

The Outlook: July 17, 2019

Another fact for Freeport's pile: "Mining copper is extraordinarily difficult and costly, indeed."

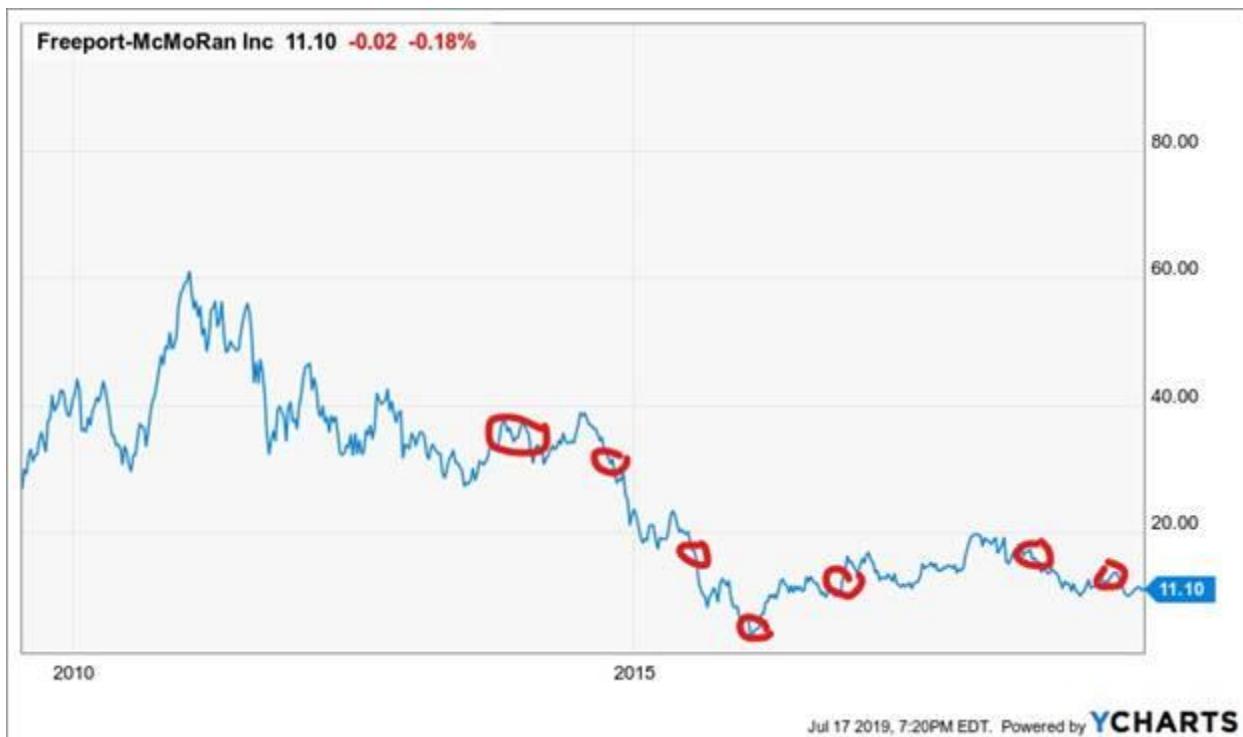
Big crowds of people share general opinions about lots of things—though it would be more accurate to say they share general impressions about many things. History gives us countless examples of such widespread general impressions, which eventually were shown to be dead wrong, but which endured in the minds of the crowd for a really shocking length of time, anyway. The big crowd of people which is the market behaves exactly like all big crowds, when it comes to holding onto wrong impressions until one day when the pile of contrary facts finally gets high enough to destroy the impression.

For long-term value investors like Outlook Capital Management, the crowd's capacity for hanging on like a bulldog to a mistaken opinion is probably the toughest challenge we (and our clients) face. "If we're right about the facts, how can the rest of the crowd—the market—go on ignoring them, and pricing some of our assets as if the facts don't exist?" is the understandable question. The only answer is simply, "Because they're people, and that's what people often do."

We've been reminded of this by one of our core companies: Freeport-McMoran, the global copper king. For several years Freeport's CEO, Richard Adkerson, has been calmly, patiently (and surely resignedly, by now) explaining the most basic of facts which will dictate his company's long-term future. They boil down to:

- Global copper demand must grow steadily over the next years and decades, because no other commodity is so vital to urbanization, modernization and general gains in economic welfare—and those worldwide trends are simply undeniable.
- Global copper supply will struggle to keep up, because it's so extraordinarily difficult and costly to find and develop new copper mines.

There are "facts" about many fundamental trends in the economic and investment worlds, and experts argue about lots of them . . . but not about Mr. Adkerson's facts. They're too obviously backed up by solid evidence. Everyone agrees with the Freeport CEO—when they talk and act as individuals. But when "everyone" acts as a member of the galactic market crowd, it's a different story entirely! This picture tells that story.



The red circles are roughly when Outlook began investing in Freeport in late 2013, and continued adding shares as the price fell and fell, then rose and fell again. We began at \$35, almost 50% off the company's all-time highs; and we've kept it up at prices between \$20 and \$4, mostly. The \$64,000 Question for any investor who has done this kind of thing is: "Are you mighty sure about Mr. Adkerson's facts, and about his company's financial strength and capacity to endure the wait?"

The answer is "Yup." And the interesting item of news this week, which triggered this glance at Freeport, went this way: "Rio Tinto's Mongolia Project to Take Longer, Cost More than Expected."

Rio Tinto is another global mining king, heavily into iron but no slouch at copper either. Just yesterday, Rio issued a press release with the following highlights:

- The company's giant Mongolian copper and gold mine will be delayed by as much as 2.5 years, and cost up to \$2 billion (about 35%) more than planned.
- Because of underground stability risks with the planned mine design, the original plan must be abandoned and redone, and the mine won't begin producing copper until mid-2022 or mid-2023. "Ground conditions are more challenging than expected," said Rio executive Stephen McIntosh.

Freeport's Mr. Adkerson probably isn't bothering to say "I told you so" to anyone—much less to the market crowd which has been shrugging at his highly optimistic forecast for copper's future, for the past few years. But he has a right to think it. It is "extraordinarily difficult and costly" to find and develop new copper mines, indeed.

Yesterday's news from Rio Tinto is one more fact added to the accumulating pile, which will eventually get high enough to destroy the market's opinion. Outlook Capital Management has an opinion not shared by the market at the moment: "We will see Freeport-McMoran at \$60 a share, or more, once again. The payoff will very much be worth the wait."

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

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