

The Outlook: Feb. 24, 2023

Bright people making bad judgments . . . and Conoco.

A great pleasure of reading history is that we get to see how people thought and how they acted, under pressure. Of course, many don't do very well . . . but if our historian is good and fair-minded, and tells us the whole story of the pressures they faced, we mostly sympathize with the "failures." "There but for the grace of God go I," we remember. And when we're treated to the stories of history's truly great men and women, who because they rose to their challenges usually did a lot of people a lot of good, it'll cheer us up on the gloomiest of days.

But today we'll dwell (briefly) on the "failures." We'll ask a question which to Outlook has always seemed "Big" indeed: "How can very bright, eminent, distinguished people make such poor decisions so often?" For it's truly impossible to spend a few decades enjoying history without being stunned, over and over again, at this phenomenon: high-achieving, famous people with impeccable credentials making god-awful judgments about the world around them and the problems they face.

Why? Outlook's answer: "Because being human means we're always strongly tempted to think with our fears, our hopes, or our egos—instead of our brains and common sense. "Cool-headed" is high praise because it's pretty rare." Taking the time to "see the whole picture" or "look for the whole story" always sounds easy and obvious, but we mostly don't do it. Even the so-called "most distinguished among us" don't do it. If almost any single one of those "failures" of history (who made spectacular blunders in judgment) had just bothered to look for the whole story available to him at the time, the blunders could have been skipped.

By now Outlook's readers will know we're also talking about many of the investment world's "best and brightest." Here's a picture, told in 3 green circles:

Conoco, 3 Years



- Circle One: the Lockdown Bottom, March 2020.

There was Conoco at \$24 per share. Had Covid-19 been the Black Death of the Middle Ages, killing more than half the people on earth, \$24 might have made some shred of sense, back then. But it was perfectly obvious it was a galaxy away from the Black Death, even in that dark March of 2020. It was also plain to see that Conoco had great financial strength; that if America's giant companies were going to fail as the planet died, Conoco would be among the last in line, not the first. Finally, despite "Lockdown!" being history's first, it was plain to see that it could not last very long, and life was certainly going to crawl back toward "normal" all over the world, eventually. "Normal" meant more need for oil . . . a lot more.

That was "the whole picture" at the time. But if there were any eminent investors who thought that Conoco could easily climb from \$24 to \$50, maybe even to \$75 . . . they kept quiet about it. Nobody dared mention numbers as silly as \$135 per share.

- Circle Two: the Recent Top, September 2022.

There was Conoco at \$135 per share: up 460% in 30 months. Why? Well, our "whole story" could be summed up as: "Conoco's great strength was too obvious to ignore. Its giant leap in profitability (dropping its "breakeven" oil price from \$60 or so to \$35 or so) was also obvious. The world's spending on new oil had dropped off a cliff since 2019, so there had to be supply problems eventually. And finally, oil demand had indeed kept crawling back toward "normal" despite a shocking list of world problems—from War to China's "Forever Lockdown" and a lot in between—which kept the crawl from breaking into a run, but didn't stop it from its slow move. That was the

“whole picture” at the time. It did not guarantee “\$135 or higher forever!” It did rule out “\$24 might be just around the corner!”

- Circle Three: today, February 2023.

Here’s Conoco at \$105: having “plunged” 22% from that \$135 peak. But the “whole picture” today is exactly what it was last September, with one minor change: global oil prices have dropped 28%, from \$117 to \$84/barrel.

That’s a sharp drop all right. Has it changed “the whole picture?” Of course the answer from the market’s betting crowd is, “You bet!”, hence Conoco’s plunge to \$105. Now we arrive at the heart of the problem. It’s Outlook’s guess that if we could read the minds of most of the millions of members of that betting crowd, asking whether they really thought “the whole story” as of September 2022 had changed, the overwhelming answer would be: “Well, no. But who are we to care about the whole story? The only “story” that matters to us is: “the price of global oil is down, so my crowd will be betting against Conoco for a while.” Of course it might be a “little” while, so we’re keeping our reflexes sharp.”

The heart of the matter for these people, as it is for all those “failures” of history, is that they don’t want to “see the whole picture” or “look at the whole story.” That just matters less to them than their hopes and fears about making or losing money this afternoon or tomorrow morning. So the market goes on as it always does: riding the roller-coaster of its own making, trying to jump on or off at a moment’s notice . . . and never much caring that they might be a lot happier and wealthier with a longer view and the whole picture. They’ll never change . . . and neither will we investors change. We like the longer view, the whole picture . . . and the wealth that comes with them.

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