Reminiscences of a Stock Operator

Edwin Lefevre © 1923

Professional Wealth

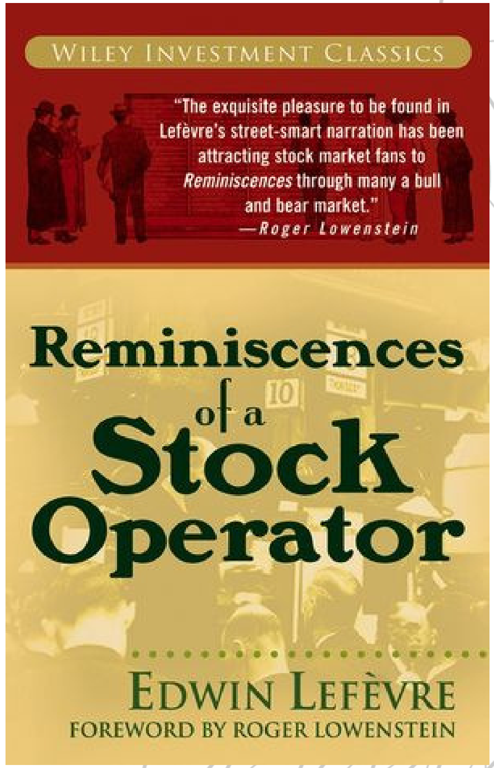
www.professionalwealth.com.au

Executive Summaries

Lefevre's thinly disguised biography of legendary trader Jesse Livermore is considered by professional traders as the best introduction to the behaviour of markets and speculators.

While this book won't teach you about investing it will give you an appreciation of the challenges trying to profit from short term movements in stock and commodity prices. It may also provide you the antidote to resist investing on tips and a caution about being caught up in manipulated markets.

If you fancy yourself a trader then Livermore offers you principles based on timeless human psychology.



John Wiley
ISBN: 978-0-471-77088-6

> ***"All through time, people have basically acted and reacted the same way in the market as a result of: greed, fear, ignorance, and hope. That is why the numerical formations and patterns recur on a constant basis. "***

Trade periodically

Participate selectively

"No man can always have adequate reasons for buying or selling stocks daily – or sufficient knowledge to make his play an intelligent play. … The desire for constant action irrespective of underlying conditions is responsible for many losses in Wall Street even among the professionals, who feel that they must take home some money every day, as though they were working for regular wages"

"The conclusion I have reached after nearly thirty years of constant trading, both on a shoestring and with millions of dollars, is this: A man may beat a stock or a group at a certain time, but no man living can beat the stock market! … It's like the track. A man may beat a horse race, but he cannot beat horse racing. If I knew how to make these statements stronger or more emphatic I certainly would."

Focus on the big movements

"In a bull market your game is to buy and hold until you believe the bull market is near the end. To do this you must study the general conditions and not tips or special factors affecting individual stocks. Then get out of all your stocks; get out for keeps!

Wait until you see the turn of the market; the beginning of a reversal of general conditions. One of the most helpful things that anybody can learn is to give up trying to catch the last eighth – or the first.

It never was my thinking that made the big money for me. It was always my sitting. … It's no trick at all to be right on the market. You always find lots of early bulls in bull markets and early bears in bear markets."

Follow the path of least resistance

Buy only in a rising market / sell on a falling market

> ***"People don't seem to grasp easily the fundamentals of stock trading. I have often said that to buy on a rising market is the most comfortable way of buying stocks. The point is not so much to buy as cheap as possible or go short at top prices, but to buy or sell at the right time. When I am bearish and I sell a stock, each sale must be at a lower level than the previous sale. When I am buying the reverse is true. I must buy on rising scale. I don't buy long stock on a scale down, I buy on a scale up."***

> ***"Of all the speculative blunders there are few greater than trying to average a losing game. Always sell what shows you a loss and keep what shows you a profit"***

This philosophy ensures that you are buying into a resilient upswing or persistent decline. It is not important to get the best price. However it is important to avoid trading in a fluctuating market where certainty of outcome is poor. Livermore shares many stories about entering a position gradually with increasingly larger orders each to confirm his hypothesis about the market trend. He always entered the market using multiple trades, never just one.

> ***"In starting a movement it is unwise to take on your full line unless you are convinced the conditions are exactly right. Remember stocks are never too high for you to begin buying or too low to begin selling. But after the initial transaction don't make a second unless the first shows you a profit. Wait and watch".***

> ***"Do you wish to gamble blindly in the hope of getting a great big profit or do you wish to speculate intelligently and get a smaller but more probably profit?"***

Be careful trading on (mis)information

Don’t follow tips

“A man must believe in himself and his judgment if he expects to make a living at this game. If I buy stocks on Smith’s tip then I must sell those stocks on Smith’s tip. I am depending on him. No sir, nobody can make big money on what someone else tells him to do.”

“It has always seemed to me the height of damfoolishness to trade on tips. I sometimes think tip-takers are like drunkards. There are some who can’t resist the craving.”

“Many of the so called statements attributed to ‘insiders’ or officials have no basis in fact. These stories are invented by somebody or other who has a large interest in the market. But while the insider might tell the big plunger the right time to buy, he will never tell when is the time to sell”

Avoid the “daily dope” [press]

“Of course I had been reading the daily dope regularly for a long time. All traders do. But much of it was gossip, some of it deliberately false, and the rest merely the personal opinion of the writers. … The analysis of the week was less important to me than the forecast of the weeks that were to come”

“The overwhelming bullish articles printed on the authority of unnamed directors or insiders convey unreliable and misleading impressions to the public. The public loses many millions of dollars every year by accepting such statements as trustworthy”

“Brokers make a living out of commissions and yet they will try to induce the public through their market letters or word of mouth to buy the same stocks in which they have received selling orders from insiders or manipulators”

An insight into professional manipulation

The object of manipulation is to develop marketability – that is the ability to dispose of fair sized books at some price. Stocks are to be manipulated to the highest point then sold to the public on the way down.

The first step is to advertise – the greatest publicity agent is the ticker. I accomplish this by merely making the stock active [that is by repeated buying and selling].

Activity is all that the floor traders ask. They will buy or sell any stock at any level if only there is a free market for it. They constitute the manipulator's first crop of buyers. They will follow you up and they thus are a great help at all stages of the operation.

When there is activity there is a demand for explanations [press reports]. The public follows the lead of the room traders. It comes in as a buyer. As the market broadens [gets support from more investors] I sell stock on the way up, but never enough to check the rise. The more stock I sell on a reasonable and orderly advance the more I encourage the conservative speculators, who are more numerous than the reckless traders.

When the demand from the public slackens, the stock ceases to advance. Then I wait. There comes a weak day. I begin to buy it. I give it the support that a stock ought to have if it is in good odour. I am able to support it without decreasing my financial resources as I am covering stock I sold short at higher prices when the demand from the public or from the traders enabled me to do it. It is always well to make it plain to the traders and to the public there is a demand for the stock on the way down. That tends to check both reckless short selling and liquidation by frightened sellers. These covering purchases are what I call the stabilising process.

All manipulation comes to an end when the manipulator cannot make a stock do what he wants it to do. Sometimes a stock gets waterlogged, as it were: it doesn't go up. That is the time to sell. When my buying doesn't put the price up I proceed to sell it down. It is perfectly astonishing how much stock a man can get rid of on a decline.

Timeless wisdom on booms (ca. 1923)

"In every boom, companies are formed primarily if not exclusively to take advantage of the publics appetite for all kinds of stocks.

The top is never in sight when the vision is vitiated by hope.

The average man sees a stock that nobody wanted at $12 of $14 per share suddenly advance to $30 – which surely is the top- until it rises to $50.

Then it goes to $60; to $70; to $75. It then becomes a certainty that this stock, which a few weeks ago was selling for less than $15, can't go any higher.

But it goes to $80; and to $85. Whereupon the average man, who never thinks of values but of prices, and is not governed in his actions by conditions, but by fears, takes the easiest way – he stops thinking there must be a limit to the advances. [he buys]

Those outsiders who are wise enough not to buy at the top make up for it by not taking profits. The big money in booms is always made first by the public – on paper. And it remains on paper." [ie. the public overstays in a bull market]

"After the boom the public is positive that nothing is going up. It isn't that buyers become more discriminating, but that the blind buying is over. It is the state of mind that has changed. Prices don't even have to go down to make people pessimistic. It is enough if the market gets dull and stays dull for a time".

Even the talented trader needs to have some long term investments

Livermore made and lost millions and after returning from bankruptcy the third time he decided to put some money aside

"After I paid off my debts in full I put a pretty fair amount into annuities. I made up my mind I wasn't going to be strapped and uncomfortable and minus a stake ever again. Of course after I married I put some money in trust for my wife. And after the boy came I put some in trust for him.

The reason I did this was not alone the fear that the stock market might take it way from me, but because I knew that a man will spend anything he can lay his hands on. By doing what I did my wife and child are safe from me. More than one man I know has done the same thing."

Livermore committed suicide on 28 November 1940 in a Manhattan hotel leaving behind \$5m in untouchable trust assets but after exhausting his other wealth including the \$100m he made shorting the stock market in the crash of 1929

About Professional Wealth and these summaries

About Professional Wealth

We are an independent personal wealth advisory business serving clients in Sydney and Melbourne

Our focus is on individuals in professional service, executives and small business owners

We strive to set a new level of professionalism, by

- providing unbiased high quality advice
- being free to recommend a broad range of investment and insurance solutions
- being remunerated only by our clients, refusing all commissions and rebates
- making education an important part of our offer

About our Executive Summaries

We regularly review interesting writing on wealth topics that we think our clients will find useful

Our summaries are of the authors' views and not ours, though they often align with our beliefs

These should not be considered personal advice as your needs and circumstances will vary

Please contact us or your personal advisor to explore further how you can *Make Work Optional™*

If you have received this from a friend and would like to receive future summaries directly, please send us your email address