

Market Observations March 2017

SIC TRANSIT GLORIA MUNDI

And the Oscar goes to . . . Likely one need not be a movie buff or a regular viewer of the annual Oscar presentations to be aware of a recent, most public display of fleeting glory. That awkward moment has passed and the record has been corrected. A record of favorable returns over time from broad stock market indexes has been recorded as well. However, glorious outcomes for market sectors and individual stocks can be fleeting. Some perspective can be helpful.

Perspective

Perhaps stock market glory is no more fleeting than in the technology sector. The latest nominee for individual tech glory arrived last week in the initial public offering of Snap common stock. **Table I** provides one picture of how the technology sector has changed over time. This definition of technology emerged in 1998 when the first industry exchange-traded funds (“ETFs”) were introduced. Both constancy and change are notable. Five companies appeared in both lists, four highlighted in red ceased to exist as individual companies and two highlighted in green were newly created. All companies have experienced substantial changes in their businesses. Visa exemplifies the pervasiveness of changing technology as it has gone from a credit card company to a company dominating the global market for electronic payments.

In addition to technology, an industrial sector ETF was created in 1998. **Table II** shows changes at the top of the industrial sector over the past 18 years. The industrial sector appears to have been just as dynamic as the technology sector. Here only four companies appeared in both lists.

How fleeting has been the relative performance of the technology stock sector versus the industrial stock sector? **Chart I** shows the relative performance relationship. Performance glory has both been achieved and been fleeting for each sector. For all twelve-month periods over the past 18 years, the trophy goes to the industrial sector: 11.0% median twelve-month return (versus 10.2% for technology) and outperforming 56% of twelve-month intervals.

Investment Implications

While patterns of dominance are visible over time, performance glory can be fleeting among asset classes, market sectors, mutual funds and ETFs, and individual securities. Will Snap be the next Facebook or another AOL? Strategies and tactics are important for effective portfolio management. Awards, however, go to those portfolios that best fit individual goals, time horizons and risk tolerances. Such portfolios are most likely to achieve outcomes that are not fleeting.



Table I

TOP 10 TECH COMPANIES BY MARKET VALUE	
1998	2017
MICROSOFT	APPLE
CISCO	MICROSOFT
INTEL	FACEBOOK
LUCENT	AT&T
IBM	ALPHABET
AOL	CISCO
AT&T	INTEL
ORACLE	VERIZON
MCI	VISA
NORTEL	IBM

Table II

TOP 10 INDUSTRIAL COMPANIES BY MARKET VALUE	
1998	2017
GE	GE
TYCO	3 M
HONEYWELL	BOEING
3 M	HONEYWELL
CORNING	UNION PACIFIC
EMERSON ELECTRIC	UNITED TECHNOLOGIES
ILLINOIS TOOL	UPS
CATERPILLAR	LOCKHEED MARTIN
TEXTRON	CATERPILLAR
WASTE MANAGEMENT	APPLE

Chart I

