Handout 1
Excerpt from "Why Wall Street Always Blows It" by Henry Blodget in *The Atlantic* (December 2008)

To understand why bubble participants make the decisions they do, let's roll back the clock to 2002. The stock market crash has crushed our portfolios and left us feeling vulnerable, foolish, and poor. We're not wiped out, thankfully, but we're chastened, and we're certainly not going to go blow our extra money on Cisco Systems again. So where should we put it? What's safe? How about a house?

House prices, we are told by our helpful neighborhood real-estate agent, almost never go down. This sounds right, and they certainly didn't go down in the stock-market crash. In fact, for as long as we can remember—about 10 years, in most cases—house prices haven't gone down. (Wait, maybe there was a slight dip, after the 1987 stock-market crash, but looming larger in our memories is what's happened since; everyone we know who's bought a house since the early 1990s has made gobs of money.)

We consider following our agent's advice, but then we decide against it. House prices have doubled since the mid-1990s; we're not going to get burned again by buying at the top. So we decide to just stay in our rent-stabilized rabbit warren and wait for house prices to collapse.

Unfortunately, they don't. A year later, they've risen at least another 10 percent. By 2006, we're walking past neighborhood houses that we could have bought for about half as much four years ago; we wave to happy new neighbors who are already deep in the money. One neighbor has "unlocked the value in his house" by taking out a cheap home-equity loan, and he's using the proceeds to build a swimming pool. He is also doing well, along with two visionary friends, by buying and flipping other houses—so well, in fact, that he's considering quitting his job and becoming a full-time real-estate developer. After four years of resistance, we finally concede—houses might be a good investment after all—and call our neighborhood real-estate agent. She's jammed (and driving a new BMW), but she agrees to fit us in.

We see five houses: two were on the market two years ago for 30 percent less (we just can't handle the pain of that); two are dumps; and the fifth, which we love, is listed at a positively ridiculous price. The agent tells us to hurry—if we don't bid now, we'll lose the house. But we're still hesitant: last week, we read an article in which some economist was predicting a housing crash, and that made us nervous. (Our agent counters that Greenspan says the housing market's in good shape, and he isn't known as "The Maestro" for nothing.)

When we get home, we call our neighborhood mortgage broker, who gives us a surprisingly reasonable quote—with a surprisingly small down payment. It's a new kind of loan, he says, called an adjustable-rate mortgage, which is the same kind our neighbor has. The payments will "reset" in three years, but, as the mortgage broker suggests, we'll probably have moved up to a bigger house by then. We discuss the house during dinner and breakfast. We review our finances to make sure we can afford it. Then, the next afternoon, we call the agent to place a bid. And the house is already gone—at 10 percent above the asking price.

By the spring of 2007, we've finally caught up to the market reality, and our luck finally changes: We make an instant, aggressive bid on a huge house, with almost no money down. And we get it! We're finally members of the ownership society.

You know the rest. Eighteen months later, our down payment has been wiped out and we owe more on the house than it's worth. We're still able to make the payments, but our mortgage rate is about to reset. And we've already heard rumors about coming layoffs at our jobs. How on Earth did we get into this mess?

HANDOUT 1, CONTINUED
EXCERPT FROM "WHY WALL STREET ALWAYS BLOWS IT" BY HENRY BLODGET IN *THE ATLANTIC* (DECEMBER 2008)

The exact answer is different in every case, of course. But let's round up the usual suspects:

- The predatory mortgage broker? Well, we're certainly not happy with him, given that he sold us a loan that is now a ticking time bomb. But we did ask him to show us a range of options, and he didn't make us pick this one. We picked it because it had the lowest payment.
- Our real-estate agent? We're not speaking to her anymore, either (and we're secretly stoked that her BMW just got repossessed), but again, she didn't lie to us. She just kept saying that houses are usually a good investment. And she is, after all, a saleswoman; that was never very hard to figure out.
- Wall Street fat cats? Boy, do we hate those guys, especially now that our tax dollars are bailing them out. But we didn't complain when our lender asked for such a small down payment without bothering to check how much money we made. At the time, we thought that was pretty great.
- The SEC? [the U.S. Securities and Exchange Commission] We're furious that our government let this happen to us, and we're sure someone is to blame. We're not really sure who that someone is, though. Whoever is responsible for making sure that something like this never happens to us, we guess.
- Alan "The Maestro" Greenspan? We're annoyed at him too. If he hadn't been out there saying everything was fine, we might have believed that economist who said it wasn't.
- Bad advice? Yes, we got bad advice. Our real-estate agent. That mortgage guy. Our neighbor. Greenspan. The media. They all gave us horrendous advice. We should have just waited for the market to crash. But everyone said it was different this time.

Still, except in cases involving outright fraud—a small minority—the buck stops with us. Not knowing that the market would crash isn't an excuse. No one knew the market would crash, even the analysts who predicted that it would. (Just as important, no one knew when prices would go down, or how fast.) And for years, most of the skeptics looked—and felt—like fools.

Everyone else on that list above bears some responsibility too. But in the case I have described, it would be hard to say that any of them acted criminally. Or irrationally. Or even irresponsibly. In fact, almost everyone on that list acted just the way you would expect them to act under the circumstances.

Source: http://www.theatlantic.com/doc/200812/blodget-wall-street

Handout 2
Essay 1: Tulipmania

Conditions in the Dutch Republic in the 1630s were ripe for an outburst of speculative activity. There was a great deal of optimism in the economy emanating from a booming textile trade and the ending of the Spanish military threat. The legislature moved into a comfortable new building in 1631 and the East India Company was profitably developing its investments in Batavia (known today as Jakarta in Indonesia). The prices of shares of stock in that company rose faster than at any other time in the century. House prices were booming, generating a rush to construct larger, nicer houses. The Dutch enjoyed the highest incomes in Europe and were becoming a nation of consumers. The tulip became an ostentatious object of their affection.

Tulips were first brought to Europe in the mid-sixteenth century from Turkey and introduced to the Dutch in 1573. Initially confined to the gardens of the most affluent, they quickly became the symbol of wealth and the obsession of those who pursued them. They would eventually become the focus of rampant speculation. A sign of things to come occurred in 1624 when a striking sample of the Semper Augustus strain fetched the breath-taking price of 1,200 guilders, a sum sufficient to purchase a small Amsterdam townhouse.

Tulips (the word's origin was from the Turkish for turban) were ripe for speculation because of their unpredictable nature. It's understood today that the infinite variations in color were the result of a non-lethal virus common during this time, but to traders in the 1630s they represented a thrilling gamble. A plain breeder bulb could emerge as the most precious of samples generating a virtual tulip lottery. Public shares of companies cultivating the flower became wildly popular but most of the irrationality focused on bulb speculation. Tulip trading's association with status attracted opportunists from all classes. Weavers, spinners, cobblers, bakers, grocers, and peasants all staked their financial futures on the fortune wheel of bulbs. The nature of tulip trading changed as traffic increased. Private negotiations were common, but more frequently auctions occurred in the meeting rooms of inns where raucous bidding sessions (fueled by wine, beer, spirits, and sumptuous buffets) carried on into the night. Profits earned in the evening were quickly spent on new coaches, horses, and haute couture the next day. People who said the prices could not possibly go higher watched with chagrin as their friends and relatives made enormous profits. A market in tulip futures developed where investors paid for the promised delivery of a bulb in the spring by signing a personal credit note. To put things in perspective, at the height of the frenzy in 1636, the average annual wage in Holland was between 200 and 400 guilders. Bulbs were fetching prices in the thousands of guilders. It was calculated that the 2,500 guilders paid for one bulb could instead have bought 27 tons of wheat, 50 tons of rye, four fat oxen, eight fat pigs, 12 fat sheep, two hogsheads of wine, four tons of beer, two tons of butter, three tons of cheese, a bed with linen, a wardrobe of clothes, and a silver beaker. People started to barter their personal belongings including land, jewels, and furniture to obtain the bulbs that they expected would make them wealthier.

Handout 2, Continued
Essay 1: Tulipmania

On February 3, 1637, the tulip market suddenly crashed. Most of the bulbs promised and the credit statements wagered never materialized. When word got out that there were no more buyers, prices collapsed. For the individuals who had mortgaged their homes and exchanged their livestock for a lottery dream, the effects were catastrophic. Many tried to get their windfalls back through litigation of broken contracts. Finally, in May of 1638, a government commission declared that tulip contracts could be annulled on payment of 3.5 percent of the agreed price. Traders with foresight picked up numerous bargain bulbs at this juncture and claimed tidy profits when prices recovered to pre-mania prices within a few years. Tulipmania quickly turned to tulip aversion as people had difficulty casting their eyes upon the object of this tumult. After the collapse of the mania, the Dutch authorities went on a campaign of cleansing society of the wickedness and folly that had consumed it. These actions were an attempt to once and for all expunge the human affinity for irrational exuberance.

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Handout 3
Essay 2: The South Sea Bubble

At the time of the South Sea Bubble, a long period of British prosperity had resulted in swollen savings accounts and few places to invest them. The government did its part to encourage investment by eliminating taxes on dividends and allowing stock to be one of the few forms of property that women could possess in their own right. The War of the Spanish Succession left Britain in debt by 10 million pounds. In 1711, Britain proposed a deal to a financial institution, the South Sea Company, whereby Britain's debt would be financed in return for 6 percent interest. Britain added another benefit to sweeten the deal: exclusive trading rights in the South Seas. The South Seas meant Africa, the East and West Indies, South America, and Asia.

The South Sea Company quickly agreed because of the prospects of trade with wealthy South American colonies. The company planned on developing a monopoly in the slave trade. Additionally, it was thought that the Mexicans and South Americans would eagerly trade their gold and jewels for the wool and fleece clothing of the British. The South Sea Company issued stock to finance operations and gain investors. Speculators quickly saw what they perceived as value in the monopoly of the South Seas. Shares were snatched up from the start, resulting in a second issuance. Investors seemed to have no reluctance despite the company having a highly inexperienced management team at the helm. Their sights were set on stratospheric profits. The South Sea Company was a combination of politics, commerce, and finance. None of its governors or directors had any experience in trade with the New World, but John Blunt, who wrote the charter and was the company's dominant director, had been a scribe and then director of the Sword Blade Bank. He and his cohort had a fine understanding of financial manipulation. They also understood the art of public appearance and rented an imposing building in London. They furnished it with trappings of success. The South Sea Company was really a financial institution that used its monopoly primarily as a means of attracting investors. Some slave-trade voyages were made but these produced little profit. When Britain and Spain officially went to war again in 1718, the immediate prospects for any benefits from trade with South America were dashed. What mattered to speculators, however, were future prospects, and here it was argued that incredible prosperity lay ahead and profits would be realized when open hostilities came to an end.

In 1719, the South Sea directors made a proposal to assume the entire public debt of the British government generated during the second war. A large number of bribes were paid to politicians to sway the vote, often in fictitious holdings of stock. The government agreed in April 1720 and the Company immediately started to drive up the price of the stock through artificial means; these largely took the form of new subscriptions combined with the circulation of new trade-with-Spain stories designed to give the impression that the stock could only go higher.

South Sea stock rose steadily, prompting the sudden appearance of all kinds of joint-stock companies hoping to cash in on the speculation mania. New ventures materialized, all with a "New World" flavor. People could now invest in land in what would become Mississippi, walnut imports from what would be Virginia, or the improvement of Greenland fisheries. Raising sums of money from selling stock became quite simple. The height of sheer mania was illustrated through a business enterprise described as "A company for carrying on an undertaking of great advantage, but nobody to know what it is" (Mackay):

> [*the prospectus stated] that the required capital was half a million, in five thousand shares of 100 pounds each, deposit 2 pounds per share. Each subscriber, paying his [or her] deposit, was entitled to 100 pounds per annum per share. How this immense profit was to be obtained, [the Proposer] did not condescend to inform [the buyers] at that time, but promised that in a month full particulars should be duly announced, and a call made for the remaining 98 pounds of the subscription. Next morning, at nine o'clock, this great man opened an office in Cornhill. Crowds of people beset his door, and when he*

HANDOUT 3, CONTINUED
ESSAY 2: THE SOUTH SEA BUBBLE

shut up at three o'clock, he found that no less than one thousand shares had been subscribed for, and the deposits paid. He was thus, in five hours, the winner of 2000 pounds. He was philosophical enough to be contented with his venture, and set off the same evening for the Continent. He was never heard of again. (Mackay, pp. 55-56)

"In order to pay out profits, the South Sea Company needed both to raise more capital and to have the price of its stock moving continuously upward," wrote the economist and MIT professor emeritus Charles P. Kindleberger in his classic work *Manias, Panics, and Crashes: A History of Financial Crises.* "And it needed both increases at an accelerating rate, as in a chain letter or a Ponzi scheme."

The company repeatedly raised cash through new issues of stock as its price spiraled upward in the summer of 1720. Not even the South Sea Company was capable of handling the demands of all the buyers. Investors searched myopically for the next ground-floor opportunity. At the height of absurdity, there were nearly 100 different projects proposed to investors. Opportunities included importing large numbers of donkeys from Spain, a venture to make fresh water out of salt water, developing plywood out of sawdust, extracting silver from lead, producing a wheel of perpetual motion, and extracting sunlight from cucumbers. For a while it seemed the public would buy anything. Ultimately, the stock company scams were bad for South Sea business. South Sea stock had been at 175 pounds at the end of February, 380 at the end of March, and around 520 by the end of May. It peaked at the end of June at over 1,000 pounds. With legitimacy seriously in doubt and widespread rumors of sell-offs, the bubble began to deflate. By mid-August the bankruptcy listings in the *London Gazette* reached an all-time high, an indication of suffering by people who bought on credit or margin. Thousands of fortunes were lost, both large and small. The directors attempted to generage more speculation, but they failed.

The full collapse came by the end of September when the stock stood at 135 pounds. A committee was formed to investigate the South Sea Company; by early 1721 it uncovered widespread corruption and fraud among the directors, company officials and their friends in government. Unfortunately, some of the key players had already fled the country with the incriminating records in their possession. The South Sea Bubble affected the fortunes of many and remained in the consciousness of the Western world for the rest of the 18th century, not unlike our cultural memory of the 1929 Wall Street crash.

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Handout 4
Essay 3: The Roaring Twenties Stock Bubble

The 1920s was absolutely going to be the decade of difference. Rarely before had the perfect elements of promise fallen so gracefully into place. The end of World War I brought a significant recession in 1919-1921 as the economy slowly reverted to civilian life. By 1922, the engines were fired up and the country experienced an average rate of growth of 5.5 percent for the remainder of the decade. The economy was driven by new investment opportunities in three new areas: electric power, telephones, and automobiles. Investment expanded to related areas like road building, service stations, and oil refining. The proliferation of the car promoted the development of suburbs and the first commuters. Homebuilding began to boom and, with it, housing prices. Another technology that attracted a great deal of investment interest was the radio. Although it would not become commercially viable until later, it caught the fancy of many stock traders. The trans-Atlantic travels of Charles Lindbergh and the film crews that captured his magic moments generated excitement in the aviation and motion picture industries. It was widely perceived to be the dawning of a new age of prosperity.

The financial powers fueling this growth were sensing an unprecedented confidence. The creation of a central bank, the Federal Reserve in 1913, was perceived to be the solution for wild business cycles. The booms and busts that had occurred in the past would now be easily managed in the future by the powers of the Fed to manipulate the money supply. On the public relations front, the White House was touting the new paradigm as "Coolidge prosperity," which included a softening of anti-trust legislation, extension of free trade, low inflation, and a stream of pro-business and pro-growth propaganda.

As is often the case, the fruits of this prosperity were not equitably distributed. While the rich got richer, the working class did not. The pro-business sway of the Republican administrations during the decade resulted in impediments to the progress made by labor since the Gilded Age. Discouraged and often intimidated from organizing, many workers saw their real wages decline. The evaporation of purchasing power created a dearth of consumers for the growing inventories. But demand was vitalized by the creation of a broad new program of consumer credit—the installment system. By the end of the decade, about one in eight consumer purchases of all kinds were made with credit.

Affording credit to investors stimulated an explosion of brokerages as more people found it possible to reach for their dreams. The Federal Reserve accommodated the surge of borrowers by lowering interest rates in 1925 and not raising them until 1928. The continuously rising market and the profits generated from buying on margin were too enticing for many to ignore.

Share prices for a wide array of equities exploded in the latter half of the decade. General Motors shares increased ten-fold between 1925 and 1928. The radio industry was dominated by Radio Corporation of America, both the leading manufacturer and broadcaster in the nation. Its share prices rose from a low of $1.50 in 1921 to $85.50 in early 1928. Prices on average on the New York Stock Exchange increased a whopping two and a half times between March 1926 and October 1929. These years were punctuated by the proverbial madness that infects crowds.

Meanwhile, the strains of this go-go economy were beginning to be felt. Share prices were rising at a pace three times the rate of growth of corporate earnings, the increase in interest rates had began to quell consumption, installment loans had reached their limits as real wages continued to decline, a severe decline in commodity prices dramatically affected the fortunes of farmers who comprised a major segment of the population, and growth slowed as many consumers now had the houses, cars, and radios they needed. Unfortunately, most of the speculators ignored the dissonance and kept on buying. In the autumn of 1929, Yale economist Irving Fisher declared that "stock prices have reached what looks like a

Handout 4, Continued
Essay 3: The Roaring Twenties Stock Bubble

permanent high plateau." A few weeks after his remarks the Dow Jones Industrial Average had declined by more than a third. By July 1932, the Dow Jones closed at 41.88, a 90 percent decline from the point at which Fisher spoke.

As is always the case, the platitudes about the new era of permanent prosperity were wrong. Banks shuttered their doors by the thousands, the nation's real GNP fell 60 percent from its 1929 levels, and by 1932, 25 percent of the nation's workforce was unemployed. The greatest stock speculative bubble to date had burst and was followed by the greatest depression to date.

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Handout 5
Essay 4: Japan's Bubble Economy

The period between 1985 and 1990 was a time of unprecedented affluence in Japan. But it was also a period of unparalleled corruption, extravagance and waste for this island nation. When the bubble burst, the Japanese economy regressed to depths from which the country has yet to fully recover from.

Japan's economy boomed in the late 1950s and through the 1960s. The Nikkei stock market index, which started at 100 in May 1949, was at 5,000 in the early '70s and at 10,000 by 1984. Innovation and technological progress dramatically improved productivity, resulting in a surge of economic growth with little inflation. The government engaged in deregulation to encourage further investment, but it also added to speculation in stocks and real estate. Japan was hitting peak economic performance in manufacturing. The world couldn't get enough of Japanese cars or electronics. Money poured into Japan. The Japanese people benefited from their nation's growth and personal savings rates reached an all-time high.

In September 1985, a meeting was held at the Plaza Hotel in New York City hosted by the U.S. and attended by trade representatives of Japan and three other countries. An agreement was signed calling for the depreciation of the dollar against the yen with the intended outcome being less-expensive U.S. exports and a lower U.S. trade deficit. The vast amount of saving in Japan had contributed to lower interest rates. The Japanese central bank further lowered interest rates as concern about possible falling exports arose.

Japanese banks began freely lending to corporations and individuals; much of the credit was funneled into real estate. When the land increased in value, even more loans were used to speculate in real estate and in the stock market. A rapid cycle was created, resulting in excessively overvalued real estate and stocks. During the second half of the 1980s, the Tokyo Stock Exchange's compass seemed permanently stuck on north. Between 1986 and 1991, Japan's assets expanded by roughly the equivalent of France's gross domestic product, then $956 billion. Very little government intervention was even suggested as asset values skyrocketed.

Life inside Japan during these years was surreal. A nation historically recognized for its frugality now saw life as one extravagant party. Land prices made headlines around the world. At the start of the 1990s, a square meter of prime urban real estate cost as much as $300,000. Homes were so expensive in land-scarce Japan that families took out multigenerational loans. The property that housed the Imperial Palace in downtown Tokyo was believed to be worth as much as the entire state of California. It was also a period of increased international travel with Japanese consumers scouring the world for Louis Vuitton, Armani, and fine wine. Some of the most conspicuous art sales in history were made, most notably several multi-million dollar runs on Van Gogh's paintings. Banks continued to lend heavily, with land as collateral. No one, apparently, questioned the wisdom of this, despite Japan's aggregate property value reaching levels four to five times the aggregate property value in the U.S. — and Japan is smaller than California.

The strong yen made it very inexpensive for Japanese investors to purchase American assets. Famous American landmarks were being snatched up by speculators. New York's Rockefeller Center and California's Pebble Beach golf course were among the iconic landmarks purchased by Japanese investors.

In late 1990, a wave of rationality washed over the country as the Japanese were unable to finance the rise in asset prices any longer. An international recession and increased competition in autos and electronics slowed the growth in Japanese exports. Some weak banks failed. Many began to recognize that interest rates were too low and that stock and land prices were unrealistically high.

HANDOUT 5, CONTINUED
ESSAY 4: JAPAN'S BUBBLE ECONOMY

The real estate and stock markets collapsed. The Tokyo Stock Exchange lost more than two trillion dollars of value by December 1990. Economic growth stalled and newspapers were filled with stories of businesses going bankrupt. Japanese investors began unloading their foreign assets for pennies on the dollar. Exposure of corrupt deals involving senior leadership at some of the more venerable banks doused any remaining optimism. Residential lending firms collapsed and banks were forced to merge and consolidate their bad loans. The government attempted to resuscitate the economy with big public works projects, but nothing seemed to work. The next 10 years came to be known as Japan's "Lost Decade" as the nation struggled to emerge from a lengthy trough. Consumers went back to their extraordinarily austere traditions, vowing never again to abandon the country's moral, social, and cultural values. As is so common, the nation had become intoxicated by its good fortune and believed that this time was different. Those assigned to guarding the gate missed the signs and reacted far too late. The recoil response was as dramatic as the flight of fancy and the Japanese economy came back to earth with remarkable speed.

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Handout 6
Essay 5: The Dot-com Bubble

Wrigley Launches "Internet Bubble" Gum®

Chicago, Ill. (SatireWire.com) *— The world's biggest chewing gum maker today unveiled Wrigley's Internet Bubble Gum®, the "irrationally overpriced gum" that produces an "unsustainably large" bubble. The gum, which went on sale this morning at $14 a pack, reached an intraday high of $84 a pack, but ended the day at just 25 cents. As a result, Wrigley announced it will reevaluate its ingredients model, and lay off one-third of its employees.*

Public awareness of the existence of something called the Internet did not exist prior to the 1990s. A boom period quickly followed with everyone sizing up the value of this tool to business and society. As is often the case, many people perceived limitless opportunities and saw no downside to the potential of the World Wide Web. The obsession of getting in on the ground floor of what could be a "once in a century" opportunity was too compelling. From 1995 to the beginning of 2001, the mania surrounding the development of the dot-coms was real. Entrepreneurs, financiers, and casual investors imagined themselves at the dawn of a new paradigm and they expected to profit beyond their wildest dreams.

The sounds of a successful dial-up connection on Netscape and the declaration "You've Got Mail" on AOL were becoming increasingly familiar and companies recognized this as an unchartered gateway to expanding their customer base. As a result, droves of Internet start-ups sprouted everywhere in an attempt to capture this audience and master the medium. Many of these companies arrived under the illusion that if you build it, paying customers will come. Thousands of companies were formed to be a one-stop shop for all needs: virtually every site wanted to have an auction section, and there seemed to be as many search engines as people searching. In addition, there was the army of writers to create the content filling all of these locales.

Some of the more notable premiers and highlights were:

- Amazon, 1994
- Craigslist, 1995
- Yahoo, MSN, and eBay, 1995
- eToys, 1997
- Boo.com, Flooz.com, Go.com, Kozmo.com, and Pets.com, 1998
- Google, founded in 1998
- Gov.Works.com, Kibu.com, Webvan.com, MVP.com, 1999
- AOL acquired Time Warner in 2000
- Super Bowl XXXIV in January 2000 featured 17 dot-com companies that each paid over two million dollars for a 30-second spot

Many of these technology companies were selling stock in initial public offerings (IPOs). Some initial shareholders became overnight millionaires as other investors jumped on board to purchase the stocks in the weeks following the IPOs. A perfect illustration was in the initial offering of Netscape, an early rival to AOL. In 1995, five million shares were offered for sale at an opening price of $28. The stock rose as high as $74 on the first day before closing at $58. Between 1992 and 1996, the market valuation of AOL increased from $70 million to $6.5 billion. The hype over the new economy was met with a broad expansion of new investors in the stock market. Americans poured money into equities and especially dot-coms.

The growth of 401(k) retirement plans and the overwhelming contributions into the stock market were like gasoline on the fire. In a year and a half starting in 1995, the Dow Jones Industrial Average rose 45 percent and the NASDAQ Composite 65 percent. By the summer of 1996, there were over 800,000 online

Handout 6, Continued
Essay 5: The Dot-com Bubble

stock trading accounts in the United States. A few doomsayers cautioned about an overheated market, but they were scoffed at by the euphoric herd that felt that this was actually the moment when man had it all figured out.

Washington did its part to fan the flames. Both Bill Clinton and Al Gore touted the "information superhighway" as the bridge to the future. Alan Greenspan, the Chairman of the Federal Reserve, kept interest rates low, spoke frequently on the benefits of technology, and failed to rein in the speculative nature of the market.

By 2000, the bubble began to show signs of weakness. In March of that year, the NASDAQ index peaked at 5,000 (an astounding number considering it is less than half that 10 years later). It became clear that many of the fledgling companies could not continue with no revenues, only costs, and thus no profits. The money generated by the IPOs was the only revenue for many. Very few of these companies would ever turn a profit in their brief existence. A handful of the pioneers survived, but the vast majority of hopefuls spent much more than their initial revenues.

The NASDAQ lost 19 percent and the Internet sector index lost 32 percent over three days in the spring of 2000. Without a doubt, the Internet changed the world, but while investors and entrepreneurs were measuring what they called "eyeballs" (the number of people looking at web pages), many forgot basic business fundamentals: revenues, costs, and profits.

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