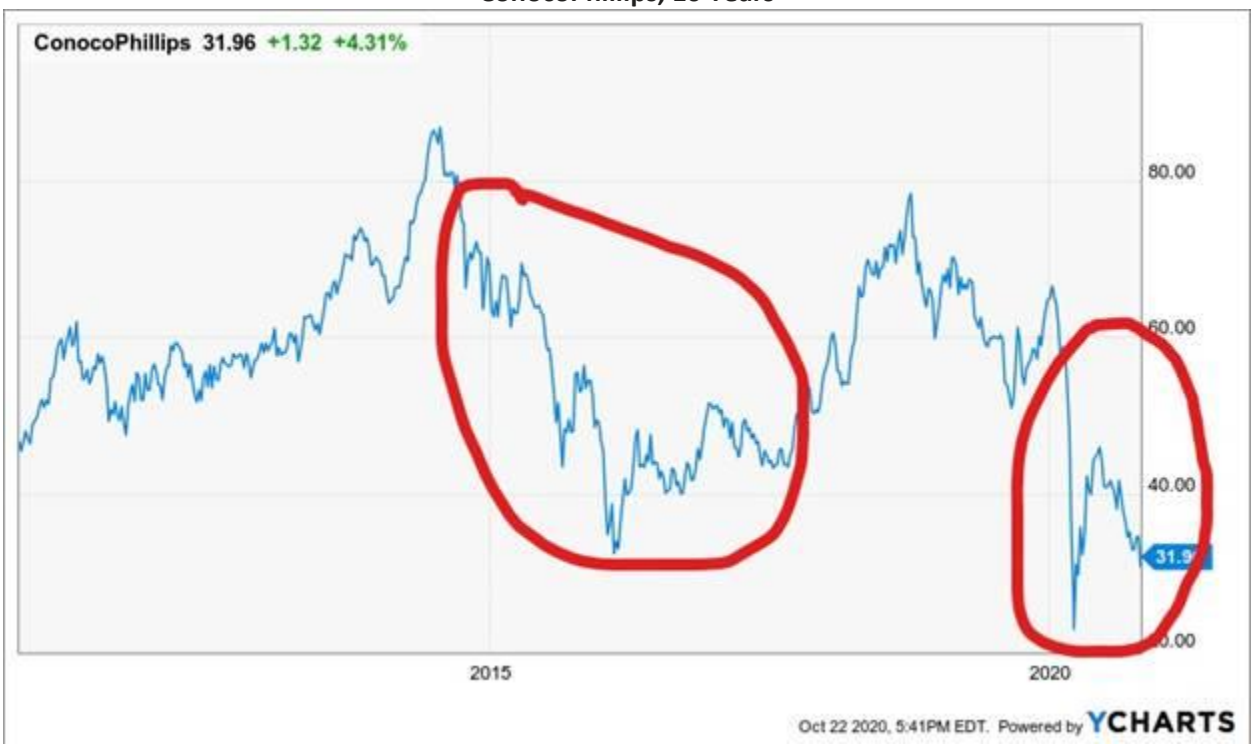
The Outlook: Oct. 22, 2020

Making money at Conoco: passing up a little, this afternoon . . . for a lot, later.

"Be interested in strong companies with good people, dealing with pain" is another Outlook golden investment rule. Conoco fits that bill in spades, as the big red "pain" circles show, below:

ConocoPhillips, 10 Years



The rule is often worth its weight in gold, so to speak, because of the nature of the market: dominated by speculators who want their bets to be rewarded today, hence spend their time guessing about the impressions each item of news might create in the minds of . . . all the other speculators. That "news" contains a vast amount of false or meaningless news—which is still good at creating impressions—but it also contains a steady, slow stream of absolute truths and hard facts, which stubbornly keep on coming regardless of being ignored . . . for a while.

What really matters to companies (and us investors) who are dealing with red-circled periods of problems and pain, though, is not impressions. It's what our companies and their good people are *doing*, while they pass through the red zones.

Conoco has spent its time creating remarkable financial strength (by cutting its debt and costs) and lowering its break-even cost of oil production. As oil fell, from 2014 – 2016, from $107 to $27 per barrel, Conoco's CEO Ryan Lance promised investors that his company would make itself profitable throughout the oil price cycle: high, low and in-between. He has done exactly what he promised . . . and this week he put the icing on the cake by acquiring shale-driller Concho Resources for $10 billion. (In Conoco shares, rather than cash.) Concho is a big, fairly strong company—for a shale driller—which owns some of the best (lowest-production-cost) shale properties in Texas, which happen to sit right next to a good chunk of

Conoco's best Texas shale properties. Combined, the two companies' shale oil reserves can be brought out of the ground for less money than they could, separately, because people and costly equipment can be shared more easily and profitably.

It's called "scale," of course, and it's why big factories put small factories out of business; big farms and ranches do the same thing to small ones, etc. So the most significant line in Conoco's press release was: "This merger brings our combined break-even oil price below $30/barrel . . . one of the lowest in the world." And that, in turn, means that when the price of oil finally climbs again—and keeps climbing for a while—Conoco will make a lot more money at $50, $60 and $70 oil than it ever did before, at those prices . . . just as Micron, Freeport, Caterpillar, Cummins and other Outlook core companies will do, as their product prices rise, because of what *they've* been doing in their "red circles of pain."

A long time ago, one of Outlook's clients (the president of a manufacturing firm) said, "You know, business isn't rocket science. It's just arithmetic. It's not hard to understand how it works, and what needs to be done. What's hard is actually doing it. That usually requires guts, patience, leadership and other things like that, which aren't too easy." The market's daily speculating crowd just doesn't care about "things like that." They never sound like money-makers, this afternoon. But they're extraordinary money-makers, eventually.

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