"The four most dangerous words in investing are: 'this time it's different' " Sir John Templeton

Déjà Vu???

Those who have been in the investment industry for a few decades may have read about or heard from older colleagues stories from a period of time in the early 1970s that is the stuff of legends. Of course, I'm referring to the era known for its fascination with a select group of stocks that were believed to possess all the attributes of a successful investment. These stocks were given the lofty title of the *Nifty Fifty* and included such quality companies as American Home Products, Anheuser-Busch, Avon Products, Black & Decker, Coca-Cola, Digital Equipment, Eastman Kodak, General Electric, IBM, International Flavors & Fragrances, MMM, McDonald's, Merck, Pepsi, Phillip Morris, Polaroid, Procter & Gamble, Revlon, Schlumberger, Sear, Simplicity Pattern, Disney, Walmart and Xerox. These stocks, as a whole, were credited by Wall Street historians as instrumental in the bull market of the period. As such they have often been referred to as "one-decision stocks" because an investor only had to buy these equities and never needed to sell them. In the euphoria surrounding these stocks, their price-earnings ratios were driven to unheard of levels of 50 and 60 times.

However, reality intervened beginning with the stock market crash of 1973-74 and lasted until 1982. In the process, most of these stocks underperformed the broader market averages with price declines as much as 80 to 90% from their previous highs. With this ignominious end to what was once a period of superior performance, the "Nifty-Fifty" list is often cited as an example of unrealistic investor expectations for growth stocks.

Unfortunately, investors appear to be cursed with short memories because, once again, in the late 1990s investor infatuation with growth stocks and, seemingly, anything even remotely associated with the internet (think "dot.com") drove stock prices of the new growth darlings to unprecedented heights. As a value manager during this period, it was difficult to convince the average investor that valuations had become excessive and were destined for a serious retrenchment. One case in particular was interesting in that even a logical analysis of a specific stock was dismissed without further thought. The stock in question was Dell Computer and the client wanted to invest heavily in this company. However, I pointed out a news article that stated should Dell continue to grow at its current pace, in ten years every man, woman and child in the world would own a Dell computer. Believe it or not, I lost the argument and the client because he was certain I was dead wrong. One of the most frequently uttered phrases in those days was……"you don't get it, it's different this time" Those last four words *("it's different this time")* are the most expensive four words in the investment industry lexicon.

To bring this brief discussion up-to-date, the last couple of years have witnessed another period in which investors are mesmerized by a small group of companies that are managed by visionaries who have captivated their investors with promises of unlimited growth in revenues and, in some cases, earnings. A few of these companies have been granted the acronym, the FANG stocks, using the first letter of the company name, specifically Facebook, Amazon, Netflix and Google (whose parent company is Alphabet). In reality, there are other stocks in this exclusive club including Apple, Twitter, Tesla and several others. The one common thread among all these stocks is that they are *priced for perfection*.

To those who are relatively new to the investment industry, these stocks offer some enticing attributes that continue to garner a good share of investment funds seeking the holy grail of untold wealth and success. And some managers, striving to perform as well as some of the widely followed benchmarks, have quietly added some of these high-risk stocks to their portfolios. Fortunately, more experienced professionals recognize a pattern similar to days gone by and attempt to steer their clients to more reasonably priced securities. However, the fact remains that those who don't learn from history are bound to repeat it.

To wit, last week on Thursday, July 26, Facebook reported results that were not up to investor expectations and reality quickly set in. That day alone, Facebook declined 20%, losing approximately $119 Billion in market value in one trading day. Investors who buy in to companies such as Facebook convince themselves that they will see the warning signs and be able to get out before the decline. Last Thursday was instructive in that there was no warning and when investors tried to sell, they saw the buyers quickly back away leaving the stock to free fall like a falling knife.

The following day, another darling of the growth stock crowd, Twitter, reported that user activity was below expectations and stated that the trend was likely to continue for the remainder of the year. Again, the stock dropped like a rock, falling 19% in a single trading day.

So, the market has now witnessed the first cracks in the armor of these seemingly invincible companies. The question now remains, what will be the next stock to disappoint their investors?

Obviously, no one knows the answer to this question but investors should be uneasy and prepared to reduce their exposure because high flying stocks eventually regress to the mean - a phenomenon known as *mean-reversion*.

Keep in mind that the market is at an elevated valuation and corporate earnings are key to further market gains. With this in mind, the current earnings reporting season has been a good one with most company's earnings beating Wall Street estimates. However, as we move into the second half of the year, earnings comparisons will become more difficult leaving the door wide open to disappointments in the future. For now, rest assured that MVP's domestic value strategy does not own any FANG stocks or stocks similar to the FANG stocks even at more reasonable price/earnings ratios. We continue to focus on what we can control and judge each holding through the eyes of a business owner. At Metis Value Partners we always pay close attention to the important phrase………"know what you own"!!

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