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Villains of the Boom and Bust

- “Second, too many accountants played footsie with stock-promoting managements by certifying earnings that weren’t earnings at all.
- Third, the ‘modern’ corporate treasurers who looked upon their company pension funds as new-found ‘profit centers’ and pressured their investment advisors into speculating with them.
- Fourth, the investment advisors who massacred clients’ portfolios because they were trying to make good on the over-promises that they had made to attract the business in the first place.
- Fifth, the new breed of portfolio managers who churned their customers’ holdings on the specious theory that high ‘turnover’ was a new ‘secret’ leading to outstanding investment performance.
- Sixth, the new issue underwriters who brought out the greatest collection of low-grade junky offerings in history – some of which were created solely for the purpose of generating something to sell.
- Seventh, the elements of the financial press who promoted into new investment geniuses a group of neophytes who didn’t even have the first requisite for managing other people’s money, namely, a sense of responsibility.
- Eighth, the security salesman who peddled the items with the best ‘stories,’ or the biggest markups even though such issues were totally unsuited to their customers’ needs.
- Ninth, the sanctimonious partners of major investment houses who wrung their hands over all these shameful happenings while they deployed an army of untrained salesmen to forage among a group of even less informed investors.
- Tenth, the mutual fund managers who tried to become millionaires overnight by using every gimmick imaginable to manufacture their own paper performance.
- Eleventh, the portfolio managers who collected bonanza ‘incentive’ fees – the ‘heads I win, tails you lose’ kind – which made them fortunes in the bull market but turned the portfolios they managed into disasters in the bear market.
- Twelfth, the security analysts who forgot about their professional ethics to become ‘story peddlers’ and who let their institutions get taken in by a whole parade of confidence men.”

As comprehensive and concise a description of the boom and bust of the past few years as this is, it is an excerpt from a presentation by David L. Babson, head of the investment counseling firm bearing his name, given at a conference sponsored by Institutional Investor magazine in *March 1971*. Mr. Babson was listing the causes of investor pain after the speculative boom and bust of the late 1960s. We omitted the first of Mr. Babson's points, about the "conglomerate movement and all its fancy rhetoric about synergism and leverage." Strange as it may seem now, conglomerates were to the late 1960s stock market what Internet companies were to the late 1990s market. It does not take too much imagination to replace Mr. Babson's first point with "the Internet movement and all its fancy rhetoric about eyeballs and mindspace."

***We perpetually seem to suffer
from a bad case of
chronological snobbery.***

During the technology bubble, many investors believed we were in a new era, where old rules about business valuation and diversification were overthrown. The world believed it had never seen as powerful a technological force as the Internet. Now, many investors believe (or are being told), that we have witnessed prevarication and double dealing by the financial industry and its handmaidens of a type that has never before been seen.

Mr. Babson's 1971 speech, however, tells us that it is more likely that we are in a kind of generational pendulum swinging back and forth. Investors burned in the late 1960s had to forget, die away or be ignored for the boom of the late 1990s to arise. Nobody who had thrown money at the June-bug speculative stocks of the late 1960s would have raced to invest in Anything.com in the late 1990s without a twinge of *déjà vu*. When reading history, there is always a tendency to think of people as idiots, in contrast to how smart we are now. The Internet is a wonderful technological advance, but it is proving as hard to make a buck as an investor in the industry as it was to make money investing in previous wonderful technological advances such as aviation, air conditioning and automobiles. To believe the panaceas or perils of the moment are uniquely large is to suffer from chronological snobbery that seems to afflict us all from time to time.

This is not to say that the boom and bust cycle indicated by Mr. Babson's comments and our recent experience is a 30-year market timing indicator – it took 40 years to elapse between the Roaring 1920s and the boom of the 1960s. Our point is that, as investors, we are prisoners of human nature. As long as we live in a free society, there will be booms and busts. The financial industry villains in handcuffs on the nightly news were no more virtuous five years ago when everyone was excited about investing – but now the previously-credulous investors have lost money and somebody has to pay.

If you live long enough, you are likely to see it all again. If you would like help in combating your human nature, at least as it is expressed in your investments, give us a call at 503-419-3938 or check us on the web at www.sigmainvestment.com.

Speech excerpt courtesy of David L. Babson & Co. Inc., www.dlbabson.com.