MV Capital Management Weekly Market Flash

With a Tweet and a Prayer

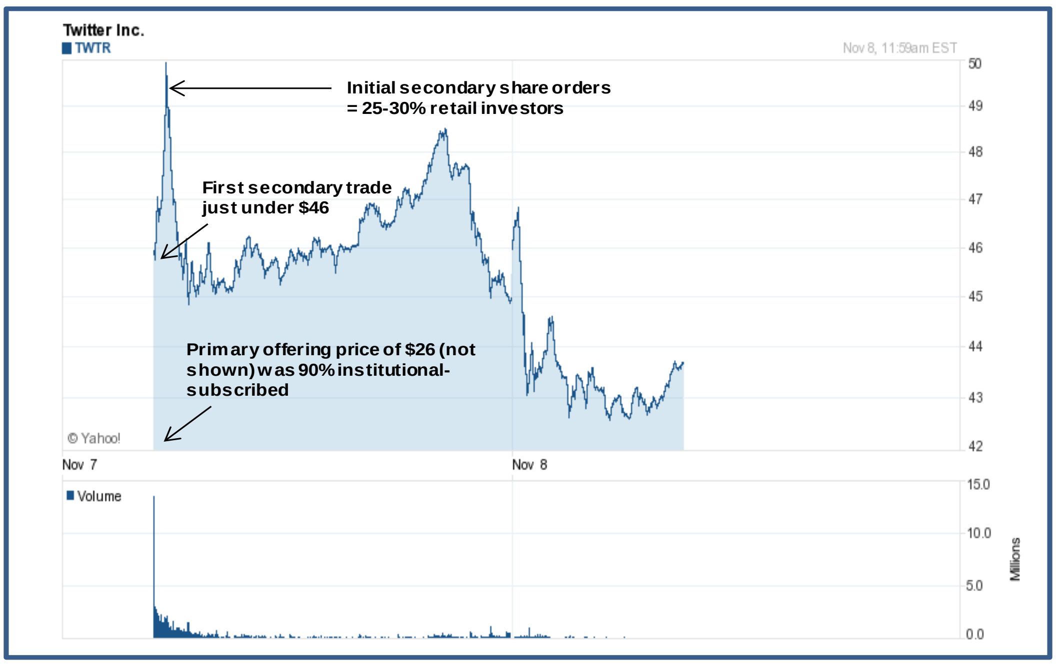
November 8, 2013

What a difference eighteen months make. That's the amount of time which has elapsed since Facebook's ill-fated debut into the public markets: a debut marked by overly optimistic pricing, trading glitches, and sour investors resolutely not "liking" the social media behemoth.

Not so this time around. November 7th marked the coming out party for yet another denizen of tech Valhalla, Twitter (NASDAQ: TWTR). On a day when the NASDAQ composite fell by more than 1%, shares of Twitter soared 73% from the primary offering price on the back of strong retail demand. Once again, those of us who make a living observing and studying the habits of markets and investors are left debating the merits and potential pitfalls of investing in a company with a larger market capitalization than General Mills, and no profits as far as the eye can see.

Institutions to Retail: Thks & Cya

The future fortunes of Twitter probably matter very little to many of the institutional investors invited to the ball. The primary offering was 90% subscribed by institutions, with only 10% allocated to retail investors. The institutions were presumably happy to gobble up the shares at the $26 offering price and then regurgitate them to the masses who poured into the secondary market. As the chart below shows, the opening bid was just under $46 and shortly thereafter soared briefly above $50. According to the Financial Times, up to 30% of those initial secondary market trades were retail investor-driven.



Source: Yahoo! Finance, Financial Times, MVCM Research
Please see important disclosures at the end of this Weekly Market Flash.

Amazon…Or Pets.com?

So the institutional investors who did sell out in those early moments booked a tidy profit of as much as 100% - nice work if you can get it! For the others left holding their shares at the end of the day, though, there are some serious questions about what those shares may be worth in the future. We've seen this story play out before. It's just that, knowing very little about how this company ever intends to generate positive cash flows, the story's end is completely unpredictable. When Amazon went public in 1997 it was also a giant money-loser. It still is, but it also dominates its market in a way that has investors keeping the faith. Other "wing and a prayer" offerings from that era of Internet 1.0 didn't fare nearly as well. Pets.com and its loveable sock puppet joined many other once-promising enterprises on the ash heap of investment history when the bubble burst. It's entirely possible that this 140-character mode of communication will come to dominate our lives more and more…and it's entirely possible that it will prove to be little more than an effervescent fad.

The Compressed Tech Business Cycle

One of the biggest challenges facing any tech company today is the extremely short lifespan of the product life cycle. One day we're addicted to something we couldn't even imagine a year earlier, and then in the blink of an eye some other Pied Piper has lured us down another path entirely. Think of Research In Motion, the company that pioneered the BlackBerry. BlackBerry was not the first smartphone (that honor would probably go to NTT DoCoMo's iMode in the late 1990s), but it had features and capabilities that at the time were truly revolutionary. In the mid-2000s the world of hip urban professionals was hooked on the "CrackBerry". Then along came the iPhone. Today the BlackBerry is arguably as obsolete as the home fax machine or the VHS, and RIM can't find anyone who wants to buy it.

The future is unpredictable. Maybe Twitter will succeed, maybe not. But there is too little hard, quantifiable information available today for us to feel comfortable with any kind of an informed decision one way or the other.

Masood Vojdani
President& CEO

Katrina Lamb, CFA
Head of Investment Strategy & Research