DOUG KASS
ON THE MARKET
A LIFE ON The Street
DOUG KASS
EDITED BY DANIEL ROBINSON
WILEY
Additional Praise for
Doug Kass on the Market
A Life on TheStreet™

“Doug Kass was my favorite bear, long before Warren Buffett discovered him. He is a reality check on the mindless cheerleading that takes place on Wall Street.”

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Chief Investment Officer, Ritholtz Wealth Management
Columnist, Washington Post and Bloomberg View
Host, Masters in Business on Bloomberg Radio

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Chief Global Strategist, BTIG

“Everyone is a genius in a bull market, but it’s the ability to successfully maneuver thru all types of markets that separates the men from the boys. Doug Kass has done that in his long career, and this book provides amazing insight and invaluable stories that reflect his great ability to think outside the box in a business where many feel comfortable just following the herd. As Dougie would say, run, don’t walk, to read this book.”

—Peter Boockvar
Chief Market Analyst with The Lindsey Group
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A LIFE ON TheStreet™
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This book is dedicated to
Chuck “Brown Bear” Zion—a wise, kind,
and cherished friend who died in the
World Trade Center tragedy in 2001.
# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreword</td>
<td>xiii</td>
</tr>
<tr>
<td><em>James J. Cramer</em></td>
<td></td>
</tr>
<tr>
<td>Preface</td>
<td>xvii</td>
</tr>
<tr>
<td><strong>Where It Began</strong></td>
<td>1</td>
</tr>
<tr>
<td>Introduction</td>
<td>1</td>
</tr>
<tr>
<td>The Contrarian</td>
<td>2</td>
</tr>
<tr>
<td>A Longtime Bear Turns Bull</td>
<td>5</td>
</tr>
<tr>
<td>What a Long, Strange Trip It’s Been</td>
<td>9</td>
</tr>
<tr>
<td><strong>Short-Selling</strong></td>
<td>13</td>
</tr>
<tr>
<td>Introduction</td>
<td>13</td>
</tr>
<tr>
<td>The Case for Short-Selling</td>
<td>14</td>
</tr>
<tr>
<td>Short-Sellers under Fire</td>
<td>18</td>
</tr>
<tr>
<td>How to Short</td>
<td>21</td>
</tr>
<tr>
<td>Lehman Can’t Blame Shorts</td>
<td>23</td>
</tr>
<tr>
<td>Stop Pointing Fingers at Short-Sellers</td>
<td>25</td>
</tr>
<tr>
<td>Blame Game Is Dishonest</td>
<td>27</td>
</tr>
<tr>
<td>11 Ways to Fix the Short Ban</td>
<td>29</td>
</tr>
</tbody>
</table>
Leave the Short-Sellers Alone 32
In Defense of Short-Selling 39

**Lessons Learned** 43
Introduction 43
Sniffing Out Bad Stocks 44
Laugh at Your Own Expense 45
When the Bond Market Talks, Listen 46
Poker Is Flush with Insight for Traders 48
My Tenets of Investing 50
12 Investment Principles for the Abyss 54
My Recession Checklist 55
Kill the Quants, Punish the ProBears 57
Chase Value, Not Price 60
Six Ways to Right Your Wrongs 62
Four Stages of Market Turning Points 63
Moving On 65
Adapting to Mr. Market 67
In Bernanke We Trust? 68
America’s Pastime Applies to Markets 72
Let the Trading Day Commence 76
A Delicate Balance 85
The Lion’s Share 86
What to Do When You’re Wrong 91
Beware the Stock Market Trading Jones 92
Addressing the Fiscal Cliff 97
One Shining Moment 102
Time Frames and Exposures 105
Such a Long Time to Be Gone and a Short Time to Be Here 108
10 Laws of Stock Market Bubbles 112
My Stock Market Super Bowl Indicator 116

**The Great Decession: Subprime and Credit/Debt Crisis** 119
Introduction 119
Trouble Looms for the Homebuilders 120
Stretched Consumer Nears Tipping Point 123
When the Walls Come Tumbling Down 127
When the Walls Come Tumbling Down (Part Deux) 129
Contents

Housing Headed to the Woodshed 132
Housing’s Softness Has Long Reach 134
Subpar Subprime a Growing Problem 136
Ratings Are Subprime’s Dirty Secret 138
Subprime Fungus Will Spread 139
Subprime’s Siren Call 141
Four to Blame for the Subprime Mess 147
Fed Is No Savior in Subprime Slide 151
The Simple Math of Subprime’s Slide 152
Housing Red Ink Could Spell Recession 155
Hedge Funds’ Dirty Little Debt Secret 157
Loaded Up on Leverage 159
Don’t Underestimate How Bad Things Are 162
No Quick and Easy Fix for This Market 164
Brokers’ Profits Riskier 167
Shaking Off the Credit Nightmare 169
Blinded by the Derivatives Boom 170
A Market on the Brink 176
Two Solutions to What Ails the Market 179
Ready for the Bear Stearns Challenge? 183
Investors Have Lost Their Innocence 189
Wall Street Has Sold Out America 191
Welcome to Dystopia 193
Harder than the Average Bear 198

Recovery 201
Introduction 201
The Parable of the Mustard Seed 202
On the Road to Recovery 204
Fear and Loathing on Wall Street 207
Bottoms Up, Mr. Market 215
Bottom Call (Part Deux) 217
Printing an Important Market Bottom 219
It Ain’t Heavy, It’s a Bottom 220
The Little Market that Could 223

Against the Grain 227
Introduction 227
## CONTENTS

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experts Agree, Recession Is Over</td>
<td>228</td>
</tr>
<tr>
<td>Market Has Likely Topped</td>
<td>229</td>
</tr>
<tr>
<td>Bearish Arguments Are Roaring</td>
<td>232</td>
</tr>
<tr>
<td>Top 20 Signs How Bad the Economy Is</td>
<td>238</td>
</tr>
<tr>
<td>More Nuance Is in Store</td>
<td>239</td>
</tr>
<tr>
<td>We Are the World</td>
<td>243</td>
</tr>
<tr>
<td>The Decade of the Temporary Worker</td>
<td>246</td>
</tr>
<tr>
<td>The Scale Tips to the Bullish Side</td>
<td>249</td>
</tr>
<tr>
<td>The Lost Decade Has Passed Us</td>
<td>253</td>
</tr>
<tr>
<td>Equities Edge toward a Top</td>
<td>255</td>
</tr>
<tr>
<td>More on Screwflation</td>
<td>259</td>
</tr>
<tr>
<td>A Contagion of Black Swans</td>
<td>261</td>
</tr>
<tr>
<td>Apocalypse Soon</td>
<td>263</td>
</tr>
<tr>
<td>10 Reasons to Buy American</td>
<td>269</td>
</tr>
<tr>
<td>The Case for Shorting U.S. Bonds</td>
<td>271</td>
</tr>
<tr>
<td>Residential Real Estate Is Ready to Recover</td>
<td>274</td>
</tr>
<tr>
<td>The Bear Case for Apple</td>
<td>276</td>
</tr>
<tr>
<td>A House Divided against Itself</td>
<td>280</td>
</tr>
<tr>
<td>Beware the Interest Rate Cliff</td>
<td>284</td>
</tr>
<tr>
<td>Housing Faces a Credit Event</td>
<td>286</td>
</tr>
<tr>
<td>QE’s Growing Impotence</td>
<td>290</td>
</tr>
<tr>
<td>Flawed Case for a Bull Market</td>
<td>292</td>
</tr>
<tr>
<td>Everybody in the Pool</td>
<td>296</td>
</tr>
<tr>
<td>Expect the Unexpected in 2014</td>
<td>298</td>
</tr>
<tr>
<td>Climbing a Wall of Complacency</td>
<td>301</td>
</tr>
<tr>
<td>Turn, Turn, Turn</td>
<td>305</td>
</tr>
<tr>
<td><strong>Wall Street Personalities</strong></td>
<td>309</td>
</tr>
<tr>
<td>Introduction</td>
<td>309</td>
</tr>
<tr>
<td>A Soros Story</td>
<td>310</td>
</tr>
<tr>
<td>The Bearded Prophet of the Apocalypse</td>
<td>312</td>
</tr>
<tr>
<td>On Being Jim Cramer</td>
<td>315</td>
</tr>
<tr>
<td>Defending Cramer</td>
<td>316</td>
</tr>
<tr>
<td>Defending Cramer (Part Deux)</td>
<td>319</td>
</tr>
<tr>
<td>Leon Cooperman and James Brown: The Godfathers of Hard Work</td>
<td>322</td>
</tr>
<tr>
<td>Ben Stein Whistles Past Mortgage Mess</td>
<td>324</td>
</tr>
<tr>
<td>Curb Your Enthusiasm, Ben Stein</td>
<td>326</td>
</tr>
</tbody>
</table>
Contents

Ben Stein Blames You 328
Eat My Shorts, Ben Stein 335
My Q&A with Nouriel Roubini 337
The Orchid Indicator 339
The Most Important Book 342
The Gospel According to Barton Biggs 347
Walt’s Wit 350
Alan Abelson and Me 354
An Open Letter to Sir Larry Kudlow 358
More Remarkable Tales of Boca Biff 360

**Buffett Watch** 373
Introduction 373
11 Reasons to Short Berkshire 374
Buffett Veers Off His Investment Path 379
Warren Buffett Has Lost His Groove 381
Buffett Brought Down to Earth 383
Is This the End of Warren Buffett? 384
One of the Worst Beatings Ever 386
Buy American? I’m Damned! 390
Burlington Bet Could Derail Berkshire 395
Omaha, Here I Come! 396
My Pilgrimage to Warren Buffett’s Omaha 398
Warren and Me 401
Little-Known Facts about Warren Buffett 404
Conversing with the Oracle 406
My Berkshire Q&A Recap 413
The Rabbi and the Oracle 421
Lessons Never Learned 424

**Surprises** 427
Introduction 427
25 Surprises for 2003 430
Surprises in Store for 2004 431
Some Surprises in Store for 2005 434
Surprises for 2006 438
25 Surprises for 2007 444
20 Surprises for 2008 450
20 Surprises for 2009 454
20 Surprises for 2010 461
15 Surprises for 2011 466
15 Surprises for 2012 479
Five More Surprises for 2012 488
15 Surprises for 2013 489
15 Surprises for 2014 505
Epilogue 517
Foreword

Sit down and strap yourself in. You are about to embark on a journey back in time that will teach you more about making money in the future than just about any source anywhere in the firmament. You are about to see what the market really looks like through the eyes of one of the greatest financial whizzes and wits of our generation, the one and only Doug Kass.

I have had the privilege of working side by cyber-side with Doug in our writing cave, TheStreet.com, for almost 20 years. In that time, I have come to respect and covet his views and his insights as I know you will as you read his real-time journal detailing the ecstasy, agony, and just plain madness of the world we call Wall Street. That’s why I feel so honored to pen this foreword for a book that will stand the test of time for all sorts of markets—bull, bear, sideways, upside down, and the one we are in at the moment you read this, whatever it may be.

Doug’s fond of lists, and you’ll read many prescient ones in the pages ahead. They are filled with observations that only someone with as keen an eye toward making money as Doug could ever give you. Therefore, I think it is only fitting that I offer my top 10 reasons why you will love,
laugh, and, of course, profit from my colleague’s unique and remarkable insights.

Reason number one: Essentiality. If someone asks me what’s the most essential voice I need to hear on Wall Street, I’d say one name without hesitation: Doug Kass. You need to know where he stands because so often he represents the view opposite you, the variant view, the one you most need to worry about before you place your bets on these pieces of paper we call stocks. How can you not want to know why you may be wrong? That’s the essentiality of this man’s unique commentary.

Reason number two: Fearlessness. So many people are cowed on Wall Street. They fear the powerful, they fear the retribution, they worry about what happens if they tell the truth. Doug Kass is the antidote to that fear. Whether it be a gentle yet still withering riposte against Warren Buffett—face to face, mind you, all detailed here—or the outright castigation of the rapacious bankers and pseudo regulators who are supposed to protect us from their machinations, Kass goes where pretty much everyone else fears to tread.

Reason number three: Self-effacement. Sure, Doug’s gathered many of the best of his more than 50,000 entries since he started writing for TheStreet back in 1997, but some of my favorites here are the ones filled with humility, as the market, bull or bear, is a most humbling of animals. Doug doesn’t have to be always right to learn from; sometimes it’s the dissection of his own mistakes that makes for the most profitable of insights.

Reason number four: Insider’s insider. If you are reading this book, chances are you have heard of a lot of big-name investors and always wanted to know what they are really like. By virtue of his successes and his knowledge, Doug knows the best and brightest personally and extols them in ways that give you the context that’s invariably absent when we hear their utterances. Doug, as they say, is “in the room”—a room that you may never get to be in but will certainly come to feel comfortable with because of his candid observations about those with whom he surrounds himself.

Reason number five: He’s not afraid to stick his neck out. At the beginning of each year, Doug lays out some predictions that may seem outlandish—that is, until they come true. It’s uncanny that so many pan out, and the pan can be filled with gold. Oh, and no one is more brutal
about the prognostications that didn’t work out than Doug himself. No free passes for anyone, including himself.

Reason number six: You never know where he’s going to come out. Some think Doug’s a perma-bear. I say wait until you get to the entry entitled “Bottoms Up, Mr. Market,” where Doug began an astounding series of articles that nailed the exact bottom of the worst stock market decline in our lifetime. Oh, and because each piece here is dated in real time, including those fabled March 2009 time-to-buy postings, there’s no denying Kass his due. When a man who has been correctly bearish for thousands of points on the Dow suddenly and convincingly goes bullish, you want that judgment. Doug’s generational bottom call will always stand the test of time. Thank heavens I listened to him in those darkest-before-dawn days and my viewers and readers rode his coattails to tremendous profits.

Reason number seven: Expertise. Doug’s an old housing analyst by nature, and that expertise helped nail the subprime issue, the proximate cause of the great recession, well ahead of when the downturn snowballed. His subprime articles written on the cusp of the Great Recession are warily prescient; if only the Fed had subscribed! His expertise goes well beyond housing, of course, but Doug’s musings about all of the accoutrements of the industry—consumer sentiment, retail, interest rates, the Fed’s role—make for some indispensable reading.

Reason number eight: Education into short-selling. Most people, including many hedge fund managers, think they know how to profit from the downside. They actually don’t have a clue. I don’t think anyone knows the tactic and strategies of successful short-selling better than Doug. It’s a wonder, and a life-saver, or at least a portfolio saver, that he’s willing to give them to you. And he does so in a clear, no-nonsense way.

Reason number nine: Impact. When Doug takes a variant view on a stock, particularly a loved stock, look out: there are going to be fireworks. Doug’s insights, as you will see here, quickly turn into actionable ideas that can make for a very profitable trade or investment. Put simply, Doug can and does move markets. You need to know which way he is moving them.

Finally, and perhaps most important for these columns’ longevity, Doug’s a brilliant wordsmith. His writing is suffused with irony, mirth, outrageous story-telling, including the always hilarious insights from
Grandma Koufax—yep, that Koufax—and genuine warmth. Even if you aren’t a stock junkie like I am, you’ll most certainly get a kick out of the trenchant way he makes his points. He tells a terrific yarn.

For all of these reasons and many more, you will come to share the joy I have of cracking open the browser each morning to my favorite columnist to learn what I didn’t think would happen before it actually occurs.

James J. Cramer, markets columnist, TheStreet.com, co-anchor of CNBC’s Squawk on the Street, and host of CNBC’s Mad Money with Jim Cramer
Preface

For over 15 years I have been a contributor to *TheStreet* and its subscriber-based products (currently *Real Money Pro*).

TheStreet, Inc. was founded as TheStreet.com by Jim Cramer and Martin Peretz in 1996 and went public in 1999. Since then, TheStreet has become one of the most popular and informative fountains of investment information of its kind.

I have always enjoyed writing, and Jim and his team have provided me with a platform in which I combine humor, pop culture metaphors, and even clever quips from my Grandma Koufax in an attempt to differentiate my words from the dry Wall Street research that permeates the investment narrative.

If I have been successful, it is probably because I write for myself. I ask myself in every column—and I typically write at least 15 columns a day—if I have learned something new and if the process of reading my diary has been an engaging and enjoyable experience.

This is easier said than done. After all, since 1998, I have likely written over 30 million words contained in more than 50,000 columns.

Ask yourself whether you discuss 15 new subjects in your own life with your friends and family each and every day.
With so much to express in my daily columns, I start my day early at around 5:00 A.M., and I end the day, subject to after-hours news, after 6:00 P.M.

That’s a long day. But it has been rewarding, and I like to think that I still have something to say or observe.

My writings and investment/research process have been influenced by numerous legends as well as many regular folks and friends.

My journey was made possible by the tens of thousands of subscribers to TheStreet, Real Money, and Real Money Pro. We have shared experiences, corresponded frequently, and some of us have grown to be true friends.

The cornerstone and epicenter of my journalistic travels on TheStreet starts with Jim Cramer. Jim has been my collaborator, my defender and advocate, and he has provided me with the guidance of a shining star in the night. He has been generous with his time and kind in his criticism. All this has made the journey smooth, and the 15-plus years have flown by. Stephanie Link, also at TheStreet, has been helpful and has also been an important adviser to me over the past several years. Finally, TheStreet CEO Elisabeth DeMarse is a wonderful leader who has steadily guided the company through an ever-changing and increasingly difficult-to-navigate media terrain.

Perhaps my most significant personal influence is my Grandma Koufax. She was a successful businesswoman, investor, and feminist, who taught me about the stock market when I was in my mid-teens.

Other influential iconic figures for whom I have worked include Jerry “The Chief” Jordan, the best trader I have ever met; Larry Lasser, who taught me how to deliver a sound analytical argument; and Martin Hale at Putnam Management, who gave me a historical perspective. Omega Advisors’ Lee Cooperman, the hardest-working hedge-hogger extant, and Steve Einhorn showed me the positive consequences of going belly to belly with a company’s management and enlightened me about the advantages of looking more frequently on the optimistic side.

Our late national journalistic treasure Alan Abelson, of Barron’s, as well as my first boss, Ralph Nader, taught me the benefits of being a skeptic, thinking outside of the box, and the value of investigative research, which is essential in developing differentiated and hard-hitting analysis.
Warren Buffett’s invitation to grill him at his 2013 Berkshire Hathaway annual shareholders meeting provided me with a unique opportunity and contributed to one of the most enjoyable weekends of my life (which I shared with my son, Noah). By now, my copies of his letters to shareholders are all dog-eared. The Oracle of Omaha is simply the best professor any investor can be schooled by.

Others from whom I have learned include Yale’s Bob Shiller, George Soros, Stanley Druckenmiller, “Uncle” Bob Farrell (the greatest technical analyst of all time), Leon Levy, Grant’s Interest Rate Observer’s Jim Grant, Bloomberg’s Tom Keene, BTIG’s Dan Greenhaus, The Lindsey Group’s Peter Boockvar, TheStreet’s Herb Greenberg, Richard Bernstein (who has helped me navigate the noise), Raymond James’s Jeff Saut, the indomitable Dennis Gartman, the lynx-eyed Barry “Tell It Like It Is” Ritholtz, the research-intensive Jeff Berkowitz (Jim Cramer’s former hedge fund partner), Bob “Scarsdale Fats” Brimberg, and Howard Marks (who teaches us all that there is more than one important thing to investing).

A special thanks to all of my friends at CNBC: Mark Haines (R.I.P.), Sir Larry Kudlow (my favorite host), the New York Times’s Andrew Ross Sorkin, Becky Quick, “Judge” Scott Wapner, David Faber, and many others who have provided me with a forum for my investment ideas and views since 2003.

I owe a lot of gratitude to my Seabreeze associates Chris “The Fisherman” Brandon and Scott Budner, who put up with my idiosyncrasies and long hours.

Finally, I want to give a special shout out to my best pal, Barry Wish. Barry is a thoughtful and compassionate friend who has been my rabbi, especially over the past 15 years. His wise counsel has been a beacon of light.

I could not have produced the stream of columns without the steady hand of Daniel Robinson. Danny has been my editor for much of the past decade and has done the heavy lifting to bring this book to fruition. Despite his adoration of the Boston Red Sox, his friendship and creative pen have been invaluable.

What a long strange trip it has been and will, hopefully, continue to be for many years ahead!
Where It Began

Introduction

Back in early 1997 I received a call from Dave Kansas, the managing editor of *TheStreet.com*. I had known Dave from his early days at the *Wall Street Journal*, where he had frequently interviewed me. At the time, *TheStreet.com* was in its formative stage, and Dave asked me to write a column. I admired Dave professionally, and I agreed to author an irregular column called “The Contrarian.”

Writing has always come easy for me, and I started my gig on *TheStreet.com* as a lark. I never thought that 17 years and tens of millions of words later I would still be writing.

This chapter starts with my first column written on *TheStreet.com* and later on depicts my journey on TheStreet and in life!
The Contrarian

May 1997

Today’s stock market is bifurcated—it is a market of have-and-have-nots. Increasingly, price action is influenced by the dominant investor of the 1990s, the mutual fund manager. With stocks in so relatively few hands, equities often move based on the strategies employed by these funds. This makes for the kind of inefficiencies and opportunities that we are seeking in this column. As Warren Buffett once put it, “Our job is to be fearful when others are greedy and greedy when others are fearful.”

I have learned over the years that in the equity market, there are few truisms. Today’s established doctrine often becomes tomorrow’s false beliefs, as conventional wisdom does not always represent common sense.

It is important to recognize that a contrarian approach can be just as foolish as a follow-the-crowd strategy. What is required is thinking rather than polling. Bertrand Russell’s following observation about life in general applies with unusual force to the financial world: “Most men would rather die than think. Many do.”

The purpose of this column is to make investors think.

In future columns, we’ll do this by taking a hard-hitting, iconoclastic look at individual securities and sectors of the market.

Our first column, however, will deal with a person, not a stock. It holds several important messages that apply, in this writer’s opinion, to the current state of the stock market—a market that may have lost its moorings.

Four years ago this month, a dear friend of mine passed away. As the major markets register all-time highs and we move into the summer months, it seems appropriate to reflect upon my friend and to recall some of the lessons he taught me.

My friend’s name was Robert Brimberg.

Bob headed Brimberg & Co., a small securities business by Wall Street standards. But by any measure, Bob was a “big man,” who hailed from Scarsdale, a tony suburb north of New York. He was nicknamed Scarsdale Fats by author “Adam Smith” (George Goodman’s nom de plume), who immortalized Bob in his 1967 best seller, The Money Game.
In the 1960s, as in the 1990s, money managers with billions under management were welcomed anywhere. But mostly they gathered at Bob’s spartan room on Broad Street, where corned beef sandwiches were the plat du jour. No house silver, no perfectly groomed waiters, just metal folding chairs, paper napkins, and a big bowl of pickles and sour tomatoes were the standard offering.

Why were Bob’s lunches the meal to be invited to? As Erich Heinemann recalled, “The price of admission was that you had to have something to say. Bob ran the only true salon for the investment community.”

Bob put it this way:

I had to compete. What have I got? Nothing. Those hot young research analysts at Donaldson Lufkin can write hundred-page reports, Bache can field a thousand salesmen. The white-shoe firms can fly the Old St. Wasp flags. So I thought: Who has the money? The funds. Be nice. Ask them to lunch.

And that is how Bob Brimberg became the Perle Mesta of Wall Street.

Ultimately, Bob moved uptown to a corner table at Harmonie Club. It was in that setting 20 years ago that I met Scarsdale Fats when he invited me to my first lunch. I was a wet-behind-the-ears 27-year-old portfolio manager, and Bob exposed me to the best and the brightest on Wall Street.

Scarsdale Fats’s pointed questions and sometimes brusque manner cut through the pretense, and the poker-game aspect stimulated even the most knowledgeable of us to prepare for the lunch. And everybody came to be with the Yalie who was as comfortable talking about Kierkegaard as Keynes.

The Dow Jones Industrial stood at about 750 back in 1977, and we have been in a bull market ever since.

I (and many other people) owe a lot to Bob. Since his death and during my visits back to Harmonie Club for lunch (now as a member), I find myself gazing back to Scarsdale’s corner table. I still vividly remember those spirited lunches and how much we profited from the conversation.
You see, Bob brought the sensibilities of a world-class bridge player (which he was) to our understanding of the markets. Above all, he taught us investment humility—that if you do not know who you are, Wall Street is an expensive place to find out.

Which gets me to the subject at hand. The market. For, as Bob put it to me one day in 1987, “Dougie, genius is a rising market.”

And the market today, again, gets back to “Adam Smith’s” *The Money Game*, in which the author recalls a character named Billy the Kid:

> [W]ho was in Leasco Data Processing, Financial General, and Randolph Computer, and a couple of others I can’t remember, except that they all had data processing and computers in the title. When asked why the computer leasing stocks were so good, he responded, “Leasing has proved the only way to sell them and computer companies themselves don’t have the capital. Therefore, earnings will be a hundred percent this year, and will double next year and will double again the year after. The surface has barely been scratched. The risk has barely begun.”

As this piece is written, technology is on a tear. I am awash in nostalgia: Today’s investors are similarly obsessed with the future of technology, the Internet and, for that matter, the top tier of industrial equities such as General Electric.

“Adam Smith’s” fictional character, the Great Winfield, continues:

> The strength of my kids is that they are too young to remember anything bad, and they are making so much money they feel invincible. Now you know and I know that one day the orchestra will stop playing and the wind will rattle through the broken window panes and the anticipation of this will freeze us. All of these kids but one will be broke, and that one will be Arthur Rock of the new generation.

Bob, some things never change—this is still a kid’s market. Being over 40 years old has been a liability in the bull markets of the 1990s. But don’t forget, it took over 17 years (1982) to eclipse the high in the averages established in the mid-1960s!
And despite the market’s monumental rise, remember that prices have no memory, and yesterday has nothing to do with tomorrow. Every day starts out 50-50 (to paraphrase Professor Eugene Fama). Sic transit gloria.

A Longtime Bear Turns Bull

3/26/2001

Roy Neuberger, a great trader and the patriarch of Neuberger Berman, once told me to buy cyclical stocks when the factory doors of industrials are padlocked. The economy and the stock market’s doors are now padlocked.

After weeks and weeks of pounding, it has become almost unthinkable that the market might rally. For new equity and low-grade debt financings, the capital markets are closed. Investment bankers are being fired by the large underwriters.

A year ago, it was almost unimaginable that the equity market would fall. A year ago, initial public offerings (IPOs) routinely rose by 100% on their first day of trading. Mutual funds were created just to buy new issues and to participate in the aftermarket trading of those new issues. The great bull market of the 1990s did its best to obviate the need for an historical perspective. In essence, experience and knowledge of the past was a liability.

No longer—the tide has changed. Growth-oriented mutual funds have faltered badly, and investors are withdrawing their investments. Value-oriented mutual funds are performing better and are becoming more popular with individual investors.

I have been bearish throughout the past two years, but over the course of the past two months, I’ve grown progressively less cautious. And now, I’m of the view that the equity market is putting in an important bottom.

Investors have finally recognized that they made a mistake in thinking that the technology capital spending boom of 1998–2000 was a secular phenomenon. And that recognition is at last being reflected in today’s low stock prices.
The technology spending spree was not enduring—it was nothing more than a temporary ramp-up. It was abetted by a halcyon IPO market that provided issuers with zero-cost capital and by the compliant manufacturers of tech products that offered customers financing that, based on poor business models, was undeserved. In turn, this produced an unsustainable level of demand for technology products.

The resulting demand became so heavy that it fooled even the tech companies (and investors in tech stocks, who bid the sector to ludicrous price levels) into believing in a secular expansion in demand for optical fiber, routers, servers and other tech products. In response, the largest companies dramatically expanded the capacity of what their plants could produce.

Along the way, alas, the fuel for the euphoria in the form of plentiful debt and equity financing to lower-tier participants, combined with aggressive vendor funding to unworthy creditors—all the things that encouraged the hysteria—began to disappear. That was 12 months ago, to be precise.

In addition, it began to be acknowledged throughout the past year that certain areas of technology, such as personal computers and wireless phones, had reached a level of maturity that was suggestive of cyclical, slower growth.

A year ago, with Qualcomm, Dell, Micron Technology, and Nokia at the top of the investment world, this was unthinkable.

And earnings growth hit a wall. One by one, technology companies issued profit warnings. Then, all of a sudden, valuations began to matter, and the bifurcated market of the past decade reversed, big time.

Investors, analysts, and market strategists were in denial during most of the market reversal. And why not? It had paid to buy every previous decline.

Of course, the greatest myth—that commerce had entered a Web-centric world—was squelched. The suggestion that, in order to compete, a rapid deployment of an Internet strategy was the key to future profits, was replaced with the more traditional and prosaic notion that capital spending programs needed to be justified by quick paybacks.

Unfortunately, similar to the roads to riches of prior investment bubbles (e.g., railroads, radio, and automobiles), investors learned for the