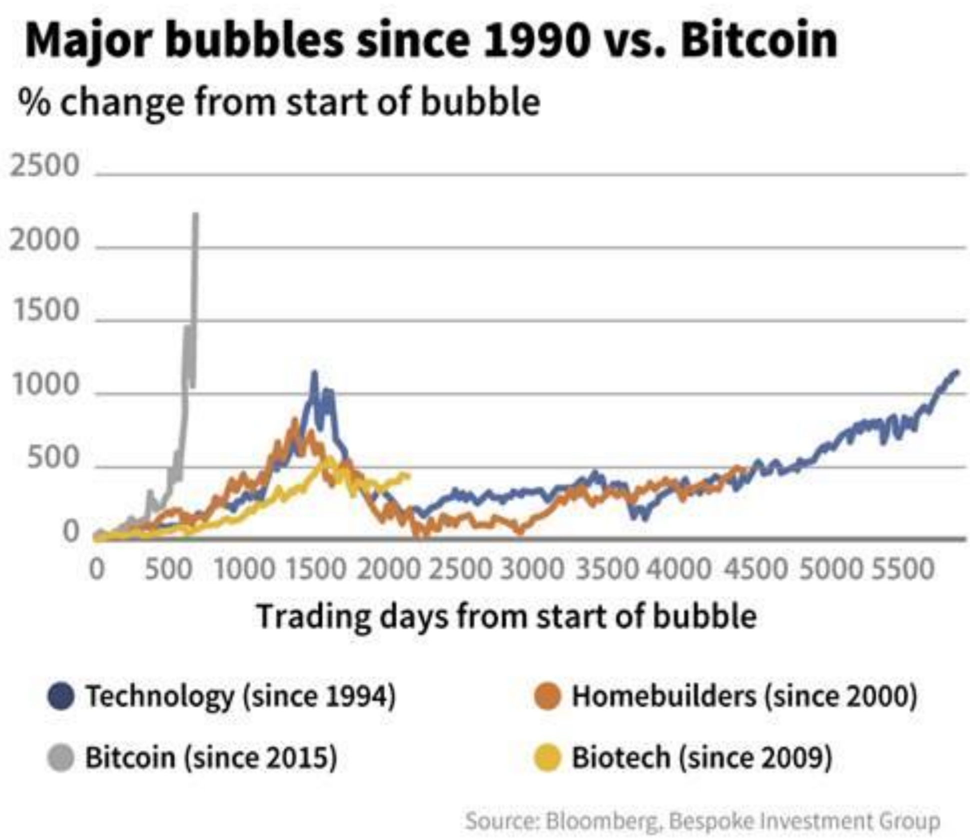
<u>The Outlook: Dec. 5, 2017</u>

Things which end in tears: Bitcoin versus real-world companies.

It's high time to say something about Bitcoin. Here it is: "It's a bubble, and it will end in tears."

We've remarked a few times, at Outlook, that the older and possibly wiser we investors get, the more careful we become about statements of absolute confidence: concerning everything from the global economy to any particular stock to, we might think, Bitcoin. It's a good rule . . . so let us qualify the Bitcoin forecast: "It's 99% likely to end in tears."

For investors interested in digging so deeply into Bitcoin that they might begin to understand it (which rules out around 99% of the speculating mob which has bid up Bitcoin to $11,000 or so) there is no better way, in Outlook's opinion, than to read the <u>seven</u> deep analyses done by Mr. Paulo Santos, on the Seeking Alpha website. They are very good work indeed. Summed up, they assert that Bitcoin's many supposed strengths are, in fact, very much weaker than they look at the moment. But our job tonight is to summarize, and to ask the important question about Bitcoin, as far as Outlook is concerned: "When its crash comes, will it spill over into the real world market?"



There is Bitcoin, in gray at the left, making the Dotcom and Housing bubbles look like calmly reasoned market behavior. But like the Dotcoms and Housing, Bitcoin's flood of buyers is buying <u>because</u> it's been rising like a rocket, not because they have keen insights into Bitcoin's inevitable conquest of the world's currencies, banking systems, payments systems, etc. They do not, and neither do the fair-sized crowd of "experts" making favorable predictions about Bitcoin. Compare the Bitcoin rocket ride with Micron's 10-year, 500% ride, which we commented upon last week. The Micron ride delivered 500% to investors with the nerve and judgment to hang on . . . but it also delivered heartache and ulcers nearly every step of the way, as the market reacted to each blip of threatening news, no matter how remote, as if the company's survival might be at stake, much less anything like sustained improvement over many cycles.

So one way to "enjoy" a successful investment is the Micron way, requiring plenty of antacid and hypertension medications, and the constant refreshing of our individual judgment; and the other way is the Bitcoin way, requiring a "what, me worry?" frame of mind, and faith in the seeming judgment of that vast crowd of buyers. The Micron way, of course, is actually the safe way to be highly successful: painful, but safe. The Bitcoin way . . . is not safe, and ends in tears, not success.

When the Dotcom and Housing "floods of buyers" finally grasped that they'd bid prices up to levels so detached from the real world that the word "insane" actually made sense, their markets crashed and took the whole economy down with them. The most important question about Bitcoin is, "Can it do the same?"

Outlook's answer is, "Highly unlikely." The key question is, "When the Bitcoin crash comes, what will the ripple effects be?" Among those ripple effects—and always the very worst of them—is fear. So the final question is, "How wide and fast might fear spread through the financial world, triggered by a Bitcoin crash?"

The Dotcom and Housing bubbles involved great big chunks of the economy and financial world. Hence the pain and fear triggered by their market collapses instantly infected far more people than merely the investors and speculators holding insanely-valued assets when the crash began. Those bubbles had built up over enough years—starting modestly, and only gradually departing from Earth, the solar system and the galaxy—that many people and companies had come to base their financial foundations on the assumption that at least fairly high values would continue. The "insane" values were destroyed first . . . but as fear spread widely through the economic world, also wrecked were "high," "fairly high," "moderate" and "pretty darned low" values. Too many lenders and borrowers simply depended on one of those dikes holding back the flood of fear, and when it burst through "moderate" and "pretty darned low" valuations, panic had already arrived, and proceeded to run amuck. As bad as the Dotcom crash was, the Housing crash was very much worse, ending in global runs on the banking system made possible by shockingly misguided government policies.

The key, then, is "How big is the Bitcoin crowd?" The Dotcom and Housing crowds, as noted, were vast—so the ripple effects were vast. The Bitcoin crowd, thank goodness, is still tiny—and by Bitcoin's very definition it hardly involves the worlds of banking and finance . . . yet. And its relationship to the real world economy is just as detached . . . so far. It's like an aardvark in a zoo—a curiosity to be enjoyed—rather than a foundation of growth and stability, like the housing market or the Tech Sector.

And so Outlook's answer to the "Ripple effect risk of Bitcoin?" is "Very small indeed" . . . today. Just as with the Micron ride (and every other investment ride we've chosen to take) we must constantly refresh that judgment in light of whatever facts-on-the-ground show up, tomorrow and the next day. But today, the real-world facts which matter far more than anything connected with Bitcoin are those we know very well, like Conoco and Shell's demonstration of strong profits at $50 oil; like Micron's demonstration of remarkable profits at all stages of this past memory-price cycle; like Texas Instruments' truly impressive grip on the global analog-chip market as the Internet-of-Things rolls steadily toward the future; and all the others linked directly to the futures of our core investments.

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

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