21 March 2024

VF Invest

Nasdaq-100-ETF: We are buying the next tranche

On April 5th of last year, we decided to sell the stock of Cognizant Technologies from our Long-Term Portfolio and instead invest in an ETF tracking the Nasdaq-100. As of now, this decision has proven to be both correct and profitable for the LTP. Since then, Cognizant has gained approximately 24 percent in value, while the Nasdaq-100 has risen nearly 40 percent. Additionally, the index has outperformed half of the Magnificent 7 in terms of performance, with Apple and Tesla underperforming, and Alphabet performing similarly.

What Can the Nasdaq-100 Do? A brief look at the reasons for the investment: The expansion of digital infrastructure, artificial intelligence in all its forms, machine learning, augmented reality, and other related technologies have the potential to trigger new megatrends that go beyond the current hype surrounding ChatGPT. Goldman Sachs forecasts a medium-term additional potential of around $7 trillion, while others estimate it could be as high as $30 trillion or more. These are sums that exceed the current Gross Domestic Product of the USA. Despite ongoing analysis, I cannot confidently present the winners of tomorrow, as we cannot reliably predict either the speed or the scale of these developments. What seems certain, however, is that those who currently have equity and cash flow to finance this research are in the right place at the right time, especially as growth financed by credit becomes less attractive with rising interest rates. Thus, the expected beneficiaries will likely be the mega-caps, such as Apple, Microsoft, Alphabet, Amazon, Nvidia, and Meta.

Are Tech Stocks Overvalued? The high-weighted companies in the Nasdaq-100 are often at the forefront of technological development and benefit from significant network effects, strong market positions, and substantial cash flow generated by their diversified business models. While high valuations might prompt caution among some investors, it is crucial to consider the broader context in which these companies operate. The digital transformation is accelerating, and not only the "Magnificent 7" are well-positioned to benefit from this trend. Additionally, these companies have demonstrated resilience against economic turbulence, providing an extra layer of security. Given their strong balance sheets, innovative potential, and leading positions in key sectors, the high valuations of the "Magnificent 7" stocks can be viewed as a reflection of their future growth prospects and their role in shaping the global economy.

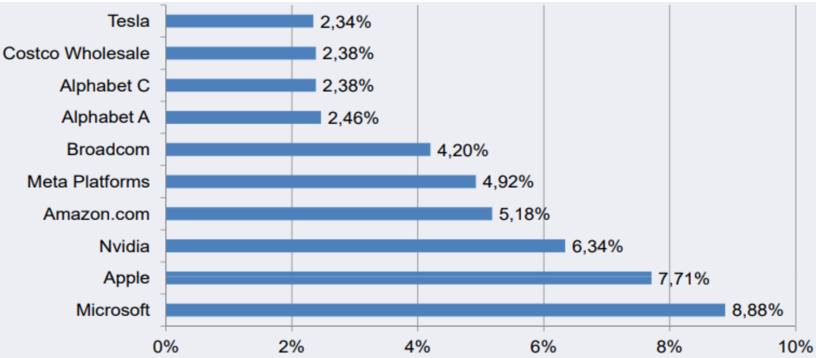
Why Diversify at All? Given the impressive growth of these mega-corporations over more than a decade, it might be tempting to invest exclusively in these stocks, especially since they have performed well even during short-term corrections. Value stocks, on the other hand, have often suffered more during such phases. However, disregarding the principles of diversification would be an imprudent speculation. The greatest risk arises when an investment is considered "virtually untouchable" or even "unbeatable." Diversification remains a crucial strategy to manage risk and ensure a balanced portfolio, even in the face of high-performing stocks.

The Stock Market Moves in Cycles Even though recent years have seemingly set some rules aside, the stock market will always operate in cycles over the long term. Imagine an unforeseen event causes a period of double-digit inflation—commodity stocks would likely perform better than tech stocks in such an environment, and utilities and insurers would also stabilize. Alternatively, a data breach, cyberattack, surveillance scandal, AI mishap, or any similar event could lead to a significant shift in public

Nasdaq-100-ETF

sentiment towards the enormous power of mega-corporations. Even a single event could prompt a strong call for regulation and influence election outcomes. Consider the aftermath of the Fukushima disaster, which led to widespread political shifts with many Western countries moving away from nuclear energy in response, despite how the issue is viewed today. These scenarios may seem more plausible to some than to others, but they are certainly not inconceivable.

Nasdaq-100: Big Tech is Dominating



Buy-Order

ISIN	US46138G6492 IE00BMFKG444
Transaction	Buy
Exchange	Nasdaq / LSE or others
Quantity	5/23
Current Price	$184.04 / 33.07 GBP
Buy-Limit	$184.50 / 33.50 GBP

Nasdaq-100 in USD (10 years)

Our conclusion: The long-term prospects for tech stocks across many sectors remain bright, and with the Nasdaq-100 as our benchmark, we address multiple opportunities with a single investment. Therefore, we are eager to increase our allocation in the LTP and are purchasing an additional tranche.