

The Outlook: March 13, 2018

Think clearly and calmly . . . or think like the market. Micron shows us the staggering difference.

Outlook clients don't need to be told about Micron Technology these days. They've seen the fairly staggering difference it is making in their portfolio values. But Micron is worth a look today, because it shows us how to think clearly about investing. "Shows us" might be too mild. It clouts us upside the head with a two-by-four, like the farmer persuading the donkey, with a lesson about thinking clearly and calmly versus thinking like the market.

Micron since its last cyclical bottom in May 2016



Hmm. Up 521% in less than two years. At bottom that May, the stock traded around \$9.60 per share. Why? Well, both Micron and its memory-chip industry had been somewhat blindsided by an 18-month downcycle in memory chip prices, which began at the end of 2014. Both our company and its industry had done a great deal to strengthen themselves and advance the sophistication and value of memory technology, as December 2014 rolled around. They weren't expecting another typical, plunging downcycle in global chip prices—but it happened anyway, mostly because desktop PC sales weakened even faster than expected, all over the world.

But \$9.60 per share was a price which only made sense if Micron had no future, and was in the very act of desperately fending off an inevitable bankruptcy. That was a statement about Micron which would have been so silly, at that May/2016 bottom, that no reputable Wall Street analysts or eminent investors were floating it.

So again, why \$9.60 per share? Why so low—why so downright “depressed?”

Micron plunging to its last cyclical bottom: December 2014 to May 2016



Hmm. Micron lost 73% of its value in 18 months. Let's go straight to the lesson. The fundamental meaning of a chart like that is "fear." This kind of "thinking" by the market is, of course, not thinking at all. It has nothing to do with looking at the whole picture: at all the facts surrounding Micron, its industry, their remarkable progress in technology and financial strength, or anything else. It is all about one thing: the way speculators feel about trends. "Never try to catch a falling knife!" "Cut your losses, and let your profits run!" "The market can stay irrational longer than you can stay solvent!" We might fill a book with all the colorful ways speculators say, "Above all else, we hate losing money . . . for a day, week or month, much less a year!"

We might think the investment world is filled with calm, straight-thinking analysts who are never fazed by the emotions of the speculating crowd. But in fact, the calmest and straightest thinkers among us are indeed fazed by fear. It clouds our judgment. It hampers our determination to look at the whole picture, not just the frightful corner in front of our eyes at the moment.

And that is Micron's attempt, these past few years, to open our eyes about how to invest well. We must think calmly and clearly when we don't feel like it. We must insist, always, at looking at the whole picture, when the rest of the crowd is going berserk, more or less, about a terrifying piece of the picture. If we somehow manage to do those things . . . Micron is showing us what the payoff can be.

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

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