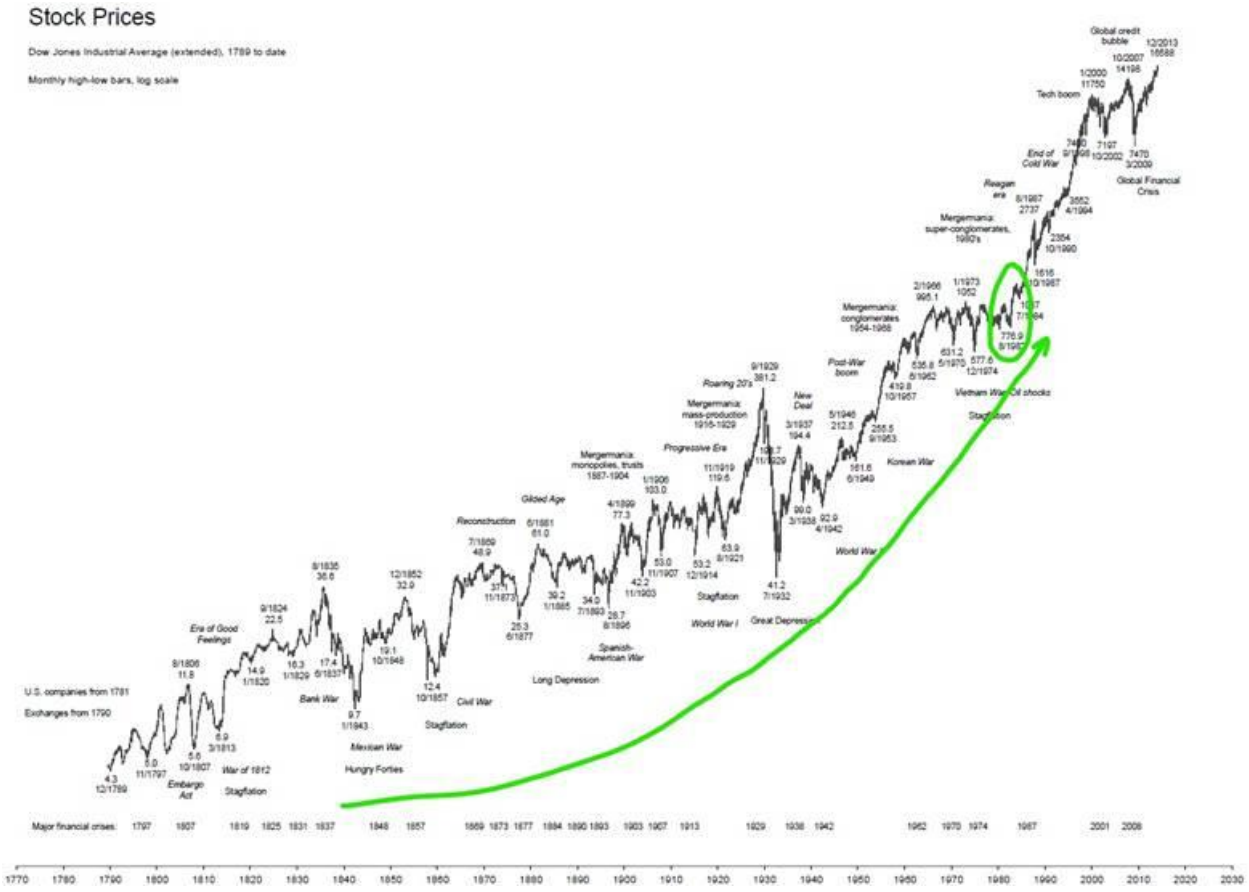
The Outlook: April 8, 2020

When the fashion is terror, people say odd things: Freeport-McMoRan.

When a young man fresh out of Economics graduate school joined a bank, 43 years ago, to learn the investment management business, his first boss had a favorite saying: "Every once in a while I feel like buying common stock . . . but I lie down until the feeling passes." He wasn't alone. In 1977, or that neighborhood, "The Death of Common Stocks!" headlines and front pages were the thing to do, if you were a respectable magazine like Time or Business Week. Bonds were the glamor desk on Wall Street, believe it or not, as interest rates climbed toward 20% by around 1981. The investment world's clever people—and there are always many of those—made a living, more or less, from writing skeptical or downright contemptuous analyses of the stock market—which naturally made it easy for beginners to feel that there was obviously only one correct opinion about common stocks, summed up this way: "Don't touch 'em!"

The young analyst fell in with the fashion, since it was so obvious, and wrote his own contemptuous pieces about common stocks. All went well for a few years until one day the Bank's executive vice president—who had been around for a while—sat down at our analyst's desk, complimented him on his clever writing, and then placed a chart down between them. It looked like this.

The Market Since 1790



The green circle is 1982, or so, when this conversation occurred. There's a lot of fine print there, most of which marks quite a few of the wars, panics and other calamities which had attacked the market over those 200 years. "Dave," said the boss, "before you spend your career being down on the stock market, just think for a little while about this chart; and ask yourself, "Why?" Is it really a fluke that the market has overcome so many catastrophes and kept moving up? Don't you think anyone who sneers at the market needs to explain this chart?"

Our analyst, of course, had no answer to that, but by some miracle he decided to actually think about it . . . and concluded eventually—with help from a good many other wise people—that the "anti-stock fashion" had rocks in its head. And that was that, for the next several decades.

That brings us to yesterday morning, when the following news item flashed up before the market opened.

"Credit Suisse Analyst Upgrades Freeport-McMoRan from Underperform to Neutral, but Lowers Price Target from $10 to $8."

That calls for a chart.

Freeport, 5 Years. Credit Suisse Target (red arrow.) Outlook Target (green arrow.)

After bottoming around $6.14 on Friday, Freeport was somewhere in the low $7 range when our Credit Suisse man made his call. It wasn't very enthusiastic, as such calls go, was it? From "underperform" to "neutral" and a price target which was modest indeed. It was all the more puzzling when we consider a few more of the CS analyst's remarks: "Current market prices offer the best buying opportunity for copper mining stocks in the past 20 years," he said, "and Freeport presents the best opportunity in the sector."

Very good. At Outlook we emphatically agree. But from "underperform" to "neutral," and from $10 down to $8, as a price target? With "the best opportunity in 20 years?" As the young analyst's boss remarked all those years ago, "Don't you think you might have some explaining to do?"

We might guess the problem. Wall Street employs smart people, who work quite hard and understand a lot about the companies they're asked to follow. At Outlook we scrutinize companies too. Here is what we think Freeport's income statement will look like in a few years, toward the top of the next strong upcycle in copper.

Here is how we expect Freeport McMoRan's income statement to look by 2023:

in millions, except per share amounts	2019	2023
Net Sales	14,750	24,577
Cost of Sales	12,800	15,000
Gross Margin	1,950	9,577
S, G, & A	418	385
Research & Exploration	75	60
Operating Income	1,457	9,132
Net Other Income/Expense	(935)	(965)
Pretax Income	522	8,167
Taxes	(250)	(1,200)
Net Income Non Controlling Interests	(296)	(250)
Net Income	(24)	6,717
EPS Diluted	-0.02	4.48
Shares Diluted	1458	1500
P/E		12
Stock Price	**13**	**54**
Dividend Per Share	**0.20**	**0.60**

The green circle is the bottom line: a stock price of $54/share, eventually, based on almost $25 billion in revenue and $7 billion in earnings . . . and a modest P/E valuation by the market. Credit Suisse: $8. Outlook Capital Management: $54. We shall see who turns out to be right. But we strongly suspect our Credit Suisse analyst wouldn't disagree, much, with the earnings forecast above. His problem comes not because he doubts the forward path and long-term potential of Freeport-McMoRan, but because he has no idea whatsoever what the market will do to Freeport's stock tomorrow, next week or next month—and he's as frightened as everyone else by what the market has shown itself capable of doing in this grim year of 2020. Hence the head-scratching combinations: "20-year opportunity" . . . "upgrade to neutral" . . . "downgrade to an $8 price target."

Just that kind of fright was exactly why "the fashion" was to doubt and sneer at the market in the late Seventies and early Eighties. It had been a miserable bunch of years leading up to then, so it was hard for everyone—including Wall Street's "smart" people—to imagine things would change. They lacked

courteous bosses to sit down with them and ask them to think about something very obvious, which they were not explaining. At Outlook we had such a boss, long ago, and we've seen the investment world—and companies like Freeport—a great deal more clearly ever since.

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