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The Beauty of the Breakout Trade

One of my favorite *Market Wizards* stories was that of Gary Bielfeldt.

I had some back-and-forth with Bielfeldt (one of a handful of Market Wizards) circa 2001 or so.

I heard through the grapevine (this was at least ten years ago) that he ran into some legal trouble – but even if so, that takes nothing away from his 1980s and 1990s accomplishments.

The Bielfeldt story is inspiring, in particular, because he literally started with a few hundred dollars in his trading account and ran it up into the tens and hundreds of millions.

When Bielfeldt started trading, he only had the funds to work with a single corn futures contract.

(For those who know the futures markets, the price movement in corn was small and sleepy compared to many other futures contracts. During my stint as a commodity broker at the tail end of the 90's, the margin on a corn contract was around $400.)

Bielfeldt started with corn… and then started developing fundamental opinions on soybeans… and after building up his account brick by brick, took a very aggressive trade in soybeans. He saw a chance to step up to the plate and take a home run swing.

The trade almost stopped him out, but it didn't… and his analysis was right. Then Bielfeldt did something most traders and investors never do. He showed the guts and foresight not to cash out early, but hold onto the trend.

The profits from this big soybean trade turned Bielfeldt's small account into some real and serious capital. He moved in a step progression, from a few hundred dollars, to a few thousand, and then to tens of thousands on into six figures.

(Why do most traders almost never do this? Because they are typically playing with "scared money"…. or they are too short-term oriented… or they lack the intestinal fortitude to find and ride major trends.)

But after running up his account in soybeans, Bielfeldt was just barely getting started. After a bad trade in beans, he started looking at treasury bonds in the early 1980s.

Treasury bonds saw an amazing, once-in-a-lifetime bottom in the early 1980s. This is when Federal Reserve Chairman Paul Volcker resolved to beat inflation at any cost.

When interest rates rise, bond prices fall… and the US 10-year treasury note, currently yielding around 1.5%, was yielding in the *mid-teens* circa late 1981. There hasn't been a period like it before or since.

Bielfeldt started focusing on the bond market, combining his knowledge of trend following methods with an instinctive sense that bonds were finding a bottom (and interest rates were peaking).

What happened next was then amazing. Bielfeldt combined the flexibility of a trend-following trader with the conviction and focus to stick with, and build on, a massive trade.

He started building a large position in bonds, with a number of stops and starts, in the general area of a historic bottom. And then, when the trade took off, he stuck with it, and pyramided into it… for years and years. His account grew so large that, when calling orders into the bond pits, the floor traders thought his initials represented some giant corporation or European trading entity… not the actions of a single guy with a home office in Peoria Illinois.

Nor is Bielfeldt's story unique. There are different versions of this story for multiple traders and investors. They found their "breakout trade" and it catapulted them into a new echelon. Warren Buffett had some moments like this too, like when he put 40% of his partnership's capital into one stock, American Express, in the 1960s.

The psychology and mechanics of creating and riding a breakout trade – one that takes an account to a new echelon, a whole new level – are such that the typical trader or investor will never do it. This is not because markets are hard and tricky, but instead because of the psychological requirements and logistics and orientations required. For example:

- This kind of approach requires the ability to exploit (and stick with) longer term trends, because shorter term positions are not powerful to do the "heavy lifting" of compounding large sums of capital.

- This kind of approach almost always requires an awareness of, and familiarity with, the fundamental side, because it is very hard (if not impossible) to build and pyramid huge positions based on technicals alone.

- It requires a willingness to endure stops and starts at the beginning of a promising trend… seeing an opportunity early enough that the writing is not yet on the wall… and then showing willingness to apply risk management as one probes for repeated entries.

- It requires the mental and intestinal fortitude to hold large positions in a large trend and not be "shaken out" by signs of medium-term setback within the trend.

- It requires an account orientation where capital is allowed to compound in the account – if not being added to – over significant periods of time, which again is different than the orientation of taking profits quickly or expecting to draw living expenses off a small base.

- It requires the ability to observe and absorb short-term price movements, demonstrating engagement, combined with the presence of mind and detachment to think in terms of long-term trajectories. Many traders are naturally oriented to short-term but "no good at" trend riding because they lack patience and discipline; on the other side of the coin, many investors are good at "thinking long-term" but no good at handling and exploiting short and medium term fluctuations in managing risk and entries and so on.

This approach is hard to develop… hard to get good at… and hard to implement. But that is why it confers a number of major advantages. It is scale-invariant, for one. You can use to get from \$10,000 to \$100K… or \$100K to \$1 million… or \$1 million, to \$10 million and far beyond. It is deeply flexible and diverse, for another thing. If you understand the mechanics of building breakout positions – psychological, logistical, day to day – you can apply that knowledge over time to stock indices or small cap investments or currencies or commodities or a whole range of things.

There is a whole art and science to this, extending from ways of thinking to detailed ways of operating. If you want to build not just one-time breakout wealth but future wealth, for decades to come, it’s absolutely the way to go.