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

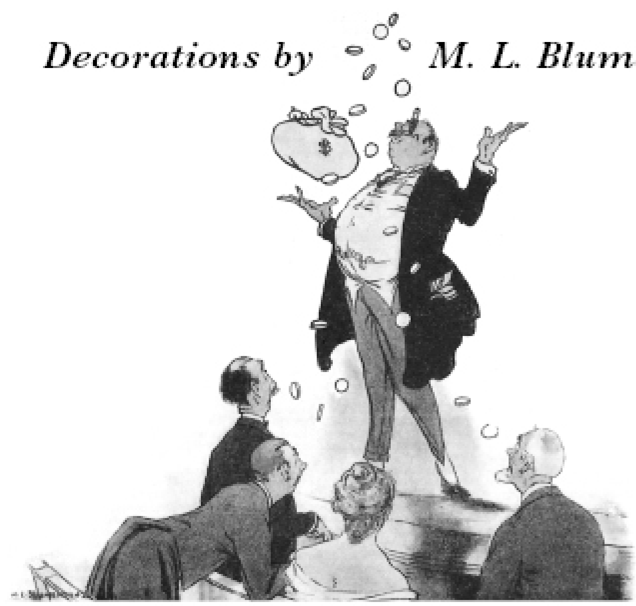
Contents

Reminiscences of a Stock Operator

Illustrated Edition

Edwin Lefèvre

Decorations by M. L. Blumenthal



John Wiley & Sons, Inc.

Published by John Wiley & Sons, Inc., Hoboken, New Jersey.

Published simultaneously in Canada.

Department within the United States at 800-762-2974, outside the United States at 317-572-3993 or fax 317-572-4002.

Wiley also publishes its books in a variety of electronic formats. Some content that appears in print may not be available in electronic books.

For more information about Wiley products, visit our web site at www.wiley.com.

ISBN 0-471-67876-7

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