SEPTICS ARE FLUSHING THE FAANGS

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Last summer, we wrote "Time to Move from FAANGs to SEPTICS?" Let's revisit the topic.

The FAANG pack consists of Facebook, Apple, Amazon, Netflix and Google's parent, Alphabet, which were knocking the lights out of virtually everything else in the stock market at the time.

SEPTICS is our tongue-in-cheek acronym for a handful of unloved S&P 500 industry groups.

Quite different from the FAANGs, they are a hodgepodge of industries—including packaged foods, tobacco and chemicals—that I threw together just because it made a funny acronym.

The relentless multiyear FAANG trend ended in June, though the group has bounced sharply higher in recent weeks.

Figure 1 speaks for itself.

Figure 1: Cumulative FAANG Outperformance vs. SEPTICS

Sources: WisdomTree, Bloomberg, as of 1/09/2019. FAANGs are equal-weighted. SEPTICS = equal-weighted S&P 500 Specialty Retail, Electric Utilities, Packaged Foods, Tobacco, Insurance, Chemicals and Soft Drinks.

Figure 2 shows the return of the two groups since we published the first SEPTICS blog post mentioned earlier. Netflix and Facebook started to buckle shortly after the post went online.

Figure 2: FAANGs vs. SEPTICS, 6/11/18–1/9/19

F	Facebook	-24.70%	S	Specialty Retail	-3.69%
A	Apple	-19.27%	E	Electric Utilities	11.00%
A	Amazon	-1.76%	P	Packaged Foods	-5.21%
N	Netflix	-11.48%	T	Tobacco	-11.46%
G	Google-parent Alphabet	-4.90%	I	Insurance	-7.23%
			C	Chemicals	-10.55%
			S	Soft Drinks	6.21%
	Average	*-12.42%*		*Average*	*-2.99%*
	S&P 500	-6.01%		S&P 500	-6.01%

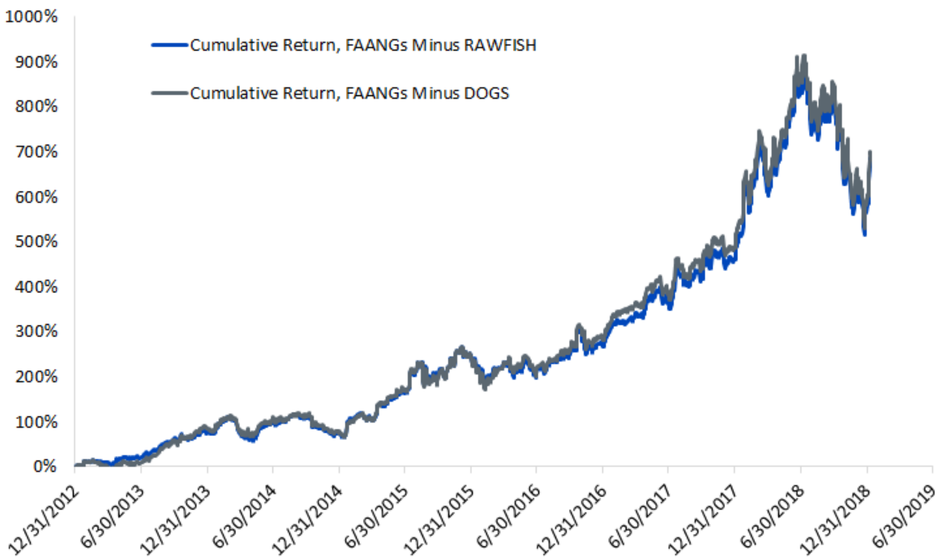
Sources: WisdomTree, Bloomberg. Past performance is not indicative of future results.

It Was Never About the SEPTICS

What was the genius of the SEPTICS? There was no genius. Those industry groups were selected for no reason in particular. The great thing about the SEPTICS in 2018's second half was simply that they were not FAANGs.

Remember the first chart that showed the FAANGs outperforming by 867 percentage points before collapsing? Figure 3 shows the FAANGs against two other ridiculous, unscientifically bunched groups: the RAWFISH and DOGS.

Figure 3: FAANGs vs. a Randomly Selected S&P Industry Hodgepodge



Source: WisdomTree. RAWFISH = S&P 500 industry groups for Real Estate Management & Development, Air Freight & Logistics, Water Utilities, Food & Staples Retailing, Industrial Conglomerates, Steel and Household Products. DOGS = S&P 500 industry groups for Diversified Banks, Office REITs, General Merchandise Stores and Specialized Consumer Services. Note: Data for water utilities available from 3/2/16 onward. Data through 1/09/2019. Past performance is not indicative of future results. You cannot invest directly in an index.

It is basically the same chart. That's because the FAANGs walloped just about everything over the last five years.

Figure 4 repeats the table above, only this time it has the FAANGs against the RAWFISH and the DOGS.

Figure 4: FAANGs vs. Other Industry Hodgepodge, 6/11/18–1/9/19

F	Facebook	-24.70%	R	Real Estate Mgmt & Dev.	-14.28%	D	Diversified Banks	-11.21%
A	Apple	-19.27%	A	Air Freight & Logistics	-20.99%	O	Office REITs	-5.55%
A	Amazon	-1.76%	W	Water Utilities	14.75%	G	General Merchandise Stores	5.29%
N	Netflix	-11.48%	F	Food & Staples Retailing	8.82%	S	Specialized Consumer Services	-9.97%
G	Google-parent Alphabet	-4.90%	I	Industrial Conglomerates	-15.57%			
			S	Steel	-14.98%			
			H	Household Products	15.29%			
	Average	*-12.42%*		*Average*	*-3.85%*		*Average*	*-5.36%*
	S&P 500	-6.01%		S&P 500	-6.01%		S&P 500	-6.01%

Source: WisdomTree. Past performance is not indicative of future results. You cannot invest directly in an index.

With the FAANGs still up by hundreds of percentage points relative to…well, relative to just about everything…fortunes in 2019 are again going to depend on whether those five stocks are working or not, and whether investors are in or out.

If the tide is going out once and for all on the high fliers, then SEPTICS, RAWFISH and DOGS—anything that populates [v alue] indexes—may finally catch some prolonged outperformance.

For standardized performance and the most recent month-end performance click [here] NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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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.

Value : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over tim.