Let's Party Like it's 1999!

Lately I've been feeling a sense of déjà vu hence the title which is of a hit song for Prince released all the way back in 1982. The chorus goes like this…

> "They say two thousand zero, zero, party over,
> Oops, out of time!
> So tonight I'm gonna party like it's 1999!
> 1999!"

Great song coincidentally released at the start of the longest equity bull market of the 20th Century which ended in the dotcom boom of the late 90's and bust in 2000. So, let us recap on how financial markets were behaving in 1999 and then consider what parallels there are around us today.

The late 1990's was when the internet was new and was going to change the world as we know it. That largely came to pass but many years after the dotcom euphoria had worn off. In 1996 the US Federal Reserve Chairman Alan Greenspan had famously questioned whether there was "irrational exuberance" in equity markets but all that seemed to do was embolden 'investors' (I use the term loosely) to join the party. Equity markets surged as technology, media, and telecoms led the way to the coming internet utopia. Companies like Pets.com commanded ridiculous valuations for a short time. Launching in August 1998 and selling pet supplies over the internet the company went public in February 2000. Within 9 months Pets.com had lost US$147m and went bust after having been valued as high as US$400m only months earlier. All companies had to do was change their name by adding ".com" or an "e" at the start of their name to surge in market value. There were gold miners in outback Australia that suddenly tried to become internet anything's. Of course, this was a classic investment bubble where people took leave of their senses and were just gambling on euphoria and hope with a fear of missing out. Around this time disciplined value-focussed investors were out of favour. Their 'old economy' thinking was considered not up to speed with the new internet age. Warren Buffet's Berkshire Hathaway was an under-performing and many considered the then 70-year old had lost his Midas touch. Buffett warned of future low returns due to crazy market valuations. As they say the rest is history. CNN estimated that by November 2000, when George W Bush was elected President, that the 280 stocks in the Bloomberg US Internet Index had collectively lost US$1.755 trillion in market value in the dotcom crash from March to September 2000. So what parallels might there be to today almost two decades on?

Global interest rates are lower today than 1999 which has had the effect of lifting all asset values, houses, equities, bonds, art etc. However, as in 1999-2000, today there are sectors of the market that are more fairly-priced than others. Real companies with long track records of profitable performance and increasing dividends, although not cheap, appear far better value than areas where speculative excess is showing itself like 1999. There are somewhat boring areas of excess, like the corporate bonds of some European companies selling for negative yields (that's right, you pay the company for the privilege of lending the company your money!) which is clearly a distortion caused by the European Central Bank's quantitative easing campaign. Then there is the exciting excess of Bitcoin which sold for under US$1 a coin in 2010 but last night topped US$17,000 a coin! A New York hedge fund manager has predicted it might reach US$40,000 in 2018 but in his opinion cryptocurrencies are going to be the "biggest bubble of our lifetimes by a longshot". Investors' are piling in buying Bitcoin on their credit cards with media stories of people selling houses to invest in the cryptocurrency revolution. As in 1999 some companies are changing their names adding words like 'blockchain', 'crypto', or 'bitcoin' and seeing their market value surge. This is utter madness, but no-one knows how long the madness will last and how high Bitcoin might go. However, it will likely end in tears for the overwhelming majority of 'investors'. In the meantime, we focus on identifying quality companies with good prospects that will reward investors over time with sound returns.

Compliments of the Season and many happy returns for 2018.

The companies mentioned above are named to further the discussion. This should not be construed to be personalised advice nor a recommendation to invest in these companies. Please contact Kinnell & Co. regarding how best to take advantage of the trends discussed above.

MICHAEL KINNELL
021 711 375
michael@kinnellandco.co.nz

www.kinnellandco.co.nz

Shoreline Business Centre
8/54 Molesworth Street
New Plymouth 4310