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## Buffeted By Speculation on Planet Yahoo!

Two months ago, we wrote about realistic expectations for stock market returns. Last month we provided examples of recent investment books by market novices touting wild performance claims. On the theme of a pervasive sense of unreality in the stock market, here are some random thoughts on current events.

Berkshire Hathaway, the company run by Warren Buffett, widely acknowledged as The World's Smartest Investor, recently sold shares of a class of common stock to the public for reasons too complicated to detail here. Buffett announced, however, that he did not regard the current price of Berkshire Hathaway shares to be a good value. Nevertheless, the shares were substantially oversubscribed. In other words, we have the paradox of people clamoring to gain access to The World's Smartest Investor ... against the investment advice of The World's Smartest Investor.

***"We have the paradox of the public clamoring to gain access to The World's Smartest Investor ... against the investment advice of The World's Smartest Investor"***

The record levels of initial public offerings is another sign of a market that has reached the frothy stage. One of the leading recent IPOs was Yahoo! Inc., an Internet software company. Now, we don't dispute in any way the bright prospects for the Internet. Even the veterinarian's ad in the local shopping news has something like "http://weasel.barf" at the bottom. But stock prices should be set by actual prospects for profits for specific companies, not excitement over general concepts. Yahoo!'s software is based on work done in 1994 by two Stanford graduate students. The company was incorporated in 1995 and came public this year, reaching a peak market value of \$1.1 billion.

Another notable recent IPO is Planet Hollywood, a chain of restaurants featuring movie star and sports paraphernalia. The company had a longer gestation period than Yahoo!, having commenced operations long ago in 1991, so it is not surprising that its peak market valuation is higher -- \$3.4 billion, more than the market valuation for Wendy's. Neither Yahoo! nor Planet Hollywood has sufficient earnings to allow any meaningful price/earnings valuation comparison to the general market. Instead, let's look at the price to sales ratio. A general rule of thumb is that a price/sales ratio of 1 is reasonable and a ratio of 3 is pricey. The price/sales ratios for Planet Hollywood and Yahoo! at their peak prices were 11 and 810, respectively. Maybe we should change Sigma's name to "Yippee!" and take the company public. No question, the Internet and restaurants are hot concepts right now, just as personal computers and restaurants were hot concepts in the early 1980's when Osborne Computer and Pizza Time Theater were riding high in the market. Both went bankrupt.

Last month, we introduced you to a 17 year old whiz kid with a best selling investment book. CNBC recently interviewed a 14 year old whiz kid authoring his own investment guide. We wonder what the title will be -- *Don't Trust Anybody Over 15?* If the market continues in its bubbly mode, can a stock-picking Doberman be far away? We also told you about the "Iomegans," the followers of Iomega Corporation on the America Online stock message boards. One of the thousands of Iomegans, a student, recently posted a lengthy message in which he claimed, among other things, that short sellers (speculators betting that the stock would fall) had threatened him if he did not post a message stating that he had changed his mind and was selling his Iomega shares. Why anyone would think that the opinion of one student in the white noise of postings on the board was so important was not explained. When he refused, he received calls questioning the safety of his cat on her way home from Bloomingdale's. The Iomegan was confused until he remembered that he had applied for a credit card and, as a joke, put his cat's name on the spouse line and claimed she worked at Bloomingdale's. He taunted the short sellers with this information the next time they called. A few days later, he claims he received a dead cat in the mail. We have no idea if this story is true, and we hope for the cat's sake that it is not. We encourage you to drop one of the ubiquitous free-offer America Online floppy disks into your computer and pull up the Motley Fool Iomega message board -- it's a jaw-dropping experience.

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An old market saying is that nobody rings a bell at a market top. Still, when we've reached that stage of the market cycle where the hot deal is named "Yahoo!" and people are sending dead cats to one another through the mail, it makes you

wonder. All this does not mean we are bearish. Equities are necessarily a part of any long term growth account. There are rational ways to invest, however. If you are tempted to give your money to a 14 year old to invest or to buy a stock at 810 times sales, lie down, put a cool cloth on your head, play soothing music and think calm thoughts until the feeling goes away. Then call us. We will help you devise a long term, sensible investing program.