

The Outlook: Sept. 26, 2022

The Big Picture

Here's the Big Picture:

- **We are enduring a Bear Market.** Earlier this year, we thought a Bear Market wasn't very likely, so we're adding another checkmark under the "Wrong" column for Outlook's short-term guesses about the market. Since we have no intention of retiring for the foreseeable future, we predict there'll be more checkmarks under that "Wrong" column in the years to come.
- **This Bear Market could end tomorrow, or 18 months from now sometime in the year 2024.** That spread pretty much covers the scattering of expert opinions at the moment—but we're pretty sure the only expert who'd say "tomorrow" deserves mentioning as the possible short end of that range is, yes, Outlook Capital Management. (Luckily we've left plenty of space for more checkmarks under that "Wrong" column.)
- **So "we haven't the foggiest" when the Bear Market will end. But we know *what* will end it.** It will be the market betting crowd's realization that the facts coming out of Main Street do not justify the valuation the betting crowd has been placing on Main Street. In every single Bear Market in history—and in a vast multitude of briefly downtrodden markets in between—the crowd has enthusiastically gone along with valuations which not only swallow the notion that the wheels have fallen off the Main Street bus, but also give the impression that every tire manufacturer on Earth has gone out of business, so there will be no repairs and we'd better get used to walking from now on.
- What makes a crowd realize the truth of something it rejected before? The answer is almost always the same: a gradual accumulation of facts which are clear enough and undeniable enough to first sow doubt in the crowd's collective mind . . . then (usually with a rush) swing its opinion in the opposite direction. When the crowd we're thinking about is the market's betting crowd, that "swing with a rush in the opposite direction" happens a lot, for one big reason: because so many of Main Street's facts come with cash attached. It's one thing to take our sweet time changing our minds on deep philosophical questions like "Does God exist?" or "Does socialism work?" It's quite another thing to dawdle when changing our minds on shallow but sharp-edged questions like "Texas Instruments just hiked its dividend again, for a 630% increase in 10 years. Um, why exactly did we think the wheels fell off its bus?"

The big impression behind today's Bear Market is "The Fed's Killer Interest Rates are here, so we're doomed." Compared to that, one of Main Street's facts (like Texas Instruments' umpteenth dividend hike) seems much too weak to stand up to the Fed Nightmare. By itself, it is too weak. But when it eventually shows itself to be marching along with an army of similar Main Street facts, the Nightmare begins to fade.

That's how Bear Markets work. That's why the most profound truths about them are:

1. The "sky is falling" valuations they throw at strong companies are always overdone to the "silly" stage and beyond.
2. So we investors must buy, not sell, in response to those valuations.

Of course the hard thing is we don't feel like buying, when the media and the market shout at us that we're doomed, day after day. It gets a little easier, though, after hearing those shouts for 30 or 40 years. Outlook is holding, and buying more, as usual.

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