The Outlook: Jan. 8, 2018

Choosing between 2 possible words for the market: "euphoric" or "measly."

The stock market set another record or two, last week, and "euphoria" became a very popular word, used by many expert commentators to describe the presumed mood of all those buyers who are driving the market to suicidal peaks. "Dow 25,000 Only Brings the Bull Market Closer to Its Painful End," and "After Dow 25,000, the Party Has to End: But When?" are just two in a cloudburst of similar opinions and analyses showing up everywhere we looked, as the week finally ended. Here's what the shouting was all about.

Last week: the market, and a few Outlook assets

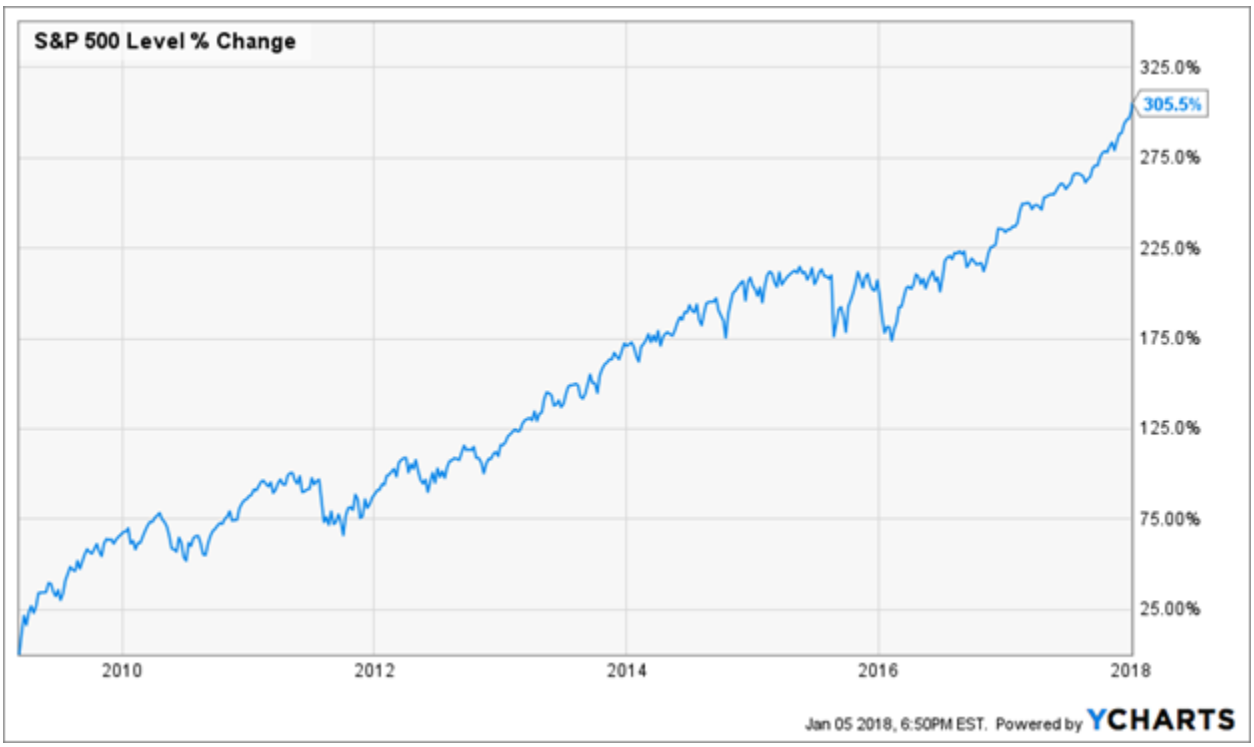
The market's 2.6% weekly gain (orange line at the bottom) was great fun, but most of Outlook's core companies went far beyond it: a surrender to "euphoria" if there ever was one, if the alarmists have it right. Let's ponder whether they might, or might not.

Outlook has noted a few times that the older we get, the more humble we ought to feel, regarding quite a few things. Forecasting the short-term direction of the market or any stock is one of those things; and so is identifying the mood—"euphoric" or terrified or in between—of a market crowd of hundreds of millions of people with whom we have no face-to-face contact. The same day those "Painful End" forecasts showed up, the Wall Street Journal interviewed a dozen investors off the street. Seemingly every one of them shared a common mood. It was <u>not</u> euphoric—it was concerned, doubtful, or downright alarmed about the market. They were all, or mostly, avoiding the market or minimizing their holdings . . . and most had been doing so for months or years. "Ah," we might suppose. "But those are the amateurs. The really sophisticated players—Wall Street's professionals—haven't made that kind of mistake. They've probably been fully invested, gathering fat gains day by day, and now are either out

of the market if they're smart; or delusionally optimistic if they're still in. That's where the euphoria must be."

Outlook's clients and friends certainly know Outlook's opinion of that last kind of statement, so we'll let it pass. Instead, let us look at a couple of charts which might give us a little of that rare and vital thing called "perspective," when it comes to wondering whether a euphoric mob of foolish market participants is about to push us off a cliff, or not.

The 9-Year Bull Market

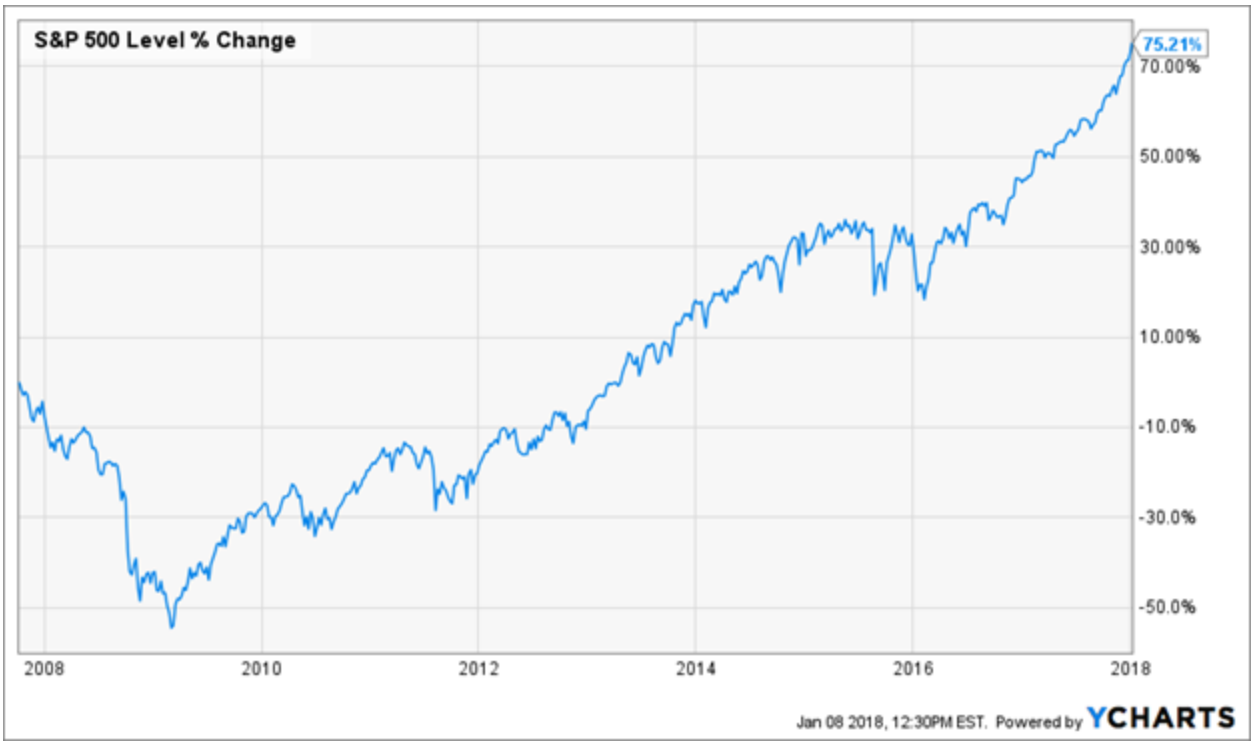


That chart captures the heart of the "Painful End Around the Corner" stories.

- Ten years is an ancient Bull Market, sure to topple over soon; and
- 305% is a "quadrupling" of prices, and what could be more "euphoric?"

Those 2 facts are the foundation, though the alarmed sceptics have other ammunition, of which the most important is "valuation." One of last week's analyses, for example, contained a bar chart which asserted that more than 80% of Bull Market peaks, over the past 100 years, happened when stock valuations were lower than today. Let's set that item aside for a moment, and take a different look, below, at this ancient and euphoric Bull Market.

10 ½ Years: Ancient Bull Market Again . . . but a Little Less "Euphoric"

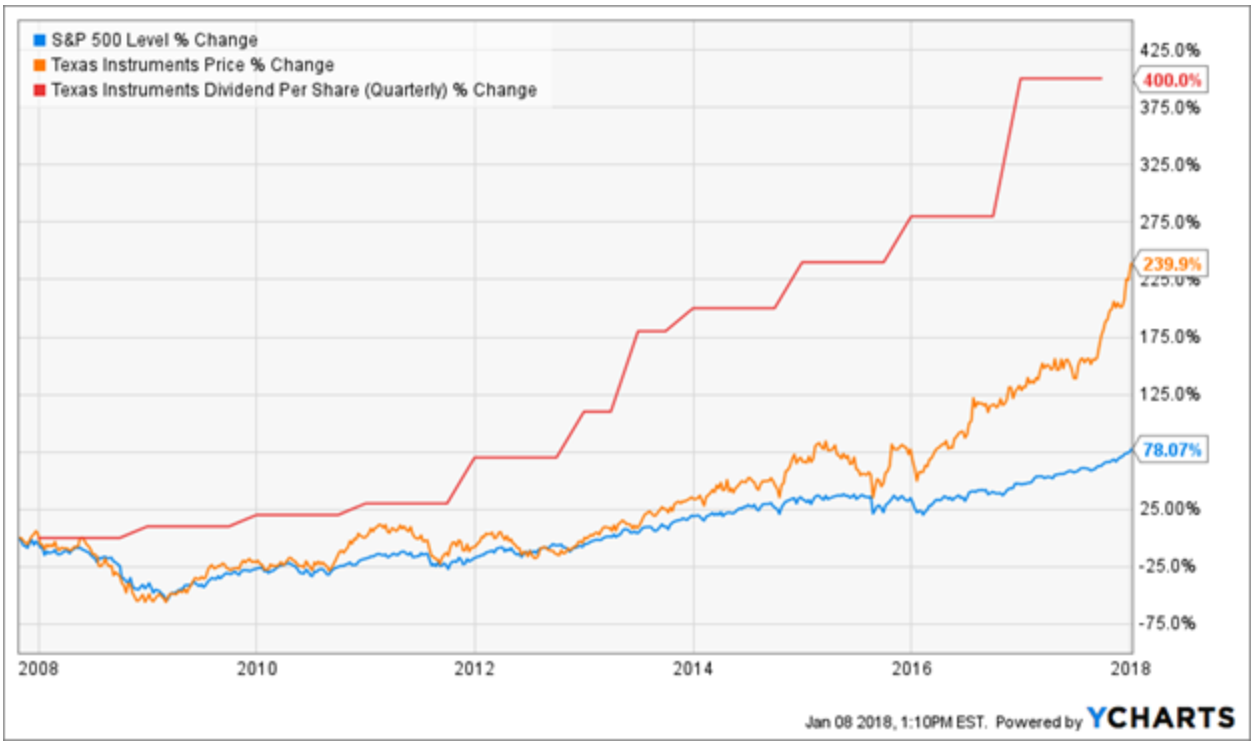


Hmm. Instead of a 305% quadrupling, this picture offers only a 75% gain in 10 ½ years. The starting point is the peak of the previous "Bull Market" in October 2007, just before the great Panic and Calamity ruled the world. It took the market almost six tortured years—until April of 2013—to simply claw back the vast ground lost during the Calamity and Bear Market—which was a Bear Market for the history books. The word for that 75%, 10-year number is not "euphoric." It is more like "measly."

Let us not plunge into an ocean of continuing analysis, from this point. Instead let's simply ask why an alarmed sceptic—who suspects the market is teetering on the edge of a euphoric cliff—would not back up only 18 months for a slightly broader view of the past. A stock market which has "quadrupled" from its terrified, end-of-the-world valuation of March, 2009—taking almost 6 years just to climb back to "break even"—is not the same animal as, say, the Nineties Dotcom Bubble, which also showed spectacular gains and a long life. And the October 2007 peak which preceded the Calamity featured silly housing valuations, for sure, but did not feature crazy valuations of most industry and market groups.

We'll end with only a glance at the "overvaluation" argument mentioned at the top.

From the 2007 Peak: the market, Texas Instuments, and TXN's dividend



Here we resist plunging into the ocean of possible analysis, concerning valuation . . . but we dip a toe, nevertheless. Since that pre-Calamity market peak: the market, up 78%; TXN, up 240%; and Texas Instruments' dividend, up 400%.

Texas Instruments trades today at around 22 times earnings: not dirt cheap in anyone's book; nor remotely "silly" by any historical perspective. It offers a 1.9% dividend yield on today's price, which is only "OK" from history's point of view, or compared to 10-year government bond yields. But the overwhelming question looks past those items, and asks, "Are we likely to see more of that 400% business, as far as TXN's cash rewards to shareholders are concerned?" For that question we must pay much less attention to warring charts about euphoria versus measliness, and much more attention to the condition, today, of the operating business we own, named Texas Instruments. Outlook asserts an answer: "Texas Instruments' financial strength, today, is in the realm of "blockbuster," "King Kong" or "King Midas." It has earned the global throne in the business of making and selling analog and embedded chips, which are fundamental drivers of the "Internet of Things" tidal wave. It would be hard for even an alarmed sceptic to argue that TXN isn't likely to grow its dividend at least 200% over the next 10 years. That is not 400%, but it's not chopped liver."

There are so many other companies, including all of Outlook's clients' assets, which show strength and clear reward potential within that kind of range, that it's hard for Outlook to buy the "Painful End Around the Corner" idea. That notion requires a broader and deeper look than today's headline-seekers seem willing to give it. We are holding, and buying more.

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