

The Outlook: June 4, 2019

Micron. The market. Brain waves of a lunatic.

Let's glance at the chart below. It will help us understand one or two things . . . especially our emphatic investment in Micron Technology, which might have been testing the patience of some Outlook clients lately.

5 Days: the Market, and Micron



Pardon the chart, which at first glance might be the brain waves of a lunatic, but in fact is the past 5 days for the market (blue) and for Micron (orange.) ("Brain waves of a lunatic" fits after all, doesn't it?) The terrifying plunges were "China Trade War!" and "Maybe Mexico, Too!" Today's 500-point rocket ride toward the stratosphere was "Hurrah! The Federal Reserve Might Cut Interest Rates!" There was no news about Micron; it just went along for the ride in both directions.

At Outlook we've commented a few times about the galactic differences in how different investors (and speculators) "understand" the market, or the economy or the world in general. The most galactic of those differences boils down to "Who runs things: government, or a galaxy-sized crowd of individuals pursuing their own interests?" Among the believers in option # 1, the deepest faith rests on the Federal Reserve, or the other major central banks in the world. "The Fed determines almost everything, in the end," sums it up.

Outlook, of course, belongs to the 2nd crowd. We think most business and individual economic progress flows from determined people responsible for themselves or their companies. Our short-hand way of dismissing the notion that the economy's fate rests with the Fed, today, is one question: "Interest rates

are at 2%. Do we really think 2% interest rates are holding the economy back . . . hence a “Hurrah!” cut to 1% would save us all from stagnation? Really?”

That brings us to today’s 500-point “Hurrah!” We might suppose that there must, surely, be something to all that faith in the Fed, when the market exploded into party mode after the Fed Chairman, Mr. Powell, allowed as how the bank will think about cutting interest rates to soften any damage from “Trade War!” “Nope,” says Outlook. “There is nothing to it.” Then what can the meaning of today’s rocket ride possibly be?

Here it is. Today’s rocket ride is simply the other side of the coin of all those cliff-dives we see above, and earlier. The cliff-dives were not founded on real-world facts backing up real understanding of how the economic world works. They were founded on fear, uncertainty and doubt—so of course they were remarkably overdone. But the more horribly fear, uncertainty and doubt run amuck, the more eventually obvious becomes their detachment from any conceivable reality—so that almost “any excuse will do” to launch the rocket ride on the other side of the coin.

Micron Technology sheds light on this point.



There’s Micron, peaking at \$62/share one year ago. Then the cliff-dive to \$29 on Christmas Eve; then recovery to the low \$40’s; now another cliff-dive toward \$30. At \$30, Micron trades at 2.5 times the \$12 per share it earned last year. That it will earn \$12 per share once again, sometime over the next few years, is as close to a “sun will rise tomorrow” certainty as Outlook has ever seen. That makes a price/earnings valuation of 2.5 qualify for any adjective we care to name: “silly,” “absurd,” “ridiculous” but best of all, “practically free money, to be picked up off the street.”

As Outlook has noted more than once, the market does such things. It is the market's nature. Sometimes it's "absurd" on the high end; sometimes on the low end. "Absurd" quite often lasts long enough to make us fearful, uncertain and doubtful that our view of the world is the right one, and the market's is the wrong one. But when the market departs from reality it always returns, long wait or not. It's forced to return, in the end, by the cold cash earned by companies and given to shareholders. (Or by the complete absence of it, at the other end of the silly-scale.)

Three weeks ago Micron's chief financial officer gave a down-to-earth talk about his company. There were many interesting and reassuring details, but the heart of it was, roughly: "The world's memory needs are exploding. Memory is becoming much more costly to make, and much harder to keep improving. Micron and the tiny handful of companies left in this business have manufacturing and technology leads which will be very hard to overcome, by anyone including China. Memory chip prices will always ebb and flow . . . and the market always hammers our stock when they ebb as they're doing now. But they'll come back, and we'll make a great deal of money when they do."

None of this is a mystery to the speculating mob which rules the daily market, and has driven down both the market and Micron throughout these anxious "Trade War!" months. They know what's coming in Micron's future. But they'll wait until the last minute to jump on that bus again—that is, they'll wait until a chunk of their own crowd has bolted for the door of the bus in response to some news item which tipped them over the edge from "fear, doubt, etc." to "Let's get in on it!" We can't know when that dash for the bus will begin, or what item of news will do the tipping. We can know that 2.5 times fairly near-future earnings is money on the street, and we'll always pick it up.

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