Bubble-heads beware: dot.com stocks are popping

by Marcia Merry Baker

This year the Ides of March marks the beginning of the end of Internet stock mania, as big-name, big-size losses and swings were posted as of mid-March on the Nasdaq, on the German Nemax (the "New Economy" Nasdaq equivalent), and elsewhere in Europe. At the same time, a new study by Pegasus Research International received wide transatlantic publicity, for projecting that 51 Internet-related companies are on course to run out of cash by the end of the year.

Internationally, headlines are proclaiming the coming of the Internet end-times. The March 22 German daily *Die Welt*'s was, "Stock Markets Shocked by Feared Bankruptcies in the Internet Sector." The piece covered the Pegasus study, adding many similar conclusions by German sources. Analyst Udo Doernhaus of Bayerische Landesbank, for example, is now saying that six out of ten Internet companies will soon cease to exist. (See accompanying documentation for more assessments.)

There is coverage of the crash even in the United States, where otherwise the implications of deflating the speculative bubbles have been all but blacked out.

A cool $6.1 billion in stock capitalization was lost in one day, March 20, by MicroStrategy Inc., based in northern Virginia, whose president, Michael J. Saylor, owner of 55.7% of his company's stock, saw his net worth drop some $3 billion in a few hours. "It feels like nothing, actually," Saylor told the *Washington Post*. This typifies the Lubberland outlook prevalent in the northern Virginia corridor, home to the biggest concentration of Internet-related companies in the United States, and to fantasy-land belief in the techno-bubble. Northern Virginia, the Eastern Seaboard equivalent of Silicon Valley, California, is now called, "Silly.com."

The immediate cause of MicroStrategy's plunge, was the revelation that the company had been overstating its revenue flows. But by the time this issue of *EIR* comes off the presses, probably a new record for losses will be set by some other Internet star companies. Afterall, many pillars of Silly.com have no revenue flows at all!

Bubble-heads vs. the economy

Thus, it doesn't take much intelligence to see the writing on the wall for the Internet stock bubble. But here's the intelligence test now posed to every American citizen: Do you still think there's an alternative, "safe haven" in *non-cyber stocks,* or in finding a personal hidey-hole somewhere else in the so-called prosperous economy? If so, you win the bubble-head award.

In reality, the demented public mind-set that tolerated the spectacular run-up in the Internet-related stocks, is the same lunacy that fuelled the "traditional" stock speculation mania, which now involves over 40% of American households. Moreover, there are bubbles upon bubbles. Specifically, the global derivatives bubble is now in the range of $140 trillions.

All the while, with full knowledge aforehand, Federal Reserve Chairman Alan Greenspan and Treasury Secretary Lawrence Summers have been promoting "bubble management," as if it's worthwhile—or possible. Greenspan has been hosing money liquidity into the financial system to keep bubbles inflated, while at the same time trying to "talk down" excessive expectations. On March 21, the Fed raised interest rates for the fifth time since June 1999, saying that the Fed is acting to prevent "inflationary imbalances that would undermine the economy's record economic expansion."

What expansion? What economy? In fact, the real economy is breaking down, as part of the very processes that have built up the bubbles. The conditions are set for hyperinflation in commodities and necessities on the scale of 1923 Weimar Germany. Constituencies all around the United States are experiencing the truth of that fact, whether they consciously know it or not. On March 20 and 21, more than 2,000 farmers demonstrated in Washington, D.C. against ruinous financial conditions. On Feb. 22, March 16, and March 22, truckers drove their rigs in protest rallies in Washington, D.C., for the same reason. Millions of others are in the same situation.

The non-bubble-brain response is represented by those actively joining the campaign of Lyndon LaRouche's Presidential nomination drive, to mobilize for economy-building emergency policies in the United States and among nations.

Dot.com bubble trouble

Dozens of Internet-related companies are on course to run out of cash *this year*. The cover story of the March 20 edition of *Barron's* magazine is an article by Kack Willoughby, entitled "Burning Up; Warning: Internet Companies Are Running Out of Cash—Fast." The cover picture is a photo of bundles of cash engulfed in flames, with the sub-head: "Dozens of Internet Companies Are Likely To Implode This Year as They Burn Through Their Cash."

The story, based on the survey of 207 Internet companies conducted by Pegasus Research International, assessed the financial condition of these companies in the following way. It assumed that the companies would continue booking revenues and expenses at the same rate as they did during the fourth quarter of 1999. Many of these companies' expenses are larger than their revenues, meaning that they are losing money every month, drawing down their cash reserves. The Pegasus study determined how much cash each of the 207 surveyed companies had on hand at the start of the year, and, based on monthly revenues and expenditures for the fourth quarter of 1999, were that trend to continue, how many months of cash they have left.

It found that 51, or 25%, of the 207 Internet companies will run out of cash within 12 months. At that point, they are completely illiquid and have no recourse but to file for bankruptcy.

At the top of the list of companies which are running out of cash is Pilot Network Services. On Feb. 29, Pilot had a market capitalization of $558 million, but it was losing $1.54 million per month, and had negative cash reserves. It would have gone under, but Primus Telecommunications invested $15 million into Pilot, in return for a 6% ownership stake. If Pilot's losses continue at the rate of $1.54 million per month, the $15 million will give Pilot 10 more months of cash. Then what? Moreover, Primus Telecommunications may not be around in 10 months.

There are some companies with significant market capitalizations that have fewer than than 12 months of cash. **Table 1** shows the situation of seven firms.

TABLE 1
Barron's and Pegasus Research: Internet firms are running out of cash

	Market capitalization (billions $)	Number of months before runs out of cash
VerticalNet	$7.69	2.20
Digital Island	7.03	3.54
Splitrock Services	2.66	3.75
Healtheon	8.08	6.88
Ask Jeeves	2.14	7.75
NorthPoint Comm.	2.87	8.70
Amazon.com	23.42	10.08

Many of the Internet companies are scrambling for cash to try to forestall their shutdown. For example, Amazon.com raised $690 million in a convertible bond issue early this year. That is an amount in addition to the cash that it had when the ratios of Table 1 were calculated. However, during the fourth quarter of 1999, Amazon.com suffered losses at the rate of $91 million per month. That $690 million it raised will give it only 7.5 additional months of cash. If it doesn't turn its condition around, no one is going to want to buy another Amazon.com bond.

Some Internet companies are now finding that they can't float bonds, because no one will buy them. But even planning to float bonds points up the absurdity of the situation. It used to be that companies issued bonds to raise cash for new plant and equipment, an expansion, or other activity leading to potential future revenue. *They didn't float bonds to raise cash for day-to-day operating expenses, or in this case, to plug losses.*

There are 371 publicly traded Internet stocks in the United States, with a market capitalization of $1.3 trillion, which equals 7.6% of the capitalization of all stocks in America. This is strictly Internet stocks, and does not include Microsoft, etc. The scale of bankruptcy under way in cyber-speculation has massive direct and indirect consequences.

Barron's notes the immediate fall-out on suppliers. The giant firms that supply equipment to the Internet companies, such as Cisco Systems and Intel, cannot sell their equipment, or collect on past sales, to Internet companies that are in the process of disappearing.

Dot.coms deleting in Europe

Similarly in Europe, the "delete" symbol is blinking for "New Market" companies. On March 22, as one financial wire noted, "the unthinkable happened" on the New Market, when the software producer PRO DV Software AG started its first trading day in the negative realm. The same happened as well to the large Internet company Lycos Europe, which also went public on the New Market in March, despite the fact that its initial public offering was 30 times oversubscribed.

These kind of events mark the end of the wild run-up between September 1999 and late February, of the German Nemax index, which tripled from 2,700 points to more than 8,000 points, thereby even out-ballooning the Nasdaq in the United States. The first two months of the year saw U.S.-style speculation mania in Germany produce 100 to 400% spikes in the initial public offerings of info-tech companies on the Nemax. But by March, thuds.