

## >: The Next Google

Monday, July 23, 2007 / Wayne Mulligan

Happy Monday!

As you know by now, I usually stick to covering Tycoon's little corner of the financial publishing market. I talk about trends we're seeing, competitors in the space, etc. But this week I have to step outside of our space for a bit, because something so darn exciting is happening on the web that it deserves mention here.

I'm not sure if you're familiar with this website, but if you have kids or grandkids in college right now, then you can bet the farm that they are active users of it: [Facebook.com](http://Facebook.com).

It's the site that every college kid in America (and now the UK and Canada) just has to be part of if they want to have any type of social life. Actually, ever since Facebook opened its doors several months ago to non-college users, the same holds true for most twenty-somethings on the web right now.

Facebook is basically a social network ? and in case you missed my previous articles on social networking ([Click here](#)), I'll give you a brief rundown below.

### **Social Networks**

Social networks are web sites that allow you to keep a collection of friends (much like you would in the real world). Through this collection of immediate friends (people you know directly), you can see your extended friends (friends of friends) and so on. It's basically the whole 'six-degrees' of separation in the online world.

Now, MySpace was and still is the king in this market. If you recall, they were bought out back in the Summer of 2005 by Rupert Murdoch's News Corp. (NYSE: NWS). Since then they've become the highest trafficked web site in the U.S., and a true testament to the fact that the web is back in business.

Well, about three years ago, a little known company was taking shape inside of a Harvard dorm room ? and no, it wasn't Microsoft ? it was Facebook.

The now 23-year-old CEO, Mark Zuckerberg, masterfully and luckily created a new social network that wasn't based on finding new friends online, but rather extending your real world relationships into the online world.

Fast forward to present day, and Facebook is the darling of Silicon Valley. They've raised over \$30 million in venture capital and are on track to go public at some point in the future. Having rebuffed a number of multi-billion dollar offers from the likes of Yahoo! (Nasdaq: YHOO) and Viacom (NYSE: VIA), this company is shaping up to be the *next* Google (Nasdaq: GOOG).

Well, that's what many of my contemporaries are saying, anyway. And while I think it's unlikely, I wouldn't say it's impossible. Here's why ...

### **Helping Others Make Money**

Two months ago, Facebook launched a new 'developers platform.' Meaning software developers could now create applications for the Facebook community. What this essentially did was put Facebook on par with the likes of Microsoft (Nasdaq: MSFT).

Historically, any company that helps others' companies make money does extremely well.

MySpace got big because they helped bands and other artists promote themselves. Microsoft got huge because they created a unified platform for software and hardware makers to sell their goods. And now Facebook is doing the same.

### **Web Generations**

During the first phase of the web, everything was found by browsing directories ? Yahoo! being one of the first directory services. Then in the most recent era of the web, the search engine became king ? case in point: Google.

In the next generation of web technologies, I'm betting that social networking and relationships will allow people to find relevant information. In case this isn't abundantly clear, let me give you an example.

Instead of searching for news on a particular topic of interest and browsing through thousands of headlines until I find one that's interesting, in the

future I'd simply go to my social networking site, type in a phrase and immediately get a list of results that my ?friends? have also found relevant. To me this would be a far superior method of getting information because quite frankly, people are friends with like minded people. If my friend thinks an article is interesting, then chances are I will too.

### Your Mission

So in typical Monday fashion, what I'd like to know from you is if you are a member of any social networking sites like MySpace, Facebook, LinkedIn, etc.

**Related Articles:** [Google Going Offline](#), [Dot Bomb Part II](#), [Watch Out Microsoft](#)

If so, tell me which ones you're on, what you like or dislike about them and why.

Can't wait to hear what you have to say! Have a fantastic week!



Wayne Mulligan  
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## Wednesday, July 25

*10:00 - Existing Home Sales (for June): Consensus 5.90M*

Big Picture: Home resales reached a three-year low in March and a lower level in April. The weak sales pace left an 8.4 month supply of inventory -- a new cyclical high. But lower mortgage rates and prices help improve affordability and demand, as median prices have risen the last three months to leave an annual decline of just - 0.8%. Existing sales include condos/coops which make up about 1/8 of the total. The National Assoc of Realtors expects existing home sales to bottom in the second quarter -- they may be too optimistic. The upturn will be slow as sub-prime foreclosures add to already bloated inventory.

Implications: The name speaks for itself -- this report provides a measure of the level of sales of existing homes. The report is considered a decent indicator of activity in the housing sector. Housing starts precede this report each month, but starts are a supply rather than demand-side indicator. Existing home sales precede the other key demand-side indicator of housing -- new home sales -- thus boosting the visibility of this report. Sales are highly dependent on mortgage rates, and will tend to react with a few months lag to changes in rates. Sales are also determined by the level of pent-up demand for housing -- immediately after a recession, sales are typically quite strong due to the demand which accumulated through the recession.

## Thursday, July 26

8:30 - *Durable Orders (for June): Consensus 2.0%*

Big Picture: The durable orders release measures the dollar volume of orders, shipments, and unfilled orders of durable goods (defined as goods whose intended lifespan is three years or more). Orders are considered a leading indicator of manufacturing activity, and the market often moves on this report despite the volatility and large revisions that make it a less than perfect indicator. These problems can be minimized by looking at the breakdown of orders.

Implications: The total number is often skewed by huge increases in aircraft and defense orders. An increase based solely on strength in one sector tends to be discounted, while the market is more impressed with broadbased increases in orders.

8:30 - *Initial Claims (for 7/21): Consensus 310K*

Big Picture: Initial claims can be somewhat volatile, but the 4-week average has remained in a lower 300K to 320K range for eleven weeks after topping 330K in mid April. Aberrations are watched for clues on the labor market and economy, as the recent levels reflect an even tighter labor market. Continued claims are showing more lift than initial claims as the 4-week average nears the year and a half high of early March. Claims provide a nearly real time read on layoffs and the labor market as the low 4.5% unemployment reflects the broader read of layoffs and hiring.

Implications: Initial jobless claims measure the number of filings for state jobless benefits. This report provides a timely, but often misleading, indicator of the direction of the economy, with increases (decreases) in claims potential signalling slowing (accelerating) job growth. On a week-to-week basis, claims are quite volatile, and many analysts therefore track a four week moving average to get a better sense of the underlying trend. It typically takes a sustained move of at least 30K in claims to signal a meaningful change in job growth.

10:00 - *New Home Sales (for June): Consensus 900K*

Big Picture: The report indicates the level of new privately owned one-family houses sold and for sale. New home sales usually have a lagged reaction to changing mortgage rates. They also tend to be stronger early in the business cycle when pent-up demand is strong, and they fade later in the cycle as the demand for housing is sated. In addition to home sales, the market monitors the number of homes for sale relative to the current sales pace. As this inventory measure falls (rises), housing starts tend to rise (fall). Finally, the median home price provides an indication of inflation in the housing sector, though only year/year changes provide any meaningful information.

Implications: The home sales report is quite volatile and subject to huge revisions, making any one month's reading very unreliable. The report rarely prompts a market reaction. The market prefers the existing home sales report, which has a sample data pool four times as large and is released earlier in the month.

## Friday, July 27

8:30 - *GDP-Adv. (for Q2): Consensus 3.2%, Chain Deflator-Adv. (for Q2): Consensus 3.4%*

Big Picture: Gross Domestic Product (GDP) is the the broadest measure of economic activity. Annualized quarterly percent changes in GDP reflect the growth rate of total economic output. The figures can be quite volatile from quarter to quarter. Inventory and net export swings in particular can produce significant volatility in GDP. The final sales figure, which excludes inventories, can sometimes be helpful in identifying underlying growth trends as inventories represent unsold goods, and a large inventory increase will boost GDP but might be indicative of weakness rather than strength. The broad components of GDP are: consumption, investment, net exports, government purchases, and inventories. Consumption is by far the largest component, totalling roughly 2/3 of GDP.

Implications: In addition to the GDP figures, there are GDP deflators, which measure the change in prices in total GDP and for each component. Though the consumer price index is a more closely watched inflation indicator, the GDP deflator is another key inflation measure. Unlike CPI, it has the advantage of not being a fixed basket of goods and services, so that changes in consumption patterns or the introduction of new goods and services will be reflected in the deflator. With both GDP and the deflator, the market tends to focus on the quarter/quarter change.

10:00 - *Michigan Sentiment-Rev. (for July): Consensus 91.5*

Big Picture: The push to a two-year high in January was largely tied to the drop in gasoline prices, as equity prices have helped in recent months while gas prices turned higher. The fears surrounding housing and energy prices are being matched by the strong labor market and improved expectations for the economy. The University of Michigan survey, which is significantly smaller (500 phone calls, just 250 in preliminary) than the Conference Board's, includes a longer outlook (for expectations) as questions are focused on the household compared to the business heavy CB survey. The index far better tracks the consumers' mood than spending habits better indicated through interest rates and income growth.

Implications: The Michigan index is almost identical to the Conference Board Consumer Confidence index, though there are two monthly releases, a preliminary and final reading. Like the Conference Board index, it has two subindexes -- expectations and current conditions. The expectations index is a component of the Conference Board's Leading Indicators index.

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