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Dot.com Dominos

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by

The gyrations of the markets over the last couple of weeks particularly the NASDAQ have undoubtedly led many investors to reach for their bottles of Maalox or bottles of Scotch, whichever they find more palliative in cases of extreme agitation.

If the plunging NASDAQ means that the tech-spec bubble has burst, all I can say is that it's about time and better now than a year from now.

The situation is analogous to one we have all experienced as kids (and, who knows, maybe as adults for some of us). I'm talking about blowing up a balloon as far as it could go and then seeing if it could take onejust onebreath more. Pow!

How many of us haven't ended up with balloon all over our faces because of that one extra, yeah-we-know-it's-risky-but-what-the-hell breath?

Now, if the increasingly pumped-up valuations of so many of the dot.com and e-commerce upstarts were not like seeing if that balloon could take just one more breath, I don't know what is. In so many of these cases, P/E ratios were (and are) meaningless because there is no E. So then, the reasoning seemed to go, if it's meaningless anyway, what does it really matter if you keep adding to the P?

It was frankly disconcerting to see established (or to use the more pejorative term, 'Old Economy') companies valued at much less than newcomers whose claim to fame was that they had a great idea that could very well pay off BIG (really big, to quote Mr. Shatner) sometime in the future.

Let's face it, nothing defies gravity forever, but in the thrill of proclaiming and chasing after the new, it's all-too-easy to forget this.

Greed has always steamrolled scienceup to a point. Thus, investors can be lulled into forgetting that gravity even exists. Then it's like that quick moment of recognition that Wiley Coyote has as he realizes he's outrun the edge of the cliff and is just about to go plummeting down.

When gravity does set in, the result for Wiley Investor is getting wiped out (too bad you invested in one of the unlucky dot.com IPOs, my good fellow) or getting his fingers burned (as the margin-call sirens blare in the background).

It must have been this way in the 18th century as those investors who scooped up 'priceless' tulip bulbs for princely sums watched in dismay as the bulbs began to rot. Thus have guilders, shekels, dollars, whatever the currency, always evaporated.

If the NASDAQ's plunge means that the long-overdue shakeout of the dot.com swarm has finally begun, so be it. Perhaps, now, investors will allow Old Economy companiesand let's face it, this includes many insurance companiesto come out from the nooks next to the fireplace where they have been consigned like so many unfashionable Cinderellas.

And as much as I hate to deny kids just out of their teens the opportunity to become stock-option millionaires, I do welcome at least a semblance of a return to rationality in valuing companies based on what they produce now and what their near-term prospects are, not what they might conceivably, possibly, hopefully produce down the line.

I'm not saying that dot.com companies and other newcomers should have to be profitable before they are out of diapers, but by the same reasoning neither should they be so insanely valued while they are still in diapers.

None of this means, of course, that the march of technology, or its transformative power, will stop. But it does mean that the timetable for the handing over of life and business as we know it to the Internet will have to be extended a bit.

In other words, the Internet is still going to change everything, only not so fast.

There was an interesting letter in a recent issue of *Business Week* in which the writer said that if all the agricultural land in Illinois, Indiana and Iowawere valued at \$1,000 an acre, the total still would not equal the market cap of Yahoo!, which on Feb. 29 was \$84 billion.

"I love the Internet, but at those market valuations, I'll keep investing in the 'Old Economy,'" concluded Alejandro Lieber, who wrote from Rosario, Argentina.

Maybe it's Mr. Lieber's long-distance vantage point that allows him to so clearly see how out-of-whack the situation has gotten in the United States. But whatever it is that accounts for his clarity, I couldn't agree with him more.

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