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Finance

Fri, Dec 15, 00

## Get ready for the post new economy

By NIALL MCKAY

I have a new one for you: post new economy (PNE). It's the new phrase bandied about Silicon Valley at the moment. What does it mean?

You got me. I'm still trying to figure out what "new economy" means. Different things to different people I expect. To some it has meant enormous wealth, to others it has meant ruin. Now, in the US at least, it just produces a lot of worried-looking faces.

Rumour has it that there is a post new economy magazine in the pipeline and, no doubt, there will be PNE experts, PNE consultants and every company will be talking about how in the post new economy you must buy this, engineer that or sell the other.

In the post new economy, no doubt we're in for some really big changes - like making a profit.

Certainly, it's needed. Silicon Valley is undergoing significant pain right now. One problem is that many would-be or paper millionaires borrowed money on their would-be millions only to find that their paper millions got burned along with the rest of the stock market in the past 12 months.

It is shocking really because the banks have been doling out money to these people like there's no such thing as a bear market.

One friend of mine, an Irish man, who heads the marketing department of a technology company said that one day, at the tennis club, somebody offered to introduce

him to his banker.

He found himself on the 23rd floor of a skyscraper in downtown San Francisco peering at this little 25-year-old in a big suit who wanted to make him rich.

"It was very tempting," he said. "He had me totally sold."

The plan was to borrow money against his stock options, which were trading at the top of the market, and invest that money in other technology stocks. Furthermore, he could borrow money against stock options that he had not yet received. Also, he wanted to buy a house in San Francisco but he needed the deposit. No problem.

"God, I can safely say that it's the only time that my procrastination worked in my favour," he said.

"I have been plagued with it all my life but this time I just didn't get around to completing the paper work."

Had he done so, he would almost certainly be filing for bankruptcy right now.

Indeed, there are a great deal of house repossessions at the moment. Trouble was that a lot of tech would-be millionaires borrowed money from the investment banks to buy their houses.

If you had, say, a portfolio of shares worth a million dollars then and you were buying a house for \$1.2 million (that would get you a nice three or four-bedroom house in the city), you could borrow about \$500,000. The unfortunate thing is that there has been, on average, a 90 per cent drop in so-called new-economy companies in the past 12 months and I'm not just talking about dot.com companies.

So what is in store for next year. More blood letting, I believe. We've got to get rid of the crud. So it'll be rough for a further 12 to 36 months. In short, we will be in the midst of a recession as the companies that have been driving the US economy go through negative growth.

But make no mistake, the good companies will bounce back. We continually overestimate the short-term impact of technology and underestimate the long-term impact. The Web, wireless device, high-speed network technology companies are getting the spanking they deserve for over-hyping their potential and that will continue in the form of law suits next year.

Many will ride it out, however, and will grow to become the IBMs, Coca-Colas and Fords of tomorrow.

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