

Why Smart People Paid \$130,000 for a Steel Watch

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1. Reading Passage

For a brief window between spring 2020 and spring 2022, the most reliable trade in finance was a steel sports watch. A Patek Philippe Nautilus 5711, retail price \$34,893, could be flipped within months for \$130,000. A Rolex Daytona listed at \$13,500 fetched \$50,000 on the secondary market. Bloomberg's Subdial Watch Index, which tracks the 50 most-traded luxury references, climbed to roughly \$58,000. In December 2021, a Tiffany-blue Nautilus auctioned for \$6.5 million. Then it ended. By early 2024 the Subdial index had fallen 42 percent, and that same Tiffany-blue Nautilus now trades quietly for around \$1.2 million.

The watch market is a useful laboratory because the wreckage is so neatly documented, but the lesson generalizes. Between March 2020 and March 2022, the US Federal Reserve held its policy rate near zero while Congress passed roughly \$5 trillion in fiscal stimulus. Bitcoin rose from \$10,000 to \$69,000. Money was, for a moment, almost free, and looking for somewhere to be foolish. That is the fuel. The spark was the smartphone. A Nautilus on a celebrity's wrist used to be a discreet status marker visible to perhaps 200 people in a Geneva boutique; on Instagram it was visible to 200 million. Watch supply grew at single-digit percentages annually. The supply of attention paid to watches grew exponentially.

Social media did not just speed the cycle up — it added specific cognitive distortions. Three matter. First, survivorship bias on steroids: the algorithm shows you the 22-year-old who flipped a Royal Oak for a fortune and hides the thousand who bought at the peak and lost half their money. Aggregate that bias across a generation and you produce not informed risk-taking but a systematically miscalibrated population. Second, identity capture: when owning a watch, a meme stock, or a particular cryptocurrency becomes a tribal signifier rather than an asset allocation, selling at a loss becomes psychologically expensive in a way unrelated to the loss itself. Third, compressed feedback loops. Markets normally discipline foolishness, but the discipline takes time — months for a thesis to fail, quarters for earnings to disappoint. Social media compresses the reward loop to seconds while leaving the punishment loop unchanged.

The reckoning came in 2022, when 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 were all the same trade in different costumes: a bet on cheap money continuing and on someone richer and more foolish arriving next week. The recovery now under way — watch prices up nearly 5 percent in 2025, more than 70 percent of major brands posting positive returns in early 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. This is what a sane market looks like, and it is duller.

It would be a mistake, however, to conclude the lesson has been learned. The social-media machinery that amplified the last mania has only become more sophisticated, with AI-generated influencers now hawking what humans once did. The economist John Kenneth Galbraith observed in 1990 that financial memory lasts about 20 years — roughly the time required for a new

generation to arrive in markets innocent of the last catastrophe. On current form, for a TikTok-native investor, that interval is closer to 20 months, and shrinking. The next bubble will arrive wrapped in a story about why this time the rules are different, transmitted through a channel optimized to find the people most likely to believe it.

2. Explanation

Between 2020 and 2022, a stainless-steel sports watch was the most reliable trade in finance – until it wasn't, and the wreckage tells us something uncomfortable about how modern bubbles actually form.

What's Going On?

For two strange years, luxury watches behaved like tech stocks. A Patek Philippe Nautilus 5711 with a \$34,893 retail price flipped for \$130,000. A Tiffany-blue version auctioned for \$6.5 million in December 2021. Bloomberg's Subdial Watch Index, which tracks the 50 most-traded models, climbed to roughly \$58,000.

Then the Fed started raising rates. By early 2024 that index had crashed 42%. The same Tiffany-blue Nautilus now changes hands for about \$1.2 million. The FT columnist argues this wasn't really about watches – it was the same bubble that swept up crypto, NFTs, SPACs and meme stocks, just wearing a different costume.

How To Think About It

The columnist's core claim is that bubbles need two ingredients – fuel (cheap money looking for somewhere to go) and a spark (a transmission medium that spreads envy fast). Social media just made the spark vastly more powerful.

- Think of a forest fire: dry brush has always existed, but a flamethrower spreads it differently than a match. Zero interest rates piled up the brush; TikTok was the flamethrower.
- Or think of a stadium wave. One person standing looks silly; a whole section standing feels mandatory. Algorithms make every 'winning' trade visible to millions instantly, so standing up – buying in – feels like the only rational move, even when it isn't.

Key Things To Know

- Between March 2020 and March 2022, the Fed held rates near zero while Congress passed roughly \$5 trillion in fiscal stimulus – Bitcoin went from \$10,000 to \$69,000 in the same window.
- Survivorship bias on steroids: the algorithm shows you the 22-year-old who flipped a Royal Oak for \$40,000, never the thousand who bought at the peak and lost half.
- Identity capture: when owning a watch (or a Bored Ape) becomes part of who you ARE, selling at a loss feels like betraying yourself – which is why crypto holders 'held all the way down.'
- Compressed feedback loops: social media delivers the dopamine of a 'win' in seconds, but the punishment for being wrong still takes months or years to arrive.
- What most people miss: the recovery happening now (watches up 5% in 2025) is healthier precisely because it's BORING – premiums have compressed and people are buying watches to wear, not flip.

Why It Matters

You will live through several of these manias. The columnist warns that AI-generated influencers, prediction markets, and private credit are already showing the same narrative-over-fundamentals

patterns. Galbraith said financial memory lasts about 20 years – roughly one generation. For a TikTok-native investor, the columnist argues, that memory is closer to 20 months. Whatever you're tempted to buy because everyone on your feed seems to be getting rich on it: that's the moment to slow down.

The Bigger Picture

Every bubble has had a faster transmission medium than the last – pamphlets in 1637 Holland, coffee-houses in 1720, ticker tape in 1929, smartphones today. The next mania won't look like a Patek Nautilus. It will arrive wrapped in a story about why 'this time is different' – maybe AI, maybe demographics, maybe something not yet named – and it will be delivered by an algorithm engineered to find exactly the people most likely to believe it.

3. Key Terms Glossary

Federal Reserve policy rate

The interest rate the US central bank charges other banks. When it's near zero, borrowing is cheap everywhere, which pushes investors toward riskier assets in search of returns.

Fiscal stimulus

Government spending or tax cuts designed to boost the economy – distinct from monetary policy (interest rates). The \$5tn figure refers to pandemic-era US legislation like the CARES Act.

Survivorship bias

A reasoning error where you only see the winners (because losers disappear or stay quiet) and conclude the activity is more profitable than it really is.

Grey-market premium

The amount above retail price buyers pay to unauthorized resellers when official dealers have waiting lists. A \$34,893 watch selling for \$130,000 carries a roughly \$95,000 grey-market premium.

Long duration / long liquidity

Investing slang for bets that pay off only if interest rates stay low and money stays easy to borrow. When the Fed hikes, these trades get crushed simultaneously – which is what the columnist means by 'the same trade in different costumes.'

SPAC

Special Purpose Acquisition Company – a shell company that raises money via IPO to buy a real business later. SPACs boomed in 2020-21 as a faster alternative to traditional IPOs and largely collapsed afterward.

Subdial Watch Index

A Bloomberg-tracked benchmark following the secondary-market prices of the 50 most-traded luxury watch references – basically the S&P 500 of used Rolexes and Pateks.

Prediction market

A platform where people bet real money on the outcomes of events (elections, policy decisions, sports). The columnist worries they're importing gambling psychology into political analysis.

4. Reading Comprehension Quiz

Circle the best answer for each question.

Q1. The passage primarily argues that:

- A) Luxury watches are a poor long-term investment compared to stocks
- B) Social media combined with cheap money manufactures speculative manias at scale
- C) The Federal Reserve caused the 2020-2022 asset bubble through its policy errors
- D) Younger investors are inherently more reckless than previous generations were

Q2. According to the passage, the watch market crashed primarily because:

- A) Manufacturers dramatically increased production to meet demand
- B) A scandal damaged the reputation of major Swiss watchmakers
- C) Rising interest rates ended the cheap-money conditions that fueled speculation
- D) Consumers shifted preferences from mechanical watches to smartwatches

Q3. Which choice best states the central idea of the passage?

- A) Bubbles repeat throughout history, but each new transmission medium makes them faster and more dangerous
- B) The luxury watch industry is uniquely vulnerable to speculation among wealthy collectors
- C) Cryptocurrency and watches are fundamentally different asset classes despite surface similarities
- D) Government stimulus programs should be designed to prevent asset price inflation

Q4. As used in the passage, the word 'discipline' most nearly means:

- A) Punish through formal sanctions
- B) Train through repeated practice
- C) Correct through delayed consequences
- D) Organize through strict rules

Q5. As used in the passage, the word 'narrow' (in 'healthier precisely because it is narrower') most nearly means:

- A) Geographically restricted to fewer markets
- B) Limited to genuine end-users rather than speculators
- C) Constrained by tighter regulatory oversight
- D) Focused on a smaller selection of brands

Q6. Which statement about social media's role in modern markets can most reasonably be inferred from the passage?

- A) Social media platforms should be regulated as financial advisers
- B) Algorithms create an asymmetry between visible wins and invisible losses that distorts judgment
- C) Influencer marketing has replaced traditional financial journalism for most investors
- D) Younger investors lose more money on social media than older investors do

Q7. The passage suggests that 'identity capture' makes losses harder to accept because:

- A) Selling triggers tax consequences that compound the financial loss
- B) Online communities publicly shame members who exit positions early
- C) The asset has become tied to one's self-conception, not just one's portfolio
- D) Most holders never learned the fundamentals of asset valuation

Q8. The author's tone in the final two paragraphs is best described as:

- A) Optimistic that lessons have been thoroughly learned
- B) Resigned but warning, expecting the cycle to repeat
- C) Outraged at regulators for permitting the previous bubble
- D) Nostalgic for a more disciplined era of investing

Q9. It can most reasonably be inferred from the passage that the current watch market recovery is:

- A) Likely to produce even larger gains than the 2020-2022 boom did
- B) Sustainable because it is driven by use-value rather than speculation
- C) Vulnerable to immediate collapse if interest rates fall again
- D) Limited to a handful of ultra-rare references from top brands

Q10. Which choice provides the BEST evidence for the answer to the previous question?

- A) 'Watch prices up nearly 5 per cent in 2025, more than 70 per cent of major brands posting positive returns'
- B) 'Buyers are buying because they want to wear the thing, not flip it. Premiums over retail have compressed.'
- C) 'The Daytona that traded at 3.6 times list now trades at roughly twice.'
- D) 'This is what a sane market looks like, and it is duller.'

My Score: _____ / 10

5. Answer Key with Explanations

Q1. The passage primarily argues that:

Answer: B

The author repeatedly frames the watch crash as one example of a broader cocktail – abundant cheap money plus social media's amplification of envy – that 'manufactures stupidity at scale.' D is the main trap: the passage mentions TikTok-native investors but blames the system, not generational character (TRAP C: true-sounding but unsupported). SAT Tip: When a question asks for the central argument, look for a claim the author returns to multiple times and applies beyond a single example – one-off observations are rarely the main point.

Q2. According to the passage, the watch market crashed primarily because:

Answer: C

The passage states the Subdial index's decline 'perfectly correlated' with the Fed's rate-hiking path, and lists the watch crash alongside crypto collapses (Luna, FTX) as the same rate-driven trade unwinding. A reverses the supply story (TRAP A: right scope, wrong direction) – the article notes watch supply grew only single-digit percentages. SAT Tip: On cause-effect questions, find the explicit causal language in the passage ('correlated with,' 'because of,' 'when X happened, Y followed') rather than guessing from outside knowledge.

Q3. Which choice best states the central idea of the passage?

Answer: A

The author traces a clear lineage – tulips needed pamphlets, the South Sea Bubble needed coffee-houses, 1929 needed ticker tape, today needs smartphones – and argues each successive bubble has been 'madder than the last.' D is a policy claim the passage never makes (TRAP C: plausible-sounding but unsupported). SAT Tip: Central-idea answers should account for the passage's structure as a whole, including its historical examples and its forward-looking warnings – not just one section.

Q4. As used in the passage, the word 'discipline' most nearly means:

Answer: C

The passage says markets normally 'discipline foolishness' through a process that 'takes time: months for a thesis to be tested, quarters for earnings to disappoint.' That's correction via delayed consequences. A is the everyday meaning of discipline (TRAP B: passage vocabulary used in the wrong sense) – markets don't formally sanction anyone. SAT Tip: On vocab-in-context, substitute each option into the original sentence; the right answer preserves the sentence's meaning while the common dictionary definition often doesn't fit.

Q5. As used in the passage, the word 'narrow' (in 'healthier precisely because it is narrower') most nearly means:

Answer: B

The very next sentences explain what 'narrow' means here: buyers are buying because they want to wear the watch, not flip it, and premiums have compressed. The market is narrower in participation, not geography. A misreads the spatial metaphor literally (TRAP B). SAT Tip: When a vocabulary word is followed by 'because' or examples, the explanation immediately following almost always defines the intended meaning.

Q6. Which statement about social media's role in modern markets can most reasonably be inferred from the passage?

Answer: B

The passage explicitly describes how the algorithm shows the 22-year-old flipper but not the thousand who lost, producing a 'systematically miscalibrated population.' That's an inference about asymmetry and distorted judgment. A is a policy recommendation the author never makes (TRAP C). SAT Tip: On inference questions, the right answer stays close to what the passage actually says – if you have to add a new claim (like a regulatory proposal) to make the option true, it's probably wrong.

Q7. The passage suggests that 'identity capture' makes losses harder to accept because:

Answer: C

The author writes that when a holding is bound up with 'who you think you are,' selling at a loss becomes psychologically expensive in a way unrelated to the financial loss itself. B introduces social shaming the passage never describes (TRAP C: plausible but unsupported). SAT Tip: For 'why' inference questions, the correct answer usually paraphrases a specific causal mechanism the passage names, not a related-sounding mechanism from general knowledge.

Q8. The author's tone in the final two paragraphs is best described as:

Answer: B

The author explicitly says 'it would be a mistake to conclude the lesson has been learned' and predicts the next bubble while noting financial memory is shrinking – that's a resigned warning. C overstates the emotional register; the author is wry and analytical, not outraged (TRAP B: passage themes in the wrong combination). SAT Tip: Tone questions hinge on the author's word choices, not the seriousness of the topic – look at modifiers and phrasing ('it would be a mistake,' 'the interval is shrinking') rather than the subject matter itself.

Q9. It can most reasonably be inferred from the passage that the current watch market recovery is:

Answer: B

The author calls the recovery 'healthier precisely because it is narrower' – buyers want to wear the watches, premiums have compressed, the market is 'sane' and 'duller.' That implies sustainability rooted in use-value. A contradicts the author's whole framing of speculative excess (TRAP A: opposite direction). SAT Tip: Inference answers must match the author's evaluative stance – if the author calls something 'healthier' and 'sane,' the right inference will reflect approval, not predict another boom.

Q10. Which choice provides the BEST evidence for the answer to the previous question?

Answer: B

Question 9's answer hinges on use-value versus speculation, and option B directly states that buyers want to wear watches rather than flip them – the precise mechanism. A gives price data but doesn't explain WHY the market is healthier (TRAP B: right vocabulary, wrong combination for this question). SAT Tip: On evidence-pairing questions, find the line that contains the specific reasoning behind your previous answer, not just a line on the same general topic – supporting evidence must match the mechanism, not just the subject.