The Outlook: July 6, 2020

Impressions versus Thinking, Once More.

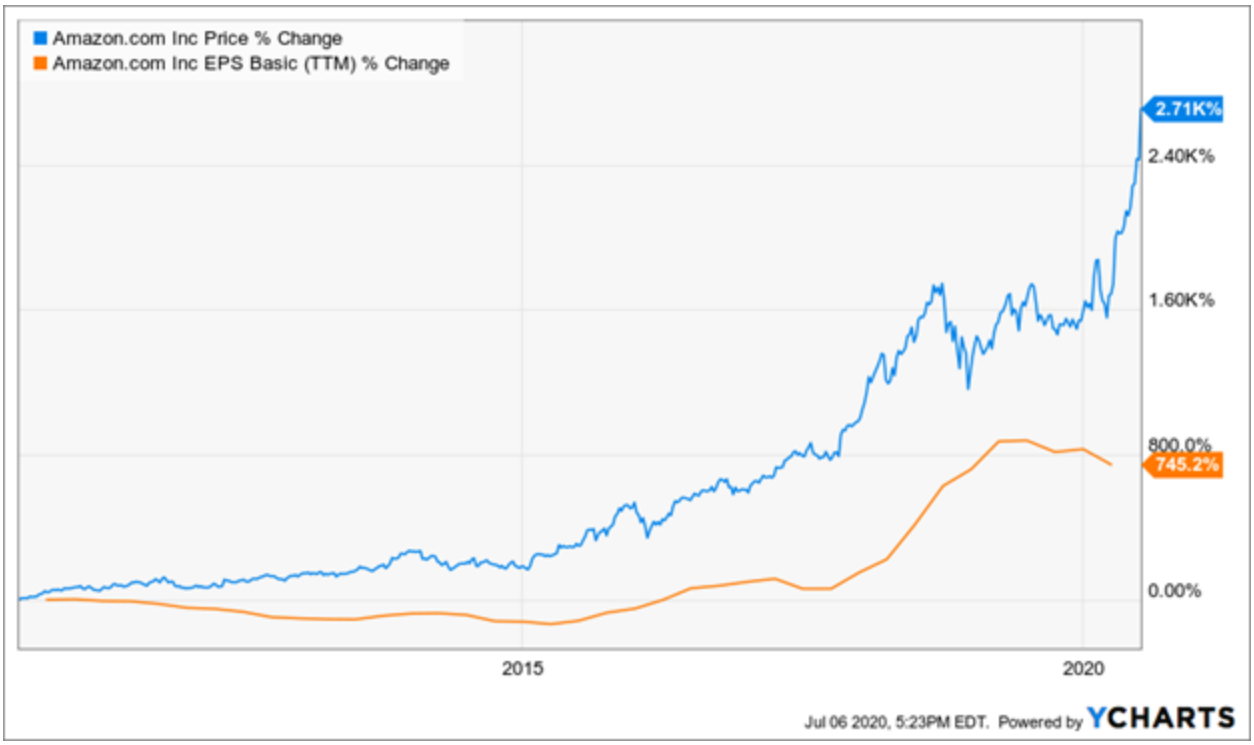
"Tech Leads Market Rally!" was the headline today—and last week, last month and last year, pretty much. Amazon—probably the most "celebrity" of the "Celebrity Tech Stocks"—set yet another all-time high, but it had plenty of famous Tech company: Apple, Netflix, Tesla, Google's Alphabet, Facebook and more have been in record-setting mode a lot, for quite a long time, and who cares about the Virus Calamity?

We've observed, once or twice, that we human beings are always tempted to let *impressions* do our thinking for us. We're busy with our daily lives; it takes time and hard work to dig for the facts behind the "whole picture" of anything at all; and the media pretty much throws impressions in our faces every day, supported by bold headlines or expert-sounding talking heads. It's powerfully tempting to just shrug and think, "Well, that *sounds* like the truth, basically, from those headlines and heads, so we probably ought to assume they're right and do the obvious thing."

Thinking that way, of course, is like buying a one-way ticket to Hell in the investment world and every other world . . . but it's almost impossible for us to really believe that until we've been around the block a few hundred times; or studied a lot of history; or otherwise worked hard at judging whether all those easy impressions are mostly right, or mostly wrong. When we do that, and conclude they're not only mostly wrong but mostly *dead* wrong, we're more inclined to see the day's impressions as messages telling us to believe the exact opposite, usually.

Here's Amazon's last 10 years. It's a good example of the Celebrity Techs for us to scrutinize, because unlike a lot of them its business is extraordinarily successful. Here is the impression governing the market's attitude toward Amazon and its celebrity tech friends: ***"The Future Just Can't Go Very Wrong."***

Amazon, 10 Years: Profits Up 750%; Stock Price up 2,700%. "The Future Can't Go Very Wrong."



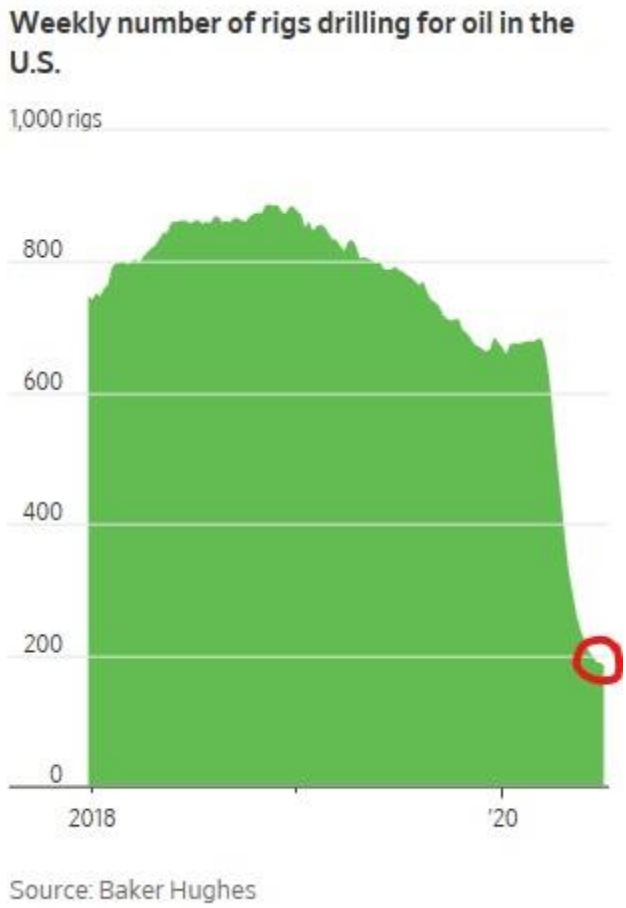
That's the investment world's brightest corner. Let's peer at the gloom in one of its darkest corners. At Conoco, and all its energy friends, the market's impression is the opposite: ***"The Future Just Can't Go Very Right."***

Conoco, 10 Years: "The Future Can't Go Very Right."

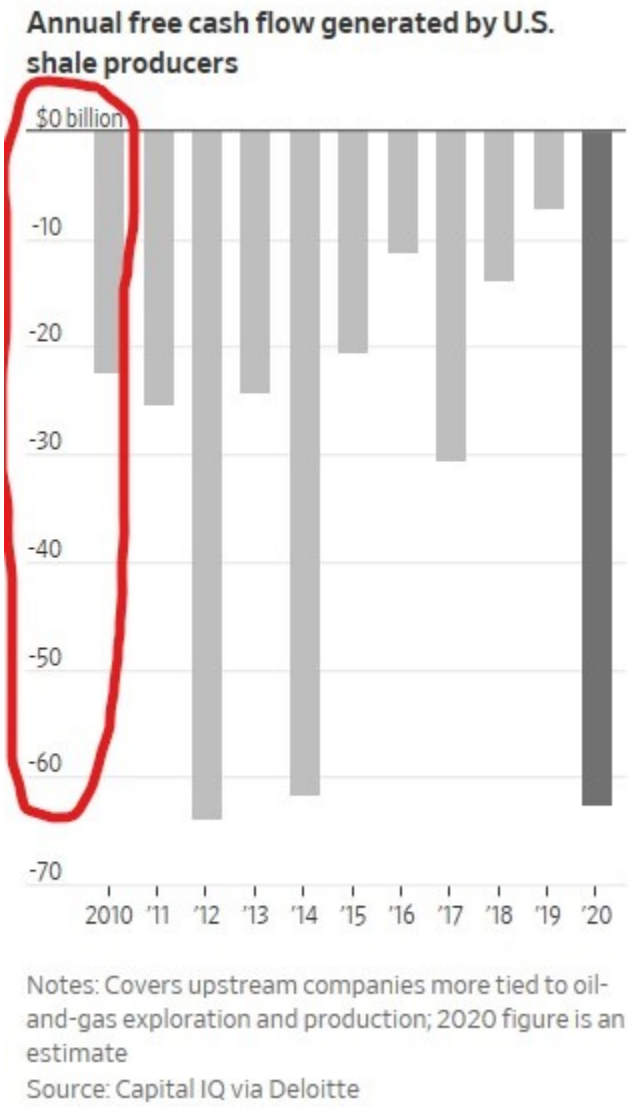
What might we find if, instead of letting those 2 impressions do our thinking, we dug hard and deep to find something more like the "whole picture" for both companies? At Amazon, we wouldn't find anything devastating—no torpedoes heading for the waterline. But we would notice that the firm's two growth engines each has just a trace of sand in the gears. Amazon's cloud services for business has a major competitor today, in Microsoft, which has arrived at that muscular position after only 5 or 6 years of effort. There's room for both in the giant "cloud services" industry . . . but Amazon's cloud engine won't have the easy time it's had in the past. And in its famous online shopping empire, Amazon is continuing to put a hundred retailers a month out of business (or something along those lines) but its 2020 growth has not been very profitable.

Not torpedoes streaking for Amazon's hull . . . but not flyspecks on the windshield, either.

What about Conoco? This year's oil market has astonished the investment world in both directions: first "down," reaching negative $35 per barrel or so; then back "up," reaching today's $40. Here is what has driven the "up": carnage in U.S. shale. Torpedoes under many waterlines, in fact, summed up as "the days of endless, easy supply are finished."



The impression the investment world gathered, year after year during the decade of the Shale Miracle, was "What Could Go Very Wrong?" Brilliant shale technology plus an army of aggressive Texas drillers made US oil production climb like a rocket every year, almost. Only fairly lately has that impression given way to a clear view of the "whole picture" for shale. The staggering cash losses pictured below are the most startling part of that "whole picture."



That red circle of red ink has been known for many years. But it still took those many years for the investment world's "impression" to shift toward reality. Now that "impression" is pretty accurate concerning the cramped nature of future oil supply around the world; but it's accompanied by the gloomiest impression of world oil demand. It tries to make us think that global demand will never really recover from the Virus Shutdown of 2020. That's no surprise: the Virus Shutdown is new, and mistaken impressions stick around for a while when startling events are still new.

Let's glance at that picture of Amazon once more, focusing on the far right. That stock price *has been accelerating away from Amazon's profits*, hasn't it? And let's do the same for Conoco. That stock price looks like it's chained by the neck to Conoco's weakening recent profits, doesn't it? Yes . . . the stock is saying, "How Can Anything Go Very Right, in the Future?" And so we have Amazon, celebrity among celebrities, trading at $3,000 per share: 155 times 2020 earnings; 82 times 2021's; and "only" $56 times 2022's earnings. The best way to describe that impression is to suppose Amazon is not just heading for the stars, but owns them already.

Conoco, on the other hand, earned $5 and $6 per share in 2018 and 2019—in rather tough years for the oil business, not easy ones. If it earned $6 again, today's price would be only 7 times earnings—not in Amazon's galaxy. But the impression governing the market's valuation of Conoco is, "How Can Anything Go Very Right?", so there the stock wallows . . . for the time being.

But impressions change because facts are real things. They can be overlooked or distorted for quite a while, and they usually are. But they do not go away. At $3,000 and 155 times earnings there is no room for inconvenient or troubling facts in Amazon's valuation. At $41 and 7 times recent earnings—recent "routine" earnings—there is all the room in the sky for improving facts in Conoco's valuation. The "whole picture" for Amazon can't possibly live up to today's impression; while the "whole picture" for Conoco can't possibly live *down* to today's impression. So Outlook owns Conoco, and does not own Amazon, and plans to wait with patience, as usual.

Outlook Capital Management, LLC
125 S. Wilke Road, Suite 200E
Arlington Heights, IL 60005
847-797-0600