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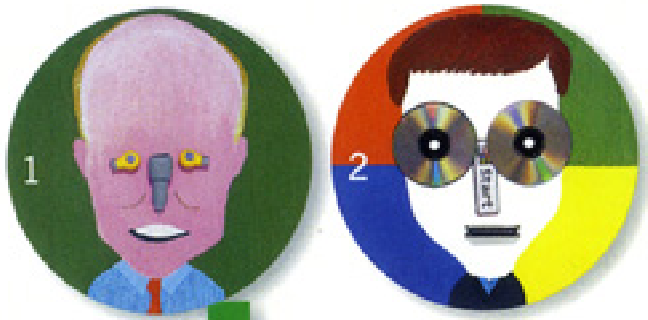

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meet the new market makers

They're young, they're rich, and they couldn't care less about Graham & Dodd. But they're the ones driving those insane tech stocks, and they're not going away.

by Nelson D. Schwartz

There are about 20 minutes to go before the stock market closes, and I'm standing next to 24-year-old Adam Mesh in the sprawling offices of Tradescape, a Manhattan day-trading firm. "Hey, check out PLUG," Mesh yells out. Overhead, on one of Tradescape's ubiquitous TV monitors, CNBC's Joe Kernen is talking up Plug Power, a fuel-cell company that Mesh and the other twentysomething traders here have never heard of before today.

On his multicolored computer screen, Mesh is watching PLUG, already up $15 to $53, suddenly begin to surge again. He jumps in, buying 500 shares at $55. About a minute later he gets out at $58. But PLUG is still soaring, so Mesh gets back in, this time at $60. I look around at the other traders squeezed shoulder to shoulder in Tradescape's offices, and on every screen the ticker PLUG is flashing, its shares furiously moving higher.

"What the heck is this company?" I ask. "It's PLUG," Mesh says. Yeah, I know that much. But what does it do? "I don't know," Mesh responds, without looking up. "Power, I guess." I decide to let the issue drop, and with PLUG now about to close at $79, the question of what the company does seems pretty irrelevant. In a rapid bout of buying and selling, Mesh trades nearly 10,000 shares of PLUG in the few minutes I stand behind his desk, mak-

PHOTOGRAPHS BY NINA BERMAN—SIPA

Kirk Kazazian, Omar Sharif Amanat, and Adam Mesh
Tradescape, New York

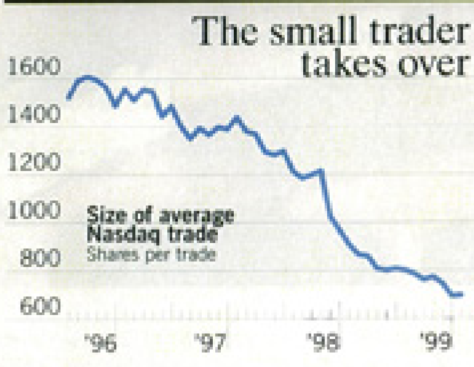
ing $20,000 in the process. It's been a good day for Mesh, but for some traders it's been even better. "I made a honey," one guy calls out, using trader slang for $100,000. "Can you believe this?"

Clad in a scruffy old T-shirt and in desperate need of a shave, Mesh is an unlikely mascot for the new world of Wall Street. But at a time when day traders, Internet message-board prowlers, and plain old folks with Ameritrade accounts are increasingly driving the action, it's Mesh—not Peter Lynch or Warren Buffett—who typifies today's investor. They're the ones who are moving the stocks that you hear about on CNBC and at cocktail parties, those names that jump 20% a day, sometimes 200%.

Nowhere is this new reality more obvious than among Nasdaq's highfliers. Forget Cisco or Microsoft or Oracle. Those hot stocks of yesteryear are now practically blue chips. No, we're talking about the real occupants of the Nasdaq stratosphere, stocks like JDS Uniphase or PMC-Sierra or BroadVision. All tech companies, and almost all linked to the growth of the Internet, these stocks have proven irresistible for mutual fund managers and day traders alike, and they've amassed huge valuations in recent months. JDS Uniphase is now worth over $60 billion, almost $10 billion more than the No. 1 company in the FORTUNE 500, General Motors. Although institutions control the bulk of the shares of JDS Uniphase and other white-hot issues, it's the individual investor who is betting on the wild swings in these stocks. The average trade in JDS, for example, added up to just over 300 shares in January—a far cry from the 10,000- or 20,000-share blocks institutions traditionally buy and sell.

The passion for trading by ordinary investors hasn't just affected a few select stocks, however. It has reshaped the entire market landscape. Since 1996, the size of the average trade on Nasdaq has dropped 50%, to just under 700 shares. What's more, the old philosophy of buy and hold has gone out the window: The average Nasdaq stock is now held for just five months, according to a recent study, down from two years a decade ago. Meanwhile, trading volume has surged—the month of January was the busiest ever for both Nasdaq and the New York Stock Exchange. Hand in hand with the frenetic pace of trading is increased volatility: In ten of 21 trading sessions last month, Nasdaq moved by 2% or more.

The lure of day trading is apparent in the wider culture too.



TD Waterhouse's new ad features former Chicago Bulls coach Phil Jackson doing a trade from the back of a limo. Meanwhile, Olympic skaters Kristi Yamaguchi and Bonnie Blair talk up the cheap trades available from Fidelity. Last month, the *Wall Street Journal*, long a paragon of the old-fashioned buy-and-hold approach, featured an advice column, entitled "Rules for When You Shred the Rules," with tips on how to trade more effectively. "Lurking inside every long-term investor," the columnist noted, "is a day trader itching to get out."

Even professional money managers, who are trained to regard day trading as little more than gambling, have no choice but to track the Yahoo chat boards and other online

Tradescape, New York
Four hundred day-trading clients take up four floors. On one recent day, Tradescape alone accounted for 3% of Nasdaq volume.

> "I love a strong stock on a weak day. I mean, it's like it's calling my name."

gossip centers that the amateurs frequent. They've simply become too important to ignore. "The boards are pretty powerful," says Rod Berry, co-manager of the RS Information Age fund, a perennial top performer among tech funds. Berry denies ever making a trade based on information on the boards, but he admits, "You can get ideas from them, and they help you stay in the flow."

Ron Elijah, who is Berry's boss and the chairman of Elijah Asset Management in San Francisco, isn't as partial to the message boards as Berry. But what does Elijah do first thing when he gets out of bed each morning at 5 A.M.? He goes to his computer and checks the Yahoo Finance site for the latest news and headlines. More than 3,000 miles away in Miami, that's exactly how divorce lawyer and part-time day trader Henry Bugay starts his morning, too, right down to the time and Website. When a money manager with a billion dollars and a divorce lawyer with $500,000 both rely on the same source of information at exactly the same time, it's pretty obvious that something out there has changed.

Indeed it has. The masses on Main Street now have almost as much information as the aristocrats who long ran Wall Street. Armed with instant information from the Internet and CNBC, and enabled by rapid trading systems like Tradescape's, the mob has taken over the manor. When we set out in search of the soul of the new market, the source of its wild volatility and unprecedented profits and losses, we didn't see much of the self-interested but rational action that economists presume to be any market's driving force. Instead we found a rowdy, raucous bazaar driven mainly by gut instinct. It's not what anyone over 30 is used to, but there's no use tut-tutting. It's here to stay.

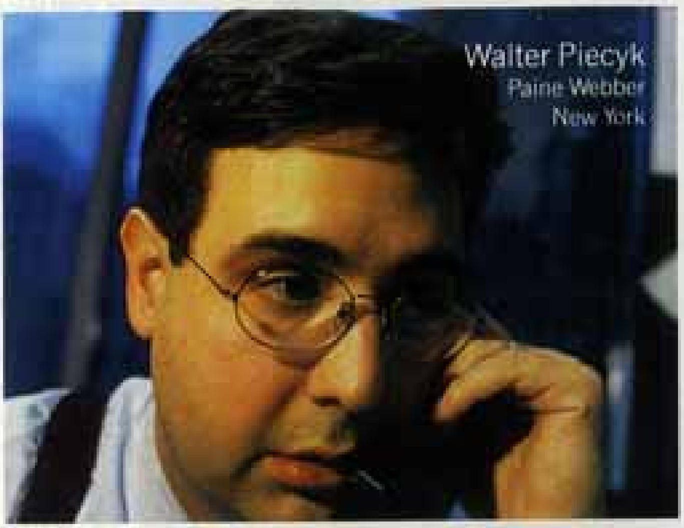
The $25 Billion Analyst Walt Piecyk's 15 minutes have arrived. A 28-year-old telecom analyst with Paine Webber, Piecyk has neither the experience nor the kind of first-tier employer (e.g., Morgan Stanley, Goldman Sachs, Merrill Lynch) that usually gives an analyst influence. But on an otherwise quiet day between Christmas and New Year's, Piecyk not only pushed a stock up 31%, he got his mug on CNBC and in the *Wall Street Journal*, and managed to get his name in more than 20 papers across the country. How? By making the kind of prediction that can electrify a stock, not to mention the career of an analyst: Piecyk announced that wireless phenom Qualcomm, then at $503 a share, could hit $1,000 within a year.

While the prediction that a stock could double may be aggressive, it isn't all that unusual. Especially when the stock is Qualcomm, which was already up 1,700% in 1999. But when a stock's target price hits four figures, the story becomes irresistible. Even before the market opens at 9:30 A.M., Piecyk's prediction is all over CNBC, not to mention the Net. By late afternoon, when I catch up with him, shares of Qualcomm are at $659, up $156.

The Qualcomm call is one of the day's big stories, and as I wander around Paine Webber's ninth floor looking for Piecyk, I expect to find a vortex of activity. Instead, the floor is practically empty, but for a few people in jeans and turtlenecks. Piecyk is there, clad in a tie and 1980s-style suspenders, but his office is pretty quiet too. Sure there are messages from the *New York Times* and the *Wall Street Journal*, but from the air of calm around the office, it's hard to grasp what this guy has just done. He has, in one day, added $25 billion to Qualcomm's market value.

That increment is more than the entire market cap of Xerox.

For his part, Piecyk says he didn't expect this kind of reaction to his call. "Nothing surprises me in this market anymore," he says. "We see this kind of activity on any bit of information. Sometimes, it's not even relevant information." As Piecyk begins to walk me through his ten-year earnings model for Qualcomm, trying to show me how he arrived at the $1,000 target, it occurs to me that maybe this isn't relevant information either. What's happened here is that an analyst has made a dazzling prediction, the media and the Net have spread the word, and retail investors have jumped on board with little or no reflection on whether the prediction is at all plausible. In fact, of the 60 million Qualcomm shares traded on this day, only one million were in institution-sized blocks. The pros, it turns out, may have been smart not to chase Qualcomm higher. By early February, shares of Qualcomm are down 15% from where they were the day after Piecyk made his $1,000 call.



In one day, Piecyk had added $25 billion to Qualcomm—more than Xerox's entire value.

Henry Bugay's Message Boards

A decade ago, when Walt Piecyk was finishing high school, Henry Bugay wasn't focused on making money. That's because he was too busy spending it. "I spent my youth chasing Porsches and Corvettes and big houses," says Bugay, now 46 and a divorce lawyer in Miami. "I woke up when I turned 45 and realized I didn't have any money saved up." So Bugay opened up a brokerage account with $15,000 in 1998 and started trading, buying fast-rising tech stocks on dips, along with unknown small caps that he discovered on Yahoo's stock message boards. Since then, Bugay claims, he's made half a million. That is a good nest egg, but he's not about to take any chips off the table. "I know I should," he says in a rare moment of reflection, "but this is a gambler's market, and the risk takers are rewarded in life."

The first time I talk to Bugay, Cisco is up a few bucks, as are other big techs, but Bugay isn't interested in those names. "I want stocks that will go up two- or three-fold in a couple of weeks," he says. "I don't have time to play for a couple of points." He tells me about Leisureplanet Holdings, an online travel company that he first heard about on the Yahoo boards. After checking out Leisureplanet by calling the company and reading profiles of it on the Web, he bought 20,000 shares at about $10.50. Now, a few days later, Leisureplanet has dropped to around $10, but Bugay isn't panicking. Instead, he's on Yahoo's Leisureplanet message board urging investors to keep the faith and engaging in trash talk with the shorts. "Poor, pitiful, pathetic broken record," Bugay says in response to one skeptic. "LPHL can be huge."

For Bugay and the other message posters, the boards are more than a place to get ideas. "It's like a virtual family," he says. "We'll tease each other or joke around. After a while you get to know everybody." Although most people use pseudonyms on the boards, Bugay doesn't bother with a screen moniker. He's even gotten to know some fellow users offline. Many are full- or part-time day traders, and every morning they all talk on the phone, going over what stocks look appealing for a quick trade. Next month, Bugay and a bunch of his message-board cronies are even going on a deep-sea fishing trip off Costa Rica.

Obsessed day traders aren't the only ones looking at the message boards. Earnings news is often posted on the boards by individual investors even before it hits the news wires. And while most people claim they don't take the boards seriously, you'd be surprised how often everyone is looking.

Randy Bolten is the CFO of BroadVision, which rose more than 1,000% last year because of its success in developing software for e-business. Naturally, his company's stock is a message-board favorite. A moment after Bolten tells me that he "can't believe anybody who has a life would take the dreck on those boards seriously," BroadVision's public relations manager, Janine Kromhout, sheepishly admits to looking at them every so often. "I read it for PR," she says, mildly embarrassed. "I've seen stories on the BroadVision board before they've appeared elsewhere."

Sometimes, when the day traders on the boards get hold of a stock, no one, not even the company's top executives, can make sense of the craziness. Take what happened on Feb. 2 to Datron Systems, a tiny maker of mobile communications technology, which announced a supposed breakthrough that could allow high-speed Internet access for moving vehicles. The news release hit the wires at 8:21 A.M., and when the stock opened a little over an hour later, it was at $11\frac{15}{16}$, up $\frac{15}{16}$. At 10:01 A.M., the first message about the news arrived on Datron's Yahoo message board, and by 11 A.M., its shares had rocketed up to nearly $25. When trading in Datron ended five hours and several mentions on CNBC later, Datron was at $19\frac{1}{4}$, and 11.8 million shares had changed hands. Datron's typical daily volume? About 25,000. "The company has never had this kind of experience before," says William Stephan, Datron's bewildered CFO. "It's hard to explain the action in the stock today."

Actually, there is an explanation. People like Chris Hallahan saw the news on the boards and started buying. Hallahan, a 33-year-old Sacramento native who quit his job at a FORTUNE 100 company in December to day trade, saw a message about Datron shortly after 10 A.M. and bought about 15 minutes later. Fifteen minutes

Lawrence Bowman
Bowman Capital Management
San Mateo, Calif.

does not leave much time for Graham & Dodd–style analysis of Datron's prospects, but Hallahan surfed the Web, glancing at Datron's recent financial statements, along with some of the company's recent press releases. That was enough to make him a believer. "I think this stock could be huge," he says. "In a month, I think it could hit $100. Other companies in this space are valued at over a billion, but Datron's market cap is only $50 million."

> "The most my father ever made was $47,000. Too much wealth has been created too fast."

Up or Down, Omar Sharif Amanat Wins

Chris Hallahan isn't the only one who's excited about Datron. So is Omar Sharif Amanat, the CEO and founder of Tradescape.com, the country's biggest day-trading firm. Of the 11.8 million Datron shares traded on Feb. 2, two million were bought or sold by clients of Tradescape. Volume like that translates into serious money for the 27-year-old Amanat, who sees to the needs of more than 2,500 traders. About half of them work from home via the Internet, while the rest trade at one of Tradescape's offices in New York, Atlanta, L.A., and seven other cities. Either way, they pay Tradescape $1.50 for every hundred shares they buy or sell.

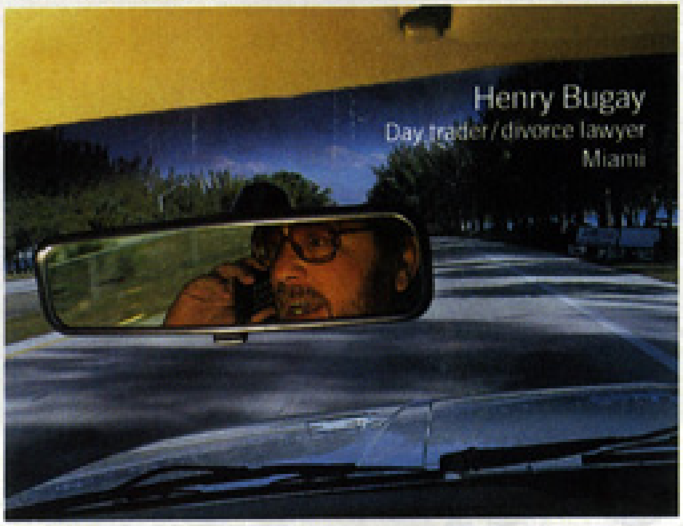
At the volumes Tradescape commands, that $1.50 a trade adds up very quickly. Amanat's typical customer churns more than 15,000 shares a day, but deeply committed traders run up much higher volumes. Adam Mesh, for example, typically moves about 400,000 shares, although he's been known to handle a million. The cumulative impact is mind-boggling. On Feb. 2, the firm's traders accounted for just under 3% of Nasdaq's overall volume—40 million shares. The impact is even greater among the hot tech companies that are the day traders' favorite stocks. For example, on that same day, Tradescape clients accounted for about 10% of Qualcomm's volume and nearly 15% of JDS Uniphase's.

"This is a real-time revolution," Amanat declares brightly as he walks me through a vast room in midtown Manhattan where row after row of guys (Tradescape's female clients tend to trade from home) are glued to their computer screens as if they were videogames. Indeed, they might as well be looking at videogames—many of the traders here are barely out of their teens, and some, like Mesh, still play videogames in their spare time. All together, Tradescape hosts more than 400 traders in its tightly packed New York offices, which spread over four floors in two East Side buildings. Amanat requires traders here and in the other offices to put down at least $50,000. Folks from home who trade via the Net face a $10,000 minimum, but that doesn't seem to be a barrier. Tradescape signs up 25 to 50 new Internet customers every day.

Amanat, who graduated from college just five years ago, has more experience with trading than his youthful appearance would suggest. His father was a day trader long before it became fashionable, and the Amanat home in suburban New Jersey had a miniature trading floor in the basement, complete with a Bloomberg terminal. After briefly working for Citibank, Amanat launched Tradescape in 1997 with a technology that allows individual traders to see each and every buy and sell order for a particular stock in real time—essentially the same information, at the same time, provided to professional traders on brokerage trading desks.

Amanat's timing was fortuitous—the launch of Tradescape not only coincided with a huge stock market run-up but also came at a point when the Internet and the rise of electronic alternatives to the major exchanges were dramatically lowering the costs of trading. "The older generation on Wall Street has been blind-sided by the impact that this technology has had," says Amanat. But they are clearly catching on. Amanat has already had several buyout offers for Tradescape, and now there is talk of an IPO that could value the company at more than $300 million.

Amanat makes money as long as his customers trade; his customers make money only if the trades work out. Piecyk's $1,000 call on Qualcomm was one of the easier ones to cash in on because of the way it played out—Qualcomm's stock opened higher and rose steadily throughout the day, allowing the traders to jump in and out and reap big profits on the way up. Kirk Kazazian, a 1996 Penn grad who's been with Tradescape since 1997, bought and sold more than 50,000 Qualcomm shares that day, while Mesh handled roughly 40,000 shares. Kazazian won't reveal how much he made, saying only that "it was a very good day." Mesh is more candid—he made $17,000.



"I want stocks that will double or triple in weeks. I don't have time to play for a couple of points."

The last few weeks have been about as close to Nirvana as it can get for day traders. Twice in January, Nasdaq fell roughly 10%, only to bounce back within days. Mesh and Kazazian took the opportunity to jump into volatile names like Qualcomm and JDS Uniphase after they had been battered, and then rode them back up. "I love a strong stock on a weak day," says Mesh. "I mean, it's like it's calling my name."

Of course, not every session is so lucrative. Mesh notes that it's easy to lose as much as he made on Qualcomm in a single day, citing "the lunch that cost me two grand." On that particular afternoon, Mesh took his eye off the screen to pay the delivery guy from the corner deli just as one of his stocks turned south. Still, Mesh takes pains to prevent catastrophic losses. One strategy is to rarely hold shares overnight, since you never know if a company is going to announce bad news after the close. Another is to clear out of deteriorating positions quickly—in minutes or even seconds—rather than wait around and let the losses pile up.

Like many gamblers, Mesh occasionally gets superstitious. Last fall he didn't shave because the trades were going his way. More recently, he wore a "lucky" old gray T-shirt for two weeks straight. "It's a fantasy world; it's almost like the money is not real," Mesh admits. "There's talk among the traders that we must be near the end because so many people are starting to do this. I don't know, I think it's still the beginning."

The Wild World of Larry Bowman Unlike Adam Mesh, Larry Bowman has no trouble recognizing that the money out there is very real. One of the hottest private money managers around, Bowman runs $4.6 billion from his office in Silicon Valley, much of it from suddenly wealthy executives at high-tech companies just a few miles away. Entry into Bowman Capital's private funds is by invitation only, and with an average annual gain of about 75% over the past five years in his flagship fund, Bowman can afford to be choosy. As he puts it: "Money is not the rare commodity it used to be. Performance is."

Don't get the idea, however, that Bowman is blasé about all the wealth that's been generated by the boom in tech stocks. The son of a Chicago steelworker, Bowman now has a collection of 20 vintage Cobras, Harleys, and other race cars and motorcycles, and he's keenly aware that the world of money managers and tech execs can be downright surreal. "Look, the most my father ever made in a year was $47,000," Bowman says. "Too much wealth has been created too fast for it to be sustainable."

Bowman has seen plenty of ups and downs in tech stocks. One of Fidelity's most successful managers in the early 1990s, he's one of those guys who invested in Cisco and Dell back when nobody had heard of them. So it's a little disconcerting when he jumps out of his chair, bounds over to a whiteboard, and starts drawing a house of cards.

"Mortgage companies are treating stock options as down payments for houses," Bowman says, drawing a thick black X through one of his cards. "Law firms are insisting that tech clients pay them with equity, not cash," he says, putting an X through another card. "People are going to get massacred. We're not there, but we're getting closer. It's going to be really terrifying on the way down."

Sitting on Bowman's black leather couch, I feel my panic rising and get a sudden urge to call my broker and scream "SELL!" Before I do that, though, Bowman abruptly drops his talk of the coming apocalypse and starts drawing a long, arching sine curve on his whiteboard. "Look, we're just in the beginning of the tech cycle," he says calmly, as my blood pressure returns to normal. "We'll probably have a crash sometime soon, but over the long term, the opportunities are incredible." In a little less than two minutes, Bowman has gone from prophet of doom to high-tech evangelist. "Wireless communications and the Internet are going to revolutionize the world," Bowman declares, back at the whiteboard and ticking off a dozen more reasons to love tech.

If today's market were a single person, I realize, it would be Larry Bowman. One minute he's like the Nasdaq on a down day, off 150 points, the next thing you know he's bullish again and up 200. No wonder everyone on Wall Street is talking about all the volatility, all the time. If a tech-investing genius like Larry Bowman can't make up his mind, how can the rest of us? ■