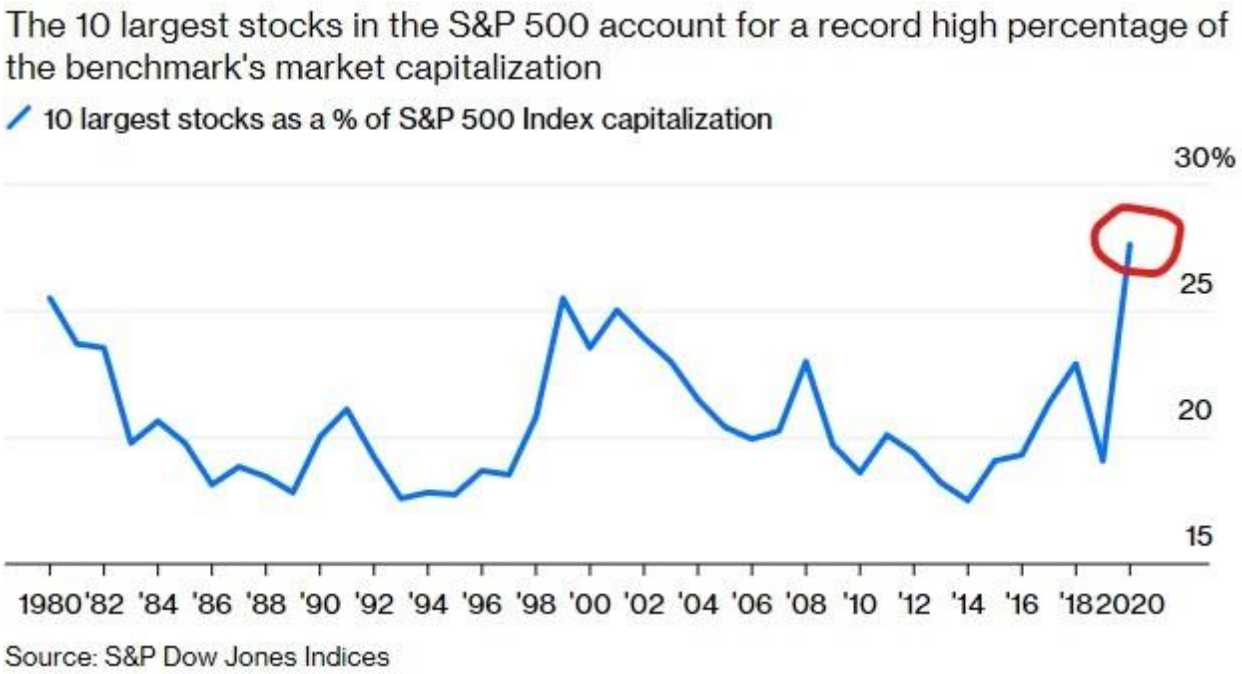
The Outlook: Aug. 19, 2020

Loving or Hating Too Much: Big Techs and Commodities.

"Apple Surges to $2 Trillion!" was the headline. Another was "5 Big Tech Stocks Are Now 25% of the Market!" It's been a grisly year, this 2020, but in the midst of all the shocking news and shocking economic (and other) behavior, we've been treated to lots of interesting stories. For investors, the behavior of the Celebrity Tech stocks has been one of them. Let's glance at a chart or two.



That's a 40-year chart . . . and a 40-year high in the market's passion for a handful of companies. We've circled it in red, because red is the color for "danger."

3 Years: Celebrity Techs vs. the Market

Here is more of the same picture: Apple, Amazon, Netflix and Microsoft up 200% or so, in the last 3 years . . . and the plodding old market up 39%. Now for a different picture.

The Untouchables: Commodity Stocks vs. the Market

That's a 120-year picture. It shows just how much today's market despises "commodity stocks", meaning companies plugging away at the polar opposite end of the glamor spectrum from "Big Tech:" in industries governed by the price cycle of oil, iron, copper, and grains, among many others. Like the Celebrity Techs, we're seeing history here—though it's the ugly side of history as far as the investment world is concerned. But Outlook has circled it in green . . . because green is the color of money and opportunity.

In Outlook's opinion, the $64,000 Question for every investor at this moment is: "Which of those two extremes deserves our money? Which is more likely to pay off?"

Answering that question the right way demands that we look, as always, at "the whole picture" . . . rather than the part lit up by headlines. We won't explore that today, though, or we'd all miss dinner. Instead let's ask what the most obvious message of those 2 long-term charts might be. And it is pretty obvious, isn't it? "The market never loves or hates anything permanently. But it always loves and hates things *too much*; much more than the whole picture justifies. That's the market's nature. "Too much" is not sustainable, either up or down. It's always followed by a big move in the other direction."

A long time ago a young banker met one of the bank's business clients. This company absolutely dominated the national mimeograph market . . . which was mostly rural school districts in the Dakotas and other far-away places, without much money for school equipment. Furthermore, the company was financially strong, with no debt and plenty of cash on hand. The only fly in the ointment was that, well, annual sales had been falling 15% to 20% per year for a long time, without letup. Those Dakota school districts were gradually buying Xerox machines like the rest of the world.

If the bank's customer had been a public company, it would have looked like those commodity firms in the green circle up there . . . but the right color would have been red, not green. It had financial strength—but no future. So the stand-alone fact that the market may despise some company or sector does <u>not</u> tell us we should be buying it because "too much hate isn't sustainable." We have to know the facts, too. With our commodity firms, though—Caterpillar, Cummins, Conoco, Exxon, Freeport—the facts are just as obvious as the "too much hate" in the green circle. They have great strength, and they have solid futures. Their customer bases are growing, not shrinking; and their products are constantly improving and delivering more value to customers, not dying out. Most of those Celebrity Tech firms up there are going to have a hard time living up to their current stock values. The very best of the commodity-based firms down there, though, are going to have no problem at all living up to stock values which doubt that anything good can happen for a number of years which is "too long to endure." Everyone has their own idea of the meaning of "too long." For investors, though, rather than speculators, the payoff from waiting another year or two—or less—is far too good to pass up.

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