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EDITOR: JOE KEARNS *PRINT EDUCATION COORDINATOR*
CONTRIBUTORS: ROB GELB, JOE KEARNS, COLE LENNON, KEVIN GRANT MCCLERNON, CAMILLE MENDOZA

Special Report on the U.S. Tech Industry

What is the state of the U.S. tech industry? The NASDAQ, the second-largest stock exchange in the U.S., broke 5,000 for the first time since the dotcom bubble in 2000. The index is heavily oriented around tech companies. This milestone raises a discussion on whether the U.S. economy is currently involved in a new tech bubble. A proponent of the bubble hypothesis would argue that there are signs in the private equity market of a bubble, while a detractor of the bubble hypothesis would argue the present rise in valuations of tech companies is based in market fundamentals and the global economic climate.

Apple: Not Far From the Tree

New business ventures are often similar to something that came before. Apple's recent push toward streaming and radio is no different, as the tech giant aims to release a revamped streaming service and relaunch iTunes Radio. Apple will bring in more experienced professionals to help, with prominent musician Trent Reznor redesigning the streaming service and award-winning DJ Zane Lowe assisting with iTunes Radio. Updates to these services help Apple compete for market share--not just with streaming-based companies like Spotify, but online radio sites like Pandora. Even with new main rivals, Apple's foray into music simply builds on what they already have. Music-related business, like iTunes in January 2001 and the iPod in October 2001, is an area where Apple has a broad base of experience. Now, it is just the same song with a second verse.–CL

Apple is the biggest company in the U.S. It has a $736 billion market capitalization.

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Avago: Conducting Themselves to Success

Behind every new version of Apple's iPhone is the company that provides the essential parts. The man behind the curtain is Avago, semiconductor company that focuses on both chipmaking and the 4G LTE market at a time where higher bandwidths are constantly in demand. Avago conducts business with Samsung as well, and has business ventures around the world, particularly in China. The company has had six straight quarters of accelerated sales and earnings growth, while stock prices have surged by about 105% over the past year to near record highs. Merrill Lynch tipped their hats to the company, having a price target for them at $140 a share. On a daily basis, Avago is trading over 2 million shares, which are notable for their enormous volatility. For the moment, Avago is the name to remember when looking for investment opportunities. Once the iPhone 7 (inevitably) comes out, it will be more than Apple you can thank for that.–RG

Avago provides essential parts for other companies in the tech industry like Apple and Samsung.

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Uber Going Public: Wishful Thinking

Uber has become a staple in every city dweller's phone screen, and investors have taken notice. Hedge funds like Tiger Management are speculating that the personal driver service, which is valued at $41.2 billion, will be going public. *Fortune* writer Tom Huddleston adds fuel to the fire, on the heels of recent news that Uber's CFO Brent Callinicos had stepped down. Huddleston argues that a more Wall Street-savvy CFO could help Uber's transition from private to public. Given recent controversies, this idea is problematic. Governments are threatening to sue or ban the service in many cities, as they claim that unlicensed drivers should be illegal. Additionally, there have been several allegations of Uber drivers raping women in places like Delhi and Philadelphia. As Fortune writer Kevin Kelleher argues, the ongoing high-profile controversies could weigh on the company's shares in the public market. For these reasons, going public is both unwise and unlikely. Uber should remain private until it wins these regulatory battles, or crashes while trying.–CM

Uber markets, operates, and develops a mobile-app-based transportation network. The service is available in 55 countries and more than 200 cities worldwide.

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Is the U.S. economy in a new tech bubble?

Pro: Beware the Bursting Bubble

No two bubbles are alike. The most famous tech bubble, the dot-com bubble of the 1990s, experienced substantially different market conditions than those existing today. The NASDAQ Stock Market reached a peak of 5,408.62 in March 2000, compared to a real value (in 2000 dollars) of about 3,600 today. The U.S. economy has grown so much since 2000 that the NASDAQ would have to hit 8,500 to reach the same position. None of these facts, however, rule out the possibility that there is another tech bubble ongoing today. Though there appears to be no widespread tech bubble across the public markets, there are numerous signs from private equity and high-end public tech companies that there is a bubble elsewhere.

The current tech bubble is concentrated in specific parts of the tech industry. Across the broader tech industry, late-stage financing from private equity firms nearly tripled since 2000 and supplanted IPOs. According to *Bloomberg Business*, late-stage companies received two-thirds of the $59 billion of investments in U.S. tech startups in 2014. In one year, a record 62 firms were valued at more than $1 billion, a total which was nearly three times the total in 2013. Curiously, investors are willing to pay more to reap fewer benefits. Hedge funds and mutual funds are now paying between 15 and 18 times projected sales for tech companies annually, compared to 10 to 12 times five years ago. SharesPost 100 Fund investment manager Sven Weber warns that as the number of billion-dollar startups increases, so will the odds that investors will suffer huge losses.

There is evidence that a correction to the tech bubble is underway. Private equity firms like Bain Capital Ventures and SharesPost that financed late-stage deals are beginning to scale down investments in expensive tech companies in favor of cheaper startups. Those firms are ahead of the curve, as tech companies like Box Inc. and Hortonworks Inc. are going public at valuations lower than their final private-funding rounds. These occurrences show what happens when irrational exuberance takes the valuation of some firms to unreasonable heights. Now is the time to take cover. The bubble is already beginning to burst.–JK

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Con: The Fuel Behind the Rocket

Securities markets in the United States are red-hot. The Nasdaq Composite recently hit its eerie 5,000 point mark – reminiscent of the 2000 tech bubble implosion – and the benchmark 10-year Treasury is trading below 1.9%, as of March 25th. As investors worldwide pour into domestic markets, we have to ask ourselves: are investors fueling another bubble?

The answer, in my humble opinion, is no. The term bubble is fairly subjective, but it is most commonly associated with the phenomenon where asset prices rise based on large amounts of market speculation, rather than fundamental analysis. Massive speculation in the housing market led to the financial crisis in 2007. The dotcom bubble in the late 1990s and early 2000s was the quintessential bubble – some technology stocks gained nearly 1000% within days of going public. Fundamentals couldn't support this.

So what's different about today? Since the Nasdaq bottomed out at around 1,250 in March 2009, it has jumped 284%. As of March 25, the Index stands at 4,888 -- admittedly, an absurdly high growth rate for a 5-year span. However, the difference is the fuel behind the rocket. Bubbles are a result of over-speculation, which is not necessarily the case today. Then what's fueling today's rise?

Investors are hungry. They've sat patiently for years in a low-to-zero interest rate world as the global economy recovered from the financial meltdown. Select German, Japanese, Swiss, and Swedish short- and medium-term government debts are currently paying negative interest. The EU is on the brink of deflation and the ECB just embarked on a massive new stimulus round aimed at pushing bond yields down even further. Growth in most EU countries is less than 1%, China is revising its growth forecasts downward at an alarming rate, and there continues to be uncertainty in the Middle East. And that leaves us with the current star of financial markets, the United States. Growth forecasts put GDP growth around 3% for 2015 and the Fed is expected to raise rates at some point this year, making domestic securities even more enticing.

The capital inflows into the US securities markets, therefore, aren't speculative by nature. As prices rise, returns should continue to thin out. Investors will presumably keep piling into them until the returns on American securities are on par with the paltry returns elsewhere. The market may be saturated, but it doesn't appear to be a bubble. It just begs the question: *to where else should investors turn?* –KGM

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