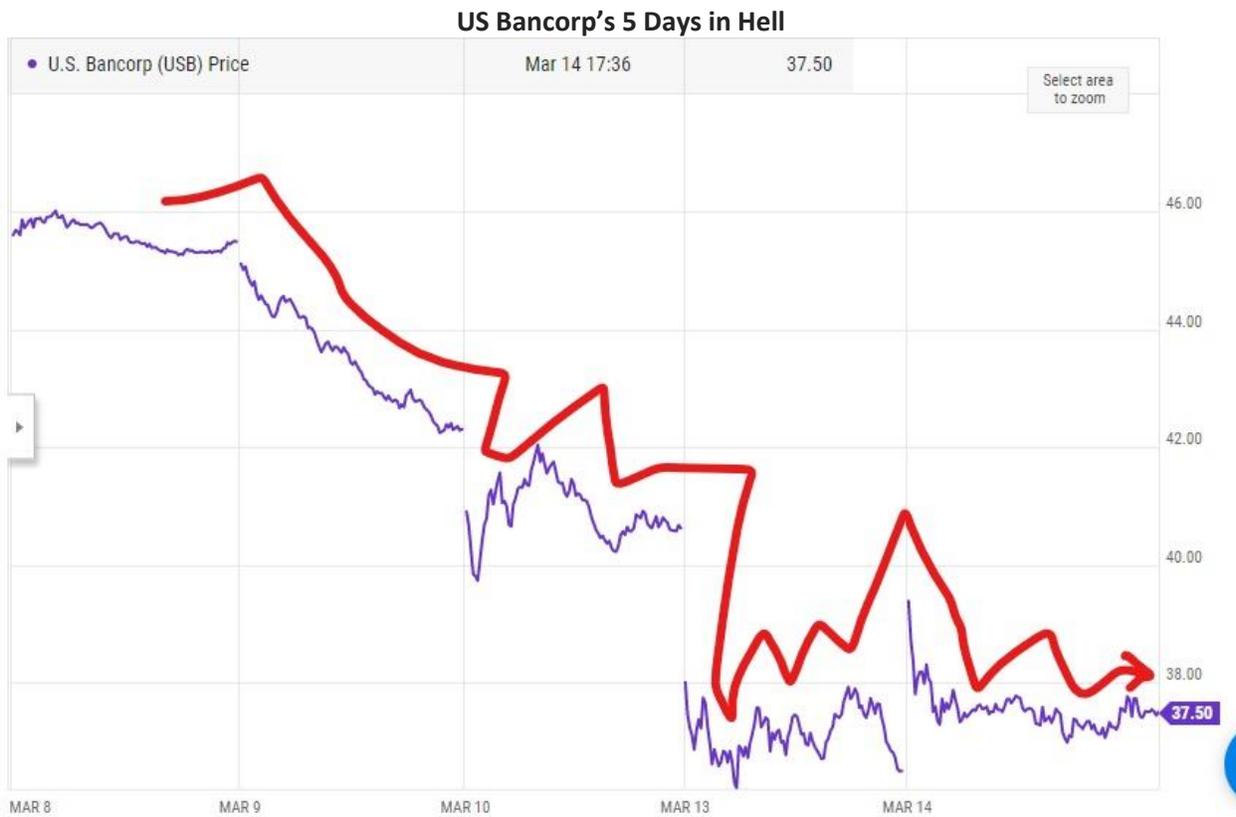


The Outlook: March 14, 2023

From US Bancorp: the story of an old nightmare . . . not very scary.

Here's a picture which looks a little like the cover of an "Advanced Microeconomics" textbook which haunted a grad student's mind back in 1976 or so. This picture is a little simpler, though. If we dreamed up 8 or 10 more such wandering, jagged lines and pasted them on the chart going in every direction, we'd have that textbook. The textbook cover, courtesy of the absent-minded physicist-turned-economist who wrote it, was supposed to show the panicked grad students how the branch of mathematics called "Topology" could give us keen insights into how economies worked at the individual business and consumer level . . . on Main Street, we say these days. Unfortunately the irreverent grad students—who understood nothing at all about either Main Street or Topology—nicknamed it "Brain Waves of a Diseased Professor." Somehow that seeped back to the professor, and the result may have been the uncommon number of C's and D's handed out on the last day. Let's see what we can make of this particular diseased brain wave.



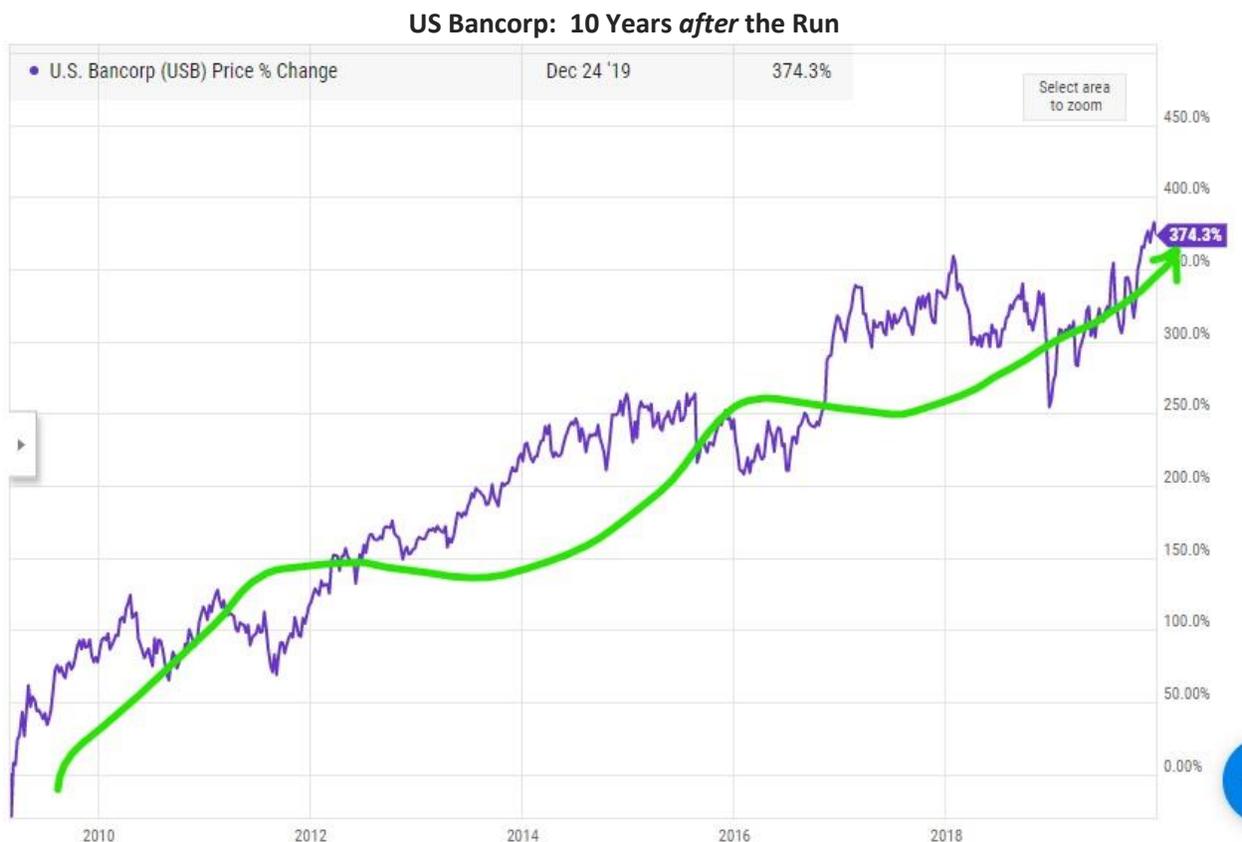
It's really a picture of the market's Nightmare of the Week: "Bank Runs! Head for the Hills!" The old Nightmares ("Rate Hikes to the Sky!" and "Recession Around the Corner!") were getting, well, "old," and familiar . . . and Nightmares which get old and familiar stop being nightmares. "Bank Run!", though, is kind of like Alfred Hitchcock's masterpieces: terrifying every time, no matter how often we see them.

They're so scary because they're like someone screaming "Fire!" in a crowded theater. The rest of us in the crowd can't see flames or smoke, and can't smell anything burning . . . but the iron logic of self-

preservation tells us to join the panicked crowd surging for the exit, because if the screamer turns out to be right we mustn't be last in line if we value our lives.

That's why the banking industry is a thing all by itself, unique among the galaxy of industries on Main Street. No bank can survive a run, by the nature of banks. Instead of something run by cowboys like Silicon Valley Bank, it might be something run by JP Morgan himself and called "Rock of Gibraltar Bank" due to its strength far beyond its peers, but no matter: a run will kill it. The market's betting crowd—which rules each day's behavior, constantly looking for the next headline triggering the next thrill of excitement or despair among the crowd, and wondering if it's worth a bet for a few minutes, hours or days—knows that "Bank Runs!" is something special in the "Latest Terrifying Headline" category. Hence the picture above, which shows the betting crowd betting on terror on Thursday and Friday last week, then spending this Monday and Tuesday gnawing its fingernails and punching the "Buy!" and "Sell!" buttons at random. If the thrill of fear has a little power left, it would be nice to make just a bit more money on the "Sell!" side . . . but if it's already gotten to the silly stage (relative to facts) then we'd best preserve our winnings and get out by punching "Buy!"

US Bancorp is as close to Mr. Morgan's "Rock of Gibraltar Bank" as anything on Main Street, pretty much. So while a run can kill it—because it's a bank—the facts about its strength must tend to pour cold water on the feverish mob a good deal sooner than with "Silly Valley Bank" ("Silicon," pardon). The betting crowd knows all this, hence these two days of "What next?" The betting crowd also knows this:



After the mob had its fun in 2008 – 2009, US Bancorp rose 375% in 10 years . . . almost jaw-dropping for a stodgy old bank. We might also call this picture, "Overdoing it. What comes next."

The market's daily betting crowd overdoes things for a living . . . but dies from it too, sometimes. That's what happens when bettors stay short (selling) when the facts on Main Street say, "You're counting on a Nightmare, not on Reality—and you'll regret it if you keep it up." The crowd has had its fun with all the banks over the last few days. But the facts on Main Street say, "That'll work with a few of them, but not with most of them . . . not with "Gibraltars" like US Bancorp." Those Main Street facts, of course, change the market from something silly in the short run to something profound in the long run. The shareholders at US Bancorp know that perfectly well, and they're buying if they have the cash.

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