

The Outlook: Sept. 30, 2022

Ms. 10: "Back up the truck and buy this thing."

Understanding saves us. Misunderstanding wrecks us. To Outlook those are words to live by in our roles as investors (and in every other role.) To help in our never-ending quest to "understand" the market, let's look at Micron.



Pardon the messy chart. The purple line is Micron's stock (down about 50% since January.) The orange line is Micron quarterly revenues, at an all-time record 3 months ago, then plunging 23% yesterday (when the company announced its quarterly results.) That first plunging orange arrow is bad enough but the company had more to say: next quarter's revenues would probably be down another 35% . . . making a 50% drop in 6 months. Finally, the green circle is today's stock price. It rose 8 whole cents . . . but on a day when the market did another of its usual 500-point cliff dives.

A great many analysts wrote about Micron today. For 9 out of 10 of them, or something close, the theme was something like: "A horrific, terrible, disastrous, catastrophic performance looking backward and forward for Micron." (They came up with all those adjectives and more, while exploring in sophisticated, gruesome detail every line item of bad news.) For 5 of the 9, or so, came "Well of course Micron is a good long-term company . . . but what a horrific, terrible, disastrous" (etc.) For the other 4 of the 9, "a good long-term company" wasn't in the story. Instead the theme was, "This is big trouble, and sure to get worse—don't touch this stock."

Of course we're wondering, now, what the 10th analyst said. She said, "It's just a down-cycle, for heaven's sake. Back up the truck and buy this thing."

That's the market, isn't it? For 9 of 10 members of the crowd, the overwhelmingly vital thing to understand was what happened yesterday and what's happening tomorrow. Some of them noted "well, it's a good long-term company" but they didn't mean it. They meant what they wrote about—wallowed in, more like—which was the excruciating detail of Micron's "bad news." Only for the 10th member of the crowd was "the overwhelmingly vital thing to understand" something entirely different: the fact that the market always stomps upon companies which stub their toes—especially companies whose business operations are always cyclical—hence always hands away their stocks for pennies on the dollar, so to speak, while it's doing the stomping.

This happens all the time. It's been happening through a century of market history. The market crowd is always hell-bent on *misunderstanding* what really matters, when today's news is bad. They do this because it's today's news, and they know 9 of 10 of their fellows will behave as if all that matters is the impression created by that news.

Now we come to a difference between analysts who write about companies and the market, and speculators who bet their own money. 9 of 10 of both groups are members of the same crowd, sort of: the crowd to whom today's impressions are the most vital thing in the world. But in a few decades in the investment world, at Outlook we've noticed a difference. The analysts wake up slower than the speculators. Why? We suspect it's because the analysts are letting impressions do their thinking for them, and writing that way—while speculators are betting their own money on those impressions. If they've survived for a while, they know the impressions are going to change . . . and they'd better not be on the wrong side of the bet when that happens. As Micron dove off that Acapulco cliff back in January (off Mt. Everest, more like), the speculating crowd was willing to bet the news impressions would be coming in negative for a while. But they also knew that "negative" is the length of the galaxy away from "fatal" for a company like Micron—and they'd need to cancel their sells and jump to buys before any of the news turned good.

That may or may not explain why Micron rallied today while the rest of the market kept wallowing in misery. But it will explain why Micron begins its next bull run, whenever that happens; and why that beginning will happen while the news is still bad.

Micron is a cyclical business, as that orange revenue line shows. Hence its stock is cyclical too. We can see how the revenue and the stock price keep each other company, up and down. We can also see what is "overwhelming obvious, and vital to understand." Cyclical means cyclical. Down revenues will be followed by up revenues . . . and it does not take a deep understanding of Micron's globally-shared domination of an absolutely vital industry—memory chips—to understand that the next upcycle will take revenues (and the stock price, with near certainty) much higher than ever. That's why Ms. 10 wrote, "Back up the truck and buy this thing." That's what we're doing.

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