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South Sea Forecast: Stockjobbing Becomes Technology

Dear fellow investors,

In 1720, the South Sea Bubble arose from what seemed to be good intentions. The South Sea Company was given an exclusive monopoly on the Spanish Americas in exchange for assuming a large part of England's debt. The debt holders received preferred shares in the South Sea Company that paid 6% interest. The business operators of the South Sea Company seized on their de-facto government backing to continue offering shares to pay off all the country's debt.

The madness that ensued created delusional visions of the future. The euphoria that overtook England, is to this day, a story for the ages. Robert Walpole, the former Chancellor of the Exchequer, disapproved of what the government was allowing as he could see how it was pushing society into a frenzy. Walpole could see how this would misallocate capital. Here is what he was quoted saying:

The dangerous practice of stockjobbing would divert the genius of the nation from trade and industry. It would hold out a dangerous lure to decoy the unwary to ruin by making them part with the earnings of their labor for a prospect of imaginary wealth. The great principle of the project was an evil of first-rate magnitude; it was to raise artificially the value of the stock by exciting and keeping up a general infatuation and by promising dividends out of funds which could never be adequate for the purpose.

The invisible hand was unable to appropriately allocate capital in society as "trade and industry" were being "diverted" from their finer points. The money being allocated towards this mania was not going to attain the trade that was dreamed of and fantasized about. The investors saw the riches of silver and gold in the New World. The excitement pushed the value of shares higher. Many investors believe the market is there to instruct people. If stocks go up, it tells you something about the future. If the South Sea Company's stock went up, it was telling you about the future of the Americas and the company.

The father of modern science, Sir Isaac Newton, personally was swept up in the South Sea Episode, losing his fortune and wasting his time in the process. Walpole illuminated the social cost of the greatest scientific mind of the ages expending his energy in a fruitless mania.

Newton was talking with his broker and stockjobbing when he should have been working on what he did best: theorizing and testing the validity of his work in math, physics and other disciplines to the benefit of society. He is often quoted on the mania of the South Seas Bubble by saying, "I can calculate the motions of heavenly bodies, but not the madness of people." It has been said he wouldn't allow people to say South Sea in his presence after the clock had struck twelve and the mania ended. Many people in English society were ruined at that

point. As the stock fell, the delusional ideas did too. The government allowed a problem to arise that distracted the greatest mind in science.

With sincere apologies to Al Gore, the internet began as a creation by the federal government as a means of communicating in the event of an emergency. This was nascent technology at the beginning, with mainframes and dial-in bulletin boards prior to metamorphosing into the world wide web portal. To protect this nascent technology, governments didn't require internet-based businesses to pay taxes in the same way that non-internet-based business did. We didn't require web hosting businesses to be held legally liable for content that infringed patents, copyrights or criminal content to enable the forward push of technology. Much like the South Seas Euphoria, the government was backing this "infatuation" with technology, providing protections to it that we've never seen in modern America. This was allowed under the belief that we were in the nascent stages of what technology could do.

Colleges across America have adopted a very governmental-like approach to the subject, creating lots of shelf space for the brightest minds to teach coding and computer sciences as the future of America. Harvard requires every freshman to take a coding class (CS50), which exposes how this has infiltrated our society. However, could there be an opportunity cost? Let's revisit Walpole's quote by changing only a few choice words and asking if history rhymes?

The dangerous practice of "technologists" would divert the genius of the nation from trade and industry. It would hold out a dangerous lure to decoy the unwary to ruin by making them part with "their data and privacy" for a prospect of imaginary "benefit". The great principle of the project was an evil of first-rate magnitude; it was to raise artificially the value of

"these stocks and venture investments" by exciting and keeping up a general infatuation and by promising "real-time information and services" which could never be adequate for the purpose.

While we are likening the psychotic intoxication of the South Sea Episode to the psychology of today, others have pointed to other periods of mania. Alan Gillespie, who has the only sell-rating on Amazon on Wall Street, has likened Amazon's monopoly to the Dutch East India Company. He argues that Amazon has been allowed a monopoly as it pertains to internet commerce, much like Dutch East India Company had expansive powers in trading, shipping and a massive information network. His work clues us in to what this period is: This infatuation with technology is yet another mania.

Our government has allowed Amazon to develop a monopoly in internet commerce. Google has been allowed a monopoly in search, as well as online and mobile advertising. Facebook has a monopoly in online and mobile advertising as well. These companies have all our data and hold our privacy for their high profit margins.

It is chronological snobbery to look back at history and think that people of the past made poor decisions and for us to think that we are so much smarter today. If the brightest mind of their time can become intoxicated by periods of financial Euphoria, why couldn't ours? We also must admit the obvious elephant in the room as Walpole did. We are diverting the genius of our society from trade and industry. If you are a twenty-something person in America, it's very possible you'd believe that technology companies are the only way to produce large amounts of personal business success. All the while, we are watching genius mainly go to the technology sector in hopes it will leak back into other places of society like Stich Fix, Uber and Grub Hub have in fashion, transportation and fast food.



The opportunity cost of society's time and capital used in this financial euphoria could be mercilessly painful just as the cost of money is beginning to rise. We will have millions of coders and self-proclaimed technologists in society, much like London in 1720 had too many stockjobbers. As we recognize that the government isn't there to allocate capital correctly (W.P.S.S.) or decide what an equitable society is from the start (schools before *Brown v. Board of Education*), we must come to grips that they have done it again as the King of England did in 1720. Only in the recent year has the political

class begun to question the power over society these companies control. In the South Sea Episode, the greatest mind of science was more interested in stockjobbing. In today's episode, the great minds of capitalism are more interested in computer science. As Walpole stated, "an evil of first-rate magnitude." 

Warm regards,



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W.P.S.S. stands for the Washington Public Power Supply System.

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