

## The Outlook: May 2, 2017

### *Clarity from Cummins: strong company, impatient market, patient investor.*

Cummins, the Diesel Engine King, announced its First Quarter earnings this morning. They were fairly spectacular, showing a strength in sales and profits which surprised the keenest analysts on Wall Street. That is beginning to become a familiar pattern these days among U.S. makers of heavy equipment, who've been battling through the energy-and-commodity downturn of the past few years.

Sometimes the heart of good investing is especially clear. The stock market has a great weakness: it hates bad news, and it has no patience to speak of. When even the strongest and most capably-managed companies run into an unexpected brick wall—and it's a fact of life that every company will do just that, from time to time—the market first stomps down the stock, then runs for greener pastures, persuaded by the intruding tide of bad news that the ebb tide for such news is too far away and too uncertain to care about. Outlook, of course, regards the tide of bad news as the safest possible time to invest in good companies; and we're always certain that determined management will perform some near-miracles of operational improvement for their companies, while the bad news is washing around their ears.

**Cummins: Stock Price and Operating Cash Flows, 10 Years**



In orange, up there, we see Cummins' cash from operations—a company's "lifeblood," usually. Notice how low it was a decade ago, during the Calamity. And notice how strongly it grew after that, and also how modestly it declined during the past two years' sharp down cycle in global engine sales, for Cummins. Finally, notice the almighty plunge in CMI as a stock (blue) during that downturn: an emphatically sharper plunge in the stock than in the operating cash, wasn't it? As noted above, that's the stock market, behaving normally. But of course Cummins' own people were not behaving

normally. They were behaving exceptionally, strengthening their firm and cutting costs, so that earnings could explode whenever that ebb tide happened along, washing the bad news out to sea.

Cummins First Quarter: 2017 versus 2016

Sales: up 7%

Earnings per Share: up 26%

Operating Cash Flow: up 42%.

And that ebb tide showed up this quarter, surprising everyone as it usually does. Notice the moderate gain in sales, and the explosive gain in earnings and cash flow. That's the direct result of what Cummins' leadership and people did while times were hard. It happens over and over again, throughout business and market history. Yet over and over again, the market anxiously doubts its coming until it actually happens.

**Cummins, 3 Months**



Not much of a clue, in the market, that Cummins' tide was about to turn, was there? Almost 3 months of waffling around, anxious and discouraged . . . then "Pop!" in a few days.

Sometimes the heart of good investing is especially clear. Strong companies, impatient market, patient investor. It works pretty well . . . eventually.

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