

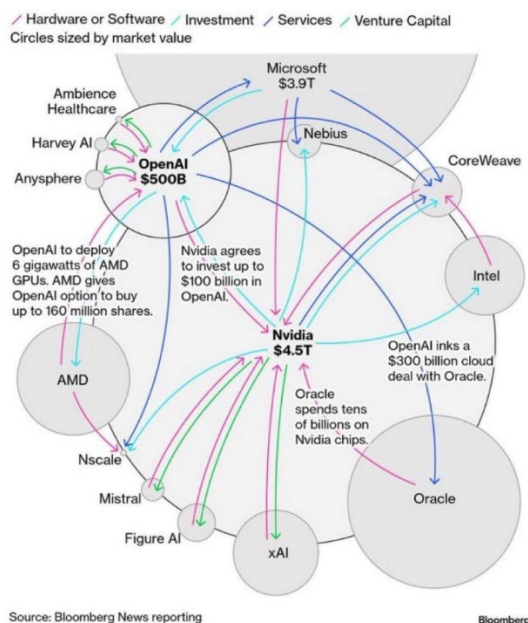
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Musings

#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:

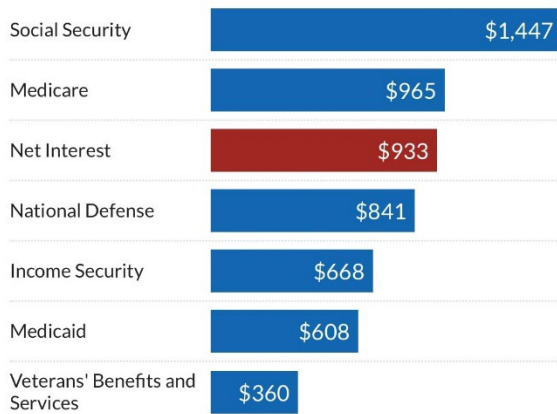


Personally, I would focus on consultants/integrators. Companies don't know how to really implement AI and BigTech lives in its own world and can't help them. This is a big opportunity (shameless promotion for our Collegis business www.collegiseducation.com). Interestingly, the WSJ wrote an article on 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.

Net interest was the third-largest spending category in FY25

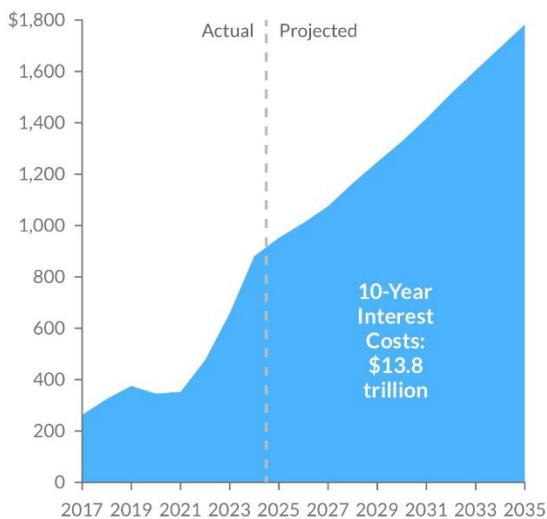
Federal Outlays in FY25 (Billions of \$)



Source: Department of the Treasury • Embed • Download image

Net interest costs are projected to rise sharply

Billions of \$



Sources: Congressional Budget Office • Embed • Download image

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)

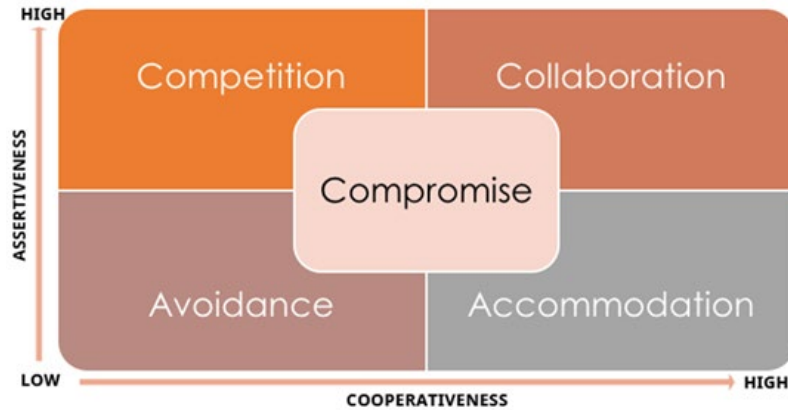
I would be happy to pay more taxes if it wasn't wasted on 9-5 bureaucrats with big pensions who provide bad customer service and buy \$100,000 toilets. That said, maybe some toilets are worth it. Kohler is now selling a \$599 Dekoda toilet that analyzes your pee and poop for health information. It is 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