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Expect Small Aftershocks From Nasdaq Drop

By Victor Niederhoffer and Laurel Kenner
Columnists
03/01/2001 09:33 AM

The Nasdaq Composite Index fell 22% in February, its third-widest monthly percentage decline ever. Looking back over the index's 30-year history, we find that six of the nine widest monthly declines were followed by another monthly drop of smaller magnitude.

The average move for all the after-months was a drop of 2%. To Laurel, who lived through many California earthquakes, this recalls the aftershocks that used to rattle the nerves after big shakers like the one in the Pacific Northwest yesterday. Usually, there would be one or two pretty good, though smaller, quakes after the main one.

The good news is that the earth eventually steadies. And in the past seven of nine occasions, the Nasdaq registered a nice rise in the second month after the big decline. The average move was up 3.7%.

The move in the second month ranged from a 22.9% drop in November 2000, which came two months after the 12.68% drop in September, to a 16.62% jump in April 2000.

What Happened After the Nasdaq's 10 Biggest Monthly Declines			
Date	% Decline	1st Month After Drop	2nd Month After Drop
Oct. 1987	27.23%	-5.61%	8.29%
Nov. 2000	22.90%	-4.9%	12.2%
Feb. 2001	22.39%	??	??
Aug. 1998	19.93%	12.98%	10.06%
Mar. 1980	17.10%	6.86%	7.47%
Oct. 1978	16.38%	3.21	2.87
Apr. 2000	15.57%	-11.91%	16.62%
Nov. 1973	15.12%	-1.41%	2.97%
Aug. 1990	13.01%	-9.63%	-4.26%
Sept. 2000	12.68%	-8.25%	-22.9
Average move	-18.23%	-2.07%	3.70%
Down/Up: 4			
Up/Up: 3			
Down/Down: 2			

We turned to the Spec computer and asked what happens to stocks and bonds at similar levels to today. It answered, "O Masters, on the 19 most similar occasions, the market was up an average of 2% a few days later, with a 75% chance of a rise and a variability of 1.3 times that level.

"And what happens near the beginning of a month after one that ended so badly?" we asked.

"Masters, it is equally bullish."

Waiting Confidence
In yesterday's column, we advised using full margin to buy the 11 stocks in our recommended portfolio, thereby increasing the level from 125% of equity to 200%. Thus committed, we await the unfolding of the next few days' events with supreme confidence.

There is a hopeful aspect to the demoralization that goes beyond the bullish expectations. The market, infinite in its wisdom, sometimes plays the vigilante to bully vote-buying politicians, and the mere mortals who foot the bill, into doing the right thing.

As James Tobin, a young tiger from Texas, points out: "How can Bush pass his tax plan without a little suffering in the market? The more the market suffers, the easier Bush's plan gets through."

Thus, once again, there is method to the market's madness. And like day follows night, the politicians rushed to fill the vacuum created by the market's decline. The Republicans have scheduled a House Ways and Means Committee vote today on the first set of President Bush's income-tax rate cuts.

As we go to press, more hopeful auguries line up, with bonds scheduled for another rousing rally at the open. The normal path of least resistance would be for a bond rally to lend a helping hand to stocks in the imminent future, with great temporary exultation among the stock bulls and disappointment for the bond bulls.

Thus, a reversal of fortune is forecast.

End Note:
As a symptom of how topsy-turvy the market has become, recall that last year at this time, Doc Greenspan was the belle of the ball, and Pat Ewing the whipping boy.

Now they are back, but to opposite audience reactions. Ewing received a two-minute standing ovation when he returned to New York's Madison Square Garden on Tuesday. And the market was limit down yesterday after Greenspan testified. In our humble view, both should be retired at once.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	0.76	Down 2	-2.7	-2.8
S&P 500	0.83	Down 2	-6.1	-5.8
Nasdaq	0.91	Down 2	-13	-14
Europe STOXX-50	0.80	Down 1	-9.9	-5.8
Dollar/euro	1.00	Up 2	-2.1	0.4
Nikkei	0.72	Down 3	-6.5	-3.0
Dollar/yen	0.95	Down 1	-3.3	-1.1
Gold	0.83	Down 1	-1.9	2.8
Oil	0.79	Down 3	7.2	-7.4
Bond Futures	0.78	Up 4	0.9	1.5
2-Yr Note Futures	1.22	Up 6	0.9	0.6

Bund Futures	0.91	Down 1	0.7	0.1

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Fed Fiddles While Investors Get Burned

By Victor Niederhoffer and Laurel Kenner
Columnists
03/02/2001 09:07 AM

With a hop, skip and jump in our gait, lightness in our hearts and high anticipations, we recommended full margin exposure yesterday for the beginning of the month. And indeed, after setting new two-year lows in the Nasdaq and S&P 500, the market did have a spectacular rally in the last two hours of trading. Big Blue's painting of the tape with upbeat remarks at a meeting of investors seemed to be the catalyst.

The problem is what to do now that the fence has been whitewashed. The market has gone down five Fridays in a row, an average of 1% each day in the S&P 500. And in all candor, today's open of -0.5% in the futures market does not leave us completely free to go to the swimming hole with our position. Too many cross currents. Our portfolio of recommended stocks rose 0.6% yesterday – a 1.2% gain at full margin – but as the hit on Wednesday came to 3.8%, our year-to-date returns have diminished to 133%.

And thus, with reluctance in our face but alacrity in our hearts for next week and thereafter, we turn over the brush today to the barbecue-loving professor from Virginia Tech for some analysis on how the Fed's fence-painting should be viewed. As Tom Sawyer said, "In order to make a man or a boy covet a thing, it is only necessary to make the thing difficult to attain." The market is the same way. The trials that the Fed is putting it through will only make the work of the rally more fun when it comes next week.

As more days pass without the Federal Open Market Committee cutting interest rates, the sell-off in the markets has us wondering about the Fed's inertia. Is the Fed sitting on its hands because it sees something in the economic data that we don't - or do these highly trained, capable people just not get it?

Given that manufacturing and economic activity continue to slide, members of the FOMC would seem to be in a state of suspended belief.

They responded rather quickly to the small dislocation of a Greenwich, Connecticut, hedge fund headed by Nobel laureates. Why, then, so little recognition of the decline of a $10 trillion economy and the evaporation of trillions in wealth from the equity markets?

The FOMC can scarcely be called unqualified to assess economic conditions. The expertise of the members encompasses banking, currency, foreign policy, trade, investments, information technology, finance, economics, and accounting.

Seven of the nine voting members hold economics degrees; four have Ph.D.s. Several are distinguished economic forecasters who had private consulting practices before joining the Fed. Several have conducted significant research in banking and economics, and three have extensive experience with private-sector financial institutions. Two have MBAs from superior programs.

With all that ability, experience, and training, shouldn't someone have seen the continuing economic weakness, now running for over six months by some measures of economic health (the National Association of Purchasing Management's manufacturing index, for one).

The Fed's Board of Governors has only one member with significant experience running a non-financial business. The other members of the board, due to their tenure, could well be regarded as Federal Reserve insiders. Could it be the insiders are too deferential to the chairman?

The stifling atmosphere of the Beltway carries over into the type of information on which the FOMC chooses to rely. The regional Fed bank presidents have advisory boards full of business types who probably have informed the governors of business conditions with more clarity than any government statistical report. But the board has stated in notes from FOMC meetings that it relies on internal research -- seems the members wouldn't have it any other way.

Ever since Jan. 25, when Chairman Greenspan said growth is "close to zero," members of the Fed have been speaking from Dallas to Bangkok to boost confidence in the economy. However, it seems the more they speak, the more the market mistrusts them to get the big picture and ease rates. I have counted almost a dozen speeches recently in which the Fed members use the language faxed out of DC like a political swat team.

A short sample:

Feb. 2 (Dallas) Dallas Fed President Robert McTeer: The worst may be over. The New Economy isn't dead, it may have a hangover, it may have the blues, but it's not dead.

Feb. 5 (Bangkok) New York Fed President William McDonough: The American economy will have robust growth by the second half of this year. (He added that consumer confidence won't slip as long as job creation is strong.)

Feb. 7 (Chicago) Chicago Fed President Michael Moskow: Growth will rebound in the second half.

Feb. 9 (Washington, D.C.) St. Louis Fed President William Poole: A lot of the traditional signs of a recession are simply not visible.

Feb. 12 (Boston) Boston Fed President Cathy Minehan: I expect activity to increase later in the year.*

Feb. 14 (Missoula, Mont.) Minneapolis Fed President Gary Stern: January was an OK month.*

Feb. 15 (Greensboro) Richmond Fed President Alfred Broaddus: There's a reasonably high probability we will see the economy begin to recover at a reasonably early date.*

(*Note: Fed funds traded at higher rates between Feb. 12 and Feb. 15.)

Feb. 20 (Dallas) McTeer: I think we are in the first half of a V-shaped slow down and recovery. (Note: Consumer confidence printed at a seven-year low that day, 87.8.)

What Economy Is Looking At?
I don't have to tell you what stocks have been doing lately. Even after the Greenspan's recent reassurance that more cuts are to come, the markets were not comforted. More speeches by Fed presidents and governors have done little for the markets, other than leave many market participants puzzled over which economy the FOMC is monitoring.

What the market wants is a cut now. Fed funds futures are forecasting that the cuts by March 20 will be 50 basis points. The FOMC seems to be waiting for the "right" economic data so it can maintain the air of independence from the lowly markets.

The data out this week suggest another intra-meeting cut is justified. Even if the FOMC waits until March 20 to lower rates, the last thing the market wants (and this economy needs) is to hear Fed governors whistling past the graveyard.

It used to be that investors feared Greenspan's departure from the Fed as much as nuclear war. Perhaps the chairman wanted to destroy the myth of his great ability and return earthward with the markets so that Wall Street would actually welcome his retirement.

Mark M McNabb is a Chartered Financial Analyst and finance professor at Virginia Tech University who will be pulling for the UNC Tarheels basketball team this weekend and seeking great BBQ experiences in the Southern part of heaven. He welcomes your e-mails at mmcnabb@vt.edu

Widespread Tech Infection Is Encouraging

By Victor Niederhoffer and Laurel Kenner
Columnists
03/05/2001 10:21 AM

In a terrible finish to a five-week slide, the market ended with serious losses in the S&P and Nasdaq, marking the 10th Friday decline in a row.

The 19.5-point drop in S&P futures at the open was the fifth-widest ever. A midday rally that carried the Nasdaq to within five points of 2,000 and gave the S&P futures a 0.8% gain on the day was only salt on the wounds, as it failed in the final two hours of trading.

It was the third time that week that the market rallied from devastation near the close, only to give up the ghost. Regrettably, such bounce-backs from bad opens don't signal anything overly bullish for the subsequent day. When the market is ready to bounce, it often takes no prisoners on its declines. Thus, the escape from total disaster that occurred in the afternoons on those days isn't altogether a sign that the end is here.

Particularly discouraging, bonds suffered their fourth-worst decline of the year, thereby removing one of the planks of the bullish case for stocks.

Thank God It's Monday

On the bright side, the market has fallen four Fridays or more in a row on only nine occasions in the past six years. In eight of those cases, it was substantially higher four days later, with a mean change of up 2%. The variability was twice that level.

Also the market has risen on 10 of the last 12 Mondays, and overnight futures are signaling an up open as we write.

Furthermore, the CBOE's Volatility Index ($VIX) has closed above 30 for the last three days. The picture has traditionally been positive from these levels.

Most encouraging of all is the near-total collapse of tech stocks. A domino-like spectacle has been set off in one sector after another as leaders like Cisco Systems (CSCO), Nortel (NT), Dell Computer (DELL) and Oracle (ORCL) warned of falling sales.

What's left?

Tech Epidemic Has Nearly Run Its Course

One of the ways that epidemiologists know that an epidemic has run its course is when the number of susceptible people in the population declines to a level that brings the potential for new infectors below a threshold. As the population builds up immunity to the disease, the epidemic dies out.

Tech certainly seems to have reached that level in the US market. Few people susceptible of further discouragement are still around.

What's more, the stabilization of biotech stocks and the performance of semiconductors on Friday gives hope that the epidemic has peaked. In September, the Amex Biotechnology Index ($BTK) made a quadruple top at the 800 level and took another sharp drop in the first days of January. It has since been bobbing around 600, holding up relatively well in the latest Nasdaq decline.

The Philadelphia Semiconductor Index ($SOX) shot up from a 3% loss to a 9% gain during trading on Friday. It closed up 2%, but the move suggested that holders of semiconductors have developed immunity. Fortuitously, two of the stocks in our recommended portfolio -- Conexant (CNXT) and Axcelis (ACLS) are in the semiconductor category.

Dialing With a Single Digit

As a symptom of the severity of the decline in telecom, one of our sources tells us that a "Single-Digit Stock Price Party" is in the planning stages among Lucent (LU) employees. Lucent fell to as low as 11.16 on Thursday.

We note that Lucent accounts for 29% of the sales of one of our recommended stocks, Viasystems (VG). We also have two other telecom component companies in our portfolio: Commscope (CTV) and Westell Technologies (WSTL).

Another of our recommended stocks, Ivax (IVX), a maker of generic drugs, has held up much better than its compatriots in the S&P Midcap Pharmaceuticals Index. It's down 1% this year, compared with 19% for the stocks on average. However, Ivax is showing a somewhat ambiguous insider-trading pattern, with selling by some executives and buying by others. With so many stocks beaten down these days, with the insiders unanimously nibbling at the bargains, we have the luxury of concentrating our portfolio on such issues. Consequently, we recommend the sale of Ivax over the next two days.

With the sale of Ivax, there will be 10 stocks on our recommended list. It's a good number, as portfolios of 10 randomly chosen stocks reduce the risk of owning the individual stocks to just 20% more than what you'd have by owning the entire market.

Our 2001 portfolio is now up 141%. We recommended on Feb. 28 that full margin be used, risking the 136% gain to that point. The stocks managed to negotiate the next two days with a 2.8% gain, a rise of 5.6% with full margin.

Here is our portfolio, with percentage changes from date of recommendation:

Axcelis (ACLS): -4.0%
Borland (BORL): 24%
Conexant (CNXT): -28%
Chart Industries (CTI): 8%
Commscope (CTV): -3.6%
Ivax (IVX): 14%
Petsmart (PETM): -14%
Techne (TECH): 23%
Viasystems (VG): -36%
Westell (WSTL): 18%
XO Communications (XOXO): -14%

On average, the stocks are down 1%. (The results don't show profits we've taken on other stocks.)

Speculator's Scorecard

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Dow	0.77	Up 1	-3.0	-3.1
S&P 500	0.84	Down 1	-6.5	-5.2
Nasdaq	0.92	Down 1	-14	-13
Europe STOXX-50	0.81	Up 1	-10	-5.1
Dollar/euro	1.09	Up 4	-0.9	1.9
Nikkei	0.67	Down 5	-11	-6.9
Dollar/yen	0.96	Down 1	-4.5	-3.1
Gold	0.77	Down 3	-3.5	1.5
Oil	0.87	Up 2	9.0	-4.0
Bond Futures	0.79	Down 1	0.4	1.3
2-Yr Note Futures	1.21	Down 1	0.8	0.4
Bund Futures	1.00	Up 2	0.8	0.5

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Nor'easter Eggs on Market

By Victor Niederhoffer and Laurel Kenner
Columnists
03/06/2001 10:07 AM

Amid a tempest of bullish calls from gurus, favorable emanations from the antitrust court and skinny from Washington, the market rose Monday after a down Friday for the seventh consecutive time this year of seven Friday-Monday duos.

If we didn't believe so vehemently in efficient markets, we would be inclined to calculate the likelihood that such event could occur by chance. But we are guided by our idee fixe, that the proper place for written technical analysis rules is to prop up coffee tables.

The semiconductor indexes were up 5%, even amid gloomy forecasts from Xilinx (XLNX), Vitesse (VTSS), LSI Logic (LSI), Cypress Semiconductor (CY), Cymer (CYMI) and Applied Micro Circuits (AMCC).

Thus, the epidemic of declining prices in tech appears to have reached the stage where most of the companies are no longer susceptible to morbidity or mortality as they have developed immunity.

Our own recommended portfolio rose 4.4% -- 8.8%, with full margin as we recommended last week. The year-to-date gain is now 150%.

Story Getting Richer

The key to the rise, in our book, was the impending visit by President W to the floor of the Chicago Merc, scheduled for tomorrow, according to our sources. Also, the always reliable *National Enquirer* reported, in a story on President Clinton and Denise Rich: "I know the First Lady was informed about the affair because she had a Secret Service agent who reported the President's activities to her on a daily basis."

The report resolves all doubts concerning the pardon of Ms. Rich's ex-husband, in our minds. But it does raise additional questions. Did the FLOTUS deploy similar intelligence methods in her foray into the cattle futures market in 1980, when she turned $1,000 into $99,500 in six months? (We're still wondering where the other $500 went.) And will there be a reimbursement to the Treasury for the cost of using the Secret Service?

While technical analysis is rarely better than dish from insiders, it does give one hope when the pins start falling in proper alignment. Futures are indicating a sharp up open. Very quietly, the S&P 500 filled in the big Friday gap by the close yesterday, and the Nasdaq seems ready to fill it at the opening today.

Moreover, the Volatility Index ($VIX), which was above 30 on Friday, has now begun its descent. The average move in the market from the first occasion that the VIX rises above 30 to the first occasion it falls below 25 has been 5%, but it generally takes a month.

It's all so clear from the luxury of the armchair.

Things Go Wild

With the market ready for its first truly wild up open since Jan. 18, and Europe going through the roof as we write, it is well to remember that stocks can go up as well as decline.

And it came out of the clear blue sky during a terrible nor'easter, after what looked to be total demoralization. Fears, misgivings and uncertainty about the Fed were at their highest. The only thing the pundits were certain of was that we were in a bear market, and that buy-and-hold and dollar-cost-averaging were worthless.

Thus, once again the public was behind the form, as they say in turf handicapping.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	0.81	Up 2	-2.1	-2.2
S&P 500	0.88	Up 1	-6.0	-4.6
Nasdaq	0.96	Up 1	-13	-12
Europe STOXX-50	0.85	Up 2	-9.0	-3.2
Dollar/euro	1.04	Down 1	-1.3	1.5
Nikkei	0.70	Up 1	-11	-6.1
Dollar/yen	0.92	Down 2	-4.7	-3.3
Gold	0.81	Up 1	-3.4	1.3
Oil	0.92	Up 3	12	-1.4
Bond Futures	0.83	Up 1	0.5	1.3
2-Yr Note Futures	1.21	UnChg	0.8	0.4
Bund Futures	0.96	Down 1	0.7	0.3

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Betting Your Bottom Dollar

By Victor Niederhoffer and Laurel Kenner
Columnists
03/07/2001 09:55 AM

The market finally was kind enough to register two serious rises in a row, for the first time since the end of January.

Stocks opened on an up-note after Veritas Software (VRTS) said it would meet a sales forecast. Two years ago, such an announcement would have been about as exciting as reading a utility bill, but nowadays such disclosures are as beautiful as Helen as Troy, so rare that they launch market rallies. The Nasdaq spiked above 2000 and then grudgingly ground down to close slightly below the open.

The Spec computers are highly bearish today, and under normal circumstances, we'd be holding on for dear life. But Abby Cohen advised investors to load up on US stocks, and strangely enough, she didn't make her call after a big decline, as is her wont.

Our own portfolio was wafted up by the breezes to the tune of 2.4%, or 4.8% on full margin, bringing the year-to-date gain to 155%. What now?

On the one hand, we expect risk for the next few days to be quite high, relative to the reward. On the other hand, if we constantly change portfolio weightings, our recommendations will become dysfunctional for our loyal readers. Worse yet, we won't be around for the three-baggers when they come.

Taking one consideration with another, we beg our readers' sufferance and hereby advise they take enough profits to reduce margin to zero.

Top to Bottom

Around this time a year ago, on March 10, the Nasdaq topped at 5,048. As compensation for our somewhat unwieldy advice, we are going to publish some insights from our readers on when we might expect to see a bottom. Their discussion will provide a meal for a lifetime, rather than the meal for a day that micro-balancing calls such as Ms. Cohen's might provide.

"As I ran on the treadmill last night at Gold's," writes Jim Daniels, a Lucent (LU) scientist in N.C. "I overheard a conversation between some guy and his personal trainer:

'I need someone to give me stock recommendations.'
'Stock recommendations? My only recommendation to everyone at this point is don't buy stocks.'

"I hope to hear more of this," Daniels said. "It marks bottoms."

"Heard a similar one lately," wrote Dave Ciocca, a futures trader in New York. "Two guys were talking. One asks the other what to do in such a stock market. The other guy answers that he thinks you're pretty safe as long as you stay as far away from technology as you can."

Tim Melvin, a broker from Baltimore, wrote: "I listened at lunch as a group of distinguished gentlemen at the table next to me, including a past governor and current comptroller of the state, discussed their outright horror at the difference between the prices they bought stocks at last week and the price reflected on their month-end statements. Their considered opinion was that perhaps stocks were too risky after all. It took all my self-control not to stand up and cheer. It is indeed a great sign of a bottom."

"What's scary to me," wrote Craig Curtis, an executive at a major brokerage, "is when the group of 'distinguished gentlemen' who determine that stocks are perhaps too risky happen to be politicians. The next thing you know, they start to concoct schemes to 'protect the people' by limiting speculation in the marketplace. State-run lotteries? Well, those are OK."

Taking Off With Trades
"There are other ways of finding bottoms," wrote Edwin Marks, owner of a leveraged buyout firm, who we have dubbed the Shakespeare of markets for his quiet ability to turn out one year of great returns after another for more than three decades. "Barbershop chatter, men's suit sales (put off purchase another year, if desperate) and elevator operators (a dying breed). Buy when it's hard to buy, sell when it's hard to sell. Sell when there's panic buying, buy when there's panic selling."

"Ya ever hear of an O'Hare trade?" asked James Lackey, the irrepressible Florida day trader. "It is when you load up your account with a huge risk trade, go to O'Hare Airport and call your office. If you lost on the trade, you board an airplane. Has anyone done an O'Hare trade lately? I have noticed frustration levels are at all-time highs among my cohorts."

"We used to call it the Chicago/Vegas spread," replied Melvin. "Put the trade on, get on a plane (short Chicago), and call the office to see how it worked after you landed. Then you were either celebrating or drowning your sorrows in Sin City (long Vegas)."

Mark McNabb, a Virginia Tech finance professor, urged everyone not to miss the forest for the trees. "Ironic that San Francisco and NYC get a winter storm and the media plays it as if the entire country is going down the drain. Could it be true in markets and politics too? It's a sunny 70 degrees in Texas, and there are areas in the market such as energy, defense and healthcare that are quietly profitable while all are distracted by the winds and debris elsewhere."

End Note:
Alan Greenspan celebrated his 75th birthday yesterday. May we add to the many birthday wishes that he will doubtless receive a wish of our own: that he retire immediately.

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Europe STOXX-50	0.88	Up 3	-7.7	-0.7
Dollar/euro	1.09	Up 1	-1.0	2.6
Nikkei	0.74	Up 2	-8.0	-4.2
Dollar/yen	0.96	Up 1	-4.6	-2.9
Gold	0.78	Down 1	-4.2	1.6
Oil	0.88	Down 1	11	-1.7
Bond Futures	0.80	Down 1	0.3	1.1
2-Yr Note				

Futures	1.26	Up 1	0.9	0.4
Bund Futures	1.00	Up 1	0.8	0.6

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Don't Trim Your Hedges

By Victor Niederhoffer and Laurel Kenner
Columnists
03/08/2001 10:06 AM

More die of food than famine.

For the first time since Dec. 27, the market has registered three serious gains in a row. After five seemingly endless down-weeks, one might think that a sustained rise is normal and not overly bearish. But, no.

Regrettably, the Spec computers don't like it at all. At times like this in the past, when Vic was a big operator, he'd ask his brother or one of his associates to find some bullish patterns so he wouldn't have to sell prematurely. They were endlessly creative in meeting the need.

Now, left to his own devices, Vic could only find one bearish pattern after another. Thus, coming into seemingly weak employment numbers and a Fed reduction in rates, both seemingly on the schedule for tomorrow, we must follow our numbers rather than our hearts. This is perhaps akin to rescuers giving a starved man a cup of broth instead of steak frites for his first meal. Very sensible, but at the moment rather disappointing.

Smaller Futures

Accordingly, we recommend the full hedging of our portfolio by shorting Spyders (SPY) on the Amex, or selling futures to the full extent of the position. Because futures are signaling a modest down open, you might want to wait for a bullish flame, perhaps at 11 a.m. or noon, before establishing your short.

For those who don't like to sell short or who aren't set up to sell futures, we would suggest reducing your positions by half, so that 50% of your money is in cash until the expected decline materializes.

Bear in mind that neither we nor Mark Hulbert, who keeps track of such things, have ever had the pleasure of knowing anyone who has consistently profited from selling short. There is no reason to think that the same would not apply to ourselves or our short sale recommendations.

Peter Lynch, in his books, presents one untested shibboleth after another, and it's impossible for the unwashed like us to separate the wheat from the chaff. But when he says that one of the biggest mistakes he made was settling for two- or three-baggers when a 10-bagger was in the cards, it resonates.

Looking for the Jeerleaders

Nevertheless, like the old-hearted men we never hesitate to make fun of, we find our appetite for risk diminishes as we age. Accordingly, with our own recommended portfolio up 154% for the year, including the disappointing 1.3% decline yesterday, we retreat.

To make matters worse, we find ourselves agreeing with reader Lee Calvin, who writes:

I still hear too much "cheering" for me to believe that all the bad news is priced into the market, and we're in the final capitulation. That's not to say I'm sure we're not at the bottom, but I am sure that there's no certainty we are. And those who are sure we're there, I liken to those that kept calling for a *big NASD crash years before it actually happened.*

Furthermore, the cheering feels anxious. It seems similar to the cheering of 1999, when our technology holdings flashed green day after day after day. Too many traders/investors still have the buy-on-the-dip mentality, which beckons one to think of dips as lasting only days or weeks. "A year has now passed -- surely the bump-in-the-road is behind us," they say.

And correlations are too easy to draw:
1) Ms. Cohen says to pull back on equity weighting.
2) Government case against MSFT appears to worsen.
3) Fed keeps tightening
4) NASD crashes

New logic:
1) Cohen says buy
2) Bush administration and appeals court = leniency for MSFT
3) Fed keeps easing
4) NASD has to rise

Mikado Props
Our bearishness is further reinforced by the doings in Japan, where Finance Minister Kiichi Miyazawa said the country's financial system is "close to collapse" and a senior member of the ruling Liberal Democratic Party said the government may buy stocks to prop up the economy.

A scene from the *Mikado* comes to mind:

Miyazawa, Miyazawa,
Don't you have good news for me?
Yen so low it hurts me so
A bad economy
Yes, a bad economy

(All speculators fall to the ground)

Miyazawa, Miyazawa
Says Japan is near collapse
Politicians panic now
At tiny straws they grasp
Oh, at tiny straws they grasp

A third piece of qualitative support for the bearishness of the Spec computers comes from the experience of the Irish after the potato famine of 1845-1846. The misery didn't end until a fungus was discovered to be the cause of the blight. We can only hope that our admonitions to the powers that be vis-à-vis the replacement of Doc Alan Greenspan are implemented immediately.

The 1917-1919 famine in Russia, engineered by the state's assuming monopoly control of the grain supply and instituting price controls, also seems relevant. As Richard Pipes put it in *The Russian Revolution:*

The peasants of the province were in a state of perpetual drunkenness. They fought each other in wild *orgies, assisted by old men and young girls. Afraid of losing their savings through confiscation or inflation, peasants gambled frantically, usually at blackjack. It was not uncommon for an ordinary peasant to lose 1,000 rubles in an evening.*

Speculator's Scorecard				
	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	0.88	Up 4	-0.5	1.9
S&P 500	0.96	Up 3	-4.4	0.5
Nasdaq	1.04	Up 3	-10.0	-2.0
Europe STOXX-50	0.85	Down 1	-7.9	0.2
Dollar/euro	1.04	Down 1	-1.5	2.2
Nikkei	0.78	Up 3	-7.7	-2.9
Dollar/yen	0.92	Down 1	-5.3	-2.9
Gold	0.81	Up 1	-3.6	1.5
Oil	0.92	Up 1	14	1.6
Bond Futures	0.84	Up 1	1.1	2.3
2-Yr Note Futures	1.32	Up 2	1.0	0.5
Bund Futures	0.96	Down 1	0.7	0.7

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Remembering the Seasonality of the Market
By Victor Niederhoffer and Laurel Kenner
Columnists
03/09/2001 09:25 AM

(Editor's note: Filling in for the Speculators today is David L. Ciocca, a futures trader based in Rochester, N.Y.)

Like The Weather
The color of the sky as far as I can see is coal gray
Lift my head from the pillow and then fall again
With a shiver in my bones just thinking about the weather
- Natalie Merchant

For the past 13 years, I have lived in Rochester, NY. The cost of living is modest, there is a strong commitment to the arts here, and not so long ago there were a couple of high-tech giants that helped shape the landscape that exists here today. What's the downside? Mid-October through the end of March. The winter weather here is absolutely treacherous, and it's something that even those who've been here for many years never really get used to.

As spring approaches, it hit me the other day how similar the cycle of winter here is with the Nasdaq market that we've experienced the past year.

The Nasdaq market began to crack right about this time last year. Microsoft (MSFT) ran into a government antitrust department with an itchy trigger-finger. Goldman Sachs pronounced technology stocks overvalued. The Federal Reserve accelerated its efforts to choke every remnant of the growth from of the US economy. And the Nasdaq began to hit the skids.

As this all occurred, people were for the most part ready for it. Many had forecast the market as being overvalued for some time, and the lion's share of the early declines represented a return of a portion of the gains that investors had accumulated over the past year or so. This was not unlike the onset of winter here in Rochester. It comes quickly. It's warm and sunny during the day, but by nightfall it's below the freezing point. Nobody is much bothered by this. After all, it's just winter. It comes every year.

As the Nasdaq decline continued through the middle of 2000, investors began to get a little more nervous. The "buy the dips" philosophy that had worked for years didn't work any more. Real losses started to accrue – and quickly.

As the year wore on, people began to dump Nasdaq stocks faster and faster. The Fed's monetary restraint made its way through the system, and the pain intensified. People began to whisper that tech was dead. They accepted that growth was gone.

A similar acceptance occurs in Rochester every winter. People stop going out except to work. They don't exercise, and they gain weight. They plan their recreational activities around what's on television any given evening. Stagnation becomes acceptable. An exciting event is a trip to the supermarket to stock up for a big snowstorm.

And it gets frustrating as time wears on -- both owning falling technology stocks and getting through the long, cold winter days. They both appear to have no end. People get depressed and withdraw. Sunny days seem just a happy memory.

Then a funny thing happens. It occurred on a Sunday two weeks ago in Rochester. All of a sudden it was 55 degrees and sunny, 30-some degrees higher than average for late February. And it hadn't been forecast by the weather stations. Everyone came outside. The restaurants and cafes in the cultural part of town were packed. People were sitting outside. And they stayed as long as they could. As the day drew on and the temperature dropped, they stayed until it got dark.

But it wasn't spring yet. It snowed six inches that night. So much like the Nasdaq rally in January. The Fed cut rates. The talking heads said the slowdown would be short-lived. It was just an "inventory correction." People started to buy stocks again.

But it was still winter, a cold winter. As February came, one company after another said it was worse than they thought. It would last at least the whole year. Their businesses were dropping off a cliff. Then the gurus changed their tune. It would be worse than any recession ever this time. Due to the nature of technology capital spending and other anomalies of the current business cycle, even Fed rate cuts won't help much this time. CNBC began running a series on how to survive the bubble fallout. And the coldness continued.

But there's a change of season on the horizon. Why? It's part of the natural cycle of growth. Decay is followed by new, stronger growth. To bet against such change would be to bet against the American entrepreneurial spirit. It's a bet against capitalism, Tiger Woods and the New York Yankees.

Such a wager will win sometimes, but the odds are not good over time. In fact, a quick glance of a long-term chart of the stock market is a good indicator of just how bad a bet it is. There's no overt sign that the change is coming. It just happens when it's time.

And soon too, it will be summer here in Rochester again. There will be an hour-and-a-half wait to get a table at the city restaurants, and all the good tee-times will be filled. It just happens when it's time.

David Ciocca is a futures trader in Rochester, NY. He welcomes your comments at daveciocca@yahoo.com. He believes in holding growth stocks for the long term, and that Tiger Woods will win the Masters by a large margin.

Speculators Again Running With the Bulls

By Victor Niederhoffer and Laurel Kenner
Columnists
03/12/2001 08:46 AM

Welcome, ladies and gentlemen, to the 460th edition of Stock Talk! We're broadcasting from the Knicks game in East Rutherford, N.J.

We've been attending all the Knicks games we can recently, not so much to predict the market with a Super Bowl-type indicator, but to see whether "Doc" Greenspan has retired from his job as center of the Fed Board of Governors to start playing for the Knicks. After all, it was Greenspan who finally succeeded in killing the market last year, after years of trying.

The Knicks could have used the Doctor's help, because the Nets won 96-83, breaking New York's two-game winning streak. We heard one beaten player say, "It's when the times seem the worst that it's best to pull out the stops."

No, Stock Talk fans, Glen Rice wasn't talking about the market, although the fortunes of the Knicks and the market have been close to perfectly correlated this year. They both pretty much hit their peak on Jan. 3 when the S&P 500 closed at 1376 and the Knicks' winning game percentage hit a peak of 63%. They both had a listless remainder of the month -- about even.

Losses in the Market, on the Court

And since the All Star game on Feb. 11, they've both been getting killed. The Knicks have lost eight of their last nine road games, and are playing about equal wins and losses. They looked like they had turned it around last week with two back-to-back home and road victories over Indiana.

At the same time, the market showed some strength, rising four straight days through Thursday. But on Friday, it was back to Davy Jones' locker for both of them. The Knicks got humiliated 96-83 by the Nets, and the market suffered a 3% drop in S&P futures and a stunning 7% loss in Nasdaq futures.

Which was the cause and which the effect? We pass. Is it the high salaries of the players and what this forebodes for market moves? Or is it just the waxing and waning of the market on the wings of the Knicks?

Waiting for Greenspan

There are some questions that even our Speculators computers can't answer. All we know is that we will maintain our vigil at the Knicks games until the 5-11 Greenspan enters the arena with a pair of sneakers, a consummation devoutly to be wished, given his targeting of the market.

The stock market bears, in fact, were holding an ecstatic party a couple of boxes over, with television links around the U.S., to celebrate the one-year anniversary of the Nadsaq's last high. Copies of last week's New York Times article on the downfall of the Internet and its star analyst, Henry ("Amazon at 800") Blodget, were passed out. Fever charts of the Nasdaq's 59% plunge from 5048 on March 10, 2000, to 2011 on Friday, were plastered over the walls.

The partygoers were so exuberant that we could hear them trading market statistics. The Nasdaq is on its way to a fourth straight down quarter, we heard one of them say. Such a losing streak has occurred only once before, in 1983-84, and then, the loss was a mere 25%.

August 1980 was the last time the Nasdaq declined for six straight weeks, said another.

But even a 59% decline isn't nearly enough, chimed in Robert Shiller, the Yale professor who coined the term "irrational exuberance" and wrote a book on the subject. "The market's come a long way down, but it's still too high," Shiller told a reporter.

Another Risky Call

Then we heard a voice say: "No matter how bad it gets, we're going to turn it around. When the situation is the bleakest, we have to be the strongest."

No, it wasn't Vic with yet another call to buy the riskiest stocks, although he will be making one today. It was the Knickerbockers' Glen Rice again, and hearing him made us feel good that we came, even though we didn't get to see Greenspan.

Laurel: The market needs Greenspan to quit his job and start playing for the Knicks even more than the Knicks need Greenspan, Vic. Since the season opened on Oct. 31, S&P 500 futures have lost 46 and won 43. The Knicks may be in the third place in the Eastern Conference, but at least they're up 36-26.

Just listen to the bears making all that noise. Look, there's Warren Buffet. With all these birds of gloom out singing, I'm tempted to think this is the bottom for the Nasdaq.

Vic: The S&P 500 and Nasdaq are at two-year lows, IBM (IBM) is below 100 and the Volatility Index ($VIX) is back up to 29.35, close to the bullish 30 level. It's a perfect time for the market to rally.

Laurel: We told readers to go to zero margin on Tuesday, and on Thursday morning we advised going to 50% cash or hedge by selling futures. So we managed to preserve that 150% year-to-date gain we had as of Monday.

Vic: I'm bullish now. Take off the hedges, and get back to 100% invested on our recommended portfolio.

(Pulls out a dogeared printout.) It's good to reflect on Greenspan's Feb. 17, 2000, speech, which came just a few weeks before the Nasdaq began its fateful descent.

Market interest rates are already moving in the direction of containing the excess of demand in financial markets and therefore in product markets as well ... However, to date, rising business earnings expectations and declining compensation for risk have more than offset the effects of this increase, propelling equity prices and the wealth effect higher.

Should this process continue, however, with the assistance of a monetary policy vigilant against emerging macroeconomic imbalances, real long-term rates will at some point be high enough to finally balance demand with supply at the economy's potential in both the financial and product markets.

Other things equal, this condition will involve equity discount factors high enough to bring the rise in asset values into line with that of household incomes, thereby stemming the impetus to consumption relative to income that has come from rising wealth. This does not necessarily imply a decline in asset values -- although that, of course, can happen at any time for any number of reasons -- but rather that these values will increase no faster than household incomes.

Albert Jay Nock's image of a population going into slavery with a sigh comes to mind.

Mabel (a fictional friend of Laurel and Vic): I'm so bored with the stock market (sighs). I need to get a life, forget about the Nasdaq 100. I should probably buy real estate or inflation-indexed bonds or something. Anything except stay by the monitor hoping it's time to buy big-name techs again.

Vic: Sure, Mabel. But don't give up on stocks.

Mabel: How can you say that, with Yahoo! (YHOO) down 90%? (Sobs.)

Laurel (pats her on the back): We do understand, Mabel. Try to look beyond the Nasdaq 100, OK? Can you do that for me, sweetie? Listen, 159 stocks on the NYSE more than doubled in the past year. Even in the Nasdaq Composite, 132 stocks had 100%+ gains. But Mabel, only two of those two-baggers were in the Nasdaq 100.

Mabel: I don't know, I don't know. All I can think of is JDS Uniphase (JDSU) and how wonderful it was.

Vic: You need to understand something about the market,

Mabel: the cycles are always changing.

Laurel: He's right, Mabel. When the big gains in the Nasdaq were taking place, a lot of people didn't notice, because they were sticking with the Buffett-type stocks - the big consumer brand-name companies.

Mabel: Oh, Warren Buffett! He's the world's greatest investor, isn't he? No offense, but if only I could talk to Warren Buffett…

Laurel: Well, you're in luck, Mabel … sort of. He released his annual report to shareholders on Saturday. Unfortunately, the world's greatest investor didn't buy a single stock last year. He said that Berkshire's tax situation makes buying entire businesses more rewarding, and that he and Charlie don't want to play the speculation game anyway.

He said he's hanging on to American Express (AXP), Coke (KO), Gillette (G), Washington Post Co. (WPO) and Wells Fargo (WFC), though he's "far from excited" about them.

Mabel: Well, that Robert Shiller seems like a smart one, doesn't he? He said the market was irrationally exuberant, and then it fell.

Laurel: We will pass up the opportunity to point out that Mr. Shiller's one equity investment in the past year- an international value fund -- returned zero. Of course, it did beat the market. But as our wrestling coach Dave Ciocca says, you can't eat relative performance.

Vic: We've tried our hardest to show that P/E is a meaningless ratio, particularly the way that Mr. Shiller employs it, leaving out entire decade of the 1990s. As we reported in our last three articles for www.moneycentral.msn.com, we've done study after study in the Niederhoffer trading room showing that companies that are losing money, and exhibiting other risky characteristics, are the very ones astute investors should be buying.

Yet Mr. Shiller is content to stick with his favorite ratio. On Saturday, he noted that the S&P 500's P/E of 25 is still much too far above the historical average, 14.

Mabel: Well, Alan Greenspan knows what's going on, doesn't he?

Vic: (gets up to leave the room).

Laurel: Mabel...maybe it's best that we talk about the Knicks.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	0.89	Down 1	-1.3	1.9
S&P 500	0.96	Down 1	-6.6	-1.0
Nasdaq	0.96	Down 2	-17	-9.3
Europe STOXX-50	0.79	Down 3	-9.4	0.9
Dollar/euro	1.12	Up 2	-1.1	1.4
Nikkei	0.72	Down 2	-8.4	-4.7
Dollar/yen	1.00	Up 2	-5.2	-3.5
Gold	0.89	Up 3	-0.2	3.9
Oil	0.85	Down 2	9.7	-3.5
Bond Futures	0.85	Down 1	1.0	1.9
2-Yr Note Futures	1.30	Down 1	0.9	0.2
Bund Futures	0.96	Down 1	0.9	0.7

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Here's the Shouting, but Is It All Over?

By Victor Niederhoffer and Laurel Kenner
Columnists
03/13/2001 09:50 AM

Our e-mail over the weekend was dominated by discussions of W's nicknames for cabinet members and his directive that cheeseburgers be added to the White House menu.

Then came Monday, the worst day since the terrifying April 14, 2000, plunge. S&P futures fell a heart-stopping 53 points. The Nasdaq closed below 2,000 for the first time in two years. The Volatility Index ($VIX) jumped 6 points to 35.11, well above the 30 level considered bullish.

By Monday afternoon, the talk was all of capitulation. Is it here, and how do you know?

The conventional wisdom, ably supplied by *Bridge News* yesterday, is that capitulation comes when there's a lot of yelling and selling. While previous selling had been orderly, *Bridge* said, some frantic shouting took place at the open yesterday at the Chicago Mercantile Exchange, "which some took to be a good sign a capitulation may soon be coming."

At-Large Opinions

Our correspondents weighed in from all over with pieces of possible evidence. In Denver, Bradley Johnson reported, the local news channel broke into normal programming so financial planners could answer questions from panicking investors. Vic's former trading partner, Mr. Wiz, reiterating a prediction he made last October, said the bloodshed wouldn't stop until *CNBC* pulled the streaming Nasdaq quotes off the screen. In Iowa, Mike Ott spotted an *MSNBC* poll of 19,816 people with 52% saying the decline had further to go. And our South African friend Jason Sweidan, a blood-and-guts poet, chose yesterday to send us a poem he had been waiting to write about a rattlesnake:

Rattlesnake Rattlesnake
Dripping viper red
Rattlesnake Rattlesnake
Toxic venom dread -
Rattle Rattling markets -
Injecting fangs of earnings weakness
With Fangs of inventory fury,
Throbbing swelling of tissues,
The dizziness of USA's issues
Flicking tongues at bullish prophecy,
Following scent of venom,
Rattling Tail-red and black,
Highly evolved bear pack,
Rattlesnake, Rattlesnake.

Dog or God?

And this just in: A visiting dog belonging to Vic's daughter Katie came into the trading room this morning carrying a small toy bear in his mouth, and offered it to Laurel as a friendly gesture.

Unfortunately, descriptions don't do any good, and neither does waiting for the perfect trade. If everything lines up perfectly, it's a bad trade.

There's always a risk in buying or selling. So we'll make today's column short and sweet.

We do not have the ability to psych out all the factors that should be there for the perfect bottom. What we do know is that when two days of massacres have occurred in the past, the market has been incredibly bullish.

The expectations look to us to be about three in four for a substantial rally from yesterday's close -- up 3%, with a variability of about 1 1/2 times as much around that level.

Thus, we are bullish. We are gritting our teeth and taking out the canes to buy.

However, taking account of the wisdom of Sir Ernest Shackleton, who chose to save his men rather than reach his expedition's goal, we are only going to recommend using 50% of margin.

We are thus increasing our exposure to 150% of equity in our recommended portfolio, which is up 147% for the year after a 2.6% decline from yesterday's open.

The only fly in the ointment is that on days like this, there's a tendency to see some margin liquidation early in the day before the rally occurs. However, because of the sharp declines in the early part of the day recently, the Spec computers are ambiguous as to whether this will happen today.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	0.86	Down 2	-5.4	-4.1
S&P 500	0.93	Down 2	-11	-6.9
Nasdaq	0.93	Down 3	-22	-17
Europe STOXX-50	0.77	Down 4	-12	-2.4
Dollar/euro	1.08	Down 1	-1.6	1.8
Nikkei	0.70	Down 3	-12	-7.8
Dollar/yen	0.96	Down 1	-5.9	-3.5
Gold	0.93	Up 4	0.1	2.1
Oil	0.82	Down 3	9.6	-1.5
Bond Futures	0.88	Up 1	1.2	1.5
2-Yr Note Futures	1.35	Up 1	0.9	0.08
Bund Futures	1.00	Up 1	1.1	0.9

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Something to Fear About Fear Itself

By Victor Niederhoffer and Laurel Kenner
Columnists
03/14/2001 09:51 AM

Fear can be a dangerous emotion, robbing us of sleep, preventing rational thought and interfering with our jobs, parenting and romance. It can be contagious and it can scare us to death.

But it can also be a helpful response to danger. Fear of physical or financial injury can protect us from harm. The question of the day, with one of the worst openings in history scheduled, is whether the fear will be adaptive or hurtful.

The biological key to fear seems to be the amygdala, a pair of neural clusters in the limbic system, deep in the brain. Physiological changes associated with the emotion include slowed or halted digestion, increased blood pressure and heart rate, deeper breathing, dilated pupils, dry mouth and tense muscles.

We're all feeling that way this morning.

On the grounds that more information will permit a more rational response, we report today what has happened on days similar to today during the last seven years.

Moving to the 10 occasions when S&P 500 futures were down wider than 25 points at the open (they are indicated to fall at least 32 points, or 3%, as we write), the expectation is for a move of 17 points to the next open, with an 80% chance of a rise. The only two declines came on Oct. 15, 1999, when the S&P declined 8 points to the next open, and May 14, 1999, when the S&P fell a further 16 points to the next open.

The results for similar instances -- a big drop at the open after a rise the previous day, or a big decline at the open after a big up day that followed a big down day -- are similar.

We hasten to point out that if our data had gone back that far, openings similar to the one that occurred on Oct. 19, 1987, might have entered the picture. A 10% percent decline in futures at the open that day was followed by a further decline of 15% to 20%.

Similarly, if we had included April 14, 2000, in our sample, when the market declined just 20 points at the open, there was a further decline of 60 points that day.

Good luck, and remember that survival is key.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	0.89	Up 1	-4.6	-3.3
S&P 500	0.96	Up 1	-9.3	-4.8
Nasdaq	0.96	Up 1	-18	-8.7
Europe STOXX-50	0.74	Down 5	-12	-3.3

Dollar/euro	1.04	Down 2	-3.0	-0.3
Nikkei	0.68	Down 4	-14	-9.5
Dollar/yen	1.00	Up 1	-5.4	-3.2
Gold	0.89	Down 1	-1.6	-0.1
Oil	0.79	Down 4	8.0	-1.9
Bond Futures	0.85	Down 1	1.0	0.2
2-Yr Note Futures	1.29	Down 1	0.9	0.03
Bund Futures	0.96	Down 1	1.0	0.3

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[Not All Stocks Are Created Equal]

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[A 61.8% Solution for the Nasdaq?]

[What to Buy When You Have to Buy Today]

Today is March 15, 2001

Don't Ration Your Exuberance

By Victor Niederhoffer and Laurel Kenner

03/15/2001 10:41 AM EST

PRINT FORMAT VIEW LARGE TYPE

SEND STORY

Don't look now, but the Nasdaq is within a tick or two of where it was at Friday's close. The markets are enjoying an exuberant up-opening, after a heart-stopping limit-down 3% decline at yesterday's close.

Where you have heard before over and over that this is just what the market loves to do the most? Who told you to take out the cane, subject to survival, and go for it on such occasions? Who told you to extend 50% at Monday's close, taking advantage of panic liquidation on Tuesday?

And who is doubtless going to tell you that after an opening like this, especially a day before PPI or employment, the market will try to scare you out with an imitation of last week's massacre before grinding to a beautiful up-move?

Don't Be Above Weathering Declines

And who is being subject to unprecedented and admittedly justified abuse from many readers, like the following dagger hurled at us just after our bullish call at the open yesterday:

"Please no more bullish predictions. Could you be over your heads with the current market scenario?"

We admit that even we are getting a bit gun-shy. Yet how often can we reiterate that if you're going to participate in compounded returns of millions of percent a century, you have to be prepared to weather declines like this?

How often must we emphasize that when everyone's saying "bear market" that you must remember that this is a purely descriptive term?

3/9/01

And that when you count them out the prospective moves after serious declines over any relevant back time periods are highly bullish?

How often must we call for Doc Greenspan's resignation and capitulation on the grounds that he tried to bring down the stock market and inflationary expectations with nugatory, chimeric reasons that were appropriate for the period during the 1950s when he looked to blast furnace capacity as indicia of the economy's health?

Something snapped when we heard that Cokie Roberts, asked about the Nasdaq, said, "Oh, you mean those young 21-year-old Nasdaq millionaires?" Thereby expressing the old-hearted view that there's something wrong with an enterprise system that allows young people to make fortunes without spending the necessary hours in bathtubs easing their back pain.

How one wishes that "Doc" Greenspan, like Archimedes, would find inspiration in one of his bathtub sessions and suddenly recall with a flash that the job of a Fed chairman is to ensure price stability, not manipulate the stock market.

To Have and to Hold, Sell or Buy
We like to give advice for a lifetime, not just for a day. So we end with a letter from a couple of traders' wives on how to treat spec spouses at times like this:

It has come to my attention that some of you are getting a bit nervous over recent events in the market and inadvertently transmitting such anxiety to your trading partners. CEASE IMMEDIATELY!!

As has been noted many times on these pages, emotions can play a powerful role in trading decision-making. Terrible market declines sorely test the strongest trader and can shake one's self-confidence. This can be a recipe for disaster, prompting a trader to throw in the towel just before the market turns in his favor.

At this point the worst thing a loving spouse can do is further erode your trader's confidence in himself (or herself). He needs a clear head and calm surroundings to fully concentrate on the problem at hand and focus on the proper direction forward. Suggestions of trades he could have made on the close yesterday or queries about the amount of liquid capital available to the household today are *generally not helpful.*

Rather you should marshal all your resources to show your trader that you have confidence in his ability to do the right thing. Remind him of all the times in the past that he has snatched victory from the jaws of defeat by doubling up at the bottom. It is sometimes helpful to let your trader know that you love him no matter what and that material things have never meant a lot to you (although this can backfire on traders who pride themselves on being good providers). Intercept the phone calls of worrie friends calling to see if you are OK. Make sure the children play quietly and are extra nice to Dad. Distract him after the market is closed and let him talk about it without offering advice.

And be sure to remind him that so long as he has enough chips to play tomorrow he can always make it back.

Respectfully submitted,
Spec Spouse

The SS's letter struck a responsive chord with Jennifer Lackey, wife of the Florida day-trader James, often quoted in these pages:

As a trader's wife, I have always been supportive, even when the times have been tough. And believe me, we have been through some tough times!!! I bite my tongue every time he has a bad day and comes home saying the same thing he said two days before, "I'll NEVER hold overnights again!"

And what do you think he does the very next day? With a great excuse of course, "but honey, I know the whole world is crashing. . .trust me! So, last night he holds overnights, and at 2:30 a.m. he wakes up in a panic attack, because everything IS crashing, only nothing is in his favor. By 9:30 a.m., he's got fever blisters forming from nerves because he's trying so hard not to blow up. The good thing about blowing up is knowing that once you recover (sometime in the next year) you have learned so much of what you should have done and what you should never do again. I trust him totally and let him know that if he comes home and says, "Honey, I lost $50,000.00!" I just say, "That's OK, honey, you'l make it back tomorrow." And he does!

Responded Tim Melvin, a Baltimore stock broker:
Lack, you are a lucky, lucky man. Does she by chance have a single sister with the same outlook

on life?

And there's always humor. One of Vic's traders, the Indian scholar Sri Viswanath, says his wife "often turns Shakespearean during these times of my lamenting, and says: 'Sri is one of those people who would be enormously improved by death.'" Sri stays cheerful and profitable, so there might be something to say for teasing.

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S&P 500	0.96	down 1	-11.7	-5.8
Nasdaq	0.96	down 1	-20.2	-8.3
Europe STOXX-50	0.74	up 1	-12.7	-3.1
Dollar/euro	1.04	Down 3	-3.5	-1.3
Nikkei	0.68	up 1	-11.8	-5.5
Dollar/yen	1.00	down 1	-5.4	-3.2
Gold	0.89	Down 2	-3.6	-1.7
Oil	0.79	Down 5	3.3	-3.6
Bond Futures	0.85	up 1	1.6	0.7
2-Yr Note Futures	1.29	up 1	1.2	0.02
Bund Futures	0.96	up 1	1.4	0.6

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Rashomon With a Bear, a Bull and a Squirrel

By Victor Niederhoffer and Laurel Kenner
Columnists
03/16/2001 10:11 AM

(Speculator's Note: With at least four market-moving events converging on the market -- options expiration, the Producer Price Report, turmoil in Japan and the Federal Open Market Committee Meeting on Tuesday -- we hasten to turn the baton over to Virginia Tech University finance professor Mark McNabb.
--Laurel Kenner and Victor Niederhoffer)

While this column usually tilts toward the trader, I thought it would be appropriate to turn over some investing and economic stones.

By now, it's obvious even to those in Florida that the Federal Reserve's promise of acceptable inflation and growth isn't being fulfilled. (As I write, the government reported that the Producer Price Index dropped 0.3% last month, the widest decline since August 1993.)

I've been examining the economic data streaming into the trading rooms and living rooms across our resilient land, to see what may shape our economy and the markets for the next few moon phases. I'll present the data through the eyes of a bull, a bear, and an undecided squirrel (a table presenting the data in detail appears at the end of this column). Then, I'll offer my own conclusions.

The Bear
First, we haven't seen any signs of expansion.

Why anyone would state that a –23.5 Philly manufacturing index as the end of the decline is beyond me. As for retail sales, 2.8% is respectable, but the drugstore component was +11% due to prescription sales while apparel, shoes and department stores were negative.

Those housing starts are builders hoping to sell a spec house and the existing home sales were made to buyers who had decided to look for a home months ago. Let's wait a month or so on the home-sales data. I bet it really stinks, especially now that net worth of US households declined for the first time in 55 years and after four years of incredible increases over 12%.

The idea that the recent rise in oil inventories will lower energy costs is nuts. We are near a two-decade low in inventories. California seeks to burn every scrap of coal, natural gas and oil that isn't hidden away while OPEC wants to tighten supply because it fears the US economic contraction will lower fuel demand.

Remember the high gas prices and tight supplies in the Midwest last summer? Well, inventories are especially low there.

Consumers are confident, right? Any more confidence and they'll wish Congress and Greenspan spend the summer in Siberia. We are getting to sentiment lows more typical of wars than mere policy corrections by the FOMC. Speaking of Congress, did you see that tax-relief package? Only $5 billion of relief this year in a $10 trillion economy -- a mere rounding error. But to hear the Senate, including moderate Republicans, they are giving away the store. Just means more gridlock in Washington and no substantive change in policy toward business and investment.

The pundits say we are closer to a bottom. Mathematically, that makes sense with a Nasdaq below 2,000 from a high of 5,000. But now the forces that tripped those in techland seem to trouble the titans of the Dow and the S&P 500.

Maria B tells us about the high cash levels just waiting to enter the market in an orgy of buying. Seems those cash levels are telling us, don't dive in yet -- there's no water in the pool.

The Bull

All that you say, Bearish One, is correct. We have heard nothing but spin from analysts, administrations, Fed governors, CEOs and the business press. In the data, there are stories and then there are stories. But the data holds some truths. Interest rates are likely to fall to less than 3.50% on the short end of the yield curve and perhaps under 4.75% on the long end as the inflation threat (that never was) subsides. The only pressures in the job market aren't employees pressing for higher wages or more massage breaks -- people are pressing to keep their jobs.

Economies usually reflate in six to 12 months after a significant rate cut. Say we throw out the first 100 basis points in January as the Fed corrects its egregious errors of 2000. Then six months from March 20, we could be seeing a nice earnings-led rally in many areas. The Fed has quit fussing over every job report as an inflationary threat, so the rate reductions should be substantial; the market expects another 100 basis points by summer.

Patience is best, for all you with attention-deficit disorder. In the old days, we would wait YEARS for the Fed to figure things out. Productivity, while it has declined, is still better than the levels in the prosperous 1980s and can give us the edge we need to compete globally once the turnaround begins.

Perhaps, Bearish One, you are over-invested in tech. There are two economies out there right now: tech and non-tech. You may have missed the tremendous move in financials since November about the time of the former vice president's power grab in Florida. The coming rate cuts will significantly lower the cost of business to financial institutions and to many levered firms with good balance sheets.

Did you notice the price spike in oil and natural gas has abated since January, giving industrial users of energy the opportunity to increase profit margins? You may have missed the nice gains in energy stocks in all forms (power generation, power trading, integrated oils, oil service, drilling, transmission, natural gas and exploration and development) since last summer and these prices are still nicely above where analysts are projecting giving them the opportunity for earnings upsides that may even surprise you. You may have missed the stalwart performance in REITs (real-estate investment trusts). Drugs? Healthcare? Defense? Industrials?

So far, the consumer has trimmed back but is still spending when offered a compelling value. Currently those values are more compelling in real assets -- even four-wheeled depreciating ones with maintenance problems, than in financial assets. There is bound to be an opportunity out there.

Now, the last two weeks may have clouded your vision. Seems as if everything quit working as growth concerns now creep into Q3 and Q4 views. Remember, nothing works when the Asian banks are coming apart at the seams. Historically, buying opportunities come when foreign markets crater. This time it is trickier since our economy offers little comfort for two, three or four quarters depending on your "religion" on economic recovery.

For example, if you believe the tech economy is sunk but the rest of the economy is still shopping for cars, homes and odd-looking shoes, then the Fed is serving a low cost of capital plate to the companies you like right now and this growth will benefit tech in a few months.

If you believe that a conspiracy of stingy IT managers failing to spend on technology pulls down the US economy's house of cards and ends the productivity boom, then only firms with "certain" positive cash flow will be bid up in the market such as healthcare, drugs and defense stocks favored by the administration, the sin stocks (such as tobacco and alcohol), utilities and some REITs.

Dean Lontos, a rising star in the Dallas real-estate market suggests multifamily REITs as most likely to succeed in this pageant since the current economic climate will keep housing demand high relative to commercial demand and profits.

The Squirrel
When the direction of the economy and your portfolio is unclear, do as we squirrels do: put in a store of nuts. A healthy cash balance, in your case. No point in staying fully invested while trying to make an investment decision for the longer-term.

Being fully invested in a period of high volatility colors your investment opinion both ways and often several times in the same day. When fully invested, you will only run side to side (from sector to sector) before the tractor-trailer of the market flattens your tail. Try to imagine your bargain-basement prices on several attractive (and proven) firms, raise some cash, and wait and then analyze some more. You might be surprised.

McNabb's Conclusion
One issue for investors, not traders, is whether the incredible swings in the market have dissuaded the individual investor from committing any funds to the market. High cash balances and Schwab's report of a 31% drop in its trading accounts during February suggest that individual investors have left the building.

This is due not only to last year's losses, but to this year's volatility and the absence of an outlook that assures them the table is fair. Many investors will approach the markets now with the suspicion a card counter takes into a high plains casino.

When those with blind faith gain insight, they may forsake faith rather than blindness. This could make the Fed's task of assuring spending by consumers and corporations all the more challenging. As an optimistic one, I believe we find our reward by investing in our future and not dwelling on errors of our past.

The Data

January: Fed lowers rates two times by 50 basis points, to 5.50%.

Last week of February: Alan Greenspan suggests he'll wait until March 20 to make any further cuts.

Feb. 20-21: Kansas City Fed Manufacturing Index, –6 from +1; CPI, 0.6% from 0.2%.

Feb. 27-28: Durable Goods, –6% from –2.2%; Chicago PMI, 43.2, up from 40.2; New Home Sales, 921,000 from 975,000; Q4 GDP, 1.1% for 2000 from 8.3% in 1999; Consumer Confidence, 106.8 from 114.4.

March 1-2: National Purchasing Managers Index, 41.9 from 41.2; Vehicle Sales, 17.5M from 17.2; Personal Income, 0.6% from 0.4%.

March 5-6: National Activity Index, -0.7%; Non-Manufacturing Index, 51.7; Jobless Claims, 286,000; Productivity, 2.2%; Unemployment, 4.4% from 4.3%; Existing Home Sales, 5.13M annual.

March 7-8: Consumer Credit, $16B; Chain-Store Sales, +2.8% from +4.8%; Oil and Gas Inventories, 277 MB; Jobless claims, 370,000.

March 13: Richmond Fed Manufacturing Index, +2 up from –12; Retail Sales, -0.2% from +1.3%; Chain Store Sales, -0.7% from -0.4%.

March 14: Oil and gas inventories, 285 MB; Business Inventories +0.4% from +0.1%.

March 15: Jobless claims, 375,000; Philadelphia Fed Manufacturing Index, -23.5 from –30.5.

Speculator's Scorecard

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S&P 500	0.96	Up 1	-11	-5.5
Nasdaq	0.90	Down 2	-21	-11
Europe STOXX-50	0.75	Up 1	-12	-1.1
Dollar/euro	0.96	Down 4	-4.5	-3.4
Nikkei	0.74	Up 2	-12	-4.2
Dollar/yen	0.93	Down 2	-7.4	-4.3
Gold	0.83	Down 3	-4.3	-1.9
Oil	0.80	Up 1	4.1	-3.7
Bond Futures	0.93	Up 2	1.7	0.2
2-Yr Note Futures	1.38	Up 2	1.3	0.3
Bund Futures	1.04	Up 2	1.4	0.6

Mark M McNabb is a Chartered Financial Analyst and a finance professor at Virginia Tech pulling for the UNC Tar Heels, the ACC, and several honorable basketball programs in the NCAA tourney. He can be reached at mmcnabb@vt.edu unless he takes his midterms to the beach to grade.

Pacification After Markets Head South

By Victor Niederhoffer and Laurel Kenner
Columnists
03/19/2001 09:39 AM

(To the tune of "Some Enchanted Evening," from the 1949 musical *South Pacific*, music by Richard Rodgers and lyrics by Oscar Hammerstein II.)

Some enchanted morning, you may see an up-day
You may see an up-day after a big down-week
And somehow you know, you know even then
That somehow you'll see it again and again.

Some enchanted morning, you will find it rising
You will see it rising just after bonds hit highs
And rates will be down, as sure as it's spring
The rising will come after expiry.

Who can explain it, who can tell you why
Bears doubt your reasons, wise men never try.

Some enchanted morning, after all the bear talk
When you wish to give up, before a risky Fed
Then buy all you can and go 'gainst the tide
Or all through your life you may never get back in

Once you have bought them, never let them go.
Once you have bought them, never let them go!

The lyrics to the Richard Rodgers tune encapsulate our bullish thoughts today.

Stocks registered one of their worst weeks ever, while bonds set a three-year high. The Federal Open Market Committee meeting is scheduled for Tuesday. All three events are highly bullish.

Not only that, the New York Knicks have won six of their last seven games, and that should have them and their fans feeling good to buy stocks before the Fed meeting.

We are throwing caution to the wind and are going to become fully invested today. We are lifting our own exposure from 150% of our assets to 200% of assets.

After our 15% loss since last Monday's close, our recommended portfolio is still up 137% on the year. This does not place us in a survival type of situation, at least as of yet. But be sure that to the extent that you rely on our bullish Spec computer output, you don't place yourself in a situation where external events can lead to a life-ending or wealth-depriving outcome, as Mallory did on Mt. Everest.

The Spec computers, by the way, are predicting a 2% rise in the next two or three days, with a variability of about twice that level, and a four-in-five chance of a rise.

Not only that, but the average change in S&P futures on the Monday before the last 21 FOMC meetings was a 9-point gain, with an average variability of 20. The possibility that such an outcome would occur by chance alone is one in 100

Seventeen of those 21 Mondays were up-days. The largest decline, on Nov. 11, 2000, came to 14 points.

We also checked to see what happened the last time the Nasdaq Composite fell seven weeks in a row, in March 28, 1980, -- and found that by year-end, the Nasdaq was up 56%.

The market will come back, as sure as it's spring tomorrow. And all the bearishness, mainly engendered by excessive rate increases by the Fed last year and resentment against 21-year-old millionaires, will be a bad dream.

An interesting sign of the irrational expectations of the times is that of 16 major brokerage houses surveyed by Bloomberg at the end of last week, not one is looking for an S&P 500 at year-end less than 10% above the current level. The median forecast is 1,600.

That's a 39% median forecasted gain, slightly before Abby Joseph Cohen's 43% prediction. Yet all recommended stock market allocations are between 50% and 70%.

When is the median expected change expected to be greater? And what will it take for these bullish anticipations to be converted into acceptance on Main Street?

Speculator's Scorecard

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Dow	0.87	Down 1	-8.9	-6.1
S&P 500	0.93	Down 1	-13	-6.8
Nasdaq	0.87	Down 3	-23	-11
Europe STOXX-50	0.73	Down 1	-14	-4.0
Dollar/euro	0.93	Down 5	-5.0	-4.1
Nikkei	0.77	Up 3	-11	-0.2
Dollar/yen	0.90	Down 3	-7.8	-3.4
Gold	0.81	Down 4	-4.8	-1.4
Oil	0.83	Up 2	4.5	-4.1
Bond Futures	0.96	Up 3	2.1	1.7
2-Yr Note Futures	1.43	Up 3	1.3	0.5
Bund Futures	1.07	Up 3	1.6	0.7

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Greenspan Must Resign Himself to Cut Rates 75 Basis Points

By Victor Niederhoffer and Laurel Kenner
Columnists
03/20/2001 09:36 AM

If a builder builds a house for a man and does not make its construction firm, and the house which he has built collapses. . .if it destroys property, he shall restore whatever is destroyed, and because he did not make the house which he built firm and it collapsed, he shall rebuild the house which collapsed from his own property.
--The Code of Hammurabi, quoted in *To Engineer is Human*, by Henry Petroski.

The Fed caused the collapse of the markets of the past year, and the death of many millions of financial hopes throughout the world, by excessively increasing interest rates with the hidden agenda of bringing the stock market down.

We do not feel it would be an appropriate modern remedy to require Doc Greenspan to repay out of his own pocket the $4 trillion in lost market value he caused by "stemming the impetus to consumption relative to income that has come from rising wealth," as he put it in his Humphrey-Hawkins testimony to the House Banking Committee on Feb. 17 last year.

Nor do we recommend that the doctor go into hiding in third-rate hotels, following the example of Korean industrialist Kim Woo Choong. Accused of exaggerating profits at his Daewoo Group by some $33 billion, Kim has only two options, according to his lawyer: go home or commit suicide.

No, we don't insist on Doc Greenspan's exile. We merely ask for his resignation -- after the Federal Open Market Committee restores what has been lost to investors and entrepreneurs by cutting the federal funds rate by 75 basis points today.

As all the collapsed retirement accounts are being rebuilt, we can imagine for Doc Greenspan a future in which he devotes his waning years to learning to replace the old-fashioned slice in his tennis game with young-hearted topspin. He will thereby learn to appreciate the spirit of venture. And if anyone is foolish enough to ask him for advice in the future, as they sometimes do with Paul Volcker, or to seat him on a board because of his wisdom and cachet, we wish him well.

What the Spec Computers Say

On a roll after yet another lucky stab yesterday, we hauled out the Spec computers from the attic and asked them for guidance today. First we got the numbers.

Federal Open Market Committee Meetings: Tuesday and Wednesday Moves		
Date	Tuesday S&P Move	Wednesday S&P Move
1/30/01	12	-9
12/19/00	-28	-39
10/3/00	-15	9
8/22/00	1	9

6/27/00	-8	0
5/16/00	14	-15
2/1/00	16	-1
10/5/99	-3	20
8/24/99	5	12
6/29/99	13	25
3/30/99	0	-22
Average	-0.6	-1

All things considered, the expectation for a move over the next two days is close to zero, with a variability of about twice normal.

We think the Fed governors are well aware they're being widely blamed for the economy's weakness and the market's decline, and know they must do something beyond the normal to restore their credibility. The trouble is that people are already expecting something dramatic. The Nasdaq rose 3% yesterday and the European markets are up almost 2% this morning on that anticipation.

We quickly carried the computers out to the woodshed, and asked our readers for advice.

Unfortunately, our readers said that even a good cut in interest rates isn't likely to keep the market out of heavy weather. Writes Brett Steenbarger: "A few nights ago, I woke up with a crystal-clear, troubling thought running through my head: The Fed won't respond to capitulation -- the capitulation will follow the Fed's action. The Fed is the last bullet, the great hope of the holders-on. What happens if we break perceived support (Dow 9,700) after the bullet is spent?"

There is plenty of risk out there. Yesterday, we recommended that readers go on full margin, subject to survival considerations. Our recommended portfolio rose 7.2%, taking margin into account, bringing the year-to-date gain to 144%.

Today, we are selling Commscope (CTV). Insiders have been selling, removing one of the reasons for our recommendation.

Nasdaq vs. Nikkei

Some media types and analysts have been comparing the Nasdaq's trajectory with the 1990 collapse of the Nikkei (also engineered by a central bank). "Tversky called this 'the law of small numbers,' the human tendency to generalize from small sample sizes (in this case, N = 1)," writes Vic's esteemed former trading partner, Mr. Wiz, from the good old days when Vic was a big operator and didn't have to write for a living.

"My thought (also worthless, N = 1) is that NDX over the past year is more in the spirit of Russia (and certain other developing markets) in the mid- to late-1990s. They became au courant and a wave of foreign money hit them, far more than the 'supply' of stocks available. So prices were marked up several orders of magnitude.

"I recall one gentleman pitching a fund to us in `96, $150 million for Ukraine, a sum of the same magnitude as the entire market cap of the country. The equivalent of trying to invest a few trillion dollars in the USA. The www phenomenon had this feeling -- sudden massive demand, no supply, so prices went to two to three orders of magnitude above Sand Hill valuations.

"Whereas Japan seems like a false analogy. Its problem is chronic under-immigration, an anachronistic focus on race-purity, resulting in no 'hands on deck' on the economic ship, and the indigenous population gets older and feebler. Imagine if five to 10 million young entrepreneurial Chinese were admitted to the country."

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Playing Through a Checkered Present

By Victor Niederhoffer and Laurel Kenner
Columnists
03/21/2001 10:07 AM

The difference between victory and defeat is nearly always a single move.
-- Tom Wiswell, undefeated world checkers champion from 1956-1981

Perhaps the Fed governors completely misjudged what the market's reaction to a 50-basis-point cut would be. In that case, they have no ability to navigate in these heavy seas.

The alternative is still more troubling -- they realized that the market would swing violently down when they made their disappointing announcement, and didn't want to seem as though they were trying to stabilize the stock market.

But if they aren't targeting the stock market, then what in the world was the justification of knocking the market down last March? The total wealth lost in the US and elsewhere over the past year is approaching $5 trillion, a sum that seems to us worth caring about.

Crisis Central Planning
Investors are demoralized, sensing the Fed is in over its head. As Paul DeRosa, astute Ph.D., hedge fund manager, founder of Eastbridge Capital and partner of the departed Mark Kessenich (memorialized below) likes to put it: "The Fed is the last bastion of central planning in our society."

Everywhere else (except at a few isolated Ivy League outposts), central planning has been found wanting. The present malaise in our economy and stock market, entirely due in our opinion to the Fed's interference with the wisdom of the marketplace, is a symptom of this evil outcropping.

What a contrast to the Fed's ineffectual performance was found in -- of all places -- Tokyo. The Nikkei soared 7.5% overnight as the Bank of Japan reportedly poured liquidity into the stock market, either directly or though banks.

Apparently the Japanese need to get the Nikkei to 14,000 by the end of the fiscal year on March 31, when assets are marked to market. They have about 900 points to go.

Japan is hardly a model for the US -- the central bank has wasted billions over the past decade by trying to bail out the economy with public works, a failed recipe right out of FDR's New Deal playbook. One can only hope that the treatment of bubbles in which Doc Greenspan has lately shown so much interest does not include the Japanese example.

The reaction to the Fed's rate cut -- a decline of 3% in the S&P 500 and 5% in the Nasdaq -- shows the truth of the famous chess proverb, "The threat is greater than the execution." An opponent forced to spend time worrying about what you might do is worse off than if he actually had to deal with your move.

Bull From the Woodshed
The analogous proverb in the market is, "Buy on the rumor, sell on the news." That accurately describes

what happened yesterday.

We can only say that the Spec Computers were taken out of the woodshed this morning, and immediately began registering exceedingly bullish readings. We looked at what happened five days later after similar declines of this nature, and found some 51 instances over the last six years, including some that overlapped other declines. On average, the market was up about 70% of the time, with an expected rise of 2.5%. There's about a one-in-1,000 chance of that happening by chance alone.

Tom Wiswell, undefeated as world checker champion for 25 years, used to say, "after a losing session, begin to prepare for your next game, your next match, your next tournament. Every master loses, and then comes back to win it all."

After an unexpectedly high reading on the Consumer Price Index this morning, we grit our teeth, maintain sense of humor and pass along this poem from our South African correspondent Jason S. Sweidan as an antidote to the life-threatening pessimism engendered by the Fed's misguided activities.

Year of Snake 2 -- Anti-Venom -- Doctor! Doctor!
Nurse: "Doctor! Doctor! Urgent, Diamondback-Rattlesnake Bite,
Patient in paralysis, windpipes constricted, venom destroying muscles,
Spreading in tissues, blood pressure plummeting…
Nasdaq broke 2,000, Dow broke 10,000
Reaching tentative support levels,
Slowly, shutting down life support systems…"

Doctor: "Nurse, Inject large dose, 50 anti-venom basis points,
Immediately into patient's heart. Neutralize venom…
Life support system ready, place oxygen mask on patient.
Monitoring vital signs…if vital organs and brain induce a respiratory collapse,
Add another 25 anti-venom basis points. That should do it for now.
Send word to world, we have contained the Poison, but not the Rattlesnake..."

We also note a darkly comic report out of Italy, where the stolen corpse of investment banker Enrico Cuccia is being held by a grave robber until the benchmark stock index there reaches 50,000 again. The Mib30 peaked last March, and now stands at 37,829. An anonymous letter blamed the banker for "my financial downfall."

And when Nasdaq reaches 5,000 again, we'll send Greenspan a leather-bound copy of the latest blast-furnace data.

Death of a Hero
We report with great sadness and sympathy to the family the death of Mark Kessenich on Tuesday from Lou Gerhig's disease. Mark was the legendary head of fixed-income trading at Citibank who introduced the proper use of leverage and derivatives. He was a hands-on manager who inspired love and respect from employees and counterparts. His great innovations in the field, as well as the enormous profits he made for his employers, had much to do with the health of the market and certain banks today.

We had the privilege of visiting him twice during his last few months of heroic struggle. Without use of voice or limbs, he communicated with the help of a faithful nurse who guided his hands over a voice synthesizer. He was a buy-and-hold man in stocks, and he actively traded a small hedge fund until the end. Before his paralysis, he was a par championship golfer all over the world. He devoted his last years to a foundation to help others cope with the disease.

Kessenich's Herculean efforts to maintain a positive and productive disposition in the face of great adversity will stand as one of the great monuments to the heroic temperament of a great speculator, golfer, family man and boss.

Speculator's Scorecard				
	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	0.76	Down 1	-9.9	-8.2
S&P 500	0.93	Down 1	-13	-8.9
Nasdaq	0.87	Down 1	-25	-16
Europe STOXX-50	0.74	Up 1	-13	-5.9
Dollar/euro	1.00	Up 2	-3.7	-2.7
Nikkei	Mkt Closed	Mkt Closed	Mkt Closed	Mkt Closed
Dollar/yen	0.90	Up 1	-7.3	-2.9
Gold	0.87	Up 2	-3.9	0.3
Oil	0.78	Down 2	1.4	-8.6
Bond Futures	0.96	Up 1	1.9	1.6
2-Yr Note Futures	1.41	Up 1	1.3	0.4
Bund Futures	1.00	Down 2	1.3	0.5

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

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

Touch the Market With Your 10-Foot Pole

By Victor Niederhoffer and Laurel Kenner
Columnists
03/22/2001 09:52 AM

The devastation in the US stock market, having already thrown thousands of dot-commers and other New Economy types "off the island," as they say on "Survivors," has now done enough damage to catch the attention of Middle America.

The 60% grind down in the Nasdaq over the past year didn't make heartland headlines, and maybe that's a good thing. But when the Dow Jones Industrial Average, the august blue-chip measure of the US economy, started slides in earnest, then the Midwest takes notice.

Our man in Minneapolis, design engineer John Lamberg, reports that local TV shows were interrupted Tuesday to announce the "massive" 238-point drop in the Dow (it was matched by Wednesday's 235-point decline). *The Minneapolis Star Tribune* ran a 15-minute bar chart of the Dow's moves over the previous four days, accompanied by a table showing how many months it took to recover from previous big declines.

We do not blame Minneapolis for being concerned. The Dow closed Wednesday at a two-year low of 9,487, a frightening 19% below the Jan. 14, 2000, peak of 11,722.

Nine-Day Siege

Over just nine trading days, the Dow has lost 1,371 points, or 13%, and every drop has been at least 200 points.

Wednesday, March 21: -233.76
Tuesday, March 20: -238.35
Monday, March 19: +135.70
Friday, March 16: -207.87
Thursday, March 15: +57.82
Wednesday, March 14: -317.34
Tuesday, March 13: +82.55
Monday, March 12: -436.37
Friday, March 9: -213.63

The story goes much deeper than the Dow and the Nasdaq. From sea to shining sea, the US stock market has now lost $5 trillion, as measured by the Wilshire 5000, an index composed of every US-headquartered company.

That's 30% of its $17 trillion peak value on March 24, 2000, according to Brent Morrison of Wilshire Associates, the Santa Monica-based research firm that created the index.

Many retirement accounts have taken giant hits. Many investors feel paralyzed, wondering whether to sell or to hope.

Mr. Lamberg has a different dilemma. He is in the fortunate position of having much of his money in cash. But he is no less bewildered.

"The paralysis I suffer has to do with wondering when to deploy it," he writes. "On the one hand, I have an urge to 'loot the burning house' -- on the other, I'm afraid my clothes aren't flame-retardant."

A panic sell-off in the US overnight market came on the back of terrible 3% declines in Europe to 1 1/2-year lows. Like human forecasters, the US markets tend to underestimate coming change, and the sympathetic decline of 1.5% in the S&P 500 futures was enough to give cold sweat and shivers to all weak longs.

Both European and American futures have recovered half their losses as we go to press, after the Swiss cut interest rates. Nasdaq futures, which outperformed the S&P 500 yesterday by 2 percentage points, are scheduled to open 1% higher, and the Spec computers have turned bullish.

Another Angle With Angling
We've found that in turbulent times sometimes it's best to just go fishing. Mr. Lamberg, sharing our predilection, recommends bobber fishing, a back-to-basics technique that requires just enough bait to judge conditions, but not enough to be upset if the bait is stolen.

Lamberg, who learned his fishing technique from his father, Raymond, shared the following rules:

1. Use a bobber just big enough to float the bait and weight.
Market application: Be judicious when committing assets.

2. Wait for the bobber to go under before setting the hook.
Market application: Pay close attention to how the stock acts when you enter a position, to see whether it's a big trade or merely a small one nibbling on your bait.

3. Make the leader light and long enough so fish won't be spooked by it.
Market application: Don't bid in size, or you'll find you have an immediate loss.

4. Use bait that sinks.
Market application: Don't place limit orders at round numbers.

5. Use sharp hooks.
Market application: Sharpen your reflexes.

6. Adjust bait level below bobber so it's close to the bottom but not on it, where it will attract only bottom-feeders that aren't the most desirable for eating. But don't fish in shallow waters where you find only little fish that aren't worth keeping (and are forever stealing your bait.)
Market application: Look for big trades after a decline.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	0.84	Down 2	-12	-12
S&P 500	0.90	Down 2	-15	-11
Nasdaq	0.84	Down 2	-26	-18
Europe STOXX-50	0.71	Down 1	-14	-7.2
Dollar/euro	0.97	Down 1	-5.0	-3.6
Nikkei	0.78	Up 1	-4.9	3.0

Dollar/yen	0.87	Down 1	-8.3	-3.2
Gold	0.90	Up 3	-3.4	0.2
Oil	0.81	Up 1	4.0	-8.4
Bond Futures	0.96	UnChg	1.9	0.9
2-Yr Note Futures	1.45	Up 2	1.4	0.4
Bund Futures	1.03	Up 1	1.6	0.8

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Stocks and Stripes Forever?

By Victor Niederhoffer and Laurel Kenner
Columnists
03/23/2001 09:55 AM

(Note from the Speculators: We recently explored the links between the performance of the Knicks and the stock market, and concluded that there is much potential there for a new mumbo-jumbo indicator.

Unfortunately, with the Fed retreating further into old-hearted ways, the market has not been able to keep up with the Knicks' current five-game winning streak, to put it mildly. Doc Greenspan continues to ignore our directives to take up another career, say, basketball. Back last year, when we started dropping hints to the Doc, Patrick Ewing was still with the Knicks. We thought both of them would do better if they simply switched jobs.

Ewing gracefully acceded to our request, and went off to play in Seattle. Greenspan, alas, is still in Washington. We therefore turned to futures trader David Ciocca, a regular Daily Speculations guest columnist, for an alternative approach to Knickonomics. He obliged with a new-hearted invention: Tigernomics. -- Laurel Kenner and Victor Niederhoffer)

Tiger Woods burst onto the PGA tour in the mid-1990s when he was 19 or 20. The old-hearted PGA guys said that his game wouldn't make it on tour. All that hard swinging. He'd hurt his back for sure. Not enough finesse, they said. Now he has one of the best short games on tour.

Let's see him handle the pressure, they said -- it's not the amateur ranks. When he won the Masters by a landslide, they said: "Oh sure, anyone can win a major once. Let's see what happens over time."

The three major victories last year silenced them for a while. Then, when he played eight or nine tournaments in a row without a victory, all the pundits said it was over. Tiger was just another good guy in a sport with many other good guys.

And boy do they love to root against him. I guess it makes them feel better to think that it's reasonable that all the bluebloods who practice an hour a day should be able to compete in the same league with a guy who won't leave the practice green at night until he sinks 100 consecutive 6-foot putts.

Tiger-Heavy Index

But he won last week. All the critics said it was just "his turn." Dead-cat bounce, I guess.

The Masters is in three weeks, then the other three majors. They'll have a million reasons not to pick him -- he's wild off the tee, he's missing greens, etc. But that's when they'll offer the good odds in Vegas.

So many analogies to growth stocks. The constant disrespect. The great long-term performance. But what do I know? I thought the October 2000 decline in Nasdaq was a good time to buy.

Maybe a Tiger-for-Greenspan swap is a better trade than even Ewing for Greenspan. AG would fit in so well with the country club set. And I know Tiger wouldn't raise rates with no inflation in sight. On the par 5 of monetary policy, he'd get home in 2.

Speculator's Scorecard				
	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	0.84	Down 3	-13	-13.5
S&P 500	0.90	Down 3	-15.4	-11.6
Nasdaq	0.84	up 1	23.2	-13
Europe STOXX-50	0.71	Down 2	-18	-11
Dollar/euro	0.97	Down 2	-6.0	-4.6
Nikkei	0.78	Down 1	-6.9	1.6
Dollar/yen	0.87	Down 2	-8.4	-3.4
Gold	0.90	Up 4	-3.3	1.2
Oil	0.81	down 1	3.0	-6.4
Bond Futures	0.96	Up 1	2.4	1.2
2-Yr Note Futures	1.45	Up 3	1.4	0.5
Bund Futures	1.03	Up 2	1.8	0.7

David Ciocca is the president of DLC Capital Management, Inc., a Rochester, NY- based Registered Investment Advisor. He has significant experience in portfolio management and the trading of stocks, bonds, options, and futures. He holds positions for himself and/or clients in Gap Inc. Positions may change at any time. Ciocca welcomes your comments at daveciocca@yahoo.com.

If the Bear's On *Time*, It's Time to Buy
By Victor Niederhoffer and Laurel Kenner
Columnists
03/26/2001 08:53 AM

Things at the worst will cease or else climb upward to what they were before. William Shakespeare, *Macbeth*, Act 4, Scene 2.

The market had one of the greatest rallies of all time late last week, with S&P 500 futures up 64 points from 2:45 p.m. Thursday through Friday's close. The Nasdaq composite shot from a blood-chilling 2 1/2-year low of 1794 Thursday morning all the way to 1928.

It was therefore inevitable that pessimism ran rampant in the newsstands Friday, given the long lead times in magazine production. *Time* and *U.S. News* had snarling bears on their covers, while *Newsweek*, The *Economist* and *Business Week* went with solemn lead stories on the economy.

To some, the cover bears were a blatant signal to buy.

Reader Hany Saad, a trader at the Royal Bank of Canada, said he fell into conversation Friday on a train in Paris with a stranger who turned out to be the head trader of a major bank. Here is his account:

I was rereading *The Education of a Speculator* when an old Frenchman sitting beside me interrupted to ask what I think of the market in the States. I said hesitantly that I have no commitments yet but that everybody I know has turned bearish. "What do you think?" I asked.
"What I've been looking for, for the longest time, just happened today."
"And what would that be?"
"Non-financial magazine covers. They all talk about the bear market you're about to have for the next 10 years Everybody knows for a fact that the States will be the next Japan."
"Do you have any money in the market?"
"I have some out-of-the-money naked puts on some of your stocks."
"Don't you think it's too soon to turn bullish now?"
"Listen, kid, I am too old to miss an opportunity like this. I haven't been in the market with my own money for a couple of years, and I think now is the time. Get ready, kid. I am no gambler."

Mr. Saad's conversation with the old trader occasioned a great deal of discussion among our far-flung correspondents about the efficacy of using Wall Street folklore to call bottoms and tops.

"I remember being on a consulting assignment in Manhattan," recalled Ross Miller. "The doorman at my hotel was eager to discuss hot stock tips. Even the guy who sold burritos around the corner had CNBC on, and he had his laptop computer on top of the bar and was in chat rooms whenever I saw him. Yep, all the signs of a top. I really should have gone short all the stocks they were buying. Not! The year was 1997. The burrito guy was Tokyo Joe, and *The Wall Street Journal* and the SEC hadn't heard of him yet. And yes, ultimately many of those stocks are now lower than they were then, if they still exist. They only went up 500% or so in the meantime."

We cannot opine as to the predictive value of cover bears, as we haven't done the requisite counting. The tendency of companies to crater shortly after their CEOs make the cover of *Business Week* is well known, and there's good reason to suspect that magazines would be behind the form on markets as well.

Magazine deadlines make it hard for their reporters to write anything timely, and journalists are dead last on the information food chain, behind insiders, traders, money managers and analysts.

We promise lasting fame to the person who will undertake a study of what happened to the market one, three and six months after bear-cover events of similar magnitude for the past 30 years. Of course, even the best-studied tendencies don't last once they're widely known. That's particularly true in the CNBC era, as everyone is watching everyone else's navel for signs of sentiment.

That could be why the Chicago Board Options Exchange's Volatility Index (VIX) closed every day for the past two weeks above 30 without being followed by a significant rally. VIX at 30 has been a fairly reliable buy signal in the past. This time, the market took off only when the index reached 41.99 during trading on Thursday, the highest level since Oct. 8, 1998.

The bears weren't just on the magazine covers last week. They telephoned in from their yachts and island retreats to give interviews. Sir John Templeton said the market would stay down a long time, a sentiment echoed by the old-hearted financial columnist at the leading financial weekly. Robert Prechter, who turned bearish in 1987 and banished himself to sailing around the world until the market crashed, told the weekly that "the greatest stock mania of all time will be fully retraced, probably by 2004."

On reading Prechter's latest missive, reader John Lamberg was worried. Not by the prospect of waiting four years for a bottom, but by Prechter's calling a bottom at all. "Not bearish enough for a superbear," he wrote. Then he calculated the numbers, and was relieved. "The bull began in the '80s. That's about -90% on the S&P 500 from here. Now that's more like it. End of the financial world. Utter ruin. Desolation. Burning stock certificates to warm our hands in the spirit of Hans Christian Andersen's 'Little Match Girl.' Thanks, Robert, I'll buy some more Semi on Monday."

(We note that in October 1998, with the Dow at 8500, Prechter told the financial weekly that the Dow would fall to 2365 by early 1999, and urged everybody to get out before the crash. The Dow closed above 10,000 on March 29, 1999.)

One heartening sign is that Mr. Wiz, Vic's former partner and a 1599 SAT man, is bored out of his wits with guessing over where the bottom might be, and asks that we please turn our attention to something useful, like the new Microsoft (MSFT) ".NET" software.

Anyway, writes James Lackey, the Gulf War veteran daytrader in Boca Raton, Fla., if you're still looking for the low tick, "You missed it. It was 2:45 p.m. on Thursday, March 22, 2001." He added: "The Philadelphia Semiconductor Index (SOX), Dell Computer (DELL) and many other names bottomed weeks ago."

Reader Jack Tierney was sobered by The *Economist's* cover story, "Can the World Escape Recession?" The editors' answer: maybe, if interest rates and taxes are cut. A global slump would be the first since the 1930s. "Discussion of a 'world recession' is hardly common fare," wrote Tierney. "I well remember the late '80s when The *Economist* stood almost alone in predicting the Japanese crash. The only position I'm wed to is survival."

We're with Mr. Tierney on that. For our part, we don't particularly like to buy after huge rallies like the one that began Thursday afternoon. As we write, futures are indicating a big up open. Vic is in Europe visiting one of his six brilliant daughters this week, and isn't around to give the Spec computers their usual early morning run. But one of his traders, Bipin C. Pathak, who called the bottom in Nasdaq futures Thursday morning, says the short-term odds favor a pullback.

And Laurel feels bearish, if only for today, about all the bullishness over the bear covers.

Speculator's Scorecard				
	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	0.85	Up 1	-12	-11
S&P 500	0.91	Up 1	-14	-7.6
Nasdaq	0.91	Up 2	-22	-6.0
Europe STOXX-50	0.72	Up 1	-16	-7.7
Dollar/euro	0.97	Up 1	-5.7	-4.7
Nikkei	0.79	Up 1	-4.1	4.6
Dollar/yen	0.87	Up 1	-7.9	-2.9
Gold	0.91	Up 1	-3.7	-3.5
Oil	0.82	Up 1	6.0	-3.4
Bond Futures	0.97	Down 1	1.7	0.7
2-Yr Note Futures	1.43	Down 1	1.3	0.4
Bund Futures	1.03	Down 1	1.9	1.0

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Sun Tzu Beats Down on Market

By Victor Niederhoffer and Laurel Kenner
Columnists
03/27/2001 09:52 AM

Attack where there is no defense. . .if they are alert on their eastern flank, strike on their western flank.
--Sun Tzu, *The Art of War*

The market mistress, taking a page from the Chinese, used the "Clamour in the East, Attack in the West" stratagem on Monday. Having declined enough to catch the eyes even of magazine editors last week, resulting in a few cover bears on the newsstands, the Dow Jones Industrial Average and S&P 500 both rose for a second day. The Dow gained 2% and the S&P 500 rose 1.2%. Nasdaq 100 futures fell 2% as semiconductors, last week's leaders, dropped 4%.

"This market is hell-bent on inducing bad habits," writes the scholarly futures trader Bipin C. Pathak. "It's inducing traders to disgorge stocks, and rewarding those who buy weaker stocks and indexes by rotating the strength."

Yet the switches nicely accomplished the goal of eliciting from participants maximum contributions for the market infrastructure in the form of commissions, spreads and slippage.

Drumming Up Support

Clearly, the market mistress has been reading up on her Sun Tzu. "Clamour in the East, Attack in the West" is mentioned in *The Art of War,* a fifth-century B.C. collection of devious tactics that remain part of Chinese culture in everything from official reports to war strategies to comic books.

The military leader Zhu Jun used the stratagem about 2,000 years ago when besieging the city of Yuan, beating the war drums on one side of the city walls. When his opponents rushed to defend that side, he mounted a lightning strike on the other side and easily gained entrance to the city.

The Swiss Sinologist Harro von Senger, in his 1991 masterpiece, *The Book of Stratagems (Tactics for Triumph and Survival),* includes the following explanation from a 1989 Beijing treatise: *Show your forces sometimes in the west, then again in the east; strike suddenly, only to withdraw with equal suddenness; pretend that an attack is imminent, but then do not carry it out; pretend peaceable intent, when you really intend to attack; begin a course of action which seems to imply a certain logical sequence, but then suddenly break it off. . . On the basis of what he perceives as comprehensible phenomena, the enemy draws hasty conclusions and makes the wrong preparations, only to find himself attacked and defeated at a place he had not anticipated.*

Doctored Data

With the market mistress in battle mode, Vic interrupted his European sojourn to access the Spec computers. They were bearish on the S&P 500 for the rest of the month, after two up days. The reading on the Nasdaq was neutral for today.

Under the circumstances, we advise readers to reduce margin borrowing to zero and hedge fully, either by selling futures, Spyders (SPY) or Nasdaq 100 trust securities (QQQ) equal to the dollar amount of their holdings. The year-to-date gain on our recommended portfolio now stands at 135%, down from 144% a week ago.

As for when things might start looking up, Dr. Brett, an accomplished market programmer as well as inventor of one-minute psychotherapy, looked at 35 years of data, and found 11 similar occasions of two-day rallies after major 20-day declines. The market tended to deteriorate over the next five days, with four up and seven down and an average change of -1.85%.

No real positive bias surfaced until 40 days out. After 80 days, the situation had improved markedly, with an average gain of 7.95% and nine of 11 occasions up.

"This is a small descriptive sample, and should be taken with two grains of salt," Dr. Brett said. "But it suggests that a good bounce after a dramatic decline may be the start, not the end, of a bottoming process."

Japan Not Worried to Death
With Vic safely out of earshot in London, the other half of Daily Speculations is taking the liberty of discussing the forbidden topic of Asia, where the market also is employing deception and distraction. Shui Mitsuda, a Singapore-based assistant salesman in a Japanese financial firm, reports that signs of depression were much in evidence during a recent trip to Tokyo.

In three days of travel, Mr. Mitsuda said, his trains were halted four times "due to railway suicide." Every year for the past three years, some 10,000 Japanese have killed themselves. One newspaper compared the economic situation to the deflationary collapse in 1941.

"But overall, people did not seem that worried," Mr. Mitsuda wrote. He believes that's because the Japanese have $11 trillion in savings -- mostly in cash, not stocks -- and because the import-export surplus is still large ($7.2 billion in February.)

Moreover, beyond the beaten-up information-technology and electronic sectors, some stocks "which are not very visible for those who pay attention to news and the Nikkei index" are actually up, wrote Mr. Mitsuda. "For reference, all of my holdings are up from last year's lows:"

Kanematsu (import-export): up 318%
Kawasaki Heavy Industry: up 30%
NKK (steel and shipbuilding): up 52%
Nichiei (money lender): up 64%
(Results are in yen.)

Mr. Mitsuda thinks Nichiei may be a good long-term buy now, but plans to sell the others. Nichiei has a net asset value of 3,100 yen but trades at 970 yen, as "people aren't sure it will make it back." He cautions that he is a very long-term investor, and buys only after a few months of anxiety has eroded the price. (He's also interested in Bridgestone, which has been hurt by the recall of its Firestone tires).

Mr. X, a partner at a $1 billion hedge fund who collects intelligence from several hundred newspapers a day, says he has been buying Japanese securities because it looks as though the government is finally forcing banks to clean up their balance sheets. Staggeringly large bad loans have been weighing down the economy.

A new rule requires banks to mark all, rather than only some, of their stock holdings to market, starting with semiannual financial reports in September. Mr. X's fund is up 14% year to date.

When pessimists are noisy, good news is hard to hear.

Speculator's Scorecard				
	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	0.88	Up 2	-10	-5.1
S&P 500	0.94	Up 2	-13	-2.3
Nasdaq	0.88	Down 1	-22	-0.3
Europe STOXX-50	0.75	Up 2	-13	-1.7
Dollar/euro	1.00	Up 2	-5.0	-3.4
Nikkei	0.82	Up 2	0.6	14
Dollar/yen	0.91	Up 2	-7.8	-2.1
Gold	0.94	Up 2	-3.5	-3.6
Oil	0.85	Up 2	6.7	-2.7
Bond Futures	0.93	Down 2	1.0	-0.1
2-Yr Note Futures	1.38	Down 2	1.3	0.3
Bund Futures	1.00	Down 2	1.6	0.5

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Manhattan: Market Survivor Island

By Victor Niederhoffer and Laurel Kenner
Columnists
03/28/2001 10:05 AM

Dear Trader Vic:

Had dinner last night in a 27th-floor restaurant overlooking the lights of Boca Raton's harbor. The food was excellent, the company was convivial and panic was in the air.

I sat with a group of wine merchants. They expect 40% of their restaurant clients to go out of business at the close of the season, up from the usual 18%.

People who lost fortunes in the market crash over the last year are putting their homes up for sale, and moving back to Manhattan to see what they can salvage, one of the merchants told me. In one 700-house development, 70 homes went on sale this week.

Everybody down here seems to own Cisco (CSCO), from the tennis pro who bought at 67 to the former cab driver who founded a restaurant chain with the profits from the millions of shares he bought early on. With Cisco at 18 now, down 77% in the last year, the chain owner is selling his multimillion-dollar home.

To the Extreme

But it's not just a selling panic. At the end of dinner, a portly gentleman told me he was going to buy stocks tomorrow. "Don't you want to wait a bit?" I asked. "After three up-days, it might not be a good time to buy." No, he said. He wanted to buy immediately.

I can understand why he's so eager. The market went three for three on Tuesday. The Dow Jones Industrial Average rose 260 points, the second-biggest jump of the year, and is up 558 points in the past three days. The S&P and Nasdaq had similar rises of almost 3%.

Dr. Brett Steenbarger, whose help has been invaluable in your absence, says markets tend to be least efficient in pricing at psychological extremes.

He looked back at 35 years of data, and found prospects are favorable when extremes of buying occur after extremes of selling. The bad news is that it takes time for panics to work themselves out; 20 days after the buying frenzy, the expectations are slightly negative. Eighty days later, the market returned an above-average 7.8%, and 120 days later, 11.2%.

Slump Day on Hump Day?

As I write, the market is set for a big down open. Overnight Nasdaq futures are down almost 3%. Didn't seem possible that we could get any more bad corporate news, but Nortel (NT) and Palm (PALM) both said sales would be lower than forecasted.

The Spec computers grumbled at being taken out of the woodshed, but after much coaxing they said big down opens after three up days are usually bullish -- except on Wednesdays.

Remarkably, our recommended portfolio was unchanged yesterday. The hedge we put on yesterday took a 2% loss, so we're up 133% year to date.

I had a great time visiting the day traders down here, and will have more on them later. James Lackey at Broadway Trading said everybody is so exhausted after the ups and downs of the past year that the summer will probably be dull.

I am looking forward to your return from Europe on Friday, and so are our readers.

Laurel

Speculator's Scorecard				
	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	0.91	Up 3	-7.8	-3.3
S&P 500	0.97	Up 3	-10	-1.3
Nasdaq	0.91	Up 1	-20	-2.1
Europe STOXX-50	0.78	Up 3	-11	1.4
Dollar/euro	0.97	Down 1	-5.3	-2.3
Nikkei	0.79	Down 1	-1.1	15
Dollar/yen	0.94	Up 3	-7.4	-2.1
Gold	0.91	Down 1	-3.9	-2.4
Oil	0.88	Up 3	7.7	-0.3
Bond Futures	0.90	Down 3	-0.2	-1.2
2-Yr Note Futures	1.32	Down 3	1.0	0.09
Bund Futures	0.97	Down 3	1.3	0.3

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As Straight Equity Plays Sour, Try the Debt Angle

By Victor Niederhoffer and Laurel Kenner
Columnists
03/29/2001 09:03 AM

(Speculators' Note: As Vic flew back from his spring break and Laurel embarked on hers, they turned the baton over to Virginia Tech finance professor Mark M. McNabb, a frequent Daily Speculations guest columnist.)

With more people getting killed in the market than making a killing, my thoughts have been turning from death to debt. Debt is a much more pleasant subject than equity right now. What's more, it may have the potential for profit.

Even in the maelstrom of recent economic news, it doesn't take great insight (fortunately) to determine that interest rates on debt, especially quality debt, will drop in the months ahead.

If rates are dropping, how do investors play it? The usual answer is to invest in high-duration fixed-income securities -- known to you and me as long-term bonds. But what about an equity play around debt?

I could go find firms with too much debt and suggest shorting these firms on the premise they won't be able to pay the bills this summer. Instead, I've been trying to think of an equity upside that capitalizes on debt for the moderate- to long-term investment horizon.

Here's my proposition: declining rates add value to companies. If debt costs account for a significant portion of earnings, then firms that can hold revenues steady and reduce borrowing costs over the next year should be able to increase earnings. Thus, firms can manufacture earnings with successful debt refinancings.

Screening Some Stocks
To find companies with enough debt but not too much, I looked for 33% to 67% debt-to-asset ratios (0.5 to 1.5 debt-to-equity ratios) on MSN's MoneyCentral Investor Web site.

(Another possible stock screen would be for firms with interest expense equal to or greater than 40% of net income.)

I also wanted average annual revenue growth of 15% (a double every five years) and healthy gross operating margins over 30% and net margins over 10% to identify firms with an ability to repay debt.

I then screened for firms with their 50-day moving average greater than the 200-day to gauge market sentiment toward the firm's prospects.

I wanted to companies with significant motivation to cut debt costs, so I screened for those with interest coverage ratios above 2, although the interest coverage ratio for a quality borrower is often greater than 5. Firms with a ratio of 2 have Ebitda (earnings before interest, taxes, depreciation, and amortization) twice as large as interest expense. This means that interest expense is likely to be as large or greater than net income, depending on depreciation and amortization expenses.

For borrowers with good prospects and acceptable balance sheets, rates have come down recently from 8%-10% to 7%-9% or less.

Little Things Add Up

Now you may think, who cares if these firms save 1% on debt? Think of it from the expense side. A 1% drop from 8% is a 12.5% cost savings in cash flow to the firm. Companies regularly hire consultants to help them find a 1% cost savings, and here a firm can save as much as 12.5% of net income just by replacing high cost debt with low cost debt. Not all companies can, not all will, not all debt can be called, not all should be called; but, on the margin, lower rates will lower the cost of business.

Curious what companies popped out of this screen? Me too! The industry types were REITs, oil and gas, banks, cable companies, and health care.

The interesting part is that these are the industries that CAN refinance debt! They can give decent forecasts, and have real assets, cash flow and borrowing power.

Whether any of these companies is a "screaming buy" right now or just "screaming" requires more due diligence. But this is one form of theme investing that doesn't require a hot sector pick, just sound financials and common sense. As they say in Lost Wages, "Good Luck, Sir!"

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	0.88	Down 1	-9.3	-1.9
S&P 500	0.94	Down 1	-13	-1.2
Nasdaq	0.88	Down 1	-25	-6.0
Europe STOXX-50	0.76	Down 1	-13	1.0
Dollar/euro	0.94	Down 2	-6.0	-2.5
Nikkei	0.82	Up 1	-0.1	16
Dollar/yen	0.91	Down 1	-7.5	-1.2
Gold	0.88	Down 2	-4.5	-1.3
Oil	0.85	Down 1	2.1	-1.2
Bond Futures	0.87	Down 4	-0.3	-1.9
2-Yr Note Futures	1.36	Up 1	1.1	-0.04
Bund Futures	1.00	Up 1	1.4	0.1

Mark M McNabb is a finance professor at Virginia Tech University wishing his UNC Tar Heels were in the Big Dance. But it's lacrosse season now and Chapel Hill looks just as good when the azaleas bloom. He has no positions in any stock on this list, but is considering purchase of Anadarko and Cox Communications shares in coming weeks. He welcomes your comments at mmcnabb@vt.edu.

The Torture of a Bull

By Victor Niederhoffer and Laurel Kenner
Columnists
03/30/2001 09:35 AM

Like a wretch from whom the rack tortures hot breath, and speech of agony.
Keats, *Endymion,* stanza 3, 256

At 1:13 in the afternoon of January 3, when I was less than a day old, I killed a rabid bear. The entire preceding year, the bear's family had wreaked havoc on mine, killing many of my young relatives, and starving many of my growth ancestors among the Nasdaq.

For the previous generation, my family had lived a noble existence. The Nasdaq was king and the fullness of the world was ours. No problem was too small for us to solve. All imitated us.

The only fly in the ointment was that my ancestors in Japan fell out of favor. The Nikkei's decline was almost as severe as the Nasdaq's rise during the last 10 years.

Sudden Seizure
I led a fairly uneventful life until the morning of February 2 when out of the clear blue sky, I was awakened by my inquisitors. They planned my arrest to achieve the maximum of surprise and discomfort. I least suspected it after the rally in January. As the CIA manual *Human Resource Exploitation Training* puts it: "The suspect should be arrested at a moment when he least expects it, when his mental and physical resistance is at its lowest—ideally in the early hours of the morning."

First they paraded me in front of my torture implements: the earnings warnings, the transcript of the Judge Jackson rulings against Microsoft, the copies of the columns of the old-hearted columnists, the annual reports of the sage from Nebraska, the farewell statements of the old bulls who ran the hedge funds and now devoted themselves to a world wide egalitarian harmony with themselves at the top of the pecking order.

The purpose of their torture was to destroy my mental state, to completely incapacitate me so that I would sell all my growth stocks and promise never to write a bullish article again. To this end, they used a number of non-coercive techniques listed in the CIA manual such as retarding and advancing the times when great market declines occurred, serving a bullish meal at odd times, disrupting the sleep schedule with shocking declines in Europe and Asia, nonsensical utterances from old bears predicting a Dow 200, and the breakdown of patterns like series of declining days that had always been bullish in the past.

Oh, the Horror
Out of a sincere empathy with those who have truly suffered torture to their family and friends, I am not going to enumerate what horrors I was subject to. All I will say is that torture has been outlawed by the UN Convention of 1984. And I will remind my readers that Amnesty International is a worthy organization that is devoted to eliminating the all too prevalent torture that exists today. My family and I have supported and worked for Amnesty in the past and I would urge my readers to consider assisting their efforts on behalf of political prisoners and torture victims around the world.

I cannot refrain, however, from reporting that I was exposed to the water torture whereby the drip, drip, drip from the drop in the market was completely unremitting to a single spot for a period of 15 consecutive trading days from February 2 to February 23 without one significant drink of one percent up in the S&P. I will also report that I was subject to repeated beatings whenever I bought a stock on the Nasdaq with 33% of all Nasdaq stocks declining more than 50% from the January month end to date. Most terrible of all was to see an elephant in the mode of those seen by my hero, Batu Lobogola, trample and kill the entire rise in the low priced and other volatile stocks that had occurred in the first month of the year.

No Help from the Doc

I can also report the terrible sensation of being exposed to repeated cold showers whereby all rises in the morning were repeatedly vacated in the afternoon as they were on February 27 after the torture of Doc Greenspan's failure to provide sufficient respite to the bulls.

It is my sad duty to report that in the inquisition, my captors all the while maintained a pious and scholarly air throughout my ordeal. All their deeds as were those of the Russians under the KGB and Pol Pot in Cambodia were duly recorded. As Michael Kerrigan puts it in the fine descriptive work, *The Instruments of Torture,* "It was essential to the mystique of the proceeding that the inquisitor should not commit the torture with his own hands, and should certainly not allow ill-temper to sully what had been held up to all as the transcendent workings of divine justice."

Regrettably, I must report that of the current members of the Nasdaq 100, thirty-two have been drawn and quartered or worse in the last 12 months. The worst sufferers have been listed below.

Beat-Up Stocks	
Stock Symbol	% Decline
CMGI (CMGI)	-98
Inktomi (INKT)	-96
Ariba (ARBA)	-93
Yahoo! (YHOO)	-91
Broadvision (BVSN)	-90
XO Communications (XOXO)	-90
Realnetworks (RNWK)	-89
Metromedia (MFNX)	-88
Conexant (CNXT)	-88
Exodus (EXDS)	-87

Of the 32 companies that have been quartered, strangely enough the insiders of all the companies involved have not been furthered tortured with any recent buying except for XO Communications (XOXO). Extending the list of the beaten to those down 80% or more, we find another with recent buying, ADC Telecom (ADCT). We have already recommended XOXO but hereby add ADC to our recommended list as it is our type of stock.

With the beginning of the month coming this Monday, it is my fervent hope and belief that there will be an end to the torture of stocks, not only on the Nasdaq but on all other markets as well. Thus, so that no uncertainly as to our steadfastness is maintained, Laurel and I are recommending the reinstatement of our bullish position in our recommended stocks, the covering of our short futures and the reinstatement of 50% margin as of the close today.

Torture is widespread today, not only in developing countries but in modern police departments where the use of technologies like electric shock for the subjugation of prisoners is regarded with a quiet satisfaction. The wisdom of Cesare Bonesa Beccaria, writing 240 years ago, is undiminished:

"No man can be judged a criminal until he be found guilty... If guilty, he should only suffer the punishment ordained by the laws, and torture becomes useless, as his confession is unnecessary. If he be not guilty, you torture the innocent..."

Remember that the mistress of markets often uses torture as a means to eliminate the holdings of innocent and justifiable bulls.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	0.91	Up 1	-9.2	-2.3
S&P 500	0.91	Down 2	-13	-2.2
Nasdaq	0.86	Down 2	-26	-6.2
Europe STOXX-50	0.74	Down 2	-13	-1.3
Dollar/euro	0.91	Down 3	-6.4	-2.0
Nikkei	0.80	Down 1	-5.2	7.6
Dollar/yen	0.88	Down 2	-8.5	-1.1
Gold	0.86	Down 3	-4.9	-0.7
Oil	0.88	Up 1	2.2	-1.9
Bond Futures	0.85	Down 5	-0.4	-2.1
2-Yr Note Futures	1.40	Up 2	1.2	-0.1
Bund Futures	0.97	Down 1	1.1	-0.2

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APRIL
2001

Seeing Little Help from the Gods, the Specs Turn Bearish

By Victor Niederhoffer and Laurel Kenner
Columnists
04/02/2001 09:14 AM

After a series of defeats in the Trojan trade war for access to Asian goods, Athena according to Homer's story appealed to Zeus. "The Trojans had their share of success. Now it's time to let the Greeks win." Zeus answered that the best he could do was to get out his golden weighing scales.

After pouring death powder into both weighing dishes, the balance fell against the Trojans. Encouraged by the divine intervention, Achilles went on to slay Hector and the Greeks won the war.

Homer must have had in mind a situation similar to the 8 down weeks in a row that the S&P 500 suffered as of March 22 while the Nasdaq 100 declined 8%. The decline came to a terrible 16% and $2 trillion in market value was wiped out.

With intervention from headquarters from above, the S&P 500 finally rallied last week, moving up a mere 1%. The crucial question is whether the mistress of markets will allow the combined Greek forces of the market to continue their rise and win the inevitable victory or instead will first deal out some further defeat.

Old General Fighting Old Battles

In determining the outcome, we will not be able to appeal to Doc Greenspan. He was last seen guest lecturing at Al Gore's journalism class at Columbia. The Doc is too wedded to his old-fashioned views about the importance of production numbers like Indiana blast furnace data, too much wedded to his previous attempts to wedge the stock market down, to be a source of anything but further political shenanigans taken out of the public choice handbook.

Even Dr. Larry Ritter, the august co-author with William Silber of the best selling textbook, *Principles of Money, Banking and Financial Markets,* and who served on the Doc's thesis committee, was ready to throw in the towel. Taking a break form the baseball season and the afterglow from his recent romantic novel, *The Sportswriter Loses Control*, Larry graded the Doc's performance as follows: "The Doc gets an RF (a retrospective F) for obvious reasons: His fastball has lost its snap and he can no longer keep his slider in the strike zone. The fat lead he once had has evaporated. Time for the manager to send the Doc to the showers and replace him with a fresh arm."

What a contrast between the young-hearted Larry Ritter who stays young via his hobbies of baseball, writing, finance, and the romantic muse, and Doc Greenspan who could not even refrain last year from hauling out untested nonsense about unsatisfiable demand arising from earnings forecasts in order to achieve his hidden agenda of targeting the stock market down.

Nor can we expect much help form Treasury Secretary Paul O'Neill, the former head of Alcoa. Like James Baker in the old days and Doc Greenspan today, the market seems to have a viscous gravitational fall whenever he speaks. It is good to know along these lines that he has finally agreed to sell his Alcoa holdings and that while less than enthusiastic about the President's tax reduction policy, he is devoting himself according to *The Wall Street Journal* to "improving industrial safety in the Treasury Department."

Let's Go to the Tape
With the gods and gurus of the market discredited vis a vis bullish market relief, we have nothing to turn to except the spec computers. And while invariably bullish at he beginning of the month, they don't like what they see thereafter.

After a large run of weekly declines, followed by a rise, the spec computers are quite bearish. They are also displeased with the recent rise in long term bond yields. Nor has the recent rise in the S&P 500 in conjunction with the decline in Nasdaq done anything but add further resonance to the bearishness of the spec computers.

Particularly ugly was last Tuesday's bond yield rise of 10 basis points, which they had the temerity to sneak in while Vic was in London studying Greek mythology at the British Museum. Regrettably, the highly regarded new reading room there is straight out of the pages of Umberto Eco. You can do everything in the beautifully skylit pantheonic room, except read books as all the ones not currently published by the Oxford or Cambridge Press seem to have been removed.

Neutral-Bearish
In view of the negative aura surrounding the market, we are regrettably forced to turn neutral to bearish again. We realize that swinging from bullish last Monday to bearish last Tuesday to bullish as of Friday's close to bearish as of today's close is much too variable for optimum utility to our readers. Nevertheless, we are forced to cut the exposure of our recommended stock portfolio back to 50% invested as of the close today.

The current portfolio consists of Axcelis (ACLS), ADC Telecom (ADC), Borland (BORL), Conexant (CNXT), Chart Industries (CTI), Commscope (CTV), Petsmart (PETM), Techne (TECH), Viasystems (VG), Westell (WSTL), and XO Communications (XOXO). It had a nice rally on Friday but despite the some 140% that the recommended portfolio is up this year, too many of the recommended stocks are down sharply. Nevertheless, there is recent insider buying in each and the cobbler must stick to his last.

In the spirit of Zeus but without his wisdom, all we can do is report that war and stock market declines are unpleasant business. Humans and stocks will keep killing each other. As of the close on Friday before Tax Day, April 13, however, we are anticipating an end to the war with a continuance of the inevitable, inexorable rise in stocks.

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Market Squeezed Between a Rock and Hard Place

By Victor Niederhoffer and Laurel Kenner
Columnists
04/03/2001 09:20 AM

The channel between Italy and Sicily is dangerous for sailors, with unexpected whirlpools and currents. These natural phenomena inspired tales of Scylla and Charybdis, terrors of the straits of Messina
-From *Titans and Olympians* Time-Life Books, 1997

It was bad enough when yet another batch of companies would issue dire earnings warnings around the end of each quarter. Yes, stocks would go down on them and the headlines would blare "Stocks Go Down on Earnings Disappointments."

But those with a capacity for independent thought would realize that these unfortunate companies were merely a biased sample from those who were going to report in the normal fashion and that for each company with a bad earnings report that was warning early, there were many companies hidden in the wings who were not warning and had normal or good earnings to come.

However, the market's decline on Monday, 1.5% in the S&P 500 and 3% in the Nasdaq, added another danger to the journey. Now there was China to worry about. Would the plane be returned? And would those hands in the government that wish to implement a tough China policy win out over those calling for moderation and negotiation?

In navigating the straits of Messina, many brave sailors perished as they tried to avoid being seized by Scylla only to be sucked under by Charybdis or vice versa. Will the same thing now happen to the stock markets as they try to steer between the two dangerous terrors of bad earnings or bad war news?

Asia on Our Minds

To get a handle on it we turned to the Asian stock markets. Far better than any news analyst, they should register the fears and dangers of likely escalations in the struggle. The news there is good. The major Chinese market is the Chinese SHASHR, a capitalization-weighted index that tracks all shares traded on the Shanghai market. It trades some 750 million shares a day. In terms of dollars the volume comes to approximately 1 billion a day. Its price is up some 1% in the last week and up 1.5% on the year.

The Taiwan market is down some 8% in the last week but still up 15% on the year. The situation in Japan is similarly benign, with the Nikkei down 13% on the year but up 2% since the end of February.

Unlike some in our profession, we are not blessed with an ability to predict the outcome of world events. Nor do we agree with the conventional wisdom that knocked the Dow down from up 100 at noon yesterday to down 100 on the day at the close. That "wisdom" being that the thing that really messes the economy up is some terrible world crisis.

Nor can we rely on our good looks and adventurous spirit as Ulysses did to see advice from Circe as to how to navigate between the terrors. For what it's worth we can report that Circe advised Ulysses to veer towards the terror of the sea monster Scylla on the grounds that "it is far better to lose 6 men than losing your ship and all your lives".

Count When in Doubt

While it is always good advice to cut your losses when survival itself is threatened, we have another guide to follow who we hold in even higher repute than Homer or Circe. Yes, it is our hero, Francis Galton, the inventor of correlation, regression, weather maps, composite photography and fingerprints. Galton's advice is whenever in doubt, count.

Thus, we took out the spec computers and ran them through their paces. What happens when a week starts out with a serious decline of this nature? What happens following a quarter when the market is down more than 5%? What occurs when bonds are at a 10 day low in conjunction with a major daily decline in stocks? What's the market likely to do after it fakes a rise in one day and ends seriously down by the end of the day?

The spec computers have done the counting and we have supplemented that with the back of our own envelopes when a study by hand seemed more apt. The results are that it looks very good for the rest of the week following the ugly down opening in store today. Based on some 25 similar observations, we're looking for a rally of some 3% from the open today by Friday's close, with a variability of about 1.5 times that level. The chances of a rise from Tuesday's open to Friday's close appear to be about 4 in 5.

Thus, it is likely that the market will row between these two terrors and that a safe passage will occur.

But bear in mind Ulysses' warning after safely emerging from the fateful cliffs of Scylla and Charybdis, "Little did I realize that our greatest trial was still to come."

Speculator's Scorecard

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Dow	0.91	Down 1	-9.4	-1.8
S&P 500	0.91	Down 1	-13	-2.1
Nasdaq	0.86	Down 1	-28	-8.6
Europe STOXX-50	0.74	Down 1	-12	2.6
Dollar/euro	0.91	Up 1	-6.7	-2.0
Nikkei	0.76	Down 3	-6.2	6.1
Dollar/yen	0.83	Down 4	-11	-2.9
Gold	0.81	Down 5	-6.1	-2.0
Oil	0.83	Down 2	-0.7	-3.3
Bond Futures	0.85	Down 1	-0.4	-2.0
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Speculators Become Un-Bear, or Bull

By Victor Niederhoffer and Laurel Kenner
Columnists
04/04/2001 09:50 AM

There is always the tendency to hide after a serious unforeseen decline. But this would be succumbing to the kind of switching and obfuscation that would insure that what we say is worthless as we switch to equivocation and description just when we are due for a correct call.

One of the grave difficulties of playing the market is that the probabilities change each day. Each day creates a new situation with the balance between the bullish and bearish interests becoming relatively stronger or weaker.

Yesterday's major down-move in the market changes everything. It turns us to highly bullish, and we recommend increasing the exposure in the recommended stocks to 100% from the previously recommended 50% levels.

Pawn for Thought
While it is doubtless less than optimal for us to be changing from bullish to bearish to bullish and back as we have done in the last two weeks, sometimes with bullish for one day and bearish for five to add to the confusion, we must revise frequently or else become a tired buy-and-hold record.

The situation is quite comparable to the shifting evaluations of positions in chess. Players of the game will understand that each position must evaluated relative to the moves up to that time, the relative strengths of the adversary, and the ultimate plan of the player.

In any case, today we turn to highly bullish. After a serious panic decline in the overnight markets in US and Europe, the market appears scheduled for a slight up-opening. After the obligatory margin selling is over, it should settle down for a nice rise by the end of the day, as fears of a highly bullish employment report take hold.

To vary the unhelpful nature of many of our varying calls, often wrong to compound the misery, we will make a longer-term and more abiding one today.

Bottom Readers
Readers from all around are asking us, "When will the bottom be set?" Our answer is that each day has to be played as a separate decision relative to the constantly varying and infinite possibilities that will develop. However, to stick our necks out with a definite forecast, we answer that yesterday's level in the Nasdaq and S&P 500 has a reasonable chance of being the bottom.

We issued such a forecast overnight to a few of our friends, and here are some of the responses.

Shawn Andrews, the learned Las Vegas fund manager for entertainment industry stars: "On the subject of bottoms, trying to pick one is a ticket to the poor house. Don't take my word for it, consider the following:

The canyons of Wall Street are filled with the bleached bones of men who were right too soon.

-- Jordan Kellner

No one can sell at the exact top or buy at the bottom. This can only be done by liars.
-- Bernard Baruch.

The Greatest Mistake is to anticipate the outcome of an engagement. Let nature take its course and your tools will strike at the right moment.
-- Bruce Lee

"It is human to seek certainty and consistency," Mr. Andrews continued. "This train of thought is most pertinent among today's investors. They made and lost a fortune in the tech sector. They now more than ever believe it is the only place to make money. It is no longer a question of 'if' but 'when' a truly panache rally will occur. Whenever there is such certainty in reasoning I become suspect. I think Godot will come first. I will be one year late buying and I certainly don't mind it. Why won't the next big rally occur somewhere else? If you believe in man's ability to adapt, move on! It may be defense and aerospace, mining, banking. Who knows?"

Tim Hesselsweet: "Possible, but . . . we've enjoyed a nice capital-goods-led boom. Tech stock prices and earnings continue to deteriorate, coming bankruptcies in second-tier telecom-equipment stocks and their inventories are yet to be discounted or absorbed (not to mention possibility of secular downswing), foreign money may flee due to problems with dollar, and the feedback mechanism to the Old Economy stocks has yet to be identified. The reverse wealth effect will dampen consumer spending, and consumer debt is tremendous. Let bottoms work themselves out. If you are thinking this is the indignant post of a bloodied long, you are right, but I am also striving to learn. It doesn't seem that there are enough observations to make a sound statistical test of long-term predictions, but I imagine I am naive in this assumption. Hope you are right, but hope is best left for affairs of the heart."

Jon Markman, columnist at MSN MoneyCentral, author of *Online Investing,* and our MSN editor: "We just had a massive two-day drop and nobody is calling a bottom. Most people I heard from, whether pro or amateur, don't care about the sheer percentage of the drops, the spike in the VIX or anything like that, they are too scared to buy. This has to be a good thing."

A Shakespearean Aside

Mike Ott, an Iowa graduate student in chemistry: "Has Shakespeare lost his touch? I've watched three stocks he's recommended, Xerox (XRX), Science Dynamics (SIDY) and Titan Corp. (TTN). They have all steadily declined in the last year, especially SIDY. My picks haven't been much better, but this seems out of line with his past performance. I know past performance doesn't guarantee future results. I'm not trying to be rude, just questioning."

The reply from Edwin Marks, the investor "Daily Speculations" calls Shakespeare for his quietly stellar 30-year record: "You may be rude! The market has punished most folks, but as a value player, I stick to my guns. Even Shakespeare struck out once in a while. This market is just as screwy on the downside as it was on the upside. Long-term investors with a cash hoard are gleefully having a field day, but unfortunately, most market players are not value-oriented or long-term investors, and are leveraged to the hilt with mortgages and credit-card debt.

"I have seen enough of these gyrations on the downside to know that latent demand, new markets and a burgeoning population will eat up excess inventories. Bull markets end eventually, and bear markets, too. When panic sets in, the Fed steps in to ease the pain. Long term, I am satisfied to stay the course."

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	0.89	Down 2	-12	-2.4
S&P 500	0.89	Down 2	-16	-3.2
Nasdaq	0.84	Down 2	-32	-9.9
Europe STOXX-50	0.72	Down 2	-15	-2.6
Dollar/euro	0.94	Up 2	-5.0	-1.4
Nikkei	0.78	Up 1	-4.8	7.7
Dollar/yen	0.86	Up 1	-10	-2.9
Gold	0.84	Up 1	-5.6	-1.7
Oil	0.86	Up 1	1.7	0.3
Bond Futures	0.88	Up 1	-0.3	-2.2
2-Yr Note Futures	1.42	Up 1	1.4	0.05
Bund Futures	1.00	Up 1	1.1	-0.2

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

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The Mistress of Markets Doesn't Issue EZ Passes

By Victor Niederhoffer and Laurel Kenner
Columnists
04/05/2001 09:14 AM

The terrible mistress of markets set up her tollbooths on Wednesday, collecting commissions and spreads from both bulls and bears as the market repeatedly drove them across and back in panics of buying and selling.

At the S&P 500 futures collection point -- unchanged from Tuesday's 1,108 close -- stocks crossed at least 15 times before closing 3 points higher. The traffic of bears at the Nasdaq booth, at the round number 1,400, was heavier at day's end.

Today, the market is set for a wildly exuberant up-open, with overnight futures pointing to one of the two or three biggest openings ever. We therefore give ourselves a B+ for our prediction yesterday that Tuesday's close marked the bottom of the decline.

Dell-icious Rally

We've said all along that the rally would come out of the blue, and today is the perfect time. All the bulls had become too scared to hold overnight, while all the shorts are now caught in the mistress's trap.

Readers who followed our advice and went to 100% margin yesterday should be rewarded for their patience. Similar big up-openings in the past proved to be bullish.

The rally began after the close yesterday when Dell Computer (DELL) shocked everyone by maintaining its profit forecast. Its start serendipitously coincided with a freeing flash of political insight from Vic's long-time business partner, Dan Grossman:

In underestimating the extent to which market could decline without the Fed or the Administration really trying to do something about it, it seems to me we haven't given sufficient weight to government's indifference toward the decline, or its even in some ways welcoming it.

For the Bush Administration, the market decline and even a recession at this stage are not all bad. First, they help get his tax program passed, which is probably the key thing Bush wants. Second, they are early enough to be appropriately blamed on Clinton rather than Bush. Third, better a recession now and a recovery, perhaps even a booming recovery, in time for the 2002 Congressional elections and certainly in time for the 2004 presidential election. So why should they pull out the stops to turn things around now?

Vic and many others have commented how political Alan Greenspan is, so why shouldn't he explicitly or implicitly collude with Bush in the above delay? Also, Greenspan's permanent reputation is as an inflation fighter, so why shouldn't he be indifferent to Nasdaq investors, etc., if it will help keep inflation under control for the remainder of his term?

Finally, when Rubin and the Democrats were in, they were afraid of what Republican Wall Street and the markets, particularly the bond market, could do to them. Now that the Republicans are in, Wall Street and the markets have nowhere else to run or raise a fuss to. (It's like the Black Caucus being able to trash the Republicans but having to support Clinton and the Democrats no matter what.) So the *markets have lost their power to influence government policy.*

Dan has hit it right on the nose. The unfortunate thing that the Fed, this politicized horror of central planning philosophy so thoroughly discredited in the Soviet Union, has the power to effectively allocate capital to entrepreneurs and directly damage the livelihoods and retirement plans of the half of Americans who own stocks.

Return to Babel

As trader David Ciocca added: "Remember a few weeks ago when Greenspan testified to Congress and said he purposely uses 'Fedspeak' in answers to questions about monetary policy? When did trying to confuse citizens become an accepted part of government's job? I'm certainly no legal scholar, but I doubt that's part of the plan for a democratic, free market system."

Organizations tend to expand their mandates, thereby increasing their power and perks. The most terrible manifestation of this is the five-year targeting of stock prices that the Fed secretly undertook, as revealed by its minutes, in the pursuit of the Shillerian mysticism concerning "irrational exuberance."

However, it should be noted that our favorite mantra of buy and hold for the 10 million percent-a-century returns would seem as mixed-up and unhelpful to most people as the mystical theories by the Yale professor and the Ph.D.-holding Fed Chairman who received a belated "F" from one of the members of his thesis committee this week.

Speculator's Scorecard

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Dow	0.92	Up 1	-12	0.3
S&P 500	0.86	Down 3	-16	-1.7
Nasdaq	0.82	Down 3	-34	-10
Europe STOXX-50	0.75	Up 1	-15	-0.6
Dollar/euro	0.97	Up 3	-4.3	0.8
Nikkei	0.81	Up 2	-3.9	1.1
Dollar/yen	0.89	Up 2	-9.9	-1.7
Gold	0.86	Up 2	-5.1	-1.7
Oil	0.89	Up 2	5.3	1.2
Bond Futures	0.86	Down 1	-0.4	-2.3
2-Yr Note Futures	1.46	Up 2	1.5	0.1
Bund Futures	0.97	Down 1	0.8	-0.7

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Ordinary People

By Victor Niederhoffer and Laurel Kenner
Columnists
04/06/2001 09:30 AM

(Speculators' note: After the third-biggest Nasdaq rally of all time – and one of the top 20 in the S&P -- the crystal ball looks for a rally from a down open to noonish, with bearishness in the afternoon and thereafter. We much prefer to be bullish after a tremendous decline than after a tremendous rise, like anybody who counts and doesn't do things based on "feel."

Even after yesterday's rally, the Dow is down 8% and the S&P 500 has lost 13% year to date, bigger losses than for all of last year. The Nasdaq Composite is down 28%, after falling 39% in 2000.

One of the greatest lessons we've learned in past years is that our own expertise is quite limited relative to the diverse, specialized knowledge of our readers. We're therefore particularly pleased to introduce Jack Tierney as our guest columnist today. Not only a great philosopher and a great writer, Mr. Tierney is a great stock-picker, having won our last Readers' Picks contest. We're sure we've learned a lot more from him than he's learned from us, and are happy to share his wisdom with you.

In his first column, he interviews several residents of a mythical city in the U.S. hinterlands about the Fed, seeking perspective on how the down-to-earth people outside Silicon Valley and Wall Street are coping with the $4.8 trillion destruction of market wealth since March 24, 2000. His subjects, based on real-life acquaintances, included both Greenspan sympathizers and critics, as well as an opportunistic newspaper editor. – Laurel Kenner and Victor Niederhoffer)

The markets have delivered a pretty strong message on the actions taken to date by Mr. Greenspan and the remaining dwarves of the Fed. In short, "not enough and not soon enough." The "coastal" columnists and talking heads have devoted extensive space and time to the many pundits eager to eviscerate the chairman and, in the process, mask their own culpability. While focusing on the media's selection of movers and shakers may be useful, it seems lacking in catholicity.

It struck me that a survey in one of our peripheral "flyover states" might be in order. Hence I sought opinions on the Fed from citizens of the mythical city of Charon, Tenn. on the banks of the River Lethe. Keep in mind that these are simple folk, living in a largely rural area; unlike their sophisticated urban counterparts, they tend to express their views with a unconvoluted, judgmental directness.

Of each I asked the same question: "It appears Mr. Greenspan miscalculated. If so, are you or Western Civilization threatened?"

I began with Mason Grayson, a neighboring farmer who, like a surprisingly large number of locals, possesses an educational background limited to home schooling.

"I've spent the last 50 years on these 80 acres producing chickens, eggs, goats, shoats, cows, sows and, of course, black walnuts. Don't believe in debt. Don't need much major heavy equipment, don't have a mortgage. If I had either or needed either, though, lower rates would be great. Of course, he couldn't lower them too much. Couldn't risk hurting Japan, not right now. Alan's facing the Prisoner's Dilemma."

The Prisoner's Dilemma?

"Sure. You know, game theory and all that. He has a hard decision to make, The Japanese have a tough decision to make. If both make the tough call, Greenspan with a modest proposal, Japan with a tough one directed at their banks, then both will be very unpopular, but both countries will emerge better off in a modest period of time. If each makes the most politically popular decision, then both countries can expect continuing problems for an extended period of time. Should one make the easy decision and the other hard one, the former could bounce back sooner and the latter suffer longer. Used to call it beggaring thy neighbor. But you know, the more I think about it, with Russia once more in trouble, the Indian banks having problems, and Indonesia going to the dogs, this might more aptly be a Student's Dilemma. In either case, don't expect another interim cut."

Is Game Theory a traditional part of the home-schooling curriculum?

"Only as a diversion. We needed an occasional break from ethology, the Grand Unified Theory, and the Kondratieff Wave/Black Walnut relationship."

There is a relationship?

"Sure. Both operate in 60-year cycles but the tree is more predictable, more valuable, and provides more useful nuts."

He Bungled It

Mitchell Fitch is editor of the *Charon Blaze*, the town's biweekly paper and, though provincial in appearance, is just another of many small town papers controlled by one of the media giants.

"Of course it was a bungle. Then again, no matter what he did we would have scored a bungle. We already had the headlines written and the stories outlined. All we had to do was plug in the numbers and draw the dire conclusions. The market's reaction, of course, is red meat for us. The next best thing that could happen is to have NO rate cut in May. And that's a real possibility. We'll savage him."

But how do you know it was bungled? That in the long run, it might not turn out to have been the perfect move?

"We don't. Nobody does. And we don't really care about the long run. If we cared about perspective, we'd be historians, not journalists. But it's been a decade since the Fed really gave us an opportunity to use fear to boost our circulation. We especially love those comparative graphs between today and '29."

Should Have Clipped Sooner

I moved on to Cindy's Clip Joint. As Charon's most successful barber, Cindy demonstrates the efficacy of comparative advantage, possessing several.

"You bet Greenspan's decision was a miscalculation...but not a total surprise. I fully expected him to creep out and deliver a mousy 50 basis-point cut and head for shelter. And we'll be lucky to get 25 the next time around. What nerve! First, he tells us that our economy isn't really that bad but now he's concerned about 'world financial order.' Right! Here we are, having underwritten that same financial order for the past four years, in need of stimulation, and what does he do? Kowtow to these same thieves, thugs, and econo-terrorists who have done such a masterful job butchering their own economies.

What Nock said regarding Europe 50 years ago applies to the world today: 'When [they get] in any kind of scrape, America's plain duty [is] to take the brunt of it, and to stand by when the scrape [is] settled, and clean up the debris at American expense.' And you know what will happen when we get in similar trouble? We'll be the Kitty Genovese of the world stage; only this time the witnesses won't be mute, they'll be meeting in Brussels working on trade agreements, carving out areas of influence, and restructuring debt."

Don't you think G is aware of this?

"To be blunt, no! G's a number cruncher using old-hearted models to generate predictions without giving due concern to Heisenberg's Uncertainty Principle: The more precisely the position is determined, the least precisely the momentum is known. This guy can tell you exactly where we are, but never ask him where we're going or how fast we're getting there. Over on that wall, in case you can't read it I have a George Burns truism. It reads: 'Too bad all the people who know how to run the country are busy driving cabs and cutting hair.' If you run into Alan, have him give me a call."

Being There

I started for the lawyer's office but, by chance, came across the Village Idiot, thus obviating the need to see the barrister. Glendon McLendon is a sixth-generation VI and affirms the Monty Python skit that his particular profession is, if uncontested, handed down from father to son.

"Oh, I'm not too concerned about what he decided, but I am about the reaction. Strip away the hyperbole that characterizes much of what's reported, and you still have a mind-boggling 150 basis-point cut in 76 days. Nothing trivial about that. In my opinion, a severe downturn could discourage tourism. And I make my big nut during the summer from those regulars who drop by our little burg to swindle us out of our faux antiques. But, fortunately, we've a firmly established reputation for gullibility so I would expect any fall-off to be marginal. What does concern me is that a really bad economy might drive the voters to throw out our incumbents."

So you believe they're good people doing a good job?

"Quite the contrary. But, you see, the same people or their kin have occupied these offices for 60 years. If they get thrown out, there's little productive work they're capable of handling. Unfortunately, they're perfectly qualified to be Village Idiots. And I don't want the competition."

If they're that inept how do they stay in office?

"They've mastered Lao Tzu's axiom: 'The sage, in the exercise of his government, empties their minds, fills their bellies, weakens their wills, and strengthens their bones.'"

Teacher, Teacher

As it was close to 3 p.m., I headed for Charon High. After passing through two metal detectors and undergoing the ritual strip-search, a trustee guided me to Rachel Bay Leaf's Introduction to Cursive Writing class. Rachel is a lifelong Charon resident of indeterminate but advanced years.

"I expected that there'd be an uproar and a negative reaction after his decision. I believe the reaction would have been negative if he had cut by 75. Just too many people out there looking for an excuse to sell. Whatever he did, though, would have been inappropriate.

Young Alan's job is to insure price stability. No more, no less. His brief doesn't include making subjective decisions on exuberance. But he did, and the current situation resulted. Unlike many of my co-workers, I'm old enough to remember past recessions; and this doesn't look like it will be one of those short ones. Rate cuts are nice, but they're not a panacea. However, there still are the other Fed members and G-worshipers who have hailed his move as the correct one, if only because of Pangloss' parity."

And that is?

"It's the assumption that if everyone is working from the same outmoded, Fed-knows-best models, everything's fine and the result, regardless how tragic, is the best possible one. However, Churchill viewed success as 'moving from failure to failure with great enthusiasm.' Under that definition, Alan will measure up. But let's not forget that Alan calved this iceberg; it remains to be seen if he can wave off the Titanic."

Will a recession adversely affect your students?

"Only if they look for work."

Generally speaking the view isn't one of overwhelming optimism but, unlike the coasts, this is an area more accustomed to financial adversity than governmental windfalls. Characteristically then, everybody gets along as well as he or she can, church attendance remains strong regardless of the economic cycle, and cable TV has yet to arrive delivering gavel-to-gavel coverage of Alan's mystical utterances. I can report that the earth didn't move Middle Tennessee that Tuesday afternoon. I was out planting black walnuts and felt nary a tremor.

Jack Tierney resides in the "flyover state" of Tennessee.

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Nasdaq	0.84	Up 1	-28	-5.9
Europe STOXX-50	0.77	Up 2	-13	6.1
Dollar/euro	0.94	Down 1	-4.9	1.0
Nikkei	0.84	Up 3	-2.9	4.1
Dollar/yen	0.92	Up 3	-9.0	-0.6
Gold	0.89	Up 3	-5.0	-1.3
Oil	0.92	Up 3	5.8	2.7
Bond Futures	0.83	Down 2	-0.7	-3.0
2-Yr Note Futures	1.41	Down 1	1.4	-0.05
Bund Futures	0.94	Down 2	0.8	-1.2

Bearish Market Mistress May Pass Over this Market

By Victor Niederhoffer and Laurel Kenner
Columnists
04/09/2001 09:32 AM

Remember the day on which you went forth from Egypt, from the house of bondage. Exodus 13:3.

The tale is told about this time every year of how the Lord convinced Pharaoh to free the Jews by sending 10 plagues on Egypt. This year, the recounting of the plagues put us in mind of the past year's travails for investors.

Happily, the mistress of the market and her evil husband seem likely to pass over the U.S. market this week. The Spec computers were hastily carried away by Laurel and Vic a couple of weeks ago, some operated by Laurel from the water by wireless after her escape from alligators in the Everglades. The now reunited computers indicate that the constellation of bond and stock moves, both within the day and between recent weeks, is highly bullish, especially so as of full sun on Monday to the rest of the week.

There were three days of plenty for each day of famine after 30 similar travails. But it's always good to store up a reserve for famine, which occasionally occurs when Pharaoh collects his stores in mid-April.

This week's Stock Talk! episode began at the Roy Niederhoffer domicile over the weekend and continued with Laurel, Vic and a handful of rabbis discussing the meaning of tyranny and loss for 36 consecutive hours. Just as in the story from the first century of the Common Era, amazed readers discovered them still debating as the markets opened today.

Discouraging Scourge

Much of the discussion centered on plagues. It turns out that the quantitative study of plagues started in 17th-century England, where thrush, consumption, Black Death, smallpox, leprosy, cancer and drowning were the major causes of death. "Many people lived in great fear and apprehension of the more formidable and notorious diseases," wrote John Graunt, whose 1662 classic, *Natural and Political Observations Made on the Bills of Mortality*, included data from 1592 to 1658.

The epidemic of plagues was never more in evidence than during the last year in the Nasdaq 100, where contagion caused more than 60% of the companies to lose more than half of their value. Even in the S&P 500, a quarter of the companies lost 20% of their weight.

After winding up their discussion with the rabbis, singing a few songs and toasting freedom with a fourth cup of wine, the Speculative Duo left a tablet with their thoughts on the 10 plagues in modern times, as follows:

Today's Equivalents

1. Blood = Rising Interest Rates. All of Egypt's rivers and streams and pools and ponds became blood at the touch of Aaron's rod.
In the year 2000 of the Common Era, the Fed kept raising and raising rates, even though no sign of inflation could be seen, until all the New Economy and Old Economy and Middle Economy and Yet-Unborn Economy companies choked and stagnated, and the fish died.

2. Frogs = Volatility. The Nile teemed with frogs. They hopped into Pharaoh's bed and the houses of his

officials and on the people and into the ovens and into the places where bread was made.
And just so, everyone who sought only to buy good stocks and hold them found their peace disturbed as the market's great slides down alternated with smaller jumps up.

3. Lice = Earnings Warnings. At a touch of Aaron's rod, the good dust of the earth became lice that covered man and beast.
News of disappointing earnings from companies that once had reported fine profits multiplied, causing investors to feel shame and bothering them to distraction.

4. Wild Beasts = Bears. Hordes of beasts invaded the houses of Egypt.
On CNBC and in every market story, long-forgotten bears came out of hibernation to roar and claw. And many people were afraid, and they sold their stocks.

5. Cattle Plague = New York's new junior senator. "There shall be a very grievous plague among your cattle."
Bringing to mind the story of Joseph, the world's best livestock speculatrix once stored away $100,000 in her granary after just six months of speculation, often anticipating times of plenty even when everyone else thought there was scarcity, by selling first before she bought.
Although our Arkansas sources tell us her actual wisdom in such matters was far short of Joseph's, the emboldened speculatrix settled in New York last year, winning a high office with a good federal paycheck and lifetime perquisites. And she voted against tax cuts.

6. Boils = The Pain of the Portfolios. Boils broke forth upon man and beast.
And millions of investors groaned with pain as their retirement accounts were halved.

7. Hail = The Pounding of Investors. Moses stretched forth his rod toward heaven, and Egypt was beset by flashing fire and hail.
No investor was safe from the market's pounding, unless he went to cash.

8. Locusts = The Disappearance of Gains. The Lord brought an east wind that carried locusts, and they covered the face of the whole earth ... and ate every herb of the land, and all the fruit of the trees that the hail had left. And there remained not one green thing – neither tree nor herb – in the whole land of Egypt.
All the gains in the Yahoo!'s (YHOO) that kept the gates to the Internet and the Ciscos (CSCO) that built the backbone of the network and the Cornings (GLW) that sold the fiber optics and parts to the backbone builders disappeared. In a year, one in every five Nasdaq 100 stocks lost more than four-fifths of its weight.

9. Darkness = Despair. There was deep darkness in all the land of Egypt for three days.
And on Monday, Tuesday and Friday last week, the darkness in the market was absolute, and no hope could be seen.

10. Slaying of the First-Born = The Pain of Those Who Bought Thursday's Rally. At midnight, the Lord killed all the first-born in the land of Egypt.
Everyone who bought on Thursday feeling relief that the long trial was over saw their new purchases drop dead on Friday.

Dinner and a Story
A meal always accompanies the telling of this tale, so that its lessons do not remain just words but are absorbed by the hearers' senses. The feast always includes lamb, flatbread and bitter herbs.

The Torah says the Lord passed over the houses of the Israelites whose doorposts were dabbed with blood from a sacrificial lamb. We tell the story today to remind ourselves of the steps and sacrifices our ancestors and we have taken to attain freedom.

When Pharaoh finally let the slaves go, they wasted no time, not even waiting for the bread dough to rise before baking it. So should we be alert and flexible to ensure our survival in rough markets.

The market will recover. But the losses of the past year, bitter as they were, should not be forgotten, as they will remind us to persist despite all obstacles.

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Nasdaq	0.82	Down 1	-30	-11
Europe STOXX-50	0.76	Down 1	-13	3.7
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Nikkei	0.86	Up 4	-2.9	1.3
Dollar/yen	0.94	Up 4	-8.9	-1.0
Gold	0.92	Up 4	-4.5	-0.9
Oil	0.89	Down 1	5.0	-0.9
Bond Futures	0.86	Up 1	0.3	-1.4
2-Yr Note Futures	1.44	Up 1	1.6	0.2
Bund Futures	0.97	Up 1	1.1	-0.8

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Speculators Are Wallflowers at the Party
By Victor Niederhoffer and Laurel Kenner
Columnists
04/10/2001 09:39 AM

When you win, you eat better and sleep better, your beer tastes better and your wife looks like Gina Lollobrigida.
-- Johnny Pesky, former Boston Red Sox manager.

The market yesterday went back and forth across the unchanged line six times before pulling ahead in the last 20 minutes with a 10-point win in S&P futures.

It's hard not to cheer when such things happen. It's Tiger Woods winning the Masters with a 10-foot birdie putt at the 18th hole. It's the game-winning touchdown by Cal with four seconds left in the last game of the 1982 season. It's Giants pitcher Christy Mathewson in the first game of the 1911 World Series, tied in the fifth with runners on second and third and two out, grabbing the first baseman and hurling him at runner Eddie Collins to keep him from sliding into first.

Mathewson wrote a book, "Pitching in the Pinch," on how to win the close ones when the score is tied: "In most Big League ball games, there comes an inning on which hangs victory or defeat. Pitchers speak of the 'pinch.' This is the time when each team is straining every nerve either to win or to prevent defeat. Frequently a certain style of play is adopted to lead up to the pinch, then suddenly a slovenly mode of attack is changed, and the team comes on with a rush in an effort to break up the game. That is the real test of a pitcher."

A Tisket, a Tasket
Today, the market is all set to open up to more applause. Stocks have now made up all the month's losses, and are at the highest level since April 1. Nasdaq futures are up a beautiful 10% from the month's lows.

But where does that leave us? With all that optimism, all that exuberance, with two fantastic up-openings, we wish we could join the party. But in all candor, we are shell-shocked. Our current basket of recommended stocks have performed dismally. Too many of them are down 50% to 70% from where we recommended them.

After all of our recent shifts and hedging and changes of exposure, computing the performance of our portfolio was so complicated that we asked an independent consultant to do the job. He came up with up 110% on the year.

Stock picking, we admit, is not our forte. We felt that our systems would give us an edge. Fortunately, we had one good idea at the beginning of the year -- Internet stocks -- and made some 150% with it. But since then, we've shown we're mortal.

Acting Less Sell-Fish
Time and time again in this market, we and other people have made the mistake of buying and holding and then hoping to make our losses back. As Jackie Robinson said, you have to know when to quit as well as when to stay in. Much better to wait for the next bout of pessimism.

And there's something going on here, a sea change in psychology that hasn't been seen in a generation. As the eloquent Florida day trader James Lackey writes:

"Individual investors have lost respect for anything that has to do with the markets. What the big fish could never figure out in the '90s is that Joe Sixpacks never sell. They don't really understand what a stock really is. That is the beauty of their success, no worries, aaaaaaah, it will come back this is America. All of those panics in the '90s -- 1998 especially -- everybody was waiting for Joe Sixpack to panic so Suzi Orman, 'the pro,' could buy on the cheap. Meanwhile Suzi now is on a speaking tour telling Joe that it is different this time. It will not work. Joe would rather take his wallpaper to the grave. But Joe has lost his respect for the markets. That is bad. It is bad for me anyways, Mr. In Need of Beta."

Anyway, it's back to the drawing board for us. Learning from our mistakes. Doing more research. Concentrating on our strengths. We've been reading about how other disciplines handle risk, and came across this passage in Henry Petroski's "To Engineer Is Human:

The failure of any engineering structure is cause for concern, for a single incident can indicate a material flaw or design error that renders myriad apparent structural successes irrelevant. It ought rightly to have taken the failure of only a single bridge to bring into question the integrity of every other span.

Cutting Recommendations

Despite what the naysayers and know-nothings and old-hearted men who have lost their fecundity say, research is still the key to progress and profits. We intend to go back to the research laboratory ourselves, and we will be back with individual stock recommendations if and when we improve.

As for today, we suggest cutting exposure on our recommended stocks by 50% by 1 p.m., and then hedging the remainder by shorting futures or S&P Depository Receipts (SPY) or some such as of the close.

The Spec computers turn bearish as of the close. After all, the market has had a nice rally. It's close to a 10-day high. IBM (IBM) is rising toward 100 again, and income-tax day is coming up. Nasdaq futures hit a low of 1,360 near the close on Tuesday, April 4, and today they're called at 1,540 at the opening -- a gain of 13% in just a week. That's enough.

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Dollar/euro	0.95	Down 1	-4.8	0.2
Nikkei	0.84	Down 1	-6.8	-7.4
Dollar/yen	0.92	Down 1	-9.7	-2.0
Gold	0.89	Down 1	-5.1	-1.6
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Nobody Asked Them, But ....

By Victor Niederhöffer and Laurel Kenner
Columnists

04/11/2001 09:32 AM

The late sportswriter Jimmy Cannon, whose syndicated columns of the '40s, '50s and '60s are some of the best articles we've read, occasionally ran collections of brief observations on sports, women, food, cab drivers and life. These columns appeared under the heading: "Nobody Asked Me, But."

In tribute to Cannon, we occasionally revive "Nobody Asked Me, But." with our own observations on the market.

Nobody Asked Us, But:

The market loves to have a big rally in weeks with Friday holidays.

After bond prices go down a few days in a row, we start to feel very bearish. But the numbers show that if anything, this is bullish for stocks.

The VIX was 36% at the beginning of this week, and it will be 16% around Independence Day.

The book Form in Music by Wallace Berry has more insights into the relations between stability and growth than all the books on chaos put together.

After a series of three or more down weeks in a row, it is likely that the market will have a nice rally the next week, followed by a decline in the week thereafter - and vice versa.

Since we predicted a bottom in the market last Tuesday, April 3, Nasdaq futures are up 15%, S&P 500 futures are up 5.7% and the German DAX is up 6.5%.

Indexes like to break round numbers the same day. The Dow passed 10,000 on Tuesday, April 10, and the DAX is poised to break 6000 on Wednesday, April 11.

The greatest genius in all board games is David Bronstein. Reading his books, The Sorcerer's Apprentice and The Modern Chess Self-Tutor, is like a visit with the gods.

The months in which calendar quarters end always have a string of earnings warnings. Novices generalize these numbers and apply them to the rest of the market, but companies that warn are merely the random outliers that did badly, reporting in advance to forestall litigation.

Writing this column has taught us that there is more wisdom in our average reader than in all the market pundits combined.

After a big decline in one's wealth, it is always sustaining to read Homer's Odyssey or Cervantes' Don Quixote in large type.

One of the most bullish periods for all market participants is the two weeks after April 15 (tax day).

Those who have taken the most advantage of gaps in the tax code are the most adamant that no one else should be able to do so in the future.

Old-hearted people who boast that they have not bought stocks in three years remind us of surly old wolves who have been kicked out of the pack.

The book *The Way Life Works*, by Mahlon Hoagland and Bert Dodson, is Jim Watson's favorite biology book. It can teach the average speculator more than all the books on technical analysis ever written.

When the market is strong in Germany over the U.S. night, it's very bullish for the U.S., and when the market's weak in Germany overnight, it's bearish.

When IBM (IBM) falls below 100, the market is bullish, and when IBM rises above 100, the market is bearish.

We began writing the Daily Spec column one year ago today, and have enjoyed every minute of it.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	0.97	Up 2	-6.3	1.6
S&P 500	0.92	Up 2	-12	-1.2
Nasdaq	0.87	Up 2	-25	-6.1
Europe STOXX-50	0.80	Up 2	-9.1	2.2
Dollar/euro	0.92	Down 2	-5.8	-0.6
Nikkei	0.82	Down 2	-8.5	-7.5
Dollar/yen	0.95	Up 1	-9.3	-2.1
Gold	0.87	Down 2	-5.4	-1.5
Oil	0.95	Up 2	11	2.6
Bond Futures	0.82	Down 2	-1.8	-1.7
2-Yr Note Futures	1.34	Down 2	1.3	0.3
Bund Futures	0.92	Down 2	0.5	-0.8

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

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Today is April 12, 2001

Wait Until You Deserve the Hors D'oeuvres

By Victor Niederhoffer and Laurel Kenner

04/12/2001 10:00 AM EST

The temptation to buy after big rises in the market can be overwhelming. It seems safe, almost festive, to be buying with other buyers. The urge is particularly strong when a trader is down and wants to make it back.

Exercising restraint on such days gives no immediate reward. To the contrary, it feels like not being invited to a great party where nobody's checking the invitations. Why not just look cool and crash it?

Unfortunately, big rallies are the worst time to buy, quantitatively and anecdotally.

A case study came to us in the form of a letter from a reader, who told a story at once heartrending and illustrative of Murphy's Law.

This reader has lost so much money in the market that he is about to lose his home. His losses brought on severe health problems, but a life-saving operation is out of reach because he can't afford the necessary drugs. If ever a person needed to "make it back" in the market, it is this reader.

We received this note from him as the Nasdaq soared on Tuesday:

As I watch the markets fly this morning, and everything on my buy list up anywhere from 8% to 15% today (and up 20%-35% from last week), I feel almost ill because I'm still sitting on the little cash that I have left. The pressure to get back on my feet is immense.

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The Torture of a Bull

This causes me to wonder: 1) how many people out there are in a similar situation, where they continue to be paralyzed by fear; and 2) how do they plan to resolve the situation effectively and move forward?

For now, we advise this reader to stay away from the market. He is too shell-shocked to be trading.

Saving by Not Buying?
As reader Jack Tierney put it:

This is the "A Penny Saved is a Penny Earned" dilemma. Do the results of inaction count the same as the results of action? Today I can look at a stock I considered purchasing last week only to discover by not doing so "cost" me $3,000. Similarly, I passed up purchasing Motorola (MOT) on that sam day; had I purchased it, I would have lost $6,000.

Am I $3,000 poorer due to my inaction in the first example or $6,000 richer due to my inaction in the second? Obviously the answer is no to both parts; my cash statement shows my funds unchanged. If the pain of watching is as great as the pain of playing, this is a game you shouldn't play.

Dr. Brett Steenbarger, a SUNY psychology professor, said he suspects a lot of people are kicking themselves in this way:

The problem is not being out of the market; the problem is the "ill" feeling that comes from regret and self-recrimination. People use negative outcomes as opportunities for attacking themselves, talking to themselves in ways that they would never talk to another person in the same situation. If fear i the problem, developing confidence in a trading methodology is the answer. But bashing oneself for missing a couple days' rise can only have the opposite impact.

After all, even the most successful veterans are wary now. "I don't trust this rally," we were told yesterday by Irving Redel, the former head of the New York Commodities Exchange.

Good Ending, but Middle's Middling
Mark McNabb, the aesthetic Virginia Tech finance professor, put it this way: "Watching the watching the turn toward risk and the Nasdaq is like seeing a really soapy movie where the two former lovers run into each other arms as if neither had cheated."

"Of course," McNabb added, "the ending is always good."

We agree that the ending is likely to be good. We're keeping in mind those millions-of-percent-a-century returns. But we're not sappy buyers today, with the Nasdaq 100 having risen 20% in the past five trading days and tax day coming up.

After April 15, we expect to be bullish again through the end of the month.

We have put much thought into what approach should be taken to a market that has broken all the rules. The buy-and-hold and buy-in-panics strategies that we like haven't worked for the past year. Growth investing, value investing, low P/E investing, small-cap investing, IPO investing -- all have failed.

The only rule that applies is the meta-rule of the ever-changing cycles.

Chess for Success
What's needed, we think, is an entirely new approach to the market: one that begins with defenses. We found it in the strategy of David Bronstein, probably the greatest chess player who ever lived.

We write about Bronstein's approach in detail in our column today on MSN MoneyCentral Investor (www.moneycentral.msn.com).

In brief, Bronstein advises us not to go immediately for the big win. Instead, begin by building a shelter for our king. In the market, that means making sure you have enough cash to protect yourself and your family, setting aside reserves for health, home and college education.

Once the defense is in place, Bronstein would send out his infantry, the pawns. For the investor, this would be making swing trades of a few days of duration. Once you have built up some speculative capital, then you can send out your long-range pieces" -- bishops, rooks, knights and queen -- by taking long-term positions.

Simple, but exactly the opposite of what many of us have been doing.

Speculator's Scorecard				
	Days Up/Days	# Days in Latest	% Change	% Change

	Down Ratio (YTD)	Streak (YTD)	YTD	(last 10 days)
Dow	0.95	Down 1	-7.2	2.3
S&P 500	0.90	Down 1	-12	1.1
Nasdaq	0.90	Up 3	-23	2.4
Europe STOXX-50	0.83	Up 3	-8.8	4.5
Dollar/euro	0.90	Down 3	-6.0	0.0
Nikkei	0.85	Up 1	-4.4	-4.3
Dollar/yen	0.92	Down 1	-9.5	-2.1
Gold	0.90	Up 1	-5.0	-0.5
Oil	0.92	Down 1	9.4	7.1
Bond Futures	0.84	Up 1	-1.7	-1.4
2-Yr Note Futures	1.30	Down 3	1.2	0.08
Bund Futures	0.90	Down 3	0.04	-1.3

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Rudyard Kipling Redux

By Victor Niederhoffer and Laurel Kenner
Columnists
04/13/2001 09:31 AM

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

Every rule on the stock market was broken last week.

Buying after panics didn't work.

Buying on interest-rate declines didn't work.

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

Buying at resistance levels didn't work.

Buying good stocks didn't work.

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

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

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

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

What hideous joy abounded on Friday: punishment had finally come to the upstart innovators. How dared the 20-somethings attempt to make millions on good ideas, the Warren Buffetts asked in their computer-less offices. And how dared those who couldn't meet the minimum for opening a white-shoe brokerage account presume to trade stocks in their little online accounts?

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

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

It Had to Happen

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

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

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

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

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

No Other Time Like This One

There's hardly a precedent for this.

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

"I owe $8,000 on my estimated tax, but now I can't sell my stocks, so I'm in trouble," a young woman said as she walked along Broadway on the city's tony Upper Westside. People shopping for apartments asked sellers whether the market crash would affect real estate values, as happened after the 1987 crash.

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

Buying Opportunity?

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

The question is when and how.

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

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

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

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

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

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

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

(Editor's note: Below follows the scorecard as of April 12, 2001)

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Nasdaq	0.92	Up 4	-21	7.7
Europe STOXX-50	0.81	Down 1	-9.0	4.2
Dollar/euro	0.92	Up 1	-5.5	1.0
Nikkei	0.87	Up 2	-3.1	2.1
Dollar/yen	0.95	Up 1	-8.8	-0.3
Gold	0.92	Up 2	-4.4	0.5
Oil	0.95	Up 1	9.7	7.3
Bond Futures	0.82	Down 1	-1.9	-1.5
2-Yr Note Futures	1.26	Down 4	1.1	-0.1
Bund Futures	0.87	Down 4	-0.06	-1.2

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Well-Armed Bears Go Bull Hunting

By Victor Niederhoffer and Laurel Kenner
Columnists
04/16/2001 08:57 AM

(Note from the Speculators: All readers are invited to a special Stock Talk! gathering at1 p.m. Saturday, April 20, at the Conservatory Garden in Manhattan. Entrance is at 105th Street and Fifth Avenue. Bring questions and ideas on the market.)

To the tune of *The Party's Over,* lyrics by Betty Comden, music by Jules Styne, from the show *Bells Are Ringing* (1956):

The rally's over
It's time to sell them today.
They've bought all your techs and now
The Specs say, "Take them away."
It's time to give up the high-fliers
Just make your mind up, the bulls should retire

The rally's over.
The market stumbles and dips
You bought and bought all last week,
It seemed to be right, just being in chips
Now, you must wake up, all jumps must end,
Put on your hedges, the party's over
It's all over, my friend.

The Nasdaq composite rose 14% last week, thereby accomplishing in four days what it typically has done in an average year.

We hope you read our column on Monday, in which we predicted the market would be bullish for the rest of the week. And the one on Tuesday, April 4, when we said:

Readers from all around are asking us, "When will the bottom be set?" Our answer is that each day has to be played as a separate decision relative to the constantly varying and infinite possibilities that will develop. However, to stick our necks out with a definite forecast, we answer that yesterday's level in the Nasdaq and S&P 500 has a reasonable chance of being the bottom.

Nasdaq futures are up 23% and S&Ps are up 8% since April 3, so we hereby give ourselves an RA+ for that prediction (that's "retrospective" A+).

With any luck you missed us on Tuesday, April 10, when we advised getting fully hedged at the close. The Nasdaq went on to rise 6% on Wednesday and Thursday. S&P 500 futures gained 1.7%. We should have retired on Monday.

Right now, all the Spec computer numbers are bearish, having nothing but bear meat to chew on. Four up days. An enormous rise in the past week. A big rise in conjunction with a decline in bonds. A sharp downturn on Friday followed by a sharp rise. Not a single thing is bullish.

As we go to press, the market is scheduled for a sharp down opening. This will likely give way to a short rally, but about noon the market will resume its bearish course.

"The Party's Over" encapsulates our thinking.

Chips Are Hip

The stars of the rally were semiconductor stocks, a development that the old-hearted columnist at the leading financial weekly quickly pooh-poohed with a sneer at the new-fangledness of it all. He singled out the unhappy prospects for the MOSFET —a chip, he assured us, that would have simply been called an electromechanical relay in the good old days.

We were filled with admiration that the ancient columnist's memory is sharp enough to recall the days when computers took up entire rooms, but couldn't share his nostalgia. As engineer John Lamberg wrote, the "just plain folks" manner carried a hidden message: "tech is bad."

In typical mystical fashion, the old-hearted columnist relies on the authority of a single selected source. Are there any that are bullish? Is a decline in chip sales in a quarter bullish or bearish? What does the market believe regarding chip sales, and how are the outcomes likely to affect the market? Questions like these would seem to be apt.

But even more important, chips are one of those meta-developments, like electricity, cars, printing, immunization, gene decoding, factories and plastics, that are responsible for dramatic improvements in our way of life. They are faster, cheaper, lighter and more dependable than their mechanical and electrical substitutes. Why belittle and make fun of chips? One might just as well make fun of cars because they're not mules, or electricity for not being coal.

Such humor reminds us of the old husband in *Middlemarch* who, seeing that his beautiful young wife was admired by a younger man, rewrote his will so that she'd lose everything if she married the younger man. (He soon died, and she married the young one anyway.)

Spec Portfolio On Fire

Our own recommended portfolio rose 11% last week, bring our year-to-date gains to 120%. Our two chip stocks, Conexant (CNXT) and Viasystems (VG) distinguished themselves particularly well, gaining 27% and 20%, respectively. The two semiconductor fabrication stocks also did well, with Axcelis (ACLS) up 12% and Techne (TECH) up 8%. Unhappily, Conexant and Viasystems are still 48% and 64% below where they were when we recommended them.

We advise selling XO Communications (XOXO). Recent insider sales have outweighed the buys, thus removing one of the principal reasons for our recommendation. We also would sell Conexant, because of the absence of insider buying this year.

Even after its 23% rise last week, the Philadelphia Semiconductor Index ($SOX) is still down 40% from where it was a year ago. But we don't think that buying semiconductors right now is a great idea, after a jump like last week's.

In fact, we are as bearish as chronic buy-and-holders like us can be at a time like this. And considering the spectacular rise that the market had last week, rivaling some of the greatest streaks of all time, it might be good to call lit a day on the long side for awhile.

Get Shorty

Thus, we are advising hedging our entire recommended portfolio with twice the amount of short sales of an index or futures against it.

No one we know has ever made money consistently on the short side, and it is highly likely that the same would apply to us.

But the devil knows that we have reached and reached to be bullish during the last few months. When things looked darkest and we looked the most foolish, we were the most adamant about sticking with our numbers. Might as well stick with the numbers now that they are bearish.

(End note: A revival of "Bells Are Ringing" starring Faith Prince is playing at the Plymouth Theatre, 236 W. 45th St., New York City. See www.broadway.com for details.)

Haynes, Heyne and Heisenberg's Uncertainty Principle

By Victor Niederhoffer and Laurel Kenner
Columnists
04/17/2001 10:28 AM

(Note from the Speculators: All readers are invited to a special Stock Talk! gathering at 1 p.m. Saturday, April 20, at the Conservatory Garden in Manhattan. Entrance is at 105th Street and Fifth Avenue. Bring questions and ideas on the market.)

We received a challenge from our friend Mr. William Haynes over the weekend that deserves consideration by all traders. Bill, one of the most respected aerospace systems engineers in the US, brooked no nonsense when he was running his various operations, whether from NASA or Congress. He befriended Laurel more than a decade ago when she was an aerospace reporter, and kindly took an interest when her interests veered into the financial world. His letter, excerpted below, is directed at the many limitations of the art or science of trading.

As a non-professional trader, I have viewed the trading talk with calm detachment, always hoping that the aggregate effect of my participation would be greater understanding and insight into the market and perhaps education on trading secrets.

I have come to a tentative conclusion:
THERE IS ABSOLUTELY NO COHERENT SYSTEM IN YOUR TRADING, and YOU ARE CONSTANTLY, AND LARGELY VAINLY CASTING ABOUT TRYING TO FIND THE ONE SURE WAY TO BEAT THE MARKET.

And how could I, a naive non-trader, have the temerity, even if I am convinced of these damning facts, to actually convey them to all of you as written words forever inscribed into history? Well, I've decided that, what the Hell, it'll be so much fun reading your responses that it will outweigh my embarrassment at having my ridiculous claims refuted.

A. The market is chaotic most of the time, and the reason for that is that there are almost as many independent variables as there are traders. That alone would make any system that cannot track at least a strong majority of traders on a minute-by-minute time scale futile. And such a system is (except by a deity) impossible.

B. There are indeed trends and there are rules (aggregate behavioral), but THEY CHANGE AS RAPIDLY AS THE WINTER WEATHER IN PARIS. By the time any erudite researcher deciphers them for a given situation, that situation is ancient history, and has been replaced several times by other sequences of equally obscure and unique rules.

I will admit that after half a century of activities and some success, there are still some unknowns left about my field: earth orbital and deep-space activities. But the basic physical facts and the design requirements to achieve relative certainty of performance -- to place, for example a payload on an asteroid several million miles away are standardized and documented. Why do I perceive that not to be true after centuries of trading in the market?

I've decided that trading in the market is a religion, because it is based upon faith alone, its rules are unprovable, and its devotees exhibit typical behavior attributed to religious zealots: unquestioning *acceptance of unprovable hypotheses; tremendous faith in selected gurus; and an unshakeable belief in eventual arrival at financial paradise!*

Mr. Haynes does have a point. The laws of physics are simple and can be written on a few pages of paper. Perhaps the same will someday be said about the stock market.

Never Forgetting Anniversaries

We do not believe in such mumbo-jumbo as synchronicity, complexity, chaos, catastrophism, fractals or charting. Most of this, to us, consists at best of anecdotal retrospective reports of certain isolated phenomena, with armchair back-of-the-envelope retrospective mathematical models retrofitted to reveal a correspondence.

Certain symmetries evident in the market do, however, give us some hope of success. As Mr. Haynes notes, these patterns are behavioral and ephemeral. In the market, though, all we're looking for is the high-percentage shot -- not the shot to the moon.

One of the market's curious regularities, growing directly out of the psychology of participants, is its love for anniversaries. (Round numbers are another example, about which we have written here many times.)

Take the prediction last month by Mark McNabb, the Virginia Tech finance professor who is equally expert in reading Fed tea leaves and Southern cuisine, that the market bottom would come on the day of last year's peak.

The professor hit it almost exactly. The intraday high in 2000 for S&P 500 futures was Friday, March 24. The intraday low for 2001 came Thursday, March 22.

Twenty-five days after this year's low, the S&P is up 8%; and 25 days after last year's high, it was down 8%.

In Nasdaq futures, the low of 1,379.50 this year came on April 4 -- one year to the day that the contract took a death-defying 440-point drop.

"I don't think it's coincidental that both turning points were so close to the vernal equinox," wrote reader Art Cooper. "In ancient times, Spring was the beginning of the year, and so 'out with the old trend, in with the new' was a frequent response."

Along the same lines, the laws of co-development pervade all of economics. Development can't proceed without extensive development in other fields. Humans couldn't have evolved from single-cell organisms if flowers had not evolved from algae. Bicycles could not have developed without wires or screws. The Titanic sank because steel had not yet been developed that was capable of withstanding the low impact of an iceberg.

Observe the extensive list of stock markets all over the world that are in the red this year: **US:**
S&P 500: -11%
Wilshire 5000: -11%

Canada: -13%

Hong Kong: -14%

Europe:*
UK: -12%
Germany: -15%
France: -17%
Switzerland: -18%
Netherlands: -18%
Belgium: -12%
Italy: -15%
Denmark: -11%
Greece: -12%
Hungary: -19%

*Currency-adjusted benchmark index

Singling Out
We would prefer to place the harmonious moves of so many markets into an economic framework. The late Paul Heyne, in our favorite economics text, *The Economic Way of Thinking,* says all market phenomena emerge from the actions and interactions of individuals choosing to respond to expected costs and benefits to themselves:

"Individuals economizing in the face of scarcity create the alternatives available to others, and their interactions are coordinated by a process of continuing mutual adjustments to the changing net advantages that their actions generate."

So simple it could almost have been set down by Newton. But so potent that it helps to explain the substitution and economizing that makes mid-teen declines in so many markets this year all too common.

The good news is that when one of these markets pares its loss to the single digits, expect a stampede of substitution to follow.

Bulls at the Finish Gate
As we go to press, a bullish consilience is developing, after Canada cut its bank rate by 0.25%. As is well known, all the central banks "coordinate" their activities. With Canada sticking its finger in the dike, could the Netherlands and indeed the US be far behind?

Let us turn immediately to the specifics of where the market's likely to go. Big down-opens have been bearish in the past. Before Vic's successful hip operation last year, big Tuesday down-opens used to keep him from meeting his chiropractor, Andy Iliewitz, at the end of the day. Back then, Vic used his cane to walk; now, he uses it exclusively for buying the dips.

But the late rally on Monday, and the subsequent decline on Cisco's (CSCO) terrible forecast, clouded the crystal ball. Further adding to the mix is the tendency of markets to fall on the day after four-day holidays and then to bobble their way up by the end of the week.

As Vic has added "earnings season" to the list of words he abhors, which includes "bars," "Thailand," "technical analysis," Laurel had to look around three times to make sure he was out of the room before writing the following caveat: With earnings season here, random components will surely be extrapolated by the weak hands of the world to their disadvantage.

All things considered, we'll throw aside the complexity, forego the Delphism, and advise going to bullish at the close today.

Mutual Funds and Taxes

One of our former distinguished colleagues wonders if there are among our readers any with expertise in the tax effects of mutual funds:

-- Are mutual-fund returns, in aggregate, always worse than passive or "index" strategies during rising markets, because active trading generates (possibly short-term) taxable gains?

-- Does this difference show up in fund net asset values (NAVs), or only in the dollars-in-pockets of investors?

-- Should investors refrain from buying funds with large embedded capital gains?

-- If so, is information readily available on the portfolio-cost-basis of funds?

-- How does this dynamic work during declining markets?

Kindly respond to ltkenner@bloomberg.net . We will be happy to give credit for any enlightening responses.

Speculator's Scorecard

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Dow	1.00	Up 2	-5.8	3.9
S&P 500	0.90	Down 1	-11	3.0
Nasdaq	0.90	Down 1	-23	7.1
Europe STOXX-50	Mkt Closed	Mkt Closed	Mkt Closed	Mkt Closed
Dollar/euro	0.90	Down 1	-6.1	0.7
Nikkei	0.87	Down 1	-3.9	2.5
Dollar/yen	0.92	Down 1	-9.2	1.5
Gold	0.92	Up 1	-3.3	3.1
Oil	0.97	Up 2	12	13
Bond Futures	0.80	Down 2	-3.0	-2.6
2-Yr Note Futures	1.22	Down 5	0.8	-0.5
Bund Futures	Mkt Closed	Mkt Closed	Mkt Closed	Mkt Closed

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

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Sell That Rally

By Victor Niederhoffer and Laurel Kenner
Columnists
04/18/2001 09:32 AM

The list of negatives today is so great today that it's overwhelming. The omniscient market, the German bund, has been down six consecutive days and is now at a year-to-date low. US bonds are at five-month lows.

Nor is the move of the bellwether stock, International Business Machines (IBM), above $100 today for the first time since March 9 anything but bearish. In fact, selling the S&P 500 when IBM closed above $100 and buying when IBM closed below $100 would have led to a 300-point profit in eight trades over the last two years.

US stocks are at a one-month high, last week's exuberance still fresh and bonds are at a low, regrettably we have to call it a day.

To the extent you rely on our guidance, sell all our recommended stocks.

With US stocks set to open up 1.5% today, for one of the 15 highest opens ever, it's never good to look a gift horse in the mouth.

It doesn't really turn bearish until the end of the day, but there's nothing overly bullish after midday either. Each person will have to figure out how to extricate based on their own circumstances, but selling one-quarter at the open and one-quarter in each of the next three hours might be appropriate.

Goodbye, farewell, we hope that you did well.

All We Want is Back in Black
Sorry to be switching from direct current to alternating current so frequently, but our talents are somewhat limited.

Further, we generally can only see at the most a few days in advance, and usually just a few hours. We write an hour or two before the open, trying to give ideas based on things that are intrinsically unpredictable based on a forecasting horizon that's not the best one for us. Between forecasts, we often have three or four during the day that countermand them.

We've done the best we could, and we've had some good calls. We're glad that our recommended portfolio gave a good profit.

Now, to paraphrase Vic's checkers teacher, the world champion Tom Wiswell: We've made our recommendations, now we'll take our hats and go back to the drawing boards.

See you for Stock Talk! at the Conservatory Garden at 1 p.m. on Saturday, 105th Street at Fifth Avenue in Manhattan.

End Note: Cisco

We're not bullish on any stock right now, not even Cisco (CSCO) at $16.66. As our technology maven friend, Shawn Andrew, says: "May I bring to your attention exactly what Cisco Systems sells? Their No. 1 product is a 'router.' A Cisco router is nothing other than an empty box, hardwired with specific protocols."

Networks with Windows operating systems initially needed a Cisco router, Mr. Andrew explained. "It is packaged correctly, with fancy lights, incredible names, leaving the Windows users feeling so scientific. If he knew exactly what he was buying (a PC with no hard-drive, no network card, no modem, but fancy lights and a big name), he would think twice before bragging."

That would be fine for shareholders, except that a vicious circle has taken over Cisco's business, because Cisco acted as a venture capitalist for its own customers. "When the chain broke, Cisco couldn't act as a VC any more, and the cycle reversed. Speculators begin talking about holding for the long term. Why, the stock has dropped over 60%. It must be a bargain," Mr. Andrew writes.

But the vicious cycle has now left Cisco holding inventory, and "the worst inventory one can ever think of holding is technology equipment," he concludes.

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Spectators Leave the Table as Market Is Well-Fed

By Victor Niederhoffer and Laurel Kenner
Columnists
04/19/2001 09:40 AM

In one of the greatest rallies of all time, S&P 500 futures rose 50 points on Wednesday to an all-time high, a gain of 12% in just two weeks. The Nasdaq rose 10%, and is up 33% in two weeks.

When will we see their likes again?

Our own faces are red. We advised closing out all long positions in four equal stages at the open, 10:30, 11:30 and 12:30.

"It doesn't really turn bearish until the end of the day," we wrote, "but there's nothing overly bullish after midday either. Each person will have to extricate based on their own circumstances."

We thus left about 1.5% on the table. Our basket of stocks managed to rise 7% on the day, and according to our independent consultant, David Ciocca, our portfolio was closed out with a gain of 115% on the year.

Who's a Bum?

Our bum call stirred up the ire of some of our readers. One responded:

Thanks for making me cover my longs too soon!!! It really hurts when I don't have the millions you have!! P.S. Weren't you the one who talked about some elephant retracing his tracks? Isn't that what is going on right now? Well, maybe you need to reread your own book.

Wrote another:

It must be a character flaw in me, but I enjoy it so much when you two blow it so badly . . . I'd be surprised if you have any remaining readership after your stupendous failure of insight. Hopefully your readers awoke late in the day, then read your column, and laughed it off as the pure folly that it was. Granted, no one -- not even you two geniuses -- could have foreseen the Fed's surprise move, but given the improving undercurrents of the market, at this juncture you should probably be peddling cautious optimism, and a long-term forward-looking "buy on the dips" strategy than your more panic-oriented "sell and take profits on any good news" current scheme.

Guess what? DON'T FIGHT THE FED. We are in an easing environment. HOW MANY TIMES DO WE HAVE TO TELL YOU? GET IT THROUGH THAT THICK SKULL OF YOURS! THE FED IS EASING = Start buying now if you haven't already. Christ, no wonder Victor lost all that money in the '90s. Dummies.

Big Black and Blue

Vic, following the advice offered in our column yesterday, sold his family's holdings of International Business Machines (IBM) and shorted the market. IBM has served as a bellwether, and when it's above $100, the market is a good short as of the close. Regrettably, he didn't wait for the close, but was four or five hours early.

Regrettably, we are not privy to pending Fed announcements, as we suspect some of the Fed's central banking brethren and friends are. We suspect that Canada's rate cut on Tuesday wasn't by chance -- although that's only our opinion. And it was reported to us as a rumor that a certain positive-leaning investment firm bought 3,000 S&P 500 contracts at the open yesterday.

When moves are coordinated in secret before the fact, they are impossible to keep confidential, and that creates havoc in the market.

More broadly, the market's uncertainty over the last month can be laid squarely at the door of the old-hearted Fed chairman. Caught red-handed driving stocks down, this relic of the central-planning era chose a moment when the market was rallying to announce a surprise interest-rate cut, to maintain the appearance of independence. No economic news, no global financial disaster prompted the move.

Such flat-footed, excessive displays of government power, such as we've seen the Fed exercise over the past two years, are precisely what raises the risk premium on stocks to inordinate levels. The first impulse of government officials is always to maintain themselves in power, and that is why they inevitably have their own agendas.

Story of the Weak
In a *Wall Street Journal* hagiography on Greenspan today, Greg Ip and Jacob Schlesinger report how the Doc "waited for a day when investors had all but ruled out further rate cuts this month, and when the stock market was rallying," and how over the last few months he "has been determined to make sure that he is moving markets, and not the other way around."

We could not help being reminded by the *Journal* article of the old codgers in Manhattan's clubs who used to sit by the windows and shake their heads disapprovingly when they spotted people of color or recent arrival, or worshippers who didn't frequent their churches, walking along the Fifth Avenue sidewalks.

But as our wise friend Shui Mitsuda wrote us, "Weak ones always blame others and not themselves. Strong ones, the opposite. Eventually only strong ones remain."

We therefore will leave off criticizing the Fed while we go back to the boards. We will have to study much more before we again recommend individual stocks, as the performance of our non-Internet batch was woeful indeed.

A Premise Is a Premise
As we are busy just now re-examining our premises, we will refrain from reporting that two days after 50-point S&P moves, the average move was a 2.5% decline, with only one up-move in seven. Nor will we discuss the bearish implications of the fact that the S&P is up 100 points in the last 10 days for the first time since May 1, 2000, and only the third non-overlapping time in the last seven years.

No, for now we will resort to description instead of prediction, like everyone else. We note the surge in Thailand's stock market above 300 and the 4% gain in Hong Kong. We're scouting around for a mutual-fund manager to interview on how he had been buying all the tech stocks like Juniper (JNPR) before the recent rally.

While we will be examining our tenets in the remaining days before our departure, the one belief we have that is carved in stone is that knowledge and talent is diffuse, and the only way to get good information these days is to tap into the rapidly changing and specialized insights of a worldwide brotherhood of contributors.

With that in mind, we impart some recent wisdom:

From James Lackey of Florida:

God made the sun to shine, made the Mississippi to flood in the spring and made me a day trader. Calm down, everyone. People are more upset about not making a killing in this rally than were killed in the downturn. If you are not a day trader, make a five-year plan. Start a software mutual fund, you'll be No. 1 sometime over the next 10 years.

*I knew all along how much **** Vic was taking from writing a column. It is worse than having new traders underneath you. I can take the worst trader and make him profitable for one day. I would make him do what I do. The problem comes when they have a choice. If you choose not to follow a couple of my trades, of course those trades would be huge winners. It happens every time they put a struggling trader next to me. If you are going to plagiarize, it is much better to steal the entire paper; your own editing may turn an "A" to a "C-."*

And Mr. E, a hedge fund manager, shared his theory on the rate cut:

My theory is that what the Fed did today to cut rates was a "rate protest" given the substantial increase in both short and long interest rates, especially over the past six previous days which saw a 35 basis-point increase in rates. The Fed official release indicated that the declining "angle of attack" of both the US and world economies was picking up momentum and thus the increase in US rates would strangle the small improvement in economic activity that the equity markets are narrowly focusing on.

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Nasdaq	0.95	Up 2	-16	27
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Dollar/euro	0.90	Up 1	-6.3	-2.0
Nikkei	0.88	Up 1	-1.0	3.0
Dollar/yen	0.97	Up 2	-7.8	2.3
Gold	0.93	Up 1	-4.0	1.1
Oil	0.92	Down 2	9.5	4.0
Bond Futures	0.85	Up 2	-2.2	-1.9
2-Yr Note Futures	1.28	Up 2	1.3	-0.2
Bund Futures	0.83	Down 6	-0.4	-1.2

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worldlyinvestor.com

Heading South for Market Commentary

By Victor Niederhoffer and Laurel Kenner
Columnists
04/20/2001 11:31 AM

(Note from the Speculators: Seven of eight days have been up. The Nasdaq has had the biggest rally of any market in any area in about all time. Expiration looms. We are still bearish, pursued by a bull, discredited in the eyes of many good customers. Overnight bonds broke below the round number of 100 by 1 tick and are down almost two full points in just five days. With two of our very knowledgeable Southern readers wishing to put things in perspective, it's a great day to turn over the baton.

Our guest columnists today are Mark M. McNabb, the barbecue-loving finance professor of Virginia Tech University, and Jack Tierney, the walnut-growing Tennessee philosopher.

We look forward to seeing you at Stock Talk! on Saturday, 1 p.m. at the Conservatory Garden at the east side of Central Park, entrance at 105th Street and Fifth Avenue. We provide the franks and juice from Papaya King, you provide the queries.

Today, we begin with McNabb as he puts the latest developments in the bull-bear conflict into context. -- Victor and Laurel.)

Battle Royal? Yes, But the War Is Won.
By Mark M. McNabb, Ph.D., CFA

If I were to say this has been a wild week in the markets, you'd probably look at me sideways. Not only has it been wild, but very contentious. It started on Tuesday evening with mangled bulls slaughtering arrogant bears and the market mayhem upward after Intel's (INTC) "not so bad" earnings announcement. Then, there's this matter of the Federal Reserve's rate cut on a phone conference vote on Wednesday. It continues today.

The Fed's move is contrary to most of its public statements and perplexes many who are now arguing about the need, or the timing, or the wording, or just arguing to be in print. To my knowledge, there was no event, no firm, no Nobel economists, no currency, and no government in crisis. There was, and some maintain there still is, a crisis in faith. We lost faith in our economy and in the stewardship of our economy, with the Federal Reserve being partly responsible for this erosion.

For what seems like an eternity, the naysayers have had their way with the press, the markets, and the public faith. Markets reflected this by giving up all of January's gains and entering "official bear market territory," while leading publications reminded even the most disinterested observers of financial affairs of our new-found poverty. Suddenly everyone you knew had looked at their retirement plans and saw gloom looking back.

Backwards to Go Forwards

However, in little more time than it takes a government to reach for your wallet, the markets have staged one of the most dynamic reversals. On March 22, almost one year after the market peak of 2000, the bottom in the Dow average had formed, followed on April 4 by the S&P 500, and the Nasdaq.

It would have been rational to expect the market to lift after the third week of March as preannouncements by firms with disappointing results tapered off. I doubt many expected the S&P 500 to rise 13% since early April, or the Philadelphia Semiconductor Index ($SOX) to turn up by 50% in two weeks or Nasdaq-100 futures to pop 15% in 48 hours. No doubt those short these indexes certainly didn't expect such reversals.

The media have aired both camps for and against these latest moves in the market. The natural simplification one might make is to box the two sides in as bull or bear. The bears, be they perma-bear or periwinkle, argue that everything good since either the Great Depression or the Great Wall of China has been a fraud perpetrated by fiat money, corrupt world bankers and prima donna managers with sleazy accounting acting on a stage set by Machiavelli. The perma-bull case is that our destiny is in the stars and we will reach new heights by staying the course.

A Question of Degrees

While the debates rage, the market has shown either side little respect and has always chosen the path of least resistance. Fortunately for mankind, markets have "erred" on the side of wealth creation about 80% of the time. I consider that Hall of Fame performance and you should too.

The debate in the market now is one of "How low is low enough?" "How bad is bad enough?" and "How much suffering is enough?" The informed debate is most heated not between the perpetually optimistic (my tendency) and the perpetually pessimistic (not naming names out of respect for the living dead), but between "top-down" and "bottom-up" analysts.

Top-down analysts look across economic and industry-wide factors and even consider the touchy-feely nature of perceptions to suggest meaningful trends to investors. Bottom-up analysts just want the facts from each firm, nothing more and nothing less. The heated debate between these analysts is reaching a volume that drowns out the screams of those short semiconductor stocks this week.

Improper Conduct?

For example, go back in time one week when Jonathan Joseph at Salomon made his call that "bad was bad enough" in the semiconductor segment. He allowed that things could get worse but shrugged and said the upside is what's important from these levels (when the SOX was around 460). The semiconductor stocks, good and bad, took off. They rallied some more, and some more.

Then when things were about to settle down, Intel (INTC) gave the market a nod and a wink and said, "We don't stink." The shorts were smoked. Next before you could say "Maria Bartiromo," the FOMC announces a rate cut -- which, to a short, is the certain equivalent of a wooden stake in the heart.

Now while all this was going on, Dan Niles at Lehman cut semiconductor estimates and almost went out of his way to downgrade many of the very stocks that Joseph liked. Other analysts stated they thought Joseph was lucky having his narrow top call in the chips last summer interpreted more broadly than it should have been and that he was out of line to suggest the sector had bottomed when day after day another horrific fact about the semiconductor industry landed at the feet of investors.

The name-calling ensued and spread to other sectors and commentators. While mutual respect has been restored, the passion with which the sides are arguing has been heightened.

The bottom-up analysts are saying everything they see and hear is not good and even the company managers are morose. The top-down side says the market has come so far to one side that it has only one way out and it's not down (or at least not without a fight). The bottom side maintains, "If there's no E, how can you talk about a P/E?" while the top side replies, "The Fed is now my friend and we will win in the end." The bottom side retorts, "Fundamentally, you are mistaken," and the others reply, "We see the future, you are too focused on past misfortune!" One side sees the present mistakes while the other sees the opportunity.

Which of these is right? Well, one year ago, everything you saw, everything you heard, and every manager told you that business was smoking. Some, who were not perma-bears, stepped back and said that caution was warranted even if the fundamentals are strong now. Those who respected history rather than ignored it were correct. Today, you can read commentary from those who are not perma-bulls that the economy will improve from here as we've gone down too far given our potential even as the near term is very difficult. So while the markets may not double in one year or three and they may even give back these gains, do yourself a favor -- let the market do the heavy lifting -- and if you have to, put up a good fight.

(Mark M. McNabb, a finance professor at Virginia Tech, welcomes the Federal Reserve back from their disastrous walk on the dark side and anticipates that healthy economic growth will resume with the same certainty that the thoughts of his students turn to romantic flings rather than exams in the spring. While out in the seductive reaches of the deep South for a wedding, he looks forward to your comments at mmcnabb@vt.edu upon his return.)

(And another view, from Jack Tierney, who is inspired by "Candide" as he works to salvage his black walnut trees after a recent frost.)

A Less Interesting Enemy

"Even in those cities which seem to enjoy the blessings of peace, and where the arts flourish, the inhabitants are devoured with envy, care, and inquietudes, which are greater plagues than any experienced in a town besieged." Voltaire, *Candide*

The nation (or at least that half of it which invests) heaved a collective sigh as Alan Greenspan, like a sneak thief, robbed the market of its bogeyman. Yes, high interest rates, the sole cause of our economic crisis, were dealt another 50 basis-point blow.

This, the fourth such strike within 105 days, comes from a Fed long rumored to be indifferent to public and political opinion.

However, as it has become ever more clear, the populace now views the moves in the Nasdaq as the only legitimate measure of the nation's economic health. Its continual faltering, amplified by economic seers like Rather, Brokaw and Bartiromo, necessitated support.

Therefore, "the sages of that country could think of no means more effectual to preserve the kingdom from utter ruin than to entertain the people with an auto-da-fe..." What better to burn at the stake than high interest rates? And the proceeding was greeted with resounding hurrahs from the miscreant's chief adversaries: Abby, Larry, Barton and a host of other brokerage mavens whose only shared experience seems to have been a noticeable slimming down ("refreshments of all kinds were offered...between Mass and the execution").

Close to the Vest Pocket

Despite the good chairman's bravura performance, there remain pockets of discontent. Unemployment seems to be creeping up (Europe's is twice as high), consumer confidence is heading lower (what does the public know?), energy prices remain high (Congress can take care of that), inflation is creeping up (Europe's is higher), and, with the exception of autos (which are being sold at close to cost), the consumer seems to be less willing to spend (the tax cut, though back-loaded, will take care of that).

These malcontents, though, are few and in an age that worships tolerance, receive little notice and less respect. So let the good times roll! High interest rates have been smitten, but not fatally.

Optimism reigns again and should it be necessary, high interest rates are good for another stroke or two. We've learned well from the Japanese experience; attack the nightmare and hope the monsters die. . .perhaps of laughter reading Keynes.

(Jack Tierney welcomes your responses at jjtcbt@bellsouth.net.)

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Rules of Thumb (and to Thumb Your Nose at)
By Victor Niederhoffer and Laurel Kenner
Columnists
04/23/2001 09:42 AM

After our suggestion last Wednesday morning to close out all longs, which brought a couple of furious e-mails from irate readers, we have decided to mend our ways as our retirement approaches and be much more like other commentators.

We dug up our copy of the golden rules of market journalism, distributed by editors to junior finance reporters worldwide, and henceforth we are going to follow them to the letter. We reprint them here for ease of noting any transgressions:

1. Describe what happened, don't predict.

"The Dow fell 113 points as General Electric (GE), Merck (MRK) and Citigroup (C) declined."

2. Predictions are OK if they can't be falsified.

"The market is trading in a range between Dow 7,000 and Dow 11,000."

3. Quote tired fund managers. They'll brag about their smart recent moves and puff their holdings, but if they oversee billions, perhaps readers will be fooled into thinking you're credible.

Most of the time these managers won't be beating the market, so just leave fund performance statistics out.

"Tony Hernandez of the Relative Performance Fund, with $100 billion under management, said his fund has been buying Intel (INTC) and Dell (DELL) recently."

4. Attribute every move to earnings surprises or interest-rate moves. This will hide the fact that you are clueless as to why the market did what it did.

"The Dow plummeted on earning and interest-rate pessimism."

5. Make up a reason for market noise. No move is small enough to go by without comment.

"The S&P 500 rose 8.09, or 0.7%, to 1,261.89 after Goldman, Sachs & Co. strategist Abby Joseph Cohen said stocks had fallen far enough and advised clients to buy shares."

6. Give placebo predictions that are true in all cases.

"The S&P 500 has rallied 10% in the last 10 days. After the eight previous such spurts, the market has been higher six months later on four occasions, with the average gain some 4.7%."

7. Be reverential to authority.

"Stunned by a gift from the Federal Reserve, stocks surged Wednesday."

8. React, don't anticipate.

"The market, in a delayed reaction to the news that Doc Greenspan has been studying broadband prices in his bathtub, took the sector to a two-week high."

9. Use moving averages as a predictor.

"Transmeta (TMTA) fell yesterday as its price moved below its 200-day moving average and is now in a severe bearish trend."

10. When a winning streak is broken, haul out the "investors questioned whether the market's 10-day rally can be sustained."

"Stocks declined yesterday for the first time in four sessions. Mutual-fund manager John Smith, who oversees $25 billion but is still just 25% invested, said the market had gone up too fast."

Breaking Point

We're going to break just a couple of the rules today. (We can't help ourselves.)

Instead of a tired mutual-fund manager, we are going to report the recommendations of one the best investors of all time, the Shakespeare of Investments, Ed Marks. In his diligent, quiet way, Ed has managed 30% annual gains over the past 30 years. Unfortunately, he only invests for his own account, and his total profits have only been in the billions.

"I have decided in the past two months," Ed writes, "to invest heavily in high-techs that I once thought were much too rich for my blood. These are (were) selling at levels of single-digit percentages from what they sold at for many years. They have cash hoarded from when they made money like crazy, have products that are newer, faster, more imaginative than ever.

"They were so overbought that I never dreamed of buying them. But here they are, selling at relatively bargain prices, in some cases below book and cash. Opportunities like this, in my mind, come along every 10 or 20 years.

"I am still very much a value investor with a very long-term outlook. I feel that the high-techs we bought -- Cisco (CSCO), Yahoo! (YHOO), BMC Software (BMCS), Advanced Energy Industries (AEIS), Harris & Harris Group (HHGP), Lucent (LU), Nanophase Technologies (NANX), Oracle (ORCL), Raytheon (RTN/B), Vodaphone (VOD) and Xerox (XRX) -- will be OK long-term. I still buy the basics, Canadian Pacific (CP), USX-U.S. Steel Group (X) and Merck (MRK), when I feel they are oversold.

"I believe that the current malaise will pass within a year, that the survivors will take up the slack given up by the losers, and that the market, purged of the hotshot gamblers and speculators who have been burnt, will once again steady out and move higher. The biotech revolution is just beginning and will fuel the coming markets also.

"I try not to make decisions based on complexities, but try to figure out what I believe is obvious. Short-term, the market is a random walk and unpredictable...long-term, a piece of cake!"

Going Along With Longs

We're also going to break the rule about predictions, as today looks like a good day to begin to re-establish longs. The market is called to open down 1% today. S&P 500 futures are still down 8% from where they were at the FOMC meeting on Dec. 19, when Doc Greenspan tried to show us who the man is by holding off on an interest-rate cut.

(Hopefully, he is in the bathtub this morning and can devote his attention to statistics like the broadband width pricing that he uses to mastermind the economy, a la Patrick Ewing on his old team, which won its playoff game over the weekend and seems to be getting along just fine without him.)

So, here's our prediction: Tomorrow should be a nice up day. The problem is how to ease in. A reasonable rule of thumb might be to buy half at the opening and half at the close.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.05	Down 1	-1.9	8.1
S&P 500	0.95	Down 1	-5.9	10
Nasdaq	0.95	Down 1	-12	26
Europe STOXX-50	0.78	Down 2	-8.5	5.5
Dollar/euro	0.95	Up 3	-4.2	0.0
Nikkei	0.88	Down 1	-0.1	2.9
Dollar/yen	0.97	Down 1	-8.0	1.0
Gold	0.93	Down 1	-2.8	1.8
Oil	0.88	Down 4	5.8	0.7
Bond Futures	0.81	Down 2	-3.7	-4.0
2-Yr Note Futures	1.27	Up 1	1.2	-0.4
Bund Futures	0.84	Up 1	-0.8	-1.9

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Bears Won't Get Off Scot-Free

By Victor Niederhoffer and Laurel Kenner
Columnists
04/24/2001 10:30 AM

Things at the worst will cease, or else climb upward To what they were before.
--Shakespeare, *Macbeth,* Act 4, scene 2

After a big down-Monday, with pessimism on the market increasing and consumer confidence declining, the birthday of Shakespeare offers an opportune time to apply his wisdom.

The plays offer hundreds of quotes that are valuable for investors. The tragedies in particular hold many lessons on how to make sweet use of adversity -- a timely topic after yesterday's decline, the widest since April 3.

But was this decline sweet? Yes. Some of the worst drops in history have come on Mondays -- Oct. 19, 1987, comes to mind.

Ascertaining Data

After Monday declines of wider than 20 points in the S&P 500 futures, the numbers look for an average change of 2% in the next week, with a two-thirds chance of a rise and variability of about 3%.

Of course, nothing is certain -- not even Shakespeare's birthday in 1564. Only the record of his baptism on April 26 has been preserved. Babies were usually baptized a couple of days after birth, so April 23 and April 24 are best guesses.

Since March 24, 2000, the Nasdaq Composite has traveled from 5,048 to 1,638 and back above 2,000. The question is whether the wheel will come full circle, in the tradition of King Lear, or in this scene from Macbeth, where Lady Macduff is comforted by her cousin Ross:

But cruel are the times, when we are traitors
And do not know ourselves, when we hold rumour
From what we fear, yet know not what we fear,
But float upon a wild and violent sea
Each way and move. I take my leave of you:
Shall not be long but I'll be here again:
Things at the worst will cease, or else climb upward
To what they were before.

Just after Ross speaks these words, murderers dispatched by Macbeth enter and stab Macduff's young son.

The market, too, proceeds in a malevolent way. Although big Monday declines are typically followed by rises over the next few days, there are likely to be pitfalls along the way.

Macbeth ends with his beheading by Macduff, and we expect the same fate for the bears.

Speculator's Scorecard				
	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.02	Down 2	-2.4	7.0
S&P 500	0.93	Down 2	-7.3	7.6
Nasdaq	0.93	Down 2	-17	18
Europe STOXX-50	0.76	Down 3	-9.0	3.0
Dollar/euro	0.93	Down 1	-5.0	-0.2
Nikkei	0.86	Down 2	-0.5	6.8
Dollar/yen	1.00	Up 1	-7.0	2.9
Gold	0.91	Down 2	-3.2	2.0
Oil	0.90	Up 1	5.9	0.0
Bond Futures	0.83	Up 1	-2.9	-2.8
2-Yr Note Futures	1.30	Up 2	1.4	-0.2
Bund Futures	0.86	Up 2	-0.4	-1.4

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Sparks Fly as the Claws and Horns Clash

By Victor Niederhoffer and Laurel Kenner
Columnists
04/25/2001 09:08 AM

Once more into the breach, dear friends, once more.
-- Shakespeare, *King Henry V,* 3.1.3

Three down-days after three up-days -- the battle between the bulls and bears is fully joined, and we're in the crossfire.

Having given a premature call to sell a week ago, when we recommended closing out all positions in four equal tranches, thereby missing half of the "I am the Man, Greenspan!" rally, we find ourselves in deep trouble once again after advising readers to go long on Monday at the close only to see S&P futures fall 1% and Nasdaq futures 2%.

We were expecting another deluge of criticism, and our shame was only partly allayed by receiving a mercifully compassionate e-mail from a formerly irate reader. (We had reprinted the letter he wrote after Wednesday's debacle, in which he said, "Thanks for making me cover my longs too soon!" and directed us to reread our past writings on LoBagola analysis, on rampaging elephants retracing their tracks.)

I was shocked to see my e-mail on your commentary. But it was not really a total slam, because if I want to be a trader, I will have to call my own shots. In fact, I was too impatient myself. Seeing the large gap in NDX futures, my methods would have told me to wait for the gap to close or ride it out. But as you are one of the top traders of all time, I gave you the benefit of the doubt. No big deal. The market continues and opportunities will be knocking. So, whatever you do, please don't retire! You have the best track record out there and you trade with real money. Where else can I get trading ideas and advice like this for free!!

But we're trying to amend. From now until our May 18 retirement, we'll try to stick to purely descriptive analysis, following the golden rules of market journalism set forth in our April 23 column. We'll start today by saying, "The market fell Tuesday on earnings pessimism, led by Check Point Software (CHKP), down 14%; JDS Uniphase (JDSU), down 14%; and Dell Computer (DELL), down 12%." Can't get into trouble that way.

Is Sigma Field a Frat?
But it's hard for us to toe the line completely, particularly with the Spec Computers predicting an 87% chance of a rise from today's close to Friday's close, with an expectation of a 2% rise. Which redoubles our bullishness.

And our optimism is tripled, we think, after Alix Martin, a Parisian hedge-fund manager, wrote us that the bullish influence actually extends until the following Monday's close. "We are exhausting the sigma-field estimator here," he wrote. If any of our erudite readers can explain to us what that means, kindly send us an explanation.

We don't know whether to laugh or cry, and are reminded of how a former friend, a star columnist for a rival news service, liked to chastise us when egg was smeared over Vic's face in situations like this: "Only you could think that's funny!"

A Colossal Experiment With a Turing Machine

By Victor Niederhoffer and Laurel Kenner
Columnists
04/26/2001 09:00 AM

"A Turing machine plus random elements is a reasonable model for the human brain." (Proceedings of the Symposium on Applied Mathematics, Vol. 12)

(Note to readers: With an eye to our impending retirement on May 18, kindly judge whether the following commentary, written entirely by our computer, passes the Turing test: Can it be differentiated from human commentary?)

Stocks rallied Wednesday for the first day in four as companies such as Disney Co. (DIS) beat earnings expectations and as stronger-than-expected housing sales boosted optimism that economic growth will pick up again soon.

Retired hedge-fund manager Victor Niederhoffer, who oversees more than $500,000 of assets, said he has been buying biotech stocks on the recent pullback. "We are in the throes of a revolution in genetic engineering," he said.

Pharmacia Corp. (PHA), producer of the Celebrex painkiller, rose 1.09 to 49.10 and American Home Products (AHP), maker of the Effexor anti-depressant, gained 1.73 to 56.08 after reporting earnings that matched or beat the average estimate from analysts polled by First Call/Thomson Financial.

Disney rose 2.23 to 30.81 after beating analysts' earnings expectations. Investors speculated that the entertainment company will beat financial goals for the year.

Whither Forecast

Other companies that rose on better-than-expected earnings included C-Cube Microsystems (CUBE), up 0.69 to 15.92; Norfolk Southern (NSC), up 0.09 to 16.09; and Amazon.com (AMZN), up 0.41 to 16.09.

The Inter@ctive Week Internet Index rose 4.69, or 2.5%, to 191.54. Salon.com (SALN) rose 0.17, or 63%, to 0.44, and iVillage Inc. (IVIL) rose 0.41, or 53%, to 1.18.

No all fund managers were confident that the rally would continue today. Tony Jones of the Relative Value Fund said he is keeping an eye on the earnings reports of technology companies and will sell them at the speed of a switch if they disappoint.

The Spec Computers do not have a forecast today, as yesterday's open was unchanged and there was a big rally after three sharp declines. They will become highly bullish on Monday at the close.

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Market Updraft Sends Specs to Escape Raft

By Victor Niederhoffer and Laurel Kenner
Columnists
04/27/2001 09:21 AM

Miss Watson would say, "Don't put your feet up there, Huckleberry;" and "Don't scrunch up like that, Huckleberry -- set up straight;" and pretty soon she would say, "Don't gap and stretch like that, Huckleberry -- why don't you try to behave?" Then she told me all about the bad place, and I said I wished I was there. She got mad then, but I didn't mean no harm. All I wanted was to go somewheres; all I wanted was a change, I warn't particular.
Mark Twain, *The Adventures of Huckleberry Finn*

With this morning's GDP report suggesting that happy days are here again, and futures going through the roof, we think today is a fine time to sell.

We recommended going long in our Monday, Tuesday and Wednesday columns, and events bore us out. As some of our more blunt readers would say: "Finally."

With the market down on both Monday and Tuesday, we had sworn to stick to the golden rules of market journalism. In fact, we programmed a computer to churn out descriptive stories and call tired money managers for quotes, so as to keep out of trouble. But as we wrote Wednesday: " But it's hard for us to toe the line completely, particularly with the Spec Computers predicting an 87% chance of a rise from today's close to Friday's close, with an expectation of a 2% rise. Which redoubles our bullishness."

Now, with the always-perilous end of the month approaching, we're sorely tempted to hang a sign on the door reading "Closed for Vacation: Back on Tuesday." It seems like a good time to get on a raft, like Huck Finn and Jim, and drift along the river content to fish and see the sights, away from the reach of Old Miss Market Watson.

Like Huck during Miss Watson's hour-long spelling lesson, we grew fidgety Thursday when Nasdaq futures wasted a nice 2% rally on the S&P, which failed to stay above 1,250. The Nasdaq ended the day down 3%. The S&P closed up 0.7% at 1,240.50.

We expect to become bullish again at Monday's close. Until then, we're going to drift in our raft. Under the circumstances, we're going to turn the baton over to our readers, who serendipitously have been discussing water as an ideal for traders.

Cross Currents

The water idea came from Edward Gross, a hedge-fund manager and squash player, as he discussed the strategy of James Lackey, the racecar-driving Schwarzkopf of Florida day traders.

"Water changes direction," Gross wrote. "Not just any direction. It goes toward its passion. Like Lack goes to his. Racecars, etc. Water has passion? Yes, it does. Another way of describing passion is the people and things we are attracted to. Like gravitational force. I remember the chemistry teachers' joke, lovers really are attracted to each other, gravitationally.

"A stream of water has its natural course that it, too, is attracted to. Similar to a person and his passions. If the passion is strong enough the person will persevere like a stream that's natural course is through rock. At first it changes direction toward its other natural attractions; then if the attraction is strong enough it cuts through the obstacle better than any other substance. Nothing cuts better than water, not even a diamond.

"Perhaps a key to success is: Be like water, follow your natural passion and you will be surprised the obstacles that you can overcome.

"P.S. Worried about outside forces stopping you? When you grab water, it goes through your fingers. When you it hit it, it moves aside, almost unaffected. When you hit it too hard, it is like cement and breaks your fist."

Market Dragon

"Pour water into a cup and it becomes a cup. Pour water into a bottle and it becomes a bottle," responded Shawn Andrews, the Las Vegas hedge fund manager, quoting Bruce Lee. "That instantaneous ability to adapt is what is ever present in water but ever elusive to us speculators. We achieve it, if ever, after years of practice."

It seems appropriate to close with some thoughts from Lackey himself on how traders are coping with decimalization. A former distinguished colleague of Vic's was chatting the other day with a gentleman who runs the largest branch office of a nationwide daytrading firm, and learned that decimalization has made his traders risk-averse.

"The process of losing 12 cents on a trade now occurs in many ticks of 1 cent or 2 cent, rather than a single eighth. So losses seem more painful," the former D.C. wrote. "Multiple negative stimuli."

Lackey's response: "Six levels down on your Level 2 machine is the true risk -- always has been, always will be. So if the top spread is a penny and six levels down is half a point, the risk in the stock is half a point a second."

"Take Juniper Networks (JNPR)," he said. "If you take the offer and go, 'Oh no, I am wrong,' and hit the bid, in one second you will lose half a point. If you wait three seconds, you can be down a point and a half."

Liquidity Demand

"The inside market is always the joke. When spreads tighten there is more demand and liquidity. When the spread gets real wide, that is a temporary hiccup in supply and demand, and it is best to offer there. A real wide spread in a stock usually identifies an end-of-order situation.

"During new situations like decimals or order-handling rules in 1997, or Super SOES later this year, there is always an opportunity for nice profits. A ton of rookie-type mistakes happen."

Our only comment: A point and a half on a 1,000-share trade on Juniper shares is $1,500 in three seconds.

Laurel is floating her raft down to the Louisiana bayou for a few days to get insights on how jazz improvisation relates to markets. But Vic will be back Monday, hopefully with a few nice fish in the deep freeze, and some good rod-and-reel techniques for that meal for a lifetime we're always seeking to provide our readers.

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McGruff the Crime Dog's Cousin: Stock Dog

By Victor Niederhoffer and Laurel Kenner
Columnists

04/30/2001 09:18 AM

" Dick White has been playing the 'dog' and he and the coppers are now within 10 minutes of the house." --National Police Gazette, 1846

With the market up three days in a row and bonds at a new low, new ways of approaching the market are necessary if the investor is going to have a dog's chance. Thus we were delighted to receive a completely new approach to investing from our correspondent, Mr. Chris Guida.

"What we need to pick good stocks and spot the turn here," he writes, "is the financial equivalent of the maritimes 'sea dog on watch'. You leave your dog up on the bridge. He knows enough to check the wind every now and again, and barks like crazy if he smells something."

Yes, precisely. The dog's acute senses have been used by hunters and police since time immemorial. Why not use them to help the trader?

We suggest a variation on the method used by Pavlov but this time applied to market conditions. When the market registers a rise of at least 1% an hour the dog would be rewarded with food. Once the dog is trained, the degree of salivation could be monitored through a funnel, as in the case of Pavlov, or by direct observation for those particularly sensitive to the dog's behavior. This could be combined with the piped in audio commentary direct from the floor and live video feed from CNBC or CNN. When the dog sensed an unusual volume of noise, fear or tension from the floor or emanating from traders in the room, it would provide an early warning.

A similar set up perhaps with another dog could be used to sense periods of market panic with the dog's flight or attack behavior providing the cue there.

What's the Top Dog?

The question immediately arises as to the best kind of dog to do the job. For a novel approach like this, it is probably best to go beyond the bulldog or the bear dog. Gary Tate, a philosophic reader trained as a geologist, was equal to the task. "Start with something like a beagle who will call you to the scene as necessary. Later on, when the animals accumulate a track record, we could turn over full discretionary trading authority. I hear good things about Australian dogs – great stock dogs. But where do you go to get a bond dog? And therefore (Phaedros), my dog is a true philosopher!"

But why stop there? Nowhere has domestication and specialization gone further than in dogs. As Steve Jones points out in his collectivist-inspired retelling of The Origin of the Species, "Almost Like a Whale", "To survey the arena [at Westminster or the National Exhibition Center, at Birmingham] is to see how plastic dog flesh can be. A dog show is evolution chalked up for all to see."

While every dog is a barely evolved wolf, the ability of dogs to be bred for special characteristics is apparent. By noting which dogs were the most successful traders and breeding them with regularity, a strain of trading dogs with extraordinary sensitivity to market moves could be developed within a few generations.

Not Your Average Index Dogs

The predicted outcome of this evolution of dogs for this purpose would be the specialization of dogs for either the Nasdaq or Dow. And this activity in addition to being useful would have the further anticipated virtue of being profitable as well.

Let it be known that the spec duo is not unaware of the generalizations and further developments that could arise from this trading aid. Other animals and insects could be used in a similar fashion. Extraordinary abilities to sense magnetic forces have been noted in insects, birds, and mammals, including the dolphin. The shark is particularly sensitive to changes in voltage from the movements of prey. The lowly cockroach has the ability to respond to movements in the wind hundreds of yards away within a matter of milliseconds.

The great truth of evolution and markets is that markets are changing and that prices are varying. Today's dogs are tomorrow's belles of the ball. Let us hope that the training and study of dogs with particular reference to the varying ensemble of stock prices will enable investors to accumulate favorable increments to their wealth.

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MAY
2001

The Mistress Goes With Bonds

By Victor Niederhoffer and Laurel Kenner
Columnists
05/01/2001 09:15 AM

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

Only a Homer, a Darwin, or a Mitchell Jones could do justice to the epoch battle that bonds and stocks raged with each other yesterday with the scales turning at exactly 1:30 EST. At that crucial moment, bonds inevitably broke the round number of 100 falling to a 5 month low and the S&P 500 futures hovered at 1274, their highest level since March 8, up some 15% from their low just 19 trading days ago on April 3.

And then after coursing back and forth to the highs of 1275, the mistress of markets held out her sacred golden scales. In the words of Homer,

"In them she placed two fates of death that lays men low
one for stocks, one for bonds, breaker of stocks
and gripping the beam mid shaft the mistress rised it high
and down went stocks day of doom, dragging stocks down
to the strong house of 1248, and God Apollo left him."

Further insight and unrivaled elegance on the terrible battle is contained in Darwin's *Origin of Species: "A grain in the balance will determine which individual shall live, and which shall die—which variety of species shall increase in number, and which shall decrease, or finally become extinct."*

If any readers can point to the exact grain that caused stocks to die and bonds to live yesterday at 1:30 we would be most grateful, as we don't have the relevant issue of the National Enquirer available just yet.

The Hound of Marketville
But we do have a suggestion for yesterday's evolutionary thoughts on dogs. Many readers wrote to tell us the ideal dog to help traders after our piece on canine traders yesterday. Editor Pam van Giessen wrote, "The ideal dog would be able to scent, flush, and nab the stock quickly. Agility, speed, and brains. While my heart says that the Newfoundland dog is the best dog [she raised them], they are too lumbering (though quite smart, so much so that they will figure out a way to get the reward without having to do the work). Ideal dog for the job would probably be a German short-haired pointer."

Chris Guida, a philosopher from Maine, says, "The right animal for the job is a shark, due to the ease of interface. No diffident mammalian paws tapping on the space bar. Just many transducers anchored in a large watery place. Train on tick by tick data from Lucent or Cisco or for a real feeding frenzy use Webvan."

The most sensitive dog of all is the pit bull terrier. It was bred to be perfectly attuned to the children living in butchers' homes in 17th century England while possessing the fearlessness to prevent a rampaging steer from creating havoc in the family.

The seminal work on pit bulls is *The Dogs of Capitalism*, by Mitchell Jones (available from 21st Century Logic in Austin, TX). Jones' book is the kind that changes your way of thinking to the good. He points out that before 1980, breeders of pit bulls produced stable, easy-going, and discerning dogs. These pit-tested dogs almost never were involved in the vicious pit bull attacks of today. After pit was eliminated by "humane" societies, the unintended consequences were that a new generation of breeders arose who often produced "man-eating curs."

Pit Bulls in Better Times

A characteristic passage from Jones: "The pit bull was the living symbol, a shining statement in the flesh that it was not what you had but what you were, that really mattered. By the simple fact of his existence he called into question the basic strategy by which they had chosen to live their lives."

All that's necessary for trading excellence is to train the pit bull to differentiate between bonds and stocks on days like yesterday where life and death hang in the balance. But do be cautious with pit bulls in the trading pits or elsewhere under current "politically correct" conditions.

With dog or otherwise, it's a totally unpredictable day today. The difficulty of course is that the scales are balanced between a first day of the month and a long run of up days broken by just a small decline. But around mid-afternoon, if a large decline has transpired, we would become fully pit bullish. It might be a good day to apply the middle of the road strategy of buying 1/8th of the position at equally spaced intervals throughout the day starting with the open.

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Rhythm of US Markets Isn't in Time With the World

By Victor Niederhoffer and Laurel Kenner
Columnists
05/02/2001 10:00 AM

With pessimism rampant from Monday's defeat, the fortunes of the bulls were at low ebb Tuesday morning. The scales of Zeus tipped in their favor shortly after noon, and all the indexes rallied with hardly a downtick to the close.

The market, however, cannot be all oysters and absinthe frappe. The fate of the founder of the famous restaurant Brennan's in New Orleans is instructive in this regard. After years of fine eating, he dropped dead of a heart attack at the age of 45.

The Rhythm's Gonna Get You
The rhythms of dining, life and markets demand buildups and letdowns as well as climaxes.

What's needed is a bit of schismogenesis (which as our erudite readers know, means "a term proposed for the origin of differentiation between groups or cultures caused by the reciprocal exaggeration of behavior patterns and responses that may result in the destruction of social balance," and is applied to markets with great force by Las Vegas hedge-fund manager Shawn Andrew).

This is true in sex, where we enjoy the struggle to the heights before reverting back to the doldrums; in sports, as we eagerly anticipate the last seconds of a game; and in music, where only second-rate performers and composers do everything fast and loud.

Germans Not Amused
Perhaps that's why the aesthetic Europeans, returning from their May Day break, are not at all pleased with Tuesday's outcome of the battle in the US. Not only did Germany not show a rise overnight to catch up with the US victories, the DAX is actually down half a percent.

We wouldn't be surprised to see these doubts become much graver and spread to the US in the near future. As in Beethoven's Fifth Symphony, which Laurel heard on her return from the bayous last night, the initial triumph of the major key is only temporary, and the listener hears a forewarning of the minor's return.

It was, after all, just four weeks ago today that the S&P futures were 13% below current levels, while Nasdaq futures were 29% lower. Let's hope that when the old minor key returns it will not be with as great a harshness.

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A Check-Up on Gaming the Market Mistress

By Victor Niederhoffer and Laurel Kenner
Columnists
05/03/2001 09:28 AM

Others may talk of the Round Table with its 50 knights, but I greatly prefer the Square Table with only four nights.
--William Fiske, quoted in *The Chess Companion*

The 10,080th round of the Spec Duo's chess match with the Market Mistress began Friday at the close with the Specs issuing a "fine time to sell" call and announcing they expect to become bullish again at Monday's close.

An annotation by Fata Morgana follows:

1. Tuesday, May 1. Specs' Gambit: Buy: As the May matches begin, the Specs go for an up-move, buying in portions of one-eighth over the course of the day. The Duo has had much success with this quiet move at the beginning of months, although they lost 20 points with it in the April championships. They show great courage to come back with it, especially after a 13% rise in S&P futures since April 3. The move pays off as futures close 1.5% higher.

2. Wednesday, May 2. Opening Move: Specs call for a down-day. The Specs lost badly in the "I am the Man -- Greenspan!" rally two weeks earlier. The market looks like it's going for a similar strategy, with an up-open following an exuberant Tuesday. However, the Specs call for a down move, apparently havingresearched some new ideas with their Turing Deep Black Computer based on the current status of leaks and fear.

3. Wednesday, May 2. Market Mistress Battles Back: In a close-fought game, the mistress holds her own until 2:30 pm., then falls back to end down 0.1% on the day. In Europe overnight, with S&P futures 1.2% lower, she surrenders, laying her king on its side and extending her right hand to shake the Specs' hands with dignity and a lowered head.

3. Wednesday, May 2. After the Close: A member of the crowd calls out: "Great call yesterday (NOT)." The Specs are accustomed to the thankless job of disappointing those rooting for the Market Mistress. At least they have not yet received death threats, unlike Dan Niles, the Lehman Brothers analyst who issued bearish calls on tech stocks. Yet the booing has taken a toll. The Specs have announced their retirement on May 18, and are looking forward to a life of leisure, quiet speculation, training market dogs and collecting fees for columns generated on their Turing Computer.

4. Thursday, May 3. Open: The Specs have swung from bearish to bullish to bearish in recent play, and the crowd anticipates a bullish call today. But with time pressure on the Market Mistress, the Specs try a gambit. They move for a rally of a few points from the open, and then advise going short, covering the position at the close.

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Errant Farmer Helps Town Crop Portfolios

By Victor Niederhoffer and Laurel Kenner
Columnists
05/04/2001 08:46 AM

(Note from the Speculators: This week's guest columnist is Jack Tierney, who reports from time to time on the remarkable residents of the mythical city of Charon, Tenn., a town close to where we all live.)

It's only human nature for investors to seek some oracle, some incredibly dependable font of wisdom, some individual or system that will lead them to the holy grail of wealth.

Many say it doesn't exist. It can be found, though, in the person of Wally Wingtip, the Necromancer of Charon, Tenn.

Whereas Buffett, Lynch, Graham, etc. have fair records for being accurate much of the time, Wally delivers every time. As a result, the citizens of Charon are busy reworking their portfolios as well as making plans for this year's crop and livestock allocations.

It's not uncommon for advisers, analysts and mutual-fund managers to keep their fine reputations and compensation packages in spite of costly decisions. Wally, however, has attained almost mythic stature for being wrong 100% of the time.

While managing his brother's Illinois farm in '72, he planted clover rather than wheat, thereby missing out on the Russian Grain Robbery. In '73 he shorted heating oil, bought transports, went long bonds, raised pigs, shorted soybeans and bought the fastest sports car on the market. Shortly thereafter, Nixon instituted wage-price controls and the Arabs brought about the oil embargo; gas prices skyrocketed, stocks and bonds were crushed, livestock prices were frozen, soybeans went from $3.50 to $12.00, and 55 mph became the national speed limit.

As the trend continued, others began to take notice.

Contra Indicator

Soon Wally's neighbor, Mason Grayson, began soliciting his advice, which, in turn, he'd share with the fellows down at the co-op. While many of their speculations were minor and had to do with commodities (if Wally decided not to plant tobacco, they'd buy Phillip Morris (MO), if Wally bought a slew of shoats, they'd short pork bellies), the big break came in '82 when he shorted the market. By this time the Co-op Clique, as it came to be known, had set aside a substantial amount of idle capital. While they plunged in on the longside and reaped huge rewards, Wally went broke and was on the verge of eviction.

This struck at the heart of the community. Because of his errant ways, many Charon housewives who had never dreamed of anything beyond a freshly painted two-holer, now enjoyed indoor plumbing. Sons who never thought to see their cars off the blocks in the front yard were driving around on brand-new retreads. Daughters, long used to homespun and hand-me-downs, were decked out in new overalls and thick-soled boots. The local John Deere dealer no longer had to work nights at The Cracker Barrel, thereby creating a job opportunity for his cousin.

This was trickle-down economics at its best. So in deference to his stature as the ultimate contrary indicator, the folks of Charon give Wally $100,000 every year. After renewing his subscription to *Barron's* he is free to use the rest to buy or short whatever he wishes. The gifting is predicated on one condition: that he tell the townsfolk, and no one else, his investment decisions as well as any plans he has for his farm.

Honoring His Pledge

And, honorable man that he is, Wally has adhered to this agreement. Despite numerous calls and much cajoling, he remained steadfastly mute.

I appealed to Wally's discoverer, Mason Grayson, for help.

"Look," Mason told me, "I guarantee if enough of your friends and acquaintances are investors, you will find among them at least one who is so regularly out of step as to defy the laws of chance. Some individuals seem almost supernaturally endowed to do the wrong thing consistently. They never get the count. Find your own Wally and you'll never need another investment letter or adviser again."

Upon reflection, I realized he was right. Some time ago, when I still labored 9 to 5, a group of us met regularly to discuss our 401(k) allocations. One member, Doherty, though a remarkably adept horse picker, always amused us with his sad tales of moving into different asset classes just prior to their blowup. I'll call him tomorrow...and maybe get a Derby winner as well.

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Turning to Turing to Crack the Market Enigma

By Victor Niederhoffer and Laurel Kenner
Columnists
05/07/2001 10:03 AM

The violence of the move on Friday, with the open at the lowest price of the week and the close at the highest, shook the foundations of everyone's beliefs about the market, unleashing a torrent of primal impulses and thoughts.

We were reminded of the recapitulation in the last movement of Beethoven's Fifth, where the minor-key goblins of the scherzo make a reappearance before the ultimate triumph in C major.

Like the computer programs that learn to play games of skill against champions, our Turing Market Column Generator learns partly from a repertoire of opening moves and rules based on wins and losses during expert play and partly from an enumeration of all possible combinations of moves when the number of pieces on the board becomes limited.

The computer was in overdrive this weekend as it ingested the thoughts of myriad confused gurus and financial journalists.

Gurus or Charlatans?
Consider:

"There's confidence the market has stabilized."

"The consensus now is that we've seen the lows for the year."

"The economy may stay weaker longer than many now expect."

"It may be premature to call the month-long rally the start of a bull market, but there have been some encouraging signs lately, including the willingness of investors to overlook bad economic and earnings news."

The computer could hardly restrain its enthusiasm when this one came into the memory, because it's the perfect response for a market that acts in an opposite fashion from what the latest economic number was supposed to cause: "Stocks bounced back because unemployment figures reflect where the economy has been, rather than where it's going."

"Investors, in any case, seem convinced that stocks have bottomed out."

"It's not just the 'little fellow' who is getting the hots for the market.hedge funds are antsy that they'll miss the move," wrote the venerable columnist at the leading financial weekly, shaking his head disapprovingly and, we might suspect, with a twinge of envy for having missed out on the Nasdaq 100's 38% rally since the low on April 3. Those 38% moves do tend to add up.

And then there was *Fortune* magazine's attack on Mary Meeker, the erstwhile Queen -- now Nanny Goat -- of the Internet. Fortune criticized Ms. Meeker for never saying "sell" and for showing a mother-like attachment to her stocks.

Old Hearted Gray Lady

The New York Times was equally displeased with Friday's rally, which followed a government report of an unexpectedly large number of lost jobs. "A giant tree fell in the forest on Friday, but to stock market investors, it didn't make a sound," the Times market columnist wrote with disgust. Doesn't the investor know that, as a big investment firm strategist said, "In the face of rising joblessness, consumer confidence gets hit"?

"The real problem here," the strategist told the Times, "is that America is working through the aftershocks of an equity bubble."

Unhappily, the multitude of inputs blew out the opening repertoire of our Turing computer's circuits, toppling a statue of David and Goliath's head and in the process knocking the clock off our trading room wall. We are left only with end-game play.

Bless the Spec Computers

Fortunately, to supplement our Turing generator, we still have our own Spec Computer enumerations, based on all possible combinations that have happened in the past. Looking at what happens after extraordinarily bullish moves on employment report days, we find that the chances of a substantial decline over the next week are about 75%.

Strangely, the winning moves for the bearish side in games like this do not involve a frontal clash at the beginning of the day. Rather, the expert strategy seems to be to wait a few hours to establish proper lines of bearish force.

Similar negative results, albeit not quite as dire, spout forth from the bellows after a series of strong up-weeks.

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Futures Trade Narrow, but the Future Is Wide Open

By Victor Niederhoffer and Laurel Kenner
Columnists
05/08/2001 10:11 AM

Yesterday's 11.3-point range in S&P futures was the narrowest since March 8. But don't relax too much. The market likes to get you off guard before changing the tempo, the same way good wrestlers step up the pace after a few moments of feeling one another out.

In fact, the change of pace came this morning. Morgan Stanley's upgrade of Cisco Systems (CSCO) to "outperform" from "neutral" has the market scheduled for a resounding up-open, after a series of depressing down-opens.

Ironically, the upgrade came after a feature on Cisco in the May 14 issue of *Fortune* that in our opinion was among the most negative pieces we have seen. The writer poked fun at such classics as "Cisco does better during the tough times." Our favorite was the irony of the comment, "When (Chambers) called rival telecom-gear markers 'old-world companies,' his tone was never mean-spirited. Rather it was almost as if he felt sorry for them. (This, by the way, was even more infuriating to competitors.)"

A Different Set of Rules
Morgan Stanley's upgrade of Cisco coincides with a nice letter from a reader named Charles, who writes: "Please do NOT retire. I read your story every day. You are the only one who is trying to give advice to last a lifetime, not just to next month."

With the substantial up-opening presaging a bout of bearishness, we find it highly appropriate to present some meals for a lifetime today. We are going to miss our many good readers, especially the hundreds on our wavelength who have written similar letters to us, and we dedicate this set of rules to them.

1. Be Humble. The market is always creative in finding a way to make you eat crow -- raw, squawking and fully feathered. Always have enough in reserve to meet any conceivable market eventuality.

2. Don't Get Fixed in Your Ways. The cycles are ever-changing. Just when you've found the perfect stream, the fish will stop biting, the weather changes, and other fisherman will appear, reducing the catch.

3. Count. If a question is important, it deserves to be tested. That involves counting, and taking account of variability and uncertainty. Conventions for settling how much of a difference is enough to differentiate the result from randomness must be settled on in advance. Read Stephen M. Stigler's "Statistics on the Table: The History of Statistical Concepts and Methods," or anything by Francis Galton.

4. Buy-and-Hold Works. Almost all portfolios of NYSE issues held for 10 years or more show returns of at least 8%. See Jeremy Siegel's "What Works on Wall Street," or Louis Engel's "How to Buy Stocks."

5. Be Patient. Don't throw in the towel when things look worst, or pyramid when things look best. Stocks have a substantial tendency to reverse over all periods. See what the trend followers are doing, and do the opposite.

6. Follow the Insiders. Corporate officers and directors make an extra 3 percentage points on their buys and an extra 3 percentage points on their sells. They must disgorge any profits they make on shares held for less than a year. If they buy their company's stock, usually it's for a good reason, unless it is to lure you in with meaningless purchases.

7. Read Good Books. The ideas in Shakespeare, Cervantes, Twain, Rand, Galton, Darwin and Hugo were canonical when published, and will continue to be so.

8. Play Games. Checkers and chess are better for market wisdom than browsing through the Internet, both for you and your kids.

9. Be skeptical. In no field are there more cranks and charlatans than in the market.

10. Pay Attention to Wise People. The average reader who writes to us is much smarter and better versed on his subject than we are. Knowledge changes too fast and the level of specialization is too high for any Duo to be anything but behind the form, unless they pay close attention to you.

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Cisco Betrays Our L'Amour

By Victor Niederhoffer and Laurel Kenner
Columnists
05/09/2001 09:43 AM

My father was a soldier and he always told me a good soldier never stood when he could sit, never sat when he could lie down, and ate whenever there was food.
--Louis L'Amour, *Sackett's Land*

There's no disappointment quite so great as seeing a trusted friend betray you, and hardly anything as bad as losing money that once was made.

These twin attributes of human nature came together today in the reaction to the announcement by Cisco Systems (CSCO) that earnings, excluding charges and acquisition-related stocks, amounted to 3 cents a share in the third fiscal quarter. As usual, Cisco beat analysts' expectations by a penny -- but this time, investors took it as smoke and mirrors. The decline in revenue and lack of any good news seemed more relevant.

The S&P is scheduled for a terrible opening of 1.5%, Europe is down 1% across the board and Nasdaq futures are limit down.

As *Fortune* described Cisco in a May 14 cover story, "On its way up to a stock market value of half a trillion dollars, everything about Cisco seemed perfect. It had a perfect CEO. It could close its books in a day and make perfect financial forecasts. It was an acquisitions machine, ingesting companies and their technologies with great aplomb. It was the leader of the new economy. Over the past year, every one of those characterizations has proved to be false."

How the mighty have fallen. Alas, poor Cisco, where be your quillets and quiddities now, delivered in CEO John Chambers' highly credible West Virginia drawl? Where are the friends who were filled with admiration when Mr. Chambers issued his famous message that voice would be free, his promise that in tough times Cisco does better, his good-spirited, almost sorrowful tweaking of his rivals as "old world." Is there not left "a single customer we called on that didn't think we have an excellent chance for breaking away from the pack?"

Leave It to Louis

Louis L'Amour's hero Sackett was fond of saying, "The place a man leaves is in the hearts of those he leaves behind and in his work, not upon a slab."

At least one friend is everlasting. He is the jazz and barbecue aficionado Mark McNabb, from the heart of Chambers and Sackett country, who rides his professorial horse around the Virginia Tech campuses. He notes hopeful auguries and lessons in Cisco's conference call.

The company resisted the temptation to play games, and won't fold its $2.5 billion inventory write-down into operating earnings, he said. Cisco also substantially reduced the practice of financing vendors, adopted in response to Nortel's (NT) strategy, admitting it was "an error in business judgment."

Chambers, he said, "drew a subtle line in the sand, and hinted this is as bad as it gets." The bottom line: "The stock will be rangebound, governed by derivatives plays against it. Doesn't feel bad enough for the shorts to gloat."

"I think they are very competitive here with many others now, including Juniper Networks (JNPR), Redback (RBAK) and Extreme Networks (EXTR), and they have probably looked into Ciena (CIEN) to decide whether an acquisition makes sense." The stock isn't likely to do better than the market over the next three months, he said, barring a sudden recovery in the Internet access business. (McNabb holds Ciena and Juniper.)

Spec Computers Say

Putting aside the wisdom of McNabb and L'Amour, where does that leave the Spec Computers? They are going to get bullish at the close. The question is, how to move to that most beloved state. We might suggest buying one-third of a position at today's substantial down open, one-third on the first severe decline and one-third at the close.

Strangely, ominously, gold is at a two-month high as we write. Just by a few bucks, true. But so rare an event we even dropped it from the computer forecasts.

We encourage one of our erudite readers to educate us on whether this is still a very bearish event for future bonds, with an accompanying lagged impact on stocks. More important, does Doc Greenspan still watch gold like an aging hawk from the confines of his bathtub, and do he and Wayne Angell still wag the head about the implications of rises therein? Do they still even talk?

We have a pair of sneakers that we originally sent to the Doc, who returned them with protestations of conflicts of interest. We will award these historic objects to the reader who answers our query about gold, as it looks like, notwithstanding our strong urgings, the Doc and Patrick Ewing will not be changing places after all.

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There's a Rub to the VIX
By Victor Niederhoffer and Laurel Kenner
Columnists
05/10/2001 10:08 AM

With a fantastic up opening, the market is celebrating our call yesterday to go bullish as of the close. The move is a nice 2% from yesterday's open.

We'll take profits.

We would recommend establishing a short position for a day as of sometime midday today, except that we never recommend shorting because, as the 100-year-old books that are our daily diet say, shorting is the certain way to the financial graveyard.

Rather, we'll take a second look at a market indicator that in previous columns we've encouraged using, the Volatility Index.

The VIX ($VIX) measures the level of implied volatilities on short-term index options traded at the Chicago Board Options Exchange. Extreme levels in the index serve as a proxy for extraordinary fear and complacency, and can be used as "buy" or "sell" signals.

We have recommended buying stocks when the VIX goes above 30% and getting out of the market when VIX falls below 25%.

Over the last six years, our workouts indicate that following such a strategy leads to taking out about 90% of the market's gain while being invested just 33% of the time. The rest of the time, you can use your money elsewhere.

Seven Thin Years
Like all systems, though, there is the danger that it will stop working. Using 30% as the buy indicator would have given lackluster results if the period was extended for 10 years. In addition, it gave one howler of a "buy" signal on Friday, Oct. 16, 1987, that wouldn't have been very good at all to follow.

We were called to account for the system's shortfalls by Less Antman, a certified public accountant:

"The application of this system would have resulted in a sale on Jan. 18, 1991, with the S&P at 332.23, and no repurchase until the S&P reached 876.99 on Oct. 27, 1997. During that nearly seven-year bull run, the indicator was below 25% on all but 31 of the 1,700-plus trading days, and was below 20% on over 1,400 of those days.

"A system that screams SELL! virtually every day for nearly seven years while the market is rising 164% without even a single 10% correction is hardly deserving of any respect or consideration."

Mr. Antman's comment was right on the money. Nothing is that simple.

Subject to Change
An alternate approach to using the VIX is set forth in a study by David Simon and Roy A. Wiggins III,

"S&P Futures Returns and Contrary Sentiment Indicators," published in the Journal of Futures Markets.

Simon and Wiggins looked at the period from January 1989 through June 1999, and found that when the VIX shifted from its average level to its average when in the highest decile, the S&P rose an extra 1.6% above average in the next 30 days.

They also found that for each percentage-point increase in the VIX above its norm, the S&P rose an extra 0.2% above average over the next 30 days. Thus, if the VIX rose 10 percentage points to 35% from its norm of approximately 25% over the past five years, the index would be expected to go up 1% extra in the next 10 days. The professors tested this, and results bore them out.

In an attempt to find a new, more certain use of the VIX, we asked David Ciocca to see if it would be profitable to buy S&P Index futures on the day the VIX makes a five-day high. The results, unhappily, were not encouraging: the average S&P point gain for the three-day period was only 0.44.

Which proves once more that finding the silver bullet of market indicators is like looking for the Holy Grail -- fraught with difficulty and hardships in implementing, subject to many pitfalls, illusions, snares and detours.

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Investors Want to See Double

By Victor Niederhoffer and Laurel Kenner
Columnists
05/11/2001 09:56 AM

(Note from the Spec Duo: Today we're pleased to introduce as guest columnist Rudolph Hauser, a brilliant economist and perceptive observer of markets.)

A recent poll of retirement-plan participants by John Hancock suggests that investors still expect annual returns on equity investments of over 19% for the next two decades. This optimistic expectation suggests that a look at the past record might be in order to assess how realistic it is.

Long periods over which the economic/market environment improves find increases in P/Es (price/earnings ratios). When conditions deteriorate the opposite occurs. High overall returns require the former. The highest returns in the market have often been the periods of lowest earnings gains.

The decade ending in 1999 was unusual in that both earnings did well and improving conditions allowed a substantial increase in P/Es. The historical record suggests investors expecting the return rates of the 1990s to continue are likely to be disappointed.

Bouts With Depression

For the US, using December average prices and trailing 12-months earnings on the S&P 500, we find the following:

The six years 1946 to 1952 were a period when many still feared another depression, and in which we got involved in another war. The S&P rose 9.5% per annum thanks to a 14.6% per annum gain in earnings, while P/Es declined at a 4.5% rate.

The nine years ending 1961 were a period in which the fear of depressions disappeared as recessions were much milder than those prior to WWII, the Cold War situation had stabilized somewhat and the domestic scene was reasonably calm. Individuals and institutions were more willing to invest in stocks. Inflation was controlled. Stock prices rose by 11.9% per annum though earnings only rose at a 3.2% rate (P/Es rose at an 8.4% rate to 22.5 times).

The five years to 1966 were a period in which the anticipated better economic outlook was realized with high corporate profitability and faster growth. But this was also a time of greater social discord and a more disruptive impact of the Cold War with the Cuban Missile Crisis and the beginnings of the Vietnam War. So even though earnings rose at an 11.7% per annum rate, stocks only rose at a 2.5% per annum rate thanks to a decline in the P/E at an 8.2% rate to 14.6 times.

The next six years, to 1972, were a period of continued domestic unrest and the start of an environment of accelerating stop/go inflation. Earning growth slowed to a 2.5% rate as efforts were made to slow inflation (the growth recession of 1967 and actual recession of 1970), but P/Es were able to advance at a 3.8% rate for a 6,3% return in stock prices.

Capital Punishment

The following eight years to 1980 were marked by much worse inflation with all its harmful effects. Inflation helped increase nominal earnings at an 11.0% rate per annum, but real returns suffered; the impact of inflation on real after-tax returns was devastating, and stock prices rose at only a 1.6% rate per annum as P/Es fell at an 8.5% rate.

The nine years to 1989 saw tax reductions, the gradual collapse of the Soviet empire, a better domestic frame of mind and an end to the inflation debacle. Earnings only advanced at a gradual 4.9% per annum rate, but the improved environment allowed for a 6.0% per annum rate of gain in earnings multiples to 15.2 times and an 11.25% per annum rate of gain in stock prices.

The 10 years ending in 1999 saw the spread of capitalist ideas to Asia and Latin America, the end of the Soviet threat, contained inflation and a technological boom. We had the best of both worlds. The best earnings growth (7.7% per annum) of any of these periods in which P/Es were not falling and a 6.9% per annum advance in P/Es, for an overall stock price gain of 15.15% per annum.

With the exception of 1946-1952, all of the periods of good price gains saw rising P/Es. Changes in P/Es seemed more important than earnings in determining the relative strength of stock markets. Now ask yourself what are the events in the next five to 10 years that will get better than expected from these levels that are not already reflected in the recent P/E ratio?

Some Happy Returns

We might see good earnings gains and if we are very lucky some slight further gains in P/Es, and we still would be lucky if we saw good earnings gains and flat P/Es. But it seems highly unlikely that we are going to get the sort of returns investors appear to expect based on the most recent decade of performance.

Stock price levels have to adjust to accommodate expected returns. When conditions improve, expectations tend to increase but lag events. Then stock price levels have to rise so that future returns will not exceed expectations.

If expected returns rose with no change in conditions, stock prices would have to fall to enable future buyers to meet them, as happens when interest rates rise. So while that process unfolds, returns will exceed expectations. But that can only be maintained if demanded returns continue to decline and/or corporate profitability expectations continue to rise.

Some have argued that the risk premium on stocks should be lower because stocks were less volatile than bonds over a longer-term horizon, and that it is still not low enough. Other research has suggested that the reason volatility declines for stocks as the investor's horizon lengthens is that stock returns tend to revert toward the mean.

This suggests that while one might increase one's target ratio for stocks, holdings should be below target when returns have been in excess of average for some time, as is the case currently, and are more likely to move toward and below the historical mean and holdings should be above target when returns have been unusually low for some time.

Another factor arguing for caution is that when stocks price in a very favorable outcome and low required-risk premium, small changes in expectations have greater impact on price, which itself increases risk.

Events here suggest that one should hold less stock as returns have been significantly above average. (Campbell also said that variability of returns on individual stocks has increased to the point that today you need a portfolio of 50 stocks to receive the same degree of diversification as you could have received with 20 stocks in 1980.)

End Note:

(While economists aren't generally known for profound wisdom about happiness, we cannot resist the temptation to include the following contribution from Mr. Hauser to a discussion on the subject.)
--Laurel Kenner and Victor Niederhoffer.

On the issue of happiness, it is important not to confuse it with pleasure, which is only one modest component of happiness. We tend to be happy when we are able to live up to our expectations of ourselves, and when we feel that we are liked, loved and respected by others who matter to us. We are also more likely to be happy when we can enjoy people, beauty, culture and do those things we really want to do instead of just having to do something to please others or to survive.

The ability to focus on what is good in our lives instead of what is bad also helps considerably. A sense of security also is helpful as continued fear and anxiety are detrimental to happiness. Work and helping others both are part with becoming respected and meeting our own sense of mattering to the world. Creative achievements have the same impact.

(Rudolf Hauser worked as an economist for Oppenheimer Capital and its founding organization for 34 years, and recently lost his job in a corporate downsizing. He received his MBA summa cum laude from the Bernard M. Baruch College of the City University of New York, and is the recipient of The Wall Street Journal Achievement Award. A Chartered Financial Analyst, he served as treasurer of the New York Association for Business Economics. He welcomes correspondence at rhauser1@optonline.net.)

Fed Pushes the Open Market Into a Cornered Market

By Victor Niederhoffer and Laurel Kenner
Columnists
05/14/2001 10:04 AM

It was an old-fashioned week. Gold hit an eight-week high, bonds hit a five-month low, inflation measured at a three-month high and stocks declined on good economic news.

Against this backdrop, the Federal Open Market Committee meeting is scheduled for Tuesday. Moves on the Monday before the last 30 FOMC meetings have been highly bullish, especially after a down Friday. This one may be different.

The bond market declined last week out of fear that vigilantes will make the Fed say something that lowers the expectations of further rate cuts.

Still, we'll go with the numbers. After 10 consecutive accurate daily predictions, our 11th and final one will be a rise from open to close today.

After that, it's "All Signals Off" -- at least until our forecast tomorrow.

Cutting Into Perceptions

And tomorrow, the Fed chairman may have boxed himself into a corner in his eagerness to maintain the perception of his primal vigor and power -- his ability to lead rather than react to the market.

"The Fed has almost named a 50-basis-point cut this Tuesday. Now it might wish to go only 25 basis points but cannot, due to its trading the markets rather than the economy," wrote Mark M. McNabb, the Fed-watching, barbecue-loving economist of Virginia Tech University.

The situation is yin-yanged because both the Commodities Research Bureau (CRB) inflation index and Goldman Sachs' (GS) Goldman Sachs Commodity Index (GSN) are both registering no inflationary expectations at all.

With last week's spike in yields, the 30-year bond seems to be calling the economic bottom, McNabb said. "I'm of the belief that the long end has a long tradition of over-estimating inflation. Unfortunately, it can stay above or below the flight path for quite a long time."

Knocks From Knoxville

Jack Tierney, the Tennessee individualist who is one of the readers who constitute the spontaneous order and diversity of talents and insights that many have told us have helped to make this column unique, wrote that he was "getting more concerned as this situation evolves."

His list of concerns: "M3 up 19.5% in past 13 weeks, productivity now measures negative after three consecutive down quarters, employment costs up, unemployment numbers up, commodity prices edging up, energy prices high and likely to stay high, tax cut appears less impressive and immediate than advertised. Only two factors seem to be holding things together: the strong dollar and consumer spending. And the latter could head south at any time."

Back and Forth Back in Force

By Victor Niederhoffer and Laurel Kenner
Columnists
05/15/2001 09:29 AM

A shocking reduction in the variability of S&P futures has taken place in the last six trading days, with yesterday's range of 9.5 points from low to high the narrowest since March 5.

It was only the third time in the last year that the range was below 10 points. The average range last week was 15 points, toward the narrow end of the levels of recent years.

The impression is of the pendulum of a clock tracing an ever-smaller arc when not rewound, or of a basketball game where the lead oscillates back and forth until near the finish before the play becomes frenetic, or of an indoor bicycle race where all the cyclists stay close as they circle the track until a mad sprint to the finish.

With a Federal Open Market Committee scheduled for today, we sought insights from physics into this odd state of affairs, and accordingly queried some of our erudite readers who constitute the spontaneous order and diversity of talents and insights that many have told us have helped make this column unique.

Bouncing Some Ideas

Jim Wynne -- IBM (IBM) scientist, inventor of eye laser surgery and Vic's college roommate -- said the market action "sounds like a one-dimensional system undergoing random walk within a potential well. The potential well gives it the appearance of a stable equilibrium, but it can bounce around, like in Brownian motion. However, it cannot bounce too far, because there is a restoring force that increases the farther away you get from the equilibrium point." After a while "the system finally makes a big enough jump to escape."

We speculate that in the market's case, that "restoring force" may be short-covering.

Bill Haynes, whose experience includes designing spacecraft and flying fighter jets, was reminded of the stability augmentation systems required for many modern military airplanes. Aircraft like the F-117 Stealth Fighter and the B-2 Bomber are inherently unstable, and need something extra so they properly respond to human control.

When an aircraft's every move prompts an immediate counter-move, it's "overdamped," Bill wrote. "When it is going wild, the stability augmentation has failed and a structural break-up may be imminent."

The market "is clearly a damped oscillator," he said, noting the Dow's oscillations over past several months from about 10,900 to about 9,600.

Lock, Stock and Bear and Bull

John Lamberg, a design engineer in Minnetonka, Minn., said two oscillators of different frequencies operating at similar amplitudes can "lock" to a frequency between them, if they're at the right spot. "This might loosely describe the current condition of low volatility," Lamberg wrote. "Two powerful forces -- Bull and Bear, Greed and Fear -- have reached a truce.

"All manner of nonlinear behavior can be had by simply altering the phase of one of the signals," Lamberg added. "You can destroy the spectral purity of the resulting locked signal. You can force the locked system to jump to yet another frequency. You can destroy the lock. I can't remember the source nor the wording, but "there are low prices, high prices, Monday morning prices, bargain prices, but never (for long) unchanging prices."

You can learn a lot about the market from physics -- except, perhaps, how to make accurate predictions. There's a school of thought -- set forth cogently by physicist Mark Buchanan in his excellent book *Ubiquity* -- that upheavals are merely the unpredictable, universal characteristic of non-equilibrium systems, be they earthquakes, wildfires or market crashes. A mathematical pattern known as the power law allows physicists to predict the rarity of these events, but not their scale or timing.

Going for a Spex Dozen

After 11 consecutive correct daily forecasts, we feel rather justified in surmising that patterns do show up in the market, and that investors may profit from them.

No matter how enlightening the insights from physics are, we are prone to stick to our knitting. The stock market is a unique animal, and when it comes to fathoming the implications of waning volatility, we feel more comfortable with looking back into its history than latching on to a model derived from our erudite physicist friends and readers.

Looking back at what happened on similar days when the range has been very small, we regrettably must report that it's quite bearish. The Market Mistress has not liked days of low volatility during the last six years, and she tends to come back to punish the bulls with a vengeance after such occasions.

Given the grave difficulty that the bond vigilantes have put the Fed in -- the governors are walking on a tightrope above a diabolical precipice no matter what they do -- and given our bearish numbers, and given the market's tendency to revulsion over the central planning from the Fed, given the loss of credibility that the chairman himself has suffered from his all-too-visible attempt to prove that he is ahead of the market, given the recent outpouring of inflationary indicia as evidenced by the staggering 2 1/2-point loss last week, we are almost tempted to forego our vow never to predict again and state that from the time of the announcement to the foreseeable future it is bearish indeed.

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

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

Market Has No Patience for Doctored Results

By Victor Niederhoffer and Laurel Kenner
Columnists
05/16/2001 10:03 AM

The market is beginning to treat Doc Greenspan the same way it treated former Secretary of State James Baker. Whenever he says or does anything, the Dow drops a fast 100 points.

After the Fed issued the most bullish possible scenario for stocks in its statement yesterday -- inflation contained, productivity growth intact -- the market was unchanged in the US and is now scheduled for a 1% decline at the open.

This is typical of the recent reaction to the Doc. S&P futures point moves on days after the last five Federal Open Market Committee announcements were as follows:

S&P Moves Greeting Recent Fed Announcements		
Meeting Date	Move That Day	Move Next Day
May 16	7	--
Mar 20	-28	-20
Jan 31	-9	10
Dec 19	-28	-38
Nov 15	7	-18
Oct 3	-15	9

Proving that the public is always behind the form, the market's reaction comes amid a flurry of hagiography concerning Greenspan. As if crafted by the ersatz Doctor himself, market commentators are covering him with a halo of vindication:

"He's pretty much back in hero mode."
"The Fed is breathing a sigh of relief."
"He's not being deified quite as much as before" (the perfect praise contains a hint of restraint).

As far as we're concerned, the revulsion of the market is quite well justified. Like the Roman Caesars in their dying days, the Doc seems more concerned with his reputation and power than the welfare of the people. In what other arena would a leader boast of how he's managed to deceive the public just at the time they least expect it so as to maintain his ability to stay "ahead of the market"? If only he had heeded our pleas to change places with Patrick Ewing before exacerbating the tech decline in the market last year.

As for us, we are looking forward to our new status: out of work as of Friday.

Three-Quarter Correction

After 11 consecutive self-evaluated correct forecasts as of Monday, we are going to refrain from all further predictions.

We gave a highly bearish forecast on the market's reaction to the Fed announcement yesterday, and since the futures rose a few points to the close and then fell three times as much to the next open, we would have rated it as three-quarters correct if we hadn't given up the ghost.

And today, we would have suggested selling the market after a rally of a quarter- or half-percent or so before closing things out of weakness near the close. But we're out of that game now.

Bacon Reader in Greece

We received this kind letter from a reader in Greece the other day, and our answers to him may help provide the sort of meal for a lifetime for which the Greeks are known, for all of our readers as well as the man from the lineage of the food providers:

Dear Victor & Laurel:

Personally I admire you both. It seems to me that I do know Victor's thinking, having read his book and Robert Bacon's Secrets of Professional Turf Betting. *I think that the statistical factors you keep watching prevent you for our human weakness of greediness and getting influenced (by media or experts).*

Unfortunately I trade in the Athens Stock Exchange and would like to build a similar statistical database of the factors you keep on watching that give you insight. In your book you do not specify what these factors are, and certainly I do not expect that you will mention them in detail, but at least if you could indicate the three to five most important indicators a trader should keep track of, thank you in advance and there is no better compliment than saying that I often think that I would have loved in my life sitting next to you and having learned how to trade by overcoming human weakness. Be God with you. Thank you.

Lambis Koumoussis

Vic's reply: First of all, remember the markets are all interrelated, with feedback loops of a highly significant nature. The problem is that the loops themselves are always changing. Regrettably, finding the key is as difficult as the 12 labors of Hercules. However, if you still seek the Golden Fleece, look at interest rates in the markets you trade, the US stock market the previous day, and the German bund and the German DAX as the four independent variables that are most influential. If you wish, post me on your ideas and I will make suggestions.

Our meal ticket here at worldly is gone as of Friday, but we'll be scratching out a living at www.moneycentral.msn.com. Vic.

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A Stand Against Growth Misjudgment

By Victor Niederhoffer and Laurel Kenner
Columnists
05/17/2001 09:10 AM

If there's one thought we'd like to leave our readers with as we prepare for our retirement tomorrow from writing this column, it's that growth will triumph, and that capital gains will eventually carry all baskets of stocks to considerably higher levels.

Tech is not dead. The maxim that nobody should invest in tech if they don't understand it is a terrible idea. It is research, innovation and technology that lead to growth, improvements in material well-being and above-average returns -- not coddling Mr. Market, denigrating innovation or buying lackluster companies run by tough 90-year-old founders after a five-minute phone call.

Science is at least as productive as ever before. Revolutions are proceeding in communications and biotechnology, and in 20 years, companies in these fields will have the world at their feet.

Which companies will be the winners two decades from now? We don't know.

Skylab to Biomed Lab

But here's a recommendation from one of our most erudite readers. William E. Haynes has been both a rocket scientist and a fighter pilot. He commanded the US Air Force task force that assembled, checked out and launched Minuteman missiles at Cape Canaveral. He also was commander of the 90th Tactical Fighter Squadron in Vietnam in 1967-68 and flew 187 combat missions, earning the Distinguished Flying Cross, Air Medal and Vietnamese Cross of Gallantry. A graduate of the USAF Experimental Test Pilot School at Edwards AFB, he spent three years as a fighter test pilot. After retiring from the Air Force, he put together Martin Marietta's winning technical proposal for Skylab, the first US space station.

His pick, Geron (GERN), is one of a group of companies, including StemCells Inc. (STEM) and Curis Inc. (CRIS), that are developing ways to repair all sorts of tissue, from brains to pancreases, by using basic building blocks called stem cells. Researchers in recent weeks have improved the memory power of elderly rats and used stem cells found in human fat to create muscle and bone.

Here is Bill's precis of Geron:

If you knew of a company that had received international patents on biomedical technology that will allow commercially profitable cattle cloning, and had licensed that technology to a company actively implementing that technology to significantly improve cattle-herd quality, would you consider it a high-potential investment opportunity?

There is such a company.

If you knew of another company that had demonstrated and patented genetic-engineering technology that circumvents most ethical objections to use of stem cells in their whole spectrum of human-therapeutic applications, would you consider it a good investment opportunity?

If that company had also perfected and patented the means for producing, storing and distributing stem cells as we do blood plasma via commercial distribution services, would that increase your interest?

Suppose there was another company that had discovered the cause of aging in human cells demonstrated and patented production of essentially immortal human cells, both in vitro (glass lab systems) and in vivo (in animal tests).

Suppose that same company had demonstrated that this immortalization process was the key essential that allows cancer cells (ALL cancer cells) to reproduce without limit, thus causing the horrific suffering and death we all see among our friends and loved ones?

And then suppose that same company had identified, isolated and reproduced the biological key that has been demonstrated to shut down that essential cancer-reproduction process.

Would you consider that company to also offer an impressive investment opportunity?

What if a company had perfected and patented procedures that allow determination of possible toxicological side effects of new medications without the need for either human or animal testing?

All of these capabilities exist. They exist not in three or four companies, but in one. To check out these potentially truly epochal capabilities and thereby be alerted to the societal impacts that they almost assuredly portend, go to www.geron.com on the Web.

The company is careful not to exaggerate its claims and to cite "safe harbor" rules. It avoids claiming a cancer cure, or the prospect of significant human physical-life extension, or imminent profits from application of its nuclear-transfer procedures (it purchased the Scottish company that shook the world by cloning Dolly, the sheep), or its having made moot most of the arguments against stem-cell therapies.

Nor can I nor anyone promise that all of these breakthroughs will indeed be commercial successes. But my take is that there may never have been such a concatenation of potential breakthrough technologies achieved by one company before.

If, as I firmly believe, we are now in the biomed-breakthrough century, then I have picked Geron Corp. to lead us into it.

William E. Haynes Visit Bill's Web site here.

Readers' Picks
Regrettably, our second Readers' Picks Contest, which began Nov. 30, does not end until May 31, two weeks after our retirement. However, we wouldn't think of reneging on our promise to award the winner a fish dinner and a special Daily Speculations cane for hobbling down to Wall Street in times of panic.

We haven't been running updates on the Readers' Picks regularly. Red is not our favorite color in stock monitors, and it hurts to look at most of picks, particularly the longs. We had invited readers to submit a long, a short or both. As of Wednesday, May 16, the average long was down 15%, and only eight of the 34 were up.

The Nasdaq 100 fell 24% over the same period, so the readers beat the index.

The average short declined 7%, giving the readers a 7% gain. But shorting the Nasdaq would have been better.

(One of the shorts, Union Carbide (UK), was acquired at a 21% premium to the Nov. 30 price.)

So far, Peter W. Portlas is leading the shorts contest. His pick, Handspring (HAND), has fallen 78%. Luis Avila is in second place with Terra Networks (TRLY), down 40%. Mike Mackenzie is third with Siebel Systems (SEBL), down 32%.

Scott L. Burson is leading the longs with a 130% gain in Varian Semiconductor (VSEA). Roy H. Webb is in second with Laser-Pacific Media (LPAC), up 94%, followed by Dr. Brett, the market shrink, and his daughter, Devon, with Fair Isaac (FIC), up 75%.

We will e-mail the winner on June 1 and make arrangements for delivery of the prize. Thanks to all who participated in our contests. Vic and I were the real winners, because of the friendships that sprung up with many of the readers who began communicating with us as a result of the contests.

Daily Speculations Reader's Picks Contest - Shorts (Nov. 30, 2000-May 31, 2001)				
Stock	Reader	Buy	May 16 Price	% Change
Handspring (HAND)	PWP	46.50	10.08	-78.23%
Terra Networks (TRLY)	LA	14	8.45	-39.64
Siebel Systems (SEBL)	MM	69.88	47.84	-31.53
Emulex (EMLX)	FL	58.13	42.87	-26.25
Incyte (INCY)	MO	26.50	19.96	-24.68%
Coke (KO)	OM	62.63	48.23	-22.99%
Krispy Kreme Doughuts (KKD)	JB	70	56.40	-19.43%
Talbot's (TLB)	JB	52.81	46.99	-11.02%
Idec Pharmaceuticals (IDPH)	JD	58.02	53.18	-8.34%
Swiss WEBS (EWL:UA)	PL	15 .31	14.75	-3.67%
IntraNet Solutions (INRS)	DM	37	36.65	-0.95%
Euro	SKI	0.8729	0.8837	1.24%
Tribune Co. (TRB)	JT	37	44.63	20.62%
Union Carbide	MC	43.19	52.25	20.98%
Bethlehem Steel (BS)	RHW	2.25	3.45	53.33%
Federal-Mogul (FMO)	FC	1.94	3.16	63.10%
Average: -7% (represents a 7% gain)				
Nasdaq 100: -24%				

Daily Speculations Reader's Picks Contest - Longs (Nov. 30, 2000-May 31, 2001)				
Stock	Reader	Buy	May 16 Price	% Change
Varian Semiconductor (VSEA)	SLB	18.13	41.70	130.07%
Laser-Pacific Media Corp. (LPAC)	RHW	1.31	2.55	94.29%

Fair Issac (FIC)	B&DS	41.81	73	74.59
Integrated Device Technology (IDTI)	PWP	29.75	42.94	44.34%
US Tobacco (UST)	HPG	23.75	29.63	24.76%
Xybernaut (XYBR)	SG	2.50	2.90	16%
NYFIX (NYFX)	DMB	25	27	8%
China Continental (CHCL)	AZ	0.085	0.09	5.88%
Mercury Ineractive (MERQ)	CB	67.31	67.17	-0.21%
Human Genome Sciences (HGSI)	LA	62.19	61.67	-0.83%
Stearns & Lehman (SLHN)	MM	4.25	4.20	-1.18%
Jabil Circuit (JBL)	JBL	31.25	30.30	-3.04%
Finisair (FNSR)	PL	23.31	21.81	-6.45%
Prudent Bear Fund (BEARX)	MC	4.99	4.43	-11.22%
Kopin (KOPN)	BK	10.25	8.65	-15.61%
Genelabs (GNLB)	FL	4.31	3.25	-24.64%
Aegon NV (AEG)	FA	40.63	30.57	-24.75%
Nasdaq 100 (QQQ)	JB	62.98	47.15	-25.14%
Coventry Healthcare (CVH)	JH	21.25	15.85	-25.14%
Abgenix (ABGX)	RW	48.81	36.23	-25.78%
Lucent (LU)	JB & JCG	15.56	9.73	-37.48
Turkcell (TKC)	JS	6.19	3.55	-42.36%
Concurrent (CCUR)	LA	9.90	5.62	-43.27%
Research in Motion (RIMM)	RIMM	65	33.50	-48.46%
Viador (VIAD)	TVO	1.56	0.79	-49.44%
CMGI (CMGI)	BM	10.06	4.93	-51%
JDS Uniphase (JDSU)	SKI	50.06	21.03	-57.99%
Infospace (INSP)	JT	10.88	4.39	-59.63%
Nortel (NT)	BF	37.75	13.89	-63.21%
TVX Gold (TVX)	LG	1.94	0.70	-63.87%
Rambus (RMBS)	JD	38.38/font>	11.06	-71.18%
Daleen Technologies (DALN)	DC	4	1.08	-73%
Palm (PALM)	ST	36.19	7.11	-80.35%
Methode Electronics (METHA)	RR	7.69	6.38	-17%
Average: -15%				
Nasdaq 100: -24%				

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Speculators Head for the Hills That Are Alive With Music

By Victor Niederhoffer and Laurel Kenner
Columnists
05/18/2001 09:30 AM

To the tune of "So Long, Farewell," from The Sound of Music (lyrics by Oscar Hammerstein, music by Richard Rodgers)

There's a sad sort of whining from Greenspan in his tub
And the Sage of Nebraska, too
And down at the weekly an old bearish bird
Is telling us to sell the new

But economics tells us
Regrettably compels us
To say goodbye to you.

So long, farewell, dear readers, friends, goodbye,
We're sad to go, but now's the time to fly.

It's been great fun to write our thoughts by byte
We hate to go and leave this worldly site.

So long, farewell, we've missed many big moves
At times, the bears have stolen Victor's shoes.

In pointing out mistakes you've not been shy
And we have eaten lots of humble pie.

So long, farewell, thanks for all your insights,
If any credit's due it's yours by rights.

So long, farewell, to all our Friday guests
McNabb and Dr. Brett and all the rest.

Adieu, Greenspan and Warren Buffett, too
We hope they go and fade away from view.

Doc Niederhoffer would not miss those two
And Laurel feels that way about them too.

Much thanks, headliners, editors Ed and Ted
You kept us from being locked up by the Fed

Thanks to J. Pink for giving us a forum
He never flinched and always had decorum

Succcess to our new bosses and McDermott
For laughing at our jokes, we think they've earned it.

So long, farewell, goodbye, our loyal claque
We'd like to stay till 5,000 Nasdaq.

So long, farewell, we hear the time clock chime,
We've tried to give some meals for a lifetime.

Recall that growth will always win the day
In panics, canes will triumph in the fray.

So long, farewell, we hope that you all thrive,
Remember that the main thing's to survive.

The cycles change and so must you and I
So long, farewell, ~~good readers~~, friends, goodbye,
Goodbye, Goodbye, Goodbye, Goodbye.

(Note from the editors: We have received many expressions of regret that Vic and Laurel will be leaving worldlyinvestor.com. We have enjoyed their presence and wish them luck. You can keep in touch with them weekly at www.moneycentral.msn.com.

May 18, 2001

My dear fellow, Vic and my charming lady, Laurel,

All endings are beginnings. Every exit is an entrance.

I have found your extrapolations of life and the Street to be profound, provocative and amusing (sometimes all at once, and never not at all.) Here are some recollections I have from the past year:

- You gave my typing skills great improvement

- You made me think of investing in a way that I never thought of before

- You put my name in lights

- You actually found value in what I wrote, and even more amazing, you knew what I meant

- You succeeded in getting me to write

- Your columns were a regular topic of conversation between my good friend Hank Yu and me

- You introduced me to ideas of others (and there is such a shortage of ideas, good ones)

- You gave me an appreciation of the market when I most misunderstood it

- You were able to share humor, humility and humanity when we all misunderstood the market

- You both so obviously love life

AND, one more for you both:
you inspire.

With true fondness,
Paul Lewis

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Laurel Kenner and Victor Niederhoffer
Columnists

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