
Posted to the Gilder forum - August 11, 2000

Gilder Bashing

First off, I firmly believe that anyone who has to blame someone else for the outcomes of their lives is a failure.

Many people on the forum try to educate the newbies in the arts of investing, But it is up to the newbie to learn. If all the newbie does is to blame Gilder, then it is not worth while to waste your time on them, they are declared failures. They just don't have the gumption to take responsibility for their lives. **This post is not for them!**

On the other hand, there is also a group of "believers" who cannot imagine GG doing anything wrong. The right way is somewhere in between. Take what Gilder says with a pinch of salt, add you own DD and make up your own mind.

This year people have lost money on several GG additions to page 8. I would like to examine three of these stocks to show you why, even if Gilder was right about the specific technology, the stocks themselves were NOT buys:

Agilent: HP had grown into a conglomerate of unrelated business and management decided that it should rid itself of the undesirable parts. Servers and Printers is the business management wanted to keep and they kept it under the prestigious name of Hewlett-Packard, H-P (Some of you may not know it, but HP is the original grand daddy of Silicon Valley. You might want to read "The HP Way" by David Packard). The undesirable businesses were spun off under the new name "Agilent." My take, and this is just a guess, is that management did not put too much value on the champagne bubble technology as otherwise they would have kept it under the H-P name.

From strictly a technological point of view, champagne bubble light switches sound like a great idea. But the idea is a long way from any mainstream market. There are other technologies such as micro mirrors competing for the same space in the hands of companies much better focused on the industry. As per Gorilla Game, the technology is at the very start of the technology adoption cycle. The technology enthusiasts (GG) like it but, so far, there are no visionaries testing the product. The early market has not started. The chasm is still a long ways away. After that

comes the bowling alley and hopefully the tornado. Moore tells us to buy hardware at the start of the tornado and to buy several candidates because no one can predict who the winner of the tornado will be. The tornado is a chaotic episode that picks a winner seemingly at random.

To sum up Agilent, you bought a technology that is several years away from any kind of earnings, if it makes it at all, that is a small part of the undesirable part of an ex-conglomerate. I think you will agree with me, with 20-20 hindsight, that Agilent, properly analyzed, was not a good buy.

Motorola: Like a good technology enthusiast, GG "discovered" Terrabeam and the fact that there was a move on by Motorola to buy the company. It would seem that the Terrabeam technology is a little bit closer to market than Agilent's champagne bubbles and it looks to me that it is on sounder technology footing than the bubbles. But when you bought Motorola, it was not the owner of Terrabeam. As a matter of fact, it got stood up at the altar and the groom turned out to be Lucent. As if this were not enough, Motorola by itself is not a very exiting company at all. Let's look at the record. Bankrupt Iridium, 680x0 chips are chimps in Pentium territory, there is no pricing power to cell phone hand sets, it's a commodity business. Why did people buy Motorola? They would not have bought without GG's recommendation and that was made on the assumption that Terrabeam would go to Motorola and that Terrabeam would be a success and that the success would be great enough to compensate for all the weaknesses of the current Motorola. A long shot in horse talk. Not a good buy.

Xcelera.com: Pretty much the same story with the unhappy addition that it is registered in the Cayman Islands. Mirror Image sounds exciting. It is not yet an IPO. There is no guarantee that XLA shareholders will get any advantage in the IPO. They won't if the banks have anything to do with it, they want the advantage for themselves and their institutional customers. The only thing that can be said for buying XLA is that it is several years too early.

The entry strategy is to do proper due diligence on a stock you think you might want to buy. I really think that you need to make up a story about the company that tells you how they are going to **produce a positive and growing cash flow to support the stock price you expect to sell at.** Let's take a winner. ["ARM Holdings is an IP company that has developed a RISC processor for mobile and](#)

embedded gadgets (cell phones, PDAs, automobiles, etc.) that is being manufactured by 30 associates world wide and is currently built into XXX products of YYY companies. Intel licensed the product because they have not been able to come up with anything competitive in house. There does not seem to be any serious competitors around so it is safe to designate ARMHY as a gorilla." If you want to continue with cash flow, figure that ARM will have a 60% market share of cell phones and that each handset will have two ARM cores inside. Add some more for all the other types of gadgets (PDAs, smart pens, etc.) that will have ARM inside. Anyway, that is the way the exercise is played.

Now the exit strategy is simple. When the story no longer rings true, if you cannot improve the story to the point that you want to buy more shares, sell! Terrabeam is useful as an example here. When GG talked about optical wireless he told us that the spectrum that NextLink had assembled was considerably devalued as a last mile solution. That information was enough to make me sell NextLink about 45 days before GG removed it from page 8 in the April issue. GG is always giving us hints which we should exploit.

We must always remember that GG is a technical visionary. He is focused on the technology. If you buy the whole page 8 list, you will, highly likely, make money in the long run. Dick Sears's GTI index is proof enough of that. But you cannot expect that all GG picks will be winners. That just won't happen. All you can expect is that the winners will outweigh the losers and the net in the long run will be positive. I even believe that the net positive will outperform most stock indexes so you should be happy with the results.

I believe that we can outperform GG if we do proper DD, but in neither case (following page 8 to the letter or trying to improve on it) can we blame GG for the results we get. That is just plain stupid because it makes us miss the alternative, which is to fix it.

Denny

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