

# Are tech titans teetering atop the market?

August 5 2018, by Juliette Michel

---



Apple has made history as the first private-sector company to surpass \$1 trillion in market value

Silicon Valley giants have become a gargantuan force on Wall Street, as demonstrated by Apple recently topping \$1 trillion in stock-market valuation.

But should we fear that a new [tech](#) bubble is ready to burst?

Here are some questions and answers about the sector:

## **What does the tech sector represent on Wall Street?**

Apple ended the formal trading week worth a history-making \$1 trillion.

Meanwhile, four other tech firms rounded out a list of the five most valuable companies based on share prices.

Amazon was worth \$889 billion; Google-parent Alphabet was valued at \$856 billion; Microsoft weighed in at \$828 billion, and Facebook was valued at \$513 billion.

Together, these companies account for about 20 percent of US GDP, and more than Germany's GDP.

Combined, the tech stocks account for more than 25 percent of the value of the Standard & Poor's 500, the index that includes the 500 largest companies listed in the United States.

## **Is this market domination troubling?**

At the end of 1999, a few months before the infamous dot.com internet bubble burst, the five biggest companies on the stock market (Microsoft, General Electric, Cisco, Walmart and Intel) accounted for 15.5 percent of US GDP, AJ Bell investment director Russ Mould recalled in a note.



Walmart, struggling to compete against the vast reach of tech titan Amazon, recently entered a strategic partnership with Microsoft

"Anyone who owned those stocks at the market top suffered some serious portfolio pain," Mould said.

"They lost money on those five names for the next decade."

He made it clear he was not predicting market woes for "FAANG" stocks—those of Facebook, Amazon, Apple, Netflix and Google.

"However, it does warn against the dangers of blindly assuming that what is working now will work forever and that paying any price for a stock will be rewarded," Mould said.

Nate Thooft of Manulife Asset Management told AFP that there was "no shortage of arguments" on why shares in those companies would continue to do well, but he saw wisdom in reducing "exposure a bit" to reduce risk.

## **What is different from the bubble 20 years ago?**

Investors at that time hurled money at just about any startup with a website, even if it wasn't clear exactly how a given company was going to make money.

"Most of those companies had no earnings, a lot of them had no sales; they were still selling at huge valuation levels," said Tower Bridge Advisors portfolio manager Maris Ogg.

"Everyone was anticipating what the internet and the tech would do. They were about 20 years too early."

Since the dot.com crash, venture capitalists have shied away from startups that don't have convincing plans to become profitable.



Amazon CEO Jeff Bezos, now the richest man in modern history, has a winning record of 'disrupting' new markets, but his company appears to be the exception

The crash also gave rise to "a lot of healthy skepticism" about big tech companies, according to Ogg.

There is also a renewed focus on the ratio between share price and company profit, a key investing consideration that was neglected in the early 2000s.

Amazon appears to be an exception, but it has a winning record of taking on new markets, and spending heavily up front to "disrupt" the status

quo in the long run.

## What are the main risks threatening the sector?

Tech titans such as Google and Facebook have become such formidable forces that they are prime targets for regulation or fines, which could slow growth or hurt profits.

Maris said investors should be mindful to routinely rebalance their portfolios to avoid them becoming too heavy with fast-growing tech firm shares. After all, any internet firm can be eclipsed by a young startup.

"Every technology [company](#) remains vulnerable to being disrupted by a slightly more clever version of itself," BlackRock Global Allocation Team [portfolio manager](#) Russ Koesterich said in a blog post.

For example, he noted, at the time of the financial crisis Nokia had a 45 percent share of the smartphone market, the iPhone was just a year old and Facebook was a baby.

"The overall sector continues to be extraordinarily profitable, and, despite rumors to the contrary, reasonably valued," Koesterich said.

© 2018 AFP

Citation: Are tech titans teetering atop the market? (2018, August 5) retrieved 26 April 2024 from <https://phys.org/news/2018-08-tech-titans-teetering-atop.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.