James J. Cramer THE BOTTOM LINE

Scavenger Hunt

Now that Wall Street has relegated every last dot-com to the dustbin of history, maybe it's time for the smart money to do a little Dumpster diving.

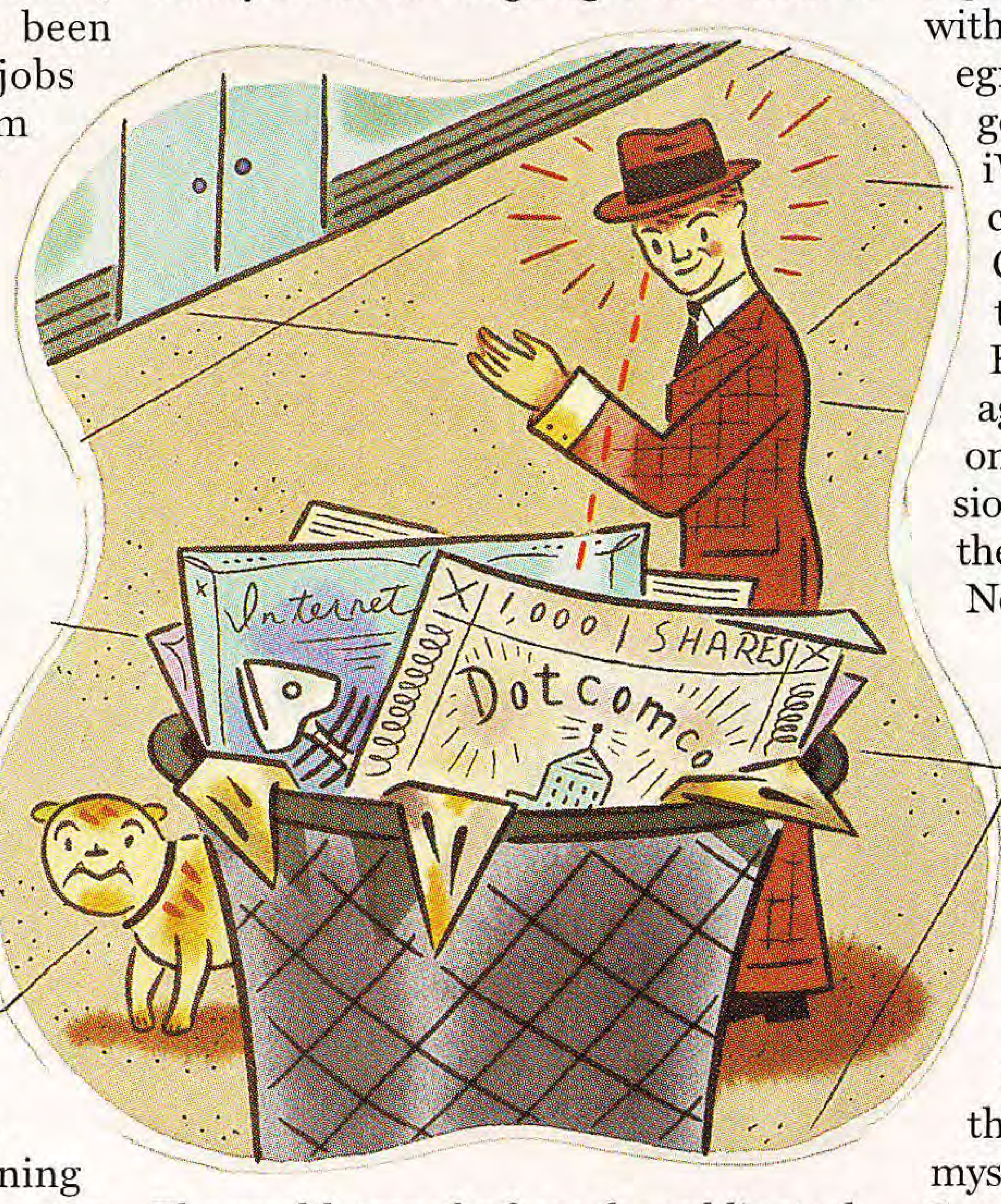
A YEAR AGO, WHEN WALL STREET ANALYSTS were unanimous in their belief that the decline in dot-com stocks was a tremendous buying opportunity, I wrote a cover story for this magazine called "Dot's All, Folks," which predicted the relentless decline and crash that followed. I took a lot of heat from my dot-com colleagues—I am the largest shareholder and a markets commentator for TheStreet.com. Nobody wanted to hear that from one of their own. Now, however, most of the complainers have been blown back to their old offline jobs and the new conventional wisdom is that the dot-com world has vanished for good.

Investment firms that so eagerly brought dot-coms public now don't believe in the long-term viability of *any* stand-alone operations, save eBay and maybe Yahoo. The NASDAQ chieftains, who once celebrated each new launch as if it were the christening of a battleship, currently spend their time trying to delist those that trade under $1.

Maybe that's why the contrarian in me, always looking to capitalize on the prevailing pessimism, is getting so darned optimistic about the remaining Net stocks! Too much good is happening right now in the dot-com world for us to divorce ourselves from the remaining publicly traded entities. It's time to stop picking over the carcasses of the survivors; if they got this far and are still alive, chances are they've figured out how to make their business work.

Up until a year ago, the investment bankers on Wall Street and venture capitalists on Sand Hill Road told us that the only thing that mattered was how many people visited your site. That's because the Net was supposedly gravitating toward a television-network model, where ratings translate into big, sustainable ad dollars. In fact, the much-prized visits had nothing to do with profits, or even *potential* profits. The more visitors to your site, the more likely you were giving wares away or subsidizing readers with product that cost you much more to deliver than it did them to read.

If the stock market had stayed robust, it's entirely possible that those sites relying totally on advertising might have made it.



The wealth transfer from the public stockholders to the dot-coms—and through the dot-coms to the advertising markets in the form of dot-com ads—resulted in a multibillion-dollar revenue stream. But once the stock market collapsed, that whole financial daisy chain disappeared. Dot-coms scrambled to find other ways to monetize traffic, but most were too advertising-dependent to make the transition.

A handful, though, are going to survive because they offer something that the consumer actually wants, and they can produce it at a price that will generate a profit. There's even a new analogue, the niche-cable-television model. The remaining publicly traded entities take comfort in the hope that they might end up like the ESPNs of this world, small-scale dreams that morph into multi-billion-dollar subscription-revenue sites.

Far-fetched? Consider the case of iVillage, a company that has served, along with TheStreet.com, as one of the more egregious examples of Net profligacy gone wrong. Among investing types, iVillage still conjures an image of a champagne-toasting, cigar-chomping Candice Carpenter bragging about taking over the world as we know it. But Carpenter was broomed months ago. In her place is Doug McCormick, one of the most successful cable-television execs in the history of the medium, the man who turned Lifetime into the No. 1 women's brand.

Under McCormick, Lifetime went from a little niche money-loser to the ninth-most-profitable network in the U.S., a franchise worth more than $3 billion by the time he left the company. But the stock market doesn't believe in McCormick right now. iVillage hovers at around a dollar and is threatened with delisting.

Nobody's paying much attention to the changes afoot there, and I found myself pretty much alone listening to McCormick's conference call last week after his much-lower-than-expected loss despite a brutal advertising climate.

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Illustration by Michael Klein.

Yet, in two months, iVillage will complete its merger with Women.com and become the only stand-alone site for women, even though women represent 50 percent of all Internet users and 80 percent of those making purchasing decisions. When the deal is done, the Hearst Corporation, old buddies with McCormick from his Lifetime days, will give iVillage $20 million in cash plus a promise of roughly the same in advertising and production services. That deal alone could ensure profitability *this year*. In the meantime, advertisers are starting to pay iVillage a premium for advertising in the right context, and a host of subscription newsletters and services, including astrology predictions (hey, they make money!), Lamaze Publishing, and the Newborn Channel, are generating big revenue streams for this little company.

iVillage is a microcosm of what's going on all over the dot-com world, as seasoned, hard-core veterans from other industries take the reins, give themselves hefty stock-option contracts, and right-size the companies with fewer, more experienced hands. How about WebMD, which, under Martin Wygod, the man who built and sold Medco Containment Services to Merck, just reported a dramatic increase in revenues? Or FTD.com, a $5 stock on track to be profitable this quarter? Or Barnesandnoble.com, which, at some point, seems likely to be acquired by its parent for a premium that might make it a worthy risk? Or Ameritrade, the heavily leveraged brokerage house that could come roaring back with the changing fortunes of the NASDAQ? They all seem like decent speculations to me.

So am I buying any of these single-digit dot-coms right now? I proposed the idea to my wife, and she looked at me as if I were a lunatic. Given our outsize position in one dot-com already, she said maybe this isn't the time: "One giant bet on the Web's enough for now." So I'm still watching and waiting. But the time to boo the dot-commers off the stage has come and gone. The survivors deserve the spotlight again. They may never see the prices they saw in 1999, or even 2000, but current levels reflect way too much pessimism for this stock trader. ■

James J. Cramer is co-founder of TheStreet.com. He often buys and sells securities that are the subject of his columns and articles, both before and after they are published, and the positions that he takes may change at any time.
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