History and Our Emotions Tell Us It's Not Different This Time.

My adventure to prove *how history and our emotions tell us* ***it's not different this time*** returns me to books?many of them written 50 to over 100 years ago.

Discovered on a dusty shelf in the back of an antique shop in Carmine, Texas, the first edition of *Ten Years in Wall Street; on Revelations of Inside Life and Experience on 'Change* by Wm. Worthington Fowler, 1870. Resplendent with beautiful illustrations and 536 yellowed, ragged pages, this book has been an invaluable history of the past. When unusual cycles emerge, such as today, where virtual land is considered an investment, I look to this work to try and make sense of it all.

The iconic money manager Paul Tudor Jones deems the Reddit crowd financial bullies. I call them financial locusts as they move from asset class to asset class, wreaking havoc on prices. This group's only concern is price, not the underlying fundamentals of an asset. They use recent news, Reddit board narratives (and expletives) to disconnect the price action from any sound investment thesis.

It seems the motto for investing today is 'if you can create it out of nothing, you can trade it or sell it for something.'

Example: Have you heard about Italian artist Salvatore Garau who sold his artwork titled Io Sono for $18,000? Oh, this is indeed an original masterpiece. Get this - The sculpture is nothing but EMPTY SPACE. Cycles such as this don't last forever; they inevitably crash and burn. Does anybody want to buy an invisible 5,000 square foot house I have for sale with a view of the beach?

So, what about the financial locusts and their meme stocks?

Is the euphoria different this time? Far from it. Keep in mind, as humans, we're just not that original when it comes to fear and greed. Emotionally, the madness of crowds has been with us through the centuries, although this seems to be the 'maddest' I've witnessed in decades!

Call it the result of a financial Frankenstein monster cobbled together from the remnants of haphazard easy fiscal and monetary policies. Some from history, several born of politics, others created out of sheer panic to do anything to prevent long-term devastation during the pandemic. Confusingly, Fed Chairman Powell remains hesitant to taper the purchase of mortgage and corporate bonds, although the sectors are not in crisis. As a matter of fact, they're flush.

Last week Jerome Powell *talked about talking about* rate increases in 2023, and incidentally, 'increase' may be too strong a word. Even if rates move up in late 2022 (earlier than anticipated), as recently stated by the Federal Reserve Bank of St. Louis President James Bullard, investors can probably look to expect a series of 25 basis point changes at the pace of cold sludge rolling uphill. Naturally, markets flinch at any nascent threat to the levels of go-go juice in their overflowing liquidity punchbowl.

Frankly, I find the Fed's latest hawkish bloviating more like squawks from a cartoon character hawk.

Looney Tunes' chicken hawk.

Let's face it. Global central banks overall are concerned primarily with the stock market. We know it. Readers of this blog know it. I'm not overconfident in the continuation of massive stimulus. Still, by the time the Fed truly unwinds from its programs and rates appear anywhere near average, we'll be bouncing grandkids on our laps.

On Wall Street in the nineteenth century, there were consortiums of financial bullies.

They generated official-looking documents to effectively gang up on stocks, especially those of railways and textiles.

Big investors formed these cliques solely to accumulate the floating supply of a company's common stock to elevate prices through manipulation. In essence, the strategy was to garner a controlling interest over time, sell on large advances and ultimately disband as wealthier men. Rings were formed when money was easy to get, and market optimism was running hot.

The schemes were documented on paper and signed by ring members. The difference between then and now is the current firepower of technology. The ring was small, and the participants held significant wealth. As you know, today, meme stocks are moved by twenty-somethings en masse trading on Robinhood.

After consultation among the operators, the scheme was drawn up and read as such (I won't bore you with the entire agreement):

> We, the subscribers, agree to use our best efforts to aid in raising the prices of said stock, and not to deal therin on our account, until said joint account is closed (or we are at to be at liberty to deal in said stock at our option). Signed, Martin & Son, etc...

Two rules for every ring formed.

The ring then proceeds to buy the stock. Two pre-requisites were necessary to every ring: secrecy and simulation. First, the stock was purchased by group members undercover and accumulated over several months. Rings utilized every method possible to deceive inquirers outside the inner circle and prevent them from suspecting that the stock was indeed under the control of the manipulating party.

Obviously, secrecy isn't a prerequisite for manipulating the current market with all the bloviating on Reddit boards. These buyers have big egos to satiate and are not ashamed to share every move.

On occasion, the ring would leak negative information and circulate embellished reports through various subvert arteries to induce selling, thus allowing members to pick up the shares at lower prices. Also, the manipulators would generate enough activity to stir bears out of hibernation. Ostensibly, the ring purchased the stocks from the fleeing bears as part of their overall accumulation strategy.

As the stock rose, short interest did too. The stock held by the group was offered to bears as a loan, and when they sold the borrowed stock, the ring purchased the very stock they just loaned.

The ring was a master manipulator of stock prices!

When the price rose dramatically, shares likely grew scarce. Shorts thus found themselves in trouble to deliver the stock. That is when the ring rose for the big kill.

The group would issue a positive report on their investment through various sources and leak it abroad. Different brokers, overseas markets were employed to bid up the price further, which really shook out the bears who, at the same time, were notified to deliver the stock borrowed from the ring!

So, the bears are motivated to cover by buying and delivering the stock that the ring alone can sell. Sometimes instead of purchasing the stock, harried bears would settle with the ring by paying them the difference between the market price and the lower price they contracted to deliver it.

But they're not done.

Eventually, the ring members found themselves saddled with a large amount of stock with little demand. The dilemma was to unload.

Accordingly, they sold just enough to create concern, perhaps enough to generate a 4-5% loss. Novice investors and bears rushed in to sell at lowered prices. When the ring had taken a sufficient number of their shares, they bid the stock up again and compelled shorts to cover. It was an endless loop of fear and greed!

As the stock rose sharply, suckers were tempted to buy the stock and got shaken out at the slightest loss. Think of it this way. The ring milked The Street (a Wall Street phrase at the time). They took money from the bears who sold at low prices and from bulls who bought at the highs. This game was played for months until the ring finally gets tired, disposed of its stock holdings, and reaped the profits.

Obviously, the ring IS STILL alive and well on Wall Street.

No longer is the ring some rogue faction that profits off the emotions of the bulls and bears. *It is Wall Street itself.* At any time, the Goliaths can pull the rug out from the financial Davids who are smug in their belief that they've one-upped or democratized a process fueled by cheap money. In the meantime, Wall Street firms will keep creating product porn that keeps the Davids stimulated enough to throw money at them.

Can anyone say *ESG?*

At least these rings from the past did some homework to select investments compared to those who are seduced by stories on Reddit boards. By the way, I sincerely hope these young investors make big money. The question is:

Can they keep it? The history of our emotions and investing showcases that the odds are not in their favor.

There are two great emotional afflictions most dangerous to investors today. The first is Recency Bias.

As I call it, recency Bias, or *?the imprint,?* is a cognitive hiccup deep in our brain that makes us predisposed to recall and act upon incidents observed in the recent past. Recency Bias is not only *the trend is your friend; it's* also the *current trend is my BFF or worst enemy forever!*

For example, when you allow volatility or emotions to deviate you from rules or a process of investing, think about Silly Putty. Remember Silly Putty? Your brain on Recency Bias operates much like this clammy mysterious goo.

As a boy releasing this pinkish mysterious blob from its plastic eggshell, I recall flattening and pressing it hard over segments of the Sunday Daily News' funny papers. Separate the substance from the paper, and the comic underneath would "magically" copy onto the putty. Obviously, it wasn't really magic. It was transferable newspaper ink. Sadly, ink in newspapers is mostly nontransferable today. You see, our brains like Silly Putty are imprinted easily by current events. As investors, we need to be intuitive enough to understand how this bias affects our behavior.

Do you know what Silly Putty is made of? According to Wikipedia:

> The original coral-colored Silly Putty is composed of 65% dimethylsiloxane (hydroxy-terminated polymers with boric acid), 17% silica (crystalline quartz), 9% Thixatrol ST (castor oil derivative), 4% polydimethylsiloxane, 1% decamethyl cyclopentasiloxane, 1% glycerine, and 1% titanium dioxide.

And to think I consumed this chemical experiment as a boy. In my defense, it was only once. Curiosity got the best of me. From what I remember, the castor oil derivative was surprisingly effective, but I won't continue.

The brain attaches to recent news or the financial pundit commentary comedy-of-the-day and believes these conditions will remain the same indefinitely. To sidestep this bias, at RIA, we adhere to rules, a process to add or subtract portfolio positions.

Unfortunately, rules do not prevent market losses. Rules are there to manage risk in *long-term portfolio allocations. Rules are an intelligent way to respect history and understand the emotions that tell us it's not different this time!*

> *Losses are to be minimized but if you?re in the stock market you?re gonna experience losses. They are inevitable. It?s what you do (or don?t do), in the face of those losses that define you. And if you?re making those decisions based on imprinting or Silly Putty thinking, you are not cognitively equipped to own stocks.*

Overconfidence is off the chain crazy.

It seems that every investor, especially under thirty, believes he or she is an invulnerable stock-picking NFT, crypto investing genius. Separating luck from skill in a liquidity bloated bull isn't easy and as financial professionals who study markets, we can fall victim to Overconfidence Bias much easier and deeper than any new investor.

Overconfidence creates intoxicating blindness to downside risk. The current environment is overwhelmed with novices and professionals who believe every trade they make will lead to great wealth. These investors go all in, double down on losers, ignore diversification and risk mitigation techniques. I fear that as the Fed drains liquidity over time, it takes meme stocks and crypto out to the woodshed thus providing yet another painful investment lesson that must be learned to curb future overconfidence.

Manias and market manipulations are not new. They never will be.

Every cycle differs yet the end results are the same. The key is to identify the raging herd, step aside, monitor, and then look to take action. Sometimes not taking action is a formidable way to battle the history and emotions that tell us it's not different this time.

A friend who's a realtor knows I'm in the market for a new house and eager to assist me. I explained to her that I'll be stepping aside, for now, to wait for a better opportunity. I will not chase asset prices fueled by Fed intervention. I'm glad she wants to help. However, I'll wait because history and emotions tell me it's not different this time.

Recognizing and curbing biases that are so much a part of us are always a challenge. If you feel yourself succumbing to 'lizard brain' urges to speculate, try to remember the ring, the risk, and remain humble that it's not all skill. Think back to your past investment experiences. Your own history and emotions will tell you it's not different at all this time around.

The Fed and Executive Branch are the culprits tugging on your greed strings.

History and emotions tell us it's not different this time.

What do you think?