<u>EXTRAORDINARY POPULAR DELUSIONS, THE MADNESS OF CROWDS</u>

<u>By Charles MacKay, LL.D.</u>

This is an incredible read. The Author states that you only need to read the first 100 pages of the book to get real value. However, the total of 728 pages should not be discounted depending on what you want to learn about the human weakness in investing.

Therefore, I will only summarize the first 100 pages and leave you to enjoy the rest of the book. My summary will include the following “bubbles” that history has provided us with to learn from or suffer from past experiences.

1. The Mississippi Scheme of 1717 to 1720, the author of this scheme, John Law appears to be a victim of his own weaknesses
2. The South-Sea Bubble by the celebrated Harley Earl of Oxford in 1711
3. The Tulip mania in the year of 1559

It is absolutely amazing, that these “worldly” events occurred over 400 years ago and to this day, investors both large and small, are still are caught in the same old traps.

- Brex
- The crash of 2000 (the book keepers knew of this problem as early as 1995)
- The Sub Prime mortgage crisis of 2007(President George Bush new of this problem in 2003)

- The real danger in today’s world of technology is that the “schemers” such as the made in the USA Sub Prime Mortgage and ABCP crisis of 2007, can export their product around the world with devastating results to other financial institutions and investors both large and small. On line investing creates the opportunity for the global seller to access investors without having to do the "due diligence" that a financial advisor provides face to face.

- The benefit is that if our regulators are doing their job as "gate keepers" for our global financial system, the solutions and penalties dished out to the schemers are much swifter. Sadly, the USA system seams to penalize the culprits much quicker than Canada.

1. **<u>Money Mania-The Mississippi Scheme- 1717 -1720</u>**

    - It was basically a land deal with shares being sold with the value based on land in Louisiana.
    - The government of France was complacent during most of this process. For banking systems to work effectively, the government and the banks have to work together. The key issue here is, are they working for the "customer"?
    - Page 11…I like this comment from John Law. A banker deserved death if he made issues without having sufficient security to answer all demands. (What do you think the CIBC would think about this "law" in light of the current ABCP crisis in Canada?)
    - Easy access to credit was the fundamental reason for crisis in France. Easy to borrow, easy to invest and ignore the consequences of good fundamental investment decisions.
    - The Mississippi Scheme spilled over to other projects; trading in the East Indies, China, and the South Seas.
    - The rise in the share price of this project seamed to have no end in sight.
    - The highest and lowest classes of France were caught up in buying shares in the Mississippi bonds/shares.
    - Prices of the shares were sometimes rising 10% to 20% in a few hours.
    - Prosperity was all around….investors flocked to the cities, retailers met their needs, rental properties for the new residents, and new services were needed. The chain reaction of newly found wealth is no different today than 400 years ago.

- John Law at this time was almost worshiped for his ability to create wealth for the people of France.
- 1720….The government was warned that creating too much "paper money" to fuel this bond/share issue would put the country into bankruptcy. This was discarded by the government of the day.
- When it became evident that the stock held no value, a revolution was threatened because no one knew from day to day what the value of the Mississippi stock was. (fast forward to 2007/08 and the unknown value of the ABCP crisis)
- John Law, who did not benefit in the long run from this scheme, died in 1729 in very embarrassed circumstances

<u>The south-Sea Bubble of 1711</u>

- A monopoly of the trade to the South Seas was granted to a company of merchants. This monopoly was incorporated by an act of Parliament in England
- These were the days of immense riches of gold and silver mines in South America which everyone was led to believe were inexhaustible.
- The Bank of England and the South - Sea Company were the two main financial players for this scheme
- The artificial value of the stock quickly grew as news of this new company was promoted to the nation.
- Other similar schemes started to develop as the frenzy to buy South-Sea Company shares grew. They soon received the name of Bubbles. There were nearly a hundred different projects, each more extravagant and deceptive than the other. Page 62 of the book lists 86 of these Bubble companies
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