

## The Outlook: Sept. 2, 2017

***Micron built the ladder . . . and climbs the market's wall of worry.***

Our Micron Technology position has gained 19% in 3 weeks. That means nothing of any importance (especially since Micron spent the previous 6 weeks falling 16%) but it's OK to enjoy the simple thrills of the market roller coaster sometimes, since we're absolutely stuck with enduring its terrors. Let's glance at a couple of pictures of Micron:

**Micron: 3 Years**



**Micron: 2017**



At Outlook we've remarked a few times that the nature of the market is an odd combination of two things. We might call one of them a "shrewd judge of the highly complicated future." And we might call the other a "frightened fool," to be blunt. This odd combination should be no surprise, since the market is nothing but a collection of people, acting like people, with all their combinations of wonderful and abysmal qualities. At Outlook we always remember this when some highly learned, ultra-sophisticated investment eminence comes along and says (translated from polysyllables) "The market knows all, sees all, tells all . . . so the notion that investment managers can do better than the market is delusional."

We can see in the top chart that Micron bottomed around \$9 per share little more than one year ago, and proceeded to rise 260%. The only thing that was delusional back then was the notion that Micron ought to be priced like a bankruptcy candidate . . . yet that's exactly what the market did, and stuck with that frightened "judgment" for a good 6 months. When the news is temporarily bad, people quite often get much more frightened than they ought to be, and good judgment goes right out the window. That brings us to the bottom chart, showing Micron so far this year, which we might title: "Portrait of Micron Investors Who Can Hardly Believe Their Luck, and Are Terrified It'll Run Out Tomorrow." We can see those frightened plunges every couple of months this year, with the latest plunge, in mid-June, triggered by the firm's last quarterly earnings release, which was about as wonderful as quarterly earnings ever get.

Mr. William Tidwell, an exceptional analyst on the Seeking Alpha website, has closely followed Micron for a long time. Yesterday he summed up the market's fears about Micron roughly this way:

- At 5 times next year's probable earnings, Micron's valuation is absurd. (Meaning, "cheap.") It reflects fear of vast new supplies from China and unrealistic expectations of oversupply of memory chips . . . simply because that's what has happened in the past.
- Micron's cost of production is improving dramatically and will continue to do so through 2018 at least.

And Mr. Tidwell—in a lengthy analysis—gave us this summary of Micron's success in lowering those production costs in the past year:

Average selling price (of DRAM chips):	up 36%
Average production cost (of DRAM chips):	down 23%

For any business, that combination falls into the "died and gone to heaven" category of good news: our product sells for 36% more, our costs are 23% less. And the market crowd fully grasps the "died and gone to heaven" notion, and fully expects to be kicked back out the gates and down to something a lot less fun, at any moment. But why?

Outlook's simplest answer is always something like this: "Because the market always focuses mostly upon how much money it made or lost yesterday, and how the rest of the crowd might be feeling about that, rather than what Micron's people actually did, this past year or more, as they reported for work "in the arena" every day. That 23% cost reduction happened because of very hard work, ingenuity and management foresight, years ago. As Mr. Tidwell observed, there's a good deal more of that benefit still to come.

Micron has little say about the global price of its products. It has a lot of say about how well it makes them: how inexpensively they can be made in Micron's factories; and how technologically advanced they are. It seemed pretty clear to Outlook, some years ago, that Micron's leaders and people were getting much better at those two items, and in fact were greatly strengthening their company in the process. This past year the market has begun to glance toward that truth, now and then, but has been unable to wrench its gaze, for long, from any market's worst nightmare, to wit: "We've made all this money! For heaven's sake let's not lose it!"

We're not the least bit likely to lose it, as far as Outlook is concerned. The Micron roller coaster will go up, then down, then repeat—as always. But what really matters isn't the roller coaster's behavior, but what Micron's people have done. We plan to stick with them, and ride the roller coaster a great deal higher.

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