Reminiscences of a Stock Operator Study Guide

Reminiscences of a Stock Operator by Edwin Lefèvre

(c)2015 BookRags, Inc. All rights reserved.

Contents

Reminiscences of a Stock Operator Study Guide....1
Contents....2
Plot Summary....4
Chapter I....7
Chapter II....8
Chapter III....9
Chapter IV....10
Chapter V....11
Chapter VI....12
Chapter VII....13
Chapter VIII....14
Chapter IX....15
Chapter X....16
Chapter XI....17
Chaper XII....18
Chapter XIII....19
Chapter XIV....20
Chapter XV....21
Chapter XVI....22
Chapter XVII....23
Chapter XVIII....24
Chapter XIX....25
Chapter XX....26
Chapter XXI....27
Chapter XXII....28

Chapter XXIII.......... 30

Chapter XXIV.......... 31

Characters.......... 32

Objects/Places.......... 37

Themes.......... 39

Style.......... 41

Quotes.......... 43

Topics for Discussion.......... 47

Plot Summary

Reminiscences of a Stock Operator is a fictionalized account of the early life and rise to fortune of Jesse Livermore, one of the most famous speculators in history. Renamed Larry Livingston in this book, he gets his start as a young boy in the "bucket shops" of Boston, where small bets are made against the house on the rise and fall of stocks or commodities. Soon he graduates from quote-boy to beating the bucket houses at their own game, until they throw him out for winning too much. After that, he heads to Wall Street to try his hand at real trading, with many dramatic gains and losses along the way. Livingston becomes a force in the markets, which are not as highly regulated as they become eventually. His tips on speculating and human nature fill the pages and are still legendary among modern traders.

Livingston starts out as a quote-boy in the bucket-houses, where he quickly realizes he has a knack for understanding the movements of the various stock prices. He begins taking notes and making predictions, and eventually gives up his job in favor of betting on the prices. He does well and makes his first $1000 by the time his is 15. He has an excellent memory for the individual stocks and their patterns, and a head for figures. He begins making so much money in the bucket shops that they eventually ban him from betting.

Livingston decides to go to New York and try his hand at real trading on Wall Street. His stake is not very large and he does not have a way of increasing it in New York, because the bucket shops are closed down. He slowly loses money on Wall Street, mostly because the smaller short-term bets he is used to making do not work out for actual trades. He cannot make a trade quickly enough to react to small price movements; there is always a time lag that often causes him to lose money, especially when there is a large movement of the market.

After having lost his first stake, Livingston goes to St. Louis in search of bucket shops that have never heard of him. He make a few thousand dollars before they all throw him out also. After going back to New York, it does not take long for him to lose this money also. Dejected, he goes back to Boston to try and regain his stake and figure out what he is doing wrong. Although he cannot use the bucket shops, he finds some stock exchanges that are a bit unethical. These exchanges normally trick their clients into losing a lot of money, but he knows their games and turns the tables on them.

Livingston goes back to Wall Street and begins to get better at trading. He learns that underlying market conditions and overall direction are more important than the short-term movements of individual stocks. He explains that one should buy on a rising market and sell on a falling market, never trading opposite the general trend on short-term rallies. In addition, he warns against trading in a ranging market and explains how to test the market to determine if a trend has been established.

By following these principles and studying the world financial situation, Livingston makes his first million dollars by going short in a bear market. At times he even works

against attempts by traders to rally, because he believes the time is not yet right for the overall market to rally. Eventually, the financial situation gets so dire that there is a general shortage of cash in the banking system and no-one is able to buy stocks. J.P. Morgan assists in loosening up the cash flow and averting a panic, and Livingston does his part by agreeing not to put in any more sell orders. Instead, he begins buying and the stock market begins to rally. This is the point at which he believes he finally understands how the market works.

Livingston then buys a few yachts and goes off on a fishing vacation. Eventually the commodities market catches his eye and he begins to think about trading in cotton. He is well-known at this point, and a famous cotton trader contacts him to see if he wants to go into a partnership. Even though Livingston declines, the cotton trader eventually convinces him to buy when he should be selling. He starts losing a lot of money and ignores his own trading principles, selling commodities that are making a profit and hanging onto those that are losing money, hoping to turn the market around. When he has lost almost all of his money, he further compounds his mistakes by trying to force a profit out of Wall Street to make up for his losses, at a time when the market is not good for making money. In the end he goes flat broke and becomes very ill and disheartened. In the end, he realizes that one's own susceptibility to emotional responses is as important to understand as anything about the market.

Livingston goes through a long, difficult period when he is taken advantage of by one brokerage house only to realize that they are causing him to lose out on opportunities to protect their other clients. This is followed by a period in which the market is not doing anything that would allow a trader to make money and because he is trying anyway, Livingston's debts eventually rise to the level of nearly a million dollars. He declares bankruptcy, which frees him to trade with a clearer mind. He calls in a favor to get a small stake and the market rises sharply due to World War I, allowing him to make enough money to pay off all his previous debts and then some. He does describe how there are some events that cannot be foreseen that can cost a trader money, in his example of a group of coffee traders who go to Congress and get the rules changed in the middle of his trade, making it unprofitable.

Livingston gives some general advice about what he has learned during this period. First he discusses his general rule of not listening to tips even though everyone else seems to be hungry for them. He believes they are mostly used by insiders and stock manipulators to fool the public. One should rely on one's knowledge of general market conditions and trends, as well as information on the specific company. He provides some examples of insider trading and what a great effect it can have on individual stock prices, making a certain stock behave in a way that it should not. He also mentions his "hunches," which are somewhat famous. He does not think they are really anything supernatural, but rather a combination of small signals that an experienced trader would notice without necessarily being conscious of them.

Later in his career, Livingston becomes a stock manipulator or operator. He is paid by a group of insiders or investors to manipulate the price of stock so that he can sell their shares at a good prices, usually a large amount of shares that they could not otherwise

dispose of profitably. Livingston first tells some tales of famous manipulators and their coups in the market, and then gives some examples of how he manipulates stock prices on behalf of his customers. He believes the best approach is not to spread rumors of tips, but rather to trade in the market in such a way as to give other traders certain impressions of what is happening with that stock and induce them to buy or sell accordingly.

Based on his career experiences, Livingston reviews some of the activities he believes are unethical and ought to be banned. Prominent among these is the printing of unattributed tips by the press, supposedly coming from high but unnamed sources within a company. Livingston believes that the general public, and even traders, lose a lot of money on these tips, which are really designed to allow insiders to dispose of their own holdings at an inflated price. He also discusses the conflict of interest that brokers have who accept commissions from insiders and then recommend the same stocks to their customers, inducing them to buy at these same inflated prices. Livingston frowns on stock splits and offering stocks on a payment plan. Finally, he closes with his most frequent admonition that to become a successful trader, one should not rely on the tips of others.

Chapter I

Chapter I Summary and Analysis

Livingston has a job as a quotation-boy at a "bucket shop" in Boston. Quotes for stocks are called out as they come across the ticker tape, and are written on a large board. Customers place bets on whether stocks will go up or down and can bet on the margin if the house allows it. The bucket shops are not legal but are tolerated. The young Livingston is fascinated by patterns in the tape and has an excellent memory for numbers. He is able to remember the patterns various stocks normally exhibit well enough to predict their behavior or notice if they act strangely. He records his predictions and compares them to the actual performance of the stocks. Livingston trusts his observations more than tips from others. There is very little regulation and the volume of trades is small, so it is relatively easy for the price of a stock or commodity to be influenced by a single person or for market manipulations to occur. It is important to notice when a stock is behaving erratically and stay clear of it.

When Livingston is satisfied that his system works, he starts betting, and soon makes enough money to live on—his first $1000 at the age of 15. However, the bucket shops do not like his winning and begin banning him from trading. Word spreads and even affiliates of the main shops ban him. He bets for a while at the last and largest of the companies in Boston, which does not want to be known for turning customers away. Yet, eventually they try to play a trick on Livingston, causing a market manipulation meant to lose them a lot of money. However, Livingston cashes out, beating them at their own game.

Chapter II

Chapter II Summary and Analysis

When Livingston discovers no-one in Boston will take his bets anymore, he goes to New York to trade on Wall Street. He has $2,500 of his $10,000 original stake. No one should trade every day, just for the sake of trading—the excitement leads speculators to place bets even when nothing is really set up right. This has cost him and others large amounts of money. Having patience and waiting until the right moment is an important aspect of successful trading.

Livingston makes his way to New York, where bucket shops are mostly shut down. He has no way to increase his stake, and Wall Street requires a greater amount of money to buy in. He starts trading, but is broke in six months. Trading on Wall Street is not like trading in bucket shops—it is actual trading, not betting on stock prices. In bucket shops, the ticker gives prices in real time. Bets can be carefully timed and bought and sold instantly. On Wall Street, there is a lag between requesting a trade and when it is carried out. By then the price may have changed significantly. This is especially a problem for smaller trades, but it takes Livingston a while to figure out the problem.

Meanwhile, he has to regain his trading money. He talks the president of his brokerage house, A.R. Fullerton & Co., into lending him $500 and goes to St. Louis, where there are some bucket shops. He succeeds for a while, but is refused patronage once he has made $2800. When he complains, he is told that the shop is out to make money, not lose it. Teller's, the only other place in town large enough for his purposes, has already heard about him by the time he arrives, and he is not allowed to trade. He gives up and returns to New York.

Chapter III

Chapter III Summary and Analysis

Livingston says, to be a successful stock trader, one must have confidence and back judgment with money, make the actual trades and learn from experience. He reiterates that the highly technical, short-term trading he learned in the bucket shop is not the whole picture, and is not even that useful on Wall Street. After returning from St. Louis, he plays cautiously, but still loses money.

Livingston has a lot of ups and downs, riding some successful technical trades to new heights and reaching $50,000 at one point. One day the market moves so quickly the brokers cannot keep up, and even though Livingston is predicting the direction correctly, he loses most of his money. He is still reacting to the prices and movements, rather than trading on broader general principles that will anticipate the market. However, he is still making enough money to live on, which only delays the inevitable need to learn new trading techniques.

Chapter IV

Chapter IV Summary and Analysis

Livingston is broke and frustrated, and returns to Boston. There are some new bucket shops in Boston, but they will not allow large trades, and those who remember him will not let him trade. One day Livingston is complaining to friends about how slow trades are on Wall Street when he meets a new trader named Roberts. Roberts suggests there are alternative, smaller exchanges that take great care in executing quick trades, and which handle small stakes as well as large. Livingston knows these outfits are shady, but listens. These exchanges play tricks on their customers, getting some to buy a commodity while others are selling, making money on both deals. Livingston decides he can make money off of them, and goes to set up an account.

Livingston portrays himself as someone who has lost a lot of money in Wall Street and they think he is an easy mark. They agree to let him trade on the prices quoted (more like a bucket shop). He establishes accounts at several of these smaller exchanges, making quite a bit of money. Unlike bucket shops, they have a reputation to uphold and it is harder for them to get rid of a paying customer. The exchanges set up various manipulations to make Livingston lose money, but he usually avoids the trap. Finally, he starts reverse manipulations on them, working through broker friends on Wall Street.

After about a year, Livingston has made a good bit of money and is starting to feel limited. He returns to Wall Street to try again. On the way to New York, he and a companion stop in New Haven and happen to pass a bucket shop. They go in, doing their best to look like college students. Livingston quickly takes the bucket shop for about $2000 and arrives in New York knowing what not to do, but still not entirely knowing what to do in order to win on the stock market.

Chapter V

Chapter V Summary and Analysis

Livingston discusses the patterns various stocks show and how charts can be kept of these patterns and compared to market trends. By applying certain rules to the patterns, traders can decide if it is a good time to buy or sell a particular stock. Only the best traders make money with this approach. One problem is that it ignores the underlying conditions that make a market move, irrespective of individual stocks and past precedents. These technical trading tools work best paired with knowledge of market conditions and normalcy.

Livingston is still learning these lessons for himself, trading in Fullerton's office. He enjoys trading enough that it takes him a while to realize it is more important to anticipate larger movements of the market and trade on those. He begins to study longer-term movements of the markets and stocks he is interested in. He becomes able to predict the trends of the market fairly well, but this is still not enough. He is still not making what he expects. One problem is that he is taking his profits out too quickly for fear of a reversal.

Livingston tells of Mr. Partridge, an older trader in the office whom the younger men ask for advice. Mr. Partridge invariably answers with something like, "Well, you know it's a bull market!" The traders think he is just being difficult. Slowly Livingston gets the point —if the market is a bull market, one should buy stocks, irrespective of which stocks you buy. In a bear market, one should sell stocks. This overall trend is more important than specific trades. In a rising market, one should hold on to stocks even through temporary reversals, rather than selling too early and missing out on additional profit. Further, it is impossible to catch the tiny fluctuations of the market and individual stocks. If a trader is in for the long haul, it is not important to try to catch the exact moment when the market begins to rise. These points are difficult to hit and cost traders a lot of money trying. Slowly Livingston is picking up these ideas.

Chapter VI

Chapter VI Summary and Analysis

Livingston gets a strong hunch and cannot shake the urge to sell Union Pacific stock. He starts selling, at first slowly, but then by the thousands of shares. He goes ahead with this because in the past when he has ignored strong hunches he has always regretted it. Just a few days afterward, the great San Francisco earthquake of 1906 happens. The extent of damage to Union Pacific's railways eventually causes its stock to plummet, and Livingston continues selling shares, making $250,000, his largest windfall yet.

Not long after, Livingston notices Union Pacific stock starting to rise. He starts buying to take advantage of the rise. However, the branch manager convinces him to sell the stock—he is certain Livingston is being played by company insiders and they will cause a turn-around in the price. Livingston sells, only to have news on the next day of a new dividend being offered, which causes the stock to dramatically rise. He wishes he had trusted his own judgment, as obviously insiders had knowledge of this and he read their intentions correctly. He buys more Union Pacific stock, making back money as it continues to go up, but realizes he would have made much more had he followed his own plan.

Chapter VII

Chapter VII Summary and Analysis

Livingston discusses bull and bear markets. He describes how he stopped focusing on individual stocks to look at the market overall. One should always buy or go long on a rising market, and sell or go short on a falling market. Each trade should be at a higher price than the last on a rising market, or at a lower price than the last on a falling market. One should not trade on the temporary reversals but maintain one's position on the overall rise or fall. Livingston also explains how to test the market with an initial trade, only making follow-up trades if the first one brings a profit. Further, one can only sell shares of a stock if there are willing buyers. There is only so much stock for a particular company, and individual traders can strongly affect the market through their actions. A trader must assess the market carefully to make sure he can sell his stock for the price he seeks, and if not, wait for a better time.

Chapter VIII

Chapter VIII Summary and Analysis

Livingston is convinced his own knowledge, ideas, and hunches serve him better than any other other sources of information. He discusses the importance of being objective and neutral and not preferring a bear or bull market, but trading based on what conditions actually are. He complains that economic news in the papers is retrospective rather than forward-looking.

Livingston is concerned about the world economic situation in 1906. He expects the San Francisco earthquake and fire, a British war in South Africa, and other disasters will effect the market. The market must drop, and the drop will be a big one. Consequently, he sells short. Unfortunately, a series of market rallies and general instability eat up his profits. Certain the market must eventually go as he expects, he tries again, only to go broke. Frustrated, he wonders where his calculations went wrong. He may have started too soon. Sure enough, he starts to see clearer indications of financial problems in the banks and railroads. Left without any money, he is not able to convince his brokerage house to back him in his trades. However, eventually the financial news shows more indications of lack of capital for the railroads and his brokerage decides he is right. They back him and the market falls steeply as expected, earning both Livingston and his brokerage vast amounts of money.

Chapter IX

Chapter IX Summary and Analysis

Livingston sees the market has been rallying. He sets out to prove this is just a temporary rally, waiting until the right moment and then selling stocks. The other traders think he will lose. However, he is right—the market drops. Later, he gets a further indication that companies and traders are trying to create a market turn-around, and he thinks it is not time yet. He again begins selling stocks. At this point he is at the top of his game, predicting market movements accurately and making a lot of money for himself and his brokerage. The market continues to slide, and there are signs the banking sectors may be affected. Funds start to dry up, which causes great concern in the railroad sector as companies compete for what capital there is.

Ultimately, there is a financial panic in October of 1907. No funds are available and no-one is buying stocks, due to the general market slide. Profits cannot be converted to cash. The president of the Stock Exchange goes to see the wealthiest bank, and together they go to see J.P. Morgan. J.P. Morgan orders major banks to dip into their reserves and make $20 million in cash available. His power and authority is great enough that all obey and disaster is averted.

Further, bankers beg Livingston not to sell any more stock, as it might increase the general panic, throwing the whole system into irrecoverable disarray. Livingston knows this would make it impossible for him to translate his profits into cash. Livingston sends in orders to buy a vast amount of stock, beginning a market recovery. He feels he understands the market completely.

Chapter X

Chapter X Summary and Analysis

Livingston trades in stocks and also the commodities market. He considers commodities down to earth and less prone to complex maneuvering than stocks. Commodities are affected by basic conditions such as supply and demand, crop health, transportation issues, and other understandable factors. Livingston discusses how to determine the direction of prices and then trade in accordance with this direction. Since the direction of least resistance is based on underlying factors, if a surprise event happens, it is more likely to contribute to the direction the market is already going and help one's trade.

A trader errs if he tries to trade when the direction of the market is not firmly established. He may push the market around through large trades, but it will always return to where it was. If it is ranging in a narrow band, any trade he makes may go in any direction, and it is difficult to anticipate what might win or lose. Livingston says it is better to wait until the price has clearly broken through the top or the bottom of the narrow ranging band before taking action, because then one can see that a larger trend is establishing itself. A trader should start with a small trade and see if it goes in the right direction. If not, the market is indicating it is not yet time to start trading the trend.

Livingston also lays out one the of the principal rules of modern trading: always sell anything showing a loss immediately and hold onto the stocks or commodities that are making profits. This goes against one's natural inclination to hope that a loss can be made up and to worry that a profit will be lost. Livingston says you must do the opposite—be concerned that a loss may grow bigger and hope that a profit will grow. In this way, average losses will be smaller and average profits will be larger, giving a net profit overall.

Chapter XI

Chapter XI Summary and Analysis

Livingston has been trading in wheat and corn, and is selling those as well. Wheat prices are declining as expected, but corn is having a hard time getting to market due to weather on the roads. Someone is also buying it all up, raising the prices and causing Livingston to lose money. Through some market maneuvers, Livingston makes back enough money to cover his losses in corn.

Livingston hears about a famous cotton trader who has taken a spectacular loss. He decides to start buying cotton when everyone else is still selling it. As soon as he has most of the cotton, the price begins to rapidly rise and he makes a great deal of paper profit. The problem now is to convert that profit to cash, because when one has most of the market , as soon as one starts selling it the price begins to drop. Just then, the newspaper "World" runs an article titled "July cotton cornered by Larry Livingston." This causes a run on cotton, which allows him to sell. Though people claim he engineered the article, he denies it.

Chaper XII

Chaper XII Summary and Analysis

Livingston receives a request to meet with the noted cotton trader, Percy Thomas, whom he admires but who has recently lost millions in the cotton market. Thomas proposes he and Livingston become partners, with Thomas providing information and Livingston guiding the trading. Livingston refuses because he prefers to work alone, so no-one is dependent on him and he can follow his own ideas. He hints that his downfall in the incident to come is that he can be persuaded by a brilliant mind and cogent presentation.

Percy Thomas proves an interesting and highly knowledgeable discussion companion. They discuss the cotton market, and where Livingston believes it is a bear market, Thomas believes it is a bull market. Thomas makes such a convincing presentation that Livingston starts to waver. He begins to follow Thomas' thinking, in spite of his mantra to rely only on his own beliefs. He begins trading on Thomas' advice, and is soon losing substantially. Rather than pull out, he buys more in an attempt to hold up the market. Livingston is also in wheat, which is doing well. He does exactly the wrong thing and sells the wheat in order to continue trading in cotton. He loses nearly everything. With only a few hundred thousand left, he decides he has to make it back in the stock market —ignoring his own long-standing principle that one should not trade when one needs money, but rather when market conditions are appropriate. He trades because he feels he has to, and loses everything.

Chapter XIII

Chapter XIII Summary and Analysis

Now Livingston is flat broke, and becomes ill besides. He is no condition to trade and wonders how he could make such a terrible series of mistakes. He goes to Chicago to recover. He finds a small stake there from trading houses that still believe in him, and very slowly begins to build up his assets.

Back in New York, Daniel Williamson offers Livingston $25,000 as a stake, if Livingston will open a brokerage account with his firm. The brokerage needs Livingston to cover for the activities of some well-known clients. Livingston agrees. He quickly makes back the stake and offers to reimburse Williamson. Williamson demurs. Livingston comes to regret not insisting, as Williamson calls in favors, asking Livingston to do or not do certain trades. After several years, Livingston realizes he is being used by Williamson to protect his other clients and family from adverse trading Livingston might do if he were at another brokerage house. Livingston missed many opportunities to make money in the market because of Williamson. Livingston leaves the brokerage, frustrated because the market is no longer good for making money.

Chapter XIV

Chapter XIV Summary and Analysis

Livingston does his best to make money, but market conditions are not right. He becomes in debt to various brokerage houses. He comes to the conclusion that he cannot trade properly as long as he is worried about his debts, as it causes him to be less objective. He considers bankruptcy, but most of the brokerage houses tear up his debts, trusting him to pay them back if he ever has the means. He still declares bankruptcy to avoid two persistent creditors. After this, Livingston feels much better. However, he has no money with which to trade and the market is in a sad state, with not much money among any of the brokers, and none to lend. He decides to go to Williamson and call in a favor. Williamson agrees to allow him to buy 500 shares of any one stock.

Livingston has only one chance to make money. He studies the market for six weeks, anxious and broke but determined to wait until just the right moment. At last he sees it—Bethlehem Steel. The market is going up, and this stock is leading the way, but Livingston is determined to wait until it is absolutely certain. He gets in at the right time and makes enough to continue trading. The first year he loses money to the wreck of the Lusitania, but still comes out ahead. After that, the market is rising so fast it is hard not to make money.

Livingston buys stocks through the bull market of 1915 and then identifies the moment the market begins to turn. He begins to sell the stocks leading the downturn and keeps on buying those still rising. When the entire market turns he begins selling. He begins selling wheat and makes money on that as well. President Wilson is negotiating a peace treaty, and Livingston believes this will make the prices rise again. He buys cotton, only to have the Germans issue a proclamation of war. He laments betting on a non-market political issue.

Livingston returns to New York and pays off the debts he owes, over a million dollars. To prevent being broke again, he puts money into annuities. When he gets married, he puts additional money in a trust fund for his wife and child.

Chapter XV

Chapter XV Summary and Analysis

Livingston warns there are some things no speculator can guard against. One can do his best to protect against the actions of other men, to accurately read and understand the market, and to avoid making mistakes—and if one is wrong due to any of these factors, one will lose money, but need not be upset. However, he hates losing money when he does everything right, but unforeseen events still cause him to lose.

He gives an example of trading in coffee during World War I. Coffee brokers appear before Congress and claim Livingston is trying to corner the coffee market. A board prevents profiteering in war necessities, and the coffee brokers convince the board the price of coffee should be kept low and existing contracts forced to be closed out. Livingston mocks the brokers for asserting coffee is a war necessity. When coffee is allowed to trade again, the price rises steeply, proving the market will win out in the end.

Livingston maintains that securities boards ought not to change the rules in the middle of transactions. In addition, he feels that successful traders are often vilified by the press and other traders, especially if they are selling, and blamed for making the price drop. Livingston states his belief that a trader cannot make the price of a stock or commodity drop unless the lower price is justified. If the low price is not justified, other traders will buy the stock in the knowledge that it is under-valued and its price cannot be kept down for long.

Chapter XVI

Chapter XVI Summary and Analysis

Livingston makes fun of traders and the public hungry for the latest tips. Livingston believes his own success is due to ignoring tips, but rather objectively watching stocks and applying his own techniques and ideas. Livingston identifies the spreading of tips as a technique of stock manipulators and promoters, who do not have the best interests of their customers in mind.

Livingston notes that traders on Wall Street are just as bad when it comes to tips. Livingston gets tips every day and generally ignores them. He is constantly asked for tips and follows his early mentor Partridge by simply noting the general direction of the market. This earns him glares from traders. He tells amusing stories about tips gone bad, as where a trader earns money by always doing the exact opposite of what an insider tells him to do. Livingston says the important thing is to have a general strategy, stick to it, and gain the best information possible, rather than listening to tips.

Chapter XVII

Chapter XVII Summary and Analysis

Livingston admits he sometimes feels a strong urge on which he must take action, but believes there is a good explanation. He suggests there are small warnings, none large enough to provide a rational excuse, but which together create a subconscious sense that now is the time to act in a particular way.

Livingston discusses the difficulties of selling a large amount of highly priced stock. On paper, one has a large profit, but one must convert that paper profit to cash. Doing so might affect the price substantially. One has to take a profit when conditions are right—others are willing to buy the stock for a reasonable price. This means beginning to sell before the price reaches its peak, or planning to sell at the top but expecting the price to drop along the way.

Livingston believes it is really just a matter of time and training which gives a trader a sense of when to take an action. He may need to act without taking the time to rationalize all the factors going into his decision. However, an experienced trader can test a stock. For example, if he offers a relatively small amount and it is not bought immediately, then he knows there is no support for the stock price and he ought to sell it as quickly as possible.

He also gives examples of stocks not behaving as they ought to. He avoids buying these even if the rest of the market is going up. If the price of a stock lags behind the rest of the market, it may mean there is something fundamentally wrong with that stock. If the insiders do not want their own stock, there is no reason why a prudent investor would buy it.

Chapter XVIII

Chapter XVIII Summary and Analysis

Livingston notices the price of Tropical Trading stock has been run way up by the insiders, in spite of the fact that the overall market is going down. Livingston proceeds to start selling their stock short. The insiders keep fighting back by running the stock up again, but Livingston holds his position, knowing the stock must eventually turn. The insiders start spreading rumors about the company to keep the price high and try to knock Livingston out of the market. In retaliation, Livingston sells a large amount of stock in a parent company of Tropical Trading, which makes everyone think there is something wrong with Tropical Trading that only insiders of that parent company know. At this, the price of Tropical Trading drops sharply. This has to be repeated to counteract the inside trading, but eventually Livingston watches the stock of both companies slide with the rest of the market and making about a million dollars on the trades.

Chapter XIX

Chapter XIX Summary and Analysis

Livingston becomes a stock operator, or manipulator. Many of the tricks of the trade he has used on his own behalf, he now accepts a commission to do for others. The main problem is how to buy or sell large amounts of a given stock at a favorable price, since any such trade begins to affect the price before the trade can be completed. Livingston points out that many of the methods used to manipulate the price of stocks in the past are illegal by his day, but that one can always rely on the mass psychology of traders and the general public.

Livingston discusses cornering the market as a way of influencing prices. Cornering a stock rarely makes a profit for one who tries it and is usually only a way to demonstrate skill, or get back at another speculator. The trader quietly cornering the market tries to convince others the price is bound to drop, when actually he intends it to rise sharply once the cornering becomes known.

Chapter XX

Chapter XX Summary and Analysis

Livingston mentions a famous stock manipulator active in the early part of Livingston's career, James R. Keene, who achieves the upward manipulation of U.S. Steel stock prices in 1901. Livingston laments there are no records of Keene's manipulations to learn from. Though some of Keene's techniques are no longer allowed, Livingston believes Keene would have been successful in any time period because he completely understood the market.

Livingston suggests stock manipulation is less about spreading rumors than it is about having the stock price itself tell traders what they want to see. In general, clients come to Livingston when they wish to sell a large amount of stock for the best possible price, either to bid up the price as high as possible or to avoid a market free-fall as they are in the process of selling it off. This requires finesse, as if people get the sense insiders are selling a lot of stock, they may all want to follow suit and get out as quickly as possible.

One of the primary tools used is for the manipulator to buy quantities of the stock to support the price, making it look as natural as possible, as if many people want to buy the stock. This will cause a general momentum upward, during which portions of the stock can be sold without causing a general slide. If the public gets enthusiastic enough about the stock, all of what the investors want to sell can be disposed of. Even if the stock turns downward, supporting the price on the way down with some buying allows a slow and steady decline.

Chapter XXI

Chapter XXI Summary and Analysis

Livingston is hired to assist the owners of Imperial Steel make its stock more active and sell their interest in it at prices better than they can obtain on the general market. This is a sound company but one whose stock has never been especially interesting. Trying to just sell large amounts of stock will naturally make the price drop, and there might not be any buyers for it. However, there is nothing wrong with the company that prevents Livingston from marketing it, so he accepts a contingent fee of one hundred thousand shares, which will only bring him profits if he succeeds in the task.

Livingston starts by buying whatever of the company's stock is currently available on the market at or above the current price. The overall market is rising, so it is not difficult to create the impression through this initial buying that there is some reason the stock of this company should rise. Brokers immediately start buying it and traders analyze the company to see if it is sound, which gives it a further positive impulse since the company is in good financial shape. This in turn creates further buy and sell orders, which have the effect of giving the stock visibility and creating activity around it.

At the top of the trend both Livingston and others sell some shares, and the price moves downward a little. He expects this, and begins buying the stock that is offered again. This cycle repeats, each time with the price going a little higher. In this way, Livingston is able to sell the owners' stock little by little for higher and higher prices. Every now and then, he buys more quickly and increases the price sharply, which creates excitement in the market. With the volume of the activity increasing, it becomes easier to move more stock and other outside traders become more willing to participate. Livingston is eventually able to dispose of all the shares he has been contracted to sell, and receives an excellent offer for his own shares from a banking concern.

Chapter XXII

Chapter XXII Summary and Analysis

Livingston is approached by an old friend and colleague, Jim Barnes. Barnes wants him to help a group of investors liquidate a large amount of stock in Consolidated Stove. This was a company that was formed by buying out and combining the stocks of three different companies, in order to be a large enough company to have enough stock to trade on Wall Street, where the prices are higher. A large bank loan is needed to finance the consolidation, which Barnes obtains from his bank. The loan seems like a good bet, since the stock offering is well-advertised, the backers are prominent well-known men, and there is more advance demand for the stock than there is stock.

However, the offerers make mistakes. They do not issue extra stock to cover the demand, and they do not realize they are already at the height of the bull market. There is not room in the market for prices to increase much further. The stock market declines, and with it the price of Consolidated Stove. At the same time, bankers are becoming more conservative and ask for loans to be repaid. Barnes comes to Livingston asking for his help in making enough money from the sale of 100,000 shares to pay off the $3.5 million loan.

To Livingston, the situation does not look good. The market is declining, and too much of the stock is held by only three people. If Livingston succeeds in raising the price of the stock, these three might unload their stock, substantially depressing the price and working against what Livingston is trying to achieve. To forestall this possibility, Livingston goes to the three men, all of whom are wealthy and experienced businessmen, and asks them to hold off on selling their stock while he first sells the bank's shares. Furthermore, he asks them to form a pool and give him $6 million to buy stock with and create a market for Consolidated Stove, to raise its price and eventually allow them to sell their shares also, which they have not been able to get rid of. They agree.

The three men give Wall Street brokers tips that Livingston is about to bid up the market, followed by similar articles in the press, and this causes traders to buy the stock and the price to rise without Livingston doing anything at all. Just on the strength of this rise he is able to sell the bank's shares to pay back the loan. At this point, Livingston has done his job, and he goes on vacation. Without his buying support, the stock falls along with the general market. Eventually the three men who own so much of the stock get angry with him for not raising the price and selling their stock, too. However, he never uses or needs any of their money and does not see why he should get involved. They should have sold their own stock when the price went up the first time.

Eventually the investors calm down and are still anxious to get rid of their stock. So, they again ask for Livingston's help in selling their shares. He advises them to sell now, because it will only get worse as the market declines. They agree and he sells their

stock at a measured pace, doing the best he can for them. They remain unhappy with him over the long-term. Livingston considers there is never any point in getting angry at the market.

Chapter XXIII

Chapter XXIII Summary and Analysis

Livingston reviews the different forces that can cause a stock speculator's plans to go wrong, including ones inherent to the market and those related to unscrupulous activity. In the 25 years he has been active, the Stock Exchange has done a great deal to clean up its act and weed out charlatans. However, it is more difficult to be a stock trader, because the number of different stocks listed has increased greatly. It is difficult for a trader to keep up with them all and know enough about each stock to make good decisions. Further, due to the complexity of the market, most traders rely on tips, which Livingston believes are designed to mislead traders in a way that will benefit the insiders most. Insiders are usually attempting to sell large amounts of their own holdings at good prices. The price is manipulated upwards and is bought by the public, who are left holding the bag when the stock reverts to lower levels.

Livingston complains the press is complicit in this insider trading by frequently printing information from unnamed insider sources, such a "high-level company official" or a "prominent director." He believes these types of unattributed statements to be a way of manipulating stock prices while shielding anyone from personal responsibility, and that they should not be allowed.

Chapter XXIV

Chapter XXIV Summary and Analysis

Livingston describes practices he believes should be banned as unfair to the public. Broker letters are letters brokers send out to subscribers or followers that give advice on good stocks to buy or sell. If these are fairly presented and accurately reflect what is likely to happen with these companies, taking into account future market conditions, then they can be useful tools. However, most brokers are looking to make a commission in the short-term, and their advice is often used to generate a market for insiders who have retained them. Livingston warns against selling stocks on a payment plan and stock splits. Livingston thinks stock splits are a device to get the total price of the split stock to exceed the price of the original stock, since the smaller units can be sold for a slightly higher price.

Characters

Larry Livingston

Larry Livingston is the main character of the book, fictionalized from the real-life stock speculator Jesse Livermore. His story starts as a young boy working in betting houses known as "bucket shops" in Boston. He has a knack for numbers and arithmetic and a very good memory, and is soon memorizing how various stocks behave and predicting their next actions. His ability to do this allows him to make a stake at a very young age, but he also gains a reputation for winning and is banned from speculating in Boston.

His ability to observe the behavior of the market, as well as the behavior of the people betting on the market, gives him an edge over other traders. He learns from his mistakes and is not afraid to make them, knowing he can recoup his losses one way or another and start again. He is able to figure out the differences between different types of markets and trading, and use them to his advantage. He does not let sentiment get in the way and keeps his social life separate from his trading life, holding his cards close to his chest. However, he and his acquaintances sometimes do work together in various more complex market manipulations (which are not yet illegal). He is friendly with other traders, but does not take tips or advice, preferring to act on his own.

He enjoys luxury, but having been born to poverty, is not afraid to take risks that may cause him to lose in a big way. He wins and loses more money than most people of his time have ever earned, and takes lessons from it all, which he freely tells his interviewer (the author). He has great confidence in his abilities, but does not hesitate to analyze his own mistakes and own up to them. He never loses faith in his conviction that he can learn enough to make a living through trading, no matter how much money he makes or loses. As time goes along, his skills improve and he feels less like a gambler and more like a trader. Although he sets great store in understanding the underlying conditions that affect the world markets and the technical ins and outs of trading, he also occasionally has strong "hunches" that he cannot explain but does not hesitate to act on, believing he always does better when he listens to these.

At a personal level, he loves salt-water fishing and often takes a fishing vacation after making large amounts of money on the market. When he is particularly wealthy he even buys a yacht or two, which later get sold during down-turns. He frequently goes on vacation, only to hear about some activity in the market that draws him to cut his vacation short and go back to Wall Street. Eventually he does marry and have a child, at which point he finally puts some money into trust funds to protect his family from what he knows will be his tendency to use all his available funds for trading.

Later in life, he becomes not only a speculator and trader, but a stock "manipulator" or "operator"—one who attempts to affect the price of stock on behalf of customers who wish to buy or sell at certain levels. For this he takes a commission of various kinds,

either in percentage or in stock. From this he learns a great deal about the inside world of stock manipulation, as least as it was in that era.

Traders, or Stock Speculators

Livingston tends to use the term speculators, as opposed to the more modern term traders, but the meaning is the same. He likes to emphasize the word "speculator" to differentiate a good trader from a poor one, whom he considers nothing more than a gambler. Unfortunately, he considers the vast majority of those who buy and sell stocks to be basically gambling, and highly unlikely to ever make a living or even a modest investment on their trades. This book is written for traders, and is Livingston's best advice on how to be a good stock speculator, based on his many years of experience as a speculator and stock manipulator.

In his day, there are three classes of individuals involved in trading—company insiders and investors, professional traders (and their brokers), and the general public. Insider trading is not only allowed, it is rampant, and therefore, a good trader has to be on his guard against stock manipulations of all varieties—up to and including personal vendettas and feuds between large brokerage houses and investors. This makes trading more difficult in some ways, but in others it is easier, as there are relatively few (compared to today) stocks traded on the open market, and it is easier to learn as much as you can about each one.

In Livingston's view, trading is conducted along the lines of human nature, and therefore the basic instincts that drive traders and the overall market are timeless. To be a good trader, one must learn these larger patterns, and be both a student of mathematics and of human nature, including one's own behavioral responses. A trader must learn to recognize underlying market conditions, do the research on the stocks he is interested in trading, be able to observe when the stock is or is not trading as expected, and be prepared to take the risks that come with speculation.

Knowledge and understanding are not enough. The traders Livingston particularly admires are those who do not rely on the tips of others, who have supreme self-confidence, who are patient enough to test the market before taking action, and who are willing to follow their intuition and certainty with strong action. Livingston paints quite amusing and somewhat disdainful pictures of most traders, who seem to mindlessly hunt for tips and follow them whenever available, without stopping to question whether they are being manipulated by insiders. He gives the impression that he considers this type of trading reckless, lazy, and bound to result in bankruptcy. He is one of a few elite traders who rise to the ranks of manipulators (those who can have an effect on the market as a whole) and who understand the market well enough to make a living. However, even he loses millions at times and has to work his way back into the game.

H.S. Teller

A bucket shop operator in St. Louis that treats Livingston poorly and does not allow him even a single trade while he is trying to increase his stake for Wall Street. Teller is very wealthy and runs pool halls as well as bucket shops in several cities. When Teller opens a bucket shop in Hoboken, Livingston figures out a way to manipulate the market and take the shop for a lot of money in return for how he was treated.

Mr. Partridge

Mr. Partridge is an older trader at Fullerton's whom Livingston seems to admire. Mr. Partridge listens attentively and kindly to the younger traders who are eager to tell him their tips or get his approval of their latest trade. He seldom says anything or gives advice, except in the most general way. Livingston eventually figures out that Mr. Partridge is trying to make a point about trading with the general trend of the market, rather than paying so much attention to the ups and downs of individual stocks.

Unnamed Friend

Livingston has an unnamed friend who vacations with him, and is also a stock trader. This friend is usually mentioned as a witness to some of his stranger trading events (such as when Livingston anticipates the San Francisco earthquake through a hunch) or in conversation when Livingston pulls off some especially stunning coup in the market. The two seem to share an equal interest in relaxation, food, the good life, and trading, though his friend holds his trading skills somewhat in awe. Livingston's friend loves to tell exaggerated stories about how Livingston has wild hunches that lead to him making millions of dollars.

Harding Brothers

This is the brokerage where Livingston first goes upon arrival in New York City, in addition to Fullerton's. Later, he returns to Harding Brothers when he is much more experienced, and becomes one of their star customers. He is a very active trader and they earn good commissions on his trades. On the occasions when he loses a lot of money and is wiped out, they are familiar enough with his skills to back him in trading again, sometimes requiring a little persuasion if the market movements are not as obvious to them as they are to Livingston. Harding Brothers also has brokerage houses in other cities, such as Atlantic City and Palm Beach, which Livingston often visits while on vacation.

J.P. Morgan

J.P. Morgan is a legendary businessman and banker, one of the richest and most powerful men of the time. He makes much of his money in steel and railroads. Livingston recounts an episode when Morgan single-handedly staves off a financial panic on Wall Street by personally ordering major banks to dip into their reserves and make money more freely available. In another story, a salesman extols his superior sales ability by saying he has not only gotten in to see but even sold an entire set of books to J.P. Morgan.

Percy Thomas

Percy Thomas is a well-known speculator who specializes in the cotton market. He loves to discuss theories of trading and analyze the market, and his opinions are repeated by many. After Livingston becomes well-known, Thomas tries to enlist him in a partnership to trade cotton, which Livingston declines because he prefers to work alone. Later, Thomas convinces Livingston through a dazzling presentation of facts and arguments to take a position in the cotton market that he originally would not have taken, followed by a number of trading mistakes, which in the end costs him many millions of dollars.

Daniel Williamson

Daniel Williamson is the proprietor of Williamson & Brown, a brokerage in New York, which mostly has a few large customers. Williamson convinces Livingston to sign on at a time when Livingston is flat broke due to his cotton deals, by providing him with a stake and a brokerage account. Williamson wants Livingston to join the firm to obscure the activities of his other traders so the market cannot guess what they are up to. Williamson is very kind and continues to cover Livingston's losses, but never explains where the money is coming from and sometimes advises him to take actions that are against Livingston's natural trading inclinations. Eventually Livingston figures out that Williamson has been using him for several years for the benefit of his family and trading partners, and has prevented him from operating freely in a way that might have been adverse to Williamson's interests. Livingston later goes back to Williamson at a time when he cannot get a stake from anyone else, and calls in the favor.

Mrs. Livingston

Larry Livingston's wife is not mentioned frequently, except to illustrate an occasional point about trading that he may wish to make. Since she is generally forbidden from trading, this does not happen often. In general, she is a representative of the public when it comes to trading—innocent and gullible. She has an allowance given her by Livingston, and at one point she acts on a tip given to her at a society dinner by one of Livingston's friends. Hoping to surprise him, she makes a trade, which in the end goes

quite badly. She confesses her mistake, and he calls her a "silly girl," but quickly proceeds to make up her loss. In another vignette, she is shown having a dress made. From these examples, one gets the impression of a traditional wife and mother, but with enough money to play a social role in society.

James R. Keene

James R. Keene is mentioned by Livingston as one of the greatest stock operators in New York near the beginning of his career. Livingston extols his virtues as a stock trader and manipulator, including his understanding of the market and the public, his ability to develop strategies, his personal integrity, his fearlessness, and the successes he scores on his clients' and his own behalf. Livingston laments that there are no records of how Keene accomplishes some of his better-known coups, as there would be a lot to learn from them.

A. R. Fullerton

The founder of the first Wall Street brokerage that Livingston trades in when he arrives in New York. Livingston loses a lot of money through trading at this firm while he is learning the ropes, and Fullerton gives him a loan so he can recoup his losses at the bucket houses and return to trading. Fullerton is kind and fatherly, which makes Livingston stay and lose even more money. Fullerton is well-connected and introduces Livingston to traders that have been around a while and know how to manipulate the markets. Livingston remains at Fullerton's office for his early career and learns many of his most important lessons there.

Objects/Places

Boston, MA

Boston is the location of Livingston's early introduction to the world of speculation. There he works in the bucket shops as a young age and places his first bets against the market. Eventually he wins so much money there that his business is refused and he has to go to New York to trade. He later returns to Boston when he loses his stake on Wall Street and has to build it up again by trading on smaller commodities exchanges. Boston is his original home and his mother lives there.

New York, NY

New York is the home of Wall Street and where Livingston has his home base most of the time. To bet on Wall Street a minimum amount of money is needed (a stake), and every now and then Livingston loses enough that he has to go somewhere else to make his money back and return to Wall Street. The bucket shops which Livingston frequently uses in his early career to make back his stake have been shut down in New York through the combined efforts of the police and the brokerage houses. In his later career, he also takes vacations from Wall Street after making large amounts of money, but frequently returns when the action starts to heat up.

Atlantic City, NJ

One of various places Livingston goes on vacation, when he is taking a break from the stock market. He describes lazily walking on the beach, enjoying good seafood, and watching the shore wildlife. Atlantic City has a boardwalk on which there is a trading house, and Livingston stops in now and then to check out what the market is doing. This is the site of his strong hunch that something is about to go wrong with Union Pacific, inexplicably anticipating the San Francisco earthquake.

Palm Beach, FL

Palm Beach is a frequent vacation destination for fishing trips, which Livingston particularly enjoys. There is a Harding Brothers branch here which he uses to stay in touch with happenings on Wall Street. This is the site of his wife's one and only ill-fated attempt at trading.

Chicago, IL

A major site of commodities trading, where Livingston trades in wheat, cotton, corn, and other commodities of the day. Chicago is also a secondary market for stock trading.

Washington, D.C.

The capitol of the United States, and a place where Livingston occasionally goes to lobby congress about laws affecting trading. It is generally Livingston's view that Congress ought not to regulate honest trading any more than absolutely necessary, nor tax the proceeds. However, he does believe dishonest practices should be regulated.

Hot Springs, NC

Another of the vacation destinations Livingston uses to get away. During the time, it is a famous spa with a luxurious hotel, and has one of the earliest golf courses. Livingston plays golf and enjoys the hotel here until he is distracted by cotton trading and has to return to New York, stopping in at his brokers' houses all along the way.

New York Stock Exchange

The largest stock exchange in the world, with the most listed stocks, both in Livingston's time and now. The New York Stock Exchange trades during business hours on the trading floor, which is a large open area where buyers and sellers of a given stock gather around each other and conduct trades as if at an auction. There is a lag between when an order for buying or selling can be placed, and when it can be executed on the market, which greatly affects Livingston's trading strategy (of course, this time lag is much smaller now).

Wall Street

Wall Street is a street in New York City, and is the physical location of the New York Stock Exchange. It is also used as the general name for the part of the city surrounding the stock exchange and the many brokerages, banks, and other institutions in the financial district of New York City.

Saratoga Springs, NY

One of the areas Livingston goes on vacation, where he learns a lesson about following tips given him by others. Livingston's broker has an office at the resort in Saratoga Springs, where he shoots the breeze with other traders and relaxes. At one point he notices that Union Pacific is going up rapidly, as if it is being accumulated by insiders. He starts to follow his hunch, but the local office manager talks him out of it. However, it turns out he was right and would have made a great deal of money.

Themes

The Folly of Trading on Tips

One of Livingston's favorite admonitions to traders is that they should not speculate on the basis of tips, no matter how trustworthy the source seems to be. He suggests most tips are generated by insiders who are using them to manipulate the market to their own ends. Livingston tells many tales of foolish traders who chase tips and also bemoans the fate of the general public, whom he believes is the most hurt by them.

Livingston also enjoys stories about wiser traders (including himself) who do exactly the opposite of what the tips suggest. They may act in this contrary way because they suspect the tips are false, or because they wish to test the market to determine if they are accurate. The point of these stories is that one should verify any tip, either through market behavior or by a thorough investigation of the company and its stock, before acting on it.

Livingston's larger point is that tips are transient and often not in the best interest of anyone other than the one who spreads them. Even if well-meaning, they may be inaccurate or behind the times. By the time the public hears them, the stock is often reaching its apex, and will soon fall back to more a reasonable price. Instead, a person should carefully study a stock and the company that issues it, how that stock normally behaves in the market, and how its activity relates to the direction of the overall market before deciding to place a trade.

Livingston accuses the media of abetting the inside tipster by printing anonymous quotes from supposedly high-ranking people in the know to generate interest in a stock. He compares a false report that increases the price of a stock to slander, as in the end, many public investors get hurt. At the same time, his disdain for those who rely on tips to trade is evident, as he considers this both foolish and unprofessional.

Trading with the Trend of the Market

If Livingston emphasizes any one piece of trading advice, it is to trade with the larger market direction. In other words, if it is a bull market overall, buy stocks or go long. If it is a bear market, sell stocks or go short. Trading against the trend or at the very bottom or top of the market is less likely to be successful and is not a long-term strategy.

He tells many stories designed to reinforce this point, for example, that of Mr. Partridge. Partridge is constantly surrounded by younger traders who ask for tips on this or that stock, or his opinion on this or that specific trade. Partridge will only respond by observing that it is a bull market, which leaves the younger traders mystified and frustrated. Livingston, too, is just learning the ropes at this time, but eventually gets it—one can expect most stocks to rise on a bull market and fall on a bear market.

Later in his career, Livingston becomes more able to identify specific stocks that are not moving with the market. In his view, one should avoid these stocks as there is likely something unusual happening with them. He might pay special attention to these stocks and see if there is some way he can exploit their circumstance, but one has to be a highly skilled trader to do this.

Livingston also warns against trying to make money in a ranging market, that is, one that has not established a clear trend. This takes great technical skill, and in his day, even if one is successful in identifying the temporary top or bottom of the range, it might not be possible to get a trade in on time to take advantage of it. Instead, he advocates selling if the stock breaks through the bottom of the range or buying if it breaks through the top, because that indicates that a trend is being established.

Risk-Taking and Confidence

Personal attributes that Livingston has in abundance are self-confidence and a willingness to take risks. It is important to understand that the two are linked—Livingston is not in favor of taking unnecessary or uninformed risks. He does believe that if a trader believes he understands what he is doing, he must be prepared to test it with his money.

Many times over the course of Livingston's career, he wins or loses thousands, hundreds of thousands, or even millions of dollars. This is all the more remarkable considering when the book is set. Each time, he is most concerned not with the money he has gained or lost, but with what he can learn from the techniques he is using that result in a win or loss. What allows him to go broke several times and still bounce back is part confidence that he will eventually learn how to consistently succeed, and part confidence that he can always find a way to make his next stake.

Clearly, Livingston does not believe one can succeed as a trader without this level of confidence and willingness to risk one's own money in order to learn. However, he also believes most people are not capable of the dedication, objectivity, and attention to detail and figures required to successfully make a living at it, which is why so many people chase after tips.

Style

Perspective

The story is told as if it is a first-person account by the fictional character Larry Livingston. In actual fact, the history is that of a real trader, Jesse Livermore, who is interviewed by Edwin Lefevre, a journalist for The Saturday Evening Post. The chapters are originally published as a series of articles in the Post and are later compiled into a book. While it is impossible to know how closely the language presented in the articles resembles the original interviews, the distinct personality of Jesse Livermore certainly makes itself felt. The interviews are written up as if they are verbatim transcripts, though in actuality it is not known whether or not this is the case (journalistic standards being somewhat different in that day).

The perspective is of a person at the height of his career looking back on his life and intending to convey not only the facts of what happened, but the key lessons learned along the way. The speaker must have known that his interviews would be published to an avid audience of traders and speculators. While he satisfies the interviewer's curiosity about the course of his own life, he spends at least half his time explaining what he learned about trading along the way, both from his successes and failures. He presents these ideas not only as distilled general principles but through numerous specific and detailed examples of trades and market manipulations. It seems important to the speaker to give the best advice possible to the eventual readers of the interviews. Taken as a whole, the articles are part autobiography, part lessons in trading.

Tone

The tone of this first person account varies from quite informal to having the feel of a guest lecture. When telling an anecdote, Livermore relates conversations in quite colorful detail, including mild epithets. One gets the sense that these have been dramatized to some extent, as if related by a larger-than-life personality telling a good story. When telling his own story, the speaker is removed to a degree , as if he is telling the story of someone else in a particularly interesting way. When explaining a particular point or lesson about trading, he can become quite detailed, but still has the overall air of a mentor tutoring an aspiring trader over drinks by the fire.

If not for the fact that the book chronicles interviews with a real person, the overall feel is much like a Dickens novel—with larger than life characters, plot twists, colorful conversation, rapid ascents to fortune and fame and just as dizzying falls to poverty and disgrace. This effect is heightened by the book having been originally published as a series of articles, the same manner in which several of Dickens' novels were originally published. That he resembles a Dickens character most likely says a lot about Livingston's actual personality; by all accounts he was quite a character who lived large when he had money and was seldom daunted by adversity. It may also say something

about Lefevre, who had a reputation for accurately capturing the more colorful aspects of Wall Street and its inhabitants.

Structure

The chapters follow the life of the speaker from his boyhood to middle age. While ages are seldom given, the book starts when Livingston is roughly 12 or 13 and continues to about age 30. The events narrated in the book proceed more or less sequentially, but at times Livingston flashes back to an earlier incident to make a point. Once in a while, he gets ahead of the timeline, but usually stops himself and goes back to the story line.

His career and the book can be divided into three general periods, beginning with his teenage years betting in the bucket-houses, gaining his original stake, and learning the ins and outs of technical trading. During the middle period, he trades on Wall Street and learns the fundamentals of trading and of market conditions. During this period, he has a series of rather spectacular wins and losses that help cement his theories about trading. Finally, he becomes a stock manipulator or operator, accepting commissions from others to assist them with their trading. This normally consists of setting up market conditions that allow large amounts of insider stock to be disposed of for a good price. At this point, he forms some opinions about how the market ought to be improved and certain practices outlawed.

The interviews that make up the chapters typically contain several elements—factual accounts of events, lessons learned and advice about trading, and anecdotal incidents frequently told in some detail. One gets the sense that Livermore is enjoying the opportunity to reminisce about some of his greatest successes and failures and his own ability to influence the market. Anecdotes are complete with entire conversations and are usually intended to illustrate the folly of acting in a certain way, such as listening to trading tips, or to showcase a situation in which Livermore pulls off a coup. In other areas, Livermore goes into great detail about specific trades or market manipulations to illustrate a key lesson or concept he wishes to get across. Several chapters may be taken up to illustrate a particular idea, both in general terms and with specific examples.

Quotes

"Another lesson I learned early is that there is nothing new on 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," (Chap. I, p. 4).

"The reason for what a certain stock does today may not be known for two or three days, or weeks, or months. But what the dickens does that matter? Your business with the tape is now—not tomorrow. The reason can wait. But you must act now or instantly be left," (Chap. I, p. 5).

"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 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," (Chap. II, p. 14).

"The desire for constant action irrespective of underlying conditions is responsible for many losses in Wall Street even among professionals, who feel that they must take home some money every day, as though they were working for regular wages," (Chap. II, p. 15).

"Whenever I did try to limit the prices in order to minimize the disadvantages of trading at the market when the ticker lagged, I simply found that the market got away from me. This happened so often that I stopped trying. I can't tell you how it came to take me so many years to learn that instead of placing piking bets on what the next few quotations were going to be, my game was to anticipate what was going to happen in a big way," (Chap. III, p. 33).

"There is what I judge 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," (Chap. V, p. 49).

"I should say that a chart helps those who can read it or rather who can assimilate what they read. The average chart reader, however, is apt to become obsessed with the notion that the dips and peaks and primary and secondary movements are all there is to stock speculation. If he pushes his confidence to its logical limit he is bound to go broke," (Chap. V, p. 50).

"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," (Chap. V, p. 57).

"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," (Chap. V, pp. 57-58).

"People don't seem to grasp too 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. Now, 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. 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 a rising scale. I don't buy a long stock on a scale down, I buy on a scale up," (Chap. VII, p. 71).

"Remember that 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.... Much depends on beginning at exactly the right time. It took me years to realize the importance of this. It also cost me some hundreds of thousands of dollars," (Chap. VII, p. 76).

"When I am long of stocks, it is because my reading of conditions has made me bullish. But you find many people, reputed to be intelligent, who are bullish because they have stocks. I do not allow my possessions—or my prepossessions either—to do any thinking for me," (Chap. VIII, p. 77).

"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 condition. 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. The thing was to be right; to know it and to act accordingly," (Chap. VIII, pp. 86-87).

"Of course, if a man is both 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," (Chap. X, p. 104).

"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 the damage to the pocketbook and to the soul," (Chap. X, p. 104).

"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.... 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," (Chap. X, pp. 114-115).

"Of all 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," (Chap. XII, p. 136).

"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 well if the cost had been only one million. But Fate does not always let you fix the tuition fee," (Chap. XII, p. 137).

"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," (Chap. XII, p. 139).

"I am so constituted that I don't like to owe money or favours. I can pay the money back with money, but the favours and kindnesses I must pay back in kind—and you are apt to find these moral obligations mighty high priced at times. Moreover there is no statute of limitations," (Chap. XIII, p. 147).

"A trader, in addition to studying basic conditions, remembering market precedents and keeping in mind the psychology of the outside public as well as the limitations of his brokers, must also know himself and provide against his own weaknesses. There is no need to feel anger over being human. I have come to feel that it is as necessary to know how to ready 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 the open market, quite in the same mood and spirit as I have considered crop conditions or analysed reports of earnings," (Chap. XIV, p. 158).

"The stock market winnings during 1915 were more widely distributed than 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 took was merely history repeating itself. Nowhere does history indulge in repetitions so often or so uniformly as in 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," (Chap. XIV, pp. 160-161).

"In a bull market the trend of price, 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," (Chap. XIV, p. 161).

"I admit that I do get irresistible impulses at time 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," (Chap. XVII, p. 190).

"... if insiders don't buy their own stock on recessions, who should? The absence of inside support is generally accepted as a pretty good bear tip," (Chap. XXII, p. 244).

"Brokers make their living out of commissions from the public and yet they will try to induce the public through their market letters or by word of mouth to buy the same stocks in which they have received selling orders from insiders or manipulators," (Chap. XXIV, p. 269).

"The nature of the game as it is played is such that the public should realize that the truth cannot be told by the few who know. Many of the so-called statements attributed to 'insiders' or officials have no basis in fact. Sometimes the insiders are not even asked to make a statement, anonymous or signed. These stories are invented by somebody or other who has a large interest in the market," (Chap. XXIV, p. 272).

"Wall Street professionals know that acting on 'inside' tips will break a man more quickly than famine, pestilence, crop failures, political readjustments or what might be called normal accidents. There is no asphalt boulevard to success in Wall Street or anywhere else," (Chap. XXIV, pp. 272-273).

Topics for Discussion

Livingston often says that the nature of speculation will never change, because human nature remains the same. In reading through his accounts of the stock market at the turn of the century through World War I, what aspects of human behavior do you see that are reflected in modern events? What basic drives still affect how the market works? What mistakes did the general public make then that they still make now, and why is it that this happens?

In the last few chapters, Livingston describes some market practices that in his opinion, ought to be banned. How many of these have been banned since that time? What fundamental changes have taken place with respect to insider trading since Livingston's day? Are there still markets that are relatively unregulated today?

How do you think the advent of technology and the globalization of the world markets have changed the stock market since the early 1900s? Give some examples of how these factors might have affected some of the market events and trades that Livingston relates.

Changes in the market notwithstanding, traders for decades have relied on some of the fundamental advice given in this book. Discuss three examples of specific advice you found most helpful or applicable in guiding your own investments or trading.

How susceptible do you think a stock price in the New York Stock Exchange is to manipulation today, of the type related by Livingston? What specific factors work to limit this ability in modern times? Contrast this with a commodity such as oil, or currency trading on the Forex market. Are these markets more easily manipulated? Give some examples.

What does Livingston have to say about technical indicators, as they were being developed in his day? What importance does he give these among other information a trader needs to have?

Contrast Livingston's early experiences in the "bucket-houses" with modern day-trading. What are their differences and similarities? Do you think Livingston would have made a good day-trader? Why or why not?

Does Livingston always advocate "Buy low, sell high?" What kind of market is this advice most applicable to? Does he seem to be focusing on ranging or trending markets? Give a specific example of how you would apply his advice on when to buy and sell to a ranging market with occasional rallies.