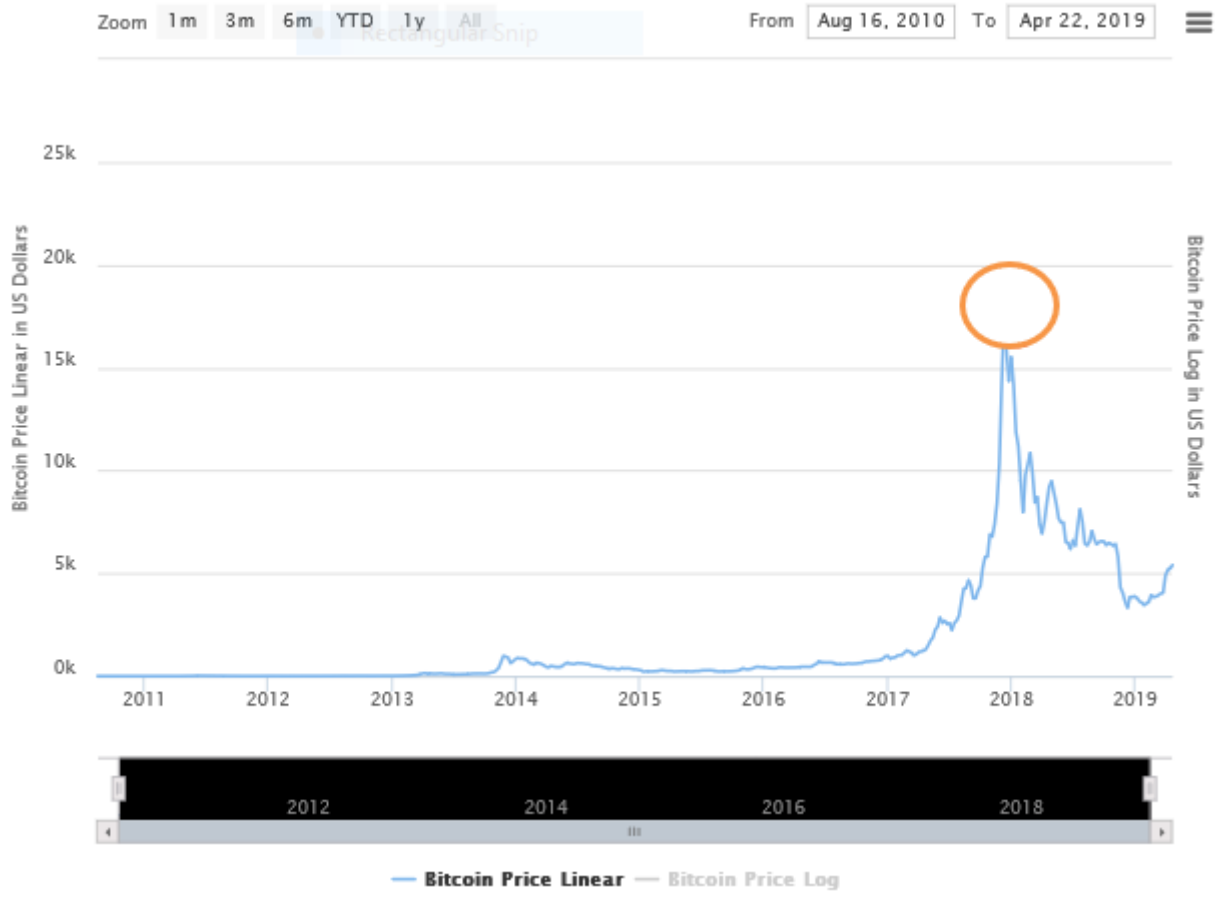
The Outlook: April 23, 2019

Characters and opinions . . . and how we make money.

"So there are the two sides of the story. After two and a half centuries, we lack the facts which might prove one false, and the other true. No matter: as usual, each reader's character shall dictate which he believes, just as it would do in the presence of a mountain of facts."
Winston Churchill, from "Marlborough: His Life and Times" (roughly paraphrased)

Mr. Churchill did understand people, didn't he? He was talking about a scandalous story from his ancestor's early life, which was either pure slander or the truth—but he did get to the heart of how most of us decide far bigger things. We're concerned today with deciding "how the world works" in the economic and investment spheres. Each individual investor should have a very firm opinion about that. If we don't, we will run into big trouble eventually. But there is more than just having a firm opinion about how things work. Unfortunately, there is actually only one right opinion, and a host of wrong ones—and if we fasten our investment behavior on a wrong one, we'll run into even bigger trouble, eventually.

Bitcoin's Train Wreck



Delighting in other people's misery is a bad thing, of course . . . except in the investment world, where it's OK to wallow in other's woes to our heart's content—because we just might learn something. Today's Journal gave us the story of Mr. Masayoshi Son, Japanese multi-billionaire and founder of Softbank, which

invests money on a galactic scale for the royal treasury of Saudi Arabia, among others. That orange circle up there is where Mr. Son made his first investment in bitcoin at the end of 2018, and somewhere down among those rocks at the bottom of the cliff is where he wrote off his $130 million loss. It gets still more delightful—pardon, more educational. Mr. Son was advised to make this killing by a friend: a famous hedge fund manager who had just sold his fund to Softbank for $3 billion or so . . . down 75% from its peak value of $13 billion. At bottom, then, a celebrated investment manager whose mistakes had just cost him a fortune advised his friend, Mr. Son, to buy one of the silliest "investments" of the 21st Century at its all-time high of $20,000 or so, after which it fell to the $3,000 to $5,000 range where it rests with other debris from the clifftop. As Mr. Dave Barry said once or twice, "I am not making this up."

A long time ago, in the mid-1970's, Wall Street's prestigious brokerage firms were known as the "sell side." The nickname arose from their battalions of highly-paid investment analysts—each scrutinizing every move made by 10 or 20 companies in a couple of industries, just like today. They were, and are, clever people; but an odd thing was that 80 to 90 percent of their recommendations were "Buys," with a few "Holds" and downright "Sells" being as rare as dodos. Hence, "the Sell Side," meaning those analysts seemed to believe the world's professional investors should buy practically everything, all the time—from the brokerage arms of the analysts' firms.

40 years later, there has been a change. Instead of "Buy Everything!" it has become "Trade Everything!" There are far more "Sells" than ever before, and "Hold" has disappeared, mostly, in favor of "Neutral," which means "Keep one hand on your cash and the other poised over the "Buy" or "Sell" buttons, later we'll tell you which." As far as Wall Street's finest analytical minds are concerned, the way the investment world works is by speculating about the short run. We don't know what they think the long run is for . . . <u>because they almost never mention it</u>.

Crowds are always crowds—and people in crowds mostly act exactly as they've always acted, from ancient Rome to Marlborough's 18th-century Britain to this afternoon. They worry a lot about what everyone else is doing, and whatever everyone else is doing has a big influence on their decisions. That's why Mr. Son decided to buy bitcoin around $20,000. He is worth $19 billion; he is certainly as "smart" as can be; and he surely has an army of clever advisors—among the best in the world—backing him up. But he made an extraordinarily silly investment decision and—to stop picking on him alone—equally silly decisions are made all the time by people just as smart, wealthy, and/or highly-educated and trained.

Why?

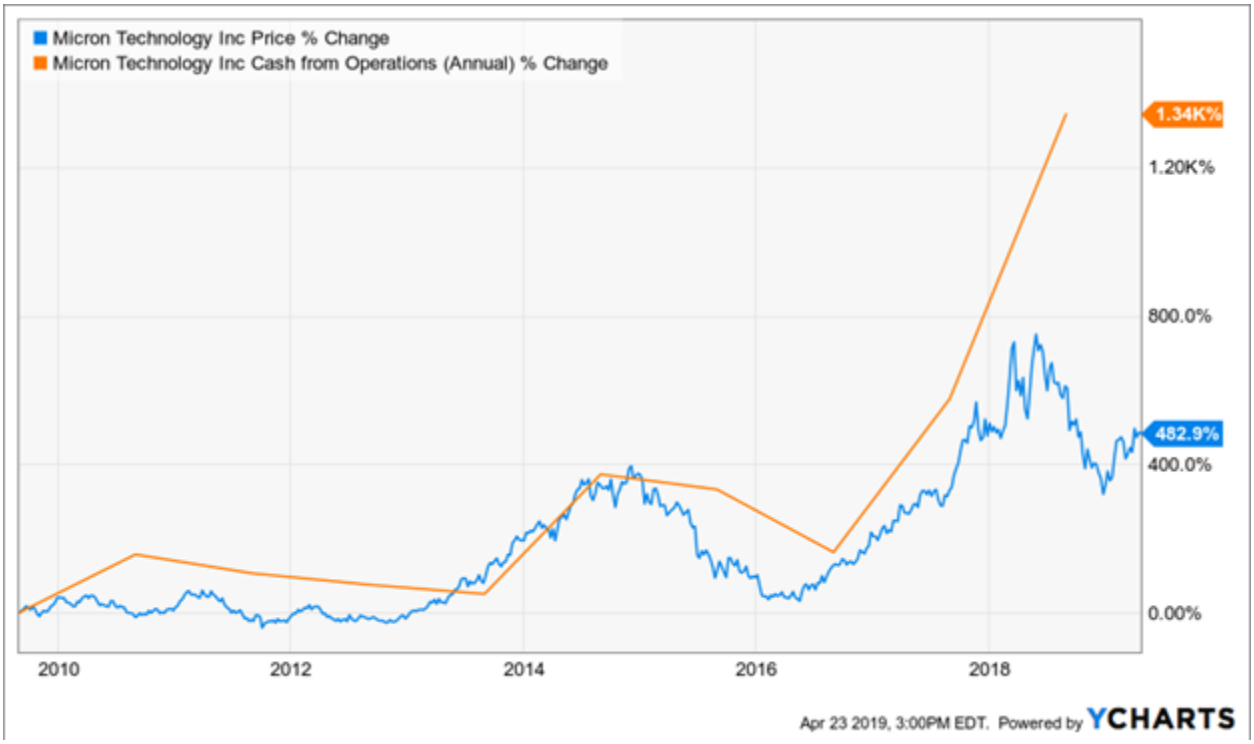
Here's Outlook's opinion about how the investment world works (and, yes, we think it's <u>the</u> right opinion.) Cleverness and high education are plentiful in our business. What is really rare—in the investment world and every other world—are patience; the willingness to endure bad news and anxiety; and the insistence upon acquiring a simple but clear understanding of the future paths of any business we own . . . and basing our investment decisions on that understanding. Here's another picture:

Micron's Operating Cash Flow and Stock Price: 10 Years of Cycles

We've talked a great deal about Micron over the years. Notice the cyclical peaks and valleys in its operating business (cash flows) and stock price. Each low is higher than the one before; as is each high. Here's the funny thing. Outlook, of course, has a very clear understanding of the nature of Micron's future business path . . . <u>but so does that army of clever analysts and speculators in the market</u>. Outlook knows, and they know, that the company's outstanding financial strength and the quality of its memory products and factory operations are as nearly certain as anything in the world to keep creating those "higher highs and higher lows" in cash flow and stock price. But Outlook will wait, and will endure the cyclical plunges . . . and they will not. That's not "the way the world works," as far as they're concerned; instead, it works by avoiding losing money in the short term, and also making money in the short term. "Trade Everything," always.

Some of them succeed . . . for a while. Then they stop succeeding—like Mr. Son and his hedge-fund friend. But those sometimes-happy few of us, like Outlook, who think the world works an entirely different way, do not stop succeeding.

Micron's Stock Price and Cash Flows: 10-Year Percent Change



Our company is still near its latest cyclical low: but it's still up almost 500% in 10 years. At last year's latest cyclical high, it was up nearly 800%. It will certainly return to that number and go far beyond. What was required from investors, to collect such rewards, were simply those rare things: patience, endurance, understanding. They are not in the nature of the investment world's crowds, but if they're in our natures, we'll do very well.

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

The remarks above aren't a general recommendation to buy or sell particular securities. Such decisions should only be made in the context of an investor's own circumstances. Stocks and bonds carry the risk of loss.