- *But we likely have entered an important regulatory inflection point*
- *The steady ride higher for FANG may now be bumpy and more difficult for investors to navigate*
- *Valuations may continue to contract•as margins are compressed and ambitious consensus secular growth forecasts are reduced*
- *I would avoid Twitter (TWTR) , FANG and most other social media stocks in this changing backdrop*

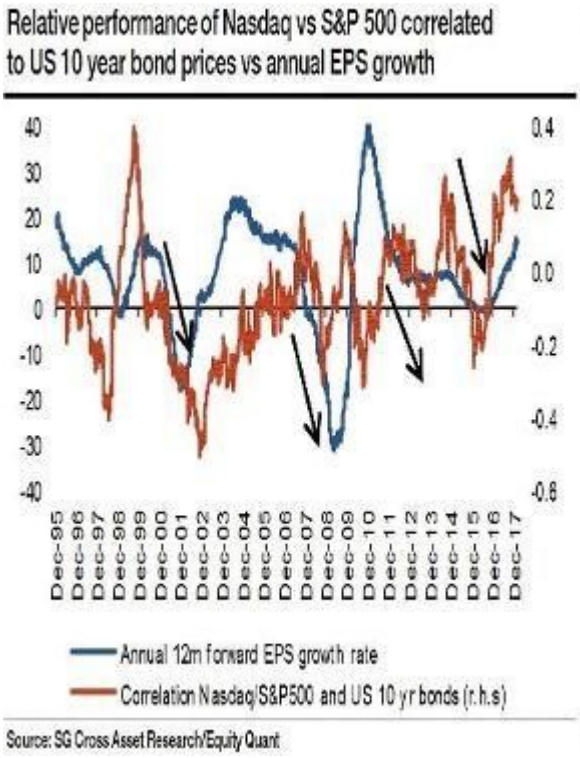
Technology (and more specifically social media stocks (e.g., Twitter) and some of FANG) have become the foundation of the post 1980 American economy. Data is everywhere, and an increasingly flat and interconnected world means that social media companies must take on more responsibility for protecting the proliferation of personal data. **As I have repeatedly pointed out over the last six months, social media's technological achievements and progress have**

outsped regulatory supervision and oversight. This in turn, as highlighted by disclosures at Facebook (FB) •[e.g. with•Cambridge Analytica•and others, have potentially jeopardized the trust of users - a fundamental and necessary ingredient to future corporate success (measured in engagement)]. Government reactions have already surfaced, in the recent EU moves (implementing digital taxes•and in EU fines of Alphabet's•Google (GOOGL) •and in the surfacing of US 2016 election issues.•Now US trade policy (using tariffs as a tactical tool) raise the issue of more push back on technology companies from foreign actors. While I do not think the emergence of the Facebook problem is anywhere insurmountable for the company (and I am long a trading position in FB), recent developments will likely accelerate regulatory oversight for the powerful social media industry. With this will come pressures forcing these companies to operate differently. With the need to protect data much more rigorously in the future than in the past -- much higher costs of operations (leading to some contraction in profit margins) -- seems virtually inevitable. And so may a continued decline in social media price earnings multiples be more likely. Even before the recent discoveries, eight days ago I questioned, "*What Is Mr. Market Thinking... About Technology?"* - the large weightings of the group were at levels symptomatic of an historical top :

> *"The question is will the techs be challenged, too? I keep thinking about two things, the first is the theft of intellectual property that hasn't yet been addressed by the administration and, second, is the hold up over the NXP (NXPI) •deal by the Chinese regulatory authorities. I think that we got through the gauntlet just fine last week with the tariff signing and the employment number but that too many people at the end of the week seemed to be smug enough to believe that somehow the pressure is off and that this is all about a couple of old industries. That's a mistake. The theft of intellectual property can be challenged by a Section 301 challenge directly from the trade representative and I think the Chinese are going to come under this section quickly. Why is this so negative? We know that tech's been the leader by far. We know that the President probably feels emboldened to roll on this. We know that the "defense" gambit seems to have worked. To me that means that tech could be next. Not now. Not this week. But soon."*• Jim "El Capitan" Cramer, *Will The Techs Be Challenged, Too?*

As seen in the above excerpt, Jim "El Capitan" Cramer presents an objective, balanced and thoughtful opener this morning, in which he questions the possible future vulnerability of the tech space. Societe Generale, in "*What Are You Thinking? Does Nasdaq's Surge Point to a Last Hoorah for Equities"* could help us in diving an answer - or at least give us some historical perspective and serve as a good addendum to Jim's thought piece:

> *"Firstly, as longer duration assets (i.e., currently expensive but with high expectations of future growth) and supposedly less cyclical, the Nasdaq usually outperforms the S&P 500 when bond yields are declining. This correlation does move around but tends to peak just before S&P 500 EPS growth slows down. Hence a strong rally in the Nasdaq is often perceived as a 'last hoorah' for equities. That the Nasdaq has rallied strongly since the slump then perhaps reflects still bullish spirits in the US equity market but continuing anxiety over the fate of the economic cycle? We are not huge fans of market cap to GDP ratios as you are often comparing an international stock market to an individual country's economic size. Notwithstanding such issues, it is worth reflecting on the size of the Nasdaq relative to the GNP of the US economy. At the peak of the TMT bubble, the Nasdaq represented 33% of the US economy. Today it stands at over 40% after a 20% surge in market cap over the last six months. To expect such a big part of the economy to grow so quickly in the absence of a very rapid acceleration in global GDP is, in our view, clearly a fallacy of composition, and with the likes of Facebook and Netflix valued at over 10x sales, we are reminded of the quote from Sun Microsystems Co-founder **Scott McNealy** in the aftermath of the Tech crash; to paraphrase "What are*



Just 5 stocks account for over 50% of the entire NDX rally since the 02/09/18 low: MSFT, AMZN, NETFLIX, INTC, and AAPL•,•as the acronym implies: it is a "MANIA**Prior to this week's drubbing five Nasdaq stocks (MSFT, AAPL, NFLX, INTC and AMZN) accounted for over 50% of the entire NDX rally since 02.09.2018. Move over "FANG," say hello to "MANIA"?** Since then, in the last few weeks, technology stocks have taken a beating. My article above followed a steady stream of• columns in my Diary that addressed the existential regulatory risks to Facebook, Amazon and Google - which may now come to the forefront.

- * **Sell the FANGs, Part IV**
- * **Existential Threats**
- * **Sell the FANGs, Part III**
- * **Sell the FANGS, Part II**
- * **All Good Things Must Come to an End, Even for Amazon**
- * **Sell Netflix, Don't Short Netflix**

Here are my current views and game plans for each of the four FANG components:

- ***Facebook:*** *I see more government intervention and regulation ahead.* ***Recommendation:*** *A trading opportunity might be developing, but avoid intermediate term (See upcoming column).*
- ***Amazon****'s growth plans might be stifled going forward by government regulation. Political and antitrust forces represent an existential threat to the company's horizontal and vertical expansion plans. Click here to see more of my views.* ***Recommendation: Short on an investment and trading basis.***
- ***Netflix (NFLX):*** *I would avoid NFLX, but high short interest precludes selling it short. Remember, Adam Sandler will eat before Netflix shareholders do.* ***Recommendation: Avoid/Sell.***
- ***Alphabet/Google:*** *Alphabet's dominance in the search-engine space, coupled with consumer reliance on Google, leaves the company vulnerable to government interference. I'm negative on the stock, but not short.* ***Recommendation: Avoid.***

Bottom Line

Advancements in social media technology has far outsped regulatory supervision and oversight. While Facebook, Google and Amazon are now "too big too fail," the existential regulatory risk that I have been writing about since last year is now less of a potential threat and is likely to be more of a kinetic and current threat. Social media companies will now be forced to comply with greater regulatory supervision in the overall protection of their users' personal data. While the companies' business models are generally in tact, profitability assumptions are now at risk and valuations are likely to continue to contract. I would avoid Twitter, most of FANG and many other social media stocks in this changing backdrop of regulatory oversight.