

## The Outlook: Dec. 8, 2020

***The market wonders whether to be fearful or greedy. Those in the arena don't care.***

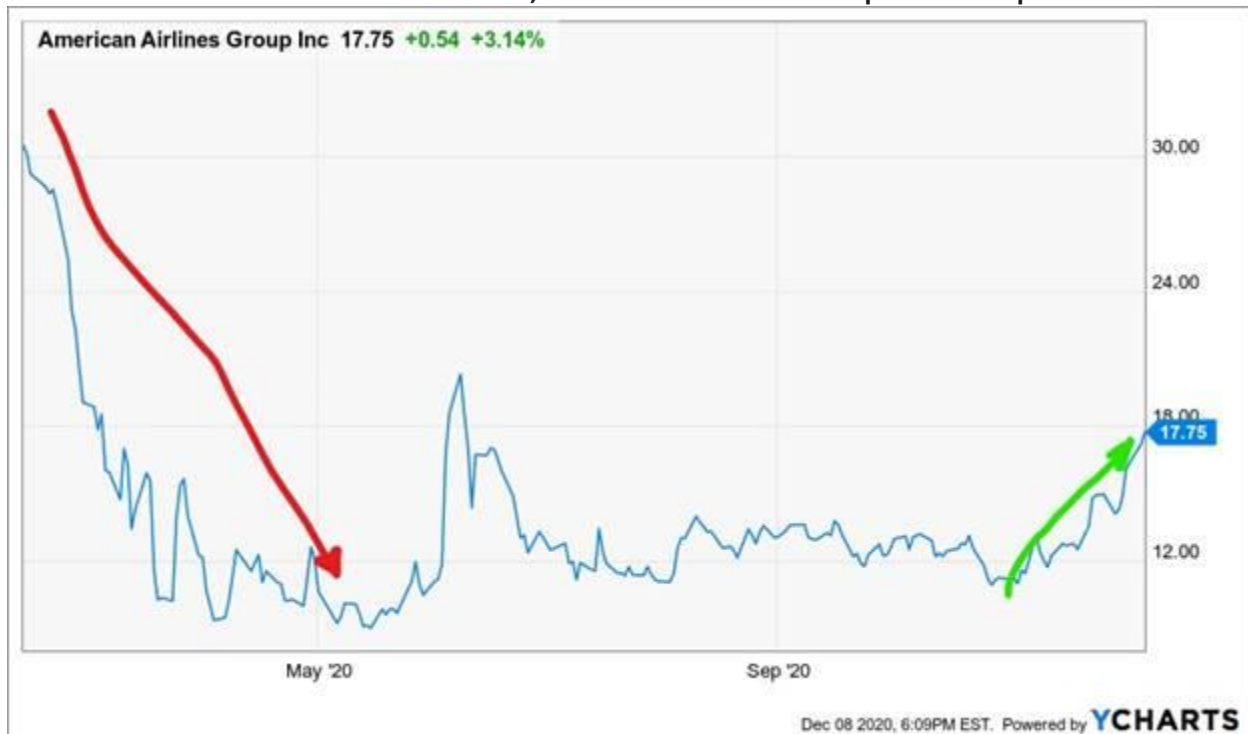
Here's a wishy-washy kind of Golden Rule for investors: "Fear is stronger than greed . . . except when greed is stronger."

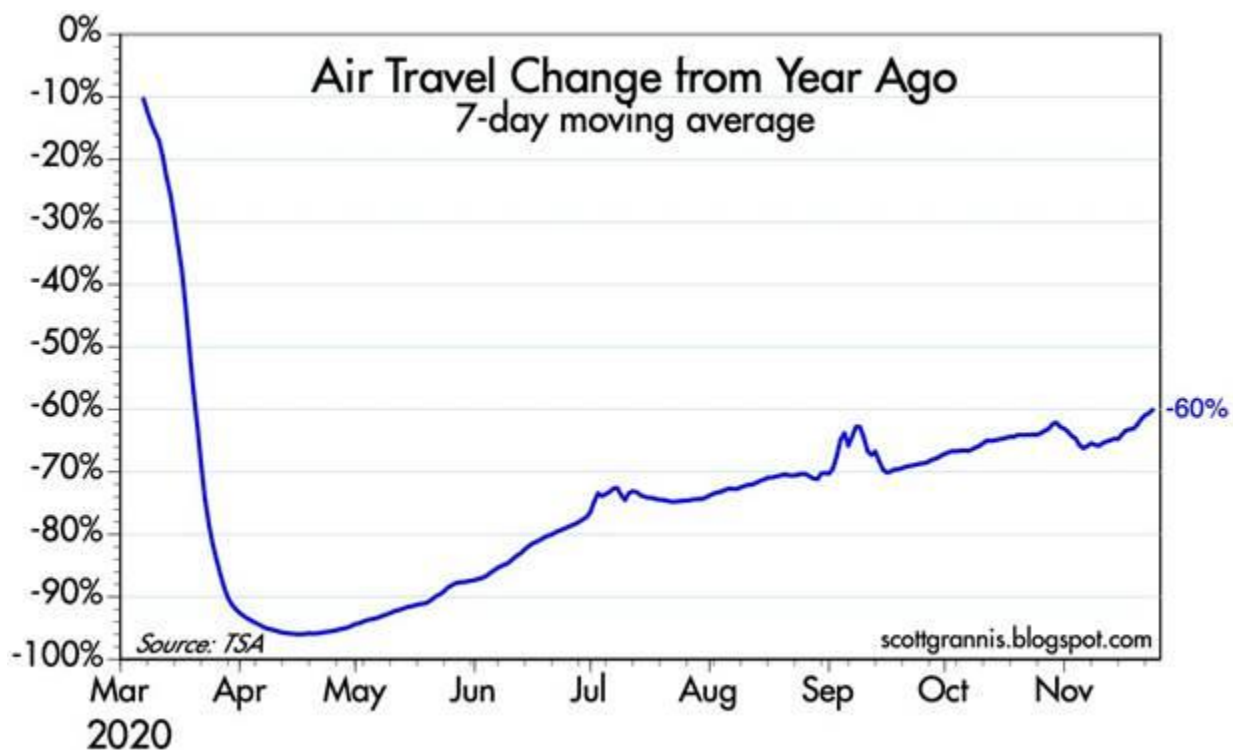
It's not quite as useless as it looks. When we ponder the long history of how the market values companies, the fact which jumps out is: "It goes to extremes, quite often . . . but always changes its mind eventually." Our personal observation, at Outlook, is that "extremes of pessimism" are far more common than "extremes of optimism," hence "Fear is stronger than greed;" but there are always plenty of examples of mind-boggling optimism floating around, even when tidal waves of fear happen to be washing over most of the market.

As we've noted a few times recently, the market looks very much like it's in the act of "changing its mind, eventually," about so-called "value stocks." That term means whatever different people want it to mean. In this case, though, a group of strong industrial-and-commodity-based companies have been loaded with market "extreme pessimism" for a long time, which they did *not* deserve; and the market certainly seems to be agreeing, finally. Outlook and its clients own them, and it has been one of the most enjoyable months of this Year 2020, lately, as we've watched the market changing its mind. (Hmm. It's been the only enjoyable part of 2020, pretty much.)

Having wallowed in doubt and misery for so long, it feels odd to be free of the burden (temporarily) . . . so let's plunge back into the swamp with another quick look at American Airlines: a company we don't own, but which can write the book on "doubt and misery" this year. Here is American's story in 2 pictures:

**American Airlines: Down 70%, Then Months in the Swamp . . . Then Up 60%.**





Only a month ago, American was near its “swamp” low at \$11/share. Now it’s approaching \$18 . . . which sounds nice, but is still smack in the middle of “extreme pessimism.” The pessimism rests on the bottom chart, showing an agonizingly slow recovery of airline travel to its current position: “only” 60% under last year’s levels. If it stays anywhere near that part of the swamp, American will drown . . . eventually. And though the vaccines are shining a ray of hope at that chart—and the airlines—the dominance of “fear” toward American rests on some emphatic uncertainty about exactly what people will do, after the vaccines, when it comes to flying planes. A lot of traveling salespeople will not rush out to buy tickets and renew their old “52 trips per year” lifestyle—and those business-class seats made a lot of money for American and its peers.

We’ve very often remarked that the market’s short attention span discourages the kind of long, hard look at what companies are actually doing, as they struggle through the crises and swamps of problems which come up for every business. American has been doing a lot. It has cut its rate of “cash burn” a great deal; and taken advantage of extraordinarily low interest rates to postpone the deadly days of reckoning that happen when debt matures, for companies in trouble. Like its fellows in the business, it has gone overboard to make its customers safe from infection, and can prove it with numbers. Nobody is interested in the numbers, at the moment, because the daily headlines are screaming “Run for the Hills! The Virus is Back!” But the low-infection numbers are facts, and they won’t go away. They’ll be seen eventually. And it has just announced a pre-flight virus-testing service at a low cost, available to all domestic travelers. Again, nobody cares just now, with the headlines making so much noise, but they will. Finally, American is making more money from cargo-carrying than ever, lately . . . and has a fair chance of keeping a lot of that business in the future.

“Fear is stronger than greed,” most of the time. Both of those emotions make it tough to look hard at what companies are actually doing, and think clearly. As uncertain as American’s swamp period may be,

at Outlook we have a hunch the company will come back considerably stronger than the market's doubters feel is possible. Outlook's core companies are far beyond American, when it comes to financial strength, but the Golden Rule which they've been proving, lately, applies to American as well: "What counts is what determined business men and women do, in the arena of action, not what the market's sideline critics "feel" at the moment."

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

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