



Bill Smead
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Hopelessly Devoted to Technology Stocks

Dear fellow investors,

One of our kid's favorite movies was *Grease*. They probably watched it dozens of times. Today's stock market looks like the love affair between Danny and Sandy at Rydell High. Sandy is "hopelessly devoted" to Danny, even though he is the leader of a Los Angeles high school gang. Investors are just as devoted to tech stocks as Sandy was to Danny. It could be the beginning of stock market failure.

*Guess mine is not the first heart broken
My eyes are not the first to cry
I'm not the first to know
There's just no getting over you
I know I'm just a fool who's willing
To sit around and wait for you
But baby, can't you see there's nothing else for me to do?
I'm hopelessly devoted to you*

We wrote a few months ago that the addition of Tesla to the S&P 500 Index at a 1.6% position was a maneuver that would justify the firing of an active manager. In the meantime, momentum chasing investors have drowned momentum-based tech stock ownership vehicles both passive and active in capital. Theirs will "not be the first hearts broken!" and their "eyes will not be the first to cry!" Financial euphoria episodes are well documented going back to the Tulip Mania of 1636, the South Seas Bubble in the 1720s, the Roaring 1920s, the "Nifty Fifty" growth stocks of 1972 and the Dotcom Bubble of 1999.

The big problem is that the people trapped in these revenue growth stories and other assorted tech-woogie chicanery are "not the first to know" about the bright futures which could possibly justify today's prices in 10 to 20 years. In our opinion, what the next two years should show is "there is no getting over" the love affair with these ultra-speculative securities which made people mega-wealthy almost overnight. The "Pied Pipers" of tech are likely to dig in their heels and call this new bear market in tech stocks a correction.

These Pied Pipers know that "there's no getting over" this frenzied episode and investors who were made rich by this momentous phenomena usually become "fools who are willing to sit around and wait for" the next bull market in tech/growth stocks. History shows that it could be 10-20 years of "sitting around and waiting!" When you are trapped in a euphoric episode, you keep the tulip bulb, the worthless South Seas certificate, the Simplicity Pattern shares and the Lucent stock certificate. In stock market failure, "there's nothing else for investors to do, they are hopelessly devoted to you."

However, we all have a choice. We can either watch cable news or we can watch the History Channel. When you watch cable news, they deliver information to you which breeds a great deal of anxiety. We don't know how these sensationalized events will play out, but we are glued to the TV as it does. When we watch the History Channel, no matter how horrific the historical setting was, anxiety doesn't set in because we know the outcome. Therefore, we must practice an investment discipline which is closely tied to allowing history to reward us as it plays out.

How do you invest like the History Channel? First, you practice a long-duration discipline. Second, you should emphasize things which are the most likely to reward you over five to ten years like value pricing, generous free-cash flow and the meeting of economic needs. Third, you use peaks of pessimism in the stock market and individual industries to add to your investments. Fourth, you avoid financial euphoria episodes like the plague. The number one source of stock market failure is getting lured into overly-popular stocks and getting caught as the popularity unwinds. When the rains come, you need to be in the Ark, not invested in it.

*But now there's nowhere to hide
Since you pushed my love aside
I'm out of my head
Hopelessly devoted to you*

If you think for one minute that it is a good idea to buy the pull back in these euphoric tech stocks, let us tell you that "there's nowhere to hide" and you need to "push your love" of what they did for you "aside." Realize that everyone from the cable business shows, research analysts, money

managers and talking heads are "hopelessly devoted" to these stocks because it has made them wealthy professionally. As the media glamorizes the euphoric securities, run the opposite direction because the History Channel would tell you that in the long run it never pays.

*My head is sayin', "Fool, forget him"
My heart is sayin', "Don't let go
Hold on to the end", that's what I intend to do*

We are asking you to use your "head" and "forget" owning stocks at enormous price-to-sales ratios or ones which are massively over-owned by indexes and other passive vehicles. We know your "heart is sayin', don't let go!" Most investors in financial euphoria episodes "intend" to "hold on to the end" and suffer the consequences. We call the consequences stock market failure. 🦋

Warm regards,



William Smead

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