Tall Tulip Tales, and Some Totally Unrelated Stuff About Bitcoin

by Isaac Dimitrovsky, June 2018

A friend of mine recently told me about a movie that was set in Amsterdam during the Tulip Mania period. This was a fascinating episode in 17th Century Holland, when speculation ran amok on that most unlikely of subjects, the tulip bulb: *"In 1634, the rage among the Dutch to possess them was so great that the ordinary industry of the country was neglected, and the population, even to its lowest dregs, embarked in the tulip trade."* Single bulbs of desirable varieties such as *Semper Augustus* sold for thousands of florin (roughly equivalent to hundreds of thousands of today's dollars). The mania peaked in November of 1636, after which came a terrible crash: *"prices fell, and never rose again. Confidence was destroyed ... The cry of distress resounded everywhere, and each man accused his neighbor ... the commerce of the country suffered a severe shock, from which it was many years ere it recovered."* (Notes: quotations are from *Extraordinary Popular Delusions and the Madness of Crowds*, by Mackay, originally published in 1841 but still a pretty good read today. Unfortunately, Rotten Tomatoes gives the movie an extremely low 9% score, but maybe that's due to it being a Harvey Weinstein production).

Anyway, I was reminded of some of the great, almost poetic, stories I've read about that time and thought it might be worthwhile to collect them in one place for a new audience. And then make some totally unrelated observations about Bitcoin that might have a little actionable content. (Sources: The first two stories are from *The True Story of Flower Power*, by Rigby, in *Management Today*, June 1997; the next two are from Mackay).

The Legendary Black Tulip

One of the rarest and most sought-after tulips of the time was a pure-black one. It's told that one man, after long and back-breaking labor, finally succeeded in producing a single pure-black tulip. Ecstatic, he took the bulb to be sold and found an eager buyer who paid a small fortune for it. Immediately upon payment, the buyer took the bulb and smashed it under his boot! Of course, it turned out he had developed his own black tulip and didn't want the competition. The first man is said to have died of a broken heart. (Note: I may have imagined that part about the broken heart – I seem to recall reading it but can't find that version now).

Tulip Investing: Momentum vs. Value

While we may think of tulip mania participants as a single undifferentiated screaming mass, it turns out there were at least two schools of thought, corresponding to today's value investors and technical or momentum traders. The momentum group predicted prices just based on previous market action, while the value group looked down their noses at this nonsense, and instead attempted to rationally calculate an intrinsic value for the tulip based on its characteristics (coloring, symmetry, etc). *Plus ca change ...*

The Fateful Herring

A wealthy merchant received an important message delivered by a sailor, and rewarded him with a fine herring for breakfast. The sailor, spying a bulb very much like an onion on the merchant's counter, and no doubt thinking it out of place among the other valuables there, swiped it as an accompaniment for his herring. He went off happily to the quay to eat his meal. Shortly thereafter, the merchant noticed the sudden absence of his priceless *Semper Augustus* tulip bulb. After a frantic search, someone thought of the sailor. He was found innocently finishing the last morsels of the bulb, and spent the next several months in prison on a felony charge brought by the merchant.

The Bumbling Botanist

A variation on the last tale concerns a visiting Englishman and amateur botanist who noticed a tulip bulb lying in the garden of a wealthy Dutchman. Ignorant of its value, he commenced a thorough dissection of the bulb, making many learned remarks on its singular appearance. Suddenly the owner appeared and furiously asked him what he thought he was doing. "Peeling a most extraordinary onion," replied the scientist. *"Hundred tausend duyvel!"* said the Dutchman, "it's an *Admiral Van der Eyck!*" "Why, thank you!" replied the Englishman, "are these admirals common in your country?" "Come to court" said the Dutchman, seizing him by the collar, "and you'll find out," ... and the Englishman spent several months in prison until he could arrange to repay the damages.

While we may laugh at the insanity of that long-ago time, I could argue that at least all that tulip cultivation created a product of some tangible value – a delicious accompaniment to herring, or, if allowed to grow, an object of some appreciable beauty. By contrast, the only physical effect of, say, Bitcoin mining, appears to be some strain on the electric grid. And, as long as we're on the subject of Bitcoin, I'll take the liberty of making a few observations that hopefully will be more useful than the usual back-and-forth on the subject. In fact, I hope they can provide some actionable food for thought for at least some readers.

Some of the Bitcoin action is clearly nuts.

Regardless of your opinion on the long-range fate of Bitcoin, some of the Bitcoin-related stuff going on is obviously insane - for example, the long list of stocks that have doubled or tripled after changing their name to include some reference to Bitcoin or blockchain, despite having very limited prospects of actually profiting from any Bitcoin-related developments. Another disturbing development is what might be called the Rockefeller's shoeshine boy test, thanks to the tale of John D. Rockefeller realizing the stock market was overheating in 1929 when his shoeshine boy started giving him stock tips. When almost everyone around is talking about an investment, and many of them clearly don't understand much about it, that's a warning signal.

Actionable consequence: These nuttier areas may provide better trading opportunities than straight Bitcoin trades. For example, betting against a crappy company that soars on unfounded Bitcoin-related hype gives you two chances to be right – a general Bitcoin bust, or, even if Bitcoin appreciates in value, the market realization that said crappy company doesn't profit much as a result.

At some point a hard regulatory crackdown is likely.

I'm not talking about relatively trivial stuff that has already happened like banning Bitcoin purchases using credit cards, or banning Bitcoin mining in some locations. What I mean is a full-scale ban by one or more governments on Bitcoin ownership and/or payments using Bitcoin. My chain of reasoning is:

- One of Bitcoin's appealing characteristics is anonymity and lack of government monitoring.
- That being so, it's likely that Bitcoin will at some point be used by some bad guys to perpetrate some particularly sensational atrocity.
- When that happens, there will be a strong push for government crackdowns in response.

Bitcoin as catnip to hackers.

A less obvious consequence of the last point is the Heisenberg-like phenomenon that the declaration that something is resistant to surveillance can in itself affect that status, since it acts as an irresistible siren song to hackers of both the black hat and white hat variety (of course, these are often the same hackers in possession of two hats). So, expect a lot of work by hackers to attack Bitcoin transactions in various ways. If unsuccessful at breaking blockchain directly, these attacks are likely to work by compromising the systems involved in trading Bitcoin, either at the user or at the exchange level. This is similar to past hacker attacks on encryption – as users took comfort in the theoretical security of their encrypted communications, hackers had considerable success at eavesdropping by installing Trojans on end-user systems to bypass that encryption.

Actionable consequence: Be extremely careful about safeguarding your Bitcoin information if you hold Bitcoin directly - consider keeping all Bitcoin related information on a separate system running a secure OS that is only connected when necessary. Be wary of adding extra layers of vulnerability by holding Bitcoin through intermediaries – at the least, take a good look at those intermediaries.