



INSIGHTS FROM
CFA SOCIETY SINGAPORE

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The paradox of speculation has existed since the very first securities were traded on Wall Street, soon after the IPO of the First Bank of the United States.

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Understanding the past to forecast the future

Three principles and three excerpts from *Investing in US Financial History*

AFTER four years of painstaking research, writing and editing, I am happy to report that *Investing in US Financial History* is now available online and in select bookstores in the United States and across the world. I hope it provides educational value to all investors regardless of their experience and serves as a reliable reference that helps readers contextualise the present and envision the future.

The story begins in 1790 with Alexander Hamilton's financial programmes and ends in March 2023 with the US Federal Reserve's ongoing effort to contain inflation. Sprinkled throughout are brief "points of interest" that explain critical investment, economic, and financial principles. Despite the passage of more than two centuries, many principles are just as relevant today as they were when the United States was in its infancy.

Here I provide a sneak peek by sharing three excerpts that each illuminate one important financial concept. The first considers the "Paradox of Speculation", or how speculation in US securities markets produces hardship for many while

also driving national progress. The second examines a challenge that most investment professionals eventually confront: whether to abandon the status quo after it has outlived its usefulness or continue to extract value from clients for outdated services that no longer deliver any. This dilemma has recently become especially acute for investment consultants serving institutional plan trustees.

The final principle reveals how many "financial firefighters" often endure widespread contempt and ridicule despite considerable personal sacrifice. This phenomenon has persisted for more than 200 years and affected Hamilton, J Pierpont Morgan, Hetty Green, Paul Volcker, and Hank Paulson, among others.

Whether you choose to read *Investing in US Financial History* in full, I hope these excerpts provide value that far exceeds the time you invest in reading them.

1. The paradox of speculation

Principle: Speculative activities by investors in the United States cause both suffering and pros-

perity. This paradox of speculation is an important concept because we often focus inordinately on the pain, which tends to be more salient in the short term. In contrast, decades may pass before society reaps the benefits that speculative activities have helped create. This paradox has existed since the very first securities were traded on Wall Street, soon after the initial public offering (IPO) of the First Bank of the United States.

Excerpt: The emergence of Wall Street as the nation's financial capital was aided by the peculiar paradox of speculation. From its very inception, Wall Street was the preferred venue for US speculators. In the 1700s, they were called stock jobbers. In the 1800s, they were called stock plungers. In the early 1900s, they were called stock operators. And now they are a mix of analysts, hedge fund managers, and the latest gurus on CNBC.

America has always and likely will always have a love/hate relationship with Wall Street speculators. Their actions can create great wealth or great misery for those who follow their