

What to do if a bubble is starting

Maybe now we're actually in the early stages of a startup bubble. Valuations are trending up again. And no one is talking about a bubble anymore, so it could be happening.

Many companies still feel reasonably priced. Yes, Facebook is up 70% in the last six months, but I think it's likely still undervalued. Lots of companies raising B rounds are doing it with large profits and at reasonable multiples.

But the very early stage feels somewhat out of whack. Companies raising money at \$15MM+ plus valuations with no traction and no real vision beyond starting a startup still strikes me as unsustainable (not to mention bad for the companies).

Lots of other signs point to a bubble—founders of Series A stage companies being angel investors, a significant uptick in the number of parties, soaring rents, soaring salaries, lots of new investors coming to valley, and MBAs starting companies as the fashionable thing to do again.

Even if this is the beginning of a bubble, it will likely go on for awhile longer—at least as long as the Fed keeps the stimulus going, and likely longer. Maybe it goes on for another couple of years.

We can debate whether or not companies are overpriced, but it is an absolute certainty that at the first sign of real trouble, most investors will overreact and invest much less precisely at the time they should be investing more.

So the question is, if you believe that this may be the beginning of a bubble, what should you do now?

Fortunately, the answers are things you should be doing anyway.

First, you should not be too afraid. The only thing that is cheap during a startup bubble is capital. Everything else is relatively more expensive. If you're a real company, a downturn that you're prepared for can be beneficial. Good companies can make incredible strides during a bust.

Make sure you have enough money in the bank, and treat this money as the last money you'll ever raise—at the very least, have a plan B to get to profitability without raising any additional capital. If you need to raise more, this is a good time to do it.

Focus on a path to profitability. Remember that, if your customers are mostly startups, revenue can dry up fast.

Resist the urge to ramp up to a crazy burn rate. Be especially fearful of long-term commitments like expensive leases and people. Don't hire unnecessary people. Stay as lean as you can. Establish a culture of frugality.

Bubbles bursting also require startups to focus, which is a good thing to be doing in any case. Cut products and features that are not working. Focus relentlessly.

Of course, people are terrible at predicting bubbles and busts, so I'm likely wrong. Luckily, I really do believe these are good things to do anyway.