What Was the Dotcom Bubble?

The dotcom bubble, also known as the internet bubble, was a rapid rise in U.S. technology stock equity valuations fueled by investments in internet-based companies during the bull market in the late 1990s. During the dotcom bubble, the value of equity markets grew exponentially, with the technology-dominated Nasdaq index rising from under 1,000 to more than 5,000 between the years 1995 and 2000. In 2001 and through 2002 the bubble burst, with equities entering a bear market.

The [crash](https://www.investopedia.com/terms/d/dotcom-bubble.asp) that followed saw the Nasdaq index, which had risen five-fold between 1995 and 2000, tumble from a peak of 5,048.62 on March 10, 2000, to 1,139.90 on Oct 4, 2002, a 76.81% fall. By the end of 2001, most dotcom stocks had gone bust. Even the share prices of blue-chip technology stocks like [Cisco](https://www.investopedia.com/articles/markets/113015/if-you-had-invested-right-after-ciscos-ipo.asp), Intel and Oracle lost more than 80% of their value. It would take 15 years for the Nasdaq to regain its dotcom peak, which it did on April 23, 2015.

The dotcom bubble is but one of several asset bubbles that have appeared over the past centuries.

Explaining the Dotcom Bubble

The dotcom bubble grew out of a combination of the presence of speculative or fad-based investing, the abundance of venture capital funding for startups and the failure of dotcoms to turn a profit. Investors poured money into internet startups during the 1990s in the hope that those companies would one day become profitable, and many investors and venture capitalists abandoned a cautious approach for fear of not being able to cash in on the growing use of the internet.

With capital markets throwing money at the sector, start-ups were in a race to get big fast. Companies without any proprietary technology abandoned fiscal responsibility, and spent a fortune on marketing, to establish brands that would differentiate themselves from the competition. Some start-ups spent as much as 90% of their budget on advertising.

*Speculative bubbles are notoriously hard to recognize while happening, but seem obvious after they burst.*

Record amounts of capital flowed started flowing into the Nasdaq in 1997. By 1999, 39% of all venture capital investments were going to internet companies. That year, 295 of the 457 IPOs were related to internet companies, followed by 91 in the first quarter of 2000 alone. The high-water mark was the [AOL Time Warner](https://www.investopedia.com/articles/financial-theory/08/merger-acquisition-disasters.asp) [megamerger](https://www.investopedia.com/terms/m/megamerger.asp) in January 2000, which would become the biggest merger failure in history.

Fed Chairman Alan Greenspan had warned the markets about their irrational exuberance on December 5, 1996. But he did not tighten monetary policy until the spring of 2000, after banks and brokerages had used the excess liquidity the Fed created in advance of the Y2K bug, to fund internet stocks. Having poured gasoline on the fire, Greenspan had no choice but to burst the bubble.

The bubble ultimately burst in a spectacular fashion, leaving many investors facing steep losses and several internet companies going bust. Companies that famously survived the bubble include Amazon, eBay, and Priceline.