Is Tech-Stock Slump a Leading Market Indicator?: Barry Ritholtz
2014-04-07 13:17:38.705 GMT

By Barry Ritholtz

April 7 (Bloomberg) -- Last month, we noted that high flying tech names were crashing back to earth. After terrific run ups, companies such as Twitter Inc., LinkedIn Corp., SolarCity Corp., Netflix Inc. and Tesla Motors Inc. all have taken a shellacking.

The setback reflects several concerns: Last year's torrid market couldn't continue at that pace; perhaps corporate earnings are peaking, and may soon reverse. Is the five-year bull getting long in the tooth? Or is the economy running out of gas?

Regardless, the risk appetite for the highest of high flyers appears to have abated. As you can see, they are significantly off their highs of just a few months ago. Twitter off 42 percent, LinkedIn down 34 percent, SolarCity off 33 percent.

Percentage off from recent highs
Twitter -42 percent
LInkedIn -34 percent
SolarCity -33 percent
Netflix -26 percent
Facebook -22 percent
Tesla -20 percent
Priceline -14 percent
Google -11 percent

Note that these recent highs are not coincidentally all-time highs, all made in March or February of this year. The only companies on this list that didn’t hit an all-time high within the past 60 days were LinkedIn, Twitter and Amazon.

But not all tech stocks are getting pasted. Holding up well so far this year are the old names like Microsoft Corp. and Cisco Systems Inc. These are profitable, mature, dividend- yielding companies that give value investors something to hang their hats on. So far this year, Microsoft is up 6.6 percent; its 2.8 percent yield probably isn’t hurting either. Same with Cisco, yielding 3.4 percent; it was up 1.3 percent this year as of Friday. Database-maker Oracle Corp. has gained 5.7 percent so far this year.

Indeed, when we look around at what has been working this year, we find established names with strong dividend yields and (more or less) reasonable price-to-earnings ratios.

Consider how well the following has held up relative to the broader market:
What has been working (trailing P/E)
Johnson & Johnson (18)
Merck (16)
Caterpillar (19)
Oracle (17)
Microsoft (14)
Hewlett-Packard (11)
United Technologies (20)

For all of the noise about the recent correction -- the Nasdaq has shed almost 250 points from recent highs -- the retreat so far has been orderly. Indeed, the Standard & Poor's
500 Index is only about 35 points lower than its record high.

As I noted almost three months ago, this market has gone a very long time without a 10 percent correction. Indeed, it is now coming up on 500 days without that cleansing corrective. As for selling now, every move to cash during the past five year ultimately ended up punishing the performance of active managers. Instead, we appear to be shifting away from the riskier names, and toward more value oriented, higher-yielding companies. Regardless, when the damage done to high fliers is this severe, perhaps it is telling us that markets are undergoing significant shifts.

Whether we are merely digesting last year’s gains, or something more serious is underway, has yet to be determined.
Perhaps the markets are entering a more mature phase of this bull cycle.

Watch how the high flyers and the more mature names trade this week. It might be revealing.

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