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INVEST WITH CONFIDENCE

THAT'S NOT A BUBBLE

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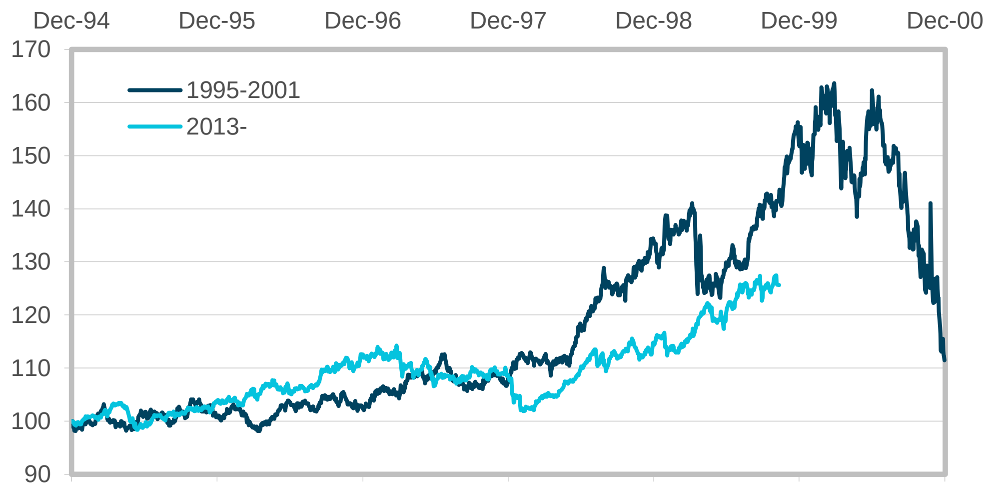
I recently stumbled upon this chart and I thought it worth sharing (partly because I get to roll out a Crocodile Dundee quote again; it won't be long until no-one recognises this classic film as a cultural reference, so I need to keep using it before hanging my head in sorrow as it and I become obsolete).

US GROWTH/VALUE PRICE



Source: City Research, Russell

The chart compares the rise and fall of the 1990s growth/technology, media and communications (TMT) sector bubble with today's era of strong growth stock outperformance. Two things strike me.

First, the last raging spike of euphoric outperformance of growth in late 1999 has not been repeated in this cycle. The 'last and extreme bubble' is a risk we've warned of already, but it's not happened, which is a good thing because those types of late bubble surges end badly (Tulips, Bitcoins, 1980s Japan, etc). So long as growth companies are delivering fundamental growth (sales, profits and cash) at a stable or accelerating rate at a non-extreme share price, then we feel the assets/stocks we own can help us generate returns and outperformance. We still feel that's the case in our global growth strategies, but we're being active when we see extreme valuation or fundamental risks (deceleration and disappointment) emerge.

Second, you need to put the chart in the context of where the internet and the foundation of technology is today versus where it was in the 1990s (whether you're a value, core or growth investor). Companies can make profits and cash from the internet and technology today because we've come a long way in terms of infrastructure and user growth, and those users are directing dollars, pounds, euros and renminbi towards the internet. Companies are also directing investment towards technology, because there's a risk they'll become obsolete as competitors innovate faster and erode their 'edge'. (Note to self: find quotes from films made after 1990.)

The point is that the fundamentals of this growth rally are stronger than they were in the 90s. We're not saying all growth stocks are investible, nor that there aren't pockets of the growth market that will see extreme valuations or failed business models. What we do believe, however, is that there isn't clear evidence of a broad-based bubble, as many chart-driven strategists would have you believe.

We believe we're still in a good place for global growth investing. Our analysts are finding strong growth opportunities based on their forward-looking research and insights of change.

We must put this confidence in the same context of the 1990s. Our engrained emphasis on forward-looking research kept T. Rowe Price and our clients' investments out of the worst excesses of the TMT bubble. We couldn't see technology-driven change coming through at grassroots level in a way that would have delivered the required earnings to meet companies' increasingly outrageous valuations, so we avoided them.

'This time' will always invariably be different because of the constant evolution of society, technology, globalisation, etc. But there are always similarities – sometimes many, sometimes just a few. Our job is to figure out how much overlap there is and pick stocks accordingly.

Anyway, that's not a knife; this is a knife. Still brilliant.

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