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The Rothschilds

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How They Did It

Tales of the Greatest Investors of All Time

The Rothschilds

The assertion that Nathan Mayer Rothschild, the founder of the English branch of the Rothschild family, made a fortune in the British capital markets in the days preceding the British victory at the Battle of Waterloo in 1815 is either a myth or historical fact. The various stories usually allege that the Rothschild family had carrier pigeons fly news of the victory to them in London even before the British government had any information on the battle. That timely information was supposed to have enabled N.M. Rothschild to make a lot of money in the British market.

In fact, there weren't any stocks trading in Britain at the time; ergo one would have had to make the money in the bond market. The facts are that the Battle of Waterloo was fought on June 18, 1815, which was a Sunday. The story, which is possibly apocryphal, is that the Rothschilds bought a kind of security called a consol, which was a British government bond that had no maturity date, meaning it was a perpetuity. They would have bought the consols in the days preceding the battle and sold them in the days subsequent to the battle to make a great deal of money. The consol with a 3% coupon was first issued in 1857, and was the only security one could have bought at the time.

The Rothschild family, for reasons that should be obvious, always disputed that story and regarded it as a legend. One of N.M. Rothschild's descendants, Lord Victor Rothschild, published a book entitled *Random Variables*¹, which is partly autobiographical. In this book, Lord Rothschild includes the limited data available on the prices of consols in the days preceding and following the Battle of Waterloo. He obtained the prices from a publication of the time known as the *Morning Chronicle Stock Market Report* (bonds were referred to as stocks at that time). The following table appears in the book.

¹ Rothschild, Lord Nathaniel Mayer Victor. *Random Variables*. London: Collins, 1984

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Table 11: Prices of British Consols After the Battle of Waterloo
 Extracted from *The Morning Chronicle Stock Market Report*

| Date | Transaction Prices | | | | | |
|---------------------|--------------------|--------|--------|--------|--------|--------|
| Wed. 21 June 1815 | 56 1/2 | 56 5/8 | 56 1/8 | 56 3/8 | 56 1/8 | 56 1/2 |
| Thurs. 22 June 1815 | 56 7/8 | 57 | 56 3/4 | 57 1/4 | 57 1/8 | |
| Fri. 23 June 1815 | 58 3/4 | 59 | 57 1/2 | 58 1/8 | | |
| Sat. 24 June 1815 | | | | | | |
| Mon. 26 June 1815 | | | | | | |
| Tues. 27 June 1815 | 60 | 59 7/8 | 60 3/8 | 60 1/4 | | |
| Wed. 28 June 1815 | 60 3/4 | 61 | 60 3/4 | 60 5/8 | | |
| Thurs. 29 June 1815 | 60 3/4 | 61 | 60 3/4 | | | |

Source: Rothschild, Lord Nathaniel Mayer Victor. *Random Variables*. London: Collins, 1984 (page 142)

The battle was fought on Sunday, June 18, 1815, so the earliest day anyone could have had news of victory was on Monday, June 19. The earliest day that N.M. Rothschild could have traded would have been Tuesday, June 20, a day for which we do not have data. Other market participants would have heard the news by Wednesday, June 21, but the price stayed the same on Wednesday, Thursday and Friday. The market did not react to the news until the next week when the price rose 1/4 points on Tuesday, June 27. The only way that N.M. Rothschild could have made the vast sums of money claimed asserted in the stories would have been to use leverage and buy a great deal more consols than were available. However, the securities were not marginable to the degree necessary to create a high rate of return.

According to Lord Rothschild's book, the only way to have profited mightily from the early information on the outcome of the battle would have been to buy a certain security called Omnium, which was a fund or a trust that contained only government securities. Omnium traded in partly-paid form, meaning 20 pounds for every 100 pounds at face value. Thus, the fund itself was effectively, from the point of view of its partly-paid status, 5x leveraged. The trust traded at a premium to NAV of 4.5 points on a 100 pound par value on the Wednesday before the battle and 12.5 points after the battle which, if one thinks about it, is about a 60% premium on the partly-paid shares. The only way the Rothschilds could have made a lot of money on this trade was to have bought the Omnium Trust in partly-paid form, which would have amounted to leverage.

There are many legends regarding spectacular trades in history. Yet, oddly, none of the great trades in history involve the spectacular use of leverage, because historians have a strong bias against leverage. The story of the Rothschilds, apocryphal or not, exists in the books in its un-leveraged form. The possibility of using leverage, because of historians' bias, never entered into the equation.