

THE NEW MARKET WIZARDS

CONVERSATIONS
WITH AMERICA'S
TOP TRADERS



JACK D. SCHWAGER

Author of MARKET WIZARDS

A blast to read. . . Readers will pick up plenty of trading tips."

—USA Today

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*From the Library of
Countess Helena P. von Pfeil*

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THE NEW MARKET WIZARDS

*From the Library of
Countess Helena P. von Pfeil*

ALSO BY JACK D. SCHWAGER

Market Wizards

A Complete Guide to the Futures Markets

TO MY FAMILY

Jo Ann

Daniel

Zachary

Samantha

Who are all very special to me

With love

More is learned from one's errors than from one's successes.

—PRIMO LEVI

I must create a system or be enslaved by another man's.

—WILLIAM BLAKE

Preface

Here's what I believe:

1. The markets are not random. I don't care if the number of academicians who have argued the efficient market hypothesis would stretch to the moon and back if laid end to end; they are simply wrong.
2. The markets are not random, because they are based on human behavior, and human behavior, especially mass behavior, is not random. It never has been, and it probably never will be.
3. There is no holy grail or grand secret to the markets, but there are many patterns that can lead to profits.
4. There are a million ways to make money in markets. The irony is that they are all very difficult to find.
5. The markets are always changing, and they are always the same.
6. The secret to success in the markets lies not in discovering some incredible indicator or elaborate theory; rather, it lies within each individual.
7. To excel in trading requires a combination of talent and extremely hard work—(surprise!) the same combination required for excellence in any field. Those seeking success by buying the latest \$300 or even \$3,000 system, or by following the latest hot tip, will never find the answer because they haven't yet understood the question.

8. Success in trading is a worthy goal, but it will be worthless if it is not accompanied by success in your life (and I use the word *success* here without monetary connotation).

In conducting the interviews for this book and its predecessor, *Market Wizards*, I became absolutely convinced that winning in the markets is a matter of skill and discipline, not luck. The magnitude and consistency of the winning track records compiled by many of those I interviewed simply defy chance. I believe the Market Wizards provide role models for what it takes to win in the markets. Those seeking quick fortunes should be discouraged at the onset.

I have strived to reach two audiences: the professionals who have staked careers in the markets or are serious students of the markets, and the lay readers who have a general interest in the financial markets and a curiosity about those who have won dramatically in an arena where the vast majority loses. In order to keep the book accessible to the layperson, I have tried to avoid particularly esoteric topics and have included explanations wherever appropriate. At the same time, I have strived to maintain all core ideas so that there would be no loss of meaningful information to those with a good working knowledge of the markets. I think this book should be as meaningful to the layperson as to the professional simply because the elements that determine success in trading are totally applicable to success in virtually any field or to achieving any meaningful goal.

Acknowledgments

My thanks to those who graciously agreed to be interviewed for this volume, freely sharing their thoughts and experiences while refraining from requests for cosmetic changes when presented with the finished manuscript for review. (Not all those I interviewed proved as accommodating; the exceptions do not appear in this book.) In a number of cases, the traders I interviewed had nothing to gain from participating, at least not monetarily, as they either do not manage any public funds or are not open to further investment. I am particularly appreciative of their cooperation.

I would like to thank my wife, Jo Ann, for reading the original manuscript and providing some well-directed suggestions, all of which were taken. Mostly, I must thank Jo Ann for enduring yet another year as a “book widow,” not to mention keeping the kids quiet so that I could sleep in the mornings after those all-night writing sessions. My three wonderful children—Daniel, Zachary, and Samantha—were as understanding as could possibly be expected for any group aged eight, seven, and three in accepting all those hours stolen from our time together and activities foregone as a result of my involvement in this work.

Finally, I would like to thank the following friends for their suggestions and advice regarding potential interview candidates: Norm Zadeh, Audrey Gale, Douglas Makepeace, Stanley Angrist, Tony Saliba, and Jeff Grable.

Prologue

The Jademaster

One cold winter morning a young man walks five miles through the snow. He knocks on the Jademaster's door. The Jademaster answers with a broom in his hand.

"Yes?"

"I want to learn about Jade."

"Very well then, come in out of the cold."

They sit by the fire sipping hot green tea. The Jademaster presses a green stone deeply into the young man's hand and begins to talk about tree frogs. After a few minutes, the young man interrupts.

"Excuse me, I am here to learn about Jade, not tree frogs."

The Jademaster takes the stone and tells the young man to go home and return in a week. The following week the young man returns. The Jademaster presses another green stone into the young man's hand and continues the story. Again, the young man interrupts. Again, the Jademaster sends him home. Weeks pass. The young man interrupts less and less. The young man also learns to brew the hot green tea, clean up the kitchen and sweep the floors. Spring comes.

One day, the young man observes, "The stone I hold is not genuine Jade."

* * *

I lean back in my chair, savoring the story. My student interrupts.

“OK. OK. That’s a great story. I don’t see what it has to do with making money. I come to you to find out about the markets. I want to learn about the bulls and the bears, commodities, stocks, bonds, calls and options. I want to make big money. You tell me a fable about Jade. What is this? You ...”

“That’s all for now. Leave those price charts on the table. Come back next week.”

Months pass. My student interrupts less and less as I continue the story of *The Trader’s Window*.

—from *The Trader’s Window*,
ED SEYKOTA

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PART I

Trading Perspectives

Misadventures in Trading

On the lecture tour following the completion of this book's predecessor, *Market Wizards*, certain questions came up with reliable frequency. One common question was: "Has your own trading improved dramatically now that you've just finished interviewing some of the world's best traders?" Although I had the advantage of having plenty of room for dramatic improvement in my trading, my response was a bit of a cop-out. "Well," I would answer, "I don't know. You see, at the moment, I'm not trading."

While it may seem a bit heretical for the author of *Market Wizards* not to be trading, there was a perfectly good reason for my inaction. One of the cardinal rules about trading is (or should be): Don't trade when you can't afford to lose. In fact, there are few more certain ways of guaranteeing that you *will* lose than by trading money you can't afford to lose. If your trading capital is too important, you will be doomed to a number of fatal errors. You will miss out on some of the best trading opportunities because these are often the most risky. You will jump out of perfectly good positions prematurely on the first sign of adverse price movement only to then see the market go in the anticipated direction. You will be too quick to take the first bit of profit because of concern that the market will take it away from you. Ironically, overconcern about losing may even lead to staying with losing trades as fear triggers indecisiveness, much like a deer frozen in the glare of a car's headlights. In short, trading with "scared money" will lead to a host of negative emo-