

## Lessons to learn from 'tech-investor hell'

2001 is going to be a fantastic year.

You can take that to the bank, print it, count on it and even trade on the news.

Forget about the economic hard landing that many pundits are predicting; the landing will be as brief and smooth as your new Hermes tie.

Why do I feel so strongly? First, I'm a permanently optimistic person. Second, last year was so absolutely horrible for tech investors that the gods of the markets would never do that to us two years in a row! That would constitute cruel and unusual punishment. It would require a "roughing the investor" call. No market could be so draconian.

But beyond this blind faith, how can one be upbeat? Information technology is still the predominant strategic weapon for all global companies aiming to improve productivity. And we are still in only the third inning of the expansion of true electronic commerce between companies.

These two factors are going to continue to drive procurement of IT services and equipment at rates of 15 to 20 percent per year for the foreseeable future. So there's still lots of sunshine out there for tech companies.

But what can we learn from such a



### Equity Line

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tough year in the tech world? More than \$3 trillion of value was lost by investors, so we must have learned something other than to take the next millennium off.

Here are some of the top takeaways:

■ **Lemmings are everywhere.** In 2000 we learned that even the world's greatest investors can act as lemmings and lose big. Julian Robertson's Tiger Fund, a hedge fund icon for years, disappeared from the landscape. Hicks Muse, a large, smart private equity fund, lost more than a billion dollars in telecom bets. We all should be humble; this year's losers were in good company.

■ **Profits matter — eyeballs don't.** Black ink prevailed this year. 2000 demonstrates that profits do matter and that companies ultimately should and will be valued on their ability to produce real cash flow. It's not about revenue growth and it's certainly not about the eyeball count.

■ **Porter is still right.** Harvard's Michael Porter has long argued that a business' strategic value is very much determined by whether the company's sector is protected by "barriers to entry" such as large capital costs to participate in an industry.

The dot-com world was largely a simple business to enter, with little or no barriers to entry. With no barriers, there cannot be profits, and little long-term value can be created. Porter's still right; barriers to entry and solid, defensible business models matter.

■ **Common sense still prevails.** During

the dot-com mania, you'd read every day about tiny technology companies with little or no revenue being valued at hundreds of millions of dollars. Valuation defied all logic and sense, and the weight of a little bit of gravity ultimately prevailed.

Lesson: if it sounds crazy, it probably is.

■ **It can get worse.** When the Nasdaq hit 3,300, I was sure this was the low and jumped in to buy some stocks. The market was down more than 30 percent and valuations were cheap! Then pain became my friend. Don't try to catch a falling knife.

■ **Margin is not your friend.** Many investors, sure about things only getting better, borrow against their stock to buy more stock. When prices continued cratering, the margin positions were called and stocks dumped in a fire sale, sending prices even lower. This is a vicious cycle and has hurt many investors and managers.

■ **Diversification pays.** You should really never have more than 35 percent or 40 percent of your equity portfolio in one sector. If you held some low tech, large cap stocks in 2000, a lot of pain was avoided.

Being a tech investor is extremely challenging and fraught with risk. But it's also very exciting, the landscape changes every day and you never ever stop learning.

There are many lessons beyond these and this year will again provide us a series of big lessons and a thrilling ride.