SILICON VALLEY IS IN THE TOILET AND NOBODY DESERVES IT MORE

Apple and the FANG stocks could lose at least a third of value, market watcher warn

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Wall Street's crown jewels, the FAANG stocks, have lost their shine lately.

Facebook, Apple, Amazon, Netflix and Google parent Alphabet are selling off again Monday after losing a combined $185 billion over the previous two sessions.

Ahead of Apple earnings scheduled for Tuesday evening, Larry McDonald, editor of the Bear Traps Report, warns to stay away from what has been one of the hottest areas of the market this year.

"These are stocks you want to run away from," McDonald told CNBC's "Trading Nation" on Friday. "I see potentially 30 percent to 40 percent downside on the FAANGs."

A 30 percent decline would turn Apple and Alphabet lower for the year. Facebook is already negative for 2018 and currently trading in a bear market having fallen more than 20 percent from its 52-week high.

Netflix is close to a bear market, but would still be positive for the year if it fell 30 percent from current levels. Amazon would also remain higher for 2018, but would be pulled into a bear market.

McDonald sees a brewing crisis in passive investing, a method where capital is placed in market-weighted indexes over individual stock picks. The FAANG names make up a large portion of a number of popular indexes.

"About $6 trillion has come into passive management in recent, say, last five to 10 years, and all of that money has to go into the FAANG stocks," said McDonald.

Apple is the largest holding in the SPY S&P 500 ETF with a 4 percent weighting. Alphabet and Facebook make up a combined 5 percent, while Amazon makes up 3 percent. Apple, Amazon, Alphabet, Facebook and Netflix made up nearly 40 percent of the QQQ Trust.

McDonald's call on Apple is a contrarian one. Bill Baruch, president of Blue Line Futures, is bullish on the iPhone maker, alongside the majority of Wall Street analysts.

"Apple will be a buy at about $189 to $190.25. That's where I think you've got to step in and look to be buying that," Baruch said Friday on "Trading Nation." "I think we'll find Apple higher than this by the end of the year."

Sell-offs in Apple over the last two days have put the shares within Baruch's range. By midday Monday, it was trading at $189.90 a share.