

The Angel VC

Thoughts on Internet startups, SaaS and early-stage investing from Christoph Janz @ Point Nine Capital.

Tuesday, September 16, 2014

3 Reasons We're in a Bubble. And 3 Reasons We're Not.

In a Wall Street Journal interview that was published yesterday, [Bill Gurley](#), General Partner at Benchmark and one of the smartest and most successful VCs of all time, said that the current environment reminds him of the tech bubble of the late 1990s:

“Every incremental day that goes past I have this feeling a little bit more. I think that Silicon Valley as a whole or that the venture-capital community or startup community is taking on an excessive amount of risk right now. Unprecedented since '99. In some ways less silly than '99 and in other ways more silly than in '99.”

The [full interview](#) is behind WSJ's paywall, but [here's a summary](#).

So – are we in a tech bubble? Trying to answer that question could easily turn into a book because there are so many aspects to consider, but let me try give you three reasons why I think we're in a tech bubble – and three reasons why I think we're not.

Three reasons we're in a tech bubble

1) So-called **unicorns** and companies believed to become unicorns can raise as much money as they want at extremely high valuations. While it's perfectly rational for large growth funds to do everything they can to invest in one of the few companies that get big enough to return their funds, my impression is that there's too much money chasing too few "certain" winners.



2) In Silicon Valley, competition for seed and early-stage investments is so fierce that deals are done at mind-blowing speed and ever-increasing valuations. Some years ago, YC startups used to raise seed rounds with a \$4M cap. About two years ago, \$8M became the new \$4M, and it seems like the new standard is now \$12M. While this might be a reasonable valuation for *some* startups, if most startups are raising seed rounds at double-digit valuations I believe it shows that investors are getting increasingly oblivious to risk.

3) The competition for talent in Silicon Valley is getting tougher and tougher, and what startups do (and maybe have to do) to attract people and get mindshare is sometimes starting to feel crazy. I've heard of startups renting prime office space in the best locations of San Francisco ... *because of the foot traffic*. This may or may not be a smart move by the entrepreneurs (and it's in the nature of bubbles that rational decisions of individuals lead to an irrational outcome), but it sure makes my bubble alarm antennas vibrate. :)

Three reasons why we're not in a bubble:

1) The amount of venture capital flowing into Internet startups is significantly below 1999/2000 levels. According to data from the [NVCA](#) and [pwc MoneyTree](#), VCs invested about \$23.8B and \$41.8B in Internet companies in 1999 and 2000, respectively. In 2013, that number was \$7B and in the first half of 2014 it reached \$4.9B.

2) There's no IPO bubble. Back in the 1990s, everyone and his dog was buying Internet stocks. Companies with negligible revenues went public and reached market caps of billions of dollars. Nothing even remotely close is happening today. Today, mature companies with tens of millions of dollars in revenues and strong market positions go public. Whether the stock market will go up or down by 20-50% in the next 1-2 years I have no idea, but we certainly won't see dozens of public Internet companies go bankrupt.

3) Outside of the SF Bay area I don't see many signs of a bubble. As far as Europe goes, there aren't that many angel investors or VCs in Europe and most of the US-based VCs don't invest in European startups. As a result, raising money is still quite tough for most European entrepreneurs, across pretty much all stages.

So are we in a bubble or not? With respect to VC investments in the Bay area I would say "yes", but that

About Christoph Janz

I'm a Managing Partner at [Point Nine Capital](#). Previously I was an Internet entrepreneur and angel investor. In 1997 I co-founded [DealPilot.com](#) (acquired by [Shopping.com](#)) and in 2005 I co-founded [Pageflakes](#) (acquired by [LiveUniverse](#)). My investments include [Zendesk](#), [FreeAgent Central](#), [Geckboard](#) and other SaaS startups.

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doesn't mean that it has to burst any time soon, especially if you keep in mind how far we're away from a 1999/2000-like situation. As far as Europe is concerned I say: No, non, nej, ei, ohi, nē, nee and nein.

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Great post Christoph, I featured it today in the Mattermark Daily!
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Jindou Lee · 25 minutes ago

We are in a bubble where the other layer is protected by bubble wrap. Still susceptible to popping but as long as the protective layer (access to capital) is in tact, Startups will be fine.

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chrija — I'd have to check, but I'd say it's pretty equal.

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Nikos Moraitakis — Hi Christoph - great post, all of the above ring true. Apparently I'm a card-carrying ...

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Roberto Bonanzinga — You must have good co investors with whom to discuss similar topics :)

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