



THE DOT COM BUBBLE AND CRASH 1995 - 2001

Beginning in the mid- 90's, the Dot.com bubble was an inflation in investments of internet based companies. In March of 2000, the stocks fell rapidly, causing the crash of the dot.com bubble.

*Roles will be assigned after the break

Positions

Dot.com firms
who have failed

Dot.com firms
who have
succeeded

American
government

Canadian
Government

QUESTIONS TO CONSIDER

Overall, was the
dot.com bubble good
for the economy?

What positive and
negative impacts did it
have on the
macroeconomic level?

Could another tech
bubble occur?

Tech stocks dip from highs, but few expect bigger drop; Dot-com bubble collapse 17 years ago unlikely to be repeated

The Record (Kitchener, Ontario), June 17, 2017

Byline: Marley Jay; The Associated Press

Technology stocks have taken a stumble over the past week after soaring to heights they last saw just before the dot-com bubble collapsed 17 years ago. Here's why this time might be different.

Technology companies are the main reason the stock market has climbed in recent months. The technology index of the Standard & Poor's 500 index is up 17 per cent this year, twice as much as the broader S&P 500.

Last week, they got close to the highs they set all the way back in March 2000. At that time, Mark Zuckerberg was in high school, the iPod didn't exist, and few people had any idea how a company could make money from Internet searches.

What's different now? Unlike then, many of the market's favourite tech companies are actually making gobs of money.

"The sector is delivering on a lot of the promises that investors hoped for during the bubble years," Jack Ablin, chief investment officer for BMO Private Bank.

And yet last week, when the tech index seemed to be just minutes away from breaking a record, the stocks went into a steep slump. Some analysts think the stocks will fall a good deal further.

That might bring up bad memories of the tech bubble and its aftermath: the technology index peaked on March 27, 2000, but it nosedived following numerous high-profile company failures, the disastrous AOL-Time Warner merger, and the recession and stock market slump that followed the Sept. 11 terrorist attacks. By late 2002, the tech index had fallen a staggering 80 per cent from its peak.

Few investors expect that kind of catastrophe this time. One reason is that technology companies are very profitable now compared to then. After adjusting for inflation, the three largest technology companies of 2000, Microsoft, Cisco Systems and Intel, reported \$113 billion in combined revenue that year. Apple alone reported \$217 billion in revenue in 2016.

"We don't look at this to be the beginning of the end for the sector," said Terry Sandven, chief equity strategist for U.S. Bank Wealth Management. "Conditions are good for growth-oriented companies like tech."

Before the 2000 bubble burst, S&P 500 technology companies were trading at about 68 times their earnings. Today they are trading at about 21 times their earnings, a number that is much closer to where S&P 500 companies are usually valued.

To put it another way, investors value the technology sector at almost \$5 trillion now.

After adjustments for inflation, it was worth about \$6.4 trillion in March 2000. That's for a group of companies that were newer, less tested, had far smaller profits and fewer sales, and paid smaller dividends.

According to numerous experts, the problem today is not that technology companies are trading on overly rosy growth projections or profits that may never materialize. The stocks have simply risen a lot more than the rest of the market. That can't continue indefinitely without a break.

While the possibilities of technology companies seemed intoxicating in the late 1990s, today it's easier to argue that the stock gains make sense because the really have changed the world. They've remade entertainment, and video game makers Activision Blizzard and Electronic Arts are some of the highest-flying technology companies this year.

Design software maker AutoDesk and Salesforce.com have rallied as new technology has reshaped business. With so much critical data now stored in the cloud, cloud computing-focused companies like Microsoft and Adobe Systems have surged. So have numerous chipmakers.

That said, some of the gains this year have been staggering. Despite their recent losses, Apple is up 23 per cent this year and Facebook has jumped 27 per cent. Alphabet, Google's parent company, has climbed 19 per cent. Microsoft has gained 11 per cent. Those are four of the five most valuable companies on the U.S. stock market today. The other member of the top five is Amazon, which isn't classified as a technology company.

After the huge losses of 2000-02, many investors steered clear of technology stocks. It took about six years for the S&P 500 to recover from the losses it took in 2000, and it took the tech index twice that long.

"Tech bounced along the bottom for six years" after the bubble burst, Ablin says. "Investors are always fearful of the last crisis, and investors may have just washed their hands of tech."

That, too, is hard to picture today. Sandven, of U.S. Bank, said the stocks should do well as long as the U.S. economy keeps growing and their earnings rise.

"We think there's still more upside," he said.

"We still like the outlook for many of these companies."

CAPTION(S):

Despite recent dips in share price, Facebook's stock is up 27 per cent this year.

The Associated Press file photo

Marley Jay; The Associated Press

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A Technology Lull, You Say?

Michael Fickes

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A weak economic recovery, war with Iraq and fears of another economic downturn have crushed capital spending. Purchases of new equipment, computers and other production tools fell 15% last year and will drop another 10% this year, according to a survey of 51 industries by Goldman Sachs & Co. Computer and telecom equipment makers, from Sun Microsystems to Cisco, have issued dire warnings about lack of demand that will depress their results through 2003.

But guess who's spending money on tech now - despite the worst market conditions in a decade? The commercial real estate business.

Real estate investment trusts (REITs) were one of the few business sectors to show an increase in capital spending in 2002, according to the report issued in February, titled "A Bottom-Up View of Capital Spending." In aggregate, the companies surveyed boosted capital expenditures by 23% last year and plan to increase them by another 5% in 2003. Only health care facilities showed a more dramatic rise with a 27% increase in capital spending in 2002.

REITs aren't traditionally big tech buyers. Those surveyed by Goldman logged capital expenditures of \$1.4 billion in 2002, up from \$1.1 billion the year before. According to economists, companies usually earmark between 30% and 40% of capital expenditures for technology. But industry observers note that REITs have been spending more on technology since the late 1990s, when their business strategies shifted from growth through acquisitions to growth through efficient internal operations and customer service. Technology serves both of these priorities.

In addition, the late 1990s saw huge REIT investments in accounting systems, according to Scott Morey, chief information officer with Equity Office Properties Trust. "The financial markets demand that public entities provide financial reports in standard formats," he explains.

Online Orders

In 1999, for example, Equity Office automated its engineering, work order and tenant request systems and integrated those systems with its accounting technology. Today, an Equity Office Web site enables office managers to submit maintenance requests and track their status.

In some Equity Office buildings, wireless technology supports the process. Internally, the company has integrated work-order requests with its accounting systems for billable maintenance projects. "Nationally, about 60% of our customers are entering work orders online," Morey says. "That has made life easier for us and for our customers."

Many REITs will not discuss their technology investments, citing competitive concerns. Equity Office, for example, refuses to disclose financial figures. Indianapolis-based Duke Realty Corp., however, will talk about both technology and money. The giant industrial REIT spends about 1% of its annual revenues on technology, not including labor costs, according to Paul Quinn, Duke's chief information officer. The REIT spent 1%, or \$875,000, of its total 2002 revenues on technology.

Most REITs spend a similar percentage on technology, Quinn believes, but notes that Duke's technology budget goes beyond capital investment. "We do a lot of in-house development," he says. "Last year, we probably spent about \$300,000 on labor related to technology development. This year, we'll spend about the same, but we don't capitalize these labor costs."

For example, Duke recently developed and installed a customer relationship management system (CRM) after Quinn concluded that the market did not offer the tools Duke needed. "The packages we looked at are two-legged stools capable of tracking customer companies and people," he explains. "But they don't enable a real estate company to model the property dimension. We created our CRM application in-house and added the property relationships."

Controlling Costs

Although the CRM system is a revenue enhancer for Duke, the company also has created technology projects aimed specifically at controlling costs. One such initiative reduces costs by automating work requests from Duke tenants that previously were entered manually. "We also are seeing less leakage," Quinn says. "A higher percentage of billable work orders in fact gets billed. So there is a little pick-up in revenue here as well."

In addition, Duke is installing a document management system, a new management reporting system, electronic invoicing and an automated interface with the company's banks - all with the goal of boosting efficiency.

REITs aren't the only commercial real estate companies putting money into new technology. Ed Reading, vice president of finance for Phoenix-based shopping center owner Vestar Development Co., estimates that his company spends \$100,000 annually on technology. Two years ago, Vestar quintupled its technology budget and purchased a \$480,000 system to integrate the company's voice and data systems and assemble a company intranet. Reading says that the new system has increased efficiency while cutting the company's long distance telephone bills by 70%.

In Pursuit of A Payoff

The dot-com crash led many companies to shift their tech investments away from the B2B or business-to-consumer companies and into their internal systems. Nevertheless the real estate industry has not given up on dot-com style investing.

Constellation Real Technology Partners, a consortium of 14 real estate companies and investment firms, has invested \$30.5 million in four technology companies. About \$5.45 million of that sum went into three investments in 2002 after the dot-com crash. Constellation's goal is to invest in companies that are developing technology, such as Web-based property tax software, contract or project management or e-procurement services, that will help real estate owners cut costs and enhance revenues.

"Constellation exists because its members believe that technology plays a role in making real estate firms more successful," says Glenn Barnard, Constellation's CEO. The consortium's partners include REITs such as AMB Property Corp., Archstone-Smith and Simon Property Group Inc.

Another consortium of real estate companies, Octane, supports companies building cost-saving technology for real estate service providers, such as SiteStuff, an e-procurement company, and Workplace IQ, a transaction management company. Members of the consortium include service providers such as CB Richard Ellis and Jones Lang LaSalle.

Individual members of the Octane consortium also spend large sums on technology for internal operations. Jones Lang LaSalle, for example, has spent 10% of its annual revenues (\$840 million in 2002) on technology for the past five years, according to Mark Rose, the company's CFO. "We are making investments not for dot-coms, not for return on capital," explains Rose. "We are making investments in technology to be better service providers."

Rose estimates that in 2003, Jones Lang LaSalle will spend \$90 million on technology, which includes hardware, upgrades of the lease administration system, transaction tracking software and client extranets.

Likewise, United Systems Integrators (USI) of Stamford, Conn., a corporate real estate service provider, has increased spending on technology by 500% over the past four years, says Rick Bertasi, the company's president and chief technology officer. While Bertasi won't talk about actual technology budgets, he will say that annual spending has reached seven figures.

Late Bloomer

With all this spending, why do so many observers believe that the commercial real estate industry is lagging others in adopting technology? "The reason is that real estate embraced technology later than other industries," says Morey of Equity Office.

Traditionally closed-mouthed, the real estate industry has found it difficult to open up its internal processes to third parties, a step which is vital to successful automation. As a result, many real estate technology initiatives have floundered.

Nevertheless, since the late 1990s, REITs have been showing the larger real estate industry how to build technology systems that provide service for tenants, streamline internal operations and boost revenues. "As an industry, I think we're still playing catch-up," Morey says. "But we are beginning to move faster."

Michael Fickes is a Baltimore-based writer.

By Michael Fickes

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2001 dot-com Bubble: its causes, effect, and lessons learnt

[rodrigo](#) | October 16, 2012 |

Abstract

This paper looks at the causes, effects, and lessons learnt from the 2001 dot-com bubble financial crisis. To support my statements I investigate a variety of sources, including recently published academic journals, newspaper articles, books, and market reports. I find that the so called “Get Big Fast” business model that many dot-com companies employed was fundamentally flawed, and after the bubble burst many companies have found it more beneficial to move to a more prudent model.

Introduction

The dot-com bubble was a historic speculative bubble in the stock market which occurred in the years on 1995 to 2000. As an indicator of the bubble, the NASDAQ composite index is often quoted. The NASDAQ composite index rose from 751.49 to 5,132.52, a 682% increase, from January 1995 to March 2000 (Appendix A, B).

In this work, I look at factors that may have caused the 2001 dot-com bubble to grow and then subsequently burst. I look into the role of the media, interest rates, venture capital, and finally the “Get Big Fast” business model. Next I look at the effect the 2001 dot-com bubble had on companies, considering measures of survival, levels of mergers and acquisitions, and changes in image to remove association with those times, but also on investor confidence. Finally, I look at what lessons may have been learnt from the dot-com era.

Cause

American publications such as Forbes and the Wall Street Journal encouraged the public to invest in risky companies despite many of the companies’ disregard for basic financial and even legal principles (Lowenstein, 2004). Buffett (2000) says “Equity investors currently seem wildly optimistic in their expectations about future returns.” However, not only can the media be argued to have caused the huge growth of investment, but it can, according to Niederhoffer and Kenner (2003), also be attributed to its demise. They speak in particular about Alan Green’s “irrational exuberance” speech in December 1996 setting of a chain of events that leads to an eventual “reaction against technology, optimism, and growth”.

In reality, of course, no financial crisis can be sensibly attributed to just one cause. It is more likely instead to be a combination of many. For example, the low interest rate in 1998-99 has been said to have helped increase the start-up capital amounts and lead to increased venture capital being offered (Metrik, 2007).

The coining of the “Get Big Fast” belief started during the dot-com era. The initial start-ups operated with a short-term loss business plan, insisting that by grabbing the market share and dominating their specific sectors they could then charge what they wanted at a later date. Recent research (Goldfarb, Kirsch and Miller, 2006) suggests that many companies would have had better success targeting smaller niche markets. In addition, they say that the “Get Big Fast” belief drove investor behaviour during the period leading to more stocks bought and companies became overpriced.

So, as a combination of a number of factors, the bubble burst and the effects were widespread.

Effect

The effects of the bubble bursting were that several companies went bankrupt. An example is WorldCom who admitted to billions of dollars of accounting errors (Tran, M., 2002), and as a consequence the stock price fell so drastically they had to file for bankruptcy.

Many other struggling companies became acquired or merged with other companies. Aharon et al. (2010) found that there was an increase in mergers and acquisitions during the dot-com bubble. Interestingly, they also found that the pricing of mergers and acquisitions did not change.

Mintel (2010) states: "The investment bond market was badly hit by the bursting of the dot com bubble in the early noughties and has been in perpetual decline ever since – in 2002".

Many companies changed their names to remove any association as a dotcom company. Cooper et al. (2005) mention how during the bear market of the early 2000s "investors react positively to name changes for firms that remove dot.com from their name".

Lessons learnt

Within the technology sector, Parsons (2012) argues that greater prudence is ensuring the "**sector is financially solid and is currently the only one to have more cash on its balance sheet than debt**". There also seems to be an awareness of the damage to Initial Public Offerings by companies. Recent research (Pilbeam and Nagle, 2009) suggest that "the high-tech IPO market was dramatically affected by the Dot-Com Crash and that after the crash, the number of high-tech IPOs dropped considerably".

Many companies moved away from the "Get Big Fast" belief that epitomised the dotcom era, seeing that it was not sustainable as business model. Eventually these companies would have to start to get the fundamentals right and turn in a profit. So many were being started too quickly, all with the business plan of monopolising their particular market place, which inevitably not everyone could succeed and many as a consequence folded. Berlin (2008) says "Many of the companies that survived the dot-com bust did so by ignoring the prevailing "Get Big Fast" business model". He talks about research by David Kirsch and the Dot Com Archive that found that they referred "micro niches" which were markets that did not offer huge profits quickly, but instead presented viable internet-based business opportunities. Companies that had learnt from the dot-com bubble were not believing that life-altering changes would happen over-night.

Many believe that lessons have not been learnt from the 2001 dot-com bubble financial crisis. Many think that we are in another social media bubble currently which has very analogous characteristics to the 2001 dot-com bubble (Vass, 2012; Foley, 2012).

Conclusion

In this essay I have looked at the cause, effect, and lessons learnt from the 2001 dot-com bubble financial crisis. The cause unsurprisingly does not seem to come down to one single factor. The media clearly

played a large part in making investors over confident during the growth and then overly pessimistic leading to its eventual demise. However, I also found that an unsound business model of the time, “Get Big Fast”, played a major role too. I found evidence that more prudent business model based on modest profits had led to the technology sector recovering. As always, history has a habit of repeating itself, and I also looked into the believe of some that lessons have not been learnt by Social Media companies and that we may be in another Social Media bubble right now with characteristics very similar to that of the dot-com crisis.

