

Laurel Kenner and Victor Niederhoffer
Columnists

Aug. 1 Thru Sept. 29, 2000



Chairman Greenspan Plays With Fire, Burns Investors

By Laurel Kenner and Victor Niederhoffer

Columnists

08/01/2000 09:36 AM

Fires in the market have been all too frequent lately. Last week's 11% decline in the Nasdaq 100 was the eighth weekly drop of more than 4% so far this year. As yesterday's end-of-month rally showed, however, fire is both a destroyer and regenerator.

The Nasdaq 100 surged 4% yesterday to close at 3,609.4, within two points of the day's high. The rise was particularly impressive as it came during a rainy end of month. Bears like to come out during these conditions, especially toward the end of the trading day, and they did manage to wreak some damage in the S&P futures, which fell a fast 1% in the last hour of trading to close with a measly seven-point rise for the day.

Monday's rally had a particularly beneficial impact on selected Nasdaq issues. Ten of the Nasdaq 100 rose 10% or more:

Veritas (|VRTS|: Nasdaq): 16%
 Visx (|VISX|: Nasdaq): 15%
 Metromedia Fiber (|MFMX|: Nasdaq): 14%
 Applied Micro Circuits (|AMCC|: Nasdaq): 12%
 Fiserv (|FISV|: Nasdaq): 13%
 Microchip Technology (|MCHP|: Nasdaq): 11%
 RealNetworks (|RNWK|: Nasdaq): 11%
 Apollo Group (|APOL|: Nasdaq): 11%
 Linear Technology (|LLTC|: Nasdaq): 10%
 Comcast (|CMCSK|: Nasdaq): 10%

The largest decliner, Global Crossing (|GLBX|: Nasdaq), shed a mere 4%.

Fire was once thought to be only destructive. Modern forestry and stock managers understand that fire can be beneficial in liberating mineral nutrients tied up in the undergrowth, giving more scope to beneficial bacteria, stimulating the growth of certain seeds and helping control harmful insects and diseases. Some foresters even set off "controlled burns."

Even so, fire isn't something to set lightly. "Controlled burns" can go out of control, destroying thousands of acres.

In its wide-ranging coverage, this column has considered the effect of light, nutrients and rain on the market communities. Now we are displeased to say that the recent release of the transcripts of the Federal Open Market Committee telephone calls shows that the chairman has been fooling with fire to manipulate stock prices and burn people without deep roots in the market community.

In the May 17, 1994, FOMC meeting, Dr. Greenspan stated:

"Everybody just looked as though the markets had no downside risks... The mere fact that uncertainty did not exist was not a good; it was clearly a bad. And our endeavor to break that pattern, which we had to do even though it turned out to be a much bigger problem that we suspected, was a very purposeful endeavor to ... readjust holdings from weak hands into firmer hands as far as speculative securities were concerned."

Greenspan's attempts to destroy certain stocks and market sentiment has not gone unnoticed. An article by Robert Auerbach in Barron's brought it to the attention of the financial and political world, and in his Humphrey-Hawkins testimony to the House last Tuesday, two of the normally servile representatives alluded to it as being outside the Fed's mandate.

The chairman was prepared for the queries, and remarked that he once felt that the Fed should target stock prices but had recently changed his minds. And thus, as so often happens in politics, the regulators and regulated went back to their mutual back scratching.

While Doc Greenspan's response and the limited time for questions was enough to defuse the tension among the clients, suppliers and backers at the meeting, readers of this column will not be surprised to hear that we are not so easily placated.

There are so many things wrong with the chairman targeting a lower level of stock prices that we cannot even begin to express our outrage in our usually temperate tones. The Full Employment Act sets the Fed's goal as "maximum employment, stable prices and moderate long-term interest rates." How in the world could that be construed as promoting stabilization of stocks? What incalculable harm has been rendered to investors who were forced out or prevented from realizing the normal three-fold increase that would have occurred during the Doc's operations?

Despite the destruction wrought by the fire in the market last week, due in part to stray sparks from Greenspan's testimony before the House, the market is entering the regenerative part of its cycle at the beginning of the month. Rain and fire should not be sufficient to prevent its lush foliage from growing.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1	Up 1	-8.5	-2.6
S&P 500	0.95	Up 1	-2.6	-5.3
Nasdaq	1.15	Up 1	-7.4	-11.9
Europe STOXX-50	1.04	Up 1	2.8	-4
Dollar/euro	0.83	Up 1	-7.9	-1.1
Nikkei	0.8	Down 4	-16.9	-9
Dollar/yen	1.23	Down 1	6.8	1.3
Gold	0.68	Down 3	-3.7	-2.2
Oil	1.33	Down 1	29.5	-7.8
Bond Futures	1.17	Down 2	9.2	1.7
2-Yr Note Futures	0.93	unch	0.05	0.3
Bund Futures	1.15	Up 1	2.8	0.9

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A Market of Little Things

By Laurel Kenner and Victor Niederhoffer

Columnists

08/30/2000 09:17 AM

Like so many other activities -- nay, like life itself -- the market ended almost exactly where it started. Indeed, for the eighth day in a row, S&P 500 futures closed within 0.5% of the previous day's close, with a 1% gain the net result. In the past six years, the only comparable run of little changes was a series of six in 1999.

Adding to the perfection, Tuesday's move was exactly the reverse of Monday's. Tuesday started with a squall as the market moved a quick 1% to the downside and then meandered up, closing a bit down for the day. Monday was just the opposite, starting strong and then dissipating, closing a bit up.

The only things marring the perfection are that the active bond and bund contracts are selling at close to one-month lows, and crude is selling close to all-time highs. In fact, the graph of crude over the past months looks almost identical to stocks with the labels removed.

Reminds Us of a Song

At times like these, the tunes of the great lyricist and composer Steve Sondheim come to mind. Steve has never met a relation, or we would speculate, a market that he likes. The song that comes to mind today is "The Little Things You Do Together," from "Company." The words express our thoughts on the market exactly.

*"It's the Little Things You Do Together,
Do together, do together
That make perfect relationships.
It's hobbies you pursue together,
Savings you accrue together,
Looks you misconstrue together
That make (markets) a joy.*

We would recommend that readers take in a performance of "Company" to understand why all is not well with the current market or any markets that stay close to unchanged for a long run of days. But we are celebrating, first with a meeting of stock talk at the New York Botanical Garden in the Bronx, 2 p.m. on Saturday, Sept. 2, in the Garden Cafe inside the grounds. Hopefully, walking among the flora there will give us all insights into the natural forces that create seemingly harmonious slices in time before a move to violence.

The second part of our celebration is in song. We have invited all contributors to this column to join us on Sunday afternoon for a performance of Laurel playing piano accompaniment to songs of speculation by Vic. Almost all of our regulars will be there, and kindly contact us at speculators@worldlyinvestor.com if you would like to attend.

The following lyrics capture the flavor of the performance:

OLD-HEARTED MEN

(Refrain from "Stouthearted Men," from "The New Moon," music by Sigmund Romberg. original lyrics

http://www.worldlyinvestor.com/print.cfm?article_id=11165

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by Frank Mandel and Oscar Hammerstein II.)

*1. Spare me from men
Who are old-hearted men
Who will sell all the stocks
I adore*

*Out of the ken
Of these old-hearted men
Is a Dow priced at 5,000 more*

*Older and older
And colder and colder
Their calls get each day,
Wrong once more!*

*Alan Abelson
And Warren Buffett
Doc Greenspan.*

*When they make their calls
They miss them all,
Wrong to a man!*

*2. Old-hearted men
Who like P/E's of 10
Who don't buy stocks they don't
Understand*

*They like an old-
Fashioned game that's enjoyed
Only by certain old-fashioned fans*

*Nothing for sale
In the market appeals
When the dividend yields
Are so low*

*Stocks are much too high
Those old men can see eye-to-eye
Not for years and years
Has it been ever time to buy.*

Postscript

In an illustration of the market's ever-changing cycles, a reader notes that five Web sites now offer details on lockup expirations. While the purpose of these sites is to alert investors to sell their stocks as insiders unload their shares, it may be a good time to buy. Diversa ([DVSA]: Nasdaq), for example, which fell 14% on Aug. 14 when its lockup expired, rose 13% yesterday and has now more than recovered its losses.

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Dow	1.14	Down 1	-2.5	1.3
S&P 500	1.01	Down 1	2.8	1.7
Nasdaq	1.23	Up 2	0.3	6.0
Europe STOXX-50	1.13	Down 1	5.3	0.6
Dollar/euro	0.82	Down 2	-11	-2.2
Nikkei	0.87	Down 1	-9.5	5.2
Dollar/yen	1.12	Down 2	3.7	-2.8
Gold	0.69	Down 2	3.7	-2.8
Oil	1.43	Down 1	55	5.8
Bond Futures	1.22	Down 3	9.5	-0.2
2-Yr Note Futures	0.99	Down 2	0.2	0.06
Bund Futures	1.12	Down 4	2.2	-0.6

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The Shakespeare of Markets Issues Timeless Lesson

By Laurel Kenner and Victor Niederhoffer

Columnists

08/31/2000 08:34 AM

"Thou hast nor youth nor age," -*Measure for Measure*, Act 3, William Shakespeare

Tuesday's markets were not good for bearish, old hearted men. After eight consecutive days with plenty of nothing changes of less than six points, the benchmark S & P 500 Futures dropped 15 points. The Dow dropped 112 points, its worst decline since July 26.

Adding to the misery was the venerable nature of the companies contributing to the decline, old tech General Electric (|GE|: NYSE) declined 2 3/8 to 57 3/8 and 100-year-old IBM (|IBM|: NYSE) dropped 2 9/16 to 130 5/16. Other terrible decliners in the Dow included Coca-Cola (|KO|: NYSE), Caterpillar (|CAT|: NYSE), Home Depot (|HD|: NYSE), and Phillip Morris (|MO|: NYSE). Each of these companies is the kind that produces a product that the sage of Nebraska, and the primitivists that emulate him, could understand or own.

Good News for the Young

By contrast, the young hearted Nasdaq rose 24 points to 4104, its highest level since July 20. Internet and telecommunications companies galore registered gains of 7% or more, with Network Associates (|NETA|: NYSE), I2 Technologies (|ITWO|: Nasdaq), Real Networks (|RNWK|: Nasdaq), Compuware (|CPWR|: Nasdaq), Amazon (|AMZN|: Nasdaq), and Broadvision (|BVSN|: Nasdaq) among the top 10 performers in the Nasdaq 100.

The two biggest gainers in the Nasdaq 100 were NTL (|NTLI|: Nasdaq), up 10%, and CMGI (|CMGI|: Nasdaq), up 13%. Both of these latter companies are incubator or investment companies, the kind that remind the old hearted men of the investment trusts that soared to dizzying heights and declined to almost zero before and after the great crash.

At times like these and all other times since we met him 5 years ago, we are compelled to turn to a man, age 70-plus, who straddles the old and the new like a colossus: Ed Marks, the Shakespeare of markets. We believe that Shakespeare has the best record of investment success among all major players in the field. More importantly, the success springs from principles and character that can guide and uplift us for a lifetime.

Without further ado, Shakespeare himself is currently accumulating three incubator companies. The first is the Titan Corp (|TTN|: NYSE), an incubator of technology companies. In describing why he likes it, Shakespeare called a spade a spade. "I don't figure like you do. I liked this stock at 42. It's well run, well diversified, and our intimate inspection convinced me it's a gem. If I liked it at 42, I must really like it at 25."

Shakespeare's Picks

The second incubator company Shakespeare thinks good is Harris and Harris Group (|HHGP|: Nasdaq). It has a book value of 5, and at a current price of 6 3/8, it's down substantially from its 52-week high of 35 3/4. Ed likes the management and the technology it owns here, especially in the field of microfilms and coatings for high tech manufacture of anything from computer screens to suntan lotion.

The third stock Ed likes is Science Dynamics ([SIDY]: Nasdaq). The company is selling at 8 7/8 down from a 52-week high of 24 3/4. The great potential here is that they control a telecommunications systems that provides long distance calls at 1/100 the cost of competitors with comparable quality.

Knowing of our penchance for buying Monday and selling Tuesday, Ed hastens to add, "I cannot emphasize enough that I play long term...I like 4-to-10 baggers every 5 years... At times, when the market hits an air pocket (last March and April), I will pick up big short-term positions in first-rate stocks like Merck ([MRK]: NYSE) and Johnson & Johnson ([JNJ]: NYSE) (which made 38% in 3 months), but I always maintain a core position in these stocks. I am happiest when people are selling in panic."

Ed adds that these types of investments are really not his style. "The big caps that are cheap are my bag... But these are really good companies selling at a fraction of what they once were and what I think they are worth. It's just that the big caps are not cheap. I have just one short, AT&T, because the competition is too stiff and I've made a bundle on it...I am strictly a bottom feeder."

Okay. We've provided a meal for a day. But what about for a lifetime? We asked Ed to what he attributes his success. His answer in a nutshell: "Variety is the spice of life. I generally read a book a day, 4 or 5 books at a time, and pick out the one that matches my mood."

An old man is twice a child. We will analyze the timeless lessons of Shakespeare tomorrow.

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Nasdaq	1.24	Up 3	0.9	6.3
Europe STOXX-50	1.11	Down 2	5.2	-0.2
Dollar/euro	0.83	Up 1	-11	-2.4
Nikkei	0.86	Down 2	-10.7	3.3
Dollar/yen	1.13	Up 1	4.0	-1.9
Gold	0.70	Up 1	-4.8	-1.0
Oil	1.45	Up 1	60	7.6
Bond Futures	1.23	Up 1	9.7	0.3
2-Yr Note Futures	1.00	Up 1	0.3	0.2
Bund				

Futures	1.13	Up 1	2.3	-0.5
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Diabolic Market Torments the Speculators

By Laurel Kenner and Victor Niederhoffer

Columnists

08/29/2000 08:57 AM

The market tormented the bulls yesterday with a roaring rally of 1% in the first hour to new four-month highs, within a percent or two of all-time highs in the S&P 500 -- and then receded to little changed on the day.

The action recalls the punishment inflicted on Tantalus, the mythical son of Zeus, who was condemned to stand in Hades hungry for food and drink, up to his chin in water with branches of luxurious fruit hanging above him, which pulled out of reach just when they looked most appealing.

Like Tantalus, who was exposed to a rock that was always above him threatening to fall, the market was threatened yesterday by the decline of the near-term bond future below the magically harmonious round number of 100. And the rock of higher crude prices, soaring gasoline prices, and subsequent inflation hangs ominously overhead. Adding to the demonic scenario are all the bearish factors relating to excessive complacency, seasonal woes and the return to the Dark Ages alluded to yesterday from our perch at Yonah Schimmel's Knishery.

A Devil's Dictionary

Under the circumstances, with the rock threatening to descend, we turn to a timeless survival guide for the darker reaches written by Don Staricka, a computer consultant in Los Angeles. Laugh and cry along with us.

Balanced Portfolio -- A strategy for breaking even over the course of one's investment career.

Buying Opportunity -- Any occasion where an equity suddenly and unexpectedly loses value.

Contrarian -- One who bets against the winners.

Correction -- A distasteful remedy for unwarranted bullishness. When the prices of equities within a sector (or the market as a whole) move downward simultaneously the market is said to have "corrected." This implies that the higher prices were "incorrect." Contrast with Rally.

Dividend -- A booby prize.

Equity -- Ownership in a company through the purchase of stock. As a shareholder one participates in the success of a company without the obligation to attend departmental meetings, company picnics or sensitivity training seminars. And there's no job interview so you don't have to worry about concealing your tongue stud or borrowing a suit.

Franchise -- Information culled from a company's marketing literature that investors interpret as evidence of competitive advantage.

Fundamentals -- Information that might help an investor understand what an equity is worth. Archaic. Now seldom used.

Goodwill -- The difference between what an equity costs and what it is actually worth.

Interest Rates -- An all-purpose explanation for whatever happens.

IPO -- The lowest price at which one will be able to purchase shares in a new company until lockup expiration or until the company's true potential is recognized.

Kondratief -- According to Kondratief Wave Theory economic cycles lasting 50-60 years trump all other factors and render meaningless our futile efforts to resist the inevitable booms and busts. This theory explains why only now, at the beginning of the 21st Century, have we finally started to pull out of a catastrophic Depression.

Linux -- A late 20th Century collectivist religion practiced over the Internet

Lockup Expiration -- The point at which the full complement of shares from a recent public offering hits the market. See Supply and Demand.

Momentum Play -- An investment decision informed by the theory that what goes up must go up.

Penny Stocks -- Extremely inexpensive equities that are worth substantially less than what they cost.

Phrenology -- A science that purports to identify behavioral characteristics based upon a mapping of the lumps and depressions in a person's skull. Now discredited. See Technical Analysis.

Portfolio -- The itemization of an investor's current blunders.

Rally - A distasteful remedy for unwarranted bearishness. When the prices of equities within a sector (or the market as a whole) move upward simultaneously the market is said to have "rallied." This implies that the lower prices that resulted from the earlier "correction" were "incorrect." Contrast with Correction.

Stop Loss -- The point immediately below which an equity begins a sustained rally.

Supply and Demand -- The one true explanation for the price of any equity.

Sympathy -- A manifestation of the grieving process. If an equity loses value because of mismanagement or the announcement of an SEC investigation, other equities in the same sector may lose value "in sympathy." See Buying Opportunity.

Technical Analysis -- A form of divination practiced by investors to predict the behavior of the market. See Phrenology.

Turnaround Play -- An investment decision informed by the theory that what goes down must go up.

Value Play -- An investment decision informed by the theory that what has been down for a long enough period of time must eventually go up.

Postscript from the Speculators

Yesterday's 12-point decline in Yahoo! (YHOO: Nasdaq) from 134 to 122 is the kind of move that statistically speaking should be eaten with a long spoon, the sort with which one is advised to sup with

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the devil. The drop occurred after a Lehman Brothers analyst focused on the difficult environment Yahoo! is facing. The stock has suffered a one-day decline of more than 10 points on a dozen separate occasions so far this year. The average move two weeks later was a Mephistophilian negative 7%.

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Live From the Yonah Schimmel's Knish Bakery: Stock Talk!

By Laurel Kenner and Victor Niederhoffer

Columnists

08/28/2000 09:37 AM

Moderator: Welcome, ladies and gentlemen, to the 341st weekly edition of *Stock Talk!* with Laurel and Vic. Today, in honor of the Democrats' nomination of Joe "Mr. Integrity" Lieberman as vice presidential candidate, we're in the Lower East Side of Manhattan at Yonah Schimmel's Knish Bakery, famous since 1910 for delicious homemade knishes, kugals, yogurt and borscht.

With us is Lillian Berger, great-granddaughter of Rabbi Yonah Schimmel, the great Torah scholar who in the tradition of devout Jews before and since combined his study of the Torah with the practical world in order to make a living.

Yonah Schimmel started out here on the lower East Side selling his wares from a pushcart to the millions of Jews who settled by the Williamsburg bridge. Today, there's a Web site, www.yonahschimmel.com, and the knishes are shipped anywhere in the continental US. Baking is still done in the basement of the old building at 137 E. Houston and sent up by dumbwaiter to the lunchroom.

The aisles are crowded with an overwhelming turnout of Daily Speculations readers who came from as far south as South Africa and as far north as Boston in recognition of this timely subject. After all, Sen. Lieberman's nomination forever lowers the barrier between God and the civil world. Republicans have long favored bringing that wall down with their espousal of prayer in school and other public expressions of religiosity, and now the Democratic "Conscience of the Senate" has met the challenge and raised the ante by mentioning God 12 times in his acceptance speech.

Not to be outdone, Vic and Laurel shared some ecumenical wisdom with Stock Talk! attendees over a round of knishes and egg creams.

Vic: Many of the Jewish proverbs mix the sweet with the bitter. As it is said, "The reddest apple has a worm." And again, "Man thinks, God laughs."

I'm afraid the stock market picture is similarly mixed. On the one hand, the Israeli stock market, in tacit recognition of Mr. Lieberman's ascension, is at an all-time high, up 52% in the past year, with stocks like Nice Systems ([NICE]: Nasdaq ADR) up 172%, Teva Pharmaceuticals ([TEVA]: Nasdaq ADR) up 157%, Israel Corp. up 96% and Clal Industries up 80%. US market averages are firmly above round numbers, with the S&P 500 above 1500 and the near-term bond future above 100.

On the other hand, as if in protest of Lieberman's candidacy, the Arab states seem to be doing all they can to raise the price of gasoline, which is now close to \$2 in our home states. And volatility is near one-year lows, with the implied volatility embodied by the Chicago VIX below 20%.

More worrisome than the level of VIX to us, though, is the long run of consecutive daily changes of less than 0.5% in the S&P futures. We have counted 18 such runs during the last four years, and the moves three to five days later were bearish indeed, with the average change down more than 1%. Such a degree of variation from the norm is unfortunately significant by the usual standards from a statistical point of view and possibly from a practical one also. Let's open it up for questions.

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Q: Jason here, from South Africa and New York. With the Jewish High Holidays coming upon us in just a month, and the increasing focus that Mr. Integrity's pious observance of same will cause, is there anything you can say about the market?

Vic: The moves in the period leading up to and during the Jewish High Holidays are unfortunately the most bearish of all. Since 1987, the market has gone up 10% to 12% during the other 10 1/2 months of the year, but the 45 days that we are entering into have been slightly negative. Such differences are about as likely to have occurred by chance as for a house to spontaneously arise out of a lumberyard and assemble itself on a vacant lot.

Q: I'm Mustafa, of Pakistan and New York. The rest of the world is looking like America, putting religion on the sidelines, just as America is walking away from the rest of the world. Joe Lieberman is a symptom of that; I've never heard so much religion in the 20 years I've been paying attention to US elections. Do you feel this is a healthy trend?

Laurel: Yes, we do. During recent months, the bearish old-hearted men whom we have gone to great lengths to memorialize in this column have been lonely voices of wisdom. Whatever you call it — primitivism, scrooge investing, buying stocks for below their net working capital a la Ben Graham and his technologically innocent followers, the value stocks that these men like to party with have been in the doldrums over the last several years.

For example, the Nasdaq 100 has gained 585% in the past five years, compared with a measly 39% for the Morgan Stanley Cyclical Index. The emphasis on Old World thinking, eschewing the pursuit of happiness and material goods for the sake of those less fortunately situated, can only be a positive trend. We see far too little attention given to authoritarian, theocratic values, and much too great a focus on science. We need to return to stocks that ordinary people like Warren Buffett can understand without study.

Vic: Let me jump in here, Laurel. I just got connected by wireless here, and the computer kindly issued one of those random Abelson bearish missives, this one dated Dec. 28, 1998, when the Dow was at 9227 and the Nasdaq was at 2180: "We expect corporate profits will decline at least 5% in 1999. With the S&P 500 selling at nearly 32 times earnings, the resultant disappointment could be profound, and so could the impact on the market. So who would dare dispute that, come what may, the unstoppable market will roar on to fresh gains and glory in the months and years ahead? The answer, obviously, is no one in his right mind."

Q: I'm Marguerite, from New York. I'm ashamed to say that I'm one of those people who has been bearish for the last five years. Can you recommend a stock for me to short?

Vic: Let me just reiterate one more time a leitmotif of this column. All shorts and gamblers die broke.

However, the one hopeful point that I can bring up is that as part of Mr. Integrity's vice presidential candidacy, he was apparently required to renounce his previous support for privatizing Social Security. Within eight hours of being nominated, he publicly recanted.

His turnaround on privatization, which would have provided so much fuel for the reduction of government spending, the health of our bankrupt Social Security system, the level of our stock market and the freedom of individuals to do what they want with their money, should forestall the inevitable time that people like you who want to short will go belly up.

Q: Jon here. I'm a day trader, and I try to get an edge on the specialist by putting my orders in at the same bid and ask that he uses. I figure that since the average specialist makes \$10 million a year, I might as well do what they do.

Vic: The fundamental law of gambling is that the only person who can profit from grinding is the house. You are trying to grind while paying a vig of five times more per transaction than you would in Vegas. You're even more likely to die broke than Ms. Marguerite unless you change. One final question, from David Chase.

Q: I've just driven down from Boston, and I'd like to express my agreement with you. After reading Burton Malkiel's *A Random Walk Down Wall Street*, I figured that they're too smart for me, so I might as well join them.

I put my money into the Vanguard Total Stock Market Index Fund (VTSMX), which tracks the Wilshire 5000, when it opened in 1992, and now I'm independent enough to attend beautiful events like this. With the overplus of profit from my account, I sometimes take a flyer on stocks like Adobe Systems (|ADBE|: Nasdaq), especially when *The Wall Street Journal* gives it a good spanking and it suffers a terrible drop. I have an average 20-fold gain on Adobe, and I'm continuing to buy. You got any more good stocks for me to fool around with?

Vic: Dave, I appreciate your kind words, but I'm so incensed at the thought that anyone could think that investment in stocks should be a matter of jocularly and frivolity that I'm going to take my kasha knish and leave at this time. However, when I return, it will be with a salami from Katz's under my arm to present to you for best contribution.

Laurel: Mustafa, you have a stock recommendation?

Mustafa: Yes, now that Vic is out of the room and out of danger of falling down in a dead faint and thus foreshortening the time to his hip operation, I'd like to recommend Korea Telecom (|KTC|: NYSE ADR) and Turkcell (|TKC|: NYSE ADR).

Moderator: Thank you all for attending. Join us for another edition of Stock Talk! next Saturday at 2 p.m. at the Garden Cafe inside the New York Botanical Gardens in the Bronx. For directions, call the gardens at (718) 817-8705.

Speculator's Scorecard				
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Dow	1.14	Up 5	-2.7	1.5
S&P 500	1.01	Down 1	2.5	2.4
Nasdaq	1.20	Down 1	-0.7	6.7
Europe STOXX-50	1.13	Up 1	5.3	0.8

Dollar/euro	0.84	Up 3	-10	-0.1
Nikkei	0.88	Down 1	-11	4.9
Dollar/yen	1.14	Down 1	4.2	-1.5
Gold	0.70	Up 2	-4.8	-0.3
Oil	1.44	Up 1	54	4.7
Bond Futures	1.25	Down 1	10	0.8
2-Yr Note Futures	1.01	Up 3	0.3	0.1
Bund Futures	1.14	Down 2	2.7	-0.5

Laurel Kenner is a financial writer in New York City. Formerly head of US stock market coverage at Bloomberg News, she previously reported on police, politics and aerospace during her 17-year news career.

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The Nightmarish Dreams That Held the Market Back

By Laurel Kenner and Victor Niederhoffer

Columnists

08/25/2000 09:33 AM

The market celebrated the end of the World Youth Festival in Rome with its fifth consecutive rise. The Jubilee move of the bond futures above 100 and the second consecutive closes of the S&P 500 above 1500 and the Nasdaq above 4000 lifted all stocks.

New techs were the stalwarts, with gainers such as HEI Inc. (|HEII|: Nasdaq), a maker of ultraminiature microelectronic devices, rising 56%, and Amtech Systems (|ASYS|: Nasdaq), up 55% on its first order for fiber-optic switch manufacturing equipment components.

Brand Names Lag

In fact, since Vic left for vacation on Aug. 11, the only stocks that have been left bringing up the rear are such easy-to-understand, non-electronic, brand-name companies such as Home Depot (|HD|: NYSE), down 10%, McDonald's (|MCD|: NYSE), down 9%, International Paper (|IP|: NYSE), down 8% and Coca-Cola (|KO|: NYSE), down 7%.

Much valuable merchandise was left at the World Youth Festival, with more than 200 million lire, many computers and passports being found. Also uncovered was a diary written by the Arab historian Cide Mustafa Hamida.

To our amazement, it contained a record of Vic's readings of books by old-hearted market sages who have been wrong time after time about market forces. The historian states that his only purpose in relating Vic's odyssey related thereto is to destroy the credit of these sages with the world and to demolish the pile of absurdity which, while despised by the young-hearted, is admired by their many fans.

The record follows: * * *

Be it known that Vic, in his leisure, has been studying the bearish writings of old-hearted men for the greater part of 20 years. While the Nasdaq Composite during that period has advanced from 177 to 4053, he found that the wise men of investment were still as pessimistic at the end of the period as they had been at the beginning;

That he was most taken with the writings of the illustrious Alan Abelson, whose brilliant prose and intricate style seemed timeless, especially those speeches and challenges to the bulls in such matters as the price of nannies in Greenwich, presented in July 1998 as evidence of a stock-market bubble;

And that he pondered the thoughts of the Sage of Omaha, particularly such passages as this: "We will not go into business where technology which is away over my head is crucial to the investment decision. I know about as much about semiconductors or integrated circuits as I do of the mating habits of the chrzaszcz."

A Foolproof Investing Method ... Almost

That these and equally convincing rhapsodies by the Omahan's mentor, the father of securities analysis, Benjamin Graham, were similarly provoking:

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"There seems to be practically a foolproof way of getting good results out of common stock commitments with a minimum of work, by the criteria: a price of less than two-thirds its tangible book value, a price-earnings ratio of eight or less (at 6% interest rates). It seems too good to be true, but all I can tell you after 60 years of experience, it stands up."

Vic found these thoughts very enchanting, and his imagination was full of the overplus of profits from buying such stocks, until he found that no stocks except those of companies imminently headed for bankruptcy met these criteria during the last 20 years, during which the Nasdaq has risen 2,190%.

Vic was also fascinated with an 18-page speech of the venerable doctor Alan Greenspan with the magically deceptive title, "The Challenge of Central Banking in a Democracy":

"But how do we know when irrational exuberance has unduly escalated asset values, which then become subject to unexpected and prolonged contractions. We as central bankers need not be concerned if a collapsing asset bubble does not threaten to impair the real economy. Indeed, the sharp stock market break of 1987 had few negative consequences for the economy."

The problem was that Vic could not help thinking that on Dec. 5, 1996, when the speech was given, the Nasdaq was at 1300, or 34% of the current level. Further adding to the muddle, it appears that the doctor had been bearish on stocks for many years prior thereto.

The Lost Decade

Vic's intellect was overwhelmed by Dr. Robert Shiller's studies in his much esteemed book, *Irrational Exuberance*. Dr. Shiller there points out that what is startling in recent years has been the behavior of stock prices. "Years with low-price earnings ratios have been followed by high returns, and years with high price-earnings ratios have been followed by low or negative returns."

The only problem with Shiller's charts and testimony is that they did not contain price-performance data for the last decade of the 20th century, when the Nasdaq went up 794%. And the only problem with the earnings data was that they were a 10-year average of real earnings, "along lines proposed by Graham and Dodd in 1934." The omission of the last 10 years and the use of 10-year averages apparently snapped Vic's brain.

And when he read in *Barron's* that Alan Abelson was still bearish because stock market capitalization now stands at a unprecedented ratio of gross domestic product, repeating his Oct. 20, 1997, lament that stock market capitalization had risen above the 120% level of GDP, Vic's grief was unbounded.

Thus, on Aug. 11, with the S&P 500 at 1471, about 54% higher than where it was in October 1997, he was seized with one of the strangest fantasies that ever entered the head of any stock trader: that it behooved him to become a trader-errant. And so, borne away by the absurd tale of the noble quest of Don Quixote in the 1600s, he hastened to retrace the Don's steps to illustrate that the same applied to the rustic views of the above-quoted sages.

* * *

At just this point, deuce take it all, the diary becomes illegible, as it is covered in red. We are conducting forensic tests to discover what happened next, especially as Vic told me he was not unwilling to recapitulate some of the labors of Hercules should the occasion arise, especially with respect to killing the chimera of the predictive value of the ratio of stock-market capitalization to GDP.

Disconsolate and immobilized with suspense, I turned to Brett Steenbarger, the Daily Speculations psychologist and relief columnist. Research, he told me, suggests that older people partly compensate for the loss of how-to skills associated with aging by using cues and information from other people to piece together the missing data.

"Social strategies of cognition have one great downside," Steenbarger wrote. "The reliance on others among the old is what Ayn Rand would call a 'second-hand' strategy: one that limits creativity."

I just heard from the editors of worldlyinvestor.com that they are enthusiastic about the ecumenical spirit that inspired the Democrats to nominate a Jewish person for the vice presidency, the same spirit that prompted Vic to attend the World Youth Conference at which more than 2 million young Catholics celebrated the Jubilee.

Knishes on the Speculators

In this spirit, they have gone to great efforts to arrange for Vic to interrupt his retracing of Don Quixote's quest and come back to host "Stock Talk!" at Yonah Schimmels Knishes, 137 E. Houston St., in Manhattan at 12 p.m. this Sunday, Aug. 27. Vic and I will buy knishes for all who attend. Those who cannot be present, kindly e-mail your queries to speculators@worldlyinvestor.com.

We will be open to such questions as, what is the movement of stock prices during Jewish holidays? How does the faith of a CEO affect the price of his company's stock? And what kind of beliefs seem to be associated with superior performance in this New Age?

In Vic's honor, I could not resist doing the kind of counting that I know he would have wanted me to perform to put some numbers on the table. After all, *Don Quixote* was written to show the utter futility of an Arcadian search for the golden pastoral ages, and ushered in the spirit of enlightenment and measurement that led to our great advances in scientific knowledge in almost all fields -- with the embarrassing exception of the forces that determine stock prices.

I have constructed an index of old-hearted companies, those that would be favored today by a consensus of the old-hearted authors mentioned above. These companies are bereft of products that use electricity, rely heavily on brand name for purchase appeal. In this, our age of individual choice and change, and all sell quite understandably at earnings ratios less than half the average.

Unlike 99% of behavior finance studies, which rely on retrospective selection of companies based on their survivorship at the end of a period, our index will be based on companies that met these criteria and were listed in the S&P stock guide as of year-end 1995.

The first five companies on the list:

American Brands (|AMB|: NYSE)
Amoco (|AN|: NYSE)
AMR (|AMR|: NYSE)
Archer-Daniels-Midland (|ADM|: NYSE)
Armco (|AS|: NYSE)

Unfortunately, my distress at the possibility of Vic's demise leaves me unable to continue. I am hopeful that he will show up at the knish shop on Sunday so that I can report the rest of the index next week.

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Dollar/yen	1.14	Down 3	-12	-1.7
Gold	0.69	Up 1	-5.2	0.1
Oil	1.42	Down 1	52	2.5
Bond Futures	1.27	Up 3	11	0.4
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Wrestling With the Markets

By Laurel Kenner and Victor Niederhoffer

Columnists

08/24/2000 08:47 AM

Editor's Note: While Speculators Kenner and Niederhoffer are on vacation this week they've asked several of their regular correspondents to contribute in their stead. Today's piece comes from their wrestling coach, Dave Ciocca.

Tuesday's American Petroleum Institute report, indicating that inventories for heating oil and crude oil are hovering at 24 year lows, raised fears of a long, cold, expensive winter for those in the Northeast. The stock market, however, found apparent warmth from today's much-awaited return of Kenner and Niederhoffer.

It broke through two round numbers, breaching 1,500 on the cash S&P (|SPX|) and 4,000 on the Nasdaq Composite (|COMPX|). As if licking their chops at the specter of higher winter heating oil prices, such stellar utility performers as Duke Energy (|DUK|: NYSE) and Enron (|ENE|: NYSE) moved to all-time highs, with oil drillers Schlumberger (|SLB|: NYSE) and Noble Drilling (|NE|: NYSE) not far behind.

Following the excellent behavioral finance articles we've seen over the past week in Daily Speculations from Brett Steenbarger, let's take a look at how speculators can learn to take the heat, even when the winter gets frosty.

Narrow Margin of Victory

Consider an analogy between trading and sports, specifically comparing the similarities in the struggle for market success and the challenge of winning a wrestling match. Wrestling as a sport for comparison is by no means superior to other sports; it's just that I know a bit more about that sport than the others, and I think that the analogy is particularly fitting. Incidentally, the type of wrestling I'm talking about is that practiced by legions of dedicated young men in states like Iowa and Pennsylvania, not that other silliness on late-night cable TV.

When top-notch wrestlers square off, there is a very small difference between winning and losing. The difference usually comes down to a few critical factors. The first (and seemingly obvious) variable is preparedness. If a wrestler relies heavily on a move he's not effectively practiced time and again, there's little chance that he'll win. In fact, the odds are high that he'll lose.

It's the same in trading. If you try trading strategies that you've not robustly tested, you really should not be surprised when you lose money.

Wrestling Fun?

Another mindset that I've seen many wrestlers struggle with is the idea that they should be having fun when they're competing -- why else bother? This is an issue mostly that losing wrestlers deal with, because the sport is not intrinsically fun. What great wrestlers gain from their constant struggle for improvement is the sense that they become better wrestlers day by day and have done a difficult job well. That's it.

The same applies to markets. The move of stock prices up and down provides a sense of excitement,

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similar to the exhilaration of hitting the jackpot on a slot machine, or a big, high-scoring move in a wrestling match. Top traders know that the markets are serious business, and that they must control their urge to have fun trading. They stay alive every day, and grind a profit. Success is far too serious to be fun.

Often two nationally accomplished opponents will face one another in a top match. The match seems to be proceeding along as expected, very strategic, no errors by either competitor, when one of the two attempts a move called a headlock. The headlock is a move that's best reserved for playgrounds and backyard BBQs, because there's a 99% chance that the move will not work and even allow the opponent to score points. You'd think that such an accomplished wrestler would never do something so blatantly stupid, yet it happens often. I'm convinced that wrestlers try the move because they break under the pressure.

Quitting Without Quitting

A wrestling match, like trading in markets, is serious business that is very difficult and tedious. When a wrestler throws the headlock, he is basically saying, "I quit" -- but trying to disguise his surrender as offense. This is much more acceptable in our society. The idea of going for it, or putting up the ruse of an offense that is a sure failure, is in essence quitting while trying to look like you're trying valiantly.

I have seen hundreds of "headlocks" in the markets. How often a trader decides to make a huge bet on an untested idea — or picks one stock in which to put the lion's share of his investments dollars, or any of a million other things that on the surface look proactive, but are actually self-destructive. We all need to be on constant alert for when we may be throwing a headlock in our market activities.

Excellence in sports and trading come at a steep price — hard work, sacrifice, the realization that mastery isn't about fun, and rigorous practice and testing. Skip a step in either endeavor, and you will likely be the person who tells good war stories, but has little real success.

David L. Ciocca is a Registered Investment Adviser with significant experience in stocks, bonds, futures, and options trading. He has held various positions in the investment management industry before founding his own firm in 1998. He was an NCAA All-American as a collegiate wrestler and currently serves as a part-time college wrestling coach at Rochester Institute of Technology in Rochester, NY. He welcomes comments at daveciocca@yahoo.com.

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Durango Dispatch

By Laurel Kenner and Victor Niederhoffer

Columnists

08/23/2000 08:41 AM

(Note from the Speculators: To celebrate our return from vacation, we will buy knishes for all readers who attend our Stock Talk! gathering 12 p.m. Sunday at Yonah Schimmels Knishes at 137 E. Houston, between First and Second avenues in Manhattan. The best question will be rewarded with a corned beef sandwich at Katz's. Those who cannot be present should send questions to speculators@worldlyinvestor.com, and if you win we'll send a salami.)

DURANGO, Colo. -- The Fed, as expected, kept interest rates unchanged while keeping up the appearance of fighting inflation on all fronts -- the only thing it could do, given the coming election.

Time, then, to contemplate the No. 3 stock in the Nasdaq, and a big question: Who is Bill Gates? Robber baron, or capitalist hero in the mold of Hank Reardon, the steel magnate of Ayn Rand's *Atlas Shrugged*?

Answer: It doesn't matter any more.

What matters, according to the industry's freshest entrepreneurs, is that the free software called Linux is changing the landscape, and the stock to buy now is NYSE-listed IBM -- about which, more later.

Gates was one of the hottest topics at the annual Eris Society conference in the mountain town of Durango, Colo., about half an hour from Ouray, the place Rand is said to have used as a model for the entrepreneurial haven of Galt's Gulch in *Atlas Shrugged*. Eris was the goddess of discord, and that's what financial writer Douglas Casey had in mind 20 years ago when he invited a few other writers to meet face to face. The conference has grown to attract dozens of speculators, entrepreneurs and anarchists, and while fewer blue jeans are seen now, the divine discord still reigns. Vic himself was ridden on a rail away from the podium seven years ago by a Mormon contingent among the eclectics.

At this year's meeting, Laurel met up with Arthur F. Tyde III, who had just raised \$70 million for Linuxcare, a software consulting company he co-founded. With his black-rimmed glasses, nondescript bushy hair and college-kid clothes, Tyde has a bit of the archetypal science student about him, an impression not without basis, although softened by the gorgeous, articulate redhead on his arm -- his wife, Hollis. At 13, he built a light-activated robot to clean the basement and neglected to inform his mother, who was scared witless when the robot took a strong interest in her shoes.

Tyde attended his first Eris Society meeting 10 years ago when he quit the family grocery business to jump a freight train for Colorado with Bo Keeley, a great American individualist and inventor of the hobo economic indicators enumerated in Vic's book. At that first meeting, he gave an impromptu talk, still recalled by those present, on hacking into automatic teller machines. He went on to be arrested for breaking into the Pentagon's software system ("Never convicted," he says), and has since metamorphosed into a Linux entrepreneur, dividing his business time between San Francisco and Amsterdam with a recent foray to Hong Kong.

Tyde and Robert Baldori, the rock 'n' roll pianist/attorney who incorporated Tyde's company, argued at Eris that the government was right in going after Microsoft because the company was stifling the free market. Not exactly a crowd-pleaser for a group that wants to dismantle most of the government. Yet

even if the government's purpose was righteous, the antitrust suit may have been a waste of time. "What Microsoft has done is irrelevant," Tyde says. "There is a new software economy emerging that is rendering the old models of doing business obsolete."

Unlike Microsoft's software, Linux applications are free. LinuxCare and other Linux-oriented companies including VA Linux (|LNUX|: Nasdaq) and Red Hat (|RHAT|: Nasdaq) make money by assembling the free components to fit a company's needs. Linux is projected to displace 20% of all software licensing dollars by 2004, according to a Forrester Research study cited by VA Linux founder Larry Augustin. "Linux is a serious threat to Microsoft," Augustin said in a telephone interview.

Since the software is available on the Internet, Linux programmers can improve on each other's work. To keep things orderly, software developers undergo certification, and a public license system includes rules for redistributing source code if change is required. As a result, industry entrepreneurs say, Linux systems are far cheaper and more reliable than Microsoft's. Tyde says his own laptop kept 55 applications and 18 windows running for three months without a reboot, and one of his business clients hasn't had to reboot his system for three years.

Tyde likens Linux to an ecosystem populated by many animals, elegant birds as well as toads. "Each one of these is a creature, and it's evolving," he says, noting the industry saying: Good code thrives, bad code dies. "It's a paradigm shift. Linux runs on everything from my computer to the Palm. That's major juju, and that's going to put Microsoft out of the operating system business."

Maybe. While a majority of big international businesses already use Linux in some form, Microsoft's stranglehold on home PC software is another matter. While the latest survey shows Linux with market share only a point behind Apple, Linus Torvalds, the most famous Linux pioneer, said last week that building mass appeal will take years. If Tyde is only somewhat right, though, Linux is the biggest thing to hit the industry since Bill Gates started selling operating systems. Microsoft will come out with its own Linux offerings within a year, Tyde predicts; Augustin estimates it will take the company two years.

We have a tradition in this column of encouraging even old-hearted men who have fallen behind the times to speak their piece. Readers will recall that we sought an interview a few weeks ago with "Doc" Greenspan to discuss his over-the-top fulminations on stocks. That request, unhappily, was denied, and the Fed even returned the basketball shoes we sent the doctor for what we hoped would be a more suitable career with the New York Knicks. We were so disgusted that we were on the verge of renewing Vic's nomination for the Fed chairmanship. Instead, we took vacations -- Vic retraced the footsteps of Don Quixote in Spain and Italy, and Laurel communed with the spirit of Louis L'Amour in Colorado and California.

Fortified with much beneficent sunshine, Laurel, back in New York, plunged back into the fray this week by inviting Microsoft to comment on the claims about Linux, both through PR department channels and by messaging Bill G. himself. She received a promise of an e-mailed reply from the company's "Rapid Response Team," but at press time, alas, no response had come.

Microsoft's silence leaves us with the challenging task of picking stocks that might benefit from Linux's growth. Tyde himself says IBM, an ancient company in computer-industry time, is in the best position to profit. IBM, you'll recall, is the very company that made the colossal mistake early on in the computer age of selling its operating system to Bill Gates.

Tyde isn't as enthusiastic about the obvious Linux plays, Red Hat (|RHAT|: Nasdaq) and VA Linux

([LINUX]: Nasdaq). Red Hat, he says, has adopted a Microsoft-like strategy by selling a retail version of Linux, while VA Linux gets most of its revenue selling boxes -- generally a less profitable business than software. Both companies beg to differ: Red Hat spokeswoman Lisa Sullivan says Red Hat's strategy isn't like Microsoft's because it does, after all, rely on open source software. (Red Hat is down 83% from its December peak.)

VA Linux's Augustin said his company's software consulting group is "at least as large" as that of Linuxcare, and that server sales are inextricably linked with the software design business. VA Linux last week introduced a system that lets customers build software the way customers of Dell buy computers; you point and click to choose applications, and delivery is promised within three to five business days. IBM is "definitely in a great position to benefit from Linux," Augustin says, while predicting that VA Linux stock will come out of its slump. (It closed at 36 yesterday, down from 320 in December.)

Even with all Tyde's Linux salesmanship, it's telling that he and Baldori think that Microsoft's stock is a buy now (it's down 39% this year). A break-up, they reason, will only increase the company's value.

Postscript: One of the friendly local sand sharks Laurel swam with in La Jolla, Calif., after her sojourn in Colorado somehow turned up at the Italian Riviera this week, bearing in its teeth a kayak oar. An inscription on the wood read as follows (we translate from the medieval Spanish):

"My most esteemed Signor Fisherman Vic: Life here in California is good; warm ocean breezes and no city sounds to hide the seagull's cry and the breaker's crash. Yet your navigational expertise is much missed, and I look forward to the day when we are writing together once more. Dona Laurel"

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Dispatch From Rome: A Jubilee Jamboree

By Laurel Kenner and Victor Niederhoffer

Columnists

08/22/2000 09:50 AM

All there was peace, all friendship, all concord. Then did the innocent and beauteous young maidens trip from dale to dale and hill to hill, wearing just enough clothing to conceal modestly what modesty seeks and has always sought to hide, without fear or danger from the lustful desires of others... -- Miguel de Cervantes, Don Quixote

ROME -- As the mercury soared to 100 degrees, more than 2 million young pilgrims celebrated the year 2000 jubilee here in the eternal city. In Chicago, the CBOE volatility index fell below 20%, celebrating the bond futures' jubilee rise to 100 and the S&P's ascent to 1500.

In New York City, at the offices of www.worldlyinvestor.com, more than 60 hard-working, young-hearted employees celebrated another harmonious event: Laurel's return from vacation. Pencil in hand, prick pin poised above the index card, with computerized hourly data stretching back to 1970, she is ready to count wherever the crowd of stocks appears excessive -- or even more frequently these past few months, whenever the fear of stocks opens up the lonely path to riches.

And so, with heartfelt tributes and thanks to Professors Brett Steenbarger and Mark McNabb, who kindly and ably kept the Daily Speculations flame alive last week, we are ready once again to grip the torch -- or in this case, the cane.

Knish Nosh

To mark our return, we invite all our readers to a special Stock Talk! gathering at noon on Sunday at Yonah Schimmels Knishes at 137 E. Houston, between First and Second Avenues in Manhattan. Bring your comments and queries, and we will buy you one of Mr. Schimmels' famous knishes. The best questioner will be rewarded with a corned beef sandwich at Katz's. Readers who cannot attend should send e-mail queries to speculators@worldlyinvestor.com, and we'll e-mail you a knish.

As one last holiday spectacular for readers, we have asked hedge fund manager Dave Ciocca, whose performance as a championship wrestler is surpassed only by his investment record, to sit in for us Thursday while Vic flies home from retracing the chivalric path of Don Quixote and Laurel attends to the details of settling back in.

Unfortunately, we return to find the market in a dangerously harmonious state. The CBOE's Volatility Index ($\$VIX$) has fallen below 20% (after having been above for at least five trading days) on only eight occasions over the past three years. The market's subsequent moves were, shall we say, uninspiring.

The numbers speak for themselves. After a VIX reading below 20%, S&P 500 futures lost 0.29% over the next five days. That compares with an average gain for all five-day periods of 0.31%.

Thirty days later, the divergence continued to play out. The S&P futures were little changed, gaining just 0.8% on average, compared with a 1.85% gain for all 30-day periods.

When the market registered one low after another in April and May, we did not hesitate to take out the

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canes and send them figuratively and literally to our readers, so that they could hobble down to Wall Street to buy good stocks and deposit the inevitable profits therefrom in the expansive confines of the massive and well-guarded safes in their stately mansions -- or, for those still contemplating the purchase of a mansion, in their cash accounts.

One Hundred Points Away From Solitude

We created an index of stocks that had Y2K declines from above the double jubilee of 200 to below 100. We called these the "Down 35," and when the darkness was at its deepest, we repeatedly advised our readers to buy them. The subsequent performance of these stocks has been rationally exuberant, and we will not hesitate to memorialize this performance in one of our patented self-referential, self-administered scorecards in the imminent future.

For the present, however, we present an index of stocks that are currently trading at 100 or above, after having touched the depths of below 75 in April or May. (We included as honorary members Brocade Communications, Broadcom, Corning, PMC-Sierra and SDL, which climbed from below 150 to above 200 -- in SDL's case, above 400.)

We'll call them the Jubilee 40. Here they are, with Monday's closing prices.

Applied Micro Circuits (|AMCC|: Nasdaq): 170 3/8
 Anaren Microwave (|ANEN|: Nasdaq): 113 15/16
 Ariba (|ARBA|: Nasdaq): 140 1/4
 Alteon Websystems (|ATON|: Nasdaq): 145 3/8
 Avanex (|AVNX|: Nasdaq): 129 3/4
 Brocade Communications Systems (|BRCD|: Nasdaq): 210 9/16
 Broadcom (|BRCM|: Nasdaq): 259 13/16
 Quest Diagnostics (|DGX|: NYSE): 111 3/4
 Digital Lightwave (|DIGL|: Nasdaq): 106 3/4
 Exar (|EXAR|: Nasdaq): 106
 Extreme Networks (|EXTR|: Nasdaq): 171 15/16
 Corning (|GLW|: NYSE): 299 3/4
 Goldman Sachs (|GS|: NYSE): 117 13/16
 GlobeSpan (|GSPN|: Nasdaq): 129 13/16
 Human Genome Sciences (|HGSI|: Nasdaq): 130 15/16
 Idec Pharmaceuticals (|IDPH|: Nasdaq): 130 1/4
 Juniper Networks (|JNPR|: Nasdaq): 173 13/16
 Lehman Brothers (|LEH|: NYSE): 134 5/16
 Laboratory Corporation of America (|LH|: NYSE): 112 7/8
 Mercury Interactive (|MERQ|: Nasdaq): 105
 Millennium Pharmaceuticals (|MLNM|: Nasdaq): 111 15/16
 Micromuse (|MUSE|: Nasdaq): 131 7/16
 Myriad Genetics (|MYGN|: Nasdaq): 135 1/2
 Newport (|NEWP|: Nasdaq): 147
 Nuance Communications (|NUAN|: Nasdaq): 155
 New Focus (|NUFO|: Nasdaq): 128 1/2
 Plexus (|PLXS|: Nasdaq): 135
 Power-One (|POWER|: Nasdaq): 135 1/16
 Rational Software (|RATL|: Nasdaq): 105
 Redback Networks (|RBAK|: Nasdaq): 137 15/16
 Sanmina (|SANM|: Nasdaq): 108
 Sycamore Networks (|SCMR|: Nasdaq): 154

SDL (|SDLI|: Nasdaq): 408 1/2
 Sun Microsystems (|SUNW|: Nasdaq): 122 1/16
 Software.com (|SWCM|: Nasdaq): 138 11/16
 Tollgrade Communications (|TLGD|: Nasdaq): 118 11/16
 Technitrol (|TNL|: NYSE): 136 1/8
 Turnstone Systems (|TSTN|: Nasdaq): 125
 Vertex Pharmaceuticals (|VRTX|: Nasdaq): 135 1/4

We hypothesize that the performance of this group will be inferior to the performance of the Dow Jones 35. In the tradition of the Delphic oracles, who always left ample wiggle room in the event a disappointed client returned with implements of torture in hand, we will not remove enough laurel leaves from this forecast to make it transparent. Also, we ask readers to kindly recall that one of the leitmotifs of Daily Speculations is that all short sellers and all gamblers eventually go broke.

Eating Up Vic's Words

We balance the opacity of our forecast for the Jubilee 40 with what we hope is some good news from abroad. This comes courtesy of a vacationer in La Coruña, Spain, who, while walking along the shore, spotted some locals slicing open a beached shark. To the astonishment of all, they pulled from the shark a fisherman's log book containing tables of tides, temperatures, put option prices, and a letter. Yes, the dispatch was from Fisherman Vic. We reprint it in full:

"Dear Doña Laurel,

"While you were reconnoitering at the Eris Society meeting in Colorado and at the La Jolla Beach & Tennis Club in your home state of California, I did not have much of a taste for fishing or speculation. I decided therefore to go to the eternal city to attend, with more than 2 million others, the World Youth Day festivities at the Por Vergata campus.

"It's hard not to be moved by all this. I am full of admiration and a bit of envy. The kids have occupied Rome. Many are lying around in the city parks, but they're not trampling on the flowers. The scene recalls what Don Quixote said toward the end of his journeys when he decided to become a shepherd:

"We shall wander through the mountains, woods and meadows, singing here, lamenting there, drinking of the liquid crystals of the spring, or the limpid brooks, or the swelling rivers. The oaks shall give us of their sweetest fruit with bountiful hand; the trunk of hard cork trees shall offer us seats; the willows, shade; the roses, perfume, the spacious meadows, carpets embellished with a thousand colors; the air, clear and pure, shall supply us breath; song shall give us delight, and tears, gladness.

"Everything is roses over here, Laurel. The fragrance is as sweet as it can be when millions come together and you and I are not together writing the column. Let's just hope that the millions of worshippers don't become disillusioned, for the sake of the flowers or the market."

Fisherman Vic

Laurel Kenner is a financial writer in New York City. Formerly head of US stock market coverage at Bloomberg News, she previously reported on police, politics and aerospace during her 17-year news career.

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Sentimental Journey Down a Primrose Path

By Laurel Kenner and Victor Niederhoffer

Columnists

08/21/2000 09:05 AM

(Editor's Note: While Speculators Kenner and Niederhoffer are on vacation this week they've asked their consulting psychologist, Dr. Brett N. Steenbarger, to fill in. His columns this week will offer practical applications of psychology to the world of investing.)

Do the expectations of speculators help us forecast price movements of the stock market? What do expectations tell us about the current market?

If investors overreact and underreact to market information due to emotion-driven biases, then sentiment should be an important component of any effort to profit from the life-cycle inefficiencies described in last week's columns.

The problem with using sentiment as a measure, however, is that we have many ways of inferring the attitudes of investors, most of which correlate with each other rather poorly.

To illustrate, I gathered several weekly measures of sentiment from 1988 to the present. These included the surveyed percentage of bears and bulls for the American Association of Individual Investors (AAII) and Investors Intelligence (II), the put-call ratio, and the ratio of public to specialist short sales. The correlation between bears in the AAI and II surveys was .37; for bulls it was .51. These are statistically significant, but suggest that the surveys share much less than half their total variance.

What's more, the relationships between the surveys and actual investor behavior vary even more widely. The put-call ratio displays a surprising, modest negative (positive) correlation with the percentage of AAI and II bears (bulls), suggesting that more relative put buying occurs when traders are declaring themselves bullish! The ratio of public to specialist shorting is modestly and positively correlated with the put/call ratio (.23), but has an essentially zero correlation with any of the surveys.

So it appears that what traders say and what they do are two different things.

There are at least two reasons for this discrepancy. The first is that the participants in the surveys might be responding to different time frames. It is conceivable that one could be bullish over the longer time frame and bearish over the next several days. A surveyed small investor probably identifies a different time horizon than an options trader.

A second reason is behavioral. In psychology, measures taken when people report their own behavior have a notoriously modest correlation with actual behavioral measures. If we ask a group of people to rate themselves for the personality qualities of "caring" and "honesty" on a scale of 1 to 5, where 1=much below average and 5=much above average, about 90% will rate themselves above average or better. In reality, any group of people is likely to be far less virtuous.

If high-volume, winning stocks underperform the market over the long-term for behavioral reasons associated with overvaluation (and vice versa), we should see bullish (bearish) sentiment extremes associated with poor (superior) future market performance. That, indeed, appears to be the case in our sample. Controlling for one week price change on the S&P 500, we find that weekly AAI bearish and

bullish percentages above and below their 26 week average are associated with statistically significant differences in returns one and five weeks out.

Watch What I Say, Not What I Do

	1-Week % Price Change	Next Week % Price Change	5-Week % Price Change
Overall Sample	.30	.28	1.47
High Bearish Surveys	.29	.39	1.84
Low Bearish Surveys	.30	.17	1.09
High Bullish Surveys	.29	.11	1.15
Low Bullish Surveys	.30	.44	1.79

Percentage change in subsequent week and 5-week S&P as a function of AII surveyed sentiment.

Especially interesting results follow when we look at the difference between surveyed sentiment and actual behavioral sentiment, as assessed by the put/call ratio. Taking all weekly occasions when surveyed sentiment was greater than its 26 week average, we then can look at occasions when the put/call ratio was high versus low relative to its 26 week average, adjusting for weekly price change (N=300). When sentiment was bullish and put buying relative to call buying was low, the average one- and five-week returns were .13% and .70%, respectively. This is significantly lower than the returns when sentiment was bullish, but put buying was high (.29% and 1.30%). It is also significantly lower than the return for the sample overall.

In other words, when people say they're bullish but don't follow their words with actions, returns are rather typical. But when people start acting on their exuberant beliefs, returns are subnormal.

We note somewhat ruefully that sentiment readings for the current market show speculators bullish in both word and deed. AII bulls outnumber bears by 59% to 19% and put buying relative to call buying is approximately one standard deviation below its average going back to 1988. This by no means signals the end of the bull market or the coming of Armageddon but may help to constrain returns for the next several weeks.

To be sure, sentiment is but one weapon in the behavioral financier's arsenal. Any market in which such fine issues as General Electric (|GE|: NYSE), Intel (|INTC|: Nasdaq), Nortel Networks (|NT|: NYSE), Oracle (|ORCL|: Nasdaq), J. P. Morgan (|JPM|: NYSE), Bear Stearns (|BSC|: NYSE), Sun Microsystems (|SUNW|: Nasdaq), and American Express (|AXP|: NYSE) are knocking at all-time highs cannot be lightly dismissed. On Wednesday, let's take a look at when it makes sense to be a bear and when bearishness is, well, full of bull

Brett N. Steenbarger, Ph.D. is a licensed clinical psychologist and Assistant Professor of Psychiatry and Behavioral Sciences at the SUNY Upstate Medical University in Syracuse, NY. His primary research interest is multivariate behavioral modeling of the stock market. He welcomes comments and questions at steenbab@aol.com. He does not hold a position in any of the stocks discussed in this column. Positions may change at any time.

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Struggling to Come to Terms

By Laurel Kenner and Victor Niederhoffer

Columnists

08/18/2000 09:00 AM

***Editor's Note:** While Speculators Kenner and Niederhoffer are on vacation this week they've asked their consulting psychologist, Dr. Brett N. Steenbarger, to fill in. His columns this week will offer practical applications of psychology to the world of investing.*

Drawn like a magnet to the round number of 1,500 on the S&P futures, the market hit its target and then some, turning in an impressive rally. Particularly noteworthy was the ability of the computer stocks to withstand the fakeout in Hewlett-Packard (HWP: NYSE) shares, which rallied late Wednesday on earnings news, only to fall more than 10% yesterday.

Note the similarities in the recent price action of International Business Machines (IBM: NYSE), Compaq Computer (CPQ: NYSE) and Intel (INTC: Nasdaq), with all three looking to break out to new highs in emulation of Sun Microsystems (SUNW: Nasdaq). In spite of tech woes, the build-out of the online universe continues apace, with a red-hot server market leading the way. The recent rally in semiconductor stocks, as seen in the PHLX semiconductor index (\$SOX), combined with the strength in the box makers, suggests that "old tech" may yet have some life.

Focus, Not Hocus Pocus

In the face of what could turn out to be an expiration-day tug-of-war around the round number, let us step back and explore a behavioral hypothesis of a different sort. Let's examine the psychology of the successful trader.

Our hypothesis is straightforward: There is a core set of characteristics that distinguish the greatest participants in any field of endeavor -- including speculation. Success in trading may be as much a function of the qualities of the trader as the system being traded.

In his text entitled "Greatness," Professor Dean Keith Simonton points out that mastery of any domain requires approximately 50,000 "chunks" of information. This applies across different domains, from chess and sports to scientific research. To acquire such a wealth of experience and data, the great individual needs to be able to sustain focused attention on work for considerable periods.

The psychologist Mihalyi Csikszentmihalyi has found that this is possible because the creative person enters a pleasurable emotional state -- a state of flow -- when immersed in effortful activity. This intrinsic pleasure enables achievers to weather periods of uncertainty and discouragement on the way to success.

Why the Rolling Stones Still Play

Simonton also examined the specific works of some of the most eminent creative individuals in different fields and came to a startling conclusion. The odds of generating a work of lasting merit did not increase over the creator's lifetime.

That is, the greatest writers, artists and thinkers produced the same ratio of clunkers to works of genius throughout their careers. They were successful, Simonton notes, because they simply produced more. Whether a given work becomes famous or not is a matter of natural selection. Creative talents who are

more productive increase their odds of generating a memorable work.

In his excellent text "The Road to Excellence," K. Anders Ericsson concludes that future expert performers engage in intensive training activities over a period of ten or more years in the cultivation of superior performance. Success, he finds, is a function of intensive, deliberative practice conducted while in a state of heightened attention and concentration.

Ericsson likens the mind's development under such training to the physical benefits of athletic training. Former Mr. Universe and current bodybuilding coach Mike Mentzer has written extensively on the benefits of high-intensity strength training.

It is the intensity of the workout -- not its duration -- that contributes to physical development; only under brief, intense demands will the body devote the resources to its muscles that become manifest as physique. Ericsson points out that superior performers conduct similar "natural experiments" with their growth, achieving unusual cognitive mastery through repeated, intense skill rehearsal.

Juicing From Concentrate

From this research, we can infer two reasons why traders fail. First, they become emotionally involved in their trades -- eager for profits, despairing of losses -- and thus exit the flow state needed for immersion in the learning experience. One cannot be immersed in an experience and also preoccupied with its outcome.

The second reason traders fail is less appreciated. They lack the sustained concentration and focus needed to benefit from intensive practice. Imagine going to the gym and lifting a 20 pound barbell a few times. Surely we would not develop our strength or physique under such conditions. The capacity for trading success remains similarly dormant when traders attempt to beat the market with part-time preparation, "hot tips" and untested strategies.

When asked to identify a loser on the trading floor, Wizard Tom Baldwin told Jack Schwager, "Losers don't work hard enough... They don't concentrate... You can see it in their eyes; it is almost as if there is a wall in front of their face."

Striving to Remain Objective

Column readers recently offered their perspectives on trading success and failure. John Lamberg, summarizing the observations from Justin Mamis' "The Nature of Risk," noted that "under pressure, emotions determine our action." "The goal is not to win," he suggests, "but to keep striving."

Bipin Pathak observes with Richard Dennis that there is less to trading than meets the eye. The greatest part of success, he offers, is the oft-noted discipline to let profits run and cut losses short.

Long periods of both success and failure have proven most instructive for Omid Malekan. Perhaps, as Lamberg observed, this is because, "Intuition derives over time from experience distilled into concentration."

To these worthy observations, I would add the following: If market opportunities are born of inefficiencies inherent in human information processing, then the ability to profit from these opportunities requires the capacity to stand apart from such biases and patterns.

One cannot simultaneously fall prey to human nature and profit from it. This requires a considerable measure of self-development, the kind that can only occur as the result of immersive experience and

practice. Those who aspire to trading greatness must find some measure of greatness within. Such is the challenge and nobility of the path we've chosen.

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	-3.8	3.3
S&P 500	1.01	Up 1	1.8	3
Nasdaq	1.18	Up 5	-3.2	4.8
Europe STOXX-50	1.08	Down 1	4.9	3.1
Dollar/euro	0.83	Up 4	-8.9	1
Nikkei	0.84	Down 1	-14.7	2.2
Dollar/yen	1.17	Up 1	6.2	0.3
Gold	0.71	Up 2	-3.6	1.4
Oil	1.42	Up 2	50.8	11.4
Bond Futures	1.23	Up 1	10.5	0.4
2-Yr Note Futures	0.97	Up 1	0.1	-0.1
Bund Futures</B	1.15	Up 2	2.9	-0.2

Brett N. Steenbarger, Ph.D. is a licensed clinical psychologist and Assistant Professor of Psychiatry and Behavioral Sciences at the SUNY Upstate Medical University in Syracuse, NY. His primary research interest is multivariate behavioral modeling of the stock market. He welcomes comments and questions at steenbab@aol.com. He does not hold a position in any of the stocks discussed in this column. Positions may change at any time.

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Uncovering the Risks of Writing Covered Calls

By Laurel Kenner and Victor Niederhoffer

Columnists

08/17/2000 09:21 AM

Editor's Note: While Speculators Kenner and Niederhoffer are on vacation this week, a handful of their friends and associates are filling in. Today's contribution comes from Mark M. McNabb, a professor of business at Virginia Tech.

Tomorrow is an "options expiration" Friday, the last day of trading for many of this month's options.

One of the least productive endeavors of investors and speculators alike is the prediction of the effect of options expiration upon the market. The only more frustrating position is that of an investor or speculator predicting the outcome of their actual options trades going into expiration.

The options market is very opaque. Data on who has what options, when they got them and why is not available in real time. If these markets can be predicted, then those who do know aren't telling. A simple review of bright minds at leading investment banks and the bright faces in the press will find all struggling with prediction on expiration days.

Options Gridlock

Looking at some possible outcomes, speculators see lots of variation. Some expiration days, both the equity and the options market come into the day too negative and options and stocks must be bought, driving the market up wildly by the end of the day.

Other expirations days, the market and individual stocks seem stuck on whole numbers at the option contract prices and cannot go higher or lower – just 6 1/2 hours of fruitless tug-of-war around seemingly "important" numbers. This makes sense in that the derivatives bets are often large enough to prompt major players to spend some spare change (let's say at least \$5 to \$10 million) buying or selling shares to make their option bets profitable. While that is taking place, others are doing exactly the opposite with equal incentive. Gridlock that only a congressman could love!

On other expiration days, the pundits and press seem bewildered by soggy stocks after expecting a big rally due to early gains in the derivatives markets prior to the market open.

In other words, the market's goal of confounding the most at one time for the least benefit is readily accomplished on the 3rd Friday of the month every month, every year, so long as there are investors seeking such a distraction. We will offer our warmest thoughts to those that ponder these days and also hope the best for the mental health of those that fret over the "Monday Cleanup" after a Friday expiration.

Uncovering Risks of Covered Calls

Speculators have grappled with one small aspect of options trading, covered call writing, and came away very suspicious of the presumed benefits. Covered call writing occurs when an investor owns a stock and then sells a call option against the stock.

Let's take as a hypothetical example a stock called Loserville Routers that has competed unsuccessfully against the best networking stock in the business but is now trading at \$100 because of a runup in the

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entire networking sector. Your broker, in discussing your alternatives (buy, hold, or sell), suggests that you can own the stock and sell a call at \$100 for \$4. By taking this action, you give another investor (the option buyer) the right to buy Loserville stock for \$100 for this small \$4 fee, called an option premium.

The option buyer's right exists no matter how high the stock goes and so does the right to ignore Loserville should it sell for \$100 or less (in other words, you get to keep your shares because they have not appreciated to the option buyer's dismay). Either way, you get the \$4.

To be very successful in this strategy, you are betting that *nothing* happens. *Nothing. Nada. Nyet.* Before you get excited about a 4% return over this short period of time, consider the bet you are making. If the stock goes to \$120, you get the \$100 for your shares at expiration and have already received the \$4 when you sold the call. So you miss a 16% return, not exactly a great strategy for increasing returns.

No Limit to the Downside

Worse, a covered call strategy caps your upside to a small amount of profit and *fully* exposes you to the *downside* in the stock. Investment gurus who make more money selling seminars and questionable books suggest selling calls as a means of protecting against a downside. For the individual investor, this means collecting the \$4. But what if the stock falls \$12 after you implement a covered call strategy rather than just sell the stock? The 4% return is now an 8% loss after collecting the option premium.

No loss avoidance, just some of the sting taken away and this is before commissions and the nuisance factor of complicating one's life with options. But what if you have a stock that has an "involuntary stock split" and goes to \$50? Then that \$4 will offer no comfort despite your broker's earlier assurances. (To those in the know, you are now in a synthetic short put that has become toxic.)

Members of the Speculators' discussion e-mail list expressed their skepticism on the wisdom of using a covered call strategy earlier this summer. They sent notes with (printable) captions such as "Fool's Game" and "Loser's Bet" and told stories of winning a number of covered calls bets only to have their profits erased by that one bad one that got away like a lunker bass against the banks of your favorite fishing hole.

So next time you think about selling a stock and someone suggests you can get 4% more by selling calls against the stock, just put in a limit order 5% above the current stock price. You may learn that bass in the market is smarter than your options bait.

Mark M McNabb, CFA and Ph.D., is a member of the Speculators list (home to the world's greatest financial muses) and an original Hyperpassive Investor (80% buy and hold). He can be found teaching in such excellent business schools in the southeast as Virginia Tech and Tulane while seeking the perfect BBQ sandwich and the coolest car.

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It's About Time

By Laurel Kenner and Victor Niederhoffer

Columnists

08/16/2000 09:52 AM

Editor's Note: While Speculators Kenner and Niederhoffer are on vacation this week they've asked their consulting psychologist, Dr. Brett N. Steenbarger, to fill in. His columns this week will offer practical applications of psychology to the world of investing.

Suppose I told you that a single variable could predict human behavior to a statistically significant degree.

It can predict where you're likely to be and what you're likely to be doing. It can predict your activity level, even your mood.

Best of all, this same variable predicts the tendency of the stock market to rise or fall and has become a major focus of behavioral finance research.

The variable is time.

The time of day affects our levels of alertness and rest, our hunger patterns, even our body temperature. Time of week influences our religious activities, as well as our play and work. The time of month is associated with a variety of personal events, from hormonal cycles to paychecks. Even the seasons can be linked to high and low energy, particularly for those suffering from the form of winter blues known as seasonal affective disorder.

Perhaps it is not so surprising that a distinctively human activity such as trading should be dominated by rhythms as well. We have seen important market lows in 1974, 1978, 1982, 1987 (ouch!), 1990, 1994 and 1998. Market volumes and price changes are greatest in the early morning and late afternoon, waning during the midday hours. And, as we've learned from Ben Warwick on this site, the end of a month is generally a good time to be long the market.

Some of the best known investors, such as Peter Lynch and Warren Buffett, have enjoyed success by identifying undervalued, promising firms and holding them over a period of months or years. Others, like many of the "Wizards" interviewed by Jack Schwager, report that their positions fluctuate on a daily or weekly basis. How can both trading styles be successful?

As we observed on Monday, time may be the critical element. The momentum life cycle described by Charles Lee and Bhaskaran Swaminathan suggests that strong, high-volume stocks will be followed by further gains in the short run and reversals over the long term. Relatively unknown (and therefore, low-volume) stocks, however, are most likely to be long-term winners. Both the Graham and Dodd fundamentalists and the Wizard technicians may be riding the coattails of momentum shifts, but at very different points in the life cycle.

This is especially plausible given that there may be momentum life cycles nested within momentum life cycles. Separate studies by Narasimhan Jegadeesh and Bruce Lehmann, for example, find short-run cycles of returns lasting approximately a week.

My own research confirms this, suggesting that strong (weak) five-day returns tend to be followed by strength (weakness) over the next day, but weakness (strength) over the following week. The effect is heightened for particular days of the week and month. A big part of trading success rests with knowing which life cycles you're trading and having a strategy that captures the relevant time relationships.

Imagine five investors who begin their speculations at the start of April 1965. For the next 35-plus years, they adopt a unique strategy. Investor 1 only purchases the S&P index at the close Friday and sells at the close Monday. Investor 2 invests in the S&P on Tuesdays and Investors 3, 4, and 5 only hold the index on Wednesdays, Thursdays, and Fridays, respectively. The table illustrates the average daily returns and the average ratio of advancing to declining stocks (adjusted for number of issues traded) for the five participants.

Returns From April 1965 to Date

Investor/Day	Average Price Change	Advance/Decline Ratio	Portfolio Gain (Loss)
1. Monday	-0.055%	-0.049	(55.21%)
2. Tuesday	0.049%	-0.014	113.29%
3. Wednesday	0.093%	0.012	353.73%
4. Thursday	0.020%	-0.001	39.98%
5. Friday	0.067%	0.025	206.44%

Average price change (%), ratio of advances to declines (adjusted for issues traded), and percentage gain (loss) for investors holding only one day out of the week since April 1965.

Note that Investors 1 and 4 earn significantly lower returns than Investors 3 and 5. Quite simply, more stocks go up on Wednesdays and Fridays than Mondays or Thursdays. While the magnitude of the daily differences may not seem great, over a period of years such a statistical edge adds up. Assuming a \$100,000 portfolio at the start of the period, Investor 1 (Mondays) would be left with \$44,793.12 over 35 years later. Investor 3, on the other hand, would have a portfolio worth \$453,725.10.

In a nutshell, *when* you hold stocks may be as important to returns as what you hold.

Time may also help to explain the goings-on in the current market. Many of the Nasdaq stocks that led the charge during the first three months of 2000 have become high-volume losers and are continuing to underperform the broad market, as might be predicted by Lee and Swaminathan.

Indeed, such impressive names as Lucent ([LU]: NYSE), Dell Computer ([DELL]: Nasdaq), America Online ([AOL]: NYSE) and Qualcomm ([QCOM]: Nasdaq) are in hailing distance of 52-week lows.

The Dow Industrials ([INDU]), however, which have treaded water since early 1999, now are outperforming many of their glamorous four-letter counterparts, with such issues as Minnesota Mining and Manufacturing ([MMM]: NYSE), Boeing ([BA]: NYSE), General Electric ([GE]: NYSE), Philip Morris ([MO]: NYSE), and Coca-Cola ([KO]: NYSE) sitting near yearly highs.

It is but another example of the ever-changing cycles described by our vacationing column author, Victor Niederhoffer. Tomorrow, on the eve of expiration, let's turn our attention to the options market and strategies speculators use to capture market vagaries.

Brett N. Steenbarger, Ph.D. is a licensed clinical psychologist and Assistant Professor of Psychiatry and Behavioral Sciences at the SUNY Upstate Medical University in Syracuse, NY. His primary research interest is multivariate behavioral modeling of the stock market. He welcomes comments and questions at steenbab@aol.com. He does not hold a position in any of the stocks discussed in this column.

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Hat Tricks and Strikeouts

By Laurel Kenner and Victor Niederhoffer

Columnists

08/15/2000 08:41 AM

***Editor's Note:** While Speculators Kenner and Niederhoffer are on vacation this week they've asked their consulting psychologist, Dr. Brett N. Steenbarger, to fill in. His columns this week will offer practical applications of psychology to the world of investing.*

The broad market as measured by the NYSE Composite Index ($\$NYA$) continued to plow further into record territory Monday, with such financial issues as J. P. Morgan (JPM : NYSE), Citicorp (C : NYSE), Lehman Brothers (LEH : NYSE), and Merrill Lynch (MER : NYSE) leaping to new annual highs.

Perhaps most impressive has been the recent performance of market laggards Philip Morris (MO : NYSE) and Eastman Kodak (EK : NYSE), which have helped bring the Dow Industrials to their highest levels since April. It is hard to believe that it was only this past December that Internet stocks were heading for the stratosphere and Dow Utilities were flat on their back, making annual lows.

Little wonder speculators have been scratching their heads over the current rally, marveling at the market's ever-changing cycles. Since early July, the utilities are up approximately 15% and making all-time highs, handily outpacing the former market darlings.

At times like these, it can help to take a step back and ponder universal truths. One of my psychology professors offered a nugget of wisdom when he summarized the relationship between nature and nurture: "Nurture cannot guarantee developmental success," he pointed out. "It cannot replace what Nature fails to provide. But it certainly can ensure failure!"

This simple truth is recognized by psychoanalysts, who emphasize "good-enough" parenting. A healthy seed will grow in almost any soil, but cannot germinate in barren conditions.

Market Soil

The soil of market advances is laid down, in part, by the Federal Reserve. Central bank policy cannot guarantee a bull market -- witness the continued struggles of Japan's markets in the face of recent low interest rate policy -- but it certainly can derail one. As long as the financial climate is "good-enough," we can expect the brilliant success story that is the American economy to continue apace. It is when financial conditions turn barren that bear markets are born.

How are we to assess the quality of the market soil? Following in the tradition of column author Victor Niederhoffer and the originator of statistical regression, Francis Galton, we shall do a bit of counting. Since it is said that good things (and perhaps bad) come in threes, we propose a distinction between hat trick days and strikeout days.

Hat tricks, hockey fans will recognize, are occasions in which a player scores three goals in a single game. Strikeouts in baseball refer to swinging and failing to hit the ball three times during an at-bat, resulting in the player being declared "out."

The market scores a hat trick, we propose, on any single day when stocks, bonds, and the dollar

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advance. Such days are emblematic of a positive financial climate, where investors are expressing optimism over the US economy. Conversely, the market strikes out on any day when stocks, bonds, and the dollar fall in concert. At such times, speculators are fleeing American assets.

Over the past 23 years, the market has scored 861 hat tricks and 744 strikeouts, which amounts to roughly three per month. We note that the mere appearance of a hat trick or a strikeout appears to make statistically significant ripples in the stock market. Across our sample of 5,835 days, the average daily change is .05%. Following a hat trick, the average daily change is a gain of .13%, but after a strikeout, the next day's return is an average drop of (-.01%).

Larger Patterns

These are small magnitudes to be sure, and hardly the stuff of which trading success is born. When we examine the monthly distribution of hat tricks and strikeouts, however, larger and more important patterns emerge.

The market's record for monthly hat tricks -- 11-- occurred during January 1988, just as stocks were rising from their 1987 massacre. The record for strikeouts in a single month belongs to October 1978 (10), followed by December 1977 (8) -- both near cyclical market bottoms. The pattern that emerges most clearly from the data is one in which an expansion of strikeouts, which suggests unfavorable financial conditions, reverses and produces a series of hat tricks. This has occurred near the close of most major cyclical bottoms since 1977.

Below I summarize periods of joint bond and dollar strength and periods of joint weakness. It is apparent that the strong periods have outnumbered the weak ones since 1977, and that the few episodes of weakness have corresponded to periods of market correction.

Periods of Joint Bond and Dollar Strength

October, 1981 - April, 1983
June, 1984 - February, 1985
December, 1987 - May, 1989
January, 1991 - June, 1991
September, 1992 - January, 1993
March, 1995 - December, 1998

Periods of Joint Bond and Dollar Weakness

September, 1977 - January, 1980
February, 1987 - September, 1987
October, 1993 - January, 1995

Still Fertile

So where does that leave us today? Bonds have been in a funk since early 1999, but rising during the past several months. The dollar has been testing recent highs and broad stock market averages have been range-bound, but also rising of late.

The past 2-1/2 months have brought only 2 strikeouts, against 10 hat tricks. The scorecard for August thus far is 4 hat tricks to 0 strikeouts.

While this may not constitute potting soil, it does suggest that the earth is sufficiently fertile to keep the market growing a while longer. Tomorrow, we'll look at a different indicator -- one that just may be the single best predictor of human behavior.

Speculator's Scorecard				
	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.11	Up 3	-2.8	6.2
S&P 500	1.03	Up 2	1.5	4.2
Nasdaq	1.17	Up 2	-5.2	2.2
Europe STOXX-50	1.09	Up 2	5.2	3.4
Dollar/euro	0.8	Up 1	-10	-2.3
Nikkei	0.83	Up 2	-14.7	2
Dollar/yen	1.19	Up 1	6.8	0
Gold	0.7	Down 1	-4.6	-0.9
Oil	1.41	Up 1	50.9	13.3
Bond Futures	1.25	Up 1	10.8	1.7
2-Yr Note Futures	0.99	Up1	0.2	0.1
Bund Futures</B	1.14	Up 1	3.3	0.5

Brett N. Steenbarger, Ph.D. is a licensed clinical psychologist and Assistant Professor of Psychiatry and Behavioral Sciences at the SUNY Upstate Medical University in Syracuse, NY. His primary research interest is multivariate behavioral modeling of the stock market. He welcomes comments and questions at steenbab@aol.com. He holds no positions in any of the stocks mentioned. Holdings may change at any time.

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The Markets Have a Mind of Their Own

By Laurel Kenner and Victor Niederhoffer

Columnists

08/14/2000 09:16 AM

***Editor's Note:** While Speculators Kenner and Niederhoffer are on vacation this week they've asked their consulting psychologist, Dr. Brett Steenbarger, to fill in. His columns this week will offer practical applications of psychology to the world of investing.*

The new economy bubble has burst: just look at the battered stocks of Amazon (|AMZN|: Nasdaq), CMGI (|CMGI|: Nasdaq), Incyte Pharmaceuticals (|INCY|: Nasdaq) and Qualcomm (|QCOM|: Nasdaq).

The new economy is poised for new highs: just look at the stocks of Oracle (|ORCL|: Nasdaq), JDS Uniphase (|JDSU|: Nasdaq), Amgen (|AMGN|: Nasdaq) and Broadcom (|BRCM|: Nasdaq).

Which are we to believe?

As recently as a decade ago, fundamental and technical analysis formed the pillars of market prognostication. Now, thanks to such researcher/writers as Richard Thaler, Hersh Shefrin and Robert Shiller, a third discipline promises answers to our new economy questions: behavioral finance. The premise of behavioral finance is deceptively simple: markets are human phenomena. As such, they exhibit all the biases and information processing distortions that people make in daily life.

The implications are important and quite practical. Because of human bias, markets are not perfectly efficient. They are prone to periods of overvaluation and undervaluation that can be exploited by clever speculators. In a sense, the successful market participant trades human nature, not commodities, stocks, or options.

Most of the time, the markets behave as we do most of the time. They are fairly reasonable and, as a whole, in good touch with reality. It is not coincidental that stock market prices are included as a leading indicator of the economy.

Other times, however, markets behave like people with emotional disorders. They become mired in a single emotional extreme or swing rapidly between extremes. They distort reality and prove particularly unreliable as a gauge of the future. Consider casino stocks in the late 1970s, gold stocks in the early eighties, Japanese stocks in the late eighties, or the recent behavior of Internet stocks.

Cooking With Cisco

The behavioral financier, like the clinical psychologist, is interested in behavior that is outside the norm. Normal markets can be expected to behave relatively efficiently. It is when markets act outside of the norm that distortions occur and non-random returns can be achieved.

The issue of normal versus abnormal expectations came to a head last week with the debate over the future of Cisco Systems (|CSCO|: Nasdaq). Cisco, to be sure, is one of the great success stories of recent memory.

Cisco also trades at a price-earnings of 176, giving it a capitalization equivalent to the combined share

floats of General Motors ([GM]: NYSE), Coca-Cola ([KO]: NYSE), Disney ([DIS]: NYSE), AT&T ([T]: NYSE) and Merrill Lynch ([MER]: NYSE). Is Cisco's valuation a reasonable projection of new economy potential or an abnormality flush with recent success?

Fortunately, an important research study sheds light on the question of whether strong performers in the market, such as our new economy stalwarts, yield superior versus sub-par returns.

Losing Momentum

Stocks tend to follow a "momentum life cycle," according to a 1998 working paper from Cornell University's Parker Center for Investment Research by Charles Lee and Bhaskaran Swaminathan. Strength is followed by strength over a six- to twelve-month horizon, they observe, but yields to weakness three to five years out.

Better, they demonstrate that trading volume neatly tracks where a company stands in its life cycle. High-volume winners are the most vulnerable to reversal; high-volume losers continue to lose. The stocks to own are ones demonstrating superior performance with low volume: these are stocks early in their life cycles that have not yet attracted broad attention from traders.

The momentum life cycle is pure behavioral finance. Early in a stock's rise, the superior performance reflects investors' recognition of improving fundamentals. This gives way to a bandwagon effect and rising volume as the recent price gains fuel overly optimistic earnings forecasts and share-price expectations.

Late, Great Expectations

Once those expectations are dashed, the former highfliers continue to underperform the market over the long haul, giving way to a new cadre of low-volume leaders. It is an essential part of the market's ecology, akin to the succession of plant and tree varieties in a maturing forest.

From this perspective, Cisco looks like a high-volume winner. Many Internet, semiconductor and biotechnology stocks have made the transition from high-volume winning to high-volume losing.

And tomorrow's long-term winners? According to Lee and Swaminathan, these are not to be found on the "most actives" list. More on finding winners amidst this market's cross currents tomorrow.

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S&P 500	1.01	Up 1	0.2	3.7
Nasdaq	1.15	Up 1	-6.9	3.5
Europe STOXX-50	1.08	Up 1	4.5	2.8
Dollar/euro	0.78	Down 1	-10.3	2.2
Nikkei	0.82	Up 1	-14.9	1.8

Dollar/yen	1.17	Down 1	5.9	-1
Gold	0.71	Up 2	-4.7	-1.2
Oil	1.4	Down 1	46.5	10.1
Bond Futures	1.24	Down 1	10.4	0.95
2-Yr Note Futures	0.97	Down 1	0.2	0.1
Bund Futures	1.13	Down 1	3.2	0.4

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Cisco Gives Bears a Short-Lived Chance to Dance

By Laurel Kenner and Victor Niederhoffer

Columnists

08/11/2000 09:40 AM

"Happy the age and time that men of old termed golden – not that gold so prized in this our iron age, could be had without toil, but because they that lived therein knew not the words, thine and mine."
Don Quixote de la Mancha -Miguel de Cervantes

Bears pranced out of Cisco's (|CSCO|: Nasdaq) San Jose headquarters and spread across the land to Nasdaq headquarters on Times Square as the averages retreated to their closes of last Friday.

Big multibillion-dollar, 5% or more price declines in Gap (|GPS|: NYSE), WorldCom (|WCOM|: Nasdaq), Immunex (|IMNX|: Nasdaq), 3Com (|COMS|: Nasdaq), Citrix (|CTXS|: Nasdaq) and Wal-Mart (|WMT|: NYSE) added to the ecstasy of the bear dance.

And yet, all is not good for the bears. The S&P futures closed down a mere 6.7 points on the day. Worse yet for the bears, the former champ, the long bond futures actually broke above the magical number of 100, closing at its highest level since May 3, 1999.

Big declines in Cisco, the leading technology company by market value, are becoming distressingly frequent this year. We counted 11 daily declines of 5% or more since year-end. On nine of these 11 occasions, Cisco was substantially higher one week later.

The average move, taking account of all gains and losses, was a very beautiful 6%. Such resilience borders on the significance levels normally used to differentiate true moves from random ones. We will therefore cast away pencil and envelope and turn again to the larger issue of why the bearish cult becomes so exuberant whenever the Nasdaq declines a few percentage points.

Yesterday's decline led to an orgy of bearishness, with one fund manager after another weighing in ponderously with such negativism as "it's time to lower expectations," "one of these quarters, Cisco is going to disappoint," "the growth rate of the cycle is clearly behind us." Even on the interest-rate front, with the bonds above the magical 100 level, there was the guttural scream: "You can't have a peak without a slowing economy and slowing profits."

As is appropriate, we will start with an explanation from Laurel herself, reporting from the mountainous clime of Durango, Colo., where she actually witnessed a huge bear raid outside the Louis L'Amour table she was dining on. Inside, she heard David Tice delivering yet another lecture that the stock market is a massive fraud perpetrated against the people. The language is harsh, and when Laurel demurred that, on the contrary, the stock market was a magnificent engine for improving well being through world, as well as a sure way for the average Jane and Joe to make 10% annual and 10 million percent century returns by lending money at risk to entrepreneurs and innovators, she was dissed.

But this, after all, was at a group that has its roots in the golden age when silver sold for \$20 to \$50 an ounce rather than \$5 today.

Our reader, Dean Lebaron, the eminent chairman of Batterymarch, had another take on the psychology of the bears: "It is the last gasp of a linear political power structure with institutions that are

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unfortunately dangerous in a multipolar networked world".

The dean, whom we had the pleasure of playing tennis against on reasonably equal terms some 45 years ago, believes that ingrained bearishness is a cyclical phenomenon that started with the Battle of Midway in 1942 and doubtless received positive feedback from tales of their Dad's decimation during the crash of 1929.

Professor Mark McNabb, the dean of speculation, gives Dean Lebaron high marks for his emphasis on structural changes in the political-economic-social milieu. He points out that the cyclical theories start from the time before productivity became king and economics was solely the domain of scarcity. In fact, we have been overwhelmed by more reader commentary on what motivates the old hearted men to be so wrongfully bearish than almost any other subject we have treated since our series on sports, the Fed and speculation.

My own way of putting it in perspective was to issue a poem to the tune of Sigmond Romberg's *Stout Hearted Men*:

*Spare me from men
Who are old hearted men
Who will sell the stocks
I adore
Out of the ken
Of these old hearted men
At a price of the Dow
Five thousand more*

The chemistry grad student, golfer, wrestler, and long term speculator Mell Ott writes that he prefers haiku to poetry:

*oldsters never change
stuck in their ways, but alas
still make big bucks*

*or why should they alter
change is for the faint of heart
bear bear bear bear bear*

In addition to the poetry and penciling today, we have performed some programming.

We have read each of the last 500 issues of a certain bearish financial weekly and have categorized and enumerated 500 reasons to be bearish. We have a random number generator set to print out these reasons, which we shall share with you from time to time, along with our 101 relations between sports and stocks.

Today's computer-generated reason to be bearish is: "Consider, as we have the compelling logic for paying 80 times next year's earnings for a company that has to its credit one whole quarter in the black (two cents) if you are a far-sighted investor." The random date: August 1997. The stock: America Online (AOL: NYSE). The adjusted price: 4, versus 2 the year prior and 51 today.

And now, for a melancholy note: It has been apparent to Vic for some time that he has become

somewhat of a superfluous man. Despite his efforts to point out the errors of the old hearted men at the Fed and on Wall Street, there has been little if any change. Quite the contrary, not only can't he get a pair of sneakers to the Fed chairman, not only can't he get an interview with the Chair, he can't even get a copy of Daily Speculations to the Fed's attention.

Thus like the noble Don , who gave up his home and habits "for defense of damsels, the relief of widows, and the guardianship of orphans and the oppressed," Vic is going to retrace the travels of Don Quixote in Spain and wander the world over with books and computer, courting perils and passes in his quest for deathless fame in redressing the wrongs of the bears.

There's nothing more to be said, except that the official Daily Speculation's psychiatrist Dr. Brett Steenbarger will be ministering to Vic by wireless during his travels, and reporting directly to our readers on a daily basis during the two-week hejira.

As Vic leaves, he is heartened by a bon voyage from the official Daily Speculations statistician, Dr. Steve Stigler. "Hope you and all family will be well on your trip, and prospering. We are at least one of those, and if Doc Greenspan takes the rest of the year off, we and you will be the other."

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S&P 500	1	-2	-0.6	0.7
Nasdaq	1.14	-1	-7.6	-2.1
Europe STOXX-50	1.07	-1	4.2	1.9
Dollar/euro	0.79	1	-9.7	-2.5
Nikkei	0.8	-1	-15.6	-1.3
Dollar/yen	1.19	1	6	-0.5
Gold	0.7	1	-5.3	-2.1
Oil	1.42	3	48	11.9
Bond Futures	1.25	3	10.8	1.14
2-Yr Note Futures	0.99	1	0.3	0.2
Bund Futures	1.14	2	3.4	0.4

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Victor Niederhoffer is a private speculator specializing in futures and options trading. His positions

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Of Eli Lilly and Old-Hearted Men

By Laurel Kenner and Victor Niederhoffer

Columnists

08/10/2000 08:52 AM

"The longing to shuffle off the main complex arrangements of an advanced culture recurs again and again. It is the main motive of the Protestant reformation, it reappears as the cult of the noble savage, long before Rousseau, its supposed inventor... The savage with his simple creed is healthy, highly moral and serene... Tolstoy proved his integrity by ending his days living like a peasant among his former serfs without comforts, odd clothes, hygiene or fine food..." -- Jacques Barzun, From Dawn to Decadence

After flirting with the round number of 1,500 in the S&P futures and 11,000 with the Dow, but falling within a gnat's eyelash shy of it in each case, the market plunged at the end of the day on the backlash of the bad news about Eli Lilly's (LLY: NYSE) Prozac patent case. Lilly fell 29% to 76 7/8 and sympathetic multi-billion dollar 20% declines in Sepracor (SEPR: Nasdaq) and Forest Labs (FRX: NYSE) had the bears out in full force by the end of the day. After all, the market actually ended down after seven consecutive up days..

Looking through the last six years of data for the major pharmaceuticals companies, we can only find two instances of a decline like this; one in Pharmacia (PNU: NYSE) in April 1997 and another in Merck (MRK: NYSE) in October 1997. Both of these declines were quickly arrested. But two declines do not make a spring or a big enough sample to put statistics on the table. Thus, we will not be tempted to take out the canes. In fact, considering the importance of Prozac to Lilly's profit stream and noting that even after its 32-point decline, it is still up 16% on the year, we are inclined to consider the decline as more of a Lobogolian roll to the old paths of June 29, when in one beautiful day Lilly moved up from 87 to 102.

Long Bonds and Round Numbers

Much more relevant to market ecology is the proximity of the long bond future at 99 24/32 to the magic 100 level. Round numbers, as we have often stated, seldom hold. A visitation to this level is almost guaranteed, and all such declines in long-term interest rates through vivid numbers are highly bullish for stocks. Thus, we do not share the exuberance of the bears that are always energized by a decline, especially when it comes from a lofty level. Nor do we put much stock in the August decline that they are so earnestly hoping for and predicting.

We turn instead to unraveling the universal theme of why old-hearted men tend to be pessimistic about culture, life and stocks.

Guidance from Louis and Others

We will start our consideration by turning to Laurel Kenner who is retracing the conquering of the frontier in Louis L'Amour's West in Durango, Colorado. L'Amour wrote the *Sackett* series in the very hotel Laurel is staying at where she reports, "There is a splendid irony in the Queen's pursuit of Barnabas Sackett. She mistakenly believed he had found the lost Crown Jewels, but he had found something much more valuable: the possibilities of America. It reminds me of the Internet millionaire whose company, Linuxcare, is laying the groundwork for the new free open software standard, Linux." It is hard to be bearish or old-hearted in L'Amour Country.

As always, however, our readers have best encapped the essence of what makes prices move. The

Libertarian actuary Dick Sears writes:

... Why is it that so many old people are so persuaded that life used to be better when all objective evidence points to a steady, never ending improvement in the human condition? (You should hear the older aficionado in Spain go on about the corruption of the modern bullfight: The bulls are too small and not fierce enough, the matadors are too shallow.) In my opinion we are in a golden age of bullfights and markets.

It's easy to blame these attitudes on the general difficulty that older people have in accepting new things, the old 'you can't teach an old dog new tricks' syndrome. But I think Aesop's sour grapes fable is more apt. Who would want to be young today? These times stink.

It's pathetic. At a time of life when one should be taking pleasure in growth and development, these grumpy old men begrudge it.

We would add to the actuary's point that the old-hearted men are also motivated by the oldest of weaknesses, the avoidance of competition. They have the chips, power and recognition right now and the devil take the hindmost before they are going to allow a world to grow where the young can rise to compete with them.

Professor Mark McNab has a personal anecdote that resonates through families and generations:

In my family, the '73-'74 economy placed sufficient fear into my mom that she remains ever suspicious of the stock market. Thankfully she turned those duties over to me and my brother ... unlike a certain financial editor who doesn't sufficiently recognize the talents of the junior writers around him. The "bond market" senior citizens are still plagued by the memory of 1972 to 1982 and thus expect to be wiped out any year, yet the productivity cycle is not in their lexicon...although most research shows that the 70's were the aberration and not the 90's.

From California, Andrew Coulter, President of Principal of Empirical Therapies, a health information service, and a growth investor to the core writes:

Old-hearted men were mature, knowledgeable investors or market pundits in the 50's and 60's but then there was no disruptive technology like the Internet. There was no means of communication, which was doubling in size every 60 days. There was nothing that was changing the world as we know it as quickly as our new data centric society. They cannot accept a paradigm shift, so they must constantly disparage it.

In closing this report on old-hearted men, we must report some bad news received from the Fed. You will recall that sparked by a Rabelaisian sense that we were all rolling around in a hopeful, amusing and uncertain market fray, we sent Dr. Greenspan a pair of sneakers to encourage him to join the New York Knicks. But who says that a sense of humor will help you unravel the vitally important influence of the Milwaukee Purchasing Managers report on the modern funky economy. A note from the Fed follows:

Dear Mr. Niederhoffer:

Chairman Greenspan appreciates the kind thought behind your gift box, which included the binder of (your columns), the book and the pair of Nike basketball sneakers. Unfortunately, the Federal Government's ethics rules prohibit the chairman from accepting these gifts. Therefore, I have the unpleasant duty to tell him he should not accept the gift and the ungracious duty to return it to you. The

box is being returned under separate cover.

Sincerely Yours,

*Patricia C. Zemple
Ethics Specialist*

Perhaps our readers will know by now that it is not entirely unlikely that Doc Greenspan will bear hearing from Vic again, and that there is every likelihood that the glorious flags of growth will be raised at the Fed.

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Nasdaq	1.15	1	-5.3	-3.4
Europe STOXX-50	1.08	4	4.6	0.3
Dollar/euro	0.78	-3	-10.5	-4.5
Nikkei	0.81	1	-15.3	-2.8
Dollar/yen	1.18	-2	5.2	-1.3
Gold	0.68	-2	-5.5	-2.7
Oil	1.4	2	43.3	9.1
Bond Futures	1.24	2	10.5	1.37
2-Yr Note Futures	0.97	-1	0.3	0.3
Bund Futures	1.13	1	3.2	0.1

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Market's Comeback Completes a Round-Trip Charge

By Laurel Kenner and Victor Niederhoffer

Columnists

08/09/2000 09:37 AM

"If elephants pass one way today on a roll, they will surely return by the same path." -Lobogola, an African Savage's Story

The broad market's seventh consecutive daily rise, to a closing level of 1482 for the S&P 500 index, with yet another substantially higher open scheduled for today after a terrible last week of July, where we witnessed six out of seven declines, may fairly be said to have completed a "Lobogola" retracement.

Bata Kindai Amgoza Ibn Lobogola is the African Jew whose ancestors were driven from Palestine after the destruction of Herod's temple and migrated to Dahomey, Africa. Lobogola offers particular wisdom to us. His fame, as memorialized by ourselves, rests on his observation that elephants, like the markets, every now and then like to go on a roll, during which nothing can stop them.

"They make their path by pulling down vines, tearing up trees and trampling underfoot everything that comes in front of them," (including weak longs), he wrote. "But if the elephants pass one way today on a roll, they will surely return by the same path." This is true perhaps not in the same day or week, but surely at some future time.

Some examples of these Lobogolian moves for the Nasdaq 100:

On the Rebound

Company	Symbol	% Decline 7/20 - 7/28	% Rise 7/28 - 8/8
Metromedia Fiber	(MFNX : Nasdaq)	-26%	20%
CMGI	(CMGI : Nasdaq)	-23%	16%
Siebel Systems	(SEBL : Nasdaq)	-21%	28%
Linear Tech	(LLTC : Nasdaq)	-21%	17%
Veritas Software	(VRTS : Nasdaq)	-21%	27%
Chiron	(CHIR : Nasdaq)	-21%	23%

To complete the circle, we looked at the 20 worst-performing Nasdaq 100 stocks during the roll week of 7/20-7/28. Their subsequent performance during the return week was an average rise of 11% versus a comparable rise of 6% for the Nasdaq 100 Index itself.

The next time the market goes on a roll down, it might be well to follow the timeless wisdom of Lobogola. "We follow the elephants after they have started (their return), but we do not follow too closely. We dig a hole, and then we go away."

Speculator's Scorecard

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Nasdaq	1.14	Down 1	-5.4	-4.5
Europe STOXX-50	1.07	Up 3	3.6	-0.6
Dollar/euro	0.79	Down 2	-10.3	-3.9
Nikkei	0.8	Down 1	-16.5	-4.6
Dollar/yen	1.19	Down 1	6	-0.5
Gold	0.69	Down 1	-5.1	-2.1
Oil	1.39	Up 1	37.5	4.2
Bond Futures	1.22	Up 1	10.4	1.1
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Dangerous Cross-Currents Mar a Healthy Market

By Laurel Kenner and Victor Niederhoffer

Columnists

08/08/2000 09:12 AM

"But once they reached the springs for the fourth time then father Zeus held out his golden scales"
Homer, *The Iliad*, Translated by Robert Fagles

The broad markets registered their sixth consecutive significant rise yesterday, closing at a two-week high to general jubilation. The alacrity of the rise in the Nasdaq 100 futures, up as much as 10% yesterday from Thursday's open, takes ones breath away.

And indeed, across the market land, the mutual fund managers are not sitting on their hands or biding their time anymore, but are positively convinced that the market is in good shape. Productivity and earnings are good and interest rates are low. The Asian markets have staged a remarkable recovery.

And yet, regrettably, there are cross currents. Remarkably, the market has only managed to go up six significant days in a row on two occasions in the past six years. Monday highs are often succeeded by Friday lows. And the tendency is particularly bearish after employment numbers.

A Need for Judicious Balancing

All things considered, the situation is reminiscent of the combination of circuits often seen in the transistors that make our modern age the golden one. The principle to find the currents and voltages in such circuits, which often involve separate sources of electricity affecting each point in opposite ways, is to combine the separate influences as if they were independent.

A judicious balancing would also seem appropriate for market calculations at this point. There is a tug of war going on. Only Zeus could pick the winner as he did in the Trojan War: "Then Zeus held out his golden scales. In them he placed two fates of death that lays men low. One for Achilles, one for Hector, breaker of horses. And gripping the beam mid-haft the father raised it high and down went Hector's day of doom, dragging him down to the strong house of death."

The situation in the market, as is the norm, is balanced in Zeus' hand. But one factor in Helios's hands is all too much upon us -- August. During the last 12 years the average move in this hot month has been down 2.5%. In 1990, 1997 and 1998 the actual move was down more than 5% with 1998's 13.6% decline all too prevalent in the memory. While we would normally dismiss such a seasonal factor as mumbo jumbo that our calling demands we deflate, along comes our friend Richard Sears, one of the outstanding actuaries of our age, and also one of those we know who regularly chalks up 50% or more annual gains with a reason for the August effect:

Victor:

I want to share with you my theory about August. July is volatile because of earnings reports but August is the dog days in the market, the time when nothing happens, except that stock prices drop. In my humble opinion the reason has to do with the difference between optimists and pessimists.

Optimists tend to buy stocks, pessimists tend to sell them. We all know that.

Since over time the market tends to go up, optimists tend to be rich and pessimists tend to be poor. As a result optimists can afford to spend August in the Hamptons. Their optimism allows them to ignore the market during this time. They know it will be there when they return and they are confident they will once again be able to make money at it.

Pessimists, on the other hand, can ill afford a lavish vacation, and even if they could, they daren't stop trading.

As a result, for the month of August, there is an imbalance in the market. There are more sellers than buyers. As you know, it doesn't take much of an imbalance to create a strong move in one direction or the other. In this case, the direction is DOWN.

Once the optimists return from the Hamptons, though, look out. The market will go UP UP UP.

Regards,

Dick Sears

We are never happy with a bearish forecast, as following same can never beat the buy-and-hold strategy. After all, there are so many factors affecting stocks at all times that the best approach for the average Joe and Jane is doubtless to allow oneself to be wafted upwards by the 10 million percent per century gain in the average stock.

Thus, we were particularly happy when we received a note from the Shakespeare of investments that he's back. His grieving for his stalwart mother who passed away at 100 is giving way to a few timely life-sustaining activities, including the accumulation of BMC Software ([BMCS]: Nasdaq). Ed, along with Sam Eisenstadt, the Pasteur of investments, and Andy Lo, the Willie Mays of investments, is one of the three people these columnists revere. We are tempted to Stand aside and just report what 'The Shakespeare' said:

..... the last thing I consider myself is a technician. I generally buy when a stock is so washed out, it can't get out of its own way. Generally all you want... sometimes on a scale down.....wait a year or two, and when the analysts "discover" it again, I head for the exits. Technical data is just not my bag, and I sometimes get a smile when I see sheep going to slaughter. Sound cynical? I am in another world than the world at large. Look at the great institutions in BMCS and see who got burned.....High was around 82....funeral over, Glad this week is done....

But even Homer nodded, so we could not resist calling up the company to get our own lay of the land. What we found is that the company considers its recent problems to be due in the main to temporary structural changes in the design and uses of mainframes. IBM is scheduled to introduce new products in the area soon, and this creates uncertainty and delay in the purchase of BMC's supporting software.

After a little cat and mouse, we found that an earnings estimate for the next 12 months of \$1.50 per share is not unreasonable. Combining this with the minimal price-earnings ratio of 20 that BMC has sold at in each of its last ten years, the targeted minimum price of 30 is quite consistent with the kind of 50% per year return that 'The Shakespeare' has been able to achieve during the past 35 years. At its

average 10-year P/E of 40, the 200% appreciation would be a home run, even for Shakespeare.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.07	Up 6	-5.5	1.7
S&P 500	1.01	Up 6	0.7	1
Nasdaq	1.16	Up 3	-5.1	-3
Europe STOXX-50	1.05	Up 2	3.3	-1.3
Dollar/euro	0.8	Down 1	-9.8	-2.9
Nikkei	0.81	Up 2	-15.5	-3.3
Dollar/yen	1.21	Up 2	6.4	0.3
Gold	0.7	Up 1	-5	-2
Oil	1.37	Down 1	36.5	3.2
Bond Futures	1.21	Down 1	10	0.9
2-Yr Note Futures	0.97	Down 1	0.3	0.3
Bund Futures	1.13	Up 1	3.1	0.6

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Live From Bluefish Stadium: Stock Talk!

By Laurel Kenner and Victor Niederhoffer

Columnists

08/07/2000 09:21 AM

Moderator: Welcome, ladies and gentlemen, to the 340th consecutive weekly broadcast of *Stock Talk!* with Laurel and Vic. Today, we're in Bluefish Stadium in downtown Bridgeport, Connecticut, home of Minor League Baseball's Atlantic division champions.

Like the stock market, the Bluefish spent the first half of the season in the cellar. And coincidentally, similar to stocks, they've just come off a seven-game winning streak. Vic and Laurel, knowing your reputation for finding connections between the market and every aspect of life, what have you learned from watching the game today?

Vic: Everything's nicer when you win. The grass is greener, the sweat smells better, the beer tastes like champagne, the people in the ballpark are cheerful, owners are all smiles as they greet the sellout crowd of 5,000.

Most important is the capacity of the market and the incentives of profit to create a better life. The Bluefish started from scratch just four years ago. Bridgeport was bankrupt then, so poor that it had to cancel its July Fourth fireworks show. The stadium was built on the site of an abandoned factory. Today, there are games six days a week at the stadium. Families are spending time with their kids. One million tickets have been sold. And fireworks are set off at the end of a dozen games a season.

Behind the scenes, professional baseball teams know that there is one pitiless captain that they must please to stay in business: the consumer. You and me. And they do that in spades here in Bridgeport. There's a beautiful direct relation between the customer and the business here that isn't masked by levels of middlemen such as television and radio.

Two hundred eight-year-olds are picked from the audience to run out on the field to sing "Take Me Out to the Ball Game" for the seventh-inning stretch. Near right field, with a great view of the game, is a playground with air jumping and a dozen other modern fairground games. An air gun shoots Bluefish T-shirts out into the stands, causing frenzied screams of joy from the children. And of course, there's Big Bird shaking hands with the umpires, and sumo wrestler clowns, and three-legged racing between each inning.

No wonder these Minor League games sell out almost every game, and no wonder the value of their franchise is going through the roof. The most important lesson of all to be drawn from a Minor League game is that the only way business can profit is by providing a product that consumers find beneficial above and beyond the fray.

What the Bluefish are doing for their customers out here is being repeated thousands of times across the nation each day, often manifesting itself in one of the IPOs that old-hearted men are so ready to denigrate. T.S. Eliot could have been speaking for the Alan Abelsons and Doc Greenspans of the world when he said, "We can assert with some confidence that our own period is one of decline; that the standards of culture are lower than they were 50 years ago; and that the evidence of this decline is

visible in every department of human activity."

There's really no difference between the cultural pessimists who hate Broadway musicals and the pundits who think anything with a P/E above 10 is too high-priced. The Shiller in our field, who mistakenly touted the Fed chair on the concept of "irrational exuberance," has his parallel with the Schiller in cultural analysis, who believed that modern technology and media corrupt our culture.

A signal event of our age came when Michael Milken treated 100 poor kids to a baseball game shortly before his incarceration to universal media scorn and derision. As we watched the average Janes and Joes enjoying the Bluefish game, I had a surge of appreciation for why there is so much flak thrown at those who use the Internet and wireless communications and those who seek to prolong their life and happiness through biotech.

Laurel: On a more humdrum level, the market, like the Bluefish, had a very strong week leading up to the employment number: up five days in a row for the S&P and Dow, up 3% for the Nasdaq and S&P for the week, up 2% for the Dow to a two-week high. Regrettably, a letdown usually takes place. Some four in five times, the market is down a week later after a strong employment week.

The same way the Bluefish let down a bit today, losing 7-6, I wouldn't be surprised to see the bears gain in the standings in the near future.

But the most important thing I've learned today is that the level of expertise in baseball analysis is infinitely superior to what we witness in the market. As I left the stadium today, I received an updated record for each player of 35 different aspects of his 15-year performance, ranging from at-bats to three-base hits.

These statistics have been kept for 15 years for all Major and Minor League baseball players. If only stock market analysts and forecasters were rated on predictions in a similarly rigorous way, it might improve the game of stock market investing.

Question: Did you learn anything that show us which stocks we should buy right now?

Laurel: Talking to two of the Bluefish owners, Ken Paul and Mickey Herbert, I found out that even though attendance was great during the first three years of business, they still lost money, and this is the first year they'll turn a profit. It brought to mind the consumer-oriented Internet stocks that suffered big declines this year as analysts worried about P/E ratios.

Here's a scorecard showing the Y2K performance of the some of the biggest consumer-oriented members of the Merrill Lynch Internet HOLDRs ([HHH]: Amex). We'll call them the Net 7.

EBay ([EBAY]: Nasdaq): -19%
 Lycos ([LCOS]: Nasdaq): -26%
 America Online ([AOL]: NYSE): -31%
 Yahoo! ([YHOO]: Nasdaq): -38%
 Go2net ([GNET]: Nasdaq): -39%
 Priceline.com ([PCLN]: Nasdaq): -49%
 Amazon.com ([AMZN]: Nasdaq): -57%

Nobody ever accused Internet entrepreneurs of being dumb, so we're betting that some of the

companies in this group also will learn to make good money. (Ebay, Lycos, AOL and Yahoo! are turning a profit.) And with their prices down 20% to 70% year-to-date, even after the Nasdaq has made up a lot of lost ground, some of the names on the above list may well be good buys now.

Moderator: Thank you, Laurel and Vic. Join us next week for another broadcast of *Stock Talk!*

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.05	Up 5	-6.3	0.3
S&P 500	1	Up 5	-0.4	-1.2
Nasdaq	1.14	Up 2	-6.9	-7.5
Europe STOXX-50	1.04	Up 1	2.7	-1.5
Dollar/euro	0.81	Up 1	-9.7	-3.1
Nikkei	0.8	Down 2	-17.3	-6.8
Dollar/yen	1.19	Up 1	6	-0.3
Gold	0.69	Down 2	-5	-2.4
Oil	1.39	Up 4	41.5	4.9
Bond Futures	1.23	Up 4	10.4	1
2-Yr Note Futures	0.99	Up 4	0.3	0.3
Bund Futures	1.11	Down 3	3	0.5

Laurel Kenner is a financial writer in New York City. Formerly head of US stock market coverage at Bloomberg News, she previously reported on police, politics and aerospace during her 17-year news career.

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CMGI (CMGI)	SE	-31
Copper Mtn (CMTN)	JZ	-9.9
Echelon (ELON)	T	-8.9
Energy Conv. (ENER)	RB	15
Imaging Diagnostics (IMDS)	MO	-0.6
Incyte (INCY)	DJQ	11
Manhattan Scientifics (MHTX)	CL	-45
MP3 (MPPP)	LA	-25
MRV Comm. (MRVC)	TVO	127
Rambus (RMBS)	JD	67
Robotic Vision (ROBV)	GC	-17
Tibco (TIBX)	NL	70
Tularik (TLRK)	LA	30
Vari-L (VARL)	PS	N/A
Mphase Tech (XDSL)	TVO	0.9
RP 3 INDEX		16
% Chg Nasdaq 100		12

*Priced as of 5/10; competition ends 11/9

Readers Picks 4		
Company	Reader	% CHG from 5/23
Cabletron Systems (CS)	DG	25
FiServe (FISV)	JT	39
Franco-Nevada Mining (CC:FN)	LF	-17
JDS Uniphase (JDSU)	JT	47
Sawtek (SAWS)	AMD	-11
S1 Corp (SONE)	DM	-48
Xcelera.com (XLA)	CP	-54
RP 3 INDEX		7.5
% Chg Nasdaq 100		20

*Priced as of 5/23; competition ends 11/22



Speculators' Readers Picks

By Laurel Kenner and Victor Niederhoffer

Columnists

08/07/2000 12:18 PM

Readers Picks 1		
Company	Reader	% CHG from 5/8
Auspex (ASPX)	PL	-0.2
BHH (BHH)	DW	6.9
Bookham(BKHM)	JB	0.8
Caliper (CALP)	MMM	4.0
Celera (CRA)	LA, MPG	1.8
Cree (CREE)	PC	-30
Foundry (FDRY)	HB	-1.8
Globalstar (GSTRF)	SH	-2.7
Hyseq (HYSQ)	RA	5.1
InfoSpace (INSP)	RWE	-27
Ligand (LGND)	BS	-2.6
Millennium Pharm. (MLNM)	RL, RB	36
Protein Design Labs (PDLI)	JH	30
Playboy (PLA)	TV	-3.8
Qwest (Q)	HL	4.2
Qualcomm (QCOM)	QCOM	-39
Rambus (RMBS)	JRV	23
Terayon (TERN)	BP	-6.4
Tibco (TIBX)	JBD	27
Tokheim (TOK)	FL	-1.9
Vontobel E. Eur. Fund (VEEEX)	JG	-0.7
Heating Oil	HC	12
Euro	OM	0.1
RP 1 INDEX		3.0
% Chg Nasdaq 100		2.8

*Priced as of 5/8; competition ends 11/7

Readers Picks 2		
Company	Reader	% CHG from 5/9
Aether (AETH)	RM, L	14
Commerce One (CMRC)	TA	-3.1
Electric Fuel (EFCX)	ST	1.5
Imclone (IMCL)	GES	-22
Ind. Investor (INDI)	SLW	-54
Invision (INVN)	MG	-23
Ill. Superconductor (ISCO)	BM, ML	-35
Jaco (JACO)	RAW	24
JDS Uniphase (JDSU)	SKI	35
4Kids (KIDE)	MS	-20
Lightpath Tech (LPTHA)	PWP	29
NCT Group (NCTI)	PH	-51
Palm (PALM)	MH	34
Qlogic (QLGC)	RF	22
Sycamore Networks (SCMR)	JF	77
Siebel Systems (SEBL)	SEBL	28
Sony (SNE)	SNE	-13
Silicon Storage Tech (SSTI)	LC	-37
Thermotech (TTRIF)	HKL	-49
RP 2 INDEX		5.0
% Chg Nasdaq 100		2.2

*Priced as of 5/9; competition ends 11/8

Readers Picks 3		
Company	Reader	% CHG from 5/9
Affymetrix (AFFX)	HMF	9.0
Beos (BEOS)	LF	-35
Conductus (CDTS)	GA	18
Constellation 3D (CFMD)	BLM	13



Yesterday's Gains Bring Concerns for Next Week

By Laurel Kenner and Victor Niederhoffer

Columnists

08/04/2000 08:30 AM

"Sweet are the uses of adversity, which like the toad, ugly and venomous, wears yet a precious jewel in his head."

Shakespeare, *As You Like It*

The stock market moved yesterday from a bed of nails to the seventh heaven in 6 1/2 beautiful hours. The Nasdaq set the pace, rising 7% from open to close. The Dow rose for the fourth day in a row in Homeric fashion, ending at its highest level since July 24. The S&P 500 also registered a fourth straight gain, and is now up 2% on the week.

As predicted (those famous self-serving words when the clock stops and the forecaster guesses the right time), the five stocks we recommended yesterday in the eye of the hurricane started out with healthy rises from open to close:

American Power Conversion (|APCC|: Nasdaq): 5.8%

SDL Inc. (|SDLI|: Nasdaq): 6.3%

Amazon.com (|AMZN|: Nasdaq): 6.6%

NTL Inc. (|NTLI|: Nasdaq): 4.4%

RealNetworks (|RNWK|: Nasdaq): 11%

(Note from Laurel: I just distracted Vic by telling him that a beautiful trout almondine awaited him downstairs for breakfast and that he should eat it to gain nourishment for the busy day ahead. So now I can report that his least favorite Asian Tiger showed a spectacular rise this week: Thailand has gained three days in a row, and is 10% higher than last week's close. Indonesia also has risen for three straight days.)

The ecology of the market is beautiful. The 10-year note, the 30-year bond, they're all below 6%, close to yearly lows. And employment day is here, the one day that has accounted for the entire gain of the market during the past three years. At times like this in the heart of the baseball season, the thought emerges that "The Ruth is mighty and shall prevail." The market is mighty.

And yet, regrettably we are not content. Everyone and his uncle must have been looking for a bullish employment report today. That seems highly unhealthy. Too much complacency has been built into the market from those who profit by buying substantial down opens like yesterday's gut-wrencher. Next time around, they'll be patsies for a serious decline.

While we are confident as always that the market will be substantially higher for all reasonable long-term holding periods, we have an unpleasant uneasiness about next week.

Tom Wiswell's proverb, "We can play today's draws and anticipate tomorrow's wins, but we shouldn't forget yesterday's losses," gave us nightmares last night.

Even worse than that, however, is our distress at the utter failure of any other commentator to comment upon the loathsome backdrop of the Fed chair's admission that four years ago he was targeting stock prices. But now he has changed his mind.

Suddenly, it becomes crystal clear why he concocted all those cockamamie theories about how analysts' earnings estimates, high P/Es and anticipatory buying by investors with unrealized gains would create imbalances in the economy. All of that laid a foundation for him to announce that the stock market was the culprit, thereby justifying those terrible destructive, "irrational exuberance" emanations from the Abelson, Biggs, Buffett, Shiller and Tice boys, and all other old-hearted men.

We are only partially mollified by the news that Doc Greenspan's wealth, which is entirely in T-bills, the money market and "assorted retirement accounts," grew to between \$3.4 million and \$7 million this year from between \$2.5 million and \$6.4 million last year.

We called the chair up yesterday to give him one last chance to explain and/or expiate. One of his assistants called us back to ask that we send a written request for an interview. Even our offer of a tennis match, usually a highly successful gambit, didn't do the trick.

This morning, one of our far-flung correspondents informed us that the bright college kids who work as researchers at the Fed are warned when they start the job that if they happen on Greenspan in the hall never to speak to him.

Now we understand what the problem was. When we call the chair in the future, we'll do as Huck Finn did for the Duke: Call him "Your Excellency," bring him meals, and never, never set in his presence, particularly in the Fed hallways.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.04	Up 4	-6.9	-1.3
S&P 500	0.99	Up 4	-1.1	-2.9
Nasdaq	1.13	Up 1	-7.6	-10.2
Europe STOXX-50	1.03	Down 1	1.8	-4.4
Dollar/euro	0.8	Down 3	-9.9	-2.9
Nikkei	0.81	Down 1	-16.5	-5.9
Dollar/yen	1.18	Down 4	5.7	0.6
Gold	0.7	Down 1	-4.9	-2.3
Oil	1.38	Up 3	35.3	-3.7
Bond Futures	1.21	Up 3	10	0.9
2-Yr Note Futures	0.97	Up 3	0.2	0.2
Bund Futures	1.13	Down 2	3	0.6

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The Market Plays a Tough Game Before Employment Friday

By Laurel Kenner and Victor Niederhoffer

Columnists

08/03/2000 08:48 AM

The holy grail does not exist, but you can certainly go broke looking for it.
John Lamberg, A *Daily Speculations* reader.

As if following a script, yesterday the market managed to maximize the opportunity for traders to do the wrong thing. To those with the strength merely to look at the net change from close to close, yesterday seemed a rather peaceful one: The S&P 500 closed unchanged, the Dow rose less than 1% and the Nasdaq fell less than 1%.

Yet within the day, the gyrations were such that anyone with the slightest degree of weakness would have been forced to capitulate. The Nasdaq dropped 4% from high to low during an afternoon guaranteed to get all the troglodytic flee-the-tyrannosaurus responses within the body working at full power.

As we write, the market is set to suffer a serious decline at the open and this is a gambit that the market mistress pulls out two or three times a year on the Thursday before employment. It's interesting to note that on 90% of the occasions that she's used the trick during the last six years, the bulls were the clear winners by Friday's close.

Vic's ??? Day

Expert commentaries on board games often have a series of punctuation marks to indicate the commentator's evaluation of a move. The mark "!" indicates a good move, the mark "?" a dubious one. A series of "???" would have been appropriate for Vic's trading yesterday. He managed to lose in the same market on four separate trades.

He started out short, and covered at the high. Next he bought on the way down and covered at a loss 0.5% below. Finally, he sold on the way back up before a relatively strong close. The annotation at the end of his trading should have read, "One of the worst performances ever witnessed in an important tournament."

Lest these trades go to waste, the reader should carve the following proverb in stone: "Never trade the same stock or market from two different sides during a day." At least in that way, you can lose only one limit during the day in a futures market, or a mere 100% of your equity long individual issues.

At Least Death is Prompt

At times like these, which are almost guaranteed to happen before an employment Friday, we always go back to the master of survival theory, Charles Darwin, for equilibrium and sustenance. Observing the struggle among species along a tangled river bank, Darwin wrote: "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."

Professional money managers are falling all over themselves to proclaim that rallies have been fizzling,
http://www.worldlyinvestor.com/print.cfm?article_id=10505

08/07/2000

and that they are not long the market. Quite frankly, they're "sitting on their hands before the employment report."

Perhaps they'll be right this time. However, we will note that employment Friday has been by far the most bullish day of the month for stocks over the last three years. In fact, "sitting out" each one would have caused you not only to miss the entire gain of the S&P 500, but to lose money. The only problem with this descriptive statistic is that it has been so accurate, so profitable, that every Tom, Dick and Harry in the world already has it on his radar screen.

With such small vagaries leading up to the number this week sufficient to create a stampede for the exits, no wonder mutual funds consistently perform worse than simple dart-throwing or a buy-and-hold strategy.

The shorts are in ascendancy as of the open today. But we believe that short selling is guaranteed to lead to an early demise, at least for us. We therefore turn to a technique recommended by one of our very able and successful savants:

"As you emphasize, shorting goes against the long-term trend. It only makes sense if you are going to really study particular companies. There are so many companies around these days that have market caps of \$1 billion (or \$500 million or \$2 billion) that are based on products or business models that are either outright exaggerations, or have little chance of justifying such value.

"An example would be a biotech company with \$1 billion market cap whose lead product is in Phase I or early Phase II (three to five years to market, and statistically only a 1-in-5 chance of getting to market). Then, even if it overcomes these odds, the company still has to build up a sales force to market the product, or license the product to someone who may not be so dedicated to the product compared to its own. And on top of all this, in those three to five years there will be other developments for the same disease that may be a lot better. So if you are going to short, you should really get to know a company or product area, and pick out a company selling at \$100 a share that is going to decline to \$5 a share if things don't work out pretty perfectly for it."

We are still partial to the long side, and offer a technique of our own. In the midst of last week's carnage, the worst five performers were American Power Conversion ([APCC]: Nasdaq), SDL Inc. ([SDLI]: Nasdaq), Amazon.com ([AMZN]: Nasdaq), NTL ([NTLI]: Nasdaq) and RealNetworks ([RNWK]: Nasdaq). Our studies indicate that these are good candidates for superior performance over the next month. And in a coming column, we will put our statistics on the table and report how winners and losers during declines perform thereafter.

Closing Notes During the course of a 20-year stay in New York, Vic received checker lessons from two grand masters, Tom Wiswell and Jules Leopold. Their book, "The Wonderful World of Checkers and Draughts," is considered by many to be the best book on checkers ever written. After 64 years of married life and 70 years together, Jules' wife, Mina, passed away in June. In her honor, we report a proverb from "Secrets" that is particularly applicable today to board games and markets: "Take care of the draws and the wins will take care of themselves."

On the subject of bad news, the mother of Edwin Marks, the Shakespeare of investments, passed away yesterday at the age of 100. Ed will be out of the market for a few days. But as he left to attend to the details of the funeral, he revealed to us that he doesn't see many buying opportunities around, except for Science Dynamics ([SIDY]: Nasdaq) – but this is a two-year play.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.03	Up 3	-7	-0.1
S&P 500	0.97	Up 3	-2.1	-2.9
Nasdaq	1.11	Down 2	-10.1	-9.8
Europe STOXX-50	1.04	Up 1	2.9	-3
Dollar/euro	0.81	Down 2	-9.2	-1.2
Nikkei	0.82	Up 2	-14.4	-4.6
Dollar/yen	1.2	Down 3	6.3	0.7
Gold	0.7	Up 2	-3.6	-0.6
Oil	1.36	Up 2	33.4	-6.9
Bond Futures	1.2	Up 2	9.7	2.2
2-Yr Note Futures	0.96	Up 2	0.2	0.4
Bund Futures	1.15	Down 1	3.1	1.1

Laurel Kenner is a financial writer in New York City. Formerly head of US stock market coverage at Bloomberg News, she previously reported on police, politics and aerospace during her 17-year news career.

*Victor Niederhoffer is a private speculator specializing in futures and options trading. His positions often change during the day based on shifting market expectations and volatilities. He is the author of the best-selling *The Education of a Speculator*.*

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Don't Bet Against the Market or Pfizer, Speculators Advise

By Laurel Kenner and Victor Niederhoffer
 Columnists

08/02/2000 9:22 AM

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Dow Jones Industrial

Any time you think you have the game conquered, the game will turn around and punch you right in the nose.

Mike Schmidt, quoted in *Baseball's Greatest Quotations*

Data delayed by 20

The darkest hour is just before dawn. As is so often the case in markets, last week's disastrous decline has been succeeded in the first two days of this week by some solid gains. Each of the major averages has managed a rise of about 1% to date.

Of course, the recovery has not been bright enough to clear away the shadows. That's the job of the employment announcement in three days. And the mistress of markets would not be happy unless a grave residue of negatives remained before that traditionally rosy day.

When the market sinks in the heart of baseball season, as has been its wont during the last three summers, we always turn to the wisdom of the baseball players for sustenance, especially Lou Gehrig's description of what it's like not to be hitting the ball:

"You ask everybody on the ball club, 'What am I doing up there that I shouldn't do?' One fellow tells you this...another tells you that...somebody else tells you something else. You've changed your stance. Your feet are too close together...or too far apart. You're swinging too soon...or too late. You take all the advice you hear...and what happens? You're lucky you don't get hit in the head." (From *Baseball's Greatest Quotations*.)

Get Shorty

During the eye of the stormy decline, we received an e-mail from Dr. N., a former mathematics professor who has been so successful with his shorting of the market in recent years, often racking up gains of 50% or more, that he could not resist telling us that it's a jungle out there, with many stocks overvalued, analysts often hyping stocks their firms are trying to unload, and the overvaluation of Pfizer (PFE: NYSE) relative to Merck (MRK: NYSE) just unconscionable.

On any questions relating to drugs, we always turn to Dan Grossman, entrepreneur, attorney, pioneer in the establishment of several major drug companies including the former market star Syntex (now part of Roche), marketing consultant, tamer of tigers and most of important of all as far as we're concerned, Vic's sole source for 25 years of all current information not reported in the National Enquirer. Here is Dan's take on Pfizer:

"Yes, Pfizer does sell at a P/E twice that of Merck, but for good reasons. Pfizer has two of the most successful drugs in history: Lipitor (to lower cholesterol) and Celebrex (for arthritis). Each is a sure five-bagger in a world where only a handful of drugs can hit \$1 billion.

"Pfizer has little in the way of patent expirations, and management is projecting 25% a year growth for the next couple of years. Presumably they are not devoid of confidence to make a projection of this nature.

"Merck's situation is quite different. Some of its largest-selling drugs are facing patent expirations. True, they have Vioxx, but whether this can overcome the loss of sales of Zocor is an open question. That's what makes the stock market game.

"More generally, both companies, as you know is so often the case over the last 200 years in the West, are up a good 500% during the last several years. During this time, both companies sold at multiples higher than the market. It certainly would not have been a good strategy to be short these stocks for extended periods during this time. Any profits that a short made would be a variant of skimming off a little of the excess when a stock runs a little. If the doctor is able to

works for him, more power to him. But it would seem to be an individual technique similar to what floor traders or people who go against strength might use, rather than a robust strategy repeatable by others."

Pencil and Paper

There's nothing more to be said, except that on occasions when Dan directs us, and on all other occasions, we find it helpful to take out the pencil and counter. This time, we looked at the relative performance of the four major drug companies: Pfizer, Merck, Johnson & Johnson (JNJ: NYSE) and Pharmacia (PHA: NYSE). We calculated the monthly percentage change of each stock for the past six months, and then we asked, is there any tendency for the winners in each month to go down and the losers to go up?

The answer didn't show much support for a strategy like Dr. N.'s that is based on "regression to the mean." The best performer of the four stocks in each of three consecutive months – April, May and June – was Johnson & Johnson, and the worst performer in each of those three months was Pharmacia. In the month after a stock was the worst performer, it returned 7% in the following month, on average. In the month after a stock was the best performer, it returned 6%.

There's nothing more to be said – except to note the grotesque servility with which the politicians and public have greeted the disclosure that Doc Greenspan raised interest rates to drive down stock prices in 1994 and 1995 before "changing his mind" about the propriety of doing so.

During all that time, he trotted out one new economic indicator after another in his speeches and congressional testimony, thereby diffusing attention from what the actual game plan was. And what was the reaction to the disclosure of this deception? Universal adulation. Except for the bearish financial weekly, which gleefully noted that if the chairman was bearish at Dow 4,000, imagine what he's feeling now at 10,500.

Our readers will recall that Larry Ritter, one of the doctor's thesis advisers, has promised to give us the skinny on the chairman's Ph.D. dissertation if we reported 101 different relations between baseball and the markets. Originally, we thought it might be difficult to do all 101, but our

Herculean, in the face of the disclosure of Greenspan's stock market targeting. Remember that Ross Perot climbed back on the horse after losing his mount once; so can we.

So here is No. 3: As Roger Angell said in *The Long Season*, "The lethargy and dull despair that accompany a losing streak can't be dismissed completely except by winning."

Beware of shorts when drugs are high, stocks are rallying from a decline, or the chair of the Fed is complaining about "irrational exuberance."

98 to go.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.01	Up 2	-7.7	-1.2
S&P 500	0.96	Up 2	-2	-3.7
Nasdaq	1.13	Down 1	-9.4	-11.8
Europe STOXX-50	1.03	Down 1	2.6	-3.1
Dollar/euro	0.82	Down 1	-9.1	-1.1
Nikkei	0.81	Up 1	-15	-5
Dollar/yen	1.21	Down 2	6.7	1.1
Gold	0.69	Up 1	-3.7	-1.9
Oil	1.34	Up 1	31.2	-9.3
Bond Futures	1.18	Up 1	9.6	2.1
2-Yr Note Futures	0.95	Up 1	0.1	0.3
Bund Futures	1.16	Up 2	3.2	1.2

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September 1, 2000

Thru

Sept. 29, 2000



Old-Hearted Men Can't Run With the Bulls

By Laurel Kenner and Victor Niederhoffer

Columnists

09/01/2000 09:01 AM

"He wears the rose of youth upon him."

Shakespeare, *Antony and Cleopatra III*, xi, 20.

In a triumphant end to the most bullish August in history, the Nasdaq closed near its high for the session, rising 2.5% for the day and 12% for the month. What a difference from Aug. 31, 1998, when it fell 9%, closing down 20% for the month. As we write, futures are pointing to a further 3% gain at the open.

The Dow and S&P 500 each gained 6% for the month. But for the second occasion this week, the S&P futures soared intraday above the highest close since mid-April only to fall with revulsion to 1421, up only 1% on the day, as fearful old-hearted men elected to bide their time in the last hours of the day.

Regardless of the performance of the market today on the employment number -- generally the most bullish day of the entire month for stocks and showing no signs of breaking the mold today -- the market's ecology improved substantially yesterday. Bonds closing just three ticks below their high for the month, firmly above the round number of 100.

Furthermore, we are now approaching the most bullish calendar period of all, the beginning of the month, when any dart thrower can realize substantially above-average profits for all holdings for periods up to five days.

Marks to Market

As usual, there is only one group that could find fault with this performance -- yes, the old-hearted, envious men, the ones who desire a world of stasis. As an antidote to old-heartedness and wrong-heartedness, yesterday morning we provided some money-making ideas from Ed Marks, the Shakespeare of Markets.

As is typical for Ed, those three stocks gained an average of 4.5% yesterday. At an annual rate, that is not considerably lower than the 30% to 35% a year that Shakespeare has described as his average over the past several decades. About a month ago, we reported that Ed was accumulating BMC Software (|BMCS|: Nasdaq), and it has risen 43% since.

However, our readers, like us, are doubtless much more interested in the principles behind Ed's success, so they can draw from it a meal for a lifetime rather than merely the gains his stocks yielded yesterday. Vic's experience has taught him that people must be happy and stable to succeed in life and the market, and so we asked Ed how he stays young-hearted.

Ed often takes prospective associates out fishing to observe them at ease, and since he is quite a stickler for exact quotes, and inasmuch as we might someday find ourselves on the boat, and bearing in mind that he is a boxer, we will quote him in full as to the wellsprings of his success:

"First of all, I am married to the love of my life, and that's a must for staying alive and interesting. I speed read for business (subscribe to about 40 publications) and read slowly for pleasure, mainly history of all sorts. Just finishing three books: Richard Feynman's *"The Pleasure of Finding Things Out"*; *"Millionaire,"* by Janet Keelson (about John Law's life as a rogue); and *"Citizen Soldiers"* by

Stephen Ambrose. I generally read four or five books at a time, and pick out the one that matches my mood.

"I keep busy, not only running the firm, but I know each and every employee and know their pluses and minuses as well as most family backgrounds. They are loyal beyond measure, and come to me with all sorts of problems (like hitting fungos), mostly medical, which I can generally help by steering them in the right direction. My functions at Cold Springs Harbor Lab and Lincoln Center as well as North Shore Hospital research keeps me on the cutting edge of medicine and clinical research, which I find fascinating.

"I love humor (sometimes off-color, but not in bad taste). We have majority holdings in over 100 companies that hatch like eggs in an incubator. I know everything that is happening of note within the organization, and still rely on my West Point education in keeping aware of processes and progress. I am an encyclopedia of trivia, which I find fascinating. I have few friends, but the ones I have are good ones, and we share our lives and troubles with them.

"I solve problems obliquely, not directly, slicing through layers so that more information is available. I run a lot of money with the help of one assistant. I don't know directly why, but I act automatically, having thought about things to do subconsciously, and swiftly do what has to be done. I cannot describe it any differently.

"I am a movie buff (oldies), love good cars (I have a Benz 500S and an Audi A8L as well as a Porsche twin Turbo Coupe. I drive each according to my mood. I am an avid reader, and also am active on the Internet with friends and classmates. I appreciate and love art (collect master drawings) and the performing arts. I have been on university boards because I like to work with youngsters. My three daughters -- all different -- are really terrific and I have an excellent relationship with them. We really love each other!

"I love plants (raised orchids) love fishing (toss 'em back), good conversation (not one-sided -- give and take). I don't make friends easily, am a loner a good deal of the time. I like myself enough not to get bored when I am alone. I love to travel, especially with Nancy and the kids, to get out of a rut. I collect great wines, I am a walking medical miracle, and enjoy my life with my wife, without whom I do not know what I would do. This is written helter skelter, but true."

Making Picnics From Panics

We reported yesterday that Ed is happiest in panics, but doesn't fully represent his feeling. As he wrote us, "I actually feel badly for folks during a panic, but I generally take advantage of the market's abnormal swings." We add that, best of all is for people not to get in over their heads to start with, and to maintain enough reserves so they can buy after panics like Ed, rather than succumbing to them.

We asked the Daily Speculations market psychologist, Brett Steenbarger, for elaboration on Ed's remarks and successful personalities in general, and he observed that research suggests that young-hearted people tend to have three traits.

They're not neurotic -- they don't tend to view situations negatively. ("Give a neurotic person a trading system and he'll worry about the tax liabilities.") They are extraverts; they enjoy social company, and when problems come up, they're likely to look at situations and external factors rather than automatically blame themselves. And they're open to experience; they seek stimulation and novelty and avoid routine.

We recently programmed a computer to generate bearish forecasts at random from a selection of Barron's columnist Alan Abelson's pronouncements over the past five years. As a counterbalance, we have developed a patented self-referential, self-congratulatory program that notes our own past forecasts. Today, our generator shows that IBM (|IBM|: NYSE) has gained 9% since Aug. 22, when

we reported on its prospects for benefiting from Linux software, while VA Linux (|LNEX|: Nasdaq) is up 52%. Happy Labor Day.

Postscript: There has been an overwhelming response to our invitation to Laurel and Vic's musical speculative revue in Connecticut. We have had to invest in advanced audio amplification systems so that the multitudes in the far reaches of Vic's living room can hear clearly. Therefore, we will be holding this week's edition of Stock Talk! at the performance, and are postponing the New York Botanical Gardens expedition until Saturday, Sept. 9.

Speculator's Scorecard				
	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.14	Up 1	-2.5	1.4
S&P 500	1.01	Up 1	3.3	1.4
Nasdaq	1.25	Up 4	3.4	6.7
Europe STOXX-50	1.13	Up 1	5.8	0.9
Dollar/euro	0.84	Up 2	-11	-3.1
Nikkei	0.86	Down 3	-11	4.3
Dollar/yen	1.15	Up 2	3.7	-1.7
Gold	0.71	Up 2	-3.5	0.07
Oil	1.43	Down 1	59	5.7
Bond Futures	1.24	Up 2	10.4	0.7
2-Yr Note Futures	1.01	Up 2	0.4	0.3
Bund Futures	1.14	Up 2	2.3	-0.5

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Live From the Annual Speculators' Society Meeting: Stock Talk!

By Laurel Kenner and Victor Niederhoffer

Columnists

09/05/2000 08:49 AM

Moderator: Welcome, ladies and gentlemen, to the 342nd edition of Stock Talk! with Laurel and Vic. We have a capacity crowd of people from all over the country here today at the annual meeting of the Speculators' Society in Weston, Connecticut.

By the order of the fire department, we were forced to limit television coverage to just one network, and CNBC won the lottery. Those who couldn't attend might wish to view a broadcast précis of the proceedings tonight on Ron Insana's 6:30 p.m. show, "Business Center."

The mood at the meeting was one of rational exuberance in celebration of the Nasdaq's seven-week high and bonds' one-year high. Unfortunately, Carol Potts, retired stained-glass picture frame maker and stock picker extraordinaire, could not fully share in the general levity. Ms. Potts had shrugged off five years of bearish guidance from a certain eloquent columnist at a leading weekly financial news publication to parlay a medium five figures into medium sixes.

Three weeks ago, however, she sold JDS Uniphase (|JDSU|: Nasdaq), Cisco Systems (|CSCO|: Nasdaq) and some EMC (|EMC|: NYSE), missing gains ranging from 5% to 8%. We are pleased to report that Ms. Potts, who flew in by public jet from Santa Barbara, Calif., is only temporarily bearish. Having seen a 17-bagger shrivel into a mere three-bagger this spring, she wanted to take some profits, and hopes to buy back her stocks at a lower price.

Another stern countenance in the audience belonged to hedge fund manager David Ciocca, who sees a decline in the next two months because of seasonal factors and investors' complacency. However, late-breaking news issued by infrared from the Daily Speculations computers indicates that after Monday holidays since 1994, the market was lower six days later on only eight of 26 occasions, with no declines of any significance.

Let's take some questions. We'll start with Laurel.

Laurel: We have with us the inspiring former park-bench person Frank Linet, who in the spirit of hard work appropriate to Labor Day parlayed \$100 into more than \$1 million in less than 2 1/2 years. Frank, what's your current thinking on the market?

Frank: I have one word, Laurel: BIOTECH. We're at a phase now where we're going to have a lot of mergers and consolidation. The big pharma pipelines have dried up, and they've got to move into the 21st century. The Lillys (|LLY|: NYSE) and Pfizers (|PFE|: NYSE) are going to court against generic drug companies, trying to win patent extensions. My picks right now are Axys Pharmaceuticals (|AXPH|: Nasdaq), StemCells (|STEM|: Nasdaq), Targeted Genetics (|TGEN|: Nasdaq) and Genelabs (|GNLB|: Nasdaq).

Vic: Thanks, Frank. Speaking of biotech, I'd like to note that we usually have our random Alan Abelson stock market pronouncement generator on for our readers' entertainment. Regrettably, the generator's circuits were overwhelmed this weekend by an unusually strong emanation of sarcasm, so we are compelled to use a selection from the current column.

http://www.worldlyinvestor.com/print.cfm?article_id=11287

09/05/2000

We regard trading as serious business and approach it with as much level-headedness as we can. But we confess to being taken in by the headline on the cover page of the current issue of Barron's, to wit: "Alan Abelson: Biotech Research: Big Plus for Stocks." At first we thought the columnist had undergone a change of heart about the market and was writing about innovative companies with stocks that might actually gain.

On examination, though, we discovered that he was suggesting that animal implants be used to make pigs of the sensible folk who salt away cash in money-market accounts (currently earning 6.07% in annual interest) so that they greedily go buy stocks.

We are somewhat embarrassed over being so easily hoodwinked, and are able to console ourselves only by recalling Mr. Abelson's unequalled value as an indicator, and by contemplating the likely consequences should he ever truly turn bullish. (We note that Mr. Abelson is touting Brunswick ([BC]: NYSE), a bowling-ball maker which happens also to be one of the favorites of our young-hearted cane purveyor, the 80-something Stanley Novak. Brunswick is down 50% from its price three years ago.)

Omid Malekan is with us today; he learned his first lessons in trading from his father, who sold carpets from the back of his car for 200% profits after the Iranian revolution abruptly brought an end to his lucrative employment with a Western company. Omid, your question?

Omid: On the way here, I made good time until an accident brought traffic to a halt. I was driving in the fast lane, and it was the first one to stop. It occurred to me that a similar thing happens when the stock market slows; the first stocks to get hit are the fast ones that drive in the Nasdaq. I've started to use the left lane as an indicator for both routing trips and trading stocks. With the Nasdaq at a seven-week high and bullish sentiment still diffusing through the sector, traffic is moving along nicely, and I'm bullish. How does this gibe with the bearish pattern for the Jewish High Holidays that you spoke of last week?

Vic: As Paco Underhill noted in his model of market research, "Why We Buy," the average guy and doll tend to prefer the right-hand side. That's also where the old-hearted men choose to go for their value stocks, the ones that have underperformed the Nasdaq by some 750% in the last 10 years. With interest rates at a one-year low, and the incumbents falling over each other to reduce their 5% chances of being voted out of office, the market ecology is great. Any small dips should be bought.

Speaking of Guys and Dolls, my daughters Artie and Kira and their friend Amanda will now perform a rendition of a song written in honor of my Grandpa Martin, who lost his stock market fortune in the 1929 crash. Grandpa continued to invest in later years, but his favorites were the stocks he knew back in the good old days, which were selling for what seemed to him unbelievably low prices.

Unfortunately, his stocks stayed cheap — a phenomenon all too true of many of today's "value stocks." We wrote the lyrics to lament Grandpa Martin and to signify our hearty approval of the current theocratic fashion to invoke God in all things temporal. Girls, take it away.

LORD HELP THE MARKET TODAY

By Laurel Kenner, Victor Niederhoffer and Frank Linet

(To the tune of "Luck Be a Lady," from "Guys and Dolls," original music and lyrics by Frank Loesser)

*Lord help the market today
I've got some long ones in play
I've got Western Union, and I've
Got some Allis-Chalmers*

I'm fallin' on my knees now to pray

*How cheap those value stocks look
They're trading way below book
10 cents on the dollar, and it
Makes me want to holler
How cheap those value stocks look*

*You can't go wrong with Western Union
It's underpriced after the Crash
You never have to worry 'bout business, because
There's no other way to send cash*

*So buy all the Union you can
Then say a prayer for your man
Stick with me baby, I'm a stock you can depend on
Buy all the Union
Buy all the Union
Buy all the Union you can!*

Following the shining example of candidates Al Gore and Joe Lieberman, who could not refrain from making out with their wives in front of the cameras at the Democratic convention, the Speculators' Society meeting ended with Vic delivering a surprise 30-second passionate kiss of appreciation and affection to his telegenic wife for hosting the event.

Speculator's Scorecard				
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Nasdaq	1.27	Up 5	4.1	7.7
Europe STOXX-50	1.14	Up 2	8.6	2.8
Dollar/euro	0.85	Up 1	-10.6	-0.7
Nikkei	0.84	Down 4	-11.9	2.8
Dollar/yen	1.13	Down 1	3.5	-2.2
Gold	0.70	Down 1	-3.9	.04
Oil	1.44	Up 1	60	5.7
Bond Futures	1.26	Up 3	10.6	0.5

2-Yr Note Futures	1.02	Up 3	0.6	0.4
Bund Futures	1.15	Up 3	3.1	0.2

Laurel Kenner is a financial writer in New York City. Formerly head of US stock market coverage at Bloomberg News, she previously reported on police, politics and aerospace during her 17-year news career. Laurel is long Genelabs.

*Victor Niederhoffer is a private speculator specializing in futures and options trading. His positions often change during the day based on shifting market expectations and volatilities. He is the author of the best-selling *The Education of a Speculator*. Vic is long Axys Pharmaceuticals, Targeted Genetics and Genelabs. Positions may change at any time.*

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Old Man Market Rocks Some Boats

By Laurel Kenner and Victor Niederhoffer

Columnists

09/06/2000 08:42 AM

As usual, the market in the days leading up to and immediately after the Friday jobs report created the maximum imbalance for participants, while registering the minimum imbalance to itself.

We cannot refrain from reiterating the favorite proverb of world checker champion Tom Wiswell: "Moves that disturb your position the least disrupt your opponent the most."

To inflict the maximum damage on fearful traders who bided their time before the employment report, the market moved up nicely the day before, and then after enticing them to get fully committed on Friday, promptly took back the entire preceding move, leaving all the bidders of time down behind the eight-ball after their buying panic.

Intel's ([INTC]: Nasdaq) 6% plunge to 69.69 yesterday on news that US Bancorp Piper Jaffrey analyst Ashok Kumar's fears that pricing "could turn malignant" heartened the stasists and primitivists hoping for the bear to catch. Mr. Kumar, a former Intel engineer, is riding a run of successful contrarian forecasts in the technology industry, and is doubtless well-versed in "sequential unit growth" in quantities and prices. However, we note that just when the track record of the horse and jockey look best, that's the time to bet against, according to the principle of ever-changing cycles.

Taking out the pencil and paper, we note that Intel has fallen 5% or more on a single day on six occasions since the beginning of April this year. The average rise one week later: a nice 5%.

Between the analyst and the numbers, we'll go with the numbers.

The erudite Virginia Tech finance professor Mark M. McNabb observes that the rest of the year is likely to offer similar opportunities to the fortunate. "The inevitable reminders of the spring sell-off will create several inexplicable downward spikes that may have to be bought at the end of a day when the tug of war between momentum into year-end and valuation fears takes place in earnest," he writes.

The "old men philosophy" of avoiding growth stocks could surface again, he reckons, given the number of professional and individual investors who were severely crimped by market actions in April and May.

Yesterday's decline in Nasdaq 100 futures to one point below the round number of 4,000 may have been the first leaf to fall as the year-end winds pick up. When we left on vacation July 28, two new index funds began trading on the American Stock Exchange.

Through Friday, the iShares Russell 2000 Value Index Fund ([IWN]: Amex), which seeks to duplicate the performance of small-cap stocks with the lowest price-to-book ratios and lowest forecasted growth, rose 6%. The iShares Russell 3000 Growth Index Fund ([IWZ]: Amex), which measures the performance of stocks with the highest price-to-book ratios and highest forecasted growth, gained 12%. On Wednesday, the growth shares fell 0.8%, while the value shares were unchanged.

We were pleased that CNBC saw fit to recognize the changing nature of market dynamics by televising

a prime example of how talents and know-hows are diffused through the special niches of the average Janes and Joes out in the bushes. We are, of course, referring to our annual Speculators' Society meeting on Sunday, which drew bright minds of diverse scientific disciplines from Florida, North Carolina, Iowa, Virginia and California. We were particularly pleased to meet our youngest member, 11-year-old Devon Malori, face to face.

However, the network decided to hold in abeyance some of our best Songs of Speculation, including our version of the refrain to George and Ira Gershwin's "Biding My Time." We are therefore pleased to present the lyrics here:

I'm bidin' my time
'Cause that's the kind of guy I'm
Jobs report on Friday
That's my buy day
Now's not the time.

Jobs day, jobs day
Somethin's bound to happen
And until then
I'll just keep on nappin' and

Bidin' my time
'Cause that's the kind of guy I'm
There's no regrettin'
When I'm setting'
Biding' my time.

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Nasdaq	1.25	Down 1	1.8	4.8
Europe STOXX-50	1.14	Down 1	8.3	3.1
Dollar/euro	0.83	Down 2	-12	-1.3
Nikkei	0.82	Down 6	-13.1	2.6
Dollar/yen	1.11	Down 3	3.4	-2.6
Gold	0.71	Down 1	-4.3	0.1
Oil	1.46	Up 2	62.4	5.8
Bond Futures	1.27	Up 4	10.7	0.8
2-Yr Note	1.02	(unch)	0.6	0.5

Futures				
Bund Futures	1.13	Down 2	2.9	0.5

Laurel Kenner is a financial writer in New York City. Formerly head of US stock market coverage at Bloomberg News, she previously reported on police, politics and aerospace during her 17-year news career.

*Victor Niederhoffer is a private speculator specializing in futures and options trading. His positions often change during the day based on shifting market expectations and volatilities. He is the author of the best-selling *The Education of a Speculator*.*

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After Market Squall, Speculators Go Fishing

By Laurel Kenner and Victor Niederhoffer

Columnists

09/07/2000 08:45 AM

After a holiday period, the market is prone to go fishing in new waters.

Broadly speaking, after the turn of the millennium, the market decided that growth companies were swimming too fast, and it took a dive. After Memorial Day, the decision was that the best fish swim deep, and a spectacular rally ensued. And after the Fourth of July, the Old Man River of the market decided to teach investors the lesson that it's not wise to skin a fish until caught.

Compared with the Nasdaq's 5.2% drop in the two days since Labor Day, the 1.9% decline in the S&P 500 was relatively mild. In fact, it was a great couple of days for the value boys: the Barra Value Index was up 0.4%, to Barra Growth's -2.1% loss.

In just two terrible post-holiday days, the S&P 500 has moved from a five-month high to a three-week low. It has given back about one-third of its August gain. A similar move but with bigger magnitudes has occurred in the Nasdaq.

What does it all mean?

As the proverb says, it is ideal to go fishing in troubled waters. Putting the gestalt into our Daily Spec computers, we can report that the chances are above 80% that the fish will be swimming considerably higher six or eight days from today. In fact, the fish on average are expected to be 3% to 4% higher, with a variability about twice that level around the expectation.

Our prediction is that there will be no joy in the old-hearted set in the imminent future, and that they will go back to contemplating the high price of nannies in Greenwich and real estate in New York; they will be shaking their heads in disbelief and depression concerning the inevitable rise of shares in the century, with particular displeasure concerning the Nasdaq, which is now selling at 117 times estimated earnings.

Under the circumstances, we would suggest that speculators and investors go fishing in their favorite waters. Vic picked up some Intel (INTC: Nasdaq) yesterday. Today, he's angling for Cisco Systems (CSCO: Nasdaq). Intel and Cisco have fallen 12% and 6%, respectively, in three sessions.

If you prefer, the Readers Picks and Down 35 are always ready to bite. The market is ready to open up today, and after the obligatory morning obeisance to the bears, it should be smooth sailing. Under the circumstances, it should be well for investors to keep in mind one of the favorites sung recently at the annual Speculators' Ball:

JUST IN TIME

(Music by Jules Styne; original lyrics by Betty Comden and Adolph Green)

(Refrain):

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

Stocks rallied just in time
They rallied just in time
And put me in the black that happy day.

Speculator's Scorecard				
	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.18	Up 4	-1.6	1.5
S&P 500	1.00	Down 2	1.6	-0.9
Nasdaq	1.23	Down 2	-1.4	0.1
Europe STOXX-50	1.12	Down 2	8.2	2.5
Dollar/euro	0.82	Down 3	-13.5	-3.5
Nikkei	0.81	Down 7	-13.4	-0.2
Dollar/yen	1.12	Up 1	3.4	-1.0
Gold	0.69	Down 2	-4.7	1.2
Oil	1.47	Up 3	67.6	9.0
Bond Futures	1.25	Down 1	10.1	-0.3
2-Yr Note Futures	1.01	Down 1	0.5	0.3
Bund Futures	1.11	Down 3	1.3	-0.5

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How Valuable is Value Investing?

By Laurel Kenner and Victor Niederhoffer

Columnists

09/08/2000 09:21 AM

Note: The Speculators' Stock Talk! will be held at the New York Botanical Gardens in the Bronx on Sunday at 1 p.m. From New York, take the Westside Highway, off at Exit 24 (Mosholu), follow to end, right on Southern. Call 718-817-8705 for other directions.

(Editor's Note: Speculators Kenner and Niederhoffer have asked their consulting psychologist, Dr. Brett N. Steenbarger, to contribute an occasional market insight from the world of psychology. This is the first of several Friday columns from Steenbarger.)

Until yesterday, it had been looking like a week for value investors, as the venerable Dow gained ground while the youthful Nasdaq eroded by over 5% during the previous two sessions.

A look at prominent stocks tells the story: on Tuesday and Wednesday alone, Intel (|INTC|: Nasdaq) fell over 10%, with significant drops for Cisco Systems (|CSCO|: Nasdaq), Amgen (|AMGN|: Nasdaq), Sun Microsystems (|SUNW|: Nasdaq), and JDS Uniphase (|JDSU|: Nasdaq). Meanwhile, Dow components J.P. Morgan (|JPM|: NYSE), General Electric (|GE|: NYSE), and American Express (|AXP|: NYSE) continued their winning ways, registering annual highs.

Before old-hearted value investors could begin their celebration, however, yesterday's market threw a mirror-image curveball. By the final ringing of the bell, the Nasdaq was sporting a 2% gain even as the Dow lost most of its prior two day winnings. Completing the cycle, financial issues such as JPM were down on the day, while AMGN, SUNW, CSCO, and many tech siblings cut their earlier losses in half.

As soon as a trend appears on the media radar, it seems, a different one is ready to be born. Faced with a possible economic slowdown and analyst downgrades of tech issues, what could have been safer than retreating to the value of the Dow?

But is value investing as valuable as it's made out to be? That was the topic of a recent e-mail exchange between regular columnist Victor Niederhoffer and yours truly. While it wasn't squash, the volleys were frequent and vigorous, with Vic panning the academic research supporting value and me -- cast in the unhappy role of Sharif Khan -- serving as defender of the behavioral finance faith.

Sharif Khan, for those unfamiliar with Victor's book *Education of a Speculator*, was the North American Open squash champion for five consecutive years. His reign was ended by the intrepid Niederhoffer in an epic match that featured prodigious rallies, leaving Khan exhausted and vulnerable.

While my Internet exchange with Khan's conqueror lacked the high drama of that match, the back and forth was enough to lead me to call it quits. That's when the Master delivered his well-placed corner shot, delivered in his trademark all-caps: "SHOULDN'T INVESTORS EXPECT TO BE PAID FOR LENDING MONEY AT RISK TO THOSE COMPANIES THAT NEED IT FOR GROWTH RATHER THAN THE RISKLESS RATE OF RETURN THEY SHOULD EXPECT FROM LENDING AT RISK TO OLD HEARTED COMPANIES?"

Point and match, Niederhoffer.

http://www.worldlyinvestor.com/print.cfm?article_id=11365

09/08/2000

How long would there *be* a market if risk was systematically unrewarded and even penalized? Value investing is a flight from risk. If the market indeed pays speculators for lending money to those companies that need it for growth rather than park it at a riskless rate of return, we should see value strategies consistently underperform growth ones. That, of course, is not part of the behavioral finance faith.

Calling on the spirit of Francis Galton once more, I decided to do a bit of counting. Specifically, going back to 1977, I calculated the difference between returns on the Dow versus the S&P over non-overlapping 5 day spans.

The idea was simple: When Dow returns significantly exceed those on the S&P, it's a sign that speculators are playing it safe. They are concentrating their assets in 30 of the bluest blue chips and avoiding the more volatile growth sectors. Conversely, when the S&P is outperforming the Dow, investors are broadening their horizons and taking on a greater degree of risk.

Interestingly, when the Dow outperforms the S&P by 2.5% or greater over a five-day span, which has occurred on 64 occasions, the next week's return on the S&P has been 1.46%, compared to .27% for the sample overall. Moreover, the returns 10 (2.25% vs. .54%) and 20 (3.34% vs. 1.08%) days out show equally impressive gains. Quite simply, when investors have fled to value, it's been a good time to buy growth.

A list of the weeks in which the Dow has most outperformed the S&P, moreover, reads like a Hall of Fame list of market bottoms, headed up by October 19, 1987; April 14, 2000; and October 12, 1998. This supports the contention of Value Line's Sam Eisenstadt, who suggests that value strategies work best during such periods of turmoil as the 1930s and the late 60s/early 70s.

What can we conclude from this small data excursion and the cyber-exchange with Niederhoffer? Perhaps this: The Dow may be less of a market benchmark these days than a sentiment indicator. Every era has needed its perceived safe haven.

At certain periods, it's been gold; other times, it's been bills or bonds. In this era of behavioral finance research, value is safest. It is the haven. When the Dow dramatically outperforms the S&P and Nasdaq, it's a sign that old hearts are prevailing and fleeing risk.

And that, as yesterday's market demonstrated, should set young hearts a' leapin'.

Speculator's Scorecard				
	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.16	-1	-2.06	0.7
S&P 500	1.01	1	2.26	-0.4
Nasdaq	1.25	1	.71	1.1
Europe STOXX-50	1.13	1	8.6	3.5
Dollar/euro	.83	1	-13.3	-3.3
Nikkei	.81	-8	-13.9	-2.2
Dollar/yen	1.10	-1	-2.8	-1.6
Gold	.70	-3	-4.9	0.3
Oil	1.49	4	69.9	11.9
Bond Futures	1.24	-2	9.9	-0.6

2-Yr Note Futures	1.00	-2	0.5	0.2
Bund Futures	1.12	1	1.6	-0.2

Brett N. Steenbarger, Ph.D. is a licensed clinical psychologist and Assistant Professor of Psychiatry and Behavioral Sciences at the SUNY Upstate Medical University in Syracuse, NY. His primary research interest is multivariate behavioral modeling of the stock market. He welcomes comments and questions at steenbab@aol.com. He does not hold a position in any of the stocks discussed in this column. Positions may change at any time.

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From the New York Botanical Gardens: Stock Talk!

By Laurel Kenner and Victor Niederhoffer

Columnists

09/11/2000 09:06 AM

The 343rd edition of Stock Talk! took place amid the pines, oaks and flower gardens of the New York Botanical Gardens in the Bronx. Smelling the lovely white blossoms of the Seven Sons Flower of Zhejiang tree and seeing the purple perilla exuberantly crowd the lady's mantle inspired the speculators to think in new ways of the relations between the thousands of stock species.

Just as Beethoven's walks in the forest provided material for musical ideas, our hours in the gardens enlarged the imagination. Unfortunately, our visit was somewhat marred by the diatribes posted at the entrances to the conservatory and forest warning people not to interfere with the optimal static condition of the natural order.

One sign, in an idyllic spot overlooking a waterfall, noted that the forest hemlocks are dying because of the woolly adelgid, accidentally brought from China two decades ago by guess who, a human. "Without people, the woolly adelgid would have never reached these forests," the sign said.

Exuberance of Pessimism

With an effort, we were able to sufficiently recover from the overwhelming guilt bestirred in us by the fate of the hemlocks to pick up our leading financial weekly, only to find the leader of the bearish cult in an orgy of bearishness over the M3 greenhouse effect. You see, Alan Abelson wrote that monetary policy is "still highly expansionary" even after all those interest-rate increases, Doc Greenspan has been "kiting the money supply," thereby "hugely inflating stocks, creating the Nasdaq monster," and there's going to be a "fairly severe case of post-election blues as Greenspan grudgingly and gingerly moves to turn off the faucet."

With an exuberance of pessimism unusual even for him, the venerable columnist also opined that tech stocks should be valued at lower multiples than the average staid company, because of the rapidity of creative destruction. At that point, we took a question from Dave Ciocca, a hedge fund manager from Rochester, N.Y.

Ciocca: Isn't that like saying that you should bet against Tiger Woods because he swings too hard and will likely hurt his back sometime?

Vic: Just as the innovation of flowers took over the plant world, growth stocks have taken over from staid old economy stocks that don't use electricity, research or computers. During the last 10 years, while the Nasdaq rose 1,000%, the S&P 500 returned 500% and the Dow gained 450%.

One can only wonder if the nabob of negativism who first vented these theories of excessive monetary growth some 3,000 Nasdaq points ago would have deplored the development of seeds and flowers the same way he deplores the growth that is taking the canopy away from the old-hearted no-growth stocks that should and do offer investors a 4% risk-free rate of return rather than the substantially higher gains that are and should be available for the assumption of risk that investors in growth companies take, especially during times when the risk is perceived so high, encouraged by the Nabob and the Nebraskan.

Q. With the Nasdaq in decline even before the election, aren't things looking particularly bad?

Vic: No, the market's in an extremely bullish state, and not only because the financial weekly is

bearish. Between the qualitative approach of the old-hearted men who have been wrong since Dow 3000 and the quantitative approach, we'll go with the numbers. And the numbers show that after a series of declines such as those that occurred in the S&P 500 futures last week, the expectation is for a rise of 2% to 3% in a 10-day horizon.

Q. Didn't you say at Yonah Schimmel's Knish Bakery just a couple of weeks ago that the Jewish High Holidays are usually bad for stocks?

Vic: While seasonal factors are relatively bearish, we feel that this is counterbalanced by the fact that the market has been stable to down this year, in contrast to the large year-to-date advances it has shown at this time in the previous few years.

Q. If the hemlocks all die, will something replace them?

Laurel: Other plants will take over, according to the experts who wrote the sign by the waterfall. The sad passing of the hemlocks in the Bronx makes us wonder about the fate of Intel (INTC: Nasdaq), one of the giants in the market forest. Last week, we heard futurologist Perry Metzger say Intel is coming up against the limits of Moore's Law, the prediction by one of the founders of Intel that personal computer speed will double every 18 months.

The new generation of chips, Metzger says, is running too hot. Other companies, such as Transmeta, have better low-power solutions. Still, betting against Intel hasn't been a wise strategy, and we hear that Intel has been out demonstrating its own low-power chips. The company is also hard at work developing wireless chips and has researchers working on atom technology.

One last comment, from the Daily Speculations consulting psychologist and guest columnist.

Brett Steenbarger: When the plants in the Botanical Garden are growing and flowering in all their glory, do the gardeners fret about irrational exuberance and withhold nutrients so that growth can be "sustained"? And do the gardeners purposely cultivate the smallest and most damaged bulbs because these represent true value?

Laurel: That comment stands on its on. Going with the big, the strong and the beautiful works best, in gardening and in stocks. Please join us next week for another edition of Stock Talk!

Speculator's Scorecard				
	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.15	-2	-2.4	0.3
S&P 500	1.00	-1	1.7	-0.8
Nasdaq	1.23	-1	-2.2	-1.6
Europe STOXX-50	1.11	-1	6.7	1.3
Dollar/euro	.82	-1	-13.8	-3.9
Nikkei	.82	1	-12.9	-2.4
Dollar/yen	1.12	1	3.6	-0.7
Gold	.69	-4	-5.2	-0.4
Oil	1.46	-1	61.5	5.0
Bond Futures	1.25	1	10.2	-0.3
2-Yr Note Futures	1.01	1	0.5	0.2
Bund Futures	1.11	-1	1.3	-0.3

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Survival of the Fittest Chips

By Laurel Kenner and Victor Niederhoffer

Columnists

09/12/2000 08:40 AM

There were always a few who would turn back. They had listened and talked and had been carried along by the enthusiasm of others, but when the vast plains began to stretch out before them they quailed, beaten before they started. – Louis L'Amour, *Frontier*

The market played the Colter gambit on Monday, with S&P 500 futures ending almost unchanged after four major moves. From Friday's close to 10 a.m., the contract fell 0.5%. From 10 a.m. to 11 a.m., it rose 1%. From 11 a.m. to 3:15 p.m., it fell 1.5%. And from 3:15 p.m. to the end of the regular session, it gained 0.5%, to down a mere 0.3% on the day.

In all, it was an unusual day. Since 1998, only four similar days have occurred, with a return over the subsequent 10 days of 3.2%, 1.4%, 1.5% and 3.1%. "Perhaps the market's way of shaking out the nervous longs?" said Daily Speculations psychologist Brett Steenbarger, who lately has been applying his statistical skills to the study of the market.

For those unfamiliar with the 1808 capture and escape of John Colter, the following account may be instructive. As Colter related the tale to a fellow trapper, he was captured during a beaver-hunting expedition by Blackfeet Indians, who normally tortured and killed their captives. After stripping and robbing Colter, they shot his companion dead with at least 100 hundred bullets and hacked the body to pieces. A council was held, and instead of immediately being dispatched by tomahawk, Colter was given a small head start with a company of young warriors in pursuit.

"Fear and hope lent a supernatural vigor" to his speed, and he outpaced all but one Indian. Seizing the Indian's spear and dispatching him, he "saw the prairie behind him covered with Indians in full and rapid chase." With certain death behind him, he plunged into the Madison River and swam to a beaver house. There, he hid while his ferocious enemies trampled upon the roof. At nightfall, he left by the submerged entrance used by the beavers, and climbed a nearly perpendicular snow-covered mountain to a ravine 30 miles above. And that's where his adventures really became perilous.

In commenting on the adventure in "Three Years Among the Indians and Mexicans," the author, trapper Thomas James, remarks: "The whole affair is a fine example of the quick and ready thoughtfulness and presence of mind in a desperate situation, and the power of endurance, which characterize the western pioneer."

The reader is encouraged to consider this spirit in his or her forays into the market. The companies that are able to conquer the adversity of nature and enemies are the ones that will survive, and before survival is possible, the market will often throw you a few tests that an empty beaver lodge of your own may be handy to escape to.

Computing Power Struggle

The giants of computing, Intel ([INTC]: Nasdaq) and Microsoft ([MSFT]: Nasdaq) face a similar struggle. Futurologist Perry E. Metzger says the i386 chip design that carried Intel all the way from the early days of computing into the Pentium age may be nearing the end of its lineage, as the newest chips generate too much heat. Furthermore, as people move to personal digital assistants, wearables and other

new platforms, Microsoft "may very well cease to be the cutting-edge player."

And other companies are in pursuit. Intel rival Advanced Micro Devices ([AMD]: NYSE) is working on a low-power chip called the aa64, while closely held Transmeta has a low-power replacement for laptop Pentiums called the Crusoe.

The importance of this is a matter of debate. Nobody wants a hot laptop. Still, "even if power consumption is higher it is a marginal factor on my San Diego Gas & Electric bill," writes Denis Gorski.

Intel has some things up its sleeves, including a low-power "StrongARM" chip, and isn't likely to die anytime soon, Perry says. The company also is working on quantum computing. However, "they may face very strong competitive pressures in one of their many business lines. Certainly the future doesn't look like it will remain dominated by the current players in quite the same way for long."

Speculator's Scorecard				
	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.13	-3	-2.6	0.5
S&P 500	0.99	-2	1.3	-1.8
Nasdaq	1.22	-2	-4.2	-4.3
Europe STOXX-50	1.12	1	6.7	0.9
Dollar/euro	.82	-2	-15.1	-4.7
Nikkei	.81	-1	-14.8	-6.1
Dollar/yen	1.13	1	-3.0	0.2
Gold	.70	1	-5.2	-0.3
Oil	1.48	1	37.3	6.9
Bond Futures	1.23	-1	9.7	-0.1
2-Yr Note Futures	1.00	-1	10.6	0.2
Bund Futures	1.12	1	0.5	-0.4

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Deceptive Market Will Make a Fine Feast Yet

By Laurel Kenner and Victor Niederhoffer

Columnists

09/13/2000 08:59 AM

Daily Speculations Some animals have evolved uncanny likenesses to elements of their environment such as leaves, rocks and snow to avoid being noticed by predators or prey, while others use color and shape in spectacular displays to frighten a predator or to warn it that they are poisonous. Some edible animals have taken advantage of warning coloration and have evolved stunning likenesses to other, poisonous animals.

Dennis Owen, *Camouflage and Mimicry*

Mimicry occurs in many species, including butterflies, birds, moths, fish, frogs and snakes. But by far the most convincing example of mimicry occurs in the market.

The moves in the S&P 500 on Tuesday, for example, were almost identical to those of Monday – a nice down opening, a sharp rally to around noon, then a 1% retreat to 3 p.m. The resemblance was so perfect that at 3 p.m. the S&P actually traded at 1510 on both days.

But then, of course, that's where the deception realizes its reward. The palatable 1% rise on Monday from 3 p.m. to the next open gave way to an unpalatable 1% decline on Tuesday.

Market's Mullerian Mimicry

Market devotees can take comfort from this example of what biologists call Mullerian mimicry (in contrast to Batesian mimicry, where a palatable species models itself after an unpalatable one) with the realization that it is all designed to save the market energy as it wends its way to ensuring the survival of the species.

And certainly, those who hold tech should be pleased by the knowledge that skim milk looks like cream, and that many wasps look like moths.

In this spirit, we were happy to hear from the natural market analyst, the engineer John Lambert. "Thanks for pointing out that gardeners don't fret about lush growth, nor do they withhold nutrients so that growth can be sustained," Lambert wrote. "I only fret about the irrational exuberance of a plant in my garden when it is a weed that threatens to choke out more desirable plants. Perhaps old-hearted men feel threatened that the techs are choking out their beloved Old Economy stocks."

Along these lines, hedge fund manager Dave Ciocca says he'll know techs are really ready for a spectacular boom when the Nebraskan and the leading financial weekly's Nabob of Negativism recommend paper products, trucks and steel as the top sectors for the next year.

Great Time to Buy

But in all fairness, we should give credit where credit is due. The gurus who devote their investments to companies devoid of electricity or research have scored a resounding victory over the tech investors so far in September. The Nasdaq Composite is down 8% for the month, vs. a mere 2% decline for the S&P 500. Worse yet, 39 of the Nasdaq 100 are down 10% or more so far this month.

Such opportunities are all too rare. It's a great time to buy. The Daily Speculations computers are

http://www.worldlyinvestor.com/print.cfm?article_id=11464

09/13/2000

registering an 80% chance that the market will be higher six days from now, with an expected gain of the order of 3%. The uncertainty attached to this prediction is a mere 3%, thereby being way under the threshold that scientists usually use to differentiate random from systematic patterns.

With a foresight that even the most sharp-eyed bird would envy, of the 39 above-mentioned stocks that are down 10% or more, the eagle executives, directors and 10% owners of these companies (i.e., the insiders), were substantial sellers in 37 cases. But it's all for the greater good.

(Note: The two cases in which insiders were buying were Novell ([NOVL]: Nasdaq), selling at 9 3/4, and Level 3 Communications ([LVL]: Nasdaq).)

As Vic prepares for his Thursday session on the operating table for an artificial hip, comforted by the knowledge that the strong will live to prosper and that death in the market or the hip is relatively swift and painless, he is buying Novell and Level 3, and the devil take the hindmost.

Speculator's Scorecard				
	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.17	1	-2.3	0.2
S&P 500	0.98	-3	0.9	-1.8
Nasdaq	1.20	-3	-5.4	-5.7
Europe STOXX-50	1.10	-1	6.3	0.8
Dollar/euro	0.83	1	-14.7	-3.4
Nikkei	.80	-2	-15.3	-6.4
Dollar/yen	1.11	-1	-3.9	-1.1
Gold	0.69	-1	-5.3	-0.2
Oil	1.46	-1	33.9	4.7
Bond Futures	1.22	-2	9.6	0.1
2-Yr Note Futures	0.99	-2	10.5	0.3
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Getting Hip on Pharmaceuticals, Mexico

By Laurel Kenner and Victor Niederhoffer

Columnists

09/14/2000 08:29 AM

(Note to readers: As the market mistress would have it, Vic's hip surgery was scheduled for the same time as the release of the government's Producer Price Index. No visitors were allowed in the operating room, but our Daily Speculations staff bugged the table with an atomic wireless computing device. Here is a transcript of the proceedings made by one of our assistants. We caution that while this assistant is generally quite accurate, sometimes he is distracted by market events and lets his imagination run away with him.)

Surgeon X: "It's not where I expected it to be, Nurse!"

Nurse: "The hip isn't where you expected it to be, Doctor?"

Surgeon X: "No, no, devil take the hip. The PPI wasn't where I expected! Where are they now?"

Nurse: "The scalpels? Right here, Doctor."

Surgeon: "Hang the scalpels. Where are the S&Ps! (Turns to the student resident.) "The floor, immediately!"

Resident: "Did you drop the sutures and pins, Doctor?"

Surgeon: "The Chicago Mercantile Exchange floor, kid! Tell Howard at Aegis to sell four December contracts on an uptick!"

Resident: "Right away, sir." (Hurries to phone.)

Surgeon: "Now, where were we? The right hip, was it, Nurse?"

Nurse: "The left hip, Doctor."

Surgeon: "These hip ops have gotten as big as hip hop. Ask the HMO if we can raise the reimbursement rate." (Shouts to Resident): "Kid, get me my broker at InvestIN. Buy me 1,000 shares of Bethlehem Steel (|BS|: NYSE). They make titanium hip implants. Company lost money over the past 12 months, but it's still got several hundred million in market cap, and who's to say the market doesn't know something I don't?"

Nurse: "Nice trade on those S&Ps, Doctor. By the way, I've been meaning to ask; Medarex (|MEDX|: Nasdaq) is splitting; do you think it's a good buy?"

Surgeon: "It's already up 200% this year, but call Dr. Drakeman. He runs Medarex and was telling me awhile back that those mice he's breeding have 100% human antibodies. I wish I had bought Medarex in December instead of sticking with that darned Johnson & Johnson (|JNJ|: NYSE). Up 1% this year -- it's a waste, Nurse, a waste..."

Nurse: "Please, Doctor, try to pull yourself together. The patient asked for a low dose of anesthesia, so there's a slight chance he could wake up..."

Surgeon: "Ah, yes. Right hip, was it? Says on his chart here that he's a doctor. Anybody know his specialty?"

Internist: "I asked him that when we had our pre-op interview. Turns out he's just a doctor of statistics."

Surgeon: "Then we can save on stitches, can't we? And maybe give him a used hip? He won't know the difference."

Internist: "Wait, wait. I hear these statistical docs calculate expectations on everything. He might have anticipated that and scheduled a cat scan to check up on us. Besides, if we keep him happy, maybe we could talk him into doing that study we've been talking about. You know, using moves in hip replacement fees in conjunction with gold and oil price changes to predict market behavior during options expiration. (Lowers voice.) And if we assign him this nurse, he should be more than sentient by early afternoon. Should make us a cool million in the market."

Surgeon: "OK. Kills me to have to use a brand-new hip, with reimbursement rates being what they are... Nurse, can you see me in the drug room at once, please?"

(Long pause. When Surgeon's voice comes back on tape, it is a little breathless.)

"Very good, Nurse. Very, very, very good. The right hip, was it?"

Nurse (also a bit out of breath): "Oh, Doctor! Such a sense of humor! The left hip!"

Surgeon: "Scalpel." (Long pause.) "Hmmm. This is indeed unusual. Can somebody get me Dr. Bill Fuller in Austin? Ask him what his thoughts are?"

Resident: "Right away, Doctor. His thoughts on anomalies in the hips of former racquet sports stars, sir?"

Surgeon: "No. Fuller used to do hip replacements, but then he started a hedge fund. Guy was up 99% last year, 38% through July of this year. I want to know what he's buying now."

Resident: "Yes, sir. (Dials.) "Dr. Fuller says it's time to bet on Mexico, sir."

Surgeon: "You don't say. Nurse, this right hip looks just fine. What was the problem supposed to be?"

Resident: "Dr. Fuller says Mexico has become the land of opportunity because of one man, Vicente Fox. The end of 71 years of rule by the PRI is over, and Vicente Fox is the new president. He used to be CEO of Coca-Cola in Mexico, sir. The kind of guy who truly has a chance to improve the country, Fuller says."

Surgeon: "That's what they said about Zedillo." (Chuckles.) "Glad I sold before the crash. Hot money, eh, Nurse?"

Resident: "He says Fox was tenacious enough to win the election despite a television blackout of his interviews, and sometimes it pays to bet on the jockey. Says Fox is business-friendly."

Surgeon: "Well, what's Dr. Fuller doing with Mexico?"

Resident: "He says he's buying shares of the closed-end Mexico Fund ([MXF]: NYSE). Discount to net asset value is 25%. Harvard University bought 10% of the fund at the end of August. Says he expects to make 75%-100% over the next two or three years on it."

Surgeon: "Hmmm. Get me Dr. Staricka in Los Angeles and Dr. McNabb in Virginia."

Nurse: "Anything wrong, Doctor?"

Surgeon: "Not at all. I want to know what they think about Mexico."

Resident: "Dr. Staricka on the line for you, sir."

Dr. Staricka, on speaker phone: "Few things would please me more than to see Mexico get its act together. Living in Los Angeles, I encounter many immigrants from Mexico and Central America, and I'm impressed by their willingness to work, their desire to get ahead and their dedication to family. Once the stream of legal and illegal immigrants from Mexico starts to taper off, I would consider the country to be well and truly on its way to recovery. Until then I'll continue to invest in things I can understand."

Surgeon: "Thanks, Don." (Hangs up.) "Did you get McNabb?"

McNabb comes on speaker phone: "Malkiel did some good research in the early '70s on buying funds with large discounts to Net Asset Value, but this has not been such a successful strategy in the '90s. I think I would wait until the new cabinet has had six months of seasoning, to see what develops in terms of monetary, and fiscal policy, as well as regulatory, which can throw everybody off."

Surgeon: "How about you, kid?"

Resident: "I'm wondering if we shouldn't send this Vicente Fox for a physical before we invest, sir. He seems to have a lot riding on him."

Surgeon: "Kid, you're going to go far in this business. WHAT DID YOU SAY YOUR NAME WAS? DANIELS? Now kindly finish off this patient. I mean, finish this operation. My quote pager is going off."

Speculator's Scorecard				
	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.13	-1	-2.7	0.7
S&P 500	0.99	1	1.1	-1.1
Nasdaq	1.21	1	-4.3	-5.1
Europe STOXX-50	1.09	-2	4.9	-0.4
Dollar/euro	0.82	-1	-14.8	-3.8
Nikkei	0.81	1	-14.5	-4.2
Dollar/yen	1.10	-2	-4.1	-1.0
Gold	0.68	-2	-5.4	-0.5
Oil	1.44	-2	32.1	1.5
Bond Futures	1.23	1	9.9	0.3

2-Yr Note Futures	1.00	1	10.7	0.3
Bund Futures	1.13	1	0.7	-0.01

Laurel Kenner is a financial writer in New York City. Formerly head of US stock market coverage at Bloomberg News, she previously reported on police, politics and aerospace during her 17-year news career.

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Crude-Oil 'Crisis' Fuels Young Hearts

By Laurel Kenner and Victor Niederhoffer

Columnists

09/15/2000 09:00 AM

Editor's Note: While Niederhoffer recovers from a hip operation, the Speculators have asked their consulting psychologist, Dr. Brett N. Steenbarger, to fill in. His columns offer practical applications of psychology to the world of investing.

We're very happy to report that Vic's hip operation was a complete success.

There was one moment of crisis when he briefly woke up to ask the doctors for stock tips and spotted the number "59-78" flashing on an LCD monitor. Mistaking the number for Intel's (INTC: Nasdaq) stock price, he was in great distress, and his blood pressure shot up.

The nurses came flying, and assured him that the monitor was merely displaying the vital signs of the patient in the adjoining bed, whereupon he fell quietly back to sleep.

When he woke up in the afternoon, he seemed to recall that the doctors had been recommending Ophidian Pharmaceuticals (OPHD: Nasdaq), a stock that had the sublime misfortune of falling from a high of 20 in February to a mere 15/16 today.

On Sept. 5, Ophidian said it would liquidate and sell assets to another pharmaceutical firm for \$1.5 million -- 60% more than Ophidian's market value on Aug. 31. Curiously, the stock jumped 60% on Sept. 1, turning crisis into opportunity for traders with seeming extra-sensory prowess.

Time for Recess?

Alas, ESP doesn't seem to be rescuing investors feeling the heat from this winter's threatened lack of warmth. Europe finds itself rattled by the twin forces of crude-oil prices that have soared to over \$34 a barrel -- near 10 year highs -- and a declining euro, which has lost close to 10% of its value relative to the dollar in the past 10 weeks alone.

European truckers have conducted blockades of refineries in protest of surging diesel prices, leading to shortages at filling stations and awakening memories of the 1970s oil crisis.

Tellingly, the talking heads in the financial media, who had been fretting about inflation just several weeks ago, are now raising the issues of slowdown and possible recession.

Finding Some Utility

Perhaps the Federal Reserve is entertaining these same worries. We notice that the M2 money supply for the month of August jumped nearly 1%, the largest increase since the market's swoon in September and October of 1998. Prior to that, one has to go back to 1986 to find a comparable monthly increase.

One swallow does not make a summer, of course, and a single month's M2 reading can be an aberration. Nonetheless, there are signs that the twin crises of rising fuel prices and declining European currencies may be for real -- and just may be auguring opportunities for young-hearted speculators.

Nowhere is this more evident than in the Dow Utilities Average. In the past 200 days, this average has risen by more than 42%. To put this move in perspective, we observe that it is the average's second-largest 200-day gain during the entire bull move from 1949 to the present, eclipsed only by the 1975 rise of 48%.

Since 1949, there have been 13 occasions when the Dow Utilities have risen by more than 25% in a 200-day period. The Dow Industrials for the following 400 days has risen on 11 of those occasions by an average of over 19%, almost double its average 400-day advance for that period. This certainly makes sense: because of the yield-sensitivity of Dow Utility stocks, a rising average is a harbinger of lower interest rates and favorable speculative conditions.

Discomforting Thought

But there is more going on with the Dow Utilities. Psychologists emphasize that periods of crisis can also be periods of opportunity. Crises occur when our old ways of thinking and behaving are no longer working for us. This causes pain, which acts as a prod to change.

Research in psychotherapy suggests that outcomes are best when people are experiencing a moderate degree of discomfort. Too much pain can lead to shut down; too little offers no impetus to alter the status quo.

The recent OPEC-inspired price rises in crude oil, combined with near 24-year lows in US stockpiles, is now generating a moderate degree of discomfort. And that is pushing a number of utility companies, enjoying the freedom of deregulation, to contemplate alternative sources of power.

Cell Fun

Consider, for example, the New Alternatives Fund (|NALFX|), which is capitalizing on the heightened interest in fuel-cell technology. Fuel cells are devices that convert energy sources into electricity and heat through chemical reactions. Because they involve no burning, they are both efficient and clean. They also do not require oil.

The fund, which held a bit over \$43 million in assets as of the start of August, has risen by over 70% year to date. Interestingly, two of its core holdings are utility companies that are participating in demonstration projects with the new technologies: Idacorp (|IDA|: NYSE) and El Paso Energy Corp (|EPG|: NYSE). Those issues have been acting most un-utility like, rising by over 40% and 20%, respectively, since Aug. 1.

The top holding at New Alternatives Fund is Fuelcell Energy, Inc. (|FCEL|: Nasdaq), which is working with several companies to develop fuel-cell power systems that can produce highly reliable, affordable power at local sites. With the need for reliability heightened by the Internet economy, the demand for such systems is expected to skyrocket in the next five years as these systems come on line. Fuelcell has benefited from this trend, more than doubling during the past 30 trading sessions.

Fueling Young Hearts

Meanwhile, a host of new companies have emerged to exploit the promise of alternative fuel sources, including Ballard Power Systems (|BLDP|: Nasdaq), Plug Power, Inc. (|PLUG|: Nasdaq) and Capstone Turbine (|CPST|: Nasdaq). We note that the three are also up 40% or more in the past six weeks.

While fearful investors are shifting their focus from inflation to slowdown, the young-at-heart are gleefully discovering the opportunities in crisis.

We are similarly confident that, before long, Vic's hospital crisis will be over and he will emerge from his bed with the opportunities afforded by a sprightly step. The Savants of the Speculators List wish him the speediest of recoveries.

Speculator's Scorecard				
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Dow	1.12	-2	-3.6	-.01
S&P 500	0.98	-1	0.7	-2.4
Nasdaq	1.23	2	-3.8	-6.9
Europe STOXX-50	1.11	1	5.8	-0.06
Dollar/euro	0.83	1	-14.5	-2.2
Nikkei	0.82	2	-14.4	-3.8
Dollar/yen	1.09	-3	-4.5	0.5
Gold	0.67	-3	-5.5	-0.2
Oil	1.45	1	33.1	2.0
Bond Futures	1.22	-1	9.0	-1.2
2-Yr Note Futures	0.99	-1	10.6	0.2
Bund Futures	1.12	-1	0.6	-0.1

Brett N. Steenbarger, Ph.D. is a licensed clinical psychologist and Assistant Professor of Psychiatry and Behavioral Sciences at the SUNY Upstate Medical University in Syracuse, NY. His primary research interest is multivariate behavioral modeling of the stock market. He welcomes comments and questions at steenbab@aol.com. He does not hold a position in any of the stocks discussed in this column. Positions may change at any time.

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From the Hospital of Extreme Surgery: Stock Talk!

By Laurel Kenner and Victor Niederhoffer

Columnists

09/18/2000 09:10 AM

Welcome to the 443rd edition of Stock Talk, with Laurel and Vic! Today we're live, thank goodness, in the Hospital for Extreme Surgery.

With us we have a capacity crowd to celebrate the good news: tech stocks are getting shellacked by value stocks. We take our cue from the leader of the bearish cult at the leading financial weekly, who has not only redoubled his pessimism but is calling on his followers to "sit back and enjoy" the market's convulsions.

Truly, we have a lot to celebrate: The Nasdaq Composite is down 9% since the end of August, compared with only 3% for the S&P. After subtracting the 6% differential, we are pleased to observe that the superiority of the Nasdaq over the S&P over the last five years has diminished to only 144%. Truly something to sit back and enjoy.

Bullish and Bearish Cults

The amiable bearish columnist also celebrated the tech stocks' pounding by coming up with a new phrase; in uncanny symmetry to our recent writings on the old-hearted cult, he has dubbed the bulls the "heat-seeking cult." We note only that Jake LaMotta said a similar thing before being trounced by Sugar Ray Robinson four times in a row in the 1950s.

The source cited by the bearish columnist was Robert Farrell, the chief technical analyst at Merrill Lynch. Vic had the pleasure of holding his first job off the racquet courts under Bob Farrell's estimable guidance, and he reports that Bob, like many of the mystics who populated the T.A. infrastructure over the last 100 years, has never met a head-and-shoulders pattern that he didn't find suggestive.

Bob does, however, possess a modern topspin forehand, which has been much more beneficial, in Vic's humble opinion, than his strident bearishness throughout most of the '90s bull market.

As reported on Thursday, Vic hit the operating table at exactly the moment the Producer Price Index was announced. Concerned that the doctor would turn over the surgical niceties to an intern if he submitted to full anesthesia, Vic asked to be kept awake during the operation so as to be alert for signs of stock trading.

Hip Trader

Alerted by his partner, Dan Grossman, he also wanted to be able to catch any of the sort of remarks seemingly made to reassure the patient ("Mr. Linet will now make the incision under the fourth vertebrae – repeat, the fourth, not the fifth, vertebrae!!") that are actually disguised instructions to a student practitioner.

But when the doctor appeared before the operation to initial the correct hip, Vic may have raised his hackles by asking, with as innocent an air as he could muster, whether the doctor would be performing any of the operation himself. The last thing Vic recalls was a high sign from the doctor to the anesthesiologist. The next thing he knew he was in the recovery room.

After waiting nine hours in the recovery ward for a room assignment, near the end of which he upbraided the interns for excessive flirtation and frivolity, and reprimanded several doctors for sanitary conditions similar to those that prevailed before Joe Lister, Vic was ejected to a room from which he was able to observe the periodic hours-long closings of the FDR expressway to permit United Nations delegations and political candidates the run of the city. On Sunday, he was discharged two days early. As he triumphantly walked out, a doctor, perhaps inspired by the poem *'Twas the Night Before Christmas*, was heard to mutter: "Good riddance to him, and to all a good night."

Let's open it up for questions.

Question: I heard that Vic, in a sort of sleepwalking phenomenon, interviewed the doctors about medical equipment stocks during his operation, but on waking up could recall only a little of what he heard. Has he managed to remember any of the picks?

Vic: I haven't seen the doctors since the operation because they had to go to a conference, but under Laurel's patient questioning, I remembered three:

Smith & Nephews Plc (|SNN|: NYSE)
 Exactech (|EXAC|: Nasdaq)
 Alliance Pharmaceuticals (|ALLP|: Nasdaq)

Laurel: Smith & Nephews isn't as well known in the US as Guidant (|GDT|: NYSE) or Medtronic (|MDT|: NYSE), although it's Europe's largest maker of hospital supplies. The company makes titanium hip replacements, one of which now resides directly beneath a two-foot line of stitches in Vic. Smith & Nephews listed its ADRs on the New York Stock Exchange late last year to attract more attention from U.S. investors, and the ADRs are up 17% year to date.

Exactech also makes orthopedic implants, for hips, knees and shoulders, and its shares are up 40% year to date. The third pick, Alliant Pharmaceuticals, makes a blood substitute, among other things, and it's up 131%.

Q. Vic, did you ever find out why you had to wait so long in the recovery room? I thought I heard you say something about Hillary under your breath... **Laurel:** While Vic's operation has been a complete success, and he's walking around with a painless alacrity he hasn't enjoyed in 12 years, he has been enjoined not to answer any questions of this nature until the staples have been removed from his hip. So I will answer by observing that queues and shortages are the natural result when prices – in this case, third-party payments – are fixed below the market rate.

Hillary's mandatory health insurance scheme was a great example of such price controls. (The hospital also ran out of pumps, spoons, thermometers and towels during Vic's two-day recovery.)

I will also take the liberty of pointing out that in the last 15 days, the Iowa Poll winner-take-all futures on the presidential candidates have changed from a dead heat to 66%-31%, as of Saturday, in favor of Al Gore. This market-based plebiscite is by far the most accurate measure of the ultimate outcome that has ever been developed. If the election were held today with the same result, it would be the most lopsided victory in the popular vote since Franklin D. Roosevelt beat Al Landon in 1936.

To the extent that the Democrats are opposed to the privatization of Social Security, with the massive buying of stocks that would involve, along with the elimination of estate taxes and other taxes, we would have to feel that this is a relatively bearish development. Democratic dominance of both the

legislative and administrative branches could not be a good development, in our view, as it might imply the removal of barriers to harmful do-good initiatives.

Vic: Laurel, it's an ill wind that blows no good, and I'd like to suggest that Hillary's activities may at least provide the laughter so necessary for proper healing of the body and peace of mind.

Consider the end results of my two articles in Liberty and National Review on the future first lady's uncanny instincts for trading cattle futures. After my co-author and I discovered Hillary's physical inability to know, on many of the days when she traded, where prices were, let alone the highs and lows that she was able to catch repeatedly, and after interviewing many of the brokers, exchange officials and affiliated attorneys involved with these trades, I had only question: She started with \$1,000, she raised that to \$99,500; what happened to the other \$500?

Someone came up to me at a party after the article was published, and told me that when he read that conclusion, he laughed so hard that he spilled his martini all over his suit. And he informed me that I owed him \$10 for the cleaning bill.

Laurel: Vic, forgive me for asking, but did you ever pay up?

Vic: Suffice it to say, Laurel, that I am bereft of a hip at this moment, but I hope it will never be said of me that I am so low on the scale of morality that I would fail to pay off an implied contract of this nature.

Q. Does the 2 1/2-point decline in bonds during the last two days to an eight-week low interfere in any way with the incessant bullishness that the leading financial weekly's columnist accuses you and your heat-seeking cult of propagating?

Vic: At times like these, it is useful to balance bullish and bearish on the scale. Things are always bullish after a decline of the magnitude we've seen this month. And it's always bullish during an election year. Last but not least, the leading financial weekly's columnist is at maximum bearishness.

On the negative side of the scale are the results of the Iowa poll and the decline in bonds.

Taking all things into account, we'd say that the rate of advance for stocks, which is typically 9% for the average stock and 15% for the Nasdaq, could well slow to 2% and 8% during the next month or so.

Laurel: We don't see anything that would violate our two rules carved in stone, though, which are:

Rule #1: It's never right to sell a stock short.

Rule#2: When in doubt, see Rule #1.

Moderator: Thank you, Laurel and Vic. Join us next week for another edition of Stock Talk!

* * *

As we go to press, cane in one hand, grabber in the other, Vic wishes to add the following personal note.

Somehow our reports on the small defects in the surgical experience don't capture the most important result of all. The operation was a complete success and the surgeon involved (who it turns out does all

his surgeries entirely himself) is a consummate professional who gave Vic one of the most uniformly positive and helpful experiences of his life.

Vic would rank him on a scale with Jack Barnaby, the greatest racquet coach of all time, or Tom Wiswell, the 25-year world checkers champion. The doc told Vic right before the surgery, "this conversation is rapidly deteriorating," and who could blame him?

Like the nabob, we focused too much on the negatives, and the positives got lost in the shuffle.

The doc always uses Smith and Malloes equipment and is high in the praise of the quality of the product, though he doesn't invest in stocks himself. On the negative side of the ledger, the 5% and 8% declines in Monday all over Asia could not be a very salutary sign for the three-week prognosis for US stocks.

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S&P 500	0.97	-2	-0.2	-3.6
Nasdaq	1.20	-1	-5.8	-9.4
Europe STOXX-50	1.15	-1	5.6	-2.4
Dollar/euro	0.81	-1	-15.8	-5.0
Nikkei	0.82	2	-14.4	-3.1
Dollar/yen	1.03	1	-5.5	-1.6
Gold	0.69	-4	-5.4	-1.6
Oil	1.40	2	40.3	7.7
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Stocks Ready to Rally Just in Time

By Laurel Kenner and Victor Niederhoffer

Columnists

09/19/2000 09:20 AM

"Pollard....lost his second whaleship on a shoal off the Hawaiian Islands. Then, in what Bennet called 'a tone of despondency never to be forgotten by him who heard it,' Pollard confessed, '[N]ow I am utterly ruined. No owner will ever trust me with a whaler again, for all will say I am an unlucky man.'"
 -- Nathaniel Philbrick *In the Heart of the Sea*.

The market is ready for a tremendous rally. A double dose of disastrous daily declines is something the mistress releases as a last resort -- in fact, only two or three times a year.

Looking seven to 10 days out, the move that follows with an expected rise of 4-5% with an uncertainty of about that amount around it are of Herculean dimensions. Before long we anticipate readers will be singing our favorite market song:

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

As to why this is true, one can only speculate. We tend to attribute it to the human spirit's ability to rebound resiliently from a single tragedy but to descend into utter hopelessness after two.

After Capt. Pollard, the ill-fated captain of the whaleship Essex, lost his men to a double whale-hitting and cannibalism, he was greeted with acclaim when he came back to Nantucket. When he was given his second ship and lost that one also, he was too forlorn to allow his men even to save him. "Captain Pollard reluctantly got into the boat," Nickerson wrote, "just as they were about to shove off from the ship."

In deference to Laurel's trip by public jet to London to interview dynamic English firms like Smith and Nallow's headed by the uniquely English-named Dudley Graham Eustace, where she reports she began with a genuine English breakfast of sausages, eggs, ham, potatoes and fried tomatoes, we shall be brief.

But we cannot resist noting the utter beauty of certain straws in the wind. Monday's decline witnessed seemingly bearish milestones falling like a row of dominoes. Nasdaq 100 futures fell at their low to 3600, its lowest level since the end of July. This round number is within a hair's breadth of the base from which the entire ascent to the 4200 area started.

What joy there must have been at the homes of the bearish cult's. How beautiful their wives must have seemed and how pleasant the ensuing activity must have been!

It's evil of the mistress to dash hopes like this. But please understand that unless she were to occasionally give hope to the losing side in the market battle as she has done repeatedly to the aforementioned since Nasdaq 800, the perceived risk would not be enhanced enough to pay the heavy toll of dead weight that the market infrastructure needs to sustain its ecosystem.

Letter from a Young-Hearted 84-Year-Old

In closing, we cannot resist relaying a letter from one of our oldest readers, Mr. Almar.

"I have had a few laughs and learned a few new words [from your column]...A little background on myself -- I am 84 years of age. I've been in the market for forty or fifty years. Have some core holdings and speculate some on a few low-priced issues with the dividends from the core holdings. One issue I currently am interested in is Jinpan International (JST: AMEX). It is a play in the Chinese market. They are in the business of manufacturing electrical distribution transformers. It trades at a price under \$2.50, has earnings and a low PE. It trades at a low volume, and some days not traded at all. I understand it may be improper for you to comment on the merits of this stock, but am just wondering if you might know of it."

It is never improper for Laurel and Vic to assist a young-hearted 80-something who is thoughtful enough to remind us that a stock that trades only 20,000 shares a day at a price of \$2 and reports its earnings only once a year, usually 9 months after the end of the calendar year, may not be an appropriate vehicle for our readers to load up on.

However, our mentor, the 75-something Jim Lorie, the modern lynchpin and key connector in the modern theory of finance, has one of the best investment records of anyone we know. He had a rule that whenever he received a tip from someone he admired he'd buy a few hundred shares and hold. Like most of the 70-pluses we know, who have not been demonetized by following the advice of the post-1970s nabobs, most of the stocks he is still holding show gains on the order of 10 to 1000 times his initial investment.

It is well to remember Jim's advice after a double dose of daily declines and at all other times. "The best investor by far is Hillary." But if you can't get her as an advisor, the next best thing is to "buy and hold." Perhaps some of our readers will wish to augment like us a little Jinpan with such main courses as Cisco (CSCO: Nasdaq), Immunex (IMNX: Nasdaq) and Nextlink(NXLK: Nasdaq).

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Oil	1.48	3	44.1	3.5
Bond Futures	1.19	-3	7.6	-2.6
2-Yr Note Futures	1.01	2	0.6	0.1
Bund Futures	1.09	-3	0.1	-1.2

Laurel Kenner is a financial writer in New York City. Formerly head of US stock market coverage at Bloomberg News, she previously reported on police, politics and aerospace during her 17-year news career.

*Victor Niederhoffer is a private speculator specializing in futures and options trading. His positions often change during the day based on shifting market expectations and volatilities. He is the author of the best-selling *The Education of a Speculator*. Niederhoffer is currently long Cisco and Smith and Nallow. Positions may change at any time.*

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Nasdaq's Rise Creates a Whole New Ballgame

By Laurel Kenner and Victor Niederhoffer

Columnists

09/20/2000 09:22 AM

It's a whole new ballgame out there. Nasdaq 100 shot up 4.8% in a single day.

Seven stocks, SDL (|SDL|: NYSE), Intuit (|INTU|: Nasdaq), PMC-Sierra (|PMCS|: Nasdaq), Qlogic (|QLGC|: Nasdaq), Qualcomm (|QCOM|: Nasdaq), JDS Uniphase (|JDSU|: Nasdaq), Xilinx (|XLNX|: Nasdaq), Applied Micro Circuits (|AMCC|: Nasdaq), Juniper Networks (|JNPR|: Nasdaq), and Vitesse Semiconductor (|VTSS|: Nasdaq), were up more than 10%. Only one stock, Peoplesoft (|PSFT|: Nasdaq), was down more than 5%.

Yes, we did find ourselves singing our favorite market song, Stocks Rallied Just In Time. In the tradition of Capablanca who started his primer on chess with the scores of seven games, all of which he had lost, we have not been sparing in reporting some of the sorry trades that Vic has made on previous days.

For example, there was the day he traded the S&P on four consecutive losing sides during the same day and was not even able to get his shoes on. So perhaps it will not be considered overly vainglorious to report that Vic picked up some Nasdaq futures three points from the low and traded out of them 15 1/2 points from the high in a nice day of trading.

We report this not so much in an attempt to memorialize this (please note to our surgeon's great consternation, Vic played some tennis on his fourth day after surgery) but because Vic has never in his trading career involving many hundreds of thousands of trades been known to take out more than half of the profit on any move. And thus the mistress's attempt today to follow the fantastic rally of yesterday with a feeble down open should probably be taken as a deceptive gambit in the Let's Pretend the Bears Are Still In Control play book.

At a time like this it is well to recall Kipling's Poem "If":

"If you can meet with Triumph and Disaster
And treat those two impostors just the same...
If you can talk with crowds and keep your virtue,
Or walk with Kings—nor lose the common touch.
Then, you are a man, my son"

In this connection, please consider again the wisdom of 84-year-old Mr. Almar in which he says, "I've been in the market for 40-50 years, have some poor holdings and speculate on a few low-priced issues with the dividends from the poor holdings." What a beautiful model for the young hearted among us to follow.

First to tip the hat for the sheer curiosity to the man who at 84 fixes himself up with a system that can generate timely Internet columns.

Secondly, the emphasis on a buy and hold strategy forming the roots of the portfolio, thereby tapping into the 10-15% a year random returns available from buying stocks. Presumably the stocks that Almar has been holding for 30 years have given him at least 5 doublings and are now selling at 30 to 60 times

http://www.worldlyinvestor.com/print.cfm?article_id=11623

9/20/00

what he paid for them.

Next the implied money management in using 3%-4% a year of the portfolio to speculate on risky issues thereby preventing oneself from running into gambler's ruin should all these stocks dissipate to zero in an October 1987 kind of debacle. Finally, the dollar averaging involved by using dividends that occur relatively continuously throughout the year available to buy stocks even after the deluge.

In short, this homespun philosopher has probably hit upon as close to an ideal system of investing as is possible in this world.

After our highly spirited tribute to the activity in the old-hearted homes yesterday following the shellacking they delivered to the young-hearted and their humorous put-down of us as "heat-seekers" (which all of our members have adopted as their motto) last week, it would be inappropriate for us to expand upon the proverb "In like a lion, out like a lamb."

However, as far as we can tell there has been no rally to date during the last 12 years that has been of sufficient strength or resilience to change the frame of reference and we are certain that yesterday's feeble "dead cat bounce" will not be the exception.

The enclosed note from James Goldcamp, a rugby playing researcher and systems developer from Cincinnati puts it all in perspective:

"...has anyone noted that the use of 'heat-seekers' implies that this cult will follow the 'hot' stocks right into cyclical if that is where the momentum is. He will no doubt be even more agitated if the so called 'heat-seekers' profit in the future from his favorite sectors. I think the 'new-economy-thinkers-cult' or the 'technology-admiration-society' would have been a better derisive term for him to use. Defining his adversary as 'heat-seekers' may leave them with too much flexibility to adapt to a changing market."

Speculator's Scorecard				
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S&P 500	0.99	1	-0.7	-3.1
Nasdaq	1.21	1	-5.0	-6.7
Europe STOXX-50	1.09	1	5.0	-3.0
Dollar/euro	0.82	-1	-15.8	-3.8
Nikkei	0.83	1	-14.8	-2.0
Dollar/yen	1.16	3	-4.0	0.3
Gold	0.67	1	-5.6	-1.2
Oil	1.46	-1	42.6	7.9
Bond Futures	1.20	1	7.9	-2.4
2-Yr Note Futures	1.00	-1	0.6	0.1
Bund Futures	1.11	1	0.4	-0.9

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Where There's a Will, There's a Rally

By Laurel Kenner and Victor Niederhoffer

Columnists

09/21/2000 09:55 AM

"Considering therefore that squalls and capsizings in the water and consequent bivouacs on the deep, were a matter of common occurrence on this kind of life. . .and finally considering in what a devil's chase I was implicated, touching the White Whale: taking all things together, I say, I thought I might as well go below, and make a rough draft of my will..."

Herman Melville, *Moby Dick*, Chapter 49 "The Hyena"

As the S&P and Dow plummeted to the lowest levels since the end of May yesterday, within four points of limit down on the day, Vic called out, "Laurel, come along, while I make a draft of the will. You shall be my witness." But then, miraculously, as if it were all a practical joke at 1:30 p.m. EST, the S&P roared back to the unchanged level to close down a mere 0.5%.

Meanwhile, the Nasdaq, after tumbling 3% on the day, rallied to end up 1% on the day. The net result: Nasdaq up 6% in the last two days, S&P up 1/2%.

Laurel, unfortunately, is in London the for week bearding the old-hearted at their roots, and interviewing the old world firm of Smith & Nephew. She was unavailable for the witnessing but she transmitted by wireless one of her signature poems:

(to the tune of Send In The Clowns) Nasdaq & Dow

Aren't they a pair

One falling down to the ground

One in mid-air

Oh, the poor Dow.

The dear falling Dow.

Why sell the Coke,

A good Buffett stock?

He's such a famous old bloke,

I'm just in shock

A rocket it's not

Oh, the poor Dow.

She also reports this note of encouragement for those old-hearted men who may wish to retire in the UK: "Britain's second-largest police force has issued its officers, special constables and civilian workers with a guide to speaking and writing in an acceptable manner....If the guide is adhered to, elderly people will be safe in the knowledge that they will no longer be referred to as 'old codgers,' 'old biddies,' 'old dears,' or 'old fools.' (*Daily Telegraph*)

But what does it all foretell? Unfortunately, too much heat has been eliminated from his body by yesterday's market for Vic to venture a qualitative opinion. Furthermore, the advice from the hip surgeon is to stay away from activities that require a chair, for example, utilization of the Daily Spec computers. Thus he doesn't have a quantitative opinion available.

Barging In

Fortunately, the Daily Spec psychologist Brett Steenbarger only had 12 hours of counseling, teaching and deaning to perform yesterday, so he was able to fit in some time for market counseling at his usual hour of 4:30 a.m. EST:

"[There are] 10 days since January 1978 in which the S&P is down between 0.5% and 1% and the Nasdaq is up by the same amount. Five of the 10 days occurred in 1999 or 2000. Two days later, the S&P was down an average of -0.73% (two days up, eight down) and Nasdaq was down an average of -0.61% (four days up, six down).

"I then looked at two-day periods in which the Nasdaq is up more than 4% and the NY Composite is down. Only five such periods since January 1978 and *all* occurred since December 1999. Five days later, the S&P was up 0.08% (two up, three down), the NY Composite was up 0.24% (three up, two down) and the Nasdaq was up 1.96% (four up, one down). In other words, the Nasdaq continued outperforming over the next week. But, of course, it's only a sample of five periods. . .

"From my perspective, the most interesting thing is how historically rare it is to see such Nasdaq outperformance over a two-day period. Never occurred between 1978 and 1998, but has occurred five times during this Nasdaq bull run."

Hoisting a Guinness

In closing, a light note from an 84-year-old reader who we nominate for the *Guinness World Records* as possessor of the highest ratio of chronological years to young-heartedness:

"Hi again....Got to your column a bit late today, sorry about that....Noted the reference to my 'core' holdings as my 'poor' holdings. Got a chuckle out of it. As a matter of fact, when I started out 50 years ago and bought some 'penny' stocks to get rich, I was sent stock certificates representing shares in Sterling Oil of Oklahoma and Copper Canyon Mining (two I remember and there were others), which were used to decorate the 'wailing' wall of my crying room!! Education was relatively inexpensive in those days. Those were my POOR holdings!!

"I'm really flattered by your kind comments about my investing style. It certainly isn't a 'one size fits all' for everybody. Incidentally, I noted that there was a single trade of 300 shares in Jinpan (JST: Amex) the other day. The question: Like your mentor Jim Lorie might do, Vic was that maybe you testing the waters? You don't really need to answer."

Speculator's Scorecard				
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Dow	1.07	-6	-7.0	-5.5
S&P 500	0.96	-1	-1.2	-2.7
Nasdaq	1.22	2	-4.2	-2.9
Europe STOXX-50	1.08	-1	3.5	-4.3
Dollar/euro	0.81	-2	-16.2	-2.2
Nikkei	0.84	1	-13.1	0.4
Dollar/yen	1.17	4	-3.7	0.6
Gold	0.67	-1	-6.6	-1.9
Oil	1.47	1	45.3	6.6
Bond Futures	1.18	-1	7.4	-2.0
2-Yr Note				

Futures	0.99	-2	0.5	0.1
Bund Futures	1.11	unch	0.4	-0.3

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Managing to Care About Healthcare Stocks

By Laurel Kenner and Victor Niederhoffer

Columnists

09/22/2000 09:30 AM

(Editor's Note: Speculators Kenner and Niederhoffer have asked their consulting psychologist, Dr. Brett N. Steenbarger, to contribute an occasional market insight from the world of psychology. This is the first of several Friday columns from Steenbarger.)

"How do people react to the passing away of a loved one?"

That was the question posed to me by Victor Niederhoffer upon the news of Intel's (INTC: Nasdaq) announced revenue shortfall. It was a particularly apt question.

Behavioral finance research suggests that people invest much more than money in their stocks. When those stocks fail to live up to their promise, speculators can experience the same emotional responses to loss -- denial, anger, helplessness -- that typically accompany the endings of close personal relationships.

It is precisely that immersion in turmoil that blinds speculators to the possible opportunities posed by such a crisis. When the broad averages are correcting, that is the time to be looking for sectors holding their value. If a sector can survive earnings woes, falling European currencies, and crude oil sticker shocks, surely it can only benefit when the market finds renewed strength.

Strength is exactly what we've been seeing among the healthcare payer stocks; the Morgan Stanley Healthcare index (SHMO: Amex), which are only off about 3% from their recent highs.

Healthy Comeback for Healthcare

After a harrowing period from September 1997 to October 1999, when the index shed over 40% of its value, the managed care firms have returned with a vengeance. Since October of 1999, the index has doubled to a new all-time high. This move has been led by former high-flyer Oxford Health Plans (OXHP: Nasdaq), which has more than doubled since March of this year. Also turning in stunning performances since March have been Humana (HUM: NYSE), Cigna (CI: NYSE), and UnitedHealth Group (UNH: NYSE), all up roughly 50%.

Could it be that managed care is turning things around?

In 1997, Harvard Community Health Plan psychologist Simon Budman and I wrote a book chronicling the changes in professional practice in the managed care era (*The Essential Guide to Group Practice in Mental Health*; Guilford Press).

We concluded that "the days of adversarial managed care, in which payers lean on providers for ever tighter cost containment, are numbered." This is because "Purchasers of health benefits are no longer simply interested in managing care and its costs; they want the best quality for their money."

A simple reality underlies this shift: high quality healthcare is less expensive than patchwork healthcare over the long haul. Employers, for instance, pay as much in absenteeism and reduced productivity due to

illness as they do in direct treatment costs.

Purchasers of benefits, alert to the indirect costs of illness, have begun to examine the cost per unit of patient improvement -- cost effectiveness -- as a benchmark. This, we noted, poses a particular challenge for managed care firms, since "MCOs (managed care organizations) ... can unilaterally cut costs, but they cannot unilaterally provide quality." The result is that insurers are experiencing new incentives to work collaboratively with consumers and practitioners.

The collaborative spirit is reflected in the selection of physician leaders to head such MCOs as Aetna. It is particularly evident in the widening of quality assurance efforts through the National Committee for Quality Assurance (NCQA; www.ncqa.org). As purchasers become quality driven in their decision making, MCOs are finding accreditation through NCQA to be an important tool for competitive advantage.

Just Waking Up

It is long overdue. In our review of 1996 NCQA data, Dr. Budman and I noted wide variation in health plan quality across the country. A new look at the NCQA data suggests that the industry is starting to "get it." The organization's year 2000 report finds that, in the previous year, health plans made significant improvements in quality, as assessed by consumers. These improvements were broad-based, covering every measured benchmark.

Still, the recent NCQA data reveals wide variation in health plan quality. Some companies have made an extensive commitment to accreditation and have a majority of their health plans rated "commendable" or "excellent"—the top possible ratings—by NCQA. Others have made less commitment and, when rated at all, these plans are given only the "accredited" designation. Among the more impressive performances were those from Aetna ([|AET|](#): NYSE) and Cigna ([|CI|](#): NYSE).

If purchasers continue their demands, investors should be rewarded for holding the managed care firms that are most committed to quality and collaboration. Two turnaround companies appear to be getting the message.

Humana ([|HUM|](#): NYSE) has nearly doubled in price since June and shows 16 plans rated "commendable" in the latest NCQA report and 1 rated "accredited". Insider buying is also particularly heavy in HUM, with five purchases and no reported sales in the last three months, according to the Insider Scores site (www.insiderscores.com).

Aetna is perhaps the most troubled stock of the group, with relatively flat share price performance over the past six months. It may also be the greatest quality turnaround story of the MCO group, however, as many of its plans have moved from lowest to highest NCQA rating.

As purchasers and consumers become increasingly savvy, this commitment to quality just may pay off.

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S&P 500	0.95	-2	-1.5	-3.6
Nasdaq	1.20	-1	-5.9	-6.6
Europe STOXX-50	1.07	-2	1.7	-6.3

Dollar/euro	0.82	1	-15.2	-1.4
Nikkei	0.83	-1	-13.9	0.1
Dollar/yen	1.16	-1	-3.8	-0.2
Gold	0.68	1	-6.2	-1.2
Oil	1.45	-1	32.8	-3.9
Bond Futures	1.20	1	7.9	-1.8
2-Yr Note Futures	0.99	unch	0.5	0.1
Bund Futures	1.12	1	0.8	-0.02

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Intel's Drop Signals Changing of the Technology Guard

By Laurel Kenner and Victor Niederhoffer

Columnists

09/25/2000 08:39 AM

Welcome to the 444th consecutive edition of Stock Talk! with Laurel and Vic. Today we're on the three-wall handball court bleachers along the boardwalk of Venice Beach, California, overlooking the Pacific Ocean.

The many technology investors here with us are in a state of great jubilation from Friday's recovery in the Nasdaq 100 from down 212 points, or 5.7%, to down 17 points on the day.

Those who own Microsoft ([MSFT]: Nasdaq) and Intel ([INTC]: Nasdaq) are down on the courts doing the Haka, the Maori ceremonial dance that the New Zealand basketball team performed in Sydney on Saturday after a trouncing by Vince Carter, Allan Houston and the rest of the US team.

The Haka is being danced here in Venice to mark the descent of the Wintel hierarchy and the ascent of a new generation of tech stocks. "Truly the bells toll for old-hearted men!" chants Dr. Andrew Coulter, one of the more graceful dancers.

Some straws in the wind on Friday: Extreme Networks ([EXTR]: Nasdaq) up 18%, Network Appliance ([NTAP]: Nasdaq) up 8%, Juniper up 7%. The Amex Biotech Index rose 6%, with the biggest gainers Millennium Pharmaceuticals ([MLNM]: Nasdaq), up 14%, Human Genome Sciences ([HGSI]: Nasdaq), up 13% and PE Corp.-Celera Genomics ([CRA]: Nasdaq), up 12%. Extreme Networks and the three biotechs, with market values of \$13 billion, \$13 billion, \$9 billion and \$5 billion respectively, are not in the Nasdaq 100.

Intel, the noblest Nasdaq stock of all, has lost 36% of its value this month, the largest single decession of market value in the history of the stock market. The chief anti-heat-seeking nabob of negativism at the leading financial weekly could hardly restrain his delight: "This is only the latest episode in the long-running Wall Street serial entitled *The Wreck of the Techs*. If you've missed any of those exciting episodes, don't fret too much – there's plenty more to come."

But there was an air of reverent sadness about the Haka dance in Venice. And why not? Intel rose 45-fold in the past 10 years and is still up 16% for the year, even after Friday's 22% decline. This was a stock. When will we see its like again?

The pretense of injury — the opossum's way of driving away predators -- was perfected by Vic's 61-year-old Uncle Howie Eisenberg, a distinguished habitué of this court, who recently won his 32nd national handball title, this time the National Masters Three-Wall Doubles Championship. And unlike that DuPont scion who won a national master's title in wrestling with himself the only contestant, Howie had to struggle to win against a field of 16 competitors.

As our readers know, the Howie Eisenberg gambit was developed by its eponymous inventor some 50 years ago in a singles match at the Brownsville Boys Club in New York. The gambit involved feigning injury to get a little respite toward the end of a hard game. Unfortunately, a stray doctor among the spectators would occasionally jump onto the court to bandage the pretended wound, thereby incapacitating the faker.

We sold our Intel a few weeks ago on fear that its microprocessors take too much power and generate too much heat to satisfy the requirements of portable computing. In the past, though, Intel has done well with the Howie Eisenberg gambit. Intel dropped 7% or more in a day on 10 occasions over the last five years; the average change in the next week was up 5%, with seven of 10 moves being gains. Such recoveries carried along Microsoft and other techs, with the average move in the S&P 500 4%.

These non-random results show that the many purchasers of Intel in the high forties on Friday have the wind at their back, and should be able to garner a nice trading profit from their purchases. But we can only agree with what dancer Mark McNabb is chanting down there on the courts: *10-9-7, 1-2-3, fiber networks, B2B.*

A wailing lament now rises from an anonymous dancer on his knees: "Beware down-trending momentum. My lesson this year was with MCI WorldCom (|WCOM|: Nasdaq) and Sprint (|FON|: NYSE); they still have not bottomed."

These dancers have given way to a third, wearing a glove on one hand, who jumped in to perform some fluid robotic gyrations. Yes, the gloved one sent a representative to Stock Talk! This dancer, a great follower of Jesse Livermore, wore a sweatshirt emblazoned "Boy Plunger." He chants over and over again: "Never buy a stock because it's down."

As the last drumbeats of the Haka dance faded, one of the dancers requested something by Beethoven. "I am engrossed by your frequent Beethoven references, as I too am an obsessive fan. In using his work as a market analogy, I think it would pay for traders to remember that the distinguishing marks of his music are dynamic contrasts, unexpected modulations and propulsive movement. How would Beethoven have done in the current convulsive market? During the last two days, while the S&P was unchanged, many options have gone up 15% in price."

Laurel replied that Beethoven would have intuitively understood the market today, for all the reasons mentioned. "Still, we think the rise in options is merely a last, desperate effort to shake some berries from the money tree from weak naked holders, and will soon be dissipated."

We were pleased to have among the dancers Bill Haynes, the 70-something aerospace engineer from California. He's bullish on Geron (|GERN|: Nasdaq). Why? He monitors the U.S. patent site at www.uspto.com, and he finds the company is at an inflection point. The patent site is classified by company, Bill writes, and Geron's portfolio of recent patents has prompted him to tout the company to everyone he knows. Geron has the Scottish lab that cloned the sheep and is now partnered with Celera. That forced the government to accelerate its deciphering of the human genome.

We also heard from Don Staricka, and he's bullish on his first software stock. He uses Adobe (|ADBE|: Nasdaq) products, and finds there is a huge learning curve associated with them, so users will be loyal to the brand.

Tune in again with us tomorrow, same time, same place, for Laurel's exclusive interview with the chief executive of Smith & Nephew plc (|SNN: NYSE|: Nasdaq), the UK company that makes, among other things, titanium hips such as the one that found a home last week in Vic.

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Dollar/yen	1.15	-2	-5.1	-0.5
Gold	0.68	2	-5.6	-0.3
Oil	1.43	-2	27.5	-2.8
Bond Futures	1.21	2	7.9	-1.9
2-Yr Note Futures	1.00	1	0.7	0.1
Bund Futures	1.13	2	1.0	0.5

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Loose Lips and Replacement Hips

By Laurel Kenner and Victor Niederhoffer

Columnists

09/26/2000 09:15 AM

"Increasing years and rotundity deprived him of his pristine activity." -- James Zug, *The True Story of the Origins of the Game of Squash*, regarding Sam Hoare, squash coach at the Harrow boarding school in the 19th century.

LONDON -- Being of the quantitative persuasion, we never expected that our stock picking would have much in common with the "buy what you know" method practiced by the Beardstown Ladies. Under this strategy, if you like a particular brand of chocolate, then you buy the maker's shares.

The most notable exponents of that school, besides the estimable if accounting-impaired Ladies themselves, are Peter Lynch, who relied on his wife's shopping mall expeditions for ideas, and Warren Buffett -- the most famous investor in the world, according to the Economist's dictionary, and a man whose discipline limits him to the purchase of shares in hamburger chains, shoe retailers, candy stores, out-of-favor bond houses, makers of razor blades, and other things he says he understands.

Part of the charm of the Beardstown strategy is the satisfaction of potentially being able to increase one's stock market gains by personally consuming the products in question.

But Vic has gone them all one better. He not only uses, on a daily basis, one of the products of the company in which he has lately acquired shares; he carries it around with him. Inside of him, in fact. It is, readers may have guessed, a titanium hip implant made by Smith & Nephew PLC (|SNN|: NYSE ADR) of London, which trades (of course) in London and also as an American depositary receipt under the symbol SNN on the New York Stock Exchange.

While Vic was unfortunately under anesthesia and unable to see the hip before it became part of his anatomy, Laurel saw one on her visit last week to the company's new, purpose-designed headquarters. There, by a window overlooking London's theater district, Smith & Nephew's hips and knees are on display in a lighted glass case, so polished and sparkling that she mistook them for a collection of high-tech art, until informed otherwise.

Squashing Colonialism

Let no reader suppose that it was an easy matter to get an interview with an executive of this 144-year-old company. Laurel called up and identified herself as a columnist for two financial Internet sites, to which the receptionist responded: "You're calling from the colonies?"

Well...not for more than 200 years. Must have been Laurel's American accent. With frontier spirit, she persevered. Boasting about Vic's 10-year reign as US champion of the great British game of squash, not to mention his triumphant return to tennis a mere four days after his hip operation, she won some time with Chief Executive Christopher O'Donnell.

O'Donnell, 53, holds degrees in mechanical engineering and business, and has played for the Brentwood and Swanland tennis clubs.

We must now confess that Vic's purchase of Smith & Nephew shares was not wholly in the Beardstown-

Lynch-Buffett spirit. No, the true reason he bought shares last week is that he believes them to be undervalued. An estimation, not surprisingly, shared by Mr. O'Donnell.

"In comparison with our US competitors, we're less highly valued," O'Donnell said. "We think we're worth more."

As Mr. O'Donnell noted, the price had been rangebound between 150 pence and 200 pence for about 10 years, except for one all-too-brief moment of glory on July 31, when the stock closed at 401 pence. Alas, it was all a mistake; a trader had intended to buy shares in another company, and erroneously put in a limit order using Smith & Nephew's ticker.

Since becoming chief executive in 1997, O'Donnell has streamlined the former conglomerate into a high-growth, McKinsey-style model of logical organization with three core business: orthopedics (implants), endoscopy (miniature blades and cameras for surgery) and what is called "wound management" -- an area that includes bandages specially treated to heal bedsores and other difficult lesions.

The company is completing a sale of its consumer-products business, which includes the Nivea distribution unit, and 416 million pounds, or 37 pence a share, was returned to shareholders Aug. 11. The company plans to cut its dividend and spend the money on growth.

The restructuring has helped the shares. The stock closed in London on Monday up 2.7% at 269 pence. On the New York Stock Exchange, the ADRs were unchanged at 38 5/8, up 16% year to date. The company listed its shares on the NYSE last November to attract more attention from investors in the US, where Smith & Nephew does half its sales.

Vic was somewhat disappointed to learn that, of the nine members of the board, only three appear to be peers of highest station, presumably a much lower ratio than the board of the typical long-lived English firm. He was comforted to learn, however, that in North Carolina, where golf and barbecue no doubt keep many doctors out of reach on nights and weekends, Smith & Nephew's sales manager Mark Wise is on call 24 hours a day, seven days a week, 365 days a year to help out.

This not only helped counterbalance his quandary over the nobility ratio, but helped ameliorate the typical American discomposure on reading that the chief executive remains committed to growing profits in "the high single digits," a statement that if made by an American CEO would make this month's 50% decline in Intel look like an imperial performance.

Of Lords and Boards

Hopefully the peers will be able to raise the sights of the chief executive. Along those lines, Vic announces a reward of 1,000 pounds for any of our readers who will submit a shipworthy study of the relationship of stock performance to the percentage of lords on boards.

Not to be overlooked is the English tendency toward understatement. Asked if Smith & Nephews can't do better than its projected 10% growth in global sales, Mr. O'Donnell said the market for the company's products is growing only 6% to 7% a year. "So we're reckoning to grow 50% faster than the market."

O'Donnell expects "bolt-ons" -- acquisitions -- to add two to three percentage points to sales growth. The company has been acquiring small high-tech companies. Problem is, "there's very little that's actually available" to buy, he said. "What we'd like to do is get up from 10% to the low teens," he said. "The aim is to exit 2001 with that growth rate."

When we interviewed him, O'Donnell was preparing for a visit to the US, to conduct 20 analysts on a tour of the company's factory in Memphis, Tenn., where Vic's hip implant was made, and of the endoscopy plant in Boston.

The goal is to impress the analysts with the Smith & Nephews pipeline and the strength of its new products - the company has spent \$75 million in cash over the past four years introducing two new hips and knees. (Orthopedic implant sales are up 14%.) A partnership with Medtronic in image-guided surgery is proceeding. The company has high hopes for a new, "minimally invasive" technique for removing varicose veins. The company is also setting up educational resources on the Internet.

Smith & Nephews employs 300 scientists, and spends 6% of sales on R&D. It also holds 2,500 issued patents -- one of the most interesting things about Smith & Nephew, from our perspective. O'Donnell told us that if we asked Smith & Nephew's rivals to characterize the company, they would probably zero in on the fact that while S&N holds many more patents in its areas of specialization than anyone else, it doesn't have the biggest market share.

We put Johnson & Johnson (JNJ: NYSE), which does hold the biggest market share, to the test on that point. A spokesman declined to comment, citing a corporate policy against speaking about competitors.

In addition to J&J, Smith & Nephews competes directly against Stryker (SYK: NYSE) and Biomet (BMET: Nasdaq) in the US. Insurance-reimbursement policies keep prices in a "corridor," so all of the companies make innovation, quality and service their selling points.

We like Smith & Nephew for its young-hearted pursuit of growth and focus on research. The company is a buyer, not a seller, in the M&A arena, Mr. O'Donnell told us, and we have no knowledge of any outside interest. Yet we cannot help thinking that those numerous patents could make Smith & Nephew as attractive to potential acquirers as to customers.

How S&N Stacks Up		
Company	5-Yr Annual Growth % (est)	Price/Earnings
Smith & Nephew	10	23
J&J	13	23
Stryker	20	37
Biomet	15	27

Laurel Kenner is a financial writer in New York City. Formerly head of US stock market coverage at Bloomberg News, she previously reported on police, politics and aerospace during her 17-year news career.

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Market's Zigging, Get Ready to Zag

By Laurel Kenner and Victor Niederhoffer

Columnists

09/27/2000 08:52 AM

The market is scheduled for a resounding "It's darkest before the dawn" rally today at the open, and not a moment too soon.

Signs began to show up on our terminals last night:

-- A philosophical broker friend says he's hearing "Just sell everything" from his customers - a near infallible tell of the bottom of a decline.

-- Our positive-thinking actuary Dick Sears wonders, "As I watch both the rain and my stock fall, I wonder if there's a correlation. Surely extended rainy periods make old-hearted pessimistic sellers of us all."

-- The barbecue-loving finance professor Mark McNabb notes, "The market is as nervous as a long-tailed cat in a room of rocking chairs."

-- And lastly, the scholarly day trader Bipin Pathak memorialized this market as "a Bataan death march for the bulls." At least, he adds, they got a chance to fatten up in August.

It's true that the S&P 500 is at its lowest level since the end of May. And that it has declined a good 100 points in the last 20 trading days. Also that bonds are at an eight-day high, and of course as all the negativism makes clear, the market is extremely oversold both quantitatively and qualitatively.

In short, an ideal opportunity for taking out the canes and hobbling down to Wall Street, as the old-time speculators did in times of panic, to buy good stocks and quickly realize the profits.

Adding to the bullish ambience, the European markets are already up 1%, and the always-foretelling DAX is up a nice 60 points on a 6800 base.

Lions and Tigers and Thailand, Oh My

However, our own resilience was tested by an e-mail from the Japanese sales executive Shui Mitsuda. He's recommending, of all things, Thailand. Laurel waited until Vic left the room before calling up the message. "Last week's visit to Thailand was my fourth this year, and maybe because an election is coming soon, the city looked much cleaner than on the previous visit. The CEOs I visited enthusiastically talked about how low Thai stocks are, with the average below 300 baht." He's buying Thai Military Bank.

His talk was so ebullient that Laurel could hardly do more than listen and smile.

The taxi-driver indicator is also bullish in Thailand, Shui says. Usually, drivers demand a special "Japanese" surcharge from him, but on this visit nobody did.

"There is an expression in Thailand: 'Even street dogs don't go starving, so how can people starve?' In

the long run, this country has plenty of room to grow. And the recovery will not be by borrowed foreign capital, but by hard-earned own capital."

Mr. Mitsuda then went on compare prices in Tokyo and Bangkok and finds a wide range of Thai prices that are at a quarter of the Tokyo levels. For example, a Coke is 12 baht, versus 47 baht in Tokyo, and room rent is 5,000 baht, versus 27,600. The average salary is one-eighth of a Japanese salary. "I don't think I am eight times more productive than a Thai person," says Shui.

When our health information specialist friend, Andrew Coulter, added that Thailand is his favorite country besides France, and that he's considering buying Siam Commercial Bank, Thai Farmer's Bank, Telecom Asia and Bangkok Bank, Laurel heard Vic's footsteps and hurriedly closed the thread.

Shy of Asia, Not Europe

While Vic has foresworn Asian stocks, he has lately taken a mild interest in the U.K. And he reports his partner, Dan Grossman, suggests an augmentation of the Lord-to-Board ratio we proposed yesterday as a tell for English stocks. "You may wish to separate hereditary peers from those knighted by the queen for their company's performance - e.g., Sir Richard Sykes, CEO of Glaxo Wellcome" (GLX: NYSE ADR). On the other hand, rising to the level of notice by the Queen is probably a contrary indicator, like appearing on the cover of *Business Week*.

Or the market's tendency to rally when investors and readers are ready to throw in the towel.

Speculator's Scorecard				
	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.07	-2	-7.5	-5.4
S&P 500	0.92	-5	-2.9	-3.6
Nasdaq	1.16	-4	-9.3	-4.2
Europe STOXX-50	1.08	-1	1.1	-4.9
Dollar/euro	0.83	1	-12.8	2.2
Nikkei	0.83	-1	-15.9	-0.7
Dollar/yen	1.17	2	-4.7	0.9
Gold	0.70	4	-4.8	0.5
Oil	1.39	-4	23.1	-4.9
Bond Futures	1.23	4	8.6	-0.9
2-Yr Note Futures	1.00	1	0.7	0.2
Bund Futures	1.13	1	0.9	0.4

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Nobody Asked Us, But

By Laurel Kenner and Victor Niederhoffer

Columnists

09/28/2000 08:31 AM

The late sportswriter Jimmy Cannon would occasionally run collections of observations on New York City life, politics, characters and, of course, sports. He would start these gems by saying, "Nobody Asked Me, But..."

We think Cannon would have seen much irony in today's market, and so in his honor we have taken to running our own "Nobody Asked Me, But" columns from time to time.

We hope that readers get a small part of the enjoyment from our efforts as they have from Cannon's, and encourage all to send us observations. We will publish those we like, with credit if desired, and reward the best with our trademark canes, for hobbling down to Wall Street in times of panic.

Nobody asked us, but...

The market has alternated strong up and down months since May.

When the Knicks mercifully traded their sullen center, Patrick Ewing, without a single teammate calling to wish him well, they left the roster open for Doc Greenspan to mercifully leave the Federal Reserve and take his place.

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

Most people hate much more to give back profits already made than they hate losing the same amount of money. Psychodynamics explain much market movement.

If you pick up a copy of *Red Herring* or *Wired* or *Upside*, magazines that weigh an average of 10 pounds each with 400 or more pages of advertising, and compare them with *Time* and *Newsweek*, you'll understand why Buffett and Greenspan and Abelson bring up the rear and Scott and Larry and Malone are at the top.

When Hillary Clinton appeared on the Letterman show secretly prepped with a list of answers to the questions she'd be asked, we thought back to her stunning success as a speculator in cattle futures. If you can't get investment advice from Hillary, the best strategy may be to buy and hold.

You always hear "if" when talking about investing! As old man Jim Johnson told me years ago when I was in my teens, "Mister, IF is da biggest word in da dictionary!"

The influence of a cap on an electric circuit reminds me of the stored current that bonds absorb and release to stocks with varying time constants.

A scientist keeps a lab book to record all his observations and experiments.

The popular figure who was the greatest speculator may have been Ty Cobb. He'd chew glass to eke out

a run or a profit, a very admirable quality for scoring in either baseball on the market.

You know you're in trouble when a guy sidles over to the girl you have your eye on and tells her he bought a few thousand shares of Ciena or its like a year ago on a lark and now it's up sixfold.

When a guy boasts that he participated in the last three hot IPOs courtesy of his Morgan Stanley broker, I start to wonder what outrageous commissions he is paying and how the rest of his portfolio is doing.

When a trader says he prefers making money to sex, I figure he's a sixpack floating on the ocean.

Speculator's Scorecard				
	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.05	-3	-7.6	-4.9
S&P 500	0.91	-6	-3.0	-3.9
Nasdaq	1.15	-5	-10.1	-6.1
Europe STOXX-50	1.09	1	1.5	-3.2
Dollar/euro	0.84	2	-12.7	2.5
Nikkei	0.82	-2	-17.4	-3.4
Dollar/yen	1.18	3	-4.4	-0.3
Gold	0.71	5	-3.3	2.1
Oil	1.37	-5	22.9	-3.7
Bond Futures	1.22	-1	8.1	-0.6
2-Yr Note Futures	1.00	unch	0.7	0.1
Bund Futures	1.11	-1	0.6	-0.02

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Fund Managers Are Only Human for Losing to Indexes

By Laurel Kenner and Victor Niederhoffer

Columnists

09/29/2000 08:40 AM

Note from Daily Speculations columnists Victor Niederhoffer and Laurel Kenner: No two columnists, however wise, can completely master the intricacies of the fathomless market. Therefore, from time to time we invite savants in our Speculators' message group to write guest columns, so that readers may gain an opportunity to profit from hearing fresh voices. Today's article is from Mark M. McNabb, a Chartered Financial Analyst and finance professor at Virginia Tech.

What is the typical mutual fund manager -- God or demagogue, pharaoh or pariah?

Actually, most are earnest and hard-working, with a wife, 2.1 kids, a dog and a mortgage. A few fund manager press hounds are gun-sliding Ferrari-driving lounge lizards. Should you care that your fund manager is human? Perhaps.

Let's remove the hype and look at some data. Academics have a cottage industry in research on the comings and goings of mutual funds and their managers. So let's see what those who do not run money say about those who do.

First, an endless body of research suggests that, on average, fund managers are ... average! You are probably familiar with the data showing that the S&P 500 Index has beat 75% of all equity managers over the past five and 10 years. Most investors jump to the conclusion that fund managers must be real bozos to let a namby-pamby index beat the socks off them.

Hard to Beat a Changing Deck

But is the S&P 500 really a passive index? In the 1980s, almost one-third of all S&P 500 companies were acquired and replaced. In the '90s, increasing numbers of technology and growth stocks were added, sometimes by booting a firm that was deemed not "representative," as Standards and Poor's puts it.

Some recent additions such as Siebel Systems (|SEBL|: Nasdaq), Yahoo! (|YHOO|: Nasdaq), America Online (|AOL|: Nasdaq), JDS Uniphase (|JDSU|: Nasdaq), Broadcom (|BRCM|: Nasdaq), Palm (|PALM|: Nasdaq), Qualcomm (|QCOM|: Nasdaq), Mercury Interactive (|MERQ|: Nasdaq), and Network Appliance (|NTAP|: Nasdaq) are companies with explosive growth and a history of rapid gains in stock price. Investors expect them to grow at a much greater rate than the firms they replaced. Thus, the S&P 500 is a managed index with a skewed survivorship bias. Makes it difficult to beat the house when they re-shuffle the deck!

There are other reasons that make it tough to beat the index. Even funds that aim to stay fully invested have to keep some cash on hand for redemptions to investors. Dr. Wermers at the University of Maryland has an article in the *Journal of Finance* that finds managers beat their indexes on gross return but underperform their benchmarks after subtracting expenses.

He also says the underperformance is from the fund's non-equity investments. Might suggest that equity managers should stick to equities or that they intentionally seek some low-volatility assets at times and are penalized by this behavior.

Do They or Don't They?

Part of his data finds that funds with high turnover (lots of trades) beat the S&P 500 on a net return basis. This provides some support that active management is superior to passive.

Dr. Burton Malkiel, the noted author from Princeton's economics school, came to the opposite conclusion in an article published in the June 1995 *Journal of Finance*. Studying data from the 1970s and 1980s, he found that managers, on average, slightly underperformed their benchmarks, using net or gross returns.

The poor performance of funds that failed is tracked in Malkiel's data, and so the returns available to investors are a worst-case representation for the fund industry. Also, mutual funds didn't really start to compete by lowering fees until the success of the Vanguard family of funds became evident in the 1990s.

Malkiel also found that in the 1970s, some funds were consistently good, well above the statistical norm. The 1970s were marked by extremes in macroeconomic factors, and represented the height of Keynesian thinking on economics. One possibility for the good fund performance is the rare and fortunate convergence of academic economic training on risk factors, risk aversion by managers, and a stock market that responded in an economically predictable manner.

In the 1980s, Malkiel found, funds generated inconsistent returns. It was a decade of remarkable contrasts, rapid shifts in the performance of sectors, asset classes and part of the economy. No wonder fund managers had difficulty putting together a string of successes.

It's All About the Expenses

Does this mean we should dismiss the efforts of fund managers? No, just know the lessons, oft-repeated by wiser ones, that keep pennies dear and returns higher: low expenses, low expenses, low expenses!! The lowest expenses are no expenses. The lowest expenses are charged for passive indexes traded in the market rather than actively managed funds.

If you plan on trading rather than investing for the long term, you should consider that brokerage commissions may make trading a passive index in the stock market more expensive than a mutual fund with average expenses but no load or direct sales charge.

That said, trading fees are very low for Spyders (|SPY|:Amex) and Qubes (|QQQ|:Amex), securities traded on the American Stock Exchange that track the S&P 500 and Nasdaq 100. In addition, about 60 exchange traded funds, or ETFs, cover domestic and international markets, as well as sectors and industries in the markets. There are Merrill Lynch Holdrs, which trade in units of 100: |BBH| (biotech), |BDH| (broadband), |IAH| (Internet architecture), |IIH| (Internet infrastructure), |HHH| (Internet commerce), |BHH| (B2B Internet), |PPH| (pharmaceuticals), and |TTH| (telecom stocks). There are almost four dozen ETFs known as iShares from Barclays on industry, growth, value, and country indexes. For a list of iShares see <http://finance.yahoo.com/l?s=ishares>.

Some ETFs don't trade actively and aren't as volatile as a single stock position, so consider these as good long-term investments or for speculation in major moves in an index. The best thing about the ETFs is that when you buy or sell you receive the quote at the time of the trade rather than an end-of-day settlement price.

Next time, I'll discuss active management: Are some mutual fund managers better bets than others?

Mark M. McNabb, Chartered Financial Analyst, member of the Speculators and an original Hyperpassive Investor, can be found teaching in business schools in the south such as Virginia Tech and Tulane University while driving a classic Olds Cutlass convertible in search of the perfect BBQ sandwich. He invites your comments at mmcnabb@vt.edu.

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