By Bill Spitz, Principal

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Fever

"There are two times in a man's life when he should not speculate: when he can't afford it and when he can."
—Mark Twain

During the first year of the Covid pandemic, the price of Bitcoin rose from $5,150 to $61,250, a gain of 1,089%. Even more impressive, the price of GameStop stock increased almost thirty-fold during a one month period including a doubling in just ninety minutes on Feb. 24, 2021. With these and several other examples, a new generation of investors believe they have discovered a novel strategy-**speculation**. I define speculation as purchasing an asset based entirely on the expectation that another investor will in turn pay a higher price, and generally without any attempt to determine whether the price bears resemblance to some notion of intrinsic or fair value. Speculation also can take the form of a bet on declining prices through a short sale.

While the technology may have changed, there is nothing new about speculation; it has been around as long as there have been financial transactions. However, speculation has always been viewed by the Wall Street establishment as the black sheep of the family. Common complaints include the allegation that it is inherently risky, leads to more volatile markets including the potential for financial panics, periodically bankrupts financial firms, and draws in and often ruins unsuspecting small investors. Following a financial crisis, there are always widespread calls for regulators to crack down on speculation which is frequently deemed the culprit.

Due to speculation's poor reputation, biographers focus primarily on mainstream investors such as Warren Buffett, John Templeton, and Peter Lynch. Therefore, I thought it would be worthwhile to study and profile a handful of financial history's most interesting speculators. Some of them became fabulously wealthy while others ended up penniless. There is no judgment on my part here nor is there a moral to the story. Instead, this is simply a window on an exciting but often overlooked corner of the financial world.

LAND SPECULATION

"Land is the only thing in the world worth workin for, worth fightin for, worth dyin for, because it's the only thing that lasts."
—Gerald O'Hara, Gone With the Wind

Some of the earliest speculators in U.S. history were focused on amassing large tracts of land. Beginning with the purchase of 1,459 acres in Frederick County, Virginia in 1752, George Washington spent almost fifty years building his portfolio. He died in 1799 with an estate that included 52,194 acres in Virginia, Pennsylvania, Maryland, New York, Kentucky, and the Ohio Valley, as well as lots in several cities including the City of Washington.

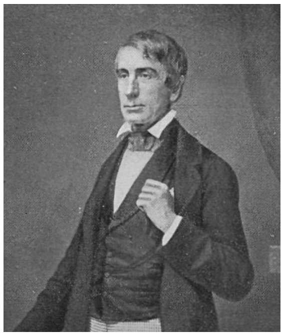

Robert Morris

Robert Morris was a contemporary of Washington and a signer of the Declaration of Independence, the Articles of Confederation, and the U.S. Constitution. Morris had a very distinguished career in government serving as Superintendent of Finance with responsibility for financing a large portion of the Revolutionary War. Later, he was one of Pennsylvania's two inaugural members of the U.S. Senate. Interestingly, he declined George Washington's offer to serve as the nation's first Secretary of the Treasury instead recommending his friend Alexander Hamilton. Having completed his stint in government, Morris began to speculate in land and two early successes spurred him to acquire large blocks that were funded primarily with debt. In 1795, he and two partners created the North American Land Company contributing 6 million acres of land spread across much of the eastern U.S. Unfortunately, the company immediately experienced a variety of problems. Cash flow was insufficient to pay the 6% dividend promised to shareholders, the firm defaulted on a number of mortgages, the titles to some of the 6 million acres were not clear, and several large parcels turned out to be barren and essentially worthless. Bankrupt and entangled in extensive litigation, his personal possessions were sold at auction in 1797 and he was held in debtor's prison from 1798 until 1801. In part to ensure that Morris was released, Congress passed the Bankruptcy Act of 1800 which decriminalized bankruptcy. Following his release, Morris lived simply and quietly until his death in 1806 leaving to his son his only remaining personal possession, a gold watch. While there are several memorials to Morris including a statue in Philadelphia and mention in the Washington, D.C. Memorial to the 56 Signers of the Declaration of Independence, his important role in the formation of the U.S. has largely been forgotten due to the ignominy of his financial failure.

John Jacob Astor

In contrast to the sad story of Robert Morris, John Jacob Astor was an accomplished businessman and successful land speculator. Astor was born in Germany and immigrated to the U.S. in 1783. Following a chance encounter with a fur trader, he began purchasing animal hides from native Americans and became the leading figure in the global fur trade by the late 1780's. He may have also participated in opium smuggling. Flush with profits from his many ventures, he began buying land in New York City in 1799 including several parcels purchased from Aaron Burr. Astor had the incredible insight that New York City was likely to expand northward from its initial toehold in Southern Manhattan motivating him to liquidate all of his other businesses to concentrate on his real estate empire. He rarely built on his properties instead leasing them to others for development. The exact extent of his landholdings is unknown, but one estimate is that he owned the ground under more than 700 buildings and houses at his death in 1848. Astor was the wealthiest person in the U.S. with a net worth ($20 million) roughly comparable to that of Jeff Bezos today when adjusted for the size of GDP. He bequeathed $400,000 to build what in now the New York Public Library. The name Waldorf (as in Waldorf Astoria Hotel) comes from his family's ancestral hometown in Germany. Among many locations bearing the family name are Astor Place in Manhattan, Astoria, Queens, Astoria, Oregon, and Astor, Wisconsin.

Many of today's top private land owners are probably better described as land gatherers rather than speculators. Holding 2.2 million acres, media tycoon John Malone is the largest owner with farmland, ranches, and timberland spread across Florida, New Mexico, Maryland, Maine, New Hampshire, Colorado, and Wyoming. Next is the Emmerson family with 2.1 million acres of timberland. The family company, Sierra Pacific Industries, is the largest private lumber production firm in the U.S. owning 14 sawmills. Another media magnate, Ted Turner, owns 2 million acres, primarily ranches focused on raising bison, hunting, fishing, and tourism. As a point of local interest, Nashville tobacco billionaire Brad Kelly is eighth on the list with 1.1 million acres of ranches located in Texas, Florida, and New Mexico. According to various media sources, he does sell on occasion and is said to be very skilled at timing purchases and sales suggesting that he may fall somewhat closer to the speculator designation than his contemporaries.



Jacob Little

JACOB LITTLE

Labeled the "Great Bear of Wall Street," Little is considered the first important speculator in the history of the U.S. stock market. He moved from his birthplace in Massachusetts to New York in 1817 at age 23 where he was able to secure a position as a clerk for a well-known merchant and financier. Using accumulated savings from that position, Little opened his own brokerage firm in 1834 at a time when the market was dominated by stock price manipulators. His strategies and temperament were a perfect fit for that environment. Consistent with his reputation as a "bear," he generally sold stocks short in anticipation of declining prices. However, he also took the opposite tack of cornering stocks in order to drive up prices thereby squeezing and often ruining other short sellers. Little apparently had an incredible work ethic spending twelve hours per day focused on stock trading followed by up to six hours of currency speculation at night.

Little was very unpopular with other traders and was blackballed from membership in the New York Stock Exchange several times before ultimately gaining admittance. He was known to be ruthless which would seem to conflict with the fact that he was a devout Episcopalian. Eventually, Little experienced serious financial losses as the victim of short squeezes engineered by other traders, and he was caught with long stock positions purchased on margin in the Panic of 1857. During his flush years, Little never put aside any of his winnings for a rainy day resulting in at least three personal bankruptcies when the markets periodically turned against him. His ultimate collapse during the Panic of 1857 left him penniless, and he died in 1865, a broken man. One interesting postscript is that Little frequently lent money to other traders when they fell on hard times, but he was generally reluctant to press them for repayment. At his death, he was apparently owed more than $1 million, only $150,000 of which was ever collected by his heirs.

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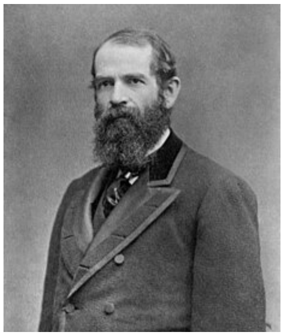


Jason "Jay" Gould

JASON "JAY" GOULD (1836-1892)

Jay Gould had two claims to fame, or perhaps notoriety. First, he was a very successful stock speculator. (A more accurate description may be stock manipulator) Second, he was one of the famous and often reviled Robber Barons along with Cornelius Vanderbilt, Andrew Carnegie, JP Morgan, and John D. Rockefeller. Vanderbilt called Gould "the smartest man in America" and John D. Rockefeller immediately responded "Jay Gould" when asked who he thought had the best head for business in the country. I cannot do justice to Gould's life and financial shenanigans in a short paper, so those who find him interesting may want to read **American Rascal-How Jay Gould Built Wall Street's Biggest Fortune** by Greg Steinmetz.

With several partners, Gould created a successful leather tanning business in upstate New York in 1856, but his life-changing moment actually occurred during a trip in 1860 to what was called the Swamp on the lower east side of Manhattan. This was the primary marketplace for trading hides and Gould quickly realized that buying and selling hides was a great deal more profitable and certainly less work and cleaner than tanning them. Moreover, by acting as a leather broker, he would not have to invest his own capital. Always ambitious and determined, he learned bookkeeping, began to closely monitor volatile leather prices, got in the habit of engaging in deep and careful research, and began trading hides using the classic strategy of buying low and selling high. Moving to New York City, he then embarked on a career as a stockbroker, speculator, and what we today would call a corporate raider. He traded primarily in railroad stocks to either earn short term profits or in many cases gain control. Among his conquests were the Erie Railroad which he won in a battle with Cornelius Vanderbilt, and later, the Union Pacific, Wabash, Texas and Pacific, and Missouri Pacific. By 1882, he had amassed 15% of the country's trackage. Gould also controlled New York City's elevated railway system as well as Western Union.

His most notorious adventure was an attempt to corner the gold market in 1869. The U.S. Treasury regularly sold gold to fund repayment of the massive debt that had been issued to finance the Civil War. Because these sales kept the price of gold artificially low, Gould realized there would be a great profit opportunity should the government suspend them. Along with several co-conspirators (the group was known as the Gold Ring), he began buying gold in early September and then used personal connections to befriend President Ulysses S. Grant, ultimately convincing him to halt the sales. Along the way, Gould went so far as to offer bribes to Mrs. Grant, the President's personal secretary, and even the President himself. (None were accepted) His gold purchases drew in other speculators resulting in an increase in the price from $132 to $160 in just a few short weeks. By September 22nd, Gould and his cronies owned gold valued at between $50 and $60 million, three times the available public supply in New York. Once he deduced Gould's strategy, an angry President Grant decided to break the Gold Ring by ordering the Treasury to recommence gold sales on September 24th. Gould was tipped off and began to quietly unload his position while his cronies made small purchases to disguise his larger sales and reduce their impact on the market. September 24, 1869 came to be known as Black Friday as sales by Gould and the Treasury caused the price to plummet from $160 to $138. In total, $500 million worth of gold traded that day which meant that the entire stock of gold in the U.S. changed hands several times over.

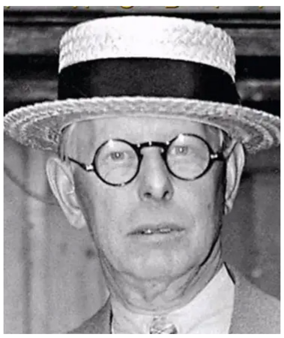
As a result of Black Friday, Joseph Pulitzer called Gould "the **most sinister figure** *to have ever flitted bat-like across the vision of the American people."*

In the aftermath of the gold crash, many speculators were ruined, dozens of brokerage firms failed, stock prices dropped 20%, and commodity prices fell by as much as 45% severely injuring farmers. Large crowds massed in front of Gould's office building calling for his lynching and there followed a Congressional investigation as well as hundreds of court cases. Gould managed to avoid both financial liability and conviction. In fact, he actually eked out a small profit on the entire scheme. As a result of Black Friday, Joseph Pulitzer called Gould "the most sinister figure to have ever flitted bat-like across the vision of the American people."

More interesting than his schemes themselves were the hardball tactics Gould employed. Among many others, he:

- Bribed legislators and judges.
- Leaked false information to drive down the price of target stocks. Once the price declined sufficiently, Gould would then purchase shares in order to gain control of the company.
- Hired thugs to disrupt annual meetings in which he feared losing control of one of his companies.
- Conspired with other railroads to fix freight rates.
- Acquired newspapers to shift public opinion in his favor.
- Hired men to cut Western Union telegraph wires to benefit his own company, American Union. Gould ultimately took control of Western Union.

Despite his chicanery, Gould was a devoted and loyal family man and a member of the West Presbyterian Church in New York. He died of tuberculosis in 1892 at age 56 leaving all of his assets, which totaled $72 million, to his family. That sum would equate to as much as $22 billion in today's dollars depending on the conversion method used. While Gould made a number of quiet charitable donations over the years, his premature death prevented him from making a grand philanthropic gesture as did Vanderbilt, Carnegie, and Rockefeller. However, his major legacy is that his schemes and machinations convinced the public of the need for added regulation to ensure fair and orderly financial markets.



Jesse Livermore

JESSE LIVERMORE (1877-1940)

Jesse Livermore (known to his friends as JL) was the father of day trading whose methods and trading rules are still carefully scrutinized by would-be speculators. Late in his life, JL actually detailed his approach in his book **How to Trade Stocks** which was published in 1940. Also, he is the main character in a fictionalized account of his life titled **Reminiscences of a Stock Operator** which was published in 1923. Reminiscences is considered an investment classic that has been reissued many times including a 2006 version. While I provide some information on his investment techniques, the more interesting topic is JL's colorful, and ultimately, tragic life.

Livermore ran away from the family farm in Acton, Massachusetts at age 14 and managed to get to Boston where he secured a job at a Paine Webber office as a "board boy" which involved posting stock quotes on a large chalk board. Livermore had a photographic memory and an affinity for numbers. Each night, he would write in a ledger from memory the prices of every trade in a number of stocks. Soon, he began to detect patterns in stock prices and then developed trading rules which he only applied on paper because he did not have sufficient funds to actually enter real orders. His first actual trades were with what were known as "bucket shops" which were sketchy brokerage operations that allowed an individual to purchase or short a stock with only 10% margin. These shops did not actually purchase or sell any securities, but simply entered customer trades on their own books. He was so successful in his trades that he was soon barred from all of the Boston bucket shops. He moved to New York and then to St. Louis in order to trade with bucket shops where he was not known; in both cases he was eventually blackballed. Finally, JL returned to New York where he established his own legitimate trading operation with the help of his friend Ed Hutton. (E.F. Hutton)

Livermore was not interested in what investors call fundamentals which includes information regarding a company's management, products, competition, financials, and so on. Instead, he believed that everything he needed to know could be found in the progression of stock prices, in other words, the ticker tape. A few of his trading principles were:

- Stick with the trend. He was generally long in a rising market and short in a downtrend. He said, "the stock market is never wrong. Traders are wrong."
- Trade in a small number of leading stocks.
- Take a small position until your theory is confirmed and then add to it in increments.
- Cut your losses quickly; never lose more than 10% on a position.
- Look for pivotal points that signal a major change in the direction of the market.
- Focus on facts and not emotions. He said, "you either control your emotions or they control you."
- Periodically, close out all of your positions and take a vacation in order to clear your mind.
- Take a percentage of your earnings and put it in a safe place in order to be able to take advantage of market opportunities. (He frequently violated this rule to great personal detriment!)

He had many more technical rules that I will not cover because they are likely of interest only to active traders.

Livermore's financial history is an incredible series of **triumphs and disasters**.

Livermore's financial history is an incredible series of triumphs and disasters. In 1901, he took a position in Northern Pacific Railway turning a $10,000 investment into $500,000. JL went short Union Pacific Railroad the day before the 1906 San Francisco earthquake leading to a $250,000 profit, and he made $1 million in a single day in the Panic of 1907. During that panic, J.P. Morgan asked him to refrain from further short sales in order to help stabilize the market. JL agreed and went long for the rebound boosting his net worth to $3 million. He was on the wrong side of a large position in cotton in 1908 leading to personal bankruptcy although he recovered fairly quickly only to go bankrupt again in 1915. In 1919, Livermore cornered the market for cotton futures and was summoned to

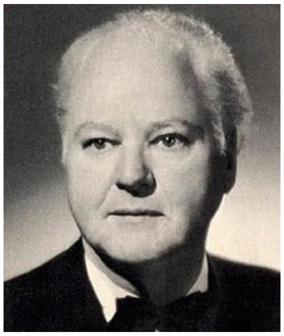
While the details are unknown because he was extremely secretive, **Livermore lost his fortune** *over the next five years resulting in another bankruptcy filing in 1934.*

meet with President Woodrow Wilson who asked him why he had done it. JL replied, "To see if I could, Mr. President." At the President's request, he quietly unwound his position. JL made $10 million in 1924 trading in wheat and corn in a battle with another speculator and then engineered a successful short squeeze on the stock of Piggly Wiggly. His greatest coup occurred in 1929 when he used more than 100 different brokers to quietly establish massive short positions. When the Great Crash occurred in October, he netted more than $100 million. Unfortunately, his short position was the subject of a number of newspaper articles resulting in his being unfairly blamed for the crash. He even received death threats and was forced to hire a bodyguard. While the details are unknown because he was extremely secretive, Livermore lost his fortune over the next five years resulting in another bankruptcy filing in 1934.

As previously stated, JL led an incredibly colorful life. He was married three times and also had a large number of affairs with dancers who were introduced to him by his friend Flo Ziegfeld. During his flush days, he purchased a personal railcar, a 300 foot yacht, a large estate on Long Island, apartments in New York and Palm Beach, and jewelry valued at millions of dollars for each of his three wives. JL and his wives were very social regularly hobnobbing with Charlie Chaplin, Alfred P. Sloan, the CEO of General Motors, Walter Chrysler, the founder of the auto company bearing his name, and a variety of other luminaries.

Unfortunately, Livermore was prone to depression and his second wife had an alcohol problem ultimately leading to a well-publicized scandal when she shot their son Jesse, Jr. While he survived, the remainder of Jesse, Jr.'s life was also characterized by alcohol abuse and he committed suicide at age 56.

In the late 1930's, Livermore seemed to lose his trading edge resulting in a personal crisis given that his entire life and self-image had been built around the challenge of making money in the stock market. On Thanksgiving Day 1940, he shot and killed himself in the cloak room of the Sherry Netherland Hotel in New York. When his estate was settled, the New York Times reported assets of $10,000 and liabilities of $361,010. As was the case with Jay Gould, I have only scratched the surface of a fascinating life. A much more detailed account can be found in **Jesse Livermore- World's Greatest Stock Trader** by Richard Smitten.



H.L. Hunt, Jr.

SILVER THURSDAY

Nelson Bunker Hunt, William Herbert Hunt, and Lamar Hunt were three of the fifteen children of Texas oilman H.L. Hunt, Jr. Larger than life in many ways, the Hunts are rumored to have been the model for the fictional Ewing family on which the television show Dallas was based. The Hunts were extremely conservative politically and distrustful of government blaming the high inflation of the 1970's on wasteful spending. Concerned about the viability of fiat currencies, the Hunts became large players in the commodity markets purchasing 35 million ounces of silver in 1973, most of which they shipped to Switzerland in especially designed airplanes. In 1977, the brothers entered the soybean futures market buying one-third of the entire harvest of the U.S. The Commodity Futures Trading Commission was concerned that the brothers were attempting to corner the soybean market leading it to levy a modest fine and order that the Hunts liquidate their positions. While it is not known whether they recorded gains or losses, the Hunts were angry at what they perceived as heavy handed government tactics.

Despite their run in with regulators, the Hunts reentered the silver market in 1979 eventually accumulating 280 million ounces. To place that number in perspective, it represented 77% of the world's non-government supply. Not surprisingly, the Hunt purchases pushed the price from $6 per ounce in early 1979 to $50.42 in January of 1980 valuing the family stake at $14 billion. Companies like Eastman Kodak, which was heavily dependent on silver for film and related products, saw a major profit squeeze and Tiffany took out a full page ad in the New York Times slamming the "unconscionable" Hunt brothers. Those of a certain age will remember that the inflated silver price led to a rash of burglaries in the U.S. as well as decisions by many to melt down family heirlooms. Under extreme pressure, the regulators stepped in limiting the issuance of any new silver contracts and forcing the liquidation of existing positions. Predictably, the price began to slide and the highly leveraged Hunts received a margin call which they were unable to meet forcing their lenders to liquidate silver collateral. On March 27, 1980, Silver Thursday, the price fell 32% to $10.80, down 78% from its January peak. Concerned that the entire financial system might collapse, a group of banks made a $1 billion dollar loan to the Hunts in order to engineer an orderly liquidation.

Following Silver Thursday, the Hunts were forced to testify in front of Congressional Committees and were the subject of multiple lawsuits as well as a large tax bill from the IRS. They declared bankruptcy in 1988. At the Congressional hearings, they were quite defiant stating that they had never intended to corner the market and were instead simply investors who were concerned about inflation. Lamar died in 2006 and Nelson in 2014, both still well off by most standards but in greatly diminished circumstances as compared to their heyday. William Herbert went on to make billions from oil extraction in Montana, and at age 94, ranks 716th on the Forbes list of wealthy Americans.

PERSPECTIVE

During the forty plus years since Silver Thursday, there have been many successful speculators and a much larger number of failures who are largely anonymous. Among the successful group are George Soros, Richard Dennis, Jim Rogers, John Paulson, Paul Tudor Jones, and Steve Cohen. Some of them might well dispute the speculator label. In any case, why not profile them? Why end with the Hunts? Many of the recent group have been the subject of extensive media coverage so I am not sure that I could shed fresh light on their careers. In contrast, most of the people discussed herein are likely less familiar. More important, despite their wealth and fame, the lives of the current group are fairly conventional whereas those I chronicled were truly extraordinary. They lived on the edge if not outside the law, were often ruthless, were both admired and despised, were both wealthy and destitute, and experienced a number of tragedies. So, this paper is ostensibly a financial piece, but it is in reality a collection of human interest stories with an investment twist.

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