<u>The Outlook: April 20, 2022</u>

Priced for perfection: the wrecking ball.

Here's the story of the day.

Netflix' Acapulco Cliff Dive: Minus 35% Today; Minus 67% in 5 Months.

One more picture, then we'll tell the tale.

The Tortoise and the Hare: Caterpillar and Netflix

A few short months ago Netflix stood at $680 per share. Today, after the dust settled, it stood at $225: down 67%. Just before launching into its dive, Netflix had gained 400% for its "investors" in those 4 ½ years. It's almost gone, today.

And there in yellow is Caterpillar, doing a good impression of Aesop's tortoise. If their race were a marathon, the Netflix hare's lead would have been 5 or 10 miles, less than a year ago: uncatchable; unbeatable; unstoppable. But apparently not. In a few short months capped by one day, the Caterpillar tortoise has gained a 90% lead on Netflix.

What happened?

"Priced for Perfection" happened. For the last 5 years Netflix' average price/earnings valuation has been . . . 95 times. For 10 years it's been 137 times. Caterpillar's valuations have been 21 times earnings and 16 times, respectively. Nothing can go wrong when a stock is valued at 100 times earnings . . . but something always goes wrong, eventually. Netflix announced its first loss of subscribers last quarter; and, gritting its teeth, the company said it expected 10 times as many losses next quarter. "Something always goes wrong, eventually." That's about as wrong as it gets.

Caterpillar's investors have suffered a lot those 5 years. Netflix' investors have celebrated a lot. Caterpillar's people built a solid future, working right through the pain. Netflix' leaders hoped for ever more perfect results beyond the horizon—as did Netflix' investors. Hard work under grim problems works. Hope does not work. It quite often takes an unimaginable length of time for that lesson to prove its truth, once again. But it always does, and by then "priced for perfection" has done its wrecking-ball damage.

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