



Following the Covid Pandemic Shutdowns and Recession, a bubble formed in many stay-at-home stocks, such as Peloton, Door Dash, Teledoc, Chegg, Zoom, DraftKings, Chewy, etc. It was our tactical decision to avoid this space as many of the companies lacked the operational strength and metrics that we look for and the few that did, were simply far too expensive.

The bubble in this basket of stocks began to burst from its peak in February 2021, triggered by the sharp drop-off in Delta variant cases, and these stocks have continued to fall precipitously.

Generally, when stock bubbles burst (the catalysts of which are always different) an entire category (or market) of stocks declines sharply and often with little distinction. As calm returns, investors begin to identify those companies which have long-term sustainable business models versus those that were buoyed by hype and hot money, resulting in good companies bouncing back and broken companies staying broken.

And thus, we believe that, like all bubbles, there will be both winners and losers. As in the 2001-2002 market (see below), companies that are well-run with strong brands and products recover over time, while those that have no sustainable competitive advantage experience only a moderate rebound.

We have initiated positions in many of what we believe to be the “winners” of this group, following a decline on average of over 50%. And despite the continuing selling pressure, we believe their future is very bright.

While troubling and driven by entirely different circumstances, the severity and broad-based nature of this sell-off reminds us of the Dot-Com Bubble of 2001-2002, a time some pundits were calling the end of the technology sector (a top-down rather than bottoms-up view). To illustrate:

2001-2002 DOT-COM BUBBLE

Winners:

Company	Symbol	Dot Com Bubble 12/31/99 - 12/31/02	Post Bubble (10 years) 12/31/02 - 12/31/12	Annualized Return
Apple Inc	AAPL	-57.4%	4,760.9%	47.5%
Amazon.com Inc	AMZN	-85.8%	2,218.6%	36.9%
Cognizant Technology	CTSH	-25.0%	2,063.5%	36.0%

Booking Holdings Inc	BKNG	-87.7%	1,676.6%	33.3%
Trimble Inc	TRMB	-25.0%	1,006.3%	27.2%
Perficient Inc	PRFT	-91.0%	924.3%	26.2%
F5 Inc	FFIV	-81.1%	802.0%	24.6%
Diodes Inc	DIOD	-53.6%	780.5%	24.3%
8x8 Inc	EGHT	-82.6%	729.2%	23.6%
Red Hat Inc	RHT	-93.3%	645.9%	22.3%

Losers:

Company	Symbol	Dot Com Bubble 12/31/99 - 12/31/02	Post Bubble (10 years) 12/31/02 - 12/31/12	Annualized Return
Plug Power Inc	PLUG	-69.1%	-99.4%	-40.3%
Unisys Corp	UIS	-60.7%	-86.2%	-18.0%
Ciena Corp	CIEN	-50.2%	-84.3%	-16.9%
Nokia Oyj	NOK	-48.6%	-83.9%	-16.7%
Viavi Solutions Inc	VIAV	-89.2%	-80.6%	-15.1%
Extreme Networks	EXTR	-69.1%	-71.8%	-11.9%
Xerox Holdings Corp	XRX	-54.1%	-34.5%	-4.2%
Motorola Solutions	MSI	-69.4%	1.1%	0.1%
Juniper Networks	JNPR	-66.6%	3.8%	0.4%
Cisco Systems Inc	CSCO	-66.2%	8.5%	0.8%

The companies that recovered over this time-period and beyond, all demonstrated the ability to generate high earnings from superior and/or disruptive technology, products, or services.

To this end we use these time periods to evaluate the brand strength, competitive moat, and earnings capability of our holdings to determine if the world events and share-price declines have impaired our companies' future trajectories.

If our assessment finds the individual company has retained its strong end-market demand along with a high likelihood of long-term viability and success, we will continue to hold on to it with the belief that, as with 2001-2002, the market will ultimately treat each company based on its own underlying merits.

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