The Outlook For Capital Gains and IPO’S

presented by
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presented to
FTA Revenue Estimating Conference
Sept 2000
Realized Capital Gains Explode
“Ownership” Gains Key

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<th>Year</th>
<th>% of GDP (L)</th>
<th>Realized Capital Gains (R)</th>
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<td>93</td>
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<td>94</td>
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<td>98</td>
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<td>99</td>
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FTA Capital Gains Sept 2000
Different Wealth Effects and other Drivers of Consumption


CONCLUSION: Consumption growth has slowed, but needs continuing drag from the above to stay down.
Spending Moves Back in Line with Income
IPO Boom Enriches Owners

THE IPO BOOM...

...IS NOW CORRECTING

IPOs down. Valuations down. New issue % down. Frantic search for next new thing

- Funds outstrip outlets? Foreign?
- Profit outlook poor. Returns go to stakeholders. Near zero marginal cost (like TV?) no pricing power
- Shareholder value record poor. Tiny new issue % “profits don’t matter”
- Therefore stock values unrealistic. Acquisition offset? (Cisco, AOL). Proprietary offset? New telecom/ optical switching etc. surge?

Conclusions: Like many booms, takes an opportunity and overdoes it. Investment must become more selective. Further correction likely
Abuses in the IPO Market

Sales Reporting

Profit Reporting

Customer/Analyst stock grants

Stakeholders get returns, not shareholders “Profits don’t matter”

Result: Investors get tough, venture credit crunch?
Some InfoSpace IPO Stories

39-year-old Mr. Jain (founder of InfoSpace) has about $200 million, actually, or selling one-fifth of his shares.

Jean-Remy Facq, age 32, has tried to avoid selling much of the roughly 300,000 shares of InfoSpace.com now worth about $12.7 million, for which he holds options to buy at only a penny a share.

Marcus, the 24-yr old programmer...recalled... that times got so tight initially he had to sell his car, carry groceries home in his son's stroller, and borrow from his wife's family. "We just wanted to see what kind of houses you could get for this kind of money". (He buys the $15 million house)

Mr. Facq began borrowing so he could start scooping up a few what Mr. Jain calls "toys" A High Definition television. A BMW sports car. A BMW sedan. A $600,000 house. A Dodge Viper with 10 cylinders and 450 horsepower. He bought a Jeep Grand Cherokee, a BMW-740 sedan (over $70,000), a used Ferrari...a $600,000 house...and plane tickets for twelve relatives to come visit.

Source: Bloomberg
Broad Stockmarket Risks

RISKS
- Recent decline extends?
- Stocks Overvalued
- Profit growth slows
- Rising interest rates
- Fed wants to slow down

PROTECTIONS
- Prior 20% stocks correction and this one so far only modest negative for sentiment and spending
- Other sources of excess spending (Contrary to Fed)
- Bond yields and Fed cuts could offset

Conclusion: Further selloff risk is substantial: Unlikely to quickly lead to recession. Even stable market a big change
Income to Rise: Profit share to Fall

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<tbody>
<tr>
<td>Employee</td>
<td>73.3%</td>
<td>70.3%</td>
<td>70.9%</td>
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<td>Proprietors</td>
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<td>Rental</td>
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<tr>
<td>Interest</td>
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<td>7.1</td>
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<tr>
<td>Corp. Profit</td>
<td>9.0</td>
<td>12.6</td>
<td>11.5</td>
<td>11.9</td>
<td>11.1</td>
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<tr>
<td>(Economic)</td>
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<tr>
<td>Memo: After Profit</td>
<td>6.2</td>
<td>8.4</td>
<td>7.6</td>
<td>7.9</td>
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Conclusion: End of Capital Gains Revenue Boom

IPO WEALTH
Creation highly concentrated in tech development states
Creation rate shrinking sharply now, half of peak rates. Recovery?
Stop loss cashing in this year.
Realizations/Revenue from this source could fall 25% from peak

CAP. GAINS REVENUE
- Stable overall stock market a big change
- Large stock of unrealized gains
- Non IPO “owner” realizations will grow
- Stop loss selling
- Federal receipts may grow to $120 bio this year, but fall in 2001