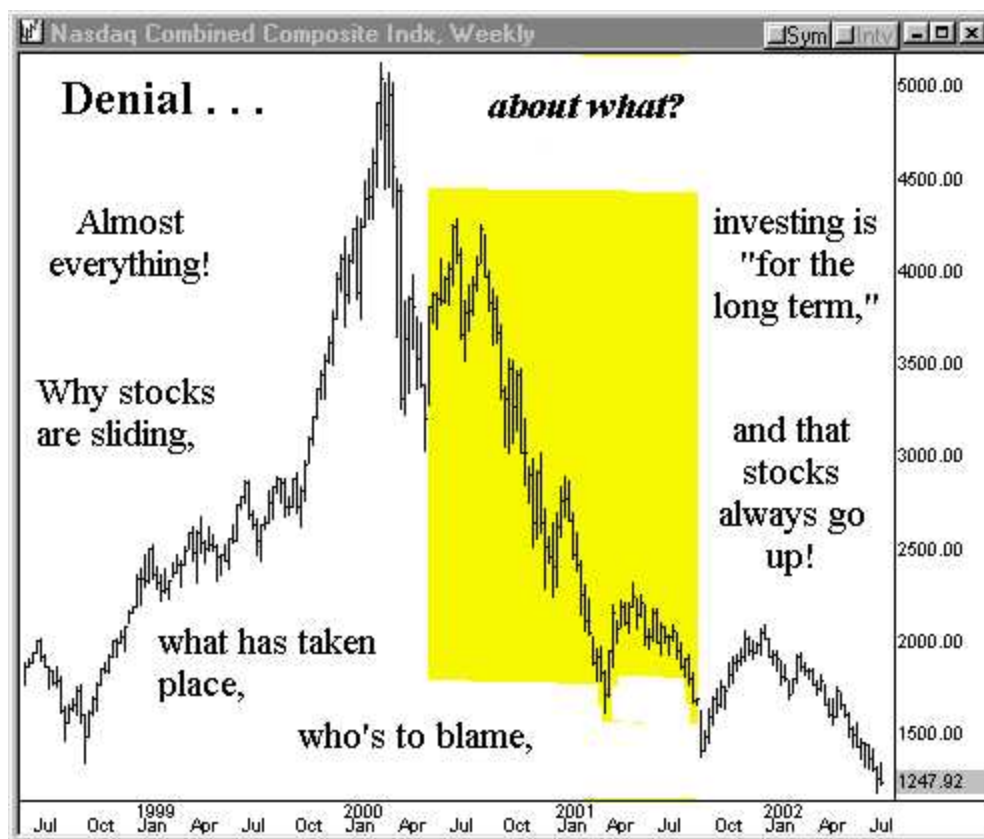


## Chapter Four: Denial

Period of June 2000 through August 2001



Note to Rap Readers: This chapter has not been edited in the same fashion as the previous three. There is no “glue,” as Fleck calls it – editorial segues from topic to topic or from one period of time to another. This is a long document, but in the interest of posting a full and meaningful archive, the chapter is presented as is.

*(June 2, 2000)* This morning, all eyes were on the unemployment report. Lo and behold, it was baked to perfection: Lower job growth, lower cost pressures -- everything was just peachy -- so the chain letter added a few more links this morning.

In fact, by the close of today's session it concluded as the biggest week in Nasdaq history, up about 19 percent. There's really no point in describing the action -- it was a free-for-all all over the place. The Sox was up nine percent, many of the Internet indices were up more than ten percent -- just a tremendous amount of fireworks everywhere.

**Bureau of Loose Statistics . . .** There was a rumor around initially about a problem with the jobs report in terms of how the data was collected. The BLS came out and denied it, but if you believe that, you'll believe anything. Later in the days, BLS economist Randy Ilg came out and said that there could be seasonal problems with the data. "Fluctuations are common in the initial May estimates. They are generally corrected." BLS is obviously already backing away from its own potentially bogus data.

My friend Colin had this take on the BLS rumor: "What president would want Fed rate hikes before an election? If the ostensible basis for the rate hikes is concerns based on tight labor markets, well, then doesn't some slowing take away those concerns, and the chances of those hikes? Who calculates the payroll numbers? And to whom do they report? Hey, errors occur. Ask the Japanese."

**A Child Could Pull it Off . . .** (June 5, 2000) Joanie was on fire this morning in describing Friday's unemployment report. I mentioned in Friday's Rap that there were some questions about the accuracy of the report. Joanie went one step further:

*"From an Administration that brought us Waco, Filegate, Travelgate, Monica Lewinsky, the Lincoln Bedroom, indictments, an impeachment, friends in the slamm er, the total denigration of the Justice Department and the latest -- the Elian Gonzalez fiasco -- just to name a few, er, a few highlights, what would possess you to raise your eyebrows at the suggestion that the BLS cooks the books? I mean lawlessness i s a way of life with this crew. So a little help from the Labor Department? No problem."*

*"Therefore, if you had to wait until you read the papers over the weekend to learn that Friday's Non -Farm threw up some red flags, you are way behind the eight ball. As a matter of fact, the story made the rounds so quickly after the release was scrutinized, that by mid - morning, the BLS was forced to make an official statement, denying that there was any "glitch" in the numbers. (The lady doth protest too much, right ?)*

*"Glitch? Oh, that's just French for political pressure applied to a government agency whereby they would manufacture a benign number in order to put public pressure on Mr. Greenspan to chill out in the rate hike department lest we slow down so much th at Mr. Gore takes a recession rap and therefore blows his shot at the presidency. Got that? And just how could the BLS soften the number in the month of May? Easy. By taking the survey early, blaming it on the calendar and thereby very conveniently avo iding the seasonal expansion we traditionally see in the month of May. Child's play."*

**Bird Watching . . .** It just seems that between the massaging of the government data and the tape painting on Wall Street, more and more the U.S. stock market is starting to

resemble a giant rig job. I know that may sound a little silly or extremely pejorative, but I think if typical readers had the chance to check the opinion of a lot of professionals, they'd be surprised how many level-headed people take this idea seriously. Which is not to say that makes it the right conclusion. But if it looks like a duck, walks like a duck and acts like a duck . . .

**Do do do do do do . . .** (June 7, 2000) The most interesting nugget in today's news was a speech given last evening by Lawrence Meyer. Meyer spoke at the Boston Economics Club and during the Q&A he was asked about the latest unemployment report. He said that a sharp drop in the private sector employment in particular was "incredible." Then he said, "That means it isn't credible."

So now we have a government official who sees the numbers released last week as a big pile of what it is. For those folks out there who think that anyone who casts aspersions about government numbers has watched too many episodes of "The X-Files," you might want to consider Meyer's statement. Just because you believe that certain government numbers might be cooked doesn't make you a conspiracy theorist.

**Name Your Price . . .** (June 14, 2000) Guess what folks? The prices you see at the pump are all wrong. Gas prices actually went down last month, or so says the government. After I saw the report, I stopped to get some gas, but at my station they wouldn't let me pay the price I paid at the beginning of May. I guess they don't believe in the government numbers. My good friend Colin pointed out this morning that a major client of his went through every single component of the CPI and PPI and could only conclude that the Labor Department is making these numbers up. I don't know how anybody could disagree with that statement. Colin went on to say:

*"Once upon a time, much higher oil prices showed up in the prices of darn near everything else. Nowadays, as graphically illustrated by the recent PPI and CPI data, oil price increases don't even show up in oil price measurements as increases, but rather as dramatic decreases! We are living with the most manipulated markets in history. As always, it will end badly."*

**Cover and Simmer for 12 Years . . .** (June 15, 2000) In the *New York Times* today was another must read article, this one about three officers of CUC admitting to falsifying the books. The quotes from the officers are what I found most illuminating. "It was a culture that had been developed over many years," the former CFO said. "It was ingrained in all of us, ingrained in us by our superiors over a very long period of time, that that was what we did."

This group of officers admitted that it had been going on for at least 12 years. I, for one, knew back in the early 1990s that this company was "cooking the books," which is the phrase used by the judge in an effort to cut through all the accounting lingo. According to the SEC, at first the company was just trying to keep profits high, or just as high as the

Wall Street analysts expected. That involved a variety of false entries. Then they started to play the game by using mergers and setting up reserves.

*The Times'* account of this is excellent, and it begs the question, "Well, what about all the companies that are doing this now?" There are companies with very high stature that continue to have a very predictable growth rate -- always beating earnings by a penny. Yet when you look at their businesses you have to ask, "how is that possible without managed earnings."

It seems extraordinary that the results of companies such as GE (or Cisco, or many others, for that matter) -- which are very highly regarded -- can be as predictable as they are, given the far-flung nature of their businesses. We know these kinds of accounting practices have to be rampant in corporate America. The big question is, "Will this be an isolated case or will there be more to follow?" If there's more to follow, at some point it will cause a dramatic shock throughout Wall Street.

**Low Tech . . .** (*June 19, 2000*) Bank stocks got a bit of a bounce after the huge drubbing they took last week, and it seems we no longer need to include Internet stocks as tech stocks. Even though tech stocks were rallying in general today, Internet stocks were mostly under pressure. *Barron's* had a write-up this weekend about the burn rates on many of these stocks, and you almost get the sense that owning Internet stocks is perceived as a mark of dimwittedness, much as it used to be a badge of honor.

I've seen this over and over in the last 20 years, where a particular industry gets so hated, people almost feel sorry for you if you own the stocks. We haven't quite come to that, and the speculation hasn't been totally rung out of Internet stocks yet, but psychology sure has swung a long way.

**There's No Place Like Home . . .** (*June 22, 2000*) In a very interesting development north of the border, a story broke yesterday in *The National Post* about an investigation by the Canadian authorities of the pension management arm of the Royal Bank of Canada, a firm called RT Capital Management. They were reported to be a very conservative outfit, and yet they are being investigated for marking up prices at the end of the month (a.k.a. tape painting) and potentially parking securities.

I have no idea if this is true, but as I have said many, many times, there appears to be a tremendous amount of tape painting here in the states. If the authorities north of the border are able to catch somebody doing it up there, how bout the SEC goes to school on how they did it and get busy catching the guys doing it down here? It will be interesting to follow that story and see where it leads us.

**The Writ Stuff . . .** (*June 30, 2000*) Speaking of all the tape painting today, the funny business uncovered by the Canadian authorities, which I mentioned about a week ago, looks to be nearing its conclusion, at least for this round. The Canadian securities regulators are charging a group of people at RT Capital Management, a subsidiary of the Royal Bank of Canada, with fraud.

The specific tactic allegedly used was "high-end closing," whereby the accused supposedly took advantage of low trading volumes to push up the closing price of certain shares they held just before the end of the quarter. The rationale for why they would do such a thing is that higher closing prices made it look like they had better returns, which allowed them to attract more capital, and so on and so forth.

As I've said on many occasions, I'm as certain as a man without a subpoena can be that this practice goes on here in the U.S. In fact, a friend of mine told me somebody was even chirping about this on bubblevision. It is so blatant, that what I'd like to know is, how come the Canadians can catch a handful of folks at it when the SEC can't? Perhaps the SEC will follow up on the lead of our friends to the north and take this issue a little more seriously.

### **From the "Can You Top This" File or the "Have We Got A Deal For You"**

**Department . . . (June 30, 2000)** Storage Networks (STOR) went public today at \$27 a share. According to the *Wall Street Journal*, each of the two founders recently sold about 29 percent of his holdings to Goldman Sachs -- and pocketed \$20 million apiece for the effort.

To the best of my knowledge, it is highly unusual for insiders to puke up this much stock shortly before they go public, and it's interesting that Goldman Sachs is going to have such an extraordinary windfall on an IPO. Usually the underwriting fees are pretty fat, but in this case (at today's price), they're going to be making in the neighborhood of \$82 a share on a grand total of almost 5 million shares. Not a bad day's work. The question that needs to be asked is, who's getting it right? The insiders selling it at \$8 not too long ago, or the buyers paying \$90 today?



**It Could Hold Water . . . (June 30, 2000)** Dennis Gartman this morning pointed out that we have quite a backlog of new nuclear submarines and aircraft carriers to be built. Quite awhile back, I mentioned that I was prospectively bullish on various aspects of the

defense business because of what I perceive to be increased future defense spending, both here and abroad. For example, it would appear that Newport News Shipbuilding (NNS) has a lock on the submarine and aircraft carrier business going forward.

Somewhere down the road, if it were to get back into the low \$30s, I think that it would represent a fairly attractive value. Business seems pretty well locked up, so if there are incremental ways for them to earn money, or if there's a way to get a multiple expansion, you might be able to do all right. I **WON'T** advocate folks buying it, but I do believe that it's something worth researching, because at lower prices it would be compelling; whatever surprises are in the future for that business ought to be positive ones, not negative.



(July 5, 2000) In the news from the north, there was a very good story over the weekend from *The Toronto Globe and Mail* about the rigging that has gone on up there in their market. It included a very good description of how the Toronto Stock Exchange and the securities regulators set about solving this mystery. It was actually pretty straightforward. One just hopes the SEC will do the same here and maybe find out once and for all whether this kind of stuff goes on in our market.

**The Walls Have Brains, Too . . .** While we're on the subject, here is a quotation from the Ontario Securities Commission. "There is a reason there is a focus on market manipulation cases, and the reason we think that high closing is serious, is because it strikes at the integrity of the market." I certainly agree with that statement, and it's one of

the reasons I've been chirping about all the shenanigans that appear to be going on here. One of the interesting sidelights of this story is that apparently there are recorded conversations of some of the people involved who actually joked on tape about how what they were doing was relatively obvious, but they assumed the regulators were too sleepy to catch them. Obviously, that wasn't the case.

**But They Have to Ask Nicely . . .** (*July 6, 2000*) There was a very timely story today that passed on *Bloomberg*, entitled "Intel Calls the Shots When Analysts Estimate Its Earnings." It talked about how Intel was around trying to persuade analysts to include its stock market portfolio gains as part of its operating income. It cited a number of Wall Street cheerleaders' opinions about whether they should include Intel's obvious non-operating income as operating income.

Of course, some dead fish will do whatever the company says, no matter what. One such guppy (who shall remain nameless) said that he included the gain because "Intel had asked" him to do so. He went on to say, "This is fair enough; as a matter of convention, a company will normally set the pace for what number goes into the consensus." Huh? This proves my point that the cheerleading community is just that -- a group of cheerleaders -- because obviously they're not doing any homework; they're just doing what the company told them to do. That's why folks continually get surprised by things like what happened at Computer Associates, BMC Software, and so on.

**Could You Say That a Little Slower? . . .** One fellow in the story (who appears to work on the buy side) thankfully stated the obvious: Including gains "doesn't really make any sense unless Intel is going to be realizing these gains for many, many quarters." He went on to say that "it confuses things." Then he made the observation, "It's getting increasingly difficult to generalize in what is being included in earnings estimates."

Ladies and gentleman, that's a fact: When companies get away with obfuscating what is going on with these gains, it should cause folks to pay less for earnings, not more. This is a game being played by corporate America, and people are investing their life savings based on the dubious belief that all is well and somebody is actually making sure all this is on the up and up. This little vignette gives you a peek behind the scenes, as if it wasn't obvious, of what Wall Street calls research and proves yet again that this isn't a market, this is a chain letter.

**Count Him Out . . .** (*July 17, 2000*) I received an e-mail from a reader who is obviously in the accounting profession. I tend to agree with his conclusions about what might come next following the ultimate disillusionment of this mad crowd of bubbleonians. I thought his comments about what is going on in that field were fairly interesting, so I wanted to share them:

*"Sometimes I feel like I'm (nearly) the only one who hasn't drunk the punch. Your reports for the last two days were truly scary. Let me tell you, I am an accountant, and I have worked at a fairly high level in several small companies, and have contacts in the accounting*

*world who work in larger companies, and here are the facts: EVERY company is massively understaffed in their accounting department, they all manage their numbers (some shamelessly), the "independent" auditors are either incompetent 23 -year-olds or have ridiculous conflicts of interest, and the whole "profession" of accounting has taken on the stench of the damned.*

*"I've nearly given up on finding a good position, and have taken to working as a contractor so I can hedge my bets and not be tied to any of the pile of crap financial reports these companies are turning out. I am angry that this has happened, that my chosen 'profession' has prostituted itself to such a degree, but I don't even know who to direct my anger at since society's collective trance -state seems to be most responsible for what is going on.*

*"At least my brother has a real nice cabin on some isolated land in rural Missouri where we can hide out when the s\*\*t hits the fan. When this breaks, and it will, there are going to be a LOT of VERY angry people running around. I don't want to get in their way."*

**Mr. Magoo Goes to Washington** (July 25, 2000) Overnight the futures were stronger, indicating a higher opening. We had a blastoff right from the opening bell, and for the first half-hour bubbleonians got prepared to party on the back of Easy Al's 10 a.m. testimony in front of the House. Of course, at the same time, we got consumer confidence numbers and existing home sales numbers, and, lo and behold, both numbers came in above expectations. And not only were the numbers higher than expected, they were both the second highest on record.

**Sing It Again, Uncle Al** . . . Folks might recall the keystone of Greenspan's speech last week was that he might not have to tighten because home sales were slowing and consumers were tucking in a bit. In any case, Mr. Magoo's testimony was exactly the same as last week's, and the market promptly sold off. It's not clear whether this was because people were expecting more from his testimony, or because the economic statistics showed he was once again behind the curve. In any case, that sharp sell-off was met with dipster buying and we had another rally approximately back to the day's highs.

**Strictly by the Numbers?** . . . It's worth noting that in the Q&A after his speech, Al.com said, "I know there is considerable debate on the subject of the current productivity numbers. I don't want to get into that. We would be here all month." What I think is particularly deceitful about that is that every time he speaks, he jabbars about the importance of the productivity numbers, and now that somebody questions him on the significance of some of the flaws in that analysis, he doesn't want to talk about it. To the best of my knowledge, this is the first time he's admitted that he knew there was some question about the statistics. Before, he just blabbed on like there was no doubt that these numbers were 100-percent accurate.



He also made some comments about consumer debt. While each sentence is more or less accurate, their summation is almost an implicit blessing for consumers to run out and borrow. He said the following:

“There is very little evidence to suggest that rising debt burdens on households per se are a trigger on an economic recession. Most people have a pretty good idea on how much debt they carry. Consumer debt has been a remarkable beneficent force in moving people into the middle class over the last two to three generations, and it continues to be a potent financial institution.”

So you can see that rather than noting the gargantuan levels of consumer debt and warning about the potentials if the present economic expansion ends, he basically is saying that folks won't take on too much debt. I guess he hasn't studied the rise in bankruptcies even while things have gone well here in the last decade.

Nearly every time he speaks he manages to say something that illuminates his complete belief in the wonders of the "new era." At one point today he remarked that the data on productivity are increasingly persuasive, and that some sort of a permanent change in productivity has occurred. In fact, the data are increasingly persuasive that productivity gains have been overstated.

**Thar She Blows . . .** (July 26, 2000) Here's a word of caution regarding 401Ks from a reader who got bagged:

*“My wife's 401K has recently been the recipient of Saul Steinberg's going-away present (Reliance is going out of business); the company stock, which got as high as \$17 per share, is down in the fractions area.*

*“After 20 years of matching contributions, it's worthless. One does not get an opportunity to sell company stock purchased with the company's share of the 401K contribution. It just disappears if the company goes south. She lost better than \$25,000 - \$30,000 in the value of the company stock!!*

*“When the stock market blows, many are going to be in the poorhouse overnight. Others will be in hock to the IRS as the margin borrowing you often reference is a very real issue for those who have borrowed from their 401Ks! Taxes and penalties! The Federal surplus is going to evaporate and the political parties will head for the hills. Alan Greenspan is going to be of small use when the whirlwind hits.*

*“NOBODY is going to escape this blowout.”*

Unfortunately, he is correct.

**Please Release Me . . .** (*July 31, 2000*) Much is made of pro forma earnings results these days -- earnings before this, and after that, and "ex" the other thing. We also have government data that is constantly revised, not to mention the seasonal adjustments. A regular reader put together a tongue-in-cheek press release for a hypothetical fund that uses all these machinations to report its investments results. I found it humorous and thought readers might as well.

“Blunder Blunder Bet Bet Fund 5132 Easy Money Blvd. Ste. 1987  
Atlantic City NJ 11111

*“Effective immediately, we will be reporting pro forma investment returns. We will be providing you with the total investment return of what your account would have done if it did not own the stocks that went down.*

*“Pro forma portfolios will be available upon request only. If the pro forma investment portfolios are not advantageous to your financial condition, seasonally adjusted pro forma investment performance will be available upon which the values will be adjusted to reflect the fact that you own better stocks at bargain prices.”*

**Putting it into Perspective . . .** (*August 3, 2000*) While we're on the subject of a new era, I have heard many folks talk about how the Internet is the most revolutionary idea of the 20th century. In the most recent issue of the *Gloom, Boom and Doom Report* -- a wonderful publication by Hong Kong-based money manager Marc Faber -- there was a reprint of a survey taken by the National Academy of Engineers, who were asked to rank the greatest engineering feats of the 20th century.

Out of 20 accomplishments listed, the Internet was ranked 13th, behind electrification, automobiles, airplanes, water supply and distribution, electronics, radio and television, agricultural mechanization, computers, telephones, air conditioning and refrigeration, highways and spacecraft. I don't know where the Internet stacks up in engineering terms, but I have said on many occasions that I certainly don't think it is the Santa-Claus-in-a-Superman-outfit that stock market speculators would have us believe. I continue to hold that much of what people believed about the Internet was purely a function of stock speculation.

**You Just Never Know . . .** (*August 8, 2000*) My friend, Doug Noland, who works with David Tice and the other very capable people at Prudent Bear Fund, had this to say about today's jarring, nearly 8-percent reversal in the Nasdaq 100 -- and a similar reversal in the Nasdaq itself: "No matter what the news is, we come in with no idea whether it will be a crash or a melt up." I think that pretty well sums up the action these days and how completely independent the market appears to be of underlying fundamentals. The speculation and moving the jell-o around the plate goes on even as the fundamentals continue to deteriorate.

**Out With the Bad Air . . .** (*August 24, 20 00*) I am constantly coming across people who talk about deflation in this sector or deflation in that sector. I think the term is misused. Deflation occurs when money appreciates against a broad basket of goods and services -- something that does not happen with fiat currencies. Two thousand years of history have shown that all currencies eventually go to zero. What we've experienced in the last 50 years have been periodic price drops in various industries at various times, mostly associated with recessions or excess capacity. We now have a situation where virtually everything in technology is in excess capacity or will be in the not-too-distant future, due to the bubbleonians' willingness to exchange cash for potentially worthless pieces of paper, which allows companies to slap up capacity where it isn't needed.

On the other hand, anything that can't be created via stock market fiat -- like energy and labor -- is in short supply, and the prices are going up. Folks look at technology and say, well, the price of a particular service is coming down and that's deflationary. That statement is wrong. The price of technology has always come down, but the prices of things that can't be easily produced continue to rise. We have an inflation problem at the same time that we have the potential for an absolutely horrendous recession because of excess capacity and misallocation of capital. The twists and turns while this is sorted out will have dramatic investment implications. Navigating that landscape is going to be very tricky.

**Take It, Fellas . . .** (*August 23, 2000*) Here's a compelling e-mail from a Rap reader that I thought so telling that I'd just let him write the rest of the Rap. I often get very interesting e-mail from readers out there in the real world, and it helps me put together my mosaic of what I think is occurring. Often times those of us in the financial world lose touch with what is going on in real life, so I appreciate these e-mails. When I get one that is particularly illuminating, I like to share it with everyone.

I'm sure this particular reader is not alone in his observations:

*"I am an executive at a small home building company -- we employ 20 people. Last year, our health insurance premiums rose 14 percent at our renewal date. Just last week, I received a notice from our carrier informing us that our rates would skyrocket by 57 percent at this renewal. They were gracious enough to offer a more restrictive managed care program, and if we chose this plan, our rates would increase by only 40 percent. This is a group -rated plan, and I have been told that our specific loss experience, which has not been unusually high, should not impact our rates very much, if at all. Boy am I glad inflation is less than three percent as the government tells us!*

*"Also, our receptionist came to me today, requesting a 20 -percent raise because 'that is what people in my position are now making,' based upon resumes we recently received for a similar position. Lastly, at annual review time, if I offer a n average employee a three*

*percent raise they just laugh, stating that they deserve more and can get it elsewhere if I do not ante up. Needless to say, our employee costs have ballooned over the last three years also. I am also glad that the BLS says that wages are not a problem because all of my employees are so productive!"*

**Ex This . . .** (August 25, 2000) It was reported in the *Wall Street Journal* that earnings of the S&P 500 companies dropped six percent last year if the cost of employee stock options is factored in. That followed a drop of four percent in 1998 and three percent in 1997. This is another example from a different perspective of how earnings in corporate America are overstated; clearly, employee costs need to be taken into account. While this exercise by Bear Stearns to determine earnings ex option expenses is not an exact science, it does point out that just because you only have a broad brush handy doesn't mean you shouldn't paint the picture. More food for thought.

**Nod, Nod, Wink, Wink . . .** (August 25, 2000) There were a couple of articles in the *Journal* worth discussion. One article, titled "SEC Probes Andersen For Conflict Of Interest," covered concerns about CPA firms that audit companies to which they also provide consulting services, and related the fact that: from 1991-1997, Arthur Andersen received about \$50 million in fees for consulting services at waste management sites worldwide which dwarfs the \$10 million it took in for audit payments during the same period.

**Anatomy Lesson . . .** The way the ankle bone connects to the shin bone in these situations is that corporate executives have large stock option packages and employees have stock options, so the corporations push the envelope for the vested interest just described and the accountants are willing to give the companies the benefit of the doubt on audits because they are receiving huge compensation from their consulting contracts. That's how the checks and balances get corrupted.

That said, this is all part of a much bigger story in terms of what is going on in the country in general. In the weekend section, there was an article that underlines this point, titled "The Cheater Principle." It talks about how, "In one of the oddest twists to the new economy, Americans are indulging in old-fashioned petty cheating like never before." The article goes on to make this point:

Instead of doing well by doing good, many people are doing well by acting badly; barreling through toll booths without paying, sneaking into expensive golf courses, even stiffing restaurants for the bill. Often these are consumers who could easily afford to pay, but *view their actions as a kind of protest over high prices or poor services* . . ." [emphasis added]

**'Tis the Season . . .** (August 25, 2000) In the close-to-home department, it was reported by Challenger, Gray & Christmas that 4,000 dot-commoners were laid off in August -- a 55-percent jump from July. These aren't big numbers in the grand scheme, but considering how this part of the economy is supposed to revolutionize everything, and

how it is constantly being extolled, it's still pretty conspicuous. I expect the layoffs will become even more pronounced as more of these business plans masquerading as companies start to go belly up.

**Did We Say Fiscal? We Meant Calendar . . .** (*August 30, 2000*) Regarding the latest inflation conundrum and people's beliefs about the Fed, Justin Mamis had a great observation this morning: "Isn't it odd that there is such confidence in strong earnings numbers coming along in the second half, while there is a comfortable acceptance of 'slowdown' as benign, as if it would only affect the Fed's mind but nothing else."

Only in a mania can adults behave in such a childish fashion.

**But No Frequent Flier Miles . . .** (*September 1, 2000*) On the topic of inflation, we can lift one right out of the *Journal* from a couple of days ago that I had neglected to mention. The United Airlines ([UAL](#)) pilots received a 28 ½-percent increase now, which will be followed up with 4 ½ percent each year over the next four years. By the time things are all said and done, they will have received close to a 50-percent hike four years out. Don't think this will be lost on other people. Wage inflation can be particularly pernicious, which is why responsible policymakers don't wait until they can document inflation, as we've been able to do for some time. It's better to nip it in the bud before it gets to this point.

What must be kept in mind is that once inflation psychology changes, it's very hard to reverse it. It's been a long time since we've seen inflation psychology change toward more inflation rather than less, but it's a very hard genie to get back in the bottle.

**The Big Expensive Apple . . .** (*September 5, 2000*) In the Ex Everything, Things Are Just Dandy department, here's an e-mail from a Manhattan reader:

*"Stop trying to fool the readers. There is no inflation. I live in Manhattan. The cost of co -ops has only risen by 45 percent the last two years (but that's OK due to productivity gains). The cost of gas to the country house has doubled in a year (but that's OK since the government drops energy prices from its CPI index). Heating costs are soaring for t he country house (but that's OK since we heat with electricity, our bills might only rise by 40 percent).*

*"Our daughter goes to private school with costs going up ten percent a year (but that's OK, since they have been going up by ten percent each year f or the last ten years). My basketball season tix are up by ten percent this year (but that's OK since they are up 487 percent since 1990). I solved the problem though. I sell the tix and never go. I will no longer bore you with the rising costs of serv ices etc. There is no inflation and won't be unless we have poor crop conditions, and that is very unlikely."*

(September 6, 2000) In the economic joke of the day, the government claimed that unit labor costs dropped 4/10 of a percent in the second quarter. All I can say is, they can't possibly expect us to believe that, can they?

**Get a Grip . . .** (September 6, 2000) In the not-so-firm grasp of the obvious department, Fed governor Broadus made a speech at South Carolina University today. He was blubbering on about productivity and the like when he made the absurd comment, "There is very little inflation now."

Well, Colin Negrych had some interesting comments about that and the inconsistencies between oil prices, Fed policies and the Fed's delusional take on inflation in general:

*"How ironic it seems to see the G7, especially the U.S., pressure OPEC to raise oil production to lower oil prices to prevent inflation, then recession, when the U.S. Federal Reserve regularly says it is unconcerned about the inflationary impact of higher oil prices. Oil matters. It always has. It will for the foreseeable future. And the Fed knows it.*

*"The shift of the Fed's focus from headline CPI to core CPI to the PCE deflator (while ignoring asset inflation all the while) is an obvious and insidious attempt to justify irresponsible inaction by embracing unproven or disproven notions in the interest of socioeconomic experimentation. Acting so all will participate in prosperity insures none will ."*

And that ladies and gentleman is the tremendously insidious and inequitable nature of manias. Even those that weren't involved in the drunken bacchanalia wind up paying a price when the bubble bursts. This is why Allen Greenspan and his band of cohorts at the Fed will go down in history as *the* most incompetent and irresponsible Fed governors of all time. I know I've said it before and I'll probably have to say it again, but those are the facts.

**Texas Ranger . . .** (September 11, 2000) All this made it look like we might be on the verge of a very bad day, but then comments from Robert McTeer, president of the Dallas Federal Reserve (and one of the biggest doves in the Fed aviary), appeared in the headlines. He stated that inflation was peaking, as was oil, and the stock market was much less of a bubble now than it was before (the implication being that it had been a bubble after all, but it isn't now, which is laughable). Nevertheless, bubblevision fanned these comments and we had an explosive rally coming off the lows.

**Now He Has to Wait a Whole Year for the Emmys . . .** All in all, it was quite a wild first couple of hours this morning. I happened to turn on bubblevision when I was informed that McTeer was going to be on, just to see what he had to say, and it was truly a breathtaking performance. First of all, the thought of a Fed governor being interviewed on television about Fed policy is striking in its own right, but this particular dove took

pains to wax poetic about how the new paradigm had begun in 1995 and how productivity was basically responsible for allowing us to ignore all the bad stuff (my words, not his). McTeer practically broke both arms patting himself on the back for a job well done.

It is stunning, although not that surprising, to see somebody in a position of such responsibility so thoroughly confused about what has happened in the last five years. What has been a bubble fomented by easy money and covered up by lots of interesting developments in technology he calls a "new era" and proof positive of the very same! This little vignette will be one for the history books when it comes to a bad end, which it unfortunately will.

**With Role Models Like That . . .** Watching bubblevision work the problem made one believe that they think it's their stock market and they've got to do whatever it takes to make sure that it doesn't go down. It's almost like they were attempting to help engineer the spin, just as a White House press secretary might do.

**You Don't Say . . .** (*September 13, 2000*) Paul Volcker made some pretty interesting comments in front of Congress during testimony regarding conflicts-of-interest in the accounting profession:

*“But more insidious, hard to pin down, not clearly articulated or even consciously realized influences on audit practices are another thing. . . too often, auditors, consciously or not, do not challenge management accounting, reporting and control practices as fully and aggressively as required by their public mandate.”*

All I can say to that is, "Amen."

(*September 18, 2000*) Regular readers know I've been totally skeptical of the government's inflation data for some time now. This morning, Dennis Gartman had several paragraphs of his own comments about inflation, and I'd like to pass along some of the key points, in part because I do like it when someone I respect agrees with me, but also because Dennis knows what he's talking about:

*“Friday's CPI demands that we comment upon this now very specious report: we don't believe the report's finding for even a minute . . . We no longer believe the Bureau of Labor Statistics which compiles the CPI is ‘a-political,’ as it had been in the past . . . We conclude that the BLS has been co-opted to serve political ambitions.”*

(*September 18, 2000*) In demonstrating that there is at least someone at the Fed who knows what's going on, Fed governor Guynn stated today that rising oil prices pose an inflation threat. He added that he's not sure the productivity increases will continue and that there is no "new economy." So at least not everyone at the Fed is snoozing.

**You Can Count on Us, Really . . .** (*September 19, 2000*) In the *Wall Street Journal* today there was a very fine article by Floyd Norris, called "Small Firms Urged to Back Independence in Auditing." The article described sort of a tête-à-tête between Art Levitt, the SEC chairman, and Robert Elliott, chairman of the American Institute of CPAs and also a partner at KPMG. Levitt made some very good points about potential conflicts of interest, to which Elliott replied, "Any suggestion on his part that we are forsaking the public interest, we don't accept, and we find it unnecessarily adversarial." To steal from Shakespeare, methinks Mr. Elliott doth protest too much.

Levitt wondered if "the investment public would believe their auditor had 'only rigorous objective analysis on his mind if he also must consider how his work impacts strategic planning, marketing, communications, and personal decisions.'" He then criticized an Internet venture recently approved by the Institute, whose leaders own a financial stake in the venture: "It would allow accountants to order goods and services for their clients, while earning a commission for doing so." Levitt's take was "This seems to me to be a commercialization of the significant responsibilities well performed by America's professional auditors."

Anyone who thinks there aren't any conflicts of interest is being incredibly naïve and while far from perfect as none of us are, Levitt has been one of the few folks willing to stand up to the FASB and the accountants. The FASB, the accountants and corporate America are all trying to have it their own way, and Levitt seems to be pushing (however modestly) for some rules without conflicts. The greed that option packages have engendered and the corners that have been cut have created a need, now more than ever, for auditors that require companies to give a true picture of what's really going on. It seems unlikely we can achieve this the way the present system is set up. I think there should be a separation of rules between auditors and consultants, etc. I can see how you can be in both businesses, I have no problem with that, but I don't see how you can be in all those businesses for the same company -- that's where the problem exists.

**Don't Give Me No Stinking Bad News . . .** (*September 20, 2000*) It turns out that, not surprisingly, there is tremendous pressure on analysts and companies to report only good stuff. Along the way, things that have produced bad news have been dropped. We used to get the book-to-bill ratio for semiconductors years ago, and when things turned bad they quit doing it. Yesterday, Texas Instruments ([TXN](#)) said they don't want to give guidance on handsets anymore. A while back, when Carly took over at Hewlett ([HWP](#)), the company announced that it was going to stop giving guidance on orders.

Today, one of the dead fish who used to provide spot pricing on DRAMs decided to suspend it for an indefinite period. Yesterday, the dead fish who recommended Intel ([INTC](#)), Advanced Micro ([AMD](#)) and Micron (who had previously downgraded them a week before) was quoted on Bloomberg as saying he regretted lowering his ratings last week. Apparently because the price dropped, he decided to up his rating.

Now I don't know if these folks are being pressured or not, but there appears to be a generalized desire on the part of Wall Street and corporations, etc., not to release any bad



news. I know this isn't exactly an earth shattering observation, it's just the endemic proportions to which it has evolved -- a lot like the accountants taking on Art Levitt yesterday. All these rules will be changed after we have a huge cleansing in the stock market and people want to know how they were duped.

**No Soft Landings Here . . .** *(September 26, 2000)* Lastly, in the news department, a reader e-mailed me a snippet from a Reuters interview with Rockwell CEO Don Davis, who said, "I've been around this industry for many years, and I've got to tell you I don't think I've ever seen something quite as precipitous as this slowdown." He was referring to capital spending in the auto industry. The reader went on to say, "It's always a soft landing until you feel the thud, or worse." Folks can dream of a soft landing -- just like if you jumped off a building you might think everything was just fine on the way down. By the time you find out whether the landing is soft or not, it's too late to do anything about it. Given the over-consumption and excess capacity that's been created over the last five years, it seems to me that a soft landing is a very low probability event.

**Please, Not in Front of the Children . . .** *(September 27, 2000)* I know this is going to come as a shock to regular readers, but lo and grab hold, it turns out that -- maybe, just maybe -- the BLS has understated inflation. In an article in this morning's *Washington Post*, John Barry, who has long been considered *the* source that the Fed uses to ooze information into the marketplace, revealed that inflation is actually higher than what the BLS has reported. I would like to share a few paragraphs from this very important article:

*"Consumer price inflation has been slightly higher over the past year than officially reported because of a calculating glitch at the Bureau of Labor Statistics, government sources said . . .*

*"BLS statisticians discovered the glitch some time ago, but it has taken quite awhile for them to re-run the mountains of price data collected each month to determine its impact on the overall index. Government sources did not disclose when the problem first began to affect the index . . .*

*"The error appears to have occurred from accidentally double counting some allowance for quality improvements, sources said. [emphasis added]*

*"Since there are relatively few quality adjustments for food and energy items, the upward revision is likely to affect the core portion of the CPI as much as the overall index."*

Later in the day, the BLS confirmed that changes will be forthcoming. I think this is going to be a major inflection point, because it will foster a change in psychology as people realize what a farce the numbers have been. I don't believe that most folks have

been fully aware of the shenanigans that Jim Grant (and we) have been discussing for some time.

Folks had expected that the non-fiddled ex food and energy part of inflation would drop down to the lower level of the core rate. Instead, the core rate is going up to meet the nonmanipulated food and energy complex.

As we have tried to illustrate in the Rap, there has been a steady supply of anecdotal evidence to show that inflation is alive and well in the real world. The quality improvements fall under the heading of the "hedonic price deflator," and they are also the reason that productivity numbers and GDP growth is overstated. Maybe the folks at GrantsInvestor.com, who have been spearheading the effort to get this out in the open, had a hand in forcing the government's hand. In any event, this is a victory for all of us who would like to see the inflation statistics at least approach reality.

**Inflows Are No-Shows, Trading Floor Littered with Pokemon Cards** (*October 2, 2000*) It was pretty much an ugly day in tech. Previous high-flyers continued to be sold and were down bunches of points; most chip stocks were down as well. I don't think the movement of the individual names is the story of the day so much as the fact that most people felt that today would be positive. It was hoped that the early quarter inflows would help to take the tape higher, especially after the rough times of last week. However, that was not to be the case.

**Easy Used to Do It . . .** I think today's action speaks volumes about where we are headed. It would seem a very high probability, given the tape's poor performance, the disappointing earnings and the deteriorating macro environment, that October is going to continue to see a lot of weakness. Yet, folks remain fond of the fourth quarter because they remember that Easy Al, The Kiddies' Pal, has eased money at this time in each of the last three years. Since that's not so likely this year, October could turn out to be pretty rough.

**The Problem Could be Agency-Specific . . .** Franklin Electric ([FELE](#)) announced disappointing earnings and was smacked for 20 percent today. The company's CEO said, "While on a year-over-year basis, unit volume sales continue to grow worldwide, earnings performance will be substantially below last year."

He then went on to list some of the problems, which he summed up as follows: "*Lastly, despite media and government reports to the contrary, we are experiencing inflation in commodities, wages, benefits and energy costs.*" [emphasis added] So we've found at least one company executive who is willing to pin the tail on the donkey as far as what's ailing his business. Rising costs have clearly crimped the company's margins, which is exactly the point that we've been trying to make for some time in the Rap.

**Economy Being Fitted for Anti-Lock Brakes . . .** (*October 19, 2000*) As if to punctuate the rally that was underway at the time, Greenspan made sure that he was his usual new-era self in a speech this morning. To quote Colin, "FOMC analyst Greenspan upgrades

Nasdaq from 'buy' to 'grab'." That's pretty much the way it sounds when Greenspan starts chirping about productivity. So Easy Al continues to try to help the bubble deflate slowly by coming to its rescue from time to time.

After we had our midcourse correction by scooting sideways in the middle of the day, the last few hours were a continuation of the morning's romp as all the big indices and the futures settled on their high tick. The Nasdaq had its third-biggest gain ever. Of course, the second-biggest gain ever was just a few days ago, and the largest gain ever was last spring. So we've had three of the biggest Nasdaq gains this year and yet folks aren't making money in the aggregate. Hard to believe that folks could be doing as poorly as they are given we've had three of the biggest Nasdaq percentage gains this year, but then that's the way bear markets operate.

**Brushing the Crumbs Off the Felt . . .** (*October 30, 2000*) Folks moved into financials today because everyone assumes that Greenspan is going to cut rates after the election and then everything will be hunky-dory. Even if the Fed does cut rates, I don't believe that will fix the burgeoning credit problems, yet that appears to be the mindset of many people. There is no guarantee that Greenspan is going to save the day in terms of stopping a recession or re-igniting the bull market. I think Joanie said it best:

*“And just a reminder for those counting on Greenspan to get this ‘just right.’ The last time we had a recession, we were in and out of it before he recognized it for what it was. And adding insult to that injury, we got Bubba as the result of his miscalculation.”*

I've often said that Greenspan's record on doing anything but printing money is particularly poor, and his record as an economic forecaster is downright depressing. Folks should not expect Easy Al to save the day.

(*October 31, 2000*) In the early going, there was a veritable explosion on the upside that I attribute to a number of reasons. First, it's the end of the fiscal year for various large mutual funds, not the least of which is Fidelity, the largest mutual fund organization on the planet.

Second, today brought some economic numbers that were deemed to be friendly -- the Chicago National Association of Purchasing Management survey came out, consumer confidence was down, housing starts were up and Cisco ([CSCO](#)) is back over \$50. In any case, October is over, so folks decided that the great November-to-January-to-March trade is now on, that the Fed is likely to cut rates and that the election will produce a rally.

**Waiting for the Main Course, Wall Street Still Enjoys Its Appetizers . . .** (*November 1, 2000*) We got some economic numbers, not the least of which was the National Association of Purchasing Management ([NAPM](#)) survey which was under 50 for the third time in a row. Historically, that has always signaled a recession. However, in the minds of bubbleonians, u4ians, queen bingo callers, etc., the only thing more bullish than

a strong economy is a weak economy, because they have gotten so used to Easy Al stepping up to bat and lowering interest rates.

**Fade to blank.** . . And who can blame them? In the past few years, Greenspan has done just that even when our own economy was not the source of the problem. This morning Colin had a pretty good take on this:

*“You can feel people trying to fade the euro rally and buy the dip in stocks in disbelief the U.S. economy is sinking or the Fed won't stop this from happening. The stock upside momentum of recent weeks has convinced people all is well for stocks and the economy, and the recent sell-off was just a "seasonal" one to buy heavily.*

*“‘The world was much worse off in 1998,’ you hear people say, ‘and loading up on risk assets was the thing to do.’ Well, the U.S. was not the source of the slowdown in 1998. 1997/98 was an emerging market bubble collapse. The process now underway is a U.S. bubble collapse. For a short while the markets will ignore NAPM in favor of guidance from Nortel. The ‘New Economy’ will be heralded as a safe haven: Internets/telecoms/semis/opticals? Guess again.”*

The bottom line is that folks believe Greenspan has issued what amounts to a worldwide put so they can speculate in stocks ad nauseam, ad infinitum and never get into trouble. As Colin's message makes clear, we have a problem in America now with excess capacity, overconsumption, too much debt and all the rest of it, and the air is going out of the bubble, which is why we continue to get bad news from corporate America.

**A Story That's Audit This World . . .** (November 3, 2000) Here's a bonus earnings management primer for Rap readers, an "insider" look at the cozy world of consulting and auditing. A Rap reader has sent this in and I'll highlight it as the very thing that SEC Chairman Arthur Levitt is attempting to reign in.

*“My first audit, the company set bonuses for CFO, controller, etc. based on the EPS number. Anything less, and less bonus, anything more, bonus doesn't increase. That year, magically, they hit exactly the EPS target for four straight quarters. Amazing.*

*“These guys did it with ‘reserves’ for everything from upgrading plants to operating the company jets. Need two or three cents to make the number - reduce the reserve. EPS a few cents above target -- just add to the reserves.*

*“They aren't auditable numbers in any real sense, so it was pretty easy to do. Partner in charge clearly didn't care -- this was a client that had never in nine years posted an audit adjustment. Also happened to be that*

*office's biggest S&P 500 client and paid the CPA firm a million or more every year in audit and tax fees. What's a penny or two among friends?"*

**It's Not About Indecision . . .** (November 8, 2000) How can we not talk about the elections a little bit? It certainly had enough novelty, drama and irony to last a lifetime.

To think that we could have a situation where the winner of the popular vote loses the Electoral College.

To think that Gore couldn't carry Arkansas or Tennessee; that Hillary and John Corzine could essentially buy seats; that a dead man could get elected; that a federal judge in Missouri could keep the polls open longer, then get reversed by a higher court; that a third-party candidate for the third election in a row potentially had a serious impact on the outcome -- these events read like the plotline of a novel that no one would believe. And that's not even mentioning all the forthcoming recriminations about what may or may not have occurred in Florida when that state's results are confirmed.

Having said all that, we can probably expect rumors/guesses regarding the final results to buffet the market in the next couple days, as they already have. Last night when Florida was erroneously projected as going to Gore, the stock index futures sold off about a percent. Then when it looked as though Bush would win, they rallied.

**Heads We Win, Tails You Lose . . .** The clear indication is that the stock market was suggesting that it preferred Bush. However, the perceived wisdom as I interpreted it coming into the election was that folks thought that no matter who won, the election would be behind us and we could continue onward and upward. After all, we have had a Democratic administration for eight years, and we were going to have another one that was supposed to be acceptable, although Bush was supposedly slightly more acceptable. However, in the early going of today's session, we had a dramatic sell-off. Some pundits attributed it to uncertainty, others to the fact that it looks like no matter what happens the Republicans will control the House and Senate.

But I don't buy that. My view was that once the election was over, the market was going to go down no matter what happened. Everyone had already bought stocks expecting (knowing) that they were going to go up since October was behind us and the election would soon be as well. At the margin, anyone who wanted to buy felt they had to in front of the election because the outcome would be benign, therefore the only people who were waiting for the election results were sellers, who felt like they would get higher prices. Plainly, there are a lot of crosscurrents to sift through.

My take on today's action is that the market was ready to go down and that slide has begun, which means that should we get a bounce when the election results are made official, that bounce should be sold. In my opinion, folks who believe that the market went down because of indecision about the race are missing what is actually at work here.

What I would expect to see is a rally on the election results becoming official (assuming it's not a prolonged affair), and then another slide. At some point, the 3,000 level of the Nasdaq will be taken out, bad news will surface and things will get much nastier.

Between now and the end of the year we are going to have to deal with earnings preannouncements/disappointments and tax-loss selling. The only thing the bulls can do is hope for an easing of the Fed's credit stance.

**Read All About It . . .** *(November 8, 2000)* In the *Wall Street Journal* today there was an insightful story today about how trucks are starting to pile up on dealers' lots. We have been mentioning how poorly the auto stocks are trading. All these happenings are early harbingers of an impending recession.

**You May Not Want to Ride This Particular Light . . .** *(November 21, 2000)* By the time we got around to the New York opening, the wind was out of the sails in the futures market, largely because of the fact that Lucent ( [LU](#) ) had to deliver some bad news. Specifically, the company said that it "could not confirm its guidance for Q1 2000 because a 'revenue issue' is going to affect \$125 million of revenue in Q4." Lucent also said more details would not be forthcoming until after it concluded its audit.

Those of us who look skeptically at things have known for quite some time that Lucent's balance sheet had a lot of issues, and they have been coming home to roost as the stock has gone on its sickening slide. I've continued to bring up the issue of balance sheets in the Rap because that's where a lot of the fun and games have been played.

When that's the case and things start to go badly, it usually means the company has run out of tricks -- and things tend to go badly for a long time. That's why, no matter how many folks say it's a one-quarter phenomenon, you should not believe them.

Lucent's announcement earned it a 15-percent or more smack in the chops and it made a new low, down to a little more than \$17 in the early going, a long way from the \$60 it traded at in July.

The stories we are starting to see are just the tip of the iceberg and we expect to see many more heart-rendering stories, which is the reason why I have harped continually on the complete irresponsibility of the creator of this bubble, Alan Greenspan. He truly deserves much of the "credit" for the trouble that has and will transpire.

**Economy of Scales . . .** *(November 21, 2000)* But then again, there are many unindicted coconspirators in this whole melee -- the Wall Street dead-fish community, who exhibited no restraint nor analytical discipline during this period and simply went about picking absurd price targets to see if they could get the stocks in motion.

One other thing I might point out, which people may not have noticed, is that the leadership to the downside on the tape has been tremendous. The new low list from yesterday includes such big and powerful companies (and large employers) as AT&T

(**T**), Bank of America (**BAC**), Cigna (**CI**), Daimler-Chrysler (**DCX**), General Motors (**GM**) and Sony Corp (obviously Sony is a foreign company). But this does not bode well for the economy, nor for the market.

Not much has been made of the pedigree of the new low list, but I think it is important. In addition to those stocks I just mentioned, we also know about the problems WorldCom (**WCOM**), Sprint (**PCS**), and Xerox (**XRX**) are having, and now Lucent (**LU**), again. These are all consequences of irresponsible debt management and vendor financing. Much of the blame has to be laid at the doorstep of management trying to make the quarterly numbers. Many, many businesses will be ruined because those at the top focused on the stock price rather than the business. I believe that will be one of the big lessons learned from this period. And that's just another reason why prudent central bankers should never allow a mania to develop, because the aftermath and the consequences are unbelievably horrific.

*(November 22, 2000) Today* we saw steady selling right into the close and all the major averages finished near their lows for the day. Volume for a pre-holiday session was pretty decent, over-the-counter volume was two billion shares plus or minus. I think we're starting to see signs of people actually being forced to sell stocks due to margin problems or mutual fund redemptions, or just not wanting to take the pain anymore.

It's potentially looking like the real liquidation process has begun. If that is the case, it ought to be pretty rough sledding from now until at least Tuesday. Of course, election news will certainly bounce the market around from time to time, but make no mistake about it: settling the election will not put the bubble back together.

Because the election has degenerated into such acrimony and partisan bickering, I'll allow that it is a negative factor, but it is not the reason stocks are being hammered. Stocks are being hammered because they were egregiously priced in the first place, and the bubble is in the process of bursting as earnings continue to be less than what was hoped for.

**Bulls looking for bright side . . .** Hope still springs eternal; Bubblevision continues to interview folks calling for a bottom and wanting to buy tech stocks. Investor's Intelligence last night reported that the percentage of bulls is up to 55 percent and the bears are down to 28.5 percent. So sentiment still seems bullish. Not that it is the end all and be all, but one would think that after the damage that has been done there would be much more bearishness. Before this is all over, folks will be wondering if it is too late to sell rather than what is there to buy.

**It's No New Economy . . .** *(November 28, 2000)* Everyone knows it was ridiculous when the Dow was going down earlier this year and the dot-coms were going up. But now for the Dow to hang in here while all this carnage is taking place over the counter is equally ridiculous. There is no "new" economy, there is no "old" economy -- there's just the economy, which has been fueled largely by the stock market. When the stock market gets clobbered like this, it's going to affect the entire economy, so to hide out in the Dow

or in stocks thinking big is beautiful or safe isn't going to work any better than trying to buy support the whole way down. Folks refuse to realize that the mania has ended and the bubble is bursting. Silly tricks and games that worked while it was in operation will not work once one has to go back to investing.

Turning to the news, the *Wall Street Journal* ran an article today reporting on something that is probably intellectually obvious to everyone -- the people who work at dot-coms now want some cash. Over time that will run its course throughout corporate America and we will find out that earnings have been dramatically overstated because basically there were no allowances for employee expenses, so we are going to see corporate expenses go up just as business gets worse. That's a recipe for a profit squeeze, and as a result we're going to find out that P/E multiples are even higher than people think.

**A Poole-ing of Interests . . .** (*November 30, 2000*) We sold off steadily from there until with about two hours to go we hit trading halts in the S&P 500 and the Nasdaq 100 futures contracts with the Nasdaq down 50 percent from the April high. Almost simultaneously, headlines reached the tape about comments from William Poole, president of the Federal Reserve Bank of St. Louis and additionally, I am told that Goldman trotted out Abbey in an attempt to turn the tape.

**That's News to Us . . .** Poole's comments basically stated that he backed a Fed action if a stock market slide hits the economy. "I would want to respond if it looked like financial market events are feeding in to affect the real economy in an adverse way." He did stress that this was his personal opinion and he couldn't speak for the Fed. He went on to note that the job of the central bank is to prevent market volatility from spilling into the real economy. To that I say, "Huh?"

These bubblemeisters at the Fed think that it's OK to run monetary policy in an irresponsible way as long as any resulting bubbles impact the economy on the upside. Likewise, they think they are supposed to step in to stop the hangover from happening.

**Just a Reflex . . .** (*December 1, 2000*) In a contribution to the ultimate-form-of-flattery-department, here's a very good synopsis by Don Hays regarding the manias of the last few years and the present day's complacency:

*"The one piece that blows me away in its reluctance to recognize the danger in this market is the sentiment of the public investor. Now remember that they did not even find the stock market until late 1997 when the Fed started to print money and give it away to anyone that wanted a cheap loan regardless of their credit risk.*

*"But that new adventure built up almost exactly like a pyramid scheme. The more new money came into the game just served to jump those "dream" stocks up dramatically, and that brought another family of lemmings along. And when Greenspan primed the pump again in the*



*fall of 1998, and then unbelievably again in the fall of 1999, oh, how the lemmings were strutting their stuff.*

*“And the financial news shows on the tube certainly fed the illusion, as they trotted out the ‘star’ analysts who were touting the ‘new era’ and bowed at their feet singing their success. Queen Abby reached sainthood status, and every time she made a presentation they would put her on with that glow around her head from on high.*

*“Of course, President Clinton trotted out on the front lawn at each new ‘good’ economic report that was also being exaggerated by the free money, and it became embedded that this country had reached a perpetual state of prosperity. With Regis, B.a.a.r.r.r.bra Streisand, baseball players, jockeys and to top it off, professional wrestlers being profiled because of their great investment success, it became the ‘IN’ thing to do.*

*“And it was so.o.o.o.o easy. Remember ‘conditioned reflexes.’ We’re not that different from any animal in that if you feed them each time they come, they will keep coming for a good long while even after the food stops.”*

**Go Tell It on the Mountain . . .** (December 4, 2000) One of the things that I have tried to point out in the Rap over time is that there is a fair amount of risk to investing. One of my complaints of "new-era people," a.k.a. bubbleonians, was the fact that they seemed to think the stock market was without risk, treated it as such and behaved accordingly by leveraging themselves up. They owned ridiculously priced securities and lived beyond their means on top of it. A regular reader sent me the following little metaphor about the importance of respecting the market, having a healthy concern about losing one's money and paying attention to how much risk one is taking:

*“They are learning that the market is like a mountain, it doesn't care if you make it to the top or you freeze to death. You respect the mountain, not because it respects you. But because it doesn't know you exist and won't bend to your wishes. And the market is exactly the same way. It doesn't know you and doesn't care what you paid for a price. It is going to do what it is going to do and you have to learn to live with it.”*

I really love that analogy. I think it's one of the best that I've seen.

The last thing I want to say about risk, the market, and losing money is that, in my experience, folks hate losing money more than they like making it. It feels worse to lose something you had than not making it in the first place. Although in the recent past, what panicked people into the market was their fear that they weren't making the same money their neighbor was making. Folks will find out that losing it is even worse.

In the words of noted strategist, market historian and author Ray Devoe, there is an asymmetrical nature to the market in terms of how it impacts psychology and what he calls the "reverse wealth effect." This is why I've said for a long time, perhaps somewhat glibly, that when the stock market bubble bursts, we will be in a recession about ten minutes later.

**The Booby Price . . .** (*December 7, 2000*) The fact that a handful of these stocks that have preannounced, and yet have not gone down too substantially, has emboldened some bulls into thinking all the bad news is now in the price. I disagree with that, simply because when certain securities stop going down on bad news it doesn't mean that all securities will follow suit. Sometimes it takes the cumulative weight of more than one piece of bad news to push stocks lower.

In any case, I have found that when stocks act suspiciously well, it often doesn't mean much. It's when stocks act suspiciously bad that there is oftentimes information to be had in that market action. It may seem like a fine distinction, and other people's experiences may have been different, but that's been mine.

**Initial Public Coofferings . . .** (*December 7, 2000*) In the news, there was an article in the C section of the *Wall Street Journal* entitled "U.S. Probes Inflated Commissions for Hot IPOs." The SEC is now -- somewhat belatedly, but thankfully -- getting after shenanigans that go on in the IPO business, where it is alleged that folks are employing all kinds of tricks to get allocations of IPOs, otherwise known as "free money."

As noted recently, the SEC is also finally looking into the idea of tape painting and marking stocks up. So things we have complained about for some time are finally being delved into. In absolutely classic bureaucratic fashion, the door is being shut after the horse has escaped from the barn. But, better late than never, in my opinion. We can expect lots of these types of investigations as the public becomes outraged at how they were duped by Wall Street. Who knows, they may even decide that Alan Greenspan helped put them in this predicament.

**Would You Like That in Boxes, or Bags? . . .** (*December 13, 2000*) An interesting news story passed on Bloomberg today ("Lehman, Goldman, Others Get SEC Requests for Records") that Lehman ([LEH](#)) -- in addition to Goldman, Sachs ([GS](#)); Bear Stearns ([BSC](#)); and Credit Suisse First Boston -- have all received SEC demands for information relating to IPO allocations, something we've often discussed.

My expectation would be that this story will get legs this year and next. It's entirely possible that everything is on the up and up and there were no shenanigans, but my bet would be that we will see just the opposite. And that is just the tip of the iceberg of things that might get looked into down the road.

**You are Now Exiting Kansas, We Hope You Enjoyed Your Stay . . .** (*December 14, 2000*) More and more as I look at the tape action these days, especially surrounding the

election and its response to news, it strikes me as completely and totally what I would call "retail." This is not to disparage anyone by taking a poke at "amateurs," but when I started out in the business 20 years ago, the market had a way of figuring out complex events such as the election. It would sneak and creep -- and almost always be right.

In the last few weeks, the market has run up into every election news event, whether it had any basis in merit or not, only to end up getting smacked. Likewise, you see the same thing as companies report bad news. There is no dot connecting. People wait until a company actually dives off a building, or many times until it hits the pavement, before the stock gets sold. The mentality and the environment that allowed people to buy a stock and make money simply because it split its shares is the type of nonsense I'm talking about. That *modus operandi* won't work anymore.

The difficult environment that I foresee in the next couple of years will change that completely. The people who will be left standing to ply their trade in the investment business will be those who are able to conduct research, interpret, analyze and see things before others. Such skills have been an actual impediment to doing well in the last couple of years, and in many cases were a recipe for disaster, since it was so easy for folks who thought they knew something about how certain businesses would work or evolve to get left behind or, in some cases, trampled.

The moral of the story, ladies and gentlemen, is that if you have learned to trade and deal with the market action of the last couple of years successfully, you will have to change your skill set prospectively if you want to remain successful.

**Ah, Magoo, You've Done It Again . . .** (*January 3, 2001*) And just like magic, Alan Greenspan appeared from behind the curtain to give the market a surprise 50-basis-point rate cut, causing the stock market to explode. The new Fed motto seems to be, "We only telegraph when we tighten, not when we ease." At any rate, in the space of about 15 minutes the S&P futures rocketed about five percent, approximately the same size move that occurred Oct. 15, 1998, when Easy Al cut rates just before the close on the day of an option expiration.

Stock index futures exploded in near-vertical fashion, then sold off a little bit and spent the rest of the day grinding higher to close at approximately the same heights they achieved shortly after the rate cut. Besides the S&P futures shooting up, the Nasdaq 100 futures were up about 16 percent and the Nasdaq itself was up about 14 percent -- easily the biggest moves in history.

The leading sub-index was the Sox, up more than 17 percent today. Folks gravitated in that direction because that group has been resisting going down lately. After all, the stock market is still perceived as just a game of paper shuffling, so the pieces of paper that have been acting the best were bought the hardest. The exceptions to the rule were found in some of the kinky high-flying stocks, which had recently been bludgeoned pretty hard. They too, were bought because they were down a whole lot and they tend to go up very fast.

Picking a few names at random, Ciena ([CIEN](#)) was up 19 points, about 30 percent, but that was not appreciably faster than Xilinx ([XLNX](#)), which was up about 20 percent. Fifteen and 20 percent moves were very common today in semiconductors as well as other belles of the ball -- such would have to be the case on a day when the Sox was up 17 percent.

The key now is to see how stocks react to bad news, which is surely coming. The bets are now being placed that Easy Al, The Kiddies' Pal, will get his way once again. And for awhile he will, but the important thing, which has yet to be determined, will be how long the rally lasts and what impact the bad news will have.

It's also of paramount importance to recognize that we are in the process of reattaching these pieces of paper to the underlying businesses, the prices of which are still absurdly high and the fundamentals of which are still deteriorating in many cases. Easy Al seems to want us to believe that he has conquered the business cycle and that he will always be there to issue the put. Additionally, he seems to think - as do his followers - that the only acceptable economic outcomes are either boom, or less boom, where in the 15 minutes of less boom, we correct the excesses.

**Another Paper Downgrade? . . .** (*January 5, 2001*) In the news, I've noticed lately that the *Wall Street Journal* has become a lot skinnier now that we no longer have all those dot-com ads and tech company ads trying to sell stuff to the dot-coms. This is just a tiny sliver of the misallocation of capital that the mania produced, but if you consider the folks who changed jobs to go to dot-coms, or people who upgraded their houses and lifestyles based on that, the implications begin to look a bit more ominous. One could write quite a book on the misallocation of capital and the distortion that it has caused in the economy -- and I'm sure someone will down the road. The ads in the *Journal* are just a tiny example.

I think it's important to refresh people's minds about the subtle dangers in the market. First, folks can pull their money out with a phone call [or a mouse click?] and at some point, they will. That is a tremendously risky development in the event of a panic. Secondly, the notional value of derivatives held in the banking system is somewhere in the neighborhood of \$50 trillion; I have seen estimates as high as \$100 trillion but those figures have to be taken with a grain of salt because the exact terms are never disclosed.

The important thing to remember is the size of the task in front of Easy Al. He has fomented a bubble and aided and abetted irresponsible risk-taking throughout the U.S. economy, for at least the last five years. We now have a \$12 trillion stock market, give or take, driving a \$10 trillion economy. We have more than \$22 trillion of debt outstanding in total and we have this derivative issue. That doesn't even take into account whatever financial paper rot might be in various money funds.

**Set Phasers on "Stun" . . .** (*January 10, 2001*) I've been hearing endless chatter about the three (psychological) phases of a bear market, and everyone keeps talking about how

we're near the end. My observation is that we're still in the first one, the denial phase. Lots of damage has certainly been done in the Nasdaq, but not that much in the major market and bear in mind that the Nasdaq's P/E is still 90 to 100.

Also, folks still keep wanting to buy tech, either because they assume that the worst is already discounted in the price, they assume that the Fed will save the day, or they assume that the other guessers are going to guess that tech stocks will go up and they want to buy them first. In any case, it would seem that all of this argues in favor of further resolution on the downside, which is contrary to what everyone seems to believe.

I don't know what, exactly, could trigger this. I think the numbers coming out of tech stocks and the guidance will be worse than people expect. There is always the chance of the proverbial bombshell. Maybe General Electric (GE) will disappoint people -- that would be a surprise. Folks probably don't know that GE has one of the largest, if not the largest, venture capital portfolios on the planet. That surely has helped them make numbers along the way. I don't know what the surprise will be, but I expect that there will be one since I do know bottoms aren't formed when everyone is looking for higher prices.

**Now You Tell Us . . .** (*January 18, 2001*) I neglected to mention something important in yesterday's news; maybe many of you saw the snippets from Art Levitt's parting speech as chairman of the Securities and Exchange Commission. Some of his comments were so dead on the money, you'd have thought that they came right out of a Rap column. Quoting from the *Journal*:

*"During his eight -year tenure as SEC chairman, Mr. Levitt said he has come across numerous 'Instances in which conflict of interests cast doubt on the motivation of a broker, analyst or corporate manager; wherein hidden costs hurt an investments bottom line; where 'spin' and 'hype' mask the true performance of a mutual fund; and where accounting tricks and sleight -of-hand dress up a company's financial results.'"*

I told you it sounded like a Rap column. He went on to rail against "companies that play games with their earnings, who practice balance sheet cosmetology" and "analysts that never met a stock they didn't like."

Naturally, these quotes beg the question: How come if he knows all this, more hasn't been done about it? He certainly seems to understand the problems. Let's just hope something will be done going forward to remedy them.

**It's a Numbers Shame . . .** I've recently neglected to mention a handful of economic statistics, which used to mean something but now have no connection with reality. The CPI and PPI statistics are a complete and total farce; I don't really think they could be market-moving events because they are so ridiculously inaccurate. Whether that turns out to be a purely government phenomenon or something special that was brought to us

by the Clinton administration, hopefully we will learn prospectively. It's a shame that these statistics are so absurd.

**Owe say can you see. . .** (*January 19, 2001*) With all the hype and hyperbole about said new era, here are a few sobering facts. From the end of 1994 to 2000, gross domestic product was up \$2.72 trillion, corporate and consumer indebtedness was up \$4.75 trillion, indebtedness in the financial sector was up \$4.15 trillion, therefore total credit and debt creation was up \$8.9 trillion. We can see then that debt growth was three times faster than GDP growth. More like a good old-fashioned period of printing money and leveraging it up. Not exactly what one would expect to see in a period of miraculous productivity or in a "new era."

Over the same period, the personal savings rate, which is measured by percentage of disposable income, has declined from 8.7 percent into negative territory. Corporations have engineered themselves into a funding deficit as well. Of course, these figures are very rarely discussed, but nevertheless, they are real. It is also why, regardless of what anyone's wishes are, that the unwinding of this bubble will be an epic disaster.

**Dr. Weak, Meet Dr. Thready . . .** (*January 19, 2001*) I got an interesting economic barometer reading from a friend's e-mail: "Just spoke with a very highly placed railroad man in Richmond, which is the headquarters of CSX . . . railcar loadings are dropping like a rock . . . a very sensitive economic sign."

For those who like to take the pulse of the speculative crowd, here's a view worth sharing from a regular reader who is a broker at a large "retail" shop with a prominent "online presence:"

"I don't take calls anymore because no one calls, so nothing to report this week. The margin accounts are still margined to their limits even with this up move. The traders still are not trading again, from what I can gather . . ."

I think folks should start to concentrate on looking at balance sheets, looking at receivables, inventories, charges and the like. Many of the problems that we're going to see going forward will appear on the balance sheet before they show up on the income statement. Corporate America is playing lots of games and if you focus on the balance sheet, not the income statement, you'll be one step ahead of the crowd.

**Back in the Saddle . . .** (*January 29, 2001*) As regular readers know, one of my favorite hobby horses is the completely incompetent job Greenspan has done. The reason I keep harping on it is that, if I'm correct that what we've experienced is a bubble, then the most important thing anyone can know is that what comes next is the aftermath of a bubble and not a simple recession or bear market, as is usually seen after bull markets.

Along that line, as folks try to determine whether they think Greenspan is the maestro Bob Woodward says he is, or the bumbling fool that I say he is, I have at various times posted some of Greenspan's comments so readers could determine his level of expertise

for themselves. Regular reader Caroline Kent sent an e-mail that was a bit of a spoof, yet deadly serious as well, entitled "Top 10 Reasons Why Americans Should Feel Confident That Alan Greenspan Will Navigate A *Hard Landing* For The Economy:"

- “10. Believes that consumer debt is "a very potent and very desirable financial institution" -- July 25, 2000.
- 9. Believes that "most people have a generally good idea of how much debt they can carry, and they don't go beyond it" -- July 25, 2000.
- 8. Believes that the combination of "a slowing in inflation and sustained rapid real growth" over recent years is due to an "acceleration of productivity" -- July 22, 1999.
- 7. Believes that "the central bank cannot effectively directly target stock or other asset prices" -- July 22, 1999.
- 6. Believes that derivatives are "an increasingly important vehicle for unbundling risk" -- March 24, 1999.
- 5. Believes that "to spot a bubble in advance requires a judgment that hundreds of thousands of informed investors have it all wrong" -- June 17, 1999.
- 4. Has difficulty defining "with precision" the limit of prudent money growth -- Oct. 19, 2000.
- 3. Believes "it is not possible to manage something [money] that you can't define" -- Feb. 17, 2000
- 2. Cannot define "what part of our liquidity structure is truly money" -- Feb. 2, 1999.
- 1. Believes that "bubbles generally are perceptible only after the fact" -- June 17, 1999.”

**Who Says that You Can Never Go Back? . . .** (January 30, 2001) Lastly, let me elaborate on the consumer confidence number. It is what it is, but I just received a release from the ISI Group, which said that the CEO business confidence survey fell to a 20-year low, back to 1980-81 recession levels.

ISI also pointed out that layoffs have exploded to a record of about 35,000 people per week. They have been keeping track of this on a daily basis since 1993, and the layoffs have climbed to the highest level on a weekly basis in seven years, which goes a long way toward explaining the weak consumer confidence figures and makes it clear that the early stages of a recession are at hand. As if to punctuate this point, Moody's today reported that for the first time in three years, credit-card late payments rose in December.

**Once More From the Top . . .** (February 2, 2001) By way of a little current events review, the Fed cut rates 50 basis points, as everyone knew they would, and the market -- in classic buy-the-rumor-sell-the-news fashion -- had no place to go but down. We were ruminating the other day that what the market ought to do given the frenzy of buying in front of the rate cut was go straight down, but that was so obvious I thought it wouldn't happen (as I said at the time). Yet that, in essence, is what happened.

Anyone who had buying to do in front of it did so, whether they were getting long or covering shorts. Now all we're left with is for the bad news to build until folks start creating rumors about the next rate hike, which will start popping up on a daily basis, I'm sure. The first time we get a piece of news that can be construed as good, it will be leapt on with a vengeance as well.

The bottom line is that stocks are going to have to stand on earnings, and that means a lot of stocks are going to require a lot of adjustments to the downside. Today was a very bad day for the bulls. I'm sure the price action will rattle a lot of folks who thought the bad news could be ignored.

**Must Be the Jet Lag . . .** (*February 5, 2001*) While we had selling right off the bat we did see a little bounce, thanks to some completely delirious comments from a speech William McDonough, the president of the Federal Reserve Bank in New York, made in Thailand and which hit the tape this morning.

He certainly has lots of rope with which to hang himself now: "The American economy will have robust growth by the second half of the year. What we are going through is a very severe inventory correction." According to the Bloomberg story that I'm quoting from, McDonough also said "Consumer confidence won't slip as long as job creation is strong," and, "Gains from the development of new technological tools will continue."

McDonough noted that the slowdown is all in the manufacturing sector and that the service sector and employment are robust. He also said that he thought that U.S. growth by the second half would be "robust." To editorialize for just a moment, the word "robust" is a favorite new era word that I think should be banned from the lexicon due to overuse. We'll want to save those quotes and reprise them down the road.

**Fed Introduces New Do-It-Yourself Program . . .** In the economic denial department, I already mentioned McDonough's comments, but he wasn't the only Fed-head on the tape. In an Associated Press story this weekend, Robert McTeer, president of the Dallas Federal Reserve Bank and u4ian par excellence, was quoted as making some truly baffling comments in a speech, including: "If we all join hands together and buy a new SUV, everything will be OK."

He went on to opine that, "The *new* economy isn't dead. It may have a hangover, it may have the blues, but it isn't dead" [emphasis added]. At the end of his talk, in what we can only hope was a tongue-in-cheek comment, or at least said with a smile on his face, McTeer exhorted the crowd to "go out and buy something."

Ladies and gentlemen, these are "very important" Fed officials who are out making these kinds of absolutely absurd statements, showing a total lack of understanding of the problem they have created. On the other hand, if they understood the problem as it was occurring, I guess they wouldn't have created it. And while I'm lecturing the Fed, I'd like to point out that there is no new economy or old economy, there's no new age -- it is just



the economy, with the inexorable technological improvements that have been with us, certainly for all of this century.

**Nobody Said They Were Good Reasons . . .** (*February 8, 2001*) Today's focus was totally inward, with the main theme being the world didn't end yesterday when Cisco ( **CSCO** ) puked, so therefore we should buy stocks. The market action and the belief that the Fed will save us appear to be the **ONLY** two reasons the bulls have for buying stocks. Never is the actual underlying business discussed by these bullish types, unless it is to proclaim that the worst has been seen. Yet, they also neglect to mention what the "worst" is and how they know it's behind us since they didn't see any of the trouble coming in the first place.

The belief in the bottom for tech is inversely proportional to the knowledge that these folks have about (a) technology and (b) investing.

(*February 9, 2001*) As we got around to opening this morning, there was chatter about the SEC investigating accounting irregularities at Lucent ( **LU** ), corroborating my long-stated view that the SEC will investigate all the things we've complained about for the last few years after the horse is out of the barn. I continue to feel, however, that it is better late than never.

**Monkey See, Monkey Do . . .** (*February 9, 2001*) While I'm on the subject of charts, when I'm speaking of chart huggers and chart monkeys I don't mean to disparage all people who use charts. Charts are a *useful tool* in the investment business, but if you think that charts are **ALL** that matters and the only thing one needs to know concerning stocks, you're begging to get slaughtered. As my friend Lenny says, "Every ship at the bottom of the ocean has plenty of charts on board."

**Beauty is in the Eye of the Beholding . . .** Whether Lucent actually is guilty of fraudulent accounting practices, which is the alleged problem, we know that a gigantic proportion of companies in technology push accounting practices to their limits, if they don't in fact step over the line. Oftentimes, what is "over the line" is decided by the person viewing the situation. What was acceptable at one point is sometimes not acceptable in hindsight, so the bar can get moved. It will be interesting to see how these developments play out.

**We Can Do Without the Rhyme, but Some Reason Really Would Help . . .** (*February 13, 2001*) (*February 9, 2001*) Al's speech today should have been entitled, "An Ode to Productivity and the Miracles of Technology."

There were so many points of disconnection in the speech that it would be hard to hit them all. A paragraph that I found to be the most preposterous, and which clearly illuminates some of the most glaring deficiencies in Greenspan's thinking:

*"More over, although recent short -term business profits have softened considerably, most corporate managers appear not to have altered to*

*any appreciable extent their long-standing optimism about the future returns from using new technology. A recent survey of purchasing managers suggests that the wave of new online business-to-business activities is far from cresting. Corporate managers more generally, rightly or wrongly, appear to remain remarkably sanguine about the potential for innovations to continue to enhance productivity and profits. At least this is what is gleaned from the projections of equity analysts [dead fish], who, one must presume, obtain most of their insights from corporate managers. According to one prominent survey, the three- to five-year average earnings projections of more than a thousand analysts, though exhibiting some signs of diminishing in recent months, have generally held firm at a very high level.”*

He went on to blubber:

*“And as I pointed out earlier, expected earnings growth over the longer-run continues to be elevated. If the forces contributing to long-term productivity growth remain intact, the degree of retrenchment will presumably be limited. Prospects for high productivity growth should, with time, bolster both consumption and investment demand. Before long in this scenario, excess inventories would be run off to desired levels.”*

In other words, what we have here is just a little inventory correction. One can easily picture the thought bubble floating above his head: "After all, recessions are not possible while I'm in charge."

**Straight from the Horses' . . .uh. . .Isn't the Mouth on the Other End? . . .** After reading his comments, I can't believe that any thinking adult can conclude that Greenspan knows anything. Late last week the CEO of Adobe spoke of how his company was not buying any CRM software because of the current business climate: "Can you put it off? How critical is it? These are the types of decisions every CEO will be making." Obviously, if Greenspan didn't rely on Wall Street analysts for the justification of his forecast, and instead did some research, he might have a better grasp of what's happening.

Unfortunately, Al doesn't even understand something even after he notes what's supposed to be occurring. In his testimony a year ago, he said:

*“The question I was asking abstractly [in 1996] was how will we know when markets are gripped by "irrational exuberance," and I didn't have the answer on that particular point. I think I have an answer now -- in that it's very difficult to judge, except in retrospect. If any stock market . . . falls by 30 or 40 percent in a matter of weeks or a very few months, I will grant that there was a bubble back there.”*

**Paul Volcker He Ain't . . .** Ladies and gentlemen, we had a 50-percent drop in the Nasdaq in a matter of months. Rather than recognize that, by his own definition, it's now *safe* to say that we've experienced a bubble and begin dealing with the inherent dangers it presents, Greenspan spent his entire speech talking about the miracles of productivity and how they caused all these wonderful things to happen, not even seeming to understand his prior comments. He is just one vapid gasbag, and all of us in America, and our children, are going to have to pay the price for his stupidity.

**Valuable Lessons . . .** (*February 15, 2001*) As proof of what I mean about values being difficult to find, I read an interview that Kate Welling did with Leon Cooperman (a tremendously talented and successful value investor) to see what the world looks like to a value guy out there and it seems to me that he has reached the same conclusion I have. He isn't really bullish for the long term, just for the short term, and he thought that playing that scenario seemed a little obvious (which made him nervous).

Cooperman is an example of a thoughtful, talented, capable value investor who is not finding anything terribly compelling, and is really only moderately bullish for the same reasons that everyone else is. I don't think there is much to do if you're a value investor. Maybe there's a name or two, maybe there's a small-cap, but I think one has to buy value with an eye toward what is going to happen prospectively in the economy. Given my outlook, it doesn't seem very interesting to me.

I hope that gives some insight into my thought process and why I have no interest in trying to buy this tape. I find it somewhat ironic that I'm almost getting more requests to join the party now than I did during the mania. People are making the classic human mistake of fighting the last battle. A lot of the sane people missed out on the craze and now they can't stand the thought of missing out on the next one. I've seen this happen my entire investment career.

**Turn the Lights Down Low . . .** (*February 16, 2001*) One of the reasons that I've harped on all the shenanigans going on in corporate America, where they focus on the stock price instead of the business, is because by doing that a lot of businesses have been hurt to the point of ruin. There is no better example than Lucent (LU), which is potentially headed to death's door because of trying to move heaven and earth to make the number. All the vendor financing that went on, and not just at Lucent, where companies that couldn't afford it were sold equipment on credit so that "expected" sales growth and earnings growth would be there, is now starting to blow up in everybody's face.

The amount of hanky-panky that has gone on in this cycle dwarfs any other cycle probably by a factor of ten. The fallout from this will be very grave. Companies that took on debt, in addition to balance sheet voodoo, are going to be the most vulnerable. It was particularly remarkable to see IBM, for instance, only down \$1.50 today. If anyone thinks that company is going to get through this unscathed they're crazy. IBM is in the same business as the companies that are getting hurt right now, it has no protection from a price war and its balance sheet is a disaster waiting to happen.

Perhaps over the three-day weekend folks should take a step back and think about what's gone on and the potential for problems. I think we can be certain that the bad news will continue to escalate and it seems as though folks are not prepared for it yet are determined to bet against it. One of these days all hell's going to break loose and you're not going to get a chance to sell them at anything remotely resembling today's levels.

**Top or Bottom? Take Your Pick . . .** *(February 16, 2001)* I'd like to make a comment about trying to pick bottoms and tops. Trying to pick the bottom is like trying to pick the top. By definition, it's an extremely low-probability event because it can occur only once. That's why I think it's particularly crazy to state, with any degree of certainty, that the bottom has been reached. When we were chronicling the craziness of the last couple of years, from time to time we tried to describe what a top might look like just so we would be prepared if we ever saw events surrounding that top.

We chronicled a number of blowouts and reversals that didn't turn out to be the top, but at the time I tried to be careful to point out that by definition it was a low-probability event and staking money on guessing that was foolhardy. I would remind the bulls of the same thing -- it's worthwhile knowing what a bottom looks like, but it's not very likely it's going to be identified on the day it occurs, and it's even less likely that it's going to occur so recently after the peak of such a very large mania.

**Like Clockwork . . .** *(February 22, 2001)* About the time the market hit the lows, rumors once again surfaced that we're going to have an intervening rate cut. I suppose that means at 11:15 a.m. Pacific Standard time folks will be able to sell them again when the Fed does not cut rates. This is the problem Greenspan has gotten himself into by continually escalating the moral hazards. Folks expect to be bailed out every time things get bad.

Special notice should be made of the absolute slaughter that was going on in the kinky stocks. It was fairly apparent that the high profile fund managers that owned this stuff must be getting redemptions. In fact, redemptions are probably going on in many different places.

In an almost instant replay of yesterday, the lows set in the first couple hours were bought aggressively and we once again had a straight-up move into Fed time. And just like yesterday, when no rate cut was announced, the market started to leak. Within about an hour we were once again plumbing the day's lows, down about 1 1/2 percent in the S&P and nearly 4 percent in the Nasdaq 100 futures.

It is more apparent than ever to me that the tape is totally retail. By that I mean it just responds to news as it occurs, or as it is expected to occur, in the most obvious fashion. If it's known that a certain report will be released that day and it's perceived to be bullish, stocks are bought in anticipation of that and then sold afterwards. The distinction I'm making is that there does not appear to be much discounting of the facts.

**Back to the Drawing-and-Quartering Board . . .** Over time, as people who can only respond to the news are chewed to pieces, the stock market will become more of a discounting mechanism, as it has been in the past. But the insanity that we've seen in the last five years, where any goofy idea worked - stock splits, my favorite example - and thoughtful analysis didn't, has conditioned people to believe that reacting to the obvious is a sure way to make money, when in fact, it's a sure way to get wiped out.

I am incredulous that people are just reacting to the news of the day and not thinking about what's going to happen down the road. This is not the way the market has worked for most of the last 100 years, and it's not how it's going to act prospectively.

We had much bottom-calling once again today as shouts of *the* bottom were heard everywhere. I would like to make two points about this. First, after the size of the mania that we've had, we are not going to hit *the* bottom in some half-hour period some Thursday morning. Second, there's way too much optimism for this to be a bottom.

The Investor's Intelligence survey that came out yesterday said that bulls were back up to nearly 62 percent and bears were back down to slightly more than 28 percent -- extreme readings for both for the last few years. The ISI survey showed that the 67.8 percent for bulls is near its highest ever. So this notion that people have about the bottom, when basically everyone is bullish and everyone is waiting for it, is just not the way bottoms occur.

**Eat Your Fundamentals, They're Good for You . . .** (*February 28, 2001*) I'd like to point out that folks keep talking about buying a stock because it was \$60 and now it's \$20. That has nothing to do with anything. What one must look at is what does \$20 represent relative to the underlying business. The fact that it's down a whole bunch from somewhere means nothing. The high spot it traded at in the bubble was a false reference point and is completely irrelevant. Folks on bubblevision need to point out what the underlying fundamentals are, and that's what folks should focus upon when they're doing their own homework, not where the stocks used to be.

**Timing the Market . . .** (*March 2, 2001*) Joanie had a priceless take on government and for that matter, corporate/Wall Street spew this morning. It's too good not to share:

*“Anybody over 40 remembers that as kids, we were under pain of immediate drowning for going back into the water before a certain amount of time had elapsed between lunch and your next cannonball. Anyhow, there was an authority figure, usually a grandmother or a spinster aunt, who was in charge of determining this break -time for us kids, as obviously, we couldn't be trusted with such a sacrosanct detail. You would present yourself as soon as you had stuffed the last Oreo down your gullet and made to recite the litany of everything you had just ingested.*

*“‘Peanut butter and jelly, Hawaiian punch and a chocolate chip.’*

*“‘37 minutes.’*

“‘Tuna fish, lemonade and an Eskimo pie.’

“‘42 minutes.’

“‘Large calzone, chocolate shake and a whole bag of Cheez -Doodles.’

“‘What size Cheez -Doodles?’

“‘Family size.’

“‘OK, Anthony, you can't go swimming until you are 15.’ (Anthony was 9 at the time, by the way.)

“And like little soldiers, we sat there, counting down the minutes until we were risk -free from drowning, asking every 45 seconds or so:

“‘Is my time up yet?’ Convinced beyond a shadow of a doubt that Nanny or Aunt Mary had the secret key to the mysterious relationship between dietary intake and the probability of death at sea and further convinced that they were actually counting down those 42 minutes with a stopwatch, we deferred time and again to their expertise.

“How ridiculous, right ?

“Right.

“The excuse here, though, is that we were only ten years old and subject to the gullibility that goes with that precious age. Fast forward to the year 2001. Yesterday, we heard the economist for the NAPM intone that the February read of 41.9 implies GDP growth of minus 0.3 percent. He also pointed out that the number, while still in contraction, was an uptick from January and had broken a string of 11 monthly declines. Conclusion? ‘Manufacturing may have put in a bottom in January. Further conclusion? We could be at two percent growth by mid -year.’ Those are quotes.

“Question: What is the difference in believing ‘29 minutes’ is the gospel truth response to ‘A slice and a Coke’ and a NAPM read of 41.91 up from 41.2 in January equating to +2 percent GDP growth by June? Answer: Nothing, except maybe the recognition that after 30 years of life experience, we still haven't figured out that sometimes the grownups make this crap up just to keep us kids quiet and out of trouble for an hour or so . Now that you know what I really think about projections of this kind, you can extrapolate this out to encompass a whole lotta hocus pocus that we are hangin' our hats on these days.”

**Quite a Little Round Trip . . .** (March 5, 2001) Just to demonstrate how little people have learned in the last year, there is an article called "A Year After the Peak" in today's *Wall Street Journal*. I'd like to share a couple of anecdotes. “The Nasdaq at 2000 on the way up was first achieved on July 16, 1998. By March 9, 2000 was at 5000, and now here we are back at nearly 2000 in March of '01.” The article then says, "As unbelievable, and impossible, as it sounds, the technology-heavy Nasdaq composite, which took 20 months to go 2000 to 5000, has plunged even faster than it rose."

That is not unbelievable. That's the way it is. Stocks always, always, always go down faster than they go up. I've made that point many times in the past year or two, and I

used to get e-mail about the fact that they couldn't possibly go down faster because they went up so fast, which of course was another one of the false rationalizations people had.

**What, Me Worry? . . .** (*March 5, 2001*) To give you a vignette about the mood of the time, there's a quote in the article from Bob Froehlich, who has been an especially fine example of the "Alfred E. Neuman School of Investing." During the frenzy last year, he said, "We see people disregard all the right companies with the right people with the right vision because the stock price is too high -- that's the worst mistake an investor can make."

That's the kind of *nonsense* that was accepted as common knowledge then. The fact of the matter is that price has everything to do with making a successful investment. The price you buy it at is a huge determinant of how well you'll do prospectively, but of course that was one of the things that was tossed out during the mania.

Then they go on to quote a recent comment from Joey Battipaglia. He recently opined, "It's fairly clear that there is no meaningful valuation issue among the Nasdaq leadership." Well, as I've said earlier, the people who had no clue what was happening or the troubles that were about to start are the very same people who are proclaiming a bottom, and they still don't understand what happened.

Ladies and gentlemen, the level of denial continues to be stunning and the people have been suckered into staying with stocks because they're down a bunch. Where stock prices were in the mania is a false reference point, which has nothing to do with the underlying value of the investment. These are not pieces of paper. They are fractional shares of businesses and will be valued as such, and they're going to go from being super expensive to cheap. That's what bear markets are all about. Bear markets correct the excesses that came before. Since we had the biggest mania in the history of the world, it is completely and totally illogical to expect that the ensuing bear market will be sweet, short, V-shaped or any other such nonsense.

**Seeing the Forest and the Trees** In fact, the only Wall Street house that seems to really have a correct reading on the economy is the good people at ISI. I'd also like to point out that in the mutual funds section of the *Wall Street Journal*, there were quotes from a few guys who'd been around for more than just the last five or ten years. The writer gave this description of one of the fellows who was running money in the early 70s: "He would buy out-of-favor stocks with the prices seven times their earnings, figuring they were a bargain, then watch them go to five times." That's the point of what happens in bear markets, and that's what's in store for us. Multiples that you think are low enough turn out not to be low enough. So folks should start paying attention to fundamentals, and what certain types of businesses are worth, rather than focusing on where the stock prices are.

**Gimme Semi's . . .** (*March 6, 2001*) In describing the early-going speculation, I think it's safe to say the folks wanted Sox, Sox and more Sox, or -- put another way, semi's, semi's, and more semi's. In the first couple of hours, the Sox was up nearly nine percent, making

it about a 28 percent gain since those stocks started rallying late Thursday afternoon. Now 28 percent in 16 hours . . . just imagine if we could annualize that.

**The Dog Ate My Earnings . . .** *(March 8, 2001)* Overnight the markets were pretty much a snooze. The major action came from preannouncements, with Yahoo (YHOO) supplying the most significant event. It's particularly interesting that Yahoo is blaming the economy. I guess once and for all, this settles the nonsensical debate about new economy, old economy, new era and all that other polluting verbiage. At the end of the day, businesses are businesses. They have to obey the quaint rule of making money and things like that. Folks suspended disbelief for a while, thanks to the irresponsible excess liquidity provided by Easy AI and the merry pranksters at the Fed. But there ain't no new era, there ain't no new economy. There's just the economy, and business is business.

*(March 9, 2001)* As everyone knows by now, after the close last night, Intel (INTC) preannounced yet again, making it two out of the last two quarters, and making four quarters in a row now that it has missed the estimates.

**From the Mania Chronicles, a Sad Aftermath** *(March 12, 2001)*  
 Would that the unfortunate "star" of the following sad tale forwarded by a reader had viewed shares as fractional ownership of a business, rather than mere dice to hurl onto the craps table. I wanted to share it so that others will learn by example. Without a doubt, lots of people have encountered this situation to varying degrees. The unwinding of the biggest mania in history will exact a huge toll.

"I don't know how many of these stories you have heard, but I have a friend who mentioned something truly amazing the other day. His former business partner's dad, who bankrolled their business eight years ago, is in the process of going broke. The business was sold for over \$22 million two years ago and Dad took his share to the casino (Nasdaq).

"My friend used to call me almost daily and tell me how much Dad had made that day. It was always in INTC, DELL, CSCO and CMVT. I would gently suggest that maybe he should have some sort of plan other than 100% tech.

"I just spoke with my friend last week and asked how Dad was doing. He said that it was pretty grim. His portfolio was around \$17 million two years ago, and he might zero out soon. I was astounded! I asked how that could possibly have happened, and guess what? Margin. As tech began to fall apart, he started borrowing to try to leverage himself back to where he was. Now he is in a death spiral. Each time the stocks falls, he sells more to cover, but it's not enough. He is holding on and praying. It is truly tragic that a person could have almost \$20 million and possibly end up with nothing! A personal story for the chronicles. Absolutely stunning!"

**What Part of B-E-A-R Don't They Understand? . . .** *(March 13, 2001)* It is now time to pause for a comment about bear markets. To check the futures, I turn on bubblevision daily before quickly turning it off. Today, I happened to hear a completely inane



discussion about bear markets. The dialogue went something along these (faulty) lines: The Nasdaq is in a bear market and the S&P just now crossed into bear market territory, but the Dow is not in a bear market. Truly, Bubblevision leaches some of the most preposterous effluent I have ever encountered.

**The Birds and the Bears . . .** Let's be clear about this: A bear market starts the moment the bull market ends. Now, that is often not identifiable until long after the fact, in hindsight. But nevertheless, a bull market ends when the best has been seen and discounted. We talked very often about this during the blow-off to the mania. We said that the upside would culminate in exhaustion and that a nanosecond later, the bear market would begin. This nonsense about ten percent or fifteen percent being a correction and twenty percent being a bear market is completely spurious information that's been propagated by bubblevision, Wall Street and the media. Anyone who discusses a bear market in this manner is demonstrating pervasive ignorance. And just as there aren't two economies, new and old, there aren't three stock markets, the Nasdaq, S&P, and Dow. There's just one stock market, and it's in a bear market.

All of which drives home a fundamental point: When it comes to certitude and the stock market, never the twain shall meet. It's not possible to say that things that would have worked in the past can be guaranteed to work in the future. The future is alien turf. The "rules" that are spewed forth by Bubblevision and other pundits are largely fallacious, and they will cost people mountains of money.

Fallacious, one and all: "support levels," "oversold," "sentiment indicators," et cetera, et cetera. There is no precise set of rules that works all the time. Folks must learn to craft their own adaptable mosaic of rules, with common sense as the tie that binds.

**All-You-Can-Eat Warnings Bar . . .** (March 21, 2001) Just before and right after the market opened, we were hit with an absolute avalanche of corporate warnings. Hewlett-Packard (HWP) said that it wasn't optimistic about a second-half recovery. Then, following up from its report last night, Jabil Circuit (JBL) said that it didn't see things getting better for the next several quarters. Sun Microsystems (SUNW) allowed as how it had no visibility. A host of non-kinky companies like Fedex (FDX), Deere (DE) and Mead Corp. (MEA) all joined in the bad-news chorus of warnings, layoffs and preannouncements. That's just a small sampling.

As soon as the market opened, we had a slight sell-off and then an absolute melt-up in the Sox index. For whatever reason, it was up about six percent in an hour and a half, and that turnaround helped pull the Nasdaq, the S&P and the Dow back from the early morning lows. In two hours' time, the Nasdaq was up two percent even as the Dow struggled to get back to unchanged. The S&P was up about a half a percent.

**Tilting at Windmills . . .** To repeat, I can conjure up no reason to account for what makes people want to buy semiconductors and other tech products. For instance, Dell was up, as was Hewlett-Packard, on the back of their warnings even as other information surfaces to illuminate this sorry state of the PC business. About the only conclusion I can

draw is that people are still trying to find the bottom and buy it, utilizing the most aggressive securities they can find; ergo, the Sox catches a bid just about every other day as a bottom is groped for, and money managers who are running other people's money persist in trying to double-down so as to catch up on the up side. If you put a summation sign in front of the first couple hours' action, it was simply stunning.

**No, I Insist, After You . . .** (*March 21, 2001*) In an interesting, although perhaps not terribly major development -- although anything bearing kinship to Micron (MU) seems to be important, given its status as the tape's speculative darling -- last night we were supposed to get results from Micron Electronics (MUEI), which is controlled by Micron Technology. Since Micron Electronics went public, it has always reported before (or concurrently with) Micron because its results flow into Micron's. This sequence is useful for anyone desiring an early look at the state of the DRAM market. Micron Electronics has postponed its earnings report until late Friday night, which I assume is because things looked so bad. Who knows, maybe it will have to close down the whole mess.

**DRAM Phooey . . .** It's worth noting that MUEI moved its earnings release from the day before its parent to two days after, late on a Friday afternoon. People have been nursing a major-league dose of amnesia when it comes to remembering how awful things are in the DRAM business. We shall take special note of what Micron Technology has to say tonight. Maybe the dead fish can figure out there's nothing left sloshing around but red ink and a \$30 billion valuation. All this comes in one sorry package within an enterprise that now sports a revenue run rate (by my estimates) of approximately \$4 billion, within an industry that's got massive excess capacity and whose competitors have a lower cost advantage before taking currency depreciation into account. Add it all up and you get a stock that ought to be sold instead of bought.

**Sleight of Inventory . . .** (*March 21, 2001*) Getting back to Micron, the proximate cause for today's party was the celebration from Micron's conference call. The dead fish community was completely willing to overlook the outrageous fact that Micron did not release any financial information. I noted yesterday that Micron Electronics did not release its financials. So Micron Technology (MU) basically held a cheerleading conference call. It attempted to insinuate that with respect to PCs, the worst had been seen for the DRAM market. (Never mind that yesterday the heads of Dell and Hewlett-Packard both opined that there was no second-half recovery in the offing.) The impetus behind Micron's conference call was ostensibly to just give out some color on the semiconductor part of the business, but it would not discuss inventories. It wanted us to believe that somehow, magically, as gross margins have collapsed from 40% to 20%, it would be able to reduce its costs in a dramatic fashion.

**Dead Fish Got Your Tongue? . . .** It's not possible to do a complete analysis of this until we actually get the numbers. I have never seen a company postpone its results while at the same time try to cheerlead on the conference call. But at the end of the day, this company has a run rate of about \$4 billion within a \$28 billion market cap. It's more expensive than Intel, and it's trying to play the game of 'Just trust us, everything will be okay.' In going mute, the dead fish have once again done themselves proud.

One last thing I might point out is that when the quarter started, people thought that Micron might make over \$0.50, and now when the quarter is finally reported, it makes next to nothing -- and those are deemed great results. How did those analysts get those earnings estimates down and how do they get the revenue estimates down when the company never made any preannouncement? I thought those things didn't occur now that we have full disclosure.

**It's A Great Business, Just Not For Us . . .** Micron Technology (MU) is the most glaring example. As I mentioned the other day, the conference call from the Micron Electronics subsidiary was postponed. On Friday, the information from Micron Electronics was released. Lo and behold, the PC business that the company claimed was bottoming is now being sold for an undisclosed amount, and the subsidiary is selling its DRAM business back to Micron (its parent). The bottom line is that these are discontinued operations and the company has chosen to provide no data. All we know is that these two businesses had sales of about \$300 million and lost approximately \$159 million. They would have us believe that only \$35 million of it was in the quarter and the rest was estimated losses down the road.

**Too Much Monkey Business . . .** (*March 23, 2001*) Well, the potential for all kinds of monkey business certainly exists, not the least of which is that, if these numbers had been reported when they were supposed to be, Micron, the parent, would have had losses. My opinion is that it was rather disingenuous to say on the Micron conference call that this information wasn't available when the company must have known the magnitude of all this.

Also, Micron would have us believe that the health of the PC business is fine, when, in fact, it's getting rid of its own business and when the numbers certainly don't back up that glowing assessment. This kind of charade should not be allowed to go on. But, more importantly, it shouldn't be reported as a success by bubblevision, such as when it states things like "revenues were better than expected," etc. Not only does CNBC not get the facts correct, it allows companies to spin in such a way that what was an absolute disaster and replete with non-disclosure is transformed into a victory.

Listening to this kind of information is dangerous to your financial health. The reason it matters to investors in general is that as long as this stuff can go on, we can't be near the point where it is safe to be an investor again. So I hope that explains my position on the subject, even though you didn't ask.

**Manipulation Alert . . .** (*March 26, 2001*) Anyway, over the course of the day, our split-market environment continued. The Dow did the best, up about a percent and a half. The S&P was up about a percent and the Nasdaq was down about half a percent. It's interesting to note that with about six minutes to go, there was a straight-up move in the S&P futures, up about 11 points. I'm sure there's some completely understandable, fundamental reason to account for that, having nothing whatsoever to do with monkey business. Nevertheless, it was a sight to behold. As we approach the end of the quarter,

you can count on blatant forms of manipulation to proliferate, when it's such an open secret on Wall Street. Tomorrow, I intend to offer up my thoughts about a few changes in regulations that would go a long way toward putting this nonsense behind us.

**Putting Their Best Two-Face Forward** Back to the action, the day finished pretty much as it had started. Semiconductor stocks were weak all day. The financial stocks were strong. Big Dow-oriented names were strong, as typified by Boeing (BA) and United Technologies (UTX). And it still looked to me as if there was a good deal of short covering going on among various names. Once again, boys and girls seemed to be having fun throwing around other people's money, trying to do something that would make their performance less bad for the quarter.

*(March 26, 2001)* Speaking of Bubblevision spin, another regular reader sent me an e-mail paraphrasing what he believed the broadcast spew would have us believe circa Friday morning. "In the last 24 hours, we saw and ended a bear market on the Dow, came out of the recession we still haven't gone into yet, put in a bottom on the Nasdaq, ended a typical three-year secular downturn in semis in one quarter and have started the next secular bull market after going straight up for the last 18 years."

**Bear Market Chickens Not Hatched . . .** Well, that about sums up the widely held attitude that passes for knowledge. I would just like to repeat my view that this is not how bottoms are formed. I don't even think this is how tradable lows are formed. A couple of definitions are in order here. When I talk about a tradable low, I mean something that happened in Tokyo after the market hit 20,000 coming down from 39,000. There was a bounce that lasted several months and it was about 30% for the Nikkei. Along the way in a bear market, there are a number of what you might call tradable bounces. I had believed that we would need to see a big washout before that occurred, and I still do. So when I refer to a big bounce, I'm talking about what might be considered a tradable bounce. I certainly don't think the end of the bear market will be seen for many, many years.

**Kinky, We Hardly Knew Ye . . .** *(April 3, 2001)* The theme of today's tape seemed to be "Sell software, buy hardware," which, of course, is crazy. The software-oriented names are weak because last night, there were five preannouncements from previous new-age ideas: Inktomi (INKT), E.Piphany (EPNY), Redback Networks (RBAK), Ariba (ARBA) and Broadvision (BVSN). When you compile a partial list of how some of these once high-flying companies have fared, the results are pretty staggering: ARBA down from 173 to 4, INKT down from 191 to 4, MicroStrategy (MSTR) down from 88 to 2, Juniper (JNPR) down from 244 to 35. And not to ignore more mundane names, Cisco (CSCO) has gone from 77 to 14, and Corning (GLW) from 113 to 19, etc. To put a summation sign on the whole sordid tale, the damage is incredible. No surprise then, that in the early going, today's basket of bad news, together with yesterday's share, cast a decidedly negative pall over the tape.

**Controlled Cascade . . .** *(April 3, 2001)* The first couple of hours foreshadowed the close, although given the size of the damage, it was surprising how orderly the trading

was. In fact, the entire slide off the top has been more or less orderly, a really remarkable occurrence. The decline in the S&P was pretty linear all day long, never really picking up speed. That was about the same story in the over-the-counter market, which is now back to the levels of around October 20, 1998, so the entire blow-off to the bubble has been eradicated.

**Green Gluttony . . .** (*April 5, 2001*) The first couple of hours turned out to be merely the appetizer for the day's feast. After going sideways for about an hour or so following the initial blast, the market marched higher and closed on its high tick. The Sox and banks stocks were leaders and many kinky stocks caught bids as well. The Dow and the S&P were up about four percent and the Nasdaq was up about eight percent, which is approximately one of the top three biggest moves ever. It's interesting to note that even though in the last year that the Nasdaq has had roughly ten or twelve of the biggest moves of all time, it has nonetheless collapsed over 60%.

So these huge moves certainly haven't meant much in the last year. I noticed that a lot of people were suggesting that Dell's comments were responsible for the rally, and that really was not the case. As I previously mentioned, the market was ready for a bounce. When it didn't get the bad news it was anticipating, it took off like a scalded dog. I don't think there's too much information to be read into today's action. It was just another one of these wild and zany days that we've seen so many times even as the Nasdaq has collapsed.

**Missed You So Much . . .** (*April 5, 2001*) I think that pent-up demand to get long stocks is the best way to account for today's action, and I wouldn't be at all surprised if there was a fair amount of short covering. Judging from my email, I believe that shorting has become quite a bit more popular than in the past. Whenever that happens, it seems the market always finds a way to test any new entrant who's joined that side of the trade.

**Idling Dollars Are The Work Of The Bubble . . .** (*April 11, 2001*) I do think there is significance in the fact that the early morning fireworks were mostly confined to the wild, crazy, sought-after Sox. Don't interpret the action to mean that there's lots of money available to go into stocks. More likely, it's a sign that some things had to be sold so others could be purchased. When looking to explain these matters, the bubbleheads on bubblevision pluck their stock answers from their stock repertoire: The Fed will save us, the bottom is here, there's all this cash on the sidelines. It seems Maria and her fellow bubbleheads think that if there's one dollar in any money fund anywhere on the planet, that's one dollar too many that ought to be in stocks.

**Two Bottoms Are Better Than One . . .** (*April 18, 2001*) Last night, there was a melt up compliments of wrong-way Intel (INTC), prognosticator nonpareil of future trends in the chip business. The company told people salivating for the least hint of good news that it likely spied the bottom, since the "channel" had less inventory than its goal. That did it. Now, why should people listen to Intel, which has probably preannounced eight times in the last eight quarters? Because they really want to believe and, beyond that, double up to catch up. This morning, another preannouncement came in from the truth-challenged

forecaster Hewlett-Packard (HWP) when CEO Carly Fiorina said she also believed the bottom was at hand. So people were able to brush off the rather significant second-quarter preannouncement from Linear Technology (LLTC), as the game was afoot to recoup losses by owning fast-moving stocks.

**It's Showtime . . .** (*April 18, 2001*) Things were starting to calm down a little bit when at approximately 10:50 a.m. East coast time, Easy Al walked into the casino and proceeded to hand out free chips to all the participants as the headline passed on the tape that the Fed had proceeded with an inter-meeting cut, reducing interest rates 50 basis points. As you can imagine, pandemonium quickly ensued. In no time, the S&P futures shot up nearly 50 points, or four percent, which was about the size of the intra-day move in 1998 when in the afternoon Al did the same in front of an options expiration. This time he got his timing a little screwed up, taking action three days before the options expiration.

For those who care, the size of the move in the Nasdaq 100, the S&P's volatile twin brother, was just under 10%, about twice as big. After the intense spike, the market backed off, just as it has when there have been prior surprise moves. Then there was a series of surges and slides, but for all intents and purposes, the market finished fairly close to the high of the day.

**Fed Frolic . . .** (*April 18, 2001*) Obviously, a maneuver by Mister Magoo such as occurred today requires some comments. Basically, what Al has repeatedly demonstrated is that he is targeting the stock market. Thus far, there have been 200 basis points of easing, with two surprise moves in about four months. And all that has been required to keep the Dow about flat, the S&P down about 6% and the Nasdaq down about 15%. Of course, that has managed to lift the Sox by about 11%. But Al's maneuver is the functional equivalent of providing subsidies to the casinos and giving free chips to the participants. In the past, regular readers know that I have said that Alan Greenspan was the most irresponsible and reckless Fed chairman in the history of the republic. I stand by those statements, with one caveat: In my analysis, I was guilty of understatement.

Obviously, no one wants to be left holding the bag when the bubble implodes. Al is doing his best imitation of making the fixes that he presumably thinks the authorities in the 1930s and in Japan in the 1990s should have done, i.e, pump and pump and pump, and keep the consequences of the bubble from taking hold. Of course, he will be unsuccessful in this endeavor and only make the ultimate outcome that much worse. He has now shot off a number of bullets from his gun and doesn't have a lot to show for it. No one knows how much further the rally may carry, and he may actually have something to show for it, in the form of a big rally, before it's over. But at the end of the day, he has only succeeded in compounding his previous mistakes. More on this as it develops.

**Unmitigated Frenzy . . .** (*April 18, 2001*) Well, it appears that the interlude rally is upon us. As regular readers know, yours truly did not capture this very well. I had thought there would be a massive puke before the launch of a rally this ferocious. Had that occurred, I could have suggested that people cover shorts and those brave in spirit who

wanted to trade the bounce could do so. But that is not to be. Obviously, the market "knew" that this was coming. Therefore, whatever puke was in the process of building was arrested. It's my belief that this is why the market has acted so well in the face of the recent bad news. Somebody always seems to know these things. I still believe that since the big puke has not occurred, this rally will be limited either in intensity or in time.

**Red Flags Hoisted . . .** (April 18, 2001) Tonight we're going to get more earnings reports, not the least of which will come from IBM. Should Big Lou manage to pull a rabbit out of his hat again, I would imagine that will provide ample excuse to party harder. And the festivities would only be enhanced if tomorrow Microsoft (MSFT) joins the chorus of bottom feelers. Can't you just picture a sprint to the upside in no time at all! Obviously, bad news could derail this, but at the moment, it looks like people are hell-bent on kissing off bad news. I would caution those who are short to be very careful. With the outbreak of drunkenness, it looks like this could be a very dangerous period for the shorts. It could also prove very dangerous to the longs, because the market now exhibits all the stability of a houseboat on the high seas. Those of you who feel tempted to speculate on the long side had best keep this in mind.

To sum up, it appears that a rally of some consequence is under way, but it will just set up a tremendous (short) selling (and put buying) opportunity. My firm belief is that before the year is out, there will be major new lows, and 2001 will end in essence on the low-tick.

**Colin Part One . . .** (April 19, 2001) I may think of its pedigree as bastard, but the rally is in fact not without parent. The mother of all rallies is the Fed, and on that subject, I want to share more wisdom from Colin. In e-mails to me this morning, he supplied a wealth of insights on the Fed. First, here are his thoughts on the Fed's bail-out philosophy and how that inflicts real damage in "the system":

*"Perhaps the most important element of capitalism is the manner in which, in theory, it subjects all businesses to constant evaluation as to economic fitness. Thereafter, in theory, it rewards the winners and punishes the losers. Good businesses grow. Bad businesses die. This process can be, and is being, perverted when businesses are bailed out by government action. Constant money printing . . . is one form of such action. With extraordinarily few exceptions, no business should be prevented from going out of business. Without the discipline of possible nonexistence, businesses will not be managed in the manner most consistent with the rigors of capitalism. Yes . . . capitalism requires money . . . as a means of exchange and a store of value. No . . . liquidity is not a stable substitute for economic viability."*

**Colin Part Two . . .** (April 19, 2001) Furthermore, Colin lists two flawed statements (shown in bold) by Fed Governor Ferguson and offers his own comments in response to them: ***The Fed has to surprise markets sometimes.*** (Why?) ***The Fed's anti-inflation stance made rate cuts easier.*** (How?) Colin said,

*"The Fed is popular again . . . because risk assets are rising. This does not make them any less the buffoons they have been for a long time. With an applause meter and a printing press . . . you can make a lot of friends. It's been done throughout history . . . with uniformly disastrous results. People don't care about monetary madness from egomaniacal bureaucrats . . . until it's way too late."*

**High Time For High Noon . . .** (April 23, 2001) Also in the news, in last Friday's *New York Times* Gretchen Morgenson had a worthwhile article called "Wall Street And Its Analysts Get Warning From SEC. Increased Scrutiny On Advice To Investors." Its new acting chairwoman, Laura Unger, appears set to go after potential conflicts of interest that arise when the same analysts who are paid bonuses for generating investment banking fees are also entrusted with issuing reports on these companies. The chairwoman will also investigate how research reports get written following IPOs.

Elsewhere in the story is corroboration for a long-held view of mine that Congress would get into the act at some point to see why the public has been losing so much money. Representative Richard H. Baker of Louisiana, who chairs the House subcommittee on capital markets, is concerned that individual investors may not know what kind of biases Wall Street has, and he will be holding hearings to look into some of the practices that ensnare the uninformed. As Congress digs deeper, life promises to get more complicated for Wall Street.

**SEC, Hands Against The Wall! . . .** (April 27, 2001) On the subject of creative inventory, the SEC's chief accountant, Lynn Turner, had some interesting comments, so it is my hope that that organization is going to get on top of this problem sooner rather than later. One of many black marks on accounting during the mania was that it was totally bastardized. In the past, I'd made the comment that all we had to do was just report revenues and forget everything else because none of it seemed to mean much anymore. Amazingly enough, this still appears to be true. We have got to put a stop to these shenanigans. The public is up to its eyeballs in stocks and doesn't know it's being victimized by the professionals who perpetrate the scam. So, here's for more sunlight on that subject.

**Love Is Blind, Buffett Not In Love . . .** (April 30, 2001) A story called " 'Normal' Stock Return Lies in Eye of Beholder" in today's *Wall Street Journal* illustrates the extent to which investors remain besotted by unrealistic dreams of stock market gains. Writer E.S. Browning asked investors what they expected in terms of rate of return over the next twelve months and the next ten years. Most people are still looking for ten to twenty percent returns, especially over the next decade. A fifth of those surveyed said they thought the equity market would return north of twenty percent. Only twelve percent thought their investments would yield between five and ten percent. Obviously, people have yet to become disillusioned with the equity markets as savior of their retirement dreams. This widespread optimism flies in the face of comments made by Warren Buffett at his annual meeting this past weekend. Mr. Buffett, who is from Omaha, not



Cloud Nine, said, "The probability of us achieving fifteen percent growth in earnings over an extended period of years is so close to zero, it's not worth calculating."

**Let's Play Pretend . . .** (*May 7, 2001*) Lastly, in the scandals department, while I was out last week, the newspapers continued to chronicle IPO investigations that allegedly have Credit Suisse First Boston in their sights. Today's *Wall Street Journal* mentions that Mr. Quattrone, who was perhaps sitting atop a giant anthill, may be shifting departments at CSFB. This would seem to be a potential indicator of trouble. Those of us in the business have long talked about problems with tape painting, IPO allocations, analysts' questionable behavior in recommendations/corporate finance and of course corporate America's affinity for creative accounting and tinkering with the truth.

**More Where That Came From . . .** (*May 7, 2001*) So, there are problems that cut across a very wide swath, and they are all part of the unchecked excesses that were rampant during the mania. I continue to believe that there is plenty more beneath the surface. I would expect that along the way, some of these investigations will signal big trouble for Wall Street. Though I am not suggesting that this will happen immediately, those of you who have exposure to brokerage house stocks might start thinking about heading for the exits.

**Sunbeam Him Up . . .** (*May 15, 2001*) Speaking of Easy Al, there was another infamous Al in the news today, "Windbag" Al Dunlap, the ex-CEO of Sunbeam. I have remarked that as long as he and Walter Forbes could walk free, there certainly was no penalty for cooking the books. Now the SEC appears to be getting after him. According to the story that passed on Bloomberg, SEC Enforcement Director Richard Walker said that his organization would soon announce other accounting fraud cases involving public companies. It appears that the SEC has 260 cases under way. So, lots of shenanigans that have transpired in the open are now starting to catch up with the perpetrators. I expect much more to follow, and probably lawsuits to ensue. The things that Wall Street did with a wink-wink are now about to give it a black eye.

**Public Self-Serving Announcement . . .** (*May 15, 2001*) Right next to the Credit Suisse piece is a fine article by Joseph Hallinan called "Conseco Duels with Analyst: Round Two." Irwin Jacobs, a major shareholder, has been taking out advertisements critical of Colin Devine, a Salomon Smith Barney analyst who is one of the few to have seen all the problems coming. According to the article, Mr. Jacobs "accused Mr. Devine of being beholden to short sellers." Now, when Mr. Jacobs first floated one of his ads, I noted how sophomoric the idea was. All I have to say is, if he thinks the stock is so undervalued, why doesn't he just put his money where his mouth is and buy more, instead of trying to jiggle the stock price higher. I have never been short the stock. I have no ax to grind. I do, however, find the whole investment strategy of squeezing the shorts to be despicable and the tactics pulled by Mr. Jacobs are completely disgusting, whether he's right or wrong.

**"Bubble II: The Sequel" . . .** (*May 22, 2001*) When I turned on Bubblevision this morning to check the futures, I thought I'd ridden overnight in a time machine that

brought me squarely back to the heat of the mania. It was truly a rude awakening to hear a guest host opine that, on the one hand, rate cuts would favor retail stocks, but on the other, the lack of rate cuts would also be beneficial because that would signal the Fed's optimism about the economy strengthening. This patently ridiculous spew only shows how far along we are in the let's believe anything department. Here we are, one year later, and no one is the wiser.

**Nothing As Pathetic As An Aging Rally Queen . . .** (*May 23, 2001*) Yesterday, I mentioned that sentiment indicators are looking increasingly bullish. This trend is being reinforced by a bumper crop of mania sightings. Whether these red-flashing indicators intensify remains to be seen. I would like to add that recently, my hate mail indicator has also been flashing a sell signal. This isn't quite as useful as when I published a Rap at Silicon Investor, since the people who hate what I say now have to pay for it. Nevertheless, there are a few hecklers who have been expressing their opinions. So, using psychology as a gauge, I would opine that maybe the rally is getting pretty late in the day. We're forced to focus on this type of information, since fairytales are what people believe at the expense of the facts. You know, the bottom is in, things can't get any worse, Easy Al is going to save the day, etc.

**"Cash" And Other Four-Letter Words . . .** (*May 23, 2001*) A reader writes:

*"Yesterday, one of my employees stopped by to share his stock market thrills with me. His portfolio, of course, has been fully invested through Mania I and now Mania II. And what good does it do to be fully invested if you are not fully invested in tech? So, he's lost a load over the past year. Yesterday, he told me that he is finally close to being even. And what is he going to do now? Move a little into cash? Horrors, no! Diversify? And miss the best -behaving segment of the market? Don't be ridiculous! No, he wants to buy more. But he's fully invested, so what to do? Yes, he's looking into buying on margin."*

**Walking On Safe Harbor Waters . . .** (*May 24, 2001*) I'd like to reprise the subject of FD (Full Disclosure), which I discussed a few days ago. There is nothing wrong with FD, which forces analysts to do their homework. That is not our problem. Our problem is with the safe harbor laws, which enable corporations to get away with making spurious claims. Companies can say that the future is so bright they're going to need shades. Now they might be lying, but since they are *telling* you that they might be lying, they can't be sued. It's all the lying, phony baloney accounting and stock option shenanigans that have brought corporate America to today's sorry state, in which companies make up whatever is necessary to prop up their stock. Rot begets rot.

**Squeeze Orange Juice, Not Shorts . . .** (*May 31, 2001*) Recently, I discussed some comments that Irwin Jacobs had made about Consec. Now I would like to reprise something that I read last night in Herb Greenberg's column. For those of you who don't know, Herb is an ace reporter for The Street.com. I've known Herb for many years, and

he is one of the good guys in terms of digging up information and exposing countless shenanigans. He generally gets it right and is the first one to admit if he is wrong. There has been a real battle over his reporting on AremisSoft (AREM). Irwin Jacobs, the professional short squeezer, has taken Herb to task, making some gratuitous accusations regarding his integrity. I believe Herb is right on this. I think that Jacobs ought to go out and get a real job.

Many people think that short selling is un-American. What I think is un-American, and downright despicable, is all the lying that goes on in corporate America and on Wall Street. Those of us who operate on the short side these days do so because there's such an enormous discrepancy between price and fundamentals. Rampant dishonesty has taken that gap and made it into a chasm, into which hapless "investors" have fallen.

**Make Your Bedlam And Lie In It . . .** (*June 7, 2001*) It's worth repeating here that while stocks are expensive in general, in technology they are as dopey as they ever were in the mania. Possibly, you could argue that they're dopier now. At least during the mania, people were not confronted by economic problems. Well, the bubble burst, the problems are manifest and the insanity remains.

**Consider The Source . . .** (*June 11, 2001*) To return to the disconnect in today's stock market, please bear with me if I seem a bit more impassioned than usual. Every now and then, I am overcome by the sheer lunacy, and this is one of those times. At present, the madness is particularly outlandish and demands commentary. It is offensive, to say the least, that the very Wall Street shills who didn't even know we were in a bubble are the same visionaries who now turn up on Bubblevision and in the press to advise that the worst has passed and everything is going to be okay. Why would anyone listen to somebody who had no understanding of the problem to begin with? That's like listening to Greenspan, who has demonstrated his cluelessness on any number of occasions.

By the same token, why do people listen when management is unable to get it right -- either because it's too optimistic, or doesn't understand its own business, or has some other agenda? Maybe instead of listening to the happy talk, people should start watching when management starts selling the family jewels. For instance, early in May, Intel's CFO, Andy Bryant, sold approximately a quarter of a million shares of stock. I'll leave it to you to draw your own conclusions. We see people trying to take a page out of the value buyers' book of buying bad news. They don't understand that you can only buy bad news when the valuation has shrunk dramatically, which has not been the case.

**Dead Fish Swallow Finnish Line . . .** (*June 12, 2001*) For those who don't follow this on a regular basis, Nokia's leader, Mr. Ollila, has been far and away one of the most, shall we say, "optimistic" of all the CEOs of technology. So, the fact that he was forced to admit to problems and lower guidance came as a big shock to the dead fish community. Remember, the dead fish are not allowed to notice that many of Nokia's suppliers have been reporting problems, as have retailers of cell phones. Consequently, they were caught unawares. Of course, no one probably had a bigger sinking feeling in his stomach than the boys at the Janus fund that owns, as of the most recent filing, a modest 283

million shares of Nokia. Maybe that position will feature in a new series of Janus TV commercials.

In any case, if the description of that disconnect seems to fit the story with Intel or most other chip stocks or chip equipment companies, it should. It's the same story for all of these companies that we have been discussing for the past couple of months: They are accidents waiting to happen. When you have rapidly deteriorating fundamentals due to massive overcapacity, when you have cheerleading management that is loathe to set realistic expectations, and you have stunningly high stock prices, it is a recipe for disaster, which is exactly what we have now. As I mentioned yesterday, virtually every memory manufacturer, whether it's flash memory, SRAM, or DRAM has preannounced negative news, and when you take a look at the other companies that have preannounced negative news, there is absolutely no sign of demand anywhere. Cell phones, disaster. PCs, disaster. Hand-held devices, disaster. Servers, disaster.

**Mr. Fish Goes To Washington . . .** (*June 13, 2001*) Turning to the news, there is a good deal to talk about. In the Recriminations Are Beginning department, today's *Wall Street Journal* has an interesting story by Charles Gasparino called "Outlook for Analysts: Skepticism and Blame." On the eve of congressional hearings into potential conflicts of interest in the analyst (a.k.a. dead fish) community, the writer describes the problem in a nutshell: "Securities firms routinely publish research advising investors which stocks to buy and sell. At the same time, they fiercely compete for assignments to sell new stock issues for corporate clients. And negative comments from their own analysts don't help."

**Go Get 'Em, Soup To Nuts . . .** All I have to say about that is, Gee, what a surprise. During the mania, I harped often about the recriminations that would follow, after the bubble burst. I continue to believe that they will be particularly severe. Right now, they're going after the analysts. At some point, they'll turn to the brokerage firms themselves. Note the recent investigation into irregularities in corporate finance and potential shenanigans in the IPO arena. At some point, I think certain mutual fund organizations will be targeted for the way in which they "managed money" -- if that's what you can call running, gunning and chasing fast-moving stocks. Down the road, expect to see some charlatans, sorry, "corporate chiefs," called on the carpet for the reckless violation of the safe harbor rules.

**The Really Sad Part . . .** These points have been a recurring hobbyhorse of mine for the last couple of years, and though they struck many as preposterous, it is now clear that at least some of these things are starting to happen. As more people lose their jobs, it will be harder for denial to remain in that lockbox. This is not to say that the individuals who speculated themselves into trouble are blameless. But some were innocently dragged along because they simply didn't know any better. And, though many did not even participate in the bubble -- and this is the sad part of the tale -- they will have to deal with the pain of its aftermath.

I believe that a serious backlash is coming. My expectation is that at some point, people with exposure to financial companies will be subjected to a level of risk of which they are currently unaware. So, post-bubble, the problems will not be confined to tech. To sum up, due to the irresponsible actions of a relatively small number of people in high places, a large number of hapless bystanders will suffer. That, ladies and gentlemen, is the reason that Alan Greenspan should be reviled.

**We Shall Not Have Railed In Vain . . .** (*June 20, 2001*) In the recommended reading department, there are a couple of interesting stories in today's *New York Times*. In a fine page-one article entitled "Top Accounting Firm Settles SEC Charges," Floyd Norris discusses the SEC's civil fraud complaint against Arthur Andersen, which failed to properly audit its client Waste Management. Let's hope this warning shot causes other accounting firms to get religion. That would help to reign in corporate America, which, as I have said many times, has taken full advantage of the safe harbor laws. Then, on the Op-Ed page, there is a terrific article by Daniel Gross entitled "Creative Destruction and the Web." The writer illuminates a point that we have discussed frequently: Throughout history, technology has proven to be a tough business. Across a broad spectrum, big forces threaten to close the barn door now that the horse has run away. All the abuses that we have railed about over the last couple of years are now in the process of being scrutinized. You can be sure that by the time the stock market is down another fifty percent, that all of these issues will be brought to the front burner.

**Take It Away, Al . . .** (*June 27, 2001*) There's really not much point in describing the early action because it's superfluous, relative to what came after the FOMC meeting. Let us just say that after the market opened, we had a little attempt at a rally that brought the market up a modest amount, say half a percent across the board. Then they marked time in advance of the FOMC meeting. Drum roll, please.

**Rat-A-Tat-Tat . . .** (*June 27, 2001*) The market flopped and chopped, waiting for the Fed. Then Al surprised the crowd by only giving them 25 basis points. Naturally, we had an immediate sell-off, and then we had an immediate rally -- just the opposite of what would have happened had the Fed given them the full 50, causing a rally and then a sell-off. That was preordained. After the rally that took us back to the highs, the market leaked a bit into the close and settled to where you see it on the box scores. Basically, it was a down day across the board, with no real joy anywhere. Retail stocks were weak. The financials were down. The Sox was down. Oil stocks were down.

**Pie A La Easy Mode . . .** (*June 27, 2001*) It just goes to show you that even when Al is in Easy Mode, he just can't quite get it right. Looking back to December, when he failed to ease at the first opportune time and had to come with the panic in January -- after coming with two panic attacks and four other eases -- you'd think he'd have the good sense to at least give the bulls 50 instead of 25. So he can't even do a good job of being irresponsible.

## Readers Write:

### Son Of Bubble . . . (June 27, 2001)

*"Just thought that maybe you should resurrect the Mania Chronicles so that maybe someone will be spared his life savings. Recently, we received a letter from an acquaintance. Seems he lost \$1.2 million in a Ponzi scheme (International Forex, Ltd.), then tried to make up the loss by borrowing, and then betting 500k on his house, 'investing' of course in tech stocks with Ameritrade. The Ponzi scheme was expected to net 'only' 50% per year, while the tech stock investments were nearly guaranteed 25%. Now here is a guy with a previous, more or less liquid, net worth of \$2 million that is now completely broke, with nothing but social security to get by on. The bank is foreclosing next month on the house.*

### 'Nothing More Than A Legalized Casino' . . .

*"Honestly, I hope that the shills for the investment banking community go to jail for a long time, but that's dreaming, I know. The guy at Forex apparently beat the fraud charges and is on to his next act. Maybe, hopefully, your commentary will save just a few otherwise rational folks from losing it all in what has become nothing more than a legalized casino. On the one hand, I have no sympathy for this guy. He had a paid -up house, more than \$1 million in the bank, and still was looking for the easy home run. On the other hand, the bastards that promised 50% on the Forex deal, and the 'analysts' (a.k.a. dead fish) that predicted a Nasdaq of 10,000 should rightfully be in prison now.*

### Fleck Saves The Wails . . .

*Of course the culprits, at most, will be slapped on their wrists, told to never, ever, do it again, and will mourn this passing in a vacation home paid for by a year -end bonus based on investment banking deals made possible by fraudulently recommending stocks at levels that the dead fish knew without a shadow of a doubt were dreams. It's possible that your readers are, by way of having to pay to hear your words, unlikely to be so stupid as this person. If you could save just one investor, everything you do would be worthwhile. I know you try, but there's no thing like telling a story out of the Mania Chronicles to get people listening."*

**Details, Details! . . . (June 28, 2001)** In the How Do They Get Away With This department, Altera (ALTR) last night halted its stock to tell us that it wasn't going to change its guidance going forward, but would take a large write-off to the tune of about \$110 million. Now, to put this number in perspective, in the last quarter, Altera had sales of just under \$287 million, and it's going to be around \$200 million plus or minus this

quarter. So the write-off is decent-sized. Of course Altera went on to point out that its gross margins would still be above 64 percent, not including the write-off.

**Write-On! . . .** (*June 28, 2001*) Therein lies the point. These chip-manufacturing companies that take one-time write-offs never get penalized for the fact that their past earnings have been overstated. It's, like, we can now make the number X whatever we want. The whole notion of pro forma "earnings" has been carried to ludicrous extremes. Now we have earnings excluding inventory charges. The bastardization of accounting principles that has gone on in this cycle is simply breathtaking. We're almost back to the point where we were at the height of the Internet craze, when earnings were deemed to be just everything before bad stuff.

(*June 28, 2001*) Incidentally, at least one competitor in every facet of business conducted by IBM has preannounced trouble. If this bad news gets you down, why not escape from it all by renting a canoe and idling on Lake Armonk. That's where you'll find IBM, an oasis of prosperity in the middle. Only time will tell if it's a mirage.

**One Man's GAAP Is Another Man's Rigor . . .** (*June 28, 2001*) But as we have pointed out, companies have a vested interest in perpetrating these shenanigans because all the execs have employee-related stock options. If Mr. Market wants to let them get away with it, it's not surprising that they try. Everybody does it. I myself prefer a little more rigor in the accounting world. Corporations do all these gymnastics because earnings are puny. More importantly, looking at the balance sheet, where earnings should accumulate, one does not see the signs of a decade's worth of good times. This is because so many games have been played. Cisco is a perfect example. It is amazing that so many have been so willing to be hoodwinked for so long with so much of their money.

**Institutionalized Bull . . .** (*June 28, 2001*) In the sentiment department, Ed Hyman reports that ISI's survey of institutional equity geeks is up to about 60%. It's been a couple of points higher recently, but I might point out that since 1994, the highest it ever got to was approximately 54%. Now it is up from last year's lows of about 40%. Those lows have been seen relatively often in the last seven years. Based on this, one can see that in essence, institutions are more bullish now by a long shot than they've been any time in the last seven years.

**Shhh! Rembrandts At Work . . .** (*June 29, 2001*) I was on my hobbyhorse yesterday about quarter-end mark-ups, which have been going on for the last several years. Today was no exception, with the Rembrandts working feverishly. That, combined with the index rebalancing and the Nasdaq snafu, made today a sight to behold. A friend of mine pointed out that if these artists tried this in the commodity markets, they'd already be getting the handcuffs out. One of these days, this has got to stop.

**Gave Proof, Through The Night, That Our Stock Fraud Was Still There . . .** (*July 2, 2001*) Returning to the *Wall Street Journal*'s coverage of Friday's snafu, I'd like to share a quote: "Many institutional investors were making large trades in order to shift their portfolio holdings, both to affect end-of-quarter performance results and, in some cases,

to align their holdings with the Russell 2000 index . . . " Thus, what we have is what my friend Jim Grant has so eloquently described as "the decriminalization of stock fraud." In essence, the *Wall Street Journal* is just saying, "Hey, these guys tried to AFFECT their performance -- we know what goes on all the time, and it's no big thing." Well, one of these days, somebody has got to put a stop to this because it's only gotten more egregious. How can anybody have any confidence in the integrity of the markets when this kind of stuff and other forms of monkey business go on constantly?

**Sore Losers . . .** (July 6, 2001) A few weeks ago, I commented on the cat-fight that is going on in AremisSoft (AREM). I mentioned the short-squeezing attempts by Irwin Jacobs, as well as his disparaging remarks about Herb Greenberg, who I believe does spectacular work. To repeat, I myself have no axe to grind. I have been watching from a distance. Today, AremisSoft filed a lawsuit against those nasty short sellers who are selling their stock and who the company thinks have stooped to a new low. I am not familiar with all the facts in this case, but in my career, I have repeatedly seen companies pull assorted shenanigans. They try to heap all the blame on short sellers when in fact it's management that has been pulling the fast one. More focus should be placed on companies that feel compelled to do this. Short sellers don't make stocks go down. Poor fundamentals contained within overpriced equities make stocks go down. Companies that blame the short sellers when their stock goes down are usually up to no good. It will be most interesting to see how this one plays out.

**SEC Saddles Up Fleck's Hobbyhorse . . .** (July 6, 2001) Speaking of seeing how these things work out, in today's *Wall Street Journal*. there is an interesting comment by SEC Enforcement Chief Richard Walker in a story called "SEC List of Accounting Fraud Probe Grows" by Michael Schroeder. Mr. Walker said, "If we had nothing else to do, the accounting investigations alone could keep us busy for the next five to ten years . . . The size and magnitude are crushing." All I can add to that is that the sooner corporate America is told to wake up, stop making up stuff and go back to real accounting, the better off we'll all be.

**Sherlock The Short . . .** (July 9, 2001) Over the weekend, the *New York Times* had an interesting [story](#) by Alex Berenson called "A Wall Street 'Short' Is Part Investor, Part Detective." In this case, the author profiles Mark Cohodes, whom I know and who does excellent research. The article offers a bird's-eye view of the trials and tribulations of trying to be a short seller battling Wall Street and corporate hype. It does an excellent job of illuminating a point I made last week -- that the blame for stocks going down should be focused on unscrupulous managements, not the people who unmask them, i.e., short sellers.

**Tidal Wave Of Sea Changes . . .** (July 9, 2001) The point of discussing these articles is that I believe we are starting to see a sea change in psychology. At last, people are beginning to realize that stocks can go down as well as up, that there is risk in the market, that Greenspan is not omnipotent. I don't think people are very far down this path, but I think the process has begun. As people come to that realization, it will be part of what causes them to withdraw money from the stock market. It will be part of what forces



valuations to be reattached to the underlying fundamentals. In all likelihood, this process will overshoot on the downside, although that will take some time. And that is indeed a scary thought, because, by my reckoning, you're not going to reattach the share price to the fundamentals until the stock market averages drop at least 50% from where they are. Trying to ride through this will not be a pleasant process.

**Your Loss Is Our Nonevent** Speaking of analysts, and as a follow-up to our discussion yesterday, the *Journal* has an excellent article by Rebecca Buckman called "On Wall Street, Microsoft Gets Friendly Calls." The gist of this insightful piece is, How come Microsoft and many, many other companies got to count investment gains when they added to earnings, but now that they subtract from earnings, it's considered a one-time event and therefore a nonevent? When confronted with this question, David Readerman, a dead fish at Thomas Weisel Partners, answered, "It's hard to explain. I don't have an answer for that."

**So Easy, Even An Idiot Can Play . . .** (*July 13, 2001*) So, these are the rules of the analysts' game: If it's good news, it gets counted. If it's bad news, it gets ignored. In other words, good news is galaxy-specific, and bad news is company-specific. Don't worry about the low quality of earnings and their relationship to the business and the stock price. This is a game of Can You Beat the Number?, invented by Wall Street and Bubblevision. Make up a stupid number and if the company can step over it, the stock goes up.

But the Rap asks, What does beating the number have to do with it if a \$100 stock is supposed to make two cents a quarter and comes in at three? That was the way it was in the craze. Now we have \$40 stocks that are supposed to make 13 cents a quarter and coming in at 14 cents, and that's deemed to be great. People never mention that this works out to 80 times earnings. All they hear is Bubblevision saying, "Well, the stock must be a buy because it's 40, down from 120." To borrow from my speech at the Grant's conference, What does "down from" have to do with anything?

**What Really Counts . . .** In any case, where a stock got to in the midst of a craze or due to drunkenness on the part of others is of no interest to real investors. What is of interest? The earnings potential of the business, the growth potential of the business and, most importantly, the barrier to entry of the business. How do they relate to the stock price, where are we in the economy and where are we in the business cycle? These are the things that matter to real investors, as opposed to what passes for investors these days. I've yet to see Bubblevision discuss these subjects.

**Arrest Him For Indecent Exposure . . .** (*July 23, 2001*) In the Can't Keep a Dead Fish Submerged department, Tom Galvin -- a head equity strategist/cheerleader -- recommended equity exposure to 95%. It's truly stunning to see that in the aggregate, Wall Street "strategists" have their highest recommended weighting toward equities in the last five years. Of course, this also applies to sentiment statistics. Ladies and gentlemen, that is why, between now and the end of the year, we're go to have a collapse

in stock prices as people realize that they're set up exactly backward for what's about to happen.

**It's Piled On Higher . . .** (*July 25, 2001*) And in the error department, the other day I mentioned that the investment strategists on Wall Street were the most bullish they have been in five years. Richard Bernstein from Merrill Lynch was kind enough to inform me that I was wrong. They are at their most bullish level in 16 years. Truly a stunning statistic.

**Al Loves The Bubble. . . So Far . . .** (*July 27, 2001*) Lastly there was a stunning quote by Easy Al at the bottom of the front page of the *Wall Street Journal* : "At a hearing, GOP Senator Gramm says to Fed Chairman Greenspan, 'If this is the bust, the boom was sure as hell worth it. You agree with that, right?' Greenspan: 'Certainly.'" This has to go down as the single most ignorant statement Greenspan has ever made (and that's a mighty tall order!). Talk about the blind leading the blind. Gramm has a doctorate in economics and Al is Fed Chairman and collectively they are totally clueless about the biggest bubble in history and the damage that is yet to occur. This is a keeper because I promise you five years down the road Greenspan will say "but we knew things were going to get terrible, that's why we eased" because that's the same thing he tried to pull five years after the last recession, which will turn out to look like a rounding error compared to what we're about to go through.

**Megaphonies . . .** (*July 30, 2001*) I was working from home today as I prepared to leave the country and so I happened to catch Bubblevision at a slightly different time. There on the screen with a talking head was a group of actual cheerleaders. I quickly turned the sound on to hear them doing a cheer for the Nasdaq. So . . . for all of us who thought that CNBC was largely about cheerleading -- it is.

**Corporate America Sells Its Citizens Short . . .** (*July 30, 2001*) I'd like to make a point about short selling. I happened to be on *Moneyline* on Friday night. At the very end of the show, Lou Dobbs made the comment that short selling was un-American. That's a silly statement because it seems to suggest that selling stocks short is a bad thing but blatant stock promotion is okay. Across America, corporate chieftains have been promoting bogus ideas and flaky accounting that have cost shareholders hundreds of billions of dollars. Examples from recent news headlines include Lucent, Nortel, and JDS Uniphase, but the list is 100 times longer than that. Their self-promoting interests have cost people far more than any short seller ever will. So, I'd like to get that straight, right here and now.

**Slaughtering The Goose That Laid The Golden Bubble . . .** (*August 14, 2001*) Sometimes getting away helps to give one perspective (this doesn't mean that whatever you think you see will be correct), but it strikes me that the market is on very thin ice. Between now and the end of the year, it's going to be slaughtered. I say this for a variety of reasons. The absurd second-half story that has been floating around all year is going to run out of time. When this work of fiction is unmasked, the combination of ridiculously priced stocks and their poor fundamentals will come home to roost. Also,

there will be a tremendous amount of pressure on people to take tax losses this year that they've avoided taking in the past. And, it looks as though the dollar, which has been a source of funds for the market, is losing its sheen.

**Fleck's Doppler Radar . . .** So, we have stupidly high prices, horrible fundamentals, and many reasons for money to be exiting the market. That, ladies and gentlemen, is a recipe for disaster, and that's exactly what I expect to happen. Maybe the market will be able to hold together for a little while longer in anticipation of next week's seance with Easy Al and the other FOMC members. But leaving aside voodoo, soon after, the preannouncement period will be upon us, and then the mutual fund tax-loss season. It appears to be shaping up as anything but a pleasant second-half of the year, and people should be ready to act accordingly. The bulls have had six, going on seven, rate cuts, a couple of which were a surprise, not to mention the almighty \$600 rebate. They have nothing to show for them and appear eminently unprepared to face the music that's coming fairly soon.

**Up The Creek Without An AremiSoft Option . . .** (*August 15, 2001*) In today's news, there is an interesting *New York Times* story by Floyd Norris called "More Setbacks for Investors of AremisSoft." Recall that I took great umbrage at Irwin Jacobs' letter, in which he accused short sellers in both Conseco and in AremiSoft (AREM) of misbehaving and was trying to orchestrate a squeeze. While I was away, AremiSoft's stock was halted. The *New York Times* article discusses the tricky maneuvers that will be required to exercise options, which expire on Friday, given that the stock is still halted. Congratulations to Herb Greenberg, who was on this story like a dog on a bone.

**Requiem For Sleaze . . .** (*August 15, 2001*) One of the things passing for a sound investment strategy has been any old, silly theme as long as enough people would repeat it, i.e., buying stocks because they split, or squeezing the shorts. Much scorn was heaped upon the short sellers and Herb Greenberg for talking about the facts. I did not see any scorn heaped upon what appears to be fraudulent management. So, rather than being scornful of the short sellers, it seems to me Irwin Jacobs owes them an apology. This gets back to the point I was making before. There's nothing un-American about short selling. What I find outrageous is the ease with which people make accusations against short sellers while, through their silence, seemingly condoning shenanigans like outright fraud and promotion, etc. The good news is that outrage is not dead. Now we are seeing investigations into the sleazy practices that polluted Wall Street during the mania. To quote the last line from the aforementioned *Wall Street Journal* article: "The system broke down broadly, not just here. People got greedy, that's the bottom line." Yes, everyone got greedy and took leave of their senses. The public included.

**Con-Founded Pro-Forma . . .** (*August 17, 2001*) I need to make a comment about pro forma earnings; a friend of mine pointed out that *pro forma* literally means "to project." In the old days, pre-mania, pro forma numbers referred to projections. You know, pie in the sky, some smoke and mirrors. But, given the bastardization of earnings that we have seen in the last few years, pro forma has acquired some legitimacy, meaning something close to accuracy, when in fact it's just absolute nonsense.

**In Your Dreams . . .** That being said, I'd like to share Joanie's succinct comment on pro forma earnings that are so beloved by corporate America: "Pro forma results are kind of like when a chick walks into a dress shop and the clerk asks, 'What size, Madam?', and she says, 'A size three fits (pro forma), but an 18 feels good (operating).'" Amen. It's about time somebody with some authority stood up to these corporate chieftains and said cut it out already.

**Screwing The Shorts . . .** (*August 17, 2001*) In the news, the SEC is considering lifting a current regulation that bans short selling on a downtick. But, the New York Stock Exchange said it wants the rule preserved because "it prevents manipulation and fraud." Now, that is one of the dumbest things I've ever heard. It doesn't prevent manipulation or fraud. Look at all the corporations that have basically committed accounting fraud and gotten away with it while they were listed on the NYSE, not to mention all the tape painting that goes on. The QQQs, the SPYs and the DIAs that represent the Nasdaq, the S&P 500, and the Dow Jones, respectively, all can be sold short on a downtick, and I don't see a whole lot of (downside) manipulation going on there. Who is Dick Grasso trying to kid? Another example of the widely held view that short selling is bad, but lying and jamming stocks higher is okay. That is, of course, patently ridiculous.

**Ad Shows a Lot of Bull . . .** (*August 20, 2001*) There are a handful of things to reprise in the news starting with Sunday's big ad in the *New York Times* by UBS/Paine Webber. I believe this article also ran late last week in the *Wall Street Journal*. For those who didn't see it, it says they believe the fair value of the S&P 500 as of 2002 should be fifty percent above the index level today. They should have said that they also believe in Santa Claus, the Easter Bunny and the Tooth Fairy. If one read the small print their analysis was non-existent and is completely representative of the drivel that passes for analysis these days.

**Cut, Then Sell . . .** (*August 21, 2001*) The market continued its early morning grind and the high of the day was set one nanosecond before the rate cut information hit the tape. The market then sunk to the early morning lows and a rally was attempted. What has happened in the past has been that once we went to the low end of the range for the day, we promptly tested the high end of the range. That didn't occur this time. We had a modest bounce, followed by another sell-off, another rally attempt, another sell-off, etc., etc., and the last couple hours were basically an orderly progression to the lows of the day where we closed. It was an ugly day all around. Since so many people had bought stocks based on chart patterns, it's worth noting that many of these patterns appear to be breaking down -- the Dow is ready to make a new low, the SOX looks like it's going to crack, and many individual stocks are in precarious positions.

To me the market is potentially set up to gap lower and really hose everyone. Anyone who was waiting for the rate-cut rally essentially had no time in which to operate. And of course, there was really no reason for a rally to occur, since nothing unusual happened, and everyone was already set for the outcome. The market, in its perverse nature, decided to see if it could hurt the most number of people, which is what it appears to have done.

**There's No E in PE . . .** (*August 21, 2001*) There was a really, really fine article on the front page, right-hand column of the *Wall Street Journal* today entitled "Moving Target." The subtitle was "What's the P.E. Ratio? Well, Depends on What Is Meant by Earnings." They even had my favorite phrase in one of the subheads entitled "Earnings Before Bad Stuff." I'm encouraged to see the *Journal* finally getting on the bandwagon of one of my longstanding hobbyhorses. There was one line in there that was particularly telling after describing that the stock market could be the most expensive of all time. The *Journal* asked, "How could that be, after the numbing slide since the market peaked in early 2000?" The article goes on to explain that not only is the P/E ratio high, but earnings are overstated for a whole variety of reasons. It's a very fine article for anyone who is not completely familiar with the kind of things that have gone on and it points out just how ludicrously expensive stocks are in general. Earnings have been dramatically overstated for a long time while analysts have looked the other way.

**Psych 101 . . .** But I would like to point out that stocks didn't just become ridiculously overpriced yesterday. It's been the case for going on five years now. During that time they became more stupendously overvalued and now earnings have collapsed. Yet people haven't really marked down the price of stocks because they think that their earnings are going to come snapping back. Of course, that isn't going to be the case but that's one of the reasons why the market has held up so well; hope springs eternal as demonstrated by the UBS ad we pointed out yesterday which, by the way, is in today's *Wall Street Journal*. What I think is interesting is that this is the first major piece that I have seen in the *Wall Street Journal* detailing valuations and earnings and really getting at the guts of the fundamental problem with the market, i.e., its price. I think this is also part and parcel of the change of psychology that comes when people begin to accept the situation, and it's going to be part of what triggers more selling over the course of the year as people realize these stocks are stupidly priced. Parenthetically, I might add that there have been any number of articles that continue to quote the P/Es of well-known stocks like Intel as wrong. I see it referred to as being at various different multiples, none of which are accurate; its real multiple is approximately fifty now but I've never seen any quote that high. In any case, the article takes great pains to demonstrate that companies have basically been obfuscating the real earnings and when you peel it back down you can see how extremely overvalued the companies are. Congratulations to the *Journal* on a really fine, important piece.