

The Outlook: Dec. 7, 2018

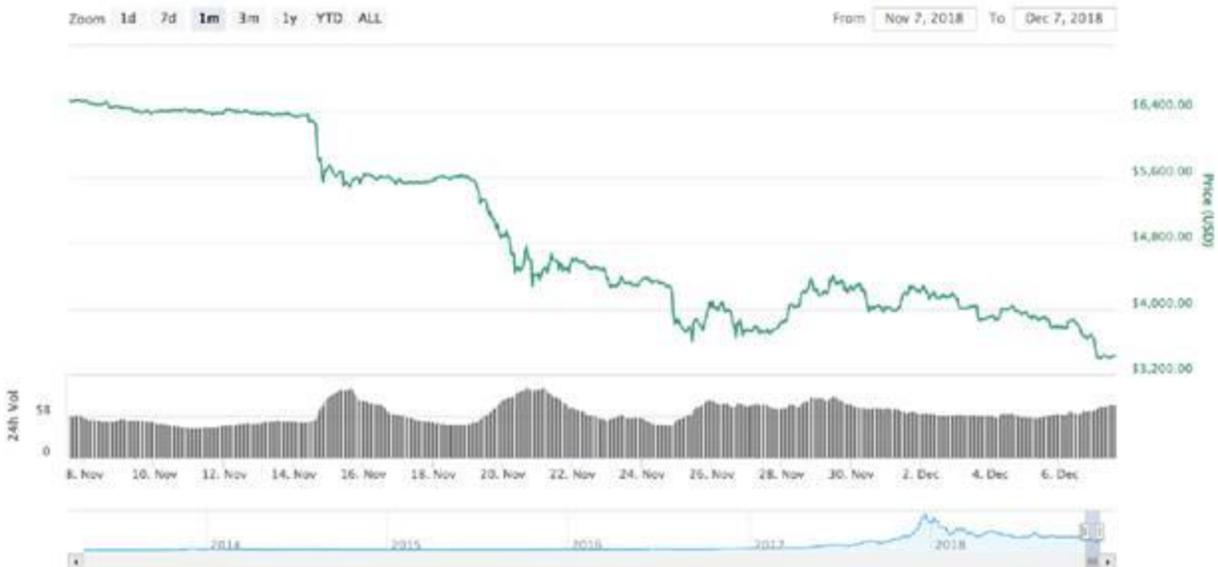
Question: “How shall we feel?” Here’s the answer.

A very good question, from clients to investment manager, is: “How shall we feel, as we see our investments plunge to frightening levels?” Outlook’s answer: Shrug, and say, “They’ll go up again,” may sound light-hearted, but it’s not. The shrug is exactly the right attitude; and “They’ll go up again,” is not a possibility—it’s a certainty.

In all fairness, 41 years of watching this kind of market behavior makes the shrug a great deal easier . . . because after 41 years we know that the “certainty” of rising again really is a 100% certainty, without the slightest exaggeration.

Let’s enjoy a few pictures.

Bitcoin’s Past Month: Down 50%.

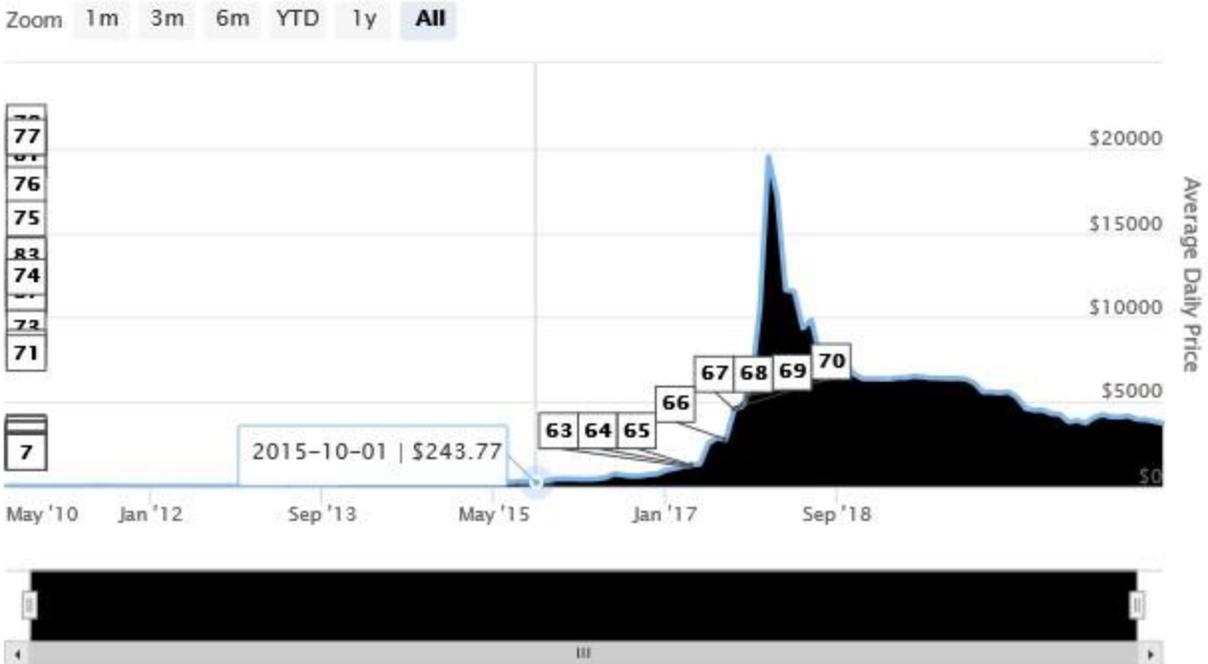


Apple’s Past 2 Months: Down 27%



We don't own much Apple, at Outlook, but its recent cliff-dive is worth gazing upon, together with Bitcoin's. They are as different as two seemingly similar "cliff-dives" can possibly be. The speculators currently engaged in driving Bitcoin in a straight arrow toward "zero" have a tolerably good chance of arriving there . . . because the hard, cold, real-world fact is that Bitcoin is a joke. It was a joke 3 years ago, at \$243; a mind-boggling joke a year ago, around \$20,000; and still a joke today at \$3,400 or so (having fallen 11% today alone.) Here's the longer story:

Bitcoin Earns a Place in History with Dutch Tulips and British South Sea Islands



Bitcoin’s bull market began, sort of, with its \$2015 price at \$243. As it took its silly journey to \$20,000 over about 2 years, it’s impossible to exaggerate the oceans of analysis published on Bitcoin, or the battalions of eminent people, in the investment world, who said respectful things about it. Most of those mistaken people were sincere. They shared a weakness we all have: the feeling that if a big enough crowd of people say something is true, or act like it’s true, our own individual doubts must surely be mistaken. As Outlook has put it before, they let the market do their thinking—though few ever admit that’s what they were doing. They let the market do their thinking, and doubted the common sense which, from the very beginning, said, “How can a cryptocurrency—with little or no stability, predictability or security—actually take the place of the world’s government-backed currencies?”

We’ve chosen Apple as a stand-in for Outlook’s core stocks, and around 95% of the rest of our market’s large, strong companies. It took two years for that portion of the investment world’s speculators fooling around with Bitcoin to shift from “It’s something new, anything’s possible!” to “The Emperor has no clothes!” The natural question is: “Might it take the speculating crowd currently trampling upon Apple (and the rest) just as long to shift toward “Oops! Maybe this doesn’t make sense?”

We always say, “The market can do anything at all, for a while.” But the limits to “for a while” are defined by those cold, hard real-world facts. Apple, for example, is one of the closest things in the investment world to Fort Knox: \$66 billion in cash on the balance sheet; \$14 billion in annual dividends growing 92% over the past 6 years, easily covered by free cash flow; trading at a doubtful, pessimistic 15 times earnings only 2 months ago, before the carnage began. Now it trades at 11 times earnings. The “reason” behind its 27% cliff-dive is, according to the media, because the new iPhone sales are looking weak. Maybe so . . . but at today’s 11 times earnings (and at October’s 15 times earnings) the common sense reply is “So what?” Apple is an extraordinarily strong, competently-managed company with several engines driving steady long-term growth. That steady growth, and the certain growth in Apple’s cash rewards to its shareholders, are the kind of hard facts which will keep grabbing speculators by the collar, so to speak, and asking them “How much longer will you be keeping your eyes closed?” concerning those facts.

The “joke” at the heart of Bitcoin, of course, is that there simply aren’t any hard, cold facts (and cash) telling the market about real value. So fantasy and imagination ran wild, for a couple of years. But Apple, Micron, Lockheed and Caterpillar—and very many others—are overflowing with hard, cold facts and cash. For two months, now, the market has closed its eyes to those things. It can do so for some time longer. It won’t be two years, or one year: the cold cash and hard facts are too strong and too obvious. It might be a week, or a month, or three months. That’s the kind of thing speculators bet on, if they’re still solvent after staggering away from the Bitcoin pit. Investors, on the other hand, shrug and say, “They’ll go up again . . . a lot.”

© Dave Raub
Outlook Capital Management, LLC
125 S. Wilke Road, Suite 200E
Arlington Heights, IL 60005
847-797-0600

The remarks above aren’t a general recommendation to buy or sell particular securities. Such decisions should only be made in the context of an investor’s own circumstances. Stocks and bonds carry the risk of loss.