

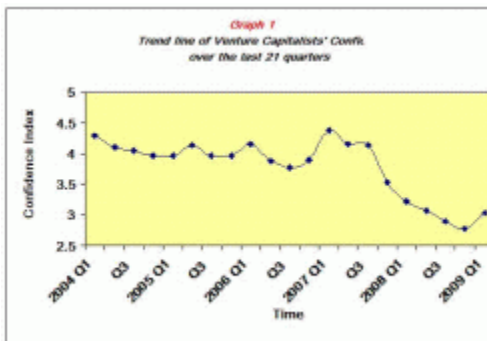
## Irrational Exuberance?

by John Paczkowski

They say “flat is the new up” and that certainly seems to be the case with the venture capital industry. Because though we’ve had two consecutive quarters without an IPO and the venture market is all but frozen, VC optimism is beginning to return. The latest Silicon Valley Venture Capitalist Confidence Index shows a small but noteworthy uptick in the VC community’s views of the entrepreneurial environment in the San Francisco Bay Area. On a five-point scale, with five indicating that giddy all-trees-grow-to-heaven worldview for which VCs are known, the industry’s sentiment for the first quarter was 3.03.

founded and built during bleak times,” he said. True entrepreneurs will continue to find ways of moving their ideas forward. From a venture investor standpoint 2009 and 2010 should be an attractive environment for new investments though there will be little liquidity for existing investments.”

As Sequoia Capital partner Michael Moritz often notes, the best time to invest is often “when people are cowering under their desks.”



That’s not great, but it’s a marked improvement from the 2.77 the Index registered in the fourth quarter—its lowest point in five years. Why the sudden change? “While concern over the state of the national and global economy and financial system remains, a sense of foreboding appears to be giving way to an expectation of eventual, if slow, recovery in the high-growth venture environment,” Mark Cannice, the author of the survey explains. “This mustard seed of hope appears to be taking sprout among a majority of the venture capitalist respondents who provided their insight to the March 2009 survey. And it is nurtured by venture capitalists’ faith in the resilience of entrepreneurs to build efficient enterprises with disruptive solutions, more modest expectations for growth and valuations, and the early stages of a stabilization in the financial system.”

In short, no reason at all. The economy is still deteriorating, perhaps less quickly than it has been, but deteriorating nonetheless. And venture investment is still declining. But there’s a sense that things are going to get better. And they surely will. Certainly, it’s not too difficult to do better than no IPOs two quarters running. And, as Sandy Miller of Institutional Venture Partners reasons, an economic environment like the one we’re in often gives rise to disruptive new technologies. “While the environment seems gloomy with no end in sight we need to remember that some of the best companies have been