

The Outlook: Feb. 22, 2021

“This feels like a bubble! Why aren’t we selling?”

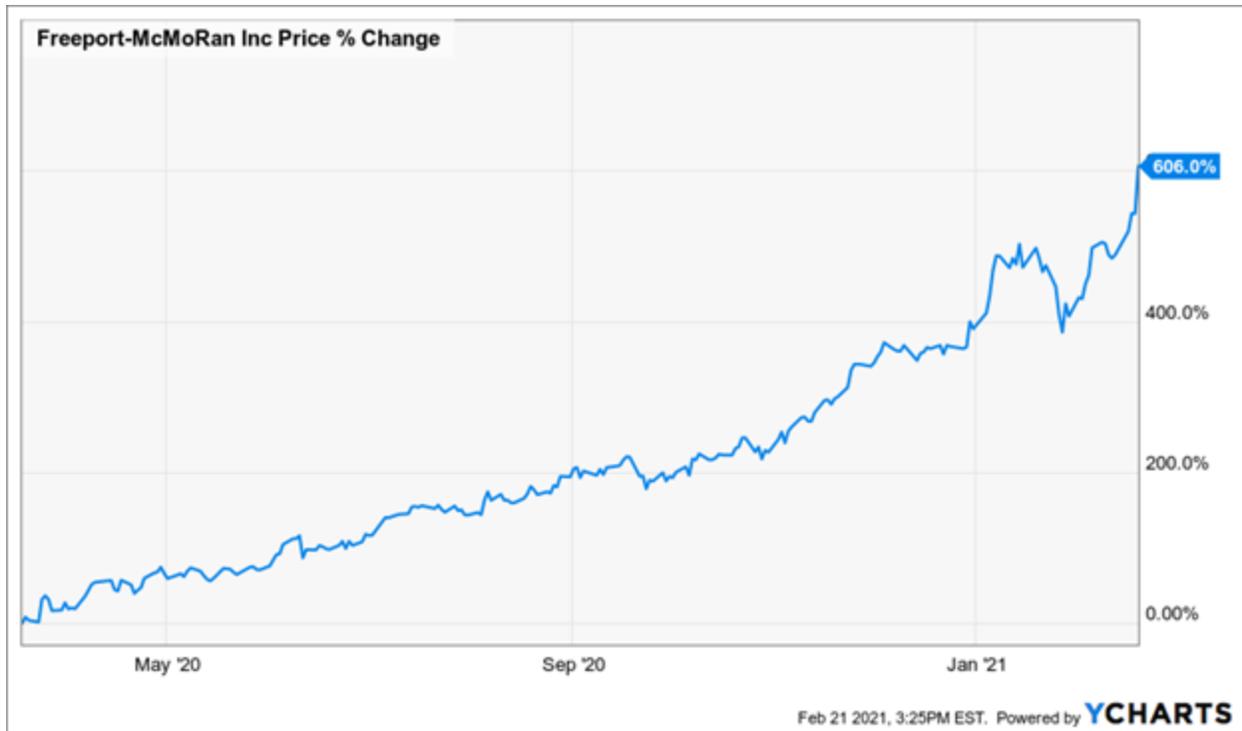
We’ve been seeing plenty of remarkable pictures lately, when we glance at the performance of most of Outlook Capital Management’s core stocks. Friday, though, might have taken the prize for “most remarkable so far.”

OCM Core Stock List SECURITY		Updated 15:1		
Symbol	Name	Price	Change	% Chg
CAT	Caterpillar Inc	209.91	+9.99	+5.00%
CME	CME Group Inc	195.07	+1.08	+0.56%
CMI	Cummins Inc	246.76	+5.09	+2.11%
COP	ConocoPhillips	48.42	+0.73	+1.53%
FCX	Freeport-McMoRan Inc	37.49	+3.35	+9.81%
LMT	Lockheed Martin Corp	335.42	-2.50	-0.74%
MSFT	Microsoft Corp	240.97	-2.82	-1.16%
MU	Micron Technology Inc	90.96	+2.42	+2.74%
TXN	Texas Instruments Inc	178.35	+1.84	+1.04%
XOM	Exxon Mobil Corp	52.37	+0.35	+0.67%

On a day when the market was down a trifle, there was Caterpillar up 5%, Micron 3%, Cummins 2% . . . and Freeport 10%. Those are cheerful numbers indeed, and they’re just the latest in a long string of cheerful numbers. But the \$64,000 Question in the minds of down-to-earth investors is the most natural thing in the world: “This feels like a bubble! Why aren’t we selling?”

That natural question gathers even more strength when we glance at charts like this:

Freeport: Up 600% since the Virus Lockdown Bottom . . . 11 Months Ago



“This feels like a bubble. Why aren’t we selling?”

Outlook’s answer is a humble one. It comes from decades of watching companies at work and watching the market behave—which are two completely different things to watch. Let’s sum up what we’ve learned from all that watching:

- When good companies run by outstanding people fix big, long-lasting problems, they do not just benefit for a day. They benefit for a long time: years and years, generally.
- When the market knows that benefit has begun, it changes its betting direction toward general optimism, and it overdoes the optimism again and again. So the roller coaster, which never goes away, tilts upward but keeps trying to “frighten us out of good positions” (in Mr. Buffett’s famous words) with regular plunges toward the bottom of some cliff, seemingly. But over time, what really drives the market’s daily speculating mob are the cold facts created by those good companies, gathering in their benefits quarter after quarter and year after year. Those benefits “last a long time, generally” . . . so that market rollercoaster tilts upward for a long time, too—no matter the regular plunges.

Caterpillar has been through this kind of thing so many times, through its long life, that it’s a nice example of what we mean:



Pardon the complicated chart! Let's focus on what's inside those green rectangles: periods of plunging sales at CAT . . . and a sharply rising stock price at the same time. (Sales in orange; CAT stock in blue.)

The squiggles in the blue stock-price line don't look like much, from this 30-year perspective. But they were "much" at the time: many plunges of 15% to 30%, in an upward-tilting rollercoaster ride, as CAT gradually and steadily showed off those "long-lasting benefits" of fixing long, tough problems. We can also see, if we're not already blurry-eyed from squinting, that the market crowd always figured out that CAT's luck was turning long before those "cold business facts" proved it. (As Outlook has probably remarked too often, the market is an interesting mixture of "far-sighted and thoughtful," with "too blind and silly for words" . . . like most of us human beings tend to be.)

But having figured out ahead of time that CAT was turning, the market still never abandoned its rollercoaster nature. It never will.

What matters far more than the market and its rollercoaster are those cold facts coming from companies which have gone through a valley of death, pretty often, and come out the other end running stronger than ever. So nothing matters as much as understanding exactly what our companies have done, and what they are very likely to earn because of it. At Outlook we think our understanding of those things is pretty solid . . . and that's "why we aren't selling." Freeport, Micron, Caterpillar and the rest have done quite a few outstanding things through the Virus and Lockdown Calamity of 2020 (and before), and they're going to benefit for quite a long time.

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