One of the Best Investment Books I've Read in a While

I finally got around to reading Bull: A History of the Boom and Bust, 1982-2004 by Maggie Mahar and it was well worth my time.

This book provided a fantastic history lesson on the years preceding and during likely the greatest bull market the U.S. will ever see. It's great to have the ability to have a window into the sentiment of the pros, mom & pop, pundits, and media to understand how investors viewed the world in that time.

It's easy to look back at the performance numbers or headlines but much harder to understand what it was like to be involved in certain market environments. This book does an amazing job of tapping into the sentiment, feelings, and thought processes investors were going through.

I didn't agree with every conclusion in the book but that's one of the great things about the markets -- people with the same information can come to different takeaways on what things mean (or meant in this case).

The book was full of useful statistics and anecdotes. What follows are some of my favorite highlights.

This is really good on market history:

Some historians emphasize the psychological factors that drive cycles; others focus on economic causes. The most sophisticated recognize that the two cannot be separated. But no system can be turned into a crystal ball. Any scheme that attempts to predict the future based on the patterns of the past is but a grid laid over the messiness of reality. History is ambiguous, and every financial mania is unique, the product of the peculiar folly of its time.

Things change:

Everyone agreed that you could not have both high employment and low inflation at the very same time. The nineties proved everyone wrong. When 1995 began, unemployment stood at 5.5 percent, while the consumer price index showed that inflation had fallen to 2.7 percent—"the lowest combined rate of unemployment and inflation in twenty-five years," President Clinton announced in his 1995 State of the Union address.

It took some time for the bull market to take hold (much higher interest rates had a lot to do with this):

In 1986, Americans bought only $28 billion of equity funds—roughly one-fourth of the $120 billion that they poured into bond funds. In fact, from the middle of 1983 through October of 1987, there

were just two months when more money flowed into stock funds than into bond funds—April 1987 and August 1987. Unfortunately, those two banner months came on the eve of the bloodiest one-day crash in U.S. stock market history.

Then 401ks exploded onto the scene:

And, over time, the employer's role in funding the plans would shrink:
in 1989, employers *contributed roughly 70 percent of the money that went into retirement plans; by 2002, employees' cash contributions outstripped company payments into retirement plans of all kinds—including traditional pensions.*

Stocks were more widely owned in the 1990s:

In 1983 individuals with incomes over $250,000 owned 43 percent of all publicly traded equities. By 1992, their share of corporate America had fallen to 23 percent. Meanwhile, Americans with incomes under $75,000 had watched their stake grow from 24 to 42 percent.

In 2002, fully 56 percent of those who owned stocks or stock funds had purchased their first shares sometime after 1990, while 30 percent of all equity investors had gotten their feet wet only after 1995.

But the rich got much richer during this period:

Still, the share of households with a stake in the market grew from just 19 percent in 1983 to over 49 percent in 1999. And those lucky enough to have the price of admission watched their wealth soar. By '98, the 25 to 30 percent of American families with household incomes north of $75,000 found that since '89, their net worth had increased by some 20 percent. The wealthiest 5 percent watched their retirement funds grow by a dazzling 176 percent.

Financial media also exploded onto the scene:

By 1996 the trading was raucous. In that year alone, 22 brand-new business magazines hit the newsstands

Many in the media became cheerleaders. Here's media critic William Powers:

"For almost a decade, journalists did something quite out of character: We accentuated the positive. Over the years, we had acquired a reputation, largely deserved, for loving bad news…. The age-old complaint about the media, in letters to the editor and in polls, was that we were unrelentingly negative. We laughed it off, but we knew it was true. The bull market changed all that. We stopped enjoying the bad news, *and got addicted to the good. A trade that had once searched high and low for negative stories about Wall Street and Big Business, devoted most of its energy to*

positive ones, and the touts were our best sources."

It was frowned upon to talk in bearish terms (something that is not a problem today):

As for Acampora, he had learned his lesson. After that, he confided, "Instead of saying 'sell,' I use terms like 'rotation.' I no longer use words like 'bear.' I just say, 'It's too early to pick a bottom.'"

This was the beginning of the finance industry taking over:

By 1997, the financial services industry accounted for an estimated 30 percent of national newspaper ad revenues.

Retail investors got sucked into tech companies big time:

"The unsuspecting," said Tice, were gulled by "those most skilled at this game of speculation." This, he noted, "was why individual investors wound up owning 75 percent of all Internet stocks—compared to only 44 percent of General Motors."

Then the tech companies blew up:

At the end of 1999, Yahoo! boasted a market cap of $120 billion. By contrast, Warren Buffett's company, Berkshire Hathaway, carried a market value of only $83 billion.

Which blew up the tech funds:

After making $1.3 billion in five good years, Gary Pilgrim lost $900 million in a mere seven weeks.

Any fund with "growth" in the name had no trouble raising assets:

Over the course of 2000, they would pour $260 billion into U.S. equity funds—up from $150 billion in 1998 and $176 billion in 1999. Of the $259 billion invested in 2000, $130 billion, or roughly half, went into what the Investment Company Institute characterized as "Aggressive Growth" equity funds. This was three times more than they had invested in 1999. Nearly $120 billion went into the somewhat less aggressive "Growth" equity funds—about twice the amount invested in these funds in 1998, and up roughly 20 percent from 1999.

Here's a great example of FOMO in action:

In Florida, Ed Wasserman took the bait only at the very end of the decade. In the spring of 2000, the 50-year-old business writer finally broke down and invested in a hi-tech fund. "By disposition, I'm a value investor," said Wasserman. "I had a lot of skepticism—but finally, I succumbed. In the

spring of 2000, I went into my local brokerage firm and said to these guys: "'Why did I only make 12 percent last year, when other people are making 40 percent.' And they said, 'We have this very aggressive fund…'

"Meanwhile," said Wasserman, "there's a generational squabble between me and my 24-year-old son, who is totally scornful of my reluctance to buy companies that have no profits—no revenues—barely a business plan. I don't think they're sound investments. Yet I'm watching his profits rise while I'm in a ditch with my wheels spinning. I owned a lot of stocks like Time Warner that had been in the mud for years.

"This aggressive fund that my broker is offering puts me into companies like Quest, Oracle, Cisco—these aren't little companies with no revenues—they're blue chips. So I buy in. It was March of 2000."

That month, the Nasdaq began to crater. "I lost two-thirds of the money," said Wasserman. "The market went into free fall. And these guys who I had invested with were paralyzed. I was paying them to manage my money—and they weren't managing. Finally I putted out of that fund on my own." (And what happened to his son? "He got massacred," Wasserman said cheerfully.)

Surprisingly, most investors didn't sell when the bubble burst:

So, even after it became clear to the vast majority of investors that the Great Bull Market of 1982–99 had ended, mutual fund investors stood firm. The mass redemptions from equity funds that many had predicted never took place. As late as March 2003, Gail Dudack observed: "Net redemptions since the beginning of 2002 have been tiny compared with total stock fund assets. The net cash outflow in the 12 months ending March 30, 2003, amounted to 3.6 percent of the sector's assets.

Source:
Bull: A History of the Boom and Bust, 1982-2004