The Outlook: January 21, 2022

"Buy when there's blood in the street" . . . as always.

Let's aim, this Friday evening, for a few pictures and only a few words (hopefully.) Here was the most startling event of the day and the whole week:

Netflix: 8 Years of "Priced for Perfection" Ends as Usual

That long, rising red line (red for "danger") is the story of a Celebrity Tech Stock, as Netflix soared to $680/share and 58 times next year's expected earnings. Then the black line: down 41% in 2 months, at $397/share: with 22% of the plunge happening today. At that price Netflix is "only" valued at 24 times earnings, if we believe the "still-priced-for-perfection" estimate for next year; but it's still valued at a red-line 35 times earnings if we have a hunch that priced-for-perfection estimate is going to be mugged by reality. Pardon the statistics, but here's another worth pondering: Netflix is still valued, at that battered $397 price, at 1,200 times free cash flow per share.

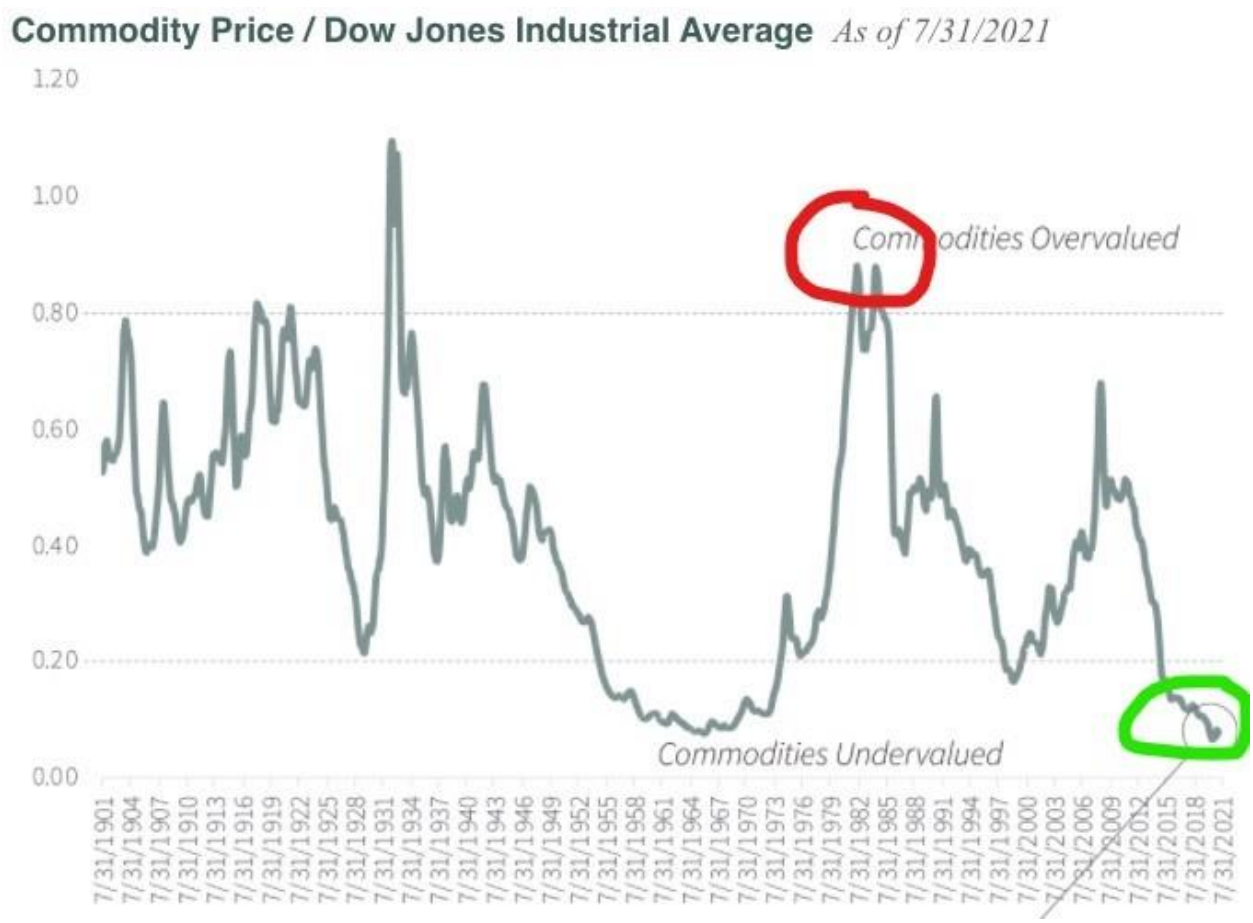
As Outlook has mentioned a few times, gathering impressions is not thinking. But if that 1,200 times cash flow *sounds* like a galactic number . . . it is.

Another picture:

Conoco: 6 Year of (Mostly) "Priced for Destruction" Also Ends as Usual

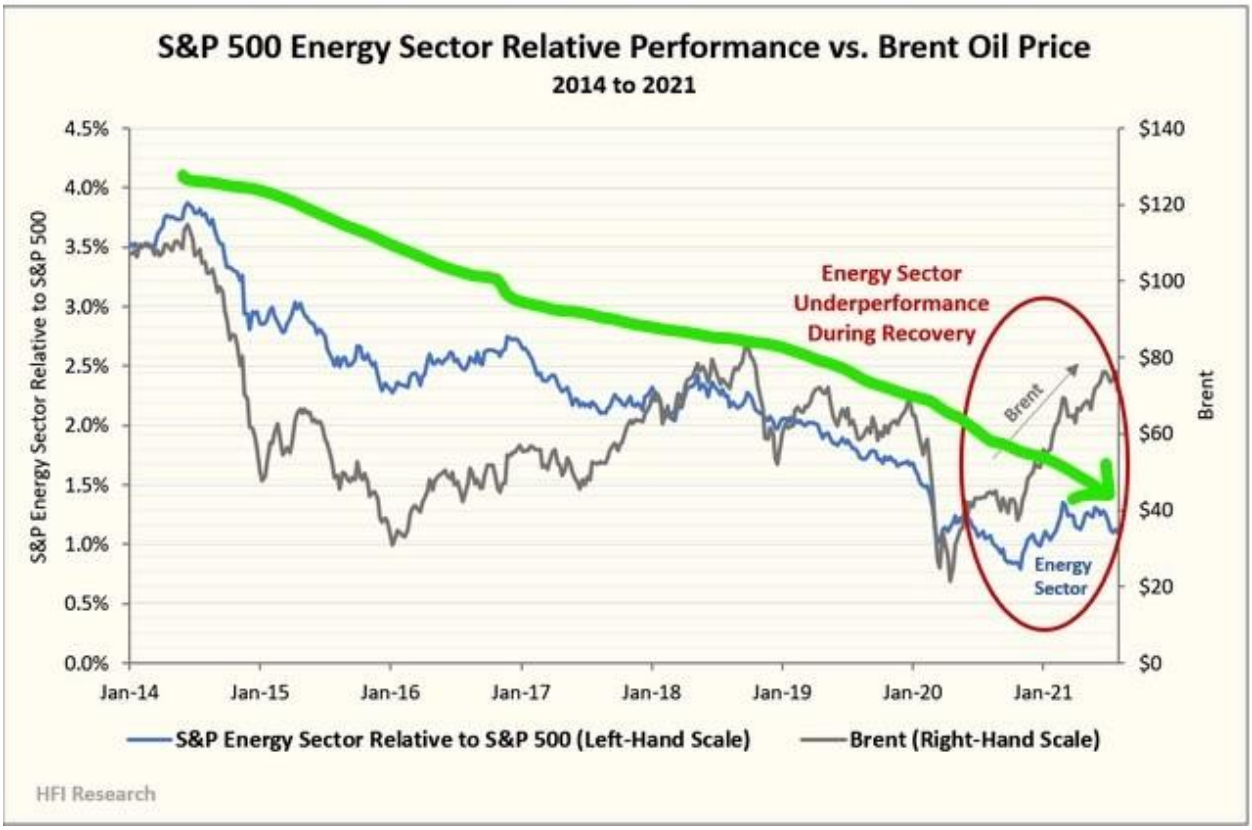
The roller-coaster green line (green for "opportunity") is Conoco's story: swooping and plunging from $87 in 2014 to $27 in 2020: 69% of destruction. Then we have today's green circle at $83: up 200% in 2 years. After 200 percentage points of rise, Conoco is still valued at only 11 times next year's earnings . . . and 13 times free cash flow per share.

We'll belabor the point. Netflix: 1,200 times cash flow. Conoco: 13 times cash flow. Just a couple of pictures to go:



That's a 120-year chart of commodities in general: that is, the market's valuation of that sector compared to the market as a whole. It is a roller-coaster, isn't it? But its swoops and plunges often take 10 or 20 years to play out. The red circle back in 1984 was the last time the betting crowd was truly ga-ga about commodities. Then came 35 years or so of pain, ending last year with commodities lying in a shattered heap at cliff-bottom . . . more despised by the market than at any time in the past century. It is circled in green, isn't it?

Finally, and probably beating the poor point to death, we glance below at energy stocks alone, among commodities. 4% of the market's value 8 years ago . . . 1% of its value today. The long green line is the story of so much investor pain that in the end, nobody cared anymore. But we all know, of course, that the green arrow at the end means "opportunity."



What's the meaning of all this?

At bottom, what it means is that we humans tend to get discouraged by bad news, pain, frustration and fear . . . if they go on long enough. You can't blame us too much. But the worst of it is that when they've gone on "too long," we tend to stop thinking, and we tend to exaggerate just how black the picture really is. That is exactly what's been going on in those bottom 3 pictures, showing the everlasting pain inflicted upon Conoco, commodities and energy.

At bottom, what it also means is that we tend to get so optimistic and so complacent about good news and personal gains that we tend to stop thinking . . . and exaggerate just how cheery the picture really is. That's what's been going on in the top picture, featuring Netflix—which stands for any number of "Celebrity" stocks which spent an everlasting time giving us the impression that the sun, the moon and the stars were within reach (and had maybe been acquired, already, by Amazon.)

At Outlook we believe, right down to the bottom of our hearts, that the only safe way to invest is to own companies with Rock of Gibraltar financial strength—buying them during the long agony of their "Priced for Destruction" years, when the market treats them that way. It's not "safe" if we're worried about next week or next year's value. (Nothing is.) But it's very safe if we want to be as sure as we can be that our capital will stand far higher in 5 or 10 years. One of those pictures goes back 120 years. That's probably when somebody first said, "Buy when there's blood in the street." Whoever she was, she knew how things work.

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