

Burke's Law - Why We Study History

Humans seem to suffer from a chronic case of chronological snobbery. With the advance of science and rapidity of calculation, we always seem sure that *now* we know it all, unlike all those poor, benighted people throughout history. (The fall of the Roman Empire ~ how could they not see *that* coming?) Any belief that our wisdom is somehow superior to that of the past, however, is unsupportable and naive upon reflection.

The Burke we refer to in the title is not the dapper TV detective played by Gene Barry in the 1960s, but Edmund Burke, picked essentially at random from the figures of history to make our point. Burke is one of those names from the textbooks that sticks in people's minds without any additional information attached. You know he is important, but why? For our purposes here, it does not matter - we need not concern ourselves with battles between factions of the English Whig party in the 18th century. Burke was no investment genius ~ as far as we know, he never owned a share of stock. Still, we believe we can learn new investment lessons from old wisdom, from Burke or other astute individuals in history. Each quote selected from Burke precedes our comments:

"No passion so effectually robs the mind of all its powers of acting and reasoning as fear." This is from Burke's 1757 philosophical inquiry *The Sublime and the Beautiful*, not from the trading pits last October. Severe storms blast the markets with great regularity, but investors, even many with quite appropriate investment programs, panic and rush to cash after the declines. Only greed rivals fear as a destroyer of investment returns.

"All men that are ruined are ruined on the side of their natural propensities." Burke wrote this in a piece on the French Revolution, but it also describes the mistakes of most investors. The naturally timid invest too cautiously and lose to the ravages of inflation. The naturally rash invest recklessly and suffer devastation from inevitable market declines

"Early and provident fear is the mother of safety." Burke here was railing against the French Revolution again, but this also describes the proper course for investors when an investment boom departs from fundamental bearings. In the late stages of investment bubbles, greed is the primary motive force. Any investor paying attention to valuation should lighten up, but this means you will tend to leave the party early. Accordingly, you risk regret and, even more damaging to the psyche, ridicule by those who stay and continue to make money (temporarily).

"Your representative owes you, not his industry only, but his judgment; and he betrays, instead of serving you, if he sacrifices it to your opinion." Burke wrote this to the voters of Bristol when they first elected him to Parliament, warning them that he would vote his conscience rather than follow their momentary passions – and he lost the election six years later. Is there a better description, though, of the duty an investment fiduciary owes to clients? A true adviser is not an enabler. Sometimes the good adviser will recommend action contrary to the temporary impulses of clients. If you insist on being prudent, you risk making people unhappy.

**"We learn from history that we do not learn from history"
~ Georg Hegel**

"Falsehood has a perennial spring." The media invariably describes recent alleged swindles by Messrs. Madoff, Stanford, *et al.* as Ponzi schemes. Charles Ponzi's fraud crashed back in 1920. We have since created numerous regulatory bodies; our government has passed, issued and administered a plethora of laws and regulations. Still, Ponzi schemes bloom like spring tulips in every investment boom. This is not an argument against judicious market regulation, but an argument for humility as we attempt to change unchanging human nature.

"Hypocrisy can afford to be magnificent in its promises; for never intending to go beyond promises; it costs nothing." Many ads for financial service firms exhibit hypocrisy of the first order, enabling clients to approach ruin by encouraging their natural propensities. The ads encourage risk taking at the tops of bubbles and caution at market bottoms. As long as there is no accountability or performance measurement, the financial service providers are free to be magnificent in their false promises – it costs them nothing.

"Example is the school of mankind, and they will learn at no other." We can study all the finance theory we want, our statistical software can carry out calculations to 12 decimal places, but our own experience, and, if we are very lucky, the experience of others, is the only way we seem to learn the true lessons of investing. In the late 1990s, a Merrill Lynch ad proclaimed, "the world is ten years old," a belief that the Internet and end of the Cold War ushered in a new era, eliminating the relevance of all that had gone before. This sentiment would drive Edmund Burke, Churchill or any other respecter of history batty. If we are wise, we will learn from the example of the massive losses surely suffered by those who followed the outlook of that ad. Our chronological snobbery makes us chronically prone to such new era thinking, and it is always dangerous. New eras have a way of turning out to look a lot like old eras.

"No one could make a greater mistake than he who did nothing because he could do only a little." Just because you are not omniscient in the markets, just because recent market volatility is daunting, just because you will never buy at the exact bottom nor sell at the exact top, is no reason to delay taking the "little" step of developing a rational investment plan. If you would like help from students of history, contact us at www.sigmainvestment.com or at (503) 419-3938.