

The Voting Machine

It all started for me over 30 years ago. Today, I'm old enough that I've seen quite a lot in the world of psychology and investing, but wise enough to be certain that I don't know everything there is to know, and never will. In the autumn of 1987, I wasn't old enough to know much of anything at all, and too young to know how little that was.

I was ostensibly in college at Purdue, but was taking the semester off to work the harvest at a grain elevator in Brookston, Indiana, saving up for the next term's tuition. Each morning, I drove my 1963 Ford Fairlane 13 miles out State Road 43 where they were paying \$5.90 an hour. Minimum wage was \$3.35, so that was all the money in the world. I also worked late nights delivering pizzas for Noble Roman's. In between those gigs, I'd excitedly find windows to see how the stock market had done that day. I'd then recap the market moves and pitch ideas in a stock market newsletter I wrote for seven other inexperienced friends of mine that had pooled \$100 each into our investment club. On my days off, the best of these friends – Kevin – would drive me down to Indiana National Bank (INB) in Indianapolis in his Honda Civic. The Fairlane struggled to get to Brookston, and the 70 mile journey to Indy was out of the question.

We were true pretenders. We usually wore a suit and tie, trying to be yuppies, and we'd have a briefcase, because important people carried briefcases. Inside ours was that day's Wall Street Journal, that week's Barron's, an annual report or two, some legal pads, some No. 2 pencils, and a Texas Instruments financial calculator (a "BA-35" which I still have). If you've ever seen the movie "Revenge of the Nerds", that was us.

We'd already made one trip to Indy the weekend before, just to get that issue of Barron's magazine. An "advance copy" was available at the Hooks Drugs down there on Sunday, and we didn't have them up in Lafayette until the mail arrived Monday afternoon. We actually thought we had the edge on Sunday nights, and those were exciting times while we ate Noble Roman's pizzas, and devoured Barron's from Alan Abelson's Up & Down Wall Street column all the way through the "Market Lab" section, and plotted our "investing" strategy for the week.

Later I learned that they sold Barron's on the street-corner newsstands in Chicago on Friday nights, and the pizzas at Gino's East were *way* better than Noble Roman's. Some edge...

Anyway, back to the INB, we'd stride in like we knew what we were doing, and sit down on the bench seats in the main lobby next to the old timers. We all sat and stared up at the scrolling green ticker. It was about 15 feet away, eight feet wide and ten inches tall, and suspended from the ceiling, about seven feet above a single computer terminal. In our minds, we were in New York City, on Wall Street; a place I'd never been, but imagined vividly. It was magical.

Occasionally one of these men – also wearing suits and holding briefcases – would pop up and walk over to the computer terminal. The terminal was a Quotron machine with green text on a black background. It could also be configured to show a light brown text on the same black background. It was incredible to us that you could program a computer to show texts in different colors. Oliver Stone's Wall Street premiered in December of that same year, and Bud Fox had one on his desk.

Anyway, they would stare down at the green or brown text, press a few buttons, and check the securities in their portfolios. It was the same men every time we made the trip. We started copying their behavior. We'd wait our turn, and when the time was right, we'd saunter up to the Quotron, pretending we'd done it a thousand times before, type in "T" "Enter" to see where American Telephone and Telegraph was, or where "EK" or "AN" last traded. I remember my heart racing throughout the entire procession. After returning to our seats, we'd pull the legal pad and BA-35 out of our briefcase, and calculate that day's profit or loss in real-time. The fact that we didn't have to wait for tomorrow morning's Wall Street Journal to get the prices was simply exhilarating. Then we'd repeat the entire charade 12-15 minutes later, again and again until the close. I remember clearly that we owned some 22½ strike AT&T calls, among other long option positions (all calls, all long, because – as I said – we were young), and those babies sure could move over 12-15 minutes, let alone an entire trading day.



Bud had a Quotron too.

Bullishness aside, I knew something was up. I had scrolled through old microfiche and pulled closing prices from newspapers in the late 1920's, and then drew charts on graph paper. When I laid a chart from 1987 over a chart from 1929, it was as if we were watching history repeat itself. The signs were ominous enough that I started recording the closes of all major movers and many Dow Jones Industrials components throughout early October on that legal pad. In 1929, the market had actually peaked on Tuesday, September 3, seven weeks and six days before the '29 crash; and, sure enough, the market had peaked in 1987 on Tuesday, August 25, seven weeks and six days before the '87 crash!

People forget that there was tremendous weakness in the two weeks before the crash, and I was documenting it (see below). The market was off 6.0% the week of October 5, and off another 9.5% the week of the 12th. And then on October 19, 1987 – seven weeks and six days after the market peaked - history didn't merely rhyme, it repeated with a violent vengeance. On Monday, the Dow plummeted nearly 23%; a larger percentage drop than it had on Monday, October 28, 1929, or the subsequent Black Tuesday of October 29.

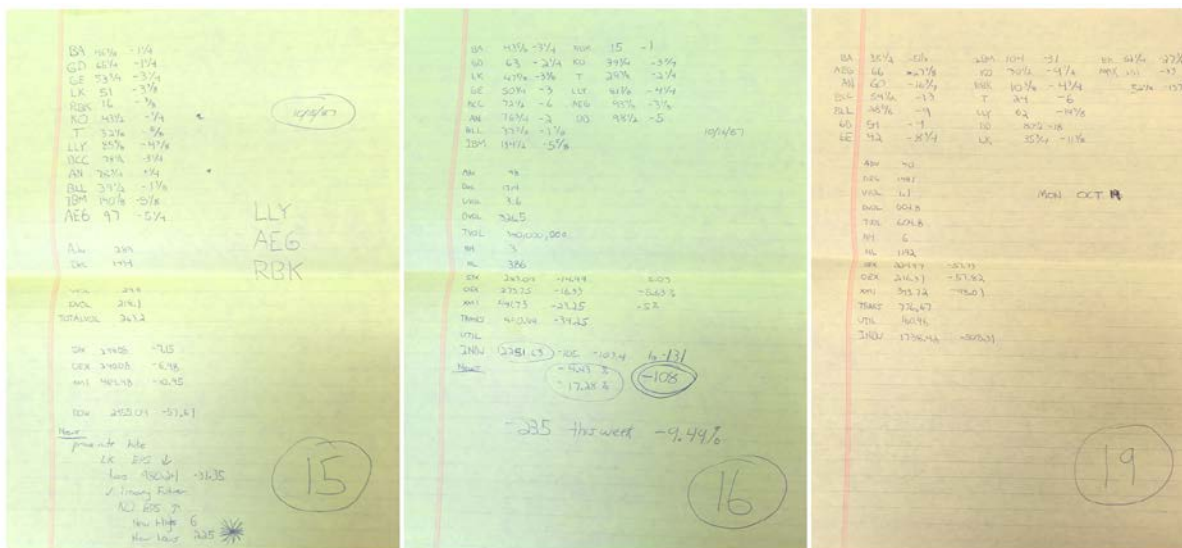
Even though the \$1,200 we had built up in our little investment club evaporated overnight, the day of the crash was one of the most exciting of my life. It was an experience I will never forget, and it almost surely shapes my attitude toward investing today. Psychology and emotion were not only not unimportant, they were – at that moment – basically the only things that *weren't* unimportant. Nothing else mattered.

In the days after the crash, all sorts of ad-hoc macroeconomic reasons were conjured up to explain the drop, from James Baker threatening to devalue the dollar to help the trade deficit to ballooning foreign wheat stocks pressuring American farmers. But that wasn't it, it was psychology and emotion that had taken the market up to historically high valuations, and it was psychology and emotion that took it right back down. The speed at which 22.6% of the value of the Dow Jones Industrials evaporated in a single trading session was surely exacerbated by program trading and portfolio insurance. But the computers were just tools, the tools of an extremely emotional Mr. Market, transmitting orders to the exchanges, literally at light speed. Not terribly dissimilar to today, frankly.

In the weeks preceding the crash, I had been reading an original copy of Ben Graham's Security Analysis that I had checked out of the Krannert Library on the Purdue campus. I have been quoting Ben Graham for over thirty years since, but the very first time was in one of those newsletters that I wrote for my friends:

"The market is a voting machine, whereon countless individuals register choices which are the product partly of reason, and partly of emotion."

How right he was. How right he still is.



Spreadsheets, back in the day...

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