**The Outlook: Nov. 17, 2021**

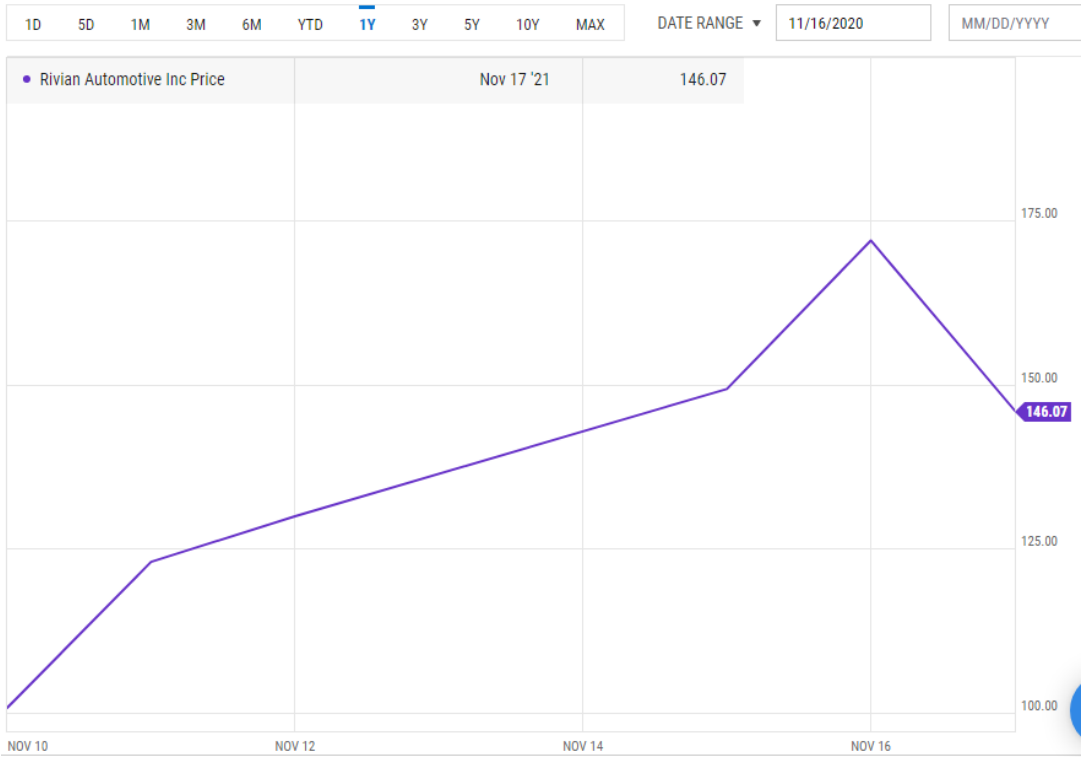
***Golden Rule One, Again: Understand the Nature of the Market.***

"Understand the nature of the market" just might be Golden Rule Number One, for any investor hoping to prosper in the long run, or even just survive in the short run. Outlook's clients have heard this before: the market is a colossal mob of speculators betting on the impressions created by news items on their fellow speculators: *impressions;* not hard facts sized up with knowledge and cool thinking. The mob bets on these items every day, every hour, every minute. The market is saved from being a financial snakepit to be avoided by any sensible person by another feature of the betting mob: it also must pay attention to those hard facts and their true meaning . . . because the hard facts usually say something about the cold cash paid to investors by the companies living on Main Street USA. Cash swamps impressions, any day of the week or month or year.

But those impressions rule the mob's behavior much of the time . . . and they can be the silliest things in the history of the human race, pretty much. The betting mob is a bunch of human beings, after all; and we are swayed by silly things, sometimes.

In the "Silly Things" Olympics these days, the gold, silver and bronze medals go to certain electric car companies. The latest is Rivian, a young company which has made a few dozen or possibly a few hundred electric pickup trucks, and which sold shares to the public a week ago. Here's its picture:

**Rivian: Went Public at $78, Touched $170 in 5 Days. Worth More than Ford or GM.**




To "understand the nature of the market" we should also look at Tesla, which has been around much longer.

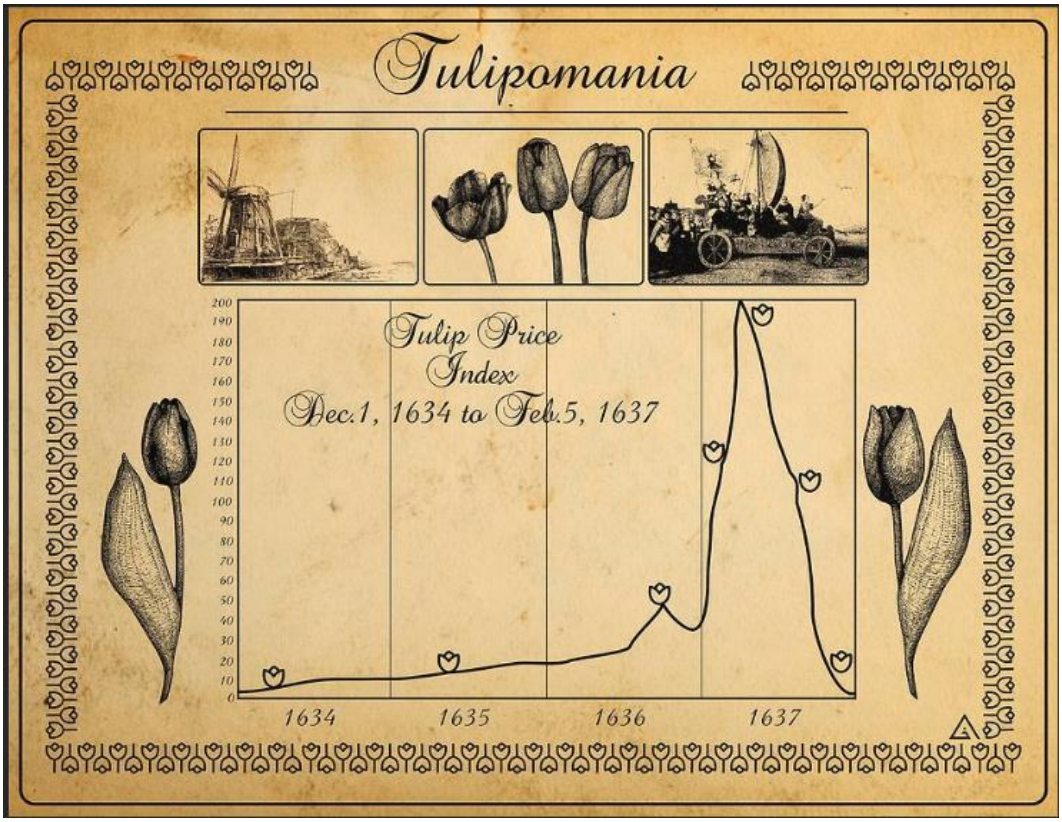
**Tesla: Up 15,000 Percent in 10 Years.**

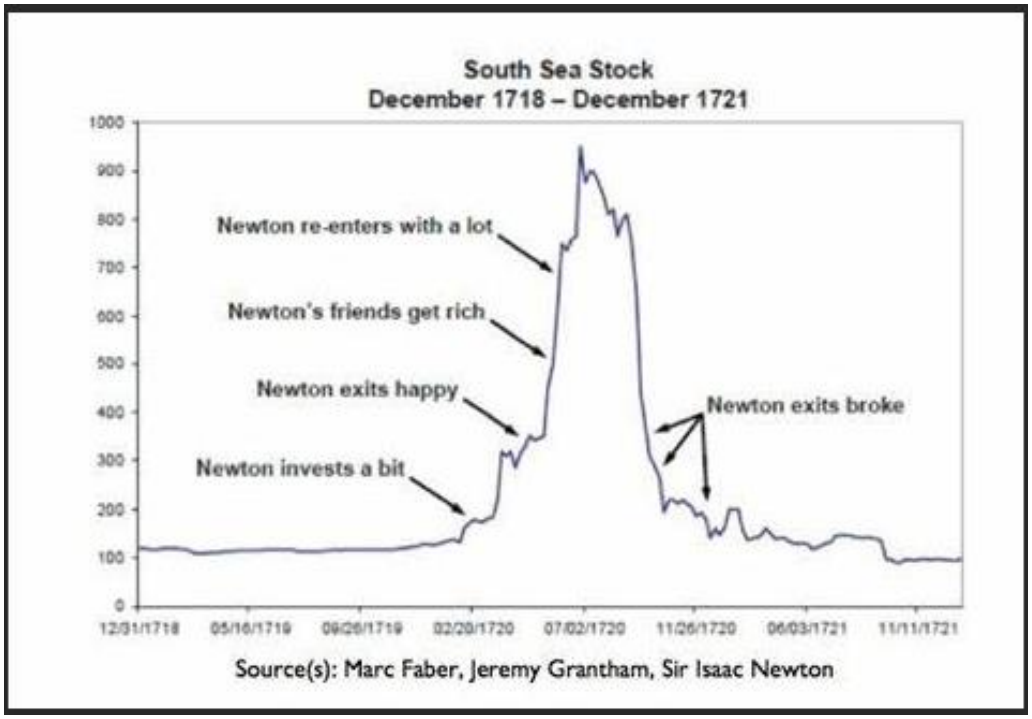

Tesla's picture needs a little more perspective. That long green circle covers the 8 years before 2020. It doesn't look like the stock did much . . . but it gained 500 to 1,000 percent. It just doesn't look like much next to 15,000 percent: the rocket ride of the past 2 years. The 500 to 1,000 percent was silly by itself; but there are no words to describe 15,000 percent—for investors willing to think a little, anyway.

"Understand the nature of the market." Rivian's one-week treatment by the betting mob was *enabled* by Tesla's 10-year treatment by the same crowd. Rivian makes sense if Tesla makes sense. Does it make sense in any other way? Here are a couple of numbers. We might say that GM and Ford are worth about $19,000 per car produced, from now through 2023. Tesla, then, is worth $500,000 per car produced. Rivian is worth $1.3 million per car. Yup, that's the silly part. There are countless other ways to say "silly" using business numbers . . . but we get the idea.

The Big Question for investors, as we struggle to stand apart from the colossal mob, is: "How on earth can such silliness go on so long, and go to such extremes?" It's the "Big Question" because the fact that silliness acts that way is a great danger for investors. Being human, we are tempted to doubt our judgment and common sense, eventually, as the silliness persists and shows no sign of ending, or even slowing down. And if we grit our teeth and stick to our opinion, and we're finally proven right . . . might the collapse of silliness bring down the whole market deck of cards, including our stolid, sensible investments?

That's a very good question indeed.  It calls for a little history, to add to our "understanding of the nature of the market."



Students of history know all about the history pictured above. Dutch tulip bulbs rose 20,000 percent or so, from 1634 to 1637. Then they crashed, going lower than they began. A century later, roughly, the South Sea Bubble acted the same way. Mysterious islands and nations in the East gave the impression that fantastic wealth could be had, with some exploration and business ingenuity. Sir Isaac Newton swallowed it, twice. He doubted his own judgment about "silliness" the second time . . . because the silliness had gone on so long and run so far. He should have gritted his teeth and hung onto his opinion, as we can see.

This market's version of silliness goes well beyond Tesla, Rivian and friends—and it's lasted a lot longer than the 3-4 years needed for sanity to show up, a few centuries ago. But no matter—it will end the same way. (Outlook began making that remark about Tesla at least 3 years ago; so if being wrong about timing means being wrong about judgment . . . the rest of all this might be ignored.) But the Big Question is still with us: "If we're proven right, will our stolid non-Celebrity stocks go down with the Rivian/Tesla Titanic?" Here's a picture—and a story we've mentioned before.

**Cisco and Caterpillar: 2 Different Paths after the Dotcom Bubble**


That red square is the interesting part. In orange is Cisco Systems, an excellent operating company whose stock went to the moon during the Dotcom Bubble. In purple is Caterpillar, nobody's idea of a Dotcom Stock. During the mania, Cisco traded around 100 times earnings. Caterpillar traded around 20 times—high enough, but not "silly."

20 years later, Cisco's stock hasn't recovered its losses—despite having quadrupled its profits and handled plenty of Problems pretty well. 20 years later, Caterpillar's stock has gained about 650% from its "Dotcom Bubble Peak." A different path indeed. Cisco's path was named "The Consequences of Silly Valuation." Caterpillar's was named "The Benefits of Reasonable Valuation."

Here's the end of this story.

**Caterpillar Today: 9 Times Forward Earnings**


That's Caterpillar today, with the green circles showing CAT's valuation at the moment: 9 times next year's likely earnings. Tesla and Rivian's values are off the edge of that map, we might say: a few hundred or thousand times earnings, it gets hard to calculate. We might say many things about that galactic difference . . . but the most useful thing is: "Caterpillar is safe. Tesla and Rivian are not. They're as far from "safe" as stocks can be."

Their silliness will end, someday. But we won't be hurt much, nor hurt very long, if at all.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