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Market Wizard Lessons

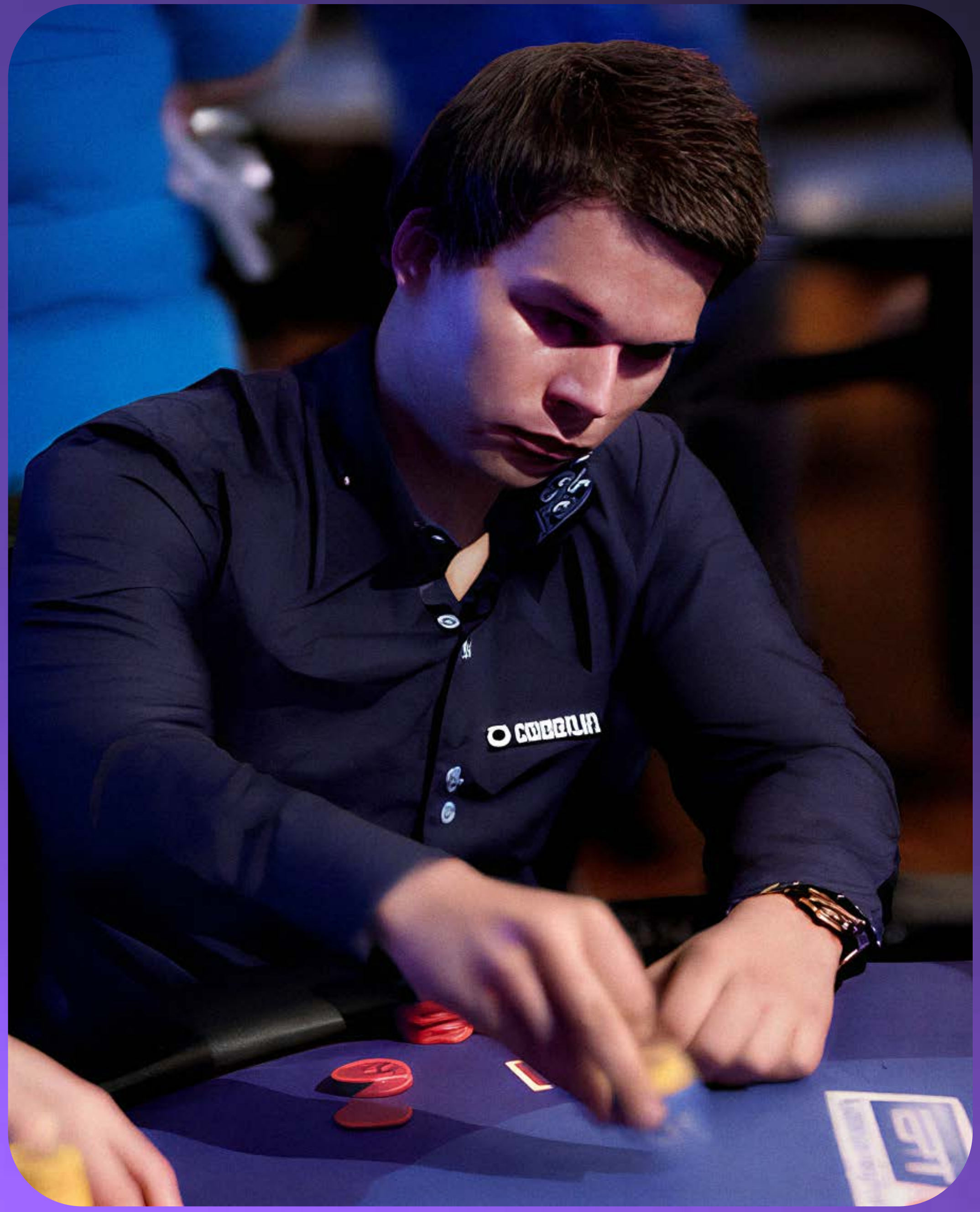
Jack Schwager

Can the Markets Be Beat?

Not All Highway Users Are Equal

If Market News Is Adverse to Position and You Don’t Lose Much—Add, Don’t Liquidate

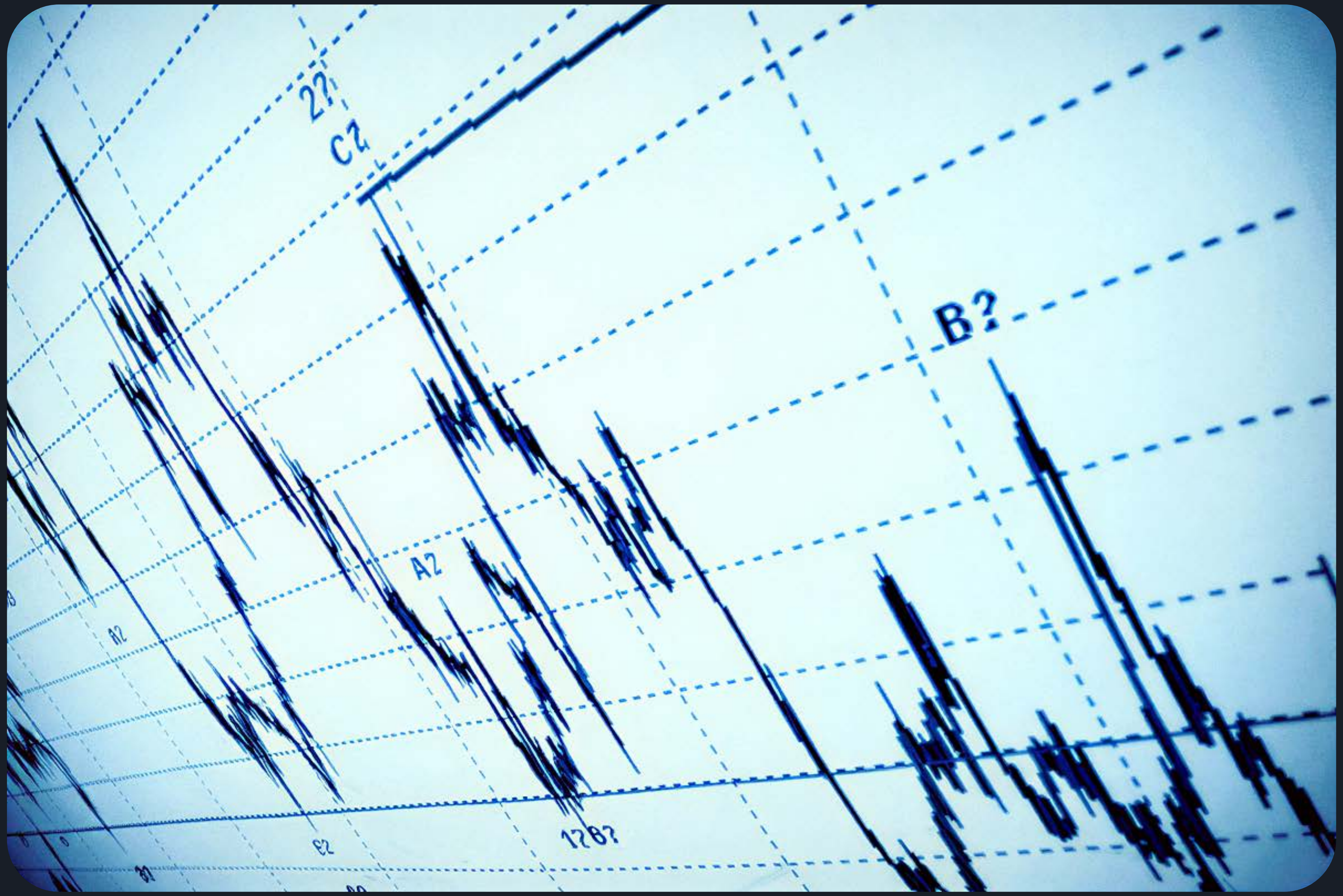
Michael Platt: Expected 2/10 curve to widen. Repeated news favorable for flattening did not impact market. He thought, «Yield curve can’t get flatter.,» and quadrupled position — spread went from 25 to 210; best trade of the year



If News Is Very Favorable to Position and Market Response Tepid — Watch Out!

- Marcus: Good news/bad news limit up soybeans story.
- My story: long cotton and most bullish weekly export report I had ever seen (half million bales to China). Market up only 150 pts high for next 30 years

Volatility Does Not Equal Risk



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- Low volatility can be high risk — e.g., short out-of-the-money options
- High volatility can be low risk: Jamie Mai shorting subprime CDOs

Paul Tudor Jones' Most Painful Trade

Mr. Stupid why risk everything on one trade? Why not make your life a pursuit of pleasure rather than pain?

Risk Control

- Jones's story is a story of failure to use risk control
- More important than method
- Schwartz — Uncle point
- Kovner dictum — know where you get out before you get in

Effective Money Management Can be Simple: The Bluecrest Model

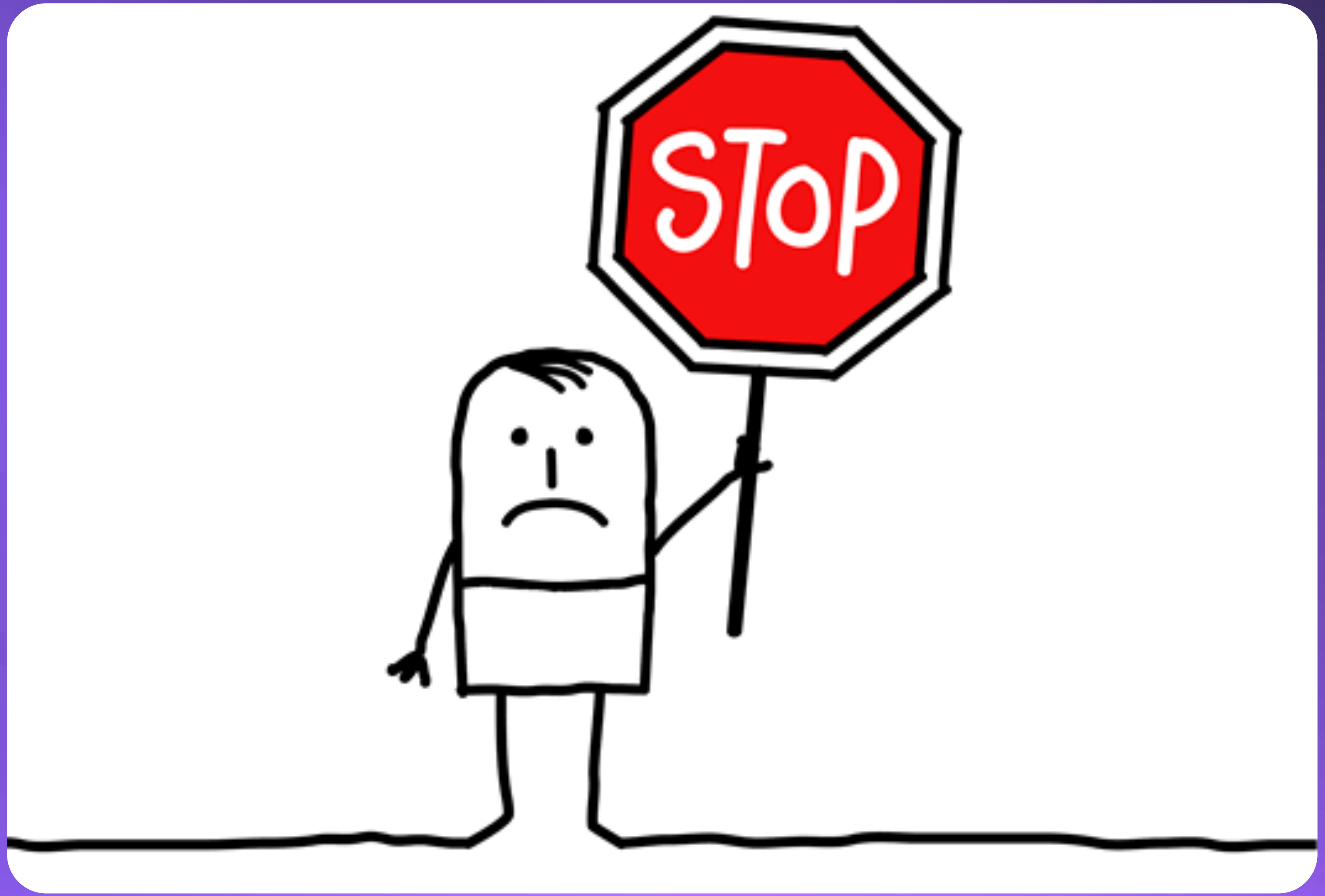
Down 3%

Down 3%

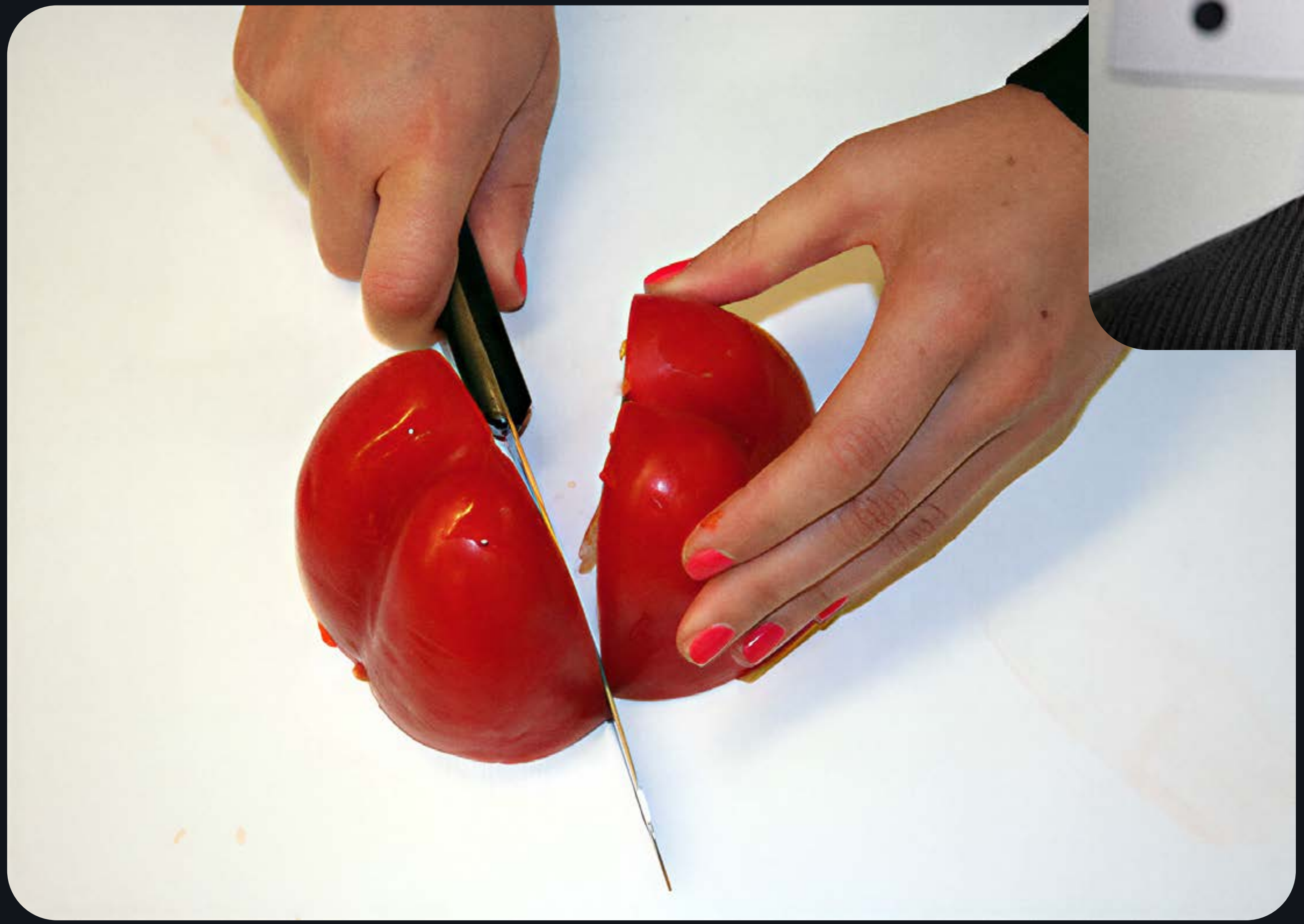
The Portfolio Trailing Stop

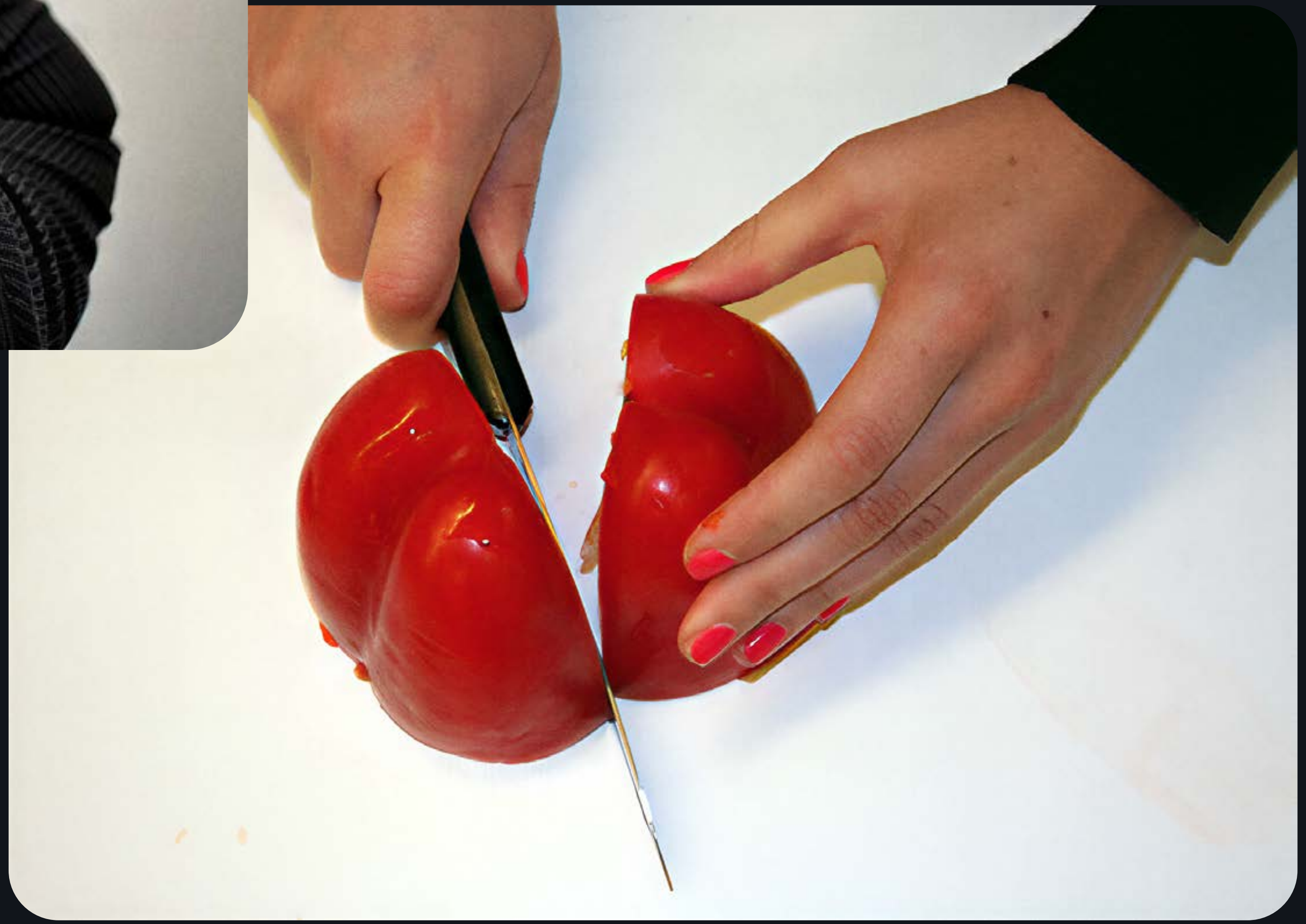
01 Set your maximum portfolio loss before you start trading.

02 Move it up to breakeven and then higher as profits allow.



The Losing Trade Dilemma





Losing is Part of the Game

- Raschke: «Never bothers me...»
- Tharp: «Know They've won...»
- Schwartz: «Became winner when learned to lose» & «Ultimate rationalization of loser...»

Good Trading is Effortless

- Wait — what about hard work?
- Preparation vs process
- Running analogy
- Ever read Zen & Art of Archery?
- How do you handle losing streak?

Adrenaline Rush?

Lara Logan question to Alex Honnold.

Answer: «There is no adrenaline rush.
If I get a rush, it means
that something has gone horribly
wrong. The whole thing should
be pretty slow and controlled.»

Isn't it Boring?

Hite:

I don't trade for excitement;

I trade to win

How to Control Emotions

«Ask Jack» Question:

Do you think it's possible to use self-suggestion
to have neutral emotion while we have a position?

Easier Solution:

Trade Entry Plan
01

Trade Exit Plan
02

Prohibited Trades
03

The Comfortable Thing

- Eckhardt's proposition: «Human nature will lead to worse than random...»
- Gambling with losses, locking in winners prematurely, selling strength, curve fit
- Greenblatt's Unintended Experiment — Self managed portfolios destroyed all positive performance vis-a-vis equal-dollar diversified portfolio even though selections off of same list. «by avoiding stocks that were painful to own, they missed some of biggest winners.»

Off the Hook

01 Schwartz's principle

02 Lipschutz selling D-mark Friday afternoon

03 My experience with short and unemployment report

Loyalty

- Druckenmiller
- Don’t publicize market calls

The Advantage of Trading around a Position

- Balodimas can be flat or even up by trading around positions
- Treats trades as dynamic rather than static.
- Taking profits before objective can add return
- Will increase staying power on pullbacks
- Only downside: gives up some windfall profits in straight line moves.