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FAANG: The new “Nifty Fifty”

1 message

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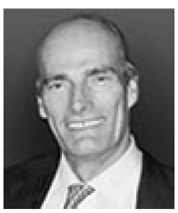
Bill Bonner's Diary

FAANG: The New “Nifty Fifty”

By Bill Bonner, Chairman, Bonner & Partners



BALTIMORE, MARYLAND – Mr. Market must have gotten up on the wrong side of the bed yesterday.

CNBC reports:

> The Dow fell 395 points to 25,017. The S&P 500 dropped 1.7 percent to 2,690 as the technology sector pulled back 3.8 percent. The tech-heavy Nasdaq lagged, falling 3 percent to close at 7,028 as Amazon dropped 5.1 percent.
>
> The popular FAANG trade, made up of Facebook, Amazon, Apple, Netflix and Alphabet, is now in a bear market, with each member down more than 20 percent from their one-year highs.
>
> “It’s going to require a recovery in tech to make things happen,” said Greg Luken, the CEO of Luken Investment Analytics. “I think where we are in tech, we’re going to see tough sledding towards the end of the year. I think stocks that are down will see further selling pressure.”

We have no way of knowing what will happen next. Fortunately, we don’t need to know. And we don’t need to duck when Mr. Market starts throwing the silverware.

We’re not even in the room!

Expensive Stocks

At Dow 25,000, stocks are too expensive. The Dow-to-gold ratio is now 21. In other words, it takes 21 ounces of gold to buy the Dow. That ratio has only been higher twice in the last 100 years. And each time was followed by an 85%-90% selloff.

The FAANG stocks are especially expensive. We buy a $60 bottle of wine from time to time. We stay at a $400-a-night hotel occasionally and eat in restaurants with real tablecloths once in a while.

But we don’t buy expensive stocks. What would be the point?

You don’t buy stocks for pleasure. You buy stocks to make money, not to get rid of it. The whole idea is to buy low and sell high. If you buy high, you’re starting off on the wrong foot.

Netflix, for example, trades on a price-to-earnings (P/E) ratio close to 100. The average P/E for the S&P 500 today is 21.

You invest $100… and you wait 100 years (at current levels) for the company to log that much in earnings. And a fat lot of good it does you anyway.

Netflix doesn’t pay out any of its earnings in dividends. It says it is focused on “growth.” But you can’t pay your rent with growth. And if you buy for growth and hold on, you’re likely to find your growth going to someone else.

For every new technology there’s newer technology somewhere ahead. And it usually shows up while you’re waiting for your “growth” tech stock to grow into a profit stock. Then, you end up with a Palm Pilot, Atari, Hitachi, Compaq, or… a Polaroid Land camera, while everybody else has an iPhone!

River of No Returns

Amazon is another big, Big Tech company that has never paid a dividend. Though fans insist it is ready to start making money any day now, its retailing model – cut prices to get market share – is still the “River of No Returns.”

And it probably always will be. Because it’s very hard to generate a profit when your business model depends on not having a profit margin.

Based on last year’s earnings, you’d have to wait 387 years to get your money back from AMZN. Earnings were scarce. The price was high.

Since things that are out of whack tend to go back into whack, eventually… and since it is extremely unlikely that earnings could rise enough to justify such a high valuation… the price will have to fall to a more reasonable multiple of earnings.

In other words, investors will lose money.

Even if the FAANGs’ technology survives, they probably won’t make much money for investors.

When a new tech company becomes a hot favorite, the stock price is bid up to levels that don’t really make much sense. The companies, even if they are successful, can never earn enough to give investors a good return on their money.

That is what happened with the Nifty Fifty stocks of the late 1960s and early 1970s. They were good companies – including Coca-Cola, Sears, and General Electric. They had leading technologies, too – Polaroid, Xerox, and Texas Instruments, for example.

Investors at the time felt that all you had to do to succeed in the stock market was buy these 50 leading stocks. It made investing easy. You just had "one decision" to make, and you were set for life.

Naturally, the Nifty Fifty stocks went up… to twice the level of the S&P 500. At their peak, they traded for 42 times earnings, about the same as Alphabet (Google's parent company) today.

But investors weren't set for life. The Nifty Fifty stocks might have been good companies, but at 1972 prices, few of them turned out to be good investments. If you had bought them at their peak in 1972, by 1975 you'd have lost two-thirds of your money. By today, you would have lost much of the rest of it.

Only one of the Nifty Fifty stocks turned out to be a great investment – good ol' reliable Philip Morris. Take out the smokes and the whole portfolio was a loser.

Will the same happen to the FAANG stocks? Will Facebook, Apple, Amazon, Netflix, and Google soon be "yesterday's technologies?"

We don't know. But at 2018 prices, there is probably far more downside than upside.

Regards,

Bill

P.S. One last thing before you go. Dear readers know we recently attended a conference in Bermuda. There, we gave a speech and met with many of our subscribers. But later, behind closed doors, we got together with Doug Casey, Mark Ford, and Jeff Clark to discuss a project that we are going in on together. We also discussed some ideas that weren't ready to be shared with the audience… yet.

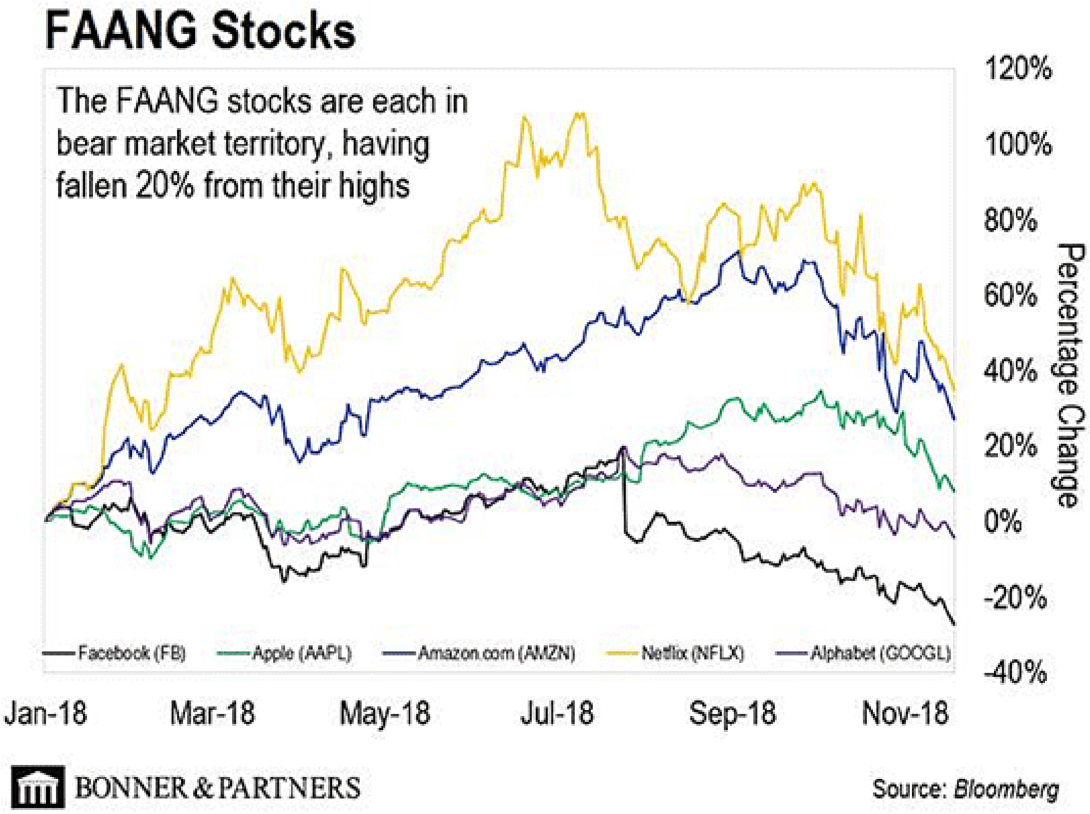
On November 28, we'll tell you what was said in that meeting. And we'll give you more about this new project of ours. Follow this link to get all the details.

MARKET INSIGHT: FAANG FALLS

By Joe Withrow, Head of Research, Bonner & Partners

The individual FAANG stocks are in bear market territory…

That's the story of today's chart, which measures the year-to-date performance of Facebook (FB), Apple (AAPL), Amazon (AMZN), Netflix (NFLX), and Google (GOOGL) – now named Alphabet.



As you can see, the FAANG stocks got off to a strong start this year… but each has fallen by 20% or more from its all-time high set in recent months. A 20% drop is broadly defined as a “bear market.”

Facebook has plummeted 40% from its July high… Apple has fallen 20% from its October high… Amazon has fallen 26% from its September high… Netflix has plunged 35% from its July high… and Alphabet has fallen 20% from its July high.

Could this be signaling the start of a full-blown bear market?

As *The Daily Cut* editor Chris Lowe told readers last week, we can’t know for sure. But the next bear market is a matter of “when,” not “if.”

And one warning sign of a market top is when the “generals” – the stocks that have been leading the bull market higher – start to break down.

In preparation for the coming bear market, the top editors from Bonner & Partners, Casey Research, and Palm Beach Research Group got together, along with master trader Jeff Clark, to write *The Ultimate Crisis Playbook – 24 Tactical Steps to Surviving and Thriving in the Coming Market Crash.*

For expert advice on navigating the coming crash, *Bill Bonner Letter* subscribers can access our crisis playbook here.

And if you're not a subscriber of *The Bill Bonner Letter*, go right here.

– *Joe Withrow*

FEATURED READS

Peak Tech?
As Joe Withrow reported above, tech stocks, once the darlings of U.S. stock market investors, are now in “bear market territory.” And with tech plunging, is the end nigh for the U.S. bull market?

How to Profit From American Gambling
Last May, the Supreme Court handed down a decision: Sports betting is no longer illegal in the United States. As states rush to implement gambling operations, investors need to take notice.

United States of Debt
A new debt crisis could be looming. Collectively, world governments owe an estimated $63 trillion. One-third of that burden lands squarely on the U.S. And with interest rates rising, the debt load is only getting heavier.

MAILBAG

Today, a very mixed mailbag: Why one dear reader will never buy cryptos… the problem with pharmaceuticals from China… and should we expect another Ice Age?

> I will never put any of my assets in cryptocurrencies. This is why: While cryptocurrencies guarantee us that the supply of each cryptocurrency is limited, both in how fast it can grow and in its ultimate total amount, there is no limit to the number of cryptos that can exist. And even a fool knows that each new successful cryptocurrency must necessarily devalue the others. How can it possibly be otherwise?
>
> **– Steve A.**

> Outsourcing our drug manufacturing to China is coming back to bite us. Many of the ingredients in our medications are tainted. All of this is documented in a book by Rosemary Gibson called *China Rx*. Recall that cat and dog food from China was tainted and killed many dogs and cats here in 2007-2008.
>
> One thing that can be said in China’s favor is that it took swift action against the head of their FDA – he was convicted and executed for taking bribes from companies.
>
> **– Helga N.**

> In the next 15 years, maybe half of our population will die from freezing, starving, food riots, earthquakes, or volcano eruptions. Almost nobody is informed about this so they can prepare for it.
>
> So what is it? It is a 400-year cycle of the sun, where it goes into hibernation for a long period of time and quits protecting us from cosmic rays and puts out less heat. It is called the Eddy Minimum. It could produce another Little Ice Age like the Maunder Minimum did 400 years ago. Since we are more populated and concentrated more in urban areas than we were 400 years ago, it will be the worst time for humans by far.
>
> **– Joe M.**

IN CASE YOU MISSED IT…

Bill recently had a closed-door meeting with two of the biggest names in financial publishing: Doug Casey and Mark Ford.

What these three men talked about has been kept confidential, until now. To get all the details on what was said, go here.

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