

Nuggets of Wisdom from Jesse Livermore, Greatest Trader Ever

In the early part of the 20th century, Jesse Livermore was the most successful (and most feared) stock trader on Wall Street. He called the stock market crash of 1907 and once made \$3 million in a single day. In 1929, Livermore went short several stocks and made \$100 million. He was blamed for the stock market crash that year, and solidified his nickname, "The Boy Plunger." Livermore was also a successful commodities trader.

I think the most valuable knowledge one can gain regarding trading and markets comes from studying market history, and studying the methods of successful traders of the past. Jesse Livermore and Richard Wyckoff are two of the most famous and successful traders of the first half of the 20th century. Many of the most successful traders of today have patterned their trading styles after those of the great traders of the past.

Here are some valuable nuggets I have gleaned from the book, "How to Trade Stocks," by Jesse Livermore, with added material from Richard Smitten. It's published by Traders Press and is available at Amazon. Most of the nuggets below are direct quotes from Livermore, himself.

- "All through time, people have basically acted and reacted the same way in the market as a result of: greed, fear, ignorance, and hope. That is why the numerical (technical) formations and patterns recur on a constant basis."
- "The game of speculation is the most uniformly fascinating game in the world. But it is not a game for the stupid, the mentally lazy, the person of inferior emotional balance, or the get-rich-quick adventurer. They will die poor."
- "Don't take action with a trade until the market, itself, confirms your opinion. Being a little late in a trade is insurance that your opinion is correct. In other words, don't be an impatient trader."
- "Livermore's money made in speculation came from 'commitments in a stock or commodity showing a profit right from the start.' Don't hang on to a losing position for very long."
- "It is foolhardy to make a second trade, if your first trade shows you a loss. Never average losses. Let this thought be written indelibly upon your mind."
- "Remember this: When you are doing nothing, those speculators who feel they must trade day in and day out, are laying the foundation for your next venture. You will reap benefits from their mistakes."

- "When a margin call reaches you, close your account. Never meet a margin call. You are on the wrong side of a market. Why send good money after bad? Keep that good money for another day."
- Livermore coined what he called "Pivotal Points" in a market or a stock. Basically, they were: (1) Price levels at which the stock or market reversed course previously--in other words, previous major tops or bottoms; and (2) psychological price levels such as 50 or 100, 200, etc. He would buy a stock or commodity that saw a price breakout above the Pivotal Point, and sell a stock or commodity that saw a price breakout below a Pivotal Point
- "Successful traders always follow the line of least resistance. Follow the trend. The trend is your friend."
- A prudent speculator never argues with the tape. Markets are never wrong--opinions often are.
- Few people succeed in the market because they have no patience. They have a strong desire to get rich quickly.
- "I absolutely believe that price movement patterns are being repeated. They are recurring patterns that appear over and over, with slight variations. This is because markets are driven by humans -- and human nature never changes."
- When you make a trade, "you should have a clear target where to sell if the market moves against you. And you must obey your rules! Never sustain a loss of more than 10% of your capital. Losses are twice as expensive to make up. I always established a stop before making a trade."
- "I am fully aware that of the millions of people who speculate in the markets, few people spend full time involved in the art of speculation. Yet, as far as I'm concerned it is a full-time job -- perhaps even more than a job. Perhaps it is a vocation, where many are called but few are singled out for success."
- "The big money is made by the sittin' and the waitin' -- not the thinking. Wait until all the factors are in your favor before making the trade."

An important point I want to make is that Jesse Livermore's trading success came not because of any "inside" information or some huge store of knowledge he had about each and every stock or commodities market he traded. Livermore's trading success was derived from his understanding of human behavior. He realized early on that markets and stocks can and do change -- but people and their behaviors do not. Therein lay his formula for trading success. That formula for trading success has not changed since Livermore's hey day in the stock and commodities markets almost a century ago.

A final note: Jesse Livermore may have been called the greatest stock market trader of the 20th century, but I question that notion. Certainly, no one can disagree that his profits were immense and his trading prowess was unmatched.

But his life was not in balance. He was a "workaholic" who paid too little attention to his family. Livermore put a gun to his head and pulled the trigger in 1940. He "crashed and burned." You must have balance in your life to achieve lasting success at any endeavor. Trading markets is no exception.

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