

The Outlook: June 16, 2019

*What really matters: the people of Hong Kong.*

Of all the things that have happened in the investment world this year (and last), so many of which have so easily frightened the market's gigantic speculating crowd, this matters most:

**Hong Kong Marches for Freedom**



And this . . . and the next:



Weary investors have surely been wondering if there'll ever be an end to the endless string of Wall Street nightmares (Trade War! European Economy Fades! Fed to the Rescue?), or the market's apparent willingness to swallow them lock, stock and barrel and pound the stocks of strong companies into rubble. There will be an end, eventually. There always is. But just now roughly 2 million of the 7 million citizens of Hong Kong did something that matters; something whose value and importance tower so far beyond the "nightmare of the moment" mentality of our speculating crowd that it reminds us investors, weary or not, of the reasons we do well when we ignore the gambling mob and the media which shouts them on, in whatever direction they've chosen to stampede this time.

Hong Kong put its thumb in the eye of China's dictator, Mr. Xi Jinping, whose political servants in Hong Kong tried to pass a law which, at bottom, would erase personal freedom and justice for its 7 million people. The billion citizens of China have no such things, of course; but they never have. China's economic miracle happened because those billion people were given just a slice of freedom, carefully controlled by the dictatorship. But Hong Kong has had real freedom and justice, and only began to lose them, gradually, in 1997 when Britain turned the city over to China.

When 2 million of 7 million people march for freedom in the streets of a city filled with the government's electronic surveillance and informers, they've done something permanent, no matter how it ends at the moment. They've done what an Ohio steelworker said a few weeks ago, when asked by the New York Times why he'd changed political parties: "I love how Trump punched China in the face."

A punch in the face from an unexpected direction was the last thing in the world Mr. Xi wanted, at this moment in time. As Outlook has observed, Mr. Xi has blundered—again and again—in handling the "Trade War" fight with the U.S. He chose to show his true face to the world: ruthless despotism. He turned upside down the watchword of past Chinese leaders, which amounted to the Chinese version of "Speak softly but carry a big stick." With Mr. Xi it's been more like, "Wave the big stick in everyone's face and threaten to hit them with it." Until Mr. Xi, the global business community wished to look past the obvious risks of doing business in and with China. He has made that impossible. But China's economic growth and strength depends on doing business with the rest of the world. Hence Mr. Xi's actions have undermined China's economic path for a long time to come—just when the country's progress along that path is looking shakier than it has in decades.

The market has shown deep anxiety about the damage "Trade War!" might do to a lot of American companies. The damage might be direct, as in "China Bans Micron!" or indirect, as in "China Stagnates, Oil and Copper Plunge, Never to Rise Again!" But it is strikingly obvious—to anyone but the market's trigger-happy speculators—that virtually every "direct" attack China might supposedly make, on U.S. companies or industries, falls into the category of "punching itself in the nose to spite its face." Micron is one of 3 major memory suppliers in the world, none of them Chinese. If China wants to make and sell cell phones to itself and the rest of the world, it needs memory from those 3 . . . and Micron is an indispensable chunk of the global memory industry. The "indirect" kinds of damage are less easy to dismiss. General economic weakness in China *ought* to weaken global demand for copper and oil . . . for a while, until other growing parts of the world take up the slack. But this category of market nightmare quite clearly also frightens Mr. Xi. His "economic management" team (those quote marks do mean sarcasm) have exactly one "go to" rabbit to pull from their hats: massive government spending on construction projects. Mr. Xi pulled this rabbit out months ago, and he's rummaging around in the hat to see if it has any cousins, by any chance. That's why China's demand for iron ore has skyrocketed lately, while its demand for imported oil never weakened.

Government spending is no way to build a truly strong economy. But China has an ocean of money to spend that way, and the way it so quickly opened those spigots tells us something about the stress Mr. Xi is feeling, these days, after painting himself into his corner. The people of Hong Kong just splashed a fresh bucket of paint toward his feet. We shall see what he does with the stick in his hand. But if Mr. Xi does not grasp that 2 million people are something quite different than 20,000 or even 200,000, Outlook strongly suspects that a good many of his equally-ruthless “colleagues” in Beijing do grasp the difference; do not like standing in a corner with Mr. Xi; and have already begun to wonder whether the way out leads over Mr. Xi’s body, so to speak. Again, we shall see. Meantime we shall also see—with the upcoming second-quarter earnings releases and those which follow—that a U.S. business community which has now had 18 months to gaze at this “Trade War!” nightmare; to observe Mr. Xi’s actions; and to consider how to protect and build their companies, have not been sitting on their hands. That’s the last thing American business leaders ever do, by and large. They will be making it increasingly obvious that they’ll thrive, trade war or not, China or not. The market often wallows in its nightmares while that kind of truth isn’t quite obvious, yet; but also tends to snap out of its nightmares in a tearing hurry, before the fog shrouding that truth has entirely blown away. It will blow away. Every single one of our companies is performing solidly in its business operations. While the market wallows, it thinks they’re worth rubble. We don’t, so we’re buying more shares every chance we get.

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