

Disrupted Financial Markets: can the NASDAQ pass dotcom high?

Submitted by: iDisrupted

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The NASDAQ is within touching distance of its dotcom high. Does this prove the dreams of the dotcom era are now being realised, or are we heading for another crash?

On 10 March 2000, the NASDAQ Composite Index finished the day's trading at 5,048.68. The index had increased fivefold in just half a decade. Yet, by October 2002, the index was back down to 1,108.62. The dreams of many dotcom entrepreneurs were dashed, the wise men and women who comment on financial markets put the whole sorry episode down to madness. During the boom we were told 'this time it is different'. After the crash, we reacted with alarm whenever we heard those words. The phrase 'this time it is different' became an ironic statement.

In the book iDisrupted (<http://www.idisrupted.com>) it states: "It seems to be human nature to overestimate how quickly technology will change, but to underestimate the effect it will have. It also appears to be human nature to become disenchanted with technology just before it reaches the transformational stage. During the dotcom boom, the human trait of over-exuberance led to wild forecasts about how rapidly the internet would change the world. You could say this was the exuberant phase. In the aftermath of the crash, to many people, investors especially, the words internet or dotcom appeared to be synonymous with hype. You could say this was the sceptical phase. But the extraordinary rise of Apple that then followed showed how such cynicism was misplaced. Apple's turnaround occurred as we entered the transformational phase."

On Friday 20 February 2015, The NASDAQ composite closed the day at 4,955.97. It was within spitting distance of that record set in the year 2000. It was the second highest ever reading for the index. Some say "here we go again, déjà vu," when others try to justify the giddy heights to which the NASDAQ has returned, they say: "So you are saying this time it is different?"

But look again. In 2014, tech companies that sold shares to the public were, on average, valued at 6.2 times revenue. In 2000, the ratio was 31.7. See (<http://www.cnbc.com/id/102440759>)

This time it is different, valuations are based on far more solid foundations.

But there are similarities. New technologies are developing that will change the world. There's the Internet of Things or IoT, wearable technologies, robotics, biotech, nanotechnology, virtual reality and augmented reality. There is the sharing economy, which has seen Uber's valuation top \$40 billion. Since this is a private company, its turnover is not in the public domain, but leaked documents that have been widely reported across the media suggest it is on course for revenue of \$2 billion in 2015. That's a high valuation, but even that is below the average valuation to turnover seen during the peak of the dotcom boom.

See more here (<http://www.idisrupted.com/news/disrupted-cities-uber-meal-delivery-hong-kong-trial>)

But will the new technology companies become overvalued? The answer to that is of course they will; that's human nature. Even so, developing technologies will change the world.

If the above view is right, not only should the NASDAQ pass its record soon, it should carry on rising for some time. It is not in bubble territory yet, but it will surely get there eventually.

Disruptive implications

Oddly, the dotcom bubble may have done more good than harm. That's the strange thing about bubbles. They may be irrational, but they can accelerate the development of technologies. Clearly, the sub-prime bubble of the noughties was bad, all bad. The bubble that led to the 1929 crash was bad, as were the Mississippi, Tulip or South Sea bubbles. But in the 19th century, the US saw bubbles in the laying down of telegraph wires and then in railroads. Fortunes were lost. But the end result was an acceleration in the development of the US economy.

You can say much the same thing for the dotcom bubble. Without it, maybe the internet today would be far less developed. To take one example, in the aftermath of the dotcom crash Google was able to acquire cheaper servers. This made much of its early expansion possible.

Technology is changing the world. The NASDAQ, by providing a means to raise money and a potential exit route for entrepreneurs, plays a clear role in making this possible. It is probably not overhyped right now. It probably has room for a good deal of growth, but it will crash again. These things happen.

The up and down swings will disrupt markets. But when the transformation phase begins, it will be the global economy that is disrupted.

About iDisrupted

iDisrupted is available in all good book shops and online. The price for the paperback is £9.99.
www.idisrupted.com

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