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Another end-of-the-world act by the market. It will end as usual.

The market is doing its "end of the world" act these days. At Outlook we've seen the market act frightening *many* times over the past 41 years, but even so it's always a little breathtaking to watch a gigantic crowd handling its money so carelessly. When we were a lot younger, and hadn't seen this spectacle so many times, the crowd's seeming willingness to throw money away was so hard to believe that we wondered if it "knew" something hidden from us—something which, when revealed, would show the crowd's amazing behavior to actually be straight-thinking, hard-headed realism, based on facts we didn't know or failed to understand.

Nope.

In those 41 years there has been exactly one episode of rampant selling which made sense: the bursting of the dotcom bubble in 2000. By late 1999 Valuations for very good and very bad companies alike weren't just "optimistic:" they were detached from reality. Of course there were degrees of that silliness, but everything was valued somewhere within the range from "way too optimistic" to "insane." Everything deserved to go down a lot, and the market's "end of the world" act was grounded in that real-world fact.

But in every other "end of the world" act of the past 41 years, the market's behavior was not grounded in the real world. Each time, the farther down the market plunged, the more obviously disconnected from that world it became. That includes the "Calamity" of 2008 – 2009, when the market took real-world facts about bad mortgage loans and pretended, for a while, that there was no such thing as a good loan, a good bank, or a financially strong manufacturing company. But there were good loans, banks and companies—very many of them—and eventually that fact was too obvious for the market to keep ignoring.

We've said it a few times . . . let's say it once more. Daily, weekly and sometimes monthly market behavior is dominated by people treating the market like a casino: a crowd of such people which is so big that most investors struggle to comprehend it. Its big, but it "thinks" the same way, because it's engaged in the same business: trying to make quick money by anticipating the general impressions made by news items on everyone else in the big crowd. At this point, a sensible reaction among real investors is: "But that's a crazy way to run a circus!" And it is. But Winston Churchill's comment about democracy strikes the heart of the matter: "Democracy is a terrible form of government . . . except for all the others, which are infinitely worse." A global economy which is mostly based, these days, on free markets and capitalism is an extraordinary engine for good; for steadily growing the wealth of the world and the well-being of most of its people. Free financial markets, dominated in the short term by an often-crazed mob of speculators, is a terrible way to allocate capital to its more productive uses within that global economy . . . except for all the other ways, which are infinitely worse.

Today's Wall Street Journal gave us a front-page story about the collapse of an options-trading firm. The firm used borrowed money and options to bet on the oil and natural gas markets. Over the past weeks, both oil and natural gas did the unexpected: oil collapsed, gas exploded. Neither move was thought very possible, by that big market crowd. It was wrong. Down went the firm, and in a particularly horrible part of the story, many of its investors discovered not only that their investments in the firm were wiped out . . . but that they owed money to the firm's creditors. Ouch.

There is, as always, only one sensible reaction to that firm, its strategy, and its gambling clients—sorry, "investors." That reaction is, "You must be joking." At Outlook we've been watching the market's behavior every day for 41 years. We do keep learning; but we knew a long time ago that markets can do anything at all in the short run, no matter how detached from reality. And we knew, with even more perfect certainty, that markets <u>cannot</u> do anything at all in the long run. They must react to real-world facts: cold cash earned and distributed by good companies; the self-correcting behavior of all free markets; and many other things under the heading of "the real strength and health of businesses, consumers and the general economy."

Today's market is completely ignoring such things, and it's ignoring them so emphatically that it's indeed a bit breathtaking to behold. As Outlook has noted, there are a handful of "Big Tech" stocks which richly deserve rampant selling—<u>but nothing else does</u>. The market is selling them anyway, taking them down from "silly low values" to "ridiculous values." There are times when the real-world facts supporting our companies are foggy enough to make room for such market nonsense. This isn't one of them. An investor doesn't have to be an eternal optimist to make that judgment. She can be as cynical, hard-boiled and generally doubting as possible . . . and she'll still say, surveying the strength and general progress of our companies and so many others (including plenty of "Big Tech" names like Apple and Microsoft) that the market's current behavior has no grounding in the facts of the real world.

A stock market dominated by speculators running in the same direction, for a while, can be hard to bear for genuine long-term investors. But while speculative behavior can sometimes be breathtaking, it can't be permanent. Rampant selling eventually creates values which so closely resemble free money that fear gives way to greed, and the market corrects its silliness. Nobody can say whether that will happen tomorrow, next month or next year. But the market's current behavior is exceptionally silly relative to what's going on in the real world. It will not last.

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