<u>The Outlook: July 30, 2021</u>

"This is the cool holding, everybody needs to own this."

When we investors run into someone making that kind of statement, our reflexes do one of two things, depending on who we are.

1. We reach for our wallets, mentally, thinking about how many shares we might buy as soon as we've heard the name of the company—which is obviously on a rocket ride to the moon, like all "cool holdings." Or,

2. We reach for our wallets, hoping our pockets haven't been picked, yet; and we look for a way out of the crowd of gawkers waving dollar bills at the speaker.

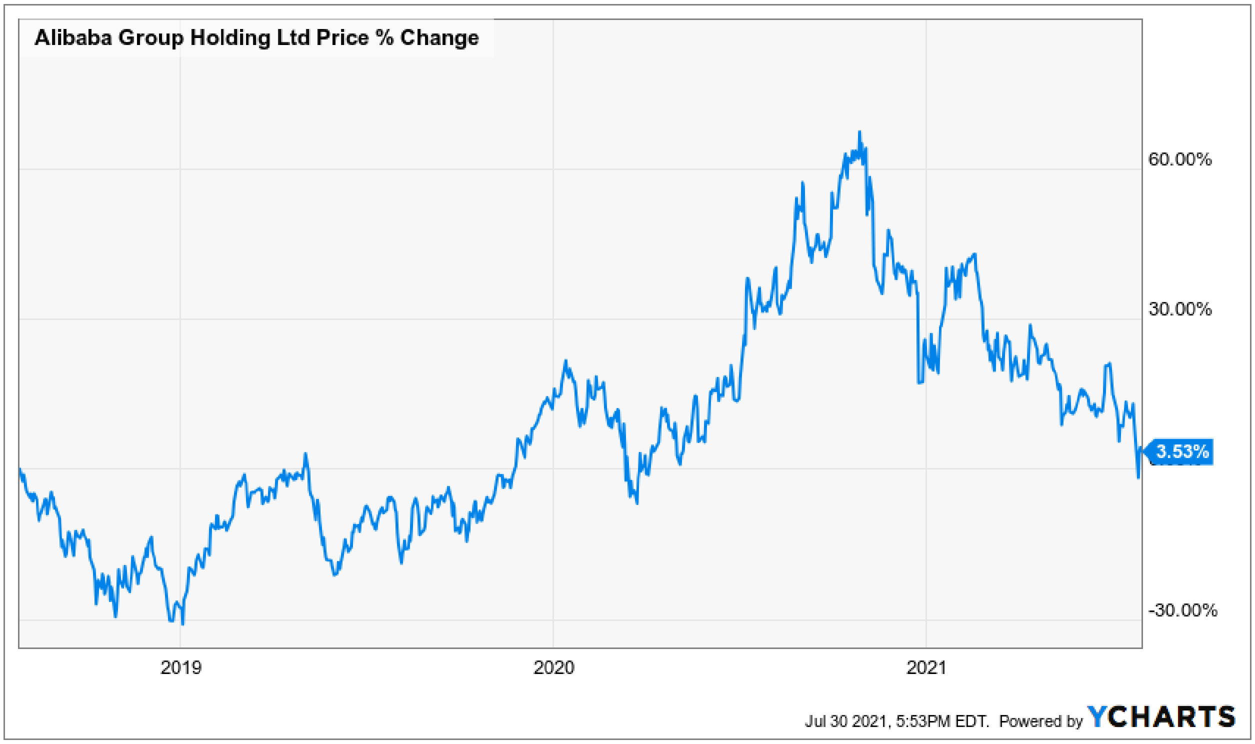
The main difference between the "who" of Reflex One, and the "who" of Reflex Two is instantly clear. Poor "Who Two" is covered with scars and bruises, limps on a game leg, has more white hair than gray, and carries the look of a wildebeest in lion country: scanning the 360-degree horizon at all times for the next animal with sharp teeth. "Who One," on the other hand, is considerably fresher and cheerier, and carries the bright-eyed look of the young, for whom each day might be the day their fortune crosses their path, saying something about "the cool holding."

The deeper difference between Who One and Who Two is <u>understanding</u>: an easy word which only comes at a high price. Mr. Two has accumulated the deep belief that he'd better really understand any company he gives his money, and he knows it takes a long time to understand anything well. Mr. One's reaction to that idea would be, "Well of course! I'd never own anything without understanding it!"

But he doesn't understand much of anything he owns . . . and he doesn't understand that he doesn't understand anything. It turns out there's no cure for that condition except bruises and scars, game legs and white hair.

Mr. Herald van der Linde (the Wall Street eminence who made that remark, up there) was talking about Chinese Tech stocks: Alibaba, Tencent, Didi, and the rest of that celebrity crowd. He was lamenting the plunge in that crowd of late, in what the Journal called "a classic example of market psychology shifting quickly from euphoria to a darker mood." Here's Alibaba (China's Amazon, sort of) just to see what we're talking about:

Alibaba, 3 Years: up 67% last October; up 3% today.



And here's the rest of Mr. van der Linde's remark: "We've gone from "this is the cool holding, everybody needs to own it," to "nobody can invest in this ever again" in just 6 or 7 months." From euphoria to a darker mood, indeed.

At Outlook our First Golden Rule of investing is: "Do not buy common stocks unless you've developed a pretty deep faith in the strength of American free markets, capitalism, inventiveness and the huge value of personal accountability for the boss." If we don't have that faith—which is really *understanding* accumulated over the years—then we are vacationers at the casino, thinking (at the moment) that our fortunes might have just crossed our paths. We might get lucky—people do, at casinos—but if we keep at it we'll get our heads handed to us.

At Outlook we've covered our wallet and run the other way, for the past 20 years, whenever anyone mentions Chinese stocks . . . because they violate the First Golden Rule six ways from Sunday. They are the rocket beneficiaries of the sprinkling of market freedom, capitalism and inventiveness which Deng Xiaoping scattered through China's zombie economy in the 1980's. A little freedom goes a long way, for a slave. A billion Chinese grabbed these gifts and ran with them, as far and fast as they were allowed to go. Hence the Chinese Miracle of economic growth.

But "a sprinkling" doesn't go very deep. For these 20 years and more, it's been perfectly obvious to Outlook (and anyone else) that China's dictators have no intention of letting free markets, capitalism, etc., grow roots too deep. Dictators always make their own rules, with their self-preservation in mind. The Chinese Tech Meltdown of the past few months has its own roots in a growing list of ways China's dictators have signaled to their home-based companies: "Do what we tell you to do—or else."

In America, the system itself has been the rule rather than any President or party—at least for the past 200 years or so: the system of free markets; capitalism; the rule of law which protects them; and accountability. So we investors have been able to maintain that faith required by Golden Rule One. For 200 years that "system" has withstood occasional changes of culture, attitudes and politics. When the changes have faded away, the system still stands. We're watchful these days, but pretty sure it'll still stand a long time from now.

Dave Raub
Outlook Capital Management, LLC
125 S. Wilke Road, Suite 200E
Arlington Heights, IL 60005
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.