

The Outlook: Nov. 28, 2017

The Micron choice: roller coaster or guillotine.

“Why the wild ride in Micron?” was the question from an Outlook client—a good question. Here’s why.

Some historic figure once said, “Speculators never quit on a bet that’s worked in the past, until they get their heads chopped off.” (That was the gist of it, anyway.) For at least 20 years, the “Micron bet” has been that when the cycle for global memory- chip prices turns down, it turns down with an instantaneous flash and crash, like a lightning bolt, taking all memory companies’ profits and stock prices with it . . . to depths so dark they terrified investors and bankrupted another handful of memory companies, each time into the abyss. So as the latest memory price cycle turned up, beginning around 18 months ago, the speculating, day-trading crowd (a galactic-scale crowd, remember) kept their fingers constantly poised over the “Sell” button. Naturally, they didn’t just “poise” over “Sell!” they hammered on the button again and again, every time the slightest suggestion of a possible top in chip prices showed up. And they were wrong again and again—with the usual unknown number of them carted off to the guillotine, having bet too much that they wouldn’t be wrong, this time.

So chip prices ratcheted up, and so did Micron stock . . . and also Micron earnings, going very far beyond anything the sceptics thought possible a year ago. You can see them both, at the recent end of this 10-year picture.

Micron, 10 Years: Stock Price and Operating Cash Flow (orange)



Micron’s “wild ride” doesn’t look too frightening in the early half of the 10 years, but that’s misleading. Those swoops between \$13 and \$3, from 2007 to 2013, were 50% to 100% changes each

year, wild enough for any thrill-seeking speculator. The Acapulco cliff dives and ABM rocket climbs of the last few years are more obvious.

So this past 18 months the very heart of “the Micron story,” to the speculate-under-the-guillotine crowd, is the certainty of the next cliff dive in chip prices, hence Micron stock, around the next corner. The actual facts on the ground about the long, grinding work by which Micron has greatly strengthened itself and advanced its technology; about how careful the surviving handful of memory companies are being about restraining supply to at least cushion the next cliff dive; and about the longer-term dramatic growth in the amount and sophistication of memory needed in an Internet-of-Things world, simply don’t matter to the surviving speculators. They are certain that fortunes will be made by shorting Micron at the right time, whenever that darned price cycle finally plunges off its cliff.

And there will be a top sometime, with Micron taking its hammering as chip prices turn down. But that’s when the facts on the ground matter. Micron will post strongly positive earnings through the next downcycle, and will earn more money than ever in its history at each level of lower chip prices—because of its factory improvements. So Micron stock is highly unlikely to go as low as in previous cycles, and highly likely to spend less time “down” wherever its next bottom will be. The grinding work done at Micron, to make this happen, is perfectly obvious in the orange cash-flow line, above: each cyclical plunge in chip prices hurt Micron less than the one before; and each rocket ride helped Micron a great deal more than the one before. That is exactly what Micron’s leaders have been telling us they aim to achieve, these past 10 years.

Now let’s glance at the same 10-year stock chart, expressed as percentage changes over the decade.



Hmm. 504% in 10 years. If it weren't an impolite question for the survivors among the speculating crowd, we'd ask: "Have you done this well, under the guillotine these past 10 years? Have your short sales, split option strategies and futures formulas given you 500%--along with the ulcers and heart attacks?"

The market crowd has a certain number of talents. But it does not have 10-year patience. It does not have profound appreciation of the near-miracles often achieved by sheer determination, good judgment and hard work among a company's leaders and people. It does not have the grit needed to watch a 50 – 70% hammering of a good company's stock—and the part of one's life savings committed to it—and stick to that commitment because the company has the financial strength to endure, because the hammered-down stock price makes no sense, and because the company's leaders and their long-term plan still make plenty of sense.

Quite often Outlook has remarked, to clients and potential clients, "There is no way to the top of the mountain except to strap ourselves in, and take the roller-coaster ride. The ride must be endured, to be sure of the eventual reward." That is exactly what has been going on, with Micron, all these years. We think the long-term story about dramatically increasing needs for more sophisticated memory will turn out to be true . . . and we know Micron has accomplished one of those near-miracles, building and improving itself through the past several Valleys of Despair. Micron will stay sharply cyclical, but we think we'll be looking at a \$100 stock over the next few years, even if we happen to see \$30 first.

© 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.