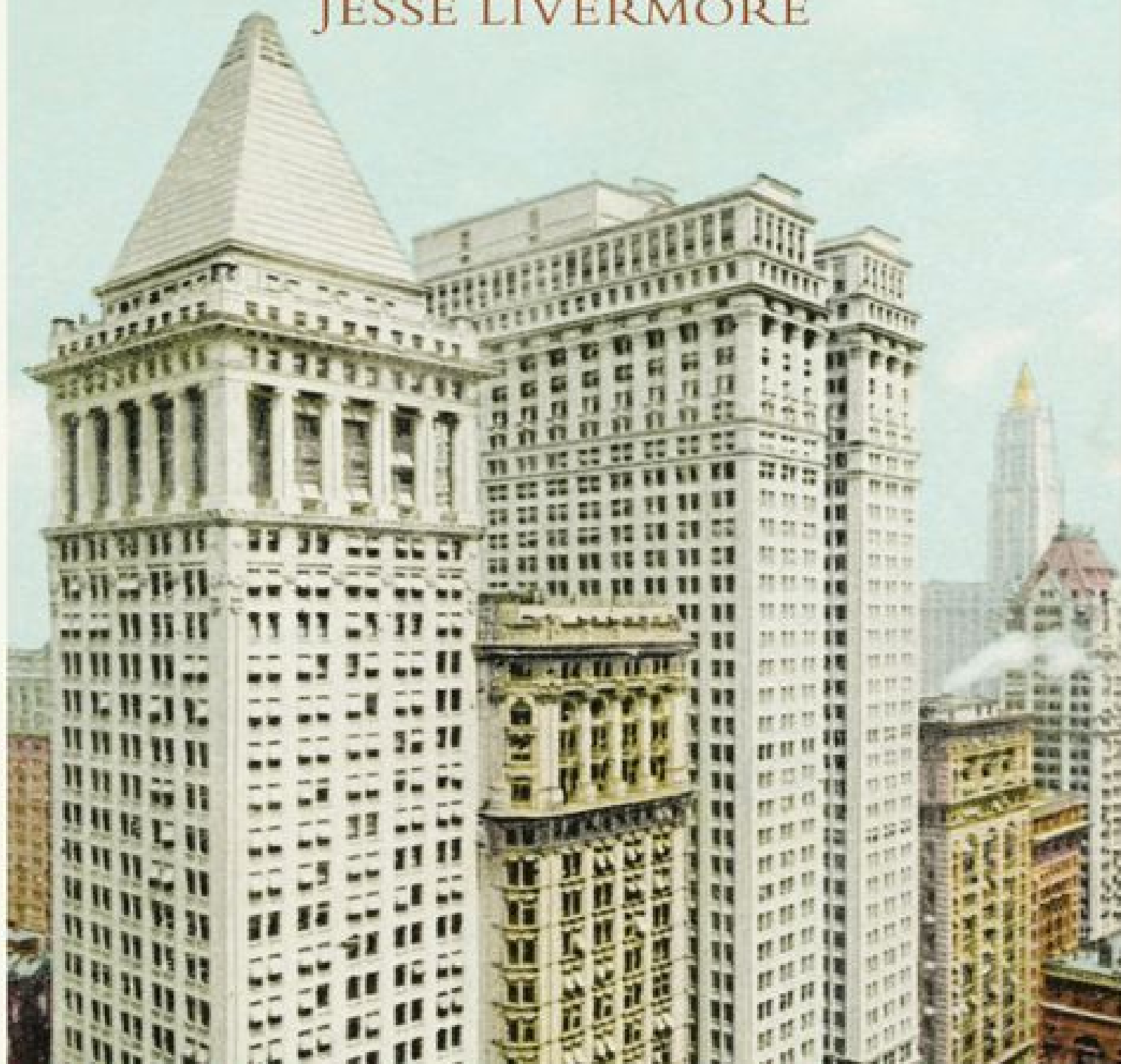


EDWIN LEFEVRE

Reminiscences of a Stock Operator

With New Commentary and Insights on the Life and Times of
JESSE LIVERMORE

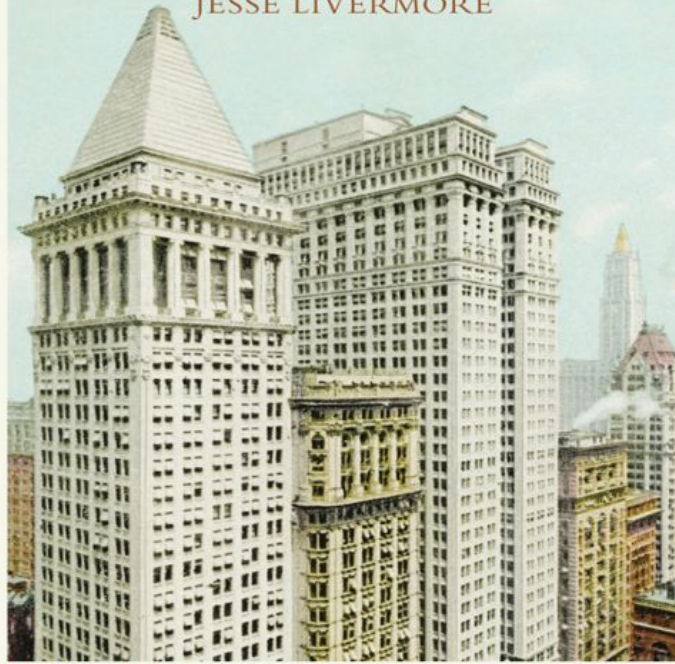


ANNOTATED EDITION BY JOHN MARKMAN

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Reminiscences *of a* Stock Operator

*With New Commentary and Insights
on the Life and Times of Jesse Livermore*

EDWIN LEFÈVRE

ANNOTATED EDITION
BY JON D. MARKMAN



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FOREWORD

I first read *Reminiscences* in 1976. It was given to me by my first boss as the most important book I could read. It resonated with me on a variety of levels. First, Livermore started with but a few coins in his pocket, and as a relatively penniless 21-year-old when I first read it, it was both reassuring and hopeful. His stories of making millions, hobnobbing with other great financiers and stock market operators, trading from a yacht, and deftly maneuvering through the great commodity and stock corners of the day was the financial equivalent of “sex, drugs and rock ‘n roll” to a young man at the advent of his financial career. Secondly, his facility with numbers was very similar to mine. It was as if he spoke straight to my soul in this regard. Finally, probably the greatest message I took away from my first read had to do with understanding price action. There are times when every market has a story to tell. And you have to train yourself to be both a great observer and listener, or you will be too late to enjoy the full story that will be told.

I have read the book countless times in my career, and I cannot remember a single time when I haven’t discovered something new. As I was reading it again for umpteenth time, I noticed on page three it reads that Livingston used to journal both “the determination of (probable price) movements” as well as “assorted record of my hits and misses.” I have been doing this semi-religiously for most of the past three decades, and I always thought it was my own invention. Over the years, I guess I deluded myself into taking credit for a brilliant practice integral to my success by conveniently forgetting the inventor. And this points to

why this book is so important to me and why anyone looking to take up trading as a profession should read and study it. It is a textbook for speculation. Indeed, I hand a copy to every new trader we have, regardless of his or her considerable experience. I am always looking for the next Jesse Livermore.

—Paul Tudor Jones

Chairman and Chief Executive

Tudor Investment Corporation

For more Paul Tudor Jones' thoughts on the book, please see page 399.

PREFACE

Imagine it is 1923. The horrors of World War I, in which 37 million men and women were killed or wounded, are still fresh in your mind. So are the horrors of the great flu pandemic of 1918-1919, which killed more than 50 million people worldwide. So are the great economic and psychological setbacks of two terrible postwar recessions in 1919 and 1921.

The cumulative gloom produced by the ravages of man and nature is hard to shake. Business in most industries is perking up a bit finally, but the stock market is reflecting a sour mood. Despite some dramatic ups and downs, prices are still pretty much where they were eight years ago.

Yet in this fallow ground of despair and fear, seeds of hope are being planted—and the dreams of ambitious, hardworking Americans are beginning to stir.

Families are starting to pour into cities from the countryside in the largest urban migration that the country has ever witnessed, and they all need new homes, water systems, transportation, offices, factories, and entertainment. Banks are beginning to feel more confident, and are doling out loans to industrialists with good ideas for cars, railroads, consumer goods, and resorts. Mass-market advertising is emerging for the first time to hawk goods over the radio, which has just begun to broadcast jazz music and baseball games after low-cost vacuum tubes have made home receivers affordable. The first talking motion pictures are emerging, a dazzling innovation that has begun to transmit American values worldwide for the first time.

Amid this growing sense of comfort and confidence, the stock market has finally begun to arch higher, and popular weekly publications are soon filled with stories of average people leveraging their wages to make a killing in stocks. Newspapers are covering Wall Street with élan, offering detailed reports on commodities and equities and the people and forces behind their mysterious movements.

Little did anyone know at the time, though in hindsight hints were abundant, that the market was about to surge 400 percent in the greatest single six-year span in its history. And so the time was ripe for the emergence of heroes to enthrall investors' imaginations and spark latent animal spirits.

Witnessing this swelling sentiment for speculation was a veteran magazine writer and novelist named Edwin Lefevre. Born in Panama to American parents, and already well traveled in Asia and South America by his twenties, Lefevre was attracted to the New York financial markets as an observer, and after finding regular work as a journalist he parlayed his keen analytical skills and buoyant personality to become one of the era's savviest chroniclers—writing and editing dozens of articles on Wall Street personalities and strategies. He stood apart from the boosterism of colleagues by primarily focusing on the gray underside of the change in stock prices, preferring to uncover tales of scammers, swindlers, and tricksters who preyed on the public's gullibility to fatten their own ledgers. He was no moralizing prude, however, and counted giants of speculation like James Keene among his friends.

By the early 1920s, at about 50 years old, Lefevre recognized that even the smartest journalism failed to get at the very essence of the truths he had uncovered about Wall Street, so he decided to shift gears and try his hand at transcending the bounds of quotes and facts by writing a

new type of fiction. Casting about for a central character on which to hang his story, he had a great number of candidates to choose from, as he was well regarded by many of the era's top players. Most were relentless self-promoters well known to the public, so it was a little odd that he ultimately chose the notoriously reticent Jesse Lauriston Livermore as his foil. Perhaps it was the challenge.

Livermore had been raised on a rocky farm in Massachusetts and had risen through hard work, ambition, necessity, persistence, guts, and a sharp mind for numbers to become one of the greatest traders of stocks and commodities of the first two decades of the twentieth century. He had made and lost more fortunes by the age of 25 than most people will see in a lifetime, and though he rarely spoke to the press about his exploits and eschewed the companionship of partners—preferring to play what he called a “lone hand”—he possessed an unusual level of self-knowledge and could express his tradecraft and mental state in colorful, perceptive ways that eluded most professionals.

The two met for an initial series of interviews to size each other up. Lefevre was impressed by Livermore's cool intelligence, while Livermore appreciated Lefevre's willingness to tell uncomfortable truths. Both were frustrated at how the public blamed their misfortunes on the market and the big operators of the day when, in fact, they had only their ignorance and overconfidence to blame.

The author apparently viewed the trader's little-known rags-to-riches story as an ideal vessel into which he could mix his own views about all that was deceitful, wretched, and corrupt, yet also energizing and transcendent, about Wall Street. Although Livermore was reclusive and shy, he proved more than willing to share his life's story with someone of such rich creative talent. The tale that emerged

—*Reminiscences of a Stock Operator*—was without doubt far greater than either could have told alone. In fact, Livermore later wrote his own book about trading, and Lefevre wrote another book centered on a single trader, and neither of those efforts came close to the glory that they had found when teaming together.

First published as a series of illustrated articles appearing in the *Saturday Evening Post* throughout 1922, the work in your hands became a classic for its pitch-perfect dialogue, insightful epigrams, daring raids, and heart-breaking failures. Told in the first person, as if it were the memoirs of protagonist Larry Livingston, it is a historical novel centered on the life of Livermore, yet it defies many of the conventions of the genre, as it lacks much of a story arc, the emotional development of other characters, a climax, a denouement, or, for that matter, much of a conclusion.

What the book lacks in typical plot points it makes up in psychological depth as Lefevre uses the Livingston character to probe the collective mind-set of all the traders he has witnessed and interviewed over the years.

Although most readers assume all of the thoughts articulated are those of Livermore as channeled by the author, the truth is that many of the locutions and beliefs can be found in other journalism and conventional novels penned by Lefevre. Indeed, most of the last five chapters owe much to a separate series of articles that Lefevre wrote on his favorite subject, stock manipulation, though of course they are cleverly altered to appear as if they were an integral part of the Livermore saga.

Moreover, the book may start with the protagonist's innocent attempts to make money as a gambler in bucket shops and as an increasingly cagey trader in equity and commodity markets, but the last half centers on his efforts as a stock "operator"—a term of art for a market pro hired

by investment pools to manipulate a moribund stock for the benefit of insiders. It is not quite right to call this fraud, because it was mostly legal at the time, but Lefevre lets us know that the fine art of ripping off the public was not exactly admirable.

Most readers of *Reminiscences of a Stock Operator* today do not realize that while the Livingston name is fiction, about 90 percent of the other proper names of people and places in the book are real. The fact that the book can be appreciated without knowing anything about its historical context and its cast of characters is a testament to the strength of the central narrative.

After several rereadings of the book of my own, I began to be more curious about both the real historical backdrop as well as the people whose identities are essentially name-dropped. People like J. P. Morgan, Jay Gould, William Jennings Bryan, and Bernard Baruch were at least superficially known to me, but James Keene, John “Bet-a-Million” Gates, Dickson Watts, Jacob Little, Daniel Drew, and William Travers might as well have been made up. Likewise, events like the “cross of gold” speech by Bryan at the 1896 Democratic convention, which figures prominently in the early chapters, was a distant memory from a college U.S. history class, but its meaning to investors in the early part of the twentieth century completely escaped me.

The more I dug into the fascinating stories of the men and events that serve as props for Lefevre’s narrative, the more I realized how much of the book’s deeper meaning was lost on modern readers. I began to feel like an art restorer who, in delicately cleaning a master’s painting, discovered much more vibrant colors than modern viewers had ever seen, along with hidden characters covered by decades of dust. Gates, Drew, Gould, Little, Travers, and other minor characters mentioned in *Reminiscences* led amazing lives

that were well known to Lefevre's contemporary readers in the 1920s but have largely been lost to the sands of time.

The author also regularly but obliquely refers to events that evoked an emotional response to readers in the 1920s but have zero resonance for modern readers. Prime examples are descriptions of trading during milestones on the road toward U.S. involvement in World War I, including early submarine warfare battles; the economic impact of bruising fights between Bryan and William McKinley over the gold standard; the explosive onset of the Spanish-American War; and the near depression that followed the end of World War I.

In this new edition of *Reminiscences*, I have tried to breathe new life into these people and events through annotations that will help current readers understand the book in an entirely new way. Whether you hop-scotch through the annotations to learn about historical figures one by one or reread the book from start to finish, using the annotations as a guide to strengthen your understanding of the original text, you will discover that Lefevre was a truly masterful interpreter of a most remarkable period in U.S. financial history.

This is not to diminish the profound insights that are lying right on the surface of the book, like gold nuggets lying in plain sight on a riverbed. Through the voice of the Livingston character, Lefevre reaches out through time to remind us, with the panache of an artful storyteller rather than with the scolding finger of a professor, that there never is anything new on Wall Street, because speculation is as old as the hills; that in a bull market you must trade with the bulls, while in a bear market you must trade with the bears; that anticipation and fast reaction are the trader's key assets; that you should never argue with the tape; that you do not know until you bet; that the game teaches you the

game; and much more. But the bottom line is that there is much more to *Reminiscences* than a list of do's and don'ts for traders, and updating the book's breathtaking sweep is what I hoped to accomplish with these annotations.

The book is often mentioned by famed traders today as their bible, or the work that inspired them to go into the investment business, so it is worth noting that the sentiment would most likely dismay Lefevre, or at least amuse him. This is because it certainly appears that he meant *Reminiscences* to be a cautionary tale more than an instruction manual. The character Livingston laments numerous times that no man can consistently beat the stock market and that human nature condemns virtually everyone to being a sucker. And yet he recognizes that they must keep trying.

Livermore himself ultimately fell victim to the game, as he was never able to adapt his methods to restrictions put in place by the Securities and Exchange Commission in the 1930s. The trader made a fortune by being short stocks in the panic of 1907 and in the 1929 crash—at his peak owning mansions, a fleet of limousines, and a massive yacht—but he was plagued with depression and repeatedly discovered ways to blunt his brilliance with bad plays. After a long series of setbacks that sapped his pride and confidence, he took his own life in November 1940 with a .32-caliber handgun at age 63 in the cloakroom of the Sherry-Netherland Hotel in New York, leaving a rambling suicide note that read, in part, “Things have been bad with me. I am tired of fighting. Can't carry on any longer. This is the only way out.”

Knowing that Livermore's life slipped into darkness 20 years after the publication of *Reminiscences* should nevertheless not detract from the value Lefevre gleaned

from his genius in its prime. The book has lasted because its wisdom is timeless.

Before moving on, I would like to acknowledge the work done by my researcher, Anthony Mirhaydari. He spent many hours prowling university libraries to uncover biographies and histories of the era that had not been checked out for decades. He also discovered that Google had digitized many out-of-circulation books dating from the 1850s to the 1930s, and harnessed them for our benefit. This edition would have been a lot less rich, and taken a lot longer to come to fruition, without his steadfast passion for uncovering and unraveling clues about the people, places, and events of the era. His notes and observations were invaluable to me in compiling these annotations.

Anthony and I were both amazed at the quality and depth of financial news reporting in newspapers and magazines of the late 1800s and early 1900s, particularly in the *New York Times* and *Time*, as well as the elegant prose found in several autobiographies. One of our favorites was *Fifty Years in Wall Street*, by Henry Clews, a titan of nineteenth-century finance who loved to dish on the men and women with whom he dealt in public and private service starting in 1857.

I would also like to thank several traders who helped me understand the era better. You will find my interview with Paul Tudor Jones about *Reminiscences* in the back of the book. Others who provided hours of guidance were Larry Williams, Tom Demark, John Burbank, Edward Dunne, and Terry Bedford. Thanks to my patient editors Meg Freeborn, Kevin Holm, and Chris Oster. And of course I could not have completed this effort without the tremendous support of my wife and children, Ellen, Joe, and Janie.

And finally, for busy readers who would like to view a stripped-down version of the book without the frame of the

narrative, I have compiled a “Selected Quotes” section that could serve by itself as one of the pamphlets of epigrams that were popular among boys like young Jesse Livermore in the late 1800s. Plus for reference, in the Appendix is a chart of the Dow Jones Industrial Average from 1896 to 1930.

So follow me now into a time of limitless prosperity, the Roaring '20s. A time when the Dow Jones Industrial Average was about to soar from 90 in 1923 to a high of 381 in 1929. A time when a great journalist combined forces with a great trader to explain to the masses how to make a fortune in the great game and, above all, not be a sucker.

—Jon D. Markman

I

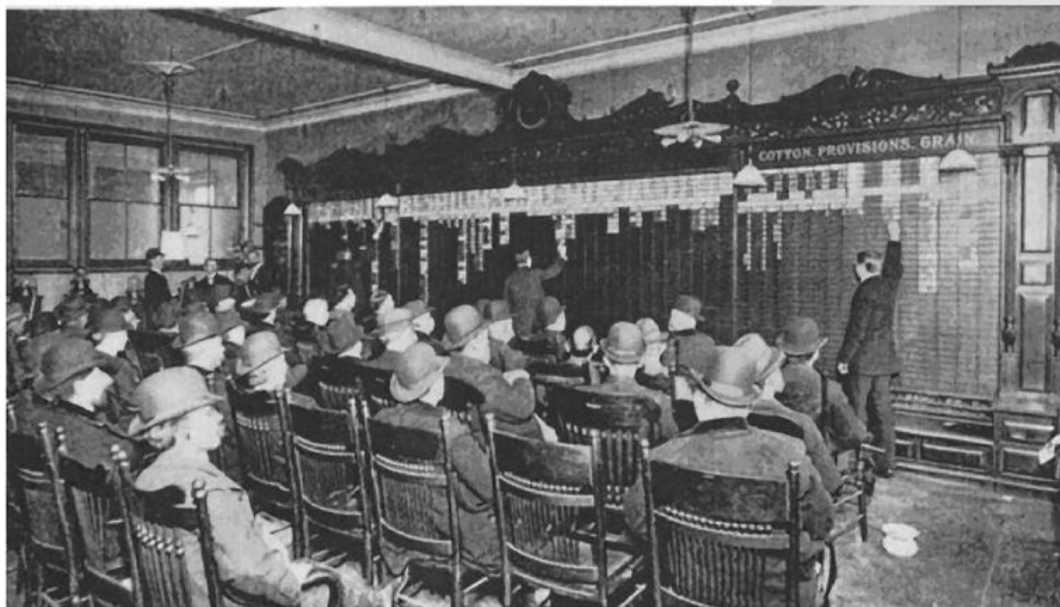
I went to work when I was just out of grammar school.^{1.1} I got a job as quotation-board boy in ^(1.1)a stock-brokerage office. I was quick at figures. At school I did three years of arithmetic in one. I was particularly good at mental arithmetic. As quotation-board boy I posted the numbers on the big board ^(1.2)in the customers' room. One of the customers usually sat by the ticker ^{1.3} and called out the prices. They couldn't come too fast for me. I have always remembered figures. No trouble at all.

There were plenty of other employees in that office. Of course I made friends with the other fellows, but the work I did, if the market was active, kept me too busy from ten A.A. to three P.M. to let me do much talking. I don't care for it, anyhow, during business hours.

1.1 Reminiscences is a historical novel told in the first person by the fictional Larry Livingston. The character and all of his dialogue were based on the trader Jesse Lauriston Livermore, who was born on July 26, 1877, in Shrewsbury, Massachusetts, to a family of subsistence farmers. The cold climate and poor soil in their area demanded backbreaking labor and provided a meager yield. Livermore's first job was to move the dense rocks turned up by his father's plow. Hard physical work was difficult for him because of his slender build, and he was often sick. Although he excelled in school, especially math, his father wanted him to stop his education and work all day on behalf of his family. Livermore, who was way too curious about the world to stay home, conspired with his doting mother to escape. She provided an extra-large

suit so that he would not have to buy another one for a while, and \$5. With that, Livermore set out for Boston in 1891 at age 14.¹

1.2 In the days before electronic tickers, prices were manually updated on a large wooden board as they clattered in from exchanges via telegraph wires. Boys working the board would write the latest prices with chalk. They wore alpaca coats to keep from smudging the board. The use of blackboards coincided with the rise of the bucket shop, since it was necessary to display price fluctuations to many customers at once. As late as 1902, traditional brokers resisted the installation of quote boards because their absence distinguished their conservative establishments from the more liberal practices of bucket houses. The use of the term “Big Board” for New York Stock Exchange is a throwback to this era.²



1.3 The ticker was a printing telegraph adopted widely soon after the Civil War, and it revolutionized the function of capital markets. Invented by Edward Calahan in 1867, its popularity was boosted by Thomas Edison's invention of the quadruplex in the 1870s—a system that allowed a single wire to carry four messages simultaneously. Western Union and its rivals leveraged this increase in capacity to lease telegraph connections to financiers and speculators outside the exchanges. The volume growth allowed the New York Stock to New York Stock Exchange to expand in 1871 from twice-daily auctions to continuous trading in listed securities.³

Until 1872, ticker service was available only through 700 machines in New York City. After Western Union purchased the Gold & Stock Telegraph Co., service was widened to its national network; by 1886, there were 2,200 tickers coast to coast. In 1903, financial writer Sereno Pratt quipped that ubiquity of the ticker offered “no better proof...of the universality of speculation.”⁴

Popular participation in the stock market soon rose sharply: The number of American stock owners tripled between 1900 and 1922 to 14.4 million. Observers described the device's magical attractiveness. Horace Hotchkiss, founder of the Gold & Stock Telegraph, said that when the ticker entered commercial service it “created a sensation as the quotations made their appearance on the tape. The crowd around it was at least six deep.”⁵ Financial writer George Gibson noted that “dealers...intently watch the ‘ticker’ as it rapidly unwinds the tangled web of financial fate.”⁶

Before the advent of the ticker, middlemen called “pad shovers” would get the latest quotations from brokers, scribble them in notebooks, and then go from office to office. A character in Edwin Lefevre’s 1925 book, *Making of a Stockbroker*, tells of how they “came up to you and shoved the pad with the quotations on it right under your nose, hence the appellation. They were the walking tickers. Rushing the pad, they used to call the process.”



But a busy market did not keep me from thinking about the work. Those quotations did not represent prices of stocks to me, so many dollars per share. They were numbers. Of course, they meant something. They were always changing. It was all I had to be interested in—the changes. Why did they change? I didn't know. I didn't care. I didn't think about that. I simply saw that they changed. That

was all I had to think about five hours every day and two on Saturdays: that they were always changing.

That is how I first came to be interested in the behaviour of prices. I had a very good memory for figures. I could remember in detail how the prices had acted on the previous day, just before they went up or down. My fondness for mental arithmetic came in very handy.

I noticed that in advances as well as declines, stock prices were apt to show certain habits, so to speak. There was no end of parallel cases and these made precedents to guide me. I was only fourteen, but after I had taken hundreds of observations in my mind I found myself testing their accuracy, comparing the behaviour of stocks today with other days. ^{1.4}

It was not long before I was anticipating movements in prices. My only guide, as I say, was their past performances. I carried the “dope sheets” in my mind. I looked for stock prices to run on form. I had clocked” them. You know what I mean. ^{1.5}

You can spot, for instance, where the buying is only a trifle better than the selling. A battle goes on in the stock market and the tape is your telescope. You can depend upon it seven out of ten cases.

Another lesson I learned early is that there is nothing new in Wall Street. There can't be because speculation is as old as the hills. ^{1.6} Whatever happens in the stock market to-day has happened before and will happen again. I've never forgotten that. I suppose I really manage to remember when and how it happened. The fact that I remember that way is my way of capitalizing experience.

I got so interested in my game and so anxious to anticipate advances and declines in all the active stocks that I got a little book. I put down my observations in it. It

was not a record of imaginary transactions such as so many people keep merely to make or lose millions of dollars without getting the swelled head or going to the poorhouse. It was rather a sort of record of my hits and misses, and next to the determination of probable movements I was most interested in verifying whether I had observed accurately; in other words, whether I was right.

Say that after studying every fluctuation of the day in an active stock I would conclude that it was behaving as it always did before it broke eight or ten points. Well, I would jot down the stock and the price on Monday, and remembering past performances I would write down what it ought to do on Tuesday and Wednesday. Later I would check up with actual transcriptions from the tape.

That is how I first came to take an interest in the message of the tape. The fluctuations were from the first associated in my mind with upward or downward movements. Of course there is always a reason for fluctuations, but the tape does not concern itself with the why and wherefore. It doesn't go into explanations. I didn't ask the tape why when I was fourteen, and I don't ask it to-day, at forty. The reason for what a certain stock does to-day may not be known for two or three days, or weeks, or months. But what the dickens does that matter? Your business with the tape is now—not to-morrow. The reason can wait. But you must act instantly or be left. Time and again I see this happen. You'll remember that Hollow Tube went down three points the other day while the rest of the market rallied sharply. That was the fact. On the following Monday you saw that the directors passed the dividend. That was the reason. They knew what they were going to do, and even if they didn't sell the stock themselves they at least didn't buy it. There was no inside buying; no reason why it should not break.

1.4 Livermore describes his method of recording hundreds of price changes in his head and sifting through them on the fly to determine which “parallel cases” and “precedents” were accurate enough to help him anticipate future changes. This is a crude but effective version of what we would now call a quantitative approach to technical analysis, in which practitioners use computers and mathematical models to forecast future price changes based on past patterns.

1.5 Horse racing was the second most popular public sport in the early 1900s, after baseball. *Reminiscences* is full of racing references, including “dope sheets” (reports on horses’ conditions); “clocked” prices (timing price-change intervals as one would use a stopwatch on a horse); and “the tape is your telescope” (watching prices changes via the ticker tape as you would use a telescope to watch a race at the track).

1.6 This is the central message of *Reminiscences* and has made the book a timeless classic. Throughout the book, we see manipulations, speculations, booms, busts, and panics that could be ripped from the pages of financial news reports in any era decades later, with only the names changed. No matter how much each new set of investors, executives, and policy makers believes their times are unique, Lefevre observes correctly, “Whatever happens in the stock market to-day has happened before and will happen again.”



1.7 “Bucket shops” were storefront operations where speculators who could not afford a regular brokerage account could bet on the price movements of stocks and commodities using small sums of their own money, plus margin borrowing. No actual transactions in the stock or commodity took place since these were not investments but simple wagers on price changes.

The term originated in England in the early 1800s, when poor youths would visit pubs with a bucket, drain beer kegs that had been thrown out, then congregate in abandoned shops to drink, smoke, bet, and carry on. The expression was later applied to shops where grain and stock transactions were counterfeited.⁷ The proliferation of bucket shops was spurred by low-cost access to stock tickers. Shops would lease wires from brokers and telegraph companies, in many cases maintaining redundant connections to ensure reliability. To the untrained eye,

their fancy offices, newspaper ads, tip-sheet mailers, and near-real-time stock quotes made bucket shops look very similar to Wall Street brokerages. The big difference was that while a broker acted on behalf of its clients, earning a commission on each transaction, the bucket shop maintained an adversarial relationship with its customers since it profited at their expense.

Bucket shop operators were a nefarious bunch, with one observer at the time calling them “pool-room sharks or ‘sure-thing’ card men with no standing in the business or social world.”⁸ Although U.S. bucket shops got their start in New York around 1877, they rapidly spread to small towns across the Midwest as ticker service expanded. By wrapping themselves in an air of respectability, achieved mainly through appearances, bucket shops were not seen as dangerous by the public. Men were not embarrassed by being seen in a bucket shop, as they would be if caught in a poker room.

Bucket shops found the most success in small agricultural communities where the fast action delivered via the ticker brought excitement to dull, tradition-bound lives. Chicago Board of Trade historian Charles H. Taylor noted in 1917 that they were initially viewed as a sort of democratized exchange “where the common people could speculate.”⁹

Eventually brokerages and exchanges launched a campaign to stamp out bucket shops because they feared the competition and believed they undermined public support for legitimate investing. In 1889, the New York Times estimated that bucket shop patrons were wagering the equivalent of 1 million shares per