The Outlook: July 15, 2019

Real meaning vs. dithers: Cummins' cash, the economy's jobs.

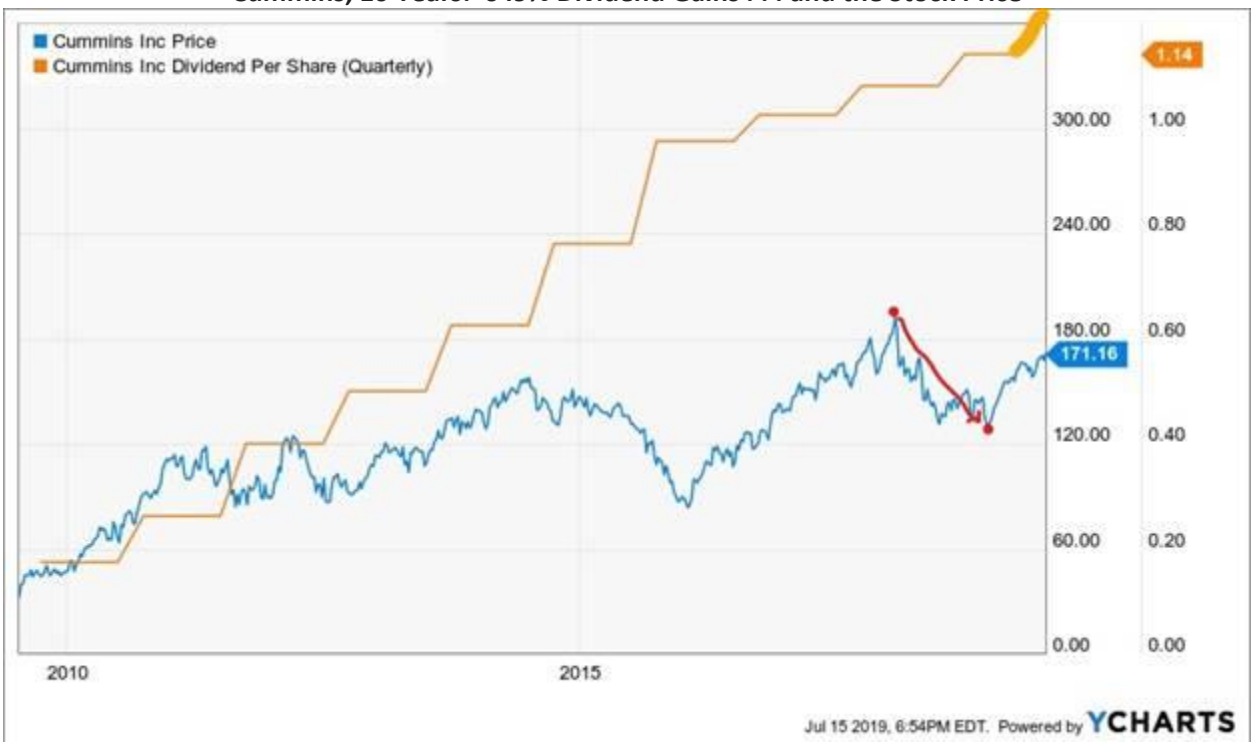
There have been only 2 events with real meaning, over the last 10 days or so—and they're certainly not the events the market has run back and forth shouting about. Here's what has mattered:

- The June employment report came out. Nonfarm payrolls rose 224,000—far beyond the expected 160,000. Economist Brian Wesbury explained it best: "Fireworks for the job market today, which showed why it's important not to panic about the economy when you get one soft jobs report." (The month of May's jobs gain of "only" 75,000 . . . which gave the market a day's excuse to groan in dismay, and gave the usual crowd of always-pessimistic experts the day's ammunition to support their "stagnation and recession around the corner" theory of the past 10 years.)

- Cummins, our diesel engine king, hiked its dividend 15%. CEO Tom Linebarger explained that best: "We have raised our quarterly dividend in each of the last ten years, resulting in a 649 percent increase since 2009. The consistent increase in our dividend, through economic cycles, reflects confidence in our long-term performance and reinforces our commitment to delivering strong returns to shareholders."

And just for clarity, here's a 10-year picture of Cummins:

Cummins, 10 Years: 649% Dividend Gains . . . and the Stock Price



The fat yellow line at the top right is our 15% recent hike. The thin red line underneath is Cummins' 35% stock plunge over the 12 months from early 2018 to early 2019. Why? Mostly, because that crowd of

daily bettors we call "the market" saw a nightmare to exploit: "Trade War! Global Recession, or Worse!" Slightly, because the company's business operations softened for a while, as they've done over and over again through the decade, only to surge again, because Cummins is in a cyclical business. Its sales and earnings will always strengthen and soften, then strengthen and soften again (but a higher and stronger levels than before.) That fact of life makes cyclical companies wonderful betting objects for those whose idea for making money in the investment world is to follow the rest of the crowd's changing moods, regardless (for a while) of the never-ending result: sharper and sharper differences between what cold cash is telling us about a company, and what the market's fevers are telling us.

That sharpening difference between cash and market mood is perfectly obvious above. There is Cummins' cash to shareholders, only rising and rising. And there is Cummins' stock price, rising and falling, then repeating. The remarkable story, the story worth listening to, is being told by cash, not by the market—just as the remarkable story for the economy as a whole is being told by those very measurable 224,000 new jobs, not by unmeasurable "Trade War!" fears about future effects. So we own Cummins and buy more when we can, just as we do with our other strong companies regardless of the market's dithers about them.

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