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After the Panic

By Laurel Kenner and Victor Niederhoffer
Columnists

04/10/2000 8:06 AM

Editor's Note: This marks the first appearance of a very special addition to the site, a daily column co-authored by market veterans Laurel Kenner and Victor Niederhoffer.

Kenner is a former Bloomberg editor. Niederhoffer, one of the most colorful figures in the modern markets, for many years ran a top-performing hedge fund until turmoil in Asian markets in 1997 caused him financial disaster. He is the author of the best-selling book Education of a Speculator, and counts among his interests music, electricity, sports and ecology -- all of which he draws on in his analysis of the markets.

Daily Speculations will offer the sort of wide-ranging, offbeat but piercingly insightful observations that only true experts like Kenner and Niederhoffer could pull off. Their first column is a tour-de-force analysis of last week's market mayhem. Check in each morning for highly educated speculations about the markets' moves.

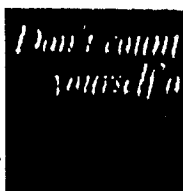
One of the wildest weeks in Wall Street history ended, as upheavals often do, with a strange calm. The biggest decline in absolute terms, high to low, of all time was followed by one of the smallest weekly moves of the year.

There was a serene and terrible beauty to it, if you didn't happen to lack buying power at the bottom or receive a margin call, which brokers were making at three times the normal rate. The market shook the chips from weak operatives and transferred them to the pockets of the strong.

As Darwin wrote in *The Origin of Species*, "When we reflect on this struggle, we may console ourselves with the full belief that the war of nature is not incessant, that no fear is felt, that death is generally prompt, and that the vigorous, the healthy and the happy survive and multiply."

Elephants and Schizophrenics

Everyone has his own image to describe what happened. Some were reminded of natural phenomena: tidal waves, earthquakes, herds of rampaging elephants suddenly turning to race back on the same path.



Psychologist Brett Steenbarger likened the market to a patient with borderline personality disorder: "The person experiences oscillating storms of emotion, sometimes going from extreme to extreme in a matter of minutes (rage to depression, idealizing a person to denigrating them)."

The carnage deserves to be memorialized.

Anatomy of a Wild Week				
	Mardi 31 Close	Week's High	Week's Low	Close
Nasdaq	4573	4504	3649	4446
Dow	10921	11225	10718	11111
S&P 500 Futures	1515	1543	1433	1529

The market's swings bring to mind the studies conducted in the mid-19th century by Gustav Fechner, the father of psychophysics, of "just noticeable differences." Fechner measured how intense a physical stimulus must be before it is perceived. For example, how much salt must be added to water before it tastes salty?

Our friend and mentor Irving Redel, the former chairman and 50-year member of the Comex, developed a market variant of the concept that has guided many of his speculations and ours for many years.

Irving's version goes like this: Put somebody into a tub of boiling water, and he'll jump out immediately. But if you add boiling water gradually to the bath, the bather won't notice the difference until he's scorching.

Likewise, if the market goes down violently, the weak longs jump out – and stocks are ready to rise. If the market falls the same magnitude in a slow, steady decline – a point here, two points there – further declines are in store, as the weak longs are still hopeful. They haven't even noticed the pain.

We revere Irving, but even his ideas need to be tested.

The Back of the Envelope

From high to low, Standard & Poor's 500 Index futures fell 110 points on Tuesday. That was the largest point drop of all time, exceeding by 28% the 86-point decline on Aug. 31, 1998, during the Long-Term Capital Management crisis. The 1998 decline, and the two previous high-low ranges of that magnitude, on Oct. 19, 1987 and Oct. 27, 1997, all were followed by very substantial rises in the subsequent 10 days.

Looking back over the past six years of daily data, we found 19 occasions when the low in S&P 500 futures was more than 40 points below the high. Over the following 10 days, the contract rose an average of 4%. The extent of the move far exceeds the usual levels used to differentiate true phenomena from random fluctuations. Thus, we can confirm Irving's theory with alacrity.

Appropriately, because of October's bearish overtones for stocks, psychophysicists celebrate Fechner's birthday on the 22nd of that month. Henceforth we will celebrate any declines of more than 40 points, high to low, as a Redel Day.

Taking Out the Canes

Readers of our past columns know that one of our favorite stories, discovered in a book more than a century old, is how veteran investors take out their canes in times of panic to hobble down to Wall Street, where they use their considerable bank accounts to buy good stocks and quickly realize the gains.

From the comfortable armchair of hindsight, it's easy to say that Tuesday was a great day to take out the canes. Yet we wonder whether people weren't a bit too eager to do so. It seems people have become downright complacent about taking out canes, and we think they should be cautious about using them in the future.

A Market Conspiracy?

Our unease grew partly out of an odd confluence of events at 1 p.m. on Tuesday, when the Nasdaq started levitating from its historic 635-point sinkhole. First a White House spokesperson assured the country that the economy was in fine shape. Then, as if on cue, massive, ostentatious buying of futures began in the Chicago trading pit, massive program buying was generated, and the greatest rally since Oct. 28, 1987, had begun.

A New York Post financial writer saw in this a collaboration among the government and the biggest investment houses on Wall Street, aimed at rescuing the market and the economy. Whether the market's rebound was engineered by Washington or whether the firms acted in their own interest, the buying had a very salutary effect for people who were in over their heads.

All we know is that the market rally suited us, and all the other investors and speculators out there who were in over their heads. Next time, however, the cavalry may not arrive.

Insiders Holding Back

While the market ended little changed, there were, as always, stocks with spectacular rises and horrible declines. We like to keep track of what corporate officers and directors are doing. Almost 100 years ago, Vic and James Lorie published a study in the Journal of Law and Economics showing that such trades were particularly prescient, even though in each case the buyers said the purchases were done in the routine course of business.

Looking through the week's 10 best and worst in the Nasdaq 100 and S&P 500, we note only four cases in which the last insider trade was a buy. Three were among the top performers: Reebok International (RBK: NYSE), up 52% , Mattel (MAT: NYSE), and Nabisco Group Holdings (NGH: NYSE) which received a fourth

bid from financier Carl Icahn last week. Insiders also have been buying Nabisco Group's 80 percent-owned Nabisco Holdings (NA: NYSE), which holds valuable brands. And there was insider buying of one of the worst performers, Hartford Financial Service Group (HIG: NYSE). We will report from the thick of the fray in coming days as to the predictive value of such activity.

Call to Readers

The market is too complex for any two people, even a duo like us with a combined age of 100. Knowledge and abilities are dispersed over a wide range of individuals and niches. You can make our column the best ever by sharing your insights. We'll publish your best and credit you directly or anonymously as you prefer.

And if you elicit a "Wow!" or "Aha!" from us and our editors, we may send you one of those canes, as soon as we can conquer the fear of losing all the chips. We intend to roll around with you, laughing at ourselves and yourselves as we try to navigate the fathomless, ever-changing market. But note that the market, like the ocean, will roll along as it has for hundreds of years, even after the greatest high-low decline of all time.

Speculator's Scorecard				
	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.06	Down 1	-3.4%	-0.01%
S&P 500	1.19	Up 2	3.2%	-0.7%
Nasdaq	1.19	Up 3	7.5%	-10.4%
Europe STOXX-50	1.19	Up 2	6.4%	-2.3%
Nikkei	1.09	Up 1	7.0%	1.5%
Dollar/yen	1.13	Down 1	-4.5%	1.3%
Dollar/euro	0.89	Down 2	-5.1%	-2.3%
Gold	0.72	Down 3	-3.8%	-1.9%
Oil	0.72	Down 2	7.8%	-10.6%
Bond Futures	1.52	Up 2	9.7%	3.4%
2-Yr Note Futures	1.06	Up 1	0.2%	0.05%
Bund Futures	1.19	Up 1	2.5%	0.6%

Laurel Kenner is a financial writer in New York City. During her 16-year career, she has reported on police, politics and aerospace, and most recently headed U.S. stock market coverage at Bloomberg News.

*Victor Niederhoffer is a private speculator specializing in futures and options trading. He formerly managed money and hedge funds, and had one of the best records until turmoil in Asian markets in 1997 caused financial disaster. He is the author of best-selling *The Education of a Speculator*. His hobbies include music, electricity, sports and ecology, all of which form a foundation for his scientific speculation.*

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Previous Day Down 4%

	10/27/00	09/27/00	08/27/00	10/27/99	10/27/98
# Days Later	1	2	5	10	
AVG	1.4%	1.6%	3.8%	5.3%	
OBS	22	22	21	21	
STD DEV	3.1%	5.7%	6.6%	6.0%	
% POS	63%	63%	67%	69%	

Previous Day Down 5%

	10/27/00	09/27/00	08/27/00	10/27/99	10/27/98
# Days Later	1	2	5	10	
AVG	1.8%	0.4%	4.4%	7.3%	
OBS	7	7	6	6	
STD DEV	3.7%	5.9%	9.6%	5.0%	
% POS	57%	43%	67%	100%	

Previous Day Down -100% to +100%

	10/27/00	09/27/00	08/27/00	10/27/99	10/27/98
# Days Later	1	2	5	10	
AVG	0.21%	0.31%	1.02%	1.99%	
OBS	966	966	962	958	
STD DEV	2.0%	4.2%	4.2%	6.4%	
% POS	57%	56%	62%	66%	

The market is poised at one of those decisive moments that will ultimately be said to be the key to its subsequent move. With fear rampant after yesterday's decline and vivid memories of last Tuesday in everyone's mind, the remaining market participants would seem to be relatively stronger. Many technology companies are about to report earnings. The path of least resistance would seem to be up, and this is in accord with the expectations after big declines reported above, and the turning points that the market has made on other key Tuesdays, such as Oct. 28, 1997, Sept. 1, 1998, and Oct. 20, 1987.

You might think that the market has handed you an easy way to make money. If Nasdaq issues fall big on Mondays but then tend to bounce back, it must be easy street to buy those issues that were hit the most on Monday, hold for two weeks and reap the profits.

Sounds good, but before unloading this on you, we thought we might go to the highly unusual step of actually counting to see if this works. We're not about to hand in the kind of commonsense, worthless, unsupported trash that a high school science teacher would turn back to a hapless student with a circled red "F" and a scribbled note, "State your hypothesis explicitly and then report your observations!!!"

To test, we started by looking at the last four Mondays when the Nasdaq got creamed: July 26,

1999; Jan. 24, 2000; March 13, 2000; and March 20, 2000. We bookmarked the five worst performers of each red-letter day, and looked at how they did over the subsequent two weeks. Disaster. On average, they were down almost 10%. The performance of Parametric Technology (PMTC: Nasdaq), one of the dogs on March 20, which dropped from 25 5/8 to 10 3/4 two weeks later, was all too typical. Veritas Software (VRTS: Nasdaq) declined to 111.5 from 142.5 after March 20, when it only lost 13%.

Particularly disheartening was the five dogs of July 26, 1999: All five declined more than 10% in the subsequent two weeks, with the worst of all being CNET Networks (CNET: Nasdaq), down to 31 1/8 from 41 1/2.

We conclude that individual Nasdaq 100 issues that are killed on Mondays like yesterday are great to avoid.

For those wishing to be au courant, here is the rogues' gallery of the five worst performers yesterday: I2 Technologies (ITWO: Nasdaq), down 21%; Broadvision (BVSN: Nasdaq), down 20%; Intuit (INTU: Nasdaq), down 19%; VoiceStream Wireless (VSTR: Nasdaq), down 17%; and Network Appliances (NTAP: Nasdaq), down 15%.

Of course, the results from buying such companies are highly variable, and many of these issues may be great picks, for the near and/or long term. A study like ours must be taken as a first approximation with many gaps and much uncertainty attached to it, especially since only four separate starting and ending dates were considered. Much better to turn to the computer for guidance, with its objectivity, its fairness and its random word generator. Here are its two modal contributions:

*Falling stocks Tuesday
Snow in April melts quickly
Goodbye to profits*

*Too high, too high the tulips
Tiptoe through the Nasdaq
Sometimes dead will rise again*

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.09	Up 1	-2.7	1.5
S&P 500	1.16	Down 1	2.4	-1.3
Nasdaq	1.46	Down 1	2.9	-1.6
Europe STOXX-50	1.15	Down 1	6.3	-1.8
Nikkei	1.13	Up 2	8.9	1.7
Dollar/yen	1.16	Up 2	3.9	-0.3
Dollar/euro	0.92	Up 1	-6.0	-0.5
Gold	0.74	Up 1	-2.4	-0.6
Oil	1.13	Down 3	1.8	-1.4
Bond Futures	1.52	Unch 1	9.7	3.4
2-Yr Note Futures	1.09	Up 2	0.1	0.5
Bund Futures	1.22	Up 2	3.3	1.1

Laurel Kenner is a financial writer in New York City. During her 16-year career, she has reported on police, politics and aerospace, and most recently headed U.S. stock market coverage at Bloomberg News.

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Wednesday April 12, 8:34 am Eastern Time

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Columnists Niederhoffer and Kenner Diagnose the Nasdaq

By Laurel Kenner and Victor Niederhoffer, Columnists

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The Nasdaq is sick, but columnists Kenner and Niederhoffer say it's going to get better. E-mail them at speculators@worldlyinvestor.com.

Tuesday was one of those days that often happens after a wild decline like Monday's. It scared the longs, it scared the shorts, it pretended to go to the moon, and it threatened to go down through hell. And it ended almost little changed.

This kind of thing has been going on for a month now, and some of our readers have confided that, well, it has been getting to them. So we did the only thing we could: We called on a market shrink, Dr. Brett Steenbarger.

Head Fake to the Downside

Steenbarger, inventor of a one-minute cure for depression, diagnosed the market as suffering from gambler's desperation, particularly around opens and closes. When Monday ended with a precipitous drop in the tech stocks and yesterday began with a plunge, traders thought back to the week before. And they sold.

But that was the wrong thing to do. Just before 11 am, Nasdaq futures reached a low of 3,885; in the next two and a half hours, they rallied 5.7%.

Of course, by about 3:15 pm, the futures gave up almost their entire gain. By the close, they had rebounded halfway.

For the record, we think the Nasdaq is due for a rally, and got long Nasdaq 100 futures and Nasdaq 100 trust shares (Amex: [QQQ](#) - [news](#)) yesterday afternoon.

Our Talented Readers

One of the greatest insights of modern economics is that knowledge is dispersed among the know-how, taste and abilities of the participants. We quickly learned when we started writing this column that the best way to discover what's really happening to this ever-changing and complex, fathomless market is to draw on the talents and communications of our readers.

While we do not expect to win a Nobel prize for this observation, or to solve the problem of calculation as did Friedrich Hayek, author of *The Road to Serfdom*, we do endeavor to use your comments to provide the kind of cutting-edge insights that no duo could hope to accomplish on their own.

Today, we'll give the best of what we've been hearing. Please join us in contributing and reading what we believe is going to be the best set of observations on the current market of all time by emailing us at speculators@worldlyinvestor.com. (And there may be a cane in it for you, so you can hobble down to Wall Street like the old-time investors did and realize profits in times of panic.)

A Market without Conviction

In the old days, observes Mark M. McNabb, a Ph.D. at Virginia Tech University, traders might have used the phrase "a market without conviction" to describe an oscillating market, but they weren't talking about 5% swings. "Now we have a convictionless market that can ruin a quarter's gains in a matter of days."

Perhaps MTV has skewed traders' time horizons, wrote McNabb, an NASD arbitrator as well as a Ph.D. "A significant set of traders carry no convictions into their trades. Rather, they follow momentum like dogs chasing the next car that passes by. If your convictions aren't being challenged, then you cannot concern yourself with the rationality of the moment."

Existential angst has spread even to the far reaches of Glendale, California, where Don Staricka is writing an Ambrose Bierce-like dictionary of market phrases. We would have thought that nothing could shake a man who defines "Balanced Portfolio" as "A strategy for breaking even over the course of one's investment career" and "Dividend" as "A booby prize." Yet when we asked Staricka to define the current market for us, he demurred.

This Market Just Ain't Funny

"It is difficult to adopt a detached, ironic perspective when there is so much at stake," Staricka wrote. "Investing is a lot more fun when the good companies are rewarded and the flaky companies suffer. These days the good companies seem to get decimated right along with everyone else (except for Cisco, of course). My optimism is beginning to fade."

One reader whose optimism has faded already wrote that weak hands who buy on the dips will see gains, but the market will take everything back and more if they hold too long. "The Nasdaq is lulling us into playing bottom picker."

A reader named Bill took the opposite side of that bet. "With option expiration coming, next to a holiday weekend, expect a big rally, Greenspan or not," he wrote, adding that earnings reports will help the Nasdaq rebound. "We should be looking out eight months to Christmas 2000 and the next great 'chip' selling season."

Cry Not for This Market

Frank Linet, a Florida trader who turned a modest stake into an admirable one by investing in under-\$5

biotech stocks for his mother, took the atomic view, appropriately for his investment persuasion. Frank, an 800-scorer on the SAT verbal, employs punctuation as a mode of expression, so we preserve it intact.

He writes: "let us not examine the modern myths and new shamanism breeding existentialism and P.T. BARNUMswindle... AND instead recall oppenheimer, who looked into the nuclear cloud. cry not, cry not for the market, FOR SHE is but sleeping and death is discredited by our collective shallow breath... we are seeing angina bioANGINA b2bANGINA AND analystANGINA. THE DOT COM INVESTOR IS NO LONGER CALM."

Meanwhile, deep within the stacks of the library of one of our finest business schools labors a student who scrapes together his tuition money by filing books and speculating in stocks. In making the library his haven, he follows in the footsteps of game theorist John Forbes Nash, Jr., winner of the 1994 Nobel Prize in Economics (although Nash was suffering from schizophrenia when he haunted the Princeton University library, not a need to pay the bills).

We received a missive from this sharp student "we will call him Estudiante Y2K, to honor his request for anonymity in the dead of night on Tuesday. He began by noting that the Nasdaq began its intrepid rise to the stars last October, "when all were predicting the end of the world," and halted just after its triumphant close above 5000 one month ago, "when its rise seemed able to go on forever."

"What a trap," Estudiante Y2K wrote. "Just when the all-clear to enter was given, all hell broke loose." And this, he said, confirmed an important rule: "The market will do what will confound the most."

Speculator's Scorecard Days Up/Days Down Ratio (YTD)

Days in Latest Streak (YTD) % Change YTD % Change (last 10 days) Dow 1.12 Up 2 -1.8 3.2 S&P 500 1.12 Down 2 2.1 -0.5 Nasdaq 1.41 Down 2 -0.3 -16 Europe STOXX-50 1.19 Down 2 4.2 -4.2 Nikkei 1.16 Up 1 9.6 0.6 Dollar/yen 1.12 Down 1 2.1 -0.3 Dollar/euro 0.89 Down 1 -4.9 -0.1 Gold 0.73 Down 1 -2.2 0.9 Oil 1.16 Up 1 3.9 -11 Bond Futures 1.46 Down 1 8.6 2.3 2-Yr Note Futures 1.13 Down 1 0.03 0.6 Bund Futures 1.18 Down 1 2.3 0.6

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Victor Niederhoffer**
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Selling Spreads Like a Disease

By Laurel Kenner and Victor Niederhoffer
Columnists

04/13/2000 8:27 AM

Just 24 trading days ago, during the March 10 session, the Nasdaq touched a high of 5,132, up 24% on the year. Wednesday, it closed 27% below that nadir, in the process dropping into negative territory for the year. What happened?

We've been ready for a rally for a couple of days now. Having made blunderbusses of ourselves yesterday with a call for a Nasdaq rally, only to see the index have its sixth-largest decline ever, we turned to science for insight about what might be causing the delay. (For the record, we're still long Nasdaq 100 futures and Nasdaq 100 trust shares (QQQ: Amex).

Spreading Like Disease

We live in an age where units of information — or memes, as scientist Richard Dawkins calls them — propagate through the economy at Internet speed to capture the decision-making apparatuses of market participants. The memetic spread of optimistic plays on B2B, genomics, Internet infrastructure and wireless drove the Nasdaq past 5,000. And now, a "sell" meme is having its way with technology shares.

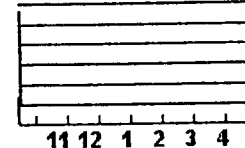
Memes are like diseases; they're catching. But certain conditions must be present for a really rousing epidemic, according to those who study such matters. Aside from plenty of opportunity for exposure, the main thing is that the originators of the infection be good at transmitting the disease. If they're effective, statisticians call them "connectors."

In *The Band Played On*, the book about the early days of the AIDS epidemic, Patient Zero was a connector. In other areas of life, connectors are the kind of people whose persona makes other people listen to them. Paul Revere was a connector, because he was an incredibly well-connected person and people listened to his warnings about the approach of the British and acted.

Connectors can cause upswings in stocks, as participants catch their ideas, act on them and communicate the meme to others. But they can just as easily cause downturns. When a connector changes his or her opinion, the decline in the recommended stock or sector

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<u>Dow</u>	11187.01
<u>Nasdaq</u>	4077.28
<u>S&P</u>	1406.38
<u>WI ADR</u>	1440.86
<u>30Yr Tr.</u>	5.85

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follows the same path as its rise.

The Three Coughers

We will concentrate on the connectors who spread the idea that the Nasdaq rally was over, a rogue's gallery of three – Federal Reserve Chairman Alan Greenspan, President Bill Clinton and Goldman Sachs investment strategist Abby Joseph Cohen.

It started with Greenspan. On Thursday, Feb. 17, with the Nasdaq up 102% in the previous 12 months, the Fed chairman said in Humphrey-Hawkins testimony to Congress that the astonishing rise in stock prices might lead to supply-demand imbalances. The statement was immediately dismissed as a crackpot theory, and didn't immediately affect stocks. Fifteen trading days later, though, the Nasdaq peaked, one day after closing above 5,000 for the first time.

Next came Clinton. On Tuesday, March 14, he said government "must ensure that the profits of human genetic research are measured not in dollars but in the betterment of human life." Biotechnology stocks, the stars of the new millennium, collapsed.

The next cough came from Cohen. For the first time since January 1999, Goldman Sachs's bull market icon recommended that investors reduce the percentage of assets they invest in stocks.

"We think technology is a fine place to be, but we don't want to be overweight there any longer," she said on CNBC. (Cohen had said back on Feb. 14 that S&P 500 computer stocks were no longer "grossly undervalued," and recommended financial, basic materials and real estate companies – but that was pre-Greenspan, and her words didn't stick.)

Bearish Market Call Fuel Fire

Because Greenspan, Clinton and Cohen were effective in spreading the "sell" meme, events that might not otherwise have been noticed have raged through the market like a wildfire driven by a Santa Ana wind. Wednesday, Rick Sherlund, a Goldman Sachs analyst who distinguished himself with two embarrassingly wrong calls on Microsoft (MSFT: Nasdaq) in 1995 and 1997, managed to send the stock down 5.4%, and the Nasdaq down 7.1% to boot.

Sherlund said he had spoken with Goldman's personal computer and semiconductor analysts and learned that PC sales had been slow in January and February. What, he's just now checking?

And Merrill Lynch's Richard McCabe, another seer who has been chronically wrong, was partially credited with the Nasdaq's 5.8% decline on Monday. McCabe, a chart reader, said in January 1999 that the Dow would be little changed or post modest gains that year, ending between 9,000 and 9,500.

Instead, the average closed at a record 11,497, a 27% gain. He predicted a possible 25% decline for 1998, saying US stocks had never in the 20th century posted four straight years of 10%-plus gains. The Dow finished 1998 with an 18% gain. Why would anybody believe him now? But Wednesday, what McCabe said stuck.

The best example of all, though, is how the Nasdaq managed to work itself up to its biggest intraday decline ever on April 4 over an antitrust verdict that everyone in the world had been expecting.

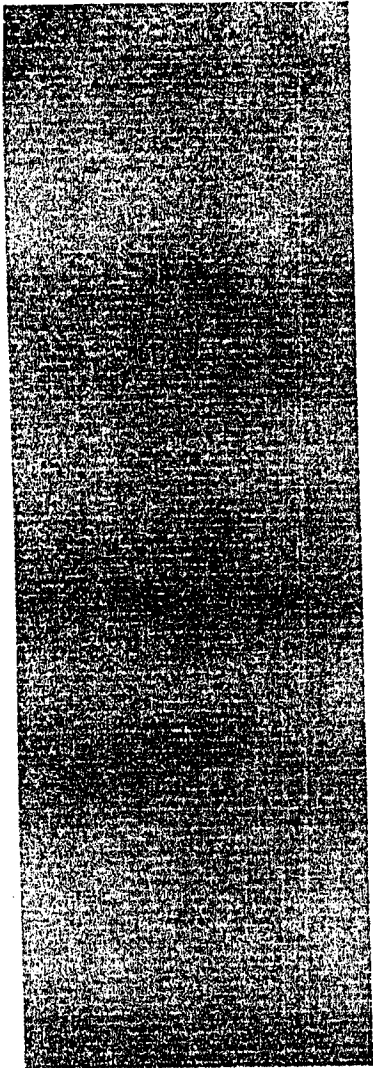
The following table shows who said what when.

Spreading the Contagion				
Date	Cougher	Nasdaq Level	% Change	Point Change
2/14	Abby Cohen	4418	+0.5%	+23
2/17	Alan Greenspan	4548	+2.7%	+121
3/10	Nasdaq Peak	5048	+0.03%	+1.76
3/14	Bill Clinton	4706	-4.1%	-200
3/28	Abby Cohen	4833	-2.5%	-124
3/28	US District Judge Jackson	3649 (intraday)	-14%	-574
4/10	Richard McCabe	4188	-5.8%	-258
3/28	Rick Shurlund	3769	-7.1%	-286

One method we've developed to be early in the meme transmission chain is to construct our own indexes of highly infectious ideas. We concentrate on the first letters of the company's name, particularly names beginning with X, Z, Q and Gene (but not General). We will be reporting the results and methodology in future columns.

For the present, note that stocks beginning with the letter X seem particularly able to prosper in our meme-based society. Without in any way recommending these stocks, we note that the current members of our indexes are Xilinx (XLNX: Nasdaq), Xicor (XICO: Nasdaq), Xceed (XCED: Nasdaq) and Xircom (XIRC: Nasdaq).

Clearly, those who act on a meme early are the likeliest to profit. But all too often, the public comes into the fray to buy near the top, and they exit in droves near the bottom. A broker of our acquaintance has his own name for the latter phenomenon: "Just sell Everything." It is, he says, an infallibly bullish indicator.



Speculator's Scorecard				
	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change (YTD)	% Change (last 10 days)
Dow	1.09	Down 1	-3.2	1.0
S&P 500	1.09	Down 3	-0.1	-2.7
Nasdaq	1.37	Down 3	-7.4	-19
Europe STOXX-50	1.15	Up 1	4.2	-4.3
Dollar/euro	0.87	Down 2	-4.7	0.8
Nikkei	1.12	Down 1	8.4	-1.0
Dollar/yen	1.09	Up 1	3.3	0.9
Gold	0.75	Up 1	-2.1	2.0
Oil	1.19	Up 2	8.5	-3.9
Bond Futures	1.41	Down 2	-7.9	1.7
2-Yr Note Futures	1.03	Down 2	-0.1	-0.6
Bund Futures	1.21	Up 1	3.0	0.9

Laurel Kenner is a financial writer in New York City. During her 16-year career, she has reported on police, politics and aerospace, and most recently headed US stock market coverage at Bloomberg News. Kenner owns shares in Xilinx.

Victor Niederhoffer is a private speculator specializing in futures and options trading. He formerly managed money and hedge funds, and had one of the best records until turmoil in Asian markets in 1997 caused financial disaster. He is the author of best-selling The Education of a Speculator. His hobbies include music, electricity, sports and ecology, all of which form a foundation for his scientific speculation.

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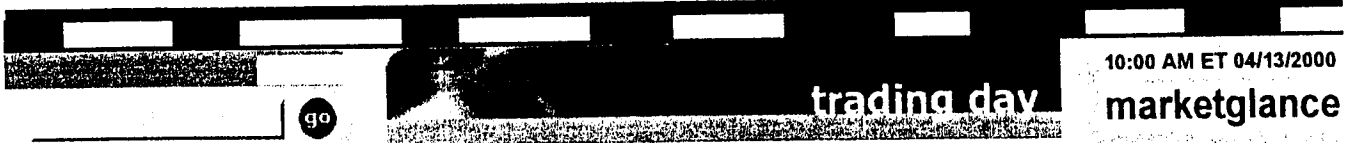
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Kenner, Niederhoffer Send Letter to Readers

By Laurel Kenner and Victor Niederhoffer
Columnists

04/13/2000 9:52 AM

To Our Readers,

We said in our introductory *Daily Speculations* column for worldlyinvestor.com on Monday that in keeping with the Rabelaisian nature of the market, we would laugh at ourselves often, hopefully with a good stomach.

What a trade we highlighted Wednesday, buying Nasdaq futures at the close on Tuesday before yesterday's 7% decline. It brings to mind the image of mighty Casey coming to bat and striking out with the bases loaded, or at least Ralph Branca coming to pitch in relief for the 1951 Dodgers and giving up a three-run homer to Bobby Thompson to lose the playoff.

What a way to start.

Let our bad trade at least be held up in the world of infamy so that readers will know that there is no such thing as an easy way to riches, and that all the statistics in the world won't do much to stand in the way of a freight train when it gets rolling.

Vic's father, a cop, always used to remind him that the bums in the Bowery whose bodies he would deliver to the morgue had more stats on them from the Morning Telegraph than Vic did on the computer. Let the reader beware.

Our trades have much uncertainty and considerable margin of error attached to them, as do forecasts from anyone else. Under no circumstances should anyone follow a trade mindlessly without bearing in mind the 50% probability that the trade will be wrong, sometimes horribly so.

For those who are interested, we are still long Nasdaq. In fact, we bought some more Nasdaq 100 futures limit-down Wednesday. There were eight days in the last six years when Standard & Poor's 500 Index futures declined more than 40 points. In seven cases, the declines were followed by substantial rises one day later, with the overall expectation being up about 3%. (The

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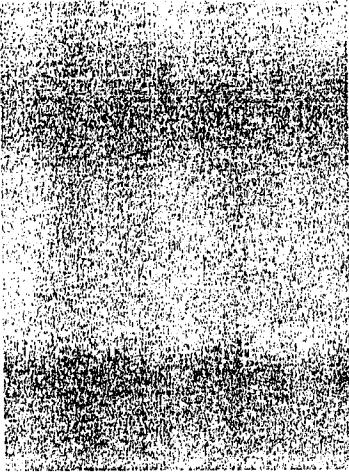
	11	12	1	2	3	4
Dow	11187.01					
Nasdaq	4077.28					
S&P	1400.38					
WIADR	1440.88					
30Yr Tr.	5.65					

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active S&P contract fell 42 points yesterday.) We're still a believer in technology and growth, and we have the canes close at hand for hobbling down to Wall Street to buy.



Considering how wrong we've been to date, the reader response has been very forgiving. Since we've received a few dozen responses to Wednesday's piece on how readers are reacting to the Nasdaq, we're on the right track by transmitting their wisdom. The letters to the editors section, I'm told, is always the best read, and we received enough good material for a month.

Laurel Kenner and Victor Niederhoffer

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We Hold These Market Truths to Be Self-Evident

By Laurel Kenner and Victor Niederhoffer
Columnists

04/14/2000 8:15 AM

At a time like this, the market needs laughter to stimulate the immune system and ward off the bad germs that, like evil bears, have invaded the market system.

To paraphrase Winston Churchill's advice to young people in *My Early Years*:

"Raise the glorious flags again, advance them upon the market bears, who constantly gather upon the front of the human army, and have only to be assaulted to be overthrown. Don't take no for an answer. Never sell your longs at the bottom. Never submit to failure. You will make all kinds of mistakes; but as long as you are generous and true, and also fierce, you cannot hurt the world or even seriously distress her."

The past two days of declines brought the Nasdaq Composite Index into its worst slump since October 1987. The index is now down 40% from its March 10 intraday high, and plenty of people who bought at the top are looking at even bigger losses in individual stocks.

We approach the market from a systematic perspective, and so we keep journals for recording observations, following the example of explorers and scientists. Our journals have a special place for entries we call *Guaranteed to Happen*, for speculators at their most hapless and the market at its most horrible.

It's guaranteed to happen, for example, that after a big market decline, your favorite commentator will have the perfect armchair explanation for why it happened.

Today, this one from Steve Stigler, chairman of the statistics department at the University of Chicago and author of the magisterial treatise, *Statistics on the Table* is too good to pass up.

Stigler, like many others we've been hearing from, says he's buried in taxes. It's a *Guaranteed to Happen* cycle, he says: Sell stocks to pay taxes; get capital gains and even higher taxes. Sell even more stocks to pay taxes on the capital gains.

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Dow	11038.17
Nasdaq	3750.35
S&P	1455.32
WI ADR	1410.09
30Yr Tr.	5.80

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"I suspect this is responsible for at least a part of this week's dip," Stigler wrote.

Reader Judy O. confirms his suspicion. "While the market was descending, I was writing checks for federal and state income taxes, FICA, and quarterly estimated 2000 taxes. Don't suppose anyone else was selling stocks to pay the taxman, do you?"

In 1999, 1997 and 1996, there was a substantial decline going into the week before the dreaded April 15 date. The entire decline was reversed in the subsequent week. So there's a glimmer of support for this liquidity-driven theory. A dying man clutches at straws. We're still bullish, and still long Nasdaq 100 futures and QQQ (QQQ: Amex), a security that tracks the Nasdaq 100.

Fortunately, the tax selling may be over today. Unfortunately, this morning's Consumer Price Index report brought us a new *Guaranteed to Happen* for our journals: When a Fed official announces offhandedly in response to a question on Thursday that "inflation is under control," as Alan Greenspan did yesterday, it's guaranteed that the inflation report the next day will show prices rising twice as fast as expected.

Also Guaranteed to Happen

Here are some other *Guaranteed to Happens* from our journals that brought forgotten lessons to mind and seem especially pertinent now:

When the market opens way up and the public's buying, they're likely to end up on Skid Row by the end of the day.

The smallest holding in your portfolio will show the largest percentage gain in your favor, and the largest holding will be the one that's down the most.

When stocks have had a big run-up and people finally work up the courage to buy, they'll soon be spending time wondering when their stocks will come back.

If you're a bit overextended, you'll find yourself still looking at the screen after the close in expectation that the prices will change back in your favor.

When you pick up the phone and hear your broker saying, "You were filled at your price, sir," you know you're in trouble.

One week after the market sets a new high, the percentage of optimism among investment advisers will climb, and pessimism will increase after a decline.

Whenever the Internet stocks are way down on a Friday, the amount of mating that takes place over the weekend will drop by 50%.

The bonds and stocks will go in the same direction four days in a row, and then when you play it the fifth day, they'll wildly diverge.

When a stock has a strong move against me at the close and I hold it, knowing that it was just random sell orders in an illiquid market that caused the decline, it will invariably open down 5% against me the next morning on news reports that analyst X issued a sell recommendation to his Internet clients in the late afternoon.

A stock owner who constantly takes small profits will lose all his money. It's the same thing with the gambler who tries to take the casinos for one or two chips on each series of play. The casinos and the brokers love such customers, because they know that the player's winnings are limited and that the house edge will ultimately grind the player into total loss.

Readers, now is the time to submit your Guaranteed to Happens. You are the experts out there. You have the funniest and most salient market tells, and the market needs laughter right now to right itself. Search your notes. Dust off the best thoughts. You have nothing to lose but your frown. Share them with other poor souls and the young at heart out there. And there's a cane in it, to ward off the market decline, for the five best submissions.

Speculator's Scorecard				
	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.06	Down 2	-5.0	-0.5
S&P 500	1.06	Down 4	-2.0	-3.2
Nasdaq	1.32	Down 4	-9.7	-18
Europe STOXX-50	1.18	Up 2	4.4	-1.5
Dollar/euro	0.9	Down 4	-5.6	-0.9
Nikkei	1.09	Down 2	7.9	0.5
Dollar/yen	1.06	Down 1	3.3	3.0
Gold	0.73	Down 2	-2.2	1.8
Oil	1.15	Down 1	8.3	-4.9
Bond Futures	1.45	Up 1	8.5	-0.1
2-Yr Note Futures	1.06	Up 1	1.1	0.4
Bund Futures	1.24	Up 2	3.1	0.5

Laurel Kenner is a financial writer in New York City. During her 16-year career, she has reported on police, politics and aerospace, and most recently headed US stock market coverage at Bloomberg News. Kenner owns shares in Xilinx.

Victor Niederhoffer is a private speculator specializing in futures and options trading. He formerly managed money and hedge funds, and had one of the best records until turmoil in Asian markets in 1997 caused financial disaster. He is the author of best-selling The Education of a



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before the bell

Broken Rules, Shattered Expectations

By Laurel Kenner and Victor Niederhoffer
Columnists

04/15/2000 9:34 AM

*If you can meet with triumph and disaster
And treat those two imposters just the same,
You'll be a Man, my son!*

— Rudyard Kipling

Every rule on the stock market was broken last week.

Buying after panics didn't work.

Buying on interest-rate declines didn't work.

Buying on a Friday to play the odds for a favorable government economic report didn't work.

Buying at resistance levels didn't work.

Buying good stocks didn't work.

The one rule that was not broken this week was the principle of ever-changing cycles invented by Robert L. Bacon. In *Secrets of Professional Turf Betting*, Bacon wrote:

"The crazy gambling urge and speculative hysteria that overcomes most players (makes losses) an certainty. But if the public play ever did get wise to the facts of life, the principle of ever-changing cycles of results would move the form away from the public immediately."

Bacon was talking about betting on horses, but the principle is even truer for stocks. When you get accustomed to making money a single way, too many people barrel in. They bull stocks up to unprecedented, unjustified levels, and when they run for the exits, the devil take the hindmost.

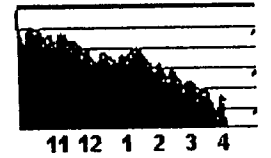
That said, we don't share the glee of the bears. We found their snarls on Friday horrible and unseemly. As one veteran bond trader said: "The economic gurus are even now calling for a 50-basis-point rise. We think it's psychic revenge for having missed for themselves and their clients the biggest bull market in history."

What hideous joy abounded on Friday: punishment had finally come to the upstart innovators. How dared the

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<u>Dow</u>	10305.77
<u>Nasdaq</u>	3321.29
<u>S&P</u>	1357.31
<u>WI ADR</u>	1317.03
<u>30Yr Tr</u>	5.78

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20-somethings attempt to make millions on good ideas, the Warren Buffetts asked in their computer-less offices. And how dared those who couldn't meet the minimum for opening a white-shoe brokerage account presume to trade stocks in their little online accounts?

The old regime has had its ugly laugh. We hope it doesn't last. And may all of us come out of this month wiser as well as poorer.

As Christy Mathewson, whose three shutouts for the New York Giants in the 1905 World Series still stand as a record, said: "You can learn little from victory. You can learn everything from defeat."

It Had to Happen

From the armchair of perspective, it had to happen. People were too comfortable after the miraculous rally at 1 p.m. on April 4, when the Nasdaq rebounded from a 575-point loss. When the market retested those lows today, it created panic. And then trend followers, delta hedgers, margin liquidators, chart watchers and fearful ones just joined the stampede.

Because no brokers were around to stem the online exodus, this became another chapter in the book on New Economy investing, wrote reader Mark M. McNabb, Ph.D.

The net result: A week of five consecutive declines for both the Nasdaq and the Standard & Poor's 500 Index. The Nasdaq's 25% drop this week was the greatest weekly loss in its 29-year history. The Dow's 618-point loss was the worst point decline of all time. The S&P 500 ended the week 10.5% lower.

Just two weeks ago, at the end of March, the Nasdaq 100 June futures touched a high of 4,488. That was 47% above a close of 3,050 on Nov. 30, before the December run-up. The contract's close of 3,217 on Friday, 65 points above the day's low of 3,150, gave up the entire 47% gain.

Stocks that had traded above \$200 in March closed below \$100 on Friday. Xclera.com (XLA: Amex), Commerce One (CMRC: Nasdaq) and Human Genome Sciences (HGSI: Nasdaq) are just a few examples.

No Other Time Like This One

There's hardly a precedent for this.

If we use 1987 as a guide, the wealth's disappearance may affect the economy, at least in New York. In Manhattan, streets were emptier than usual last night, and it was unusually easy to find a table at a restaurant. People spoke of their tax bills and their stocks in the same breath.

"I owe \$8,000 on my estimated tax, but now I can't sell my stocks, so I'm in trouble," a young woman said as she

walked along Broadway on the city's tony Upper Westside. People shopping for apartments asked sellers whether the market crash would affect real estate values, as happened after the 1987 crash.

The decline has already affected individuals' lives. A friend who made a million by carefully picking biotech stocks says he'll have to look for a day job now. People who bought on margin are in even worse shape, he added. "Spoke to a friend from New York City who had to borrow from his life insurance policy and is still \$75,000 short."

Buying Opportunity?

Even if the vicious cycle isn't over, it's a good time to recall that 1987 was a great time to buy stocks.

The question is when and how.

The Chicago Board Options Exchange's Volatility Index, which measures expectations for changes in options prices, closed at 39.33 Friday, the highest level since the above-40 readings in October 1998, when Russia's debt default brought the world's financial system perilously close to collapse. For the past few years, a reading of above 30 has been a buy signal. But in this new market, the reliability of the indicator is untested.

Looking at individual stocks that showed strength amid Friday's decline yields few insights. All but 13 of the S&P 500 fell. And four of the winners were gold stocks, a phenomenon that since the inflationary 1970s is seen only in times of the greatest fear.

Today's carnage was too great for two people to extract the full monty of meaning, but our readers weighed in with great wisdom.

Paul Lewis of San Francisco responded with Churchillian grandeur to the assault of the bears. "I sold my GE (GE: NYSE) and Goldman Sachs (GS: NYSE) today... to hell with the financials. I live and die with tech," he wrote Friday morning. "It is MY business. I bought a TON of SUN (SUNW: Nasdaq) at dawn, and if that sun sets, then my whole game falls where the sun doesn't shine."

He added: "I made a bunch by buying *The Day After* in October 1987. I will be buying by this quarter's end, and living to jig, not hobble, again. Take that to the streets."

(For the record: General Electric closed 3.7% lower on Friday and Goldman fell 13%. Sun Microsystems fell 1.6%.)

We found some sustaining thoughts in the Rudyard Kipling poem *If*. A search engine yielded 16 different Web sites where this poem is posted. Here is one: <http://www.newtrix.com/poems/rk-if.htm>.

Laurel Kenner is a financial writer in New York City.

During her 16-year career, she has reported on police, politics and aerospace, and most recently headed US stock market coverage at Bloomberg News. Kenner is long Human Genome Sciences and Commerce One.

*Victor Niederhoffer is a private speculator specializing in futures and options trading. He formerly managed money and hedge funds, and had one of the best records until turmoil in Asian markets in 1997 caused financial disaster. He is the author of best-selling *The Education of a Speculator*. His hobbies include music, electricity, sports and ecology, all of which form a foundation for his scientific speculation.*

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trading day

Picking a Place to Get In

By Laurel Kenner and Victor Niederhoffer
Columnists
04/17/2000 8:31 AM

The best trade by far that the smartest man we know in investments ever made was to buy one contract of Standard & Poor's 500 futures on Oct. 19, 1987, and roll it forward to the present.

The profit of that Brooklyn math whiz, now a managing director at one of the big investment houses: approximately \$500,000, on a \$100,000 commitment for which \$10,000 margin was required.

It is not unlikely that investors who take a similar approach at the right time today will achieve similar returns.

How and When to Jump In

That said, the key question is when and how to follow in his footsteps.

First and most important, an investor should never be in over his head. While we believe that today is an ideal time to buy, investors should always sell down to the sleeping point, so that their crucial values and life choices can be achieved regardless of what happens to the market in the next few days.

Investors who are not yet committed might consider buying a favorite mutual fund, or the S&P 500 or Nasdaq 100 trust securities sold on the American Stock Exchange (SPY: Amex or QQQ: Amex). Some might wish to buy a big down open. Others might wish to play for margin liquidation at 11 a.m. Others might wish to hold off until 1 p.m. or the close, until those fearful of a repeat of the recent routs have exited, leaving the market in much stronger hands. Some might want to buy one-quarter at each of those times.

The market has tended to go up over the last 100 years by 10% a year. Compounding and risk payments make us prefer growth to value.

The situation is too dynamic, and each individual's personal situation is too diverse for any two commentators to provide more specific guidance here.

Picking Change over Stasis

3:43 PM ET 04/17/2000

marketglance

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Dow Jones Industrial A



Dow	10467.41
Nasdaq	3400.62
S&P	1379.02
WIADR	1325.58
30Yr Tr	5.91

Data delayed by 20 mi

Stocks to Watch

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In our first article together, published on another site in the first month of the new millennium, we wrote that turns of centuries and decades often bring changes of style in art, culture and markets. We pointed out that years ending in zero have been bearish, and we noted that in the year 1899, there had been a horrible crash that left the market healthier. We said it was worrisome that such a crash had not yet happened.

But now that crash has occurred. Standard & Poor's 500 Index futures have taken their biggest three-week decline since 1987. The Nasdaq had its worst slump ever on Friday, and took just five weeks to erase a 51% rise that began in December. The decline, whether in absolute, percentage or psychological terms, is quite comparable to the crashes of Oct. 19, 1987, Oct. 27, 1997, and Aug. 31, 1998.

You don't have to be a great statistician to appreciate that the moves subsequent to those crashes were fantastically bullish. The one major difference in the environment that we can see is that interest rates were troubling in each of those three previous episodes.

Before the 1987 crash, interest rates had risen from 7% to 9% in the previous three months, while stocks rallied. Today, the situation is exactly the reverse. Treasury bond prices have risen almost 10% already this year, and the yield is well below the crucial 6% bugaboo. You don't have to be a great economist, or a leading guru at an investment house, to know that such a drop in rates increases the value of stocks by 15% to 30%.

We also note that tax selling is over, and the two weeks after April 15 have been intensely bullish in recent years.

Overnight Indicators

The U.S. S&P 500 futures market opened down a good 2% overnight, pretending to replicate Oct. 19, 1987, and last Friday. Stocks in Asian markets plummeted as much as 10%. But then, following a down open in Europe, there has been a gradual grinding, heart-warming rise in S&P futures, as we write, to close to unchanged in the U.S. The moves were similar in the Nasdaq, with the contract opening down 3% and then steadily moving up.

The main bearish case that seems to permeate the Street is that the new holders of mutual funds and online trading accounts have never experienced a decline like this, and unlike their more seasoned and well-heeled counterparts, they're likely to throw caution to the winds, selling at any price amid the eye of the storm. We feel that there is no reason to expect that the dynamic new investors are any more prone to panic than mutual fund managers, or today's delta-hedging reincarnations of 1987's portfolio insurers.

The other bearish argument is espoused by the stasis boys, as Virginia Postrell might call them. Postrell, in *The Future and Its Enemies*, drew the battle line between

stasists, who fear change and desire control, and dynamists, who embrace innovation and competition. In this case, 70-year-old stasists are complaining that the average price-earnings ratio has moved to a level considerably higher than they knew in their primes.

Men in their 70s with great power or wealth are always due respect. At least they are always treated gingerly by their counterparts, by the second-hand transmitters of information in the press, and those in the market who depend on them for profit and advantage. But their arguments are totally without merit.

They've been making these arguments since Dow 2,000, and along the road to the present levels the same such doubts were equally applicable. The doubts fail to take account of rational expectations and they fail to take account of the tremendous decline in interest rates. Most important of all, they fail to take into account the elementary laws of compounding. The average stock bought at the beginning of the 20th century and held 100 years has returned approximately 10 million percent, including reinvested dividends.

The naysayers point to the high price-earnings ratios of certain selected Nasdaq issues versus the rust-belt steel distributors and iron miners that they cut their teeth on. But it's warp-speed computers and increases in longevity that are going to determine our future, not pig iron ratios.

Politics to the Rescue?

When you're talking about thousand-fold increases in earnings for growth companies, of what possible significance is it to compare their P/E multiples with those of standard rust-belt companies? But what can be expected of men who are greeted by reverential applause and awed silence when they proudly boast that they can not work a fax machine nor operate a lawnmower, although they grew up, in some cases, in the heart of the Corn Belt itself?

There is also a crucial political factor that even small people and non-insiders like us and our readers can grasp. The last thing that the powers that be wish to see in an election year is a stock market rout. Kindly don't be surprised if in the near future that secret Washington group formed to deal with market panics, and/or a key Beltway or Federal Reserve insider, comes out with some euphoric, equilibrating utterance.

Writing after the panic of 100 years ago, even before any of the cicerones alluded to above were born, the weekly Commercial & Financial Chronicle, the Barron's of its day, concluded:

As the penalty of a reckless speculation never can be escaped, it may truthfully be affirmed that we are really better off today than we were 12 months ago. Then we had our troubles ahead of us. Now we have them behind us. And if we heed the lessons which this experiences

teaches, they will not return to plague us during 1900, especially as our industries continue in a highly encouraging state."

Hear, hear.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.03	Down 3	-10	-5.6
S&P 500	1.03	Down 5	-7.6	-9.4
Nasdaq	1.28	Down 5	-18	-27
Europe STOXX-50	1.14	Down 1	1.1	-5.2
Dollar/euro	0.92	Up 1	-4.4	0.7
Nikkei	1.06	Down 3	0.4	-7.7
Dollar/yen	1.03	Down 2	1.1	-1.4
Gold	0.76	Up 1	-1.9	1.3
Oil	1.18	Up 1	10	-4.9
Bond Futures	1.48	Up 2	8.7	0.8
2-Yr Note Futures	1.09	Up 2	0.1	0.4
Bund Futures	1.21	Down 1	2.2	0.02

Laurel Kenner is a financial writer in New York City. During her 16-year career, she has reported on police, politics and aerospace, and most recently headed US stock market coverage at Bloomberg News.

*Victor Niederhoffer is a private speculator specializing in futures and options trading. He formerly managed money and hedge funds, and had one of the best records until turmoil in Asian markets in 1997 caused financial disaster. He is the author of best-selling *The Education of a Speculator*. His hobbies include music, electricity, sports and ecology, all of which form a foundation for his scientific speculation.*

At the time of publication, Kenner was long QQQ and Niederhoffer was short S&P futures, net short in options, but long in individual stocks.

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before the bell

Tuesday, Tuesday

By Laurel Kenner and Victor Niederhoffer
Columnists

04/18/2000 8:21 AM

You're Tuesday
You're the day I fear
You're Tuesday
You're a racketeer
You're a big down day,
A flop on Broadway
A halfway house
You're bad foresight
A sleepless night
You're an angry spouse
 (After Cole Porter's *You're the Top*)

All eyes will be focused on the stock market's moves today in fear of a repeat of Tuesday April 4, when the Nasdaq dropped 635 points from high to low and then retraced all but 75 of them in an eerie premonition of last Friday's rout.

During the last year, Tuesdays in fact have been particularly bearish, dropping an average of five S&P points from close to close.

But this is counterbalanced by the tendency the market has to rally after big one-day bouncebacks similar to yesterday's.

Breaking out the Canes

Vic had his cane at hand yesterday, out of necessity. He keeps one partly in honor of the stock market veterans of 100 years ago, who got out their canes in times of panic to hobble down to Wall Street and buy good stocks. He also has a bad hip and often is relatively immobile during the day. The cane helps him buy during panics as well as get to his regular chiropractic sessions on Tuesday afternoon.

Only problem is that four of the last five sessions have had to be canceled due to virulent market declines.

The virulence brings to mind Gaia, the name the old Greeks used for the earth goddess. The goddess was gentle and nurturing, but also horribly cruel to anyone who did not respect the harmony of her existence.

As the Gaia market moved in all its glory yesterday, it

9:03 AM ET 04/18/2000
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Dow	10467.41
Nasdaq	3400.62
S&P	1379.02
W/ADR	1325.99
30YTR	6.91

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scared the longs out at the 7 p.m. Sunday open, dropping a few percent and thereby ruining romance for many market participants.

Shaking Things Up

Then it went up, while most were having nightmares and unable to take part in the rally. It opened exactly unchanged on Monday, so that those who like to reverse openings would have no clue.

Then it gave the weak longs a little hope by rallying a percentage point or two.

No sooner did the breathing become deeper than it took the breath away and stopped the heart by dropping a quick 3% to down eight S&P points on the day.

Having done its worst, it rallied a spectacular 4% from the lows at the close.

At the lows, we are happy to report that our message boards started flashing with the words "cane" and "hobble" featured prominently and positively.

Let us hope Vic will be able to use his cane to get to his chiropractor appointment today after the close, rather than as a crutch to beat up the market.

Today began with the kind of fear that often lingers after a horrible calamity has been witnessed. After holding relatively stable in sympathy with nice rises in early European markets, S&P 500 futures dropped 1% as enthusiasm waned. But just as the earth quickly returns to nurturing after an angry outburst, large Tuesday declines at the opening after big rallies often prove to be ephemeral. As we write, S&P futures are rebounding from the lows.

Readers React

As always, the insights of our readers are useful and riveting. Today, they fall into two camps. From the bullish side, Luis Avila of Atlanta says he will "live or die as a speculator in this one." He is heavily leveraged by choice, holding just one tech stock. He sees the market as a constantly expanding entity, with the supply of funds available for investments increasing relative to the supply of stock. Thus, this is the ideal buying opportunity.

From the bearish camp comes caution from Mark McNabb, a Virginia Tech University professor. "It's the long path upward investors need to wait for, not the dramatic reversal from this fear," McNabb writes. "But long-term, I'm my usual optimistic self."

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.06	Up 1	-8	-5.7
S&P 500	1.06	Up 1	-4.6	-6.9
Nasdaq	1.31	Up 1	-13	-16
Europe STOXX-50	1.11	Down 2	-0.2	-4.6
Dollar/euro	0.90	Down 1	-5.3	-0.3
Nikkei	1.03	Down 4	0.2	-7.9
Dollar/yen	1.00	Down 3	1.7	-0.9
Gold	0.74	Down 1	-2.3	-1.1
Oil	1.21	Up 2	11	-2.0
Bond Futures	1.43	Down 1	7.3	-0.06
2-Yr Note Futures	1.06	Down 1	0.02	-0.01
Bund Futures	1.24	Up 1	2.3	-0.1

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before the bell

After Historic Gains, Crystal Ball Grows Cloudy

By Laurel Kenner and Victor Niederhoffer
Columnists

04/19/2000 8:13 AM

Responding to the dynamism and resilience of those who envision a heroic future for life, the stock market has just completed one of its greatest two-day gains ever, right after one of its worst one-day declines.

Good vibes from every stream on every mountain of the market poured their beneficent sustenance into the almost \$1 trillion in wealth that the market just achieved.

Only a humble genius like Cervantes through the noble Don Quixote could express the magnitude of the beauty:

"To gain a livelihood one needed but raise his hand and pluck it from lusty oaks which generously invited him to their sweet and seasoned fruit. Crystal springs and running rivers gave him bountifully of their delicate transparent waters. In the fissures of rocks and hollows of trees the zealous and provident bees formed their republic, offering to every hand without interest the rich harvest of their honied toil. The stalwart cork trees, in no other office than that of courtesy, shed their bark in strips ample and light, which men spread up stakes to form houses, merely as protection against the sky's inclemency."

Or as another humble genius of our age put it after reading Nietzsche: "There are two classes of people: those who are strong, competitive, motivated, and believe in the general good in life. They view life as a series of goals that they can achieve, thus are inherently optimistic. The second class are the reactionaries, people who for various reasons fail in life, whether because of personal defects or socioeconomic situations. For these people life is a matter of salvation and surviving pain. So they look to the negative first." The writer, Omid Malekan, is a 23-year-old trader and Columbia University graduate student.

On Monday and Tuesday, the good people won.

Closer to home, at the decisive moment of the market's path to glory yesterday, 1 p.m. EDT, we received a humble prayer from one our readers, referring to Vic's

9:09 AM ET 04/19/2000

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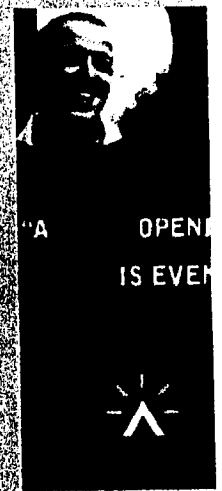


11 12 1 2 3 4

Dow	10767.42
Nasdaq	3793.57
S&P	1441.51
NYADR	1338.82
30Yr Tr	5.91

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tendency to miss Tuesday appointments with his hip chiropractor because of market declines. "We hope for your sake (and ours)," wrote Jim Daniels, a hedge fund operative from Chicago, "that you go visit that chiropractor today."

We visited him Tuesday afternoon, after the Nasdaq finished its greatest two-day rise of all time, a 14% gain. For Standard & Poor's 500 futures, the 85-point jump was eclipsed only by the 98-point rise on March 15-16, 2000.

What's Next?

Where will we go from here?

As of 8 a.m., the market looks due for a nice 0.5% fall at the open. This is de rigueur for two-day rallies of this magnitude. As to how it will play out in the next two days, especially before a holiday weekend, the crystal ball is cloudy.

Usually the best thing for an investor to do is admit that the uncertainty is too great for any drastic change in the guard, and such would seem to be true today, albeit looking into the future (two weeks forward), it's always been bullish.

The action now has nothing to do with the kabuki drama being played out among market strategists over whether price-earnings ratios are now still too high or, being much reduced, might be low enough now.

As Pamela van Giessen, the talented Wiley & Sons editor who handled *Education of a Speculator* points out, the tech stock "bubble" might be the Tulipomania of today – or it might be like the oil stock "bubble" of the 1870s. *Titan*, Ron Chernow's biography of John D. Rockefeller, recounts how the oil magnate, short of cash at the time, offered refiners a choice of cash or Standard Oil stock in exchange for selling their operations.

Those who accepted the stock and held on became the high society of the 20th century, passing the shares to their children as treasured possessions.

Few companies took the shares.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.08	Up 2	-6.4	-5.2
S&P 500	1.08	Up 2	-1.9	-6.2
Nasdaq	1.34	Up 2	-6.8	-15
Europe STOXX-50	1.14	Up 1	1.6	-4.8
Dollar/euro	0.93	Up 1	-6.1	-0.7
Nikkei	1.06	Up 1	0.8	-6.7
Dollar/yen	0.97	Down 1	2.1	-0.2
Gold	0.76	Up 1	-2.3	-1.1
Oil	1.24	Up 3	11	1.7
Bond Futures	1.39	Down 2	7.2	-1.6
2-Yr Note Futures	1.06	Unch	0.02	-0.1
Bund Futures	1.20	Down 2	0.2	-0.7

Laurel Kenner is a financial writer in New York City. During her 16-year career, she has reported on police, politics and aerospace, and most recently headed US stock market coverage at Bloomberg News.

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Take Your Profits or Let Them Run?

By Laurel Kenner and Victor Niederhoffer
Columnists

04/20/2000 8:34 AM

Hardly ever has there been a day in recent recollection that so many cross-currents were present. April stock options expire on all exchanges today. We also have the luxury of a long weekend to look forward to. Such an event only occurs twice a year, so the pattern players will be bereft of a rudder.

Worsening the uncertainty is the 1:10 p.m. EST closing of the currency and fixed-income markets. Thus, those who like to be buffeted into doing the wrong thing in their stock investments by following those markets will also be clueless.

Looking into next week is the great void that usually follows a great bounceback. How will it play out? Only the Shadow knows.

Right now, as reader James Goldcamp points out, investors are being torn between the axiom to never turn a short-term trade into a long-term investment and the conflicting advice to "let your profits run."

Those of us holding stock bought at Friday's and Monday's lows are worried about seeing any of our paper profit disappear in another market slide.

That anxiety is counterbalanced by the fear of missing out on a big rally, just after we sell those Intel (INTC: Nasdaq) or Ciena (CIEN: Nasdaq) shares that took a certain amount of moxie to buy in the first place.

A Revulsion to Lost Profits?

Wednesday's decline at the close could be read as a symptom of investors' revulsion to the prospect of lost trading profits, says Mark McNabb, a Virginia Tech University business professor. He knows the feeling: "I bought some things for longer holdings, hoping for better prices over the quarter, but darned if they didn't jump up nicely by noon and I ignored the move even with the expectation of them coming back in. So after watching the round trip, the gratification of predicting they'd come back doesn't offset the desire to have traded for gains. Frustration indeed!"

Investors might do well to follow Circe's advice to

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Ulysses on how to get past the Sirens, and stop their ears.

As our favorite market psychologist, Brett Steenbarger, says, "It is the peculiar challenge of the markets that they require speculators to stand above greed if they are to profit from it, to avoid panic if their purchases are to be at bargain prices."

Trading Human Nature, Not Stocks

It's the value placed on stocks that matters, not the stocks themselves – and valuations are a function of fears, hopes and expectations. Good speculators don't trade stocks. They trade human nature. But one can't successfully trade human nature while being controlled by one's own.

In speculation, as in counseling, the usual human response is generally the wrong one, Steenbarger says. He is sometimes called to counsel suicidal students in his practice at SUNY Upstate Medical University in Syracuse. The therapist's natural response is fright for the client's welfare, but reacting protectively only reinforces the potential suicide's sense of helplessness. "I sometimes respond with a simple, "I've felt that way too. Sometimes it's hard to think of any other way out," Steenbarger says. Instead of feeling like an object of pity, the client can then respond as a person who is "understood." And the topic of suicide rarely surfaces again.

As we've pointed out in previous columns, the market tends to go up over the long term. The average return of 10% a year over the last century or two translates into returns of 10 million percent and more for growth stocks held over the course of a century, passed on to children and grandchildren. So ultimately, speculation rewards the ability to transcend human nature.

But survival is the main thing. In times of uncertainty like this one, it's well to recall J.P. Morgan's advice to an investor whose positions kept him awake at night: "Sell to the sleeping point."

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.05	Down 1	-7.2	-3.3
S&P 500	1.05	Down 1	-2.8	-4.0
Nasdaq	1.30	Down 1	-8.9	-11
Europe STOXX-50	1.17	Up 2	3.2	1.3
Dollar/euro	0.90	Down 3	-6.6	-2.3
Nikkei	1.03	Down 1	0.1	-6.2
Dollar/yen	0.97	unch	2.3	-0.06
Gold	0.74	Down 3	-2.5	-0.3
Oil	1.27	Up 3	13	1.9
Bond Futures	1.42	Up 1	8.2	-0.04
2-Yr Note Futures	1.08	Up 1	0.01	-0.01
Bund Futures	1.29	Down 2	1.9	-0.7

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Clouds Lie Ahead This Week for Markets

By Laurel Kenner and Victor Niederhoffer

Columnists

04/24/2000 8:14 AM

The coming of rain may often be detected by the drooping of plants, the blowing of wind and the arrival of cumulus clouds from the southeast.

The last week of the month is generally the most bearish of all weeks. Those who suffered through Oct. 27, 1997 and Aug. 31, 1998 can attest that sometimes the carnage can be great.

Further, the market as we write is set for a 1.4% decline at the open. The Sunday night drop in S&P 500 futures situation is similar to last week's, when the market was up, up and away the whole week. But the market doesn't like to do the same thing twice in a row, as that would make it too easy to make money.

As painful as the recent decline was, some are worried that people are still too complacent. Reader Brett Steenbarger writes: "When I lived in Kansas during grad school, I learned that extreme quiet after a tornado was not a good sign. It meant that you were in the storm's eye. You could always tell a non-Kansan: They went outdoors as soon as the air became still and the winds died down. Please tell your readers to keep their eyes open and to be good Kansans."

Close to the ground, Microsoft (MSFT: Nasdaq), the third-biggest company by market value in the Standard & Poor's 500 said after the market closed last week that it missed revenue forecasts and warned of slower growth. Its shares fell 4 3/16 to 74 in after-hours trading.

We're not suggesting readers should sell their stocks, just to be aware of the negatives.

For the longer term, keep your eye on the government. The Justice Department and 19 states will probably submit a plan to the court this week to split Microsoft into two or three parts, the Washington Post reported on its Web site yesterday, citing people familiar with the discussions.

The market abhors uncertainty like nature the vacuum, and this takes some uncertainty away.

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8:59 AM ET 04/24/2000

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11	12	1	2	3	4
Dow	10707.42				
Nasdaq	3793.57				
S&P	1441.81				
WIADR	1388.82				
90Yr Tr	6.91				

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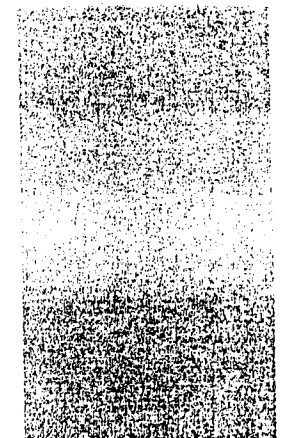
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The government may be hoping the move will stem the market's decline. Yet the plan only highlights the lack, in an election year no less, of a voice for free markets, private property, limited government and people's right to own their own lives.

The populist posture of helping the small guy or small company at the expense of the successful one is often popular in elections, but we've been fortunate enough not to see it in recent times.

The states, for their part, have been emboldened by all the money they have collected from the tobacco industry. And they see Microsoft as a company with deep pockets to help defray the cost of their activities.

The government has been striking out at the very source of our material well-being all year, with no understanding that change, choice and competition from existing and potential entrants and substitute products make it impossible for any firm to maintain a monopoly in any industry, let alone a dynamic one like the computer industry.

In that context the recent decline of the Nasdaq is quite easy to understand. The market is a living species, co-evolving with its environment. The concept of co-evolution enlivens the study of biology. It refers to the interdependent evolution of two species – sort of like the arms race feedback loops that the Baby Boomers studied in college.

The usual examples given are how butterflies and plants become specialized to help each other. The best example is the acacia plant, which provides food and nesting sites for ants in return for the protection that the ants provide from insects. With the exception of anteaters, all species hate to be close to ants.

Similarly, the market hates to go up when interest rates are rising, when the President offhandedly mentions that the government should control the fruits of biological research, when a 70-something judge who has never used a computer calls the star company in the world a "predator," when the US Attorney General stages an armed raid on a Miami home to seize a child who fled the Cuban dictatorship.

Plants evolve toxins to deal with predators, and the market has developed a toxin of its own – to express its displeasure, it goes down.

Politicians tend to get the signals, especially in election years. The last thing they want is a bad stock market and disgruntled voters before an election.

And that's the Darwinian reason that stock markets tend to go up in presidential election years.

A note from reader Don Staricka goes to the heart of the matter: "I see the world lurching awkwardly toward open markets and free trade, and that gives me hope. I don't see evidence of strong theoretical conviction even in our country, but people in most countries seem to sense that there is good empirical evidence for the benefits of free markets so they are willing to give them a try. As long as the world continues moving in this direction we can remain optimistic about the long term.

"But short term I do not rule out a bear market or even a recession. The market is just too inscrutable for me right now, so I may sit things out for awhile."

Side Notes

For those looking to lessen their exposure to the US market, Sony (SNE: NYSE ADR) is an American Depositary Receipt to consider. A friend of ours in the hedge fund business had dinner Friday night with a top Japanese official who told him Japan is wiring up homes for the Internet. They've chosen to accomplish this with digital TV hookups. Look for Sony to get a boost from television sales, along with the Japanese economy.

When Microsoft drops in reaction to an earnings report, it has about even odds of being higher three months later. We looked at the past 12 quarters, and found the stock had dropped on the report five times. Three months later, the stock had recovered in two instances (2 of 5), was lower in two instances and little changed in one case. Over the 12 quarters, Microsoft returned 175%, the same as the Nasdaq Composite.

Speculator's Scorecard				
	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.08	Up 1	-5.7	-2.4
S&P 500	1.08	Up 1	-2.4	-4.5
Nasdaq	1.26	Down 2	-10	-15
Europe STOXX-50	1.19	Up 3	3.5	-1.3
Dollar/euro	0.95	Up 2	-6.8	-2.2
Nikkei	1.03	Up 1	0.1	-6.4
Dollar/yen	0.97	Down 1	3.2	0.4
Gold	0.72	Down 4	-2.8	-0.2
Oil	1.30	Up 4	14	3.0
Bond Futures	1.45	Up 2	8.3	-0.5
2-Yr Note Futures	1.05	Down 1	-0.02	0.06
Bund Futures	1.19	Down 3	1.7	-0.6

Laurel Kenner is a financial writer in New York City. During her 16-year career, she has reported on police, politics and aerospace, and most recently headed US stock market coverage at Bloomberg News.

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Laurel Kenner
Victor Niederhoffer
DAILY SPECULATIONS

This Market Is Like a Bull on a Squash Court

By [Laurel Kenner](#) and [Victor Niederhoffer](#)
Columnists
04/25/2000 8:54 AM

During recent days we have trotted out theories on just-noticeable differences, co-evolution, ecological geography, abnormal psychology, present value, multiple correlation, positive feedback and of course cane theory, among others, to come to terms with the underpinnings of the market.

"You're the Honus Wagner of market columnists," joked reader Larry Ritter, co-author with Bill Silber of the standard money and banking text and also author of *The Glory of Their Times*, a collection of interviews with early baseball greats. We trust he was referring to Wagner's ability to play any position, as he did for the Pittsburgh Pirates from 1900-1917, rather than his awkward gait and heavy touch.

But we have a confession to make. We are not experts in these fields. Nor can we effortlessly apply the techniques of stochastic programming or partial differential equations to the solution of practical problems the way so many prize-winning academics find necessary for the understanding of finance.

In this column, however, we are going to predict the market with the one discipline that we are the master in: winning at racquet sports.

Returning a Tough Serve
Without undue self congratulations, Vic won numerous national championships in racquetball, paddle ball and the now-defunct game of hardball squash with only a handful of losses over a 20-year period almost 100 years ago. Last week, he became a member of the Squash Hall of Fame.

5:48 PM ET 04/27/00
marketglar

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11	12	1	2	3	4
Dow	10686.10				
Nasdaq	3774.03				
S&P	1404.02				
W.ADR	1380.47				
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way to win a tough game is to find the other player's strength, win points there, and then mop up on the areas of weakness that the hapless adversary can no longer afford to defend. Vic loved to win games in squash this way against the Pakistanis, all of whom had great forehands but in many beautiful cases had weak backhands in the good-old-boy English tradition.

Stocks Can Rise: QED

And that's exactly what the market did Monday. To win the game over the bears, it took the bears' best shots – technology-stock woes and heavy-handed government action – broke their game down and then mopped up. After Standard & Poor's 500 futures opened down a good 2% and the Nasdaq slipped 8%, almost revisiting the year's low close of 3,321 of the Friday before last, both indexes finished near their highs.

Karl Popper's theory of the advancement of science was that it proceeds by falsifying theories. Empirical observation can never prove theories, but it can refute them. This insight, and the application of it to the market, has always seemed to us to be the core of George Soros's great practical success in unraveling the mysteries of markets.

Yesterday was a great example. The day's moves refuted the universal categorical statement that no stock market rises are possible with bad news coming out on the technology front. So for us, the incredible strength of the market yesterday in the face of the double whammy of bad earnings and breakup news on Microsoft creates a new paradigm.

Who's Afraid of Tuesday?

We reject our previous fears that complacency and the typical end-of-month slide will lead to massive future declines. We reject our fear of Tuesdays, the worst day of the week of all in the last year especially after a rise the previous Tuesday. We put aside our fear that the heavy hand of government will kill the bull, or that inexperienced day traders will create a tidal wave of panic selling at the bottom.

We're bullish again. The only question is how to play it. Our own view is one-quarter of our available chips on each of the four remaining days of the month.

held to the belief that chaos theory is a completely useless approach, good only for retrospective description and incapable of being refuted with reasonable experiments, today's market movement is shaping up as particularly chaotic because of the crosscurrents generated from yesterday's moves.

Yesterday seemed to have three distinct parts: the open, which was horribly bearish, the middle, which was fair to good for the blue chips and terrible for Nasdaq, and the close, which was a barnstormer on all fronts in almost all indexes. This sets up a particularly dangerous base for today's action. The weather forecast today is completely random, leaning to rain in the afternoon.

Tomorrow's release of the meaningless but closely watched employment cost index, one of Dr. Greenspan's favorite homespun litmus tests of what have you, always likes to rile the markets. So that adds a further degree of chaos, or at least complexity.

But good days are coming soon.

The market has the ability to change horses in midstream with the greatest of ease. In keeping with the changing sentiments, it is set to open up 0.5% in the blue chips and up 1.5% in Nasdaq.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.11	Up 2	-5.1	-1.9
S&P 500	1.05	Down 1	-2.7	-5.7
Nasdaq	1.23	Down 3	-14	-22
Europe STOXX-50	1.19	Up 3	3.4	-1.3
Dollar/euro	0.98	Up 1	-6.8	-1.9
Nikkei	1.00	Down 1	-3.5	-11
Dollar/yen	0.95	Down 1	2.9	0.1
Gold	0.75	Up 1	-2.8	unch
Oil	1.33	Up 5	14	5.8
Bond Futures	1.41	Down 1	7.8	-1.7
2-Yr Note Futures	1.03	Down 2	-0.03	0.02
Bund Futures	1.19	Down 3	1.7	-0.6

Laurel Kenner is a financial writer in New York City. During her 16-year career, she has reported on police, politics and aerospace, and most recently headed U.S. stock market coverage at

Biography

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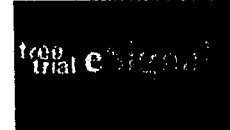


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On Returning Elephants and Market Swings

By Laurel Kenner and Victor Niederhoffer

Columnists
04/26/2000 8:35 AM

The Ondo Bush is a horrible place because of its tall grass and bushes, which make a veil or network so that you cannot see five yards ahead.

--- LoBagola: An African Savage's Own Story

There is a horrible beauty to the web that links all species in a community to each other according to who gets to eat whom. Those at the bottom of the chain - usually the plants - are eaten by herbivores, who are eaten by carnivores, who in their turn are recycled into plant food.

Members of the public who were not strong enough to hold in the face of Monday's terrible 8% decline in the Nasdaq from high to low, or who sold before 1 p.m. on Tuesday, missed a ravishing 5% rally to the close that would have provided enough nourishment for a lifetime.

Instead, they will have to take comfort in the fulfillment of their role of providing energy to those higher in the food chain: the dealers, the large funds and the brokers.

Fortunately, we may try to rise above our place in the chain so that we have more energy, chips and money for the next time around. One technique that we recommend was first reported by an English-educated Jewish native of Dahomey, in his 1930 book *LoBagola: An African Savage's Own Story*.

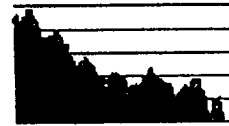
In the Ondo Bush, the author relates, herds of 50 to 100 elephants would occasionally go on romps, trampling anything and everything in their path. Nothing could stop them. The only thing to do was to let them pass.

9:41 AM ET 04/27/00

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Dow Jones Industrial



11 12 1 2 3 4

Dow	10946.5
Nasdaq	3030.0
S&P	1400.9
WI ADR	1384.2
30Yr Tr	5.9

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LoBagola and the other natives of his village knew that the elephants returned by the same path. When the thunder of the herd subsided, they came out from hiding and dug pits to catch the marauders on the rebound. They used the tusks for ornaments.

The natives didn't know when the elephants might come back -- it might be a day, a week or a month, but they knew the return would come. And that's a good thing for investors to keep in mind.

With Tuesday's rise, the market has come a good distance back to its level on April 11, when the big decline started. The Dow Jones Industrial Average is within 1.4% of 11,287, its April 11 close, while Standard & Poor's futures are 2% away. The Nasdaq is about halfway back from its 18% loss.

On their path back home, the elephants often are diverted for rest, play and foraging. It would be natural after a big rally like that of Tuesday for such a rest to occur. In fact, 90% of such big rises are followed by a one- or two-day hiatus.

But like the elephants, the market tends to return and resume its inevitable path.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.35	Up 3	-3.2	-0.6
S&P 500	1.08	Up 1	0.5	-1.8
Nasdaq	1.26	Up 1	-8.8	-11
Europe STOXX-50	1.22	Up 4	4.4	-1.8
Dollar/euro	0.95	Down 3	-8.5	-4.3
Nikkel	0.98	Down 2	-4.2	-12
Dollar/yen	0.93	Down 1	3.7	0.5
Gold	0.73	Down 7	-3.3	-1.3
Oil	1.29	Down 1	11	9.0
Bond Futures	1.36	Down 2	7.2	-2.3
2-Yr Note Futures	1.00	Down 3	-0.3	-0.03
Bund Futures	1.16	Down 4	1.4	-1.1

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**Laurel Kenner
Victor Niederhoffer
DAILY SPECULATIONS**

Nobody Asked Us, But Forget the ECI
By Laurel Kenner and Victor Niederhoffer

Columnists
04/27/2000 8:21 AM

Just as a praying mantis shows a pair of false eyes to frighten away an enemy, the market will employ one of its countless maneuvers today to scare participants out of their good positions.

The Employment Cost Index, released today at 8:30 a.m., is so subject to errors, revisions and faulty seasonal adjustments as to be meaningless. It's one of many backward-looking inflation numbers, and the only reason it has any impact is that Alan Greenspan once said he pays attention to it. And yet it always generates much apprehension and "inflation concern," particularly beforehand.

Our crystal ball is cloudy today. The market is getting ready to have a tremendous rally, but there are too many cross-currents for us to tell what the market is going to do over the next few days.

For the record, stocks, as measured by Standard & Poor's 500 index futures, have risen on all but three of the last 12 ECI report days. The market rebounded within a day or two after two of the three declines, all of which took place in the last four quarters. In the remaining instance, it took two weeks to snap back. The market has fallen the day before the report in eight of the last 12 instances, just as it did yesterday.

The ECI itself has remained remarkably stable for the past two years:

12/99.....3.40
 9/99.....3.10
 6/99.....3.20
 3/99.....3.00

12/98.....3.40

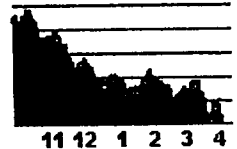
1:45 PM ET 04/27/00

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Dow Jones Industrial

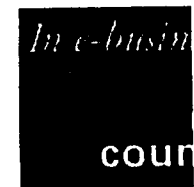


Dow	10945.5
Nasdaq	3030.0
S&P	1460.9
WI ADR	1384.2
30Yr Tr.	5.9

Data delayed by 20



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9/98.....3.70
6/98.....3.50
3/98.....3.26

Yet the market has fallen the day before the report in eight of the last 12 instances, just as it did yesterday.

The anxiety of market participants over ECI reports reminds us of the hitters who went up against Christy Mathewson, the New York Giants pitcher who pitched 27 innings with just one walk and no runs in the 1905 World Series against the Philadelphia Athletics.

Mathewson often liked to get behind 2-and-0 on a hitter so that he could come in with the changeup for an easy strike. No matter how many times he pulled the stunt, the batter always expected a fast one down the middle. (The analogy also holds true in another sense: after two big down days, since market participants have an equal affinity for missing changeups.)

It seems to us that market participants could learn more from going to a baseball game or reading a good baseball book than studying the financial pages or reading the best-selling financial books.

Along those lines, we recommend the late sportswriter Jimmy Cannon, whose articles still appear as reprints in the New York Post.

Some of our favorite Cannon pieces are the occasional collections of observations he'd run under the heading, "Nobody Asked Me, But..." The Nobody columns, more about life than sports, contained such entries as:

When I ride in a taxi I consider all pedestrians to be hindrances. When I'm afoot all vehicles become my foes.

Did you ever hear anyone bragging about Cincinnati being a good town? It's the only city in the country where the locals are absolutely neutral.

In tribute to Cannon, we've started our own version of "Nobody Asked Me, But..." with observations on the market.

We were pleasantly surprised yesterday to find

among our e-mails a collection of nobody-type observations from a Florida trader who calls himself LACK, and we've used three of them in today's column. We hope that all of our readers will follow in his footsteps, and send us contributions, as no two people can comprehend the market alone. We'll credit you by name or anonymously, as you prefer, for any we use.

We'll reward the best with a fine cane for hobbling down to Wall Street to buy good stocks in times of panic. We'll be sending canes to Omid Malekan, James Goldcamp and Estudiante Y2K for their recent contributions.

NOBODY ASKED ME, BUT...

The market loves to scare you out before going in your favor.

Most news organizations only know four market stories: Stocks rise on interest-rate optimism. Stocks fall on interest-rate pessimism. Stocks rise on earnings optimism. Stocks fall on earnings pessimism.

The groans of Patrick Ewing's Knicks teammates when he gets the ball and makes a forced shot reminds me of Alan Greenspan coming up with another ad hoc excuse to justify his bearish views on the stock market to the congressional banking committees.

When a broker receives an order to "sell at any price," he can quietly start buying for his mistress's account with impunity.

When a company's late in reporting its quarterly earnings, you can bet there's an unpleasant surprise in store.

This is the bottom. No, no. This is the bottom. No, first we need to retest the bottom, then it will be the bottom. Hey guys wait just a darn minute I need to know where the top is. - From LACK

What if Microsoft said baa-bye and moved to Canada. The Justice Department would have to reclassify them as a cartel. There would be high-level sessions at Camp David. Maybe the government could sell Microsoft a couple of F-16s if they play nice. - From LACK.

If every firm has a buy on Cisco, who is left to

Speculator's Scorecard

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Europe STOXX-50	1.25	Up 5	5.6	1.4
Dollar/euro	0.93	Down 1	-8.2	-3.7
Nikkei	0.95	Down 3	-4.8	-14
Dollar/yen	0.90	Down 2	3.6	0.4
Gold	0.76	Up 1	-4.2	-2.1
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2-Yr Note Futures	0.98	Down 4	-0.3	0.6
Bund Futures	1.19	Up 1	1.9	-2.1

Laurel Kenner is a financial writer in New York City. During her 16-year career, she has reported on police, politics and aerospace, and most recently headed U.S. stock market coverage at Bloomberg News.

*Victor Niederhoffer is a private speculator specializing in futures and options trading. He formerly managed money and hedge funds, and had one of the best records until turmoil in Asian markets in 1997 caused financial disaster. He is the author of best-selling *The Education of a Speculator*. His hobbies include music, electricity, sports and ecology, all of which form a foundation for his scientific speculation. Niederhoffer is short S&P futures at the time of publication. Positions can change at any time.*

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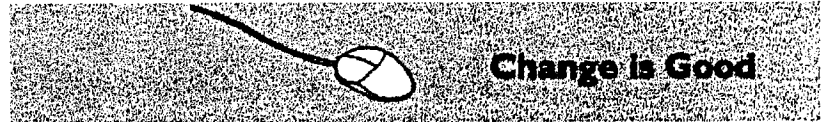
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**Laurel Kenner
Victor Niederhoffer
DAILY SPECULATIONS**

Safe From the Sharks, For Now

By [Laurel Kenner](#) and [Victor Niederhoffer](#)
Columnists

04/28/2000 8:50 AM

They came in a pack and he could only see the lines in the water that their fins made and their phosphorescence as they threw themselves on the fish They were up to the bow now and driving in one after the other and together, tearing off the pieces of meat that showed glowing below the sea as they turned to come once more. -Ernest Hemingway, "The Old Man and the Sea"

The sharks in their death throes tried one last time Thursday morning to kill the market.

They had attacked Monday, putting the Nasdaq as much as 298 points in the red. On Wednesday, they came back, biting off another 81 points.

On Thursday, an unexpectedly large jump in the employment cost index caused Nasdaq 100 futures to open limit down, 3% below Wednesday's close. The sharks ravaged the catch and did their diabolical best to frighten investors away forever.

But now, most of them have been clubbed to death, and the boat is sailing home with the current. Like Santiago, the fisherman hero of Hemingway's "The Old Man in the Sea," investors will make plans to fish another day.

It won't do to be like the people who had money invested in the market in 1929 and were incapacitated for the next 30 years because they were afraid of a repeat of the crash. Nor would it be wise to repeat the mistake of those who witnessed the 1987 debacle and were prevented by similar fears from participating fully in the subsequent fivefold increase.

2:04 PM ET 04/28/00

marketglar



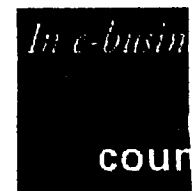
Dow Jones Industrial

Dow	10783.86
Nasdaq	3841.87
S&P	1454.28
WTAPR	1305.80
SOYBEAN	8.97

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those left behind for not paying attention to P/Es higher than they were accustomed to in their prime reminds us of the roars of angry old lions shunned by their prides.

Better that investors should get a good killing lance, and always have it on board. Santiago hadn't been back one day before he was telling the boy to make the blade from a spring leaf from an old Ford. "It should be sharp and not tempered so it will break."

Next time, they'll try not to get in over their head. They won't buy stocks on margin or use money they need for their living expenses. If they do, they will always be doing the wrong thing.

The strong up opening forecast for today in the futures markets may bring out the sharks once again, but the men and women of the market who are young at heart will see this as an opportunity to haul in their prey and buy good stocks for sale on the marketplace.

Looking back, what a month it was. With one trading day left to go, April's 17% decline was the third worst in the Nasdaq's history, exceeded only by the 20% drop of August 1998 and the 27% rout of October 1987. Standard & Poor's 500 futures fell 3%. For the Dow Jones Industrial Average, it was just a ripple, down 0.2%.

It may be better now not to look back. The end of the month provides a full weekend of rest, and investors will come back next month with renewed strength and knowledge that the sharks have done their worst.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.08	Down 2	-5.3	-2.1
S&P 500	1.08	Up 1	-0.3	-0.2
Nasdaq	1.22	Up 1	-7.3	0.1
Europe STOXX-50	1.22	Down 1	5.2	0.1
Dollar/euro	0.82	Down 1	-9.6	-5.1
Nikkei	0.93	Down 4	-5.1	-12
Dollar/yen	0.86	Up 2	3.8	0.5
Gold	0.78	Up 1	-3.8	-1.8
Oil	1.29	Up 1	12	2.8
Bond Futures	1.29	Down 4	6.3	-1.5
2-Yr Note	0.95	Down 5	-0.6	-0.5

Bund Futures 1.16 Down 1 1.6 -0.7

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trading day

9:25 AM ET 05/01/2000 marketglance

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If They Asked, We'd Say Buy
 By Laurel Kenner and Victor Niederhoffer
 Columnists
 05/01/2000 8:01 AM

*If they asked us, we could write a book
 'Bout how good the Dow and Nasdaq look
 We would write the preface on how Nasdaq climbs
 After those rare occasions it's shown declines*

*The simple secret of the plot:
 After large declines, the market's healthy a lot
 When the 401(k) money enters the fray
 It's time for investors to make hay*

(After "I Could Write a Book" from "Pal Joey," by Lorenz Hart and Richard Rodgers)

But our readers don't want us to write a book about how bullish the market can be after down months. They don't seem as interested in buying after the catharsis that this market has experienced so that no weak hands are left in the market.

One after another wants to know our take on the Quantum disaster.

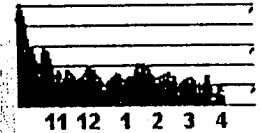
Let's face it. The tendency to voyeurism is hard-wired in the human psyche. We love to see the big ones, the formerly successful, fall down the stairs. In Germany this inclination is so strong they even have a few words for it - Schadenfreude being the one that has come over to the colonies. In fact, Ayn Rand wrote a book, "Atlas Shrugged," on this theme.

It's a distinctly un-American sentiment, especially for people like us who have had a 20-year mutually beneficial relation with the people in question and wouldn't be alive today unless they had thrown us a few crumbs from time to time.

All we will say about our friends is that they have had a great run. We're confident they will move again to new highs. However, we would advise them not to concentrate too much on making 15% a year risk-free, as that inevitably leads to 18 months of 1% rises followed by the deluge. Several large hedge funds that recently restructured provide an example of this principle.

We would also note that the real tragedy of the Quantum

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 Dow Jones Industrial A



Dow	10733.91
Nasdaq	3860.66
S&P	1462.43
MI ADR	1398.02
30Yr Tlt	6.06

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dismemberment is not the 25% fall so far in 2000. It must have been horrible for the managing partners to see their returns dive from up 14% for the year through March 3. But down 25% after being up 37% before fees in 1999 is no shame.

The managers and investors in the fund doubtless knew that they had a tiger by the tail with those high-flying Nasdaq stocks they held at year-end 1999. Well known to all is that the market is a harsh mistress, and that she must be paid back after a return of 50% like Quantum made in the last quarter of 1999.

No, the real tragedy, and what we would speculate was its root cause, was the dismal performance of Quantum in the past five years. In that period, the Nasdaq 100 advanced 702% in price, and Quantum just 14%. This 689 percentage-point divergence, historians will doubtless point out, was the macro force that sealed the coffin as they carried our good friend out.

However, like Houdini, our good friend is guaranteed to rise from the coffin shortly.

Sometimes the best thing to do is not to write a book, and to let the numbers talk for themselves. Here's the data, followed by our standard daily Speculator's Scorecard.

Moves in Nasdaq-100 After Down Months		
Month of Decline	% Loss in Month	% Move Following Month
Jan 2000	-4	20
July 1999	-1	6
May 1999	-2	10
Feb 1999	-9	9
Aug 1998	-17	18
May 1998	-4	12
Dec 1997	-6	8
Oct 1997	-7	2
Aug 1997	-3	2
June 1997	-0.2	15
March 1997	-6	10
Feb 1997	-8	-6
Dec 1996	-2	12

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow Jones	1.05	Down 3	-6.6	-1.7
S&P 500	1.05	Down 1	-1.1	0.8
Nasdaq	1.25	Up 2	-5.1	5.0
Europe STOXX-50	1.24	Up 1	7.4	2.9
Dollar/euro	0.84	Up 1	-9.4	-4.3
Nikkei	0.95	Up 1	-2.8	-9.9
Dollar/yen	0.84	Down 1	5.5	3.3
Gold	0.76	Down 1	-5.0	-2.9
Oil	1.31	Up 2	13	4.6
Bond Futures	1.31	Up 1	6.6	-1.7
2-Yr Note Futures	0.93	Down 6	-0.7	-0.7
Bund Futures	1.18	Up 1	1.8	-0.6

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trading day

The Market Plays Possum

By Laurel Kenner and Victor Niederhoffer
Columnists

05/02/2000 8:53 AM

After opening up 0.6% yesterday, the broad market had a 2% rise until shortly after 3 p.m EDT, when it stalled drowsily, fell a quick 1% in the last hour and closed within 0.6% of the open. Indeed, today is looking weaker already, with the futures indicating a 0.5% drop at the open.

We've seen this before, in the market and in great books. We're reminded of the political conclave Albert Jay Nock observed as a boy growing up in Brooklyn and later described in his masterpiece, "Memoirs of a Superfluous Man." Drunken loafers would gather together on an Indian summer evening around a ramshackle, one-story turtle-shaped wooden building known as the Wigwam, marching and counter-marching with banners and kerosene lamp. One incident of election night stuck in his memory:

"Some devoted patriot, very far gone in whisky, wandered up in our direction and fell by the wayside in a vacant lot where he lay all night, mostly in a comatose state."

Every half hour or so, he roused himself, apparently conscious that he was not doing his duty by the occasion, and tried to sing the chorus of "Marching Through Georgia," but he could never get quite through the first three measures, Nock recalled. "It was very amusing; he always began so bravely and earnestly and always faded out so lamentably."

We recommend great books like this to our readers for improvement in every aspect of life, including the not-so-unimportant market. "Memoirs" is available at Amazon.com, and through the Foundation for Economic Education, 30 S. Broadway, Irvington-on-Hudson, New York 10533.

The Wily Market's Mistress

We suspect that in this case, though, the drunk may have been one of the many disguises of the mistress of markets. In fact, it may have been Variation No. 7 of Playing Dead.

The mistress has a deception to go with each of her opening gambits. Today, she's not giving any sign, allowing us to believe to grow ever whether she intends to

9:25 AM ET 05/02/2000

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Dow Jones Industrial A

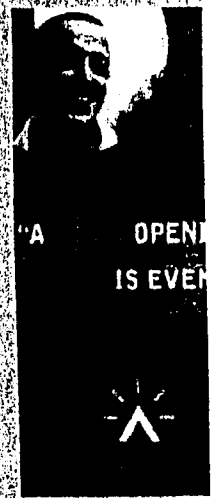


11 12 1 2 3 4

Dow	10811.78
Nasdaq	3858.08
S&P	1468.25
WIADR	1419.08
30Yr TL	5.08

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TALK HIDDEN VALUE STOCKS
DAVID H. BAKER

Thurs, May 4, 7pm EST/4

allowing apprehension to grow over whether she intends to pull out another one of her dreadful Tuesdays, memories of which are so fresh in investors' minds.

Second trading days of months, when they fall on Tuesday, are unfortunately relatively bearish, showing a daily rise in situations similar to today on only one of six occasions. Against the backdrop of meaningless economic numbers in the following few days, the market likes to bobble back up -- but at the end of the week, the ominous employment number looms.

One thing for sure: the mistress of markets will do everything she can to make poor Tom Investor doubt again. The purpose of such wiles is simply to induce people to give up their positions so as to line the pockets of the strong, the brokers and the market makers.

The market thereby plucks the goose with least amount of hissing. In the same way, animals use deception so they don't have to fight each other directly and waste energy.

Politicians Will Help, Despite Themselves

Looking out for oneself with the least exertion happens to be the very thing that our author Nock, years after his early contact with politics, concluded that politicians are most likely to do. Nock wrote some 80 years before the ascendancy of public choice economics, one of the guiding principles of political science these days, namely the Jeffersonian idea that politicians act in their own interest first, their party's interest second and finally, if any availability is left, the constituents'.

The best way to understand politicians, according to Nock, is that they are iniquitous thieves. Nock discovered this at the turn of the century, and nothing that has happened to us in our past combined 100 years has dimmed the wisdom of that insight. This takes on a bittersweet flavor in this election year, when investors see the spectacle of politicians arguing over whether the little people are wise enough to invest their own retirement money in stocks and bonds.

For our immediate purposes, though, we merely note that the goose-plucking propensities of politicians can be counted on this year to bring some gains to the market. There has been only one instance in the last half-century when the S&P 500 fell during a presidential election year.

The table tells the story better than words could. It's followed by our regular daily Speculator's Scorecard.

Election-Year Moves in S&P 500

Election Year	% Change
1952	11.8
1956	2.6
1960	-3.0
1964	13.0
1968	7.7
1972	15.6
1976	19.2
1980	25.8
1984	1.4
1988	12.4
1992	4.5
1996	20.3

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.08	Up 1	-5.6	4.9
S&P 500	1.08	Up 1	-0.1	8.2
Nasdaq	1.28	Up 3	-2.7	19
Europe STOXX-50	1.27	Up 1	7.4	6.2
Dollar/euro	0.87	Up 2	-9.4	-5.2
Nikkei	0.98	Up 2	-2.6	-3.0
Dollar/yen	0.93	Down 1	5.8	3.4
Gold	0.82	Down 2	-5.0	-3.2
Oil	1.34	Up 3	13	5.8
Bond Futures	1.34	Up 3	6.5	5.8
2-Yr Note Futures	0.93	Down 6	-0.7	-0.8
Bund Futures	1.21	Up 1	1.8	-0.4

Niederhoffer is short futures and stocks, though positions may change at any time.

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Market Mistress Gnashes Her Teeth
 By Laurel Kenner and Victor Niederhoffer
 Columnists
 05/03/2000 9:01 AM

The mistress of markets, having failed to scare enough people Monday when she assumed the guise of a possum and played dead, showed her teeth and took a big bite out of investors on Tuesday to remind them she deserves respect.

For good measure, she called out her sister the hurricane in the form of an earnings warning from AT&T (T: NYSE) that broke windows and scattered trash over the marketplace, making it depressing for other stocks to live in. Then she sat down amid the wreckage to play cards with poor Tom Investor.

In addition to being an expert deceiver, the mistress is an expert game player, and she often favors poker. Yesterday, as the winds gathered strength toward the end of the session, she dealt out a straight.

An Ugly Straight

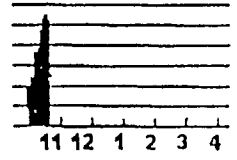
Index	Move
Dow	-1%
S&P Futures	-2%
Russell 2000	-3%
Nasdaq Composite	-4%
Philly Semiconductor, Nasdaq Blotech	-5%

After she had taken away Tom's chips, the wind carried the message of AT&T the communicator to Europe and Asia, causing stocks there to weaken. But when the gods who favor the bulls returned to their seats about 12 hours later, they were enraged. They sent messages to Europe and the US futures markets that they wanted the mistress to stop the havoc, and sent the Spanish communicator Telefonica (TEF: NYSE ADR) up 3% as a sign of their displeasure.

The mistress likes poker because she can bluff her adversaries out, especially after the kind of

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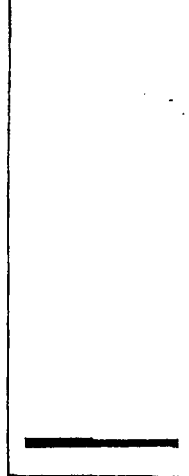
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Dow	-100.40	75
S&P 500	-1.95	105
NASDAQ	-149.16	105
NYSE	-392.34	105
30Y T-B	-6.04	105

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DAVID H. BAKE
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spectacular rises we've seen in the last 10 days. The Nasdaq Composite, even after yesterday's drubbing, is still up 17% from its April 17 low. And Tuesday's close of 3,785 is still up 50% from its year-earlier level. She finds it easy to get market people to fold their hands because they are very fearful after making money. Psychologists call this heightened aversion to losing wealth "the endowment effect."

Our checkers teacher, the late Tom Wiswell, world champion for 25 years, had an antidote for hasty moves sparked by the mistress and her followers: "Sit on your hands and think before you move. Schhhhhhtaall."

All we will say on this subject is that big declines of this nature tend to quickly reverse, especially around employment days. How else can the mistress and her children make Tom Investor and the other mortals capitulate and genuflect to her half-mortal, half-god progeny in the pits of New York and Chicago, and to their fiery cousins who deliver the messages and souls thereto?

One good thing is that the mistress won't be getting much help from hurricanes in the future. First-quarter reports are in for 432 of the S&P 500, and earnings were up 18.6% over the first quarter of 1999, with 72.5% beating estimates.

Readers React

The most important question for a market column to answer is how decisions of all market participants get encapsulated in a market price. We realized from the beginning that you, our readers, can answer that far better than we can, and that our job would be to discover and reveal your wisdom.

You have been doing a great job of sharing your abilities, know-hows and tastes with us so that we can together discover the reveal the spontaneous and ever-changing order of that mysterious, complex stock market. Keep those messages coming.

Today, we offer the insights of an uncanny stock-picker, Paul Lewis. Paul gains insights, not to mention humor, from observing everyday life, including street people at home in San Francisco and the wildlife at his second home in Maine. The number and type of homeless people around the cable-car terminus at Market Street began increasing in the Reagan years as the bull market took off and funding for mental institutions

declined.

The numbers per corner, according to Paul, were seemingly correlated to the 1,000-point marks the Dow left in the dust, while occasional pushes to care for or re-locate these displaced folks usually coincided with big-time market corrections.

In early April, he spotted corner crooners huddled together, blankets and shopping carts in tow, belting out some form of chant. A staggering man got off a bus and started doing a jig on a sidewalk. He then went to Maine, where he found the squirrels and ducks well fed from another friendly winter, but a stalking fox kept her watch.

That mistress of mischief was lurking, awaiting her chance to nourish herself and her pending brood on the fat, dumb and happy prey. Well, the party got busted, the fox got fed (one male mallard is nowhere to be seen.) Back home on the West Coast, he found the street folks being roused away from the tourists. "And, we had our tech crash."

Paul traded out of Qualcomm (QCOM: Nasdaq), JDS Uniphase (JDSU: Nasdaq) and EMC (EMC: NYSE) on Monday, raising "lots of cash." He wrote: "This fox is waiting to pounce again on those big-cap techs, once this minor re-test passes."

Speculator's Scorecard

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S&P 500	1.05	Down 1	-1.6	3.2
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Europe STOXX-50	1.30	Up 2	9.3	9.5
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Gold	0.84	Up 1	-4.5	-2.3
Oil	1.37	Up 4	18	9.4
Bond Futures	1.31	Down 2	5.8	-1.4
2-Yr Note Futures	0.91	Down 7	-0.7	-0.8
Bund Futures	1.18	Down 1	1.5	-0.8

Laurel Kenner is a financial writer in New York City. During her 16-year career, she has reported on police, politics and aerospace, and most recently headed U.S. stock market coverage at Bloomberg News.

*Victor Niederhoffer is a private speculator specializing in futures and options trading. He formerly managed money and hedge funds, and had one of the best records until turmoil in Asian markets in 1997 caused financial disaster. He is the author of best-selling *The Education of a Speculator*. His hobbies include music, electricity, sports and ecology, all of which form a foundation for his scientific speculation.*

At the time of publication, Niederhoffer was long stock futures and options. Kenner was Spiders and Nasdaq-100 trusts. Positions may change at any time.

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THE BEST IN MEN'S BUSINESS AND CORPORATE CASUAL APPAREL



Market Shakes the Longs One More Time

By Laurel Kenner and Victor Niederhoffer
Columnists

05/04/2000 8:40 AM

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In its penultimate attempt to shake the longs out from good positions, the market pulled out its disruptive behavior Wednesday. The latest one, like so many others, is borrowed from nature.

The squid spurts a cloud of black ink when it fears danger. Birds like the quail pretend to be sick so that their prey will forego eating them, and caterpillars often swell up when attacked to escape predators.

The market threw a cloud of red ink at the longs yesterday by declining 5% from the previous close, and almost 10% from the previous high in the Nasdaq. Then in the last half hour, it gave up the deception and rallied 4% from the lows.

The swelling up a la the caterpillar was caused by interest rates. The long bond declined one-and-a-half points yesterday, an exceeding rare event in recent climes of interest-rate stability. Furthermore, the yield moved above the key psychological level of 6%.

A backdrop of bearish news that has to scare even the bravest long predators accompanied the deception. For one, William McDonough, president of the Federal Reserve Bank of New York, said it would be foolish to declare victory over inflation.

Next, the Fed's latest survey of regional economic

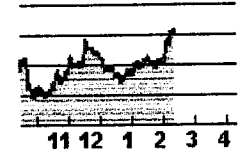
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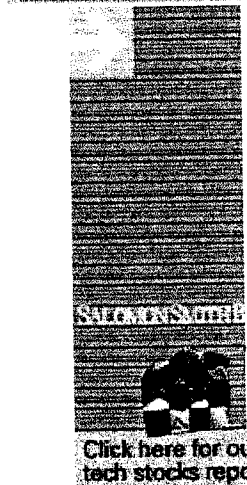
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Dow Jones Industrial



Dow	10607.04
Nasdaq	3786.04
S&P	1462.97
WT ADR	1357.33
30Yr Tr	5.94

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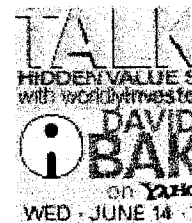


American Cent

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Nadine Wong
Biotech Stocks

conditions, the beige book, indicated that there are too few employees around. Finally, rumors from the bearish "irrational exuberance" clique abounded that the Fed is set for 50-and-50 basis-point increases in interest rates, one before the Federal Open Market Committee meeting and one at the meeting.



To add verisimilitude to the disruption, the market pulled out the broken window gambit. Novell (NOVL: Nasdaq) said its earnings would fall more than 50% short of expectations, and members of the audience not in the inside clique sold in droves, bringing it down 75% below its Feb. 17 high. In an environment like this, almost any attack is much more successful.

Amid all the bad news, some buyers appeared to have called a wildcat strike. Average daily volume in Nasdaq stocks so far this week was just 75% of the average for the year. "Nobody wants to commit new capital," said a friend in the brokerage trade. And as the market slid Tuesday and Wednesday, the Capitalist Pig, a market column for 20-somethings, sent out a missive entitled **DON'T BUY THE DIP.**

It is well to remember that first-quarter earnings reports usually carry the greatest information content of all the four reports during the year, and to note that 72% of the S&P 500's reports so far have been above expectations. On an absolute, market-capitalization-weighted basis, earnings are running up 28% from the year-earlier quarter. Against this backdrop, a broken window or graffiti on the brokerage statements holding Novell may not be overly important.

It also bears remembering that for all the noise made these days when the 30-year bond yield pokes above 6%, the yield stayed mostly above 6% from 1990-1997. The lowest during that period was about 5.79%, and the high was about 9.17% on Sept. 24, 1990. During that long period in the 6%-plus desert, the S&P 500 returned 240%, including dividends.

We have been wrong many times before, and we hope we will live long enough to be wrong many times in the future. Such is the nature of a forward-looking commentary. At times like these, we reiterate that all participants should sell to the sleeping point.

Survival is key when you have an edge, because

then it's only a question of time until you start profiting. All who are long-term holders have an edge, and the market wishes to shake them out now. We would like to believe that all our readers, who collectively are infinitely more au courant and wise than ourselves, do have an edge with the sharing of wisdom with us and other readers.

With that in mind, we note that the market mistress has one last day today to scare weak longs. She loves to do this on the day before the monthly employment report, and almost invariably it is darkest before what usually turns out to be a very benign stock market reaction to the actual number.

As Mark McNabb, a Virginia Tech University professor, wrote, "There have been 30 PPI reports, 30 CPI reports, 30 NAPM reports, and countless sales reports and beige books since 1997, and I'm willing to guess that when the equity market looks over its shoulder to the bond traders for guidance, that any apprehension that results in a decline of significance has only provided a buying opportunity, both short- and intermediate-term, to the equity market."

As we go to file our column, we can report confirmation of Professor McNabb's speculation. We examined 74 similar instances over the past six years where interest rates showed a significant increase over the previous ten days. Such events were highly bullish for stocks over the next five days, with a rise (and usually a very nice one) occurring in 70% of all occasions.

Unfortunately, there is considerable overlap in the observations, so we will not be able to follow the directive of our mentor and reader Steve Stigler, who advises in his masterful book, *Statistics on the Table*, that important issues like this require methods for measuring and expressing the uncertainty in the conclusions, as well as conventions for deciding how much uncertainty is too much.

But as McNabb said, "Equity can scarcely call the bond side better informed on the direction of rates and, especially, Fed policy, as the bond community is steeped in economic traditions from insular markets that no longer exist. Their reasoning is like double batter-dipped deep-fried Cajun chicken with extra spices. All that theory sounds great; but eat too much, and you get

indigestion."

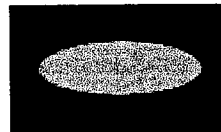
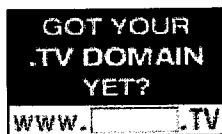
Speculator's Scorecard

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Nasdaq	1.21	Down 2	-8.9	-2.3
Europe STOXX-50	1.26	Down 1	7.3	5.6
Dollar/euro	0.83	Down 2	-11	-5.3
Nikkei	1.00	Up 2	-3.0	11
Dollar/yen	0.93	Down 1	6.4	4.0
Gold	0.87	Up 2	-3.4	-1.1
Oil	1.33	Down 1	17	7.7
Bond Futures	1.27	Down 3	4.7	-2.4
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Laurel Kenner Victor Niederhoffer DAILY SPECULATIONS

2:16 PM ET 05/05/2000

market glance

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Dow Jones Industrial Average

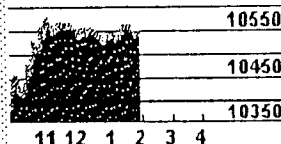


Table with market indices: Dow, Nasdaq, S&P, WI ADR, 30 Yr Tr.

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Readers Weigh In Ahead of Data

By Laurel Kenner and Victor Niederhoffer Columnists

05/05/2000 7:59 AM

We've been saying all week that the market would try to shake out the longs before a bullish employment number. Big declines on Tuesday and Wednesday were followed by a stalemate on Thursday, as the market closed almost exactly unchanged. The S&P 500 never rose more than 0.4%; nor did it fall more than 0.7% from the previous close. Nasdaq 100 futures rose 0.13%.

By the time you read this, you may already have found out whether we were right or wrong. Today should be a wild day: Europe and Asia are up, and as we write, the broad US market is up about 0.5% in early trading. The night bonds and that omniscient market, the German bunds, are showing stability. So the preliminary indications are not altogether out of line with our point of view.

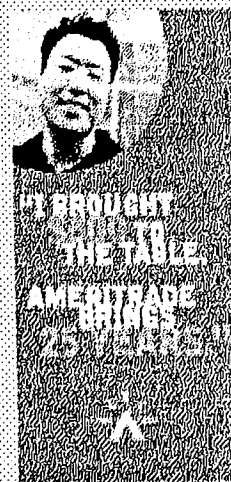
But that could change on a dime. The market likes to make monkeys out of a duo like us who are willing to stick their heads out from time to time rather than retreating behind the placid mediocrity of description or, as Galton so directly put it, shrinking "from the responsibility of standing and acting alone" and instead exalting "the vox populi even when they know it to be the utterance of a mob of nobodies."

But since we're writing before the number's release, we're going to stay above the fray and share some of the outstanding insights we've been getting all week from our readers.

We've said from the beginning that the market is too dynamic, too ever-changing, too complex and too specialized for any two, even two with a combined 100 years, to encapsulate properly. But by tapping into your tastes, your abilities and your know-how, we hope to be able to deliver something au courant and valuable.

We're sending canes to everybody quoted below as a reminder to hobble down to Wall Street to buy good stocks, at appropriate points in the ever-changing cycles, just as canny old traders did back in the days of top hats.

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The following insight on "the squawk effect," from reader David Ciocca, should be taped to every investor's television set: "Essentially the best strategy is to ignore the words of Wall Street pundits - completely. Their opinions are biased and not quantifiable. The bias comes from several points - including underwriting, trying to move blocks of stock, etc. The lack of quantifiability is the real kicker for me. I've never seen any reasonable statistical evidence regarding analyst calls - going either with or against. It's pretty random.

"Another is total lack of accountability. When some analyst raises xyz.com to strong buy, and sets a zillion-dollar price target, he gets on CNBC, chat rooms, etc. That's marketing, Year 2000 style. Notice that these people are quite well paid to get exposure, not worry how their picks perform, as there is no real consequence for being wrong. In fact, it may get them even more publicity. (By the way, has anyone else noticed that the number of attractive young females giving recommendations on CNBC and CNN is off the charts? I doubt this is by chance on these stations with a large majority of male viewership.)

"I swore off CNBC two years ago, but still catch glimpses from time to time. I've heard many people blame the financial media, brokerage firms, etc., for the recent market break, and that's childish. Do your own homework, focus on science, and ignore the talk. I think you'll sleep better."

We could all use more sleep, David. Thanks.

Jim Daniels takes on another market species: stockbrokers. He has come to see his former broker, he says, as a market tell. Right now, "He is very bearish and sees outright catastrophe in the near future. This guy is always wrong and to my knowledge has never made a dime in the markets."

Tom Augenthaler turns for inspiration not to brokers or pundits, but to great military commanders. "My position is such that no obstacles, such as a forest, are situated at my back (which means I have a sound line of retreat) - as I learned from Caesar." Having a clear line of retreat might include avoid illiquid stocks and having enough in reserve to cope with contingencies, we'd venture to say.

Steven Tobin, for his part, says he finds it best to go easy on the war metaphors: "If one views the market as 'enemy' and trading as 'battle,' the result is likely to be combat fatigue."

Lastly, we are pleased to unveil, with his permission, the identity of Estudiante Y2K, the business school student and library denizen who wrote us with the insight, "The market will do what will confound the most." He is Larry Chen of the

University of Michigan. Recently, he told us that the Jimmy Cannon maxim we cited a few days back as an example from the great sportswriter's "Nobody Asked Me, But..." columns -- "When I ride in a taxi I consider all pedestrians to be hindrances. When I'm afoot all vehicles become my foe" -- can be applied to trading.

Just as Cannon hated pedestrians only when he is in a taxi, "the uneducated speculator is bullish simply because he owns stocks," Estudiante wrote. And just as Cannon hated taxis when he was the pedestrian, "the untrained speculator maintains a bearish posture simply because he is short."

And to return to where we began this week, with the deceptive, card-playing, hurricane-unleashing mistress of markets, a reader who identifies himself as Leonard offers insight into playing poker with the lady. "The little guy's biggest handicap is his (or her) own psyche: they MUST be in the market. The need for instant gratification and ego fulfillment sit as close as the keyboard. I always remember Stanley Kroll's books as useful in that regard. He stressed that money was made by sitting still and letting the move play itself out, rather than frantically trying to catch every twist and turn."

That holds true for this week and for all time. Thanks to all for those insights, and please keep them coming for our mutual benefit.

Speculator's Scorecard				
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Europe STOXX-50	1.23	Down 2	6.7	3.4
Dollar/euro	0.85	Up 1	-12	-5.4
Nikkei	1.00	Up 2	-2.6	-3.4
Dollar/yen	0.91	Down 2	5.3	2.9
Gold	0.91	Up 4	-2.6	-0.4
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Bond Futures	1.24	Down 4	3.6	-4.3
2-Yr Note Futures	0.87	Down 9	-0.8	-0.9
Bund Futures	1.12	Down 3	0.5	-1.4

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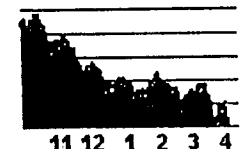
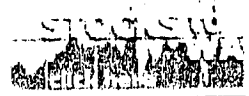


Table with market indices: Dow (10578.43), Nasdaq (3724.83), S&P (1424.43), NY ADX (1351.10), 30Yr Tr. (0.21)



In Fishing for the Big Ones, X Marks the Spot

By Laurel Kenner and Victor Niederhoffer
Columnists

05/08/2000 8:29 AM

The following letters were found in a bottle off the coast of Newfoundland. We share them because they seem to contain potentially valuable information...

From an initial reading they seem to refer to a reader stock-picking competition to be held on www.worldlyinvestor.com this week...

May 3, 2000

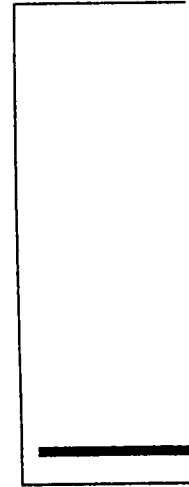
Dear Laurel,

The fisherman's telegraph line, Laurel, is rife with rumors that you have amassed lists of individual stocks that you believe have potential for superior price appreciation relative to risk.

When I heard this, I almost jumped up on the boat for joy because, quite frankly, while we read you every day on the Internet at www.worldlyinvestor.com, the one thing we fisherman wish for is your insights on the right stocks to buy right now.

Allow me to introduce myself, Laurel. I'm a 20-something dropout from U. Maine at Presque Isle. For the last three years, I've made my living as a crewman specializing in setting lures on a 250-foot swordfish boat out of Rockport.

During these trips, we used to spend the evening watching Lonesome Dove and reading Louis L'Amour novels. But in the last few years, we've



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on gone on into, and we trade stocks over the net when there is slack time. The ship library used to contain things like *Playboy* and Sidney Sheldon, but now it's mainly devoted to Value Line, S&P and *The Wall Street Journal*.

In any case, we all read your work every day, and we learned there that you have stripped away all essentials from the process of stock selecting, and started not with sales, or earnings, or net worth, or margins, or Ph.D.s, or press releases, or patents, or lightness of product, or what have you, but with the letters of the company names themselves.

Before dropping out, I majored in biology and linguistics. An index based on letters in company names made so much sense to me. After all, DNA and RNA strands are best looked at letter by letter. This will enable us to ultimately unravel the whole structure not only of mice and sheep, but also of humans themselves. And in languages, the basic building blocks – the letters – are the keys to how people think and what kind of culture is involved.

Anyway, now that I know you can tell me how to make a buck as well as which way the market's going, well, in all honesty, I'm ecstatic.

Fisherman Vic

May 5, 2000

Dear Fisherman Vic,

What you heard over the telegraph line is true. (That's pretty good reception you have out there, fisherman.) I went through the monthly stock guides, and each December for the last two years, I found all the companies that begin with X. Then I simply examined their return for the next year.

When I say simple, Vic, it wasn't that simple, because these X companies have a way of being acquired and slipping away like a bass from bait. Of the 12 companies I started out with, five have been acquired. So I assumed that the proceeds from this acquisition were reinvested in the index at that time.

I'll publish the results in a column soon.

May 6, 2000

Dear Laurel,

All the fisherman are talking about your letter. They like how you selected the companies contemporaneously, because they've noticed that almost every other study of systems and indexes is selected retrospectively and this makes the results about as valuable as setting your nets in the same place as rival boats were catching fish last week.

It might interest you to know, Laurel, that sometimes during the evenings the captain allows me to get on the radio and talk to captains on other boats. Well, it's funny, the backing and filling among the captains -- the way we try to deceive them into thinking we're doing badly or well, so that they won't interfere with our real goals and plans. It reminds me of nothing more than the clagues and touts on the Money Honey channel, which all the guys here are so partial to when they're not reading you.

Well, here goes. We're coming into Rockport on Monday, May 8, and without beating around the bush, I sort of won the boat pool. And I was selected to host you, if you're willing of course, to a fish dinner at the Four Seasons restaurant in New York. They buy our produce fresh off the boat, and I can assure you it's No. 1 quality.

Also, I've heard that they have recently filled up their pool again, which they emptied when the Nasdaq took that 25% dive a few weeks ago, for fear that some of their patrons might drown themselves in it.

I hear you are great at swing, and while this is not my specialty, I can do a hornpipe or two. So if you're willing, Laurel, and if you could just share your current list of X companies with me at that time, it would be the thrill of a lifetime for us on the boat, and I hope you will not be overly disappointed.

Fisherman Vic

Monday, May 8

Dear Fisherman Vic,

I will be happy to have dinner with you tonight, but it would not be fair to my readers and it might raise the hackles of the referees if I revealed my list to you privately. So here is the list, which I am simultaneously posting to my readers.

Of the 12 companies in the water on Dec. 31, 1997, five have been gobbled up by bigger fish. Xionics, Xomed, Xylan, Xoom.com and XLConnect were alive and very healthy when eaten, in most cases a few hundred percent bigger than when I first spotted them. I assumed that these fish went to Father Triton at the time they were acquired and asked for a Treasury bill return until the end of the year.

The seven still swimming today are: X-Rite (XRIT: Nasdaq), Xeikon (XEIK: Nasdaq), Xerox (XRXNYSE), Xicor (XICO: Nasdaq), Xilinx (XLNX: Nasdaq), Xircom (XIRC: Nasdaq) and Xtra (XTR: NYSE).

And I'm adding four new companies to the list as of the end of April, namely: Xcelera.com (XLA: Amex), XL Capital (XL: NYSE), Xpedior (XPDR: Nasdaq) and XM Satellite Radio Holdings (XMSR: Nasdaq).

The index started at 100 at the end of 1997, advanced to 141 by the end of 1998, rose to 287 at the end of 1999, and stands as of May 5, 2000, at 333. This compares to a move from 100 to 153 in the S&P 500 during that period and from 100 to 253 in the Nasdaq.

Looking forward to swapping more fish.

Laurel

Speculator's Scorecard

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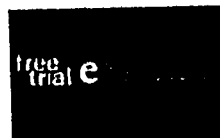
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What a second of downtime costs your e-business

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9:38 AM ET 05/09/2000

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A Whale of a Stock-Picking Competition

By Laurel Kenner and Victor Niederhoffer
Columnists

05/09/2000 8:15 AM

Whenever it is a hot, humid early summer in my soul; whenever it requires a strong moral principle to prevent me from deliberately stepping into the street and methodically knocking people's hats off; whenever there is no volume and no movement and no apparent way to make money in the stock market - then, I account it high time to get to speculative seas as soon as I can.

Ishmael, in Herman Melville's Moby Dick, never went to sea as a passenger, but as a sailor. That way he could breathe the pure air of the forecastle deck before it ever got to the commodore back on the quarterdeck. In much the same way, Melville wrote, "the commonalty lead their leaders in many other things, at the same time that the leaders little suspect it."

We began this year with the idea that only with the participation of readers could we accomplish our goal of writing the best stock market column of all time. And the people who have been kind enough to read and respond to our columns have surpassed all our expectations. Not one of them appears on television as a talking head; rather, like sailors they are out in front getting good exercise and breathing the fresh sea air before it ever gets to the upper hierarchy on the quarterdeck, where it can be distorted by a thousand foul scents.

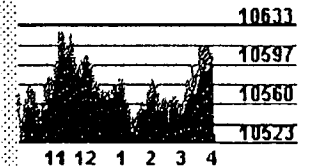
Just as Ishmael bravely responded to the call for a whaling expedition, our mailing list - medical doctors, money managers, academics, tech industry entrepreneurs and journalists - promptly took us up on our invitation to enter a stock-picking competition.

We set down just two rules. One, the stock had to be a highly speculative one -- a whale -- that they did not currently own. Two, we required them to voice their reservations about buying.

We received 25 entries. At the end of six months, we will compare the performance of the Sailors' Index with

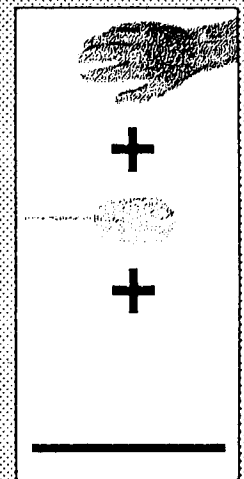
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Dow Jones Industrial Average



Dow	10003.63	0.00
Nasdaq	3889.38	0.00
S&P	1424.17	0.00
WI ADR	1348.23	0.00
30Yr Tr	8.25	0.00

Data delayed by 20 minutes



that of the Nasdaq 100. If the sailors win, we will hold a gala party in New York City to which all who entered are invited. We'll also reward the individual winner of the competition with a good fish dinner at an appropriate venue.

Our readers are geographically dispersed and may not be able to make the voyage to New York City, but we will pick up the tab at a dining establishment of the winner's choosing. Something tells us that the odds in favor of the gala party taking place are 10 to 1 or better.

There is room for two whaling boats on the sea. If more readers submit picks, we'll form a second portfolio, the Sailors' Index II. Include your name, why you like it, and what makes you hesitate to buy it now.

Yesterday's move had the seeds of chaos in it -- down substantially from close to close but up substantially from open to close. Just enough divergence to fake out all the fixed-rule players. Our reading is that such actual chaos (as opposed to the non-predictive and non-quantifiable stuff usually trotted out) is quite bullish, and we are betting that Vic will get to see his chiropractor at the end of the day.

Readers' Picks			
Pick	Reader	Like	Dislike
Auspex (ASPX)	P.L.	Watch list	Not sure it has legs to run again
BHH (BHH)	D.W.	Stock already reflects bad news	Chart looks like expert ski slope
Bookham (BKHM)	J.B.	Credible customers	High valuation
Caliper (CALP)	M.M.	Biotech testing on a chip	Insane volatility
Celera (CRA)	H.P.G.	Cutting-edge science	Doubly speculative: biotech tracking stock
Celera	L.A.	President Craig Venter is a genius	Stock's huge valuation
Cree (CREE)	P.G.	Fast growth, powerful market share	Very pricey
Euro	O.M.	Big institutions protect themselves	I don't follow currency market
Foundry (FDRY)	H.B.	Producers revenue	Enough problems keeping \$\$

Globalstar(GSTRF)	S.H.	Bears use false logic	Bandwagon can still run me down
Heat Oil	H.C.	Six months about right	Highly speculative
Hyseq(HYSQ)	R.A.	Expect collaboration with big co	Lawsuit still unsettled
InfoSpace(INSP)	R.W.E.	scalable technology	Blood-letting may not be over
Ligand Pharm.(LGND)	B.S.	Good drug pipeline	I don't invest in individual stocks
MillenniumPharm.(MLNM)	R.L.	Big-thinking management	No products near market
MillenniumPharm.	R.B.	Unique industry position	Stocks has run up
Playboy(PLA)	J.H.	Bunny popping up everywhere	No revenue growth
Protein Design Labs(PDLI)	T.V.	Strong research	Uncertain govt position on biotech
Qwest(Q)	H.L.	Significant growth opportunity	Speculative
Qualcomm(QCOM)	D.F.	High Data Rate Wireless in 2001	I only buy indexes
Rambus(RMBS)	J.R.V.	Great technology	Uncertainty over PC standard
Terayon(TERN)	B.P.	Industry dominance	Earnings needed in bear market
Tibco(TIBX)	J.B.D.	Info dissemination technology	Tried to buy and hold in 80s
Tokheim(TOK)	F.L.	80% of the world market	Needs new management
E. Eur. Fund(VEEEX)	J.G.	Big upside if EE joins EU	Political risk

On Tuesdays, we always receive a number of communications from concerned readers on Tuesdays hoping that Vic gets to go the chiropractor at the end of the day's trading. Appropriately, the missives always end, "for your sake as well as ours." As we write, European markets are down while US futures are indicating little change, and Vic hopes to make that appointment.

Speculator's Scorecard				
	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.05	Up 2	-7.8	-2.8
S&P 500	1.00	Down 1	-3.1	-0.4
Nasdaq	1.23	Down 1	-9.8	5.4
Europe STOXX-50	1.23	Down 1	6.2	1.8
Dollar/euro	0.85	Up 2	-11	-4.3
Nikkei	0.95	Down 2	-5.8	-2.3
Dollar/yen	0.96	Up 3	6.7	2.9
Gold	0.87	Down 2	-3.9	-1.1
Oil	1.35	Up 3	23	7.9
Bond Futures	1.18	Down 6	2.6	-4.9
2-Yr Note Futures	0.83	Down 11	-1.0	-1.0
Bund Futures	1.17	Up 2	0.8	-0.7

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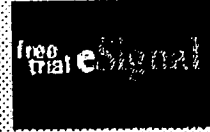
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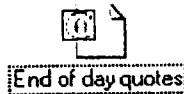
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Herding Instincts in Whales, Market Participants

By Laurel Kenner and Victor Niederhoffer

Columnists

05/10/2000 9:25 AM

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"Whosoever of ye raises me that same white whale, he shall have this gold ounce, my boys!" - Capt. Ahab, hammering a Spanish gold piece to the main-mast as a reward for the whale in Herman Melville's *Moby Dick*.

When we ran our Sailors' Index of reader stock picks yesterday, we invited others to participate in a Sailors' Index II. We are pleased to report that a good number threw their harpoons into the "briny deeps," as reader Gwen E. Shafer put it.

From the picks, it's evident that our readers expect that technology companies have the best chances for superior performance. The picks show great variety, but all the companies possess or hope to possess some niche or edge in a growing industry.

Fishing on Turbulent Seas

It's also clear that the recent turbulence of the market has shaken everyone up. In submitting his stock pick, Illinois Superconductor, Robert Morris might have been speaking for all when he wrote:

"Reason to buy: Beaten-down volatile stock in volatile sector.
Reason NOT to buy: Beaten-down volatile stock in volatile sector."

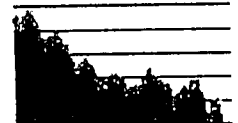
We'll announce the winners in six months. Good luck to all.

While all this fishing was going on, we received a missive from 10-year-old Devon Malori, who wrote us that while walking on the beach one

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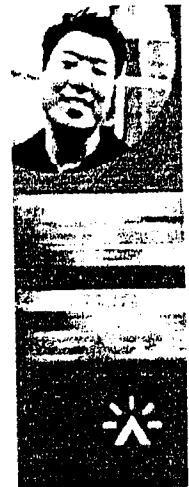


Dow Jones Industrial



11	12	1	2	3	4
<u>Dow</u>	10578.43				
<u>Nasdaq</u>	3724.83				
<u>S&P</u>	1424.43				
<u>WI ADR</u>	1351.10				
<u>30Yr Tr.</u>	6.21				

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American Cent

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evening she discovered a bottle with a message inside:

Message in a Bottle

"We fishermen follow the schools of fish, to maximize our catch. A few fish (usually the weak and dying) always swim away from the school. But every so often, the strongest, leader fish break away from the school. Wise fishermen follow the strongest lead fish because they know that the school will soon follow."

Miss Devon said she didn't know what it meant, but thought she should tell us. She added that the following cryptic phrase appeared at the bottom of the page: "Five-day breakaway from the school: CSCO, QCOM, LU, ORCL, T."

"I hope that helps you," she wrote. "I'll tell my dad about it too."

At first we thought that Miss Devon was a grown-up having a bit of fun with us, and demanded that she tell us what hedge fund she worked for after school. But it turns out that she is a bona fide 10-year-old with insight into the stock market. We have therefore made her an official Speculators' Correspondent, and have encouraged her to share the contents of any other bottles she happens on.

Melville's "Moby Dick" is a classic work of genius, which like the oeuvre of Cervantes, Dante, Hugo, Rabelais, Shakespeare, Tolstoy, Twain, Homer and Virgil, is as fresh today as it was 150 years ago when it was first published to great critical rejection. Miss Devon talks about the declines of the tech-telecom herd -- Cisco (CSCO: Nasdaq), Qualcomm (QCOM: Nasdaq), Lucent (LU: NYSE), Oracle (ORCL: NYSE) and AT&T (T: NYSE). And Melville, describing a group of gallied, or panicked, whales that broke formation and started swimming in vast irregular circles, speaks to us today:

"Had these Leviathans been but a flock of simple sheep, pursued over the pasture by three fierce wolves, they could not possibly have evinced such excessive dismay. But this occasional timidity is characteristic of almost all herding creatures. . . Human beings, when herded together in the sheep-fold of a theatre's pit, will at the slightest alarm of fire rush helter-skelter for the outlets, crowding, trampling, jamming and remorselessly dashing each other to death. Best

Therefore, without any amazement at the strangely galled whales before us, for there is no folly of the beasts of the earth which is not infinitely outdone by the madness of men."

The tendency to act as a herd is appropriate for oxen and whales, but inappropriate for humans in almost all situations, especially stock market investing. After two bad days in the Nasdaq and a 10% retreat from its recent post-crash high, it is time for standing against the tide with massive, vitalizing, life-sustaining purchases good for a generation or two, rather than retreating to the mediocrity of the center.

The following list of picks of our readers may serve as a starting point.

We are sorry to report that Laurel was forced to leave her rendezvous with Fisherman Vic early to meet a deadline. As the keeper of all indexes, she takes her job very seriously. In her haste to get to her PC, she left the Sailors II list behind. Imagine her relief this morning to find it in her lobby with the following note:

"If I live to be 100, Laurel, I will never forget the pleasure it was to dine with you and to talk about your stock picks and background as a concert pianist and police and aerospace reporter. Please forgive me if I fired question after question at you, but I was just off the boat, and I had a list to answer from my fellow fisherman. I was of course disappointed that you had to leave so early, but I understand that markets, to people like you, will always take precedence over pleasure, albeit in your case the two seem intertwined. In any case, I presume the sealed envelope you left behind contains the list of companies recommended by your readers as purchase candidates, and I enclose it herewith before returning to Rockport. Au revoir, star reporter. Fisherman Vic."

Thanks, Fisherman.

Readers' Picks II

Pick	Reader	Like	Dislike
4Kids Entertainment (KIDE)	M.S.	Second Pokemon movie opens in July	Shorts say Pokemon was a fad
Aether (AETH)	R.M..	Jumps 20 points on merest hint of bullishness	I suspect it's absurdly overvalued
Aether (AETH)	M.L.	Sells to rapidly growing wireless	No track record

Commerce One (CMRC)	T.A.	Infrastructure for B2B online commerce	Too pricey, volatile
Conductus (CDTS)	G.A.	Rewards from booming wireless.	Uncertainty on timing.
Electric Fuel (EFCX)	S.T.	Promising technology	Unknown, untested company
III. Superconductor (ISCO)	B.M.	Beaten-down volatile stock in volatile sector	Beaten-down volatile stock in volatile sector
III. Superconductor	M.L.	Huge market potential	Market wants earnings now
ImClone (IMCL)	G.E.S.	They'll fly if their cancer drug works	They'll tank if it fails (report due May 20)
Individual Investor (INDI)	S.L.W.	Growing need for investment information	High volatility of small-cap market
Invision (INVN)	M.G.	Huge backlog, chance for explosive growth	Dependent on govt contracts
Jaco Electronics (JACO)	R.A.W.	Well-run growth company	Not the best time to buy.
JDS Uniphase (JDSU)	S.K.I.	Fiber-optics are the future, not DSL or cable	Moves closely with Nasdaq
LightPath Tech. (LPTHA)	P.W.P.	Optical equipment w/optical computing kicker	In grips of message board chattering class
NCT Group (NCTI)	P.H.	Noise cancellation technology	Don't want to take out a second mortgage
Palm (PALM)	M.H.	70% market share	More shares in July
Qlogic (QLGC)	H.F.	Computer storage market niche	Ancor bid expensive
Siebel (SEBL)	J.F.	Destined to become blue chip	Inflated valuation
Silicon Storage Tech. (SSTI)	L.C.	Making new highs in bear market	Will get slammed if market goes lower
Sony (SNE)	F.M.	Will bring the Net to TV	High valuation
Sycamore Networks (SCMR)	F.G.	Major player in booming fiber-optic telecom area	highly volatile stock
Thermo Tech (TTRIF)	H.K.L.	Future possibilities	May never come to pass

Some readers reported some trouble in linking to our e-mail. If you did, or would like one more chance to enter the competition, kindly e-mail us at speculators@worldlyinvestor.com. We value your recommendations, and are confident they have considerably more predictive value than those of star analysts or brokerages.

We will report periodically on the progress of these portfolios in our Speculator's Scorecard. In six months, we'll hold a gala party for the team or teams that beat the Nasdaq 100's performance. And we'll treat the individual winners in each index to a good fish dinner at the

...ing establishment of their choice.

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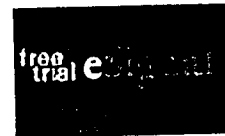
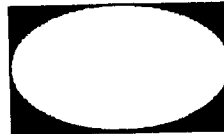
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trading day

The Market Tests and Retests Its Lows

By Laurel Kenner and Victor Niederhoffer

Columnists

05/11/2000 8:23 AM

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It was a cold October of a May day in New York on Wednesday, with the temperature dropping 30 degrees, the S&P 500 falling 2% and the Nasdaq sinking 6%.

Bad weather is inordinately associated with big market drops. While studies to this effect have appeared in learned journals, we ordinarily would not unload such a shibboleth without putting some statistics on the table. But we've devoted this week to approaches to individual stock selection and we are overwhelmed.

Fish for a Lifetime

We believe that the fruits of this effort will last for a lifetime rather than the short time that it will take for this market to return to ebullience.

Wednesday was one of those days that was much easier to game from the grandstand than the playing field. From the comfortable view of hindsight, it was easy to foresee. The S&P 500 opened down about 1% at 1409, almost exactly what it did last Friday. But instead of rising 2% as it did Friday, on Wednesday it did the opposite, dropping 2%.

The market doesn't like to make things easy for its votaries, any more than Christy Mathewson would pitch to a batter's groove.

Bulls Run Scared

The relentless retest of the old lows in the market has been fearsome enough to bring a tone of caution to even the stalwart bulls among our savants.

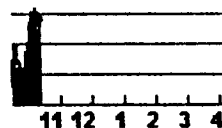
"It's never good when the leadership takes a

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Dow Jones Industrial



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Nasdaq	2490.21
S&P	1402.00
NYADR	1287.00
S&P 500	0.18

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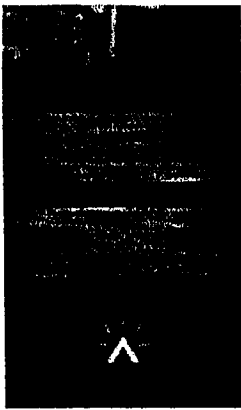
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DAVID H BAKE

Thurs, May 4 7pm ET/

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Journal, writes Mark P. McNaught of Virginia Tech University's business finance department, referring to Cisco's (CSCO: NYSE) debacle this week. "One has to believe that the bears frolic from the May Fed meeting to June options expiration. The light volume this early suggests fear. This time we could get fear that distracts us from our typical disinterest as the market waits for the next rate hike to determine when the skies are clear...could see real illiquidity out there."

"And the irony," he adds, "is that I'm the optimistic one!"

In times like these, and at all times, it's good to stand back and do some measuring and counting, as recommended by our patron saint Francis Galton, inventor of multivariate analysis, fingerprinting, weather maps, composite photography and the whistling teapot.

We expect a bullish whistle from the market imminently. Meanwhile, we'll look for insights by analyzing the entries for our reader stock-picking competition, now that all the picks are in.

Three Nets now in the Water

First, a few words about the competition. The first group of entries, published Tuesday, were invited from readers who have been giving us feedback over many months. The second group, which ran Wednesday, was from people who read Tuesday's column and were able to make their decision pretty quickly.

Some of the readers who made submissions for the third group of entries, published today, unfortunately were unaware of the rule requiring that the stock be one they didn't own. Without in any way pointing an accusatory finger, there's an all-too-human tendency to hype one's holdings so as to get others to push them up. So we eliminated entries when the reader disclosed an ownership. We also discarded picks when the reader omitted to say why they hesitated to buy now -- another attempt on our part to bring some objectivity to the picks.

Here is the third and final list:

Readers' Picks III

Pick	Reader	Like	Dislike
Be Inc. (BEOS)	L.F.	Operating system for Internet appliances	Internet appliances????

CMGI (<u>CMGI</u>)	S.E.	Will benefit from all aspects of Internet	faces competition from DoubleClick
Copper Mountain (<u>CMTN</u>)	J.Z.	DSL hot	Stock may fall with market
Echelon (<u>ELON</u>)	T.	Management, profit outlook, customers	Unproven market
Energy Conv. Devices (<u>ENER</u>)	R.B.	Cutting-edge ventures with bunch of gorillas	Decades of no profits may not end soon
Imaging Diagnostic (<u>IMDS</u>)	M.O.	Developing new, less unpleasant mammography	FDA approval uncertain; bulletin board
Incyte (<u>INCY</u>)	D.J.Q.	World-changing field	Valuation affected by herd instinct
Robotic Vision (<u>ROBV</u>)	G.C.	Growing earnings	Too small to compete with big rivals
Tibco (<u>TIBX</u>)	N.L.	CEO a genius; Reuters/Cisco backing	Very volatile; try catching in low 50s
Vari-L (<u>VARL</u>)	P.S.	Wireless parts maker ramping up into prime-time	May be too small

We can report that stocks in the biotech-medical field excited the greatest interest, with 10 picks of the 55 total selections. Telecom equipment companies, including fiber-optics parts makers, were runners-up, with eight.

Next was software (six companies), and chips (five). Three are involved in helping businesses adapt to the Internet. Two make next-generation batteries. The rest were scattered in various categories.

Surprisingly, no dot-coms made the list.

With 55 entries, readers chose the same stock in only four cases.

Twenty of the companies have market values below \$500 million. Three were between \$500 million to \$1 billion, 12 were between \$1 billion and \$5 billion, and 15 were greater than \$5 billion.

Four-fifths of the stocks are on the Nasdaq, vastly outnumbering the four New York Stock Exchange listings. There were four bulletin-board stocks and one each from the Nasdaq Small-Cap listings and the American Stock Exchange.

We also looked at insider transactions on these stocks, and note that in only eight cases was the last transaction by a company officer or director a buy: Caliper, Ligand Pharmaceuticals, Tokheim, Invision, Jaco, Palm, Beos and Robotic Vision.

You need every edge you can get. And trades by insiders have predictive significance, according to numerous academic studies -- including one of Vic's, published 35 years ago in *The Journal of Law and Economics*, and the most recent definitive study, *Investment Intelligence*, by H. Nejat Seyhun. For the 12 months following insider purchases, Seyhun found, stock prices outperformed the market index by two percentage points.

We'll publish updates from time to time on how the three teams and the individual picks are doing. Winners will be announced in mid-November. We'll buy a fish dinner for the person in each group whose stock had the greatest percentage gain, and we'll have a party in New York for the members of any group that beats the Nasdaq 100. Thanks to all for entering.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.00	Down 2	-9.8	-5.3
S&P 500	0.96	Down 3	-5.9	-5.3
Nasdaq	1.17	Down 3	-17	-6.8
Europe STOXX-50	1.17	Down 3	1.5	-3.8
Dollar/euro	0.86	Down 2	-9.9	-1.8
Nikkei	0.91	Down 4	-11	-6.3
Dollar/yen	0.91	Down 1	6.8	2.9
Gold	0.88	Down 1	-3.6	0.7
Oil	1.34	Down 1	23	14
Bond Futures	1.23	Up 2	3.9	-3.0
2-Yr Note Futures	0.87	Up 2	-0.9	-0.6
Bund Futures	1.22	Up 4	1.1	-0.8

Laurel Kenner is a financial writer in New York City. During her 16-year career, she has reported on police, politics and aerospace, and most recently headed U.S. stock market coverage at Bloomberg News.

*Victor Niederhoffer is a private speculator specializing in futures and options trading. He formerly managed money and hedge funds, and had one of the best records until turmoil in Asian markets in 1997 caused financial disaster. He is the author of best-selling *The Education of a Speculator*. His hobbies include music, electricity, sports and ecology, all of which form a foundation for his scientific speculation.*

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All Hands on Deck

By [Laurel Kenner](#) and [Victor Niederhoffer](#)

Columnists

05/12/2000 9:00 AM

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Today's column marks the fifth in our series on approaches to selecting individual stocks. Sparked by a fortuitous letter by the scholarly Fisherman Vic, we started the week by reporting our index of highly proactive and strategic companies with names beginning in "X." We can report that since last Friday's close, the index fell 11% to 297, compared with 8.3% for the Nasdaq. There was not one winner among them. The worst of the lot was Xilinx (XLNX: Nasdaq), down 14%.

On Tuesday, Wednesday and Thursday, we started listening to the sailors -- our readers. We held a stock-picking competition, guided by the hypothesis that their knowledge is fresher, more incisive and more up to date than the narrow information that hits the canyons of Wall Street. We have made up three portfolios of their picks, and will measure the results in six months against the performance of the Nasdaq Composite.

The idea didn't meet with universal acclaim. A reader named Howard wrote in that while he really enjoyed Fisherman Vic's book, he was somewhat dismayed by the competition. "When you have to get contributions from readers on selecting stocks, I really begin to wonder," he said. "If I wanted to get the drivel from the amateurs, I can flip from one inane site to the next."

Sticking With the Crew

We wish we had more expertise in stock-picking or that we knew somebody we had confidence in. But our point of view is that the pioneers, opinion leaders, connectors and mavens out there are you, the readers, and that by discovering your



resources new:

9:54 AM ET 05/15/00

marketglar

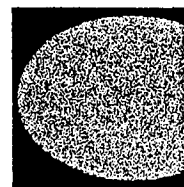


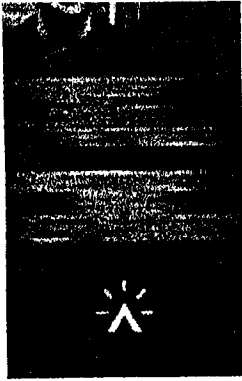
Dow Jones Industrial



Dow	10000.3
Nasdaq	3629.0
S&P	1420.8
MI-ADR	1319.1
SPY-ETF	8.2

Data delayed by 20





insights and reporting them, we do a much greater service than trying to unload the anecdotal insights that we bring to the fray.

But overall, we think Melville got it right in *Moby Dick*. "I always go to sea as a sailor," wrote Ishmael, "because of the wholesome exercise and pure air of the forecandle deck. For as in this world, head winds are far more prevalent than winds from astern, so for the most part the Commodore on the quarter-deck gets his atmosphere at second hand from the sailors on the forecandle. He thinks he breathes it first; but not so. In much the same way do the commonalty lead their leaders in many other things, at the same time the leaders little suspect it."

Shakespeare, Rabelais and Cervantes didn't set out to write works of genius; as so often is the case, genius arises naturally and without artifice. Chances are that someone out there with feet on the ground and nose in the air will do a better job at identifying such companies than a Wall Street analyst whose views may be colored by the Elysian pastures of gourmet meals, visits to the Masters and even the occasional underwriting fees.

We will add that we've been fortunate enough over the past months and years to become acquainted with many of the readers who submitted choices, and while they may not be as visible as the talking heads interviewed by the Money Honey and her good-looking ilk, they are hardly amateurs at the investing game.

Readers Provide Incyte

As we read through the entries, some themes began to take shape. Readers want to invest in companies emerging as leaders in industries that will change the world. Frank Martelli likes Sony (SNE: NYSE ADR) because it will bring the Internet to television. Shyam Krishna Iyer, an undergraduate student at Pomona College in Southern California, likes JDS Uniphase (JDSU: Nasdaq) because he thinks the fiber-optic cable it makes will be the backbone of future Internet access and telecommunications.

Many readers are interested in the revolutionary promise of genomics, the vast databases that pharmaceutical companies will use to develop new drugs, and offered such picks as Celera (CRA: NYSE) and Incyte Pharmaceuticals (INCY:

Nasdaq).

Some readers looked for companies with new technologies that could create market niches. Michael Ott, who is working on a Ph.D. in chemistry, has his eye on Imaging Diagnostic Systems (IMDS: Nasdaq), which is running clinical tests of an imaging technology for detecting breast cancer in a less uncomfortable way than the standard mammograph.

Developing new ways to improve the standard of living is what makes life a non-zero-sum game. It's a positive impulse. While it's reasonable to be concerned about overvaluation, that shouldn't blind anyone to the investment potential of strong technology companies.

Market Intel-ligence

Case in point: We note that while we were focusing our energies on individual stock selections, and probably because of it, the mistress of markets thought she could get away with sending in some very unfavorable winds. On Wednesday, she took the Nasdaq down almost 6%. But fortuitously, we pointed out in our Thursday morning column that she was just up to her old tricks and that a return to ebullience was imminent. And in fact, on Thursday the market did the exact opposite of what it did on Wednesday, almost to the minute.

One stock was at the center of this decline and reversal: Intel (INTC: Nasdaq).

After announcing a product recall, Intel fell 9% on Wednesday and gained 9% on Thursday. While we have been overwhelmed by the task of recording, describing and analyzing the periodic table of investments submitted by readers, we did, in the spirit of Francis Galton, put the pencil to the back of the envelope and looked at Intel's last three drops of similar magnitude, in each case cited as the trigger for a general market decline. We found reason to be bullish both on Intel and on technology companies.

Aug. 31, 1998: Intel fell 7% on concern that slower global growth will hurt computer sales. The stock rose 7% the next day, and five days later was up 15%, compared with 11% for the Nasdaq Composite. It is up 124% since Aug. 31, in line with the Nasdaq's 125% rise.

March 5, 1998: Intel fell 13% on a profit

warning. The next day, it rose 3.4%; five days later, it was up 1.1%, compared with 3.1% for the Nasdaq. It is up 216% since, compared with 118% for the Nasdaq.

July 19, 1995: Intel fell 11% on a disappointing earnings report. The next day, it dropped 1.2% more, but was up 4.4% five days later, compared with 5.0% for the Nasdaq. It has since risen eightfold, compared with a 300% gain in the Nasdaq.

After a week like this, which at the nadir caused many of our readers to retire to their bunks to rewrite their wills, it is well to remember vis-a-vis the individual stock picks and the volatile Xs that were sparked by the messages we received in bottles, that "the sea rolled on as it rolled five thousand years ago."

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.02	Up 1	-8.3	-3.1
S&P 500	0.97	Up 1	-4.2	-3.9
Nasdaq	1.20	Up 1	-14	-7.3
Europe STOXX-50	1.19	Up 1	3.9	-1.2
Dollar/euro	0.84	Down 2	-10	4.5
Nikkei	0.89	Up 4	-11	-6.1
Dollar/yen	0.94	Down 1	5.9	0.3
Gold	0.88	Down 1	-4.2	0.4
Oil	1.37	Up 1	28	15
Bond Futures	1.25	Up 3	4.1	-2.3
2-Yr Note Futures	0.89	Up 3	-0.9	-0.9
Bund Futures	1.19	Down 1	29	15

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Greenspan Should Give Somebody Else the Ball

By Laurel Kenner and Victor Niederhoffer

Columnists
05/15/2000 8:51 AM

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We did exchange royal garments. Then we stood before a mirror and so alike were we that both said it seemed as there has been no change made.

-Mark Twain, The Prince and the Pauper

Patrick Ewing stands 7 feet tall, and at 37 is one of the oldest players in the National Basketball Association. He started out with a blaze of glory: No. 1 in the 1985 draft, Rookie of the Year in 1986, member of the All-Star team starting in 1986. He was hailed as the great hope for the Knicks to capture NBA championships.

Alan Greenspan is about 5 foot 6, and at 74 is past the age most workers retire. His record includes a 30-year career as chairman of Townsend Greenspan, a stint as chairman of the Council of Economic Advisers from 1974-1977, the miraculous achievement of a Ph.D. degree in 1977 some 27 years after completing his master's studies, and acclaim for putting the finger in the dyke in the midst of the 1987 crash to avert a catastrophe during his rookie year on the Fed chairman's job. He was hailed as the great hope for a virtuous economic circle of growth with little inflation and a rising stock market.

As current and former New Yorkers, we have suffered seeing the Knicks' inability to win a championship in basketball under the 15-year regime of Patrick Ewing. And most investors have suffered as Greenspan's Fed raised interest rates five times in the past 11 months, resulting in a lackluster stock market.

9:34 AM ET 05/15/00

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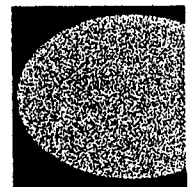


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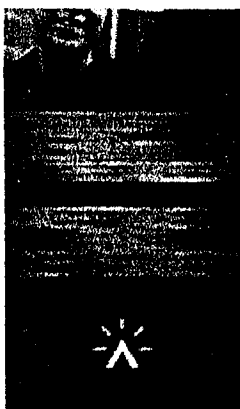
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Ewing's Old Game Hobbles Knicks

Playing an old-fashioned, one-on-one offensive game centered around the aging Ewing, the Knicks have repeatedly failed to gain an NBA championship. He often does not register a single assist or offensive rebound in a game. When a younger teammate, Marcus Camby, answered a question about Ewing returning from an injury, Ewing gave him a "death stare." When Ewing gets the ball, he invariably backs up into his patented high-outside-jumpshot game, as compared to the low inside game pioneered by Michael Jordan. During the crucial closing moments of a game, Ewing repeatedly calls for the ball from his teammates, to boos from the crowd.

During recent years, Greenspan has greeted each 1,000-point rise in the Dow Jones Industrial Average with growing dismay. He watches market movements on two computer terminals and a television set to CNBC, while spending hours at his cluttered desk "poring over reams of memos and dogeared statistical tomes," according to a May 8 story in the Wall Street Journal. Greenspan is known as a chairman who insists on unanimity in all decisions, and when a committee member does say something not in accord with the party line, it is often rumored that he can expect a chewing out from the chairman.

Greenspan's Old Game Hobbles Investors

The well-behaved crowds at Greenspan speeches would never go so far as to boo the chairman. But in private they have taken to expressing exasperation and cynicism at his remarks, and some congressman have even taken the chairman on. "The role of the Federal Reserve is to set monetary policy, not to jawbone the securities markets," Sen. Jim Bunning, R-Kentucky, told the chairman. One businessman suggested to a Fed official that Congress require Greenspan to hold a broad-based stock portfolio so he would personally feel investors' pain, according to the Journal article. (To avoid conflicts of interest, Greenspan's wealth is invested largely in Treasury bills.)

What Ewing doesn't realize is that the one game he plays has been passed over in modern basketball. "The Knicks are getting beaten for the same reason that Southwest Airlines ate the lunch of many larger carriers," writes reader Brett Steenbarger. "The large carriers were wedded to their hubs and routed all traffic

through them. Southwest flexibly defined the most profitable routes, bought smaller planes, and flew direct. The old style was Wilt Chamberlain, Bill Russell, and Pat Ewing: route through the big hubs. The new style is Michael Jordan, Grant Hill, Larry Bird, Magic Johnson: hurt you outside, hurt you inside, penetrate off the dribble, pull up for the jumper -- very unpredictable, very fluid."

What Dr. Greenspan doesn't realize is the simple truth that the modern economy is based upon innovation and research, not on the iron and coal that he wet his eyeteeth on during his 33 years at Townsend Greenspan. Research leads to development and growth in good companies. Then compounding, which Dr. Albert Einstein referred to as the most powerful force in the world, takes over to multiply the base earnings and sales by exponential factors.

Greenspan seems to rely heavily on work that Robert Shiller has published in his provocative book, *Irrational Exuberance*. One study in this book shows that companies with the highest price-earnings ratios up until 1989 returned less in the next 10 years than those in the lowest P/E ranks. But since 1989, the Nasdaq has returned 750%, while the S&P 500 has risen 430%. The average P/E of the Nasdaq over those 10 years was approximately eight times the comparable level of the S&P 500 multiple. Shiller apparently sold his stocks even before Greenspan became bearish at Dow 3,000.

Trading Places

How do we know when the irrational attempts of Ewing and Greenspan have unduly damaged their teams?

We respectfully suggest that to answer this question, the Big Fella and the Chairman follow in the footsteps of the Prince and the Pauper, and trade places. Both of their teams would benefit. And when they return to their places, their outlook would be so much more in keeping with the times.

Our suggestion may not be feasible, especially during the playoffs and before the scheduled Federal Open Market Committee on Tuesday. And we are well aware that many readers will disagree with our conclusions on many fronts. We know our own limitations in predicting markets, and of the dangers of hubris. We encourage our

readers as well as the principals and their colleagues to share their views with us, and we will publish and send a cane to the authors of particularly uplifting commentary, particularly good for providing a firm base during the rough games we are witnessing.

SCORE: Dow average since first of five interest-rate increases on June 30, 1999: -3.3%

Eastern Conference NBA Playoffs:
New York Knicks: 2
Miami Heat: 2

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.04	Up 2	-7.7	-1.2
S&P 500	1.00	Up 2	-3.3	-2.2
Nasdaq	1.19	Up 2	-13	-8.6
Europe STOXX-50	1.21	Up 2	5.4	-1.9
Dollar/euro	0.86	Up 1	-8.6	0.9
Nikkei	0.91	Down 1	-8.6	-5.9
Dollar/yen	0.92	Up 1	5.8	0.6
Gold	0.96	Up 1	-4.1	1.0
Oil	1.39	Up 2	30	15
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Bund Futures	1.21	Up 1	0.7	-1.1

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Fed, CPI Create Double-Jeopardy Tuesday

By Laurel Kenner and Victor Niederhoffer

Columnists

05/16/2000 09:10 AM

It's Tuesday, the harshest and most volatile day of the week. The anxiety is particularly intense because of the double witching of the Consumer Price Index, released to the public at 8:30 a.m. today, and today's Federal Open Market Committee decision, which will probably be announced about 2:15 p.m.

We've now had three strong up days in the market. Today, a seemingly favorable CPI report has carried Nasdaq 100 futures up an additional 2% as we write after yesterday's 4% gain. S&P 500 futures are up 0.5% after yesterday's 2% rise.

Goldman Sachs & Co.'s bull market icon, Abby Joseph Cohen, said the market has fully discounted the Fed's interest-rate increases, and predicted the S&P 500, now down 1.2% year to date, will be up 10% by year-end.

The market doesn't like its votaries to get too complacent; after bullish retail sales on Thursday, a bullish PPI on Friday, a pre-FOMC rally on Monday and a bullish CPI today, the stage is set for the market to get some bites in.

One way to gain perspective on the battle of the bulls and the bears on days like this is to look at previous moves on the days of FOMC meetings. We've looked at all of them since Sept. 30, 1997.

For the last 20 meetings, the average change on an FOMC meeting day was a gain about two-thirds of a percent. Only 20% of the days showed declines, with the largest of the declines being less than 1%.

Results after the close of FOMC meeting days have been relatively mixed.

Thus, the market appears to have done what it loves to do the best: create fear and panic among its participants, shake out the weak longs and then move to substantially higher levels with great alacrity.

Readers React to Greenspan-Ewing Screeed

Our Monday screeed calling for Alan Greenspan and Patrick Ewing to switch jobs drew the most impassioned responses we've ever received in response to one of our columns.

We were, after all, writing about sports and money. We don't suppose we could have been more inflammatory unless we had somehow figured out a way to mention sex. (Stay tuned.)

Physicist John Makuch writes that he and his wife would prefer a monetary policy chief who doesn't have it in for the stock market. Greenspan "is out of touch with is the hundreds of thousands of folks like me, at age 55-62, cut as a result of mergers, etc., who are depending on a reasonable market not only for retirement but for some income now," he says. "We are not spending freely... we are taking only what we need to live frugally as I begin a consulting career. How many of us has he hurt, for how many trillions of dollars?"

Chris Wilcox notes that we forgot a hyphen in one of our compound adjectives, and accuses us of writing

with a random word generator. It's quite true that in the past we have called on the generator to compose market haiku, but the generator never forgets its hyphens; the presence or absence of same is our responsibility. Let no one malign our generator.

It was not our word generator but our basketball analysis that aroused the indignation of Ewing fan Kenneth Smith, who notes that the Knicks' high scorers in Game 4 against the Heat were Ward, Houston and Sprewell. "We are winning precisely because Van Gundy is combining Ewing's experience and leadership with awesome defense and scoring power from all five starters, Smith wrote." Never too late to learn.

Smith declines to go into great detail about our assessment of Greenspan's recent performance "so as not to jeopardize Johnny Worldlyinvestor's job," permitting himself to say only that he doesn't think Greenspan has anything to be sorry about. "There's only one real skipper to thank for the smooth sailing of this economic ship, and his name is AG."

Who's Afraid of Economics?

Thanks for the kind thoughts, Smith, but we're sure that a recitation of economic details wouldn't put us in any more hot water than we usually find ourselves.

Alan Luber of Roswell, Ga., doesn't see smooth sailing ahead: "There is little doubt in my mind that Alan Greenspan is about to plunge the country into the deepest and most unnecessary recession we have ever seen." Luber's remark makes us recall that Greenspan's famous mention of "irrational exuberance" was made in the context of a discussion of the economic stagnation in Japan. The country went into paralysis after its central bank burst a stock and real estate bubble in 1989 by raising interest rates.

That's serious business, and for reader Omid Malekan, the Ewing/Greenspan analogy has gone too far. "Let us not forget that Patrick is an entertainer first. The fans still stick with him because he is overall a good player. Greenspan, on the other hand, is measured by his record, period. If the U.S. economy falls into a depression tomorrow, no one will say that it was a good effort. He has to game the hardest gamble possible, and the entire world is watching. In a sense he is a money manager whose fund is owned by everyone, and they will criticize him every trade of the way."

Parting Shot - And It's Not An Assist

Suitably chastened by some of the diatribes against us, we are going to take a hiatus from our basketball analysis for at least six months. However, before closing the door we will note that in all four of the Knicks-Heat playoff games to date, Patrick Ewing has not made a single assist.

Even by chance alone, an investor who buys a terrible stock usually finds at least one occasion when the stock is up from his purchase price, and one would have thought that the gods of chance would have favored Ewing, in his 40 minutes a game, with one such helpful opportunity.

Speculator's Scorecard				
	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.07	Up 3	-6.0	-0.04
S&P 500	1.02	Up 3	-1.2	-1.1
Nasdaq	1.21	Up 3	-11	-8.9
Europe STOXX-50	1.19	Down 1	3.8	-5.0
Dollar/euro	0.84	Down 1	9.4	-0.5
Nikkei	0.94	Up 1	-8.6	-4.8
Dollar/yen	0.90	Down 1	6.6	0.5
Gold	0.94	Down 1	-4.4	-0.8
Oil	1.42	Up 3	31	16
Bond Futures	1.19	Up 1	3.9	1.0
2-Yr Note Futures	0.90	Up 1	2.5	-0.3
Bund Futures	1.24	Up 2	0.8	-0.7

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7:12 AM ET 05/17/2000

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	10900
	10850
	10800

11 12 1 2 3 4

Dow	10934.57	126.79
Nasdaq	3717.57	109.92
S&P	1466.04	13.86
WI ADR	1330.21	20.22
30Yr Tr	6.11	-0.06

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Fed Zigs, Market Zags

By Laurel Kenner and Victor Niederhoffer
Columnists

05/16/2000 5:33 PM
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"Nature has made up her mind that what cannot defend itself shall not be defended."
-R.W. Emerson, "Courage," 1877

There was a terrible beauty to the destruction the market wrought on all its weak players as it gyrated back and forth like an enraged dinosaur in its death throes after the Fed Open Market Committee announcement.

Before the release, the market played its "buy on the rumor, sell on the news" gambit. Right at the open, the S&P 500 rose 1% while the Nasdaq shot up 3%. Then came word that the fed funds rate would rise half a percentage point and that the committee "believes the risks are weighted mainly toward conditions that may generate heightened inflation pressures in the foreseeable future."

The Market Shakes Free

The S&P first thrashed upward, then plummeted horribly into negative territory, then climbed back to 1% above its original high -- all this within 15 minutes of the 2:13 EDT announcement. And then, ineluctably, after shaking out both the longs and the shorts, the market ended almost exactly where it was before the announcement. Why?

Other things being equal, the market like all other living things likes to accomplish its goals with the least possible amount of effort. The least effort for the market tends to be to end up exactly where it started. In that fashion, the least disruption and strain to its infrastructure is created and the greatest flexibility for the future is maintained.

Vic's checker teacher, the late Tom Wiswell -- a former world champ -- expressed this point profoundly in board games and life games as follows: Moves that disturb your position the least disturb your opponent the most."

The market not only disturbed its position not one iota from before the announcement, but managed to disturb the positions of the longs and shorts the

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most. How beautiful it all is. We can console ourselves perhaps with Darwin's noble thoughts from the *The Origin of the Species*: "The great tree of life fills with its dead and broken branches the crust of the earth, and covers the surface with its ever branching and beautiful ramifications."

Vic Sets a Pick

Yesterday we wrote about the similarities between Greenspan and New York Knick center Patrick Ewing. We suggested both had served well but were old generals fighting old battles.

In the process, we raised the hackles of more than a few Knick and Greenspan fans.

When we write about sports and banking, the world's foremost expert is undoubtedly Larry Ritter, former president of the American Finance Association, coauthor with Bill Silber of the classic money and banking text, *Principles of Money, Banking and Financial Markets*, and most important of all, author of the best-selling baseball book, *Glory of our Times*. This latter has been praised universally as "the best baseball book of all time." We were privileged to interview Larry and Bill over dinner recently and he kindly agreed to vet any ideas we might have about his fields of expertise.

Since he served on the doctoral thesis committee of "Dr." Alan Greenspan, we were particularly anxious to hear his thoughts on the irrational exuberance, irrational expectations argument of "Dr." Greenspan and how it relates to our recommendation that he trade places with the hapless big feller on the Knicks.

He chastises us for the veiled slight to his student's PhD work but responds inimitably but positively on the whole as follows: "The piece on the chairman is excellent, aside from the implied doubt about the legitimacy of his last degree," he writes.

"The best chairman ever, in my opinion was either Marriner Eccles or Paul Volker. Volker could outmaneuver both Patrick (Ewing) and Alan (Greenspan) while Marriner was a Rizzuto-type shortstop who specialized in the surprise bunt that took his opponents off guard. I am probably the only person alive who has had dinner with both of them and Victor Niederhoffer, too. For that and a NYC MetroCard I get to ride on the 104 bus."

Laurel Kenner is a financial writer in New York City. During her 16-year career, she has reported on police, politics and aerospace, and most recently headed U.S. stock market coverage at Bloomberg News.

Victor Niederhoffer is a private speculator specializing in futures and options trading. He formerly managed money and hedge funds, and



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An Index of Market DNA

By Laurel Kenner and Victor Niederhoffer
Columnists

05/17/2000 9:26 AM
[Click here for printer-friendly version](#)

Dear Laurel,

You may recall that during your last Lindy Hop sequence of Suzy Q steps and lifts at the Irvine Ballroom last night, a circle formed to watch you swing. I was in the crowd, and was just about to present you with the enclosed list of stocks when you hurriedly left, presumably to work on your morning column.

While we did not meet, perhaps you will remember me from the fact that I carried a cane with a bull's head on it. Allow me to introduce myself now in writing. I am an electronics technician working in Dr. Robert Blaustein's cardiac research unit in Massachusetts. I perform measurements of currents going through cells in the heart and kidney with a view to repairing these organs when they don't work.

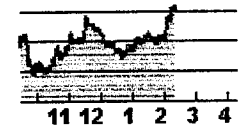
My boss and I read your column each day, and when we read about your discussions with Fisherman Vic on your X index, we decided to develop an index too.

Although I dropped out of college to become a tech, I've heard Roger Brown and Noam Chomsky lecture on how you can learn much about a culture by the kinds of letters and phonemes that make up its language. We decided to construct our index from something that is basic to life itself: the gene. We used the letters of life, the

resources new:
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Dow	10607.64
Nasdaq	3786.64
S&P	1462.97
WI ADR	1357.33
30Yr Tt	5.94

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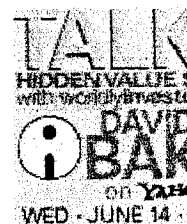
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In e-busin
COUN

Nadine Wong
Biotech Stocks

A, T, G and C (adenine, thymine, guanine and cytosine).

I started by looking in the Standard & Poor's monthly stock guide at year-end 1997. I included every company with G E N in its name. I took the liberty of excluding "General" companies on the ground that these are not biology companies that are involved in selling products based in the code of life.



Here is my final list:

Genetic Index

Amgen (AMGN: Nasdaq)

Biogen (BGEN: Nasdaq)

DeKalb Genetics (DKB: NYSE)

Genelabs (GNLB: Nasdaq)

Genset (GENXY: Nasdaq)

Genzyme (GENZ: Nasdaq)

Human Genome Sciences (HGS: Nasdaq)

Myriad Genetics (MYGN: Nasdaq)

Mycogen (MYCO: Nasdaq)

Regeneron (REGN: Nasdaq)

Two of these 10 companies, DeKalb Genetics and Mycogen, were acquired during the period.

The index started at 100 at the end of 1997. Yesterday, it was at 296. During the same period, the S&P 500 Index grew 51% and the Nasdaq rose 125%.

I believe that this index is worthy of inclusion in your arsenal of individual stock portfolios, right next to your X index. It is basic, active and, if you don't mind my saying so, sexy. Chances are that companies with these names are the kind that investors will favor, especially as we enter the naughtie years where prolonging the length and quality of life seems to me to be the key technological and economic challenge.

Good luck in using this index, and I hope that you and your readers will profit from it.

Sincerely,
Technician Vic, Lic. Multimeter Reader 107312.

P.S. One more thing, Laurel. Not to compete with Fisherman Vic or anything, but I would advise grave caution in your dealings and meetings with him. Many people I know in Boston are familiar with him as he often frequented the local squash courts and checkerboards.

The word is that he's the kind of cobbler that doesn't stick to his last, the kind that might try to unload his analysis of Patrick Ewing's jump-shot techniques on you when he can barely sink a layup himself. The kind that might take a foray into Asian stocks just before a devaluation is in the cards. The kind that's always quoting 100-year-old men to cover up the fact that the only current paper he reads is the National Enquirer. The kind that reads out-of-date books by Melville, Homer and Rabelais and might try to tell you they have relevance to today's markets. It is rumored that. . .

But you get the point. Be careful.
Good luck.

Dear Technician Vic:

Your idea of an index built on the blueprint of life is very deep, and I'm sure readers will find it a base for thought and further research. Thanks for the warning about Fisherman Vic, but I'm afraid it's too late. He already had me read Moby Dick, the Odyssey and Gargantua and they seemed so applicable to the market that I've taken to viewing the market through their glasses. Best wishes, and please give my regards to Dr. Blaustein.
Laurel

Laurel Kenner is a financial writer in New York City. During her 16-year career, she has reported on police, politics and aerospace, and most recently headed U.S. stock market coverage at Bloomberg News.

*Victor Niederhoffer is a private speculator specializing in futures and options trading. He formerly managed money and hedge funds, and had one of the best records until turmoil in Asian markets in 1997 caused financial disaster. He is the author of best-selling *The Education of a Speculator*. His hobbies include music, electricity, sports and ecology, all of which form a foundation for his scientific speculation.*

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Bright Future Visible Beyond Today's Clouds

By Laurel Kenner and Victor Niederhoffer

Columnists

05/18/2000 09:12 AM

A coward's fear makes a brave man braver.

-Scottish proverb

We note that there has been apparently no movement by Coach Van Gundy to replace Patrick Ewing with Dr. Greenspan in response to our Monday column.

And possibly this is the reason that the Knicks lost Game 5 of the Eastern Conference playoffs last night. Once again, the Big Fella had no offensive rebounds, as is to be anticipated because he is generally too old and too slow to lumber up the court from his defensive post.

And on the other front, Dr. Greenspan has apparently given the green light to one of the Fed's operatives in San Francisco, a Simon Kwan, to publish a study showing that rising interest rates are bearish for growth stocks. Digestion of this study apparently caused a quick 1% decline overnight in Europe. But as sounder minds and saner market actions move to the front, the decline has been reversed.

After all, what kind of companies do you wish to own in a stagnant economy? The iron and coal companies that make up the key statistics with which Dr. Greenspan loves to predict the economy? Or technology companies growing by 20% a year?

Unfortunately, we do not have the time to give a thoroughly appreciative review of Mr. Kwan's study at this time, so we must allow what appears to us to be ballyhoo to go undeflated.

We of course are not unmindful here of our promise that we would eschew basketball analysis for at least six months, after some of readers registered diatribes to the effect that "The cobbler should stick to his last," or worse, "What reason do I have to pay any attention to you on the financial front now that I know how little you know about basketball?"

But there was an inadvertent deletion in the part where we vowed to lay off the basketball analogies. It should have said that, "After the playoffs are over, we will refrain from basketball analysis." As always, however, we are open to reader feedback, plus and minus, on our views, and we have a cane for the author of particularly hard-hitting retorts.

Cloudy Crystal Ball

During recent days, the Nasdaq 100 has been about twice as volatile as the Standard & Poor's 500 Index. From Wednesday's close a week ago to Tuesday's close, the Nasdaq 100 went up a beautiful 12%. It gave back 2% yesterday, and as we write futures are rebounding from an early drop.

The crystal ball is cloudy for the next two days, but the ball that registers reading for the next few months is clear blue.

Furthermore, we note that the evil Mistress of Markets loves to throw in a bit of fear to her mortal subjects after healthy rallies; yesterday's drop was such a case. In about 90% of such cases, the fear is dissipated with a healthy rally in three days, although before option expiration on Friday, the volatility is high relative to the positive expectations.

In cases like this, we find it helpful to turn to Darwin's "Origin of Species," and advise investors to take strength from knowing that the market tree of life is merely trying to "fill its dead and broken branches with its ever-branching and beautiful ramification."

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Whaling With Success

By Laurel Kenner and Victor Niederhoffer

Columnists

05/19/2000 08:38 AM

The Moby Dick Stock Competition we announced last week drew 60 entries, with only a few duplicates. The deadline for inclusion was May 9. Thanks to all for entering. Winners will be announced in early November.

Many readers for one reason or another did not have a chance to enter the first contest, so we are going to allow just one more time, from today until Monday at 10 p.m., to enter a final contest. All we require is that you don't own the stock now, and that you put in the reason you like the stock and the reason you haven't purchased it to date.

We feel our readers are the wisest and most astute in the world, and that your picks will outperform almost any other group. This is a particularly good occasion to construct such a model portfolio because stocks are cheap and times are ripe for companies with potential to capture the winds of fashion and fly.

Hunting for Whales

The idea for a stock-picking competition came about because we believe our readers are more in touch with what's going on in the market than talking heads and conflict-ridden Wall Street analysts, just as fishermen out front on the forecandle breathe fresher air than the captain back on the quarterdeck. (We do not, of course, refer to any of the esteemed talking heads and Wall Street analysts who happen to be among our readers.)

We received several dozen entries. Some readers recommended stocks they said they owned, while others didn't say what their doubts were; we eliminated those entries.

We divided the remaining picks into three teams, based on the date received, and published them on May 9, 10 and 11. In each case, performance was calculated from the close the day before publication.

So far we haven't been disappointed. All three of the teams are beating the Nasdaq 100, one by four percentage points. Any money manager would envy such a performance.

The Reader Picks III index, published May 11, is in the lead, up 9.1%, helped by a 56% gain in reader T's pick, Echelon. That compares to a 5.6% gain in the Nasdaq 100 for the period.

Reader Picks II, published May 10, has risen 2.7%, compared with a 0.5% decline for the Nasdaq 100. The leading pick, from Reader JF, is Sycamore Networks, up 25%.

The first Reader Picks index, published May 9, has fallen 2.1%, less than the Nasdaq 100's 2.7% drop. Reader HC's entry, heating oil, is in the lead with a 15% gain. Readers RL and RB share second-place honors with Millennium Pharmaceuticals, up 9%.

Following the Insider Sailors

http://worldlyinvestor.com/print.cfm?article_id=1140

5/19/00

We'll announce individual winners for each group on Nov. 13, the Monday after Veterans Day. The prize is a fish dinner. And any team that beats the Nasdaq 100 will be invited to celebrate at a party in New York.

In addition to setting up the three indexes, we constructed a fourth one with the nine entries for which the last transaction in the stock by insiders - officers and directors - was a purchase. Our Reader Picks-Insider Index is up 4.6%, since May 10, the second-best performance among the three groups.

The strategy of doing as the insiders do has been statistically tested many times over the years, by Vic and others, and has repeatedly outperformed the benchmark. When Laurel mentions this to her younger friends, they look at her as though she had suddenly confessed a conversion to value investing. One 30-something trader at a certain press-shy hedge fund actually said, "Yuck." The follow-the-insiders method does turn up some dogs. But many of the stocks exhibit an amazing propensity to go up, often on a piece of news that comes out of the blue.

The insider sailors, it seems, breathe some of the freshest air of all. Here is how the Reader Picks are performing so far:

Readers Picks 1

COMPANY	Reader	% CHG from 5/8
Auspex (ASPX)	PL	-16.07
BHH (BHH)	DW	-10.14
Bookham(BKHM)	JB	-3.95
Caliper (CALP)	MMM	-2.45
Celera (CRA)	LA, MPG	-18.43
Cree (CREE)	PC	-1.09
Foundry (FDRY)	HB	-17.16
Globalstar (GSTRF)	SH	1.22
Hyseq (HYSQ)	RA	-6.37
InfoSpace (INSPI)	RWE	4.31
Ligand (LGND)	BS	-4.65
Millennium Pharm. (MLNM)	RL, RB	8.96
Protein Design Labs (PDLI)	JH	7.78
Playboy (PLA)	TV	-15.44
Qwest (Q)	HL	2.77
Qualcomm (QCOM)	QCOM	-5.89
Rambus (RMBSI)	JRV	-2.47
Terayon (TERN)	BP	-8.43
Tibco (TIBX)	JBD	-20.02
Tokheim (TOK)	FL	5.41
Vontobel E. Eur. Fund (VEEEX)	JG	-4.22
Heating Oil	HC	14.79
Euro	OM	0.4
RP 1 INDEX		-2.14%

Readers Picks 2

COMPANY	Reader	% CHG from 5/9
Aether (AETH)	RM, L	1.28
Commerce One (CMRC)	TA	-9.69
Electric Fuel (EFCX)	ST	-18.18
Imclone (IMCL)	GES	8.56
Ind. Investor (INDI)	INDI	-20.83
Invision (INVN)	MG	-6.24
III. Superconductor (ISCO)	BM, ML	4.55

Jaco (JACO)	RAW	0.40
JDS Uniphase (JDSU)	SKI	0.87
4Kids (KIDE)	MS	5.61
Lightpath Tech (LPTHA)	PWP	13.08
NCT Group (NCTI)	PH	-28.17
Palm (PALM)	MH	-12.88
Qlogic (QLGC)	RF	6.16
Sycamore Networks (SCMR)	JF	25.30
Siebel Systems (SEBL)	SEBL	1.81
Sony (SNE)	SNE	-2.26
Silicon Storage Tech (SSTI)	LC	4.30
Thermotech (TTRIF)	several	-18.56
RP 2 INDEX		2.71%

Readers Picks 3

COMPANY	Reader	% CHG from 5/9
Affymetrix (AFFX)	HMF	18.40
Beos (BEOS)	LF	-15.31
Conductus (CDTS)	GA	-2.65
Constellation 3D (CFMD)	BLM	29.61
CMGI (CMGI)	SE	5.15
Copper Mtn (CMTN)	JZ	18.80
Echelon (ELON)	T	56.02
Energy Conv. (ENER)	RB	-1.20
Imaging Diagnostics (IMDS)	MO	-21.33
Incyte (INCY)	DJQ	-15.13
Manhattan Scientifics (MHTX)	CL	-39.99
MP3 (MPPP)	LA	-5.79
MRV Comm. (MRVC)	TVO	10.90
Rambus (RMBS)	JD	9.13
Robotic Vision (ROBV)	GC	-4.59
Tibco (TIBX)	NL	1.02
Tularik (TLRK)	LA	9.38
Vari-L (VARL)	PS	-14.23
Mphase Tech (XDSL)	N/A	10.71
RP 3 INDEX		9.12%

Readers Picks-Insider Buys

Company	% CHG FROM 5/10
Beos (BEOS)	-0.94
Caliper (CALP)	5.75
Invision (INVN)	-0.31
Jaco (JACO)	-0.31
Ligand (LGND)	0.63
Palm (PALM)	-0.75
Robotic Vision (ROBV)	-0.56
Tularik (TLRK)	2.44
Tokheim (TOK)	0.31
RP-INSIDER INDEX	4.61%

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Whales, Not Lightning, Strike Twice

By Laurel Kenner and Victor Niederhoffer

Columnists

05/22/2000 09:51 AM

The whale rammed the ship just forward of the forechains. The Essex shook as if she had struck a rock. Every man was knocked off his feet.

Never before, in the entire history of the Nantucket whale fishery, had a whale been known to attack a ship. Shaking off its woozy lethargy, the whale veered off to leeward, swimming approximately six hundred yards away. There it began snapping its jaws and thrashing the water with its tail as if distracted with rage and fury. Fearful the ship might be taking on water, Chase had ordered the men to rig the pumps.

"While my attention was engaged," he remembered, "I was aroused by the call of a man at the hatchway, 'Here he is -- he is making for us again.'" With a tremendous cracking and splintering of oak, the whale struck the ship just beneath the anchor.

-In the Heart of the Sea: The Tragedy of the Whaleship Essex, by Nathaniel Philbrick

"For an instance, the tranced boat's crew stood still; then turned. "The ship? Great god, where is the ship?"

-Moby Dick, by Herman Melville (inspired by the tale of the Essex)

The ship Essex, like the stock market of 2000, was rammed by a whale -- not just once, but twice. The Nasdaq, after plummeting 34% from 5048 on March 10 to 3321 on April 14, recovered to 3958 by May 1, but dived again to 3390 on Friday, close to the low.

Will the ship sink, as it did in 1929, 1931, 1932, 1973 and 1987? Or will the forces of nature be in control, as they have been in the main for the last 200 years?

Nothing is quite as scary as the sight of the whale returning after he has twice rammed your boat. But these are the conditions when sailors and investors get paid to be strong.

Prudence and survival are always key, and skepticism about anyone's forecasts or suggestions about the market -- including our own -- is always appropriate. But there has hardly ever been a time, in our own thinking, when conditions were as ripe as today to take out the canes and hobble down to Wall Street to buy.

Political Winds Will Fill Sails

Let's approach those reasons from the top down.

First and foremost, there is demoralization and pessimism out there. Magazines are weighing in with end-of-bull-market covers. Degrees of optimism among advisers are at three-month lows. And almost all of our readers are telling us that they are bearish or on the sidelines, looking for a heads-up to go back in.

Not least among the reasons to be bullish are the political winds. It is a commonplace now that whichever way the stock market is moving during the presidential election year determines the incumbent's fate.

If this was true 20 years ago, imagine how much more force it has today when public participation in the market is 10 times as great. As we have mentioned before, the market has not declined in a presidential election year since 1940.

The last thing in the world the Democrats and their Beltway clients want to see is the stock market continue in the doldrums during the heart of the election season. Why take that 5% risk that an incumbent will lose or give those nasty term-limit folks an opening to get in the door? The best way to prevent it from happening is for the mistress of the market to right herself, and soon.

Low Book Value

What is good for the Beltway in this case is good for the investor. A virtuous circle, as described by George Soros in *The Alchemy of Finance*, should be in the cards here. Ultimately, the strong hands will be energized by this.

The book *Irrational Exuberance* by Robert Shiller, meanwhile, is being featured on one television program after another. Dr. Shiller, like Dr. Greenspan, has been bearish since Dow 3000 and has equally biased views about why the market should have been down the last 10 years, and these views are based on erroneous empirical and economic analysis.

Another equally pessimistic book that has been getting some attention is Andrew Smithers' *Valuing Wall Street: Protecting Wealth in Turbulent Markets*. Smithers focuses on the Q ratio, an outmoded analysis based on 19th century technological relations of the sort that Wassily Leontief popularized with his fixed input-output economic model and recanted shortly before his death last year.

Many of the big operators have been forced to liquidate stocks. After big predators at the top of the food chain have been washed out, it generally takes a few weeks for their imitators to disgorge those stocks, and for the market to digest and recycle their holdings. Such was the case with Long-Term Capital, Peregrine Capital and Ivan Boesky. The three big hedge funds of today have created similar reductionist activity that is now at a similar stage of completion.

Finally, we get down to the microscopic level. The market has had three serious declines in a row on about 20 occasions during the last six years. On 17 of them, it was higher three days later; the average move was a 2% gain, with the probability of chance occurrence here of less than 1 in 500.

As we have said repeatedly, investors can learn more from the great authors and the great histories than they can by reading and listening to the magazine or television coverage of the moment. With a tribute to reader Judy Volpe, who writes that we can find market metaphors in the cry of a baby or the scream of an eagle, we believe that the market will roll forward as it has by 10% a year for the past 200 years -- and it's time to take out the canes.

Laurel Kenner is a financial writer in New York City. During her 16-year career, she has reported on police, politics and aerospace, and most recently headed U.S. stock market coverage at Bloomberg News.

*Victor Niederhoffer is a private speculator specializing in futures and options trading. He formerly managed money and hedge funds, and had one of the best records until turmoil in Asian markets in 1997 caused financial disaster. He is the author of best-selling *The Education of a Speculator*. His hobbies include music, electricity, sports and ecology, all of which form a foundation for his scientific speculation.*

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.06	Down 1	-7.6	0.5
S&P 500	0.98	Down 3	-4.2	-1.8
Nasdaq	1.16	Down 3	-17	-11
Europe STOXX-50	1.18	Down 1	1.7	-5.3
Dollar/euro	0.81	Up 1	-11	0.06
Nikkei	0.86	Down 4	-13	-3.5
Dollar/yen	0.87	Down 4	4.4	-1.9
Gold	0.92	Up 1	-4.8	-1.7
Oil	1.34	Down 1	31	9.5
Bond Futures	1.18	Up 1	0.3	-0.03
2-Yr Note Futures	0.86	Up 1	-0.09	0.02
Bund Futures	1.23	Up 1	0.4	-0.2

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Rabbit or Ribbit Out of Nasdaq's Hat?

By Laurel Kenner and Victor Niederhoffer

Columnists

05/23/2000 08:39 AM

Just in time,
Stocks rallied just in time.
Before they rose, my funds
Were running low.

I was lost
The losing dice were tossed
My brokers all were cross
Nowhere to go

Bulls in debt
The Nasdaq looked like it was heading
Down still lower yet
But something changed.

(To the tune of *Just in Time* by Jules Styne)

For the second day in a row, the major averages snapped back from limit down to almost unchanged on the day, and they are scheduled to come steaming out of the chute up at least 1% at the opening bugle call today.

The recovery recalled the remarkable ease with which motorcycles levitate and tigers disappear in Las Vegas magic shows.

The Nasdaq's remarkable 188-point rebound from low to close in the last two hours of trading yesterday brought it up from the horrific level of 3172, which was below the April 17 crash low of 3227.

But investors are still somewhat dazed by the recollection that the Nasdaq's April 4 snapback from a 635-point drop, open to low, failed to keep it from falling even farther in subsequent weeks. Just as the long lines to the exits after illusionist spectacles have a way of bringing audience members back to earth, so the slapping-around investors have endured for more than four months have instilled a tendency to suspect all rallies as mere illusionist tricks.

"I don't know what to believe any more," one bemused trader said to another on the ride down the elevator yesterday after the market's close.

It's our practice to turn in times like this to 100-year-old writings for guidance, and we found it in the *Commercial & Financial Chronicle*:

"As the penalty of a reckless speculation never can be escaped, it may be truthfully be affirmed that we

are really better off today than we were 12 months ago. Then, we had our troubles ahead of us; now, we have them behind us. And if we heed the lessons which this experience teaches, they will not return to plague us during 1900."

Five More in the Boat

Five more readers entered our stock-picking contest by yesterday's deadline, in hopes of leaving their troubles behind with a good fish dinner and a party in New York.

D.M. submits S1 Corp. (|SONE|: Nasdaq), noting as the upside its "smart acquisitions and technology" and as downside, uncertainty over pending class-action lawsuits.

J.T. likes Fiserv (|FISV|: Nasdaq), which he missed at 27 only to watch it go to the mid-40s. The company, an incubator of start-ups, "possesses an extensive array of leading-edge software and services for banks, insurance, credit unions, etc." but "carries too rich a multiple for current market conditions." He'll reconsider around 32.

A.M.D. predicts Sawtek (|SAWS|: Nasdaq) will be a winner, noting that it produces a filter for wireless phones. She's wary of possible new competition and observes that orders can always be canceled.

L.F. doesn't own Franco-Nevada Mining Corp. (|CC:FN|: Canada), which trades on the Toronto exchange, but he'd likes that it's down almost 50% from recent highs and that in times of inflation commodities are a great place to be. He says he's already up to his ears in junior golds with greater risk.

And lastly, reader D.G. notes that Cabletron Systems (|CS|: NYSE) will be breaking up into four separate companies, each of which will offer shares to the public within the next year. Four stocks in one -- not, he hopes, four losing stocks in one.

Will Pachyderms Trumpet Marke?

Reader Mark McNabb has some thoughts that put the market in perspective:

"Given that any perceived slowdown boosts the notion of a dormant Fed, but a slowdown hits the cyclicals and consumer stocks, then the default is the market will run right back down the trampled grass of tech stocks and financials."

Professor McNabb is doubtless alluding to the tendency of elephants to come back on exactly the same path they originally traversed. And wouldn't it be just like magic if the herd of raging elephants that trampled the market grass down this year were to suddenly materialize on their way back up to the old high, in conjunction with the good vibes and massive Treasury buybacks near the blessed political conventions?

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.04	Down 2	-8.3	-0.6
S&P 500	0.96	Down 4	-4.7	-1.7
Nasdaq	1.13	Down 4	-17	-8.3
Europe	1.15	Down 2	-0.3	-6.2

Dollar/euro	0.83	Up 3	-10	0.6
Nikkei	0.85	Down 5	-14	-8.6
Dollar/yen	0.88	Down 1	4.2	-2.2
Gold	0.90	Down 1	-4.3	-0.4
Oil	1.31	Down 2	29	3.5
Bond Futures	1.20	Up 2	3.8	-0.8
2-Yr Note Futures	0.88	Up 2	1.2	0.2
Bund Futures	1.25	Up 2	0.9	0.1

Laurel Kenner is a financial writer in New York City. During her 16-year career, she has reported on police, politics and aerospace, and most recently headed U.S. stock market coverage at Bloomberg News. At the time of this writing, Kenner was long Cabletron.

*Victor Niederhoffer is a private speculator specializing in futures and options trading. He formerly managed money and hedge funds, and had one of the best records until turmoil in Asian markets in 1997 caused financial disaster. He is the author of best-selling *The Education of a Speculator*. His hobbies include music, electricity, sports and ecology, all of which form a foundation for his scientific speculation. At the time of this writing, Niederhoffer was net long S&P 500 futures and options.*

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Of Wolves and Whales -- and Giant Bears

By Laurel Kenner and Victor Niederhoffer

Columnists

05/24/2000 09:05 AM

Tuesday was like Monday in reverse.

Just at the same time as Monday's 6% ascent, Tuesday the Nasdaq took a terrible shellacking, sinking within a few points of the dreaded and gravitationally attracting 3,000 level.

The mistress of markets, of course, was pulling out her "boy who cried wolf" gambit. After two consecutive declines on Friday and Monday to limit down, each one resolved by a heart-warming rally, the boys and girls who play the market were not expecting any more trouble. Nor was the grandfather at the bottom of the big hill, who the kids had erroneously told the wolf had arrived.

But this time, the third time, when the Nasdaq started its terrible descent, the grandfather bulls were not around to arrest the slide and the plummet reached full force at the close

Feral Instincts Emerge

The decline elicited a feral nature in market players -- survival instincts bubbling up. Indeed, there was panic out there. While there was no cannibalism, as often evidenced itself in shipwrecks in the time of Melville, there was massive pack-like selling. Ninety-one of the Nasdaq 100 component stocks fell. Some of the big declines: Cisco (|CSCO|: Nasdaq) down 9%, Intel (|INTL|: Nasdaq) down 7%, Qualcomm (|QCOM|: Nasdaq) down 9%, Oracle (|ORCL|: Nasdaq) down 8%.

There was much talk around the Street about how buying on the dips during feral times is no longer the correct strategy. Indeed, reader Dr. Brett Steenbarger, the inventor of the one-minute cure for depression in personal life or market life, weighed in with a similar caution.

"A lot can be said about this market. But excessive bearishness and capitulation aren't among them," he wrote. He was referring to the drop in option volume, and the decline in put-call ratios from 0.9 to 0.5 over the last three days.

At an uplifting Gershwin concert sponsored by Vic's brother Roy last night, the Embraceable You's and Aint Necessarily So's were similarly intermixed with disbelief concerning these ratios.

But our friend, savant, and budding investment adviser, David Ciocca, has always had a contrary view. "Be careful about reading too much into any three days of sequential data," he warns. "The problem is that last Friday was options expiration, which tends to skew the data." He points out that the put-call ratio is simply in sync with the 10% decline in the S&P from its peak. "It seems to everyone that the market is down way more than that because of carnage in Nasdaq stocks."

Reader Pick: Excellent Xcelera

On the individual stock front, reader Carol Potts adds a final entry to our individual stock contest. She likes Xcelera (|XLA|: NYSE) for three reasons:

1. The field of data storage will grow exponentially.
2. Possible discontinuous innovation that will supplant other technologies.
3. Fits in with Laurel's "X is good" theory, which sparked her meeting with Vic.

We have another reason for featuring Xcelera. Our friend and occasional editor, Jon Markman, is also bullish on this stock. In fact he is so bullish that he owns a few thousand bucks worth of this stock himself. His 200 shares have attracted the attention of rivals. They opine that it would be better to maintain the Chinese wall that the white

shoe investment banks are so famous for enforcing.

We suffer from a similar tendency to Markman's. When we like the market or a stock, we are not averse to buying it. This does sometimes embarrass us on occasions like yesterday, when it seems that we are on the wrong track.

Judged by the Harsh Truth of Data

But at least our actions are held up to the relentless truth of data. We are not tempted to attribute declines like yesterday's to "stocks tumbling on rate concerns," as occurs 90% of the time in historical market coverage.

Unfortunately, though, Laurel and Vic buy individual stocks in such small quantities that no matter how much they rise, they wouldn't amount to more than a few days' living expenses. As for our market activities, unfortunately we are one among a sea of thousands with similar activities. And we can no more influence the markets than King Canute could influence the tides.

Furthermore, whenever we write a column, chances are better than even money that one of our readers on the other side will opine, "You ivory tower market columnists don't have the right to tell us out on the trenches what to do. Get a life."

"If you only knew how much we wish this were true," we are often tempted to say on days like Tuesday -- and the four other days of the week.

At times like these, and in fact at all other times also, we are tempted to turn to Melville and *Moby Dick* for guidance. And he does not fail us.

"How vain and foolish for timid, untraveled man to try to comprehend aright this wondrous whale, by merely poring over his dead attenuated skeleton. Only in the heart of quickest perils, only when within the eddying of his angry flukes, on the profound unbounded sea, can the fully invested whale be truly and living found out."

Nothing more can be said -- except that the market has now gone down five serious days in a row. Such an unfortunate event has occurred five times in the last six years. In each case the market was higher two days later. The average change: some 3% up.

Speculator's Scorecard				
	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.02	Down 3	-9.4	-1.1
S&P 500	0.94	Down 5	-6.5	-2.7
Nasdaq	1.11	Down 5	-22	-12
Europe STOXX-50	1.17	Up 1	0.4	-3.4
Dollar/euro	0.85	Up 3	-9.8	-0.03
Nikkei	0.85	Down 6	-15	-9.4
Dollar/yen	0.90	Up 1	4.5	-2.2
Gold	0.89	Down 1	-4.8	-1.1
Oil	1.28	Up 1	29	1.3
Bond Futures	1.18	Down 1	3.7	0.5
2-Yr Note Futures	0.87	Down 1	-0.9	0.01
Bund Futures	1.27	Up 3	1.0	1.3

Laurel Kenner is a financial writer in New York City. During her 16-year career, she has reported on police, politics and aerospace, and most recently headed U.S. stock market coverage at Bloomberg News.

From

to 12032276957

at 05/24/2000 7:24 AM -U0470

*Victor Niederhoffer is a private speculator specializing in futures and options trading. He formerly managed money and hedge funds, and had one of the best records until turmoil in Asian markets in 1997 caused financial disaster. He is the author of best-selling *The Education of a Speculator*. His hobbies include music, electricity, sports and ecology, all of which form a foundation for his scientific speculation.*

Kenner and Niederhoffer are both long stocks and the market, but do not own any individual stocks mentioned in this column.

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Nasdaq Reaches Southern Pole, Heads North

By Laurel Kenner and Victor Niederhoffer

Columnists

05/25/2000 08:57 AM

The two magnetic Nasdaq poles of 3000 and 5000 have been competing to grab stocks for the last year. On Wednesday, the 3000 level drew stocks as if they were iron filings. But the energy generated from this attraction was converted late in the afternoon to a stunning 10% rally from bottom to top that lit up bulls' portfolios around the world.

It began after the Nasdaq Composite fell 6% Tuesday to its low for the year. Futures continued to sink after the close, and by 6 p.m., Nasdaq 100 futures had fallen below 3000.

Overnight, the magnet drew European and Asian operators. The next day in the U.S., its baleful influence gathered strength. Around 1 p.m., Nasdaq futures reached limit down at 2902. All hands retired below decks and desks to write their wills.

Stocks Snap Back

But at precisely that moment, the magnet's attraction started to wane. When the prices were freed, they rose violently. As the day ended, optimism reigned again in the land of stocks.

It was touch and go for a while. S&P 500 futures fell to February and April lows. At the bottom, we are sure our broker friends were hearing that perfect indicator of market bottoms: "Just sell everything."

One of the most astute market savants we know wrote, "I think I'm gonna sit on my hands. I can't short it down here, and I refuse to buy it until I see panic or strength. So I'm taking the rest of the week and play some golf. Green grass and fresh air puts everything in perspective. Everyone should do the same."

We did not do the same. Within a few minutes of the note, almost magically, the Nasdaq began one of the greatest rallies in history, a 308-point rally from bottom to top in two hours.

Peace for Memorial Day

It was good that the market rallied for those who wished peace of mind during the coming Memorial Day festivities. As Mark McNabb, a professor at Virginia Tech University pointed out: "Bout time for a bounce. Otherwise we'd have to give back the Nasdaq 3000 party favors from last fall."

Reader Steve Tobin memorialized the rally in emotional terms: "One can always tell when the bounce is ready, because the heat of the sun stings more, the day is longer than usual and I always feel a foggy shadow over me...the mistress of market squeezing my lungs...she almost breathed green breath into them until I sent her flying back to sea...I know she will be back...my nemesis will return."

One of the strangest gaps in the sciences is that no one knows what causes magnetic force. It is currently believed that a flood of subatomic particles is exchanged between the magnet and the object it attracts. The magnetic force is similar to the gravitational force that prevents our bodies from floating off into space and our stocks from soaring to the moon. The Danish physicist H.C. Oersted's finding in 1819 that a magnetic field surrounds conductors carrying electric current has been perhaps the most useful discovery of all time, since it sparked the electric age.

No one knows why round numbers attract in the stock market, either. We believe that it is because of the fears, unrequited orders and pockets of weakness that are situated at the round-number poles.

Be that as it may, the long Memorial Day weekend is always a great time for a change in polarity of the magnetic forces affecting the market. We may possibly even anticipate that after the holiday is over, the Northern 5000 pole of the Nasdaq will once again become the stronger attractor.

But we have to get there first.

Speculator's Scorecard				
	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Down	1.04	Up 1	-8.4	-1.6
S&P 500	0.96	Up 1	-4.8	-1.2
Nasdaq	1.23	Up 1	-20	-3.4
Europe STOXX-50	1.15	Down 1	-0.7	-2.2
Dollar/euro	0.84	Down 1	-10	-0.3
Nikkei	0.87	Up 1	-14	-3.8
Dollar/yen	0.89	Down 1	-4.8	-1.0
Gold	0.87	Down 2	-5.0	-1.5
Oil	1.25	Up 2	35	6.7
Bond Futures	1.15	Down 2	-3.5	-0.09
2-Yr Note Futures	0.85	Down 2	-0.04	-0.02
Bund Futures	1.30	Up 4	1.3	0.2

Laurel Kenner is a financial writer in New York City. During her 16-year career, she has reported on police, politics and aerospace, and most recently headed U.S. stock market coverage at Bloomberg News.

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Market Ecology

By Laurel Kenner and Victor Niederhoffer

Columnists

05/26/2000 09:08 AM

When an ecologist says, "There goes a badger," the student should include in his thoughts some definite idea of the animal's place in the community to which it belongs, just as if he had said, "There goes the vicar."

-- Charles Elton, *Animal Ecology*

The complete stock market investor should include in his arsenal of tools field glasses, portable microscopes, nets, collecting boxes and correlation tables as well as the normal supply of canes, price data and Wall Street Journals.

The reason is that all markets are interrelated. Stock investors must consider how the links among stocks, bonds, commodities and currencies determine the rise and fall of past and future prices.

The assemblage of markets living in the stock market community is particularly intriguing at present. The fixed-income markets are near one-month highs. The omniscient market, the German bund (the most actively traded contract in the world) is at a one-month high, as are the US 30-year bond and 10-year notes.

The dollar is near a one-month low against the euro. Gold closed yesterday at \$270 an ounce, an eight-month low. Oil is close to its highest level in nine years.

Readers are encouraged to review the Speculator's Scorecard at the end of each of our articles, not only to bone up on their sports betting, but also to gain some grounding in the types of markets in the existing community they live in.

The key question in community ecology, whether in plants, animals or markets, is, "Where is it going?" To provide some first steps in predicting where the market community is going, we focused on just two species: stocks and bonds.

The S&P 500 is hovering within 1% of its one-month low, down some 12% from its March highs. In the past six years, there have been 17 times where stocks and bonds have shown a reasonably similar divergence in favor of bonds. On 14 of them, stocks were higher 10 days later, with the average move a gain of about 3%. Such an expectation is less than a 1-in-100 shot by chance.

Thursday's action in the market was particularly discouraging. After a phenomenal 10% rally from its lows on Wednesday to close of 3,167, Nasdaq 100 futures rallied a quick 4% in the first 15 minutes of trading on Thursday to the round number of 3,300.

But at 2:30 p.m., a turning point occurred. And in the midst of grotesque, irrational and gratuitous sentiments emanating from Alan Greenspan at a 3 p.m. National Association of Urban Bankers meeting in San Francisco, the Nasdaq managed to give back its entire gain. Greenspan said investors are putting so much money in the stock market that banks are having to raise capital in short-term money markets to

make long-term loans. The futures contract closed at 3,125, down 1.5% on the day.

Investors are unfortunately all too familiar with such situations lately. Since May 16, the Nasdaq and S&P 500 have fallen in six of seven sessions. Over that period, just eight stocks in the Nasdaq 100 gained. In the S&P 500, just 155 stocks rose over those seven sessions, or 31%. Better than Las Vegas, but pretty terrible for a blue-chip index. Only one of the 11 groups in the S&P Economic Index gained.

On Thursday, there was much talk about downgrades of and by Goldman Sachs (|GS|: NYSE), and such ferment in brokerage stocks is always good to create some market uncertainty. Goldman's decline of 9% for the day was symptomatic of a broad change in the market environment. But we won't memorialize our impression that this is bullish for the market, because such events don't happen often enough for statistics to be put on the table.

We attribute yesterday's decline merely to the last hopes of the mistress of markets to unloose weak longs from their positions before the stabilizing Memorial Day holiday. The mistress should have a nice day in store for us today, just to soothe confused feelings and most important of all, maintain the hopes of her votaries before the long weekend. However, as always, she is likely to make a heroic attempt or two to shake some loose chips from investors before taking her leave.

The weeks following Memorial Day are traditionally bullish, and with the backdrop of negativism in the market and the ecological relations alluded to above, we feel that it is a particularly good time to consider buying some good stocks.

Readers' Picks

If one follows the adage to buy low and sell high, our readers' picks offer a broad choice of stocks on sale. Only seven of the 67 picks are up, and two of those aren't stocks.

Reader H.C.'s choice of heating oil, up 14%, is in the lead in the Reader Picks I index, which is down 17% since the close before publication on May 9. The only other entry among the index's 23 members to show a gain is the euro.

Reader Picks II is down 26%. Only one of the 19 stocks is up, and that is Sycamore Networks (|SCMR|: Nasdaq), the choice of reader J.F.

Reader Picks III has lost 21%. Of the three stocks that are up, B.L.M.'s Constellation 3D (|CFMD|: Nasdaq) is several lengths ahead with a 70% gain.

Reader Picks IV, with six members, is down 4.11% since publication on Tuesday. One stock is up, and that is A.M.D.'s Sawtek (|SAWS|: Nasdaq), with a 6.5% gain.

The losses in the reader picks portfolios are just about double the losses in the Nasdaq 100, the benchmark for the contest. Since the first portfolio was published May 8, the index is down 12%.

Since we required readers to enter only stocks they didn't own at the time of submission and to state their doubts, reader Paul Lewis asked us tongue-in-cheek if the contest should reward readers whose stocks fell. Many of our entrants had expressed doubts about how their picks would perform in the current volatility, and certainly their concerns have been realized.

But it's still early. There are many months between now and the end of the contest in November.

When stripped of vegetation by fire, flood, glaciation or fear, a bare (bear) area does not remain devoid of growing plants, animals or stocks.

Speculator's Scorecard				
	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.02	Down 1	-10	-2.1
S&P 500	0.94	Down 1	-6.0	Down 1.9
Nasdaq	1.10	Down 1	-21	-8.4
Europe STOXX-50	0.85	Up 1	1.7	-2.2
Dollar/euro	0.85	Up 1	-9.4	1.1
Nikkei	0.85	Down 1	-15	-1.2
Dollar/yen	0.87	Down 2	4.6	7.8
Gold	0.85	Down 3	-6.2	-2.1
Oil	1.27	Up 3	37	5.4
Bond Futures	1.17	Up 1	4.7	0.06
2-Yr Note Futures	0.83	Up 1	-0.8	0.06
Bund Futures	1.32	Up 5	1.8	1.2

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Fishermen Put Tough Questions to the Bullish Duo

By Laurel Kenner and Victor Niederhoffer

Columnists

05/30/2000 09:16 AM

Laurel and Vic were invited to talk over the holiday weekend at the Melville Institute for retired fisherman in Rockport, Maine.

During much of the talk, as is their wont, Vic spoke while Laurel played various piano pieces that illustrated the points, including Joplin's Wall Street Rag, the panic music from the Fifth Symphony and Chopin's Revolutionary Etude to show movement to consonance, and Jules Styne's *Just in Time*. After a good lobster banquet, a lively question-and-answer session ensued. A transcript follows:

Question. You two have been poking fun at Drs. Greenspan and Shiller for being bearish since Dow 3,000. You're the other blade of the scissors, having been bullish all the way down from Nasdaq 4,000. When are you going to admit you were wrong?

Answer. Vic: Unfortunately, we are not infallible in our predictions. However, with the caveat that self-administered evaluations of forecasts are particularly dangerous at all times, as far as I can remember I have been bearish three times since 1960: in September of 1987, at the end of 1999 and March 6, 2000.

On Jan. 27, 2000, in our first column together, we wrote, "It seems prudent to step back and consider some of the epic declines that have occurred as new decades began." On Monday, March 6, 2000, we wrote: "Over the weekend, Vic received proposals and business plans for seven Internet-based companies. If Vic is receiving half a dozen proposals a weekend, imagine what the real heavy hitters are receiving – and imagine what that means for the prospects for Internet stocks down the road. As to what will cause the comparable pricking of the Internet bubble, we don't know. But we predict it starts on a Tuesday, as did the death of Tulipomania in 1637." The Nasdaq was at 4,900; it peaked that Friday, March 10 at 5,048, and during the day on Tuesday, April 4, it fell 575 points, which turned out to be the first big crack.

Q. Dr. Greenspan has been responsible for the greatest sustained boom in our economy in history, and most people revere him. What gives you the right to scoff at him, and when will you let up on him?

A. Laurel: We'll let up on him when he accepts our suggestion and trades places with Patrick Ewing. We've seen some movement in that direction already, as Ewing didn't play yesterday and the Knicks won. Both Greenspan and Ewing are over the hill and refuse to acknowledge it. They both deservedly won the rookie of the year award when they started out 13 years ago, but you can't catch a fish with yesterday's bait.

Vic: Greenspan has been trying to jawbone the stock market down with one ad hoc, untested emanation after another since December 1996, when the Dow was at 6,400, and this has caused incalculable detriment to the average Jane and Joe who hold a good part of their wealth directly or indirectly in the market. I see no reason to guild the lily.

Question: You have been bullish for the last month, and stocks have gone to Davy Jones' Locker. When will it be time to sell stocks?

A. Vic: The time to buy stocks is all the time. They've gone up some 10 million percent a century for the last two centuries. We are not so vainglorious as to surmise that we can overcome such a bullish trend by timely sales. Nor has the comprehensive enumeration of advisers' performance records by Mark Hulbert, the official scorekeeper for the industry, uncovered a single example of sales making money.

Q. You mentioned in your most recent article and in your talk that you see a turnaround after Memorial Day. What's your reasoning?

A. Laurel: Holidays are always a good time for people to take stock and change their views. The bearish views have been based on erroneous reasoning and excessive short-term interest-rate increases by the Fed. With the election season heating up, there should be considerable pressure for the situation to be rectified. Look for a prominent Fed official to announce soon that the worrisome imbalances in the economy have been redressed in large degree.

Vic: May I add to that, Laurel, that the Nasdaq's move below 3,000 last week chased out the last pocket of weak longs. The energy released by their sales has now been stored capaciously and should be sufficient to attract stock prices to the 5,000 level in the not-too-distant future.

Q. Vic, you keep talking of 100-year returns, but most of us don't expect to have 100-year portfolios.

A. Vic: Every study that has ever been made, whether by James Lorie, Roger Ibbotson or Jeremy Siegel or others, has shown that almost every beginning and ending long-term holding period has had returns commensurate with the 10% a year benchmark we've achieved over the past 200 years. My view is that anybody who buys a representative basket of individual stocks in the Nasdaq, a growth-oriented mutual fund or a Nasdaq trust like the QQQ (QQQ: Amex) now can expect a four- to 10-fold return over the next 15 years.

Q. But we've recently seen Robert Shiller on the tube and he points out that P/E ratios are very high now and that the higher the P/E, the worse-performing the stocks.

A. Laurel: Actually, a close reading of Shiller's work would show that his conclusions are not robust relative to the starting and ending points of his study. For example, at the start of 1996, the P/E of the Nasdaq 100 was 28, while the Dow's was 15. The Nasdaq has since returned 450% to the Dow's 115%. Dr. Shiller apparently has not considered any beginning points for the P/E-vs.-return relation that started in the last decade, which is just the period when growth stocks have creamed value stocks.

Vic: That's part of the absurdly bearish travesty that has the market in its grips these days. Dr. Greenspan apparently spawned his "irrational exuberance" theories two days after an invited presentation by Dr. Shiller at the Federal Reserve. Fortuitously, in our competitive society, both in the world of goods and ideas, bad ideas ultimately will be supplanted by good. The pressures from the populace will turn even this 73-year-old ascetic to a correct point of view.

Q. What is the one stock that you two are buying right now that you would recommend to us?

A. Laurel: We would recommend a basket of stocks from our readers' picks, which were published May 21. Alternatively, we have created a list of 39 stocks that were beaten down from above 200 to below 100.

Q. Many pundits are talking about the young folks not being experienced enough to know what a bear market is. Is this dangerous?

A. Vic: Just as Milton Friedman doesn't believe there is a business cycle, we don't believe that there is any such thing as a bear market. There are merely markets that in retrospect have gone down in the last X days and others that have gone up. It's much more bullish for the future when it's gone down.

Moderator: Vic and Laurel, I want to thank you very much. We'll end with our traditional recital of the last sentence lines of Moby Dick, which are particularly appropriate to the stock market:

All: "Now small fowls flew screaming over the yet yawning gulf; a sullen white surf beat against its steep sides; then all collapsed, and the great shroud of the sea rolled on as it rolled five thousand years ago."

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	0.98	Down 2	-10	-2.9
S&P 500	0.92	Down 2	0.62	-3.0
Nasdaq	1.08	Down 2	-21	-9.2
Europe STOXX-50	1.19	Up 2	3.0	-1.8
Dollar/euro	0.88	Up 1	-6.9	4.6
Nikkei	0.85	Down 1	-15	-6.0
Dollar/yen	0.84	Down 4	3.8	-1.4
Gold	0.88	Up 1	-4.8	0.3
Oil	1.30	Down 1	35	1.9
Bond Futures	1.20	Up 2	5.2	-0.7
2-Yr Note Futures	0.89	Up 2	1.9	0.03
Bund Futures	1.33	Up 1	2.0	-0.4

Laurel Kenner is a financial writer in New York City. During her 16-year career, she has reported on police, politics and aerospace, and most recently headed U.S. stock market coverage at Bloomberg News.

*Victor Niederhoffer is a private speculator specializing in futures and options trading. He formerly managed money and hedge funds, and had one of the best records until turmoil in Asian markets in 1997 caused financial disaster. He is the author of best-selling *The Education of a Speculator*. His hobbies include music, electricity, sports and ecology, all of which form a foundation for his scientific speculation.*

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A Joyous Rally

By Laurel Kenner and Victor Niederhoffer

Columnists

05/31/2000 09:14 AM

... beautiful, radiance of the gods, daughter of Elysium
– Friedrich von Schiller, *To Joy*

An Ode to Joy of a rally right out of the Ninth Symphony came to all stock markets Tuesday. For the Nasdaq, it was the largest percentage gain in its 29-year history. For the S&P 500, the one-day gain was within 10 points of the previous record on March 16, 2000, when a favorable producer price index was the catalyst.

In terms of the total wealth created, as measured by the Wilshire Index, it was also a record-breaker: half a trillion dollars into the pockets of Mme. and Mr. Stockholder.

At times like these, we follow the advice of Mark Twain at the beginning of *The Adventures of Huckleberry Finn*: "Any person attempting to find a motive in this narrative will be prosecuted. Persons attempting to find a moral in it will be banished. Persons attempting to find a plot in it will be shot."

After the dark times of the previous two months, people tend to forget that the return over the previous century has been some 10 million percent, and also that the most frequently occurring category of words in the English language are synonyms for happiness and good. Their only rivals: God, truth, time, man, woman, war, love, life and money.

As Jane Austen once wrote, "A large income is the greatest recipe for happiness I ever heard of."

The rally would almost be laughable if it weren't so happy, beautiful, and so inevitable. Fallen stars like Parametric Technology (|PMTC|: Nasdaq), Ciena (|CIEN|: Nasdaq), Siebel Systems (|SEBL|: Nasdaq), QLogic (|QLGC|: Nasdaq) and CMGI (|CMGI|: Nasdaq) got off the ground with gains exceeding 15%.

(The rally reached into that never-never land that Vic never likes to look at – Asia. The markets in Hong Kong, South Korea and yes (here I look around three times to make sure Vic isn't within hearing range) Thailand were each up more than 5%. – L.K.)

The inevitable part of the celebration was the attribution by some news reports to a minor Fed official's soothing remarks on the economy yesterday afternoon. That, as we said in our talk to the Melville Society of Retired Fisherman of Rockport, Me., a transcript of which appeared in this column yesterday morning, was guaranteed to happen.

The official — the outgoing president of the Federal Reserve Bank of Philadelphia, Edward Boehne -- told Reuters that things are still in the preliminary stages, ahem, and it's too early to say for sure, ahem, but there are some early indicators that the Fed's six rate hikes are beginning to moderate the economy.

Boehne is a nonvoting member of the Federal Open Market Committee this year, and added to his other throat-clearings that it was too soon to know whether interest rates have risen enough to curb inflation. Nevertheless, reader Mark McNabb, driving along the interstate yesterday afternoon, was startled to hear

the CBS radio network put the remark in its business headlines – and even more startled that the Nasdaq, already up 150 points, proceeded to gain 100 points more.

*It was just one of those nights
Just one of those fabulous flights,
A trip to the moon on gossamer wings,
Just one of those things.
-- Cole Porter, Just One of Those Things*

Trading Places

It was just a couple of weeks ago that we called for Patrick Ewing to switch places with Alan Greenspan, saying they were both past their prime in their respective games. Ewing was the first to heed our advice, and stayed out of the last two Knicks games. Then there was a leak, reported by columnist Robert Novak, that Greenspan had favored just a quarter-point interest-rate increase, rather than a half-point rise, at the last Federal Open Market Committee meeting but was overruled.

That backing and filling by Greenspan wasn't enough, though, so Boehne materialized with appropriately conciliatory words. We now half expect to see the 5'11" Fed chairman on the court when the Knicks play Game 5 against the Indiana Pacers tonight in the NBA Eastern Conference finals.

"...but man he used to twirl a basketball on one finger. Yup, that juggling act of Alan's was once pretty impressive, but after a few years, it's just flash. Now he's just another lumbering big man a la Sabonis or Smits. Just don't let him put the ball on the floor...ouch, I can't watch...how embarrassing. The first dribble bounced off his foot...arms and legs everywhere, just like Ewing."
– Paul Lewis, worldlyinvestor.com reader.

After a beautiful rally like yesterday's that we repeatedly predicted would occur right after Memorial Day, it is best to rest on our laurels, and we will – except to say that there have been 12 occasions with the S&P 500 rallied 40 or more points in a day. By five days later, all but two had continued their ascent, with the average gain coming to some 1.5%.

We looked at the nine next-biggest percentage increases in the Nasdaq, and found the index higher on seven of the occasions five days later, with the average move a 0.8% gain.

But it can get a big dodgy along the path, so fasten your seat belts.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.00	Up 1	-8.4	-2.6
S&P 500	0.94	Up 2	-3.2	-2.1
Nasdaq	1.10	Up 1	15	-4.1
Europe STOXX-50	1.21	Up 2	3.6	-0.2
Dollar/euro	0.89	Up 1	7.6	2.1
Nikkei	0.87	Up 1	-14	-6.9
Dollar/yen	0.86	Up 1	1.0	-2.1
Gold	0.89	Up 1	5.1	-0.8
Oil	1.32	Up 1	37	2.1
Bond Futures	1.17	Down 1	4.5	0.8
2-Yr Note Futures	0.87	Down 1	1.0	0.1
Bund Futures	1.30	Down 2	1.9	1.1

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Bonds, Stocks and Investors; Cats, Bees and Mice

By Laurel Kenner and Victor Niederhoffer

Columnists

06/01/2000 08:31 AM

Hence it is quite credible that the presence of a feline animal in large numbers in a district might determine through the intervention first of mice, and then of bees, the frequency of certain flowers" (and the health of the British nation)

– Charles Darwin, *The Origin of Species*, Chapter 3, "Struggle for Existence"

The decrease in bond yields around the world to their lowest levels in a month should set in motion a chain of events that determines the existence of a stock market rally.

In the US, Wednesday's decline in the 30-year bond yield to 6% is of particular significance in this regard, especially coming as it does at the start of a month and after a holiday when investors are ready for a new model. As we write, stock futures are signaling a rise when the market opens.

Livestock need attractive foraging areas, and the presence of these areas is determined by the extent of pollination of the grains eaten. Darwin pointed out that pollination depends on the nature of bumblebees flying in the fields, which is determined by the level of intervention of mice. The presence of mice would be vastly increased by a decline in the number of cats, which of course would transpire were the number of spinsters to decline, thereby determining the level of nutrition and thus the health of the British nation.

Foraging for Dividends

We would point out that the value of dividends received by investors depends on the presence of attractive areas for investment in the economy. The presence of those areas and the time value of money received therefrom is determined by the level of interest rates. These latter are determined by banks' cost of borrowing, which in the United States has been determined since 1916 by the level of intervention by the governors of the Federal Reserve Board.

Hence it is quite credible to believe that the happiness of the older-hearted governors, which would be vastly increased, as we have remarked, by a change in places with a certain New York Knicks center, determines the level of stock prices. The move of yields below 6% makes investors who keep money more eager to spend it on stocks. And the earnings that come from these investments in stocks become more attractive as they are pollinated by lower yields. Thus, it is quite credible that the health of the stock market is determined by the frequency of low yields in bonds.

The move to a yield below 6% is of particular significance. It has occurred only three times in the last five years, and on each previous occasion – March 16, 2000, Dec. 11, 1997, and Dec. 29, 1995 – S&P 500 futures enjoyed a gain of at least 5% within six weeks.

As to why this has been true, we believe it is in the main due to the vivid grounding that 6% provides to investors considering stocks versus bonds. It's just not that attractive to hold a bond yielding below 6%, compared with the well-advertised 10% a year that a buy-and-hold strategy in stocks has achieved for the last 200 years.

A Smother Crop of Bond Yields

The growth and health of organisms in nature are determined in large measure by their interrelations with other organisms. Penicillin, for example, limits the distribution of many disease-causing organisms. The presence of smother crops such as barley, rye and sorghum limit the presence of weeds. Similarly, a high yield on bonds limits the attractiveness of company earnings.

More direct competition between species often occurs. For example, birds, ants and rodents compete for seeds in the woods and deserts. Stocks, bonds and commodities compete for places in the portfolios of both institutions and the public.

April and May were two of the worst months in recent stock market history. The high in Nasdaq futures of 4882 on March 24 was 68% above the nadir of 2902 on May 24.

One investor after another has been writing to us saying that we are now in a bear market.

The fears in these messages recall the Great Drought, which began in 1933 after six years of above-average rainfall. When the rains tapered off, prairie grasses died back or failed to come up in the spring. Some grasses survived as roots, but didn't show themselves above ground again for several years, while shallowly rooted grasses simply disappeared.

Eyeing the End of the Drought

Not every dry spell brings a drought. And at times like this, it pays to remember the cats and the mice.

The big declines in the stock market this year coincided with a rise in bond yields. From a low of 5.67% on April 7, yields climbed to 6.24% on May 8. Since then, yields have been drifting lower. Fed fund futures have come down a bit since May 18, two days after the last Federal Open Market Committee meeting.

Darwin found it interesting to contemplate a tangled bank, clothed with many plants of many kinds, birds singing on the bushes, various insects flitting about and worms crawling through the damp earth. Just so, the market teems with potential investments, with bonds providing a secure return, real estate and business opportunities an alternative to stocks, the older Dow stocks flitting about in competition with the Nasdaq issues and to reflect that all these elaborate opportunities for the use of our funds, so different from each other but interdependent in so complex a manner, have all been produced from simple beginnings.

The recent decline in yields to 6% should set off a beautiful and wonderful cycle. Sooner than they think, stock investors may once again find themselves in clover.

Speculator's Scorecard				
	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	0.89	Down 1	08.5	-3.8
S&P 500	0.93	Down 1	-3.3	-3.1
Nasdaq	0.93	Down 1	-16	-8.5
Europe STOXX-50	1.19	Up 3	4.2	-2.3
Dollar/euro	0.89	Up 2	-6.8	4.2
Nikkei	0.76	Up 2	-12	-4.1
Dollar/yen	1.22	Up 2	6.0	-0.6
Gold	0.71	Down 1	-5.5	-1.3
Oil	1.43	Down 1	31	-2.2
Bond Futures	1.22	Up 1	5.9	1.3
2-Yr Note Futures	0.87	Up 1	-0.9	0.09
Bund Futures	1.23	Up 1	2.3	-1.2

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Speculators Bask in the Glow of their Big Call

By Laurel Kenner and Victor Niederhoffer

Columnists

06/02/2000 09:19 AM

The man we know who could have been the greatest speculator of all time was Willie Sutton. Willie counted, planned and studied every aspect of the bank he was going to rob before entering. Even while welding a ship, he passed the time by practicing his technique in blasting into a safe. And the police officer impersonations that he used to case out his targeted banks were so good that passing motorists often stopped to ask directions.

"I enjoyed playing the different role," Willie recalled in his book, *Where the Money Was*. "I was also so wrapped up in any job I was planning that as soon as I put on a policeman's uniform I felt like a policeman. On two separate occasions, motorists asked me if it would be all right to leave their car in a no-parking zone for a couple of minutes – they were just going to run in and pick something up. I lectured them severely. How could they ask a policeman for permission to violate a city ordinance? 'Now if you happened to ride around the block,' I told them, 'I might not be here when you got back.'"

Willie always had a phlegmatic attitude toward the vicissitudes of life, something that all investors would do well to emulate on those rare occasions that their returns from holding stocks are not consistent with the 10% a year standard that has prevailed over the last 200 years. Willie knew he could always break out of a prison once he got in, and investors can always be assured that a rally like Tuesday's or Thursday's is on tap, just when all the longs are ready to throw in the towel and the high-fives and backslapping among the bears is at a maximum.

Our Friends and Accomplices on the Nasdaq

The problem for Willie was that after he broke out of a prison he often got caught. "You see, in my business, you often need accomplices...and many of these are unsavory characters that can't be trusted."

We will not comment on this except to say that many of the unsavory characters who make markets on the Nasdaq and specialize in traditional double-auctions on the Exchange are our best friends.

After one of his jail breaks, Willie was living in a Hispanic neighborhood so as to be less visible to the bounty hunters who saw his mug in all the English-language papers. He of course was a rabid Dodgers fan, and during the 1951 World Series, would have liked to watch the game from the stadium. Problem was, too many policeman, Vic's father among them, would be at the polo grounds.

One day that season, the Giants upset the Dodgers. "I saw Bobby Thompson hit his home run off Branca in the final play-off game in a tavern a block from Brooklyn police headquarters. As I watched Thompson circle those bases, I felt like going into headquarters and giving myself up. I don't think I've ever felt more depressed in my life."

Let Alan Play

We felt the same depression as Willie when we watched the Knicks play Indiana on Wednesday night. Not so much because the Knicks lost and we couldn't bet on it because we had promised our readers to forswear writing on basketball until the beginning of the season next year. But we were discommoded by seeing that Alan Greenspan has still refused to take our advice and suit up as a Knick in Ewing's place.

Instead, Greenspan dispatched a second Fed official yesterday, this time Robert Parry, president of the Federal Reserve Bank of San Francisco and a voting member of the Federal Open Market Committee, to say that a quarter-point increase in the federal funds rate may no longer necessarily be in the cards. This was the proximate cause of yesterday's rally.

We knew it was guaranteed to happen and wrote at 9 a.m. Tuesday that readers should look for a Fed official to spark a rally by announcing that "the worrisome imbalances in the economy have been redressed in large degree."

In any case, and here's the point, we are so depressed by the Fed chairman's refusal to go the direct route and just suit up that we are going to refrain from forecasting ever again. (Definitely at least until Monday.)

Resting on Our Laurel

Like most appropriate decisions, this one has several virtues over and above the immediate one of assuaging our frustration. For one, most investors, like their cousins in Vegas, have a stopping point when they lose a certain percentage of their chips. Usually the mistress of markets knows that point and takes stocks right to that level, like 3000 on the Nasdaq last Thursday, and then turns around and rallies them, just like she did this week. If only instead of stopping when they lost a certain percentage investors would stop when they made a certain percentage, say five times their money, or decide to sell when one of their stocks rallies from below \$100 to above \$200, they would be so much better off.

We have a list of such stocks that have declined from above \$200 to below \$100 that are good candidates for such a stopping rule. We're not recommending all of them by any means; they're just a starting point for some good fishing.

As we write, the employment number has been announced and the two-day rise of about 5% in the S&P 500 and 12% in the Nasdaq is the greatest ever associated with a jobs number. The rally this week in Nasdaq of 20% is the greatest of all time.

Speculator's Scorecard				
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S&P 500	0.94	Up 1	-1.4	0.7
Nasdaq	0.94	Up 1	-12	-1.7
Europe STOXX-50	1.21	Up 4	5.4	0.5
Dollar/euro	0.89	Up 1	-7.5	3.9
Nikkei	0.78	Up 3	-12	-2.0
Dollar/yen	1.24	Up 3	5.9	-0.1
Gold	0.73	Up 1	-5.3	-0.2
Oil	1.45	Up 1	36	2.4
Bond Futures	1.24	Up 2	6.8	2.8
2-Yr Note Futures	0.89	Up 2	-0.7	0.09
Bund Futures	1.26	Up 2	2.9	2.5

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A Miraculous Week in the Market

By Laurel Kenner and Victor Niederhoffer

Columnists

06/05/2000 09:05 AM

*Wonder of wonders, miracle of miracles
When Moses softened the Fed Chairman's heart
Long ago in Jericho
When God made the waters of the Red Sea part
That was a miracle, too.*

The little people who defied the bearish gurus and talking heads had their best week ever last week, as the Nasdaq rose 19%, almost twice as much as its previous record.

Extraordinary gains ranging from 5% in the Dow Jones Industrial Average to 31% in Korea rounded out a miraculous and joyous rebound.

The trigger for it all was a decline in 30-year Treasury yields. For the fourth time in five years, long bond yields fell below 6% after a sojourn of at least one month above that level, and as just as it did the previous three times, the market promptly rose 5% to 10% in honor of the occasion.

The stock market investor can no more look at stocks in isolation from bonds and other markets than can the sports fan look just at the coach or the concertgoer listen just to the wind section. And it was particularly humorous last week to see the crescendo of encouraging remarks from Fed officials.

The chorus began on Tuesday, when Edward Boehne, retiring president of the Federal Reserve Bank of Philadelphia, said the economy seemed to be slowing. On Thursday, Robert Parry, the president of the San Francisco Fed bank, hinted that a further quarter-point increase in the federal funds wasn't set in stone.

When all was said and done, it was almost impossible not to make money in the market last week. The Wilshire 5000 Index of every U.S.-headquartered company indicates that the US market augmented the wealth of its owners by \$1.23 trillion.

On Friday morning, we published a list of stocks that were once above the North Pole of \$200 and had fallen below the South Pole of \$100. (In a few cases, the decline was from north of \$300 to south of \$200.) These stocks rose 38% in one beautiful week.

Stocks That Bounced Back

Stock	Symbol	% Gain from 5/30 to 6/2
Terayon	TERN	74
WebMethods	WEBM	65
Micromuse	MUSE	60
Aethernet	AETH	57
e.piphany	EPNY	53
Ventro	VNTR	52
Network Solutions	NSOL	51

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VeriSign	VRSN	51
Akamai	AKAM	48
Internet Capital Group	ICGE	42
Juniper	JNPR	40
Human Genome Sciences	HGSI	40
Avanex	AVNX	40
Freemarkets	FMKT	38
Commerce One	CMRC	37
Abgenix	ABGX	37
Etek	ETEK	36
QLLogic	QLGC	36
I2 Technologies	ITWO	35
Infosys	INFY	35
Powerwave	PWAV	34
Incyte	INCY	34
Interwoven	IWOV	33
Rambus	RMBS	33
Xcelera	XLA	33
Emulex	EMLX	31
Virata	VRTA	30
Phone.com	PHCM	30
Medarex	MEDX	29
MicroStrategy	MSTR	26
Protein Design Labs	PDLI	25
Affymetrix	AFFX	15
Qualcomm	QCOM	10
Genetech	DNA	7
Average Change		38
Nasdaq 100		21

In all humility, we must report that this group only rose 13% from the close the day before we first featured them in this column.

We are partial to these stocks, because their decline below \$100 corresponds to the South Pole of 3000 for the Nasdaq 100. Great amounts of charge were stored up in these stocks by massive selling when they crossed the South Pole, and there is much energy remaining within them for a potential completion of the circuit back to the North Pole – a LoBagolian move, as Vic likes to say in honor of the African Jew who observed the habit of rampaging elephants of turning to thunder back along the same path they trampled down in the first place.

Far be it from us to throw cold water on the parade, especially since we have given up forecasting for the foreseeable future. As little people ourselves, we were happy as anybody to see the market rise. As Sholom Aleichem put it in *The Town of the Little People*:

"It is hard to say what makes them so happy. Nothing but the sheer joy of living. Living? If you ask them how do they live, they will answer with a shrug and a laugh. 'Who knows how we live? A remarkable thing... we might earn a few pennies.'"

We note, however, that it is normal for considerable dipsy-doodling after bullish employment reports, with an emphasis on the dipsy.

These verses from reader Jason Sweidan sum it up well:

The current market environment

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01/21/00

*Feels to me more like the Mating Frenzy
Of the African Praying Mantis.*

*The recent 19% surge
In this highly illiquid market
Is setting the stage
For the female Mantis to bite
The neck of the male
Market Orgasm.*

*After the neck is bitten
The male Mantis though
Smitten is still
Able to function
And give the pretension
Of being alive
Until a given point
In time.*

Speculator's Scorecard

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Dow	0.93	Up 2	-6.1	1.6
S&P 500	0.96	Up 2	0.6	5.0
Nasdaq	0.96	Up 2	-6.3	12
Europe STOXX-50	1.23	Up 5	8.7	6.9
Dollar/euro	0.91	Up 1	-5.9	5.4
Nikkei	0.80	Up 1	-5.9	5.4
Dollar/yen	1.22	Down 2	5.0	0.5
Gold	0.74	Up 2	-2.4	2.5
Oil	1.48	Up 2	37	1.7
Bond Futures	1.26	Up 3	7.0	3.7
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01/01/00



The Market Hits a Lull

By Laurel Kenner and Victor Niederhoffer

Columnists

06/06/2000 08:38 AM

Nothing tells in the long run like a good judgment, and no sound judgment can remain with the man whose mind is disturbed by the mercurial changes of the stock exchange. It places him under an influence akin to intoxication. What is not, he sees, and what he sees, is not.

— Andrew Carnegie

The market paused for rest Monday, registering one of the least volatile days of the year. The change in Nasdaq futures, up 1 point to 3,751, was the smallest since Feb. 22, and such tiny moves generally occur only once or twice a year.

The Nasdaq's volatility has lessened substantially in recent days, with the historical 10-day volatility dropping from above 100% before Labor Day to a mere 60% today. Implied volatility has dropped from 75% to 50%.

Comparable drops have manifested themselves in S&P 500 implied volatility, which has dropped from 35% a few weeks ago to less than 25% today.

The action was hardly enough to trigger the emotional responses and surging hormones that the market mistress finds so necessary to maintain our homage, awe and interest, and that the evil hand of the house finds critical for inducing the churning of our accounts so as to cover its enormous overhead.

If we were still in the prediction game, we might say, just to keep the adrenal system in working order, that an absolute change at least three times as large is in store for us real soon. We also might say that it's Tuesday, and Vic's chiropractor has started keeping a waiting list of patients just in case the mistress of markets tries to put the fear of ruin to us just one more time before retiring to her summer retreat as the remaining bearish forecasters and shorts recant at Nasdaq 4,000.

But as we said last week, we aren't making any more forecasts. For now, we will aspire to be more like most of our colleagues in the stock market coverage trade. We promise to write purely descriptive accounts of Monday's moves and attribute them to optimism or pessimism over interest rates or earnings.

Failing that, we'll deliver forecasts that are 99% likely to be true from random variations alone, such as, "The Nasdaq is 90% likely to fall to 3,500 before hitting new highs later in the year." If Monday's lack of volatility persists, there's always: "The market is likely to be range-bound from Nasdaq 3,000 to 5,000 this week."

After these, just to pat ourselves on the back one more time, we're likely to report anything that gibes with our past forecasts with the special label, "as predicted."

But we won't resort to uncorking the views of those who have been saying for the last three years that the market couldn't go up while interest rates were rising. Now they're unhappy that the market did go up before interest rates have started to drop, and say that stocks can't go up until interest rates "stumble three times."

We're not likely to dip into those palettes no matter how tempting the paint seems from our Delphic ladder. In our case, we'll be tempted to gravitate to our old standby: "The darn market's down because Dr. Greenspan and Patrick Ewing refused to heed our directive to trade places."

But even that one has its shortcomings. Reader Larry Ritter points out that we would be much better advised to move to baseball, now that Alan seems to be retreating from his irrational views on stocks. And in future columns, we will do just that, even though one of us was fired from one of our last jobs partly for "writing too much about baseball."

And we will be sure to quote liberally from the best baseball book ever, Larry Ritter's *The Glory of Their Times: The Story of the Early Days of Baseball by the Men Who Played It*.

And we will not refrain from communicating the brilliant insights of our readers. Their thoughts on hypertrading seem particularly appropriate now that the market is in a windless patch. Our next two columns will be devoted to that subject.

Speculator's Scorecard				
	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	0.93	Up 3	-3.9	2.6
S&P 500	0.93	Down 1	-0.1	4.8
Nasdaq	0.98	Up 3	-6.1	14
Europe STOXX-60	1.20	Down 1	7.2	7.6
Dollar/euro	0.90	Down 1	-5.8	5.0
Nikkei	0.79	Down 1	-9.3	5.2
Dollar/yen	1.20	Down 3	4.2	0.3
Gold	0.76	Up 4	-0.9	3.6
Oil	1.44	Down 1	34	3.4
Bond Futures	1.28	Up 4	7.4	3.3
2-Yr Note Futures	0.93	Up 4	-0.4	0.6
Bund Futures	1.30	Up 4	3.1	3.6

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Investors Who Trade Too Much

By Laurel Kenner and Victor Niederhoffer

Columnists

06/07/2000 08:35 AM

"The experience of years as a stock operator has convinced me that no man can consistently and continuously beat the stock market though he may make money in individual stocks on certain occasions."

– *Reminiscences of a Stock Operator*, Edwin LeFevre (the memoirs of trader Jesse Livermore).

"My life has been a failure," wrote Jesse Livermore in an eight-page suicide letter before blowing his brains out in the men's room of the Sherry-Netherland Hotel in 1940.

Well-meaning people often tell Vic by telling him that his *Education of a Speculator* was the most helpful book they've ever read, aside from Livermore's *Reminiscences of a Stock Operator*. Nothing could be more horrifying. Livermore, the hero of modern day traders, had gone bust four times and committed suicide after finding himself at the wolf's point once more. His method of trading in and out often during the day made it guaranteed to happen.

After rewarding investors last week with the greatest Nasdaq rally in history, the mistress of the markets is toying with her devotees this week, subjecting them to small torments of dread. Rather than indulge the moment-to-moment whims of the market mistress or pay more than our fair share of the vigorish that keeps the wheels of the securities industry turning, investors should take this relatively windless stretch in the market to reflect on the temptation to overtrade.

We're not necessarily talking about daytrading, although that certainly fits into this class of temptation. While technological advances and regulatory change over the past four years have made daytrading a booming industry, and we all probably know somebody who does it for a living, relatively few people have joined the long-time practitioners -- the "locals," market makers and exchange specialists -- as pure daytraders.

But we suspect that many people trade too much. Certainly we're doing it more than we used to. Even a staid auto stock like Ford (F: NYSE) traded more than half its float last year, and if the present rate holds, that will rise to 75% this year.

This is a controversial subject, and we welcome comments. Our own belief, based on probability, is that the best bet is to buy and hold. The market has inexorably risen over the past two centuries, and investors can expect a reward of 10% to 12% a year simply for holding a broad-based group of stocks.

The more one trades, the greater the bite from commissions, spreads and state, federal and city taxes – not to mention overhead for data feeds, software, computers – and the closer one gets to a zero sum game. In the long run, the house holds the edge over short-term traders just surely as it does with the slot machine and craps players in Las Vegas.

Reader Views

We asked our readers for their views and as always, found them well worth sharing. We begin with a tale from a psychologist who is a student of the markets.

A client sought help when his relationship with his wife suffered after he adopted daytrading as a career and found himself going through the highs and lows of taking profits and losses on volatile stocks. Last Friday, he came early to an appointment and noticed that the psychologist's computer was on, with four windows following the markets. When he saw the computer, he ran over to it and pronounced in a manner of absolute certainty: "The market will close strong." Then, in an unusually animated tone, he exclaimed, "I've got to get home and place some trades!"

The client "had missed the four-day upturn in the market," the psychologist wrote. "He wasn't trading a tested strategy or pattern. And he wasn't trading to make money. He was wanting to trade so that he wouldn't feel like he had been on the sidelines the entire time."

Hypertrading reminds reader Leonard Kreicas of the old Walt Disney cartoon where mild-mannered Goofy becomes a homicidal maniac in a car. "We all see the front-page headlines on lottery winners," writes Kreicas, a retired chemist who learned years ago to profit from the power of compounding in his long-term investments. "That's not by chance. The lotteries, tracks and brokerage houses all spend a fortune encouraging people to risk their money. Given enough time, the house wins."

Even successful traders are subject to a peculiar psychology that renders them in far more need of constant validation than the buy-and-hold investor, observes reader Mark McNabb, a professor at Virginia Tech University: "If you win on a trade, it boosts confidence and swagger; the day seems more sunny, people are funnier. If you lose, either you disassociate or sulk or ignore, and optimistically wait for the next trade to resolve itself."

Reader James Goldcamp points out: "The need to watch the market tick by tick may crowd out other useful activities like research, planning, and reflection. However, if these activities are moved to after hours, then family and friends could be crowded out."

Or as one of the smartest traders we know, who happens to work for a major Nasdaq market maker, says: "Anyone who spends all day watching NASD-Level II display deserves what he gets. Bad karma. Should be outside hiking in the fresh spring air instead."

Good for the Market, Bad for Themselves

Omid Malekan, a Columbia University student, gave us an excellent analysis based on his own experiences as an active trader:

"My view of day traders is this: They are good for the markets and bad for themselves. Day traders add liquidity to everything, cut spreads, limit the house's take on the spread and make it easier for the rest of us to get a half-decent price. They have brought lots of competition into the brokerage industry. As more brokers cut prices and compete to gain the hypertraders' business, everyone else who trades or invests benefits.

"Here are the negatives: If you think you are going to make thousands on every trade you don't care about 50 bucks in commissions. But most people don't make thousands. Point being you rarely get paid, the house always gets paid, and when you have a couple of thousand day traders doing couple of thousand shares a day, that's a lot of money made in \$7.99 commissions and eighth-point spreads. Like the old Iranian proverb says, 'Drop by drop an ocean can be made.'

"The smaller your time frame, the more random things become. If you are trying to get in for a point in

the next 10 minutes, a huge sell order by some big fund makes a difference, but if you expand your time horizon to a month, that sell order becomes a blip.

"Sometimes things are too confusing and you are better to stay out. This is much easier to do if you are a side speculator who actually has a day job to keep you busy. But if you make your living off trading and are staring at the screen all day every day, it's a lot harder to prevent yourself from trading for the sake of trading.

"These are my thoughts on the matter, and I can honestly say that they are for the most part based on what I and friends of mine have experienced about daytrading, unlike the media which has a tendency to find some obscure report by someone and blow it up."

Escape in a Pine Box

It's not a coincidence that Jesse Livermore ended his life by blowing his brains out. Writing in 1870, William Worthington Fowler noted that all the speculators he knew had met a similar fate. "When they have entered the Street, they never leave it except in a pine box or a rosewood case, according to circumstances."

There's another approach to trading that some of our readers believe is guaranteed to lead to success rather than failure. It depends on buying leading stocks such as Cisco Systems (|CSCO|: nasdaq), EMC (|EMC|: NYSE), Sun Microsystems (|SUNW|: Nasdaq), Intel (|INTC|: Nasdaq), Oracle (|ORCL|: Nasdaq) and Hewlett-Packard (|HWP|: NYSE). More in tomorrow's column.

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S&P 500	0.93	Down 2	0.8	6.1
Nasdaq	0.96	Down 1	-7.7	19
Europe STOXX-50	1.18	-2	6.7	6.3
Dollar/euro	0.91	Up 3	-5.1	5.3
Nikkei	0.77	Down 2	-9.5	6.9
Dollar/yen	1.17	-4	3.2	-2.0
Gold	0.77	Up 4	0.4	5.4
Oil	1.47	Up 1	34	3.4
Bond Futures	1.26	Down 1	7.4	3.3
2-Yr Note Futures	0.91	Down 1	-0.4	0.6
Bond Futures	1.27	Down 1	2.9	1.8

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An Investment Method So Simple You Might Overlook It

By Laurel Kenner and Victor Niederhoffer

Columnists

06/08/2000 09:11 AM

*"The art of art, the glory of expression and the sunshine of the light of letters is simplicity."-- Walt Whitman (1819-1892), preface to *Leaves of Grass**

Yesterday, we published some thoughts on why we believe day trading and hypertrading are losing games. Today, we will discuss an elegant alternative approach suggested to us by reader Jim Daniels. It's so simple that some of the people we initially showed it to scoffed. But as Daniels says, "sometimes the answer is right under noses and we still miss it."

Here is the method: Ask, "Who would I work for if I were in a particular field?"

You'd want to work for the leader, of course. And those are the very stocks you should buy and hold.

As a veteran Internet programmer who has worked in technology centers ranging from NASA Langley to AT&T to Lucent Bell-Labs, the field Daniels knows is tech. And the companies he'd want to work for if he ever left his present employer can be counted on two hands. Here is his list:

Cisco Systems (|CSCO|: Nasdaq)
EMC Corp. (|EMC|: NYSE)
Hewlett-Packard (|HWP|: NYSE)
Intel (|INTC|: Nasdaq)
Sun Microsystems (|SUNW|: Nasdaq)
Oracle (|ORCL|: Nasdaq)

"Ask me how many 35-year-olds I know who have close to, if not over \$1 million," because they regularly bought their company's stock through a 401(k) or stock purchase program, Daniels writes.

"Now consider the novice investor... doesn't know Oracle from Unix or Netscape from Pentiums. If he does buy stocks, it's the hot issue from a friend or broker. He gets burned on volatility and abandons stocks for mutual funds. Some get lucky and buy good funds through dollar cost averaging and through the years they do OK. Not as good as my friends at these companies, though! Same mindless way of investing! Just done on different vehicles. One, on great company stock, and the other on a diversified fund with little to no potential for triple-digit growth."

"Why not just dollar-cost average into these great companies as though we worked there? Like most people do in funds? We would have a lot more chance of catching a big ride, because we're not as diversified as most mutual funds, and we don't have to worry about them going out of business since these companies are going to be around for years to come, if you believe in the Net.

"I admit that there are no real guarantees here, but from where I sit, these are the IBMs of the Net World," Daniels writes. "Maybe ever changing cycles will prevail, or someone else will do it all better. From where I sit, it doesn't look like it. If someone was going to invest, this is how and where. Another benefit is that this method would leave plenty of time for life. Simple, elegant, and from what I've seen, very effective."

Ron Freeman, a business valuation specialist who retired March 31 after 30 years as a CPA, says the approach has worked for him since he became a serious long-term investor seven years ago. "I am a

believer in Internet infrastructure-related businesses that are industry leaders, have significant intellectual property and other barriers to entry." Freeman writes.

"I have been long on Intel, EMC, Cisco and Sun since 1993 and have been in and out of Applied Materials (|AMAT|: Nasdaq), Microsoft (|MSFT|: Nasdaq) (the justice department ran me out of the stock five months ago after a six-year hold), and a few others. This year I expanded my holdings to JDS Uniphase (|JDSU|: Nasdaq) and Universal Display (|PANL|: Nasdaq) (an admitted flyer but you ought to take a look).

"I try to be insensitive to current sentiment and ephemeral market/economic events that drive the traders. I believe that trading is for the pros -- I'm just an amateur. Besides, I've had an average annual return of over 55% since 1994 so I'm sticking with what (I think) I know."

Observes reader Leonard Kreicas, who has benefited from long-term investing: "Getting rich like that would throw a lot of people out of work: brokers, market makers, Elaine Gazarelli et al., systems hawkers, Maalox, therapists."

We're aware, as are our two esteemed contributors, that this technique is by no means the the be-all-and-end-all. There is some degree of retrospection in picking a group of six leaders today that doesn't include such leaders of yesterday as Microsoft -- or the ever-changing leaders of tomorrow. Still, any reader who takes home a copy of Wired or Red Herring can find an index of future leaders that have enjoyed comparable performance.

We invite our readers to share their thoughts as to extensions, generalizations, complications and corrections.

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Europe STOXX-50	1.16	Down 3	5.9	5.5
Dollar/euro	0.93	Up 4	-4.4	6.1
Nikkei	0.76	Down 3	-10	6.0
Dollar/yen	1.19	Up 1	3.2	-2.0
Gold	0.76	Down 1	-0.5	4.5
Oil	1.49	Up 2	35	4.1
Bond Futures	1.28	Up 1	7.7	3.6
2-Yr Note Futures	0.89	Down 2	-0.4	0.6
Bund Futures	1.29	Up 1	3.4	1.8

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Basking in Warmer Weather at Last

By Laurel Kenner and Victor Niederhoffer

Columnists
06/09/2000 8:59 AM

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*Through a round aperture I saw appear
Some of the beautiful things that Heaven bears
Where we came forth, and once more saw the stars*

-- Dante's Inferno

After the hellish declines of March, April, May, and last week's 19% gain in the Nasdaq, this was a week of relief and reflection. The best way to close it is with a look at the standings in our Readers' Picks contest.

On May 26, when we last checked, all four groups were under water, with average changes ranging from -4.1% to -26%. All but seven of the 67 individual entries were down.

We suggested at the time that it was a good time to buy good stocks, as the weeks after Memorial Day are traditionally bullish. And we said the readers' choices offered a broad choice of stocks on sale.

Just eight trading days later, the losses of all four groups have evaporated like puddles from a terrible storm under a summer sun.

Here are the team averages:

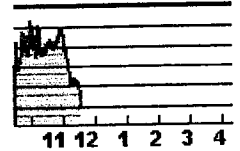
Readers' Picks Performance

TEAM	% Change at 6/8	% Change at 5/26
Reader Picks I	+4%	-17%
Reader Picks II	0.7%	-26%
Reader Picks III	+26%	-21%
Reader Picks IV	+20	-4%

So far, only Team III is beating the benchmark, the Nasdaq 100. But there are many months until

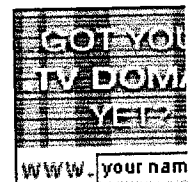
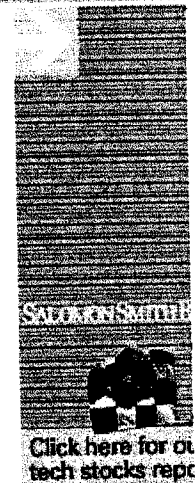
sponsored by EIT

Dow Jones Industrial



Dow	10710.15
Nasdaq	3882.27
S&P	1467.87
MI-ADR	1362.46
30Yr Tr.	5.97

Data delayed by 20



the contest ends in November.

And the magnetic attraction of the North Pole grew stronger this week, drawing the Nasdaq to within 110 points of 4000 yesterday.

Of the individual entries, 40 are now up.

Millennium Pharmaceuticals (MLNM: Nasdaq), the pick of readers RL and RB, is in the lead of Team I.

In Team 2, a 47% gain put Jaco (JACO: Nasdaq), the choice of reader RAW, at the top.

Team 3 has benefited from three stars with gains exceeding 50%: Conductus (CDTS), from reader GA, up 86%; Constellation 3D (CFMD: Nasdaq), from reader BLM, up 79%; and Echelon (ELON: Nasdaq), from reader T, up 72%.

In Team 4, Sawtek (SAWS: Nasdaq), choice of reader AMD, is in front with a 31% gain.

For readers who are just now joining us, this contest began in early May, and will last six months. We asked readers for stocks they liked but didn't currently own for one reason or another.

The entries were divided into four teams. Every team that beats the Nasdaq 100 benchmark will be invited to a gala party in New York, and the individual winner in each group will be treated to a fish dinner at the restaurant of his or her choice.

Reader Notes

Finally, after centuries, someone has come up with an alternative to the market's most ubiquitous cliché. "Instead of Bull and Bear we are using the terms Hippo and Crocodile," reports Mustafa Zaidi. "The Hippo is the most powerful and feared of animals in African lore. When a hippo moves it moves fast and hard. The Crocodile lies in wait and is patient. When the prey arrives, it drags it to the bottom of the river to feed on."

David Ciocca calls our attention to this quote from J.D. Salinger's *Catcher in the Rye*, which

sums up our feelings about great books: "What really knocks me out is a book that, when you're done reading it, you wish the author that wrote it was a terrific friend of yours and you could call him on the phone whenever you felt like it."

Ciocca adds: "I believe that Holden's character could have been one of the best traders of all time. He had a fantastic sense of perception, and was cynical of everything at face value."

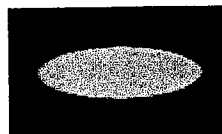
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Readers React to Kenner and Niederhoffer Columns

By worldlyinvestor.com Staff

06/11/2000 04:20 PM

The e-mail boxes of our Daily Speculations columnists Laurel Kenner and Victor Niederhoffer are overflowing these days. Here's a collection of some of the most thoughtful, intelligent and eclectic letters that we received this week.

On Thursday, the Daily Speculators wrote that a buy-and-hold strategy works for most investors, most of the time.

This tried-and-true investing method worked for Mike Ott, a young investor who appears wise beyond his years.

"I'm only 23, so I don't have much experience with long-term investing. I do have one good story, though. I bought a Putnam fund when I was 14, and in seven years it went up 600%, so I could buy a home at age 21.

"Recently I have been making more trades, but with much less success. My thinking is very similar to yours, in that I'm in the market for the long haul with the majority of my assets."

Other readers chimed in with praises for the buy-and-hold approach, too.

David Wilfinger wrote, "No arguments on the buy-and-hold approach. To steal an idea from Xenophon, the 'mistress,' like the earth, rewards the patient and diligent toiler who attempts to determine what the soil will yield, not the lazy fool who plants what he perceives to be the 'best' crops which will make him fat and wealthy."

Reader David Ciocca says that trading options will make investors anything but fat and healthy. "Buying options is a sucker's bet," Ciocca writes. "Play long enough and it's sure to be ugly for your account."

Zen and the Art of Investing

Perhaps it's the heady, esoteric nature of Kenner and Niederhoffer's column, but many Daily Speculations readers tend wax quite philosophical when they write in with their thoughts.

Mark McNabb, who frequently comments on the Daily Speculations column and who is a finance professor at Virginia Tech University, posed questions that are the stock market equivalents of, "When a tree falls in the woods, does it make a sound?"

McNabb writes, "If markets are rational and efficient, then why should anyone point to any stock and suggest that it's over or undervalued? How can the market be rational if comprised of silly irrational parts?"

He adds, "If markets are irrational and inefficient, then why should anyone point to any market and

suggest it should return to its proper valuation? Sort of a Zen dilemma, grasshopper."

Indeed. Phil Jackson, the Los Angeles Lakers coach and the NBA's resident Zen philosopher, might be of some help. Speaking of basketball, Ken Fan had the following to say about the phenomenon of day trading.

"Day trading is not an odds game, but a kind of skill, kind of like learning to play basketball well enough to make money from it," Fan wrote.

"In this case, just as with basketball, the odds would be against a random individual from succeeding, but if a person learned the skill, then they would be able to make their living through the exercise of that skill," Fan wrote.

Reaction to the Microsoft Ruling

And as for this week's biggest news event, the breakup of Microsoft (|MSFT|:Nasdaq), readers flooded Niederhoffer and Kenner with their thoughts.

One favorite was James J. Daniels who wrote complete with stage direction and in capital letters: In the voice of Darth Vader from the movie, Star Wars: Return of the Jedi, "THE FEDERATION HAS BROKEN MICROSOFT INTO TWO DIVISIONS, JUST AS I HAVE FORESEEEEEEN.

"NOW, THE OPERATING SYSTEMS DIVISION WILL STAY ON THE DARK SIDE OF THEFORCE. (The) APPLICATION SIDE CAN NOW BE BROUGHT OVER TO THE GOOD SIDE."

May the force be with you as you make your next investments.

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Biotech Comes Back From Grave

By Laurel Kenner and Victor Niederhoffer

Columnists

06/13/2000 09:47 AM

Biotech stocks have been slipping back and forth since the beginning of the century like a hog on ice.

The best index for monitoring biotechs is the Biotech HOLDRs trust (|BBH|: Amex), traded on the American Stock Exchange under the symbol BBH. It consists of a market-value weighted index of 20 biotech stocks including Genentech (|DNA|: NYSE), Amgen (|AMGN|: Nasdaq), Immunex (|IMNX|: Nasdaq), PE Corp.-PE Biosystems Group (|PEB|: NYSE) and Medimmune (|MEDI|: Nasdaq). It regularly trades 500,000 shares a day with bid-asked spreads averaging about 1/10 of a percent on markets good for 1,000 shares.

The index, from about 100 in early December 1999, moved pretty continuously up to 243 on March 3, then fell to 122 on April 24. On June 9, it was back up to 160, falling to 152 yesterday.

The moves of the biotech stocks have not gone unnoticed. Yesterday, undoubtedly for the first time in their history, both *BusinessWeek* and *The New Yorker* had lead stories on how scientists are on the verge of unraveling the order of the 3 billion bases that comprise DNA in humans.

Biotech Potential Prods Speculators

We are amateurs in this field as we are in so many others, and hesitate to join the crowd at what would ordinarily seem like the height of hype -- the worst possible time to buy. But the potential arising from the research in this field leads us to overcome our reluctance, especially since we have given up the forecasting game -- something that's very hard to do indeed in the face of the incredibly bullish scenario that should unfold today after three significant daily consecutive declines in S&P 500 futures.

Most experts believe advances in biotech will lead inevitably to a doubling in human life expectancy for those born 25 years from now, along with the eradication of cancer and heart disease, as well as a general improvement in the quality of life.

Our first step into the fray was yesterday's publication of the wisdom and stock picks of Frank Linet, a common man -- in fact, a street person not too long ago before a 100-fold increase in his portfolio enabled him to climb into a home of his own and a place in the firmament of the savants we rely on. His five picks yesterday did not buck the 5% decline in the biotech index yesterday, performing as follows:

Targeted Genetics (|TGEN|: Nasdaq) -0.5%
Genelabs (|GNLB|: Nasdaq) -3.1%
Onyx Pharmaceuticals (|ONXX|: Nasdaq) -0.5%
Axy's Pharmaceuticals (|AXPH|: Nasdaq) -2.4%
Medarex (|MEDX|: Nasdaq) -3.6%
Xoma (|XOMA|: Nasdaq) -6.7%

Pole Vault

http://www.worldlyinvestor.com/print.cfm?article_id=7552

06/13/2000

We are not in the habit of throwing our friends to the lions. Nor do we think it good to be overly discouraged when good stocks go down in a portfolio. Quite the contrary. For example, we have been following a portfolio of 35 beaten stocks that fell this year from above the magnetic North Pole of 200 to below the South Pole of 100.

We first recommended them to worldyinvestor.com readers on May 26 -- shortly before the Memorial Day rally that sparked our decision to retire from forecasting a winner, in the tradition of Ted Williams, who ended his baseball career with a home run.

Since that time, the "Down 35" is up about 60%, and now stands 30% above its level on April 20, when we originally invented the index.

The Way of a GENTelman

We will now return to another of our old friends, the genetic index sparked by technician Vic's viewing of Laurel's Lindy hop sequence at the Irving Plaza Ballroom on May 17. That index evolved from the base of life itself: the gene. It consists of every company containing the letters of life -- G E N -- listed in the Standard & Poor's monthly stock guide at year-end 1997. (We excluded companies with "General" in their names.)

The G E N Index was adjusted prospectively for acquisitions, additions and deletions, and now consists of eight companies: Amgen (|AMGN|: Nasdaq), Biogen (|BGEN|: Nasdaq), Genelabs (|GNLB|: Nasdaq), Genset (|GENXY|: Nasdaq), Genzyme (|GENZ|: Nasdaq), Human Genome Sciences (|HGSI|: Nasdaq), Myriad Genetics (|MYGN|: Nasdaq) and Regeneron Pharmaceuticals (|REGN|: Nasdaq).

The index started at 100 at year-end 1997, rose to 132 in 1998 and leaped to 328 by year-end 1999. It more than doubled to 800 as of the end of February 2000, fell back 44% to 444 at April 30 and declined still further to 405 at the end of May.

It closed at 490 as of yesterday's close, a recovery in the spirit of the spectacular matches that have done so much to improve the quality, beauty and betting environment of sports. We would now like to propose a match race between the three different groups of biotech stocks that we have brought our readers' attention: the Biotech HOLDERS, the Linet recommendations and Technician Vic's G E N companies. We'll start each one at 100 as of the close on Monday, June 12. We'll revisit them on Dec. 12, when they are likely to be range-bound between 50 and 500.

The winner gets the quiet satisfaction of knowing that he or she has contributed to the competitive arena so necessary to improvements in the quality and quantity of life.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	0.90	Down 3	-8.1	0.4
S&P 500	0.90	Down 3	-1.6	1.7
Nasdaq	0.96	Down 1	-7.4	8.9
Europe	1.17	Up 1	6.0	2.3
STOXX-50				
Dollar/euro	0.85	Up 1	-5.2	2.5
Nikkei	0.85	Up 1	-11	1.3
Dollar/yen	1.17	Down 1	4.0	-1.8

Gold	0.75	Up 1	-0.4	5.0
Oil	1.48	Up 2	43	4.6
Bond Futures	1.29	Up 1	8.0	3.0
2-Yr Note Futures	0.88	Up 1	-0.4	0.5
Bund Futures	1.29	Down 1	3.1	0.8

Laurel Kenner is a financial writer in New York City. During her 16-year career, she has reported on police, politics and aerospace, and most recently headed U.S. stock market coverage at Bloomberg News.

*Victor Niederhoffer is a private speculator specializing in futures and options trading. He formerly managed money and hedge funds, and had one of the best records until turmoil in Asian markets in 1997 caused financial disaster. He is the author of best-selling *The Education of a Speculator*. His hobbies include music, electricity, sports and ecology, all of which form a foundation for his scientific speculation.*

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Greenspan Speaks, Market Rallies

By Laurel Kenner and Victor Niederhoffer

Columnists

06/14/2000 08:32 AM

If you sow the wind, you will reap the whirlwind.

The market staged a spectacular rally around noon Tuesday when Fed Chairman Alan Greenspan delivered a video-conferenced speech on business productivity to his old colleagues at the New York Association for Business Economics.

The Nasdaq 100, which fell 3% Monday and was down 1% when he spoke, immediately changed horses and surged to new post-April highs, up 3% on the day at the close. And that was typical of the chairman's effect on the market.

The speech was in the main nothing more than a reading of previous work published by Fed staffers Stephen D. Oliner and Daniel E. Sichel four years ago. But the conclusion, the data "lend considerable credibility to the notion that our economy is benefiting from structural gains in productivity that have been driven by a remarkable wave of technological innovation," was taken as a signal that the Fed is now bullish on stocks and calm on inflation.

While what he said wasn't significant, the timing was key. Greenspan has a limited number of themes in his bag, each of which tends to have a specific effect; "irrational exuberance" beats the market down, while "technology-driven productivity gains" jollies it along.

It was Greenspan's playing of the "irrational exuberance" theme this spring that was among the principal causes of the great Nasdaq crash from March through May. We can only guess at the murky political reasons behind his timing.

We receive hundreds of messages a day from readers between the two of us, and spent far too many hours during the last few months reading about the painful, in many instances life-damaging, losses caused by this spring's crash to give the Fed chairman a pat on the back for sounding more sensible than usual yesterday.

To us, the only encouraging thing about yesterday's speech was that it was given to a group in New York. Anything that gets Greenspan away from the Beltway and closer to Pat Gundy is good, in our book. It is our fervent hope that the unstated purpose of the speech would ultimately be to visit the Knicks coach to discuss when Greenspan might start wearing Patrick Ewing's jersey.

One of our many spies told us that Greenspan gave the speech today with an Air Jordan sneaker on one foot. We will wait for him to put the other on before issuing any praise.

We have previously recommended that Greenspan turn to Mark Twain's *The Prince and the Pauper* for guidance as to the proper remedy for his old-hearted ways. We would now like to recommend he supplement this with a reading of *Huckleberry Finn*. In that way, he'll get a feel for the spirit of youth and individualism that is the American way.

Huck Finn will help Greenspan realize that growth is good, and that the common man on factory floors, offices, distribution channels and communication terminals has more common sense, wisdom and ability than all the business economists in the world.

No need to worry about their paying too much attention to analyst forecasts, or their spending too much of their wealth on scarce goods, or preference for McAmerican technology companies like Cisco (|CSCO|: Nasdaq) and Intel (|INTC|: Nasdaq) to the candy retailers and shoe companies that sell for lower price-earnings ratios.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	0.92	Up 1	-7.6	-0.3
S&P 500	0.92	Up 1	0.01	1.4
Nasdaq	0.98	Up 1	-5.4	7.5
Europe STOXX-50	1.15	Down 1	5.9	0.4
Dollar/euro	0.87	Up 2	-4.6	3.1
Nikkei	0.80	Down 2	-12	-0.9
Dollar/yen	1.19	Down 1	4.3	-1.02
Gold	0.74	Down 1	-0.8	4.8
Oil	1.50	Up 2	46	8.0
Bond Futures	1.27	Down 1	7.1	3.2
2-Yr Note Futures	0.90	Down 2	6.5	1.3
Bund Futures	1.31	Up 1	3.3	-0.7

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The Link Between Biotech Stocks, Tony Blair and Monica Lewinsky

By Laurel Kenner and Victor Niederhoffer

Columnists

06/14/2000 9:25 AM

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The entire farce, Fed Chairman Alan Greenspan's playing of the "irrational exuberance" theme, that set the market in tailspin reminds us of the automaton clock toys that you can see at good toy museums. The beginning scenes show a little person in a dangerous situation. Along comes the policeman or father, and ultimately the danger springs away. (See Kenner and Niederhoffer's earlier [column](#) on Greenspan.)

Yes, it was inevitable for the market to ultimately retrace the entire false danger set off by the older-hearted chairman, and yes, it had to be reversed. But the real culprit in this story is Monica Lewinsky.

Everybody knows that the biotech slump started when President Bill Clinton held a press conference with Tony Blair in March to say that the human genome belonged to humans. The implication was that he was attacking patent protection, and therefore the potential profits of the companies in Group Two. Clinton and his patent officials tried to undo the damage in the following days, but uncertainty kept working its way through the sector.

But did you ever wonder: Why Tony Blair?

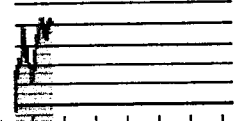
The story making the rounds in biotech circles is that Clinton owed Blair a favor for standing by

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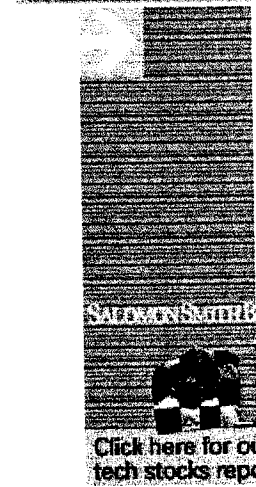
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Dow Jones Industrial



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What a second of downtime c your e-busin



him during the heated debate. And Dan was being pressed by British biotech firms unhappy that US rivals are assembling collections of patents like properties in a Monopoly game.

Biotech stocks run up and down faster than a politician backtracking from a controversial statement. The Biotech HOLDRs index (BBH: Amex) has risen 29% in the post-Memorial Day market rally, although it's still 35% below its March 3 high.

So yesterday, we did what we often do in such circumstances: we announced a contest. This one has three entrants: the HOLDRs index; Fisherman Vic's list of stocks with "GEN" in their names; and six below-the-radar picks from our fisherman in Florida, Frank Linet.

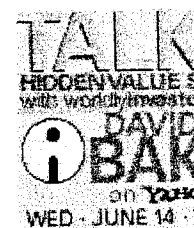
After reading about the contest, our friend Roger Longman was kind enough to share some insights on the biotech revival. Roger is editor and managing partner of Windhover Information Inc., publishers of *IN VIVO: The Business & Medicine Report*; *Windhover's Review of Emerging Medical Ventures*; and *Windhover's Strategic Transactions Database*. He knows far more about biotech than we would if we earnestly studied the topic for our combined next 100 years, should we be lucky enough to have them.

The sudden millennial interest in biotech stocks, he explains, came about because of a backlash against big drug companies. Most Big Pharma companies have limited product pipelines and aren't known for innovation.

In addition, Europe and Japan have been limiting medical spending so much to that the percentage of US sales for these companies grew from 32% in 1995 to 50% in 1999. As a result, they are more vulnerable than they used to be to cost-cutting moves by Washington and corporate insurers. The situation is worse even than in 1994 when Hillary Clinton wanted to centralize health insurance.

So investors have been looking for growth in biotech.

Roger sorts biotechs into those that already have products on the market – the Amgens (AMGN: Nadsaq), Genentechs (DNA: NYSE) and Immunexes (IMNX: Nasdaq) -- and those with drugs in clinical trials.



The second group may be divided into companies with amazingly optimistic valuations, and those with market values that might represent a fair estimation of earnings potential.

Millennium Pharmaceuticals (MLNM: Nasdaq) and Human Genome Sciences (HGSI: Nasdaq), for example, have products in clinical trials. But investors are valuing Millennium at \$9 billion, or 350 times cash flow. Human Genome Sciences is valued at \$7 billion, although its price-cash flow ratio is negative. "It's a little weird," says Roger.

We pressed Roger for his own picks, and he volunteered that he likes Vertex Pharmaceuticals (VRTX: Nasdaq). Valued at \$2 billion, it has eight or nine drugs in clinical trials, most with partners. He's also partial to Abgenix (ABGX: Nasdaq), although he finds it "pretty fully valued." They've got a ton of monoclonal antibodies," he said.

In the same Tier-Three class are Alkermes (ALKS: Nasdaq) and Medarex (MEDX), which Roger describes as an Abgenix clone.

What readers can take from this is that yes, the industry has amazing potential; but refuse to overpay. Linet, whose picks we featured on Monday, never pays more than \$7 for a biotech stock.

We hope that Roger's sensible advice will be of use to investors as they make sense of the biotech industry - and that both Greenspan and Clinton start to act their age.

Laurel Kenner is a financial writer in New York City. During her 16-year career, she has reported on police, politics and aerospace, and most recently headed US stock market coverage at Bloomberg News. At the time of this writing, Kenner was long Human Genome Sciences.

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