

## The Outlook: Oct. 3, 2019

*Main Street versus “a Sea of Red,” as usual.*



While the market was performing its screaming 800-point cliff dive this week, the “sea of red” picture above was one of the best of the graphics which showed up next to these kinds of headlines:

***Global Stocks Sell Off as Economic Fears Mount!***

***US Jobs Outlook So Weak It Echoes Disaster Months!***

***September Job Gains Forecast at Only 130,000 as Trade Hampers Growth  
“It’s Starting to Roll into One Big Ball of Negativity!”***

***This May Be the Stock Market’s Last Stand!***

When we see that picture with those headlines, we do kind of feel the end must be near, don’t we? And surely our last shreds of hope fled away once we looked at the value of our life savings Wednesday night, and wished we’d sold it all and bought canned goods on Monday.

As Outlook has mentioned once or twice, the market’s vast crowd of speculators (who don’t call themselves that name, but that’s what they are) dominate daily trading. Their business is to buy or sell in quick reaction to the impressions created by the daily news. The business of investors, on the other hand, is to actually understand the daily news. Understanding takes plenty of time and effort, and sheer experience helps it tremendously. So investors not only can’t “react fast” to the news . . . they don’t want to. They’ve seen how wrong the impressions are, almost all the time.

If a market dominated by unthinking, quick-drawing speculators seems like a crazy place to put our life savings, it’s understandable . . . until we dig deep enough to actually understand the market, too. It is not the underlying engine behind a level of wealth and standard of living beyond human comprehension, not long ago. That engine is “Main Street:” people’s drive to invent, to invest, to compete

in free markets . . . and be led, in business, by men and women who are personally accountable for results. The market—“Wall Street”—is just the place where the value of what Main Street does is guessed at, each day, by a giant crowd. Those guesses are often remarkably silly . . . but they keep changing, and eventually they’re always pulled toward sensible values by the things Main Street actually accomplishes.

The market gave us that sea of red, in a nutshell, because there’s been a modest streak of news, these past few weeks, whose general impression has been that big economies around the world—maybe even including the U.S.—are slowing down or even contracting, finally, after a decade of growth. Furthermore, the market has firmly convinced itself of a storyline to explain the bad news. It is “Trade War Is Slowly Killing Main Street,” or at least “making it sick.” And when it comes to that Trade War storyline itself, the market has firmly grasped the opinion that it won’t end soon at all, so who knows how long and deep the damage might go.

It took a good part of our 42 years in the business, but at Outlook we have also “firmly grasped an opinion.” Its short version is: “The headlines never tell the truth. Never.” In every field of human activity, the picture of what is actually going on “beneath the headlines” is always deeper, richer, and above all else, calmer than the headline impressions.

So, for example, when we dig just a little bit beyond today’s headlines about weakening manufacturing surveys and a single month of (possibly) less-robust job growth, we soon find some odd facts on Main Street.

*“Another very nice trend that we saw in the second quarter is that the total volume of dry bulk goods sent over shipping lanes also surged. This also comes in direct defiance of the fears that the trade war would negatively impact trade. According to Maritime Analytics, total seaborne transportation of dry bulk goods was 1.162 billion tons in the second quarter, which was a fairly significant increase over the 1.136 billion tons that was transported in the first quarter of 2019. As might be expected, these increased volumes had a positive impact on the utilization of the worldwide shipping fleet. Maritime Analytics puts total utilization at 83.5% in the quarter compared to 82.2% in the first quarter—which may well have been what drove up ship rental rates.”*

The country of France has a Main Street, too. Oddly enough—given that it’s France, for heaven’s sake—the French unemployment rate has been dropping most of the year; and French economic growth has been showing up at the startling rate of 1.2% or so. (That growth number would be a sign of economic sickness anywhere except Europe, where the general average has wallowed in the 0% to 1% range for years.)

America’s Main Street, of course, has overflowed with robust growth numbers for about 10 years, and those numbers have continued piling up right through 2019-to-date: extraordinary jobs growth, low unemployment, remarkable consumer financial health, impressive corporate production of cash, and many more. The recent surveys (which created the headlines at the top) are not to be ignored . . . but surveys are not facts-on-the-ground. Surveys always reflect the general climate of feeling within the business community . . . which is just as prone to worrying about the impressions created by the headlines as everyone else.

A few paragraphs ago we talked about Wall Street, which guesses at the value of Main Street, every minute of every day. When Wall Street reacts to a headline impression by “valuing” Main Street 800

points lower, only one question matters: “And where was its valuation of Main Street, before the 800-point plunge?” The answer to that question has been the same for almost all of these 10 years: “For most of Main Street, valuation has been dubious, cautious, and downright worried—meaning low. For a handful of companies on the fringes of Main Street (yup, in San Francisco, pretty often), valuation has been giddy with optimism, and too silly for words.” But as we also said above, Main Street always pulls Wall Street’s values toward the sensible from the silly, eventually. When they’ve been frightened and low, they go up. When they’ve been giddy and high, they go down—and that’s something to see. Companies like Caterpillar, Conoco, Micron and Cummins are firmly in the “frightened and low” neighborhood. Companies like Tesla, Netflix, Uber and (for heaven’s sake) Beyond Meat have been practically redefining the term “giddy with optimism.”

Whatever the Trade War finally may do to Main Street, our companies simply won’t be seriously hurt. They are too strong; and their valuations were cautious and low before this week’s nightmare headlines. When speculators trading on instantaneous impressions knock the market down 800 points, we do not sell such companies. We buy more of them.

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