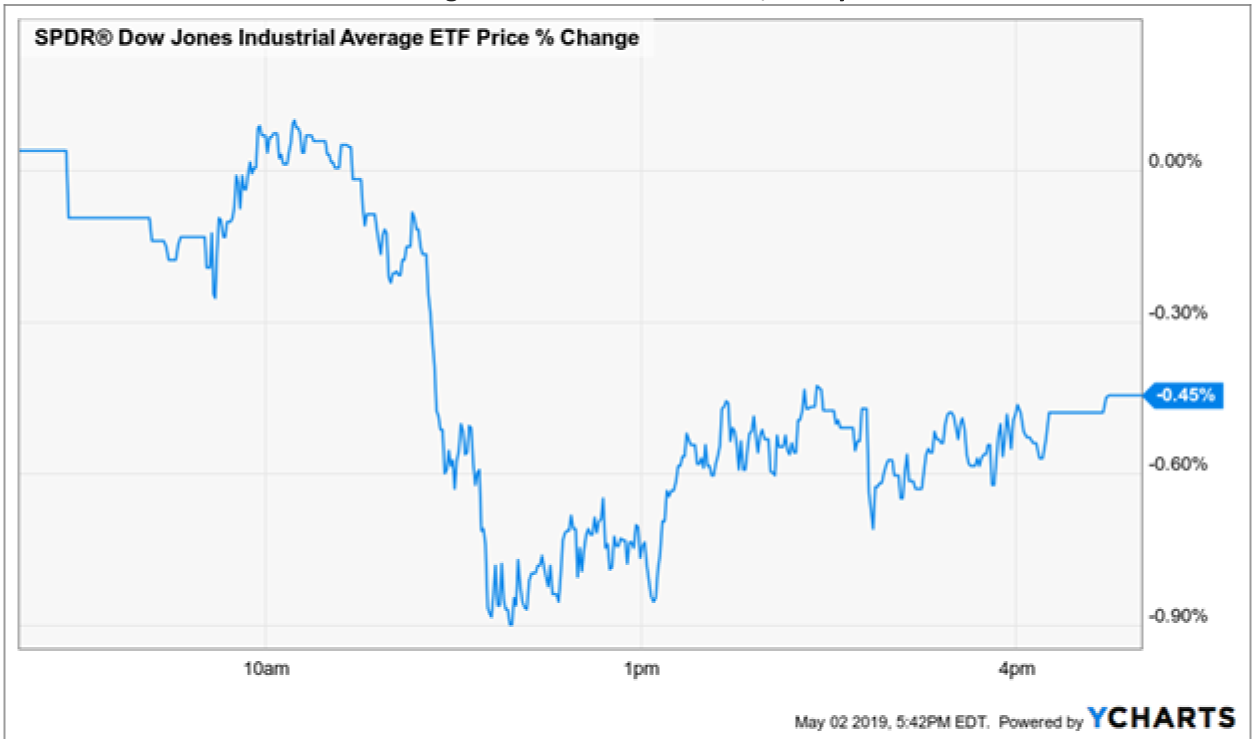
The Outlook: May 2, 2019

Jangled Nerves in the Market Today . . . and Caterpillar

Today was a day like many days for the market, lately. This picture captures it:

Jangled Nerves in the Market, Today



An early attempt to find a few scraps of good cheer was too feeble to last beyond the first 60 minutes . . . then down the market plunged, down where it's been feeling at home lately, seeing almost every piece of news from the real world in the worst possible light. Almost every piece of news. The exceptions have often been things the market *should* have greeted with horror, instead of a satisfied chuckle and fist pounding on the "Buy" button. Yes, the market's had it upside-down for a while: good news is despised, bad news is cheered.

In other words, it's behaving just as it often does, for surprisingly-long but still temporary periods of time. That picture above does capture the mood: anxiety has been calling the tune.

Then along came Caterpillar, this morning, with a brief press release which the market completely ignored. Here's a summary.

CAT : Caterpillar ups dividend by 20% ahead of investor day • 7:48 AM

- *Caterpillar (NYSE:CAT) has authorized an increase to its quarterly cash dividend of 20% to $1.03 per share of common stock, payable August 20, 2019, to shareholders of record at the close of business on July 22, 2019.*

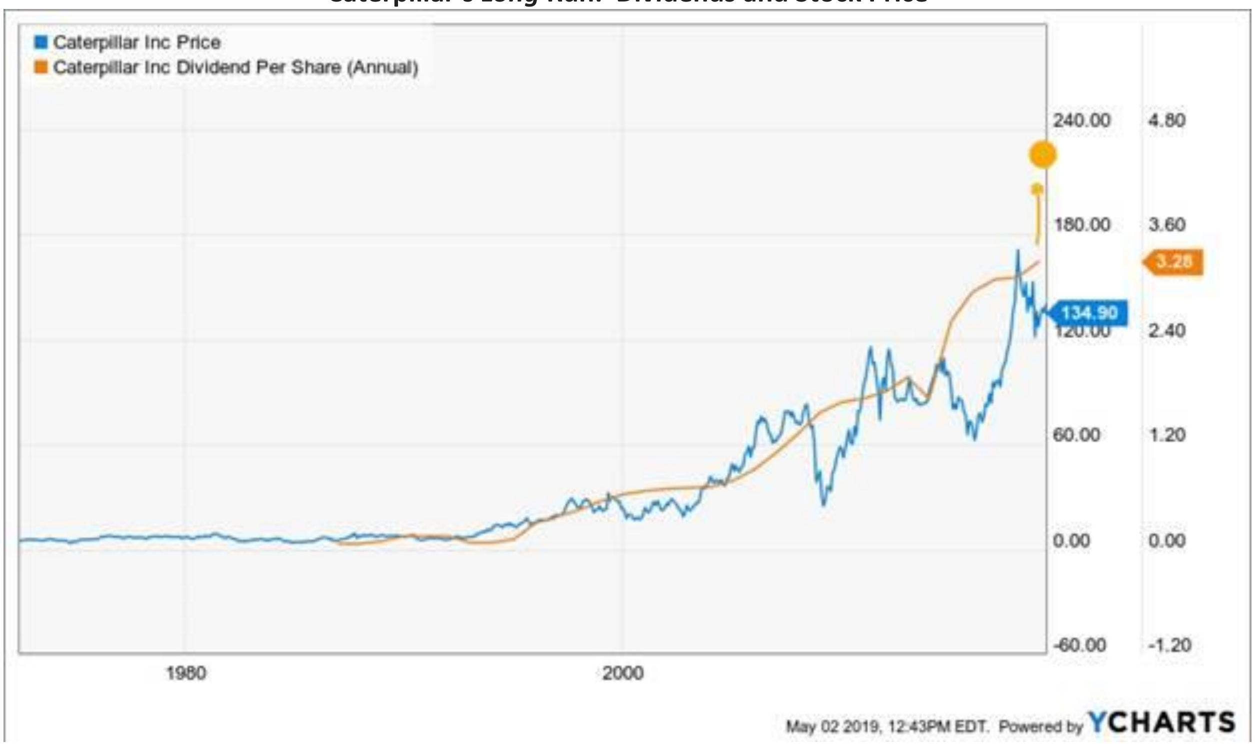
- *"Caterpillar expects to increase the dividend in each of the following four years by at least a high single-digit percentage. With its remaining free cash flow, the company intends to repurchase shares on a more consistent basis, with the goal of at least offsetting dilution in market downturns," according to a press release.*
- *Later today, Caterpillar's executive leadership team will describe its plans to grow services. It intends to double Machine, Energy & Transportation services sales to about $28B by 2026, from a 2016 baseline of about $14B.*
- *CAT +0.8% premarket*

We've highlighted "20%" in red . . . because it deserves it. Just the other day, Theresa's "Inside Caterpillar" report summed up what is going on: thoroughly mixed results, some product lines up and some down, some parts of the world up and some down . . . and all-time record first-quarter profits and profitability per dollar of sales. Caterpillar is making a great deal more money at today's sales rate than it did 5 years ago, at the same sales rate. Financially-strong companies run by experienced, determined and aggressive people do that. America has quite a few such management teams, but Caterpillar has some of the best.
We're homing in on the point . . . but let's take a quick sideways glance at those "exceptions:" that is, the kind of news which should be frightening—to people who see the world clearly and judge it with common sense—but has instead been triggering good cheer and applause, mostly, from this peculiar market.

We only pick on Tesla because it's a very good example of those "exceptions." Let it stand in for Uber, Lyft, WeWork and Beyond Meat, among many other money-losing companies which have "gone public" (or will soon) this year, at valuations which only make sense if in fact the sun, the moon and the stars are within reach—in the next year or two—for each new company, regardless of massive losses today. In Tesla's case, that "gap up" this morning, toward the right of the chart, went along with the company's announcement that it would be selling more stock and issuing more debt to raise $2 billion of cash reserves. That seemed like a good idea, since those reserves plunged 40% over the past 3 months. The market liked it quite a bit, while continuing to ignore the awful tightrope Tesla is walking—and will keep walking for the foreseeable future, while it's alive—as it tries to stop losing money in the face of all-out war declared by a host of infinitely stronger auto companies, and the gradual loss of the remarkable tax subsidies with which so many governments have blessed it, around the world.

So the market has ignored genuinely alarming news about a few celebrated companies, and ignored genuinely impressive news about a great many uncelebrated but high-performing companies. Like Tesla, we'll let Caterpillar stand in for that crowd:

Caterpillar's *Long* Run: Dividends and Stock Price



Notice those wrenching peaks and valleys through the past 20 years? That was Caterpillar, going through hell, occasionally, but always coming out stronger than ever. And the orange line? That's CAT's unstoppable growth in dividends, which means unstoppable growth in cash flows over the years. The big circle at the top right is CAT's new dividend, up 20%. Shall we wonder which way the blue line will be going, and how strongly?

Outlook has noted, a few times, that the biggest mistake investors can make is to give the market credit for wisdom, good judgment, and common sense. The market is simply a giant crowd of anxious speculators looking for quick opportunities to make a buck. It acts just as we would expect such a crowd to act: jittery and jangled, much of the time, and very far from the state of mind which lets them consider the deeper and long-term meaning of facts about the real world, as they show themselves to us each day. Like all crowds, the market crowd can see things upside down, for startling time periods. It cannot keep doing that. It never does. The facts drive the real world, not the market's moods . . . and when the facts are cash on the barrel-head, like Caterpillar's 20% dividend hike, they eventually grab the market crowd by the collar, so to speak, and say, "Wake up. You're missing the boat, and there is a lot of money on it." They also eventually say—with regard to the Tesla's, Uber's, Lyft's and WeWork's—"Wake up. You're on the boat, and it's going down. Jump off, and swim for it."

The main reason we investors (we few, we valiant and patient few) doubt the "right between the eyes" message of that Caterpillar chart is because the market can take so very long to finally jump off the silly, leaking rowboats and jump on the battleships forging ahead at 30 knots, like Caterpillar—and we must endure the wait. "Endurance" is a term of respect . . . because it's hard, and uncommon. It's worth it, though.

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

The remarks above aren't a general recommendation to buy or sell particular securities. Such decisions should only be made in the context of an investor's own circumstances. Stocks and bonds carry the risk of loss.