

The Outlook: April 11, 2018

Freeport: the people in the arena versus the market, as always.

Here's a news item from Reuters. It's a little dense, but it points straight at the reason we expect to make a great deal of money from our investment in Freeport-McMoRan, the copper king.

SANTIAGO, April 10 (Reuters) - The copper market will slip into a deficit in the 2020s after being in balance for rest of this decade, as major technological change drives demand for the metal and its byproducts, Rio Tinto's copper chief said on Tuesday.

Copper prices rose 31 percent last year on the London Metal Exchange, spurred by anticipated demand from China and tight supply. But this year they have struggled to maintain gains, reflecting the realisation that increased consumption from new technologies such as electric vehicles is still in the future. Arnaud Soirat, CEO for copper and diamonds at Rio Tinto, said the outlook was still positive. "Tightening supply and solid demand are combining to produce a positive pricing environment," he told a copper conference in Santiago. "We anticipate global market supply and demand will keep close to balance in 2019 and 2020," adding it would slip into a slight deficit in the 2020s. Chile, the biggest copper producing country, and the mining industry have a challenge to meet demand, he said, as the world experiences a transition to electric vehicles and a more electrified economy. "In this transition copper and the co-products it makes possible will be more important than ever," he said.

Rio Tinto's comments on Tuesday are broadly in line with earlier predictions it has made that the copper market will be in deficit when Rio Tinto's extension to its giant Oyu Tolgoi copper mine in Mongolia comes onstream: a project Rio Tinto began 14 years ago. Before that, few new projects are foreseen after a collapse in investment following the commodity slump of 2015-16.

Consultancy CRU said on Monday it was not confident there were enough copper projects in the pipeline to meet demand for the metal over the next 16 years as output from existing mines dwindles.

Without new investment, production from existing mines would fall from 20 million tonnes to below 12 million tonnes by 2034, leading to a supply shortfall of more than 15 million tonnes, CRU analyst Hamish Sampson said.

The only way to meet demand would be for every copper project currently in development or being studied for feasibility to be brought into operation, along with most copper discoveries that have not yet reached the evaluation stage, he said. (Reporting by Barbara Lewis and Peter Hobson. Editing by Jane Merriman)

We'll tell most of our story, today, with charts.

The global price of copper (and Freeport stock) peaked in 2011. Here's what happened over the next 5 years: copper down 55%; Freeport down 93%. Any investor who was not paying attention to what Freeport's leader and its people were doing during this plunge into the Valley, but instead felt the stock market probably knew what it was doing, would certainly have believed the value of his investment would "go to zero."



They would have been wrong—badly wrong. Here’s the picture since early 2016.



Copper: up 60%. Freeport: up 313%. Notice, though, the fairly terrifying way that 313% has been earned. The blue line describes the minds of the market’s vast crowd of speculators: infinitely willing to

believe the most optimistic nonsense about Tesla, Netflix or Facebook; very unwilling to believe in the concrete achievements of Freeport (or Micron, Caterpillar, Conoco and all the rest.)

And here are the lessons for us investors. They are as profound as any lessons can be.

- We have our choice. We can choose to believe the market; or we can choose to believe in the actions taken by determined companies and their people, when they are under pressure.
- If we choose to stand with the people “in the arena,” because we see them carrying out plans which, in our judgment, are overwhelmingly likely to succeed, we must know the market will spend a long time trying to make us feel we’re dead wrong.
- But the market will be proven dead wrong, and our judgment will be proven right—if we can endure the wait. Finally, the “wait” will be worth it: in spades, as we used to say a couple of generations ago. Why? Because the only thing sillier than a market which prices the world’s Facebooks and Teslas “for perfection” is the same market which prices the world’s Conoco’s, Caterpillar’s, Micron’s and Freeport’s “for destruction” . . . until their hard achievements are too clear to ignore. That market hands investors with patience—and the willingness to pay attention to the businesses they own—bargains which fairly often pay off “beyond their wildest dreams.”

Here’s the last picture. The circles are the rough history of Outlook’s growing investment in Freeport-McMoRan: toes in the water on the way down; wet through and through at the bottom, and in these early stages of “the way up.” Freeport earned our money, as its people systematically fixed their company’s problems, and as it became perfectly clear the global copper market was using low prices to “fix itself” as free markets always do.



The Reuters news item is nothing new at all. It is what Freeport's boss, Richard Adkerson, has been telling his shareholders for years: "World copper supply is very tough to grow; world copper demand is going only one way in the end: up." Freeport's all-time high is in the low \$60's. Outlook owns it because we think it very likely it will climb well beyond that level over the next 5 to 10 years. We'll endure the roller coaster ride; and we'll make quite a bit of money by doing so.

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