The market sell-off, has in our opinion, entered a stage of pricing segments of stocks regardless of fundamentals and earnings power.

Fear and panic have taken over, with the possibility of entering a recession driven by tightening financial conditions, geopolitical risks, and ongoing price increases for food and energy.

During these periods, the things we must buy (e.g., food, water, heat, & electricity) will continue to be bought while discretionary spending such as dining out, vacation, and the newest iPhone will be put on hold.

Stocks are being sold without discipline by emotional investors who simply want to exit the market. One extreme example can be found by comparing consumer staple, Clorox (CLX) and semiconductor capital equipment maker, Applied Materials (AMAT).

Clorox is perhaps one of the more important beneficiaries of Covid as home sterilization became a daily event, while Applied Materials is an important supplier to the largest semiconductor companies in the world.

Symbol	**1/1/2022**	**5/12/2022**	**% Price Change**	**FY 2022 P/E Ratio**	**5Yr Sales CAGR**	**EPS Long-Term Growth Est.**
CLX	$174.36	$157.03	-9.9%	**38.1**	5.0%	- 4.1%
AMAT	$157.36	$106.76	-32.2%	**13.2**	16.3%	+11.7%

Obviously, Applied Materials' growth rate will come down if we go into a recession as semiconductor demand will fall as chip makers cut CAPEX spending. However, we have not seen any signs of that and believe semiconductor stocks are entering a period of secular growth due to the digitization of the global economy (e.g., Intel is investing $20B for two new fabrication plants in Arizona that broke ground in Sept 2021, as well as a $20B factory outside Columbus, Ohio, which was announced in January).

Further downward pressure comes from selling by highly levered institutional investors and hedge funds who must meet margin calls.

A sign of forced selling or retail investors throwing in the towel is when the most well-run companies and perceived safe-haven names take a dive with no real catalysts or news. Apple (AAPL) for example, sold off ~5% on May 11th and ~2.5% on May 12th hitting lows for the year. While iPhone sales might suffer due to a global slowdown, we believe that this type of selling pressure is overdone.

In our view, the current sell-off in Technology stocks is similar to the 2000 dot.com bust.

Parallels to 2000

Throughout the 1990s, personal computing became a bigger component of business and our daily lives with online retailing and advertising.

Start-up technology companies with good stories received high valuations despite never having generated earnings. Tech IPO's, heralded as the "New Economy", were often doubling on their 1st day of trading.

Companies such as AOL, Pets.com, Webvan.com, GeoCities, and Globe.com saw meteoric rises in value pushing the NASDAQ up +585% from 1995 to the peak in 2000.

In 2021, we saw the NASDAQ reach an all-time high with the value of a variety of non-earning companies proliferating, as investors looked for the next new thing including:

- Crypto Currencies (digital currencies designed to compete with fiat currencies)
- SPACS (blank check companies looking for a business promoted by high profile names)
- Meme Stocks (Game Stop, AMC all pushed by investors buying heavily shorted stocks)
- NFT's (encrypted ART, Music, etc.)

From the NASDAQ's November 2021 high, it proceeded to decline 29% over the next 120 trading days with many of the highest-flying companies declining over this period by 40% - 70%.

Similarly, beginning in March 2000, the NASDAQ declined by 19% over 120 trading days and ultimately declined by 75% when the market finally bottomed in October of 2002.

- Pets.com went from $11 per share to $0 in January 2001, as Webvan, GeoCities and Globe.com went out of business.
- In that era, other lesser-known companies declined (peak to trough) including:
    - Apple -81%
    - Amazon -94%
    - Priceline -99%
- After Pets.com and GeoCities went away, investors turned to companies with sustainable business models and earnings power.
- Amazon went up over ~4,100% from its dot.com bottom to the end of 2012 and another 762% over the next decade. And it wasn't only the future mega tech leaders that followed this path. Even lesser-known companies, such as Priceline.com and F5 Networks followed similar high trajectories, gaining 9,091% and 5,081% respectively.

We do not believe the current market will drop much further as the negatives in 2000-2002 occurred over 18 months (valuation normalization, Fed tightening, oil price shock, 9-11 Afghanistan and Iraq War) while this time the comparable negatives (valuation normalization, Fed tightening, oil price shock, Ukraine-Russia War and China pandemic lockdowns) have already happened over a span of two-to-three months.

In closing, we believe that when the market settles, we will see a rotation from Consumer Staples back to companies that prove they can continue to grow their earnings at double digit rates, led by innovative technology companies.

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