



The Lessons of History

From 2000 BC until the end of WWII the Aegean Sea witnessed the rise and fall of many civilizations and the rise and fall of hundreds of 'city-states.' First there was the Minoan civilization, then the Mycenaean, and the several rise and fall cycles of Athens that included two major wars with the Persians. There was the rise and fall of Troy, the Delian League, the Athenian league, the rise and fall and rise and fall of Sparta. Then there was the rise and fall of Macedonia that pivoted around the life-span of Alexander the Great. Then there was the rise and fall of the Roman Empire, and then the Byzantium Empire, and then the rise and fall of the Ottoman empire. For the Aegean the period since the end of WWII has seen the longest period of relative peace in recorded history.

Ruins

The ruins of these various civilizations lie on top of each other like a big pile of lumber with Minoan and Mycenaean ruins at the bottom and artifacts of Rome, Byzantium and Ottoman origin still quite visible. Not one of these civilizations were able to forecast their own demise. In their own time each one of these cultures thought itself 'modern' and enduring and permanent. That each pile of ruins was once a civilization that saw itself as permanent is further proof of the old proverb 'You cannot predict what you do not want to happen.' It is a triumph of hope over reason. And it is the subject of this little essay.

Troy

According to archeologists, the Troy of Homer is an account of the seventh time a city on that site had been built and then destroyed. And it was rebuilt and destroyed a couple more times after Achilles and Hector before being finally abandoned. From Homer, the war between Troy and the Greeks lasted for ten long years. After ten years of bloody siege warfare it is difficult for our age of comfort and convenience to imagine the elation the Trojans must have felt when they woke up one morning to find that the Greek army had sailed away - leaving only a small wooden horse.

Tro immediately began to celebrate. And of the entire city of Troy there were only two contrarian who argued that this horse was a trap. These two were Cassandra and Laocoon.

Cassandra

Cassandra was given the gift of foresight by the god Apollo. However Cassandra was also burdened with the curse that no one would believe her forecasts. This curse was invoked when she spurned Apollo's advances. We all remember the story of Cassandra from grade school. It is our contention that this account of Cassandra and the fall of Troy has special relevance to the present.

Forecasting

If the city of Troy had actually heeded Cassandra's warnings then her forecasts would have changed the course of events. They would have then ceased to be predictions. In the course of human affairs predictions are only accurate if they are widely ignored and dismissed. And this one little example goes right to the heart of myths. Myths are timeless gems of eternal wisdom that have been gift wrapped as stories of the interactions of gods and men. The story of Cassandra is a myth about the human predicament as it relates to the nature of time, cause, and effect.

Hope

After ten long years of a horrifyingly brutal war the Trojans could just not bring themselves to believe that the wooden horse was a trap. Their ability to recognize risk was blinded by a sudden resurgence of hope for the future, a hope that had been all but extinguished years earlier in the relentless bloodshed. The war was over at last. They had out-endured the Greeks. They suddenly had a future again. And no one was going to convince them otherwise.

Laocoon

Other than Cassandra the only voice warning of danger was a Trojan priest of Poseidon by the name of Laocoon. We may never have heard of Laocoon but we all know what he said. From a Greek epic poet Laocoon said of the Trojan horse "A deadly fraud this



is, devised by the Achaean chiefs." And according to Virgil in the 'Aeneid' Laocoon warned "Do not trust the horse, Trojans. Whatever it is, I fear the Greeks even bearing gifts." Hence the famous proverb that states 'Beware of Greeks bearing gifts.'

Laocoon then took his spear and threw it at the horse. Then two big snakes emerged from the sea and killed Laocoon and his two sons. According to Greek mythology these snakes were sent by Poseidon to punish Laocoon for having defiled a temple to Poseidon years earlier. This was a particularly effective time for Poseidon to punish Laocoon and the entire city of Troy for their insulting behavior. By sending in the snakes at that precise moment the Trojans were instantly led to conclude that it was very wrong to attack the wooden horse. Their ability to recognize risk had already been blinded by a hope for the future. And then they compounded that flaw with a deadly confusion of cause and effect. The Trojans first mistook a threat for a gift. When they then mistook a punishment for a reward their fate was sealed.

The direct result of these back to back mistakes was the fall of Troy later that same evening. If the Trojans had only listened to reason and thought more clearly they would have seen through the mirage of hope to the reality of the deadly risk. And then only a few Greek soldiers would have died that night - instead of most of the population of the city.

As is the case in all myths we take the gods to represent the deeper forces of human nature. What at first appears to be stories of the gods interfering in human affairs is actually an insight into the power of the deeper forces of human nature itself. Myths give insight into the dynamics that drive human nature. Troy did not fall because the Greeks were clever or because the gods were interfering in human event. Troy fell because of the nature of human nature.

Myths and Markets

The fall of Troy was the direct result of a very human triumph of hope over reason. The Greeks may have been near exhaustion but then so were the Trojans. The difference is that the Trojans were trapped. Where brute force from the combined Greek navy and armies had failed, a clever insight into human nature succeeded. By allowing their emotional needs to overshadow their logical reasoning the Trojans turned a stalemate into a defeat

And in an age when extreme brutality was par for the course, when tens of thousand had already died in battle, what was the big deal about someone being killed by a snake? The big deal was that the Trojans desperately needed to believe that the wooden horse was a victory trophy to be guarded and cherished, not an imminent danger to be destroyed. They needed the long nightmare to be over. And that needs blinded their vision. The Trojans saw what they needed to see, not what actually existed.

And this all brings us to the current state of the markets. The findings of the time tested tools of technical analysis are unequivocal. This rally in equities and commodities is a bear market correction. Much lower prices still ahead for equities, commodities, and real estate. There is still a very high risk of a major depression. The nightmare of deflation that began to unfold back in March 2000 has much further to run. And desperate attempts by the Fed to keep the economy inflated has only resulted in a series of popped speculative bubbles. After almost ten years of economic struggles and setbacks people want it to be over already. So everyone from Obama down to Fox news has reverted to cheer-leading and pep rallies. From here, investing as if good times are here again presents a once in a lifetime opportunity to fail as completely as Troy failed. Today's Cassandras are being ignored. Today's Laocoons are being dismissed. And the siege is far from over.



Ancient Tukhe

The Greek Goddess of good fortune, luck, prosperity, and chance was called "Tukhe" and she was often depicted holding a ball, a rudder, or the horn of plenty - the Amalthea. The message of the ball was that good fortune was unsteady and unreliable and easily could roll away in any direction at any time. The point of the Amalthea was that Tukhe could also be the source of inexhaustible riches. The point of the rudder requires a bit more explanation. Tukhe was the offspring of Okeanos and Tethys. Okeanos personifies the flow aspect of the Ocean and Tethys was a goddess of the sea and the ancient mother who oversaw the main rivers of the world. So note that both parents of Tukhe were associated with flow. Both Tukhe and her mother Tethys were often depicted holding a ship's rudder. Why a ship's rudder? Because Tukhe steered the affairs of the world. The flow was always there, but the direction of the flow of one's life was set by Tukhe.

Tukhe was known by the ancient Greeks as the source of both fortune and calamity, of success and disaster. She had no favorites and was willful and capricious. In fact the Romans depicted Tukhe (Fortuna) as veiled and blind to emphasize her capricious and fickle nature. She doled out both good luck and bad. And from this came Roman references to a "Wheel of Fortune" in order to further emphasize that ups and downs were inherent in and integral to the nature of finance.

Until quite recently the modern concept of fortune was something entirely different from the descriptions of Tukhe and Fortuna. The modern source of good fortune was steady, reliable, and entirely dependent on one's own hard work. There was nothing fickle about it. If you worked hard you got ahead. And the system of capitalism that made this possible was self-regulating, self stabilizing, and self correcting. However recent events suggest that good fortune is more like Tukhe than we have been led to believe.

Modern Minsky (1919 to 1965)

Minsky was an American economist. The foundation of his life's work was what he called the "Financial Instability Hypothesis." His research led him to conclude that capitalism was fundamentally flawed and prone to collapse. His basic theory was that debts accumulated over time, reached unmanageable levels, and then the debt bubble popped bringing down the entire financial system. He maintained that investment bubbles, speculative euphorias, and their ensuing collapse were not anomalies but inherent in the very nature of capitalism.

For Minsky stability was an illusion and instability was "an inherent and inescapable flaw of capitalism." For Minsky capitalism was actually self-destructive. Minsky laid out an economic theory of the 'wheel of fortune' described by the ancient Romans and personified by the ancient Greek goddess Tukhe. We may never know whether Minsky was aware of the description ancient Greeks ascribed to Tukhe. But clearly Minsky's theory of capitalism was very close indeed to the ancient insights into the fickle, unstable nature of fortune.

Relevance

Our point in all this is that Cassandra, Laocoon, Tukhe, and Fortuna are more relevant to our current financial predicament than Keynes, Greenspan, Paulson, and Bernanke. Or perhaps more precisely, the actions of Greenspan, Bernanke and the modern markets reveal that Cassandra and Tukhe are alive and well and embedded in the fabric of existence.

Ancient myths reveal the nature of human nature. The modern markets are the display of human nature. Perhaps the lessons that the ancients learned and encoded in their myths can help us today to understand the mess we have gotten ourselves into. And perhaps they can also help us find a way out. Hoping that things will get better is not a way out.