

Newton's fourth Law of Motion: "...returns decrease as motion (trading) increases."

Genius is no safeguard against greed and unrealistic expectations, and the mesmerizing allure of can't-miss "stock picking" has claimed many an illustrious victim, as was pointed out again in this year's annual report from Warren Buffett's Berkshire Hathaway, Inc.

With the Enron debacle still playing out in a courtroom and the dot-com craze a not-so-distant bitter memory, Buffett's report harkened back three centuries to one of the greatest investment catastrophes of all time, the South Sea Bubble.

None other than Isaac Newton, propounder of the Three Laws of Motion, and the writer Jonathan Swift lost enormous fortunes in the British government's sweetheart deal with an overseas trading company. For more about this little-known story of "irrational exuberance," go to stock-market-crash.net/southsea.htm.

Newton wrote: "I can calculate the movements of heavenly bodies, but not the madness of men." Buffett added this cautionary coda: "If he had not been traumatized by this loss, Sir Isaac might have discovered the Fourth Law of Motion - for investors as a whole, returns decrease as motion (i.e., actively-managed trading) increases."

As for Swift, the financially ruinous experience inspired him to write a satire of British society: "Gulliver's Travels."

Perhaps literature is the better for Swift's loss, but investors can learn more from reading up on passively-managed index investing.