

# **Foreword to the First Edition**

**by Sir John Templeton**

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There has never been a better time to be alive than today and we should count our blessings for this good fortune. I remain optimistic as to how the future will unfold – but that does not mean that one should not be careful when making investments. The river of good fortune may be flowing in our direction but we must plot a careful course through the rapids that threaten to upturn our boat. We must remain patient, flexible in our outlook and always aware that eventually all securities and assets will be priced according to their future earnings.

The impact of expectations underpinned by emotion adds up to a trend on stock markets. Those who attest to the singular nature of our current bull market – or, for that matter, any bull market – really ought to know better. The lessons of history are very clear in this regard. All bull markets come to an end, typically when people are most optimistic about the future, and they are followed by bear markets which similarly reach their conclusion when sentiment is at its most negative.

As George Santayana said, those who do not remember the past are condemned to repeat it. In this important new book, Sandy Nairn, my friend and former colleague, looks at old technologies when they were new, in order to see how they were received at the time and how events unfolded as the technology was deployed. The aim is to try and set what is happening today in the context of previous technological breakthroughs. What is unique about this book is that he has extensively researched global archives to find out what the press actually said at the time and how share prices responded. Many new technologies changed the way we live. Whether it was the railroads which opened up the Great Plains of America and helped change an

emerging nation into the world's greatest economic power in 50 years by revolutionising the transportation of goods and people; whether it was the telephone which changed communication forever; or whether it was the computer that created whole new industries – they all shared common characteristics. It is these common characteristics which Sandy has tried to highlight and place in the context of the time.

Like myself, Sandy is an investor who believes that investing in the stock market is an activity that calls for great patience and fortitude. To make superior returns the investor has to be prepared to act against the consensus and invest when sentiment is extremely negative, or, as I prefer to call it, at the point of maximum pessimism. Likewise, he must be prepared to sell when the levels of optimism are excessive.

In recent times it has become apparent that many prices for stocks have been pulled along by the increasing optimism of the longest bull market in post-war history, to the extent that their market prices are far in excess of their intrinsic worth. Hopefully the reader will understand this better by reading through the examples in this book.

Three years ago, Sandy cast around for research on the duration and magnitude of global bull and bear markets. He was surprised to find that in spite of the huge volume of investment literature, such research was not readily available. Undaunted, Sandy set about constructing his own study. The results confirmed what many value investors already knew. First, it is better to be in the market than out – over the long-term, world stock markets rise. Secondly, although on average a bull market is four times greater than bear markets, there is no set pattern that allows simple prediction of when a bull market will end.

The genesis of the book lay in Sandy's desire to see what lessons could be learned from history – not just the statistics, but also the prevailing social attitudes. He has sifted through the archives in a bid to capture the atmosphere surrounding each new stock market boom. What were the common aspirations in early 19th-century England, or late 19th-century America? What investment opportunities generated enthusiasm?

Placing these historical market movements in context is important. It is helpful to remember that a market index is no more than the aggregate changes in prices of shares that comprise it. In order to come to an understanding of the intrinsic value of a security, the value investor's main areas of focus should be estimated future earnings and the environment in which these companies are operating.

Hence, this book – an examination of the technological change in the context of the time. Sandy focuses on a number of economic milestones – electric light, the railroad, oil, the automobile, the telephone, the radio, the semiconductor, all of which have changed our world. In itself, the text would be engrossing enough. Sandy examines the ingenuity of the entrepreneurs of bygone years – how they struggled to develop their products and markets.

However, a striking feature of each chapter is the fact that while the patterns have not been identical in each case they have been very similar. First, a new invention is greeted with scepticism from incumbent technology and potential new investors. That scepticism is gradually replaced with enthusiasm, as businessmen come to appreciate the sales potential of the new technology. Soon, new entrants are flocking to the market, and venture capital funding is made available. Companies are started; almost all do well (in terms of share price) in the market on a tidal wave of enthusiasm. So far, so good; but as the technology begins to mature, a sense of realism sets in. Inevitably, for some, cash runs out. Companies begin to fold, only the strong survive and naive investors lose money in the huge rationalisation. Pessimism begins to pervade the marketplace and stock prices fall across the board. Eventually, the market stabilises.

This same pattern occurred with the development of the railroads, electric light, oil, the telephone, the automobile, the radio, the semiconductor. After reading Sandy Nairn's excellent book, you may well recognise the familiar pattern unfolding once more in today's economy. This is not something to be frightened of. Technology may have changed the world – but it has not changed human nature. To survive and prosper now requires only the same fortitude and common sense as it did 200 years ago.

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