

# Tech: Always and Forever

AUGUST 10, 2021

*“The law of opinion refers to general precepts established by public opinion. It is the “law of fashion,” which may merely reflect what is in vogue or what is a group’s collective preference. In modern parlance we may call this “contemporary community standards.”*

— *The Law of Fashion, John Locke*

Dear fellow investors,

We’ve been thinking about John Locke’s “Law of Fashion” in the context of the U.S. common stock market. It reminded us of Luther Vandross’s wonderful song, “Always and Forever.” It is a love song and exactly the kind of love which investors give to long-term success stories when their share prices are in the maniacal/over-ownership phase.

*Always and forever  
Each moment with you  
Is just like a dream to me  
That somehow came true, yeah*

Look at the ten-year charts of Amazon, Apple and Microsoft:





These stock results are “just like a dream” to the investors who took that leap of faith ten years ago. Even a few years ago, like Warren Buffett’s Apple purchase, has been a “dream.” Despite buying into something that had already gone through the roof, these stocks made common stock investor dreams “come true.”

*And if you get lonely  
Call me and take  
A second to give to me  
That magic you make*

Pos. Date	Name	Bloomberg ID
2021-08-02	Salesforce.com Inc	CRM UN
2021-08-02	Carvana Co	CVNA UN
2021-08-02	Square Inc - A	SQ UN
2021-08-02	Twitter Inc	TWTR UN
2021-08-02	Sea LTD-Adr	SE UN
2021-08-02	Adobe Inc	ADBE UW
2021-08-02	Xilinx Inc	XLNX UW
2021-08-02	Hca Healthcare Inc	HCA UN
2021-08-02	Palo Alto Networks Inc	PANW UN
2021-08-02	Mercadolibre Inc	MELI UW
2021-08-02	Alphabet Inc-CL A	GOOGL UW
2021-08-02	Microsoft Corp	MSFT UW
2021-08-02	Apple Inc	AAPL UW
2021-08-02	Applied Materials Inc	AMAT UW
2021-08-02	Ihs Markit LTD	INFO UN
2021-08-02	Facebook Inc-Class A	FB UW
2021-08-02	Paypal Holdings Inc	PYPL UW
2021-08-02	Liberty Broadband-C	LBRDK UW
2021-08-02	Charter Communications Inc-A	CHTR UW
2021-08-02	Maxim Integrated Products	MXIM UW
2021-08-02	Iqvia Holdings Inc	IQV UN
2021-08-02	Transdigm Group Inc	TDG UN
2021-08-02	Visa Inc-Class A Shares	V UN
2021-08-02	Godaddy Inc - Class A	GDDY UN
2021-08-02	T-Mobile US Inc	TMUS UW
2021-08-02	Mastercard Inc - A	MA UN
2021-08-02	Walt Disney Co/the	DIS UN
2021-08-02	Talend Sa - Adr	TLND UQ
2021-08-02	Amazon.com Inc	AMZN UW
2021-08-02	General Motors Co	GM UN
2021-08-02	Unitedhealth Group Inc	UNH UN
2021-08-02	Fiserv Inc	FISV UW
2021-08-02	Micron Technology Inc	MU UW
2021-08-02	Berkshire Hathaway Inc-CL B	BRK/B UN
2021-08-02	Wells Fargo & Co	WFC UN
2021-08-02	Alibaba Group Holding-SP Adr	BABA UN
2021-08-02	Expedia Group Inc	EXPE UW
2021-08-02	Devon Energy Corp	DVN UN
2021-08-02	Fidelity National Info Serv	FIS UN
2021-08-02	Schwab (charles) Corp	SCHW UN
2021-08-02	Uber Technologies Inc	UBER UN
2021-08-02	Crown Holdings Inc	CCK UN
2021-08-02	Bank of America Corp	BAC UN
2021-08-02	Citigroup Inc	C UN
2021-08-02	Caesars Entertainment Inc	CZR UW
2021-08-02	Freeport-Mcmoran Inc	FCX UN
2021-08-02	P G & E Corp	PCG UN
2021-08-02	Astrazeneca PLC-Spons Adr	AZN UW
2021-08-02	Iac/interactivecorp	IAC UW
2021-08-02	Vimeo Inc	VMEOW UW



If you are wondering if it is lonely not owning these hot tech-related stocks, just look above at the 50 largest holdings owned by the largest hedge fund managers. Eighteen of the twenty most heavily-owned stocks are tech related. These hedge-fund managers must have success on a six-to-twelve-month basis to keep their jobs (five years for us). Or look at the AUM growth (below) of the ARK ETFs over the last two years, which are invested in the most aggressive disruptors in tech.



*Everyday, love me your own special way  
Melt all my heart away, with a smile  
Take time to tell me, you really care  
And we'll share tomorrow together*

Therefore, these mega-successful companies are now “taking time” buying advertisements on the cable channels (they seek to make extinct) to tell everyone they “really care!” Are we all frogs in the technology boiling water? By the time we find out how damaging it is to get free delivery or squander massive energy on server farms or pollute our minds via social media and pornography, it will be too late for our economy.

*And I know tomorrow  
Will still be the same  
'Cause we got a life of love  
That won't ever change*

The law of fashion is incredibly powerful, and it is unlikely that tech stock success “tomorrow will still be the same.” Ask Amazon what it is like to do logistics with 1.2 million employees when drivers are hard to hire and trucks are in short supply. The reason this law of fashion comes to an end comes from two of Locke’s other laws. First, pressure is growing via “civil law” in the form of antitrust actions, to get in the way of the “Wild West” regulatory environment of these monopolistically vast combinations.

Second, the divine law, called “mean reversion,” will rear its ugly head at some point. All great excitement about new technologies historically has eventually died and crushed the stock prices of investors who overstayed their welcome. Over the decades, it is the largest factor in stock market failure. In his great book, *A Short History of Financial Euphoria*, John Kenneth Galbraith explains it this way:



*This process, once it is recognized, is clearly evident, and especially so after the fact. So also, if more subjectively, are the basic attitudes of the participants. These take two forms. There are those who are persuaded that some new price enhancing circumstance is in control, and they expect the market to stay up and go up, perhaps indefinitely. It is adjusting to a new situation, a new world of greatly, even infinitely increasing returns and resulting values. Then there are those, superficially more astute and generally fewer in number, who perceive or believe themselves to perceive the speculative mood of the moment. They are in to ride the upward wave; their particular genius, they are convinced, will allow them to get out before the speculation runs its course. They will get the maximum reward from the increase as it continues; they will be out before the eventual fall.*

*For built into this situation is the eventual and inevitable fall.*

The hedge fund players sit with one hand on the eject button and think they will be smart enough to get out before less sophisticated investors lay in the wreckage.

*Love you, love you, you, you, always  
(Always forever love you)  
Ever, ever, ever, forever  
(Always forever love you)*

We will “always and forever” love this song by Luther Vandross. We believe investors will suffer numerous bouts of infatuation with technology like the episode in the 1990s and the last ten years. Our job is to invest in meritorious businesses when they are deeply out of favor, knowing that some of them will one day be a part of the kind of favor today’s tech behemoths are enjoying! Fear stock market failure.

Warm regards,



**William Smead**

Chief Investment Officer

*The information contained in this missive represents Smead Capital Management's opinions and should not be construed as personalized or individualized investment advice and are subject to change. Past performance is no guarantee of future results. Bill Smead, CIO wrote this article. It should not be assumed that investing in any securities mentioned above will or will not be profitable. Portfolio composition is subject to change at any time and references to specific securities, industries and sectors in this letter are not recommendations to purchase or sell any particular security. Current and future portfolio holdings are subject to risk. In preparing this document, SCM has relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources. A list of all recommendations made by Smead Capital Management within the past twelve-month period is available upon request.*

**©2021 Smead Capital Management, Inc. All rights reserved.**

This Missive and others are available at [www.smeadcap.com](http://www.smeadcap.com).

