Part One

Mumbo Jumbo and Moonshine

1 THE MEME

A curious piece of news comes to us from Rio de Janeiro. Madness, an epidemic of madness, which may be compared to that contagious madness which attacked the people of Europe in the Middle Ages, is at this moment raging in the Province of Sao Paulo. The frightened inhabitants are leaving their houses, deserting their villages, abandoning their land, saying that they are pursued, possessed, governed like human cattle by invisible, though tangible, beings, a species of vampire, which feed on their life while they are asleep.

—Guy de Maupassant, "The Horla"[1]

July 18, 1996: What a beautiful century! As the beginning of the third millennium nears, America is looking forward to continued peace and growing prosperity. Communism has been discredited, and the Cold War is over. World trade is opening up. We're starting to spend money on goods and ideas, rather than multibillion-dollar schemes of mutually assured destruction. The federal budget has a surplus for the first time in decades. Interest rates are at half the level of 15 years ago. Productivity and earnings are rising, and unemployment and inflation are negligible, something thought impossible just a few years ago. The computer is transforming work and home life. Revolutions in biotechnology and high-speed communications are under way. Parents can reasonably expect their newborns to live to age 100 and beyond. Almost 50 million people are using the Internet. Many investors are becoming rich from investing in technology, and entrepreneurs are finding it easy to raise money for new ventures. Millions of people are more comfortable financially than they have ever been before. The standard of living is better than ever. People are optimistic about improving their lot in life. The future seems promising indeed.

I turn on CNBC to hear the financial news. One of my technology stocks is up 15 points! I call my broker to sell half my shares. Now I can pay my kids' tuition bills. Federal Reserve Chairman Alan Greenspan comes on the air. He says that remarkable technological breakthroughs in microchips and software are boosting productivity. He doesn't see any reason that the economy's growth should not continue for the foreseeable future. The Dow is up 120. I salute his image on the TV screen, I hardly know why, except his words give me great pleasure.

The TV anchor then begins an interview with one of the bearish money managers who has been short the market since 1987. The manager launches into a familiar speech: "Market valuations are ridiculously high . . . dividend yields aren't what they were in the 1950s and early 1960s . . . the Dow has already risen almost 9 percent so far this year, enough for an average year, after rising 33 percent in 1995." Indeed, with dividends reinvested, it has returned 1,200 percent since the end of 1979. But he sounds a little desperate, as well he might, given that so many who had bet against the market beginning in 1987 have gone belly up. He makes no mention of the decline in interest rates, or the doubling of earnings retention rates, or the fact that buybacks are now running equivalent to dividend payouts. Nor did he provide evidence that stocks must go down after going up at more than the average rate. If only he would take out a pencil and envelope, he could see that after a rise, the chances of another rise the next year are 53 percent versus 52 percent after a decline and that the average move after a rise is slightly greater than after a decline.

December 6, 1996: I turn on the 6 A.M. business news when I wake up. Catastrophe has struck. Last night, after the U.S. markets closed, Greenspan suggested that investors are "irrationally exuberant." Markets are diving in Asia and Europe.

A sudden shiver of agony runs through me. The chairman is like the father of the market. If the market were to heed his words, if it were to start worrying that he might punish it by requiring more margin, it might fall beneath his big heels.

His words, taken alone, do not seem too foreboding. He was not even addressing Congress. It was just an after-dinner speech at the American Enterprise Institute on the history of monetary policy. I pull up the quote on the Internet:

> Where do we draw the line on what prices matter? Certainly prices of goods and services now being produced—our basic measure of inflation—matter. But what about future prices or more importantly, prices of claims on future goods and services, like equities, real estate or other earning assets? Is stability of these prices essential to the stability of the economy?
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> Clearly, sustained low inflation implies less uncertainty about the future, and lower risk premiums imply higher prices of stocks and other earning assets. We can see that in the inverse relationship exhibited by price/earnings ratios and the rate of inflation on the past. *But how do we know when irrational exuberance has unduly escalated asset values, when they become subject to unexpected and prolonged contractions as they have in Japan over the past decade? And how do we factor that assessment into monetary policy?* [Emphasis added.]
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> . . . Evaluating shifts in balance sheets generally, and in asset prices particularly, must be an integral part of the development of monetary policy.[2]

"But how do we know . . . ?" It sounds like such an innocent question. By the time the market closed, everything seemed pretty much back to normal. The Dow ended 55 points lower at 6382, a drop of less than 1 percent, after falling as much as 144. But why did our self-confidence change so quickly into timidity? How strange it is that a simple feeling of discomfort—perhaps the irritation of a nervous center, a small disturbance in the imperfect and delicate functions of our mental machinery—can turn the most lighthearted of men into a melancholy one, and make a coward of the bravest.

I walk down to the river near my house to watch the tugboats and barges go by. After walking a short distance in the sun, I suddenly, inexplicably, feel anxious and wretched. I return home immediately to check the stock prices on my monitor. Why am I worried? Is it a phrase that, passing through my memory, has upset my nerves and given me a fit of low spirits? Is it the frown of CNBC's Money Honey as she passes along word of an analyst's downgrade, or is it her new short hairstyle? Everything that surrounds us, everything that we hear without listening, every idea that we meet without clearly distinguishing it, has a rapid, surprising, and inexplicable effect on us and on our organs, and through them on our ideas and on our being.

February 25, 1997: President Bill Clinton has been letting big campaign contributors stay in the Lincoln bedroom! The White House released a list of more than 800 people who stayed overnight in the room where President Lincoln signed the proclamation freeing America's slaves. The guests—including Hollywood moguls and stars—came through with at least $5.4 million in contributions to the Democratic National Committee in 1995 and 1996 alone, according to a computerized study commissioned by CNN. Producer Steven Spielberg donated $336,023, and MCA Chairman Lew Wasserman gave $225,000. The tawdriness is troubling.

March 3, 1997: A crisis is unfolding far away. It seems that cheap Chinese labor is taking away Thailand's share of the electronics export market. The country's fabulous growth has slowed so much that the banks are neck-deep in bad loans to real estate speculators, and a devaluation of the currency—the baht—is probable. The stock exchange temporarily halted trading in bank stocks today. An incomprehensible feeling of disquietude seizes me, as if this news concealed some terrible menace. I walk up and down my hallway, oppressed by a feeling of confusion and irresistible fear.

July 8, 1997: NASA uses the Internet to broadcast images taken by the Pathfinder spacecraft on Mars. An Internet traffic record is set: 46 million hits in one day. These stunning displays of twentieth-century science make my spirit soar.

August 21, 1997: Southeast Asian markets are collapsing before our eyes. Thailand admitted today it had borrowed $23 billion in an unsuccessful attempt to avoid devaluing its currency. Thailand owes a total of $89 billion to foreigners, $40 billion of which comes due within the next year. Indonesia, Malaysia, and the Philippines are in trouble, too. Stocks are toppling, interest rates are soaring, and outside money is fleeing. Malaysian leader Mahathir Mohamed says it's all because Jews are trying to keep Muslims poor.

I have just come from consulting my medical man, for I can no longer sleep. He said my pulse is high and my nerves are highly strung, but that otherwise I exhibited to him no alarming symptoms. He prescribed a regimen of vigorous exercise.

That night, I manage two or three hours of sleep. A nightmare lays hold of me. I feel that I am in bed and asleep . . . and I feel also that somebody is coming close to me, looking at me, touching me, getting onto my bed, kneeling on my chest, taking my neck between his hands and squeezing it with all his might to strangle me. I struggle, bound by that terrible powerlessness that paralyzes us in our dreams. Then suddenly, I wake up, shaken and bathed in perspiration.

October 15, 1997: I have made a complete recovery. The Microsoft shares I purchased the day after the "irrational exuberance" speech are up 73 percent.

October 20, 1997: I turn on the news and learn that the Justice Department is accusing Microsoft of violating a court antitrust order. How strange. Microsoft has done more than any company to bring the computer revolution to consumers. Is success now suspect?

About 10 o'clock that evening I go up to my room. As soon as I have entered, I lock and bolt the door. I am frightened—of what?

October 27, 1997: A rolling panic that began in Hong Kong last week has engulfed every stock market in the world. In the United States, exchanges halted trading today after the Dow plunged 550 points. The value investor David Dreman said, "Investors finally realize the market is overpriced."[3]

October 28, 1997: I look up from my desk in the New York City offices of Bloomberg News. Ken Kohn, the New York bureau chief, sitting opposite me, is cackling. "Victor Niederhoffer went under!" he says.

April 30, 1998: The shadow has passed. Jeremy Siegel, the Wharton finance professor, just introduced an expanded edition of his *Stocks for the Long Run,* showing that stocks have averaged an annual return of 7 percent after inflation for the past two centuries, twice the return on bonds.[4] The Dow has risen 28 percent since that terrible Monday last October, and my Microsoft shares are up 40 percent. I feel cured.

August 31, 1998: In one month, the world has fallen into chaos. More than 250 people were killed when terrorists simultaneously bombed our embassies in Kenya and Tanzania. The Saudi terrorist Osama bin Laden said strikes against the United States would continue "from everywhere." The next day, President Clinton ordered a retaliatory strike against bin Laden in Afghanistan and a nerve gas factory in Sudan—but the strike missed bin Laden, and Sudan insists the factory did not make nerve gas at all, just drugs. People are calling our counterattacks a terrible instance of life imitating art. Just three days earlier, Clinton admitted on television that he had had an "inappropriate relationship" with Monica Lewinsky, a White House intern. A grand jury is investigating whether he lied about it under oath. A new Hollywood hit, *Wag the Dog,* released just before the attacks, features a U.S. president who declares war to divert attention from a brewing sex scandal.

On top of everything else, Russia devalued its currency last week and defaulted on its debt. In an attempt to clear my mind with fresh air, I went for a walk in Central Park. I turned into a shady path in a little-visited area. A sudden shiver of agony ran through me, and I hastened my steps, frightened without reason. Suddenly it seemed as if I were being followed, that somebody was walking at my heels, close, quite close to me, near enough to touch me. I turned round suddenly, but I was alone. I returned home to find the Dow average had closed down 512 points. In four days, it has lost 12 percent. All the major indexes are down for the year.

September 28, 1998: Some very big hedge funds have lost billions in August and September. One fund, Long-Term Capital Management, had to be bailed out for $3.6 billion by 14 banks after losing all but $400 million of what had been $4.8 billion in net assets. Fear was rampant that the financial system might collapse under the strain if Long-Term failed to meet its obligations. Quantum, Omega, and Tiger suffered stiff losses. The public is scared and is dumping bank stocks. Goldman Sachs, the king of Wall Street, had to cancel its scheduled initial public offering today. Congress is howling to regulate hedge funds. I feel the frightening presence of my nightmares lurking outside my window almost every evening now. It seems to be laughing wickedly.

I went to a dinner at New York University tonight to hear a speech by Arthur Levitt, chairman of the Securities and Exchange Commission (SEC). Levitt said managers are putting out hocus-pocus financial statements with the complicity of their auditors to pump up market capitalization and increase the value of their options. He warned executives to put their houses in order. No more inflated write-offs for restructuring charges, future operating expenses, and "in-process research" to make future earnings look better. No more stashing profits in the cookie jar for a rainy day. No more booking sales before delivery takes place. No more quibbling over how big a lie has to be before it is "material" under Generally Accepted Accounting Principles.[5]

The lawyers and accountants in the room put down their forks and started taking notes.

I suddenly felt a chill in the room. An unearthly voice seemed to be laughing, and I could not escape the feeling that he was mocking Levitt.

May 5, 1999: Was it really a case of *Wag the Dog*? The U.S. government said it wouldn't contest a lawsuit for damages filed by the Saudi owner of the drug factory we bombed in Sudan last August. I sense the shadow is laughing.

August 2, 1999: Huge accounting frauds are coming to light every week. Bankers Trust has paid $63 million in fines for stealing dormant client funds to cover general expenses. Cendant, Livent, McKesson, Rite Aid, and Sunbeam are embroiled in scandals. Carol J. Loomis, writing in *Fortune* about the SEC crackdown, said the cascade of cases suggests "great expanses of accounting rot, just waiting to be revealed." She noted that when the *Wall Street Journal* published a front-page story in 1994 about how Jack Welch "smoothed" earnings at General Electric with the "creative use of restructuring charges and reserves," the company got calls from other corporations saying, "Well, this is what companies do. Why is this a front-page story?"

Eventually, "Someone may go to jail,"[6] she wrote. I shivered. The nightmare presence seemed to smile and grow larger as though he somehow gained strength from these scandals, as bacteria thrive in dirt and darkness.

November 22, 1999: My copy of *Fortune* arrived in the mail today. I start idly reading a transcript of speeches that Warren Buffett made in July and September at small but influential private gatherings of technology entrepreneurs and venture capitalists. A shadow seems to fill the room, and I shiver. The great investor said that had he been at Kitty Hawk in 1903, he would have shot down Orville Wright as a service to capitalists. "There were about 300 aircraft manufacturers in 1919–1939. Only a handful are breathing today," Buffett said.[7] Is he mad? Or am I mad? Has not air transport vastly improved travel and commerce? Is not aerospace the largest U.S. export industry? Yet here was the most admired capitalist in the world, telling people that investing in innovative industries does not pay off.

Buffett did not say if he had considered the impact of dividends, mergers, acquisitions, or name changes. He did not say whether the early aircraft makers had gone bankrupt. Nor did he provide numbers on returns or variabilities to support his assertion that the aerospace industry was a bad investment. He had selected an industry that may very well have yielded poor returns. Any student of market history knows that instances of success and failure can be found in accord with any untested assertion. But many other industries looked just as promising in 1903—pharmaceuticals, tabulating machines, and packaged foods, to name a few—that have matured to yield the 1,500,000 percent-a-century returns that the typical investment has averaged since then.

I am amazed to read that Buffett's remarks drew tremendous applause and admiration. Jeffrey Bezos, founder of amazon.com, is insisting that all his executives study the speech. Lenin is supposed to have once said, "We will all live to see the day that capitalists swing by our ropes from high trees." A member of the audience, doubtless with lips closed, shouted out, "Who will sell us the rope?" Lenin promptly answered, "The capitalists will sell it to us."

Who but Lenin himself could have predicted that such a baseless claim, so at odds with the dynamic and creative nature of the enterprise system, could have been greeted with such acclaim at conferences on the marvels of technology?

Mary Buffett's book, *Buffettology,* says Buffett views stocks as groceries, or perhaps a glorified type of annuity, to be bought only when available at discount.[8] He refuses to invest in growth stocks such as technology issues because he does not understand them. Instead of taking the time to learn and be able to discern what is worthwhile about the new, Buffett rejects innovation. He is like those people who live in the hills hoarding goods necessary for survival, precious metals for barter, and guns to fight off any desperate survivors of the apocalypse they are convinced is inevitable.

The antidote to this negativism is a belief in the creative power of individuals to improve their situations through mutually beneficial exchange. This belief, combined with a belief in the continuing wonders of technology and innovation, leads to viewing stocks as an excellent investment.

Preparations for millennial celebrations are beginning all over, yet I cannot get Buffett's odd anecdotes and the puzzling hatred of the dynamic nature of the enterprise system out of my mind.

I went to bed and fell asleep, only to be roused two hours later by a terrible shock. Imagine a sleeping man who wakes up with a knife in his chest, gurgling in his throat, covered with blood, no longer able to breathe, a man who realizes he is going to die and does not understand why it is happening—there you have it. Oh! Who can understand my horrible agony? I must escape these fatalist obsessions.

December 31, 1999: It's bonus time on Wall Street, and the rewards are worthy of maharajahs. Morgan Stanley's Internet analyst, Mary Meeker, will make $15 million, Bloomberg News reported. Jack Grubman, a Salomon Smith Barney telecommunications analyst, will probably receive $10 million. At least 5,000 bankers, analysts, and traders will take home $1 million.[9]

The value of Bill Gates' Microsoft shares topped $100 billion this year; more, as Bloomberg's Brian Rooney noted, than the gross domestic product of Greece. If Microsoft stock continues to rise 59 percent a year, as it has for the last decade, Rooney said, Bill's fortune will surpass U.S GDP by 2010.[10]

Every business related to stocks is thriving this year. Assets in Fidelity Investment's mutual funds have reached a record $1 trillion, and investment banks have raised almost $24 billion for Internet companies. The Nasdaq has risen 51 percent from October 19 through today.

It's all fine, very fine. Yet I keep thinking of Albert Jay Nock's description in *Memoirs of a Superfluous Man* of the turn of the nineteenth century. Nock quoted a passage from Turgenev's *Clara Militch* to describe the spirit of the time:

> He dreamed that he was in a rich manor-house, of which he was the owner. He had lately bought both the house and the estate attached to it. And he kept thinking,

> "It's nice, very nice now, but evil is coming!" Beside him moved to and fro a little tiny man, his steward; he kept laughing, bowing, and trying to show Aratov how admirably everything was arranged in his house and his estate. "This way, pray, this way, pray," he kept repeating, chuckling at every word; "kindly look how prosperous everything is with you! Look at the horses, what splendid horses!" And Aratov saw a row of immense horses. They were standing in their stalls with their backs to him. Their manes and tails were magnificent, but as soon as Aratov went near, the horses' heads turned toward him, and they showed their teeth viciously. "It's very nice," Aratov thought, "but evil is coming!" "This way, pray, this way," the steward repeated again, "pray come into the garden; look, what fine apples you have." The apples certainly were fine, red and round, but as soon as Arratov looked at them they withered and fell. "Evil is coming!" he thought. "And here is the lake," lisped the steward. "Isn't it blue and smooth? And here's a little boat of gold—will you get into it?—it floats of itself." "I won't get into it," thought Aratov; "evil is coming!" but for all that he got into the boat. At the bottom lay huddled up a little creature like a monkey; it was holding in its paws a glass full of a dark liquid. "Pray don't be uneasy," the steward shouted from the bank. "It's of no consequence. It's death. Good luck to you!"

"For the great majority, the last decade of the century seemed to offer every encouragement to complacent hopefulness," Nock wrote. "All the institutional voices of society were blended to form the sycophantic reassurances of Aratov's steward."[11]

January 5, 1999: I've been reading a deeply unsettling theory proposed by the evolutionist Richard Dawkins. He thinks that a new replicating entity has recently emerged on earth. This entity is still in its infancy, but has already achieved an evolutionary rate far ahead of traditional genes. He calls this new entity a *meme:*

> Examples of memes are tunes, ideas, catch-phrases, clothes fashions, ways of making pots, or of building arches. Just as genes propagate themselves in the gene pool by leaping from body to body via sperms or eggs, so memes propagate themselves by leaping from brain to brain in a process which, in the broad sense, can be called imitation. If a scientist hears, or reads about, a good idea, he passes it on to his colleagues and students. If the idea catches on, it can be said to propagate itself.[12]

A fertile meme acts like a parasite in the brain, turning it into a vehicle for the meme's propagation just as a virus takes control of the genetic mechanism of its host cell. A meme, although Dawkins says it rhymes with "dream," is no mere ethereal concept. A meme that takes hold actually manifests itself physically, as it modifies the nervous systems of millions of individuals.

For more than three billion years, DNA was the only self-replicating mechanism. Now, the new replicators, memes, are taking over and initiating their own kind of evolution. As was the case with genes, selection will favor the memes that exploit the environment to their own advantage.

I can scarce believe that a mere thought can yield such awesome power. The meme concept has me altogether perturbed.

Seeking to escape my troubled reflections, I started leafing through "The Horla," a short story by de Maupassant. Suddenly I came across a passage relating the narrator's conversation with a monk:

> Do we see the hundred-thousandth part of what exists? Look here; there is the wind, which is the strongest force in nature. It knocks down men, and blows down buildings, uproots trees, raises the sea into mountains of water, destroys cliffs and casts great ships on to the breakers; it kills, it whistles, it sighs, it roars. But have you ever seen it, and can you see it? Yet it exists for all that.

January 6, 2000: I am not mad. I have seen . . . I have seen . . . I have seen it! After closing the millennium at a record high, the Nasdaq 100 has dropped 12 percent in the past three days. That fiber-optics stock everyone has been making so much money on, JDS Uniphase, fell 20 percent. Rumors have it that George Soros' hedge funds are dumping huge holdings of Nasdaq stocks.

February 17, 2000: The meme is coming at me from all sides. I hear it, I see it everywhere. It came out of the mouth of Greenspan while I was watching his twice-yearly speech on the state of the economy to the House Banking Committee. First he said the economy was better than he had seen in half a century. But then he proceeded to float an incredible theory that overturned an axiom as fundamental to economics as gravity is to physics. He claimed that demand created by market wealth threatened to outstrip the supply of goods because stocks are too high:

> Without doubt, the synergies of the microprocessor, laser, fiber-optic glass, and satellite technologies have brought quantum advances in information availability. These advances, in turn, have dramatically decreased business operational uncertainties and risk premiums and, thereby, have engendered major cost reductions and productivity advances. There seems little question that further major advances lie ahead.
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> *The problem is that the pickup in productivity tends to create even greater increases in aggregate demand than in potential aggregate supply* [Emphasis added]. This occurs principally because a rise in structural productivity growth has its counterpart in higher expectations for long-term corporate earnings. This, in turn, not

> only spurs business investment but also increases stock prices and the market value of assets held by households, creating additional purchasing power for which no additional goods or services have yet been produced. . . . [S]o long as the levels of consumption and investment are sensitive to asset values, equity values increasing at a pace faster than income, other things equal, will induce a rise in overall demand in excess of potential supply. But that situation cannot persist without limit because the supply safety valves are themselves limited.
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> . . . [T]he necessary alignment of the growth of aggregate demand with the growth of potential aggregate supply may well depend on restraint on domestic demand, which continues to be buoyed by the lagged effects of increases in stock market valuations.

Shaken and in need of an independent opinion, I e-mailed Richard Zeckhauser, professor of political economy at Harvard's John F. Kennedy School of Government. Zeckhauser's work examines possibilities for the democratic, decentralized allocation of resources in accordance with the preferences of the citizenry. He wrote back:

> Neither supply nor demand can be out of line for long. Shortages are always a short-term phenomenon unless the government interferes and fixes prices. The reason, of course, is that price adjusts to equate supply and demand.
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> I think that Greenspan would be worried about a supply shortage because he does not like the consequence of a temporary shortage; namely he does not like it when prices rise to bring about an equilibrium. But, of course, this is a healthy response, because this is the only way to bring out the resources that will produce additional supply. But if you hate inflation above all else, you will not like this response.
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> This could be a little like hating the swollen, red state of an infection. But of course, the infection is really just our white blood cells fighting off some foreign agent. We are better off with these fighters, despite their side effects, than we would be without them. So, I would say that the price system does a good job of dealing with supply inadequacies, but not without some dislocation in prices.

One of the elementary, inviolate principles of economics is that if supply is scarce, prices for that good or service will rise until demand for it falls. This natural equilibrium is based on rational expectations, and requires no interference from government. In the eighteenth century, Adam Smith wrote of an invisible hand. In our day, Heyne observed in his classic text, *The Economic Way of Thinking,* "People want more or less of a good as the cost those people must pay decreases or increases."

Now I know. I can divine. The reign of rational thought is over. Woe to us! It has come. I have heard . . . the Meme . . . it is here . . . the Meme!

March 1, 2000: Now the Meme is replicating and mutating. I saw it today in Berkshire Hathaway's annual report. Buffett again! "Equity investors currently seem wildly optimistic in their expectations about future returns."

Greenspan again! Today, the Fed released verbatim transcript of its 1994 meetings. Never before had meeting transcripts been released to the public. The Fed had decided in 1994 to release them with a five-year lag.

The transcripts show that Greenspan and his cohorts had been patting themselves on the back for arresting a possible stock market bubble. "I think we partially broke the back of an emerging speculation in equities," Greenspan told members of the Fed's policy-making body, the Federal Open Market Committee, in a February 1994 conference call. "As we look back on this, I suspect that there was a significant overshoot in the market. We pricked that bubble."

The horror! When did the stock market become the Fed's business? Greenspan repeated his comment the following month, according to the transcript of the March 22, 1994, FOMC meeting. "When we moved on February 4th, [1994], I think our expectation was that we would prick the bubble in the equity markets," Greenspan told the committee members. (In the previous year, the Dow Jones Industrial Average had risen 18 percent—to 3967.)

Ah, I can imagine the scene. The Fed governors, seated at the long polished table in grand chairs, served on china by obsequious waiters, laughing genially at the chairman's jokes, grinning at their victory over the market. It makes me think of the old men who used to sit in armchairs at the windows of Manhattan's grand clubs, murmuring with disapproval at the sight of a stray Jew walking along Fifth Avenue.

The federal funds rate increases over the past eight months with no inflation in sight—all is clear now! The old men at the Fed do not like to see ordinary people making money in the stock market. They do not like the young entrepreneurs making money in new technology ventures. They especially do not like the day traders, who are said to make hundreds of thousands in a day without even knowing the business of the stocks they trade. The old men want investors to have graduated from the schools that they did and to look like them. An elitist meme has taken over a country where everyone should have equal opportunity to profit from an investment in capitalism. Alexander Pope once said: "Most old men are like old trees. Past bearing themselves, they will suffer no young plants to flourish beneath them."

Despite the grotesque servility with which the media treat the old men, they are only reincarnations of the *senex amans,* that comic character who appears throughout the centuries in literature and opera, the old man who tries to win the young girl for himself. In *The Canterbury Tales,* he is the 60-year-old bachelor January who insists on marrying a girl who is not more than 20, only to be cuckolded by a lusty young rival. In Rossini's *Barber of Seville,* Dr. Bartolo pants after his young ward, Rosina. In Mozart's *The Marriage of Figaro,* old Marcellina tries to snare young, handsome Figaro by lending him money. Victorians appreciated the *senex amans* theme so much that Gilbert and Sullivan used it in *Iolanthe, The Mikado, H.M.S. Pinafore,* and *The Pirates of Penzance.*

I went to bed and had a terrible nightmare. I felt somebody sucking my life out—sucking it out of my neck as a leech would suck blood. Then he got up, satiated, and I woke up, so beaten, crushed, and annihilated that I could not move. Have I lost my reason? What has happened? What I saw is so strange that my mind wanders when I think of it!

March 14, 2000: The Meme, moving with incredible speed now, has reached the White House and London. President Bill Clinton and Prime Minister Tony Blair called for immediate public access to raw genetic data collected by private companies. "Our genome belongs to every member of the human race,'' Clinton said. "We must ensure that the profits of human genetic research are measured not in dollars but in the betterment of human life.'' Craig Venter, whose company, Celera, was on the verge of beating a government team in a race to map the human genome, commented, "Being a business seems to be an awful thing today." The Amex Biotech Index plunged 13 percent today.

March 21, 2000: I can only wait, paralyzed, powerless. I feel the Meme's presence nearby, looming over me, looking at me, dominating me. The Fed raised interest rates today to 6 percent from 5.75 percent, claiming it "remains concerned that increases in demand will continue to exceed the growth in potential supply, which could foster inflationary imbalances that would undermine the economy's record expansion."

April 4, 2000: Judge Thomas Penfield Jackson ruled last night that Microsoft violated antitrust law. The Nasdaq, synonymous with technology, lost 349 points yesterday in advance of the decision, and dived 575 points this morning before miraculously wafting up to close at 4148, down 75.

A new blockbuster has hit bookstore shelves: *Irrational Exuberance,* by Robert Shiller, the Yale professor who invented the contagious phrase and passed it to the Fed chairman back in 1996.[13]

April 28, 2000: Nobody thinks there will be any more miraculous levitations in the Nasdaq. Stanley Druckenmiller resigned from the Soros organization today, saying he lost billions on technology stocks. "I never thought the Nasdaq would drop 35 percent in 15 days," he said. Yet, in the three terrible weeks leading up to the April 15 tax deadline, that is exactly what happened.

May 16, 2000: The Fed raised interest rates yet again today, to 6.5 percent. Does the Meme want to destroy all?

August 31, 2000: The first year of the new era so happily welcomed is not even over, but everything has changed to fear and viciousness. Rising interest rates have choked off capital spending. Hundreds of thousands of entrepreneurs and workers are out of work.

An enveloping torpor has set in everywhere from corporate boardroom planning sessions to ordinary investors' kitchen-table discussions.

The Meme is ubiquitous now. Reporters are reaching into their Rolodexes to find "experts" whose chronic pessimism had discredited them in the 1990s. The leader of the claque is Alan Abelson, the star columnist at America's most influential financial weekly, *Barron's*. Two new stars were elevated to the pantheon: David Tice of the short-selling Prudent Bear Fund and Robert Shiller, whose thoughts on "irrational exuberance," high price/earnings ratios, and general bearishness are in much demand on the TV networks.

December 6, 2000: The Meme is spreading like a viral pandemic. More and more are being infected. The big shoes of the Fed chairman are higher off the ground than the Nasdaq, already down 50 percent from its Y2K high. The only thing lower than the Nasdaq is the record of the New York Knicks, whose center fights with his own teammates when he does not get the ball. Alan Greenspan and Patrick Ewing have too much hubris for their positions. They could switch roles, and everyone would benefit.

December 7, 2000: We send Size 12 basketball shoes to Greenspan and suggest that he trade places with the big center of the Knicks. We send him *The Education of a Speculator* as a further gesture of goodwill.

January 2, 2001: We receive an e-mail: "I've been reading your stock market column on the Internet, and I liked the one where you said you were going to buy a googol of Internet stocks on margin. I called my broker from my cell phone. I tried to say, 'Buy me such-and-such stocks.' But instead of this I shouted—I did not say, but I shouted—in such a loud voice that all the passers-by turned around: 'JUST . . . SELL . . . EVERYTHING!' "

January 3, 2001: The Nasdaq rises 324 points. The reader who sold everything is lost! Like a pestilence, the Meme relentlessly pursues both those in its path and those who flee from it. No one is safe.

February 7, 2001: A box and a letter arrive from the Fed. "Thank you very much for sending the sneakers to Chairman Greenspan. However, it is against our ethics policy to accept gifts, and we are accordingly returning them herewith along with your book."

We wonder whether the chairman scrupled to return the book by the professor of irrational exuberance, Robert Shiller, who told us he sent a copy to him.

April 4, 2001: When a plague overwhelms a city, people trying to escape only carry the disease to new places. So, too, the market has resumed its slide. The value of the U.S. stock market has fallen by $5 trillion—31 percent—in just over a year since its March 24, 2000, peak. It makes us feel so weak, so ignorant, so small. But that is what the Meme wants!

August 31, 2001: I awoke from a restless sleep last night and heard a chilling voice chanting in the corner of my room: "You can't trust yourself, can't trust the Street, can't trust the CEO, can't trust your broker, can't trust the market." I turned on the light. The voice fell silent. No one was there.

September 15, 2001: Unspeakable horror. On September 11, a group of Islamic fanatics destroyed the World Trade Center and one side of the Pentagon, the very heart of America's military power. Everyone is in a state of shock, practically immobilized by fear. The attack destroyed communications links in lower Manhattan, the location of the New York Stock Exchange, and the market has shut down indefinitely. All airliners and crop dusters have been grounded. Nobody wants to leave home anyway. In Manhattan, the few open hotels, restaurants, and theaters are deserted. The terrorists are the very ones President Clinton failed to deal with after the attacks on our embassies.

September 16, 2001: A strange trio appeared on television today. Robert Rubin, Jack Welch, and even Warren Buffett are on the side of the bulls. Rubin "sees long-term strength," and Welch says the United States is "the best place in the world to invest." With reluctant optimism, the Nebraska icon himself opined that it would be "crazy" to sell stocks now. If only he had not added: "If prices would fall significantly, there are some things I might buy," he might have helped stanch the market's hemorrhage. Then again, there are rumors that if the market declines, Buffett will make $500 million. I am not relieved, but frightened and haunted, by what this trio has said.

Then there are the eerie charts. Loews Corporation reportedly lost hundreds of millions of dollars in the last half of the 1990s by betting on market declines. Loews Co-Chairman Lawrence Tisch often perused a chart showing the Dow at the time of the 1929 crash and Japan's Nikkei when it began its tumble from 40,000 to 10,000. The chart now finally bears a macabre resemblance to the Dow and Nasdaq.

September 21, 2001, Morning: Last night, President Bush gave what many called the finest American presidential address ever. He said that our grief had turned to anger, and our anger to resolution; that we would bring our enemies to justice, or bring justice to our enemies. The market shot up on his speech. But then the Meme called on one of its brothers in France to explode a chemicals factory. With the terror that had already spread, the explosion was more than enough to cause the greatest decline in market history.

I was short the naked put, and there was a special open that might have killed me. My brokers seem to be cousins with the Meme, and ordered me to cover up my nakedness.

September 21, 2001, Evening: Ah! The Meme would make of us what we have made of the horse and of the ox: its chattels, its slaves, its food. Woe to us! But nevertheless, the animal sometimes revolts against the one who has subjugated it. . . .

The little nail can topple an empire. But the empire, when it knows that it needs to protect itself, can fight back and accomplish marvels. Scientists first split the atom to beat the Nazis. The countries of the world have finally awakened to the fact that if they do not defend the technology and the trade that are the Western way, then freedom itself will vanish. The market gained back almost everything it lost during the day. The brainwashing of the West by the Meme has ended. I predict that there will be a gigantic rally in the market from the Dow 8235 level reached today, and that the Meme, like Frankenstein and many other monsters, will die in the fire that looked to be its greatest victory.

January 8, 2002: The Dow is now at 10,150, in an abundance of delight. The puts that were selling at 100 to 200 have gone down to pennies. It is the same as with the Thai banks that I owned during 1997. But this time, I am short, not long, and the profit is mine, and the loss is the Meme's. The Meme has blown itself up. It is dead.

March 9, 2002: I look at the morning newspaper. A headline catches my eye: "Buffett: 'No feasting on this market.'" I read on. "'Our restrained enthusiasm for these securities is matched by decidedly lukewarm feelings about the prospects for stocks in general over the next decade or so,' Buffett wrote in his annual letter to shareholders. 'Charlie [Munger] and I believe that American business will do fine over time, but think that today's equity prices presage only moderate returns for investors.'"[14]

No . . . no . . . no! Without a doubt, the Meme is not dead! When will it die? Only when people realize they must think for themselves: To count for themselves. To believe in their abilities to create. To live longer and better. To lend money to the men and women with the good ideas.

March 31, 2002: The market is up almost 20 percent from the low it set after the World Trade Center attack last year. Perhaps the Meme and his darkness are finally gone.

July 23, 2002: I am so sad I can hardly get out of bed. I sleep to escape the Meme, who now seems to rule my waking hours. I bought stocks after the panic last September, and neglected to sell them before going abroad. Upon my return several months later, I find that my accounts have dwindled to pathetic shadows of what they were. I am afraid, deeply afraid.

September 10, 2002: Tomorrow is the anniversary of the World Trade Center attack, and everyone is in dread that something even more terrible will happen. A dirty bomb, perhaps, spewing radiation? S&P futures rise 10 points and close at 911. Today's New York Lottery numbers are 9-1-1. Any rational person would call them coincidences. But maybe we have gone beyond rationality. Maybe the Meme has signed his name.

September 17, 2002: A thousand unspeakably horrible stories of evil hidden in the lights and flash of the 1990s boom are crawling out, pulled out of the darkness by prosecutors and the media. Dennis Kozlowski, the CEO of Tyco and a golden boy of corporate America, has been indicted with his chief financial officer for bilking the company of $600 million. According to the company's own SEC filing, Kozlowski billed Tyco for his wife's $1 million birthday party on the island of Sardinia. The details included a welcoming line of gladiators and a waiter pouring Stolichnaya vodka into an ice sculpture of a boy with the liquid dispensed through the penis. The Kozlowskis did invite a few Tyco executives, and regarded it as a business expense.

The Meme loves it. I can hear its sarcastic laugh.

October 2, 2002: Hardly a week has gone by this year without a fresh disclosure of secret deals, false earnings statements, or frauds committed in broad daylight under the noses of corporate directors. The U.S. Justice Department has opened more than 400 investigations into possible corporate fraud since the beginning of 2000, and has charged more than 500 people with corporate crimes. Enron's chief financial officer has made a court appearance in handcuffs, as have Tyco's CEO and CFO. The former controller of WorldCom pleaded guilty to cooking the books to come up with $5 billion in fraudulent profits, and is facing a five-year prison term. More analysts are under investigation nowadays than are writing research reports—not that anyone believes the reports any more.

Global Crossing, WorldCom, Enron—all golden 1990s stocks, all bankrupt now. The Meme feeds on the news. I sense him growing stronger and bolder. He has made the stock market his food. Just looking at the numbers make my head ache. Nasdaq: down 3,908 points from the high of early 2000 to the low on October 4, 2002. The Dow: down to 7,528 from 11,700.

Time Line of a Meme

Date	Action
December 5, 1996	Federal Reserve Chairman Alan Greenspan opens Pandora's box with "irrational exuberance" speech; makes case for targeting the market's "wealth effect."
October 20, 1997	U.S. Justice Department sues Microsoft for requiring computer makers to install the company's Internet Explorer browser if they want to license Windows 95.
May 18, 1998	United States, 20 states file antitrust case against Microsoft.
August 7, 1998	Bombings of U.S. embassies in Nairobi, Kenya, and Dar Es Salaam, Tanzania.
August 20, 1998	President orders retaliatory bombing of Osama bin Laden base in Afghanistan; bin Laden leaves one hour before attack.
July and September 1999	Warren Buffett, in private speeches reported in November by *Fortune,* says he would have shot down Orville Wright's plane as a service to capitalists, predicts years of poor performance for U.S. stocks.
November 5, 1999	Judge Thomas Penfield Jackson rules Microsoft used monopoly power to stifle innovation.
February 17, 2000	Greenspan signals further increases in interest rates; says stock market gains may create more demand for goods than can be supplied.
February 18, 2000	*Boiler Room,* a film about a shady brokerage that cheats naïve investors, released. "A thoroughly enjoyable movie which does an excellent job showing us how the lust for money can corrupt us all," wrote critic John Beachem.
March 1, 2000	Warren Buffett writes in annual report to Berkshire Hathaway shareholders that "Equity investors currently seem wildly optimistic in their expectations about future returns."
March 8, 2000	Al Gore wins Democratic presidential nomination, inveighs against big business.
March 10, 2000	Nasdaq peaks at 5048.
March 14, 2000	President Clinton and U.K. Prime Minister Blair call for immediate public access to raw genetic data collected by private companies. "Our genome belongs to every member of the human race," Clinton said. "We must ensure that the profits of human genetic research are measured not in dollars but in the betterment of human life." Nasdaq falls 200 to 4706. "Being a business seems to be an awful thing today," says Craig Venter, founder and president of Celera, a genomics

Continued

Date	Action
	firm. "Instead of celebrating that a public company is doing this and releasing it for free, they are complaining because a company is doing it faster than they are and for less money."
April 2000	Robert Shiller, an economist who briefed Greenspan two days before the "irrational exuberance" speech, publishes book of that name, becomes instant media star.
April 3, 2000	Judge Thomas Penfield Jackson rules Microsoft violated antitrust law. Nasdaq drops 349. Next day, Nasdaq falls 575 to 3649; rebounds to close at 4148.
October 12, 2000	Suicide bombers attack the *USS Cole* in the Yemeni port of Aden.
November 7–December 13, 2000	United States gripped with uncertainty as Florida presidential election ballots are counted and recounted. Gore concedes election to Bush on December 13. Nasdaq loses 17% in the intervening five weeks, S&P drops 5%.
September 11, 2001	Islamic terrorists destroy the World Trade Center, World Financial Center, and much of lower Manhattan; Pentagon attacked.
September 21, 2001	U.S. stocks conclude their worst week in 70 years.
December 2001	Enron files for bankruptcy protection.
January 2002	Global Crossing files for bankruptcy protection.
June 2002	Adelphia files for bankruptcy protection. CEO arrested on fraud charges.
June 2002	Arthur Anderson convicted of obstructing justice in Enron fraud case, can no longer audit public companies.
July 2002	WorldCom files for bankruptcy protection. CFO and controller arrested on fraud charges.
September 2002	Tyco's former CEO and CFO charged with looting the company of $600 million.

Ah, I understand it all now. The Meme knew all along that the contagious optimism of the 1990s had left no one able to withstand a decline. It didn't want any short-sellers still solvent when the market finally went down. Now, the market and business are subjects of public contempt.

The passing of the 1990s' ebullience has left a vacuum. Viktor Frankl said, "Unlike an animal, man is not told by drives and instincts what he must do. And in contrast to man in former times, he is no longer told by traditions and values what he should do. Now, knowing neither what he must do nor what he should do, he sometimes does not even know what he basically wishes to do. Instead, he wishes to do what other people do—which is conformism—or he does what other people wish him to do—which is totalitarianism." I fear this will not end well.