



Missive

MAY 23, 2023

Tech Stock Hail Mary

Dear fellow investors,

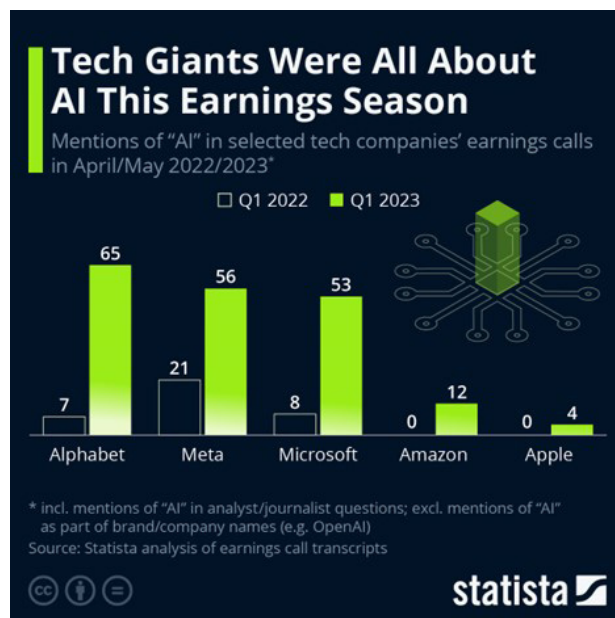
The most famous “Hail Mary” in American football history happened in 1984. On the very last play of the Boston College football game, an undersized quarterback named Doug Flutie threw a bomb into the end zone to teammate Gerald Whelan. Boston College had won the game!

We are very late in one of the greatest growth stock investing games in history. Technology, an investment sector with a few huge winners and mostly flame-out startups, has been on a roll dominated by the largest companies in the sector. These largest wide-moat monopoly stocks have feasted on nearly uninterrupted momentum.

However, this tech stock investing era included the cheapest interest rates in my lifetime which came to a screeching halt in late 2021. The U.S. Federal Reserve Board recognized that inflation wasn’t “transitory” and raised short-term interest rates by 500 basis points over 18 months. The result was a bear market that hit tech stocks very hard in 2022.

As we argued in a [recent missive](#), we are now in a bear market rally led by the same FAANG stocks which were at the forefront of the prior bull market era. This is the era of financial euphoria which Charlie Munger called the biggest in his career (75 years). But just like Boston College and many other teams over the years, they are attempting a “Hail Mary” to recreate the unmitigated faith in their common stocks. This long-shot/late-game pass is artificial intelligence and is known in short form as A.I.

When a common stock sector has been fabulously good for a long time, a great deal of faith is put into the strength of its competitive advantages. As the economy has slowed due to the credit tightening, even the biggest and most successful tech companies are seeing growth slow. Therefore, the latest buzzword in earnings reports and for public relations departments is A.I.



This is all about getting late in the FAANG stock market era and starting to fall behind. It is a classic stock market “Hail Mary!” So far, hungry growth stock investors are putting their faith in this desperate attempt against long odds.

In sports, there are constant attempts at a last-minute miracle comeback. Only a tiny number of them are successful, which is exactly why Flutie’s pass is so iconic in the history of sports. He went on to be a Canadian football champion and had a very strong run in the National Football League. The chart below shows why a “Hail Mary” is needed to perpetuate this euphoria era:

Tech Stock Hail Mary

Chart 4: US tech vs S&P 500 back at Feb'00 / Jan'70 levels

Tech relative price performance vs S&P 500



Source: BofA Global Investment Strategy, Bloomberg, Global Financial Data

BofA GLOBAL RESEARCH

Did Polaroid come up with a “Hail Mary” after the 1929 Crash? It got even in 24 years. Did the Nifty Fifty Stocks of 1972 find a new form of faith in the 1970s? Disney went from an 89 price-to-earnings ratio to 9 times in 1982. Did Microsoft, Cisco and Intel come up with a “Hail Mary” in the years after the DotCom Bubble broke in 2000? It took Microsoft 15 years to get even with their 1999 peak stock price and the other two never made it back to even.

The point is, in our opinion, these wonderful monopoly cult-like companies are attempting their version of a long-shot effort to stay on top. Sometimes prayers thrown down the field become legends, but most of the time in the stock market, they lead to stock market failure. As always, we recommend you fear stock market failure.

Warm regards,

Bill Smead
Chief Investment Officer

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