

Venture capitalists say they're being more responsible this time. Alan Patricof, who provided early funding for America Online, Office Depot Inc. and Apple Computer Inc., said the investment community probably wouldn't reach the late 1990s level of irrational exuberance.

But, he added, "it certainly is the beginning of a heightened frenzy developing."

The current run-up does differ from the late-1990s bubble that began to implode in 2000, wiping out within two years \$5 trillion in paper wealth on Nasdaq, the stock market on which the shares of many tech companies are traded. The market value of Nasdaq companies peaked at \$6.7 trillion in March 2000 and bottomed out at \$1.6 trillion in October 2002. It has since rebounded to \$3.6 trillion.

One key difference is that the volume of venture investment is much lower than it was during the first Internet boom's height. The amount invested in the first quarter of this year was just one-fifth the \$28.1 billion spent in the first quarter of 2000, according to PricewaterhouseCoopers' MoneyTree report, which tracks venture investment.

Also significant is the lack of investor appetite for initial public offerings. Unlike the last round of online exuberance, small investors aren't likely to buy shares in an online pet store with a sock-puppet spokesman.

And the range of companies sprouting this time is narrower. In the 1990s, entrepreneurs tried adapting any number of business ideas to the Web. Now, the focus is more on free services supported by online advertising, which has been growing sharply.

Some investors argue that there won't be another dot-com implosion, that the investment boom in online media companies is part of the natural ebb and flow of venture capital: Money plows in to unproven start-ups, winners emerge and investors move on to the next popular collection of start-ups.

"There are going to be a lot of flameouts and some spectacular winners, because even in bubbles some enormous companies that have lasting value were created," said Gary Little, general partner in Morgenthaler Ventures.

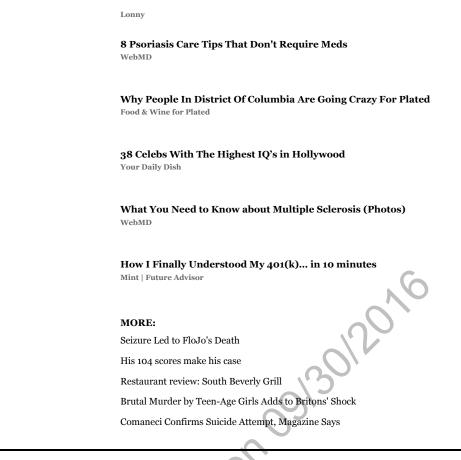
Nevertheless, overinvestment carries potential consequences. If Silicon Valley again disappoints the pension funds and college endowments that bankroll venture capital, it could find itself spurned next time, stifling the next round of innovation.

"When there is a crash or implosion, it makes investors -- both private investors and public investors -just reluctant to go into these categories, even if there are good investments there," said Josh Lerner, a Harvard Business School professor and co-author of "The Venture Capital Cycle."

Nasdaq's malaise is contributing to the interest in the start-up gold rush. Shares of Dell Inc., Intel Corp., Microsoft Corp., EBay Inc. and others are either stagnant or near multiyear lows. Fast-growing Google is a big exception, but when its profit growth slows -- as its chief executive has warned that it inevitably will -investors could flee.

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