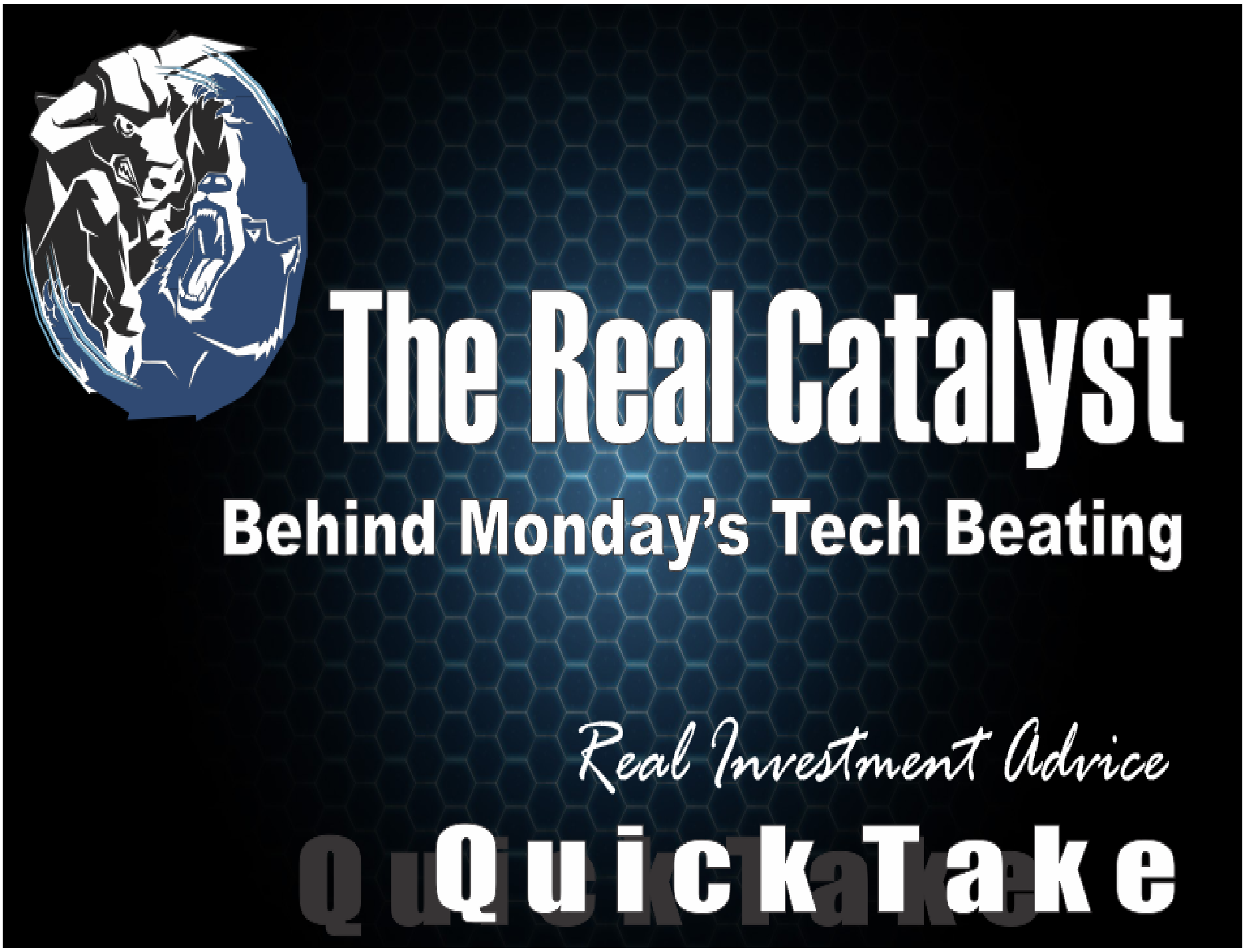

Following Monday?s 2.75% rout of the technology-laden Nasdaq index, the lead story in the Washington Post print edition was entitled *?Tech stocks take a beating.?* The sub-headline which caught our attention read as follows:

> *?Trade, regulatory threats hurt sector, experts say.?*

The article puts the blame for Monday?s loss, as well as the 10% retreat from recent highs, on verbal attacks by the Trump administration on Amazon as well as his ?bellicose talk? on trade and concerns for how China might react. While true in part, in their efforts to frame a catchy narrative, the media is missing the real story. In the name of superficial expedience, the article fails to attribute any blame to valuations for the market as a whole or the companies mentioned in the article, including Amazon (which happens to own The Washington Post), Facebook, and Tesla. Over the last five years, these stocks have risen sharply, well beyond what their earnings would reasonably imply. Simply put, they are priced at levels that go well beyond assuming perfection in executing their business plans. At current valuations, investors have confused Disney World with reality, allowing no contingencies for a recession or a retreat in the broader equity markets. Owning over-valued companies on the basis of unreasonable real-world assumptions is not investing, it is speculating and brings with it the attendant risks. **The real lead is that the market is perched at unprecedented valuations and as such is uniquely vulnerable to sharp declines.** In conjunction with unjustifiably high prices, the soaring tech sector has been hit with a variety of unfavorable news over the past few weeks. Facebook has a data scandal on its hands, Tesla is burning cash and may soon run out of money, President Trump has criticized Amazon in a variety of twitter comments, and Apple just announced that they would stop using Intel for computer chips in 2020. On top of corporate specific issues, a possible trade war with inflationary and negative economic implications is heating up. **Lofty valuations, and not media selected headlines, are the primary catalyst which will be most responsible for the next market drawdown.** What is known and largely unreported by the mainstream media is that the historical study of high valuations, like those observed today, leads to the high probability conclusion of poor future returns. **Unfortunately, such bearish talk does not sell newspapers.** With this in mind, investors would be well-served to assess market gyrations for what they really are or risk finding themselves in a very expensive version of ***Disney World?s Country Bears Jamboree.***