

## SUMMER 2001

**"Stock Tip with that Shine?"**

There is a famous story about Joseph Kennedy who, in the 20's was known to get a shoe shine each day as he entered the financial district on his way to the New York Stock Exchange. The Big Apple buzzed with money talk as the stock market was at an all-time high. The shoe shiner spent 20 minutes giving the father of our future President stock tip after stock tip. After flipping him a quarter, Kennedy promptly went to the Exchange and sold off his entire portfolio. A mere nine days later the market crashed. When asked about his fortuitous timing, Kennedy observed in a letter, "When the shoe shine guy gives you stock tips, it is time to get out!"

**"When the market is up, people went to get a shoe shine to continue to feel good about themselves. When the market is down, they need a shoe shine because they are on their way to a job interview."**

**Tommy Daly  
Shoe Shine Stand Operator  
San Francisco, California**

Why is it that so many literary geniuses of our time have plundered their fortunes: Honore' de Balzac, Dostoyesky, Tolstoy, F. Scott Fitzgerald, Shelly, and even Tom Clancy who recently blew \$2 million to a swindler he met at a Baltimore Oriole game to name a few. Of all the writers that have had their limited financial acumen profiled, perhaps no one has received more attention than the revered and beloved American writer Mark Twain. In a recent book by Andrew Leckey, "The Lack of Money Is the Root of All Evil: Mark Twain's Timeless Wisdom on Money, Wealth and Investing," it was said that his knowledge of business matters was only enough to know when "...to come in from the rain." He passed on investing in the telephone and instead poured hundreds of thousands of dollars into a typesetting machine, a publishing company, a dietary supplement all which failed and lost huge profits in mining stocks due to margin calls. Thus, it appears whether you are a beloved and world recognized writer or just a mere shoe shiner, one thing remains constant; there are no short cuts to value investing.

It is easy to lament the ever-growing number of the dot-com dead. Yet collectively they have left a rich legacy as they pushed Corporate America into the net and spearheaded enormous strides in information technology. Venture capitalists, suffering through enormous loses and egregious failures, have become "vulture capitalists" spewing forth terms like "down rounds", "cram-downs" and "emergency cash infusions" all over Silicon Valley, the bell-weather of the industry. Entrepreneurs are forced to give up larger stakes for initial and secondary funding and accept investment and/or lending terms previously described as "unreasonable" or "unthinkable." Sky high valuations for unproven fledglings which have decimated aggressive VC funds are a thing of the past. Many startups that are receiving financing are now non dot-coms (e.g. wireless, biopharmaceuticals and medical devices to name a few). In these more risk-averse times, understandable and predictable tried and true business models are back in vogue. Most of the new economy business models suffered the same fallacy: Although services were provided more easily and efficiently over the NET, the market penetration did not occur fast enough to cover the enormous start-up costs and the supplier's overhead. The Internet is, for all due purposes, still an immature and developing industry. As it continues its viral expansion across industries, markets, countries and even continents, it will become clearer what are the sources of failure and ultimately success. Although the Internet is a young phenomenon, it is a paradigm that will continue to develop.

**When told he was simply too young to be successful writer, Samuel Johnson, British wit of the 18th century replied, "Tis a defect, ma'am, that time will cure."**

**Samuel Johnson**

An area that has been receiving particular recent attention is that of Branding. New economy companies spent hundreds of millions of dollars to brand their products or new name. To exemplify the marketing efforts of companies to brand their products there is an old anecdote of a young nine-month old baby who refused to eat anything and was being kept alive intravenously. One day the child's uncle put a single Cheerio on the baby's high chair and walked away. Several minutes later it was gone. He repeated the process until the child ate a full serving of Cheerios. This of course became part of General Mills folk lore and helped solidify the cereal's brand. Steve Sanger, CEO of the Company writes: "I'm not sure how true the story is, but the people who read it believe it absolutely." Another Company that has done a tremendous job branding its business has been NOKIA. Located in Finland, a small country wedged in between Sweden and Russia, it is home to this global telecommunication behemoth. By constantly embracing technological innovations and aggressively branding its products worldwide, it has maintained a competitive advantage. Nokia employs 55,000 Finlandians, has 52 R&D centers across 4 continents and produces a new product model every 35 days. Together with their extraordinary management and top executives, it dominates the mobile Internet industry.

**"Former Nokia CEO Kari Kairamo one settled a factory strike by challenging a union leader to a foot race around his mansion – with both men NAKED during a Finnish midwinter."**

**Dan Steinblock**  
**The Nokia Revolution**  
**Anacom Publications**

There is a growing concern that the VC industry has strayed from its roots by growing so large, so quickly. VC's with billion dollar funds simply do not have the time to assist in the incubation and development of early stage companies. New smaller VC boutiques which hark back to pre 1995 when "sweat equity" meant something, are once again in vogue. Smaller boutiques can avoid the cumbersome bureaucracies and ensure decisions are being made by hands-on personnel. Although small generally includes their financial coffers as well which is not always beneficial for cash-intensive start-ups, this forces boutiques to seek out outside, strategically suitable investors/partners which is often extremely synergistic.

**"Believe Me! The secret of reaping the greatest fruitfulness and enjoyment from life is to live dangerously!"**

**Friedrich Nietzsche**

We at **WPs** were not immune to the recent downturn in our industry. This past quarter has been the first such period in our firm's three year life that we did not nor participate in a private placement or purchase any form of securities for investment purposes (e.g. stock, warrants, options, convertible debentures or bonds...). Rather, we have been concentrating on three major areas of our business: Consulting, Bridge Loans and Triage. Since inception, we have always performed general consulting services for our corporate clientele and certain members of our portfolio companies. We are pleased to welcome to the aforementioned group the following companies this past quarter: **Osmio, Channell Communication, Infidelity Support Services, Mi8, Transchat Plus, ZA Consulting, Tuesday Interactive, SupportScape, ProLaser, IB. Net, Hudson Sloane, Tradesoft, Cel Sci ("CVA")** and most recently **Answers Systems**. In addition, we expect to be retained by 2-3 additional companies before the end of July. We perform a variety of services for each of these corporate clients and it ranges from writing the business plan, revising and improving the business model, evaluating their indigenous industry's landscape, mergers/acquisitions and/or introductions to either capital sources or public companies or shells with cash. We are in varying degrees and stages of transactions and strategic partnerships with many of them already.

As per our prior newsletters, our subsidiary **Spider Financial/Epiphany Holdings, Inc.**, has been actively reviewing and closing short-term bridge loans primarily for small yet emerging private growth companies. We were pleased to have closed loans for **Campus Concepts** and **Support Scape** and are in the final stages of negotiations on a third, **Health/Chem ("HCLC")** in conjunction with its company's Board of Directors.

We, as have all our competitors, unfortunately also have had to perform triage for several of our portfolio companies. They represent investments we and our clients have made over the past two years (Wellfleet Holdings I – X, corporate and/or individual clients through our previous broker-dealer affiliations). We are working closely with several companies in particular to maximize shareholder value. They include: **Aluminium.com, Kinkos.com** (previously LivePrint.com), **MyDocuments.com** (previously Arvee Systems), **Cloudsource** and **Big Chalk.com** (previously HomeworkCentral.com). As always we will keep you apprised of all new developments. Finally, we are extremely pleased to announce the signing of two Letters of Intent/Term Sheets to raise capital for a new company **Autowraps, Inc.** in San Francisco, CA and an old friend **Synergy Brands, Inc. ("SYBR")** both through our new broker-dealer affiliation, **KSH Investment Group, Inc. ("KSH")**. We are working closely with **KSH** on both **WP's** corporate clientele and portfolio companies and all new investment opportunities as well as **KSH's** transactions such as its recently closed private placement for **Paradigm Medical Industries ("PMED")**. We thoroughly enjoy our new found partnership with **KSH** and its management and look forward to great things ahead.

**"Work like you don't need the money. Love like you've never been hurt. Dance like nobody's watching."**

**Satchel Paige**

On behalf of our staff, may we at **WPs** wish you and your family an enjoyable summer and continued best of luck on all your investment activities.

Sincerely,

WELLFLEET PARTNERS, Inc.

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