

## The Outlook: March 24, 2022

***Freeport: thinking pays off; gathering impressions does not.***

Here's a picture and a headline, today. They remind us of one of the Golden Rules about investing: ***"Gathering impressions is not thinking."***



And the headline:

***"Under-Appreciated" Freeport-McMoRan Rises to Record! Jefferies Hikes Price Target to \$65!***

Jefferies is a Wall Street research firm. Its analyst continued along these lines: "Freeport is still under-appreciated and still under-owned. The company is in a position to deliver consistently high capital returns, with recent dividend hikes and share buybacks just the beginning. This earnings upgrade cycle will take years to play out. Freeport has a clear path to grow its cash flow and returns."

Let's understand the meaning of those green circles. The first one came early in 2016, when Freeport traded at \$4.20 per share. (Outlook bought some for clients in that ballpark, which is only notable because it's so rare for any investor—professional or not—to actually "buy at the bottom." That sounds clever until we admit that we were buying shares all the way down the cycle, and kept buying shares all the way up the next cycle.) At \$4.20 per share in early 2016, Freeport's people were in the very midst of fixing a genuinely "Big Problems." Copper and oil prices had fallen below basement level, and Freeport's solution was to get rid of its oil properties in order to focus on copper. That was easier said than done . . . but by

early 2016 Freeport's people had already pulled off some minor miracles: selling good oil properties at decent prices and cutting debt from "sky high" to "roof high, and falling fast." It was not hard to see Freeport had the strength to survive and come back strong, as long as copper eventually led the way up.

The next green circle came in March, 2020—at the bottom of the Virus and Lockdown Calamity's bear market. Freeport plunged to \$5.23 per share—more than *four* years after it had begun fixing its Big Problems in 2015. In early 2020, they were fixed. Freeport's financial strength was outstanding. The world's long-term need for copper—to support electrification in almost every corner of the economy—was obvious; and the world's shortage of future copper supplies was just as obvious. Freeport's boss, Richard Adkerson, had spoken up year after year: "New copper mines are very costly and very hard to "make good." The world's volume of "new copper" has been falling for decades."

Now we come to the point! In that first green-circle abyss, in 2016, the market's betting crowd could argue that Freeport still carried some unknowns and some risks, no matter the impressive progress toward its "Big Fixes." But in 2020's second "green-circle plunge", nobody could make that argument. It would have been ridiculous. And nobody tried: not Wall Street's analysts, not betting-crowd hedge funds. But the crowd hammered down Freeport to \$5.39 anyway . . . because for a couple of months of "Virus and Lockdown Calamity" the betting crowd seized upon the prevailing impression in the investment world, which was something like: "The economic sky has fallen! It might be months, or even a year or two, before the world can jack it back up to where it belongs!"

Gathering impressions is not thinking. But one of our weaknesses, as human beings, is that we often *feel* like acting upon impressions; and we often *don't feel* like taking the time and effort to gather facts and think. If we had done that, in early 2020, we'd have gone looking for nickels and dimes in parking lots, scraping up cash to buy shares of Freeport . . . because the market was giving away money for nothing.

It does that. That's the market's nature, from time to time. That nature, which looks as perfectly obvious to most of us as anything can look, has been a perfect mystery to the academic world for the last 45 years or so—since Outlook's career began. "Efficient Market Theory", thunk up by a couple of professors at prestigious universities, "proved" with mathematics that there was no such thing as the market "giving away money for nothing." Whatever the market price happened to be on any particular day was the result of the collective knowledge and wisdom of a vast crowd of clever minds (yup, the betting crowd) and hence reflected the "right price" given all knowns and unknowns about any company.

As the old saying goes, "Only a professor could believe something so silly." They still do. We don't, at Outlook—and we mean to keep holding Freeport and buying more even when we're standing in that third circle: "Freeport Hits Record!"

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