

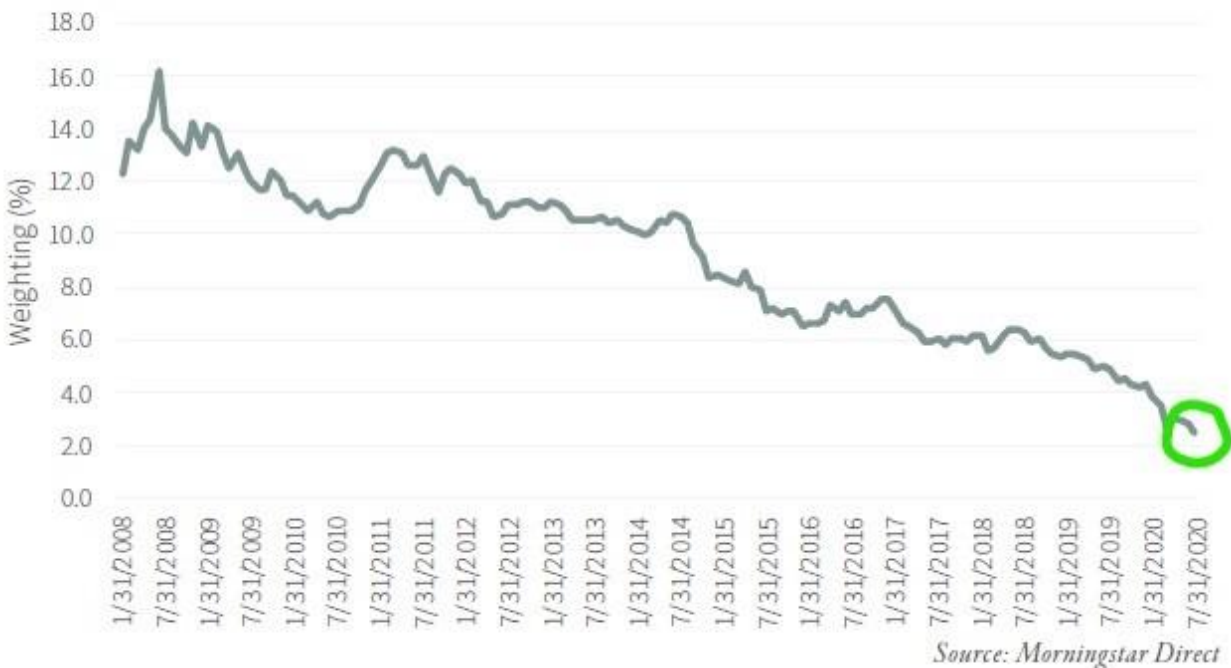
## The Outlook: March 5, 2021

### ***Exxon teaches us a lesson about “ridiculous beliefs.”***

In some areas of life, ridiculous beliefs can live for a very long time, seemingly untouchable by reality. Politics is one, of course. But in the economic and investment worlds, thank goodness, the lifespan of ridiculous beliefs is mostly a lot shorter. That’s because most of reality’s “cold, hard facts” (in the investment world) involve “cold, hard cash” . . . so they’re a lot harder for us to ignore than facts which are equally worthy, but don’t hit us right in the wallet.

A thoughtful investment analyst reminded us of this difference, today, when he looked back to August 31, 2020. That was the day the S&P 500 Index dropped Exxon Mobil from its list, no matter its 92-year membership or its status as an American energy giant, and added a Tech darling, Salesforce, in its place. This action surprised nobody, back then, because we all understood that Exxon was seen by the whole world as a stodgy “old economy” company, and Salesforce was an exciting, Big Tech “new economy” all the way. Yes . . . we all understood that general opinion. Was it a sound opinion, or ridiculous? Let’s look at a few pictures.

**FIGURE 1** S&P 500 Index Energy Sector Weighting 1/31/08-7/31/20



Exxon was demoted in that green circle, roughly. The chart tells us that energy stocks, as a percent of the big stock market, had just hit a 12-year low (which also happened to be an all-time low, roughly.) The S&P 500’s few energy companies were about 3% of the index. They had peaked at 30% of the index in 1980. The market certainly “believed” that energy wasn’t worth its attention.

**FIGURE 4** Commodity Prices Relative to the S&P 500 Index



Here's just a little more perspective, showing commodities as a whole compared to the big market over 50 years. There was 1990: 9% of the market in the red circle. And there's 2020: ½ of one percent of the market.

As we focus our minds on one question—"Ridiculous belief? Or sound belief?"—we might have looked at the top chart and told ourselves, "Well, green's the new thing, oil is finished, it's only a matter of time, etc." But the bottom chart is everything: all commodities from copper to steel to nickel and all the rest. Were they also "finished, it's only a matter of time?" And if green is the new thing, won't it be quite a trick for it to "do its thing" without copper, nickel and many other items?

Just one more fact. On that date in August last year, America's Big Tech companies were 40% of the S&P 500. That's a shocking number, deserving the underline. Big Tech 40%; all commodities 0.5%. Hmm. Time to look at today.

**Since the demotion: Exxon up 52%; Salesforce down 23%.**



That picture above might be labeled, “Cash wrecks another ridiculous belief.” Exxon will be raking in a great deal of cash, which the market now understands. The market’s longstanding opinion of Exxon as a “stodgy old-economy company, heading for the knacker’s yard, oil is finished, it’s only a matter of time,” is what is finished . . . not Exxon.

© 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.*