



*“The tulip-bulb craze was one of the most spectacular get-rich-quick binges in history. Its excesses become even more vivid when one realizes that it happened in staid old Holland in the early seventeenth century...Slowly, tulipmania set in. The more expensive the bulbs became, the more people viewed them as smart investments. Nobles, citizens, farmers, mechanics, seamen, footmen, maidservants, even chimney sweeps dabbled in tulips. People who said prices could not possibly go higher watched with chagrin as their friends and relatives made enormous profits. The temptation to join them was hard to resist, and few Dutchmen did...*

*...Government ministers stated officially that there was no reason for tulip bulbs to fall in price – but no one listened. Dealers went bankrupt and refused to honor their commitments to buy tulip bulbs. A government plan to settle all contracts at 10 percent of their face value was frustrated when bulbs fell even below this mark. And prices continued to decline. Down and down they went until most bulbs became almost worthless - selling for no more than the price of a common onion.” ~ Burton Malkiel, A Random Walk Down Wall Street*

In the second quarter, not much happened... aside from “Liberation Day” triggering global trade tensions, a market correction, diverging interest rate policies between the European Central Bank and the U.S. Federal Reserve, five-year-low inflation, heated debate over the “Big Beautiful Bill,” and the bombing of Iran’s nuclear facilities—oh my! Yet despite these breathless, whiplash-inducing events, markets ended the quarter at all-time highs. Through it all, we’ve stayed focused on understanding the economic fundamentals of the companies we own and their fair market value, attempting to tune out the daily noise.

As summer begins, we’re taking a brief detour from our usual (and occasionally wonky) themes to focus on the human behavior that drives markets. We’ll return to our regular topics in the Fall. In the meantime, we’re revisiting a timeless classic on financial psychology: *Extraordinary Popular Delusions and the Madness of Crowds* by Charles Mackay. First published in 1841, Mackay’s book explores episodes of mass irrationality - from Tulip Mania in 17th-century Holland to the South Sea Bubble and even the Crusades and witch hunts. Though centuries old, the forces he describes of fear, greed, and herd behavior still shape markets today.

### **Lessons from History - A Timeless Guide to Avoiding Financial Pitfalls**

#### **1. Crowd Behavior Can Defy Logic**

Mackay documents several infamous manias, including the Dutch Tulip Bulb Craze of the 1600s and the South Sea Bubble of the early 1700s. In each case, people invested not based on fundamentals, but because “everyone else was doing it.” These episodes remind us that the most dangerous investment decisions are often made when prices are soaring and skepticism is scarce.

#### **2. Speculation is Timeless—So is Discipline**

It’s easy to believe that today’s market trends - be they cryptocurrencies, meme stocks, or AI-driven tech - are unprecedented. But Mackay’s work reminds us that speculative frenzies have always existed in some form. What sets successful investors apart is their ability to stay grounded in discipline and long-term thinking.

#### **3. Rational Thinking is Often the Exception, Not the Rule**

Human beings are social creatures, and we find comfort in consensus. However, Mackay emphasizes that the crowd is not always right. In fact, periods of mass enthusiasm are often when risk is highest. As your advisors, part of our job is to serve as a steady hand, especially when popular sentiment clouds objective analysis.

#### **4. The Importance of Historical Perspective**

Mackay’s stories seem like relics from a distant past, but they serve as valuable mirrors for modern market behavior. The names change, but the patterns of human behavior often remain. Understanding historical parallels can help us remain cautious during euphoric times and confident during periods of volatility.

## Staying the Course with a Clear Mind

At its core, *Extraordinary Popular Delusions and the Madness of Crowds* is a cautionary tale. It reminds us that while innovation and optimism drive market progress, unchecked speculation and herd behavior often lead to harmful outcomes. Our investment approach is designed to avoid these extremes by maintaining a disciplined, long-term focus.

In times of market exuberance - or panic - it's important to remember that lasting wealth isn't built by chasing trends. It comes from adhering to a thoughtful, evidence-based strategy aligned with your goals, time horizon, and risk tolerance. Mackay's work humbles us with the reminder that even the smartest investors can fall victim to emotional decisions. But with historical perspective, a sound plan, and objective guidance, we can avoid many common missteps. The parallels to our current era are striking: a recent panic, followed by speculative enthusiasm, and now a return to fundamentals. In such times, one question cuts through the noise, a question that might have helped in Holland in 1593 or during the dotcom boom of 2000: **what is the intrinsic value of the assets we own?**

Are we investing in something with no real economic value - like tulip bulbs prized only for their appearance - or in businesses with solid fundamentals and the capacity to deliver long-term shareholder value? Tulip bulbs produced no cash flow and lacked intrinsic value. In contrast, the companies in which we invest typically generate strong free cash flow, require minimal outside funding, and are built to endure.

Financial bubbles are a recurring feature of markets and often end with painful consequences. The upside is that, over time, valuations tend to reconnect with intrinsic value - value rooted in cash generation. In navigating today's markets, we believe staying anchored in fundamentals is key. Prices may swing in the short term, but long-term returns are ultimately driven by intrinsic value.

## Welcome Tony Clark!

Effective July 1, we're excited to welcome Tony Clark as the newest member of *Team Westbourne*. Tony brings more than 15 years of connection with Scot and a distinguished career in investment management. He is the Founder and Managing Member of Innovation Capital Management, LLC, and currently serves as a Director and Audit Committee member for both The Japan Equity Fund (JEQ) and The Taiwan Fund (TWN).

Tony's previous leadership roles include serving as Chief Investment Officer of the Pennsylvania State Employees' Retirement System, Deputy Chief Investment Officer at the Pension Benefit Guaranty Corporation, and Director of Global Equities at the Howard Hughes Medical Institute. Academically, Tony holds an MBA from the Wharton School at the University of Pennsylvania, along with BS and ME degrees in Systems Engineering from the University of Virginia. He also holds the Chartered Financial Analyst (CFA) designation. We are thrilled to have him on board.

Stay Grounded, Stay Sane,

Scot Labin, CFA - Chief Investment Officer  
Joseph C. Wilkinson - Managing Director  
David Cunningham - Founder

Jon Levin, CPA - IAR  
Bruce Kromminga - Director of Operations  
Tony Clark, CFA - IAR