



Tech Futures:
December 28, 2001

By [Michael Volker](#)

A look back at 2001, CPC Update and Coming Events

In this week's column, rather than focus on "tech futures", I thought I'd revisit the articles from the past year.

Here's a trivial pursuit question for you: Who used the phrase, "irrational exuberance" to describe the stock market and when did s/he say that? Well, like me, you probably guessed that it was U.S. Fed Reserve Chairman **Alan Greenspan**. But, as for the second part, i.e. "when"; you might be surprised to learn that he said this almost exactly five years ago; in December, 1996. Many would have guessed March, 2000 when the Nasdaq was topping 5100. But five years ago, the Nasdaq was only at 1297! The Dow was only 6422 and it was believed that it would hit 10K in 2000 which it did. Yesterday, the Nasdaq closed at a very rational 1976. The Nasdaq started 2001 at 2470 and peaked at 2892 in late January (consistent with the January phenomenon). The low of 1387 came in late September, a month that many wish never happened.

For the year to date, the Dow average has slipped 5.8%. The S&P 500 is down 12% and the Nasdaq has tumbled 19.3%.

Always trying to be optimistic, I started off the [Jan 12 column](#) by referring to a story by **Don Wolanchuk**, an "expert" in market timing who predicted that the Nasdaq should go through 5000 this year. He's one of Market Timer Digest's Top Market Timers, having won 17 annual timing awards since 1989. Some of his greatest timing calls were widely ignored by the investment community. Looks like your timing was a little off this year, Don! Maybe 2002?

My own view a year ago was that the market has corrected and has bottomed out. Maybe my own timing was off by a year. Once again, many are optimistic (love that confidence!). Low interest rates, high cash hordes, and improved consumer confidence (which rose this month for the first time in six months) all bode well for the markets. Once again, folks such as **Benjamin Pace**, managing director at **Deutsche Bank Private Banking** are saying, "We've probably bottomed in this market and this economy, and 2002 should be pretty good."

In the [Jan 26th column](#), I found myself again promoting the **Canadian Venture Exchange (CDNX)** as I've done in many columns. I often mention companies like **QLT Inc.** (TSE:QLT), **Burntsand Inc.** (TSE:BRT), **Westport Innovations** (TSE:WPT) **Spectrum Signal Processing** (TSE:SSY), **ALI Technologies** (TSE:ALT), **Silent Witness** (TSE:SWE), **eDispatch.com** (TSE:EWD), **Infowave Software** (TSE:IW), **Inflazyme Pharmaceuticals** (TSE:IZP), **Forbes Meditech** (TSE:FMI), **StressGen Biotechnologies** (TSE:SSB), and many, many more B.C. firms which got their start on this exchange.

I've always liked the CDNX because it provides an alternative early stage financing vehicle for emerging companies, while at the same time giving venturesome investors an early "entry" opportunity.

As we end the year, I worry more than ever about the future of the CDNX, since it was taken over by the TSE this year. Will it become even more regulated? Does it make sense to apply TSE-style rules to a junior market? Can companies afford the time and costs associated with modest junior

market financings? And, where are all the brokers? I voiced many of these concerns in my [April 20th column](#), along with some thoughts on how to make it fly.

Then, later in the year (see [November 16th](#)), the CDNX liquidity problem was highlighted, i.e. daily trading had fallen to a mere \$10 million from \$260 million in the past year and a half. Share volume was down to 20 million/day from the peak in March 2000 at 170 million/day. My view was, and still is, that we need to get speculators and risk takers back into the game to bolster volumes and provide real investors with liquidity.

To make the CDNX more effective under its new ownership by the TSE, I suggested that members of its board should not be predominantly brokers and financial types. It should include entrepreneurs, especially accomplished ones that have nursed their companies through the junior markets and those who oversee companies presently listed on the CDNX. These are, unfortunately, missing at the board room table.

But, the solution to the liquidity crunch rests in going beyond our provincial boundaries and getting American companies and investors to see it as a better alternative to the OTC. There's a big void between the OTC and the Nasdaq small cap market - hence a market opportunity for the CDNX to seize. In my columns in 1999 which you can still find in the T-Net archives, I pushed for a North American identity (I never did like the CDNX name! and still don't).

In [February](#), I felt flattered by the fact that others were imitating the technology index (the **T-Net20**) which I created back in May, 1998. Like the T-Net20, the **CIBC BC Tech Index** is also based on the top 20 BC companies, ranked by market capitalization. It was pegged at 100 as of January 1, 2000. **Business in Vancouver** launched its **New Economy Index** to track 25 of B.C.'s leading public "technology-oriented" companies each week in a market-weighted index. Companies in the index are taken from each year's **BIV Top 100** Public Companies list, which is ranked according to revenue. It includes software firms, technology favorites such as Burnaby's Ballard Power Systems, pharmaceutical companies, wireless firms, fibreoptic network developers and entertainment businesses.

The T-Net20, which was pegged at 1000 on Jan 1, 1998 actually topped 10,000 in 2000. I, the optimist, was predicting it would reach "2000 in 2000". In 2001, it dipped below the 2000 mark and alas, it's hovering around 1200 at present.

In [March](#), I posed the question, "how long will this correction take?" The obvious answer rests with the economy's performance. If so, what will make the economy boom? Now, with 20-20 hindsight, we know that March marked the start of the U.S. recession and the use of "correction" was a bit of a misnomer. We were in denial.

In the USA, two-thirds of the economy is determined by consumer spending. The theory is that if the Fed drops interest rates, consumer spending will be stimulated. But, will it be enough? Another theory is that if the markets do well, the prosperity enjoyed by investors and, in particular, successful entrepreneurs will further stimulate growth through their own re-investing (e.g. as angels) activities. We certainly saw this happen in March of 2000. Most of the wealth was created in the tech sector with dot-com and internet companies leading the way. The sudden rise in valuations allowed many to plow their unexpected good fortunes back into many new ventures. And I'm sure that it stimulated a heck of a lot more spending than a small percentage drop in lending rates. I noted that recent rate adjustments had little impact. I did say that the Fed was not being dramatic enough in its moves. But, as we've seen, the U.S. Fed has been tenacious in continuing to drop rates throughout the year (followed by Canada) to lows never before experienced by readers of this column who may be younger than I. I'll take a 4% (Cdn) prime rate anytime!

In May, we elected a new government in B.C. Tech folks were particularly delighted because the industry finally found a politician, B.C. Liberal leader, **Gordon Campbell**, that was on the same page with respect to the importance of the tech sector to the economy.

In August, positive signs were already evident. For example, changes in securities regulation to make for a business-friendlier environment. Whereas securities commissions are generally set up as watchdogs to protect investor interests, the new B.C. government made an interesting structural change. Historically, the **B.C. Securities Commission** has reported to the **Ministry of Finance and Corporate Relations**. Now, the Commission will fall under the **Ministry of Competition, Science and Enterprise** (interesting new name, but why not shorten it to something catchy like **Innovation BC?**) headed up by **Rick Thorpe** and the Ministry of State for Deregulation headed up by **Kevin Falcon**.

On a side note, the **B.C. Securities Commission** should be commended for taking the lead in providing investors with disclosure information. For example, it is much easier to get insider trading information on directors of B.C. companies than it is to get such information on directors of TSE companies in Ontario. Similarly, the CDNX provides a lot more information on its listed companies than you'll find for TSE companies. Hopefully, upon taking over the CDNX, the TSE will apply some of the CDNX's practices to its operations.

In early November, I attended a seminar put on by the **B.C. Securities Commission**. What a breath of fresh air it was! Together with its counterpart in Alberta, the BCSC plans to introduce some sweeping changes to the money-raising rules as early as next Spring. Much of the red-tape now facing companies and investors will be eliminated.

In other government news the Premier announced the composition of his special Premier's Technology Council. It consists of fourteen fairly well-known figures in the tech sector. Eleven of these are CEOs or executives of companies, 6 of which are CEOs from companies listed in the T-Net20 (**Ballard Power, Burntsand, CREO, Pivotal, Inflazyme Pharmaceuticals, and PMC Sierra**). It strikes me as being a fairly well-chosen group and the strong industry/company orientation is good - maybe even a bit on the heavy side. There could be a little more representation from the R&D sector in B.C. The only representative in this regard appears to be **Dr. Victor Ling**, VP of Research at the **BC Cancer Agency**. Also, the small emerging tech sector, with the possible exception of **Shannon Byrne**, CEO of **Paradata Systems Inc**, does not appear sufficiently represented. The needs of new enterprises can be quite different - especially with respect to government policies - from those of more established enterprises. For example, there's always been some debate about trade-offs between income tax breaks for professionals (to reverse the brain-drain) and investment tax breaks or incentives (which is required to encourage angel and other start-up investors). I never thought I'd hear myself say that there's too much industry (especially senior) representation! OK, I confess my bias: I think Universities are key drivers for the tech sector and it all begins with small entrepreneurial companies. The Premier ought to have their ear, too.

In my [June](#) columns I featured university spin-off companies. The **University of B.C. (UBC)** and **Simon Fraser University (SFU)** have created over 150 spin-off companies some of which are now substantial corporations which, in turn, spawn other new ventures. Last year alone, these universities formed some 20 new companies. Based on new companies created per million dollars of research expended, these institutions have ranked in the top 10 in North America for several years running.

What drives this, and indeed is the foundation for technology ventures, is research and development. Canada's **Natural Sciences and Engineering Research Council (NSERC)** provides much of the university R&D funding (around \$500 million) that's behind the technology being commercialized by these spin-offs.

In its recent annual survey on Corporate Canada's R&D spending, **Research Infosource Inc.** reports that total R&D expenses for the top 100 Canadian companies (i.e. top 100 ranked by R&D expenditures) accounted for \$11.1 billion in 2000. This represents an increase of 28.5% over 1999. Sounds good, right? Actually, they should have spent even more if you compare expenditures to revenue (which you should). Since revenues were up substantially for this group, R&D as a percentage of sales was only 4.4% (compared to 4.5% in 1999).

On [September 7th](#), I wrote about "corporate governance". I noted that a special committee, known as the **Joint Committee on Corporate Governance** (see www.jointcomgov.com), produced an interim report, dated March 2001, in which it made various recommendations as to governance practices, especially pertaining to board matters.

I suggested that company directors, senior officers, and shareholders take a look at these recommendations and provide some feedback. The Listed Companies Association (www.lcacadnx.com), which represents CDNX listed companies is interested in making sure that its members are not nails being hit with a sledgehammer. What's nice from an ideological perspective may not work for practical reasons. In any event, the document makes for some interesting reading.

The Joint Committee produced its final report in November, making fifteen suggestions (down from its originally proposed 27 in the interim report). Stock Exchanges such as the **TSE** and **CDNX**, which along with the **CICA (Canadian Institute of Chartered Accountants)** commissioned the study, are now deciding on how far they should go in requiring that their listed companies comply with same.

On the regulatory front, a new system - known as The **System for Electronic Disclosure by Insiders** (SEDI), took effect October 29, and insiders are now required to file their trading reports electronically. Investors now have access, free-of-charge, to insider reports via the Internet, giving them more timely information about insider transactions.

Investors are able to obtain reports such as: a weekly summary for all reporting issuers; the details of individual transactions by insiders; a list of registered insiders for each SEDI issuer; and an issuer "event history", which includes a stock dividend, stock split, consolidation, amalgamation, reorganization, merger or other similar event.

The \$12.2 million SEDI system was developed for the CSA by **CDS Inc.** (a subsidiary of the **Canadian Depository for Securities, Ltd**), which also developed and operates **SEDAR** - the main repository for corporate filings (see www.sedar.com).

In late September, in one week alone - following the September "war", more than a trillion dollars (US) in North American market cap was wiped out. The Nasdaq was trading where it was back in mid-'97 and locally, even my most revered barometer for the B.C. tech sector, the **T-Net20** index, fell below its inaugural value of 1000 set in January, 1998. It was trading in the low 800 range.

In [October](#), I wrote about entrepreneurship and picking winners and how to spot the next rising star. Initiatives launched during 2001, such as **New Ventures BC**, showed that entrepreneurship is hot! The winners of the first competition (see Oct 5th column for a summary) may be the tech stars of tomorrow. It was an honor for me to serve as a judge in the **Ernst & Young Entrepreneur of the Year Awards**. I also attended the **Investment Forum's** "Venture All-Stars" gathering on Safeco Field in Seattle, which for the first time, featured not only Seattle's HOT 25 companies, but also Vancouver's HOT 5. In the same month, the **Vancouver Enterprise Forum's** angel network has held its first meeting of the season and the **BC Advanced Systems Institute** celebrated its first 15 years at a party attended by dozens of tech entrepreneurs.

That same month, there was a ribbon-cutting ceremony at the **New Media Innovation Centre** (NewMIC). NewMIC is a collaboration between industry, academia and government that focuses on the research, development and commercialization of cutting-edge new media technology.

Working from a 25,000-square-foot state-of-the-art facility in Vancouver, NewMIC is an interdisciplinary centre at which players in the new media industry can share resources, learn from one another and push the boundaries of how we think about new media. Sustaining Members are **Electronic Arts, IBM, Nortel Networks, Sierra Wireless, Sony Corporation of America, TELUS** and **Xerox**. Academic Members include The **Emily Carr Institute of Art & Design**

Simon Fraser University, TechBC, University of British Columbia and University of Victoria Government Members are the **Government of British Columbia** the **National Research Council of Canada** and **Western Economic Diversification Canada**. Partnership Members include **BC Advanced Systems Institute** and **TRLabs**. NewMIC also has more than twenty Industry and Professional Affiliates. For a complete listing, please visit www.newmic.com.

In the [November 30th edition](#), I was delighted to note that we have a billion dollar winner! Burnaby's **Creo Products Inc** (TSE:CRE) is the first B.C. technology company to hit \$1 billion (Cdn) in sales. It is the first member of this exclusive club. When I first came to B.C. a dozen years ago, there were no \$100 million tech companies. Now there are more than 10 that have this distinction.

Finally, in my writings two weeks ago ([Dec.14](#)), I took a look at the Top 20 companies to see which were presently profitable. The result was a bit disappointing, especially insofar as previous performers such as **PMC Sierra** and **Creo Products** were reporting red ink. Only a half dozen companies are in the black!

The last article I wrote was on the **Innovation Agenda**. Our federal government sees the high tech industry as key to our country's future wealth. I believe that in order to build a strong industry it's going to take more than just tax cuts (a good start, though!). We need to encourage investment by having "going-in" incentives as well as "going-out" breaks on income and capital gains. And, most importantly, we need to invest in the natural resources of the tech sector - the human talent and the on-going development of intellectual property at our research institutions.

I found some interesting reading on the **Government of Canada's** parliamentary web site. In June of this year, the **Standing Committee on Industry, Science and Technology** produced its fifth report titled, "A Canadian Innovation Agenda for the Twenty-First Century". The report notes that "Innovation, as founded on Science and Technology, has thus become the principal means for achieving economic success in the twenty-first century." Based on this premise, it follows that an increase in research and development activities is necessary for innovation.

Throughout the year, I mentioned tech financings in most of the columns. I also identified some potential "Good Buys", i.e. tech companies to invest in. Hopefully, some have paid off for you. In spite of the doom and gloom perceived by public investors, technology companies did continue to access the capital markets to fuel their growth. Indeed!

In the next column, on January 11, 2002, I'll be getting back to tech "futures" and take a peek at what may lie ahead, tech-wise for 2002 and beyond.

In the meantime, please relax - don't worry about your tech investments (especially if they're in a promising B.C. venture).

I wish you all a prosperous 2002!

Capital Pool Corporation (CPC) Comments and Update

In this column, I keep track of **Capital Pool Corporation** ("CPC") companies as defined by the CDNX because they may provide funding and management to, and in the process acquire, technology companies. They provide companies with an alternative to traditional venture capital financing. CPCs are the continuation of the former VCP (Venture Capital Pool) and JCP (Junior Capital Pool) programs on the Vancouver (VSE) and Alberta Stock Exchanges.

Regrettably, though, the program could be working a lot better than it is. The current market conditions, the lack of broker activity, the glut of CPCs, the red tape and the uncertainty over the CDNX's future have all contributed to making the CPC route one of last - rather than first - choice for companies seeking capital.

If you add up all the CPC, VCP, and JCP companies that were formed since Alberta invented the idea back in 1987, you'll find more than 1200 such companies. In total, these have raised more than \$3 billion (yes, that's a "b") for growing companies.

Since the CPC program was launched in B.C. a few years ago, some 300 CPCs have been formed, but only a small number, i.e. less than 50, have completed their so-called Qualifying Transactions (QT). Right now, there are dozens just sitting there with modest amount of cash - usually around \$500K - not knowing what to do with it. Under a relaxation of rules by the CDNX, CPCs are permitted to merge with one another; coincident with acquiring a qualifying company, thereby eliminating the need to raise additional funds.

Check our [Capital Pool Corporation chart](#) (in .pdf format) for a complete list of the CDNX's CPC and VCP companies, thanks to **David Ing** of **Pacific International Securities**. This list is updated on a regular, e.g. monthly basis. It was recently updated to the end of November and will be updated again early in the new year.

An introductory article explaining CPCs may be found at <http://www.bctechnology.com/statics/mvolker-jun0200.html>.

Coming Up

The next **Vancouver Enterprise Forum** event will be held on January 22, 2002 and the topic is "Finance: Venture Capital, the Banks, and the Market". This is always a popular one and tends to sell out in advance. Details will be available at: www.vef.org. The VEF's new tag line is: "VEF - Advancing Technology Entrepreneurship."

A complete calendar of technology events can be found on [T-Net's Events page](#).

Footnotes

If you're an entrepreneur looking for a place to get your company started; there's some great space available at Harbour Centre downtown. The **New Media Innovation Centre** (NewMIC) and **SFU's TIME Centre** have teamed up to provide not only office space but also access to various resources, e.g. tech advisors, access to capital, mentors, etc. Worried about the high cost of being downtown? Well, not to worry - they'll even reduce the fees and take some payment in the form of equity. Check www.sfu.ca/time for contact info.

A reminder: SFU's TIME Centre is open for business - business folks, that is. TIME is an acronym for Technology, Innovation, Management, and Entrepreneurship. TIME supports the growth and development of the tech industry in B.C. TIME features a "BusinessCentre" (looks like an airport business lounge) which is open to technology entrepreneurs and business people to use as a drop-in downtown office facility. Need to plug-in? Make some calls? Do some work? Hold a meeting? There are some great facilities for holding your company's AGM. Why hang out at MacDonald's when you can work productively at the TIME Centre? Drop by and check it out! It is located at SFU's downtown campus at 515 West Hastings St.

For a convenient printable, pdf version of this column, [click here](#).

Michael Volker is the Director of the University/Industry [Liaison Office](#) at Simon Fraser University, past Chairman of the [Vancouver Enterprise Forum](#), and a technology entrepreneur. He owns shares in many of the companies he writes about. Copyright, 2001.

What Do You Think? Talk Back To Mike Volker

Tech Futures is a bi-weekly column that focuses attention on new and emerging BC publicly listed technology companies.

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