



FINANCIAL PREPAREDNESS

"One of life's most painful moments comes when we must admit that we didn't do our homework, that we are not prepared." ~ Merlin Olsen

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Mobs, Messiahs, and Markets

I just finished reading Mobs, Messiahs, and Markets: Surviving the Public Spectacle in Finance and Politics by Bill Bonner and Lila Rajiva, which was published in 2007. I think I started reading it during the 2008 financial crisis, but never finished it, probably because I was overwhelmed by the crisis at the time. I wish I had read it as soon as it came out, because several times in the book, the authors predict a severe financial crisis, most likely in 2008.

Bonner was in the investment newsletter business for decades and is (or was) the publisher of *Moneyweek* magazine, an excellent British magazine that I subscribed to for years. He is known for his "Investment of the Decade" recommendations (he thinks long-term), such as "sell U.S. stocks, buy gold" in 2000. I've read his book Hormegeddon: How Too Much of a Good Thing Leads to Disaster (which I recommend) and plan to read more. He's a skeptic and a contrarian, knows history, understands economics and human nature, and his writing is full of humble wisdom and sage advice. I really like his writing voice.

The primary thesis of Mobs is that finance and politics result in public spectacles, and a man must know how to avoid them if he is to keep his liberty, wealth and dignity. The first chapter is about World Improvers (e.g., Davos Man), which Bonner eviscerates: "The trouble with the big wide world is that it is never quite good enough for some people."

They keep trying to improve it....But the world improvers are rarely content with private acts of kindness. Instead, they want gas chambers and Social Security—vast changes almost always brought about at the point of a gun....Yet they all insist that whatever evil they may have done—mass murder, starvation, grand larceny—they were only making the world a better place.”

Inevitably, these World Improvers create public spectacles: “But every action in a public spectacle is clownish or murderous. Every idea is buffoonish. Every outcome is perverse. And the fool who gets the thing going usually ends up with a monument in granite and an eternity in hell.”

Next Bonner writes about “why groups take their politics, sports and cultures so seriously. Without that unifying glue, a group might not be able to survive the lethal struggles with other groups....So, [man] came to detest other religions, other politics, other cultures, and other races for a perfectly honest and logical reason—they endangered his survival.... Groups seem to believe that they are superior to others and that they have a purpose greater than just passing along their genes....They need heroes, however fraudulent.”

He then explains the danger of having incompetent leaders: “...deception works best, according to studies by psychologists, when the person doing the deceiving is fool enough to be deceived, too; that is, when he believes his own lies. That is why incompetent leaders—who are naïve enough to fall for their own guff—are such a danger to civilized life. If they are modern leaders, they must also delude themselves into thinking they know how to make the world a better place.”

Next Bonner writes about mobs: “A man's sense of fair play and his common decency usually prevent him from making a real beast or fool of himself. For that, he needs a mob....In his private world, a man is often an oaf but rarely a beast. But give him a big idea—a New Era, a Master Race, a Domino Theory—then put a throng of morons at his back, and he'll do almost anything. You can put bullets, ballots, or a day-trading terminal in his hands; there is practically no way to anticipate the mischief he'll get up to....what extraordinarily bad things ordinary people do—when they think they have a good reason.”

Regarding news, Bonner writes: “Once something shows up in the papers, it immediately becomes of the greatest importance to every literate adult in the area—and most of the illiterates....Before you know it, there is a full-blown panic, with all the good citizens looking for demons under their beds.”

In the chapter called Heroes of the Revolution, Bonner's profiles of Che Guevara, the Peróns (who wrecked Argentina's economy and [harbored 12,000 Nazis](#)), and Mao are just devastating. “What is wrong with us? Normal, decent human beings repeatedly buckled under to Mao; they let him get away or couldn't get organized to oppose him. When they were ordered to persecute each other, they took up the task readily, even knowing that their own necks could be next. When they were summoned to carry Mao on their shoulders or procure women for him or embark on some suicidal military campaign or build him another luxury villa, did any of them raise a serious objection? Some did; but the rest went along, usually taking the objector out to execute him.”

One of my libertarian friends talks about how statists have “ideas that are so good you have to force people to do them.” Bonner writes about this: “The people who want to force their ideas on you are always the people whose ideas are the most idiotic.” Example: “[Mao] had the whole country launched on a goofy program of making steel in backyard furnaces. And then, he decided that sparrows were eating too much of the nation's harvest, so he got the peasants to shoo away the birds and kill them. As the sparrow disappeared, along came the bugs and insects that they had kept under control, in such numbers that they soon threatened the entire harvest. Secretly, the Chinese government finally had to ask the Russians for aid: Please send sparrows, in the name of socialist internationalism!”



Bonner explains why mobs can create financial crashes: “In the Gaussian world, [the stock market crash of 1987] could only have occurred 'every several billion lifetimes of the universe,' or, in other words, *never*, because it was what statisticians call 20 standard deviations from the mean. But, in fact, Black Swans occur much more commonly than we think, since they are not the result of the *addition* of lots of small effects—as most normal distributions are—but the result of the *multiplication* of effects. This means that there is no inherent limit to how high—or low—a stock price can go.... [Stock prices] are examples of informational cascades, where each actor imitates those who have chosen previously and, all together, act like a herd. Since it is based on very little information, herding behavior is inherently fragile and can stop abruptly and head in the opposite direction very swiftly on the basis of even a small amount of additional information. Human behavior...frequently conforms to...a 'power-law distribution,' where instead of the bell shape of the Gaussian curve, you get most of the activity bunched up at one extreme.”

Financial markets are the perfect breeding ground for public spectacles, Bonner argues: “Every public spectacle...begins with a lie, progresses into farce, and ends in disaster. The investment markets...are perfectly suited to them....markets, the financial industry, and the free press all work together in faultless harmony to deceive investors and bring them to do just the wrong thing at precisely the wrong moment.” I once had a client who followed the financial news closely, and invariably, he would make calls that were not only wrong, but at exactly the wrong moment. I actually used his comments as a contrarian indicator.

According to Bonner, the typical investor is like a child at the county fair: "...the whirl of the public spectacle tends to make a man's head spin....Whether he is getting money or getting rid of it, he is rarely far from mass sentiments, and never far from calamity. In getting money, he is lured toward destruction by the markets, by commentators and economists, by the headlines [humans love stories/narratives], and by the financial industry itself....[man] is tempted, prodded, pulled, lulled and gulled into one mug's game after another."

Bonner argues that the unnatural scale of the public markets and their distance from investors do not serve them well: "...useful intelligence decreases...by the square of the distance from the facts. A private investor is closer to the facts....his brain is better equipped for the scale of private investing. He can get to know the people personally. And he can see how the business operates, up close....By really knowing the business, he is able to eliminate some of the unknowns and make a better decision." Would the shareholders of say, Enron done better if they could have seen what was happening on the ground?

"The U.S. Congress, by contrast, routinely votes on legislation it hasn't even read. It spends money that hasn't even been earned by taxpayers who haven't yet been born.... Congress went along with Bush's war in a country they'd never been to, for reasons they didn't understand, paid for with money they didn't have, and fought by soldiers who weren't their own sons and daughters." Bonner suggests that all politicians at the federal level should have to put all of their wealth into U.S. Treasury bonds. Great idea, but so should the rest of the Deep State, and they should have to leave it there for life.

"...the further you get from your investments and the less you suffer the consequences, the worse your investments will be. That's why collective investments like index-linked funds, mutual funds, hedge funds, insurance funds and pension funds are usually so bad. The investor is too far from the facts—and the managers are too far from the consequences."

"That insiders generally do better than outsiders should come as a surprise to no one. The insider is the person who has eliminated the most unknowns. He is the most private investor, whose knowledge is closest to the facts. But even if ordinary investors cannot be insiders in the stocks they buy, they can come very close, by shunning popular stocks in favor of those no one wants." Another way to be like an insider is to buy stocks that have a high percentage of insider owners.

Bonner also writes about the unthinkable practice of doing nothing when brokerage firms want to churn your portfolio and the talking heads on MSNBC want to get viewers so they can sell ads: "Nothing. Nada. Zilch. The null category gets no respect. The hollowness of it is repulsive. The emptiness of it is unbearable. Even nature is said to abhor a vacuum. The poor man who has nothing to say is a pariah. He is like the investment adviser with nothing to recommend, save cash. He will get no work as a hedge fund manager....inactivity is almost always unpardonable....[but] doing nothing is usually the best course of action, especially in public affairs and investments....In public affairs... there is a powerful compulsion to do something." After a crisis such as 9/11, politicians

come under tremendous pressure to *do something*, and the result is always disastrous.

But what should you do with your money while it's idle? Bonner writes, “A more perfect 'nothing' [than cash] is gold. It is a sort of anti-asset. It pays no interest, issues no press releases, and offers no guidance on quarterly earnings. It has no earnings. It does no mergers and no acquisitions and it never restructures. It hires no celebrity CEOs. It makes no excuses. It charges [no] management fees....Gold is as close to 'nothing' as you can ever get.”

Next Bonner explains the difference between a group and a crowd: “But it is only *voluntary* collectives—families, markets, communities, religious groups, enterprises (the very things that the coercive collectivists want to destroy) that work....cooperation is the foundation of civilization....But cooperation does not make a crowd. It makes a group. What is the difference between a group and a crowd?....a group never reduces itself to one. A crowd, in contrast, always acts as one—and soon makes a public spectacle of itself.”

Here's another reason why consuming too much news/data/information—or knowing too much--can be counterproductive: “It seems that knowing a lot is simply not as helpful in making predictions about human behavior as people tend to assume. Too much knowledge can actually trip you up, because it gets enlisted on behalf of your favorite hunches—or fears—instead of being evaluated objectively. Having more facts at their disposal, experts are able to support their theories more ingeniously; they are more reluctant to change their minds, even when proved wrong.”

Next Bonner explains the crucial role of prices. In a free market, “the price feeds back to everyone whatever he needs to know about the needs and wishes of everyone else. Pricing is a way of communicating that allows people to cooperate and produce spontaneously in a way that would otherwise require the omniscience of a god. A command economy, on the other hand, fails because it doesn't have a network of information as extensive and complex. In a command economy, clueless government hacks are free to impose any fatheaded scheme they can come up with on their hapless subjects. Where nature [and the free market] produces unpredictable order, the hacks create thoroughly predictable chaos.”

The fall of man's empires/civilizations are inevitable and self-inflicted, writes Bonner: “Man learns to use his reason to master the world around him, only to turn it on himself. He strives to discover truth and instead concocts the delusory spectacles with which he destroys himself. From a modest republic of the self-reliant, he converts his nation into a boastful empire of debtors that eventually collapses of its own weight. He rises, only to fall.”

Napoleon said, “A soldier will fight long and hard for a piece of colored ribbon.” Bonner writes, “No medals were pinned on [draft resister] Muhammad Ali. They give you medals for helping the politicians with their public spectacles. They don't give you medals for standing in their way.”

Finally, with public spectacles, people “begin to think that they can get something for

nothing, or do something to someone else that they wouldn't want done to them—and not have to answer for it. It is a New Era, they say; the old rules no longer apply. Then, the spectacle progresses to farce, when the lies begin to catch up. Finally, it ends in disaster.”

What You Should Be Doing Now

Interest rates continue to spike. With the tide going out, we're about to find out who's been swimming naked.



yield on the 5-year Treasury bond

Question For You

Last week I asked, “What do you do to increase your positive energy?” One reader responded: “I have practiced gratitude for about 20 years. Now it is a working part of the mind. I also accept that difficulties are how I grow as a person--they are an opportunity. I accept life on life's terms. I remind myself that we all have difficulties in our lives. I eat healthy, paint on canvas and work in the garden. I moved to the South for more sunlight and opportunity to spend time outdoors. I avoid energy vampires and work with other people who want to increase their positive energy!”

This week's question: What do you do to avoid public spectacles? [Let me know!](#)

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I would love to hear from you! I thrive on feedback from readers. If you have any comments, suggestions, insight/wisdom, or you'd like to share a link to a great article, please [email me](#).

Generally, I don't have time to answer questions about your specific situation, but if you

have a general question that I think other readers also have, [let me know](#) and I will provide an answer in a future issue.

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Before starting a new diet or exercise regimen, you should consult with a doctor, nutritionist, dietician, or personal trainer.

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