The Outlook: July 27, 2019

"Always Doubt the Headlines," indeed.

The headline was, "Wary Businesses Slow U.S. Growth!" The subject was yesterday's report on Second Quarter GDP, which of course tries to measure how fast the entire U.S. economy grew over the past 3 months. The answer was "2.1%," which was less than the first quarter's 3.1%, hence the headline.

As headlines go, this wasn't too bad . . . meaning it was less misleading than, say, 90% of all headlines all the time. But it was misleading nevertheless. For the lion's share of all the people participating in the investment world—which is almost all of us—it created the impression that there must be some real weakness here, and we ought to be concerned. That's exactly the impression the headline was meant to convey, of course. It was the best the Wall Street Journal's headline-writers could do with their material this morning: taking what in fact was distinctly good news, and turning it as sour as they reasonably could. Bad news sells a great deal better than good news, which is a principle so ingrained in journalists they probably don't even think about it.

It was good news because that 2.1% growth was simply a mild, temporary easing of the economy's growth pace—like a miler who has surged from the back to the front of the pack, then "floats" for a bit to regain her breath for the next serious charge. The components of the 2.1% report made that obvious: impressive continuing strength in consumer spending being offset by a slower pace of capital spending by businesses—which had done their own "surge" to the front only the previous quarter.

There is nothing more normal than that pattern of behavior in business spending . . . but we wouldn't get that idea from the headline, would we? Nor we would get any hint that the 2.1% growth number was much faster than the world of economists and other experts had expected. Most of them have been spooked enough by the Trade War Nightmare that they figured U.S. growth would weaken dramatically, plunging south to get into the neighborhood permanently inhabited by Europe—whose GDP figures have been staggering around between 0.1% and 0.3%, or so. Those are worrisome numbers . . . not 2.1%.

Pardon the long runup to today's main point, which is: "Always Doubt the Headlines."

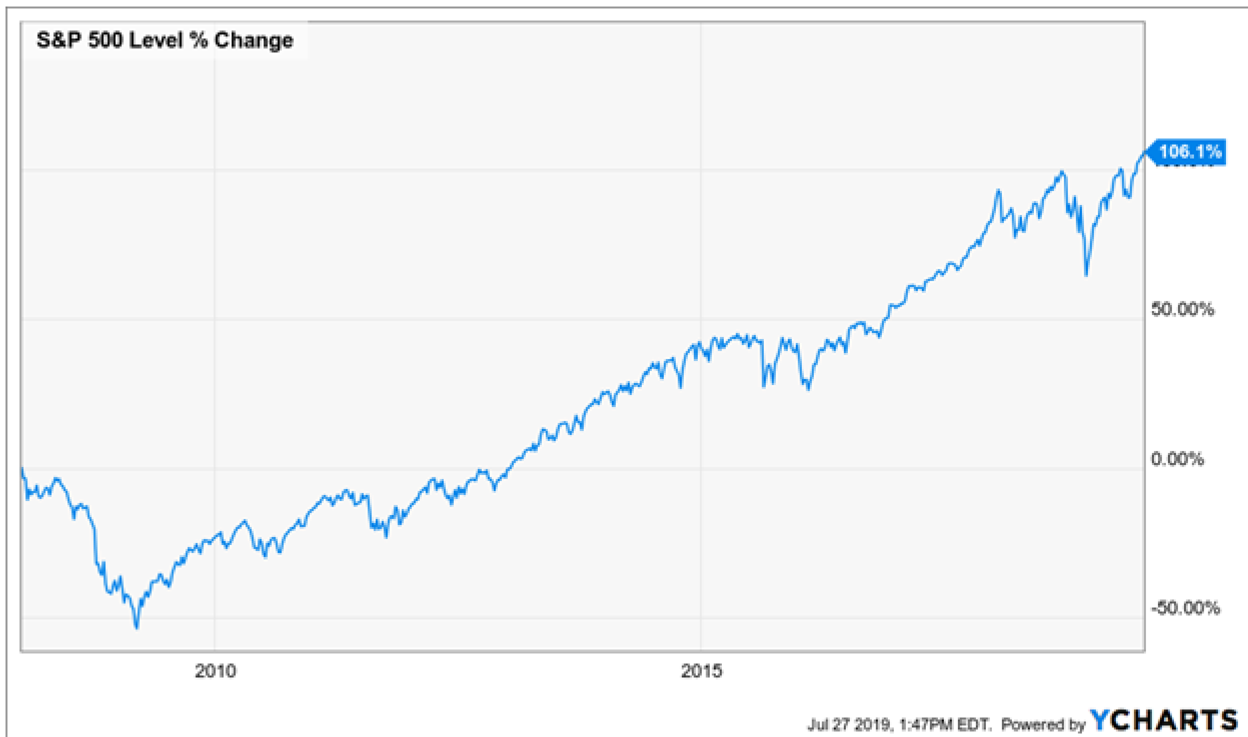
Outlook has made that point very many times over the years—because it's so important for investors to really believe it, in order to succeed. "Really" believing it isn't easy, probably because our culture and education hammer home a certain respect for the printed word from an early age, for most of us. We can only set that respect aside after knowing enough about enough subjects, over time, to be appalled at the nearly-constant negative distortions of the actual facts and actual news conveyed by that 90% of the headlines. Here's why it's so important to "Always Doubt the Headlines."

This chart is wildly misleading and downright interesting at the same time. It shows the "net inflows or outflows" of money from common stock mutual funds since December 2007—when the market was still close to historical highs, and about to be gobbled up whole by one of the most ferocious Bears in market history. All the readings below that "zero" line mean mutual-fund investors were pulling out of equities, as a group. Interesting, isn't it? We had an awful bear market until early 2009, then the longest and greatest bull market in history . . . and apparently the vast crowd of mutual-fund investors has been selling 365 days per year, year after year, more or less. As the chart's label shouts, at this moment that crowd's sales of common stock in their mutual funds are the biggest in history.

One would think there's nobody left to own common stocks.

We get the silliness in the chart as soon as we stop to think, "Hmm. Every single time anyone in the world sells a common stock, someone else must be buying it, right?" Right, indeed. That's why we call it "the market." So someone—a giant crowd of "someones" in fact—has been buying every share of stock effectively sold by the mutual-fund investors, day after day and year after year . . . and maybe even holding onto what they bought long enough to be happy about this:

The Market Since 2007

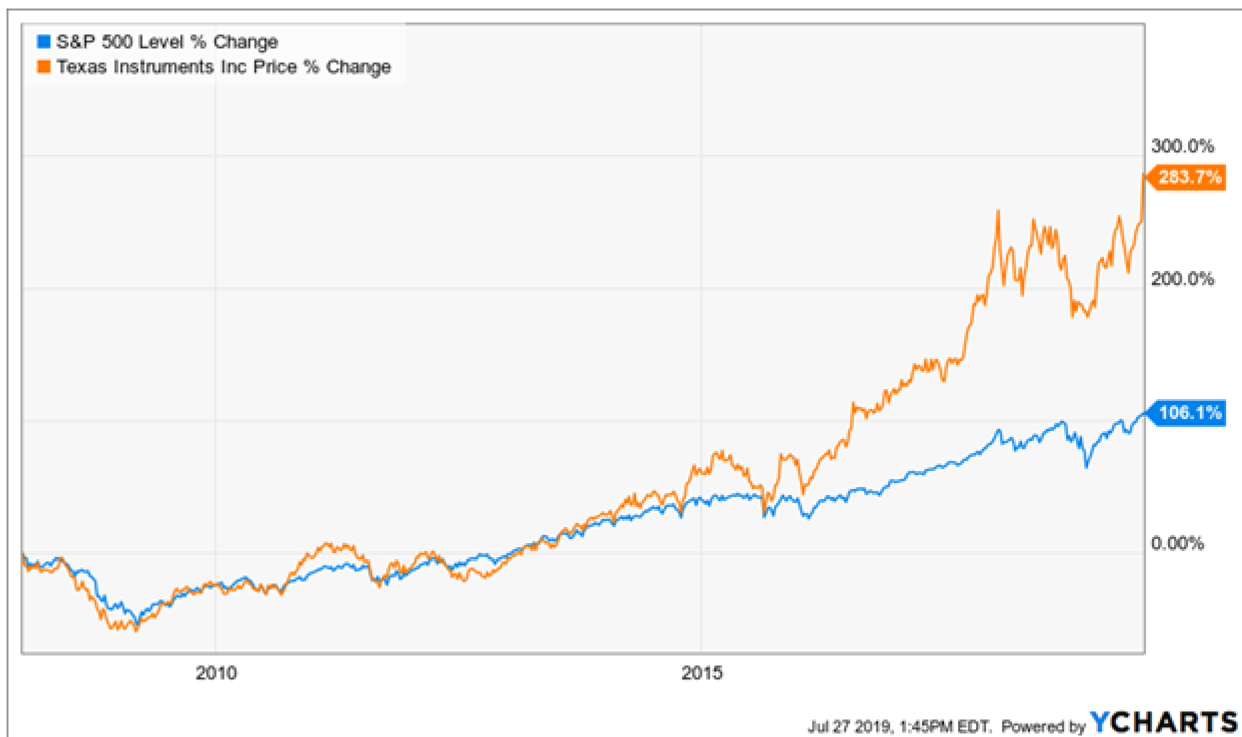


But unless our buying "someones" really believed in the "Always Doubt the Headlines" rule . . . they probably didn't hang on. This next chart shows how often the headlines did their best to shake their nerves.

All those downward spikes are the times the market sank below its previous highs: from 1% to 5% a host of times; from 5% to 10% many times; from 10% to 15% or more, often enough. Outlook will guarantee that every single one of those plunges was accompanied by headlines wishing to give us the impression of terrible economic or business news, so that the first few percentage points of loss were only the beginning, and if we really wanted to see how it feels to be dead broke, all we had to do was hang onto our common stocks.

“The market will always, constantly try to frighten you out of good positions.” That came from Warren Buffett or Charlie Munger, we think. We might change it a bit: “The market and the media will always try to frighten you out of good positions.” And just to drive the point home, let’s glance at one of the most rock-solid companies in the U.S. over the past 12 years: Texas Instruments.

Yes . . . Texas Instruments is the yellow line, the market is the blue. We can see that when it comes to the frequency and depth of frightening plunges, Texas Instruments has been “The Texas Chainsaw Massacre” compared to the market’s “Picnic in the Park.” Was it worth “Always Doubting the Headlines” and hanging on? We know the answer, don’t we?



With some nerve, plenty of patience, and a deep understanding of TXN as an operating business, Outlook and its clients held on every day of every year, regardless of headlines and plunges. Our reward was the difference in 12-year returns between 284% and 106%, which is rather a lot. "Always Doubt the Headlines" indeed.

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