

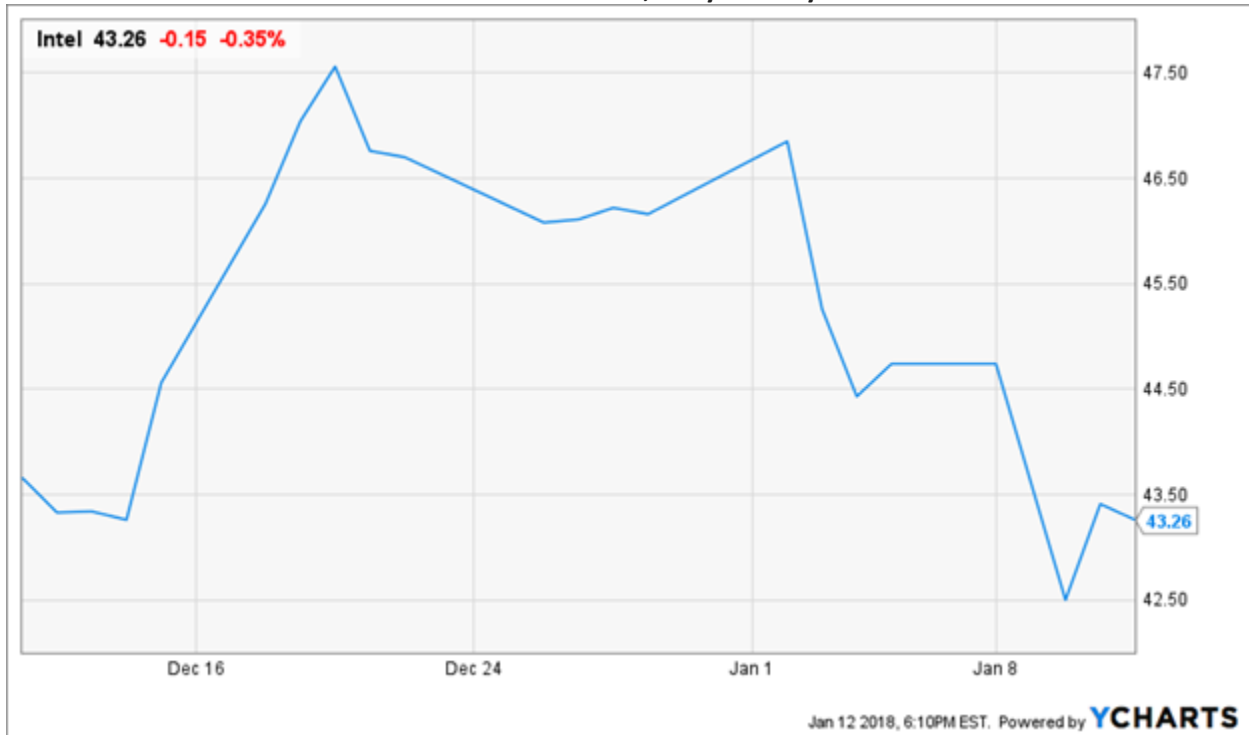
The Outlook: Jan. 17, 2018

Micron and Intel: the nature of the market, once again.

The market jumped another 322 points today—which is 1.25%, a good day’s work any time—but let’s not think deeply about what it means, at least for today. This kind of day just tends to harden opinions, anyway. Those who think the market is the Titanic, with the iceberg already rammed through the hull, will take today as a signal to forget the lifeboats, just jump straight overboard with a seat cushion. Those who think the market is more clear-eyed than insane, seeing economic and profit growth rates ahead which haven’t been seen in a decade or more, will think “Ah hah! Right on schedule!” We’ve pondered that Big Picture pretty recently, so instead let’s look back a couple of weeks to early January, when the market revealed its fundamental nature in the way it treated two interesting companies, Micron and Intel, when items of “bad news” popped into view.

Here is Intel: a long-time Outlook holding, dropped last year in favor of oil companies.

Intel’s Bad News, Early January



We might remember the story. That plunge in early January was triggered by headlines along these lines: “Security Weakness Found in All Intel Chips!” “That can only be bad,” thought the market’s fast-twitch speculators, and we can see the hammering inflicted on Intel for the next few days. It took those few days for more thoughtful analyses to show up—which noticed that every one of the world’s CPU chipmakers (including AMD, which is always something like a crippled David with a sore throwing arm to Intel’s Goliath) shares most of the security weaknesses, so it will be kind of hard for any of them to make hay out of the problem at Intel’s expense.

It can only be a guess, but Outlook suspects quite a few of the fast-twitch Intel sellers and short-sellers, on January 3rd, were not the least bit surprised to read, 5 days later, that there’d been very little fire under

all that smoke. It only takes a few years—not decades—in the investment world to notice that many or most items of shockingly bad news, or stunningly good news, turn out to be less earthshaking than the first headlines suggest. Those sellers didn't bother to believe or disbelieve such headlines. Their job is reacting to the crowd's knee-jerk reactions, then getting clear before anybody's deeper analysis has a chance to be heard. It's an exciting way to earn a living. As thoughtful investors, we don't scorn them—just understand them.

At nearly the exact same time, Micron (which is still most emphatically an Outlook asset) got the same hammer-and-tongs treatment.

Micron's Bad News, Early January



Micron's damaging headline is a touch harder to understand: "Chinese Cell Phone Makers Attack Samsung as Memory Monopolist!" Here's the Cliff Notes version. Samsung and Micron are two of the three global leaders in DRAM memory production. Strong demand and limited supply have rocketed up DRAM prices, this past year, and Samsung/Micron profits have rocketed up along with them. That rising cost naturally slows the profit growth the world's computer makers (cell phone and otherwise) would otherwise collect. "Let's complain to the government!" is a threat every individual or company operating in China takes seriously, if they know what's good for them. And that's just what China's memory-using companies did, shouting "Monopolist!" at Samsung and asking the Chinese government to make the bad company lower its memory prices. Micron wasn't named . . . but if Samsung caved in, Micron would have to follow, figured the fast-twitch crowd . . . and the hammering commenced.

As usual, the thoughtful analysts spoke their piece after a few days. One of the best of those, in Outlook's opinion, is Mr. William Tidwell of Seeking Alpha. Mr. Tidwell asked a pointed question:

- What do China's memory-using companies—or the Government—think they can do to Samsung, Micron and friends? The Chinese government grandly announced a plan, last year, to pour many

billions into creating China's very own memory suppliers—to make China “independent” of the likes of Samsung and Micron. When that news came out, the result was a lot like the chart above: short, sharp . . . then ignored. Why? Because, as Micron's CEO, Sanjay Mehrotra, has diplomatically observed, roughly: “We've spent rather a long time, and rather a lot of money, figuring out how to make and improve memory-chip technology, this past 10 or 20 years. And we've unfortunately been reminded, pretty often, that getting it right in our business is getting more tricky, not less—so much so that we keep stubbing our toes, every year or two. It may be that those newborn memory makers in China will also earn their share of broken toes, and find it could take quite a while to catch up.”

Mr. Tidwell went on to notice the other important things which have placed Micron and friends in the best position in their corporate histories, looking forward five or ten years: particularly the explosion of data usage and memory needs with the Internet of Things; and the probable necessity for the world's internet structure to shift toward what we might call “Computer brains and more memory closer to the billions of data collection points, rather than closer to that central cloud in the sky, or at company headquarters”—which has been the governing principle roughly since the Internet really got rolling a couple of decades ago. That decentralization must happen, Mr. Tidwell (and others) believe, because the internet's “pipes” can't get big enough, fast enough, to handle the explosion in data collection and analysis.

It's a technical argument. It deserves to be noted, and assigned a probability (“fairly likely,” at Outlook), but not counted upon, to justify our determination to hang onto Micron. That determination rests on Micron's stock valuation, which is “dirt cheap” in almost anyone's book, if even half the potential of the “Internet of Things” comes true. It also rests, as always, on the very hard work and effective action taken by Micron's people over the last couple of vicious price cycles in the memory business. Micron's technology is at or closer to the global lead than ever; and its factories are producing more chips at lower relative costs than ever. That's how a company creates remarkable value for its owners. Micron is very likely to keep doing that.

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