The Outlook: July 1, 2022

Micron: impressions versus cash and strength, as always.

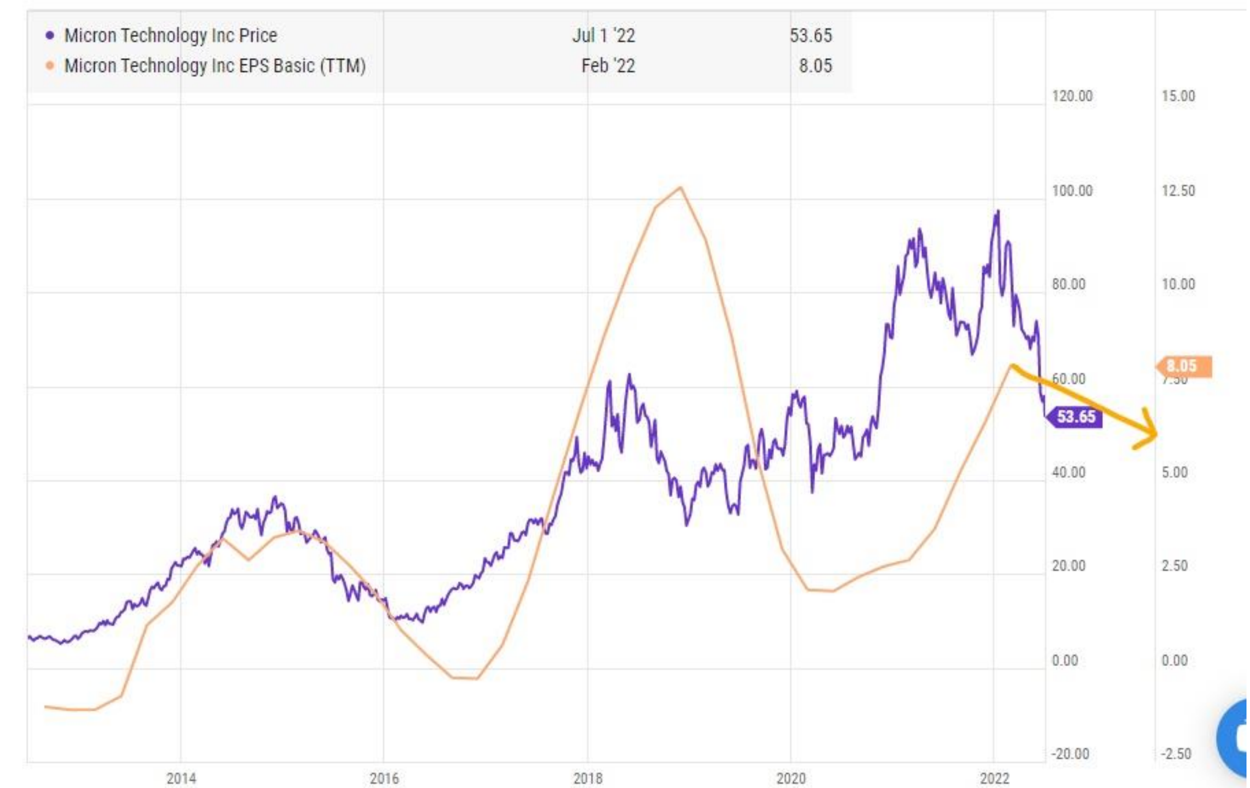
The market spends <u>most</u> of its time bumping up and down within a range we might call "Silly Optimism" at the top end, and "Silly Pessimism" at the bottom end. So we investors are always a little dumbfounded when, every once in a while, it smashes itself <u>way</u> past those ends, into either "Priced for Perfection" beyond the top end, or "Priced for the End of the World" underneath the bottom end. Since the market has acted "halfway reasonable" for months or even years, we can hardly believe it's capable of acting "plumb loco" without much notice.

But it does. That is the nature of the market's betting crowd, which is almost too vast to comprehend, and which makes its living trying to bet on the <u>impressions</u> created by the passing news.

Those impressions are wrong—always significantly wrong, sometimes seriously wrong—around 95% of the time. Once in a great while, the impressions seem to get it right (by correctly forecasting a recession, for example) . . . but the betting crowd's galactic-scale over-reaction to the impressions is always very wrong indeed. "Recession" is never "End of the World" but the market acts like it is—for a few days, weeks or months—until hard facts about the economy and the strength of Main Street make it impossible for the market to keep up the act.

That is what the market is doing now. Let's glance at one quick example.

Micron: 10 Years



The purple line is Micron's stock price. Orange is Micron's annual earnings. Yup, they practically define the word "cyclical", don't they?

But the people who manage and work within a "cyclical" business are not helpless: very far from it. If they're good, they never stop improving and strengthening their company. That orange line is a kind of spotlight shining on the work done by Micron's people for the last 10 years. They haven't gotten rid of the sharp ups and downs . . . but they have most emphatically gotten rid of the "money-losing downs" in Micron's cycle. Instead of losing 50 cents per share or so, as Micron did at the 2017 cyclical bottom, in 2020 Micron earned a profit of almost $2.50 per share. And instead of making "only" about $3.50 in profits per share at the 2015 cyclical top, Micron made $12.50 per share at the 2019 top.

Yes . . . the people working within Micron changed their company gradually over time: making "higher lows" in profits at the worst of the cycle; and <u>much</u> "higher highs" in profits at the top of the cycle.

Texas Instruments' CEO, Rich Templeton, has often said, roughly: "Never ask me when our cycle will peak, or when it will bottom. I've been at this for decades, and I never know. It's always a surprise . . . for us, and for the best forecasters on Wall Street. But ask me if our company will keep improving over time and I'll give you the answer: you bet it will."

The market's betting crowd is not in the business of thinking about *anything* "over time." It's in the business of trying to make a killing tomorrow, or over a few weeks or months at a time. If that sounds like a losing game, it is. We investors just don't hear about bettors' bodies strewn by the wayside of history, so to speak; so it's easy to assume bettors are clever, making killings all the time, while we patient investors get our clocks cleaned, so to speak. But it's actually the other way around. When we really understand the strength of what we own, and exercise our capacity for patience, we are the ones making the killings . . . when we measure ourselves over a few years instead of a few weeks.

That orange arrow at the far right points to Micron's expected profits in the year ahead . . . which are sharply lower, at this moment, than they were a few weeks ago. Instead of $2.50 per share, as in the 2020 bottom; they're now about $5.00 per share. Those "higher highs" and "higher lows" in Micron's business performance are as sure to continue as anything we can name. But the market crowd has taken Micron from $97 to $53 . . . not "End of the World" perhaps, but "Wheels Fallen Off the Bus" at least.

Have they fallen off? We already know that answer, don't we? Micron went into the last cyclical plunge in 2019 with wonderful levels of net cash and liquidity: $3 billion and $10 billion respectively. Today those levels are $5 billion and $15 billion. And within those 3 short years Micron has pulled off one of those Main Street Miracles which didn't seem possible a few years earlier. Micron rose from worldwide 3rd place to 1st place in its chip technology and manufacturing performance (low-cost production.) Micron's foreign competitors surely doubted the company could ever pull that off . . . but it did.

With Micron the betting crowd burst right through "Silly Pessimism", and is now wallowing somewhere in the direction of "Priced for the End of the World." We must not be dumbfounded by such behavior. That's the nature of the market. But the same market always finds it impossible to ignore hard facts, eventually: especially facts which involve cold cash, and a company's ability to earn a lot of it, and pay it out to shareholders. It's an age-old story for the market. We're watching just that story today.

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