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Term Paper

<u>The Dot.Com Implosion</u>

Who should pay for the dot-com debacle and suffer the repercussions from the losses of individual investors?

A) Analysts

B) Underwriters

C) Individual investors

D) All of the above

Most folks would pin the blame on analysts and underwriters. Larry Dignan of CNET News.com staff takes an alternative approach to shoulder-bearing blame:

"The role of individual investors, however, is usually overlooked. Too often, investors want to blame someone else for their mistakes. Shareholder lawsuits emerge whenever a stock falls. Message board jockeys bemoan big losses. Seldom do people look in the mirror and ask what they could have done differently."[1]

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[1]" Larry Dignan, Finger Pointing after the Dot-Com Implosion, http://news.com.com/2010-1071-281480.html?legacy=cnet

Is it important to note that the author on this occasion won't ascribe to the populist view, which regrettably appears as if he is operating on a specific agenda?

"Dot.com executives weren't the ones who bid up the stock prices."[2]

"If investors didn't go gaga over dot.coms, those same CEOs and bankers you may want to call crooks would have never been able to cash out."[3]

Do individual investors need to own up to their own naiveté? It simply does not add up. If individual investors are hiring people like David Diesslin as financial planners in guiding their portfolios, what then is the role of the intermediary professional, (might I add, paid professional?) then what recourse will the average Joe have in the future? What precedent might be set by this wisdom? One can only surmise from this author's view that as long as a consumer operates on the basic precept of trust, then he or she has only themselves to blame in the event that trust is breached.

"Why weren't investors diversified? Why didn't they peruse filings with the Securities and Exchange Commission? Why didn't investors have a speck of healthy skepticism?"[4]

In the interest of the individual investor, what then is the role of the portfolio analyst, the financial planner, the stock broker? In the long food chain between the dot.coms and the individual investor, it is stupefying to assume the only predator was at the very bottom.

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[2] David Diesslin, Financial Planner, Finger Pointing after the Dot-Com Implosion, http://news.com.com/2010-1071-281480.html?legacy=cnet
[3] Larry Dignan, Finger Pointing after the Dot-Com Implosion, http://news.com.com/2010-1071-281480.html?legacy=cnet
[4] Larry Dignan, Finger Pointing after the Dot-Com Implosion, http://news.com.com/2010-1071-281480.html?legacy=cnet

There were many predatorial operatives. In an effort to substantiate his claims, the author here begins to take a psychological, humanistic approach:

"They were too greedy to care. In late 1999 into early 2000, individual investors got greedy along with everyone else in the dot-com food chain. Investors bought Internet companies that had no prospects for profits and unrealistic growth targets."[5]

Beg your pardon sir, but I thought that making the most money the fastest and the most consistently was the general purpose of business venture investments.

"The warning signs were there. The press flagged a meltdown, but negative reports were shunned because the stocks kept going up. The SEC had many risk factors listed in regulatory filings."[6]

Is it a reality to circumvent a long system of professionals and ignore the fact the individual investor is making decisions based on the advice of these professionals? Is Mr. Dignan writing this article in the interests of the financial intermediaries who are simply tired of taking the blame for the dot.com companies? It is bad enough that Mr. Dignan is essentially saying that the individual investor is acting on the sole motivation of greed, and the ideology that the investor will accept no external locus of control, but on top of it all he assumes that the article he has produced for public consumption will in some way, alter the general consensus' views.

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[5] Larry Dignan, Finger Pointing after the Dot-Com Implosion, http://news.com.com/2010-1071-281480.html?legacy=cnet

[6] Larry Dignan, Finger Pointing after the Dot-Com Implosion, http://news.com.com/2010-1071-281480.html?legacy=cnet

“Even a few analysts raised red flags. Jonathan Cohen, who was Merrill Lynch's Amazon.com analyst in 1998 and early 1999, was bearish on the e-tailer well before it was cool. Unfortunately, Cohen's analysis didn't do wonders for Merrill's investment banking business. Cohen wound up at Wit SoundView, and Merrill replaced him with the much more upbeat Henry Blodget.”[7]

In a meager attempt to validate his views, this author cites one loosely described opinion of an analyst who appears to be an associate. To describe that Jonathan Cohen was “bearish on the e-tailers” is too much of a generality for the reader who is unfamiliar with the situation, and far too general verbs and nouns here. What exactly what does the author mean by “bearish”? Did Jonathan Cohen tell Merrill Lynch to bail out of Amazon.com? And what precisely what is an “e-tailer”? Also, with the current awareness of Amazon.com it would marginal at best to associate this thriving e-business with the likes of the dot.com industries.

But what or whom is to blame for the era that caused so many to invest billions of dollars in college grads with computer science degrees that were operating out of furniture-less, crate-barrel offices? Do we perhaps have to give Mr. Dignon some credit for not necessarily ascribing to his off-beat beliefs, but inspiring a different take on the whole thing? Maybe this should be a lesson for us all, not just the investors, intermediaries, or the 28 and 29 year old CEOs. We invested in an idea that was founded on the ideologies of the children we raised.

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[7] Larry Dignan, Finger Pointing after the Dot-Com Implosion, http://news.com.com/2010-1071-281480.html?legacy=cnet

A more sane approach to accepting the pitfalls to the ill-fated era of the late nineties might be demonstrated in the form of sublimation. If the dot.coms gave us lemons, pass around the lemonade. On that note, another author surmises the good we can glean:

"Now that the dot-com bubble has burst, sparking a recession that has spread through the U.S. economy and shining a spotlight on corporate business practices, the boom era is facing its share of harsh criticism. But for all the failures that dot-coms brought to the business world, they also were responsible for some truly astounding technological innovations and drastic changes in accepted business models."[8]

Louis Columbus, a financial analyst with AMR, sums it up in terms of the relationship that was destroyed by the dot.coms and the business merchants:

"A more indirect benefit is that distrust spawned by dot-coms' arrogance has deterred businesses from "investing purely on promises,"."[9]:

The software market now demands more solid proof that success is in the offing. Guaranteed ROI (return on investment) and pilots that yield demonstrated results are a standard pre-requisite that are in enforcement more than ever.

Could it be fathomable that a large group of investors bought into the pipe dreams of the X generation?

Moreover, Columbus continues: "All the dead dot-coms share a common trait: They all had value propositions that sounded like platitudes, every one had a degree of arrogance

[8] Teri Robinson,E-Commerce Times, Lasting Benefits of the Dot.Com Bubble, http://www.ecommercetimes.com/perl/story/18570.html July, 2002

[9] Louis Columbus, AMR Research,E-Commerce Times, Lasting Benefits of the Dot.Com Bubble, http://www.ecommercetimes.com/perl/story/18570.html July, 2002

in them about changing the world, and none of them had real products aimed at real customers."[10]

A misconception from the author of this statement is that somehow a problem will be resolved through blame. The more the analyst finds cause to attack individual investors the more difficult it becomes to take his professional opinion seriously. After all, would you hire Mr. Columbus to take care of your life savings? What if the risks he suggested cause a huge loss? Would his response be, "The invitations all sounded like platitudes and you should have known better."?

In lightning speed, the same analyst moves to tell us how this loss has "benefited" all involved:

Integration is king. That was a huge lesson. Enterprises found that to develop a comprehensive e-commerce strategy, their applications had to work together seamlessly. And although remarkable, the implosion added to the acceleration of developing internet software.[11]

I'll give you that, Mr. Columbus, although this still does not retrieve the millions lost in the process, nor does it really bring light to mistakes that were made. But on a more positive note, Teri Robinson, a writer for CNET News.com, states the seemingly obvious:

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[10] Louis Columbus, AMR Research, E-Commerce Times, Lasting Benefits of the Dot.Com Bubble, http://www.ecommercetimes.com/perl/story/18570.html July 2002

[11] Louis Columbus, AMR Research, ,E-Commerce Times, Lasting Benefits of the Dot.Com Bubble, http://www.ecommercetimes.com/perl/story/18570.html July 2002

"Dot-coms also underscored the importance of adding depth to applications rather than simply offering cliche-ridden value propositions."[12]

Afterall this, are businesses now more focused on "business" than ever before? Or are they simply more untrusting? Rob Perry, a financial Analyst reports to CNET News.Com his assertion"

"The dot-com phenomenon also highlighted the importance of collaborative work environments. The ecosystem [demanded that you] work with other people."[13]

Beyond these changes, the implosion scattered, destroyed, and re-directed brick and mortar concepts and myths applied to technologies that were being faster developed than ideas could keep up with. It would seem to me that many of these "causes" could have been prevented by one very easy, very broad assertion: DON'T forget what you learned in business school. Go forth with confidence, don't neglect your research, and don't promise anything you cannot deliver. Don't expect to be delivered the unrealistic. Perhaps the best "lemonade" I have seen made yet is the following comment by Andrew Bartels, a financial analyst for Giga Information Group:

"Referring to the Internet as a once-in-a-generation technological innovation that truly changes how business is conducted the dot-com era not only spawned new technology, but also improved efficiency. It created an environment where XML could be the

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[12] Teri Robinson, E-Commerce Times, Lasting Benefits of the Dot.Com Bubble, http://www.ecommercetimes.com/perl/story/18570.html July 2002
[13] Rob Perry, Yankee Group Analyst, E-Commerce Times, Lasting Benefits of the Dot.Com Bubble, http://www.ecommercetimes.com/perl/story/18570.html, July 2002

standard for sharing data and applications adding that this will have a profound and lasting impact on e-commerce".[14]

Yes Mr. Bartels, billions of dollars in the offing did motivate the dot.coms to compete. And yes, it did push technology at a stellar pace further forward than perhaps without the whole event happening. But what price did we all pay? And have we really looked at what motivated everyone to act, react, and respond in such frenzied, group-driven, madness? Or perhaps the nature of the dot.com debacle a necessary evil? Could it be possible that every renaissance involving "new" ideas causes the same chaos?

Further, says Mr. Bartel, "There had always been a lot of content online, ensuring access to that content was not a priority until the dot-com revolution was in full swing. It really matured search engine technology".[15]

Arguably, it did evolve technology into a tooth-for-tooth competitive industry, which in turn forced advancements that may not have naturally occurred as quickly.

And in final resignation, Mr. Bartels enlightens us with one great epiphany: "he ill effects of the dot-com implosion will linger for a long time, and the market is not likely to see another dot-com boom in the near future, although e-tailers are snapping up defunct companies' assets and relaunching once-dead sites to capitalize on existing brand names or e-tail foundations."[16]

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[14] Andrew Bartels, Giga Information Group Analyst, E-Commerce Times, Lasting Benefits of the Dot.Com Bubble, http://www.ecommercetimes.com/perl/story/18570.html July 2002

[15] Andrew Bartels, Giga Information Group Analyst, E-Commerce Times, Lasting Benefits of the Dot.Com Bubble, http://www.ecommercetimes.com/perl/story/18570.html July 2002

[16] Andrew Bartels, Giga Information Group Analyst, E-Commerce Times, Lasting Benefits of the Dot.Com Bubble, http://www.ecommercetimes.com/perl/story/18570.html July 2002

Where I come from that sounds like mergers, acquisitions, and integrations. Hey maybe I am learning something in business school: The length of time one graduates from Business School is directly proportionate to the amount of information many Business graduates will discard immediately to justify "new" practices for "new" technologies. Uh, what we have here folks is a failure to communicate. Regardless of the business, where it is, or what venue it speaks from, one thing is absolutely certain: The basic precepts of a sound business plan must always be relevant.

"In a perversely opposite opinion , Lauren Freedman suggests in an except from her book, It's Just Shopping, this idea: Many venture capitalists and would-be pioneers never understood the power and passion required to be a successful merchant. They bought into the so-called demise of traditional channels and failed to see the synergy that multi-channel strategies would deliver."[17]

And now for a not-so-nice, dirty perspective from whistle blower and former dot.com-er David Jordan explains it really does have to do with the age-group of the dotcoms CEOs, and experience level with business in general: "The only "competent manager" at his former employer, Web-site builder Website Pros Inc., was the information-technology chief. Everyone else was pie in the sky. The former business-process engineer tells tales

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[17] **Lauren Freedman, MYTHS VS. REALITY: What did we learn from the dot-com implosion?, http://www.the-dma.org/cgi/dispnewsstand?article,**

of weekly happy hours whose tab was picked up by the company and of executives who sold clients e-commerce Web sites before they knew how to build them."[18]

But in a counter attack CEO Darin Brannan, a Website Pros founder and senior vice-president, says the company did know how to build e-commerce sites, offered its laid-off employees generous severance packages, and remains "in good shape."[19]

It's easy to migrate directly to the first story. We've heard them all before. 23-year-old Harvard College grads majoring in computing science, one day in class, the next day figuring out how to squander away millions of dollars from investors with very little to substantiate their capital venture. Instances like this make investor's blood boil: "Brad Garlinghouse, until recently a partner with CMGI Inc.'s venture-capital arm, has been blamed himself. He won't name names, but when his firm declined to put up more cash for a once-vaunted outfit that had burned through about $20 million, the start-up's CEO exploded into the phone, 'You've never helped me! You've never helped me!' "[20]

At that point my respond would have to be limited to something to the effect of, "Awww, did we miss our nap today?"

In the end Mr. Garlinghouse humbly admits, Mr. Garlinghouse says he kept quit, silently thinking that the entrepreneur was the one who pitched him on the dumb idea in the first place. "It's a painful thing to admit you made mistakes," says Mr. Garlinghouse, now with start-up Dialpad Communications Inc. A few dot-commers are willing to shoulder some

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[18] Rebecca Buckman, Who Caused the Dot-Com Crash? , http://www.infopoint.com/articles/dotcomcrash.html, The Wall Street Journal, March 2000
[19] Rebecca Buckman, Who Caused the Dot-Com Crash? , http://www.infopoint.com/articles/dotcomcrash.html, The Wall Street Journal, March 2000
[20] Rebecca Buckman, Who Caused the Dot-Com Crash? , http://www.infopoint.com/articles/dotcomcrash.html, The Wall Street Journal, March 2000

of the blame. Josh Silverman, the 32-year old co-founder of struggling online-invitation site Evite.com, said he often feels like "Exhibit A." "I'm greedy, my VCs were greedy," says Evite’s Silverman, who is busy these days taking salsa-dancing lessons and training for a triathlon. But ego dies hard in the Valley. Even without figures in the profit column, many entrepreneurs seem unable to display any disbelief in themselves. [21]

And there are always the analysts that screamed to the public the invention of a better-than-sliced-bread product, sure to provide never-ending returns and rainbow kisses: “Others blame the hype machine created by "star" research analysts like Henry Blodget at Merrill Lunch & Co. He and many others have become dartboards for the disappointed, who point out that sticking with many of these stock pickers' "buy" recommendations has proved disastrous for some investors.”[22] Honestly, the *HYPE* machine? What is that? If you look closely at this comment you can see Merrill Lynch peeking out behind the word *hype*. Ms. Buckman goes on to say in her article, “When Mr. Blodget was quoted in the news recently commenting on a stock, Yang Li, a former pension-fund manager now with a European bank, fired off an e-mail to this reporter noting that many investors are ‘disgusted’ by Mr. Blodget. ‘Many people think he should be accountable for [the] huge losses on his calls,’ Mr. Li wrote, adding: ‘Sorry for sounding too emotional.’ Mr. Blodget, who has recently turned his sights to more established companies such as Microsoft Corp., says these days that ‘I feel like a global piñata.’”[23]

But it’s hard to find any sympathy for someone who appeared so blatantly dishonest. The credibility of America became doomed from a world-wide perspective. Can we really

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[21] Rebecca Buckman, Who Caused the Dot-Com Crash? , http://www.infopoint.com/articles/dotcomcrash.html, The Wall Street Journal, March 2000

[22] [22] Rebecca Buckman, Who Caused the Dot-Com Crash? , http://www.infopoint.com/articles/dotcomcrash.html, The Wall Street Journal, March 2000

[23]

blame someone like Mr. Li who acted on venture capitalism and the entrepreneurial spirit of America only to find that his money may have been squandered away on dot.com-ers extravagant business spending tendencies and over-the-top salaries?

The trend to go with placing the blame on the individual investors and day-traders is frightening: "And what about those quick-fingered day traders who helped heat up the market with their frantic buying and selling? They're at fault, too, says Marc Andreessen, the Netscape Communications Corp. co-founder who now helps run Internet-infrastructure firm Loudcloud Inc. During a television-show taping before a packed house at Stanford University's business school earlier this year, Mr. Andreessen was asked what role VCs and investment bankers played in the dot-com collapse. His reply: 'I actually think it's the individual investor.'"[24]

So, who was to blame for the implosion? Was it the Analysts, the Investment Companies (a.k.a. hype), Entrepreneurs, CEOs, Venture Capitalists, Investors? One final tally and we should all probably admit guilt. Aside from that, it's not over, says Martin Pichinson, self-described Silicon Valley dot.com liquidator, so gear up and get ready: "Sadly, it looks like 2004 is going to be another busy year for me," Pichinson said. "There's still another 6,500 to 7,500 companies out there who are among the walking dead."[25]

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[24]Rebecca Buckman, Who Caused the Dot-Com Crash? ,www.infopoint.com/articles/dotcomcrash.html, The Wall Street Journal, March 2000

[25] MICHAEL LIEDTKE, Monterey Herald, Liquidator Thrives on Silicon Valley Woes, www.montereyherald.com/mld/montereyherald

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