
GE & FAANGS: HISTORY IS SHOUTING IN OUR EARS

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The FAANG trend is coming apart. Even after their recent bounce higher, an equal-weighted basket of Facebook, Amazon, Apple, Netflix and Google parent Alphabet—the darlings of yesteryear—has fallen a collective 23% since June 22, way behind the [S&P 500's](#) loss of 10.2%.¹ With both Amazon and Apple touching \$1 trillion [valuations](#) last year, let's reassess the story of another onetime darling [growth](#) stock: the General.

General Electric could once do no wrong, too. GE's fall to earth after peaking at around \$600 billion in 2000, a fall from grace accompanied by so many highfliers of the 1990s, ushered in a reversal in market leadership. It marked the moment that Value took [value](#) took the baton from growth. From GE's valuation high to the stock market's October 2002 low, the [S&P 500 Value Index](#) was able to pick up 1,282 [basis points \(bps\)](#) over its counterpart.

But it wasn't just the 2000–2002 [bear market](#) where value shined. When it came time for a fresh stock market bull from 2002 to 2007, the investment style crushed growth. Forget the 1,282 bps that value picked up during the bear; the real money was made in the next *7,325 bps* from the market low through May 16, 2007.

Given value's ever-so-slight leadership in last year's second half amid the carnage in the FAANGs, maybe 2018 marked the moment the big darlings "pulled a GE."

Are the FAANGs shouting an important message?

The Deeper Story

There are 34-year-olds who have been in the business for 12 years and haven't seen a prolonged value cycle. That almost includes me, pushing 40, gray hair, the whole lot. It's been so long since the Graham & Dodd² that I read almost 20 years ago has actually worked. At least as far as the traditional Morningstar style boxes are concerned, you start to forget what it feels like to see growth stocks really lag.

Look at the bold disparity in the market's internals. From July 2006 through September 2018, the [S&P 500 Growth Index](#) returned 11.4% annually, while its value counterpart put up 7.0%. Cumulatively, growth returned 271%, more than double value's 129%.

For perspective now that value is catching a bid, its cumulative outperformance since September is only about 3 percentage points.³ In other words, if value is to cut into that 100+% lag from 2006 to 2018, this is first inning stuff.

When GE started to fall from grace in 2000, a seven-year value cycle was lit. Seven years is a long time. It's been a few months.

Are the FAANGs telling us to remember history?

¹Data through 1/3/19. Sources: Bloomberg, WisdomTree.

²Benjamin Graham and David Dodd, the founding fathers of value investing. “The Intelligent Investor” (Graham, originally published 1949, updated multiple times until 2003) and “Security Analysis” (Graham, Dodd, 1934) make necessary reading for finance-interested college-age readers with still-malleable investment philosophies.

³Through 1/3/19. Sources: WisdomTree, Bloomberg.

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DEFINITIONS

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.

Valuation : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

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.

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 time.

S&P 500 Value Index : A market capitalization-weighted benchmark designed to measure the value segment of the S&P 500 Index.

Basis point : 1/100th of 1 percent.

Bear market : A sustained downturn in market prices, increasing the chances of negative portfolio returns.

S&P 500 Growth Index : A market capitalization-weighted benchmark designed to measure the growth segment of the S&P 500 Index.