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"They must know something!"

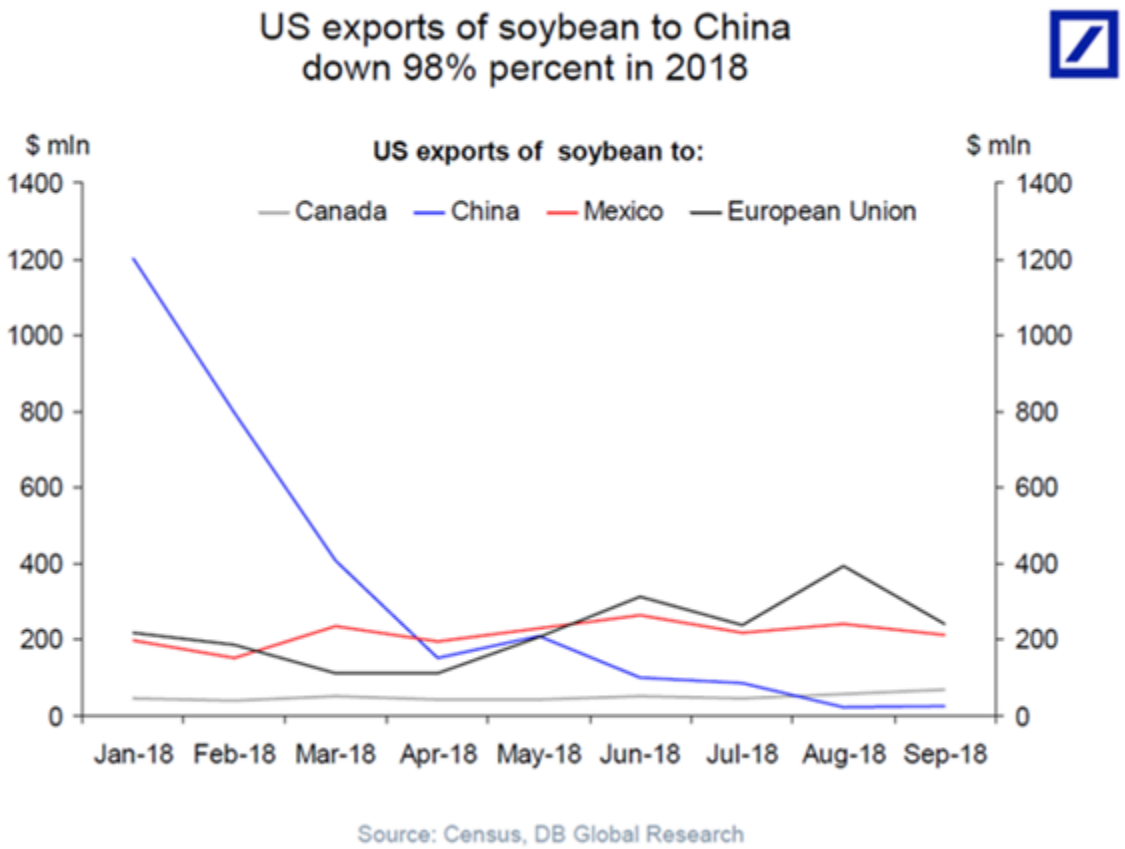
"Look! The Duke brothers are buying! They must know something! Let's get in on it!"
From "Trading Places," 1983, with Eddie Murphy and Dan Ackroyd

Hollywood has an amazing ability to "get it wrong" about almost everything it portrays . . . but "Trading Places" was an exception. The comment above, from an anonymous futures trader on the floor of the exchange, perfectly captures the essence of the daily tidal wave of speculative activity which rules all markets—in the short run. (The Duke brothers, corrupt billionaires, had tried to rig the frozen orange juice futures market, and had instructed their floor traders to buy with every penny they owned, from the opening bell. It ended badly for them when it turned out they actually *didn't* know anything, and neither did the mob of speculators who had followed their lead.)

If that actor had been around the stock market this morning, his lines would have been: *"Look! Everyone's selling! The Trade War news must be bad! Let's get in on it!"* So down plunged the market, a few hundred points, leaving us investors wondering whether "they actually know something" or not.

Outlook's clients know Outlook's answer to that question, of course. "They" not only did <u>not</u> know something today . . . they almost <u>never</u> know something. That becomes very clear within a few days, weeks or months of any particular example of the market reacting to some nightmare. But the nightmare always looks and sounds frightening and real, at the moment; and the media <u>always</u> sides with the nightmare, hastening to lavish it with respectful analysis.

So many examples of this phenomenon show up so many times every week that it's hard for thoughtful investors to find the time and energy to debunk them all, even just to ourselves. But examples are helpful—and a good one showed up today under the "Trump Promises $16 Billion of Aid to U.S. Farmers!" headline, which was based on this:



Now, the Trade War has certainly knocked down farm exports to China, particularly soybean sales, as the chart shows. There've been all kinds of stories about this, over the past months. A 98% plunge in sales is a great big problem no matter what business we're in, and from that statistic have grown countless headlines along the lines of "Farm Recession Around the Corner!" and "Soybean Mountains Pile Up in Midwest!" and "Brazil Replaces U.S. as Soybean Supplier to China!"

Mr. Thomas Sowell, who was before retiring the most outstanding economics writer of the century, in Outlook's opinion, often said, "People never want to look beyond the immediate, obvious effect of some economic event. But the "ripple" effects are far more important . . . and usually tell a completely different story." With respect to the Great Soybean Disaster, Mr. Sowell would probably say something like this: "Okay. So China is mad at America, and is buying all its soybeans from Brazil. Do we think Brazil has an infinite supply of soybeans? Where are Brazil's usual customers going to get their soybeans, if China is buying them?"

The answer, of course, is "from the U.S., eventually." Not only does nobody have an infinite supply of soybeans but, like everything else from tomatoes to memory chips, nobody in the soybean-growing business can do much of anything to increase how much they grow or make, in the short run. The global soybean market, a free market, has signaled the right amount to grow to the world's farmers, and the right amount to buy to the world's consumers—at anything reasonably close to recent market prices. Nobody can change anything, inside at least a year or two.

So despite that dramatic, cliff-diving chart up there, we know that somebody must buy American soybeans, or go without, if China has bid higher for Brazil's crop. Mr. Sowell's ripple effects tell us that the soybean pain may have been immediate, but it will not last. Nor will Micron's memory-chip pain, to the degree it might be inflicted by China in the future; nor Caterpillar's, Cummins' or Texas Instruments'.

Investors searching the media for this kind of observation about the Soybean Disaster will come up with nothing but air, mostly. "Disasters" bleed, so they lead; and the market's daily speculating mob doesn't care any more than the orange juice futures trader cared about whether the Duke brothers actually knew something, or not. "Let's get in on it!" is how their business works, together with "Let's get out in time!" But the actual truth of things is the only thing that matters to good investors. That truth is that the market hasn't a clue about the real effects of this "Trade War" . . . but is behaving normally (and making its usual mistake) in "assuming the worst." There is simply too much strength in our companies and the American economy to justify assuming the worst. As usual, we're holding and buying more, whenever we can.

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

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