Tech stocks' Reality Bites moment has arrived

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his time last year, it was reported 90% of 627 market professionals polled agreed the stock market was a bubble set to pop.

Unsurprisingly, a year later, an increasing number of market big dogs are calling the current correction as the curtain-raiser to a more chaotic market collapse.

The Nasdaq has given up all its gains since June 2021. The Dow and S&P 500 haven't declined quite so dramatically, but if squint your eyes tightly enough and draw some random chartist lines, it looks as if both have been range bound over the last quarter. These "facts" maybe tell us two things.

First, tech stocks have declined more because they were overvalued relative to everything else, and the stock market has found its top. Has it passed it? And, has it further to fall? That depends on how the market's voting mechanism reacts to sentiment as determined by relative value, monetary tightening, and news flow.

Second, with further rises in bond yields widely expected across the market, the underlying tone looks fractious.

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This week, the market is going to stay focused on tech. Tesla, Apple and Microsoft are headlining a clutch of reporting stocks, and the big names are likely to post stunning successes. This year, Apple is 8% down but could post a record $31 billion profit on Thursday. Microsoft is down 13% yet is expected to post $17 billion, and Tesla?

Hey, numbers don't really matter with Tesla, but Elon Musk's company is expected to post a record $2.3 billion profit, while the stock is down 21% this year. Tesla's success has a quality all of its own. Largely, because Tesla is so massively overvalued by every single metric ever invented by stock analysts!

I reckon it's now a decent car company with a leadership position in electric vehicles, but facing a future of major battery cost inflation and competition. Perhaps a $85 billion market cap might be more appropriate than its current market cap of $950 billion! It's more than 10 times overvalued!

Paradoxically the reporting successes of the big tech names could cause the market to diverge further: widening the reality gap between successful, profitable firms with clear market dominance against those who've traded profits for size yet still face overwhelming competitive pressures. Buy companies that took time to build a competitive moat and scale.

The bubble pops when a collapse in weak stocks spreads as a contagion to strong stocks, which seems to be happening when the single most profitable firms in the history of capitalism are tumbling at the same rate as no-hopers (Discount Tesla from that statement.)

Reality crushed Peloton and Netflix last week. Both suffer from being stocks seen to benefit from pandemic. As it ends, their advantage withers. Both are in highly competitive sectors which are evolving at speed. Both will struggle to add new subscribers as the pandemic ends, inflation eats into discretionary spending and new ways of doing what they did better and cheaper emerge. They are stuck in evolutionary dead-ends.

Peloton has one of its activist investors wanting to sack the CEO and sell the company. The stock crashed after reports it has stopped production as post-pandemic orders dried up. It is taking "*significant actions to improve our profitability outlook and optimise our costs*", which is the corporate equivalent of telling your loved ones it's a terminal diagnosis.

What's going to cause the tech bubble to burst, like the 2000 dot.com bubble, is similar *reality bites moments* across all the improbable, fantastical tech company aspirations we've seen in IPOs and SPACs.