Amazon and Alphabet could join '1,000 Stock Club' but is that a sign of trouble?

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Wall Street's exclusive "$1,000 Stock Club" could soon be welcoming
two new members.

The stock prices of online retailer Amazon.com and Google parent Alphabet are within a few bucks of $1,000, the latest sign that big, dominant tech companies are driving the U.S. market higher. At their peak Friday, Amazon (AMZN) shares hovered around $999, while internet search giant Alphabet topped $996. (Google first crossed the $1,000 threshold in 2013.)

So should Main Street investors cheer when a company passes the $1,000 milestone, or worry?

Many Wall Street pros say the figure is just a marker that catches people's attention and has little bearing on the future performance of either the companies or market. But these fast-rising stock prices do raise some yellow flags, even for people with index funds diversified across the broad U.S. economy.

For sure, topping a share price of $1,000 is a "trophy" for companies and a clear "sign of success, domination and growth," says Dan Seiver, professor of economics at Cal Poly, San Luis Obispo, in California. Only seven U.S. stocks are trading above that milestone, according to S&P Dow Jones Indices, but three generate very little trading activity. Warren Buffett's Berkshire Hathaway (BRK.A) is the highest-priced stock at $248,540 as of Friday's close.

Amazon, which is up more than 30% this year and 1,500% since the current bull market for stocks began in 2009, is riding its success as a dominant force in shopping and as a key player in artificial intelligence, where it is best known for its Echo device. Amazon is also huge in the fast-growing "cloud" computing business. Alphabet's Google is the biggest player in the online ad search space.
One potential negative is that Amazon's and Alphabet's commanding positions are the latest signs that the U.S. stock market is being driven by a few big stocks, which makes it vulnerable if they fall out of favor and their shares turn lower.

Major stock indexes like the Standard & Poor's 500 and Nasdaq are weighted by a company's market value. That means the more valuable the company, the bigger the effect it has on the index, both up and down.

The five biggest stocks in the S&P 500 (Amazon ranks No. 2 and Alphabet is No. 5) have accounted for nearly one-third of the large-company index's 8% gain this year, says Howard Silverblatt, senior index analyst at S&P Dow Jones Indices.

"It tells you how much narrower the market has become and how much influence (Amazon and Alphabet) have on the stock indexes," says Gary Kaltbaum, president of Kaltbaum Capital Management. If this trend continues, it could be a cause for concern, as "eventually the market (takes down) the big dogs."

Michael Farr, president of money-management firm Farr Miller & Washington, warns that investors buying "passive" funds that track indexes like the S&P 500 might have more exposure to tech than they think.

"The investment implications of this trend are profound," Farr says. "Investors who think they're getting broad exposure through the purchase of an ETF that tracks the S&P 500 may not know that they are heavily concentrated in a few stocks."

A market led by a small group of highly valued companies, he adds, could be a sign of an "aging" bull market.
"Participation by a broader base of stocks in a wide range of industries shows conviction in the economic outlook," Farr explains, "as well as the ability of U.S. companies to grow earnings."

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When a stock gets very high, it's also less affordable for individual investors.

"It makes the stock a little less accessible in the eye of the retail investor," says Lindsey Bell, market strategist at CFRA, a Wall Street research firm. When a company gets as expensive as Amazon, she believes it should consider splitting its stock to make it more affordable, as Amazon did three times in the late 1990s.

And Apple, for example, in June 2014, did a 7-for-1 stock split which increased its pool of shares by seven times and reduced each share's price from roughly $645 to $92.

Paul Hickey, co-founder of Bespoke Investment Group, sees one benefit to a stock being out of reach for most investors: "It could lessen volatility (or wild price swings)," he says. "With a higher share price, there is a tendency to see less 'fast' money going in and out of the stock."

One Wall Street pro equates pricey shares with a frothy market.

"When I hear a stock is at $1,000 I always think it's a bubble no matter what the company," says Chris Rupkey, chief financial economist at MUFG Union Bank.

Alphabet is trading at nearly 35 times earnings, nearly double the price-to-earnings ratio of the S&P 500. Amazon's P-E is north of 180 times earnings.
"These stock valuations are pretty high," Rupkey says. "Investors better hope these two companies business models are sustainable for the long haul."

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