

OPINION

A pop quiz on a stock mania that may leave you feeling queasy



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A board above the trading floor of the New York Stock Exchange in 2025.

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I would like to read you a passage from an excellent book that I recently read and guess the time period that this passage is referring to.

Here it is:

“The market displayed every classic symptom of a mania: the progressive narrowing in the number of stocks going up, the nationwide fascination with the activities of Wall Street, the faddish invocations of a new era, the suspension of every conventional standard of financial rationality, and the rabble enlistment of an army of amateur and ill-informed speculators betting on the basis of rumors and tip sheets.

By [year redacted], one out of every ten households in the country had money invested in and were engaged with the market. Trading of stocks had become more than a national pastime – it had become an obsession But while the bubble lasted, it was the people who were the least informed who were the ones making the most money.”

Could this be today? Let’s analyze the key points discussed in the above passage, and see how it fits with the present:

The progressive narrowing in the number of stocks that are increasing.

While from 1980 to present, the Dow and S&P 500 have had similar long-term growth in price terms (8.9 per cent vs. 8.91 per cent), the last five-year performance has favoured the S&P 500 (84.11 per cent vs. 64.13 per cent), as the S&P 500 has broader exposure to technology stocks. In fact, the so-called Magnificent Seven have accounted for 34 per cent of the S&P 500’s value in recent months.

The nationwide fascination with the activities of Wall Street. This is best reflected by the rise of the retail investors. Retail traders have steadily

accounted for a growing portion of equity volume over the past decade. They now represent about 20 per cent of equity trading volume, up from 10 per cent 10 years earlier. Some statistics: 92 per cent of households in the top 10 per cent of income earners own stocks. Two-thirds of middle-income earners report owning stocks or stock funds. For the lower 50 per cent of income earners, 31 per cent of households own stocks. Even those earning less than \$40,000, have a significant exposure (25 per cent) in the stock market.

Opinion: Still heavily weighted toward stocks in your portfolio? You're in a lot of danger

The faddish invocations of a new era. The semiconductor industry has been on a tear in 2026, with the PHLX Semiconductor Index N/A up 77 per cent year-to-date as of Sept. 28, while the iShares Semiconductor ETF [XCHP-T \(/investing/markets/stocks/XCHP-T/\)](/investing/markets/stocks/XCHP-T/) -0.51% ▼ is up 90.5 per cent, on the back of a wave of enthusiasm around demand for the chips needed to power AI. And the recent news on Meta's new artificial-intelligence agent fuelled a renewed frenzy for shares of companies that produce CPUs, which are necessary to power agentic AI. It is true that AI is revolutionizing industries and driving innovation. AI may shape the next era. And frontier technologies have led some to claim these technologies will sustain a Fourth Industrial Revolution. But a lot of this is still a conjecture. Prior technological revolutions did not bring forth the benefits in productivity that analysts had expected. In fact, the late Nobel Prize-winning economist Robert Solow famously said that the effects of the PC revolution can be seen everywhere, except in the productivity statistics. The absence of a technology-productivity link is known as the Solow Paradox.

The suspension of every conventional standard of financial rationality. No matter how overvalued a stock is, an analyst can always be found to say it is undervalued relative to another more overvalued stock. For example, one analyst set a price target for SpaceX of US\$800, which represents an upside of 482 per cent of its current price. Cathie Wood, chief investment officer at ARK Invest, has argued that SpaceX looks like a deep value opportunity. Ms. Wood's valuation relies on two variables: how many Starship flights per year SpaceX

can achieve, and how much revenue each flight can support once Starship is fully reusable. Ms. Wood extrapolated from comments CEO Elon Musk made about launch occurrences and payload targets to arrive at a highly speculative annual revenue number large enough to make today's price look cheap.

Opinion: This is not the time to load up on more utility stocks and other 'safe' securities

The rabble enlistment of an army of amateur and ill-informed speculators betting on the basis of rumours and tip sheets. Assets without cash flows, such as meme stocks, are commanding astronomical valuations. They have been driven by retail and amateur investors with the desire to "beat" hedge funds at their own game by targeting heavily shorted stocks. For them, trading has become a social act rather than a financial one. But this is not a substitute for actual analysis. Bitcoin is also another asset without cash flows commanding astronomical valuations. While bitcoin has historically delivered substantial gains, naively extrapolating such performance is highly speculative. But the potential for a significant rise in its value continues to attract investors who are after speculative opportunities in a market evolving in a rapid way.

Opinion: Six signs a stock market bubble is ready to burst

But while the bubble lasted, it was the people who were the least informed who were the ones making the most money. Retail investors are buying the dips on the assumption that, regardless of whatever adverse developments might be affecting markets at the moment, the S&P 500 will invariably be higher in the future. And they are using margin debt, which has risen sharply since 2024 more than doubling from around US\$700-billion in 2023 to US\$1.5-trillion in June, 2026. In just one year between August, 2025, and August, 2026, margin debt shot up by 37 per cent. Options trading volume, also driven by retail investors, is near the highest it's ever been and is trending higher. Such strategies have worked fabulously for them so far.

Now for the answer.

You can be forgiven for thinking the passage I started this column with is from this year, or maybe last.

But guess again.

It is from 1929, the start of the Great Depression. And appears on page 309 of *Lords of Finance* by Liaquat Ahamed.

So, watch out, and have a backup plan.

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