GordonTLong.com

“FANG & NOSH” now the “NIFTY NINE”!

ANALYTIC INSIGHTS

Gordon T Long
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"FANG & NOSH" now the "NIFTY NINE"!

FANG & NOSH BECOME THE "NIFTY NINE"

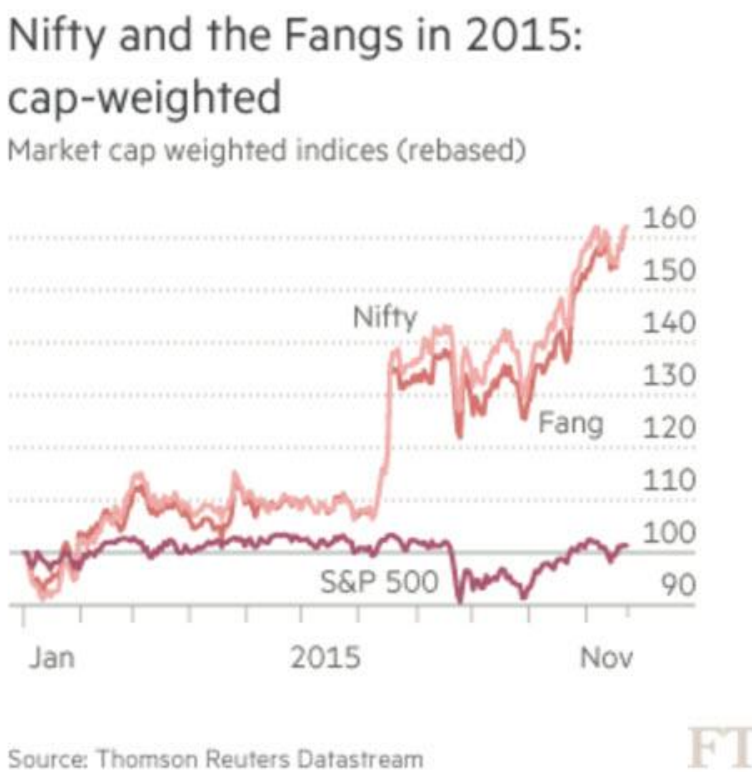
FANG STOCKS

1. Facebook,
2. Amazon,
3. Netflix and
4. Google

Ned Davis Research refers to the NIFTY NINE, which adds:

5. Priceline,
6. Ebay,
7. Starbucks,
8. Microsoft and
9. Salesforce. (Note that Apple appears on neither list which until recently was THE MARKET and accounted for 20% of the underlying Margin Expansion since 2010.)

While the S&P languishes unchanged in 2015, these small groups of overwhelmingly propagandized stocks are up on average over 60%, but with a **collective P/E of 45**, they are not cheap.

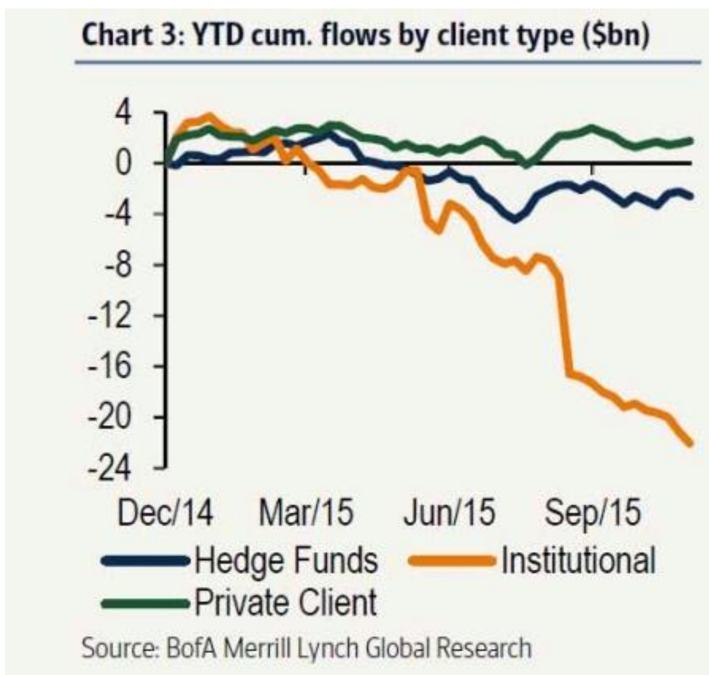


WHAT WE HAVE IS EUPHORIA CENTERED ON 9 STOCKS

This is the same as we have at all bubble tops. Only the names change (the 4 Horsemen in the Dotcomm Bubble run-up: Cisco, Intel, Microsoft & Qualcomm) and the rationalization hype (2000: "***new economic paradigm")***

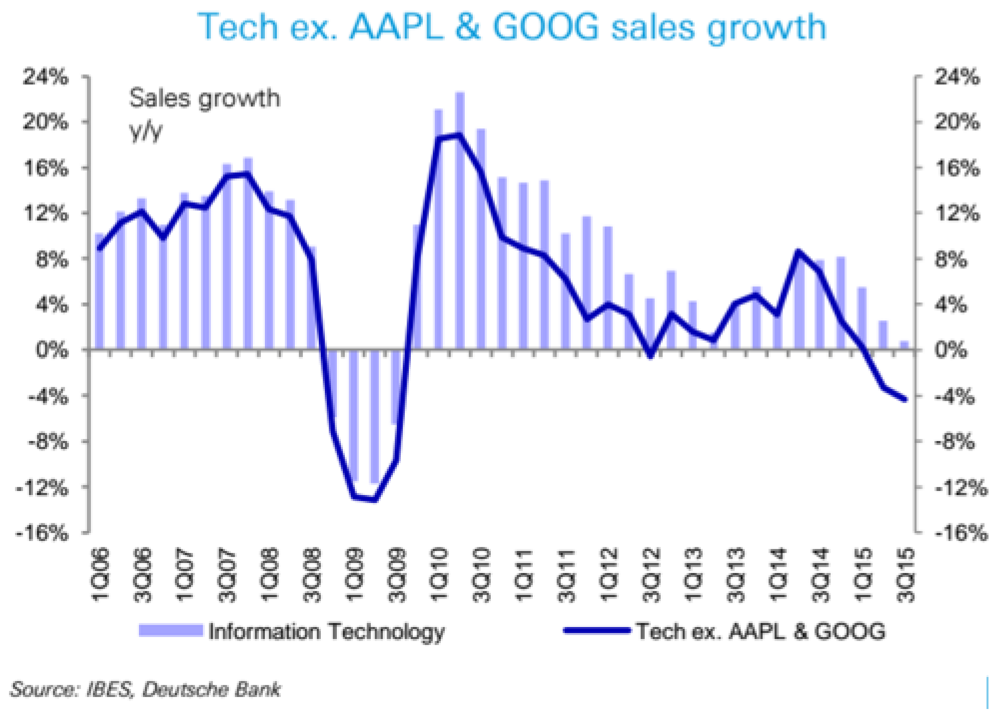
While the overall market breadth collapses:

INSTITUTIONS HAVE LEFT THE PARTY



Institutions see the following

1- Sales Growth is no longer there

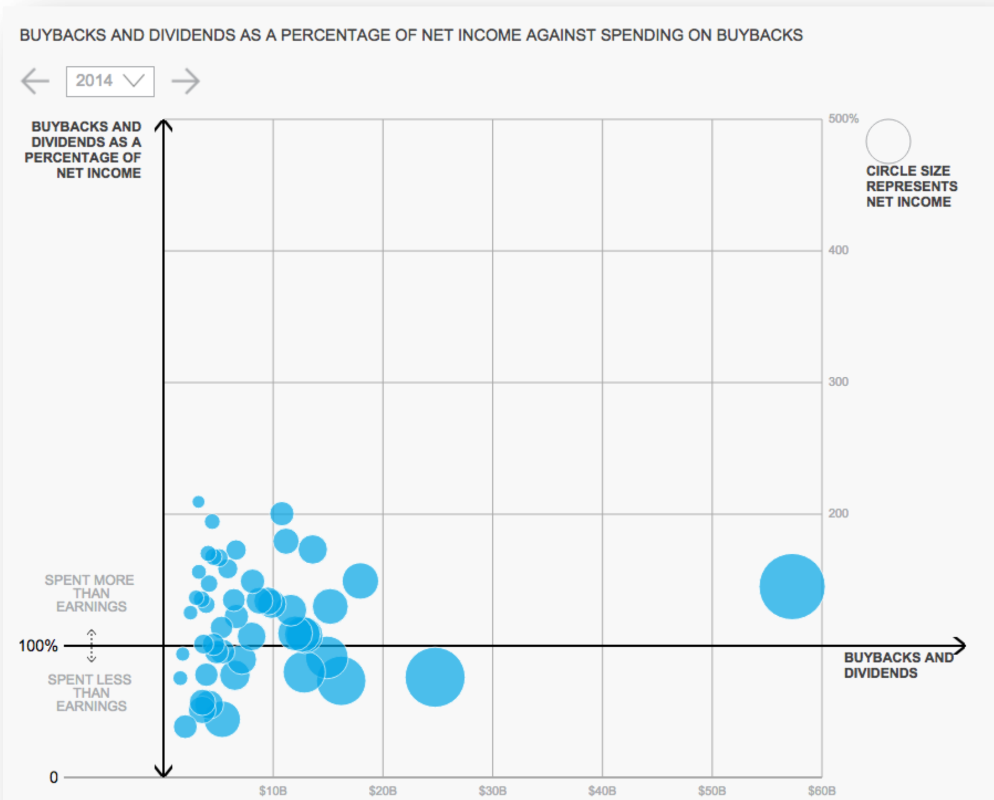


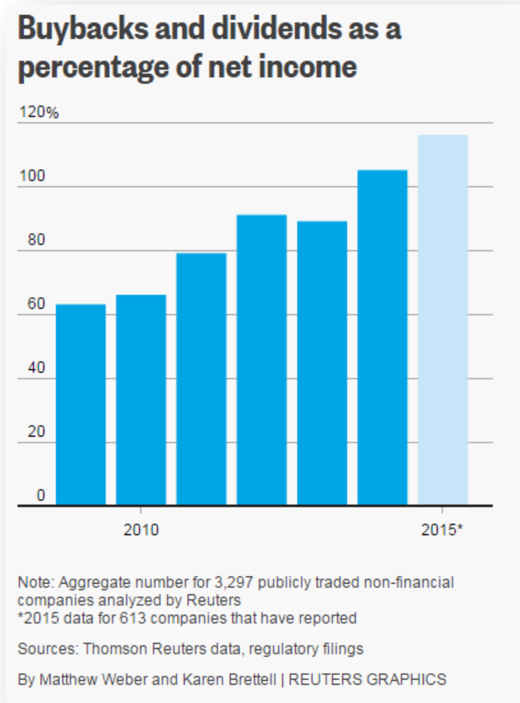
2- Earnings are steadily falling

3- Companies are spending more on Buybacks and Dividends than they are earning

- Almost 60 percent of the 3,297 publicly traded non-financial U.S. have bought back their shares since 2010.
- In fiscal 2014, spending on buybacks and dividends surpassed the companies' combined net income for the first time outside of a recessionary period, and continued to climb for the 613 companies that have already reported for fiscal 2015.

- In the most recent reporting year, share purchases reached a record $520 billion. Throw in the most recent year's $365 billion in dividends, and the total amount returned to shareholders reaches $885 billion, more than the companies' combined net income of $847 billion.
- Spending on buybacks and dividends has surged relative to investment in the business. Among the 1,900 companies that have repurchased their shares since 2010, buybacks and dividends amounted to 113 percent of their capital spending, compared with 60 percent in 2000 and 38 percent in 1990.
- Among approximately 1,000 firms that buy back shares and report R&D spending, the proportion of net income spent on innovation has averaged less than 50 percent since 2009, increasing to 56 percent only in the most recent year as net income fell. It had been over 60 percent during the 1990s.



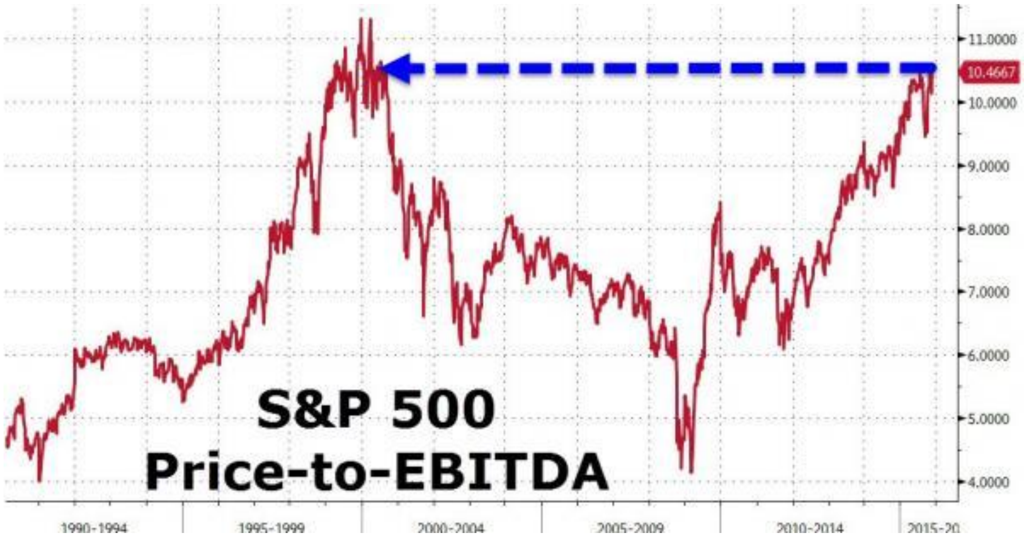


CREDIT CYCLE HAS TURNED – *Earnings Now Surfacing as a Problem*

But the big factor is falling free cash flow and EBITDA. This will crimp borrowing money (issuing bonds) to finance buybacks and shareholder dividends.

In the December Triggers we outlined that the Credit Cycle had turned because Cash Flows or EBITDA was falling.

Price to EBITDA for the overall S&P 500 only continues to deteriorate and now approaches the 2000 Dotcom Bubble levels!



The market and Nifty Nine will soon all feel the impact of a turning credit cycle and tighter lending standards needed to keep asset prices elevated.

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