CAPITAL INVESTMENT COUNSEL

The Columns

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In the mid-2000's, I was on vacation in London watching the world's greatest soccer team, Arsenal. I had an interesting conversation with a local Brit. We were discussing sports heroes and he said that in England, they love to build people and things up so they can tear them down. It sounded ruthless and his comment always stuck with me. The action in big cap tech feels similar this week.

For the last two years, investors built up big tech. Bigger was better-until it wasn't. Since last November, the NASDAQ 100 (the flagship tech index) has dropped 10%. The boring Dow Jones Industrials are flat over the same time. There have been many nicknames for big tech. In the early 2000's, there were the 4 horsemen. (Microsoft, Intel, Cisco & Dell). That list shows how everything was based on PCs back then. All four are still important companies but Microsoft is the only one to still be a big tech Kingpin.

There have been different variations on the theme lately. FAANG was seemingly the place to be from 2014 on. This group was Facebook, Amazon, Apple, Netflix, and Google. By the way, as of this writing, Netflix has peeled off 65% since peaking in November last year. The most recent version is FAATMAN. It includes all the above companies and adds Tesla and Microsoft. I guess if you're popular enough to have these nicknames, you may be due for a fall.

The market thought so. I'm writing this on April 21st and the carnage in big tech over the last few days is stunning. Netflix got the ball rolling with their subpar results Tuesday night. The streaming giant is down 35% in 2 days. Yikes! Sifting through the rubble, we're noticing discrepancies. Here's one: Nvidia is down 23% since mid-March. On the other hand, Oracle is only down 1%. What's up with that?

I always say your purchase price drives your investment returns. If you overpay, it can take years to recover. Oracle trades at a PE of only 15. I feel that's attractive in this landscape and may be why Oracle is holding steady. Nvidia is an incredible company. The growth they've seen the last three years is remarkable. Unfortunately, the stock price already reflects most of the good news. Even after its March selloff, Nvidia is still trading at 38 times next years earnings. I like Nvidia but their rich valuation may cause more downside.

In the February Columns, we looked at Shopify, the e-commerce giant. Back then, Shopify had dropped from $1760 to $730. The problem we noted was that Shopify was still 230 times (!!) earnings after that selloff. On April 21st, Shopify changes hands at $477 after *another* $250 haircut. By the way, SHOP is still 160 times earnings. Here's the phrase we used from February and it's more relevant now: *When my son was little, he loved to play Candyland. High PE stocks felt like Candyland from March 2020 through November 2021. Now, rising rates are saying that playtime is over, and valuations matter again.*

I took German in high school and Schadenfreude was one of my favorite words. It means to experience joy at the humiliation of another. If the above paragraphs feel like schadenfreude, I can assure you they're not. Instead, I want you to look past the headlines and see the potential opportunity. We're hunting for hidden treasure among the ruins. The good news is we're in the middle of earnings season and the volatility is high. Google is down 3% over the last two days and trades at only 22 times next years earnings. Google is also splitting 20 for 1 in July. A selloff from this level may be worth looking at. The company formerly known as Facebook; Meta had a dramatic recovery over the last month, but they too have been caught up in the Netflix selloff. Meta is only a 16 PE. Meta reports next week, and it may prove to be a chance to buy the online advertising leader at a steep discount....we'll see.

I've done this for 35 years and selloffs are always unpleasant, so let's look out six to eighteen months as opposed to the next few weeks. Let's turn this selloff to our advantage.

Remember how uncomfortable the Covid selloff was in 2020? As bad as it was, it proved to be the launch pad for gains in 2021 and 22. Right now, the selling is indiscriminate. The jewels are being flung overboard along with the junk. Let's find those potential jewels. Speaking of German, I can still count to 10 in German, so I guess my high school experience wasn't totally wasted. If you have any comments, feel free to contact me at heddins@capital-invest.com or call me at 919-656-0836.

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