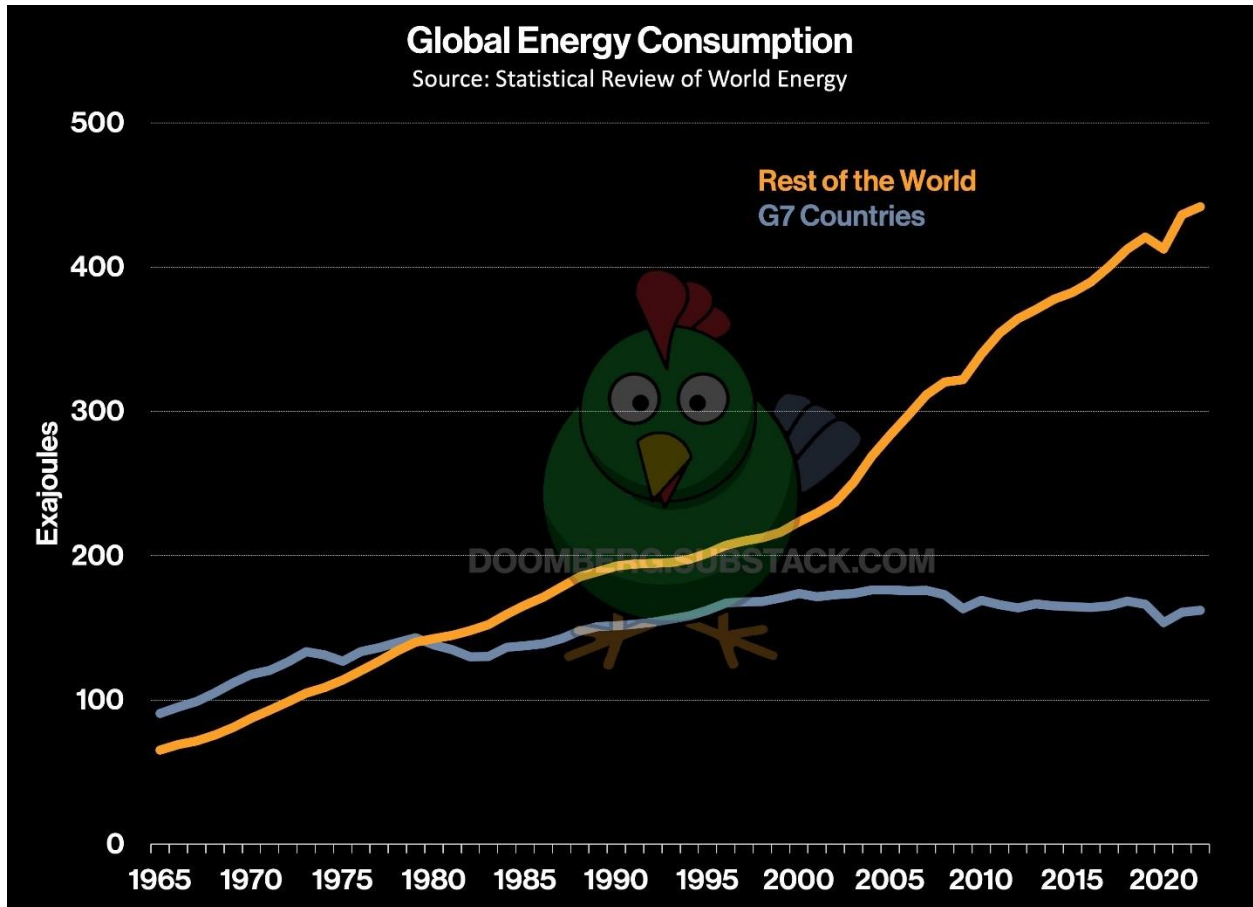


The Outlook: April 19, 2024

*Brilliant ideas and backs of envelopes.*

Here’s something a Nobel-prize-winning physicist once said, roughly: “If you can’t put the heart of your brilliant idea on the back of an envelope so that the bartender understands it, then you probably don’t understand it yourself.” His name was Richard Feynman, and he was talking to a crowd of other physicists . . . who probably chuckled among themselves, because Mr. Feynman was known for such outlandish remarks. Yes: they chuckled, applauded his speech . . . and ignored his advice, because that’s what we all tend to do with most of the advice we get.

Outlook’s version of Mr. Feynman’s remark is something we’ve been saying to clients new and old for a long time now. “There is nothing as important for investors as actually *understanding* what you own and why, or what your advisor wants you to own.” Of course we don’t mean everyone must plunge as deeply into the inner workings of companies and economies as we do. But we do mean that we’d better be able to “put the heart of our brilliant ideas on the back of an envelope” . . . or clients have a right to wonder if we’re taking our own advice. Here are a couple of envelopes.



This one comes from an energy analyst who goes by “Doomberg.” Once we take our eyes off Mr. Doomberg’s green chicken, we see a startling picture of a cold fact. The use of energy by the richest seven countries in the world (sort of) leveled off a long time ago. But the use of energy by “The Rest of the

World” has been climbing straight up a mountain, with only the slightest of interruptions. Only a couple of weeks ago another good analyst put it this way: “Energy is wealth. Energy is improving living standards.” He meant energy is the foundation of those things, and the improving living standards everywhere in the world have come hand-in-hand with more energy use.

At Outlook we think that fact is as true as they come. We also looked at that kind of picture, years ago, and concluded that “For the next ten or twenty years, there is simply no possible source of that huge, growing amount of energy except for fossil fuels, especially oil and gas. Then we looked at global supply of oil and gas and thought, “Slowing down. Getting more costly. Not easy to keep up with growing demand.” Finally, we looked at a couple of big, strong energy companies—Conoco and Exxon—and thought, “The market hates them. The market’s valuing them as if they’re fossils themselves, nothing interesting about their long-term profits and cash flows.” And the back of our envelope said, “Buy. Those emphatic tailwinds are going to help us if we’re patient.”

Here’s one more picture.

### Micron: 10 Years, 350% . . . the hard way.



There’s Micron Technology: the Memory King. Micron’s given us a lot of fun lately, rocketing from \$80 to \$127 in no time, pretty much. The market’s betting crowd does that kind of thing when it suddenly grasps that a company’s operating business looks very likely to do very well for a good while . . . and the old valuation made no sense from that point of view. Now Micron has plunged about 16%, also in no time, pretty much. And yup, the market’s betting crowd does that kind of thing after it’s been on a joyride for a while with any and every company’s stock. Does the “anti-joyride” mean anything?

Nope. The only thing that means anything, to us back-of-the-envelope investors, is the story told by the picture above.

There's Micron, up 350% in 10 years. There are a bunch of green arrows, pointing to just some of the "more than 16% plunges" in Micron along the way. What did Outlook write on the back of its envelope long ago?

"Memory chips. The weak companies have been destroyed all over the world. Micron survived, and it's getting much stronger. Memory chips will only get more sophisticated, more costly to make, and more in demand for a long time—so the survivors like Micron will be making a lot more money, and there won't be any new companies challenging it. And the betting crowd's valuing Micron like a fossil, nothing very interesting about the cash and profits it will make over the next decade and more, sharp cycles or not."

Our back-of-the-envelope "heart of the matter" stories—for Micron, Conoco and Exxon—have not changed a bit in all these years. We don't think they'll be changing in the years to come, either. The stocks' roller coaster rides won't change a bit, either—because that's the nature of the betting crowd which drives the market's daily behavior. But that crowd always must bet on cold, true facts in the end, no matter how many times it bets on impressions from today's headlines. That is why the roller coaster ride tilts up over the years; and it's why we never tire of buckling our seatbelts and enduring the ride.

© Dave Raub  
Outlook Capital Management, LLC  
125 S. Wilke Road, Suite 200E  
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.*