

# “The game does not change”

*More than 90 years after the publication of investment classic *Reminiscences of a Stock Operator*, the wisdom of its protagonist, Wall Street legend Jesse Livermore, remains as relevant and thought-provoking as ever.*

On the short list of many investors' classic investment books is Edwin Lefevre's *Reminiscences of a Stock Operator*, a thinly veiled biography of Wall Street legend Jesse Livermore. Told as a first-person memoir of fictional protagonist Larry Livingston, *Reminiscences* chronicles the life and times of Livermore, who started his trading career in 1891 at age 14 and made and lost several fortunes through the book's first publication in 1923. Uncommonly self-aware, Livermore emphasizes the timeless nature of markets and draws a number of lessons from his triumphs and, more frequently, his failures. Herewith, a sampling of some of his hard-earned wisdom:

## Playing the Odds

*Observation, experience, memory and mathematics – these are what the successful trader must depend on. He must not only observe accurately but remember at all times what he has observed. He cannot bet on the unreasonable or on the unexpected, however strong his personal convictions may be about man's unreasonableness or however certain he may feel that the unexpected happens frequently. He must bet always on probabilities – that is, try to anticipate them.*

*All of the sudden, as I was on my way to a sure fortune, we had the Lusitania break. [Note: The sinking of British ocean liner RMS Lusitania by a German U-boat on May 7, 1915 caused the largest one-day plunge in the U.S. stock market that year.] Every once in a while a man gets a crack like that in the solar plexus, probably that he may be reminded of the sad fact that no human being can be so uniformly right on the*

*market as to be beyond the reach of such unprofitable accidents.*

*If the unusual never happened there would be no difference in people and then there wouldn't be any fun in life. The game would become merely a matter of addition and subtraction. It would make of us a race of bookkeepers with plodding minds. It's the guessing that develops a man's brainpower. Just consider what you have to do to guess right.*

## Independent Thought

*A man must believe in himself and his judgment if he expects to make a living at this game. That is why I don't believe in tips. If I buy stocks on Smith's tip I must sell those same stocks on Smith's tip. Suppose Smith is away on a holiday when the selling time comes around? No, sir, nobody can make big money on what someone else tells him to do.*

*I sometimes think that tip-takers are like drunkards. There are some who can't resist the craving and always look forward to those jags which they consider indispensable to their happiness. To be told precisely what to do to be happy in such a manner that you can easily obey is the next nicest thing to being happy – which is a mighty long first step toward the fulfillment of your heart's desire. It is not so much greed made blind by eagerness as it is hope bandaged by the unwillingness to do any thinking.*

*It cost me millions to learn that another dangerous enemy to a trader is his susceptibility to the urgings of a magnetic personality when plausibly expressed by a brilliant mind. It has always seemed to me, however, that I might have learned my lesson quite as well if the cost had been only one million. But Fate does not always let you fix the tuition fee.*

## Picking Your Spots

*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. There is the plain fool, who does the wrong thing at all times everywhere, but there is the Wall Street fool, who thinks he must trade all the time. No man can always have adequate reason for buying or selling stocks daily – or sufficient knowledge to make his play an intelligent play.*

*Men who can be right and sit tight are uncommon. I found it one of the hardest things to learn. But it is only after a stock operator has firmly grasped this that*



he can make big money. A man may see straight and clearly and yet become impatient or doubtful when the market takes its time about doing as he figured it must do. That is why so many men in Wall Street, who are not at all in the sucker class, nevertheless lose money. The market does not beat them. They beat themselves, because though they have brains, they cannot sit tight.

### Trend as Friend

In starting a movement it is unwise to take on your full line unless you are convinced that conditions are exactly right. 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.

They say you never grow poor taking profits. No, you don't. But neither do you grow rich taking a four-point profit in a bull market.

### Don't Be a Glutton

Old Baron Rothschild's recipe for wealth winning applies with greater force than ever to speculation. Somebody asked him if making money in the Bourse was not a very difficult matter, and he replied that, on the contrary, he thought it was very easy. "I will tell you my secret if you wish. It is this: I never buy at the bottom and I always sell too soon."

### Fighting Bias

I [have tried to be] utterly free from speculative prejudices. The bear side doesn't appeal to me more than the bull side, or vice versa. My one steadfast prejudice is against being wrong.

You may 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. That is why I repeat that I never argue with the tape. To be angry

at the market because it unexpectedly or even illogically goes against you is like getting mad at your lungs because you have pneumonia.

It is inseparable from human nature to hope and to fear. 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 –

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## ON TAKING LOSSES:

### A loss never bothers me after I take it. Not taking the loss – that is what does damage to the pocketbook and the soul.

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the same ally that is so potent a success-bringer to empire builders and pioneers. 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 ... 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.

### On Losses

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. You remember [the] story about the man who was so nervous that a friend asked him what was the matter. "I can't sleep," answered the nervous one. "Why not?" asked the friend. "I am [long] so much cotton that I can't sleep thinking about it. It is wearing me out. What can I do?" "Sell down to the sleeping point," answered the friend.

When I lose money by reason of some development which nobody could foresee, I think no more vindictively of it than I do of an inconveniently timed storm. Life itself from the cradle to the grave is a gamble and what happens to me because I do not possess the gift of second sight I can bear undisturbed.

### Learning

I owe my early success as a trader not to brains or knowledge, because my mind was untrained and my ignorance was colossal. The game taught me the game. And it didn't spare the rod while teaching.

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.

Whenever I have lost money in the stock market I have always considered that I have learned something; that if I have lost money I have gained experience, so that the money really went for a tuition fee.

### On Short Selling

The real reason for a protracted decline is never bear raiding. When a stock keeps on going down you can bet there is something wrong with it, either with the market for it or with the company. If the decline were unjustified, the stock would soon sell below its real value and that would bring in buying that would check the decline.

The stocks which have had the worst breaks in the past 20 years did not decline on bear raiding. But the easy acceptance of that form of explanation has been responsible for losses by the public amounting to millions upon millions of dollars. It has kept people from selling who did not like the way the stock was acting and would have liquidated if they had not expected the price to go right back after the bears stopped their raiding.

