

Did FAANG stocks take a bite out of your portfolio?

Portfolio Perspectives

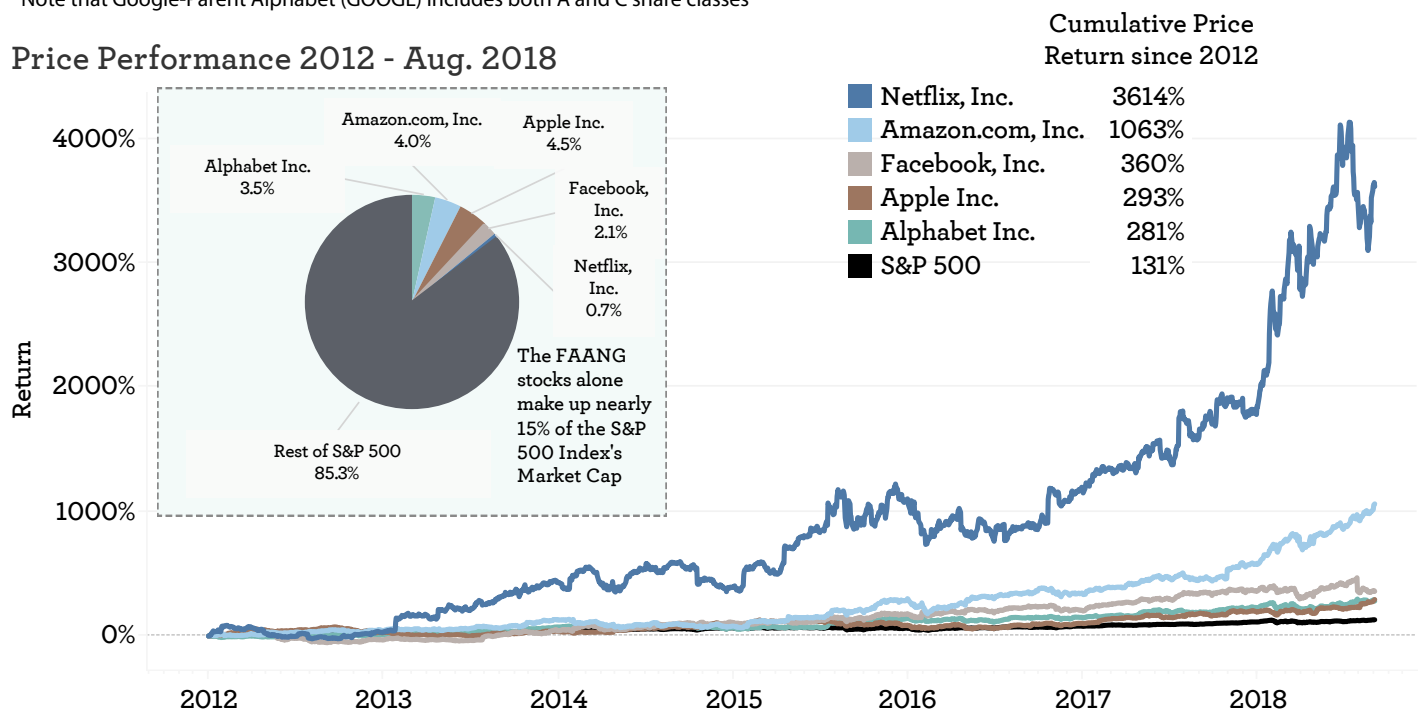
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So far, 2018 has been a remarkable (albeit volatile) year for the markets. The S&P 500 posted an 8.5% price return in the first eight months of the year. As is often the case, the performance of the companies that make up the index is wildly divergent. Certainly that has been the case thus far in 2018 as the FAANG stocks made up a large portion of the S&P 500's performance. [FAANG is a popular industry acronym that describes a cohort of companies that includes Facebook (FB), Amazon (AMZN), Apple (AAPL), Netflix (NFLX) and Google-parent Alphabet (GOOGL*)]. While we may be familiar with the FAANG companies' products and services, we should also understand how they may be impacting portfolio performance.

* Note that Google-Parent Alphabet (GOOGL) includes both A and C share classes

Price Performance 2012 - Aug. 2018



Source: FactSet data as of 8/31/18. Past performance is no guarantee of future results

FAANG by the numbers

Because of their aggregate market capitalization and resulting weight in the S&P 500 index, the FAANG stocks can have a material impact on index and portfolio performance. Removing the FAANG stocks from the index and allocating their weight to cash would result in an S&P 500 total return about 7.1% lower, meaning the S&P 500's total return would have been around 2.9%.

In fact, together the FAANG stocks' current weight of 14.7% in the S&P 500 is greater than 10 of the 11 S&P sectors. Apple's weight of 4.5% is greater than 4 of the 11 sectors (Materials, Real Estate, Telecom and Utilities). The bottom line is that if your portfolio did not contain the FAANG stocks in the same proportion as the indices, your performance was likely different.

3.5 billion Searches performed by Google daily¹

1.3 billion Daily active users on Facebook²

1 billion Apple iPhones sold in the last 5 years³

633 million Combined views for the top ten videos on Alphabet's YouTube⁴

471 million Viewers for the top ten traditional TV broadcasts according to AdWeek

111 million Viewers for the 2016 Super Bowl compared to the top YouTube video with more than 181 million views⁵

600 Orders per second processed by Amazon on Prime Day⁶

91 Emmy nominations for Netflix original content⁷

37% E-commerce market share held by Amazon⁸

35% Amount of internet capacity used by Netflix content in 2016⁹

Notable Quotes

The leaders of the FAANG firms are trailblazers in their fields. Their CEOs have achieved celebrity-status and have great influence in the tech sector.



"Facebook was not originally created to be a company. It was built to accomplish a social mission - to make the world more open and connected." - Mark Zuckerberg (Founder, CEO Facebook)



"We've had three big ideas at Amazon that we've stuck with for 18 years, and they're the reason we're successful: Put the customer first, invent, and be patient." - Jeff Bezos (CEO, Amazon.com)



"If the Starbucks secret is a smile when you get your latte... ours is that the Website adapts to the individual's taste." - Reed Hastings (CEO, Netflix)



"Design is a funny word. Some people think design means how it looks. But of course, if you dig deeper, it's how it works." - Steve Jobs (Former CEO, Apple)



"We want to build technology that everybody loves using, and that affects everyone. We want to create beautiful, intuitive services and technologies that are so incredibly useful that people use them twice a day. Like they use a toothbrush. There aren't that many things that people use twice a day." - Larry Page (CEO, Alphabet)

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S&P 500 Index: The S&P 500 Index consists of 500 stocks chosen for market size, liquidity and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.

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