

Who's in the Bubble Basket?

Today's FT has a story on the relatively weak corporate governance practiced by tech companies. Jeff Ubben of ValueAct criticized Eric Schmidt's 2011 payout of over \$100 million from Google, and features such as the dual share class (used by Google and other tech companies) were also highlighted. Public shareholders can only buy shares with weaker voting rights (or in the case of Google's most recent share class, no voting rights at all).

David Einhorn of Greenlight Capital warned of another tech bubble and has identified a group of stocks that he believes could lose up to 90% of their value. It's an intriguing thought – and who's in the basket? Candidates would surely have to include Facebook (FB), Amazon (AMZN) and LinkedIn (LKDN), currently priced at forward P/Es of 38, 77 and 71 respectively.

I don't really see where the problem is. These stocks are just not attractively priced for a long term investor. So presumably the discerning buyer simply looks elsewhere. Traders, those who buy stocks for excitement, and active managers who hold them just so as to avoid underperforming a benchmark of which they're part will all find reasons to hold these and other companies like them. The thing is though, Google and others don't need your money. If a basic function of finance is to channel savings from savers to productive types of capital formation, these names don't do it.

Google, for example, generated \$13BN in operating cashflow last year and invested most of that in marketable securities. They don't need to access the capital markets to finance capital investments. FB has for the last three years generated operating cashflow well in excess of its capex.

These companies and others have gone public and issued equity

simply to monetize the wealth created by the founders. The dual share class really says to those new second-class investors that they'll make money as long as it suits the first-class owners to allow that to happen. It's an oddly Communist way to operate in a capitalist system, the equivalent of saying, "we don't need your money, but if you insist we'll let you in on terms that we ourselves would never accept."

It shouldn't be hard to pass on such opportunities. There are many stocks to choose from. Leave such excitement for others.