



## Irrational Exuberance, Part II (ASTM, GERN, STEM)

February 11, 2009 | by [Derek Simon](#)

[Irrational Exuberance](#). Two regrettable words, uttered by Alan Greenspan during a speech at the American Enterprise Institute in December of 1996.

" ... How do we know when irrational exuberance has unduly escalated asset values, which then become subject to unexpected and prolonged contractions as they have in Japan over the past decade?" Greenspan asked those assembled that day.

As the markets subsequently plunged and my paper earnings were whisked away like complex sentences in a text message, I answered Mr. Greenspan's question with two words of my own - one, perhaps, irrational, but neither particularly exuberant.

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### Stem Cell Stocks Soaring

I got to thinking about those painful times - the Ramen Noodle & Mad Dog Days, as I affectionately call them today - upon witnessing a rash of stem cell-related securities skyrocket after Barack Obama was elected the forty-fourth President of the United States.

From January 20, 2009, the day that Obama was officially sworn in as the new Commander in Chief of the United States, until the end of trading on Friday, February 6, 2009, stem cell stocks boomed. In just over two weeks, **Aastrom Biosciences** (Nasdaq:[ASTM](#)) gained 28.0%; **Cleveland BioLabs** (Nasdaq:[CBLI](#)), 44.7%; **Geron Corporation** (Nasdaq:[GERN](#)), 67.7%; and **StemCells Inc.**(Nasdaq:[STEM](#)), 45.7%.

In fact, this upward trend has become so pronounced and widespread, that any business with "stem" or "cell" in its title or ticker is subject to take flight. **Brightpoint** (Nasdaq:[CELL](#)), a company firmly entrenched in the wireless industry, has also experienced healthy equity growth in recent weeks.

### Fad or Future?

Is this stem cell stuff just irrational exuberance on the part of investors? Sure, all the pundits seem to think that the new president will reverse an existing executive order banning federal funding of embryonic stem-cell research, but has anybody heard from Obama on the issue recently? I sure haven't.

Plus, it's not like embryonic stem cells are the only stem cells available to these companies though most argue that, because they are pluripotent, embryonic stem cells show the most potential in treating diseases like diabetes and Parkinson's. Still, even if that's true, how does it make a company struggling to meet payroll every two weeks more valuable?

### Fool's Gold

Just because there is a growing market for a particular product or service doesn't necessarily mean that everybody associated with that market is going to benefit. Remember Commodore Business Machines? Back in 1984, about four million Commodore 64 computers were already in use throughout the world, with 300,000 more leaving store shelves each month. Yet, by 1994, CBM was bankrupt.

So, before joining the "stem cell rush of 2009," be sure to do some research.

To learn more about investing in stocks, read [The Ups And Downs Of Biotechnology](#).

By [Derek Simon](#)

Derek Simon is a fulltime freelance business/sports writer who became interested in the stock market when he read a biography of Warren Buffett while still in high school. Although Simon's net worth is considerably less than Mr. Buffett's and his "yacht" has an air valve, he firmly believes in the value approach preached by Oracle of Omaha and, thus, is fond of taking contrarian viewpoints. At the time of writing Derek Simon did not own shares in any of the companies mentioned in this article.

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