Abstract (Summary)
Bubbles are puffed up, not puffed down. That is why we need a phrase to describe the anti-bubble. Perhaps the analogy is found somewhere in physics. We observe a bubble when a tiny quantity of matter expands to become a very large object. The opposite is when a large quantity of matter seems to be compressed into something even smaller. That process needs to be distinguished from the black hole, from which no value will ever emerge - as at Enron, where short-sellers drove the price towards its fundamental value of zero. In the opposite of a bubble, as in the bubble itself, speculative activity and momentum trading take prices steadily away from fundamental value.

In a bubble, prices become disconnected from values because purchasers believe that, whatever the fundamentals, they will soon be able to sell what they have bought at a higher price. The bubble must burst eventually because the supply of new people willing to buy at ever higher prices will be exhausted, and generally bursts sooner than that because people come to realise this.

In the opposite of a bubble, prices become disconnected from values because sellers believe that, whatever the fundamentals, they will soon be able to buy what they have sold at a lower price. The anti-bubble must also eventually collapse because the supply of new people willing to sell at ever lower prices will be exhausted.

In the world of perfectly efficient markets, everything that might be known is already in the price. But there is a difference between the way good news and bad news affects prices. Long positions are easier to acquire than short. Companies are anxious to get good news out, while bad news has to be dragged from them. Glowing accounts of future prospects are often a preliminary to disappointment, while a profits warning is more often followed by a second profits warning than by an announcement that things were not, after all, as bad as they seemed.

But this asymmetry between ups and downs is less than it was. Even for the small investor, short-selling is now easy and common. Short positions still carry some opprobrium: somehow, it is more immoral to speculate by selling something you do not have than by buying something you do not want. But much of the objection is fuelled by resentment that the market is not as susceptible to spin as spin doctors would like. Nigel Lawson, as chancellor of the exchequer, denounced "teenage scribblers" in 1988 as sterling and gilts fell in the face of his cheery descriptions of the state of the British economy. But the teenage scribblers were right. Today, managers fume as their share prices display the truths they did not wish to acknowledge.

Analysts are less relentlessly upbeat than in the heyday of the fallen high-flyers Jack Grubman and Henry Blodget; companies are under more regulatory pressure to give up-to-date trading information; and the influence of hedge funds spreads bad and good news through the market more quickly. The very speed with which the market assimilates information creates problems and paradoxes.

Both the bubble and its opposite gain momentum from the difficulty of believing that everything that is expected is already in the price. Surely the announcement of a new product will lift the value of a start-up company? Surely a terrible trading statement from a housebuilder will depress the share price? Since there is inevitably some uncertainty, it is not unreasonable to believe these things, yet if these statements were necessarily true there could be no price for the start-up company that was too high, and none for the housebuilder that was too low. The economist Paul Samuelson proved that perfectly anticipated prices fluctuate randomly, but less than perfectly anticipated prices may fluctuate wildly.
But bubbles are puffed up, not puffed down. That is why we need a phrase to describe the anti-bubble. Perhaps the analogy is found somewhere in physics. We observe a bubble when a tiny quantity of matter expands to become a very large object. The opposite is when a large quantity of matter seems to be compressed into something even smaller. That process needs to be distinguished from the black hole, from which no value will ever emerge - as at Enron, where short-sellers drove the price towards its fundamental value of zero. In the opposite of a bubble, as in the bubble itself, speculative activity and momentum trading take prices steadily away from fundamental value.

The right term for the phenomenon remains elusive. A bottle of champagne awaits for the most compelling entry.

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