

## The Outlook: Dec. 13, 2019

*The sun shines again . . . amazing the market.*

The market has certainly noticed, lately, that not only is the sky still up there, not plunging earthward; but the sun even seems to be shining. Only two months ago the market's feeling was, more or less, that the sun was a myth dreamed up by starry-eyed optimists. Here is what's happened since then.

**The market, up 10%. Five companies to avoid if the sky is falling: up 16% to 52%.**



By its nature, the market is usually short-sighted. Today's worries rivet its attention. Tomorrow's potential is too far away to bet on . . . no matter how certain that potential may look. That's the market's code of conduct toward most companies, most of the time. (It turns the code upside down for a handful of celebrity companies—but that's a story for another time.)

Those 5 Outlook companies—Freeport, Micron, Conoco, Caterpillar and Cummins—are truly perfect examples of the market's code. They're all extraordinarily strong companies. They're all sharply cyclical: that is, their business results always ebb and flow with the general economic cycle or with some specific cycle in their industries. They've all handled their current downcycles so well that they really deserve adjectives like "remarkable" and "outstanding." Finally, they're all just about as certain as the sunrise to set big new records for sales, earnings and dividends during their next upcycles . . . as they've done in every upcycle for umpteen years.

Yet the market has been setting their stock values as if their finances were shaky; their futures were highly questionable; and they might even be bankruptcy candidates. The result of the market's code of conduct has been that silly. It's been so silly, in fact, that investors have been strongly tempted to doubt their own judgment rather than doubting the market's. "Surely the market can't really be that wrong," is the

thought which has passed, with a chill, through every investor's mind every single time any of those stocks has taken a particular drubbing in the market for a day, week or month—much less for a year.

It's often crossed our minds, at Outlook, that it's very hard indeed for most investors to resist the temptation to doubt their own judgment, and accept the market's. Working hard to truly understand the companies we own is vital, of course; but one thing helps even more: watching the market make those supremely silly "judgments" so many times, over a great many years, that the market begins to lose its power to "frighten us out of good positions," as Mr. Buffett once said.

Early next year Outlook Capital Management will be sharing a project with each of our clients. We call it "The 2023 Project." We've looked as carefully as we possibly can at each one of our core companies, asking ourselves how high its sales, earnings and dividends are likely to go, conservatively, at the top of the next upcycle. We don't know when that will be . . . but history and our experience tell us those next upcycles will happen sometime during the next 4 years: by "2023." Then we asked the \$64,000 Question, for each company: "When those earnings and dividend levels are reached, where will those stock values be . . . conservatively?"

The answers will be surprising: very surprising, in most cases. But not so very surprising to investors who understand the market's "code of conduct," and its vast history of being supremely wrong about how good companies should be valued, when it's doubtful and afraid. Meanwhile let's enjoy the chart above, which may or may not look like that at year-end, and grasp its real message: "Patience is rewarded. The market pretends the sun won't shine again, sometimes for ridiculous periods of time. But the sun is a fact; and the market's attitude is a mood, which must always give way to facts."

© 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.*