

2003 Pensions Convention

TMT 1999 – 2001 A Bubble Movie
An analysis of the biggest investment bubble in history!

Simon Harris, *GMO*

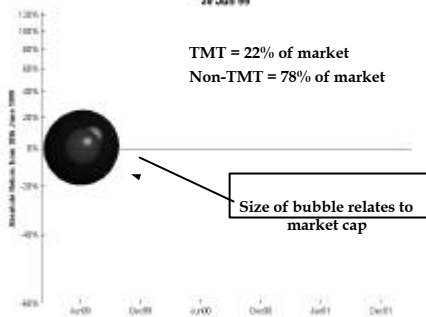
1 - 3 June
Grand Hotel, Brighton

What happened: a reminder
UK Equities

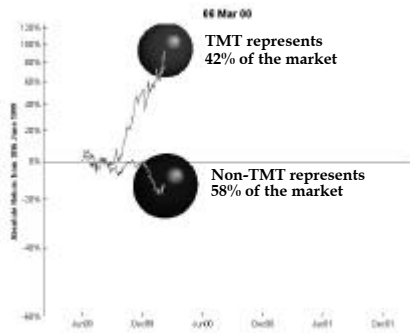
TMT vs Non-TMT

28 Jun 99

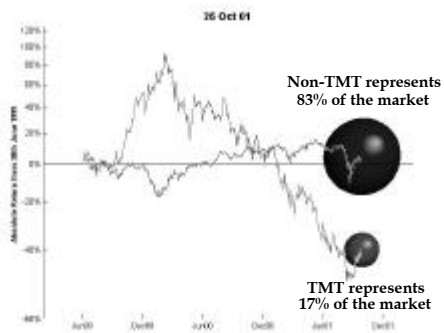
TMT = 22% of market
Non-TMT = 78% of market



TMT vs Non-TMT

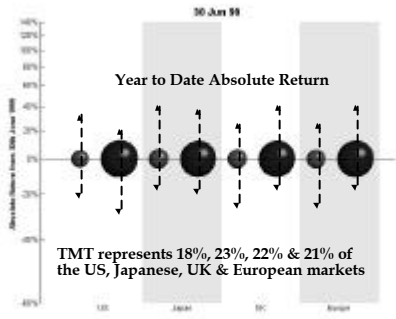


TMT vs Non-TMT



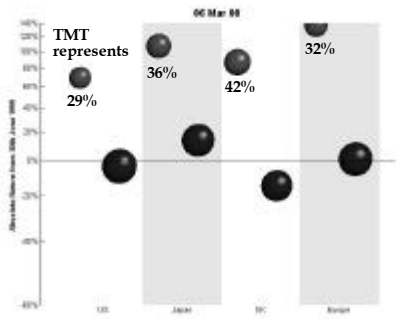
A global phenomenon

TMT vs Non-TMT



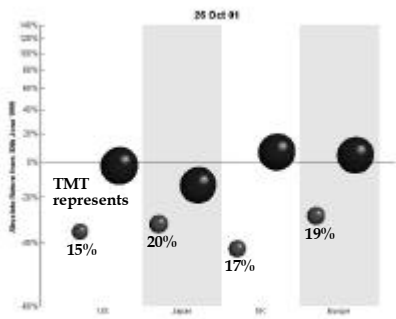
Source: GMO/ DataStream

TMT vs Non-TMT



Source: GMO/ DataStream

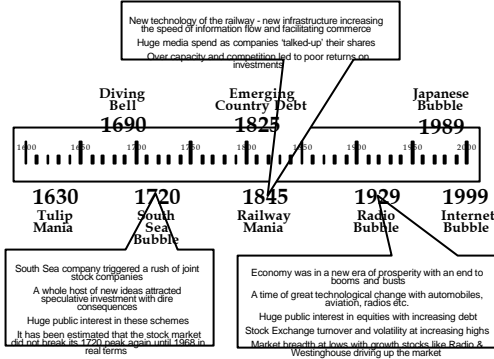
TMT vs Non-TMT



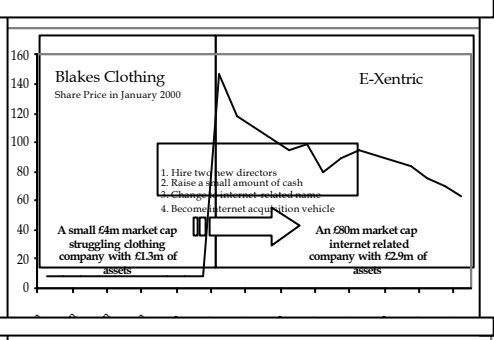
Source: GMO/ DataStream

It really was silly season!

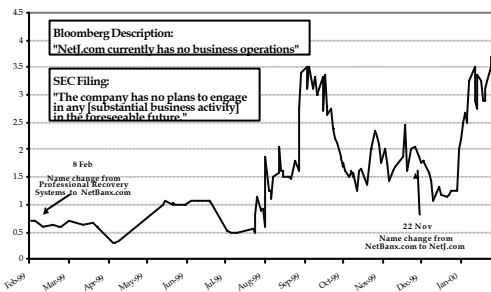
A brief history of financial bubbles



Internet Shell Companies: Blakes Clothing

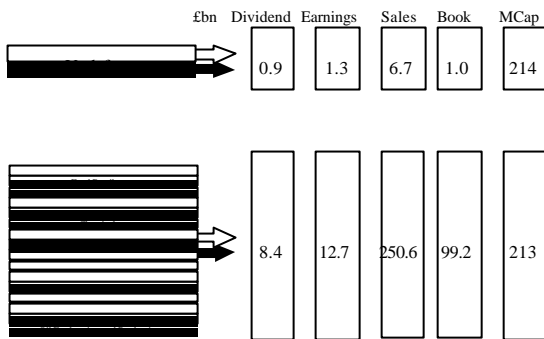


Internet Shell Companies: Net1.com



Source: Bloomberg/DataStream

Vodafone: A case in point



March 2002

Source: Citic/DataStream

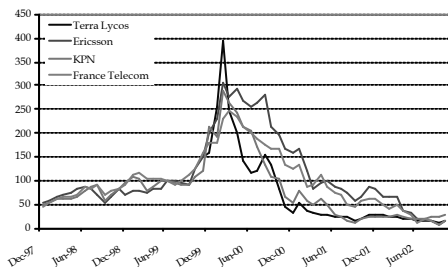
The Changing Composition of the Largest 20 Global Stocks

Jan 1985	1990	1998	Mar 2000	Mar 2003
<ul style="list-style-type: none"> IBM Exxon Mobil Gen Electric General Motors AT&T Shell Oil Sumitomo Bank Amoco Dai-ichi Kangyo Royal Dutch Toyota Motor Fuji Bank Du Pont (E I) Bank Tokyo-Mit Sears Roebuck Schlumberger Eastman Kodak Sanwa Bank Mobil Matsushita Elect 	<ul style="list-style-type: none"> NTT Industrial BK Int Sumitomo Bank Fuji Bank Dai-ichi Kangyo Bank Tokyo-Mit Exxon Mobil Gen Electric Tokyo Electric P IBM Sanwa Bank Toyota Motor AT&T Nomura Securit Long-Term Cred Royal Dutch Philip Morris Nippon Steel Tokai Bank Sakura Bank 	<ul style="list-style-type: none"> Gen Electric Coca-Cola Co Exxon Mobil Microsoft Merck&Co Royal Dutch Intel NTT Toyota Motor Philip Morris Procter&Gamb AT&T Novartis IBM Pfizer Bristol Myers Johnson&Johnso Wal-Mart Glass Wellcome BP Amoco 	<ul style="list-style-type: none"> Microsoft Cisco Gen Electric Nit Docomo Intel Vodafone Air Deutsche Tele Exxon Mobil Nokia Wal-Mart Oracle IBM Lucent Ericson NTT France Telecom Sun Microsystems Citigroup Inc Softbank Nortel Network 	<ul style="list-style-type: none"> Microsoft Gen Electric Exxon Mobil Wal-Mart Pfizer Citigroup Johnson&Johnsc BP IBM American Intl Vodafone Merck Intel GlaxoSmithklin Novartis Procter & Gamb Bank Of Americ HSBC Cisco Coca-Cola

March 2003

Source: GMO/DataStream

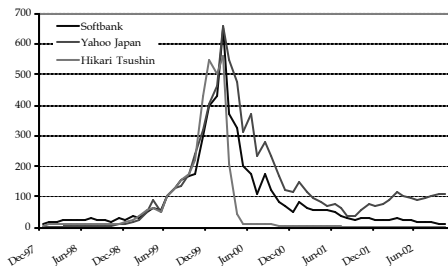
European examples



February 2000

Source: GAO Weblog/Steven

Japanese examples

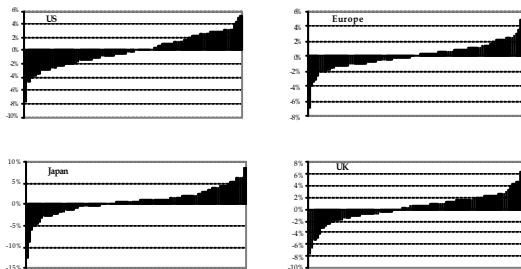


February 2000

Source: GAO Weblog/Steven

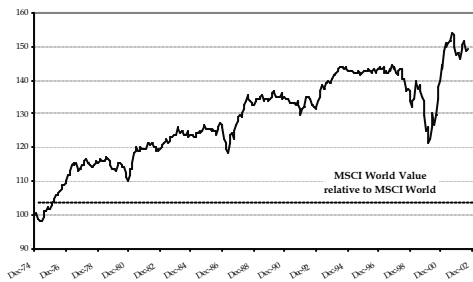
The effect on style returns

Q4 99 was one of the most extreme quarters for value ever



Source: GMO / DataStream

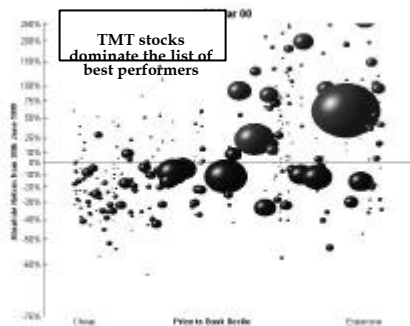
Global long term performance of value



Source: DataStream

Effect of TMT on UK Value vs Growth

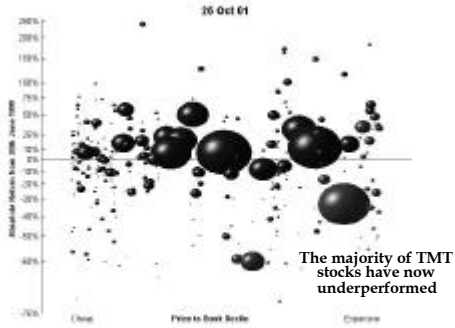
Impact of Individual Stocks



Source: GMO / DataStream

Effect of TMT on UK Value vs Growth

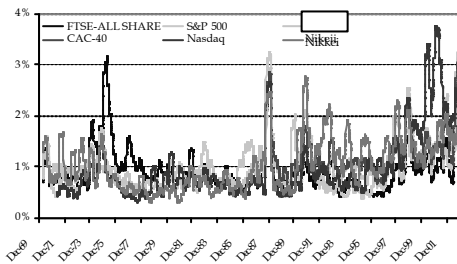
Impact of Individual Stocks



Volatility hell!

Market volatility

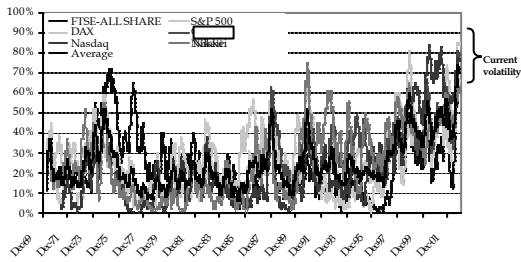
90 day standard deviation



Nikkei Composite Index

Year	Index Value
1980	~7,000
1981	~3,000
1982	~800
1983	~2,000
1984	~4,000
1985	~5,000
1986	~8,000
1987	~7,000
1988	~6,000
1989	~5,000
1990	~7,000

Source: Bloomberg.



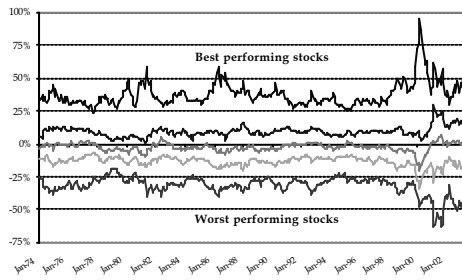
Source: GfK/OT DataStream

The graph displays the performance of the best and worst performing stocks over a 36-year period. The y-axis represents percentage change, ranging from -75% to 100% in 25% increments. The x-axis shows time from December 1965 to December 2001. The 'Best performing stocks' line starts at approximately 25% and ends near 75%, with significant volatility. The 'Worst performing stocks' line starts at approximately -25% and ends near -75%, also showing high volatility. Both lines show a general trend of divergence over time.

SoonerGM/GM/DMSales

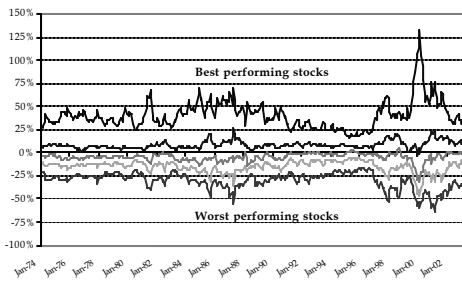
Risk and volatility: dispersion of returns

European Equities



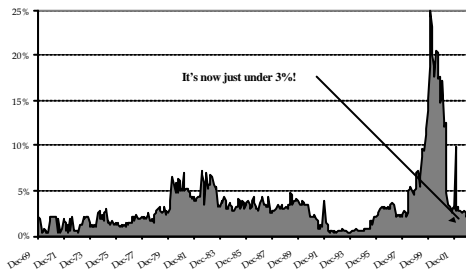
Risk and volatility: dispersion of returns

Japanese Equities



Where do we stand today?

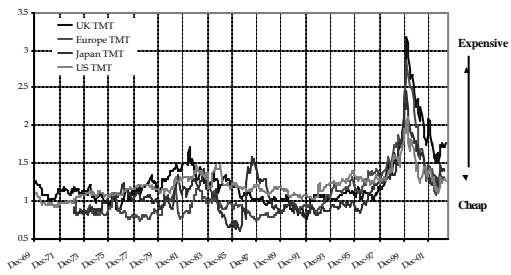
There were more expensive stocks than ever before



December 2002

Source: GMO

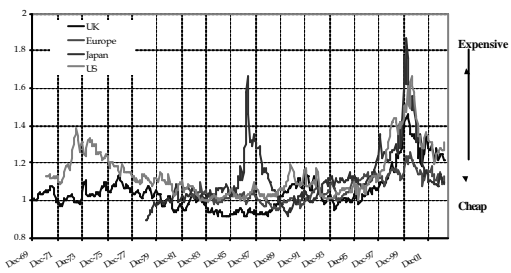
Valuation of TMT stocks



March 2003

Source: GMO

Valuation of large stocks



March 2003

Source: GMO

*TMT 1999 – 2001
A Bubble Movie
Simon Harris, GMO*

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