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GG and The Chasm

I have just finished reading "Crossing The Chasm" by Geoffrey A. Moore, the author of "The Gorilla Game." This is a MUST read for all of you who think that GG has lost his touch! It is also a must read for everyone else who wants to make money in the high tech stock market!

Crossing The Chasm is not about investing. It is about hi tech marketing, about the perilous road from dazzling startup to successful mainline technology company. Most of us tend to think linearly, progress is going to be arithmetical (1, 2, 3...) or geometric (1, 2, 4...), never discontinuous. When we discount future earnings to arrive at present value, we are implicitly applying the geometric progression of compound interest. But who says the future will be smooth? Will inflation rates never change? Will unemployment never change? Will all politicians in the White House always have the same thoughts? Will Greenspan and the Fed always react the same way to everything? The obvious answer is NO yet we make plans based on smooth sailing, a fatal error in some cases. The Titanic never crossed the Atlantic Chasm! The Spirit of St. Louis did! On whose success would you have put your money on at the time?

GG talks to us about pre-chasm technologies that need to be converted into products that need to be sold to post chasm customers. A very long way from one extreme to the other. That is why I say that buying Gilder stocks too early is a big mistake. Since our interest is making money, we have to follow the progress of the technology until such time when risk has been reduced enough to make the stock purchase worth while. Before that time it is just too risky to buy. When the bulls are running wild, the stock market temporarily loses its sanity and all stocks rise with no regard to their underlying financial soundness. But when the market regains its sanity the overpriced stocks drop to a saner levels or maybe even much lower than warranted by their financial foundation. These are the movements that technical analysis tries to forecast, it tries to predict the future based on the current level of sanity or craziness of the market!

On the other hand, fundamental analysis tries to discover where products and the companies that make them are in the lifecycle of their respective technology. Understanding the marketing principles of high technology products is a great help in understanding the risk reward ratio of the stocks of the companies that make them.

Denny

"Demand creates queues. Supply gets rid of them."