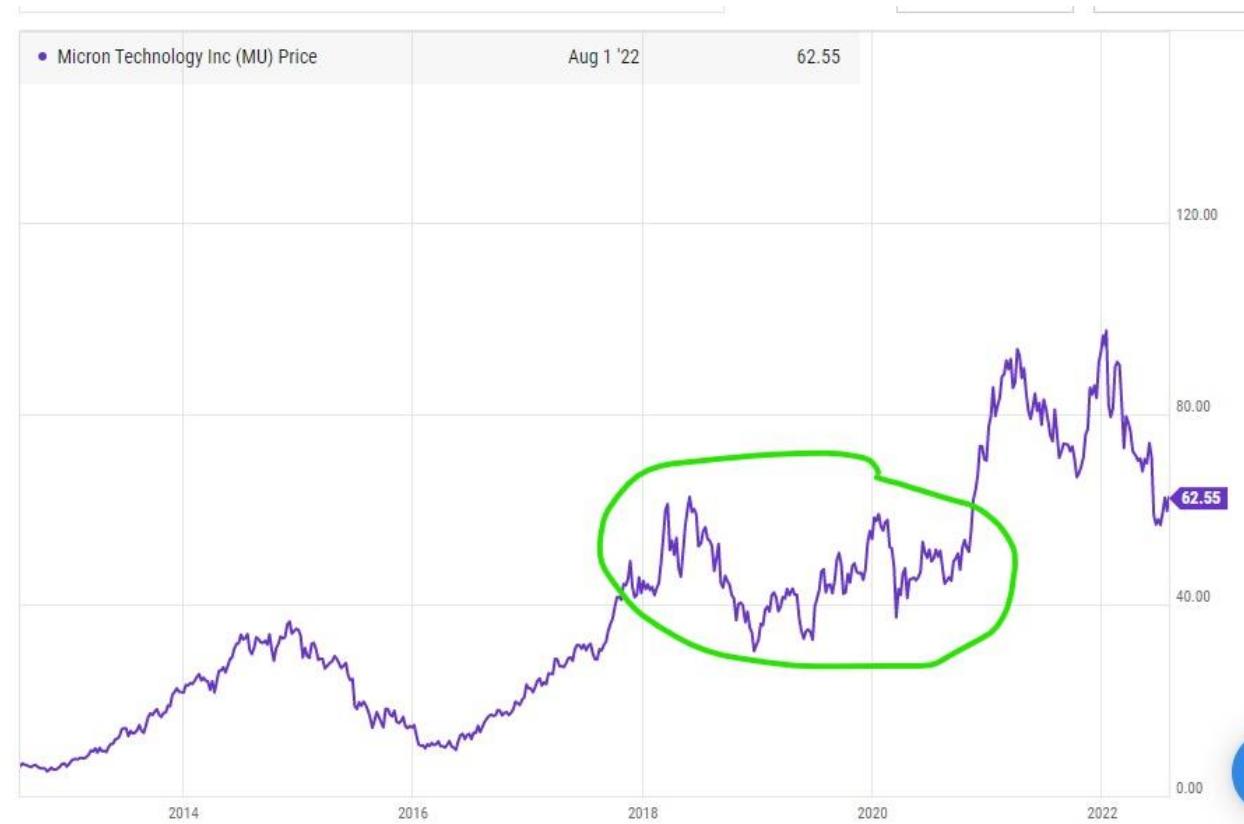


The Outlook: August 1, 2022

Micron vs. Tsinghua: impressions vs. investing, again.

“Chinese Tech Executive Resigns, Under Investigation by Officials in Beijing” said the news item last week. His name is Zhao Weiguo, and he was the CEO of Tsinghua Unigroup, which was one of China’s flagship chipmaking companies until yesterday, or so. At Outlook we don’t touch bets on the short term future of the market . . . but we’ll plunk down some money on this short term bet on the Chinese justice system: Mr. Zhao will soon be arrested, charged with some flavor of corruption. Then he’ll be convicted. Then he’ll disappear, no longer visible to Western eyes. And China’s dictator, Mr. Xi, will have sent one more message of terror and intimidation to the Chinese business sector and citizens in general.

That’s China, and it wouldn’t be too interesting to us investors except for Tsinghua Unigroup’s history. Glancing below, we see a jagged 2-year period for Micron (the Memory King), when the market’s betting crowd hammered the stock down again every time it rose from the depth, briefly. Somewhere among those spikes and plunges was this kind of headline: “China Goes All Out to Dominate World Memory Chip Market!” Mr. Zhao’s Tsinghua, the headlines shouted, was investing a fantasticatillion yuan, or so, to launch a high-speed drive to catch up to and surpass the world’s memory kings (Micron and Samsung, mainly) in memory chips. Under the headlines were pictures of chip factories under construction, covering enough ground to hold several NFL stadiums and their parking lots. It was all part of Mr. Xi’s Number One Priority: to make China self-sufficient in vital technologies like memory chips; and knock the likes of Micron off its feet while China was at it, taking away customers with superior technology and factory production.



The market's betting crowd swallowed it, of course—hence one or more of the plunges inside that green circle. That was 3 to 4 years ago, when “China’s Winning at Everything” was one of the most widespread impressions in the world.

Outlook clients and friends know, of course, why we underlined “impressions,” above. “Impressions” are what the market crowd does. “Thinking” is not what that crowd does: takes too long when one’s business is betting on the crowd’s mood of the moment. But Micron’s CEO, Sanjay Mehrotra, is paid to think, and he does it well. “It’s not easy to make chips,” said Mr. Mehrotra. “There’s a very steep learning curve—expensive, too. And it’s filled with obstacles sitting in your path, waiting to stub your toe or even break a leg. China might win the memory wars, eventually . . . but at Micron we doubt it, and we’re not standing still.”

Mr. Zhao ran up a few trillion in yuan debts, building those football stadium factories. Tsinghua never got close to “competitive,” much less “dominant” in memory technology and production. Mr. Xi loved the project until it failed, when it became time to find a scapegoat. That’s how dictators work. And the market’s betting crowd lost interest in the “Tsinghua Threat” to Micron a long time ago—because Micron’s operating performance took the crowd by the collar, so to speak, and made it look at what was real, rather than what was only rumor, impressions and anxieties. That’s how the market works. Outlook Capital Management never stopped buying more Micron as all those swoops and plunges took its valuation from “cheap” to “silly” over and over again. That’s how good investing works.

© Dave Raub
Outlook Capital Management, LLC
125 S. Wilke Road, Suite 200E
Arlington Heights, IL 60005
847-797-0600

The remarks above aren’t a general recommendation to buy or sell particular securities. Such decisions should only be made in the context of an investor’s own circumstances. Stocks and bonds carry the risk of loss.