

SOUNDBITE

March 2019

Might the Tech Lash Lead to a Tech Bust?

We recently read “Unicorns, Cheshire Cats and the New Dilemmas of Entrepreneurial Finance?”, authored by Martin Kenny and John Zysman of the Berkeley Roundtable on the International Economy, with great relish.

In the paper, the researchers actively challenge the belief that the continued growth and dominance of winner-take-all business models are inevitable. The research suggests that extended cycles of quantitative easing and the resulting easy access to capital (debt), has allowed more unprofitable business models to be sustained. In turn, early investors in these businesses patiently observe extended periods of losses, all in the hopes that these companies will eventually gain monopolistic power and earn substantial profits (coined as Unicorns)ⁱ – e.g., the Ubersⁱⁱ, Lyftsⁱⁱⁱ and WeWorks^{iv} of the world.

However, there are two important questions that must be considered:

1. Is monopolistic power truly a social good?
2. Will investors actually be compensated for their patience if government bodies step in to regulate monopolistic profit levels, or will these Unicorns turn out to be Cheshire Cats?

There is no way of knowing what the future holds for these prospective Unicorns, but this environment reminds us of the enthusiasm of “new economy” stocks over “old economy” stocks in 2000. And, as you may recall, the unwinding of that euphoria led to several years of outperformance by active value managers.

For more details from the report, read: [Unicorns, Cheshire Cats, and the New Dilemmas of Entrepreneurial Finance?](#)

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ⁱ CBInsights. [The Global Unicorn Club](#). January 2019.

ⁱⁱ CNN Business. [Uber Says it Lost \\$1.8 Billion in 2018](#). February 15, 2019

ⁱⁱⁱCBC News. [Lyft Reveals it Doubled Revenue to \\$2.2B in 2018 as it Files to go Public](#). March 1, 2019.

^{iv}Fortune. [WeWork Becomes the We Company as it Looks Beyond Office Space](#). January 8, 2019.



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