

The Outlook: Feb. 16, 2018

The market runs around, CAT and Cummins shrug and keep building.

From January 22nd through February 8th, or so, the market did its best to persuade us there was something seriously wrong with the world. As Outlook has noted once or twice, it's easier to persuade most of us that the real-world sky *must* be falling, when right in front of our eyes we can see the investment world's sky falling.

But they are two fundamentally different worlds. The real economic world rests on a foundation of things like individual accountability, human ingenuity and people's sheer determination to fix their problems and better themselves. The investment world rests on a foundation—if we can call it that—of imagination, and of the fragile emotions of both individuals and giant crowds. The real world, thank goodness, is the engine driving the train along. The investment world goes into frenzies, now and then, about the proper price of first- and second-class tickets . . . but frenzied or not, the investment world does not steer the course or provide the power—and in the end it must always focus again on exactly how the engine is chugging along.

Right in the middle of this last 2-week frenzy, we were reminded of all this by news from two Outlook core companies: Caterpillar and Cummins.

First Caterpillar reported its “3-Month Rolling Machine Sales,” as it has done every single month since the tractor was invented, roughly. We've noted quite often how CAT's 3-month sales reports won gold, silver and bronze medals in the category of “Abysmal Beyond Belief” for a frightful stretch of 3 to 4 years, ending only about a year ago. Our company supplies heavy equipment to the global mining and global oil-and-gas industries—and those took a terrific beating for quite a while. Of course, while the beating was going on, and CAT's 3-month sales reports were so dismal, the investment world's many experts predicted that CAT's sales would never again grow strongly. Among the many reasons cited was the “vast overhang of used Caterpillar equipment” trading at bargain prices, which must surely prevent anything good from happening in CAT's new-equipment sales.

Hmm. We haven't been hearing that explanation lately. The chart below tells us why. There are 45 growth percentages in that chart, and they all say “UP.” The lowest growth rate in January was 19%. The highest was 99%--from CAT's Latin American mining customers.

Caterpillar Inc.

Rolling 3 Month Retail Sales Statistics

Retail Sales of Machines by geographic region for the 3-month rolling period ended as of the month indicated compared with the same period of the prior year:

Total Machines	January 2018	December 2017	November 2017
Asia/Pacific	UP 51%	UP 50%	UP 43%
EAME	UP 31%	UP 37%	UP 32%
Latin America	UP 49%	UP 55%	UP 48%
North America	UP 23%	UP 23%	UP 12%
World	UP 34%	UP 34%	UP 26%
Resources Industries	January 2018	December 2017	November 2017
Asia/Pacific	UP 24%	UP 38%	UP 9%

EAME	UP 66%	UP 81%	UP 86%
Latin America	UP 99%	UP 107%	UP 68%
North America	UP 38%	UP 23%	UP 5%
World	UP 49%	UP 50%	UP 35%
Construction Industries	January 2018	December 2017	November 2017
Asia/Pacific	UP 59%	UP 53%	UP 52%
EAME	UP 19%	UP 23%	UP 17%
Latin America	UP 28%	UP 37%	UP 40%
North America	UP 22%	UP 24%	UP 14%
World	UP 30%	UP 31%	UP 25%

Now let's glance at the news from Cummins, the "Diesel Engine King."

Engine Segment - Sales by Market

\$Millions	Q4'17	Q4'16	Change
Heavy-Duty Truck	730	565	+29%
Medium-Duty Truck & Bus	643	606	+6%
Light-Duty Automotive	423	409	+3%
On-Highway	1,796	1,580	+14%
Off-Highway	491	387	+27%

- On-highway revenues increased primarily due to higher industry production and market share gains in the medium and heavy-duty truck markets in North America.
- Off-highway revenues increased as a result of strong demand for construction equipment in North America and China.

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The far-right column is the heart of Cummins' story: 14% growth in On-Highway engine sales; 27% in Off-Highway sales. Not as spectacular as Caterpillar's figures . . . but Cummins did not plunge anywhere near as far into the Valley of Despair, so to speak, as Caterpillar did, during the 2014 – 2016 recession in the mining and commodity sectors of the global economy.

The point is simple. While the market was impersonating Chicken Little, Caterpillar and Cummins were telling us what is actually going on in the real world. We investors had a choice: we could believe our two companies; or we could believe the market must have known something very dark, and very unlike what CAT and Cummins knew about the real world.

The most powerful thing about the market is its ability to frighten people, regardless of what real-world facts may be saying. It tries to do this pretty regularly, and fails most of the time. But we investors must always keep a wary eye on it, because—fear being highly contagious—every now and then it succeeds for a while, and “fulfills its own prophecy,” since when consumers and businesses are alarmed enough, they cut back on all kinds of economic activity. But this time, from all Outlook can see, the reaction to the market's 2-week frenzy from most businesses and ordinary people was to shrug, and keep plugging away at the job. That is always a wonderful reaction. Caterpillar and Cummins told us “We're

not running away, we're building." We think there is going to be a pretty remarkable amount of building still to come, in the real world. We're holding, and we're buying.

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