History is full of bubbles, booms and busts, corporate collapses and crises, which illuminate the present financial world.

At Stewart Investors we believe that an appreciation of financial history can make us more effective investors today.
The Gregor MacGregor Scam (1822/3) – a case of financial amnesia?

On 22 January 1823 the Kennersley Castle sailed from the Port of Leith in Scotland with 200 settlers bound for Central America. Two months later, when they reached their destination, the colonists were shocked to find virgin jungle rather than the mature settlement described by the scheme’s promoter. They were victims of a cruel fraud.

Given a Scottish company had already made a disastrous venture to the isthmus of America in the late 17th century, resulting in huge loss of life and money, why was a similar attempt made one hundred and twenty years later?

The backdrop to this fascinating story is the Latin American bubble of the 1820s. Investor confidence towards the region surged in London after a number of Latin American states gained independence from Spain. In March 1822, the Republic of Colombia issued a 20-year bond of £2 million with an interest rate of 6%, which was significantly oversubscribed and made substantial profits for investors. This was soon followed by bond issues by the governments of Chile and Peru, inflating a bond bubble, which spread to the shares of Latin American mining companies.

Highland rogue

Enter Gregor MacGregor (1786-1845), a Scottish soldier of fortune, veteran of the Napoleonic Wars, who had fought in the independence struggle in South America, rising to the rank of brigadier general in Simon Bolivar’s revolutionary army. MacGregor claimed descent from the famous Highland outlaw Rob Roy, recently immortalised in Sir Walter Scott’s historical novel (1817), perhaps a warning that investors should have heeded! Having helped Latin America gain independence, MacGregor returned to Britain to promote an audacious colonial scheme, which echoed William Paterson’s Darien Venture of the 1690s. MacGregor’s venture aimed to colonise an area of the Mosquito Coast called Poyais. Styling himself Cazique of Poyais, he and his wife, Princess Josefa of Poyais, a cousin of Bolivar, made an exotic pair in 1820s London and were regarded as celebrities.

Poyais, according to MacGregor, offered a marvellous investment opportunity. He claimed the area would benefit from burgeoning trade following the end of war with Spain, and might develop further if a canal could be built across the isthmus. The Darien Scheme had been promoted with exactly the same project in mind. Cash was raised from a number of sources. The Territory of Poyais issued 30-year bonds at an interest rate of 3%, taking advantage of the bull market in Latin American bonds to raise £200,000. In addition, plots of land were sold to settlers, 100 acres costing about £11. MacGregor targeted his fellow Scots as colonists, who included doctors, lawyers, farmers, artisans, as well as a banker and a young man employed to manage the National Theatre of the colony. Two ships sailed with colonists for Poyais. On 10 September 1822, the Honduras Packet departed from London with 70 settlers and on 22 January 1823 the Kennersley Castle left Leith with 200.


2 The bonds were issued below par with payments made in instalments which allowed speculators to make significant profits.
The power of marketing
The scheme was backed by impressive marketing, including promotional leaflets, newspaper articles, advertisements and ballads, as well as a 350-page guidebook which described Poyais as ‘one of the most healthy and beautiful spots in the world.’ The territory was pictured as being particularly fertile with considerable gold and silver reserves, already possessing the elegant capital of St Joseph with wide boulevards, colonnaded buildings, bank, cathedral and opera house.

The whole scheme was a complete fabrication; Poyais only existing in the imagination of Gregor MacGregor. The colonists even converted their gold into fictitious notes (Poyais dollars) which he provided. The duped settlers faced a bitter struggle for survival on the Mosquito Coast and many perished from hunger and disease, as they had done at Darien years before.

MacGregor hoped to earn a fortune from the bond issue in London, but political instability in Latin America caused a panic in the market, bursting the bubble in early 1823, before all the instalments on the Poyais bond had been paid by investors. It remains unclear how much money he actually made from the scam. By the summer, news had reached Edinburgh and London from Belize about the terrible condition of the settlers. Only about 50 would ever return to Britain; some settled in Belize and many died. But MacGregor showed little sympathy for their plight, decamping to Paris where he tried to issue another bond, again based on his Poyais scam. However, the law finally caught up with him in France. He was accused of fraud and imprisoned, but miraculously acquitted on all charges after eight months on remand, the only prison sentence he would ever serve. Unrepentant, he returned to London and attempted to float an even larger bond in 1827. But investor appetite for Latin America had waned and the issue was a flop.

MacGregor returned to Venezuela in 1839 to claim his officer’s pension and died in Caracas in 1845. He received a hero’s funeral and his name was inscribed on the Monument of the Liberators.

That MacGregor was able to make a series of fraudulent attempts to raise money is testament to the gullibility of humanity. Excessive optimism is very dangerous in financial markets. Every bubble has attracted fraudsters, from James Smith, who embezzled a large chunk of the Darien capital in the 1690s, to Bernie Madoff’s Ponzi scheme, which came to light during the global financial crisis in 2008. A combination of bounding optimism, lax regulation and poor appraisal of risk are key factors in every financial mania, providing opportunities for confidence tricksters, fraudsters and rogues.

3 David Sinclair, *Sir Gregor MacGregor and the Land that never was*, (London, 2003), 5.
Financial amnesia?
The Darien Disaster of the late 17th century involved the loss of a huge proportion of Scotland's wealth. Did any Scottish investor or settler in the Poyais scheme consider the previous experience as a warning of the risks? Or were they struck by financial amnesia in 1822? Surprisingly, Darien was referred to by MacGregor himself who claimed one of his relatives was involved in the original debacle. He argued that the establishment of a colony at Poyais would restore Scottish honour and avenge the disaster at Darien!

The MacGregor scam reminds us that investors repeat the mistakes of the past under bubble conditions; the Poyais debacle highlighting how optimism may swamp caution during financial manias. The argument that 'this time it's different' is a powerful one, heard during every bubble in history, and explained by the human desire for a quick buck. It is not surprising that the renowned investor Sir John Templeton has suggested these four words are the most dangerous in investing.

Bubbles, booms and busts will always be part of the financial world under a system of free markets. However, an awareness of financial history should help investors avoid their worst excesses, steer a course through the financial rapids and emerge with positive returns over the long-term.

At Stewart Investors we stress the importance of identifying extreme over-valuation in stock markets to preserve client wealth. We remain focused on the potential downside of any investment as much as the upside. The MacGregor debacle is a reminder of the dangers of extreme optimism during financial bubbles, and the importance of paying attention to the investment mistakes of the past.
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