

# INVESTOR'S EDGE<sup>®</sup>

Certain Wealth in Uncertain Times<sup>®</sup>

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## EXTRAORDINARY POPULAR DELUSIONS AND THE MADNESS OF CROWDS



My title this month is of course borrowed from the book of the same name written in 1841 by Charles Mackay. The book deals with 3 "delusions": "National Delusions", "Peculiar Follies", and "Philosophical Delusions". While dealing with The Crusades, alchemy, witch-hunts and other follies, the parts that interest us most today are the economic bubbles he discussed -- in 1841! -- and the national delusions he chronicled.

Mackay devoted a chapter each to the Dutch tulip mania of the early seventeenth century, the South Sea Company bubble of 1711-1720, and the Mississippi Company bubble of 1719-1720. There are those who cannot imagine learning anything new from a book published 168 years ago, when the United States had just elected its 9<sup>th</sup> President. After all, Mackay cited what he believed was an exchange contract for one tulip bulb in 1637: 160 bushels of wheat, 320 bushels of rye, 4 oxen, 8 pigs, 12 sheep, 126 gallons of wine, 1000 gallons of beer, 4000 pounds of butter, 1,000 pounds of cheese and some furniture, clothing and silver tossed in as a sweetener. Many believe such silliness couldn't happen in our time.

After all, who would exchange even part of this largesse, say, 1000 gallons of beer, for a few shares of a dot-com company with no revenue, no earnings, and no adult leadership, brought public solely to enrich Goldman Sachs and the other big tech underwriters and now mercifully sunk beneath the horizon of our memory. Oh, that's right - millions lined up to be allowed to pay it!

But we've learned our lesson, right? For instance, no one buying a house at a Price/Earnings Ratio of 11 in 2000 (P/E in this case referring to the purchase price divided by the rental income) would then be dumb enough to pay 34 times rental income just 5 years later, right? Oops. That's just what they did in San Francisco, San Jose, Phoenix, Las Vegas, Miami and lots of other places. To students of history, the dot.com.bom was predictable in character if not in time. As was the housing decline. Trees do not grow to the heavens except in fairy tales. Markets are cyclical, not lin-

### THE SCORECARD

TOTAL RETURN SINCE 12-31-98 (INCEPTION)	INVESTOR'S EDGE PORTFOLIOS VS BENCHMARKS	RANKING SINCE 01/01/99	IF YOU HAD INVESTED	TODAY YOU'D BE WORTH	2009 RETURN	RANKING SINCE JAN 1, '09
235.3%	IE: GROWTH & VALUE	<u># 1</u>	\$250,000	\$838,275	5.2%	<u># 3</u>
5.8%	DOW INDUSTRIALS	# 2	\$250,000	\$264,459	10.7%	# 2
-14.0%	S & P 500	# 3	\$250,000	\$215,012	17.1%	# 1
160.8%	IE: AGGRESSIVE GROWTH	<u># 1</u>	\$150,000	\$391,243	-2.7%	<u># 3</u>
43.1%	RUSSELL 2000	# 2	\$150,000	\$214,692	21.0%	# 2
-3.2%	NASDAQ	# 3	\$150,000	\$145,144	34.6%	# 1

Prices, Indexes and Indicators cited in this issue are as of Wednesday, 30 Sep 2009

All portfolios initiated 1 Jan 1999, with \$150,000 in "Aggressive Growth" and \$250,000 in "Growth & Value."