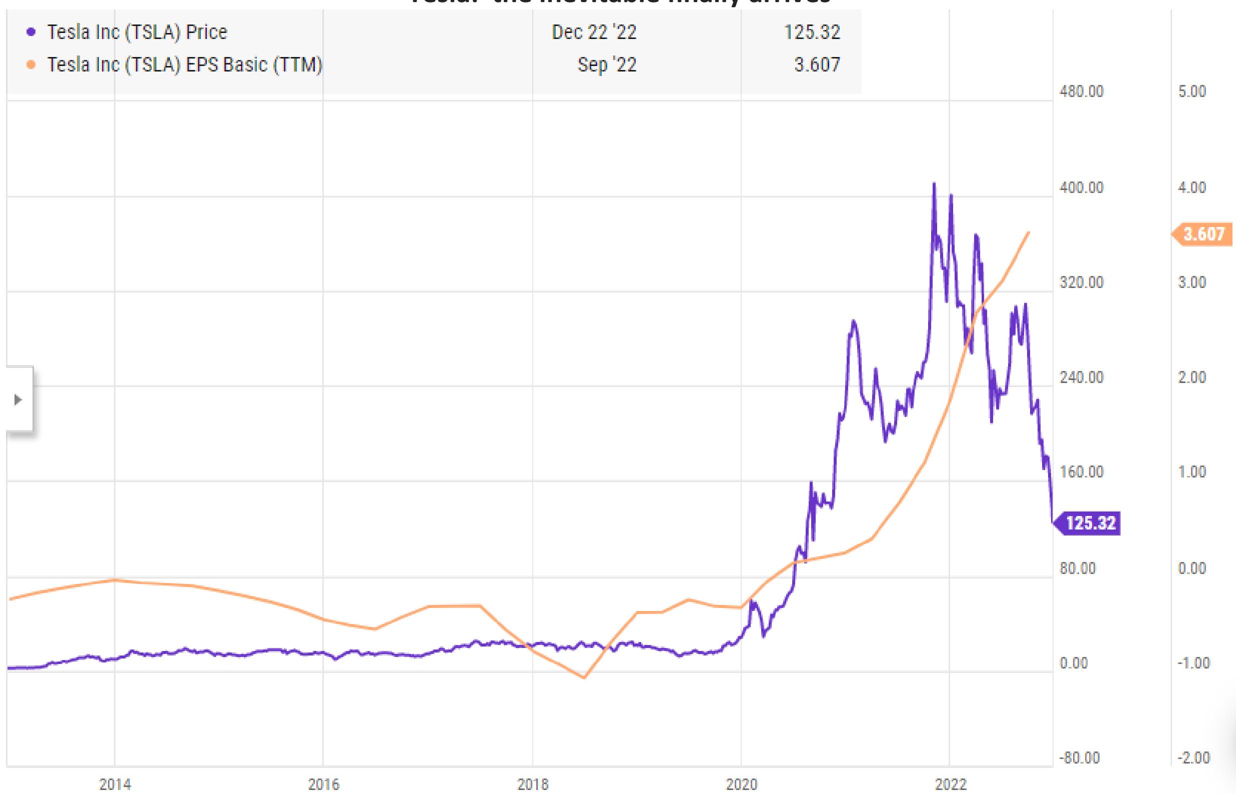
<u>The Outlook: Dec. 22, 2022</u>

"We see, but only half-believe . . . until it bursts on us."

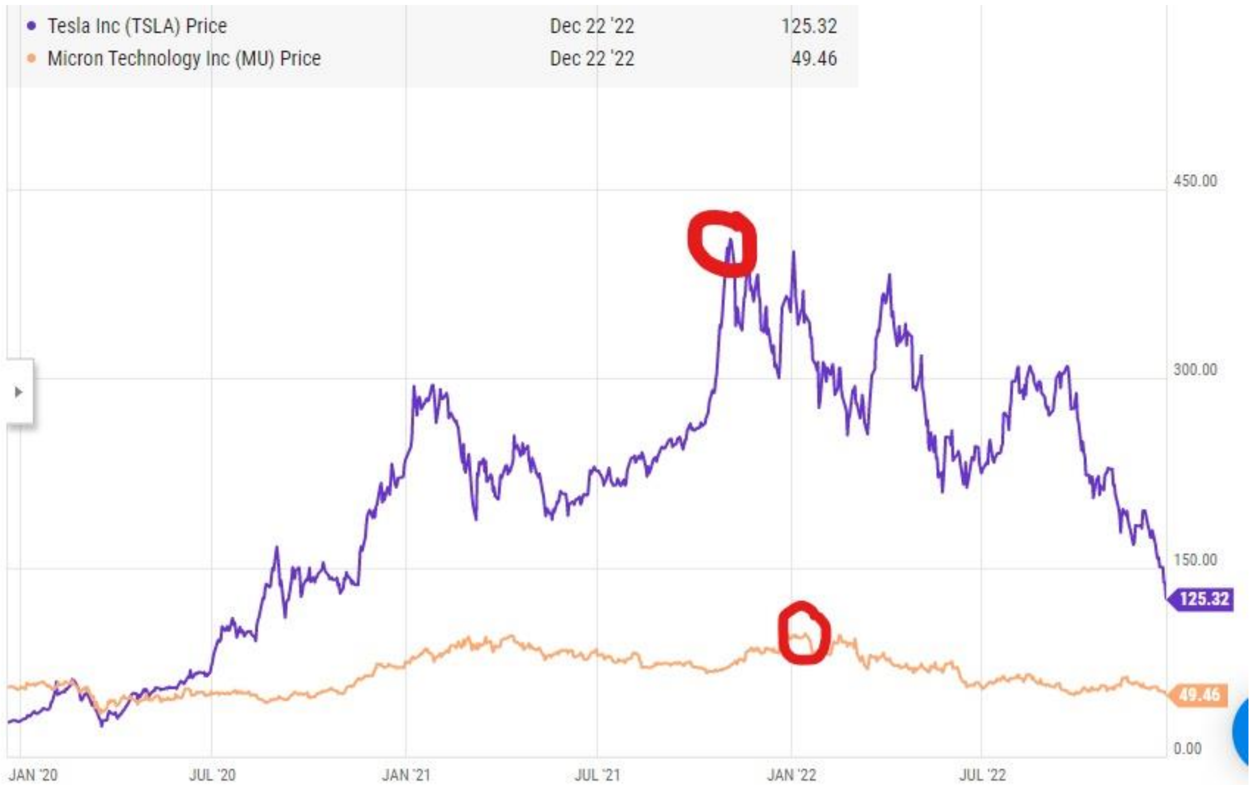
A British diplomat, long ago, made a remark to a friend: "You know, we all usually "see" the inevitable coming our way; but somehow we only half-believe it . . . until it actually bursts upon us." He was talking about a terrible "inevitable"—the beginning of World War Two—but he was also talking about human nature, which governs what we do in the investment world just like everywhere else. Let's glance at a couple of pictures of "the inevitable," and see what they tell us.

Tesla: the inevitable finally arrives



The Tesla story is one for the history books . . . in a good way, mostly. Taking crazy chances every step of the way, Mr. Musk pulled off what most sensible onlookers (including Outlook) figured was nearly impossible: building a giant car company from scratch in the teeth of many giant competitors . . . and guiding it to actual cold-cash profits. Those are the orange line above. Earnings have reached the $3 - $4 neighborhood after endless years of losing money. That path was not even remotely "inevitable." It was unlikely in the extreme: the kind of thing only a very unusual, very determined leader can do . . . once in a blue moon.

The "inevitable" part is the picture below. It zooms in on Tesla's last couple of years: its incredible rise, then god-awful fall. The red circle is $410 per share, hit about 15 months ago. Now Tesla sits at $125: down 70% . . . so far.



This was "inevitable" for one reason: Tesla has been "priced for perfection" for a good 6 years; but in 2020 and 2021 it left "priced for perfection" way behind, rocketing into a kind of Twilight Zone where nothing normal seemed to apply. Such Twilight Zones have always been part of the investment world: usually only an out-of-the-way corner; sometimes the main stage. The last time a Zone was the main stage was 22 years ago: the Dotcom Bubble. Just like the Tesla story (only a corner despite all its hype), what created the Twilight Zone back then was several years of gradual buildup: from "mighty optimistic" values, to "priced for perfection", and finally to Twilight Zone . . . which we can go ahead and call, "just plain bizarre."

"We all see the inevitable coming . . . but somehow we only half-believe it until it bursts on us," said the Britisher. That diplomat and his fellow citizens—and his colleagues in France, Holland, Belgium and elsewhere—"only half-believed" the inevitable precisely because it took so long to arrive. When our common sense says "Watch out, here's trouble on the way," but it fails to show up this year, then the next year and the next, we're inclined to doubt our common sense. We're mostly humble enough to do that. Our willingness to say, "Maybe we got it wrong" is a great virtue in most of life. It's also a virtue in the investing business . . . but only if it triggers another exercise of fact-gathering, renewed analysis and common sense.

The "priced for perfections" and the Twilight Zones fail that kind of exercise every time, no matter how many years go by while the normal rules seem to have been suspended.

The orange line up there is Micron: an Outlook core company and great favorite. From its red-circled peak at $97 (shortly after Tesla's peak), Micron has plunged 49%. Hmm. It's not 70% . . . but it sure doesn't feel good. Shall we trigger "another exercise of facts, analysis and common sense" aimed at Micron?

Certainly. We need go no farther than the most obvious facts:

- Micron has no net debt.
- Micron's distance from "priced for perfection" or the "Twilight Zone" is roughly the distance from Earth to Pluto. It's been "priced for destruction" or at least "the wheels will fall off soon" nonstop, over the past 6 to 8 years.
- Micron's memory-chip leadership—technologically and in key markets—is indisputable.
- Micron is a normal cyclical company: forever the prisoner of the memory chip cycle, which began crashing downwards earlier this year. That cycle never ends: it crashes down, then it rockets up. When "down" is in charge, the market's betting crowd hands away Micron at a fraction of what it will be worth later.

In sum, Micron is to Tesla what Earth is to Pluto in more ways than one. This is yet another time for us investors to trust the facts and our common sense . . . and be patient, as always.

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