The Outlook: Aug. 5, 2019

When the market is not serious . . . but cash is.

Just last Thursday the market treated us to "10% Tariffs End the World!" Apparently it was only kidding last week, as today we got 767 points worth of "We Told You So! Why Didn't You Sell?" Tomorrow is another day, and it'll be an interesting one, giving us anything from "Too Late Now! We've Erased Half Your Assets!" to "Too Late Now! Why Didn't You Buy on the Cheap, Yesterday?"

If Outlook's tone doesn't sound serious enough, in the face of market behavior which appears to be signaling a world-shaking crisis, that is because the market behavior itself is not serious. It's silly. We've noted very often that over and over again—usually by cliff-diving, but sometimes by skyrocketing—the market forces investors to decide which thing they believe: either the market is a useful guide to our thinking; or it's just the opposite. It is a stark choice, without the possibility of compromise. At Outlook we made our choice a long time ago, and the market's behavior over the decades has reinforced that choice too many times to remember. That's what it is doing now: acting as if remarkably strong companies, performing well in their business operations and valued doubtfully and cheaply by the market, are about to fall to pieces.

The gift of all gifts, at such times, is having cash on hand to buy great assets cheaply. But good investors almost never do, because we know "market timing" is in fact impossible. (Only temporary lucky streaks are possible.) But if that sounds discouraging, we must remember one of the facts about the "remarkably strong companies" in today's U.S. business world. We may be short on idle cash . . . but they are not. They mostly have cash to burn, having handled the countless "frights" of the past 10 years with courage and good judgment, and strengthened their companies to that "remarkable" degree.

Just last week Theresa noted Caterpillar's plan to buy back 9% of its outstanding shares this year—a plan which is more than half done today. We've often commented on Micron's $10 billion of buyback cash . . . which is 20% to 25% of the entire company at today's share price. Those two aren't unusual; they're common. Most of Outlook's core companies have committed to buying back anywhere from 5% to 20% of their outstanding stock over one-to-two-year time frames. They're joined by a truly amazing chunk of corporate America in those plans, and in the availability of cash-on-hand to execute the plans.

Buying back shares, of course, directly increases the ownership value and cash-return potential of every share we own. It would be nice to have idle cash to spend on great values, today; but our companies are spending their cash for us, regardless.

Tomorrow may or may not bring more hundreds of points down. When great companies are hammered down from "cheap" to "even cheaper," we must always buy, not sell—if we possibly can. No . . . the market's behavior is not a useful guide to our judgment; but the way our companies are using cash to buy their stocks more cheaply—*for us*—is indeed a useful guide to our judgment.

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