

The Outlook: Oct. 30, 2017

Mr. Celebrity Fund and Mr. Munger . . . and Outlook, too.

At Outlook we've remarked pretty often that "old-fashioned" but rare human virtues—patience, determination, very hard work, courage, common sense—drive excellence in investing, exactly as they drive excellence in everything else in life: from sports to business to marriage. This needs saying, because for some reason people are inclined to think that investing is "different:" that investing excellence grows out of some kind of genius, or at least extreme cleverness, impressive sophistication, math and computer savvy, and so on. Of course, this mistaken perception is encouraged by some of our common weaknesses, especially our tendency to be at least a little awed by celebrities puffed up by the media in every profession.

Also as Outlook has remarked before, while we don't agree with Warren Buffett and his partner, Charlie Munger, about very much—they do say wise things about investing. Mr. Munger, a while ago, said something like this about the business of investing: "You can only understand—really understand—a few companies and industries. Most professionals think they can be experts on many things. They are kidding themselves."

We were reminded of Mr. Munger's remark last week, when one of those "celebrity" investors issued a quarterly report to his hedge fund's investing partners. The Celebrity Investor is known far and wide as a "deep value" investor who often takes short positions (betting a stock will fall) and isn't the slightest bit shy about letting the world know about his short bets.

The letter indicated the Celebrity Fund had been taking it on the chin lately, but was undaunted and determined to stay the course. So far so good. Then the letter discussed the Fund's long and short positions—for the next 7 pages. First up were 3 famous names in today's market—Amazon, Tesla and Netflix—which the Fund was selling short, but which weren't cooperating, yet, by plunging in value . . . more like the opposite. At Outlook we're inclined to agree with Mr. Celebrity Fund's skeptical opinions on those three stocks . . . but "inclined to agree" is not in the same ballpark as "really understand the companies, having done the hard work." We haven't done it, and don't plan to—no time for them—so we won't invest either for or against them. But two of Mr. Fund's companies we do understand: Caterpillar and Micron.

Mr. Celebrity Fund is short Caterpillar, and long Micron—and he gave his partners a few paragraphs on each. Now we arrive (finally!) at our conclusion: in Outlook's opinion, the only word to describe Mr. Fund's analysis of both companies is "shallow;" and that was a surprise (so we must be awed by celebrities like everyone else.) Outlook disagrees on CAT, and agrees on Micron—but both analyses airily accepted some of those "implicit assumptions" popular with the crowd, which are much too questionable to be accepted that way, if an investor has taken the time to dig deep.

After "digging deep," we professionals like to think we know everything important about a company. We do not. Like most other things in life, the sheer passage of time and experience always teach us things we can't grasp any other way. Outlook has owned Caterpillar for ten years or so, and Micron roughly half that long. The people running those two companies, for heaven's sake, know their companies far better now than they did 5 to 10 years ago . . . and would probably admit it. And that's what Mr. Munger was talking about. Being 93 years old, he knows we not only have limits on our time to initially learn about companies; but we also have limited time to keep learning about them, as we own them

over the years. And that certainly appears to Outlook to be Mr. Fund's weakness: he believes he's capable of more than he actually is. His reach exceeds his grasp. And while he might reply that he has a cast of dozens of clever young analysts to help him, Outlook's reply would be to remember the definition of a committee: a thing with many legs, and no brain. (To which Mr. Fund might end the argument by asking, "Who's the Celebrity, and who's the Permanently Unknown?")

But laboring in obscurity or not, certain truths are the same. When we investors have worked hard to understand a company, and lived through that company's ups and downs, we're more likely to get it right when it comes to plunking down our money for more shares, or eventually plunking down our shares for more money. We're firmly in the first phase, with Caterpillar and Micron.

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Outlook Capital Management, LLC
[125 S. Wilke Road, Suite 200E](#)
[Arlington Heights, IL 60005](#)
[847-797-0600](#)

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