

THE LONG VIEW

The economics of stupidity

When cheap money meets a phone screen, normally sensible people pay \$130,000 for a steel watch — and call it an investment. The wreckage tells us something uncomfortable about modern markets, and ourselves.

By a Markets Columnist

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For a brief, glorious window between the spring of 2020 and the spring of 2022, a stainless-steel sports watch was the most reliable trade in finance. Buy a Patek Philippe Nautilus 5711 at its \$34,893 retail sticker — assuming you could pry one from a dealer — and within months it was worth \$130,000. A Rolex Daytona, list price \$13,500, fetched \$50,000. An Audemars Piguet Royal Oak Jumbo tripled. Bloomberg's Subdial Watch Index, tracking the 50 most-traded references, climbed to roughly \$58,000. Everyone, it seemed, was getting rich on wrist candy.

By early 2024 that index had fallen 42 per cent. The average secondhand luxury watch lost nearly a third of its value. Forced sellers, many of them leveraged crypto refugees, tripled secondary inventory of hyped models within six months. The Tiffany-blue Nautilus that auctioned for \$6.5m in December 2021 now changes hands quietly for around \$1.2m — still extraordinary, but a haircut that would make a hedge-fund manager weep.

The watch market is a useful laboratory because the wreckage is so neatly documented. But the lesson generalises. A specific cocktail — abundant cheap money, plus social media's frictionless amplification of envy — does something corrosive to collective judgement. It manufactures stupidity at scale.

The fuel and the spark

Consider the ingredients. Between March 2020 and March 2022, the US Federal Reserve held its policy rate near zero while Congress dispensed roughly \$5tn in fiscal stimulus. Bitcoin rose from \$10,000 to \$69,000. House prices in the OECD jumped almost 20 per cent. Savings accumulated; deployment options shrank. Money was, for a moment, almost free, and looking for somewhere to be foolish.

That is the fuel. The spark is the smartphone in your pocket. A Nautilus on a celebrity's wrist on Instagram was no longer a discreet status marker visible to perhaps 200 people in a Geneva boutique. It was visible to 200 million. The asymmetry mattered: the supply of luxury watches grew at single-digit

percentages annually; the supply of attention paid to them grew exponentially.

“A Nautilus on a celebrity's wrist was once seen by 200 people in a Geneva boutique. Now it is seen by 200 million.”

This is not a new pattern. Tulip bulbs in 1637 Holland required pamphlets and taverns to spread their fame, and even then a single bulb traded for the price of an Amsterdam townhouse. The South Sea Bubble of 1720 needed coffee-houses. The 1929 stock-market boom needed ticker tape. Each successive bubble has had a faster transmission medium, and each has been madder than the last.

Why social media is different

What TikTok and Instagram added was not just speed but a particular kind of cognitive distortion. Three mechanisms matter.

First, *survivorship bias on steroids*. The algorithm shows you the 22-year-old who flipped a Royal Oak for \$40,000. It does not show you the thousand who paid grey-market premiums in March 2022 and watched half the value evaporate. Every losing trade is invisible; every winning one is a 30-second reel. Aggregate this across a generation of investors and you have not informed risk-taking but a systematically miscalibrated population.

Second, *identity capture*. Owning a watch — or a meme stock, or a Bored Ape, or a particular cryptocurrency — became a tribal signifier rather than an asset allocation decision. When a holding is bound up with who you think you are, selling at a loss becomes psychologically expensive in a way that has nothing to do with the loss itself. This is why crypto holders held all the way down. It is also why otherwise sober people argued, with feeling, that a JPEG was a store of value.

Third, *compressed feedback loops*. Markets normally discipline foolishness. The discipline takes time: months for a thesis to be tested, quarters for earnings to disappoint, years for a cycle to turn. Social media compresses the reward loop — the dopamine of a "winning" position — to seconds, while leaving the punishment loop unchanged. Markets are, in effect, being played as slot machines by participants who haven't noticed the house edge.

The reckoning, and the next one

Two things happened in 2022. The Fed began raising rates, and Luna, Celsius, Three Arrows and FTX collapsed in sequence. The Subdial index's slide, analysts later observed, "perfectly correlated" with the rate-hiking path. The watches, the crypto, the SPACs, the meme stocks — they were all, it turned out, the same trade in different costumes: long duration, long liquidity, long the idea that someone richer and more foolish would arrive next week.

The recovery now under way — watch prices up nearly 5 per cent in 2025, more than 70 per cent of major brands posting positive returns in the first quarter of 2026 — looks healthier precisely because it is narrower. Buyers are buying because they want to wear the thing, not flip it. Premiums over retail have compressed. The Daytona that traded at 3.6 times list now trades at roughly twice. This is what a sane market looks like, and it is duller.

“It was the same trade in different costumes: long duration, long liquidity, long the idea that someone richer would arrive next week. ”

But it would be a mistake to conclude the lesson has been learned. The conditions that produced the 2020-22 mania were unusual but not unique, and the social-media machinery that amplified it has only become more sophisticated. AI-generated influencers now hawk products their human counterparts once did. Prediction markets have ported sports-betting psychology to politics and policy. Private credit, the asset class du jour, increasingly trades on narrative rather than fundamentals.

The next bubble will not look like a Patek Nautilus. It rarely does. It will arrive wrapped in a story about why this time the rules are different — perhaps because of artificial intelligence, perhaps because of demographics, perhaps because of something not yet named. It will be transmitted through a channel optimised, with terrifying precision, to find the people most likely to believe it. And a great many sensible people will pay extraordinary prices for things that are not worth them.

The economist John Kenneth Galbraith observed that financial memory lasts about 20 years — roughly the time required for a new generation to arrive in markets innocent of the last catastrophe. He was writing in 1990. The interval is shrinking. On current form, the financial memory of a TikTok-native investor is closer to 20 months, and falling.

The watches will recover. They always do. The question is what we choose to learn before the next mania arrives — and whether, when it does, we recognise it as the same old story, told faster.

Index figures from WatchCharts/Morgan Stanley and the Bloomberg Subdial Watch Index. Auction price for the Patek Philippe Nautilus 5711/1A-018 (Tiffany-blue dial), Phillips Geneva, December 2021. Galbraith reference: *A Short History of Financial Euphoria*, 1990.