

## The Outlook: September 2, 2022

### *The Market Gives Up . . . Again.*

This picture and its two red arrows will help us understand “what’s going on” in the market these days.

### **The Market Gives Up . . . Again.**



The first red arrow (the first 2 weeks of June) was the market “giving up” the first time: that is, absorbing the impression from worldwide economic news that “Recession!” was absolutely inevitable. Of course the market had been talking itself into that kind of pessimism all year long . . . but when June arrived it really threw up its hands in despair. After 2 weeks of that, oddly enough, its mental outlook changed to “Well, um, maybe not” and up we rode for the next 8 weeks. The funny thing is that the world’s economic news was every bit as bad or worse, through those next 8 weeks, as it had been in the run-up to June . . . but the betting crowd’s sweeping notion that “the sky is finally falling, right now” somehow vanished like fog in a morning breeze.

That brought us to mid-August, 2 weeks ago, when our second red arrow began its copy of June’s plunge, for exactly the same reasons: too much bad news entirely, “Recession!” is upon us, no way to avoid it.

Now, those red arrows tell us nothing except what’s in the minds of the market’s betting crowd. Outlook clients and friends know how much respect the betting crowd’s dominant impressions deserve. Yes, that amount. They also know what good investors do when the crowd’s dominant impression is that the sky is falling. They double-check the companies they own, just to be sure they’re as financially strong as ever. They double-check the despairing valuations the crowd feels makes sense for these companies (at

this moment.) And then they buy more shares, or hold on for dear life if they can't scrape up the cash to buy more shares. Nothing ever changes those principles, whether the "sky is falling right now" impression turns out to be right (as happens about 1 in 10 times), or turns out to be the usual false impression, eventually canceled by more positive facts on Main Street.

But principles or not, we are all interested in the economic facts behind the market's gloomy mood. We'd like to know if this is one of the "sky's really falling" episodes, or one of the other 9 of 10 . . . so we can brace ourselves for a long wait, tighten our belts another notch, and so on. For a little insight there, let's look at something out in left field, so to speak: Rosstat, the Russian agency for economic statistics.

The Wall Street Journal ran a very nice piece of journalism today. Sometimes the newspapers still do that. The Journal noted the waves of recent analysis by global experts, to the effect that "Unhurt by sanctions, the Russian economy is amazingly strong." The Journal's reporters asked themselves a basic question: "Where did all you experts get your information?" The answer was, "From the Russian government, by way of Rosstat which is the government's stats agency." That, of course, means "from Mr. Putin." Then the reporters asked, "Ah, should all you experts be trusting the facts according to Mr. Putin?"

The only right answer to that question, of course, is the sound of crickets chirping. The most humorous answer, though, came from one expert who said, "The thing is, we all have quantitative economic models . . . and the models need numbers plugged into them . . . and Rosstat is the only place publishing numbers." Yes . . . those chirping crickets had the better answer.

The main difference between Rosstat and the Western world's statistics agencies is the difference between just making up numbers because your dictator told you to; and reporting the true numbers in good conscience, while knowing "the true numbers" are distinctly untrustworthy guides to what's really happening on Main Street. And the main difference between Pravda (if that publication still goes by that name) and Western journalism is that Pravda consciously lies about the lying numbers, while our journalists are under constant pressure to play up the negatives no matter what . . . because "if it bleeds, it leads." So the sky actually falls only once for every 10 or 15 times our media hollers that it's falling.

The 2 red arrows up there cover a period of about 12 weeks. During that time, the economic news began by merely hinting that sometime, somewhere the sky ought to be darkening up and threatening to rain. 12 weeks later, the economic news is worse than that, by and large. Now there are some genuine dark clouds overhead . . . but they are still emphatically scattered among fairly broad patches of blue sky. A long time ago in Kansas, a boy got used to heading for the basement when the sky was purple and black, and just plain frightening to see. When that happened a tornado was on the way—about one time in five. The market's daily betting crowd, as it rides that second red arrow straight down, is acting as if the sky isn't just purple and black, but a twister has been sighted and the alarms are wailing. The facts do not back up the crowd's impression. They don't come close . . . yet. At Outlook we doubt they ever will, this time around; but if we're wrong it would not change what we're doing. Yup: holding on to great companies at half-price values, and buying more when we can.

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