

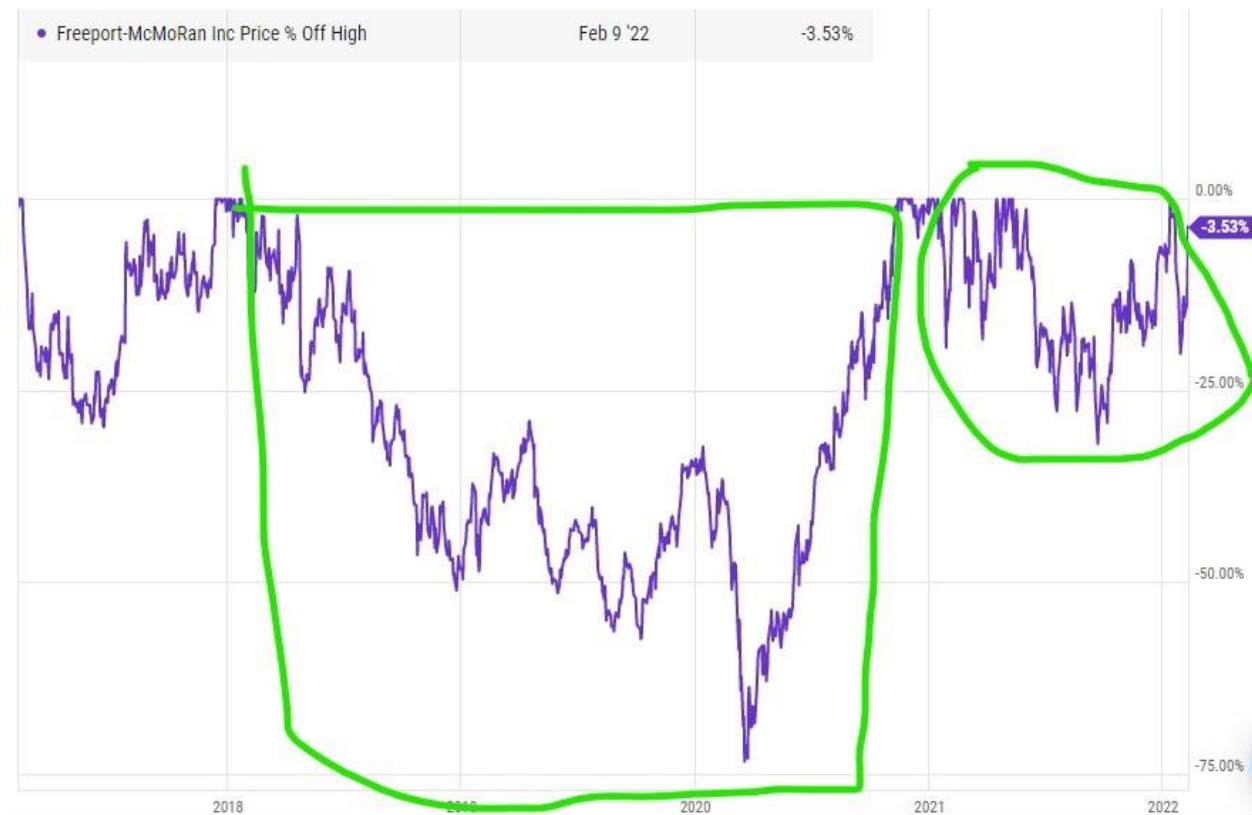
The Outlook: Feb. 9, 2022

Watching Golden Rules Pay Off.

We call them “Golden Rules,” and that makes them sound a little corny, but they’re not. They are “life or death rules” when it comes to investing. If we stick to them, we’ll succeed. If we don’t, we’ll fail.

One of the best is Warren Buffet’s ***“Never let the market frighten you out of a good position.”*** It’s a matter of investment life or death to understand that the market will never stop trying to “frighten us out of good positions.” That’s the nature of the market. At Outlook we’ve watched and endured the market’s endless attempts to frighten investors for 44 years now. But even with all that experience, the market’s treatment of Freeport-McMoran (the copper king) these past 5 years has been something far beyond the ordinary. “Not scared enough yet?” the market has asked. “OK, then try *this* on for size! How’s that feel? Have you sold, yet?”

Here’s a picture of the never-ending Freeport nightmare.



This is an odd chart, called “Percent Off High.” The big green square shows how hard the market worked to terrify Freeport investors right after 2018, when it hit about \$20 per share. Yup, that low point in March, 2020, was about \$5 per share . . . ***down 75%***. We all had a stark choice, back then. We could believe the market, which was screaming “Bankruptcy!” in our ears (the impression made by a 75% price plunge to the \$5 range); or we could believe the company and our own brains, which were saying, “That’s nuts. Strong company, great future.”

We don't have to wonder who was right anymore, do we? Freeport rose from \$5 to \$45 . . . but then the market went back to work, in the same old "Nightmare business." The jagged, saw-tooth nature of those lines, during the last year, is the market pulling out all the stops to try to frighten us out of a good position.

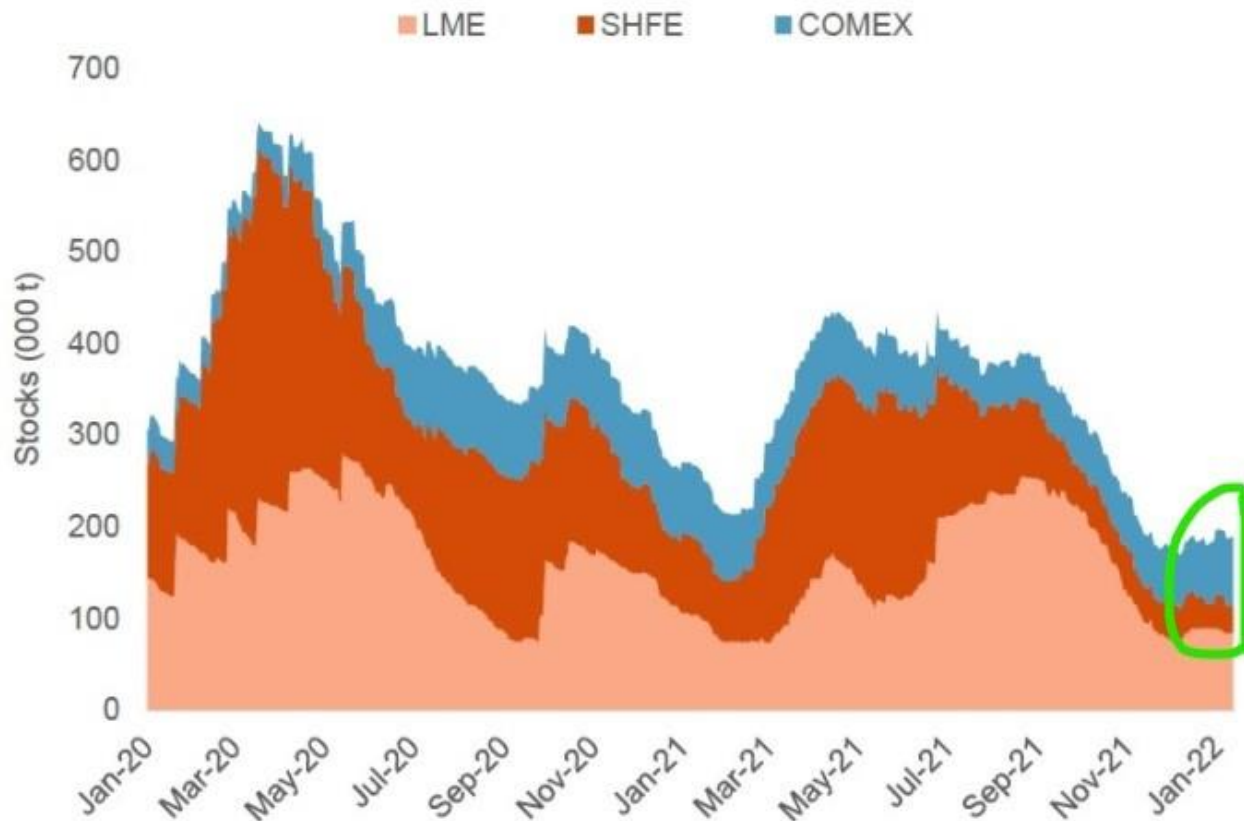
Then along came this headline a couple of days ago; then the next one, today.

"We're Out of Everything!" says Goldman analyst.

"I've been at this for 30 years and I've never seen commodity market like this," said Jeff Currie of Goldman Sachs. "We're out of everything, I don't care if it's oil, gas, coal, copper, aluminum—you name it, we're out of it."

"Copper. Global Stocks Down to 3 Day's Supply!"

That last one came with a picture: copper inventories at the 3 big "warehouses":

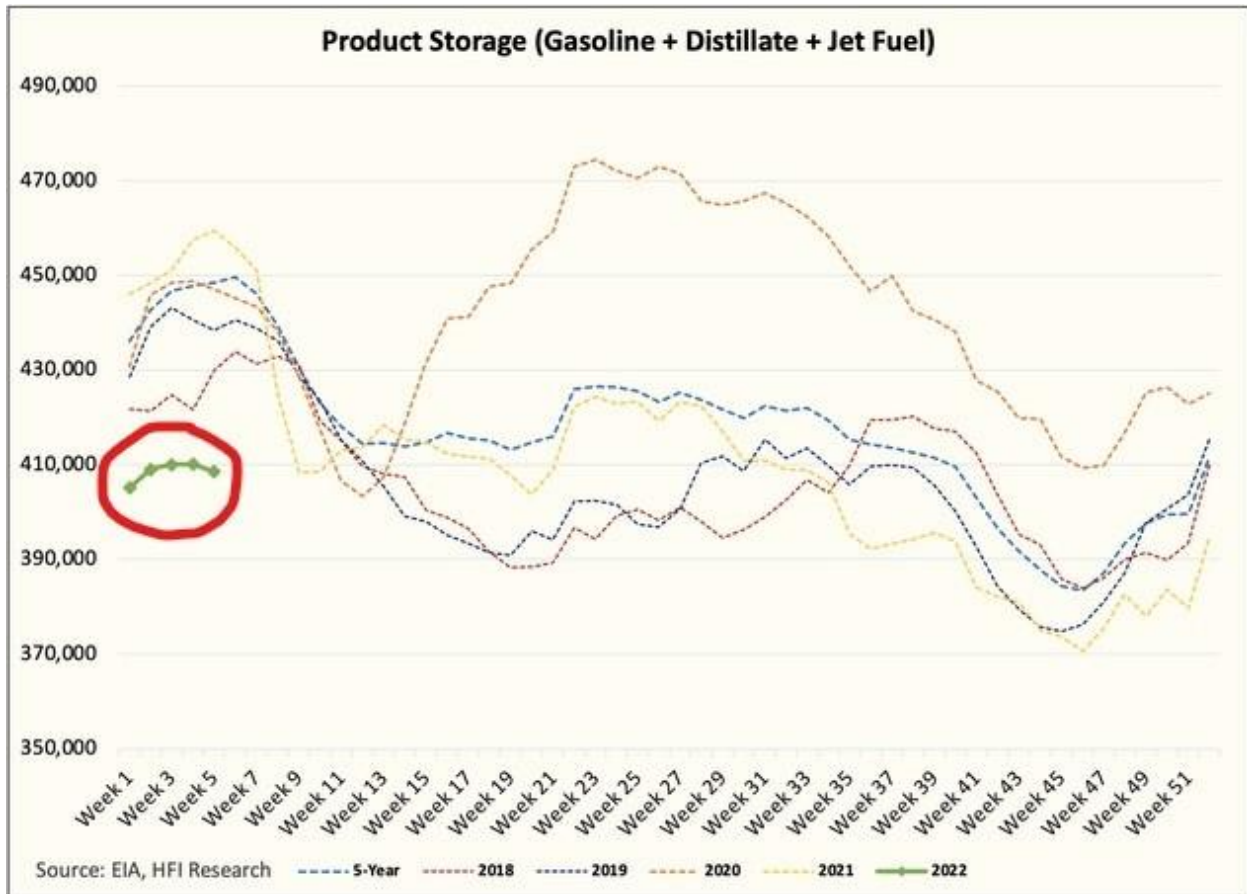


Data as of Jan. 13, 2022.

LME trader category: Investment funds

Sources: London Metal Exchange; CME Group; Shanghai Futures Exchange; Refinitiv

As long as we're at it, here's the same thing for oil: a startling plunge in winter supplies at a time when they are usually soaring higher. The red circle is this winter; above it are the previous 4 winters.



We'll ask long-time Outlook clients and friends to excuse us for the next "Golden Rule." They've heard it before . . . more than once. ***"The cure for low prices is low prices."***

That Goldman Sachs expert said what he said, up there, because business people and consumers act sensibly, eventually, when prices plunge (or rise.) When they plunge, companies in the business of finding and supplying oil, gas, copper, coal, aluminum (and all the rest) pull in their horns, save cash and produce less of what's gone down in price. Buyers, on the other hand, do the opposite. Those impacts on supply and demand make prices rise . . . eventually.

That simple reasoning had no place in the market's "mind" while it was trying to frighten us out of a good Freeport position, all those years. "Reasoning" is not what the market does. Instead it makes quick bets on impressions, and especially on bad impressions which frighten people. Hence Outlook's own Golden Rule: ***"Never let the market do our thinking for us."*** We have not. That has paid off. It's not finished paying off, by a long shot.

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The remarks above aren't a general recommendation to buy or sell particular securities. Such decisions should only be made in the context of an investor's own circumstances. Stocks and bonds carry the risk of loss.