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MOULTON HOT MINUTES

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Many of us remember the Dot.com bubble. But often those memories get "adjusted" by hindsight over time.

We suspect most readers remember how "crazy" those days were, with Dot.com startups garnering astronomical valuations, and investors attributing their gains to outstanding investment acumen rather than a raging stock market bubble. Of course when it all popped, that outstanding investment acumen was forced to face reality, and it was not abnormal to hear of those who lost 60%, 70%, 80% or even more of their portfolios.

There was one Dot.com darling, Sun Microsystems, that was a computer, chip and information technology company. Many thought that the sky was the limit given the new internet. In the three years 1997-1999, Sun Microsystem's stock rose +129.31% per year. When reality set in and the bubble burst, the stock price fell by about -99% over the next three-year bear market, 2000-2002.

Like many stocks at the time, the price became very dislocated from the fundamentals. In fact at one point the stock was trading at 10 x sales. After the collapse, the CEO Scott McNealy, had what has become a somewhat famous rant about the price of his stock and how expensive it got.

"At 10 times revenues, to give you a 10-year payback, I have to pay you 100% of revenues for 10 straight years in dividends. That assumes I can get that by my shareholders. That assumes I have zero cost of goods sold, which is very hard for a computer company. That assumes zero expenses, which is really hard with 39,000 employees. That assumes I pay no taxes, which is very hard. And that assumes you pay no taxes on your dividends, which is kind of illegal. And that assumes with zero R&D for the next 10 years, I can maintain the current revenue run rate. Now, having done that, would any of you like to buy my stock at $64? Do you realize how ridiculous those basic assumptions are? You don't need any transparency. You don't need any footnotes. <u>What were you thinking?</u>"

Of course, in hindsight, the question "What were you thinking?" makes a lot of sense. But at the time, Wall Street and the media were very creative in explaining away fundamentals as antiquated and poorly suited to judge how high prices should go. After all, it was a new era.

We've become much more sophisticated since that time and would never be so reckless in our investments today.

Correct?

Apple and Microsoft now account for 14% of the S&P-500's performance, the most ever. These certainly are two good companies with fine products, very much unlike those Dot.com fakes. As of this writing Apple trades at 7.3 times revenues and Microsoft trades at 11.47 times revenues according to Morningstar. *As always, nothing in these newsletters is intended as a recommendation to buy or sell any investment.*

In their defense, Nvidia, a chip darling of this bubble, trades at 29.06 times revenues, making these two seem cheap.

But even at 7.3 x revenues for Apple and 11.47 x revenues for Microsoft, CEO McNealy would likely ask,

"What are you thinking?"

To be clear, we are not contending that any of these companies are likely to fall -99%. But we are saying that this is a true stock bubble to go along with a real-estate bubble. When bubbles burst, prices fall… a lot.

Of course those are just three stocks – albeit three very impactful stocks. What about the overall valuation of the stock market? It's nothing like the crazy bubble Dot.com era, right?

The price to revenues ratio of the S&P-500 has fallen from 3.01 x revenues near the end of 2021 all the way down to a "mere" 2.41 x revenues as of April of 2023.

For context, the Dot.com bubble saw the price to sales ratio of the S&P-500 ***peak*** at 2.13 x sales. In fact, back to at least 1994, and outside of the post Covid era, price to sales *have never been this high.*

Remember, during the Dot.com bubble burst from 2000 – 2002 the S&P-500 fell about -50% but the Nasdaq fell over -80%.

Why would you willingly risk those kinds of losses in your portfolio when you don't have to?

It's not too late to protect yourself.

What is your defensive plan? Attend a free seminar or call the office to hear about ours.

Waiting could be costly.

Yours truly,

Rial R. Moulton, CFP®, CPA / PFS, RFC
Certified Financial Planner™ professional

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P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please ask them to send an email with their information and permission to be added.

Will You Look Back and Ask… "What was I thinking?"

Weekly Radio Show
Saturday Morning:

8:00 AM KXLY 920 AM
Spokane and Area

9:30 AM KFLD 870 AM
Tri-Cities and Area

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- **How employing and consistently following a defensive system could help you to a better retirement.**
- The Secure Act tax law change could alter how you leave your retirement accounts!
- What happens when an economic downturn makes it difficult for companies to pay back their massive debt?
- Why Buy and Hold Investing was right for the 80's and 90's yet very wrong for today.
- Will inflation eat up your assets?
- How to potentially decrease taxes on your hard earned Social Security Income
- To Roth or not to Roth?

And so much more!

SPOKANE

Quality Inn North
BREAKFAST!
7919 N. Division; Spokane
June 21st @ 9:30 AM

TRI-CITIES

Hampton Inn
486 Bradley Blvd; Richland
June 28th @ 11:00 AM

COMPLIMENTARY SEMINAR

For those 50 years old and older

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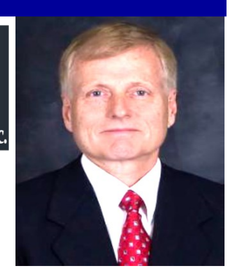

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Call to reserve a spot: 509-922-3110

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"What was I thinking?"

Price to Sales valuation still exceeds the Dot.com bubble

Spokane	No Cost Seminars for Retirees and those close to Retirement	Richland
June 21st @ 9:30 AM		June 28th @ 11:00 AM
Details Inside		*Details Inside*