The Outlook: March 8, 2019

The market and the Nonsense Meter, last week.

We've often talked about the supreme importance, for investors, of understanding the nature of the market. When we know what the market is, it's a lot easier to do the right thing—which means, most of the time, absolutely refusing to do the wrong thing no matter how loudly the market shouts that we'd better do it this instant, if we want to reach retirement with more than a couple of nickels in our pockets.

When we take the trouble, as investors, to look back a few years (or even months) at the market's knee-jerk reflex behavior in response to the daily headlines, the market's capacity for nonsense is so striking that it would convince the most ardent worshippers of "the market knows all, sees all, tells all" philosophy. But most of us simply don't look back. We're too busy with other things . . . or we're too transfixed by whatever nonsense the market is shouting about today's headlines.

This week was uncommonly rich in nonsense news. In response, the market behaved in perfect character: not quite jumping out the window, but throwing it open and peering gloomily below.

- **"China's Exports Fall 20% in February! Economy on the Brink!"**

  That was the first of them, pretty much. The market's vast speculating crowd, of course, is well-primed for any negative-looking news out of China, since its "As China goes, so goes the world economy and stock markets" scenario has been an article of faith for a couple of years now. Let us thank an exceptional analyst on the Seeking Alpha site, Mr. Paolo Santos, for quick reflexes of his own, as he dissected the "Export Collapse!" story before it was many hours old. In a nutshell, Mr. Santos pointed out that the Chinese New Year celebrations, which vary considerably in their annual timing, fell in early February and, together with the prior weekend, effectively resulted in most of China knocking off work for the first third of February. So a million or so Chinese factories with export orders to fill either filled them early, in January, or just let them crowd into later February or beyond. The January + February export totals were mildly down, but nothing like that 20% headline fright figure, and for anyone with the patience to wait for March, the 3-month export totals may very well be even less frightening. The daily-speculating crowd, of course, has no interest in waiting for tomorrow, much less March.

  Even higher on the Nonsense Meter is the notion that China is collapsing because exports are down. As Mr. Santos drily remarked, "Ah, plunging exports would reflect immediate pain not in China, but somewhere else in the world, wouldn't they?"

- **"Norway Sovereign Wealth Fund to Sell All Oil Investments!"**

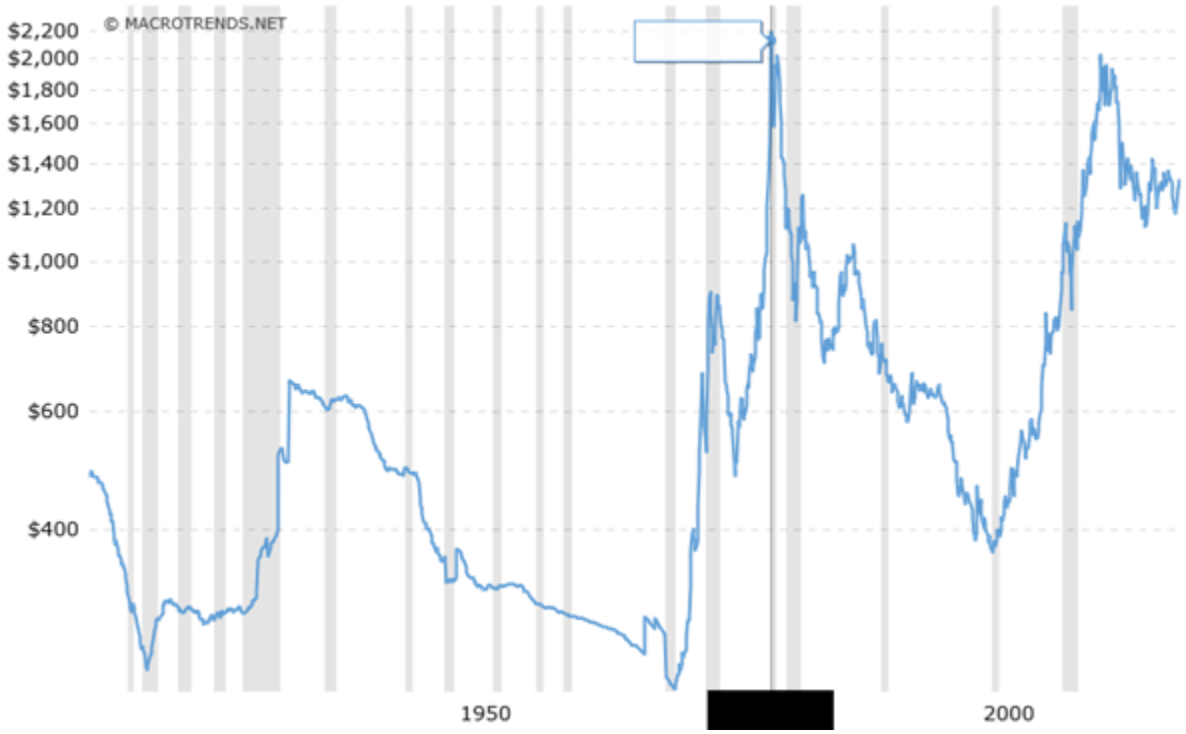
  The Norwegian economy has floated on a pool of North Sea oil for a few decades now. After passing out a chunk of its annual oil money to its citizens, Norway socks away the rest in its piggy bank (the "Sovereign Wealth Fund.") $37 billion of that Fund is invested in oil-related stocks, at the moment, and Norway's politicians and bureaucrats have been talking about how, in good conscience as environmentally-concerned people and to protect the country's piggy bank from the inevitable elimination of polluting fossil fuels from the Earth, they ought to drop those oil investments. Friday, apparently, they finally committed to that policy, hence the headline and its "obviously" terrible implications for global oil companies and their stocks.

"Obviously," of course, usually means "not obviously at all." Whether Norway sells its $37 billion Monday morning, or (more likely) takes a good while to do it, we can state one fact which is indeed "obvious." The market's capacity to find buyers for Norway's shares is infinite, pretty much. Whatever else may knock down oil stocks between today and whenever, it won't be conscience-driven trading activity by Scandinavian bureaucrats.

A long time ago, from late 1976 to early 1980, the price of gold skyrocketed from $500/ounce to $2100/ounce. All kinds of terrifying things were going on back then: OPEC oil embargoes; rocketing inflation; stagnating economies; a Time Magazine cover screaming "The Death of Common Stocks!" Very close to the absolute top for gold came a sophisticated analysis from one of Wall Street's giant brokerage firms—which was picked up and trumpeted by the press, of course. "Saudi Investment Policy Calls for Permanent 10% Investment in Gold!" (Or some such figure.) The Wall Street expert, digging into the numbers, figured that the annual dollar volume of that 10% commitment, given Saudi Arabia's galactic oil revenue and stocking of its own piggy bank, must so overwhelm the global gold market as to make it impossible for gold to fall, in the future—at least, not until hitting $5,000 or $10,000/ounce. Yes . . . gold's continued rocket rise was mathematically inevitable.

In 18 months, gold fell 50% from its $2100 peak. By 20 years later, it had fallen about 80%. No . . . Norway's Sovereign Wealth Fund won't be calling the shots for the world's oil stocks.

Gold over the Century



- **"European Central Bank Abandons Anti-Inflation Policy; Will Support Eurozone Economy!"**

This headline, which arrived mid-week or so, might have been the silliest and saddest of all. To most normal people, exactly what central banks do remains a mystery forever—simply because banking, credit and money markets are a little complicated by nature. Nobody glances at them and thinks, "Hah! Simple and obvious!" For now, all we need to know is that central banks absolutely control one thing: the level of short-term interest rates in their nation's economy. But they absolutely do not control anything else. But especially in Europe, there is a deeply-entrenched mindset among citizens from top to bottom of the economic ladder which amounts to "We look first to Government, to fix our problems."

Hence Europe's decades of crawling economic growth; and hence the ECB's announcement that it would be in no hurry to raise interest rates, which are at zero or below, and in fact would make more low-interest loans to European banks, to encourage them to lend more money to European businesses and consumers, which "obviously" would trigger more growth in a Euro economy which has been looking even more stagnant than usual lately.

The idea that this ECB action will do the slightest good is so silly that Outlook suspects that's what most Europeans actually think about it, as well. Interest rates are at one-tenth of a percent. The idea that lowering them even more will suddenly inject energy and optimism into the economy, and create crowds of borrowers at the doors of European banks because now the cost of borrowing is really cheap, ranks so high on the Nonsense Meter that nobody believes it, including Mario Draghi, the head of the European Central Bank. But Mr. Draghi simply wanted to be seen to be doing something to help, because that's what people expect of Government in Europe. Highest on the Nonsense Meter was the stock market's reaction to this story, which amounted to "Boy, the Euro and global economies must really be in trouble now. The Euro Central Bank is so worried it's changing its policy!"

- **"Exxon Mobil Will Hike Exploration Spending!"**

There were too many candidates for the Nonsense Meter Awards, last week, to list them all, but let's close with a story about Exxon Mobil's chief, Mr. Darren Woods, and a genuinely interesting strategy change which he announced.

In a nutshell, Exxon's Mr. Woods said, "We'll be spending a lot more money on oil exploration than we'd earlier planned, over the next few years. The world is going to need the oil; and Exxon is going to need the oil, because we haven't been replacing the oil reserves we've used up since 2014. Also, we think when everyone else is "leaning away" from oil spending, it's the best possible time for us to "lean in" toward such spending."

To Outlook clients, of course, this sounds familiar indeed. When oil plunged 75% from 2014 to 2016, everyone including Exxon had to cut costs to the bone, and the quickest cost to cut was new drilling. Exxon preserved its financial strength and adapted to lower oil prices during the years through 2018. Today it's considerably stronger . . . and perfectly aware that after 4 years of neglect, it must return to exploration if it doesn't want to run out of oil to sell, sometime down the road.

The stock market, never shy about racking up high readings on the Nonsense Meter, hammered Exxon's stock down a full percent or more. "Everyone else in the oil industry is "preserving capital" for shareholders," said one Wall Street analyst. "Why is Exxon going the opposite

direction?" "Preserving capital" is high-sounding jargon for "Emptying out the companies' piggy banks by handing out dividends and share buybacks as if there is no tomorrow." (Jargon usually does fog up things which aren't very pretty when seen in clear daylight.) At Outlook, on the other hand, we tipped our hats to Mr. Woods. He knew perfectly well how the market would react; but his job is to build a strong company and give it a long life—not to worry about the market's Nonsense Meter.

The fact that there are always a good many CEO's like Mr. Woods in charge of America's aggressive big companies, is possibly the single biggest reason for the long, powerful tailwind we investors feel, when we own great companies (at great values) and have the nerve to stick with them through both their occasional real problems, and through the media's and market's fits of nonsense. That's what we're doing. It will pay off rather remarkably, over the next few years.

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