Killer stocks

"THIS HAS BEEN the worst period in my life. I've destroyed the net worth of my family, and I've lost a lot of money for my partners."

That painful revelation comes from one short-seller who had the temerity to bet against Internet stocks -- but it just as easily could have come from almost any of them. Short-sellers make their living assessing "fundamental value" and debunking hype, placing rich bets when the gap between the two is irresistibly wide.

And what better place to look for hype than the World Wide Web?

Internet stocks are so lavishly valued, so utterly disconnected from any rational analysis, that the shorts should have been getting rich.

Instead, they are getting killed. Speculators have lost $2 billion in six months betting against just two stocks, Amazon.com and Yahoo!, to judge from Nasdaq filings.

Some dared to sell Yahoo! short at $80 last summer -- only to watch in horror as it rose another $100 a share in just a few months. Beaten to a pulp, various traders tried to cover their bad bets at various prices, only to see their own buying drive the price up even higher. That put them further in the hole.

It's all very perplexing to a fundamental-value guy. Yahoo! gets its revenue from advertising -- a wobbly support structure, at best. Yet Yahoo!'s $19 billion market value puts it in the same neighborhood as another ad vehicle, CBS Corp. And CBS will end 1998 with revenue that is 37 times that of Yahoo!.

"It isn't good for the economy or the market what's happening here," says Manuel P. Asensio of Asensio & Co., an investment banking firm in New York. "What I find so unprincipled is that very seasoned, professional firms are touting these stocks. They Statistics by Kurt Badenhausen. should know better."

Asensio is taking a harsh look at Amazon.com, a moneylosing on-line bookseller whose $10 billion market worth puts it at five times the value of Barnes & Noble, a chain with 1,025 stores in the U.S., a new on-line business and a deal to acquire the industry's largest wholesaler, Ingram Book Group.

"I tell you," Asensio vows, "Amazon will be the brand name for a tulip someday."

In tulipomania fashion, a small amount of property changes hands at a feverish pace. Though E-Bay, an on-line auction site, has only 4 million shares on the market, its daily trading volume has exceeded 10 million shares, changing hands repeatedly. The small float means that even a slight rise in demand for a stock ratchets the price up sharply.

Wall Street has had buying panics like this before. In the 1920s it was radio stocks, in the 1950s it was uranium stocks. Presumably the Internet has a brighter future than uranium mines, but hype is hype.

"I've got a high tolerance for volatility," Paul Rickert of ParVest Asset Management, a hedge fund in San Francisco, says dryly. He needs it. He has been shorting E-Bay and Inktomi, a search-engine firm, for the past few months. E-Bay went from $47 a share in September on up to $218 and back down to $174. Inktomi, meanwhile, went from $76 up to $158 and is now in the $110 range.

Yet Rickert, who has been in and out along the way, is still short both. He figures that of $100 billion in Internet stocks "only 10% are worth anything." But the clearing firms that deal with him are wary of the wild price climbs and are demanding stiffer margin requirements.

"Somebody's going to make a lot of money here," he says. "I want to be one of the ones left standing."