PORTLAND BUSINESS JOURNAL

PORTLAND, OREGON | BUSINESS NEWS FROM THE FOUR-COUNTY REGION | APRIL 20, 2012

New Facebook millionaires can learn from Google example

In what is anticipated to be one of the biggest launches ever for a U.S. company, social media giant Facebook filed papers earlier this year for its initial public stock offering. The deal will likely raise as much as $10 billion for Facebook, minting a new generation of Bay Area millionaires on a level not seen since 2004, when Google went public.

The most surprising beneficiary of Facebook's IPO might be graffiti artist David Choe, hired in 2005 to paint murals in the company's Palo Alto offices. Back then, of course, Facebook was just a year old, had no revenue, was available only to high school and college students, and hadn't yet made it so easy for folks online to "like" just about anything.

Facebook offered Choe $60,000 cash, or the equivalent in Facebook stock options for his work. The artist, as we now know, opted for the riskier stock options, which are now reported to be worth nearly $500 million. That's right — half a billion for spray painting a bunch of walls.

Choe isn't alone. Some 1,000 Facebook employees are expected to become overnight millionaires when the company goes public later this spring. While most will be restricted from cashing in their stock until six months after the shares begin trading, many have already begun hatching plans on how to spend their anticipated windfall.

One former employee reportedly intends to book a trip to space — at a cost of $200,000. Pocket money, of course, when your shares are worth $50 million.

Not surprisingly, the sharks of Wall Street are circling, hoping to sink their teeth into the thousands of soon-to-be millionaires. The Wall Street Journal recently profiled a former Goldman Sachs and Morgan Stanley broker who targets young tech entrepreneurs "while they're still eating ramen noodles and can hardly afford apartments."

Apparently, the broker's strategy has paid off: he now counts many of Facebook's highest-level executives as clients.

To prepare for the onslaught of Wall Street

GUEST COLUMN

Dougal Williams

brokers, Facebook's nouveau riche would be smart to learn a simple lesson from their Silicon Valley neighbor, Google.

The lesson from Google? Run far and fast from brokers peddling get-rich schemes. Instead, invest your money using index funds.

Of course, this is a lesson from which thousands of everyday investors would also benefit.

Such advice would seem timely for Facebook's new rich, considering active management has failed investors quite spectacularly in recent times. In 2011, according to Standard & Poor's, 84 percent of actively managed U.S. stock funds lagged their index benchmarks.

How did Google wise-up to index investing? Back in 2004, the company faced pressures similar to what Facebook might be experiencing today. Thousands of young engineers and Web-geeks were set to become millionaires overnight and the usual Wall Street predators were calling.

So, before Google permitted the brokers inside their hallowed walls, senior executives hosted a series of investment lectures for employees. The company brought in the most revered names of financial academia to teach its brilliant engineers, programmers and Web-geeks the art and science of personal investing.

First to arrive on Google's campus was 1990 Nobel Laureate Bill Sharpe. Rather than dazzle the crowd with the finer points of portfolio optimization or fancy asset pricing models, Sharpe offered a simple recipe for a lifetime of investment success: Don't try to beat the market. Instead, put your savings in a few diversified index funds and let capitalism and markets work for you.

The following week's lesson was taught by Burton Malkiel, finance professor at Princeton and author of "A Random Walk Down

The lesson from Google? **Run far and fast** from brokers peddling get-rich schemes. Instead, invest your money using index funds.

Wall Street." Don't try to beat the market, he said, and don't believe anyone who says they can — not a friend, a broker with a hot stock tip or the latest magazine touting the most recent outperforming fund.

To a group of the world's brightest 20-year-olds — most of whom grew up watching tech stocks double overnight — this somewhat sobering advice most certainly came as a surprise. One week later, however, the message was the same. This time, the wise sage at the podium was Jack Bogle, founder of Vanguard. Wall Street, he said, is more about salesmanship than stewardship. The brokers hovering at the door are here for one reason and one reason only: to take your money through high fees and transaction costs, the majority of which are hidden from your view. Ignore them all and invest in index funds.

When the brokers of Wall Street were finally allowed inside Google, they were surprised at — and discouraged by — their reception. Employees peppered them with questions about low-cost index fund investing and pressed the brokers to explain the high fees and risks associated with the complex products they were offering.

Armed with this free education from the brightest minds in finance — courtesy of Google — the folks at Facebook might be spared the hefty tuition bills paid by investors who choose, instead, to learn at the hands of Wall Street's croupiers.

And that's a valuable lesson that should be easy for everyone to "like."

DOUGAL WILLIAMS, CFA, is a principal and chief investment officer at Vista Capital Partners.