What Do You Do When Market Winners Start to Lose?

The stock market rally this year has been largely driven by the high tech darlings known as the FANG (Facebook, Amazon, Apple, Netflix and Google). The first take of many investors after Trump's election was that industrial, construction related and bank stocks would benefit from his proposed economic stimulus measures. However, all of that has been slow to come if not absent as scandal and inefficiency drag the White House into the muck. Now the realization seems to have hit the market that the high tech darlings may be a little too highly priced and they have all dipped together. Our concern is what do you do when the market winners start to lose? Do you hold on, buy put options or sell and bank your profits? First here is an update on the state of high tech. The *Financial Times* writes that **US tech stocks extend their losses** as the week opens.

> *US technology stocks were under pressure early on Monday, leaving the sector that has led Wall Street's gains this year poised for another day of losses after Friday's abrupt rout wiped $140bn in market value.*
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> *Market strategists have for some time pointed to potentially stretched valuations for some of America's biggest tech names, which have enjoyed a blistering rally this year. Until Friday the S&P 500 tech sector was up 21.9 per cent for 2017, compared with 8.7 per cent for the broader benchmark.*
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> *Investors have raced into tech, which is thought to provide vigorous revenue expansion even amid a lackluster economic climate, as expectations that a fiscal stimulus plan from Donald Trump's administration will galvanize the US economy have faded.*

Investors have put money into the high tech stocks because these companies are increasing their revenues and profits while other sectors such as retail have flat lined or fallen off. Nevertheless the eventual price of a stock is determined by its forward looking income stream and by the health or weakness of alternative investments. Interest rates are low so bonds are not an especially attractive option. When these market winners start to lose will they fall precipitously or will they merely correct by a few percent? The answer to that will determine whether you sell or wait for a bottom and buy more shares.

A Vote of Correction

Business Insider reports that another **Wall Street bank downgrades Apple**.

Apple's stock price is falling after another analyst downgraded the company Monday morning.

Mizuho's Abhey Lamba downgraded Apple from a buy to a neutral and lowered its price target from $160 to $150.

"We believe enthusiasm around the upcoming product cycle is fully captured at current levels, with limited upside to estimates from here on out," Lamba wrote in a note to investors.

This analyst does not see disaster looming for Apple but does see the stock as overpriced. If you have been buying Apple in expectation of continual price appreciation you may want to rethink your strategy. Nevertheless Apple pays a decent dividend as in not going away so it can be looked at as a blue chip with dividend instead of a growth darling.

1999 All Over Again?

When the FANG stocks buckled at the end of last week *CNBC* commented that big tech companies look **too much like 1999 not to sell** and take a little profit. An asset manager discusses what to do when now and 1999 look all too similar.

How do I handle [tech sector overpricing]? By selling off little pieces of these winners at a time, by rebalancing into other sectors outside of technology, and cash. If I miss upside because of this, so be it. The latter side of the year 2000 was painful for investors. WorldCom, Qwest, Global Crossing, Lucent, JDS Uniphase, AOL, Yahoo, Excite and other hotties of their day, which had multi-hundred billion-dollar valuations, literally saw their values evaporate.

Remember the old saying that you do not have a profit until you have taken a profit no matter how a stock has run.

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