The Outlook: Dec. 8, 2021

How to Invest

A long time ago, a young(er) investment analyst looked at a chart like this one, and asked himself a question: "Here's a stodgy old, un-glamorous company. But look at what it's done for investors: much more than the market. There are a lot of pictures like this. *So why do investors have such a hard time beating the market?"*

27 Years: Caterpillar 1,480%. The market 860%.

That question sounds simple, but it's profound—and it points right to the heart of the trouble, for a great many investors indeed. The answer to the question—"Why don't investors do better, when it seems kind of simple?"—jumps right off the page. It's in all those red circles. There's Caterpillar, plunging into a death spiral over and over again. There's the market in orange, battered now and then but mostly a lot steadier than Caterpillar. If it were an amusement park, CAT would be the Screaming Eagle, and the market would be the train ride for toddlers.

When we investors flinch and avoid the Screaming Eagle—or worse, when we hop off during one of those red-circle plunges—we've let fear do our thinking for us. Fear doesn't think very well; and usually doesn't even want to stay calm long enough to gather facts . . . to "look at the whole picture, not just a dark corner of it," as Outlook has said once or twice. If we'd looked at the whole picture, back in 1995 we'd have seen a remarkably tough management team which broke a 17-month strike by using office workers, managers

and temporaries to replace strikers, and had sustained the volume and quality of production for all that endless time. CAT's leaders weren't bad people—they had simply seen the near-destruction of America's auto companies from decades of caving into their unions, and understood that breaking that cycle was a matter of life or death for their company. So they did what they had to do . . . to the long-lasting benefit, over the next 27 years, of the company, its shareholders and its employees (both union and other.)

That action was the beginning of CAT's buildup of tremendous financial strength: strength which assured its survival and comeback, no matter all the red circle plunges. Why were such facts a mystery to investors who let fear drive their thinking, and bailed out during one or more of those circles?

We've already understood the answer. The facts weren't hidden at all. The main thing missing, when it came to deciding what to do, was a deep understanding of the nature of the market. ***The market's daily, weekly and monthly moves are driven by people who want to make a lot of money, soon; and who want never to lose a lot of money, either sooner or later***. That's a recipe for making big mistakes, written in stone. It's a recipe for believing the market's exaggerated moves have real meaning; that they point to truths too deep for us ordinary investors to grasp. When we're fearful, we're inclined to believe such things. But when we're not fearful, we can see pretty clearly when the market is giving away money for nothing. To the question, "How do investors succeed?", that is the answer.

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