

## The Outlook: Oct. 8, 2019

### ***"Inconceivable!" (The Big Picture)***

*"Inconceivable!"* (Vizzini)

*"You keep using that word. I do not think it means what you think it means."* (Inigo Montoya)

— **The Princess Bride**

It's a good rule, in our business, to avoid exaggeration. There is always so much of it sloshing around, in the investment world, that it's hard enough to see things straight without adding to the fog ourselves. But today's "Big Picture" has just plain *earned* that word: "Inconceivable!" And just like the evil mastermind, Vizzini (for those who might have missed *The Princess Bride*), who kept saying "Inconceivable!" as the Masked Man performed one unlikely, incredible feat after another, bringing Vizzini's doom closer and closer, the almost-daily series of events shaking the investment world has surely made most of us blink, and think "Inconceivable!" again and again. Let us go straight to the heart of it.

For well over a year, now, the main "argument" between the market's buyers and sellers has been over this question: "We have a Trade War. How far will it go; and how much damage will it do?"

Nobody has known the answers. The market's speculating sellers have exaggerated the War's depth and damage from Day One, of course. That's what they do. The market's speculating buyers have stepped in after each downward plunge, usually pretty quickly, waving fistfuls of cash. They've always thrown most of that cash at the very same stocks the sellers aimed at: industrial, energy and commodity-dependent companies; and a handful of Tech companies. All were targets because they do "too much" business in the battle zone, in one way or another. Most of those companies' stocks were valued with distinct anxiety a year ago, when the argument started; and they're still valued that way today. The result of all this has been a roller coaster ride even sharper than usual, for those kinds of stocks . . . which includes many of Outlook's favorites, naturally.

"Inconceivable!" Let's glance at a few of the unlikely actions and events which have earned that word.

- China's dictator, Mr. Xi Jinping, has blundered so often and so seriously, while insisting on doubling down on those blunders (so far), that he's written his page in history—not the one he had in mind. He has shown the Chinese government's snarling face to the world so blatantly that it's now impossible for the world to keep looking the other way, while making money with China. The most recent of China's long string of snarls was this week's "war on the NBA" (for a tweet supporting Hong Kong by a minor team executive.) It was a Chinese action so silly it deserves a gold medal in the "Inconceivable!" competition. There was no need whatsoever for Mr. Xi to do all this. He badly misjudged a lot of people: starting with Mr. Trump, but also many American business leaders whose companies have added a lot to China's decades of growing prosperity . . . and whose actions have permanently changed from "Grow in China!" to "Watch out in China—and start getting out!"

Mr. Xi's eyes are fixed on one goal: Chinese power. But the source of China's power is its growing wealth and prosperity . . . and Mr. Xi has hobbled that growth for the foreseeable future. He

evidently thought—like most dictators—that Western businessmen and politicians could be pushed around endlessly. History tells us that, in fact, most of them can be pushed around for a long time . . . but not forever.

- America's President, Mr. Trump, is also contending for the gold medal in "Inconceivable!" Again and again during this "Trade War" year, Mr. Trump has himself "doubled down" on America's bargaining position, usually when the world thought he must be feeling the strain of holding a weakening hand. Yesterday's actions—exactly on the eve of renewed trade talks—in placing 28 Chinese companies on the "export blacklist" due to their role in repressing China's Muslim minorities via digital surveillance, among other things, was typical. So was today's action: banning U.S. visas for Chinese government officials involved in Muslim repression.

Mr. Trump triggers extreme feelings in people at both ends of the political spectrum. But perhaps there is one statement about him on which many might agree. The Presidency has not seen a tougher negotiator in a long time, including those from both parties. Mr. Trump usually does not play things the safe way. That brings the \$64,000 Question: "And how will it turn out?" And the answer is just the same: "Nobody knows, yet."

The Trade War is unquestionably hurting economic growth and business earnings all over the world. China has, after all, become a big part of the global economy, by giving the rest of the world good reasons to do business with it—until now. The depth of that damage is "significant enough . . . but not crippling, so far" in Outlook's judgment. The many who are telling us it's not just crippling, but maybe fatal . . . are exaggerating as they always do.

Where does this inconceivable state of affairs leave us, as long-term investors? Conoco answered that question, yesterday. It spoke not with words but with cash.

**"Inconceivable:" Conoco Raises Dividend 38%**



The price of oil is the foundation for Conoco’s business. China is a giant consumer of oil (and a multitude of other things.) So “Trade War!” has been rattling the global oil market all this time: with China weakening by some degree and the rest of the world feeling sick by contagion, surely the world’s demand for oil must weaken enough to cripple the upcycle in oil. That’s been the oil market’s version of the Trade War nightmare. Our company, Conoco, is a “pure” explorer and producer of oil, so its future is more tied to that eventual upcycle than most. Yet, with all the inconceivable events and anxieties in its world, Conoco rocketed its dividend up by 38% . . . and committed to another \$3 billion in share buybacks, just for good measure. How?

Outlook clients will know the answer. Conoco rebuilt its own foundation, in the 5 years since oil plunged . . . rather than waiting for Chinese demand, or anything else, to do the rebuilding for it. Conoco’s people succeeded extraordinarily well. (We’d say “inconceivably well,” but enough already.) CEO Ryan Lance committed the company to creating enduring profitability at every point in the oil price cycle, high or low . . . and then he went out and did it. So up soared the dividend, yesterday—and nobody doubts Conoco’s financial strength and ability to sustain it. We now earn 3.1% in cash dividend return on our investment; and Conoco trades at only 13 times earnings, which means “too cautious to be hurt, for long, even by a market fixated on inconceivable Trade War events.” Yes . . . Main Street is the source of all good things for investors, in the end, not Wall Street.

Arlington Heights, IL 60005  
847-797-0600

The remarks above aren't a general recommendation to buy or sell particular securities. Such decisions should only be made in the context of an investor's own circumstances. Stocks and bonds carry the risk of loss.