Financial Commentary

The Crescent Group at RBC
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Wealth Management

Fairy tales and cautionary tales

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In July, my family and I took a trip to Germany. Told that Bavaria and its castles were "must-sees", we made the trek to Neuschwanstein castle, which is often referred to as a "fairy tale castle", and cited as the inspiration for Disney's Cinderella Castle. The hype about Bavaria and the castles was certainly justified – majestic mountains and lush forests with whimsical turrets peaking over the tops of tall pine trees. I went into the trip not knowing anything about the financial details of the castle. What I learned ended up being more cautionary tale than fairy tale, and as relevant as ever for modern finances.

Neuschwanstein castle was built by King Ludwig II of Bavaria. Ludwig built Neuschwanstein even though he already owned several lavish palaces and castles. His primary residence consisted of the Munich Residenz – the largest city palace in Germany. He also owned Hohenschwangau Castle, which is right down the street from Neuschwanstein. These palaces and the others he owned weren't enough to satisfy Ludwig, so he began construction of Neuschwanstein in 1869.(1)

Ludwig paid for the construction of Neuschwanstein with his own personal financial resources. He continuously expanded the scale of the project, replacing old plans for modest guest rooms with new plans for grand halls. Because the project exceeded his personal means, he turned to lines of credit for funding. He even replaced one of his advisors who pointed out the danger of insolvency to Ludwig. Ludwig told his creditors he would commit suicide if they tried to seize his properties. Not long after this, Ludwig died under mysterious circumstances, at the age of 40. By the end of his life, his debt reached an estimated $200-$250 million in today's dollars. The castle was not completed in Ludwig's lifetime, and at the end of his life, construction costs totaled twice the amount of the original estimate.(1)

Many historians point to mental illness to explain Ludwig's erratic behavior with Neuschwanstein and other areas of his life. Medicine isn't my specialty, so that topic is certainly beyond my expertise. But the concept of living beyond one's means leading to negative consequences can apply to anyone's situation in life. It can also apply to an entity. Corporations that live beyond their means run the risk of bankruptcy. Nations that live beyond their means run the risk of hyperinflation and economic hardship.

As a financial advisor, I spend a lot of time thinking about what can go wrong with the economy and financial markets. While it's certainly nice to sit back and celebrate the financial rewards of an 18-year market boom, my viewpoint has always been that the good things take care of themselves, and therefore don't require my attention. What I need to think about are problems: What can go wrong?

How can we limit the impact when something does go wrong? Echoing the story of Ludwig, one of the things I worry about is how stretched the U.S. financial system is. Over the past several decades, our government has been able to add to our nation's debt any time the smallest problem arose. We have been able to do this because our debt levels started out relatively modest, but have ballooned to rank among the highest in the world. I do wonder what things will look like in the future if we have less of an ability to borrow to solve economic problems that come up.[2]

There are also second order impacts, such as municipalities which are indebted, as well as consumers who are indebted. For example, recent financial headlines have called out fragile municipal finances. Any future reduction in the ability of the federal government to assist municipalities would exacerbate weak municipal finances.[3]

Recent headlines also point to U.S. consumer debt and investment account margin debt at all-time high levels. Again, a reduction in the ability of the federal to government to borrow and provide stimulus to U.S. consumers could mean a slower recovery from times of economic weakness.[4][5]

It's been said that a government can't go bankrupt if it can issue its own currency to service debt. As far as we know, that's true. But that doesn't mean a nation can't experience financial hardship on par with a bankruptcy. I can remember during the Financial Crisis, shares of some of our nation's largest financial institutions fell to one dollar per share. It's true that shareholders technically didn't get wiped out, since shares were still at $1, and not zero. But if you bought a share for $50 and it fell to $1, you effectively got wiped out. Similarly, while a nation may not technically go bankrupt because it can issue its currency and service its debt, the economic impact of printing currency to service the debt could impose an economic strain that feels similar to a nation going bankrupt.[6]

As I've mentioned in past newsletters, the time to carefully examine an investment allocation and make adjustments is when times are good and investment values are high. Waiting for a problem means making adjustments after prices have fallen. Please reach out to me if you have any questions about your own allocation.

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Sources: (1) Wikipedia (2) The Federal Reserve (3) The Wall Street Journal 8/24/26 (4) CNBC 8/5/26 (5) Yahoo Finance 6/15/26 (6) Reuters 3/5/09

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