

THE CYCLES OF SPECULATION

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The cycles of speculation by Thomas Gibson

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THOMAS GIBSON

**THE CYCLES OF
SPECULATION**

The Cycles of Speculation

BY
Thomas Gibson



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The successful speculator requires four things :

- 1—A knowledge of values.
- 2—A knowledge of general conditions.
- 3—A knowledge of the machinery of speculation—and
- 4—Something besides.

I

Introduction

The first step in the education of the speculator should be to clear away the illusions which have grown rank through ignorance, and flourished through prejudice. We have heard, and continue to hear, a great deal of ethical talk on this subject, most of which emanates from people who are not authorities, and who have little real conception of the subject. It would be pretty safe to assume that a majority of these same instructors speculate themselves. They place an arbitrary construction on the word however, and draw a dividing line between stock or cereal operations, and other forms of speculation, although the basic principle is the same in all cases, i.e.: to buy what is cheap and re-sell at a profit. One of the most ridiculous forms which this pedantry assumes is the warning and preaching against speculation by very rich men who made their own money speculating and could not possibly have acquired it in any other way. Such ex-

pressions of opinion are born largely of an exaggerated ego.

The trouble with these critics and advisers is that they seldom approach the subject in the right way. With a full knowledge of the fact that speculation is an inherent part of human nature, and that a majority of human beings are bound to indulge in it in spite of everything, these sophists simply rail against the practice indiscriminately instead of attempting to point out what is foolish and fallacious. If we attack the practice in a general way little will be accomplished. If we say, "do not speculate," our audience will perchance give us a respectful hearing,—and go on speculating. If, however, we point out what is dangerous and unreasonable, confine ourselves to attacking the evils and explaining the delusions, some good may be done in an educational way. We may, if we show by simple logic that the education and qualifications necessary to success are too difficult to acquire, actually deter many people from speculating in certain lines at all, a thing which could not possibly be accomplished by mere blanket warnings against the practice. One of the most serious blunders in the world is the common one of under-estimating other people's intelligence. People are ready and willing to

learn, and that they do learn is shown by the decreasing crop of lambs. It is not nearly so easy for the dishonest promoters and manipulators to market poor securities at high prices today as it was a few years ago. And in this regard it may be pointed out that the press has actually, although in many instances unconsciously, accomplished a great deal on exactly the lines suggested above. Magazines and newspapers have, in recent years, taken on an educational character. Periodicals once devoted to fiction or history now deal largely with business and social economics, and with the exposure of bad methods in high places, the ruthless uncovering of false or misleading statistics, and the simplification of questions hitherto involved; the public has been gaining rapidly in education and understanding. The fact that much space in leading periodicals is devoted to these subjects, is in itself prima facie evidence that the people can and will learn, for with all due credit to the editors and publishers, it is certain that the contents of magazines and newspapers are selected in accordance with what the public demands and likes.

No one will attempt to deny that a majority of public speculators lose. In a former volume, the present writer undertook to establish by

analysis of a large number of public accounts, the fact that 80% of the participators lost money. A number of critics commented on this statement as a body blow to speculation, asserting that the writer had shown that there was "80% against the player." These writers proceeded to compare this percentage with that existing in games of pure chance, such as roulette, faro, etc., and wound up by pointing out the tremendous drawback to the speculator through percentage against the player. It seems incredible that any sane man should fall into such laughable confusion of ideas. The percentage of players who lose in any game has nothing to do with the percentage against the player. If these critics established anything at all, it was that speculation was not gambling; for it requires only a moment's reflection to see that in any mechanical gambling game where there is any percentage, no matter how small, in favor of the game, the percentage of players who eventually lose must be 100. This being the case, the gentlemen mentioned were at considerable pains to prove that, as 100 per cent. of the players did not lose, speculation was not a gambling game in the strict sense of the word. That is to say, it could not be correctly compared with any mechanical device where the element of skill was absent.