The Outlook: March 17, 2023

"Just the facts, ma'am" always waits behind the thrill of horror . . . but never goes away.

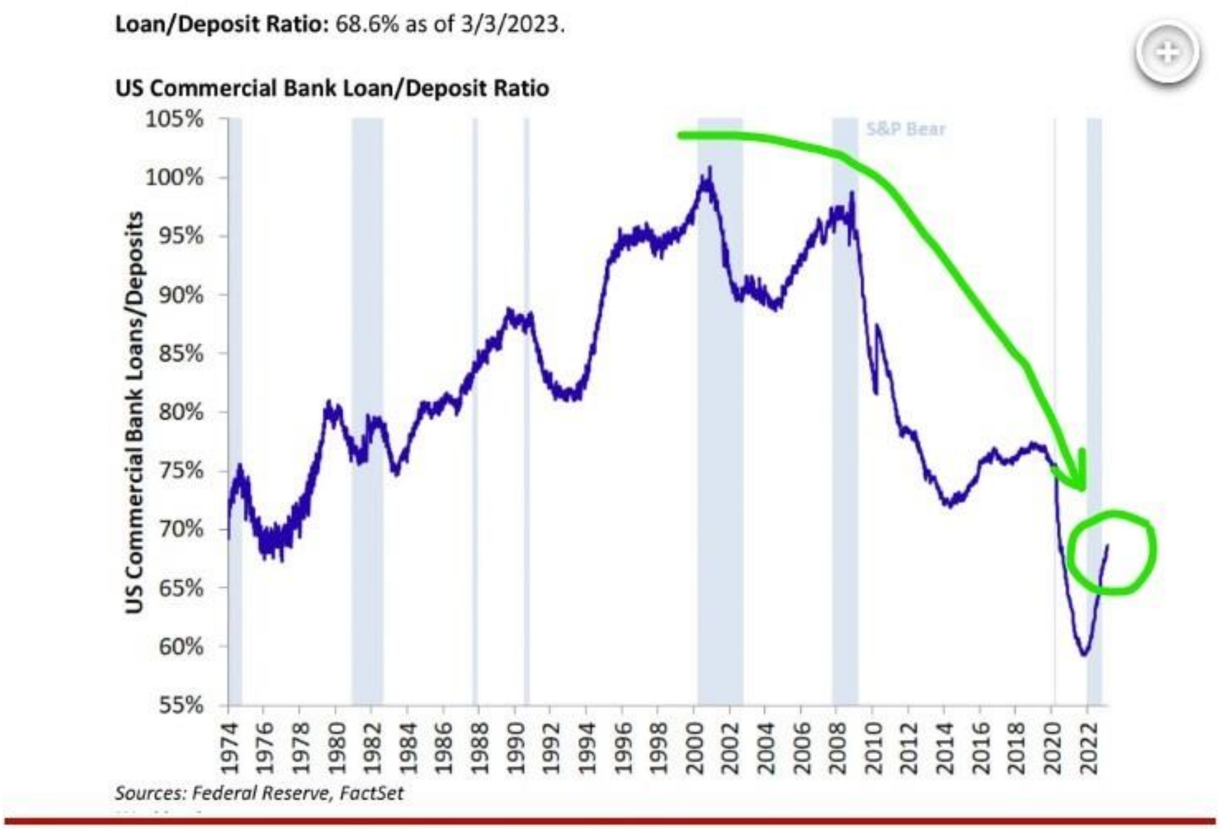
Instead of beginning with "the facts, ma'am, just the facts" as Sergeant Friday used to say, let's close this week of big bad headlines by asking ourselves a different question: "How did all those headlines make us *feel*?" Here's a sample:

- ***Bank Panic Continues!***
- ***Silicon Valley Bank and Signature Collapse! Credit Suisse Staggering! Who's Next?***
- ***Biggest Bank Failures in History!***
- ***First Republic Bailout Fails! Shares Plunge Again!***
- ***Authorities Say, "Don't Panic! Banking System Is Sound!"***

If we didn't feel a thrill of horror at all those . . . either we're not really human or we're, well, not quite admitting the truth to ourselves. But here's why it's helpful to think about how we felt. That thrill of horror we all felt was <u>the whole point</u> of the headlines. Triggering it was the top priority for the headline-writers . . . and a great many eminent authorities who climbed on their soapboxes and graced us with their wisdom, this past week or two. Pardon Outlook for seeming to sink into profound cynicism, here, but we have a reason for it. <u>Nothing matters as much for our investment success as our determination to judge the whole story and look at the whole picture *before* we decide what to do about investment (and other) problems; and nothing makes it harder to do that judging and looking than the terrifying headlines created by a media which lives or dies on eyeballs and clicks.</u>

It might be easy to think of a friend or family member who has, over the years, shown us a lifelong, unfixable weakness for exaggerating every story he tells. After a while we all know it perfectly well, and we instantly apply the required grain of salt before our exaggerator has even built up his story-telling steam . . . while nodding politely and murmuring "Uh huh. Yes indeed. Amazing!" It would be a priceless virtue for us to apply the same instantaneous skepticism to every single headline or story we ever get from the media . . . but we're human and we have a deep inclination to believe. "If it's in print, it must be true." Of course the real truth is, "If it's in print, it's certainly not true . . . or at least it's certainly twisted or exaggerated enough to distort the truth a lot."

As Outlook has mentioned two or three times over the years, the market's betting crowd makes its living on how we "feel" about the passing headlines. Fortunately there's something else in the investment world besides frightful, misleading headlines and bettors anxious to plunk down money on them. The "something else" is . . . facts. They can be buried or ignored for a time, but never permanently. Sometimes those facts are something bad or alarming about the world; but most of the time they're something good and reassuring—hence useless for the "thrill of horror" crowd. Here's one such fact about the banking business.



US commerical loans and deposits have decreased in recent years.

This is a really interesting chart for an old banker . . . whose career just happened to begin in the mid-Seventies, when the chart begins. When Continental Bank failed in the early Eighties, we spoke with horror about its loan/deposit ratio, which was up past 80% or so. (The higher the ratio, the less ready cash a bank has if those depositors happen to show up at the door waving their passbook account statements and hollering “We want every dollar . . . now!” Then time passed, and along came the Dotcom Bubble, then the Great Mortgage Calamity of 2007 – 2009. The banking industry’s loan-deposit ratio touched 100%, and spent a good 15 years bouncing around in the 90’s. Eminent authorities explained that the old rules didn’t count anymore . . . and old bankers thought, “Oh really? Where’s my passbook account statement, and when does my bank open tomorrow morning?” Those “the old rules don’t count” days ended during the Calamity of course, and we can see the plunging green arrow of the next 15 years, as the industry’s loan-deposit ratio came full circle back to the stodgy old early Seventies . . . and even lower.

And that’s where we stand today, in the green circle at the right. No matter the upward spike since Lockdown Days . . . banks’ liquidity stands stronger than anytime for 50 years. So do banks’ capital and other markers not pictured above.

“Bank Panic Continues!” “Shares Plunge!” “Who’s Next?” That fact pictured above doesn’t fit into the “thrill of horror” picture, does it? But it’s not going to go away. Eventually (sooner rather than later in Outlook’s judgment) such facts will be buckets of cold water tossed on the feverish speculators betting, at the moment, on the horror. Back in 2008 or so, during the most terrifying of the Calamity’s many months, Outlook came across a nice piece of journalism by a hard-working reporter who would never get

Page One for his efforts. Her story looked at the default rates of a giant swath of AAA-rated mortgages with 50% down payments. The default rates were zero . . . but the market price of the mortgages was 30 cents on the dollar, hardly better than junk-rated mortgage pools with 40% default rates. The market's betting crowd had, rightly, judged that panic meant the bathwater, the baby and the whole house could be thrown out together . . . for a while. An unknown chunk of that crowd failed to realize that facts were cooling the panic. They disappeared, as losing bettors always do, and nobody told their stories.

The same will happen with today's "panic." We're buying more shares of our core companies whenever we can.

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