CAPITAL INVESTMENT COUNSEL

The Columns

February 2022

Oh Vlad, you're an unwelcome guest; it's time for you to go home. If the markets didn't have enough to worry about, Vladmir Putin rattled his saber and got everyone in an uproar. As my wife loved to say, here's that attention you ordered. Putin's like a 13-year-old on TikTok: look at me, look at me! If history rhymes like it has sometimes in the past, we may be thanking Vlad for the buying opportunity. Dig into the major geopolitical events of the last 100 years, and we find markets are both higher three and six months later with average gains of 11% and 15% respectively. *(Urban Carmel).* The Ukraine incursion may provide a solid setup for a move higher later this year.

I feel that your purchase price ultimately determines your rate of return. For most of 2020, the market seemed to ignore that. When the Federal Reserve provides $7 billion in stimulus and keeps real interest rates below zero, you can throw out the rulebook: at least for a while. Let's look at an example. Shopify provides the framework for many of the top e-commerce sites and they're currently growing revenue at 41% a year.

Wow, sounds exciting, doesn't it? Well, there's a catch, the stock price had already priced that growth in and more. At the 2021 peak, Shopify traded at 50 times revenue (!!!!). Rising interest rates helped cut the stock in half to roughly 27 times revenue this week but apparently that was still too expensive. Shopify reported earnings on February 16th and promptly peeled off another 154 points (that's an 18% move) to trade at $735 a share. Shopify has now dropped from $1762 last November, but it's still priced at 20 times revenue. When my son was little, he loved to play Candyland. Non profitable stocks felt like Candyland from March 2020 through November 2021. Now, rising rates are saying that playtime is over, and valuations matter again.

The 10-Year US Treasury yields 2% currently. Ironically the 10-Year yielded 2% in 2012. On the surface, it all looks the same but it's a different story underneath. The NASDAQ 100 is the marquee big tech index. In 2012, investors paid an average of 3 times sales for the group. After peaking at 8 times sales last November, you're currently paying 6 times. That's still a lofty price. Rising interest rates are changing the game. I'm not calling for a tech crash, but the group could grind sideways for a time as the companies digest their big gains.

It feels like the shift is on and it's similar to the early 2000's. Overpriced tech faced headwinds while undervalued sectors did well overall. In the last 3 months, the moderately valued Dow Jones Industrials are down only 2% while the NASDAQ 100 has peeled off 10%. Let's watch that relationship.

The first touchdown in last weekend's Super Bowl was caught by Odell Beckham Jr. It was a wonderful catch and Beckham has some of the best hands in the business. Unfortunately, when it comes to Bitcoin, his touch isn't so sure. Beckham signed a $750,000 contract with the Rams last fall and made headlines by his demand to be paid in Bitcoin. Bitcoin traded at $64,000 at the time and it's currently at $40,000. The Bitcoin drop takes his pay from $750,000 to $468,000. The rub is that he's taxed on the original value of $750k. State and Federal taxes weigh in at 50% combined so let's call it $375k to the government. In the end, Beckham pockets $93,000. Since I've worked on this part of the Columns, I've had to rerun the math 3 times to get it right because the Bitcoin price was so volatile. At the late January Bitcoin price, Beckham only netted $38k instead of $93k. When it comes to currency, I prefer a little more stability underneath my feet. If you have any comments, feel free to contact me at heddins@capital-invest.com or call me at 919-656-0836.

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