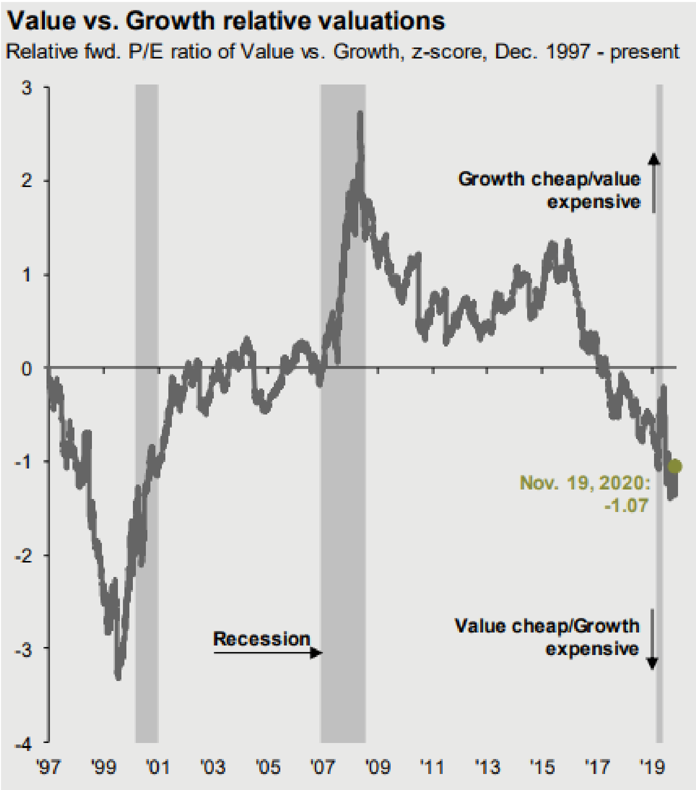
KATHREIN PRIVATBANK

Is the financial market history of „Nifty Fifty" shares repeating itself?

In the late 1960s and early 1970s, a boom of around fifty growth stocks was triggered by concerns about an excessive debt burden in the USA as a result of the Vietnam War. They were called „Nifty Fifty" („nifty" translates as „sophisticated"). The bear market in 1973/74, triggered by the collapse of the Bretton Woods system and the first oil crisis, led to the bursting of the bubble. There are exciting parallels to today, time for a little financial market history:

The investment environment in the late 1960s and early 1970s was characterized by rising inflation expectations and doubts about government bonds due to rising national debt in the wake of the Vietnam War. As a result, many investors turned to equity investments, especially to high-profit companies with very solid financial figures and a certain market dominance. The Facebook's, Amazon's, Netflix', Microsoft's, Apple's and Google's, also known as FANGMAG's, of that time are our current values, Walt Disney, Mc Donald's, Johnson & Johnson, IBM, to name a few.

Fund managers, analysts and other financial market participants at that time were of the opinion that these shares could only go up. The stability and continuously rising profits, coupled with an extremely promising future for the respective business areas would be the justification for seemingly „eternally" rising prices. Then as now, expensive valuations are and have been argued away with the high profits expected in the future. Some of these shares turned out to be very good investments indeed (like Walmart or Coca Cola), some less so. For example, at the peak of this bubble, Polaroid achieved a price-earnings ratio of over 90 (i.e. the price of the shares was 90 times the earnings per share), while the broad market had a price-earnings ratio of around 20. In 2001 the company went bankrupt. Interestingly, the companies that tended to perform better over the long term were those companies in the „Nifty Fifty" which even then had a more attractive valuation compared to the others.



In 1973/74, the bubble of growth stocks burst following the collapse of the Bretton Woods System and the first oil crisis. The belief in the unlimited rise in stock prices faded and a bear market set in. Similar to the situation in recent weeks, a so-called sector rotation took place. The „value" companies, which were heavily undervalued at the time, were able to catch up with the „growth" stocks. This trend was also evident in 2000 after the bursting of the IT bubble.

The lessons of history

Also this textbook example from the financial market history shows that you never know exactly where the world is heading and every trend can and probably will come to an end. Predicting the exact time and cause is again extremely difficult. Broad diversification is therefore the basis for every investment. „Growth companies are an important component of equity investment, but a mix of value stocks could pay off especially in uncertain times.

Source Graphic: FactSet, FTSE Russell, NBER, J.P. Morgan Asset Management. Growth is represented by the Russell 1000 Growth Index and value is represented by the Russell 1000 Value Index. Beta is calculated relative to the Russell 1000 Index. Market Guide - US data is as of

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