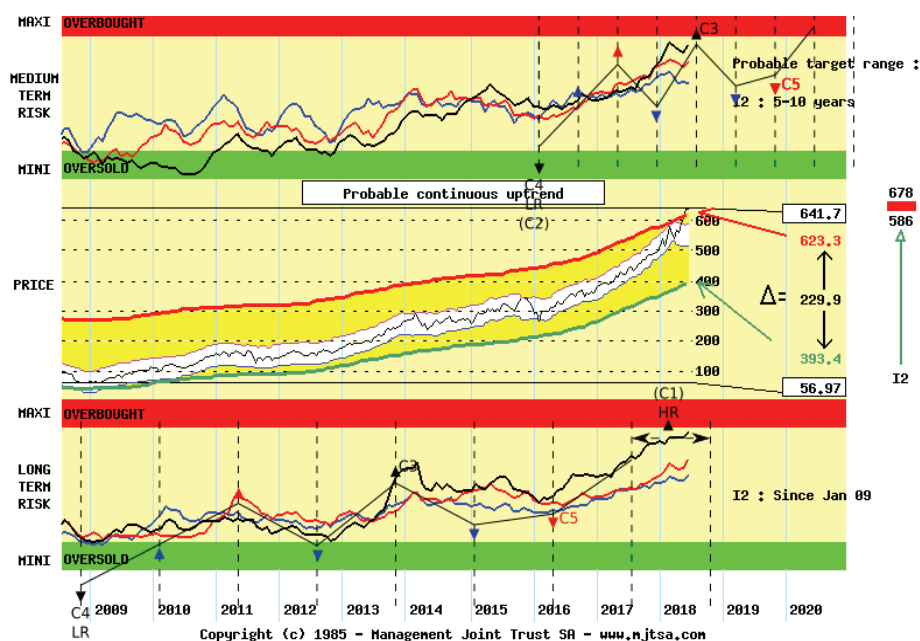


## 50 / Splicing the markets – What do to with your favorite Growth stocks ?

They will always tell you that « This Time is different », and that there are stocks which are immune to the business cycle (if they even admit that the business cycle exists). In this brief review, we will go over 2 Growth themes, US Internet Services, which includes the famous “FANGs” and US Biotech. We are trying to avoid jumping the gun, but believe that by the end of this month, the timing might be right to reduce some of that Big Technology exposure. Biotech on the other hand still seems relatively well positioned from late August into the Fall.

### Dow Jones Internet Composite Index

#### Bi-Monthly graph or the perspective over the next 1 to 2 years

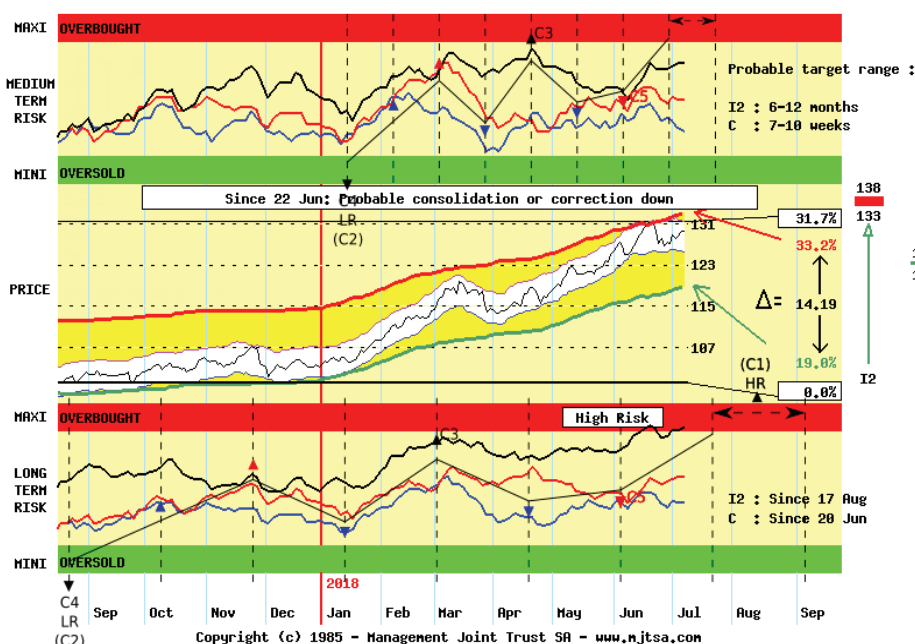


Similarly to the S&P500 on page 16 of this issue, the Dow Jones Internet Composite Index, which includes the FANGs and other large US listed Internet companies, has come to the end of our uptrend model on our long term oscillators (lower rectangle). Our medium term oscillators (upper rectangle) also suggest **that an important inflection point is approaching, which could lead to 3 to 5 quarters of correction to the downside.** Our price targets (right-hand scale) are in I2 Impulsive 2 territory (out most extended upside targets). It is extremely rare that any price move actually makes it above these. Currently, the top of the range is at 678, which from current levels would leave circa 5-6% of additional upside potential. Given the current equity rally, these may be achieved **by month's end.** The move will then be exhausted, long term, in

terms of risk/reward. Given the current historical volatility we calculate (“Delta”, here at 229.9; middle rectangle, right-hand side), the correction that follows could amount to between 115 and 184 points (or 0.5 to 0.8 times “Delta”), 18 to 29% lower than today.

### Dow Jones Internet Composite Index / S&P500 Index

#### Daily graph or the perspective over the next 2 to 3 months

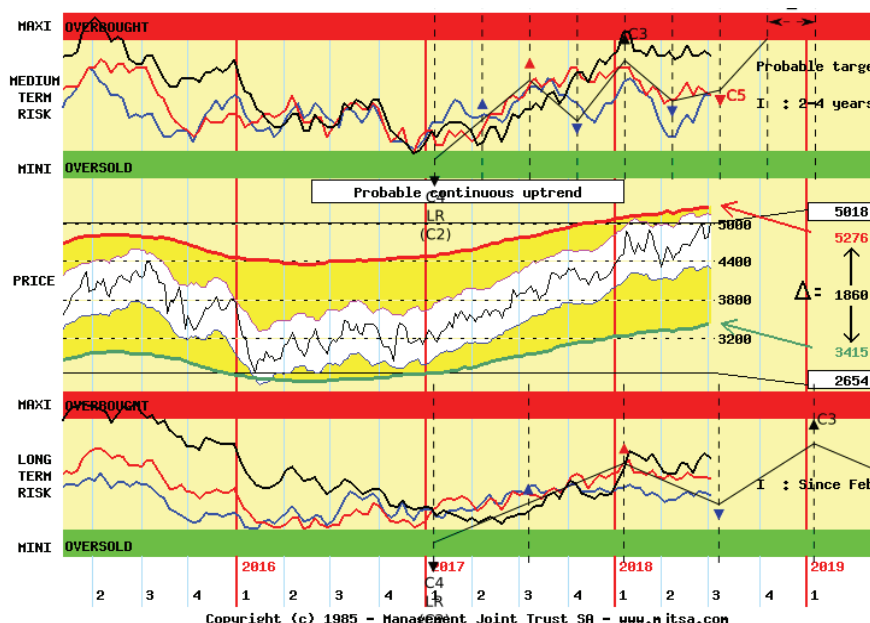


One particularity of these Big Growth tech stocks, is that over the last 9 years, and even more over the last 2 years, they have outperformed the S&P500 in almost all market conditions. On this shorter term relative graph vs the S&P500 Index, the move is also getting very extended, and a **“High Risk” position is expected between now and late July/August** on both oscillator series (lower and upper rectangles). We believe it could mark an important inflection point, not only for the Dow Jones Internet Composite Index vs the market, but also for equity markets in general. **It could lead to at least several months of correction.** Such underperformance by Big tech stocks would probably imply that an important stock market

**correction has started.** From a risk/reward perspective (right-hand scale), the ratio is also getting closer to our I2 Impulsive 2 targets (our most extended upside targets) some 3 to 6% above current levels, i.e. the upside outperformance potential will probably be exhausted on the next rally.

## BTK - Biotechnology Index (NYSE Arca)

### Weekly graph or the perspective over the next 2 to 4 quarters

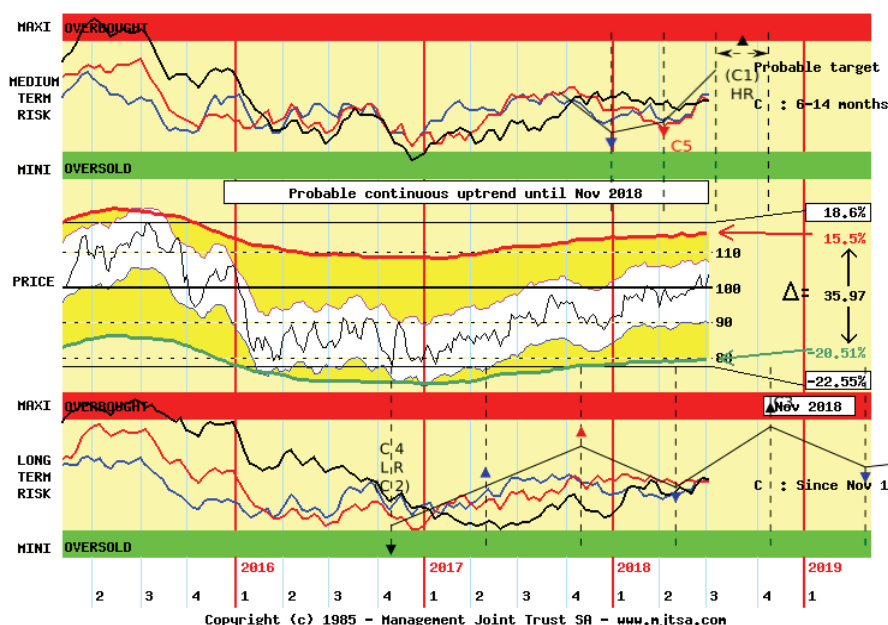


Biotechnology is also considered a Growth theme, yet a more defensive one. From this Weekly graph of the NYSE Biotech index, we can probably expect a few more months of upside momentum. The models we show on both oscillator series would suggest a **top towards Q4, perhaps even early next year**. As we have seen in Q1 this year, Biotech is not immune to market corrections, yet, in this late cycle environment, any subsequent rally does seem to have a stronger effect on it (i.e. Biotech will

probably follow the market lower in August, but could re-accelerate strongly come September/October). Our Impulsive targets to the upside (right-hand scale) are suggesting that **Biotech may still perform by an additional 18% before it tops out towards Q4**.

## BTK - Biotechnology Index (NYSE Arca) / S&P500

### Weekly graph or the perspective over the next 2 to 4 quarters



It is also interesting to look at the same graph on a relative basis. The sequences we show here on both oscillator series (lower and upper rectangles) as well as on our automatic messaging, also point to **Q4 as a possible relative performance top**. From a price target perspective (right-hand scale), Biotech vs the S&P500 may soon be breaking out above its corrective targets up. If this were to happen, **its outperformance potential is important, possibly above 25%**.

### Concluding remarks

The important equity market top we are expecting is approaching, potentially towards late July / early August. We believe that during this period, Big US technological stocks may also top out on a relative basis vs the market. Indeed, the general market correction to the downside we expect over the next 3 to 5 quarters could be relatively serious, and these Big Tech stock could be hard it given their traditionally "high beta" features. On the other hand, BioTech stocks may offer an interesting alternative. They are more defensive than Big Tech ones, as part of the Healthcare sector. They usually perform well very late in the cycle. Following some correction into late August, we expect them to extend up, possibly towards October/November with interesting upside potential.