

The Outlook: Nov. 8, 2016

Reality steps through the door: copper and Freeport-McMoRan.

"Freeport McMoRan Moves Up 7% as Copper Hits 52-Week High"

"Freeport McMoRan (NYSE:FCX) was a [big winner](#) in today's trade, soaring 7.1% as copper gained 3.1% to \$2.38/lb. in Comex trading to a new 52-week high. Copper prices [rose for the 12th day in a row](#), extending the longest rally in at least 28 years, part of a broader rally in metals as China's economic picture has brightened."



That was the headline today (and a mighty obscure headline it was, this particular day), and there above was Freeport's price action this past month, bottoming at \$9.50 and topping today at \$12.09, for a gain of 27% in 30 days. If we were hedge fund gurus, day traders or any other of the countless varieties of speculators crowding the market every day, we'd be excited by all this, while agonizing about whether to hang on to Freeport for another day or two, or sell short. We aren't, so we can sit back with an easy mind (more or less) and make an observation about the copper market, and markets in general.

For about 18 solid months, the stock market's hair-trigger minds have priced Freeport-McMoRan's stock as if the only thing in the world of importance to this company is the global price of copper. The same kind of minds have priced copper itself as if the only thing of importance to that red metal is China, as in "Is it collapsing?" or "Is it merely stagnating permanently?" Those 2 questions cover the whole range of possibilities, as far as the market crowd has been concerned.

There are more thoughtful analysts, some of whom agree with Freeport's own boss, Richard Adkerson, that in the long run copper must rise substantially, because global economic growth demands the metal, and global supply growth is extremely difficult.

But even those folks have been unanimously bearish in the "short run" of the next several months to 2 years. The \$2.38 price hit by copper this week was not a possibility, for any of the analysts Outlook has come across.

But now it's happened anyway, impossible or not. (That sentence is a pretty good motto for any of us genuine long-term investors, isn't it? "It can happen anyway, impossible or not.") And, scrambling for an explanation, we hear "China's economic picture has brightened." Hmm. If it has, it hasn't been very obvious in any recent news. On the other hand, neither has China's so-called plunge into stagnation been very obvious, to Outlook at least, in any news of the past year or more.

What's actually going on here is the normal behavior of markets. Copper has been battered down to abysmal lows these past several years . . . lows which bore no sensible relation to reality. But the truth about markets which makes them fundamentally different than casinos is that they can stay "senseless" for a very long time . . . but not forever. Reality always steps in, finally, and tells them "Time to wake up." And the news which triggers reality's action is often, well, non-existent. A market price got silly, stayed silly for a tortuous long time, but suddenly opened its eyes to fairly obvious big facts (like inevitable demand growth, for copper, and difficult supply.) The media and speculators, plus an idle economist or two, will always be glad to offer an explanation at a moment's notice, hence "China's economic picture has brightened." But what has really happened is simply markets behaving normally: swinging much too far in one direction, defying common sense and evidence for a good while, but not forever. And if we've summoned the patience and understanding to hang in there, regardless of how far away the crowd has chosen to stand, we quite often make a great deal of money.

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