What's Wrong with Technology Stocks? - Transcript

Tom Mullooly: In episode 236, we tackle the subject of what in the world is wrong with technology stocks right now.

Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly. Thank you for tuning in. This is episode 236. What in the world is going on with technology stocks, the NASDAQ, these tech mutual funds, tech ETFs? What's going on? They've been down for the last four weeks from mid-February until the middle of March, and it's starting to get people's attention.

To address this, I want to just kind of take a walk down memory lane. Last year in 2020, technology stocks, a lot of NASDAQ related investments had a great year. They posted returns 35, 40 some 50% returns. Really, really good. But what a lot of people don't realize is if you measure from the bottom of the market, last March 23rd, and go forward, some of these exact same yardsticks and mutual funds and ETFs returned 80 90, some of them even a hundred percent. I mean, wow. It's really remarkable. They've posted 80% returns, 90% returns without any kind of break. None. Until now. That's exactly what's going on.

Since February 12th, many technology stocks, the NASDAQ index, technology ETFs, these things are all down, on average, about 10%. Some individual tech stocks are down even more than that. It's really puzzling because a lot of people are just… They're headline readers. They see the Dow Jones is up for the day or the Dow Jones is hitting a new high. The Dow Jones has been going up, but what gives with technology? I mean, NASDAQ's been really taking it on the chin.

Why is tech getting whacked? Well, one of the reasons, and it's one of the reasons, is as the economy restart, we're starting to see interest rates move up. We're seeing yields rates on mid to long-term treasury bonds and treasury notes have moved up and they moved up pretty quickly. Now, remember, when yields, when rates go up, bond prices are going down.

Okay, Tom, why do changes in interest rates matter to technology companies? Think about the cost of capital. When interest rates are dropping, when rates are dropping, yields are dropping, these capital intensive companies, these technology companies, they do really well. They skyrocket because they've got access to really cheap capital.

Now, let's do this in reverse. When interest rates start to move up, like they've been doing now, technology as a group, in general, tends to cool off. That is precisely what's happening right now in the market. These non-technology names, what some people call a lot of value stocks, and some of them are in the Dow Jones, are starting to do better. It's a normal rotation in the market. This type of thing, this rotation happens every single economic cycle. Every single time we go through one of these economic cycles, this happens.

A lot of people, of course, were preoccupied with the pandemic that we went through in 2020, but a lot of people overlook we also went through the start of another economic cycle with a recession. Sometimes this rotation like we're seeing now can take weeks. Sometimes it can take months. Sometimes it can take an entire year. We're not going to predict how long this rotation is going to take, but do we want to get out of all technology? No, of course not. That's the engine of growth. When we see tech at the top of our charts, we know things are looking pretty rosy.

But a few other things you need to know. We're getting near the end of the first quarter. That's March 31st. Can you believe first quarter of 2021 is almost over? We're seeing this rotation. We're seeing rebalancing with a lot of money managers. We're seeing momentum funds start to take out technology and replace them with some other names like value. We're seeing a lot of rotation going on through the market. We wanted to bring this to your attention. If you're looking at your investment in a technology fund, whether you own something like Fidelity OTC in your retirement plan at work or you own a technology ETF, these things are showing a little softness right now. It doesn't make them bad investments. Let's remember more thing. If you own this in a retirement plan, you're re-investing at lower prices every two weeks or through every paycheck cycle. That's a great thing.

That's the message for episode 236. Thanks again for tuning in.