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Company-Specific Macroeconomic Multipliers

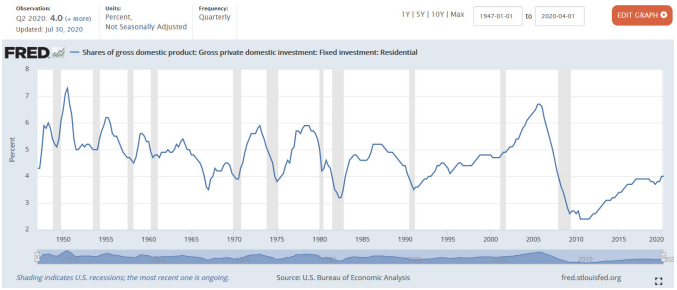
Dear fellow investors,

An interesting contrast was drawn on September 15, 2020 between Lennar's (LEN) earnings call and statistics on revenue per employee at Apple Corporation (AAPL). Lennar described strong growth out into the future in a measured way, because they believe that the prior decade created a home supply deficit due to underbuilding. The same week, *Bloomberg* writer John Authors reported Apple was running $15 million of revenue per employee, a truly astounding number. According to the article, Apple's market cap exceeds the entire FTSE 100 Index in London. What would macroeconomics say about the value of these two very profitable companies in the U.S. economy?

When Lennar is doing well, an incredible number of skilled workers, normally trained in trades, flourish. As do loggers, lumber mill workers, truck drivers, our Canadian neighbor's forests, real estate agents and banks/lending institutions. Real estate developers will flourish in cities and states with affordability as we witness an intra-country migration driven by a huge population of Millennials discovering the benefits of self-chosen home ownership.

Our college textbooks explained the "multiplier effect" as a combination of three things. First, the financial institution is required to hold one dollar for every ten they loan out. When a home is built and sold for $400,000, with 20% down, $320,000 of borrowed money goes into circulation. This is a powerful force in economic growth and was the main reason that the economic growth of the U.S. was so anemic in the decade that just ended.

See the chart below for home construction and improvement's contribution to GDP over the last 73 years:



Source: FRED

Second, the confidence and economic activity of those people involved in housing, who are mostly among the middle class, have a splendid multiplier effect in our society. They might get new tools, a new truck, bless their family with resources or visit local businesses more often. They might buy a home themselves, especially if they live in the more affordable parts of the country.

Third, as we spread our population away from the most expensive and crowded coastal cities, the people who serve them (cashiers, waiters/waitresses, barbers/hairdressers, grocers and others) can make a living which affords them much more attractive housing. The largest seller of homes in the U.S. is Clayton Homes (a Berkshire Hathaway Company). At today's mortgage rates, in most geographic locations in the U.S., a two-income couple each making $15 per hour can buy a manufactured home with a payment many times lower than living in Mr. Potter's slums, an hour from the coastal city.

Apple's astounding revenue-per-employee has nearly the exact opposite effect on our economy. The parts and assembly of their products happen outside the U.S. Their employees live in the most expensive coastal cities. Homes are so expensive near Apple's headquarters that some tech people sleep in motorhomes parked on the street. The single tech people work long hours, eat some of their meals at work and pay very high rent to the very upscale version of Mr. Potter in the Silicon Valley.

Prior to COVID-19, these employees drank craft beers, ate Chipotle burritos, played video games and travelled all over the world. All that did was ensure that they will be bored to tears when they turn 55 and need something to do. The burrito wrapper lived in Stockton, the bartender lived in Sacramento, the travel agent was Booking.com or Expedia.com and the destination was nowhere near where they lived. American Express is their favorite credit card, because they have the best travel points.

Post-COVID, these Apple folks have begun to flee to the suburbs to seek homes and affordability. Major tech companies are rethinking work-at-home rules. Therefore, they are beginning to be a positive force in the economy. The problem is that there are too few of them to really make any difference.

The great irony of the current situation is that most of the economic power and most of the financial resources associated with political power are in the hands of Apple and the other huge tech companies (Amazon, Google, Facebook, Microsoft, etc.). In other words, the success in our society is going to the fewest number of people that have the least possibility of spreading their success to the folks around them.

In 1880, a congressman named John Sherman, looked at the economic and political power of the railroads and started a process which led to the Sherman Antitrust Act. By virtue of his efforts, he was dubbed the "Ohio Icicle" by his detractors. Here is what he said was the core principle behind antitrust legislation:

> *"The popular mind is agitated with problems that may disturb social order," he wrote, "and among them all, none is more threatening than the concentration of capital into vast combinations."*

In summary, our country needs the multiplier effect as we come out of the COVID-induced recession/depression. It seems fairly obvious, based on economic growth numbers from the last ten years, that we won't get the economic multiplier effect through our most concentrated and powerful stock market success stories!

Warm regards,

William Smead