

GARY NORTH'S

REMNANT REVIEW

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Preparing the Remnant for the far side of the crisis

Vol. 27, No. 5

May 4, 2000

SUSTAINING YOUR INCOME IN A RECESSION/DEPRESSION

The Nasdaq index in late April was down by 34% from its high on March 10 -- down for the second time. There was no mysterious savior buying Nasdaq futures this time, although there was a rebound in the last week of April. The extreme volatility that has hit the Nasdaq index has wiped out, restored, and wiped out again hundreds of billions of dollars in shareowner equity. Investors who are new to stocks have to be disturbed. The Nasdaq is an unfamiliar stock exchange. The same degree of confidence that people have in the Dow is not extended to the Nasdaq. It's too hot, and it's too new.

These wild gyrations have begun to shake the confidence of opinion-makers within the Internet community. Opinion leaders are beginning to suggest that Easy Street may have a detour sign on Nasdaq Boulevard. Articles are beginning to appear that are cautionary. These media reports are not necessarily signs of imminent panic, but they are clear indications that reporters are sensing a change in the climate of official opinion. Maybe I should file this story under "Now he tells us!" Jeff Bezos, a dot.com billionaire, owns a big chunk of **Amazon.com**, the company that has negative earnings (losses) of over \$2 per share. Its share price is down to less than half of what it was last December. On April 21, a Reuters story reported his latest views:

Investors can get badly burned by making short-term bets on Internet stocks, Amazon.Com Inc. Chief Executive Jeff Bezos -- who, ironically, has seen his own company's stock fall by more than half this year -- said on Thursday. With many investors losing billions of dollars on paper as Internet stocks have plunged from lofty levels in recent weeks, Bezos, who built Amazon into the largest on-line retailer, cautioned against plowing cash into untested start-up companies. "If I were a short-term investor, I would not be invested in any Internet stock," Bezos said in an interview on CNBC television. He also advised long-term investors with a tolerance for risk to buy stock only in companies building sustainable businesses.

Dvorak's Warning: Depression Ahead

John C. Dvorak is one of the half dozen most widely read commentators on the desktop computer industry. I have been reading his many columns for at least 15 years. He is a bit of a curmudgeon. Sometimes he says outlandish things just to create fireworks. On April 25, he published a column in *PC Magazine*. He surveyed the present world of employment. The older you are these days, the less interest anyone has in hiring you.

The problem isn't ability. It's style. Older workers and many older executives don't work like younger workers and these child executives we keep reading about. They don't or won't work routine 16-hour days. Many have families and real responsibilities. A recent college grad probably isn't even dating if he or she is in high tech. Zero personal responsibilities and no life. Perfect! Life is better at the office anyway, with its gym and high-speed Internet access and free Coke and juice. Besides, that fat guy down the hall always overorders pizza, and you get free leftovers. This is the life.

But is this world of youth likely to continue? He doesn't think so. It's not because youthful workers aren't willing to work hard. It's because the youth fetish is bogus. It's hype. It's a product of a booming economy. Also decadence. (When was the last time you read that word in a conventional journal?)

In fact, what we're witnessing is a period of prosperity and decadence that's reflected in the investments and the success stories. It has nothing to do with youth. The youth issue is bogus. If the stock market crashes and we go into a real bear market, all this talk will end. The dot-commies know that, and that's why they're so panicky during these stock market lapses. Watch them whine! Watch their eyes bulge! Despite the cockiness born of youth, even they know that they're playing in a house of cards. . . .

So what happens to these young dot-com executives when the scene tanks and they have to get real jobs? Few, if any, will take their pots of cash and put them in municipal bonds; of that I'm sure. They'll plunge it back into what they know best: the crapshoot, go-go, dot-com scene or something that feels the same. They'll be in the best position to benefit the next time a boom comes around, if it comes around again in their lifetimes. But until then, I'm predicting that these people will become some of the worst investors and worst managers in the history of business and will take the country to ruination when times change. (I just need to get this on the record before the competition does!) The result: a depression that will rival 1929. Okay, I've said it.

We keep forgetting that in a hurricane, even pigs can fly. We have a lot of flying pigs around us, in case you haven't noticed.

This is not the sort of opinion that we find in any establishment journal

today. In *PC Magazine*, it's almost inconceivable. This is one of the most popular of all the computer magazines, if not the most popular. Yet here is one of its two best-known columnists calling the whole dot.com world into question. **Dot-commies**, indeed! "Give it away for free!" Dvorak knows: there is no such thing as a free lunch. Or free Coke and pizza.

It's a scary world for those of us who are over 50. Dvorak is right: "The job opportunity situation worsens after 50, and I can't even image how people over 60 find work, other than as trainees at fast-food restaurants."

That's why anyone in my age bracket had better have a fall-back position in mind. That's why all of us need a debt-free small business on the side, or a hobby that can be converted into income if unemployment goes above 10%, the way it is in Europe today and has been for over a decade. On one side of the economic chasm, the dot.coms threaten to chew up profit margins for larger, Old Era businesses. On the other side, the economic event that will flatten the dot.coms -- recession/depression -- will also encourage managers to start looking for dead wood to trim. Aging middle managers have been the targets for 30 years, and this is unlikely to change.

You can remember when unemployment was above 10% (1982). But unless you can find a way to convert your memories into salable form, they won't do you any good. There is no easy way out if you're over 50, unless you're an entrepreneurial type with a lot of financial reserves -- reserves that will survive a recession.

I don't think Dvorak has any unique insights into the causes of depressions and recessions. I happen to agree with him on the future, but that's not why I cited him at length here. What caught my attention is the fact that he has identified the prevailing mythology -- that the U.S. economy has moved into a permanent boom mode, unique in man's history -- and he has rejected it as naive. He announced this in the premier magazine of the industry that is most committed to the myth: microcomputers. This nagging sense of doubt is like Elijah's rain cloud: no larger than a man's hand. But the storm is coming. Dvorak sees it. He will not be alone forever.

Price Competition and Corporate Profits

I have written that price competition on the Internet is fierce. It will remain fierce. The effects of escalating price competition are not being factored into the Internet sector's price/earnings ratio by investors. Yes, rational market theory says that it has to be factored in. This is another justification for all the talk about a New Era of investing. But a 200 P/E is not rational. We're into the Greater Fool phase. Soon, it will be the Old Maid phase. Everyone will be trying to pass her on: ownership certificates of hundreds of billions of dollars of disappearing equity. Into cyberspace equity will fly. It will not return.

A P/E ratio of 200 is based on the dream of a day when market share can and will be exploited with higher prices and high revenues. This dream is a complete fantasy. Those managers who are using investors' money to expand their companies' market share by cutting prices to the bone (or less) will never get to the "let's sit back and relax and allow revenues to make our investors rich" stage. Their revenues will never produce returns sufficient to

reward today's investors for buying and holding stocks with a 100 or 200 price/earnings ratio.

Another graphic piece of evidence of severe price competition on the Internet is the marketing strategy of Ameritrade Holding Corporation's brand-new subsidiary brokerage firm, **Freetrade.com**. It lets you trade for zero commission for "at market" trades. This offer is limited to individual or joint accounts, not IRA or corporate accounts. It takes \$5,000 to open an account. The firm charges an incredibly low \$5 for stop and limit orders (which any sane investor should use in today's market).

Why would Ameritrade Holding do this? Its more famous subsidiary, **Ameritrade.com**, already offers very cheap commissions: \$8 per trade. But on-line brokerage house commissions keep getting lower because costs keep getting lower. These savings get passed on to customers. They are not used to pay dividends to investors.

Freetrade.com does not advertise to the general public regarding its existence. The company's Web site declares: "Marketing and advertising costs are reduced to little or nothing. This company must grow by word of mouth, or referral." This may be another way of saying that if Ameritrade.com finds out that it has lost a client to a rival firm, at least it can send an e-mail to the missing client to counter with the best price available: free. The risk, of course, is that your existing customers will abandon your low-fee firm for your no-fee firm. This is called cannibalism.

There is no assurance that any brokerage house will be successful by offering free commissions. This marketing strategy is untested, as the firm's Website freely admits. It usually takes expensive advertising to attract new customers. Given the cost of buying the shares, saving \$8 per trade is not a major motivation for most stock buyers, especially when they have to learn new rules for making their trades. Eight bucks is a very low percentage of the overall cost of the transaction. But the name of the Internet game is price competition. It is irresistible today. I think this will remain true.

There is another question. Why would any company want to keep a customer who is buying from it for free? Because management plans to sell him something else at a profit. Freetrade.com plans to loan customers margin account funds. It will sell advertising on its Web site. But the core business in the brokerage industry is selling stocks. This firm plans to make money by selling something that is not at the core of its reason for existing. This is contrary to capitalism's specialization and the division of labor.

If a company has to give away its core service in order to stay in business, then it is rowing against the tide. Another metaphor: to stay alive by eating your entrails is a high-risk, short-run strategy. But the World Wide Web is pushing national service-based companies in this direction. This will put enormous pressure on local sellers unless they sell items that are not available on the Web or else must be purchased without delay. Hospitals will do all right; local pharmacies will have to adjust.

It is imperative that you identify your core business, or that your employer does. To sacrifice it on the altar of pure price competition is suicidal. Managers sometimes fail to identify the core business. A classic example is Pan American Airways. In the mid-1980's, PanAm sold its New York

office building for about half a billion dollars. Management did this in order to raise money to offset operating losses in its core business, international commercial aviation. The company went bankrupt in 1991. "Pan Am makes the going great!" was a catchy jingle, but it did not save the company from the new competition produced by deregulation in 1978: the removal of government-enforced ticket price floors. The sale of the building only delayed the inevitable. In fact, management should have sold its airline operations and kept the building.

PanAm's management failed to recognize that its core business had shifted. By 1980, it was the PanAm building. That was the only section of the company that was producing anything like positive cash flow. Its revenue stream was not being gutted by new price competition from deregulation. Its older core business was dying. Management did not see the future. It did not see that the true core was real estate, not airspace.

With Internet companies, there are no buildings to sell -- no buildings that are valuable enough and debt-free enough to provide revenue streams to pass on to investors. The value of these digital companies is based on hope and hype. It is not based on earnings. We might even call these earnings "virtual earnings." So, when the core of any Internet-based business faces such heavy competition from outside the company that management decides to give away its core service, investors should be able to see what is coming. They don't. Not yet. They will.

These firms will continue to offer spectacular deals for their clients, subsidized by dreams of wealth by their stockholders. When millions of bubble.com shareholders at last figure out that earnings are not the same as personal income, and there are no more buyers of future dreams at today's prices, we will see these firms' P/E ratios come back to earth -- fast.

Positioning Yourself in Advance

To be in near-cash assets in a recession is a great advantage. So is being out of debt. But most important is to be on the receiving end of a stream of income that doesn't dry up along with the economy. In the 1930's, it paid to be a college professor or a public school teacher or a mailman. You probably did not get fired, and your income was more predictable than your neighbors'. Given the size of government today, it would take a catastrophic crash to remove the job security of government employees with over a decade of seniority. But you may not work for the government.

People want to know where they should put their money in preparation for an economic downturn. My suggestion is that they put some of it in a program to create an alternative source of employment. This usually costs more in time than in money.

If you are a professional or long-term employee in middle management, you have assets in between your ears. You are renting these assets, day by day, to an employer. It is silly to think that there is only one renter of these assets. You can rent them piecemeal to others in your spare time. I say that it is time for you to begin to develop alternate renters.

I realize that most people want to hear a simple, one-step solution.

"Buy this stock, and the recession will make you rich!" But if your earned income or your pension fund should fail, your portfolio will probably not sustain your present lifestyle. Nobody wants to think about this when times are good. They don't want to believe it's possible. But when the cards begin to topple, most businesses will get hit, and they will start laying off workers. If your income is dependent on one employer, you are vulnerable. The story is all too familiar: the laid-off 50-year-old professional who can't find any employer who thinks he's worth what his employer of two decades thought.

You have to start building your personal escape hatch before it's obvious to millions of workers that the days of wine and roses have ended. You have to face facts: a recession today will lead to pink slips faster than ever before. (A nice anachronism: "pink slips.") That's one thing the computer revolution has changed: response time. Managers take action fast.

Let me give an example of what I think every person with specialized information can and should do this year in preparation for Dvorak's scenario, even if it only turns into a recession rather than a depression. He must begin to take advantage of the Internet economy's extraordinary communications advantages, but then integrate these advantages into an Old Economy framework. Let me explain.

A man in my church is in his late thirties. He has a Ph.D. in a very specialized field in the agriculture industry. His company laid him off a few months ago. He doesn't want to move out of the region. There is no local company that is in a position to hire a Ph.D. He is now trying to go into consulting work. This makes sense. He can rent his highly specialized knowledge to firms on a contract basis. He won't have to move. He also won't become dependent on a single source of source of income.

He has decided to stay in the same field. He has to keep up with the flood of information that is pouring out of the academic world. There are a lot of highly specialized academic publications to read. Hardly anyone in a corporate decision-making position has the time to read more than a tiny fraction of this material. But my friend has read most of it just to stay up to speed. It's an inescapable cost of maintaining his competitive edge.

I told him to start an e-mail newsletter that summarizes the latest information. He should provide his assessment of why any particular finding is important for the industry. He will translate academic articles into the language of business. Not many people can do this in his field.

He can use the Internet to mail out his newsletter. He can do it with an e-mail program such as Eudora or Microsoft Outlook, or maybe even the program in his Web browser. MailKing is a \$99 product that works very well for large mailings (www.mailking.com). With e-mail, there are no postage costs, no printing bills, and no paper. E-mail offers near-instantaneous delivery. Anyone can easily run a mailing list of 500 names with Eudora or Outlook. I know one very skilled lady who ran a list of 10,000 with Eudora. It isn't easy to build a list of 500 names, let alone 10,000. You don't need that large a list anyway.

My friend can afford to offer his monthly report for free. But why should he? Isn't that suicidal? On the contrary, it's perfect. The key to his marketing strategy is to identify his core business. His core business is selling specific information to commercial buyers at high prices per project.

His marketing problem is his lack of name identification inside the industry. How can he increase his name identification among the 50 to 70 firms nationally that might buy his services? Answer: by positioning himself as the industry's main source of up-to-date academic information that is packaged in a fast-read, how-to-apply-it-profitably format.

At the end of each newsletter, he can provide e-mail click-throughs for additional free special reports. These are placed on wonderful digital mailers called autoresponders. A special report will be in the reader's e-mail box 20 seconds or less after he sends a request. A dozen or a hundred autoresponder letters cost the newsletter-writer nothing beyond his \$30/month Website fee. They sit there, 24 hours a day, waiting to be requested. He doesn't even need a Website, although he really ought to have a simple one that he can run by himself without hiring a part-time Webmaster. But the autoresponders are the key to his follow-up program.

Every time a decision-maker reads a report or newsletters, the author is selling himself. He sells himself by persuading readers that he knows what he is talking about. After all, he writes a monthly report that goes to the decision-makers in the industry, i.e., those people who will write the check when it's time to hire a consultant. His name is in front of them, by their request, every month. As *Ghostbusters* asked, "Who ya gonna call?"

If you were a decision-maker, and you received a free monthly report on the latest stuff, interpreted in terms of business applications, you would probably read it. You would probably remember the editor's name. When it comes time to buy hands-on information for your operation, the obvious person to call is the guy who sends out the monthly newsletter.

I am challenging you to think about your present situation. Do you possess information that you think someone would pay for on a contract basis? Can you apply this information to specific cases? If you can do this, then the number-one task for your personal recession-hedging is to develop a marketing strategy that will gain for your work the confidence of decision-makers who will be in a position to hire you if times get tight.

If you're over 50, you have been through recessions. Do you have information on how companies got through them? If you don't, can you find out? Can you translate past strategies into today's economy? If you can, then you will own a highly valuable asset in the next recession. Many of today's managers have not been through a major recession in a management capacity. They will be flying blind during the next one. If, at that time, you have developed a reputation for being able to solve problems, you will be able to solve your personal income problem.

You don't have to send out the best newsletter on earth. You must send out a brief, useful one. Use autoresponders to develop longer pieces. If the reader wants more information, he can get it for free instantaneously by request. Day by day, your name identification will increase.

You don't need a mailing list of 5,000 people; 50 will do just fine, if they are the right 50. If you can identify decision-makers who are most likely to be in a position to buy your services during a recession, you need to design a monthly report that will be really useful to them. Then get their names and

e-mail addresses. Secretaries will often give this information over the phone -- why, I can't imagine. Businessmen read their own private e-mail; they don't have secretaries screen it. All you have to do is send an e-mail to each person, offering to send your free newsletter. Offer a free sample on an autoresponder. He can read it. If he likes it, all he has to do is send a reply to sign up.

When you attend any convention, seminar, or association meeting, your number-one job should be to sign up subscribers. You should design a business card to get subscribers. Forget about selling anything directly. Just get names and e-mail addresses. Use your letter to build confidence in you. Don't try to sell products in your letter. Just sell yourself. You can use free special reports on autoresponders to sell stuff. Your letter just sells you.

This marketing strategy combines traditional advertising -- building name identification through positioning -- with low-cost New Era communications. My thesis is that Old Era business operations will persist for decades. Managers will slowly begin to incorporate the New Era communications into their marketing. This has only barely begun. It is not the dot.coms that will absorb the Old Era economy. The Old Era economy will adopt New Era communications.

The amazing thing is how cheap this strategy is. To get all of the autoresponders you can ever use costs \$15 to \$30 a month. Web hosting services give them away with Website space. So few businesses use them systematically that there is almost no competition.

To set up a simple business Website will cost anywhere from \$500 to \$2,500. The catch is, you usually have to hire a code-writing techie to alter it after it's on-line. This costs money: maybe \$100 an hour. One alternative is to learn HTML code and run your own site. Another is to rent user-friendly, on-site business Website software that automatically converts your typing to properly positioned HTML code. That's not as easy to find as it sounds. Expect to pay \$500 to \$1,000 a year to rent a run-it-yourself Website. It won't be fancy, but it won't take a professional Webmaster to run it.

With or without a Website, start building your newsletter base. The key to success is not the Website. It's your newsletter list and the quality of the information you deliver. Most small business owners think the Website will do all their work for them. It won't. It provides immediate access and offers buying opportunities, but the newsletter and the special reports are what whet the appetite to buy, not the Website itself.

A Website is the cart -- the shopping cart. The mailing list is the horse. Very few business people understand this. It's why I know that the Internet is not being used properly. It's why small businesses still have a great chance to compete on the Internet. But more important, it's why individuals are in a position to profit. The Internet is a great leveler. It delivers incredibly low-cost communications to individuals who have something to say that is worth reading.

If you have worked productively for 20-30 years, this means you.

Why the Old Economy Will Swallow the New Economy . . . Cheap

The Internet seems to offer a new world of opportunity, in and of itself. For a handful of innovators, sure. That's true of any new technology. But what is missing from most of the hype is this: the basis of success on the Internet is ownership of information or goods that are external to the Internet.

The Internet is a medium. It is not the message. It shapes the message, but it is not the message. That's why it offers a far greater opportunity for people with specialized non-Internet messages and products than it offers to Internet investors - as they will find out soon enough.

Let me illustrate this from my personal experience. Back in the mid-1990's, my small publishing company entered into a joint venture with Agora, Inc., which was a growing newsletter publishing firm. It's not as big as Phillips Publishing, but it's big. The arrangement has been good for me. My time is spent researching and writing. The pressure is off me to be in the mails promoting. I only write promotional direct-mail packages when I get an idea. This is what the division of labor is all about.

The president of Agora, Inc. is Bill Bonner. He shares my views on how big the U.S. government ought to be: a whole lot smaller. He also shares my view of the New Era economy: a late boom sustained today by investor euphoria and fiat money. Most of all, he shares my view of the Internet: a marvelously inexpensive communications tool that has not yet produced profits for most of the Internet companies that are trying to find working profit models.

In his e-mail letter of April 6, he offered an analysis of the publishing industry (www.dailyreckoning.com). As a publisher, he has to take the Internet seriously. But he sees that most publishing enterprises on the World Wide Web are losing lots of money. Should he worry about the Web? Not now.

Here's the real bottom line: it is easier to learn to use the Internet than it is to learn the publishing business. Our experience in the publishing business is being played out all over the economy. People who know how to make and sell products are now discovering how the Internet can help them...and their customers. By contrast, the pure "Internet" businesses are finding it very difficult to break into an established industry profitably. Some will succeed, but most will fail. . . .

The allure of the e-tailers seems to have faded completely. These companies are not selling products -- they are selling a sort of information...such as the price of a pair of pants made by a third party...or which books are published by a real publisher. But this information is not especially valuable. It is too easy for established retailers to present their own information...and sell their own products...via website.

The technology has matured to the point where the "first movers" have no advantage. When companies such as Wal-Mart or the Gap enter the e-commerce market -- they can drive down prices...and benefit from better name recognition than their upstart competitors. Established retailers are not selling pure

information. They are selling, as we are, judgement -- discriminating choices about materials, styles and workmanship that customers feel they can count on.

Competitively, they have a huge advantage. Because they can also use profits from retail operations to sustain their losing e-tail efforts -- if they choose to do so. All that sustains the pure e-tailers, by contrast, is the willingness of investors to pour good money after bad. . . .

All over the economy, companies are starting to use the Internet as they do any other business tool. This is not the New Economy...nor the Old Economy -- it is the real economy...the only one that really matters.

The last paragraph is the heart of the matter. There is an economy: the real one. It involves physical products, inventory management systems, access to bank credit, customer bases, and name recognition. For such traditional firms, the Internet will work well. These firms have not made the Internet an important part of their marketing strategy, but they can. They will. But they will wait until the shake-out has taken place. They will come in and buy for pennies on the dollar. Bonner has said that this is what he plans to do.

They can do what Barnes & Noble has tried to do: use its retail stores to fund its Web operation, which is a side venture. So far, this side venture is not working profitably. But the company doesn't have to put everything it has on the line, the way that Amazon does. There is no need to rush in where angels fear to tread. Let Amazon "boldly go where no one has gone before" on the Web in its hopeful quest for a profitable model. Let Amazon pioneer Web selling by means of negative earnings. Let Amazon's investors dream the great dreams of pie-in-the-cyberspace bye and bye. Barnes & Noble can defend its second-place position and just bide its time. Or it can even shut its Website down. (It probably won't: too much loss of face.) It has a large external income stream to fund its Web venture. Amazon doesn't.

Bonner's point is simple: the Internet offers existing marketers the same advantages that it offers pure e-tailers. I would add that the e-tailers suffer from major disadvantages: no tested profit models; no deep or widespread consumer loyalty; low, no, or negative earnings; and no buyers who are ready to pay retail. If you're losing money on every sale you make, you won't make it up with volume.

This is why the Nasdaq has plummeted, compared to the Dow. The Old Era firms will be there to pick over the remains of the New Era firms. The awareness of this has begun to affect share valuation. The public is still chasing digital rainbows. The next recession will not be kind to rainbows.

Nevertheless, in the battle of the elephants, the ants had better stay out of the way. The "ants" are local businesses that are being squeezed by price competition. This is not going to change when the Old Economy (Wal-Mart) moves onto the Internet in a big way.

A small business that is not actively on the Web today is being run by an owner who is not learning, day by day, how to exploit a revolutionary new technology that threatens his company's very survival. To say that Wal-Mart will eventually roll over some undercapitalized Nasdaq dot.com is not to forecast rosy times for local business owners. On the contrary, it is to issue a warning: "Adjust or die!"

"But I'm Too Old to Learn!"

You may own a small business. You may work for one. Is your company on-line? Does it have an active program to bring visitors to its site? Does it have a way to sell visitors something, 24 hours a day? Is it generating net revenues from the Net yet? If not, why not? Is anybody in charge asking?

The Web is unquestionably a phenomenal breakthrough. It will revolutionize business, although it will take years for large retailers to figure out how to adjust to the new technology. Only one large company has ever adjusted its entire corporate focus to take advantage of the Web: Microsoft. It has now been hit by a Federal judge because it did successfully adjust to a competitive challenge by the pioneering Web browser company, Netscape. Microsoft provided Internet Explorer, its Web browser, free of charge with every operating system it sold. The government said, "Naughty, naughty! Maybe we'll break up your company." Gates has lost about \$40 billion because of this: falling share price. But he was not too rich or too old to learn. He saw what was coming: the Web. He knew that Microsoft had to move fast or lose out on the biggest opportunity in twenty years -- the opportunity that he personally had exploited better than anyone else: operating systems.

Anyone who thinks of himself as too old to learn how to make the new digital universe work for his business or his future is not going to survive in the New Economy. There really is a New Economy today. It's digital. It's not yet what Nasdaq investors and hypesters think it is, but it will be. It will be adopted by Old Economy giants with deep pockets. In this fiercely price competitive emerging digital market, which has been created with a long-unrecognized technology (the old military-scientific Internet) by means of the Web's linking system (invented by Tim Berners-Lee, who put it into the public domain for free), and the Web browser, he who hesitates will be lost.

What is the telltale mark of a dinosaur? A business owner who has not learned how to use e-mail. The secondary mark is a business that is not yet actively on the Web, experimenting constantly. Unfamiliarity with the Web is also the mark of a consumer who is not getting his or her money's worth -- someone who thinks that the price at Wal-Mart is the best price available.

In the next recession, local small businesses will be hit harder than in 1991 or 1982. ~~They are now facing simultaneous competition from large local~~ retailers and from the e-tailers on the Web. I think the latter will find the recession a time of painful re-thinking because they will not be able to sell their stock in a down market. Investors today are providing them with the money they use to subsidize their customers. These subsidies will have to be reduced. But the marketing pathway is now clear: you can cut selling costs with the Internet. So, it will not be easy for local businessmen to compete. They will not have the capital to compete with the e-tailers, and they don't understand the direct-marketing techniques that enable small business Websites to produce profits -- not huge profits, but supplemental profits that will keep a business alive through the next recession.

A lot of ants are going to get stomped on, recession or not. They will not adjust to the new technology. Those businesses that provide excellent service, or unique services that are not sold by the retail chains, have the best chance of surviving the crush of price competition. But this intense price competition will not go away. The New Era technology guarantees this.

The big question today is this: Which companies will best exploit this new technology on behalf of their customers?

If your company is not yet one of the Web-based competitors, then your employment future is not secure. If your pension depends on the survival of a purely Old Era company, start making plans to jump ship.

Meanwhile, small business owners are being misinformed by the experts -- experts in a new industry without tested profit models. Small business owners are being told that it's almost too late to get started on the Web. They are being scared off by stories of huge expenses for technology and advertising. Let me give you an example. This is from a book by Jeff Cannon, *Make Your Web Site Work for You*. It was published By McGraw-Hill's CommerceNet Press this year. On page 61, we read this disheartening message:

Cost -- One of the greatest drawbacks to developing and maintaining a Web site is the cost, both in time and money. Depending on the design and content, development of a Web site can cost anywhere from hundreds to thousands of dollars. However, to effectively promote and maintain a Web site it will cost anywhere from several thousand dollars or more a year for basic site maintenance, to several million for a staff and a marketing program. Be prepared for this.

The book has a \$19.95 price tag. It was not written for marketers at General Motors or Westinghouse. It was written for the inexperienced person who is thinking about creating a business Website. Here is the message I get from that paragraph: "Forget it! It's too much money. It takes too much time. The Internet is only for the Big Boys."

I'm here to tell you that this message is wrong. But for the vast majority of small businesses, it might as well be right. If a local business is not actively pursuing Internet marketing, it's going to be swept aside. If it has a passive Website, it will do the company no good.

If you are a subscriber to my free e-mail report, *Reality Check*, then I'm preaching to the choir. If you don't have e-mail, then I'm preaching to the deaf. If you do have e-mail and you want to subscribe, mail a subscription request to ice@ballistic.com and you'll get signed up. I will soon issue a report on low-cost ways to get onto the Internet. That report belongs in *Reality Check*, not here. I will follow up on some of these ideas by e-mail.

I'll leave it at this. If you plan to invest in an Old Era company, you need to read more than its balance sheet. You need to visit its Website. See if the site offers a way to order products on-line. See if it's building a mailing list by asking people to sign up for something. If it's just a deaf-mute page that says, "Hooray for us!" then that company is headed for big trouble. I hope this doesn't include your employer's company. If it does, then you had better start developing your own personal alternative.

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Some of you have asked about how you can direct your own IRA or Roth retirement fund. Contact **American Church Trust Company**, P. O. Box 690089, Houston, TX 77269.