

When Things Don't Make Any Sense

I was recently asked to name my favorite book on the history of speculative bubbles in the markets. There are a number of good books on the topic, but by far my favorite is [Devil Take the Hindmost: A History of Financial Speculation](#) by Edward Chancellor (it also has one of the great investment book titles ever).

I refer to my paperback copy often. My favorite passages deal with the Japanese real estate and stock market bubble of the 1980s because I feel this had to be the biggest bubble of all-time. Some stats and anecdotes:

- By 1990 the total Japanese property market was valued at over 2,000 trillion Yen (around \$18 trillion) or 4x the real estate value of the entire U.S.
- Grounds on the Imperial Palace were estimated to be worth more than the entire real estate sectors in California or Canada.
- From 1956-86, land prices increased 5,000% even though consumer prices merely doubled.
- During the 1980s, share prices in the stock market increased 3x faster than corporate profits.
- Over 20 golf clubs cost more than \$1 million to join. It cost \$2.7 million to join the best golf club in Tokyo.
- At the peak, there was a 32 square foot space in a Tokyo shopping district that sold for \$600,000 even though it was far too small to build on.
- The stock market traded at 90x corporate profits by the 1989 peak.
- Prices in Tokyo's best neighborhoods were 350 times more expensive than comparable spots in Manhattan.
- In Japan's 6 largest cities, residential real estate prices fell almost 65% from 1991 to 2005.

None of this made any sense. It was ludicrous. But these things happen because we humans almost always take these things too far.

I'm reminded of these types of crazy stats when I read something like the following from [CNBC](#):

Thanks to one digital currency's surge in the last few weeks, the co-founder and executive chairman of Ripple is now one of the five richest people in America.

Chris Larsen, co-founder and executive chairman of Ripple, has 5.19 billion of the company's digital coin XRP and a 17 percent stake in the company, according to Forbes, citing sources at Ripple.

With XRP hitting a high of \$3.84 on Thursday, Larsen's holdings are worth about \$59.9 billion. That puts the former Ripple CEO just ahead of Larry Ellison, who ranked fifth on Forbes 400 list with a

worth of \$58.4 billion. Facebook CEO Mark Zuckerberg ranks fourth, with a worth of \$74.4 billion.

Google founders Larry Page and Sergey Brin rank eighth and 10th on the list, respectively.

This is insanity to the nth degree. This makes no sense whatsoever but here we are.

Most people who have just heard about Ripple this month likely have no idea what it is. Ripple is a payments network for banks that is supposed to allow them to send and receive transactions faster in a more secure way using blockchain technology. And it seems like the biggest use case (for now) for blockchain technology is adding it to your company's name or mission and seeing your stock skyrocket.

First there was the Long Island Iced Tea company who literally sells beverages who changed their name to Long Blockchain and immediately saw their stock price rise by something like 500%. Then this week there was news that the owner of Hooters franchisees was starting a blockchain-based company loyalty program (um...what?) and shares spiked by over 40%.

The crazy thing with Ripple is that, as far as I can tell, the tokens (XRP) were never meant to be a cryptocurrency. XRP was simply the utility function for financial institutions to perform their transactions. Also, while it [sounds like there are a handful of banks](#) that are willing to try out this process, the actual success (or failure) of the Ripple network doesn't seem to have any bearing on the price of XRP itself

It's hard to make an apples-to-apples comparison of cryptocurrency market caps to company stock market valuations because they are measuring two completely different things. You could argue that the market caps of these protocols need to be substantial in order to do everything they're setting out to do.

Maybe this founder will never be able to translate this wealth if it never reaches critical mass. Or maybe I'm wrong and it will become as massively successful as some hope.

When I see wealth figures like these, even if they're only on paper, the red flags go up. Speculative manias never follow the exact same course. Humans emotions are far too complex for that to be the case. And this says nothing about the efficacy of the technology being discussed here.

The Japan bubble was one of the ages and this certainly isn't even a fraction of the magnitude of that craziness.

But the amount of wealth that is being created in cryptocurrencies, seemingly overnight in some cases, has all the hallmarks of history's great manias. That doesn't mean this stuff is going away but prices almost always detach from fundamentals when new technologies are introduced (and this one could still have a long ways to go).

I do think when all is said and done we'll be adding cryptocurrencies to the list of history's biggest speculative manias.

Further Reading:

[What Does Something Like Bitcoin Happen?](#)

Now here's what I've been reading lately:

- Breaking down how Amazon makes money ([Visual Capitalist](#))
- Pros vs. amateurs in financial services ([Reformed Broker](#))
- Rewriting your story ([Growth Lab](#))
- Is paying down debt your best investment option in 2018? ([Humble Dollar](#))
- Investors are like gardeners, not carpenters ([Mullooly](#))
- The day Robin Powell was asked to leave an investment conference ([TEBI](#))
- Understanding the null hypothesis ([Think Newfound](#))
- Hanging up your bell ([Real Smartica](#))
- I spent 80 days trying to get abs and it ruined my life ([Vice](#))