THE NIFTY FIFTY: THE TRUE STORY BEHIND THE INFAMOUS STOCK MARKET BUBBLE

Simon Pryke, Partner & CEO, Findlay Park Partners

Webinar

Wednesday, 14 July 2021, 15:00 BST

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A Word From Today's Chairman

Professor Michael Mainelli

Executive Chairman

Z/Yen Group

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Today's Agenda

FS Club

- 15:00 – 15:05   Chairman's Introduction
- 15:05 – 15:25 Keynote Presentation – Simon Pryke
- 15:25 – 15:45   Question & Answer

Today's Speaker

Simon Pryke

Partner & CEO

Findlay Park Partners

The Nifty Fifty: the true story behind the infamous stock market bubble

Joseph von Zanten

The Nifty Fifty is a popular topic today…

Compared to ‘Mega Cap,’ ‘FANG,’ or ‘FAAMG’ stocks

Vitaliy Katsenelson's Contrarian Edge

Opinion: Why Facebook, Amazon, Apple and other highfliers now look a lot like the ‘Nifty Fifty’ bubble stocks of the 1970s

Published: June 22, 2020 at 4:39 p.m. ET

TRADING NATION

Lessons from the ‘Nifty Fifty’ in the 1970s could be applied to the FANG trade today

PUBLISHED WED, NOV 28 2018·2:27 PM EST | UPDATED WED, NOV 28 2018·6:04 PM EST

Keris Lahiff
@KERISALISON

SHARE

Source: Stewart Investors, May 2018

…but with some disagreement about the moral

‘It is by no means obvious that the Nifty Fifty was materially overvalued, even at its peak.’

Lindsell Train, December 2012

LINDSELL TRAIN

A New Nifty Fifty? Bring It On!

‘There’s absolutely no doubt that if you held on to quite a lot of the Nifty Fifty, you did pretty well.’

Terry Smith, November 2016

Fundsmith

Were the Nifty Fifty overvalued?

What was the 'Nifty Fifty'?

- 'Stocks offering superior earnings growth'
- Carrying high price-earnings multiples
- Ardently supported by major banks' portfolio managers

Market Place: A Glance Back At 'Nifty Fifty'

By ROBERT METZ

Source: *New York Times*, 27th December 1973

Other sobriquets included

‘Favorite Fifty’

‘Favored Fifty’

‘One decision stocks’

‘Superstocks’

‘Religion stocks’

‘Vestal Virgins’

‘Le Supplice d’une vestale,’ Jacques Gamelin, 1798, Musée des Beaux-Arts d'Orléans

No ‘official’ list, like the S&P 500, but…

The Nifty Fifty were intimately associated with the **Morgan Guaranty Trust Company:**

JPMorgan Chase & Co.

- single biggest investor globally
- owned ~2% of all US stocks
- equal to 50+% of entire mutual fund industry

Moves followed closely by rest of the market

Morgan Guaranty's 'Favorite Fifty'

JOHNSON & JOHNSON	PFIZER	SCHLUMBERGER	A M P INC	LOUISIANA LAND & EXPLORATION
IBM	3M	BAXTER INTERNATIONAL	I T T	K MART
PROCTER & GAMBLE	BRISTOL MYERS	GILLETTE CO	INTERNATIONAL FLAVORS & FRAGRANCES	M G I C INVESTMENT
PHILIP MORRIS	ELI LILLY	ANHEUSER BUSCH COS	UPJOHN	REVLON
GENERAL ELECTRIC	TEXAS INSTRUMENTS	SCHERING-PLOUGH	LUBRIZOL	HEUBLEIN
COCA COLA	AMERICAN EXPRESS	CITICORP	AVON PRODUCTS	POLAROID
MERCK & CO	DOW CHEMICAL	HALLIBURTON COMPANY	BLACK & DECKER	SIMPLICITY PATTERNS
PEPSICO	SEARS, ROEBUCK	JC PENNEY CO	AMERICAN HOSPITAL SUPPLY	EMERY AIR FREIGHT
WALT DISNEY	A H P	SQUIBB	CHESEBROUGH PONDS	JOSEPH SCHLITZ BREWING
MCDONALD'S	EASTMAN KODAK	BURROUGHS	XEROX	DIGITAL EQUIPMENT CORP

Carl E. Hathaway – Nifty Fifty champion

‘The greater fool in growth stocks isn’t the one who buys them but the one who sells them.’

– Carl E. Hathaway, Senior Vice President at Morgan Guaranty, March 1973

Source: *Wall Street Journal*, 2nd March 1973

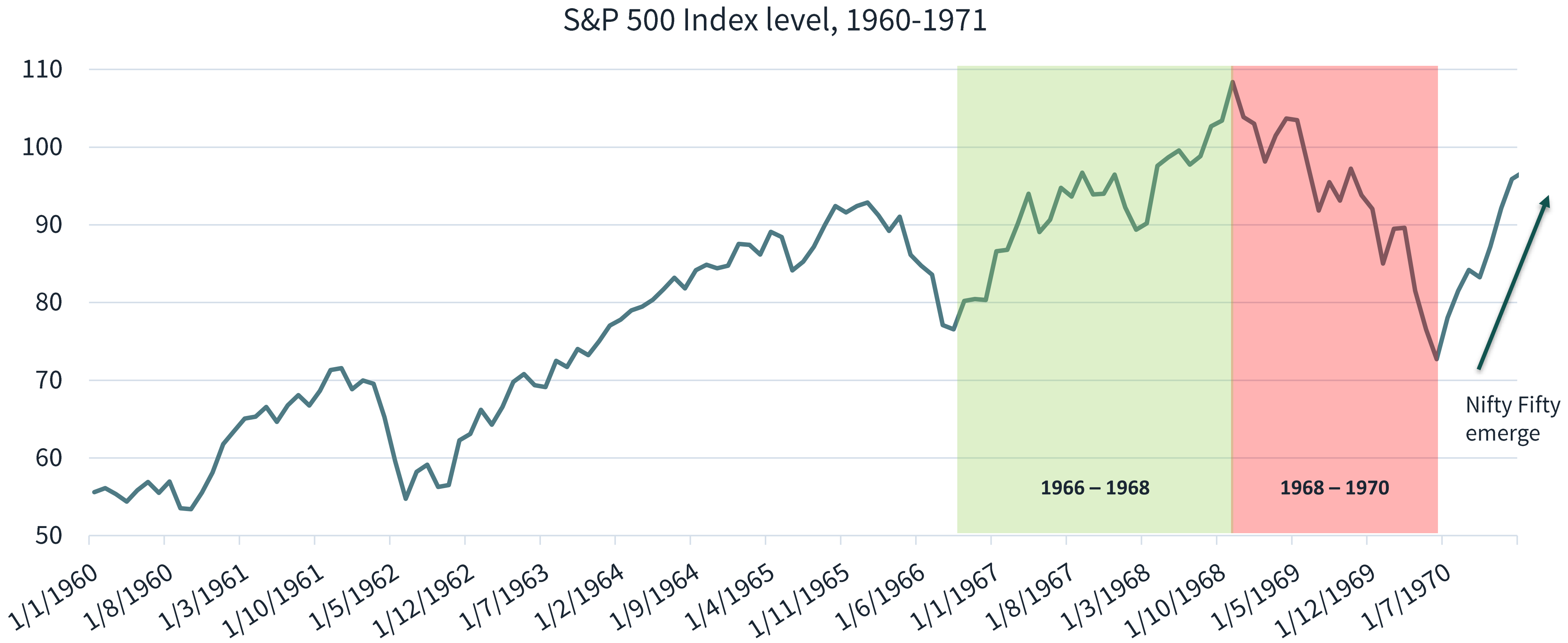
‘The Favourite Fifty are relatively easy’

In 1974, Hathaway’s boss proudly remarked to journalists that there was space for fifty analysts, leading one visitor to quip ‘One analyst for each stock?’

‘The Favorite Fifty are relatively easy,’ the Morgan banker went on to say.

Morgan Guaranty Trust investment department, West 57th Street New York City, 1974
Source: *New York Times*, 30 June 1974.

Where did these stocks come from?



Morgan's philosophy: focus on older, seasoned companies…

- Seeking 'long-run investment results … not current yield.'
- Looking for 'recession-proof' companies – those able to maintain growth in earnings and dividends even during downturns
- Crucially: focused on for **companies that survived the 1968-1970 bear market 'relatively unscathed'**

Morgan claimed no need to ever sell, due to US$1bn per year inflows

Money comes in constantly and thus volatile securities need not be sold to pay out benefits. Holdings are long-term as a result—portfolio turnover for the bank at 11½ per cent in 1972 was even lower than the turnover rate of 20 per cent for individual investors.

New York Times, 15th November 1973

Morgan followed by competitors and other investors...

Even retail investors get in on the action

- In February 1973, City Bank creates an exchange-traded fund to allow retail investors to join in

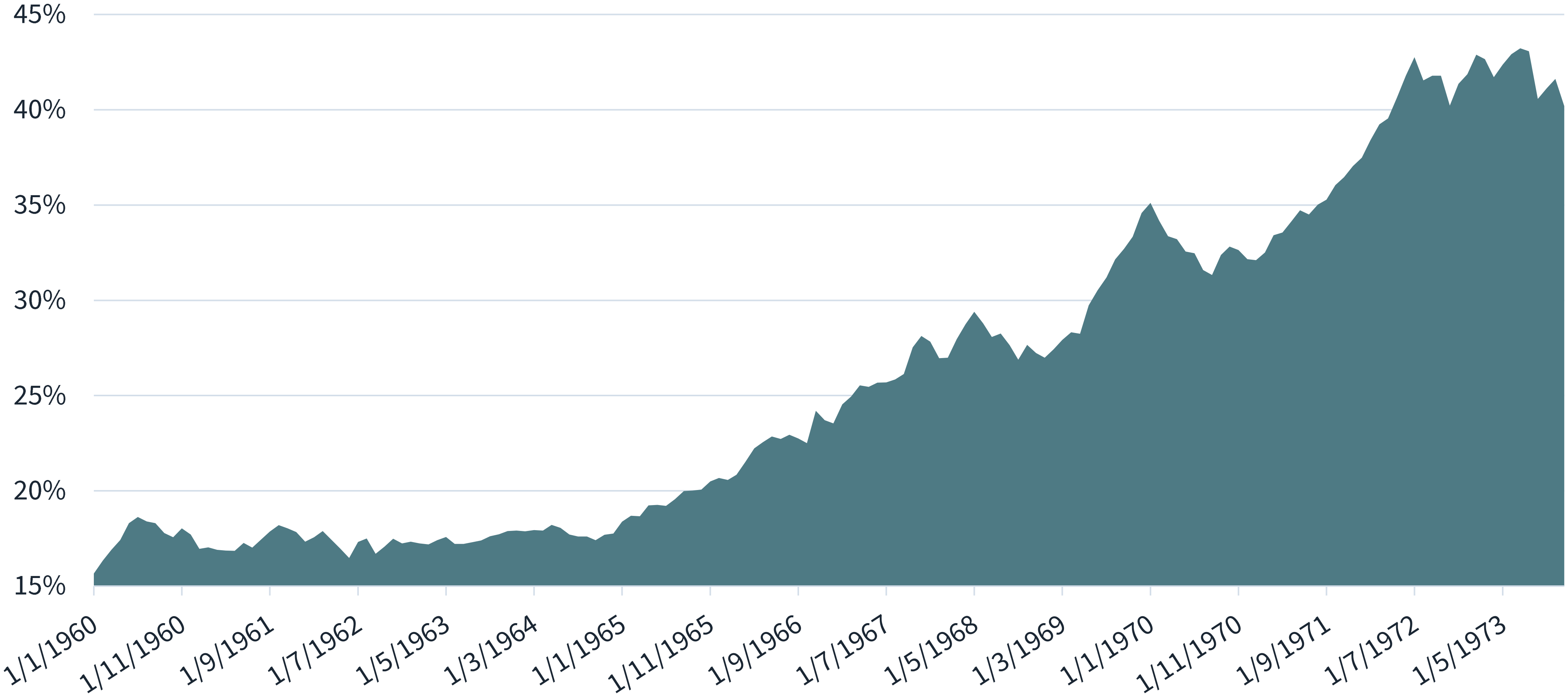
- Aimed to raise $100 million by selling 6.7 million shares

There was yet a third way to become involved. Or Feb. 22, the First National City Bank marketed a new closed-end investment company called the Advance Investors Corporation, which mirrored the nifty fifty holdings of the major banks.

Source: *New York Times*, 27 December 1973

Momentum builds

Nifty Fifty market cap as percentage of S&P 500 market cap, 1960-1973



Source: Calculated by author from data in CRSP

VALUE LINE GEOMETRIC INDEX, 1M, NYSE
Vol: The data vendor doesn't provide volume data for this symbol.
Non-Nifty stocks in decline...
USD
190.00
180.00
170.00
160.00
150.00
140.00
130.00
120.00
110.00
100.00
90.00
80.00
71.38
60.00
50.00
40.00
Feb
1969
Jul
1970
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1971
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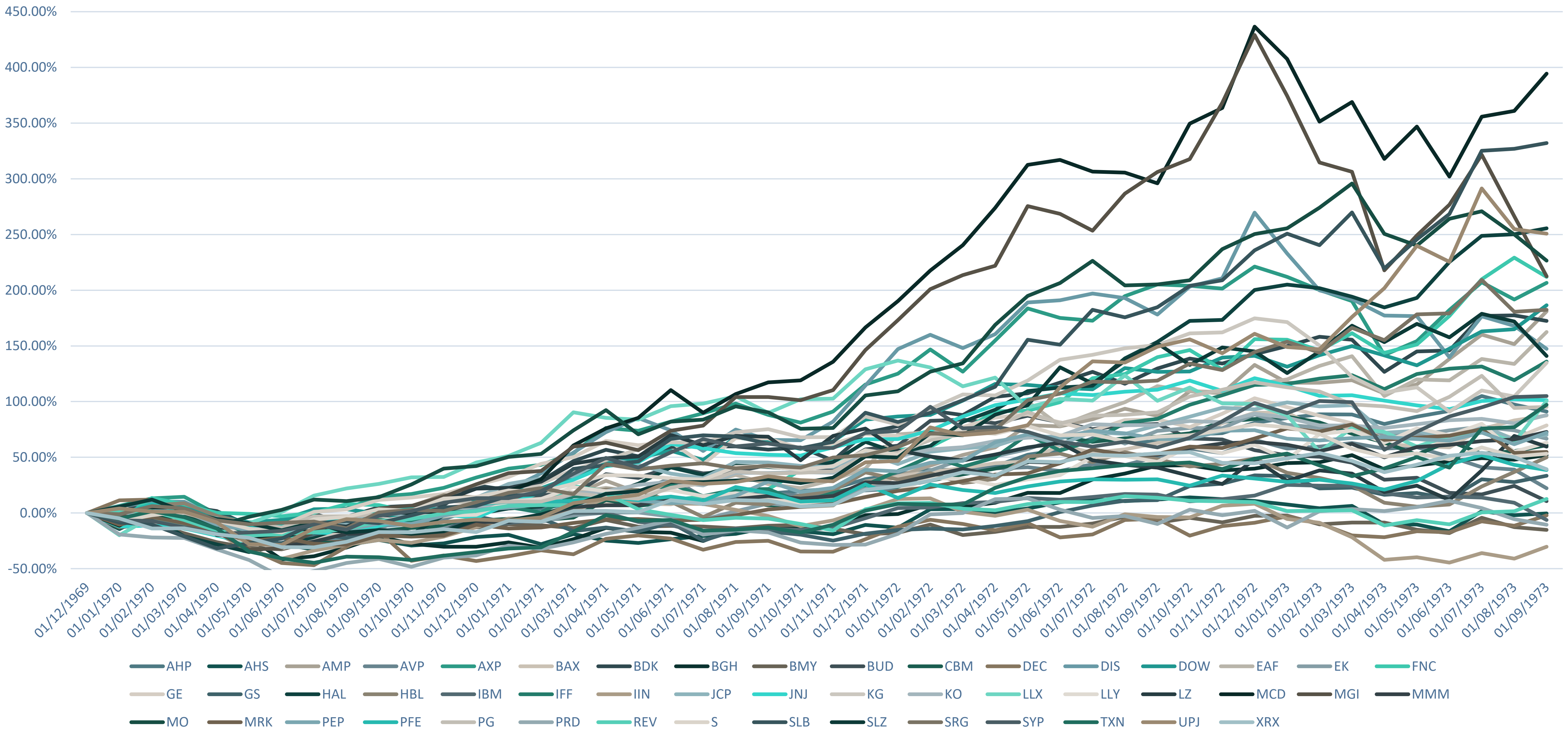
TradingView

Nifty Fifty Total Returns 1970-1973



‘All good things must come to an end’

- Complete rout in the Nifty Fifty begins in September 1973 when IBM is found guilty of violating the Sherman Antitrust Act
- Investors worry the US government has put a limit on growth
- If the premiere growth stock’s value is in doubt, so are the rest of the Nifty Fifty

WHAT'S happening to the “Vestal Virgins” is strictly X-rated stuff. It makes that earlier unpleasantness involving the Sabine women seem like a Sunday afternoon gathering of the local branch of the temperance union. Alexander Pope (pound for pound, the most combative poet who ever lived) summed up the present state of affairs neatly in the *Dunciad* (he was attacking literary, not investment, dunces) in the line that goes, as we recall, “One by one the sickening stars fade from the ethereal plain.”

What turned the retreat of the glamor and growth stocks into a rout was, of course, the collapse of IBM. Vulnerability in that archtypical growth issue touched off nervous tremors and quakes in every bank trust department from New York to San Francisco. As one shrewd observer of the Street scene remarked to us over lunch last week, Judge Christensen's decision—in effect, ruling that dominance *per se* was evil—knocked the props out from under one of the major tenets of the growth cult.

Barron’s, 8 November 1973

‘Fear…is easily contagious as greed.’

- Fearful institutions quickly move away from growth stocks into cyclicals

- S&P 500 declines, due to heavy weighting of Nifty Fifty

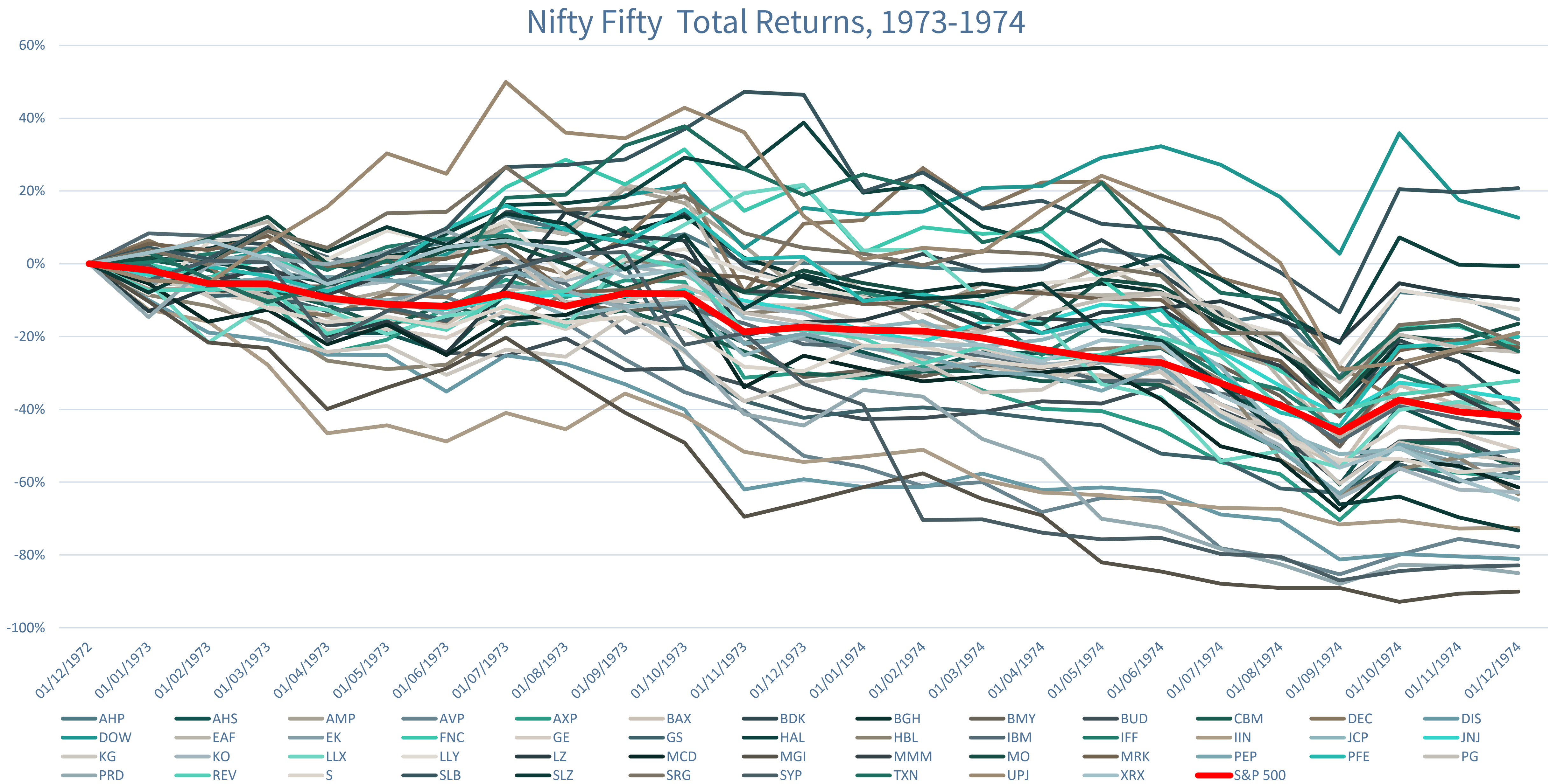
- Rotation from growth into cyclicals continues following OPEC oil embargo in October 1973

More specifically, those favored 50 (or are they 30 now?) issues which have led such a charmed life amid general market chaos just don't seem as sexy as they once did to their rich followers. On Thursday, for example, the new high list was monopolized by cyclicals, with nary a vestal virgin among them. Moreover, while the Averages, which are heavily influenced by those large capitalization numbers on the bank buying lists, showed a downward tilt (and this goes for the Standard & Poor's version as well as the Dow), 827 stocks tacked on gains, compared with 589 losers. Further, during the recent decline in the indices to new low ground, the total of individual issues setting fresh lows never got much above 100. Yet, back in the spring, last time the DJIs took the plunge, individual new lows ran well over 800.

Source: *Barron’s*, 3rd September 1973

In any case, inflated multiples suddenly are as suspect as a crewcut at a rock festival. Fear, moreover, is easily as contagious as greed, and given the size and the intensity of commitment of those big buck speculators who created the two-tier market in the first place, we'd hazard that the dismantling of the upper tier will prove as lengthy as it is messy. If so, pity the poor pensioners. For, lest we forget, ultimately it's their money.

Source: *Barron’s*, 8th October 1973



Nifty Fifty Total Returns, 1973-1974
60%
40%
20%
0%
-20%
-40%
-60%
-80%
-100%
01/12/1972
01/01/1973
01/02/1973
01/03/1973
01/04/1973
01/05/1973
01/06/1973
01/07/1973
01/08/1973
01/09/1973
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01/06/1974
01/07/1974
01/08/1974
01/09/1974
01/10/1974
01/11/1974
01/12/1974
AHP AHS AMP AVP AXP BAX BDK BGH BMY BUD CBM DEC DIS
DOW EAF EK FNC GE GS HAL HBL IBM IFF IIN JCP JNJ
KG KO LLX LLY LZ MCD MGI MMM MO MRK PEP PFE PG
PRD REV S SLB SLZ SRG SYP TXN UPJ XRX S&P 500

Heavy losses in 1973-1974 push investors to sell ... including Morgan Guaranty

"Not a good year for us," concede the bank's money managers in a report issued today that discloses more than the bank has ever told outsiders about the stocks it buys, sells and owns.

Assets managed by its trust division fell $3.84 billion last year, to $23.59 billion. Within that total, pension-type assets dropped to $14.11 billion from $16.55 billion, or 14.7%, very close to the 14.8% decline in Standard & Poor's 500-stock index, after adjustment for dividends. The match may really be less close than it appears. Morgan Guaranty is understood to reap more than $900 million of fresh money each year from sponsors of established employe benefit accounts. If that were figured in, the decline in pension assets managed by the bank was closer to 20%.

Source: *Wall Street Journal*, 29th April 1974

Anyone who still thinks the massive holdings of growth stocks in bank trust departments are a deterrent to any selling of favorites by the banks had better look again.

The banks have a lot of shares in those companies all right, and even after selling 100,000 or 200,000 shares of a favored stock most bank money managers would still be left with much more of the same stock. But the new disclosures of transactions being made by some banks are showing clearly that the managers can be persistent and heavy sellers once they get the urge, regardless of the large holdings that remain and may be influenced by falling market prices.

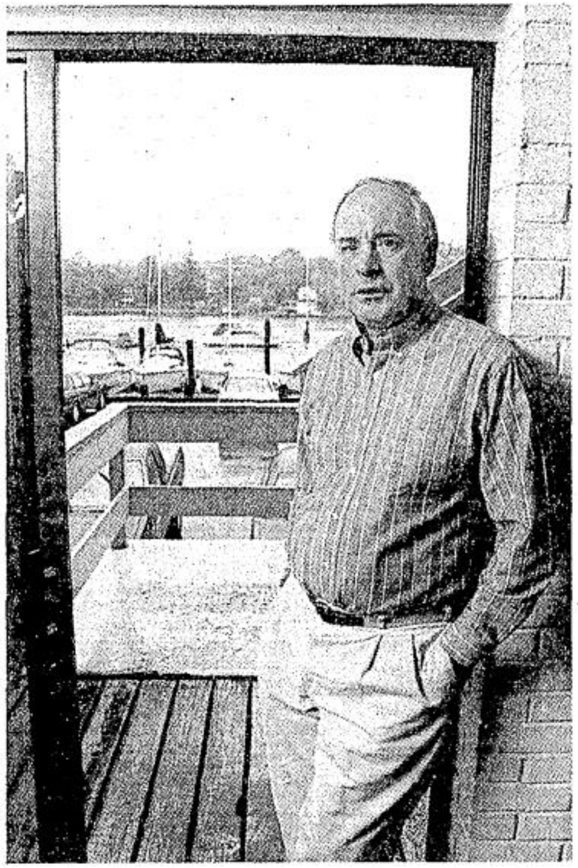
Source: *Wall Street Journal*, 20th September 1974

A more reflective Carl Hathaway

Q: How can you sleep at night?

A: 'It's easy. I sleep like a baby. I sleep for 30 minutes and wake up and cry for 30 minutes.'

'I felt very badly. I had made a major error in judgment and saw a lot of customer assets decline in value.'



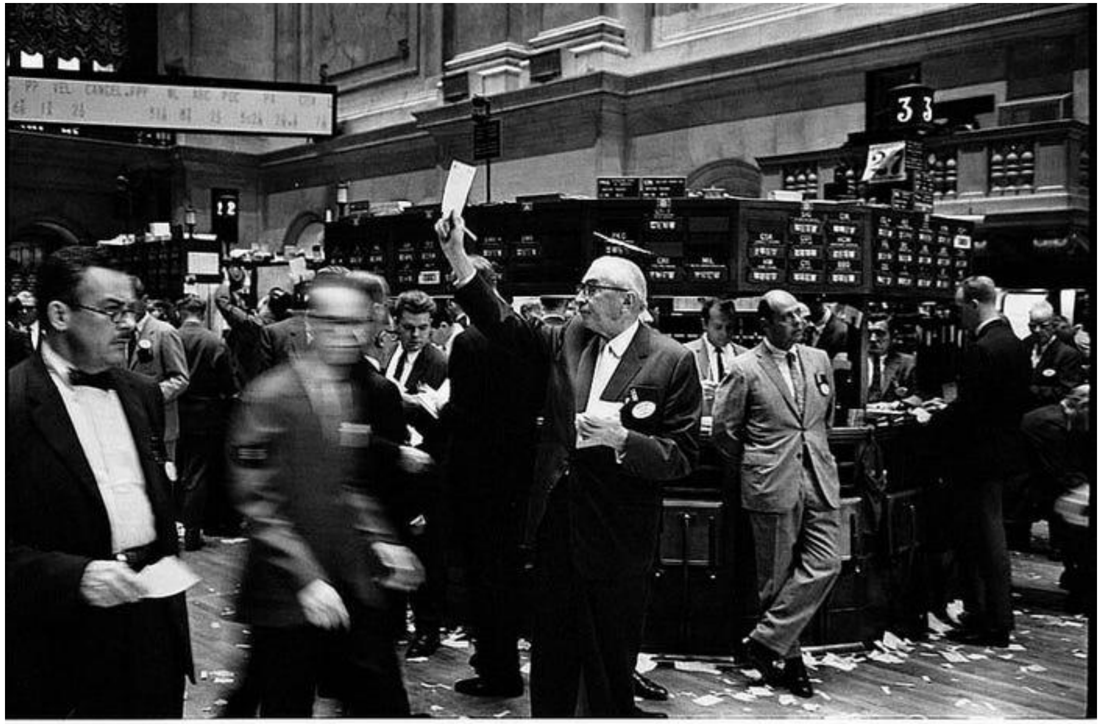
Hathaway in 1996
Source: *Washington Post*, 19 May 1996

It takes the banks years to sell their holdings...

Even at this distance from the spectacular 1973-74 collapse of the so-called "Nifty Fifty" growth stocks, the latest data show that bank trust departments have been using this year's market strength to further lighten holdings of erstwhile glamor issues.

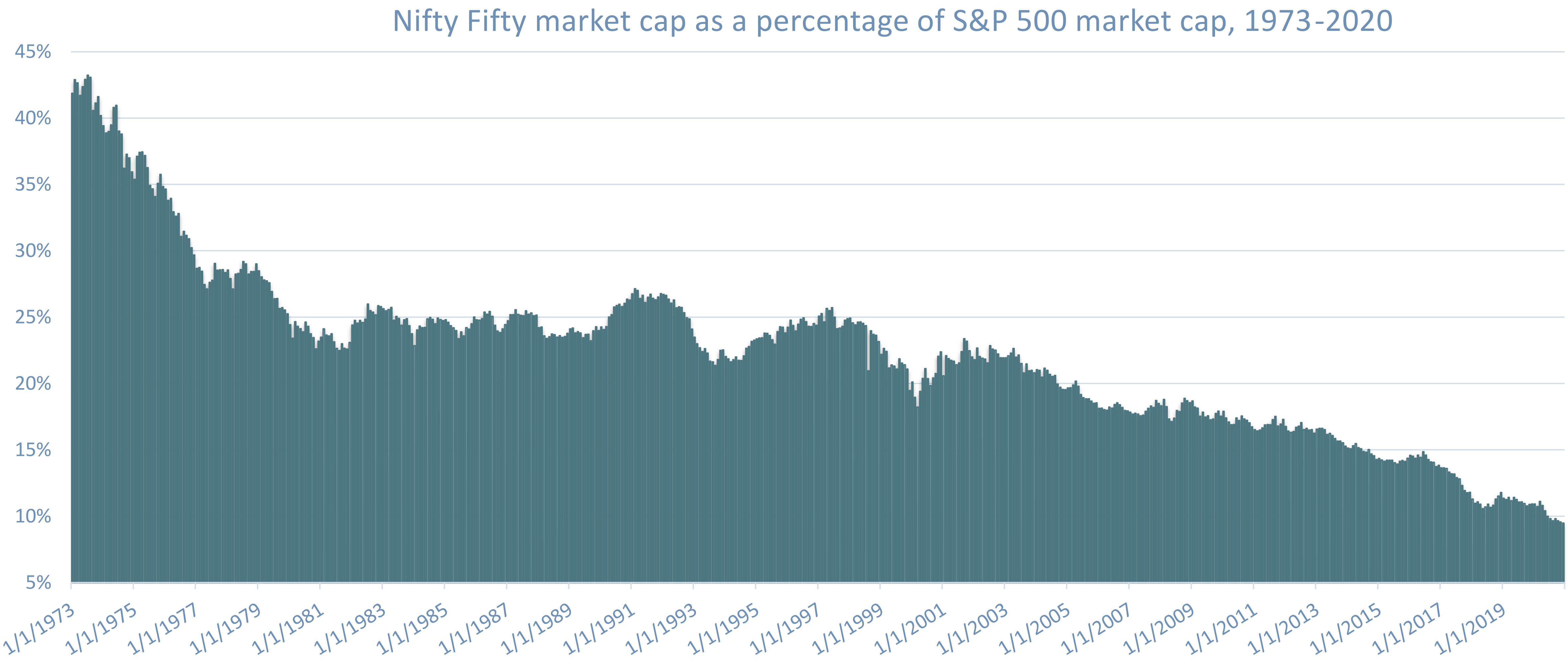
The banks' biggest sales in the first quarter read like their 1972 buy lists

Source: *Wall Street Journal*, 2nd June 1976



'Floor of NYSE,' Thomas J O'Halloran, LC-U9-10548-6, Library of Congress

Nifty Fifty's market weight declines



Nifty 23? Survivors

Stock name	Market cap
JOHNSON & JOHNSON	$ 414,309,630,194
PROCTER & GAMBLE	$ 345,012,377,327
WALT DISNEY	$ 328,023,659,040
COCA COLA	$ 235,671,336,056
MERCK	$ 206,956,788,921
PEPSICO	$ 204,944,079,017
PFIZER	$ 204,604,601,203
ELI LILLY	$ 161,509,304,880
MCDONALDS	$ 159,885,919,744
TEXAS INSTRUMENTS	$ 150,661,824,942
BRISTOL MYERS	$ 140,172,413,802
IBM	$ 112,166,252,713
3M	$ 100,822,713,507
AMERICAN EXPRESS	$ 97,356,973,820
GENERAL ELECTRIC	$ 94,606,630,071
PHILIP MORRIS / ALTRIA GROUP	$ 76,195,179,000
BAXTER	$ 40,988,035,229
SCHLUMBERGER	$ 30,388,014,794
HALLIBURTON	$ 16,707,731,963
IFF	$ 11,638,587,328
ITT	$ 6,654,527,710
XEROX	$ 4,600,548,256
BURROUGHS / UNISYS	$ 1,240,587,859
'NIFTY 23' ?	**$ 3,145,117,717,376**

Worth over US$ 3tn
in Dec 2020

Annualized Returns: 1973 – 2020

PHILIP MORRIS / ALTRIA GROUP INC	15.93%
SQUIBB CORP	15.35%
GILLETTE CO	14.50%
PEPSICO INC	12.82%
ANHEUSER BUSCH	12.63%
MCDONALD'S	12.12%
PFIZER	11.47%
TEXAS INSTRUMENTS	11.46%
JOHNSON & JOHNSON	11.26%
BRISTOL MYERS SQUIBB	11.18%
I T T	11.10%
PROCTER & GAMBLE	11.09%
COCA COLA	10.90%
ELI LILLY & CO	10.90%
MERCK & CO	10.84%
WALT DISNEY	10.74%
S&P 500	**10.57%**
UPJOHN	10.53%
A M P	10.41%
Nifty Fifty Average	10.31%
A H P	10.15%
LUBRIZOL	10.07%
CITICORP	10.05%
SCHERING-PLOUGH	10.00%
DOW CHEMICAL	9.94%
AMERICAN EXPRESS	9.76%

3M	9.30%
Nifty Fifty Median	9.14%
BAXTER INTERNATIONAL	8.97%
CHESEBROUGH PONDS	7.72%
GENERAL ELECTRIC	7.55%
REVLON INC	7.29%
SEARS ROEBUCK	7.22%
INTERNATIONAL FLAVORS & FRAGRANCES	7.09%
INTERNATIONAL BUSINESS MACHINES	6.81%
LOUISIANA LAND & EXPLORATION	6.72%
SCHLUMBERGER	6.46%
AMERICAN HOSPITAL SUPPLY	5.73%
DIGITAL EQUIPMENT CORPORATION	5.26%
HEUBLEIN	4.88%
HALLIBURTON	4.87%
BLACK & DECKER	4.14%
AVON PRODUCTS	1.44%
XEROX HOLDINGS	0.77%
M G I C INVESTMENT	-4.37%
BURROUGHS / UNISYS	-4.74%
EMERY AIR FREIGHT	-4.83%
SIMPLICITY PATTERNS	-5.42%
JC PENNEY CO	-7.89%
EASTMAN KODAK	-9.45%
JOSEPH SCHLITZ	-10.15%
K MART	-10.26%
POLAROID	-16.73%

AUDIENCE POLL

WERE THE NIFTY FIFTY OVERVALUED?

– YES, RIDICULOUSLY OVERVALUED
– YES, SLIGHTLY OVERVALUED
– NO, SLIGHTLY FAIRLY VALUED
– NO, COMPLETELY FAIRLY VALUED
– UNSURE

Were the Nifty Fifty overvalued?

- 16 have outperformed the S&P 500 since the peak in 1972
- 9 resulted in absolute capital losses – if one had held them until the end
- **As a group they were over-valued relative to the rest of the market**

The best performers had slightly lower P/E multiples than the average, but still much higher than the S&P 500 or the Fortune 500

	Annualized Return	1973 P/E
ALTRIA GROUP INC	15.93%	26
SQUIBB CORP	15.35%	34
GILLETTE CO	14.50%	26
PEPSICO INC	12.82%	29
ANHEUSER BUSCH COS INC	12.63%	32
MCDONALDS CORP	12.12%	86
PFIZER INC	11.47%	29
TEXAS INSTRUMENTS INC	11.46%	46
JOHNSON & JOHNSON	11.26%	62
BRISTOL MYERS SQUIBB CO	11.18%	28
I T T INC	11.10%	16
PROCTER & GAMBLE CO	11.09%	32
COCA COLA CO	10.90%	48
ELI LILLY & CO	10.90%	46
MERCK & CO INC	10.84%	46
DISNEY WALT CO	10.74%	82
S&P 500	**10.57%**	**19**
UPJOHN CO	10.53%	41
A M P INC	10.41%	52
Nifty Fifty Average	10.31%	45
WYETH	10.15%	39
LUBRIZOL CORP	10.07%	37
CITICORP	10.05%	22
SCHERING PLOUGH CORP	10.00%	50
DOW CHEMICAL CO	9.94%	26
AMERICAN EXPRESS CO	9.76%	39
3M CO	9.30%	41
Nifty Fifty Median	9.14%	41
BAXTER INTERNATIONAL INC	8.97%	79
CHESEBROUGH PONDS INC	7.72%	41
GENERAL ELECTRIC CO	7.55%	26
REVLON INC	7.29%	26
SEARS ROEBUCK & CO	7.22%	31
INTERNATIONAL FLAVORS & FRAG INC	7.09%	76
INTERNATIONAL BUSINESS MACHINES	6.81%	37
LOUISIANA LAND & EXPLORATION CO	6.72%	26
SCHLUMBERGER LTD	6.46%	50
AMERICAN HOSPITAL SUPPLY CORP	5.73%	50
DIGITAL EQUIPMENT CORP	5.26%	60
HEUBLEIN INC	4.88%	30
HALLIBURTON COMPANY	4.87%	38
BLACK & DECKER CORP	4.14%	51
AVON PRODUCTS INC	1.44%	65
XEROX HOLDINGS CORP	0.77%	49
M G I C INVESTMENT CORP	-4.37%	83
UNISYS CORP	-4.74%	49
EMERY AIR FGHT CORP	-4.83%	62
MAXXAM GROUP INC	-5.42%	53
JC PENNEY CO INC	-7.89%	34
EASTMAN KODAK CO	-9.45%	48
SCHLITZ JOS BREWING CO	-10.15%	39
K MART CORP	-10.26%	54
POLAROID CORP	-16.73%	91

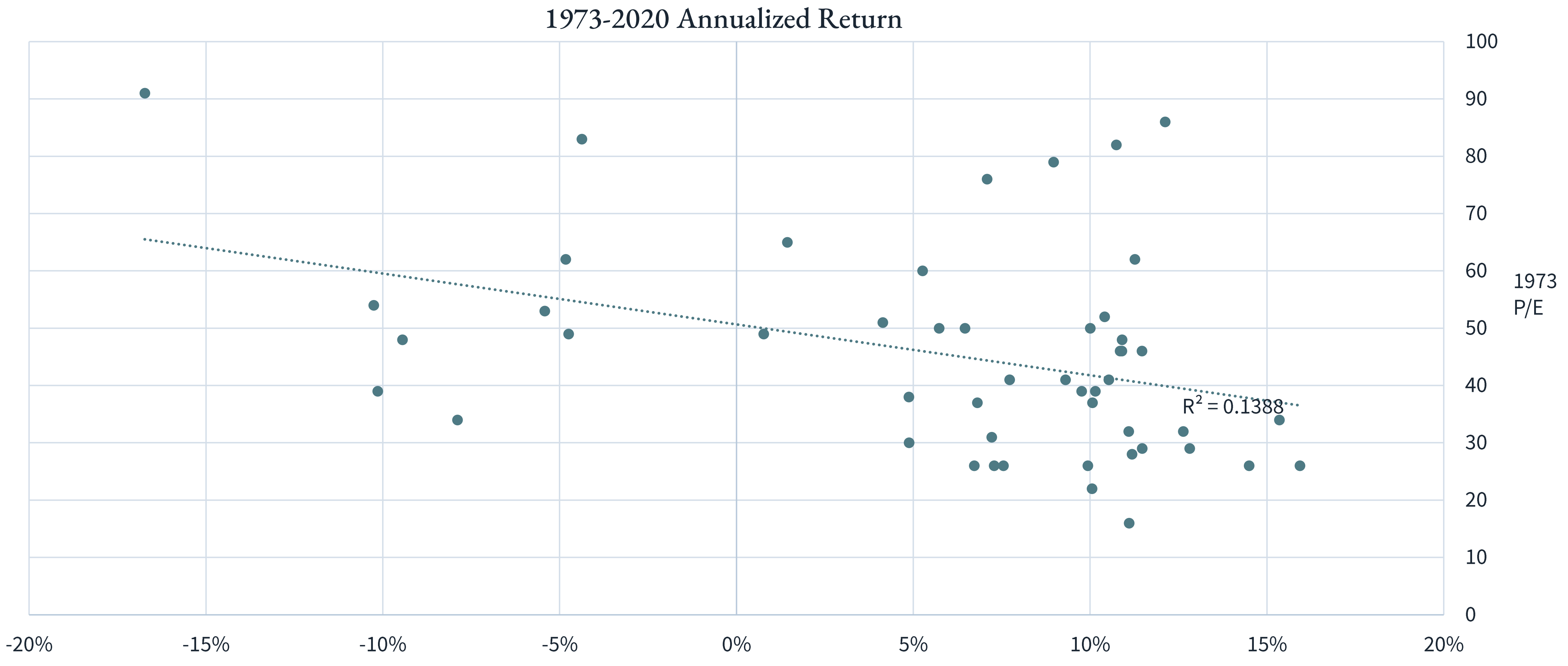
Nifty Fifty Average: 45

Nifty Fifty Outperformer Average: 42

S&P 500: 19

Fortune 500 Average: 18

But not simply that the highest multiples were overpriced…



Conclusion? Quality growth can be expensive but well worth the price

	Annualised Return	1973 P/E
PHILIP MORRIS / ALTRIA	15.93%	26
SQUIBB	15.35%	34
GILLETTE	14.50%	26
PEPSICO	12.82%	29
ANHEUSER BUSCH	12.63%	32
MCDONALDS	12.12%	86
PFIZER	11.47%	29
TEXAS INSTRUMENTS	11.46%	46
JOHNSON & JOHNSON	11.26%	62
BRISTOL MYERS SQUIBB	11.18%	28
I T T	11.10%	16
PROCTER & GAMBLE	11.09%	32
COCA COLA	10.90%	48
ELI LILLY	10.90%	46
MERCK	10.84%	46
WALT DISNEY	10.74%	82
S&P 500	**10.57%**	**19**

A high multiple does not necessarily mean that a stock is overpriced:

'Over the long term, it's hard for a stock to earn a much better return than the business which underlies it earns.

…

[I]f a business earns 18% on capital over 20 or 30 years, even if you pay an expensive looking price, you'll end up with a fine result.'

-Charlie Munger, 1994

Where did Morgan Guarantee go wrong?

Samuel R. Callaway
Chief Trust Officer
July 1973

'The series of short, steep recessions that occurred in the years after World War II brought the discovery of a new kind of corporate creature, the recession-proof company'

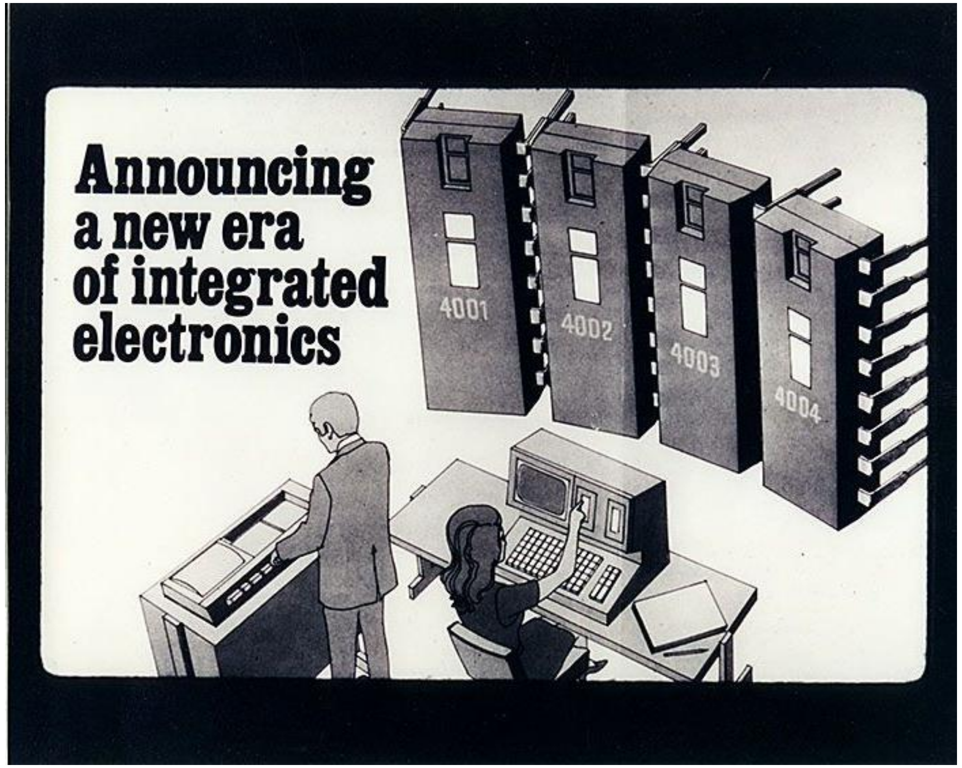
× Focused almost myopically on performance in previous downturns
× Past performance is no guarantee of future results!

Critics blamed this on the banks' obsession with computers

Computer analysis is 'based on the theory that what happened in the past will continue in the future. Because stock X has grown 8 per cent a year for several years, it will continue to do so.'

The '…worst and silliest fallacy of all.'

New York Times, 24th January 1974



Intel 4004 advertisement, November 1971

Where did the rest of the market go wrong?

Bought stocks because others were buying, not because of fundamentals

Herding / momentum behaviour

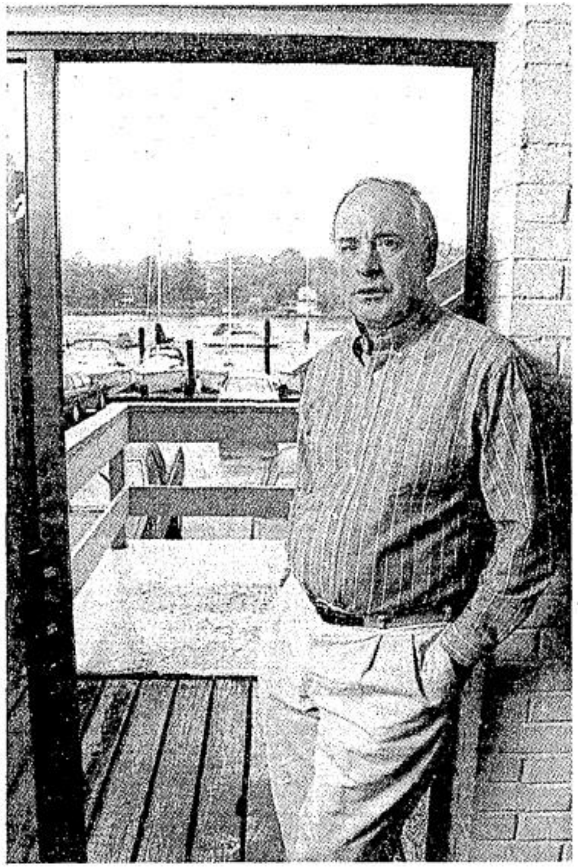
Followed Morgan’s lead

What lessons can the Nifty Fifty hold for investors today?

- More to ‘value’ than P/E multiples – quality growth can be worth a high price
- Emotions and narratives move markets in the short-term – up and down
- No stock can be a ‘one decision’ stock – companies change, investors must keep an eye on them

Example of Polaroid

Polaroid Total Return 1957-2001



Comments, Questions & Answers

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Thank You For Listening

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Forthcoming Events

- Thu, 15 Jul (09:00-10:00) International Financial Centres: Facilitating Financial Inclusion Via Digitalisation
- Wed, 21 Jul (09:00-10:00) Opportunities In Busan As A Global Financial Hub
- Thu, 22 Jul (15:00-15:45) Financial Centres Of The World 2021: Focus On British Virgin Islands
- Fri, 23 Jul (11:00-11:45) Open Banking: Success Story Or Just Another Buzz Word?
- Mon, 26 Jul (15:00-15:45) Meritocracies: Why Glass Ceilings Are Closer To A Feature Than Bug (And What We Can Do About It)

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