

The Outlook: July 19, 2018

Freeport: a shot of good cheer amidst the suffering.

At Outlook Capital Management we are “value” investors—even “deep value” investors, which means we buy financially-strong companies working their way through some “big problem,” and getting mostly anxiety, outright fear or downright contempt from the market while they do so. Patience and far-sightedness simply aren’t in the market’s nature, which means if we can make them part of our natures, we’re very likely to make remarkable amounts of money by buying what the market hates and fears.

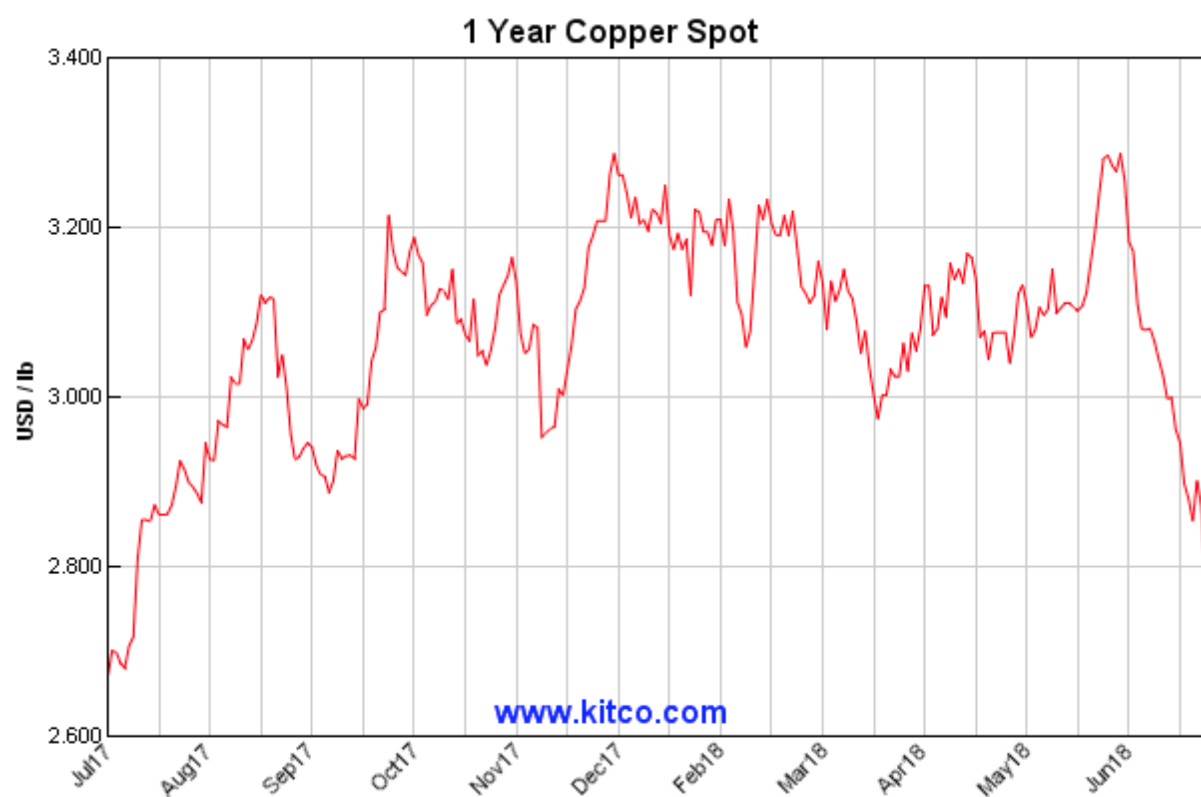
But once we’ve done the buying, we don’t live happily ever after. Instead we must suffer for a good while, because even strong, well-run companies usually take a long time fix their big problems . . . and the market generally doubts them every step along the way, until it’s pretty clear they’ve actually climbed out of their swamps. Every now and then, though, as we endure the doubts and the ups and downs, along comes a headline announcing that somebody else thinks the way we do. It gives us a shot of good cheer, always helpful when we’ve got plenty of suffering left to do. That was the case with this headline, yesterday, regarding the global copper market (and, of course, Outlook favorite Freeport-McMoRan.)

Copper prices poised to go 'on steroids,' Citi analysts say • 12:44 PM

Carl Surran, SA News Editor

- [“Prepare for a decade of Dr. Copper on steroids,”](#) as the metal’s slump amid a deepening global trade conflict offers a long-term buying opportunity, Citigroup analysts say.
- Citi sees average annual copper prices at \$8K/metric ton in 2022 and passing \$9K/metric ton by 2028 under its baseline scenario; the metal closed yesterday at \$6,152/ton in London.
- “We look beyond the potential trade war to longer-term copper market fundamentals and we find that current prices of \$6,200 a ton are nowhere near high enough to enable the market to clear,” Citi says. **“Copper is set to outperform most other commodities under our coverage over the coming decade** on a lack of mine supply growth.”
- Citi adds a note of caution for the near term, saying copper would fall “materially lower before it goes higher again” if a full-blown trade war materializes.

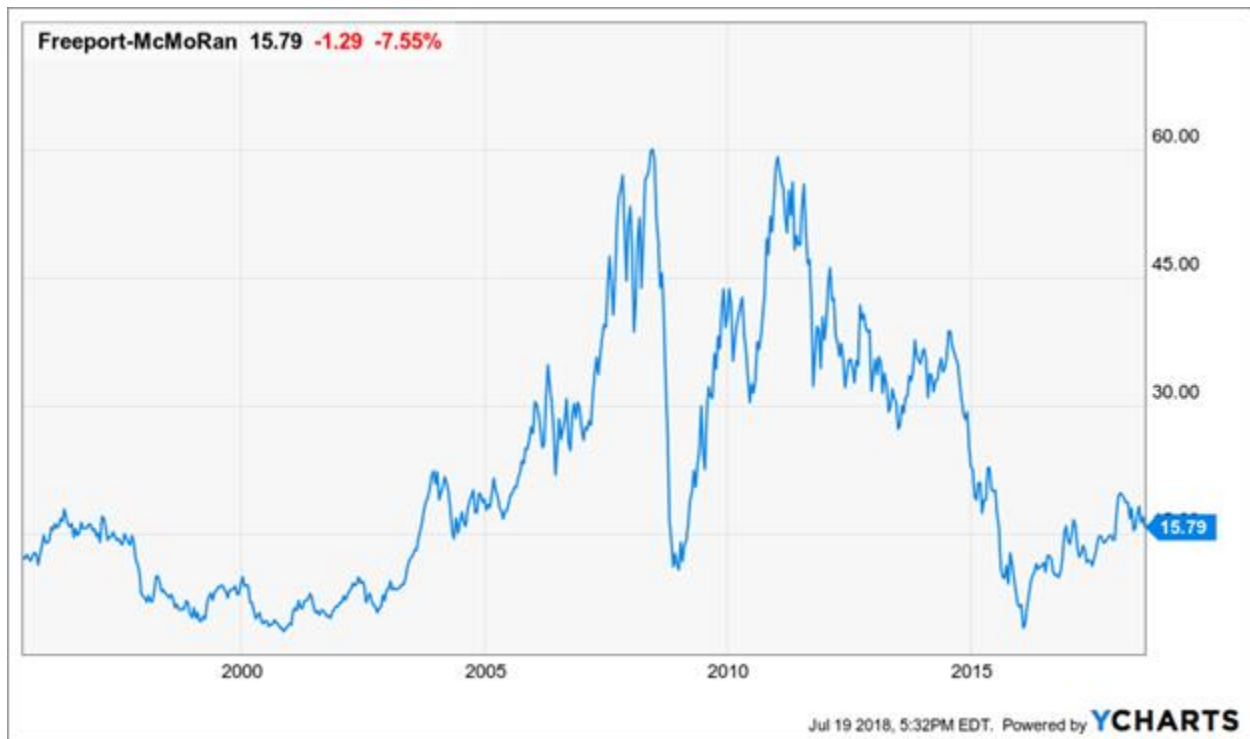
On that last point from Citigroup, here’s a look at the “doubts, ups and downs” over the last year for the copper market:



And here's a glance at how the market has treated Freeport during copper's one-year roller-coaster:

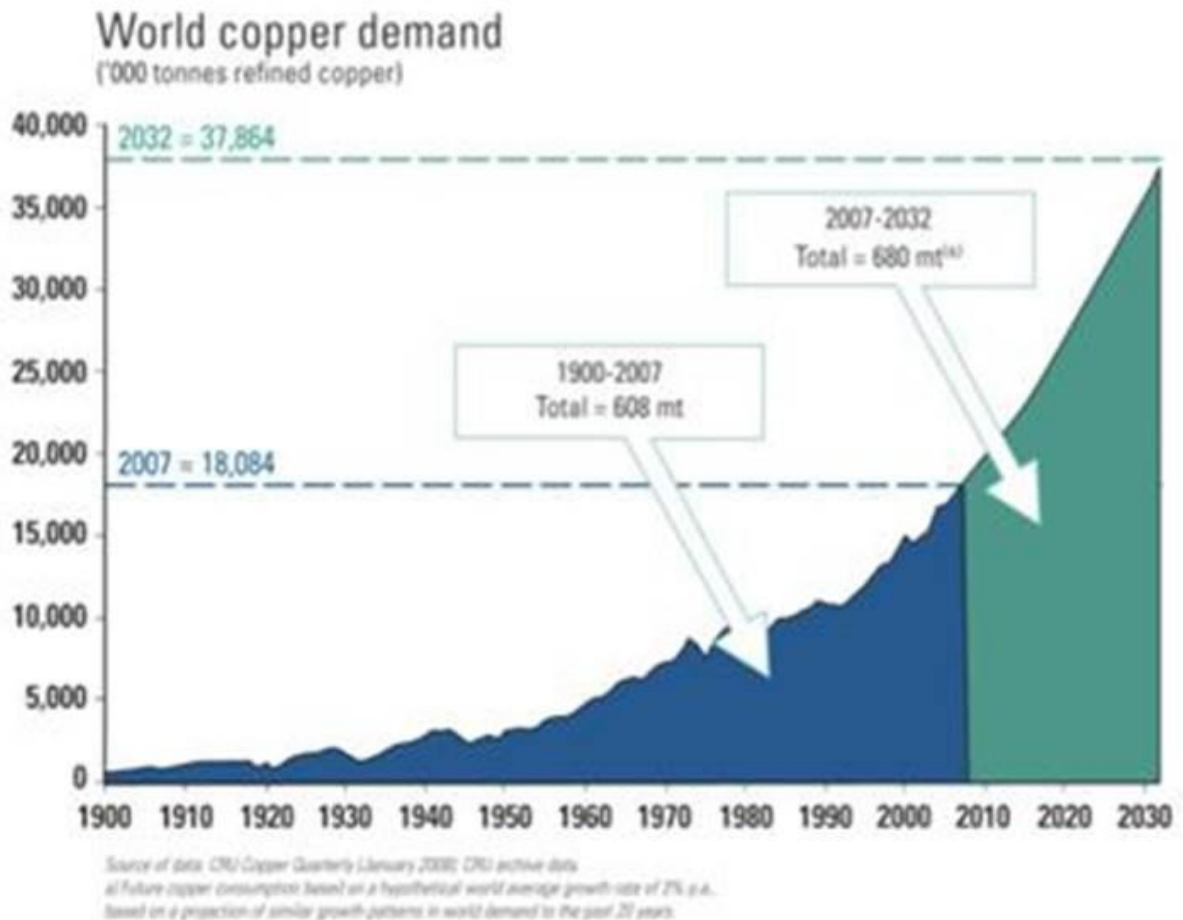


And, because only long history lets us understand the true nature of things, here's 23 years of Freeport in the market:



Hmm. That long chart does make this past year look like a stroll in the park, doesn't it? For investors who are not speculators, this kind of chart might as well be marked with a skull and crossbones, and "Extreme Danger!" . . . unless the company involved has tough, experienced management and enough financial strength to handle real problems. If so, the right label, down at the low points, is "Extremely Interesting!"

Here's our last chart, which looks at a century of past copper demand and a decade or two of future demand. (Pardon the fuzziness.)



The chart was done 10 years ago, but the copper industry—and those analysts from Citigroup—think its message is still on the money. Great portions of the world will urbanize and industrialize over the coming decades (with India gaining on China, and Africa—believe it or not—following India) and the certain result is strong, steady growth in global copper demand. That brings us right back to those Citigroup analysts, whose reasoning exactly follows Freeport-McMoRan's, stated again and again these past few years: copper mines are very rare, very costly to develop, and very slow to move from "discovery" to "production." Though a crowd of short-term problems—potential trade war and potential cooling of Chinese industrial and urban growth are the current favorites—is capable of denting and slowing the world's copper demand for a while, the chart above will not be denied. In the long run the outstanding facts are that copper is scarce, copper is vital to global growth, and global growth will happen. We'll keep suffering along with the market's doubts and up-and-down treatment of Freeport, because the lines on the charts are all going up eventually.

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