<u>The Outlook: March 4, 2020</u>

Silly headlines, silly market behavior . . . serious Main Street, as usual.

"Never Let the Headlines or the Market's Behavior Do Our Thinking for Us" is one of Outlook's Golden Rules for investors, of course. Like most golden rules, sometimes it's pretty hard to stick with it. We think one of this Rule's biggest challenges, when it comes to sticking with it, is simple: It is hard for most of us to believe how wrong the headlines and the market are—month after month, year after year and decade after decade—without ever seeming to learn from their mistakes and do better in the future.

The headlines, after all, strike us between the eyes with bold black ink every day, and always sound authoritative. How can they be so often mistaken? And the market, after all, strikes us in our financial statements, where we're all sensitive, and "Erases 3 Trillion Dollars of Value!" over a few days, as it did last week. Can that kind of market behavior really be as silly as Chicken Little running around shouting about the sky?

The answer, of course, is an emphatic "Yes!" But to really believe that, it helps tremendously to have spent 43 years looking at the headlines and watching how the market behaves, every day. That does tend to clinch it. If almost anyone were to spend a few decades the same way, at Outlook we'd bet they would feel pretty darned certain about "Never Letting the Headlines or the Market Do Our Thinking for Us," too.

We've been treated to a lot of silly headlines—and a lot of silly market behavior—over the last week or two. As a few famous investors have said, "There is usually a little kernel of truth at the core of even the silliest market behavior." But that kernel never remotely justifies the market's inclination to wallow in the fields of lunacy, when months or years later we all look back on what happened after the passing of time has calmed us down and let us see more clearly. The "Coronavirus Pandemic!" which pushed the market beyond the edge of sanity, this time, certainly begins with a kernel of truth: it's a serious illness, it spreads fast and kills people, it can't be cured yet, and damaging economic ripple effects are certain. But there is one all-important word to apply to it, as well, which has been obvious from the beginning: it's <u>temporary</u>. So are the damaging ripple effects. Until this week, the headlines and the market's behavior have basically ignored that word, because if we all kept our minds on it, silly headlines and a silly market would become obvious right away.

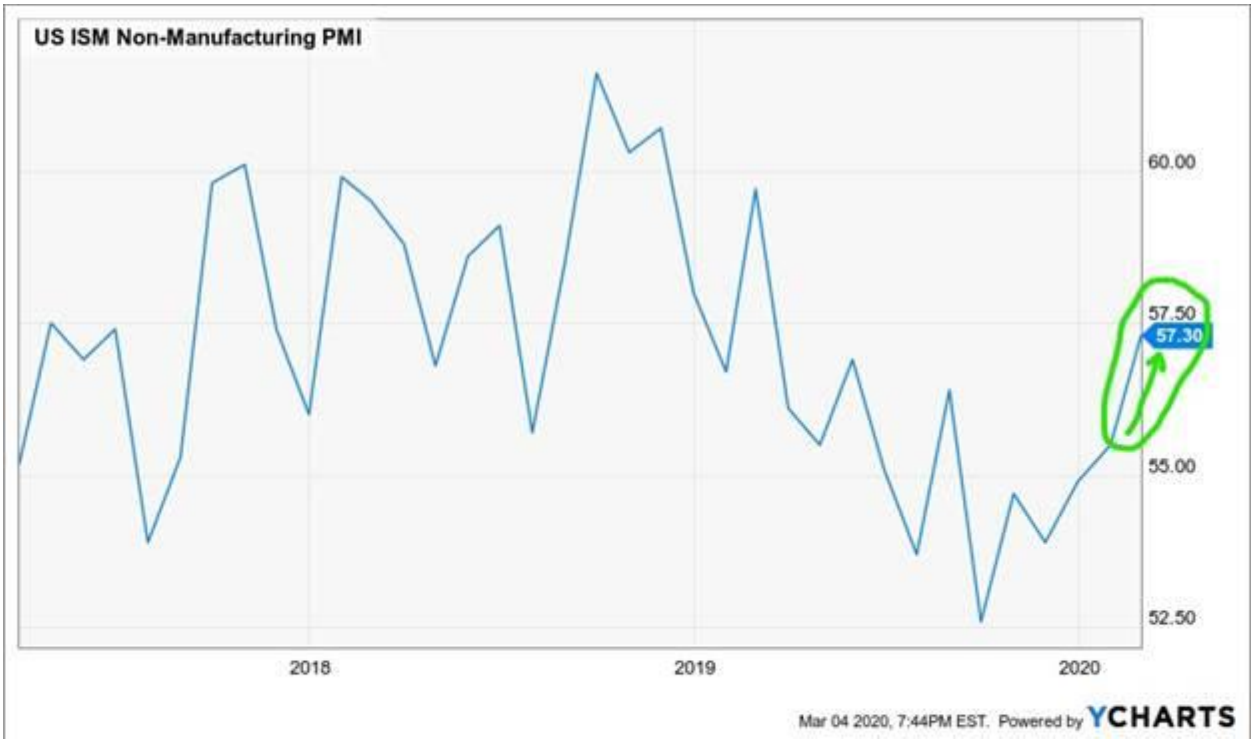
We were treated, today, to headlines explaining the market's 1200-point rise which would be gold medal contenders in the Silly Olympics.

"Biden Victory Triggers Market Explosion!" and **"Market Celebrates $8.3 Billion Anti-Virus Spending Plan!"**

Of course, it's possible such news items were indeed responsible for the market's little boom. When we remember that the galactic crowd of speculators which moves the market around each day is in the business of betting on the <u>impression</u> any news might make on the rest of their speculating crowd . . . well, anything is possible. But let's glance at a mostly-buried little headline, which got no credit for today's rocket ride.

"February Non-Manufacturing Index Jumps to 57.3, Well Above Expectations!"

And just to rest our eyes for a moment, here's the picture.



Like so many economic statistics, the "Non-Manufacturing PMI" index isn't really a fact, but a survey of what a lot of service sector company executives are observing in their own businesses, and what they expect in the immediate future. When readings are above "50" it means most executives are seeing their businesses grow. Below "50" means business is bad, and sales are falling. Surveys are just as fallible in economics as in politics—but this survey mostly reflects underlying Main Street facts, most of the time. We can see how it bounces around pretty sharply, month by month. We can also see how the trend was clearly worsening, through 2019, as "Trade War!" anxiety had its real-world effect on business activity.

Economists make forecasts, each month, about what they expect the PMI to do. They expected it to fall from 56 to 54. How could it do otherwise in February, with "Coronavirus Pandemic!" seemingly in charge of both the headlines and the market's behavior?

But it didn't. The U.S. "service sector" (which is around two-thirds of the economy these days) grew and even accelerated in February. Apparently Main Street did something, last month, *other than* gaze in horror at the daily headlines or phone its broker to sell what was left of its life savings, before the market could finish stomping those savings into puddles of worthless slush. Apparently Main Street was a little bit skeptical about Chicken Little. Possibly Main Street grasped the meaning of the word "temporary" and thought it was worth keeping in mind no matter how much the headlines and market ignored it.

Main Street generally acts that way, thank goodness. And the market's speculating crowd always returns to noticing how Main Street is acting, after wallowing in those looney fields for a while. Today proves nothing about when the market crowd might do that—but it does show us how the market will behave, when it does.

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.