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Rats!

By ALAN ABELSON

We smell a rat.

Far be it from us to be dismissive of a scientific "breakthrough." But, as those quotation marks indicate, in this particular case, the breakthrough seems very much open to doubt.

What prompts this grumpy skepticism is the report in the latest issue of Nature magazine describing how researchers at the State University of New York's Downstate Medical Center in Brooklyn have plugged into rats' brains so they can control the varmints' actions via a laptop. One wire implanted in their tiny noodles makes the little rodents steer to the left on command, a second wire jolts them into scurrying to the right and a third gives them a charge of pure pleasure when they perform on cue.

Supposedly, claim the exultant scientists engaged in the exercise, rats subject to such electronic control can be used for a raft of search-and-rescue operations. Let's say, for example, you're strolling blissfully along Fifth Ave of a warm spring afternoon and, as often happens these days, a ton of bricks falls on you.

A team of wired rats could be dispatched posthaste to the scene and guided by the NYPD's new Rat Patrol into the debris, each fully equipped with a tiny camera attached to its noggin, to seek you out. Swifter, safer and loads more efficient, purr the Downstate Medical researchers, than the cumbersome procedures, involving bulldozers, backhoes and lots of other big, ugly clumsy things, now employed,

Yeah, well, maybe. For one thing, rats are smart and if they get a charge of pure pleasure every time they turn left or right as ordered by computer, we guarantee they'll be wandering around that pile of bricks all day long, just to collect a maximum number of joy jolts. Meanwhile, you're still lying there under a blanket of bricks.

Besides, as even the scientists admit, anyone so trapped who suddenly finds himself face-to-face with a rat is apt to suffer a cardiac event. And we don't think dressing up the little creatures in cutesie garb is going to help. If anything, it might turn a simple palpitation into a full-blown heart attack.

But such practical drawbacks aside, the notion of a so-called breakthrough breaks down on the incontrovertible fact that the science isn't new, indeed has been around and found useful application for ages. For gosh sakes, how do you think our congressmen know which way to vote?

As a matter of fact, in their case, the technology of electronic control is far more advanced than in the Downstate Medical project, since there are no wires hanging out of their skulls. And the pleasure charge is administered not to their brains (which, when they can be found at all, are generally too small to serve as suitable receptors), but to their palms, not in the form of electrons but of something more tangible and infinitely more satisfying -- cash. (Checks work just as well.)

But if those civic-minded citizens who are blandly called "campaign contributors" or, somewhat more pejoratively, "special interests," have long put into effective practice the control techniques that the rat scientists have been so diligently seeking to develop, that doesn't necessarily mean that Downtown Medical's expenditure of time, trouble and precious research funds has been for naught. Indeed, we can envision the effort bearing fruit right here in Wall Street.

We're thinking specifically of how it might help to solve the vexing problem of getting analysts to tone down their naturally sunny disposition. For lots of reasons -- starter castles, Mercedes in all five garages, Oxford threads, a cottage (which is an abode slightly smaller than a starter castle) in the Hamptons, knocking back table wine at dinner at five hundred smackers a bottle -- analysts are an optimistic breed. But such inveterate bullishness, which has come into disrepute just because a few chosen stocks went from \$300 to \$3, might be tempered with a mild dose of microelectronics. A little implant in the bullish synapses could do wonders in making sure an analyst learned to utter, or at least whisper, the word "sell."

Now we recognize some inherent difficulties in initiating such a project. Not least, no one wants to go around wired, especially when some nincompoop of a research director is likely to be at the controls. Still, it might be worth giving it a whirl, starting perhaps with Internet analysts, if there are enough of that endangered species left to do a decent trial. (Just sit back and relax, Ms. Meeker; it won't hurt a bit.)

There are, to be sure, less invasive proposals being floated to assure analysts' independence or, at a minimum, to wean analysts from their dependence on investment bankers and the rich paychecks that issue from that exploitive relationship. One of the most appealing, but inarguably extreme, is to kill all the investment bankers. Another, as we noted recently, is Henry Kaufman's idea of essentially recreating the research boutique.

Matt Simmons, who runs Simmons & Co., a Houston-based investment firm concentrating on the oil-service industry, recently offered a few alternatives in a "White Paper" he calls "The Decline and Fall of Corporate Advice (And Its Possible Rebirth)." Granted, the title isn't exactly a grabber, but Matt's little booklet is filled with commonsensical observations, including, as intimated, his suggestions on how to get analysts to act like analysts rather than golden gofers for the bankers.

We were particularly taken with his insistence that the widespread demand that analysts not own stocks they recommend "makes no sense." As Matt points out, "had some of the wildly optimistic research analysts in the dot-com craze actually put their own money" into the stocks they were so wild about, maybe they'd have stopped smoking whatever they were on long enough to take another, more restrained look.

In fact, we would go a step further and mandate that an analyst put some of his money where recommendations were (with proper disclosure, natch, and front-running, of course, would be a capital crime).

If nothing else, it might cut down measurably on the sheer volume of research reports (and the needless destruction of forests). More to the point, it might inspire the analysts to learn something about the companies they cover, beyond the first name of the chief executive and whatever can be gleaned from a quick nod at the Standard & Poor's sheet.

Hey, who knows? It might even get analysts to tell people to unload a stock now and then. Especially if that were the only way they themselves could dump the dog.

Michael O'Higgins is one of those rare money managers who, as he puts it, is making "decent money this year." Since his portfolios are up, on average, nearly 19%, we'd have to say his performance is a bit more than decent. (Not a few of his counterparts, who aren't exactly burning up the pea patch, might view it as positively indecent.) Actually, Mike has been racking up crackling good showings most of the past five years.

Mike's eponymous firm is O'Higgins Asset Management, and he runs it out of Miami Beach. He's the inventor, if the name sounds familiar, of the "Dogs of the Dow" approach to investing (which holds that last year's big losers are likely to be this year's big winners). He toyed with the notion of branching out into the "Dogs of Nasdaq," but worried that the neighbors would complain about the size of the kennel.

The ingredients of his superior returns so far in 2002: He has been short the S&P 500 and the Nasdaq 100 and long a package of gold mining stocks. He remains bullish on his gold shares and he's very much still bearish on

the market. He reckons the popular averages could drop another 35% before they hit anything that resembles a real bottom.

In a dispatch we received last week, he observed that "the conditions preceding the big slide late last summer have returned."

More specifically, insider sales are running comfortably above 4-to-1 over insider buys, using an eight-week moving average. Wall Street strategists again are recommending that you commit nearly 70% of your hard-earned money to stocks, after lowering suggested equity positions to 64% in December. And the OEX Volatility Index has slumped to the low 20s from its September 20 high of 49.

"It looks like," Mike says, "we are setting up for a pretty sloppy spring and summer." Not, in our jaundiced view, anyway, an unreasonable prospect.

He thoughtfully appended some confirming material to his note, including Vickers Weekly Insider report. What we found especially noteworthy here was that the preponderance of insider selling over buying was especially pronounced on the Big Board, where, over the past eight weeks, the ratio in favor of sales has run nearly 5-to-1. In contrast, on Nasdaq, buys command a less 2-to-1 advantage.

Vickers draws the unexceptional inference that since the bulk of Nasdaq purchases are of companies way off from their highs, it's possible that these beat-up numbers are where the bargains are. (However, it quickly cautions to give junk stocks a wide berth.) Obvious but interesting, and if we were of a stock-buying disposition, Nasdaq certainly would rate a glance.

That jobs report for April, released by the Bureau of Labor Statistics on Friday, was simply doleful.

The unemployment rate took a great leap upward, from 5.7% to 6%. As it happens, 6% is the highest jobless percentage in close to eight years. Nearly half a million people joined the ranks of the involuntarily idled last month, pushing the total up to 8.6 million. Since unemployment bottomed out in October 2000, no fewer than 3.1 million souls have lost their jobs.

Wall Street seers proved their myopia remains very much intact. The consensus was anticipating an unemployment rate of 5.8% and a job gain of 60,000. In fact, payrolls grew by only 43,000 in April and do yourself a favor: Don't bet that's the true figure. Keep in mind that in the March report, February employment was slashed by 68,000, and in last week's report the March job total was revised downward by 79,000. We cribbed these numbers from Ed Hyman, who also points out that manufacturing employment, which took another dive, is now back to where it was in 1955.

Average hourly earnings edged up a tad, while average weekly earnings, reflecting fewer weekly hours worked, were off a bit. That suggests that inflation remains quiescent. Maybe we're perverse, but somehow we liked it better when inflation stayed tame while jobs were booming. In any case, as the put-a-good-face-on-it crowd lost no time in pointing out, Mr. Greenspan, who seems to have little appetite to raise rates in an election year, now has little reason to do so.

We trust that, if nothing else, the April jobs report will put to rest (for the moment, anyway) the blithe assurances from the usual suspect economists that the recent sharp rise in new claims for unemployment insurance is nothing more than a fluke and is void of indicative substance. Claims, we've found, for all of Wall Street's disdainful sniffing, are a pretty reliable guide to what's happening out there in the real world.

It's official now that employment is a lagging indicator.

We know it's official because even the White House shill so described it in commenting on the jump in the

jobless rate. We're encouraged that a political person manages to learn so arcane an economic phrase well enough to mouth it. But the utterance, despite its provenance, is still as vacuous, not to say downright wrong, as when it trips lightly off the lips of an economist.

This is, as the stock market nervously is starting to recognize, quite a peculiar recovery, all the more so in view of the awesome amounts of stimulus that have been injected into it, monetary and fiscal both. We don't want to bore you by repeating what we've saying for months (we'd rather bore in well, in less boring ways). But what singularly marks this recovery is the absence of jobs, profits and capital investment.

Otherwise, it's just fine.
