<u>The Outlook: June 24, 2020</u>

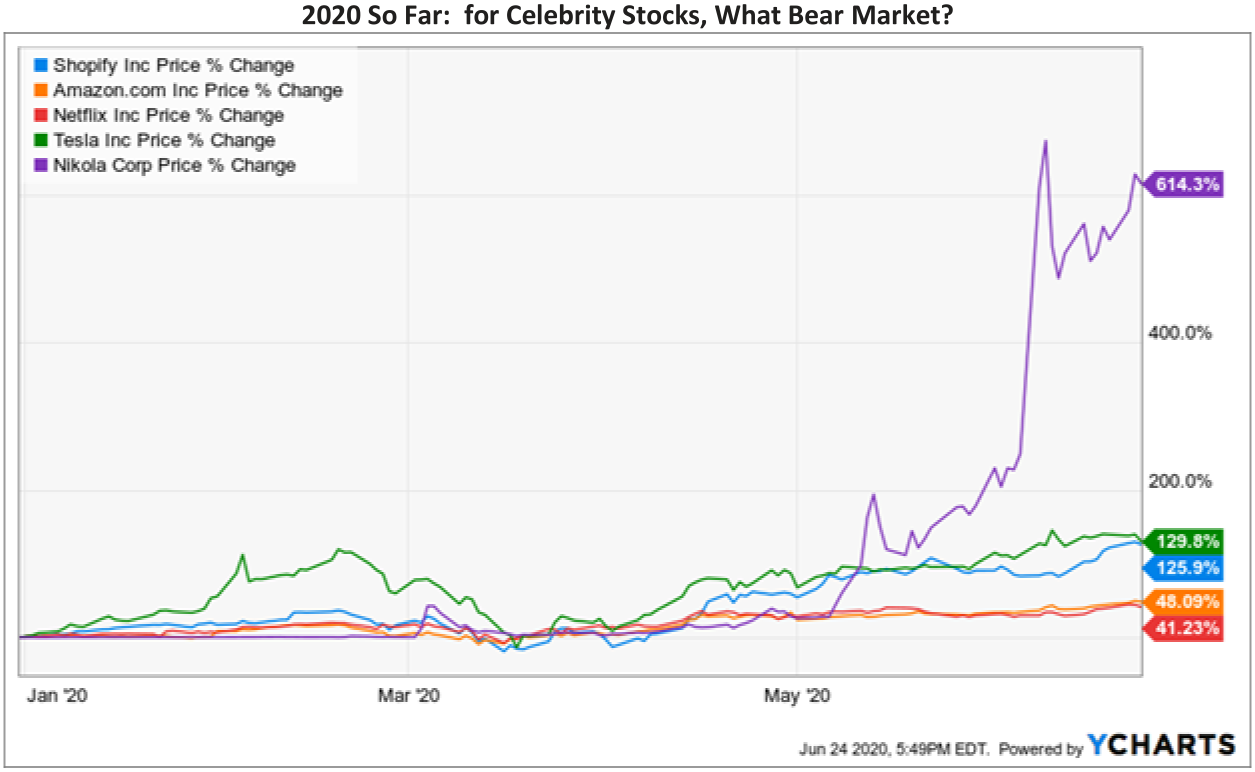
Games which end well, and games which do not.

Here's the Big Picture. <u>The market is very, very nervous and jumpy</u>. It will be that way for a long time, because the world economy has been through a completely surprising catastrophe in 2020—and there is no such thing as a clear, obvious "End!" to completely surprising catastrophes. But the nervous and jumpy market tells us nothing about the catastrophe. Neither did the 11-year nervous and jumpy market which followed the last catastrophe, in 2008 – 2009. That bull market kept frightening itself, but kept recovering from its frights and pushing higher, for one reason: <u>the *facts* about the real economy and real business achievements *made* it keep bumping its way up</u>. But in between the facts it was free to scare itself half to death, again and again—making the 2009 – 2019 Bull Market one of the least fun (but most rewarding) bull markets of the last 100 years.

So far, today's Big Picture looks an awful lot like the earliest stage of the 2009 – 2019 Big Picture, but we can only wait and see. Meanwhile the $64,000 Question is: "Does it make sense to own stocks (our stocks, that is) if we're not clear of the 2020 Catastrophe, yet?"

Let's look at another side of today's Big Picture. The market is nervous and jumpy in spades, but its mood is strange indeed. The market is riddled with anxiety about many of the strongest companies with the most cautiously-valued stocks . . . while at the same time it's been giddy with optimism about a relative handful with some of the weakest companies, whose stocks are valued as if they're not only heading toward the sun, the moon and the stars, but they've taken ownership of them.

2020 So Far: for Celebrity Stocks, What Bear Market?



Looking stodgy at the bottom of this chart are Amazon, Netflix, Tesla and Shopify: up <u>only</u> 41% to 130% so far. They look that way because up top we have Nikola, up 614%. (Nikola is the new Tesla: ready to make its very first electric truck, someday.)

There's a big range in these 5 companies. Amazon is making a lot of money; Netflix is making some; the other three are losing money. Let's look at one "in the middle" of that range, kind of: Shopify (which sells what might be called "E Commerce in a Box" to smaller companies wishing to sell online, without spending a lot of money on back-office technology and people.)

Shopify, 3 Years

We can see from the orange earnings line (and the red circle) that Shopify has never made money, and last year booked a loss of about $1 per share. Then there is the other red circle: a current stock price of $900 per share. Now, if the whole world were only companies like our "Celebrity Five" at the top, we might think, "Hmm, that makes a kind of sense. $900 per share is up there, all right, but maybe Shopify will make $90/share, one day . . . and then that $900 will be a reasonable valuation. That's kind of what Amazon did, after all."

We *could* say that—but in fact the whole world isn't the slightest bit like the "Celebrity Five" (or Ten, or Twenty.) The "whole" economic and business world is, in fact, stocked to the gills with altogether more humble companies. Some of them are humble indeed . . . but also happen to have remarkable records of achievement, through thick and thin; and the kind of financial strength which most of the Celebrity Five can only dream about. Here's one: Conoco.

Conoco, 3 Years

Conoco's profits were $6.43 per share in 2019—which was a <u>tough</u> year for oil companies, not an easy one. Its stock trades at $41 at the moment: 6 times those "tough year" earnings. Unless we have "Global Virus Shutdown Forever," nobody thinks Conoco can't deliver those same $6.43 profits again, or much higher. But what thinking investors think doesn't matter to this nervous and jumpy market. Conoco brings out the worst of its nerve-twanging jumpiness, so every weekly fright gives the market another chance to jump up and down on its battered stock . . . while it takes the occasional breather from tossing confetti and singing "Happy Days Are Here Again!" at Shopify and friends.

That kind of behavior is normal for the stock market. What's also normal is this: it ends. Let's end, ourselves, by remembering what happens to the Celebrity Stocks when that happens.

Cisco Systems, 20 Years. Dotcom High, $80. Today, $45.

An excellent analyst named Paolo Santos reminded us about Cisco recently, and had some remarks to make about Shopify, in comparison. When Cisco reached its "Happy Days" high of $80, it was making real profits: $36 cents per share, for a P/E ratio of 222 times. ("Gulp!" is the right reflex for that fact.) But Cisco was a great operating business, rock-solid financially and right in the middle of the global internet buildout. That orange line shows Cisco's 20-year battle to grow, despite setbacks, to the current $2.55 per share. That stock price is 17 times earnings, so Cisco is certainly one of the vast crowd of "Non Celebrity" companies, like Conoco: well run, strong, building its road ahead one brick at a time. But even so, let us glance at the red line and shudder. <u>In 20 years, Cisco investors have lost 44% of their Year 2000 value.</u>

That's not Cisco's fault. Its people stuck to business and did a good job, these 20 years. No—that's the speculating mob's fault. It valued Cisco as if it <u>owned</u> the sun, the moon and the stars back in 2000 . . . and by doing so, created a Black Hole for investor capital.

"Value Investing" means *never* owning stocks when they're celebrated that way by the market. "Growth Investing" and "Momentum Investing" mean "jump on the rocket now, and cross your fingers about the future." It's always hard for down-to-earth investors to believe that both unemployed Millennial gamblers <u>and</u> ultra-sophisticated hedge fund billionaires play the "growth and momentum" game non-stop, pretty much, until their luck or capital runs out. But they do indeed, which is why Outlook places them all in the "speculating crowd" which rules the market in the short term. Their games always have an end, though, and that Cisco picture shows us just how terrible the end usually is.

The Celebrity Stocks and their speculating shareholders will keep doing what they always do, and will finally end as they always do. We'll keep owning exceptionally-strong and well-run companies, at cautious valuations. That game requires a lot of patience and nerve, but it always ends well.

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