The Outlook: June 2, 2020

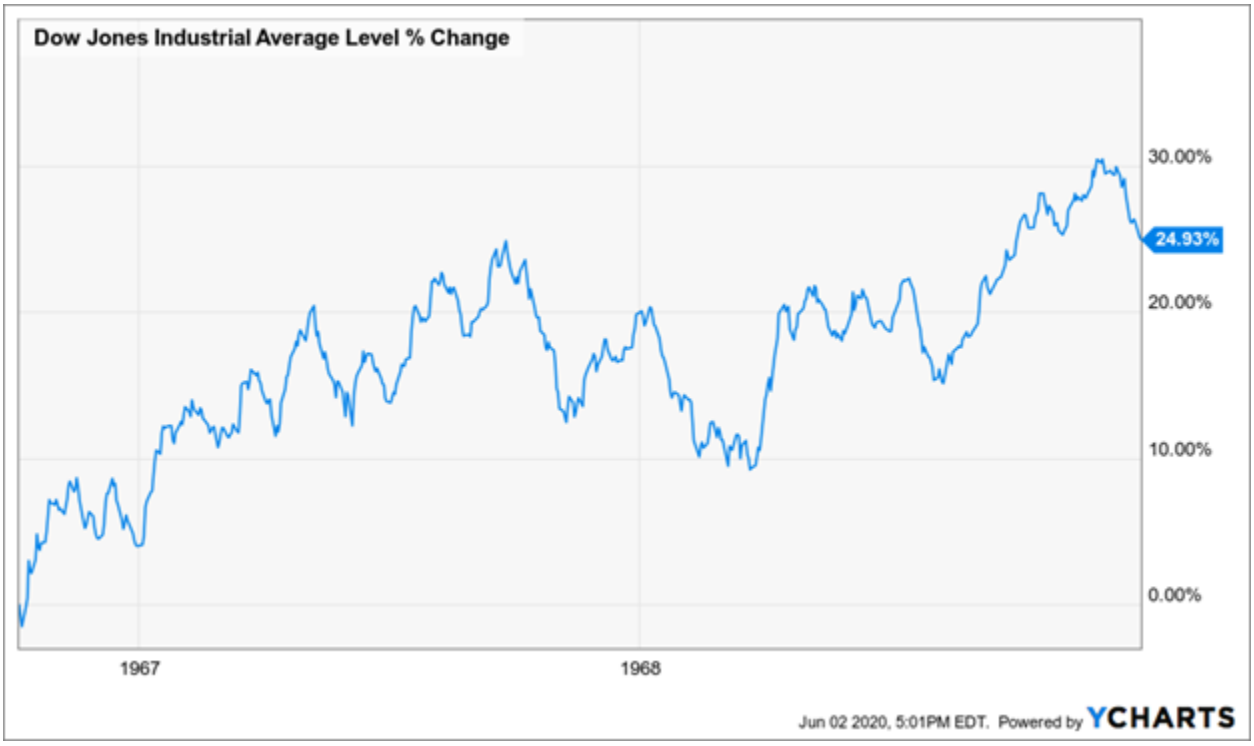
Shall we look at the horizon . . . or the headlines?

At Outlook we've remarked, once or twice, that a giant challenge for investors is understanding how to react to headlines. We must always remind ourselves that headlines (and the lion's share of the stories under them) are meant to create *impressions*. And impressions are impressions—not facts. For a calm, thorough weighing of the facts which fill out the whole picture of any reality . . . we must go somewhere other than the headlines.

The "whole picture" we're looking for, today, might be summed up this way: "Will the real world's future be as dark as this year's headlines have made them seem: from Virus to Shutdowns to Riots? Does it actually make sense to commit our long-term capital to a real economic world—Main Street—which has been so battered by 2020's headlines . . . and maybe no end in sight, yet?"

Texas Instruments' CEO, Rich Templeton, is going to give us his answer in a moment. It's not the whole answer or the whole picture—but it sure is part of it. First, though, here's a chart of the market from mid-1966 to year-end 1968. There were quite a few riots across the U.S. during those years.

Riots and the Market: late 1960's.



We might call that picture, "a market which was fazed . . . but not very much." At Outlook we've also remarked, once or twice, that the market—being a crowd of people—acts like people: that is, sometimes it looks well beyond the headlines of the day, no matter how terrible; and sometimes it looks no farther than the headlines of the morning or afternoon, and sees nothing but despair or elation, depending on what's going on at the moment. Most often it's "right" when it looks at the horizon; and "wrong" when it won't look past the end of its nose. Now let's glance at Mr. Templeton's company.

Texas Instruments: 10 Years of Dividend and Stock Gains

Of course the 10-year ride for Outlook clients has been wonderful: 420% and 650%, for the stock and its dividends. Let's scrutinize the far right, though. There was Texas Instruments' all-time high of $134 in late January; there was its "Shutdown Low" of $97 in mid-March; and now, after a rocket ride of 7% just today, there it is at $126 . . . almost as if the last 4 months of awful headlines were just a bad dream, now vanished.

Why? The awful headlines were a Nightmare, all right, but a real one. What right does Texas Instruments have to act as if it's vanished into thin air? (Especially since, as Theresa's last Inside Report told us, TI's operating business certainly has <u>not</u> yet climbed out of the hole created by the combination of a cyclical downturn instantly followed by the Virus Shutdown.)

Mr. Templeton gave a talk on Wall Street last week. Let's listen:

On his somewhat stunning willingness to "bet the farm" on a fairly short Virus Recession, by holding a mountain of chip inventory for TI's customers to buy, instantly, whenever they might need it:

> "Our chip inventory has a much longer shelf life than 10 years ago (the last recession) and a great many more industrial users. So it was an amazingly asymmetrical bet for us: the upside is huge and the downside is minimal. And it's not often in life that you get those so you certainly you want to take them when they show up. We want to be able to tell our customers, "Don't worry, the day you need something we'll have it for you, okay?" Nobody else can tell them that: only Texas Instruments."

A good while ago, in Outlook's banking days, we knew a tough, capable small-business customer who owned an industrial-belt factory. He wasn't Texas Instruments. He had one single factory, and it wasn't

very big—and he had to compete against giants. "How do you beat them?" was the question. "It's simple," he said. "I carry no debt. I carry a lot of cash. So I can also carry a big inventory of every belt we make. When an industrial client needs a belt in a hurry—and that happens a lot—they don't call the giants . . . they call me. And we ship the belt out the same day, and it's in their hands the next day. They pay a little extra for that, and they're happy about it. We don't lose customers, once we've gained them."

And here is Texas Instruments with the same playbook, on a gigantic scale: no debt to speak of, a mountain of cash, all the inventory in the world . . . and a lock on its 80,000 to 100,000 customers.

On the life-or-death importance of dominating the right long-term growth markets in the chip business:

> "I've watched this industry for a long time. Over 10 and 15-year periods, one or two end markets are always the big drivers in the chip business. It was mainframes, then multiple computers, then personal computers, then cell phones and personal electronics. But over the next 10 or 15 years it will be the automotive market and the industrial market. (As autos and factories become "smart" in hundreds of ways.) They're going to be with us for a long time. They're going to be large markets. We're going to be very successful in them, because we've been making sure our chips have all the things which will matter in those worlds. Finally, nobody else can cost-effectively reach those 80,000 to 100,000 client companies, like Texas Instruments can."

Yes. Sometimes the market looks at the horizon. Sometimes it won't look past the end of its nose. But, thank goodness, American business leaders like Mr. Templeton always look at the horizon. At Outlook we'll keep looking out there with him . . . and it will keep paying off.

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