Money

Posted 12/4/2002 12:46 AM Updated 12/4/2002 8:30 AM

Investors suppress tech wreck memories

By Matt Krantz, USA TODAY

Investors seem to have a case of amnesia.

Less than three years after an Internet crash of epic proportions, they're pushing the same stocks up to valuations reminiscent of the bubble.

P-Es like it's 1999

The two-month surge in stocks has pushed Internet valuations into the stratosphere.

Yahoo	$17.36	**217**
WebEx	$20.26	**107**
eBay	$68.89	**104**
Expedia	$74.37	**95**
Network Appliance	$13.31	**95**
Charles Schwab	$11.32	**94**
Intuit	$53.41	**86**
Hotels.com	$74.23	**74**
Siebel Systems	$8.75	**73**
Network Associates	$18.56	**71**

1 — Price-earnings ratios based on earnings over past four quarters
Sources: USA TODAY research, Bridge Information

Following a powerful eight-week run, 10 of the USA TODAY Internet 50 index stocks have sky-high price-earnings ratios above 70, with standouts including eBay at 104 and Yahoo at 217. Intuit's P-E at 86 is higher than when the market peaked in March 2000.

Have some on Wall Street already forgotten the lessons of 2000, when white-hot Internet stocks melted down and ultimately lost 90% or more in value? If so, some analysts worry it could signal trouble for the entire market, showing that unsustainable speculation is responsible for at least part of the recent rebound.

The lofty valuations aren't because of earnings woes that companies will soon leave behind. P-Es are high even when allowing for another year of growth: Five of the Internet 50 had P-Es of more than 70, even based on expected 2003 earnings. Typically, P-Es on future earnings are far lower than current P-Es.

Historical comparisons are difficult because most Internet

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companies were losing money at the peak and didn't have P-Es. And for those that did, such as Yahoo, the current P-E of 217 looks reasonable next to its 1,086 P-E in March 2000.

But the worst bear market since the Great Depression has brought all P-Es down sharply. Yahoo's P-E is six times greater than the average P-E of stocks in the Standard & Poor's 500 index.

To some, that spells trouble. "Valuations are way off. There is no reason for investors to be interested at these levels," says Manu Daftary, manager of Quaker Aggressive Growth fund. But plenty of investors are. The USA TODAY Internet 50 — perhaps the most comprehensive remaining measure of the Internet stock universe — is 47% above its October low. Also akin to the bubble years:

- Yahoo has the highest P-E of the Internet 50 on trailing earnings. Its P-E is 10 times its expected long-term annual growth rate of 22%, Thomson First Call says.

Ryan Jacob, manager of the Jacob Internet fund, says investors are looking at next year's earnings to justify the prices they're paying. But even based on expected 2003 earnings, Yahoo's P-E is 69.

- Amazon has no P-E based on the past 12 months because it lost money. But the stock has a P-E of 99 based on what it's expected to earn next year. Amazon is expected to average only 22% annual growth the next five years. Typically, a P-E on the next year's estimated earnings is supposed to roughly equal the expected growth rate.

Peter Doyle, strategist at Kinetics Mutual Funds, says the prices investors are willing to pay indicate perilous conditions. It "is a new form of speculation reminiscent of late 1999 and early 2000," he says.
