

Mutual Fund's Devaluation of Snapchat Raises Concerns for Tech Startups

By Ben Hinshaw, J.D. Candidate 2017 | November 23, 2015

The number of unicorns, companies valued at over \$1 billion, has greatly increased, [growing](#) from 43 companies at the beginning of 2014 to around 128 companies in November. However, these companies are often [difficult](#) to value because the shares are privately held and there is no readily available market price. This is a serious problem for mutual funds since they are legally obligated to value each of their portfolio holdings everyday. The values can fluctuate between mutual funds as firms use different methods to value startup companies.

On November 10, 2015, Fidelity devalued its stake in Snapchat by 25%. Fidelity also [devalued](#) several more startup companies: Blue Bottle Coffee, Dataminr, Zenefits, and others. These markdowns may suggest that the market is slowing down or that these companies' values were inflated. The high valuations might have also been a result of competition between investors to acquire the next big startup, driving up valuations. Fidelity is not the only fund devaluing its stake in startups, as the asset manager Blackrock devalued Dropbox.

Investors must find a way to value their assets even though there is uncertainty in valuing these unicorns. Some mutual funds attempt to value startups by comparing them to similar companies in the public market. However, this is not always a viable option since there are often no other companies to compare it to, similar to Snapchat. Box, a cloud storage company, may have impacted Dropbox's valuation. Box has seen a 41% [decrease](#) in value since its IPO in January. Mr. Larson of Duff & Phelps also suggested that these companies can be valued by looking at whether the company is hitting the targets it created when seeking funding.

Large mutual funds devaluation of startups could indicate that the fast-growing market of private companies is slowing down. The public stock market has already seen mobile payment company, Square, go public at a valuation lower than what its previous private investment gave it. Nevertheless, this is likely a [strategic](#) decision to be more conservative on pricing and gain confidence of investors in the public market. As the lower valuations have just begun, only time can tell how this will truly impact the market for startups.