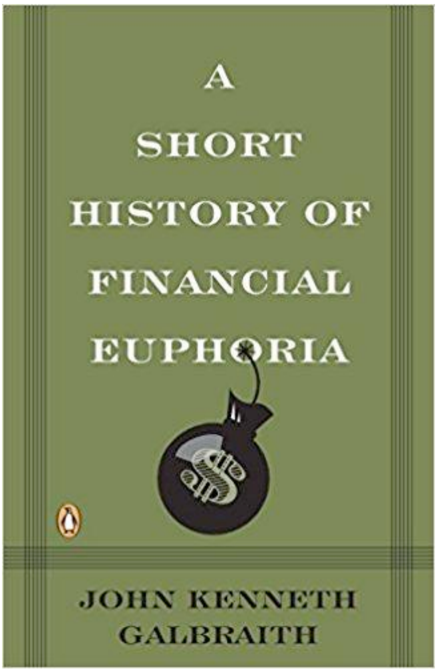

This book was recommended by a trader who reads this every few years just to keep the concepts in mind. It's really a very short read that probably takes 2-3 hours max, but its enjoyable and the timeless principles or trading it goes over never get old.

t isn't a technical book. It left me with the unsettling knowledge that I'm mentally no different from anyone else and I'd better protect maself against the downside while still actively participating in the markets.

Ready for a new speculative bubble?

Because as Galbraith's "A Short History of Financial Euphoria" demonstrates,

if there's one thing history has taught us it's that there will surely be one … very soon.

Who Should Read "A Short History of Financial Euphoria"? Why?

In "A Short History of Financial Euphoria," John Kenneth Galbraith offers "dourly irreverent analyses of financial debacle from the tulip craze of the seventeenth century to the recent plague of junk bonds."

Chances are you'll forget the origin and the effects of all of them in the blink of an eye, which will expose you to the manipulative schemes of charlatans and cons in no time.

Which is why it's all but necessary to not merely read, but also constantly reread Galbraith's 100-page classic.

John Kenneth Galbraith was a Canadian-born economist and diplomat, one of the leading proponents of American liberalism of the 20th century.
A long-time Harvard faculty member and professor, Galbraith served in the administrations of four American presidents (Roosevelt, Truman, Kennedy, Johnson).

One of the few people to receive both the Medal of Freedom and the Presidential Medal of Freedom, Galbraith was USA's Ambassador to India under Kennedy and a widely respected public intellectual for the duration of the Cold War.

A prolific author, he wrote numerous books, including a few successful novels. His trilogy on economics – "American Capitalism," "The Affluent Society" and "The New Industrial State" – is still hotly debated and thoroughly analyzed.

Summary

There is nothing in economic life," writes John Kenneth Galbraith near the end of his "Short History of Financial Euphoria," so willfully misunderstood as the great speculative episode.

And this, even though on the face of it, everything should be quite plain and simple.

It all starts with a **bidding war** over some asset a few people believe is so rare and important that its value should only increase in the future.
That's, after all, the basic economic rule: when supply is low, and demand is great, prices rise.

Add to this the yearning desire of many people to become rich overnight, and you get a recipe for disaster!

Because soon enough, **investors join in**.
Why should they not? It's their job to get the most out of anything, and bubbles are the perfect way for them to earn some money.

And since they are usually the earliest players, they actually *do* – and they do it big time!

Of course, these investors are not exactly humble people, so they start tooting their own horns, and soon even more people start investing in the asset the price of which, in the meantime, has blown ridiculously out of proportions.

The scary thing is that in this second group of people there are usually even quite a few intelligent analysts who are aware that at some point in the future this bubble must burst, but who, nevertheless, expect to be able to take their money back before that happens.
Some do. Most don't.
And when the inevitable happens – the market crash – many lose substantial amounts of money; many more lose absolutely everything.

The strange thing: in a decade or so, **financial euphoria strikes again**.
Why?

In the opinion of Galbraith, it is because of several unchanging factors. Since these are probably the most important insights of his book but are mostly scattered through brilliant historical analyses of many speculative bubbles, we tried to systematize them so that you can follow them better.

#1. Short-term fiscal memory

When it comes to money, Galbraith says, people never seem to learn anything. "There can be few fields of human endeavor," he says, "in which history counts for so little as in the world of finance."

In other words, when it comes to get-rich-fast schemes, you can burn yourself numerous times, because *wanting more* is part of your very human nature. Rationality is just a note on the margin.

#2. The fallacious link between wealth and intellect

Most people believe that wealthy investors are, by definition, smart.
Which is why they have devised all those fancy epithets about the likes of Warren Buffet, Peter Lynch, and George Soros!

However, since almost everything that happens in life and in the markets is governed by chance, it's all but crazy to believe that some people have found a surefire way to earn money.

In fact, most of the time, they have just been lucky.The majority doesn't think so.

So, it is inclined to be the victim of Ponzi schemes and speculative bubbles.

#3. Nobody believes the pessimists

Almost every bubble comes with a Cassandra or two.

Before the market crash of 1929, Paul M. Warburg foresaw the collapse and the depression, but his warnings fell on deaf ears, with the public claiming that he (a Jew) was "sandbagging American prosperity."

Most wanted to believe Irving Fisher who famously proclaimed that the "stock prices have reached what looks like a permanently high plateau."

Just a few days before the market crashed.

#4. Everyone chooses to ignore the real reasons

Charles Mackay, in his remarkable 1841 classic "Extraordinary Popular Delusions and the Madness of Crowds" (a defining influence on Galbraith's book which thoroughly recounts its three chapters), commenting on the South Sea Company bubble, writes:

[In the autumn of 1720,] public meetings were held in every considerable town of the empire, at which petitions were adopted, praying the vengeance of the legislature upon the South Sea directors, who, by their fraudulent practices, had brought the nation to the brink of ruin. Nobody seemed to imagine that the nation itself was as culpable as the South-Sea company. Nobody blamed the credulity and avarice of the people-the degrading lust of gain…or the infatuation which had made the multitude run their heads with such frantic eagerness into the net held out for them by scheming projectors. These things were never mentioned.

The truth is – these things never are.
Even though:

#5. Bubbles are an inherent part of the market

Speculation is part of the market, and it will always be that way.
Contrary to what many will say, the market is not infallible, since humans are not infallible as well.

Regulations can help, but even they can't contain mass euphoria and gullibility.
So, as long as there are people and markets, there will be bubbles as well.

Key Lessons

1. People Suffer from a Short-Term Fiscal Memory
2. Believe the Pessimists – for Your Own Sake
3. Bubbles Are Inherent Part of the Free-Enterprise System

People Suffer from a Short-Term Fiscal Memory

When it comes to money, people tend to forget everything, including the most disastrous financial crashes in but a few decades.
That's why it's too optimistic to hope that people will ever learn their lesson when it comes to speculative bubbles.

Believe the Pessimists – for Your Own Sake

Every speculative bubble comes with a Cassandra or two: a prophet of disaster whose prophecies nobody believes until it's too late.
Unfortunately, more often than not – or, rather, for most of the people involved – they are the only ones who are actually right.
Could it be that the pessimists are also right in the case of, say, Bitcoin?

Bubbles Are Inherent Part of the Free-Enterprise System

Markets are not perfect.
Bubbles are a *part* of them, and, as long as there are markets, it is inevitable that many people will lose huge amounts of money due to ruinous speculation.
The earlier you realize this, the better for you.

Quotes

The circumstances that induce the recurrent lapses into financial dementia have not changed in any truly operative fashion since the Tulipomania of 1636-1637. Click To Tweet

The world of finance hails the invention of the wheel over and over again, often in a slightly more unstable version. Click To Tweet

There is nothing in economic life so willfully misunderstood as the great speculative episode. Click To Tweet

Speculation buys up, in a very practical way, the intelligence of those involved. Click To Tweet

In a world where for many the acquisition of money is difficult and the resulting sums palpably insufficient, the possession of it in large amounts seems a miracle. Click To Tweet

Critical Review

"Financial Euphoria" – to quote a great review – is a keeper, the sort of book you'll recommend to other investors.

It is brief, readable, with a statesman-like style, yet not above the heads of small investors.

Originally, Galbraith wrote it as a warning. Unfortunately, as he explains in the Foreword to the book's second edition, a warning he grew to believe that has no value whatsoever:

In the first foreword to this volume, I told of my hope that business executives, the inhabitants of the financial world and the citizens of speculative mood, tendency or temptation might be reminded of the way that not only fools but quite a lot of other people are recurrently separated from their money in the moment of speculative euphoria.

I am less certain than when I then wrote of the social and personal value of such a warning. Recurrent speculative insanity and the associated financial deprivation and larger devastation are, I am persuaded, inherent in the system. Perhaps it is better that this be recognized and accepted.

Unsurprisingly, Galbraith ends his book with a depressing question: "When will come the next great speculative episode and in what venue will it recur?"
That was 1994.

Unfortunately, we know now the answer.
And, yet – frighteningly – the question is still valid.

BIBLE Proverbs 26:4, 5

https://www.biblegateway.com/passage/?search=Proverbs+26&version=NIV

Summary:

26:4
When a person says something that shows foolish thinking—<u>the wise person recognizes the foolishness and avoids engagement.</u>

- **The fool remains ignorant.**

26:5
However, we answer a fool when the foolishness is a <u>CONDITION</u> THEY'RE IN. (In the beginning, even wise people are ignorant, before they finally decide that they want to learn …)

- **The wise person LEARNS (so, they are no longer ignorant).**

BIBLE Proverbs 26:4, 5

Introduction

Proverbs 26:4 says, 'Do not answer a fool according to his folly, or you yourself will be just like him.'

But the very next proverb, Proverb 26:5 seems to suggest the opposite. It says, answer a fool according to his folly, or he will be wise in his own eyes.'

So what gives? Do we remain silent when in the presence of a fool? Or do we speak when in the presence of a fool?

That is, sometimes we speak - and sometimes we're silent …

*****
Proverbs 26:4

When a person says something that reveals foolish thinking—the wise person will recognize the foolishness and avoid engagement in any meaningful way.

But it’s not the FOOLISHNESS ITSELF that determines our response. It’s the ATTITUDE of the fool holding the viewpoint.

(Remember, one of the characteristics of a fool is that they ignore wise counsel when they hear it. They think they understand when they don’t. So our words and arguments and logic are lost on the fool.)

Wisdom is like a foreign language to the fool. He just doesn’t get it. So, trying to reason with a fool is useless.

So we should abandon the hope that we’re going to get any traction with a fool. That’s what MAKES THEM a fool. They don’t listen to wise counsel.

Proverbs 26:5

So why would we EVER ANSWER a fool according to his folly?

We ANSWER A FOOL when the foolishness is not an ATTITUDE they possess, but a CONDITION THEY’RE IN. Even wise people are ignorant initially.

The difference between the wise person and the foolish person is that the wise person LEARNS—so they are no longer ignorant. This is what the fool refuses to do. So the fool REMAINS IGNORANT.

Proverbs 26:5 addresses not the fool who FIXED UPON FOOLISHNESS, but rather the fool who is simply ignorant of what they need to know. But they’re willing to find out from one who is wise.

It’s in such cases that the wise person answers a fool. Even though they’re a fool at this point, there’s POTENTIAL that they will leave their foolish world and enter the wise world. The wise person can facilitate this process by answering this fool in a way that helps move her or him out of foolishdom into wisdom.

In fact, if we DON’T ANSWER THEM accordingly, we encourage them to remain in their sad state of foolishness. That’s because our SILENCE confirms to them that they are not foolish—when they actually are. A word of wise counsel can help them see the foolishness of their thinking.

We answer her or him, ‘or he will be wise in his own eyes.’ The proverb could have just as easily said, ‘or he will remain wise in his own eyes.’ But our words can dislodge him from his foolishness. They may not. They often don’t. But we can’t know their impact in advance. We can only share what we know to be true and wise. The rest is up to the fool himself. And if the fool chooses NOT TO HEED wise advice—it demonstrates that he remains a fool.

Such a person is resistant to wisdom's input. Which takes us back to Proverbs 26:4. Such a person we don't waste our wisdom on. They aren't interested. They will reject our counsel. They will remain a fool. And they will just make us look foolish too.