

The Outlook: Dec. 15, 2020

Wall Street's Cloudy Crystal Ball, and Micron.

As we get to know each other, we usually get a feeling for how big a grain of salt ought to be taken with the stories told by the people we know. The weather is a good example. Two different friends might describe yesterday's rain this way: "It was a gully-whomper! The rain came down so hard I began floating down the highway!" Or, "Hmm. It was a bit damp, I suppose." When we've known such people for a while, we automatically adjust their galactically-different reports of the facts, either downward or upward by about the right amount.

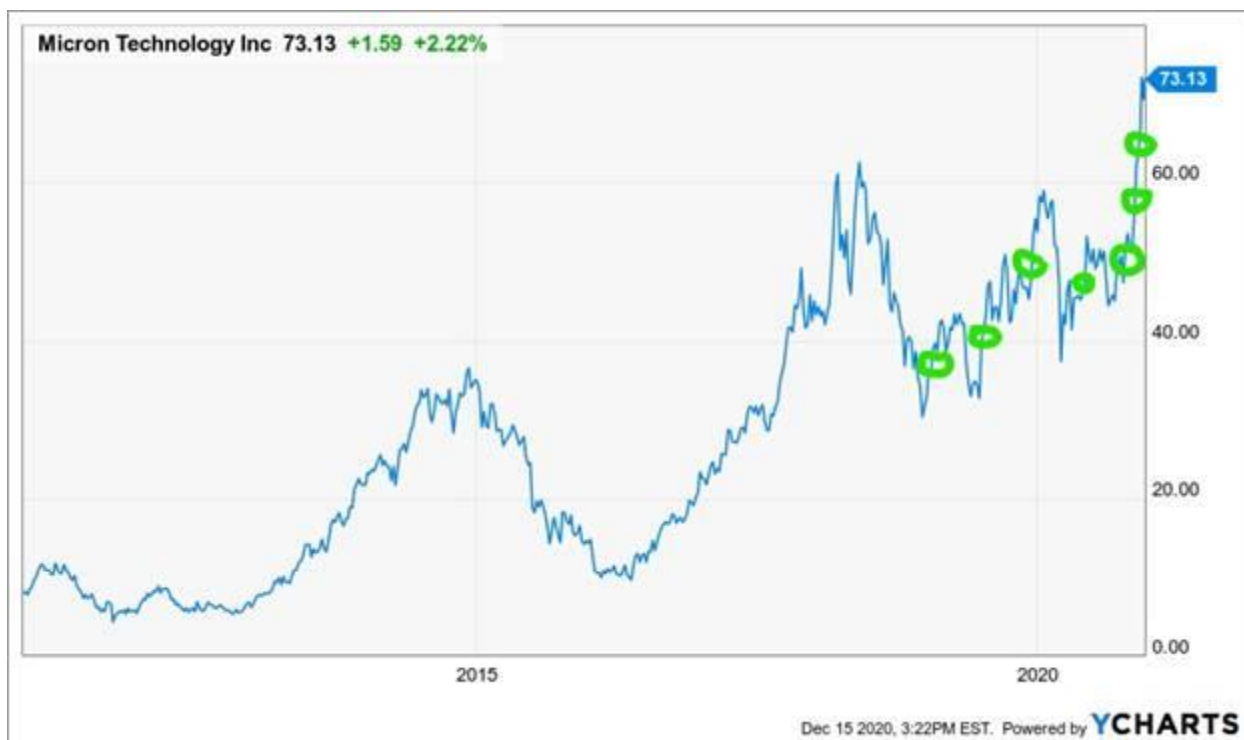
We must do the same thing in the investment world, sort of, when it comes to the phenomenon known as "price targets." Price targets are predictions from Wall Street's analysts of where a stock will go, usually over a few months or a year ahead. Now, everyone who's spent any time at all in the investment world knows that Wall Street's batting average, with price targets, is so close to zero that it's remarkable. We wouldn't think so many experts could be so wrong, so often. Wall Street's analysts know it too—but they have a job to do, which calls for forecasting future prices in addition to scrutinizing their assigned companies with electron microscopes. They can be pretty good in the scrutiny business; but they *know* they're no good in the crystal ball business.

The main reason for their problem is a simple, human reason: people always find it hard to imagine big changes. When an expert spends uncountable hours or years getting to know every last detail about how a company works—especially when the company is wallowing through a year or two, or three, of Trouble—it's easy for all the company's moving parts to keep adding up to a picture of the future which is not too different than today's. Here was a news item, this morning:

Micron Price Targets Raised at Wedbush and Goldman on Improved 2021 Setup

The two Street firms, we were told, had just raised their "price targets" for Micron from \$55 to \$82, and from \$77 to \$83, respectively. Now for some perspective.

Micron, and Wall Street's Cloudy Crystal Ball



Those green circles toward the right are a sample of Wall Street’s price targets, for Micron, for just the last couple of years. Each little circle follows a spikey bottom for Micron: that is, each circle shows us how high Wall Street’s finest thought Micron might go, over the 6 – 12 months ahead of each of those bottoms.

“Too little, too late” is the story of this chart. It’s also the story of the crystal ball business, on Wall Street, for almost all stocks, almost all the time. “Too little, too late” in both directions: when a company is digging out of problem, or doggedly transforming itself into something much stronger, the Street never grasps the degree of success that’s coming down the road, nor the degree of stock price gains. On the other hand, when a company has been spectacularly successful, and its stock has already rocketed past the sun, the moon and the stars, the Street almost never grasps just how deep and long-lived “Trouble” will be, when it finally shows up. So those “price targets” must play a constant game of catching up to reality, which is painful when the analyst must publicly update a “price target” which (like Wedbush’s \$55) is so far out of touch with events that it’s embarrassing.

In the investment world, we all “know” the analyst community and how it always tells its stories: “too little, too late.” So we swallow the right-sized grain of salt when they tell us what their crystal balls predict; but often give them credit for clear-eyed use of microscopes on their companies’ operating businesses, which is where their real value lies. That’s what is going on with Micron, these days. After taking its lumps while fixing operating problems, suddenly not only is nothing going wrong with those same operations— but everything seems to be going more “right” than seemed possible, a few short months ago. But that’s just how real life works, when good people fix serious problems.

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