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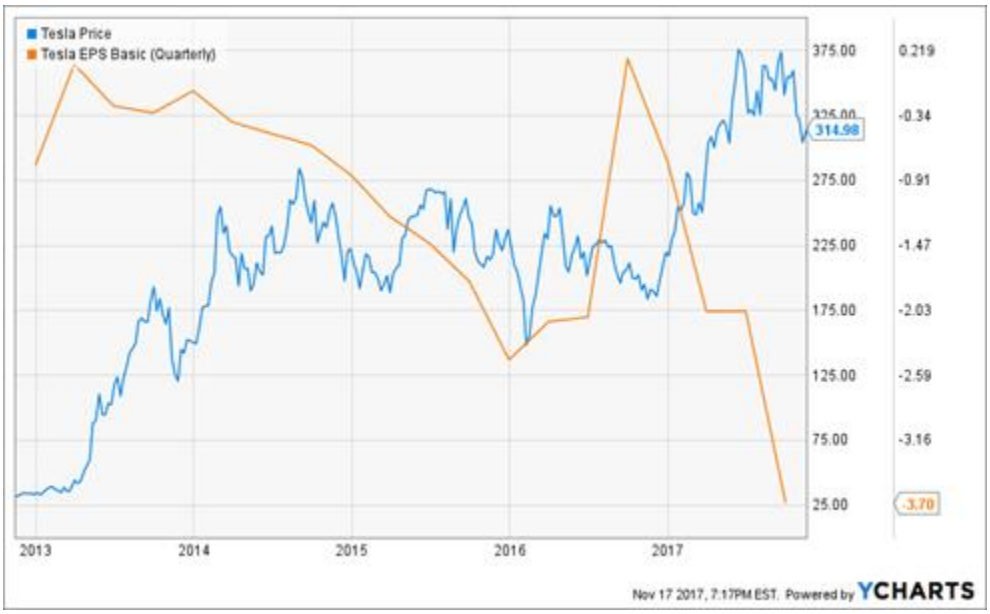
Tesla and Cummins: a small story, kind of silly . . .

Here is a small story, kind of silly, which yet might tell us some useful things about the "character" of this Bull Market.

Tesla is the world's Electric-Vehicle King—in the minds of the press, hence in most of our minds, and certainly in Tesla's own mind—though perhaps not in the actual facts concerning the number of units sold. No matter. Here's its 5-year stock chart with its per-share earnings.



The stock has been a rocket—volatile but mostly up—and the earnings have been a cliff-dive from "negative" to "very negative." A striking part of the character of this Bull Market has been its remarkable, sustained enthusiasm for a handful of big, money-losing companies which <u>might</u> change the future of the world.

Now let's glance at grimy old Cummins, which in fact and in every other way is the world's Diesel-Engine King.

Cummins' chart tells the story of a cyclical manufacturing company's typical "Descent into the Abyss" when its cyclical customers (trucking and heavy-equipment makers, for Cummins) see their own sales plunge. And the chart also tells the story of how a very atypical—in fact, a downright exceptional—cyclical company handles the downturn, preserving solid earnings (and dividends) and creating tremendous profit bounce-back potential, whenever its cyclical customers show up again with orders. We can see that trampoline effect on rising earnings followed step by step by the stock price, since the cyclical bottom in early 2016.

Yes . . . good company. Now comes our story. Yesterday Tesla did a new-product show for the world's press, in which it discussed its design for an electric heavy truck—wonderful battery life, astounding carrying capacity, amazing acceleration and hill-climbing ability, etc. Today came the consequences, for grimy old Cummins: a 5 percent plunge in its stock price. Obviously, thunk the stock market, Tesla would now proceed to eat Cummins' lunch in its core diesel-engine business . . . so it was clearly time to stampede out of Cummins, or sell it short, for the galactic-scale crowd of speculators who dominate daily activity.

For most of this almost 9-year Bull Market, we've seen remarkably solid, well-managed companies—in many industries but especially in "old-fashioned" ones like heavy equipment, mining and oil-drilling—treated as if they must have leprosy, and the symptoms will be showing up any time, making them untouchable. The great majority of these companies have paid solid, nicely-rising dividends throughout, and reported solid, positive profits even down in the depths of that Abyss. And the market has recognized those facts, bidding up their stock prices . . . but never to anything beyond the kind of cautious, even anxious levels which would seem to fit corporate leprosy victims. And upon each flash of negative news—and of news which might conceivably be negative in any cloudy way—the market has hammered down their stock prices, until noticing that the victims were somehow continuing to march ahead.

On the other hand, no negative flash of news—or tidal wave, or Amazon River of news—has been worrisome enough to deflate the happy favorites: like Tesla, Facebook, Netflix, Amazon and a few others. It's been a funny Bull Market, indeed.

Almost all markets—Bull or Bear—are "funny" in their own ways, displaying mixtures of deeply-entrenched pessimism and silly optimism side by side. When markets shift toward "all one thing," optimism or pessimism, they're always telling us either to run for our lives, or mortgage the house and buy. In 2000 – 2001, we needed to be running for our lives. In 2009, we needed to be mortgaging the house, plus selling our furniture and cars and making do with bicycles, if need be, to raise the cash to buy more stocks. Despite the dangerous optimism attached to those "Happy Favorites" these days (not to mention Bitcoin), at Outlook we're more impressed with the continuing, emphatic caution attached to companies which have performed like champions down there in the Abyss, so clearly that nobody could mistake their strengths. It is not time to run. It's time to hold, and keep buying.

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