What ever happened to “Tech Wreck”?

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The euphoria around technology stocks is growing to levels that should be a cause of concern to most investors. We have discovered from experience that when investors favor a sector so much that it falls under the “must have at any price scenario”, then it is a good time to take some profits. Nearly twice the mutual fund dollars are going into technology funds this week than the first week of October. It seems to be a given now to get growth you have to buy technology related stocks, particularly with the growth prospects of the internet. Many novice investors feel that this out-performance of technology is commonplace, but just three years ago technology companies traded at a 19% discount to non-technology peers. Currently with shares in higher and higher demand such an occurrence (of trading at a discount) seems unthinkable. We are advocates of technology and feel technology will continue to be a vital catalyst for global economic growth. But some of the extreme valuations force us to take some profits and be extremely selective with any new purchases here. The internet craze reminds us of the early tech craze of 1982-1983, when a host of PC companies went public...of which Apple Computer was the only one that survived. To put it simply, tech stocks do go down and we would rather take some profits now when prices are hitting new highs than try to get out the door when everyone else decides that tech prices are too high. Last Friday’s Microsoft ruling is taken as a “nonevent” by Wall Street and this confirms our thoughts that investors are looking at everything in tech through rose colored glasses. Last week we met with several fellow money managers in San Francisco and one conversation perfectly illustrates the IPO internet craze. The firm manages $11B institutionally and has recently established retail mutual funds for the general public. They were bragging about their emerging growth fund being up 50% last month alone. It turns out that this new fund with only $8M in assets was the beneficiary of many of the “hot” IPO’s of late causing such a small fund to soar in price. Even though this was not an IPO fund, this institution discovered the best way to get a bang for their IPO dollar was to put a good part of the firm’s allocation into this new fund. This is definitely a sign of the beginning of a craze. How all this will shake out is not known, but the high quality leaders should continue to do well. The vast majority of the internet IPO’s will probably experience the same fate as Atari and Commodore of the early 1980’s. The early sign of this is that the first internet grocery IPO, Peapod, Inc., has recently announced that it may not have enough money to continue operations through next year. If internet euphoria begins to dry up, so will the cash that is funding all of these speculative deals. That will lead to only one possible outcome for many speculative internet IPO’s at today’s excessive valuations.