

## Smart Money: Let's talk about bubbles

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*Brad Brain: "The problem with colossal speculation is the abundance of colossal disasters. Many of these speculations could be described as bubbles. They grow and grow and grow. Until they pop, and they are gone." | Getty Images*

I was talking with my friend Bruce about various financial things. One of the things that we talked about is how it seems that everyone has a story about knowing some guy that made a lot of money in cryptocurrency.

Which is interesting, given that cryptocurrencies have been plummeting for some time. Bitcoin, the most prominent cryptocurrency, has lost more than 50 per cent of its value. That actually makes Bitcoin one of the better performing cryptos, because it has lost less than others.

Many cryptos are down 90 plus per cent. This is the type of catastrophic loss that you just don't recover. Ever. That money is gone, and it is not coming back.

One of the more spectacular extinctions was a crypto called Luna. This is particularly interesting in that Luna was promoted as a "stable coin," with its value tied to the US dollar. But, just because somebody says it, doesn't make it true. Luna lost 99.9 per cent of its value in just over a week, erasing \$60 billion USD, and wiping out many true believers along the way.

The creator of Luna is a fellow named Do Kwan. When Bernie Madoff ripped off a bunch of people, he was sentenced to 150 years in jail. Want to know what happened after Do Kwan lit \$60 billion on fire? He immediately launched Luna 2.0. And then Luna 2.0 immediately went to zero as well.

My friend Bruce was saying that it seems like the crypto success stories seem to be a little like the "going to Las Vegas stories" and I agree with him. When you talk to people who have been gambling in Las Vegas it seems like there are lots of tales of winning enough money to at least break even on their trip. But, clearly, the palatial Vegas casinos aren't built on people breaking even.

The last two years have been ones of colossal speculations. Cryptocurrencies. Non-Fungible Tokens. Meme stocks. All examples of people applying a Las Vegas casino mentality to their investments.

The problem with colossal speculation is the abundance of colossal disasters. Many of these speculations could be described as bubbles. They grow and grow and grow. Until they pop , and they are gone.

Disastrous endings have not been limited to catastrophic market collapses though. There have also been billions of dollars lost in outright frauds and deceptions. Not all cryptos have been shown to be pyramid schemes, but some definitely have.

With a pyramid scheme the early investors can make great fortunes, but they do it at the expense of all the later investors who are left holding the bag. We can't take someone else's profit as proof that the scheme is repeatable. Or even legitimate.

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The interesting part about speculations and bubbles is that none of this is new. People have been making the same mistakes for hundreds of years.

In his book "[Extraordinary Popular Delusions and the Madness of Crowds](#)", [Charles Mackay](#) described "Tulipmania", in which the frenzied speculation on the price of tulip bulbs reached a point where someone was willing to trade 12 acres of land for a single tulip bulb. Some bulbs were trading at ten times the annual income of a skilled artisan.

Why were people willing to gamble so much money on tulip bulbs? Simple. They thought that they would be able to sell them to someone else for an even higher price. And that's how it went for a while. Until the bubble popped.

Here's the thing. [Extraordinary Popular Delusions and the Madness of Crowds](#) was published in 1841. And the Tulipmaniabubble that Mackay is describing happened in the 1600s.

So why have we learned nothing in 400 years?

It's because it is easy to recognize the foolishness of others, but far harder to acknowledge our own behaviour. People won't think it is a bubble if they are actively participating in it.

And yet here we are. Where everyone knows a guy that made some money in an age of cryptocurrencies, NFTs, and meme stocks.

And Luna 2.0.

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