The Outlook: Jan. 4, 2022

The oil market: when ability counts for more than dedication and will.

"It's a marathon, not a sprint," is the heart of a lot of things in life; but it's especially true about the business of investing. It's true for all the obvious reasons, which we don't need reminding about: patience, discipline, years of background work, steady nerves, and on and on. But for the non-track-and-field people among us, it's also true in another way. A 100-meter sprint is pretty close to pure fun; and pretty close to zero pain. We might lose, but we won't suffer. But a marathon is the exact opposite. It's no fun at all; and we will suffer, whether we're breaking the world record or just trying to finish and say, "We did it." That sums up the investing business, pretty much: plenty of pain no matter how well we do.

So we long-suffering investors take our small doses of pleasure when we can get them, even when they don't mean much. Here's today's dose:

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Symbol ▲	Name	Price	Change	% Chg	As of (EST)
CAT	Caterpillar Inc	218.03	+11.04	+5.33%	01/04 16:00
CME	CME Group Inc	227.23	+1.77	+0.79%	01/04 16:00
CMI	Cummins Inc	227.97	+8.44	+3.84%	01/04 16:00
COP	ConocoPhillips	76.97	+3.20	+4.34%	01/04 16:00
FCX	Freeport-McMoRan Inc	42.14	+0.66	+1.59%	01/04 16:00
LMT	Lockheed Martin Corp	362.05	+7.69	+2.17%	01/04 16:00
MSFT	Microsoft Corp	329.10	-5.65	-1.69%	01/04 16:00
MU	Micron Technology Inc	96.36	+0.61	+0.64%	01/04 16:00
TXN	Texas Instruments Inc	190.80	+0.20	+0.10%	01/04 16:00
XOM	Exxon Mobil Corp	65.93	+2.39	+3.76%	01/04 16:00

That's a "Sea of Green" (almost) for the second day of the year. It's fun because after a fairly spectacular run of results in 2021, we "long-suffering" investors instinctively expect to be clobbered in the New Year. It's safer to be pessimistic . . . minimizes the pain, sort of. So each day's postponement of the pain gives us a bit of good cheer.

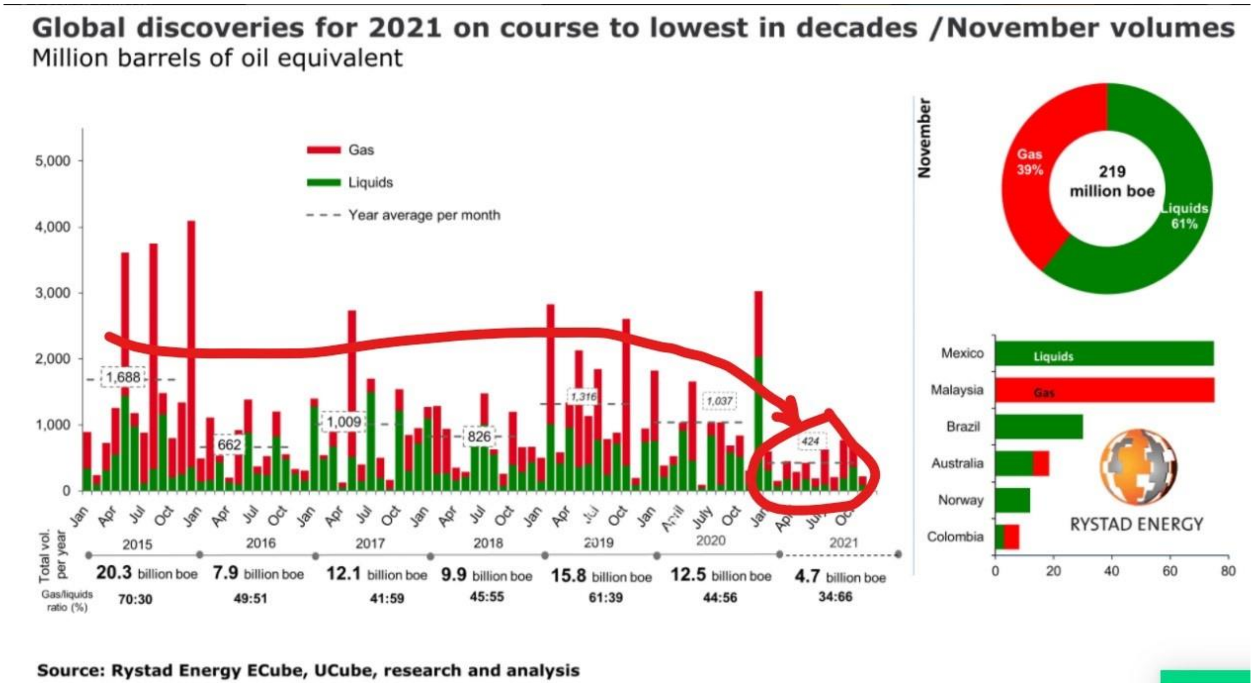
Let's look a little closer at the two green-squared companies: Conoco and Exxon, which carry Outlook's emphatic bet on rising oil and gas prices for a good while.

There are the two giant companies, hammered to rubble apparently in early 2020. The Virus and Lockdown Calamity did the hammering—and the long-term question was: "How can we think the world's oil-and-gas use will ever recover—not just from the Lockdown hammering, but from the anti-fossil-fuels hammering which had been steadily sweeping over the world for some years?"

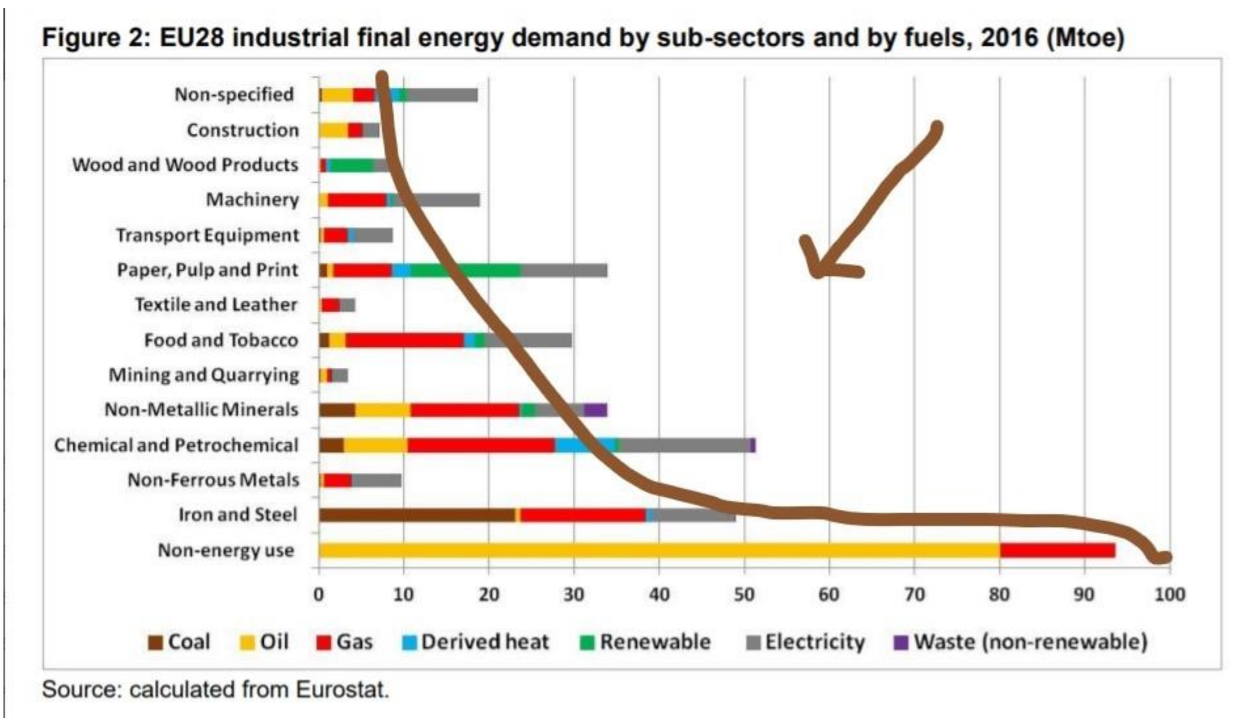
Two years later, global carbon fuel demand has indeed recovered; but the market's extreme doubts about that recovery are pictured in that jagged roller-coaster ride for Conoco and Exxon, right up through today. A few days ago Outlook noted that it's the nature of the market to be "silly in both directions, often at the same time." There are usually a flock of stocks which are "priced for perfection;" and at the same time another flock of stocks which are "priced for destruction." Conoco and Exxon were priced for total destruction, pretty nearly—which was as silly in that direction as Beyond Meat, WeWork and Tesla were silly in the "perfection direction."

The safest and most profitable thing an investor can do, if she's nearly certain a company is a financial Rock of Gibraltar, is to buy such companies when they're priced for destruction. Then she must wait, enduring that marathon pain; and enduring the endless, countless analyses by clever people telling her that if she means to grit her teeth and hang on . . . she's on the road to ruin.

The only thing that helps her keep her teeth clenched is understanding: having a basic but deep grasp of the few things which really tell the truth about the future, for her companies. Here's how those few things looked two years ago, and still look today:



A pretty fantastic volume of newly-discovered oil and gas is needed by a world consuming 100 million barrels per day. But low prices, fears about the future, and political pressure have been teaming up for many years to throttle the spending needed for new discoveries. That chart shows it. Future supply, in other words, has been getting tighter and tighter. How about demand?



A confusing chart, if we look too close. But it's pretty simple, actually. Everything to the left of the brown curve is (sort of) the European economy's dependence on oil-and-gas to run its industries. Everything to the right of the brown curve (the arrow, and all the empty space) is the Euro economy's use of renewable energies to run its industries. After about 25 years of very determined efforts to shift from carbons to renewables, that picture is where Europe stands today.

Is it a picture of failure? Nope. It's a picture of a pretty good amateur marathoner, who ought to be pleased to break 3 hours, dedicating himself to running a 2-hour marathon . . . and completely failing. His failure isn't about lack of will; it's about lack of ability to do something only one man in the history of the world has done. All the wishing and dedication in the world cannot bridge that gap in ability, as every coach knows.

Europe's economy (and the picture above) is a good enough stand-in for the world economy, when it comes to that "gap in ability" to leave oil and gas behind, anytime in the next decade *at least*. That's why Conoco and Exxon have jolted their way upwards, since early 2020, no matter how many attempts by the disbelieving market to hammer them into rubble, again. It's also, fundamentally, why the picture below shows the quadrupled gas prices facing Europe this winter. Years past of throttled supply; years ahead of renewed oil-and-gas energy needs. We expect to own Conoco and Exxon for a good while.

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