Different this time?

What do 1989, 2000, 2007 and (maybe) 2021 have in common? They are all years of irrational exuberance that marked the top of the cycle followed by recession, sparked and exacerbated by wild speculation and high leverage.

The past two cyclical peaks – 2000 and 2007 – were followed by the dot.com bust in 2001, triggered by the terrorist attacks of 9/11, and the global financial crisis in 2008, prompted by the bankruptcy of Lehman Brothers. Global markets fell, on average, by about -50% on each occasion and did not bottom out until March 2003, after the invasion of Iraq, and March 2009, after the banks' stress tests. Recovery eventually came in both instances, but only after locking in huge losses.

How do you avoid these near-existential, but seemingly regular, crashes that cause huge losses? You need to remember two aphorisms about the markets to keep yourself out of financial harm's way: the laws of supply and demand, which began with the Romans, and the basic emotions of fear and greed, which began with Adam and Eve.

"A heavy dose of common sense is helpful; nothing goes up for ever and trees do not grow to the sky"

In other words, be ever vigilant and mindful of economic reality and human nature. A heavy dose of common sense is also helpful; nothing goes up for ever and trees do not grow to the sky.

Armed with this prescription, what to make of the current volatility in 2021, with several indicators flashing red, suggesting the clock is about to strike midnight and all will turn into pumpkins and mice? Let's take three examples: special-purpose acquisition companies (SPACs), cryptocurrencies, and high leverage.

There are currently 534 SPACs in the US, such is their popularity, but what are the chances of them all finding good businesses in which to reverse? Are there 534 quality operations in existence and in search of a shell company, or will the majority be left disappointed? According to the *Financial Times*, of the 41 SPACs that have completed transactions since the start of 2020, only three are even within 5% of their share price peaks, 18 of them have more than halved, and several are down by more than 80%. The average decline is 39%. Another name for a SPAC is "a blank cheque company" – would you ever hand over a blank cheque to somebody?

Second, cryptocurrencies. Bitcoin plunged after Elon Musk announced Tesla had suspended vehicle purchases using Bitcoin, citing environmental concerns over the so-called computational 'mining' process. Musk's comments wiped $300bn off the cryptocurrency market, with bitcoin hitting a low of $30,000 before bouncing back. The sharp drop reversed the gains made since Tesla's announcement of its purchase of $1.5bn in bitcoins, which drove the cryptocurrency to a record high of $65,000. Janet Yellen, the US secretary of the treasury, pronounced bitcoin as "highly speculative", while Jerome Powell, chair of the Federal Reserve, called cryptocurrencies "vehicles for speculation". Would you ever swap a bar of 24-carat gold for a bitcoin?

Third, Archegos Capital. Six global banks that acted as prime brokers to Archegos Capital allowed it to make highly leveraged bets, and when the firm defaulted on margin calls – instructions to add more collateral to its broker accounts – the banks offloaded its large stakes in nine companies at a big discount, resulting in some of the worst losses on Wall Street in more than a decade. Now, the $64,000 question is how much hidden leverage is there in the financial system? Would you bet 'it's different this time', the four most expensive words in financial history?

Sky-high SPAC valuations, frenzied trading of cryptocurrencies and highly leveraged market bets – what could possibly go wrong? To quote Dorothy from *The Wizard of Oz*: "I've a feeling we're not in Kansas any more. We must be over the rainbow."