Infomail

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Why NASDAQ 5000 is Different This Time

The Nasdaq composite all-time record closing high is 5048 during the go-go dot com era. That was set in March 2000……15 years ago!

Which is almost impossible to believe considering the impact technology has had on our daily lives in that time, and the explosive growth in that time frame by Apple Computers, and new names like Netflix, Facebook, and Tesla, among others.

And now that we are at 5000 once again, the pundits go on about a newly forming bubble which is forming. But much has changed since Y2K and while some names may be over-valued, there probably is still room to grow for many. Mark Zuckerberg, the man behind Facebook, would have just been getting his driver's license in 2000. It seemed all a company's stock needed in 2000 was a ".com" at the end to ensure a rising stock price.

But much has changed in 15 years, including the top Ten Nasdaq stocks (by market cap):

Top Ten Nasdaq Stocks by Market Cap, Then & Now

December 31, 1999	February 25, 2015
Microsoft	Apple
Cisco	Microsoft
Qualcomm	Google
Intel	Amazon
WorldCom	Facebook
Oracle	Intel
Dell	Gilead Sciences
Sun Microsystems	Cisco
Yahoo	Comcast
JDS Uniphase	Amgen

In 2000, technology represented 65% of the index, and telecom was 12%. Today, tech is 43% and telecom is less than 1%, so the index is much more diversified.

Apple's market cap was $22 billion or so in 2000, today it's approaching an amazing $800 billion.

The P/E ratios look different as well:

2000	P/E	2015	P/E
Microsoft	57	Apple	15
Cisco	127	Google	19
Intel	43	Microsoft	16
Oracle	103	Facebook	39
Sun Microsystems	85	Amazon	717
Dell Computers	57	Intel	14
MCI WorldCom	22	Gilead Sciences	11
Chartered Semi	53	Cisco	13
Qualcomm	123	Comcast	17
Yahoo	418	Amgen	17

Earnings were nonexistent for many Nasdaq companies in 2000, and it's P/E ratio was over 200 using multiples expansion. Today the Nasdaq trades at about 23X earnings.

The move has been more rational as well. The Nasdaq rose 95% from just Oct 1999 to the March 2000 high. In this recent run, the rise has been more gradual, with "only" a 21% rise from Oct 2014 to March 2015.

In my visit to San Francisco last fall, I wrote an Infomail detailing the impact Uber was making on the taxi business. It seems rarely a day goes by now where Uber isn't in the headlines. The opulence I saw in San Francisco in cars, restaurants and retail stores, and the parabolic growth in the real estate market would almost imply signs of a top. If the tech sector was to crash, the entire state of California would go south with it since state revenues are almost entirely dependent on capital gains made in the tech sector. From what I witnessed, it seemed that those involved in the Silicon Valley tech sector have forgotten that cycles exist at all.

Capitalism has a way of correcting imbalanced over time. It happened in 2000, it happened in the financial sector in 2008, it's happening in the energy sector right now. Not sure I would say that applies to the tech sector right now. It could be a simple supply and demand issue, where the requirements for jobs as these tech firms are so demanding that they garner a higher wage.

Don't confuse booms with bubbles.

Stay tuned,

Vito Finucci
Vice President and Director
Investment Advisor