

The Outlook: July 2, 2021

“There is always something to be afraid of.”

“There is *always* something to be afraid of.”

If that doesn't strike one as the most profound of sayings about investing, it's OK . . . because we think it up ourselves, here at Outlook Capital Management. Being a long way from “celebrity investment gurus,” nobody crowds around our doors every morning, waiting for the next pearl of wisdom. But “There's *always* something to be afraid of” is a pretty important thing for all of us investors to remember—*especially* when we're supposed to feel frightened about something, which happens a lot in our business.

Here's a picture of Freeport-McMoRan, Outlook's “copper king.” This picture can only be understood when we remember that “there's always something to be afraid of.”

Freeport in green: nobody's afraid. Freeport in red: everyone's afraid.



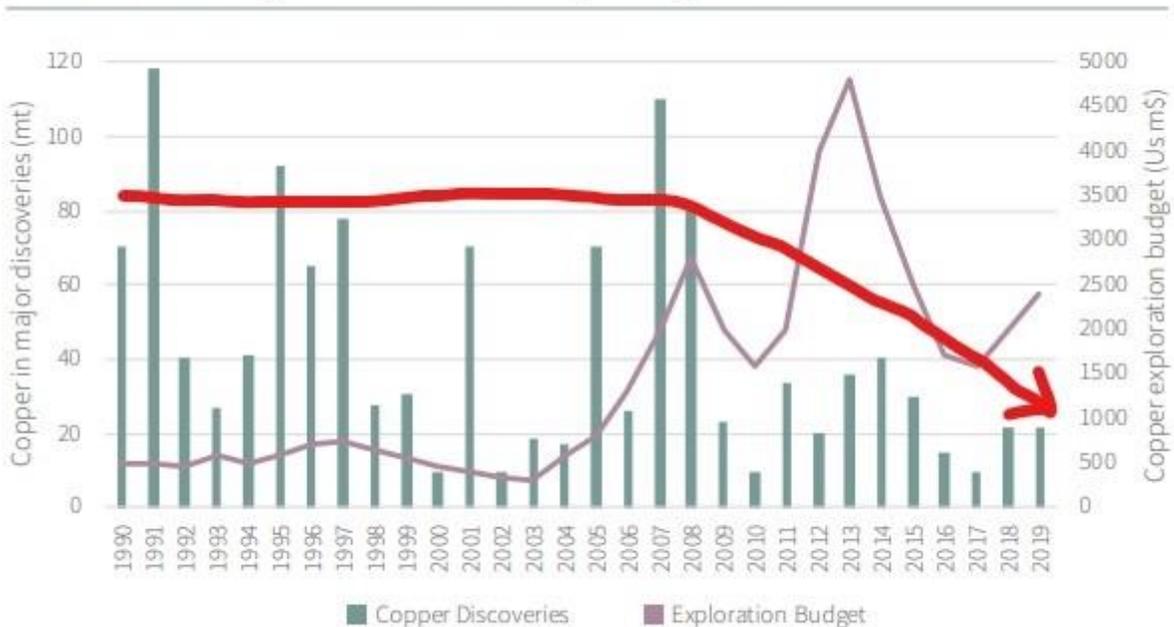
At the bottom of that green circle Freeport traded around \$5 per share. That wasn't “fear,” it was “blind panic,” so our “nobody's afraid” caption up there isn't quite right. But at \$5 per share, the market's speculating crowd was giving away gold (literally) for free. (Freeport produces a lot of it, as a byproduct of copper.) The speculating crowd—which absolutely dominates daily market behavior—really did know that \$5 and everything in that neighborhood were valuations too silly for words, when it came to Freeport's strength and nearly-certain prosperous future. So as soon as the crowd grasped that the world probably wouldn't come to an end due to the Virus (and the Lockdowns)—*and that the rest of the vast crowd believed that*—the long green-circled climb began. There wasn't much fear surrounding that climb, was there? Freeport's price climbed without much serious interruption.

Then 2021 rolled around, and brought fear with it. We often talk about the market “roller coaster” at Outlook. That red circle is the kind of roller coaster which has parents staggering off, clutching their stomachs—even if their kids scream with delight and ask to go again.

Why has it happened?

Well, it has not happened because anything at all changed for the worse in Freeport’s actual operating business. Very much the opposite: each passing month and quarter brought more unmistakable signs of Freeport’s strength. Nothing about Freeport’s investment “story” has changed, as CEO Richard Adkerson patiently remarks again and again. Global copper demand is pointing only one way: up. Industrialization and electrification, with the giant copper needs of “green” energy, take care of that. Global copper supply is pointing only one way: flat to down. The last 20 years’ history of new copper discoveries and mine development take care of that. It’s hideously difficult and costly to find and bring a new mine to production. As an aside, here’s an interesting picture which supports that point:

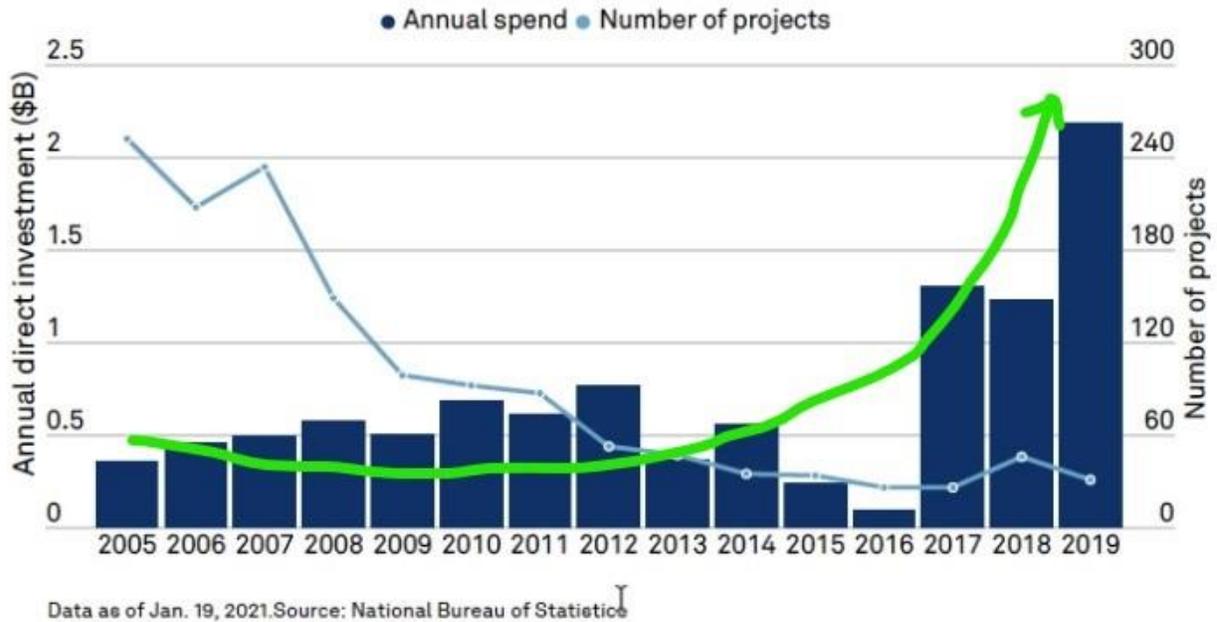
FIGURE 4 Copper Discoveries & Capital Expenditures



Source: S&P Global Market Intelligence.

The red arrow points out the one-way plunge in new copper discoveries over the last decade . . . despite the jagged purple line, which is the vast hike in spending, by copper miners, trying to find that new copper. Here’s an even more interesting picture:

Chinese direct overseas investment in mining projects



The upward-swooping green arrow tells us what China has been doing: namely, buying other people's copper mines. China needs copper like water in the desert. To the question, "Can the world find enough new copper?" the people who run China have been answering with cash: "You try. We'll buy and control other people's copper."

It all sounds mighty simple and clear . . . so why all the fear, inside Freeport's red circle? Here's the answer. What is simple and clear is the long-term picture for copper. What is never simple and clear are the number and size of the bumps on the road, to get there. The market's spec mob cares almost entirely about outguessing the next bump, then the one after that. It's what they do, and how they put bread on the table. And "There is always something to be afraid of" (which is a fact about all of us as human beings), means that we feel very strongly like staring at each bump and wondering if this one just might be the end of us—rather than keeping that clear, simple "long term" picture in mind and persuading ourselves to shrug off each passing suggestion that we ought to be fearful.

Yes . . . "the roller coaster ride must be endured. There is no other way to ensure long-term investment success." That's another Outlook original, which also doesn't sound all that profound. But as the years go by in an investor's career, the number of supporting examples begins to pile up like a mountain. Neither the green circles nor the red circles really matter for Freeport. All that matters is its outstanding people, who've worked through more than one "valley of death" and brought their company out the other side, stronger than ever. The roller coaster will go on . . . but it's pointing up—way up—over the next several years, regardless of the frightening bumps.

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