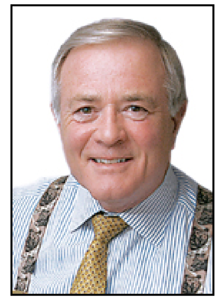
DJC
THE DAILY JOURNAL OF COMMERCE, PORTLAND, OREGON



William Rutherford

# OP-ED: Tech bubble bursts … or at least becomes a lot smaller

**Published September 11, 2020**

After the markets hit new all-time highs, the tech bubble burst and erased $1.7 trillion in value. However, investors are still up $13 trillion, or more than 56 percent, since March lows.

The Nasdaq is up about 26 percent year to date and up 63.58 percent from its 52-week low of 6,631.42 on March 23. After remarkable gains in August, the market started September with more gains and then losses. The Dow Jones dropped 1.8 percent in the week leading up to Labor Day, while the tech-heavy Nasdaq dropped 3.3 percent, losing nearly half of its August gains.

Some observers blamed earnings disappointments, and some blamed whale-size option trading by SoftBank. Possibly it was concern over the virus, lack of progress on another relief bill and increasing tensions with China. Was it a warning?

Like the chief in "One Flew Over the Cuckoo's Nest," investors seemed stoic. By Friday afternoon, prior to Labor Day weekend, selling had turned to buying. Apple turned an 8.3 percent drop into a 0.1 percent advance. Was it a buying opportunity?

The day after the holiday weekend, all the indices nosedived again. Then, on Sept. 9, the Nasdaq was up strong on the day in a continuance of market volatility.

Why is there still such buying interest at lofty (by historical standards) multiples? Low interest rates make the market look cheap. Federal Reserve Chairman Powell says low interest rates will last for years, and the Fed isn't even thinking about thinking about rate increases. We can expect easy monetary policy for years to come, and that's generally good news for stocks.

Since the dividend yield on the S&P 500 is materially higher than the risk-free yield on U.S. Treasurys, investors have been increasingly moving further out onto the risk curve to own stocks and capture yield. In many cases, the dividend yield for large or mega-cap stocks exceeds what one can get from low-risk bonds. For income-seeking retirees, this often means owning a higher percentage of stocks versus bonds.

With the Federal Reserve's support and more fiscal stimulus maybe coming, the market has the wind at its back. But are more storms brewing? With the S&P 500 information technology index trading at 27.5 times its forward earnings and the Nasdaq 100 trading more than 30 percent above its 200-day moving average, storm clouds could be gathering. The S&P and Dow have now approached correction territory (market down 10 percent). The Nasdaq entered correction territory briefly on Sept. 8, down 10.03 percent below its closing record of 12,056.44 on Sept. 2. A reckoning could be constructive. If we are to have a correction, it is better to have it sooner than later.

Corrections and bear markets are normal and common, but we don't know when they will come or how long they will last. The pandemic-induced decline has reversed itself. The S&P 500 index, which many experts believe is most representative of the U.S. stock market, and therefore the U.S. economy, is 52.01 percent above its 52-week low of 2,191.86 on March 23. Economic activity has been positive. Housing has been solid.

Earnings in the second quarter were abysmal, but not as bad as expected, with 80 percent of S&P companies beating earnings per share estimates.

Interest rates are still highly attractive for borrowers. Global stimulus is much larger than even in the financial crisis of 2008-09, with global fiscal and monetary stimulus amounting to approximately 28 percent of world GDP. It is likely that this wall of liquidity will produce inflation. A bit of inflation could be good and is better than deflation. Deflation could cause investors to hoard money to the detriment of the economy.

Consumer and investor sentiment is tepid in the face of the upcoming election, but that is good, as ultimately sentiment will not run too hot or too cold.

The nature of bull markets is to reach new highs over time. It is important to consider where the market will be in the next months and years. A long-term investor should consider whether the economy will be larger over time and whether he or she wants to participate between now and then.

Maintain a well-diversified portfolio.

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