STENGER FAMILY OFFICE
Weekly Insights
Ep. 141 | February 29th, 2024

# Is This a Bubble?

**Article by:** Nick Stenger, *Chief Executive Officer, Financial Advisor*
Phone: (630) 912-8295 | Email: nick.stenger@stengerfamilyoffice.com

Every time stocks make new highs, the bears say we're in a bubble, just moments away from a big pop. Haunting the bulls nearly 25 years later, is the tech bubble of the late 1990's. Many pundits are drawing similarities between today and 1999, even making comparisons between Cisco and Nvidia, pounding the table that there's no way the current rally will continue. While there are certainly some companies in a bubble right now, we strongly disagree and do not believe the broader S&P 500 Index is overvalued. Stocks are certainly not cheap like they were in 2022, 2020, 2018, 2015, 2011 or 2008, but rather we think are fairly valued thanks to substantial earnings growth the past 5 years.

In contrast, the late 90's was a multiple expansion story. Stock prices were climbing radically faster than profits and ultimately fundamentals couldn't support sky-high valuations. For example, Cisco traded at over 150 times earnings and the S&P 500 Index traded at 40 times earnings. At those levels, the S&P 500 Index would be currently trading at 9,700 points rather than 5,088. Instead, forward P/E is 19.1, right in line with the 5-year average. Again, we think stocks are fairly valued, not overvalued. One force holding back multiple expansion is the Federal Reserve. Higher rates have dampened valuations, especially on tech companies and venture capital. If rates were back in the 2.5% range, the S&P 500 Index could easily trade at 5,800-6,000 points.

Unquestionably, part of the market's optimism this year is the belief that Powell will cut rates in the second half of 2024 and all throughout 2025. We think it's much more likely Powell cuts in 2025 (a mistake), and this could surprise markets. If Powell cuts later than markets think, we could see a substantial correction this spring or summer. It wouldn't be out of the ordinary to experience a 15-20% correction before we return to record all time highs. This year's likely correction will feel different because its an election year. The media loves to incorrectly draw causation between politics and stock markets, but in reality, stocks trade on earnings. Companies that grow revenues and profits ultimately see their stock prices go up.

Particularly, doom and gloomers single out the Magnificent 7 (Microsoft, Apple, Tesla, Nvidia, Amazon, Google, Meta) as a major investment risk. We think the opposite is true. These companies make more in profit and revenue than ever before, are sitting on monstrous stockpiles of cash, and are engrained deeply in every part of our day-to-day lives. In some ways, Microsoft, Apple, and Google are quasi-utilities. As a result, these companies have grown earnings and are not trading much higher than their 5-year averages. In some cases, their earnings are higher quality than ever before and we think could be worth even more than markets currently believe. We also like other strong American companies in the energy, financials and healthcare sectors that are leveraging artificial intelligence, machine learning, the cloud, big data, and high-speed computing to reduce cost. Over time, the legacy companies that continue innovating will see their stock prices go up. Buying the gloomy narrative on the Mag 7 has cost investors billions in returns the past 10 years. We don't recommend betting against the best and brightest.

While there's plenty to be optimistic about, we have been issuing personal financial planning caution since April of last year. Companies are now processing mass layoffs as we predicted to boost 2024 earnings. Further, money supply has been in a downtrend since last spring. We believe the U.S. economy is still many quarters from recession, but it will happen at some point. As always, we continue to urge caution with spending and advise you to pay down debt quickly. If possible, we also recommend building a cash reserve as a ballast when the next downturn occurs. Bubbles take a long time to form, and typically they don't happen when everyone expects it. The 90's bubble didn't pop for 7 years, and investors who stayed invested the across the entire cycle earned 8% returns by staying the course across the entire cycle. When the next correction comes, we'll use it as a buying opportunity, scooping up excellent companies at even better prices.

THE NICK STENGER SHOW

# BATTLING THE DOOM & GLOOM

***EPISODES RELEASED WEEKLY ON YOUTUBE, SPOTIFY, APPLE***

**NICK STENGER**
CHIEF EXECUTIVE OFFICER
FINANCIAL ADVISOR

---

The views expressed herein are those of the author and do not necessarily reflect the views of Stenger Family Office LLC or its affiliates. All opinions are subject to change without notice. Neither the information provided, nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. Past performance is no guarantee of future results.

This material does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The strategies and/or investments discussed in this material may not be appropriate for all investors. Stenger Family Office LLC recommends that investors independently evaluate particular investments and strategies and encourages investors to seek the advice of a Financial Advisor. The appropriateness of a particular investment or strategy will depend on an investor’s individual circumstances and objectives.

Information contained herein has been obtained from sources considered to be reliable, but we do not guarantee their accuracy or completeness.

Various factors, including an economic downturn, may cause a company to reduce or eliminate its dividend.

The Standard & Poor’s (S&P) 500 Index tracks the performance of 500 widely held, large-capitalization US stocks. An investment cannot be made directly in a market index.

Stenger Family Office LLC. 400 E. Diehl Road, Suite 550, Naperville, IL 60563

---