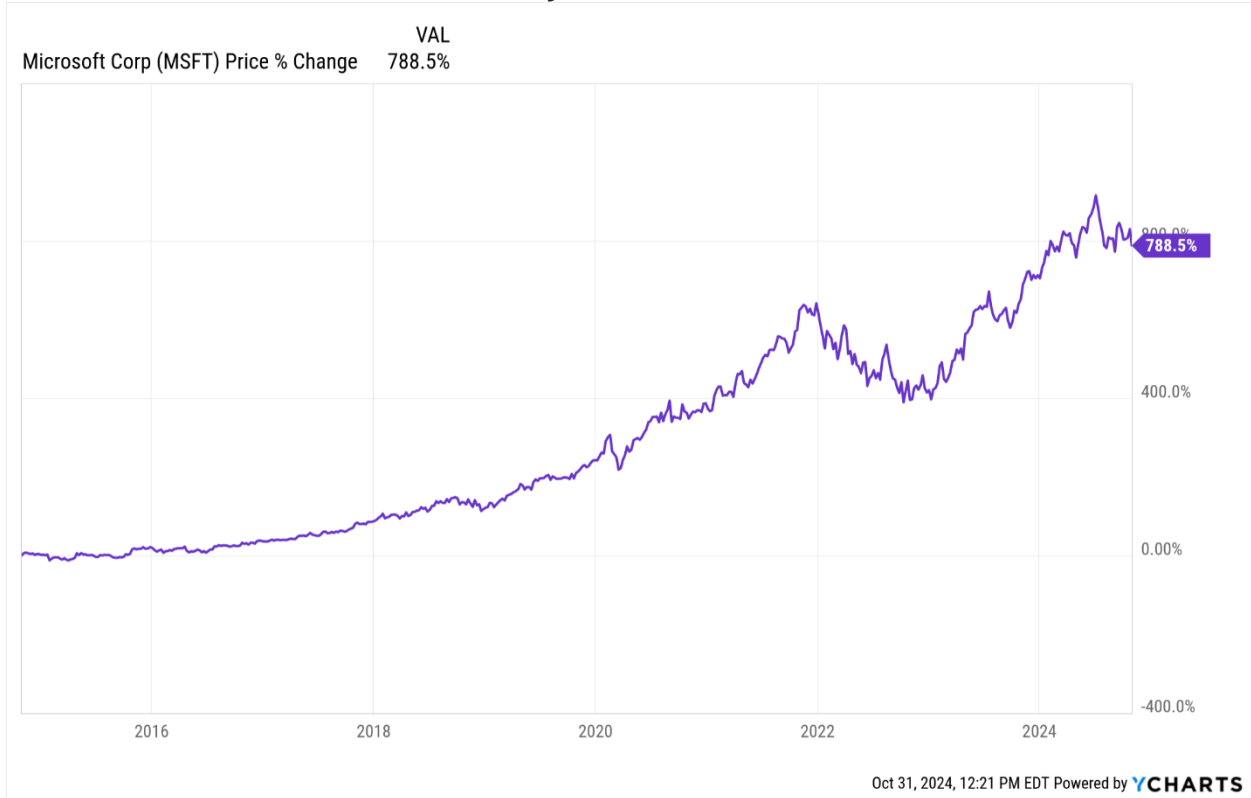


The Outlook: Nov. 1, 2024

“The man in the arena” . . . again and always.

Friday evenings usually feel right for some deep thinking—as Outlook’s clients and friends probably know all too well. Let’s begin, this time, with a couple of pictures.

Microsoft, 10 Years: 789%



Microsoft, 3 Months



That latest red-arrowed plunge, over there, happened yesterday after Microsoft talked about its quarterly earnings. As far as the market's daily betting crowd was concerned, the wheels fell off Microsoft's bus. Hmm. Just like they did, apparently, a couple of weeks ago, and three months ago . . . between their green-arrowed rocket rides to the moon.

In fact, of course, Microsoft's business wheels stayed firmly fixed, and kept spinning at several thousand RPM's. As Outlook has mentioned once or twice, CEO Nadella has taken a gigantic, slowing company—moving kind of like an aging distance runner—and turned it into an Olympic sprinter over the past ten years, pretty much. He's made Microsoft the “go to” company for Business Main Street's most vital operating needs—and he's convinced Main Street that every dollar it spends with Microsoft will pay off in productivity and earnings. The Artificial Intelligence Boom is the latest and much the strongest of those “vital operating needs” for which Main Street is depending on Microsoft.

Why did the market think there was something wrong with Microsoft's wheels, then?

The real answer to that question is the reminder that the market does not think. It reacts to impressions. The impression of the moment, for Microsoft and the other “Artificial Intelligence Engines,” is that the fantastic volume of money they're spending to win—or at least keep up in—the Artificial Intelligence race, is so large and growing so fast that surely it'll backfire on those “engines,” crippling future profits.

And the real answer to that question—impression, that is—is “Perhaps. Spending big money is always a risk, because the company can't be *sure* it will pay off until . . . it pays off, down the road. American

business history is filled with examples of CEO's big risks which backfired . . . and for many of the betting crowd on Wall Street, such examples are the whole story. But they aren't.

Only a few years ago, Facebook CEO Mark Zuckerberg renamed his company "Meta" because he meant to spend an ocean of money on "Virtual Reality," which he'd decided was the future of everything. At the press conference he wore a Virtual Reality headset. At Outlook we guess he'd like to forget that press conference and erase those pictures, and hope people stop asking just how much Facebook money was flushed down the drain on that gamble. Yes . . . that's one of those examples of backfiring risk-taking . . . but those stories are really only trivial anecdotes in business history, not the heart of the matter.

The heart of the matter is that taking big risks and acting decisively and fast are the hallmark of American business culture . . . next to which European, Asian, and Latin American business culture are like, well, aging distance runners, moving slow. That big "AI" spending by Microsoft and friends is breathtaking indeed—but they looked hard at Artificial Intelligence, judged its value, and acted. If they're right, their companies (and us shareholders) will be rolling in cash for a long, long time. If they're wrong, they are so financially strong they'll just shrug . . . and move on to the next business gamble. At Outlook we are pretty sure they're right about "AI."

A very long time ago, President Teddy Roosevelt said something profound. (Yup, time for that deep philosophy.) Here it is. Microsoft is "the man in the arena." Wall Street's betting crowd is, and forever will be, "the critics" who chatter on the sidelines.

"It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood; who strives valiantly; who errs, who comes short again and again, because there is no effort without error and shortcoming; but who does actually strive to do the deeds; who knows great enthusiasms, the great devotions; who spends himself in a worthy cause; who at the best knows in the end the triumph of high achievement, and who at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who neither know victory nor defeat."

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

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