

The Outlook: Nov. 4, 2020

The sun sets on copper, at Olympic Dam; and rises, at Freeport.

We often call them “Main Street” and “Wall Street” (or, “the market.”) We want our clients and friends to understand there are two different worlds out there—or maybe “parallel universes” gets the idea across a little better. One world (Main Street) is where people work: inventing, building, fixing, improving, selling, servicing. Time passes slowly in that world, because it takes a whopping long time for real people to invent, build, fix, and improve anything . . . and, all too often, find out that they’ve failed in their attempts, and must start all over again. Then there’s the “parallel universe” of Wall Street. Of course, real people work there, too . . . but the kind of work they do is different from Main Street, like night and day. The lion’s share of what happens on Wall Street is crowds of clever people trying to outguess crowds of similar people, every day, and betting money on their guesses. Time passes like lightning in that world, as it does in a casino. Nothing is being built, invented or fixed . . . but it sure is exciting.

The trouble for us investors is that our gaze is constantly drawn toward the “lightning world,” because it’s exciting—or terrifying—but it’s never slow and dull. And it’s very easy for us to absorb the impression that the never-ending, flashy events in the “lightning world” are what really matter. But that impression is as wrong as it can be, like most impressions. It’s the hard, slogging work that really matters, moving forward in slow motion.

A specialty site called “Mining.com” gave us a wonderful illustration of these truths, just now. Here was the headline, roughly:

“How Olympic Dam Went from the Mother of All Digs to . . . Canceled”

The Sun Sets on Olympic Dam



“A decade ago, BHP Billiton was gearing up to dig the world’s biggest hole in the Australian Outback, at a cattle waterhole called “Olympic Dam.”” (That’s a gold medalist in the “opening lines” category, at least for business stories.) “Under the waterhole (way under) lay the world’s biggest uranium deposit and the 4th-largest copper deposit, plus mountains of silver and gold.” BHP figured it would cost 30 billion dollars to build the mine, including a green-energy desalination plant, hundreds of miles of rail and pipelines, an airport, a village for 8,000 workers and some robots. (Why not?)

The first 6 years would be spent just removing the dirt and rock on top of the copper: enough to cover 26 square miles, piled 150 meters high. (It’s not *Raiders of the Lost Ark*, but it does have our attention by now, doesn’t it?) By the year 2050, the pit would be 2.5 miles long and wide, and 1,000 meters deep.

That was just the feasibility study. It took from 2005 to 2012 to write it. But by 2012, copper, gold and uranium prices were into down cycles which were frightening enough to make headlines in the “lightning world” on Wall Street. So BHP shelved the project, and spent more years studying a smaller version at a price tag of only \$2.5 billion. And last week, after years of study and 240 miles of drilling, the “small version” got the ax. “The studies have shown that the copper resources in the southern mine area are more structurally complex, and the higher grade zones less continuous than previously thought,” was BHP trying to rationalize what a cruel mistress exploration can be,” said Mining.com.

It’s a story of total failure, isn’t it? 15 years of hard work down the drain, for BHP.

But it’s also a wonderful story, in its way. It reminds us that the real working people on Main Street also take great big chances, and pour careers into trying to make them pay off . . . and find out, in slow motion, which way their “make or break” gambles will go. It also reminds us, of course, of something Freeport

CEO Richard Adkerson has been saying forever, pretty much: “New copper mines are very rare, very tough to build, very slow, and very costly. So global supply won’t be keeping up with global demand—and that’s why Freeport’s future looks so bright, as far as we’re concerned. Where many others have failed, Freeport has succeeded at building out some of the most difficult mines in the world. That will pay off for us for a long time to come.”

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