

Laurel Kenner and Victor Niederhoffer
Columnists

WORLDY INVESTOR

OCT. 1 thru OCT. 31, 2000



Amid Atonement, Market May Offer Opportunities

By Laurel Kenner and Victor Niederhoffer

Columnists

10/02/2000 08:31 AM

Vic: *Should I buy stocks?*

Laurel: *Should you what?*

Vic: *Should I buy stocks?*

Laurel: *Should you buy stocks?*

With the Nasdaq getting crushed again and Intel in the dumps,
You're upset, you're worn out. Go inside, go lie down.
Maybe it's Alan Greenspan.

Vic: *Laurel I'm asking you a question: Should I buy stocks?*

Laurel: *You fool!*

Vic: *I know, but should I buy stocks?*

Laurel: *Should you buy stocks? For 25 years, you've bought and held.
Bought the Dow, traded the Spooz
Added to holdings, paid the bills
After 25 years why talk about selling now?*

Vic: *Then you're buying?*

Laurel: *I suppose I will*

And I suppose that you will, too.

Vic: *It doesn't change a thing, but even so,
After 25 years it's nice to know ... that you're not selling at the low.
(To the tune of "Do You Love Me" from Fiddler on the Roof)*

Vic: Welcome to the 445th edition of Stock Talk! We're in Times Square at the world's biggest TV screen, watching apologies and reassurances to investors light up the football-field sized Nasdaq display.

We are, after all, in the midst of the Jewish high holidays, a time to apologize and atone for any bad behavior during the year.

And the market has much to atone for.

Year to date, the Nasdaq Composite is down almost 10%. In September alone, it fell 13%; Intel (INTC: Nasdaq) lost 44% and Apple Computer (APPL: Nasdaq) fell 58%.

However, the mistress of markets may have some nice rugalah in store for us.

Over the last two years, end-of-month declines such as occurred in the last hour of trading on Friday were followed by substantial gains in the following six trading days. It's all so beautiful if you have proper money management.

Thus, it seems like an ideal time to follow Tevye, the Sholom Aleichem character who took a flyer in the Russian stock market. But in this case, a buy-and-hold strategy (at least for a month) would be

appropriate.

I see we have here with us today Edwin Marks. Ed, you told our worldlyinvestor.com readers on Aug. 31 about Titan Corp. (TTN: NYSE), Harris & Harris (HHGP: Nasdaq) and Science Dynamics (SIDY: Nasdaq). Since then, Titan is up 9%, Harris is up 42% and Science Dynamics has gained 104%, with a big move after its listing on the Nasdaq Small Cap market a few days ago. Those returns are not inconsistent with the 32% a year you've been registering for the last 30 years, which led in part to our naming you the Shakespeare of markets, because of your modesty and because in our opinion you're the best and most insightful of all. Is SIDY still worth buying? And do you have any other picks?

Marks: Victor, long term I still like SIDY. In my humble estimation, it is still worth buying. There will probably be a rights issue to subscribe to the communications company, Cascadent, shortly before they have an IPO. My guess is they will be taken over by a biggie within two years, but not before they can show good progress and increase their value. They are on the cutting edge of Internet communications research.

I also like Burlington Northern (BNI: Nasdaq) and Wheeling Pittsburgh (WHX: Nasdaq) – a wild Spec that can double or triple in the next few weeks. It sells for less than \$2.

Question: Laurel, the market always seems to crash in October. Do you think I should go to cash?

Laurel: Sell to the sleeping point. Last week, I took a trip down to Wall Street to pay my respects to the ghosts of speculators past and to look in on Jim Grant's Halloween exhibit at the Museum of Financial History. Mr. Grant has assembled an especially scary collection of newspaper clippings and photographs from October 1929 as part of a showing entitled "Free Markets, Free Press."

And truth be told, a shiver ran down my spine when I read the *Daily News* banner headline of Friday, Oct. 25: "Stock Market Crisis Over." "The utter helplessness of the situation defies description... Stocks were sent to the slaughter on the Exchange in blocks of thousands of shares. At times there were no bids. It was like a bottomless pit," wrote the correspondent, describing the action of the previous day. And yet the troubles had only begun: on Monday and Tuesday, the Dow fell 24% in what we still call the Crash.

Of course, that was 81 years ago. But a speculator can profit from other's memories.

Question: Vic, do you have any good currency plays?

Vic: We spoke with a friend of ours from the Windy City who keeps a watchful eye on currencies during the Olympics and at other times, and he says it's a good time to buy the Aussie dollar. The Olympics brought a windfall of A\$1.3 billion to the local economy and generated demand for the currency. One might think that the exchange rate will go back to normal now. But our friend feels the market has fully or perhaps more than fully discounted the transitory nature of the Olympic effect.

The economy down under is quite strong, he said, and he would not be surprised to see the Royal Bank of Australia raise interest rates by as much as 50 basis points within the next month to defend the value of the currency and fend off inflation. He sees the currency rallying 2 or 3 cents (roughly 4%-6%) over the next few months, and recommends buying it versus U.S. or Canadian dollars.

Thanks for tuning in. Join us again for another version of Stock Talk! next week.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.05	-1	-7.4	-2.1
S&P 500	0.91	-1	-2.3	-1.5
Nasdaq	1.15	-1	-9.7	-3.5
Europe STOXX-50	1.07	-2	1.2	-4.2
Dollar/euro	0.85	1	-12.9	3.2
Nikkei	0.82	1	-16.8	-2.4
Dollar/yen	1.16	-2	-5.3	-0.7
Gold	0.70	-2	-5.0	0.8
Oil	1.37	1	60	-12
Bond Futures	1.24	2	8.5	0.5
2-Yr Note Futures	1.00	1	0.7	0.1
Bund Futures	1.14	2	1.1	0.7

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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Pulling Out All the Stops and Rarities

By Laurel Kenner and Victor Niederhoffer

Columnists

10/03/2000 09:00 AM

In a desperate final attempt to shake the last weak remaining holders of technology shares out of their positions, the Nasdaq declined some 3% yesterday, while the S&P 500 closed little changed.

It is rare indeed for any decline to occur on the first trading day of the month.

Furthermore, the substantial declines of yesterday and Friday occurred even though most stocks were advancing – also very rare.

There have been so few similar cases that it would be impossible to draw meaningful statistical inferences from them. Yet qualitatively, it seems to us that the bears have used up their creativity in the numerous ploys with which they have attacked the market during the last few weeks. So we believe it is worth looking at the aftermaths of the four days during the last three years when Nasdaq 100 futures fell between 2% and 4% on the first day of a month.

Here are the instances, along with the move to the end of the month:

Aug. 1, 1999: 16%
 June 1, 1999: 13%
 Oct. 1, 1998: 10%
 June 1, 1998: 15%

(For the sake of completeness, we note that on April 1, 2000, the Nasdaq 100 fell 7%. Over the rest of the month, it fell 8% more.)

Looking back at Oct. 1, 1999, we note that the five companies that were down the most on Oct. 1, 1999, returned an average of 7% during the remainder of the month, with only one company, Genzyme (|GENZ|: Nasdaq), down.

The five Nasdaq 100 companies that lost the most yesterday, Oct. 1, 2000, were:

Medimmune (|MEDI|): -26%
 Smurfit-Stone (|SSCC|): -17%
 Broadvision (|BVSNI|): -15%
 Legato Systems (|LGTO|): -12%
 At Home (|ATHM|): -11%

Brett Steenbarger, the Daily Speculations consulting psychologist, looked at the last 35 years of S&P 500 data to find instances of a down index when advancers led decliners. He found very few patients indeed: when the advance-decline ratio was positive, the S&P declined 1.4% only three times. In all three cases, futures were up 20 days later by an average of 3.61%.

At times like these, and at all other times, we look to the wisdom of market veterans.

Edwin Marks, whose investment return of 30%-35% over the last three decades speaks for itself, followed up his recommendation of Wheeling Pittsburgh (|WHX|: NYSE) (up 29% yesterday, after we reported his pick in our morning column), with the following words of wisdom:

"Inactivity is one of the keys in winning big, and not just from a commission-saving point of view," Marks wrote. "'Market players' like to think activity is essential to success. In truth, I find that successful good investing is DEADLY DULL ... but in the long run produces far better results. I keep telling that to my investing friends (widows, orphans, retirees, family) and after awhile, they got the message, and are much more productive with their newly found free time."

Serendipitously, we paid a visit yesterday to the Jackal, another investor who measures his investment horizon in years. He has lately been buying Stewart Enterprises (|STEI|: Nasdaq), a funeral home and cemetery stock that's down 59% this year.

A few years back, as the industry was consolidating, investors loved death companies. When the roll-up party ended, death stocks got dumped. Now, Stewart is that rarity of rarities in today's stock market: a profitable enterprise that is trading at 0.2 times book.

Stewart's long-term growth is estimated at 7% -- hardly white-hot, but rather more than its price would indicate. The company, which is expected to make 70 cents a share this year, closed yesterday at 1 15/16.

To the Jackal, this smells of the sort of emotional reaction associated with children's relationships with their parents: They may hate them, but they come around to loving them.

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S&P 500	0.90	-2	-2.4	-0.6
Nasdaq	1.13	-2	-12.3	-4.2
Europe STOXX-50	1.08	1	1.8	-3.2
Dollar/euro	0.84	-1	-14.7	2.8
Nikkei	0.83	2	-16.11	-1.0
Dollar/yen	1.14	-3	-10.4	-2.0
Gold	0.71	-3	-5.1	0.6
Oil	1.38	2	68.1	-9.5
Bond Futures	1.23	-1	8.3	0.2
2-Yr Note Futures	0.99	-1	0.9	-0.03
Bund Futures	1.13	-1	2.7	0.9

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Smart Stock Picking Can Beat a Tough Market

By Laurel Kenner and Victor Niederhoffer

Columnists

10/04/2000 08:54 AM

When Vic was a student at the University of Chicago in the 1960s, James Lorie and Larry Fisher had just completed their comprehensive study of the returns from buying all stocks for all starting and ending periods from 1926 to present.

Their conclusion was that almost any diversified portfolio of 10 or more stocks held for five years or more is likely to have a return of 10% or more per annum.

Even at that time, Vic liked to kid the eminent. During the 1970s, when stocks showed an inflation-adjusted return of -70% for the decade, Vic told Lorie: "You have created more loss of wealth for more people with your studies than any other single professor in history."

Lorie smiled and said: "Be patient. Manage your money properly. The good days will come again."

How right he was.

In updating the Lorie-Fisher study through 1991, Louis Engel and Henry Hecht, in "How to Buy Stocks," reported: "When the investment horizon extends at least 10 years, the historic pattern is particularly encouraging. Of the 1,653 ten-year-plus periods covered, more than 95% show an annual compounded return above 9.1%, 90% above 10.6%, and in half the periods the return was 13.6% or better. Indeed, in nearly three out of ten instances, the return topped 15%."

During the last nine years, the returns have exceeded the levels that Lorie and Engels reported for the previous 66 years.

We were reminded of the egg Lorie put on our face by some of our recent calls. "All the small dips should be bought," we opined on Sept. 5, as the Nasdaq began a 16% slide. Yesterday, we said: "In a desperate final attempt to shake the last weak remaining holders of technology shares out of their positions, the Nasdaq declined some 3% yesterday." Not quite final, as it turned out, as the Nasdaq fell another 3% after our prediction.

At times like these, we have to admit that when our reader Dennis Gorski, a specialist in undervalued foreign stocks, suggests that he finds our recommendations on individual stocks more valuable than our market calls, we cannot refrain from smiling.

While we are still confident that the market will be substantially higher at the end of the month than today, we are going to follow Mr. Gorski's suggestion and offer some more recommendations on individual stocks.

During times of great decline, we have always found it helpful to look for some reasonable stocks selling at low prices on the grounds that when the rise occurs, they tend to have the sharpest percentage changes. Vic started his own stake with a similar procedure when he bought a few shares of every American Stock Exchange company selling at 50 cents or less in the early 1960s.

A similar strategy today would be to choose stocks selling for less than \$5 on the NYSE. The problem is that there are 160 of them. Some of them are doubtless tomorrow's best performers, and others are destined unfortunately for Boot Hill.

To winnow the good from the bad, we elected to use an old method: If insiders bought the stock in the last four months, that was good enough for us, and we included it in our portfolio. We started with the As and stopped when we had a baker's dozen.

The list of 13 stocks from A-G selling at less than \$5 with insider buying in the last four months appears below.

Happy hunting, and be sure to diversify. We'll see who eats crow, raw, squawking and fully feathered on this one.

The Five-Buck 13

R. G. Barry (|RGB|: NYSE)
 CKE Restaurants (|CKE|: NYSE)
 Capital Senior Living (|CSU|: NYSE)
 Computer Task Group (|TSK|: NYSE)
 Cone Mills (|COE|: NYSE)
 Cotelligent (|CGZ|: NYSE)
 Dan River (|DRF|: NYSE)
 DIMON (|DMN|: NYSE)
 GAINSCO (|GNA|: NYSE)
 Galey & Lord (|GNL|: NYSE)
 General Chemical (|GCG|: NYSE)
 Global TeleSystems (|GTS|: NYSE)
 Graphic Packaging Int'l (|GPK|: NYSE)

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Gold	0.70	-4	-5.6	0.04
Oil	1.39	-1	67.5	-8.4
Bond Futures	1.21	-2	8.1	-0.2
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Of Tech's New Guard and Cheap Old Stocks

By Laurel Kenner and Victor Niederhoffer

Columnists

10/05/2000 08:59 AM

Tuesday's move in the markets was mainly, as happens so often in markets, the opposite of the previous day's move.

The S&P 500 futures, for example, closed up 1% on the day, 17 points above the low, whereas on Monday they closed down 1% on the day, down 32 points from the high.

Not to be gainsaid, however, was the alacrity and finality with which the market plummeted in the first 40 minutes to take out the lows of the last four months, before reversing and moving up to a level where, with today's opening call, the market is exactly unchanged on the week.

We can almost hear the demon barber of Fleet Street intoning, "How appropriate, Mrs. Market."

However, the S&P 500's 30-point drop in the last 1 1/2 hours of trading on Tuesday will give us nightmares forever. We were reminded of that famous 1981 cricket match between Australia and New Zealand when the Kiwis elected to roll the last pitch, thereby insuring a win for their team.

Everyone around the world yelled, "That isn't cricket!"

That's how we felt Tuesday afternoon. We wanted to throw in the towel. Fortunately, before we took drastic measures, the mistress of markets made amends, in her own way.

Andrew Coulter, the health care consultant, wrote us yesterday that he was "feelin' chipper" and had bought back all the Intel (|INTC|: Nasdaq) he sold before the fall. Intel, which dropped 44% last month, rose 4.2% yesterday, helping Cisco (|CSCO|: Nasdaq) and JDS Uniphase (|JDSU|: Nasdaq) lead a 3% rise in the Nasdaq.

Changing of the Guard

But even tech fans were talking about a changing of the guard.

"The general growth funds, having suffered the worst six weeks they can remember as all generals of growth were taken out and summarily shot without a hearing, will move some money from tech to 'certain' growth, i.e., utilities or healthcare or oil or something with an E in P/E," writes the barbecue-loving Virginia Tech finance professor and Daily Speculations guest columnist Mark McNabb. "Now the Wintel complex becomes hostage to the value players, bottom feeders and old men who'll never buy them when they are cheap either...but will pat themselves on back for getting the -30% right and missing the 10,000%."

Omid Malekan, a mathematics major at Columbia University, disagreed, but only about whether the hearing had been fair. "I think the Intels and Microsofts (|MSFT|: Nasdaq) of the world received more than a fair hearing," he wrote. "These companies are guilty of doing the same old things because in the past it made them money."

'Don't Doji Us'

We are indebted to one of our Manhattan correspondents, a student of technical analysis, for bringing to our attention yesterday the possible approach of a Doji top.

"Looking at CHF/JPY [the Swiss franc trading against the yen], the triple top at 63.00/10 and the triple negative divergence on the short-term charts is showing a correction in the offing. If today's close in the cross is below 62.80, a classic Doji top formation will have formed and the move down to 61.40/75 is likely in coming sessions."

"I believe the correct response is: 'Oh no! Da meh! Yah meh teh! Don't doji us!'" writes reader John Lamberg. We're not very good at promoting ourselves, and rarely plug Vic's book, but we must say that Mr. Lamberg has read a highly pertinent passage in "The Education of a Speculator" relating Doji stars to the tale of a Japanese lady whose history brings to mind the tale of Joey Buttafuoco. This formidable personage subsequently opened a club, where she descends a staircase nightly to a chorus of "Da meh!" (Have mercy!) from her male patrons as they lean backward while covering their private parts.

At any rate, it looks like we're safe from the Doji star. The Swiss franc/Japanese yen exchange rate closed at 68.03 on Wednesday.

Putting Money on the Presidential Race

We observe a divergence in the presidential polls run by mainstream organizations and the Iowa Poll, the electronic futures market at www.biz.uiowa.edu/iem/index.html where people can bet real money on the candidates.

The Iowa Poll, updated every 15 minutes, as of 11 p.m. Wednesday showed the Democrats in the lead 66% to 33%, which would be the widest margin of victory ever.

By contrast, the latest CNN/USA Today/Gallup Poll found Gore with 46% of the vote to Bush's 44%. CNN said this is the closest race in 20 years. The same poll also found that 48% of the voters thought Gore won Tuesday's presidential debate, compared with 41% for Bush.

Over the years, the Iowa Poll has been by far the most accurate.

The Rest of the List

Yesterday, we presented a baker's dozen of stocks selling for less than \$5 on the New York Stock Exchange that saw buying by officers or directors during the last four months. Vic accumulated his first stake, back in the trepidatious market of the 1970s, with an identical strategy for American Stock Exchange-listed shares.

Yesterday's list included companies from A to G. Today, we present the rest of the list.

Hecla Mining (|HL|: NYSE)
 HomeBase (|HBI|: NYSE)
 Huttig Building Products (|HBP|: NYSE)
 IKON Office Solutions (|IKN|: NYSE)
 Industrial Distribution (|IDG|: NYSE)
 J. Alexander's (|JAX|: NYSE)
 Kinross Gold (|KGC|: NYSE)
 LTV (|LTV|: NYSE)
 Lodgian (|LOD|: NYSE)

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From the Stock Market to a Market of Stocks

By Laurel Kenner and Victor Niederhoffer

Columnists

10/06/2000 08:50 AM

Editor's Note: Daily Speculators Kenner and Niederhoffer have asked their many friends and associates occasionally to contribute their insights to the column. Today's column features a dialogue between Speculators' consulting psychologist Dr. Brett N. Steenbarger and frequent Niederhoffer interlocutor Frank Linet.

Linet and Steenbarger are the yin and yang of speculation. Linet is a South Floridian specializing in small biotechnology firms with a superior track record of innovation. He is the epitome of the fundamental investor. Steenbarger hails from upstate New York, where he teaches at an academic department of psychiatry and specializes in the short-term trading of market-index instruments. Steenbarger relies upon multivariate, "nearest neighbor" models to time his trades.

Linet: Euclid, like our speculative duo of Kenner and Niederhoffer, enjoyed a cold beer and a perfect number -- the first perfect number is six. For those among the audience who are a bit rusty on perfect numbers, any number that will divide into its own without leaving any residual is the perfect number! The Greeks, even in fine party togas, knew of only TWO other perfect numbers: 496 and 8,128.

Steenbarger: Are EuClidding me? If you go into the Yahoo! search engine and type in "perfect," you'll find over 1000 web pages indexed. The quest for perfection is timeless, from the Pythagoreans' fascination with symmetry to the heroism of Ayn Rand.

Traders, alas, long for perfection in the markets, hoping that a perfect order will reveal itself in the form of angles, waves, cycles, and number sequences. Like Plato, they view market prices as shadows on the cave wall, reflections of perfect, unchanging essences expressible only in mathematics and music. For them, it is a stock market, not a market of stocks: a single, homogeneous entity obeying universal law.

Linet: Dr. Brett, we all at one time or another dwelled in the market's womb as blind cavefish, and per Darwinian and Niederhofferian evolution some among us were spawned as speculators while others were spawned as investors. So it has always baffled me as to why, in a market world filled with Swedish equities and German equities, Indian, Israeli, and Scottish equities -- not to mention multi-marketed indices, the American investor strives to beat, meet, or compete with the dowdy Dow, the sloppy S&P -- while Alan Greenspan favors the Wilshire 5000!

Steenbarger: You're absolutely right. The Dow, S&P, and even the Nasdaq don't begin to capture the range of stocks trading in today's market.

You'll be interested to know, Linet, that I performed a little data analysis on 17 of your favorite small-cap biotech holdings. I went back 3 years and computed the correlation between daily price changes in each of the stocks and the same day price changes in the Biotech ($\$BTK$), Nasdaq Composite ($\$COMPQ$), and NYSE Composite ($\$NYA$) indices.

The average correlation between daily changes in these stocks and the Biotech Index was only .338. The correlations with the Nasdaq and NYSE were even smaller: .258 and .161, respectively. That suggests that less than 10% of the variance in the movement of these stocks can be attributed to broader market

trends. Trying to time the purchase or sale of these small-cap biotech stocks based upon general market factors is apt to have limited success.

I was even more surprised to see that the average correlation among the 17 stocks was only .161. These small-cap biotechs are true lone wolves, trading much more idiosyncratically than stocks that are widely held and traded by institutions.

Linnet: Brett, the market is as elusive as the kabuki masked dancer. One investor approaches as a matador to tame, ride, or banish the bull. Other dancers, perhaps masked as speculators, become bulls though masked as wolves with gnarling teeth that grip but do not pierce the bear but prolong the dance with a waltz that in turn slows or fuels the masked partners from fluid graceful minuet fragilities to Sousa crescendo victors.

Each participant is cached in a multitude of logical and psychological masks and perhaps the mask one wears or adorns with bravo is only used for S&P dances. Other masks are forged and sanctified for the Russell dance, the hustle mask for the Nasdaq melodies that one moment are 4/4 beat and in an minute transform into the small-cap mask, tear-dried in April and yet still salty of tears from recent melodies scored by Xoma ([|XOMA|: Nasdaq](#)), Onyx Pharmaceuticals ([|ONXX|: Nasdaq](#)), Axys ([|AXPH|: Nasdaq](#)) and other young Sioux dancers, prenatal tears shed by the glee and hopes of Genelabs ([|GNLB|: Nasdaq](#)), La Jolla Pharmaceutical ([|LJPC|: Nasdaq](#)), and Aronix Pharmaceuticals ([|ARNX|: Nasdaq](#)) warriors, upstart masked dancers.

The indices we seek to see are elusive, floating, and forgiving, but only if one is well masked, pensive, passionate, patient, adaptive and cunning.

Steenbarger: You've captured the market's rhythm perfectly. The small-cap mask is perhaps the most striking of all the kabuki ornaments.

When O'Shaughnessy researched his book *"What Works on Wall Street,"* he looked at the returns from firms as a function of capitalization size. Ten thousand dollars invested at the end of 1951 became \$1 million when invested in large stocks. It became \$800,000 when invested in companies with capitalizations over \$1 billion. When invested in micro-cap stocks, however --those with capitalizations under \$25 million -- the \$10,000 returned over \$29 million.

Such companies, he notes, are too small for the institutional investor, but a veritable gold mine for creative and unconventional souls like you, willing and able to do the research that separates the warrior dancers from the pie-in-the-sky romancers.

Note: The 17 biotech stocks Linnet favors include Axys Pharmaceuticals ([|AXPH|: Nasdaq](#)), Geron ([|GERN|: Nasdaq](#)), Medarex ([|MEDX|: Nasdaq](#)), Targeted Genetics ([|TGEN|: Nasdaq](#)), Genelabs Technologies ([|GNLB|: Nasdaq](#)), Alliance Pharmaceutical ([|ALLP|: Nasdaq](#)), Xoma Ltd. ([|XOMA|: Nasdaq](#)), Onyx Pharmaceuticals ([|ONXX|: Nasdaq](#)), Regeneron Pharmaceuticals ([|REGN|: Nasdaq](#)), Corvas International ([|CVAS|: Nasdaq](#)), Ribozyme Pharmaceuticals ([|RZYM|: Nasdaq](#)), Protein Design Labs ([|PDLI|: Nasdaq](#)), Cell Therapeutics ([|CTIC|: Nasdaq](#)), Cubist Pharmaceuticals ([|CBST|: Nasdaq](#)), Neose Technologies ([|NTEC|: Nasdaq](#)), Ortec International ([|ORTC|: Nasdaq](#)), and Abiomed ([|ABMD|: Nasdaq](#)).

Linnet owns all of the above stocks. Steenbarger does not hold a position in any of the securities mentioned. Linnet can be reached at frlinet@webtv.net. Brett can be found at steenbab@aol.com.

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Europe STOXX-50	1.09	1	3.1	1.1
Dollar/euro	0.83	-1	-15.6	1.0
Nikkei	0.84	-1	-15.1	-1.3
Dollar/yen	1.15	1	-10.7	-2.5
Gold	0.69	-6	-6.2	-0.4
Oil	1.33	-3	59.5	-10.3
Bond Futures	1.21	1	8.5	0.2
2-Yr Note Futures	0.98	1	0.9	0.03
Bund Futures	1.09	-4	2.5	0.1

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Amid Markets Decline, the Speculators Retest Their Bull Case

By Laurel Kenner and Victor Niederhoffer

Columnists

10/09/2000 10:37 AM

The scientific method is a cyclical method of gaining knowledge. It involves the formulation of a hypothesis, gathering and evaluating evidence related thereto, and the revision, sharpening and generalization of the hypothesis, based on the evaluation.

Since the terrible April 10 decline, we have been adamant in suggesting that the time to buy stocks is all the time, and that by attempting to sell the market when it looks dangerous, you miss all of the 10 million percent-per-century rise in your favor.

Now that the market has cratered since Labor Day, when we said, "Nothing has changed to revise our Rule #1: never sell a stock short," it is time to reexamine our hypothesis to see if it deserves to be revised.

One of the helpful first steps in the gaining of knowledge is to gather data and classify it. The formulation of the periodic table of the elements enabled Dalton to develop the atomic theory of the elements. Similarly, the observations of Kepler and Copernicus let Galileo and Newton formulate their laws of motion, and Darwin's painstaking sifting of observations from his five-year study aboard the Beagle led to his theory of natural selection.

Hunting and Gathering Data

Last Friday's diabolical decline in the markets was the second-worst drop on an employment Friday ever. Why did it happen?

For one, the market during the past two years has risen more on employment Fridays than in the entire rest of the month cumulatively. This knowledge has gradually been disseminated, both formally and informally, and doubtless led to shrewd operators moving ahead of the form by buying on Thursday, thereby leaving the market vulnerable to a decline on Friday.

Second, there are a bunch of fixed contributors to the market who believe that because a straight line can be drawn between two points, if you extend the line in the direction of the last point it somehow has predictive value as to the future. Such operators have made enormous contributions to the market in recent years, and it was guaranteed to happen that the most famous progenitor of this mystical approach recently closed his fund again. In so doing, he proudly proclaimed that the internal rate of return on his fund was extraordinarily high (although the contributions to the market ecology also were enormous).

Hope springs eternal for these slow-moving, fixed-rule-following operatives, and no matter how much money they lose following trends, they continue to sell the market when it sets a new low. When S&P 500 futures broke below 1435 on Friday, there were sellers in abundance ready to sell more and more, while the bulls didn't have the firepower or inclination to take back their rightful contribution to the market at the end of the week.

Ever-Vigilant Fed, or Over-Vigilant Fed

In cataloging the reasons for the recent declines, one should not overlook the always pernicious influence of Doc Greenspan. Apparently concerned mainly with maintaining the independence and

continuity of the Fed, the Doc came up with an uncalled-for bearish inflation forecast at the Tuesday meeting, after six consecutive increases in the funds rate. You see, the Fed has to show that it is still vigilant about inflation, even though everyone knows it dare not risk antagonizing the Democrats by raising rates in the final stages of an election campaign.

While the Doc has followed our advice and given up his "irrational exuberance" speech, replacing it with the growth-is-good hypothesis, we will still not be satisfied until he trades his wing tips for high tops and moves to New York to take over for the Knicks' mercifully departed sullen center now to inflict his woes on the already beset town of Seattle.

But are we going the way of the old-hearted men? Is the market ready to go into a sustained sinking spell while we valiantly fan the bullish flames? Are we going to be just as fixed in our erroneous ways as the bear gurus who vainly attempted ever since Dow 2000 and Nasdaq 700 to talk the market down while causing an incredible diminution of wealth for all those who followed or were influenced them?

Are we now in a bear market?

We think not.

The evidence is that after big rises in bond prices, the market is always in a bullish mode. The bond rally on Thursday and Friday is enough in and of itself to rally the stock market.

Big Drops Banish Bears

Add to that the S&P contract's 29-point drop in S&P futures on Friday and its 147-point slide from top to bottom since March 24. The biggest drop ever to occur on an employment Friday was a 31.7-point decline on Jan. 9, 1998, and on the following Monday the market rallied strongly after an initial drop.

Also helpful is the diffusion of information on the bearish seasonality inherent in October. It seems that the market has been lower on a certain date in October than on a certain date in January in each of the last 19 years. That would seem to be a somewhat non-random event that the mistress of markets has thrown in our direction to induce fixed-rule pseudo-scientists and mystics to make yet one more contribution to the market to pay for its all-too-expensive upkeep.

The expectation and odds of a rise have never been as high, in our eyes. So, wrong as we have been this past month, we will reiterate our optimism, and the Devil take the hindmost.

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S&P 500	0.90	-1	-4.2	-2.8
Nasdaq	1.11	-2	-17.4	-11.6
Europe STOXX-50	1.07	-1	2.7	1.0
Dollar/euro	0.82	-2	-15.7	-1.3
Nikkei	0.83	-2	-15.6	-1.1
Dollar/yen	1.16	2	-10.4	-0.9
Gold	0.68	-7	-6.5	-0.9
Oil	1.34	1	61.2	-5.6
Bond Futures	1.22	2	9.2	0.7

2-Yr Note Futures	0.99	2	0.9	-0.03
Bund Futures	1.10	1	2.7	0.09

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 Market Isn't Setting a Poor Standard

By Laurel Kenner and Victor Niederhoffer

Columnists

10/10/2000 10:58 AM

The market achieved another milestone yesterday, falling below 1400 in the S&P 500. Throughout the day the index oscillated on either side of the line like a whirling dervish and finally settled at 1402.03 -- 10 points above the low of 1392 but down 7 points on the day.

The S&P has now dropped some 120 points from its high of just five weeks ago -- one of the greatest absolute changes ever in such a short period.

We have written songs, we have taken out our canes, we have provided quantitative output from our computers, we have recommended portfolios of stocks that are ideal to buy, we have cited academic studies, we have reviewed the scientific method as it relates to our hypothesis, and we have committed funds to our belief that the market is due for a rise.

Unfortunately, it is the fate of operators and commentators who wish to participate in the market's 10 million percent-per-century returns to suffer through periods like this. What more can we say?

At times like this, it is helpful to take a longer-term perspective.

The quickening tempo of change in this millennial year has prompted us to consider with great attention the wisdom of those with time horizons that run into the years, rather than minutes or days. We have been sharing the thoughts of some of these thinkers, including the University of Chicago's Jim Lorie; the ever-practical Shakespeare of markets, Ed Marks; and a market veteran who goes by the nickname "Jackal."

Germinating Returns With Penny Biotechs

Our latest conversation was with Larry Abrams, a biotech venture capitalist in Manhattan who had some sage advice on how to stay cool when markets are on a roller coaster.

Larry, who started his career as a Value Line analyst, likes to buy shares of pre-IPO companies for pennies and hold on for years. Some of his picks have gone up several thousand-fold. He has seen some remarkable plunges in his stocks, and hung on for some equally remarkable recoveries.

People think that when their stocks go down, they were wrong to buy them. But that's not necessarily so, Larry says. A shareholder is part owner of a company. Some of the other owners may get emotional about how much the shares are worth that day and what they're willing to sell for, but that doesn't affect the company's prospects.

If you're a thinking person, you buy a stock because you believe the company has potential that far outweighs the risks. And, as stock prices ultimately follow sales and earnings, it doesn't matter if traders play games that drive the stock down in the short run.

Larry practices what he preaches. Having obtained Medimmune (MEDI: Nasdaq) at 16 cents a share, he once sat out a drop that left the stock at one-tenth of its previous high. The stock recovered and went on

to greater gains. (Larry recently sold at around 80; he still likes it, but if he were to buy in again, he would do so below present levels.)

Larry was an early investor in Human Genome Sciences (HSGI: Nasdaq) and still is enthusiastic about the company's prospects. He also likes 3-Dimensional Pharmaceuticals (DDDP: Nasdaq) and Gene Logic (GLGC: Nasdaq). Two private companies in which he holds interests are Structural Bioinformatics and E-Site.

If October gives you the willies, here's another piece of advice from Larry: the present always reminds us of the past, which is fine, but there's always something different about now.

More Shrimp for the Barbie

Because the Olympics bring hundreds of millions of dollars into the economy of the host country, we were curious as to whether all that cash had a discernable effect on the local stock market.

Turns out the games do tend to invigorate markets. One of our numbers crunchers, Malcolm Handte, looked at data back to 1960, and found that host-country markets averaged a 65% annual rate of gain during the Olympics.

After the games concluded, the markets reverted to a more normal annual rate of increase, of 10%. (The average for all years in the host countries was 8.5%, and during the 31 calendar days before the games, the average move was an annualized 3.6% decline.)

The degree of uncertainty in these results is such that we can't use the random hypothesis to explain the difference.

No reason, therefore, for Aussies to cry over their beer.

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Come hear Laurel speak at Online Investing 2000, Saturday, Oct. 28, at the Sheraton New York. For all the details, go to www.onlineinvesting2000.com.

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The Speculators' Reading List

By Laurel Kenner and Victor Niederhoffer

Columnists

10/11/2000 08:39 AM

The market achieved two milestones yesterday:

S&P 500 futures fell below 1400 for the first time since May 26 -- and are now down 10% in just over five weeks.

A good time to catch up on some reading.

Vic was asked by a Russian student recently to name some books he would recommend to aspiring speculators. We thought the following list might be of interest to other readers as well.

Start by reading anything by **Ayn Rand**. *Atlas Shrugged* is the most important book you'll ever read. We also recommend *The Fountainhead* and *Anthem*. These classic novels lay the intellectual foundation for capitalism.

Jack Schaeffer, *Monte Walsh*. A deep book on the conflict between industrialization and the life of the range, by the greatest Western novelist.

Francis Galton, *Memories of My Life*. Almost all quantitative social sciences developed from Galton's contributions, as did the theories of regression and correlation, fingerprinting, composite psychology, weather maps and anticyclones.

Humble, generous and elegant, Galton was one of the few geniuses who apparently never had an enemy while he lived. He kept a well-read copy of *The Wealth of Nations* in his library. Although we regard him as perhaps the greatest mind that graced the Western world in the last 200 years, a revisionist effort to discredit him has developed; we were fired from our first job together for mentioning his name. Many of his books are out of print. "The Art of Travel," his Baedeker for 19th century explorers, ennobles and educates on every page, providing a good introduction to his mind. Check out how to cross a river on horseback and count, count, count in your investments and life.

Albert Jay Nock, *Memoirs of a Superfluous Man*. Nock was one of the greatest English language stylists ever, and the seminal thinker in the theory of public choice in the early 20th century. Nock was able to predict almost all political outcomes by modeling politicians as criminals trying to turn a profit. His introduction to politics at breathing-length from the Secretary of the Interior, the top pol of his day, is one of the finest humor pieces since Rabelais. Nock's theory that man tends always to satisfy his needs and desires with the least amount of exertion opens up a way of looking at the world that provides a beautiful foundation for appreciation and profit.

Herman Melville, *Moby Dick*. A whaling novel about man's hopes, abilities, strivings and limits. Numerous aspects of the struggle related in this week between nature and nurture have direct implications for investors. Take, for example, the chapter on the monkey rope, which describes how Ishmael held on to his friend Queequeg to keep him from slipping off the back of the whale he was carving up. In the same way, investors must consider how bonds and stocks and all other markets are

bound together in capturing a profit. Always the unrelenting force of the ocean is a backdrop for man's heroic efforts to cope, and isn't that the same thing we do when we try to find individual stocks that overcome the market?

Louis L'Amour, the "Sackett" novels. The wisdom and fortitude of the Sacketts as they strive to build a life in America teaches more about America than all the civil science texts and histories you will ever read. L'Amour, perhaps the best-selling novelist of all time, is a font of knowledge in so many areas that you always leave his books more educated than before. Particularly valuable for the survival and deception skills so important in the market.

Miguel De Cervantes, *Don Quixote*. The noble quest to right the wrongs of society and to stay young-hearted forever. The best antidote for a loss in humor and honor. A great treatise on loyalty and individualism.

George W. Snedecor, *Statistical Methods*. This classic text has proved of value to agriculturists through most of the 20th century and has been updated so that it's as fresh and valuable today as the day it first saw the light in 1927. This book will give you the tools necessary to know what to do after you start counting in the Galtonian manner. It's also a good starting point for other statistics books like Maurice G. Kendall's *Kendall's Advanced Theory of Statistics*, which those who enjoy math might find an Oxford English Dictionary-like reference.

Mark Twain, *Huckleberry Finn*. The greatest success in his field that we know is retired Harvard squash coach Jack Barnaby, now 92 years old. His teams regularly won 90 matches in a row over 10-year periods during his six decades of coaching. On his bedside table when we recently visited him was a dog-eared, well-used copy of "Huckleberry Finn." "I read this at least once a year," he said. We would recommend that Doc Greenspan, Warren Buffett and certain editors of financial weeklies follow a similar regimen.

Mario Puzo, *The Godfather; Omerta*. The description of the overwhelming force deployed by Puzo's Don is directly applicable to the market, as is the deception in "Omerta," his final book. **James Clavel**, *Shogun* All who invest and trade can profit from a reading of the tricks and ruthlessness chronicled here.

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Nasdaq	1.10	-4	-20.4	-12.2
Europe STOXX-50	1.07	1	0.8	-0.6
Dollar/euro	0.83	1	-15.4	-1.1
Nikkei	0.82	-3	-16.5	-0.6
Dollar/yen	1.17	3	-9.5	-0.3
Gold	0.70	2	-5.4	-0.6
Oil	1.37	3	73.3	5.3
Bond Futures	1.23	3	9.5	0.4
2-Yr Note Futures	1.00	3	0.9	0.1
Bund Futures	1.12	3	3.0	0.5

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More Milestones, More Punch-Drunks

By Laurel Kenner and Victor Niederhoffer

Columnists

10/12/2000 09:30 AM

Another day, another 23 points down in the S&P.

The milestones keep coming:

- The Chicago Board Options Exchange's Volatility Index, for the first time since May 11, closed above 30.
- The S&P Index's close of 1364 closed 10% below its Sept. 1 level of 1520.
- The Nasdaq, at its low of 3047, retraced the entire 33% advance that it made from Memorial Day through Sept. 1.
- For only the fourth time in history, the S&P has fallen at least 10 points on four successive days. (For what it's worth, the market was up three days later in each case, with an average gain of 2.5%.)

At least Thailand is down 50%.

Our mail reflects the awful grinding down of many good stocks during the past five weeks. Our friend Jim Daniels, a Lucent scientist, recently offered to trade his options for something of comparable value, such as a used pair of golf shoes.

We checked in with the West Coast inventor of the "Just Sell Everything" market tell, excellent for pinpointing the bottom of markets, on what he was hearing from his brokerage clients. We weren't disappointed.

"I had a bunch of brokers come into my office to ask, "What should I be doing?" our friend wrote. "Now if that isn't a tell, I don't know what is. After all, the motto of the broker should be "Seldom right. Always confident."

The brokers weren't entirely demoralized, however, so our friend thinks this was a leading indicator of a bottom. "We must be close," he added.

While Daniels and the Just sell Everything inventor are stiff-upper-lip types who can usually manage some irony, our mailbox was filled with desperate pleas along the lines of "I feel like I did in college when my girlfriend left me for my roommate and I thought I'd never have romance again. You people have been bullish for the last 10 years - are you ready to throw in the towel? Please, I need your guidance, even though you have been wrong recently."

On the other hand, regular contributors to our mail have been deathly silent in recent days. We suspect they're going through a process of agonizing recriminations. Whereas our Speculators' e-mail discussion group usually have five or six discussions going at the same time, the only thread that seemed to draw

any interest in the last three days was the relative importance of dividends in buying a stock.

Stocks Under Five

Our guidance is to buy a good basket of stocks right now. On Oct. 4 and 5, we recommended 54 stocks that trade on the New York Stock Exchange for less than \$5 that insiders were buying in the last four months. The group is down 8.7%, an unweighted average that reflects the performance if an investor had bought an equal number of shares of each.

As before, we have a couple of caveats. The system works - it's how Vic built his first stake -- because some of the stocks will have big gains. However, many if not most are on the way to further declines, and some are destined for the stock market graveyard.

An investor should pick a group of them, rather than the one or two that seem likely to gain; perhaps one from each letter of the alphabet. Also, any money committed should be insignificant enough to ensure that no diminishment of the investor's lifestyle will occur should total disaster ensue.

The complete Below \$5 list can be found in our [October 4](#) and [October 5](#) columns.

We'll also be happy to e-mail the complete list to anyone who would like it.

Today we report an additional list of 12 stocks that trade below \$5 on the NYSE; these had net insider buying within the latest reporting month. And they pay dividends. Here they are, sorted by highest dividend:

Guilford Mills (GFD: NYSE)
 Luby's (LUB: NYSE)
 Warnaco (WAC: NYSE)
 Insteel Industries (III: NYSE)
 DIMON (DMN: NYSE)
 IKON Office Solutions (IKN: NYSE)
 BankAtlantic Bancorp (BBX: NYSE)
 GAINSCO (GNA: NYSE)
 Cavalier Homes (CAV: NYSE)
 Oakwood Homes (OH: NYSE)

(Note: Warnaco, DIMON, IKON and GAINSCO appeared on our previous list.)

End Notes

We note that candidate Gore is slipping in the Iowa Poll, a real-money electronic futures market of unparalleled accuracy. The latest betting is that the Democrats have a 58% chance of winning, with the likely vote split 49.7% to 48.7%, down from 60%-49.9% on Aug. 3.

For black humor, we recommend the article in today's *Asian Wall Street Journal* by Richard Katz, senior editor of *The Oriental Economist Report*, on how Japan's main political party continues to advocate more public spending while the reformers want higher taxes.

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Europe STOXX-50	1.06	-1	-1.4	-3.1
Dollar/euro	0.83	-1	-15.6	-1.7
Nikkei	0.82	-4	-18.2	-0.8
Dollar/yen	1.18	4	-9.4	-0.5
Gold	0.69	-1	-5.8	-0.5
Oil	1.38	4	73.7	5.7
Bond Futures	1.24	4	9.5	0.9
2-Yr Note Futures	1.01	4	1.0	0.2
Bund Futures	1.13	4	3.1	0.8

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Young Fund Managers or Young Stocks?

By Laurel Kenner and Victor Niederhoffer

Columnists

10/13/2000 09:49 AM

Filling in for the Speculators today is Mark M. McNabb, a Chartered Financial Analyst and finance professor at Virginia Tech University.

Delegating the task of increasing your wealth to others is a daunting task. Investors are often astounded to find there are more mutual funds -- over 10,000 -- than the 8,000 or so stocks on domestic exchanges. You may also add to those numbers the thousands of private money managers and financial planners. Thus, it is easy to see that a lot of noise may distract you from finding the man with the golden touch.

While the Speculators love the "do-it-yourself" aspect of investing, we recognize the benefits of delegation. Many investors neither have the time nor tolerance to watch their best stock ideas inexplicably impaled by fickle markets only to have them rise like phoenix after selling the position. The commitment of emotion and time to investing cannot be overestimated. Today we will take time to ponder: how to find a good fund manager?

Do academics have thoughts beyond picking a highly diversified portfolio with low fees? Those are the two primary rules of long term investing: have broad exposure to a number of stocks, so a blowup in one position doesn't hurt your overall returns; and, keep expenses as low as possible to enhance your wealth and not your money manager's. These concepts increased the popularity of index funds and allowed investors to participate in the market return unencumbered by the hype and self-promotion of fund managers with lesser returns.

What if you wish to beat the market? To do this, academics and professionals agree that a fund manager has two likely choices: pick stocks and assets that do not look like the market index, or mimic the index but do a superior job of timing the market. There is a third choice -- to use an index and plenty of leverage -- but the plunge in April and May of this year put a deadly end to that game of market roulette.

Market Timing

Does timing get the average fund manager ahead of the game? No; on average they are terrible timers. Dr. David Volkman, in the Journal of Financial Research, finds that there are always a few managers who stand far above the rest who do time the market successfully over the long-term, but most do not outperform. Dr. Jerald Pinto (in an NYU 1994 working paper) finds absolutely terrible timers in the balanced funds or asset allocation funds from 1965 to 1985. His research suggests one could do better by setting the bond and stock mix once.

A superior record of timing would require at least a decade's worth of audited return performance to determine the gifted from the false prophets. Few who claim the ability offer audited returns. Wonder why? Most serious students of the markets dismiss timing -- it is a fool's road to riches for the average fund manager and the average investor. Let's examine managers who alter the composition of portfolios to look like something other than the index.

Funds that beat the market in the very short term usually are highly focused, perhaps on one sector of the market. But the good sectors keep changing, so an investor picking among sector indexes and funds will have to determine when to switch and what information should merit attention in their switching

decision. In addition, the very short term doesn't give us an opportunity to find a good fund manager.

Young-Hearted Stocks

Over longer horizons, great managers that have beaten the index have picked stocks that are young at heart. Yes, in the last decade nine of the 10 best-performing funds were technology funds. That should be no surprise given the rise of the Nasdaq index from obscurity to prime importance for many investors. In the next 10 years, technology is forecast to be the fastest-growing part of our economy, going from today's 30% to 50% of equity market value of the S&P 500 Index.

But even among technology funds the returns can be incredibly different. The worst funds this year have losses of 60% and the best have gains over 30% (the Nasdaq was down 21% as of Wednesday afternoon). That is an eye-popping difference! We better find a good manager -- and fast!!

Academic financial research may help in finding the good and great by removing the hype and looking at just the facts. Detective Friday says that in any population of funds it is a statistical certainty that a few individuals will outperform the population. They are the extreme of the distribution. I like to call them right-tailed. Warren Buffett has a 40-year record of being right-tailed despite being red-faced in recent years. Unfortunately, Detective Friday doesn't give those right-tailed individuals any special abilities. Instead, he says statistically some have to outperform and some have to underperform: just fate! Let's move on before throwing up our hands in futility.

One approach is to find those managers and funds that have real expertise in an industry or sector of the market. Dr. Siggelkow at the University of Pennsylvania finds that fund families that are highly focused on a sector such as technology or health care outperform diverse fund families whose analysts are spread among all industries. In technology, fund families such as Janus and Firsthand would stand out as having focus.

One negative was that investors gave less money to focused fund families compared with similar diverse fund families, which could prompt the fund to increase fees to keep talented managers. Focus is nice but still doesn't give us a complete answer.

Youth Over Wisdom?

Could age be a factor? Drs. Chevalier and Ellison (in a National Bureau of Economic Research paper #W5852) come to the controversial conclusion that younger is better in areas other than romance. Their dream manager is a young thing who attended very selective institutions with higher SAT scores than the schools attended by older managers. All these years you wanted an experienced hand and now we tell you to go for the energetic ones. The study alludes to the fact that turnover is higher for younger managers. Perhaps it is the threat of firing that prompts these younger managers to work harder for you.

Later on, however, in another NBER paper (#6394) Drs. Chevalier and Ellison reverse themselves! They find younger managers are more likely to be fired than older ones. These younger managers shadow the index more than older ones, have less trading discretion, and are more likely to herd into popular stocks and sectors so that they lower their probability of being fired for having one bad year.

This makes even more sense when you consider these studies miss the many great experienced managers who leave active portfolio management. They leave to become the chief investment officer of a mutual fund family or a pension fund, to run private money at a hedge fund (where returns are documented to be higher), or leave to trade their own account out of a crow's nest above their garage. Experience has value again!

Answer is in the Market

Where is the answer then? Simple, it is in the market. Long-term results of a superior nature also require that performance is good over many but not all shorter periods. Sam Eisenstadt of Valueline has provided the Speculators with some outstanding research that suggests fund picking by return performance outsmarts portfolio consultants.

Great performance by managers who have been at the same fund for some time should require that they think young and find stocks that are young at heart. Today, many of this year's best technology funds -- which have made great gains in the past with Dell (DELL: Nasdaq), Intel (INTC: Nasdaq) and Microsoft (MSFT: Nasdaq) - have portfolios with large holdings of Ariba (ARBA: Nasdaq), JDS Uniphase (JDSU: Nasdaq), and Juniper Networks (JNPR: Nasdaq) instead of the old leaders. Great, established fund managers picked young stocks.

In the spirit of Sam Eisenstadt, I will adopt the very simple method of listening to the market. I decided to use an online mutual fund screener using data up through June 30. I wanted no load (or very low load) funds with superior one-year and five-year returns, with expenses below 2%, and having the same manager for the last five years. This produced 40 names out of 8,484 funds. All of the top 10 names were classified as growth or aggressive growth funds, with the top five averaging five-year returns from 31% to 38% per year.

Today, I'll leave you with five of the top 10. Next time we will look at Value Line ratings on funds and the value of ratings by Morningstar. We will also examine some peculiar research by academics that will help us to understand the behavior of funds in markets and may also assist us in stock selection.

The Market's Divine Wisdom Long-Term Fund List:

- Fidelity New Millennium (FMILX)
- Janus Enterprise (JAENX)
- Janus Mercury (JAMRX)
- Target Large Cap Growth (Class Z) (TALGX)
- Vanguard Special Health Care (VGHCX)

Speculator's Scorecard				
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Dow	1.02	-6	-12.7	-7.3
S&P 500	0.87	-5	-9.6	-8.8
Nasdaq	1.07	-6	-24.4	-18.6
Europe STOXX-50	1.07	1	-0.2	-1.4
Dollar/euro	0.82	-2	-16.2	-2.2
Nikkei	0.83	1	-18.0	-0.5
Dollar/yen	1.19	5	-9.4	-0.2
Gold	0.70	1	-4.2	-0.5
Oil	1.39	5	88.3	18.9
Bond Futures	1.26	5	9.9	1.0
2-Yr Note Futures	1.02	5	1.2	0.4
Bund Futures	1.14	5	3.4	0.8

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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Speculators and Friends Huddle Against Chill of the Market

By Laurel Kenner and Victor Niederhoffer

Columnists

10/16/2000 09:07 AM

Live from outside the shuttered gate of Steeplechase in Coney Island, welcome to the 446th edition of Stock Talk! Vic used to visit this amusement park frequently in the '50s. It was unfortunately closed in the '70s, but carries much nostalgia for many. Joseph Heller memorialized it in his autobiography, as did Kevin Baker in his 1999 historical novel, Dreamland.

Stock Talk! held the meeting outside the turning barrel ride, which turns the participants upside down in the same way that the market on Friday performed a complete reverse somersault from the previous Friday and the four subsequent days of vicious declines.

As the market set one low after another last week, we were comforted by listening to classical symphonies and concertos. The first-movement compositional structure begins with consonance and then gradually permits dissonances to lead the listener so far from the home key that he wonders how he'll ever get back.

On Friday, the lost moment came right at the open when the Nasdaq 100 dropped below 3,000 and the Dow came within 14 points of falling below 10,000. There was war in the Mideast, and the memory of the previous Friday's disastrous employment report was still fresh.

Not until then, when demoralization was complete, did the explosive rally finally come, lifting the Nasdaq 100 up 9%.

Vic: The market lives for these moments. First, the liquidation of those short of cash or long on fear. Then a beautiful release of energy and return to consonance.

In one day, things were back to normal. Tech is good again. Earnings report season suddenly looks downright promising. All those profit warnings are yesterday's news.

True, the Nasdaq 100 is down 8% for October and 12% year to date. But it's still up 78% from year-end 1998. And for those who adjusted away from the old Wintel standards and moved into fiber-optics stocks, the rise continues heroic. Consider Ciena (CIEN: Nasdaq), up 345% year to date, Juniper Networks (JNPR: Nasdaq), up 303% and SDL Inc. (SDLI: Nasdaq), up 180%.

Laurel: The market mistress has done her job consummately well. There is quite enough fear left over to keep the great wheels of the market infrastructure greased – and cause each of us to examine, once more, the premises behind our portfolios.

In Kevin Baker's *Dreamland*, the great Sigmund Freud repeatedly joked, without knowing exactly why, that he would be happy "if I can just get to see a porcupine" on his visit to America. Baker wrote: "It was something from Schopenhauer, he realized – a line about how porcupines had to be the most solitary of animals, for their barbs kept them even from huddling together against the elements."

We, in contrast, are fascinated with the Emperor penguins on Ross Island at the South Pole. In inclement

weather, these sociable creatures form a tortue, standing close together in a spiral to conserve heat and energy. We were reminded of this as our group of speculative correspondents exchanged messages for protection against the storms of the market.

Vic: To our astonishment, everyone declined our invitation to visit the South Pole for a Stock Talk! session. But they agreed to a black-tie gathering at Coney Island near the old roller-coaster ride. The following is a rough transcription:

After much shuffling and maneuvering to be the tuxedo locked next to Laurel, the Speculators joined arms and formed the spiral, giving each person an equal time at the center.

Laurel: Let's take some questions. You, sir, in the tuxedo.

Question: Casting around for a market bottom is like dredging the Red Sea. Never know when you'll hit something of significance or go broke doing it. I still think there is some threat there. I booked Friday.

Vic: A beautiful metaphor. I just have one question: How in the world can you ever expect to capture the 10 million percent a century gain in stocks if you try to time when the Nasdaq or S&P looks weak and get out at some seemingly propitious occasion, only to agonize again after a rally like Friday's as to when to jump back in?

You, sir, in the tuxedo.

Mr. Ott: I've been inspired to write some haiku. May I share them?

(A chorus of yeses. Mr. Ott recites.)

*Dow has plummeted
Nasdaq sinks lower as well
Old hearts proven right?*

*Abelson correct
Have we seen elephants fly
Or Hell freeze over?*

*Let's take out the canes
Buying opportunity
Time for a rally*

Speculators: Bravo!

Laurel: You, sir, in the tuxedo.

Vic: I note we have with us today Ed Marks, whose Shakespearean facility with the market we can all aspire to. Ed, what's your thinking now?

Mr. Marks: It is my considered opinion that current selling will climax before month end, perhaps slightly before. Funds are taking losses all at once, and dumping, in some cases, at any price. October 31 is the last day for taking losses this year for funds. A climax may occur before then, but it may start feeding on itself. The bounceback reactions could be really strong. The flight to sane, old-line, dividend-

paying companies is where some of the cash is going. It's a squall we will ride out.

Q: On Thursday you gave a list of NYSE stocks below \$5 that you felt had potential for superior performance. Do you have any updates? And to what extent is this a risky portfolio that should have its returns adjusted down for risk?

Vic: We believe that investors are much more interested in return than risk, and if we had a portfolio that we knew had a much higher expected return in it than another, we would buy it regardless of its risk or Sharpe ratio.

Laurel: We didn't find any new companies, but we're repeating our buy recommendation on the Thursday list. It appears below. Guilford Mills (GFD: NYSE)

Luby's (LUB: NYSE)

Warnaco (WAC: NYSE)

Insteel Industries (III: NYSE)

DIMON (DMN: NYSE)

IKON Office Solutions (IKN: NYSE)

BankAtlantic Bancorp (BBX: NYSE)

GAINSCO (GNA: NYSE)

Cavalier Homes (CAV: NYSE)

Oakwood Homes (OH: NYSE)

Laurel: Thanks to all for attending. Join us next Monday for another edition of Stock Talk!

Speculator's Scorecard				
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Dow	1.03	1	-11.4	-4.3
S&P 500	0.88	1	-6.6	-4.3
Nasdaq	1.08	1	-18.5	-9.7
Europe STOXX-50	1.08	2	0.6	-0.5
Dollar/euro	0.81	-3	-17.2	-3.3
Nikkei	0.82	-1	-19.1	-2.6
Dollar/yen	1.18	-1	-9.7	0.1
Gold	0.70	-1	-5.4	-0.6
Oil	1.38	-1	82.6	13.4
Bond Futures	1.26	unch	9.9	0.9
2-Yr Note Futures	1.03	6	1.2	0.3
Bund Futures	1.13	-1	3.1	0.3

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Turning October Pain Into Year-End Gain

By Laurel Kenner and Victor Niederhoffer

Columnists

10/17/2000 08:54 AM

Who dares, wins.

--Motto of the British Special Air Service regiment, from 1942.

Now comes before us a rogue's gallery of the worst-performing stocks on the Nasdaq 100 from year-end 1999 to mid-October – stocks all down at least two-thirds for the year.

The worst of all is CMGI (CMGI: Nasdaq), down 86%, closely followed by Legato (LGTO: Nasdaq), Compuware (CPWR: Nasdaq), BMC Software (BMCS: Nasdaq), and Novell (NOVL: Nasdaq). All are down 80%.

We've been hearing that tax selling will continue through October, and that as a result none of these stocks can gain until the month is over. Most mutual funds have an October 31 year-end for tax purposes, and the worst thing of all is to report a gain to the IRS without a loss to offset it. The weakest companies are going to be the ones sold.

The tax year for individuals, of course, ends Dec. 31, but they have until April 15 to raise cash. The April decline was blamed partly on tax selling by individuals.

Problem is, alternate hypotheses come into play. If these stocks already have been sold down, then shrewd speculators might come in to buy, knowing that the fearful ones are in the wings. And if these stocks are scheduled to be bought back at the end of October, then other operators might try to buy in advance of the rise to garner a few extra points of profit.

And then there's the pesky efficient markets hypothesis that all stocks are always fairly priced relative to information and risk.

There's nothing more wilted than a theory that meets the cold North wind of a test with data.

To perform this horrible task, we looked at the 10 worst-performing companies for the first 9 1/2 months of the year for each of the three previous years. In 1999 and 1998, the situation was unfortunately rather similar to today.

In 1998, Ciena (CIEN: Nasdaq) was down a heart-stopping 85% and Adaptec (ADPT: Nasdaq) was down 70%. In 1999, Network Associates (NETA: Nasdaq) and Quintiles (QTRN: Nasdaq), brought up the rear, with 70% declines.

By way of reference, the Nasdaq 100 went up 8% from mid-October to month-end in both 1998 and 1999.

And now for the results.

The 10 worst-performing Nasdaq 100 stocks in 1998 went up an average of 30% in the last half of

October. Particularly noteworthy were gains of 89% in Ciena, 70% in Parametric Technology (PMTC: Nasdaq) and 31% in Atmel (ATML: Nasdaq).

In 1999, the margin of superiority for the beaten stocks was only 4% in 1997. In 1997, it was a draw.

And thus, another canard bites the dust.

Worst of Nasdaq 1000

(12/31/99 through 10/16/00)

Citrix Systems (CTXS) -71.24

Adaptec (ADPT) -71.93

Yahoo (YHOO) -74.46

At Home (ATHM) -76.97

Pacificare Health (PHSY) -77.48

BMC Software (BMCS) -79.52

Novell (NOVL) -79.66

Compuware (CPWR) -82.13

Legato (LGTO) -84.01

CMGI (CMGI) -87.40

Speculator's Scorecard				
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Europe STOXX-50	1.10	3	1.2	-0.6
Dollar/euro	0.80	-4	-17.5	-3.4
Nikkei	0.83	1	-18.2	-2.5
Dollar/yen	1.17	-2	-9.9	0.5
Gold	0.69	-2	-5.7	-0.5
Oil	1.36	-2	69.2	3.2
Bond Futures	1.24	-1	9.7	1.3
2-Yr Note Futures	1.02	-1	1.1	0.2
Bund Futures	1.12	-2	3.0	0.3

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Speculating on When and How to Get Back In

By Laurel Kenner and Victor Niederhoffer

Columnists

10/18/2000 10:13 AM

For the fourth time this month and the 43rd time in the last six years, the S&P 500 futures dropped more than 25 points on Tuesday. Only in May of this year has the market managed to match this diabolical feat.

Tuesday's closing level for the index at 1350 is no higher than it was in April 1999, adjusted for interest rates and dividends (i.e., the continuous futures contract). The level has receded to where it was 27 beautiful market months ago, in July 1988.

After this morning's Consumer Price Index report, the market is getting off to a horrendous start. So the market looks to be in a very halcyon state, boding well for a rally in the rest of the week.

The cycles are always ready to change. The leadership among the proper ones to buy and sell is also always in flux.

From the Mouths of Babes... Investing Advice

Under the circumstances, we turn to the humble, but very knowledgeable folks who have been kindly been educating us with their insights since the column started. We are confident that in this Internet generation, the diffused knowledge and know-hows of such a group is infinitely superior to the fulminations of any two so-called experts, analysts or writers. And certainly in this case, such insights have a much better chance of keeping you ahead of the form, as they say in racing, than another set of reasons why we believe it's an ideal time to buy a good portfolio.

But before we turn it over, a word from Boot Hill. It's always far better to buy after big declines than big rises. The statistical expectation of success after declines is far superior to normal days or big up days. Good days bring forth the adder, and bad days, the ladybug.

We also note that both the 10-year and 30-year bonds closed at one-month highs Tuesday. The 30-year made its first ascent since Sept. 3, and is close to the psychologically important level of 100.

We reiterate that the Shakespeare of investments, Edwin Marks – he with the winning 30-year track record of 30%-plus returns – is still bullish. True, he expects a terrible bloodbath in October because of mutual fund selling. But he is quietly accumulating good stocks as they get beaten down to unprecedented levels. While we certainly don't wish to temper the insights of perhaps the most successful investor of all time, we will note that our own test of tax selling reported yesterday indicates that it is a non-event, both for the market and the individual stocks most beaten down.

Wintel Done?

We'll start with the insights of one of our younger readers, Mr. Omid Malekan, a 19-year-old trader and undergraduate student in operations research at Columbia University.

Mr. Malekan writes: "I've been thinking a lot about this latest decline and the fact that a lot of it has been caused by companies reporting much lower earnings than analysts had been expecting. Whether you blame the companies for being too optimistic, the analysts for having numbers that were too high, the

Fed for raising rates or everyone for expecting too much, I don't know. But I do know that, as always, opportunities loom.

"One thing I am pretty sure of is that once the markets resume their usual upward path, some things will be different. Some companies make it and some won't. I believe that the key to gaming this decline is forming two categories: those that are just down, and those that are down and out. You can argue that the Intels (INTC: Nasdaq) and Microsofts (MSFT: Nasdaq) of the world are down and out. I would argue that certain sectors are down but will be back.

"The clearest example to me is the DSL equipment stocks. Many of these, such as Netopia (NTPA: Nasdaq), Covad (COVD: Nasdaq) and Copper Mountain (CMTN: Nasdaq) are down to 52-week lows. Their problems arise from the fact that many big telcos have cut down on investing and on their push in selling DSL. But because everyone wants broadband and because cable Internet has lots of limitations, DSL will be very successful in the end, you just have to wait longer for the success to materialize.

"Just ranting out loud, but in this market, that's definitely healthier than trading."

More on DSL

Mark M. McNabb, the Springsteen-loving Virginia Tech University finance professor, writes: "DSL forward guidance from Copper Mountain (supplier to Lucent (LU: NYSE) not good. Forward from (IBM: NYSE), Doubleclick (DCLK: Nasdaq), etc., not good. Intel (INTC: Nasdaq) at least wasn't terrible. Mercury Interactive (MERQ: Nasdaq) good but may not matter.

"Thought I picked up Intel on sale at 48, but missed the clearance.

"Very disappointing day [Tuesday] in the afterhours: Combination of firms trying to book sales in the ninth hour and missing; perhaps misrepresentation and analysts reluctant to lower if no one else lowered.

"Agree with one thought: the good ones always recover. Making certain you have a good fisher and not a stinker bonefish is the stock picker's quest.

"My take: If you last to early November, you'll catch the upside. Now wondering if I have to sit through 6% down or 12% down from here. Feel that the guys who made buckets in the last decade on Wintel stocks or guys who made a killing on dot bombs are very disheartened by all this, whether they reallocate to better stories or go to cash and wait for big G to lower rates in December.

Andrew Coulter writes: "Agree with MMM's message, but the real question is whether this is a second, buyable bottom or the beginning of a long slide down?"

Boy Plunger, an adviser to the Jackson family, writes: "The wisdom of Robert Rhea does strike a nerve at times. Asked in his sickbed about cycles in markets and the nature of bull and bear markets, he answered: The first stage begins following a recession when the public has lost its taste for the market and stocks are selling well below the line of values.

"The second comes as companies begin reporting better earnings and the public responds to the known improvement of business. Stocks approach and revolve about the line of value. The last stage and the most critical one is when stocks are bought by the public on hopes and expectations. (This stage gives meaning to the phrase, "The Canyons of Wall Street are filled with the bleached bones of men who were right too soon.")

"By inference, I would describe the three stages of a bear market: The first stage is when the public begins giving up on the hopes and expectations upon which it bought stock at inflated prices. The second stage is when stocks with poor earnings reports are sold. The third stage would be the distressed selling of sound securities of value. (This is when all the doomsayers come out and give us despair about the end of the world, depression, etc. But it is human to survive. I have learned the hard way that when my views on the market were the most pessimistic I was oftentimes wrong.)"

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Bund Futures	1.11	-3	2.9	0.3

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A Strong Open Confounds the Market Rule Givers

By Laurel Kenner and Victor Niederhoffer

Columnists

10/19/2000 09:32 AM

The market gave a virtuoso performance yesterday worthy of the 19th century bodice-rippers of Liszt and Paganini.

Both artists, in addition to playing their instruments as no one had ever played before, employed dramatic devices to heighten the audience's excitement even more. Liszt would faint at the emotional climax of his piano concerts, while Paganini broke a few strings on his violin. Women would throw jewels and garments on the stage.

The mistress of markets showed herself at least the equal of these artists.

Before giving the blow-by-blow, we note that yesterday's moves must be considered in the context of today's strong opening. It's the perfect antidote to yesterday, as if Liszt were to start with the Mephisto Waltz and end with one of the Hungarian Rhapsodies.

The action yesterday began with a devil wind. First, the Dow Jones Industrial Average opened 350 points below 10,000, the first break below the mark since March 7 and the lowest level since March 14, 1999.

Then there was the immediate move to limit-down in the futures. But when limits came off, the futures immediately moved to 5 points above limit, and then gradually ascended to being up on the day. But only for a time; the futures closed with a 7-point deficit.

Not to go unmentioned was the close at 100 1/32 for the 30-year bond. The Dow-to-bond ratio of 100 is quite satisfying from an aesthetic standpoint, and this is quite bullish.

The rise at the open today is no doubt torturing the usual horde of fixed-rule-following trend followers who rushed to sell after the Dow and Nasdaq broke through old lows yesterday. But these practitioners of market voodoo are always behind the form. A recent article in *Hedge World* details how two of the most prominent funds in Connecticut are closing down or downsizing because of staggering losses for their customers and a resulting decline in their fee base and assets under management. How appropriate this cycle of destruction: operators absorb money from the public, make their contributions to pay the staggering fixed costs of maintaining the market ecosystem, and then vanish. When shall we see their like again?

Among the amazing spectacles to which the market mistress treated her followers was the sharp decline of a high-speed telecommunications stock, Covad Communications Group (COVD: Nasdaq). The erstwhile highflyer now trades below book value.

Covad is the largest independent provider of digital subscriber line, or DSL, services, over standard copper telephone lines. The company went public in January last year at 18 a share, and reached a high of 66.66 on March 1 at the height of enthusiasm for DSL, broadband, Internet, etc.

The stock fell 5 1/32 to 3 9/16 yesterday, after Covad surprised the market by reporting a shortfall. The trouble came because the small telecoms and Internet service providers that buy Covad's services don't have the cash to pay up.

We are partial to some below \$5 stocks, and have written a few columns in the last several days recommending the NYSE-listed ones, particularly those with net insider buying. A look at SEC filings, which run up to six weeks late, revealed that Covad insiders have been uniformly selling for at least several months.

***** End Notes:**

Edwin Marks gave us some additional insights yesterday on the tax-loss selling by institutions that's weighing on the market. The mutual funds and investment advisers, he says, "are also selling their gains (blue chips included), to offset" the losses they're taking on the year's many disappointments.

"Individuals on margin are also being sold out by their banks and brokers as their equity plunges. 'Cash is king,' as the old saw states," Marks wrote. "People who are buying solid beaten-down shares in panics usually make out like bandits..."

On learning that Marks bought Xerox (XRX: NYSE) while the market was plunging this week, Mr. Dave Ciocca of Rochester, N.Y., couldn't resist sending this wry note:

My girlfriend Megan, an aspiring Physician's Assistant, is completing a clinical rotation in pediatrics. The doctor she works with is a kind 60-ish gentleman who likes to make kids feel at ease by asking them if they're married, what kind of car they drive, and other silly questions.

Today, while Megan was working with him, he asked a 12-year old boy, "Got any good advice for me today?"

To which the kid replied, "Yeah, don't buy Xerox stock."

Painfully living in Rochester, N.Y., home of Kodak, Bausch & Lomb and Xerox, this is especially funny to me.

Our esteemed former partner, Mr. Wiz, passed on an interesting analogy to us right out of the books on negative feedback circuits, where input voltages are controlled by feeding back an attenuated signal of an opposite polarity:

I wonder if a self-correcting cycle is emerging now wherein Gore moves positive in the ballots, which he did Tuesday after the debate, according to the Iowa Poll; stocks go negative; and this negative signal feeds back to the voters, causing Gore's popularity to go down; and this causes the market to go up.

The market has numerous negative feedback cycles of this nature, the most prevalent one being the relation of stocks to bonds. When stocks go down, this causes bonds to go up, which – fed back to the market – causes stocks to go up.

The fawning over the presidential politicians of today brings to mind the inauguration of Thomas Jefferson. He traveled to the ceremony alone, in farm clothes on his own horse. When he came to the Potomac, a hitchhiker was stranded and Jefferson gave him a ride to the ceremony on his horse. There

were no parades, and no guards, and no state dinners. Jefferson wanted to underline that there was to be no royalty in the U.S.

How different the situation is today. When the president, vice president or one of their spouses enters a town, a procession of cars, military vehicles, ambulances and limousines a mile long surrounds them. Highways, streets and airports are closed down, and all civilians in the area are often halted in their tracks for hours without apology or even a thought that this might discommode them. What would Jefferson have said about this, and what implications does it have for the market?

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Europe STOXX-50	1.07	-2	-0.7	-2.8
Dollar/euro	0.81	-1	-18.6	-4.2
Nikkei	0.81	-2	-21.6	-7.9
Dollar/yen	1.20	2	-9.6	1.3
Gold	0.68	-4	-6.1	-0.06
Oil	1.38	2	69.6	5.9
Bond Futures	1.24	-1	10.5	2.3
2-Yr Note Futures	1.03	unch	1.2	0.4
Bund Futures	1.12	1	2.9	0.4

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The Anatomy of Defeat -- Part One

By Laurel Kenner and Victor Niederhoffer

Columnists

10/20/2000 09:00 AM

"The Fire in the Sky." That signature song from Canadian dance-music diva Freda Sygouna wafted through my computer speakers just as the S&P futures started their breakaway from Wednesday's cash close. And fiery indeed was the result, as short sellers from Wednesday's first half hour were forced to cover at increasingly higher prices just one day later.

Perhaps the most interesting flames lighting yesterday's sky, however, came from the Dow stocks ex-Microsoft (MSFT: Nasdaq) and Intel (INTC: Nasdaq), as measured by the Major Market Index (\$XMI). The XMI was down on the day, continuing the dismal performance of old economy stocks over the past 18 months.

Traders are all too aware of the recent carnage in Nasdaq issues, but the body blows sustained by Bethlehem Steel (BS: NYSE), USX-U.S. Steel (X: NYSE), International Paper (IP: NYSE), CSX Corp. (CSX: NYSE), Caterpillar (CAT: NYSE), Dow Chemical (DOW: NYSE), and Union Carbide (UK: NYSE)-down as a group more than 50% in that period-are equally dramatic.

Inflation Vs. Recession

Incredibly, the talking heads continue to focus on the potential inflationary impact of oil prices when a variety of stocks-from Intel (INTC: Nasdaq) to AT&T (T: NYSE) to General Motors (GM: NYSE)-are fairly screaming "recession." A recent survey of bank CD rates turned up 7%-plus yields on maturities from three years out; NY triple-A municipal bonds with 10-15 year maturities are sporting 9% annual returns on a taxable basis. Should sanity return to the Middle East, these could turn out to be yields we do not see again for quite a while.

Meanwhile, the stock market is playing tug-of-war between the bottom-pickers and the bearish doomsayers, leaving both with a severe case of whiplash. Since the close of trading on October 10, the S&P (\$SPX) has gained less than 3 points, but traveled 180 points on a closing basis. Such trendless volatility is apt to test the mettle of the best speculators.

Most traders rely upon an understanding of repetitive patterns in their quest for index-beating profits. Those patterns might be derived from chart configurations, technical indicators, or fundamental data. Their assumption is that patterns that have been meaningful in the past will continue to exhibit predictive validity.

It is interesting, therefore, that speculators spend comparatively little time analyzing their own behavioral patterns. Greatness in many fields of performance stems from the relentless drive to identify and correct one's flaws. Michael Jordan spent hours on the practice floor working on his fall way jumper and his defense; Tiger Woods, seemingly at the top of his game several years ago, watched films day after day to improve the accuracy of his drive. It seems strange that speculators will spend similar amounts of time analyzing market minutiae, only to be betrayed by their own behavioral lacunae.

Analyze This

Unfortunately, the literature of trading psychology is gravely limited in its depiction of the psychological forces affecting traders. Many articles are based upon little more than common sense

notions of fear and greed and admonitions to avoid these. The reality, however, is that most trading mistakes attributable to behavioral factors have little to do with overreaction to fear and greed. Instead, they are the result of patterns no less complex than the market configurations we analyze daily.

In coming articles, I will describe a cyclical sequence of behaviors that underlie the self-defeating patterns of many traders and non-traders. Like many chart or indicator patterns, these may not be apparent at first glance, but once you know what to look for, they truly jump out at you.

Unlike so many "technical" patterns, however, this behavioral sequence has been the focus of intensive study among researchers, most notably Lester Luborsky, M.D. of the University of Pennsylvania; Joseph Weiss, M.D. and Harold Sampson, M.D. at Mount Zion Hospital in San Francisco; Leslie Greenberg, Ph.D. of York University; and Hans Strupp, M.D. of the University of Pennsylvania.

The key to understanding victory and self defeat lies in becoming aware of our own internal dialogues, the conversations that we have with ourselves every hour of the day. The content and tone of those conversations mediate our relationship to ourselves, just as they frame our relationships with others.

The Russian philosopher-psychologist Gurdjieff used to conduct an exercise with his students in which he would require them to freeze in position whenever he shouted, "Stop!" Students thus frozen could then observe themselves in the most unheroic bodily postures, trapped in the middle of negative facial expressions and thoughts.

It is an exercise worth conducting next time the market begins one of its whipsaw moves. How do you speak to yourself when the market moves in your direction? Against you? Is it a way you would talk to someone else? Is it a way you would tolerate someone else talking to you?

Your answers to those questions may just help to determine whether it is your success or failure that lights the next fire in the market sky.

Speculator's Scorecard				
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Nasdaq	1.06	1	-16.0	-1.6
Europe STOXX-50	1.08	1	2.1	-0.9
Dollar/euro	0.81	1	-18.1	-3.0
Nikkei	0.81	-3	-21.9	-8.0
Dollar/yen	1.18	-1	-10.2	0.6
Gold	0.67	-5	-6.1	-0.2
Oil	1.37	-1	66.6	7.1
Bond Futures	1.25	1	10.7	2.0
2-Yr Note Futures	1.02	-1	1.2	0.3
Bund Futures	1.13	2	3.0	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 does not hold a position in any of the stocks discussed in this column.
Positions may change at any time.*

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Looking for More Upside as the World Looks Down

By Laurel Kenner and Victor Niederhoffer

Columnists

10/23/2000 08:36 AM

Celebrating the Market's Rally: Stock Talk!

(Note from the Speculators: Our Stock Talk! column on Mondays features views from our readers. Please send us your comments, questions and ideas, if you'd like to participate electronically. The settings for Stock Talk! range from real to virtual.)

Look how the floor of heaven is thick inlaid with patines of bright gold.
Shakespeare, *The Merchant of Venice*

Moderator: Welcome to the 447th edition of Stock Talk! We're coming to you from the Rainbow Room in Manhattan's Rockefeller Plaza, one of the world's best places for celebration. Below, the great city howls with traffic and worry, but here on the 65th floor of the GE building, just a 50-second ride up in the mahogany-paneled elevator, glittering lights from the skyscrapers fill the windows, light conversation fills the room, and light dance tunes get everyone out on the floor.

Vic: "The stock market offered much to rejoice about last week. From the low on Wednesday morning to the close on Friday, the Nasdaq Composite rose 457 points, or 15%. The S&P 500 gained 91 points, or 7%.

"Thus, in three short trading days, the averages gained back about half of their total loss for the year. Surely it will not be long before the indexes exceed their year-end closing levels.

"Particularly bullish is the primal, old-hearted prediction for a fall to 1500 from 3500 for the Nasdaq emanating from the bearish financial weekly.

"Under the circumstances, and taking the liberty of patting ourselves on the back in one of our old-fashioned, self-administered evaluations of our forecasts, we note that we said at the open on Wednesday: *After this morning's Consumer Price Index report, the market is getting off to a horrendous start. So the market looks to be in a very halcyon state, boding well for a rally in the rest of the week.*

"I propose a toast to the 30-year bond futures, now trading at their highest levels in a year-and-a half. That makes stock-picking all so much more worthwhile. Where are the old-hearted men who gave as their reason for bearishness in previous years that the stock-to-bond ratio had covered too much ground on the high side, now that it's touching the abyss? It shows the feeble nature of their understanding, and one is reminded of King Lear refusing to acknowledge the presence of his loyal Duke of Kent."

Laurel: "Our speculative friends are arriving now, the men in black suits, the women in bare-shouldered sequined gowns and dancing shoes. All are here to shake off the dust of the recent stock market declines. We have the inimitable Arnie Gruber on the piano breaking into Scott Joplin's Maple Leaf Rag. The waiters are serving oysters in beds of pink rock salt. Here's the Hank Lane Band now with a foxtrot; young and old are taking to the dance floor.

"Those lingering at the tables are playing footsie under the long tablecloths and talking about the latest amazing success of the Just Sell Everything Indicator. We have with us tonight the West Coast broker who originally brought this market tell to our attention. It has been as accurate in pinpointing market bottoms as the Iowa Electronic Market is in predicting presidential election victories. Let's listen in as Andrew Coulter, president of Empirical Medicine, a health information service, chats with other readers."

Andrew Coulter: "This indicator is so astonishing. My broker received two calls at the open Wednesday to JSE, so we put money to work again."

West Coast broker: "I was under the assumption that I had trained my clients so well that the Just Sell Everything indicator was no longer valid. As you recall, I had to resort to my leading indicator of brokers asking what the heck they should do. Anyway, I was wrong. The Just Sell Everything indicator came through with flying colors. Got four calls by 7 a.m. my time on Wednesday to 'just dump it, I can always buy it back.' Needless to say, this indicator was spot on once again (ahhhh, the beauty of hindsight) for a short-term bottom. Going long after that was the easiest trade I made all year."

Vic: "Glad that some of you profited from qualitative nuances and didn't need to pay attention to our memo that after big down openings of that nature the market is in the most bullish stage of all time. The story of the boy who cried wolf comes to mind, with me being the boy. But that's when cycles are ready to change."

"Ed Marks is here! For those of you who haven't had the pleasure of meeting Edwin Marks, the best stock picker we know, let me introduce you. Ed, are you doing any buying?"

Ed Marks: "Vic, I bought Xerox (XRX: NYSE) for the asset value and Lucent (LU: NYSE) because it is still a premier research and high-tech manufacturer. I bought or am buying Titan Corp. (TTN: NYSE), Ariad Pharmaceuticals (ARIA: Nasdaq) and Harris & Harris Group (HHGP: Nasdaq) around these levels."

Laurel: "Andrew, any thoughts?"

Andrew Coulter: "Buy strength, sell weakness. Avoid stocks with a 52-week chart resembling the Matterhorn; buy stocks above \$100 or near 52-week highs. Great empirical evidence that supports momentum school, refuting fundamentalist, old hearted critique. Not trivial analysis: The most expensive stocks always appear too expensive."

"In this vein and useful for year-end gains, can we seek out the most 'speculative' stock that will be the Qualcomm (QCOM: Nasdaq) of 2000? My nominations are Juniper (JNPR: Nasdaq) Brocade Communications (BRCD: Nasdaq) and Sycamore Networks (SCMR: Nasdaq)."

Laurel: "I sense a 2001 Readers' Stock-Picking Competition coming on. By the way, the final results for the four groups in our current six-month competition will start coming in Nov. 7, and by Nov. 23 the contest will be complete. All the groups that beat the Nasdaq 100 will be invited to a party in Manhattan, and the best of each group will be treated to a fish dinner at the place of their choice. You can look at the current standings here at the [worldlyinvestor.com](http://www.worldlyinvestor.com) site."

For my part, I nominate Ciena (CIEN: Nasdaq) and Corning (GLW: Nasdaq) for the Cartier collection and Yahoo! (YHOO: Nasdaq), Sun Microsystems (SUNW: Nasdaq) and Texas Instruments (TXN: Nasdaq) for the Eddie Bauer catalog. How about Mr. McNabb, the Southern finance professor and tech

stock connoisseur? "

Mark McNabb: "While we are nominating stocks priced for perfection and have the features of a supermodel face and an actress body with a vamp's personality -- ooh la la, formidable mademoiselle!! I can throw in a few sultry B2Bs since others have gobbled up the fiber in the room, save Redback Networks (RBAK: Nasdaq). Corvis (CORV: Nasdaq), but only revenue is from its financial backer Broadwing (RW: Nasdaq) at present. Everyone says their stuff is amazing, but would like to see others pay to say that.

"These are software companies with explosive growth, which probably at times wish the B2B moniker would pass from the lexicon: Ariba (ARBA: Nasdaq), Siebel Systems (SEBL: Nasdaq), Mercury Interactive (MERQ: Nasdaq), I2 Technologies (ITWO: Nasdaq) and BEA Systems (BEAS: Nasdaq). And in couplers and chips: Broadcom (BRCM: Nasdaq), Applied Micro Circuits (AMCC: Nasdaq) and PMC-Sierra (PMCS: Nasdaq). Am long seven of 10 names, or maybe it's six. Got out of PMCS way too soon but wanted to sit out Monday a.m. with some cash. Keep looking at powder keg in Jerusalem, I guess."

Vic: "Speaking of contests, the latest Iowa Poll results have the election hanging in the balance. The betting is now 64% that the Republicans will win. In other words, to bet on the Republicans to win, you have to give the other side 2-to-1 odds. A separate futures market has the Republicans winning with a 49.9% share of the vote, to the Democrats' 49.4%.

Bill Haynes: "How about a big jump across all markets on Nov. 8 after a Bush/Cheney romp, carrying enough Republicans to keep control of both houses of Congress? I'm betting on that, because I see the polls showing a slight Bush/Cheney margin beyond the poll uncertainty among "likely voters." I believe there are a lot more conservative voters out there (like me) who will crawl to the polls if necessary to bring the Clinton-Gore era to an end. I believe that Dem voters are far less motivated."

Vic: "Christy Mathewson, the great pitcher for the New York Giants in the 1920s, used to talk about pitching in the pinch, the moment in every game when victory hangs in the balance. Watching the Subway Series shows that insight still holds. There are so many links between the market, politics and baseball that we'll write about them in tomorrow's column."

The climax of the evening came when everybody took to the dance floor to do the twist and improvise lyrics to the Beatles tune I Saw Her Standing There.

Mark McNabb: "Well, Dell was just 23! You know what I mean?"
Laurel: "And Microsoft, down to just 48..."
McNabb: "I never thought I'd see Xerox -- "
All: "Hoooo!"
McNabb: "fallin' down to 6 and change!"

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Dow	1.06 4	Up 2	-11	-3.5
S&P 500	0.89	Up 2	-4.9	-9
Nasdaq	1.06	Up 2	-14	3.6
Europe STOXX-50	1.12	Up 2	2.4	-0.2

Dollar/euro	0.79	Down 1	-18	-3.1
Nikkei	0.78	Up 1	-20	-5.0
Dollar/yen	1.05	down 2	-11	-0.4
Gold	0.69	Up 2	-5.7	0.7
Oil	1.32	Up 1	76	9.5
Bond Futures	1.20	Up 2	11	1.8
2-Yr Note Futures	1.06	Up 1	1.2	0.3
Bund Futures	1.08	Up 3	3.2	0.4

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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This Mini-Rally Feels Alright

By Victor Niederhoffer and Laurel Kenner

Columnists

10/24/2000 09:05 AM

We were just so happy to be in the World Series that we forgot what to do until it was too late. – Anonymous Yankee after his team was swept by the Reds in the 1976 World Series

Like the Yanks in the World Series, the market eked out two squeakers in a row during the last two days, ending just enough ahead to win.

Of course, there was the obligatory decline in S&P 500 futures below 1400 to scare the wits out of the longs. The move to limit-down in the Nasdaq futures was just to fan the bearish breath of the old-hearted.

For the first time since early August, the S&P 500 is up more than a point three days in a row. The 10-week lapse is a rarity that has only happened three times before in the last six years, the most recent episode being near the end of April 1995.

Unfortunately, the pitcher does not like to throw the same pitch a third time unless it's for a very good reason. And something tells us that reason is not so that the bulls can hit the ball out of the park. That something is not so much the quality of our insight or feel for the market, but a little old-fashioned counting of the kind that Sir Francis Galton once did to record such things as the number of fidgets at a lecture.

The back of the envelope shows that on the five occasions that the pitching has been like this, the market has gone down an average of 1% in the next four days.

Bonds Support Stocks

However, the retreat should merely be a temporary phenomenon, as the 10-year and 30-year bonds continue to set highs, carrying us back to the beautiful levels and market time of May 1999. This is always a bullish phenomenon for the long term.

The gains in European markets are also auspicious, with a 2.3% rise, the third-largest in four months, carrying Germany's DAX close to the 7000 mark. The DAX is still down 19% for the year.

There has been considerable press given to Yankee manager Joe Torre's remark that Chuck Knoblauch, the Yanks' up-and-down second baseman, is like the Nasdaq. Now, it's true that like musicians, doctors, professors and every other group these days the reading material in the baseball locker room is more likely to be *The Wall Street Journal* than *Playboy*. But we demur as to the comparison.

As the World Series and October wind down, we turn to something even more timeless than the World Series: Insights from Edwin Marks, the Shakespeare of Markets. Like the Bard, his wisdom is always fresh. Marks is accumulating Lucent (|LU|: NYSE) and Xerox (|XRX|: NYSE) on the theory that all the weak hands are out.

But he's also hauling in a line of Burlington Northern (|BNI|: NYSE). "They have just completed a large

capital improvement expenditure and I figure the benefits should soon start to flow down the stockholders... This is a longer-term, fairly riskless way to play this market – a plain-wrapped, unglamorous, Plain Jane method of investing in extremely dicey times."

We wouldn't be surprised if big institutional buyers are showing similar interest in BNI.

Laurel Kenner is long Lucent and Burlington Northern.

Speculator's Scorecard				
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Dow	1.05 4	3	-10.7	-2.8
S&P 500	0.86	-1	-5.1	-0.4
Nasdaq	1.06	-1	-14.8	3.4
Europe STOXX-50	1.10	3	3.4	-3.0
Dollar/euro	0.80	-2	-18.9	3.4
Nikkei	0.81	-1	-20.4	-5.6
Dollar/yen	1.18	1	-10.2	0.3
Gold	0.68	-1	-6.3	-0.1
Oil	1.39	2	76.3	6.0
Bond Futures	1.27	3	11.8	2.4
2-Yr Note Futures	1.03	2	1.2	0.4
Bund Futures	1.13	-1	3.0	0.1

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Inch by Inch

By Victor Niederhoffer and Laurel Kenner
Columnists

10/25/2000 08:08 AM

In baseball, it's said, the difference between a win and a loss is one inch.

And on such small matters, too, hang profits in the market.

Consider what happened in the last 20 minutes of trading yesterday:

- At 3:57 p.m. ET, Nasdaq 100 futures were at 3400.
- At 4:04 p.m. ET, Nortel Networks (|NT|), the star of the fiber-optic sector, reported a shortfall in sales -- 90% growth instead of the 100% some were expecting.
- At 4:13 p.m. ET the futures were at 3330 -- down 70 points in 16 minutes. To put it in perspective, if you were long 10 contracts at 3400, that's a \$70,000 loss.

The Nortel warning brought to mind that ball hit by the Mets' Todd Zeile on Saturday night in Game 1 of the World Series. In the instant replay, the ball seemed to actually balance on the top of the fence for a moment. When it fell back to the field, Timo Perez, jogging from first on the expectation that the ball would be a home run, started running -- too late.

Sliding Isn't Safe

Nortel's warning had the speculators who communicate with us by e-mail preparing for a big slide.

Mark M. McNabb, a finance professor and tech investor, said: "They will be selling JDS Uniphase (|JDSU|), SDL Inc. (|SDLI|), Redback Networks (|RBAK|), Nortel, Juniper Networks (|JNPR|), Transwitch (|TXCC|), Oni Systems (|ONIS|), Applied Micro Circuits (|AMCC|), Vitesse Semiconductor (|VTSS|), Cisco (|CSCO|), Ciena Corp. (|CIEN|), PMC-Sierra (|PMCS|), Broadcom (|BRCM|), Emulex (|EMLX|), Newport Corp. (|NEWP|), Corvis (|CORV|) and New Focus (|NUFO|) in a big way unless story changes in the morning," said

McNabb goes on to say: "My inclination would be to think the fibers can be bought for a trade because of the 90% growth rate. However, when the chip story ended in July, you had to sell within the first few days to preserve capital, as they did nothing but drop for week after week. I thought trick or treat was next Tuesday."

Chez Buffett Stadium

Christy Mathewson, the 1920s pitcher for the Giants, used to talk about the pinch moment. All concentration is required. At such times, an inch decides the game.

David Ciocca, a hedge-fund manager who leads a second life as a wrestling coach, says the Yankees are a great example of what it takes to take that last inch.

"The Yankees are the most dominant, flexible, professional team in all of pro sports, he wrote. They run

things like a nimble new economy business. When they see a hole they trade accordingly -- acquiring David Justice, for example, who could easily be their MVP this year. Anything less than winning a World Series title is considered a bad year.

"Mets fans are blindly loyal, faithfully hard-working types who fondly recite anthems like 'Ya gotta believe,' and make comparisons every year with the 1969 and 1986 underdogs who won it all. They're getting better with guys like Mike Piazza and Benny Agbayani, but still severely lack the scientific acumen and purposeful refinement of their crosstown rivals. The leg-slapping Tug McGraw is still their hero.

"You get the feeling that if Buffett or Abelson showed up at the Series, the Mets fans would be sporting Mets caps while they discussed the good old days."

A Metsies Situation

Lest we be accused of giving short shrift to the Mets, heirs to the Brooklyn Dodgers and Giants, we would like to share a note from Larry Ritter, a New York University finance professor and author of "The Glory of Their Times," a collection of interviews with early baseball greats, one of the finest books on the sport ever written.

But first, a bit of history.

We have long been intrigued by the mystery of Alan Greenspan's Ph.D. He received it a quarter-century later than his master's degree, while he was working in Washington. Larry was on the New York University committee that awarded Greenspan his doctorate, and we've been trying for months to get him to spill the beans.

He has always told us that everything was perfectly proper.

Until now.

Unsurprisingly, it was the Subway Series, and not our entreaties, that finally prompted him to reveal the truth. Here is his note to us:

I am enjoying the World Series except that I want the Metsies to win. That's what Casey Stengel used to call them -- the Metsies.

Actually, I have to fess up. I had that Ph.D. all ready for Casey and through some secretarial slip-up it wound up in the hands of Alan. I said what the hell, who cares, because from what I've seen of Ph.D.s they're no bargain anyway. Give me a good left-handed power hitter any day.

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Nikkei	0.82	1	-20.1	-4.3

Dollar/yen	1.16	-1	-10.0	0.0
Gold	0.69	1	-6.0	-0.8
Oil	1.37	-1	74.3	0.6
Bond Futures	1.26	-1	11.3	1.7
2-Yr Note Futures	1.02	-1	1.2	0.3
Bund Futures	1.14	1	3.1	0.03

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Billy Kids About the Market

By Victor Niederhoffer and Laurel Kenner

Columnists

10/26/2000 09:57 AM

For the fourth time in a row, the market registered a significant decline on the day before the release of the Employment Cost Index. And as is customary, the market rebounded this morning.

The mistress of markets has now completed the obligatory fanning of fear and liquidation to pay her minions.

After the obligatory sacrificial tribute to her ferocity, she should be ready to get back to the more serious process of regrouping and catching up with the usual 10,000,000%-per-century gain. And since Laurel was long S&P futures overnight, it's a good thing; otherwise the scribe might have had difficulty paying her rent and be forced to take her place among the homeless in New York's Washington Square Park.

Time, therefore, to let the Bard of Markets -- William Shakespeare himself -- do the talking. With ghosts assembling in preparation for the ancient Halloween tradition of communing with the living, we asked the playwright for an advance interview so we could pass along his views on the market to the good souls holding good stocks.

He consented, but only if he could talk to Laurel alone, a condition to which Vic reluctantly agreed.

As it turned out, Shakespeare had plenty to say about the Nortel Networks (NT) sales shortfall that Wednesday took \$345 billion out of the market, measured by the all-inclusive Wilshire 5000 Index. His remarks made much more sense than what we were hearing from analysts and market commentators yesterday. And he had many beautiful insights on speculation.

Laurel: Is it over for fiber-optics?

Shakespeare: Each substance of a grief hath twenty shadows.
(King Richard the Second (1595), act II, scene ii)

Laurel: I don't understand why revenue growth of only 90% instead of 100% is such a big deal. Surely modern investors are too sophisticated to overreact to a bit of slightly bad news.

Shakespeare: I will make thee think thy swan a crow.
(Romeo and Juliet (1595-1596), Act I, scene ii)

Laurel: I should have sold Vitesse (VTSS) back when they started talking about the telephone companies slowing down their purchases.

Shakespeare: Delays have dangerous ends.
(King Henry the Sixth, Part I (1589-1590), act III, scene ii)

Laurel: I'll never buy a stock again as long as I live.

Shakespeare: Our doubts are traitors,
And make us lose the good we oft might win,
By fearing to attempt.
(Measure for Measure (1604), act I, scene ii)

Laurel: You're right. I'll just buy what I like and not worry about the price.

Shakespeare: When valor preys on reason,
It eats the sword it fights with.
(Antony and Cleopatra, Act III, scene 13)

Laurel: OK, enough about me. What about the big picture? Have we reached bottom yet?

Shakespeare: The worst is not,
So long as we can say, "This is the worst."
(King Lear, Act IV, scene I)

Laurel: So you think the market could just keep drifting down, step by step, to hell?

Shakespeare: When Fortune means to men most good,
She looks upon them with a threatening eye.
(King John, Act III, scene iv)

Laurel: Don't you have any sympathy? Vic always tells me not to sell at the bottom, but I hate seeing stocks go down.

Shakespeare: Of comfort no man speak:
Let's talk of graves, of worms, and epitaphs;
Make dust our paper and with rainy eyes
Write sorrow on the bosom of the earth;
Let's choose executors and talk of wills.
(King Richard the Second (1595), act III, scene ii)

Laurel: Oh, you're just making fun of me now.

Shakespeare: What's gone and what's past help
Should be past grief.
(The Winter's Tale (1610-1611), act III, scene ii)

Laurel: I'll be so glad when all these bad earnings reports are over.

Shakespeare: Unbidden guests
Are often welcomest when they are gone.
(King Henry the Sixth, Part I (1589-1590), act I, scene ii)

Laurel: Should I buy bio?

Shakespeare: If you can look into the seeds of time,
And say which grain will grow and which will not,
Speak.

(Timon of Athens, Act I, scene iii)

Laurel: You've been very gracious with your time. Do you have any parting thoughts before you go back to London?

Shakespeare: The day shall not be up so soon as I,
To try the fair adventure of tomorrow.

(King John, Act V, scene v)

Exit, pursued by a bear.

(The Winter's Tale (1610-1611), act III, scene iii)

Speculator's Scorecard				
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Dow	1.05 4	-1	-10.2	-0.8
S&P 500	0.86	-1	-7.2	0.02
Nasdaq	1.04	-3	-20.6	1.9
Europe STOXX-50	1.10	-1	4.2	5.7
Dollar/euro	0.80	-1	-19.7	-4.8
Nikkei	0.81	-1	-21.7	-4.3
Dollar/yen	1.15	-2	-10.1	-0.8
Gold	0.68	-1	-7.6	-1.6
Oil	1.36	-2	72.1	1.6
Bond Futures	1.24	-2	10.8	1.2
2-Yr Note Futures	1.01	-2	1.1	0.07
Bund Futures	1.15	-1	2.7	-0.4

*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*. He is long Nortel.*

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. She is long S&P futures and Vitesse.

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Visiting the Ghosts of Wall Street Past

By Victor Niederhoffer and Laurel Kenner

Columnists

10/30/2000 08:37 AM

(Note from the Speculators): Our Stock Talk! column on Mondays features views from our readers. Please send us your comments, questions and ideas, if you'd like to participate electronically. The settings for Stock Talk! range from real to virtual.)

Moderator: Welcome to the 448th edition of Stock Talk! We're coming to you quite live, thank you very much, from the graveyard of Trinity Church in the Wall Street district, where the ghosts of speculators past are said to linger near the scene of their now-forgotten triumphs and debacles.

Vic: Laurel, that exhibit at the Museum of Financial History we just saw would curdle the blood of Mephistopheles. Trust Mr. Permabear, James Grant, to illustrate the relationship of the free press and the free market with newspaper clippings of three horrific October crashes.

Laurel: I'm still shaking, Vic. Bad enough to remember Oct. 27, 1997, when the Dow shut down markets nationwide with a blood-chilling 550-point drop. But he had to bring up the terrifying 13th anniversary of the Oct. 19, 1987, crash — and topped that off with the anniversary of the Oct. 29, 1929, crash, which mercifully fell on a Sunday this year. This October came too close for comfort to living up to the month's reputation. I'm not superstitious, but what is it about October?

Vic: It's always been a season in which life comes into sharp relief against death, Laurel. Back on the farm in the old days, the color and glory of the harvest contrasted with the approach of winter darkness. Nowadays, we've been hearing from some of our astute readers that tax selling by mutual funds at the end of their fiscal year creates a structural bias toward declines in October.

And when margin liquidation sets in, Katie bar the door.

I was just reminiscing with this fellow here who jumped out of a window in 1929 about the Dow's descent that year. He still remembers the numbers. The market used to be open on Saturdays, and he says it began then, just under the round number of 300.

- Sat., Oct. 26: 299
- Mon., Oct. 28: 261
- Tue., Oct. 29: 230
- Wed., Oct. 30: 258
- Thu., Oct. 31: 273

The low on Tuesday was 212, which it reached again on Nov. 13, when it closed at 199.

Of course, with all the fear that the bears had fanned, exactly the opposite was guaranteed to happen on those anniversaries this year. On both Oct. 19 and Oct. 27 of this year, the market had one of its biggest rallies of all time – 48 points and 30 points, respectively, in the S&P futures. Even Thailand was up.

How thankful we should be to the "Don't buy until you can see the lights of a P/E below 10 again men"

that they allowed the path of resistance to be so clearly up on these days, by scaring out the weak longs ahead. And how unfortunate it was this year that Oct. 29 wasn't a trading day; it could have moved the S&P up on the month. Regrettably, we shall now probably have to wait until the Wednesday to Friday period for the next bear-killing rally to ensue.

Let's take some questions. Both the quick and the dead are encouraged to speak up.

Shade of Robert Morse: I always liked to buy beaten favorites, but I suppose times have changed since I could move the market with a whispered tip.

Vic: Nice to see you, Mr. Morse. Yes, it's true that the cycles are always changing. Fixed-rule followers get beaten to the punch. We did some extensive counting and induction, and discovered that in recent years, the companies that have been best to buy for the last two months of the year are the best performers of the first 10 months.

These eight Nasdaq 100 stocks fit the bill:

- PeopleSoft (|PSFT|)
- Paychex (|PAYX|)
- Network Appliance (|NTAP|)
- Siebel Systems (|SEBL|)
- Starbucks (|SBUX|)
- Adobe Systems (|ADBE|)
- I2 Technologies (|ITWO|)
- Juniper Networks (|JNPR|)

Laurel: I see we have with us Mr. Mark McNabb, the eminently lively Virginia Tech finance professor. Mark, what's the latest?

McNabb: With Lazio up in the latest poll, does that mean Hillary goes back to trading cattle futures to make the mortgage payments on that \$1.6M note on the New York home? Curious minds want to know. Even at a sweetheart rate (assuming 7% and a \$1.6 million 30-year note), that's \$10,644 a month after tax, which would take almost all of the president's current salary to pay.

Vic: When he gets out in January, the speeches should pay the note off rather quickly.

Laurel: Assuming no personal liability.

McNabb: Shoulda bought the love shack in Arkansas!

Laurel: You've been following the fiber stocks closely, Mark. What's your take on the recent decline?

McNabb: The fiber controversy is real. Here's the family tree of optical:

- **Kings of transmission:** MCI WorldCom (|WCOM|), AT&T (|T|), British Telecom (|BTY|), Cable & Wireless (|HKT|), Telecomunicacoes Brasileiras (|TBR|), Deutsche Telekom (|DT|).
- **Contenders for the throne:** Sprint (|FON|), Qwest (|Q|), Covad (|COVD|), At Home (|ATHM|), Metromedia Fiber (|MFNX|); the Regional Bells, such as SBC Communications (|SBC|), and their rivals, the competitive local exchange carriers, or CLECs, such as Level 3 Communications (|LVLT|). These

have slowed purchases from the ...

- **Bishops of connectivity:** Lucent (|LU|), Nortel (|NT|), Cisco (|CSCO|) and the ...
- **Squires of switching:** Juniper (|JNPR|), Redback Networks (|RBAK|), Oni Systems (|ONIS|), Corvis (|CORV|) and In Range (|INRG|), who buy from the **Arms merchants:** Corning (|GLW|), JDS Uniphase (|JDSU|), SDL (|SDLI|), that need little things from the ...

Gem dealers: Applied Micro Circuits (|AMCC|), PMC-Sierra (|PMCS|), Broadcom (|BRCM|) and Vitesse (|VTSS|).

The kings are in disarray and restructuring their thrones, many of the contenders have earnings growth concerns or a debt and cash flow problem, the bishops offer a mixed message, and the squires cannot escape questions of their maturity, while the arms dealers worry if one side stops fighting who will they sell to? And the gem merchants would hate to lose the arms dealers as such good customers who always bought their best stones at premium prices.

If the growth slows for a while as the big telcos sort out their business models, then it's possible that fiber valuations will be cut by 50% over the next six months. My guess is they'll continue upgrading to fiber, but at a reduced pace. Of those at the top, probably SBC works. Of the bishops and squires, Cisco and Juniper, but even these have risks in the short term. The arms merchants and gem dealers have exposure to slow down at the fringe of fiber, but also the ability to supply to whomever wins and are the most difficult to predict. Corning is the most reasonable on valuation, and so I like it.

Laurel: Thank you, Mark. As Shakespeare said, "Uneasy lies the head that wears a crown." (King Henry 14, Part 2, Act 3.) We have time for me to read a note we received last week from Mr. Duncan Coker. My interview with the Bard apparently struck a chord with him. He wrote after the 8% rise in the Nasdaq Composite on Oct. 13 but before the 8% rise on Oct. 19.

Coker wrote: Perhaps last week's rally was premature. As Shakespeare put it in Richard III Act 3, Scene 2:

"The lords at Pomfret, when they rode from London, Were jocund and suppos'd their states were sure, And they indeed had no cause to mistrust; But yet you see how soon the day o'ercast. The sudden stab of rancour I misdoubt:"

But I believe the sun will rise on this market.

"... what envious streaks Do lace the severing clouds in yonder east: Night's candles are burnt out, and jocund day Stands tiptoe on the misty mountain tops." (Romeo and Juliet, Act 3, Scene 5)

Laurel: Mr. Coker, by the way, says he's bullish on U.S. stocks to the extent that Washington stays out of the mix.

Moderator: Thank you, for those poetic insights into the market. We'll see you next Monday for another edition of Stock Talk! and bring your friends.

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End-of-Year Rally Will Follow Bear Skinning

By Victor Niederhoffer and Laurel Kenner

Columnists

10/31/2000 09:45 AM

Oh human race, born to fly upward, wherefore at a little wind dost thou so fall? Dante Alighieri (1265-1321) *The Divine Comedy*

The market on Monday continued its relentless drive to confuse the many, scare the weak, confound the experts, punish the complacent and reward the strong.

Some milestones: The Dow moved to up 1.7% on the month. The S&P 500, after reaching a low of down 8.7% on the year on Oct. 18, gained 1.4%, paring its loss for the year to 4.8% and continuing its inevitable ascent to a millennial gain. This morning, Germany's DAX moved above the magic level of 7,000.

But the Nasdaq, punishing the complacent and putting the finishing touches on all the shoeshine boys, taxi drivers, wait staff and little people who climbed up the stairs of wealth with flippant purchase of Nasdaq stocks last year, continued plummeting and is now down 22% for the year.

But where are we going? Onward and upward, of course. The beginning of the month will soon be here, and after the final battle with the bears, which always occurs in the month's last hour of trading, we should be ready for a spectacular end-of-year rally.

By the Bushel

Something is necessary to change the grounding of the public-market participants from turn-of-the-century angst and Nasdaq tax selling to the inevitable 10 million percent (continuously compounded) returns for a randomly selected buy-and-hold 100-year strategy that augmented those who took the plunge in 1799 and 1899.

That something, in our opinion, will be the presidential election. If Bush wins, as the always-reliable Iowa electronic futures market suggests, expect an upsurge in stocks from Social Security money pouring into the market from those finally freed to invest their own retirement funds as they see fit. Once investors can choose to buy a basket of stocks with some of their FICA withholdings, the buying power alone will be sufficient to tilt the supply-demand balance drastically in favor of the bulls.

Not to be forgotten is that the average retired person riding a burro in Chile, where they have had privatized Social Security for more than 20 years, is richer than the average American retired worker. Why shouldn't he be? Over 20 years, 14% a year comes to a 20-fold increase, and that kind of compounding is the reason that Social Security privatization can make capitalists of us all, and blow the Nasdaq to the resounding victory over the Dow it's going to have in all relevant longer-term periods in the future.

Handshaking and Rainmaking

What a joy it will be to have Hillary Clinton on the watch in the nation's financial capital. As the University of Chicago's data and mountain builder, Jim Lorie, likes to put it: "If you can't have Hillary as your investment adviser, then the best thing is to buy and hold."

Jim, we're likely to get her here in the East, and how satisfying it will be to know that she has the ability to turn \$1,000 into \$99,500 in six months with timely buying at the lows and selling at the highs in her short-selling of cattle futures, all the while rainmaking at the leading Arkansas law firm and woman-ing the watch at the governor's mansion.

With the end of the month upon us, we cannot resist giving a few buy recommendations for those with two-month and six-month horizons. We are partial today to stocks in the S&P Midcap 400. The index, up 14% on the year, includes a number of stocks that may well have sex appeal to the Standard & Poor's mavens choosing new members for the S&P 500. For those and other subtle reasons, we think the following are good choices for an end-of-year portfolio.

- Forest Laboratories (|FRX|)
- Stryker (|SYK|)
- Concord EFS (|CEFT|)
- Idec Pharmaceuticals (|IDPH|)
- Cintas (|CTAS|)
- DST Systems (|DST|)
- Ivax (|IVX|)
- Sungard Data (|SDS|)
- Cadence Design (|CDN|)

We also have one flyer for the rest of the year: Calpine Corp. (|CPN|), a power-generation company. It has the usual attributes of the best and brightest: a doubling of profits in the last quarter, a new brokerage house recommending it every day, a share price that has more than doubled this year, a stock split announced for the near future.

But it has one thing more that differentiates it from fellow stalwarts among the top 25 in the Midcap index: insider buying. Need we say more?

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