



## The Glitch

One of the first books I read upon arriving at college was *Super Stocks* by famed investment manager Ken Fisher. While you're not supposed to judge a book by its cover, that's precisely what I did. I plucked the book from the musty shelves because the title and cover piqued my interest.

Written in the early 1980s, when computers were not yet mainstream, Fisher (who manages \$100 billion+ today) detailed the power of the price-to-sales ratio.

Until then, the price-to-earnings ratio was the most popular valuation metric. Fisher's theory was that sales are more difficult to manipulate than earnings (not true, and I wrote my own book, *What's Behind the Numbers?*, about it), and ran a series of tests that showed that high price-to-sales stocks were often bad bets.

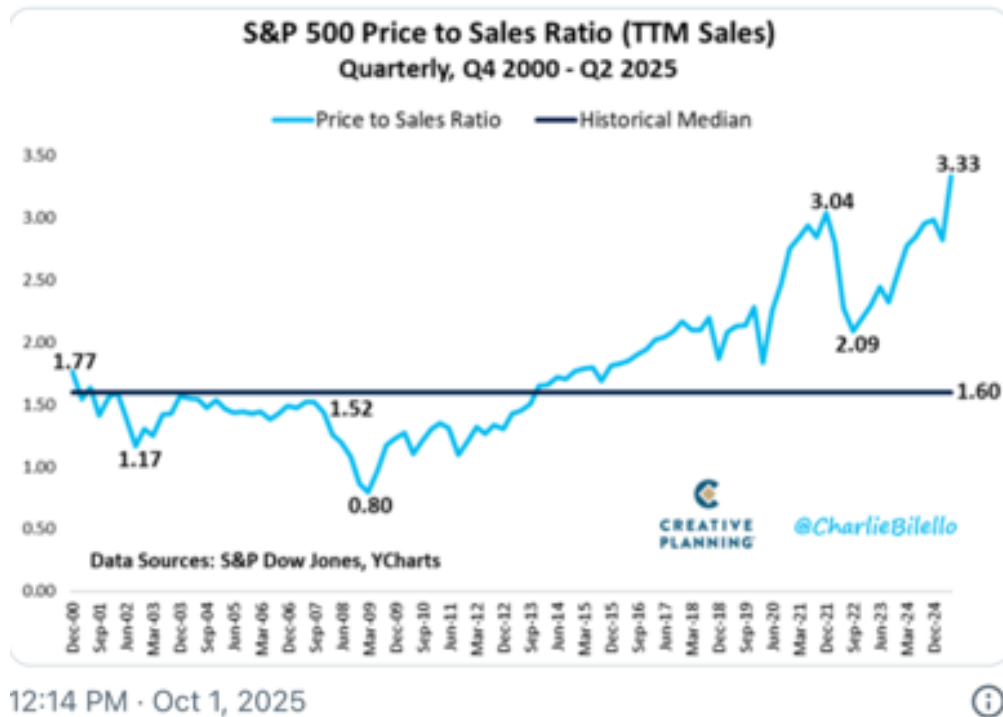
This was particularly true in the technology sector. And, when the price-to-sales ratio exceeded 3x, an investor needed to be especially cautious. At those levels, the stock was priced to perfection.

But, here's the thing. There's often a "glitch" when an asset is priced to perfection. And, as Fisher said, "the glitch is a bitch."

Usually, buying stocks at 3x price-to-sales ends in tears.

I'm reminded of the book I read over 30 years ago because of a chart I saw the other day that I thought was playing tricks on my eyes.

As the chart below shows, the *entire* S&P 500 trades at over 3x price-to-sales.



While markets change, human nature does not. 3x price-to-sales is no longer rarified air like it was back in 1983, but it's all relative.

See above.

Technology stocks regularly trade at valuations over 10x revenue. Even basic companies trade well beyond normal bounds.

And there's *always* a glitch!

We are in a period priced to perfection. We are in the "hope" stage, where market participants must hope everything goes right.

Hope is a four-letter word.

The CEO of OpenAI is talking about bubbles. Jeff Bezos is talking about bubbles. The Federal Reserve Chairman is talking about rich valuations.

The S&P 500 is top-heavy and dominated by just a few companies.

According to *Fortune*, 75% of the gains, 80% of the profits, and 90% of capital expenditures are related to AI. That's *not* a healthy market.

And it comes at a time when it converges with the spookiest statistic of all...

According to the Federal Reserve, 45% of Americans' household financial assets are in stocks, at an all-time high.

I want to do the opposite of Joe Sixpack!

Now, will there be a crash? Who knows!

What's coming could be a lot like the Dot-Com bust, where overhyped stocks get taken to the woodshed and the average stock does much better. In fact, many stocks will rally.

Just not the ones everyone is talking about.

Value stocks could do well. Small-caps could do well. The average S&P 500 stock could do well.

The top AI stocks? Not so much.

Recently, I warned about "boomerang revenue" and its similarities to the 2000-2002 period, when I lived through it daily, shorting the absurdly valued technology companies of the day.

What I see every day looks like a slow-motion train wreck.

As a result, I will not allocate new capital to the market cap-weighted S&P 500. I'll look for stocks in anything but that strategy.

History may not repeat, but it certainly rhymes! The glitch will come, and it will come from somewhere we can't even see right now. And it will end in tears for a lot of hyped stocks and speculators on margin.

Then once the pain hits a maximum level, they will be out of the game, and the markets will rally again. And we'll be there to benefit.

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