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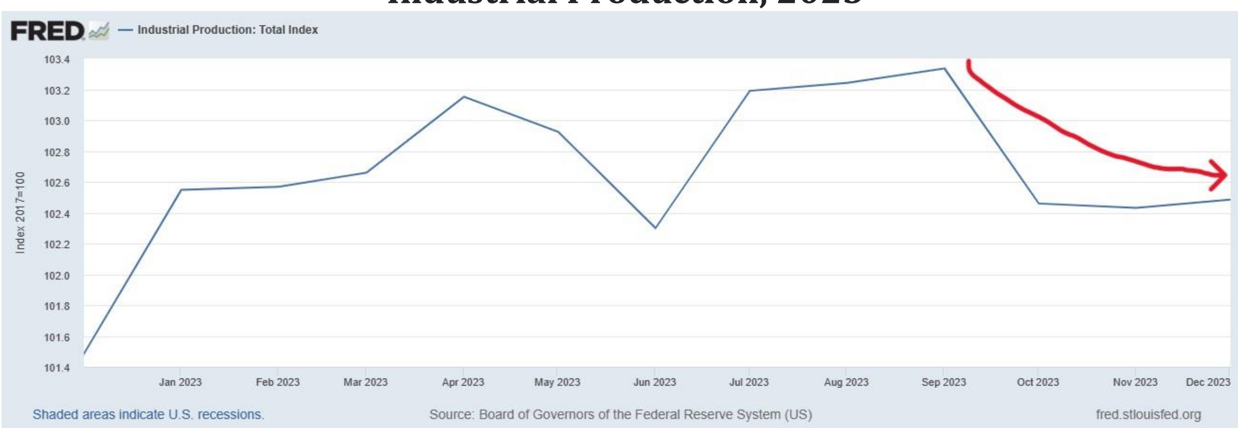
"Half-full" and "half-empty:" also known as "right" and "wrong."

One of the mysteries of life must be why most of us end up firmly stuck in one of two camps: those who see the cup as half-full; and those who see it half-empty. Of course we'll never really know the answer, which is why it's a mystery. But our guess, at Outlook, is that most of us aren't born with a "half-full" or "half-empty" gene. Instead, we're trained over the years to look at the dark side, or at the bright side. Sometimes other people do the training; sometimes we train ourselves . . . and sometimes maybe we change our minds just because we've seen that "half-empty" isn't much fun, as a way to spend our years.

An ocean of things in the investment world can be seen as "half-empty" or "half-full." Here's one from this week.

Industrial Production, 2023



Factory production on Main Street USA went nowhere in 2023, and spent the last 4 months slumping hard, somewhat, then stagnating. What does that mean for 2024?

Well, the "half-empty" crowd—and in the investment world and especially within the daily betting mob, the "half-empty" crowd is huge—thinks, "Hah! Main Street's been hanging on edge of a cliff, ready to fall into Recession, all year long. We can't understand why it's still up there, holding on with its fingernails. The Fed's rate hikes should have finished it off long ago. But this crummy 4-month ending to 2023 guarantees weakness in 2024. We can see it, right up there in that stagnant picture!"

But the "half-full" crowd sees it differently. "Look! U.S. manufacturing companies spent the whole year hearing how Recession was around the corner, and they'd better watch out. And do you know what? That's just what they did! Company after company—the length and breadth of the economy—controlled spending, thinned out inventory, cut back working hours, stocked up on cash. Yes. They did exactly what common sense told them to do, what any of us does if we're alarmed about a coming problem. So it's no wonder production went nowhere in 2023. But 2024? Well, we "half-full" types know one thing for sure: Main Street USA—Manufacturing Main Street—is a lot more ready for that "Recession" if it jumps on us, than it was even a year ago (and it wasn't unprepared back then, either.)"

Recessions are always mainly “all about cycles.” When Main Street is fat and happy, sort of, and “What, me worry?” is the sentiment around town—as it was in 2000-2001, most dramatically—it is indeed up there on that cliff; so when things go sour it has to spend time enduring the months of down cycle needed to thin out inventories, cut employment costs, raise more cash, and on and on. That’s the very definition of “down cycle.” But when Main Street’s spent the last year or two getting ready for “Recession” to tap it on the shoulder, saying “Here I am! Run!” . . . that down cycle just doesn’t have legs. There’s no more cutting to do—very little, anyway. Main Street can look “Recession” in the eye after the shoulder-tap, and say “Oh yeah? Why?”

A long time ago a young analyst came under the training of a “half-empty” manager. Naturally he began to look at the world that way, learning to cry “Run!” with the best of them. Then one day, thank goodness, a “half-full” boss tapped him on the shoulder, so to speak, and said, “You know, if you just back up and look at Main Street USA—and the market, too—for more than a few months or a year, or even five years, you’ll see something perfectly obvious: the “half-empty” people have always been wrong. Always! Think about it.”

The analyst did . . . and he’s never regretted it. It turns out that “half-empty” is mostly wrong; and “half-full” is mostly right. At Outlook we’re holding and buying more, when we can.

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