

## The Outlook: Dec. 5, 2018

***Real trouble or no trouble at all: the market cares not . . . for a while.***

Today let's begin with the end.

This stock market is telling us nothing. It has no insight into a disastrous future; it has no knowledge of facts hidden from the rest of us; it certainly has no wisdom in putting the “facts” behind today's media headlines into perspective. The market isn't “telling” us anything of value . . . but its behavior is certainly reminding us of something of great value: when the market crowd is infected by fear, which happens with regularity, it hands out something mighty close to “free money. To take that gift, investors must only have two things: a reasonable understanding of the nature of the operating businesses they own; and nerve. As always, “nerve” is the hard part—because when everyone else is shouting about something awful on the way, it's not easy to keep believing they're all wrong.

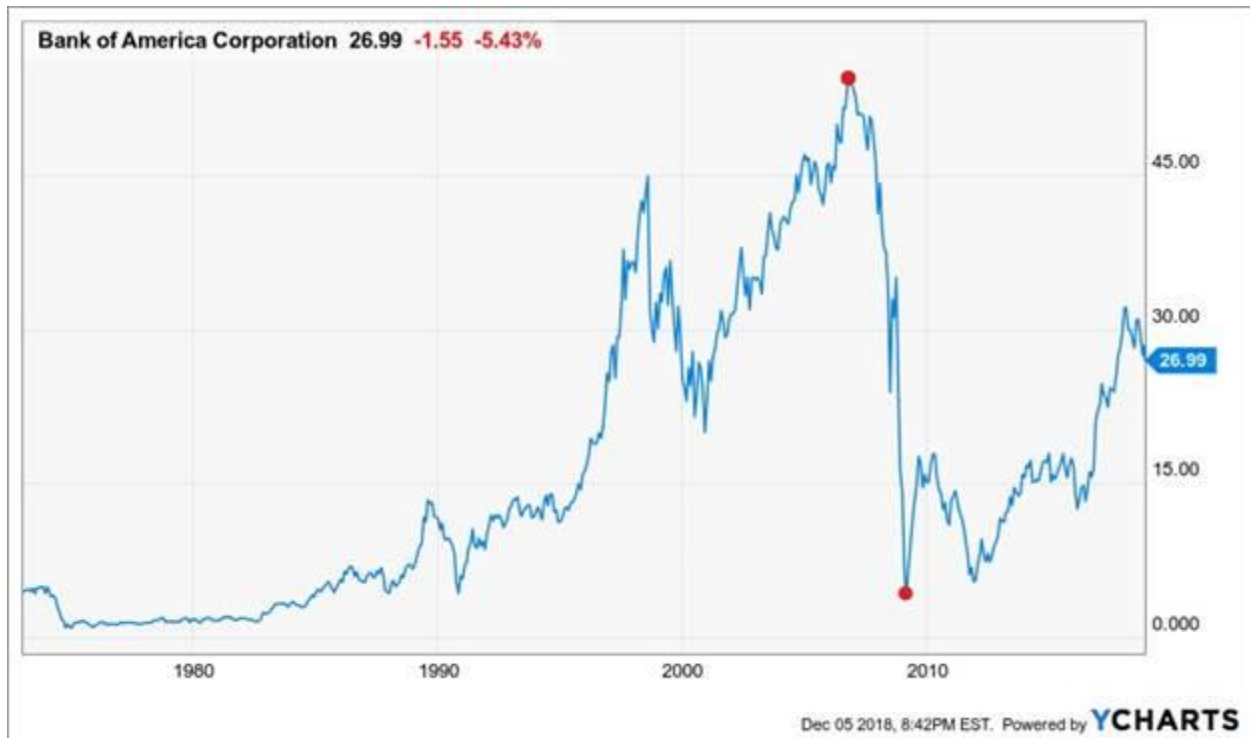
But crowds are quite often wrong: in a range from “mildly wrong” to “mind-bogglingly wrong.” Here's a reminder.

**US Bancorp: 10 years, beginning with the Calamity of 2008 - 2009**



At the far left of this picture was US Bancorp's stock in 2008: \$36 per share. See the Calamity that followed, as it plunged 75% to \$8.80 in early March, 2009. It traded at 5.5 times earnings then, and had slashed its dividend almost 90%. Now: when a stock which had been regularly valued in the mid-\$30's falls to \$8, is not the market “telling” us that the bank's survival is at stake? Especially when the market was “telling” us the same thing, only worse, about the kings of the banking business, like Citigroup and Bank of America (below, falling from \$54 to \$4)?

### Bank of America: what *real* trouble looked like



Here's the point. During the Calamity (financial panic) of 2008 -2009, some major banks were in genuinely serious trouble; and some were not. Citi and Bank of America were in real trouble—much more trouble than they actually deserved, but in real trouble nevertheless. US Bancorp was not in real trouble. Its lending principles had always been far stronger; its business more stable; its capital and loss reserves more substantial. The investment world, and the market, knew US Bancorp would survive—it wasn't a secret available only to deep-thinking experts. "No matter," said the market. "It's a bank, and our crowd is trashing them all, until further notice." Hence, \$8.80 per share, and 5.5 times earnings. What happened next? (We know, don't we?)

**US Bancorp: total return from \$8.80, versus the market.**



US Bancorp since March, 2009: 496% total return, which is 19.5% per year. The market: 385%. No . . . the market “knew” nothing at all, and was “telling us” nothing of value, at the height of terror in the Calamity. It was reminding us, though, that it hands out free money, with some regularity, to investors with a little understanding and enough nerve to stand against it, for a while.

US Bancorp’s story is so helpful to us, today, because the companies and stocks the market is trashing right now are not in *any* kind of trouble: minor, moderate or serious. They’re not in trouble, and the vast majority are too strong to be placed into trouble by whatever looming nightmares the market dreams up. US Bancorp’s “end of the world” valuation was 5.5 times earnings in 2009 . . . and it had troubles worth real concern, just not fatal ones. Micron, to name the outstanding example among many like it, trades around 3.5 times earnings, and its financial strength and certainty of enduring future growth are so far beyond US Bancorp’s, in 2009, that no comparison makes sense.

“No matter,” says the market. “Our crowd is trashing everything now, seeing how far fear can run—and the crowd will keep it up until the mood has run its course.” Yes, it will. That’s the nature of the market; and we must endure it (while grabbing the free money whenever possible) in order to earn the remarkable rewards our companies (and the market, eventually) will give us. We can’t know—nobody ever knows—whether the mood will exhaust itself in another day, month or year. We do know that it will do so, and real-world business achievements and great market values will become the driving engines again—as always.

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