EXHIBIT 2003

Pop Goes the Bubble

http://www.fool.com/investing/small-cap/2006/02/14/pop-goes-the-bubble.aspx

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If you own shares in **HouseValues** (Nasdaq: SOLD _) -- and to a lesser extent, **Homestore.com** (Nasdaq: HOMS _) and **Cendant** (NYSE: CD _) -- you should do your portfolio a favor and stop what you're doing. Take a deep breath. Crack your knuckles. Now go to www.zillow.com.

I'll wait.

This is what I see. It's a site that makes many of the other models obsolete. Type in any address into Zillow, and you're one click away from a satellite map of your neighborhood with the estimated values of each home. Click on a home, and you'll find more detailed information (such as rooms, baths, square feet, resale history, and last year's property taxes).

Getting to this point at HouseValues.com requires a more invasive -- and inconvenient -- experience. At HouseValues, you must enter personal information and fill in two dozen different fields in order to be ultimately emailed a somewhat similar result tagged by a local realtor.

Building mousetraps with moving cheese
There was nothing wrong with HouseValues. Until Zillow launched in beta form last week, it was a great way to get an assessment of what your home was worth and get in contact with a licensed professional if you really did want to put your home on the market. That is pretty much its sole purpose, though. One of the questions you have to answer is, "When do you want to sell your home?" with answers ranging from "right now" to as long as "2 years from now." There is no option for "not now" or "just curious." It may be a good way to vet for the quality of the lead, but Zillow doesn't care, doesn't pry, and doesn't make you wait up to three business days for an answer.

Zillow has disrupted the online real estate services market, probably irreparably. The rest of the market just doesn't realize it yet.

I say this with guarded pessimism because I want to be wrong. HouseValues was singled out by Tom Gardner to *Motley Fool Hidden Gems* subscribers three issues ago. Earlier this month, Homestore was one of the 10 stocks under $10 that I recommended for 2006.

Unlike the real estate sector, which may be on tenuous ground with rising interest rates and a glut of new and existing homes on the market, these sites weren't headed for the same kind of fall. If anything, once homes stick around a little longer and buyers can afford to be a little more finicky, real estate agent relationship-enabling sites like Homestore and HouseValues are just the ticket for a cyclical sector.

The problem is that Zillow hasn't just destroyed the moat; it has also made the castle in the middle practically worthless. Don't believe me? Let's put it in terms that we can all relate to. What if **Google** (Nasdaq: GOOG _) required you to take a couple of minutes to fill out some fields related to a search result, only to email you its findings after forwarding your request to a local search specialist that would get back to you "within three business days"? Would you still Google, or would you move on to a search engine where the results were immediate and not as nosy?

I spoke to my fellow Fool Rich Smith about Zillow last week, and he thought the site had potential, but he was left unimpressed with the estimate on his home. He figured that Zillow overshot the value by $100,000 or so. Was Zillow inflating values for the sake of ego-stroking, as Rich suggested to me?

I decided to test his theory. The "zestimate" from Zillow for my home was $716,998. To compare, I then filled out the HouseValues form. Nine hours later, a local broker had emailed me an estimated value range for my home from $800,000 to $820,000. The Zillow estimate was short by $93,000 but certainly within the ballpark of reason -- especially if the HouseValues broker was hyping up the value of his range to motivate me to cash out of a home that my wife and I had bought for a third of that price less than seven years ago.

How does Zillow do all this for free? It's a paid-search model. The satellite image of your neighborhood with corresponding value estimates is offset by relevant ads from the Google AdSense program.

Can such a business model make it? Zillow was founded by some of the folks behind **Expedia** (Nasdaq: EXPE) . For those scoring at home, Expedia and Travelocity obliterated another industry a few years earlier by demystifying the conventional travel agency business with their attractive travel portals.

Rebuilding the castle, not the moat
HouseValues does have other legs to stand on. HomePages.com is a slick site for home hunters but sorely lacking in the listings department. JustListed.com and The Loan Page clearly have sustainable models. The problem is that HouseValues' flagship -- and namesake -- site has been rendered practically obsolete. The lead generation model has changed, and now the company has to make sure that it rolls with the changes.

What gets me is that most companies fail to realize the magnitude of a startup with a better mousetrap. When *Motley Fool Stock Advisor* recommendation **Netflix** (Nasdaq: NFLX) first started out, **Blockbuster**'s (NYSE: BBI) CEO regularly brushed off the threat in the quarterly conference calls until it was too late. It wasn't until Netflix had grown too big a lead and nibbled away at too large a chunk of the DVD-rental market that Blockbuster got aggressive -- perhaps overly aggressive -- in formulating a response.

That's why this may be an awkward position for HouseValues. Unlike many of the small, promising upstarts that Tom Gardner unearths for his *Hidden Gems* subscribers, this isn't an undiscovered company that is revolutionizing the industry. Maybe HouseValues was that company before Zillow, claiming 16,000 real estate agent accounts paying $500 apiece to be part of the HouseValues network. Now it may be left with little hope but to abandon that model or hope that Zillow's popularity doesn't spread like the wildfire I expect.

In the end, maybe this will be the best thing that could happen to HouseValues. How many potential eyeballs did the company lose in the cumbersome and intrusive registration process? The current model had revenues growing nicely, but EBITDA margins were stuck at a four-year low. The company knows a lot about real estate, so it can probably relate to the rebuilding process.

If I'm wrong about HouseValues, it wouldn't shock me. The average *Hidden Gems* selection has risen by 37%, three times better than the S&P 500's 12% average gain in that time. Tom and his team of analysts have proved skeptics -- like me in this particular case -- wrong time and time again. Even if you're a penny-pincher like me, you can see what they're up to for the next 30 days with a free trial subscription.

Will history repeat itself? Will I be the next critic to fall? Perhaps, but don't bet the house on it.

*Longtime Fool contributor Rick Munarriz isn't interested in selling his home, even if he recognizes that the once-red hot South Florida market is cooling off quickly. He does own shares in Netflix, which is a*Motley Fool Stock Advisor*recommendation. The Fool has an ironclad*disclosure policy*. Rick is also part of the*Rule Breakers*newsletter research team, seeking out tomorrow's ultimate growth stocks a day early.*

Previous Page