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The fall from hype's peak

THREE YEARS LATER, THE VALLEY STILL ACHES

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As the Nasdaq reached yet another surrealistic high on March 10, 2000, Silicon Valley's place at the center of the world's economy seemed assured. Instead, that crazy, euphoric Friday turned out to be the beginning of the New Economy's descent.

Exactly three years later, Silicon Valley still hasn't recovered from that fall. Along the way, thousands of start-ups have disappeared. Investors lost billions of dollars. Many tech workers have left the valley and the industry. The New Economy is now seen by some as a historic investment bubble.

Kathleen Shannon, 35, of Redwood Shores, is still stunned and shocked by the collapse. She had incentive stock options in Network Appliance worth more than $2 million on paper when she exercised them during the boom. Months later, she discovered that she owed $450,000 in alternative minimum tax -- more than her slumping stock was worth. She is still trying to work out a compromise with the Internal Revenue Service.

``I don't even know if there are words to describe it,'' she said. ``How can you have a stock worth $2 million one day, and in the blink of an eye you have nothing and owe the IRS a half-million dollars? How do you absorb that? It's horrible.''

Investors on Monday found it was a dismal three-year anniversary on Wall Street. The Nasdaq composite index fell 26.92 points, or 2.1 percent, to 1,278.37 -- or 75 percent below the record of 5,048.62 set three years ago.

The Standard & Poor's 500 index fell 21.41 points, or 2.6 percent, to end at 807.48. And the blue-chip Dow Jones industrial average dropped 171.85 points, or 2.2 percent, to close at 7,568.18.

The Nasdaq peak of 2000 feels like a dream these days as Silicon Valley wonders how much worse things can get. The eternal optimism about innovation and entrepreneurship that has rejuvenated the local economy so many times before is doing battle against cynicism and fear that Silicon Valley is not done paying for those days of excess.

Out of fashion is the talk of technological and economic revolution. In vogue are strategies for surviving the continuing gloom.

A look at the numbers from the bust is painful. Since March 10, 2000:

• 28 publicly traded companies in Silicon Valley have filed for bankruptcy, according to Bloomberg News.

• 4,854 Internet companies nationwide have either shut down or been acquired, according to Webmergers.com.

• 191,500 jobs in Silicon Valley have been lost -- that's down 17.9 percent from the peak.

It's hard to remember that feeling as the Nasdaq hurtled toward its peak March 10, 2000.

At the time, Thomas Reynolds was holding on to his tech stocks, choosing instead to dump Old Economy shares -- Black & Decker, Allstate and several pharmaceutical companies -- for some quick cash.

In a front-page story in the Mercury News on March 10, 2000, Reynolds explained his buying and selling.

``Those are making money,'' he said back then about the tech stocks. ``The good solid blue-chip stocks just sit there and look at me.''

Today, Reynolds, a librarian, pauses to contemplate whether he'd make those same decisions.

``The good solid blue chips that I didn't sell off are still sitting there looking at me,'' he said Monday. ``But they're not sinking nearly as fast as the tech stocks have.''

THEN & NOW

March 10, 2000 vs. March 10, 2003:

THEN: The Nasdaq composite reached an all-time high of 5,048.62.

NOW: The Nasdaq closed Monday at 1,278.37, down 75 percent since the peak.

THEN: Selectica, a San Jose maker of e-commerce software, went public at $30 a share, becoming the 92nd IPO in Silicon Valley in 12 months. Shares rose 371 percent, closing at $141.23.

NOW: Selectica shares plunged in the dot-com crash, closing Monday at $2.76. Only three local companies have gone public in the past 12 months.

THEN: Worried about the overheated economy, the Federal Reserve had raised interest rates to 5.75 percent.

Stories like this one have tarnished the allure of Silicon Valley that was so regularly celebrated by international media.

But some local observers feel the coverage of the gloom has gone too far.

Jan English-Lueck, chairwoman of the anthropology department at San Jose State University, has experienced the sharp change in attitude about Silicon Valley from the kinds of calls she gets from reporters.

``I was getting nothing but requests about the boom from people who wanted me to tell them about the IPO millionaires,'' she said. ``Last year, I started getting calls from reporters who wanted me to tell them about the end of Silicon Valley.''

Marie Hinojosa, 42, of Santa Clara said she and her husband, Juan, 45, who works as an engineer for a local telecommunications company, represent the conflicting feelings of gloom over the stock market that can exist with the desire to remain optimistic about Silicon Valley.

The Hinojosas were among those caught up in the stock-market frenzy, buying and selling lots of stocks during the boom. In the bust, they've stopped that.

But Marie Hinojosa insists she hasn't lost faith in Silicon Valley. ``There's a lot of creative people here. It's cyclical and it comes and goes.''

Is the market's slide over? That depends on whether you think the bear market has sobered investors up enough. Those who remain bearish think investors are still paying too much for companies whose profits will continue to disappoint.

``The stock market is not prepared for the reality that earnings aren't going to grow at more than 2 percent to 2.5 percent a year, plus inflation, for the long term,'' says Ben Inker, director of asset allocation at Grantham, Mayo & Van Otterloo & Co.

And the possible war with Iraq could put an even greater damper on the market in the near term.

Whether the attack on Iraq ends quickly or not, the economy remains burdened with excesses from the bubble: high consumer debt, low savings rate, large trade deficit and sluggish growth in overseas economies.

But that's the kind of pessimism often prevalent when a new rally begins. Optimists believe investors today expect smaller returns. Says John Shoven, professor of economics at Stanford University: ``Has the bubble wound down? The answer is yes. I do think that expectations have become more realistic.''

NOW: Worried about the flickering economy, the Fed has sliced rates to 1.25 percent.

THEN: Chip stocks were roaring. Rambus, up 470 percent over 12 months, closed at a split-adjusted $105.25.

NOW: The chip industry is in its worst slump ever. Rambus, facing federal antitrust charges, is at $12.97.

THEN: The 304 valley companies still trading today had a market value of $2.9 trillion.

NOW: Those companies are valued at $588 billion, down 80 percent.

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