<u>The Outlook: Aug. 4, 2017</u>

"Dow 22,000!" . . . or the <u>whole</u> picture.

One of the most golden of Outlook's golden rules is, "Look at the <u>whole</u> picture, not just a wonderful or awful corner of it." And a companion rule would be, "The splashy headline stories of the day will <u>never</u> show us the whole picture . . . repeat, *never*." There aren't many things we can absolutely count on, every single day in the investment world, but that "Never!" is one of them.

This week gave us plenty of "Dow Hits All-Time Record, Passing 22,000!" headlines, and those headlines spawned the usual mass of analyses which came down to "Investors should be terrified! Why haven't you sold yet?" So let us look, briefly, at the whole picture—or at least more of it than those headlines showed us.

10 Years: Amazon, Shell, Caterpillar and the Market

10 years ago the market was near its previous bull market highs, in the fall of 2007. The market was about to enter its "Calamity," falling straight down to Hell, pretty much, in 18 months. So this 10-year picture includes that cheerful event, plus the completely unexpected 8-year Bull Market which has followed, placing us at today's "terrifying" position of Dow 22,000, S&P 2475, and so on. Very well: 8-year Bull Market, all-time record highs . . . why not be terrified?

Here's more of the picture. In red is Amazon, up <u>1200%</u>--a heroic bull market if there ever was one. In yellow is the broad U.S. market of big companies, up <u>73%</u> in the 10 years. Not quite "heroic." In green is our Caterpillar, up only <u>45%</u>. And in blue is mainline oil giant Shell, <u>down 22%</u> over the 10 years, so it gets adjectives as far from "heroic" as we can find in the dictionary.

Here's still more of the picture—and a sharper look at the point of all this.

3 Years: the market, Google, and Freeport

There's the market, in red, up 34%. There's Google, in yellow, up 66%. And there's Freeport, which appears to have not only missed the bus, but bought a ticket on the Midnight Train to Hell, down 58% in the 3 years. If we cluttered up the chart with friends of Freeport (and Outlook) like Conoco, Geospace, Kinder, Shell and almost any other energy or commodity-based company, we'd see Freeport had plenty of company on that Train, though some of its friends managed to hop off at Purgatory.

The point, of course, is that the headline stories and numbers ("Dow 22,000!") don't tell us what happened. They don't come close. During the past 3 to 5 years of this "epic" 8-year Bull Market, we've experienced a rocket to the moon with Amazon, Google, and plenty of others . . . and that train to hell with big, important sectors of the market and the economy: copper and most other commodity firms, oil and gas firms, mining and heavy equipment firms, and more. So when a headlined story screams "22,000! Jump for your lives!", it would be fair to reply with "Down 58%! Mortgage the house and load up!"

There is danger at Dow 22,000 . . . and at Dow 20,000 and 18,000. The market can do anything at all, for a while, and "anything at all" very often means, "Catch the fear of the crowd and run with it!" It is the eternal nature of the market to scare itself into a dead faint, every once in a while. "Dow 22,000! Run for it!" might be more than enough do the trick. But if we are wise, we must not look to the crowd for leadership. At Dow 22,000, a good many stocks like Amazon, Facebook, Netflix, Tesla and even Google are absolutely either "priced for the Moon" or hanging around that neighborhood. The crowd has loved them all the way to 22,000. On the other hand, in early 2016 Conoco, Freeport, Caterpillar and friends were "priced for Hell," or not far away. Now they're generally "priced for Purgatory," meaning the market values them as if they'll live, all right, but it'll be a life of drudgery at best. There are many things to say about that kind of stock, backed by strong companies and managers who will not settle for drudgery. The simplest is: "Buy them—and don't let headlines tell us to sell."

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