EDWIN LEFÈVRE

REMINISCENCES *of a* STOCK OPERATOR

ILLUSTRATED EDITION

Includes the Classic Artwork as It Appeared in *The Saturday Evening Post*

Foreword by
WILLIAM J. O'NEIL
Founder of *Investor's Business Daily*®
and investors.com

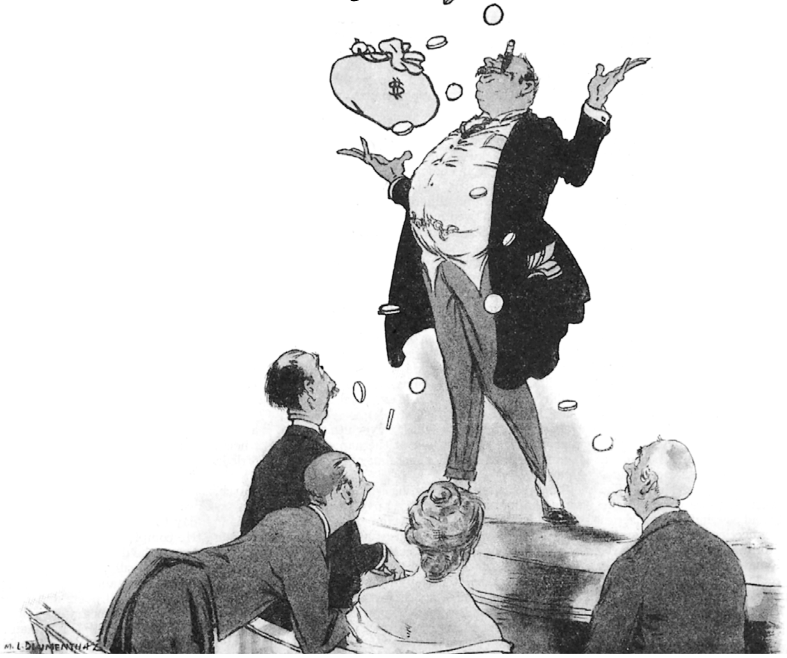
A MARKETPLACE BOOK

Reminiscences of a Stock Operator

Illustrated Edition

Edwin Lefèvre

Decorations by *M. L. Blumenthal*



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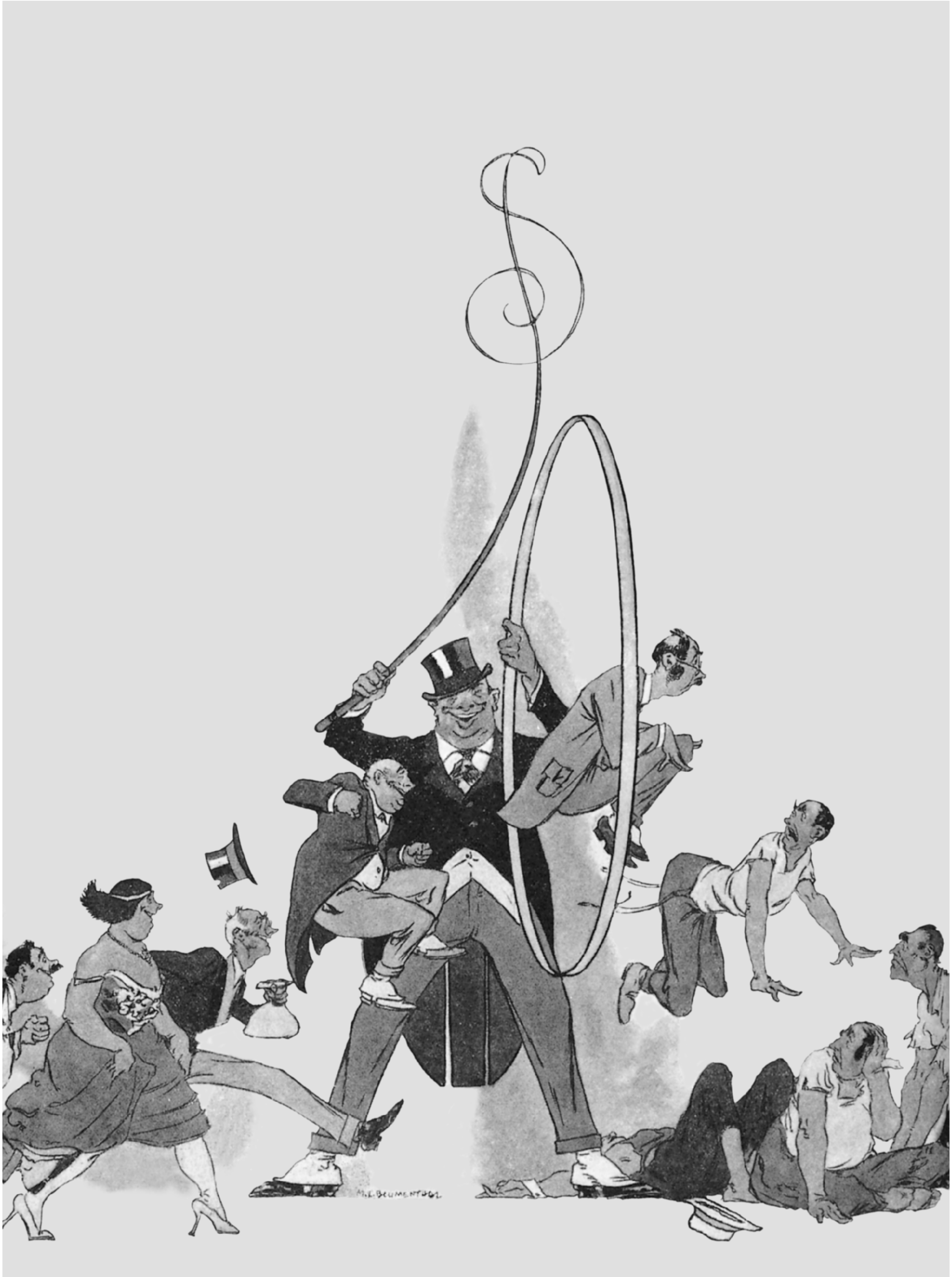


Foreword

This new edition of *Reminiscences of a Stock Operator* is a must-read classic for all investors, whether brand new or experienced. It is about the invaluable knowledge and experiences of Jesse Livermore, a market speculator who made and lost millions during the period from 1900 through the 1930s. I had to pay $50.00 in 1960 to get my first copy of *Reminiscences* because it was out of print. I later gave a copy to Gerry Tsai, one of Fidelity's top mutual fund managers at that time. Gerry then told me that *Reminiscences* was the investment bible of Edward Johnson Sr., his boss and the founder of the Boston-based Fidelity Funds.

Jesse Livermore was one of the best tape readers of his day. Here is just a taste of Livermore's sage advice:

> "There is nothing new in Wall Street. Whatever happens in the stock market today has happened before and will happen again."
>
> "History repeats itself."
>
> "The big money is made by sitting, not thinking. Men who can both be right and sit tight are uncommon."
>
> "The point is not so much to buy as cheap as possible or go short at top price, but to buy or sell at the right time."
>
> "I never argue with the tape."
>
> "It took me five years to learn to play the game intelligently enough to make big money when I was right."
>
> "There is nothing like losing for teaching you what not to do. And when you know what not to do, you begin to learn what to do in order to win."
>
> "There are only two emotions in the market, hope and fear—the only problem is you hope when you should fear and fear when you should hope."
>
> "Know yourself and provide against your own weaknesses."
>
> "Sell after a reaction and this is no rally."

Livermore quoted old Baron Rothchild, saying his secret to making money was "I never buy at the bottom and I always sell too soon."

So you see, *Reminiscences of a Stock Operator* is packed with wisdom based on years of daily experience with the realities of how the market actually works and how human nature constantly gets in the way of following sound and proven rules, systems, and methods.

This new edition of the investment classic not only contains interesting illustrations but also incudes a 1920s *Saturday Evening Post* article by the author that was not included in the original book. My original copy of *Reminiscences* is now dog-eared and has notes from different colored pens from the several times I read and reread it over the years. Years ago, I purchased a library of over a thousand stock market and investment books. However, in my 45 years of experience in this business, I have only found 10 or 12 books that were of any real value—*Reminiscences* is one of them.

The stock market is difficult for most investors because it works in precisely the opposite way of how a normal, intelligent person tends to think and react. People want to buy something that looks cheap, is down in price, and appears to be a bargain. This rarely works because the stock is usually down for a good reason. People also do not realize that no matter how smart they are, they will make many mistakes. Investors potentially must habitually cut short every loss to keep all their mistakes small and avoid enormous losses later on. Others want to make money the easy way, without doing any homework or by simply relying on the tips, rumors, or advice of others. This is a national shame. America is a land of great opportunity, unlimited new ideas, and relentless new entrepreneurs, investors, and businesspeople. Every year there are initial public offerings by highly motivated new entrepreneurs who run unique businesses. In time, a few of these could become excellent investments of which anyone can learn to take advantage if they just save a little money and read the best investment books around. These books are written by people who have been in the battlefield and have learned how to profitably select America's very best companies. Usually the very best in anything comes at a higher price.

Reminiscences will help you begin to create your own sound investment rules that can move you into the big winner's column. You can do it if you really want to.

William O'Neil
Founder and Chairman
Investor's Business Daily

Introduction

In its long history, Wall Street has never been short of legend and myth. Stories abound of traders making fortunes using nothing more than their instinct and nerves of steel. The nineteenth century in particular produced many of these tales, telling the stories of men who started with nothing, later retiring with great fortunes, exotic lifestyles, and great art hung on their walls. The stories attracted legions of aspiring millionaires intent on making their own market history.

The inspiration for the tradition began when Horatio Alger began writing his Ragged Dick stories after the Civil War. They told of how average, penniless young men achieved wealth and fame through hard work, enterprise, and more than a little good luck. The sales of the books made Alger one of the best-read American authors of the century. Although none were stock market stories, they had a foundation in fact. After finishing college, Alger became the tutor to the children of Joseph Seligman of the famed Seligman banking family. A great deal of the bootstrap stories had their origins in the fortunes of the Seligmans, who began their investment banking careers somewhat inauspiciously as merchants in Alabama.

Economist and social theorist Thorstein Veblen added further fuel to the fire when he wrote his *Theory of the Leisure Class* in 1899. It was hardly a simple tale of young men aspiring to wealth and fame, but Veblen did share a common trait with Alger. The idea of "conspicuous consumption" found in the book was based on the author's observations of the two most famous conspicuous consumers of the era, August Belmont and his son August Belmont II. The pair's opulent life styles were the envy of New York. Their parties were legendary and their wine bills alone made other financiers green with envy (if not red in the face). By the turn of the twentieth century it was clear that finance and its high lifestyle had become the source of myth and envy.

But writing about others alone would not create myths and legends. The real stuff came from those who actually traded stocks and participated in high finance and then told tales about themselves and others. These stories were considered "inside" stuff and drew large audiences. They displayed the great contradiction in the American spirit. On the one hand, most people at the turn of the century disliked Wall Street and the Chicago commodities markets because they were places where chicanery and shady dealings occurred. On the other hand, they were the places where great wealth was created—and everyone in America loved a buck. The stories became popular because readers could learn about people they despised making large amounts of something they loved. Writers and publishers quickly saw the opportunities.

By 1900, Wall Street already had its share of rogues and villains, many of whom were extremely wealthy. The tradition began well before the Civil War. Jacob Little was a notorious short seller, always looking for a profit on the downside. Daniel Drew was another stock manipulator who relied on chicanery as much as anyone who roamed the floor of the New York Stock Exchange (NYSE). They were succeeded by Jay Gould, whose activities earned him the sobriquet of "most hated man in America." Charles Woerishoffer was another short seller, or "plunger," who made a reputation on the downside. Most "operators," as they became known, did not consistently sell or buy a stock but would mix their activities depending on the objective. But their nicknames tended to stick because of their best-known operation.

The first critics of these operators contributed to their reputations, although their intentions were just the opposite. Jay Gould became the target of cartoonists Thomas Nast and Frederic Oppler on many occasions. The cartoons, appearing in *Harper's Weekly* and *Puck,* among other periodicals, only exaggerated their already formidable reputations. Once the pictures started to appear, a hagiography began to develop around these colorful characters. Soon they were described as the forces moving markets; they were not simply bulls or bears anymore.

Added to this was the Wall Street memoir, which started to make its appearance in the late nineteenth century. Most were tales of the authors' experiences on the stock exchange and the rogue's gallery of characters they met along the way. Henry Clews's *Fifty Years in Wall Street*, published in 1908, had already appeared in previous editions, celebrating the shorter anniversaries of his career which began in 1858. Many other editions by Wall Street veterans also appeared over the years, but the book format was not as popular as the magazine article. Dozens of articles appeared over the years, celebrating the traders who made a living from the stock exchange. Few of them, however, divulged the secrets of their trade. Part of the myth was the shroud of secrecy. Genius—even unscrupulous genius—was not divulged in popular weekly magazines for all to read.

Contemporary readers will notice one distinct characteristic of late nineteenth- and early twentieth-century market literature. Great fortunes were made and lost without regard for the stocks being traded. Jay Gould and his sidekick Jim Fisk made a killing off the stock of the Erie Railroad by fooling their main adversary Cornelius "Commodore" Vanderbilt. Woerishoffer made a mint and dealt a serious setback to Henry Villard of the Northern Pacific Railroad by mounting a bear raid against his holdings. Commentators at the time attributed much of this activity to personal duels between these traders. The fundamentals of the stocks may have led to massive short selling, especially if they were overpriced, but in the end the duels were personal.

The financial performance of many stocks, especially those of the railroads and heavy industries, was not the primary attraction for many investors at the time. They simply followed the herd. If James Keene, who ramped the price of U.S. Steel for J.P. Morgan after the company was created in 1901, was accumulating stock, then others would follow—the great man obviously knew something they did not. Behavior of that sort only led small investors to ruin. Cartoonists repeatedly portrayed small investors being led to slaughter on Wall Street. By the time small investors realized it was time to sell, it was often too late. The fortune had already been made but it was not theirs.

By 1900, the stock exchanges made great strides in becoming places where investors could invest their money. They still had to be wary, however, and willing to sell quickly. Large operators relied on small investors to give support to their market manipulations. Although more stocks were listed on the New York Stock Exchange than ever before, it was still known as a place where bear raids and corners occurred with some frequency. Traders, acting individually or through pools, would often force the price of a stock up or down. This behavior suggested to the small investor that he still had to follow the renowned traders if money was to be made. So the bull and bear tradition continued unabated, although the arena was larger than ever before.

The atmosphere was similar to that of a casino: Investors were willing to make bets on stocks they thought would make them rich. But the one thing that they lacked a hundred years ago was a trading guide. Few "how to" books (showing the pitfalls of the marketplace or how to invest intelligently) were available to the investor. Wall Street operators called investors "suckers." The few resources they did have at their command would soon be depleted through their own ignorance or lack of discipline.

The existing Wall Street books were of little help. Henry Clews wrote about policy issues in a very personal vein. He suggested that the Charleston earthquake of 1884 was probably caused by mining companies probing underground for minerals. Although it is easy to write off such remarks as uninformed, given the nature of the times it probably had more to do with the performance of mining stocks, which were very popular at the time. Writing about the market and its performance could not be separated. The best way to affect a price was to write about the stock or the industry in an informed way even if the author had no special knowledge. Many reputable newspapers began implementing policies to head off articles that attempted to affect stock prices. But dozens more ignored the policies in favor of increased circulation.

The best way to get inside information on stocks before the Crash of 1929 was to pay a tipster for information. These "agents" professed to have inside knowledge of stocks that they would pass along for a fee to interested parties. Prior to the 1930s, there was nothing illegal about the practice although it was clearly manipulative. Tipsters would pass information to smaller investors from professional traders who wanted a price to move up or down and needed "retail" assistance. Small investors would then pile in or out of a stock on cue, helping provide the large operators with additional liquidity in the process.

But many small investors could not afford to play the stock market. Many stocks were expensive, trading over a hundred dollars per share at a time when the average salary was only about $1,000 per year. Small investors often did not invest their money in actual stocks but instead sought the facilities offered by a bucket shop. These were places that looked like brokers' offices but were simply betting parlors where the "investor" could put a few dollars down on a stock and hope that it would rise. The term came from the practice of placing the order in a bucket behind the counter rather than transmitting it to an exchange as a normal broker would do. The "investor" was betting against the house and usually did not win.

For a few dollars down, the bucket shop would tell the bettor how many shares he could buy or sell. When the bettor wanted to cash out his bet, he would receive the next price that the bucket shop read off the ticker, if in fact it had access to one. Some merely made up the prices as they went along. But the larger bucket shops did have access to live prices and would close the order on the next available price. Constantly winning at a bucket shop was not tolerated for long. Bucket shops could only make money when bettors lost.

Dozens of bucket shops could be found in the major financial and commodities centers. The most sophisticated were known as "bucketeers" and became the most difficult to pursue by local authorities and the exchanges. They had all the equipment of a legitimate brokerage office, replete with chalkboards and ticker tapes. How they got their prices was a matter of skullduggery in some cases. In a notable case pursued by the Chicago Board of Trade (CBOT), a bucket shop paid a boy to sit atop a building next to the exchange with a pair of binoculars and read the prices as they were posted by the exchange. He would then call them down to the bucketeers who would post them on their own blackboards.

The bucket shops were a black mark on the already spotty record of the markets for another reason. The larger bucketeers would aggregate their funds and take opposite positions in the market to ensure that their customers did not win. They could become a formidable force in their own right, especially if they were selling a stock short that their customers thought they were buying. This was one of the dark sides of the market that was rarely discussed in either New York or Chicago. A CBOT official once divulged that if the shops could take $10 million of customers' money and use it in the market, they could then leverage as much as $100 to $500 million worth of market power, depending on the margin rates at the exchanges were they were deploying their funds. It was thus nearly impossible for the small guy to make any money from the bucketeers.

Regulation of the stock exchanges by Washington was absent in the 1920s because no federal securities legislation had ever been passed. The states did their best, however, to keep fraud and manipulation in check. The states and the exchanges declared war on the bucket shops as early as the 1890s, but the battles were slow. CBOT won a significant victory over the bucket shops in 1905 when the Supreme Court ruled in its favor in a lawsuit against a large bucket shop located in Kansas City. The exchange wanted to bar the bucket shop from using its prices, transmitted by Western Union, in its offices, pretending to be a real exchange broker when it was doing nothing more than bucketing orders. The court ruled in the CBOT's favor and the bucket shops lost a significant battle. They still managed to thrive, however. Bettors were still willing to put a few dollars down and hoped to become as wealthy as the legendary traders. Gambling had been an American pastime for decades, so preventing the bucket shops from receiving live information via the wire did not deprive them of customers.

Some small bettors were able to beat the bucket shops at their own game. Being able to do so had nothing to do with investing, however. The little guy could always take information from a tipster, but that information was usually tainted in the first place, designed to lure small bettors and investors. State regulation increased after World War I although it only dealt with fraud and manipulation on a case-by-case basis. Cases were pursued against wash sales by brokers and bucketeers in New York. Many were won but fraud and manipulation continued unabated. Sometimes fines were levied while at others prison sentences were handed down, especially against bucketeers. The clever bucket shop patron had to understand the system and trade with speed. When one of their ranks finally divulged his secrets, he became an overnight sensation with the public.

In a marketplace hungry for tips and insight, "inside" information on the actual trading techniques of a well-known operator would be welcome, to say the least. Readers got their wish in 1922 when the first in a series of 12 articles about a legendary trader appeared in the *Saturday Evening Post.* They were written by financial journalist Edwin Lefèvre, a veteran journalist previously know for his financial fiction. The articles captured the public's imagination and appeared a year later later in a book of the same title, *Reminiscences of a Stock Operator.* The public finally enjoyed what it had craved for years: the inside scoop on how to win big in the market.

Lefèvre began writing about Wall Street in 1897. His ancestors were Huguenots who escaped France in the late seventeenth century. His father was an officer in the Union navy during the Civil War. Although Lefèvre always wanted to be a writer, his father insisted that he get an education, so he studied engineering before turning to the pen. He studied mining engineering at Lehigh University from 1887 to 1890. He began his career as a financial journalist, writing short stories in his spare time. Ten years later he published his first novel, *Sampson Rock of Wall Street.* During his career in journalism he worked at the *New York Sun,* served as financial editor at *Harper's Weekly,* and wrote stories for the *Saturday Evening Post.* He found Wall Street to be an ideal background for his stories because, as he put it, "there are two big motive powers in men: love and greed."

Lefèvre's career was also reflective of the way financial journalism was viewed at the time—as a part of Wall Street itself. He often told interviewers about his career in writing, especially the period "before I went to Wall Street." This language would not be used today because journalism has been separate from its subjects for some time. But around the turn of the twentieth century, they were sufficiently related so that a financial writer could claim he was part of the financial scene. The exposure helped Lefèvre write about the stock exchange knowingly; this confidence was on full display in his writings before the series of articles that would cement his fame in 1922.

The first of the *Saturday Evening Post* stories appeared on June 10, 1922, and continued until the following May. They were not the first financial stories Lefèvre wrote for the *Post*. In early 1917, he wrote a series of articles entitled "More than Two Million a Week" which also proved popular, discussing how investors could be pulled into the vortex of the market. The series was written in traditional narrative style with dialogue but the later series was quite different.

The 1922 stories were ostensibly a series of interviews Lefèvre conducted with a legendary stock and commodities trader named Lawrence Livingston, a self-made entrepreneur who accumulated fame and fortune in the years preceding World War I. From the rough chronology in the interviews, Livingston was about the same age as Lefèvre, so it should have been easy for the seasoned writer to get along with the legendary trader. But Lefèvre made practical demands on his readers. He began his interviews without much introduction other than to say that he requested and received permission to interview the often laconic stock operator. Stock market operators and well-known bankers were celebrities until the Crash of 1929 so the public did not need much of an introduction to the general subject. The technical side of a true Horatio Alger story would become required reading by anyone wanting to get rich in the markets.

Since there was no legendary trader named Lawrence Livingston, readers quickly became aware that the name was a pseudonym and that the interview was conducted with someone else. Lefèvre tipped his hand a year later when he dedicated the book version of the articles to Jesse Livermore, one of the handful of big-time stock and commodities speculators known outside the markets. Livermore was nicknamed the "Boy Plunger" by the financial press since one of his best-known publicized operations was a very successful short sale. The suspicion was even more intriguing because Livermore, like many of his successful colleagues, was known to be fairly tight-lipped.

When the articles appeared, the markets were just recovering from a severe recession. Much of the wartime demand for manufactured goods and commodities subsided and business activity retracted sharply in 1920 and 1921. General Motors, for example, suffered a decline in sales and underwent a reorganization while many smaller manufacturers went out of business. The timing for a series of confessions in a national magazine could not have been worse from a marketing perspective, yet the articles proved extremely popular. But Lefèvre already was known as a writer of short stories designed for magazines and the lighter side of finance always made for good reading in good times or bad. Soon it became obvious, however, that Lefèvre was not writing fiction. The material related by Livingston had too much professional flavor about it to be understood as merely as a fictional short story.

Although Lefèvre never actually said that Livingston was in fact Livermore, it was immediately assumed that the two were the same and the legend began to build. A trader's secrets finally had been revealed and they indeed were in the tradition of Horatio Alger characters. At the age of 15, Livingston left his family home and traveled to Boston and immediately got a job writing prices on the boards at a Boston brokerage. He soon became hooked on the market and wanted to play, but he had no funds. A friend then asked him if he wanted to contribute a small amount to place a bet at a bucket shop. They bet $10 and actually succeeded. Livingston became hooked on the intriguing possibility of playing the market, doing nothing more than watching and interpreting a series of numbers as reported on the ticker tape.

Their first bet became so well remembered that when the *New York Times* wrote Livermore's obituary in 1940, it reported the incident as the first market play of the trader. "The Livermore share of the profit was $3.12 and Jesse Livermore had found his career," the paper reported (November 29, 1940). As Lefèvre's articles related, Livermore then quit his job as a clerk and took up speculating fulltime. But Livingston did not consider it speculation; instead he devised a system that would generate profits more often than losses. It was a system that took many years to develop. But in the early years, it earned him considerable notoriety.

Although the chronology of Lefèvre's narrative is a bit spotty in places, the date for Livermore's first bet would have been 1893. Then the relation between the fictional Livingston and Livermore begins to dovetail. Within eight years, Livingston and Livermore were already millionaires. Livermore's reputation was only known in the markets, however. When he and his wife returned from a European trip in 1901, she was found to be carrying $12,000 in jewelry on which he was forced to pay customs duty of $7,200. The story was eventually picked up by the *New York World*, which began an investigation into how an unknown speculator got into such trouble. It also reported that he had already made $3 million in the market. *Who exactly was this character?,* the newspaper wanted to know. All of this had been accomplished by the time Livermore was about 23.

What Livingston revealed in the interviews was the stuff of which legends are made. He was not a member of a stock exchange early in his career nor was he a wealthy individual with spare time on his hands. The road to riches lay in the tale of the ticker tape and it was that sequence of numbers that made him so much money. Livingston started his career making substantial amounts of money in the bucket shops. He discovered that he could scalp prices in the shops by placing a bet and then liquidating his positions quickly afterward. His reading of the tape might suggest that a stock was on the rise. He would buy it and then liquidate it while it was still rising. The feat was not as simple as it sounded since the bucket shop prices were not always true and the ticker tape was not readily available at the bucket shops. Nevertheless, he won more often than he lost, incurring the wrath of bucket shop operators in the process.

When some shops banned him, he moved and traded in the Midwest before returning to New York. He made a substantial amount of money, and lost at other times, by simply remaining at a distance from the actual stock exchanges. What was so intriguing about the story in contemporary terms was that Livingston had invented what we know today as day trading. Buying and selling for small marginal amounts while relying on the tape was the only way to beat the bucket shops at their own game. When this was compared to what occurred on an exchange, it was apparent that it was the only method by which a small trader could succeed. On an exchange, a floor trader could accomplish the same thing but would have to be much more heavily capitalized.

During the years prior to World War I, different breeds of trader existed in the markets. Some, like Livingston, were not floor members of the exchanges but remained ensconced in their offices reading the ticker tapes and entering trades based on what they saw. Others were floor traders who were much closer to the action and were privy to the markets' inside secrets that outsiders could not always divine. Their techniques were the same regardless of location and the myths surrounding them were similar.

A great deal of the nostalgia that *Reminiscences* has inspired over the years has to do with its portrait of a period in the stock market that no longer exists. Livingston's stories about making and subsequently losing millions occurred well before the banking and securities acts of the 1930s were passed. Tipsters sold information that would become illegal once the Securities and Exchange Commission (SEC) was created (if the information was correct in the first place) and routine market operations that he described in detail would be proscribed. Subsequent generations of potential stock traders could only look back longingly at a period when boys and young men with nothing more than an eye for sequences of numbers could become millionaires purely through their own audacity.

Another part of the allure of *Reminiscences* was the fact that it was written before the roaring bull market of the 1920s began. The surging market that finally crashed in October 1929 did not actually begin its ascent until 1924. Livermore and other already legendary traders were heavily involved in that surging market and added to their already established reputations. But they did not confine themselves to the stock market alone. Most of them mixed commodity futures trading with their stock market activities, although the futures market was not a roaring bull market during the 1920s. The futures markets also had their share of legendary traders, some of whom turned to the stock market in the mid-1920s.

Jesse Livermore's main rival in the 1920s was Arthur Cutten, a Chicago-based futures trader. Cutten was very successful during World War I and the years immediately following and was reputed to have made a personal fortune of $75 million in the futures markets. He turned his attention to New York and the stock exchange when Congress passed the Grain Futures Act in 1922. The new law was the first attempt by the federal government to regulate the futures exchanges, which at the time traded mostly grains. Cutten saw it as government interference in the marketplace and decided to move some of his operations to the NYSE. Livermore decided to do just the opposite.

The NYSE was the main bastion for stock operators and the CBOT was the main home of futures traders. At the time it seemed that futures trading was about to die a regulated death. Livermore heard about the amount of money that Cutten reputedly made in his commodities operations and began trading on the CBOT more than he had done in the past. It would take a crash and more than ten years for Congress to react and regulate the stock markets; at the time, however, traders thought they had seen their best days because of the Grain Futures Act. That looming problem may have been a reason why Lefèvre published his articles when he did. Perhaps Livingston thought it was finally time to divulge his secrets because regulation appeared right around the corner. If the trader's lucrative living were about to dry up, at least his reputation would survive.

Livingston confided to Lefèvre that he had often played the futures markets as well as the stock market. The two were not incompatible because, as Livingston revealed in the interviews, he was what would be known today as a macro trader; he looked for profits in macroeconomic information like the international demand for wheat or the lack of rain in Iowa. He used the same approach to stocks, although much of the interviews dealt with pure hunch and instinct rather than fundamentals. When Livingston did turn the discussion to something other than psychological factors, he usually talked of stock market sectors or events in the general economy that could affect the price of a particular stock. If he did use more fundamental analysis, he did not divulge it to Lefèvre. The portrait that emerged of Livingston was that of a trader who employed technical analysis while paying some attention to the world around him.

Although he claimed that events in the political and economic world had much effect on his activities, Livingston offered little insight into some of the more interesting market developments of his day. One example was the Wilson peace overtures made during World War I. Woodrow Wilson offered to broker peace talks between the Allies and the Central Powers in an attempt to end the war. The information hit the wire services hours before the actual announcement and the markets began to tumble. Critics were infuriated that the markets had the information hours before it was made public. But traders saw it as a golden opportunity. War had been good for the American economy and peace suggested that exports of commodities and manufactured goods could slow down. Both the stock and commodities markets fell sharply as a result, although Wilson's olive branch ultimately was rejected. Short sellers had a field day on the news. Unfortunately, Livingston mentions it only in passing in his narrative.

After World War I, the stock market began to rise after billions in Liberty bonds issued during the war began to mature. Investors found themselves flush with cash and in the mood for speculation. Brokers and investment bankers recognized the opportunity and began marketing to a new class of investor. The seeds for the greatest bull market in history were planted, one that would soon reap huge rewards for Wall Street. Lefèvre's stories helped pave the way for the market bubble by demonstrating that the public had an insatiable demand for both a good story and a fast buck. The best part of the 1920s was yet to come.

Charles Geisst
July, 2004

I.
The Biggest Plunger Wall Street Ever Saw

The first installment of the *Saturday Evening Post* articles does not appear in the book published a year later. In the magazine, Lefèvre introduces his readers to the subject of his series of 12 articles, Lawrence Livingston. Although later articles show that Livingston was skilled at both buying and selling stocks, in this installment he is described as one of Wall Street's biggest "plungers." This was the term used in the nineteenth and early twentieth centuries for a short seller.

Before the Securities Exchange Act was passed, short selling was practiced much more liberally than it is today. Traders who thought a stock could fall in price could easily begin selling, creating a self-fulfilling prophecy by forcing down the stock. Once the process began, the momentum could be hard to break because, unlike today's practice, shorting could be accomplished on a "down tick." The price did not need to tick up, meaning that someone had to buy shares before it could be sold again, so a downward momentum could be established by the short sellers that could be sharp, quick, and profitable.

The technique could also be used effectively in a "bear raid," an established market practice. A concentrated and concerted effort was made to sell a stock short by a group intent on lowering its price. The reasons were often known only to the group itself. Reaction to it outside the marketplace was mostly hostile. Politicians and commentators saw it as a way that companies could be gouged by speculators, leaving them virtually worthless. A stock that had been raided was much cheaper for potential buyers or creditors to seize.

Short selling became understood as a means through which companies could be stolen from the rightful owners by those intent on destroying their value.

Lefèvre begins his tale in a brokerage office during a dismal market. He recounts a rumor that the market had been inspired by a particularly adroit short seller named Lawrence Livingston. He was, in the parlance of the day, the reason for the "market break," a term used to describe a downward trend in prices after a particularly strong market phase. But the year was 1922: The market already had grown too big and broad to be dominated by one man, especially one known for selling short. Volume was too large and the investor base too broad for one trader to have such a profound effect on prices.

Yet the presence of legendary speculators could not be taken lightly. When rumors began that a plunger like Livingston decided to short a stock, other small investors also plunged in. These were the proverbial "suckers": small investors of various stripes who never had a distinct idea about the market except to follow someone else's lead. If the suckers began shorting the same stock, one could bet that Livingston or other big traders were already out of their positions. The leaders profited while the suckers lost their bets.

Although he became known as the "Boy Plunger" for his activities, Livingston also bought many stocks in addition to selling short. He noted that he would "... rather play on the long side. It is constructive, and it is nicer to share your prosperity with others. The public does not take kindly to short selling." The idea that someone could sell something that he or she did not own and buy it later to cover at a lower price seemed alien to many people in the early twentieth century. This was especially true in the Midwest where shorting was common in the futures markets. Although various attempts had been made since the late nineteenth century to close the futures markets, considered places of ill repute, the markets had survived. But the public aversion to them and their peculiar ways was well-known to market operators.

Despite the aversion to trading and gambling in rural America in the early 1920s, New York and Chicago had no such qualms. They were places where Livingston (Livermore) and other notable traders like Michael Meehan, Joseph P. Kennedy, Bernard Baruch, Arthur Cutten, and Ben Smith made a handsome living. And there were also the legions of suckers who began picking up the magazine to read about themselves, only to discover that they were playing a game they could not win. Not that a story would stop them from trying, however. Lefèvre's account would certainly prove that there was never a dull moment in the market nor was there a lack of new speculators trying to make a killing.

C.G.

Reminiscences of a Stock Operator

June 10, 1922

THE market was so weak that you could see the customers counting their dead hopes. Presently they would enter upon the second stage of the most tragic bookkeeping in the world—the translating of paper losses into actual deprivations. But the first step came harder, because stock-market gamesters invariably hope with all their might. Clerks walked about the room almost on tiptoe and looked guilty—as though the fatal bull tips had come from them and a reckoning were demanded. But if you had asked one of the customers about the weather outside he would have answered that it was not yet three o'clock.

Two boys were posting the quotations on the board, slipping the green cards into place with fretful little snaps. They told the battle's

Awake and hungry

story in mournful numbers, the little cards did! The falling fractions were shots striking below the water line, and the ship, loaded with its phantom freight of hearts' desires, was sinking. Paper profits! Paper pleasures!

Going down!

At first it was the speculative favorites that crumbled, like Siam Oil or Acme Motors. But presently the picture became that of a Satanic torchbearer racing down an avenue of hayricks, setting fire to one after another. And how they blazed!

Up in smoke!

The quotation boys had to hustle like mad now. You could see that the ticker was leaving them behind. Some of the stocks began to break whole points at a time. Once the man by the ticker yelled "T.M. 51! 50½! ¼! 49!" and then, as though all their heads had been pulled by one string, everybody turned to look at a sharp-nosed, thin-lipped chap with tortoise-shell goggles. Then they all looked away, as though it were indecent to watch his face. He was long five thousand shares of that stock, and had often laughed at them for piking.

It brought back the old days to me so that I could have sworn I heard once more the exultant yells of the winning bears in the board room. And I saw again a seething mass of winners and losers—winners pushing their luck, and losers bent on not losing any more than they could help—help at the top of their voices. A carnival of audible greed! Fear straight from six hundred throats! I remembered the Northern Pacific panic of 1901, when I had heard and seen——

"It reminds me of old times, Bill," I told the head of the firm.

He was sticking close to me, I suspect, so that nobody would be ill-bred enough to ask him embarrassing questions—for instance, whether he thought the break had gone far enough. But he shook his head.

"Times have changed," he muttered absently, as though this were the first time in years that the ticker had relapsed into ancient vices.

What had happened was that after a dull, drooping market for a few weeks the bulls had begun to tell themselves that the worst was over. The little daily bleeding of the past fortnight, they hoped, would obviate the need of total amputation. Then—the crash! Unexpected, as always, by those who having expected to win had forgotten everything else.

I took another look at the customers. I saw men young and old and middle-aged, short and tall, thin and fat—and all of them strangers to me. Not one of the dozens who had traded in that office when I had an account there a few years before was left. And yet these, their successors, were curiously familiar. It was the eyes. They all had the dazed, hurt look of men who dread to admit that they are wrong.

A parasitical office man, extremely well dressed, as all salesmen of bunk naturally feel they must be to hold their jobs, was circulating about the room, skillfully registering both condolence and resignation. It was really too bad, but you had to expect sudden showers in April! Of course it was a beastly shame it should pour on the holiday that you had planned to go to the links. He did it very well. Practice!

One of the customers was moved to speech. He asked with a cheerfulness that anyone could see was sheer bravado, "Say, Fred, what's the news?"

"No news," answered the omniscient Fred, who in balmier weather always began his remarks with "I hear."

Lawrence Livingston's Raid

PERHAPS the customer remembered this habit, for he asked, "What do you hear?"

"Nothing," answered Fred. The customer frowned. Fred, who was paid by the firm to abstain from silence, went on: "The less you hear the better. It's all bear lies anyhow. If you listen you'll hear nothing but calamities." He paused. Then slowly, impressively: "I'm a bull on the country. You can't make me believe that in twenty-four hours the soil of the farms has become barren, the springs have dried up and the sun has gone on a strike. No matter how hard I look I can't see any change in the crops or in the steel trade or in——"

"There must be a reason for this break!" the customer was goaded into interrupting.

"Reason?" echoed Fred scornfully. But the customer's face made him add quickly: "I'll get in touch with Jameson and find out what they say over on the board." And he left.

Some of the other customers had listened to the colloquy apathetically. They were beyond the rescuing stage. Only a miracle would help them; and they had fatigued themselves praying for one.

The office man, Fred, came back.

"Of course!" he announced from the threshold. "I knew it! I said so!

The customers resentfully watched him advance to the best oratorical position in the room—beside the frantic stock ticker. If he knew and had said so they had not heard him; and so they had not sold out before the break; and so he was to blame for it.

"Lawrence Livingston is raiding the market!" he cried proudly.

The years fell off my shoulders. I was again young and enthusiastic, and life smiled on me, even in Wall Street. I laughed for sheer happiness.

Fred turned quickly, a frown on his face. Remembering that I was a friend of the boss and therefore a potential customer, he unfrowned. But he could not help turning a brick red. The customers stared at me; it was the first laughter heard that day in that office.

My friend, tolerant by temperament and tactful by profession, turned and asked me affectionately, "What bit you?"

"The vanished past!" I answered cheerfully.

The customers politely looked away; only a man who already owes his brokers laughs when they call for more margin.

"That's a little more obscure than usual. I guess I am getting too old for your epigrams," said my friend.

"And I am getting younger every minute, listening to Fred's," I assured him.

My friend, by reason of his calling, always played safe where his customers were concerned. He scented unpleasant observations on my hobby—which is that no man can consistently beat the game—and he intelligently forestalled the danger of anyone else overhearing me by smiling benevolently and remarking, "Come along, my boy!"

I followed him into his private office and closed the sound-proof door. He motioned me to a chair. I took it. He looked resigned.

"I am not going the scold you for letting your customers overstay the bull market," I assured him.

"No, but I suspect you are going to speak a piece on the stupidity of professional men in Wall Street. I haven't got a soap box for you, as I heard Robert W. Chambers say they supply you with at your cryptlike club, but I'll bite. Why did you laugh?"

"When your young man Fred, whose job seems to be to keep the customers from thinking, announced so positively that the slump was a bear raid by Lawrence Livingston I felt that I was in Wall Street in the late '90's or early 1900's, when I was conducting my Wall Street column in one of the afternoon papers."

"But Livingston wasn't operating then," protested my friend, who not only is literal minded but is also one of the most useful governors of the New York Stock Exchange.

"He's always been in Wall Street," I said.

He looked so puzzled and then so perturbed that I hastened to explain:

"He isn't stock operator, he's a stock excuse—only his name has changed slightly. It used to be Jim Keene; and before that, Charley Woerishoffer; and before that, Daniel Drew. You commission men early discovered that what the average sucker—that is, what your average customer—wants is not reasons but excuses—excuses for his trading, for his taking unbusinesslike chances in another man's game, for the inevitable misbehavior of the market at an inconvenient time, for his own imbecility and that of his broker. Any explanation except the truth will do to account for the obvious—when the obvious happens to be that the customer is an ass. He loses his money, but gives you commissions. So, when the end of the bull market comes and the profits are not taken the commission brokers have to excuse themselves for not calling the turn."

"Say!" interjected my friend. "You know it's no use to tell your customers to get out. You might as well save your breath, and let the old mule kick them."

"I have no fault to find with that," I said. "What I object to is the habit of telling the public that some big operator is raiding the market whenever the natural slumps come along to prove that the bull market is over. Do you wonder I laughed when Fred said Larry Livingston was raiding the market?"

"What makes you so sure that Larry Livingston was not raiding the market?" My friend used the excruciatingly polite tone of voice that humorless people use to squelch friends. It's bloodless.

But I answered with a grateful smile, "Common sense makes me sure. This is a bear market, and too many weaklings are still long of stocks. The break is too violent and painful to be relished by men whose margins are nearing exhaustion. It is, nevertheless, legitimate—that is, logical. Merely to suspect Livingston of selling stocks in bulk at this level is a blood insult to him. You talk as though he were a room trader in the old days gunning for stoploss orders. Why in blazes don't you tell customers the truth?"

"Do you know Livingston?" asked my poor friend.

I was willing that he should derive what comfort he could from my ignorance, so I said "I do not."

And sure enough, he smiled!

"I thought so!" he said. "You may not think the Street has changed since you quit it fifteen years ago, but I know that it certainly has."

"Hang it, man, I write a yearly article to prove that it hasn't," I protested. "I've done it for years."

"Yes, yes, I know. And they make me laugh." He doubtless meant my articles.

"Where are they wrong?" I asked him, not at all pugnaciously.

"The principle is wrong. You pick out the things that never change——"

"I pick out stockbrokers, their customers, the psychology of all speculators everywhere, the theory of speculation, the amazing short-sightedness of the Stock Exchange governors, and the fact that the unbeatable game of stock speculation remains as unbeatable as it ever was. The customer, without whom there would be no commission brokers, to-day is smooth shaven, and sixty years ago he wore a beard or an imperial. But he comes to Wall Street on the same errand and quits loser, just as he used to do. And if you are a fair sample, I'll say that the commission brokers have not changed either. What have you got to say to that?"

"Only this: That I know Larry Livingston is raiding the market."

"And how do you know that?"

"I know it!" And he smiled most sapiently—exactly as though I were a customer.

"Are you one of his principal brokers?"

"No, but his brokers have been big sellers."

Who Was Wall Street's Biggest Plunger?

"IT'S a persistent delusion of men like you that a shrewd operator's buying and selling can always be spotted. In Governor Flower's time everybody knew when he was buying because he wished it known. But nobody could tell when he was selling. Can't you imagine what Keene did when people like you thought they knew what he was doing?"

"Livingston's selling, all right," insisted my friend. Seeing my look he added, "I can tell."

"Well, if you can tell, he must be an ass," I said, being a true friend. "And I've heard he has quite a thinkpiece, as you'd call it."

"He has. That is why I know he is back of this drive. He is the biggest plunger Wall Street ever saw——"

"There you go again!" I couldn't help interrupting. "Nobody really and truly is the biggest plunger Wall Street ever saw. Whoever happens to be most active at the moment becomes the legendary hero of mythical raids. I remember hearing somebody remark that Charley Woerishoffer was the biggest plunger of all. Deacon S.V. White, who in his prime was himself no piker, was present and he declared very impressively that James R. Keene never had an equal in Wall Street for magnitude of operations or brilliancy of execution. Then old man Smith, who was a Forty-niner, chipped in to say that all these later chaps were shoestringers alongside of Anthony W. Morse, the hero of the Chancellorsville rise—in 1864, I think he said. And he mentioned Henry Keep, who was known as

William the Silent; and Bill Travers, who after looking at the Siamese Twins a long time turned to P. T. Barnum and asked gravely: 'B-b-brothers, I s-suppose?' And the two Jeromes, Addison and Leonard, and other men you never even heard of, who had been Napoleons of the board in their day."

"I know. But the country is richer now and operations are on a proportionate scale," he said pityingly.

"Well," I reminded him, "it isn't so very long ago that one of the famous Chicago crowd told me that the heaviest player of the bunch, bigger than John W. Gates himself, was Loyal Smith, who lived and died unknown to most of you brokers. But no reliable figures were mentioned. A man who ought to know assured me over fifteen years ago, that William Rockefeller was carrying a line of a million shares of stocks—that is, his purely speculative commitments. If true, that is unquestionably a bigger line than any other man has ever swung in Wall Street since Hendrik Hudson arrived."

"I don't believe the man who told you knew what he was talking about."

"He didn't keep Mr. Rockefeller's books any more than you keep Mr. Livingston's. But my guess is that your guess about Livingston is wrong. If you wish I'll make his acquaintance exclusively to ask him."

"And he'd tell you!" he jeered.

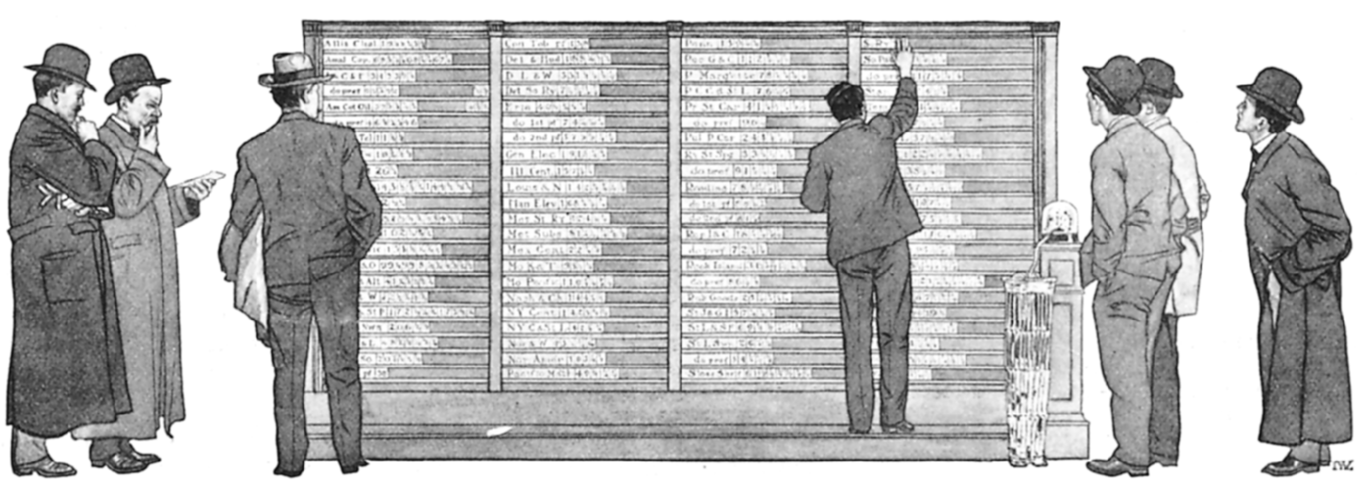
"Why not?"

"He doesn't talk," he said.

"Then how does he tell the waiter what to bring him? What you mean is that he doesn't blab. That fact and the report that he has put a million or two in trust against the possibility of the game getting him some day, as it does every one of your customers in the end, make me quite anxious to meet him. I understand that he never gives tips on stocks, but never hesitates to say whether he is bullish or bearish and why, and also that he never talks one way and acts another—a luxury that no man can permit himself unless he has an intelligent conception of the big swings. My own opinion is that Livingston will agree with me that stock speculation, considered as a continuous performance, is an unbeatable game."

"Sure! He'll agree all right. He's made millions playing it."

"You don't know that he plays the game as a speculator. Moreover, he has made and lost several fortunes and he evidently thinks



he may go broke again or he would not have soaked away that million so that the same ticker that gave shall not take away. I know there is always a good reason for his operations; and that reason will prove my theory."

"He may talk about the market, but he won't talk about himself," insisted my friend.

"He can't talk about the market without talking about his methods of operating. His market philosophy is himself," I said.

Brokers do not listen to abstractions. If they did some of their customers might make money. My friend said earnestly, "He has always played a lone hand and I know he is a very heavy trader. He has friends, but not a personal following such as all operators had in the old days of which you are so fond of speaking."

The Livingston Personality

"Then he is really able and also honest, and therefore exceptional. My dear chap, on the bear side all the following an operator needs is to be right. But you are, as usual, wrong. In the old days the only operator I recall who really had a following was Governor Flower, and he was not, strictly speaking, an operator, but a pool manager and promoter of syndicates operating in an unusual period. There never was and never will be another such man. His type, his place in the popular regard and the conditions that made possible his leadership will not recur. Keene, who is the nearest approach to a predecessor of Livingston, played a lone hand. But he did not disdain to accept company when there was need. And it was his pools that hurt him most, and it was a pool that made his last Wall Street chapter so inglorious. But I have to thank you for one thing, and I am very grateful."

"For what?" he asked suspiciously.

"For my present intention to see Livingston, that he may prove how sound my theories are."

"Your theories!" smiled my friend.

"I never heard you say that they were yours," I remarked quite mildly.

A mutual friend told Livingston that I wished to meet him. I do not know what else he said, but he once upon a time was a newspaper man. At all events, Livingston sent word that he would have more time to give me if I took luncheon with him at his home on Sunday. We could then spend the entire afternoon together.

I was there at the appointed hour. It was a sumptuous home. Its owner, who had never done anything else in his life than speculate, obviously lived in the height of luxury—liveried flunkies in the hall, Old Masters on the walls, and all that. It was not the blatant assertiveness of new millions that obtruded itself, but the inescapable evidence of guessing correctly on the stock market. If the unbeatable game of stock speculation had not been beaten by this man it at least had received a severe jolt at his hands. He had made and lost several fortunes in a few years, according to the gossip of the Street. It was plain that he had not lost the last one—not yet! But I was forced to admit that the mere making of one of the magnitude at which his home hinted was a solar-plexus blow to my cherished theory.

He was tall and well built, and straight as a West Pointer. He was clearly a man in the pink of condition—that is, an intelligent human being. He did not look his years or his business. He showed no wrinkles, no traces of the worries and anxieties that bring premature old age on so many Wall Street professionals, no visible evidence that he had ever lived unwisely. But the chief impression I received was of a mind that worked both habitually and best when cold.

His greeting was neither distant nor cordial, but his neutrality was not instantly ascribable to a habit of caution any more than the mere shadow of a corrugation on his brow came from the pervasive hostility of a man perennially on his guard by reason of his business. And, quite definitely, there was about him nothing to make me think of the lightning decisions he was credited with making on big market days—decisions involving millions of dollars.

A Pointed Question

We shook hands, still neutral. I at once proceeded to tell him why I had sought him.

As I talked I kept my eyes on his face to judge the effect of my words on him, but I could not tell what his thoughts were, nor, indeed, whether he was thinking at all. His eyes were full of that baffling intelligence that you see in the eyes of some babies. They were of a clean, clear, blue gray, and so steady that they impressed me as being more than merely organs of vision, as if they greatly helped him in his listening.

Livingston did not baffle analysis, like Henry M. Flagler, nor remind you of a soul refrigerator like the late James Stillman. It was rather that the sending apparatus of his psychic wireless was not working. His face had the quality that goes with genuine imperturbability rather than the studied immobility of exercised self-control. Had it not been for the listening eyes you might even have called it placidity.

I told him that I had certain theories about the game of speculation, as well as of the psychology of speculators, big or little.

"I've read some of your articles."

He spoke so noncommittally that I said, "Well?"

"Well, you are one writer who is not afraid to tell the truth, even though it might hurt the brokers' business to tell it."

"But the truth does not hurt the brokers' business," I said.

He merely nodded.

"I'd like to ask you some questions," I said.

"I'll answer any question you ask me," he said confidently.

"About yourself?" I asked.

There flitted across his face the shadow of reluctance. It was plain that he was not in the properly loquacious mood. That comes only when a man knows that he is not only completely but instantly understood, when talking ceases to be talking and becomes thinking aloud.

I had heard from the newspaper men—of course nothing had been published about it—that Livingston had received threatening letters from cranks who had read about his alleged bear raids on the market. There had been some bad breaks in prices and no end of harrowing stories of terrific losses by the public. I argued that as he lived with his family in this house the threats of bomb throwing could not be ignored by him, however courageous he personally might be. The problem was to give him the habit of talking unrestrainedly about all things by first