

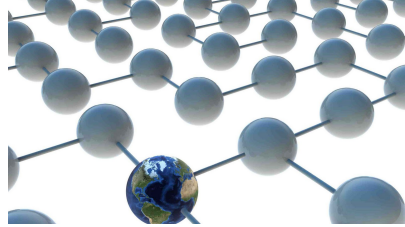
A Connection Worthwhile

Did you ever wonder how a website that does nothing but allow you to display your life to all your friends and family and is free to use, could be worth around [\\$11 Billion](#)?? [Facebook](#) is. This valuation comes from the power of connecting...not just people, but things. When connectivity is increased, value goes up exponentially.

This could best be understood with the explanation of the “fax effect”. The first fax machine that was made cost exorbitant amounts of money during research and development, and was worth relatively nothing. Not until you add another fax machine does their start to be value. Add another and another to the network and you start to create something of real value. Each arithmetic addition allows for the value to be increased by the square of the connections.

In the mid 90’s, I read the book [Out of Control](#), and then in 1999 came the book [New Rules for the New Economy](#) both by Kevin Kelly. From [Out of Control](#) came the understanding that networks with high degrees of feedback create collective intelligence (more on this subject soon). This is what led me to the crazy idea of starting a mutual fund run by the shareholders called the iFund. We started in 2001, right at the beginning of that nasty down turn in the market and it never took off. An idea before its time, I believe, and we closed down when we sold off IPS Funds.

[Kevin Kelly](#) said in [New Rules for the New Economy](#) that “The dynamic of our society, and particularly our new economy, will increasingly obey the logic of networks. Understanding how networks work will be the key to understanding how the economy works”. This truth is backed by the looking at the success of [Amazon](#), [Ebay](#), [Facebook](#), [Google](#), and the many other beneficiaries of the network effect.



So going back to the beginning, the valuation of [Facebook](#) is based on the power of the [network effect](#). Are you creating a network that is increasing the value of you, your business, and your community? You have a network with the people in your company and all of your suppliers, vendors, and clients. How are you connecting them to build value?