

The Facebook Economic Barometer

January 2011

We're saved!!! We're saved!!! The dragon has been slain! The world is not coming to an end! Consumers bought a lot of stuff this Christmas! Companies are bulging with cash! Employment has turned the corner! Sanity is coming to Washington! Banks want to lend money! The stock market is back! The bond market is still good! Gold is great! Commodities are cool! China is booming! The global economy rocks! Yea yea yeah...we're saved! We're saved!!!

It has been quite difficult finding something to say at this prescient time of the year, the beginning, when every prognosticator has to predict the future, or at least the next twelve months. The Armchair fears an embarrassing stumble by jumping out there too early. A craftier strategy would be to hear other perspectives first before sticking out my amateur economic neck.

So, that's what I've been doing...Reading and reading...Going to economic forecasting breakfasts and luncheons...Hearing, analyzing, interpreting, and then trying to project a unique, insightful and valuable view when it seems the majority of prognosticators have already reached a consensus.

Consensus is pretty much what has happened at the beginning of this year. Virtually all forecasters but the terminally grumpy bears are on the same page. *Fundamentals are truly improving even with some challenges lurking in the background. But we're good! Positive momentum is growing! The average stock market gain in the third year of a Presidential cycle is around 18%! Well heck, then buy, buy, buy...and buy some more!*

A natural skeptic of consensus, the Armchair believes when everyone is on the same page it is usually prudent to proceed with caution. Great opportunity is not found when everyone believes the same thing, but when few people have a conviction about anything. So when everyone believes the world is only going to get better, it could pay to focus on why it may not.

An excellent example of the return of irrational exuberance is the recent \$500MM investment in Facebook. This is a company that reportedly generates \$2B in revenue. It now has a \$50B valuation substantiated by the oracle of all value, Goldman Sachs. \$50B of value on \$2B of revenue! That is not 25 times earnings, a worthy valuation for a decent growth company. That is 25 times revenue!!! The most technologically dynamic company in the world, Google, only trades for maybe seven times revenue. Can anyone say bubble? Wait a minute, I thought we were past that silly stuff!

So amid all the backslapping for the great job we have finally done putting us on the road to another alleged recovery (remember green shoots in early 2009), we have also decided that a company *still* lacking any certain productive value is worth 25 times its revenue. Sure Facebook has gathered millions of eyeballs, but in order for them to create real value they will have to destroy value at some of the best managed companies in the market, like Google, Apple, Amazon, eBay, AT&T, Verizon, Comcast and others. Good luck! That is not a bet I would ever make.

Facebook does not make my life easier. It does not make me smarter. It does not make me more productive. It does not increase my earnings, my savings or my investment returns, unless of course I was a legacy shareholder selling to Goldman. Instead, Facebook allows me to focus on the all-

important ME. And of course all my “friends” are also focusing on their own “ME”. Self-absorption has likely never reached such fever pitch since the globalization of one of history’s other greatest disruptive technologies, the mirror.

The significant rise of social networking companies like Facebook, MySpace (who?) and Twitter does not in any way compare to the tremendous value created in the 1990s by companies like Intel, Oracle, Microsoft, Qualcomm, Dell, Yahoo, Amazon and eBay, nor the 2000’s goliaths Apple and Google. All of these companies created tools that have changed the world. The social networking ones do not. They are little more than personal diaries on the cloud for all to see.

Social networking might be more analogous to an online bar, where patrons can post their personal adventures and emotions, supporting and in search of friendships, maybe in search of a mate. And anyone who has spent time barhopping knows bars come and go much more often than hemlines rise and fall. So yes, I am drawing my line in the sand in agreement with what so many working people beyond the age of 30 are saying...*I don’t get it. Who has the time to spend on Facebook? Am I not already over connected and over informed? Do I not already have such responsibility that this Facebook thing is nothing more than a bother? Who has time to keep up with 250 friends?*

Maybe the real reason why Facebook has become so socially intriguing isn’t because catching up with old high school chums is a grand economic opportunity, but because people feel the need to connect as they face growing economic uncertainty. Times of uncertainty inspire fear and insecurity. And the age-old way of dealing with fear and insecurity is to get closer to your friends, neighbors and family. Facebook has made this easier to do.

So perhaps the reason for this social networking craze is not that we have found the next great productivity-enhancing tool, but that it is a sociological reaction to life’s growing uncertainties. Or maybe it just is what it is...the current fad...online diaries for all to see.

Today Adam Smith's invisible hand is comprised of trillions of individual decisions made by billions of people. That collective activity determines not just an economy, but also a society’s sensibilities. Today’s collective activity may in fact be telling us that now is not the time to feel so secure about our future.

But if this sociological theory is just a rationalization to justify concern for the coming year and inspire something to write about, certainly a 25-times-revenue-valuation is telling us that we still live in the bubble era. So best to keep sharp objects – like the challenges with unemployment, housing, health care, government debt, Social Security, Medicare, budget deficits, the Euro, food/commodity inflation and geopolitical criminals – hidden from view. All feels much more cozy in the soft puffy cloud surrounded by our 250 friends.



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