# High Level Investment Report

*Trusted Advice & Peace of Mind*

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**Ryan Coburn,** B.Mgt, CIM
Vice President,
Assistant Branch Manager
Wealth Advisor & Portfolio Manager

Westmount Branch - Lethbridge

**Tel: 403-382-3498**
**ryan.coburn@nbpcd.com**

**Jocelyn Leeds**
Administrative Assistant
**Tel: 403-331-2026**
**jocelyn.leeds@nbpcd.com**

## When is it Time to Leave the Party?

In this edition of the High Level Investment Report, I thought I would focus on **Investment Psychology** in markets nearing peak returns, and some of the signs to watch out for. Mainly, I thought that the current state of the Technology sector performance would be of interest and a way to provide some educational insights.

Investments go through cycles of underperformance, average performance, good performance, and then some move into a phase that could be considered to be speculative performance. Whether its Bitcoin, Cannabis Stocks, or Large Technology companies that have currently moved into speculative performance ranges to some degree, the same patterns develop over time, and we can learn from what is happening this year.

Let me address **the FAANG Stocks first**, which I have written about a few times in the past couple years in these reports. "FAANG" was the term given to the group of companies including Facebook, Amazon, Apple, Netflix and Alphabets' Google. This acronym was originally coined by **CNBC's Jim Cramer** of Mad Money fame, but was first just "FANG" as it did not include Apple at the time. This will be the main focus.

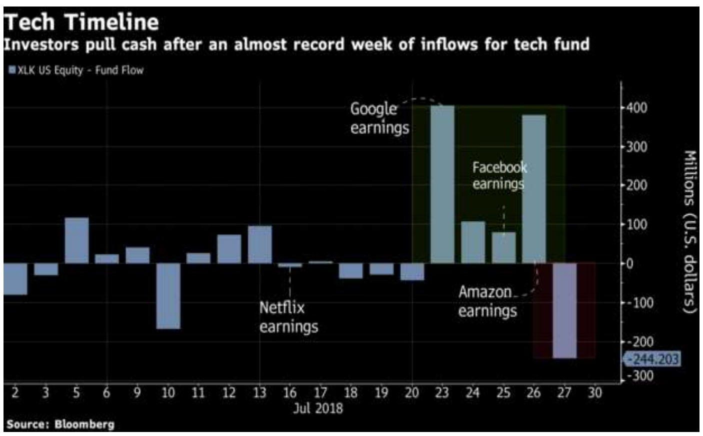
To start, the fun part of this exercise is to figure out how much money these 5 companies are worth. **As of July 30th, these companies are worth $3.36 Trillion!** However, on July 25th (**Christmas in July**), **<u>Facebook gave the gift of their earnings release</u>** and the result was a massive loss in value (over $100 Billion) that most everyone heard about in the news. As of the time of this article being written, **that day has been the top of the market for all but Google in this group**, **<u>shedding a combined $250 Billion dollars in value in 3 trading days</u>**.

**How much is $250 Billion dollars**? Bank of America is worth just over $300 billion. Coke and Pepsi are worth $200 billion each. Walmart is $260 billion and Disney is $170 Billion.

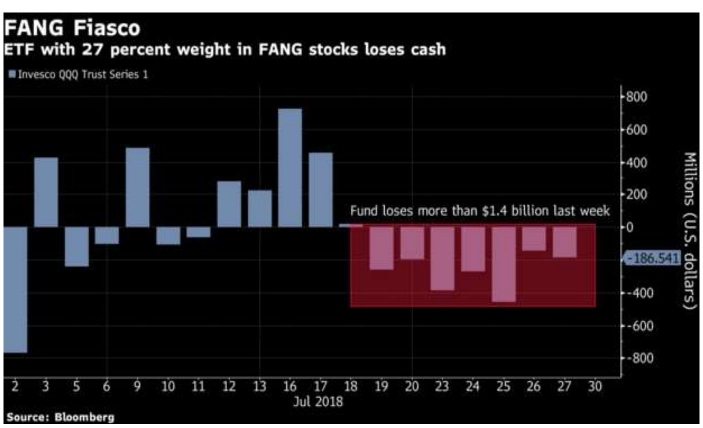
Therefore, the market value lost in these companies in less than a week is worth more than any one of these iconic U.S. companies! It's quite amazing to fathom actually.

The purpose of this article is to diagnose and discuss **a real time psychological investing event, as it plays-out,** as it is useful to review what is occurring this year in multiple sectors, which normally only occurs in the markets a couple instances per decade.

Below is a chart showing the **money inflow per day** into one of the largest Technology Exchange Traded Funds in the USA (State Street Corp's "Technology Select Sector SPDR Fund"). It took in a record $725 million the week of July 23rd, as illustrated below. You can see <u>when Google announced their earnings, $400 million came sloshing into the investment</u>. Then Facebooks' earnings were announced but enough positive impact from Amazon the next day kept money flow positive, until Friday the 27th, **when $244 Million sold out of the ETF in one day.**




Looking at a larger exchange traded fund, the **Invesco QQQ Trust**, which had 27% of its money invested in "FANG" stocks, **saw $1.4 billion in capital fleeing in the past 7 days,** starting with the Netflix earnings announcement and disappointment.



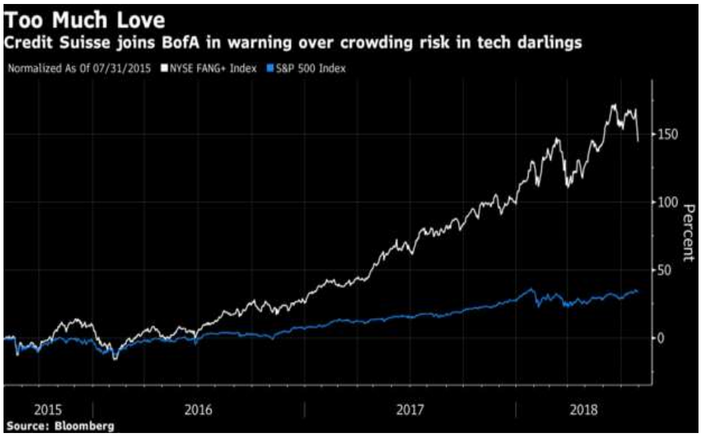

**The real difficulty in investing is to figure out when is the best time to exit investments in companies that move in an upward parabolic fashion,** or more difficult yet, **when the whole sector or a large group of companies are moving sharply in an upward direction. In other words, "when is it time to leave a party?",** but try to have as much fun (earn returns) as possible.

The answer should seem simple really**, and if using "party logic" when investing, it is sometimes good to be a little "fashionably late" when you get into an investment** (confirm the investment is sound and on-track before investing)**, and also makes sense to "leave before midnight" when deciding when you have had enough fun** (when to sell and take your money home)**, and leave the craziness to the party animals thereafter.**

**This is easier said than done however, and is why we go through the same boom and bust market conditions in all investment areas**. **<u>This could be the top for some of these FANG stocks,</u>** or it could be another shake-out before continuing on to higher prices. Now is the time where some of these investments become a bit of a gamble, because many of the companies are trading at valuations that don't make sense in the most aggressive of positive scenarios in my opinion.

In these sharp decline periods there is also the psychology of the "**FOMO**", or the **Fear of Missing Out**. A large decline in this sector now will have many investors wondering if now is a good time to get into those FANG stocks to capture continued upside that they had missed in years gone by?

Below is a chart of the FANG stock performance since 2015 (white line) and the S&P 500 (blue line). The **FANG's produced 3 times the return**. Will it continue, or will this be the decline that ends the massive trend that has gone on for 3 years?




I can admit that I have been wrong in my assessment of the timeframe that these companies would continue to push higher, because some of them trade at such enormous valuations that are hard to justify. But they have continued to rise, and that is usually the way it works, **<u>until it doesn't</u>**.

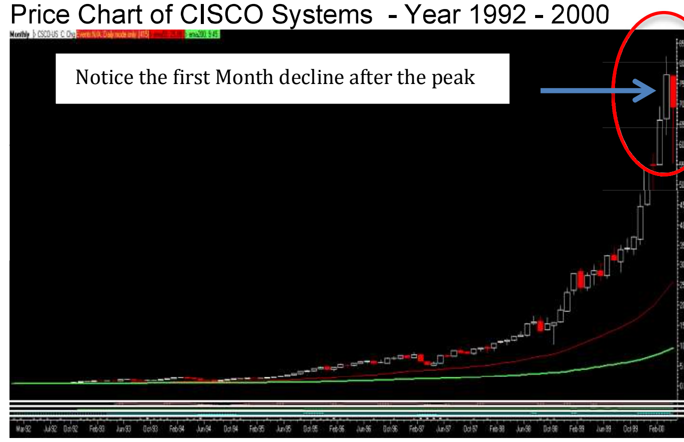
**Valuation in this context is when someone looks at what people are paying for a stock based on what the companies are earning per share.** This is one form of valuation. Many of the "FANG" stocks such as Netflix and Amazon, trade at valuations that are 4 or 5 times that of what is being paid for Microsoft for instance. <u>Or almost 10x what the average company in the S&P 500 trades for.</u> Is this sustainable?

Investors who are looking at this metric and still investing would be making an assumption that the companies could keep growing and are therefore willing to pay these prices. **Unfortunately, much of this last rise has been created because of the ability for investors to just "throw money into" one of the Exchange Traded Funds that were mentioned earlier, and own a piece of the FANG pie. Little analysis is made when companies or sectors start the final, meteoric rise**. Money just chases the stocks and investors lose some discipline and pile-in…the same experience happens over and over**. So where are we going from here**? That is the billion dollar question!

**This is a great time for the average investor to watch what happens with investment markets that move into a speculative phase**, because **<u>the companies that are involved are all companies that most people have a daily interaction with.</u> These aren't just "stocks" that people are most often bored with, these are companies we interact with every day.** We will use **Google** to search for a handful of things today, will watch a show on **Netflix**, look in on what our friends are doing on **Facebook**, and then order something we don't need on **Amazon** prime because the shipping is free! And we will do it all from our **Apple** IPhone or IPad!

**The following is a valuable comparison**. From **1992 to April 2000, CISCO Systems** was one of the darling internet success stories. They are the server company of the world essentially. Their stock chart is below, moving from below $1 per share, to top out at $82 in March 2000 (80x increase)

Price Chart of CISCO Systems - Year 1992 - 2000




Source: Thompson One

This is a chart of **Netflix** also going up 80 times in value.

Price Chart of Netflix - Year 2009 – July 30, 2018


Source: Thompson One

Below is the chart of **Amazon**, from 2002 to July 2018, another 80x increase, but this took 16 years to develop. **It hasn't yet had a comparable month decline as in the prior two examples.**

Source: Thompson One

## Now Look at This:

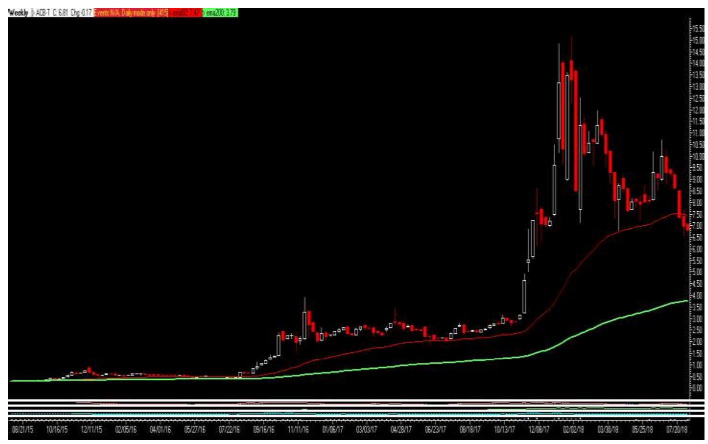
Below is the **chart of CISCO** from 1998 to 2018. Notice the **<u>decline after the massive spike in 2000</u>**. **For those paying close attention, you will notice that this is the continuation of the chart I posted on the prior page**, at the height of the Tech Market Boom, which turned out to be the peak of the market for that sector. CISCO is still a great company, and has recently performed well, **<u>but it is still only half the value it was at its peak 18 years ago! Meanwhile, CISCO is still the global leader in servers and data centre software.</u>**

Source: Thompson One

In other words, Amazon could continue to be the dominant company for the next 10 -20 years, **but that doesn't mean the stock will always go up.**

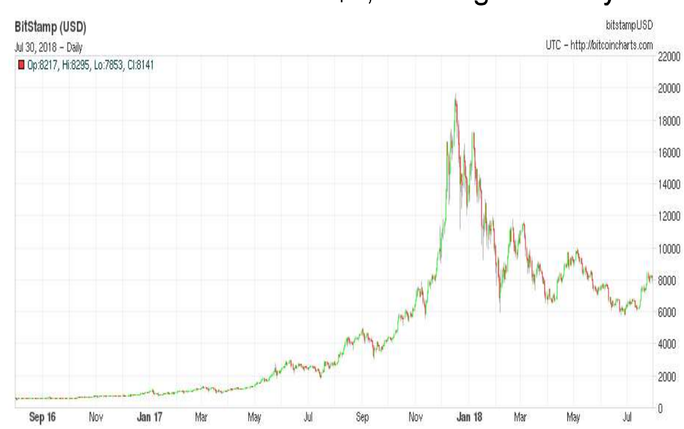
People are interested in these companies performance recently because of their social media and daily interaction with them, which is good because more people will hopefully pay attention and experience what is happening in the market this time around. The same can be said because of the next two examples or recent parabolic market price performance and the corresponding speculation.

The chart below is a sample of another recent, amazing performance based investment theme, **Cannabis**, and the chart of **Aurora Cannabis** since August 2015. It went up 50x in value to its peak, but most of that occurred in 2 months' time, and has since seen its value cut in half. **<u>Will we see those "highs" again</u>**? Or will this company still exist into the future, but settle in at a more realistic valuation?



**Source: Thompson One**

**Bitcoin** also went through the parabolic rise back in January 2018, to a high near $20,000 USD, and has settled back down into the $8,000 range recently.




Source: BitcoinCharts.com

**What all of these charts have been used to illustrate for you, have been the dramatic price movements that can occur when significant gains are made over time in a companys' shares. <u>When the mass psychology takes over, where making money is all that anyone is focusing on, with no regard to how easily in fact it is becoming to lose money at these turning points.</u>**

**Bitcoin was the focus of my Summer 2017 High Level Investment Report, and at the time the price of Bitcoin had moved from $1,500 to $3,000.** Yet there wasn't the mass knowledge as to what was occurring.

The commentary was about the **education around Bitcoin and Blockchain,** and why it was important to understand them both. My expectation was that once the prices started to go parabolic (even though they had already doubled in short order), that we would begin to see what happens when greed takes over and returns being made are considered to be never ending. **Bitcoin went on to move up to $20,000 USD within 5 months from that article, and Bitcoin and Blockchain are now a commonly known thing to most people……a major change from one year ago.**

I didn't recommend Bitcoin to anyone at the time, as it was still early days and required someone to want to speculate to involve themselves in that market. It was also amazing to see how much higher the price went than I ever imagined it could in such a short period of time. Again, **this was an awesome learning experience to watch how investor psychology plays a role in asset prices and valuations**.

**I still believe Bitcoin and some Crypto Currency will do well over time**, and encourage continued education for those who desire to learn about it. The **same can be said for the technology "FANG"** companies as well. **<u>Some of them</u>** will still have outrageous potential in the years ahead. The dramatic and **<u>widespread</u>** rise that we previously experienced in all these sectors however is likely to be reserved to memory.

The final point I wanted to cover in this Newsletter, **is the decision to not get pressured into "attending a party", you don't want to go to.**

To use the party analogy again**, it is easy to want to do something or be a part of something that others are doing.** Back in school days they would call it peer pressure**. Today the investment community has coined it as "FOMO", or the fear of missing out, as I mentioned previously.** In the cannabis sector this past winter, there was a lot of regret for not investing by many people, but <u>also regret by some people who had also invested a little too late</u>. **Some people heard about a great party, while others were late to the party, so to speak.**

When stocks have made their massive rally, it's <u>easy to look back and see how major returns could have been made</u>. It is also **easy to forget about the risk and speculation those who participated in that investment took on to achieve the "easy money"**. We never hear about the speculative investments that lose money in the media or from our friends.

**I have been on both sides of these speculations personally**. For me, it fits into my "speculation" investment bucket, and I expect to lose money many times when I invest during these times. No one knows when the top really is in, so this is why I advise at these points in time that the investment turns speculative for most people.

Hopefully this report was good information, and will help you identify and **recognize when something like the FANG rally, the Bitcoin fever, or the Cannabis craziness happens the next time around**.

**<u>Final Note</u>: I am here to help you, your families and your inner circle of friends should you come across someone in need of financial guidance or help.** Just let me know and I will make myself available.

Take care,

***Ryan Coburn***

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