UNIT Monash: Week Twelve Newsletter

Hey <<First Name>>!

This week we present to you the second edition of our throwback themed newsletter. You know that little thing called ' the internet' you are using to read this email? Well read on if you want to find out how it almost crippled the economy during the "*Dotcom Bubble*".

We hope you have learned and followed along with each of the 12 weekly newsletters you have received this semester. All the best for your exams and enjoy your mid-year break!

Throwback Market Wrap

The Dotcom Bubble

“Speculative bubbles are notoriously hard to recognize while happening, but seem obvious after they burst”
- Anonymous

Picture this. Imagine if someone told you that they were going to build a website and it would be worth millions upon launch. Imagine if they also told you that the stock price of their company would skyrocket in an instant.
“Get out of here” you say, “What’s so fancy about this damn website? Do I get a free trip to Nigeria to see the prince if I visit it?”
“Unfortunately, no” they say in an instant, “But your money will double”.
Sounds very familiar, does it not? Now, take this situation and travel back to the year 2000.

You’ve arrived. The Walkman is the coolest gizmo in town, Arthur Andersen is still king, Apple computers are as portable as a washing machine (i.e. not) and phone books are located next to the landline phone in every home (What are phone books again?). Oh, I forgot to mention that Google and Facebook are only small corporations with primitive ideas. Why? Because the internet was still primitive. You walk into a brick and mortar store. They say that they’re on the internet. You say “Wow, these guys made it” (*scoffs in 2019*). You go home. You start up your dial up machine and you search them up (by typing in the whole, goddamn link. Word. For. Word). And then you realise: they are merely just a brick and mortar store with a website that does absolutely nothing.

That was an all-too-common occurrence during the dot com bubble. Venture capitalists were eager to jump on the gravy train to the next big score. And this time it was any company that had “.com” or “tronics” after its name. By 1999, as much as 39% of all VC investments were being pumped like steroids into internet companies. Want to know how that plays out? Let’s say the NASDAQ index went from 1000 to 5000 over 5 years. Fuelled by cheap money and fast capital investment, internet companies began to saturate the market, spending countless dollars on marketing campaigns selling the dream. Companies who had yet to see a cent of profit and in some cases produce a finished product hit the public market in a spectacular fashion, tripling and even quadrupling in value from their initial public offerings. It’s unsurprising then that in 1999, 295 of 457 IPOs were internet related companies.

What’s next? You guessed it, the great, big sell-off! Dell and Cisco, large players in the market, placed large sell orders to capitalise on their peak stock prices. This kept going, with speculators selling off their inflated investments. By 2001, the economy started to slow, with equities entering a bear market. A huge 77% drop crippled the NASDAQ and brought many of the internet companies that were worth “hundreds of millions” in market capitalisation to their knees. And, in true Darwinist fashion, the strong survived. Amongst the sea of companies, eBay and Amazon claimed the household glory they have today due to their efficient and unique model. However, the losers are written in the history books of failed businesses, and such was the fate of companies like Pets.com, Webvan, Boo.com, Worldcom, NorthPoint Communications and Global Crossing.

What can we learn from this?
Number one; that someone with the great website idea is delirious of course.
Number two; be careful not to buy into the hype of a financial bubble, but rather identify it and avoid it.
Number three; for those failed dotcom investors, perhaps they were visiting the prince of Nigeria after all!

~ N. Menezes; H.Purcell ~

Weekly Global Breakdown

Australia

The Australian share market closed the week lower, on the back of subdued oil prices. The intensifying trade tensions resulted in weakened oil prices, leading to a 3.1 per cent drop in the energy sector. The benchmark S&P/ASX200 index and broader All Ordinaries fell 0.55 per cent and 0.59 per cent respectively. The big banks reported mixed results on Friday. NAB and CBA both rose 3 cents, while ANZ and Westpac fell 0.4 per cent and 0.1 per cent respectively. The tech sector also closed 1.7 per cent lower where Afterpay Touch and Altium suffered losses of 4.4 per cent and 4.2 per cent respectively.

The ASX is poised to open lower with the SPI futures pointing to a 2 point loss at open, following intensifying trade tensions. The ANZ-Roy Morgan Consumer Confidence figures will be released on Tuesday.

US

Wall Street finished slightly higher after encouraging comments from Trump indicating that a trade resolution between China and the US was “happening fast”.
Trump’s comments on Thursday helped push the major indexes on Wall Street higher, with the Dow Jones Industrial Average, the S&P 500 and the Nasdaq Composite rising 0.37 per cent, 0.14 per cent and 0.11 per cent respectively.
Despite most of the stocks finishing in positive territory, shares of Apple and Alphabet fell. Further, Foot Locker's share price was hit the hardest on Friday, tumbling 16 per cent, after the footwear retailer missed their quarterly profit and sales estimates.

US markets will be closed on Monday for a Memorial Day holiday.

Asia

Asian stocks edged higher on Friday with many investors capitalising on the steep losses on Thursday, whilst remaining alert over escalating trade tensions.
The Shanghai Composite Index remained unchanged, however, the CSI300 index and Hang Seng index climbed 0.1 per cent and 0.2 per cent respectively.

Trump will visit Japan on Monday with the intention to discuss trade and other concerns with Shinzo Abe, the Prime Minister of Japan.

Europe

European shares were up on Friday after positive comments from Trump regarding a looming trade resolution. The pan-European STOXX 600 finished 0.56 per cent higher.
Theresa May will step down as Prime Minister on the 7th of June, after another attempt to win parliamentary support fell through, which appeared to have a very little impact on the market.

European markets are expected to kick start the week in positive territory, with many investors thinking that Fiat Chrysler and Renault are in talks to merge. However, trading volume is expected to be low on Monday, with both the US and UK markets closed for holidays.

New to markets? Got Questions?

As we mentioned in previous emails - we started UNIT Monash with the vision of educating the student community in investing and trading to one day strive for financial independence.

We want to create a new concept of peer-to-peer communications about investing and trading. There's a lot of value in sharing experiences, having opinions and shedding light on new ideas. Feel free to get in contact with us via Facebook if you have any enquiries about investment, trading or our upcoming events or if you would like to provide any feedback.

Regards,
UNIT Monash

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