

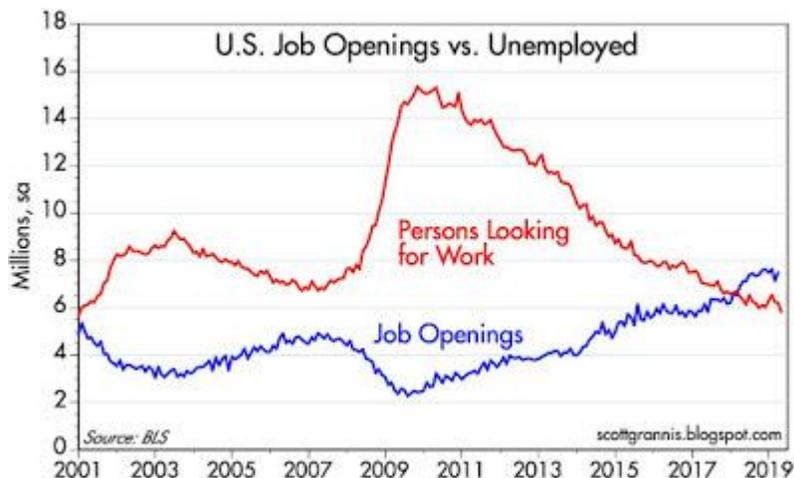
The Outlook: May 16, 2019

Headlines, or Reality? Making the Right Choice.

Possibly the hardest—and most important—single thing for investors to do, if they'd like to make money instead of losing it, is to actually follow this advice: "Ignore the Headlines!" It's not too hard for us, sitting calmly in an armchair sipping lemonade with a friend, to offer complete intellectual agreement with this principle; but it's quite another thing to actually do it, when the headlines are screaming their daily message of doom and the market is acting like it agrees. "Well, certainly we know the news is endlessly distorted, exaggerated or even purposely twisted," we might say; "but . . . I'm losing money! Maybe this time the headlines and the market are right!"

That, of course, is one of the reasons Mr. Charlie Munger, Warren Buffett's partner for the past century or so, has remarked that "Good investing takes good judgment, all right . . . but it always takes nerve, too—and that's where most investors fail."

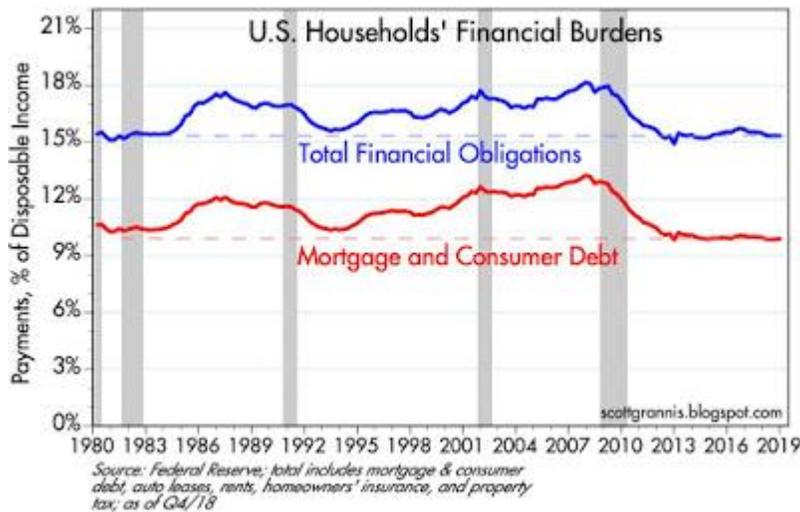
One of the best ways to shore up our nerve is always to get perspective, by looking at cold, hard facts before they're distorted by the headline-makers (and quite a few others whose business works better when people are alarmed.) And one of the best economists in the country, when it comes to showing us those facts and that perspective, is Scott Grannis. Here are a few cold facts, courtesy of Mr. Grannis.



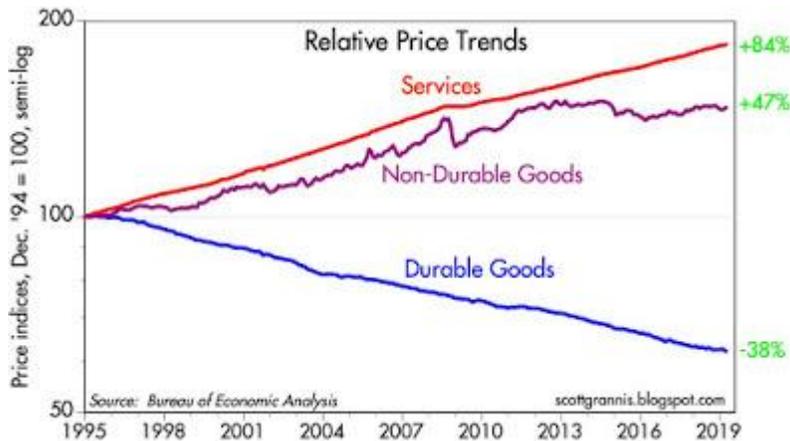
Inflation Plus Unemployment



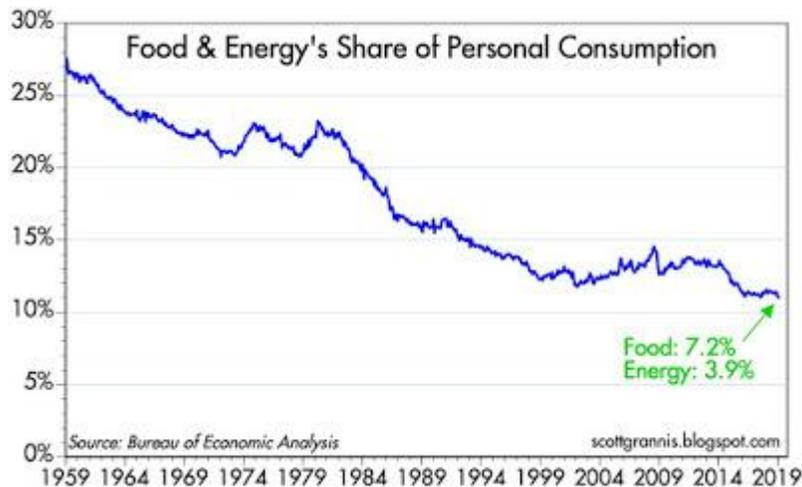
Outlook has commented pretty often about the mind-boggling nature of America’s jobs and employment situation, these last few years. Just above is a famous statistic: the “Misery Index” which adds together the rates of inflation and unemployment. They are at 60-year lows. And above that is another side of the same picture: more jobs openings (a lot more, in fact) than people looking for jobs. That has not happened in well over 20 years . . . and even 3 or 4 years ago, it would have been nearly impossible to find a single economist who would allow that it just might happen, someday.



We’ve glanced at this chart before. It’s worth it. We stand at 40-year highs in the financial strength of U.S. households.



This one isn't quite as easy to follow at a glance. Here's Mr. Grannis' summing up: "An hour of labor buys three times the durable goods (flat-screen TV's, lawnmowers, etc.) as it did 25 years ago." And the message is reinforced below:



60 years ago, we spent 27% of our income on the vital necessities of food and energy. Today it's 11%.

We could go on and on, but we get the picture, don't we? The tone of so much of the anxious economic news headlined most days is, "Don't be fooled by anything that looks good! We're riding for a fall. It's quite likely to show up soon, and when it does the pain will be shocking."

A good many of the crowd of people giving us that advice actually believe it. Others—and the media leads this list—may or may not believe it, but they know how their bread is buttered, and "If it bleeds, it leads!" will forever be the media's own guide to survival. A long time ago a young investment analyst, after only a few years in the business, had entrenched himself firmly in the "Sky is falling for sure, sooner or later," camp . . . because, like today, the overwhelming majority of those analyzing and writing about the investment world—and every other world—spent most of their time convincing themselves and everyone within reach that getting underground, fast, was the only hope for survival. That, by the way, meant buying safe money market funds with sky-high yields near 20%, then sleeping well at night.

That overwhelming majority were dead wrong, of course; and the 20% yields vanished without a trace—while investors with nerve, who had ignored Time magazine’s “The Death of Common Stocks” cover piece, made the usual astounding returns, eventually. It was about that time—the early 1980’s—someone with gray hair sat down with our young analyst and showed him a 100-year chart of the stock market, along with the astounding growth in profits and dividends paid by big American companies. “Which do you think tells you more about reality?” he asked. “The endless gloomy headlines . . . or this picture of a century of economic miracles? Do you really think those miracles are finished?”

It is for each investor to decide for herself what the right answer may be, to that question. At Outlook we decided a long time ago . . . and as Mr. Grannis’ pictures show, we made the right decision.

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