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Independent Financial Adviser

## Tech boom – catching the second wave

**It was hailed as Australia's Twitter. When outsourcing site Freelancer.com listed on the Australian Securities Exchange on November 15 it more than trebled in price to a market value of almost \$700 million.**

A week earlier, Twitter made its debut on the New York Stock Exchange with a 73 per cent first day price hike valuing the social media group at US\$25 billion. And that's before the company has earned an operating profit.

Clearly, there is a buzz of excitement around technology stocks. The issue for investors is whether this latest tech boom will end in tears, like the so-called 'tech wreck' of 2000 to 2002, or herald the start of a new wave of corporate success stories to rival Apple, Microsoft and Google.

Investment guru Kerr Neilson, chief executive of Platinum Asset Management thinks it is the latter. Speaking at a recent Morningstar conference he said: "We think we're on the verge of a second internet revolution. Most of you have not heard of the great companies involved. It indicates it's still early days. In the last boom, we had the hardware suppliers, this time it's the content suppliers and network groups."

Even so, not all of the current batch of technology hopefuls will survive. During the dot.com boom, prices for internet stocks soared on wildly optimistic assessments of future potential and plentiful venture capital. In reality, many of the companies were start-ups with no history of profits. When the market fell to earth during the tech wreck many dot.coms disappeared completely; only the strongest – such as Amazon – survived.

### **Weighing risk and return**

The challenge for investors is separating tomorrow's global success stories from the chaff. Buying shares in an initial public offering (IPO) is appealing, but there is a danger of getting caught up in the market hype and risking your capital on a single company. As always, the key to successful investing is to spread your money across a diverse range of stocks and industry sectors.

Start-up companies offer potentially high returns but they are also high risk. For every Facebook there is a MySpace, a former market darling that was eclipsed by its more famous rival.

# Snapshots



In order to reduce risk while gaining exposure to potentially strong returns, investors are advised to limit exposure to the technology sector to a small portion of their overall investment portfolio and to spread their money across a number of technology companies.

The easiest way to do this is to invest in a managed fund. There are a number of global technology equity funds run by well-known fund managers. Many of the companies they invest in you have probably never heard of. They include Chinese Internet stocks and African mobility companies as well as more familiar names from developed economies.

## The recent surge

If proof was needed that technology stocks are running hot, Morningstar reports returns from global technology funds over the 12 months to October 31 ranged from 37.5 per cent to 50.7 per cent. Three-year returns were a more sobering 8.5 per cent to 18.7

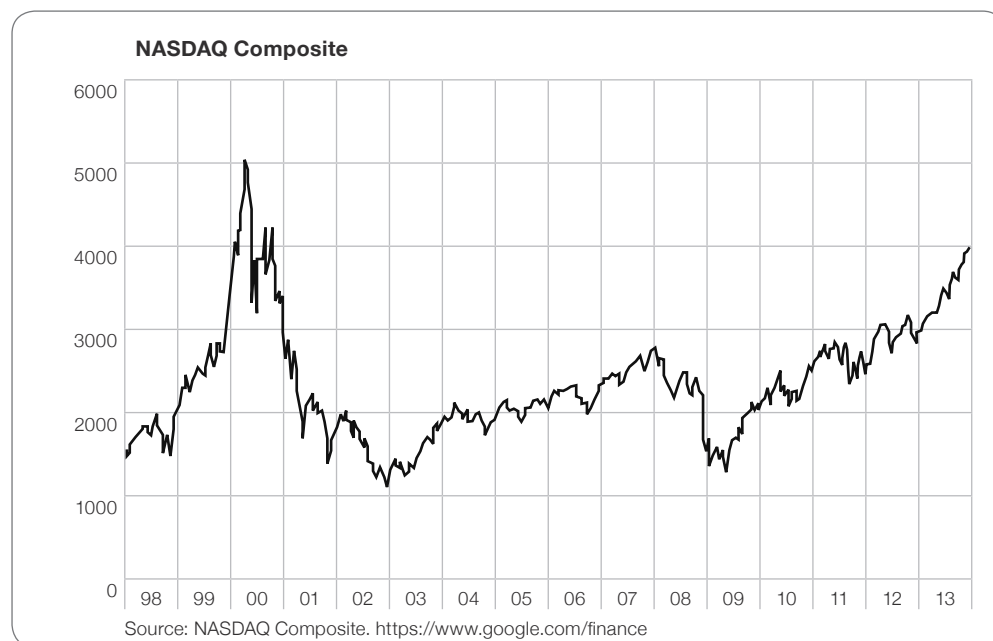
per cent, highlighting the volatility the sector is known for.

## Opportunities

If you have money in a superannuation fund you may have an investment in technology companies without realising it. Super funds not only make direct investments in shares but often select external fund managers with expertise in specialist areas such as technology and venture capital.

Venture capital funds and private equity funds raise money from wealthy private investors to provide seed capital for emerging companies. While they are out of reach for many investors, they are on the radar of many large, public offer super funds.

*If you would like to discuss how your portfolio is positioned to take advantage of the new wave of technology companies entering the investment landscape, don't hesitate to call us.*



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