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Established 1872

Tulips • South Seas • Mississippi

Three Cautionary Tales

on

'The Madness of Crowds'

"The dumbest reason in the world to buy a stock is because it's going up."

Warren Buffett
1930 -
Chairman Berkshire Hathaway
Net worth in 2017: US$ 92.5B

History ● Experience ● Foresight

Contents

Dedication

The impulse to write these micro-essays came from a realisation that, while professional investors may have heard of famous, historical bubbles, not many are aware of some of the key elements that led to their formation in the first place.

Most of the academic works on bubbles can be heavy weather; in a time when people expect to 'get to the facts' quickly, there is a growing appetite for brevity. The text here is brief.

Doing the research behind these three cautionary tales has been a delight and has delivered a fresh perspective at a time when bubbles still surface with a regularity that is all too frightening.

If no more than a single client finds value in what appears here, the exercise will have been worthwhile.

In that spirit, these short pieces are dedicated to any investor—of any stripe– who feels tempted to follow the herd when 'the next big thing' appears on the horizon.

If it appears to good to be true, it is.

Researched, written and presented
by a member of the Joseph Palmer & Sons
Investment Committee

February, 2018.

Key people mentioned in these tales

Charles McKay
(1814-1889)
Author of
Extraordinary Delusions and the Madness of Crowds

Sir Isaac Newton
(1642-1726)
Discoverer of laws of motion.
Lost fortune in South Sea Bubble

John Law
1671-1729
Architect of the Mississippi Scheme in 18th century France and USA

"I can calculate the motion of heavenly bodies, but not the madness of people."
Sir Isaac Newton
commenting on the South Sea Bubble

Foreword

> ***"Those who cannot remember the past are condemned to repeat it."***
>
> **George Santayana**
> (Philosopher, Essayist, Novelist)

Every serious investor knows that markets move in cycles. Investment cycles are wave-like, and for much of the time they undulate rhythmically: up a few per cent here, down a few per cent there.

Seasoned investors are familiar with these swings and take them in their stride.

Occasionally, however, markets soar upward towards spiky peaks, only later, to fall, like loosened rocks, into deep valleys.

On the way up, a speculator may make a fortune—and on the way down a fool will lose one. It was ever thus.

Every decade or so, an investment bubble forms; herd behaviour evolves *('Must get into this and not miss out')* and the balloon grows inexorably larger. Then some unexpected event occurs and, like the man shouting 'Fire' in a crowded theatre, everyone panics and races for the exits … in the ensuing pandemonium, many get badly hurt. Some die.

Many commentators have written on bubble phenomena. One of the most famous was Charles McKay who wrote *Extraordinary Popular Delusions and the Madness of Crowds;* it was first published in 1841 and has never been out of print.

McKay, a journalist, of some repute in his day, was born in Scotland in 1812.

In these days of 'instant satisfaction' it is perhaps asking a bit much for people to read his original, lengthy text, written in a style long since superseded.

The following pages rectify this by capturing the essence of the bubbles McKay wrote about using both private resources and online research.

Whatever conclusions you may draw here, make this your first: *wise investors ignore the past at their peril.*

Tulip Mania

The first ever stock exchange was established in Holland in 1602. It was created, in the first instance, to finance the Dutch East India Company, which eventually grew so large that it became equivalent to the combined size of 10 of the largest corporations on the planet today (2018).

Holland in the 17th century was undergoing what has been described as The Dutch Miracle. It was among the most advanced nations in the world in science, trade, military prowess, and art.

Following wars of religion, and rebellion against Spanish rule, Holland was finally enjoying its place in the sun.

The new-found confidence and optimism of the Dutch was underpinned by the rapid development of sea power.

They began to outshine the Spanish and Portuguese in the hugely profitable Asian spice trade and their influence spread to the Japanese, with whom they traded, also shrewdly acting as go-betweens for business with China.

It was in this positive environment that a wealthy merchant class developed; it was here that great art flourished, exemplified by such masters as Vermeer and Rembrandt; it was here that renowned philosophers—Descartes, Spinoza, and Hobbes, among them—deliberated and delivered their views.

And it was here that one of the greatest speculative frenzies the world has ever seen took place: it became known as Tulip Mania and this is the brief tale behind it.

In 1554, the Sultan of Turkey sent the first tulip bulbs to diplomats in Vienna, as a gift. Tulips were not native to Europe and before long these exotic plants were distributed to several key cities, including Antwerp and Amsterdam.

Around 1593, a Dutch botanist found that the tulips were able to tolerate cool conditions and he began to propagate them; they grow from bulbs and seeds and take more than a decade to flower; in Europe, they bloom in early spring for about a week.

Being so different from anything seen in Holland before, gradually tulips began to attract attention as desirable curiosities. One key attraction was their intense petal colour, another related to their compelling variations of colour in the growing number of varieties that began to appear.

(Ironically, the attractive colour variation was caused by a virus to which the plant had become susceptible.)

Slowly but surely, people attached value to these exotic plants as they began to become status symbols as luxury items.

By the early 1600s—and in the atmosphere of growing prosperity—demand started to grow: the popularity of tulips began to widen from 'those in the know' to a growing middle class.

When people start feeling 'better off', they frequently exhibit the behaviour of acquiring items hitherto denied them either by lack of ready money or by scarcity.

Coupled with this behaviour is that which evidences itself in the kind of round-the-dinner-table, immodest references to achievements and acquisitions (we have all experienced bores boasting of their brilliant offspring, business success and/or vast increases in the value of their property).

The Dutch middle-class at this time was no different. One may imagine the taverns and cafes buzzing with tall tales and rumour of who made how much, and when. With the word getting around about the wondrous tulips and the talked-up desirability of not being without them, it didn't take long before demand outstripped supply.

To cope with demand, professional growers paid increasingly high prices for bulbs. By 1634, speculators from France had entered the market.

Prices rose steadily throughout 1636 and by the end of that year tulips became Holland's fourth leading export item.

A form of futures market was created, and contracts to buy and sell at the end of the season were established.

Prices rose to astronomical heights; a bubble had been created. Fortunes were made, especially by those who were wise enough or (more likely) lucky enough to have sold out of the market.

Peter Brueghel the Younger skewered the folly of tulip mania in his art, while contemporary Hendrik Pot called his evocative creation, "Wagon of Fools" (pictured).

Amusing anecdotes abounded. In one, a sailor had delivered a parcel to the house of a wealthy merchant. To show his gratitude, the merchant invited the sailor in to enjoy hearty breakfast. While in the kitchen, the sailor noticed an onion on a nearby shelf and decided to pocket it to eat later.

After the sailor left the house, the merchant noticed that his *Semper Augustus* tulip bulb (the most expensive in the market) was missing; he and his staff searched frantically for the all-but-priceless item. When they couldn't locate it, a servant suggested that maybe the sailor had taken it.

The search party eventually found the unwitting miscreant seated on a post near his ship, innocently biting his way through the 'onion', the price for which could have paid for, and provisioned, the entire vessel and crew for a year.

Speculation in the tulip futures market meant that many buyers and sellers rarely saw the bulbs in which they were trading. It was estimated that bulbs were changing hands ten times a day. And prices kept rising.

Until, quite unexpectedly, they no longer did.

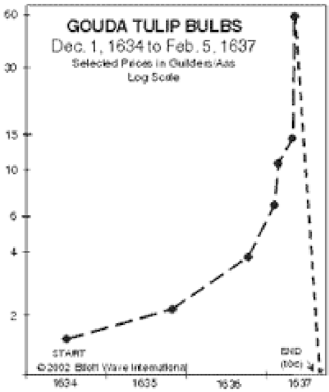
The collapse came in the winter of 1636-37. Thousands were financially ruined. Conjecture continues to this day as to what finally caused an abrupt end to the frenzy.

Some speculate that an outbreak of bubonic plague in Haarlem kept people from attending the regular auctions.

The absence of buyers certainly put paid to what was reportedly the first commodity (and financial) bubble.

This price-index chart indicates the progressive rise and sudden fall in the 'value' of tulips.

It's a fact of life that generations such as ours condescend to those that came earlier as somehow not as smart as we are. That, maybe, they lacked a quintessential quality that we possess and they never did.



If that's how we think it's a conceit, and we flatter ourselves: there have numerous bubbles since which, in both scale and stupidity, far exceed what happened in Holland in the seventeenth century.

One such, that occurred in the next century, was what we identify as the South Sea Bubble.

The South Sea Bubble

A cluster of small, rainy islands lie just off mainland Europe in the North Sea. That cluster, in the eighteenth century, formed the most powerful nation in western history to that point.

Great Britain (it wasn't yet the United Kingdom) created an empire larger and more influential than that of Rome. It was said the sun never set on its global 'possessions'.

The expansion of Britain's influence and consequent trade contributed greatly to the overall wealth of its population. The nation was proud, confident and generally well off, notwithstanding wide gaps between an elite aristocracy and the class structure beneath it.

This island nation had fierce international competitors as Holland, France, Portugal and Spain were simultaneously creating their own imperial rule across large swathes of the globe.

Each nation enthusiastically pursued its economic interests, exporting technology and goods while importing treasure and new items from those lands upon which each imposed its own governance—or, more accurately, subjugation.

Spices from Asia had been enthusiastically welcomed by the English since medieval times; in the late sixteenth century, Sir Walter Raleigh had brought back exotics such as tobacco and potatoes from North Carolina.

Times of wonder had arrived and fired the imagination of merchants, adventurers, governments, and, of course, the public.

Economic interests had to be protected at all costs; to this end, each major trading nation had its own navy and standing army. It was inevitable that aggressive competition combined with military might led to outbreaks of hostility.

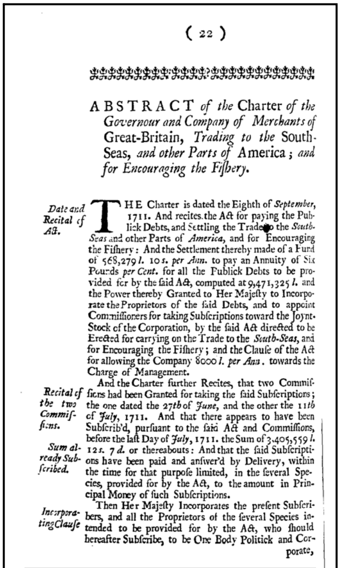
After years of war, England, along with other European nations, signed the Treaty of Utrecht in 1713, and a sort of peace emerged between the rival factions directly involved (France, Holland, Spain, Portugal). What was called the Great Northern War was to continue until 1721.

The wars came at ruinous cost to the British; even by 1710 Parliament faced the fact the government had all but run out of money and was in substantial debt—so much so that funding just the next quarter's pay (£300,000) for the army in Europe had become an urgent issue.

Covering government expenditure had become a messy matter in Britain; each government department had been incurring its own debt just to keep going. Raising money using national lotteries had been tried with middling success.

Private consortiums had loaned funds and the Bank of England (then a private company) had become the government's prime resource for loans.

The situation was critical: something had to change.



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ABSTRACT *of the* Charter *of the Governour and Company of Merchants of* Great-Britain, *Trading to the* South-Seas, *and other Parts of* America; *and for Encouraging the Fiſhery.*

Date and Recital of Act.

THE Charter is dated the Eighth of *September*, 1711. And recites the Act for paying the Publick Debts, and Settling the Trade to the *South-Seas* and other Parts of *America*, and for Encouraging the Fiſhery: And the Settlement thereby made of a Fund of 568,279 *l.* 10 *s. per Ann.* to pay an Annuity of Six Pounds *per Cent.* for all the Publick Debts to be provided for by the ſaid Act, computed at 9,471,325 *l.* and the Power thereby Granted to Her Majeſty to Incorporate the Proprietors of the ſaid Debts, and to appoint Commiſſioners for taking Subſcriptions toward the Joynt-Stock of the Corporation, by the ſaid Act directed to be Erected for carrying on the Trade to the *South-Seas*, and for Encouraging the Fiſhery; and the Clauſe of the Act for allowing the Company 8000 *l. per Ann.* towards the Charge of Management.

Recital of the two Commiſſions.

And the Charter further Recites, that two Commiſſions had been Granted for taking the ſaid Subſcriptions; the one dated the *27th* of *June*, and the other the *11th* of *July*, 1711. And that there appears to have been Subſcrib'd, purſuant to the ſaid Act and Commiſſions, before the laſt Day of *July*, 1711. the Sum of 3,405,559 *l.* 12 *s.* 7 *d.* or thereabouts: And that the ſaid Subſcriptions have been paid and anſwer'd by Delivery, within the time for that purpoſe limited, in the ſeveral Species, provided for by the Act, to the amount in Principal Money of ſuch Subſcriptions.

Sum already Subſcribed.

Incorporating Clauſe

Then Her Majeſty Incorporates the preſent Subſcribers, and all the Proprietors of the ſeveral Species intended to be provided for by the Act, who ſhould hereafter Subſcribe, to be One Body Politick and Corporate,

Page from Charter setting up the South Seas Company

Robert Harley, Chancellor of the Exchequer, headed a committee of notables which, in 1711, recommended exchanging £9,000,000 of government debt for shares in a newly formed enterprise—the South Sea Company (SSC). In exchange for the funding, certain rights were granted to SSC, one of which was a monopoly to trade with Spanish possessions in South America (then known as the 'South Seas'). Paradoxically, Spain was still at war with England in 1711.

In reality, the 'in the know' founding director/shareholders in the SSC were aware that their enterprise would be unlikely to make great profits from trade alone but they shrewdly understood that the company would become a source of wealth if they could talk up its opportunities—and sell shares to the public on the promise of 'great things' to come.

In a sign that some things never change, recognising that 'image' was persuasive, executives set up smart offices in London's Threadneedle Street (home then, as now, to the Bank of England).

This was also a time when newspapers and pamphlets were growing in popularity, making them ideal organs through which to promote news, as well as rumour.

Word soon widely spread that this new company would do fabulously well, both on the back of its government-granted monopoly with South America as well as its contract to supply thousands of slaves, captured in Africa and deliverable to Jamaica.

Because there were relatively few companies into which the public could invest, demand for shares in the SSC soon ramped up. A contributing factor in attracting investors was that the government had issued bonds to the company, upon which it paid interest at five per cent.

Politicians in Parliament as well as pamphlets on the pavement promoted the concept of great wealth that would eventuate from the SSC. Convinced, investors large and small clamoured for shares, and prices continued to rise. Seemingly scarce, the company obliged by issuing more stock to satisfy a voracious public.

What the public did not—indeed, could not—see was the chicanery behind the scenes: venal politicians being bribed to promote the company in Parliament; rumours deliberately spread of the company's great profits that would deliver untold wealth to all.

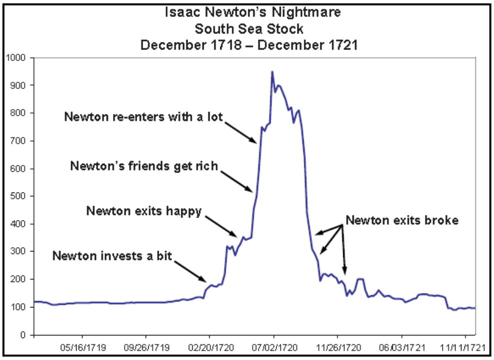
Seeing all this, other entrepreneurs gained the requisite permission to float competing joint-stock companies—and, with relatively few opportunities to invest in such enterprises, the public flocked to buy shares in these too. It is estimated that around 200 such companies were formed, eager to exploit the public's growing appetite for opportunity. With investment sentiment so heated and many so gullible, fraud was inevitable.

An egregious example was the promotion of one new company, the mission for which was stated as, *"A company for carrying on an undertaking of great advantage but nobody to know what it is".*

According to the prospectus, the capital required was £500,000 to be exchanged for shares at £100 each for an initial deposit of two pounds sterling; investors were promised £100 per share per year (a researched estimate is that 94 per cent of the population then earned less than that amount in yearly wages).

On the basis of his offer, the promoter opened his shop and in less than five hours attracted $2,000. Satisfied with his lot, he locked up and that night left for the Continent, never to be seen again.

Meanwhile, the SSC continued trading with its share price rising in line with excessive expectations promoted by independent 'jobbers' as well as company executives. Generous credit facilities were provided for the purchase of shares—enhanced even more by the availability of loans against portfolios so built. In short, loan upon loan, credit upon credit.



However, in 1718, Britain and Spain were at loggerheads once more and while this had a further negative impact on SSC trading results, Britain's government found itself again needing to fund hostilities.

This presented a new opportunity to the SSC directors and during 1719 they bargained to underwrite one hundred per cent of the government's $30,000,000 debt in return for continuing interest payments at the rate of five per cent. The arrangement was formalised on 12 April 1720.

On 9 June 1720, The Bubble Act passed, which forbade company formation unless granted permission by Parliament or Royal Charter; this conveniently, reduced competition for the SSC.

New promotional activity ensued; demand for shares rose yet again; the atmosphere became electric; investor appetite became insatiable.

Plays based on the growing bubble were performed; playing cards were manufactured; art was produced (Hogarth's satirical sketches are as relevant today as they were when he created them).

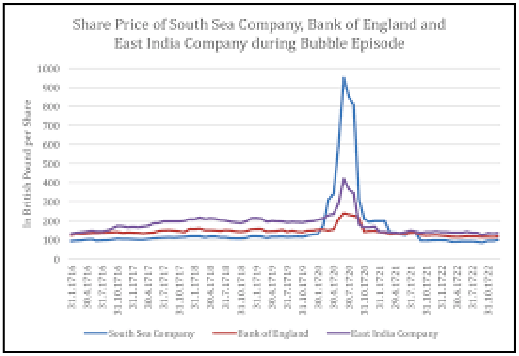
The SSC stock price rose frenziedly on the air of promised wealth. During 1720 share prices were:

- $175 at the end of February
- $380 at the end of March
- $520 at the end of May and $890 in early June
- By the end of June, they fetched $1,050

And then, for no observable 'big bang' reason, it all began to unwind. Some historians suggest rumours had circulated about the company's directors quietly selling out. Others imply that news of continuous trading losses circulated.

Whatever the cause, the balloon deflated, slowly at first, and then with increasing velocity.

Even the most sanguine minds had been seduced by the atmosphere of bountiful tomorrows. The best example is reputed to have been Sir Isaac Newton (discoverer of the laws of planetary motion), arguably the greatest scientist of his time.



This colossus of a man surrendered to temptation at the start of the bull run: he not only entered the market and then profitably sold out—he subsequently re-entered it for another bite—losing a fortune in the process when prices collapsed (see the chart, which purports to reflect a record of his trading).

As the price began to tumble ever more steeply, investors no doubt reacted in the way they have in every rapid share decline since:

- Denial *(this can't be happening)*
- Fear *(if this continues, I lose everything)*
- Capitulation *(that's it, nothing I can do)*
- Despair *(I'm angry and want revenge)*

It was at this latter stage that investors did indeed seek vengeance.

Ordinary folk, workers, chamber-maids, the clergy, and members of the gentry: all vented their fury. Anticipation of wealth had transformed, in a few short months, into the unimagined acceptance of poverty.

While many simply went bankrupt (the listings had never been higher), others committed suicide, and yet others joined mobs that stormed Westminster, seat of the government. The Riot Act was read.

In the aftermath, Parliament established a committee to investigate—it found widespread corruption at all levels of government. The directors of the SSC were arrested and the Postmaster General poisoned himself.

Statesman and politician Sir Robert Walpole (who had been against the government's SSC policy from the start), stepped in with urgent reforms in order to solve the perennial debt problems.

Parliament achieved this with three measures: arranging inputs from the Bank of England; reforming the Treasury; and setting up the Sinking Fund, which progressively paid down debt from government revenues.

The impact on the nation from the rise and fall of the 'South Sea Bubble' cannot be over-estimated.

For decades, this strong and once-confident nation became risk-averse. Financial markets grew more on the basis of lending for interest and return of capital than for stakes of equity in, for example, the ventures that were growing in 'the new world' of North America.

The South Sea Company was progressively transformed into a far smaller trading company and it limped along until it was finally liquidated in 1853.

A long and complex story had come to an end but its immutable lessons echo to this day.

The Mississippi Bubble

Parisians queuing to invest in the Mississippi venture

When Louis XIV died in 1718, he had been on the throne of France for an astonishing 72 years. Because of his lavish spending, on everything from art to architecture, he was known as the Sun King; and, not known for modesty in any aspect of his life, he had once declared, *"L'État, c'est moi"* which translates roughly as, "The state? I *am* the state."

In addition to his propensity to spend unimaginable sums (it was he who built the Palace of Versailles) and in light of the many wars in which he engaged his country—particularly the War of the Spanish Succession— he had left France all but insolvent.

His heir, Louis XV was only five years old, too young to rule, and so his father's nephew, the Duke of Orleans, was appointed to act as Regent of France in the meantime.

The duke, along with others in the ruling class, acutely aware that France was in a perilous financial situation, contacted a man whose articles he had read and about whom he had heard positive reports from among the French aristocracy.

The man in question was John Law and it was he who would bring France to the very brink of ruin.

John Law was a Scot, born in 1671 in

Fife to a wealthy family. From a young age he was mathematically gifted and, after working for his father, decided to leave for the London lights. He was good looking, enjoyed his drink and was fond of gambling (though, apparently, it wasn't that fond of him).

Law was a dilettante and an admirer of the ladies; it was due to an amorous affair of trespass that he was challenged to a duel. He killed his adversary, was caught, tried, convicted … and then escaped to Europe.

He studied financial matters in Genoa, Venice and Amsterdam. He authored an academic paper in 1705, in which he promoted the idea that linking a country's currency to precious metals impeded growth; instead, he stated, 'fiat money' in the form of paper currency would be far more stimulative (something similar would later be argued by Alfred Keynes).

Eventually, the duke and the Scot met to discuss the French dilemma; as a consequence, Law was given permission to put his ideas into practice and enabled to establish a national bank, the Banque Générale, in 1716.

In exchange for gold and silver, paper bank notes were issued (for the first time ever in France); the public accepted the paper because, if necessary, it could be exchanged for official metal coinage. Gradually, the bank rebuilt its reserves.

Encouraged by his early success, in 1717 Law acquired the Mississippi Company, a less than successful trading enterprise; he renamed it the Company of the West (anglicised).

In return, the powers that be granted this company a monopoly of trade with the American colonies that bordered, and ran north of, the great river; this territory was vast and stretched over 3,000 miles north into Canada, embracing within its borders Louisiana (named for the Sun King and settled—albeit sparsely by Europeans– from 1699).

From early days, rumours abounded in France that the Mississippi territories held stores of great riches across a range of exotics that stretched from gold and other precious metals to (highly profitable) beaver skins in the north.

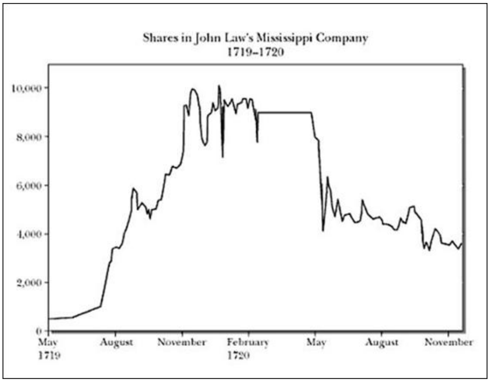
The Company of the West made other acquisitions and ultimately became the Company of the Indies.

Law's reputation went from strength to strength. By August of 1719 his organisation won the authority to collect all direct taxes, initially for territories outside mainland France … and eventually within the entire country.

He made a bold proposal to

restructure the entire national debt; his recommendation that it be exchanged for shares in the new company was accepted. His view was that the unlinking of precious metal to paper currency would stimulate the economy and that paper bank notes would become a *de facto* means of exchange.

(There was an echo of this strategy in 1971, when President Richard Nixon announced that the value of the US dollar would be delinked from the necessity to have the currency backed by specific gold reserves.)



Law's move did indeed stimulate the French economy and in a few short years, the public, both princes and paupers, had transformed themselves from entropy to enthusiasm. More was to come.

By autumn of 1718, the company was granted a monopoly for trading tobacco in Africa.

In January of the following year, the French government acquired the Banque Générale and re-titled it the Banque Royale.

Almost immediately after, early in 1719, the Company offered shares to the public at par value of 500 livres each (livres were the currency of the time) which could be bought with the new national bank's notes.

(The government allowed the issue of 50,000 new shares in the Mississippi Company, with just 75 livres down and the rest due in nineteen additional monthly payments of 25 livres each.)

The population, fired up on rumours of the great wealth that would surely soon come from the Mississippi territories, ploughed in to buy the issue.

By December 1719, the shares had ballooned to 10,000 livres—a twenty-fold increase in just 12 months.

It was at this time that the French word 'millionaire' was invented.

In light of the demand for shares in what was commonly referred to as 'the Mississippi company', and because John Law seemed to genuinely believe in the riches to come from Louisiana, he arranged for as many bank notes to be printed as were demanded by a public swept up in a herd mentality that pervaded almost every aspect of French life.

The increase in money supply inevitably led to inflation and consumer prices doubled in the eighteen months from July 1719 to December 1720.

Property prices soared; luxury goods sold in record amounts; prosperity was to be found everywhere.

Before long the money supply far exceeded the precious metal reserves held by the government's treasury (which was largely under the supervision of Law himself).

Research indicates it is likely that John Law believed that the gold and other precious metals that would eventually arrive from the American possessions would put things right, would balance the books … it was surely only a matter of time.

Law was appointed Controller General & Superintendent General of Finance in 1720. This put him in charge of all the country's finance and money creation—he was just 49.

However, it was during 1720 that some investors had decided to convert paper profits into traditional gold currency. If this trend grew, Law realised major problems would arise.

Accordingly, he tried to limit payments in gold not to exceed 100 livres. Then by May, he determined that the Mississippi-based shares were inflated and should be devalued.

He took a further strong measure (and unpopular, need one say) by reducing the value of the bank's notes by 50 per cent.

The public was outraged and nervousness grew rapidly. By September, the price of company shares had fallen to 2,000 livres; by December to 1,000 livres.

Law had created many enemies on his way up and now they circled him; they took control of the company and within a year the share price had dropped to where it had started - just 500 livres.

Many people from all levels of society were completely ruined, especially those who had bought shares on credit, for now their assets were close to worthless while their debts remained the same.

Prices of almost everything collapsed; the French economy was in tatters; the party was over. People lost faith in paper money and it was 80 years before it was re-introduced.

The French economy stumbled on and, starting in 1789, the nation underwent its tumultuous revolution.

France controlled Louisiana until most of it was lost to the English in the Seven Years War in 1763; Spain acquired most of the territory to the west of the Mississippi and then returned it to France in 1800.

US President Thomas Jefferson bought Louisiana from the French in 1803 for a reputed three cents an acre.

Following the crash, Law moved initially to Belgium and eventually returned to England, where he was pardoned for incurring death during his duel as a young man. Finally, he made his way to Venice, where he died a poor and sick man in 1729.

It is interesting that his ideas did not die with him and economists defend—indeed promote—many of his theories to the current day.

Afterword

"Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas."

Paul Samuelson (Billionaire investor)

Hopefully the reader will have found much to inform, and perhaps even to amuse, here. The real wish, however, is that these cautionary tales will fall under the heading of informed investment education; delivered not in a classroom, but instead by life itself: light on theory yet freighted with practicality.

Each tale is factual. These things actually happened. The vast majority of people involved believed they were making fortunes … and then lost everything. The effect on their personal lives and their families must have been devastating in the extreme; little wonder a great many took their own lives.

There's always a temptation for us to glibly consign such lessons to history ('that was then, this is now').

The truth is, however, that as humans, we are conditioned to behave in ways that are inimical to our own health, physical, mental and financial. They are all linked.

While researching these bubbles, many an aphorism and wise phrase came to mind; among them:

- All that glitters is not gold.
- The law of gravity has not been repealed.
- It's different this time (no it isn't and it never is).
- The two greatest drivers of markets are fear and greed.

In addition, two childhood memories were vivid: one was the compelling metaphor of that educational game of life: snakes and ladders. A shake of the die, then up the ladders we go—and, oh no, now down the snakes.

The other was the compelling story of the Emperor who, as the little boy declared, had no clothes: the 'tailors' had fooled a lot of people.

They are still around, those tailors. Don't fall for what they are selling—it could lead you to a bubble.

Malcolm Palmer
Managing Partner
Joseph Palmer & Sons

Notwithstanding over 140 years of history, our firm is a modern Australian family business.

We first opened our doors in 1872 … and they have been open to clients ever since.

This brief paper dealing with human behavior in the area of investing is one of several we produce.

We look forward to bringing you the key qualities of our history, experience and foresight while working to optimize your portfolios and preserving your capital.

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