



Top Ten Words That Almost Rhyme With Bubble

“What the wise man does in the beginning, the fool does in the end.” Warren

You might find it hard to believe that the very first “Top Ten List” from David Letterman’s Late Night show appeared on September 18, 1985. In fact, the topic of the first “Top 10 List” was the catchy “Top Ten Words That Almost Rhyme With Peas.”

You might also be surprised to learn that in 1985, the Dow Jones Industrial Average was trading around 1,300 on its way to an annual gain of more than 27% that year. And this was on the heels of 1984’s decline of about 4% for the DJIA.

Further, 1985 was followed by another 20%+ year and then a staggering string of gains in each of the next 13 years, interrupted only by 1990’s drop of 4% and then halted by the bursting of the Dot-com bubble in 2000.

So, as a tribute to David Letterman’s very first Top Ten List, let’s create our own “Top Ten Words That Almost Rhyme With Bubble.”

But be warned: our rhyming skills aren’t very good.

#10: Records

The DJIA recently crossed 30,000 for the first time in history and is up more than 60% since March, which also happens to be the fastest recovery from a 30%+ market drop ever.

#9: 9 Years?

According to the National Association of Realtors, we have witnessed 103 straight months of year-over-year gains in home prices.

#8: Interest Rates

Interest rates are at historical lows. In fact, the Fed has maintained its target interest rate of 0% to 0.25% since mid-March, as a response to the COVID-19 pandemic. Borrowing money is exceptionally cheap.

#7: FANG+

As of the end of November, the NYSE FANG+ index of giant tech companies is up almost 80%.

#6: Tesla

Trading at 15 times revenues and 100 times its expected earnings, Tesla kicked off 2020 at a stock price of \$86.05 and crossed over the \$600/share threshold in early December.

#6. Housing

The median home price for all housing types is up 14.8% from a year ago. All housing. Everywhere.

#5: NASDAQ

So far in 2020 and through Friday, December 3rd, NASDAQ is up 38.9%. Contrast that with a gain of less than 6% for the DJIA through the same time

period. And remember we had a pandemic thrown in there too.

#4: Small Caps

Yes, small caps have not performed as well as their large-cap cousins for most of 2020. But for the month of November, the small-cap Russell 2000 leapt over 18% on its way to its best monthly gain of all time. Of All. Time.

#3: Energy

The Energy sector:

- Jumped more than 30% in the second quarter;
- Lost almost 20% in the third quarter;
- Leapt almost 27% in November; and
- Is still down close to 40% YTD at the end of November.

#2: Tesla (Again)

Tesla's market cap is higher than General Motors, Fiat Chrysler, Ford, Toyota, Volkswagen, Honda and Nissan combined. And Tesla only produced about 368,000 vehicles in 2019 and is on track to increase that to about 500,000 this year.

In 2019, GM produced about 2.9 million vehicles. In just the second quarter of 2020 – during the worst of the pandemic – GM produced about the same number of vehicles that Tesla will produce for all of 2020.

#1: Crypto

So far in 2020, the three biggest cryptos – Bitcoin, Ripple and Ethereum – have gains of 150%+, 200%+ and 300%+.

A single Bitcoin is startlingly close to being “worth” \$20,000 today. And the Crypto Research Report has predicted one Bitcoin will be “worth” \$397,000 in 2030.

Warren Buffett on How Bubbles Form

Warren Buffett was speaking about the rise in copper prices, but his response is relevant today too:

“Like most trends, at the beginning it’s driven fundamentals, and at some point, speculation takes over. The fundamentals cause something that people looked at for years without getting excited about. Fundamentals change the picture in some way...It’s that old story of what the wise man does in the beginning, the fool does in the end.”

And with any asset class that has a big move that’s based initially on fundamentals is going to attract speculative participation at some point, and that speculative participation can become dominant as time goes by.”

What’s the first word you think of that really rhymes with “bubble?” Trouble? Rubble? Let’s hope not.