

# THE NASDAQ'S TROUBLES MAY BE EARLY DAYS

Jeff Weniger – Head of Equity Strategy  
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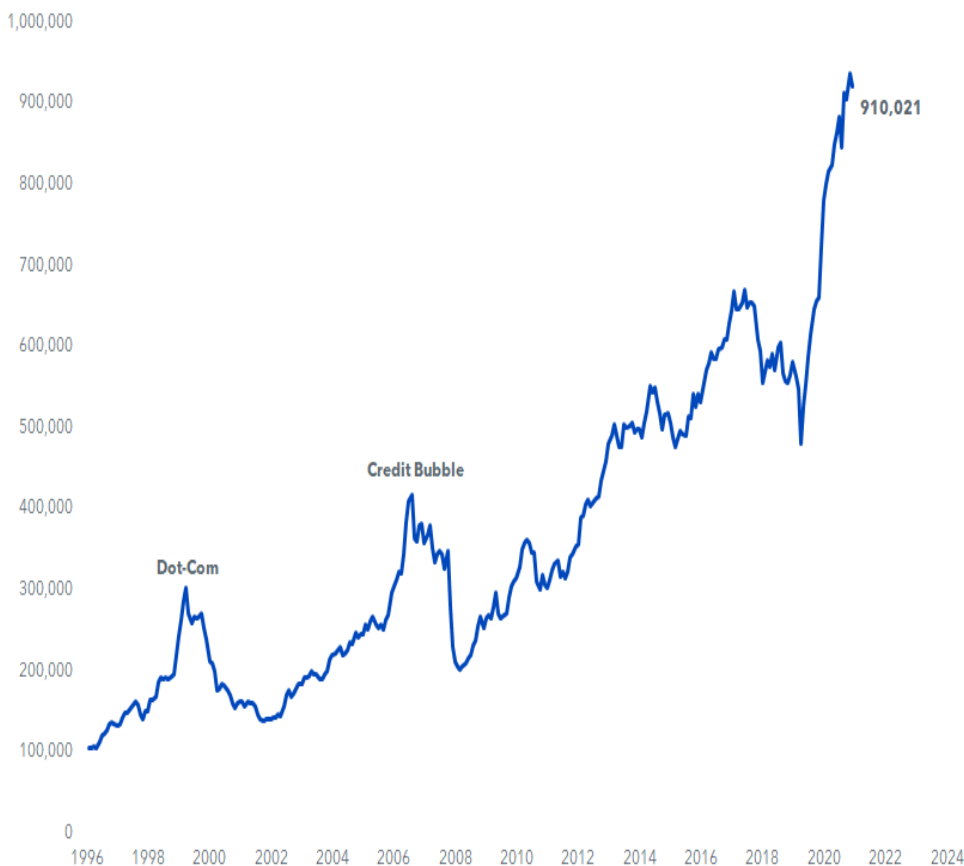
How do you quantify how speculative the market became before this winter's decline?

As stocks marched inexorably higher through 2020 and 2021—after, ahem, running for 11 years prior to that—I think many people retired as soon as their IRA hit their “number.” But how many people are we talking about? Your guess is as good as mine. Whatever the figure, we can add to them some other groups: people who made fortunes in crypto, or 10 times their money in Tesla. No doubt about it, many dropped out of the labor force.

What we do know, if we are looking to put a number on these things, is that brokerage account margin debt melted up to \$910 billion in December (figure 1). My concern is that a lot of this money is in securities like AMC and GameStop, in [growth](#) funds...or NASDAQ trackers.

If you squint at the final tick in figure 1, the peak was in November. The January data isn't in yet, but rest assured, people are getting margin calls.

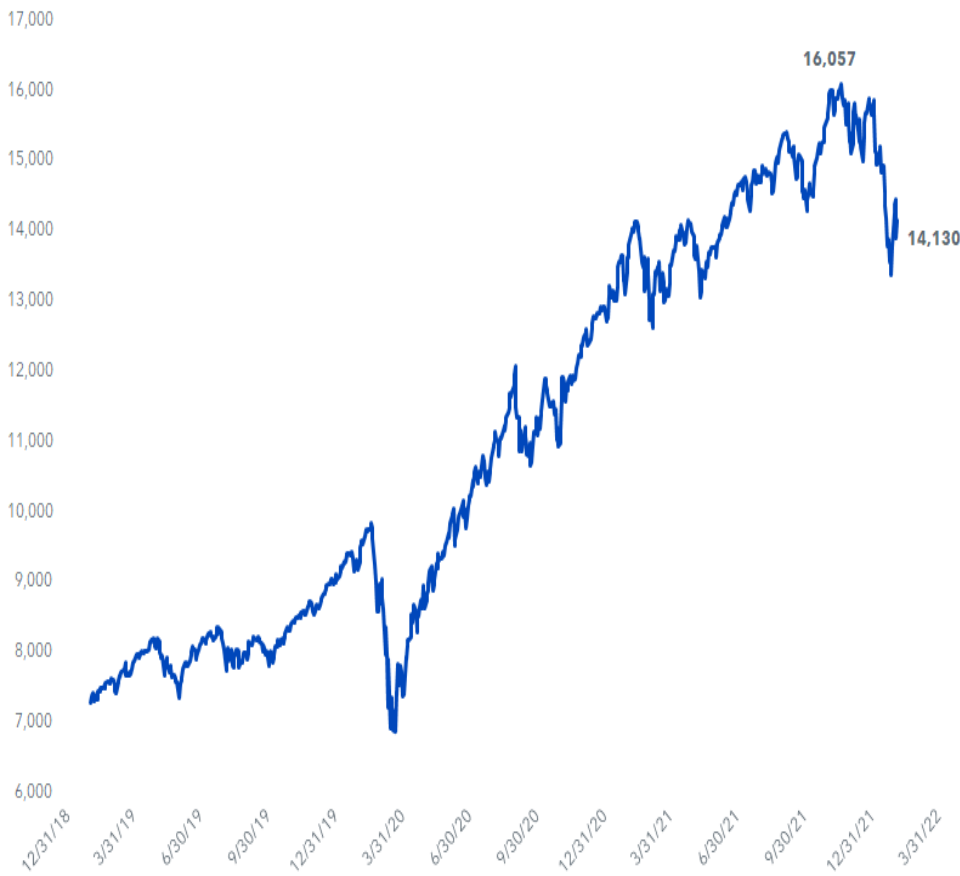
**Figure 1: Debit Balances in Customers' Securities Margin Accounts (\$ mil.)**



Source: FINRA, as of 12/31/21.

The situation in the [NASDAQ Composite](#) is not pretty, with a decline from 16,057 on November 19, 2021, to current levels around 14,000 (figure 2).

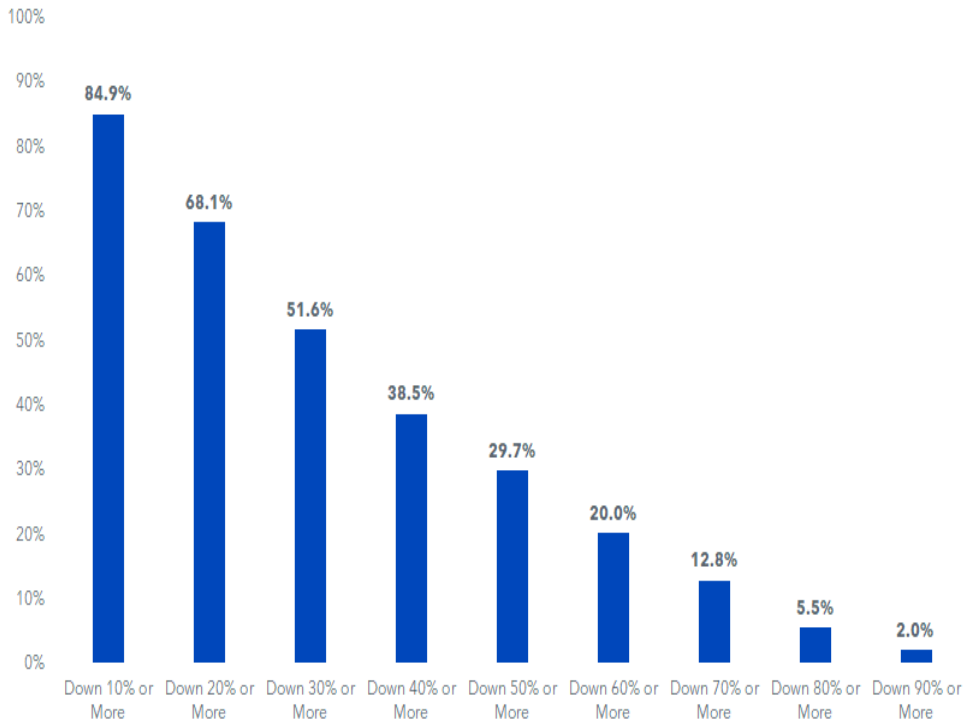
**Figure 2: NASDAQ Composite**



Source: Refinitiv, as of 2/4/22. Past performance is not indicative of future results. You cannot invest directly in an index.

As bad as that looks, many companies have been hit harder. More than 29% of the NASDAQ's constituents have halved from their 52-week highs (figure 3).

**Figure 3: NASDAQ Composite % Constituents Showing Declines from 52-week Highs**



Source: Refinitiv, as of 2/4/22. Past performance is not indicative of future results. You cannot invest directly in an index.

At the peak of the 1990s bubble, the [S&P 500](#) Information Technology sector traded for 6.8 times sales. Look at how many stocks are trading above that level, even after recent declines (figure 4).

**Figure 4: S&P 500 Information Technology Constituents' Price-to-Sales (P/S) Ratio**

Company	P/S Ratio	Index Weight	Company	P/S Ratio	Index Weight	Company	P/S Ratio	Index Weight
Apple Inc	7.71	25.3%	Fiserv Inc	4.72	0.6%	Seagate Technology Holdings PLC	2.22	0.2%
Microsoft Corp	13.44	20.3%	KLA Corp	8.14	0.5%	Skyworks Solutions Inc	4.52	0.2%
NVIDIA Corp	35.90	5.4%	NXP Semiconductors NV	4.77	0.5%	Hewlett Packard Enterprise Co	0.78	0.2%
Visa Inc	20.14	4.4%	Autodesk Inc	13.80	0.5%	Teledyne Technologies Inc	4.27	0.2%
Mastercard Inc	20.30	3.4%	Xilinx Inc	16.01	0.5%	NetApp Inc	3.40	0.2%
Adobe Inc	15.27	2.2%	Fortinet Inc	14.53	0.4%	Fleetcor Technologies Inc	7.95	0.2%
Broadcom Inc	8.74	2.2%	TE Connectivity Ltd	3.17	0.4%	Tyler Technologies Inc	16.93	0.2%
Cisco Systems Inc	4.67	2.1%	Amphenol Corp	4.35	0.4%	Paycom Software Inc	22.45	0.2%
Accenture PLC	4.50	2.0%	Synopsys Inc	11.08	0.4%	Akamai Technologies Inc	5.82	0.2%
Oracle Corp	5.53	2.0%	Cognizant Technology Solutions Corp	2.44	0.4%	Teradyne Inc	4.92	0.2%
Salesforce.Com Inc	9.86	1.9%	Paychex Inc	10.57	0.4%	Monolithic Power Systems Inc	21.46	0.2%
Qualcomm Inc	6.01	1.8%	Global Payments Inc	5.65	0.4%	Enphase Energy Inc	23.15	0.2%
Intel Corp	2.49	1.8%	Microchip Technology Inc	7.57	0.4%	Trimble Inc	5.64	0.2%
Texas Instruments Inc	8.84	1.5%	HP Inc	0.64	0.4%	Broadridge Financial Solutions Inc	3.47	0.2%
Intuit Inc	15.74	1.4%	Cadence Design Systems Inc	15.13	0.4%	Western Digital Corp	0.96	0.1%
PayPal Holdings Inc	5.76	1.3%	Motorola Solutions Inc	5.37	0.4%	NortonLifeLock Inc	5.79	0.1%
Advanced Micro Devices Inc	8.82	1.3%	Arista Networks Inc	16.21	0.3%	Qorvo Inc	3.53	0.1%
International Business Machines Corp	2.15	1.1%	Corning Inc	2.58	0.3%	PTC Inc	7.41	0.1%
Applied Materials Inc	5.26	1.1%	Keysight Technologies Inc	6.14	0.3%	Citrix Systems Inc	3.96	0.1%
ServiceNow Inc	18.93	1.0%	ANSYS Inc	16.87	0.3%	F5 Inc	4.76	0.1%
Micron Technology Inc	3.31	0.8%	Zebra Technologies Corp	6.11	0.2%	Jack Henry & Associates Inc	7.03	0.1%
Automatic Data Processing Inc	5.74	0.8%	CDW Corp	1.42	0.2%	Solaredge Technologies Inc	8.32	0.1%
Analog Devices Inc	11.64	0.8%	Epam Systems Inc	9.46	0.2%	Ceridian HCM Holding Inc	13.47	0.1%
Lam Research Corp	5.62	0.7%	Verisign Inc	19.19	0.2%	Juniper Networks Inc	2.39	0.1%
Fidelity National Information Services Inc	5.60	0.6%	Gartner Inc	5.82	0.2%	DXC Technology Co	0.50	0.1%

Sources: Refinitiv, WisdomTree, as of 2/4/22.

An argument I often hear to defend today’s [large-cap](#) growth stocks is that few companies in the “Class of 1999” had viable business models, or profits for that matter.

Not true.

Okay, there were tons of silly dot-coms in that market, but they were sideshows. The NASDAQ’s top 10 by market cap back then were (from smallest to largest): JDS Uniphase, Applied Materials, Yahoo, Qualcomm, Dell, Sun Microsystems, Oracle, Intel, Cisco and Microsoft.

Consider the biggest one, Microsoft. Like today, Microsoft was a great company in 1999. A great company at a horrible price. In the fiscal years from 1996 to 2000, Microsoft posted annual earnings of \$0.43, \$0.66, \$0.84, \$1.42 and finally, \$1.70.

Somebody paid \$59 for that stock in 1999, or 35 times forward earnings. You can buy great companies all you wish, but if you pay too much, you get a rotten egg (figure 5).

**Figure 5: Microsoft Stock Price, Tech Bubble through Global Financial Crisis**



Source: Refinitiv, 12/31/1994-12/31/2009. Past performance is not indicative of future results. You cannot invest directly in an index.

Investors often ask me to pick one of our strategies that I think can thrive if the whole market gets a dose of sobriety, with the good being taken out with the bad.

An idea is the [WisdomTree U.S. Value Fund \(WTV\)](#). It screens for [net buyback yield](#), coming up with a basket that yields 5.61% on that score.

To visualize it, a 5.61% [buyback yield](#) is the equivalent of a \$10 billion company going into the market and buying back \$561 million worth of its shares in any given year. It is considerably larger than the 1.36% net buyback yield on the S&P 500.

[WTV](#) does own Tech stocks, but they aren't the "hot" favorites of speculators. Even with 12% in the Tech sector, WTV's collective [forward P/E ratio](#) is just 12.2. Not exactly Reddit message board stuff. It seems to me a good way to battle through 2022.

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WTV was formerly the WisdomTree U.S. Quality Shareholder Yield Fund (QSY).

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## DEFINITIONS

**Growth**: Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

**Nasdaq Composite Index**: The market capitalization-weighted index of over 2,500 common equities listed on the Nasdaq stock exchange.

**S&P 500 Index**: Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

**Large-Capitalization (Large-Cap)**: A term used by the investment community to refer to companies with a market capitalization value of more than \$10 billion. Large cap is an abbreviation of the term "large market capitalization". Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

**Net Buyback Yield**: A company's net share buyback is the difference between the capital raised by issuing new shares and the money the company spent on buying back any outstanding shares. A positive net share buyback means that more was spent on buying back existing shares than received from issuing new shares. Net buyback yield is the amount of a company's net buybacks divided by its market capitalization. Please note that net buyback yield does not represent a dividend paid by the company.

**Buyback yield**: amount of a company's buybacks divided by its market capitalization.

**Forward P/E ratio**: Share price divided by compilation of analyst estimates for earnings-per-share over the coming 12-month period. These are estimates that may be subject to revision or prove to be incorrect over time.