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What's the difference between speculating and investing?
By Curtis Seltzer

BLUE GRASS, VA.—The other day I was sitting by a lake in Speculator, New York, trying to decide whether or not I liked speculators.

I started this discussion with myself by swatting two deer flies that were prospecting on the back of my neck. They had risked everything for a reward—and lost. Aha, I said to myself. Speculators!

Speculating puts money at high risk for high reward. Speculators tend to play their hunches, which, in the best case, are what's left over from disastrous choices made earlier. They bet on future events breaking their way. They are the first to jump into new pools of dark waters, giving the rest of us information that determines whether we follow.

Speculators accept risk; investors try to contain it, strip it out of their deals, hedge it, shift it over to someone else or finagle around it.

The village of Speculator is a highway intersection on pretty Lake Pleasant in the Adirondack Park. Residents hold to different stories about the village's name, which used to be Newton's Corners. We in Blue Grass understand the need for a fresh start every so often. We used to be called Crabbottom.

Genuine land speculators are few, but history is crammed with land investors acquiring big tracts cheap, dividing them and selling at a profit. They often work back-room deals with governments to get in low or gain some special favor.

Many would argue that Isabella and Columbus were the New World's first land speculators. I'm not one of them. They were investors.

Columbus had been pitching a western sea route to China and "the Indies" for years. Most navigators agreed that the world was a globe, but Spain's Ferdinand and Isabella thought his estimates of distance to China were way short, which they were. No one knew that North and South America as well as the Pacific Ocean were hanging out in between.

Even after four voyages, Columbus insisted that the Caribbean people he called "Indians" were really Asians in lesser clothing, which, in a sense, was true. He was, of course, wrong in believing that Hispanola was basically a distant suburb of Shanghai.

Spain needed money in 1492, after waging a successful war to expel the

Moors. Isabella was willing to hock her jewels to convert Asians to Spanish Catholicism and start shipping silk, spices and opiates back to Europe through Spanish monopolies.

Pawning her hats would have been a speculator's bet. Ferdinand, who was the more risk-adverse of the two, did not offer to put up his jewels.

Isabella, the investor, agreed to have Columbus's first voyage be underwritten by Luis de Santangel, a baptized Jew and Spain's finance minister, who was willing to roll his maritime dice on three little ships and an unemployed sailor.

Columbus's second voyage -- 17 ships and almost 1,500 men -- was about claiming land. This time, Ferdinand and Isabella financed the trip by selling assets they had seized from some 200,000 Spanish Jews they had expelled the previous year during the Inquisition.

This was a classic example of investing with OPM, Other People's Money, and a whole lot safer than securitizing a loan with the family props

Sir Humphrey Gilbert and Sir Walter Raleigh in the 1580s organized the first English land investors in the New World, getting rights to millions of acres from Elizabeth I, the Virgin Queen, who probably wasn't. Virginia, named for her, should have been dubbed, Hardtoproveia.

Many of our Founding Fathers were masters of the insider deal that acquired huge tracts of public land for little money. Before 1776, they worked the British; after, they worked themselves.

They were called speculators, but men like Washington, Franklin, Robert and Gouverneur Morris, Richard Henry Lee, John Marshall, Patrick Henry and George Mason were investors who hedged risk and counted on division and growing demand to make them rich. Only Robert Morris, the financier of the American Revolution, fell into land speculation, which left him penniless.

Governments are always in the land business. The Louisiana Purchase, for example, added some or all of what became 14 states in 1803 when America snatched 828,000 square miles from Napoleon for $15 million.

America had stumbled upon a cash-pinched seller who needed funds to finance a war with Britain and suppress a slave rebellion in what is now Haiti.

While President Jefferson did no due diligence, had only a vague idea of what lay west of the Mississippi and knew that the boundaries were disputed, at 4 cents per acre he was investing, not speculating.

A legendary investment came out of Georgia in the 1790s. Four investor groups bribed the state’s legislators, with one exception, to sell them 35 million acres -- the Yazoo lands -- in what is now Alabama and Mississippi for $500,000, or about 1.5 cents per acre. Out-of-state interests -- names such as Albert Gallatin, Robert Morris, Patrick Henry, John Sevier and James Wilson, among others -- controlled the companies. Governor George Matthews signed the Yazoo Act in 1795.

The head briber was James Wilson, a sitting U.S. Supreme Court justice appointed by Washington in 1789, with $25,000 in his hands. His behavior gives new meaning to the term, judicial activism.

This sale was so outrageous -- good for investors; bad for Georgia citizens -- that Georgia’s Jeffersonian Senator, James Jackson, resigned his seat and got a new governor and clean legislature to repeal the Act.

The mess went to the U.S. Supreme Court as Fletcher v. Peck in 1809. Chief Justice John Marshall and Justice Samuel Chase should have recused themselves, but didn’t. Marshall had skin in this game, and Chase was in other deals that would benefit from scratching a Georgia law that repealed a crooked sale.

The Marshall Court overturned a state law -- a major precedent -- when it decided that Georgia could not repeal the Yazoo Act because states could not impair the obligations of contracts. Undoing the deal would injure innocent purchasers, the Court reasoned. Left unsaid was the idea that undoing the deal would injure the land-company investors and tarnish several justices.

Bill and Hillary Clinton tried to be land investors, but failed.

Their 230-acre deal in Flippin, Arkansas, was Whitewater Estates, owned in equal parts with Jim and Susan McDougal. The four borrowed the purchase price of $203,000.
The Clintons tried to piggyback on Jim McDougal who they thought was the Sage of the Ozarks, a Buffett in blue jeans.

Whitewater failed when sky-high interest rates shut down second-home borrowing, and the four didn’t have enough cash to wait things out. Undercapitalization almost always dooms sensible land deals. The Clintons were cleared of wrongdoing in a project that was smothered in it. (icreport.access.gpo.gov/final/v2a.pdf.)

The Clintons wanted to make money without working much for it. Most people admire speculation of this sort when it clicks, including me, though I’ve never been very successful at it.

A third speculator landed, which forced me to do something useful, like slapping myself.

Speculators have clear motives and are an easy read. Investors are more complicated, and they generate better stories.

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