RIA Advice

The world has gone completely startup crazy over the last several years. Spurred by soaring tech stock prices (a byproduct of the U.S. stock market bubble)•and the frothy Fed-driven economic environment, countless entrepreneurs and VCs are looking to launch the next Facebook or Google. Following in the footsteps of the dot-com companies in the late-1990s, startups that actually turn a profit are the rare exceptions. **Unfortunately, today's tech startup bubble is going to end just like the dot-com bubble did: scores of startups are going to fold and founders, VCs, and investors are going to lose their shirts.** In this piece, I wanted to show a collection of recent news headlines (all from Business Insider) that capture the zeitgeist of the tech startup bubble - please remember these when the bubble bursts and everyone says "what were we thinking?!"

These Silicon Valley venture capitalist trading cards should tell you where we are in the cycle (close to the end) (link):

BUSINESS INSIDER TECH | FINANCE | POLITICS | STRATEGY | LIFE | ALL PRIME | INTELLIGENCE

A San Francisco based company has made trading cards of Silicon Valley's top VCs because, well, it's Silicon Valley

Nick Bastone Nov. 10, 2018, 10:00 AM

TouchBase/screenshot

When trillions of dollars worth of central bank "Bubble Money" is sloshing all over the globe looking for a home, startups are a popular holding container (link):

BUSINESS INSIDER TECH | FINANCE | POLITICS | STRATEGY | LIFE | ALL PRIME | INTELLIGENCE

Since when did throwing "insane" amounts of cash into a hot industry ever end well? It never does and this time will be no exception. Masayoshi Son is definitely "Bubble Drunk." (link):

BUSINESS INSIDER

TECH | FINANCE | POLITICS | STRATEGY | LIFE | ALL

PRIME | INTELLIGENCE

BI PRIME

Masayoshi Son wants to flood startups with insane cash as SoftBank plans new $100 billion fund every few years

Shona Ghosh Sep. 28, 2018, 6:39 AM

So, she started as a VC at age 17?! And the companies she invested in are worth billions? That's what happens when central banks hold interest rates at record low levels for a record length of time and flood the economy and financial markets with trillions of dollars worth of liquidity. As the old saying goes, "a rising tide lifts all boats." Also, "never mistake a bull

market for brains." ([link](#))

A 24-year-old VC has spent the past 7 years investing in companies that are now worth billions. Here's how's she's picking her next investments to help us live longer.

Lydia Ramsey Oct. 10, 10:22 PM 2,923

During a bubble, it is common to see fantastical stories about young wunderkinds getting hired for grown-up jobs, starting companies, making fortunes, etc. in the industry that is experiencing a bubble. (Undoubtedly, the parents play a very large role in opening doors for these kids and getting them media coverage - *"it'll look great when applying to Harvard!"*). Another example of this is the story of the [11 year-old](#) "cryptocurrency guru" that was circulating during the crypto bubble earlier this year before the crypto price implosion. ([link](#))

BUSINESS INSIDER

TECH | FINANCE | POLITICS | STRATEGY | LIFE | ALL

This 10-year-old coder is already so successful she's caught the attention of Google and Microsoft

Pretty soon, you will see many more headlines like this (link):

BUSINESS INSIDER

TECH | FINANCE | POLITICS | STRATEGY | LIFE | ALL

PRIME | INTELLIGENCE

The 25 most valuable US startups that failed this year

Paige Leskin Nov. 10, 2018, 2:47 PM

Samantha Lee/Business Insider

I believe that a very high percentage of today's startups are actually *malinvestments* that only exist due to the false signal created when the Fed and other central banks distorted the financial markets and economy with their aggressive monetary stimulus programs after the global financial crisis. See this definition of malinvestment from the Mises Wiki:

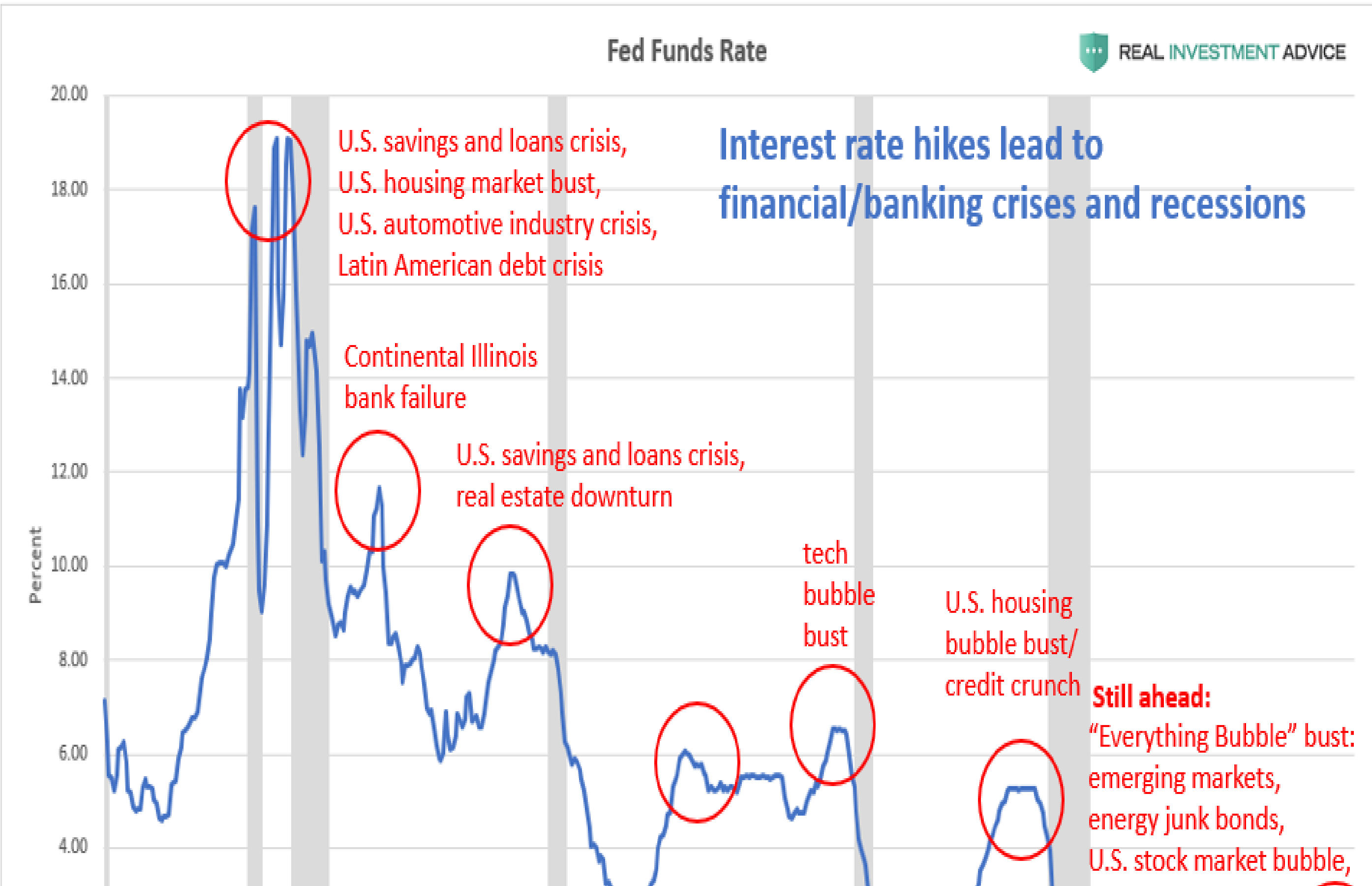
> **Malinvestment**•is a mistaken•investment•in wrong lines of production, which inevitably lead to wasted•capital•and economic losses, subsequently requiring the reallocation of resources to more productive uses. "Wrong" in this sense means incorrect or mistaken from the point of view of the real long-term needs and demands of the economy, if those needs and demands were expressed with the correct price signals in the free market. Random, isolated entrepreneurial miscalculations and mistaken investments occur in any market (resulting in standard bankruptcies and business failures) but

systematic, simultaneous and widespread investment mistakes can only occur through systematically distorted price signals, and these result in depressions or recessions.•Austrians•believe systemic malinvestments occur because of unnecessary and counterproductive intervention in the free market, distorting price signals and misleading investors and entrepreneurs. For Austrians, prices are an essential information channel through which market participants communicate their demands and cause resources to be allocated to satisfy those demands appropriately. If the government or banks distort, confuse or mislead investors and market participants by not permitting the price mechanism to work appropriately, unsustainable malinvestment will be the inevitable result.

As I've explained in a recent [Forbes piece]():

> When central banks set interest rates and hold them at low levels in order to create an economic boom after a recession (as our Federal Reserve does), they interfere with•the organic functioning of the economy and financial markets, which has serious consequences including the creation of distortions and imbalances. By holding interest rates at artificially low levels, the Fed creates "false signals" that encourage the•undertaking of businesses and•other•endeavors that would not be profitable or viable in a normal interest rate environment. The businesses or other investments that are made due to artificial credit conditions are known as "malinvestments" and typically fail once interest rates rise to normal levels again. Some examples of malinvestments are dot-com companies in the late-1990s tech bubble,•failed housing•developments during the mid-2000s U.S. housing bubble, and unfinished skyscrapers in Dubai and other emerging markets after the global financial crisis.

The chart below shows how•recessions, financial crises, and bubble bursts have occurred after historic interest rate hike cycles:



I believe that rising interest rates and the overall tightening monetary environment will lead to the popping of today's stock market bubble, which will then spill over into the tech startup bubble. Please watch my recent presentation about the U.S. stock market bubble to learn more: **If you have any questions about anything I wrote in this piece or would like to learn how Clarity Financial can help you preserve and grow your wealth, please contact me here.**