

# Internet stock slips raise fears of new bubble

November 30 2011, by Germain Moyon and Charlotte Raab

---



LinkedIn CEO Jeff Weiner stands in the New York Stock Exchange on May 19, during the initial public offering of the company. Quick cooling of hot stock market debuts by Internet darlings such as LinkedIn has fed fears of another speculative bubble, as social networking star Facebook prepares to go public.

Quick cooling of hot stock market debuts by Internet darlings such as Groupon has fed fears of another speculative bubble as social networking star Facebook prepares to go public.

Local bargain community Groupon, professional social network LinkedIn and consumer reviews website Angie's List each saw [stock prices](#) leap during [initial public offerings](#) (IPOs) this year.

But share prices in each company are now near or below where they were when the up-and-coming firms debuted on the trading floor.

"We are going to hit a bubble again... The question is, are we in a bubble

or are we just in the early stages?" said analyst Lou Kerner of institutional [investment firm](#) Liquidnet.

The current infatuation with new [technology firms](#) reminds Kerner and others of the frenzied investor speculation during the 1994-1999 [Internet boom](#), which ended with a historic bubble burst.

"Groupon really highlights the difficulty in pricing shares of a company with a business model in its infancy," Kerner said.

"It's a black eye to the banks (that championed the market debut) and to the company for going to the IPO altar when there was no reason to do that."

As with the legendary dot-com boom, investors enthralled by new technology are driving the values of such firms, according to the analyst.

Today's sweethearts are social media firms that leverage the power of relationships in online communities.

"What you are seeing is very much a repeat of the 1994-1999 time period," Kerner said.

"Valuations climbed for a long time, eventually reaching bubble proportions... Now investors are nervous, wondering what stage of this wave we are at... It is our view that we're still in the early innings."

There is no reason for panic regarding [Facebook](#), which is rumored to be considering an IPO as soon as April, according to the analyst.

Facebook is more mature than Groupon and "in a class by itself" in the way that [Google](#) and Amazon were when they debuted in the [stock market](#), Kerner said.

He considered plausible the Facebook valuation of \$100 billion proposed in media reports.

Other analysts noted that fledgling Internet firms in the stock market could see share prices suffer due to broader market factors that prompt investors to seek shelter in companies with longer track records.

"IPOs are inherently more risky than stocks that have longer trading history," said Lise Buyer, founder of Class V Group, which specializes in IPO strategies for companies.

"When the market is volatile, as it has been lately, investors often sell their small, riskier positions first."

LinkedIn share prices may have been swayed by basic supply and demand, as the company offered relatively few shares at its IPO and then last week opted to sell more, sending the price down, Buyer said.

Speculators out for fast profit instead of a long-term investment could have driven Groupon and Angie's List stock prices down by selling when shares began falling.

"I think a lot of those investors were looking at them as a quick trade on a hot IPO," said Nick Einhorn of Renaissance Capital, a firm specializing in entries to the stock market.

"When the stock began falling, a lot of those investors would have looked to get out, thus accelerating the selling pressure," he said.

"In general, if an IPO falls below its IPO price investors view this as a negative signal and often look to dump shares."

Groupon shares were trading at \$16 on the NASDAQ late Tuesday after

its IPO at \$20. Angie's List shares sank to \$11.50 in after-hours trading that was below the IPO price of \$13.

[LinkedIn](#) traded at a share price of \$58.79, higher than its stock market debut at \$45 but below a mid-July peak of \$109.97.

(c) 2011 AFP

Citation: Internet stock slips raise fears of new bubble (2011, November 30) retrieved 25 April 2024 from <https://phys.org/news/2011-11-internet-stock.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.