Stocktake: What’s up with Apple?

Proinsias O'Mahony

Last Updated: Tuesday, August 11, 2015, 08:20

What’s up with Apple? Everyone seems to be freaked out by Apple’s falling share price. Should they be?

The recent 15 per cent correction has been swift, the stock losing more than $100 billion in market capitalisation following a run of 10 declines in 11 sessions. The losing streak has resulted in Apple hitting a six-month low and the share price falling below its 200-day moving average for the first time since 2013.

“More carnage to come?” headlined the Wall Street Journal. “The Apple stock chart just got scary”, screamed CNBC. Everyone is busy explaining away the move, citing concerns over Apple’s prospects in China, iPhone fears, Apple Watch demand, and countless other potential problems.

It’s amusing, really, the hyperbole surrounding share price slides. Apple shares had risen tenfold since early 2009, and by some 150 per cent since early 2013. Over the last two years, its gains have been triple that of the S&P 500.

It’s not as if Apple shareholders have never experienced a double-digit correction before – the last one occurred just eight months ago, only to be forgotten as the stock took off in 2015. In fact, over the past five years, Apple has been in a double-digit drawdown 38 per cent of the time, notes Michael Batnick of Ritholtz Asset Management.

The moral, as Batnick points out, is that stocks – even mighty Apple’s – go up and down. “This is par for the course.”

How low can gold go?

Gold has fallen from $1,920 in 2011 to below $1,100 in recent weeks. Might a bottom be near? No, says Ned Davis Research (NDR), which has long argued gold could go as low as $660. That equates to a 65 per cent decline, similar to the aftermath of the 1970s gold bubble.

Meanwhile, finance professor Campbell Harvey and former commodities manager Claude Erb – two very well-regarded researchers – warn gold could plunge towards $350. Their 2012 paper, The Golden Dilemma, estimated the long-term average valuation of gold – then $1,700 – was $825. An updated version of the paper cautions assets usually overshoot to the downside in bear markets rather than bottoming when they reach fair value; history indicates a $350 gold price is possible, they caution.

Now, the gold bubble of the 1970s was extreme – then, gold gained more than 2,000 per cent, compared to just over 600 per cent between 2001 and 2011. That makes NDR’s projected 65 per cent decline seem excessive, while a $350 price seems almost inconceivable. Still, it’s true that just as bull markets are not halted by overvaluation, bear markets are not stopped by undervaluation.

A downside overshoot seems likely, indicating a gold bottom is some way off yet.

Market suffering bad breadth

Apple shareholders aren’t the only investors to be concerned about the stock’s woes.

Market breadth has been deteriorating for months now, with a handful of large-cap stocks (Amazon, Google, Apple, Facebook, Gilead and Walt Disney) accounting for all the S&P 500’s 2015 gains. The big guns have been keeping the wider market afloat; if they decline, the overall index will suffer. Even before last week’s index declines, the average S&P 500 stock had actually lost ground in 2015. The Nasdaq’s 8 per cent year-to- date gain masked the fact its average stock was only up 3 per cent, while the median stock had declined. Last week, more stocks hit 52-week lows than at any time since last autumn’s correction. Almost half of S&P 500 stocks now trade below their 200-day moving average.

Bad breadth, as we’ve noted many times recently, need not spell the end of the bull market, but the ongoing technical deterioration is a growing concern.

Advisers suck at stock-picking

A new study indicates financial advisers help investors by diversifying their portfolios, reducing their bias towards local stocks, and curing them of behavioural biases (for example, the tendency to hold losing stocks and sell winning stocks). When it comes to stock-picking, however, advisers haven’t a clue.

The study, which examined the portfolios of 9,976 clients of a Swiss bank, found trades recommended by advisers did “significantly worse” than trades independently initiated by the same investor. Typically, advisers recommended risky stocks with “lottery-like payoffs”, often when the stock price was near a 52-week high. Overall, independent clients outperformed advised clients, and that’s even before trading costs are taken into account.

See http://goo.gl/eHnESj.