The Outlook: Oct. 8, 2020

When the news is terribly obscure . . . but probably true.

A Golden Rule of this age, for investors and everyone else, is: "The Bigger the Headline, the Bigger the Grain of Salt." The other side of our Rule might be: "The smaller and more obscure the news item, the more interesting (and maybe even true) it might be." Here are 3 terribly-obscure items from the last couple of days:

- ***Japanese miner Sumitomo Metal said on Thursday it was reviewing its strategic options regarding its minority stake in Sierra Gorda copper mine in northern Chile, majority-owned by Polish miner KGHM (WSE: KGH).***

  "Reviewing our strategic options" is, of course, one of the most celebrated euphemisms in the vast jungle of business jargon. It usually means, "We're in big trouble. Help!" And to the long-suffering staff of any company which says it, it means "Refresh your resumes! (And cancel any big spending plans.)"

  Here's the only other sentence we need, from this obscure story: "KGHM has been criticized for the steep investment allocated to developing the Chilean mine ($5.2 billion and counting). Sierra Gorda, which began production in 2014, has constantly failed to meet expectations due to challenging metallurgy and difficulties in using seawater for processing." That might sound familiar, when we remember what Freeport-McMoRan's CEO, Richard Adkerson, has been saying about the intense difficulty of finding and developing new copper mines around the world. So let's end this item with a picture of Freeport, lately.

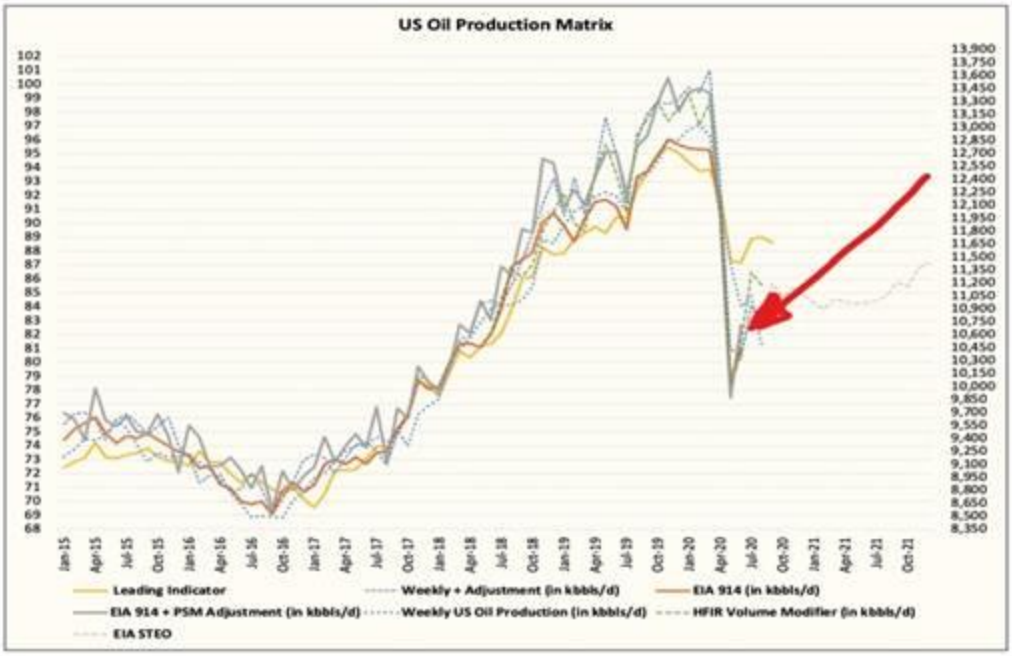
Freeport: Up 217% since the March bottom.

That March bottom of $5 per share was one the silliest among a great sea of silly stock values, back in March. When it comes to copper-mining know-how and competence, Freeport is to Sumitomo and KGHM as Usain Bolt is to . . . a sumo wrestler, when it comes to sprinting 100 meters. Mr. Adkerson has been right about the fundamental story behind his industry, and we'll keep being reminded of how right he is, for quite a long time to come.

- ***Caterpillar Buys Shale-Equipment Division of Weir Group for $405 million.***

Weir is a small company with a top reputation for certain pumps and other gear used in the shale fracking business. Weir has been hurting (pardon, "reviewing its strategic options") because of this picture, which symbolizes the combination of train wreck and San Francisco Earthquake of 1906 which is the U.S. shale business, at the moment.

Shale and US Oil Production: Off the Cliff



For Caterpillar, spending $405 million is nothing much . . . except a lesson about how "the strong get stronger, and the weak go bankrupt" when the fires are hottest. CAT is buying very good products and loyal customers at the bottom, because it has the strength to do that. Weir is selling them at the bottom, because it can't wait out the possibly-torturous years that might pass before the surviving shale drillers go back to work. Let's finish this item with CAT's picture. This stock is near its all-time high, amazingly enough in this Calamity Year of 2020; but even now it is only valued at 14 times last year's earnings. The word for that is "emphatically cautious, even doubtful." There is a galaxy between CAT's valuation and the Celebrity Tech stocks' valuations, which is why Outlook is glad to own it, and keep buying more.

- ***"Carnival said that first-half bookings for next year "reflect expectations of the phased resumption" of cruising (that means "no good" in plain English) but that, as of Sept. 20, <u>second-half bookings "are at the higher end of the historical range</u>."***

  Airline travel (and the airlines) are still lying crumpled at the bottom of the cliff, pretty much. New York City's subways are idle or empty, and "train wreck" hardly describes the financial condition of the Metropolitan Transit Authority. The hotel industry is at 35% occupancy, or so . . . and has no idea when the industry's required 70% to 80% occupancy levels might ever be seen again. But the Carnival cruise ship company is seeing real people book cruises, putting down real money, "at the high end of the historical range."

  We will all have our own ideas about that, possibly ranging from "How could so many people be so crazy?" to "Good for them!" But the useful thing about this obscure item, to Outlook, is that it confirms our belief about the fundamental nature of Main Street, from its businesses to its ordinary consumers. Main Street was certainly frightened by the "Virus Crisis" earlier this year . . . but Main Street has never, in any period of American history, stayed frightened all that long. It gradually absorbs facts about the Nightmare of the Day, as they come out; and it gets back to work building its companies and its lives. Whoever all those cruise customers are, who are reserving spaces with Carnival, they obviously don't think either the Virus or the Lockdowns are going to be a permanent anchor, dragging down normal behavior among normal people.

At Outlook we don't either.

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

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