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Q&A With SharesPost Investment Management On Recent Market Volatility

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Sven Weber, managing director of SharesPost Investment Management, talks about recent market volatility and the potential impact on the private security market.

Family Wealth Report does not necessarily agree with all of the comments stated in this article, but is delighted to share them.

What is driving the current market volatility?

I believe we are experiencing the market pullback many of us expected. However, I don't think we are in a major sell off. We talked about a potential market correction of 15-20%, and this has occurred in the last several months.

The volatility has been driven predominantly by computer trading. A significant portion of trades today is initiated by computer algorithms. We just hit certain trigger points that can cause computers across the board to push the sell or the buy button. That's the reason you can see swings within just a few minutes of 500-1,000 points in the Dow Jones.

Despite the volatility, I still feel the US economy is strong and continuing to grow.

Beyond the US, do you feel that growth in the global economy is slowing?

Not necessarily. China has issues, but these have been known for months. China has to move from an investment econo-my to a consumption economy. In the past, the country's economic growth was driven by investments in commercial real estate, infrastructure and so on. Now, the more than billion people in China need to start buying more products.
I strongly believe that additional consumer spending will have a long-term positive impact on the global economy.

Do you think we're currently in a bubble?

Only history will tell. However, the vast majority of companies I look at today have a connection to their fundamentals. Their enterprise value is connected to their revenue and revenue growth. Other companies, however, appear disconnected from their fundamentals. They will either grow into that enterprise value or price-correct. I strongly believe many will likely price-correct. The larger question is how much it will impact the entire tech sector and potentially the broader markets.

Where is Silicon Valley today compared to dot.com era 15 years ago?

There is a big difference between those two periods. In 1999 and 2000, success was measured by click-through rates, PowerPoint presentations and eyeballs. Today, you have products with revenue and growth. Additionally, in 1999 all the growth and investment was in a single sector – Internet-based firms. Today, you have new companies, innovation, disruption and growth across many technology sectors. This is a significant difference.

Returning to the question of volatility, do you expect private company shares to experience the same volatility as shares of publicly traded companies?

No. Private company shares don't trade on an open exchange, like shares of publicly traded companies. Therefore, you don't have computer-driven trading in the private markets. Also, private investments are heavily structured deals, often using preferred stock and specialized financing structures. This method of funding will likely shield private companies from much of the volatility experienced by publicly traded firms. Overall, the infrequency of trading private stocks also helps reduce common volatility.

Do you think volatility in the public markets will impact the ability of venture-backed companies to raise money?

I don't think it will impact the ability to raise money, but it may determine whether it is a good time to do an IPO. I think you will see some postponements of IPOs due to the recent volatility, but I would not expect to see a long-term cancellation of IPOs.

Silicon Valley is booming again. There are more than 100 unicorns – companies valued at over $1 billion. What's going on?

It is a very exciting time in Silicon Valley, and a large amount of capital is flowing into the private markets. Many companies are holding off on going public because they can. They prefer the advantages of staying private during the period of high growth. Many large diversified public mutual funds are investing now to secure an allocation in future public companies, as well as to potentially add alpha to their performance.

Unfortunately, as an investor, you are not gaining any material exposure to the asset class through these funds. They are prevented from taking a significant position. A fund, which invests exclusively in late-stage, venture-backed companies, allows individual investors to control their exposure to this asset class.

What are the benefits by having access to this asset class despite the higher risk?

I think there is a clear benefit to retail investors in terms of portfolio diversification. When Apple went public, it had $114 million in revenue and a revenue growth rate of 145% per year. And the company was only 5.5 years old. Today, a company like that stays private. With the emergence of private secondary markets and retail funds focused on those markets, public investors have access to these high-growth companies. This is beneficial as long as the investor's goals and risk tolerance are aligned.

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