

The Outlook: Sept. 17, 2021

“Will this stock stay down?” The Golden Rules Department.

Friday is a good day for visiting the Golden Rules Department. Here’s Outlook’s latest:

We must never invest before asking ourselves 2 questions:

1. ***Will this stock go down?***
2. ***Will this stock stay down?***

These two questions are both “life and death” questions for investors—but they are crucial in completely different ways.

1. ***Will this stock go down?***

There is only one answer: “Yup. It sure will. How much? Too much for our nerves to handle . . . unless we’ve answered Question Two the right way.”

If we investors haven’t answered Question One exactly this way, we need to put away our money and get out of town. Investing won’t work, for us.

2. ***Will this stock stay down?***

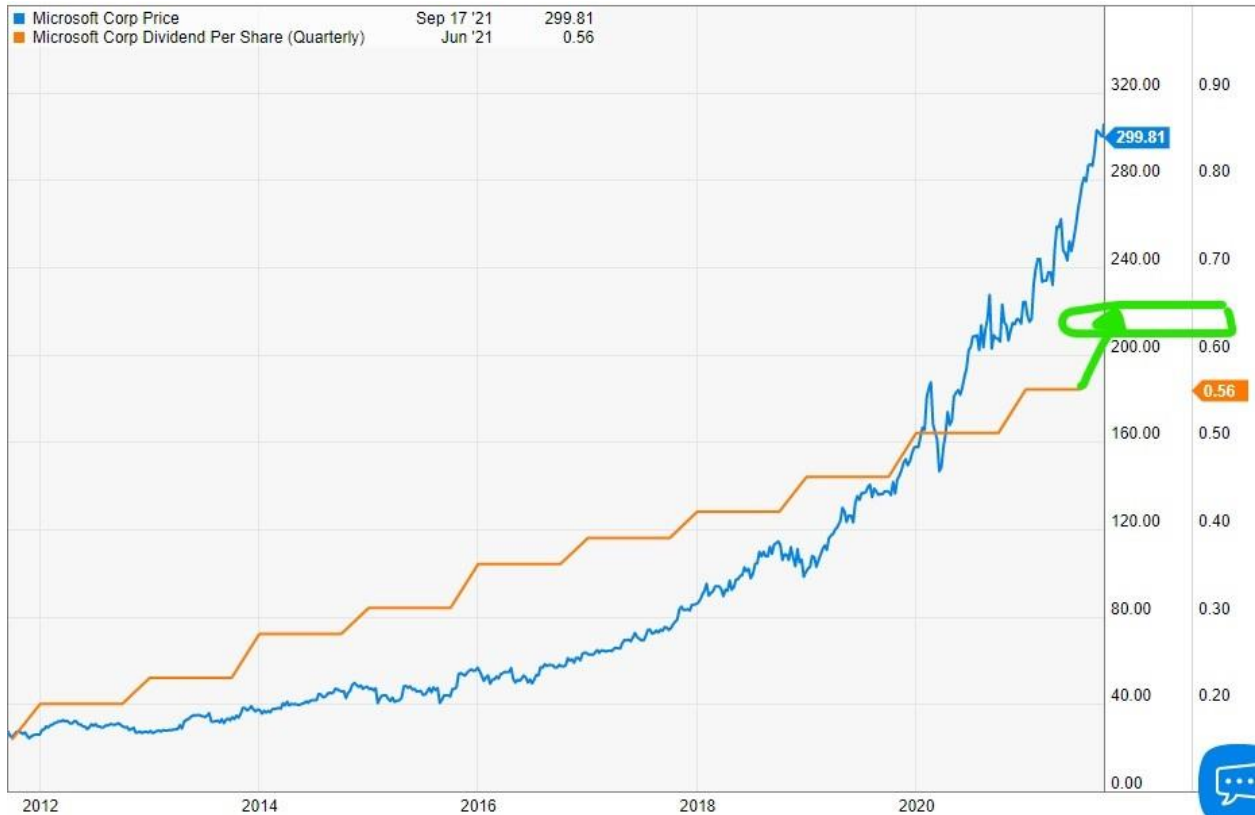
There is only one good answer: “Nope, we’re nearly certain it won’t stay down . . . because we understand the strength of the operating company so well that we know the company will eventually earn and pass out so much cash to us investors that its value will simply be too good to stay down.”

We were reminded of this Golden Rule by two of our companies, this week . . . which in turn told us something about another of our companies. The 2 pictures below sum up the first two.

Texas Instruments Hikes Dividend 13%: 700% in 10 Years.



Microsoft Hikes Dividend 11%: 250% in 10 Years.



The lesson from these 2 pictures is simple, but profound: Microsoft and Texas Instruments have been passing out a lot more cash, over these 10 years, because they've built the strength to earn the cash through all kinds of working environments, from "We're hitting home runs!" to "The sky is falling!" That kind of company is not the creature of luck or circumstance, but of determination and clear thinking at the top, and an amazing volume of sustained hard work below. We investors can only understand that when we pay close attention to a company for a long time, so we see what it does when the sky is falling as well as when it's hitting homers.

Now the last picture, which may look different . . . but really tells the same story.



As the first, grim part of that picture tells us, the sky really did fall on Freeport (the Copper King) from 2013 to 2016 . . . and a couple of times in the next 4 years. Texas Instruments and Microsoft had their aches and pains over the past decade—but they'd doff their caps to poor Freeport, which took the gold, silver and bronze medals in the "sky is falling" competition. (As both copper and oil plunged like Acapulco cliff divers.)

But the only thing that mattered was what Freeport did over the next 4 years. It won the gold, silver and bronze medals in the "rebuild with steel" competition. We all tend to overuse words like "remarkable" and "astonishing" . . . but Freeport and its people deserve them. Freeport's people do their jobs in some of the harshest places on Earth: in jungles atop 15,000-foot mountains in Indonesia and Chile; in 120 degree heat in Arizona; a mile or two underground, everywhere. They're not programmers.

Freeport gave a talk this week. Its message was: “We’ve surpassed all of our financial-strengthening goals early. We’re very strong now, and we’ll stay that way. We’re going to wait until year end, then we mean to reward our investors with cash. We’re not saying just how much cash, yet . . . but stick around, it’ll be worth the wait.” That’s the meaning of Outlook’s green arrow up there. We’re pretty sure Freeport’s dividend will be going UP, in capital letters. As we can see from the blue line (FCX stock price), the market “gets” this . . . somewhat. But Freeport is still Exhibit One re the market’s vastly different state of mind when it comes to down-to-earth, heavy industry and mining companies versus those “Celebrity Techs” it has loved for so long. Freeport trades today at 10 times earnings. Texas Instrument and Microsoft are up with the low-hanging clouds at 24 and 30 times earnings. We need telescopes to see Amazon up there at 50 times earnings. At 100 times earnings, Tesla is not a cloud, but a castle in the sky.

It is impossible to say “that stock will not stay down” for items like Tesla. But for Freeport, “that stock will not stay down” is one of those near-certainties which Outlook will spend money on every day.

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