



INVESTMENT NOTES - February 4th, 2019

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This week we are looking at something that is counterintuitive. At what point do we short the FAANG shares (Facebook, Apple, Amazon, Netflix, Google)? Sir John Templeton always said, “Buy when others are despondently selling and sell when others are euphorically buying.” Last week most of the shares posted favorable, if not record, profits. The last to report- Alphabet (or Google) will do so tonight. While the bottom line is good, each had cautionary statements or guidance in underlying data. Whether it was a decrease in cell phone sales, a decrease in growth or increased regulation- all had their burdens to carry forward.

We read a few weeks ago another report that seems to indicate that the going will become tougher for these companies. The report was on Generation Z which by 2020 will number 2.56B of the world population. 98% own a smart phone and 83% learn about new products via social media. They average 10 hours/day of screen time and 71% watch more than 3 hours of online video per day.

More than 50% of Generation Z have not visited a bank in the last month (whereas 70% of Millennials have). They account for 29-143B of spending and when including influence on family spending- 665B. 72% use online ratings to buy products online and 78% use online ratings to buy products in person.

In the US they have on average 40K of student debt. They prefer video learning. 85% watched a video in the last week to learn a new skill. 75% are more worried about getting a job than finding a soul mate.

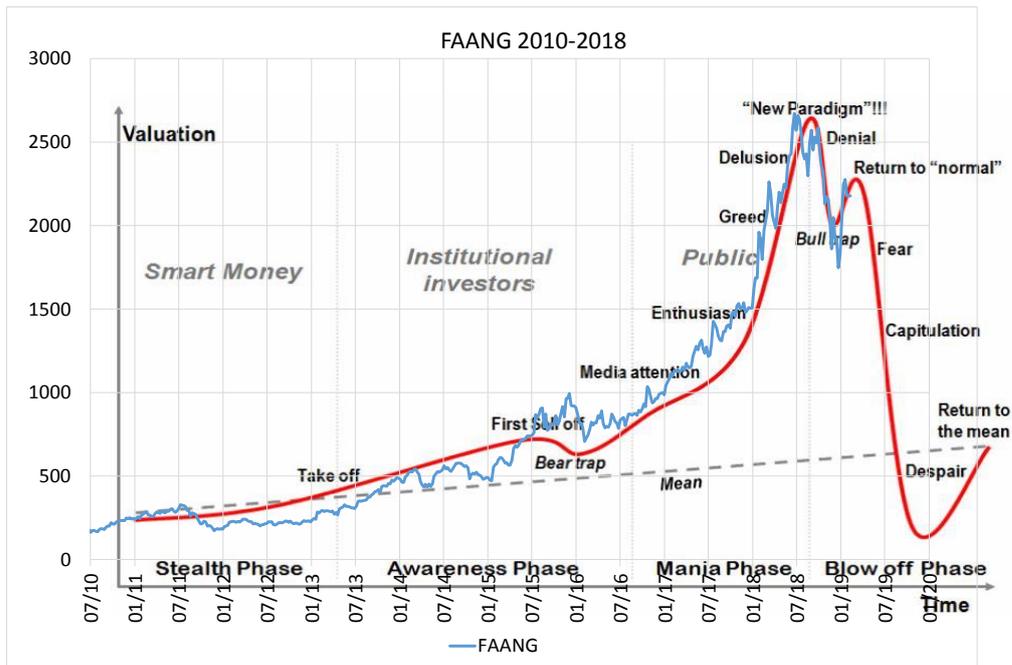
As GenZ enters the workforce, 80% believe the skills they need today are different than those needed by their parents. In the US- 36% of people are freelancing however 73% of GenZ would rather freelance and 50% do it by choice.

They value authenticity. They want conservatism on their terms making the possibility of a new political party highly likely when they become the largest voting demographic. This authenticity carries onto their daily lives. 67% like to see ‘real people’ in ads although their attention span is 8 seconds. 51% use ad-blocking software. Only 9% prefer Facebook over other social media.

50% of GenZ will be part of an ethnic minority by 2020 and it will be the largest segment of the US population. Interestingly, 45% expect their gender to change 2-3x during their lifetime. 35% are atheist or agnostic with 13% being atheists versus 7% for Millennials.

Mental health and stress is their main issue. 81% claim money is their key stressor. 37% get mental health help- the largest of any generation.

The upshot of this study for us is that the FAANG stock’s growth has probably peaked. This is interesting as the following chart is courtesy of our colleague Francesco Caruso which shows the FAANG stocks superimposed on S&P 500:



Although we believe the S&P 500 can reach 2800 and therefore shorted VIX futures (the VIX decreases as the market increases usually). Otherwise we remain conservatively invested with 26% cash, 21% gross equity (17% net), 44% bonds, 8% gold, 1% VIX (short).

We will be starting to short the FAANG stocks this week.

Jane Siebels