<u>The Outlook: May 11, 2023</u>

"Shall we believe the market today?"

Every single day of every single year of our investing careers, every one of us thinks, "Shall we believe what this market is trying to tell us today? Surely so many other people can't be wrong, can they?"

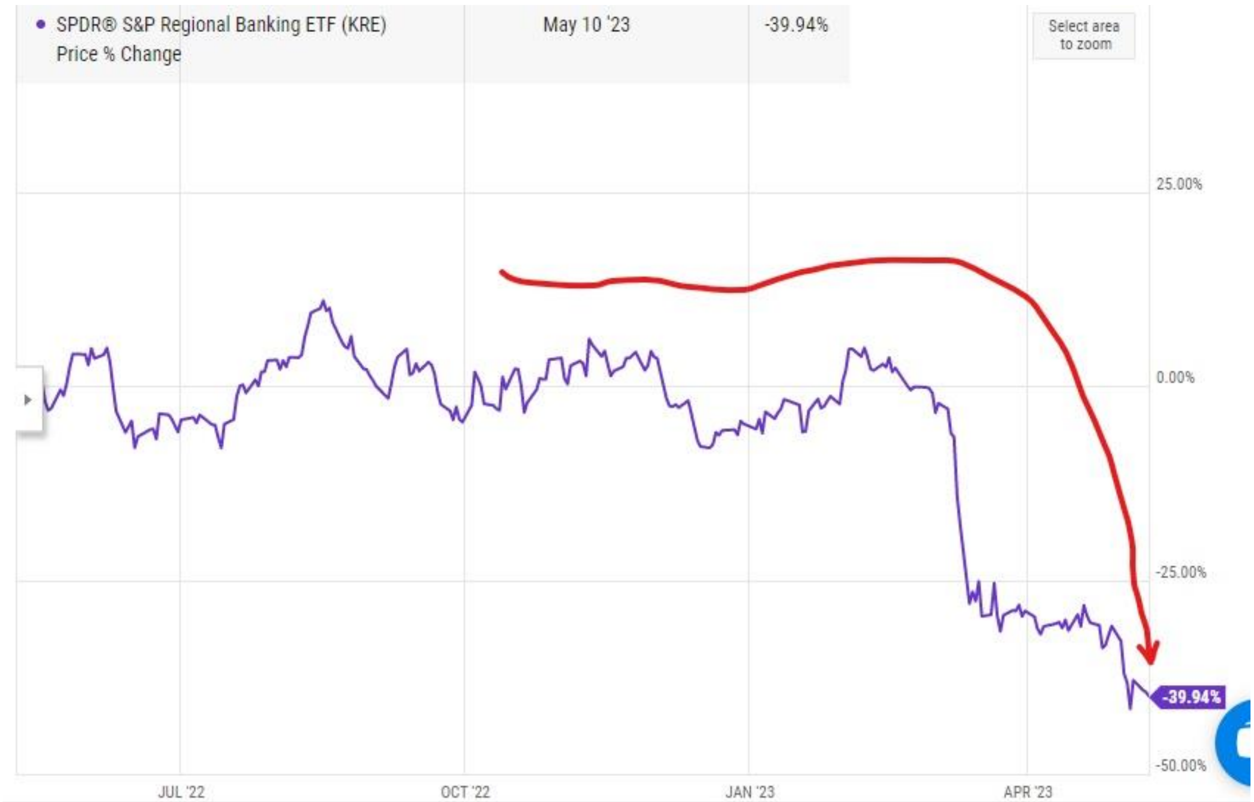
We think this at least once a day because our money's on the line, and anything at all which seems to threaten our money triggers a flash of fear . . . and, as Outlook has mentioned a few times, *nothing* clouds up clear thinking like fear. And even when we grit our teeth and make ourselves think, since we're normal human beings we're always inclined to believe such things as "where there's smoke there's fire," and "surely so many other people can't be wrong, can they—or at least they can't be *completely* wrong?"

Standing apart from the crowd is mighty hard to do, in investing or anything else. The only thing that makes it a little easier is experience, and the understanding that comes with it. When it comes to the questions, "Shall we believe the market today? Can so many other people really be wrong?", the only possible way to know the answer is from years of looking very hard at "what the market tries to tell us", year after year, and patiently waiting to see how it turns out. It turns out this way:

Yes, the market and all those other people can be wrong, and are spectacularly wrong over and over again. So no, we must <u>never</u> let the market do our thinking for us.

Pardon the lengthy homily, let's get to the latest example. Here's how U.S. bank stocks have been treated by the market the past 3 months or so.

U.S. Regional Banks: down 40% in 3 months.



We know why. "Bank Run!" hit the headlines again, thanks first to Silicon Valley Bank then a couple of others. Now, Silicon Valley itself has been home to incredible inventions and over-hyped nonsense, side by side, for 30 years or so. We needn't dig into Silicon Valley Bank more than to say it sat squarely in the "nonsense" neighborhood: taking in billions in deposits from a small number of people and companies; and making a great many "nonsense" loans. That's banking. For every such silly bank there are a hundred others run in a sober, careful way . . . but of course when the silly one gets into trouble we'll never know that, if we let the headlines do our thinking for us.

Those headlines screamed, "Bank Run! Depositors Flee! Who's Next?" So the run spread to lots of other banks, with anxious depositors all over the country thinking, "Pull out! Better safe than sorry!" And so that red line happened, with the market trying to tell us "Here comes 2008 again, run for the hills!"

Now (with thanks to the economists at Fisher, the professional debunking crew) let's glance at a couple of recent facts—ever so much better than headlines for clear thinking.

1. A Gallup poll found that 50% of Americans are worried about the safety of their bank deposits.

2. An FDIC report revealed that 99% of all U.S. bank deposits are insured: ie, under the $250,000 FDIC insurance ceiling.

So 1 dollar out of every 100 dollars is "exposed" to bank safety; but half of all Americans are worried about their bank money. Hmm. Why?

Of course we know the answer. Fear clouds clear thinking, all the time and for almost everyone. Headlines always blow more smoke into our eyes, because "Where there's smoke there must be fire!" might as well be Survival Rule One, for the media. For the media, being right doesn't matter . . . only our eyeballs matter. But if we investors don't insist on waving the smoke away, donning goggles, scrutinizing the facts and <u>then</u> deciding what to do . . . well, we'll have our clocks cleaned, as the old saying goes.

At Outlook we don't invest in banks, but this story matters to us anyway. Every company we've ever owned has suffered the same kind of "Fire! Run for the Exits!" episodes, usually quite a few times over the years. So we learned a long time ago that we must not believe what the market is trying to tell us today; and we must know that so many other people not only can be wrong, but <u>are</u> wrong, in a big way, very often indeed.

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