

The Outlook: Feb. 20, 2024

"A fool and his money . . ."

The Wall Street Journal gave us all a lot of fun this morning, with the picture below and its frontpage story about Saudi Arabia spending fantastically billions of dollars on, well, idiotic projects. This story surely struck everyone who read it the same way: "Yup. A fool and his money are soon parted." Here's the picture.

Two Buildings: 110 Miles Long, Higher than the Empire State Building, Covered with Mirrors



That's an artist's picture of one of the projects, a long, tall building that will run across the desert. We might think, "Surely that's the wildest of Prince bin Salman's ideas!" Nope. He has plenty, and they're all running neck and neck for the "Wildest Idea!" award. But we get the picture, with this one by itself.

The longer we all live, the more it dawns on many of us that the simplest and clearest truths about life and people have never changed over the centuries . . . and it might be smart to pay attention to those truths. "A fool and his money are soon parted!" is one of them: very old, usually true. Now we come to the helpful thing for us investors. The hard thing about "paying attention" to this particular truth—and lots of others—is that the "fools" in question never look or sound like fools. It's the very opposite. They are generally masters of high-sounding language; authoritative and confident; seemingly well-versed in technical details and history.

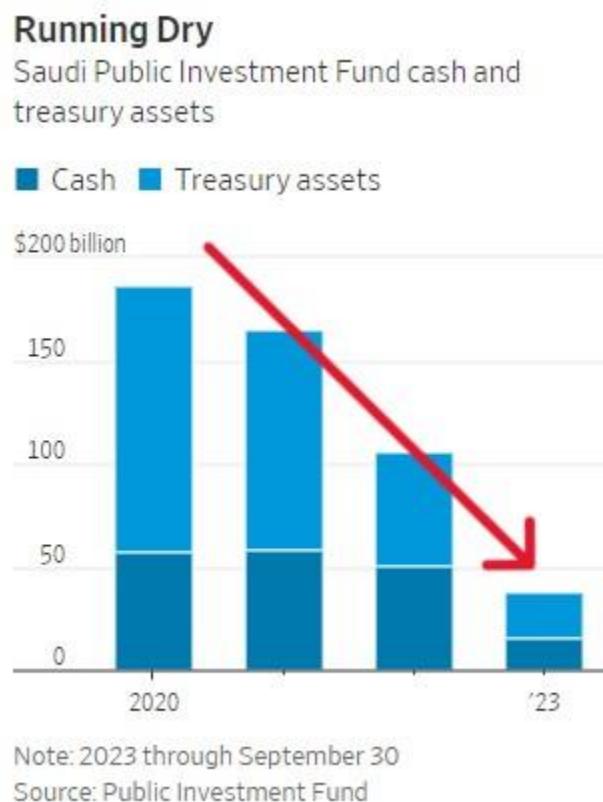
The investment world—as Outlook has noted once or twice over the years—is absolutely filled to the brim with such people. That's no surprise: investments mean money, and everyone's mighty interested in money.

We're sure that this "Really Long Building!" idea—and the rest of Mr. bin Salman's ideas—are backed up with engineering analyses, feasibility studies and economic cost-benefit projections from some of the world's most prestigious experts in these fields. We're also sure that arguing against these experts—trying to find the holes in their facts and logic—would not be easy. It would take lots of expertise and plenty of time. Now we're coming to familiar ground, aren't we? That's exactly what Outlook's clients have been hearing for a long time on the subject of "How to make investment decisions in what seems to be a terribly complicated world."

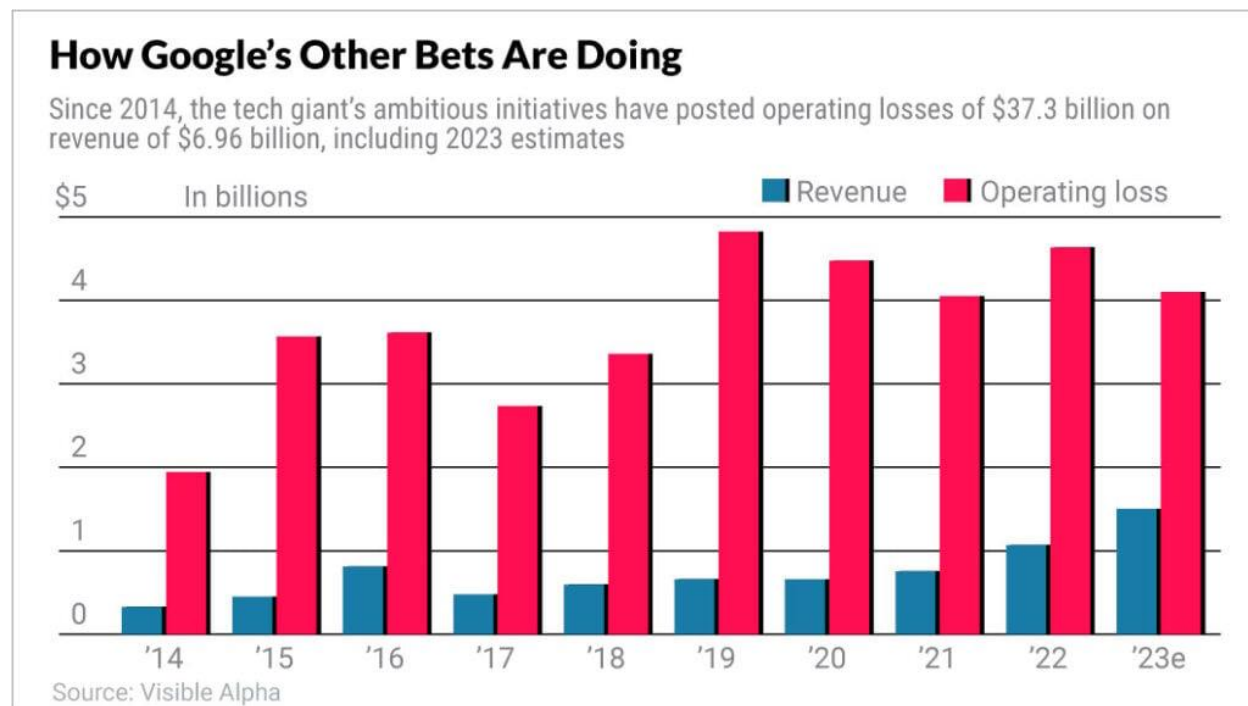
The answer is only easy if we bring it down to “How not to make decisions.” Those Rules aren’t so complicated after all.

- Never do it, or own it, if we don’t really grasp the essence of the company or other investment. No matter the engineering analyses and feasibility studies, at Outlook we’d bet a barrel of oil that Mr. bin Salman doesn’t grasp it.
- Never do it, even if we do “get” the company, if financial strength isn’t so overwhelming that words like “awesome” and “jaw-dropping” come to mind. The analyses, projections and studies will turn out to be wrong in important ways—not “may” turn out, but “will” turn out—and only financial strength will let our companies’ leaders fix the problems and start marching again.
- And of course, never own it if the market already thinks the company’s found a way to make gold from dirt, so no price is too much to pay. Yes: “priced for perfection” is a death sentence, always . . . just delayed enough, sometimes, so we’re tempted to think this prisoner’s been pardoned.

A fool and his money are soon parted. It does sound pretty harsh. But one of the big things that makes people “foolish” about their money is when they have so much of it that “small” amounts no longer seem to matter. For Mr. bin Salman, “small” amounts seem to be in the hundreds of billions range, as the picture below shows. It’s the depth of cash piled up in his money bin, plunging from \$200 billion to a mere forty or so, lately.



That does look scary, but Mr. bin Salman probably isn't worried. There's still an Amazon River of oil money flowing in the palace door every year. But let's glance at one last picture, just to make the point that this Golden Rule is not about Arabs or oil, but about us people.



That's a picture of how much money Google has lost in ten years on its own "wild ideas." Like Mr. bin Salman, an Amazon River of cash has flowed through Google's doors all this time: cash created by its core business, internet search, which has a 91% share of its market. (That's "awesome" all right.) Google's poured cash into self-driving cars, robots, new drugs and save-the-ocean projects, among many others. They have something in common: that they don't have anything in common with Google's core business . . . except in the eyes of a management team which perhaps has the impression that conquering the internet-search world (and getting unthinkably rich) must mean it has intelligence and judgment beyond the reach of normal people . . . hence can see the cosmic connections between Google's seemingly disconnected "Other Bets" and its core business and core competence.

As the decades roll by and the list of accumulated bumps and bruises gets longer, it might seem hard to think of an upside. Nope. When it comes to this part of the investment world, the upside of the decades is: "We've seen this picture before—many, many times before—and it always turns out the same. When we make investment decisions as if the money doesn't really matter to us, or when we begin to think we must surely be pretty smart indeed, we get our heads handed to us . . . not sometimes, but every time. It's always only a question of "when."

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