

## The Outlook: March 3, 2023

### *Thinking works. Hope and fear don't.*

A surgeon said something interesting the other day: “There’s a vast industry which basically sells hope to people in pain, or with serious medical problems. The industry makes a lot of money. Unfortunately, its products almost never work.”

He might as well have been talking about the investment world. In our world the “vast” number of people includes all of us, in a way, because we’re always tempted to let hope or fear do our thinking for us. Unfortunately, hope and fear don’t think clearly. They cloud things up and, pretty often, they lead toward disaster. At Outlook we were reminded of this eternal principle this week when we saw the following post (paraphrased) by a genuinely expert oil-and-gas analyst:

. . . don’t get too excited just yet, but things are shaping well this month. Aramco OSP this weekend is going to come in higher and likely slightly higher than market expectation. Gasoline prices in Asia are starting to rise on the back of higher demand. 1-2 spread is picking up. In the next few days and next week, if physical market really tightens, ***that’s our signal to go very long.*** (Emphasis by Outlook.)

He was talking about the oil market, which he’s made a career of following and explaining. He’s very good at it; it’s a pleasure to read his deep insights into all kinds of corners of the energy markets, from big to small. But he doesn’t only explain: he also invests. And there—like a great many eminent people in the investment world—we find a gap between clear thinking about his expertise and jaw-dropping judgments about investing money . . . from Outlook’s point of view. As that passage suggests, he “trades.” “Trades”, of course, means “speculates.” And “speculates” means, in practice, that he buys and sells quite often . . . sometimes using options and futures to magnify his trades’ ability to make (or lose) money.

This is indeed “jaw-dropping” to Outlook for two reasons:

- It seems doomed to lose money over time, like gamblers who won’t walk away from the casino.
- It seems needless, because so much money is waiting to be made by investing for years, not speculating for days, weeks or months.

Let’s glance at some pictures.

**Conoco, 1 Year: Up 11% . . . the Hard Way.**



Pretty jagged picture, isn't it? In the last 12 months Conoco has been up almost 40% . . . and down almost 20%. And it got to those places along a whipsawing, up-and-down path which looks like a crocodile's teeth and—Outlook would bet—felt like that to an uncounted number of speculators who guessed wrong along the way. Some were certainly eaten by that crocodile. Others made it through, bleeding heavily. No doubt a few got lucky and stayed lucky . . . for the moment. They're the ones the investment world hears about. Only the crocodile knows about the others.

Another picture:

**Conoco, 5 Years: Up 101%**



And here's that "jaw-dropping" disconnect, as far as Outlook is concerned. Our expert has been talking about the oil companies all these 5 years and more . . . and he's been emphatic about his advice: "Own them. Stick it out. They must go higher, because the global oil market must eventually go higher." Conoco's total return these 5 years (including dividends) is 135%. (The market is only 62%.) Pretty good. No, more than that . . . very good. Why would our expert friend—along with countless other speculators—risk the crocodile's teeth on the hope of earning even more? Why, especially, when he clearly understands—and is absolutely right about—the nature of the oil market and its overwhelmingly likely future direction? "That's our signal to go very long," he said. But why isn't he *already* "very long?"

Of course now we're in the world of psychology, which at Outlook we've avoided as if it were a hungry crocodile, these past 45 years or so. But our guess is, "It's a matter of thinking with hope and fear, both." The hope is for dreams like a 135% return this year, right now, rather than after a 5-year patient wait. The fear rests on the sickening feeling we all get when our precious capital plunges in value. Our minds say, "It is normal, and temporary, and doesn't matter." Our fears say, "But what if it's different this time? What if it goes down and stays down? Where will we be then?" And the last word, from our fears, is: "Being digested by the crocodile, of course."

That's thinking with fear, not thinking. It takes cool-headedness and nerve to set it aside, and turn our backs on it. Those items are a little scarce on the ground . . . and that's why the investment world acts as it does. But over these many years, at Outlook, we've seen over and over again that turning our backs on hope and fear—and instead actually thinking—pays off very well indeed. We'll try to keep it up.

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

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