

Madness and Manias

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“People, it has been well said, think in herds; it will be seen that they go mad in herds, while they only recover their senses slowly and, one by one.”

Charles Mackay was a nineteenth century Scottish journalist who made that comment in his influential book, “Extraordinary Popular Delusions and the Madness of Crowds” that all professional investors are encouraged to read. It was an early contribution to the science of “crowd psychology.” People do strange things as a crowd that often they wouldn’t do as an individual.

Mackay went on to say that, “We find that whole communities suddenly fix their minds upon one object and go mad in its pursuit; that millions of people become simultaneously impressed with one delusion and run after it, till their attention is caught by some folly more captivating than the first.”

It’s interesting that there are now more searches on Google for Manchester United than there are for Brexit. The public has chased its folly, become bored and has moved on.

As public interest has waned and remember, prior to the referendum the public wasn’t interested in Europe, (it didn’t even make into the top ten of issues “to worry about”) Brexit has transformed itself into a mere political battle. A battle that the current Prime Minister simply “intends to win.”

It has ceased to be an issue that has exigent significance for the economy; livelihoods, the tax base and even, the nature of ownership. The madness of crowds can have immense real-world consequences and as investment managers, one of the red flags we look for, is the emergence of over-confidence in markets or a sense of developing euphoria that keeps driving share prices to ever higher levels sparking the beginning of a “mania.”

Possibly as a consequence of the political manias afflicting not just the UK but large parts of Europe and the US, we don’t see that kind of euphoria or mania in financial markets. In fact, we see the opposite. Negative interest rates are a sign of a lack of confidence; we see no inflation and we see no generalised explosion of credit.

What we do see is a political class that seems determined to reduce the size and scale of the British economy for reasons of ideology; on the one hand Nationalist and on the other Socialist, both manias of a certain type. It is simultaneously illuminating and staggering that is now generally accepted that there are no economic benefits to Brexit only costs.

The consequences of the forthcoming General Election will reset our relationship with our largest economic partner and/or reset the nature of British capitalism resulting in a much deeper involvement in the economy of State directed enterprise and ownership.

For that reason, investors have every incentive to more fully engage with this election than with perhaps any other in recent history. Either way, there will be far-reaching consequences for future returns on British Capital.

All manias eventually come to an end; some quietly, some catastrophically. Even Brexit.

We can leave the last word to Charles Mackay, “Of all the offspring of Time, Error is the most ancient and Truth, when discovered, comes upon most of us like an intruder and meets the intruder’s welcome.”

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