

>: Tech Investors Beware!

Wednesday, February 7, 2007 / Wayne Mulligan

I'm not calling for a Bear Market or a "pop" of a proverbial bubble because the truth of the matter is, we're not in a raging Bull market, and we're definitely not in the middle of a bubble situation comparable to the late 90's.

However, there are certain key indicators that are telling us that we could potentially be heading into a hairy situation in the market, and as prudent investors, we need to have our guard up.

The reason I got into this business in the first place was to help people avoid the mistakes most folks made back in the "bubble days".

One of the biggest indicators I've been seeing that's getting me a bit concerned but not nervous just yet, but definitely concerned is the amount of venture capital deals being done lately.

As you know, most technology start-ups aren't usually financed by taking out a small-business loan from a local bank.

No, sir? Most of today's technology outfits are financed through one or more rounds of *multi-million dollar* Venture Capital financing.

Venture Capitalists are that hard-charging bunch of guys who scour the earth for the *next big thing* and hope that by investing early (like the guys who first invested in Yahoo!, Google, etc.,) they can reap huge rewards down the road.

For instance, if I found a great little tech start-up that I thought could do very well five years from now, but knew that the company desperately needed money today, I could invest now and probably acquire a decent portion of the equity (as opposed to investing in it five years from now, after the company had all of its ducks in a row.)

Then, I'd hope that the company either:

- a) Got acquired
- b) Or went public

If one of those two things happened, I'd have what's known as a "liquidity event" on my hands because before that time, the stock I owned in this private company would've been considered "illiquid", meaning I couldn't sell it and take cash out.

So Venture Capitalists, or VC's as they're more commonly known, are always hoping (and, in most cases, pushing) for a liquidity event. This way, they can see some type of return on the money they invested.

Now, if you can think back to the sheer number of start-up technology companies that went public back in the late 90's, and how that triggered much of the hype and mania around the tech sector, then it'd be good for you to know that it was the Venture Capital firms that pushed most of those companies to go public.

They were investing billions of dollars into technology start-ups, not because they thought that every single one of their businesses would work in the long term, but rather because they knew these businesses were very marketable as public companies at the time.

They knew that they could get an investment bank to come along and take the companies public, and the VC's would be able to cash out at a much higher price than what they invested at.

All told, from the first quarter in 1999 through the first quarter in 2000, over \$23 billion was invested into early and seed stage companies. The number dramatically decreased afterwards and has remained level ever since.

That is, until we look at the last five quarters from the 4th quarter, 2005, to the 4th quarter, 2006?

During this time, over \$6 billion was invested into these early/seed stage companies.

While this amount is significantly smaller than the numbers seen in the late 90's, it's the first time in five years that we've seen significant growth in this type of VC investing.

It's pretty obvious, too, when we look at how many new web start-ups are popping up and how many mega-deals we've seen in the tech space this year? YouTube was only 18 months old when Google (Nasdaq: GOOG) acquired it for over \$1.6 billion.

Skype was acquired by eBay (Nasdaq: EBAY) for over \$2 billion, and the business was only slightly older than YouTube.

This is making some VC's get a little too excited again as they hunt for *Google riches and caviar dreams*? and if we're not careful, they could hurt us in the p

they'll be exercising their influence behind the scenes, as well, when they try to get some returns on their investments.

Also watch out for VC investing statistics. You can get quarterly updates at the following website:

www.pwcmoneytree.com? the site is run by PricewaterhouseCoopers and the National Venture Capital Association.

We'll be approaching a critical juncture in the market if these deals don't slow down a bit ? and if they don't, your best bet is to shore up your cash, because we've all seen how this story ends.

Until next time?



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