

The Outlook: May 23, 2017

Another profound truth from Deere.

“Each season, it is the weather across the fertile growing areas of the world that determines the path of least resistance for prices. With recent years in the market’s immediate memory bank and inventories at close to record levels, the price action lately has been quiet. However, the one constant when it comes to the monthly missives from the USDA has been that steadily increasing world population means that each year the demand side of the fundamental equation for all agricultural commodities is growing. Each year the world becomes more dependent on another record crop.”

Andrew Hecht, Commodities Analyst



This chart, and the story of Deere these past few years, captures some of the most profound truths in the world, concerning good investing. “Profound truths,” of course, are things which we always learn the hard way, in our individual lives; which big chunks of “the crowd” never want to believe; and which the media ignores entirely, sometimes sneering at them for good measure. So profound truths about investing are things which we investors ought to seize upon and never let go, like bulldogs.

Deere is an exceptionally strong, well-run company which is (and always will be) the prisoner of the farm cycle. When “ag” prices rise, and farmers’ income rises with them, Deere’s global farmers buy a lot of Deere equipment. When ag prices fall, they stomp on the spending brakes . . . and Deere’s sales and earnings drop like a rock, accompanied by the stock price. Every single time this happens, over the decades, the market instantly loses the tiny shreds of patience it may have, and accepts the clever analysis which shows, down at the bottom, that there is no possible future except for more years of the same misery. And the “profound truth” for us investors, of course is that we must not

believe the gloom; we must actually look at the determined improvements made inside our operating companies, down there at the bottom; and, yes, we must “Buy Low.”

Then, having bought low, we must hang on like those bulldogs, enduring a lot of bad news and endless Wall Street pessimism. Then, when the news begins to turn better, we must keep hanging on . . . because another profound truth is that once a company and its stock have emerged from one of those valleys of death, they usually rise, and keep rising, for a long time indeed.

Deere announced its quarterly earnings last week: modestly better sales, sharply higher profits, and for the first time, remarks by the boss that sales just might be showing signs of turning up—in South America especially, but in the U.S. and elsewhere too. The result was that spike from \$112 to \$122 per share, about 9%. And here’s another interesting thing in the chart. Notice the same kind of vertical spikes in December and September, last year—giving us investing bulldogs 12% to 14% gains in a single day.

The stock gave back part of the fun after the September spike, but soon began rising again. After the December spike, it never looked back. We’ll see what happens after last week’s spike. But to bulldogs it doesn’t really matter, does it? In one simple chart, above, we see another of the profound truths about good investing: “The market is a roller coaster, but it’s climbing a long-term mountain, rather than ending where it began. The only way to get those gains is to strap ourselves in, and take the ride.” One of the most remarkable lessons from many decades of investing is that a shocking number of smart people just won’t accept that truth. We do. We’re hanging on.

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