# How to Profit from "Tech Bubble 2: The Millennial Generation"

***"Things they do look awful c-c-cold (Talkin' 'bout my generation)"***
***- "My Generation", The Who, 1965***

- Wall Street thinks that Millennials are the best thing since bread because we're the largest generation by population and we're addicted to the new tech paradigm: mobile devices and social media.
- Since the Financial Crisis, the Federal Reserve has been "printing money" and crushing down interest rates like never before. This has created the perfect environment for the inflation of "Tech Bubble 2: The Millennial Generation".
- While my generation is tremendous in numbers–and we have indeed been loyal consumers of mobile tech and social media–, our overall spending power is subzero, and our long-term economic outlook is frigid.
- Cold, hard reality will eventually crash "Tech Bubble 2: The Millennial Generation". Until then, it's a good time to "chill" with "Millennial stocks" like Apple, Google, and the Facebook IPO.

## First, the bad news:

**The cold, hard facts about millennials' financial health.**

The numbers are chilling: The unemployment rate of Americans from my generation is more than 25% higher than the national average. My generation currently holds $1 trillion in student loan debt, and nearly 75% of us have a negative net worth. What's more, as of this writing, a staggering 85% of us (EIGHTY-FIVE PERCENT) are renters or live with our parents.

Millennials are the first generation in American history to endure a significantly-reduced standard of living than that of the previous generation. As the Institute for Higher Education Policy reports, nearly 20% of Millennials live in poverty…and a whopping 40% of us live in "near poverty".

And the bone-chilling reality: The majority of Millennials who live in poverty are college-educated. A good many even have graduate degrees.

**Millennials' economic development is frozen in time.**

Due to bitter economic conditions, most Millennials are delaying "life milestone" events that were a boon to the economy for previous generations. Unlike members of previous generations, most of my generation's twenty-somethings and early thirty-somethings AREN'T buying houses, AREN'T buying new cars, AREN'T getting married, and AREN'T having children. This creates a tremendous opportunity cost to the economy: Dr. Patrick Fagan of Georgetown University argues that missed "life milestone" events can reduce one's lifetime contribution to GDP by as much as *half*.

Let that sink in: Some Millennials' *lifetime* contributions to GDP may have been cut *in half*.

**Millennials' higher education carries a subzero ROI.**

Many Millennials have turned to educational advancement as a means of escaping our frigid economic conditions…but higher education isn't helping many of us break through the ice. To the contrary, it's actually been adding layers of ice on top of the massive debt loads we've already been carrying.

As fellow Seeking Alpha contributor Nick Pardini recently noted, post-graduate education has a horrendously-negative ROI for most of our generation: Despite the fact that the average Millennial postgrad is burdened with a $50,000 debt load that continuously grows due to interest, more than half of us who have "advanced degrees" work outside of our career paths for lower pay.

And the majority of my generation's PhDs' and law grads' careers have been absolutely glaciated: As of this writing, a stunning 80% of Millennial PhDs and law grads are either unemployed or underemployed!

**Millennials face biting headwinds in the labor market.**

And the cold winds keep on a-blowin' against Millennials in the labor market: Baby Boomers, fearful of retiring, are crowding my generation out of the workforce by holding onto jobs. A recent study by the University of New Hampshire found that 1 in 5 Americans age 65 or older still work in their careers. What's more, the AP recently reported that 75% of Boomers plan to continue to work after retirement. And, according to the Population Reference Bureau, by next year, the U.S. workforce will have more employees over the age of 65 than employees from my generation!

**Millennials will have a tough time breaking through the ice after long periods of unemployment and/or underemployment .**

Years of cold, hard unemployment and underemployment are much more damaging to our careers than they were to even the Great Depression generation: Whereas most jobs in 1940 were more or less the same jobs they were in 1930 (i.e. they could be returned to with relative ease once economic conditions improved), most jobs of today evolve quickly and require continuous hands-on learning.

Being left out in the cold from the labor market will have profound, long-lasting negative effects for the entirety of many Millennials' careers. According to Yale economics professor Lisa Kahn, those who experience long-term economic duress as a young adult almost always have a lifetime of significantly-reduced earnings.

## Now, the good news:

**How I'd play the gap between Millennials' cold, hard economic reality and Wall Street's fantasy interpretation of my generation:**

**Step 1: Buy stocks from the top companies that make mobile devices and social media platforms.**

In its attempts to “print” the economy out of the gutter it was left in from the Financial Crisis, the Fed has been expanding the money supply (QE, QE2, etc.) and crushing down interest rates to zero for a few years now. Although the market has been relatively flat during this “L-shaped” recovery, the historic “easy money” policies of the Fed will likely end as a speculative stock bubble because of the TINA (“there is no alternative”) effect. (Most “safe” investments–like bonds and CDs–currently yield a *negative* return.)

By way of TINA, the Fed dictates that investors who want a positive return must put their money in the stock market. As of this writing, two most promising sectors in the market are precious metals (because of the Fed’s monetary madness) and tech that appeals to Millennials.

Currently, Wall Street thinks that Millennials are superheroes: It’s building a narrative that a “full economic recovery” will be possible because of new Millennial mobile tech consumers. They obviously didn’t get the memo that my generation is flat broke.

While I strongly disagree that Millennials’ love of mobile tech will save the world from the Great Recession, I do agree that companies that have invested wisely in the R&D of mobile devices and the apps that run on them (namely social media apps) will end up profiting nicely.

Of the U.S. publicly-traded companies that have invested heavily in the mobile device and social media spaces, I like the following most:

**1) Apple (AAPL):** The company that brought the world the smartphone seems to have an insurmountable first-mover advantage in the smartphone market. Apple's market share has been so great that app developers make products for the iPhone by default. According to a 2011 study, >50% of smartphone users in the U.S. are between the ages of 18 and 30 (Millennials), and more than 80% of Millennials who use smartphones use iPhones. What’s more, Apple is known for its brand loyalty, and >90% of Millennials who have upgraded from an iPhone have upgraded to a newer iPhone.

(NOTE: Samsung has been gaining market share…I’d keep an eye on them. However, their stock isn’t traded in the U.S., so I’m not including them here.)

**2) Facebook (IPO coming soon.):** Almost everyone uses it now, and its use has mostly been limited to desktops and laptops. Soon, most people (And. Every. Single. Millennial.) will use it religiously on their phones. If you’ve been on FB for a while, you know how addictive it can be. Imagine it with you 24/7 by way of your phone.

Now, imagine my generation accessing it anywhere at any time….FB’s opportunities are seemingly endless.

What’s more, social media is still in its infancy. Currently, Facebook is synonymous with a single platform. But like most successful tech companies, FB will likely develop new products and create new revenue streams over time. I don’t know what the FB IPO price is going to be, but I’d grab as many shares as I could if it’s reasonably priced.

**3) Google (GOOG):** Google has been working hard to make sure that any smartphone that competes with the iPhone will license their mobile operating system, Android. In other words, Google is to Apple in the smartphone market of the early 2010s what Microsoft was to Apple in the early 1980s. Plus–in case you forgot–, they have a near-monopoly on web searches. (And, they're constantly searching for new revenue streams.)

*(NOTE: There are more speculative "Millennial stocks" on the market, and the most speculative stocks will obviously be the greatest beneficiaries of another speculative tech bubble. However, I wouldn't put my money in stocks that could go to zero. (Pets.com, anyone?)*

**Step 2: Sit back and watch the Fed inflate Nouriel Roubini's "Mother of all Bubbles".**

Eventually, the unintended consequence of years of incessant money printing and crushing of interest rates will rear its ugly head: The Fed–by way of TINA–will blow the "Mother of all Bubbles".

("Dr. Doom" aside, several of the world's most-respected economists and financial analysts believe there's a 2nd tech bubble in the making.)

Eventually, TINA will compel the world to dump money into QQQ and its tech brethren like gambling addicts dumping quarters into slot machines. They'll justify the stratospheric multiples based on Millennials' potential as future consumers, but the cold, hard reality is that Millennials won't have the cold, hard cash to keep buying the newest gadetry year in and year out. What's more, my generations' value as a target for social media advertising will decline once advertisers realize that broke Millennials don't make good consumers.

Eventually, my generation won't be able to keep borrowing to buy a $1,000 phone every year. And we certainly won't be borrowing more to buy new cars or new houses. Eventually, the market will figure out that Millennials' "poor" status as a consumer doesn't justify 3-digit P/Es in Millennial stocks…and the bubble will burst.

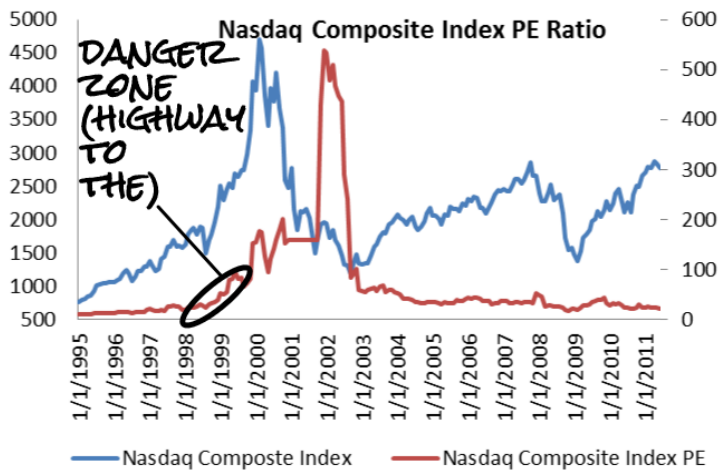
**Timing the sale of "Tech Bubble 2: The Millennial Generation" will be everything.**

As I previously noted, I think AAPL and GOOG are reasonably priced (PEs continuously updated on those pages), especially considering the windfalls the two stand to gain as the mobile device market grows. I also think that–unless its IPO price is in the hundreds–Facebook will be a good buy. I see FB's namesake platform as the first of its many forays into social media, similar to how Apple started as a single line of computers. A diversified company that dominates the social media sector could be a cash cow, kind of like Microsoft was in computing before they appointed a CEO who thought the smartphone was a bad idea.

I'd buy these stocks now and sit back and watch the Fed's relentless money printing & interest rate crushing inflate "Tech Bubble 2.0: The Millennial Generation". However, I wouldn't keep my finger far from the sell button: I'd be ready to cash out before reality clashes with Wall Street's "Millennial pipe dream".

**I'd use the Nasdaq's PE ratio to determine if the bubble is close to popping.**

The Nasdaq's PE ratio forewarned investors of the original Tech Bubble when it started a steady climb at a much higher rate in the 2nd half of 1998 after years of slow, steady growth. **I'd sell if I saw a similar rise in PE after a long period of slow, steady growth.**




**Note the similarities between the current Nasdaq setup and the late 90s tech bubble:**

*THEN: The Fed started its policies of money printing and interest rate crushing when Alan Greenspan abruptly changed from a fiscal conservative into a money printer following the early 90s recession.*

**NOW: The Bernanke Fed is literally five times the money printer the Greenspan Fed was.**

*THEN: Wall Street was salivating at anything that had to do with the new tech paradigm: the internet.*

**NOW: Wall Street is salivating at anything that has to do mobile devices & social media. What's more, Wall Street thinks that mobile devices & social media are synonymous with Millennials.**

*THEN: Glass-Steagall was repealed in 1999. The repeal opened the floodgates of speculation.*

**NOW: TINA is real. There has never been a more speculative environment.**

"Tech Bubble 2: The Millennial Generation" has a similar setup as Tech Bubble 1, except that the Fed has quintupled its "money printing" and has been crushing interest to less than zero, promoting TINA.

Given that the Fed is several times the bubble blower it was in the '90s, I'd sell those Millennial tech darlings as soon as I saw ANY PROLONGED STEEP RISE IN THE NASDAQ PE.

This time, Wall Street will justify exceptionally-high PEs on anything related to mobile tech or social media based on:

*1) The fact that Millennials are the largest generation by population.*

*2) The fact that my generation is addicted to the new tech paradigm.*

Both are true. However, Wall Street won't be privy to the fact that…

**<u>Millennials’ economic outlook is frigid: Most tech PEs will never be justified…the bubble will burst.</u>**

Millennials aren’t the economic saviors Wall Street thinks us to be...our positive impact on the economy will be frozen in time for the foreseeable future. There will be no justification for the exceptionally-high PEs in the Nasdaq, and the Modern Monetary Monster the Fed has created will inevitably lead to the bursting of Tech Bubble 2: The Millennial Generation.

**In the meantime, now would be a good time to buy the aforementioned Millennial stocks (AAPL, GOOG, and the Facebook IPO), put the *My Generation* album on, and chill out until you see unusual upward pressure on the Nasdaq PE.**