

An Update of the Technology/Financial Post Bubble Charts

Back in October of last year, we made the first of several comparisons between the performance of the Technology sector following the bursting of the dot com bubble and the Financials following the bursting of the real estate/credit bubble. In the case of the Technology sector, we noted that once the momentum of the initial rally off the bear market lows faded in January 2004, the sector ran out of steam and traded in a sideways range without breaking out of that range until November 2006. Based on this pattern and other historical post bubble patterns, we argued that the Financials were in store for their own period of lackluster returns.

The similarities between Technology then and the Financials now continue to grow as time goes on. Faced with a glut of capacity in the sector earlier this decade, the Technology sector was stuck in a sideways range as the excess capacity had to be worked off. Likewise, today the Financial sector continues to deal with its own excess capacity issues. Lately, it seems as though there isn't a day that goes by where some large bank isn't announcing layoffs.

Amazingly, looking at an updated comparison of the two sectors in their post-bubble environments shows that four years and ten months after the sector's peak in February 2007, the S&P 500 Financials sector is down 67%. In the same amount of time after the Technology sector's March 2000 peak, that sector was down 68% from its peak!

Looking on the bright side, although the sector is still dealing with its own over-capacity issues, if the parallel between the two sectors in their post bubble environments were to continue in the months ahead, it would imply a rally of about 9% for the sector in 2012. Based on the near universal bearish sentiment towards the sector, that is a gain that most investors are probably not expecting.

