In this economic day and age, cash is king. As markets, industries and companies delever in what seems to be a chorus of balance sheet deflation, the value of cash as an investment vehicle has increased exponentially. What does this have to do with Yahoo's strategy ?

First of all, it means that MicroSoft would have to be roofied in order to part with the 10 to 15billion dollars in cash that some Yahoo shareholders hope they will pay for Yahoo Search. As of sept 30th, 2008, MicroSoft had about 14 billion dollars in net current assets. Why anyone thinks that MicroSoft is stupid enough to give up what amounts to most, if not all of their liquidity is beyond me. Particularly when their net current assets have now fallen a little below Google's. Between liquid assets and borrowing capacity, both have about the same amount of "powder" in place in the event "the next big thing" appears on the radar. I doubt either wants to be at a disadvantage to the other when it comes to potential opportunities.

MicroSoft also has the issue of Facebook. They made a material investment at what was reported as a $15Billion dollar valuation. So making a major Yahoo acquisition probably means walking away from Facebook for the foreseeable future. In what seems like an inconceivable situation, MicroSoft recognizes it doesn't have enough liquidity to buy one or both companies and in these uncertain times, its smart enough not to try to lever up and use debt for acquisitions. So forget about any MicroSoft acquisition of Yahoo or Yahoo Search.

It is this recognition which I believe has defined the Ballmer and MicroSoft strategy towards Yahoo. Ballmer has become the master of talking in circles about what might happen with Yahoo. He knows when and how to say enough about Yahoo that it totally confuses the Yahoo Board and Executive Team. Confuse them he has. Rather than determining a strategy of profitability and growth, from my outsiders viewpoint, large shareholders and directors of Yahoo have become the "HuggyBear Contingent". Just a group trying to dress up Yahoo in order to pimp it out to any bidder it can find.

Big Mistake. Yahoo should be taking the exact opposite approach.

Yahoo has a very simple business. Generate traffic and monetize it. It generates traffic through services and content. It sells advertising around them both. Their strategy should be to acquire every and any company that makes their traffic, services, content or monetization stronger.

Yahoo should be the most aggressive acquirer on the planet right now. In case you haven't noticed, everything and anything owned by private equity firms in the media and technology spaces are on sale at a huge discount. VC's are freaking out that their companies not only have no exit strategies, but might also have to close down. No PE or VC in the world wants to make a capital call. Which has created an amazing opportunity. The same on the public company front. Any company that has any level of dependency on advertising has seen their stock tank. The opportunities for a company with a strong balance sheet won't ever be any better than they are today.

Yahoo should be on the warpath, vetting each and every media (yes media) and technology company it can sit down with looking for bargains.

It should be taking Yahoo stock and finding every and any accretive investment in the internet and media space that it possibly can. Some may argue that Yahoo stock is too cheap to use for acquisitions. I beg to differ. The speculation around a potential MicroSoft acquisition, along with a very strong balance sheet has propped up its stock. Compared to private and public would be targets, Yahoo stock is amazingly strong currency.

Yahoo should be taking a page from Larry Ellison's Oracle strategy of "if you can't beat em, eat em" . Ellison has done a masterful job of learning how to make both large and incremental acquisitions and integrate them into Oracle to make it a bigger, more competitive company. Exactly what Yahoo should be doing.Yahoo should set a goal of making 20 or more accretive acquisitions in the next 18 months and then re evaluating where it stands.

If you look at it objectively, this economic crisis and Yahoo's incredibly strong balance sheet have put it in a position to become a much stronger company via acquisitions. Rather than viewing itself as a straggler trying to push up its stock price. Yahoo needs to set a strategy of strength and acqusition. Yahoo has the opportunity to be the ultimate next generation media company. It is an aggregator of content and services that is the number one world wide digital media destination. Google has a profound ability of not having any idea how to monetize content. Google does one thing well, search. Yahoo is and should be the best at everything else. It just has to stop being afraid of its own shadow