<u>The Outlook: Jan. 22, 2019</u>

Vague impressions, courtesy of China and the International Monetary Fund.

The often-vague impressions created by news items are, unfortunately, the gasoline fueling the market's engine, most days. The engine itself is the behavior of a giant crowd of speculators. Those vague impressions from the news are most powerful when the market crowd happens to share the same mood about things: quite often, generally pessimistic and prone to take fright; less often, generally optimistic and prone to imagine lucrative opportunities here, there or everywhere.

Despite this January market's recovery—like someone waking up from a deep sleep and vivid nightmare, groggily beginning to realize they're not actually in endless freefall off a cliff, or about to be eaten by the Loch Ness Monster—Outlook suspects most of the speculating crowd is still leaning toward fright and pessimism. That crowd has been storing up pessimism and fright for 10 years or so, throughout this astonishing bull market, with only the occasional chance to let them run amuck. Being a bunch of "clever" people who are actually normal human beings, the crowd has no deep understanding of <u>why</u> the 10-year bull market and economic expansion happened. Speculators are not in the business of deep analysis and understanding; they're in the business of outguessing each other's moods and reactions to vague impressions from the news. So when a 90-day event like the fourth quarter's bear market suddenly shows up, a mood of underlying fear entrenches itself pretty deeply in the crowd.

It takes time to wake up from that kind of nightmare.

That's why today's big news items, carrying wonderfully vague impressions of disaster, triggered a 300-point plunge, ending the tentative good cheer of the past few days.

- "Growth Slumps in China!" (China's economic statisticians reported that 2018's economic growth of 6.6% was the slowest since 1990, and was even lower than their earlier 6.8% prediction.)

- "Growth Will Slump in the World!" (The International Monetary Fund forecasted global growth of 3.5% in 2019, down from its earlier forecast of 3.7%.)

When we are gloomy or downright frightened about something, we tend to accept the silliest things at face value, rather than digging harder than ever to figure out if they're true or false. Fear always tries to paralyze our will and our brains. Unfortunately, we do the same thing when we're exuberant or even just cheerful about something (which leaves precious little time in between, when we're hopefully at our clear-thinking, hardworking best.)

As Outlook—and plenty of more eminent authorities—have remarked pretty often, nobody in the world has anything but a vague guess about how fast China grew in the past, is growing today, or might grow tomorrow. In the old classic, "Hollywood Homicide," when Harrison Ford asks his girlfriend, a famous psychic, how she does it, she says "I don't know. Sometimes I "see" things . . . sometimes I flip a coin . . . sometimes I just make shit up." If there's a sense of humor floating around among China's economic statisticians, they must have liked that line.

So when the market judged, this morning, that China's 6.6% wild guess was a disaster compared to its earlier 6.8% wild guess, it was a classic case of taking something silly at face value. And even though most readers' eyeballs don't make it past the first three words of any story about the "International Monetary

Fund," a fearful market welcomed another pint of gasoline for its fire, provided by the IMF's slashed global growth forecast from 3.7% all the way down to 3.5%.

Vague impressions don't get much sillier than the feeling that tenths of a point have some terrible meaning, coming from two groups (the government of China and the IMF) which have never given us any reason to respect their accuracy at counting economic beans last year, next year or any year. "No matter," says the market. "It's not our business to dig into the fine points. It is our business to bet money on whether an entrenched mood might last a little longer, or not." It did, today. It might, tomorrow. Eventually the facts of U.S. and general global economic strength will overcome the mood. Today's values will look almost unbelievably good, when that happens—as it does every single time the market takes fright and assigns values to outstanding companies which reflect vague impressions, rather than facts which aren't vague at all. Earnings Season is just beginning, and we strongly suspect we'll be seeing quite a few such facts.

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