

## The Outlook: June 25, 2017

*Lockheed at Paris: still accelerating into takeoff.*

**Lockheed Martin: 5 Years of Dividend and Stock Gains**



When we see a chart like this, investors who like the idea of “buying low and selling high” feel a couple of things: a glow of contentment, if we’ve owned the stock; but also distinct concern, as we ponder the “sell high” part of our golden rule. Outlook and clients have done splendidly with Lockheed—but the pleasure of that “glow of contentment” means nothing whatsoever, when it comes to the decision to keep holding it, or not.

We plan to hang on. Like so many companies which do a fantastic amount of hard, slogging work in the trenches while creating a wonderful product, or transforming their companies from some degree of “weak” to a striking degree of “strong,” Lockheed’s 16 years of slogging with its fabled F-35 fighter has only begun to pay off, in Outlook’s opinion. The annual Paris Air Show, last week, may very well be seen as the “breakthrough” moment for the F-35 when we look backwards in a few years. Let’s glance at a couple of press excerpts:

***“Lockheed Nears \$37 Billion Deal to Sell F-35 to 11 Countries”***

(Reuters)

***“Lockheed test pilot Billie Flynn, who flew the much-anticipated F-35 aerial demonstration at the Paris Air Show, showcased the capabilities of the controversial new fighter in a way that has never before been seen.”***

(Aviation Week)



One of those ways was a high-powered vertical climb from a “low and slow” maneuver, above, which pilot Flynn demonstrated to make an emphatic point, along these lines: “The F-35, contrary to much nonsense written about it, beats the world’s current first-line fighters in every way, including maneuvering in aerial combat.”

The U.S. military is scheduled to buy about 2500 F-35’s from Lockheed over the next decade. The deal above concerns 440 planes, mostly to foreign nations considered “allies” (more or less) by the U.S. When Outlook first began to look deeply at Lockheed a few years ago, a good many things jumped out: outstanding management, outstanding engineers, veterans of the torturous political process of defense spending, in the U.S. and everywhere else. But despite Lockheed’s many strengths, it was perfectly clear that the F-35 program had to succeed, to drive the company’s future. Outlook judged that the right side of the argument was with the many people in the military and in government who said, “This aircraft is indispensable: a quantum leap beyond the current “best in the business” as far as warfare capability is concerned.” And we judged the wrong side was with the equally many, in the military and government, who said, well, a host of bad things: “waste of money,” “over-hyped”, “endless technical problems,” in sum, “a lemon.”

It was helpful, in making those judgments, to reflect on the history of U.S. (and British) fighter planes. The Sopwith Camel came along in 1917, after a terrible year (called “The Fokker Scourge”) in which Germany’s World War One fighter planes more or less cleared the skies of British and French fighters, being technologically superior. The Camel was just different, with a design which seemed to encourage instability to such a degree that almost as many pilots died in training with the Camel as died flying it in combat. Many veteran pilots hated it, understandably . . . but eventually other veterans discovered that the “instability” accompanied breathtaking turning speed and maneuverability—which spelled the end of the “Fokker Scourge.” And so it went through each war, and each successive generation of fighters: cost overruns; storms of criticism from veterans used to “the old” plane; legitimate technical bugs and flaws

which needed ironing out by the manufacturers, and so on. This happened with every single new plane—not some of them; all of them.

As Outlook has noted in the past, there are a great many differing perspectives on defense spending among the politicians of the free world. For most of them, we might sum up the point of view as “Spend as little as possible, as slowly as possible.” But a superior fighter plane tends to look like the one necessity even to that numerous crowd. It gives the most bang for the buck, when it comes to deterring real threats from real international “bad guys,” who won’t stop reminding us that they do exist. Lockheed has been creating the world’s best fighters for a long time, suffering through the inevitable years of political flack, technical glitches and general name-calling which go along with that business. But when a company persists, and builds the very best in the business, the payoff tends to be much greater and much more enduring than skeptical investors can imagine. With the usual ebbs and flows, we think that chart above is going a lot higher over the next 5 years, as we stick with Lockheed.

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