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Finance

Fri, May 05, 00

## The day the Nasdaq magic died

Being a pessimist, I believe we haven't seen the worst yet a crash and an economic slowdown are likely to happen

By NIALL MCKAY

To the tune of American Pie

A long, long two weeks' ago I can still remember how the market used to make me smile

What I'd do when I had the chance Is get myself a cash advance

And add another tech stock to the pile.

But Alan Greenspan made me shiver

With every speech that he delivered

Bad news on the rate front

Still I'd take one more punt.

I can't remember if I cried

When I heard about the CPI

I lost my fortune and my pride

The day the Nasdaq died.

The past couple of weeks have been rough for the people of Silicon Valley. Indeed, for everyone, the Nasdaq has let us all down. It plunged, made a modest recovery, plunged again, and is now recovering again. In those few days, vast fortunes were wiped out.

Geeks who have been working 16 hours a day for three

years have seen their work go up in smoke and the unshakeable confidence in the high-tech sector has been finally shaken.

Do I hate to say I told you so? Well yes and no. But then again, I have been predicting a correction for three years now. So I suppose I had to be right some time.

Still, I believe that we haven't seen the worst yet. The questions are, will such a correction turn into a crash? And will a crash slow down the economy.

Being a pessimist I believe the answer is "yes".

John Kennedy (JFK's father) - one of the few who managed to get his money out before the stock market crashed in the 1930s - reportedly said that once his shoe-shine boy started to give him stock tips, he knew it was time to get out. Recently, when back in Ireland, I stayed at a guesthouse in Wicklow and the Bean a' Ti started talking hightech stocks. I got a cold shiver down my spine.

But there are several problems with the Nasdaq today. First, all the pension funds, all the investment funds, and even most of the spare cash that the rich and the not-so-rich have is already in the market. Even grannies in Idaho are logging on to the likes of Etrade (the online stock broker) to take a punt with their pensions. So where's the extra money that is going to bring share prices up going to come from?

Incidentally, Etrade, in response to the falling market, is running ads in Silicon Valley that say, "Yes, it's a little scary, but then again so is love". (In the last two weeks, I have lost \$5,000 (€5,461) on my pension funds and got dumped by my girlfriend so I have a thing or two I would like to share with Etrade, but perhaps that should wait.)

The second major problem is that the venture capitalists and many of the new high-tech companies are playing a game of pass the parcel. The venture capitalists who invest in a company - particularly an Internet company - know that the business model won't ever support a profit, the company executives know it will never yield a profit but both are convinced that one of two things will happen.

First, they will go public, trade at a loss and they will sell their shares in the company. Then it becomes somebody else's problem and our granny in Idaho gets stuck with the stock. Second, AOL or some other Internet Goliath will step in and buy the company and, again, it becomes somebody else's problem.

The third major problem is that there are now millions of

people investing in the Nasdaq who know nothing about business, investing, or technology.

These people are trying to buy while the market is rising and sell when it's falling. This is creating a stampede mentality so each peak gets higher and each dip gets lower. This creates all sorts of nightmares for investors because even if they do their homework, find a good company with a good business model, that's even making a profit and the market dips, they will lose money.

I think we should return to the old days when any company that wasn't profitable for at least five consecutive quarters and had a turnover of less than \$50 million had not got the slightest chance of getting listed on the Nasdaq. The investment brokers are telling us that technology is driving the economy that we are betting on for the future. But remember it's not their money to lose. It's yours. In the meantime, I will leave you with the Nasdaq song.

So bye-bye to my piece of the pie

Now I'm gettin' calls for margin

'Cause my cash account's dry.

It's just two weeks from a new all-time high

And now we're right back where we were in July

Yeah we're right back where we were in July.

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