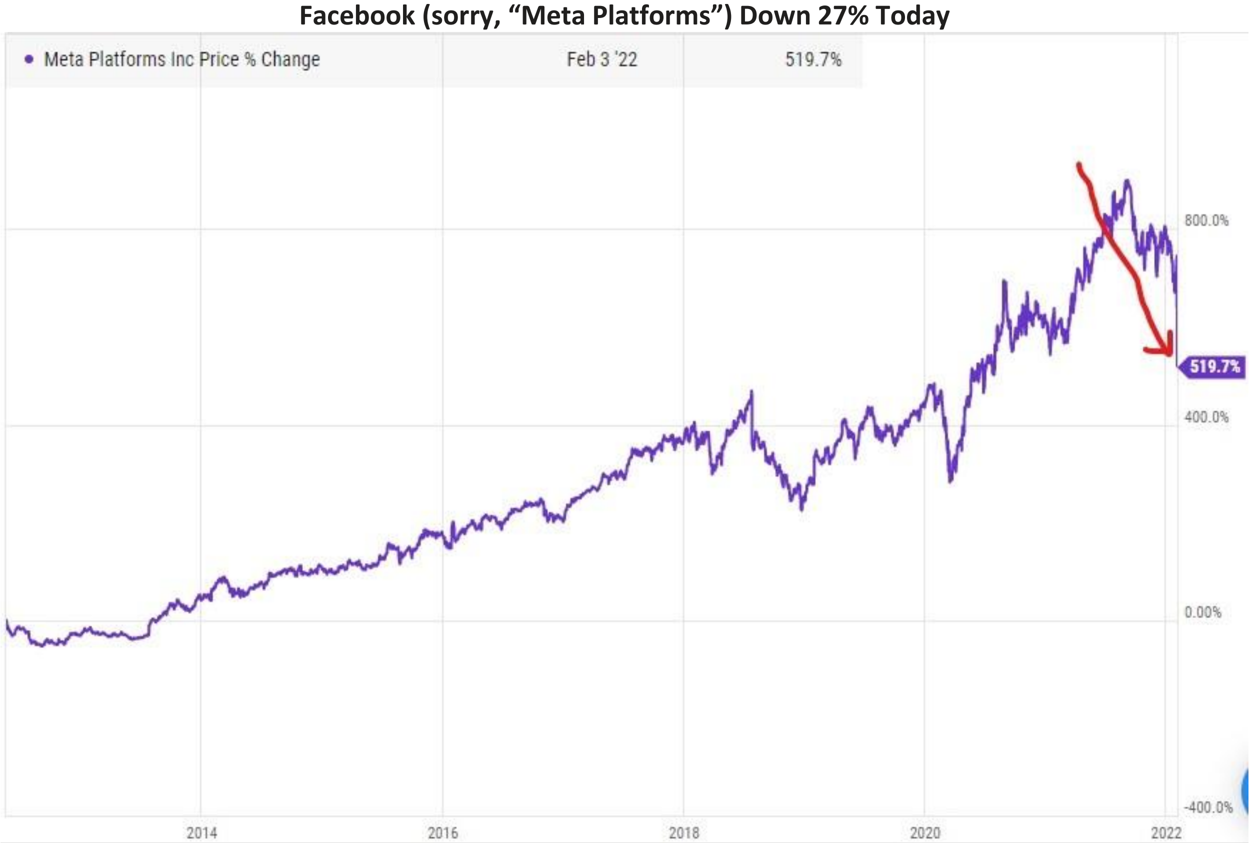
The Outlook: Feb. 3, 2022

Earnings Season: cold facts, cold cash . . . as always.

The market's behavior, every single day, is driven by a truly giant crowd of speculators betting on the *impressions* created by news headlines: that is, they're betting on how they think those impressions will affect their uncountable army of fellow speculators. That's a dangerous way to make a living, and they know it—so most of the time their bets are quick, and they stand ready to reverse them in a split second. If that was the whole story, the market would be "untouchable" with a 10-foot pole . . . but it's not. All those nervous bettors must also put down their money on a different kind of headline: more rare, but more powerful than the fleeting and mostly-misleading "big news" which dominates the front page most of the time. They must also react to cold, hard facts about how Main Street America is actually doing. Those facts come in clusters every 3 months, during Earnings Season. We're in one right now. Some of those cold hard facts have been a treat.

Facebook (sorry, "Meta Platforms") Down 27% Today



The wheels didn't fall off the Facebook bus last quarter . . . but the bus appears to have run over a concrete bollard someone carelessly planted in the middle of Facebook's 4-lane highway to the moon. 30% to 50% growth seems to have suddenly become 3% growth. Why? We can only guess, at this early stage, but the keenest comment came from a journalist:

> ***"And then there's the other issue: People seem to be spending more time doing things other than looking at their Facebook and Insta pages. That could reflect people simply spending more time out of the house after two years of severe pandemic restrictions.***

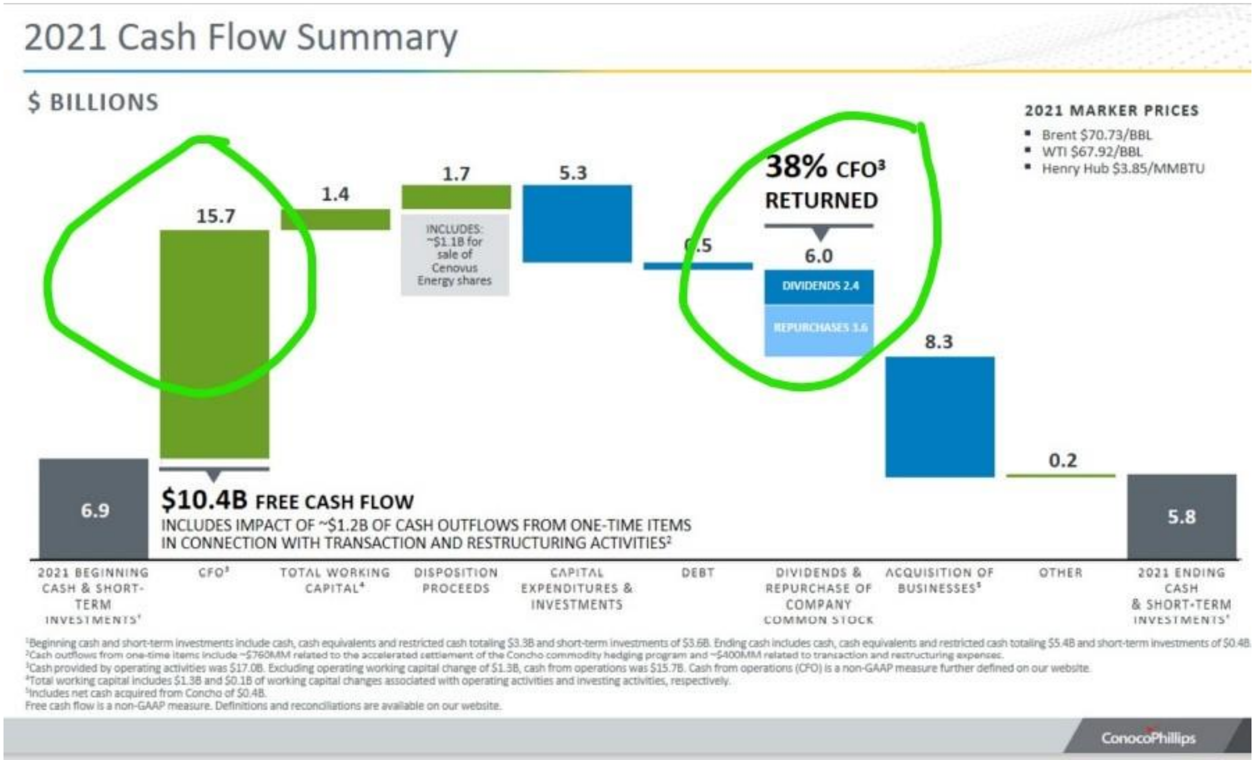
Alternatively, or perhaps additionally, it could suggest that people are simply growing a little tired of social media, and simply using the platforms less."

If we were back in the Middle Ages and Galileo had spoken that kind of heresy about the "accepted wisdom," he'd be hearing a knock on the door with an invitation to Rome for a little chat. ". . . it could suggest that people are growing a little tired of social media . . ." indeed. Trees do not grow to the sky, even though the betting crowd can value them as if they will, for an astonishing number of years. When it finally becomes obvious they won't get to the moon, they're so high above the ground that an almighty crash heralds the market's recognition, finally, of that simple truth.

Here's another cold fact, or two.

Conoco: All Time High

Conoco's Cash Flow Last Year



The left green circle shows Conoco's $16 billion of cash earned from business operations, and its $10 billion of free cash flow (after capital spending for the future.) The right green circle shows the $6 billion of cash handed back to shareholders last year. Here is what 2022 looks like, says CEO Ryan Lance, if the price of oil averages $75. (It's near $90 today.)

Cash from Operations	$21 billion	Up 31%
Free Cash Flow	$14 billion	Up 40%

Now, if Facebook (Meta Platforms, sorry) had posted those numbers, its rocket would quite possibly be roaring toward the moon, still. The heart of the difference between Conoco and Facebook is that the market has been betting the Facebook tree would grow to the sky; and it's been betting the Conoco tree would wither and die. So even as Conoco's exceptional leadership and business performance since 2016 were so clearly paving its own highway out of a tough past toward a remarkable future, the betting crowd "priced it for destruction," pretty much, in the valuation of its earnings; while the same crowd priced Facebook for perfection, pretty much, in the valuation of its earnings. But cold cash and cold facts cannot be ignored forever, by the big crowd—as those pictures show.

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