The Outlook: Dec. 20, 2018

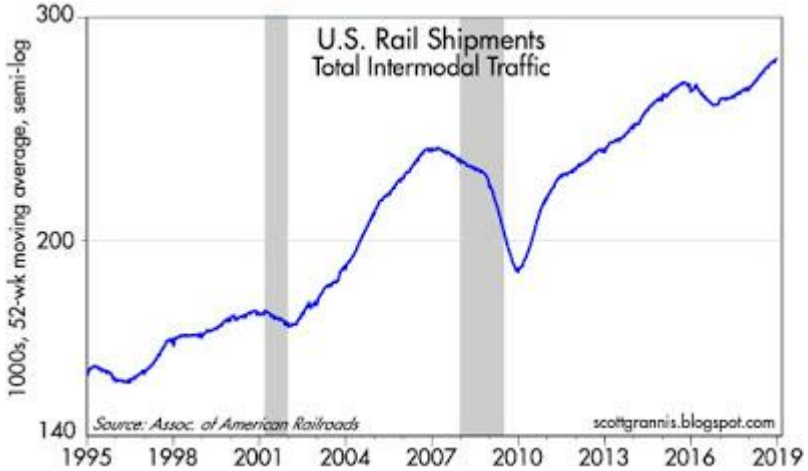
Main Street makes money. Wall Street runs amuck.

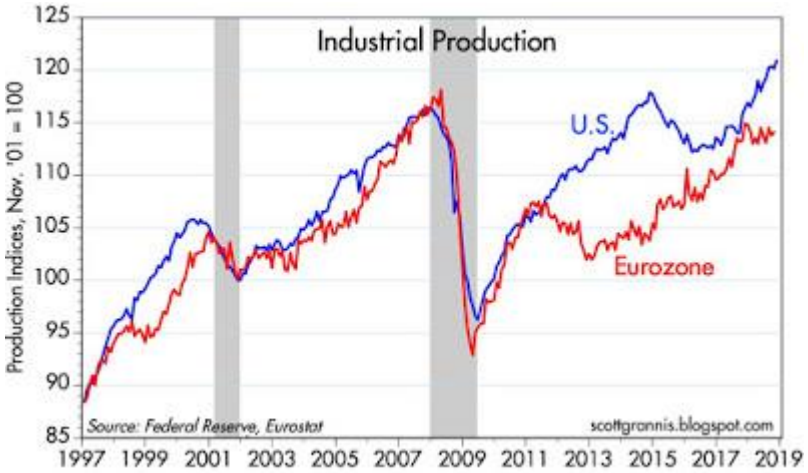
Since early October, Wall Street has been doing its level best to frighten Main Street. "Wall Street" (the vast market crowd of speculators doing business under more dignified labels) regularly frightens itself. The short-selling part of that crowd lives for such episodes, and are delighted rather than frightened as they feel any particular downhill bus gathering steam as it plunges south. There's an old saying among traders (and politicians!): "When you're onto a good thing, stick with it." When the selling crowd senses its "onto a good thing"—and it must be enjoying that feeling now—it mostly does "stick with it," right up until it's too late and many of the crowd have been burned out of business, forcing them to take up some form of honest labor to earn a living.

We do not hear about those who stick with a good thing, in the speculating world, until it turns and devours them. There is an occasional front-page story about the humbling of some famous hedge-fund manager—but those stories are rare. The event, though—the overstaying the ride and career-killing losses which result—happens very often indeed. Short-sellers do play with fire, and the eventual result is both terrible and inevitable, for a lot of players. But again, we do not hear about them . . . which makes it easier for us investors to make the mistake of believing the "Great Myth" of the investment world: that the market's behavior, especially when it's terrified, is "telling" us something true about the real world—about Main Street.

It never does. That speculating crowd is not filled with people more clever than us down-to-earth investors; nor more knowledgeable; nor harder-working; and certainly not more connected to common sense. When we meet and get to know a few of them, that's clear . . . as it is when we glance through the surprising number of "How I Made and Lost a Million in the Market" memoirs in the library. Main Street, on the other hand, is filled with a wonderful number of very down-to-earth, deeply knowledgeable, and incredibly hard-working people, who spend their careers building and often fixing businesses, generally brick by brick. Those traits describe most U.S. CEO's just as much as plant foremen. They aren't immune to eventually catching fright from a market acting like the sky is falling . . . but they're pretty stubborn about keeping their heads down and getting the job done, the great majority of the time.

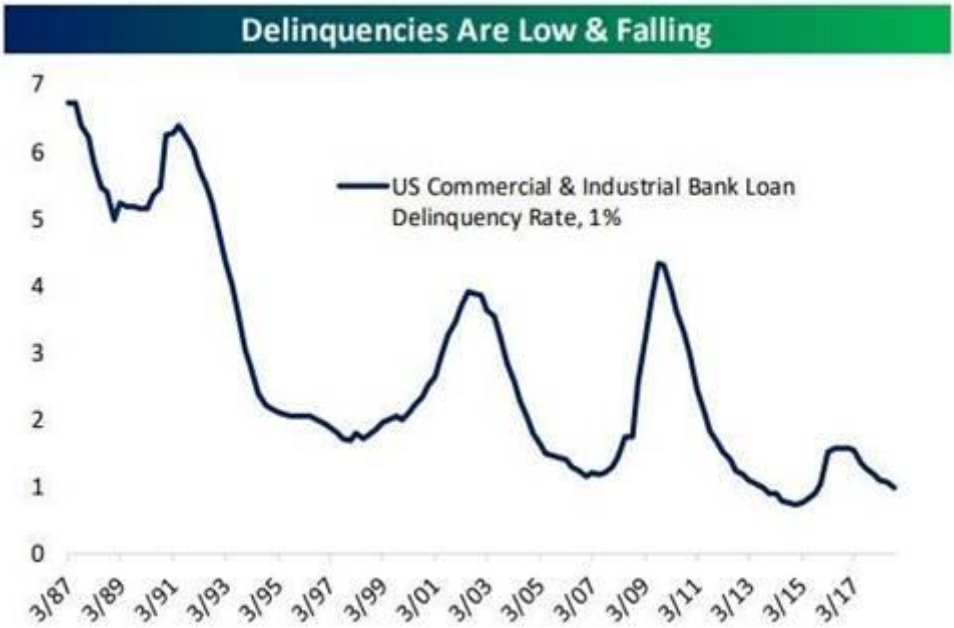
Economist Scott Grannis, who always insists on looking calmly at the whole picture rather than the market's frightened corner of it, offered some pictures the other day, which show us Main Street at work, right now. As Mr. Grannis pointed out, these pictures are about real, physical activity on Main Street (in the real economy) rather than surveys and estimates. They're worth our time.

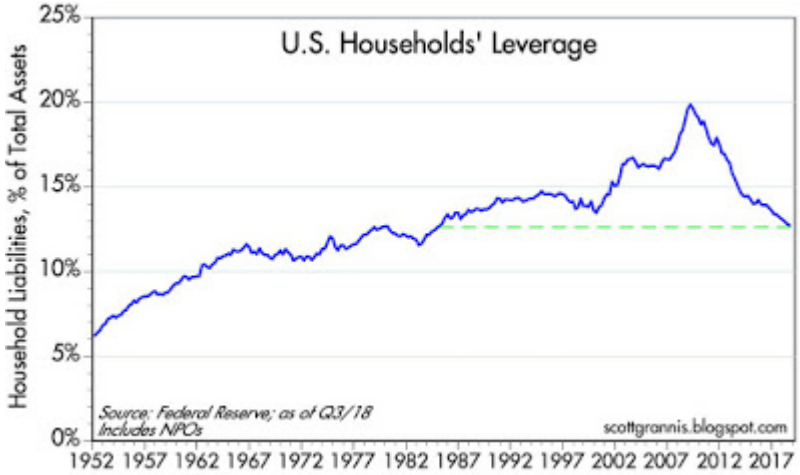




The first two report on the tonnage of rail and general freight shipments in the U.S., up through 4 to 6 weeks ago. Through the first 6 weeks of the market's current nightmare, Main Street paid no attention, did it? The bottom chart, industrial production, is a more widespread measurement of factory output. Notice the continuing surge here . . . and the last year of hesitation in Europe.

During the last Bear Market, 2008—2009, there were some Main Street facts which deserved the market crowd's fright: surging defaults and delinquencies on mortgage loans; home construction far beyond what population and demographics could justify; and home prices in the stratosphere. (The facts did not deserve the galactic-scale fright the market crowd gave them—but they were a sign of genuine trouble on Main Street.) All we can say today, though, about conditions on Main Street is that there is no sign of genuine trouble, or minor trouble for that matter. We can also say that consumer, business and bank financial strength are so far beyond their 2008 levels that we can use "galactic" again, to measure the distance . . . as the next pictures show.





Those pictures offer invaluable perspective, when we begin to feel a little infected by the fears of the sky-is-falling crowd. They show that the U.S. business and consumer sectors are healthier than they've been over most of the past 30 or 40 years.

Wall Street's speculating crowd would like to see Main Street catch its fright, which naturally would create a real slow-down in economic behavior. No matter how nose-to-the-grindstone we are on Main Street, when we get alarmed we take steps to protect ourselves, economically—which means growth slows down. But not only are we not at that point yet . . . but that "galactically" stronger starting point for our financial strength means something too: that such a fear-induced slowdown would have a hard time—to put it mildly—turning into the runaway downhill bus of 2008- 2009.

Such perspectives don't matter in the least to the media or the market crowd. Both will keep "riding a good thing" right up until that downhill, short-selling bus crashes into the rock wall of "outstanding investment values." Then the survivors will borrow on margin to go long, and jump on the uphill bus . . . which will certainly be fueled by a host of positive real-world facts, such as those we've glanced at here; and those which jump out at us when we examine any of the operating businesses we own.

Main Street creates the facts about cash and growth which Wall Street always finds that it can't ignore . . . no matter how much running amuck it's done for a while. We investors must always conquer our natural inclinations toward fear; hold our exceptional companies; and buy more when we can. The running-amuck phase does not last.

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

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.