these org changes as soon as possible in the year so we can get past this period of uncertainty and focus on the critical work ahead.

Here's the timeline you should expect: over the next couple of months, org leaders will announce restructuring plans focused on flattening our orgs, canceling lower priority projects, and reducing our hiring rates. With less hiring, I've made the difficult decision to further reduce the size of our recruiting team. We will let recruiting team members know tomorrow whether they're impacted. We expect to announce restructurings and layoffs in our tech groups in late April, and then our business groups in late May. In a small number of cases, it may take through the end of the year to complete these changes. Our timelines for international teams will also look different, and local leaders will follow up with more details. Overall, we expect to reduce our team size by around 10,000 people and to close around 5,000 additional open roles that we haven't yet hired.

This will be tough and there's no way around that. It will mean saying goodbye to talented and passionate colleagues who have been part of our success. They've dedicated themselves to our mission and I'm personally grateful for all their efforts. We will support people in the same ways we have before and treat everyone with the gratitude they deserve.

After restructuring, we plan to lift hiring and transfer freezes in each group. Other relevant efficiency timelines include targeting this summer to complete our analysis from our hybrid work year of learning so we can further refine our distributed work model. We also aim to have a steady stream of developer productivity enhancements and process improvements throughout the year.

As I've talked about efficiency this year, I've said that part of our work will involve removing jobs — and that will be in service of both building a leaner, more technical company and improving our business performance to enable our long term vision. I understand that this update may still feel surprising, so I'd like to lay out some broader context on our vision, our culture, and our operating philosophy.

Building a Better Technology Company

Every day Meta builds new ways for people to feel closer. This is a fundamental human need that may be more important in today's complex world than ever. One day we hope to enable every person to feel as strong a sense of connection as you feel when you're physically with someone you love.

We do leading work across a wide range of advanced technologies and then distill that into inspiring products that improve people's lives. We do this with AI to help you creatively express yourself and discover new content, with the metaverse to deliver a realistic sense of presence, with new media formats to create richer experiences, with encryption to let you communicate privately in more and more ways, and with business tools to help reach customers, create opportunity and grow the economy.

Simply put: if you want to invent the future or apply the best ideas to reach people at the greatest scale, then Meta is the best place to do that.

With that in mind, here are some of the cultural principles that are guiding our efficiency work towards making Meta an even stronger technology company:

Flatter is faster

It's well-understood that every layer of a hierarchy adds latency and risk aversion in information flow and decision-making. Every manager typically reviews work and polishes off some rough edges before sending it further up the chain.

In our Year of Efficiency, we will make our organization flatter by removing multiple layers of management. As part of this, we will ask many managers to become individual contributors. We'll also have individual contributors report into almost every level — not just the bottom — so information flow between people doing the work and management will be faster.

Of course, there are tradeoffs. We still believe managing each person is very important, so in general we don't want managers to have more than 10 direct reports. Today many of our managers have only a few direct reports. That made sense to optimize for ramping up new managers and maintaining buffer

capacity when we were growing our organization faster, but now that we don't expect to grow headcount as quickly, it makes more sense to fully utilize each manager's capacity and defragment layers as much as possible.

Leaner is better

Since we reduced our workforce last year, one surprising result is that many things have gone faster. In retrospect, I underestimated the indirect costs of lower priority projects.

It's tempting to think that a project is net positive as long as it generates more value than its direct costs. But that project needs a leader, so maybe we take someone great from another team or maybe we take a great engineer and put them into a management role, which both diffuses talent and creates more management layers. That project team needs space, and maybe it tips its overall product group into splitting across multiple floors or multiple time zones, which now makes communication harder for everyone. That project team needs laptops and HR benefits and may want to recruit more engineers, so that leads us to hire even more IT, HR and recruiting people, and now those orgs grow and become less efficient and responsive to higher priority teams as well. Maybe the project has overlap with work on another team or maybe it built a bespoke technical system when it should have used general infrastructure we'd already built, so now it will take leadership focus to deduplicate that effort. Indirect costs compound and it's easy to underestimate them.

A leaner org will execute its highest priorities faster. People will be more productive, and their work will be more fun and fulfilling. We will become an even greater magnet for the most talented people. That's why in our Year of Efficiency, we are focused on canceling projects that are duplicative or lower priority and making every organization as lean as possible.

Keep technology the main thing

We are a technology company, and our ultimate output is what we build for people. Everything else we do is in service of that.

As we've grown, we've hired many leading experts in areas outside engineering. This helps us build better products, but with many new teams it takes intentional focus to make sure our company remains primarily technologists.

As we add different groups, our product teams naturally hire more roles to handle all the interactions with those other groups. If we only rebalanced the product teams towards engineering, those leaner product teams would be overwhelmed by the volume of interactions from other groups.

As part of the Year of Efficiency, we're focusing on returning to a more optimal ratio of engineers to other roles. It's important for all groups to get leaner and more efficient to enable our technology groups to get as lean and efficient as possible. We will make sure we continue to meet all our critical and legal obligations as we find ways to operate more efficiently.

Invest in tools to get more efficient

We're focused on the long term. That means investing in tools that will make us most effective over many years, not just this year — whether that's building AI tools to help engineers write better code

faster, enabling us to automate workloads over time, or identifying obsolete processes that we can phase out.

Our developer tooling work is underway and seeing good results. For example, Buck2 is our new open source build system that compiles builds around 50% faster so engineers can spend more time iterating and less time waiting. Our analysis found that engineers whose builds were sped up by Buck2 often produced meaningfully more code.

In-person time helps build relationships and get more done

We're committed to distributed work. That means we're also committed to continuously refining our model to make this work as effectively as possible.

Our early analysis of performance data suggests that engineers who either joined Meta in-person and then transferred to remote or remained in-person performed better on average than people who joined remotely. This analysis also shows that engineers earlier in their career perform better on average when they work in-person with teammates at least three days a week. This requires further study, but our hypothesis is that it is still easier to build trust in person and that those relationships help us work more effectively.

As part of our Year of Efficiency, we're focusing on understanding this further and finding ways to make sure people build the necessary connections to work effectively. In the meantime, I encourage all of you to find more opportunities to work with your colleagues in person.

Improving Business Performance in a Difficult Economic Environment

In addition to helping us build a better technology company, our other goal for the Year of Efficiency is to improve our business performance given the new economic reality. Profitability enables innovation. Operating our business more efficiently will give us the resources and confidence to achieve our long term vision by delivering sustainable financial results that make us an attractive company to work at and invest in.

When I wrote my first letter to investors during our IPO, I described a basic principle that is still true today: "we don't build services to make money; we make money to build better services."

For most of our history, we saw rapid revenue growth year after year and had the resources to invest in many new products. But last year was a humbling wake-up call. The world economy changed, competitive pressures grew, and our growth slowed considerably. We scaled back budgets, shrunk our real estate footprint, and made the difficult decision to lay off 13% of our workforce.

At this point, I think we should prepare ourselves for the possibility that this new economic reality will continue for many years. Higher interest rates lead to the economy running leaner, more geopolitical instability leads to more volatility, and increased regulation leads to slower growth and increased costs of innovation. Given this outlook, we'll need to operate more efficiently than our previous headcount reduction to ensure success.

In the face of this new reality, most companies will scale back their long term vision and investments. But we have the opportunity to be bolder and make decisions that other companies can't. So we put

together a financial plan that enables us to invest heavily in the future while also delivering sustainable results as long as we run every team more efficiently. The changes we're making will enable us to meet this financial plan.

I believe that we are working on some of the most transformative technology our industry has ever seen. Our single largest investment is in advancing AI and building it into every one of our products. We have the infrastructure to do this at unprecedented scale and I think the experiences it enables will be amazing. Our leading work building the metaverse and shaping the next generation of computing platforms also remains central to defining the future of social connection. And our apps are growing and continuing to connect almost half of the world's population in new ways. This work is incredibly important and the stakes are high. The financial plan we've set out puts us in position to deliver it.

Looking Ahead

I recognize that sharing plans for restructuring and layoffs months in advance creates a challenging period. But last fall, we heard feedback that you wanted more transparency sooner into any restructuring plans, so that's what I'm trying to provide here. I hope that giving you a timeline and principles for what to expect will help us get through the next couple of months and then move forward as we implement these changes that I believe will have a very positive impact on how we work.

In terms of how we should operate during this period, I encourage each of you to focus on what you can control. That is, do great work and support your teammates. Our community is extremely resilient. Change is never easy, but I know we'll get through this and come out an even stronger company that can build better products faster and enable you to do the best work of your careers.

This post contains forward-looking statements regarding our future business plans and expectations. These forward-looking statements are only predictions and may differ materially from actual results due to a variety of factors. Because some of these risks and uncertainties cannot be predicted or quantified and some are beyond our control, you should not rely on our forward-looking statements as predictions of future events. More information about potential risks and uncertainties that could affect our business and financial results is more fully detailed under the caption "Risk Factors" in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 2, 2023, which is available on our Investor Relations website at investor.fb.com and on the SEC website at http://www.sec.gov*. In addition, please note that the date of this post is March 14, 2023, and any forward-looking statements contained herein are based on assumptions that we believe to be reasonable as of this date. We undertake no obligation to update these statements as a result of new information or future events.*

J. Michael Locke
Musings

#217: Musing
March 25, 2023

Great quote in the wake of SVB. *"Capitalism without failure is like religion without hell,"* Berkshire Hathaway Inc. Vice Chairman Charlie Munger has said (WSJ) but he also added *"I'd prefer to live in a world where nobody did anything undisciplined or stupid and so forth, but we don't live in that kind of a world. And therefore the decisions have to be made for the way the world is, not the way we'd like it to be."*

Our financial system is sound and our financial institutions are appropriately capitalized. All of the current "noise" is mostly about psychology and confidence rather than fundamentals.

A new bewildering aspect of the SVB collapse has come to light. When the bank was getting crushed with withdrawals and it needed backing from the Fed, it couldn't get it because the Fed doesn't move money after 4pm est. So the VC crowd is pulling its money out vis iPhone in California and the systems in DC are done for the day (according to Bloomberg's Matt Levine).

The SVB collapse and resulting financial system fragility has finalized the ending of Fed rate increases (some argue it is worth 100bps or 1% worth of higher rates) and I think it is time to start buying some equities (stock). Credit going to be tighter and economic growth slowing (housing prices down year over year). Some good companies selling at pretty low valuations. Talked to a VC who indicated a mezzanine round priced to yield over 20% so what does that imply on equity returns priced into today's valuations – 25%-30%? I bet we see Warren Buffett doing some big bargain hunting next time he reports.

A senior Starbuck's executive once said "every company is now a technology company" as she referenced the importance of their mobile app, online payments and drink processing systems. You could also say "every worker is now a technology worker." Everyone is operating in productive applications (like Microsoft office), using collaborate technologies like Microsoft Teams, Slack or Zoom and increasing having to work in excel processing data and even building models and pivot tables to help make decisions. technology-skills-employees-should-have . Universities should be modernizing their General Education requirements to include technology. I don't think anyone should get a bachelor's degree in today's world (certainly not in business) without some understanding of an application, database and machine learning.

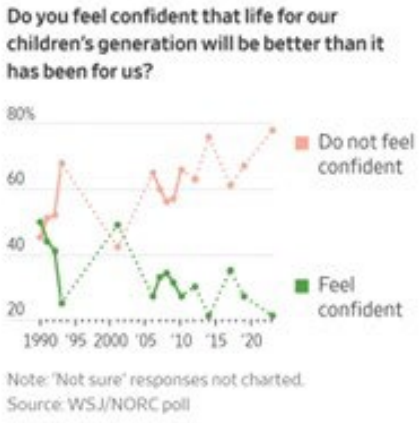
You had to admire the patience of TikTok CEO Shou Chew as he was berated by members of Congress in a hearing this week. I don't know what I think should be done or not about TikTok. The Chinese government having all of that data on the 150mm US users is concerning but TikTok has taken steps to protect the data. From Chew's testimony: *"We (TikTok) have formed a special-purpose subsidiary, TikTok U.S. Data Security Inc. (USDS), that currently has nearly 1,500 full-time employees. We expect that number to grow significantly over the coming year. USDS includes the functions that oversee protected U.S. user data and the underlying TikTok U.S. platform. To ensure that the data of all Americans is stored in America and hosted by an American headquartered company, we have contracted with Oracle, an*

industry leader in cloud-based services, to store TikTok's U.S. user data. Currently, 100 percent of U.S. user traffic is being routed to Oracle and USDS-controlled infrastructure in the United States. USDS is running our recommendation system for U.S. users, which determines what appears in the For You feed, in the Oracle Cloud Infrastructure. Moreover, Oracle has already begun inspecting TikTok's source code and will have unprecedented access to the related algorithms and data models. No other social media company, or entertainment platform like TikTok, provides this level of access and transparency. As of January 18, 2023, TikTok's access to systems containing new protected data are exclusively controlled by USDS."

Generally, I found the work of "sell-side" equity research analysts lacking in rigor. These individuals work for the investment banks and help "promote" the bank's clients by providing insights on stocks. I am always amazed at the acceptance of the company management's "story" and reluctance to engage in hard questioning. The "buy-side" (hedge funds, mutual fund managers etc.) are more rigorous IMO as they are risking capital buying something and really dig in.

The English pound is undervalued by over 10% against the dollar. At least that is according to the Big Mac index created by the Economist. *"THE BIG MAC index was invented by The Economist in 1986 as a lighthearted guide to whether currencies are at their "correct" level. It is based on the theory of purchasing-power parity (PPP), the notion that in the long run exchange rates should move towards the rate that would equalise the prices of an identical basket of goods and services (in this case, a burger) in any two countries…..Burgernomics was never intended as a precise gauge of currency misalignment, merely a tool to make exchange-rate theory more digestible. Yet the Big Mac index has become a global standard, included in several economic textbooks and the subject of dozens of academic studies. For those who take their fast food more seriously, we also calculate a gourmet version of the index."* big-mac-index

Parents are increasingly pessimistic that their children are going to have better lives. Another reflection of the negative mood of our country.



Maybe we all need a puppy. I am a big fan of dog ownership (and pets in general). To me, it is part of raising kids and building a home where they learn responsibility and the inability to have total control of things. According to the AVMA, 45% of U.S. households own a dog (cats – 26%). I was quite surprised by the most popular dog according to CNBC --- the French Bulldog! Here is the Top 10:

1. French Bulldogs
2. Labrador Retrievers
3. Golden Retrievers
4. German Shepherd Dogs
5. Poodles
6. Bulldogs
7. Rottweilers
8. Beagles
9. Dachshunds
10. German Shorthaired Pointers

French bulldogs? Show how off center I am on this one. Some believe this represents shifting societal norms post-Covid. *"The French bulldog's popularity is not just a reflection of a desire to imitate the habits and predilections of the rich and famous, however. My personal theory is that it reflects the changing nature of what many Americans are looking for in a family pet. In the post-Covid era, these more inward-looking times call for a pup that is less demanding, a pet whose company you can enjoy within the quiet and solace of your four walls."* french-bulldog-most-popular-over-labrador-retriever-khan

Selena Gomez has over 400mm followers on Instagram. Crazy. More than the entire US population.

The City of Chicago issues a camera-based traffic ticket every 12 seconds. Accidents are actually up since they got put in. Speed cameras are just a revenue grab.

The Japanese love their baseball. From Google: *"Japan's World Baseball Classic win over Korea drew 62 million viewers in Japan alone — more than the most-watched World Series game ever. Nearly half of all Japanese households were tuned in."* (thanks Rich "the champ" Schumacher).

If you are headed to Florida for spring break – keep an eye out for Seaweed. Apparently, there is a gigantic blob of seaweed (bigger than the whole US) coming our way. sargassum-seaweed-blob-explained-florida. I have not read anything about it being connected to global warming but I think the rising temperature of the ocean's is wreaking havoc on the marine ecosystem.

jml

J. Michael Locke
Musings

#218: Musing
April 8, 2023

I didn't publish a musing last week. Simply didn't have much to share and I have tried to learn to be better "shutting up" in meetings etc. It is alright to be silent and listen.

I believe the recession is here and the inflation scare is over. It will just take a while for all of our "backward looking measurements" to show it. Job openings down under 10mm. Previous reports on unemployment filings revised upwards. New hires decelerating. Hours worked no longer increasing. Indeed job postings declining. Now you will see a retraction in credit as banks go risk averse on lending following the SVB debacle.

Consumers (2/3 of GDP) are also going to run out of savings to spend. The personal savings rate went way up in 2020 due to government stimulus and the lockdown reducing spending. Now, spending has been way up and government stimulus is over (no more checks, childhood tax credits, delay in student loan payments etc.) The savings rate is below pre-Covid levels and consumption will get reduced (especially in light of depressed values of housing and stocks/401ks). More people are coming back into workforce because they need the money.

I worry about the coming decade based on our population dynamics and screwed up immigration system. From WSJ: *"The World Bank is warning of a "lost decade" ahead for global growth, as the war in Ukraine, the Covid-19 pandemic and high inflation compound existing structural challenges….Three main factors are behind the reversal in economic progress: an aging workforce, weakening investment and slowing productivity."* One wildcard is the productivity uptick from AI. Some early studies are showing a significant increase in the output per worker with AI (materially less time to write code or a report). Goldman Sachs thinks it might double the rate of productivity growth.

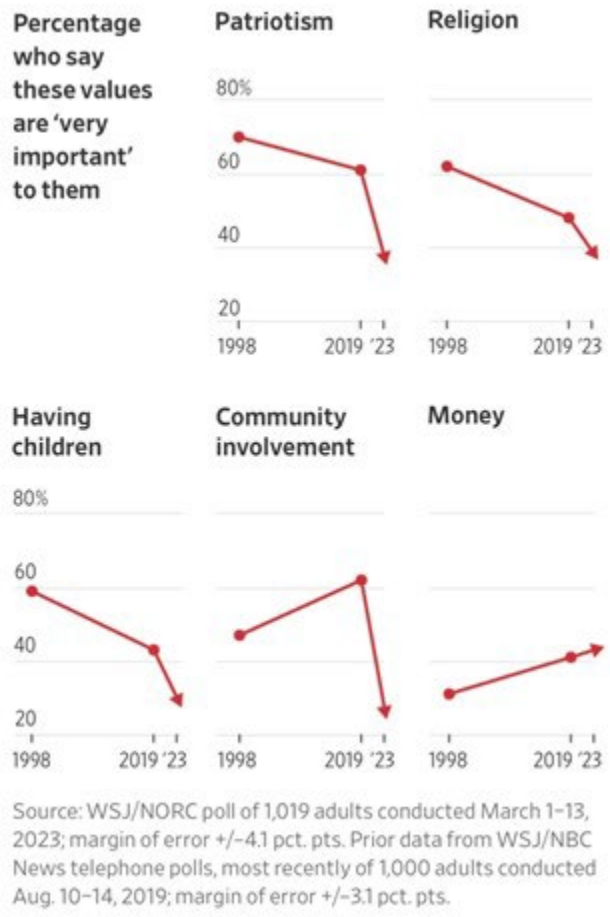
We are encouraging our children to move south. Economic growth creates opportunity and a healthier, happier community. Unfortunately, Chicago and Illinois are in structural decline (accelerated by bad policies IMO). Moody's Analytics created an analysis of best labor markets.

1. Nashville, Tenn.
2. Austin, Texas
3. Jacksonville, Fla.
4. Dallas, Texas
5. Raleigh, N.C.
6. Atlanta, Ga.
7. Orlando, Fla.
8. Charlotte, N.C.
9. Salt Lake City, Utah
10. Miami, Fla.

I would start by going south for college. Many southern schools are bucking the overall decline in higher education enrollments. The "you have to go to college" for economic success mantra is over. The labor shortage has opened the aperture for corporate recruiters to those without degrees. The ever-escalating cost of higher education has hurt the ROI. What matters more now is your competencies and not your BA. Better yet, show you know how to use ChatGPT. chatgpt-is-the-newest-in-demand-job-skill-that-can-help-you-get-hired.html

When interviewing, really drill down on why someone left their last job. Few people are fired anymore — rather, they get an opportunity to resign so they can say that when interviewing. You have to drill down and get specifics on last performance review (ask for it) and be skeptical when an answer is given.

I believe our country is losing its foundation. Our capitalistic model has been the envy of others as we built great companies and raised the overall wealth of our citizens in a large part due to hard work. While the Europeans took August off and the French retired at 62, Americans have burned the extra hours to innovate. We supplemented this hard work with a commitment to our communities and our families. Many of these traits are now declining. From a WSJ survey, look at these stunning graphs. Depressing. americans-pull-back-from-values-that-once-defined-u-s-



Source: WSJ/NORC poll of 1,019 adults conducted March 1–13, 2023; margin of error +/–4.1 pct. pts. Prior data from WSJ/NBC News telephone polls, most recently of 1,000 adults conducted Aug. 10–14, 2019; margin of error +/–3.1 pct. pts.

I consider Jamie Dimon, who runs JPMorgan Chase, as one of our country's best executives right now. He published his annual letter this week and here is a summary of the section of his letter on management. The full section of the letter (the whole letter is 46 pages!) is after my initials below:

MANAGEMENT LESSON: THE BENEFIT OF PURPOSE AND THE TREMENDOUS VALUE OF WORK

- *Perfect your Picasso — have something to strive for and motivate you.*
- *Recognize the tremendous value of work.*
- *Nurture the extraordinary value of trust.*
- *Combat the enemy within.*
- *Drive high performance, the right way.*
- *Retaining talent is important and so is life outside of work.*

Let's all try to improve the "niceness" quotient of our communities by saying hello/good morning or whatever to those we pass in walking on the street or path. I try to do this and am always stunned by those who don't make eye contact and just frown as they walk past you. At church, I would say almost 100% of people give a warm hello. Makes it a nice place to be.

Happy Easter to those celebrating. Avoid pink and purple peeps (just put them in microwave for fun) as they contain red dye #3 which is a carcinogen. red-dye-no-3-peeps-wellness

Jml

Jamie Dimon: "Management Lesson: The Benefit of Purpose and the Tremendous Value of Work"

Great management and leadership are critical to any large organization's long-term success, whether it is a company or a country. Strong management is disciplined and rigorous. Facts, analysis, detail ... facts, analysis, detail ... repeat. You can never do enough, and it does not end. But creating an exceptional management team is an art, not a science. In the section on Investments, I described what we consider our most important investment: our people, who in accounting terms are not even considered an asset. But we all understand the value of building a great team. In the rest of this section, I talk about some management lessons — I always enjoy sharing what I have learned over time by watching others and through my own successes and failures.

PERFECT YOUR PICASSO — HAVE SOMETHING TO STRIVE FOR AND MOTIVATE YOU.

It seems to me that people are happier and more motivated when they have a passion, a moral purpose, something they are devoted to — when they are painting their own Picasso, striving for something. Some people find it in religion, the military, teaching, science, athletics, parenthood, entrepreneurship or simply being their best at their craft. Whatever it is, all these things combined — when done well — create a wonderful society. And most people I know get an enormous sense of satisfaction from the exploration and learning that take place on the journey. Personally and professionally, I am motivated by the desire to leave the world a better place — if I do my job well, this company can do so much for individuals, shareholders, communities, countries and humanity. I am motivated when I see our customers and employees in action, knowing there is increased opportunity for each of them when we do better as a company. I am motivated when I go to our annual National Achievers Conference, which recognizes some of our most successful bankers and managers in the branches. Sometimes they have tears in their eyes as they accept this recognition — many have never been recognized before — and it is hard to describe how this deepens my own sense of responsibility.

RECOGNIZE THE TREMENDOUS VALUE OF WORK.

Work, all work, has value. It was a beautiful thing during the onset of COVID-19 when we celebrated our essential workers (in New York City, it was unbelievable to hear the sound of 1 million New Yorkers shouting thanks out their windows every evening at 7:00), including nurses, firefighters, emergency medical service staff, sanitation workers and police officers (although recently that spirit seems to have waned). They were always essential workers, and they appreciated our recognition. Along the same lines, some in society diminish "starter" jobs, such as cashiers, office workers, bank tellers, fast food cooks and others. These "starter" jobs bring dignity, provide security for many families and create a solid work ethic. Often, they result in better social outcomes in terms of reductions in drug use and crime, similar to outcomes we have seen from summer youth employment. For many, these jobs are the first rung on the career ladder, leading to bigger and bigger jobs. For example, more than 95% of Domino's franchise owners started as delivery drivers or pizza makers. At JPMorgan Chase, about one-third of our branch managers started as tellers or personal bankers. I have expressed regret for many years in this letter that we, as a society, have not found a way to better prepare our young people for jobs, whether through conventional schooling or apprenticeships and skills-based training, which is more important today than ever before. Offering better training and getting more income to lower-paid workers would hugely benefit the economy, the individuals involved and social outcomes — and would help rectify income inequality. We must do a better job improving the outcomes of an education; i.e., that it leads to well-paying jobs. I also believe that we should immediately increase the minimum wage and the EITC to both entice more people into the workforce and to get more income into the hands of the lower paid.

NURTURE THE EXTRAORDINARY VALUE OF TRUST.

Trust is earned, given and received. To maximize human creativity and freedoms — which are the greatest gifts of capitalism — trust is essential. We must make it safe to argue, disagree and challenge each other while continuing to dig deeper in areas where we're not doing as well as we'd like. It must be okay to fail or make mistakes. Trust is the force multiplier that gets the best out of everyone. You do not earn trust if you finger-point, don't admit to your own mistakes or don't share the credit.

COMBAT THE ENEMY WITHIN.

While trust is the force multiplier, a workplace cannot devolve into excessive, feel-good collaboration and bureaucracy. I have seen work environments in which everyone is so nice to each other and so collaborative that it slowly creates crippling bureaucracy as everyone's opinion is sought out — and everyone has a veto. The other disease that arises from within is a workplace completely run by corporate headquarters: It is very easy to be critical of people in the field for their failures when you don't walk in the trenches with them. Very often, the enemy within fights change, resists making bold decisions and balks at investments that are hard, such as growing the salesforce. When the enemy within takes over, energy and creativity wither quickly ... although it may take decades for the company to die.

DRIVE HIGH PERFORMANCE, THE RIGHT WAY.

So how do you drive high performance while creating a safe workplace that values relationships built on trust and respect? The best leaders treat all people properly and respectfully, from clerks to CEOs. Everyone needs to help one another at a company because everyone's collective purpose is to serve clients. When strong leaders consider promoting people, they pick those who are respected by their

colleagues and ask themselves, "Would I want to work for him? Would I want my kid to report to her?" We must strive for continuous improvement, set high standards and emphasize the negatives when we observe them but always remember to make life fun. When I travel around the world and see our people and our company in action, I love it. And you must make it fun — not only because it has a positive effect on retention, attitude and the overall culture of the company but also because it leads to sharing and truth-telling. I've enjoyed the show "Ted Lasso." He tries to get the best out of everybody, and he displays great gratitude. While I could get a little better at showing more gratitude on a day-to-day basis with my management team (I did give them biscuits in little pink boxes this year), they do know how much I trust, respect, appreciate and admire them. Three additional things: You don't create a winning team by pandering to individuals. You must deal with conflict immediately, directly and forthrightly — problems do not age well. When people cannot do their job, they should not have that job. We should either work with them to find another role where they can thrive or ask them to leave. Just do it respectfully to everyone involved — do not embarrass people who have been working for the company. Bring energy and drive — not just every day — but to every meeting and interaction. Finally, sharing credit, recognizing the contributions of others, and not casting blame or finger-pointing all are critical to earning trust.

RETAINING TALENT IS IMPORTANT AND SO IS LIFE OUTSIDE OF WORK.

Retaining your best talent is essential. In addition to being treated with enormous respect, what people want most is a challenging job with meaningful work. All companies have turnover in staff, and all turnover is not necessarily bad. People seek out new challenges, may find outside advancement opportunities or may just want a change in lifestyle. Sometimes good people leave because they are getting a better opportunity or increased compensation at another company. You should not be angry when someone receives a higher compensation offer from another company. No one likes to feel they are being taken advantage of — everyone wants to go home each day thinking they are treated fairly and equitably. And everyone has their own needs in terms of family, income, work-life balance and other factors. But turnover can be bad, too. It is bad when inefficiency or bureaucracy or ineffective managers drive out good talent. It is still true that most people leave their job because they don't like their boss. We also recognize and ask our employees to take care of their mind, body, spirit, soul, friends and family. While we do what we can to help them, we recognize that these are the most important things in their life, and we try to constantly remind them to give the needed time and attention to what they cherish most.

J. Michael Locke
Musings

#219: Musing
April 15, 2023

The consumer is dialing back as the recession arrives and labor market softens. From US News "*Retail sales dropped 1% in March from February, a sharper decline than the 0.2% fall in the previous month. Lower sales of autos, electronics, and at home and garden stores drove the decline*."

Another metric which provides forward visibility on the softening of our economy is inventory levels. After a period of scarcity through supply chain disruption, many companies are now overstocked and have elevated inventory levels. Look at the PC market. From an IDC analysis, global PC shipments were down 29% in Q1 (https://www.idc.com). Appears that PC sales had a sugar high during Covid with the arrival of remote work and now we are getting back to normal.

The amount of "extra expense" that was being carried by technology companies is stunning. At Twitter, Musk has cut the workforce to roughly 1,500 employees, down from 8,000 when he took over. As far as I am aware, the platform is still working. Every company has extra people. Don't confuse someone having work to do equivalent to the value of the work being worth the compensation. Corporations often (I would say usually) have activities they think need to be completed which are "wants" and not "needs."

I am a big fan of using variable labor (contractors, service providers, gig workers) as a way to manage your cost structure. Layoffs are painful so full-time employees are more of a fixed cost and also expensive (most companies spend another 25-30% of salary on benefits like healthcare, 401k etc.). Technology platform have made it easier to tap into the gig economy. If you do this, make sure the contractors feel part of the company and I recommend including them on all company meetings, communications etc.

One downside of this model is that too many managers do the "contractor end-around" to avoid hiring limitations. While most companies have tight control on hiring (HR has to be involved to add someone to payroll and benefits etc.), they don't have the same control on the use of contractors who just submit an invoice and get paid via check like a vendor. Depending on the size of an organization, it can be hard for a leader to even know when contractors are being used. This is also happening in the federal government and even the military. There are big businesses providing soldiers for hire and lots of contractors working with national security information such as Edward Snowden which creates another set of issues. The 21 year old national guardsmen who got arrested was not a contractor technically but national guard is a part time gig and should be treated differently for clearances. How in the world did he have access to such important information that he could harm international relations? He couldn't buy a beer last year and lived with his parents.

Learned a new term about the large language model (LLM) AI chatbots like ChatGPT --- "hallucinating." I guess the AI engine will invent an answer if it does not know one and they call it hallucinating.

Out in Silicon Valley there is a well-known incubator where startups are nurtured called Y-Combinator (It was an accelerant on the Silicon Valley Bank run.). Interesting to see it's "rules" for startup tech founders:

1. Launch now
2. Build something people want
3. Do things that don't scale
4. Find the 90 / 10 solution
5. Find 10 -100 customers who love your product
6. All startups are badly broken at some point
7. Write code – talk to users
8. "It's not your money"
9. Growth is the result of a great product not the precursor
10. Don't scale your team/product until you have built something people want
11. Valuation is not equal to success or even probability of success
12. Avoid long negotiated deals with big customers if you can
13. Avoid big company corporate development queries – they will only waste time
14. Avoid conferences unless they are the best way to get customers
15. Pre-product market fit – do things that don't scale: remain small/nimble
16. Startups can only solve one problem well at any given time
17. Founder relationships matter more than you think
18. Sometimes you need to fire your customers (they might be killing you)
19. Ignore your competitors, you will more likely die of suicide than murder
20. Most companies don't die because they run out of money
21. Be nice! Or at least don't be a jerk
22. Get sleep and exercise – take care of yourself

Another new term for me --- "Tip Baiting." I guess in the food delivery apps like Uber or Doordash you can put in a large tip when ordering but then change it after delivery. This "tip baiting" motivates someone to take the order and hurry to deliver it under false pretenses.

Interesting blog by Ken Kaufman who is the founder of prestigious healthcare consulting group KaufmanHall. He writes about how our hospital-based delivery model is outdated – like Ford's combustion engine lineup – and needs to rapidly change. *"More recently, the longstanding traditional patient-physician-referral relationship began to change. A smarter, internet-savvy, and self-interested patient population was looking for different aspects of service in different situations. In some cases, patients' priority was convenience. In other cases, their priority was affordability. In other cases, patients began going to great lengths to find the best doctors for high-end care regardless of geographic location. In other cases, patients wanted care as close as their phone…. Around the country, hospitals and health systems have seen these environmental changes and adjusted their strategies, but for the most part only incrementally. The strategic focus remains centered on clinical quality delivered on campus, while convenience, access, value, affordability, efficiency, and many virtual innovations remain on the strategic periphery."* thoughts-ken-kaufman/traditional-hospital-strategy-aging-out. Personally, I am thinking about signing up for One Medical as my primary care provider to see what Amazon is doing with the entry point of healthcare.

I have not watched it, but everybody raves about Ted Lasso. Here is a LinkedIn post I saw on the 12 lessons from the mythical coach:

1. Believe in yourself
2. Doing the right thing is never the wrong thing
3. All people are different people
4. See good in others
5. Courage is about being willing to try
6. Vulnerability is a strength not a weakness
7. Tell the truth
8. Winning is an attitude
9. Optimists do more
10. Stay teachable
11. Be a goldfish – if you so something wrong do not let it define you. Forget it – like a goldfish – within 10 seconds
12. Happiness is a choice

Good quote from Scott Galloway: "*The strongest brands in the world — MIT, Apple, Hermès, the U.S. — are built on the artificial choking of supply via rejectionist admissions, pricing strategies, production, and visas*."

I would short McDonalds. Not sure what is going on with their "cooking process" but the food just isn't that good anymore. I can only have so many cold quarter pounder w cheese.

Does Ron Desantis wear boots to make himself taller? That is the argument of some in the press. He is about 5'9" which is the average of American men but voters like male candidates to be taller. *"Every president since Jimmy Carter (5'9.5") has been 5'11.5" or taller. We haven't elected a president smaller than the average man in nearly 130 years, when short king William McKinley won his election."* ron-desantis-shoes-boots-high-heels

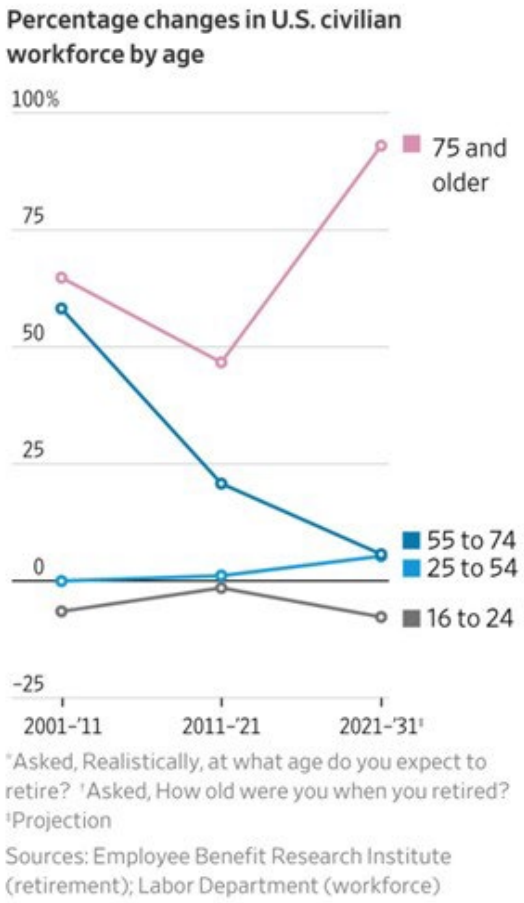
Jml

J. Michael Locke
Musings

#220: Musing
April 22, 2023

Tough time to be in the deal business. Rising rates have disrupted the credit markets and stalled most mergers & acquisitions. Investment banking revenue at big banks down over 20%. Residential home purchases are forms of a leveraged deal and they continue to decline in volume and price. We need to get past the Fed raising rates period as quickly as possible so commerce can start again.

We are desperately in need of more kids and immigrants to expand our workforce. With our population skewed to older Americans, our economy is increasingly dependent on workers in their 70s and 80s.



Looking at this on a job specific level, we are headed into a nursing crisis. Just as nurses take on more of the primary care role in today's healthcare system, we don't have enough. Scary study published this week (research-projects-significant-nursing-workforce-shortages-and-crisis):

1. Approximately 100,000 registered nurses (RNs) left the workforce during the COVID-19 pandemic in the past two years due to stress, burnout and retirements.
2. Another 610,388 RNs reported an "intent to leave" the workforce by 2027 due to stress, burnout and retirement.
3. 188,962 additional RNs younger than 40 years old reported similar intentions.
4. Altogether, about one-fifth of RNs nationally are projected to leave the health care workforce.
5. A quarter to half of nurses reported feeling emotionally drained (50.8%), used up (56.4%), fatigued (49.7%), burned out (45.1%), or at the end of the rope (29.4%) "a few times a week" or "every day."
6. These issues were most pronounced with nurses with 10 or fewer years of experience, driving an overall 3.3% decline in the U.S. nursing workforce in the past two years.

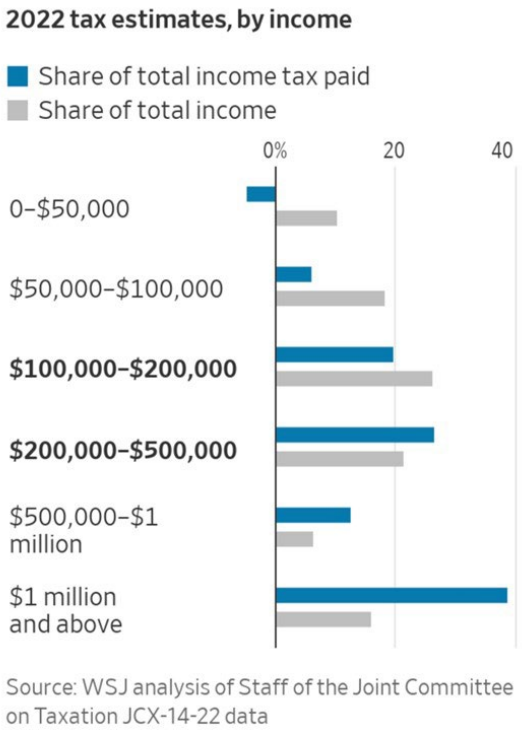
While I sympathize with the difficult work conditions of many nurses, I fear we are also getting soft as a country with people lacking grit. The CEO of MillerKnoll is in the middle of a social media firestorm after she told complaining employees to leave "pity city." Meanwhile, some employers continue to expand time off for their employees. "*employees at NerdWallet get unlimited paid time off, eight hours per quarter of paid time to do volunteer work and a five-week sabbatical after five years on the job. Executives were concerned it isn't enough, said Ms. Luque. So NerdWallet recently began offering four self-care designated days each year. The idea is that the entire company stops working on the same day to make sure everybody feels they can fully disconnect."* I would love to compete with these guys because clearly they have too much margin to afford these kind of benefits. As parents, we need to toughen up our youth.

Is phone-based customer service going to die? I am amazed how our children are so reluctant to call a customer service number. Many big tech companies don't even really offer it. Ever try talk to someone at Amazon or Facebook? It is almost impossible.

Good quote from Elon Musk: "*Success can't just be about solving problems, some things must inspire you.*"

The development of the litigation finance industry is fascinating. Historically, individuals or smaller companies were at a disadvantage suing larger entities due to the expense of long and extensive litigation. Plaintiff lawyers were a financing source as they operated under a contingent fee model where they were not paid for their work until a positive outcome was achieved. Then third parties entered like billionaire Peter Thiel financing the lawsuit by Hulk Hogan which brought down Gawker Media (Gawker had outed Thiel earlier so he had an axe to grind). Then entities set up litigation finance funds (like private equity funds) where a set of managers raised capital and then pursued an investment thesis of picking good lawsuits and bankrolling them in exchange for a percentage of money received. The recent lawsuit with Fox News turned Dominion into a litigation finance play. Staple Street Capital paid $36mm for 76% ownership of Dominion in 2017 and now will receive almost $600mm from the Fox settlement. 16x your money in 5 years is a pretty good investment.

I hate mid-April when we pay large amounts taxes into a government that I consider dysfunctional. I have no problem paying my "fair share" but that term has no definition. Most people don't realize how progressive our current tax code is with millions of people having "negative taxes" as they get a check back without paying taxes due to credits (childhood tax credit). Roughly 50% of Americans do not pay any federal income taxes. Million dollar earners pay almost 40% of all taxes collected. The following shows share of all income compared to share of taxes paid.



So our federal tax system serves as a massive wealth redistribution system. This is not inherently wrong as a well-functioning society can only have so much disparity amongst its members and the knowledge economy is eroding the earnings power of the many. We must support those in need of food, housing and healthcare. The challenge IMO is the waste and inefficiency of government and the danger of lost work ethic when things are given away. I support the concept of requiring something of those receiving entitlements like the newly proposed Republican position on Medicaid where those under 55 "*need to work, enroll in job training or volunteer 20 hours a week. The rule wouldn't apply to the disabled, parents with dependent children, pregnant women, or those in drug treatment.* There is also some level of taxation which will take away the incentive to innovate and build businesses (although I don't think we are near that at this point).

So much for the "Champagne of Beers" in Europe. Miller high life is going to need a new slogan as only products made from grapes in the Champagne region of France can use the term. "*At the request of the trade body defending the interests of houses and growers of the northeastern French sparkling wine, Belgian customs crushed more than 2,000 cans of Miller High Life advertised as such."* https://apnews.com/article/champagne-beer-intellectual-property-belgium-miller-09f27ee4a921c66e9605893c51fb9b91

RIP the presidential aspirations of Ron DeSantis. He has gotten petty and puerile in his fight with Disney and a 6 week ban on abortions is out of sync with the majority of Americans.

Jml

J. Michael Locke
Musings

#221: Musing
April 29, 2023

I can't figure out where the economy is going right now. Slower growth in Q1 with GDP up 1.1% but consumer spending still strong and unemployment claims mild. So much for my writing a month ago that recession was here and consumer was running out of savings to spend. Employment costs up 4.8% from last year and core inflation up 4.6%, so inflation is stubbornly high. Fed likely to keep pushing interest rates up.

Economy might be "too hot" right now but there are long term challenges. GDP (gross domestic product) is heavily driven by the number of people working and their productivity. While technology and other factors can help boost productivity, in the long run you have to have population growth. Immigration is one way to increase your population but the easiest is more kids. Unfortunately in the US, people are simply not having enough kids. Here is a quick table showing some other countries and fertility rates per woman.

Rank	**Country**	**2022 Fertility Rate**
1	Nigeria	6.6
25	Congo	4.2
53	Eqypt	3.2
	World	2.4
96	India	2.1
103	Mexico	2.0
126	France	1.8
133	US	1.8
147	China	1.7
165	Germany	1.6
Data Source: UN on Wikipedia		

We need young men to stop playing video games and get out and date, and we need to improve childcare availability so women don't feel tension between working and being a mom. India is about to overtake China as world's largest country (China blew it with the one child rule). I don't know much about India but was stunned to learn its labor force participation rate is only 40%. Hard to have a decent standard of life when most people don't work. If they get more businesses going and more of those people working, could become a huge economic force.

I am a big believer in passive equity investing. That is, rather than picking individual stocks or putting

money into a stock mutual fund where a manager picks some stocks ("active management"), invest in an exchange-traded fund or ETF which is designed to mimic the overall market like the S&P. Simply put, stock mutual funds underperform the market on average and across long periods of time. Certainly there are some managers who beat the market but the overall category does not, so most people are paying fees to a manager to underperform. Doesn't make any sense. *"Consider a new study that looked at the returns of more than 7,800 U.S. stock mutual funds from 1991 through 2020. It measured their returns against those of a market-matching S&P 500 exchange-traded fund and the total U.S. stock market. The comparisons covered monthly, annual and 10-year periods, as well as each fund's longest track record, within those three decades. On average, only 46% of funds outperformed the total market over monthly horizons; 39% beat the market over 12-month periods; 34% over decadelong horizons; and a mere 24% for their full history."* active-vs-passive-index-fund-beat-the-stock-market . Some recent research also highlights that some of this underperformance is structural. Between having to charge fees, needing to meet redemption requests in down markets and only owning a limited number of stocks, the funds are almost set up not to outperform.

If you can accept the lack of liquidity, the private market may represent a better opportunity than public stock ETFs. From CNBC: *"The structure of corporate America has changed over the last 20 years. In short, companies are staying private for longer. The typical time to an initial public offering (IPO) during 1999-2005 was three years from formation, during which 40% of the value creation occurred. Since 2016, time to IPO is now 10 years from formation, during which 80% of the value creation occurs."*

The State of Texas is working on launching a digital currency backed by gold (thanks Mike Schodrof). Part of the Cryptocurrency "craze" is the desire by many to escape centralized federal government control of money. The challenge is the lack of any "inherent" value in things like Bitcoin. Enter Texas with a digital currency (not subject to the Federal Reserve) with inherent value (backed by gold and exchangeable for gold). Texas-May-Launch-Its-Own-Gold-backed-Digital-Currency. I am not saying this is a good thing, but fascinating. The Federal Reserve does need more accountability and limitations. Right now, it is an economists toga party doing whatever they want.

CEO compensation is out of control. IMO Google had some major missteps last year such as getting outmaneuvered on AI by OpenAI with ChatGPT. Advertising revenue is declining and their cash juggernaut is at risk. In short, no great moves and yet the CEO made $226 million last year! (mostly in stock awards). alphabet-ceo-sundar-pichais-compensation-topped-200-million-in-2022. The CEO compensation market is like a racketeering enterprise where consultants get big fees to create comparables and everyone makes more money as levels move up. Sometimes I think the CEO is clearly exceptional (Tim Cook, Satya Nadella, Reid Hastings) but others are just "doing" the job and I don't see anything exceptional. I bet there are lieutenants at Google who could do just as good a job for $5-10mm rather than $220mm.

Great quote from an Insta video shared with me by John Carolan: *"Tough times create strong men. Strong men create easy times. Easy times create weak men. Weak men create tough times. Many will not understand but you have to raise warriors."*

A good metric to watch to evaluate managerial performance is employee turnover. People want to work for someone who supports them, cares about them, challenges them, teaches them, and helps them grow. Under Cook County Prosecutor Kim Foxx, nearly one-third of prosecutors and staff quit in a 12-month period between 2021 and 2022 (NBC). Glad she is not running again.

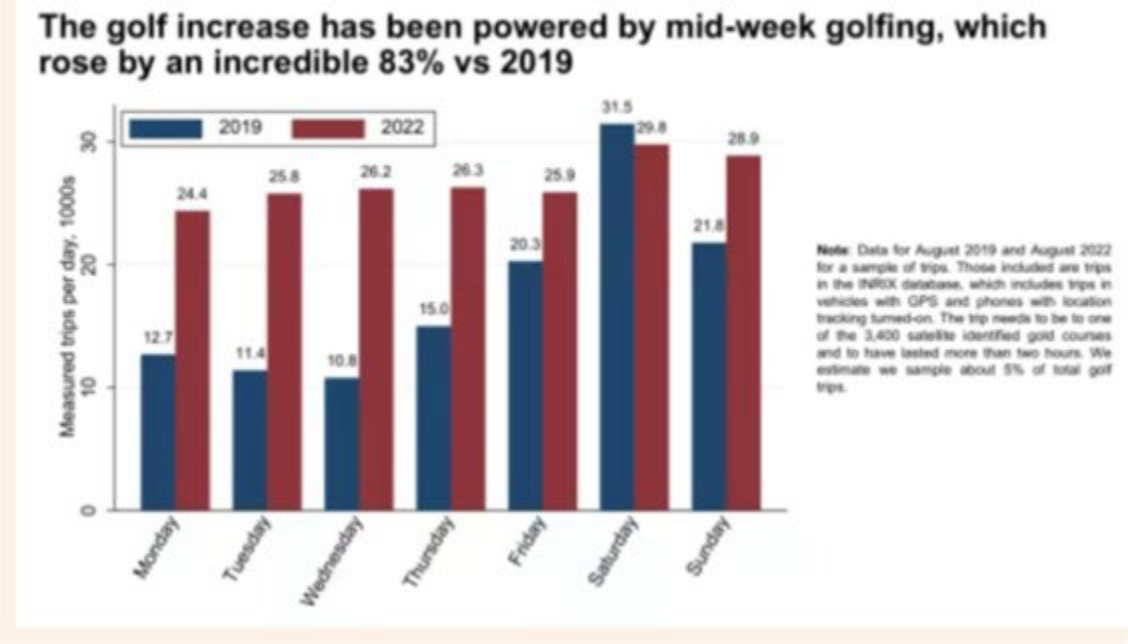
Some amazing stats from Jeff Selingo. I think most people realize the College Board sells names of SAT taker to colleges for marketing but the number is amazing – *"As of 2019, a student's name was sold to colleges, on average, 18 times over her high school career, and some names have been purchased more than 70 times—all at a cost now of 53 cents."*

Deflation continues in America's private colleges. According to a new NACUBO study, private college tuition discount rates hit a record 56.3 percent. Schools are having to "buy" students with big discounts which they package as "institutional scholarships." Don't be fooled by the published tuition rate as on average you get half off. I like the model where the school is open about these numbers. At Miami University in Ohio, they publish a chart showing what discount/scholarship you will get so you have a better sense of the real price.

Hope people didn't follow my recent comment on shorting McDonalds due to food quality. They just reported same store sales up 12% which is amazing.

Crazy story out of Russian. Struggling to get soldiers to fight in Ukraine, they are increasingly turning to "Wagner soldiers" who are recruited from prison by a private company named Wagner. *"Upon completing their time in Ukraine, the prisoners earn a full pardon and return to their previous lives, such as in the case of Alexander Tyutin, a 66-year-old real estate agent who had hired hitmen to kill his business partner and his family as well as his own niece."* mercenary-warlords-troops-terrorize-russia-ukraine-service

Before the pandemic, I would have said that the country club/golf business was a bad one. Turns out Covid was great to both. Initiations fees are up, wait lists are longer and golf rounds are at a record pace. The move to remote/hybrid work and employees having more flexibility is part of it. From the FT: *"Last month researchers at Stanford University and data analytics firm INRIX published a study documenting the extraordinary boom in midweek golfing in the US. Using anonymized mobile phone and GPS data, the authors conclude: 1) Working from Home (WFH) has powered a huge boom in golfing 2) Golfers are playing more golf on weekdays, for example 143% more on Wednesday in 2022 vs 2019 3) Golfers are playing more mid-afternoon, for example 278% more on Wednesday 4pm in 2022 vs 2019."* Here is a graph showing the data by day:



For those planning international travel, watch this one which I never knew about (a friend learned the hard way.) Most countries will not permit a traveler to enter their country if the passport is set to expire within six months after the final day of travel. It takes roughly 12 weeks / 3 months to get a passport renewed so basically renew now if you want to travel abroad over the holidays.

RIP the broadcast news business. It has become the opinion/commentator business (such as Tucker Carlson and Don Lemon) and young people don't care about it. According to BusinessWeek, *"39% of 18-to 24-year-olds considered social media their main source of news last year."*

Jml

J. Michael Locke
Musings

#222: Musing
May 6, 2023

Hopefully the Fed is done. This relentless march up in rates is freezing the deal world and making investment decisions very difficult. They have created the banking crisis by leaving rates too low for too long forcing the rapid escalation. Part of the Fed's current conundrum is that it is not clear that raising interest rates will dampen the demand for labor because of the structural labor shortage. Another strong jobs report this week (although decelerating growth especially with downward revisions of previous months). We simply don't have enough workers so wage rates still increasing over 4%. From Bloomberg: *"Some economists pin the sticky cause on a worker shortage that pushes up wages, which in turn feeds the inflation cycle."*

I wrote last week how active stock fund managers generally underperform the market as they can only have a limited amount of stocks. Market performance is generally driven by a handful of stocks so if you don't have them in your small group, you will miss out (so you want a larger spread of holdings). The indices can also be dominated by a handful of names. For instance, AMD, Google parent Alphabet, Amazon, Apple, Meta, Microsoft, Netflix, Nvidia and Tesla combine to make up about a quarter of the S&P 500's market cap. Just choose your allocation, go passive and be patient. Avoid panic selling. From UBS: *"Unless you're a droid, it's likely that you suffer from a behavioral bias known as "loss aversion," which means that you will tend to feel the pain of losses about twice about as powerfully as you feel the pleasure from gains."*

One positive from technology and social media is the "outing" of bad bosses. Platforms like Glassdoor, 360-degree feedback, and more sophisticated HR practices are making it impossible for a mean "devil wears Prada" boss to succeed. That said, you can't be too nice. Too many organizations end up customizing solutions, having underperforming people on staff and taking on too many activities because they are too nice. You have to say no and manage conflict (not avoid it) to be successful.

A lot of people don't like Musk's management style but I like what he is doing at Tesla. He moved early and got to profitability. Now he is cutting prices as others try to build up their electric car capacity. This will make it harder for competition as they will have to match the lower prices and burn more capital. It also keeps the volumes up of new Teslas hitting the road which will create a big installed base for services. Eventually it can create a car-sharing, Uber like service where people opt-in to have their Tesla used for autonomous ride sharing when they are not using it. Apple has successfully pursued a similar strategy where the profits are becoming more about apps and other things delivered via the iPhone installed base rather than the phones themselves.

I am not a "Musk Groupie" but lets wait and see how the Twitter situation plays out. The reach of the platform is unbelievable. 250 million people use Twitter for an average of 30 minutes a day so 125 million user hours. I am going to start using it more. You can follow me @jmichaellocke if interested.

The best "value added" investors in consumer businesses are starting to be movie stars and athletes. Look at Ryan Reynolds. He uses his platform as a megaphone to market brands. Instead of just getting some cash for it, he smartly is taking ownership positions. He helped build Mint Mobile which sold for $1.35 billion (he owned around 25%) and now look at what he is doing with the Wrexham soccer club. From LinkedIn: *"The world has been captivated by the story of Wrexham AFC. A Cinderella sports story that focused on the heart of the matter: the people. Ryan Reynolds and Rob McElhenney paid $2.5 million for the world's third-oldest football club. Promotion to the #PremierLeague seems like a far (somewhat impossible) reach, but the investment has been a brilliant business move and story. Ryan and Rob shot and sold a docu-series to track their purchase, investment in the club, and the team's journey back to prominence. (Welcome to Wrexham) As Wrexham was owned by the fans, the series highlighted the people who support the club, the town who is affected by them, and the players, coaches and staff who work there. The show received a 97% audience score and was immediately green-lit for a second season. [It had] roughly $3.2 million in revenue. The team now has sponsorship deals (kit) from TikTok, #Expedia, #Vistaprint and Aviation American Gin, nearly tripled season ticket sales since 2019 and sold media rights"*

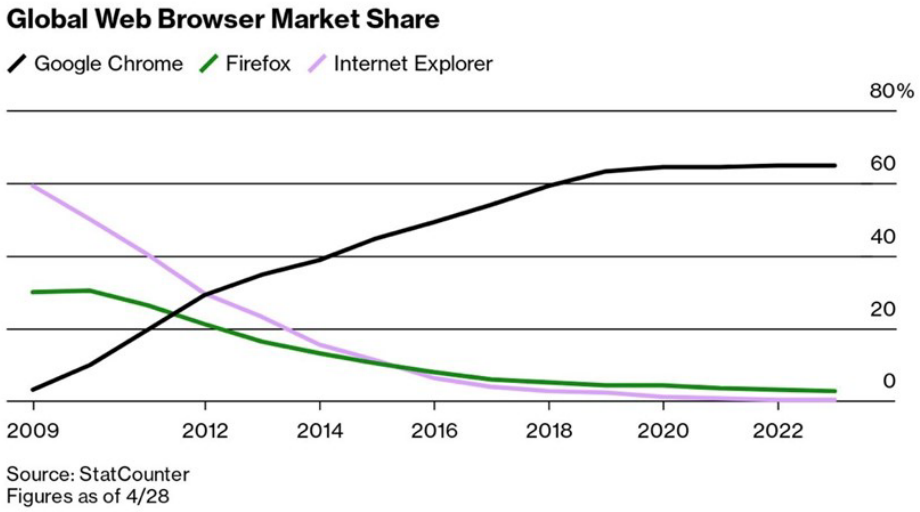
Could ChatGPT be better than a physician in answering patient questions? Medical schools don't spend much time developing future doctors' bedside manner so maybe it was a low bar but a new study said patients preferred ChatGPT (thanks Lyle Berkowitz). *"In fact, after comparing doctor and AI responses to nearly 200 medical questions, a team of health care professionals concluded that nearly 80% of the answers from ChatGPT were more nuanced, accurate and detailed than those shared by physicians. ChatGPT was no slouch on bedside manner, either. While less than 5% of doctor responses were judged to be "empathetic" or "very empathetic," that figure shot up to 45% for answers provided by AI. "For the first time, we compared AI and physicians' responses to the same patient messages, and AI won in a landslide," said study leader John Ayers, vice chief of innovation with the division of infectious disease and global public health at the Qualcomm Institute at University of California, San Diego."* patients-rated-chatgpt-better-than-real-doctors-for-empathy-advice

First real disruption by ChatGPT in my world as Chegg reported soft results and stock dropped 50%. Chegg sells web-based study tools to college students. Who needs that when you can just ask ChatGPT?

I think you can learn a lot about an organization simply by attending a management meeting. Does it start on time? Are people engaged? Is there clear ownership of areas/topics? Is it efficient? Lots of PowerPoint or short, key reports. How you run a meeting is how you run a company.

One thing that is critical in running anything is holding people accountable. You can't have a "best efforts" culture where someone works hard but comes up short. What matters is results. It is hard to have accountability without clear ownership. One challenge with the movement toward matrix management is blurred accountability. If two people own it, no one owns it. "One throat to choke" might not be a good saying in today's workplace but you get the point. This was one of the important aspects of Apple's success under Steve Jobs. There was no confusion on who was responsible. Every task had a DRI – Directly Responsible Individual. A good basic practice is to ask at the end of every meeting for a review of the follow-up items and identify the DRI. No ambiguity on who owns it.

I didn't realize what a small community I was by using Mozilla Firefox as my browser:



We desperately need a generational change in our political class. The issues around technology and data privacy require a certain understanding of the platforms. Both Republicans and Democrats have a number of members who have been in office for decades and need to pass the torch (Feinstein, Grassley, Pelosi, McConnell). From Bloomberg: *"The median incumbent Republican House member is 59, with the Democrat equivalent 61. Compare that with France's lower house, the Assemblee Nationale, where members have an average age of 49, and Germany's Bundestag, where they're a sprightly 47. American politicians are old!"*

One place where future leaders are being developed is Bennett Day School where I am proud to serve as Lead Director. Two of our high school teams just won a competition sponsored by Jeff Bezos' Blue Origin. Cool stuff. bennett-day-high-school-students-win-national-space

Don't put your medicine down the toilet! In a recent study on the Florida Gulf Coast, 94% of redfish tested positive for human pharmaceuticals (opioids, psychoactive medications etc). We have to do a better job taking care of things.

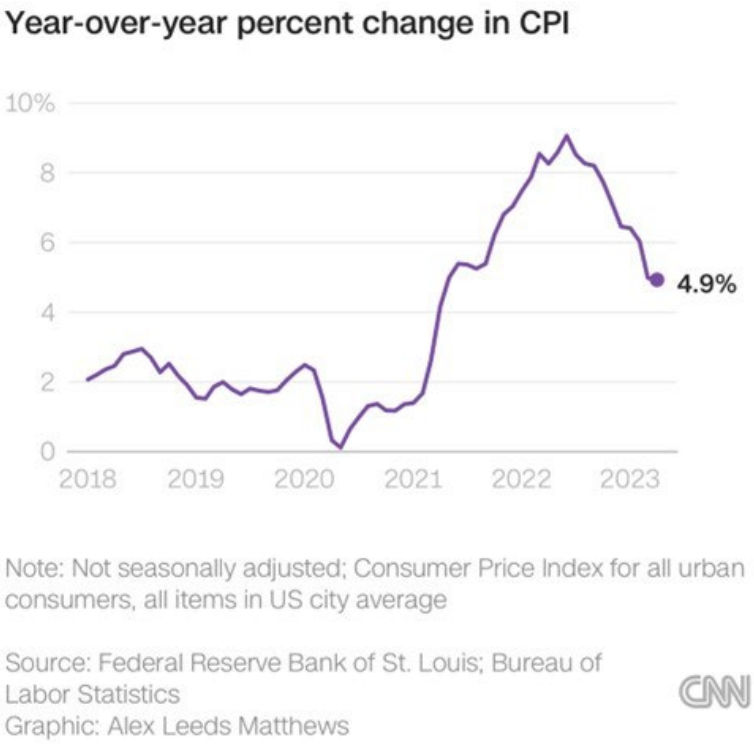
Enjoy the derby.

jml

J. Michael Locke
Musings

#223: Musing
May 13, 2023

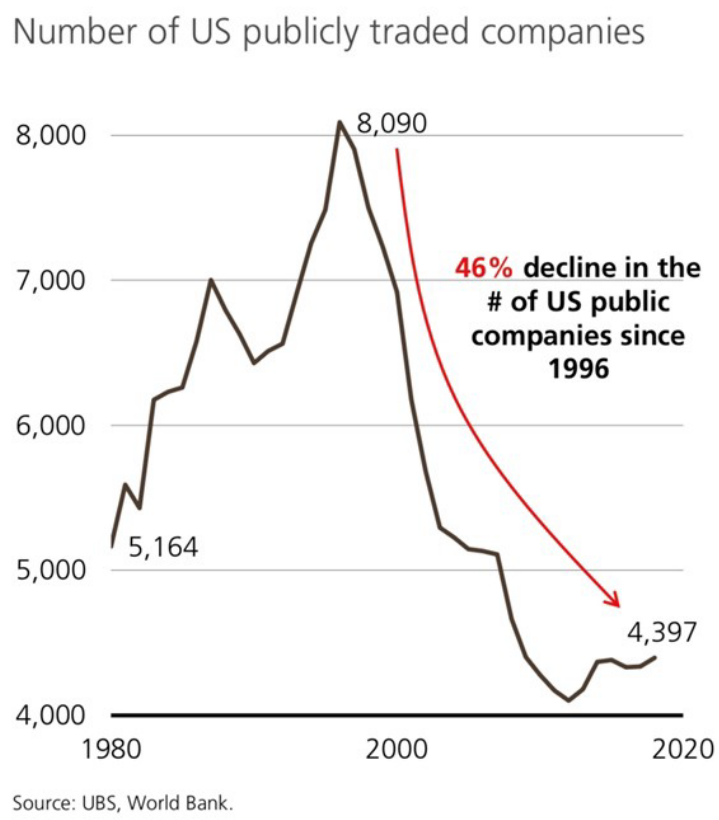
Pretty amazing that we are now at a point where 4.9% inflation is viewed as a positive. It is all about the trend which continues to show deceleration in the rate of price growth. *"Annual inflation continued its slow-but-steady deceleration in April….. The CPI climbed by 4.9% for the 12 months ended in April representing a slightly slower pace of increase than the 5% in March."* cpi-consumer-inflation-april/index.html I just don't see it going back to the 2% range as wage rates will stay high (although maybe there is some softness as Microsoft announced it will not give raises to full-time employees this year).



One deflationary driver is the buildup of inventories. As the supply chain "kinked up", companies found themselves short of supplies but have now overpurchased and are sitting on excess inventory. A freight transit expert told me that industry is currently soft and product is not being moved because warehouses are already full. Warren Buffet shared at his annual meeting that he foresees discounting to move excess inventory which will help pull down inflation. *"The "Oracle of Omaha" believes that the "extraordinary period" of excessive spending on the back of Covid pandemic stimulus is over, and now many of his businesses are faced with an inventory build-up that they'll need to get rid of by having sales"* (CNBC)

Good quote from an exec: “Expenses have feet.” In today’s world, it is hard to reduce your expenses without reducing your employees.

A lot of the action in equity investing has moved to the private markets. Great graph from UBS:



Lots of discussion of how AI is going to affect education. If you can ask ChatGPT the questions and get an answer, do you need an instructor? I am with Sal Khan that the answer is yes. Teaching is about guiding someone through knowledge attainment and helping them assimilate knowledge. My point is that great teachers don’t just transfer content, but rather guide the learning process. Khan has good Ted Talk on how Google could give every student a personalized tutor and thus raise the outcomes for everyone. https://www.ted.com/talks/sal_khan_how_ai_could_save_not_destroy_education/c

AI is creating a real quandary for Google. Their revenue line is basically advertising as companies want to get listed and receive web traffic that starts with a Google search. Google gets paid for every click as a user does a search and then clicks on a link out to a separate website. With embedded AI search, the user should get their answer right away and not have to click “out.” The issue is how Google does this while still running its huge advertising machine as a director of traffic rather than providing answers.

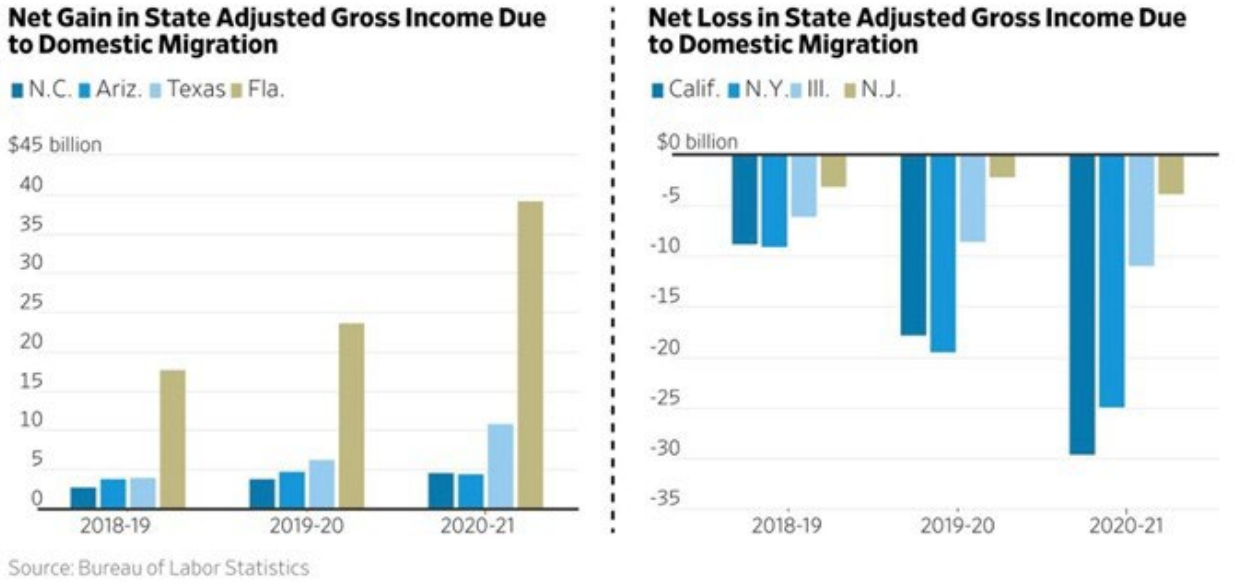
IBM announced that its’ plans call for AI to make 20% of jobs unnecessary. The CEO is actually pausing hiring in non-customer-facing roles like human resources and “*being deliberate and thoughtful in our hiring with a focus on revenue-generating roles*,” and being “*very selective*” about hiring for jobs that aren’t client- or technology-focused. ibm-ceo-says-tools-able

Make sure and focus on mobility. I mean this in two ways – the mobile experience of technology (website etc.) as well as the delivery of a service. On the former, most consumers are engaging with your business over the web on their mobile phone. Make sure your website is mobile-friendly with appropriate design and functionality. It might even make sense to have a mobile app. On the latter, all delivery now has a mobile component. I saw a great story in healthcare about a "mobile stroke unit" where the CT scanner is in the back of the truck and can drive to the patient. Some providers are creating "mobile mammogram offerings" where they bring the machine to the neighborhoods of populations where more testing is needed (recommendation this week to start annual mammograms at 40 rather than 50). DoorDash and Uber are bringing food to your door and the Trunk Club brings clothes curation right into your living room. I encourage everyone to go asset light, don't invest in real estate and don't sign any long leases. Instead of people leaving their home to go to store, restaurant, hospital or school, the consumer is now demanding those services come to them via technology or delivery. Sad for community but it is the reality of today's world.

The federal government finally declared the Covid national health emergency over as of May 11. Like most things in the government, this is about a year late and has major implications. For instance, the US can no longer immediately deport immigrants who cross illegally and ask for asylum under Title 42. Now, they will have to be given an administrative hearing and will be released in the meantime until their hearing which is months away. The prescribing of Adderall use to require an in person visit that got waived due to the emergency and will now come back. Student loan interest payments got paused due to the emergency etc. Medicaid enrollment must now be evaluated for eligibility. I even know a really talented lawyer who had built "out clauses" into a contract so that the national emergency eliminated contractual performance metrics. Now, back to pre-Covid rules.

I surprise most people with my support for immigration across the southern border. Our economy needs more workers. I love the grit of someone walking across the country of Mexico to seek a better life in the US. We obviously must have a systematic approach vs the current "let them in, release them and then they go into the shadows" approach but let's not become anti-immigrant. Let's enhance our screening so we don't let in "criminals" and give the others a defined path to citizenship and let them all get to work and grow our economy.

Nonprofits need to be watching their geographic "risk" on fundraising. As capital migrates with the moving residency of citizens, nonprofits in "money losing" states like Illinois need to be managing their risk. The IRS recently released the Adjusted Gross Income (AGI) lost or gained as people moved from one city to the other. Illinois lost $10.9 billion as residents moved out especially to Florida and Texas (see below). I was recently recommending to a nonprofit I work with that we open up efforts in Florida. If that is where the donors have gone, we need to follow them as tax experts will tell you that auditors look at where your donations were made (along with who your doctors are etc.) when judging your residency so the money will start flowing to Florida nonprofits unless Illinois nonprofits create a base there.



Love the integrity of Tommy Kuhl, a University of Illinois golfer, who had a record round qualifying for the US open as an amateur but got disqualified for fixing "aeration" marks on the greens. No one caught him — he realized his mistake and turned himself in. That is integrity. college-golfer-disqualifies-himself-from-us-open-qualifier-course-record- (Thanks Keith Watson).

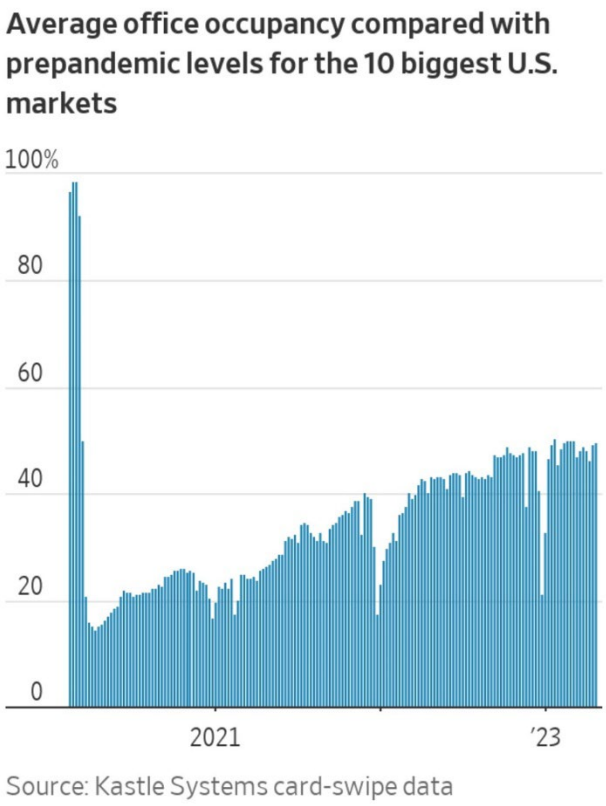
Happy Mother's Day to all moms. In my household growing up, as well as my current household, the mom was/is the glue of the family unit. The role is often unappreciated and lacks glamor but every successful person I know had a supportive coach called mom when they were growing up. I think the ultimate compliment to my wife Heather was our daughter recently sharing that she wanted to be a young mom and have six kids!

Jml

J. Michael Locke
Musings

#224: Musing
May 20, 2023

I do not think workers are going back to the office (ceos-thought-the-return-to-office-debate-was-over-they-were-wrong). Some companies were trying to force the issue but the trend of increasing office usage over the last six months has stalled out at 50%. Here is a graph showing the percentage of office use compared to pre-pandemic. I am not saying you have to go all remote but the 5 days in the office model is dead.



Musk doesn't agree with me. He thinks employees should be in office. *"I think that the whole notion of work from home is a bit like the fake Marie Antoinette quote, 'Let them eat cake,"" Musk said. "It's not just a productivity thing," Musk said. "I think it's morally wrong." Musk referred to tech workers as the "laptop classes living in la-la-land," telling Faber it was hypocritical to work from home while expecting service workers to continue to show up in person."* (CNBC)

Corporate building landlords should take a page from their mall compatriots and create new categories of tenants such as pickle court operators. That is right – mall owners are building pickleball courts in abandoned Bed, Bath & Beyond and other shuttered tenants. business/pickleball-malls-retail-bed-bath-beyond (thanks John Hughes). This is a further continuation of the developing model of "live, work,

play" which combines apartments with shops, restaurants and activities in one location.

Someone recently asked me for the top recommendation I had to improve executive effectiveness. My answer, to paraphrase Burr, was "talk less, listen more." Too many developing executives feel the need to show how smart they are and over talk. The sophisticated veteran executives often sit quietly and listen. Not talking doesn't equal listening. Listening is an active activity where you are really absorbing what someone is saying. " *People who talk less are more likely to get promoted at work and more likely to prevail in negotiations*." (Time magazine). There are tests for "talkaholism" like this one. Hope you aren't a talkaholic. https://time.com/6248095/talk-too-much-quiz/

Most people think of management in terms of those "below" them on an org chart. You also have to "manage up." Your boss is a human being with his/her own set of idiosyncrasies, biases etc. You have to manage your boss, putting thought into how to present material, when to engage him/her, measuring your reactions etc.

The fact that we allow our elected officials in Washington to trade in individual stocks is crazy. Most countries do not. Leave it to this entrepreneurial outfit which decided to "embrace it" by offering an ETF (exchange traded fund), which mimics what politicians are buying and selling. You can buy the republican ETF or the democratic ETF. https://www.subversiveetfs.com/kruz

With all of the discussion of online shopping, interesting stat that more than 85% of total retail sales occurred in physical stores in 2022 according to the US Census Bureau (from WSJ).

We are making it too easy on our youth. In college sports, dissatisfied players can now jump into the "transfer portal" if they don't like their current coach etc. Legendary Michigan State basketball coach Tim Izzo called it out simply. With the transfer portal - "is anyone going to learn how to fail?"

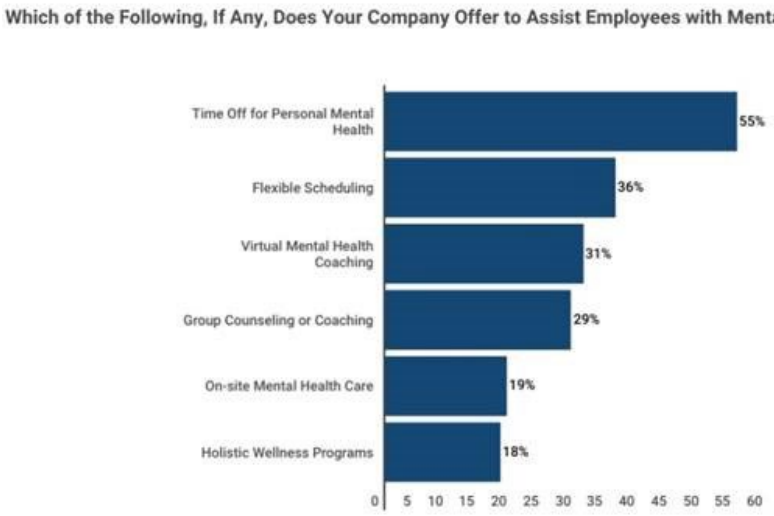
We focus so much on achievement of our children versus the learning journey. An opinion piece in New York Times recently talked about "accomplishment vs achievement." youth-achievement-happiness. *"Achievement is the completion of the task imposed from outside — the reward often being a path to the next achievement. Accomplishment is the end point of an engulfing activity we've chosen, whose reward is the sudden rush of fulfillment, the sense of happiness that rises uniquely from absorption in a thing outside ourselves….Our social world often conspires to denigrate accomplishment in favor of the rote-work of achievement. …Pursuit of a resistant task, if persevered in stubbornly and passionately at any age, even if only for a short time, generates a kind of cognitive opiate that has no equivalent. There are many drugs that we swallow or inject in our veins; this is one drug that we produce in our brains, and to good effect. The hobbyist or retiree taking a course in batik or yoga, who might be easily patronized by achievers, has rocket fuel in her hands. Indeed, the beautiful paradox is that pursuing things we may do poorly can produce the sense of absorption, which is all that happiness is, while persisting in those we already do well does not."*

ChatGPT is not going to help us build grit in our children. Now they can write the college admissions essay with a simple prompt and feedback. can-chatgpt-write-a-good-college-admissions-essay.

Private colleges have overplayed the Chivas Regal effect. This is the concept that consumers will equate higher price with higher quality. Private schools have been relentlessly marching up their advertised tuition but then discount it "behind the scenes" through robust institutional scholarships (the average discount is now over 50%). The problem is when the published price prevents the consumer from even

considering the school and that is increasing. Time to get to real pricing disclosure. [are-private-colleges-losing-potential-students-due-to-a-bad-marketing-tactic]

Companies need to catch up with the mental health crisis coming out of the pandemic. Employers must expand the various ways they can support employees and their family's mental health. It's as important as physical healthcare and most companies are not offering significant solutions. Aflac (2021) Workplace Benefits Trends below:

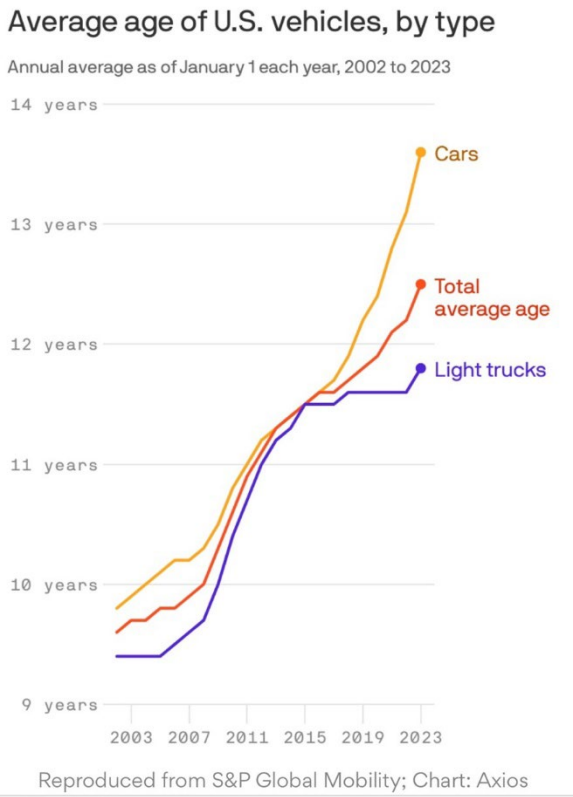


I hate the digital tipping culture. We are constantly asked by point of sale machines whether we want to tip (bagel store, subway, online ordering of sushi etc.). Now it has even come to self-checkout kiosks which the WSJ called "emotional blackmail." Who are you tipping when you did everything yourself? IMO this is just a way for the company to shift labor cost onto the consumer. One leading restauranteur out east tried to get rid of tipping and raised his prices but no one else followed. https://www.nytimes.com/2020/07/20/dining/danny-meyer-no-tips.html .

Forbes recently did a survey to see how people felt about the new wave of tip requests via technology. https://www.forbes.com/advisor/business/digital-tipping-culture/ . Here were the key takeaways:

1. Most people tip when it's expected—95% of respondents said they tip at least sometimes, with 76% saying they tip always or often.
2. The majority of respondents say they tip an average of 11% to 20%.
3. Most people tip more when they leave a digital tip. Nearly 65% of people tip at least 10% more when they tip digitally versus with cash.
4. One in three people feel pressured to tip, while 18% feel uncomfortable about tipping.
5. Forty percent of people don't think food truck workers should ask for tips, while 38% think tips shouldn't be solicited at fast-casual restaurants.
6. Quality of service affects tip amount the most (72%), followed by personal budget (56%).

Are you a flipper or a long hauler when it comes to cars? I have some friends who lease and change cars every three years. The Locke's are long haulers led by the 2011 suburban with 210,000 miles. New data shows we are actually slightly below average on how long we hold our cars.



I must say I am exhausted by all of the "causes" and "special days." Now our small suburb is promoting No Mow May. From our town officials: *"No Mow May is a conservation initiative to allow grass to grow for the month of May to create habitat and forage for early season pollinators and other wildlife. This program invites residents to refrain from mowing their lawn, or a portion of their lawn, to support the survival of pollinators and increase the diversity of wildlife. Reduced mowing in the month of May will also lessen carbon emissions and reduce energy consumption."*

Congrats to our son Skip on his graduation from college. I had ChatGPT write a commencement speech with advice for today's graduating seniors below. It was written in 25 seconds using this prompt (thanks to John Hughes for assist).

Prompt: "Please write a commencement speech for college graduates. Please have the speech be at least 1000 words. There should be 3 main themes to the speech: 1. take risks; 2. Embrace technology and change; 3. work hard"

Response:

Ladies and gentlemen, distinguished guests, and most importantly, the incredible class of [Year], congratulations on this momentous day of your college graduation! Today, we gather here to celebrate your achievements, to honor your dedication, and to embark on a new chapter in your lives. As you prepare to step into the vast unknown, I want to share with you three essential themes that will guide you in your journey: taking risks, embracing technology and change, and working hard.

First and foremost, taking risks. As you stand at the precipice of your future, remember that true growth and success often come from stepping outside your comfort zone. It is natural to feel apprehensive about the unknown, but remember that the greatest discoveries and accomplishments in history were made by those who dared to take risks. Be audacious in your dreams and relentless in your pursuit of them. Trust in your abilities, seize opportunities, and do not be afraid to fail. Failure is not a sign of weakness, but a stepping stone towards greatness. Embrace it, learn from it, and let it fuel your determination to rise above any obstacle that comes your way.

The second theme I want to emphasize is the importance of embracing technology and change. We live in an era of unprecedented technological advancements and rapid change. The world you are entering is vastly different from the one your parents and grandparents knew. Embracing technology and change will not only allow you to navigate this complex landscape but also open doors to unimaginable possibilities. Embrace the digital revolution, harness the power of innovation, and seek to understand the transformative potential of emerging technologies. Embrace change not as a threat, but as an opportunity for personal and societal growth. Adaptability will be your superpower as you navigate the ever-evolving professional landscape.

However, amidst the whirlwind of change, one thing remains constant: the value of hard work. Working hard is the cornerstone of success. It is through hard work that you will bring your dreams to life, transform ideas into reality, and make a meaningful impact on the world. There will be times when you feel discouraged, when the path ahead seems insurmountable. During those moments, remember the dedication and perseverance that brought you to this point. Embrace the challenges, stay focused on your goals, and put in the effort required to achieve them. Remember, success is not an entitlement but an outcome of relentless determination and hard work.

Beyond these three themes, I implore you to maintain a sense of purpose and integrity throughout your journey. Seek meaning in your work and find ways to contribute to the betterment of society. Make ethical choices that align with your values, and let integrity be your guiding principle. Remember, the impact you make is not just measured by personal achievements but by the positive influence you have on the lives of others.

As you venture forth, do not forget the support system that has been instrumental in your success. Take a moment to express gratitude to your professors, mentors, and loved ones who have stood by your side throughout this journey. Their guidance, encouragement, and belief in you have played a significant role in shaping the person you have become. Cherish these relationships and continue to foster connections with those who inspire and challenge you to grow.

In conclusion, as you step into the world beyond these walls, remember the power of taking risks, embracing technology and change, and working hard. Let these principles guide your actions, shape your decisions, and fuel your aspirations. Embrace the unknown with confidence and resilience, knowing that you have the knowledge, skills, and determination to create a brighter future for yourselves and for generations to come.

Congratulations, class of [Year]! May your path be filled with adventure, purpose, and fulfillment.

Jml

J. Michael Locke
Musings

#225: Musing
May 27, 2023

Here is one for you on the danger of statistics — in this case stock market indices. From Bloomberg: *"Analysis by Deutsche Bank noted that if the 10 mega-cap tech stocks were removed from the S&P 500, the overall index would be slightly negative in the year to date [whereas the index is up 9%]. In other words, the giant tech stocks are putting a gloss on the stock market in a year when interest rates continue to climb and inflation remains high*." This was before Nvidia's huge run late this past week (an underappreciated success story).

Retailers are getting creative in their approach to customer acquisition costs. Fast food operators are increasingly using burgers as acquisition costs to sell soda. Think about the differential in margins. I recently paid $2.50 for a large Diet Coke which costs the operator about 20 cents to make. Top Golf uses the "golf game" to drive their food and beverage business. The best example of using low margin products to attract buyers in to sell them higher margin stuff is the new model of gas stations on the highway. If you haven't used a Bucees or Wally's — give it a try. They use the gas to be in the retail business At Wally's in Pontiac Illinois they have 76 fueling stations that then feed their store. *"The 29,600-square-foot store is split into three "experience stations," with a section for standard convenience items like candy, beverages and coffee; another for made-to-order foodservice, including barbecue, popcorn and specialty coffee drinks; and a section dedicated to selling Wally's-branded clothes, home goods, kitchen supplies, outdoor equipment, board games and more."* watch-out-buc-ees-here-comes-wallys. I have even purchased Christmas presents there.

Interesting stat on retailers: "*on average, the cost to process $100 of returned merchandise is about $26.50*" (WSJ)

Good movie out on Amazon about the creation of Air Jordans. The movie referenced the "10 rules" that Phil Knight had at Nike which is part of the great entrepreneurial success story.

1. Our business is change.
2. We're on offense. All the time.
3. Perfect results count - not a perfect process. Break the rules: fight the law.
4. This is as much about battle as about business.
5. Assume nothing. Make sure people keep their promises. Push yourselves push others. Stretch the possible.
6. Live off the land.
7. Your job isn't done until the job is done.
8. Dangers
    - Bureaucracy.
    - Personal ambition.
    - Energy takers vs. energy givers.

    - Knowing our weaknesses.
    - Don't get too many things on the platter.
9. It won't be pretty.
10. If we do the right things we'll make money damn near automatic.

Driving high performance is not just about measurement and evaluation. The executive's job is to teach and grow their employees. A good HBR article highlights how it needs to start with a growth orientation. Performance and accountability doesn't mean no mistakes but rather that people, and the organization, learn from their mistakes. create-a-growth-culture-not-a-performance-obsessed-one

Building a growth culture, we've found, requires a blend of individual and organizational components:

1. *An environment that feels **safe**, fueled first by top by leaders willing to role model vulnerability and take personal responsibility for their shortcomings and missteps.*
2. *A focus on continuous **learning** through inquiry, curiosity and transparency, in place of judgment, certainty and self-protection.*
3. *Time-limited, manageable **experiments** with new behaviors in order to test our unconscious assumption that changing the status quo is dangerous and likely to have negative consequences.*
4. *Continuous **feedback** — up, down and across the organization – grounded in a shared commitment to helping each other grow and get better.*

As the adults, we must be better about our "phone obsessions." I am not taking the high ground here as I check email/texts probably every 10 minutes, 7 days a week. Let's all try to leave our phone at home and focus on the humans we are with. Stunning stats in this article from CNN: "*Consistent numbers are hard to come by, but according to one 2023 survey by reviews.org, nearly 89% of American adults say they reach for their phones within 10 minutes of waking. That same survey, I was astounded to learn, found that American adults check their phones an average of 144 times a day, or once every 7 waking minutes! For kids, the statistics are even more worrisome. According to a 2022 Pew survey of the under-18 set, 46% of American teens said they are online "almost constantly." And 35% said they're "almost constantly" on one of the five top social media apps: YouTube, TikTok, Instagram, Snapchat and Facebook."* parenting-social-media-screens-gupta-wellness (thanks Jeff Dobosh).

AI might be the google slayer as it will fundamentally change searching the web. Good post from my old Northwestern business school professor Mohan Sawhney:

"*Google has dominated the search business since the launch of the Google search engine in 1999. Google has over 85% market share in the search market, and its search business generated over $160 billion in revenues in 2022. But there is a fundamental flaw with the concept of "search", from the end-user perspective. Search is a MEANS to an end, not an end in itself. Search is the journey, not the destination. As an end-user, I don't want to generate search results. I want to get a job done: Write a blog post, plan a vacation, run a digital marketing campaign, prepare a business plan, get advice on healthy meals, etc. There is a big gulf between "search" and "Jobs to Be Done" - a gap that we have bridged manually, and paid Google handsomely for. Generative AI, with tools like ChatGPT, changes this. We can directly focus on the Job to Be Done. For instance, with one prompt, we can plan a vacation. There is no need to search separately for flights, hotels, restaurants, places to see, and then assemble all this information manually into an itinerary. This is revolutionary. And it is very disruptive for Google. No wonder that Google announced the "Search Generative Experience" yesterday - its move to incorporate advertising into the*

Generative Search experience. But Google has its work cut out for itself. Last week, OpenAI added plug-ins and web browsing to GPT4 - two enhancements that amplify its ability to get jobs done. How will this battle evolve?"

William Blair published a great report on AI with these Top 10 takeaways:

1. **Generative AI is a game-changer**, in our view. In contrast to traditional artificial intelligence (AI), which focuses on pattern detection, generative AI (as the name suggests) can generate new content on its own (new text, images, audio, software code, etc.) after being trained by a machine learning model. This ability to generate new content on its own is what makes GAI so powerful, mimicking the learning and creative capabilities of the human brain.

2. **Don't dismiss GAI as just hype**. While we readily admit that the tech sector is littered with new technologies that promise to take the world by storm but are often more hype than reality—think autonomous driving, the metaverse, Web 3.0, and crypto—we believe GAI is fundamentally different. Beyond the power and simplicity of the technology from an end-user perspective, the reason we believe that GAI is so transformative is its applicability to virtually all industry sectors and its potential to fuel a new wave of productivity and innovation in the global economy.

3. **We expect multiple winners in GAI**. Near-term beneficiaries from GAI are likely to be hyperscalers Alphabet, Meta, and Microsoft (and by extension OpenAI), which have the voluminous proprietary datasets and at-scale cloud platforms to train large language models (LLMs) and deliver GAI services—cloud infrastructure scale, in particular, we see as a near-term competitive moat given the high cost of training models and hardware supply constraints. On the "picks and shovels" side, we see Nvidia as the most obvious winner given its dominance in GPUs and related AI software, with other potential beneficiaries including AWS (cloud services), Broadcom (networking chips), and Arista Networks (low-latency switching). On the application front, we believe winners are likely to be companies with domain-specific data, like Salesforce for customer data or Workday for employee data, and workflow/execution engines (like marketing platforms that send emails to customers) that could see increases in volumes that flow through their platforms.

4. **It's all about the data.** GAI models are only as good as the data on which they are trained. This pertains to both general-purpose LLMs like ChatGPT and Bard and domain-specific and customized enterprise models. In the long run, the best, unique datasets are likely to drive competitive advantage for GAI models (and the applications they spawn), in our view, and data monetization/licensing opportunities are only just emerging.

5. **Generative AI represents a giant new workload for cloud computing**. While still early, we are starting to see a material impact from GAI on cloud consumption as the LLMs that services like ChatGPT are trained on require a ton of computing resources (10,000 GPUs to be specific for ChatGPT). Given the recent deceleration in cloud services growth, the GAI tailwind should be welcome news to the large cloud service providers (CSPs) and their investors—as well as "cloud builder" infrastructure software names that ride the coattails of the success of the CSPs.

6. **GAI use-cases are ubiquitous and growing by the day**. Beyond search, we see clear use cases today in content creation, software development, marketing and sales, customer service, data analysis, healthcare, drug discovery, and education—though this is just the tip of the iceberg, in our view, given the broad applicability of GAI to virtually all industries.

7. **Search will never be the same**. ChatGPT (now integrated into Microsoft's Bing search engine) has taken the world by storm, and Google potentially has some market share to lose given its 80%-plus market share in search today. Still, Google's I/O conference has reinstilled its Search AI confidence and Bard is now upgraded to a much more powerful model. In our view, the battle has just begun in AI-assisted search, and Google maintains some distinct advantages (e.g., the quality and breadth of its dataset) and is marshaling its formidable resources to protect its turf.

8. **GAI should be a productivity accelerant**. GAI is likely to be adding fuel to the fire for a corporate investment/productivity shift that is already underway. We see GAI as effectively the new demographic that is replacing shortages related to slower population growth and aging populations. The ultimate impact will depend on adoption rates, but if the last few months are any indication, we are entering a J-curve of adoption for GAI. With fewer workers at the disposal of companies, and technologies like AI achieving mainstream adoption, economic output should be the same or higher, and productivity will rise.

9. **GAI is likely to have profound impacts on knowledge workers (and corporate costs) across various industries, but this will not happen overnight**. Unlike robotics, which has generally affected blue-collar workers, GAI is likely to mainly impact white-collar/knowledge worker jobs like marketers, software developers, writers, accountants, consultants, graphic designers, customer service reps, law clerks, and even equity research analysts (gasp!). While we expect some near-term disruption to certain roles as companies assess GAI opportunities, we note that paradigm shifts in technology have historically not resulted in a reduction in aggregate employment, but instead have led to the creation of new roles and reduction of labor inputs in certain existing roles. Although still early and emerging on a case-by-case basis, we believe efficiency gains from GAI will also drive incremental cost savings for most enterprises over the next several years, providing a tailwind to profit margins.

10. **Is any of this even legal?** The risks associated with GAI seem to be multiplying and include sensitive data exposure, intellectual property rights, data accuracy/bias, and phishing and social engineering attacks—though perhaps the scariest risks are the ones we are not even contemplating yet. In the near term, the big risk we see is the legality of LLMs that are trained on wide swaths of online data, some of which may be copyrighted. Several lawsuits have already been filed against LLM providers, which if successful could hamper the development of the space (think Napster in the early days of online music).

That big old rock on the finger may not cost as much as you think. Lab grown diamonds have advanced so much that the difference from natural is basically indiscernible. A one carat diamond grown in a lab costs around $1,500 compared to a mine grown diamond at $5,600. Over 33% of rings purchased last year were lab-grown. Time for a nice big anniversary gift for Heather. [this-wedding-season-diamonds-face-a-challenge]

There is a growing discussion in public policy circles about "baby bonds." The objective is to help in the disparity amongst races etc. in generational wealth. The concept is to give each baby born a trust fund

established and guaranteed by the government. In Connecticut, legislation has been passed to put $3,200 in a trust for every child born on the state's Medicaid program. Most models are the individuals then gets the money when they are 18. I worry about the 18 year olds ability to handle the rapid availability of cash. baby-bonds-ct-money-ned-lamont/

Last week I expressed negativity about "No Mow May." Here is more than you ever wanted to know about the history of grass lawns in the US. Apparently, grass was imported (Kentucky bluegrass is from Algeria) to be a symbol of wealth as it was difficult to upkeep. youtube on lawns (Thanks James Hornick.)

RIP the former President of the University of Chicago Bob Zimmer. He was a great leader and passionate advocate of freedom of expression as a pillar for discourse in higher education. https://president.uchicago.edu/from-the-president/announcements/112920-free-expression.

Hope everyone has a good Memorial Day weekend. Let's remember the meaning of the holiday and take a moment to reflect on those who sacrificed so we can enjoy our burgers and brats.

Jml

J. Michael Locke
Musings

#226: Musing
June 3, 2023

Mostly a non-business, random summer musing today.

A basic management tenet is to manage your dependencies. Ideally, you are not solely dependent on one supplier or individual employee. On the revenue side, you don't want revenue concentration where one client represents a material part of your revenue. You also don't want one channel dominating which is why some smaller companies refuse to sell their products through big retailers like Walmart. Adidas executives lost their focus on this one with their relationship with Kanye West (now Ye) to build the Yeezy's brand. By the time the partnership dissolved, the shoes accounted for 40% of Adidas' profit, according to estimates from Morgan Stanley. Now the entire business is in rebuild mode as it recovers from betting so much on an irrational rapper.

Good strategic move by Tesla. Electric cars are headed to a Betamax vs VHS debate. For those younger readers, there used to be two competing formats for videotapes and video stores like Blockbuster had to carry each as different consumers had different machines https://en.m.wikipedia.org/wiki/Videotape_format_war . Now, electric charging is going down this path with Combined Charging System (CCS) vs North America Charging Standard (NACS). To realize the potential for EVs, we need to settle on one. Tesla (NACS) cut a deal to move Ford over to its technology vs GM (CCS). Good example of managing forward and seeing risk. Having everyone else on CCS and building out that infrastructure would have hurt Tesla. Tesla also wanted some of the big government funds for EV infrastructure that it could only get by opening up its network.

Every company needs a strategy on how ChatGPT and other generative AI models are going to affect their business. My recommendation is to pick an individual executive and give them the lead to work across the organization and come up with plans. This technology is a game changer and is rapidly becoming ubiquitous. It is stunning how quickly it has been adopted as shown in this chart (thanks Greg King).



I have previously written how generative AI can "hallucinate" and create answers when it doesn't have one. So be careful what you use it for. A lawyer learned this the hard way as the AI model invented legal cases that didn't exist. avianca-airline-lawsuit-chatgpt (thanks Tricia Heinle)

One interesting aspect of the rise of "social media" is the elimination of the power of the intermediary. You can become a global rockstar without signing with a label (Chance the rapper). Now "pundits" are going direct using YouTube, TikTok, and Twitter rather than trying to be the cable news anchor. I have never heard of liberal commentator David Packman or conservative host Matt Walsh because I am too old school watching broadcast TV stations. *"Conservative commentators have larger audiences according to this article And like the radio world, there's a political imbalance, with conservative and right-wing commentators finding much more success than their liberal counterparts. The subscriber numbers of Packman and most other lefty online commentators are dwarfed by those of Ben Shapiro (2.3 million YouTube subscribers), Steven Crowder (5.9 million YouTube subscribers), Candace Owens (3.7 million Twitter followers), Matt Walsh (2.5 million YouTube subscribers) and others."* I am thinking about cutting the cord in our house (watch being long Comcast). liberal-commentator-goes-calmly-others-dare-not-bridged-internets

One result is you end up with some unusual people with large followings. For example, who the hell is Andrew Tate? Makes me feel really old as my kids discuss him and I learn there were more Google searches for him last year than Trump or Kardashian. andrew-tate-violent-misogynistic-world-of-tiktok-new-star

A battleground for company healthcare plans is the coverage of infertility treatments. Most companies with over 500 employees or so are self-insured. That means, they pay a third party to administer their health insurance plan (like Blue Cross) but the employer is taking the economic risk. Infertility treatments can cost well over $10,000 a year. This leads most employers not to cover it with a Duke study estimating that only 25% of plans covering IVF et al. This is despite about 18% of the adult population experiencing infertility according to the WHO. Some states are stepping in and mandating that employer plans cover infertility. This is a tough one as everyone deserves to have children (and musings readers know we need more of them) but tough for employers to pick up that tab.

Most of us have someone in our "orbit" suffering from dementia. A common question is dementia vs

Alzheimer's. Dementia is a "category" of diseases caused by brain changes with the most common form being Alzheimer's (another is lewy body dementia). I got hearing aids recently as there is a correlation between hearing loss and early dementia. Get a PET scan if you are really worried about it.

Could the Apple weather app be any worse. As I wrote this, the app says it is cloudy at my precise location even as I look at a blue, sunny sky. Crazy bad.

Marry someone your own age. According to a study conducted by Emory University in Atlanta, researchers believe that just a one-year gap between a couple comes with a smaller chance of separation, at only 3%. After analyzing 3000 people, they actually found that the larger the age gap, the higher the chance of a split. The figures rose to 39% for couples with a 10-year age gap and even further to 95% for those with a 20-year gap! (Bloomberg)

Learned a new term: "skiplagging." Airfares are way up so increasingly passengers with only carry-ons are getting off in their connecting city and skipping the last leg. *" Skiplagging, also referred to as "hidden-city" or "throwaway" ticketing, is the practice of booking a less-expensive flight option with a layover city without planning to fly the entire route. Instead, the stopover is the traveler's intended destination."* (thanks Jennifer Walsh)

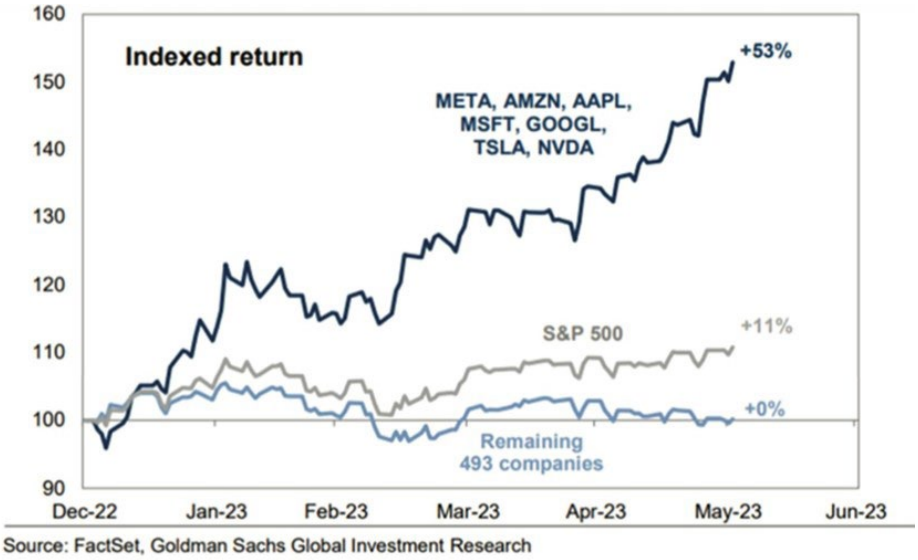
Congratulations to our daughter Caroline on her high school graduation. Good quote from the graduation speaker: *"It doesn't get easier, you just get better at doing hard things."* Off to Ole Miss. Hotty Toddy. Musing next year from the grove on a football Saturday.

jml

J. Michael Locke
Musings

#227: Musing
June 10, 2023

While we have technically hit a bull market with the S&P up over 20% from its bottom, don't be fooled and get too mad at your financial advisor if you don't have similar results. The run in the stock market is all about seven stocks: Meta (Facebook), Amazon, Apple, Microsoft, Google (alphabet), Tesla and Nvidia. See chart from MidContinent Capital showing the amazing narrowness of the rally:



Source: FactSet, Goldman Sachs Global Investment Research

Big announcement by Apple at their developers conference on their new augmented reality headset. First, I love how Apple courts the development community. Their "open platform" approach is brilliant as the developers write apps that make the Apple device more valuable. The iPhone serves as a conduit to all of the apps the developers have written. Secondly, I like that they are focused on "augmented reality" (AR) vs Facebook/Meta's focus on "virtual reality" (VR). In VR, you put on a headset and are totally closed off from the immediate world – you are immersed in a digital/virtual world. With AR, you are still in the present world but it is enhanced by digital items. For example, some cars have key data illuminated onto the window right in the driver's eyesight so they don't have to look down. My understanding is the new headset announced by Apple is more like ski googles and you can still see where you are in the "real world" but add digital/virtual items to it. While I think AR has more promise than VR, I still am not bullish on the space. The headsets have been dubbed "nerd helmets" by some and the whole idea of "spatial computing" where you no longer look at a screen but rather have the computer putting things into your "space" is Orwellian.

I think one of the negative things about mobile technology is now every kid has unlimited entertainment in their bedroom. This dynamic, exacerbated by Covid and at home learning, means the number of hours teens are in their bedroom is up significantly. Some call a day in bed "self-care" but I like this

articles author term of "bed rotting." From Fast Company: *"The latest Gen Z self-care trend, bed rotting, which has over 305 million views on TikTok, is not as gross as it sounds. It's a fairly accurate term for a good old-fashioned day of wasting away in bed after a chaotic week, and maybe a hangover to top it off."* bed-rotting-doesnt-mean-gen-z-is-lazy-but-is-it-really-self-care How about some good old fashioned summer camp fishing!

Housing prices are staying surprising high considering the increase in mortgage rates. The issue is lack of supply with the number of homes listed down double digits. People are "stuck" in their current homes with their low cost mortgages with years of refinancing at 3-4% --- they can't afford to buy a new house and take out a 6-7% mortgage.

In those houses with Gen Zrs rotting in bed, think about their great grandfathers who at 18 might have been hitting the beach in Normandy 79 years ago on June 6, 1944. If you are ever in France, I strongly encourage you to visit Normandy, the cemetery and Omaha beach. We had the chance some years ago and it is very impactful. Puts it all in perspective (as does watching the first 15 minutes of Saving Private Ryan which gives an accurate portrayal of the invasion.)

Generative AI is bringing back Socrates. Worried about students cheating on written exams with ChatGPT et al., some professors (like my great college economics professor Gary Lemon who is still teaching!) are turning to oral exams like that in Greece centuries ago.

I hate the normalization of retail theft. Most retailers are now telling employees to get out of the way and not to try and stop shoplifters. Thieves now just walk in and take what they want. Lululemon took things to next level and fired employees for trying to stop the theft for violating company policy. We are punishing the wrong people. lululemon-fires-employees-stop-robbery

Fascinating retail stat. Top four sellers of clothing in North America: 1) Nike, 2) Old Navy, 3) Lululemon and 4) Shein.

I am not a "Swiftie" but you have to be impressed by the "event" that Taylor Swift concerts have become. She sold out three nights here in Chicago at Soldier Field at 75,000 people a night and folks also buy tailgate spots who can't make it into the stadium. She performs for over three hours (in the rain in Nashville) and by all reports puts on an awesome show. She is also a great businesswoman fighting to control her masters and own her music.

Good quote from Scott Galloway: *"Tenure is Latin for student debt."*

I don't have any real insights on the merger of PGA tour and LIV. Pretty amazing development. I think it is unfortunate that the PGA "loyalists" who did not take the big money and go to LIV now ended up missing out and the "sell out for the money guys" got a windfall. IMO pretty embarrassing for the head of PGA.

RIP AM radio? Some EV carmakers cutting out the AM radio because electromagnet emissions from the battery mess up AM reception. Some lawmakers in Washington want to require carmakers to have AM radio ostensibly for emergency purposes. No one is counting on AM radio for emergency communications and most have a smart phone. Say goodbye to AM.

Jml

J. Michael Locke
Musings

#228: Musing
June 17, 2023

Inflation ticked down (CPI at 4%) and Fed held rates steady although it said rate hikes were not over. My M&A friends tell me credit availability is contracting post-SVB debacle so economy will continue to slow. Student loan payments about to restart and Medicaid eligibility being tested again with ending of Covid emergency which will put headwinds on consumer.

The Feds big challenge is the absence (so far) of the inverse relationship between interest rates and employment (the so-called Philips Curve). The structural shortage of labor has resulted in labor market staying strong even as Fed has raised rates. It is increasingly looking like we may see a soft landing where the economy stays decent even as Fed brings down inflation with higher rates.

Labor economists will likely have to rethink all of their models with the arrival of generative AI. No one knows but estimates are pretty large on the amount of human work the models can do and the resultant pickup in productivity. McKinsey put out a big report stating that over half of your job will get replaced. *"Generative AI has the potential to change the anatomy of work, augmenting the capabilities of individual workers by automating some of their individual activities. Current generative AI and other technologies have the potential to automate work activities that absorb 60 to 70 percent of employees' time today. In contrast, we previously estimated that technology has the potential to automate half of the time employees spend working. The acceleration in the potential for technical automation is largely due to generative AI's increased ability to understand natural language, which is required for work activities that account for 25 percent of total work time. Thus, generative AI has more impact on knowledge work associated with occupations that have higher wages and educational requirements than on other types of work."* the-economic-potential-of-generative-ai-the-next-productivity-frontier

A specific example of this dynamic is the automated code that can be written with tools. You won't need a software developer to write queries into a SQL database when instead the user can tell the AI model what it is looking for and the model will generate the query.

A challenge companies are having with deploying generative AI is where to start. It has applicability across the enterprise. Common design thinking is to start with a problem but that is not the case here. This HBR article suggests a framework on how to figure out the opportunities in your company. discovering-where-chatgpt-can-create-value-for-your-company

Watch for the development of a new type of "business analyst" who helps figure out how to use AI in business processes. I heard one education leader talk about the new field of "prompt engineering" which focuses on how to write your questions (prompts) for the AI model to get the best results.

I would not bet against Elon Musk. Tesla has doubled this year. Just cut a deal for GM to use Tesla chargers. I suspect the charging infrastructure will get spun off as a separate business. I would bet

Twitter starts getting traction.

New term for me — “bopis” which is the retail concept of a consumer buying online then picking up in the store.

If you wanted another example on how capital access can be the ultimate competitive advantage age, look at the golf tour merger. LIV was backed by the Saudi sovereign wealth fund and was paying huge fees to players and pursuing antitrust litigation. The PGA was not capitalized to compete in this arms race so threw in the towel and agreed to a merger.

Fascinating stat — mandatory retirement age for an E&Y partner is 60.

Sad stat: 41% of babies born in US are on Medicaid.

Interesting dynamic in college admissions around “structural racism” and “privilege.” Historically, colleges gave an advantage to the children of alums. This built loyalty and helped fundraising. Critics argue it perpetuates privilege. Amherst got rid of legacy admissions and saw the percentage of its incoming class from alum kids drop from 11% to 6%.

We need to figure out how to make our nations teachers happier. According to the AFT (not my favorite organization), teachers saying they are dissatisfied with their job has risen from 41% in 2020 to 74% in 2022. There is no way an educator is at their best teaching our young ones if they hate their job.

New term —“ Micro kidnapping.” A friend headed to South America shared that there is a trend of criminals grabbing kids right off sidewalk with parents and then making parents go to ATM and give them money to get kid back. Crazy.

For those interested in a lifestyle which incorporates healthy eating and wellness, check out our daughter’s new website (www.cateintexas.com) and subscribe to her newsletter (sorry for the shameless parental promotion).

Happy Father’s Day. Lost my dad 14 years ago. Do my best to follow his lead.

Jml

J. Michael Locke
Musings

#229: Musing
June 25, 2023

Will generative AI diminish the competitive advantage based on access to capital? It certainly looks that way in the publishing business. No longer do you need lots of money to employ thousands of content creators when GAI can get you a draft in seconds. Watch technology platforms reduce the economics of their content deals.

While I don't agree with the State of California and current FTC leadership that all non-competes should be banned, I do think they have gotten out of control. One of the most egregious examples is the large electronic medical records business Epic which is the Darth Vader of non-competes known for suing younger employees and basically scaring everyone. A local Madison news site is even questioning whether the Epic non-compete approach is hurting economic development around Madison. opportunity-lost-epic-noncompete-list/ (thanks Travis Hughes). Usually, a successful large employer leads to a whole ecosystem of related companies as executives take their knowledge (and sometimes accumulated wealth) and start new related businesses (think of the auto supply chain in northern Indiana and southern Michigan). Epic's hard core approach on non-competes is stopping this from happening.

You hear about athletes getting in the groove. It is a physical state often called being "in the flow." From our daughter Cate's newsletter: flow is "mental state in which a person performing some activity is fully immersed in a feeling of energized focus, full involvement and enjoyment in the process of the activity) - creating the opportunity for more elaborate mental connections. More information on the flow state: https://positivepsychology.com/mihaly-csikszentmihalyi-father-of-flow/#what-happens-brain

New term: zombie mortgages. Banks write them off from an accounting point of view and stop trying to collect. However, legally they are still there. Third parties come and buy them cheap and when house price goes back up, they then try to foreclose to the surprise of homeowner who thought the mortgage was gone.

I believe there is a meaningful distinction between private and public universities. Like any other service, public universities should be available for use by the community like parks or libraries. Private universities are by definition "exclusionary." The challenge is the role that private universities can play in determining economic mobility. To quote Michael Sandel, a Harvard professor, "We have converted universities into sorting machines." The state of Massachusetts is looking at an interesting approach by *"proposing to tax the endowments of schools which consider an applicant's legacy status or employ early-decision admission, which tends to benefit students from well-off families. The 0.2% surcharge would cost Harvard about $100 million a year and would fund the state's community colleges. The bill is set for a committee hearing in the Massachusetts legislature this month."* harvard-students-graduates-the-h-bomb-ivy-league It has been joked that places like Harvard are hedge funds running a dormitory

business. The school's endowment is around $50 billion and as much as 60% of that is in alternative asset classes like hedge funds and private equity.

Make sure to follow WSJ writer Joanna Stern's iPhone No-Buy Rule™: No buying when school's out—wait until September. According to Stern: *"A change coming to the phone's charging port makes this advice especially timely. The next iPhone—presumably called the iPhone 15—is expected to ship with a USB-C connector, marking the end of the Lightning port's 11-year run. The EU has mandated that electronic devices sold in the 27-nation bloc must have USB-C ports by the end of 2024."*

Forbes published its "billionaires" report. https://www.forbes.com/billionaires/. The wealth accumulated by these individuals is mind blowing (#1 Bernard Arnault: $211 bn, #2 Elon Musk: $180 bn, #3 Jeff Bezos: $114bn (after losing ½ in a divorce). I do like that almost all of them built a business which led to their wealth – in their own lifetime. Arnault – LVMH, Musk – Tesla/Paypal/Spacex, Bezos – Amazon, Larry Ellison – Oracle, Gates – Microsoft etc. Ownership is what creates wealth. I am less of a fan of Illinois' wealthiest man, Lukas Walton, who is only 36 and from the lucky sperm/egg club being the grandchild of Sam Walton the founder of Walmart (he might be a perfectly nice guy but crazy to not do anything to earn it and have $23 bn). Steve Ballmer gets the lucky award as he was #10 in the world at $81 bn. Ballmer needs to thank Jeff Ubben and ValueAct Capital who took an activist stock position and forced Ballmer out as CEO of MSFT in 2013 and appointed Satya Nadella. Stock has since gone from $40 per share to $340 per share.

Our society — starting with most primary schools — enforces conformity and disincents creativity. Following my initials below is a great piece called 100 languages by the founder of the Reggio Emilia model of teaching children which encourages creativity (thanks Bennett Day Principal Jackie Miller).

Heard a comedian make this joke: *"I am approaching the age where I get my clothes the same place I get my groceries."* Heather is not a big fan of my Costco shorts.

jml

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100 Languages
The child is made of one hundred.
The child has a hundred languages
a hundred hands
a hundred thoughts
a hundred ways of thinking
of playing, of speaking.
A hundred always a hundred
ways of listening
of marveling of loving
a hundred joys for singing and understanding
a hundred worlds to discover
a hundred worlds to invent
a hundred worlds to dream.
The child has a hundred languages
(and a hundred hundred hundred more)

but they steal ninety-nine.

The school and the culture separate the head from the body.
They tell the child:
to think without hands
to do without head
to listen and not to speak
to understand without joy
to love and to marvel
only at Easter and Christmas.
They tell the child:
to discover the world already there
and of the hundred
they steal ninety-nine.
They tell the child:
that work and play
reality and fantasy
science and imagination
sky and earth
reason and dream
are things
that do not belong together.

And thus they tell the child
that the hundred is not there.
The child says:
No way. The hundred is there.

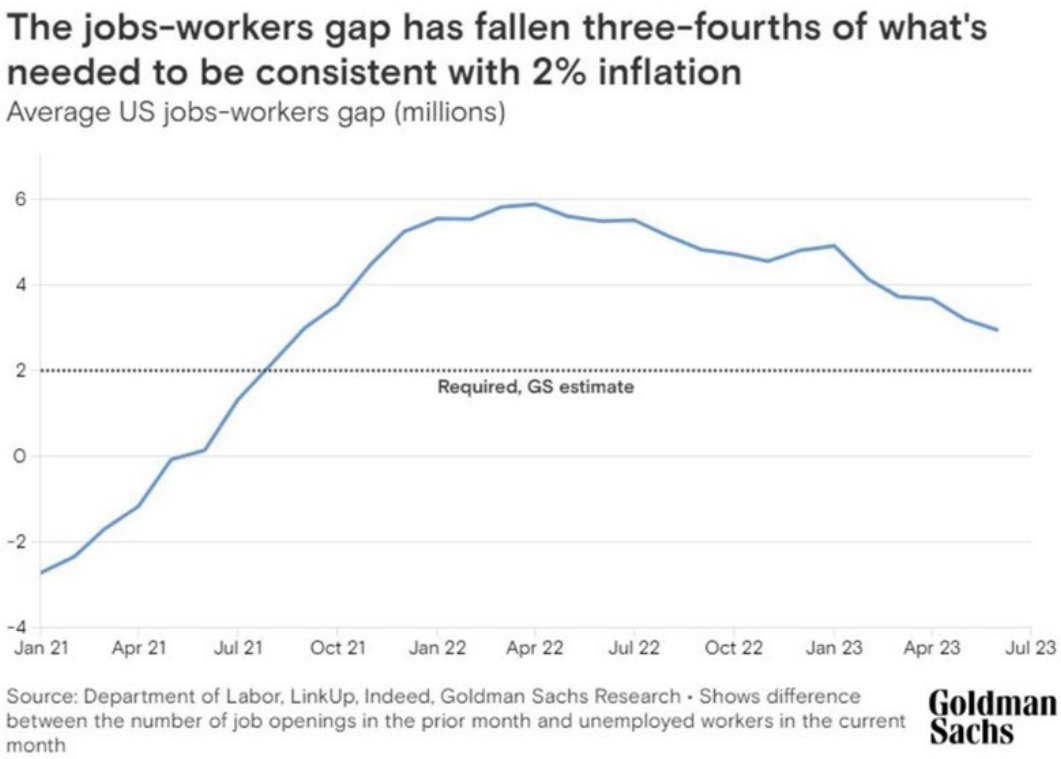
Loris Malaguzzi (translated by Lella Gandini)

J. Michael Locke
Musings

#230: Musing
July 4, 2023

The US economy continues to chug along heavily bolstered by consumer spending which was up 4.2% in the first quarter. Higher rates are not getting in the way because we have such a structural shortage of labor that people are keeping their jobs and getting raises.

The structural deficit in labor is improving. Here is an interesting chart from Goldman Sachs tracking the number of open jobs minus unemployed people looking for work (jobs-workers gap). At one point we had two open jobs for every unemployed individual but now down:



Watch the intellectual property litigation tsunami coming around generative AI. The tech companies are digesting everything on the internet into the Large Language Models to teach them. Included in this ingestion is content protected by intellectual property rights and so the LLMs should be paying for their use. Interesting move by Musk in putting in a new Twitter rule that a user can only read 600 posts a day —- this will prevent automated LLM ingestion of Twitter posts.

Although the economy is good and the stock market is rising, it is still soft in the M&A market. Along with the more expensive debt due to higher rates, the Biden administration much more aggressive

stance to antitrust is also at play. The FTC is very active. According to Bloomberg Businessweek: *"There are at least $190 billion worth of deals in "zombie M&A purgatory," according to analysts at Bloomberg Intelligence. They calculate more than 2,600 transactions that started in 2022 but haven't closed this year, although rising interest rates and choppy markets are also factors."*

More examples of government incompetence. Air travel is being affected by weather but also by a shortage of air traffic controllers. In the New York area, they only have about 50% of their targeted number of controllers. Then our great public sector unions get in the way and prevent a move to consolidate the various centers into one large regional operation which would create more efficient staffing. Meanwhile over at the FDA, they shut down a plant in India which supplies a huge amount of the drugs used for chemotherapy with no back up plan (remember when they shut down the baby formula plant with no plan) — surprise there is a major shortage affecting people.

Had a minor situation that got me in our healthcare system this last week (nothing big). On the positive side, many providers are connecting their EMR systems (electronic medical records) so the Oconomowoc Wisconsin emergency room can pull up my tetanus shot from the University of Chicago five years ago. On the negative side, the standard protocol is to follow up with your primary care physician. I read once that only 30% of people have a true primary care relationship. The rest of us go to Walgreens, urgent care and the emergency room for a real problem. Amazon is going to crush this model with One Medical.

New term: Grandternity leave. Some companies giving employees time off when they have a grandchild.

Big decisions out of the Supreme Court coming down mostly along conservative lines. I try to stay out of politics on these musings so won't comment on the merits of the decisions but pretty impactful. Fascinating to see the new President of Harvard — a black woman — commenting on the case in which they lost the ability to discriminate against Asian students (Harvard felt they were getting too many Asian students so individuals from other races with lower credentials were getting admitted). Interesting to learn that eight states had already banned using race in admissions decisions including California (by voter referendum). The ruling just applies to race-based affirmative action and schools can still factor in economic position and let more first generation students in etc.

Shooting down the student debt forgiveness plan. was not a close call for me. The President doesn't have that authority, Congress does. Pelosi herself is on the record saying so. From a policy perspective, I also think it is important that society be like the Lanisters and always pay their debts. Will be interesting to see the impact on consumer spending as 40 million borrowers might have been planning on their $20k in debt being forgiven and not have to start making payments.

Congrats to the power behind the scenes Jennifer Walsh on the birth of her son Lincoln.

I will likely be taking some weekends off this summer. Feeling a little writers block. Don't be surprised if there is no musing.

Happy July 4th.

jml

J. Michael Locke
Musings

#231: Musing
July 15, 2023

Some good signs on the inflation front. CPI up only 3%. The Federal Reserve likes to look at "core" inflation which excludes the volatile food and energy prices which was up 4.8% (big difference being the major reduction in gas prices). Some experts say that core number is deceiving because it includes an "owners' equivalent rent" factor for housing costs which was still high (up 8.3%). Zillow listed rents are down and many disagree with the methodology. European economists don't include that so they think inflation much lower. Anyway you cut it, good progress.

The reduction in inflation also means "real wages" are now growing. People have been getting nice raises but inflation has been so high that their real wages (wage increase minus inflation) have been decreasing. Inflation is now lower than wage growth so real compensation increasing.

Rising interest rates have also made cash an asset class. It used to be dead money as you earned nothing from your cash sitting in the bank. Now you can earn 5% or so and should build it into your asset allocations.

I am a big believe that value creation primarily comes from talent and talent management. Marvel studios crushed DC comics because they were an integrated/organized operating entity where DC was owned by Warner Brothers and used matrix organization models so no one really "owned" the final results. Of course, it all starts with getting the right people. I really enjoyed this post by successful CEO/entrepreneur Stuart Frankel on the importance of talent: *"When I start working with somebody, I tell them two things in the first meeting: (1) this is going to be uncomfortable for you (but only for a short time) and (2) you already know how to fix most of your problems. We talk, I do a lot of listening and then eventually the leader concludes that they don't have the right people in the right roles. As Jim Collins so perfectly says in Chapter 3 of Good To Great: first who, then what. Collins goes on to give excellent examples of great leaders who first focused on getting the right people on board before figuring out the right strategy. The right leaders in the right seats figure(e it out. They focus on the right things and get things done. Through their exceptional performance, they deliver outsized results and let the CEO sleep better at night. Most importantly, great leaders attract great talent. The wrong leaders or leaders in the wrong seats often wreak havoc. There is always an excuse. Always a reason why the deal slips into the next quarter, the customer churns or the product feature is late. Don't get me wrong, deals slip and product features are late, but if that is your default, that's a problem. It's the people, stupid."*

One tough talent question right now is what to do about generative AI like ChatGPT. There is not a deep labor pool of experienced executives. You can't really hire someone to figure it out. I recommend being entrepreneurial. My guess is some members of your team have "self-identified" and are playing with it. Create a skunkworks group of these intellectually curious innovators and have them come up with a game plan on how your business can leverage the technology. This WSJ article shares my view of having a group of people own it. businesses-have-a-big-idea-to-tackle-ai-more-task-forces

My dislike of unions has been apparent in these musings. One sticking point for Hollywood actors and writers is they want to limit use of generative AI. In their opinion, a studio should have to use a writer and not leverage ChatGPT. Maybe the issue is the technology can write as well as *some* of the humans.

Great quote from a successful CEO on the importance of focus: "Companies die from indigestion and not starvation."

I never took antitrust in law school but it seems wrong to me that a company can take its big position in one market and then use it to crush people in another market. Meta/Facebook just used its installed base of 2.4 billion Instagram users to jump in front of Twitter. Insta's "Threads" offering got 100 million users in a matter of days. It is tightly integrated with Instagram (you can't delete Threads without deleting Instagram). Isn't this what Netscape accused Microsoft of with Internet Explorer back in the day – tying one product to the other? I am not looking to protect Musk but this is one area Lina Khan might have right. Zuckerberg is famous for (and talented at) replicating someone else's innovation — snap becomes stories, TikTok becomes reels, Twitter becomes threads.

The default behavior to buy insurance may start getting questioned. The basic construct is to aggregate a risk pool so the negative event to one "buyer" is covered by the others premiums. If you can handle the negative event yourself, you shouldn't buy insurance. The actuaries mathematically determine rates that say they should make money on you according to probabilities. For example, I say never buy the extended warranty at Best Buy etc.

College is a diminishing business. Demographic spread of population means fewer high school grads and also shortage of workers so companies will hire without degrees and focus more on skills. The ever-escalating cost (in large part due to inefficient cost structures driven by unionized faculty) have further reduced ROI and left unmanageable debt. The result is a collapse on public support. From Inside Higher Ed: *"A Gallup poll shows only 36 percent of Americans have "a great deal" or "quite a lot" of confidence in higher education, which is down by about 20 percentage points from eight years ago."*

Our daughter Cate taught me about "Blue Zones" which are particular geographic pockets that have a much higher life expectancy (Ikaria, Greece and Sardinia, Italy for example). The research shows nine qualities (https://www.bluezones.com/live-longer-better/)

1. ***Move Naturally:*** *The world's longest-lived people don't pump iron, run marathons or join gyms. Instead, they live in environments that constantly nudge them into moving without thinking about it. They grow gardens and don't have mechanical conveniences for house and yard work.*

2. ***Purpose:*** *The Okinawans call it "Ikigai" and the Nicoyans call it "plan de vida;" for both it translates to "why I wake up in the morning." Knowing your sense of purpose is worth up to seven years of extra life expectancy.*

3. ***Downshift:*** *Even people in the Blue Zones experience stress. Stress leads to chronic inflammation, associated with every major age-related disease. What the world's longest-lived people have that we don't are routines to shed that stress. Okinawans take a few moments each day to remember their ancestors, Adventists pray, Ikarians take a nap and Sardinians do happy hour.*

4. ***80% Rule:*** *"Hara hachi bu" – the Okinawan, 2500-year old Confucian mantra said before meals reminds them to stop eating when their stomachs are 80 percent full. The 20% gap between not being hungry and feeling full could be the difference between losing weight or gaining it. People in the blue zones eat their smallest meal in the late afternoon or early evening and then they don't eat any more the rest of the day.*

5. ***Plant Slant:*** *Beans, including fava, black, soy and lentils, are the cornerstone of most centenarian diets. Meat—mostly pork—is eaten on average only five times per month. Serving sizes are 3-4 oz., about the size of a deck of cards.*

6. ***Wine @ 5:*** *People in all blue zones (except Adventists) drink alcohol moderately and regularly. Moderate drinkers outlive non-drinkers. The trick is to drink 1-2 glasses per day (preferably Sardinian Cannonau wine), with friends and/or with food. And no, you can't save up all week and have 14 drinks on Saturday.*

7. ***Belong:*** *All but five of the 263 centenarians we interviewed belonged to some faith-based community. Denomination doesn't seem to matter. Research shows that attending faith-based services four times per month will add 4-14 years of life expectancy.*

8. ***Loved Ones First:*** *Successful centenarians in the blue zones put their families first. This means keeping aging parents and grandparents nearby or in the home (It lowers disease and mortality rates of children in the home too.). They commit to a life partner (which can add up to 3 years of life expectancy) and invest in their children with time and love (They'll be more likely to care for you when the time comes).*

9. ***Right Tribe:*** *The world's longest lived people chose–or were born into–social circles that supported healthy behaviors, Okinawans created "moais"–groups of five friends that committed to each other for life. Research from the Framingham Studies shows that smoking, obesity, happiness, and even loneliness are contagious. So the social networks of long-lived people have favorably shaped their health behaviors.*

Let me finish with some Scott Galloway content. I enjoyed this quote: *"There were three truths in 2023: 1) Cryptocurrencies were a leveraged Ponzi scheme; 2) the Metaverse and headsets don't work; and 3) Harry and Meghan are terrible people."* Also, below my initials are his long post on the failures of higher education.

Jml

Super Drug by Scott Galloway

What if there was a drug that extended life, made you happier, healthier, and wealthier, and strengthened your relationships? The good news: It exists. The bad news: It's being needlessly hoarded.

This drug is higher education. America is the world's premier source, producing the compound at a purity no other manufacturer can rival. Harvard, for example, quadruples the patient's income. It also dramatically increases their odds of becoming president. Millions come to the U.S. to access this drug. In

a rational world, we'd be making as much of it as possible. Instead, we sequester it behind ivy-covered walls and sky-high tuitions. And for centuries, we prescribed it almost exclusively to white people.

15

In 1960 the Black student population across Harvard, Yale, and Princeton was 15. That's 15 people, not 15%. In 1965, President Johnson made the case for doing something about it: "You do not take a person who, for years, has been hobbled by chains and liberate him, bring him up to the starting line of a race, and then say, 'You are free to compete with all the others.'" Subsequently, affirmative action has helped reallocate elite higher education more equitably: Between 1980 and 2020, the non-white Ivy League student population went from 14% to 50%.

Affirmative action has been controversial, and disputes about race-conscious admissions regularly reach the U.S. Supreme Court. This week the Court dismantled affirmative action, determining it unconstitutional to consider race in university admissions.

I believe this is the right answer (but the wrong question … more on that in a moment). I'm not alone in this view. Affirmative action is broadly unpopular. In the U.S., 74% of people don't believe race should be used as even a minor deciding factor in college admissions. California ended affirmative action at public universities in 1996, and in 2020 voters rejected a measure to reinstate it by 14 percentage points. The benefits of race-based affirmative action have expired. (See above: The changed racial makeup at Ivy League schools.) To be clear, race is still a powerful force in American society, but it lags a more sweeping agent: money.

$$$

Students from the top family-income bracket score higher on standardized tests and are far more likely to go to college. At Harvard, 71% of Black, Latino, and Native American students come from college-educated homes with family incomes above the national median. Reshuffling elites, by race, is still elitism.

In a capitalist society, money is increasingly the ultimate determinant of everything. Beyond your college performance, the amount your parents make improves most other outcomes, from teenage birth rates to life expectancy. While it's true a poor Black kid is disproportionately affected by poverty more than a poor white kid, the more meaningful macro-indicator of their success isn't race — it's that they're poor. Family income isn't a *proxy* for inequality, it *is* inequality. Americans support class-based preferences by 2 to 1. And they work: without looking at race, my alma maters, UCLA and Berkeley, consistently admit the highest percentage of students receiving federal Pell grants. In 2021 the UC system admitted its most racially diverse class ever.

The Court's ruling has inspired an overdue conversation re legacy admissions. They're a double-edged sword. It's wrong that the unimpressive kids of shopping mall developers gain easier admission to the best colleges. Admissions directors know this. But money is the neosporin for their souls — happy alumni are generous alumni and could (in theory) provide the resources to help disadvantaged kids. But that justification is inconsistent with the rising cost and elitism of higher education.

In the past five decades, the price of college has risen 1,600%. Meanwhile, increasingly commonplace

sub-10% acceptance rates are viewed as a feature not a bug. Some nuance here: This tuition increase is not evenly distributed, because the richest schools have torrents of money for scholarships. But their artificial limits on supply arbitrage good kids from middle-class families down the cartel chain to schools that charge the same price but don't offer the same financial aid … or the same certification and experience. A kid from a top-0.1%-income-earning household is 80 times more likely to get into an elite college than a kid from the bottom fifth. College sweatshirts would be more honest if they printed "Caste" above the logo.

Misdirection

The discussion around affirmative action and the emotion it evokes distract from the real issue and culprits. The question facing American higher education is not "Who?" It's "How Many?" The answer should be … "More." Specifically, lower cost, increased volume. More kids of color, more middle- and lower-income kids, more trans kids, more men, more women, more legacies, and more international students who pay full freight and become evangelists for the U.S. when they return to their native countries … or stay to run a Nasdaq company. We need to stop finding reasons to divide us and focus on solutions that enrich us. Hoarding a lifesaving drug like this would cause chaos and anger. And it has. Ask any parent of a senior applying to college.

Grand Bargain

The Supreme Court has, accidentally, illuminated a path forward. Striking down Biden's debt-relief program freed up $500 billion earmarked for higher education. Something with a $500 billion price tag should be for an investment in the future of the country, not a populist bailout. The student debt relief package was an effort to shrink the tumor, but it did nothing to treat the underlying cancer — cost and access. It's telling that the affirmative action debate is irrelevant to most colleges and college applicants, as they do not have demand that far outstrips supply. That's the answer, supply.

Here's my proposal. The federal government should offer the largest 500 public universities (approximately the top third) an average of $1 billion per school (adjusted by size), in exchange for the following commitments. Over the next 10 years:

1. Reduce tuition by 2% a year;

2. Expand enrollments 6% a year via investments in technology and infrastructure; and

3. Increase vocational/certificate programs to 20% of students.

The net result, in 10 years, would be double the freshman seats at half the cost (accounting for inflation) and a step-change in opportunity for kids who do not have the money, skills, or desire to pursue a traditional four-year degree. Nearly 50% of Germans have some sort of vocational certification; in the U.S. it's 5%. Pro tip: Neither you nor your kid have failed if they don't get a four-year liberal arts degree. Note: Spare me the bullshit about an erosion in brand equity if our best universities broaden admissions standards. When I attended UCLA it had a 76% admissions rate, and the brand was outstanding. Scarcity is for luxury brands, not education. Rejectionist Nimbyism is a means of transferring of wealth from young/poor to old/rich: skyrocketing value in existing degrees and houses while the cost for young people to attain their dreams has — in lock step — also skyrocketed.

If we can scale companies 40% per year, then we can expand enrollments at our great public universities 6% per year. The system is ready. Remote learning and utilizing campuses during non-peak periods (summer, nights, weekends) could double capacity. Stop building luxury dorms and lazy rivers. Abandon our obsession with four-year liberal arts degrees — we can continue to produce poets and philosophers, but also plumbers and cybersecurity technicians.

Private

Most elite schools, however, are "private" though, right? Sort of. Even more than most "private" enterprises in the U.S., universities are profoundly entangled with the public purse (why the Supreme Court can tell Harvard how to run admissions). They are non-profits and don't pay taxes on their endowment income, they are the recipients of billions in government grants, and their students pay tuition with federally subsidized student loans and financial aid. Accordingly, we should revoke the non-profit status of any university that enjoys a $1B+ endowment but isn't expanding its freshman class size at the same, or greater, rate than population growth. If an organization is growing its endowment (i.e., revenues) but not their service to the commonwealth, there's a term for that: for-profit.

Debt

Student loan debt is a problem, but it's not the generation-wide disaster the left claims it is. Most student loan holders have manageable debt (the average payment is about $500 per month, or less than 10% of the median starting salary for a college graduate) which they pay off. That's how loans work. But we should expand our existing loan forgiveness programs for those who take public service jobs or were affirmatively misled. And we should put schools on the hook for the bad debt they create. If a college's graduate defaults on their student loans, the college should own 25% of the loss. This would force colleges to either improve the ROI of an education that foots the real economy or stop loaning $200k to kids they know will struggle to pay it back — they have this data. A student loan bailout enables universities to continue growing the tumor with increased prices: yes, it helps young adults who've seen their wealth cut in half (real benefit), but it also bails out universities who will not alter their predatory lending practices — meaning this generation will ultimately have to pay for another bailout.

Springboard vs. Filter

UCLA and UC Berkeley were transformative for me. I've given approximately $18 million to the University of California, and I still owe them. But when I applied, UCLA's acceptance rate was 76%. (And I had to apply twice.) Today, it's 9%. The secret to my success was being born before me and my colleagues in academia mutated from public servants to luxury brands.

The media-fueled fight over affirmative action is the latest grist for the mill of a growing, insidious American pastime: hating each other. The answer isn't which people, but more people. The right has lost the American script, which is investing in youth whose best days are ahead of them — and the left wants to be wokesters vs. warriors attacking the real enemy. We're missing the forest for the anger. The answer is more.

J. Michael Locke
Musings

#232: Musing
July 23, 2023

I find the standard measurements of stock market performance suboptimal --- talking about the indices. Historically, it was all about the Dow Jones which technically is the "industrial index" and is biased towards old, mainline businesses and only has 100 companies. As technology grew, many people starting tracking the Nasdaq composite index with more than 2,500 companies (all Nasdaq listed companies) but biased towards tech (55%). I think most professionals use the S&P 500 which is diverse and picks up lots of companies. The challenge is that the S&P (along with the Nasdaq) is market-cap weighted so more valuable companies are more important to the measurement. Over the last decade, a small group of stocks have started to dominant the market-cap weighted indices. Nasdaq is even "rebalancing" its Nasdaq 100 this weekend. From Goldman Sachs: *"On July 24, the Nasdaq 100 (NDX) will undergo a "special rebalance," which is meant to curb the high concentration in the index of a handful of tech stocks. The weight of the seven largest stocks in the index will be reduced by 12 percentage points (from 56% to 44%)."* My approach is simply to watch all three major indices: S&P, Nasdaq and Dow (and sometimes the Russell 2000 which is smaller companies).

Most CFOs need to do a better job tracking the key metrics which drive the business model of a company. Controllers can do the accounting which is really "scorekeeping" and looks backwards. The good CFOs identify the key metrics which drive revenue and expenses and ultimately free cash flow. For social media companies, one of the key operating metrics is "daily active users." You may have lots of people signed up for a service but you want to track how many are using it regularly and thus receiving the ads presented (Instagram's new Threads offering got over 100mm signups but only has 15mm daily active users). Ad pricing is based on daily active users etc.

I have repeatedly talked about the death of advertising as people look to ratings and referrals from other buyers rather than ads from the company. So far, I have been wrong. One reason is that Americans are too cheap and would rather watch ads than pay a subscription fee. Netflix is earning more money per subscriber from its free ad-supported services than its subscription "ad free" service.

Part of my prediction on the decline of advertising is the growing distrust of companies and institutions in general. There was a time when society believed Walter Cronkite's news, the Catholic priests words and a business' advertisements. Now, many (if not most) people believe the news has a partisan bent, church clergy are hypocritical and companies lie about their products. The Trump polling is amazing to me as he does not see deterioration in support besides multiple criminal indictments and ongoing investigations as many people don't trust the prosecutors at the federal and state level. We have to get trust back in our institutions.

In our rapidly evolving economy, change is key and yet it is very hard for a lot of people. Good tips from BCG on how best to lead a team to embrace change:

Be empathetic. *Imagine yourself as an employee in a cubicle farm, home office, shop floor, hospital ward, or retail store of your organization. How strong is the case for change from this new perspective? What can you do as a leader to address concerns? What channels can you create for stronger listening?*

Encourage agency. *Lay out the facts for employees and bring them along on the change journey. Employees are more likely to change if they are invested in the process. Jeanie Duck, BCG's first change management consultant, used to say, "Insight discovered beats insight delivered."*

Train frontline leaders. *One way to close the change-distance gap is to bring your frontline leaders into the circle of change. Frontline leaders are often first-time managers who oversee operations such as call centers, bank branches, or manufacturing shifts. They are your ambassadors, who can explain the need for change to employees and convey employee concerns back to you. Frontline leaders manage up to 80% of employees at many organizations but often receive only basic management training and limited access to senior leaders. It's no wonder they struggle to be effective at translating lofty change ambitions for their people.*

Offer authentic praise. *Employees may be more willing to embrace change if they feel they are noticed. Our research has shown that the number-one request that employees have of their leaders is more appreciation and recognition. To some extent, these are not new lessons, but they're relevant today, when the ability of large organizations to change is a great differentiator and a source of enduring advantage.*

One industry that resists change is grocery stores. I don't have much exposure to the grocery store business model but this one surprised me. Generally, stores put the fresh produce, deli etc. on the outside and the packaged goods in the middle or "center aisle." From Bloomberg: *"Yet supermarkets have resisted reinventing their center aisle because they rely heavily on the money that national brands such as General Mills and J.M. Smucker pay them to promote their products, whether through in-store displays or coupons.* ***So-called trade funding can account for more than a half of supermarkets' operating profits [emphasis added]****, according to Matthew Hamory, partner at consulting firm AlixPartners."*
When you think AI, you think about huge data centers running incredibly complicated mathematical models and computer code. Underappreciated is the menial block and tackling that also goes into training the model. Great article from the Verge on folks in Africa and other places making $10 an hour tagging content (thanks Troy Noard). *"Much of the public response to language models like OpenAI's ChatGPT has focused on all the jobs they appear poised to automate. But behind even the most impressive AI system are people — huge numbers of people labeling data to train it and clarifying data when it gets confused. Only the companies that can afford to buy this data can compete, and those that get it are highly motivated to keep it secret. The result is that, with few exceptions, little is known about the information shaping these systems' behavior, and even less is known about the people doing the shaping. For Joe's students, it was work stripped of all its normal trappings: a schedule, colleagues, knowledge of what they were working on or whom they were working for. In fact, they rarely called it work at all — just "tasking." They were taskers."* artificial-intelligence-data-notation-labor-scale-surge-remotasks-openai-chatbots I listened to a WSJ podcast that also discussed the emotional wear and tear as some individuals sat for hours and tagged child pornography images and other troubling content so the model won't present it.
Sad stat: in 1960 roughly 5% of American children were born to unmarried mothers. Today that number is 40%.

The role of regular provider in our healthcare system has moved from an MD to a Nurse Practitioner or

Physician Assistant. In California, Nurse Practitioners are even suing to overturn a rule that says they can't use "Dr." even if they have a PhD. The physician assistant (PA) role is odd for me. My understanding is PAs go to two year Masters programs after college and then are licensed to do almost everything a doctor is (they are supposed to operate under the supervision of an MD but I recently had an appointment with a PA and never saw an MD). Meanwhile, doctors go to four years of med school and 3-4 years of residency and some do fellowships after that. What gives? We need to make the path to MD easier. Lot of smart kids can't get into medical school because of a lack of spots. Would be great to shorten the training post-school or increase the wages – it is such a long journey that many individuals who would have been good physicians are dissuaded.

Loved this dad quote on Instagram: *"my son played travel ball for 5 years and now wants to take a break. No problem. You owe me $57,457 and 447 hours if my life back."*

jml

J. Michael Locke
Musings

#233: Musing
July 29, 2023

The Fed is getting close to the elusive soft landing. Various measures of inflation are coming down while the economy grew 2.4% last quarter and unemployment remains low.

One reason the Federal Reserve's hike in interest rates has not more significantly damaged the economy is that only 11% of household debt is variable according to WSJ. Everybody locked in their low cost mortgage or auto loan so rising rates don't change their debt service (it just kills home sale volumes because no one can sell the house with the 3% fixed mortgage to buy a new one with 7%+).

This has led the stock market continued rally even with another 25bps (.25%) increase in rates by Fed to highest level in over twenty years. Deal activity starting to pick up. I like how investment bank Healthcare Growth Partners (HGP) framed things: *"In 2023, AI dominates investments, while human psychology dominates investment behavior. After a decade of remarkably low interest rates, investors have experienced the shock of runaway inflation and the most aggressive Fed hike cycle of this generation. The market's reaction mirrors the five stages of grief – denial, anger, bargaining, depression, and, around the corner, the final stage: acceptance. Grief is the natural emotional response to loss. In this context, "loss" is the end of the 10+ year easy money market cycle that sparked ever rising valuations and a flurry of investment and transaction activity which skyrocketed to a peak with COVID stimulus. Acceptance is the stage where one comes to terms with the reality of a situation and moves on. From a market perspective, it means investors will accept a future that may not look like the past and express a desire to get back into the game."* Financial markets are getting back to normal.

Do money managers allocate funds to private equity and other private investments simply for their lack of correlation to other asset classes based on timing delays? I have personally found that alternative / private investments provide superior returns to public markets if you can handle the lack of liquidity. Still, I thought this perspective from BusinessWeek was interesting. "*One very simple, very dumb model of private investments is that they are like public investments except that their price is updated less often. This has two attractive features:*

1. *Private investments have lower volatility: The stock market goes up some days and down other days; private investments are marked to market every quarter or whatever, which just smooths out a lot of variance. If you want lower volatility, just being told the price less often is … I mean … kind of that. We have discussed this feature before, and it is plausible that some investors pay extra for private-market investments precisely to avoid seeing prices change too often.*

2. *Private investments are lagged. When the stock market drops, your private equity investments don't. The stock market is a leading indicator: Stocks go down because the market expects cash flows to be lower in the future. Private valuations are more lagging: Private investments tend to be marked down when cash flows are actually lower. If the stock market is wrong and cash flows turn out to be fine, stocks will go back up and private investments will never lose value. (This is Point 1, about*

volatility.) If the stock market is right and cash flows go down, stocks will stay down and private investments will lose value, but later. This is good. It is a hedge. Your stocks go down one year and you are sad, but the losses are offset by your private investments whose valuations are still fine. Next year, your private investments finally go down and you are sad, but the losses are offset by the stock market, which, always forward-looking, is up again. Your overall portfolio has less volatility, because it consists of uncorrelated assets: forward-looking public stocks and backward-looking private investments."

I don't believe in the "super app" vision proposed by Musk and others. The concept is that users should be able to do more in a single app instead of having to open up a different one. Apparently, this is what happens in China with WeChat amongst others. Behind the name change of Twitter to X, is Musk's vision to make Twitter a super app (or everything app) where you can shop, make payments and maybe even order a ride (rather than going to Amazon, Paypal and Uber). Here is the "X" (formerly a tweet) from X CEO Linda Yaccarino *" X is the future state of unlimited interactivity – centered in audio, video, messaging, payments/banking – creating a global marketplace for ideas, goods, services, and opportunities. Powered by AI, X will connect us all in ways we're just beginning to imagine."* I think these markets are too developed and users are very comfortable with existing offerings. Apparently, Musk is also talking about eliminating "regretted user minutes" where people doomscroll.

So much for work ethic. Trending hashtag topic on TikTok is "lazy girl job" according to WSJ. *"Bilodeau and scores of other women online are bragging about their work setup using the hashtag #lazygirljob. To fans, the ideal lazy-girl job is one that can be done from home, comes with a chill boss, ends at 5 p.m. sharp and earns between $60,000 and $80,000 a year—enough to afford the basic comforts of young-adult life, yet not enough to feel compelled to work overtime. Veterans of such jobs say roles such as "digital marketing associate," "customer-success manager" and "office administrator" are good bets for achieving the lazy-girl lifestyle…..Six in 10 workers say they're putting in less than maximum effort, according to Gallup's Global Workplace report this year. In the Gallup survey of more than 120,000 working adults, the biggest complaint from those workers was their workplace's culture."* the-career-goal-of-the-moment-is-a-lazy-girl-job. Not sure why the sexist moniker as this applies to both men and women.

I believe it is really important to understand the person and not just the skill set when you are hiring. Good piece by private equity firm LLR on hiring talent:

5 fundamentals of talent evaluation

Talent evaluation covers five areas: motivation, experience, skills, culture fit and what I call "upside in the company"

1. *Motivation. This is the number one category I address when interviewing talent, asking questions like: Why are you interested in the position? and What motivates you to go to work every day? The candidate's answers reveal vital details about what drives them as a person. That, in turn, will help to provide you with a solid foundation of the overall performance you can expect from them.*

2. *Experience. There's no getting around it: Experience matters. Any good hiring manager can get a good sense of a candidate's background from their resume or LinkedIn, so I see this as an opportunity to add texture and depth to their story. What was your most significant contribution in your last position? or What would you have done differently? These questions can give you a sense of what they were hired to do, whether or not they achieved it, or what they actually accomplished —*

job titles can be misleading. I also like to ask candidates about the attributes they seek in a manager. At this point, I normally already know who their manager will be. This helps to ensure they will be a good fit for one another.

3. *Skills. I start by asking candidates how their skills align with the position. Then I add: Are there any skills you don't possess that are in the job description? The goal here is to make sure people have taken the time to read the job description and understand what the role entails. Another valuable question is: What steps would you take to stay current on a required skill? This provides perspective on the candidate's interest as well as their learning agility.*

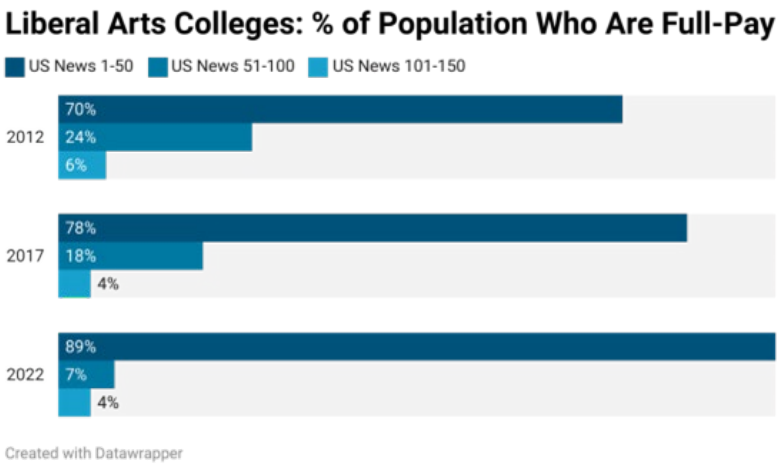
4. *Culture Fit. Particularly for small companies, cultural fit can be the most important aspect of the hiring process. I ask candidates: What did you like or dislike about your last company culture? or simply: Describe your ideal culture. Based on their answers, I usually know right away whether they will be a good match. Another option is to ask: How would you create an environment that employees find motivating? I'm frequently surprised by how it's not just about pay and benefits. Often candidates value the opportunity for remote work or a company's philanthropic efforts. Taking notice of what's important to a person is a good indication of how they should align with your company culture.*

5. *Upside. The final piece of the puzzle is upside in the company. Ideally, you're looking to fill a position, not just for tomorrow, but also for several years down the road. Asking questions like: How do you define success in your career? and What do you want to accomplish in the next five years? will shed light on how the candidate thinks about the position in the context of their larger career path, and whether or not your company can provide opportunities that will keep them around in the long term.*

Had to go to the DMV this week. Have you ever met a motivated, competent, customer-friendly government employee? Not sure I have. Hard to motivate if you get the same raise regardless of performance and can't get fired.

We need more transparency on the FICO scoring system. The opaque metric assigned to all individuals determines your access to credit and thus can significantly impact your life. Yet, it remains a mostly "behind the scenes" business process of the three credit bureaus. According to Equifax, here is what goes into a Fico score. *"The main categories considered are a person's payment history (35%), amounts owed (30%), length of credit history (15%), new credit accounts (10%), and types of credit used (10%). FICO scores are available from each of the three major credit bureaus, based on information contained in consumers' credit reports."*

The "middle" private universities in the US are in real trouble. As enrollments decline, the top branded schools are doing fine but the middle is struggling. In private higher education, there is cross-subsidization where a group of "full pay" students (no "institutional scholarship" which is really just a price discount) pay rack rate so another group of students can get big discounts. The challenge is there are fewer full pay students and those that exist really focus on the top/fancy schools leaving fewer for the lower schools to pay the bills. Interesting graph from Jeff Selingo:



The model of a doctor practicing with a couple colleagues in a private practice they own is dying. The American Medical Association (AMA) did a survey to understand the "employment status" of doctors with some interesting results. "*Between 2012 and 2022 the percentage of physicians who work in private practices (i.e., practices owned by the providers) dropped by 1,300 basis points—from 60.1% in 2012 to only 46.7% in 2022. Regarding employment status, 44.0% of physicians were reported as practice owners in 2022, 49.7% were employees, and 6.4% were independent contractors. This was down markedly from 2012, when 53.2% were practice owners. Moreover, this represents a continued decline in overall practice ownership, which was in the 76% range in the 1980s and 61% range as recently as the mid-2000s." (William Blair).* Physicians are mismatched dealing with the large insurance companies around reimbursement etc. by themselves and need to be part of a larger entity.

I am not a big fan of the Greek system rush dynamic in higher education, especially among sororities. While Greek life can offer a lot of positives (I was in a fraternity), the evaluation and rejection it imposes on 18 year olds embarking on the next chapter of their life is problematic. I like the Greek systems where residency is minimized and there is a spot for everyone going through rush. Some Southern schools take a different approach and it can create a suboptimal environment. There is even a developing industry of "consultants" to help mom's and daughter's maximize their chances during rush. sorority-consultants-rush-colleges-parents-prepare

Let's hope for a cool down soon. The 100 degree plus temperature of the Atlantic ocean right now is killing the coral reefs (they bleach out and then die). The reefs are part of the whole ecosystem of marine life and we can't have them die.

Crazy stats on the failed system of Chicago public K-12 education. From Forbes: *"Chicago Public Schools spent nearly $30,000 per student -up more than 70% since 2008. It's the highest spending of any state in the Midwest with the highest teacher salaries in the region and the largest median pension benefit in the country of $2.9 million."* Yet, student learning continues to fall short and is not getting better. I am a big believer of school choice and unfortunately the Illinois governor ended a program that provided funding to allow more families (not just rich families) to choose their school. how-illinois-is-failing-our-students Proud of the Bennett Day call out on this article.

Jml

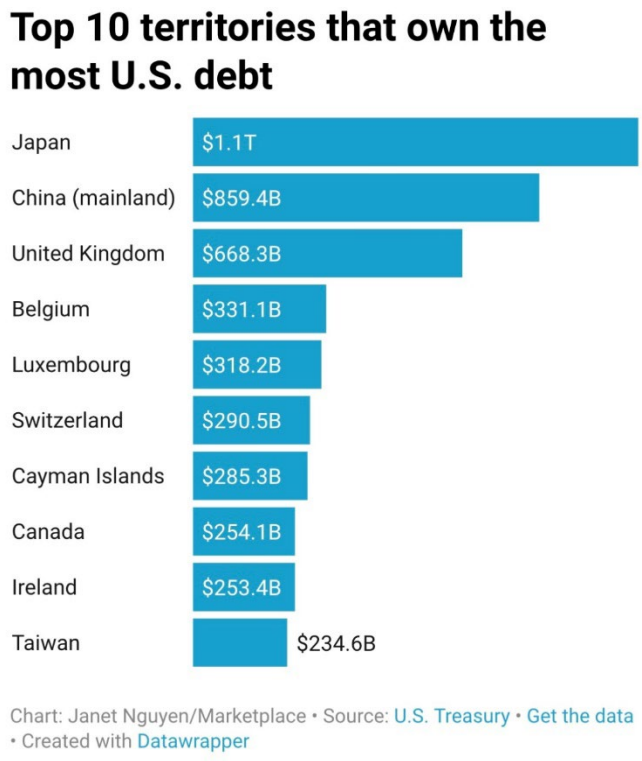
J. Michael Locke
Musings

#234: Musing
August 5, 2023

Sorry for some of the typos and formatting issues in recent musings. The brains of the outfit – Jennifer Walsh – is out on maternity leave with her new son so my editing and publishing capabilities are significantly diminished. Bear with me.

I like the move by Fitch to downgrade US debt from AAA to AA+. Fitch is one of three credit rating agencies which evaluate the risk of an issuer paying back its debt. The US government has always been considered the safest issuer of all and all other types of debt generally trade on a "spread" to the rate on US debt to reflect the greater risk. The question is whether US debt is getting riskier. It is definitely getting out of control. This year there will be more outstanding debt than the GDP (it was only 65% of GDP just 12 years ago in 2011). Our gutless political class continues to cut taxes and increase spending. There will be a day of reckoning.

One way this reckoning might come is the pullback in those who buy all of this debt. Historically, other parts of our government (led by the Federal Reserve) were the biggest buyers in an intergovernmental shell game. After that it is foreign countries. That is right, we run up expenses in DC much greater than revenue and borrow from Japan and China to afford it.



The huge fiscal expansion has also made the economy more immune from Fed rate increases. Interesting piece from Ray Dalio of Bridgewater fame. "*There was a big government-engineered shift in wealth from 1) the public sector (the central government and central bank) and 2) holders of government bonds to 3) the private sector (i.e., households and businesses). This made the private sector relatively insensitive to the Fed's very rapid tightening to a more normal monetary policy. As a result of this coordinated government maneuver, the household sector's balance sheets and income statements are in good shape, while the government's are in bad shape. In the US and globally, the central governments' balance sheets and income statements are bad and getting worse because the governments ran and are still running large deficits. They also have big losses on the government bonds they bought to fund the government debts and, with their balance sheets where they are, are losing money where interest rates are. Said more simply, central governments took on a lot more debt (so their balance sheets deteriorated) and central banks printed a lot more money (which caused inflation to rise) and bought a lot of the debt to get money into the hands of the private sector which, as a result, is now in relatively good shape financially.*"

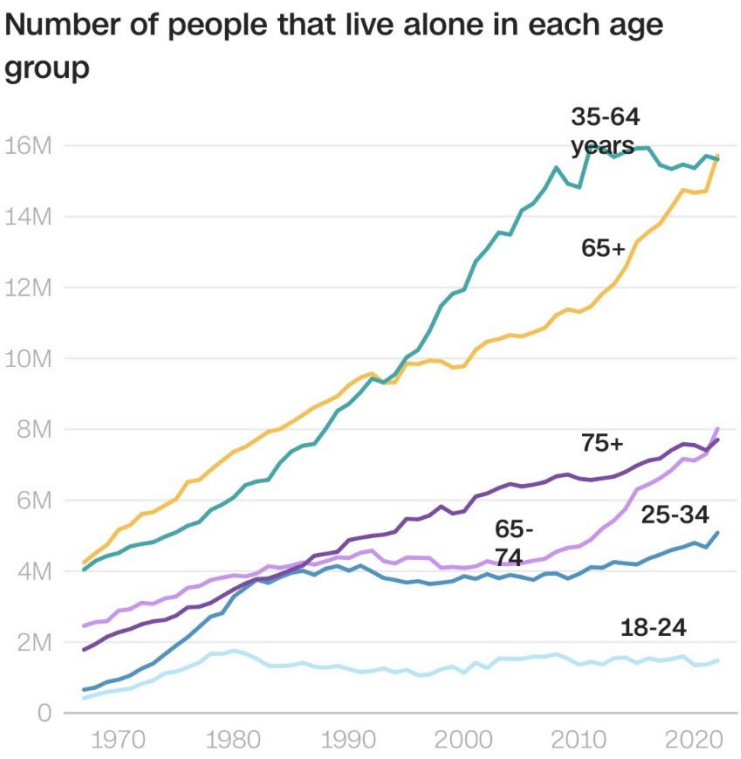
Loans in corporate America to finance M&A are increasingly coming from non-banks. Many private equity firm themselves have created separate credit funds (I am not a fan of this with the PE firm having various positions across the capital structure and the inherent conflict). There are a ton of new entities lending including hedge funds and "Business Development Companies" or BDCs. Banks are at a disadvantage as they are regulated and forced to have more conservative balance sheets. Just last week, the regulators in DC proposed rules to increase the amount of money banks just have on standby (capital ratios) leading Jamie Dimon of JP Morgan Chase to complain that non-bank lenders were "dancing in the streets."

Look for more "structured" deals in the private world with higher rates and risk aversion. Rather than coming up with all of the money to buy all of the equity of a target, deals can be structured to reduce the buyer cash need. After the debt borrowed from a bank or BDC, the buyer can ask the seller to provide financing in a seller note (subordinated to the bank debt). The buyer might also connect some of the consideration to the future performance of the business in an "earn out". Finally, the buyer might ask the seller to "roll over" and maintain a minority ownership position.

Negotiate an MFN clause in the pricing of your purchasing contracts if you ever have a chance. MFN stands for most favored nations and was created in the trade world. The idea is that you want the best pricing of what you are buying and if the seller ever gives someone a lower price, they have to come back and give you the lower price if you have an MFN clause. If you are a seller on the contract, NEVER give an MFN clause.

Interesting stat — Uber had collectively lost almost $30 billion in operating losses from 2016 to Q1.

Unfortunately, more and more people find themselves living alone. Nearly 16 million people over 35 live by themselves in the US. Not sure what business opportunity this presents — a new form of senior living for healthy people with pickbleball and sushi?


Number of people that live alone in each age group
35-64 years
65+
75+
65-74
25-34
18-24
16M
14M
12M
10M
8M
6M
4M
2M
0
1970
1980
1990
2000
2010
2020
Source: U.S Census Bureau's Current Population Survey, Annual Social and Economic Supplement
Graphic: Parker Leipzig, CNN
CNN

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J. Michael Locke
Musings

#235: Musing
August 13, 2023

Our capital markets and boards need to do a better job holding executives accountable for wasted money in M&A. Pearson education paid $650 mm for Compass and recently gave it away. Melissa Mayer led a $1.1 billion acquisition of Tumblr when she was at Yahoo which eventually became worthless. The best might be Barstool. Dave Portnoy sold Barstool to Penn Entertainment Inc. for $550 million in 2020 and last week he bought it back for $0 (Depending on what happens down the road, he may have to pay some but he put up no money right now!) The write-offs get ignored by Wall Street as a one-time charge but it was wasted shareholder money and CEOs should be held accountable. From a buyer perspective, some of best deals are corporate carve-outs / divestitures where the big conglomerate just wants to get rid of a business and you can get something on the cheap.

The remote work debate seems to be intensifying again. Companies (even Zoom) are pushing for more employees to return to the office. Academic studies starting to appear on the question of productivity. *"A July working paper published by the National Bureau of Economic Research that studied data-entry workers in India found that workers randomly assigned to work from home were 18% less productive than those in the office. A recent analysis of multiple studies by the Stanford economist Nick Bloom, a leading remote-work expert, found that fully remote workers were 10% to 20% less productive than their in-office counterparts. These findings come as US labor productivity has slowed in recent quarters."* are-remote-jobs-more-productive-work-life-balance-return-office (thanks John Hughes). Personally, I think the question is moot as workers like their remote / hybrid working lifestyle and the shortage of labor in our economy gives them the opportunity to work how they want.

More government ineptitude. Chicago sold the rights to manage and own its parking meters fifteen years ago for $1.16 billion. The buyers have already recouped their investment plus made $650mm and have 60 years left on their lease. Last year, they collected $140mm. At that rate, they will collect another $8.4 billion with no growth over the rest of the lease. Crazy.

The most powerful person you have never heard of is Chiquita Brooks-LaSure. She runs CMS which is the Center for Medicare and Medicaid Services which is the government department within HHS which oversees the Medicare (old) and Medicaid (poor) government funded health insurance programs. Through the two programs, CMS sets the rate that will be paid for various services for a majority of the market. Unfortunately, government rates sometimes don't even cover a providers cost so the provider has to make it up through high rates on the privately insured side. A recent study shows that private rates were more than 2x Medicare rates (even with Medicare advantage plans negotiated by insurers). Physicians are currently seeing their fees cut my Medicare. "*Physicians are facing a 2% cut in Medicare payment in 2023, and 2024 will bring at least a 1.25% cut."* (Google) What a mess.

Good quote from Republican Presidential candidate Vivek Ramaswamy: *"The #1 aspiration for American kids today is to be a YouTuber/Vlogger. The #1 aspiration for kids in China is to be an astronaut. This isn't*

our kids' fault. It's ours. And we don't have long to fix it."

Another good quote from Margaret Thatcher that the trouble with socialism is that "you eventually run out of other people's money."

Random fact — TSA likes bomb-sniffing dogs to have floppy ears as opposed the pointy-ears. Apparently pointy-eared dogs like German Shepherds can appear "ominous" and the TSA wants to project a calm and friendly environment to travelers as they go through security.

We have not cut the cord in our house yet. Mostly due to habit as like to watch broadcast news and sports (which I guess are easily achieved through an OTT service). Cable TV is dying as consumers now have legitimate, fairly-priced options as opposed to the abusive, overpriced cable bundle. People refer to "Linear TV" -- the traditional form of TV -- which is programmed and watched as scheduled through satellite or cable. The term "linear" in this phrase simply refers to the method by which television programs and content are consumed -- a predetermined/scheduled lineup of shows. App-based TV like Netflex is called OTT or "over the top" and entails streaming via the internet and the user controls what they consume.

Lots of news coverage of the astounding force that is Taylor Swift and her tour. I am no Swiftie but I do appreciate the positivity of the whole thing. No scandals. No partisanship. Friendship bracelets and people having fun. We need more positive psychology in our world.

Had the wonderful college drop-off ritual. Nothing like the excitement of your child starting a new wonderful adventure. Hotty Toddy Caroline.

Jml

J. Michael Locke
Musings

#236: Musing
August 25, 2023

Fed soft landing still looking possible. Long term bond yields have crept up based on strong economic indicators. Sometimes you get a simple look at the health of the American consumer (which is 70% of GDP). I was at an outlet mall last weekend. You could not find a parking spot. I have never seen it so crowded. It is also part of the "trade down" where lower price retailers are doing better than more expensive ones. Walmart sales strong. TJ Maxx line out the door etc. Meanwhile, Foot Locker, Dicks and Macy's disappoint. The "restarting" of student loan payments is a meaningful headwind as over 30% of folks who were on a break paying student loans took on a new auto loan.

In contrast to the strength in US, China is in trouble. Anemic growth. Deflation. High youth unemployment. Government cutting interest rates. The government attacking the tech sector because it had too much power looks to be rivaling Putin decision to enter Ukraine on list of generationally bad decisions (behind Bears drafting Trubisky).

As interest rates rise, our government's finances become more precarious. Interest on the federal debt now makes up over 75% of discretionary, non-defense spending. Medicare and Social Security are not discretionary nor really is defense spending. According to WSJ, this is why the federal government is described as "an insurance company with an army."

We have a breakdown in corporate governance for public companies. Too many bad CEOs never get fired despite disastrous acquisitions and cratered stock prices. Part of the problems is who votes. With the rise of mutual funds, index funds etc., the real votes are not from those with economic interest but from the intermediary. According to Harvard Law Professor John Coates, the three largest index fund providers — Blackrock, State Street and Vanguard — "now control more than 20 percent of the votes on the S&P 500." It is like politicians negotiating with the public sector unions who elected them. Noone is protecting the people who are actually putting up the money.

Executives need to make sure that accounting doesn't get in the way of knowing your expense structure and cash flows. Two dangerous areas are capitalization and allocations. With capitalization, expenses get put on the balance sheet (ostensibly to be matched to the revenue streams they correlate to in the future). This is still cash out the door so the income statement is less representative of true cash flows. With allocations, expenses get recorded in an area differently from where they are controlled. They still run through the P&L but you can "lose control" as the owner of the P&L does not own the expenses which are allocated into it. IMO, you should try to minimize capitalization and allocation. When doing diligence on a potential acquisition, I recommend starting with the balance sheet and cash flows so you can see what is going on. Income statements can get "juiced up" since companies generally trade on a multiple of ebitda even though they should really trade on their cash generation.

A lot of companies are now realizing that leases are basically debt. They are long term fixed commitments with an outflow of cash. With the move to remote/hybrid work, companies have excess space but limited ability to reduce their lease obligations. The group that oversees accounting rules put out a new rule (FASB) on lease accounting to try and get more of these commitments onto the balance sheet as debt. You should always be careful about signing big long-term leases.

Interesting stat – 56% of women in US over 15 are in the workforce compared to only 25% of women in India (WSJ).

Surprising stat — YouTube is most watched streaming platform with 9.2% overall viewing time ahead of Netflix at 8.5% (WSJ).

Nielsen needs to figure out how to equate social media / OTT viewing with cable viewing. Tucker Carlson's interview with Donald Trump on X had 236 million total view "impressions" by Wednesday afternoon. Nielsen on Thursday said about 12.8 million watched the Republican primary debate on Fox News and Fox Business. Those aren't really apples to apples numbers. *"On X, impressions account for the total number of times a post was seen, which can include multiple views by a single user, according to X's website. TV ratings generally are the average number of viewers who tuned in to a telecast at any given time."* (wsj)

I am a big fan of SoLoMo which is a term invented by famed venture capitalist John Doerr for Social / Local / Mobile. That is where the world is going. I especially believe in mobile. Providers/suppliers must now take their products/services to the consumer rather than making the consumer come into their establishment. DoorDash brings the food to the home. Mobile dog grooming vans will take care of your pets. Hospitals are creating clinics closer to people and more healthcare is actually happening in the home. Trunk club will let you pick your clothes at home. Where is the barber with in home haircuts?

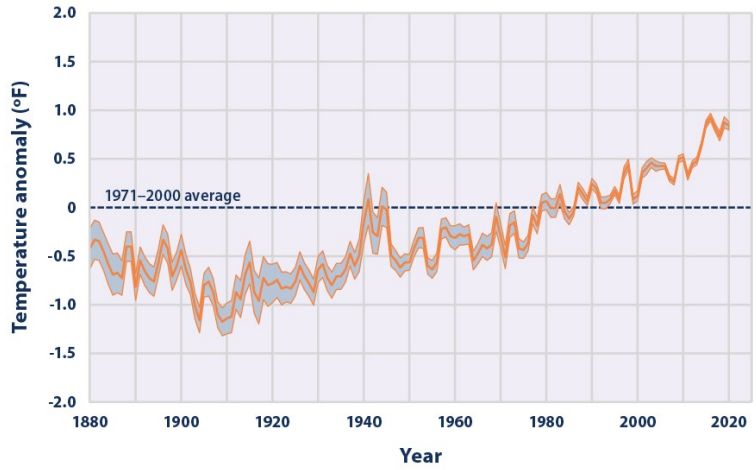
New term – "Brotox" for men getting botox. No thanks.

I stay out of politics in these musings but just a couple comments. Watch Vivek Ramaswamy. I am not saying this because I support him but because he is like Trump without the criminal indictments and baggage. I wish the Republican party would take to Nikki Haley but it seems dominated by the Trump wing. Ramaswamy put out his ten commandments:

1. God is real.
2. There are two genders.
3. Human flourishing requires fossil fuels.
4. Reverse racism is racism.
5. An open border is no border.
6. Parents determine the education of their children.
7. The nuclear family is the greatest form of governance known to mankind.
8. Capitalism lifts people up from poverty.
9. There are three branches of the U.S. government, not four.
10. The U.S. Constitution is the strongest guarantor of freedoms in history.

He speaks of only defending Taiwan until we have "semiconductor independence" as the largest supplier of semiconductors is currently a Taiwanese company called TSMC. He also said climate change

was a hoax. Not sure how he says that when you look at this graph of the ocean temperature over decades.



I am not promoting him nor supporting him but believe he will get traction as "Trump" without Trump so needs to be watched.

jml

J. Michael Locke
Musings

#237: Musing
September 4, 2023

Leaders need to focus on the gray economy (a new "golden bachelor" show is coming out). The US population will actually start declining soon as fertility rates remain below the replacement rate. As a result, the distribution continues to skew more to older adults. The standard discussion on labor shortages assume no change in "the model." Good article by Rishad Tobaccowala which introduced me to the concept of "fractional employees" where every year you could ask an employee how much they want to work and allow you to tap into the huge volumes of talent that don't want to work full-time. *"Imagine if one could get both the continuity and loyalty of a long-term employee with the flexibility of cost management of a part time employee and the expertise of a free-lancer and do so in a way that both grows employees and retains them in the long run. This is the* ***Fractionalized Employee.*** *Every employee in the company is given a choice to work 100%, 75% or 50% of their time. (In the US one needs to be working 50% to be eligible for health and other benefits). They get to select this at the beginning of every year or can adjust to a different level when a life event occurs (health, birth of a child, need to take care of a parent, a passion that needs to be attended to or other life issues)."* *the-fractionalized-employee*

Great leadership comment from a successful PE partner. He was lamenting junior staff coming to him and asking "what do you want to do." You want to create a culture where that is unacceptable. As a leader, you can't let developing executives avoid the tough judgment calls. Push back and make them figure it out. You obviously need some guardrails on their decision rights but you want a culture where they make decisions. Just like you don't want to be a helicopter / lawnmower parent, being nice can actually hinder your team's development.

I think it is important to build a "cost mindset" into your organization. Constantly be looking at how you can reduce costs. Costco is famous for its' $1.50 hot dog and Pepsi deal. The former CEO once said he would kill someone who suggested raising the price. Here is a quick q&a with him showing the mindset: (from Seattle Times)
Q: *How long have they been $1.50?* ***A:*** *Since we started. Well, we were open a year and a half before we put a hot-dog stand in at the original downtown location. It's been a buck-fifty for a hot dog and a coke.* ***Q:*** *If that price ever goes up, what will it mean?* ***A:*** *That I'm dead. It's amazing how creative we have been to figure out ways to keep the price down. It was a Sinai hot dog, and now it's a Kirkland Signature hot dog. It's actually 4.4 ounces, so it's slightly bigger than a quarter pound now. It's a drink and a free refill on the drink for a buck fifty. We used to sell the soda in a can, and we put in soda machines, which took the price down. We improved the cost of the condiments, we've purchased better on buns and things like that. It's the same quality hot dog, all beef, the best ingredients that you can imagine. I know it sounds crazy making a big deal about a hot dog, but we spend a lot of time on it.*

Bookings or sales are the leading indicator of your revenue line and ultimately your profitability. A key managerial question is how best to calculate the booking metric. Some companies use total contract

value (TCV) while other use only annual contract value (ACV). I think the key is to strip out one-time revenue and really understand the revenue you have booked for the future. Manage the salesforce to TCV so they are incented to go for longer terms and have finance manage ACV so they can accurately predict near term revenue.

The decline of church attendance is well-documented and part of our drifting society IMO. Churches need to realize they are in a consumer business. I know many strong faith people will disagree but most people can't tell you the difference between Methodist, Presbyterian or Episcopalian. Church leaders should take on the consumer lens — provide more time flexibility (imagine if all stores were only open Sunday morning), encourage casual clothing, update the music, and have a robust streaming platform. There is a reason nondenominational mega-churches are thriving while mainline fail.

The federal government sued SpaceX for only hiring US citizens and permanent green card holders. Must say I didn't realize this was illegal. From NPR: *"The department alleges in the lawsuit filed Thursday that between September 2018 and May 2022, SpaceX violated the Immigration and Nationality Act by discouraging refugees and asylum recipients to apply for available positions in their marketing materials, rejecting or refusing to hire them and hiring only U.S. citizens and permanent residents."* I think prosecutors have enormous discretion in what cases they bring. Is this the right use of government resources?

Covid cases are on the rise. I pray we have learned our lessons from some of the past mistakes during the pandemic. No research shows masks really matter (unless a perfectly-fitted N95). We are just scratching the surface of the harm done to our youth by keeping schools closed. *"A June report showed that national average test scores for 13-year-olds plummeted during the 2022-23 school year when compared with pre-pandemic levels. On average, this age group scored the lowest they have in math since 1990 and the lowest in reading since 2004, according to the National Assessment of Educational Progress."* This is despite huge amounts of money given to schools. *"Between March 2020 and March 2021, Congress authorized $190 billion in funding for K-12 schools – roughly six times what they receive from the federal government in a normal year."* We have to figure out how to get kids caught up. *"Schools will need to add a significant amount of instructional time to help students close the learning gap – which some districts are attempting to do through tutoring, extending the school year or offering intense summer programs, for example."* school-covid-pandemic-aid-learning-loss

The concentration of wealth is driving a lot of the strain on our society. *"In the year 2022, three multibillionaires own more wealth than the bottom half of American society – 160 million Americans. Today, 45% of all new income goes to the top 1%, and CEOs of large corporations make a record-breaking 350 times what their workers earn."* *the-us-has-a-ruling-class-and-americans-must-stand-up-to-it*. I think NY Times columnist David Brooks was right in suggesting the "ruling class" has led to the Trump dynamic among the "working class." From his article: *What if we're the bad guys here? On anti-Trumpers and the modern meritocracy: "The ideal that we're all in this together was replaced with the reality that the educated class lives in a world up here and everybody else is forced into a world down there. Members of our class are always publicly speaking out for the marginalized, but somehow we always end up building systems that serve ourselves. The most important of those systems is the modern meritocracy. We built an entire social order that sorts and excludes people on the basis of the quality that we possess most: academic achievement. Highly educated parents go to elite schools, marry each other, work at high- paying professional jobs and pour enormous resources into our children, who get into the same elite schools, marry each other and pass their exclusive class privileges down from generation to generation. Daniel Markovits summarized years of research in his book "The Meritocracy*

Trap": "Today, middle-class children lose out to the rich children at school, and middle-class adults lose out to elite graduates at work. Meritocracy blocks the middle class from opportunity. Then it blames those who lose a competition for income and status that, even when everyone plays by the rules, only the rich can win."

The government is trying to force a redistribution. The labor department is proposing a change in the laws around overtime. Currently, employers must pay time and a half for any hours over 40 for those who make less than $35,000 or don't have a managerial position. The Feds want to increase that to $55,000 which is basically the average salary for US workers. It is a way for the government to drive an increase in overall compensation.

Kind of interesting look at Stanford freshman (more schools saying "first years" to eliminate sexist reference) class. I would love to see this based on family income rather than race. We need to increase economic mobility.

Ethnic Diversity	Percentage
American Indian or Alaska Native	1%
Asian	29%
Black or African American	7%
Hispanic or Latino**	17%
International	13%
Native Hawaiian or other Pacific Islander	<1%
White	22%
Two or more races	10%
Unknown	<1%

Happy Labor Day!

jml

J. Michael Locke
Musings

#238: Musing
September 16, 2023

You have to give it to the UAW for audacity. Their opening bid in their negotiation with Big 3 automakers was a 40% increase in wages over the life of the contract and to get paid full time for 32 hours of work. We are going the wrong way if we are looking for folks to only work 4 eight-hour days a week. According to WSJ, *"the total cost of the average UAW-organized assembly-line worker is $65 an hour, compared to $55 for non-unionized manufacturers such as Toyota, which now accounts for the majority of U.S. car sales, and just $45 for Tesla…..a Wells Fargo analyst estimated that if all UAW demands passed, the average hourly costs for the Detroit companies would soar to $136 per hour."* My guess is the union will actually get a big raise for their members because a strike is so costly but in the long-run, the result will be to diminish the competitive position of the Big 3 and watch more market share go to others.

I applaud the "innovative thinking" by the new UAW president. He is not just following historical practice but changing things — no handshake before negotiation, heavy use of social media, striking all three companies at once; not striking every plant but mixing it up and only striking some (where they make their most profitable SUVs). Time will see if this was good innovation but too many people just do things the way they have been done in past. He also nicely positioned the 40% raise request to the excessive compensation many executives receive. Jim Farley, the CEO of Ford that you have never heard of and has done nothing exciting that I am aware of, made $21 million in 2022 (mostly in stock awards).

UAW also looking for a better deal on healthcare. Healthcare costs continue to escalate for employers. The increasing costs of benefits (healthcare, PTO, 401(k), others) is part of the drive of many companies to use more free-lancers and the gig economy. Watch employers push more of the healthcare costs onto employees this open enrollment season. The average annual cost of insuring an employee is now $14,600 per employee and anticipated to grow 6.5%. Every employer makes its own decision on what percentage of that premium an employee should bear but watch for changes in "plan design" where the employer determines what is covered or not. While hospital costs are driving some of the inflation, I hear a lot of large claims from IVF and other fertility treatments as well as the new weight loss drugs. I expect more plans to carve those out, force use of generic drugs, impose spouse surcharges (if your spouse can get benefits from their employer but comes onto the company plan, you have to pay a charge) and raise deductibles. One new issue on the era of remote work is that employers' policy must comply with mandatory coverages as dictated by the headquarters where plan is issued. Another reason to move your corporate office out of Illinois.

Healthcare providers need to work with the various regulators and fix a downside of the introduction of EMRs (electronic medical records) with corresponding apps and webpages. Patients are now getting their test results from their app before a doctor can tell them what the result means. This is suboptimal at best as patients might misconstrue, have unnecessary anxiety or just get bad news in a vacuum. I

know one hospital which is "embargoing" test results for a couple hours to try and let the doctor get to the patient first. I believe there is some "consumer right regulation" which is driving the early release of the results.

I am surprised that most companies have not gotten better with the measurement of turnover in this tough labor market. There are a set of best practices in measuring turnover. First, you must annualize the number. If you have 5 employees leave out of 100 in a month, your turnover for that month is 5% but best to annualize that and say the turnover rate is 60% to really understand it and deal with volatility which can occur month-to-month. It is also best to separate voluntary and involuntary turnover. You want a performance culture where folks are managed out involuntarily so that turnover is not necessarily bad. Personally, I would target 5-10% annualized involuntary turnover and then try to minimize voluntary turnover to something under 10% so your combined is 15% or so. Finally, if you have one area with really high turnover (like a call center), take that employee group out of the numbers and measure separately as they will skew the overall number.

Lots of Musk coverage and discussion lately with Walter Isaacson's new biography. The most fascinating piece I heard relates to Musk power on the Russia/Ukraine war. With his Starlink business, Musk has the ability to delivery internet connectivity via satellite where fiberoptic cable does not exist like much of Ukraine. The Ukrainian army is heavily dependent on the free satellite-communications provided by Musk's company. Apparently, Musk geofenced Crimea and thus Ukraine cold not launch an offensive. He did this out of fear of starting some kind of larger war. Amazing that a tech executive in Silicon Valley is materially impacting the war near Russia unilaterally. ukraine-rips-musk-disrupting-sneak-attack-russian-navy

I like the move in higher education to focus more on outcomes vs inputs. Historically, schools were rated by the size of their faculty or resources in the library. Now, more discussion about how many people graduate and how much money they make after school. While there are benefits to a college education beyond the economic mobility it creates, clearly there needs to be a decent economic ROI and tracking the employment success of college graduates is key. The government now published a "scorecard" where it shows graduation rate, average annual cost and median earnings of graduates. The average annual cost is especially insightful for private schools where the published tuition is meaningless as they discount that 50% on average. You can look up a school here: https://collegescorecard.ed.gov/

To show the absurdity of some of the "higher education game," some companies are even offering employees a new job benefit – admissions counseling for their kids. That is right, we have a system that is so opaque and confusing that companies are going to pay for their employee parents to get help. the-newest-benefit-at-top-companies-private-college-admissions-counseling

Our primary school system is too often failing boys. Some describe it as a "feminine teaching method" where kids are asked to sit quietly and be "compliant." This is harder for buys who have more testosterone leading to more energy leading them to get in trouble. school-is-a-hostile-environment-for-boys-cortisol-outcomes-stress-girls-education-marriage

Fixing our public schools in places like Chicago is not about giving them more money. From Crain's Chicago: In 2013, CPS spent $13,200 per student. In 2023, CPS will spend $29,400 per student. The head of teachers union is sending her kid to private, catholic school. Wow. Primetime Deon Sanders has shown what good leadership, a culture of accountability and new talent can accomplish. The issue

isn't funding.

Our teens are so focused on their screens that content producers are changing how they write. Young people are more interested in what's on YouTube, TikTok and Instagram than watching the movie on TV. As a result, studios increasingly want "visual Muzak"—shows that don't require consumers to look up from their phones. An Indiewire deconstruction of Netflix 's "Heart of Stone," with supermodel Gal Gadot, highlights the movie's reliance on clunky dialogue to alert viewers to plot twists while their eyes are elsewhere. What a world.

ESPN is dying. Down to 71 million households from over 100 million. It is a Barstool / Pat Mcafee / TKO world. Disney (owner of ESPN) suffers from all of the ailments of modern corporate, political, little innovation world. They have been living off the cable bundle like a trust fund kid and time is up with cord cutting and the demise of linear TV.

We need to stop the madness of throwing away food based on "expiration" labels. There is no government regulation on these labels and suppliers use them to get you to buy new stuff by saying "best if used by" etc. From WSJ: *"The dates originated as a coded system for manufacturers to communicate to retailers when to rotate stock. Consumers clamored for information on the freshness of food, and in the 1970s and 1980s consumer-facing dates became widespread, though never standardized."* In a world where people are starving, *"The U.S. Department of Agriculture has estimated that 31% of the available food supply goes uneaten: Retailers discard 43 billion pounds of food annually, consumers a further 90 billion. Every day, that's 387 billion calories of lost food, which the USDA says works out to 1,249 calories per American per day. (The Food and Drug Administration uses 2,000 calories a day as a general guideline for nutrition advice.)"*

Hotty Toddy

jml

J. Michael Locke
Musings

#239: Musing
September 25, 2023

Costco is such a retailing force that its house brand, Kirkland, does more sales than Nike at $52bn. Remember when the "generic" isle in the grocery store was to be avoided. Not sure who was the innovator but brilliant to create store-owned brands.

The UAW continues to hammer at CEO compensation to justify their 40% compensation increase demand. Savvy move as the excess of the elite is part of the Trump phenomenon. From CNN: *"Since 1978, the CEO compensation among America's 300 biggest companies has gone up 1,460%, while the typical worker's pay grew by just 18% (both adjusted for inflation), according to the Economic Policy Institute, a progressive think tank."* A big part of the CEO increase is the move to stock-based compensation but that has been real money through the bull markets of the last couple decades.

Most people are "too believing" when interviewing. They take the candidate's answer on face value whereas they should be more cynical. Job candidates are spinning to the point of being misleading. It is simply the nature of the beast. For example, no candidate every says they got fired. They say they left because….. I encourage you to ask the direct follow-up question. Assume they are "shading the truth" and do hard reference checks. Don't just check the names they provide (those will be pre-screened to be positive) but rather find a way to check on him/her back channel. LinkedIn is great for this.

Some good advice from Steve Jobs as he lay terminally ill from pancreatic cancer:

"Five facts that cannot be denied:

1. Don't educate your children to be rich. Educate them to be happy. - So when they grow up they will know the value of things and not their price.
2. Eat your food as a medicine, otherwise you will have to eat your medicine as food.
3. The one who loves you will never leave you, even if he has 100 reasons to give up. He will always find one reason to hold on.
4. There is a big difference between being a human and being.
5. If you want to go fast - go alone! But if you want to go far - go together."

Some similar comments on "emotional wealth" from Rishad Tobaccowala*: "Most long term studies have tended to co-relate happiness and contentment with human relationships and a sense of belonging. At the time of this writing the richest person in the world clearly does not have "a failure to launch" but appears to have "a failure to connect" and amidst all the fame and fortune seems deeply impoverished on what makes one human. A sense of empathy, erring in the direction of kindness and an ability to laugh at oneself often helps one connect."*

And another take on being human from Christ Church in Fort Worth, Texas (where membership is up

18% and they are having to add an evening service). Christians should manage conflict by: 1) Pursuing a face to face conversation; 2) Listening to the other person perspective; and 3) Considering what you can do for unity.

I am really torn on the whole dress code debate. Many are outraged by decision to eliminate the requirement that US Senators where a suit and tie in the chamber (done mostly for the Carhart Senator with the great stache.) I think one behaves differently when "dressed up." As I have written before, how you do something is how you do everything. If someone is dressed casually with flip-flops and a hoodie, do you expect them to be punctual, detailed and organized? That said, I don't miss wearing a tie and dress shoes. So I am a "business casual" guy. Collared shirts. No jeans or flip flops.

Peggy Noonan wrote strongly against the dress code move in a good article. *"We are in a crisis of political comportment. We are witnessing the rise of the classless. Our politicians are becoming degenerate. This has been happening for a while but gets worse as the country coarsens. We are defining deviancy ever downward….[making senators dress up] reflects an inner modesty. You'd like to be in sneaks and shorts but you admit that what you'd like isn't the most important thing. It shows that thoughts of your own comfort aren't No. 1 in your hierarchy of concerns. Also, you know you're only one of 100, and as 1% of the whole you wouldn't insist on officially lowering standards for the other 99."* the-senators-shorts-and-americas-decline

Deion Sanders cares about how he dresses. As I wrote last week, Deion Sanders bringing some good leadership to the University of Colorado Football program. He has a sign in the office that says "If you look good, you feel good. If you feel good, you play good. If you play good, they pay good." His son is certainly following the advice. QB Shedeur Sanders is reportedly going to make $5.1mm this year from his NIL (name, image, likeness) deals. That is more than a lot of pro quarterbacks. I don't like how the NIL ruling allowing college athletes to be paid has basically made it pro sports. Many college athletes are no longer even seeking to get a degree.

Great quote from Bear Grylls *"When I first joined the military, a sergeant major told me: 'If you're less than five minutes early, you're late.' I've never forgotten those words and have always tried to make it a mantra when filming or working. I really notice it too in others, on expeditions for example. It speaks to diligence and dedication."*

Our society operates too much on the "segmented life approach" where you spend your first 1/3 learning, then you work for a 1/3 and then you retire for 1/3. We can't afford a system of people retiring 65 and then living another 20 years. We need those workers and their wisdom in the workplace and the taxpayers can't afford the public pension costs. Instead, we need to move to an "integrated life approach" where you continue learning while working and then can work some amount when "retired." While people speak of the average US life expectancy for a male of 74 years old, if someone is alive at 65, they are expected to live to 82. Workplaces need to alter their "full time" or "nothing" approach.

The fact that marijuana is still classified as a Schedule 1 narcotic in our federal system is crazy. Lets put it in perspective: other schedule 1 (the most dangerous) drugs are heroin, LSD and Meth. Meanwhile, cocaine is schedule II and Ketamine is schedule III. This scheduling of marijuana and federal criminalization makes it so the cannabis industry cannot use normal commercial banks nor go public in US equity markets. This is crazy.

J. Michael Locke
Musings

#240: Musing
September 30, 2023

More and more of the lending activity in corporate transactions is coming from "non-banks." A big reason is the enormous regulatory burden (including capital ratios) put on regular commercial banks (which take deposits from American consumers). In contrast, the private credit market is heavily unregulated and gets money in ways other than deposits (usually investors). Moody's is worried about this market. From Bloomberg *"There's an aggressive form of competition building between the banks and nonbanks, particularly on leveraged lending terms. "This will likely cause pricing, terms and credit quality to erode, fueling systemic risks," Moody's Investors Service wrote in a note this week. A lack of transparency makes it hard to know exactly where trouble is brewing, Moody's said. "Risks are rising as major lenders jockey for capital clout and returns. Alternative asset managers are turning to individual investors, introducing liquidity risk into the private fund market where it did not exist before," according to the report, which also pointed to the vulnerabilities in "increased concentrations, conflicts of interest and lack of regulation."*

Some financial advisors I respect are wary of the bond market. The government has to issue a lot of debt over coming months and it is unclear what level of buying interest will be there (fewer buyers means higher yields /lower prices). To quote Wally Sparks at Raymond James: "The biggest buyer of US Treasuries is now a seller" referencing that the Federal Reserve which was buying a bunch of US debt to keep rates low (like selling to your brother) is now unwinding its huge balance sheet and selling US debt. Yields are already moving up.

Along with the risk of rising rates, most expect the US consume to face some headwinds with the restarting of student loan payments which were put on hold through the pandemic. Not sure that was a good policy. Most borrowers just kept taking on more debt in different forms. I fear we have a whole generation that would not be welcome in the Lannister family.

During the Pandemic, Consumers With Student Loans Added New Debt

Product	Percentage of Student Loan Borrowers Taking On New Product
Bank Card	53%
Auto Loan	36%
Retail Card	31%
Mortgage	15%
Unsecured Personal Loan	15%

Despite the higher rates, I hear the "deal world is back" with many companies and investors negotiating transactions.

A great operator once taught me the three 90s. According to him, 90% of a customers' impression is based on the first 90 seconds and the first 90 feet. He was in the hotel business so very focused on the lobby and front desk but this also can apply to your receptionist or call center. One good operator I know even called his receptionist "the director of first impressions." Details matter.

Good quote from my friend Chad Kail: "It used to be the big ate the small, now it is the fast eat the slow."

I just don't get the four day work week research. Multiple studies have shown workers can do all of their work in 32 hours instead of 40. How can that be? If there is that much inefficiency, get rid of the fluff, reduce staff and get 40 hours out of the remaining team and drop more to the bottom line. Bad management. From WSJ: *" Once a workers' pipe dream, the four-day, 32-hour workweek is gaining ground as hundreds of employers try the schedules and businesses rethink the conventional ways of work. The United Auto Workers made the shorter week a demand in its contract talks with Detroit automakers. Lawmakers in California, Massachusetts and other states have introduced bills aimed at pushing more businesses to adopt a four-day schedule. Most proposals are long shots but signify the appeal in policy circles."* how-a-4-day-workweek-actually-works-from-the-companies-pulling-it-off

One of the leaders of the Positive Psychology movement doesn't agree with me. Yale Professor Laurie Santos sees employee happiness as very connected to time. *"focus on time affluence first, which is the subjective sense that you have free time. It's not the actual amount of free time that you have. It's your sense that you can meet a friend, take on a new project, or have temporal flexibility. It's the opposite of time famine, where if you self-report being time-famished, your well-being takes as much of a hit as reporting you're unemployed… I would engage the four-day workweek. It's a real well-being driver we should consider to not only make people happier but more productive."*the-creator-of-yales-viral-happiness-class-has-a-solution-for-employee-satisfaction

Businesses often solicit feedback after a purchase or stay. Too many don't really want it nor pay attention to it. I have three different situations over two weeks old where I provided feedback and asked to be contacted. Crickets. Takes a suboptimal experience and turns the consumer into an active detractor (using NPS terms). Best way to get reaction is probably to criticize the provider openly on social media with a hashtag. Public criticism gets attention that private does not.

Good leaders develop a culture of "belief" among their team. *"Today, we have compelling evidence that interest precedes the development of talent," writes psychology professor Adam Grant in his best-selling book Give and Take*. "It turns out that motivation is the reason that people develop talent in the first place." Train yourself to see the good in others by asking yourself the following questions: What are they good at? How can I praise them for what they're good at, sincerely and specifically? How can I help them leverage those strengths further? How can I help them improve their weaknesses through constructive feedback? *Remember, as a leader, you are in a unique position to inspire and motivate those you work with." emotional-intelligence-deion-sanders-how-to-get-most-out-of-others*

Sad stat: "In 2019, 57% of us children lived with two parents; down from 80% in 1980."

Learned one from George Fogel — “price proud.” Too many operators are afraid to raise price. If you are delivering a high quality product, be confident and price it accordingly.

So much for the hype around 5G. I don’t even a notice a difference.

Good conflict resolution, relationship building tip from Betsy Morton. When listening, repeat what the other person said first ..”what I heard you to say was”

We are making good progress on fighting cancer. The overall cancer death rate has fallen by 33% from 1991 to 2020 according to the annual AACR Cancer Progress report. While lots of attention is spent on genes and the third-parties like 23 and me assessing risk, inherited genetic mutations drive only 10% of all cancer cases…most are from “somatic mutations” acquired during one’s life. It is estimated that 40 percent of all cancer cases in the us are attributable to preventable causes (think smoking). Live a healthy life and your cancer risk will go way down.

For those of you who enjoy these free musings, please consider a donation to the Cancer Research Foundation (where I am a board member). Any amount helps. https://www.cancerresearchfdn.org/

jml

J. Michael Locke
Musings

#241: Musing
October 8, 2023

Is the Fed in charge or the bond traders? There have been no recent changes in Federal Reserve set rates but traders are selling US 10 year bonds which drives the yields up. The cost of capital for businesses and individuals is driven by these yields. So bond traders just raised the cost of a mortgage. Bill Clinton openly complained about this with his advisor James Carville saying *"I used to think that if there was reincarnation, I wanted to come back as the president or the pope or as a .400 baseball hitter. But now I would like to come back as the bond market. You can intimidate everybody."* The yield curve show rates at different durations. Traditionally, you got a higher rate to commit to a longer term bond so yields went up with time. Recently, the curve has been inverted with two year rates above 10 year rates. So to some extent, the recent move up for 10 yr is also part of the return to normalcy and the existence of a term premium. This higher cost of capital will slow economic growth so official fed hikes probably done.

Great piece in WSJ by former Fed board member on what this all means. The US has drastically increased its deficit spending which it finances by selling bonds and as the appetite to buy those bonds wanes (and is not artificially supported by Federal reserve buying them), the federal government interest rate expense is about the markedly increase. the-bond-markets-message-federal-reserve-inflation-monetary-policy. *"The U.S. is courting trouble. The federal government is 43% larger than it was four years ago, and its reach is expanding mightily. More than a third of the surge in investment spending can be traced to government subsidies, credits and handouts. The chosen corporate recipients of the government's largess ostensibly benefit, but the rest of the private economy will be burdened by significantly higher rates and rising costs of doing business. The coming supply of Treasury securities required to fund U.S. government deficits will likely be substantially larger than official estimates. And purchasers of Treasury debt will demand higher yields, at least until something breaks in the economy."*

In the meantime, you can get pretty nice rates practically risk free. Short term rates have gotten so good that famed investor Jeffrey Gundlach thinks bondholders should just "T-Bill and Chill."

One of the troublesome developments in the public equity markets has been the growing acceptance of companies losing money. According to Scott Galloway, "In 1980, 9 out of 10 tech IPOs were profitable. In 2021, it was 1 in 5." The founder of Broadview Associates once told me – "a company isn't worth anything until it proves it can make money." Technically, a company should be valued on its future cash flows discounted back to today. The question becomes the probability of those future cash flows. You have to separate broken business models (like WeWork) from good business models just investing for scale (like Amazon.) One way is to look at gross margin. If a company loses money at the gross margin level, the business model has not been proven. According to the WSJ, Rivian loses $33,000 on every car it sells – the cost to build the car is $33k more than the sales price! Not sure that company is worth anything.

Government money can be dangerous. During the pandemic, Washington passed all kinds of stimulus bills and pushed billions of dollars out to various industries. However, this money was only temporary so almost like a narcotic giving a temporary high. Smart operators tracked this one time money separately and made sure they didn't build up expenses against revenue that would go away. However, too many operators used this government money to keep existing cost structures and now are going to be in trouble. Many are reporting on the "child care cliff" as many child care centers operated this way and will now close. You will also see many higher education institutions close their doors. Government money can also change with policies. In Illinois, there has been a "school choice" program where taxpayers could get a tax credit by donating to an entity which awarded scholarships for children to leave underperforming public schools and go to private schools. The governor recently killed the program (Illinois is one of the few states going against school choice) and now many private primary/secondary schools are struggling to make their financials work as the students don't have the government money to pay their tuition. The Governor of South Carolina famously turned down federal money to expand Medicaid because it was temporary and he was concerned what would happen after the support was gone. I think you always need to have a business model that works without special government support.

The basic framework of employment and HR is changing (and not just because of remote work). Thoughts from Rishad Tobaccowala:

For decades the fundamental beliefs of most organizational design were built on five assumptions: 1. The organization gives structure and directs work; 2. Tenure and experience are critical to advancement; 3. Most of the work is done inside an organization; 4. Fairness requires a common set of rules and ways of working to be applied to all; and 5. Most employees are full time employees of the company.

These are now being supplemented and in some cases being replaced by the exact opposite realities and dawning realizations: 1. The organization enables talent to create structure and direct work. Talent does not work for the organization, but the organization works for talent; 2. Expertise in a changing world and constant learning rather than tenure/experience are key; 3. Most of the work is done outside an organization by suppliers and marketplaces to access talent when one needs it and to remain agile and cost-effective in a transforming world; 4. Fairness means customizing programs for each talent to which everyone has equal access; and 5. Most staff are either contract workers, free-lancers, or fractionalized employees.

We got a window on the value of your data for targeted advertising. Meta is proposing to charge users $14 a month for ad-free Instagram in Europe. The EU is pushing to require Meta to get user agreement for targeted ads and Meta is proposing that if users won't allow ads, they will have to pay $14 a month to use Instagram. I have always believed web activity and data should be personal property and users should get paid for it.

Interesting stat: of all the outstanding us mortgages, 61% have a rate below 4% according to UBS.

Crazy stat: Amazon gets 45% of the price from third-party sellers on its platform.

Fun quote from local Florida newspaper – "There are two barometers by which a seasoned Floridian judges that a hurricane might actually be a problem for them – if Jim Cantore shows up and/or the Waffle House closest to them closes."

Scott Wisniewski taught me the “kid sports vegetarian model”— don’t let your kid participate in meets — swimming, cheer, track etc. Only games and preferably those with a set timed length like soccer or water polo.

Should buying clothes at Costco be a source of pride or embarrassment?

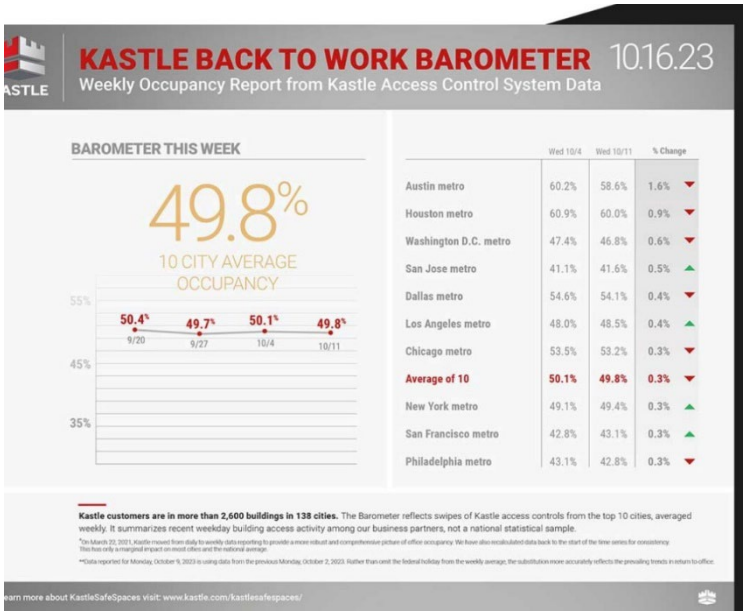
Go to weddings and funerals. Life can get complicated with kids and other activities making it hard to travel to a wedding or a funeral but I encourage readers to make it happen. It is a unique opportunity to show your love and support for someone and your attendance matters. RIP my Aunt Jane.

jml

J. Michael Locke
Musings

#242: Musing
October 21, 2023

The push by many companies to get employees back into office appears to have stalled at around 50% usage. Employees have to come to love the flexibility and improved lifestyle that comes with hybrid/remote working and with 4% unemployment, the employee has options. Leaders need to adjust to the new norm. The company that dominates the "card swipe security" business publishes a barometer on the percent of employees who used their card to go into office. Here it is:

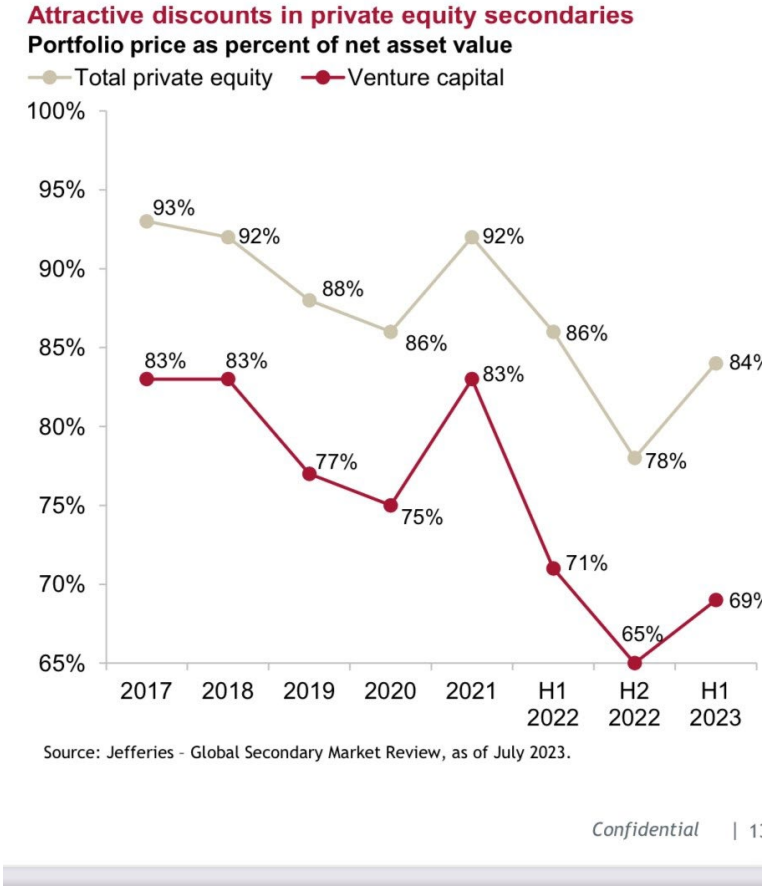


One loser in this fundamental shift in how people work are commercial office landlords. The collapse of the commercial real estate market will take a while to play out as most companies still have their space and are paying rent. As leases expire, look for drastic downsizing if not total cancellation. Commercial office buildings values are starting to plummet and lenders will start foreclosing. There has to be an opportunity in this dislocation somewhere. Too bad WeWork was so poorly run because it would be a winner if it had grown slowly and thoughtfully.

If you needed more of a deterrent to going into the city, Manhattan is going to charge you $23 to drive south of 60th street.

The growth in the alternative asset class is now creating liquidity issues. Over the past couple decades, a growing amount of portfolio allocation has gone to private equity, venture capital and hedge funds. In most cases, the money is "locked up" for a certain amount of time and the investor accepts the

illiquidity in exchange for higher returns. The stalling out of the M&A market is making that illiquidity painful right now. Many individuals were counting on some amount of liquidity from their private equity type investments and now are facing a cash crunch. One move is to sell the private equity limited partner interest to someone else. This secondary market is very vibrant right now but it comes at a discount to value. Savvy investors with liquidity are buying in this secondary market. The following chart from CIBC shows the discounts:



Some consumer food businesses are warning of the risk from Ozempic. As the diet drug gains in popularity, the logic is consumption will decrease. BusinessWeek called it a "*universal demand suppressant….As sales of appetite-suppressing drugs such as Ozempic and Mounjaro skyrocket, Corporate America is grappling with the question: How does a less-hungry, less-impulse-prone consumer affect my business model?"*

Disney is really struggling. Cord cutting has led to ESPN's demise and streaming is a money loser. Good quote from Bloomberg on the return of Bob Iger to run it. *"Like Apple's Steve Jobs and Starbucks' Howard Schultz, Iger was a star CEO whose identity had become indistinguishable from the company he helped build. But his second tour is looking less like a Jobsian triumphant return than a Schultzian descent into financial mediocrity and employee acrimony."*

Here is a depressing one — the rise of AI girlfriends. It used to be a growing interest in girls pulled the male teen away from the video games in the basement but some are just turning to tech for romance. You can design an avatar and talk to it. The generative AI will customize the conversation to

you. ai-girlfriends-ruining-generation-of-men

Sometimes good leadership is just about the basics. For instance, be kind. *"Research suggests that kindness yields positive outcomes for businesses. If you're an emerging leader, being kind to your employees can help you retain top talent, establish a thriving culture, increase employee engagement, and enhance productivity. When people receive a compliment or words of recognition, it helps them feel more fulfilled, boosts their self-esteem, improves their self-evaluations, and triggers positive emotions. The result: happier, more engaged employees."* HBR article: why-kindness-at-work-pays-off This doesn't mean you don't give negative feedback if warranted it, but it can be done without demotivating. Tell the employee they need to do better and that you are there to help them improve. It is like good parenting where you don't want the child to do something out of fear of "getting in trouble" but more because they "don't want to let you down."

Being kind is not the same as being nice and avoiding conflict. You owe it to your team to give critical feedback. Employees should never be surprised by your decisions. Management is a daily activity and feedback should be voluminous like the coach walking the sideline. The annual performance review is just a corporate tool and not the real performance management.

I am out of sync with society I guess. I thought the Barbie movie was awful and don't care whether Taylor Swift is at a football game.

I don't have anything insightful to write about what is happening in Israel. The barbaric assault by Hamas is breathtaking and I struggle to comprehend the anti-Israel opinions expressed by some in the US. Let's pray this doesn't become a worldwide conflict with Iran, Russia and US militarily engaged.

On a personal note, lost my mom this week. She had a great 87 year life and was in declining health so her passing was a blessing. She was a great woman. Here is her obituary: judith-locke-obituary

Some quick reflections on my mom's passing:

- Dementia is an ugly disease. Very difficult when your "health span" is shorter than your "life span"
- It is a real blessing when all siblings are on the same page when dealing with an elderly parent. IMO, the "local" child who does a disproportionate amount of the caregiving has superior voting rights. I hear too many stories of "remote" child not doing a lot of the work weighing in opposing the local child which is not fair.
- Get the legal stuff in order now before any health issues.
- Our healthcare system is too oriented to extending life. We had to fight to not engage in significant healthcare protocols to extend a low quality life.
- It is a disorienting feeling to not have a living parent.

RIP mom

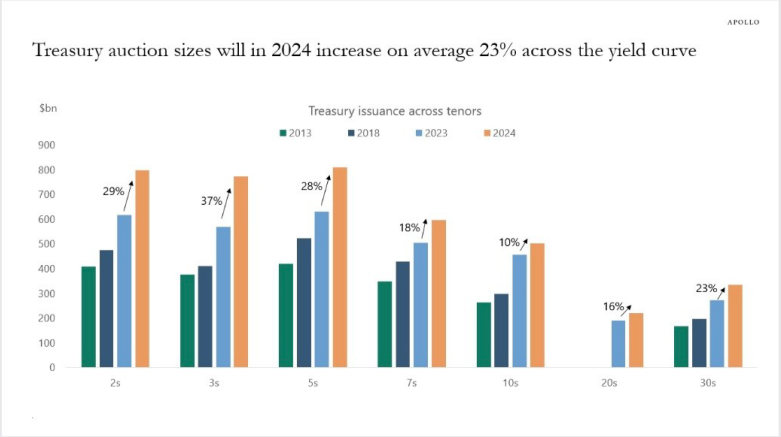
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J. Michael Locke
Musings

#243: Musing
November 12, 2023

I haven't written in a couple of weeks. Little light on substantive thoughts right now.

Janet Yellen and Adam Neumann should hang out together. Neumann famously mismanaged WeWork mismatching short term rental revenue with long term leases and wasting money. WeWork has now filed for bankruptcy. I think Yellen has also grossly mismanaged the borrowing by treasury. They sold lots of short term notes when interest rates were low rather than locking in cheap money for the longer term. Now rates are higher (along with deficits) and the government has to borrow a lot of more money and refinance maturing debt at materially higher rates. Here is a graph of the amounts:



Source: SIFMA, TBAC, Haver Analytics, Apollo Chief Economist. Note: Estimates from September 2023 to December 2024 from the TBAC neutral issuance scenario.

Expand

There was an auction of 30 year notes past week that really struggled with limited demand. We have a fiscal mess that our politicians refuse to address (along with immigration fiasco). #throwthemallout

On the positive side, the higher rates in the bond market mean it is likely the Fed is done raising rates. Bond traders did the last "tightening" by driving up the long term rates without any Fed action. The large amount of federal debt refinancing will keep bond rates high. Economic indicators like new hiring are decelerating. While consumption and GDP were strong last quarter, savings rate is down and individuals only have so much dry powder to spend. Used car prices falling. The soft landing where the economy slows down but does not go into a recession is looking possible. Equities looking more appealing.

Here is a good example of how statistics can be misleading —- the Federal Reserve released data

showing the average net worth of Americans is now over $1 million. That is the average. Remember stats class though, we have a lot of extremely rich billionaires who skew the data. The median net worth was $193,000.

Stock market indices can also be really misleading. The S&P 500 is market-cap weighted so while it is up 13% through 9/30, it is really seven stocks that were up 55% while the other 493 were only up 3% through Q3. The seven stocks are Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla and Meta.

Goldman Sachs predicting strong GDP growth next year in large part because of AI. *"The foundation of the forecast is the finding that AI could ultimately automate around 25% of work tasks in advanced economies and 10-20% of tasks in emerging economies, Goldman Sachs Research economists Joseph Briggs and Devesh Kodnani."*

I still believe in famous venture capitalist John Doerr's "SoLoMo" which he identified over a decade ago. He saw the big trends around Social, Local and Mobile. Web consumption is primarily from a mobile device and it is incomprehensible for any business to have a website not optimized for mobile delivery. Google search allows "geofencing" where you only present your advertisements to people in a particular geographic area allowing precision targeting to folks near a business. Finally, the purchasers (and prospective employees) are all about getting feedback from other users in a social world --- they look at google ratings, ask their reddit forum or go on "X." Traditional advertising, linear TV and desktop computing are all in structural decline.

Mobile has changed the fast-food business. Over 65% of the revenue of fast food restaurants is now drive-through / takeout.

So much for using key card swipe data to understand office usage. Those enjoying the remote side of hybrid work are now "gaming" the key card system with "coffee badging." "Here's how it works: Employees come to work and show face, maybe grab a coffee and talk among coworkers. Then, after a little while, they leave and therefore earn a theoretical badge for showing up." https://www.fox5ny.com/news/what-is-coffee-badging-meaning (thanks Jennifer Walsh).

We need to get back some good old fashioned "tough" parenting. Great quote in WSJ *"Modern parenting – with its emphasis on cuddling and its lack of unstructured playtime – can also contribute to kid's anxiety…."these kids have been helicoptered, snowplowed and bubblewrapped"* says Michele Borba, and educational psychologist.

Famed investor Byron Wein passed away. He has published his 20 life lessons which I found interesting (I shortened some of them):

1. Concentrate on finding a big idea that will make an impact on the people you want to influence.

2. Network intensely. Luck plays a big role in life, and there is no better way to increase your luck than by knowing as many people as possible. Nurture your network by sending articles, books and emails to people to show you're thinking about them.

3. When you meet someone new, treat that person as a friend. Assume he or she is a winner and will become a positive force in your life. Most people wait for others to prove their value. Give

them the benefit of the doubt from the start. Occasionally you will be disappointed, but your network will broaden rapidly if you follow this path.

4. Read all the time. Don't just do it because you're curious about something, read actively.

5. Get enough sleep. Seven hours will do until you're sixty, eight from sixty to seventy, nine thereafter, which might include eight hours at night and a one-hour afternoon nap.

6. Evolve. Try to think of your life in phases so you can avoid a burn-out. Do the numbers crunching in the early phase of your career. Try developing concepts later on. Stay at risk throughout the process.

7. Travel extensively. Try to get everywhere before you wear out. Attempt to meet local interesting people where you travel and keep in contact with them throughout your life. See them when you return to a place.

8. When meeting someone new, try to find out what formative experience occurred in their lives before they were 17. It is my belief that some important event in everyone's youth has an influence on everything that occurs afterwards.

9. On philanthropy, my approach is to try to relieve pain rather than spread joy. Music, theatre and art museums have many affluent supporters, give the best parties and can add to your social luster in a community. They don't need you. Social service, hospitals and educational institutions can make the world a better place and help the disadvantaged make their way toward the American dream.

10. Younger people are naturally insecure and tend to overplay their accomplishments. Most people don't become comfortable with who they are until they're in their 40's. By that time, they can underplay their achievements and become a nicer, more likeable person. Try to get to that point as soon as you can.

11. Take the time to give those who work for you a pat on the back when they do good work. Most people are so focused on the next challenge that they fail to thank the people who support them. It is important to do this. It motivates and inspires people and encourages them to perform at a higher level.

12. When someone extends a kindness to you write them a handwritten note, not an e-mail. Handwritten notes make an impact and are not quickly forgotten.

13. At the beginning of every year think of ways you can do your job better than you have ever done it before. Write them down and look at what you have set out for yourself when the year is over.

14. The hard way is always the right way. Never take shortcuts, except when driving home from the Hamptons. Shortcuts can be construed as sloppiness, a career killer.

15. Don't try to be better than your competitors, try to be different. There is always going to be someone smarter than you, but there may not be someone who is more imaginative.

16. When seeking a career as you come out of school or making a job change, always take the job that looks like it will be the most enjoyable. If it pays the most, you're lucky. If it doesn't, take it anyway, I took a severe pay cut to accept each of the two best jobs I've ever had, and they both turned out to be exceptionally rewarding financially.

17. There is a perfect job out there for everyone. Most people never find it. Keep looking. The goal of life is to be a happy person, and the right job is essential to that.

18. When your children are grown or if you have no children, always find someone younger to mentor. It is very satisfying to help someone steer through life's obstacles, and you'll be surprised at how much you will learn in the process.

19. Every year, try doing something you have never done before that is totally out of your comfort zone. It could be running a marathon, attending a conference that interests you on an off-beat subject that will be populated by people very different from your usual circle of associates and friends, or traveling to an obscure destination alone. This will add to the essential process of self-discovery.

20. Never retire. If you work forever, you can live forever. I know there is an abundance of biological evidence against this theory, but I'm going with it anyway.

Congratulations to my niece Maddie on her wedding and my nephew Chip on the birth of his son!

Thanks to our veterans and current service members.

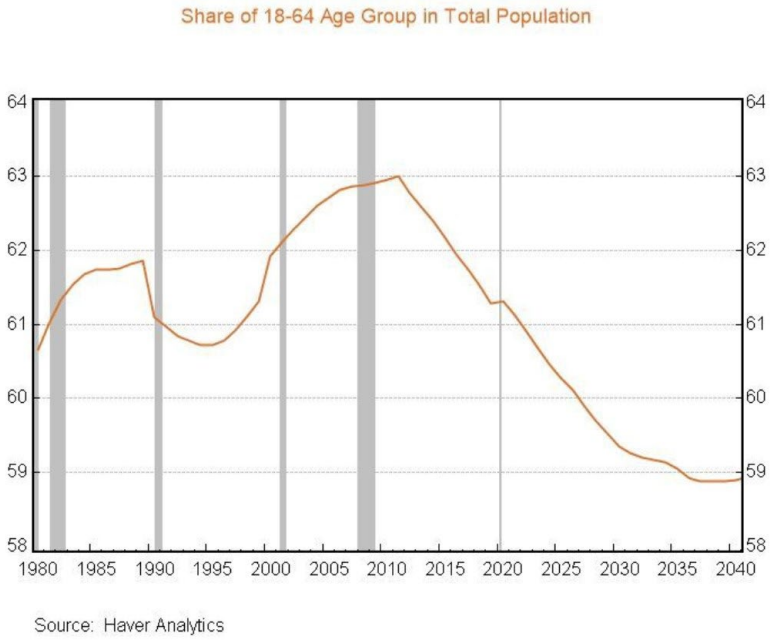
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J. Michael Locke
Musings

#244: Musing
November 23, 2023

Happy Thanksgiving. I hope everyone is surrounded by family and friends and sharing gratitude.

I am thankful that the Fed appears to have pulled off the soft landing. Continued deceleration of inflation (partially a result of the data formulation on "housing" which relies on an obscure owner-equivalent rent calculation which is lagging by definition) while economy still doing ok. There will be no more hikes from Fed IMO. They have benefitted from the structural dynamics of the labor market where we don't have enough births to keep working population growing. Here is a crazy chart showing the percentage of the population in prime working years.



While I don't think there will be any more rate hikes, I also don't anticipate long term rates going back down materially. I am in the "higher longer" crowd. To quote one money manager: "we just got used to the cocaine the Fed was dropping on the market for so long."

The US is thankful that China is in real trouble economically. You can't have economic growth without population growth (you can in short-term through productivity increases but those can't be main driver for long). China and India are approximately equal at 1.4 billion people but India is growing while China is shrinking. According to the former head of World Bank David Malpass, China population will go from today's 1.4 billion down to 800 million over the next 80 years. The one-child rule (no longer in effect) is

going to go down as one of the worst economic policies in history. Add on top of that, the desire by multi-national companies to hedge their supply chain risk coming out of Covid and the future is not bright. Short China and go long India and Vietnam.

Apple is thankful for Google. In the DOJ antitrust case against Google, it got disclosed that they pay Apple 36% of their search revenue coming out of Safari in return for being the default search engine. That has been $10 billion a year. Crazy amount of money. Shows the power of "default" because user can change the search engine in their browser but almost no one does. This is why "trials" are such an effective customer acquisition approach. As a "provider" you want the default to be continuation (auto renewal etc.) while as a consumer you want the subscription to end if not actively renewed.

I am not thankful for team members who express "victimhood" where they blame others or the context for not getting the job done. At the end of the day, you have to accomplish your assignments. Good executives manage the risks and contingencies and delivery quality work. Similarly, I strongly dislike self-promotion where an executive praises themselve. The best people simply delivery great results consistently and let the results speak for themselves.

Great executives also know their details. It isn't just about motivating a good team, you have to dig in and be on top of details. This sets the cultural tone. The CFO should know the per square foot cost of the office headquarters, the head of sales should know the dollar value of the pipeline and the head of HR should know the annualized voluntary turnover last quarter without having to look it up. Don't let someone take "moving up the org chart" to mean they don't have to know details.

Companies are increasingly "political" in a way I do not agree with. Still, "political purchasing" does not seem to have strong impact and endurance. Besides the Bud Light situation, hard to point at situations where politics hurt a company. Liberals still eat at Chick Fil A and buy at Hobby Lobby and conservatives still go on a Disney cruise. Will be interesting if today's partisan polarization gains more traction in corporate America.

I am thankful for McDonald's Diet Coke. I always thought my wife was crazy saying that the fountain Diet Coke at McDonald's was materially better than from elsewhere. Turns out she is right. I never knew so much could go into making a making a Diet Coke. *"While most fast food restaurants have their Coca-Cola syrup delivered to them in plastic bags, McDonald's gets their syrup specially delivered in stainless steel tanks. The special tanks keep the syrup fresh and protect it from light, temperature, air, and anything else that might take away from its delicious flavor. Sadly, the plastic bags do no such thing….McDonald's filtration system is top tier. McDonald's filters its water before they add it to the soda fountain, so it guarantees your Coke will always taste fresh—even if the water that they start with isn't great quality….Soda fountains at other restaurants and in gas stations are set to flash chill the sodas as they're dispensed. So, they come out cool, but never cold. Not McDonald's, though. McDonald's pre-chills their syrup before placing it in the machine. So while other fast food restaurants are leaving their soda syrup bags out in the kitchen, McDonald's syrup is getting chilly and ready for your cup….Plus, McDonald's sets their machines for a syrup-to-water ratio that accounts for melting ice. Which means there's a little more syrup than most other fast-food restaurants. This ensures that your Coke won't water down and that it's just as good on sip number one as it is on sip number 21."* why-mcdonalds-coke-tastes-better

Finally, I am thankful to all of you (most of who I know personally). These musings are a compilation of

what I learn from others. Apparently, these relationships might also help my longevity. From the WSJ, *"Loneliness and social isolation were linked to an increased risk of death from any cause, according to new research. That includes missing out on seeing loved ones, not having weekly group activities like a book club, or just often feeling lonely."* Relationships matter….invest in them. Another reason why the Covid shutdown appears to have been such bad policy in retrospect.

Hope everyone has a big gathering of family and friends for the holiday. Happy Thanksgiving.

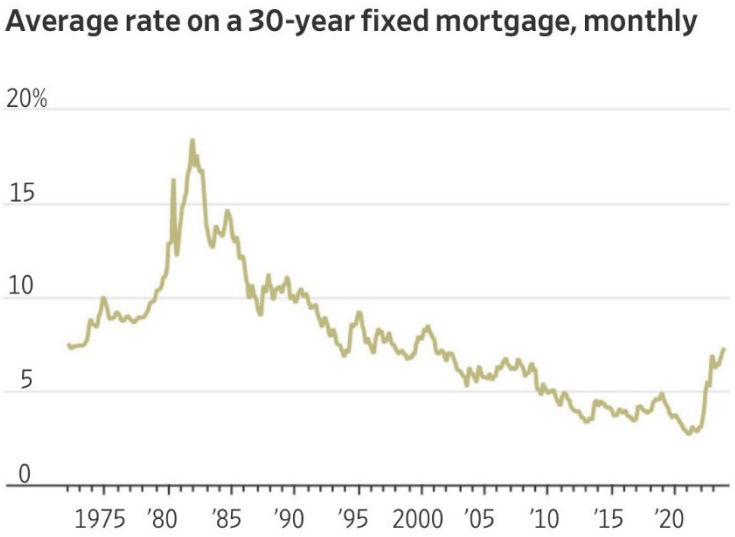
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J. Michael Locke
Musings

#245: Musing
December 17, 2023

I haven't written in a couple weeks. Simply not a lot to share.

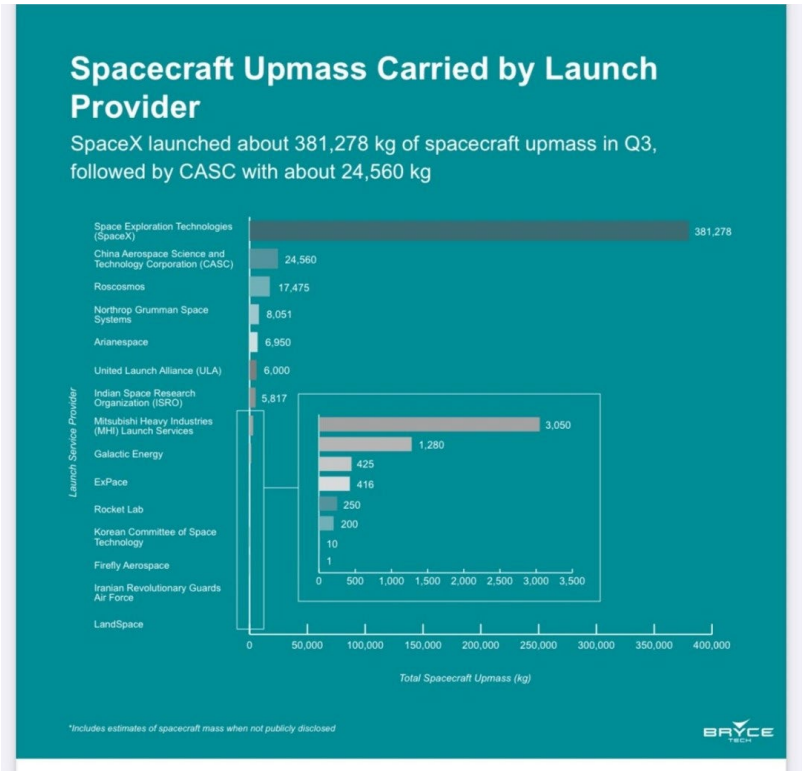
The economy is softening at a rate that makes policy makers happy and marks an end to the Federal Reserve's inflation battle. The Fed is even now talking about multiple rate cuts in 2024 and the markets have rallied accordingly. Personally, I would be cautious on any assumption of rates coming down materially. Let's let this play out before you bet a lot on the 10 year rate staying under 4%. I think rate hikes are over but we have now reset to a normalized level after years of free money through overly low rates. It is important to take a longer view of rates as shown in the following graph on mortgage rates (from UBS):



More insight on the lost moral compass at Facebook (now Meta) where profits trumped all else. From the WSJ: *"An internal 2020 Meta presentation shows that the company sought to engineer its products to capitalize on the parts of youth psychology that render teens "predisposed to impulse, peer pressure, and potentially harmful risky behavior," the filings show…..Teens are insatiable when it comes to 'feel good' dopamine effects," the Meta presentation shows, according to the unredacted filing, describing the company's existing product as already well-suited to providing the sort of stimuli that trigger the potent neurotransmitter. "And every time one of our teen users finds something unexpected their brains deliver them a dopamine hit."*

An undercovered part of the Elon Musk story is Starlink. This is a subsidiary of SpaceX which is building a network of low earth orbiting satellites so you now have can have communication anywhere in the world. The service in Ukraine battlefield has been discussed but not the simple application in the

consumer market. For $2,500 at CostCo in Canada, you can buy a Starlink dish to throw up outside and have immediate connectivity. The following graph shows the lead Musk has in building a satellite network. Whatever you think about the guys politics, he is visionary.



Lots of coverage of the testimony by the Presidents of Harvard, MIT and Penn about antisemitism on their campuses. The over-lawyered responses and lack of moral clarity and consistency may mark a turning point in the public perception of higher education. Even Fareed Zakaria (no Conservative voice) came out with concerns about higher ed (https://www.cnn.com/fareeds-take-us-universities-education). From Politico: *"Mitch Daniels, the retired former president of Purdue University and a former Republican governor of Indiana, called it "higher ed's Bud Light moment" — referring to the beermaker's divisive ad campaign featuring a transgender influencer — "when people who hang out with only people who adhere to what has become prevailing and dominant ideologies on campuses and suddenly discover there's a world of people out there who disagrees." …Republicans, of course, have been the loudest voices defending Stefanik. Daniels, who has also testified before hostile lawmakers on behalf of his university, mocked that the administrators Stefanik questioned retained the white-shoe law firm WilmerHale to prepare…."Were they unprepared?" Daniels said in an interview. "Yes, they were unprepared by a lifetime of being cloistered in an ideological bubble and groupthink."*

Netflix published an engagement report showing what content was consumed. This is part of a move to more transparency as writers/actors etc. want more of the economics of the streaming business. Also, simply kind of interesting. 55% of minutes viewed were original content built by Netflix while 45% was from licensed content. #1 was the Night Agent with over 812 million viewing hours!

I often wonder why our society has such an allergy issue now compared to when we were growing up. I

didn't know anyone who had a peanut allergy in the 70s in Decatur, Illinois and now it is everywhere. I think part of the issue is we have gotten "too clean." Your immunity system needs to get built when you are growing up by being exposed to dirt and other things. The goal is not to have your house like a hospital. Now, some interesting developments on consumer products to help build immunity. From CNN; "*Ideally, parents should get their child's allergy treated in their first year of life, or as soon as it's discovered, Gupta said. This gives the child the greatest opportunity to reverse the allergy or at least develop a strong tolerance."* Enter peanut butter toothpaste. Regular toothpaste with small amounts of peanut butter to build tolerance. new-toothpaste-may-reduce-allergic-reactions-peanuts-adult

Had funeral services for my mom yesterday. Thanks for those who attended or watched on YouTube (recording available here https://www.youtube.com/watch?v=2XYuEgu11Zc) I was nominated by my older brothers to speak and my eulogy is below (or minute 29:15 if you want to watch).

jml

Mom Eulogy

Good morning.

On behalf of the entire Locke family, I thank you for joining us today to celebrate our mother's great life and legacy. For those I have not met, I am Michael Locke…the youngest of the Locke boys or most oftenly identified as "the one who is not a doctor"

When reflecting on our mom's life in preparation for today, I struggled to identify just one or two good adjectives to capture the essence of who she was.

My "word cloud" included a variety of traits – service-focused, committed, political, hard-working, family-oriented, smart and most of all --- social.

Despite the technical accuracy of the description, our mom was not your 1950s doctor's wife and stay at home mom. Rather, she was a fusion of June Cleaver and Nancy Pelosi.

It was once said of Nancy Pelosi that she metaphorically carried a Glock in her Channel Bag. For our mom, it was more some red lipstick, a glass of chardonnay and an old Wall Street Journal. It was the nontraditional person behind the traditional framework that defined our mom.

Judith Jean Blang was born in 1936 in the suburbs of Chicago to John and Dorothy Blang. Our grandfather was an expert in the printing process and became a leader in the encyclopedia world. Our grandmother was the quintessential stay at home mom driving grandpa to the train every day and always making chocolate chip cookies for our visits.

Our mom was more John than Dorothy but that is not really how society worked when she headed off to DePauw University in 1954. While our mom was really smart, she didn't necessarily focus academically. There are reports of her having a lot of fun at the Alpha Phi and Delt houses including requiring the pledges to wake her up with a lit cigarette (although that habit quickly disappeared with kids). The norm at that time was for women to get married and raise a family. My mom followed the traditional path…meeting my dad….getting a teaching degree …and then leaving the workforce to raise Rick, Jon, Mark and me as my dad completed his training and eventually arrived here in Decatur in 1967

to start his radiology career at Decatur Memorial Hospital.

While our dad built the medical community at DMH, mom built her four boys. We were her 100% focus and her life's work. Our success was her success. She was active in our schools, made sure we got the right teachers, and pushed us to excel. She elegantly created the assumption of excellence so coming home with poor grades was simply unacceptable and not something you would do. You had to be a leader in and out of the classroom. You were not allowed to use your peers as benchmarks but rather had to use your oldest brother Rick, who was a 50 year old in a 16 year old body and became valedictorian, student body president and editor of the paper in high school…Jon and Mark went 2 for 3 while I was able to achieve the Rick standard. Of course, we all headed to DePauw and then 3 to med school and me to law school and business school. I share this not to brag or make these comments about us boys but because our success was her success. She lived to be a mom who was more like a coach and created a system of success like Nick Saban and Alabama football. It was all about her family and her boys.

However, before we put her on a pedestal, let's get the full view of our "stay at home" mom. First, she absolutely could not cook. I am not talking about being a really good chef. I am talking about cooking at all. Mom's cooking was chef boy ardee spaghetti, Salisbury steak in a boil bag, microwaved hot dogs and the family favorite – casserole. The secret casserole recipe --- browned hamburger meat, kraft mac & cheese and a can of cream of mushroom soup. Of course, everything had to be accompanied by plenty of salt. That all being said, there was something edible on the table everynight.

There was no sewing for our mom. I remember taking "home economics class" in 8th grade and learning how to sew myself.

There were not lots of snuggles and kissing of boo boos. Rather a "bone bruise" diagnosis and get back in the game.

I share all of this not to be critical of our mom but rather to highlight how she sought to meet the sexist standards of her day but to focus her real energy elsewhere and that was making our dad and each of us as successful as possible. While she never described herself as such, I would consider my mom a feminist. Although she raised an all boy family, she was all about girl power and proved it on the tennis court in the 1970s when she played against Bobby Riggs in Decatur's own Battle of the Sexes tennis match. I bet she would have loved the success of Taylor Swift and the Barbie movie but she didn't need the spotlight – she was about helping others maximize their potential.

Our father never would have run the DMH radiology department (which is now named after him) or been Chief of the Medical Staff without our mom's advice which came every night on the porch after he got home from work.

Rick, Jon and Mark would not have become very successful physicians without our mom's pushing, guiding and counseling them on classes to take or how to manage certain situations.

I would not have achieved success in the business world without my mom's political guidance.

At her core, the ability to manage people and situations was our mom's greatest strength. Mom didn't only raise us, she was willing to serve some of the maternal role for others – Wayne Dunning, Tim Smith, Jim Simon or April James were some of those recipients of Judy wisdom in Decatur as were our cousins

Judy, Laura and David Blang or friends of the boys like Dean Cobble or Roland Wikstrom. We are grateful to all of those who have shared how our mom was a little bit their mom as well.

To some extent, Judy become a mother to the whole community. As my older brothers' left our home and mom had more free time, she entered the public service world through her service on the Decatur Park District board. Her focus was on the programming offered in the parks. Free lunches and activities run by the "yellow hats." The parks served as a kind of "home" for those who might live in a suboptimal situation. She loved the parks and took great passion in working with Jerry Menz on the Decatur Park singers or Bill Clevinger on the Scovill Park Zoo which became a lifelong mission. When she wanted the Parks to do more without raising taxes, she started the Decatur Parks Foundation to create supplemental funding. We are delighted to have the zoo as the defined beneficiary of gifts for anyone looking to honor our mom and for hosting our celebration following this service.

Our mom was always looking to guide someone and help improve her community. She would open our house for Thanksgiving or have foreign exchange students. She made us go around the neighborhood and to certain homes in Decatur singing Christmas carols for those who might need some joy or to dress up in matching white levi suits and sing at Uncle Al's wedding. To quote my niece Annie "whether it was the Decatur parks, her fellow Depauw alumni or her beach friends in Boca Grande, nana believed equally in creating community. No one was better at forming genuine bonds and creating a place where people can connect and thrive together."

As you can tell from that quote, as a grandma (she was affectionately called nana), mom decided to "generation skip" and often sought to parent the next generation (not the easiest thing as a parent by the way). She tried to get fluent in social media and would consume the grandkids content through Instagram or Facebook often inadvertently posting some unusual things herself. Many of the grandchildren would call her on a regular basis to discuss their lives and get input as you heard from my niece Ellie. They benefited from her wisdom and she loved every minute of it. Her requirement that we all make the pilgrimage home for the holiday with all of our little kids has resulted in a level of connection between the cousins of the next generation which is difficult to create and will provide a lifetime of memories

You will never meet a more extroverted person than our mom. Being alone was the worst thing possible thing. In a restaurant, she would want to invite over anyone eating alone. People were her fuel.

Her favorite past time was sitting on the beach in Boca Grande, Florida or the dock in Longville, Minnesota and just talking to people. No reading of books (I honestly don't think she read a book in my entire life). It was about the human exchange of information. She saved old newspapers (literally stacks of newspapers 4 feet high were in her bedroom for her to be knowledgeable) to make herself the first version of Chat GPT and she constantly grew through her interaction with others (whoever they may be). She wanted to hear about the Reitz family wedding or the Cookie Lady's business in Florida. She would sit outside the Walden Inn at Depauw and talk to generations of alums – always holding a glass of chardonnay (which she rarely drank by the way) – it was more of a prop to get the other conversational participant liquored up and sharing. It was relationships which allowed her 87 great years and certainly not the diet of powdered donuts, dove bars and diet cokes.

So, I ask all of you to honor our mom during this holiday season. Put away the cell phone and just talk to people. Ask them questions, listen and learn. Expand your own horizons and knowledge through conversation and then take those capabilities and help others achieve. Give back through your local

parks or just help some strangers. Channel some nana and don't let someone eat alone. Finally, focus on your family and doing everything in your power to raise good children and grandchildren. Those kids --- not money or job titles – are your true legacy. I know we are doing everything we can to make mom proud.

We hope many of you can join us at her beloved zoo after this service to have a little chardonnay, tell a story, salt some food and enjoy family and friends. RIP mom. We love you.

J. Michael Locke
Musings

#246: Musing
December 29, 2023

More data points on the accomplishment of a soft landing. The Federal Reserve's preferred measure of inflation (called the Personal Consumption Expenditures price index) actually fell 0.1% in November from the prior month and was up 2.6% from last year. The Fed targets 2% inflation so we are getting close and labor market is pretty strong. It is interesting that the Biden administration cannot get any traction with the "Bidenomics" messaging as most people feel the economy is not good. From my perspective, the economy is strong. It just got overheated due to the Fed leaving rates too low for too long and then the government threw fuel on the fire with the big pandemic stimulus programs. Too much money entered the system and pushed prices higher exacerbated by the challenge on supply chains coming out of the pandemic. Inflation has been the only challenge with the economy and while the rate of increases is declining, in aggregate, consumer prices are 19% higher than before the pandemic hit.

One of the things I worry most about is consumer spending based on credit. The growth of BNPL (buy now pay later) is hidden consumer debt as the future installments due are not reflected in credit reports. Delinquencies on consumer debt are growing and at some point the consumer has to pull back.

A good CEO taught me his "price proud" perspective. Too many companies are reluctant when it comes to price increases. Price increases are 100% margin so you should do them if your value proposition supports it. In his opinion, it becomes a cultural issue. Companies who believe in the value of their product / service should be confident that consumers will accept a price increase.

Start your meetings on time. I mean "on the dot" if not a minute or two early. It sets the tone of precision and efficiency. Otherwise, some people are wasting their time waiting for a meeting to start. Studies show that the actual meeting is also not as effective if it starts late. *"We found significant differences concerning participants' perceived meeting satisfaction and meeting effectiveness, as well as objective group performance outcomes (number, quality, and feasibility of ideas produced in the meeting). We also identified differences in negative socio-emotional group interaction behaviors depending on meeting lateness."* want-to-instantly-become-a-better-leader-science-says-meetings-that-dont-start-on-time-are-a-third-less-effective . Thanks John Hughes.

Execution is a matter of setting the tone and culture. Sloppiness cannot be allowed. This is why the military is so focused on making your bed. *"If you make your bed every morning, you will have accomplished the first task of the day. It will give you a small sense of pride and it will encourage you to do another task and another and another. By the end of the day, that one task completed will have turned into many tasks completed. Making your bed will also reinforce the fact that little things in life matter. If you can't do the little things right, you will never do the big things right."* Admiral William H. McRaven.

Sticking with the military leadership model. Here is another one: *"One of the most important things I have learned is to make sure everybody has the opportunity to have a voice. Even if you're not the decision maker, you have a perspective on things. Even if you're the quietest person in the room, you have an opinion. Your job as a leader is to get that engagement from your entire team."*— US Navy Rear Admiral and Goldman Sachs managing director Richard Lofgren.

Another sign of our "softening" corporate cultures --- Microsoft outlook now highlights if you go to send an email "after hours" and asks if you want to queue it up to send during Monday-Friday 9-5….C'mon man.

I have never been a fan of the annual performance review construct. We live in a "real time" world and managers should be constantly coaching and helping their team improve. Good write up from the Morning Brew: ***"****According to a Gallup poll, only 14% of employees "strongly agreed" that a performance review inspired them to improve. But in recent years, some workplaces have changed how they conduct performance reviews—or abandoned them altogether.*

- *A decade ago, Microsoft disbanded its version of stack ranking, the practice pioneered by General Electric CEO Jack Welch in the 1980s in which the company would rank every employee. Experts say it hurts morale and can create a toxic work culture.*
- *Netflix has around 10,000 employees but has eschewed the year-end review for informal conversations during the year.*
- *Google revamped its system last May by reducing performance reviews from twice to once a year.*
- *Apple dropped performance reviews completely.*

Employees want feedback, but it has to be useful. Fortune analyzed two years of performance reviews for 13,000 workers and found low-quality feedback is why employees are fleeing companies."

Not sure what this says about our society. Here were the Top 10 people for Google searches this year:

1) Damar Hamlin
2) Jeremy Renner
3) Travis Kelce
4) Tucker Carlson
5) Lil Tay
6) Andrew Tate
7) Carlee Russell
8) Jamie Foxx
9) Danny Masterson
10) Matt Rife

Let's bring back good old chivalry. I know it is sexist in a world where we are not supposed to have anything different between genders, but I encourage guys to hold doors, stand up at the table when a woman comes, hold a chair for woman to sit down, walk on the street side to protect your female companion from puddles splashing from street, go first through the revolving door so you can push for them and let ladies order first. I long for a more refined world where con artists, fraudulent police reporters and rapists aren't the people we care about and search google for. The Superego needs to take power back from the Id.

Learned one to avoid. I was raised with the pineapple symbolizing hospitality and welcoming people to your home. Not so much anymore. I received some pineapples as a corporate gift and put them outside to keep cool. Our horrified daughter later entered the house expressing concern on our porch message. From Men's Health: *"An upside-down pineapple – worn on clothing or jewelry, pushed around in shopping cart, etc. – is a subtle signal that someone is a swinger or looking for a swinger party. (the pineapple doesn't have to be upside-down to carry that meaning, FYI. The story goes that when a pineapple is set by a front door, or on someone's porch, it signifies that a swinger party is in session."*

While swinging isn't the answer, we do need more children. Catherine Pakaluk from the WSJ "*Total fertility rates below replacement lead inexorably to a shrinking population, economic stagnation and lower quality of life," Mrs. Pakaluk replies. "We won't have the people to staff valuable services. Social Security and Medicare will be shuttered. Many countries are already on this path. It can only be avoided if a nation can compete, indefinitely so, for a larger share of a shrinking number of world immigrants."* We have to figure out how to reduce the tension women feel between career success and having more kids. It is an economic imperative.

Happy New Year.

jml

J. Michael Locke
Musings

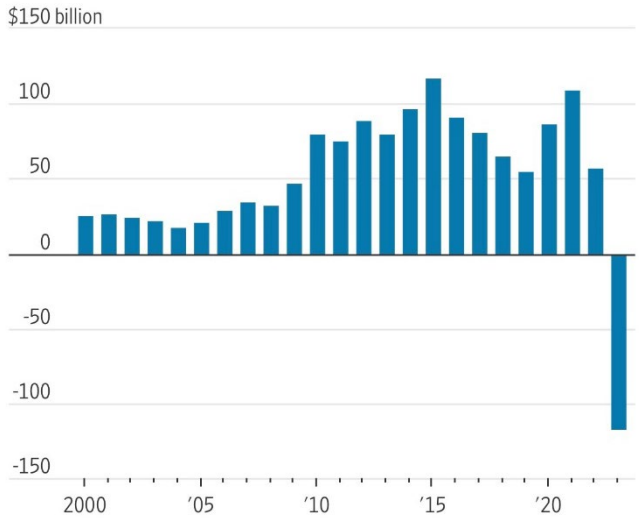
#247: Musing
January 13, 2024

I often write about my concern for our future economic prospects based upon a decline in the number of people working. The US fertility rate is below the replacement rate as more people are dying than being born. We are only growing our working population currently through immigration which faces political headwinds. AI might save the day by allowing a material increase in productivity so GDP could grow on a stagnant labor pool. Another lever is a higher labor force participation where we have been stuck between 62-63%. The denominator for the participation rate is the "civilian noninstitutionalized population" which is individuals 16 or older that are not "institutionalized" in the armed forces, prisons or residential care facilities. The numerator is those working or actively seeking work. From last week's jobs report, we have 268mm people over 16 (not in an institution) and of those, 168mm were seeking work/working. Basically, we have 100mm people that could work but are not seeking a job. The total US population is roughly 332mm so our economic output is currently coming from 50% of our population. We need public policies that facilitate flexibility to get this rate up such as more affordable childcare and better elder care so people don't have to drop out of workforce to care for somebody. Companies also need to get more sophisticated in their use of variable, gig labor (think Uber for CPAs).

Unfortunately, the Biden administration is making it harder to use independent contractors. Last week, the Labor department passed a new rule on how you go about deciding whether someone is an employee (W-2) or independent contractor (1099). It is a six-part test designed to get more people classified as employees and thus eligible for health insurance and paid time off. Uber et al. had to fight a similar law passed in California and got it overturned.

The extraordinary actions of the Fed over the last couple years are now coming home to roost. It reported an operating loss of $114 bn last year according to WSJ. It usually makes money. Look at this stunning chart:

Federal Reserve net income



Note: Amounts for 2000-2021 reflect transfers made to U.S. government; 2022 shows transfer net of loss
Source: Federal Reserve

I think Satya Nadella (Microsoft) is one of the best CEOs today. Many don't even know who he is which is part of his skill. He makes it about his team and the prioritization of emotional intelligence vs a common approach by many to be the Superman CEO (ex. Bob Iger). From Inc: *" being a leader wasn't just about knowing all the answers; it was about understanding people and building meaningful connections. [Three recommendations:] 1. Give people a voice; 2. Lead with authenticity; and 3. Acknowledge you don't know everything"* *microsoft-ceo-satya-nadella-says-what-separates-successful-people-from-everyone-else-really-comes-down-to-emotional intelligence*

Leaders who are not very high in emotional intelligence often have three destructive habits according to this author — 1) public scoldings where the boss criticizes someone in a group rather than 1:1; 2) perfectionism where the leader is constantly critical and rarely complimenting; and 3) unnecessary arguments where leaders are constantly picking fights. habits-of-bosses-with-low-emotional-intelligence-psychologist

An interesting write up from the Morning Brew on how remote work might reduce your chances at a promotion:

"In the data company's analysis of 2 million white-collar workers, 5.6% of employees who were going into the office on at least a hybrid basis received a promotion last year, compared to 3.9% of fully remote individuals, the Wall Street Journal reports. And it's not just a coincidence:

- *About 90% of 400 CEOs surveyed last year by KPMG said they'd be more likely to give in-person employees raises, promotions, or better assignments.*
- *Amazon, for one, is enforcing its strict three-days-in-the-office policy for corporate workers by blocking promotions for anyone who doesn't comply, according to internal materials reviewed by Insider.*

Yes, but...*studies have gone both ways about whether employees are more or less productive at home, but surveys have found fully remote workers are a lot happier and more likely to stick with their jobs. Half of fully in-person employees said they'd be job hunting in the next year, compared to a third of employees who work from home, according to a 2023 Resume Builder survey"*

Scott Galloway published his 2024 predictions.

1. U.S. Inflation Drops Below the Fed's Target of 2.5%
2. Housing Sales Boom
3. Paramount Consolidated, Disney Consolidator
4. Two Stock Picks: Streaming Laggards (Warner Brothers Discovery and Disney)
5. TikTok Comes for Netflix and Spotify
6. Peak AI
7. Big Tech Stock Pick: Alphabet
8. Tech of the Year: GLP-1 (eg. Ozempic)
9. India Is the New China
10. Geopolitics: U.S.-China Relations Thaw
11. Geopolitics: Saudi Arabia and Israel Normalize Relations
12. Musk Loses Control of Twitter (Or Sells It)
13. Meta's 2024 Growth Vehicle: WhatsApp
14. Political Prediction: Biden Gets Reelected, and Trump Gets Sentenced

Part of success is simply working hard. I advocate never turning on your "out of office" message and checking emails regularly after hours and on "vacation." That said, Musk takes it too far sleeping at the office and having midnight meetings. His quote according to WSJ *"Vacation is a strong word…For me, it is email with a view."*

Want another example of government incompetence — look at the roll out of the new FAFSA by the Dept of Education. Families struggling to access it which has hindered them knowing their college financial aid.

I have a very simple way I judge people --- do they ask any questions. IMO, good and talented people want to learn and so engage in conversation by asking questions. They want to learn about the other person. Sometimes I find myself in a "tug of war" where I am seeking to ask someone about their family, work etc. and they keep turning it back and asking me. I once sat next to a prominent politician for 1 ½ hour dinner. He didn't ask me a single question. Didn't know if I was married, did I have kids, what I did for work. It was all about him. He didn't get my support.

A Warby Parker employee told a friend that roughly 50% of their business is fake glasses. That is right – worn for fashion as an accessory and not for fashion. *"Fake glasses have been around for as long as there have been prescription glasses. As far as fashion is concerned, fake glasses have been trending since around 2010. Fashion eyewear has followed a similar trajectory as wristwatches: they are accessories that once fulfilled a utility function, but now are an expression of fashion and personal style." (felixgray.com)*

As a Harvard alum, I must share my positive reaction to the resignation of President Gay. I found her testimony in Congress on antisemitism unsatisfactory and the plagiarism accusations concerning. In response to her resignation, billionaire investor Bill Ackman published a lengthy tweet around DEI and

what has been going on with companies and colleges recently. I don't agree with everything he says but found the piece very thoughtful. It is republished under my initials below.

Jml

Bill Ackman tweet:

"In light of today's news, I thought I would try to take a step back and provide perspective on what this is really all about.

I first became concerned about @Harvard when 34 Harvard student organizations, early on the morning of October 8th before Israel had taken any military actions in Gaza, came out publicly in support of Hamas, a globally recognized terrorist organization, holding Israel 'solely responsible' for Hamas' barbaric and heinous acts.

How could this be? I wondered.

When I saw President Gay's initial statement about the massacre, it provided more context (!) for the student groups' statement of support for terrorism. The protests began as pro-Palestine and then became anti-Israel. Shortly, thereafter, antisemitism exploded on campus as protesters who violated Harvard's own codes of conduct were emboldened by the lack of enforcement of Harvard's rules, and kept testing the limits on how aggressive, intimidating, and disruptive they could be to Jewish and Israeli students, and the student body at large. Sadly, antisemitism remains a simmering source of hate even at our best universities among a subset of students.

A few weeks later, I went up to campus to see things with my own eyes, and listen and learn from students and faculty. I met with 15 or so members of the faculty and a few hundred students in small and large settings, and a clearer picture began to emerge.

I ultimately concluded that antisemitism was not the core of the problem, it was simply a troubling warning sign – it was the "canary in the coal mine" – despite how destructive it was in impacting student life and learning on campus.

I came to learn that the root cause of antisemitism at Harvard was an ideology that had been promulgated on campus, an oppressor/oppressed framework, that provided the intellectual bulwark behind the protests, helping to generate anti-Israel and anti-Jewish hate speech and harassment.

Then I did more research. The more I learned, the more concerned I became, and the more ignorant I realized I had been about DEI, a powerful movement that has not only pervaded Harvard, but the educational system at large. I came to understand that Diversity, Equity, and Inclusion was not what I had naively thought these words meant.

I have always believed that diversity is an important feature of a successful organization, but by diversity I mean diversity in its broadest form: diversity of viewpoints, politics, ethnicity, race, age, religion, experience, socioeconomic background, sexual identity, gender, one's upbringing, and more.

What I learned, however, was that DEI was not about diversity in its purest form, but rather DEI was a political advocacy movement on behalf of certain groups that are deemed oppressed under DEI's own

methodology.

Under DEI, one's degree of oppression is determined based upon where one resides on a so-called intersectional pyramid of oppression where whites, Jews, and Asians are deemed oppressors, and a subset of people of color, LGBTQ people, and/or women are deemed to be oppressed. Under this ideology which is the philosophical underpinning of DEI as advanced by Ibram X. Kendi and others, one is either an anti-racist or a racist. There is no such thing as being "not racist."

Under DEI's ideology, any policy, program, educational system, economic system, grading system, admission policy, (and even climate change due its disparate impact on geographies and the people that live there), etc. that leads to unequal outcomes among people of different skin colors is deemed racist.

As a result, according to DEI, capitalism is racist, Advanced Placement exams are racist, IQ tests are racist, corporations are racist, or in other words, any merit-based program, system, or organization which has or generates outcomes for different races that are at variance with the proportion these different races represent in the population at large is by definition racist under DEI's ideology.

In order to be deemed anti-racist, one must personally take action to reverse any unequal outcomes in society. The DEI movement, which has permeated many universities, corporations, and state, local and federal governments, is designed to be the anti-racist engine to transform society from its currently structurally racist state to an anti-racist one.

After the death of George Floyd, the already burgeoning DEI movement took off without any real challenge to its problematic ideology. Why, you might ask, was there so little pushback? The answer is that anyone who dared to raise a question which challenged DEI was deemed a racist, a label which could severely impact one's employment, social status, reputation and more. Being called a racist got people cancelled, so those concerned about DEI and its societal and legal implications had no choice but to keep quiet in this new climate of fear.

The techniques that DEI has used to squelch the opposition are found in the Red Scares and McCarthyism of decades past. If you challenge DEI, "justice" will be swift, and you may find yourself unemployed, shunned by colleagues, cancelled, and/or you will otherwise put your career and acceptance in society at risk.

The DEI movement has also taken control of speech. Certain speech is no longer permitted. So-called "microaggressions" are treated like hate speech. "Trigger warnings" are required to protect students. "Safe spaces" are necessary to protect students from the trauma inflicted by words that are challenging to the students' newly-acquired world views. Campus speakers and faculty with unapproved views are shouted down, shunned, and cancelled.

These speech codes have led to self-censorship by students and faculty of views privately held, but no longer shared. There is no commitment to free expression at Harvard other than for DEI-approved views. This has led to the quashing of conservative and other viewpoints from the Harvard campus and faculty, and contributed to Harvard's having the lowest free speech ranking of 248 universities assessed by the Foundation of Individual Rights and Expression.

When one examines DEI and its ideological heritage, it does not take long to understand that the movement is inherently inconsistent with basic American values. Our country since its founding has been

about creating and building a democracy with equality of opportunity for all. Millions of people have left behind socialism and communism to come to America to start again, as they have seen the destruction leveled by an equality of outcome society.

The E for "equity" in DEI is about equality of outcome, not equality of opportunity.

DEI is racist because reverse racism is racism, even if it is against white people (and it is remarkable that I even need to point this out). Racism against white people has become considered acceptable by many not to be racism, or alternatively, it is deemed acceptable racism. While this is, of course, absurd, it has become the prevailing view in many universities around the country.

You can say things about white people today in universities, in business or otherwise, that if you switched the word 'white' to 'black,' the consequences to you would be costly and severe.

To state what should otherwise be self-evident, whether or not a statement is racist should not depend upon whether the target of the racism is a group who currently represents a majority or minority of the country or those who have a lighter or darker skin color. Racism against whites is as reprehensible as it is against groups with darker skin colors.

Martin Luther King's most famous words are instructive:

"I have a dream that my four little children will one day live in a nation where they will not be judged by the color of their skin but by the content of their character."

But here we are in 2024, being asked and in some cases required to use skin color to effect outcomes in admissions (recently deemed illegal by the Supreme Court), in business (likely illegal yet it happens nonetheless) and in government (also I believe in most cases to be illegal, except apparently in government contracting), rather than the content of one's character. As such, a meritocracy is an anathema to the DEI movement. DEI is inherently a racist and illegal movement in its implementation even if it purports to work on behalf of the so-called oppressed.

And DEI's definition of oppressed is fundamentally flawed.

I have always believed that the most fortunate should help the least fortunate, and that our system should be designed in such a way as to maximize the size of the overall pie so that it will enable us to provide an economic system which can offer quality of life, education, housing, and healthcare for all.

America is a rich country and we have made massive progress over the decades toward achieving this goal, but we obviously have much more work to do. Steps taken on the path to socialism – another word for an equality of outcome system – will reverse this progress and ultimately impoverish us all. We have seen this movie many times.

Having a darker skin color, a less common sexual identity, and/or being a woman doesn't make one necessarily oppressed or even disadvantaged. While slavery remains a permanent stain on our country's history – a fact which is used by DEI to label white people as oppressors – it doesn't therefore hold that all white people generations after the abolishment of slavery should be held responsible for its evils. Similarly, the fact that Columbus discovered America doesn't make all modern-day Italians colonialists.

An ideology that portrays a bicameral world of oppressors and the oppressed based principally on race or sexual identity is a fundamentally racist ideology that will likely lead to more racism rather than less. A system where one obtains advantages by virtue of one's skin color is a racist system, and one that will generate resentment and anger among the un-advantaged who will direct their anger at the favored groups.

The country has seen burgeoning resentment and anger grow materially over the last few years, and the DEI movement is an important contributor to our growing divisiveness. Resentment is one of the most important drivers of racism. And it is the lack of equity, i.e, fairness, in how DEI operates, that contributes to this resentment.

I was accused of being a racist from the President of the NAACP among others when I posted on @X that I had learned that the Harvard President search process excluded candidates that did not meet the DEI criteria. I didn't say that former President Gay was hired because she was a black woman. I simply said that I had heard that the search process by its design excluded a large percentage of potential candidates due to the DEI limitations. My statement was not a racist one. It was simply the empirical truth about the Harvard search process that led to Gay's hiring.

When former President Gay was hired, I knew little about her, but I was instinctually happy for Harvard and the black community. Every minority community likes to see their representatives recognized in important leadership positions, and it is therefore an important moment for celebration. I too celebrated this achievement. I am inspired and moved by others' success, and I thought of Gay's hiring at the pinnacle leadership position at perhaps our most important and iconic university as an important and significant milestone for the black community.

I have spent the majority of my life advocating on behalf of and supporting members of disadvantaged communities including by investing several hundreds of millions of dollars of philanthropic assets to help communities in need with economic development, sensible criminal justice reform, poverty reduction, healthcare, education, workforce housing, charter schools, and more.

I have done the same at Pershing Square Capital Management when, for example, we completed one of the largest IPOs ever with the substantive assistance of a number of minority-owned, women-owned, and Veteran-owned investment banks. Prior to the Pershing Square Tontine, Ltd. IPO, it was standard practice for big corporations occasionally to name a few minority-owned banks in their equity and bond offerings, have these banks do no work and sell only a de minimis amount of stock or bonds, and allocate to them only 1% or less of the underwriting fees so that the issuers could virtue signal that they were helping minority communities.

In our IPO, we invited the smaller banks into the deal from the beginning of the process so they could add real value. As a result, the Tontine IPO was one of the largest and most successful IPOs in history with $12 billion of demand for a $4 billion deal by the second day of the IPO, when we closed the books. The small banks earned their 20% share of the fees for delivering real and substantive value and for selling their share of the stock.

Compare this approach to the traditional one where the small banks do effectively nothing to earn their fees – they aren't given that opportunity – yet, they get a cut of the deal, albeit a tiny one. The traditional approach does not create value for anyone. It only creates resentment, and an uncomfortable feeling from the small banks who get a tiny piece of the deal in a particularly bad form of affirmative

action.

While I don't think our approach to working with the smaller banks has yet achieved the significant traction it deserves, it will hopefully happen eventually as the smaller banks build their competencies and continue to earn their fees, and other issuers see the merit of this approach. We are going to need assistance with a large IPO soon so we are looking forward to working with our favored smaller banks.

I have always believed in giving disadvantaged groups a helping hand. I signed the Giving Pledge for this reason. My life plan by the time I was 18 was to be successful and then return the favor to those less fortunate. This always seemed to the right thing to do, in particular, for someone as fortunate as I am.

All of the above said, it is one thing to give disadvantaged people the opportunities and resources so that they can help themselves. It is another to select a candidate for admission or for a leadership role when they are not qualified to serve in that role.

This appears to have been the case with former President Gay's selection. She did not possess the leadership skills to serve as Harvard's president, putting aside any questions about her academic credentials. This became apparent shortly after October 7th, but there were many signs before then when she was Dean of the faculty.

The result was a disaster for Harvard and for Claudine Gay.

The Harvard board should not have run a search process which had a predetermined objective of only hiring a DEI-approved candidate. In any case, there are many incredibly talented black men and women who could have been selected by Harvard to serve as its president so why did the Harvard Corporation board choose Gay?

One can only speculate without knowing all of the facts, but it appears Gay's leadership in the creation of Harvard's Office of Diversity, Equity, Inclusion and Belonging and the penetration of the DEI ideology into the Corporation board room perhaps made Gay the favored candidate. The search was also done at a time when many other top universities had similar DEI-favored candidate searches underway for their presidents, reducing the number of potential candidates available in light of the increased competition for talent.

Unrelated to the DEI issue, as a side note, I would suggest that universities should broaden their searches to include capable business people for the role of president, as a university president requires more business skills than can be gleaned from even the most successful academic career with its hundreds of peer reviewed papers and many books. Universities have a Dean of the Faculty and a bureaucracy to oversee the faculty and academic environment of the university. It therefore does not make sense that the university president has to come through the ranks of academia, with a skill set unprepared for university management.

The president's job – managing thousands of employees, overseeing a $50 billion endowment, raising money, managing expenses, capital allocation, real estate acquisition, disposition, and construction, and reputation management – are responsibilities that few career academics are capable of executing. Broadening the recruitment of candidates to include top business executives would also create more opportunities for diverse talent for the office of the university president.

Furthermore, Harvard is a massive business that has been mismanaged for a long time. The cost structure of the University is out of control due in large part to the fact that the administration has grown without bounds. Revenues are below what they should be because the endowment has generated a 4.5% annualized return for the last decade in one of the greatest bull markets in history, and that low return is not due to the endowment taking lower risks as the substantial majority of its assets are invested in illiquid and other high-risk assets.

The price of the product, a Harvard education, has risen at a rate well in excess of inflation for decades, (I believe it has grown about 7-8% per annum) and it is now about $320,000 for four years of a liberal arts education at Harvard College. As a result, the only students who can now afford Harvard come from rich families and poor ones. The middle class can't get enough financial aid other than by borrowing a lot of money, and it is hard to make the economics work in life after college when you graduate with large loan balances, particularly if you also attend graduate school.

The best companies in the world grow at high rates over many decades. Harvard has grown at a de minimis rate. Since I graduated 35 years ago, the number of students in the Harvard class has grown by less than 20%. What other successful business do you know that has grown the number of customers it serves by less than 20% in 35 years, and where nearly all revenue growth has come from raising prices?

In summary, there is a lot more work to be done to fix Harvard than just replacing its president. That said, the selection of Harvard's next president is a critically important task, and the individuals principally responsible for that decision do not have a good track record for doing so based on their recent history, nor have they done a good job managing the other problems which I have identified above.

The Corporation board led by Penny Pritzker selected the wrong president and did inadequate due diligence about her academic record despite Gay being in leadership roles at the University since 2015 when she became dean of the Social Studies department.

The Board failed to create a discrimination-free environment on campus exposing the University to tremendous reputational damage, to large legal and financial liabilities, Congressional investigations and scrutiny, and to the potential loss of Federal funding, all while damaging the learning environment for all students.

And when concerns were raised about plagiarism in Gay's research, the Board said these claims were "demonstrably false" and it threatened the NY Post with "immense" liability if it published a story raising these issues.

It was only after getting the story cancelled that the Board secretly launched a cursory, short-form investigation outside of the proper process for evaluating a member of the faculty's potential plagiarism. When the Board finally publicly acknowledged some of Gay's plagiarism, it characterized the plagiarism as "unintentional" and invented new euphemisms, i.e., "duplicative language" to describe plagiarism, a belittling of academic integrity that has caused grave damage to Harvard's academic standards and credibility.

The Board's three-person panel of "political scientist experts" that to this day remain unnamed who evaluated Gay's work failed to identify many examples of her plagiarism, leading to even greater reputational damage to the University and its reputation for academic integrity as the whistleblower and the media continued to identify additional problems with Gay's work in the days and weeks thereafter.

According to the NY Post, the Board also apparently sought to identify the whistleblower and seek retribution against him or her in contravention to the University's whistleblower protection policies.

Despite all of the above, the Board "unanimously" gave its full support for Gay during this nearly four-month crisis, until eventually being forced to accept her resignation earlier today, a grave and continuing reputational disaster to Harvard and to the Board.

In a normal corporate context with the above set of facts, the full board would resign immediately to be replaced by a group nominated by shareholders. In the case of Harvard, however, the Board nominates itself and its new members. There is no shareholder vote mechanism to replace them.

So what should happen?

The Corporation Board should not remain in their seats protected by the unusual governance structure which enabled them to obtain their seats.

The Board Chair, Penny Pritzker, should resign along with the other members of the board who led the campaign to keep Claudine Gay, orchestrated the strategy to threaten the media, bypassed the process for evaluating plagiarism, and otherwise greatly contributed to the damage that has been done. Then new Corporation board members should be identified who bring true diversity, viewpoint and otherwise, to the board.

The Board should not be principally comprised of individuals who share the same politics and views about DEI. The new board members should be chosen in a transparent process with the assistance of the 30-person Board of Overseers. There is no reason the Harvard board of 12 independent trustees cannot be comprised of the most impressive, high integrity, intellectually and politically diverse members of our country and globe. We have plenty of remarkable people to choose from, and the job of being a director just got much more interesting and important. It is no longer, nor should it ever have been, an honorary and highly political sinecure.

The ODEIB should be shut down, and the staff should be terminated. The ODEIB has already taken down much of the ideology and strategies that were on its website when I and others raised concerns about how the office operates and who it does and does not represent. Taking down portions of the website does not address the fundamentally flawed and racist ideology of this office, and calls into further question the ODEIB's legitimacy.

Why would the ODEIB take down portions of its website when an alum questioned its legitimacy unless the office was doing something fundamentally wrong or indefensible?

Harvard must once again become a meritocratic institution which does not discriminate for or against faculty or students based on their skin color, and where diversity is understood in its broadest form so that students can learn in an environment which welcomes diverse viewpoints from faculty and students from truly diverse backgrounds and experiences.

Harvard must create an academic environment with real academic freedom and free speech, where self-censoring, speech codes, and cancel culture are forever banished from campus.

Harvard should become an environment where all students of all persuasions feel comfortable expressing their views and being themselves. In the business world, we call this creating a great corporate culture, which begins with new leadership and the right tone at the top. It does not require the creation of a massive administrative bureaucracy.

These are the minimum changes necessary to begin to repair the damage that has been done.

A number of faculty at the University of Pennsylvania have proposed a new constitution which can be found at pennforward.com, which has been signed by more than 1,200 faculty from Penn, Harvard, and other universities. Harvard would do well to adopt Penn's proposed new constitution or a similar one before seeking to hire its next president.

A condition of employment of the new Harvard president should be the requirement that the new president agrees to strictly abide by the new constitution. He or she should take an oath to that effect.

Today was an important step forward for the University. It is time we restore Veritas to Harvard and again be an exemplar that graduates well-informed, highly-educated leaders of exemplary moral standing and good judgment who can help bring our country together, advance our democracy, and identify the important new discoveries that will help save us from ourselves.

We have a lot more work to do. Let's get at it."

J. Michael Locke
Musings

#248: Musing
January 21, 2024

A lot of our economic health is a psychological question. Consumer spending makes up over 65% of GDP so basically consumers feeling good and spending means healthy GDP growth and vice versa. US consumer sentiment just made its biggest two-month jump since 1991, up 29% since November (University of Michigan). I don't see a recession coming.

Competition is good. It brings a healthy intensity to a business as you fight to take market share or survive. Consumers also benefit as companies are forced to innovate and keep price down to win business. This is the basic underpinning of our antitrust law. While I don't agree with some of the new thinking out of the FTC, I like the judge's decision to stop the JetBlue / Spirit Airlines merger. According to Morning Brew: *"Since 1960, four of the biggest carriers (Delta, American, United, and Southwest) have collectively acquired 36 other airlines, according to Axios. Those four airlines control two-thirds of domestic air travel, according to the Bureau of Transportation Statistics."*

You should also worry if you don't have competition. When I hear "we are the only one x or y", I wonder why noone else is doing it. It might be a sign of a lack of depth of the market or the ability to make good profits doing the service.

Some fall into this trap due to "strategic myopia" according to Rishad Tobaccowala: "Strategic myopia is some combination of short-sightedness, long-sightedness or being blind to reality.

Blind to Reality: *How many times have we all experiences where our firms or our customers seem to exist in a fairy land disengaged from reality. Nobody calls out the "turd on the table" because either we do not want to acknowledge the pain that we are on the wrong track or somebody is terrifying or being terrified. Everyone pretends that the brown moist thing in the middle of the table is a brownie when it is a piece of waste. The problem will solve itself. The issue will dissolve. It is just a short-term hiccup. But we all know that the issue is real but to confront it means taking on challenges that will be hard to resolve.*

Short-sightedness: *This is a focus on the short term. Results must be delivered this quarter or this year. Either because the urgent crowds out the important, or there are mis-aligned incentives, or short tenures or a focus on the scoreboard of a stock price (even though in reality markets punish companies for not preparing for the future.) Too many executives align the way they allocate their time with the way they allocate their budgets. Most companies allocate 90% or 95% of their budget on the coming year but that does not mean senior executives should allocate their time that way. The smart ones allocate a quarter of their time to tomorrow, delegating some parts of managing today to their teams. The future cannot be delegated to an innovation group or a futures group (both of which may be important as focal points) but needs a lot of time and commitment of senior management since only they have the expertise to make hard calls, see the patterns and most importantly by doing so signal to the company that the future is important.*

Long-sightedness: *A form of myopia is long-sightedness which is not being able to see things clearly that are near. We all have heard the refrains of "this will not happen till I retire", or "this will happen many years from now so we will worry about it later" only to realize later that 1) change often scales exponentially and what looks like a gradual slope suddenly goes vertical and 2) it takes time for organizations to change (often years) and so waiting is not a form of maximizing strategic options but kicking the ball down the road.*

Good leadership is often very similar to being a good parent or friend. I wrote about the need for high emotional intelligence last week (which is also growing as the workforce increasingly has authority-resistant millennials.) I heard a good sermon this week where the pastor boiled it down to three things one needs to do to support another human being. Tell them (and support it with actions) that "I am **for** you, I am **with** you, I **believe in** you."

I hope the Supreme Court overturns Chevron. This is an older decision which led to the "Chevron deference" doctrine whereby federal agencies are given wide latitude in applying laws passed by Congress. I have personal experience with this where the federal bureaucrats took language from a law passed over 50 years ago and used it to justify new regulations which had tremendous economic impact. This is the "legislating" being done by the executive branch in today's world (both Democratic and Republican) where Congress doesn't pass anything so administrations implement their policy objectives from the federal bureaucracy with no accountability. Overturning Chevron would stop that.

Another stupid rule from the government. The Federal Highway Administration published new rules prohibiting states from using humorous highway signs with pop culture references that could require people to think. Your tax dollars at work.

Most people would consider me more elitist than populist but even I roll my eyes at the gathering in Davos. The ultra-rich flying to Switzerland to discuss the world problems is a waste. I think there are probably 100 people just as talented as each individual in Davos and we should be "crowd sourcing" more than looking to global elites who spend their cocktail time "windexing" as explained to the WSJ by Anthony Scaramucci (Trumps 30 day press spokesperson and hedge fund guy) *"Say you are chatting with someone interesting, but notice out of the corner of your eye that the British prime minister or a well-known billionaire-entrepreneur walks into a room. You may suddenly feel the urge to move on, and look past the person you're talking to "like he's a sheet of glass," Scaramucci said. "Don't be that person."*

Concurrent with the elite gathering in Davos, the nonprofit Oxfam releases its annual report on global wealth. The amount of money accruing to a small group of individuals is simply stunning. *"The world's five richest men have more than doubled their fortunes from $405 billion to $869 billion since 2020 —at a rate of $14 million per hour— while nearly five billion people have been made poorer, reveals a new Oxfam report on inequality and global corporate power. If current trends continue, the world will have its first trillionaire within a decade but poverty won't be eradicated for another 229 years."* From Yahoo Finance on Bezos: *"Jeff Bezos saw a massive increase in his net worth from $107 billion in early 2023 to $177 billion a year later, marking a $70 billion gain, according to Fortune. This equates to an increase of $191,780,822 per day or about $7,990,868 per hour"*

My distaste for "arrogance of the elite" seems to be common according to Peggy Noonan and recent polls. From Noonan: *"the distance between the elite and non-elites has widened, the estrangement deepened."* This is why Trump is winning (although it is so ironic that the warrior for the common man

lives in a gilded gold apartment on 5th avenue and was born into wealth).

The elite tend to love electric vehicles to the point that California is mandating their adoption and the federal government is massively subsidizing it. I love my Tesla but most consumers are not getting on board with decelerating EV sales growth. The headwinds facing electric vehicle adoption got stronger with the cold weather. Lithium batteries degrade and have less capacity in cold weather. According to AAA, they lose over 40% of their capacity when temperature falls under 20 degrees. In addition, the process of recharging involves a chemical reaction in the battery which is much slower in cold temperatures. Enter "Tesla "graveyards" where Teslas were running out of charge while waiting to recharge in lots outside charging stations.

Good quote from Gary Brecka. "Aging is the aggressive pursuit of comfort" (thanks John Carolan).

RIP Naomi Feil who was an American gerontologist who developed validation therapy (holistic therapy that focuses on empathy and provides means for people with cognitive deficit and dementia to communicate). (Wikipedia). Dementia is a terrible disease as we experienced firsthand with our mom. The loved one is still there and Naomi Feil helped teach people how to connect. One technique is "to meet them where they are" and not to correct them. Music is also a way to unlock memories for those suffering from dementia --- it utilizes different parts of the brain. Watch this video: https://youtu.be/fyZQf0p73QM

jml

J. Michael Locke
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
PHIL HILL & Associates
Undergraduate + Graduate Programs

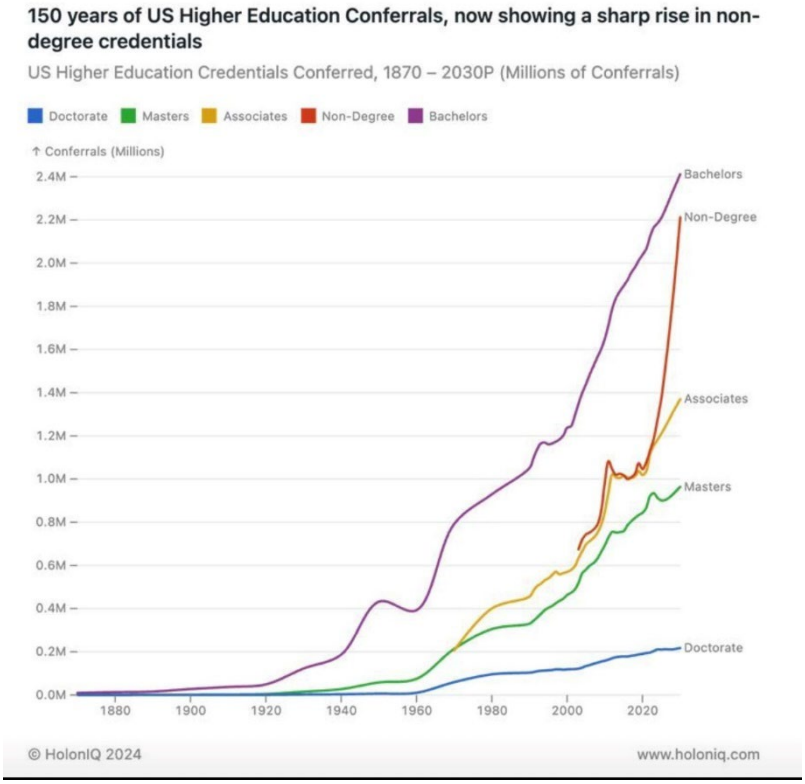
	DE Type							
Adjusted Sector	Exclusive DE		Some DE		No DE		Grand Total	
Public 4-year	1,476,047	18.1%	2,860,072	35.0%	3,830,177	46.9%	**8,166,296**	100.0%
Private 4-year	1,118,837	27.1%	712,678	17.2%	2,302,245	55.7%	**4,133,760**	100.0%
For profit 4-year	620,006	76.1%	109,980	13.5%	84,233	10.3%	**814,219**	100.0%
Public 2-year	1,715,269	32.2%	1,432,688	26.9%	2,185,060	41.0%	**5,333,017**	100.0%
Private 2-year	10,065	38.6%	3,529	13.5%	12,499	47.9%	**26,093**	100.0%
For profit 2-year	25,401	14.3%	49,221	27.7%	102,881	58.0%	**177,503**	100.0%
Grand Total	**4,965,625**	**26.6%**	**5,168,168**	**27.7%**	**8,517,095**	**45.7%**	**18,650,888**	100.0%

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.



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. jA 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."*

J. Michael Locke
Musings

#250: Musing
February 3, 2024

The economy keeps humming even with higher interest rates. Last week's jobs report showed lots of new hiring and wages increased. Until wage increases cool, don't look for a cut in rates. From Baird: *"BLS wage inflation was hot and accelerated. Hourly earnings increased 4.5% yoy. Hourly earnings for production and nonsupervisory employees increased 4.8% yoy to $29.66."* Until we get more workers into the labor pool, it will be hard to stop this type of wage inflation (more work visas to deserving immigrant families would be a good start).

We are in the middle of earnings season where publicly-traded companies must disclose their results. Amazing strength in big tech led by Facebook/Meta. The growth of these companies at their size is really unbelievable.

A real interesting earnings report window was regional banks which came in soft. A lot of the loans by these smaller, regional banks are to owners of commercial office buildings. The rewriting of work structures with hybrid/remote rising has put real stress on landlords as tenants downsize or don't renew. This market operates on a lag because most leases are multi-year so it takes a while to adjust but that is now happening. The "rent-rolls" are plummeting and so are the values of buildings which also have to refinance their debt periodically and now face much higher rates. The equity is being wiped out with some buildings trading at 50% or so of previous value. As a result, many regional banks are not getting paid back on their loans. Interestingly, the large banks are not as exposed. *"The default risk is worse for regional banks, where CRE (commercial real estate loans) make up nearly 29% of all assets, versus 6.5% at big national banks."* (Morning Brew).

Remote work has also introduced "over employment" where people are working multiple jobs (usually hidden from their employer). The loss of trust (both ways) between employers and employees is really troubling. Great article in Business Insider (thanks Kate McNamara) *"What we have now is a vicious cycle of broken promises — companies cutting back on benefits and job security, workers cutting back on hours and effort. The result is a workplace that none of us wants: one where no one feels they owe anyone anything."* loyalty-employee-employer-job-security-broken

Another shift in the workplace is the process of B2B selling. With all of the information now online, buyers do their research on their own and even go to peers to discuss vendors before they really engage. The result is a need to migrate money and resources from outside selling to marketing. Here is how one talented executive put it to me "it has been my experience that buyer behavior has shifted over the last 5-10 years. Buyers prefer to engage digitally to gain knowledge before personally meeting. This resulted in a change for the field sales representative to be less of a "hunter" and more of a "closer" with enhanced technical knowledge." The traditional B2B relationship guy is starting to look like Mad Men and the solution engineers are ruling the day.

This week's government incompetence example is the Covid program called the Employee Retention Credit. According to the WSJ, it was initially estimated to cost $55 billion, but the final price tag may be upward of $470 billion. The continued saga around the new FAFSA must also be mentioned. Families are now not going to receive their financial aid "packages" from the federal government until mid-April so tough for them to make a school decision by the standard May 1.

One I really got wrong was football. I was predicting its demise as our local junior football league went defunct while everyone drove to soccer practice. Many parents were concerned about the health effects of football (although the concussion risk in soccer is under appreciated). I even looked at investing in a minor league soccer team which fortunately didn't pan out. Football couldn't be stronger at the collegiate and professional level. Viewership is off the charts for NFL games (even without Swifties) and our two girls (like many others) are attending colleges with major programs and discussing game days and rankings.

Not sure why anyone gets a Brazilian butt lift, but if you do, do it in the US. 93 U.S. citizens have died as a result of cosmetic surgery in the Dominican Republic from 2009 to 2022, according to a report from the Centers for Disease Control and Prevention.

There is a fundamental flaw in nonprofit governance IMO. The standard model is to have a large board to facilitate fundraising. In many cases, this is viewed as the basic job of the board. The board members don't have money at stake like a business and are doing it more as a "give back" and are not inclined to inspect or get involved operationally. This leaves the chief executive "unmanaged." If you have a good one, things will be fine but if you have a bad one — look out. For example, I am amazed at the universities which have been mismanaged yet there is no accountability. The Presidents often retire with big pensions or move to the next job. They are rarely fired. I encourage readers to treat a nonprofit board just like a business board and really dig in.

Finally, let's talk about Zyn. Many don't even know what it is. It's the leading brand of nicotine pouches in the US. Because of their potency and ability to be hidden (tucked in the upper lip), these pouches have skyrocketed in popularity: In the first three months of 2022, more than 808 million units were sold in the US, compared to 126.1 million during a three-month span in 2019. The issue is teen use as Zyn's rise has been supercharged by "Zynfluencers" who post comedy sketches and have developed memeable slang terms for the pouches like "upper decky" and "lip pillows." Watch for regulation on this one.

Jml

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* "a*nnual 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 greenshoots 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 credits 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

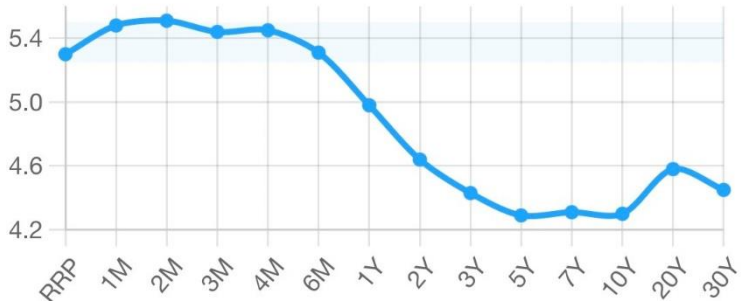
Enjoy the Super Bowl. Rooting for Brock Purdy who makes $800k a year to match Patrick Mahomes who makes over $50 million.

Jml

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

J. Michael Locke
Musings

#253: Musing
February 24, 2024

Not a lot of my thinking in today's musing. More of me curating good thinking by others. Hope you enjoy.

Are higher interest rates going to change valuation metrics in the private markets? They certainly are changing managerial approaches. Historically, the public equity market focused on the bottom line earnings of a business after all expenses and trade at multiples of those earnings (PE ratios). Private markets have historically traded on EBITDA (earnings before interest, taxes, depreciation and amortization) which more closely resembled cash flow. The problem is the "I". The dramatic rise in interest rates means lots of cash going out in payments to the lender. Management teams need to focus on bottom line cash flows inclusive of payments in interest and taxes. As folks watch their cash more closely, watch for contagion. Stretching of payables can have its own virality and economic growth may suffer. (Thoughts from Ed Lhee)

One odd dynamic in our markets is how losing money becomes an asset through the tax loss carry forward or NOL. The basic construct is losses in the past get to offset income in the future and reduce the tax liability. As such, the "future tax shield" from the losses becomes an asset. A business that has lost a bunch of money is still worth something because a profitable acquirer could take it over and get the tax savings. A related dynamics exists in the differences between marginal income tax rates and capital gains in the fixed income world right now. Rising rates have crushed bond prices and funds are sitting on lots of losses on their holdings. These losses on bonds means a lot of any price appreciation going forward will get capital gains treatment. This makes some bond funds a good investment for taxable investors as you can buy in now and benefit from these losses even though you weren't an owner when they occurred. Thanks Jim Kelly.

Our cellular dependency was on full display Thursday morning with the big AT&T outage. I couldn't pay my cab and struggled to get my boarding pass for security. Good reminder to have some backup plans (we actually still have a home phone).

Welcome to the new world. One CRM (customer relationship management) software provider that leverages AI uses this tagline: "secure, hallucination free, LLM agnostic, and IP liability free."

Employee reviews are a waste in most organizations. I am a big believer in constant feedback and coaching. Don't complain about someone behind their back unless you have directly given them the feedback. Too many people are conflict adverse and don't provide constructive feedback and recommendations for improvement. The managers job is to grow their people and not just evaluate them.

Great piece on education institutions and how they play a role in our mental health crisis by Doug

Smith. The full piece is after my initials at end. Doug cites an Atlantic article by David Brooks with is quote I like: "*We inhabit a society in which people are no longer trained in how to treat others with kindness and consideration. In a healthy society a web of institutions – families, schools, religious groups, community organizations and workplaces – helps form people into kind and responsible citizens, the sort of people who show up for one another. We live in a society that is terrible at moral formation."*

Good stuff from Matt Sigelman at Burning Glass. His firm published a big study showing how many college grads are underemployed and the difference internships can make. From Matt *"52% of graduates land into a job that they didn't need to go to college to get, even in a red-hot job market. Worse: few who start out underemployed ever make it to jobs that require their degree, bearing a $20,000 per year earnings gap vs. their classmates that persists throughout their careers. This underside to American higher education highlights the urgent imperative of bringing new focus to how students fare after college. It's not that college degrees aren't valuable. It's that they are valuable to too few. With 38 percent of students failing to complete their degrees within six years and then 52 percent of those who do graduate finding themselves underemployed, less than 30 percent of those who enroll in college realize the benefit they looked forward to…..Some programs of study have less than a third the risk of others. For example, 23 percent of nursing students are underemployed five years after graduation vs. 68 percent of criminal justice majors – but that still means that a quarter of students in one of the lowest risk fields fails to find college-level work. Having an internship reduces the prevalence of underemployment by almost half. Going back to school to get a graduate degree also helps considerably – but there to, it's no guarantee, with a third of non-quantitative business master's degree holders struggling with underemployment."*

Amazing stat: 17% of all public-school primary and secondary students are classified as needing special needs (WSJ).

Scott Galloway calls AI the "Corporate Ozempic." Ozempic is a GLP-1 drug which reduces your appetite just like AI can reduce your labor need. "If you want to understand how AI is reshaping business, picture it as the other massive innovation of our time: GLP-1 drugs. Both shed weight by suppressing cravings; both exacerbate existing inequities (aka the rich get richer) before generating wider prosperity; and both are having a greater impact than projected as early adopters are hesitant to admit they're using." Galloway's thesis is that AI is going to let companies operate with fewer employees and a lower cost structure. It might just enhance productivity vs replacing person. "The media portrays the impact of AI as a one-for-one proposition — Mary the copywriter losing her job to ChatGPT. But that's not how AI is trimming corporate America. Instead, it's picking off individual tasks and augmenting teams with more capabilities. Goldman Sachs estimates that AI could perform about one-fourth of the work done by humans today, but that two-thirds of jobs are exposed to some degree of AI automation. That automation is taking many different forms. UPS is using AI to determine pricing for contract proposals. Allstate's AI is developing internal training programs, doing in a day what once took three weeks.

Jobs are being lost, but augmentation will be the broader story. Rather than copywriter Mary losing her job, Mary's firm will train her on an AI tool that generates first drafts, takes approved product copy and converts it for catalog, web, and social use, and streamlines other tasks. Accordingly, Mary's manager will expect her to generate three times the copy in the same time.

Managers can take on new initiatives and domains without the headache of hiring more humans. It's growth without calories. I've founded two strategy firms (Prophet and L2) and loved everything about them, except for the clients and the employees — every additional hire creates complexity and thus

increases risk. The AI revolution will inspire a golden age of startups with lower infant mortality, as there will be fewer people (i.e., less risk) required to get to sustainability."

Any reader of these musings knows I don't like Donald Trump. However, the New York judgment is out of bounds IMO. The lender did not raise fraud, was fully paid and says they would do the deal again. No victim or harm to anyone yet the State says Trump must pay $350mm and can't operate in New York? Take your business to better states like Texas, North Carolina; Tennessee or Florida. This was political.

Jml

From Douglas A. Smith

There is a mental health crisis happening across America, and it is most pronounced and disturbing among our youth. Suicide rates, anxiety, depression, loneliness, bullying and anti-social behavior among children are at unforeseen levels. Today between 20-25% of the population will experience depression before concluding adolescence. In the last 10 years the suicide rate among ages 10-14 – let that sink in, 10-14 – has tripled, and among girls, quadrupled. (Source: Generations, Jean Twenge).

I believe our educational institutions are a key resource in addressing this crisis, but to do so will require a major change in how these institutions see their role and a change in their pedagogy.

What is Causing This Youth Mental Health Crisis?

Sure, technology, particularly cell phones, plays a role. The deterioration in youth wellbeing accelerated, suddenly and dramatically, in 2012 as cell phone ownership among kids went from a privilege, to a necessity. Technology doesn't just do things for us, it does things to us.

But I think there is a more prolonged fundamental cause: The lack of what David Brooks calls a "web of institutions" providing a moral framework for our youth. This from his recent Atlantic Magazine article "How America Got Mean:"

"We inhabit a society in which people are no longer trained in how to treat others with kindness and consideration. In a healthy society a web of institutions – families, schools, religious groups, community organizations and workplaces – helps form people into kind and responsible citizens, the sort of people who show up for one another. We live in a society that is terrible at moral formation."

Without this moral foundation, many of our youth live in a bewildering world, without clear expectations, guidance, without structure, without having an understanding of what it means and requires to live successfully.

The Historical Role of Educational Institutions

Until the middle of the last century, universities and public schools saw their role as enabling both academic success as well as moral and civic development. Here is how Donald Harward of Harvard University describes the very foundation of our liberal arts institutions.

"There has been, and remains, a 'triad' of interrelated core purposes of liberal education: the epistemic (coming to know, discovery and advancing of knowledge and understanding); eudemonic (the fuller realization of the learner, the actualizing of the person's potential – classically, to achieve individual well-being and happiness); and the civic (the understanding that learning puts the learner in relation to what is other, to community and diversity, in the broadest sense, as well as the responsibility that comes from sustaining the community and the civic qualities that make both open inquiry and self-realization possible."

As just one example, founded in 1831, Denison University's mission is "to inspire and educate our students to become autonomous thinkers, discerning moral agents and active citizens of a democratic society." Clearly Denison's mission goes well beyond the epistemic or academic purpose.

This triad of core purposes was not confined to higher education. I have my great grandfather's McGuffey's Fifth Eclectic Reader, published in 1866. A quick review of it shows that most every lesson in it had some moral or civic lesson.

But starting in the middle of the 1900's schools began abandoning their role in moral and civic development. Why? Because most all of the moral and civic education was wrapped up in religion, specifically Christian religion … witness the McGuffey's Reader. Given the diversity of our society and the desire to reach everyone, such abandonment is understandable, and within our public schools, essential.

Reconsidering the Role of Our Educational Institutions

But I don't think religion has a lock on morality or on living responsibly to the common good. Religion is just one way to teach or live these virtues. We can help students develop a moral and civic framework for their lives without treading into religion. Kindness, forgiveness, gratitude, consideration for others, love … aren't these concepts universal and aren't they essential to not only the success of the individual, but to the success of a society as well? These, what might be called wellbeing skills, like the skill of math or history or basketball can be taught.

And here is the really exciting part … we are finding that when students learn and practice wellbeing skills, their ability to focus, to concentrate, to perform academically is significantly improved. It is no secret that when students are anxious, depressed, lonely, they struggle to focus on their academics. Teaching wellbeing skills and teaching numeracy and literacy are incredibly synergistic.

Positive Psychologists have been working to identify a universal code of wellbeing skills. They looked for virtues and character strengths that were respected across all cultures and across time. In 2006, under the leadership of Martin Seligman and Christopher Peterson, the Handbook of Character Strengths and Virtues was published identifying 24 character strengths, categorized within 6 virtues. The character strengths include bravery, integrity, persistence, love, kindness, citizenship, gratitude, among others.

These character strengths and virtues are playing a foundational role in the emerging field of Positive Education which seeks to combine academic skills and skills that foster wellbeing, all designed to enable students to "flourish." Here is how Felicia Huppert, a leading positive psychologist, defines flourishing:

“Flourishing is a combination of feeling good and functioning effectively. It is synonymous with a high level of mental wellbeing and it epitomizes mental health.”

Isn’t flourishing what we want for our youth … for ourselves? Yes, to flourish we need a foundation of literacy and numeracy, but don’t we also need good relationships, meaning, kindness, to care for one another, to be resilient?

Positive Education is mapping out curricula that combines academic and wellbeing skills. Some countries, particularly Australia, are well ahead of America in pursuing this. They are finding that when students experience education focused on wellbeing and academics, they outperform those who have just academic training, doing 11% better academically. Where wellbeing education has been effectively put into Australian public schools, students are 6 months ahead of others on their NETPLAN, their national testing standard.

Education should be an outgrowth of the society within which it exist. I think the dramatic challenges in student wellbeing cries out for us to reconsider the role and pedagogy of our educational institutions. I believe positive educators are showing us exactly how to do this.

I hope you found this of interest. If you have any thoughts, please share them.

Be well … better yet flourish.

J. Michael Locke
Musings

#254: Musing
March 3, 2024

I failed to write down the name of the author but liked this quote about today's financial markets – *"It sometimes feels as if we are living in a cartoon version of market capitalism, where shareholders have given up trying to control companies. Money floods into shares based on memes, is shifted around by algorithms based on past patterns, or goes into vast passive index trackers sold on the basis of being virtually free."* Our corporate governance model is premised on shareholders protected their investments by paying attention to what board members are doing and replacing them if they are not overseeing CEO correctly. With the arrival of passive index investing, most of this is gone. I think there are huge opportunities for activist investors to come in and shake things up at public companies where CEOs underperform but are not held accountable by their friends on the board.

Bitcoin has been on a tear. In the last year, it has gone from $20,000 to $62,000 with late momentum supported by the SEC approval of an ETF. I still agree with Jamie Dimon who calls Bitcoin a "pet rock" because it does nothing.

Is Apple smartly hanging back in the pack of the AI race or are they missing it? Of all the big tech companies, Apple (which ironically was early with AI with Siri) is furthest behind the recent surge in AI. Last week, they made a chess move cancelling their project to build a car and rotating those engineers to AI. It is often best to be the second mover in a new area. From Adam Grant: *"It is much easier to improve on someone else's idea then to create something new from scratch…..It can be better to be a procrastinator than a precrastinator."* The art form is to not wait too long before jumping in like the Kentucky Derby and waiting too long to go outside and make your run. This is part of Clayton Christenson's Innovators Dilemma. Technology adoption follows and S curve where early adopters try something new and there is hype and then it slows down but then hits an inflection point and is rapidly adopted. Apple might be too late?

Increasingly it is a competitive advantage to be a larger enterprise. The introduction of technology and the resulting explosion of data has created great opportunities to analyze the data and improve all aspects of your operation. The arrival of generative AI is only accelerating things. The more data you have on your customers (both your own and data purchased from third parties), the better you can attract and serve them. It is hard for the little guy to compete and more value will accrue to larger firms.

Some good quotes I heard this past week:

"One step back from a bad direction is a step forward." Scott Galloway discussing Apple cancelling its program to build a car.

"Comparison is the thief of joy." Morning Brew

“Fair isn’t same.” Maerry Lee on parenting her younger children complaining about their older sibling.

Sir Alex Ferguson was the record setting manager of Manchester United (the guy in the Beckham series). Here were his operating principles from an HBR article:

1. Start with a Foundation. Invest in young talent
2. Dare to Rebuild Your Team. Use data to manage forward and project the decline of talent. Step up and swap them out before they descend.
3. Set High Standards and Hold Everyone to them. Recruit “bad losers” and those with a passion for winning and a willingness to work hard. No exceptions.
4. Never, Ever Cede Control. This one may not apply as well in today’s corporate world but Ferguson refused to let any player challenge his authority. In the Beckham Netflix series, interesting to see Beckham call him “the boss.”
5. Match the Message to the Moment. “Few people get better with criticism. Most respond to encouragement instead.” Criticize if needed but do it privately
6. Prepare to win. It was assumed and the team developed confidence. He was willing to take unusual risks (like the Detroit Lions coach).
7. Rely on the Power of Observation. I like coaches who sit and watch and not necessarily constantly yelling.
8. Never Stop Adapting.

I think much of Ferguson’s model applies to business in America. Building a high performing organization is about selecting, growing and managing people. It is no different than building a great sports team. You have to be a good talent scout, put people in the right positions and help each of them get better. Too many people forget this basic construct.

Good HBR article on leaders-make-curiosity-the-core-of-your-organizational-culture. *“To unlock the potential of their institutions and the people within them, great leaders need to demonstrate consistent curiosity about their employees, customers, their own roles, and the changes occurring in their institutions over time.”*

From my perspective, the number one key to good leadership is to be curious and listen. You have to harness the thinking of all of your team (at all levels!) by asking questions. Often the best suggestions are those at the line level interacting with customers every day. This is why many good CEOs do these jobs when arriving at a new company (Best Buy CEO working on store….Uber CEO driving). I once made a management team all work the help desk for a couple hours fielding calls. Also, Don’t fall prey to only communicating via the chain of command. As an example, leaders should spend days calling on clients with the salesperson and not just hear things from the VP of Sales.

Studies have shown that leaders who use Firefox and Chrome browsers outperform those that use Microsoft Explorer/Edge and Apple’s Safari. The rationale suggested is that you have to push back against the system and the default browser installed (IE and Safari) and take time to switch over to Firefox/Chrome. Leaders don’t take something by default.

Good one from the new CEO of Macy’s in WSJ: *“It doesn’t take a lot of baking powder to make bread, but without it you don’t have bread.*" Details matter

If you have a friend using one of the GLP-1 drugs, suggest they get off. These are “forever drugs” as they suppress appetite while being used but once the individual stops it is back to normal. A 2022 Novo Nordisk study found that patients regained two-thirds of their weight a year after they stopped (WSJ). Insurance companies aren’t going to cover Ozempic et al. except for their on label use for diabetics or extreme obesity cases.

The Psychology profession is embracing our changing world. Telehealth has made state by state licensing of healthcare providers look antiquated. In Pyshology, 26 states now are part of a pact (PSYPACT) allowing psychologists in participating jurisdictions to practice across state lines, whether via telepsychology or temporary in-person practice. Thanks Dr. Maddie Locke.

Jml

J. Michael Locke
Musings

#255: Musing
March 9, 2024

Higher and really longer? The very successful investor Apollo group does not think interest rates are coming down anytime soon. Many have held the "higher for longer" view that markets were too ambitious in their expectation on Fed interest rate cuts this year but Apollo is one of the more bearish. I find their argument pretty compelling. It was only bolstered by strong Friday jobs report. *"The market came into 2023 expecting a recession. The market went into 2024 expecting six Fed cuts. The reality is that the US economy is simply not slowing down, and the Fed pivot has provided a strong tailwind to growth since December. As a result, the Fed will not cut rates this year, and rates are going to stay higher for longer. How do we come to this conclusion?*

1. The economy is not slowing down, it is reaccelerating. Growth expectations for 2024 saw a big jump following the Fed pivot in December and the associated easing in financial conditions. Growth expectations for the US continue to be revised higher
2. Underlying measures of trend inflation are moving higher
3. Supercore inflation, a measure of inflation preferred by Fed Chair Powell, is trending higher
4. Following the Fed pivot in December, the labor market remains tight, jobless claims are very low, and wage inflation is sticky between 4% and 5%
5. Surveys of small businesses show that more small businesses are planning to raise selling prices
6. Manufacturing surveys show a higher trend in prices paid
7. ISM services prices paid is also trending higher
8. Surveys of small businesses show that more small businesses are planning to raise worker compensation
9. Asking rents are rising, and more cities are seeing rising rents, and home prices are rising
10. Financial conditions continue to ease following the Fed pivot in December with record-high IG issuance, high HY issuance, IPO activity rising, M&A activity rising, and tight credit spreads and the stock market reaching new all-time highs.

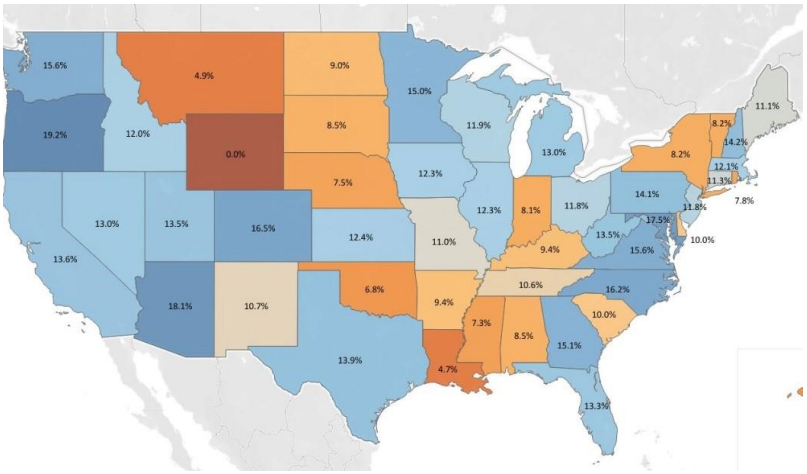
The bottom line is that the Fed will spend most of 2024 fighting inflation. As a result, yield levels in fixed income will stay high." Lots of charts and supporting data here the-fed-will-not-cut-rates-in-2024/

Wealth managers should start marketing to millennials. According to CBS News, millennials will inherit $90 trillion over the next 20 years. new-data-millennials-richest-generation-by-2044/ Thanks Matt Bailey.

Sometimes you have to slow down to speed up. You want to move fast but be thoughtful. *"It's way too easy to fall into the trap of non-stop activity in the belief that activity is a proxy for productivity when, in fact, it's as often simply a performative masquerade that's not even useful. Busyness isn't the same as business. If you allowed it, per Parkinson's Law, busy work and other wastes of time can easily expand to fill your days with lots of nothing of value."* This article gives some good tips. how-to-create-the-time-

you-need.html

Work from home is not a uniformly accepted practice. Interesting to look at how it varies by state. The map presented below illustrates the proportion of individuals who primarily worked from home in 2022, by state, specifically among professionals and office workers (from Burning Glass):



We need to create a whole new set of management techniques around today's hybrid/remote workforce. How do you measure engagement of the remote employee? How do you build community with zoom? We also need to figure out what "modality" a meeting should be. I hate the default to zoom and am pushing more phone calls. To quote this WSJ article: *"The teams I work with develop norms as to what's a phone call, what's a Slack, and what's a Zoom. Zoom shouldn't necessarily be a default."* hybrid-work-jobs-company-culture

Online retail does not mean the death of physical footprints. I wrote about JP Morgan Chase opening up new branches a couple weeks ago. Home Depot is building and I liked how their CEO put it (in WSJ): *"As much as we invest in our digital assets and, increasingly, delivery capabilities, our apps, [and] our outside field salesforces, the store remains the center of the ecosystem"*

I give McDonalds an A for their latest campaign. Leaning into the rising popularity of anime, McDonald's changed their name to WcDonald's in a brand new marketing campaign (look at the logo on your Diet Coke cup). WcDonald's has anime shorts, manga chapters, and new packaging to bring the franchise in a new direction. Good YouTube video on it. https://www.youtube.com/watch?v=VjQwq5Yv6kU Thanks Jenn Heiker.

I would sell Apple. Last week, I wrote about them falling behind on AI and potentially missing the S curve. iPhone sales in China were way down due to competition. Warren Buffett trimmed his position. Now, a new EU law (Digital Markets Act) is going to make Apple take down its 30% AppStore "toll booth" and require that they permit other ways to download apps, third-party processing of in-app purchases as well as easier browser choice. Fortnite maker Epic Games already building its owns app store.

Last week, I wrote that patients coming off Ozempic et al. put their weight back on. Thanks to Dr. Lyle Berkowitz for the rebuttal. He cited a "data study" done by the big electronic medical records company Epic which shows that many patients keep the weight off. I had cited a small pharma study. From Epic: *"Two-thirds of patients are able to maintain weight loss achieved while on semaglutide or*

liraglutide even a year after discontinuing the medication. However, a portion of patients who stop taking either medication experience weight regain, with 18.7% of liraglutide users and 17.7% of semaglutide users regaining all the weight they had lost or more." many-patients-maintain-weight-loss-a-year-after-stopping-semaglutide-and-liraglutide

We need to move out of the "segmented thinking" of working vs retirement. It is not a binary situation. Many (like myself) might not go to an office every day and receive a W-2 but not sure we fit the definition of "retired." I think this is a very attractive labor pool for companies to tap into as it usually is less focused on compensation and has enormous experience. Employers just need to adapt to the flexible, fractional employee who doesn't fit historical HR methods.

I liked this LinkedIn post from Kellogg professor Mohan Sawhney as he considers retirement. *"After some thinking, I came up with a framework that defines retirement, from my point of view. As I see it, retirement can be defined in terms of five shifts, or the "Five Do's". They are:*

1. *DO WHAT: From singular focus on your job to developing a portfolio of activities – physical, intellectual, experiential, relational, spiritual.*
2. *DO WHY: From making money and advancing your career to your passions and personal fulfillment.*
3. *DO WHEN: From being controlled by your schedule to controlling your schedule, your workload, and the cadence of your work.*
4. *DO WHERE: From a fixed location to a more flexible location that optimizes weather, family, and travel.*
5. *DO WITH: From a focus on your children and extended family to your life partner, if you are fortunate to have one.*

Here is my definition of retirement: "The act of broadening your activities and experiences on your terms in the pursuit of a meaningful and enjoyable life."

One reason to reject the "segmentation" approach is most of our older Americans do not have the money to completely retire. With the decline of pensions and lifelong healthcare benefits, Americans are dependent on accumulated savings often in 401(k) but not much is being saved. From FoxNews: *"In America today, almost 45% of older Americans between the ages of 55 and 64 have no savings at all and no idea how they will be able to retire….one out of every four senior citizens in America are trying to live on an income of less than $15,000 a year, while over half of our nation's seniors are trying to survive on an income of less than $30,000 a year."*

Interesting article that 401(k)s and their reliance on target date funds and passive equity ETFs means everyone is stuck together like socialism. Target date funds allocate money across asset classes (equity vs stock) based on the anticipated (target) retirement date. So a younger person gets more equity and a 60 yr old more fixed income. These are the common default investment by 401(k) administrators on part because they protect them from liability. The company isn't picking particular managers or stocks but default to everything on autopilot. Risk is this is setting us up for major volatility. is-your-401-k-destroying-capitalism

Be careful about emailing your doctor. Payors are starting to charge for that response. From Morning

Brew: *"The typical cost of an email message claim was $39 in 2021, including both the portion paid by insurance and by the patient, according to a Peterson-KFF Health System Tracker analysis."*

I have written a lot about the epidemic around our youth and mental health. Big Tech and their dopamine release-designed tools are playing to the worst parts of adolescence around friendships, body image, and FOMO. Schools can play a positive role fighting this. One school I am involved with (Bennett Day School) has no letter grades in K12 for the college prep crowd to obsess over. They leverage project-based learning so kids are active and engaged rather than passive recipients directed to sit still and be compliant. The result is students are actually happy and describe school as challenging, fun, and collaborative. Bennett kids are six times less likely to have stress-related health issues than most students who associate school with being tired, bored, and stressed according to a study from Stanford. No surprise that applications at Bennett are up over 25% this year.

I am a big believer in dog ownership. About 45% of US households have dogs. I even think you can interpret something about a family based on the kind of dog or if there are multiple dogs. If you are getting a puppy, here are the top names according to US News and Report:

1. Bella
2. Luna
3. Max
4. Daisy
5. Charlie
6. Coco
7. Buddy
8. Lucy
9. Milo
10. Bailey

So depressing that our choice is Biden or Trump. The two party system is broken. Ranked-choice voting is complicated but it also would solve things. ted.com/talks/katherine_m_gehl_us_politics_isn_t_broken_it_s_fixed

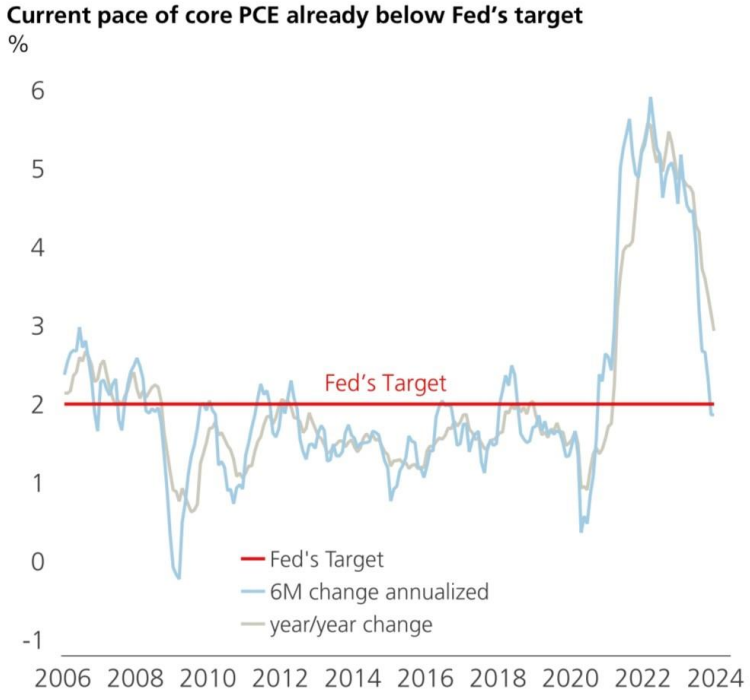
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J. Michael Locke
Musings

#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 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

J. Michael Locke
Musings

#257: Musing
March 23, 2024

March 15th marked the fourth anniversary of these musings. As many know, it started with some emailed advice to CEOs of companies where I was an investor/board member at the onset of Covid and then grew and expanded over time. Fun to look at the first email on March 15, 2020:

You guys are all leading companies at this unprecedented time. Here are my 2 cents.

Watch your liquidity — run sensitivity models. Business (and society) is coming to a halt. You likely have no visibility. People are not focused on making buying decisions. Bookings will dry up. Halt any hiring.

I assume everyone has already moved to remote work. Keep people connected. Host synchronous sessions. Over communicate. Daily virtual huddles at the department level. My point is don't let team get "disconnected".

Lean in and help customers if you can. Call client CEOs and check in. Show you care.

Innovate! You are all leaders in technology. Society just became more tech centric (I had a virtual cocktail party last night with FaceTime). Now is a time to quickly adjust, innovate using technology and lead. Speed is key.

Watch your bandwidth. Networks are going to get stressed. Make sure you have enough.

Personally I think the health aspect is overblown and this is a bad storm that will blow over in 3-6 months.

Hope this unsolicited advice might be helpful.

Obviously, I got the length of the health crisis wrong but otherwise feel good about what I recommended. I think it is a helpful practice to go back and relook at things. Good private equity firms go back to their "underwriting case" and see what they got right and wrong about an investment.

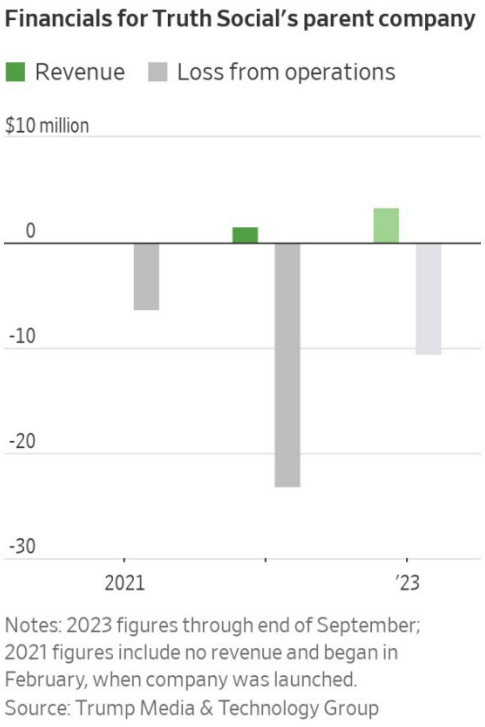
Japan is another reason for a "higher for longer" view of interest rates as it relates to long end of yield curve. Remember that the Fed more directly controls short term rates by setting the rate at which banks can borrow from it overnight but longer term rates are set by supply and demand in the market for things like 10 yr notes. Technically, the longer durations should represent the compilation of expectations on short term rates over time but that assumes no exogenous dynamics for buyers and sellers. Japan has made a comeback for the ages. After decades of negative interest rates (that's right, you were punished for saving and thus strongly encouraged to spend) and yield curve control, the government is letting the market take over. The Japanese equity market is rolling and its economy is

growing. The reason it is relevant for "higher longer" is that Japan is the largest overseas holder of US treasuries. As they have other options for their money, this reduces demand for treasuries (just like the Fed reduction of purchases) and will put upward pressure on rates counterbalancing the anticipated Fed reductions.

Mortgages also likely to stay higher for longer. The Fed was artificially keeping rates low by buying mortgage bonds which it is going to stop. I would not bank on mortgage rates coming down materially even as the Fed cuts short term rates. Fannie Mae just increased its prediction of where mortgage rates will be at year end from 5.9% to 6.4%.

How do you set a price target for Bitcoin? It has no inherent value.

Another example of inefficient markets is Trumps social media company — Truth Social. It merged with a SPAC at a $5bn valuation. Here are the financials — I say it is worth nothing.



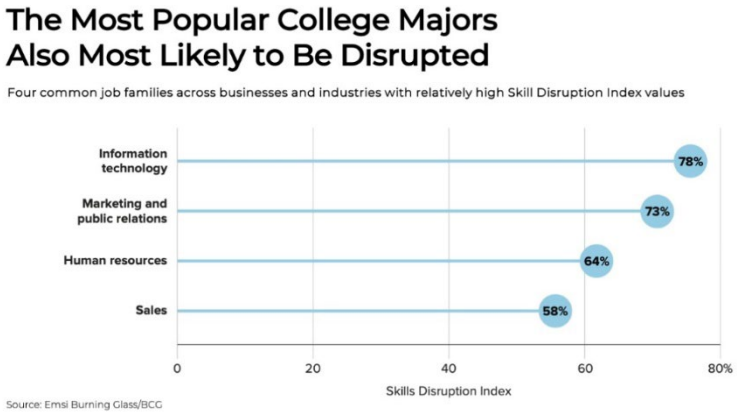
Notes: 2023 figures through end of September; 2021 figures include no revenue and began in February, when company was launched.
Source: Trump Media & Technology Group

Technology and social media are creating the most "connected" generation but also the most lonely. True connection comes from physically being together and participating in institutions like church or school or athletics.

Dell announced that remote workers will not be eligible for promotion as another example of an employer trying to drive people back into the office. Interesting data from Chicago recruiting firm Hirewell on what they are seeing:

1. 2021 - 65% of the roles filled were remote
2. 2022 - 59% of the roles filled were remote
3. 2023 - 3/2024 - 33% of the roles filled were remote.

Crazy but one of the jobs most susceptible to elimination by Ai are tech workers. Look at this chart from



A company released an AI software engineer. That is right, AI does the coding. *"As a consequence, anyone with access to Devin can now run their own software development outfit without knowing how to code a line on their own. All that is needed is a vision and an aptitude for product and project management."* what-devin-means-to-software-companies-and-why-every-ceo-should-care. Thanks Jake Bonifield.

Nvidia itself has teamed up with a startup to release an AI nurse which operates for $9 an hour doing virtual visits.

Back to the loneliness noted above, there is a whole category called "AI companion apps." It is a visual version of the movie Her.

Good quote from Morning Brew: *"Dell, the maker of computers for people who have to wear ties to work,"*

It will be interesting to see the new business models which emerge in the real estate agent world. As you likely read, a lawsuit has ended the mandated practice that buyers agents get 1/2 of the commission from sellers agent. Buyers will now have to figure out what "deal" they want with their agent (if they want an agent at all). I think Zillow and the ability of any buyer to find what is for sale has reduced the value of representation. Agents greater value now is around pricing and negotiating (vs marketing or finding) and not worth 3% of the price. Personally, I think real estate agents also have artificially benefited from rising house prices which led them to make more money for the same amount of work. Watch the fixed price models gain speed.

Growth creates opportunity. We are encouraging our children to move out of Illinois and head south where cities and states are growing. That opens up job opportunities, new entertainment options and better fiscal finances through growing tax revenue. Here is a table from the WSJ on top and bottom markets:



I hate self-promoters. Humbly do your job well and it will get noticed. Avoid working with people who tell you how good they are — sorry Kara Swisher.

I often write about the importance of active listening. If you are talking, you are not learning. Listening also signals to the other person how you care about what they have to say. Bill Clinton was famous for his focus on the individual he interacted with and how he left them feeling heard. This stands in contrast to Anthony Scaramucci's description of "windexing" at Davos where everyone is looking over your shoulder as you talk to them like you are a window. Interesting tidbit from Doug Smith: *"Researchers suggest that our minds can handle about 140 bits of information a second. Casual conversation requires about 40 bits of information a second. So when someone else is speaking to us, we basically have 100 bits of information that is free to do other things….we can use that to thing about what will happen later in the day, reminisce about something that happened months ago……if we take all of our 140 bits of information capability and really listen, it can have a profound effect on us and those with whom we interact. People want to be appreciated, perhaps more than anything."*

Watch the Don Lemon interview with Elon Musk. Captures the different perspectives on policy questions well.

jml

J. Michael Locke
Musings

#258: Musing
April 14, 2024

Haven't written in a couple weeks. Simply didn't have much to share.

So much for rate cuts. I am joining the group thinking the Fed won't cut rates at all this year (Larry Summers thinks the next move will actually be a rate hike). Hope you bought gold at beginning of the year. Put simply, the economy is showing good strength even with the higher rates and the deceleration of inflation has stalled out over 3%. More specifically, we recently had a good jobs report with these highlights from CNBC:

1. Nonfarm payrolls increased 303,000 for the month, well above the Dow Jones estimate for a rise of 200,000.
2. The unemployment rate edged lower to 3.8%, as expected, even though the labor force participation rate moved higher to 62.7%.
3. Wages rose 0.3% for the month and 4.1% from a year ago, both in line with Wall Street estimates.

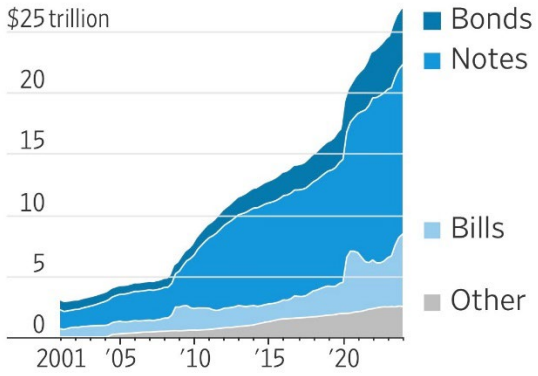
Then we had a higher than expected inflation report with CPI up 3.5% which was an acceleration from recent months. Good to see wage growth rising faster than prices so real wages are up.

Back to Larry Summers, he and colleagues wrote an interesting paper published by the National Bureau of Economic Research by Larry Summers et al. which helps explain the consumers negative perception despite strong economic fundamentals (https://www.nber.org/papers/w32163). The issue is our metrics measure the costs of things but not the cost of financing them. *"Unemployment is low and inflation is falling, but consumer sentiment remains depressed. This has confounded economists, who historically rely on these two variables to gauge how consumers feel about the economy. We propose that borrowing costs, which have grown at rates they had not reached in decades, do much to explain this gap. The cost of money is not currently included in traditional price indexes, indicating a disconnect between the measures favored by economists and the effective costs borne by consumers. We show that the lows in US consumer sentiment that cannot be explained by unemployment and official inflation are strongly correlated with borrowing costs and consumer credit supply. Concerns over borrowing costs, which have historically tracked the cost of money, are at their highest levels since the Volcker-era. We then develop alternative measures of inflation that include borrowing costs and can account for almost three quarters of the gap in US consumer sentiment in 2023. Global evidence shows that consumer sentiment gaps across countries are also strongly correlated with changes in interest rates."*

Interestingly, there is an underlying shift toward part-time jobs which is not covered by mainstream press. From zerohedge.com, *"since March 2023, the number of full-time workers has collapsed by 1.347 million while the number of part-time workers exploded by 1.888 million"* (thanks Steve Peake). I think this is part of a broader shift in how people look at work and how companies manage their labor needs. The increase in labor supply is mostly coming from immigration (which is good!).

The long end of the yield curve will also stay high because the federal government has to borrow so much. The amount of borrowing by our federal government is crazy. We need Erskine Bowles and Alan Simpson back. Look at this chart:

U.S. Treasury debt outstanding



Note: Marketable debt only
Source: Treasury Department

The budget office announced that for the first six months of Fiscal 2024, interest costs on all of this debt increased 43% and we are now spending more on interest payments than the department of defense according to the WSJ.

Here is an interesting excerpt from Jamie Dimon, the great CEO of JP Morgan Chase: *"In spite of the unsettling landscape, including last year's regional bank turmoil, the U.S. economy continues to be resilient, with consumers still spending, and the markets currently expect a soft landing. It is important to note that the economy is being fueled by large amounts of government deficit spending and past stimulus. There is also a growing need for increased spending as we continue transitioning to a greener economy, restructuring global supply chains, boosting military expenditure and battling rising healthcare costs. This may lead to stickier inflation and higher rates than markets expect. Furthermore, there are downside risks to watch. Quantitative tightening is draining more than $900 billion in liquidity from the system annually — and we have never truly experienced the full effect of quantitative tightening on this scale."*

I try to invest around major trends I see playing out in society. While I don't keep formal lists, I thought I would share some of my thinking on places to invest. Pretty simple, and not particularly insightful, but thought I would share.

1) *Healthy eating*. Many people (especially women) have historically focused on health as it relates to what they eat. I think that is quickly becoming the majority of people including men. People are avoiding sugar. Men are drinking non-alcoholic beer (the fastest growing beer is NA from Athletic Brewery) and high noons. Demand in groceries stores is moving from the center isle of processed foods and boxes to the outside with fruits and other fresh foods. Protein is taking over carbs (Greek yogurt and chicken) so short the endless breadsticks. The future looks good for Chipotle, Freshii and Cava but not so hot for Pizza Hut.

2) *Death of degrees*. Universities have priced themselves out of relevance as they mismanaged their cost structures subsidized by the federal government's student loan programs. *"According to the College Board, average annual private school tuition is about $56,190; it's $24,030 at four-year public colleges for in-state students. What's more, the average coupon in the form of a tuition discount that families get at a private college is now around 56% off"* (Jeff Selingo). The shortage of labor means that degrees are no longer necessary to get a good job. People are moving to skills-based hiring. Degrees used to signal to the labor market an assume set of competencies that made the graduate a better worker. Now, it signals proficiency in beer pong and funnels for many. Google is the largest educator in the world through their free certificates. Vocational focus is coming back (plumbers are crushing it) and high schools are going to start offering more STEM for people to go straight to work without getting a degree. It is about certificates and competencies. The "Carnegie unit of credit" is silly and dying (by the way it was created as a measure of labor hours not learning). The number of students earning a degree is falling by 2.8% according to National Student Clearinghouse.

3) *Cloud / Data / AI.* The growing sophistication and ease of access to technology through SAAS models means it is becoming ubiquitous. Large on prem infrastructure has given way to a dynamic capacity cloud model. Technology is everywhere creating volumes of data to be analyzed to improve business processes and customer value propositions. Every business model must now have virtual delivery. "In place" businesses must adapt whether it is shopping malls or commercial office space. Short real estate. The AI boom is just beginning allowing a total reset of labor models. You can control your car through an app and customize your food delivered to your door. See commentary from Jamie Dimon on what JP Morgan is doing with AI after my initials below. Here is what Amazon CEO Andy Jassy wrote in his annual letter: *"Generative AI may be the largest technology transformation since the cloud (which itself, is still in the early stages), and perhaps since the Internet. Unlike the mass modernization of on-premises infrastructure to the cloud, where there's work required to migrate, this GenAI revolution will be built from the start on top of the cloud. The amount of societal and business benefit from the solutions that will be possible will astound us all."*

Interesting quote: "Data is the new oil" (Morning Brew). The big LLM models need data to continue learning and are running out.

4) *The rise of HR.* Success is all about talent acquisition and retention. Increasingly that involves different work models like part-time employees or offshoring. Economic leverage is moving to the worker due to labor shortages. Companies need better employment marketing and recruiting. HR is moving from a "staff function" under the CFO to an executive level and strategic position reporting directly to the CEO. Look for an increase in CEOs coming from HR. Women will outexecute men based on their better emotional intelligence (huge generalization but you get my point).

Another contributor to the growing strategic value of HR is company culture. While hard to define, it is really important. For example, clearly the culture of Boeing got "off track" with a focus on financial metrics over quality and safety. Culture gets set by the actions of the CEO and other executives – not what they say but what they do. It is culmination of a ton of small things. Reserved parking spaces, limited accessibility and use of "I" would point to a centralized control, authoritarian culture. Employee empowerment, expressions of gratitude and management engaging at the retail level points to a servant leadership culture. I am a big fan of an entrepreneurial culture with the following attributes:

1. Individual accountability with all efforts having a single individual responsible
2. Smart risk-taking

3. Fast / urgent / intense
4. Engaged 24x7 with emails and calls outside of 9-5 and on weekends
5. Focus on what creates value and deemphasizing activities which keep people busy but aren't critical
6. Conflict not avoided but taken straight on
7. Market – focused with constant looking at competition and consumer/client behavior
8. Use of data to make informed decisions
9. An "ownership" mentality where employees acts as they would if they owned the business

Capitalism is the best system in the world. Unfortunately, human's leaning into greed and consumerism can lead to a proliferation of purchasing. Like many who are blessed, we have too much stuff. There is something beautiful in just saying "enough" and simplifying. It wasn't always this way. From Rishad Tobaccowala, "*According to the Organizer Chicks Blog: "In 1960, the average family had 2.4 children, and the average home was around 1,100 square feet. By 2010, the average American family had only 0.9 children and 2,300 square feet. So, as a country, we have fewer people living in more square feet than ever before."….and …According to the National Association of Productivity and Organizing, 75% of American households can't park even 1 car in their two-car garage."* This all reminds me of the old George Carlin skit on stuff…. https://youtu.be/MvgN5gCuLac

RIP Daniel Kahneman. A nobel winning economist, Kahneman refuted the assumption that individuals all behave rationally according to economic principles. *"Dr. Kahneman presented his ideas to a general audience in "Thinking, Fast and Slow," which distinguished between two modes of thought: System 1, in which the mind, acting quickly, relies on intuition, immediate impressions and emotional reactions; and System 2, in which the mind, slowing down, functions more rationally and analytically and is able to correct errors made by System 1. Much of the time, Dr. Kahneman argued, the mind works in System 1 and draws conclusions using System 1's toolbox: rules of thumb, cognitive biases and anything else that speeds up the judgment process."* *https://amp.cnn.com/cnn/2024/03/28/world/daniel-kahneman-nobel-winner-death-intl-*

Some return of humanity to our world recently. I found the eclipse underwhelming but it was great to see folks of all types/background outside sharing in something. Similarly, the NCAA women's basketball tournament was a breath of fresh air (and definitely better than the men's). Congratulations to South Carolina. Will be interesting to see if the momentum carries over to other women's sports. These two experiences showed the power of shared human experiences which are so limited in today's tech-centric polarized world.

Rip my first professional mentor Bob Craft. A wonderful man and accomplished lawyer. Taught me to "always go to weddings and funerals" and to invest in younger talent. https://www.legacy.com/us/obituaries/nytimes/name/robert-craft-obituary?id=54814875

Jml

More from Jamie Dimon annual letter:

THE CRITICAL IMPACT OF ARTIFICIAL INTELLIGENCE

Since the firm first started using AI over a decade ago, and its first mention in my 2017 letter to shareholders, we have grown our AI organization materially. It now includes more than 2,000

AI/machine learning (ML) experts and data scientists. We continue to attract some of the best and brightest in this space and have an exceptional firmwide AI/ML and Research department with deep expertise.

We have been actively using predictive AI and ML for years — and now have over 400 use cases in production in areas such as marketing, fraud and risk — and they are increasingly driving real business value across our businesses and functions. We're also exploring the potential that generative AI (GenAI) can unlock across a range of domains, most notably in software engineering, customer service and operations, as well as in general employee productivity. In the future, we envision GenAI helping us reimagine entire business workflows. We will continue to experiment with these AI and ML capabilities and implement solutions in a safe, responsible way.

While we are investing more money in our AI capabilities, many of these projects pay for themselves. Over time, we anticipate that our use of AI has the potential to augment virtually every job, as well as impact our workforce composition. It may reduce certain job categories or roles, but it may create others as well. As we have in the past, we will aggressively retrain and redeploy our talent to make sure we are taking care of our employees if they are affected by this trend.

Finally, as a global leader across businesses and regions, we have large amounts of extraordinarily rich data that, together with AI, can fuel better insights and help us improve how we manage risk and serve our customers. In addition to making sure our data is high quality and easily accessible, we need to complete the migration of our analytical data estate to the public cloud. These new data platforms offer high-performance compute power, which will unlock our ability to use our data in ways that are hard to contemplate today.

Recognizing the importance of AI to our business, we created a new position called Chief Data & Analytics Officer that sits on our Operating Committee.

Elevating this new role to the Operating Committee level — reporting directly to Daniel Pinto and me — reflects how critical this function will be going forward and how seriously we expect AI to influence our business. This will embed data and analytics into our decision making at every level of the company. The primary focus is not just on the technical aspects of AI but also on how all management can — and should — use it. Each of our lines of business has corresponding data and analytics roles so we can share best practices, develop reusable solutions that solve multiple business problems, and continuously learn and improve as the future of AI unfolds.

Clearly, AI comes with many risks, which need to be rigorously managed.

We have a robust, well-established risk and control framework that helps us proactively stay in front of AI-related risks, particularly as the regulatory landscape evolves. And we will, of course, continue to work hard with our regulators, clients and subject matter experts to make sure we maintain the highest ethical standards and are transparent in how AI helps us make decisions; e.g., to counter bias among other things.

You may already be aware that there are bad actors using AI to try to infiltrate companies' systems to steal money and intellectual property or simply to cause disruption and damage. For our part, we incorporate AI into our toolset to counter these threats and proactively detect and mitigate their efforts.

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."

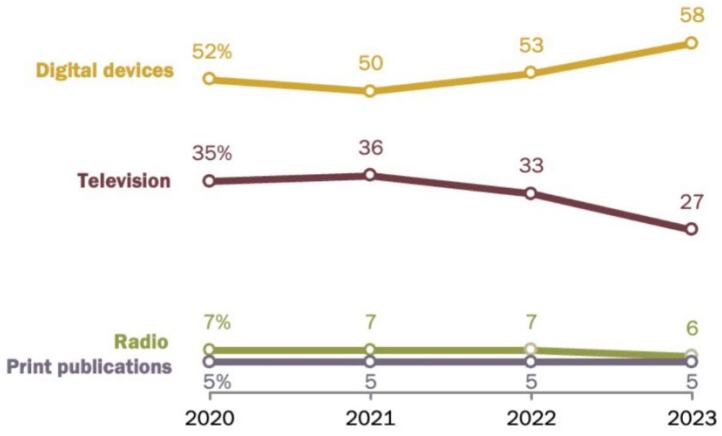
Our scientists don't get enough credit. Our society is now obsessed with the impact of GLP-1 drugs (ex. Ozempic) on our chronic obesity. Credit John Eng in the Bronx. GLP -1 drugs had been known for a while to increase insulin and reduce blood sugar but they rapidly get broken down by enzymes in the 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."

J. Michael Locke
Musings

#260: Musing
April 28, 2024

Initial estimate of first quarter GDP came in at 1.6% growth while inflation was higher at 3.7%. These numbers often get materially revised so need to be careful but looks like things are slowing down but inflation stuck so rates will stay higher for longer.

Great quote from Professor Jeremey Siegel at Wharton reminding us that the Fed left the punch bowl at the party way too long with low interest rates and the belief that inflation was "transitory." For those lauding Fed Chairman Powell now, Siegel says *"Giving Powell a Nobel prize would be like giving the prize to a drunk driver that ran over a pedestrian but got him to a hospital in time to change his life"*

An underappreciated skill is communicated with brevity. Too many professionals created volumes of powerpoint and long emails/memos. Jamie Cowie shared the saying – "I would have written you a shorter letter if I had more time." This is especially true with the rewiring of our kids brains thanks to technologies like TikTok and Twitter. Their neural pathways are literally are developing differently and their content consumption patterns are in smaller "bites" like 20 second videos or 140 characters (or one page musings). This is not healthy but a reality so don't communicate with 50 pages of powerpoint. I also think we will see things like classes reduced from their current hour to 30 minutes or so. Ted talks are a maximum of 18 minutes long but many are less than 10 "in order to uphold Ted's celebrated format of concise and enlightening talks."

Great quote from executive Don Doctor: "to understand someone else is wisdom, to understand yourself is true enlightenment."

Don't send your kids to the "Communist Coachella at Columbia" or many other elite institutions which I believe have lost their way. Based on our country's history, most of these are older institutions in the Northeast. Even as a graduate of one, I think the days of the "Ivies" are over (as I write this is beautiful from beautiful Oxford, Mississippi and the thriving campus of Ole Miss where the freshman class is up 20%). Our daughters (TCU / Ole Miss) are not an anomaly. From the Free Press: *"An unprecedented number of students are gravitating away from Ivy League universities and looking to Southern colleges that wouldn't have been on their radar twenty years ago. The exodus is fueled, sources told me, by warmer weather, great college sports, and a more relaxed atmosphere, which stands in stark contrast to the Covid restrictions many Northern universities put in place from 2020–2023. Elite colleges in the North often had the strictest Covid policies—from requiring students to wear masks at all times to limiting gatherings, inside and out, to five people—while Southern universities from Florida to Alabama to South Carolina allowed students to congregate in large groups, neither masked nor socially distanced."*

All colleges are going to suffer this year from the government's incompetence with the new FAFSA roll-out. As I have previously written, this is the federal form families fill out with income information which determines their level of "need" and thus eligibility for federal government grants and subsidized

loans. Congress passed a law years ago to simplify this form especially to help first generation college aspirants. The Department of Education (specifically, the Office of Student Aid or FSA within the DOE led by Richard Cordray of CFPB fame) botched the software rollout leading to delayed and now wrong analyses families. Schools use the EFC (expected family contribution) metric to determine their aid packages so students don't know what money they are getting and the traditional deadline for committing is this week. Many schools are pushing their deadlines. It is a mess. Thanks government.

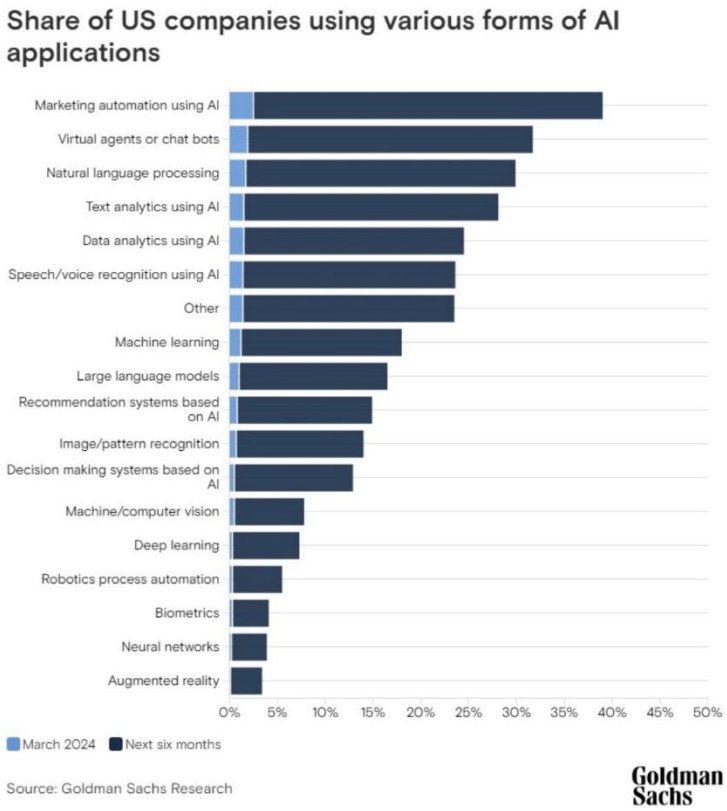
As a society, we have go to figure out how to embrace the great development of equal opportunities for women in the workplace while at the same time encouraging women to have more kids. This is part of why I support the movement to remote and hybrid work. I don't think it benefits the employer but it makes family management easier. The federal government reported last week that the average number of kids born per woman (the fertility rate) dropped to 1.62 in 2023 which is the lowest since the government started tracking in the 1930s. The "replacement rate" to maintain our population size is 2.1. Only immigration right now is saving us from a dangerous decline in our aggregate population. It is dangerous because economic growth depends on the size and productivity of your workforce. One newer savior may be the productivity gains coming from AI.

Speaking of remote work, congrats to my friend Joe Brady and the upcoming publication of his new book: "Work Shop – the consumer-centric reshaping of commercial real estate." Here is a quick summary: *"The book delves into the migration of "shop" and "work" from nouns to verbs, illustrating how these activities are no longer tied to specific places but have become fluid actions that can be performed anywhere. The rise of e-commerce has revolutionized the retail industry, allowing consumers to shop from the comfort of their homes, while hybrid work models have blurred the lines between the office and the home, enabling people to work remotely. The author argues that e-commerce and hybrid work are two sides of the same coin, both driven by the demands and preferences of the modern consumer. As technology continues to advance, consumers are increasingly seeking convenience, flexibility, and personalization in all aspects of their lives. This shift in consumer behavior has far-reaching implications for the real estate industry, forcing developers, investors, and businesses to adapt and innovate to meet the evolving needs of the market."*

Along with consuming content differently and working from home, the younger side of our workplace doesn't want a boss. They have grown up as kids who negotiated with their parents and got timeouts instead of spankings. Technology has allowed them to get things exactly like they want (I wasn't allowed to special order food as a kid). The result is they don't like being told what to do and these folks have the leverage. The aforementioned decline in the volume of workers is giving talented employees the power to work how they want. The military model of leadership is gone and we now live in the "debossification" era. From Rishad Tobaccowala: *"In many industries particularly "White-collar" ones the era of "bosses" is in decline. There is a rise in the need for leaders, guides, coaches, mentors, role-models, creators, and builders. Less of a clamoring for bosses, managers, controllers, monitors, evaluators, and paper pushers. This shift has been driven by changing demographics, the spread of technology, the rise of unbundled and distributed work, new behavior expectations, and a re-definition of what "work" is including the rise of fractionalized and free-agent talent who work for themselves or at multiple jobs and are expected to comprise most of the work force in the US by the end of the decade. Once upon a time a manager controlled the flow of information, access to opportunities and was a font of expertise and craft. Today the half-life of knowledge is growing shorter and shorter and the "way of this is the way things were done" is often the opposite of what needs to be done as new competitors and customer expectations do not care a fig about the way it was or is. AI will turbo-charge this change in ways deeper and faster than anyone of us can even comprehend as the cost of knowledge goes to zero*

and enables talented individuals to combine, re-combine, scale and re-invent in new ways. Talent can find information, opportunity, and knowledge at a click of a mouse, a sharply written prompt or the pinch of a finger. The unbundling and distribution of where and when we work has just begun and culture, teams and excellence will need to be cultivated across time and space with limited in-person interaction as the age of AI, Web 3, XR will make working anywhere and everywhere increasingly the default state in white collar industries making old-fashioned monitoring, controlling, and overseeing difficult."

Get smart on AI! It is about to drastically change many job functions. Interesting chart from Goldman Sachs:



With the boom in datacenters to support AI and the growing volume of electric cars and other electric products (lawn equipment etc.), the demands on our electrical grid are growing and it may not keep up. I like this note from Scott Galloway on our underpreparedness. *"One of the looming threats to our economy that doesn't get enough attention is the state of our electrical grid. The average transformer is 40 years old; moreover, our grid was built for a more stable climate and a world run on fossil fuels. The massive Texas blackouts in 2021 cost the state $90 billion and killed 240 people. Since then, the state has mainly built additional natural gas backup generators, doubling down on the system that didn't work in 2021"* Get your natural gas powered generator.

Hotty Toddy

jml

J. Michael Locke
Musings

#261: Musing
June 16, 2024

Happy Father's Day

I am back. Just got consumed in personal and professional things. Congrats to our daughter Cate on her college graduation from TCU (awesome school — I am a 10 on Net Promoter), to our son Graham on his high school graduation (off to DePauw) and our nephew Andrew (off to Ole Miss). RIP my mentor Bob Craft. Nothing in life like fighting a 130lb Tarpon and watching it get eaten by a shark or hearing a loon call at sunset in Northern Minnesota. Now to the point of the musings:

I never had a chance to write about the FTC and noncompetes. Roughly 20% of workers are subject to some kind of noncomplete which limits the employee's ability to work for a competitor of their current employer. For senior people and those receiving free equity via options etc., these make a lot of sense. Courts have always been wary of limiting labor mobility and have tried to keep these limited in their scope (geography, time, definition of competitive). The FTC decided (which means Lina Khan decided) these held back wages and passed a rule making them illegal across the board. It is unclear to me how a federal agency with one powerful person uses executive action and rewrites a rule across the whole economy. Whether you like them or not, this is about decision rights. This action is for Congress and not Lina Khan.

Inflation is killing consumers. It does not mean the economy is bad (to the contrary, it means too much demand against supply). American house prices are up 47 percent since the start of 2020. Most homeowners have a cheap mortgage so can't afford to move leading to a major shortfall in "for sale supply" which props up prices. Grocery bills are crazy. Higher rates should slow down the economy but inflation stuck at 3% plus due to housing and labor. The structural shortage of people in the labor market will keep wagesup. I am not sure we will see even one cut this year.

Ai and LLMs are going to drastically change the search market. Google has over 90% share and delivers you links to relevant sites. That's changing. Search in the future is going to give you answers. Marketers need to learn the new skill set of how to optimize their websites for the LLMs and not for Google search engine. Article here: how-marketers-can-adapt-to-llm-powered-search

I have written about supporting remote work due to the benefits for family management not the employer. I share the view of many that it also hinders professional development. Good article in WSJ from the guy who reversed the downward path at IBM a couple decades ago and was very successful. (thanks Dave Galliher). we-need-leaders-so-get-back-to-the-office-remote-work

There is a discussion in higher education about "flipping the classroom" where content transfer happens outside of the classroom (read lecture notes, read the book, watch a video) and classroom time is an exchange between people who have already absorbed the material. I think business meetings should be

the same. Presentations should be sent early and even emails can lay out positions for one on one meetings. Attendees then enter the meeting having absorbed the relevant content and you discuss, debate and decide.

The recent earnings season was all about capex for big tech (Meta is going to spend $35 - $40 billion on Capex this year!). Accounting reminder — Capex goes onto your balance sheet and is not on the income statement. It is then "amortized" across the useful life of the asset conceptually to match it up with the revenue it supports. However, the cash flows are not matched — Capex is cash out the door now. Increasingly, Capex is not hard assets like machines (thus the term capital expenditures) but more commonly now is labor expenses which go into developing a product for the future like AI. Start your review of financials on a tech company with the balance sheet and look at how much software development is capitalized (thus leading to higher profits). Easy to lose sight of this major expense especially as the private markets have historically traded on EBITDA which does not factor in capex. Warren Buffet once said *"Does management think the tooth fairy pays for capital expenditures?"* It is even worse with "adjusted ebitda" where nonrecurring charges are taken out. Important in today's world of high interest rates to focus on actually cash flow. There is a lot of room between adjusted ebitda and free cash flow.

I have never seen a formal study but anecdotally I think business leaders are usually not the front row A students from college. Why is that? One theory is that A students are usually anxious people who over study and over prepare. Leadership invokes motivating a team, taking some risk and being someone people want to follow. These people are more likely to be their sorority recruitment chair than valedictorian. I also think most business leaders are not from the nation's "top schools" so parents should let their kids pick the school they like and have fun. People also follow positive people. The field of positive psychology is booming (our daughter Cate's focus of her Masters work). Interesting article on the "macronutrients" of happiness describing how happiness is not a state you arrive at, but a way of living. arthur-c-brooks-the-3-macronutrients-of-happiness

I am no health nut we could all eat better. According to the New York Times, 67% of calories consumed by children and teenagers in US is ultraprocessed foods. Some folks gave Michelle Obama a hard time but she was right to try and get healthier food served at schools.

The rates of breast cancer among young women are rising. Insurance policies need to change to cover mammograms earlier. Since most young women do not get regular mammograms, the tumors get diagnosed later in their development. Rates are materially higher for young black women. Interesting report for Washington University's cancer center (which is rapidly becoming one of our nation's best). breast-cancer-rates-increasing-among-younger-women/

Kids with ADHD is also way up. Some of this is the changing scale of diagnosis and some of it is due to technology and the rewiring of our kids brains. I share this author's view that we are too quick to apply a pharmaceutical fix. An interesting excerpt from Morning Brew:

"One in ten American kids has an ADHD diagnosis: *We knew ADHD diagnoses were being handed out freely these days, but a new study finds that more than one in ten Americans between the ages of 5 and 17 have been diagnosed with the condition. To us, at least, that's a shockingly high figure. Abigail Shrier, whose new book Bad Therapy* is about what she sees as the pathologization of ordinary childhood behavior, thinks the study shows that we're too quick to diagnose the disorder. Here's what Abigail told us: *We should be asking what's in American kids' environments that's making them so hyperactive? Are*

they spending too much time on the iPad? Is their classroom cluttered and filled with distraction? Are they eating two Krispy Kreme doughnuts for breakfast? Instead, we hand them a diagnosis and put them on speed. But handing kids a diagnosis for a mental disorder is not a neutral act: it's telling a child there's something wrong with his brain, something he can't fix on his own."

jml

J. Michael Locke
Musings

#262: Musing
June 23, 2024

Inflation is driving a big "price trade down" where consumers are looking to buy the cheaper version of a product if the higher price is not justified by a quality differential. One big area of growth is private label brands from retailers like Costco (I.e. Kirkland) or grocery stores. For those in Chicago, I bought Binny's vodka recently at fractions of the costs of Tito's. Amazing how this area has developed as the "generic aisle" in the grocery store growing up was one to be avoided (even though many of the products were made by same high-price branded suppliers). Just needed better marketing. Good article in WSJ. store-brand-products-market-share

All companies need to be looking at their pricing and ensuring they effectively communicate value. You don't necessarily have to cut price if the value is there, but you must make it clear why you are better than the cheaper alternative.

A basic good executive skill is simple project management. Run a process with discrete timelines and checkins. Look at drafts along the way. Set a deadline with a little cushion from real deadline in case something goes wrong. Finish the ultimate work product early ahead of deadline.

I am also a big proponent of over communication. Let people know what's going on. Mix up your modality —- emails, voice recordings, meetings. Especially if you are in a period of transition or fragility, constituents will be anxious and want to know.

You can get a good feel for a company just by its office space. Fancy offices should be avoided as they indicate a misallocation of resources (even service providers like law firms --- my reaction to their usually elaborate offices is that my legal fees are paying for it!). I passed on a venture capital opportunity when I visited their fancy office – young companies should be scraping by as good stewards of capital. Good "workmanlike" space --- not shabby but not fancy is the sweet spot for me.

Good Tom Brady quote: *"To be successful at anything, the truth is you don't have to be special. You just have to be what most people aren't: consistent, determined, and willing to work for it."* In a similar vein, my advice to new college graduates is about as simple as it gets – be a good employee. Show up on time. Look presentable. Offer to stay late. Work well with others.

I am not sure exactly how much Ai is going to change business but my antenna is way up. Too many smart people are telling me it is going to rewire how business is done and you need to be "playing with it" right now to see how it might help your business. Interesting article here how Swedish company Klarna is using it to drastically reduce labor needs (thanks Mike Sanders). klarnas-new-ai-tool-does-the-work-of-700-customer-service-reps/

Glad I am not in the car business. There is one software company with a dominant market share. It had

a cyberattack this past week and dealers are having to conduct business in paper and pencil. Technology is great but the dependency on enterprise software creates a real vulnerability when things go wrong.

I am not a fan of the millennial movement to turn the workplace into a political entity. Companies should be politics free — they should not endorse candidates or positions. The CEO of Google got it right when he fired some employees after they protested like the kids at Columbia. From Forbes: *"He described Google as a "workplace" and a business with clear policies and behavioral expectations. Most important, he said that it was "not a place to act in a way that disrupts co-workers or makes them feel unsafe, to attempt to use the company as a personal platform, or to fight over disruptive issues or debate politics."* google-ceo-sends-the-perfect-message

Sometimes "progress" is overrated. I am back to "wired" apple headphones and away from AirPods and I know others doing the same. Too much volatility on iPhone Bluetooth connection and AirPod performance on calls.

Fun quote: "Zyn is gas station Ozempic." I wrote about Zyn months ago and anyone with a son between 16 and 30 knows what I am talking about. Interesting podcast link under my initials below.

Jml

J. Michael Locke
Musings

#263: Musing
July 13, 2024

Not too hot, not too cold labor metrics. Decent job growth (although 35% was new government hires — do those count?) but unemployment actually ticked up to 4.1% as more people joined workforce. Average earnings up 3.9% which is now higher than recent inflation so real wages growing. Latest inflation readings continue to soften and earnings seasons has kicked off with many commenting about the weakness of the consumer (banks, pepsi etc.) Rate cut coming.

Wall Street really missed the boat on predicting a recession and rate cuts (at beginning of year, the yield curve had embedded 6 cuts). In business, I have repeatedly been "too early" in some of my judgments where I look at a market trend and predict major changes. Rather than being prescient, in reality, this means I was just wrong. Timing has to be part of the judgment. I liked this quote from Wall Street investment guru who just got fired: *"I do tend to be a more contrarian person who looks at things that people aren't looking at right now….the bad is that you may be sometimes looking too far out. "Too early" sometimes also means "wrong" in finance."* (WSJ)

In the first half of 2024, according to Morningstar, only 18.2% of actively managed mutual funds and exchange-traded funds that compare themselves to the S&P 500 managed to outperform it.

From a business perspective, a monumental decision from Supreme Court to overturn Chevron. In a big blow to regulatory power, the Supreme Court overruled a longstanding opinion which led to the "Chevron deference" where courts had to give deference to the decisions made by the executive branch in implementing laws. *"With the precedent gone, courts are no longer required to defer to agencies' interpretations of unclear laws, which is expected to make it more difficult for agencies—led by subject matter experts appointed by the president and confirmed by the Senate—to regulate the industries they oversee."* (MorningBrew) I have personal experience with this topic as the Department of Education took a sentence in a 50 year old law and used that to justify a major change in educational policy. Lina Khan just tried to do this at FTC with a nationwide ban on non-competes coming as a regulatory action using obscure language from an old law. Lower court cited the overturning of Chevron and ruled against the FTC. With the intransigence and partisan nature of Congress where nothing gets done, both parties have been "legislating" from the executive branch with limited accountability. No longer. Time for Congress to start doing its job.

One general item where Khan has been right is the concentration of markets which has occurred over the recent decades. We saw it first hand as consumers recently with the cybersecurity hack of a software supplier to car dealerships. One company you have never heard of has over 50% share and so their hack became an industry issue (analyst estimate it caused a decrease of 50,000 new car sales in Q2) and potentially a GDP one. cdk-outage-economic-impact

Governors and mayors (especially in Illinois and Chicago) need to better recognize that capital and

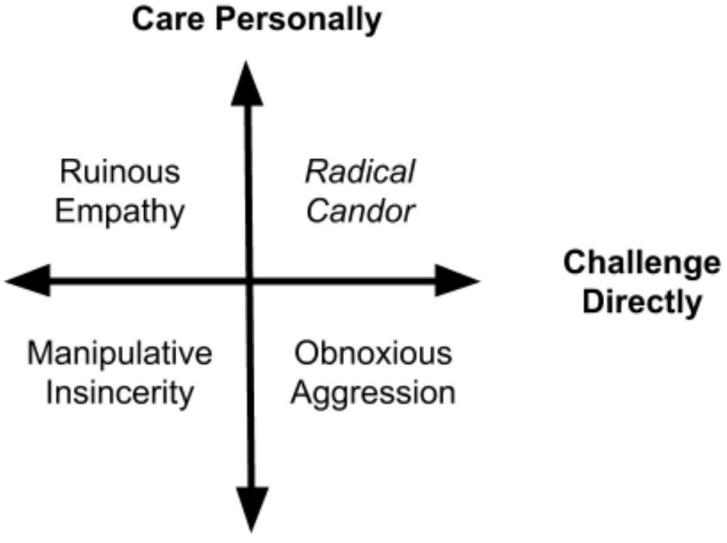
wealth are mobile. As such, leaders need to ensure their relevant jurisdiction does not "chase" taxpayers away. The most recent IRS data shows the migration of people, and their taxes, away from traditional "blue" states towards 'red states." From the WSJ (editorial): *"The IRS last week published its annual data on the migration of taxpayers and adjusted gross income (AGI) between states. California ranked, again, as the biggest income loser ($23.8 billion) in 2022, followed by New York ($14.2 billion), Illinois ($9.8 billion), New Jersey ($5.3 billion) and Massachusetts ($3.9 billion). The top gainers were Florida ($36 billion), Texas ($10.1 billion), South Carolina ($4.8 billion), Tennessee ($4.7 billion) and North Carolina ($4.6 billion)."*

Colleges are so desperate for enrollments they are accepting people and making them scholarship offers even if the prospect didn't apply! This developing practice is called direct admissions by some. (Thanks Jeff Dobosh). direct-admissions-pittsburgh-colleges

The success of Netflix is obviously well-known. What is underappreciated is the role that corporate culture has played in that success. Netflix has been open over the years about their approach to culture and management. They recently published a memo outlining their principles which I have copied below after my initials.

Part of their philosophy aligns with the thoughts in the book "Radical Candor" by Kim Scott. Her recommendation for giving effective feedback is that you must care personally while also being direct. Her thoughts and matrix:

- *Ideally, first build a relationship with anyone before giving them feedback. Make sure they know you care personally about them and their career.*
- *Then be extremely candid and clear with your critical feedback. Leave no room for interpretation.*
- *Do not sugarcoat feedback to make people feel better.*
- *Do not get personal or make sweeping statements. Be specific.*
- *Be humble. If you are wrong, you want to know.*
- *For positive feedback, be just as specific. Otherwise you're just being insincere.*



Jml

Netflix Culture — The Best Work of Our Lives

At Netflix, we aspire to entertain the world, thrilling audiences everywhere. To do that, we've developed an unusual company culture focused on excellence, and creating an environment where talented people can thrive — lifting ourselves, each other and our audiences higher and higher.

This document is about that culture, which is based on four core principles:

1. **The Dream Team**: We aim only to have high performers at Netflix — people who are great at what they do, and even better at working together.
2. **People over Process**: You get better outcomes when employees have the information and freedom to make decisions for themselves. We hire unusually responsible people who thrive on this openness and freedom.
3. **Uncomfortably Exciting**: To entertain the world, we need to be bold and ambitious. That means embracing the thrill of what's next — even when it's uncomfortable.
4. **Great and Always Better**: We often say Netflix sucks today compared to where we can be tomorrow. We need the self-awareness to understand what should be better, and the discipline and resilience to get there.

While we don't always live up to these principles, most people who join Netflix are pleasantly surprised by how great their colleagues are and the way we empower people at every level.

As our business grows and evolves, our culture (and this document) will, too. What won't change is our focus on excellence, and our determination to ensure that Netflix remains a place where great people can do the best work of their lives. If this sounds exciting, you'll probably love it here. But Netflix is not for everyone, so please read on.

THE DREAM TEAM

We believe that what makes a fantastic workplace isn't a great office or free meals and massages — although we have some nice perks. It's the people. Imagine working alongside stunning colleagues who are great at what they do, and even better at working together. It's why we model ourselves on a professional sports team, not a family. Families are about unconditional love. They can also be dysfunctional, as anyone who's watched *Ozark* or *Wednesday* knows. Professional sports teams, on the other hand, focus on performance and picking the right person for every position, even when that means swapping out someone they love for a better player.
While every member of our Dream Team has different skills, we look for common strengths that make us better together. ***These are the values we value:***

1. **Selflessness** — you are humble when searching for the best ideas; you seek what's best for Netflix, not yourself or your team; you take time to help others succeed.
2. **Judgment** — you look beyond short term fixes in favor of long term solutions; you make wise decisions despite ambiguity; you use data to inform your intuition.
3. **Candor** — you willingly receive and give feedback; you are open about what's working and what needs to improve; you admit mistakes openly and share learnings widely.
4. **Creativity** — you welcome new ideas; you are passionate and persistent in pursuit of more innovative solutions; you value artistic expression.
5. **Courage** — you are vulnerable in search for the truth; you are willing to risk failure, or challenge the status quo, in the pursuit of excellence.

6. **Inclusion** — you recognize your biases and work to counteract them; you work to ensure everyone at Netflix can do their best work, whatever their culture, identity or background.
7. **Curiosity** — you learn rapidly and eagerly; you are as interested in other people's ideas as your own; you're humble about what you don't yet know.
8. **Resilience** — you quickly adapt to changing circumstances; you make tough decisions without agonizing or long delay; you embrace a hard challenge.

It's easy to talk about values and harder to live them. We work hard to keep each other accountable for upholding these standards, especially our leaders, because excellence and honesty go hand in hand. It's why we invest in strong professional relationships that build trust and help people assume good intent. This, in turn, enables us to practice ***extraordinary candor*** — ensuring constructive feedback is part of our everyday work (like brushing your teeth). It takes courage and vulnerability to ask someone how you could do better, or to seek alternative opinions, and integrity only to say things about a colleague you're willing to share with them directly. This is especially true when giving feedback to someone more senior or from a different background, or if you come from a culture or company where deference is the norm. But extraordinary candor helps us improve faster as individuals and a company.

Since a high performer in any role is many times more effective than the average employee, our Dream Team is driven by performance — not seniority, tenure or unconditional loyalty. It's also why we focus on ***maintaining a high performance culture***. To recruit and retain stunning colleagues, we pay personal top of market for the role and location — a judgment about what that person could make in a similar role at another company, and what we would pay to keep or replace them. We expect leaders to be strong developers of talent. And to ensure they have the right player at every position, we ask them to apply what we call the "keeper test"[1] — asking "if X wanted to leave, would I fight to keep them?" Or "knowing everything I know today, would I hire X again?" If the answer is no, we believe it's fairer to everyone to part ways quickly.

In the abstract, the keeper test can sound scary. In reality, we encourage everyone to speak to their managers about what's going well and what's not on a regular basis. This helps avoid surprises. Managers also evaluate team members on their whole record, rather than focusing on the mistakes or bets that didn't pay off. On the Dream Team, you need people who challenge the status quo and try new things. So we stick with employees through short-term bumps.

No matter how brilliant someone may be, there's no place in our Dream Team for people who don't treat their colleagues with ***decency and respect***. When you have talented people who work well together — trusting each other's intentions and respecting their differences — it makes everyone more successful.

PEOPLE OVER PROCESS

Many of us have worked at companies where decisions were made top down, there was little transparency and it felt hard to make a difference — or even get basic things done. At Netflix, we aim to inspire and empower more than just manage because people can have a greater impact when they're free to make decisions about their own work.

As part of this, we strive to develop good decision-making muscles at every level of the company, priding ourselves on how few, not how many, decisions senior leaders make. We expect managers to practice ***context not control*** — giving their teams the context and clarity needed to make good decisions

instead of trying to control everything themselves. We also help employees learn by sharing a lot of information internally, including through memos where they can comment and ask questions. It takes an ***unusually responsible person*** to thrive on this level of freedom — someone who's self-motivated, self-aware and self-disciplined, who doesn't wait to be told what to do and picks up the trash like they would at home. That said, context not control should not be confused with hands-off management. Managers need to be involved in the work being done around them, and actively coach their teams. They may also have to step in when someone is about to make a decision that is unethical or could materially harm Netflix, during a crisis or if a new team member lacks the full context.

We avoid decision-making by committee, which tends to slow companies down and undermine accountability. For every significant decision, we identify an informed captain who's responsible for making a judgment call on the right way ahead. Then different teams, each led by their own informed captain, implement the decision. This ***highly aligned and loosely coupled*** approach gives teams the freedom to move quickly and operate independently, while ensuring responsibility for the outcome.

We've learned that the best ideas can come from anywhere, which is why we expect informed captains to seek out different opinions and listen to people at every level. We call this ***farming for dissent***. Of course, not all opinions are created equal — and with 10,000-plus employees, it's impractical for everyone to weigh in on most decisions (this memo being an exception). So on an important creative decision, for example, the opinion of someone working in TV, film or games will carry more weight than an engineer, and vice versa when it comes to our product or technology. After a decision is made, we expect everyone, including the people who argued for a different approach, to ***disagree then commit***. This helps ensure the outcome is as successful as possible. Afterwards, when the impact is clear, the informed captain should reflect on their choices — what worked and what didn't — so everyone can learn how to do better next time.

Launching a game, TV show or film, running a marketing campaign, managing compensation and closing a quarter all take process. And companies need strict rules against things like harassment, marginalizing colleagues, leaking company information, or insider trading. But we work hard to keep rules at Netflix to a minimum and ensure any process is good (simple, efficient, impactful). Our vacation policy, for example, is two words: "Take vacation." And our expenses policy is just five words: "Act in Netflix's best interests." This ***(almost) no rules rule*** gives employees the freedom to exercise their judgment. It also prevents the process creep that typically happens when companies grow and try to dummy proof their organizations — stifling creativity and making it harder for businesses to adapt.

You might think that this kind of freedom would lead to chaos. In reality, while we've had our fair share of failures — and a few people have taken advantage of our culture in bad ways — our emphasis on individual autonomy has created an extremely successful business, with many opportunities for employees to develop and grow. In entertainment and technology, our biggest threat is a lack of creativity, adaptability and innovation. It's why trying to minimize rules and processes (rather than errors) — while giving people the freedom to use their own judgment and learn from their mistakes — is a far superior recipe for long-term success.

UNCOMFORTABLY EXCITING

Netflix is programming for well over half a billion [2] people globally — something no other entertainment company has ever done before. Success requires us to be bold and ambitious, to think differently, experiment and adapt (often quickly). This is true whether we're designing a new product feature,

working to improve our recommendations, developing a marketing campaign or creating a TV show or game. Many people will be happier at companies that are more stable or take fewer risks. Netflix works best if you value experimentation, enjoy the uncomfortable excitement of a new or challenging project and have the resilience to thrive in this environment.

ARTISTIC EXPRESSION

Representation matters. Our members come from many different backgrounds and cultures, and they want to see a wide variety of stories and people on screen. This diversity is wonderful and it can create real tension since we all have such different views about what's acceptable — and what's harmful — on TV. While every show, film or game is different, we approach them with the same set of principles: we support the artistic expression of the creators we choose to work with; we program for a wide variety of audiences, cultures and tastes; and we provide ratings, content advisories and parental controls in multiple languages to help members choose what to watch or play. As employees, we support these principles, even if some stories run counter to our personal values. And we understand that, depending on our roles, we may need to work on TV shows, films or games we perceive to be harmful. If you'd find it hard to support the breadth of our slate, Netflix is probably not the best place for you.

GREAT AND ALWAYS BETTER

Netflix has come a long way since we mailed our first DVD in 1998. But we're nowhere close to where we want to be in the future. It's why we care so much about the Dream Team, putting people over process and creating an environment where everyone feels a sense of responsibility to make us better. We believe this approach is the surest path to excellence and long term success.

It's also why we constantly seek to improve our culture, not preserve it. Every new employee helps shape how we work — finding new ways to accomplish more together. This creates a better experience for our members, employees, creators and partners, which in turn propels our long term growth and success. It's how we entertain the world and build a wildly successful business.

As he has since our first culture deck was written in 2009, Antoine de Saint-Exupéry, the author of The Little Prince, shows us the way:
If you want to build a ship,
don't drum up the people
to gather wood, divide the
work, and give orders.
Instead, teach them to yearn
for the vast and endless sea.

[1] The "keeper test" name came from our co-founder, Reed Hastings, who remembers catching a fish as a child and his dad saying, "That's a keeper, Reed!"
[2] As of Q1 2024 ~260 million households subscribe to Netflix. Assuming ~2 people per household — which is conservative — that means our audience is over 500M.

J. Michael Locke
Musings

#264: Musing
October 26, 2025

You haven't received anything from me in a while. Thanks for those who have been encouraging me to start writing again. I don't know if this will become a regular publication again but at least I will write occasionally.

Hard to tell where we are economically. GDP continues to grow at decent rates. We are now at a point where GDP is basically about consumer spending (consumption almost 70% of the calculation). Various measurements of consumer sentiment (most famously Michigan) have declined but consumers (especially wealthy ones) continue spending. Inflation has decelerated to around 3%. While that is above the Fed long-term target of 2%, it seems manageable. The Fed is much more focused on softening labor market where hiring is not strong. Employers are holding the line in what some call the "no hire / no fire economy." Look for more interest rate cuts as tariffs have not led to structural increase in prices.

Part of the softness in hiring is AI. Many are predicting that AI will "dissolve the knowledge economy" and lead to greater productivity so fewer workers needed. Amazing how 2-3 years ago, you wanted your kid to be a software programmer but now major employers are not hiring new coders because AI can do it. I really worry about today's youth as most of the AI impact will start with entry jobs. You need the more experienced people working with the drafts of documents / reports / models that AI produces but how do you ever make it to be one of those senior people if you can't get the first job? Lawyers and accountants are telling their kids to be plumbers and carpenters.

Webster always publishes its new words every year but how about words going away? Say goodbye to "google" as a verb. Much of my browser use was based on seeking an answer and now I go to ChatGPT. AI browsers are also out (OpenAI just released Atlas). The days of going to the google search bar, getting results and then following a link out to a website are over. Alphabet is lucky it owns YouTube (what a juggernaut) as its business of selling ad-based links is going to die. There is a whole industry around optimizing your website for Google searches (SEO) which is running as fast as it can to become answer oriented and figure out how to come up in AI based results. One benefit of this is that AI results more heavily focus on quality and ratings so companies will corresponding rotate spend from advertising to product/service quality.

While I am down on Google, YouTube is amazing. The volumes for viewership are off the charts. The whole societal discussion around Jimmy Kimmel and Stephen Colbert cancellations shed light on what a meaningless part of the media ecosystem late night shows are. According to ChatGPT, Jimmy Fallon averages around 1.2 million total views per episode. In the key 18-49 demographic, it averages just 150,000-180,000! Late night TV shows are "Blockbuster video counters inside Tower Records" to quote the All-in podcast. MrBeast gets 816 million YouTube views in a week (by the way, his name is Jimmy Donaldson).

Traditional TV at large is going the same way (YouTube TV!). I don't understand why they are still paying the "talent" the way they are (Savannah Guthrie makes $8mm a year??). I also hate how there is no accountability for "created news." What I mean by that is the stories which highlight a forecasted risk or story --- the terrible weather that is coming or how tariffs will create huge inflation. The "prediction" becomes the news story and often the predictions are wrong. Ted Turner created a societal menace with the 24x7 news cycle -- not enough content to truly fill it.

I think as a society, we are all suffering from Long Covid. I am not speaking to the health condition but a broader societal issue. As an aggregation of human beings and their beliefs, I believe society has a certain balance and center of gravity. Exogenous events might pull things one way or another but over time "the force" gets rebalanced. Covid really skewed things and we are struggling to get back in balance.

Companies are requiring employees to be in the office more - it doesn't work to have a totally remote organization or executive team - people need to break bread, shake hands and form personal relationships. Salespeople need to hit the road like the old United commercial with the owner handing out airplane tickets. Younger employees need to observe experienced executives in action in a meeting and not over zoom. Jamie Dimon at JP Morgan is pushing hard for 5 days a week in the office - I don't think we are going back to that as flexibility has drastically improved the lives of parent employees - but look for a return to 3sh days in the office. Focus your hiring regionally to allow coming together and not nationally. Schools and other educational providers are moving back to more in class instruction. Online will continue to play a major role but we are not headed to a metaverse. You want to be "Omni - modality" so consumers have options.

Wear anything to work is going to start declining. There is a difference between having a bagel at home and working. How you dress should be part of it. I don't anticipate pulling out my suits and ties but less hoodies and more sweaters.

One norm that is not coming back to where it was is trust in our elected leaders. Trump struggles with the truth. At the same time, the Biden administration also forced an experimental vaccine on to the public and dissenters were silenced by the technology platforms in an inappropriate way. I worry about the longer term public health consequences when a large part of society does not trust the public health experts. Vaccine hesitancy is now a major issue. I like the nutrition, get away from seed oils etc. part of the MAHA movement but not sure we need to be telling people not to take Tylenol.

I also think we are seeing a basic "anti-pharma" movement (hard to trust people who gave us unlimited OPIODs). I don't want to be on a statin for the rest of my life. We can't afford to have people on GLP-1s for the rest of their lives. Psychiatrists need to stop putting children on all of these ADHD stimulants which then require an SSRI (anti-depressant). According to some researchers, as many as 15% of Americans are on an SSRI. According to another physician expert I heard, there is not difference between a brain MRI of a "normal" person and a "depressed" person meaning it is not organic. I recommend watching the documentary "medicating normal" on YouTube.

Whatever you think about Trump, he is making us reconsider the role of the government. Should the mayor of LA have forcibly stopped people from going back to check on their house after the fires? Should US taxpayer money fund various social initiatives throughout the world to have soft power when we have to borrow from China to do it? I lean libertarian and like the Rahm Emmanuel mantra

that local government should focus on "safe streets, good schools and stable finances." Interesting factoid, New York and Florida have roughly the same population but the budget of NY government is roughly twice that of Florida (Fareed Zakaria). New York City is about to elect a young socialist as Mayor -- shows the major issue we have around the concentration of wealth. The guy has never held a real job or accomplished anything but is a talented communicator who is channeling the angst of the regular folks who can't afford an apartment and food amidst the hedge fund managers helicoptering to the Hamptons.

Every company needs a "Doge mentality." Historically, many advocated for "zero based budgeting" where you start your annual budget from scratch but few actually did it. Usually, next year's budget starts with this year's and then has some increments. The rise of data sophistication is changing that as queries into databases now provide enormous transparency on expenses. I am not sure DOGE actually got any meaningful reductions but that is because the federal government is "an insurance company with an army" (Ezra Klein) with the majority of expenses being Medicare, Medicaid, Social Security and the military. Every CEO should take the Doge approach.

Be glad you are not in the beer business. The move away from drinking is real. Non-alcoholic beer is booming and THC drinks / gummies are being normalized. "California sober" gaining traction (only marijuana, no drinking). Beer also suffers from the no sugar / no carb movement. Now if we can just get kids to stop ruining their lungs with vaping and becoming nicotine addicts with their Zyns.

Finally, I am increasingly feeling that the ubiquity of technology and the rise of the smartphone are ruining our society (I note the irony as I type this email.) You get on an elevator and all heads are down staring at their phones. You custom order your chipotle delivered to your house by DoorDash. You use the app to get customer support, book a ticket etc. We are creating a life where you don't interact with other human beings. Put down your phones, go for a walk around the neighborhood and say hello to other people. Maybe even go to church.

Congrats to our daughters Cate and Caroline on the launch of their lifestyle brand: www.rowandwhit.com. Follow them and look out for their holiday collection coming soon.

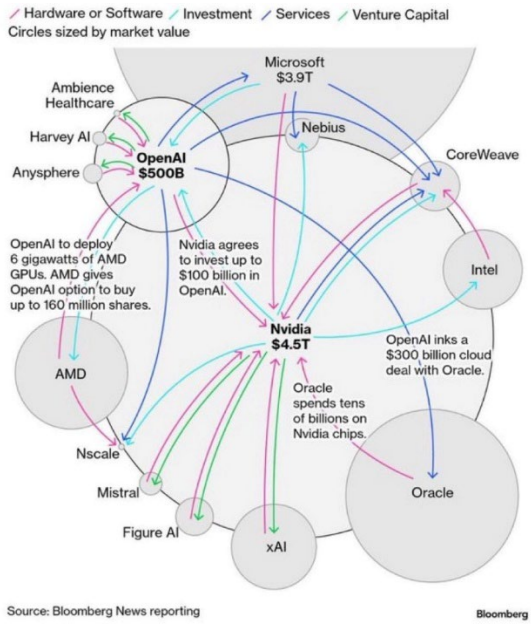
Jml

J. Michael Locke
Musings

#265: Musing
November 2, 2025

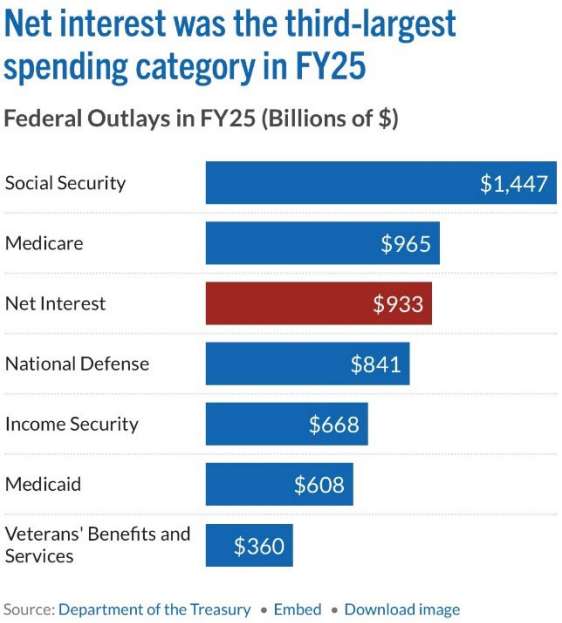
As much as I love data driven decision making, numbers can also provide a false sense of certainty. Take the Dow Jones Index. It is a somewhat random, anachronistic measure of 30 companies. It actually adds up their prices (doesn't factor in their market cap just actual price) so companies with higher stock prices have more influence on the index. It does not represent the market. Focus on the S&P 500. Meanwhile, the Bureau of Labor Statistics (BLS) of the federal government publishes a jobs report every month (when the government is open) and every news outlet talks about the unemployment rate. Did you know they get their numbers by a voluntary survey? The response rate to the survey has gone down from around 60% to around 30%! Finally, the CPI measures inflation. It includes a funky "owner equivalent rent" component meant to measure housing costs. I will spare you details on how that is calculated. Focus on private sources of data which are more real-time and accurate vs federal government sources. For instance, payroll processor ADP is now publishing information on job additions etc.

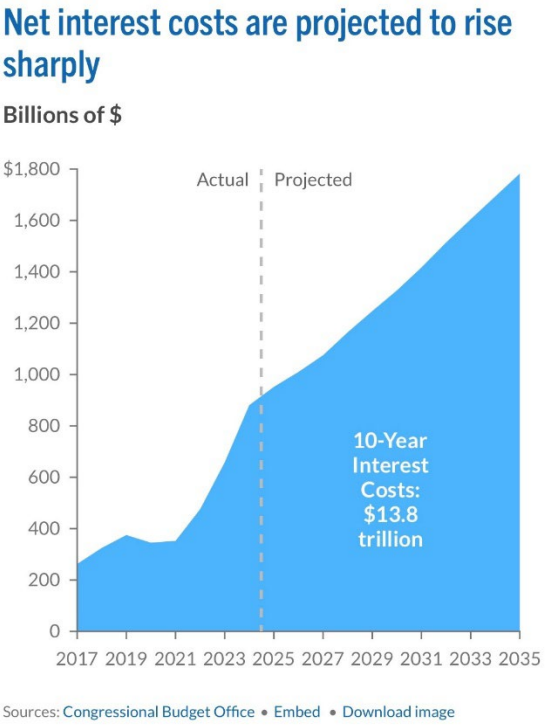
With the amazing run in markets this year, everyone is on the look out for a bubble. Personally, I think the place to look is AI. I am not a denier on the potential for the new technology but the amount of money going into it is stunning. Last quarter alone, Microsoft spent $30 billion, Meta $18, Amazon $26, and Alphabet over $20. That is almost $100 billion in Capex for AI infrastructure in one quarter! For 2025, Meta is spending 37% of revenue on Capex. Now, these investments are becoming circular with various players investing in others who then use the money to buy services from the investor etc. Look at this graphic:



Personally, I would focus on consultants/integrators. Companies don't know how to really implement Ai and BigTech lives in its own world and can't help them. This is a big opportunity (shameless promotion for our Collegis business www.collegiseducation.com). Interestingly, the WSJ wrote an article on how Anthropic and its focus on B2B was more promising than OpenAI and its focus on consumer.

Can we get some adults in Washington? Open the government. Pay essential workers. We have a fiscal disaster in the making. Who cares about the gaudy ballroom? We have borrowed so much money that interest is now the third largest expense item.





I think the federal government numbers are so big that people can't understand them. Lets put it in terms of a household making $100,000 a year. You have $100,000 a year in income but spend $134,000 a year so are having to put $34,000 a year on the Chinese credit card as debt. This worked when rates were low but the aggregate federal interest rate expense is now 3.4% and the government is having to do a lot of refinancing with rates are going up. Five years ago, the rate the "all in" rate was 1.6%.

This fiscal situation is reducing the value of the US dollar (part of the driver of amazing year for international equities) and threatening the role of the dollar as the global economies reserve currency (for example, oil transactions throughout the world are conducted in dollars). If the US dollar loses its status as the reserve currency, demand of US government debt declines and those rates above increase even more rapidly. Some suggest this is at play with Trump and cryptocurrency investments. Gold prices have gone nuts up to almost $4,000 (up 100% from January 1). (thanks Dave Wong)

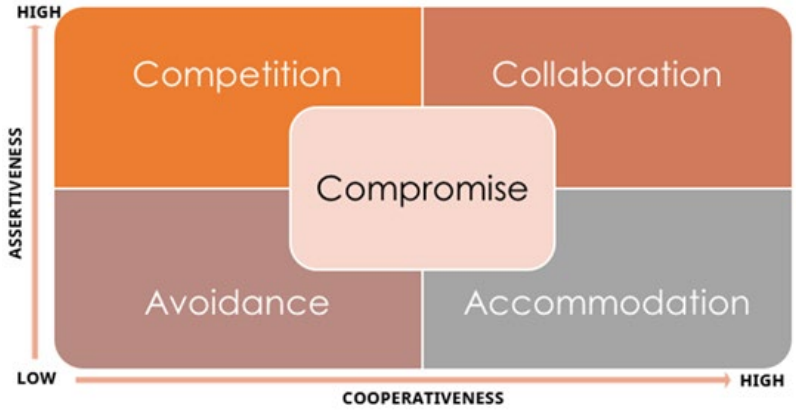
I would be happy to pay more taxes if it wasn't wasted on 9-5 bureaucrats with big pensions who provide bad customer service and buy $100,000 toilets. That said, maybe some toilets are worth it. Kohler is now selling a $599 Dekoda toilet that analyzes your pee and poop for health information. It is all part of our developing DYI healthcare system. Hardly anyone has a true GP who is coordinating their care. The patient and his/her family are their own advocates and GPs. Tech has given us all kinds of wearables (Apple Watch, Oura ring etc.). One big missing piece is the control of medical records. Let's have the consumer control them so you don't have to waste time figuring out how to get records sent from one provider to another.

I worry about the societal push for longevity and our medical system's principle of extending life as long as possible. There is a difference between life span and health span. I am for maximizing health span but too many families struggle with loved ones who are still with us physically but with a very limited quality of life. It is enormously costly as well for the families and society.

Next time you are hiring, consider a farmer kid. We live in a world that is light in grit. Farmer kids have lots of it. One executive I worked with grew up having to awake at 5:00am every day to milk the cows on the dairy farm before school. Many companies have lost their grit as the workforce is increasingly dominated by DoorDash loving Millenials.

Personally, I focus on prospective executive's intellectual curiosity. Are they a good active listener? Do they follow the improv rule of "yes and" vs shutting down innovative ideas with focus on what can't be done. Great companies come from great teams which have a culture of growth. Growth is a mindset. On a personal level, you want professionals who are reading industry publications, tracking competition, and sharing interesting articles/podcasts. Great professionals see patterns and read tea leaves so they can manage forward and make changes in advance of problems. On a managerial level, great professionals are like great coaches who are constantly providing feedback. The annual performance review is an anachronistic construct in today's fast moving business world. The manager's job is to grow people and not just evaluate them. If someone is not performing, look at the boss.

Along with grit and intellectual curiosity, I believe that successful professionals are comfortable with conflict. Too many individuals are conflict avoiders and slow to coach underperformers or renegotiate a bad contract. Instead, you want individuals who are comfortable engaging in conflict without being combative. You actually can screen people for their comfortability with conflict using the Thomas-Kilmann Conflict Mode Instrument (TKI):



I miss the days of our leaders being "gentlemanly" (sorry for the sexist term). There was a decorum that came with leadership which is now gone. Can you imagine George H.W. Bush going on a late night show in sunglasses or calling political opponents names? The declining example "from the top" has now permeated all of society so everyone is fine being jerks to each other and kindness is in limited supply. Technology and our "attention economy" fuel the fire as rage drives engagement on social media platforms and becomes algorithmically reinforcing. Bring back flip phones, book clubs and neighborhood pot lucks.

Editor's note: no names got removed from my distribution list, so if you have a fellow reader comment about not receiving these, suggest they check their spam folder. Let me know if you have anyone you want to add.

Hotty Toddy from Oxford, Mississippi.

jml

J. Michael Locke
Musings

#266: Musing
November 9, 2025

The markets are pretty precarious right now. Very sophisticated and successful investors are warning of trouble ahead. Jamie Dimon is predicting a significant correction starting with private credit concerns and the head of Oaktree referred to "cockroaches in the coalmine" with some recent credit bankruptcies. The man featured in "the Big Short" book about the 2008 housing driven crisis has started shorting some highflying tech names like Palantir. CNBC host Andrew Ross Sorkin's new book 1929 is a best seller. Finally, Ray Dalio (of Bridgewater fame) thinks we have an AI bubble but it won't stop the Fed from easing rates to deal with the soft labor market. According to CIBC *"Dalio said there's a "two-part economy," with the easing of interest rates because of weakening in some places while a bubble develops elsewhere."* I am no investment guru but would say buildup cash and be careful buying equities.

Dalio warned years ago of social unrest due to wealth disparity. This is the story behind Mamdani's win. A lot of younger people are starting to question capitalism. Our system needs to do a better job providing wealth creating opportunities across a broader amount of people. Ai isn't helping.

The answer is not more government. The government shutdown has reached record length. I hope we don't get rid of the filibuster to end it. The 60 vote requirement in the Senate serves as a rutter on our partisan politics. In overly simplistic terms, we have large amount of our society which is dependent on various government programs for food, healthcare etc. (I was surprised to learn over 40 million people receive food stamps) while a similarly large amount of people have not been effected at all by the shutdown to date. I believe the shutdown will end this week as air travel issues start to effect everybody (especially heading closer to Thanksgiving).

The Democrats demand has been that Obamacare subsidies (which are set to expire at the end of the year) get extended. Their political calculation is that the large increase in healthcare expense for those recipients will pressure Washington as the new premiums just went out on November 1 to recipients. The subsidies in Obamacare are significant with 60% of recipients still paying $50 a month or less next year even without extensions. The basic issue is how people get healthcare in the US. I am not in favor of government provided healthcare (like in UK) but connecting decent healthcare availability to full time employment does not work (and is an accidental byproduct of wage controls during WWII so employers expanded benefits and the IRS ruled it not to be taxable income). Medicaid covers the poor but Medicare eligibility doesn't kick in until 65. There are a lot of people who are not 65 (no Medicare), not poor (no Medicaid) but not full-time employees (no company insurance) that need healthcare coverage. The "individual market" has historically been inefficient and lower quality. Obama was well intentioned trying to fix this but forcing consumption to improve the risk pool and handing out enormous subsidies is not sustainable. 24 million people get health insurance through the exchanges. The exchanges with their robust subsidies have also absorbed retiree obligations of many large cities. Not sure who will win the political debate but the system needs fixed.

Watch the developing crisis around a shortage of physicians. Medical school supply has not changed for decades and individuals are struggling with the cost and length of training. The "doctor replacement market" of Physician Assistants (PA) and Nurse Practitioners (NP) is booming but don't think that a PA with a 2 year Masters is the same as a physician with 4 years of med school and 4+ more of residency. We need more doctors.

The American public has simply lost faith in higher education overall. The relentless increase in expense and faculty-centric cultures (as opposed to student-centric) have led the industry astray and enrollments are declining. Some interesting stats below. I see a growing preference for employees who did not go to college but rather have been working, developing grit and learning real skills.

Indicator (Year)	Value
Americans with positive view of higher ed (2024)	53%
Americans with negative view of higher ed (2024)	45%
18–24-year-old college enrollment rate (2022)	39% (lowest since 2006)
Recent high school grads enrolling in college (2023)	61.4% (lowest since 1990)
18–30y never-enrolled who see non-college training as more valuable	50%

Sources: Pew Research. BLS. Gates Foundation

Pavlov showed us that motivating mammals can be straightforward. If you have good salespeople, it is all about commissions. Salespeople are not dogs but too many leaders treat commission plans casually. By designing good commission plans, you can drive the sales of a particular product (maybe it gets a higher rate or spif) or get a manager to spend more time with new reps. It is alright for a great salesperson who books a lot of business to make more than the CEO. It all starts with revenue.

Can we get back to valuing hard work? When did it become a brag to be a "victim" and want things given to you rather than working for them? Simple life lesson to teach your kids — you should never watch someone else work while you sit. Just had a family gathering and great to see how everyone pitches in and seeks to help.

Another simple personal one — ask questions. I am always stunned how I can sit next to someone at a wedding or talk to someone at a cocktail party and they don't ask a question or seek to learn anything about me. Not saying it is about me but it is a mutual exploration of getting to know each other or see how someone's kids are doing.

Learn something about someone else today.

jml

J. Michael Locke
Musings

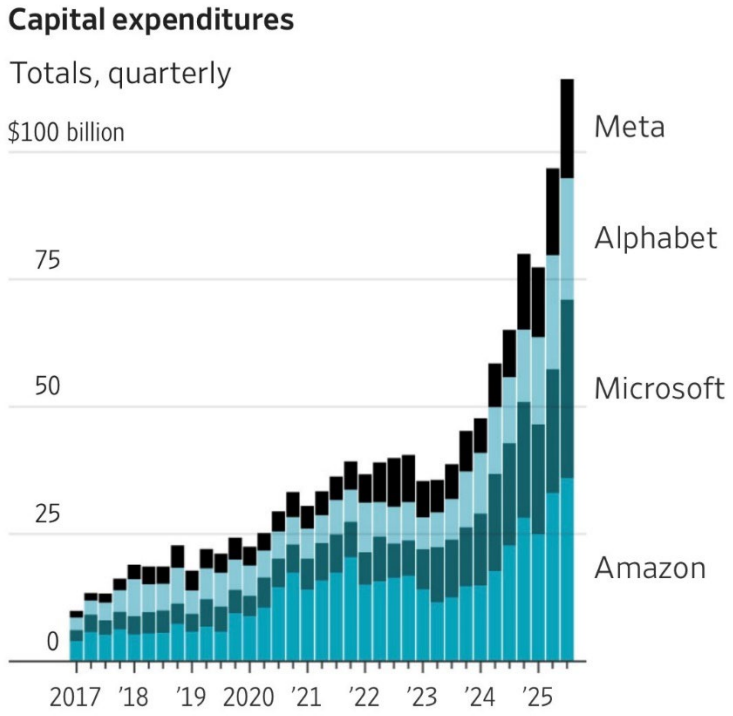
#267: Musing
November 15, 2025

tl;dr

Thanks to Bryan Chitwood for introducing me to "Too Long; Didn't Read" which one could use to justify the musings.

Are we in an existential race with China on AI? I don't know. Some are pitching it that way and subtly asking for the federal government to help finance the buildout. China is acting that way as it desperately seeks Nvidia chips. Look at these crazy numbers on OpenAI. It reportedly has about $13 billion in revenue (75% consumer paying $20 a month). Valued at $500 billion. Has made commitments to scale around datacenters and chips of $1.4 trillion. It will lose $150 billion before it breaks even. The cynic says this is just Silicon Valley pursuing an expensive hyper-scaler model. I worry about the IP issues as the LLMs ingest all of the content on the web often blowing off legal constraints. This is not just comment on the model's training but also the new Atlas browser. Uber was built this way. Hard for "the little guy" to protect itself against this capital onslaught.

Here is a graphic showing the amount of money flowing into this "arms race":



I worry the LLMs are going to be biased to the "uglier" sides of humanity as Reddit posts are one of the larger datasets. So normal people (especially later in life) are going to be under indexed to the 25 year old furry in the basement venting on Reddit. Thank Mr Serena Williams.

Speaking of Serena, she looks great using her GLP – 1. Do we want everyone on GLP-1s? Studies are showing positive effects on reducing addictive behaviors (gambling) in addition to weight. We know obesity in US is part of our societal health issue. Certainly seems like it would be better to fix our food supply and workout in our jeans vs putting everybody on a drug. However, we seem headed that way with expanded Medicare coverage. Employers need to watch their health plans as these drugs are expensive.

On the personal side, McKinsey is talking about "superagency." *"Superagency is a state where individuals, empowered by ai, supercharge their creativity, productivity and positive impact."*

One accounting nuance is making some question the earnings of publicly-traded big tech. Their massive AI Capex comes into the income statement as an expense as depreciation based on the useful life assumed. Big Short Michael Burry says that the big tech companies are juicing their earnings by using much longer assumed lives on the chips than they should.

The discussions of inflation and cost of living usually miss the simple math concept of derivatives. The inflation rate is measuring the rate of increase. When inflation rate goes down, prices do not go down. The rate at which they are increasing slows. The long run of high inflation means a structural rise in overall prices which are unlikely to go down (that would be deflation which is rare except in certain products/categories).

It was kind of a given when I was trained in corporate law that you incorporate in Delaware. They had well developed system to handle disputes (court of chancery) and decades of cases which created well understood "rules of the road." The judges became real experts and their rulings were widely respected. The body of case law became important in interpreting the statutory law so that businesses had those most precious commodities - consistency, reliability and predictability. That monopoly is now being questioned and Texas is making a play to be your new corporate home. Tesla, Coinbase and others have moved. Because Delaware is not home to a large group of corporations or any large business groups, Delaware was a neutral spot where you wouldn't be subject to local "hometownism". Will be interesting to see if places like Texas can operate the same way.

The US government spends 3.7 cents to make every penny. Huh.

You know you are getting old when you just give up on filtering. Don't have time for it. The thing you care most about is authenticity. #antikardashian.

Never stop innovating. Who would have thought there was room to take share from Nike in shoes — Hoka? Who would have spent time designing new water bottles — Stanley? Look what Musk did to cars focusing on technology vs engine — Bluetooth CarPlay and big screens now a must even if burning gas.

Speaking of Musk, I haven't used it but apparently Musk has launched a competitor for Wikipedia (which he considers to be wokely-biased) called Grokipedia.

Great quote from All-in podcast – "the place to hide a body is the second page of Google search results"

Good opinion piece in the WSJ discussing how the excesses of higher education led to the Mamdani win. The argument is that coddled kids got straight As and an education which has left them with few marketable skills that are drastically mismatched with their beliefs of what they should earn. The CEO of Palantir said *"I think the average Ivy League grad voting for this mayor is highly annoyed that their education is not that valuable, and the person down the street who knows how to drill for oil and gas, who's moved to Texas, has a more valuable profession."* grade-inflation-produced-mamdanis-proletariat. According to a new study, 60% of grades at Harvard are As.

Peter Thiel warned of the rise of socialism among youth five years ago. Here is Thiel: "*If you graduated in 1970 with no student debt, compare that to the millennial experience: too many people go to college, they don't learn anything, and they end up with incredibly burdensome debt. Student debt is a version of this generational conflict that I've talked about for a long time. The rupture of the generational compact isn't limited to student debt, either. I think you can reduce 80 percent of culture wars to questions of economics—like a libertarian or a Marxist would—and then you can reduce maybe 80 percent of economic questions to questions of real estate*." The average age of new home buyers has gone from 30 to 40. Trump proposed 50 year mortgage might technically create ownership but really renting in disguise. Want to really encourage ownership? Keep an eye on DeSantis proposal in Florida to eliminate property taxes.

One leader recently complained to me about being surrounded by "learned helplessness." Let's not accept all of the excuses on why someone can't do something.

I love the "McWeeny hello test." My friend judges a community by whether strangers say hello to you as you pass them on the sidewalk or walking path. Amazing how someone can walk right past you and not acknowledge your existence. I fear we are simply losing humanity in large part due to technology. Heard a statistic that the number of person to person interactions amongst are youth is down 40-50%. How about this amazing statistic: 18% of people under the age of 45 order food delivery once a day! Robinhood has announced a deal to deliver cash to your home (god forbid you have to go to an ATM.) Add Pornhub and OnlyFans and you have quite the night without leaving your rooms. Musk is now taking it to another level (no pun intended) by sexualizing Grok. xAI, has two sexually explicit chatbots named Ani and Valentine. The virtual companions, designed with anime-style appearances, engage in flirtatious and erotic exchanges with users who unlock more content as they advance through "levels" of interaction. Just what every young man needs.

For those readers who like to swing, apparently you can use white rocks if you can't find a pineapple to turn upside down. Thanks Kyle G (rest of name redacted to protect anonymity)

Lots of response to last week's emphasis on personal inquiry and asking questions. One friend even has a term for the non-interested counter-party — "NA ers" for not asking questions. If you really want to build a relationship, follow-up on the conversation by sharing an article, website or book you might have discussed with the individual.

One simple way to try and drive the importance of relationships into your childrens' DNA is family dinners. I don't know much about the Jewish faith (learning from Nobody Wants This) but I am all for a mini-Shabbat. Shutdown technology and spend Friday night with your family. The upcoming holidays are a great way to start. Our mom was demanding that we all pilgrimage back home with young kids in

tow every holiday. While I complained about it at that the time, these big family gatherings really connected the next generation and our kids now miss them.

Meet someone new this week. Talk to a stranger (asking questions) and organize a big family holiday.

jml

J. Michael Locke
Musings

#268: Musing
November 23, 2025

Markets are showing their fragility. Material losses most days this week as investors worried about the AI trade and even good Nvidia earnings couldn't settle things down. Folks are looking for a reason to derisk and take money off the table. Risky things like Bitcoin have really sold off. I would not be buying or selling anything right now. Be diversified, sit tight and turn off CNBC.

The delayed September jobs report showed decent hiring in the private sector with unemployment rate moving up slightly to 4.4% with the biggest weakness among young people at 13.2%. An overall challenge we have is a lack of workers. Only 62.4% of eligible folks are trying to work (labor participation rate). As a country, we have 163 million people working to drive GDP to support themselves and the 180 million people not working.

One way to grow the workforce is immigration. Can we have a rational conversation about immigration please? We can't have an open border nor can we deport 11mm plus people who did not come here legally but are mostly integrated into our society. We need legal migration to offset declining birth rates and still have population growth which is a necessity for GDP growth (absent a sustained increase in productivity). Our labor shortage is a real risk. Ford CEO just commented how he has thousands of unfilled mechanic jobs paying over $100,000 a year. Lets have a rational legal migration system which priorities skills and filling jobs (yes, H1B is part of this). Our higher education system also deserves criticism for failing to create the right labor pool despite billions and billions of dollars spent. According to NFIB, 32% of small businesses have jobs they can't fill.

Unclear what Fed should do. Here is how a Goldman Sachs economist describes the situation: *"The labor market is weak, with hiring at "stall speed," but it's unclear whether that weakness is cyclical or structural. [He] also points to "matching issues," where college graduates struggle to find jobs while other positions remain unfilled. "If it turns out that a lot of this weakness is matching related, I don't know that monetary policy is the tool to deal with [it]."*

I have never understood retailers who understaff their checkout lanes. Customers are literally trying to spend money. You have attracted them and they want to buy something. Dick's Sporting Goods has been replaced as the worst in my opinion by Target. Sometimes business is pretty simple – make it easy for the customer to spend.

Remember all of the talk about the investors who gave Musk money to buy Twitter. He way overpaid and lots of people wrote about what a bad investment it was. Not looking too bad now. Twitter (now X) has a 25% position in Musk's startup xAI. xAI is currently raising money at a $230 billion valuation meaning the 25% stake is worth almost $60bn. I think the investors put in around $33 billion to buy Twitter so they are doing ok.

Lots of positive commentary about the latest AI model from Google called Gemini 3. From the WSJ: *"The release of its latest AI model this week dazzled users who praised its intelligence, accuracy and creative capabilities. On Thursday, the company said Gemini 3 would power a new version of Nano Banana, a popular image-generation tool that has already driven rapid growth in Gemini usage this year."*

While I believe in the potential of AI, it does not eliminate the role of people. The "magic" is the combination of people and technology. Even Palantir deploys people to help clients use their technology. From one of their executives: *"Further, when innovating in emerging technology applications, often the customer doesn't yet have a conceptualization of how they will work in the future, so by being one of them, you can establish the first patterns for doing that work excellently."* On the education side, it is about "owning your learning" (or co-constructivist to be fancy). YouTube or an LLM provide endless amounts of knowledge but the individual must own their learning expedition and interacting with these technologies. Too many data people look at only the numbers the technologies now provide. You have to combine this with conversations with the people running the business processes. Looking at the data alone (without talking to the people) can give a false impression and bad decisions can be made.

You should always be hiring salespeople. Unfortunately, turnover rates of sales professionals are much higher than other jobs. Add to that the inherit risks you take anytime you hire a new person and almost by definition, you will lose 25%+ of your sales team every year. As such, good sales execs are always in the labor market hiring so they are never shorthanded.

Being fully staffed in sales is also paramount because most business comes down to driving revenue. Yes, you have to manage expenses but at the end of the day you grow profits by growing revenue. I am a fan of investing in the front end until you have materially deterioration in your CAC (client acquisition costs). Basically, you should look at your CAC against the revenue generated. Really you should use gross margin generated not revenue. To maximize profits, you would keep investing and take the deteriorating CAC as long as below the year one gross margin it generates (some take the LTV approach). If you think you need 4 sales people to hit your numbers, I suggest you hire 6. You also need to be looking at next year needs as it takes awhile to ramp a rep up to full productivity. I am a big fan of forward organizational planning overall where you build org charts for each quarter out a year or two to understand the talent you will need. It is like running a professional sports team and having depth charts and a minor league where folks are training for future needs.

Speaking of sports teams, I also think it is healthy to create rivalries to motivate the troops. If you hire right, you should have a lot of competitive people who want to win and beat the competition. Call it out. Lean into it. Rivalries are a core part of human behavior – see century old things like the Monon Bell (congrats DePauw) or the Big Game in California.

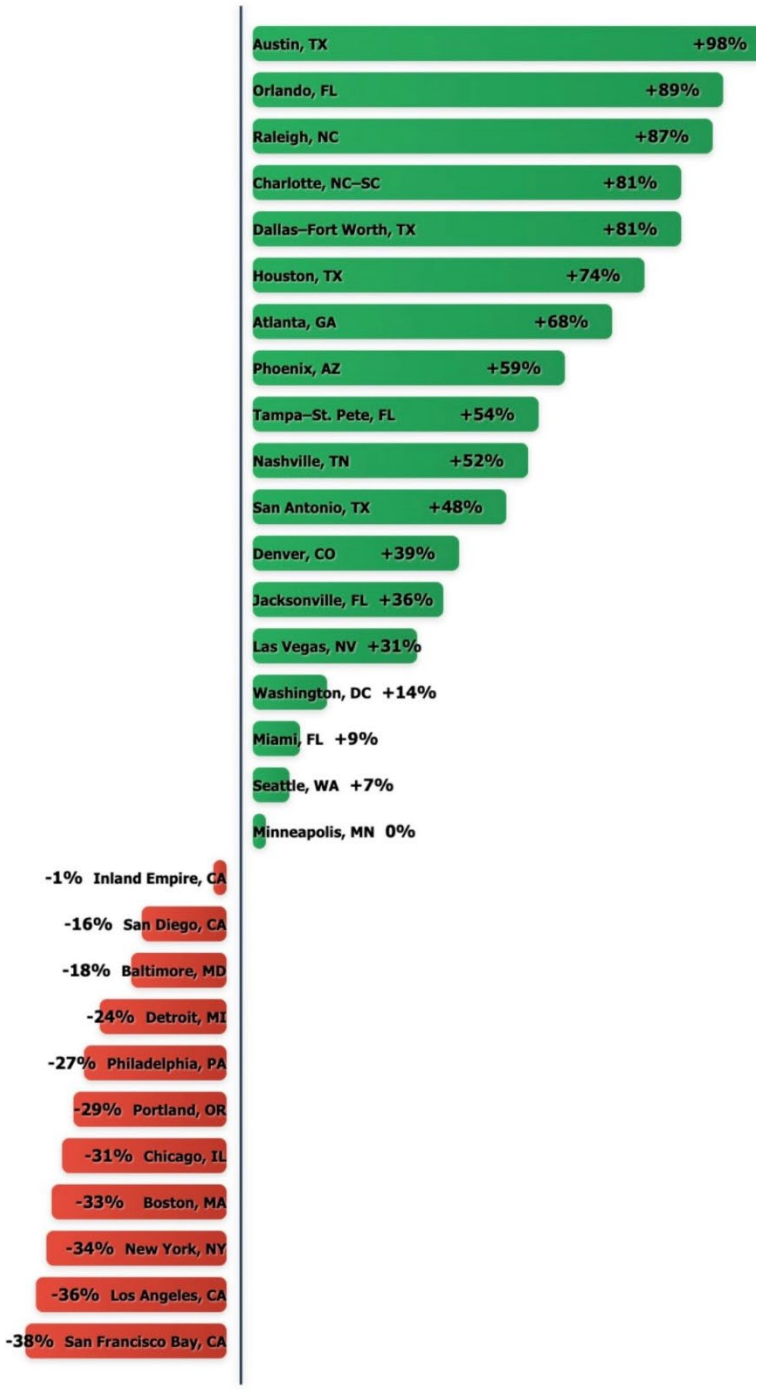
Celebrities are starting to understand the value of their ability to drive demand. Whether it is Kim K with her underwear or her sister with her makeup or Mr. Lively and his cell phone, gin and soccer team, these celebrities are taking equity positions in the companies whose products they are promoting and effectively driving business at a low CAC. Buc-ee's gets the game as well using 100 gas pumps to drive demand into its general Walmart-like store.

These celebrities also understand that "information is the new oil and attention is the new economy" (thanks Philip Verdova). With so much content in your hand via the smartphone, the challenge is

separating out the message amidst the sea of content. This is also why “curators” or gaining more power either as individuals or in the form of an algorithm. We need more good curators vs listening to “random Joes” venting online who get coverage in a way they never would have before Twitter, Reddit and comments sections.

This attention challenge is part of Trump’s success. He has no shame so any publicity is good publicity. My understanding is he learned this from some less than flattering events in Manhattan back in the day when he was taking his father’s Bronx real estate business into the city. Infamous Roy Cohn told him not to sweat the negativity because he was on the front of the paper and that is what mattered. Cohn’s mantra has been reported to be “never admit, never apologize, counterattack.”

The world is moving South. I continue to be surprised that more “blue city Mayors” don’t recognize that their policies are creating an exodus of people, employers and capital. The Mayor of Chicago is talking about charging employers a new tax based on their headcount. The Treasurer of Chicago is saying the city won’t buy any US federal debt (the most liquid and safe security in the world and a part of any portfolio) to protest Trump!? Look at this chart showing the change in kids under the age of 5 from 2005 to 2024:



If you ever want a fascinating experience, go “church shopping.” (For my more religious readers, I hope my discussion of church like a consumer product is not offensive.) Our family church got very political over the last five or so years and drove us away. I am not a fan of the minister telling you who to vote for. As a result, we have been checking out a lot of churches of various denominations. Here are my takeaways. The nondenominational churches are booming because they are comfortable. You bring your coffee in. The music is uplifting (almost too rock). No politics. I do wonder where the money goes as there is no “systemic oversight.” You can still be “traditional” and successful based on leadership. A younger man took over a local Catholic church and it is packed including 7am mass with his inspiring

homilies. We need consolidation in the mainline churches. In our town of under 15,000, there are 6 or 7 protestant churches in addition to a big Catholic parish. I am sorry but there is not that big a difference between Presbyterian, Congregational, Methodist, Lutheran, Episcopal and Christian reformed. I am surprised that more churches don't offer services at times other than Sunday mornings.

I am stunned at how embedded remote work has gotten in many businesses. Sales people are not travelling. Executive teams are not meeting face to face. It is going to take a lot of "pushing" to get things back to where they should be. I am not saying 5 days a week in the office but a company with the CEO and top executives dispersed across the US will not be as effective as a company where those folks are together every day. It also "sterilizes" the relationships. True teams know the personal sides of their colleagues. I had an opportunity to dine with some key executives and their spouses this week just to get to know each other better. That doesn't happen on Teams. You should have met the spouse/partner of those you work closely with and know the names of their kids.

If you get together with people and build relationships, not only will your business be more effective but you will live longer. The key common elements of so called "Blue Zones" where people have longer lifespans are: 1) a predominantly plant-based diet, 2) regular low-intensity physical activity, 3) a sense of purpose, 4) strong social connections, and 5) effective stress management. I think intergenerational relationships are particularly rewarding as each party brings a different perspective to the table.

Scott Galloway is out promoting his book (Notes on Being a Man) about how our society is creating a generation of asocial, asexual young men with their smartphones in their parents' basement living off technology-driven Dopamine hits. Based on his interviews, sounds like a good read.

Lots of feedback on people who don't ask questions and the "McWeeny hello test." I was recently at a table with robust question askers and it was almost like tug of war for conversation control. On the hello test, some debate about whether the reluctant wave back after you acknowledge someone counts (I say no). Also, that some very kind people just simply aren't as "warm" when you initially meet them and might not say hello (I agree). Still no excuse for not having any interest in the other party you are talking to.

Happy Thanksgiving. Keep working through the holidays. Too many companies "take the holidays off" and basically have almost no productivity this week and much of December. You can get a step up on the competition by pushing for the next six weeks.

jml

J. Michael Locke
Musings

#269: Musing
November 27, 2025

Happy Thanksgiving! Thought I might provide some potential dining room table topics for you.

Most of us will enjoy a sumptuous meal today. The secret new source of decent food is your local gas station. Our girls make fun of me for the percentage of my meals that come from gas stations. Brats from Kwik Trip, brisket sandwich from Buc-ees, tuna from the Shell at York/Ogden and key lime cheesecake from Super Day's Express (thanks Z) all are awesome. Diners, Drive-Ins and Dives needs to expand.

I have previously written about having a culture of innovation. Think how badly Kentucky Fried Chicken missed the ball. They literally had thousands of restaurants selling only chicken yet didn't have a good boneless Chicken sandwich and now are an afterthought in the Chicken war. They missed how consumption was moving from "take it home" to "In the car."

Hims & Hers Health is innovating in the boring blood testing space dominated by Labcorp and Quest. In this day and age where individuals serve as their own primary care provider, testing sites need to be run more like a Starbuck's offering good setting and customer service straight to the consumer.

Hope you survived Green Wednesday. I guess the young crowd decided the Wednesday before thanksgiving was a great day to get high. Cannabis industry reports that yesterday is the highest sales day after April 20th. This is probably easier on parents than Blackout Wednesday.

Work on your kids handshakes over Thanksgiving. Firm. Direct eye contact. I can't stand the wet noodle nor the princess fingers only.

Don't mind the cranky older relative today. The filter is gone and you have authenticity. As you grow older, you appreciate that time is your most precious asset and how you allocate it is one of the greatest decisions you make. "I have a lot of time for him/her" is quite the compliment.

Speaking of authenticity, how about Zoom background or not? I am a fan of showing your real settings in the background as a part of communicating authenticity.

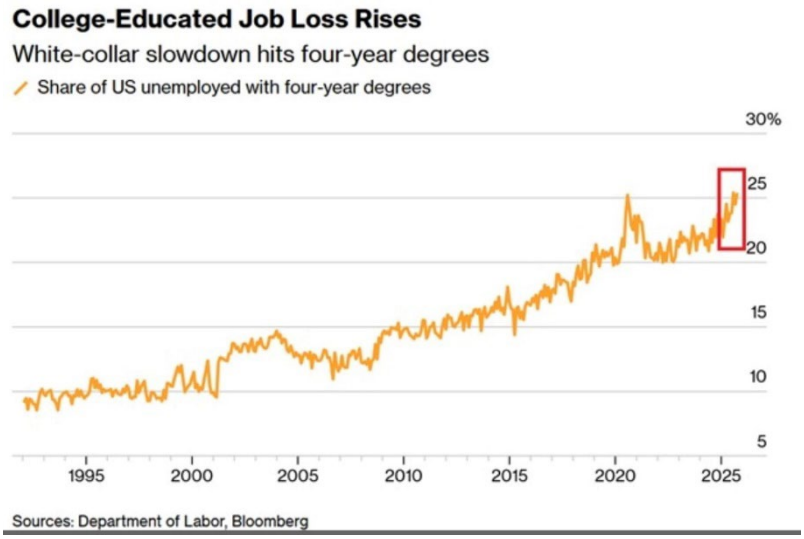
A southerner saying "bless his/her heart" is not a compliment. Just a southern version of Minnesota nice. Conflict averse and not authentic.

Here is a test of your natural anxiety level. When do you fill your gas tank? I personally never get below ¼ full where many go down to the 5 miles left warning. Same for cell phone. I never go down below 25% before recharging. No right or wrong but interesting window on core personality.

Amazing the impact a liberal arts education can have as Steve Jobs attended Reed College in Portland, Oregon (he actually dropped out) and took a calligraphy class which later influenced Apple's typography. Now we talk about Calibri vs Aptos.

Remember your audience. I am reasonably well educated person and not sure I could define what an oligarchy is nor a sentient model. This is part of Mamdani's effectiveness — everyone understands affordability.

Fascinating stat. Sure you want to be paying for that kid to go to college? Maybe Jobs and Gates were right to drop out.



The "Ai trade" is implying becoming too dominant. Goldman estimates that business investment in AI might have accounted for as much as half of the growth in GDP in the first six months of the year.

Avoid the vacuous "That's a good question." I literally heard a news reporter use that line when the anchor asked "how is it out there?" Seriously, quite the penetrating question.

As we all lament the influence of smartphones and social media, blame Aza Raskin. He invented the "infinite scroll" concept (pretty brilliant actually) so you can waste hours simply looking at a bunch of crap online like Sydney Sweeney's (who isn't even that attractive) latest outfit. Raskin eventually "turned" against big tech. He has said "one of the most pernicious aspects of social media is that you are getting constant and infinite validation that people like you more when you look a little different than you actually do.

Is it a good or bad thing that smartphones can be used to track kids? Personally, I am more of a free range parent and believe tracking reduces their autonomy and development of judgment. It can also create much unneeded anxiety as parents look and think their kid is somewhere when the phone might have gone dead or location services not working.

Doo.doo..doo..doo….Baby shark is the most watched video ever on YouTube.

K-Pop Demon Hunters has now hit the cultural status that we all most watch it.

Can J-Lo please put some clothes on? She is in great shape for 56 but c'mon.

Despite what you saw on WKRP, turkeys can fly.

Bring back some chivalry. Let the women sit first and help with their chair.

No negativity allowed today. Give out compliments and thanks. Volunteer for dishwashing duty (those are the people you should hire).

Great essay by Rishad Tobaccowala on how to embrace change after my initials below.

Happy Thanksgiving! Put down the phone after you read this and ask some questions:)

Jml

Rishad Tobaccowala reprinted here in its entirety:

Organizations everywhere are struggling with change and seeking new ways to grow especially in these Tectonic Times .

Many specialists help them find a way forward. *A cavalcade of consultants, convey and communicate with countless charts, a curated combination of choices to the C-Suite. A flurry of futurists frame, focus, and filter the way forward with the finesse of fortune tellers. Masters of the Universe market M&A moves that might make multiples move upwards and manufacture many millions in market-cap. PR professionals produce and promote points of view that position and polish to provoke the press to perceive with pristine perspectives.* While all of this may be important ***none of these will work without growing and changing the people in the organization.***

While firms are a collection of ideas, technologies, patents, brands, ecosystems and people, it is people who are the the key. Because it is the people who create the ideas, technologies, patents, brands and eco-systems!

And in today's AI age the technology itself is not a differentiator since everyone builds on the same half a dozen foundational models. It is the Humans who combines with the Alien Intelligence (a better description of AI) that produce the distinctiveness and differentiation which drives value creation.

People and Organization the real challenge.

Michael Tyson said, "*Everyone has a plan till they get punched in the face*".

Boards and leadership of firms come quickly to the realization that ***everything is easy until people get in the way.***

Today, all over the world is there is deep concern among people in many organizations that AI is a threat to their livelihoods. Richard Edelman earlier this week at a dinner that Terence Kawaja invited us to after the announcement of the AI Lumascape (take a look it has created quite a stir) handed me the latest Edelman's Trust Barometer flash poll which is worth reading. Here is the link to the report and one

of the slides is reprinted above.
Whether it is Accenture, Bain, BCG, Deloitte or McKinsey, they all appear to be aligned that AI transformation will **primarily** be about people and organizations and not technology. Here is a great piece on Julie Sweet the CEO of Accenture on the need for reinvented leadership.

Telling people that change is good, threatening them with job loss if they do not change or creating communication materials and slogans to goad them into a cult like devotion to the new dear leader or the way forward rarely works in the short run and will likely fail after the threat of flagellation fades.

Too many companies are focusing on efficiency, effectiveness and enterprise technology versus talent.

Because, if there is nothing in it for them, people will **out-wit, out-wait, out-pretend, and out-maneuver** *"management"*. Until then they will fill the time genuflecting and bowing and going through the monitored motions of attending the right meetings, muttering the motivational mantras and stating the slogans required.

Today 67 percent of GenZ **employees have a side gig with which they generate income, using the salary from their "main job" to create new options for themselves. After all , for 60 dollars a month anybody at any level, can have the latest Google, Open AI and Anthropic tools that run circles around what they are allowed to use at work. These tools provide all of us with cost effective and fast ways to launch AI first businesses with talent of any type (Agentic employees galore) and humans distributed anywhere in the world.**

If we want our organization or our teams to grow and change we will need to deliver answers to four questions to our teams:

Why are the recommended changes good for them?
How can it help them grow ?
What are the monetary or other incentives to change?
When and where will training be provided to help them learn the new skills needed?

Change does not happen because of M&A, press Releases, re-organizations, or announcing an Open AI or some other AI partnership.

An organization changes and grows when the people in the organization change and grow.

2.**There are two ways to change an organization: Get people to change or change the people.**

What are the key ingredients that helped drive the successful transformation of companies including very large ones like Walmart and Microsoft?

Both firms had "lifers" take over as the CEO after years of each company roaming in the wilderness. They both succeeded in rejuvenating their firms by combining two different approaches:

A) Upgrading the mindset of a majority of the people at the firm.

This is best seen by the changes Satya Nadella has made at Microsoft which including moving from a "know it all mindset" to a "growth mindset", a focus on enterprise and business professionals, a shift to

openness and cloud and the elimination of the Windows Operating division. He also engineered a move away from a prickly approach of a "We vs the World" mindset to the embrace of the everything in the world including Linux with the purchase of GitHub to the Open AI investment and the hiring of Mustafa Suleyman from Google.

Through it all the focus has been on new behaviors and mindsets of people including top level and key talent.

B) A recruitment of key outsiders and high-level leaders and an investment in new people and skills.

This can be seen at Walmart. Doug McMillon who just announced his retirement, completely re-imagined the company through a combination of bringing in outsiders with acquisitions such as Jet, Flipkart, Vizio and most recently Dan Danker from Instacart to lead AI initiatives and launching highly profitable new lines of business such as Walmart Connect. But a major emphasis was als made in investing in current employees with better pay and job flexibility combined with a significant number of initiatives to up-skill employees including a one billion dollar investment in Walmart Academy.

Central to changes at both these companies (whose market value have increased four fold (Walmart) and ten fold (Microsoft) in a decade under these leaders) are that they combine revitalized/new leadership, a re-defined strategy and or organization with an emphasis on investing in growing and helping as many employees as possible transform themselves.

A new strategy, a new leader and a new organization are often necessary, but they are never sufficient to regain growth and manage change. To achieve this aim it is critical that the rank and file needs to be communicated with, incentivized and trained to change and grow.

3. The Six C's Required of Modern Talent.

Today like never before we are living in a world of rapid transformation and change.
New industries rise and fall and the inter-connected unstoppable forces of globalization, demographic change and technology twist and toss all of us.

In this landscape how do we train talent or hone our own skills?

What will remain relevant and in demand in an age of shorter and shorter half-lives of firms and business models?

Six key skills will be essential in the future. Three of these have to do with the individual (***Cognition, Creativity, Curiosity***) and three on how we connect with each other and the world outside our minds including working with Agentic employees and AI Tools (***Collaborate, Communicate, Convince***).

Cognition is simply learning to think and keeping our mental operating system constantly upgraded. This requires deliberate practice and sustained work. Improved cognition is achievable.

Creativity is connecting dots in new ways, looking beyond the obvious and this skill will be key as AI powered computers, data crunch and co-relate faster than we ever will. To be human is to be creative. Creativity as vividly described by Sir John Hegarty is "an expression of oneself".

Curiosity is simply being alive to possibilities, questioning the status quo and asking two questions. What If ? And Why Not ? Today the key competitor or opportunity in any category comes from outside it. Curiosity may have killed the cat, but the lack of curiosity may kill the the careers of many people.

Being cognitively gifted, creative and curious will not be enough since we are living in a connected world where eco-systems, teams and linkages are how ideas are born, value created, and long-term careers forged. It is a world where we will need to combine with five types of employees in a firm (***Full-time, Free-lance, Contract, Fractionalized*** and***Agentic)***. To do so we will need to hone, build and train for three other skills:

Collaborate: Collaboration is key to work in a world where API's (Application Protocol Interfaces) and MCP's (Machine Context Protocols) are not just about handshakes or conversations between technology but also between individuals with different skills, teams in different countries, partners, suppliers and much more.

Communicate: Learn to write. Learn to speak. Learn to present. It may be so old school but watch the people who succeed, and they are good at communication. And all of these can be taught and learned.

Convince: Every one of us is a salesperson regardless of what we believe our title is. This is true even if we do not sell anything at work. We have to convince colleagues of our points of view. We have to convince our partners to join us on our life journey. Learn to convince and learn to sell. Story telling is a key.

It is rare that a company can avoid hiring significant talent from outside if it is serious about transforming itself to change and grow. New skills, new mindsets and new blood enhances the corporate genetic pool.

But these hires are particularly fraught, and experience indicates that focusing on four key criteria can minimize the risk.

These are a) Mental Agility, b) Integrity, c) Impact and d) Fit/Chemistry.

Two of these filters **Mental Agility** and **Fit/Chemistry** require multiple interviews and two of them — **Impact** and **Integrity** —require deep investigation (background checks, references).

Mental agility is key to lead a team or a company in a world of change and only in an interview can one test for this. Similarly, chemistry matters. Too many companies bring in a wunderkind who either fails to adapt or is chewed up and spit out by the organization. ***While "Culture" may eat strategy for breakfast it hones its chewing skills by gnawing on the bones of outside talent.***

Integrity and Impact needs to be evaluated over time and requires in depth research.
Integrity has never been more important and in today's world trust is increasingly key.
Impact on Business can be measured through financial results but as important is how the individual has built teams, grown people and dealt with long term periods of stress or setback.

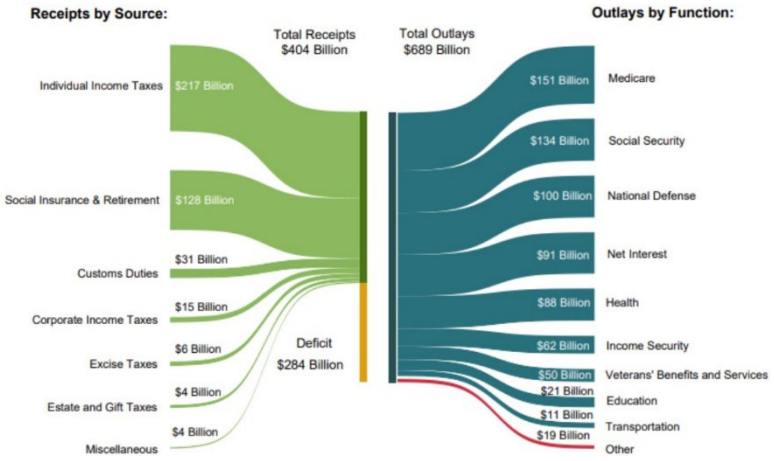
Ex-bosses and ex-direct reports are usually the ideal people to interrogate since they can provide perspective, put things into context and provide a multi-faceted picture of the person and are far less constrained than current colleagues or suppliers.

J. Michael Locke
Musings

#270: Musing
December 6, 2025

Our government fiscal situation is such a mess. Look at this graph about October revenue and expenses for the federal government:

Figure 1. Receipts, Outlays, and Surplus/Deficit for October 2025



As the WSJ puts it, *"The US depends on the kindness of strangers to finance its huge budget deficit"* as we sell bonds almost constantly. Some very sophisticated people like Ray Dalio think it is coming home to roost. The excessive borrowing is going to lead to a devaluation of the dollar (god forbid it lose its role as the world's reserve currency). This is part of the big run up in gold prices. Even Tucker Carlson (remember my comments about celebrities leveraging their ability to attract customers) is getting into the gold business.

I recently wrote about how companies need to focus on customer acquisition. Here are a couple more innovative examples. Pro sports team owners figured out they were attracting the customers but all of the neighboring bars/restaurants were benefiting. Baltimore was first and now it has caught on. The owners of the Cubs basically own all of Wrigleyville. Now the owner of the Mets just got a license to put a casino next to the stadium. Topgolf uses the golfing game to drive its food & beverage business. Bowling alleys make all of their money on Budweiser. The games are just a customer acquisition activity.

A big part of success is the management of expectations. Too many people allow expectations to get set too high and then the probability of disappointment is outsized. If I ever went on a dating app, I certainly wouldn't catfish with a hat on and saying I am over 6 feet (apparently women can now sort potential matches by height and show a great preference for someone over 6 feet even though the average American male is 5'9".) When describing your business, too many people overstate revenue or

profit growth to try and be impressive. Be humble and understate. Let them think you are a schmuck (channel your Woody Harrelson White Men Can't Jump). You want to establish expectations that you can exceed.

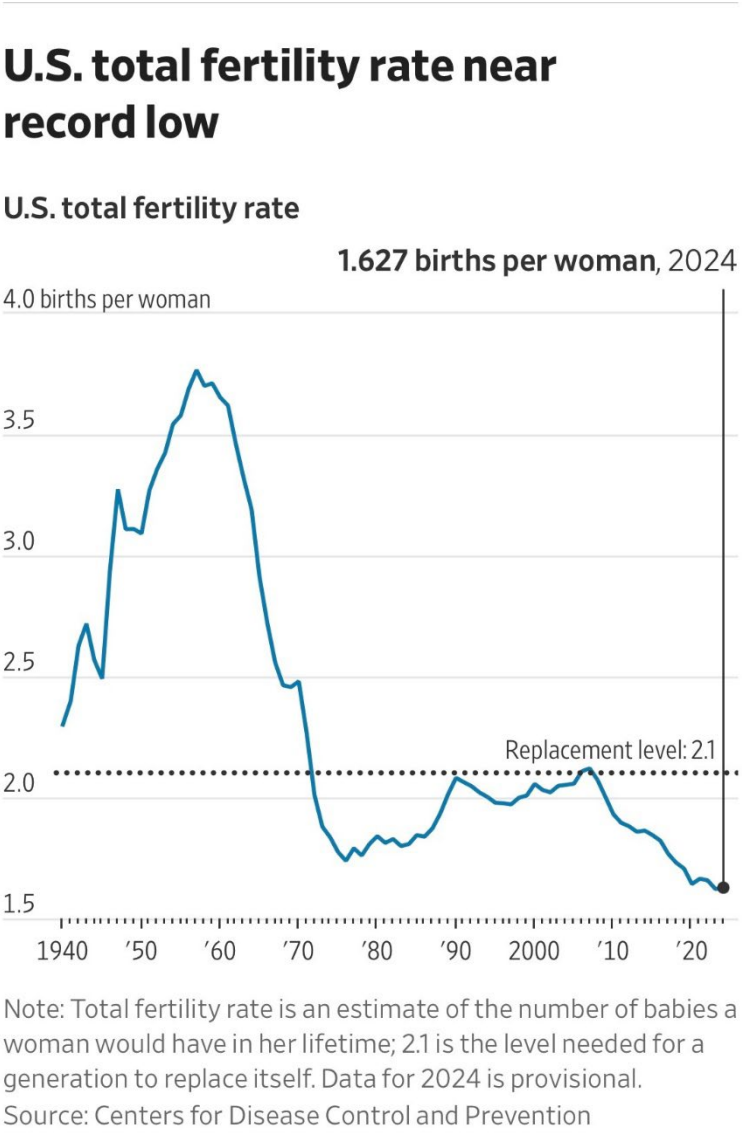
Most good leaders I know follow some level of "servant leadership" where your focus is on growing, empowering and supporting those who work for you. I don't like the "servant" word but it highlights the difference from the historical hierarchical, authority-based military leadership model. Unfortunately, college football coaches seem to have missed the memo. Why is the coach running out first onto the field? I think he should be last and the captains first. Famed hockey coach Herb Brooks didn't even go on the ice after the USA team won. Former Ole Miss coach Lane Kiffin definitely missed the memo. His college athletes should be excited to be 10-1 and headed to the playoffs and instead it was all about him. He even wanted to coach them in the playoffs after he said he was leaving? From the WSJ: *"Honestly, the whole discussion reeks of College Football Brain, that cross-affliction of entitlement and exceptionalism in which the most bizarre circumstances are treated as routine business."* Once you know someone is "leaving your team," call it a day and exit them.

One thing I hate about the "attention economy" is how it rewards folks who can drive attention regardless of their background and expertise. Whether it is AOC or Mamdani or Nick Fuentes, we have people with significant societal influence with scarce experience. Never had kids. Never employed people. I don't think any of them have ever owned a home. Their influence comes from their ability to communicate via social media. Not good.

We definitely have a K-shaped economy. The wealthy are doing well as asset prices increase (homes, stock market) and you see it with strong results from luxury brands. On the other hand, the lower end is feeling pinched and trading down. Chipotle has weak sales while Dollar General outperforms. According to the WSJ, households with over $250k in income own 68% of the stock market wealth although only 9% of homes. On the other end, households with under $100k in income only own 10% of the market yet represent 67% of homes. This is not healthy. Class 'warfare' is simmering and showing up in things like legal disputes around beach access in resort towns.

Nice of Susan and Michael Dell to try and help with their $6.25 billion donation to give 25 million kids $250 each as babies. The money is invested and grows tax free and then can be used for things like education or a retirement account when the kid becomes an adult. I like some of the newer approaches to philanthropy from the uber rich. Jeff Bezos' ex-wife Mackenzie Scott does not have a big foundation or staff, she just cuts huge checks directly to nonprofits (recently some HBCUs). I had some firsthand experience with the Gates foundation and what an inefficient way to give away money.

We need more kids!! Look at this chart of the fertility rate:



Hopefully our boys will seek real women and not folks like Aitana Lopez. Google her. Totally an AI-generated celebrity influencer. Give me reality tv and DWTS. It is like there is a huge "risk off" going on. Less booze. Less sex. Constant monitoring. Too much safety is not a good thing.

Maybe our boys are getting too many micro-toxins from all of the plastic K-cups etc. Apparently, micro-toxins stimulate estrogen release which is leading to earlier arrival of puberty in girls.

When someone starts with "out of abundance of caution," you know a bad decision is coming (thanks Mark Locke). Taking safety too far can even effect health. I believe the obsession with hygiene among parents of little ones has reduced the development of immunity and driven the rise of allergies. Let your kid play in the dirt and follow the five second rule on a dropped pacifier.

Never turn on your "out of office" message. If you want to be a successful executive, I don't believe in work/life "balance." Technology has made life more "integrated" vs "segmented." The velocity of

business means you can't work just Monday – Friday normal hours. It is a 24x7 global world which moves quickly. The art form is using technology to be work/life integrated where you can check email at night or do a zoom on Saturday morning and also take an extra long lunch or go to your kids play.

I think therapy can be productive but worry about those who use it to deal with all obstacles. We need more grit and less triggers warnings. Here is an interesting excerpt from recent Scott Galloway piece on the increasing rise of therapy. *"According to psychotherapist Jonathan Alpert, the rise of therapy culture has turned a tool for meaningful change into a "comfort industry" that's making Americans sicker, weaker, and more divided. "We live in an era where disagreement is treated like trauma, and emotional reactions are weaponized for political gain," Alpert writes. "On social media, vulnerability is currency. On TikTok, influencer 'therapists' dish out instant validation in 30-second bursts. The most anxious voices often hold the most influence. Complex issues get reduced into content. Millions watch, but few get better." One 2022 study of mental health videos on TikTok found that 83% were misleading, 14% provided potentially damaging advice, and only 9% were produced by content creators with relevant professional qualifications. Similar to supplements, therapy is a good thing that's easily exploited by hucksters. But if supplements are a pipeline to getting red-pilled, therapy culture is a sinkhole of misinformation, manufactured fragility, and needless suffering."*

Not all innovations are good. I recently had a chance to drive a Tesla CyberTruck. What an ugly car. Nothing says "rich asshole" more than driving one of those. I think you can tell a lot about someone by the car they drive. Fun game I recommend at your next dinner --- guess what kind of car someone drives. Based on the personality, you would be surprised how close you can get. The male orthopedic surgeon will much more likely drive a Porsche than a Honda. The practical accountant will more likely drive a Toyota Camry than a BMW.

I think dog ownership also tells you something. You know a guy is married when you see him walking a miniature doodle.

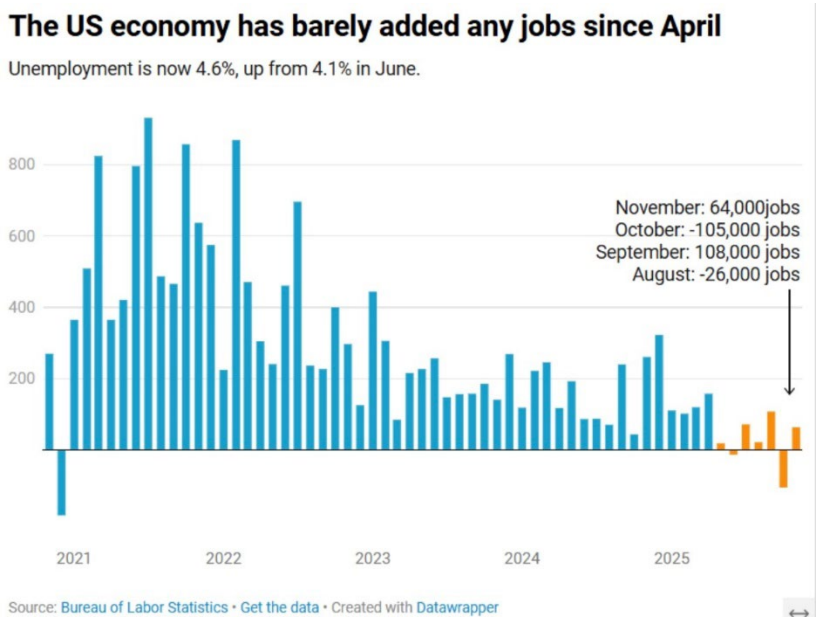
Congrats to our daughters on the launch of their holiday collection. Anyone shopping for a 18-40 year old woman – take a look: www.rowandwhit.com Based on a lot of feedback, they have moved away from using a model to using themselves. Speaks to my overarching comment about a society wanting authenticity. Mom even makes some appearances but don't wait for yours truly to appear – not brand compliant and relegated to driving shipments to UPS.

jml

J. Michael Locke
Musings

#271: Musing
December 20, 2025

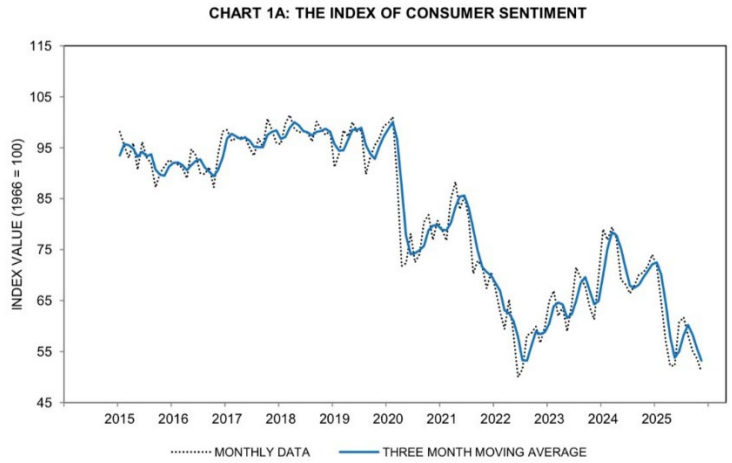
Watch the deteriorating labor market. Ai has every business owner holding back on hiring and even thinking about reductions. Volatile tariff policy is exacerbating the "risk off" dynamic by creating unknowns. According to a Business Roundtable survey, more CEOs plan on reducing headcount compared to adding to it for the third straight quarter. If you have a good job, be thankful. If you are looking, get employed now. Look at this graph on new jobs.



One positive of a soft labor market is that interest rates will likely continue to come down and this will help our federal fiscal debacle (also helps that there has been a big decline in federal government employment.) The US is increasingly financing its debt with shorter term notes (T-Bills now reflect 69.4% of all Treasury issuances). A record $25 trillion T-Bills were sold in the last year. God forbid rates go up as T-Bills must get refinanced in a matter of months.

Trump is kind of screwed on prices. Inflation is the rate of price increase (November CPI grew at a 2.7% annual rate). Inflation coming down is not prices coming down. Generally, prices don't go down (maybe a specific category or product but not broad based). Economic leaders work hard to not allow deflation as consumers stop spending if they think prices are going to come down and you end up with severe economic contraction. So basically, stop looking for prices to come down. It is not going to happen. Japan shows what happens when you have deflation with the "lost decades" where there was no economic growth. Japan is only now getting interest rates to 2% for first time in 30 years.

I heard three economic reporters recently describe our economy as: uncertain, meh and asymmetrical. The K-shaped economy which I wrote about weeks ago is reducing the utility of some measures. Look at the widely tracked University of Michigan consumer sentiment chart which shows the measurement at some of its lowest rates ever. Still, consumption is growing and keeping GDP growing because a smaller number of wealthier consumers have the spending power. There are a lot more people at the bottom of the K than at the top for the Michigan index.



One of the drivers of our federal fiscal debacle is the inherent challenge in taking away things. Once a benefit is rolled out, it is hard to take it back – whether a government program or a company employee benefit. It is not widely reported that the Obamacare subsidies which are expiring at the end of the year are not the original subsidies but enhanced ones that were added as a response to the Covid pandemic. They were supposed to be temporary but the argument is now about taking something away. Remote work is another example. Human beings work best collaboratively when in person but now companies are struggling to go back to the office. Need to be extra vigilant before you introduce a new benefit because you are likely to be stuck with it forever.

The rise of the private capital markets is stunning whether you are talking private equity or private credit. Some of it is driven by the burdensome regulations put on the public market but private markets are only accessible by some. So much action there now that index provider MSCI has launched a global benchmark incorporating both public and private equities, as investors increasingly look to private markets to boost returns and diversify their portfolios. From Bloomberg: *"The MSCI All Country Public + Private Equity index will allocate a 15 per cent weighting to private equity. It combines MSCI's All Country World Investable Equity index, which contains 8,300 listed companies — 99 per cent of developed and emerging markets listed stocks — with a newly launched All Country Private Equity index. The latter tracks the valuations of 10,000 private equity funds globally."* Regulations are changing to allow individuals to buy private equity through their 401(k).

Even the real estate market has a developing private market. The largest company of real estate agents (Compass) now proposes a sale process where you start by only marketing your home within the Compass network, then can go to its website and only if still not happy do you put it on MLS. You can no longer go to Zillow and assume you are seeing everything. The founder of Compass is challenging the assumption that a broad public auction is the only way to maximize price. Some investment bankers are doing to same thing, only marketing companies to a select group of buyers and not to "everyone" like in the past.

When investing, there are two key components – getting the direction right AND the timing. I think there is a broad consensus of the market being overbought right now and some "bubble" in Ai but if you rotated out months ago you have missed some material return. You have to get the timing right as well. Webvan was right on delivering groceries to the home but they were too early in predicting the changed human behavior and went bankrupt. After you develop your conviction on what is going to happen, focus on when it will happen.

I love how technology is providing for a more capital efficient world as excess capacity gets redistributed. Think of all of the value sitting in empty vacation homes (enter AirBNB), unused parking lot spaces (enter Spothero) or cars sitting in the office parking lot – enter Tesla? Apparently, Musk is going to make it that you can take your self-driving Tesla and drop it into the taxi pool when you aren't using it. So you drive your car to work and then flip it into taxi mode. It will go around picking up fares like Waymo and be back at 6:00pm when you need to go home and you make some extra money while you worked.

History is not treating me well on my negative comments about Google a couple months ago…basically, I was wrong. I saw standard search practices moving to AI chatbots and predicted a decline in Google's core ad business. Well, now Google is running the table. It is almost unanimous that their latest AI model is far ahead of all others. The leader of OpenAI which makes ChatGPT even declared a "code red" to focus his organization on catching back up. This gets back to my earlier writing about the power of rivalries to motivate people.

I don't know where the world is going with Ai but I say embrace it don't fight it. Ai fluency should become a gened in higher education as should customer service / communication skills. Humans will need to be able to leverage technology and then deliver outcomes to people — so the radiologist uses Ai to do first read of a film and then delivers the diagnosis to the patient with a human touch. Some say AI is making us dumb since it gives all of the answers but other technology developments were similarly discussed. See a great article by Andy Kessler from the WSJ after my initials at the end.

Scott Galloway calls the Ai arms race with corresponding data center buildout an hallucination. *"OpenAI is promising Oracle $300 billion — money it doesn't have — for infrastructure Oracle hasn't built. We can't see the actual contract, but this is BS. The greatest AI hallucination yet is the assumption that in the next few years we're going to build anywhere near the required grid and power capacity. OpenAI needs 20% of current U.S. electric capacity — equivalent to 250 nuclear power plants — at a cost of $10 trillion. There's a five- to eight-year wait to connect a new data center to the grid."*

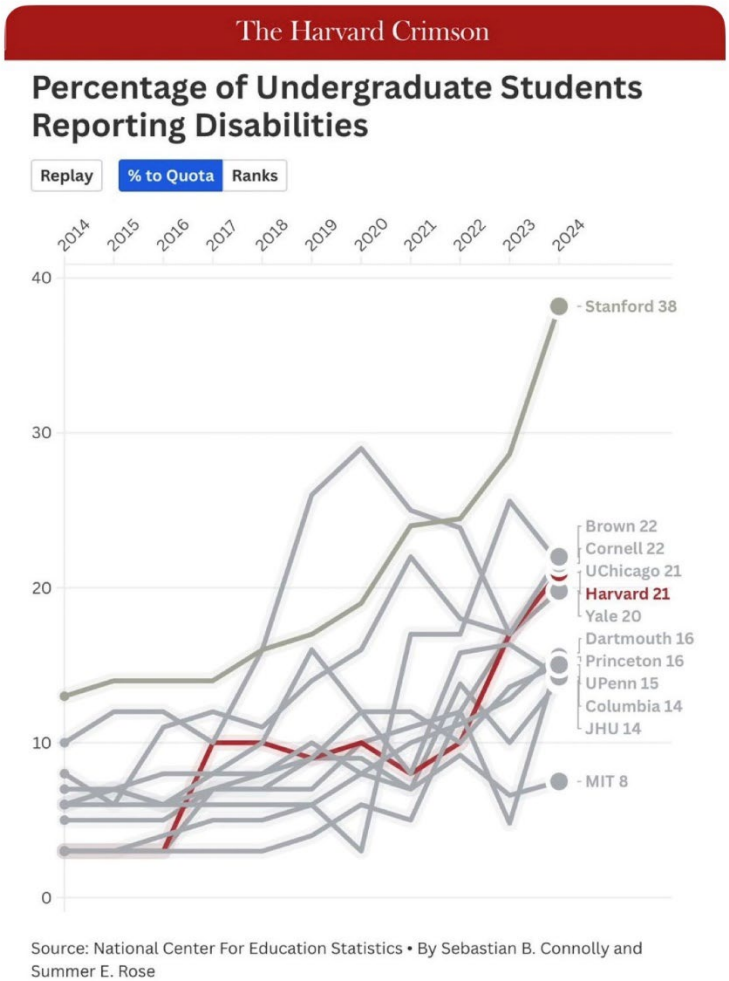
Are we losing the basic construct of human connectivity? Technology is making it easier to do everything by your phone. I was recently with someone who ordered from Starbuck's on the app while we stood outside the door of the coffee shop because it was simpler not to talk to someone. You have to really push to get a young person to call a customer service phone number. Not healthy.

Good quote from Patrick Branham on the relative value on accounting vs FP&A (financial planning and analysis). Tremendous value in telling me tomorrow's winning lottery ticket numbers (FP&A) but no value in telling me yesterday's winning numbers (accounting). Accounting does have value as you need to close the books and have good accounting records but too much time is focused "looking back" and more should be focused on financial forecasting, looking ahead and modeling scenarios.

Great innovation by Spotify and Oura. Last week, everyone is talking about their Spotify year in review (my top bands were Lake Street Dive and Charles Wesley Godwin). My "listening age" was 37. Don't even know what that is. They invented the concept as did Oura with its "sleep score" that people talk about every day.

Last time, I wrote about the excessive growth of therapy. One byproduct is the gaming of accommodations in education. A recent article in the Atlantic called it the "Accommodation Nation." At one affluent suburb of Chicago, over 20% of students got extra time on their SAT. At one law school, 45% of students receive academic accommodations. Our daughter's college gives priority for in person courses so our daughter is sitting on campus in online courses. From the Atlantic article: *"You hear 'students with disabilities' and it's not kids in wheelchairs…..It's just not. It's rich kids getting extra time on tests." Even as poor students with disabilities still struggle to get necessary provisions, elite universities have entered an age of accommodation. Instead of leveling the playing field, the system has put the entire idea of fairness at risk."*

Here is a graph from the Harvard student newspaper on the percentage of students with reported disabilities (thanks Chance McNamara):



I learned a new word – Docility. Usually you think of docile as passive but docility relates to the openness to be taught even if talented. You want to hire smart people who also love to learn and are intellectually curious.

Great quote from a senior executive – "how you do something is how you do everything." Don't blow off small things such as spelling miscues, an unorganized desk or being late for a meeting. The likely show the core personality.

People are becoming too complacent about marijuana risk. It has been proven to cause psychosis. Today's dope is also far more potent with increased purity. Trump going to change the federal classification from Schedule I to Schedule III. According to the Drug Enforcement Administration, '*Schedule I applies to substances with "no currently accepted medical use and a high potential for abuse" — the agency's most stringent classification, which is also for heroin, LSD and ecstasy in addition to marijuana. In contrast, examples of Schedule III substances include certain products containing codeine, anabolic steroids and certain stimulants.'*

Investors have been all over the trend to the "Humanization of Pets." We now have pet insurance, pet cemeteries, pet day spas, and fresh gourmet dog food. Can't say our mother believed in this concept – we had three sequential golden retrievers growing up and our mom just gave the new one the same name as the old one that had just passed. Missy didn't even get a roman numeral – I think there were 3 or were there 4?

In this Christmas season, lets us reflect on "Jetway Jesus." Love this from the WSJ: *"Social media is buzzing over "miracle flights," where able-bodied passengers board in wheelchairs to skip security lines and snag overhead bin space. Dubbed "Jetway Jesus," the ruse often ends upon landing. Once travelers realize they must wait for assistance to disembark, the "healing" begins and they walk off unaided. With no proof of disability required, some flights see up to 50 wheelchair requests for just 130 seats. Some people are even boasting online about the trick as the ultimate travel hack."*

Merry Christmas

Jml

Is AI Making Us Dumb?
Andy Kessler from WSJ

A June study from MIT Media Lab suggests that using ChatGPT to write essays results in "cognitive debt," a fancy way to say that artificial intelligence makes you dumb. Critics of AI and social media regularly throw around terms like "continuous partial attention." Or "brain rot." In a Substack article on our "stupidogenic society" (more on that later), one commenter states, "Our society has become so smart we truly are stupid." Ouch. But are we?

We've heard all this before. The Atlantic asked in 2008, "Is Google Making Us Stupid?"—which I found from a Google search. My parents called television the "idiot box," a term coined in the mid-1950s. Calculators, cars and probably candles and the abacus were considered a menace to society.

Still, the antitechnology backlash grows. We know that intelligence scores from 1932 to 1978 increased about three points every decade, the Flynn Effect. Each generation gets smarter. That's too short for

evolution, so scientists credit better nutrition or reduced exposure to lead. But IQ score growth slowed in teenagers starting in the 1990s and again in the 2000s. Hmmm, must be PCs and that darn internet.

In 2023 Northwestern researcher Elizabeth Dworak discovered a “reverse Flynn effect,” with youth scores dropping from 2006 to 2018 in three out of four “cognitive domains.” Facebook was released to the general public in 2006. The iPhone was introduced in 2007. It’s obviously their fault, right? Well, IQ scores are notoriously fickle.

Critics love to claim that technology enables addiction, anxiety, dopamine hits and doom-scrolling. A Guardian article that asks if we’re living in a golden age of stupidity includes this juicy quote: “It’s only software developers and drug dealers who call people users.” OK, then!

Washington University researcher Scott Marek has cast doubt on the dopamine claim. No matter—technology is always to blame. But remember, correlation isn’t causation. Recently Kim Kardashian, who has 354 million Instagram followers and just failed the California bar exam, revealed that scans showed troubling holes of “low activity” in her brain. Will social media be blamed? Almost guaranteed.

This summer, Daisy Christodoulou asked on Substack, “Are we living in a stupidogenic society?” The idea is that technology makes it easy for us to be stupid, similar to an obesogenic society when a move from human labor to machines (allegedly) made it easy to be overweight. Now we have “thinking machines,” so it’s easier than ever to be dumb.
Artificial general intelligence is moments away, they say, and we’ll all soon be dumber than ChatGPT. How come no one talks about the opposite—about a “smartogenic” society? Yes, by harnessing search and generative AI, it’s easier than ever to be smart. Too positive.

Instead, grumpy naysayers say our brains conduct “cognitive offload.” A paper titled “The Memory Paradox” states that “frequently offloading cognitive work to devices may cause certain ‘mental muscles’ to atrophy.” Mental muscles? That certainly sounds scientific. And Lane Brown, in New York magazine on “The Stupiding of the American Mind,” thinks as our influence circle expanded from family, co-workers and friends to unwashed strangers posting nonsense on social media that we’ve all had a “crowdsourced lobotomy.”

Hard to argue, except—remember that reverse Flynn effect? The one area where scores went up was 3-D rotation and spatial reasoning. Is that from a generation playing videogames like “Call of Duty”? Probably, but few point this out. Maybe Forrest Gump was right: “Stupid is as stupid does.”
Everyone can be smart. Global literacy was 12% in 1820. Were the rest unintelligent? Stupid? Hardly. Literacy is now 87%. Sal Khan, the founder of Khan Academy, told me that if we put our mind to it, everyone is educable in every subject. Yes, worldwide math scores have been down for 20 years. Many students at the University of California, San Diego, can’t even do third-grade math. But that’s an indictment of our educational system, not technology.

Jonathan Haidt had a moment last year with his book “The Anxious Generation: How the Great Rewiring of Childhood Is Causing an Epidemic of Mental Illness.” His plan to save our children: Limit smartphones. Ban social media before 16. More independence and free play. He might add going back to living in caves.

We need to fight fire with fire. Social media is fun and addictive. But the real world and jobs are technology-dependent and getting more so. AI is a productivity powerhouse. Rather than shielding

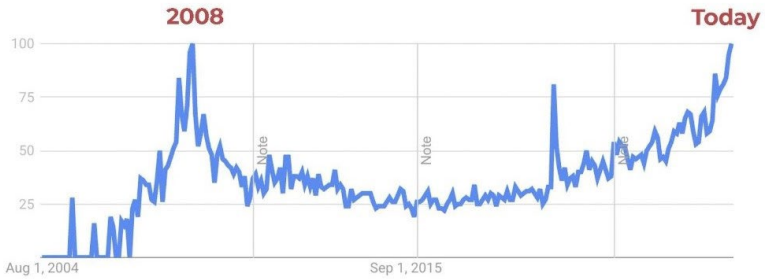
youth from the future, make education as fun and addictive as technology, social media and AI.

Let's face it, education hasn't changed much since Miss Crabtree in the 1930s "The Little Rascals." Embrace technology. Don't ban it. Revamp teaching to leverage ChatGPT rather than block it. Go toe to toe with addictive social media. ChatGPT won't make us dumb and dumber unless we let it. Instead, adopt and adapt AI to create an anti-dumb "smartogenic" society.

J. Michael Locke
Musings

#272: Musing
December 27, 2025

Numbers are not always right. While they may be factually accurate, depending on the specific measurement, they can provide a misleading read. That is how I view the 4.3% growth in GDP for Q3 which was just reported. I am not questioning its accuracy but I don't think it provides the right interpretation of where we are going. It was driven mostly by growth in consumption (which is 70% of the measurement). The upper end consumer (top part of our K situation) is spending well due to rising asset prices but the regular consumer is challenged. The lower end consumer will also face significant headwinds in 2026 as student loan repayment restarts (they have still been delayed since Covid). Car loan delinquencies are rising and look at this chart of search volumes for "help with mortgage":



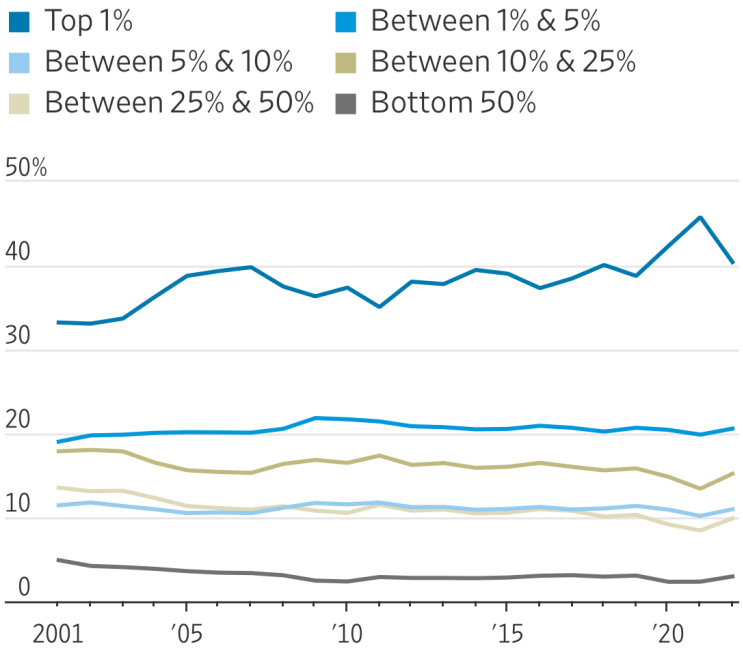
There are prominent economists who disagree with me. Larry Kudlow and crowd believe we are about to enter a great phase of economic prosperity with growth over 5% in 2026. Musk has talked about double digit growth. Their argument is inflation is coming down, interest rates are coming down, tax cuts are coming from BBB and you have an AI investment super-cycle which will add 200 basis points (2%) to growth.

I would also be careful about last month's CPI reading which did not include housing due to the government shutdown. Housing makes up 1/3 of the CPI and prices are stubbornly high. The supply/demand balance driving those prices is the challenge on supply. The majority of mortgages are under 4% so potential sellers can not afford to buy something else and take out a new mortgage. Market is locked up.

Add healthcare to the rising expenses (whether you have Obamacare expiring subsidies or just normal corporate provided insurance) and you have the trifecta of challenges for the majority of Americans. The All In podcast crew feels that the healthcare/housing/education trifecta must be solved or AI development becomes dystopian as jobs are lost. Some prominent conservatives are buying gold and ammo. Not good.

It doesn't work to have the economy only work for the wealthy even if you tax them. Here is an interesting chart on tax collections:

Shares of Federal Income Taxes Paid by Income Group, 2001-2022



Source: Tax Foundation based on IRS statistics

Be glad you aren't in the food business. GLPs are being mainstreamed. Astra Zeneca just got approval for an oral (pill) version of their obesity drug and prices are coming down. Lilly version coming soon. I think GLPs are going to become like statins with a tremendous amount of people on them. Is that good? Certainly, it is a positive to have a healthier population and obesity drives all kinds of other diseases. I just don't like the idea of everyone getting there through pharma rather than diet and exercise.

It will certainly be a positive for the mass adoption of GLPs to reduce other addictive behaviors like gambling. It is not healthy that you can bet on anything all of the time. Especially bad for young men. Are we surprised that many games (like NFL) appear to be fixed when there is so much money on the line?

Don't fall for the common mistake of assumed knowledge superiority. "Experts" in a given field (technology, healthcare, finance) can express an opinion as fact and too often, the counterparty who is not in the field, simply accepts it. Push back. Ask questions. Too many of us turned our families lives over to Anthony Fauci.

Put me in the Pete Golding fan club. The new coach of Ole Miss chose not to do the famous pre-game walk through the Grove (the massive tailgating area). He wanted the focus to be on the players and not on him (unlike his predecessor whose name won't be mentioned like Harry Potter). That is leadership. I think I need to send Trump a servant leadership book (no reserved parking spaces let alone renaming buildings after yourself).

Don’t be a “leave it empty” person. Be a “restock it” person. Holidays provide lots of moments where things run out – coffee, toilet paper etc. Want to be the person who replenishes for the next person.

Don’t be a ghoster as well. Our conflict avoiding society has led to the bad habit of just “pulling the plug” and walking off the field. Potential dating partners stop returning texts and ghosting. I even had a new employee once go out to lunch on their second day and simply never return. Have the guts and courtesy to say you don’t like something and communicate your exit.

As we celebrate this holiday season, made me curious how many people celebrate what holiday. Should businesses be open on Christmas (my local Starbucks was)? Here is the US population broken down by religion (according to ChatGPT):
Christian 62% (Protestant at 40%, Catholic at 19% and 3% other), no affiliation 29%, 2% Jewish, and 1% Muslim.

Happy New Year

jml

J. Michael Locke
Musings

#273: Musing
January 4, 2026

Hope everyone enjoyed amateur night. No thanks to Dick Clark for creating the inane NYE productions of empty calories.

I will spare you another "big stories of 25" or "predictions on 26" but would just comment on AI. Despite what you hear, our economy is not dependent on the AI spending craze. Yes, it is a large part of the 4% growth but it is not that large a part of GDP. Our economy lives and dies with consumer spending (70% of GDP) and almost 50% of that consumer spending is wealthier households. So in large part, our economy moves with the spending of the rich which is driven by asset prices.

Not a big fan of this quote from the new Mayor of NYC: *"We will replace the frigidity of rugged individualism with the warmth of collectivism."* Sounds like someone who has never really had a job.

The part of AI to really watch is the impact on the labor market. Most companies are holding their headcounts flat if not cutting jobs. Watch the "underemployed" as well as the standard unemployment rate. There is a huge shift happening in the attractiveness from white collar jobs vs blue collar jobs. Entry level software coding is now an unattractive path while plumbers and electricians are killing it. Higher education moving too slowly to build trade school capacity.

Interesting stat: 17% of holiday purchases will be sent back (WSJ).

Welcome to the Hotel California – you can check out any time you want, but you can never leave. A proposal to tax billionaires 5% of their net worth (including unrealized investment gains) is being proposed for the November ballot. Watch the billionaires leave the state. It is happening right now in the UK due to a similar changes pushing higher taxes (change in domicile rules for foreign residents). The blue states need to recognize the mobility of people and their capital. In a similar vein, the Mayor of Chicago wanted to charge a "headcount tax" for companies with offices downtown. Fortunately, the city council didn't go along as such a measure would have just driven more businesses out of the city. I have written often about the need to address our growing wealth gap but simply taxing the rich more and giving that money to our inefficient and often inept government entities is not the answer (see Minnesota). I liked how this commentator put it *"call it a "wealth tax" or a "billionaires tax" or a "millionaires tax" or whatever polls well, but at the end of day, it's the seizure of private property from citizens by the government. Citizens that earned money, paid their fair share of those earnings (53% if you live in California) and are now being told they need to hand over after-tax assets because the government has failed to provide promised services with the revenue it's collected, and are now re-casting their own failure to be a socio-economic inequity that must be solved…a slippery slope that has never gone anywhere good (see economic effects in USSR, Cuba, Venezuela, France and Norway)"*

The idea behind the Minnesota scam was not bad. Childcare is a huge issue. With more women than men now in the workforce, our society must have decent childcare. From Gemini: " The average annual cost of childcare in the United States currently ranges from $11,500 to $15,500 per child, depending on the type of care and the child's age….with many families now spending upwards of 20–29% of their household income on childcare."

Watch the legs of the MN childcare story. I don't know what is true and what is not but there is a lot of "smoke" and our overtaxed residents are going to have little patience for large amounts of government waste especially if the recipients are then turning around and using some of the money to support the giving politicians.

Not sure what this next situation says about capitalism. I was checking bags at Southwest airlines and recognized a guy who was always very helpful when we had our 4 kids and 8 bags in tow. He shared that he no longer works for Southwest (after 31 years) as they outsourced baggage claim to a third party. So technically he retired and got hired by the new outsourcing company which does not provide any paid time off or vacation days. His earnings are way down. He is consulting labor attorneys. So an activist hedge fund pushes Southwest on profitability and it outsources the function to save money. Technically, this guy was probably overpaid for the skillset but now is "thrown to the curb." Not sure this works for our society. Capital allocation is more efficient but human toll is heavy.

I am becoming a Tesla believer. Good quote: "the car is to Tesla what books were to Amazon."

Just like picking a stock before it goes on a good run, we encourage our kids to look at cities the same way. I believe in moving south as the weather and business-friendly climates are driving good economic growth throughout the Southeast. It is too late to move to Austin or Nashville (they are struggling to keep up leading to infrastructure problems as well has high housing prices). I think the prime cities right now are Raleigh, Knoxville and Columbia.

Are sports scouts just not that good? Caleb Williams was drafted first and makes $10 million a year and just got outplayed by Brock Purdy who got drafted last (pick 262) and made only $800k in his first year. Ole Miss is in the hunt for a national championship with a quarterback who was barely recruited out of high school. Personally, I think digital curation based on data is better than humans. Give me the AI function on Spotify over an old fashioned DJ.

Maybe it is a bruised ego, but drives me crazy to meet someone 4 or 5 times and they don't remember meeting you before. I understand not remembering every encounter or two but when you get to 4 or 5, c'mon man.

Googles top searches of the year:



Top Trending Searches in the U.S. (2025)

1. **Charlie Kirk**: (Conservative activist, assassination)
2. **KPop Demon Hunters**: (Netflix series)
3. **Labubu**: (Collectible figures)
4. **iPhone 17**: (Apple product)
5. **One Big Beautiful Bill Act**: (Political legislation)
6. **Zohran Mamdani**: (NYC Mayor-elect)
7. **DeepSeek**: (AI/Tech)
8. **Government shutdown**: (U.S. political event)
9. **FIFA Club World Cup**
0. **Tariffs**: (Economic topic)

Congratulations to our daughter Cate and her new fiancée Danny Glimco. Fun times ahead.

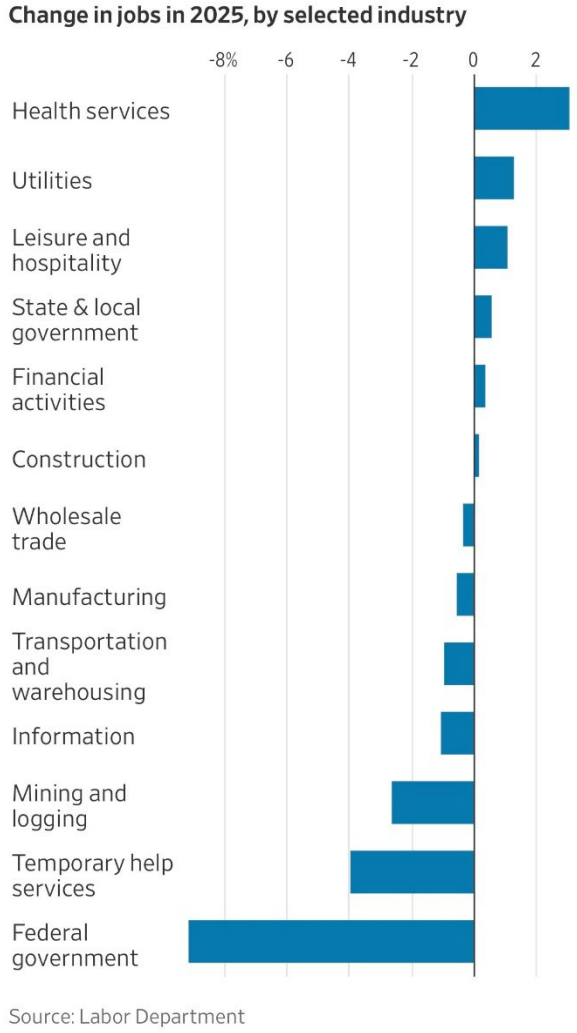
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J. Michael Locke
Musings

#274: Musing
January 11, 2026

Not a lot of thoughts this week

We have a stalled job market. Not hiring and not firing. For all of 2025, the economy added far fewer jobs than it did in 2024 (584k compared to 2 million). That said, it was a healthy rotation away from government jobs and towards private sector. Interesting graph from the WSJ:



If you are hiring younger professionals out of undergrad or business school, I am a fan of hiring from "tier 2" schools. The best combination of talent and desire is often not in the elite institutions. Consider it an "Avis" strategy of being #2 and trying harder. You are seeing examples of this in college football as

the portal is providing opportunities for athletes who were not the big stars coming out of high school. Too many of today's new professionals feel entitled and don't do the basics: show up on time, be dressed and groomed appropriately, and work really hard.

The velocity of business necessitates changes in our methodologies for measurement. Quarterly surveys or annual reviews are too slow. Things need to be monitored constantly. For example, I worked with a small business called "Tiny Pulse" which asked one question every week of employees digitally and monitored it like a human pulse versus the historical model of an annual employee survey. Watch the development of polymarkets which constantly measures public sentiment on various questions nonstop by making a market (www.polymarket.com)

Lots of action out of Washington. I don't know much about Venezuela. Seems to me it is all about the oil and part of a strategy to drive down gas (energy) prices in an affordability push. Problem is gas prices are only 3% of CPI while housing is 45%. This is why Trump is trying to ban large investors from buying single family homes to reduce demand and thus prices.

The recently announced revisions to food pyramid reflect much of what has been happening in our house. More high quality protein and healthy fats (avocados, butter). Whole milk. The mentality of calorie minimization appears over. Less ultra processed food with all of its added sugar (not good for my gas station food habit). Focus on microbiome and gut health. So Greek yogurt not other yogurts (too much sugar). This all helps with mental health as well.

The revised guidelines also recommend introducing allergens to young kids. So don't avoid peanut butter (give a little). I think the explosion of allergies is in part due to avoidance of these things. I feel the same way about dirt in general. The body needs to develop its immunity system and having a little dirt isn't bad. Put away the antibacterial soap and hand sanitizer and follow the five second on the ground rule. This brings us to the flu vaccine. Lots of press stories about rising flu cases. My understanding is the flu vaccine is a guess on what the strain will be during flu season. This "guess" must be made six months in advance for production and historically has been less than 50% accurate. Personally, I don't get the flu vaccine. I think older people or those with more risk should get the shot but I don't think everyone needs to run out and get it (remember I have zero medical training so take my thoughts with a grain of salt).

I am not going to comment on the ICE shooting in Minnesota as I try to stay away from politics in these musings but I am amazed at how much is on video in today's world. Between every individual having a video camera on them (cell phone), most households having cameras on their doors and drones flying around, basically everything is on video.

Don't forget the adage – "It never hurts to ask." We had a recent experience where the service professional originally said no. I was going to fold our cards and leave without our desired item but my wife Heather asked for her to check with the manager. She came back saying they could do it. Don't fold right away or just assume a business won't do something – ask. Businesses want you to be satisfied and happy.

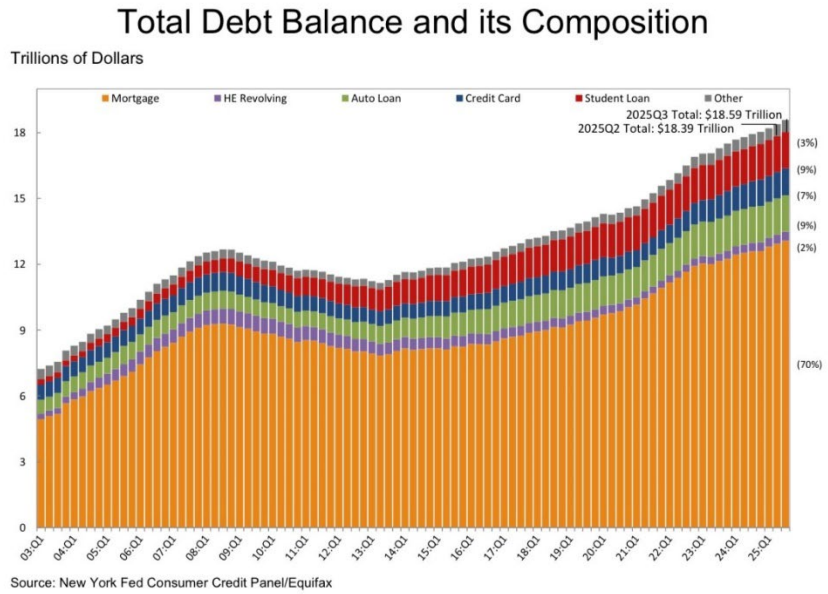
Go Bears. The power of believing something is possible is amazing.

Jml

J. Michael Locke
Musings

#275: Musing
January 19, 2026

Trump is desperately trying to get the Fed to reduce rates. As a real estate developer, he knows the importance of the cost of debt. This is why he also has proposed a cap on the interest rate credit card companies can charge. He understands that the world lives on leverage. Look at this chart showing the growth in consumer debt and the various types.



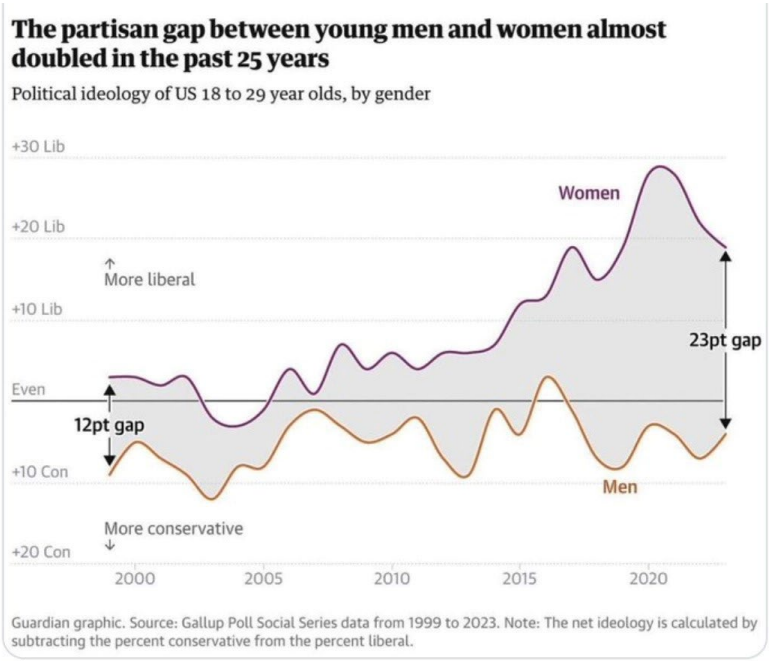
It is amazing how much of personal finances revolve around housing. As I wrote last week, it is the largest individual component of the CPI. It is the largest component of debt per the above chart and it is the largest part of consumer wealth. Trump has also proposed letting individuals tap into their 401(k)s for money for a down payment and is exploring "portable mortgages" so those with a low 3% mortgage could have it move with you rather than having to pay it off and getting a new one at 7%.

While inflation rates continue to be moderate at under 3%, consumers still aren't happy because of the cumulative effect of inflation over the last five years. According to the WSJ, prices are 25% higher than they were five years ago.

The Department of Transportation has a PR campaign asking travelers to dress nicer. The logic is that it will reduce poor behavior. While mocked by many, I actually agree with the premise. I think the "decline" of workplace attire has contributed to the loss of professionalism. You behave differently if dressed up vs being in a sweatshirt and flip flops. I am not advocating bringing back the tie but our whole society should dress it up a little.

Technology and social media are creating skewed perceptions of public attitudes. News organizations now track what is trending online and judge public sentiment often by what is said online. The problem is the whole world is not actively engaging online with Reddit, X and public comments. That is a particular group of people whose views do not reflect the broader population. Reporters need to "get on the road" and shake hands and ask people in person what they think.

While I stay away from political comments, I found the following graph which was tweeted by Bill Ackman stunning. In my own world, I anecdotally see the large chasm shown in the chart.



However, too many young men are "blaming" women for the lack of normal youthful relationships. Interesting note from Scott Galloway:

"Struggling to find a romantic partner is normal. Today, however, a dangerous ideology is infecting many young men, who see their incel status as inevitable, and even embrace it, blaming women instead of trying to better themselves. Many aren't incels, but vcels — voluntary celibates who choose resentment over self-improvement.

The challenges young men face are real. In school, boys fall behind their female peers and are much less likely to become valedictorians and go to college, with the education system biased against them and girls mature faster. American tax policy increasingly transfers money from the young to the old. We've adopted a scarcity mindset that only benefits incumbents — and the rising costs for housing and education that result take an especially heavy toll on young men, who are disproportionately evaluated on their economic prospects. Big Tech profits through sequestration and enragement, while digitizing dating has resulted in a winner-take-most environment."

Is ChatGPT going to become your primary care physician? Most people don't have a real primary care doctor who manages their healthcare. Most medical students are going into specialties and reducing the supply of generalists. Enter technology. Growing trend for consumers to manage their own care and using resources like Chatbots. BTW - I recommend Gemini - really good.

The Golden Globes were awarded last weekend. Who cares.

Where is Greenland?

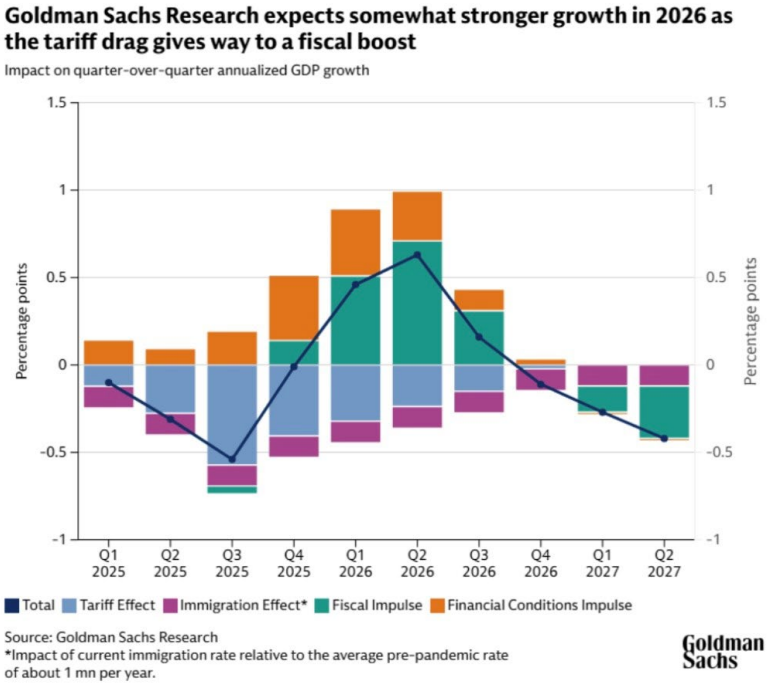
RIP Bob Weir. Grateful Dead concerts were quite an experience (I only did two). Kind of a predecessor to the cultural phenomenon of Taylor Swift's tour. Surprised to read that Bad Bunny had more streams than Taylor (Rockey) last year. I can't name/know a single Bad Bunny song.

jml

J. Michael Locke
Musings

#276: Musing
January 25, 2026

I am becoming a believer in the strong economic growth argument for 2026. The confluence of fiscal stimulus (provisions in the one big beautiful bill), monetary stimulus (Lisa Cooke won't be fired but Powell term up and a Kevin goes in and rates come down), and AI infrastructure investment mean the GDP will continues its recent 4% plus rate or even accelerate. Here is a chart from Goldman Sachs (notice the growth rate is sequential for the quarter and not year over year):



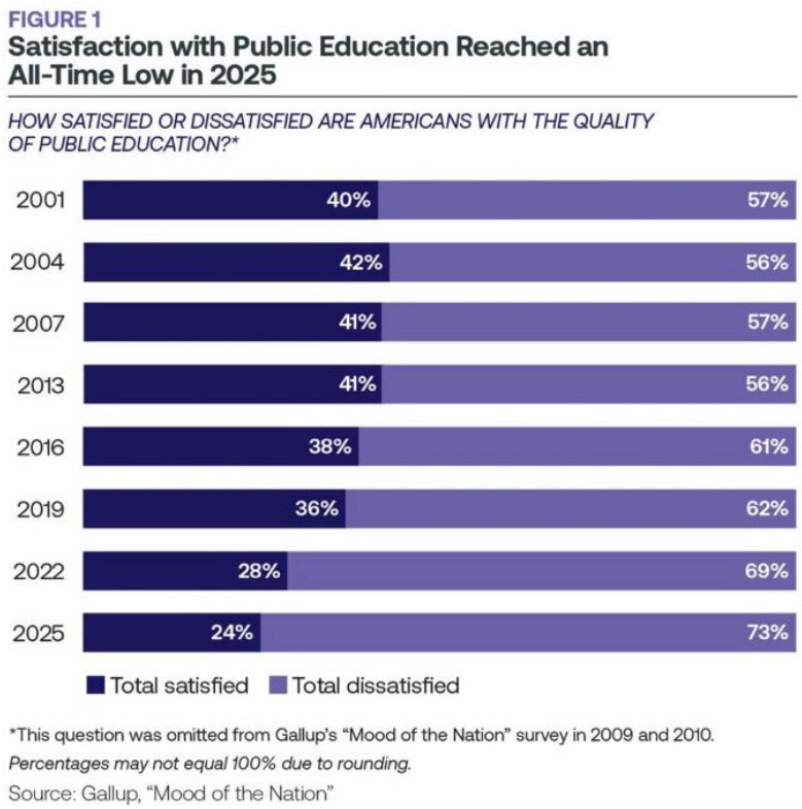
I am not sure what the "global elite" that gathered in Davos think because everything got overwhelmed by Trump's pursuit of Greenland and Macron's sunglasses. Candidly, I don't care what that crowd thinks. Somewhere through the Covid experience, I have become "anti" the ruling class. Not sure anyone would ever call me a "rebel" but I think the Ivy League, NY/DC/CA coastal crowd is pretty out of sync with the majority of our country. Good quote I heard "boos in Davos generally correlate to applause in Davenport." Buc-ee's should host a summit. That I would care about.

I have even started buying some crypto. I never thought the powers that be would let that market develop to rival government-controlled currency but it has. It is becoming mainstream. JP Morgan is going to allow its institutional equity clients to trade it. 401(k)s can now buy it. Should have listened to our son Graham who wanted me to buy Bitcoin at $12,000.

We are looking to join the migration out of "big government" states with shaky fiscal situations. I don't

see how places like Illinois, New York or California ever fix their finances without really heavy taxation of higher income residents and even wealth taxes like those being discussed in California. The unfunded pension obligations are overwhelming and my understanding is states can't declare bankruptcy (cities can). Unfortunately, I think you are going to see a "segmenting" of our country with those with more money moving to "small government / low tax" states. This will only magnify the downward trajectory of the big government states. A reverse Beverly Hillbillies.

Another institution losing trust is colleges. Look at this graph on public confidence in higher education:



The derivative impacts from mass adoption of GLP-1s seem endless. According to CNBC, drugs like Ozempic could save airlines hundreds of millions of dollars annually through reduce fuel costs because the total passenger weight is reduced.

Amazing to me how car dealers have become car service centers. The sale of the car is just a low profit customer acquisition to get the services business. Services side of the dealership is now a Starbucks with a nice waiting room etc. I have never seen a dealer's financials but I think they are making all of their money on service.

Lets bring back chivalry. While born out of a sexist history, it does not imply inequality between the sexes. Guys – open the door to the car, get the door to the building (you go first if it is a revolving door so your female companion doesn't have to push), walk on the street side (so puddles don't hit her), carry her bag. Just being nice. I was saddened when sitting in a crowd (at a car service center) and someone sneezed and no one said bless you or Kuzuntite. (actually it is the German word Gesundheit which means health so you are wishing them good health to prevent from getting ill – thanks Gemini).

Interesting stat. Spotify pays 60% of revenue in royalties to the content creator. Interesting how that value chain works. Seems like there are endless talented musicians (can you really tell the difference in Nashville between the hungry beginner and the big star?) The power is in the distribution and the curation.

Don't do the latest Apple operating system update. Not a good user experience.

Finally, congrats to the Indiana Hoosiers. Lots of great lessons from this one. Coach Cignetti is obviously a good leader – relentlessly focused on execution, never take a play off, don't accept sloppiness. While the quarterback may be somewhat "robotic" in his communication, you have to love his commitment to a system, embracing of his team and lack of ego. Then there are the parents. Love that the dad stays seated so he can celebrate with the mom who has MS and can't stand. Great to see the public embracement of faith as well. I think religion (especially the Catholic church) is making a comeback. People don't want to exist in a Trumpian world of chaos but rather want grounding and a foundation.

jml

J. Michael Locke
Musings

#277: Musing
February 1, 2026

I am not well-versed in the currency / commodities market so write this first section with trepidation. If any reader with expertise feels I got something wrong, please let me know.

Lots of action going on in the precious metals and currency markets. Time to melt grandma's bracelet. Gold has skyrocketed to an all time high at over $5,000 an ounce. (not a regular ounce but a slightly different troy ounce dating back to merchants in Troyes, France). Lots of speculation on why but at its core, the scarcity makes it a safe store of value which is not subject to government policy decisions. If you are worried about interest rates / the value of the dollar / social unrest, you go buy gold for your safe room with your guns and ammunition (or just buy a gold ETF).

The "America first", more isolationist positions being pursued by the Trump administration have some real peril for the value of the US dollar. The US dollar is the world's reserve currency. For example, oil trades globally in dollars. This drives demand for dollar-denominated assets (our massive federal government debt). As Trump pulls back from the globalist approach, the demand for our dollar-based debt will likely decline. For example, after announcing a 10% tariff on goods from eight European nations that rallied around Denmark during the Greenland reality show last week, Denmark's largest pension fund announced plans to sell off $100 million in Treasuries. From Bloomberg: "Pimco's chief investment officer told the *Financial Times* it was pivoting away from U.S. assets because of Trump's "unpredictable" policies. Europe holds 40% of foreign U.S. Treasuries. As Ray Dalio said, "You could easily imagine it could simply become unpopular to buy or hold U.S. debt"…."For all its military and economic strength, the U.S. has one key weakness: it relies on others to pay its bills via large external deficits," said Deutsche Bank's George Saravelos, adding that it's "not clear why Europeans would be as willing to play this part."

I think we are fortunate to have Scott Bessent. He knows what he is doing at Treasury. Part of it is gamesmanship. My understanding he is refinancing a lot of the debt mostly with shorter term notes so reducing the supply of 10 year notes. With lower supply, longer term rates actually have downward pressure.

America has historically pursued a "strong dollar" policy where it wanted the US dollar valued highly compared to other currencies. One challenge with this is that it drives up the cost of exports / reduces cost of imports and thus drives a trade deficit. Not sure Trump wants a strong dollar. Good quote from a guy in the WSJ: *"Prior Administrations prioritised capital markets performance and believed that the deindustrialisation of the US was a necessary side-effect of a more efficient global economy," Stephen Jen, a longtime currency strategist with Eurizon SLJ Capital"*

Watch the developing issues around digital currencies. The US is not pursuing a digital dollar but other countries are. When you "send money" in the US via Venmo, Zelle or whatever it all connects back to a

credit card or bank account. Other countries like China are going to make it more like bitcoin with you transferring the actual digital currency.

I have written about the paradox of strong consumer spending which drives GDP growth while Michigan reports terrible consumer sentiment. Oddly, it turns out that poor consumer sentiment is a contrarian indicator for the equity markets. From BNY: *"In fact, equities have historically delivered strong returns in the one-year period following depressed sentiment levels, with the S&P 500 delivering average returns of 19% in the 12-months following the low in sentiment."* Go figure.

As I have written, I believe we will have strong GDP growth in next year. However, it looks to me like a sugar high. We have a fundamental issue with de minimis growth in the number of workers. Without immigration, our population only grew 519,000 last year on a 340 million overall number. Absent real productivity gains, GDP can't grow without population growth (or higher labor participation rate).

We might get a Hail Mary on productivity from AI. Interesting predictions on AI from Goldman Sachs CIO:

1. **AI is the new operating system:** Rather than functioning as one-dimensional applications, AI models are becoming operating systems that independently access tools in order to perform tasks. In turn, computing is evolving from static, hard-coded logic to outcome-based assistants that reprogram themselves.

2. **Context is the new frontier:** AI models that have been trained on vast pools of data can still only summon up relatively tiny contextual frameworks. But newer models can reason and inject much larger contexts into processes to provide far more bespoke, customized responses.

3. **The rise of the personal agent:** What we do now with apps soon will be done automatically via personal agents. For example, if a flight is cancelled because of the weather, an AI agent will know to rebook the flight, reschedule meetings, and order food for afterwards (since restaurants will be closed).

4. **The agent-as-a-service economy:** Companies will shift from deploying human-centric staff to tackle tasks to deploying human-orchestrated fleets of specialized multi-agent teams. These hybrid teams of humans and machines will charge clients by the amount of tokens—the units of data used by AI models—that are consumed.

5. **Learning becomes the most important skill:** The workers who thrive will be the ones with expertise who are also the most willing to adapt. For those workers, the single biggest differentiator will be their ability to reimagine—in an age where AI will help them to do their jobs—something they've been doing for many years.

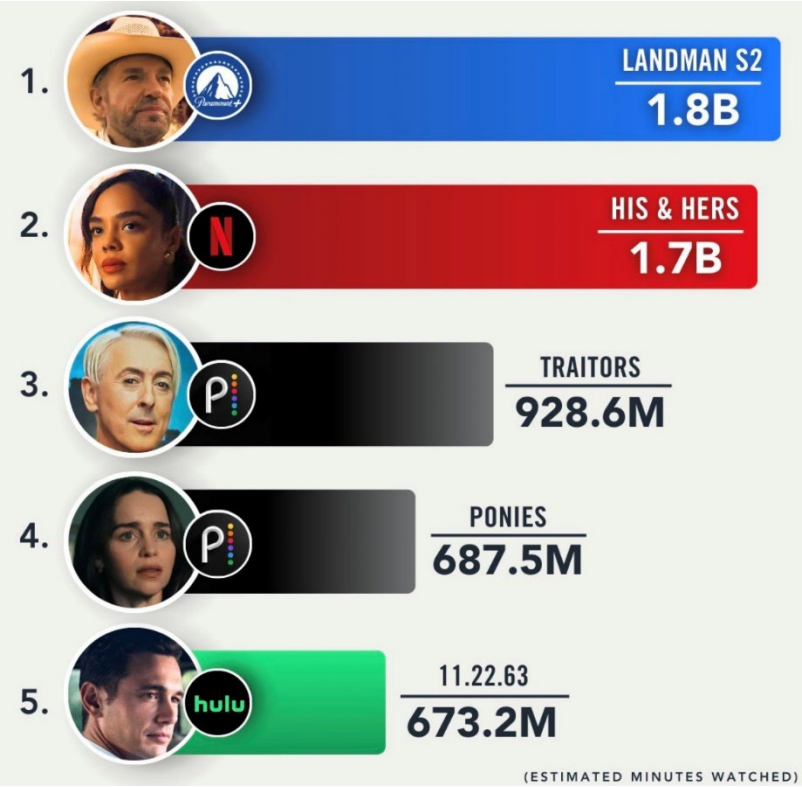
To my comment last week about domestic relocation based on policies, California lost 229k citizens, New York 138k, Illinois 40k. You get the point.

Why do pharmaceutical companies not have liability for vaccines if they cause harm?

According to the WSJ, one in five Americans have tried a GLP -1.

Get ready to head to Cuba. Cutting off Venezuelan oil will lead to a regime change driven by social unrest.

Here are the most watched streaming shows last week. Don't know anything about 3,4 and 5. Landman and His & Hers are good.



I hate how media now says "[insert president] appointed judge." My experience is that federal jurists are doing their best to fairly call balls and strikes. Clearly, there are gray areas of judgement that will be influenced by personal perspectives but to politicize the judiciary is not healthy. One law school professor once said to my class something like "the whole goal of the system is to have dispute resolution that is accepted by the public" rather than technically getting stuff right or wrong.

Recently had a chance to socialize with some "more experienced" members of my community. The vitality of todays 85+ crowd is really something. I think it makes life so much richer to have intergenerational relationships. Brings perspective and different views. Valuable for both sides as I learn from them and then I explain who Bad Bunny is.

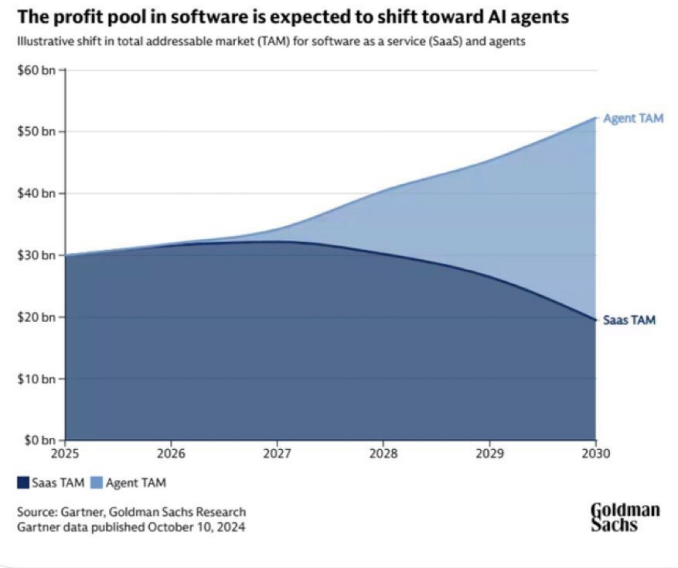
RIP Southwest. Activist investor hedge funds pushed for adoption of traditional airline model and making money on bags and seats. Problem is there were many (like me) who chose Southwest because of their different model. Without that differentiation, I now look at all airlines vs just defaulting to Southwest. Will be interesting to see if it backfires.

jml

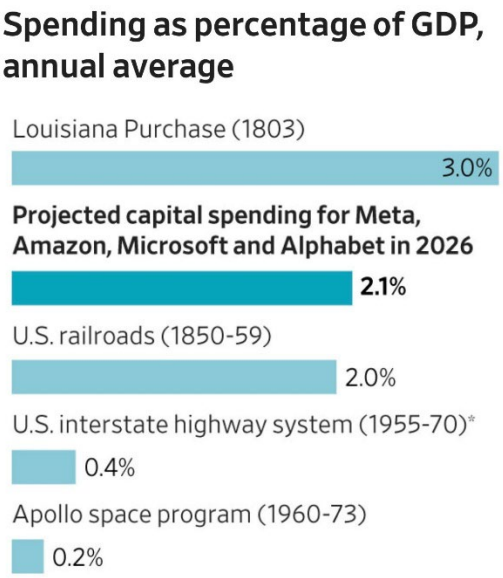
J. Michael Locke
Musings

#278: Musing
February 8, 2026

Is Ai going to kill software like video killed the radio star? Lots of value wiped out of software stocks this week after Anthropic released Claude Cowork which is reportedly very good at writing code. Non-computer people can just tell Claude what they want (called "vibe coding") and presto, you have the software (ex. a website). Glad our son didn't listen to me and major in computer science to pursue software development. I heard a podcast where the creator of Claude talks about how he manages a team of "agents" writing code rather than people. Welcome to the new world. Interesting graph from GS on how this affects the TAM (total addressable market):

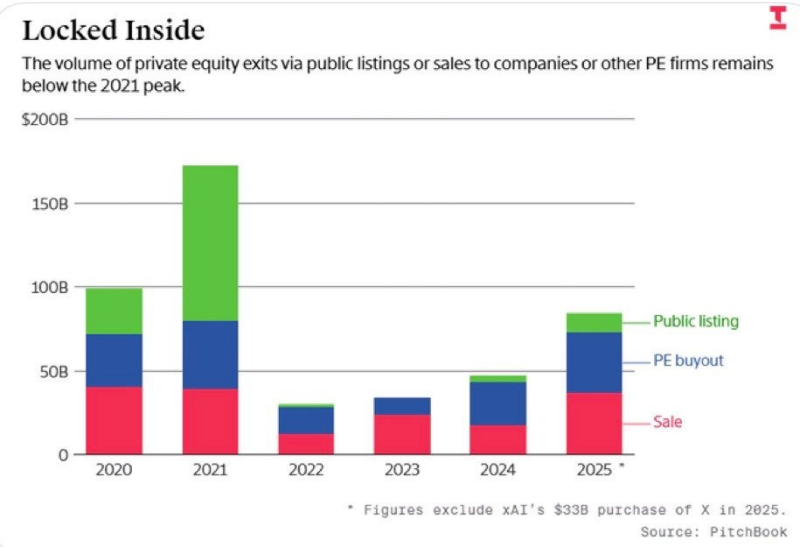


The major tech firms all reported earnings and the amounts being spent on Ai are staggering. It is estimated to be over $700 billion this year. The tech firms are spending way more than our country spent to build our national rail system or get to the moon. From WSJ:



I think I basically got it right last week when writing about gold and the value of the dollar although one reader pointed out to me that the gold market is not that heavily traded so if sizable investors moved from buying treasuries to gold it would cause major price movements in gold.

The private equity world is in choppy waters. After many years of great results, the last five years have been difficult. From Forbes: "Hundreds of private equity firms are now drowning in a sea of competition, searching for lifeboats of new capital as they cling to portfolios of nearly unsaleable investments. Meanwhile, their investors are losing patience." Hard to ask investors to accept an illiquidity premium. The S&P is outperforming most PE firms and you can cash out your money any day. Interesting graph on PE exits:



If you wanted another sign that "mainstream media" is dead, the Washington Post laid off 30% of its workforce causing protests. I don't understand why anyone thinks they have a right to a job or to Jeff Bezos' money. The business lost $100 million last year. The journalists should focus on why they create

stuff people don’t want to pay for.

Interesting fact: the average interest rate on credit cards is 24% according to the WSJ.

Watch the developing trend of three year bachelor degrees. The higher education ROI needs to improve. Shortening the degree to three years will help.

Watch the water issues out west. Near record low snowfall so far in Colorado which ultimately will mean less water in the Colorado river and trouble for California. (thanks Tom Formolo)

If you want to see incompetence and the dangers of a socialist system, visit the Western Springs, Illinois post office.

The Epstein files are just sad. Our society is infatuated with those with wealth (even if you can't figure out where it came from -- I say he was a Mossad agent). All you had to do was see the art in his house and know he was a bad guy yet the President of Harvard, Founder of Netflix, WH General Counsel and British Royalty are all hanging with him.

Who cares about the Olympics?

Not sure I even care about the Super Bowl other than commercials.

Jml

J. Michael Locke
Musings

#279: Musing
February 21, 2026

We are living in disorienting times. I encourage readers to put down their phones and engage robustly with your network of friends and family as our society goes through some major changes. Time for some Jeffersonian dinner parties and lots of cocktail parties! Throw in a Sunday church service while you are at it to stay grounded.

The development of AI models is advancing rapidly. Good article that went viral this week in Fortune called "Something is happening" (here behind a paywall something-big-is-happening-ai-february-2020-moment-matt-shumer/) Here is a key paragraph:

"This is different from every previous wave of automation, and I need you to understand why. AI isn't replacing one specific skill. It's a general substitute for cognitive work. It gets better at everything simultaneously. When factories automated, a displaced worker could retrain as an office worker. When the internet disrupted retail, workers moved into logistics or services. But AI doesn't leave a convenient gap to move into. Whatever you retrain for, it's improving at that too. I think the honest answer is that nothing that can be done on a computer is safe in the medium term. If your job happens on a screen (if the core of what you do is reading, writing, analyzing, deciding, communicating through a keyboard) then AI is coming for significant parts of it. The timeline isn't "someday." It's already started."

Here is a good quote from the Rational Optimist Society on Substack (don't you love the name): *"2023 to 2025 was the Chatbot Era. 2026 and beyond is the Agent Era. Instead of just talking with you, agents build for you. We've unquestionably crossed a threshold in AI "usefulness." Claude Code can turn your ideas into working apps, games and websites in minutes. Anything you've ever wanted to build but never had the chops for … Claude Code can now do for you. "Coding" has gone from specialist talent to table stakes almost overnight. We're entering the industrial revolution for knowledge work"* (Thanks Philip Vedova.)

I am no AI guru. All I can advise is to download a model (ideally a paid subscription so you get the latest) and start playing with it. Build a personal agent to serve as your assistant. Managing a set of AI agents may become a common job. I worry about entry level white collar jobs for those starting college. I heard one "expert" comment about how large swaths of our society may need UBI checks (universal basic income ideas which was brought mainstream by Andrew Yang).

Is on prem software coming back? The all-in podcast guys think so. Historically, companies installed software on computers (servers) at their offices or in a nearby data center — "on premises". Over the last 20 years, there has been a massive movement towards SAAS models of software (software as a service) where the software is hosted by the software vendor "in the cloud" on servers they control at one of the big players like AWS (Amazon web services which is where Amazon makes its money by the way not selling you detergent). With the explosion of Ai models, companies are concerned about

putting all of their precious IP in a cloud / SAAS Ai agent and many are going retro and putting stuff back on prem. Mork & Mindy reruns coming soon.

I wrote a couple weeks ago about the disconnect between the low scores on Michigan consumer sentiment yet consumer spending continues to grow. A good BCG piece highlighted that sentiment plays into the importance of value. Too many companies think they have to reduce price when it may be they need to better communicate value (people have the money but is the product worth it?). From BCG:

But for business leaders, the takeaway shouldn't be that consumers can't be trusted. It's that they can't be trusted on the economy. Broad sentiment measures are simply not best fit to predict demand. To understand growth opportunities, leaders need to ask more granular questions: Where has our price-value equation shifted relative to substitutes? Which cohorts and contexts are truly constrained, and which are cautious but capable? How are specific events—tariffs, policy shifts, localized cost increases—changing behavior in the near term?

I have written often about the weak value proposition of today's higher education system. Now think how the rapid advance of AI will accelerate it. Learned a new term called "unCollege." It is the move to shorter degrees, credentials, trades. From CNBC: *"Community colleges and public universities are gaining ground, while private colleges are down — a clear departure from the broad-based growth of recent years."* (thanks Tricia Heinle) Unfortunately, some experts have done studies that show only 20% of certificates have an economic payoff.

While I love my Tesla, I don't love what has happened to its value. Used car market for EVs is a wasteland as the government forced change in consumption got reversed by Trump. Now the car companies are writing off a lot of their investment. From Gemini: *"Major automakers have reported staggering losses and massive write-downs in the most recent quarter (Q4 2025/Q1 2026), driven by a sharp decline in consumer demand, the removal of federal tax credits, and a pivot back to internal combustion engines (ICE). The industry is currently undergoing a "Great Recalibration," with collective EV-related impairments estimated to exceed $55 billion across major players."*

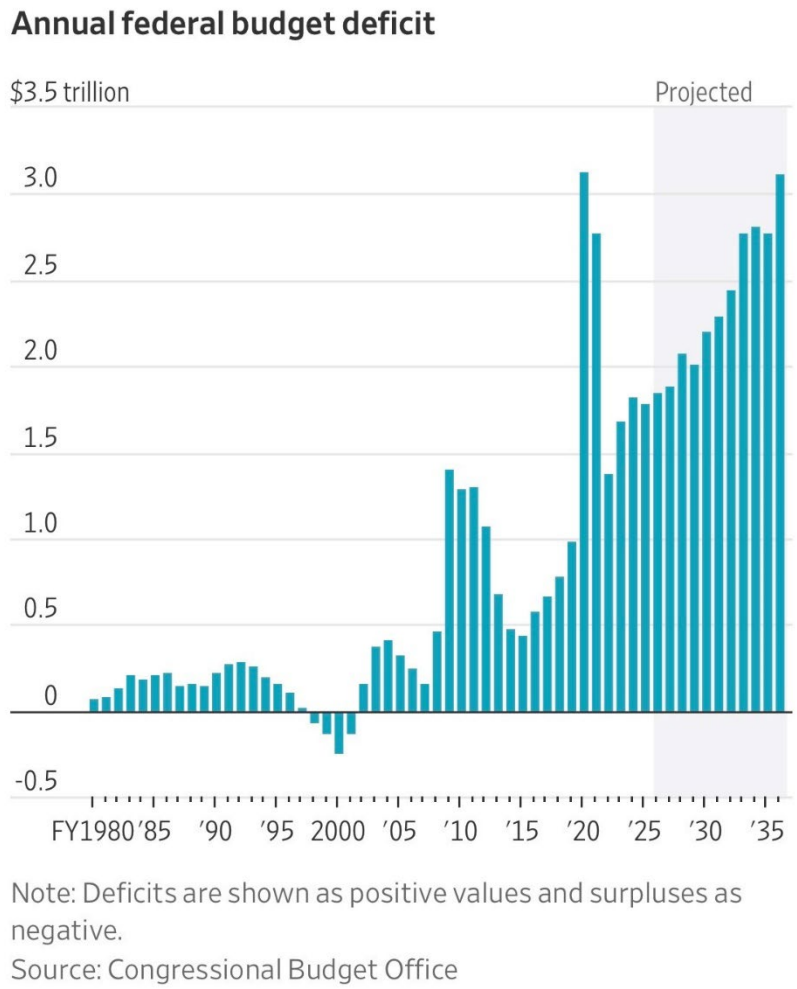
I think Meta et al. are going to lose the first big trial going on where a young woman is suing for the damage she endured as a teen on social media. Of course the product was designed to be addictive (c'mon Zuck). Infinite scroll and likes where designed to keep you on the app and generate dopamine releases. I am all for a big tobacco moment and to get social media away from young, developing brains and all of the challenges of pubescent life.

The fancy Davos crowd gathered in Germany last week for a big conference. Trump's "America First" approach has really upended things. From Ray Dalio: *More specifically, German Chancellor Friedrich Merz said, "The world order as it has stood for decades no longer exists," and that we are in a period "great power politics." He made clear that freedom "is no longer a given" in this new era. French President Emmanuel Macron echoed Merz's assessment and said that Europe's old security structures tied to the previous world order don't exist and that Europe must prepare for war. U.S. Secretary of State Marco Rubio said that we are in a "new geopolitics era" because the "old world" is gone.*" For the policy wonks, Rubio's full speech is after my initials below.

If you are tired of saying "Big Beautiful Bill" (or maybe think it is ugly), I guess the term is "OB3"

What a tariff mess. I have no idea how the money collected will be "unwound" ($250 billion has been collected). Who does it go to? The composition of the majority justices gives me confidence that the legal decision was correct (I have no idea how the president's emergency powers are defined under the International Emergency Economic Powers Act which is the justification Trump used). Trump's transactional style (born of his background as a real estate developer) is very hard for business executives who want to make multi-year decisions and have an understanding of the "rules of the game." I don't know how you plan when things shift around so much.

This cash outflow from a potential tariff unwind will only make our government deficit position worse. The Government debt numbers are crazy. Look at this chart from WSJ:



Biggest driver is mandatory entitlement programs like Social Security, Medicare and Medicaid. We basically can't afford all of the money we are sending to our older citizens. The average life expectancy in US at age 65 is another 20 years. In the meantime, there are fewer younger people "producing" to pay taxes which fund these programs. The average is woman is having 1.6 kids when replacement rate is 2.1 (interestingly Hispanic woman average is 2.1 and Muslim average is 2.4 in US). We need to move up "retirement age" and means test social security.

I wish our state officials in Illinois and other states would more aggressively discuss expenses. In New York City, the budgeted expenses are $127 billion which is bigger than Florida even though NYC

population is only 40% of Florida's. In California, teachers are striking for greater pay and benefits. Per pupil expenses in California have grown over 100% since 2013 with no notable change in outcomes.

I am a big fan of FUD selling (fear, uncertainty and doubt) in times like this. We are undergoing rapid changes in our society with AI and changing trade. The natural human tendency is to go "risk off" and not take significant actions. The result can be a stuck pipeline and a struggle to close. That is when you must focus people on the danger of not moving. Like the AI article referenced above, you must act now or risk being rolled over.

Had the opportunity to spend time with Edtech leaders at Collegis Education (where I am involved), Google and Arizona State University – some interesting quotes from various speakers:

Knowledge leaders spend 27% of their day in their email inbox
60% of searches end with no click
It is a Netflix moment where people expect personalization
In turbulent times, mission clarity can be a stabilizing force

Interesting stat from WSJ: 1/3 of American billionaires inherited their wealth

So much for the Quad God. I actually feel sorry for him. I get nervous on the first tee at the golf course with friends and no money on the line. I can't imagine the pressure.

Is coffee actually good for you? A reputable study just came out showing a 25% decrease in dementia risk for heavy coffee drinkers. From Gemini: *"A February 2026 JAMA study of over 130,000 participants found that consuming 2–3 cups of caffeinated coffee or tea daily is associated with a lower risk of dementia and slower cognitive decline. The research, covering 43 years, indicates that caffeine—rather than decaf—provides protective, cognitive-boosting benefits, especially for those aged 75 and younger."* DunKings track suit here I come (available on Ebay for $140 www.ebay.com/dunkintracksuit).

Am I allowed to go up to people having a conversation by speakerphone on their mobile in public and slap them?

Maybe I should be giving up negativity for lent?

RIP Jesse Jackson. He ultimately died of Progressive Supranuclear Palsy (PSP) which is a rare neurological disease which also got my oldest brother Rick at 57. Hopefully, a high profile death will get more funding PSP.

Jml

SECRETARY RUBIO: Thank you very much. We gather here today as members of a historic alliance, an alliance that saved and changed the world. When this conference began in 1963, it was in a nation – actually, it was on a continent – that was divided against itself. The line between communism and freedom ran through the heart of Germany. The first barbed fences of the Berlin Wall had gone up just two years prior.
And just months before that first conference, before our predecessors first met here, here in Munich, the Cuban Missile Crisis had brought the world to the brink of nuclear destruction. Even as World War II

still burned fresh in the memory of Americans and Europeans alike, we found ourselves staring down the barrel of a new global catastrophe – one with the potential for a new kind of destruction, more apocalyptic and final than anything before in the history of mankind.

At the time of that first gathering, Soviet communism was on the march. Thousands of years of Western civilization hung in the balance. At that time, victory was far from certain. But we were driven by a common purpose. We were unified not just by what we were fighting against; we were unified by what we were fighting for. And together, Europe and America prevailed and a continent was rebuilt. Our people prospered. In time, the East and West blocs were reunited. A civilization was once again made whole.

That infamous wall that had cleaved this nation into two came down, and with it an evil empire, and the East and West became one again. But the euphoria of this triumph led us to a dangerous delusion: that we had entered, quote, "the end of history;" that every nation would now be a liberal democracy; that the ties formed by trade and by commerce alone would now replace nationhood; that the rules-based global order – an overused term – would now replace the national interest; and that we would now live in a world without borders where everyone became a citizen of the world.

This was a foolish idea that ignored both human nature and it ignored the lessons of over 5,000 years of recorded human history. And it has cost us dearly. In this delusion, we embraced a dogmatic vision of free and unfettered trade, even as some nations protected their economies and subsidized their companies to systematically undercut ours – shuttering our plants, resulting in large parts of our societies being deindustrialized, shipping millions of working and middle-class jobs overseas, and handing control of our critical supply chains to both adversaries and rivals.

We increasingly outsourced our sovereignty to international institutions while many nations invested in massive welfare states at the cost of maintaining the ability to defend themselves. This, even as other countries have invested in the most rapid military buildup in all of human history and have not hesitated to use hard power to pursue their own interests. To appease a climate cult, we have imposed energy policies on ourselves that are impoverishing our people, even as our competitors exploit oil and coal and natural gas and anything else – not just to power their economies, but to use as leverage against our own.

And in a pursuit of a world without borders, we opened our doors to an unprecedented wave of mass migration that threatens the cohesion of our societies, the continuity of our culture, and the future of our people. We made these mistakes together, and now, together, we owe it to our people to face those facts and to move forward, to rebuild.
Under President Trump, the United States of America will once again take on the task of renewal and restoration, driven by a vision of a future as proud, as sovereign, and as vital as our civilization's past. And while we are prepared, if necessary, to do this alone, it is our preference and it is our hope to do this together with you, our friends here in Europe.

For the United States and Europe, we belong together. America was founded 250 years ago, but the roots began here on this continent long before. The man who settled and built the nation of my birth arrived on our shores carrying the memories and the traditions and the Christian faith of their ancestors as a sacred inheritance, an unbreakable link between the old world and the new.

We are part of one civilization – Western civilization. We are bound to one another by the deepest

bonds that nations could share, forged by centuries of shared history, Christian faith, culture, heritage, language, ancestry, and the sacrifices our forefathers made together for the common civilization to which we have fallen heir.

And so this is why we Americans may sometimes come off as a little direct and urgent in our counsel. This is why President Trump demands seriousness and reciprocity from our friends here in Europe. The reason why, my friends, is because we care deeply. We care deeply about your future and ours. And if at times we disagree, our disagreements come from our profound sense of concern about a Europe with which we are connected – not just economically, not just militarily. We are connected spiritually and we are connected culturally. We want Europe to be strong. We believe that Europe must survive, because the two great wars of the last century serve for us as history's constant reminder that ultimately, our destiny is and will always be intertwined with yours, because we know – (applause) – because we know that the fate of Europe will never be irrelevant to our own.

National security, which this conference is largely about, is not merely series of technical questions – how much we spend on defense or where, how we deploy it, these are important questions. They are. But they are not the fundamental one. The fundamental question we must answer at the outset is what exactly are we defending, because armies do not fight for abstractions. Armies fight for a people; armies fight for a nation. Armies fight for a way of life. And that is what we are defending: a great civilization that has every reason to be proud of its history, confident of its future, and aims to always be the master of its own economic and political destiny.
It was here in Europe where the ideas that planted the seeds of liberty that changed the world were born. It was here in Europe where the world – which gave the world the rule of law, the universities, and the scientific revolution. It was this continent that produced the genius of Mozart and Beethoven, of Dante and Shakespeare, of Michelangelo and Da Vinci, of the Beatles and the Rolling Stones. And this is the place where the vaulted ceilings of the Sistine Chapel and the towering spires of the great cathedral in Cologne, they testify not just to the greatness of our past or to a faith in God that inspired these marvels. They foreshadow the wonders that await us in our future. But only if we are unapologetic in our heritage and proud of this common inheritance can we together begin the work of envisioning and shaping our economic and our political future.

Deindustrialization was not inevitable. It was a conscious policy choice, a decades-long economic undertaking that stripped our nations of their wealth, of their productive capacity, and of their independence. And the loss of our supply chain sovereignty was not a function of a prosperous and healthy system of global trade. It was foolish. It was a foolish but voluntary transformation of our economy that left us dependent on others for our needs and dangerously vulnerable to crisis.

Mass migration is not, was not, isn't some fringe concern of little consequence. It was and continues to be a crisis which is transforming and destabilizing societies all across the West. Together we can reindustrialize our economies and rebuild our capacity to defend our people. But the work of this new alliance should not be focused just on military cooperation and reclaiming the industries of the past. It should also be focused on, together, advancing our mutual interests and new frontiers, unshackling our ingenuity, our creativity, and the dynamic spirit to build a new Western century. Commercial space travel and cutting-edge artificial intelligence; industrial automation and flex manufacturing; creating a Western supply chain for critical minerals not vulnerable to extortion from other powers; and a unified effort to compete for market share in the economies of the Global South. Together we can not only take back control of our own industries and supply chains – we can prosper in the areas that will define the 21st century.

But we must also gain control of our national borders. Controlling who and how many people enter our countries, this is not an expression of xenophobia. It is not hate. It is a fundamental act of national sovereignty. And the failure to do so is not just an abdication of one of our most basic duties owed to our people. It is an urgent threat to the fabric of our societies and the survival of our civilization itself. And finally, we can no longer place the so-called global order above the vital interests of our people and our nations. We do not need to abandon the system of international cooperation we authored, and we don't need to dismantle the global institutions of the old order that together we built. But these must be reformed. These must be rebuilt.

For example, the United Nations still has tremendous potential to be a tool for good in the world. But we cannot ignore that today, on the most pressing matters before us, it has no answers and has played virtually no role. It could not solve the war in Gaza. Instead, it was American leadership that freed captives from barbarians and brought about a fragile truce. It had not solved the war in Ukraine. It took American leadership and partnership with many of the countries here today just to bring the two sides to the table in search of a still-elusive peace.

It was powerless to constrain the nuclear program of radical Shia clerics in Tehran. That required 14 bombs dropped with precision from American B-2 bombers. And it was unable to address the threat to our security from a narcoterrorist dictator in Venezuela. Instead, it took American Special Forces to bring this fugitive to justice.

In a perfect world, all of these problems and more would be solved by diplomats and strongly worded resolutions. But we do not live in a perfect world, and we cannot continue to allow those who blatantly and openly threaten our citizens and endanger our global stability to shield themselves behind abstractions of international law which they themselves routinely violate.

This is the path that President Trump and the United States has embarked upon. It is the path we ask you here in Europe to join us on. It is a path we have walked together before and hope to walk together again. For five centuries, before the end of the Second World War, the West had been expanding – its missionaries, its pilgrims, its soldiers, its explorers pouring out from its shores to cross oceans, settle new continents, build vast empires extending out across the globe.

But in 1945, for the first time since the age of Columbus, it was contracting. Europe was in ruins. Half of it lived behind an Iron Curtain and the rest looked like it would soon follow. The great Western empires had entered into terminal decline, accelerated by godless communist revolutions and by anti-colonial uprisings that would transform the world and drape the red hammer and sickle across vast swaths of the map in the years to come.

Against that backdrop, then, as now, many came to believe that the West's age of dominance had come to an end and that our future was destined to be a faint and feeble echo of our past. But together, our predecessors recognized that decline was a choice, and it was a choice they refused to make. This is what we did together once before, and this is what President Trump and the United States want to do again now, together with you.

And this is why we do not want our allies to be weak, because that makes us weaker. We want allies who can defend themselves so that no adversary will ever be tempted to test our collective strength. This is why we do not want our allies to be shackled by guilt and shame. We want allies who

are proud of their culture and of their heritage, who understand that we are heirs to the same great and noble civilization, and who, together with us, are willing and able to defend it.
And this is why we do not want allies to rationalize the broken status quo rather than reckon with what is necessary to fix it, for we in America have no interest in being polite and orderly caretakers of the West's managed decline. We do not seek to separate, but to revitalize an old friendship and renew the greatest civilization in human history. What we want is a reinvigorated alliance that recognizes that what has ailed our societies is not just a set of bad policies but a malaise of hopelessness and complacency. An alliance – the alliance that we want is one that is not paralyzed into inaction by fear – fear of climate change, fear of war, fear of technology. Instead, we want an alliance that boldly races into the future. And the only fear we have is the fear of the shame of not leaving our nations prouder, stronger, and wealthier for our children.

An alliance ready to defend our people, to safeguard our interests, and to preserve the freedom of action that allows us to shape our own destiny – not one that exists to operate a global welfare state and atone for the purported sins of past generations. An alliance that does not allow its power to be outsourced, constrained, or subordinated to systems beyond its control; one that does not depend on others for the critical necessities of its national life; and one that does not maintain the polite pretense that our way of life is just one among many and that asks for permission before it acts. And above all, an alliance based on the recognition that we, the West, have inherited together – what we have inherited together is something that is unique and distinctive and irreplaceable, because this, after all, is the very foundation of the transatlantic bond.

Acting together in this way, we will not just help recover a sane foreign policy. It will restore to us a clearer sense of ourselves. It will restore a place in the world, and in so doing, it will rebuke and deter the forces of civilizational erasure that today menace both America and Europe alike.
So in a time of headlines heralding the end of the transatlantic era, let it be known and clear to all that this is neither our goal nor our wish – because for us Americans, our home may be in the Western Hemisphere, but we will always be a child of Europe. (Applause.)

Our story began with an Italian explorer whose adventure into the great unknown to discover a new world brought Christianity to the Americas – and became the legend that defined the imagination of a our pioneer nation.

Our first colonies were built by English settlers, to whom we owe not just the language we speak but the whole of our political and legal system. Our frontiers were shaped by Scots-Irish – that proud, hearty clan from the hills of Ulster that gave us Davy Crockett and Mark Twain and Teddy Roosevelt and Neil Armstrong.

Our great midwestern heartland was built by German farmers and craftsmen who transformed empty plains into a global agricultural powerhouse – and by the way, dramatically upgraded the quality of American beer. (Laughter.)

Our expansion into the interior followed the footsteps of French fur traders and explorers whose names, by the way, still adorn the street signs and towns' names all across the Mississippi Valley. Our horses, our ranches, our rodeos – the entire romance of the cowboy archetype that became synonymous with the American West – these were born in Spain. And our largest and most iconic city was named New Amsterdam before it was named New York.

And do you know that in the year that my country was founded, Lorenzo and Catalina Geroldi lived in Casale Monferrato in the Kingdom of Piedmont-Sardinia. And Jose and Manuela Reina lived in Sevilla, Spain. I don't know what, if anything, they knew about the 13 colonies which had gained their independence from the British empire, but here's what I am certain of: They could have never imagined that 250 years later, one of their direct descendants would be back here today on this continent as the chief diplomat of that infant nation. And yet here I am, reminded by my own story that both our histories and our fates will always be linked.

Together we rebuilt a shattered continent in the wake of two devastating world wars. When we found ourselves divided once again by the Iron Curtain, the free West linked arms with the courageous dissidents struggling against tyranny in the East to defeat Soviet communism. We have fought against each other, then reconciled, then fought, then reconciled again. And we have bled and died side by side on battlefields from Kapyong to Kandahar.

And I am here today to leave it clear that America is charting the path for a new century of prosperity, and that once again we want to do it together with you, our cherished allies and our oldest friends. (Applause.)

We want to do it together with you, with a Europe that is proud of its heritage and of its history; with a Europe that has the spirit of creation of liberty that sent ships out into uncharted seas and birthed our civilization; with a Europe that has the means to defend itself and the will to survive. We should be proud of what we achieved together in the last century, but now we must confront and embrace the opportunities of a new one – because yesterday is over, the future is inevitable, and our destiny together awaits. Thank you. (Applause.)