

# THE CULT OF TECHNOLOGY

## DECEMBER 2002

I received a spirited response to a piece I wrote back in September regarding the technology glut. What I found truly amazing is the sheer number of true blue believers in the ***cult of technology stocks***. Sorry cult members. My job is to exorcise the demons and hand out another dose of reality to choke on.

There were many fables that led to the technology bubble during the 1990's. Some examples: the Clinton administration claimed they ended the business cycle, dot com companies were to make excellent long-term investments, small start up telecom companies would blow away the almighty Bells. However, one of the most incredible lies to come out of the 1990's not involving Monica is the sham that Internet traffic was doubling every 100 days.

There was a great article in the Wall Street Journal by Yochi Dreazen that puts this tall tale into perspective.

"The belief that Internet traffic could grow so quickly, if true it would have meant annual growth of more than 1,000%. It led more than a dozen companies to build expensive networks as they rushed to claim a piece of the next gold rush."

The amazing thing about this great lie is the life that it took on. The statistic itself sprouted up in reports from stock analysts, financial journalists, and even the government. The Commerce Department actually stated in a 1998 report that, "Internet traffic doubles every 100 days." The frightening thing is that the source for their information came from none other than WorldCom. We all know how reliable WorldCom's accounting is but we didn't realize how consistent they were in fudging the numbers. According to the Wall Street Journal, WorldCom counted fiber-optic capacity as traffic, which, in essence, renders the statistic as useful as their annual report.

The fact was that Internet traffic grew at about 100% a year. That in of itself is a tremendous growth rate. However, not enough to justify the infrastructure build-out that led to millions of miles of unused fiber optic cable.

Another interesting point made by Yochi Dreazen is his take on the future. He warns that after the first wave of data carriers begin to emerge from the bankruptcy courts; these newly debt-free companies will be able to undercut competitors to an even greater degree leading to more bankruptcies or liquidations. Sorry cult members, it ain't over till it's over!