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The Bubble That Broke Britain

The South Sea Bubble of 1720, and the Trade That Ruined Isaac Newton

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In 1720, Isaac Newton — the man who explained gravity and invented calculus — lost around £20,000 in the South Sea Bubble. He had sold early at a profit, then watched everyone around him get rich and bought back in near the top. Intelligence is no defence against FOMO.

Key Facts

Event	The South Sea Company speculative bubble and collapse
Location	London, United Kingdom — centred on Exchange Alley
Key Architects	Robert Harley (founder, 1711) and John Blunt (chief director of the 1720 scheme)
The Real Business	Trade with Spanish America was near-worthless (about one ship a year); the company's true business was converting government debt into its own shares
Political Fallout	The Chancellor of the Exchequer was imprisoned in the Tower, MPs expelled, and directors' estates seized
Legislative Legacy	The Bubble Act 1720 restricted joint-stock companies for 105 years, until repeal in 1825
Who Survived Well	Robert Walpole opposed the scheme, managed the aftermath, and became Britain's first Prime Minister

By the Numbers

Share price: £128 (Jan 1720) to over £1,000 at the August peak — an 800% rise in eight months

Collapse: back to ~£100 by December 1720 — an 85–90% fall in under four months

Isaac Newton: estimated loss of £20,000, roughly £2–4 million in today's money

National debt absorbed by the company: over £30 million

The Smartest Man in England Bought the Top

Isaac Newton sold his South Sea shares early for a profit of around £7,000. Then he watched everyone around him grow richer and bought back in near the peak, losing roughly £20,000. The famous line about calculating the heavens but not the madness of people is only attributed to him, but he proved its truth in person: intelligence is no defence against the fear of missing out.

> *“ A real opportunity, a compelling story, and cheap leverage. The three ingredients of every bubble, and the reason the cleverest people are not immune. ”*

How It Happened

The South Sea Company was founded in 1711 with a monopoly on British trade with Spanish South America. In practice Spain allowed roughly one ship a year, so the trade was almost worthless. The company's real business was financial: swapping government debt for its own shares.

In 1720 it persuaded Parliament to let it absorb over £30 million of the national debt. Rising share prices tempted more debt-holders to convert, which pushed prices higher, which attracted more buyers — a self-reinforcing loop backed by almost no earnings.

Directors lent buyers money against their own shares and spread rumours of fabulous riches. Dozens of copycat companies sprang up in Exchange Alley, some with absurd prospectuses, feeding a national frenzy.

The Collapse

The Bubble Act of June 1720, meant to suppress rivals, spooked the market. As the copycat schemes collapsed, confidence in the South Sea Company went with them.

The share-lending scheme then reversed: falling prices triggered margin calls, forced selling drove prices lower, and the machinery that inflated the bubble now deflated it. From over £1,000 in August, shares fell below £100 by December.

The fallout was political as well as financial. The Chancellor was imprisoned in the Tower, MPs were expelled, and directors' estates were confiscated to compensate victims.

Timeline

1711	South Sea Company founded by Robert Harley; national debt around £10 million
Apr 1720	Parliament lets the company absorb over £30 million of national debt
Jan 1720	Shares at £128
May 1720	£550
Jun 1720	£890; the Bubble Act is passed to suppress rivals
Aug 1720	Peak above £1,000; Newton re-enters near the top with ~£20,000
Late Aug 1720	£800 — margin calls begin as the share-lending scheme reverses
Mid-Sep 1720	£400
End Sep 1720	£150
Dec 1720	Below £100; ordinary investors receive nothing

Mind · Method · Money — What This Means for You

MIND · The Newton Problem — intelligence does not protect against FOMO
Newton had already made the right decision and walked away. He re-entered because watching others profit became unbearable, not because his analysis changed. The defence is a pre-committed, written rule that defines exactly when you will and will not enter — made when you are calm, followed when you are not.

METHOD · Story versus valuation
South Sea shares hit £1,000 on revenues that were essentially zero, because nobody asked about earnings per share. When your thesis exists only as narrative, you are speculating — which demands a defined entry, a defined exit, and a size you can afford to lose entirely.

MONEY · The leverage cascade
The company lent money to shareholders against their own shares so they could buy more. The moment prices stopped rising, falling prices destroyed the collateral, forcing sales that dropped prices further. The same structure appears in 1929, 2008 and 2022. Leverage amplifies both directions with equal force.

Modern Parallels

The pattern recurs whenever a real opportunity meets a story that outruns the numbers: dot-com stocks in 2000, crypto tokens, meme stocks. A genuine innovation, a price justified only by the next buyer, and leverage lent against the rising asset itself. When the story pauses, the machinery that inflated it runs in reverse.

Read & Listen

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Related Research

Previous episode: EP02 · The Mississippi Bubble (1720)

Next episode: EP04 · Railway Mania (1840s)

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Sources & Further Reading

John Carswell, The South Sea Bubble (1960; rev. 1993)

Charles Mackay, Extraordinary Popular Delusions and the Madness of Crowds (1841)

Charles P. Kindleberger, Manias, Panics, and Crashes: A History of Financial Crises

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