



When market (in)efficiency reaches its limits



A completely unknown company was able to celebrate a share price increase of over 6000 % thanks to a tweet. Are the laws of efficient financial markets suspended here?

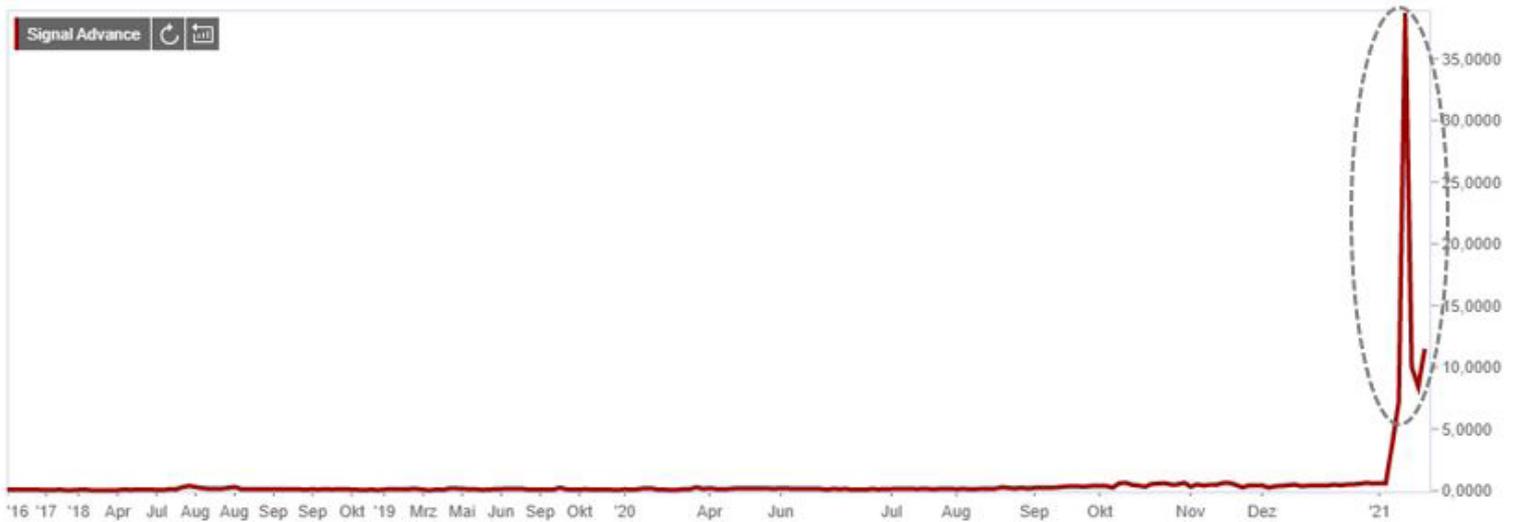
The power of the „little ones“

A closer look reveals that two factors have been decisive for the veritable share price rallies since the low in March: Small investors and the fabulous FANMAG Growth shares. The former have been responsible for up to 25 % of market movements in some cases and now account for one fifth of the daily volume moved on the stock markets.

Various online brokers have drastically reduced their fees and some have even waived them completely (at this point it should be noted



Development of the Signal Advance Stock



Source: Börse-Live, retrieved on January 15, 2021

that this is compensated for by a higher mark-up on the transactions themselves), and as a result the number of micro investors is growing immensely. The problem is that micro investors rarely use the technique of fundamental analysis and other decision indicators. The result was seen recently when the world's new richest man, Elon Musk, announced his new membership of messenger services company Signal in a tweet and his loyal following blindly invested in a company of the same name. The problem is the company has nothing in common with the eponymous messenger service except the name.

Since 2016, the share price of the US company has hardly moved above 60 cents. Within three trading days, the price then went up to 38.70 USD (an increase of 6350 %!) only to fall back below 10 USD shortly afterwards. Apparently not everyone noticed the confusion, however, as it wasn't until 14.01.2021 that price jumps of over 30 % could be observed again. The company supposedly associated with the Messenger service is so small that it is not even subject to the reporting requirements of the US Securities and Exchange Commission (SEC). In December 2019, for example, not only were there NO revenues recorded, but a respectable net loss of \$125,400. That makes a short-term valuation of over \$3.5 billion a bit much, don't you think?

A similar phenomenon was also registered in 2020 when a Chinese holding company was confused with the video communications company Zoom. Again, the share price suddenly went from 1.10 USD to over 60 USD (again, far more than 5400 %!).

We were already able to observe the influence of social media posts on the financial markets with the outgoing US President Trump. This phenomenon will also accompany us in the future. As a private investor, it is often difficult to assess situations despite or precisely because of the flood of (possibly false) information; even experts of many years' standings sometimes find it difficult. This makes rule-based investing based on company and financial market indicators all



the more important.

We think that the sector rotation from growth to value stocks that began in November will continue. The massive overvaluation is also evident in the performance of the S&P 500, because without Facebook, Apple, Amazon, Netflix, Google and Microsoft, the index would have ended 2020 36% lower.

We will show you how to exploit the potential for selected value stocks, what role sustainability plays in this and how to achieve attractive bond returns with emerging markets and foreign currencies even in times of negative interest rates in our webinar „The Kathrein Capital Market Trends 2021“ on Wednesday 20, January 2021 at 13:30 p.m.

All information on registration [can be found here >>](#)

Performance & share of FANMAG shares in the S&P 500 (by market capitalization)



Source: yardeni.com, as of 13.01.2021, calculated back to 0 since 28.12.2012 until 28.12.2020.
In red: The development of FANMAG shares (here: FAANGM).
In blue: The development of the S&P 500 Index. In green: The development of the S&P 500 Index without FANMAG shares.
FANMAG shares consist of: Facebook, Apple, Amazon, Netflix, Google and Microsoft.

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