



Summer Reading: A Crash Course In Crashes

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Summer reading is one of the great pleasures of life. Dipping into books filled with intrigue, excitement, and passion is lector-therapy at its best.

For us investors with little to do these days but watch our investments bounce up and down month after month, tales from the long history of financial disasters can bring us a degree of understanding and perspective, as well as entertain us with black humour. How could people be so greedy? How could people be so stupid? Instead of looking in our mirrors for the victim and culprit of investing gone wrong, we can wallow in the hollow of some of civilization's more spectacular financial crashes. (It's not as thrilling as attending a summer demolition derby event, I admit.) Here are some summer suggestions:

The best popular introduction to the history of finance and its crashes is Niall Ferguson's *The Ascent of Money* (Penguin, 2008). It is available as an inexpensive paperback (as are most of the books mentioned here, with some also appearing in e-book and audio-book format) or as a series of four documentary videos on TV or on the Web (video.pbs.org/program/ascent-of-money/). Ferguson outlines some of the woeful situations described in the books listed below, ending with a suggestion that the ultimate crash may soon occur -- World War III.

Among the many books about John Law and the beginnings of modern finance, Janet Gleeson's *Millionaire: The Philanderer, Gambler, and Duelist Who Invented Modern Finance* (Touchstone, 1999) is an interesting and easy read. Law was responsible for establishing a central bank in France and for introducing paper currency or "fiat money" to that country in place of a gold standard. It took no time at all for the government to print huge

amounts of it. Sound familiar? The resulting boom and bust was not an auspicious debut for finance.

John Law was also a leader in one of the great "bubbles" of history, the Mississippi project. People with big dreams raised huge amounts of money for the venture with the new paper currency, most of which was lost in the swamps of Louisiana. (I wonder what the *Dragon's Den* panel would have thought of their pitch?)

Skipping ahead to our own time, the period of leveraged buy-outs (LBOs) in the 1980s is dealt with by Bryan Burrough and John Helyar in *Barbarians at the Gate: The Fall of RJR Nabisco*, (HarperCollins, 1990; a film/DVD of the same name is also available). While the book is a gripping tale of consolidation in North American industry rather than of a crash, the techniques of LBO financing led to the 1989 "junk bond" crash. Interestingly, the lead figure in the story is a Canadian, as were important players in the scandalous Bre-X and Enron booms and busts.

Michael Lewis' *Liar's Poker* (Norton, 1989) is an insider's view of the contemporaneous rise of mortgage and junk bond financing and its excesses. As a catalogue of ambition, arrogance and greed run rampant, it's hard to beat! (Michael Lewis' book *Moneyball* has recently been released as a film.)

The massive failure of Long-Term Capital Management in the late-1990s is described in a masterful way by Roger Lowenstein, who is among the best of current financial writers. In *When Genius Failed: The Rise and Fall of Long-Term Capital Management* (Random House, 2000) we stand amazed at how such smart people could be so dumb. Read all about it!

The technology boom in the roaring-90s up to the 2001 bust is well-documented from the inside by Dan Reingold in *Confessions of a Wall Street Analyst: a True Story of Inside Information and Corruption in the Stock Market* (HarperCollins, 2006). He explains how the various incentives offered to analysts corrupted their function as trusted providers of investment advice. Much the same ground is covered by Geraint Anderson, a City of London analyst, in *Cityboy: Beer and Loathing in the Square Mile* (Headline, 2008). Anderson's book is replete with lurid accounts of his sexual and drug activities and those of other highly-paid analysts of the time.

Journalist Andrew Ross Sorkin's account of the 2008 world-wide bust, *Too Big to Fail: The Inside Story of How Wall Street and Washington Fought to Save the Financial System — and Themselves* (Penguin, 2010), has become the standard resource for other studies of this catastrophic unravelling of finance. It provides insight into what happened and who was involved. Still to be determined is who was to blame. Michael Lewis' *The Big Short: Inside the Doomsday Machine* (Norton, 2010) treats the same period, telling us how a few clear-sighted investors were not taken in by the sub-prime mortgage bubble and made huge amounts of money betting against it. A quick read, but one that explains in a readily understandable fashion just what the problem was and how it arose.

The global financial malaise in which we live at the moment is outlined in books by George Soros. He is a wildly successful investor and speculator, philanthropist and philosopher (profiled by Niall Ferguson in *The Ascent of Money*; see also www.georgesoros.com) and plays an important role today as an advisor to governments around the world. Soros' idiosyncratic jargon is a bit of a barrier to a reader, but John Train's *Money Masters of Our Time* (HarperCollins, 2000; itself one of the very best studies of famous investors) pokes some holes in it, providing "simultaneous translation" of the more pretentious terminology.

Over 25 years ago, Soros' classic work *The Alchemy of Finance* (Wiley, 2003) outlined in detail his theory of boom and bust in financial markets. It's a book well worth reading, but perhaps not during the hot summer unless you suffer from insomnia. It's a fascinating read, analyzing the savings and loan crash, the LBO period and other ups and downs in recent history. But its high level of detail, however engaging, may put you to sleep

in short order. And if you are not acquainted with the basics of economics it can be difficult to follow.

An alternative to Soros' masterwork is the much shorter *The Crash of 2008 and What it Means: The New Paradigm for Financial Markets* (PublicAffairs, 2009). Although his views (and his cynicism) have deepened since the 1980s, this short paperback touches on the basic principles of Alchemy and then applies them to the current "macroeconomic" situation. Soros is part of the ongoing international debate, in which he advocates for monetary stimulus, an international currency and better government regulation. His book can serve as a primer on the discussion about how we can get ourselves out of our financial mess.

Summary:

These summer reading suggestions won't fail to engage you. Contemplating the extent of human folly can only sadden us, and the record of how individuals and governments manipulate finance to their own selfish ends can only madden. Thankfully it's all in the past and we have survived it. There's hope for us yet! I wish for you a relaxing summer, stretched out or curled up with these fascinating books.

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