Case Study on the Internet Bubble 2.0, the disruption of everything

"History never repeats itself but it rhymes," is a quote attributed to Mark Twain.

The stock market of 2017 is starting to feel a lot like 1997. It is now a full 20 years after the first stock market internet bubble. The peak of that market phenomena was in 2000, but it was two and half years earlier when the market started to differentiate between those businesses who used this new phenomenon called the internet which could attract millions of 'eyeballs' and those businesses who did not. The world was never going to be the same. Owning your Mum and Dad's stocks was as sexy as wearing a one-piece wool bathing suit.

Back then the promise that enticed the investor was real but the market ran out of gas because for most of these companies the internet was great at making access to their business offering free, and the few successful business models like eBay and Amazon had a stock valuation that was way ahead of future earnings. Twenty years later the earnings have arrived. Amazon dominates retail while Google and Facebook attract the lion's share of global advertising dollars, and software has become an annuity as a subscription service which is constantly updated and living on Amazon and Microsoft's 'cloud'.

The very nature of the stock market creates trends that lure everyone in. The reality and the dream usually have a solid base to start with but then human enthusiasm propels the idea to unsustainable heights. Millennial investors and the media now like to state that the onset of disruptive technology was so unbelievably obvious that you are a dinosaur if you couldn't figure out that it was going to happen. However, the stock market is made up of only a handful of $100 billion dollar 'Super Cap' stocks, with a few getting close to capitalizations of a trillion dollars for the first time. Many disruptive technology business models didn't survive.

The next logical push in the stock market will be fueled by a wave of paranoia, where investors ask themselves why would I own anything else. Bank and pipeline stocks start to feel like they might not evolve fast enough to survive. Again, this perpetuates the disruptive technology trend and great companies that are basically boring get neglected.

This is really the point we at Avenue would like to make. Our strategy of looking for consistent and, yes, boring companies might become even more out of fashion for a time. However, if we stay focused on the cash, we will be able to compound our investments regardless of trends and we can avoid a wild ride driven by excessive valuations. Many of the dominant tech stocks are already expensive and remember, disruptive technology has the ability to disrupt itself as well.

The reality is that all companies are dealing with disruption. At Avenue, we spend our time making sure our companies are actively using these technology tools to make themselves better and to maintain their market share in their respective industries. Will Royal Bank inevitably buy up and dominate 'fintech' in Canada? Will Enbridge cut its maintenance costs in half by using infrared drones to continually scan their pipeline network? We have to make sure we are never standing still but we also have to protect ourselves from what has started to feel like tech bubble 2.0, in the making.