The Outlook: July 14, 2020

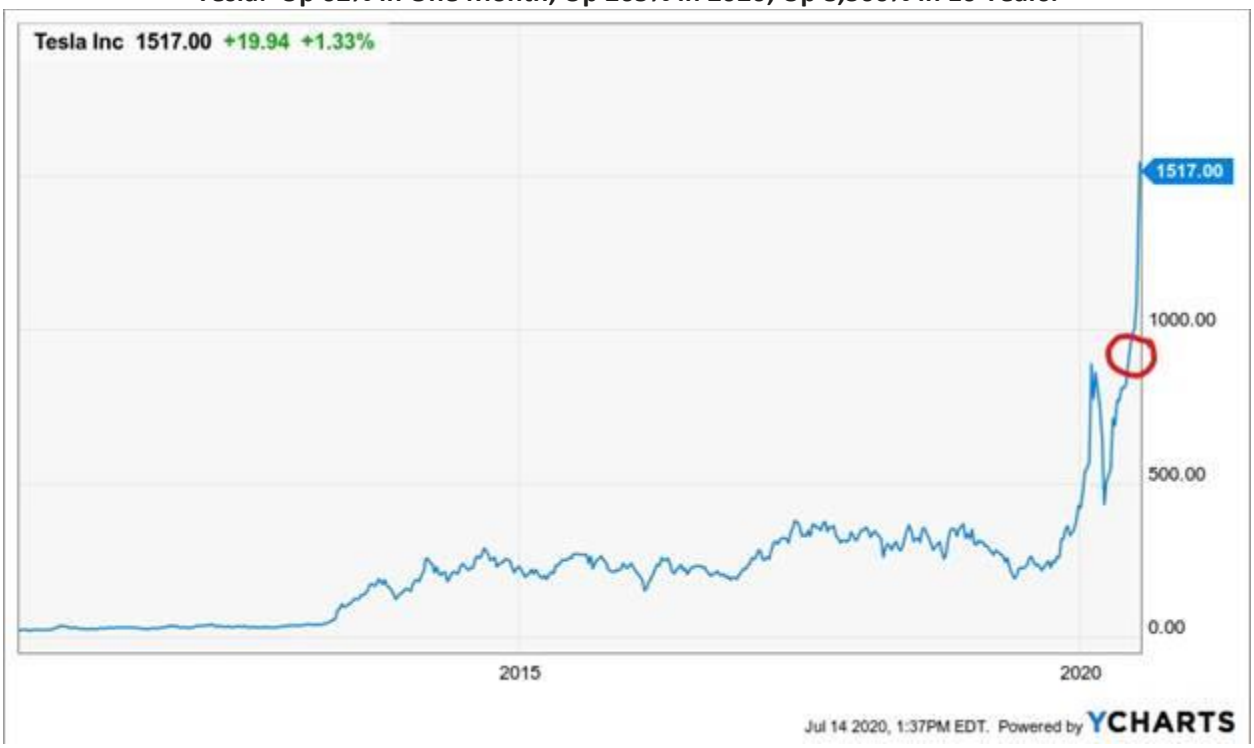
Impressions, and experts who back them up.

It's a homely old piece of advice, and Outlook's clients and friends have heard it a lot: "*Never* act on impressions. *Always* dig for the whole picture." This battered old coin has another side, just as important: "We'll always be tempted to ignore this advice. Know that ahead of time, and never give in to the temptation."

Most of the false impressions which tempt us to disconnect our brains and *do something*, *fast*, tell us we ought to be terrified about something. But they work the other way, too: telling us we ought to get in on something wonderful before it's too late. And if the old coin had a third side, the most useful thing it could say would be: "Expect all manner of experts to tell us the terrifying or mouth-watering impressions are clear descriptions of reality, with high-sounding analysis to prove it."

The little news item which reminded us of all this, today, was a headline: ***"Elon Musk Says "Wow!" as Piper Sandler Boosts Tesla Price Target from $939 to $2,322."*** Piper is an eminent Wall Street brokerage firm, whose eminent auto analyst made that headline today. But let's dig for just a little more of our "whole picture."

Tesla: Up 62% in One Month; Up 265% in 2020; Up 8,300% in 10 Years.



Yes . . . today we're dealing with the "mouth-watering" category of impressions, aren't we? If we'd owned Tesla for only the last 30 days, we'd be 62% richer, sort of; 265% richer for the year; 8,300% for the decade . . . we get the idea. That picture shows a rocket, apparently still accelerating, and making the Piper analyst's old price target of $939 (red circle) look like ancient history.

If any mutual fund or investment manager has owned Tesla during any part of this ride, her clients are feeling very good . . . at the moment. If any investment manager has stayed away from Tesla—and a handful of other famous rockets—his clients might wonder why they haven't been allowed to benefit from such a wonderful ride. The impression is, "How could anyone miss this? When anything has done that well, there *must* be a good reason for it!"

The eminent Piper analyst certainly thinks so. His "good reasons" came in two flavors: verbal and mathematical. Verbal: "Tesla is the most consequential company in the mobility ecosystem, and this is unlikely to change in the next decade." Mathematical: "Our $2,322 price target is derived from a present value calculation of the next 20 years of cash flows, discounted at an 8.2% weighted-average cost of capital." Those remarks are high-sounding enough to back up any mouth-watering impression, aren't they? But being the kind of curmudgeons who *didn't* let clients share the Tesla ride, let us dig just a little into that high-sounding analysis. "Unlikely to change in the next decade." "The next 20 years of cash flows." Those three words will do it.

"The next decade," and "the next 20 years" cry out for just one thing from us, as investors: common sense. If we all could name even one thing, in our lives, which turned out the way we thought it would 10 or 20 years earlier, we might feel like giving the Piper man the benefit of the doubt. Unfortunately at Outlook, at least, when we ransack our memory banks for that single example, we only hear crickets chirping. But Mr. Piper has cheerfully plugged the next 20 years of Tesla's financial statements into his spreadsheet and come up with a new price target 53% higher than today's price, if we can make out exactly what that price is, up there among the cirrus clouds in the stratosphere.

Is our Piper man actually that foolish? Probably not. He isn't writing anything for people like Outlook. He's writing for people in the business of making money on impressions: yes, speculators. He's part of "the speculators' ecosystem," to borrow his word. He knows how they make their money (try to, anyway) and he knows they value any help he can provide, when it comes to the business of getting in on a rocket while it's still going up, and hoping to get off before it spirals down or, heaven help them, blows up among the clouds.

We also see a lot of headlines, every week, trying to give us the impression the market is just a bunch of Tesla's these days, and if we haven't sold everything to lighten the load while we run for the hills, don't say we weren't warned. But just like the "Tesla the sure-thing rocket" impression, the "Crazy 2020 market tech bubble" impression is false—like most impressions. Unlike the Original Tech Bubble of 2000, today we have only a relative handful of celebrity stocks acting in mind-boggling ways, valued with genuine "euphoria." Against that handful, we have an Atlantic Ocean of stocks valued carefully, doubtfully, or downright fearfully. (A Mediterranean Sea of them, anyway.) We don't sell those kinds of values, we buy them.

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