



>: What This Year's Holiday Party Can Teach You About Market Bubbles

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GOSH, I LOVE A GOOD PARTY.

In my 20s I used to live for them. Every Thursday, Friday and Saturday night my friends and I would go club hopping in the City just looking to capture that moment. The one moment that defined all great parties for me: The exact moment in time when the right girl, the right drink and the right song come together not just for you - but for the entire room. The crowd goes wild.

The lifelong study of the psychology of crowds has been a large part of my professional career as an investor. I've always been fascinated by the "ingredients" it takes to affect the way a group of people in a certain setting perceive events.

What I've discovered is that the three key "ingredients" for a great party in my 20s - the Disc Jockey, alcohol and social acceptance - are the same that have been used to create bubbles in all financial markets throughout history.

The only difference is that in a market bubble people don't have to be in the same room together physically to have their perceptions manipulated. They just have to be in the same room together mentally.

Here's how it works:

Perception Altering Ingredient #1: The Disc Jockey.

The "Disc Jockey" of the 1929 crash was the mass media at the time: radio and newspapers. The "soundtrack" they were playing is the same one played through all bull markets in history: Get Rich Quick.

Now I'm not saying that it's the media's fault alone. Although many newspaper writers were literally on Wall Street's pump-and-dump payroll, the media tends to reflect the desires of the culture. Like any good DJ, the media plays the songs that people get up and dance to.

Indeed, one of the most popular songs of the year was "Blue Skies Are Here to Stay," a song that reflected America's belief that prosperity had become permanent.

Perception Altering Ingredient #2: Alcohol. The "Killer Alcohol" of all financial bubbles is, has always been and will always be easy money. Like alcohol, easy money is very intoxicating. The more of it you have, the better you feel. The better you feel, the more of it you want to get. Like "I worked hard for the money I make - I deserve this new car." Or "We'll pay back the billion dollars we borrow from the bank to take this firm public before you can say that Ollie Goldman Sachs (GS) isn't in a special few-year market-making business. And the first thing trading their own stock was an over-the-counter (OTC) market for you."

Perception Altering Ingredient #3: Social Acceptance. In my 20s, it was the youthful, silly and completely normal goal of meeting the perfect girl for the night. The more you make, the more your perception becomes shared. Instead of stopping after you "get a good buzz," you begin to get that invincible feeling that you've got everything under control. But how does it play out as we get older?

There you'll be any jokers. And that's just human nature. It always feels good to drive a new expensive car in part because it conveys what in any society is a powerful message - the ability to acquire resources. And those who are best at acquiring resources are usually those who have the most power to determine the "pecking order" of their social group, whether it be in choosing "mates" or "friends."

With margin I'm all through. The trap that most people fall into is that whether they know it or not they "compete" with those in their "peer group" whom they perceive to be most "successful" at acquiring resources. Not only do they compete with them but they actually determine their own worth by judging themselves in relation to them.

Cause I want you outright it's true. And that's just human nature. It always feels good to drive a new expensive car in part because it conveys what in any society is a powerful message - the ability to acquire resources. And those who are best at acquiring resources are usually those who have the most power to determine the "pecking order" of their social group, whether it be in choosing "mates" or "friends."

You're going up, up, up in my estimation. The trap that most people fall into is that whether they know it or not they "compete" with those in their "peer group" whom they perceive to be most "successful" at acquiring resources. Not only do they compete with them but they actually determine their own worth by judging themselves in relation to them.

We'll count the hugs and kisses. And that's just human nature. It always feels good to drive a new expensive car in part because it conveys what in any society is a powerful message - the ability to acquire resources. And those who are best at acquiring resources are usually those who have the most power to determine the "pecking order" of their social group, whether it be in choosing "mates" or "friends."

When dividends are due, And that's just human nature. It always feels good to drive a new expensive car in part because it conveys what in any society is a powerful message - the ability to acquire resources. And those who are best at acquiring resources are usually those who have the most power to determine the "pecking order" of their social group, whether it be in choosing "mates" or "friends."

Cause I'm in the market for you. The trap that most people fall into is that whether they know it or not they "compete" with those in their "peer group" whom they perceive to be most "successful" at acquiring resources. Not only do they compete with them but they actually determine their own worth by judging themselves in relation to them.

(http://bss.sru.edu/tygier/Hist427/427sound/Crashsound/mthemkt.wav) The trap that most people fall into is that whether they know it or not they "compete" with those in their "peer group" whom they perceive to be most "successful" at acquiring resources. Not only do they compete with them but they actually determine their own worth by judging themselves in relation to them.

Teenage girls want to be skinny because Britney Spears is skinny. Men want to work out because Brad Pitt looks great with his shirt off. My wife and I want a bigger house because our son spends his afternoons playing at the Jones' house and they have a pool, etc.