

## The Outlook: July 20, 2021

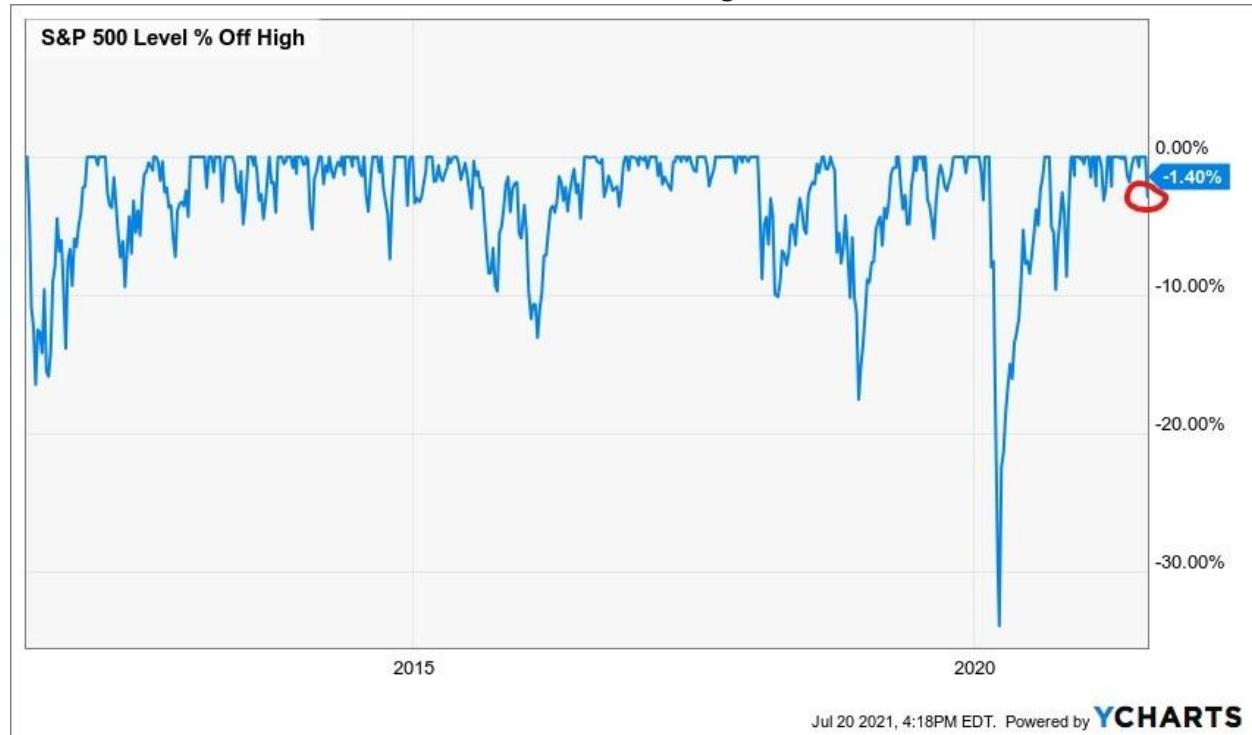
*And Again, “Nothing to Fear but Fear Itself.”*

“We have nothing to fear except fear itself,” said Franklin D. Roosevelt at his inauguration in 1933, addressing an America paralyzed by the Depression. He was dead right, getting straight to the heart of America’s problem in only 8 words. Unfortunately his Administration and especially his central bank—the Federal Reserve—spent the next 8 years usually making that core problem—fear, and the shattered confidence which goes with it—worse instead of better, with round after round of tax hikes and regulatory attacks on business and banks. But at that moment in 1933, at the very beginning of his Presidency, Mr. Roosevelt understood the nature of the problem.

“We must help our clients understand what we own.” That’s been the heart of our investment approach for the past 18 years at Outlook Capital Management. “The better we understand, the less afraid we’ll be,” we’ve always known, “and the market will never stop trying to frighten us into making big mistakes.”

Yesterday’s headlines, as the market plunged 700 or 800 points, were all along the lines of: “Delta Variant Smashes Market!” and “World Economy in Danger of Renewed Lockdowns!” It was straight out of Jaws 2: “Just when you thought it was safe to go back in the water . . .” with the usual monster-around-the-corner music. It worked for one day; but not two days—as today’s 500-point sea of green suggests. Without knowing—or much caring—what will happen tomorrow, we’ll take a quick look at why yesterday’s Nightmare faltered. But first there is something much more important, when it comes to the understanding which quiets fear. Here’s a picture of the market for the last 10 years.

**In the Investment World Also: “Nothing to Fear but Fear Itself.”**



It's an odd picture. It shows all the times the market plunged below its previous high point during the last decade.

Happens quite a lot, doesn't it? No, that's wrong. It happens all the time; constantly; no matter what is going on in the world itself out there on "Main Street," where real people build things carefully and slowly—the hard way. That little red circle at the right is yesterday's version. It looks a little less scary sitting there among its countless "the sky is falling" cousins, doesn't it? Yes . . . there are a great many Chicken Littles up there—and every single one has been dead wrong, even the 38% "The Virus! We're Doomed!" plunge of 2020.

If we investors could just keep this picture stuck in a prominent place in our minds, we'd begin to feel a different attitude toward the near-daily "Market Smashed! Look Out Below!" headlines. Our first response would begin to be "Oh yeah?" instead of "Uh oh! Trouble ahead!" It would begin to soak into us, pretty deeply, that it is the nature of the market to blow fears out of proportion—because that's the nature of us human beings, too. It would also soak into us that the media is a big part of the investment world; and its nature—its very Rule of Survival, in fact—requires it to "keep audiences frightened around the clock," in the recent words of one wise observer: Mr. John Tierney of City Journal.

That sounds pretty grim—but there's one more thing about "the nature of the market." Facts can be ignored temporarily—never permanently. They don't go away. In the investment world in particular, the facts which blow away the daily nightmares usually involve something as real as daylight, or steel: cash. Good companies earn it, and hand it to their investors. The rare, genuine Nightmares stop them now and then . . . but never for long. They fix things, march on, and keep handing cash to their investors, no matter how much noise the crowd of Chicken Littles might be making at the moment.

"Delta Variant Smashes Market! Renewed Lockdowns?" was a fair amount of noise, yesterday. Let's end with 2 pictures which tell us something about just how "genuine" that day's nightmare may be.



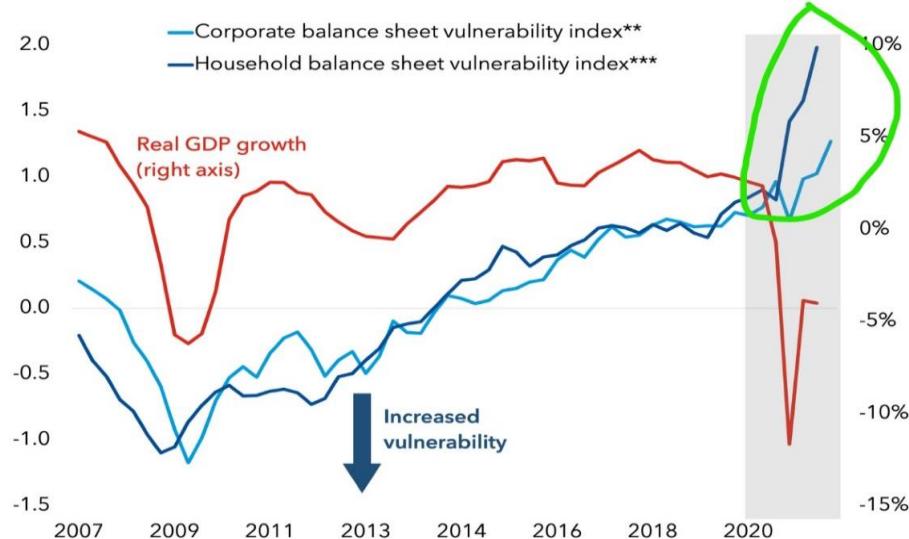
That's the British, up there, acting like free people for a change. It's also the media acting normally, because the message behind that picture and headline is precisely, "Just when they thought it was safe to go back in the water," with monster music swelling in the background. Now for the second picture, which needs explaining.

## Breaking the trend

Despite a dramatic fall in GDP in 2020, vulnerability indices of

businesses and households in Europe improved.

(average EU-25\* and UK)



Sources: ECB, IMF WEO, and IMF staff calculations.

Note: \*Denmark and the Czech Republic were excluded due to data limitations. \*\*Average z-score of leverage (debt/equity) and liquidity (short-term assets /short-term liabilities).

\*\*\*Average of the z-score of net-worth and liquidity (cash/total liabilities). The z-score measures how far any value is from the mean of a group of values.

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For the last few decades the picture of Europe's economy next to America's economy has been like a middle-aged, creaky ex-sprinter lining up in the blocks against Usain Bolt, with consequences painful to watch when the gun goes off. The old guy gets down the track somehow, but every step is a struggle. So the Virus and Lockdown Calamity of 2020-2021 hit Europe twice as hard, and it was easy to wonder if Europe would even get back on its feet, much less totter down the track again.

But that green circle up there highlights something remarkable: an amazing, historic jump in the financial strength of Europe's consumers and businesses over the last 18 months, even as the European economy took its Lockdown hammer blow.

That would be old news for the U.S. At Outlook we've often highlighted the astonishing gains in financial strength of American consumers and businesses since 2009—and observed that it's rather hard to destroy people and companies which are in that position of strength. Now here is Europe, up there, showing something pretty astonishing itself in the way of financial strength.

It's going to be rather hard for "Delta Variant!" or "Lockdowns Again?" to repeat their acts of 2020, in the teeth of this picture of financial strength in Europe's "weak" part of the wealthy economic world, much less in the U.S., which nobody would call the "weak" economic part of anything. They won't repeat it. We indeed have nothing to fear but fear itself. We absorbed the worst Fear could do to us, last year. This year we're going to keep marching forward, no matter how hard the media works at "frightening us around the clock."

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