

GARY NORTH'S

REMNANT REVIEW

e-mail bonus:

year2000@garynorth.com

Matt. 6:33-34

Preparing the Remnant for the far side of the crisis

Vol. 27, No. 3

March 3, 2000

MARKET MANIAS: WHEN YOU FEEL YOU MISSED OUT

The mark of a mania is when the general public senses that it has been left out of the cornucopia of great wealth. People think they had great wealth in their hands -- almost -- but somehow they missed out. They begin to get frantic, looking for a way to get onto the one-way road to Easy Street. They follow the trends. They buy whatever has already gone up by three or five to one. That's where we are today. Investment magazines run cover stories about getting rich. The assumption is that great wealth is for everyone. On the cover of *Money* (May 1999), we read:

Tech Stocks: Everyone's Getting Rich!
Here's how to get your share

This creates a terrible sense of longing in the hearts of those -- virtually everyone -- who failed to participate. So it has been with every mania. The signs of it are all around us.

The fact is, great wealth is not for everyone. Everyone can't possess above-average wealth. Great wealth is for unique individuals who create wealth for large numbers of people through vision and good timing. In most cases, these wealth creators work maniacal hours, are obsessed with their work, and take extreme risks. And for every success there are dozens of failed ventures that the public never hears about. Most people cannot live this way.

Long economic boom periods foster the perception that the road to riches has an on-ramp just down the street. We are now in month 108 of the longest economic boom in American history. In booms, the stock market rises steadily, then sections of it rise exponentially. But this is a statistical phenomenon. A few stocks soar, carrying up the numbers on certain indexes.

The Internet stocks seem to be booming. They really aren't. On February 16, *USA Today* ran a story on the bursting of the Internet bubble. On average, each stock on the Internet 100 was down 38% from its high. But people's perception will take time to come to grips with the reality of this market.

These markets are narrow, and the stocks that push them up are fewer still. When the public learns of great wealth attained by investors in these stocks, they call their brokers and buy. But a rational portfolio would include very few of these stocks. So, anyone who got truly rich by buying them was lucky. He abandoned a rational investment strategy.

When the public starts crowding into a narrow market, and the tech stock mutual funds are flush with cash, they compete frantically against each other. It's not just here in the United States. The tech stock mania has hit Japan. Fortunes are being made on paper. An example is Toshisihiro Maeta, a 34-year-old mechanical engineer. He created a company in 1996 that offers cellular phone services. Cell phones are big in Japan: 53 million of them. About a million and a half people use the services of his company, MTI. It pulled in \$70 million in revenues (not profit) in 1999. That's nice, but not spectacular. The shares were offered to the public last October on the over-the-counter market. The public bid up the price 67-fold: 2500 times earnings. The value of Maeta's shares total \$4.5 billion.

But he is a piker compared to Yasumitsu Shigeta, the 34-year-old president of Hikari Tsushin, which sells cell phone services, too. The company adopted this marketing strategy when the Japanese market for cell phones was deregulated in 1995. In 1999, the company's market capitalization hit \$40 billion. Shigeta owns 62%. He was briefly worth \$25 billion.

This is what the pseudonymous author Adam Smith (George Goodman) two decades ago called supermoney. Create a company, sell a small portion of the shares to the public, retain the lion's share, and get rich on paper. The only problem is, you can't live on the earnings. There is no income stream to speak of. So, to cash in, you must sell out, slowly. That's what Bill Gates is doing, except that his holdings are too large to sell out in a lifetime.

The game is called imputation: multiply the price of the latest share sold by the share holdings that are unlikely to be sold. Presto: you've got supermoney. You can spend it, too. The main thing you can buy with it these days is brilliant, talented young people to work 80 hours a week. It's called stock options. The high tech world uses this currency more than any other industry. The trouble is, someday those options will be exercised if the company is profitable. The company will then have to issue new shares. A hundred years ago, this practice was called watering stock. Writes Andrew Berg in *Barron's* (Feb. 7):

Tech-stock skeptics have long argued that many firms effectively understate their compensation expenses through liberal option grants to employees.

Under accounting rules, the huge gains reaped by high-tech company employees from options haven't had to be reflected as an expense in profit reports even though the options generally are granted in lieu of cash compensation and involve a wealth transfer to employees from public shareholders. Warren Buffet, the most prominent critic of current options mania in Corporate America, said in Berkshire Hathaway's 1998 annual report: "If options aren't a form of compensation, what are they? If compensation isn't an expense, what is it? And, if expenses shouldn't go into the calculation of earnings, where in the world should they go?"

The tax laws allow companies to deduct from income the profits on the stock options granted to employees. Yet the phantom expense is not counted in financial reports. Companies avoid taxes this way. But the day of reckoning is not deferred forever. When it comes time to issue stock to those exercising their options, investors will see their assets diluted.

Next, the recipient will want to sell shares to turn his supermoney into real money. There had better be buyers. The problem then will be the absence of the mania for this industry. Manias are rare, and they are not permanent. When they depart, the majority of companies that seemed so promising during the mania phase prove to be shooting stars. The shares of such companies will plummet in value before the options are exercised.

Supermoney can be used to buy other companies. AOL will use supermoney to buy Time Warner, if the deal goes through. It may not; AOL's stock has fallen by 45% since its high of \$90. But if it does, AOL will then own a broad-based publishing company that may fit into AOL's delivery of content. In any case, the new company's value will not be so dependent on the Internet for its valuation.

What we are seeing is the monetization of expected income streams. But it's not just company income streams that are being monetized. It's the monetization on income streams based on investors' selling the shares. We are monetizing the mania itself! This is the mark of its final stages.

Investors refuse to assess what the risks are from a monetized mania. They are buying not only an income stream that will not appear for the vast majority of these firms, they are buying the future stock option obligations of those few companies that will survive the inevitable shake-out. They are buying phantom future earnings and disguised future obligations. They will get hit from both sides. Nevertheless, we are told that the stock market is rational. Nonsense. It is no more rational than the dreams of wealth in the minds of millions of investors who know nothing about the Internet except that it offers free e-mail and over 6 million Web sites, 98% of which are rarely visited and are not profitable.

"We have nearly 10,000 Internet companies too many," says Don Valentine, a venture capitalist in Silicon Valley. He elaborates: "There is an Armageddon that's going to happen in the spring, after all those companies spend their huge advertising budgets in the fourth quarter -- seeking brand recognition and identification -- only to fail and come out broke on the other side." There are 400 auction sites. There are 1,500 e-commerce shoe sites (*Forbes* ASAP, Feb. 21, p. 68).

Prof. Hal Varian, dean of the School of Management at the University of California, Berkeley, says there are five stages in technology revolutions: experimentation, capitalization, management, hypercompetition, and consolidation. We are probably in stage two of the Internet revolution. In previous revolutions, the hypercompetition can last a decade or more. Example: the reduction of telegraph companies, 1855-61: 88%. It happened again to the large electrical companies later in the century: 87% (*Ibid.*, p. 70).

The odds say that the typical investor will not be heavily invested in the 10% to 15% of the Internet firms that survive. He will also have bought in late. Easy Street is always a dead end road for most investors.

There are only so many technologically adept workers. Of these, only a tiny percentage will have entrepreneurial skills -- forecasting. Then there is the need for managers who can communicate with the nerds and the marketing people. Such managers are rare. Then the company will need access to capital during the hypercompetition period. The odds are, most small firms will sell to the larger firms at discount prices after the smaller firms have run out of money. They will sell for supermoney. But supermoney will be discounted, too. If there really is an Internet stock Armageddon, it will not pass by the big firms without leaving its mark.

The assumption that you can buy cheaper later is correct when we are considering new technologies. There is no reason for a prudent investor to buy shares of new ventures until the firm has proven that it offers a product or service that its users cannot do without. Microsoft had this positioning when it went public. Users could not avoid the DOS operating system unless they switched to Apple computers, and very few business users were willing to do this. That's why I recommended it at \$5 a share. But there are no indispensable Internet sites for the general public. There is heavy competition for most of them. Users are lazy, and they will stick with what is familiar, but new users have not made up their minds, and old users can and do switch if a competitor offers better features.

The share prices of companies that introduce new technologies are not straight-line phenomena. New technologies are too new. It is not clear which firms offer long-term advantages.

There is something else at work: the desire of consumers to participate in environments that are not electronic. While Amazon has been skyrocketing in share price -- though not profitability -- Barnes and Noble has created comfort centers for readers. Huge stores, soft chairs, lots of magazines, music CD's, and expensive Starbucks coffee attract people who want an evening out. Readers buy books. The goal is to get them into the store. It's the seeming humaneness of the atmosphere that draws in customers. Yes. B&N has built a book buyers' Web site. It is the number two site behind Amazon. That's good enough when your walk-in trade is killing off the local competition. But both Amazon and B&N.com are way down from their highs.

The Long Haul

The way to wealth is to spend less than you make, year after year, and to invest where you have your skills. Millionaires rarely make their money in the stock market. They make it in their businesses. This is risky, since most of your eggs are in one basket. But you pay close attention to your basket.

To compensate for this risk, the wealthy investor invests in stocks, bonds, and real estate. The safest easy way is to put half of your money in no-load index mutual funds, with about 25% invested in foreign based companies. This is wise diversification. Then put the other half in a bond fund. Reallocate annually. Do this year after year. Reinvest the earnings. Scott Burns calls this the couch potato strategy.

Historically, the U.S. stock market has produced about 7% per annum, with half coming from dividends (*Forbes*, Dec. 27, p. 178). It doubles every decade. But you have to pay taxes on dividends, so the doubling date is

longer. If the money is in a tax-deferred retirement program, and Congress doesn't change the rules, then this strategy can produce solid results.

But wealth is still not for all. Most people will not save. Most of those who do save do not save wisely. Manias and panics take their toll.

Then there is the question of investment strategy. Economists say that random walk is the way to go. Buy an index fund. Don't try to pick stocks. Warren Buffet disagrees. He followed the strategy of Benjamin Graham: buy profitable companies whose book value assets are worth more than their capitalized value. Buy companies with a low price/earnings ratio. This worked from 1933 until 1990. Then it ceased working, or seemed to. But one fund did very well: William Miller's **Legg Mason Value Trust**. It turned a 22% annual return over the last decade. But you pay for it: a 1.7% annual expense ratio. Miller uses Graham's strategy in most cases, although Dell Computer and America Online are in his portfolio. He is considering adding garbage: **Republic Services**, which sells for 8 times earnings. His point: there will always be a need to collect garbage. Who knows what the next Internet play will be? Who can forecast the next "killer app" (crucial application, like a spreadsheet)?

But Graham and Dodd are out of favor today. The publisher of *Forbes*, Rich Karlgaard, has announced the funeral. "Sorry, but Graham and Dodd are dead. Sure, you might find some rust-bucket shop trading at 60% of book. But the likelihood of your little trash-hauler or chicken feeder roaring back is less than it used to be. Undervalued companies nowadays, like every other poor s.o.b., are suffering relentless attacks by a smarter, faster species" (Dec. 27, p. 51). So runs the present conventional wisdom.

Fact: a new technology reforms businesses very slowly. That's what the skeptics of traditional value investing do not understand. It takes decades for new technologies to change the way the business world works. From the Eniac computer in 1946 to the IBM 360, it was almost two decades. The IBM 360 computer was a breakthrough in 1964, but the effects of large computers on U.S. business productivity could not be measured accurately for at least 15 years, and business professors still debate the extent to which computerization has increased productivity. Some costs fall; others rise.

In small businesses, you can measure output increases more easily. My diligent computer lady runs my Institute for Christian Economics with a computer program, **Order Desk Pro**, that sells for under \$140 (www.odpro.com). A decade ago, ICE paid \$250 a month lease for a far less comprehensive program. The new program never requires that I upgrade the computer it runs on. It does what it's supposed to, and it can do a lot more if I want it to. It's the best program you can buy for a small mail-order business. If anything, it's too cheap. You buy it once, and your business's productivity rises. It's a one-time event. After the initial changeover, productivity went flat. That was five years ago.

I sit here, writing on WordPerfect 5.1 for DOS, using a 17-year-old IBM PC AT keyboard (the one with the function keys on the left). I will never upgrade. I have ten used 1983 keyboards in reserve. I will not move to Windows-based word processing. My increase in productivity with word processing ended a decade ago. Actually, my breakthrough increase took place in 1980. I had a \$40,000 mini-computer and access to a \$7,500 word processing program for it, S.S.I. (satellite Software International). Today it's known

as Word Perfect. In two weeks with S.S.I., I doubled my output as a writer. I will never again sustain such an increase. It changed the way I compose. I can afford to debate with myself on-screen because I can erase and re-compose so easily. From 1980, computing costs dropped sharply (the IBM PC), and the word processing program got better marginally when it was ported to IBM. But then Windows 3.0 appeared. Things immediately got worse. For a serious writer, a Windows-based word processing program imposes a decrease in efficiency. So does the modern keyboard, with function keys at the top. For putting words on a screen, refinements since the late 1980's have been retrograde. Don't tell me about the "new era" of computers as it affects my work today. The same is true for many business applications. Computer power is not important for them. An upgrade may be nice for the ego, but productivity is not significantly improved.

Then there is the cost of learning new programs, fixing goofed-up programs, and generally keeping the system running. The cost of computerization is not the same as the cost of buying a new computer or new program. It's the learning curve, the reorganization curve, and the "What's the matter with my screen?" curve.

Most software users use fewer than 5% of the program's features. Put another way, nobody reads a computer manual cover to cover, let alone attempts to master all of it. He reads those few pages that apply to his immediate task. The same is true of computers in general -- mainly desktops and laptops. They help immensely in certain limited applications, but once achieved, these large productivity gains are over. Increases in output revert to the norm.

The World Wide Web is about five years old. Only with Netscape's Navigator browser did the Web become a potential mass market phenomenon. The Web is still not a necessity for most people. Yes, there is e-mail, but e-mail is not part of the Web; it's a much older Internet phenomenon -- over two decades. The Web is a convenience. If it disappeared tomorrow, most of us would get by. The economic reality of the World Wide Web is that for most businesses, whether buying or selling, it's not crucial yet. It's still more amusement than necessity. That's why betting on tomorrow's sure-fire winners is going to lose investors a lot of money.

I have no doubt that the Internet will lower consumer costs for lots of items. You can buy plane tickets today from **Priceline** by telling them how much you're willing to pay. Their computer can often find you a fare at this price: 40% on the first request, 66% on the second, if you raise your bid a bit. The company is adding other products now. Every week, the company is growing by 5%: revenues and customers. It will probably survive and prosper. But I think you wait to buy the shares until the mania has ceased. There's time enough. When buying an Internet company's shares, look for price competition on big-ticket items. That's what Priceline is all about: buying a widely used, high-ticket (literally) item at a substantial discount.

Some investors are buying **UPS** and **FedEx** as surrogates for the Internet. If the Internet really produces dramatic increases in on-line shopping, these two firms will do well. UPS is selling at about twice the P/E ratio as FedEx (22/1). It has far more trucks. FedEx is only now getting into ground shipping in a big way. UPS's strategy is aimed at the home consumer with Web access. FedEx has a strategy I think is better: business-to-business deliveries. In the near term, businesses are the obvious users of the Web.

Still, both firms are sensible purchases compared with some unknown pure Internet company with a 200/1 P/E ratio. Avoid the mania.

The Nasdaq's figures for Dollar Trading Volume keep going up, month after month. December's numbers set records. DTV for December was higher than all of 1994. It increased 54% for November-December. December was double February. (See Alan M. Newman's Web site: www.cross-currents.net/charts.htm).

It's Not Just High Tech Stocks

James Grant, who writes the *Interest Rate Observer*, is bearish. He sees today's aggregate 30/1 P/E ratio as double the long-term average. It's too high today, he thinks. "Capitalism is about competing away extraordinary returns. It is weren't, businesses would never die."

I think the high P/E ratios today are a reflection of the public's confidence that the risk of a stock market collapse has been removed. The first element of risk-removal is the Federal Reserve System's ability to intervene by buying shares. The older P/E ratio reflected the acceptance of risk that was considered basic to stock market investing: falling prices. The FED has created a mythology for itself as the buyer of last resort, thereby placing a floor under stock prices. So, investors have bid up the P/E ratio. They are willing to accept a degree of risk. Now that the risk of systemic failures is supposedly low, the competitive bidding process has raised P/E.

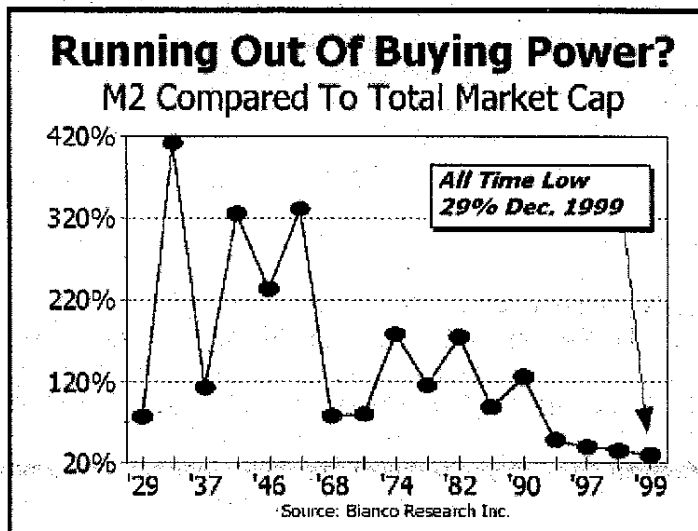
The development of tax-deferred investing and funds to channel the funds has also created a sense of a market floor. There is always new money ready to move into stocks, it seems. But this is an illusion. The level of stock prices has risen in response to demand and future expectations of a permanent flow of funds into stocks. The market has discounted the safety factor. So, the result is a high P/E. The fact is, investment funds can flow into bonds and CD's if fund managers see falling stock prices across the board. Getting 6% from a bond, plus the possibility of capital appreciation, is better than losing 10% in one quarter.

The inflow from mutual funds peaked in 1998. In 2000, the market is facing a slowdown. Alan Abelson, in his February 7 column in *Barron's*, quoted an anonymous friend who is an astute investor and a collector of data. Normally, January is a low month for stock issues. He thinks new offerings will be in the \$194 billion range in 2000 vs. \$157 billion in 1999. Only \$40 billion will disappear from mergers and acquisitions, vs. \$145 billion last year. Increase in supply will exceed increase in demand by \$115 billion. There may be another \$100 billion hitting the market from IPO's whose participants will be allowed to sell this year. Higher supply + lower demand = downward price pressure.

Even 1999 was not good for the Standard & Poor's stocks, as distinguished from the index. Since January, 1999, 208 of the 500 advanced in price; 288 are trading lower. Declines have exceeded advances since June, and sharply so since September.

The Nasdaq had its worst month in January since 1990. It recovered in February. The S&P 500 had its worst January since 1970 (*Barron's*, Feb. 7, p. 52).

Where will the money come from to buy more stocks? Here I reproduce a chart from Alan Newman's February 9 report, *Pictures of a Stock Market Mania* (www.cross-currents.net/charts.htm). It compares the M2 money supply with the total market capitalization. (His source is Bianco Research, Inc.) The high point was 1932. That was at the absolute bottom of the Great Depression, the year Franklin Roosevelt was elected. The ratio fell until 1937, as the FED pumped in new money to alleviate the deflation, raising share prices. Then the secondary depression of 1937 drove the ratio back up: falling share prices. The ratio was low in 1968 through 1970. The recession of 1970 pushed the ratio back up as the FED inflated. The next high point was 1982, when the present economic boom began. It has never been lower than today, but the rate of decline has tapered off.

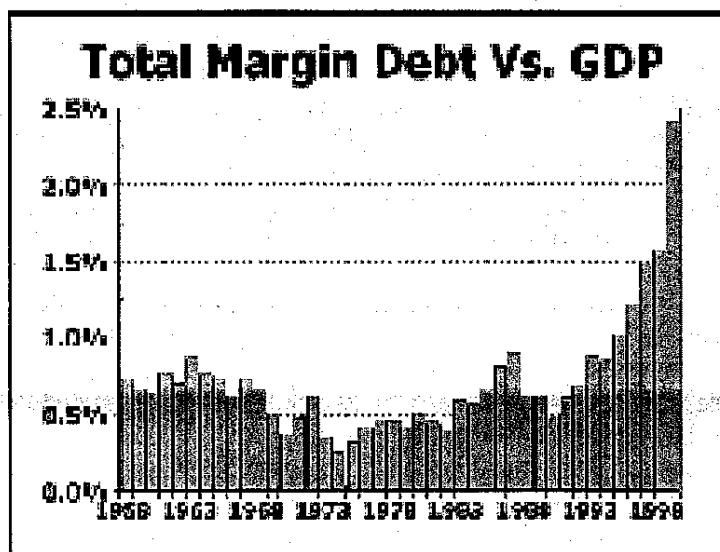


Now consider margin debt. Alan Newman's comments and his accompanying chart are extremely enlightening.

The rally since the October lows of 1999 would not have been possible without a substantial increase in demand and we see that demand illustrated in the huge expansion in total margin debt last year. Margin debt increased 25.4% in just November and December and was up 62.1% over the year earlier figure.

Margin debt now stands at \$228.5 billion -- 2.41% of GDP -- the first time since the Roaring Twenties margin debt has been above 2% of GDP.

Note that even in the manic year of the 1987 Crash, margin debt only amounted to 0.9% of GDP. Adjusted for the effects of inflation, the picture becomes even worse. Margin debt is up 3.3 times since the mania began in 1995 and is nearly double what it was only two years ago. Clearly, speculation has increased and has probably been given a boost by home equity lines of credit and second mortgages as well.



We believe the buildup in debt has caused systemic risk to be as high as it has ever been in our lifetimes.

We have asked this question for a couple of years. Are we running out of buying power? We believe we are. Net inflows into mutual funds since the beginning of the bull market in October of 1990 exceeded \$1 trillion in December 1999 for the first time. Meanwhile, as we have shown elsewhere, annualized inflows are down 24% since the June 1998 peak. How can the indexes have rallied so strongly since? Easy. Remember, the way the major indexes are now constructed, they tend to favor and mirror the strongest constituents and it is only those constituents that are still in full blown bull mode. Even then, it is painfully apparent that additional demand has been necessary, confirmed by the huge expansion in margin debt. At some point -- probably very soon -- the supply of money will be too little to support the grossly expanded supply represented by stock market capitalization and a denouement of epic proportions is likely.

Stock fund managers have not seen a major setback since 1990, and that is blamed on Bush's tax increase and the threat of the Gulf War. They have accepted the myth of the New Paradigm in stocks. They are not prepared for a bear market.

The steady increase of the broad-based market has been reversed. The average stock's price is down. Indeed, it has been down since the spring of 1998. The economic boom is getting old by historic standards. There is talk about a new era based on technology, but the tech stocks are a small sector. Whatever impact technology has on the general economy will be spread unevenly and slowly. The advent of a new technology precedes its widespread adoption by a decade or more.

The Bond Market

The ancient but reliable indicator of recession, the inverted yield curve, reared part of its ugly head in late January. Short-term interest rates climbed above long-term rates. The 5-year and 10-year yields exceeded the 30-year T-bond. Part of this was the result of misleading information. A Treasury official said that the Treasury was considering ceasing the issue of 30-year bonds. Large institutions hold these assets. So, a buying spree began, lowering the yield. Then Lawrence Summers, the Treasury Secretary, told reporters that the Treasury would be calling back debt instruments across the yield curve -- all debt maturities -- and not just 30-year bonds. The rate promptly rose, though not to where it had been in early January.

The inverted yield curve occurs late in economic expansions. Inflationary pressures build. Long-term rates go up. Lenders demand an inflation premium in the rate, so as not to lose purchasing power. Then, in expectation of an economic slowdown, long rates fall. Borrowers must fund projects in order to complete them, so they borrow short-term money. This creates the inverted yield curve.

A pure inverted yield curve is not here yet: 90-day T-bill rate above the 30-year bond rate. But there are signs that it is on its way. The money

supply is being shrunk. This means less inflation; hence, a lower rate for long bonds. It also means tighter credit, i.e., higher short-term rates. The FED is slowly raising the federal funds rate, the rate at which banks lend to each other.

In the February 14 issue of the Stratfor organization's *Global Intelligence Update*, an article appeared on the inverted yield curve.

One of the important precursors of recessions is a negative yield curve, in which short-term rates are higher than long-term ones. And one of the triggers for a recession is a rise in interest rates. Higher interest rates cause businesses to try to avoid long-term borrowing and seek short-term borrowing. The result: Short-term interest rates rise even higher than increases in long-term rates. This inversion of the normal yield curve is a classic sign of impending recession.

What we saw last week was a truly weird yield curve. The three-month rate closed at about 5.7 percent, and the curve rose steadily until the one-year yield was at a little more than six percent. The yield curve was flat through three years, fell a bit at 10 years, and fell again at 30 years to a yield of about 6.3 percent. . . .

[T]he yield curve is getting very flat. A year ago, the spread between the short-term rate and the long bond was about 22 percent of the short bond's yield. Last week, it was about 10 percent. As striking is the shift in just one week. Short-term rates rose about 0.2 percent while the long bond's yield fell a little more than 0.3 percent. The fact of the matter is that the short-term and long-term rates behaved as they would prior to a recession. . . .

The question here is whether it will flip back to positive or proceed to a negative curve. Our bet has to be that it will move to an inverted, negative curve, because we cannot explain what happened this week except as part of a transition. Healthy bond markets do not produce these strange results and then flop back to normal.

That is particularly the case with the Federal Reserve Bank clearly following a policy leading to higher interest rates. Since the Fed's operations have much more control over short-term rates than long-term ones, we expect that the flight from the long-term last week -- coupled with Fed policy -- will push up short-term rates at the expense of mid-term ones, giving us a classic negative yield curve fairly quickly. Since that will pull not only borrowers, but lenders as well, on the short side of the curve, the final outcome should be a classic inversion -- and a classical capital shortage. . . .

The U.S. stock markets were also acting recessionary last week, with a massive divergence developing between the highly speculative NASDAQ, which reached new heights last week and the other indices, which were fairly weak. . . .

A classic indicator of market tops is a divergence in indices. In previous markets, people looked for divergence between the Dow Jones average and the Dow Jones Transportation Index. Today, the two critical economic sectors are high tech and everything else. With the NASDAQ representing high tech, we see a tremendous divergence now developing between the two sectors. Worse, the NASDAQ seems caught in a classic buying climax that can't be sustained for very long.

(www.stratfor.com/SERVICES/giu2000/021400.asp)

An inverted yield curve is bad for stocks and good for bonds. I think it is always unwise to invest in stocks in times of wild optimism. Bonds are safer. When, in a fall of the stock market, traditional investors look for safety, they will move into bonds. Rates will fall on long-term bonds as the recession squeezes price inflation. This raises the return to those who bought early.

"Missed It by That Much!"

Not everyone can get rich in a thin market. There are not enough shares to go around. Those who buy in late are the ones driving up share prices. The early birds win big if they sell into the mania, but there are not many of them.

The headlines discourage people who had their money elsewhere. People think that they have missed out on great wealth. They haven't. Wealth is always distributed unevenly, with the lion's share in the top 20%. It doesn't matter what governments legislate; the wealth pyramid remains.

What makes most people wealthy is time. When the economy grows at 3% per annum for two centuries, society gets rich by older standards. Wealth doubles every four years: a 256-fold increase in two centuries (2, 4, 8, 16, 32, 64, 128, 256). The West is experiencing such growth rates. But 3% growth is not detectable. It's the compounding process that makes us rich if we live long enough. The world of 1940 was decidedly poorer than today -- though not spiritually.

It is the steady increase in our productivity that makes us richer. But the pyramid remains. People estimate their wealth, not in terms of what they owned 40 years ago, but how much they appear to have in relation to the mythical investor who put all of his money into Wal-Mart stock or the Magellan Fund in 1970. They see that they and their peers are not wealthy, and they think, "If only I had done things differently."

Never has a society been as wealthy as ours is, and yet investment magazine covers use headlines promising riches to attract buyers. The longing for riches continues to beguile. People in the West today are supremely discontented, despite their historically unprecedented wealth. There is something about the getting and pursuing wealth that distorts most people's judgment. They just cannot get enough. Their desires are inflamed by the hope of more. The great god More gives them no rest.

Financial reserves to pay for insurance premiums or other emergencies are

a good idea. The thought of a rest home, either for ourselves or our parents, scares most of us -- not just socially but financially. The last year of life seems to gobble up family capital and Medicare funds. The best strategy for accumulating capital and passing it on is to avoid divorce and then die of a heart attack in your bed at 3 a.m. the day after you retire at age 80. A cold body in bed does more for inheritance than anything else.

Keep at it. My friend Otto Scott, who coined the phrase, "the silent majority," almost a generation ago, has been writing for 60 years. He began as a journalist. When he was 50, his wealthy father called him to his deathbed. Otto handed him a copy of his first book, on the history of Ashland Oil. His father looked through it and praised it, and then asked him if he had any financial problems. Otto said no. "Good," said his father, "because I'm not leaving you a dime." Otto thinks this was what secured his second career as a historian. Today, over three decades later, he is still writing full-time. Given his output of books and newsletters since then, Otto's father did us all a favor.

The lure of great wealth, like the lure of a prosperous retirement, appeals to our baser instincts, unless we have some great charitable plans for our wealth or our retirement. The lure of riches is corrupting because of its open-ended nature: "More!" If someone told us to eat food that would make us ever-more hungry, we would refuse to eat it, just as we refuse to snort cocaine. But riches have something perversely alluring to them, although they partake of the same character of insatiability. "I want this much money, so that I can accomplish that," is a sensible goal. The pursuit of undefined wealth is not. The pursuit of anything of value that has no limits in our plans will consume us.

We too easily forget all this. We assume that wealth is neutral, that it does not distort our perceptions, that it is harmless. It isn't. It takes maturity to handle it. Two of the most successful Christian businessmen I know plan to give most of their money away, leaving relatively little for their children. They will show their children how to make money, but they refuse to hand it to them. They both believe in capitalism as the way to satisfy consumers in the quest for wealth. They both believe that consumerism apart from work and foresight is debilitating.

We accumulate wealth because we face uncertainty. Some things cannot be insured against. The future is uncertain, so we seek to build financial reserves, just in case. But financial reserves are in turn uncertain.

In a passage devoted to the uses and misuses of wealth, the apostle Paul wrote: "But godliness with contentment is great gain. For we brought nothing into this world, and it is certain we can carry nothing out" (1 Timothy 6:6-7). As the old post-funeral question goes, "How much did he leave?" Answer: "All of it." Paul recognized that riches are uncertain: "Charge them that are rich in this world, that they be not highminded, nor trust in uncertain riches, but in the living God, who giveth us richly all things to enjoy; That they do good, that they be rich in good works, ready to distribute, willing to communicate" (1 Timothy 6:17-18). When it comes to possessions, everything is uncertain.

The present stock market mania will play itself out shortly. There will be plenty of time to buy back in when the bust replaces the boom.