

Big tech

Faangs take diverging paths as investors rethink prospects

Facebook's tumble is a reminder the hot tech stocks each have different business models



Nicole Bullock and Robin Wigglesworth in New York 10 HOURS AGO

Buying the collection of high-growth US technology behemoths known as the Faangs has been a simple route to outsized investment returns in recent years.

[Facebook](#), [Amazon](#), [Apple](#), [Netflix](#) and Google's parent company [Alphabet](#) — collectively known by the acronym Faangs — have shaken off occasional public relations problems and growth scares to hit record high after record high.

But the latest round of earnings reports for the group has made this winning trade look more complex.

“It is a wake-up call,” said Ari Shrage, chief executive of Aliya Capital, which advises funds on tech investments. “You cannot blindly buy these stocks.”

Contrasting fortunes in the second quarter have served as a reminder that, while often bunched together by investors, they operate different businesses. That raises questions about whether their performance may diverge in the future.

Certainly in the short term the shares can do wildly different things, in response to idiosyncratic pressures. Facebook [lost more than \\$120bn](#) in value on Thursday by warning of slowing user and advertising sales growth. Earlier this year, it lost almost as much market capitalisation over a few days when concerns emerged over its ability to protect users' privacy.

Shares in [Netflix](#) fell last week when its quarterly earnings revealed disappointing viewer growth. By contrast, [Amazon beat](#) Wall Street profit estimates by a wide margin and traded up after hours

on Thursday, while [Alphabet](#) this week shrugged off a record fine from the EU as investors focused on [growth and profits](#). Apple reports earnings on Tuesday.

The FAANGtastic Five

Market value of Facebook, Apple, Amazon, Netflix and Google had vaulted past UK and Japanese stock markets (\$tn) before Facebook's tumble



“On the whole, [Faangs] may be classified in the same economic sector, but they are very different businesses subject to different risks and executing at different levels,” said David Donabedian, chief investment officer at CIBC Private Wealth Management. “Why would you expect them all to behave the same way at the same time?”

Tech stocks have seemed to [promise](#) relentless growth, based on the over-arching trend of a digital revolution across society, making them different from other stocks whose growth depends on the ebbs and flows of the underlying economy, or the political vagaries in Washington that cause investors to fret.

As for the Faangs, the very biggest of the big tech stocks, “they have huge valuations for a reason”, said Nicholas Colas, co-founder of DataTrek. “A small number of people have built huge franchises.”

With the exception of Netflix, the Faangs have market values topping \$500bn and Amazon, Apple and Alphabet are approaching the [\\$1tn mark](#).

“People are captivated by them because they are all Silicon Valley companies that are all huge and still growing fast, and that doesn’t come together often,” said George Parkes, a strategist at Bespoke Investment Group. “Even with the deceleration, Facebook’s growth is still better than almost any other major company.”

For Steve Chiavarone, a portfolio manager at Federated Investors, the Faangs dominate the main ways consumers use the internet. Google for maps, search and video, Amazon for commerce, Apple for mobile devices, Netflix for entertainment and Facebook for social media.

“They are powerful in the verticals of the internet, but they are different verticals,” he said. “While, yes, they are all benefiting from what we would call the digital revolution, they are different and the challenges are different.”

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Valuation-wise it is interesting now. There are still some clouds on the horizon

Marco Pirondini, Amundi Pioneer Asset Management

“The Faangs” is a catchy label, really nothing more than that, but the point is that it is catchy. “Just because somebody chose a cute name it doesn’t mean anything,” Mr Colas said, but he added that it was also one of the reasons why the companies are popular. “Maybe too popular,” he said.

Many fund managers have long worried that the rush into the big tech companies of the US and China has become a “crowded trade”, in other words over-extended and vulnerable to a sharp reversal.

Investors surveyed by Bank of America voted it the most crowded bet in markets for the sixth consecutive month in July, and by the greatest margin of any crowded trade since December 2015.

More than \$20bn has flowed into dedicated technology funds this year, smashing past the full-year, record-breaking inflows of 2017.

The rise of passive investing has increased correlations among Faangs in recent years, as it has for stocks in general. Meanwhile, so-called momentum investing, where traders and investors buy assets that are rising, has also fuelled the Faang trade, investors said.

The NYSE Fang+ index, which includes the Faangs and other companies that have enjoyed explosive growth to become household-name brands since the turn of the millennium, has handily beat the broader US stock market in recent years. It also includes [Tesla](#), chipmaker [Nvidia](#) and China’s Baidu and Alibaba. It has risen nearly 140 per cent since the start of 2015 versus close to 40 per cent for the S&P 500.

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Many actively managed equity funds have also piled in enthusiastically. For example, Fidelity’s \$129bn Contrafund, led by famed stockpicker William

Danoff, held a \$9.3bn stake in Facebook at the end of May, according to filings, while Capital

Group's \$198bn Growth Fund of America held a \$7bn stake at the end of June.

Leading up to Wednesday's earnings, 44 out of the 52 analysts that track Facebook rated its stock as a "buy", while only two were neutral and two rated its shares as a "sell". On average they had a 12-month price target of \$229.53. After the earnings, analysts had pruned the average price target to \$209.50, a downgrade but still well above their beaten-up level of \$176.26 at the close of Thursday's brutal trading day.

"Valuation-wise it is interesting now," said Marco Pirondini, head of US equities at Amundi Pioneer Asset Management. "There are still some clouds on the horizon," he pointed out, but Facebook — and many of its other Big Tech peers — remain enviably profitable and still enjoy robust growth outlooks.

"Technology stocks have performed very well, and are in need of a correction," Mr Pirondini added, "but these are still real winners with strong business models."

Faangs Q2 earnings so far



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FACEBOOK: Revenue: \$13.2bn (up 42%); **Net income:** \$5.1bn (up 31%)

The news: The social network warned of slowing user and sales growth, shocking investors into rethinking the company's financial prospects amid wider concerns over data privacy. [Read more](#)

Next-day share price reaction: down 19%

AMAZON: Revenue: \$52.9bn (up 39%); **Net income:** \$2.5bn (up 1,187%)

The news: Amazon blew past Wall Street earnings forecasts as its diversification into higher-margin cloud computing and the dominance of its online retail business produced the first \$2bn quarterly profit in its history. [Read more](#)

After-hours share price reaction: up 4%

NETFLIX: Revenue: \$3.9bn (up 40%); **Net income:** \$0.4bn (up 486%)

The news: Netflix's stunning stock-price rally came crashing to a halt after it reported 1m fewer subscribers than investors had expected. [Read more](#)

Next-day share price reaction: down 5.2%

ALPHABET (GOOGLE): Revenue: \$32.7bn (up 26%); **Net income:** \$3.2bn (down 9%)

The news: Google revealed that its strong foothold on smartphones contributed to outsized growth and profits, less than a week after the EU hit the company with a €4.3bn fine for anti-competitive use of its Android mobile software. [Read more](#)

Next-day share price reaction: up 3.7%

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