Netflix - The Dangerous Tightrope of Expectations Investing

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As a *business*, **Netflix** has disrupted and inspired huge change in the global entertainment industries. As a *product*, it has completely transformed the home lives of a few hundred million families, around the world. As a *producer* of original content, it has raised awareness across borders, cultures, and languages, and launched or boosted the careers of many artists and art forms including comedy, music, sportspeople and -teams, and other ordinary people doing extraordinary things captured in documentaries.

But alas, Netflix was never and will never be the one and only master of the global entertainment universe. Far from it. What does Star Wars, Harry Potter, Game of Thrones, The Avengers, The Simpsons, Sex and the City, English Premier League Soccer, American Basketball, Football & Baseball, Formula 1 car racing, the Golf Major Tournaments, and the Winter and Summer Olympics all have in common? *You cannot access it on Netflix*.

Most people in business want growth, and the more of it the better. The first problem with very high growth is that it is like feeding a small but rapidly growing dragon. Before you know it, you are spending more money housing and feeding it per week than it cost you to buy it in the first place. And unless your new best friend is winning award shows you cannot earn much money from it. The second problem with very high growth is that it is impossible to hide a dragon for very long, so it attracts attention from existing competitors and new entrants. The third problem with very high growth is that sooner or later it turns into lower growth. It is inevitable.

In the stock markets, other than outright frauds, it has always been the case that market participants who tend to lose the most money in the shortest periods of time are those that pursue high growth expectations investing. All it takes is but the slightest misfire.

Last night, Netflix announced a *small* decline in their *first quarter* subscriber numbers. To place this in context, they have 222,000,000 subscribers and they lost just 200,000 - and on top of that the net decline in their subscriber numbers is entirely due to their own decision to suspend their services in Russia.

You would be forgiven for immediately thinking the same as me in that this is surely no big deal in the bigger scheme of things at Netflix.

However, over in the US stock market, the Netflix share price cratered by an incredible 35% today, vaporising US$50bn in its market capitalisation.

It would of course be illegal, but someone somewhere might be thinking they wish they had themselves spent the US$10 per month per subscriber for Netflix to meet their own guidance. It would have only cost them US$29mn.

Our work continues...

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