

HAL'S SPEECH – March 19th

Amsterdam 1637 – Tulip Mania

The tulip is not native to Europe; it was brought to the Netherlands in the early 1600's from Turkey by Dutch Sea Captains. It grew well in the wet North Sea climate and over the years became a favorite and colorful harbinger of spring.

Soon Dutch merchants and dignitaries were growing hybrid varieties in their prized gardens, which became important status symbols.

In the meantime, enterprising stock-jobbers were making a market in tulip bulbs, as rare specimens sold in the several thousands of guilders.

By 1637, "Tulip Mania" had swept the country and even housemaids, barbers, and hack drivers became speculators by pooling their resources.

Those with the foresight to sell at the top, made fortunes, while most were ultimately ruined as the tulip bubble burst and prices fell nearly 90%.

Paris 1740 - The Mississippi Bubble

John Law was a Scottish financier who convinced the French King that he could sell plots of land in French territory along the Mississippi River to pay for his wars.

In the beginning Parisians flocked to buy these deeds on land covered by annual spring floods, and which, given the hardships of travel, they would probably never see.

By 1744, few new buyers could be found, the bubble collapsed and the deeds fell 80 to 90% in value.

Vienna 1923 – The Hyperinflation

A certain Herr Kupler living in the wine district near Vienna in a lovely house overlooking the Danube, was a businessman who had been ruined in the post World War One hyperinflationary depression of the early 1920's, and he was celebrating! The morning post had brought a book from his brother in New York, and while thumbing through its pages, he discovered a newly-minted US gold piece secreted in a hollowed-out space in the center.

By November 1923, the Austrian paper schilling, along with the German mark and the Hungarian pengo, had become virtually worthless, but the single \$20.00 gold piece was enough to keep the family for a month.

Similarly disguised one ounce gold pieces arrived on a regular basis, with additional books appearing on holidays throughout the winter and into the spring of 1924, when stable currencies finally reappeared.

In due course, Herr Kupler's son followed his uncle to America, and became a dealer in precious metals in California, where he told me this story and many more tales of financial survival in hyperinflationary times.

New York City – 1929

Another old friend, Otto Scott, told me that his father, an impeccably dressed oil man and diplomat, with offices in Wall Street, unexpectedly appeared at home at lunch time on the day of the stock market crash.

When queried by his wife, he said simply, “I came to change my suit”, then proceeded to describe the scene. He was waiting on the sidewalk for a taxi when the falling body of a well-dressed businessman struck the pavement beside him, spattering him with blood.

The stock market, which in a series of so called, “sucker rallies”, in 1930 to 1932, ruined hundreds of thousands of investors, large and small, who had been lured back into the market, which finally hit bottom after a loss of nearly 90% from the high.

The day after his inauguration in March of 1933, the new President closed the banks by executive order, an act which was ratified by Congress three days later. Because of the checkered history of financial institutions, and before the era of deposit insurance many people did not trust the banks and kept their savings at home, “under the mattress”. These were spared catastrophic losses and were able to continue functioning. Their money, still backed by gold, rose in purchasing power until it was devalued 40% by Presidential order early in 1934, and gold contracts were revoked.

By then, Otto's father had completed an important oil deal in Venezuela, which, according to custom, was settled in gold, and which had been trans-shipped from the US two days before, so that by then, the steamer was in international waters and beyond US jurisdiction.

Upper Lake - 2009

Now back in Upper Lake and with the benefit of hindsight, we can reach some important conclusions:

All of these bubbles had similar characteristics; they depended upon a gullible public to buy into a particular market at highly inflated prices using exaggerated leverages.

Once the highs were breached, the expectation was that it was a temporary setback, a mere blip and those who held their shares or bought back in on bear market rallies ended by losing an average of 80 to 90% of the value of their holdings.

There can be no more valuable lesson from economic history than this;

In the middle of a serious correction, investors, business owners and governments should avoid being blind-sided a second time by their natural desire to believe in an early turn-around, and to overreact to false bottoms.

The survivors will be those who resist such temptations.

Of the four scenarios I have chronicled the one closest to our current situation is not the crash of 1929 as the financial press has suggested, but the hyperinflationary period of the 1920's in Europe, for the other three were deflationary in nature.

This distinction is crucial, because business survival and recovery is dependent on a different strategy altogether, with highly innovative business and marketing efforts about which we may hear more from our featured speaker.

This week's announcement that the Fed will print new money to buy government bonds is the final event in the inflation/deflation dichotomy. Further and more serious declines in dollar-denominated assets will be more evident in the months to come, even as prices rise.

In the last two days, the dollar has resumed its downward bias, falling in the neighborhood of 4% against the British pound and also against the euro and yen. Today's Bloomberg headline stated: "dollar rally crumbles as Fed ramps up printing presses". In response gold has risen \$70.00 an ounce and crude oil is trading above \$50.00 a barrel.

Paul