Kindleberger, Charles P. & Aliber, Robert Z. – Manias, Panics and Crashes

Palgrave Macmillan, 2015 (7th ed), [Economics] Grade ★★★★

There are countless opinions about whether it's preferable to have a top-down or a bottom-up approach to investing. Typical value investors embrace the bottom-up approach where they mainly look at company fundamentals while others have a more open approach of considering factors as the business cycle and various macro factors. The top-down investor risks falling into the trap of predicting the unpredictable and the bottom-up approach got criticism after the financial crisis which hurt many value investors badly. Many have recovered well since then though. It is in my view useful for all investors to study financial history in order to learn from events of the past as it often repeats itself. In the words of George Santayana *"Those who don't remember the past are condemned to repeat it"*.

Charles P. Kindleberger's *Manias, Panics and Crashes* is an oft-cited book in the realm of financial history and used in MBA programs across the world. Kindleberger was an economic historian and author of over thirty books and he originally published *Manias, Panics and Crashes* in 1978. During his career, he held senior roles within the US Treasury, the Federal Reserve and Bank for International Settlements. He finished his career as Professor of International Economics at MIT where he worked for more than thirty years. Robert Z. Aliber, who has updated the last three editions of the book, is a professor emeritus of International Economics and Finance at the University of Chicago.

The first couple of chapters presents a background of historical financial manias and typical patterns of how a mania evolves and how it turns to a panic and eventually a crash. Fraudulent behavior that is a typical theme towards the end of a mania is described with the examples of Charles Ponzi and Bernie Madoff as well as with instances of corporate frauds including Enron. The author summarizes some of the worst financial panics from the tulip mania in the 17th century, through the Great Depression in 1929 to the latest financial crisis in 2008 among others. The last couple of chapters of the book are primarily written for policy makers, advising on how to understand financial calamities in order to decide on the right policy from a fiscal and monetary perspective.

To sum up the main thesis of the book there are some typical factors that usually leads to a forthcoming mania and crash. The two most important factors have been increases of cross-border investment inflows as well as credit. The increases have typically led to rising stock- and real estate prices which have led to further increases in cross-border investment inflows and credit and in turn further increases in asset prices in a positive feedback cycle supported by behavioral phenomena. To cite from the book: *"Asset bubbles - most asset bubbles - are a monetary phenomenon and result from the rapid growth of the supply of credit"*. The party has typically stopped when the creditors have got worried that debtors won't be able to pay back the loans and have in turn stopped issuing new loans. The debtors have relied on new loans to cover the interest payments and when the flow stops bankruptcies erupt.

As there are regularities in the financial crises the reading gets a bit monotonous at times. Also, I felt it was difficult to get a flow in the reading but that can probably be explained by it being a book written by academics for academics. It is not a must to read this book from cover to cover. The book is still a great source for investors who want to learn history in order to be able to be on alert for future occurrences. It's also a great start for those who want to dig into a specific event.

This is a book that is beneficial for both bottom-up and top-down investors. Just as individual companies, the stock market and currencies follow the investment market's pendulum swings of euphoria to depression and overpricing to underpricing to use some of the terms often used by the legendary value investor Howard Marks.

Niklas Sävås, April 11, 2018