

e-STOCKS

Finding the Hidden Blue Chips Among the Internet Impostors

PETER COHAN

PETER COHAN is president of his own management consulting firm specializing in the evaluation of emerging business opportunities created by new technology. He is the author of *e-Profit: High-Payoff Strategies for Capturing the E-Commerce Edge*. Mr. Cohan is a columnist for the *Industry Standard* and the *Financial Times*, and is a regular contributor to *Business Week*, *Barron's* and *Business 2.0*.

His personal Web site is at <http://www.petercohan.com>.

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MAIN IDEA

At present, Internet stocks are not in favor because of the dot-com crash which occurred in mid-2000. However, to use that as a reason to permanently avoid investing in Internet stocks would be to ignore the fact that these will certainly be the emerging growth companies of the future once all the hype has died down.

What's really needed most is a structured approach to Internet investing. At the heart of any such investment strategy must be a search for Internet companies that have real, viable, profitable and sustainable business models. To uncover that, an investor needs to look past the media confusion and focus instead on:

- The fundamentals of each company – what it does to generate revenues now and in the future.
- The dynamics of each company's business model – and what will be required to optimize that model in the future.
- The overall health of the Internet sector in which that company operates.
- The actual value of the company – and how that intrinsic value compares with its current market capitalization.

Once an investor has that sort of information, they are then able to determine whether or not the capital markets have accurately priced specific Internet stocks. When there is turbulence and controversy in the market – as there frequently is with Internet stocks – the capital markets are more likely to value a stock inaccurately, creating valuable buying opportunities for those who understand the fundamentals of the business. Then, when the product markets become correctly aligned with the capital markets, significant gains can be realized.

The real challenge, therefore, is to look past the hype, the chaos and the cutthroat competition of a new and emerging market to find the profitable, quality Internet stocks of the future. This kind of analysis will require the discipline to find the answers to six key questions:

1. What is the potential profitability of the Internet business segment in which that company operates?
2. Is the company the market leader – offering a complete "closed-loop" solution or just one part of the solution?
3. What is the quality of the management team – do they have integrity and are they adaptable enough?
4. Is the company in the process of developing a strong brand family which will assist future sales?
5. Is the company financially disciplined or do they burn through cash in anticipation of future equity funding being available?
6. Is the company under- or overvalued by comparison to its peers?

Put simply, by following this approach, investors can increase their chances of making money by investing in Internet stocks in just the same way as a disciplined approach increases the chances of success in any other type of investment.

Section 1 – An Internet Investment Strategy Pages 2 - 3

Before considering whether or not to invest in Internet stocks, there are a few questions every investor should answer for themselves:

1. Are Internet stocks likely to increase in value in the future – or has the Internet already run its course?
2. How do you break down Internet based businesses into segments for investment analysis?
3. What are the key questions in deciding whether or not to invest in a specific Internet stock?

Section 2 – The Nine Internet Business Segments Pages 3 - 7

1. Network Infrastructure
2. Internet Venture Capitalists
3. Web Consulting
4. E-Commerce Companies
5. Web Portals
6. Net Security
7. Web Content Developers
8. Internet Service Providers
9. Web Tool Developers

Section 3 – Making the Decision to Invest Page 8

To decide on whether or not you should have an Internet stock investment portfolio, find the answers to these questions:

1. Are Internet stocks right for my investment portfolio?
2. Should I invest in an index or just some Internet segments.
3. How should I select individual companies to invest in?
4. How should I time a purchase?
5. How can I tell when I should be selling my Internet stocks?

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