

## The Outlook: June 30, 2017

### *Speculators bail out . . . but Micron's roller coaster points higher.*

Micron Technology is a very emphatic long-term bet for Outlook Capital Management and clients. Yesterday, Micron announced its quarterly earnings . . . and what happened next was a wonderful reminder about the nature of the stock market. Here's the story in pictures: first, 5 years of Micron stock prices, and the operating cash flow of the business itself; then, the past 3 months for the stock, with particular attention to today's cliff-diving 5% loss.

#### Micron: 5 Years



#### Micron: 3 Months



At Outlook we've mentioned, more than once, that the only way for us investors to gain the remarkable long-term rewards of investing wisely in good companies is to strap ourselves in and endure the roller-coaster ride. There is no other way, regardless of the endless suggestions in the investment world that for clever people, there is. The ride must be endured . . . period. And as we can see, for companies like Micron the roller-coaster ranks right up there—for screaming, mind-boggling terror—with the worst we might find at Great America or Seven Flags.

Yes, there's Micron falling from \$35 to \$9 in about 15 months—then rising to \$32 or so, before today's plunge to \$29 and change. And a glance at the 3-month chart confirms that with Micron's particular roller-coaster, there's never a dull moment, no such thing as a few weeks of merciful calm, now and then, to restore our jangled nerves. Which brings us to yesterday: what on earth did Micron say, to cause today's rush to escape the burning theater?

- Quarterly sales exploded, up 92% from last year and 20% from 3 months ago, setting an all-time Micron record.
- Operating cash flow was up 500%, at \$2.4 billion from \$400 million last year.
- Earnings hit \$1.62, up from last year's 3-cents loss.

All of these numbers exceeded Wall Street's forecasts—so it was not a case of “Fantastic results, but merely “fantastic,” and the market expected “incredible.” Nor was it one of the frequent cases of “Great business performance, but management warned of less-than-fantastic performance next quarter.” Micron is firing on all cylinders at the moment, and while management was calm and cool about it, its guidance for next quarter and next year were good enough for Chicken Little at her most alarmed.

No . . . the best way to understand the market's behavior today is to grasp that there are no remarks Micron could have made—no numbers it could have announced—which would have prevented today's carnage, because for the vast speculating crowd Micron is a yo-yo forever, and after some sharp “up” must come some sharp “down.” The nature of the market is that it is dominated, each day, by such speculators, committed to the so-called business of betting on the instantaneous reactions of the other speculators to the passing shreds of daily news. That sounds like chaos, hardly any way to run a financial world and, ahem, our life savings, and it is somewhat regrettable—in the short run. In the long run the speculators and their hair-trigger reflexes are not in command. In the long run the commanders are real people working very hard, often with incredible ingenuity, always with great determination, always accepting total individual responsibility for fixing business problems and strengthening business operations.

Micron has a new CEO—Mark Durcan having just retired—named Sanjay Mehrota, who built quite a reputation as the CEO of another memory company, SanDisk, before it was merged. He said a lot yesterday, but here's what really mattered:

*After my first two months at Micron, I would like to share some of my priorities. Our execution and competitiveness are my primary focus, particularly accelerating the ramp of new technologies into volume production and introducing new products quickly, both of which are essential to delivering innovative solutions at lower cost and strengthening Micron's business fundamentals.*

*Micron has a tremendous portfolio of technologies and core capabilities. Our goal is to leverage these to provide high-value products and solutions that improve our revenue mix. We are off to a*

*good start. I believe that through focus and solid execution, Micron can capitalize on the world's increasing reliance on memory and storage solutions.*

“A good plan, executed right now, is much better than a perfect plan executed sometime in the future.” That was General George Patton—who was always faster than both the enemies he faced and the other commanders on his own side. In an amazing number of things in life, speed is the one thing to “do” above all others, if we wish to win rather than lose. So it was mighty nice to hear Mr. Mehrota say his first job is to ensure that Micron acts fast when it comes to creating new products and to making those products faster and cheaper in Micron’s factories.

That, in fact, has been Micron’s game plan these past 10 years: get much faster and better at factory innovation and production, and get much faster and better at creating the new memory products demanded by the genuine explosion in the “Internet of Things.” It has kept its eyes on that plan while enduring the punishment of things it can’t control: mainly, the sharp cyclical downs and ups of memory chip prices. The memory price cycle will always either hurt or help Micron; but Micron’s striking success in carrying out its game plan means the company will make a great deal more money at each phase of that price cycle, from top to bottom. The roller-coaster stays . . . but it’s pointing much higher over the years ahead, despite the usual thrills along the way.

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