



December 20<sup>th</sup>, 2021

## Defensive bubble stocks = umbrellas in a hurricane

### High quality bubble assets are still bubble assets

In October, we published analysis demonstrating why it’s never too early to sell a bubble. Unsurprisingly, investors have remained reluctant to reduce their bubble exposure, owing to a fear of missing out. Instead, some have advocated reducing bubble exposure by moving up in bubble quality, i.e. avoiding Tech stocks with the most stretched valuations and growth expectations and sticking to established industry leaders with strong cash flows or companies with strong secular tailwinds. Many investors tried to take a similar approach during the late-90s, but unfortunately, with little success.

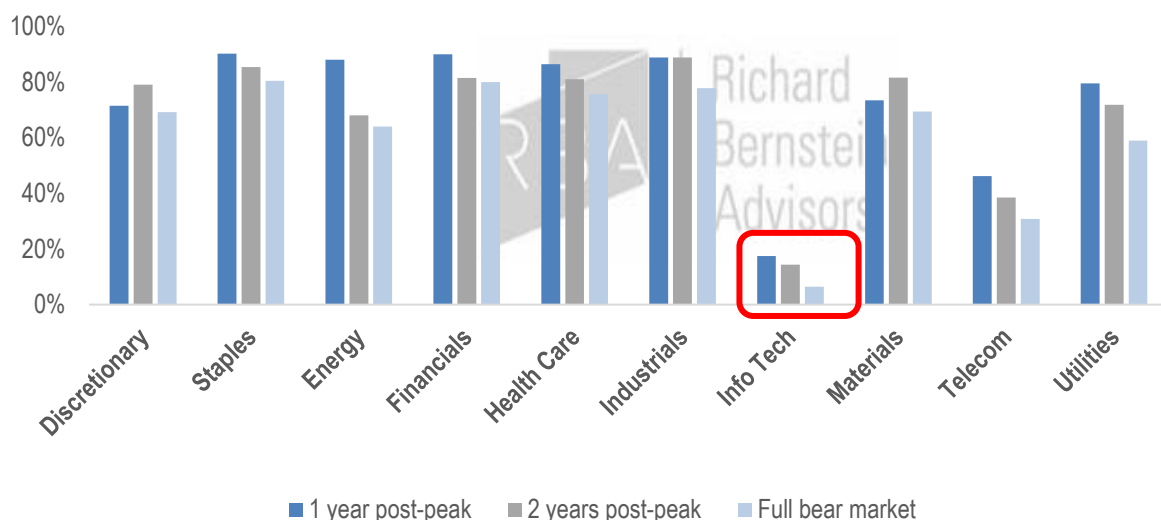
**Strategy 1: Buy proven leaders.** During the Tech Bubble, the largest stocks in the Tech sector were widely considered established winners with solid fundamentals, such as Microsoft, Cisco and Intel. Not only did the stocks of the ten largest “proven leaders” crash by an average of 84% during the bear market, half of them never recovered their peak, while those that did took an average of 15 years to do so. *See Table 1 on page 2.*

**Strategy 2: Buy tomorrow’s winners.** What if investors were able to predict the future winners? Of today’s ten largest Tech stocks, also including Communication Services and Amazon, those that were publicly traded at the peak of the Tech Bubble fell by an average of 72% during the bear market and took over 11 years to recover their peak. *See Table 2 on page 2.*

### When a bubble crashes, every part of it goes down

Of the 63 stocks within the Tech sector at the peak of the stock market, only four (6%) were able to outperform the S&P 500® during the market crash (by far the lowest of any sector). What investors may find most surprising is that none of the four outperformers were established leaders or future winners. In fact, they were generally higher beta and smaller cap Tech stocks that are all but forgotten today. *See Table 3 on page 2 for this list.*

**Chart 1: Percentage of stocks within each sector outperforming the S&P 500® following the 2000 Tech Bubble peak**



Source: Richard Bernstein Advisors LLC, S&P, Bloomberg

## Defensive characteristics offer little protection inside the bubble

Many investors would understandably expect stocks with lower market sensitivity (beta), stable earnings (low earnings volatility) and/or cheaper valuations to outperform when the bubble deflates. However, we found that within the Tech sector, these characteristics were essentially irrelevant to stock performance as the bubble deflated (Charts 2-4). Thus, our conclusion remains the same as before: **The only way to protect from a bubble is to get as far away from it as you can.**

Chart 2: Beta vs. performance

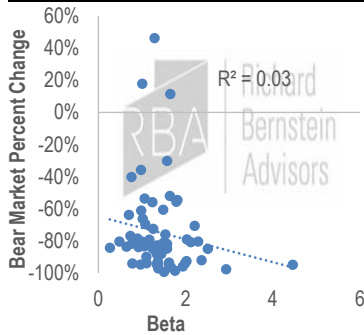


Chart 3: EPS volatility vs. performance

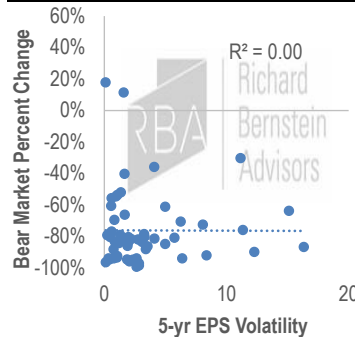
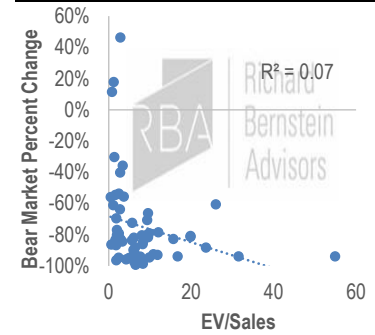


Chart 4: EV/Sales vs. performance



Source: Richard Bernstein Advisors LLC, Bloomberg

## Appendix

### 1. Performance of yesterday's leaders and tomorrow's winners during the Tech Bubble collapse, including years to recover the stocks' prior peaks.

Table 1: Largest Tech stocks at the peak (established leaders)

Company	Mkt Cap at peak (\$bn)	Bear mkt price chg	Years to recover peak
Microsoft <sup>2</sup>	561	-61%	14.5
Cisco <sup>2</sup>	547	-88%	21.4
Intel <sup>2</sup>	464	-81%	17.5
Oracle <sup>2</sup>	245	-81%	14.3
IBM	215	-54%	7.7
Nokia of America	203	-99%	Never
Nortel Networks	195	-99%	Never
Sun Microsystems	175	-95%	Never
Time Warner Inc	163	-85%	Never
EMC Corp	148	-94%	Never
<b>Average</b>		<b>-84%</b>	<b>15.1*</b>

Source: Richard Bernstein Advisors LLC, Bloomberg

\*: Excluding those that never recovered their peak price

<sup>1</sup>: Largest S&P 500<sup>®</sup> stocks by market capitalization as of December 6, 2021 that were publicly traded as of March 24, 2000

<sup>2</sup>: RBA currently holds this security in one or more of its managed portfolios.

Table 2: Today's largest Tech-related stocks<sup>1</sup> (future winners)

Company	Current Mkt Cap (\$bn)	Bear mkt price chg	Years to recover peak
Apple <sup>2</sup>	2,942	-80%	4.8
Microsoft <sup>2</sup>	2,513	-61%	14.5
Amazon.com <sup>2</sup>	1,758	-77%	7.7
NVIDIA <sup>2</sup>	761	-68%	5.6
Adobe <sup>2</sup>	300	-66%	6.1
Disney <sup>2</sup>	273	-65%	10.7
Oracle <sup>2</sup>	277	-81%	14.3
Cisco <sup>2</sup>	253	-88%	21.4
Comcast <sup>2</sup>	220	-54%	12.4
Intel <sup>2</sup>	206	-81%	17.5
<b>Average</b>		<b>-72%</b>	<b>11.5</b>

### 2. Four of the 63 S&P 500<sup>®</sup> stocks in the Information Technology sector outperformed the S&P 500<sup>®</sup>, which fell 49% from March 24, 2000 through October 9, 2002. Outside of Millipore (which was essentially a life sciences health care company) betas were all at or well above 1.0, with market caps in the bottom 20<sup>th</sup> percentile of the sector (IKON was the smallest market cap in the Tech sector).

Table 3: The four Tech stocks that outperformed the S&P 500<sup>®</sup> from March 23, 2000 through October 9, 2002

Company	Description	Mkt cap at peak (\$bn)	Beta	EPS volatility	EV/Sales	Bear mkt price change
Abratron	Radio audience data collection	2.7	1.3	N/A	2.8	46%
PeopleSoft	HR and CRM software	5.4	1.0	409%	3.4	-36%
IKON	Printing equipment & services	0.9	1.6	159%	0.8	11%
EMD Millipore	Life sciences	2.7	0.8	166%	4.0	-40%

Source: Richard Bernstein Advisors LLC, S&P, Bloomberg

Beta: Trailing 5-year monthly beta to S&P 500<sup>®</sup>; EPS volatility: standard deviation of 5 years of quarterly y/y% EPS growth

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