

## The Outlook: Nov. 30, 2022

### *Micron: a gift from the market, again.*

Those red circles are, roughly, the tops of the last 6 or 7 business cycles for Micron Technology, the Memory Chip King. The circles actually mark “tops” in the stock price . . . but with Micron as with every permanently-cyclical company, the stock and the business cycle move together. And they are sharp moves indeed, aren’t they?



That’s a lot of history up there. But let’s go all the way to the far-right end of the picture, and listen to what Micron’s Chief Financial Officer said today:

***“Between August and November of this year, we’ve seen the biggest decrease in chip demand in the industry, ever. This kind of decline really hasn’t been seen since the dot-com period. So, it is a very severe and sharp downturn and we are taking the actions we think we need to take, in response.”***

Rich Templeton of Texas Instruments and John Chambers of Cisco are two of the most famous bosses in Tech history. After many decades in their businesses, they often made exactly the same remark, roughly:

***“I’ve been at this for a long time. I’ve never known when the cycle was peaking until after it happened. I’ve never known when the cycle was bottoming until after it happened. And I’ve never known anyone, inside our company or outside, who did know when either event was about to happen. So when you know what you don’t know, there’s only one thing to do: make***

***the company as strong as possible, so those surprises can't hurt you too much; and keep building for the future."***

That's precisely what Micron has been doing since 2010 or so. That green line tells the story: flat for decades before 2010, as each cyclical business plunge endangered a Micron which wasn't strong enough; then rising and rising for the last 10 years, as each cyclical plunge did less and less damage to the company. The cyclical bottoms in profitability got higher and higher, and so did the tops . . . spectacularly higher, in fact.

Patience is not in the nature of the market. It never stops acting like the sky is falling all over again, each time it sees the arrival of a cyclical top in Micron's operating business. It knows such down-cycles take 3 to 9 months, usually, to reverse themselves; and it will never wait that long, no matter how sure the next, spectacularly-higher cycle top might be. So when a cyclical company like Micron has made itself truly strong, so that it will have no trouble dealing with the downturn, the market's lack of patience is simply a gift to us investors. The market says, "Go ahead, buy Micron at 6 or 7 times last year's (cyclical peak) earnings . . . or maybe 4 or 5 times the next cyclical-peak earnings. We aren't touching it until we're sure the bottom is behind us. We're in the business of betting on tomorrow, next week or next month—and we don't like losing bets."

That's a gift to patient investors. It's a gift the market makes again and again, decade after decade. At Outlook we always try to take the gift. That's what we're doing with Micron, as usual.

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Outlook Capital Management, LLC  
125 S. Wilke Road, Suite 200E  
Arlington Heights, IL 60005  
847-797-0600

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