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# Stock Markets Are Dangerously Crazy

Action in the stock market has become measurably reckless with sensational rallies in the Bitcoin sector as well as some rigged short squeezes in individual "old" stocks such as GameStop. Bitcoin from its trading start in 2015 at $216 soared to $63,000, which in percent gain and overall size is likely without precedent. But it is not a company, nor is it a commodity. GameStop is a stock that has been around for a long time with operations not all that strong. Hedge funds that were short were caught offside in a massive squeeze that drove the stock from $2.57 in less than a year to $283 in February.

"Measurably reckless" means that technical excesses were recorded at the peak of excitement.

And as the legendary stock market operator Daniel Drew in the 1850s observed about shorting: "He that sell what isn't his'n, must buy it back or go to pris'n." Thereby involuntarily joining the buying mania.

Both representative sensations involved very bold operators and both have sold off. Hard enough to suggest that this particular speculation has been seriously damaged. Bitcoin to $37,000, which put all the buyers since February at a loss. GameStop plunged to $136.

Furthermore, senior stock indexes such as the S&P are the most overvalued relative to earnings or GDP in history. Fundamental valuations.

Every sensational mania in the past has had a focus that turned out to be not much more than an intense but briefly passionate embrace of speculation. In Holland in 1637, it was in tulips. Forever called Tulip Mania, it cost novice traders their hard-earned money and in dislocating the financial markets forced a brief contraction in business.

Lord Overstone, a highly regarded banker in the 1840s, wisely observed: "No warning can save a people determined to grow suddenly rich."

Driven by this recurring compulsion, great financial bubbles have had much in common, with 1929 being the last classic example. Once the buying craze completed massive declines and a recession followed. The following doggerel composed with the 1720 Crash records that fortune can suddenly change:

*"My shares which on Monday I bought*
*Were worth millions on Tuesday, I thought*
*So on Wednesday I chose my abode;*
*In my carriage on Thursday I rode;*
*To the ball-room on Friday I went;*
*To the workhouse next day I was sent."*

– Anon, 1720.

The opening sentence mentions Bitcoin as an exceptional example in an exceptional field. Beyond this it is an item that has a unique cost to generate what is the equivalent of stock certificates. Creating “crypto currencies” requires some 0.55% of the World’s production of electricity. As reported in the Harvard Business Review, this is the amount used by a country the size of Sweden.

And history shows that the underlying cost of operating a speculative market is a constant burden. Veteran traders become wary of ongoing expenses as the party fades.

“Crypto” gains have been driven by the allure of technical mystery. However, it is not much more than a counter or gambling chip, but with extraordinary “mining” costs that will be unrelenting. Which could become excruciating as the “value” of the costly “product” plunges.

The gambling palaces at Monte Carlo provide glamour and elegance at a considerable operating cost. But has been set up in a business-like manner with cost controls. Any business has to be, including stock exchanges.

As opposite as you can get, were the “Bucket Shops” in New York. Back in the early 1900s, these were walk-in shops with customer chairs, a chalk board for posting stock quotes and a ticker tape. The customers would place small bets on changes in stock prices but without actually executing a stock trade on the NYSE. In so many words, it was a gambling parlour.

Quotes on a chalkboard were the chips. One of the costs was the “board marker”, usually a young clerk.

As with the many ways to make stock transactions, costs were not much of a concern during a boom, but become very much so in the busts. Whether it was in London’s coffee houses in the late 1600s or trading under the “Buttonwood Tree” in New York in the 1790s, professional traders learned to keep transactional costs down.

In the 1720 Mississippi Bubble in Paris, some trade was done in the open. And an enterprising hunchback rented out his hump as a writing table so that traders could record their “bargains”.

In the late 1860s “New Financial Era” some junk bond traders rented open floor space for trading. As did those for trading gold when President Lincoln went off gold convertibility in 1861. No need to be too big, as trades were shouted down to the crowd on the sidewalk below.

When each party crashed, such trading spaces were vacated as soon as possible.

The creation of what has become nothing much more than “counters” for trading has been the most expensive such example in history. Shutting down, avoiding or running from the enormous costs of “mining” Cryptos will be fascinating.

Ironically in this sector, a surplus of electricity and chagrin looms.

To be serious. Every great financial bubble completed in a frenzy of buying by the public generally new to such speculation. As with this one, the bull market ran for about a decade and climaxed in a frenzy of buying.  All, repeat all, have suffered a liquidity crisis in the Fall.

Trading has become so reckless that it is now time to become cautiously pessimistic.