Facebook, Hastie and Investor Stupidity

Nice post from John Hempton this morning on Facebook and the sad case of ethical investment bankers. I agree 100% that IPO 'investors' only have themselves to blame for losing their shirts. They were all punting on making a huge stag profit – playing the greater fool game – and the other fool didn't turn up. Tough.

One thing Hempton didn't address, though, is that Zuckerberg et al didn't sell a huge percentage of their stock. The benefits from maxing out the amount of cash in round one could be offset by a haircut next time they want to sell stock. Fool me once, so they say.

On the topic of foolishness, directors transferring money straight from the pockets of shareholders into the coffers of banks has been one of my bugbears the past three years. Professional directors seem to think keeping a company 'alive' is their number one priority, when they should be focused on maximising the value to equity.

Highly leveraged companies keep raising equity to repay debt when it's far from certain that the value of the entire business is worth more than the debt outstanding. Obviously the banks are happy to get repaid some cash and the directors get to keep collecting their fees, but how are those that put the money in fairing?

Elders has raised more than $500m over the past few years and currently has a market capitalisation of less than $100m. **RCU** has raised more than $100m and has a market cap of $50m. **Photon** raised $110m and has a market cap of $60m.

Hastie Group didn't even manage to stay alive.

It raised $160m last year, used it to repay $145m of debt, and this week filed for receivership. If the directors had instead filed for receivership 12 months ago, equity holders would be $160m better off and the banks would be facing an even larger hole than they are.

I'm sure there are plenty more. **Gunns** and **Paperlinx** spring to mind. Perhaps, just like Facebook, investors only have themselves to blame if they keep putting more money in to a hopeless situation. And, yes, that includes me in one of the examples above.