Jonathan Lebed's Extracurricular Activities

By Michael Lewis
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On Sept. 20, 2000, the Securities and Exchange Commission settled its case against a 15-year-old high-school student named Jonathan Lebed. The S.E.C.'s news release explained that Jonathan -- the first minor ever to face proceedings for stock-market fraud -- had used the Internet to promote stocks from his bedroom in the northern New Jersey suburb of Cedar Grove. Armed only with accounts at A.O.L. and E*Trade, the kid had bought stock and then, "using multiple fictitious names," posted hundreds of messages on Yahoo Finance message boards recommending that stock to others. He had done this 11 times between September 1999 and February 2000, the S.E.C. said, each time triggering chaos in the stock market. The average daily trading volume of the small companies he dealt in was about 60,000 shares; on the days he posted his messages, volume soared to more than a million shares. More to the point, he had made money. Between September 1999 and February 2000, his smallest one-day gain was $12,000. His biggest was $74,000. Now the kid had agreed to hand over his illicit gains, plus interest, which came to $285,000.

When I first read the newspaper reports last fall, I didn't understand them. It wasn't just that I didn't understand what the kid had done wrong; I didn't understand what he had done. And if the initial articles about Jonathan Lebed raised questions -- what did it mean to use a fictitious name on the Internet, where every name is fictitious, and who were these people who traded stocks naïvely based on what they read on the Internet? -- they were trivial next to the questions raised a few days later when a reporter asked Jonathan Lebed's lawyer if the S.E.C. had taken all of the profits. They hadn't. There had been many more than the 11 trades described in the S.E.C's press release, the lawyer said. The kid's take from six months of trading had been nearly $800,000. Initially the S.E.C. had demanded he give it all up, but then backed off when the kid put up a fight. As a result, Jonathan Lebed was still sitting on half a million dollars.

At length, I phoned the Philadelphia office of the S.E.C., where I reached one of the investigators who had brought Jonathan Lebed to book. I was maybe the 50th journalist he'd spoken with that day, and apparently a lot of the others had had trouble grasping the finer points of securities law. At any rate, by the time I asked him to explain to me what, exactly, was wrong with broadcasting one's private opinion of a stock on the Internet, he was in no mood.

"Tell me about the kid."

"He's a little jerk."

"How so?"

"He is exactly what you or I hope our kids never turn out to be."

"Have you met him?"

"No. I don't need to."

Cedar Grove is one of those Essex County suburbs defined by the fact that it is not Newark. Its real-estate prices rise with the hills. The houses at the bottom of each hill are barely middle class; the houses at the top might fairly be described as opulent. The Lebeds' house sits about a third of the way up one of the hills.

When I arrived one afternoon not long ago, the first person to the door was Greg Lebed, Jonathan's 54-year-old father. Black hair sprouted in many directions from the top of his head and joined together somewhere in the middle of his back. The curl of his lip seemed designed to shout abuse from a bleacher seat. He had become famous, briefly, when he ordered the world's media off his front lawn and said, "I'm proud of my son." Later, elaborating on "60 Minutes," he said, "It's not like he was out stealing the hubcaps off cars or peddling drugs to the neighbors."

He led me to the family dining room, and without the slightest help from me, worked himself into a lather. He got out a photocopy of front-page stories from The Daily News. One side had a snapshot of Bill and Hillary Clinton beside the headline "Insufficient Evidence' in Whitewater Case: CLINTONS CLEARED"; the other side had a picture of Jonathan Lebed beside the headline "Teen Stock Whiz Nailed." Over it all was scrawled in Greg's furious hand, "U.S. Justice at Work."

"Look at that!" he shouted. "This is what goes on in this country!"

Then, just as suddenly as he had erupted, he went dormant. "Don't bother with me," he said. "I get upset." He offered me a seat at the dining-room table. Connie Lebed, Jonathan's 45-year-old mother, now entered. She had a look on her face that as much as said: "I assume Greg has already started yelling about something. Don't mind him; I certainly don't."

Greg said testily, "It was that goddamn computer what was the problem."

"My problem with the S.E.C.," said Connie, ignoring her husband, "was that they never called. One day we get this package from Federal Express with the whatdyacallit, the subpoenas inside. If only they had called me first." She will say this six times before the end of the day, with one of those marvelous harmonicalike wails that convey a sense of grievance maybe better than any noise on the planet. If only they'da caaaawwwwlled me.

"The wife brought that goddamn computer into this house in the first place," Greg said, hurling a thumb at Connie. "Ever since that computer came into the house, this family was ruined."

Connie absorbed the full frontal attack with an uncomprehending blink, and then said to me, as if her husband had never spoken: "My husband has a lot of anger. He gets worked up easily. He's already had one heart attack."

She neither expects nor receives the faintest reply from him. They obey the conventions of the stage. When one of them steps forward into the spotlight to narrate, the other recedes and freezes like a statue. Ten minutes into the conversation, Jonathan slouched in. Even that verb does not capture the mixture of sullenness and truculence with which he entered the room. He was long and thin and dressed in the prison costume of the American suburban teenager: pants too big, sneakers gaping, a pirate hoop dangling from one ear. He looked away when he shook my hand and said "Nice to meet you" in a way that made it clear that he couldn't be less pleased. Then he sat down and said nothing while his parents returned to their split-screen narration.

At first glance, it was impossible to link Jonathan in the flesh to Jonathan on the Web. I have a file of his Internet postings, and they're all pretty bombastic. Two days before the FedEx package arrived bearing the S.E.C.'s subpoenas, for instance, he logged onto the Internet and posted 200 separate times the following plug for a company called Firetector (ticker symbol FTEC):

"Subj: THE MOST UNDERVALUED STOCK EVER

"Date: 2/03/00 3:43pm Pacific Standard Time

"From: LebedTG1

"FTEC is starting to break out! Next week, this thing will EXPLODE. . . .

"Currently FTEC is trading for just $2 1/2! I am expecting to see FTEC at $20 VERY SOON.

"Let me explain why. . . .

"Revenues for the year should very conservatively be around $20 million. The average company in the industry trades with a price/sales ratio of 3.45. With 1.57 million shares outstanding, this will value FTEC at . . . $44.

"It is very possible that FTEC will see $44, but since I would like to remain very conservative . . . my short-term target price on FTEC is still $20!

"The FTEC offices are extremely busy. . . . I am hearing that a number of HUGE deals are being worked on. Once we get some news from FTEC and the word gets out about the company . . . it will take-off to MUCH HIGHER LEVELS!

"I see little risk when purchasing FTEC at these DIRT-CHEAP PRICES. FTEC is making TREMENDOUS PROFITS and is trading UNDER BOOK VALUE!!!"

And so on. The author of that and dozens more like it now sat dully at the end of the family's dining-room table and watched his parents take potshots at each other and their government. There wasn't an exclamation point in him.

not long after his 11th birthday, Jonathan opened an account with America Online. He went onto the Internet, at least at first, to meet other pro-wrestling fans. He built a Web site dedicated to the greater glory of Stone Cold Steve Austin. But about the same time, by watching his father, he became interested in the stock market. In his 30-plus years working for Amtrak, Greg Lebed had worked his way up to middle manager. Along the way, he accumulated maybe $12,000 of blue-chip stocks. Like half of America, he came to watch the market's daily upward leaps and jerks with keen interest.

Jonathan saved him the trouble. When he came home from school, he turned on CNBC and watched the stock-market ticker stream across the bottom of the screen, searching it for the symbols inside his father's portfolio. "Jonathan would sit there for hours staring at them," Connie said, as if Jonathan is miles away.

"I just liked to watch the numbers go across the screen," Jonathan said.

"Why?"

"I don't know," he said. "I just wondered, like, what they meant."

At first, the numbers meant a chance to talk to his father. He would call his father at work whenever he saw one of his stocks cross the bottom of the television screen. This went on for about six months before Jonathan declared his own interest in owning stocks. On Sept. 29, 1996, Jonathan's 12th birthday, a savings bond his parents gave him at birth came due. He took the $8,000 and got his father to invest it for him in the stock market. The first stock he bought was America Online, at $25 a share -- in spite of a lot of adverse commentary about the company on

CNBC.

"He said that it was a stupid company and that it would go to 2 cents," Jonathan chimed in, pointing at his father, who obeyed what now appeared to be the family rule and sat frozen at the back of some mental stage. AOL rose five points in a couple of weeks, and Jonathan had his father sell it. From this he learned that a) you could make money quickly in the stock market, b) his dad didn't know what he was talking about and c) it paid him to exercise his own judgment on these matters. All three lessons were reinforced dramatically by what happened next.

What happened next was that CNBC -- which Jonathan now rose at 5 every morning to watch -- announced a stock-picking contest for students. Jonathan had wanted to join the contest on his own but was told that he needed to be on a team, and so he went and asked two friends to join him. Thousands of students from across the country set out to speculate their way to victory. Each afternoon CNBC announced the top five teams of the day.

To get your name read out loud on television, you obviously opted for highly volatile stocks that stood a chance of doing well in the short term. Jonathan's team, dubbing itself the Triple Threat, had a portfolio that rose 51 percent the first day, which put them in first place. They remained in the Top 3 for the next three months, until in the last two weeks of the contest they collapsed. Even a fourth-place finish was good enough to fetch a camera crew from CNBC, which came and filmed the team in Cedar Grove. The Triple Threat was featured in The Verona-Cedar Grove Times and celebrated on television by the Cedar Grove Township Council.

"From then, everyone at work started asking me if Jonathan had any stock tips for them," said Greg.

"They still ask me," said Connie.

By the Spring of 1998, Jonathan was 13, and his ambitions were growing. He had glimpsed the essential truth of the market: that even people who called themselves professionals are often incapable of independent thought and that most people, though obsessed with money, have little ability to make decisions about it. He knew what he was doing, or thought he did. He had learned to find everything he wanted to know about a company on the Internet; what he couldn't find, he ran down in the flesh. It became part of Connie Lebed's life to drive her son to various corporate headquarters to make sure they existed. He also persuaded her to open an account with Ameritrade. "He'd done so well with the stock contest, I figured, Let's see what he can do," Connie said.

What he did was turn his $8,000 savings bond into $28,000 inside of 18 months. During the same period, he created his own Web site devoted to companies with small market capitalization -- penny stocks. The Web site came to be known as Stock-dogs.com. ("You know, like racing dogs.") Stock-dogs.com plugged the stocks of companies Jonathan found interesting or that people Jonathan met on the Internet found interesting. At its peak, Stock-dogs.com had maybe 1,500 visitors a day. Even so, the officers of what seemed to Jonathan to be serious companies wrote to him to sell him on their companies. Within a couple of months of becoming an amateur stock-market analyst, he was in the middle of a network of people who spent every waking hour chatting about and trading stocks on the Internet. The mere memory of this clearly upset Greg.

"He was just a little kid," he said. "These people who got in touch with him could have been anybody."

"How do you know?" said Jonathan. "You've never even been on the Internet."

"Suppose some hacker comes in and steals his money!" Greg said. "Next day, you type in, and you got nothing left."

Jonathan snorted. "That can't happen." He turned to me. "Whenever he sees something on TV about the Internet, he gets mad and disconnects my computer phone line."

"Oh, yeah," Connie said, brightening as if realizing for the first time that she lived in the same house as the other two. "I used to hear the garage door opening at 3 in the morning. Then Jonathan's little feet running back up the stairs."

"I haven't ever even turned a computer on!" Greg said. "And I never will!"

"He just doesn't understand how a lot of this works," explained Jonathan patiently. "And so he overreacts sometimes."

Greg and Connie were born in New Jersey, but from the moment the Internet struck, they might as well have just arrived from Taiwan. When the Internet landed on them, it redistributed the prestige and authority that goes with a general understanding of the ways of the world away from the grown-ups and to the child. The grown-ups now depended on the child to translate for them. Technology had turned them into a family of immigrants.

"I know, I know," Greg said, turning to me. "I'm supposed to know how it works. It's the future. But that's his future, not mine!"

"Anyway," Connie said, drifting back in again. "That's when the S.E.C. called us the first time."

The first time?

Jonathan was 14 when Connie agreed to take him to meet with the S.E.C. in its Manhattan offices. When he heard the news, Greg, of course, hit the roof and hopped on the high-speed train to triple bypass. "He'd already had one heart attack," Connie explained and started to go into the heart problems all over again, inspiring Greg to mutter something about how he wasn't the person who brought the computer into the house and so it wasn't his responsibility to deal with this little nuisance.

At any rate, Connie asked Harold Burk, her boss at Hoffmann-La Roche, the drug company where she worked as a secretary, to go with her and Jonathan. Together, they made their way to a long conference table in a big room at 7 World Trade Center. On one side of the table, five lawyers and an examiner from the S.E.C.; on the other, a 14-year-old boy, his mother and a bewildered friend.

This is how it began:

S.E.C.: Does Jonathan's father know he's here today?

Mrs. Lebed: Yes.

S.E.C.: And he approves of having you here?

Mrs Lebed: Right, he doesn't want to go.

S.E.C.: He's aware you're here.

Mrs. Lebed: With Harold.

S.E.C.: And that Mr. Burk is here.

Mrs Lebed: He did not want to -- this whole thing has upset my husband a lot. He had a heart attack about a year ago, and he gets very, very upset about things. So he really did not want anything to do with it, and I just felt like -- Harold said he would help me.

The S.E.C. seemed to have figured out quickly that they are racing into some strange mental cul-de-sac. They turned their attention to Jonathan or, more specifically, his brokerage statements.

S.E.C.: Where did you learn your technique for day trading?

Jonathan: Just on TV, Internet.

S.E.C.: What TV shows?

Jonathan: CNBC mostly -- basically CNBC is what I watch all the time

S.E.C.: Do you generally make money on your day trading?

Jonathan: I usually don't day trade; I just try to -- since I was home these days and I was very bored, I wanted something to do, so I was just trading constantly. I don't think I was making money. . . .

S.E.C.: Just looking at your April statement, it looks like the majority of your trading is day trading.

Jonathan: I was home a lot that time.

Mrs. Lebed: They were on spring vacation that week.

Having established and then ignored the boy's chief motive for trading stocks -- a desire to escape the tedium of existence -- the authorities then sought to discover his approach to attracting attention on the Internet.

S.E.C.: On the first page [referring to a hard copy of Jonathan's Web site, Stock-dogs.com] where it says, ''Our 6- to 12-month outlook, $8,'' what does that mean? The stock is selling less than 3 but you think it's going to go to 8.

Jonathan: That's our outlook for the price to go based on their earnings potential and a good value ratio. . . .

S.E.C.: Are you aware that there are laws that regulate company projections?

Jonathan: No.

Eventually, the S.E.C. people crept up on the reason they had noticed Jonathan in the first place. They had been hot on the trail of a grown-up named Ira Monas, one of Jonathan Lebed's many Internet correspondents. Monas, eventually jailed on unrelated charges, had been employed in ''investor relations'' by a number of small companies. In that role, he had fed Jonathan Lebed information about the companies, some of which turned out to be false and some of which Jonathan had unwittingly posted on Stock-dogs.com.

The S.E.C. asked if Monas had paid Jonathan to do this and thus help to inflate the price of his company's stocks. Jonathan said no, he had done it for free because he thought the information was sound. The S.E.C. then expressed its doubt that Jonathan was being forthright about his relationship with Monas. One of the small companies Monas had been hired to plug was a cigar retail outlet called Havana Republic. As a publicity stunt, Monas announced that the company -- in which Jonathan came to own 100,000 shares -- would hold a ''smoke-out'' in Midtown Manhattan.

The S.E.C. now knew that Jonathan Lebed had attended the smoke-out. To the people across the table from Jonathan, this suggested that his relationship with a known criminal was deeper than he admitted.

S.E.C.: So you decided to go to the smoke-out?

Jonathan: Yes.

S.E.C.: How did you go about that?

Jonathan: We walked down the street and took a bus.

S.E.C.: Who is "we."

Jonathan: Me and my friend Chuck.

S.E.C.: O.K.

Jonathan: We took a bus to New York.

S.E.C.: You cut school to do this?

Jonathan: It was after school. Then we got picked up at Port Authority, so then my mother and Harold came and picked us up and we went to the smoke-out.

S.E.C.: Why were you picked up at the Port Authority?

Jonathan: Because people like under 18 across the country, from California. . . .

Mrs. Lebed: They pick up minors there at Port Authority.

S.E.C.: So the cops were curious about why you were there?

Jonathan: Yes.

S.E.C.: And they called your mother?

Jonathan: Yes.

S.E.C.: And she came.

Jonathan: Yes.

S.E.C.: You went to the smoke-out.

Jonathan: Yes.

S.E.C.: Did you see Ira there?

Jonathan: Yes.

S.E.C.: Did you introduce yourself to Ira?

Jonathan: No.

Here, you can almost here the little sucking sound on the S.E.C.'s side of the table as the conviction goes out of this line of questioning.

S.E.C.: Why not?

Jonathan: Because I'm not sure if he knew my age, or anything like that, so I didn't talk to anyone there at all.

This mad interrogation began at 10 in the morning and ended at 6 in the evening. When it was done, the S.E.C. declined to offer legal advice. Instead, it said, "The Internet is a grown-up medium for grown-up-type activities." Connie Lebed and Harold Burk, both clearly unnerved, apologized profusely on Jonathan's behalf and explained that he was just a naïve child who had sought attention in the wrong place. Whatever Jonathan thought, he kept to himself.

When I came home that day, I closed the Ameritrade account," Connie told me.

"Then how did Jonathan continue to trade?" I asked.

Greg then blurted out, "The kid never did something wrong,"

"Don't ask me!" Connie said. "I got nothing to do with it."

"All right," Greg said, "here's what happened. When Little Miss Nervous over here closes the Ameritrade account, I open an account for him in my name with that other place, E*Trade."

I turned to Jonathan, who wore his expression of airy indifference.

"But weren't you scared to trade again?"

"No."

"This thing with the S.E.C. didn't even make you a little nervous?"

"No."

"No?"

"Why should it?"

Soon after he agreed to defend Jonathan Lebed, Kevin Marino, his lawyer, discovered he had a problem. No matter how he tried, he was unable to get Jonathan Lebed to say what he really thought. "In a conversation with Jonathan, I was supplying way too many of the ideas," Marino says. "You can't get them out of him." Finally, he asked Jonathan and his parents each to write a few paragraphs describing their feelings about how the S.E.C. was treating Jonathan. Connie Lebed's statement took the form of a wailing lament of the pain inflicted by the callous government regulators on the family. ("I am also upset as you know that I was not called.") Greg Lebed's statement was an angry screed directed at both the government and the media.

Jonathan's statement -- a four-page e-mail message dashed off the night that Marino asked for it -- was so different in both tone and substance from his parents' that it inspired wonder that it could have been written by even the most casual acquaintance of the other two.

It began:

"I was going over some old press releases about different companies. The best performing stock in 1999 on the Nasdaq was Qualcomm (QCOM). QCOM was up around 2000% for the year. On December 29th of last year, even after QCOM's run from 25 to 500, Paine Webber analyst Walter Piecky came out and issued a buy rating on QCOM with a target price of 1,000. QCOM finished the day up 156 to 662. There was nothing fundamentally that would make QCOM worth 1,000. There is no way that a company with sales under $4 billion, should be worth hundreds of billions. . . . QCOM has now fallen from 800 to under 300. It is no longer the hot play with all of the attention. Many people were able to successfully time QCOM and make a lot of money. The ones who had bad timing on QCOM, lost a lot of money.

"People who trade stocks, trade based on what they feel will move and they can trade for profit. Nobody makes investment decisions based on reading financial filings. Whether a company is making millions or losing millions, it has no impact on the price of the stock. Whether it is analysts, brokers, advisors, Internet traders, or the companies, everybody is manipulating the market. If it wasn't for everybody manipulating the market, there wouldn't be a stock market at all. . . ."

As it happens, those last two sentences stand for something like the opposite of the founding principle of the United States Securities and Exchange Commission. To a very great extent, the world's financial markets are premised on a black-and-white mental snapshot of the American investor that was taken back in 1929. The S.E.C. was created in 1934, and the big question in 1934 was, How do you reassure the public that the stock market is not rigged? From mid-1929 to mid-1932, the value of the stocks listed on the New York Stock Exchange had fallen 83 percent, from $90 billion to about $16 billion. Capitalism, with reason, was not feeling terribly secure.

To the greater public in 1934, the numbers on the stock-market ticker no longer seemed to represent anything "real," but rather the result of manipulation by financial pros. So, how to make the market seem "real"? The answer was to make new stringent laws against stock-market manipulation -- aimed not at ordinary Americans, who were assumed to be the potential victims of any manipulation and the ones who needed to be persuaded that it was not some elaborate web of perceptions, but at the Wall Street elite. The American financial elite acquired its own police force, whose job it was to make sure their machinations did not ever again unnerve the great sweaty rabble. That's not how the S.E.C. put it, of course. The catch phrase used by the policy-making elites when describing the S.E.C.'s mission was "to restore public confidence in the securities markets." But it amounted to the same thing. Keep up appearances, so that the public did not become too cautious. It occurred to no one that the public might one day be as sophisticated in these matters as financial professional.s

Anyone who paid attention to the money culture could see its foundation had long lay exposed, and it was just a matter of time before the termites got to it. From the moment the Internet went boom back in 1996, Web sites popped up in the middle of nowhere -- Jackson, Mo.; Carmel, Calif. -- and began to give away precisely what Wall Street sold for a living: earning forecasts, stock recommendations, market color. By the summer of 1998, Xerox or AT&T or some such opaque American corporation would announce earnings of 22 cents a share, and even though all of Wall Street had predicted a mere 20 cents and the company had exceeded all expectations, the stock would collapse. The amateur Web sites had been saying 23 cents.

Eventually, the Bloomberg News Service commissioned a study to explore the phenomenon of what were now being called "whisper numbers." The study showed the whisper numbers, the numbers put out by the amateur Web sites, were mistaken, on average, by 21 percent. The professional Wall Street forecasts were mistaken, on average, by 44 percent. The reason the amateurs now held the balance of power in the market was that they were, on average, more than twice as accurate as the pros -- this in spite of the fact that the entire financial system was rigged in favor of the pros. The big companies spoon-fed their scoops directly to the pros; the amateurs were flying by radar.

Even a 14-year-old boy could see how it all worked, why some guy working for free out of his basement in Jackson, Mo., was more reliable than the most highly paid analyst on Wall Street. The companies that financial pros were paid to analyze were also the financial pros' biggest customers. Xerox and AT&T and the rest needed to put the right spin on their quarterly earnings. The goal at the end of every quarter was for the newspapers and the cable television shows and the rest to announce that they had "exceeded analysts' expectations." The easiest way to exceed analysts' expectations was to have the analysts lower them. And that's just what they did, and had been doing for years. The guy in Carmel, Calif., confessed to Bloomberg that all he had to do to be more accurate on the earnings estimates than Wall Street analysts was to raise all of them 10 percent.

A year later, when the Internet bubble burst, the hollowness of the pros only became clearer. The most famous analysts on Wall Street, who just a few weeks before had done whatever they could to cadge an appearance on CNBC or a quote in The Wall Street Journal to promote their favorite dot-com, went into hiding. Morgan Stanley's Mary Meeker, who made $15 million in 1999 while telling people to buy Priceline when it was at $165 a share and Healtheon/WebMD when it reached $105 a share, went silent as they collapsed toward zero.

Financial professionals had entered some weird new head space. They simply took it for granted that a "financial market" was a collection of people doing their best to get onto CNBC and CNNfn and into the Heard on the Street column of The Wall Street Journal and the Lex column of The Financial Times, where they could advance their narrow self-interests.

To anyone who wandered into the money culture after, say, January 1996, it would have seemed absurd to take anything said by putative financial experts at face value. There was no reason to get worked up about it. The stock market was not an abstraction whose integrity needed to be preserved for the sake of democracy. It was a game people played to make money. Who cared if anything anyone said or believed was "real"? Capitalism could now afford for money to be viewed as no different from anything else you might buy or sell.

Or, as Jonathan Lebed wrote to his lawyer:

"Every morning I watch Shop at Home, a show on cable television that sells such products as baseball cards, coins and electronics. Don West, the host of the show, always says things like, 'This is one of the best deals in the history of Shop at Home! This is a no-brainer folks! This is absolutely unbelievable, congratulations to everybody who got in on this! Folks, you got to get in on the line, this is a gift, I just can't believe this!' There is absolutely nothing wrong with him making quotes such as those. As long as he isn't lying about the condition of a baseball card or lying about how large a television is, he isn't committing any kind of a crime. The same thing applies to people who discuss stocks."

Right from the start, the S.E.C. treated the publicity surrounding the case of Jonathan Lebed at least as seriously as the case itself. Maybe even more seriously. The Philadelphia office had brought the case, and so when the producer from "60 Minutes" called to say he wanted to do a big segment about the world's first teenage stock market manipulator, he called the Philadelphia office. "Normally we call the top and get bumped down to some flack," says Trevor Nelson, the "60 Minutes" producer in question. "This time I left a message at the S.E.C's Philadelphia office, and Arthur Levitt's office called me right back." Levitt, being the S.E.C. chairman, flew right up from Washington to be on the show.

To the S.E.C., it wasn't enough that Jonathan Lebed hand over his winnings: he had to be vilified; people had to be made to understand that what he had done was a crime, with real victims. "The S.E.C. kept saying that they were going to give us the name of one of the kid's victims so we could interview him," Nelson says. "But they never did."

I waited a couple of months for things to cool off before heading down to Washington to see Arthur Levitt. He was just then finishing up being the longest-serving chairman of the S.E.C. and was taking a victory lap in the media for a job well done. He was now 69, but as a youth, back in the 1950's and 1960's, he had made a lot of money on Wall Street. At the age of 62, he landed his job at the S.E.C. -- in part, because he had raised a lot of money on the street for Bill Clinton -- where he set himself up to defend the interests of the ordinary investor. He had declared war on the financial elite and pushed through rules that stripped it of its natural market advantages. His single bravest act was Regulation FD, which required corporations to release significant information about themselves to everyone at once rather than through the Wall Street analysts.

Having first determined I was the sort of journalist likely to see the world exactly as he did, he set out to explain to me the new forces corrupting the financial markets. "The Internet has speeded up everything," he said, "and we're seeing more people in the markets who shouldn't be there. A lot of these new investors don't have the experience or the resources or a professional trader. These are the ones who bought that [expletive] that Lebed was pushing."

"Do you think he is a sign of a bigger problem?"

"Yes, I do. And I find his case very disturbing . . . more serious than the guy who holds up the candy store. . . . I think there's a considerable risk of an anti-business backlash in this country. The era of the 25-year-old billionaire represents a kind of symbol which is different from the Horatio Alger symbol. The 25-year-old billionaire looks lucky, feels lucky. And investors who lose money buying stock in the company of the 25-year-old billionaire. . . . "

He trailed off, leaving me to finish the thought.

"You think it's a moral issue."

"I do."

"You think Jonathan Lebed is a bad kid?"

"Yes, I do."

"Can you explain to me what he did?"

He looked at me long and hard. I could see that this must be his meaningful stare. His eyes were light blue bottomless pits. "He'd go into these chat rooms and use 20 fictitious names and post messages. . . . "

"By fictitious names, do you mean e-mail addresses?"

"I don't know the details."

Don't know the details? He'd been all over the airwaves decrying the behavior of Jonathan Lebed.

"Put it this way," he said. "He'd buy, lie and sell high." The chairman's voice had deepened unnaturally. He hadn't spoken the line; he had acted it. It was exactly the same line he had spoken on "60 Minutes" when his interviewer, Steve Kroft, asked him to explain Jonathan Lebed's crime. He must have caught me gaping in wonder because, once again, he looked at me long and hard. I glanced away.

"What do you think?" he asked.

Well, I had my opinions. In the first place, I had been surprised to learn that it was legal for, say, an author to write phony glowing reviews of his book on Amazon but illegal for him to plug a stock on Yahoo just because he happened to own it. I thought it was -- to put it kindly -- misleading to tell reporters that Jonathan Lebed had used "20 fictitious names" when he had used four AOL e-mail addresses and posted exactly the same message under each of them so that no one who read them could possibly mistake him for more than one person. I further thought that without quite realizing what had happened to them, the people at the S.E.C. were now lighting out after the very people -- the average American with a bit of money to play with -- whom they were meant to protect.

Finally, I thought that by talking to me or any other journalist about Jonathan Lebed when he didn't really understand himself what Jonathan Lebed had done, the chairman of the S.E.C. displayed a disturbing faith in the media to buy whatever he was selling.

But when he asked me what I thought, all I said was, "I think it's more complicated than you think."

"Richard -- call Richard!" Levitt was shouting out the door of his vast office. "Tell Richard to come in here!"

Richard was Richard Walker, the S.E.C.'s director of enforcement. He entered with a smile, but mislaid it before he even sat down. His mind went from a standing start to deeply distressed inside of 10 seconds. "This kid was making predictions about the prices of stocks," he said testily. "He had no basis for making these predictions." Before I could tell him that sounds a lot like what happens every day on Wall Street, he said, "And don't tell me that's standard practice on Wall Street," so I didn't. But it is. It is still O.K. for the analysts to lowball their estimates of corporate earnings and plug the stocks of the companies they take public so that they remain in the good graces of those companies. The S.E.C. would protest that the analysts don't actually own the stocks they plug, but that is a distinction without a difference: they profit mightily and directly from its rise.

"Jonathan Lebed was seeking to manipulate the market," said Walker.

But that only begs the question. If Wall Street analysts and fund managers and corporate C.E.O.'s who appear on CNBC and CNNfn to plug stocks are not guilty of seeking to manipulate the market, what on earth does it mean to manipulate the market?

"It's when you promote a stock for the purpose of artificially raising its price."

But when a Wall Street analyst can send the price of a stock of a company that is losing billions of dollars up 50 points in a day, what does it mean to "artificially raise" the price of a stock? The law sounded perfectly circular. Actually, this point had been well made in a recent article in Business Crimes Bulletin by a pair of securities law experts, Lawrence S. Bader and Daniel B. Kosove. "The casebooks are filled with opinions that describe manipulation as causing an 'artificial' price," the experts wrote. "Unfortunately, the casebooks are short on opinions defining the word 'artificial' in this context. . . . By using the word 'artificial,' the courts have avoided coming to grips with the problem of defining 'manipulation'; they have simply substituted one undefined term for another."

Walker recited, "The price of a stock is artificially raised when subjected to something other than ordinary market forces."

But what are "ordinary market forces"?

An ordinary market force, it turned out, is one that does not cause the stock to rise artificially. In short, an ordinary market force is whatever the S.E.C. says it is, or what it can persuade the courts it is. And the S.E.C. does not view teenagers' broadcasting their opinions as "an ordinary market force." It can't. If it did, it would be compelled to face the deep complexity of the modern market -- and all of the strange new creatures who have become, with the help of the Internet, ordinary market forces. When the Internet collided with the stock market, Jonathan Lebed became a market force. Adolescence became a market force.

I finally came clean with a thought: the S.E.C. let Jonathan Lebed walk away with 500 grand in his pocket because it feared that if it didn't, it would wind up in court and it would lose. And if the law ever declared formally that Jonathan Lebed didn't break it, the S.E.C. would be faced with an impossible situation: millions of small investors plugging their portfolios with abandon, becoming in essence professional financial analysts, generating embarrassing little explosions of unreality in every corner of the capital markets. No central authority could sustain the illusion that stock prices were somehow "real" or that the market wasn't, for most people, a site of not terribly productive leisure activity. The red dog would be off his leash.

I might as well have strolled into the office of the drug czar and lit up a joint.

"The kid himself said he set out to manipulate the market," Walker virtually shrieked. But, of course, that is not all the kid said. The kid said everybody in the market was out to manipulate the market.

"Then why did you let him keep 500 grand of his profits?" I asked.

"We determined that those profits were different from the profits he made on the 11 trades we defined as illegal," he said.

This, I already knew, was a pleasant fiction. The amount Jonathan Lebed handed over to the government was determined by haggling between Kevin Marino and the S.E.C.'s Philadelphia office. The S.E.C. initially demanded the $800,000 Jonathan had made, plus interest. Marino had countered with 125 grand. They haggled a bit and then settled at 285.

"Can you explain how you distinguished the illegal trades from the legal ones?"

"I'm not going to go through the case point by point."

"Why not?"

"It wouldn't be appropriate."

At which point, Arthur Levitt, who had been trying to stare into my eyes as intently as a man can stare, said in his deep voice, "This kid has no basis for making these predictions."

"But how do you know that?"

And the chairman of the S.E.C., the embodiment of investor confidence, the keeper of the notion that the numbers gyrating at the bottom of the CNBC screen are "real," drew himself up and said, "I worked on Wall Street."

Well. What do you say to that? He had indeed worked on Wall Street -- in 1968.

"So did I," I said.

"I worked there longer than you."

Walker leapt back in. "This kid's father said he was going to rip the [expletive] computer out of the wall."

I realized that it was my turn to stare. I stared at Richard Walker. "Have you met Jonathan Lebed's father?" I said.

"No I haven't," he said curtly. "But look, we talked to this kid two years ago, when he was 14 years old. If I'm a kid and I'm pulled in by some scary government agency, I'd back off."

That's the trouble with 14-year-old boys -- from the point of view of the social order. They haven't yet learned the more sophisticated forms of dishonesty. It can take years of slogging to learn how to feign respect for hollow authority.

Still! That a 14-year-old boy, operating essentially in a vacuum, would walk away from a severe grilling by six hostile bureaucrats and jump right back into the market -- how did that happen? It occurred to me, as it had occurred to Jonathan's lawyer, that I had taken entirely the wrong approach to getting the answer. The whole point of Jonathan Lebed was that he had invented himself on the Internet. The Internet had taught him how hazy the line was between perception and reality. When people could see him, they treated him as they would treat a 14-year-old boy. When all they saw were his thoughts on financial matters, they treated him as if he were a serious trader. On the Internet, where no one could see who he was, he became who he was. I left the S.E.C. and went back to my hotel and sent him an e-mail message, asking him the same question I asked the first time we met: why hadn't he been scared off?

Straight away he wrote back:

"It was about 2-3 months from when the S.E.C. called me in for the first time until I started trading again. The reason I didn't trade for those 2-3 months is because I had all of my money tied up in a stock. I sold it at the end of the year to take a tax loss, which allowed me to start trading again. I wasn't frightened by them because it was clear that they were focused on whether or not I was being paid to profile stocks when the fact is I was not. I was never told by them that I was doing something wrong and I was never told by them not to do something."

By September 1999, Jonathan Lebed was playing at the top of his game. He had figured out the advantage, after he had bought shares in a small company, in publicizing his many interests. "I came up with it myself," he said of the idea. "It was obvious from the newspapers and CNBC. Of course stocks respond to publicity!"

After he had picked and bought his stock, he would write a single message about it and stick it up in as many places on Yahoo Finance as he could between 5 and 8 in the morning, when he left home for school. There were no explicit rules on Yahoo Finance, but there were constraints. The first was that Yahoo limited the number of messages he could post using one e-mail address. He would click onto Yahoo and open an account with one of his four AOL screen names; a few minutes later, Yahoo, mysteriously, would tell him that his messages could no longer be delivered. Eventually, he figured out that they must have some limit that they weren't telling people about. He got around it by grabbing another of his four AOL screen names and creating another Yahoo account. By rotating his four AOL screen names, he found he could get his message onto maybe 200 Yahoo message boards before school.

He also found that when he went to do it the next time, with a different stock, Yahoo would no longer accept messages from his AOL screen names. So he was forced to create four more screen names and start over again. Yahoo never told him he shouldn't do this. "The account would be just, like, deleted," he said. "Yahoo never had a policy; it's just what I figured out." The S.E.C. accused Jonathan of trying to seem like more than one person when he promoted his stocks, but when you see how and why he did what he did, that is clearly false. (For instance, he ignored the feature on Yahoo that enables users to employ up to seven different "fictitious names" for each e-mail address.) It's more true to say that he was trying to simulate an appearance on CNBC.

Over time, he learned that some messages had more effect on the stock market than others. "I definitely refined it," he said of his Internet persona. "In the beginning, I would write, like, very professionally. But then I started putting stuff in caps and using exclamation points and making it sound more exciting. That worked better. When it's more exciting, it draws people's attention to it compared to when you write like, dull or something." The trick was to find a stock that he could get excited about. He sifted the Internet chat rooms and the shopping mall with three things in mind: 1) "It had to be in the area of the stock market that is likely to become a popular play"; 2) "it had to be undervalued compared to similar companies"; and 3) "it had to be undiscovered -- not that many people talking about it on the message boards."

Over a couple of months, I drifted in and out of Jonathan Lebed's life and became used to its staccato rhythms. His defining trait was that the strangest things happened to him, and he just thought of them as perfectly normal -- and there was no one around to clarify matters. The threat of being prosecuted by the U.S. Attorney in Newark and sent away to a juvenile detention center still hung over him, but he didn't give any of it a second thought. He had his parents, his 12-year-old sister Dana and a crowd of friends at Cedar Grove High School, most of whom owned pieces of Internet businesses and all of whom speculated in the stock market. "There are three groups of kids in our school," one of them explained to me. "There's the jocks, there's the druggies and there's us -- the more business oriented. The jocks and the druggies respect what we do. At first, a lot of the kids are, like, What are you doing? But once kids see money, they get excited."

The first time I heard this version of the social structure of Cedar Grove High, I hadn't taken it seriously. But then one day I went out with Jonathan and one of his friends, Keith Graham, into a neighboring suburb to do what they liked to do most when they weren't doing business, shoot pool. We parked the car and set out down an unprosperous street in search of the pool hall.

"Remember West Coast Video?" Keith said drolly.

I looked up. We were walking past a derelict building with "West Coast Video" stenciled on its plate glass.

Jonathan chuckled knowingly. "We owned, like, half the company."

I looked at him. He seemed perfectly serious. He began to tick off the reasons for his investment. "First, they were about to open an Internet subsidiary; second, they were going to sell DVD's when no other video chain. . . . "

I stopped him before he really got going. "Who owned half the company?"

"Me and a few others. Keith, Michael, Tom, Dan."

"Some teachers, too," Keith said.

"Yeah, the teachers heard about it," Jonathan said. He must have seen me looking strangely at him because he added: "It wasn't that big a deal. We probably didn't have a controlling interest in the company, but we had a fairly good percentage of the stock."

"Teachers?" I said. "The teachers followed you into this sort of thing."

"Sometimes," Jonathan said.

"All the time," Keith said. Keith is a year older than Jonathan and tends to be a more straightforward narrator of events. Jonathan will habitually dramatize or understate some case and emit a strange frequency, like a boy not quite sure how hard to blow into his new tuba, and Keith will invariably correct him. "As soon as people at school found out what Jonathan was in, everybody got in. Like right way. It was, like, if Jonathan's in on it, it must be good." And then the two boys moved on to some other subject, bored with the memory of having led some teachers in the acquisition of shares of West Coast Video. We entered the pool hall and took a table, where we were joined by another friend, John. Keith had paged him.

My role in Jonathan Lebed's life suddenly became clear: to express sufficient wonder at whatever he has been up to that he is compelled to elaborate.

"I don't understand," I said. "How would other kids find out what Jonathan was in?"

"It's high school," said Keith, in a tone reserved for people over 35. "Four hundred kids. People talk."

"How would the teachers find out?"

Now Keith gave me a look that told me that I'm the most prominent citizen of a new nation called Stupid. "They would ask us!" he said.

"But why?"

"They saw we were making money," Keith said.

"Yeah," said Jonathan, who, odd as it sounds, exhibits none of his friend's knowingness. He just knows. "I feel, like, that most of my classes, my grades would depend not on my performance but on how the stocks were doing."

"Not really," Keith said.

"O.K.," Jonathan said. "Maybe not that. But, like, I didn't think it mattered if I was late for class."

Keith considered that. "That's true," he said.

"I mean," Jonathan said, "they were making like thousands of dollars off the trades, more than their salaries even. . . . "

"Look," I said, "I know this is a stupid question. But was there any teacher who, say, disapproved of what you were doing?"

The three boys considered this, plainly for the first time in their lives.

"The librarian," Jonathan finally said.

"Yeah," John said. "But that's only because the computers were in the library, and she didn't like us using them."

"You traded stocks from the library?"

"Fifth-period study hall was in the library," Keith said. "Fifth-period study hall was like a little Wall Street. But sometimes the librarian would say the computers were for study purposes only. None of the other teachers cared."

"They were trading," Jonathan said.

The mood had shifted. We shot pool and pretended that there was no more boring place to be than this world we live in. "Even though we owned like a million shares," Jonathan said, picking up the new mood. "It wasn't that big a deal. West Coast Video was trading at like 30 cents a share when we got in."

Keith looked up from the cue ball. "When you got in," he said. "Everyone else got in at 65 cents; then it collapsed. Most of the people lost money on that one."

"Hmmm," Jonathan said, with real satisfaction. "That's when I got out."

Suddenly I realized that the S.E.C. was right: there were victims to be found from Jonathan Lebed's life on the Internet. They were right here in New Jersey. I turned to Keith. "You're Jonathan's victim."

"Yeah, Keith," Jonathan said, laughing. "You're my victim."

"Nah," Keith said. "In the stock market, you go in knowing you can lose. We were just doing what Jon was doing, but not doing as good a job at it."

Michael Lewis, a contributing writer for the magazine, is making a television series about the Internet for the BBC.