Hindsight is 2020

In 2020, many stocks were truly “partying like it’s 1999”. We need context. How large were the gains of some large cap stocks in 2020 relative to history? Curious minds wanted to know, so we created universes of 800-900 large liquid U.S. stocks for each year between 1995 and 2020. You can see in the chart to the right that over this 25 year period, the top 10 annual performers were all found during the tech bubble of 1998 and 1999.

While all four of these stocks have been category killers / disruptors, history would suggest that the only other stocks that went up as much as they did in one year, performed very poorly over the subsequent five years. To the right, the current TPMZ (Tesla, Peloton, Moderna, Zoom) Quartet’s 2020 performance is overlaid on the performance of the top 10 tech bubble stocks. If the pattern continues, they may have a few more months to go, but only time will tell.

Another example of extreme price performance due to speculation is seen in the first day returns of Initial Public Offerings (IPOs), which are their highest since the technology bubble of 1999-2000 as shown to the right.

So while history never repeats, it often rhymes and we would caution investors about holding positions in the very popular stocks like Tesla, Peloton, Moderna, and Zoom that have very strong one year stock price momentum, the likes of which we have not seen in a large cap universe since 1999.

Sources: S&P Compustat, FactSet, Jay Ritter-University of Florida