



Extraordinary Popular Delusions & the Madness of Crowds (1852), Charles Mackay, LL.D.

Though the world has made enormous progress and we live in the most complex financial system ever to exist in history, one aspect of the markets always stays the same. Human nature.

Charles Mackay compiled these accounts over 150 years ago. They span hundreds of years and reveal that the actions of men and women in crowds have stayed much the same.

“Men, it has been well said, think in herds; it will be seen that they go mad in herds, while they only recover their senses slowly, and one by one.” *Preface XVIII*

If we are honest with ourselves, these examples will sound painfully familiar.

1634 - The Tulip Mania (Holland)

“In 1634, the rage among the Dutch to possess [tulip bulbs] was so great that the ordinary industry of the country was neglected, and the population, even to its lowest dregs, embarked in the tulip trade. As the mania increased, prices augmented, until, in the year 1635, **many persons were known to invest a fortune of 100,000 florins in the purchase of forty roots.**” *Pg.94*

The tulip bulb was the item of primary trade and became the center of all the nations financial activities. After the bubble topped, bulbs that were previously sold for four thousands florins, just six weeks earlier, were now being sold for three to four hundred florins. **This represents a ninety percent decline in six weeks.**

1711 - The South Sea Bubble (England)

Essentially, England had a large national debt. When approached with a proposal of granting a monopoly on trade to the South Seas in exchange for paying off their national debt, England gladly approved. The only skeptic statesman was Robert Walpole. Listen to his warnings. “The dangerous practice of stockjobbing would divert the genius of the nation from trade and industry. It would hold out a dangerous lure to decoy the unwary to their ruin, by making them part with the earnings of their labour for a prospect of imaginary wealth.” *Pg.53*

As investors poured into any company that was selling to the South Sea Company, a total lack of sanity ensued. Incredibly, the name listed on one prospectus was “A company for carrying on an undertaking of great advantage, but nobody to know what it is.” The first day the investment opened for subscriptions, the owner collected 2000 pounds. That evening he set sail for the Continent, and was never heard of again. *Pg.58*

For a more detailed look at the Mississippi Scheme, see page 6 of my April 2005 newsletter.

Lest one think we are too smart to act that way today, consider page 3 of my April newsletter. Three thousand years after Solomon’s writings, human nature remains much the same. “That which has been is that which will be, and that which has been done is that which will be done. So there is nothing new under the sun.” Ecclesiastes 1:9