

Six Examples of Bubbles

January 30, 2015

Introduction

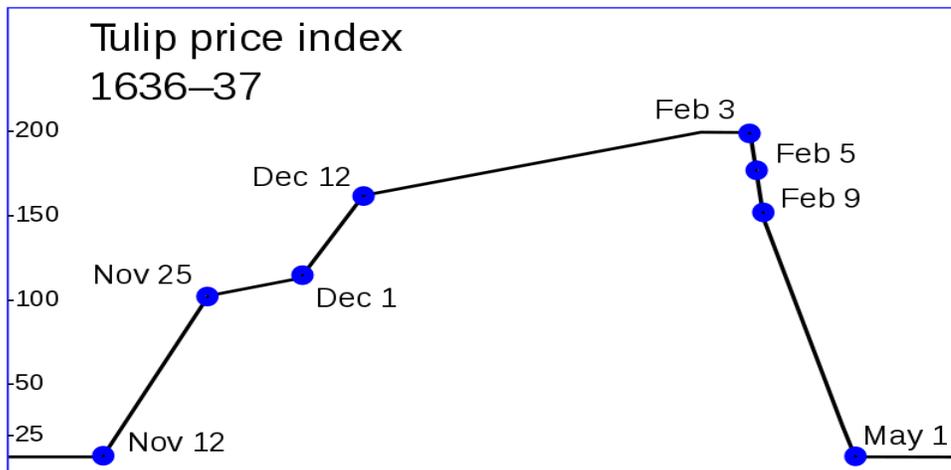
Every bubble has two dimensions. First, mass psychology drives collective market participants emotions past greed to self delusion. Second, prices radically depart from historically demonstrated value or mean value. Here are just a few examples.

Bubble #1

Name: Tulip Bulb

Place: The Netherlands

Time: Early 17th Century



Commentary:

During the tulip bulb bubble, people became obsessed with tulip bulbs. They bought tulip bulbs, tulip bulb prices rose, tulip bulb excitement built, so more people bought more tulip bulbs, and prices rose—and well, so on.

Before the tulip bulb bubble burst, a skilled craftsman would have to work for 10 years and save every dime he made to buy one tulip bulb. The price of a tulip bulb dramatically departed from the historical price of tulip bulbs. The emotional desire for tulip bulbs surpassed enthusiasm, greed, and even delusion.

After the bubble burst, good people lost their life savings. As tulip bulb prices crashed back to its intrinsic value, tulip bulbs were once again priced on the basis of the value of a tulip bulb. How novel!

Bubble #2

Name: NASDAQ – DOT.COM

Place: United States

Time: Late 20th and early 21st Century



Commentary:

During the DOT.COM or technology stock bubble, euphoria was rampant. Almost anything to do with technology, even if it was just the name of a company, was the object of investor frenzy. Entrepreneurs were becoming rich and the masses were eager to follow.

- In 1999, Yahoo buys Broadcast.com for \$5.9 billion. The site is now closed.
- In 1999, Yahoo buys GeoCities for \$4.3 billion. The site is now closed.
- In 1999, Mattel buys The Learning Company for \$3.5 billion. It was sold one year later for \$27 million.
- In 1999, Norris Communications stock was selling at .06 per share. It changed its name to E. Digital and the price rose to \$24.50 per share. One year later it sold for .10 cents per share.

Unfortunately, the list of the above examples could go on and on!

Bubble #3

Name: Japanese Real Estate Prices

Place: Japan

Time: 1980-2008



Chart 1

Commentary:

During the late 1980's it appeared that Japan would dominate the world. Their management practices were touted to the world and their stock market as well as their real estate prices were soaring.

At the peak of the real estate bubble, the price of all the land in the city of Tokyo exceeded the value of all of the land in --- Canada! A few hundred acres of land surrounding the emperor's palace was valued in excess of all the land in --- California!

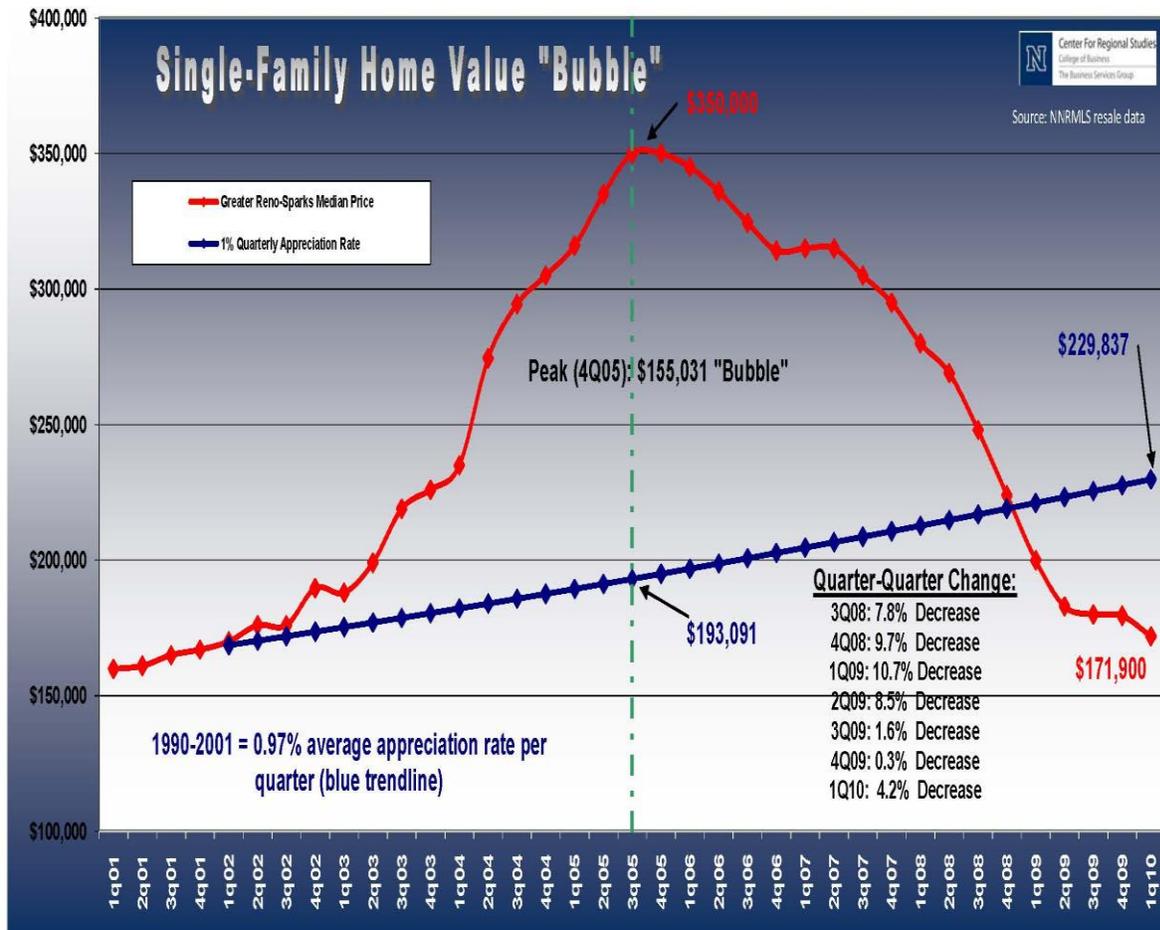
After the bubble burst, so did the price of Japanese stocks and real estate. Today, Japan's debt compared to its gross national product is devastatingly dangerous.

Bubble #4

Name: Reno Housing

Place: Reno Nevada

Time: Early 21st Century



Commentary:

In the first decade of the 21st Century American's stood in lines, and participated in lottery's and auctions to buy houses. Fueled by government policy and reckless financial practices, prices rose dramatically. The emotional desire to own a home coupled with very easy money drove prices into bubble territory. The above chart of home prices in Reno, Nevada was duplicated in much of the United States.

After the bubble burst, people lost their homes, foreclosures were rampant, credit histories were destroyed, banks and investment banks disappeared. What a mess! The United States and its people are still paying the price!

Bubble #5

Name: The South Sea Company

Place: London, England

Time: 1718-1721



Commentary:

In the 18th Century, Britain granted a monopoly to The South Sea Company to trade with Spain's colonies in the West Indies and South America. All the South Sea Company had to do in return was guarantee all of England's war debt!

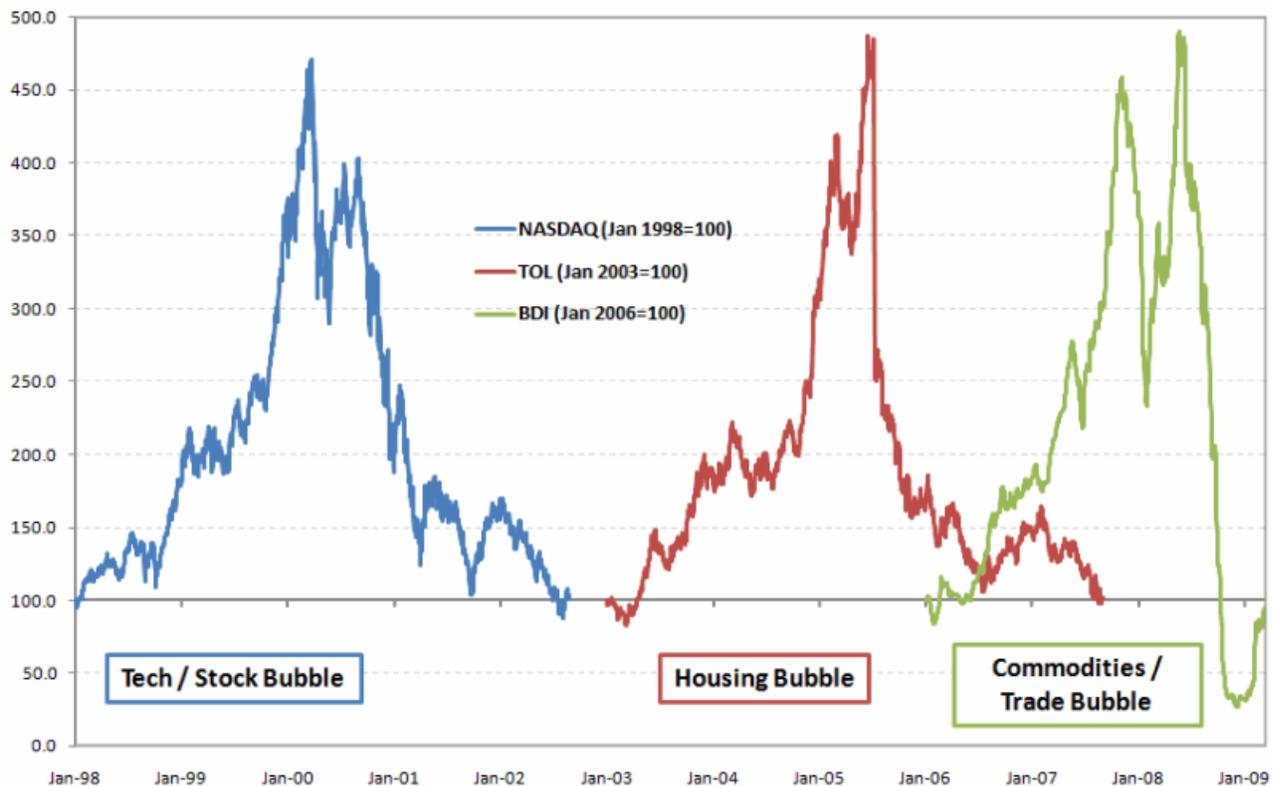
Investors assumed the profits from trade would be enormous and drove the price of the South Sea Company's stock to bubble heights.

When profits were not realized but the debt remained, virtually all classes of British society were ruined.

Sir Isaac Newton was a brilliant physicist, mathematician and scientist. His impact on these disciplines was truly extraordinary. Nevertheless, brilliance aside, he joined others caught up in the emotion, hype and illogic of the bubble in the share price of The South Sea Company.

Bubble #6

Name: US Bubbles
Place: United States
Time: 1998-2009



Dr. Jean-Paul Rodrigue, Dept. of Global Studies & Geography, Hofstra University

Commentary:

At the turn of the 21st Century, the monetary policy of the United States turned reckless. Money was printed at a record rate. Interest rates were forced down to unimaginable levels and the stated policy of The Federal Reserve became morphed to becoming intent upon forcing the prudent to become reckless.

The results were a series of bubbles. The tech stock bubble, then the housing bubble (which I suspect almost everyone knows a horror story) and then the commodities bubble.

If the above chart was brought current, we believe a fourth bubble could be inserted. We hope to talk about this in a future investing e-letter www.counselandcapital.org/free-investing-e-letter-signup.