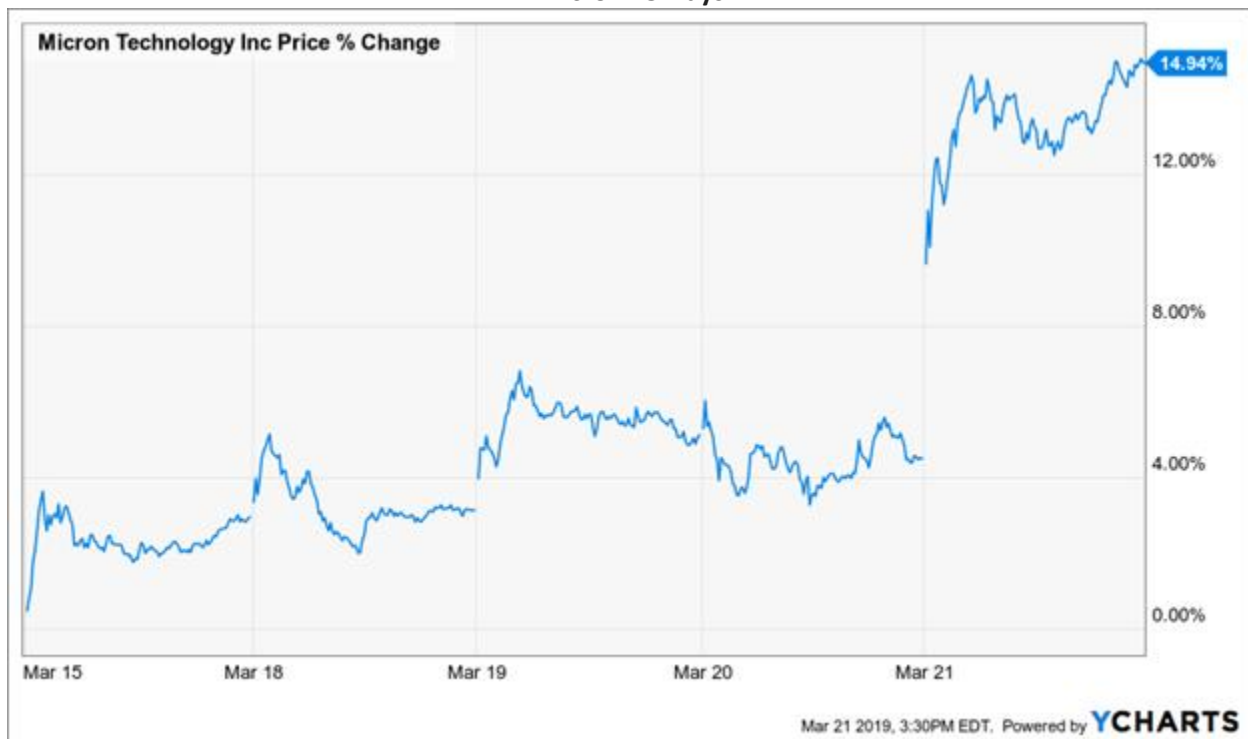


## The Outlook: March 21, 2019

### *Illumination: from Micron and the market.*

First, we must deeply understand the companies we own, as operating businesses run by very hard-working, down-to-earth, experienced men and women. Next, we must also deeply understand the market, whose participants have their strong points—but generally not those we find inside those good companies and their people. Just Tuesday we remarked about Micron Technology's imminent earnings announcement, which came out after the market closed yesterday. Outlook's Theresa Kroll will be writing her "Inside" report about Micron's operations, last quarter; but if we take a quick glance at what the company said yesterday, and what the market did today, we'll find it illuminating. First, the market's reaction.

### Micron: 5 Days



The big gap at the right, of course, is this morning's opening. Micron is up around 10%, and nearly 15% for the week. We might think last night's quarterly earnings announcement featured a cure for cancer, or at least a surprise explosion in sales and earnings, heralding an unexpected end to the latest cyclical downturn in global memory prices. But we know better.

Micron's CEO, Sanjay Mehrotra, matter-of-factly talked over Micron's results, and his extreme optimism about the company's (and the memory industry's) long-term future. He said nothing surprising at all about either the long-term optimism, or about his company's last 3 months. Sales and earnings were down sharply, as were global memory chip prices. Both were down more than Mr. Mehrotra expected 3 months ago, though a tiny bit less than Micron's most recent "guidance" about its quarterly results, from a few weeks ago. About the short-term future, Mr. Mehrotra said, basically, "We think memory prices will be improving by the end of this year, but as usual it's only a guess. But what we really like is the way

we're continually bringing down our production costs and bringing new generations of chip technology to market. We're very happy about those things, for the long-term future."

At Quarterly Earnings Calls, after the company tells the world what happened, Wall Street's most eminent analysts ask questions. As a rule, their questions are intensely focused on exactly what might happen to the company over the next 3 months, sometimes wandering out as far as 6 months. They want clues from management: not about next year's figures, but about next month's profit margins, memory prices, inventory levels, capital spending and the rest. At Micron's conference call, yesterday, the analysts' absolute refusal to show the slightest interest in anything beyond the next few months was so emphatic it almost got comical. Poor Mr. Mehrotra would answer an intricate question about near-term chip inventories, then try to provide just a whiff of longer-term perspective—but the analysts, like a pack of wolves chasing a deer and sensing the first signs of fatigue, refused to lose the scent, closing in for the kill with the next question, concerning the chance of inventory write-offs (for various accounting reasons) in the next few months.

Earnings Calls always include "guidance" for the next quarter or two: the company's guess about a range of near-term future results. Micron's sales and earnings guidance amounted to "Down last quarter . . . down next quarter, even more."

The market should have hated the whole sorry story. "Sorry," that is, from the point of view of speculators looking for the slightest sign that the current down cycle might end in the next few months. Micron gave no such sign, unless we count Mr. Mehrotra's feeble long-term optimism—from the analysts' point of view. But look at that chart. Micron's market day began with a "Boom!" then waffled around as usual, then surged up again as the closing bell approached.

Why?

Outlook's answer will be short, because that question puts us into the business of reading the market's mind. As we noted on Tuesday, that means asking what's going on between the ears of a vast crowd of day-trading speculators, from professionals playing with mountains of "sophisticated" money to amateurs playing with their own money. But here it is. The speculating mob is not blind to obvious facts about strong companies' futures—it just thinks those futures won't happen soon enough to affect today's guess about what a company's stock might do tomorrow or next week. Micron's tremendous strengths are not only obvious to Mr. Mehrotra, Outlook Capital Management and the rest of the investment world's good investors; they're also obvious to the gamblers in their millions. And finally one day, as that future slowly trudges closer, it begins to feel to the gambling mob that it might just be close enough to stop ignoring.

Micron trades around 3 times the earnings it will make during the next upcycle; and is less than halfway through a \$10 billion stock buyback program, which will retire about 25% of all the shares outstanding, if yesterday's prices were to persist. The company's balance sheet is rock solid—as yesterday's details confirmed yet again. The company's factory productivity and new-technology road map are doing splendidly—also confirmed by yesterday's details, regardless of the analysts' indifference. Yup . . . it's a screaming buy, for anyone willing to simply wait longer than the gamblers like to wait. So Micron "boomed" up 9 or 10% today, maybe because enough gamblers felt the future was getting close enough to matter. Neither Outlook nor anyone else has the slightest idea what Micron will do tomorrow. Presumably the speculating crowd, head in hands, is agonizing over that question as we speak. Not Outlook. We'll be making a remarkable amount of money with Micron, in the years ahead, if

we're simply willing to let the gamblers be themselves in the short run, in order to earn our own returns in the long run.

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