<u>The Outlook: July 3, 2019</u>

The "Best CEO's in the World" and the doubting market.

Every once in a while, the business media runs stories along these lines: "The Top CEO's of the Decade! Profiles in Excellence!" Under the headlines we mostly find admiring interviews and profiles of 5 or 10 bosses, usually from "celebrity" companies which have had wonderful runs of success, in their businesses and in the stock market. As we might expect, CEO's like Amazon's Mr. Bezos and Facebook's Mr. Zuckerberg have been stars of such stories for the past several years. When a company's results seem to be wonderful, it's natural for us to think that a genius CEO should get a lot of credit.

America has quite a few outstanding CEO's. But what's usually missing from those star-struck profiles is perspective: that is, a CEO skiing down a mountain might not have quite the challenges faced by a CEO slogging through a swamp, trying to keep his company from getting sucked entirely into quicksand. That's why, 20 years ago during the Dotcom Bubble, when Outlook was asked who might be the most brilliant, the CEO of Cisco or of Intel, our answer was, "For all we know, neither. The best business leader around might be the CEO of Ford, GM or US Steel, which have been wallowing through deep mud just about forever. The problems those bosses face have been so staggering they make a Big Tech company's challenges look like a picnic."

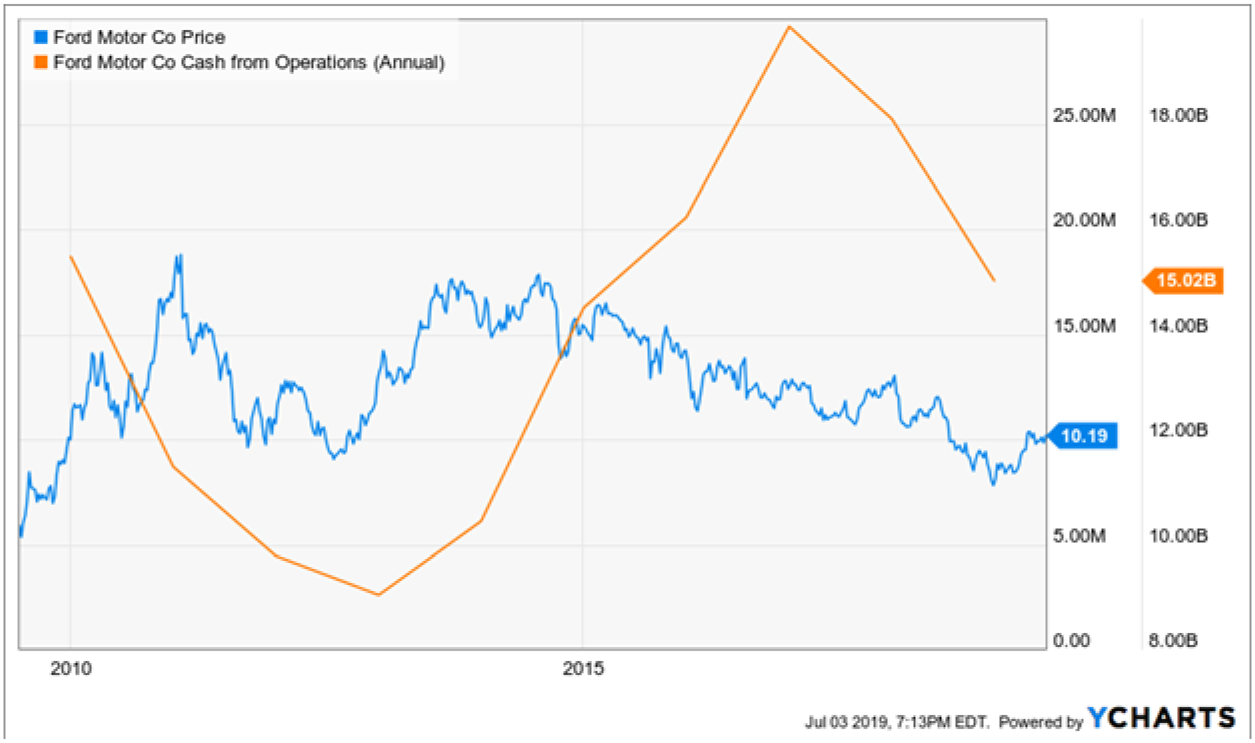
That probably explains why at Outlook, though we've never owned a share of Ford, GM or US Steel (and similar companies) we've checked into how they're doing, now and then. So a story last week about Ford closing 6 factories in Europe (and cutting 12,000 jobs) caught our eye. A little more digging unearthed a really remarkable chart, which unfortunately can't be copied here. <u>It showed Ford's and GM's profits in Europe</u> for the past 8 years (Ford) and 20 years (GM) respectively.

There were none.

These 2 American giants have invested countless billions in Europe: building factories; opening dealerships dealing with Europe's shocking mountains of regulations and bureaucratic controls; and with Europe's unions, whose amazing clout and strength is the polar opposite of their American counterparts'. The result has been 20 years of losses for GM and most of 8 years of losses for Ford . . .*without an improving trend.* GM began cutting back years ago. Ford pulled the trigger last week.

A long time ago an experienced commercial loan officer at a suburban bank told a young investment analyst, "The riskiest loans in the world—except for restaurant loans—are the loans to successful companies, which are now looking to make big-time expansions. You wouldn't think so, would you? But dramatic growth plans often fail, and when they do they often wreck what <u>had been</u> a small-but-strong company."

With help from a bankruptcy or two, Ford and GM are still around. Ford is doing pretty well, considering everything, and offers investors a 6% dividend yield and strong operating cash flows within its business: all valued with supreme disinterest by the stock market, at 7 times earnings. Its decision to begin cutting the pain in Europe will only help that cash flow: the orange line below.



The most interesting question, for both Ford and GM, is: "What took those CEO's so long? Weren't 10 or 20 years of losses a fairly clear signal?" That kind of "obvious" question is exactly why the likes of Forbes and Barrons magazines never dream of including such CEO's on their "Greatest" lists. Outlook's answer, however, points straight at one of our Golden Rules: "Always look at the whole picture—never just one dark spot in it." The men and women running those car companies have been fending off alligators, snakes and scorpions for an endless time, as they've dragged their companies through the swamp. They probably stuck with their losing bets on Europe so long because, first, it's good to be determined to succeed at anything you try; and second, because they had much bigger fish to fry, or escape from. Their "whole pictures," today, show pretty impressive progress in those battles, over the years. And the "whole picture" of their stock prices show just what we would expect, given the nature of the market: doubting, anxious, skeptical valuations which, for a good while, seem uninterested in the companies' clear strengths and improving trends.

We're very familiar with that attitude, from the market. Our own companies' issues and problems tend to pale into insignificance, compared to the car companies'—but they're almost as skeptically and doubtfully valued by the market. As always, the only certainty about those kinds of valuations is that they <u>will</u> change, eventually.

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

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