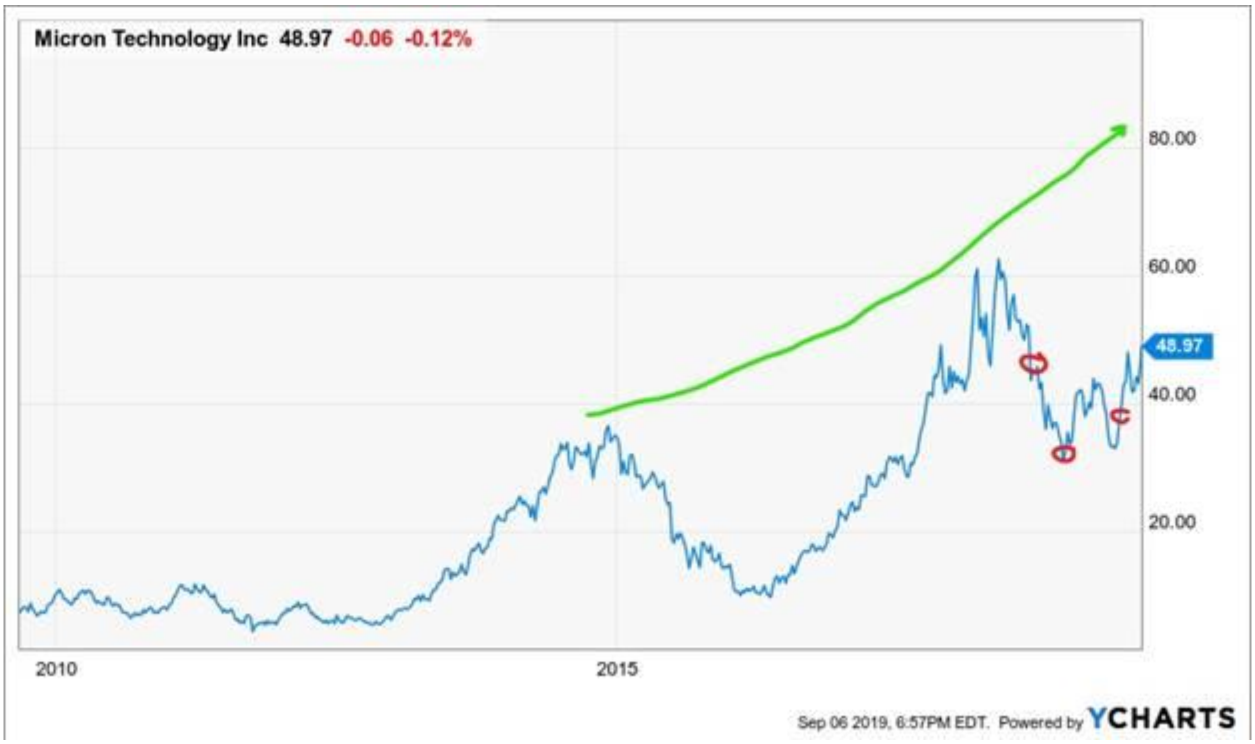
<u>The Outlook: Sept. 6, 2019</u>

Respecting experts . . . but knowing when to ignore them.

We all tend to have a general respect for learning—which is natural and understandable because we all figure out pretty early that learning is usually hard work. That general respect makes it harder for us, particularly as investors, to really grasp that very knowledgeable experts can be very wrong. People are actually inclined to give other people the benefit of the doubt, mostly; which means even the scarred, old sceptics among us must remind ourselves that outstanding experts not only can be, but often are outstandingly wrong. Here is a recent example.



In this 10-year Micron chart we can see 2 great big cyclical upswings. The first peaked in 2015, the next in 2018 . . . and both were followed by stock plunges that can only be called "sickening." The stock swings, up and down, went right along with the basic cycles in Micron's business operations. But we can also see—following the green arrow—that the cycle peaks and valleys have <u>both</u> been getting higher, over these 10 years. Exactly the same is true of the company's business operations. Micron has shown an extraordinary gain in profits at the peaks, and just as remarkable a gain in financial strength at the bottoms. The story behind that upward climb in business results is simple: better and better memory-chip technology and factory efficiency; big global growth in the need for memory (and more sophisticated memory) driven by "The Internet of Things," "Autonomous Vehicles," and "Artificial Intelligence," which are 3 big legs of the continuing Tech Revolution; and better and better financial strength within Micron, driven by very capable management.

That's the "big picture" of Micron as an admirable operating business. Now let's glance at the 3 little red circles at the right—and the news item below.

Needham leaves Micron sidelines after earnings

Jun. 26, 2019 7:47 AM ET|About: Micron Technology, Inc. (MU)|By: Brandy Betz, SA News Editor

- Needham upgrades Micron (NASDAQ:MU) from Hold to Buy with a $50 PT, a 53% upside.
- After yesterday's earnings report, the firm thinks Micron's EPS is bottoming and the book value is stabilizing, creating a an attractive risk/reward balance.
- More action: Piper Jaffray lowers its Micron target from $40 to $36, believing that the recovery will take several more quarters. The firm stays on the sidelines with a Neutral rating.
- Micron shares are up 9% pre-market to $35.63.
- Micron has a Neutral Quant rating.

This item showed up 2 months ago. (The red circle at the far right.) One expert (an analyst from Needham) declared it was now time to buy Micron. The other expert (Piper Jaffray) declared the opposite: ". . . the memory recovery will take several more quarters, don't buy this stock."

As Outlook has remarked a few times, Wall Street's equity analysts are all smart people; all extremely knowledgeable about the innermost workings of the companies they follow. There is something else. They all (almost all, anyway) understand that green line perfectly well, and agree with its upward-swooping forecast for Micron's longer future: both share price and underlying business operations. That brings us straight to the $64,000 Question: "Then why on earth do we see all those little red circles?" The circles are just a few examples of Wall Street's finest minds mostly telling their clients to avoid Micron; to wait for "several more quarters" or even only "one or two more quarters," before buying the stock . . . because the next upcycle in memory chip prices might take that long to show up.

We investors have a right to blink, and wonder how a mind which grasps and agrees with the big green arrow can, at the same time, draw those little red circles. Outlook's stripped-down summary of what is in those minds can only be: "Well, yes, Micron investors are extremely likely to make a great deal of money in the years ahead . . . but since they first might lose a little money in the weeks and months ahead, we'll tell them to stay out of the stock . . . until the next upswing looks solidly in place."

Those intelligent minds know something else, of course. They know that by the time "the next upswing looks solidly in place," Micron's stock price will be much higher than today. Nobody can spend even a few years in the investment world without learning that. But they draw the red circles anyway—cycle after cycle until they retire. Why? And that brings us to the end, today. They do it because of the nature of the market, which is also the nature of most of the clients who pay them. An ocean of short-term speculators drives stock prices hourly, daily, weekly, monthly . . . but not too much longer than that. They buy and sell on the general impressions washing over the investment world day by day, and those impressions take days, weeks or months to be changed by facts. But facts about the real world always take over eventually: facts about the world's demand for memory chips, its rapidly-evolving needs for more memory sophistication; Micron's ever-stronger cash flows and general financial position throughout its cycles, and so on. If you are an analyst whose paying clients are mighty interested in tomorrow morning rather than next year, though, then you will draw any number of short-term red circles during your career, and hope nobody counts them up, too often, and reminds you how mistaken you've been.

That's why highly-knowledgeable people are so wrong, so often, in our world. For investors with patience and understanding of the businesses they own, those red circles almost always mean the exact opposite of what Wall Street's analysts are saying at the moment. Instead of "Wait!" they mean "Find a way to buy more shares if we possibly can." We'll keep doing that at Outlook.

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