



This Time is Different

“Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria.”

– Sir John Templeton

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“This time is Different.” These could possibly be the most expensive four words spoken- or mumbled- by an investor. As I wrote in my prior month article, behavior can be a dominant predictor of the long term results that investors receive- over some forty years in the working world and another thirty in retirement. Understanding this life cycle of the average investor, one may wonder why we continue to hear the phrase from the financial media (yes, I am picking on them again) that even though most of us have been witness to a “crisis” in the past...“This Time Is Different.” Well, I believe it is never different – it may be more or less extreme- but just a similar issue with a change of clothes, if you will.

Looking back in history at all these crises we have encountered, if broken down correctly, I believe they all tend to have a commonality to them or a pattern: First, an asset class produces a good return. Second, money pours in, which is fueled by the financial media and greed. Next, leverage is added and the quality is reduced. Finally, the mix turns poisonous and a collapse occurs. You can go ahead and insert any asset class you would like, but the pattern tends to remain the same. If you don't believe me, let's take a look back in time- have you ever read the story on the “Tulip Bulb Mania?”

In the 1630's in Holland they had what was called **The Bulb that Ate Holland: Tulipmania*. It began as an exchange between dealers in a very narrow market of niche trading but rapidly expanded to people who have never been in the tulip market before. Tulips had become the fashion of the wealthy and large sums of money were given to those who could grow the most beautiful and unique bulbs. Then everyone was becoming so obsessed with growing and trading the tulips that people began to quit their jobs to grow and cultivate unique tulips. Eventually massive amounts of money from England and other parts of Europe poured into Holland to get in on the profits. The prices quickly soared to as much as \$110,000 for a single bulb in today's dollars- farmers sold their livestock and mortgaged their houses to buy and speculate in tulips and at one point the price of a unique SEMPER AUGUSTUS Tulip went for three (3) times the value of a grand Amsterdam canal house. Then in early 1637 the crash

came, after rising close to 2,600 percent, they crashed 95% in the first week of February. Does this sound like the four stages? Or maybe the recent housing bubble?

Moving forward to *1850's Gold Rush in California, a similar story driven by the greed to make it rich. The discovery of some small nuggets at Sutter's Mill in Sacramento brought about a massive invasion of speculators that led to the four stages of yet another crisis. They came by land and sea (climbing mountains and fighting Native Americans along the way) to strike it rich. The U.S Census of 1850 showed fewer than 100,000 people living in California, but by 1860 it had grown fourfold. However, it seems the only ones to make the money were the one's selling the picks, shovels and clothes...like Levi Strauss.

More recently, we can look at the "Crises" we've had to deal with by decade (just to hammer my point further):

- The 1970's- We encountered the Nifty-Fifty Stocks, Conglomerates and Oil/Gas LP's
- The 1980's- Junk Bonds and LBO's
- The 1990's- S & L Crises, Russian Default and Long-Term Capital
- The 2000's- The Telecom Bust and Internet Bubble
- Currently- Subprime Crises, Real Estate Bubble, Hedge Funds, Financial Crises, The Great Recession

What is most impressive in regards to the facts I have just mentioned about the time frame between the 1970's and now (keeping in mind that it cannot predict future performance)- through all the crises, each decade the market has continued to move up, sometimes moving sideways temporarily but has continued higher. To be more exact, in January of 1970 the S & P 500 closed around 85 and as of this writing it stands at around 1150. That is a 1,250 fold increase during the average investor's first forty year working life- my only response would be, can I have more of the same crises of "This Time is Different."

Past performance is no guarantee of future results.

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*Markets, Mobs & Mayhem- A Modern Look at The Madness of Crowds by Robert Menschel