The Outlook: Aug. 23, 2018

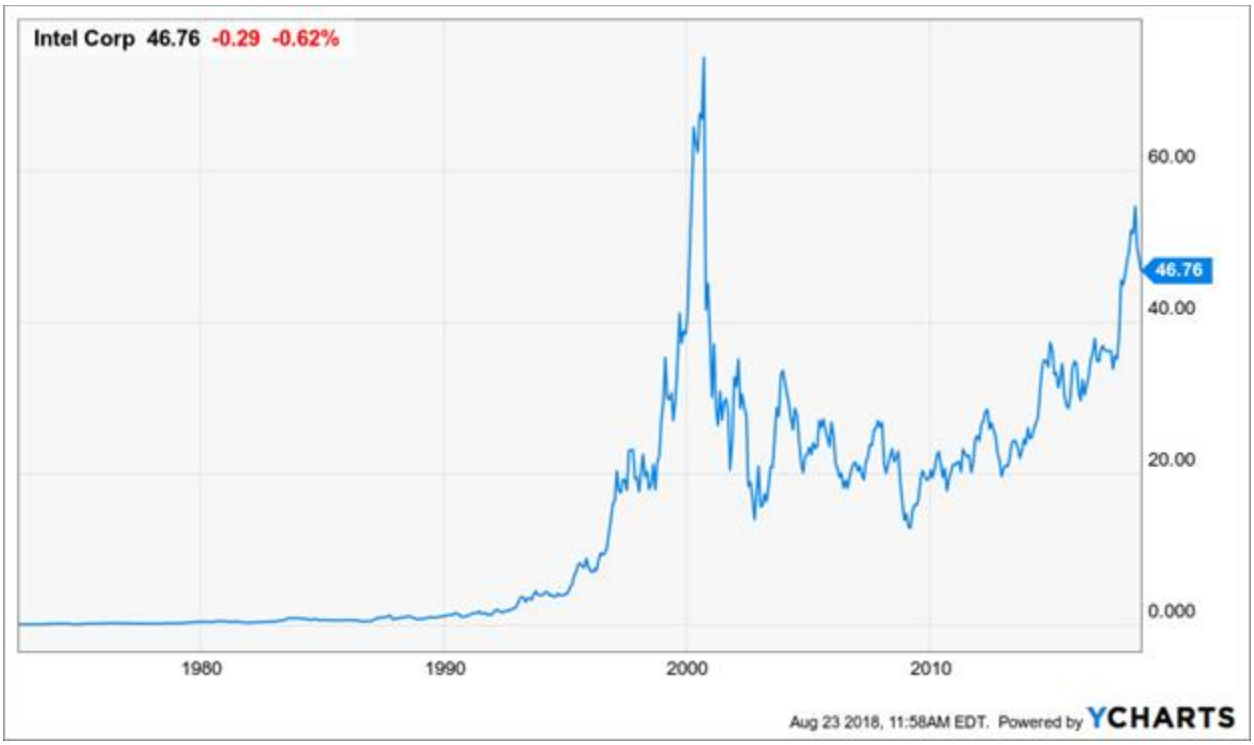
"Longest Bull Market in History!" Shall we care, or not?

"The Longest Bull Market in History!" has been the striking headline of the week, so far. Naturally, a torrent of analyses and opinions poured out; and naturally, they ranged from "Epic Collapse on the Way!" to "No, It Might Last a Little Bit Longer." There were very few in the category of "Stocks Are Solid Values: Buy Now!" That's no wonder. Even the most determined of us optimists, if we've been around the investment world long enough to gather bruises, feel a little frightened at the idea of betting that "The Longest Bull Market in History" will stay alive for a good while to come. We know too well that the market's never-ending nature is to move in cycles, so it "feels" dangerous, here in the 10th year of this bull-market cycle.

But we must "think" our way to investment success, not "feel" it. Labels like "Bull Market" are also generalizations. Generalizations are often useful—but they are not careful thinking, because they distort the truth at least as much as they capture it.

Let's glance at a couple of charts stretching back to the legendary Bull Market of the Nineties, and the legendary Bear Market which followed.

Intel: 1999 - 2000



Micron: 1999 - 2000

A little background. 1995 – 1999 saw a wonderful bull market, by and large, which we now call "The Dotcom Bubble." We all think of it as a time when the world went nuts with optimism and greed, leading to a Day of Reckoning which was awful to behold. If we look a little harder, though—if we look past the label—we see 5 years of generally rising stock prices, interrupted by sharp little panics and downturns (like the Asian Currency Crisis of 1998.) Then, for the 9 or 10 months between summer of 1999 and spring of 2000, we see the real thing: *insanity* in the market. There's Intel (nothing remotely like a "dotcom" company) spiking 150%, from $30 to $75. There is our Micron (also not remotely like a dotcom, and long before Outlook owned it) spiking 350%, from $20 to $90.

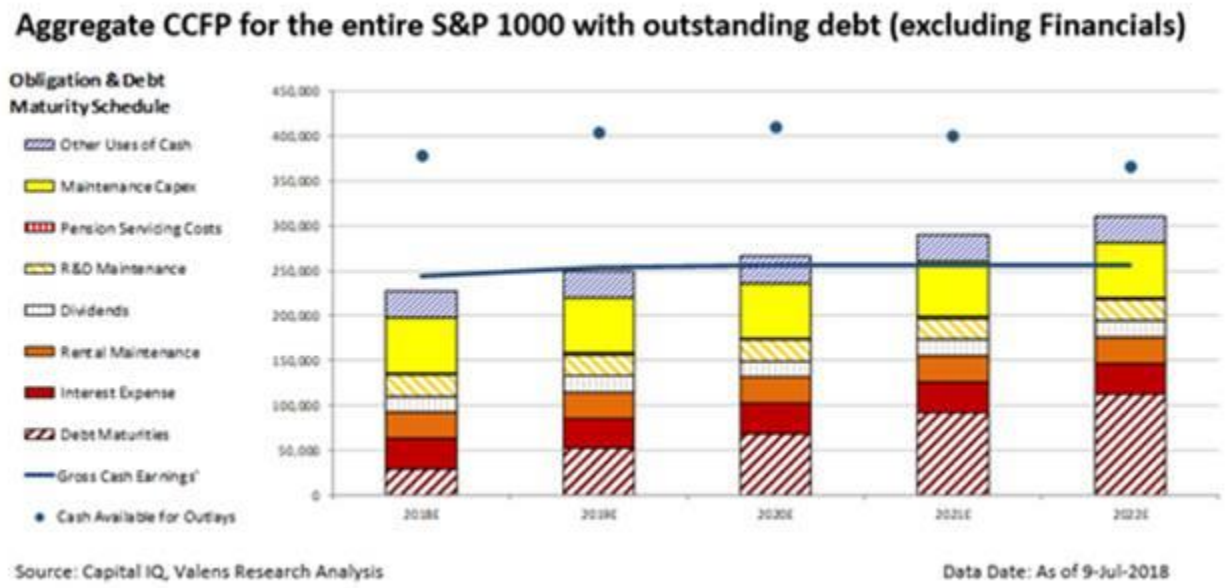
At $75, Intel's price-earnings ratio was 60. At $90, Micron's P/E ratio was 80. The market's (S&P 500's) ratio was around 33.

Today, Intel's P/E ratio is 11. Micron's is 5. The market is 17 to 21, depending on how we measure the "earnings" denominator. The market's Price/Earnings Ratio is also a label, a generalization. At one end we have Micron at 5; at the other end we have Netflix at 80, and Amazon at 76. 75 to 80 times earnings might not be "insane," but it sure is "emphatically optimistic," to put it mildly. 5 to 11 times earnings might not be "standing on a corner, handing out money;" but it sure is "emphatically pessimistic."

And the $64,000 Question for us investors is, as always: "What are the facts on the ground with these pessimistically-valued companies? Are those earnings solid enough to grow a lot in the next 5 to 10 years, come bear markets or recessions when they may? Are Micron's and Intel's financial conditions strong enough to endure, come hell or high water?"

The answers—not a surprise to Outlook clients—are "Yes!" and "Yes!" with the exclamation points reflecting the companies' realities, not somebody's hyperbole. The same questions get slightly calmer

"Yes," and "Yes," as answers for the 500 biggest companies in the U.S. as a group. Here is our last picture (created by Valens Research.)



That's an eye-glazing chart if we ever saw one, isn't it? The vertical bars from 2018 to 2022 are, basically, the cash spending requirements for the S&P 500 companies: money they must spend, mostly, regardless of how their businesses are doing. The blue dots are, roughly, the cash-on-hand for the 500 companies. The blue line is gross cash earnings per year. Everything in this picture except 2018's cash-on-hand is a forecast, of course; but look how much space there is beneath 2018's cash-on-hand and its spending requirements. There is almost as much space for the following 3 years, because when we consider 500 big companies as a group, their cash-on-hand just can't change much (either up or down) even if one of those market Nightmares (Global Currency Run, China Trade War) turns out to be waiting around the next corner.

It's a long way of saying that the Calamity of 2008 – 2009 left the deepest of scars on the men and women running American companies . . . on most of them, anyway. (Tesla's boss might not have noticed it.) It changed their behavior for a long time, because they reacted normally and sensibly to a great fright. They strengthened their companies tremendously; and those blue dots show us how much. We don't have the same chart for 1999 – 2000; but Outlook's guess is that if we did, we'd be shocked. The "cash-on-hand" blue dots would be buried inside or even below the "required cash spending" bars.

The "Longest Bull Market in History!" headline, like every other headline, is good for triggering "feelings," but it's a terrible substitute for clear thought. Nobody in the world knows when or how this Bull Market will end. We can't know that; but we can know how much we should care about it. Not much. We own very sound companies, mostly trading at emphatically cautious values. That means if the roller-coaster suddenly dips down, we just shouldn't care.

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