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MANIACAL BEHAVIOR: SOCIETY'S SLOW SLIDE INTO OBSESSION (NOT THE COLOGNE)

Beware the Jabberwock, my son!
The jaws that bite, the claws that catch!
— Lewis Carroll, *Through the Looking Glass*

America has periodically passed through fads, crazes and manias, and while the first two enjoy their moment and fade, manias often end in collapse. At present, parts of American society are involved with one mania or another, making most of society seem awhirl in activity and excess. Pokémon, the Internet, e-commerce, stock markets, mergers and acquisitions, and risky physical (and fiscal) endeavors are looking more and more maniacal in their intensity, although to those deeply involved, they still seem like reasonable activities.

Two principal consequences of such maniacal behavior are just now becoming clear: volatility and irreversible, sometimes damaging, endings. Those ensnared by the mania rarely see such consequences and often suffer the most when the mania ends.

Fads, Crazes and Manias

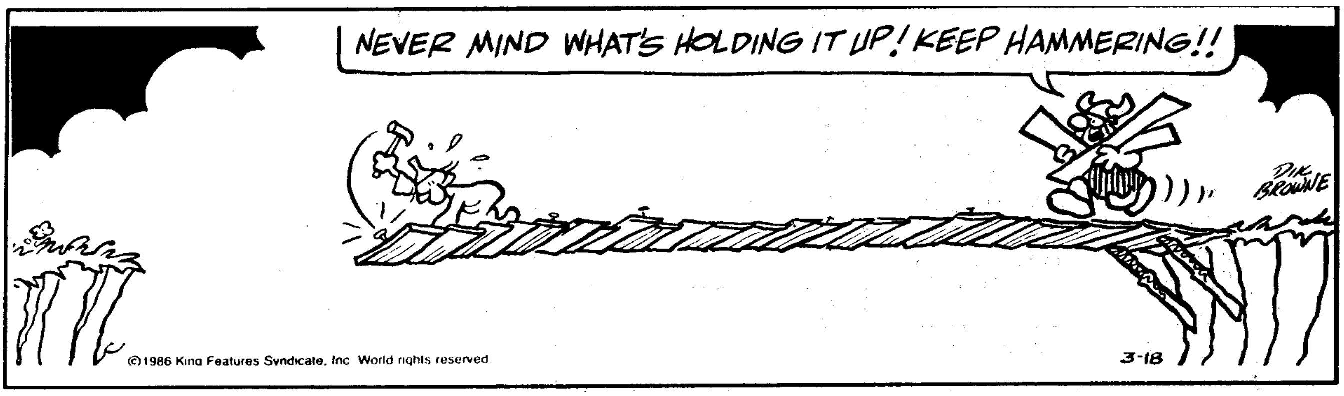
Americans enjoy a good fad now and then. Popular culture, from time to time, gives life to trifling eccentricities that delight individuals in passing before fading into history. Hula Hoops, pet rocks, Rubik's Cube and the Macarena come quickly to mind.

Crazes have a stronger hold on society and move beyond individual preferences, feeding, it seems, on peer popularity. To participate in a fad is to accept a larger societal eccentricity as if it were one's own…at least for a moment. To participate in a craze is to join a group that sees this kind of behavior as part of its energy or identity. A craze is part of style, making participation a social statement. Body piercing, *Star Wars* (the early versions), break dancing and punk music fit the category.

Manias are more extreme than fads or crazes and become more enveloping. While the first two social obsessions are seen by those involved as fun, entertaining or helpful, those swept into a mania see the action as necessary, important and all-encompassing. To those inside a mania, those on the outside seem "uncool" or ignorant or even pitiful. At a societal level, the fads and crazes are ephemeral markets with a sense of quirkiness or intentional oddity, but manias are closer to an illness that feeds on itself and becomes steadily more involving. Usually, manias exist on the edges of society and often include a political dimension (the current militia movement), a religious point of view (various cult organizations), a socio-economic dimension (cocaine addiction) or a generational perspective (rock 'n' roll for 1950s teenagers).

One important reason to clarify distinctions between fads, crazes and manias is that the first two fade, while the third typically collapses. The militia and cult movements have led to extraordinary events (Jim Jones in Guyana and Branch Davidians); drugs have often caused violence and death; and early rock 'n' roll crashed in the late 1950s, leaving the first rock stars broke and able to find work only decades later, when nostalgia, itself a craze, brought them relief.

We have another reason to make the fad-craze-mania distinctions: Many Americans are now involved in manias, some without knowing it.



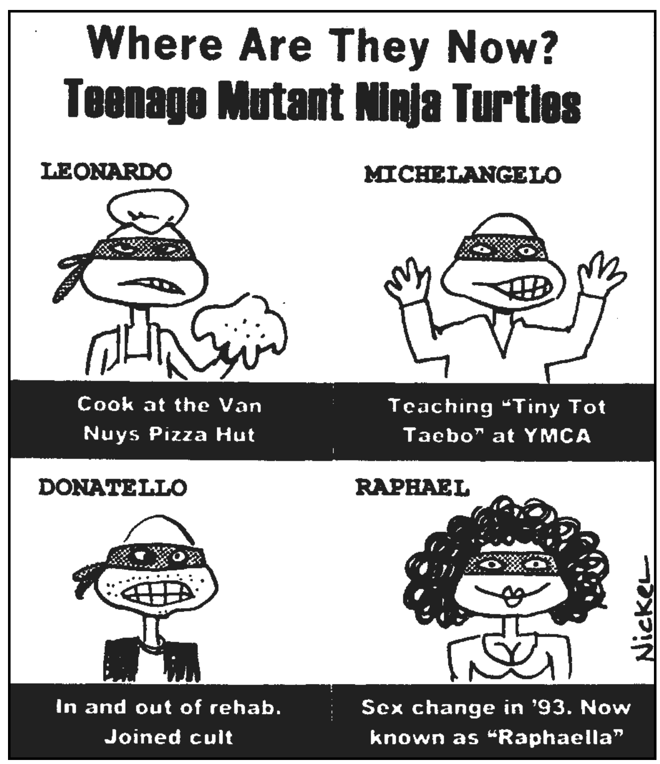
"Better Than Sex or Crime"

One sure sign of a mania is when a group makes the extraordinary seem ordinary – or said another way, when they believe that what is abnormal is some kind of new norm…without evidence.

Pokémon – This year alone, Pokémon cards – not the game, not the toys, not the movie, just the cards – have generated sales of $300 million and counting. That is **twice last year's total sales** for teen superstars Backstreet Boys and 'N Sync – **combined.** Even with the cards creating a panic mindset that drives kids to buy new packets just to find one rare card they do not have, with the video game generating huge sales and consuming inordinate amounts of kids' time and with *Pokémon: The First Movie* causing a wave of school absences for its mid-week opening – the biggest Wednesday release in November ever, beating even *The Lion King* – the Pokémon manufacturer, 4 Kids Entertainment, sees nothing but more and more. The company will soon market toothbrushes, vitamins, Band-Aids and more movies. (*Entertainment Weekly*, 11/12/99; *Variety*, 11/15/99)

Beyond a fad and exceeding a craze, the behavior surrounding Pokémon is becoming maniacal – that is, shaping behavior, consuming time, affecting prices (cards sell for more than the price stamped on the package) and personal relationships.

If the past teaches anything about manias, then 4 Kids, whose stock has risen from below $3 to near $75 in 9 months, might want to be less sanguine about being able to control the ride. Remember parents in Christmases past racing from mall to mall and from store to store for Beanie Babies? What about Tickle Me Elmo?



The Internet and the Media – The media adore the Internet. *Newsweek* published a special issue called "e-life," concluding with intimations of a modestly maniacal outlook: "The Internet is now transforming how Americans live, think, talk and love." *Time* ran a cover story called "Make Money.com," and the *New York Times* printed a 70-page special section on "e-Commerce." *Business Week* could not restrain journalistic hyperbole and called our era "The Internet Age."

John Huey, *Fortune*'s managing editor, confessed his industry's obsession is an extension of the advertisers' obsession, which is itself rationalized as a consequence of the consumers' obsession. After *Fortune*'s success with an August "Dot.com Fever" edition, the company made its next move. "The Internet sells better than sex or crime," Huey exclaimed. "The hunger for the thing is great. The story's become so rich and ubiquitous," he admitted, "that we can no longer contain the thing in *Fortune* without turning it into an Internet magazine," which, predictably, the company is now launching. (*Manchester Guardian Weekly*, 11/4/99)

Jon Katz of *Rolling Stone* noted that even with all the media attention, only 25 percent of the overall American population is online and, to him, the relentless focus on this singular activity is getting obsessive. "Either the Internet is destroying our kids and families and values, or we're awash in techno-hype about the Internet changing everything.…There's a difference between being important and reordering the Earth."

That difference might be between observing an important event – the media's job – and becoming maniacal about it, which the media have become to sell ads. Such is the condition of a mania that everyone involved comes to believe that everyone else is as deeply taken by "it" (whatever "it" is at a given moment) as the involved person is. Moreover, if a person is not taken by it, the maniacal mindset believes, then that person could be forever "lost."

Advertising for Online Companies – In the first half of 1998, Discover Brokerage Online spent just over $260,000 on newspaper and spot television advertisements. In the same period this year, it spent just under $19 million. Value America Store Online's spending jumped from just $2 million in the first half of last year to $13 million the opening half of this year. Hotbot spent nothing last year, but it threw roughly $4.5 million into ads in the first half of 1999. The list continues, and for the top 50 online advertisers, the number jumped from $22.5 million in the first six months of 1998 to over $104 million in the same months of 1999, a nearly **fourfold increase in one year**. From a broader perspective, for all of 1998, Internet companies spent a total of $323 million on television advertisements. In the first half of this year alone, they spent $400 million for TV ads. (*Editor & Publisher*, 10/16/99; *New York Times*, 11/2/99)

Online investment firms, many of which did not exist two years ago, bought more advertising time on the World Series than did General Motors, the marketing giant in sports advertisement. Those same companies have already purchased one-fourth of the very expensive Super Bowl time. By the end of 1999, online companies will have spent **$1.4 billion more this year** than last on television commercials. In addition, the largest among them have recently admitted that they plan on doubling or even tripling ad spending over the coming year. This

kind of expansion is unprecedented. One advertising agency executive confided, "By now, [dot com] companies are the air we breathe." (*International Herald Tribune*, 10/29/99; *Entertainment Weekly*, 11/5/99)

Internet Spending on Traditional Media Advertising

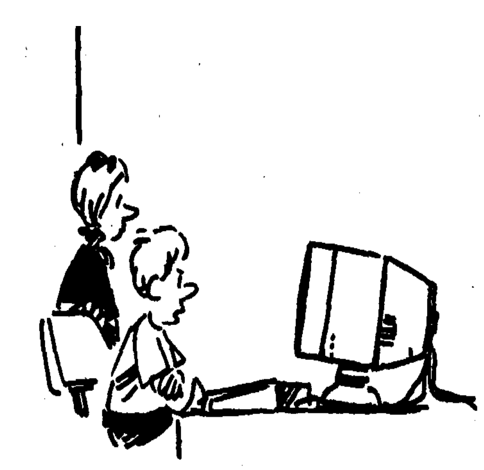
	1H 1999	% Chg. over 1H98
Network TV	$129.0	910%
Cable TV	$83.1	323%
Magazine	$81.2	206%
Spot TV	$63.8	136%
National Newspaper	$56.8	180%
Spot Radio	$50.1	318%
Local Newspaper	$24.1	238%
Network Radio	$18.3	71%
Outdoor	$5.9	521%
Sunday Magazine	$1.7	375%
Syndicated T.V.	$0.6	22%
Total	$514.7	273%

Source: Advertising Age

We probably should note that the 1999 World Series had the second-lowest viewership ever, and that this audience indifference is typical of sporting events in general. But in the midst of a mania, such subtleties are irrelevant. Of course, subtleties eventually can become excesses:

❖ Send.com, an e-commerce Web site for buying gifts, has raised $10 million in venture capital, but it has committed to $20 million in television advertising in the near term. (*New York Times*, 11/2/99)

If the Internet is the be-all and end-all, why are these companies spending so much money to sell their wares? If they feel the need to "brand" themselves so quickly and at such a price, what do they fear will happen if they do not? Consumed by the mania, they cannot see doing anything else.



"By the time we're grown, everything stupid will have already been done on the Internet!"

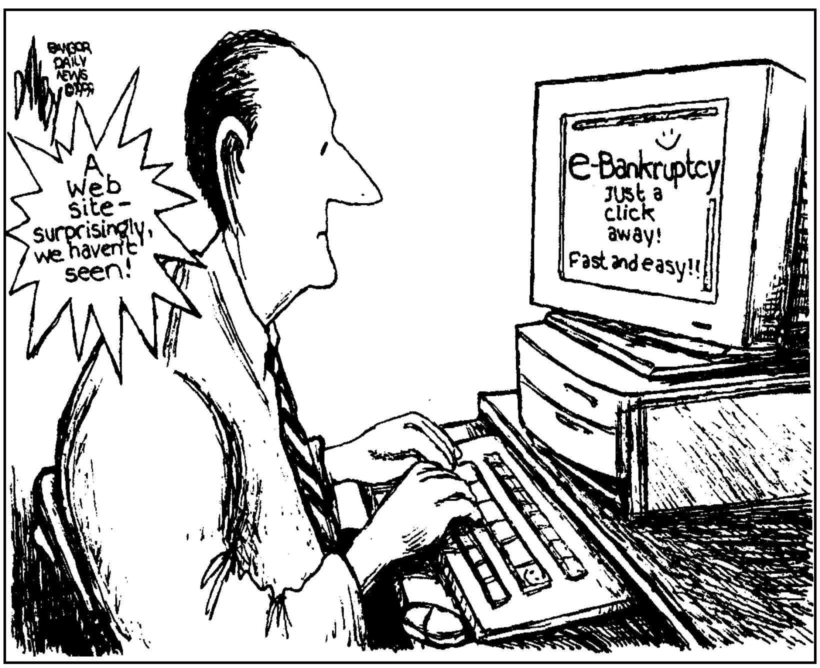
Internet Deals and Stocks – Consider the real meaning behind some of the following numbers. Akamai Technologies markets a product that accelerates delivery of Web pages to computer users. With **sales of $1.3 million**, Akamai has a **market capitalization of $16 billion**. Excite@Home agreed to pay **$1 billion** to buy Bluemountain.com, a privately held electronic greeting card company that **sells nothing**; it gives away greeting cards. Excite executives believe that the millions of customers who came to Bluemountain for free e-cards and talk will move to the not-for-free service it offers. (*New York Times*, 10/26/99 and 10/30/99)

Akamai and Excite, of course, are part of Nasdaq, but they have not been the heavyweights in that market. **One-third of the $3.7 trillion value** that all the 4,842 Nasdaq companies hold is in the hands of **just five companies**: Microsoft, Intel, Cisco Systems, MCI-Worldcom and Qualcomm. Moreover, during the time when the Nasdaq composite index rose by 51 percent, the Russell 2000 declined by five percent. In another measure that focuses attention on the mania, only **16 percent of Nasdaq stock companies** are computer companies, but they **account for half of Nasdaq's overall value**. Computers plus telecommunications account for just **one-fifth of the companies** but **two-thirds of Nasdaq's total value**. (*International Herald Tribune*, 11/5/99)

In the second quarter of this year, Priceline.com generated $112 million in revenue and lost roughly 10 cents per share. Yet the company has started to market its patented "buyer-driven" form of commerce. Already, Alliance Mortgage and Budget Rent-a-Car have paid undisclosed amounts of money for permission to use a business model that has yet to make a profit for the company selling the model. Interestingly, Priceline.com was one of the online companies to increase substantially its television-advertising budget, from $1.3 million to $4.8 million. (*Street.com*, 10/27/99; *Editor & Publisher*, 10/16/99)

The Securities and Exchange Commission (SEC) recently granted permission to two online companies – DoctorSurf.com and YouNetwork – to give away stocks over the Internet. The companies will give their stocks to online customers who enroll in their services. For example, the first 250,000 doctors who enroll online with DoctorSurf will get 100 shares of that company's stock, provided the physicians answer certain questions about themselves and their practice. This amounts to an IPO by barter. (*Wall Street Journal*, 11/16/99)

The World Wide Web now has somewhere between 500 to 600 million sites with a new Web site appearing every 17 seconds, while the number of Internet users, as of May, 1999, had just crept past 163 million, making the ratio of Internet users to Web sites roughly 1:3 and growing. But such excess capacity has not affected the mania, even if, as we noted in an earlier *Briefing*, it has started to affect Internet advertising prices (see "...And Money Comes from Everywhere: Advertising – A Favorite Financial Tool – Faces a Tougher Reality on the Internet," **IF 2015**, 6/4/99).



Mergers and Acquisitions – In 1998, with most Asian economies struggling, mergers and acquisitions (M&As) reached $2.4 trillion worldwide, a whopping **50 percent increase** over just one year earlier. This year, M&As will set another record for dollars – or in many instances, stocks – exchanging hands. As noted earlier, in the midst of a mania, people inside believe that the people outside are lost forever. To that point, in the 1980s, one-fourth of all M&As in the U.S. were hostile takeovers; last year, the number was negligible. (*Economist*, 1/9/99)

These numbers come amidst several longitudinal studies that discredit the M&A practice. Varying by the study, roughly two-thirds of all mergers do not return value to the buying company's stockholders. The examples are numerous – AT&T's purchase of NCR for $7 billion, selling it four years later for $3 billion, and Quaker Oats' takeover of Snapple for $1.7 billion, selling it three years later for $300 million. But the mania – in this instance, the talk – simply overwhelms reality. (*New York Times*, 12/6/98)

Consider these quotes from the mainstream press about a major M&A in the telecommunications industry:

Wall Street Journal – "The acquisition creates an unrivaled global entertainment production and distribution behemoth" that has a "prodigious cash flow" and, more importantly, has pleased all analysts and experts.

Business Week – "The deal makes all kinds of sense."

Wall Street analyst quoted in the press – "[The deal] will become the benchmark for the rest of the industry, by just about any standard."

The CEO of the acquiring company – "The synergies are under every rock we turn over. I am totally optimistic that one and one will add up to four here." (*Variety*, 10/11/99)

These types of quotes bring to mind the recent Viacom-CBS deal, and indeed, such talk did surround the deal. But these quotes were in response to the Disney-Capital Cities/ABC deal, which with time and perspective has been anything but positive. Disney paid $19.6 billion for Cap Cities. As the company's stock languishes, the deal looks strange today.

Meanwhile, Viacom paid $37 billion for CBS. Of course, this was all stock, which as everyone knows, is overpriced – so what the heck.

"We aren't willing to base our financial strategy on you laying eggs."

Body Fat and Extreme Games – During the 1990s, the number of American considered "obese" soared almost **50 percent**, meaning just under 18 percent of the population is now medically obese. The U.S. Centers for Disease Control and Prevention in Atlanta characterized the increase as an "epidemic." "We don't use the word epidemic lightly," explained Jeffrey Koplan, director of the CDC and author of the study. "This is an **unexpected rapid increase** in the number of cases of obesity, and it's really remarkable."

The point that caught the CDC's attention was not the overall percentage but the pace of the increase, which paralleled that of a flu epidemic rather than a chronic disorder. In 1991, four states had obesity rates exceeding 15 percent. Last year, the number of states had jumped to 37. Suggesting the future direction of the epidemic, the biggest increases came among people 18 to 29 years of age and those with some college education, two categories that have traditionally been among the lowest in obesity. (*Wall Street Journal*, 10/29/99)

A common perception of the 18- to 29-year-old cohort is that its members are intensely involved with one or another kind of extreme game and that they are hyper-involved with activities that test their limits, skills and daring. ESPN featured the "Extreme Games," which NBC followed with the "Gravity Games," both of which featured risky events outside the usual range of sports activities. Those not involved with televised extreme games were – so the story goes – involved in rock climbing, mountain biking and car surfing. Caught in this frenzy, *Time* and *Newsweek* ran cover stories detailing the sports and the participants and suggesting that society had become risk-hungry, a thought the magazine extended into investing, personal life and careers. But deep in one such article, a single fact jumped from the page: Between 1995 and 1999, the number of Americans actually participating in extreme activities had edged up only two percentage points, from 23 percent to 25 percent. Evidently, the rest were eating, if the CDC story has any validity. (*Christian Science Monitor*, 11/5/99)

These obsessions share several attributes: The perception of what is taking place is different from the reality; talk, among fellow participants or in the press, pushes the action; not to be a part of the action (or at least believe in its rightness) is a sign of naiveté or worse; participants are in a vortex of self-fulfilling actions, where the more people talk about their actions, the more participants feel validated; and only a minority of society at large is actually participating. In short, these are not fads or crazes – they are manias, and manias among a minority, at that.

Volatility and Irreversible Endings – The View From Outside the Mania

While these manias move across different sectors of society, events outside the range of those deeply involved in the manias call for a closer look.

Those who overeat know the dangers of obesity, but still they continue. Those who publicize them know the limited appeal of extreme games, but they continue to talk. Surveys reveal that fewer and fewer people are watching television, especially sports events, but online companies continue to increase their ad spending there. Whether kids know that the cards they willingly buy and collect (and in one instance, kill to possess) may lose their value as fast as they rose is an open question, kids certainly continue to buy for now.

In the larger arena of economics and stock markets, the mania mindset has taught participants to ignore otherwise meaningful events.

✥ In 1971, the year the Nasdaq stock exchange came into existence, 10 percent of its trading days ended with an increase or decrease of two percent in overall value. With the exception of 1974, that percentage never exceeded 25 percent, until 1996…and every year since, including 1999. At the present rate, this year will have had such daily up-and-down closings more than 60 percent of the time. Or said another way, just one decade ago the Nasdaq composite index averaged about **one "big" day per month** (a "big" day being an up or down of one percent or more). So far this year, the Nasdaq has averaged **three such days each week**. (*New York Times*, 10/19/99)

✥ The Russell 1000 index of "small cap" stocks is now averaging 42 percent price swings annually, close to the 44 percent during the Russian crisis and the 46.5 percent experienced in 1987. (*New York Times*, 11/21/99)

✥ One-day stock value declines among S&P 500 companies have reached interesting levels. In the first two weeks of October, for example, Raytheon lost 44 percent of its value, while Unisys lost 37 percent. Mattel and Lexmark both took 30 percent hits. In one year, the number of one-day plunges in excess of 15 percent nearly doubled, from 35 in 1997 to 65 last year. (*Wall Street Journal*, 10/22/99)

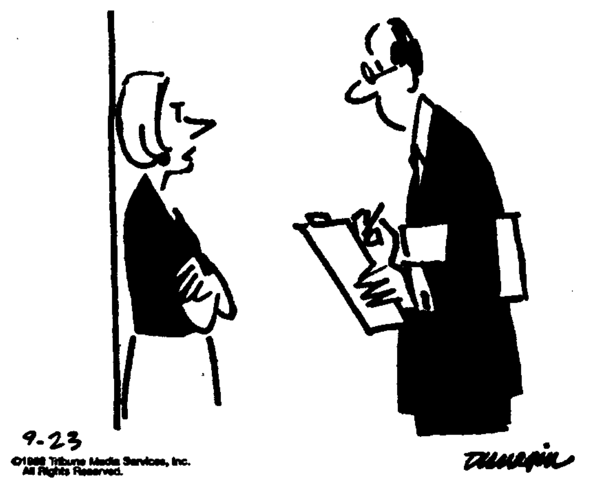
These types of swings, according to market watchers, have resulted from momentum investing, which punishes those even slightly short of profit estimates and greatly rewards those who make or exceed those estimates. Typically, these investors turn their portfolios six to seven times faster than the market in general, and the stocks they own are twice as volatile as the broader market. Interestingly, a recent study by the Graduate School of Management at the University of California at Davis discovered that those trading stocks the most from 1991 to 1996 performed less well than infrequent traders (11.4 percent returns, versus 18.5 percent), and also lagged behind the market in general (17.9 percent). (*New York Times*, 11/21/99)

On a similar but separate note, a U.S. government study revealed that in 1998 Americans spent more money on gambling (including state lotteries) than they did on groceries. Put that together with the phenomenal success of *Who Wants to Be a Millionaire?* (in one week, the show was 6 of the 10 most watched, primetime TV shows) and the focus on quick wealth looks more and more like a mania. (*New York Times*, 11/20/99 & 11/24/99)

In other instances, when enough people believe in and act on a mania (*e.g.,* investing in the top five stocks on the Nasdaq), it can come to pass. In this way, a mania can become self-fulfilling. Positive results attract more participants, and the mania becomes accepted as reasonable, or at least as the *Fortune* editor said of the Internet, it seems more enticing than "sex or crime."

Volatility is one consequence of mania. Another part of its reality is harder to describe. But consider this recent event.

✥ *Interview* magazine turned 30 years of age and celebrated with a party intended to recapture the excitement rampant at New York City's Studio 54 years ago. At the "Kit Kat Club," the magazine did its best to shock, entertain and enliven those gathered and give them the feeling that once pervaded the New York nightclub scene. The manic antics intended to generate excitement included Amanda Pore jumping naked from a large birthday cake, and topless "bell girls" wearing pasties, suspenders and caps. It failed miserably. According to observers, no one was shocked, the evening plugged along and the mood was "all wrong." The concerted effort to create an atmosphere and context proved ineffective. (*New York Times*, 11/2/99)



"I find that kind of behavior inexcusable in someone I don't like!"

The lesson here is simple: When something big ends, it ends, and nothing can revive it. That is why so many manias of the past have collapsed. People lost contact with the energy they derived from participating in the mania, or they had nowhere else to take the mania, or some fact cut through the hype and revealed a weakness at the core of the mania. So the maniacs turned away.

Unlike fads and crazes, manias, when they end, have consequences. Thus, two current manias suggest two effects: volatility and irreversible endings.

Pssssst. Hey Buddy! Wanna buy a Cabbage Patch Doll? Beanie Baby? How 'bout two tickets to *Titanic*. An SUV? What d'ya say, Akamai stock? Look up my sleeve, a real index fund!

And hast thou slain the Jabberwock?
Come to my arms, my beamish boy!