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With FANG Stocks Dulled, Don't Take a Bite Out Of These ETFs Just Yet

The so-called FANG stocks are taking a hit these days, and ETF investors should take note, Wall Street experts say.

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There's been much to absorb on the financial markets front since arguably the most famous - or infamous, depending on your political viewpoint - presidential election in U.S. history.

Higher Treasury rates, lower bond prices and stronger stock prices are all front page news in November, and now, some Wall Street watchers say, you can add so-called "FANG" stocks to the list.

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TheStreet's Jim Cramer coined the FANG term - it's trading shorthand for four mega-technology-based stocks - Facebook (**FB**) , Amazon (**AMZN**) , Netflix (**NFLX**) , and Alphabet's Google (**GOOG**) . Over the past half-decade, all four stocks have engineered major portfolio gains and have made plenty of money for shareholders and for exchange-traded fund investors who have deployed all four stocks in ETFs like First Trust Dow Jones Internet (**FDN**) , PowerShares NASDAQ Internet (**PNQI**) and PowerShares QQQ (**QQQ**) .
But these days, FANG's bite has been muted, with some major Wall Street money managers and analysts developing a bearish outlook on all four stocks. Mainly, that's due to a change of occupants at 1600 Pennsylvania Avenue in Washington, D.C.

"One thing about Donald Trump's win, people just want something real," says Jeffrey Gundlach, a fund manager at DoubleLine Capital. "They want to see things being made. They want to see policies being changed, which impacts the financial engineering stocks and the momentum stocks, like the FANGs."

"I would stay away from them in a big way," Gundlach adds.

Why would a presumably business-friendly Trump administration be bad news for the FANGs?

"FANG stocks have really taken it on the chin since Trump's election, despite the broad-based market rally," notes David Twibell, president of Englewood, Colo.-based Custom Portfolio Group.

Some of the sell-off is based on concerns that Trump's trade and tax policies may hurt these companies, Twibell says. "That could be true, but it seems far too early to conclude that FANG stocks are going to suffer under a Trump presidency," he says. "After all, while Trump has talked in generalities about revising trade agreements and changing tax policy, he hasn't offered much in the way of specifics yet."

The sell-off could also be attributed to a general rotation out of these stocks into areas perceived to benefit more under a Trump administration, like banks, healthcare, and industrials, Twibell notes. "These sectors were all under-owned by hedge funds and institutional investors, and it appears many are now pulling money out of FANG stocks to deploy into these areas. If this is the case, I would expect FANG stocks to stabilize and recover once this rotation has run its course," he says.

Greg Blotnick, a hedge fund analyst based in New York, says the FANG selloff really isn't about fundamentals.

"There are multiple reasons for the FANG selloff, none of which I believe to be related to the fundamental outlook for the businesses," Blotnick says. "The first reason is sector rotation - Trump is perceived as being bullish for infrastructure and inflation, and institutional money has used tech as a source of funds in order to purchase industrial and basic material stocks."

The second reason is the ongoing "tax trade" as investors purchase stocks with high tax rates and sell stocks with low tax rates, as they will benefit less from Trump's tax cuts, Blotnick adds.

"The third reason, which I think is misplaced, is the threat of Trump anti-trust to dominant firms like Facebook, Amazon or Google," he states. "In my view, this was empty campaign rhetoric and believe this is a buying opportunity for FANG stocks which are some of the highest-quality businesses in the market."

Some market gurus say it's not difficult to see why tech executives stayed away from Trump. "A lot of Trump's rhetoric during the campaign were hot button issues for the technology sector: globalization and immigration," says Benjamin Lau, co-chief investment officer and principal at Irvine, Calif.-based Apriem Advisors. "More than most, tech is a global sector. Many gadgets we use daily - from smartphones to laptops - are built overseas. This sector also is heavily dependent on immigration to satisfy their huge demand for more and more engineers through their use of the H-1B visa program. Eighteen of the top 25 H1-B visa sponsors are technology companies."

Lau says that if Trump pushes through policies that could hamper globalization and immigration, it could disproportionately affect the technology sector. "The policies a new President actually pushes through versus what the market expects to happen can be quite different," he cautions. "Eight years ago, investors worried about what the newly elected President would do to the healthcare sector. Despite the rollout of the Affordable Care Act, the health care sector has been one of the top performing sectors during President Obama's time in new office."

Other market observers say potential Federal Reserve rate hikes have played a role in the FANG slowdown.

"President-elect Donald Trump has voiced his dislike for the low rate policies of the Federal Reserve," says Jonathan Monjazi, founder of Monjazi Capital, in San Diego. "This paves the way for the Fed to raise rates. Higher rates mean the future profits of higher valuation companies like FANG stocks need to be discounted further, reducing their present valuation, and thus their stock prices."

Monjazi says that ETFs with large holdings of FANG stock like the PowerShares NASDAQ Internet ETF with over 20%. "Also, First Trust Dow Jones Internet, also over 20%. would be negatively affected by a decline," he adds.

That said, over the long haul, Monjazi remains bullish on all four stocks, and the ETFs that hold them. "We believe long-term, Facebook, Amazon, Netflix, and Google (now Alphabet Inc.) will do very well as long as they are run by visionary CEO's like Mark Zuckerburg, Jeff Bezos, Reed Hastings, and Larry Page, respectively," he says. "Their ability to innovate, create new products and services that bring value to customers and shareholders is extraordinary."

"We believe, that ETFs that hold FANG stocks for the long term should out-perform their peers all things being equal," he adds.