

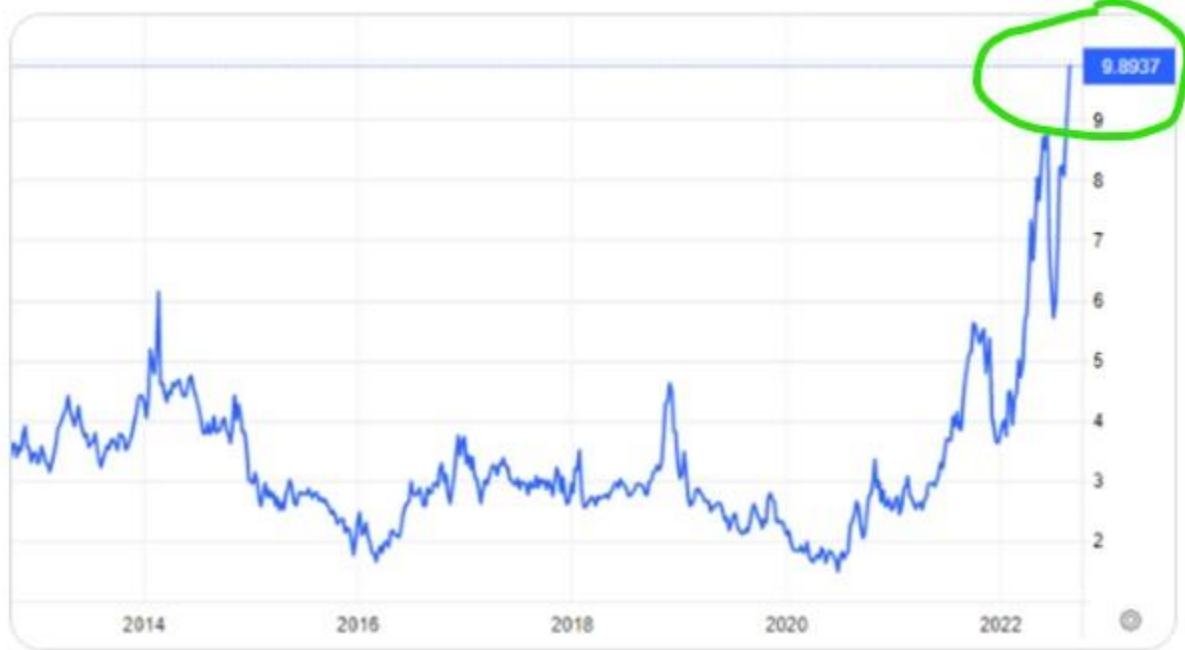
## The Outlook: August 23, 2022

### *Believing in Big Changes.*

Just a couple of days ago we talked about how very, very hard it is for most of us human beings—no matter how famous or “expert” we might be—to believe that “Big Change” is coming, and may well be right around the corner. But history shows us over and over that Big Change happens quite often, whether we believe it’s coming or not. That makes it crucial for us investors to battle against our disbelieving human instincts; to think with our heads and the facts rather than our impressions; and, most of all, to have the nerve to put money on Big Changes when our heads and the facts tell us to.

Here’s a picture which is the all-time poster child, pretty much, for our principle that Big Changes really do happen and often leave us stunned with disbelief, even when we constantly remind ourselves to believe in them.

### JUST IN - US natural gas prices hit 14-year record high.

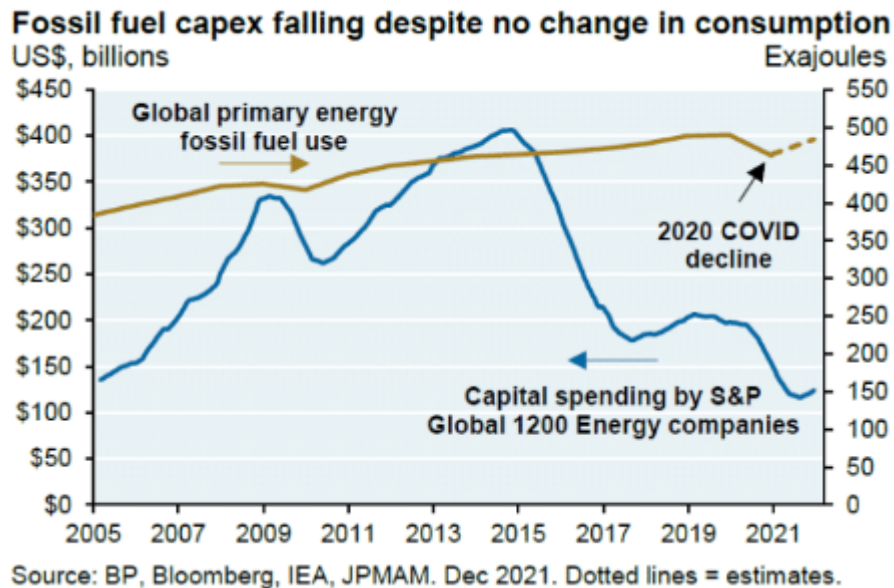


From Outlook here’s a flat assertion: “Nobody on Earth—nobody—thought this 2022 picture was possible during the 6-year Dismal Swamp which bogged down natural gas prices from 2015—2022.”

At Outlook we’ve had a connection for 40 years to a Texas natural-gas company: one of the countless exploration-and-production firms down there . . . and one of the rare survivors of the Dismal Swamp years. The people who run this company are straight out of Central Casting: completely practical, down-to-earth veterans of a very tough business. They are people who’ve mostly spent lifetimes in the business. If we had suggested during the last 6 years that U.S. natural gas would crack \$10 when it was wallowing endlessly between \$2 and \$3 . . . they would have offered us an aspirin and suggested we lie down until the fever passes. Here is a Big Change which was just too Big for anyone to believe.

But it happened anyway. Why?

Basically because “the cure for low prices is low prices.” That old farmer saying captures the unstoppable forces of supply and demand, when markets are free to let them work. Let’s glance at a couple of pictures of supply and demand.



The top line is global energy demand: the “fossil fuel” kind. Forever, pretty much, it’s been a slow-but-steady rising line, with a brief dent now and then during bad worldwide recessions. The latest dent was 2020. Like its ancestors, it’s showing that it will also be “brief.” The blue line is about supply: that is, global spending to find and produce more fossil energy. The plunge since 2014—from \$400 billion to \$150 billion—is almost as “unbelievable” as the natural gas spike, up on top.

There are consequences when the world slams the brakes on producing more energy for the future, and keeps the brakes jammed to the floorboard for years. Free markets are always complicated, so the consequences very often don’t show up today or tomorrow, or next year of the year after. When they’re delayed like that . . . we are inclined to disbelieve in them. We’re always wrong. “The cure for low prices is low prices” may not quite have the cosmic strength of “apples fall down from the tree”, but it’s not too far behind.

Here’s Conoco for the last 10 years.



The bottom green circle was Conoco at \$22/share . . . while that “dent” was happening in global demand. The market’s betting mob figured the dent couldn’t possibly be brief. But it was, as usual. The next green circle is Conoco at \$80, having plunged from \$120. There was no “dent” in demand this time . . . but the betting crowd figured there would be, with “Recession!” in the headlines, and wanted to plunk down its money ahead of the mob. That crowd exists to make bets on how strong today’s impressions might be, inside the minds of everyone in its own crowd. Yes, it’s an interesting way to make a living.

Good investors don’t do that. We believe in Supply and Demand, so we also try very hard to believe in Big Changes. Those beliefs are all that’s been needed to keep plunking down money on Conoco.

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