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POLICY BRIEF

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One trillion dollars in shareholder value destroyed

**Clinton/Gore assault on high-tech industry cost American
investors more than \$1 trillion**

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This year has ended the government's non-interventionist approach to the high-tech economy, and begun a period of intense activism by federal bureaucrats. Starting with the conclusion of the Microsoft case, it became clear that the Clinton/Gore administration was abandoning its efforts to push their big government agenda through Congress and was using the courts and bureaucratic activism instead.

While Vice President Al Gore is on the campaign trail taking credit for eight years of incredible prosperity, he conveniently overlooks the recent decline in the technology sector or the market. **Since April 1st of this year the NASDAQ has dropped more than 1,000 points; the Technology Sector Fund of the S&P 500 has lost more than 16 points; and leading technology companies have lost more than \$1 trillion.** All these factors seem to have shaken investor confidence, not only in tech stocks, but also in Vice President Gore.

In July of this year, the Department of Justice, Federal Trade Commission (FTC), and Federal Communications Commission (FCC) worked with the European Union bureaucrats to kill Worldcom's proposed acquisition of Sprint. This activism cost investors more than \$100 billion, and now these bureaucrats have set their sites on the proposed merger between Time Warner and AOL. **The shift in policymaking from legislation to**

litigation creates uncertainty and havoc for investors, and discourages the very type of innovation that has driven our “new economy.”

The implications of this new Clinton/Gore approach to policymaking have sent reverberations throughout the high-tech community. Not only did the companies directly attacked by the Clinton/Gore administration see a dramatic drop in their stock prices, but the entire high-tech community faced increasing volatility, uncertainty and declining stock prices. The high-tech economy relies on the benefits from being first to the market, and consequently, the most successful high-tech companies enjoy large market shares in their respective niches. The message of the Clinton/Gore administration’s revival of antitrust activism was: “Beware, you could be next.”

To date, the reverberations of the Clinton/Gore administration’s attack on the high-tech economy do not seem to have reached beyond the technology industry, but given how quickly the repercussions were felt throughout the technology sector, it is only a matter of time before the entire economy feels the impact of the radical intervention approach of the Clinton/Gore administration.

Cost of declining stock prices

(billions of dollars)

Microsoft	-\$281.430
Dell	- 74.084
Gateway	- 2.251
Hewlett Packard	-41.160
Apple	-38.386
Intel	-623.786
Real Networks	- 3.673
Red Hat	- 4.512
VA Linux	- 1.123
Oracle	-125.811
Novell	- 6.441
AOL	- 23.595

Total ... -\$1.226 trillion

One way to analyze the cost of the Microsoft case is to consider what has happened to Microsoft's competitors and the companies they supply. For our study we chose 12 companies. Six depend on Microsoft as a supplier, and six compete with Microsoft in at least one market. All of these companies have faced increasing volatility and decreasing stock prices since settlement talks broke down in the Microsoft case.

The chart below shows the stock prices of the 12 companies we chose at each key interval in the Microsoft case this year. March 31, the day before settlement talks broke down, is the benchmark. April 3 is the first day of trading after the talks broke down. June 7 is the date that Judge Thomas Penfield Jackson sided with the Department of Justice and proposed breaking up Microsoft, and there is today.

High-tech volatility in the wake of the Microsoft case

	Benchmark	Settlement talks break down	Breakup ruling	Today
	(March 31)	(April 3)	(June 7)	(Oct. 9)
Microsoft	\$106.25	\$90.875	\$70.50	\$54.1875
Dell	53.9375	53.375	45.25	25.625
Gateway	55	55.5	54.50	48
Hewlett Packard	132.5625	132.5625	122.5625	90.9375
Apple	135.8125	133.3125	96.5625	21.75
Intel	131.9375	130.625	128.9375	39.0625
Real Networks	56.9375	51.4375	45	33.4375
Red Hat	42.375	42.125	24.75	14.3125
VA Linux	60.375	62.3125	37.75	35
Oracle	78.0625	76.875	80	33.375
Novell	28.625	26.50	9.0312	9
AOL	67.25	66.5	56.88	57.10
NASDAQ	4572.83	4223.68	3839.26	3355.56
DOW	10921.92	11221.93	10812.86	10568.43

The decline in the NASDAQ and the Dow could indicate a broader market retraction. Using Standard and Poors spider indices we can compare the performance of the technology sector of the marketplace with the rest of the economy. The chart below compares the S&P 500 sector funds from April-October of 1999 with April-October of 2000.

Excluding the technology spider, the S&P 500 has gone up more than six points since talks broke down in the Microsoft case. Over that same time period, the technology spider index has dropped by more than 16 points. This indicates that since early April, some phenomenon has devastated the high-tech economy while leaving the rest of the market relatively unharmed. Whether coincidence or causation, there have been incredible decreases in the valuation of technology companies since the breakdown of the Microsoft settlement talks.

Select Sector SPDR[®] Funds

(S&P sector funds with Technology fund listed separately)

	March 31- Oct. 9 1999	March 31- Oct. 9 2000
The Cyclical/Transportation Fund (XLY)	-0.483	-5.094
The Basic Industries Fund (XLB)	+3.047	-4.438
The Consumer Services Select Fund (XLV)	-0.516	-1.606
The Utilities Fund (XLU)	+2.812	+5.454
The Consumer Staples Select Fund (XLP)	-1.969	+3.844
The Energy Fund (XLE)	+1.515	+3.437
The Financial Fund (XLF)	-1.688	+3.399
<u>The Industrial Fund (XLI)</u>	<u>+4.453</u>	<u>+1.235</u>
Total change since March 31.....	+8.137	+6.231
 The Technology Fund (XLK).....	 +5.922	 -16.291