

The Outlook: Dec. 8, 2016

Freeport passes the glazed-eyeballs test.

The world usually seems mighty complicated, at least if we're looking to the media for enlightenment. There we get daily "explanations" of everything under the sun, from global warming to copper futures . . . but Outlook would bet that a good 90% of those explanations flunk the "glazed eyeballs" test. Back in our college days, at midnightreading the 1st page of a 50-page economics assignment, or the first column of a 3-column math proof, many of us found ourselves reading and re-reading the same paragraph, over and over. Arriving at the end of the paragraph, we'd think, "*What did I just read?*" with no trace of memory or comprehension. Blaming our own ignorance or tiredness, we'd drag our aching eyes back to the beginning of the page or paragraph, trying again to make sense of it.

Many decades of experience later, it's quite all right for us to conclude that the fundamental problem was not our stupidity . . . it was most of the authors' amazing inability to actually explain anything well at all.

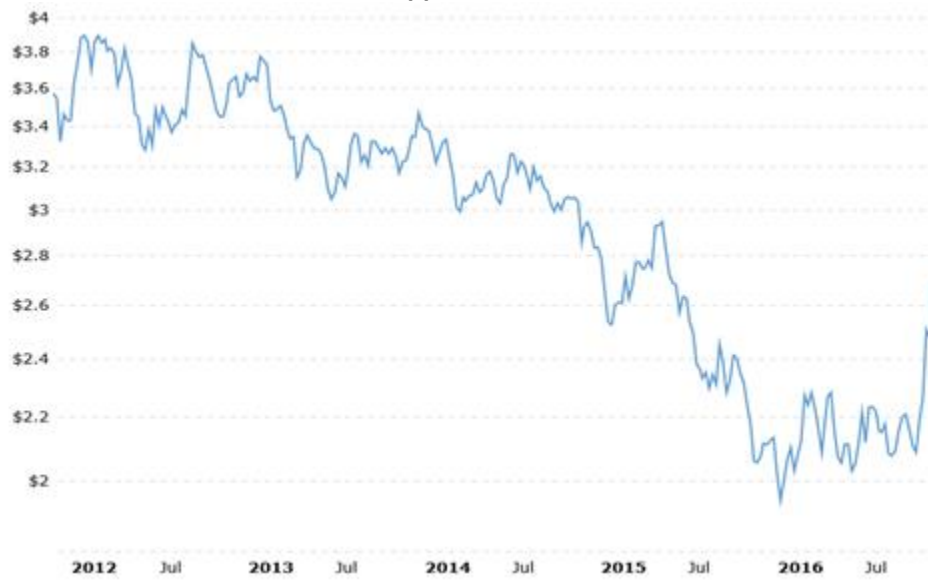
So Outlook tries pretty hard to boil down important stories to their essence. Freeport-McMoRan (the copper king) gave a presentation yesterday at which CEO Richard Adkerson had this to say:

"So if the price of copper would magically triple right now, it would be on the order of 10 years before we could bring on new production. Just because of the time it takes to do all the work that's necessary to get an executable project going and the time it takes to develop it. So that's why I'll say, absent something that turns demand upside down, with the copper markets being supported by this lack of new supply, there is inevitability moving toward (higher global prices.)"

Let's simplify even more. No new copper mines. Inevitable growth, eventually, in global copper demand. Copper prices must rise . . . possibly a lot.

That's why Outlook began investing in Freeport a couple of years ago. The copper market had been slaughtered since 2011 (see below) but it would turn. It would fix itself, as all free markets do. Meanwhile Freeport's leadership would be working to strengthen the company with the kind of urgency people use, when faced with life-or-death financial situations. That's what U.S. managers do quite often, being utterly accountable for results in the companies they lead. The third chart, below, is basically a monument to what Mr. Adkerson and his team have done in this regard.

Copper since 2011

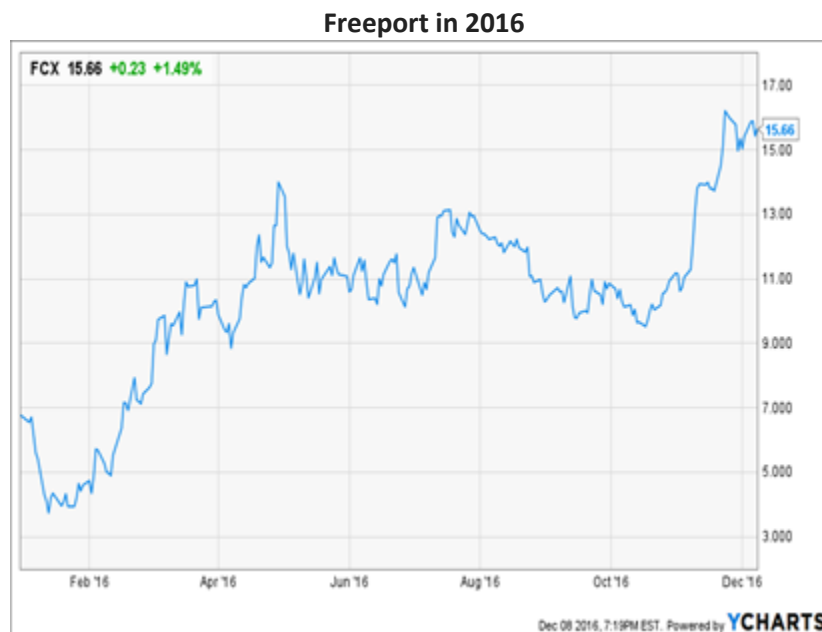


Freeport's Terrible Ride since 2011





Freeport's debt next year is likely to be under \$10 billion . . . a 50% cut in 2 years. There is no way in the world for businesses or individuals to make that kind of dramatic change except the very painful way. Freeport had to sell good company assets to do it, and it had to negotiate the sales in a wonderful market for buyers, and a ghastly market for sellers. But it did, and it kept the core of its best mining locations around the world. The result? Explosive growth in operating cash flow and earnings for each modest gain in copper prices. And explosive growth in Freeport's stock as well, as this year's behavior shows:



Outlook has noted more than once that finding tremendous values in the stock market is not terribly hard. Begin with a financially strong (or strong enough) company, add determined and experienced leadership, make sure Wall Street has jumped up and down on the corpse of the company's stock—as

Wall Street always does, when there are big problems—and buy. Along with cash, bring plenty of patience and determination to persist, as investors. That's a winning formula. A good many of our companies are proving it, lately.

© Dave Raub
Outlook Capital Management, LLC
125 S. Wilke Road, Suite 200E
Arlington Heights, IL 60005
[847-797-0600](tel: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.