

The Outlook: Jan. 4, 2019

A fact arrives, and the market blinks.

Most of the “deep truths” in life are pretty easy to understand . . . but very hard to live with. Investing is like that. Its deepest truth is that the market gives us the chance to let a nearly miraculous economic system—free market capitalism—make us wealthy; but the miracle will not happen, for us, unless we have the strength to endure a lot of frightening nonsense along the way. A great many investors fail because they lack that strength, or don’t understand the “nonsense” part of the market’s nature.

The more-or-less “bear market” we’ve been enduring since October has been a perfect example of the deep truth, of the frightening nonsense, and of the strength needed to resist it.

Today’s market behavior is enlightening, along those lines. One of those real-world “facts on the ground” came along this morning: a jobs report for December which showed a shocking explosion of 312,000 new jobs created during the month. It also revised the jobs figures for November and October: higher by 58,000 jobs than initially reported. Finally, wage-and-salary earnings were also up strongly, 4.2% higher than a year ago.

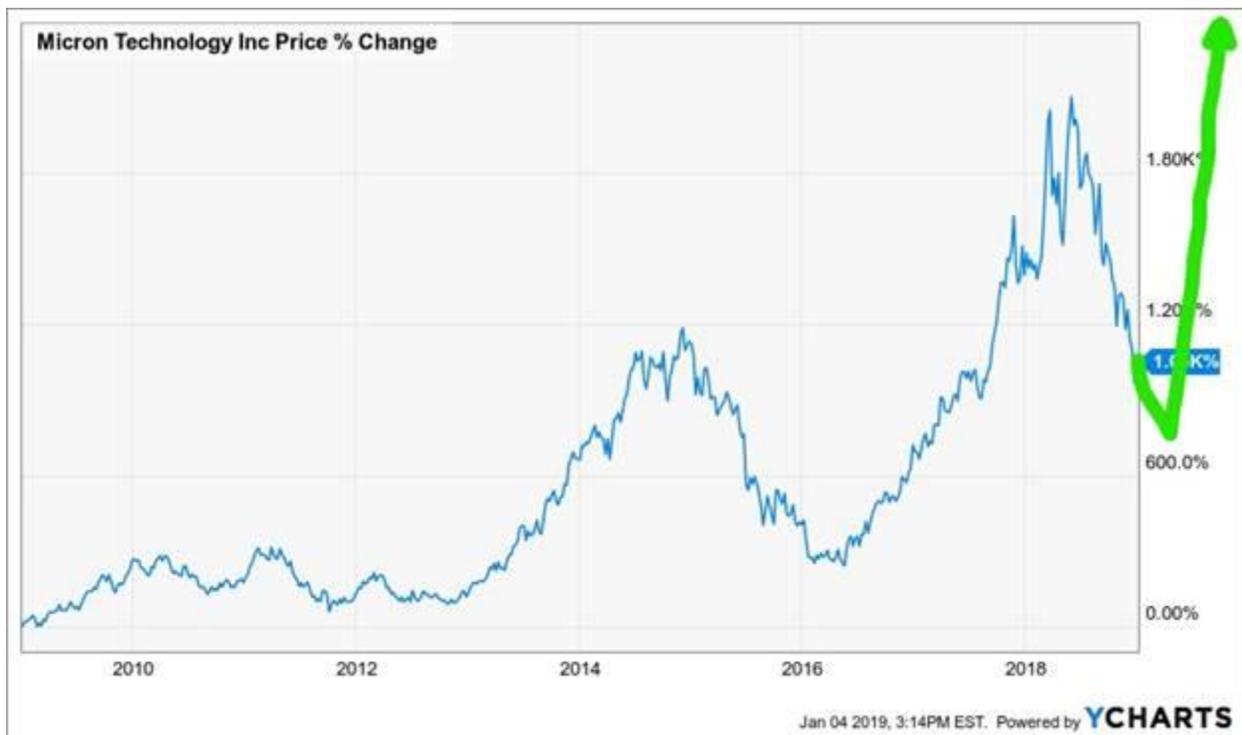
We mentioned a few times (a few dozen, possibly) that the market’s speculating mob controls short-term prices, and quite regularly gangs up in the down direction to see how much terror it can create. When it does so, real-world facts-on-the-ground don’t matter at all . . . until the terror eventually fades enough to prompt the same mob (or part of it, at first) to see the detached-from-reality values it has created, and gang up in the opposite direction. About one out of every five such episodes of terror, the steady arrival of facts-on-the-ground reveals genuinely bad news about that real world, which is like pouring gasoline on a fire as far as the speculating mob is concerned. When that happens, Wall Street’s fear usually infects Main Street to some degree, and the real world of Main Street slows down even more sharply than the “bad news” justifies—because when we are afraid we hunker down to protect ourselves, whether our name is Jane Doe or Mary Barra (GM’s CEO.)

So perhaps we can see the importance of today’s jobs report. It showed a U.S. economy—Main Street—paying just about zero attention to the latest sky-is-falling episode on Wall Street. The 4th Quarter of 2018 was awful and terrified as far as the market was concerned; and head-down, hard-working, steady-as-you-go on Main Street.

Will this morning’s spectacularly good “fact on the ground” throw a bucket of cold water on the market’s fearful mood? Will this be the end of the sky-is-falling nonsense? Finally, will investors who panicked out of their shares in strong companies regret it?

That’s 3 questions, and here are 3 answers: “Maybe,” “Maybe,” and “Yes!” Those “Maybe’s” will become “Yes,” eventually, whether it’s tomorrow or months from now. The “Yes!” is out there right now, as a bitter pill waiting to be swallowed by investors who could not stop themselves from believing the market’s behavior should guide their judgment. They will all have to swallow it . . . but many don’t yet understand that. They will.

Let’s close with a picture of Micron: not really for Micron’s individual sake, but because Micron is an exaggerated but still perfect example of that “deep truth” about good investing which applies to every one of our companies.



The crude green artwork covers up Micron’s 10-year gain: 1000%. The green arrow isn’t a prediction for 2019; but it most certainly is a prediction for the several years ahead.

We know this company: what it has achieved; and what lies ahead because of what it has achieved. We are dead set on earning every dollar and every percentage point of Micron’s eventual gains, which will be back up and beyond the 2000% range, on that chart, sometime in the years ahead. There is no way for us to do that, except by enduring the same kind of roller-coaster ride Micron has endured for the past 10 years. That means more sky-is-falling episodes in the future, no matter whether the current one ends tomorrow or next year. But we understand the nature of the company (and all our other companies); and we understand the nature of the market mob—particularly its regrettable ability to create terrifying but ridiculously-low values, from time to time. It would be nice if the market didn’t have that ability, but it does. The thing which cancels out that regrettable ability is our ability, as good investors, to understand it and ignore it. It is pretty easy to understand it. It’s not very easy to ignore it—but that’s exactly what we’ll keep doing.

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

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