JL's Selected Quotes from 'Reminiscences of a Stock Operator'

-unofficial biography of Jesse Livermore (pseudonym Larry Livingston), 1923

9. I have always remembered figures.

10. Another lesson I learned early is that there is nothing new in Wall Street. There can't be because speculation is as old as the hills. Whatever happens in the stock market today has happened before and will happen again.

11. Your business with the tape is now- not tomorrow. The reason can wait. But you must act instantly or be left.

12. It struck me at once that if my dope didn't work in practice there was nothing in the theory of it to interest anybody.

13. That's all the fun there is- being right by using your own head.

13. If all I have is ten dollars and I risk it, I am much braver than when I risk a million, if I have another million salted away.

13. I couldn't see where I needed to tell my business to anybody else. I've got friends, of course, but my business has always been the same- a one man affair. That is why I have always played a lone hand.

19. According to my dope Sugar should have broken 103 by now. The engine wasn't hitting right. I had the feeling that there was a trap in the neighborhood.

21. I told you I had ten thousand dollars when I was twenty, and my margin on that Sugar deal was over ten thousand. But I didn't always win. My plan of trading was sound enough and won oftener than it lost. If I had stuck to it I'd have been right perhaps as often as seven out of ten times. In fact, I have always made money when I was sure I was right before I began. What beat me was not having brains enough to stick to my own game- that is, to play the market only when I was satisfied that precedents favored my play. There is a time for all things, but I didn't know it. And that is precisely what beats so many men in Wall Street who are very far from being in the main sucker class. There is the plain fool, who does the wrong thing at all times everywhere, but there is the Wall Street fool, who thinks he must trade all the time. No man can always have adequate reasons for buying or selling stocks daily- or sufficient knowledge to make his play an intelligent play.

22. …I let the craving for excitement get the better of my judgement.

22. A stock operator has to fight a lot of expensive enemies within himself.

24. It didn't take long to realize that there was something wrong with my play, but I couldn't spot the exact trouble. There were times when my system worked beautifully, and then, all of a sudden, nothing but one swat after another.

27. "What's your name?" he asked me, and I answered, "Horace Kent."

28. If it hadn't been for their refusing to take my business I never would have stopped trading in them. And then I never would have learned that there was much more to the game of stock speculation than to play for fluctuations of a few points.

36. It takes a man a long time to learn all the lessons of his mistakes. They say there are two sides to everything. But there is only one side to the stock market; and it is not the bull side or the bear side, but the right side.

36. I have heard of people who amuse themselves conducting imaginary operations in the stock market to prove with imaginary dollars how right they are. Sometimes these ghost gamblers make millions. It is very easy to be a plunger that way. It is like the old story of the man who was going to fight a duel the next day.

His second asked him, "Are you a good shot?"

"Well," said the duelist, "I can snap the stem of a wine glass at twenty paces," and he looked modest.

"That's all very well," said the unimpressed second. "But can you snap the stem of the wineglass while the wineglass is pointing a loaded pistol straight at your heart?"

36. My losses have taught me that I must not begin to advance until I am sure I shall not have to retreat. But if I cannot advance I do not move at all.

37. No, sir, nobody can make big money on what someone else tells him to do. I know from experience that nobody can give me a tip or a series of tips that will make more money for me than my own judgment. It took me five years to learn to play the game intelligently enough to make big money when I was right.

38. Speculation is a hard and trying business, and a speculator must be on the job all the time or he'll soon have no job to be on.

39. That is to say, on my first attempt, nearly one half of my stake went up the flue.

41. Everything happened as I had foreseen. I was dead right and- I lost every cent I had! I was wiped out by something that was unusual. If the unusual never happened there would be no difference in people and then there wouldn't be any fun in life. The game would become merely a matter of addition and subtraction. It would make of us a race of bookkeepers with plodding minds. It's the guessing that develops a man's brain power. Just consider what you have to do to guess right.

42. The ticker beat me by lagging so far behind the market…it seems so obvious now that tape reading is not enough, irrespective of the brokers' execution, that I wonder why I didn't then see both my trouble and the remedy for it.

43. My old shotgun and BB shot could not do the work of a high power repeating rifle against big game.

44. I went down to their place and had a talk with the manager himself. When he found out that I was an old trader and had formerly had accounts in New York with Stock Exchange houses and that I had lost all I took with me he stopped promising to make a million a minute for me if I let them invest my savings. He figured that I was a permanent sucker, the ticker-hound kind that always plays and always loses; a steady-income provider for brokers, whether they were the kind that bucket your orders or modestly content themselves with the commissions.

55. The manager was a chap who looked as if he had been an actor or a stump speaker. He was very impressive. He'd say good morning as though he had discovered the morning's goodness after ten years of searching for it with a microscope and was making you a present of the discovery as well as of the sky, the sun and the firm's bank roll.

58. I told him I'd like to sell two hundred Steel. But he never stirred. He didn't hear me. I repeated my wish, only I made it three hundred shares. He turned his head. I waited for the speech. But all he did was to look at me. Then he smacked his lips and swallowed- as if he was going to start an attack on fifty years of political misrule by the unspeakable grafters of the opposition.

58. He paused; and then he stopped being in Congress and snarled: "You two are the biggest sharks in the United States of America! Students? Ye-eh! You must be Freshmen! Ye-eh!"

We left him talking to himself. He probably didn't mind the money so much. No professional gambler does. It's all in the game and the luck's bound to turn. It was his being fooled in us that hurt his pride.

59. There is nothing like losing all you have in the world for teaching you what not to do. And when you know what not to do in order not to lose money, you begin to learn what to do in order to win. Did you get that? You begin to learn!

60. The average ticker hound- or, as they used to call him, tape-worm- goes wrong, I suspect, as much from overspecialization as from anything else. It means a highly expensive inelasticity. After all, the game of speculation isn't all mathematics or set rules, however rigid the main laws may be. Even in my tape reading something enters that is more than mere arithmetic. There is what I call the behavior of a stock, actions that enable you to judge whether or not it is going to proceed in accordance with the precedents that your observation has noted. If a stock doesn't act right don't touch it; because, being unable to tell precisely what is wrong, you cannot tell which way it is going. No diagnosis, no prognosis. No prognosis, no profit.

61. …What he really did was to take advantage of some highly intelligent averaging. They tell me he won regularly- until the World War knocked all precedents into a cocked hat. I heard that he and his large following lost millions before they desisted. But not even a world war can keep the stock market from

being a bull market when conditions are bullish, or a bear market when conditions are bearish. And all a man needs to know to make money is to appraise conditions.

61. I know now what I did not know then, and I think of the mistakes of my ignorance because those are the very mistakes that the average stock speculator makes year in and year out.

62. The game of beating the market exclusively interested me from ten to three every day, and after three, the game of living my life. Don't misunderstand me. I never allowed pleasure to interfere with business. When I lost it was because I was wrong and not because I was suffering from dissipation or excess. There never were any shattered nerves or rum-shaken limbs to spoil my game. I couldn't afford anything that kept me from feeling physically and mentally fit. Even now I am usually in bed by ten. As a young man I never kept late hours, because I could not do business properly on insufficient sleep. I was doing better than breaking even and that is why I didn't think there was any need to deprive myself of the good things in life. The market was always there to supply them. I was acquiring the confidence that comes to a man from a professionally dispassionate attitude toward his own method of providing bread and butter for himself.

63. I had to start much earlier if I wanted to catch the move in Fullerton's office. In other woods, I had to study what was going to happen; to anticipate stock movements. That sounds asininely commonplace, but you know what I mean. It was the change in my own attitude toward the game that was of supreme importance to me. It taught me, little by little, the essential difference between betting on fluctuations and anticipating inevitable advances and declines, between gambling and speculating.

63. I had to go further back than an hour in my studies of the market- which was something I never would have learned to do in the biggest bucket shop in the world.

63. There was as much to learn from partial victory as there was from defeat.

For instance, I had been bullish from the very start of a bull market, and I had backed my opinion by buying stocks. An advance followed, as I had clearly foreseen. So far, all very well. But what else did I do? Why, I listened to the elder statesmen and curbed my youthful impetuousness. I made up my mind to be wise and play carefully, conservatively. Everybody knew that the way to do that was to take profits and buy back your stocks on reactions. And that is precisely what I did, or what I tried to do; for I often took profits and waited for a reaction that never came. And I saw my stock go kiting up ten points more and I sitting there with my four point profit safe in my conservative pocket. They say you never grow poor taking profits. No, you don't. But neither do you grow rich taking a four point profit in a bull market.

64. The tyro knows nothing, and everybody, including himself, knows it. But the next, or second, grade thinks he knows a great deal and makes others feel that way too. He is the experienced sucker, who has studied- not the market itself but a few remarks about the market made by a still higher grade of suckers. The second-grade sucker knows how to keep from losing his money in some of the ways that get the raw beginner. It is this semisucker rather than the 100 percent article who is the real all-the-year-round support of the commission houses. He lasts about three and a half years on an average, as compared with a single season of from three to thirty weeks, which is the usual Wall Street life of a first offender. It is naturally the semisucker who is always quoting the famous trading aphorisms and the various rules of the

game. He knows all the don'ts that ever fell from the oracular lips of the old stagers- excepting the principal one, which is: Don't be a sucker!

66. Time and again I heard him say, "Well, this is a bull market, you know!" as though he were giving you a priceless talisman wrapped up in a million-dollar accident insurance policy. And of course I did not get his meaning.

66. The amateur, or gratuitous, tipster always thinks he owns the receiver of his tip body and soul, even before he knows how the tip is going to turn out.

67. "I beg your pardon, Mr. Harwood; I didn't say I'd lose my job," cut in old Turkey. "I said I'd lose my position. And when you are as old as I am and you've been through as many booms and panics as I have, you'll know that to lose your position is something nobody can afford; not even John D. Rockefeller. I hope the stock reacts and that you will be able to repurchase your line at a substantial concession, sir. But I myself can only trade in accordance with the experience of many years. I paid a high price for it and I don't feel like throwing away a second tuition fee. But I am as much obliged to you as if I had money in the bank. It's a bull market, you know." And he strutted away, leaving Elmer dazed.

67. I think it was a long step forward in my trading education when I realized at last that when old Mr. Partridge kept on telling the other customers, "Well, you know this is a bull market!" he really meant to tell them that the big money was not in the individual fluctuations but in the main movements- that is, not in reading the tape but in sizing up the entire market and its trend.

And right here let me say one thing: After spending many years in Wall Street and after making and losing millions of dollars I want to tell you this: It never was my thinking that made the big money for me. It was always my sitting. Got that? My sitting tight! It is 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. I've known many men who were right at exactly the right time, and began buying or selling stocks when prices were at their very level which should show the greatest profit. And their experience invariably matched mine- that is, they made no real money out of it. Men who can both be right and sit tight are uncommon. I found it one of the hardest things to learn. But it is only after a stock operator has firmly grasped this that he can make big money. It is literally true that millions come easier to a trader after he knows how to trade than hundreds did in the days of his ignorance.

The reason is that a man may see straight and clearly and yet become impatient or doubtful when the market takes its time about doing as he figured it must do. That is why so many men in Wall Street, who are not at all in the sucker class, not even in the third grade, nevertheless lose money. The market does not beat them. They beat themselves, because though they have brains they cannot sit tight. Old Turkey was dead right in doing and saying what he did. He had not only the courage of his convictions but the intelligent patience to sit tight.

Disregarding the big swing and trying to jump in and out was fatal to me. Nobody can catch all the fluctuations. In a bull market your game is to buy and hold until you believe that the bull market is near its end. To do this you must study 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- or if you prefer, until you think you see- the turn of the market; the beginning of a reversal of general conditions. You have to use your brains and your vision to do this; otherwise my advice would be as idiotic as to tell you to buy cheap and sell dear. One of the most helpful things that anybody can learn is to give up trying to catch the last eighth- or the first. These two are the most expensive eighths in the world. They have cost stock traders, in the aggregate, enough millions of dollars to build a concrete highway across the continent.

70. Without faith in his own judgment no man can go very far in this game. That is about all I have learned- to study general conditions, to take a position and stick with it. I can wait without a twinge of impatience. I can see a setback without being shaken, knowing that it is only temporary. I have been short one hundred thousand shares and seen a big rally coming. I have figured- and figured correctly- that such a rally as I felt was inevitable, and even wholesome, would make a difference of one million dollars in paper profits. And I nevertheless have stood pat and seen half my paper profit wiped out, without once considering the advisability of covering my shorts to put them out again on the rally. I knew that if I did I might lose my position and with it the certainty of a big killing. It is the big swing that makes the big money for you.

72. When I have argued myself into disregarding my impulse and have stood pat I have always had cause to regret it.

73. I have told some of these stories to friends, and some of them tell me it isn't a hunch but the subconscious mind, which is the creative mind, at work. That is the mind which makes artists do things without their knowing how they came to do them. Perhaps with me it was the cumulative effect of a lot of little things individually insignificant but collectively powerful.

74. The next day we got news of the San Francisco earthquake. It was an awful disaster. But the market opened down only a couple of points. The bull forces were at work, and the public is never independently responsive to news.

75. I have noticed that there is quite a difference between talking and trading. Some of these chaps remind you of the bold clerk who talks to his cantankerous employer as to a yellow dog- when he tells you about it.

76. I found when I got my reports that Ed Harding's kindly intentional interference cost me forty thousand dollars. A low price for a man to pay for not having the courage of his own convictions! It was a cheap lesson.

83. It was not that all I needed to learn was not to take tips but follow my own inclination. It was that I gained confidence in myself and I was able finally to shake off the old method of trading. That Saratoga experience was my last haphazard, hit-or-miss operation. From then on I began to think of basic conditions instead of individual stocks. I promoted myself to a higher grade in the hard school of speculation. It was a long and difficult step to take.

84. …the average man doesn't wish to be told that it is a bull or bear market. What he desires is to be told specifically which particular stock to buy or sell. He wants to get something for nothing. He does not wish to work. He doesn't even wish to have to think. It is too much bother to have to count the money that he picks up from the ground.

84. …the point is not so much to buy as cheap as possible or go short at the top prices, but to buy or sell at the right time.

85. I never want to buy stocks too cheap or too easily.

91. My one steadfast prejudice is against being wrong.

91. I do not allow my possessions- or my prepossessions either- to do my thinking for me. That is why I repeat that I never argue with the tape. To be angry at the market because it unexpectedly or even illogically goes against you is like getting mad at your lungs because you have pneumonia.

91. Obviously the thing to do was to be bullish in a bull market and bearish in a bear market. Sounds silly, doesn't it? But I had to grasp that general principle firmly before I saw that to put it into practice really meant to anticipate probabilities. It took me a long time to learn to trade on those lines. But in justice to myself I must remind you that up to then I had never had a big enough stake to speculate that way. A big swing will mean big money if your line is big, and to be able to swing a big line you nee a big balance at your broker's.

I always had- or felt that I had- to make my daily bread out of the stock market. It interfered with my efforts to increase the stake available for the more profitable but slower and therefore more immediately expensive method of trading on swings.

93. For years I had been the victim of an unfortunate combination of inexperience, youth and insufficient capital. But now I felt the elation of a discoverer. My new attitude toward the game explained my repeated failures to make big money in New York. But now with adequate resources, experience and confidence, I was in such a hurry to try the new key that I did not notice that there was another lock on the door- a time lock! It was a perfectly natural oversight. I had to pay the usual tuition- a good whack per each step forward.

94. I told you I had already observed that my initial transaction, after I made up my mind which way I was going to trade, was apt to show me a profit. And now when I decided to sell I plunged. Since we undoubtedly were entering upon a genuine bear market I was sure I should make the biggest killing of my career.

The market went off. Then it came back. It shaded off and then it began to advance steadily. My paper profits vanished and my paper losses grew. One day it looked as if not a bear would be left to tell the tale of the strictly genuine bear market. I couldn't stand the gaff. I covered. It was just as well. If I hadn't I wouldn't have had enough left to buy a postal card. I lost most of my fur, but it was better to live to fight another day.

I had made a mistake. But where? I was bearish in a bear market. That was wise. I had sold stocks short. That was proper. I had sold them too soon. That was costly. My position was right but my play was wrong. However, every day brought the market nearer to the inevitable smash. So I waited and when the rally began to falter and pause I let them have as much stock as my sadly diminished margins permitted. I was right this time- for exactly one whole day, for on the next there was another rally. Another big bite out of yours truly! So I read the tape and covered and waited. In due course I sold again- and again they went down promisingly and the market rudely rallied.

95. I have always found it profitable to study my mistakes. Thus I eventually discovered that it was all very well not to lose your bear position in a bear market, but that at all times the tape should be read to determine the propitiousness of the time for operating. If you begin right you will not see your profitable position seriously menaced; and then you will find no trouble in sitting tight.

96. There I was- right out and busted! I tell you it was remarkable. What happened was that I looked ahead and saw a big pile of dollars. Out of it stuck a sign. It had "Help Yourself," on it, in huge letters. Beside it stood a cart with "Lawrence Livingston Trucking Corporation" painted on its side. I had a brand-new shovel in my hand. There was not another soul in sight, so I had no competition in the gold-shoveling, which is one beauty of seeing the dollar heap ahead of others. The people who might have seen it if they had stopped to look were just then looking at baseball games instead, or motoring or buying those houses to be paid for with the very dollars that I saw. That was the first time that I had seen big money ahead, and I naturally started toward it on the run. Before I could reach the dollar-pile my wind went back on me and I fell to the ground. The pile of dollars was still there, but I had lost the shovel, and the wagon was gone. So much for sprinting too soon! I was too eager to prove myself that I had seen real dollars and not a mirage. I saw, and knew that I saw. Thinking about the reward for my excellent sight kept me from considering the distance to the dollar-heap. I should have walked and not sprinted.

That is what happened. I didn't wait to determine whether or not the time was right for plunging on the bear side. On the one occasion when I should have invoked the aid of my tape-reading I didn't do it. That is how I came to learn that even when one is properly bearish at the very beginning of a bear market it is well not to begin selling in bulk until there is no danger of the engine back-firing.

97. If a man didn't make mistakes he'd own the world in a month. But if he didn't profit by his mistakes he wouldn't own a blessed thing.

99. It was very curious how, after suffering tremendous losses from a break of fifteen or twenty points, people who were still hanging on, welcomed a three point rally and were certain the bottom had been reached and complete recovery begun.

101. I have always played a lone hand. I began that way in the bucket shops and have kept it up. It is the way my mind works. I have to do my own seeing and my own thinking. But I can tell you after the market began to go my way I felt for the first time in my life that I had allies- the strongest and truest in the world: underlying conditions. They were helping me with all their might. Perhaps they were a trifle slow at times in bringing up the reserves, but they were dependable, provided I did not get too impatient. I was not pitting my tape-reading knack or my hunches against chance. The inexorable logic of events was making money for me.

102. I figured that the price held because the Street was afraid to sell it. So one day I gave to two brokers each an order to sell four thousand shares, at the same time.

You ought to have seen that cornered stock, that it was sure suicide to go short of, take a headlong dive when those competitive orders struck it. I let 'em have a few thousand more. The price was 111 when I started selling it. Within a few minutes I took in my entire short line at 92.

104. I have learned patience and how to sit tight, but my personal preference is for fleet movements, and Anaconda certainly was no sluggard.

105. I made up my mind that if Anaconda went back to 301 I must consider the whole thing a fake movement. On a legitimate advance the price should have gone to 310 without stopping. If instead it reacted it meant that precedents had failed me and I was wrong; and the only thing to do when a man is wrong is to be right by ceasing to be wrong.

106. What happened shows you that I am right in never trading at limits. Suppose I had limited my selling price to 300? I'd never have got it off. No, sir! When you want to get out, get out.

108. The way to make money is to make it. The way to make big money is to be right at exactly the right time. In this business a man has to think of both theory and practice. A speculator must not be merely a student, he must be both a student and a speculator.

109. The big men of the Street are as prone to be wishful thinkers as the politicians or the plain suckers. I myself can't work that way. In a speculator such an attitude is fatal. Perhaps a manufacturer of securities or a promoter of new enterprises can afford to indulge in hope-jags.

110. I still had much to learn but I knew what to do. No more floundering, no more half-right methods. Tape reading was an important part of the game; so was beginning at the right time; so was sticking to your position. But my greatest discovery was that a man must study general conditions, to size them so as to be able to anticipate probabilities. In short, I had learned that I had to work for my money. I was no longer betting blindly or concerned with mastering the technique of the game, but with earning my successes by hard study and clear thinking. I also had found out that nobody was immune from the danger of making sucker plays. And for a sucker play a man gets sucker pay; for the paymaster is on the job and never loses the pay envelope that is coming to you.

115. That was the day I remember most vividly of all the days of my life as a stock operator. It was the day when my winnings exceeded one million dollars.

118. Well, I was worth over one million after the close of business that day. But my biggest winnings were not in dollars but in the intangibles: I had been right, I had looked ahead and followed a clear-cut plan. I had learned what a man must do in order to make big money; I was permanently out of the gambler class; I had at last learned to trade intelligently in a big way. It was a day of days for me.

119. The recognition of our own mistakes should not benefit us any more than the study of our successes. But there is a natural tendency in all men to avoid punishment. When you associate certain mistakes with a licking, you do not hanker for a second dose, and, of course, all stock market mistakes wound you in two tender spots- your pocketbook and your vanity. But I will tell you something curious: A stock speculator sometimes makes mistakes and knows that he is making them. And after he makes them he will ask himself why he made them; and after thinking over it cold-bloodedly a long time after the pain of punishment is over he may learn how he came to make them, and when, and at what particular point of his trade; but not why. And then he simply calls himself names and lets it go at that.

Of course, if a man is wise and lucky, he will not make the same mistake twice. But he will make any one of the ten thousand brothers or cousins of the original. The Mistake family is so large that there is always one of them around when you want to see what you can do in the fool-play line.

To tell you about the first of my million dollar mistakes I shall have to go back to this time when I first became a millionaire, right after the big break of October, 1907. As far as my trading went, having a million merely meant more reserves. Money does not give a trader more comfort, because, rich or poor, he can make mistakes and it is never comfortable to be wrong. And when a millionaire is right his money is merely one of his several servants. Losing money is the least of my troubles. A loss never bothers me after I take it. I forget it overnight. But being wrong- not taking the loss- that is what does damage to the pocketbook and to the soul.

121. Of course the same things happen in all speculative markets. The message of the tape is the same. That will be perfectly plain to anyone who will take the trouble to think. He will find if he asks himself questions and considers conditions, that the answers will supply themselves directly. But people never take the trouble to ask questions, leave alone seeking answers. The average American is from Missouri everywhere and at all times except when he goes to the brokers' offices and looks at the tape, whether it is stocks or commodities. The one game of all games that really requires study before making a play is the one he goes into without his usual highly intelligent preliminary and precautionary doubts. He will risk half his fortune in the stock market with less reflection than he devotes to the selection of a medium-priced automobile.

122. For purposes of easy explanation we will say that prices, like everything else, move along the line of least resistance. They will do whatever comes easiest, therefore they will go up if there is less resistance to an advance than to a decline; and vice versa.

Nobody should be puzzled as to whether a market is a bull or a bear market after it fairly starts. The trend is evident to a man who has an open mind and reasonably clear sight, for it is never wise for a speculator to fit his facts to his theories. Such a man will, or ought to, know whether it is a bull or a bear market, and if he knows that he knows whether to buy or to sell. It is therefore at the very inception of the movement that a man needs to know whether to buy or to sell.

122. A man ought not to be led into trading by tokens. He should wait until the tape tells him that the time is ripe. As a matter of fact, millions upon millions of dollars have been lost by men who bought stocks because they looked cheap or sold them because they looked dear. The speculator is not an investor. His object is not to secure a steady return on his money at a good rate of interest, but to profit by either a rise or a fall in the price of whatever he may be speculating in. Therefore the thing to determine is the speculative line of least resistance at the moment of trading; and what he should wait for is the moment when that line defines itself, because that is his signal to get busy.

123. The public is so often whipsawed that one marvels at their persistence in not learning their lesson…As a rule, there is always a crowd of traders who are short at 120 because it looked so weak, or long at 130 because it looked so strong, and, when the market goes against them they are forced, after a while, either to change their minds and turn or to close out. In either event they help to define even more clearly the price line of least resistance. Thus the intelligent trader who has patiently waited to determine this line will enlist the aid of fundamental trade conditions and also of the force of the trading of that part of the community that happened to guess wrong and now must rectify mistakes. Such corrections tend to push prices along the line of least resistance.

And right here I will say that, though I do not give it as a mathematical certainty or as an axiom of speculation, my experience has been that accidents- that is, the unexpected or unforeseen- have always helped me in my market position whenever the latter has been based upon my determination of the line of least resistance.

123. You will find in actual practice that if you trade as I have indicated any important piece of news given out between the closing of one market and the opening of another is usually in harmony with the line of least resistance. The trend has been established before the news is published, and in bull markets items bear items are ignored and bull news exaggerated, and vice versa.

124. It sounds very easy to say that all you have to do is to watch the tape, establish your resistance points and be ready to trade along the line of least resistance as soon as you have determined it. But in actual practice a man has to guard against many things, and most of all against himself- that is, against human nature. That is the reason why I say that the man who is right always has two forces working in his favor- basic conditions and the men who are wrong. In a bull market bear factors are ignored. That is human nature, and yet human beings profess astonishment at it. People will tell you that the wheat crop has gone to pot because there has been bad weather in one or two sections and some farmers have been ruined. When the entire crop is gathered and all the farmers in all the wheat-growing sections begin to take their wheat to the elevators the bulls are surprised at the smallness of the damage. They discover that they have merely helped the bears.

When a man makes his play in a commodity market he must not permit himself set opinions. He must have an open mind and flexibility. It is not wise to disregard the message of the tape, no matter what your opinion of crop conditions or of the probable demand may be. I recall how I missed a big play just by trying to anticipate the starting signal. I felt so sure of conditions that I thought it was not necessary to wait for the line of least resistance to define itself….

125. This experience has been the experience of so many traders that I can give this rule: In a narrow market, when prices are not getting anywhere to speak of but move within a narrow range, there is no sense in trying to anticipate what the next big movement is going to be- up or down. The thing to do is watch the market, read the tape to determine the limits of the get-nowhere prices, and make up your mind that you will not take an interest until the price breaks through the limit in either direction.

127. What I have told you gives you the essence of my trading system as based on studying the tape. I merely learn the way prices are most probably going to move. I check up my own trading by additional tests, to determine the psychological moment. I do that by watching the way the price acts after I begin.

127. It would not be so difficult to make money if a trader always stuck to his speculative guns- that is, waited for the line of least resistance to define itself and began buying only when the tape said up or selling only when it said down.

128. After the real movement started, how long would it take to make up the fifty thousand dollars I had dropped in order to make sure that I began to load up at exactly the right time? No time at all! It always pays a man to be right at the right time.

130. I sometimes think that speculation must be an unnatural sort of business, because I find that the average speculator has arrayed against him his own nature. The weaknesses that all men are prone to are fatal to success in speculation- usually those very weaknesses that make him likable to his fellows or that

he himself particularly guards against in those other ventures of his where they are not nearly so dangerous as when he is trading in stocks or commodities.

The speculator's chief enemies are always boring from within. It is inseparable from human nature to hope and to fear. In speculation when the market goes against you you hope that every day will be the last day- and you lose more than you should had you not listened to hope- to the same ally that is so potent a success-bringer to empire builders and pioneers, big and little. And when the market goes your way you become fearful that the next day will take away your profit, and you get out- too soon. Fear keeps you from making as much money as you ought to. The successful trader has to fight these two deep-seated instincts. He has to reverse what you might call his natural impulses. Instead of hoping he must fear; instead of fearing he must hope. He must fear that his loss may develop into a much bigger loss, and hope that his profit may become a big profit. It is absolutely wrong to gamble in stocks the way the average man does.

I have been in the speculative game ever since I was fourteen. It is all I have ever done. I think I know what I am talking about. And the conclusion that I have reached after nearly thirty years of constant trading, both on a shoestring and with millions of dollars back of me, is this: A man may beat a stock or a group at a certain time, but no man living can beat the stock market! A man may make money out of individual deals in cotton or grain, but no man can beat the cotton market or the grain 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. It does not make any difference what anybody says to the contrary. I know I am right in saying these are incontrovertible statements.

134. A man can't spend years at one thing and not acquire a habitual attitude towards it quite unlike that of the average beginner. The difference distinguishes the professional from the amateur. It is the way a man looks at things that makes or loses money for him in the speculative markets. The public has the dilettante's point of view toward his own effort. The ego obtrudes itself unduly and the thinking is therefore not deep or exhaustive. The professional concerns himself with doing the right thing rather than with making money, knowing that the profit takes care of itself if the other things are attended to. A trader gets to play the game as the professional billiard player does- that is, he looks far ahead instead of considering the particular shot before him. It gets to be an instinct to play for position.

140. A market may advance sharply or rise gradually and yet not possess the power to absorb more than a certain amount of selling….

142. That is one trouble about trading on a large scale. You cannot sneak out as you can when you pike along. You cannot always sell out when you wish or when you think it wise. You have to get out when you can; when you have a market that will absorb your entire line. Failure to grasp the opportunity to get out may cost you millions. You cannot hesitate. If you do you are lost. Neither can you try stunts like running up the price on the bears by means of competitive buying, for you may thereby reduce the absorbing capacity. And I want to tell you that perceiving the opportunity is not as easy as it sounds. A man must be on the lookout so alertly that when his chance sticks in its head at his door he must grab it.

154. Of all speculative blunders there are few worse than trying to average a losing game. My cotton deal proved it to the hilt a little later. Always sell what shows you a loss and keep what shows you a profit.

That was so obviously the wise thing to do and was so well known to me that even now I marvel at myself for doing the reverse.

155. To learn that a man can make foolish plays for no reason whatever was a valuable lesson. It cost me millions to learn that another dangerous enemy to a trader is his susceptibility to the urgings of a magnetic personality when plausibly expressed by a brilliant mind. It has always seemed to me, however, that I might have learned my lesson quite as well if the cost had only been one million. But Fate does not always let you fix the tuition fee. She delivers the educational wallop and presents her own bill, knowing you have to pay it, no matter what amount it may be.

157. There isn't a man in Wall Street who has not lost money trying to make the market pay for an automobile or a bracelet or a motor boat or a painting. I could build a huge hospital with the birthday presents that the tight fisted stock market has refused to pay for. In fact, of all hoodoos in Wall Street I think the resolve to induce the stock market to act as a fairy godmother is the busiest and most persistent.

Like all well-authenticated hoodoos this has its reason for being. What does a man do when he sets out to make the stock market pay for a sudden need? Why, he merely hopes. He gambles. He therefore runs much greater risks than he would if he were speculating intelligently, in accordance with opinions or beliefs logically arrived at after a dispassionate study of underlying conditions. To begin with, he is after an immediate profit. He cannot afford to wait. The market must be nice to him at once if at all.

159. Having grown accustomed to swinging a big line- say, more than a hundred thousand shares of stock- I feared I would not show good judgment trading in a small way. It scarcely seemed worth while being right when all you carried was a hundred shares of stock.

159. There is no mind so machine-like that you can depend upon it to function with equal efficiency at all times. I now learned that I could not trust myself to remain equally unaffected by men and misfortunes at all times.

Money losses have never worried me in the slightest. But other troubles could and did. I studied my disaster in detail and of course found no difficulty in seeing just where I had been silly. I spotted the exact time and place. A man must know himself thoroughly if he is going to make a good job out of trading in the speculative markets. To know what I was capable of in the line of folly was a long and educational step. I sometimes think that no price is too high for a speculator to pay to learn that which will keep him from getting the swelled head. A great many smashes by brilliant men can be traced directly to the swelled head- an expensive disease everywhere to everybody, but particularly in Wall Street to a speculator.

168. The loss of the money didn't bother me. Whenever I have lost money in the stock market I have always considered that I have learned something; that if I have lost money I have gained experience, so that the money really went for a tuition fee. A man has to have experience and he has to pay for it.

176. I knew that unless I had sufficient trading capital I would not be able to use good judgment. Without adequate margins it would be impossible to take the cold-blooded, dispassionate attitude toward the game that comes from the ability to afford a few minor losses such as I often incurred in testing the market before putting down the big bet.

177. I have come to feel that it is as necessary to know how to read myself as to know how to read the tape. I have studied and reckoned on my own reactions to given impulses or to the inevitable temptations of an active market, quite in the same mood and spirit as I have considered crop conditions or analyzed reports of earnings.

179. All of a sudden, as I was on my way to a sure fortune, we had the *Lusitania* break. Every once in a while a man gets a crack like that in the solar plexus, probably that he may be reminded of the sad fact that no human being can be so uniformly right on the market as to be beyond the reach of unprofitable accidents.

180. And not only was the war-bride boom more naturally developed than all others but it proved unprecedentedly profitable for the general public. That is, the stock market winnings during 1915 were more widely distributed than in any other boom in the history of Wall Street. That the public did not turn all their paper profits into good hard cash or that they did not long keep what profits they actually had was merely history repeating itself. Nowhere does history indulge in repetitions so often or so uniformly as Wall Street. When you read contemporary accounts of booms or panics the one thing that strikes you most forcibly is how little either stock speculation or stock speculators today differ from yesterday. The game does not change and neither does human nature.

181. I was not, and I never have felt that I was, wedded indissolubly to one or the other side of the market. That a bull market has added to my bank account or a bear market has been particularly generous I do not consider sufficient reason for sticking to the bull or the bear side after I receive the get-out warning. A man does not swear eternal allegiance to either the bull or the bear side. His concern lies with being right.

181. And there is another thing to remember, and that is that a market does not culminate in one grand blaze of glory. Neither does it end with a sudden reversal of form. A market can and does often cease to be a bull market long before prices generally begin to break.

181. It was simple enough. In a bull market the trend of prices, of course, is decidedly and definitely upward. Therefore whenever a stock goes against the general trend you are justified in assuming that there is something wrong with that particular stock. It is enough for the experienced trader to perceive that something is wrong. He must not expect the tape to become a lecturer. His job is to listen for it to say "Get out!" and not wait for it to submit a legal brief for approval.

182. While I felt certain that the bear market had really begun before the bull market had really ended, I knew the time for being a rampant bear was not yet. There was no sense in being more royalist than the king; especially in being so too soon. The tape merely said that patrolling parties from the main bear army had dashed by. Time to get ready.

183. On the news the market broke badly and I naturally covered. It was the only play possible. When something happens on which you did not count when you made your plans it behooves you to utilize the opportunity that a kindly fate offers you.

183. I cleared about three million dollars in 1916 by being bullish as long as the bull market lasted and then by being bearish when the bear market started. As I said before, a man does not have to marry one side of the market till death do them part.

188. Among the hazards of speculation the happening of the unexpected- I might even say of the unexpectable- ranks high. There are certain chances that the most prudent man is justified in taking- chances that he must take if he wishes to be more than a mercantile mollusk. Normal business hazards are no worse than the risks a man runs when he goes out of his house into the street or sets out on a railroad journey. When I lose money by reason of some development which nobody could foresee I think no more vindictively of it than I do of an inconveniently timed storm. Life itself from the cradle to the grave is a gamble and what happens to me because I do not possess the gift of second sight I can bear undisturbed. But there have been times in my career as a speculator when I have both been right and played square and nevertheless I have been cheated out of my earnings by the sordid unfairness of unsportsmanlike opponents.

189. I do not think that my business is strife and contest. I never fight either individuals or speculative cliques. I merely differ in opinion- that is, in my reading of basic conditions.

189. I have in mind certain hazards of speculation that from time to time remind a man that no profit should be counted safe until it is deposited in your bank to your credit.

196. Tips! How people want tips! They crave not only to get them but to give them. There is greed involved, and vanity. It is very amusing, at times, to watch really intelligent people fish for them. And the tip-giver need not hesitate about the quality, for the tip-seeker is not really after good tips, but after any tip.

202. It has always seemed to me the height of damfoolishness to trade on tips. I suppose I am not built the way a tip-taker is. I sometimes think that tip-takers are like drunkards. There are some who can't resist the craving and always look forward to those jags which they consider indispensable to their happiness. It is so easy to open your ears and let the tip in. To be told precisely what to do to be happy in such a manner that you can easily obey is the next nicest thing to being happy- which is a mighty long first step toward the fulfillment of your heart's desire. It is not so much greed made blind by eagerness as it is hope bandaged by the unwillingness to do any thinking.

203. The belief in miracles that all men cherish is born of immoderate indulgence in hope. There are people who go on hope sprees periodically and we all know the chronic hope drunkard that is held up before us as an exemplary optimist. Tip takers are all they really are.

211. I admit that I do get irresistible impulses at times to do certain things in the market. It doesn't matter whether I am long or short of stocks. I must get out. I am uncomfortable until I do. I myself think that what happens is that I see a lot of warning signals. Perhaps not a single one may be sufficiently clear or powerful to afford me a positive, definite reason for doing what I suddenly feel like doing. Probably that is all there is to what they call "ticker-sense" that old traders say James R. Keene had so strongly developed and other operators before him.

214. The training of a stock trader is like a medical education. The physician has to spend long years learning anatomy, physiology, materia medica and collateral subjects by the dozen. He learns the theory and then proceeds to devote his life to the practice. He observes and classifies all sorts of pathological phenomena. He learns to diagnose. If his diagnosis is correct- and that depends upon the accuracy of his observation- he ought to do pretty well in his prognosis, always keeping in mind, of course, that human fallibility and the utterly unforeseen will keep him from scoring 100 percent of bull's eyes. And then, as he gains in experience, he learns not only to do the right thing but to do it instantly, so that many people will think he does it instinctively. It really isn't automatism. It is that he has diagnosed the case according to his observations of such cases during a period of many years; and, naturally, after he has diagnosed it, he can only treat it in the way that experience has taught him is the proper treatment. You can transmit knowledge- that is, your particular collection of card indexed facts- but not your experience. A man may know what to do and lose money- if he doesn't do it quickly enough.

Observation, experience, memory and mathematics- these are what the successful trader must depend on. He must not only observe accurately but remember at all times what he has observed. He cannot bet on the unreasonable or the unexpected, however strong his personal convictions may be about man's unreasonableness or however certain he may feel that the unexpected happens very frequently. He must bet always on probabilities- that is, try to anticipate them. Years of practice at the game, of constant study, of always remembering, enable the trader to act on the instant when the unexpected happens as well as when the expected comes to pass.

A man can have great mathematical ability and an unusual power of accurate observation and yet fail in speculation unless he also possesses the experience and the memory. And then, like the physician who keeps up with the advances of science, the wise trader never ceases to study general conditions, to keep track of developments everywhere that are likely to affect or influence the course of the various markets. After years of the game it becomes a habit to keep posted. He acts almost automatically. He acquires the invaluable professional attitude that enables him to beat the game- at times! This difference between the professional and the amateur or occasional trader cannot be overemphasized. I find, for instance, that memory and mathematics help me very much. Wall Street makes its money on a mathematical basis. I mean, it makes its money by dealing with facts and figures.

When I said that a trader has to keep posted to the minute and that he must take a purely professional attitude toward all markets and all developments, I merely meant to emphasize again that hunches and the mysterious ticker-sense haven't so very much to do with success. Of course, it often happens that an experienced trader acts so quickly that he hasn't any time to give all his reasons in advance- but nevertheless they are good and sufficient reasons, because they are based on facts collected by him in his years of working and thinking and seeing things from the angle of the professional, to whom everything that comes to his mill is grist.

216. Experience has taught me that the way a market behaves is an excellent guide for an operator to follow. It is like taking a patient's temperature and pulse or noting the color of the eyeballs and the coating of the tongue.

217. Following the dictates of experience may possibly fool you, now and then. But not following them invariably makes an ass out of you.

217. I have found that experience is apt to be a steady dividend payer in this game and that observation gives you the best tips of all. The behavior of a certain stock is all you need at times. You observe it. Then experience shows you how to profit by variations from the usual, that is, from the probable.

234. In booms, which is when the public is in the market in the greatest numbers, there is never any need of subtlety, so there is no sense of wasting time discussing either manipulation or speculation during such times; it would be like trying to find the difference in raindrops that are falling synchronously on the same roof across the street. The sucker has always tried to get something for nothing, and the appeal in all booms is always frankly to the gambling instinct aroused by cupidity and spurred by a pervasive prosperity. People who look for easy money invariably pay for the privilege of proving conclusively that it cannot be found on this sordid earth. At first, when I listened to the accounts of old-time deals and devices I used to think that people were more gullible in the 1860's and 70's than in the 1900's. But I was sure to read in the newspapers that very day or the next something about the latest Ponzi or the bust-up of some bucketing broker and about the millions of sucker money gone to join the silent majority of vanished savings.

244. There are men whose gait is far quicker than the mob's. They are bound to lead- no matter how much the mob changes.