Laurel Kenner and Victor Niederhoffer
Columnists

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Let the Old Hearts Be Lonely Hearts

By Victor Niederhoffer and Laurel Kenner
Columnists
11/01/2000 08:42 AM

The market began October on a sour note, with the Nasdaq Composite falling almost 3%, the S&P 500 showing a small decline and the Dow rising a mere 0.5%.

By the end of the first week, with employment numbers reported, the market was in full retreat. The S&P was down 2%, and the Nasdaq, down 9%.

It got much worse.

The Nasdaq, at its nadir, was down 20% on the month. The S&P fell to its lowest level of 2000, down 9.5% on the year. And on Wednesday, Oct. 18, one of the worst opens in history, the Dow registered 9654, breaking the magic 10,000 level by 3.5%,. That low point was a full 18% from the year's highs.

In keeping with the times, Alan Abelson, the hoary old-hearted eminence grise at the old financial weekly *Barron's* , called for a Nasdaq of 1,500, and nary a dissenting voice was heard in the house.

Except ours.

Our former esteemed partner, who was allowed into Harvard with nary an extracurricular activity but merely to raise the average aptitude scores by a few points, liked to demur when proved right by a market happening, "Perhaps I'm not as foolish as I seem."

Worst-Performers Perform Best

We feel the same way regarding the constant bullish calls we sounded from the middle of October. Start, for example, with our Stock Talk! of Oct. 16, where we intoned: "How in the world can you ever expect to capture the 10 million percent (continuously compounded) gain in stocks if you try to time when the Nasdaq or S&P looks weak and get out at some seemingly propitious occasion, only to agonize again after a rally like Friday's as to when to jump back in?"

We pointed out that the idea of tax selling as a negative on the market was a dead canard. On Oct. 17, we recommended buying the 10 worst-performing Nasdaq 100 stocks, all of which had declined by at least 71%.

Indeed, these 10 stocks rose an average of 12% during the remainder of the month, 1 percentage point better than the average for the 10 worst performers during the previous three years. Here are the changes from the close on Oct. 17 through month-end:

Citrix (CTXS) 29%
Adaptec (ADPT) 21%
Yahoo! (YHOO) 20%
At Home (ATHM) 11%
Pacificare (PHSY) -13%
BMC Software (BMCS) 31%

Novell (NOVL) 15%
Compuware (CPWR) 28%
Legato (LGTO) -16%
CMGI (CMGI) 10%

We reiterated our core message: that it's always far better to buy after the big declines than to buy rises. The next day, as an antidote to excessive pessimism, we singled out Covad Communications (COVD) as an example of an irrational, excessive decline brought about by a mere transitory shortfall in earnings. Covad has since risen 50%.

By the end of the month, the negativism on all rational fronts had ended. The Dow finished October, appropriately, at a hair's breadth away from 11,000, or 14% above its Oct. 18 low. The S&P 500 registered three consecutive gains totaling 5%, to a level virtually unchanged on the month.

And thus, as happens so often in markets and life, the end of the period was exactly opposite from the beginning of the period. As the resident Daily Speculations proverbist put it, *The sun brings forth the adder, and the rain, the ladybug.*

As we enter the new month, with the S&P at a 17-trading-day high, all eyes will be on the outcome of the election, strangely, for the outcome is no longer in doubt.

Bet on Bush and "Hill"
The day-trading scientific scholar Bipin C. Pathak adds the following betting odds on the likely outcome of the election. They clearly show a wide edge of superiority for the Republican candidate:

On a payoff on $10:

	Bush	Gore
William Hill (U.K.)	$15.70	$22.50
Ladbroke's (U.K.)	$16.00	$22.00
O'Halloran's (Ireland)	$14.44	$23.75
Int'l All Sports (Aus.)	$15.60	$24.00
Iowa Electronic Mkt (U.S.)*	$16.13	$27.40

*(*The Iowa Electronic Market is a futures market, not a betting house. Payoff listed there is the theoretical return if $10 in contracts bought today were later sold at $1 per contract).*

"The Hill" is a 7-to-3 favorite, according to the always accurate Iowa market, thereby showing that she is as adept at changing careers from First Lady to Senator as she was at making a 100-fold return on the short side of cattle futures while maintaining a bullish bias from her reading of the *Wall Street Journal.*

The bottom line is that all this talk about the closeness of the election is a mere charade designed to deceive for various nefarious purposes. Strangely, however, while the likely Republican win normally is followed by a rise of a few percentage points in the month after the election, the market has not tended to register a significant gain in the period. You can take heart. From Election Day through the end of the year; rises have typically been 3% to 5%.

There is nothing the market hates more than to allow its votaries to make easy money. Whereas the first week, including the employment report Friday, has traditionally been the be-all and end-all of market movements, the mistress of markets has been angered by the wide dissemination of this fact, and in

recent days she has foreshortened to prevent the fixed-rule followers from capturing those easy returns.

Thus, we will abstain from our usual heads-up for the market that we like to give before the beginning of each month.

A Late Bloomer Recommends

We shall close instead with a recommendation from Carol Potts, one of the little people who held off getting into the stock market for many years because of all the negative vibes from the old-hearted leaders. When she took the plunge a few years ago, fortuitously it wasn't too late for this worthy, who traded her career as a maker of stained glass frames to invest in technology stocks. She has since garnered a return of well above 40% a year, turning a small initial stake into a substantial six-figure amount. She recommends the U.K.'s ARM Holdings plc (ARMHY), Europe's biggest designer of microprocessors. ARM makes low-power chips for handheld devices and embedded applications.

Finally, our University of Chicago mentor, Jim Lorie, checked in with us yesterday to see how Vic's hip was doing. In the process, we extracted one of his patented tips. He suggests consideration of Hoovers Inc., (HOOV) which runs a Web site for company information. The stock is down 63% to 3 9/32 this year. "The management knows what they're doing, the product is great, and when this company becomes profitable, which I suspect will not take as long as the market seems to suspect, there could be room for some nice appreciation."

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.09 4	4	-4.6	8.7
S&P 500	0.88	3	-2.9	5.9
Nasdaq	1.06	1	-17.7	4.9
Europe STOXX-50	1.12	3	4.8	4.7
Dollar/euro	0.84	4	-17.7	-0.8
Nikkei	0.81	1	-23.3	-5.2
Dollar/yen	1.11	-6	-11.0	-1.9
Gold	0.67	-1	-8.0	-2.2
Oil	1.35	-1	70.8	0.9
Bond Futures	1.22	-3	10.3	-0.2
2-Yr Note Futures	0.99	1	0.97	-0.2
Bund Futures	1.15	-2	2.9	-0.04

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

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Yankee Hanky Panky Behind Bull Tilt

By Victor Niederhoffer and Laurel Kenner
Columnists
11/02/2000 09:01 AM

For only the fourth time in the last six years, the S&P 500 declined wider than 5 points on the first day of the month.

But the recovery from down 1.5% in the S&P futures to down 0.6% at the close showed the underlying strength that massive infusions of money at the beginning of the month always engenders.

As mentioned yesterday, the cycles are always ready to change when an easy method of making money becomes overly disseminated, and that is why Monday's spectacular rally in the Nasdaq occurred ahead of time.

Always ready to blaze new paths, the refusal of stocks to decline much yesterday after a three-day, 5% rise had us burning the midnight oil in an effort to impart to our readers the true cause of the reversal in prevailing sentiment from bearish to bullish.

Well We'll Be Damned

After running all of our computers in parallel overnight and enlisting help from our massive worldwide readership, all of whom are computer-literate, we can report the answer: It was the victory of the Yankees.

The good feeling that this capitalist team engendered, the view that the establishment would prevail, and that winning streaks would continue, changed the market on a dime from its low last Thursday and led to the rallies that ensued.

In all candor, however, we must admit that it was not the computers that gave us the answer, but one of our younger-hearted readers. As he wrote:

"The Subway Series of 2000 dragged me back in time exactly 64 years to my first one -- Giants vs. Yankees -- in 1936. The economy was in depression then, big time, and the Subway Series -- the first since 1923 -- gave New Yorkers something to take their minds off their troubles. With President Franklin Delano Roosevelt throwing out the ceremonial first ball -- election day was only a month away -- the starting pitchers were Lefty Gomez for the Yankees and Hal Schumacher for Skipper Bill's crew. The Yankees immediately scored two runs in the first inning. . ."

Putting the Doc in Greenspan

With this elegant juxtaposition of politics, baseball and the market, our moment of enlightenment arrived, and all was suddenly so clear. An extraordinary insight from an extraordinary reader -- indeed, one who has within him the secret open sesame to when it was that the saxophonist at the Fed, the Delphic oracle incarnate, went astray. The reader, Mr. Larry Ritter, wears with equal aplomb the hats of New York University finance professor, co-author of numerous finance textbooks and eminent baseball historian. He sat on the committee of scholars who put the "Doc" in front of Greenspan. His latest project is a book on the Subway Series.

Of course, 64 years ago, the victory of the Yankees in the World Series had the same riveting effect on

the Depression-hugging market in that presidential election year. In celebration and diffusion of the victory, the market rallied continuously, adding a good 5% in the following week, thereby heralding the current move. The Dow ended October 1936 at 177, rallied on the Roosevelt victory to close November at 183, and then meandered about unchanged for the next eight months until a disastrous 40% decline from August to October of 1937.

The market thereby provided an exemplar of its tendency to do much better in the two years preceding an election than in the two years following. The great market scholar and friend of ours, Yale Hirsch, has memorialized many of these relations in his Stock Trader's Almanac, which at 34 years old is still going strong.

End Note:
On Oct. 3, we observed that big declines at the beginning of a month are exceedingly rare. We looked at the aftermath of the four days during the previous three years when Nasdaq 100 futures fell between 2% and 4% on the first day of a month. We found that after similar dismal first days in the past, the five biggest losers tended to rise an average of 7% during the rest of the month.

Based on that finding, we recommended the five Nasdaq 100 companies that lost the most on the first trading day of October this year. Through the end of the month, these companies gained an average of 9%. The results:

At Home (ATHM) -18
Broadvision (BVSN) 36
Legato (LGTO) -25
Medimmune (MEDI) 15
Smurfit-Stone (SSCC) 36

The Nasdaq 100 stocks that fell the widest today are as follows:

Altera (ALTR) -20
WorldCom (WCOM) -20
Level 3 (LVLT) -11
Microchip Technologies (MCHP) -8.9
Network Appliance (NTAP) -7.7

We expect that the performance of these stocks during the remainder of the month will be comparable to that of the Oct. 1 losers last month.

Speculator's Scorecard

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Dow	1.08 4	-1	-5.2	9.3
S&P 500	0.88	-1	-3.4	5.9
Nasdaq	1.05	-1	-18.1	5.1
Europe STOXX-50	1.11	-1	4.7	5.4
Dollar/euro	0.84	5	-16.5	2.6
Nikkei	0.82	2	-21.6	0
Dollar/yen	1.12	1	-10.4	-0.8
Gold	0.67	-2	-8.4	-2.2

Oil	1.36	1	73.7	2.4
Bond Futures	1.23	1	10.5	0
2-Yr Note Futures	1.00	2	1.1	-0.1
Bund Futures	1.16	1	3.2	0.2

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Learning to Trade Without Emotion

By Victor Niederhoffer and Laurel Kenner
Columnists
11/03/2000 08:10 AM

Brett N. Steenbarger, Ph.D. is a licensed clinical psychologist and periodic guest contributor to the Daily Speculations column. This is the second article in a three-part series examining the psychology of trading.

Trying to figure out how investors react to the market's moves has been studied for much of this century. In fact, an academic discipline known as behavioral finance has sprung up just to study the matter.

As the first installment of this series suggested, investors, especially speculative ones, exhibit cyclical patterns of behavior no less dramatic than those of the indices and stocks they follow.

Let's start with a simple example. A young woman concerned about her weight is rejected by a friend and feels hurt and angry. Unable to soothe herself with positive thoughts, she turns to food and eats mindlessly to make herself feel better. This temporarily diverts her attention from her internal woes, but before long she feels full and realizes she has eaten too much.

This yields an even greater sense of frustration and diminished self-worth, as well as a sense of guilt. In a desperate effort to make things right, she secludes herself and attempts to throw up the food, vowing to never again overeat. Unfortunately, however, the vow lasts only as long as her stable mood.

Starting Troubled

Similarly, we have the self-defeating investor. He begins the market day in a troubled frame of mind: perhaps he has experienced a cold streak in his trading. Once the opening bell sounds, however, his attention is diverted and he senses an opportunity to go short. The prospect of a declining market is enticing: this is an opportunity to make up for that market rise he missed. Eagerly, he makes his move within minutes of the open, brushing aside his earlier concerns.

Within the hour, however, the market reverses and he now holds a significant paper loss. He is concerned and disgusted, but decides to wait to cover his position until he can reach breakeven and salvage his pride. That never happens as the market continues its rise. Facing a significant loss, he disgorges his position. His relief is tinged with self-recrimination, as he realizes that he has covered his position at the worst possible moment. He vows to never again short a rising market, treating his loss as a momentary lapse of judgement that need not be revealed to others.

By now the pattern should be clear. It begins with a marker event, signaling anxiety or upset. Something in one's personal or professional life does not go well and threatens the individual's self esteem. The result is an internal sense of distress. In an effort to turn attention outward—away from the distress—the person initiates a compensatory action.

This action, such as eating, gambling, or trading, is the product of impulse rather than reasoned reflection. It brings temporary relief but soon it generates a fresh set of adverse consequences and a new mixture of guilt and shame. The self-defeating person now attempts to undo these consequences, often compounding the problem with new, reflexive decisions.

Manage Your Position, Not Your Stress
When food, winnings, or profits are assigned the burden of carrying one's self esteem, we should not be surprised when they collapse under the load.

There are many psychological techniques for breaking such patterns, some of which I will share in the third and final part of this series. Let me emphasize, however, that "positive thinking" is *not* the answer.

Show me someone excited by their (actual or potential) winnings in the market, and I will show you a time bomb waiting to explode. Self-recriminations for losses and boasts of gains are flip sides of the same emotional coin that equates self-esteem with performance. Winning traders, like successful therapists, divorce their sense of themselves from their work. They are too immersed in the doing to be keeping mental accounts of victories and defeats.

Taking Action
The first step change is to become a conscious observer of that pattern. Keep a journal. Whenever you feel an impulse to take a position in the market (or binge on food or visit the racetrack), it is worthwhile to write down everything you are thinking and feeling at the time. The simple act of observing ourselves can interrupt the emotional pattern, providing us with greater control over our actions and decisions.

You may want to talk your thoughts into a tape recorder. Quite often you listen to the words in a different state of mind from the one that initially generated the thoughts. This creates a useful sense of objectivity, allowing you to respond to your own ideas as if they were coming from someone else. The resulting sense is sometimes one of great incongruity: "What the hell was I just thinking?!"

With respect to trading, one principle should prove worthwhile: If you are not entering or exiting a position for logical reasons—because a tested strategy dictates the move—the odds are high that you are making the move for psychological reasons. Intuition, as the saying goes, is all too often the rationalization of those into wishin'.

Speculator's Scorecard

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Dow	1.07 4	-2	-5.4	7.3
S&P 500	0.88	1	-2.9	2.9
Nasdaq	1.06	1	-15.7	0.3
Europe STOXX-50	1.10	-2	4.1	1.9
Dollar/euro	0.84	-1	-16.6	1.9
Nikkei	0.81	-1	-21.7	0.2
Dollar/yen	1.13	2	-10.3	0.2
Gold	0.67	1	-8.2	-2.2
Oil	1.34	-1	70	2.0
Bond Futures	1.21	-1	10.4	-0.3
2-Yr Note Futures	0.99	-1	1.1	-0.09
Bund Futures	1.14	-1	2.9	-0.09

Brett N. Steenbarger, Ph.D. is a licensed clinical psychologist and Assistant Professor of Psychiatry and Behavioral Sciences at the SUNY Upstate Medical University in Syracuse, NY. His primary research interest is multivariate behavioral modeling of the stock market. He welcomes comments and questions

at steenbab@aol.com. He does not hold a position in any of the stocks discussed in this column. Positions may change at any time.

The Speculators Hunker Down With the Bears

By Victor Niederhoffer and Laurel Kenner
Columnists
11/06/2000 09:04 AM

Vic: Welcome to the 449th edition of Stock Talk! Let me start off by saying that while Laurel and I are as optimistic about stocks as ever for the grand sweep of years and decades, we're concerned about a couple of things that argue against putting new money in the market right now.

1) As of Jan. 1, new reporting and withholding requirements take effect for U.S. residents who hold U.S. stocks abroad. Obviously, anything that decreases the attractiveness of stocks isn't good, and that holds triply true if that something relates to taxes.

2) A big decline in bond prices occurred last week in conjunction with a rise in stocks. In the months before October 1987, bond prices went down by some 10% and stocks went up by 10%. We don't even like to see a 2% move in that direction, as we've seen in the past two weeks. Such a divergence strains the faith of even young-hearted bulls like Laurel and me.

Bonds closed at 99 1/32 on Friday, down 2 6/32 points from their close of 101 7/32 two weeks ago and at the lowest levels since Oct. 6. The S&P 500 closed Friday at a high not seen since Oct. 6 during trading.

Turning the Speculators forecasting computers on, we note that on the nine Fridays on which similar divergences occurred during the last six years, the expectation was for a decline of 1.5% one week later, with three of nine up, and an uncertainty about twice that level.

Moderator: Some readers will object that none of these divergences took place during the week before an election, and may represent random retrospection. Still, it's a caution whenever Laurel and Vic join the old-hearted camp, even for a week.

Laurel: We unfortunately must add that the Dow-to-bond ratio, which turned our bullish vibes on when it hit 100 several weeks ago, is now at 10,800/99, or 109, a very unhealthy measure.

Flipping through the pages of the leading financial weekly, we found the senior columnist as bearish as ever. He thinks the bear market is just beginning, and he predicts that the new president will find that "Unhappy times are here again."

Frankly, we're unaccustomed to being on the bearish columnist's side of the fence, even for what promises to be a temporary stay. To get our gloom-and-despair levels up, we decided to visit a rehearsal of *Patience*, the Gilbert & Sullivan operetta about maidens suffering from unrequited love for a melancholy literary man.

The rehearsal was at the troupe's regular performance space at John Jay College at 59th Street and 10th Avenue in Manhattan. As we passed through the entrance, Vic's gaze turned to the Arthur Niederhoffer Memorial Library, where his dad's collection of books has been stored since 1981. A few tears about the great professor's untimely demise and severing of his scholarly and familial pursuits led to that particularly doleful forecast from Vic concerning the market's prospects that appears in the beginning

paragraphs of this column.

It was then, in fact, that we decided to issue our first "sell" recommendation since we began writing together in January. On Oct. 31, we recommended a "flyer for the rest of the year" – Calpine Corp. (CPN), a power-generation company. We said insiders had been buying, putting it a cut above the other growth stars in the S&P Midcap 400. Since then, the stock has risen 17%, and some very nice insider selling has shown up in the SEC filings, putting Calpine in a similar class to the 24 other top-performing Midcaps. Time to stop making high fives and take some profits.

As we entered the rehearsal hall, we found a whole bevy of maidens draped in aesthetic garments. To the doleful strains of lutes and mandolins, they lamented that they had been waiting for 10 long years for the leading columnist to say a single bullish word to them. *"Yet that love he heedeth not, leaving all sad and sorry in their lot."* Yes, the loutish columnist remained unmoved the whole time that the Dow rose from 1,500 to 11,000 and the Nasdaq climbed from 500 to 5,000.

Our pessimism deepened when we discovered that the despair of the maidens wasn't just an acting job. One actress told us the heartbreaking tale involving one of the former stalwarts of the aesthetic movement, San Mateo, California-based Poet Holdings, which is so sensitive it trades only in Germany, on the Neuer Markt under the symbol POXA. Poet Holdings is down from a high of 215 euros in March to its current level of 20.

Another actress started crying as she recounted the decline of Art-In Technologies and Electronic Commerce, an Israeli full-service Internet company, from 1,841 to 141 shekels.

We started feeling pretty low-down, as Huckleberry Finn put it. After a few minutes, we could stand it no longer and started to take questions from the other spectators just for diversion. They were just as mournful as we, only worse.

Vic: You sir, in the Iron Maiden.

Question: My wife keeps telling me to sell my growth stocks and buy value or she'll make me sleep on the couch. I actually prefer the couch when she's in this state, but the problem is that she won't let me buy Applied Materials (AMAT). She says it's her or the techs. **Laurel**: I like Applied Materials, too. My advice is to wait for the next big decline, and then buy it and sleep on the couch until it doubles.

Q: I have a question for Vic. My husband wants to buy military hardware stocks because he thinks they'll do well under a Bush administration. I keep reminding him that our Lockheed Martin (LMT) shares are still in the red from when he tried that strategy back in '94 after the Republicans won the House, but he won't listen. He keeps saying "Look at Boeing (BA), up 50% this year! Look at the S&P Aerospace Index, up 32%!"

Vic: If he's right, Lockheed Martin will recover soon. Tell him he can buy Boeing with Lockheed Martin profits.

Question: Laurel, my wife read in the Stock Trader's Almanac that the two years after a presidential election are rather bearish. She insists that we sell all our U.S. holdings and buy Brazilian bonds. I think that's the craziest thing I've ever heard. Now she refuses to talk with me except in the presence of a professional facilitator. What do I do know?

Laurel: Sell half your U.S. holdings and take her on a trip to Rio. Seeing Brazil up close might change

her mind. Or you might end up liking the bonds. If neither pans out, at least you can enjoy the views from the beach.

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Nikkei	0.78	UnChg	-22	-2.4
Dollar/yen	1.05	Up 3	-9.3	1.7
Gold	0.68	Up 1	-7.9	-2.4
Oil	1.31	Up 1	75	-0.7
Bond Futures	1.15	Down 2	9.4	-1.6
2-Yr Note Futures	1.04	Down 1	1.0	-0.2
Bund Futures	1.08	Down 2	2.9	-0.3

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Markets Take a Wait-And-See

By Victor Niederhoffer and Laurel Kenner
Columnists
11/07/2000 09:23 AM

Like the earth's crust, with its major and minor plates moving apart, sliding, colliding and overriding, the bullish and bearish forces of the market have been in equilibrium for the last several days.

The narrow ranges of the most active stock market futures clearly demonstrate this trend. For three consecutive days, the range from high to low in the active S&P 500 contract has been 12 points exactly, compared with a norm of twice that level. For Nasdaq 100 futures, the range has been a mere 3%, compared with the usual 5%.

Today, the S&P 500 and Nasdaq 100 had flat opening indications and both indices got off to a mild start.

A Close Race to Control Your Pocketbook

Perhaps it's the closeness of the elections. Investors have been wondering which candidate will leave me with more bread on the table after taxes." They're also wondering if they'll have a chance to invest their own Social Security withholding?"

But one market, the Iowa Electronic Market, is not overwhelmed by the cross-currents. It has a clear prediction: odds are better than 2 to 1 in favor of a Republican victory. In a separate vote-share markets, futures are registering the expectation that the Republicans will win 52% of the popular vote.

Empirically and theoretically, the Iowa poll is more accurate than ordinary polls, for a reason straight out of the efficient markets theory handbook. In ordinary polls, the voters and pollsters often have different agendas. Furthermore, the sampling techniques that pollsters use and the content of the queries posed often leaves a margin of uncertainty between what's measured and the actual outcome.

Not so for the Iowa poll. Each voter (bettor) has the incentive to capture a buck. The bid and ask on a Republican victory is 67-71. The ratio in favor of Bush has been relatively constant for the past two weeks, but is registering a high at 9 a.m. as we go to press.

And what will happen if the Republicans win today, as the Iowa futures predict? Since 1972, the S&P 500 has risen on five occasions and declined on two occasions. The average move has been up 2.5%, about the same amount as the average range from high to low within a normal volatile day in the S&P 500, or a normal day in the Nasdaq 100.

The markets have been closed for Election Day through most of this century. The past four elections saw a gain of 1.1%, in 1996; a decline of 0.7%, in 1992; a rise of 0.03%, in 1988; and a rise of 1.1%, in 1984.

Under the circumstances, we would recommend that everyone go fishing – except that on the day after Republican victories, the market, since 1900, has risen on 13 of 13 occasions, versus four of 12 when Democrats won.

Before going fishing, may we recommend that our readers kindly take profits in the next day or two in the 10 S&P Midcap 400 Index stocks we recommended on Oct. 31:

Stock.....%Gain Since 10/31
Calpine (|CPN|).....18.0
Concord EFS (|CEFT|).....6.1
Idec Pharmaceuticals (|IDPH|).....6.6
Stryker (|SYK|).....8.8

Average: 10%

10% is a nice profit to make in two weeks, especially when bond yields continue their relentless ascent to the 6% level while stocks are meandering about at three consecutive 20-day trading highs.

End Note
As many of our readers know, Vic reads only one newspaper, the *National Enquirer,* and tries to confine his reading of books to those at least 100 years old. He feels he learns all he needs about people and the commonplace things that make up the totality of everyday life from the *Enquirer* and that the rest is in the market.

An item from the Nov. 14 *Enquirer* provides an example. Carl Eacret, a 59-year-old grandfather, rescued a trooper from a burning car on an Indiana road. "The trooper was trying to get out, but both front doors were jammed," Mr. Eacret told the Enquirer. "Flames were already starting to come in from the dash. I had to get her away before the flames got to the gas tank. I had to drag her out. I dragged her by her hands 55 feet to a ditch. Bullets were whizzing by me" as the ammunition in the car exploded. Carl, a machine repairman working in Muncie, drove to work, arrived 10 minutes late and didn't say a word about what he had done.

Multiply this by 270 million, and see what America, Iowa and Indiana are made of. And have confidence in the inexorable 10 million % drift of markets.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.07	1	-4.5	6.4
S&P 500	0.89	1	-2.6	2.4
Nasdaq	1.06	-1	-16.1	-1.5
Europe STOXX-50	1.10	1	3.7	0.3
Dollar/euro	0.83	-1	-16.5	2.3
Nikkei	0.82	1	-18.9	1.9
Dollar/yen	1.13	-1	-9.7	0.5
Gold	0.68	-1	-8.1	-2.1
Oil	1.34	-1	71.6	-2.7
Bond Futures	1.19	-3	9.1	-2.5
2-Yr Note Futures	0.97	-2	0.89	-0.4
Bund Futures	1.12	-3	2.9	-0.2

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often change during the day based on shifting market expectations and volatilities. He is the author of the best-selling The Education of a Speculator.

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The Market Wants an Answer

By Victor Niederhoffer and Laurel Kenner
Columnists
11/08/2000 09:41 AM

Please hold all tickets.

That famous line, delivered at the end of a horse race when a photo finish or inquiry makes the outcome uncertain, seems particularly appropriate to the market today.

One thing is for sure. The S&P 500 futures, stuck in a 14-point-or-less range from high to low in each of the last four days compared with their normal 20-point range, had a much better forecast of the likely closeness of the election than the Iowa Electronic Market.

They're Up; They're Down

Indeed, throughout the evening, the moves in the futures tracked, and at times even predicted, the course of the candidates' fortunes like clockwork. As each state's votes were announced, futures swung up wildly on favorable Republican results or down precipitously on favorable Democratic ones.

Some examples:

- At 8 p.m., the futures jump down from up 5 on the day to down 12, as television networks forecast that Florida is in the Democratic camp. Bonds move immediately from unchanged to up a full point on the day.

- Between 2 a.m. and 2:15 a.m., futures rise 5 points; at 2:17 a.m., NBC projects a Bush win in Florida. Bonds take an immediate accompanying drop of half a point.

As we go to press, S&P futures are up 4 points and bonds are down 10 ticks, a mere 22 ticks away from ascending in yield to the psychologically negative level of 6%.

Under the circumstances, we are going to focus our attention on the S&P futures as a predictor of the ultimate outcome. The Iowa Poll is now relegated to mortal status after swinging madly during the evening from a 9-to-1 Republican victory to a 4-to-1 Democratic one.

Heading for a Catfight?

One thing is for sure, sex was the key to the outcome. As regular readers of the *National Enquirer* know, Tipper and the Hill loathe each other. This tension contributed to the absence of Bill on the campaign trail for Gore. Had the popular president been a little more visible in Florida, futures would not be up as we write. Nor would Vic have had the opportunity to copper each move in the overnight futures by comparing the vote counts to the Iowa Poll forecast and playing the divergence.

May we call on an army of social scientists and thesis writers to study the moves of the market relative to expectations and outcomes in the time before the ultimate victor is chosen? That would give us much better knowledge of how decision-making under uncertainty takes place.

And may we also point out that the immediate reaction of the market to the ultimate victor may not be the correct one: the market does best when both houses are in opposition to the party in the White

House. With the Republicans still in control of the House of Representatives and Senate, the morning line is that the market would do better with a Democrat in the Oval Office: more gridlock, less legislation and regulation, and more opportunity for business, rather than Washington, to do its thing.

The news that the Democrats are flying a platoon of some 150 lawyers into Florida to supervise the recount process is disturbing to us. A bad settlement in our book is always better than a good adversarial decision.

Perhaps the worst news of the day for Vic was the rise in the Thailand SET Index to over 300 for the first time in three months on election optimism. Under the circumstances, we are declaring a moratorium on all future election forecasts and commentary by ourselves, whether based on Iowa, the futures, or the *Enquirer,* and are turning our attention again to the performance of the Knicks and Seattle now that the sullen center, Patrick Ewing, has visited his afflictions on said city. It will not be long before we are ready to trade places with "Doc" Greenspan again.

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Speculator's Scorecard

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Dow	1.07	Down 1	-4.7	5.4
S&P 500	0.90	Down 1	-2.5	2.4
Nasdaq	1.04	Down 2	-16	-0.1
Europe STOXX-50	1.13	Up 1	3.7	-1.7
Dollar/euro	0.83	Up 1	-16	2.8
Nikkei	0.79	Down 1	-19	1.3
Dollar/yen	1.05	Up 1	-9.4	0.6
Gold	0.67	Down 2	-8.2	-2.3
Oil	1.33	Up 3	79	0.1
Bond Futures	1.14	UnChg	9.1	-2.0
2-Yr Note Futures	1.03	UnChg	0.9	-0.3
Bund Futures	1.06	Down 4	2.7	-0.4

Roused Market Snaps at Investors

By Victor Niederhoffer and Laurel Kenner
Columnists
11/09/2000 08:46 AM

Winning isn't everything, but wanting to win is.
--Vince Lombardi

While the attention of the world was riveted on the potential winning tickets they held in the entitlement sweepstakes related to the US presidential election, the market decided to play Possum. Not Sleeping Possum, but Biting Possum Woken by Intruder.

After four days in a row with the narrowest range in a year, and the lowest volume, the S&P 500 futures had a tumultuous, devastating 32-point decline, one of the 20 worst of all time. The Nasdaq's drop of 184 points, or 5.4%, narrowly missed being in the top 10 percentage losses and point losses of all time.

Thus, the market has heeded our sell recommendation of Monday and Tuesday, and has gone down four times as much in one day as it went up in the previous four. How symmetric.

Crying Wolf In Iowa
The market's decline on Wednesday was due to the expectation of a Gore victory, as registered by the Iowa Poll through the day with an 80% probability. But as with everything else, the public is behind the form. Because the Iowa poll was wrong on Tuesday in predicting a Bush victory, nobody is listening this time.

So when we tell people who know us that with a total of $9 million bet just on Tuesday the poll's assessment is highly meaningful, we are greeted with the reaction of the grandfather, in the tale of *The Boy Who Cried Wolf,* summoned to drive away an imaginary wolf once too often.

Under the circumstances, we can't do better than to note that the final results of our Readers Picks competition are coming in this week. (We fervently hope there will be no recounts.)

Readers Vs. the Market
We began this year with the idea that only with the participation of readers could we accomplish our goal of writing the best stock market column of all time. The people who have been kind enough to read and respond to our articles surpassed all our expectations.

While every monkey thinks her children beautiful, we now have incontrovertible proof of the sagacity of our readers. Yes, the final results of our six-month stock-picking competition are coming in, and so far two groups have cleared the hurdle we set of beating the Nasdaq 100.

We will be holding a gala party in New York for the members of each group that beat the Nasdaq 100. Results for the two remaining groups will be in at the close today and on Nov. 22.

Some of our early readers may recall that we began the current competition in May during the throes of a Nasdaq downturn. We drew inspiration from the incomparable beginning passage of Herman Meville's *Moby Dick*:

Whenever it is a hot, humid early summer in my soul; whenever it requires a strong moral principle to prevent me from deliberately stepping into the street and methodically knocking people's hats off; whenever there is no volume and no movement and no apparent way to make money in the stock market – then, I account it high time to get to speculative seas as soon as I can.

Readers were invited to send us ideas for stocks they were considering, but did not yet own.

As word of the contest diffused, we received more and more picks. Not wanting to exclude anyone, we ended up dividing the entries into four groups, based on the date we received them.

The results of the first two groups are now in:

Group 1 (May 8-Nov. 7) had an average move of up 4.1%, compared with a loss of 6.9% for the Nasdaq 100.

Group 2 (May 9-Nov. 8) fell 6.6%, but still beat the 11% decline in the Nasdaq 100.

It was a performance that would arouse the admiration of many a money manager.

We also extend congratulations and award fish dinners to the reader in each group whose stock had the greatest percentage gain:

-Jay Huck, who chose Protein Design Lab (|PDLI|), up 131% from May 8.
-Mike Herrick, who chose Palm (|PALM|) for a gain of 99% from May 9.

At the time, Mr. Huck said he liked Protein Design Labs because it is strong on research, but he was concerned about the government's position on biotech. Mr. Herrick said he liked Palm because of its 70% market share, but was wary of the company's plan to issue more shares.

Eminently worthy of mention among the Group 1 entrants are our friends Roger Longman and Robert Blaustein, who both chose Millennium Pharmaceuticals, up 112%; Henry Carstens, who registered an 82% gain on heating oil futures (we allowed him 20% margin); and Paul Lewis, a Silicon Valley consultant and one of our regular correspondents, who picked Auspex (|ASPX|), up 77%.

Group 2's star stock-pickers included Rosalind Fisher, with a 75% gain on Qlogic (|QLGC|); and Josh Fisher with Siebel Systems (|SEBL|), up 67%.

Congratulations to all the winners.

New Contest And of course, there will be a new stock-picking contest.

The absolute rock-firm deadline for this one is the end of November, so that everyone will be judged on the same start date.

This time, we'll have a long portfolio and a short portfolio. You can have a position in the stock you recommend. The most anyone can enter is one long and one short.

Send your picks to ltkenner@aol.com.. The contest will end on May 29, 2001, which happens to be the day after Memorial Day.

Speculator's Scorecard

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Dollar/euro	0.84	-1	-17.1	3.2
Nikkei	0.82	1	-18.8	3.8
Dollar/yen	1.12	-1	-9.6	0.6
Gold	0.68	1	-8.0	-0.6
Oil	1.34	-1	73.6	0.8
Bond Futures	1.20	1	9.4	-1.3
2-Yr Note Futures	0.97	unch	0.90	-0.2
Bund Futures	1.10	-5	2.7	-0.06

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Amid the Gloom of Election Uncertainty, Opportunity

By Victor Niederhoffer and Laurel Kenner
Columnists
11/10/2000 09:20 AM

Editor's Note: Daily Speculations columnists Kenner and Niederhoffer have asked their many friends and associates occasionally to contribute their insights to the column. Today's column is from Mark McNabb, a CFA, professor of finance at Virginia Tech University and an NASD securities arbitrator.

The last few days have been unprecedented in recent market history. It has been over two days now and the markets only have an idea of who might be president-elect. The confusion in the markets reflects the confusion in the electorate.

For the last several weeks prior to the election, the equity market has tried to climb out from the brutal selling season generated in October due to tax-motivated selling by large funds. After the third debate, the market and the political pollsters had given the nod to Governor George W. Bush.

The "Dubya" stocks (pharmaceuticals, oil, defense, litigation targets such as Microsoft (|MSFT|) and Philip Morris (|MO|)) were bid up by traders on the presumption that a Bush Administration would favor those businesses. The defense and 'sin' portfolio has been one of the stronger plays in the market even with the extreme volatility of September and October.

Election Drags on Microsoft

Microsoft reported earnings on October 18, and jumped from $51 to $56 at the earnings release. The stock promptly climbed to $72 at the market open Wednesday after the election (up 40% in 3 weeks). As traders realized the Florida recount would not be a matter of hours, they sold positions and Microsoft dropped Wednesday while the Dow Jones Index moved far less.

Thursday, as the vote recount numbers leaked onto the wires with Governor Bush holding on to a thin lead, Microsoft gained strength and added 2% while the Dow dropped 2/3 of a percent. Microsoft is a component of the Dow Jones Industrials index and for it to trade in a direction and magnitude significantly different from the index over the last week would be unlikely as a random event.

Boeing (|BA|), Merck (|MRK|), and Philip Morris all rallied from the Microsoft earnings date until this Monday before the election. These stocks treaded water Tuesday while awaiting results, except that Vice President Gore knocked Merck and the other pharmaceuticals down late Tuesday on a rumor of exit polls showing a possibility of a win for the VP. The Biotech Holdrs (|BBH|) rallied Tuesday as they seem to do in the early part of every week as traders felt that even if a Gore administration slapped price controls on big pharma, it would support innovation in the biotech names.

Fascinating Futures

The action in the futures markets Tuesday night was even more fascinating. The market fell apart when the networks awarded the vice president Florida with only 2% of the precincts counted and maintained their error even when the governor lead with 30% of the vote counted.

When the Bush campaign complained, the networks soon retracted their award of the state at about 10 p.m. EST and both bond and stock futures reversed course. By 2:22 a.m. Wednesday morning, the Nasdaq futures were up 32 points with the news that Governor Bush had won Florida. That news

reversed at 4 a.m. and after a last gasp to the upside for a few moments, the index tumbled all day Wednesday as the uncertainty mounted over when our next leader would be known. The Nasdaq fell 5.4%.

By now you might think that I am building a case that our markets want Governor Bush. While I prefer the Texan as our next president, what the markets want is a president-elect – anyone will do, just give us a name.

On Thursday, the desire for a speedy resolution was clearly evident. At 10 a.m., the Nasdaq Composite was down 44 points (-1.1%) after hearing the lead was still over 700 votes and that the observer from the Bush camp, James Baker thought that things were going well.

The press conference by Warren Christopher and members of the vice president's team of observers set off a market decline of 4% after 1 p.m. when traders learned of the plans to pursue legal options. The Nasdaq index broke through 3100 and then reversed around 2 p.m. as an advisor to Governor Bush, former Federal Reserve governor Laurence Lindsey reassured the markets.

As more results from Florida trickled in, showing a narrowing lead, but a lead, traders attracted to low prices bid the index up to 3200 by the close for a decline of only 1% after a highly unusual 5% intraday movement.

No matter who becomes president, the markets will adjust and march upward in the long-term. The problem for the near-term is do you buy renewable energy or big oil, biotech or big pharma, Microsoft and Intel (|INTC|) or Oracle (|OCCL|) and Transmeta (|TMTA|), defense stocks or defensive ones, legal consultants or financials?

All of these decisions by managers and investors who *do* trade on information and analysis, contrary to the beliefs of the general press, require a view of what the country's future will look like in the coming years. The importance of political certainty to our national wealth is clearly demonstrated in this market.

Certainty Up to Now

As a nation, we have been blessed with certainty in our process of law and government that is the envy of the world. We also have benefited from the most stable financial market in the world since the turn of the century. As soon as certainty returns, our markets will resume their function of assessing value and rewarding investors who buy good stocks at good prices and hold for a reasonable profit.

For the last decade, US investors have profited greatly whenever they stepped up to the plate and bought stocks when faced with political and financial uncertainties from abroad. Our market has given us the same opportunity. This time it is our domestic uncertainties that have paralyzed the markets.

A speculator will take the bat and investors will too. Just don't swing for the fence – get on base first.

Speculator's Scorecard

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Dow	1.04	-3	-5.8	4.4
S&P 500	0.86	-3	-4.8	2.5
Nasdaq	1.03	-4	-21.4	-2.2
Europe STOXX-50	1.09	-2	2.5	-0.6

Dollar/euro	0.85	1	-16.1	4.8
Nikkei	0.82	-1	-20.6	1.4
Dollar/yen	1.11	-2	-9.7	0.7
Gold	0.69	2	-7.7	-0.2
Oil	1.35	1	77.2	0.6
Bond Futures	1.21	2	9.8	-1.1
2-Yr Note Futures	0.98	1	1.0	-0.06
Bund Futures	1.11	1	2.8	-0.1

Professor Mark M McNabb, Ph.D. and a Chartered Financial Analyst, visits his favorite adopted hometown of Austin, Texas from time to time to drive an old convertible around and listen to great Texas musicians. He wishes the most decorated American military war hero, David Hackworth, a happy young-hearted 70th on this Veteran's Day. Professor McNabb welcomes your comments at mmcnabb@vt.edu.

An Old Acquaintance Provides a Market Tell: Stock Talk!

By Victor Niederhoffer and Laurel Kenner
Columnists
11/13/2000 09:04 AM

Should auld acquaintance be forgot,
And never brought to mind?
Should auld acquaintance be forgot,
And days o' lang syne!

Chorus:
For auld lang syne, my dear
For auld lang syne,
We'll take a cup o' kindness yet
For auld lang syne!

Vic: Welcome to the 450th edition of Stock Talk! The entrance of former Secretary of State James Baker III into the presidential fray brought back so many happy memories related to the buying opportunities afforded by the 1987 stock market crash that we decided to hold a New Year's Eve at the Waldorf-Astoria 48 days early just so we could sing Auld Lang Syne.

After all, it was Baker who brought on the worst crash in market history by warning the Germans to lower their interest rates or else the US would devalue the dollar further. "Baker did it," Treasury Secretary Otto Poehl of West Germany said before anyone told him the political incorrectness of such an allegation.

Seattle Writer: It seemed like every time he came back on television last Friday the market dropped a fast 100 points.

Bipin Pathak: It must be the Hermes ties.

Vic: You are an omniscient day trader, Mr. Pathak, but don't be so negative. We need Baker back so there's somebody around to buy at retail. Only Baker could have managed to miss the deadline for a recount in heavily Republican Duval County, where about 26,000 votes were disqualified because of punching errors, while allowing the count in equally heavily Democratic Palm Beach County to go forward, and at the same time bringing upon the Republicans all the negative publicity associated with firing the first shot in the litigation wars.

Laurel: It's good to see Baker back in the fray. And *Auld Lang Syne* is particularly appropriate for today's market, Vic, as we bid adieu to our one-week stay with Alan Abelson, the perpetually pessimistic *Barron's* columnist, in the bearish camp. Since Mr. Abelson has tied himself to a fixed viewpoint and never crosses the divide to join the bulls even for a week, we're rarely on the same side of the fence. It's understandable; after all, he has been bearish throughout most of the greatest bull market in history and can't turn bullish now because he'd have egg on his face for one of the worst and most injurious predictions ever.

We, however, have no qualms about fence-jumping, although we're generally bullish on account of the 10% a year average gain in stocks over the past 200 years. On March 1, we predicted the decline of the

dot-com stocks, asking how in the world the dot-coms could be expected to go up when hapless Vic received eight proposals over the weekend to start Internet companies. We wrote that the supply would eventually catch up to the demand, and the piper would have to be paid. That was the last column we were asked to write for THAT dot-com Web site. Its stock has since lost two-thirds of its value, but why bring that up?

Vic: The down opening expected this morning provides an ideal buying opportunity. So there are some very good reasons to be bullish on stocks now. For one, the ratio that turned us negative last week has improved markedly. Bonds have gained an eighth of a point while the Dow has shed 375 points, making the ratio 106, an improvement of 3 points.

In addition, the decline over the past three sessions – more than 60 S&P 500 points – is a very rare event. In fact, it was the third-largest three-days-to-Friday decline of all time. Needless to say, the proper thing to do on all such occasions is to take out the canes, hobble down to Wall Street and buy good stocks.

The Daily Spec computers are registering a deep emerald shade of green, and the expectations over the next seven trading days are wildly bullish, on the order of 2%-3%, with a 70% chance of a rise and a 95% level of confidence.

We have with us some very smart stock pickers. Bill Fuller, your hedge fund is just a couple of years old and already has one of the best records we've seen. Could you take a break from the dance floor for a minute and tell us what you're doing?

Fuller: My strategy is to buy the panics and then pitch the rallies to raise cash. I still like Mexico. Long Mexico, short Nasdaq. On the long side, I want a big enough macro wave to overcome the loss of liquidity. I love wireless. Wireless companies got bid to the stratosphere early in the year when people paid anything for growth. Mr. Zenith, meet Mr. Nadir – the prices are now so discounted that you'd think there won't be any wireless development in the future.

One company I've been buying below 100 is Aether Systems (|AETH|). Investors loved it at 345 last March, when insiders started bailing, and now it's trading around 100. They've got close to $40 a share cash, no debt, and are like a mutual fund of wireless investments. They do wireless trading for Schwab and Goldman. They're also doing what they call mobile government (policemen with wireless devices strapped to their arms, transportation companies will know exactly where their shipments are at all times), wireless medical (physicians can renew prescriptions over a cell phone with a push of a button).

Revenue has been growing in excess of 60% each quarter. Wireless technology will make some businesses more efficient, and Aether is a way to participate. But the stock is a monster, and 10% moves are not uncommon. Nevertheless, buy setbacks for a triple over the next year or two.

Vic: Thanks, Bill. How about some recommendations from the Daily Speculations behavioral finance expert?

Brett Steenbarger: The HMOs -- Humana (|HUM|), Oxford Health (|OXHP|) and UnitedHealthcare (|UNH|) have been unfazed by the election. Buying of Serological (|SERO|) by the chief executive and a director at between 6 and 7 proved prescient, as the stock is now trading near 10. Juniper (|JNPR|) is an island of tech strength, relatively speaking. Keycorp (|KEY|), with its 4.6% dividend, looks like a total return play.

Laurel: Thanks to all for listening in. Have a cup of kindness on us, and join us next week for another edition of Stock Talk!

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Nasdaq	1.01	Down 5	-26	-7.6
Europe STOXX-50	1.10	Down 3	1.1	-2.6
Dollar/euro	0.82	Down 1	-16	2.5
Nikkei	0.79	Down 2	-21	2.8
Dollar/yen	1.02	Down 3	-10	0.4
Gold	0.68	Down 1	-8.1	0.1
Oil	1.33	Up 2	82	3.9
Bond Futures	1.15	Down 1	9.5	-1.2
2-Yr Note Futures	1.05	Up 2	1.0	0.02
Bund Futures	1.07	Up 2	3.0	-0.01

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Market Vigilantes Tear Up the Town

By Victor Niederhoffer and Laurel Kenner
Columnists
11/14/2000 10:36 AM

After a few hangings, the social state of the city was much improved.
--Stanton A. Coblentz, *Villains and Vigilantes* (1936)

The posse has spoken.

The S&P 500 has registered five declines in a row. The Nasdaq Composite has lost 14% in six days. The total loss in stock market value, based on the drop in the Wilshire 5000 Index over the past five days: $1 trillion.

In the 1850s, vigilantes took the law into their own hands in gold-fever San Francisco. In the 1990s, bond-market vigilantes drove prices down until the government took measures to fight inflation.

A New Posse in Town
Get ready for the stock market vigilantes. These folks try to influence the electorate by directing the market to higher levels when they approve of Washington policy and to lower levels when they want change.

In the new stock vigilantism, a decline of 300 points or more in the Dow is the equivalent of a lynching; a drop of between 100 and 300 points, a riding out of town on a rail.

And the bond-market vigilantes are back in action. They have been holding the Federal Reserve in place by sending the bonds down wider than 1 1/2 points when they sense the possibility of escalating inflation. A whiff of inflation calls forth just a half-point drop.

The politicians can no longer withstand the vigilantes. Concessions need to be made now to dispel rampant fears. The vigilantes aren't waiting for the write-in votes from military personnel abroad and American expatriates in Israel.

If only former Secretary of State James Baker III weren't on the job for the Republicans, the outlook would be positively rosy, given the fear of death the vigilantes put in the heart of the meek in recent days.

Perhaps Sheriff Greenspan will try to do some electioneering of his own before the Fed meeting on Wednesday in a bid to curry favor with both parties and to buy time until civil law is restored.

Buying The Loftiest Stocks
At times like these -- after a massacre -- there is always a plenitude of opportunities for profit. Indeed the Nasdaq soared at this morning's open.

We are partial today to Nasdaq 100 stocks that have had the best performance year to date, with seemingly the worst (i.e. high) price/earnings ratios. Over the past three years, we've seen that both of these independent factors combine to produce superior performance.

Just because it takes so much courage to buy these pricey issues, they tend to be perceived as inordinately risky. Those who are willing to accept this risk should be rewarded with high returns, both theoretically, in our book, and empirically, from our studies.

One small problem: none of the Nasdaq 100 companies that lost money in the past 12 months are up year to date. When lost at sea like this, there is no better port in a storm than the recommendations of Edwin Marks, the Shakespeare of markets. He is still bullish on Xerox (|XRX|) and BMC Software (|BMCS|).

A Broadband Bounce?
Omid Malekan, a daytrading student at Columbia University, is betting on broadband.

"I think playing a Covad Communications (|COVD|), Copper Mountain Networks (|CMTN|) and even Netopia (|NTPA|) now makes money, since so much downside risk has been taken out," he wrote us. "They have the advantage of already being there and doing a business that will soon be needed one way or the other."

We hereby recommend them here, and repeat Mr. Bill Fuller's pick of Aether Systems (|AETH|), which closed at 89 11/16 yesterday after trading in a 14-point range.

In the name of justice, we recommend these stocks be held for one year, by which time the unpleasant necessity which gave rise to the action of the vigilantes will seem like a flicker of a star.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.04	Down 5	-8.5	-2.9
S&P 500	0.87	Down 5	-8.0	-3.4
Nasdaq	1.00	Down 6	-27	-7.0
Europe STOXX-50	1.09	Down 4	-0.3	-4.2
Dollar/euro	0.81	Down 2	-17	2.1
Nikkei	0.78	Down 3	-23	1.4
Dollar/yen	1.03	Up 1	-10.0	1.0
Gold	0.67	Down 2	-8.2	-0.1
Oil	1.35	Up 3	85	5.3
Bond Futures	1.16	Up 1	10	-0.7
2-Yr Note Futures	1.06	Up 3	1.1	0.1
Bund Futures	1.07	Up 3	3.3	0.4

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A Little Counsel for Confused Marketeers

By Victor Niederhoffer and Laurel Kenner
Columnists
11/15/2000 11:06 AM

The mistress of markets pulled out one of her best tricks yesterday, transforming a bear into a bull right before our very eyes. Nasdaq 100 futures jumped 11% in 24 beautiful hours. S&P 500 futures rallied 5%.

As predicted, the stock market vigilantes maintained order. Like clockwork, Abby Joseph Cohen weighed in with her standard "Dow up 10% by year-end" forecast. The bond vigilantes raised the active bond futures to above the magical round number of 100. And the option vigilantes moved the Chicago Board Options Exchange's Volatility Index ($VIX) from a high of 34 on Monday to a shade above 30 at the close on Tuesday.

Who says there's no rhyme or reason to the market? Especially before a Federal Open Market Committee meeting, where the market has an uncanny tendency to go up the day before the announced decision.

When will Doc Greenspan relent and grant us an interview so we, too, can be privy to the inner workings of the FOMC one or two days in advance? We'd promise not to breathe a word, except to our readers.

Still, Monday Made Us Quake

The market was so bad on Monday that we suffered in our respective domiciles from nightmares of the Nasdaq at 1. Fortuitously, when psychological dysfunction arises, there is a solution: a consultation with Daily Speculations market psychologist Brett Steenbarger. As always, he was up to the task.

"Let's move the situation out of the market to get a clearer view. Suppose I am in a relationship and find myself continually worrying that there will be a breakup. Every disagreement becomes highly threatening to me; I find myself dreaming of divorce and then worrying.

That is not an uncommon dynamic. It reflects two problems:

1) There is not a desire for the relationship to work out; there is a need. Whenever there is such a need, we know that a person's self-esteem has become tied to the outcome. It is a fear of being alone -- not a positive desire for the relationship -- creating the anxiety. Translate this to the market: the motivating factor behind the Nasdaq trade is a fear or loss, not a prospect of gain. If the trader has no rational basis for being in the market -- if he/she has not done a statistically valid analysis of the prospective returns in the market -- the trade probably should be exited.

2) When there is such a fear of losing a relationship, odds are high that the person has no other relationships to fall back on in case difficulties do emerge. In other words, all the relationship eggs are in one basket and any threat to the basket becomes magnified. Again, translate to the market: Is the trader over-invested in his/her position? Any trader faces a risk of ruin even with a validated trading method. There can always be several losing trades in a row by sheer chance. Each trade must be sufficiently small to weather such periods. The anxiety may be a reality-based response to an actual threat of loss. The answer there is to scale back and/or diversify into non-correlated positions.

Sweet dreams!"

Love (and Follow) Thy Neighbor
More psychological insights came our way from Christopher Guida, who told us that he finds market analogies not in the vigilantes, but in their horses.

A horse's most "on-tap" behavioral response to just about anything new is flight. A sudden move, a loud noise, when in doubt, if it doesn't smell right, RUN! And if you see your neighbor running, you better run too.

Most of the time this works pretty well for horses.

Somebody on the MS Investor Message Board got it right. He said that when feeding cattle on a stormy night, "don't spook the herd." The easiest way not to spook your animals is just to talk to them -- let them hear the familiar (calm) sound of your voice.

Which causes me to wonder: Is there a blank period in Alan Greenspan's resume where he might have worked as a herdsman or shepherd? He sure seems to understand livestock.

Time to Take Profits on Aether
On Monday, we recommended Aether Systems (AETH), a wireless stock that had fallen below 100 on Friday, on advice from Bill Fuller, whose hedge fund has been racking up more-than-respectable 50% annual gains.

We repeated the recommendation on Tuesday. The stock rose 21% yesterday, and we think it's a good time to take profits.

Speculator's Scorecard

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Dow	1.05	Up 1	-7.1	-2.6
S&P 500	0.88	Up 1	-5.9	-3.2
Nasdaq	1.01	Up 1	-23	-6.9
Europe STOXX-50	1.10	Up 1	2.6	-2.1
Dollar/euro	0.81	Down 3	-17	0.9
Nikkei	0.77	Down 4	-23	0.8
Dollar/yen	1.02	Down 1	-10	0.6
Gold	0.68	Up 1	-8.1	-0.2
Oil	1.36	Up 4	87	6.9
Bond Futures	1.17	Up 2	10	0.1
2-Yr Note Futures	1.05	Down 1	1.0	0.05
Bund Futures	1.06	Down 1	3.1	0.2

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Bloomberg News, she previously reported on police, politics and aerospace during her 17-year news career.

Nortel's Insider Network Starts Buying Again

By Victor Niederhoffer and Laurel Kenner
Columnists
11/16/2000 09:35 AM

During the 40 years that Vic has studied insider trading, he has never heard of an insider trade consummated because the insider felt the prospects of his company were bleak.

It's always the impending college tuition, the imminent divorce settlement, the new house, or -- in rare cases when pushed to the wall -- the always lame-sounding "I want to diversify my holdings."

On the other hand, there is generally only one reason to buy: expectation of a profit.

Nortel Networks (NT) closed at 37.38 yesterday, the lowest in almost a year. But it set another record at the same time. After at least 150 consecutive announcements of insider selling, all of which came before the company reported disappointing sales on Oct. 25, when the stock shed 18 points, massive insider buying is beginning to appear.

Reports in the last two days indicated that, near the end of October, at least six separate Nortel insiders bought their company's shares. Particularly noteworthy in this regard are the 33,000 shares that CEO John Roth purchased on Oct. 30, when the price hovered in the low 40s. The last time Mr. Roth weighed in with a trade was on Aug. 9, when he presciently sold 450,000 shares at between $119.05 and $119.69.

How it must have pained Roth at the time to be left with holdings of millions of options and shares. And how confident he must be of the future, since insiders must hold their shares at least one year before selling them or else disgorge the profits, to put his finger in the dike at October month-end.

Report From Our Man at Comdex

We are pleased to present a report from Comdex by our special correspondent, Shawn "Boy Plunger" Andrew, a man of philosophical depth and broad experience in the computer industry, as well as an expert in dance and music and an adviser to the entertainment industry:

"Very rarely do you find companies whose ontology leads them in the right direction -- companies that both make a market for their products and create a feedback demand environment, recognizing that the system needs to be open.

"Andy Grove did this in the 80s with Intel (INTC), as ever-increasing software requirements for faster CPU speeds created a benign demand cycle for the company's chips. Wonder why Intel was throwing money behind software startup companies!

"As I strolled through Comdex last year, I searched for companies with nascent signs of similar characteristics and patterns. I landed on Sony's (SNE) Memory Stick Product. At my return this year I was blown away by the amazing speed with which the system reproduced healthy babies.

"If the 18th century belonged to automated clocks and the Golem, and the 19th century to combustible engines, this century belongs to communications and system control. The Memory Stick is Sony's answer.

"Powered by the OpenMG (http://www.openmg.com), developers of platforms with Memory Stick capability are springing from all corners of the planet (http://www.memorystick.org).

"Many are betting on Personal Digital Assistants from Compaq (CPQ), Novell (NOVL), Palm (PALM) and Hewlett-Packard (HWP), but I think they are missing the picture. Compatibility, open systems, necessity and a unified platform are required. (Bluetooth won't do it.) These Memory Stick products are necessities. To paraphrase Vic, 'Sulphur, charcoal and saltpeter are the ingredients required, but it takes a spark to ignite the mixture.' That spark is Sony's stick."

Other Daily Speculations savants applauded Mr. Andrews' economium on the Memory Stick. "I think Shawn is making an excellent call on Memory Stick," wrote Brett Steenbarger. Products are already on the market with Memory Stick slots, including VAIO desktops and laptops, Sony camcorders, digital cameras, digital music players. The Magic Stick will allow for downloading copyrighted music and video from the Web, transferring to TVs, CD players, etc.

Paul Lewis, a technology consultant in Silicon Valley, notes that Sandisk (SNDK) and SmartDisk (SMDK) are two of the biggest equipment manufacturers in the area. He owns Sandisk shares.

Current State of Streaming

Boy Plunger also was kind enough to report on the state of the art for wireless Internet access for laptop computers at the request of Laurel, who is often on the move with her Quantex machine in tow. She also inquired about getting TV reception on her laptop.

"The Comdex wireless department was filed with a lot of Bluetooth technology and PDA wireless devices. Your request of having a Laptop wireless modem for constant Internet access piqued my interest.

"The leading company providing wireless Internet access at speeds of 128 kbps is Metricom, with its No. 1 product, "Ricochet." The modem costs only $99 if you subscribe to the service. Web site: http://www.metricom.com.

"If the service is not available in your area, your second bet would be Novaltel Wireless. Novaltel's "Merlin" product gives access at speeds of 19.2 kbps and uses the CDPD specifications. The Merlin costs $299. Web site: http://www.novatelwireless.com/pcproducts/merlin.html

"Your PC/TV connectivity has a major issue: the mobility. I take it you will be needing Bloomberg, CNN, etc. With a connectivity of 128 Kbps you can watch MSNBC live streaming off your desktop. (It's really incredible without any extra gadgets). However, to watch cable off your laptop you would need to be in the vicinity of a satellite or cable access. Most new laptops come automatically with built in capture devices. (I couldn't find anything outstanding in this department as most are seeking the opposite: converting the PC signal into large TV screens.)"

Thanks to Mr. Andrew for his excellent reportage.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.05	2	-6.9	-1.8
S&P 500	0.88	2	-5.5	-2.3
Nasdaq	1.02	2	-22.2	-5.0

Europe STOXX-50	1.11	2	3.3	-1.4
Dollar/euro	0.82	1	-16.8	0.4
Nikkei	0.82	1	-21.9	-0.5
Dollar/yen	1.01	-2	-11.1	-0.8
Gold	0.69	2	-8.0	0.08
Oil	1.38	2	89.8	8.3
Bond Futures	1.18	3	11.0	0.4
2-Yr Note Futures	1.06	1	1.0	-0.02
Bund Futures	1.07	1	3.2	-0.01

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Turning Fear Into Boredom

By Victor Niederhoffer and Laurel Kenner
Columnists
11/17/2000 08:54 AM

(Editors note: Brett N. Steenbarger, Ph.D. is a licensed clinical psychologist and periodic guest contributor to the Daily Speculations column. This is the final article in a three-part series examining the psychology of trading. Click here and here for parts 1 and 2)

Early in the week, on the heels of dramatic declines in such quality issues as Dell Computer (DELL) and new annual lows in the Nasdaq 100 stocks ($NDX), I heard from a number of investors. Their refrain was the same: What is this market going to do next? As a psychologist, I am trained to listen as much to the tone of communications as to their content. In every case, the tone was highly emotional.

We know from research in cognitive neuroscience that people process self-relevant, emotional information very differently from factual data. Dr. Frederic Schiffer of Harvard Medical School's Department of Psychiatry demonstrated this with an ingenious experiment. He took a group of patients who were known to suffer from anxiety and depression and asked them to wear a pair of goggles that he had rigged up from materials at a hardware store.

One set of goggles had electrical tape obscuring all but the far left visual field; the other had tape covering all but the far right field. As reported in his book, *Of Two Minds*, Schiffer then had the patients wear the glasses for a few minutes and report how they felt.

A highly significant proportion of the patients experienced relief from their feelings when wearing the glasses that obscured all but the far right portion of their vision. They felt much worse when wearing the other set of glasses, blocking all but the far left side. A control set of glasses, obscuring the very top and bottom of the visual fields, produced no emotional effects whatsoever.

Dr. Schiffer attributed the findings to the ways in which our brains are wired. Quite simply, the far left visual field maps onto the right brain hemisphere; the far right field maps on the left. We know from studies of patients who suffer from brain damage to one of their hemispheres that damage to the left hemisphere frequently leaves individuals worried, depressed, and neurotic. Damage to the right—leaving the left side intact—rarely is accompanied by such emotionality.

Out of Our Minds

Dr. John Cutting of the Institute of Psychiatry and Kings College Hospital in London has reviewed the considerable literature on the division of functions between our brain halves. He concludes that "there are indeed two minds, each with its own hemispheric circuit". In a very real sense, when we are processing highly emotional information, we are "out of our minds".

This finding leads to an important conclusion with respect to changing our repetitive, self-defeating ways:

We cannot change an emotional pattern while we occupy a normal, non-emotional state of mind. To shift a pattern, we must occupy the mind (i.e., activate the brain structures) responsible for that pattern.

This principle is most clearly applied in what are known as exposure-based therapies. These are among

the most empirically studied and validated methods for change in the psychotherapy literature. Originally used to treat phobias by gradually introducing people to feared situations under conditions of emotional control, exposure-based methods have been extended to a variety of patterns, including post-traumatic stresses and performance anxieties.

It is human nature to avoid distress and sweep problems under the proverbial rug. The exposure therapies do just the opposite. They require people to actively face their most painful feelings and most powerful impulses while maintaining an emotionally neutral state of mind. In essence, this is what Schiffer was doing with his glasses: asking people to process emotional information while activating non-emotional brain structures.

Breathe Deep

Let us say you have a pattern of entering the market impulsively, not following your backtested trading system. (No emotional help will substitute for a lack of tested strategies). Such impulses probably occur in a limited number of contexts, such as the declining markets that led people to call me earlier in the week.

In an exposure-based paradigm, you would actively rehearse (through imagery, role playing, and real-life situations) those frightening scenarios while performing a task that keeps you in a state of relative calm and focused concentration. The task might be a deep-breathing, meditation-based exercise or it could be something highly routine and repetitive, such as tapping a pattern on your body or counting beats to a musical piece.

This sets up a paradox for the mind. You are actively imagining a stressful scenario (a harrowing market decline) and rehearsing your desired reactions in the situation (placing an order to buy following a signal from your trading system) while simultaneously engaging in activities that are calming and even boring. In one powerful applications of this method, the eye movement desensitization and reprocessing (EMDR) work of Francine Shapiro, people are asked to re-experience their worst fears while doing nothing more than shifting their field of vision in a rote fashion.

The left hemisphere processes rote tasks, such as tapping patterns and counting beats. When we perform those tasks, we activate that hemisphere and suppress the activity of our more emotional brain half. By pairing re-enactment of our emotional patterns with the activation of our non-emotional modalities, we literally reprocess the events that trigger the patterns. After hundreds of repetitions in which you face your trading fears while tapping repetitive patterns, your fears eventually take on the quality of boredom—not unlike hearing a joke for the 50th time.

And boredom is good. That which bores us cannot emotionally overwhelm us.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.04	-1	-7.3	-2.2
S&P 500	0.88	-1	-6.7	-4.0
Nasdaq	1.01	-1	-25.5	-9.1
Europe STOXX-50	1.10	-1	2.7	-2.1
Dollar/euro	0.81	-1	-17.4	-1.4
Nikkei	0.78	-1	-23.1	-1.7
Dollar/yen	1.00	-3	-11.2	-1.0

Gold	0.70	3	-7.8	0.3
Oil	1.36	-1	88.1	8.9
Bond Futures	1.19	4	11.2	0.8
2-Yr Note Futures	1.05	2	1.1	unch
Bund Futures	1.08	2	3.3	0.3

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

Today is November 20, 2000

Renewed Insider Buying Highlights Market Opportunities

By Victor Niederhoffer and Laurel Kenner
11/20/2000 09:07 AM EST

Exercising the right of occasional suppression and slight modification, it is truly absurd to see how plastic a limited number of observations become in the hands of men with preconceived ideas.
Francis Galton, *Meteorographica*

Welcome to the 451st edition of Stock Talk! This week's edition comes to you from Boca Raton, Fla., where we've been observing the hand recounts of ballots in the presidential election and musing on the ability of a good magician to make elephants disappear before your eyes so convincingly that you'd swear to his honesty.

The market had a fearful rotational symmetry last week. Nasdaq 100 futures opened down 3% on Monday on fears that the Democrats would win the presidential election, rallied sharply the next two days and declined sharply the following two days.

Then, at 4:11 p.m. on Friday, the judges on the Florida Supreme Court – all of whom had been appointed by Democrats – enjoined the Republican Secretary of State, Katherine Harris, from certifying an official winner in Florida. In the four minutes that remained until futures trading closed in Chicago, Nasdaq 100 futures tumbled a quick 25 points, and S&P futures sank 8 points.

The market's reaction to this ruling may be useful in showing the clear-thinking remnant out there that judges are just as biased as the rest of us in the content and timing of their decisions. The fate of not just Microsoft (MSFT), but of the market itself, would seem to have much more to do with the outcome of this election than might be generally supposed.

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The Smart Money Loads Up On Tech

Looking for Action After Fed Inaction

Election Woes Open Bear Clause in Buy Signal

Turning Fear Into

editor'spicks

Value maven David Baker points out thr possibilities among stocks trading in th single digits.

In previous columns, we have endeavored to show how to learn about the stock market from a wide range of activities and disciplines, including aeronautics, ants, biology, dance, electricity, elephants, games, geology, psychology, sex, sports, vigilantes and weather.

Now it's time for us to learn from elections.

Tipping Her Hand
Consider the mistake that Ms. Harris made in alerting the enemy to her likely decision on hand recounts. She told the world she planned to certify an official winner on Saturday, closing the door on the manual recounting of ballots in heavily Democratic counties. Perhaps if she hadn't been so forthcoming, the Florida Supreme Court wouldn't have expedited their schedule to head her off Friday

Dave Ciocca, a wrestling coach/hedge fund manager whom we're happy to have as one of our resident Daily Speculations savants, likened Harris's move to the dramatic but ineffective headlocks too often indulged in by unskillful wrestlers. He offered this succinct summary of Harris's strategy:

-Here's what I'm doing.
-It's assertive.
-Now the pressure's off me.
-Never mind the poor result.
-I tried valiantly for the team (party).
-It's all up to someone else now.

Ms. Harris's stumble should be pondered by all speculators. When you place an order, never let your broker – or, worse yet, the floor – know when you are planning to start your order, or when you have finished, as they will front-run you with impunity.

Another lesson from Florida is to never make exact estimates in points; use ranges instead. Example: "The Dow is likely to be range-bound tomorrow between 10,000 and 11,000."

Protect Your Assets, Be Vague
Same thing goes for earnings estimates. If you're a corporate officer, protect your stock price and reputation by saying something along the lines of: "It is likely that our earnings will fall within the range of analyst forecasts next year." After all, why issue a specific forecast that can be falsified when most

people are quite satisfied by ambiguous predictions with a 99% *a priori* probability of accuracy?

If all else fails, of course, one can always simply make a grand gesture and ... ignore the data. Rely on authority rather than reason. The senior *Barron's* columnist does this quite nicely in his latest missive, in which he compliments Barton Biggs, the Morgan Stanley pundit who has been as wrong on stocks as the *Barron's* columnist for the past decade.

Speaking of Biggs's latest bearish call, made Nov. 6, the columnist wrote: "He's looking even better than he did a week ago, and he was looking awfully good then." Unfortunately for Mr. Biggs, who predicted the Nasdaq would be lower by year-end, Nasdaq 100 futures rose 3% from the open last week – but who's counting? As Mosteller and Wallace wrote in 1964, in a quote supplied by our mentor in statistics, Steven Stigler: "Most people can't count, at least not very high."

As the hand recount wore on, the Specs and their capacity Stock Talk! audience made a field trip to Wolfie's in Miami for some corned beef sandwiches. When Vic's grandmother Birdie was in her 90s, she often visited Wolfie's to drown her sorrows from the plentiful shares of Western Union and U.S. Steel, down 90% or more from cost, that her husband the stock speculator and court interpreter Martin held through thick and thin until his death in 1981.

Worried Oldsters

While we dined, many of the elderly clientele queried us vigorously on whether the privatization of Social Security would be good for their stock holdings. Our mouths full of coleslaw, we nodded yes. After lunch, Vic asked if anybody else in the room owned Western Union – he received a present of 100 shares from readers of Daily Speculations before his hip operation three months ago – and the ensuing reminiscences led to a discussion of this year's awesome declines by Nasdaq 100 companies.

We observed that some of these companies have been seeing a profusion of buying by officers and directors, a refreshing change from the nearly continuous selling that had been the rule until quite recently.

Here are reproductions of the Wolfie's napkins on which the Speculative Duo listed stocks with recent insider buying. The list includes stocks from the

S&P 500, S&P Midcap 400 and Nasdaq 100 companies that were among the 20 worst performers year to date, where the insiders were net buyers in trades reported in October or November.

Stock and YTD % Decline
CMGI (CMGI) ... –90%
Cambridge Tech (CATP) ... -89%
Federal-Mogul (FMO) ... -87%
Sykes Enterprises (SYKE) ... -87%
Owens Illinois (OI) ... -85%
Legato (LGTO) ... -83%
W.R. Grace (GRA) ... -81%
Warnaco (WAC) ... -72%
Circuit City (CC) ...-70%
Pacificare (PHSY) ... –69%
RealNetworks (RNWK)... -67%
Apple Computer (AAPL) ... -64%
Antec (ANTC) ... -65%
Williams-Sonoma (WSM) ... -61%
Cendant (CD) ... -62%
Conexant (CNXT) ... -58%
Citrix Systems (CTXS) ... -50%

Telling Tell
In a 1969 study at the University of Chicago with the legendary professor James Lorie, Vic found insider buying to be a very good tell. He updated the study in March this year, with similar promising results, but a real-time application of the strategy turned out to be disappointing. The cycles may be ready to change, though, as most of these trades represent the first insider buying after an average run of 15 consecutive insider sells.

Along these lines, we like Nortel (NT), which has fallen 58% in the past three months and has had massive insider buying as of the end of October.

One of our Southern savants, the deep fried turkey-loving finance professor Mark McNabb, points out that Nortel is now selling at a price for what its one-year options went for just a few months ago. We have a feeling that the scheduled meeting with the Boston Society of Securities Analysts on Tuesday should not contain a plethora of unfavorable news.

McNabb looks for a double on Nortel over the next two years. This is consistent with studies we have made of the performance of companies with insider buying after large declines. It also gibes with the tendency of stocks to rally the week before Thanksgiving.

Speculator's Scorecard				
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Dollar/euro	0.80	Down 2	-18	-2.1
Nikkei	0.77	Down 2	-23	-3.7
Dollar/yen	1.01	Up 1	-11	-2.0
Gold	0.69	Down 1	-7.7	0.2
Oil	1.37	Up 1	93	10
Bond Futures	1.17	Down 1	11	1.4
2-Yr Note Futures	1.06	Down 1	1.1	0.1
Bund Futures	1.07	Down 1	3.2	0.3

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Today is November 21, 2000

Stock-Picking Contest Results

By Victor Niederhoffer and Laurel Kenner
11/21/2000 09:46 AM EST

We challenged readers back in May to a six-month stock-picking contest. Today, we're pleased to announce the results.

The 71 contestants were divided among four groups, depending on when we received the entry. We calculated performance from the close of the day before publication of each list by worldlyinvestor.com.

The best stock-picker in each group won a fish dinner. Each group that managed to beat the Nasdaq 100 is invited to a gala party.

Results are now in for three of the groups. Fish dinners go to:

Tom Vayda Protein Design Labs (PDLI), up 131% from May 8 to Nov. 7.
Mike Herrick A double -- 99% -- with Palm (PALM) from May 9 to Nov. 8.
Jim Daniels Rambus (RMBS), up 56% from May 10 to Nov. 9.

Groups 1 and 2 beat the Nasdaq 100:

- Group 1's selections had an average move of up 4.1% from May 8 through Nov. 9, as the Nasdaq 100 fell 6.9%.
- Group 2's stocks fell 6.6% -- but that was still better than the 11% drop in the Nasdaq 100 from May 9 through Nov. 10.
- Group 3's picks declined 17%; unfortunately, the Nasdaq 100 bested them, falling only 5.8%.

We'll send out party invitations shortly to the 46 people in Groups 1 and 2. If you don't hear from us,

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457 Plans Aren't a Great Game, but the Only One

editor'spicks

Today's the day for action if you want t take advantage of B Warwick's Thanksgi trade.

in Town

Renewed Insider Buying Highlights Market Opportunities

Turning Fear Into Boredom

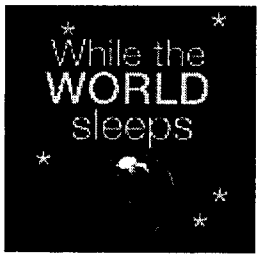
Nortel's Insider Network Starts Buying Again

A Little Counsel for Confused Marketeers

Market Vigilantes Tear Up the Town

An Old Acquaintance Provides a Market Tell: Stock Talk!

Amid the Gloom of Election Uncertainty, Opportunity



kindly message ltkenner@yahoo.com for details.

Congratulations to all who entered.

The Group 4 contest ends Wednesday, and we'll post the results in Thursday's column.

On the subject of readers' picks, our radar has been picking up some interesting signals from investors. Here's a sampling.

The first is a cry of pain from somebody who has evidently been getting up with hope in his heart every morning only to see the terrible mistress of markets slice some more off the value of his stocks.

Vic and Laurel, It is hard not to take these downsides personally. I am feeling really bad and it keeps getting worse. You guys decided a while ago not to do any predictions, but I would like to ask you to make an exception. What do you see short-term (2-4 weeks) and long-term (3-6 months)? Greenspan went out to get money out of people's hands, and boy, was he successful.

Which elicited the following response from another reader:
We need more of this. Much more. I'm not worried. I don't hear the guy in the next cubicle getting scared when he's down 50% on Dell. A sure sign we're still not done going down.

Frank Linet of Palm Beach, Fla., offered some counsel:
The parade of analysts on CNBC -- half touting the fallen telecoms and chips and fiber, and half downgrading them ? - reminds me of the chaos now playing in the Florida Supreme Court. Everyone sees the glass, but no one understands H2O. Wall Street is burning; now is the time to refine one's charts and research the various parts of the market you feel can provide safe harbor.

We find it very hard to maintain our seat in the grandstand for more than a day or so, especially when confronted by readers who earnestly desire our help while knowing about our fallibility.

But unless we do some counting, we will be setting a bad example for our readers and the electors, particularly because our readers tend to get wishy-washy at times like this and wait for the absolute perfect signal of a bottom to be spoon-fed them with custard.

We start with a bit of description. Stocks are at a 20-day low, and bonds are at a 20-day high. That's always bullish, taken individual or together, especially on a Monday.

Thus, we are happy to report that the Spec computers are flashing highly bullish for the rest of the week, looking for a 2% or 3% rally with an 80% chance of a rise.

New Contest; Deadline is Nov. 30
The readers picks contest was so much fun that we decided we had to do it again. This time, we have a couple of new twists:

- We'll have two lists: one long and one short. Everyone may enter one for each list.
- This time, it's OK to own the stock.
- This time, there will be only one start date: Dec. 1. Deadline for stock picks is midnight, Nov. 30.

Tell us in a sentence or two why you like the stock, if it's a long; or why you dislike it, if it's a short. The contest will last six months.

One fascinating thing about the contest that's winding up now is that it highlighted the importance of entry points. Some readers in different groups picked the same stock, but there were huge differences in their final results --even though the start dates for each group varied only by a day or two.

As before, the winner in each group will be treated to a fish dinner, and the winning group will be invited to a party. This time, there will be an additional award of a very special cane, a Daily Speculations trademark, for hobbling down to Wall Street in times of panic.

Send submissions, comments and questions to ltkenner@yahoo.com. Good luck.

Readers Picks 1		
Company	**Reader**	**% CHG from 5/8**
Auspex (ASPX)	PL	77
BHH (BHH)	DW	9.0
Bookham(BKHM)	JB	-49
Caliper (CALP)	MMM	19
	LA,	

Celera (CRA)	HPG	-21
Cree (CREE)	PC	-15
Foundry (FDRY)	HB	5.1
Globalstar (GSTRF)	SH	-75
Hyseq (HYSQ)	RA	-14
InfoSpace (INSP)	RWE	-56
Ligand (LGND)	BS	15
Millennium Pharm. (MLNM)	RL, RB	112
Protein Design Labs (PDLI)	TV	131
Playboy (PLA)	JH	-24
Qwest (Q)	HL	0.7
Qualcomm (QCOM)	DF	-28
Rambus (RMBS)	JRV	47
Terayon (TERN)	BP	-63
Tibco (TIBX)	JBD	-14
Tokheim (TOK)	FL	-99
Vontobel E. Eur. Fund (VEEEX)	JG	-24
Heating Oil	HC	82
Euro	OM	-4.2
RP 1 INDEX		4.1
% Chg Nasdaq 100		**-6.9**

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

Readers Picks 2		
Company	**Reader**	**% CHG from 5/9**
Aether (AETH)	RM, L	-16
Commerce One (CMRC)	TA	34
Electric Fuel (EFCX)	ST	14
Imclone (IMCL)	GES	33
Ind. Investor (INDI)	SLW	-71
Invision (INVN)	MG	-43
Ill. Superconductor (ISCO)	BM, ML	-35
Jaco (JACO)	RAW	19
JDS Uniphase (JDSU)	SKI	-20

4Kids (KIDE)	MS	-45
Lightpath Tech (LPTHA)	PWP	-5.1
NCT Group (NCTI)	PH	-52
Palm (PALM)	MH	99
Qlogic (QLGC)	RF	75
Sycamore Networks (SCMR)	FG	-19
Siebel Systems (SEBL)	JF	67
Sony (SNE)	FM	-21
Silicon Storage Tech (SSTI)	LC	-36
Thermotech (TTRIF)	HKL	-66
RP 2 INDEX		**-6.6**
% Chg Nasdaq 100		**-11**

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

Readers Picks 3		
Company	**Reader**	**% CHG from 5/9**
Affymetrix (AFFX)	HMF	34
Be Inc. (BEOS)	LF	-51
Conductus (CDTS)	GA	-6
Constellation 3D (CFMD)	BLM	-36
CMGI (CMGI)	SE	-66
Copper Mtn (CMTN)	JZ	-85
Echelon (ELON)	T	47
Energy Conv. (ENER)	RB	-33
Imaging Diagnostics (IMDS)	MO	38
Incyte (INCY)	DJQ	-4
Manhattan Scientifics (MHTX)	CL	-45
MP3 (MPPP)	LA	-68
MRV Comm. (MRVC)	TVO	25
Rambus (RMBS)	JD	56
Robotic Vision (ROBV)	GC	-68
Tibco (TIBX)	NL	-3
Tularik (TLRK)	LA	31
Vari-L (VARL)	PS	-40

Mphase Tech (XDSL)	TVO	-40
RP 3 INDEX		**-17**
% Chg Nasdaq 100		**-5.8**

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

Company	Reader	% CHG from 5/23
Cabletron Systems (CS)	DG	-6.3
FiServe (FISV)	JT	25
Franco-Nevada Mining (CC:FN)	LF	-23
JDS Uniphase (JDSU)	JT	-18
Sawtek (SAWS)	AMD	-5.3
S1 Corp (SONE)	DM	-75
Xcelera.com (XLA)	CP	-65
RP 3 INDEX		**-24**
% Chg Nasdaq 100		**-7.6**

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

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.

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.

Entering a Festive Time for Stocks

By Victor Niederhoffer and Laurel Kenner
Columnists
11/22/2000 09:35 AM

Kindly share a typical Thanksgiving at Vic's with us for our mutual profit and enlightenment. As the serving of the turkey begins, Vic always asks the kids in the family to stop and think about what it took to make the meal possible.

A farmer in Kentucky, a trucker from Virginia, a packing plant in Illinois, butter and cream from Wisconsin, pottery from Italy, cranberries from New Jersey, spoons from England made of silver from Peru, potatoes from Idaho, cloth from China, maple syrup from Vermont, cantaloupe from Mexico, tomatoes from Chile, wine from California, glass from Portugal. All of these were somehow in stock at a grocery store financed by the owner's parents in Florida and his brother in the military.

Not one of the people in this chain could care two straws about Vic's Thanksgiving enjoyment. Yet there is always enough of what we want at the time we want it, and at a price that doesn't take much more than few hours of work in our respective businesses.

The Power of Trade
What is the force that coordinates all these activities? Not, as the Russians used to think when they came to the U.S., some infinitely wise planning department in Washington or a miraculously powerful and well-programmed computer. The force is simply trade, an instinct in man as basic as self-preservation.

From the very beginning, some people have had what others want, and they have been willing, for a sum, to part with it. To do this, they need to feel secure that their agreements will be enforced and that they will keep the fruits of their efforts.

With that in mind, it's worth retelling the tale of the Pilgrims' first big harvest, after three very lean years in America.

When the 150 Pilgrim settlers landed at Plymouth Rock in December 1620, they set up a communal society. It seemed fair, but nothing went right. By spring 1623, barely 50 survived. Only half a dozen were healthy at any one time, and they spent their efforts caring for the others.

The Nation's Capitalist Beginnings
At that point, Governor William Bradford decided to make a change. Here is the tale in his words (using modern spelling).

"All their victuals were spent…no supply was heard of, neither knew they when they might expect any. So they began to think how they might raise as much corn as they could, and obtain a better crop than they had done, that they might not still thus languish in misery.

"At length, after much debate, the Governor (with the advice of the chiefest among them) gave way that they should set corn *every man for his own particular,* and in that regard trust to themselves. And so assigned to every family a parcel of land, according to the proportion of their number for that end.

"This had very good success; for it made all hands very industrious, so as much more corn was planted than otherwise would have been by any means your Governor or any other could use, and saved him a great deal of trouble and gave far better content.

"The women now went willingly into the field, and took their little ones with them to set corn, which before would allege weakness and inability, whom to have compelled would have been thought great tyranny and oppression.

"The experience that we had in this common course and condition, tried sundry years, and that among godly and sober men, may well evince the vanity of that conceit of Plato and other ancients: that ye taking away of property, and bringing into a common wealth, would make them happy and flourishing: as if they were wiser than God. For this community (so far as it was) was found to breed much confusion and discontent, and retard much employment that would have been to their benefit and comfort.

"For the young men, that were most able and fit for labor and service did repine that they should spend their time and strength to work for other men's wives and children, without any recompense. The strong, or man of parts, had no more in division of victuals and clothes than he that was weak and not able to do a quarter the other could; this was thought injustice. The aged and graver men to be ranked and equalized in labors and victuals, clothes, etc., with the meaner and younger sort, thought it some indignity and disrespect unto them.

"And for men's wives to be commanded to do service for other men, as dressing their meat, washing their clothes, etc., they deemed it a kind of slavery, neither could many husbands well brook it."

Bear in mind that these Pilgrims were friends and decent sorts; imagine what would have happened if they had been scoundrels or enemies.

The Fruits of Your Labor

Sartell Prentice, who wrote a wonderful essay on Bradford in 1960 in *Essays on Liberty*, saw a universal principle at work in that first great harvest: "Each individual is entitled to the fruits of his own labor." Property rights, Prentice wrote, are inseparable from human rights.

If the Pilgrims had received foreign aid, the writer mused, would they ever have learned the concepts of the dignity of the individual and the sanctity of property, the Law of Individual Freedom and Individual Responsibility?

In 1626, Governor Bradford took one more step that resulted in much benefit: he issued a seven-year grant of one acre of land to everyone, rather than assigning it by lot year by year. The harvest was so good that year that the Pilgrims were able to export corn by the Kenibeck River, bringing home beaver and other furs.

Back in the Old Country, meanwhile, "farming in common" was practiced for at least another hundred years. Famine was the rule. Even in our century, tens of millions starved when Stalinists forced the people into communal farming, and until the fall of communism, goods available to ordinary Russians were miserably few.

The Tax Man Cometh

Is the U.S., the place where Thanksgiving is celebrated, following Bradford's principles now? No. Our tax system's aim isn't simply to pay for maintaining the peace, enforcing contracts and ensuring property

rights. Instead, it's the instrument of a government that subsidizes select businesses and constituencies for the benefit of politicians "in their endless search for votes and personal power," as Prentice put it. Yet there are still beautiful Thanksgiving tales of entrepreneurship and risk-taking. Consider Novartis (NVS), which hit on something very rare in the annals of cancer treatment: a drug 95% effective in driving early-stage leukemia into remission. Even better, the effects lasted.

The drug, STI-571, was still in the early stage of testing when news of its success spread over the Internet. The surging demand surprised Novartis. The company had planned to make only a few hundred kilograms this year for testing. Making more would be difficult. Employees were so excited about the drug that they volunteered to work weekends. But Swiss labor laws limit overtime. The financial risks were substantial; only 10,000 people in the U.S. in Europe suffer from the type of leukemia treated by STI-571, limiting its potential profitability.

That's when a modern-day Governor Bradford took charge: Novartis Chairman Daniel Vasella ordered 2000 output to be increased to 20 tons. Production was moved to a plant authorized to work round-the-clock shifts. The company speeded up trials, and set up hotlines to inform patients about the closest trial site.

"I told people not to worry about excess supplies of STI-571 that might never be sold," Vasella, a physician himself, told *The Wall Street Journal.*

Getting paid is somehow always better than practicing philanthropy; after all, getting paid makes it possible to give. The happy ending is that the gamble may pay off for Novartis. The company is now starting tests in solid tumors, and expects to launch STI-571 by the end of 2001, several years faster than usual.

A Festive Time for Stocks

Thanksgiving is generally the start of a festive time for stocks as well as people. Since 1984, the S&P 500 has risen on 14 of 16 occasions from the Wednesday close before Thanksgiving until the end of the year. The only decline of consequence was a 2% drop in 1996.

This is more than counterbalanced by 3% up moves in 1998 and 1999, a 6% rise in 1991, and a 5% rise in 1985.

All told, the expectation is for a rise of 1.5%. But it will have to go much higher than this for Abby Cohen's perpetual and inevitable forecast of a 10% rise for the year to come true.

Perhaps the Christmas spirit of January and a new grounding for 2001 will provide ample opportunity.

Until that time, may we recommend again the purchase of Aether Systems (AETH), a stock which has a tendency to swing below 90 and above 110 like a kid's seesaw. We have participated in one of these trips with our readers; we recommended it on Monday, Nov. 13, after it closed Friday at 96 13/16, and advised selling it on Wednesday, Nov. 15, after it closed Tuesday at 108 15/16.

And as a hedge against the division of labor, specialization and profit system that gave us this munificent Thanksgiving going awry, we are recommending purchase of Aether again at somewhere around its close yesterday of 81, for another swing.

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.

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.

Kenner is long Aether. Niederhoffer is long Nortel.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.04	Up 1	-8.7	-4.2
S&P 500	0.87	Up 1	-8.3	-5.9
Nasdaq	0.98	Down 4	-29	-16
Europe STOXX-50	1.07	Up 1	1.4	-2.2
Dollar/euro	0.80	Down 1	-18	-2.2
Nikkei	0.76	Down 4	-24	-6.1
Dollar/yen	0.99	Down 2	-12	-3.1
Gold	0.69	Down 1	-7.7	0.5
Oil	1.37	Down 1	94	8.3
Bond Futures	1.19	Up 2	11	2.0
2-Yr Note Futures	1.07	UnChg	1.1	0.2
Bund Futures	1.07	Down 1	3.3	0.5

A Thanksgiving Essay in a Time of Tough Markets

By Victor Niederhoffer and Laurel Kenner
Columnists
11/23/2000 12:35 PM

Note from Laurel Kenner and Victor Niederhoffer: The great historian Will Durant begins The Lessons of History *by asking whether history can provide "any illumination of our present condition, any guidance for our judgments and policies, any guard against the rebuffs of surprise or the vicissitudes of change."*

We believe that history is full of examples of heroes worthy of emulation by speculators as they seek to make a profit and fulfill their roles in the free market. As Durant put it, the hero "grows out of his time and land."

The following tale of T.E. Lawrence, beautifully told by our friend and resident Daily Speculations psychologist Brett N. Steenbarger, is one of the finest we've read. On this Thanksgiving, as we both give thanks for so much, we're pleased to share this story with you.

The Riches of Aqaba: A Thanksgiving Essay

The Northern African theatre of operations was a minor battleground for World War I, but one of the most dramatic. The Turks held the strategic port of Aqaba and were well fortified. Their guns were trained to the east, discouraging any fleet from making an attack. To the west was the impenetrable Nefudh desert, where searing heat and blistering khamsin winds made passage impossible. Control of Aqaba meant control of the sea lanes, a vital strategic advantage.

Rallying the Arabian tribes, T. E. Lawrence led a group of 50 men on a trek none deemed possible. They attempted speedy passage of the Nefudh desert, hoping to surprise the Turks. To make the trip quickly, they could not bring anything more than essential supplies. There were few weapons to assist them even if they could make it to Aqaba.

Lawrence, in his first hand account of the march, described their sojourn:

"We marched steadily till noon, and then sat out on the bare ground till three; an uneasy halt made necessary by our fear that the dejected camels, so long accustomed only to the sandy tracks of the coastal plain, might have their soft feet scorched by the sun-baked stones, and go lame with us on the road...Nothing in the march was normal or reassuring. We felt we were in an ominous land, incapable of life, hostile even to the passing of life except painfully along such sparse roads as time had laid across its face. We were forced into a single file of weary camels, picking a hesitant way step by step through the boulders for hour after hour...

"It was a breathless wind, with the furnace taste sometimes known in Egypt when a khamsin came; and, as the day went on and the sun rose in the sky it grew stronger, more filled with the dust of the Nefudh...By noon it blew a half-gale, so dry that our shrivelled lips cracked open, and the skin of our faces chapped; while our eyelids, gone granular, seemed to creep back and bare our shrinking eyes."

What could lead a man to such an undertaking?

Lawrence wrote: "All men dream: but not equally. Those who dream by night in the dusty recesses of their minds wake in the day to find that it was vanity: but the dreamers of the day are dangerous men, for they may act their dreams with open eyes, to make it possible. This I did."

Lawrence was indeed a dreamer of the day. He never felt more alive than when he faced a mortal challenge. While even the Bedouin veterans of the desert withered under the onslaught of the khamsin winds, Lawrence faced the Nefudh with glee.

"For my own part," he wrote, "I always rather liked a khamsin, since its torment seemed to fight against mankind with ordered conscious malevolence, and it was pleasant to outface it so directly, challenging its strength, and conquering its extremity."

During the march, impressed by Lawrence's dream and determination, the Howeitat tribesmen joined his small band and brought their fighting skills to the assault on Aqaba. The port city was taken completely by surprise. Its large artillery guns were permanently fixed toward the ocean and thus were of no defense against the attack from the desert.

The stock market, like Aqaba, is a strategic treasure, a portal to riches. But it is well defended. Anyone who prepares a conventional assault finds its elevated position and formidable artillery to be impenetrable. Only those who dream by day-who are willing to endure the torment of a laborious journey through trying circumstances-can hope to win the assault. It is the counterintuitive approach that takes the market, the attack from the undefended side. But this takes an ability to endure the searing heat and khamsin winds that accompany buying at times of distress and jumping in when others are too timid. Like Lawrence, the successful speculator comes to love the battle against torment and the conquest of its extremity.

Heroic spirits win wars, in the market and on the battlefield. Heroic spirits seek to go farther, higher, faster than any before them. Lawrence used to enjoy racing his motorcycle when he found life too ordinary. Indeed, that is how he died.

"To explain the lure of speed," he wrote, "you would have to explain human nature; but it is easier understood than explained. All men in all ages have beggared themselves for fast horses or camels or ships or cars or bikes or aeroplanes: all men have strained themselves dry to run or walk or swim faster. Speed is the second oldest animal craving in our nature."

As we give thanks this season for our many blessings, here is a toast to those readers who dare to dream by day and who strive to move with ever-increasing speed. Many thanks for the heroic spirit that is yours. You are an inspiration to all whose lives you touch. The riches of Aqaba await you.

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

Herds Offer Insights on Fund Returns

By Victor Niederhoffer and Laurel Kenner
Columnists
11/24/2000 10:24 AM

Editor's Note: Daily Speculations columnists Kenner and Niederhoffer have asked their many friends and associates occasionally to contribute their insights to the column. Today's column is from Mark McNabb, a CFA, professor of finance at Virginia Tech University and an NASD securities arbitrator.

After Thanksgiving sales and football, it may be time to think about the approaching new year – including choice of mutual funds.

The market has been tough this year, and investors reviewing their portfolios or considering where to invest next year would do well to ask how much freedom a particular fund has to change its strategy.

Some funds have the latitude to change their portfolios or raise cash balances. Others must stay in their sectors or stay fully invested. Funds that can discard what doesn't work, and try what works, can be attractive if they get it right.

For example, a general technology fund can look for opportunities in the mid-cap universe that may offer solid returns in the future without some of the volatility found in the Nasdaq 100 names. However, a dedicated Internet e-commerce fund is a troubled ship with no port in the storm, only able to average down the abyss of small dot-bombs becoming smaller.

Investors Slow to Change Gears

Flexibility PaFunds that do shift strategy generally see improved returns, according to a working paper by Anthony Lynch of New York University and David Muto of the University of Pennsylvania. Yet some investors, they found, steadfastly stick with funds that never seem to improve. (Witness the number of gold funds that are still around after two decades since the metal's 1980 peak.)

Like stocks, funds that perform well in one year are likely to outperform in the next year while poor funds continue doing poorly, according to a study of the "hot hands" effect by Hendricks, Patel and Zeckhauser.

Funds that chronically underperform don't have anything in common except their poor performance, according to a June 1995 article in the Journal of Finance. Investment styles don't seem to be the problem.

Funds tend to "herd" – they buy and sell the same stocks in the same span of time, measured quarterly. Some of the best-performing funds are very nimble at buying winners one quarter and then later selling the same group ahead of the general stampede out. Apparently, the most fleet of the wildebeest doesn't get mauled.

Investors in individual stocks, by the way, can benefit by observing this herding behavior. Studies show that individuals and pension funds don't engage in such active trading patterns en masse.

Watch the Herd's Direction

As you look for investment ideas, get an idea of the playing field by listening and reading about leading funds' favorites and dislikes. If you detect a change in thinking early, it could save you some pain or give you some gain. Respect the funds that have won in the last year; they may be on to something that works next year.

I scanned Morningstar.com for funds with a manager in place for at least three years, then ranked them by year-to-date return to see if anything interesting popped up. I noticed that 22 of the top 50 funds were mid-cap funds. Some value funds made the list, which wasn't the case with the five-year performance screen I wrote about in a Daily Speculations column one month ago. Several outstanding funds had big holdings in health care and energy.

The best performer in my screen was Vanguard Health Care, up 51% year to date, followed by Invesco Energy at 42%. I have listed below other funds that were really good candidates and didn't ask for a recount either! In the coming months, you may find their managers in the news as the leading financial publications do the obligatory "year's best" articles.

Your choice is to do some due diligence, examine their holdings, learn their strategies, and either run ahead of the herd or run behind it. Just don't get caught in the stampede, pardn'r! Get'em up, ride'm out, yee-ha -- raw returns or adjusted!

A Mid-Cap Growth Fund List:
Name and approx. YTD return as of 11/20/00:
Pimco Mid Cap Growth 23%
Alger Mid Cap Growth 19%
Dresdner RCM Mid Cap 8%

A Mid-cap Value Fund List:
Name and approx. YTD return as of 11/20/00:
Dreyfus Mid Cap Value 29%
Salomon Brothers Capital 19%
Weitz Partners Value 8%

Mark M. McNabb, Ph.D., CFA can be found this Thanksgiving at mmcnabb@vt.edu sifting through papers at Virginia Tech and thinking of visiting his favorite town of Austin, Texas (only 75 miles from the Cowboy Capital of the World: Bandera, Texas, and the warmth of the Silver Dollar Saloon). He has no positions in these funds but plans to sift through their holdings for stock ideas over the holidays.

Speculator's Scorecard

	Days Up/Days Down Ratio (YTD)	# Days in Latest Streak (YTD)	% Change YTD	% Change (last 10 days)
Dow	1.03	-1	-9.6	-4.0
S&P 500	0.86	-1	-10.0	-5.6
Nasdaq	0.97	-5	-32.3	-13.9
Europe STOXX-50	1.07	1	0.1	-2.3
Dollar/euro	0.81	1	-18.2	-2.5
Nikkei	0.76	-1	-24.5	-5.0
Dollar/yen	0.98	-1	-12.3	-2.9
Gold	0.69	-1	-7.7	-0.04
Oil	1.38	1	95.0	7.4
Bond Futures	1.20	4	12.4	2.5

2-Yr Note Futures	1.07	1	1.2	0.2
Bund Futures	1.07	-1	3.7	0.80

Heat from Florida Should Warm Up the Market

By Victor Niederhoffer and Laurel Kenner
Columnists
11/27/2000 10:07 AM

(Note to readers: The deadline for our new stock-picking competition is midnight on Thursday, Nov. 30. The contest will last six months, with Dec. 1 as the start date. Enter a long, a short, or both. Include a sentence or two on your reasons. The prize, to be awarded when the contest ends in six months, is a fish dinner and a special Daily Speculations cane for hobbling down to Wall Street and buying cheap stocks during panics.)

Welcome to the 452nd edition of Stock Talk! from Little Havana in Miami. A few hundred Cuban-Americans gathered here last night to celebrate after Florida's secretary of state declared George W. Bush had won Florida by 537 votes.

As horns honked, flags waved and "God Bless America" rang out to trombone accompaniment in front of the famous Versailles restaurant on Calle Ocho, stock market futures did some celebrating of their own, setting the stage for an up open today.

Because the market has behaved like an ornery beast all year, thrashing around and chewing up so many of us, we made a pilgrimage to Alligator Alley to listen to blues, salute the stuffed 'gator at the entrance and feast on alligator meat. Guitarist David Shelley, drawing on the hoodoo music of the South, sang a Booker T. Jones blues number that seemed to be about the Nasdaq. It went something like this:

Bought under a bad sign
Stocks been down since I bought in March
If it wasn't for bad stocks,
I wouldn't have no stocks at all.

Hard luck and trouble is my only friend
Bought CMGI (CMGI) at 160 and now it's 10
Bought under a bad sign
Stocks been down since I bought in March
If it wasn't for bad stocks, I wouldn't have no stocks at all.

As is well known, the market has been following the intricacies of the election outlook with the same intensity as the Cubans at Versailles. As Lisa Espinoza, one of the Cuban-Americans celebrating in Little Havana, told us: "If you want easy elections, go 90 miles south."

A Supreme Time to Buy

On Monday, when the Florida Supreme Court said the votes should be recounted, S&P futures gapped down to 1,360 from 1,370. On Wednesday, when a Florida Supreme Court ruling favored Gore, they gapped down again, to 1,342 from 1,356.

Gaps of this nature have been filled 100% of the time over the last six years, sometimes with a bit of a lag, it is true, but inevitably and harmoniously. It is only a question of time until the 1,370 area in the S&P is requited. We'll go out on a limb and predict it will happen by the always-bullish employment report on Friday, quadruply bullish this time because it comes at the beginning of a month, on Dec. 1.

The first stop on the inevitable rally is a rise in the Nasdaq 100 to 3,000 from its current level of 2,908, up from a Wednesday low of 2,676. These 10% moves have a way of adding up.

An ideal time to load up on good stocks.

To find some, we select from the ranks of the year's 20 worst performers on the Nasdaq 100, Midcap 400 and Smallcap 600. We picked stocks that were all down at least 20% in the past week, with most down 60% to 90% from their highs for the year, but which had recent insider buying.

Here are some of our favorites:
Antec (ANTC)
Avnet (AVT)
Pac-West Telecom (PACW)
C-COR.net (CCBL)

"This is one of those times where putting cash to work will work out awfully well," Edwin Marks, buyout specialist and Shakespeare of markets, told us. "With margin selling, tax-loss selling and blue-chip selling to offset some of those losses, we get an opportunity such as this about once every 10 years."

Mr. Marks is holding chunks of Johnson & Johnson (JNJ), Leucadia (LUK), Merck (MRK), Philips-Van Heusen (PVH), Science Dynamics (SIDY), Stilwell Financial (SV), Time Warner (TWX) and Waste Management (WMI).

Laurel in Fort Lauderdale
Of course, the election fight isn't over yet. Because the Gore campaign is challenging the election results, including the decision by the Miami-Dade canvassers to halt their recount, a special Daily Speculations delegation made the rounds of South Beach to conduct a random sample of voter opinion.

Laurel, accompanied by Mr. Frank Linet of Fort Lauderdale, counted: five Cubans for Bush, two innkeepers for Gore, two yuppies for Gore, one Swedish woman who would have voted for Gore and one derelict for Gore.

Laurel and Frank threw out the Swedish vote under protest from the ambassador, and selected a jolly group of four at the corner of Collins Avenue and Lincoln Road as tiebreakers. They came out one for Bush, one for Gore, one for Nader and one for Castro. The Daily Spec team is seeking approval now from headquarters in Weston, Conn., to throw out the derelict vote.

Recounting a Buy Recommendation
As this is one of those ideal long-term buying opportunities, which -- give or take a few ripples as the election balance swings back to the Gore camp -- should lead to a sustained year-end rally, we wish to reiterate our recommendation to buy Aether Systems (AETH).

We recommended this last Wednesday, when it opened at 75 1/2, down from a high of 114 7/8 just one week before. The stock trades like a roller coaster and is truly for the young-hearted; it closed Friday at 69 1/8, after touching a low of 66 1/16.

There is a rumor going around that the company's wireless subscription base isn't growing at the pace anticipated by its $2.7 billion market value. Also, short sellers have a ball with this stock when the market is vulnerable, as it looked last Wednesday after the final devastating 4.5% decline in Nasdaq

futures to below 2,700.

But Merrill Lynch, Aether's investment banker, believes "our revenue estimate of $125 million has upside" and "the company is comfortable with our estimates." And since the company raised $40 a share in cash this year, only $29 of the price is at issue if you buy at $69. (Of course, at the rate this company loses money, cash has a way of receding.)

Better yet, one of our favorite tells is operative: Merrill is sponsoring a lunch with George Davis, Aether's president and chief operating officer on Dec. 11, Vic's 175th birthday. What an ideal time for a nice rise.

Speculator's Scorecard

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S&P 500	0.88	1	-8.9	-1.8
Nasdaq	0.99	1	-28.6	-4.1
Europe STOXX-50	1.08	2	1.7	0.6
Dollar/euro	0.80	-1	-18.6	-2.5
Nikkei	0.77	1	-24.5	-5.0
Dollar/yen	0.97	-4	-13.3	-3.8
Gold	0.70	1	-7.5	-0.6
Oil	1.38	unch	95.0	7.1
Bond Futures	1.20	-1	12.1	2.3
2-Yr Note Futures	1.06	-1	1.1	0.1
Bund Futures	1.08	1	3.8	0.7

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By Star Company Reckoning, Research is Key

By Victor Niederhoffer and Laurel Kenner
Columnists
11/28/2000 10:04 AM

"In Xanadu did Kubla Khan
A stately pleasure dome decree...."
--Kubla Kahan [1798]

The mumbo jumbo and weird beliefs that are the soul of the market never cease to amaze the thoughtful mind. One prime example is the pseudo-science that surrounds the characterization of market moves as chaotic. It's one of those terms that describes everything and therefore predicts nothing.

However, the moves on Monday, down from the open but up on the day, put the market in a completely topsy-turvy state. There's no rudder except that on the 17 most similar days to this over the past seven years after a down open, the market tended to dipsy-doodle around for a while before grinding to a higher price a week later. That would be consistent with the political backdrop. Many will fear to buy before the Supreme Court hearing on Friday and the employment announcement. And, of course, that's when courage pays.

This is consistent with the backdrop as calibrated by the aesthetic Professor from Virginia Tech, Dr. Mark M. McNabb. He queries, "Wonder what the odds in London on a Gore concession next Monday would be? Wonder what the odds are I lose my mind before then ... if not already?"

We attribute this state of affairs to the closeness of the vote, not in the presidential election but in the Nasdaq. The index moved to a high of 2998 yesterday before falling a mere 1% to close at 2880. As our readers know, a round number tends never to hold. So a rise in the Nasdaq above 3000 is in the cards. But when?

All things considered, we'll stick with our prediction that the market will be substantially higher on Friday than the close today. But as to how it gets there, we are bereft. And remember this is a prediction that unlike the pabulum of range-based forecasts ("The Dow is likely to be range-bound this week between 9000 and 12000") is one that is unlikely to occur through chance variation alone. So kindly discount and evaluate accordingly.

In Search of Research

We turn instead to a search for the Holy Grail of Investing. Is there one single indicator that will enable the investor to beat the market? In the past, we have paid tribute to the Value Line timeliness rating, which has beat the market by a mile over the last 35 years. In addition, we have pointed to the value of insider trading signals, especially in the Nasdaq and Midcaps.

And we are not averse to recommending a contrarian trade every now and then when it goes against the grain of "Doc Greenspan" and his old-hearted fellow travelers, especially those who were born into the corn belt and boast that they won't buy a stock that uses technology they can't understand like a lawn mower, fax, or computer. (How about drip irrigation companies we always wish to ask, especially if operated by gravity alone?)

Today we will focus on a single item of expense on the income statement that provides a giant reservoir

of value for the future – research. Our economy is changing faster and is subject to more innovation than ever before. With the politicians at the Fed holding interest rates at levels that are creating a stagnating economy, the only companies that can absorb what meager total growth there is are those that innovate, that find new ways of producing things that serve the ever changing desires and tastes of consumers.

Research as is well known is the key to our progress. Academic studies show that the return on basic research at private companies is of the order of 50% a year, and that the return on applied research is about half that level.

And investors know this. That's why companies that do lots of good research get valued at extraordinary levels relative to their sales and profits. The research these companies make is thought to provide a lock for the companies' future earnings.

Key Ratio

One measure of research that's often used is the ratio of research to sales. This tends to vary all over the lot. For example, among the Nasdaq 100, Juniper Networks (JNPR) has a research to sales ratio of 40% and Chiron (CHIR) has a ratio of 44%. But the problem is that the market has already given extraordinary recognition to this. JNPR sells at a price to sales ratio of 93 and CHIR sells at price to sales ratio of 10.

Companies like Dell (DELL), however, only spend 1% of their sales on research. But the market apparently takes that into account by valuing DELL at only 2 times sales. Of course this is better than companies like Pacificare Health (PHSY) and Paccar (PCAR) that spend 1% of sales on research and are valued at ½ sales or less. In the middle is a company like Apple (AAPL) that spends 5% of its sales on research but is valued at only 0.8 times it sales.

The question arises: Does the research create the multiple or does the multiple support the research? And has the market price already rewarded the company appropriately?

To separate the wheat from the chaff, the companies that are fully valued relative to research from those that are undervalued, we propose the ratio research per dollar of price (or R/P). For example, Apple spends $350 million on research and it has a market value of $6 Billion. Its research to price ratio is thus a rounded 6%. Another way of calculating it is to take the ratio of research to sales and divide that by the price to sales ratio. For example, AAPL has a research to sales ratio of 5%. Its price to sales ratio is 0.8. Thus 5% divided by 0.8 equals 0.6.

The beauty of the research to price ratio is that it represents the fraction of the current price that is supported by research. Or alternately, the sliver of the market value pie that is covered by research. The higher this sliver, the better. Or alternately again, the part of the price that has been paid for by current research. The higher the ratio, the better.

The Lower the Better

Conversely, the reciprocal of the R/P ratio represents the number of years it would take for research to cover the price. The price to research ratio for Apple is 16 years. The lower this ratio, the better.

The aesthetic professor has developed a template to consider it in a wider context as follows:

"A firm is comprised of asset value, operating value, and future opportunity value. The R&D is the last item. The profits and cash flow are the second and cash, patents, engineers and buildings, the first. One share of AAPL represents $5 of working capital and $1 of research. At a price of $18 per share, the

percent of research per share to price is 6%. And this 6% should correspond to the future growth opportunities of the stock (company). Companies with greater R/P should be able to either grow at a rate higher than their industry peers or have a great likelihood of achieving the expected industry growth rate (on average caveat, caveat, etc.)"

We realize that this ratio is not the magic bullet from Xanadu, but it's as close as we can come to same unless incentivized with unmentionable allure. And we report forthwith the 11 companies of the NAS 100 that have the highest and therefore the most favorable ratio of research to price as follows: 3 Com (COMS) 12%, Network Associates (NETA) 11%, Novell (NOVL) 9%, Adaptec (ADPT) 8%, Conexant Systems (CNXT) 7%, Apple Computer (AAPL) 6%, KLA-Tencor (KLAC) 5%, Chiron (CHIR) 5%, CMGI (CMGI) 5%, Compuware (CPWR) 4%, and BMC Software (BMC) 4%.

We speculate that these companies will show superior price performance to the other 90 companies in the NAS 100 over the next year and recommend them as a portfolio herewith.

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Niederhoffer owns Dell, BMC Software and Novell.

Speculator's Scorecard

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S&P 500	0.89	Up 3	-8.2	-0.2
Nasdaq	0.98	Down 1	-29	-2.9
Europe STOXX-50	1.09	Up 3	2.0	2.3
Dollar/euro	0.81	Up 1	-17	-1.1
Nikkei	0.77	Up 3	-22	0.4
Dollar/yen	0.97	Up 1	-13	-2.9
Gold	0.71	Up 2	-6.2	2.2
Oil	1.34	Down 3	95	5.4
Bond Futures	1.17	Down 3	12	1.6
2-Yr Note Futures	1.06	UnChg	1.1	0.05
Bund Futures	1.09	Up 2	3.9	0.6

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Opportunity Is Greatest When the Gloom Is Darkest

By Victor Niederhoffer and Laurel Kenner
Columnists
11/29/2000 09:39 AM

(Note to readers: The deadline for entering our new stock-picking contest is midnight tomorrow (Thursday, Nov. 30). Enter a long, a short, or both. Include a sentence or two on your reasons. The prize, to be awarded when the contest ends in six months, is a fish dinner and a special Daily Speculations cane for hobbling down to Wall Street in times of panic. Send entries to ltkenner@yahoo.com.)

After two harmonious days that seemed to be leading to a beautiful climax, the market gave us a deceptive cadence on Tuesday right out of the pages of a Bach fugue. By the close, the S&P 500 was up only 1% from its pre-Thanksgiving low. The Nasdaq closed at 2734, the lowest since Oct. 19, 1999.

Why? Two words: election jitters. Over the past month, the market has moved a quick 1% in the S&P 500 and 3% in the Nasdaq with every shift in the balance of the candidates' fortunes.

Dems: Short on Votes, Short on Stocks?
One of our readers, Mark M. McNabb, observes that selling whenever the Democrats make a statement is now the safest play around. "I think the SEC should investigate the Democrats for market manipulation," said McNabb, a finance professor at Virginia Tech University. "Beginning to think their backers encourage this and then short into it."

But as we may have mentioned before, it's always most bullish of all at times like this. A new month begins Friday, and on eight of the nine occasions that this has occurred in recent years the market was up substantially five days later, with the expected move coming to 2%.

And more good things are on tap. A week from Friday, the usually bullish employment number will be reported. And there doubtless will be renewed pressure from the stock market vigilantes for a timely end to the presidential election.

After all, if the populace is unhappy with their 401(k) plans and mutual fund statements they might be more reluctant to pay their taxes and political contributions, a consummation too horrible for either party to countenance or allow even to get to the thinking stage.

Dot-Com Doom Discussion
Under the circumstances, we turn to our readers for guidance until the deceptive cadences lead to a proper resolution.

We found them discussing the massive staff cuts at Internet companies. Challenger, Gray and Christmas Inc., an outplacement firm that publishes statistics on firings, reports that 8,789 people lost their jobs at dot-coms in November, up 55% from the previous month. Since December, job losses have reached 31,056.

This isn't necessarily a bad thing, writes Omid Malekan, a Columbia University undergraduate.

"A lot of bad business models got easy money. Now those bad business models are going out of business and laying people off. So basically capitalism is working as it should, with bad ideas being washed out so good ones remain. This is a good thing; markets are getting more efficient.

"While these companies were solvent, they spent tons of money on Internet infrastructure. Of course it's bad that they wont be around to spend more, but the networking stocks have already factored this in. What's good is that while these companies did have money they bought things from the Ciscos (CSCO) and Nortels (NT) of the world, which means those companies had higher revenues, which means they invested more in R&D, which means will have better products to sell in the future, which means they will make more money.

"I hate it when people use the general downfall of dot-coms to predict doom and gloom. It's like saying old telcos like WorldCom (WCOM) and AT&T (T) being down so much is a bad sign. I disagree, WCOM and T are long-distance companies, their stocks are down a lot because long-distance calls are dirt-cheap. But this is a good thing for the millions of companies out there that now save tons on long-distance calls.

"To me it all sounds like someone saying 'abacus sales are down because of the introduction of cheap, efficient electronic calculators, this must be a bad thing.'"

James J. Daniels, a scientist at Lucent (LU), suggests that someone who made a business of buying up dot-coms could put them into the black. "It's an expensive proposition to start a Web company or add a Web entity," he said. A consolidator, he writes, could drastically cut equipment and labor costs for these businesses.

Shawn Andrews, a tech maven and financial adviser, had his doubts, noting the problems at Internet incubators. "That was the very same idea which motivated me to short CMGI (CMGI) with a vengeance once it began its down cycle. All its problems multiplied exponentially. Even if there were a couple of healthy children, the family unit was too sick to support them." A consolidator would need enough money to change the public's bias against dot-coms, he said. That could be a big nest egg indeed.

Readers React on Research

Our column yesterday presented a new ratio for picking stocks based on how much of their price is covered by their research expenditures. We called it the research/price ratio, and listed 11 Nasdaq 100 companies with the highest R/Ps: 3Com (COMS), Network Associates (NETA), Novell (NOVL), Adaptec (ADPT), Conexant (CNXT), Apple Computer (AAPL), KLA-Tencor (KLAC), Chiron (CHIR), CMGI (CMGI), Compuware (CPWR) and BMC Software (BMCS).

Henry Carstens, of Glendale, California, had this perceptive comment:

"From my software days, the ability to turn development dollars into shipping products, not just expenditure, was key. For example, several years ago IBM (IBM) began announcing new products from research at a rate of what seemed like one new product per week. Their stock price skyrocketed. That might suggest another ratio which would measure the ability of a company to turn research into profits: new product revenues / research expenditures."

Mr. Carstens' idea is an excellent one. Unfortunately, most companies do not break out new product revenues in their income statements, making this a job for a qualitative analyst with persistence and superior detective skills.

Some companies do offer clues about the success of their research. McNabb notes that Cisco Systems (CSCO) says that 30% to 50% of its revenues are from products that weren't around three years ago.

Somewhat along the same lines, Economic Value Added analysis, used at DuPont (DD), Dell (DELL) and Merck (MRK), is a corporate finance measure that compares capital invested in the firm over a recent period to growth in new cash flows. "Not exactly causal, but better than nada," says McNabb.

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Describing the Stages of the Bear

By Victor Niederhoffer and Laurel Kenner
Columnists
11/30/2000 09:45 AM

(Note to readers: The deadline for entering our new stock-picking contest is midnight tonight! (Thursday, Nov. 30). Enter a long, a short, or both. Include a sentence or two on your reasons. The prize, to be awarded when the contest ends in six months, is a fish dinner and a special Daily Speculations cane for hobbling down to Wall Street in times of panic. Send entries to ltkenner@yahoo.com.)

Until 4:05 p.m., it looked like a typical day yesterday. The Dow and S&P 500 were up 1% and 0.5%, respectively, while the Nasdaq was down 1%. The Dow and S&P were up a few percentage points from Thanksgiving, the Nasdaq was down a few percentage points.

Then, Gateway's (GTW) warning of weak holiday PC sales caused S&P futures to drop a fast 1% in the next 10 minutes, and another 0.75% early in the evening trading. The active Nasdaq 100 contract dropped a fast 3% in the last 10 minutes and 4% more after the close.

Total demoralization is in the air. The only thing that will change it is capitulation by Al Gore, or the first day of trading of the month.

Under the circumstances, we retreat to cover and shore up our foundations, while the readers take over.

Like OTB

In Silicon Valley yesterday, two software consultants shared an udon lunch and talked about how the market is getting to be like the horse betting parlors. One, Hank Yu, recalled the regulars at the fairgrounds who get wiped out to such an extent that they just wander around the parlor in a daze, subsequently never to return. "Is the market like this?" he and his companion wondered. "Have sufficient numbers lost enough cash in the market to be wiped out and out of the game?" For the market to reach bottom, that's what would have to happen, they agreed.

For some, that point is now point blank. Mani Rahnama surely speaks for many when he writes: "The down 10% from 3000 in the Nasdaq is over and done with. Do you see another 10%? At this point, I am only trying to hold on to my own money and not the increase in my equity. I am down and out. I do not see an end to this massacre. All rallies are relief rallies and not sustainable. I am beyond depressed."

To Christopher Guida, it seemed an apt time to poll readers of Daily Speculations on what stage of the bear market we're in, based on a description posted by Ed May on MSN MoneyCentral's Supermodels board from *The Nature of Risk* by Justin Mamis. The choices:

"1. The initial breakdown and collapsing phase that because of its vehemence seems to be a sufficient decline in itself.

"2. Because of widespread conviction that the worst is now past, some successful retesting of that low is followed by bear market bounces that keep investors hopeful, and even convinced, that the market is OK again.

"3. A surrender, and a fresh slide that, as investors come to know 'why' prices have been falling, can go on and on like Chinese water torture

"4. The give-up phase during which the pain increases because the 'known' reasons seem to be getting worse and worse, and feel as if they will be even worse tomorrow.

"5. Signs that almost everyone who had owned has now sold begin to materialize when more bad news fails to carry prices any lower, followed by a bounce that is dismissed as 'merely technical' and thus is deceptive enough to keep the crowd too fearful to believe."

Insightful Views
The votes Guida received were as subtle as dimpled Florida chads, but contained much insight. We reprint some representative samples.

The hedge fund/wrestling coach David Ciocca had this to say: "My own humble guess is that such a series of indeterminate statements regarding quantitatively undefined stages is one of those things that could retroactively explain anything to follow, and predict zero into the future. However, I also think that the more of these kinds of predictions that the talking heads and oracles make, the more bullish the implication."

Wrote David Wilfinger: "Mamis isn't saying that at Leg 1 we go down 20%, then Leg 2 goes down 40% and finally Leg 3 brings us down another 30%. He's saying that the time to buy is when everyone else is selling; when the pundits have thrown in the towel; when people don't talk about their stocks at parties any more; when no one wants to work at a tech company for options; when gloom is in the air; in short, when everyone has a damp November in the soul, it's time for Ishmael to go to sea. (NB: I'm avoiding the tragic implications of this reference for convenience.)"

Other respondents were split between stage 2 and stage 3. Chris Guida himself votes for stage 3. "We all know we're in a new and unexpected slide, and are just now developing rationalizations to explain it."

False Bottoms
For our part, we are dubious that bottoms are so clearly delineated. We tend to remember bottoms where everyone was washed out and hung to dry. But there are many other bottoms that just crystallize out of thin air and have no symptoms. The job is to catch the market when the expectation is bullish.

Few better examples can be found of the damage in the market this week than Aether Systems (AETH), which we recommended Nov. 22 at 74 a share. The stock closed at 54 1/8 yesterday, below its book value of 57, prompting us to query the company and the hedge fund manager who put us on to it in the first place.

Aether's director of investor relations, Gregg Lampf, said the wireless company is frustrated with the slide in the stock, as prospects are better than ever. "The market is doing what it's doing, and it's taking a lot of tech companies down with it," he said.

Contrary to rumors that circulated last week, Aether has never missed projections and doesn't intend to start now, he said. It expects to make $50 million this year and $125 million next year, for the record. "We are in a very new industry," Lampf added. "There's thought to be a lot of upside to those numbers."

The 47% drop in the past seven trading days resulted partly from people making erroneous extrapolations from the nine acquisitions Aether made in the past year, Lampf said. The kicker: Aether

still has $1 billion of the $1.5 billion it raised earlier this year, Lampf said. Which, according to our calculator, works out to about $47 a share in cash.

Be Worried

Bill Fuller, the stellar hedge fund manager who called our attention to Aether, said what's going on has nothing to do with Aether's situation. "What investors should worry about isn't Aether in particular, but the prospect of a broader downturn where innovation isn't purchased or valued by business customers," he wrote us.

"The stock market is now quite pessimistic about the future in general. How you value growth investments is all about expectations. It's remarkable how perceptions have changed – a couple of months ago, they'd pay anything for future revenues and nothing for current profitability; now they'll pay nothing for the future and only want an assured present. In Aether's case, investors will pay literally nothing for the future – the shares are being priced below current asset value, with zero value attached to future growth.

"I happen to be in the stock in order to get back to 300, so I'm less troubled than people who have shorter time horizons," Fuller wrote. "I happen to believe that the stock saw its low today, but that's just a guess based on evidence of capitulation. Hope this helps. I haven't sold any shares, FYI."

We give the last word to the Shakespeare of markets, Edwin Marks, who has built a fortune over a long, successful career by seizing opportunities in out-of-favor stocks and companies. He wrote this beautiful letter to a worried daughter:

"Carolyn: In my career, I have rarely seen two things that are now occurring. The first is the viciousness of the bear market in the techs. I thought they would eventually take a hit, but the crowd is rushing for tax losses and selling some of these at prices, which are as ridiculously low as they were ridiculously high when originally purchased. Then they are selling good non-tech stocks, which offset these huge losses. In effect, you have the bloody hi-techs and the generally steady ones (oils drugs, etc.), which are themselves becoming victims. The second is the opportunity for those with some cash to eventually profit immensely by buying washed-out good companies caught in this mayhem.

"This situation is a long-term investor's dream come true. I've been here before, and my experience says that's the story. I bought stocks when Kennedy was assassinated, when Reagan was shot and when the 1987 crash clobbered the market with a 25% hit. Vic's headline today says it perfectly: "Opportunity is greatest when gloom is darkest."

"Unbuckle your seat belt and try to relax! Recessions are necessary for the proper functioning of capitalism. They weed out weak companies and their stockholders, and make the survivors better able to cope with the competition of competitors' going-out-of-business sales. Recessions keep excesses from getting out of hand, and are the natural evolution preparatory to a renewed surge in an economy. Take the long view. Look over the next hill and check the terrain ahead. The Fed will not wait long to lower rates if the decline keeps up. Have a restful evening. This will not change your basic standard of living, sweetie: you have solid investments. Just go with the flow for awhile … then … we POUNCE! Lesson over. HUGS – Dad.

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S&P 500	0.89	Up 1	-8.7	-3.4
Nasdaq	0.97	Down 3	-33	-14
Europe STOXX-50	1.07	Down 2	-0.1	-3.3
Dollar/euro	0.82	Up 3	-17	0.0
Nikkei	0.76	Down 2	-23	-2.0
Dollar/yen	0.97	Down 1	-13	-2.3
Gold	0.70	Down 2	-7.4	0.6
Oil	1.33	Up 1	91	-1.0
Bond Futures	1.19	Up 2	12	1.3
2-Yr Note Futures	1.07	Up 2	1.3	0.3
Bund Futures	1.11	Up 4	4.2	1.0

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.

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

Laurel holds a long position in Aether Systems. Positions can change at any time.