

The Outlook: Oct. 18, 2022

Bringing F-35's to a gunfight: Lockheed wins.

One of those Clint Eastwood spaghetti westerns ends with a fight between three gunslingers. None of them is quite sure who the other two will shoot first, so whoever does draw first might be the target for the gunman he doesn't aim for. The music swells and the camera zooms closer and closer to each set of eyeballs, which get more squinty and shifty or steely depending on whether it's a bad guy or good guy. Yup, it's a lot of fun.

That's a pretty good way to understand the nature of the market's vast daily betting mob. The mob's business model—survival model, really—is not to think about the real meaning of the headlines. It is to guess what's in everyone else's head, behind their squinty eyes; to guess how many of them will react to the fleeting impression from today's biggest news item by drawing and shooting the market dead, or else by relaxing and heading to the saloon for a drink. So, like Mr. Eastwood and his two pals, the mob spends almost every second of its time staring at each other and wondering. That doesn't leave much time for actual thinking.

This nature of the market crowd would be pretty discouraging except for one thing: the crowd must also decide whether to shoot or drink in response to every passing fact from the real world. Those facts—Main Street's facts, we always say—drive the crowd's actions in the long run, because they almost always involve cold, hard cash—which the mob respects more than anything else.

Lockheed floated some facts by the market today, and they carried cold cash with them. The result was a 35-point rocket in Lockheed (+ 9%.) Here's the 10-year picture for perspective.

Lockheed: 10 Years of Operating Cash Flow and Stock Price



The funny thing is that Lockheed’s Quarterly Earnings Report wasn’t especially great. It was solid, as it usually is; but CEO Jim Taiclet also warned that the whole year of 2023 won’t show anything impressive: probably flat sales, in fact . . . but setting the stage for surging results in 2024. Through this year’s Bear Market since March, that kind of comment has left the forecasting company’s stock riddled with bullets from all three gunslingers, so to speak—but not this time. This time it was a 35-point rocket.

Why?

The picture above is a good start. In 10 years Lockheed has gained 362%, which is the market’s crowd saying “Well OK, we know Lockheed’s a pretty good operation.” But the blue line on top says more. Operating cash flow has gained 491%. That would be pretty good for a Celebrity Tech company, much less a stodgy defense firm. Operating cash is the foundation for every cash reward we get, as investors: from dividends to share buybacks. And Mr. Taiclet did say one more thing, after doling out the “flat revenues for a year” news. Lockheed, he mentioned, has increased its stock buyback plan by 14 billion dollars, which is a lot even for a giant company.

Lockheed’s message to the mob—squinty eyes, itchy trigger fingers and all—was, “You all can keep selling as long as you like . . . but we’re buying, and we’ve got the cash to back it up.”

That’s what we mean by “Main Street’s real facts, with real cash.” That kind of fact carries far more clout, eventually, than the fleeting “impressions-from-headlines” which are the staff of life for the betting crowd. But even that crowd knows it, and must finally bet on it—which is exactly why the oldest of investing’s golden rules—like “Be patient,” and “Buy low, sell high”—always pay off.

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