The Outlook: June 16, 2021

Freeport and Exxon: headlines and impressions . . . or facts and judgment.

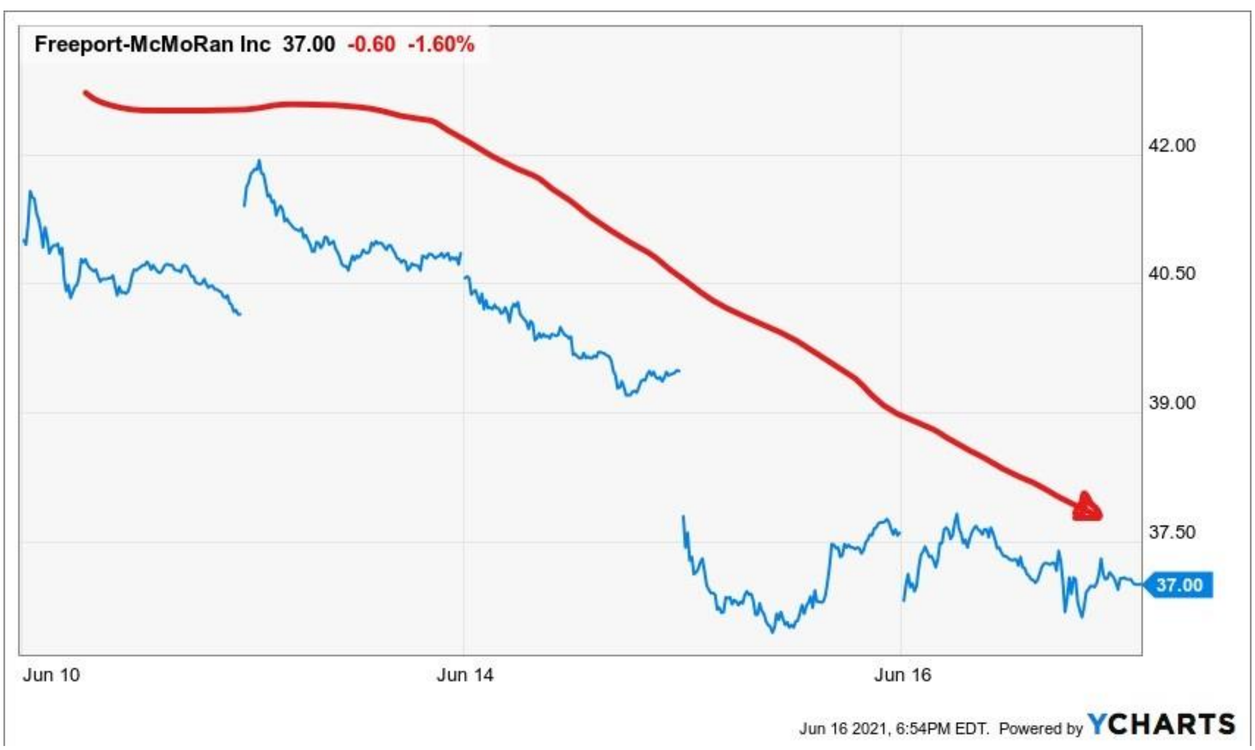
"Mining Stocks Plunge as China Announces Release of Metal Reserves!"

That was the passing news item which gave the market's speculating crowd its chance, today, to do what it does for a living: react, in nanoseconds if possible, to the <u>impressions</u> created by each passing headline; then wait with bated breath and finger on the "Sell!" or "Buy!" button to see how many days, hours or minutes the latest impression will last, before being wafted away by the next passing news item.

"Impressions," we try to remember, are not conclusions, judgments or even a few reasoned thoughts. Impressions aren't thinking at all, but much closer to instantaneous "feelings" triggered by the degree of fright or good cheer injected into us by each headline. When we happen to actually *know* a lot about whatever the headline is aimed at, its degree of fright or cheer doesn't move us much. We know much more than the headline writer and the journalist's story beneath it. But most of us have a pretty short list of subjects we know and understand deeply . . . so we're vulnerable to those "impressions" about everything we don't know too well.

Hence Mr. Warren Buffett's most profound saying, in Outlook's opinion: "Never let the market frighten you out of a good position." (And he might have added, "Because it will <u>try</u>, around the clock all year long, pretty much.")

Here is what the spec crowd has done to copper king Freeport-McMoran in the last few days, armed with that impression about China.

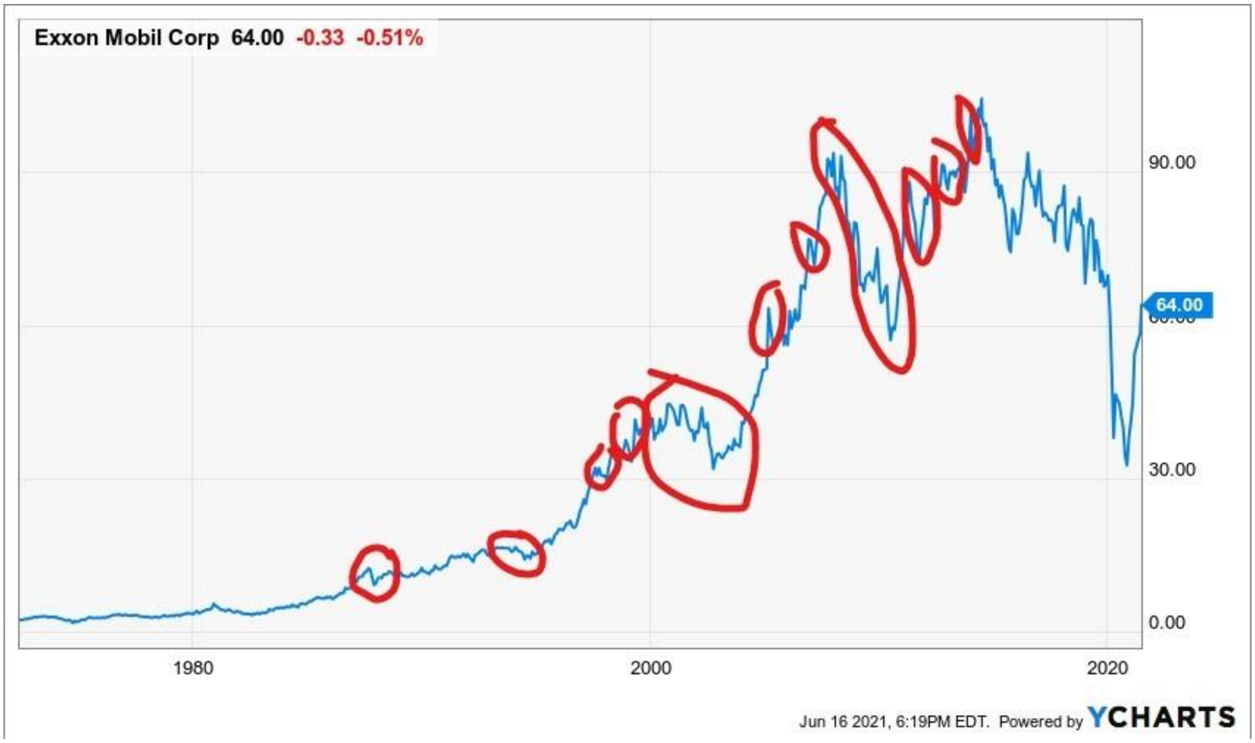


That does look grim, but not so much when we back up for the longer picture:

What shall we make of this "China Will Dump Copper!" fright? Let's reduce it to actual thought. The spec crowd's reaction to the headline implies that China "sees all, tells all, knows all . . . and rules all," (or at least rules the copper market) to paraphrase the Wizard of Oz. The Chinese government, which sees the Western world as its enemy, has stockpiled a lot of things just in case things turn nasty: metals, grains, computer chips, etc. That headline's impression makes us feel that "mighty China" can pour endless reserves of copper onto the market, depressing the global price a lot, for a long time. It makes us feel that next to China's power, the rest of the world's long-term demand for copper, and its sharply limited ability to supply it, just don't matter much.

A Citibank analyst, with a yawn, had this to say about that notion: "Copper will rise again by 2021's third quarter, as the world's stockpiles are used up or turned off, and physical demand and supply once again make themselves felt." He certainly doesn't expect China to come anywhere close to "using up" its copper stockpile, before shutting off the outflow. That would defeat the main reason for the stockpile in the first place: to guard against the kind of Western hostility which China expects down the road, because "hostility" dominates its own attitude toward most of the West. China will not come anywhere close to jeopardizing its "copper bank account." Hence the common sense of Mr. Citibank's opinion: "Copper will be in short supply and long demand for years to come . . . and China can't reverse that, and won't try very hard no matter what headlines it triggers today."

"Never let the market frighten you out of a good position." Let's close with a look at Exxon, another Outlook core company, to shine a spotlight on that point.



That's a picture of Exxon for 50 years. Notice the 30-year "bull run," in Exxon from about 1985 until 2016. All those red circles are reminding us just how many times the market tried to frighten Exxon investors out of their good positions. It tried very hard: most of the red circles highlight plunges of between 20% and 70% in the stock price. But that "bull run" took Exxon from around $10 to around $100. And the bloody 5 years which followed, if we stubborn investors still refused to be frightened out of a good position, have left us at $64, at the moment: up 450%. Not a bad 35 years' work, really . . . and like Freeport's current $37, only beginning a long, strong upcycle.

"Never let the market frighten you out of a good position" is one of those pieces of advice which makes a career—if we're patient enough, if our nerves are "iron" enough . . . and if we deal not in impressions but in facts and judgments.

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