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Betting Against Nonsense

There are some particularly wide and deep rivers of nonsense flowing through the world's markets today. Those rivers always overflow their banks on days like this, when some news item seems worthy of 600 points of panic. Today's item, of course, was President Trump's reaction to China's morning tariff fling at the U.S., with the President in typical form, saying "Oh yeah? I'll see your 5% and raise you 30%. How do you like that?" China couldn't possibly have been surprised, but the market crowd didn't like it a bit, selling everything in sight beginning with the strongest companies and best values, and using the cash to buy more of something which is at the very top of a 40-year bull market, and eventually has nowhere whatsoever to go, except down: that is, U.S. Treasury bonds.

When fear is in charge, very few people think straight and act wisely. The bigger the crowd, the more clouded its collective mind, and the more senselessly it acts. That becomes terribly obvious sometime later, when the fearful "facts" which the crowd never questioned, in its panic, are clearly revealed as nonsense. At Outlook Capital Management we bet against nonsense, not with it. The payoff is always startling, "eventually" (which in the investment business means, "After a long wait and a lot of pain.")

Let's dip under the surface of today's river, just a bit.

- China Slaps New Tariffs on U.S. Soybeans! (Among Other Things.)

  The last time the media drew our attention to the soybean market—which it doesn't do too often, maybe understandably—the headlines were along the lines of "America's Soybean Farmers Go Bankrupt!" That was back in 2018, when China first announced that it would treat U.S. soybeans like plague-infected rats, from now on, and that would obviously destroy a giant chunk of the American farm sector, since China had been its biggest customer. So this morning, when China added 5% to its existing 25% tariff on American beans, the November futures market fell 1.3%--which is quite a bit. So far, so good . . . it all seems to make sense, so where's the nonsense?

  For that let's hear Mr. Arlan Suderman, a commodities economist: "Well, China's news made a nice headline, but as far as actual demand and supply go, it means nothing . . . because Chinese buyers weren't buying American beans, anyway." And why not? In a nutshell, because the soybean market adjusted to China's actions quite a long time ago—amazingly quickly, in fact, after China's first tariff action last year. (We underlined "adjusted," back there. It's a very important word, which when understood shines a light on a great deal of the nonsense floating around the markets and the media, on the current "Trade War Nightmare.")

  "Adjustment" in the soybean market meant China shifted its soybean buying to Brazil (where it paid a higher price); and Europe shifted its soybean buying from Brazil to the U.S. (since Brazil does not have giant soybean-transmogrification machine, able to crank out 50% more beans on demand—or even 10% more.) Europe got lucky, getting its American beans cheaper than Brazil's. Here's how U.S. soybean prices have behaved since the trade war began (red circle):

Yes . . . they took an initial hit, a year ago, but have held their own ever since. It isn't quite the "Trade War Nightmare" picture of America's soybean fields turned to dust, because the Chinese buyers went away, is it? Nor does it seem to fit the sad stories gathered by the media from individual soybean farmers since last March, in which the farmer always says something like, "Yup. My beans are just sitting in the silos. Rotting by now, for sure. What could I do, when my Chinese buyers went away?"

Well, apparently what plenty of American soybean farmers and their bean brokers did was . . . adjust, and act. And it looks like they did this pretty fast, doesn't it? If they'd believed the nonsense in the markets and media, surely they'd have let their beans rot in the silos. They didn't. They chose to bet against the nonsense.

Today's 600-point slaughter celebrated the power of the "Trade War Nightmare" which has been the favorite horse ridden by the speculating crowd for the past year. That Nightmare has strengthened, over time, into something like today's version: "The Trade War will be endless, so China's economy will keep weakening, so the world economy will too . . . so even the U.S. economy must surely get sick, too." There are many rivers of nonsense flowing through that narrative; the soybean market is only one example. But when big crowds of people glom onto fear—when they get a really good grip on it—the real economy can indeed weaken, because anxious people cut back and slow down in lots of ways, waiting for the coast to look more clear.

But anxious or not, determined businesses and consumers still adjust, and still act to fix their problems. As our soybean example shows, that's the tug-of-war right in front of our eyes, today: the fear in the market crowd, against the actions and adjustments of real people running Main Street businesses (and soybean farms.) Those actions and adjustments have been happening all over the U.S. (and the world) since "Trade War!" began a year ago. They will take the teeth out of the Nightmare . . . eventually. But in the meantime, the Nightmare will keep giving us nonsense behavior and nonsense values . . . and we will keep buying, and hanging on.

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