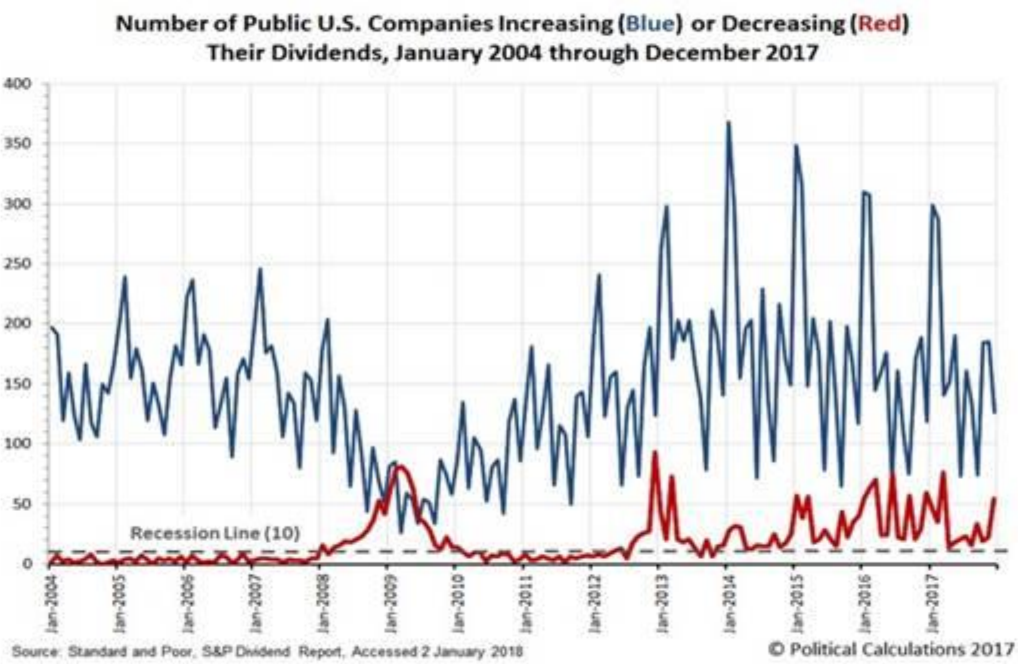
<u>The Outlook: Feb. 9, 2018</u>

Things we know, and the market does not.

It's been an exciting week for speculators. There are so many of them, in the investment world, that they're always capable of overwhelming the rest of us for a while—as well as common sense, rational thinking and the facts on the ground . . . for a while. They're the reason for one of Outlook's unshakable beliefs about investing: "We cannot gain the market's tremendous benefits without accepting the roller-coaster ride which goes with it. Cannot, period." A very large share of the ocean of material written about this week's market behavior comes from people who would rather not believe this basic fact.

We'll leave them to their intense strategizing, and instead look at two charts:



This 14-year chart shows, each month, the number of U.S. companies increasing their dividends (blue) and the number cutting them (red.) The blue spikes, most Januarys, happen because that's when the biggest share of firms traditionally make their dividend announcements. Here is what matters about this chart:

- Nearly all the time, month after month and year after year, 6 to 8 times as many companies hike their dividends as cut them.

- In 14 years we've seen <u>one</u> time period—during the Calamity of 2008 – 2009, naturally—when there were more cuts than hikes. And that dismal episode was emphatically reversed before the end of 2009. For the following 4 years, cuts averaged 10 or less, and hikes averaged more than 100.

American business is run by people who are personally accountable for success or failure, and for protecting their companies from calamities. Those people succeed in a perfectly extraordinary way; and their success is extraordinarily under-appreciated by the media (naturally) and by speculators wallowing in nightmares. But the facts-on-the-ground which matter are what they do, and the resulting cash rewards to us business owners, which simply grow and grow—not whatever the speculating mob chooses to wallow in, at the moment.

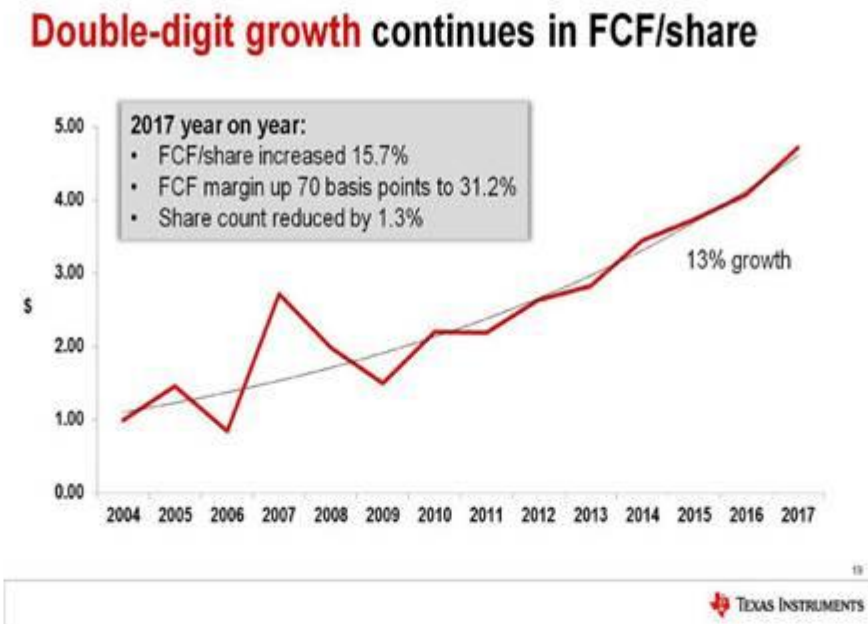


Chart # 2 is Texas Instruments' trend in free cash flow per share. (How nice that the company happened to give us the same 14 years in this chart.) In the past 10 – 15 years, TXN's management made two gutsy decisions. The first was to go all out in the analog and embedded chip business, turning their backs on Intel's style of "intelligent" chips, which looked far more profitable than the low-cost analog chips. But Texas Instruments saw a future in which almost "everything" was connected to the internet, and able to feed useful data to people and companies which needed it. That future rests on TXN's choice of chips. As we contemplate today's (and tomorrow's) semi-autonomous vehicles, with their tremendous use of chips to sense external information and make it usable to drivers and others, it is now quite easy to understand how clearly Mr. Richard Templeton (Texas Instrument's CEO) saw things, back then.

Mr. Templeton's (and his team's) next big decision was to step into the panic during the Calamity of 2008 – 2009, and buy entire chip factories for cents on the dollar. Those factories were largely idle at the time—which meant a lot of cost and very little income, for the buyer. That kind of decision has come back to haunt quite a few companies, in American business history, hence the nerve required to act. But Texas Instruments excels as an operator of factories, and the company outdid itself this time. Demand for TXN's chips grew and grew, and the company had the manufacturing capacity to meet the demand at less per-chip cost to itself than any competitor.

When companies make profoundly gutsy and correct decisions, Outlook has observed that the benefits very often astound the outside world, both in size and in how long they continue. That is exactly what is going on at Texas Instruments right now—as that chart makes perfectly clear.

The speculating portion of the market crowd (which is most of it, on any given day) have been acting as if the sky is falling, these past 10 days or so. If all we investors do is gaze in horror at the 1000-point results of their behavior and the screaming headlines letting us know about it, we'll be inclined to feel they must know something we don't. They do not. We are the ones who know something, along with Texas Instruments and all the like American companies which are too solid to be frightened by that crowd, or those headlines. The market is handing us lower prices, and we are buying.

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