



The Geeks HAVE Taken Over!

"You can't upload love, you can't download time, you can't Google all of life answers. You must actually live some of your life"

Anonymous

Growing up having my formative years in the 1970's, I can still remember when computer science classes began and the large pile of punch cards that had to be programmed in "Cobol" or "Fortran". When I was a kid, it was a huge insult to be a "geek" and everyone tried not to become one.

Not long after that, during my early RBC career days, the mantra line often repeated was "Never make fun of geeks, one day they will be your boss".

Man, if I knew then what I know now!

I comment on this because as of last week for the first time in history, Americans largest Top Five corporation's based on market capitalization, were all technology companies.

As of the end of July 2016, these are the five largest companies in the USA (all numbers rounded):

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|----------------------------|---------------|
| • Apple Inc (AAPL) | \$571 billion |
| • Alphabet (Google) (GOOG) | \$560 billion |
| • Microsoft (MSFT) | \$434 billion |
| • Amazon (AMZN) | \$365 billion |
| • Facebook (FB) | \$354 billion |

While some will harken back to the "Dot-Com" era of the late 1990's, there's an argument that can be made that firms with a higher secular growth potential, and larger profit margins deserve to trade at higher valuations than industries dominated by "old economy" smokestack businesses which are highly cyclical and very low profit margins.

Facebook's latest incredible quarterly earnings report propelled it over Exxon Mobile (now numero 6), followed by Buffett's Berkshire Hathaway. It should be noted Mr. Buffett has never owned tech stocks because he claims he couldn't figure out what they were worth.

I lived through the dot-com bubble and for those claiming this is the second coming, it is different. Most of the tech companies which went bust in the early 2000s had no revenues, certainly no profits, and often were nothing more than an idea and a ".com" added at the end. Most didn't even have what they could be called today's a "business model".

No, these companies today are doing billions in real sales and posting huge real profits.

Comparing it to the foreign markets:

- The German Dax market has one tech company in the top five (SAP)
- France's CAC- zero in the top five (oil, bank, 3 consumer goods)
- The UK?- none (tobacco, pharma, 2 oils, and bank)
- Across Europe, technology market cap comes in at 4% of the total versus over 20% in the USA

If one was contrarian, one might take this signal as a top for the sector. If one simply walks around a busy city seeing how many people are staring at their smartphones all day, then you'd see why. It has been reported the average millennial is on their phone three hours a day. I'd say that's a lowball number.

Stay tuned,

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