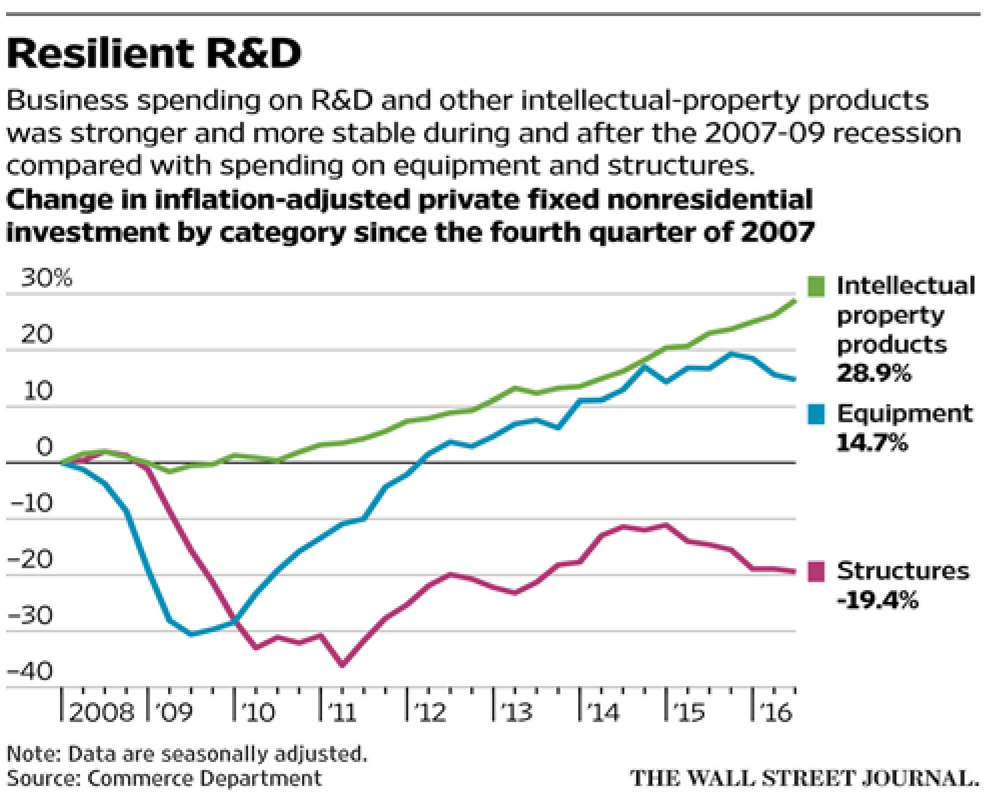
<u>The Outlook: Nov. 1, 2016</u>

Fixing Big Problems: hard-nosed CEO's, not headlines.

For investors like Outlook Capital Management, who like to invest in good companies at great values, the $64,000 Question is: "What's the Big Problem here, and how well is our company handling it?" Some particular "Big Problem," (which every company under the sun runs into from time to time, almost always unexpectedly) always hammers down the company's stock; and if the company is financially strong and run by good people, the hammering always leaves the stock trading in "raving bargain" territory. Such stocks can stay in that abysmal territory longer than the vast crowd of clever investors can stand . . . but they do leave it eventually, and they make remarkable amounts of money for us, when that finally happens.

As Outlook has often noted, it's not hard to see the evidence of good managers gradually and successfully tackling their particular Big Problems, and it often looks (to Outlook, anyway) extraordinarily obvious that the tide will turn for such a company, and the short-sighted market is valuing the company as if the tide only goes out, and never returns. Good managers, in the U.S. business sector with its world-leading emphasis on holding the boss accountable for results, usually do pretty basic and obvious things—<u>hard</u> things, but still basic—to fix their problems. The chart below, courtesy of the Wall Street Journal, is a classic example of a great many business bosses doing just such basic things, in the aftermath of the Financial Calamity and Great Recession of 2008 – 2009.



That Calamity was one of those truly rare catastrophes which define the business and financial worlds for many years to come. The Calamity struck, and business spending on buildings and equipment absolutely plunged, down 30% to almost 40% over the next few years. Follow the red line above. Spending on “structures” still has not recovered, 10 years later. Now glance at the blue line: equipment spending. After falling off that cliff, it gradually strengthened until today it’s 15% above a decade ago. That is nothing to write home about—it’s just “weak, cautious spending,” as several Outlook companies like Caterpillar, Deere and Cummins could tell us.

Last, it’s time for the impressive part of the chart: Research and Development spending. What U.S. CEO’s did in that category says a lot. They froze the level of R&D for a few years (kept spending, without increasing the spending) but rather quickly stepped up R&D until it grew, year by year, to today’s 29% above its “pre-Calamity” level.

That’s discipline and common sense. When calamity hits, we make sure there is enough cash to pay the bills tomorrow . . . but we don’t cut off our lifeblood. We do not throw sand in the engine which will create our long-term futures. Outlook has noted exactly that trend among virtually all of our own companies, and this chart confirmed that most of their U.S. peers and competitors have been doing exactly the same thing.

It’s very easy to be swayed by the daily torrent of gloomy headlines and frightened analysis concerning nearly everything in the economic world. Gloomy headlines sell newspapers. Hard-nosed, sensible spending decisions create solid futures. They deserve our attention far more than the headlines.

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