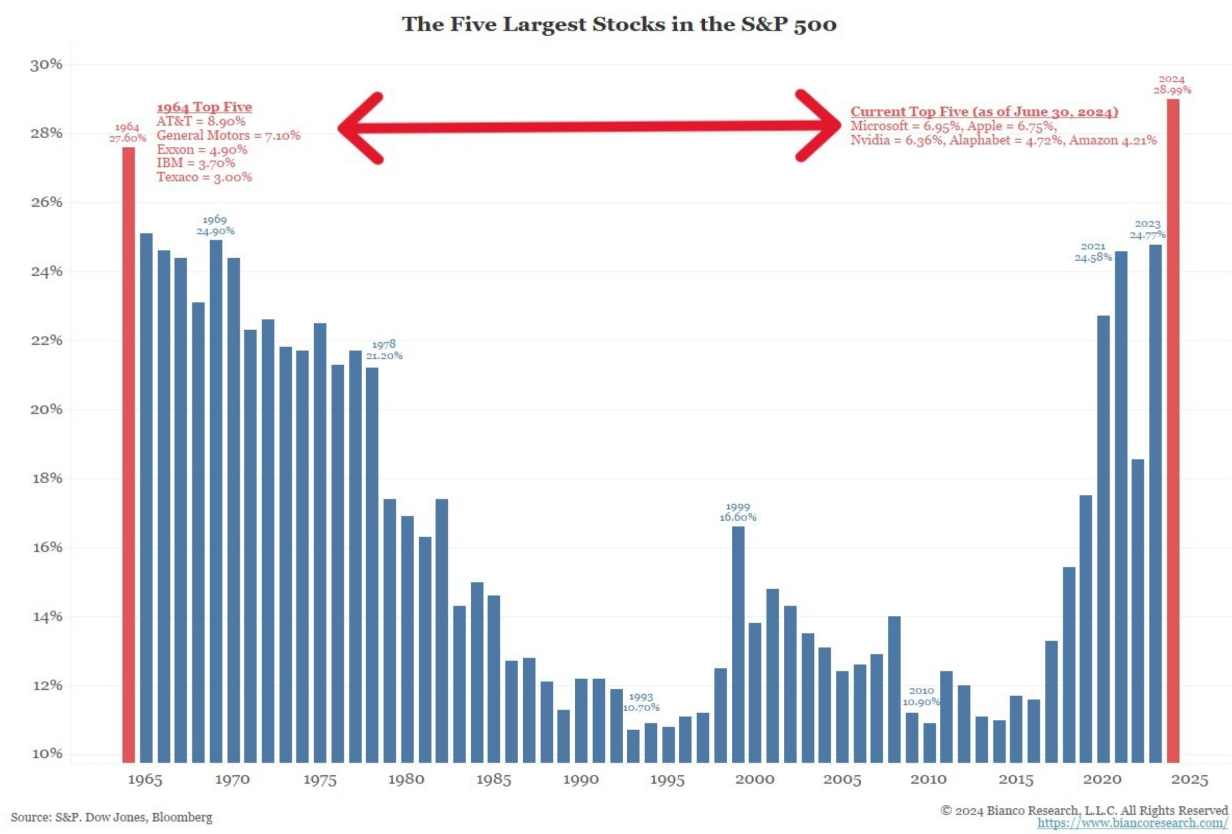
The Outlook: July 9, 2024

Believe in principles . . . not statistics.

The "Celebrity Techs" have been dominating the market stage for several years now. They were dominant before "Artificial Intelligence" exploded on that stage. Since then, they've been trying hard to show that some trees do grow to the sky . . . no matter which stodgy old investment managers say otherwise. "Don't own Nvidia?" was half a recent headline. "You're toast!" was the next half. That kind of clever remark works pretty well on younger professionals, and older ones, too: on anyone,, pretty much, who is frightened at the idea of lagging behind the "market" (S&P 500) for a month, quarter or year.

Here's a picture of what happens when trees grow to the sky.



That picture does tell a pretty dramatic story. Here we are today with five companies valued so optimistically (or gleefully, giddily, hyperbolically, etc.) by the market's betting crowd that they make up 29% of the value of the whole S&P 500. The other 495 companies get the remaining 71%, which would strike anyone as kind of unfair. And just in case we aren't alarmed enough by such numbers, the picture shows us that the last time the market's "big five" companies were valued so highly—the last time the crowd thought some trees could certainly grow to the sky—was way back in 1965.

Then, just in case we're still not frightened enough, we see all those blue lines cascading downward after that 1965 peak: meaning the "big five" companies each following year kept plunging until it reached a low of around 11% in 1993.

There are a couple of reminders here, for us long-suffering investors, about some Golden Rules.

- Understand what we own.

  This picture (and a crowd of similar ones lately) makes a sensible point: investors in S&P 500 index funds think they're getting broad diversification across 500 of America's biggest companies, sampling from all the major industries. The chart says, "Oh yeah? No such thing! You're getting a great big bet on a handful of dangerously valued stocks." (If we let the chart keep talking, it could also say, "Well, <u>sometimes</u> you get "broad diversification across 500 big companies," but you have to watch out. There are plenty of years when you get "a big bet on a few" instead.")

  Now, none of this matters much to Outlook Capital Management's clients, since we're about as far from "index fund investors" as anyone can be. But it's still a good example of our Golden Rule: "Understand what we own." Even with the flood of recent pictures like this one, Outlook would guess that a pretty small fraction of the vast crowd of "index fund investors" understands how far their favorite index fund is, today, from what they suppose it to be.

- Believe in principles, not statistics.

  "There are lies, damned lies, and statistics." That's a grand old saying: one that every investor (and everyone else) should keep in mind all the time. It's a little harsh, because not all the makers of misleading statistics are liars. Plenty of them believe their own numbers. They just haven't looked at them hard enough.

  If they'd looked at this picture harder, they might have asked themselves, "Hmm. It sure <u>looks</u> like we're about to fall off a cliff today, just like after 1965. Say . . . what actually happened after 1965?"

  Here's what happened.

The market, after the last "trees to the sky" episode.

Up for a couple of years; down for a year; up for another couple of years. Up 44% over 5 years, for investors who buckled in and never bailed out of the roller coaster. Now, by today's standards 44% seems, well, measly. Maybe . . . but most of us wouldn't feel ourselves too injured, would we?

The 1965 "Big Five" (AT&T, IBM, GM, Exxon and Texaco) certainly faded to some degree, from 1966 to 1969 . . . but somehow a good many of the "other 495" did enough good things in their operating businesses to get noticed by the betting crowd, and rewarded with higher values. So the seemingly obvious lesson of the top picture's statistics—namely, "The market's gone crazy again, grab your parachutes!"—suddenly looks a whole lot less obvious when we just dig a little deeper.

"Principles, not statistics." Our principle is, "Own financially strong companies run by sound people with sound plans for the future, who keep showing us they are executing those plans. Hold them . . . as long as the betting crowd is not treating them like "trees growing to the sky." Statistics can be a lot of things—from "useful" to "interesting" to "lies"—but principles can be trusted.

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