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Microsoft is Now Worth \$3 Trillion. So What?

A milestone like this shouldn't prompt investors to sell, experts say. Or to buy.

By Richard Teitelbaum

Microsoft's stock market capitalization pierced \$3 trillion again on Monday and closed above that mark for the first time.

To be precise, based on a closing stock price of \$409.72, the software giant's market cap was \$3.045 trillion, according to Morningstar, the financial data provider.

Whether that signifies anything of importance is another matter.

"It means absolutely nothing," says Theodore Aronson, co-founder of AJOVista, a quantitative investment firm that had \$1.5 billion in assets under management last year. Aronson scoffs at this kind of number-gazing as a distraction or worse. "It's all meaningless nonsense."

Finance professor Meir Statman of Santa Clara University dismisses such milestones as akin to marking a birthday.

"One day you're 75 and the next you're 76," says Statman, author of *A Wealth of Well-Being: A Holistic Approach to Behavioral Finance*, which will be published by John Wiley & Sons in April. "Other than people saying 'Happy Birthday', you feel exactly the same."

The problem some see is that the broaching of a large, round number by a broad stock market index — or a stock price surging past, say, \$1,000 a share — tends to entice some investors into acting on what economists call their "behavioral biases", or irrational influences. Then they make wrong-way decisions when they should be scrutinizing a stock's prospects.



Open AI CEO Sam Altman and Microsoft CEO Satya Nadella.

The Messenger; Kevin Dietsch/Getty Images; Drew Angerer/Getty Images; Getty Images (3).

In this case, for example, the \$3 trillion figure is likely to prompt some number of investors to buy Microsoft's surging stock for fear of missing out (or FOMO in current lingo). Or they might sell on the opposite fear that shares are likely to peak.

The precise market cap number really ought to have a negligible impact on such decisions.

Instead, current or prospective Microsoft investors should be focusing more on how CEO Satya Nadella expects to monetize the company's 49% stake in OpenAI, which owns ChatGPT, or whether its Azure cloud computing service is gaining market share in its battle with Amazon's AWS.

The number of people who act on such behavioral biases is unclear. "I think some people will, but I don't think

it's many," says Statman. "I doubt it would have an effect on price or volume."

Many strategists, however, argue differently. They say these round, milestone numbers can serve as technical signals, influencing a sufficient number of investors so much so that they can be profitably utilized when buying or selling stocks.

Accordingly, stocks or benchmarks often have difficulty breaching certain price levels, says Sam Stovall, chief investment strategist at CFRA, a market research firm.

"In the short-term, they represent a level of resistance and afterwards, they represent levels of support," Stovall says. "It's just fear. Fear of losing money on the way down, fear of missing out on the way up."

To be clear, no one doubts that Microsoft's market cap signals that the software giant is on something of a tear, rising some 64% over the past 12 months and effectively dethroning decades-long technology rival Apple in the process.

Microsoft's surge is also an endorsement of the management and technological skills of Nadella, who notches 10-years as CEO in February. "They've been through the peaks and the valley," says Aronson. "Now they're on the love train."

Apple became the first company to hit \$3 trillion in stock market capitalization last year. Its shares have since retraced some of their recent gains, closing at \$191.73, meaning the iPhone maker's market cap was just \$2.965 trillion, according to Morningstar.

Statman advises not making too much of the \$3 trillion number. "You can just light three candles and move on," he says.