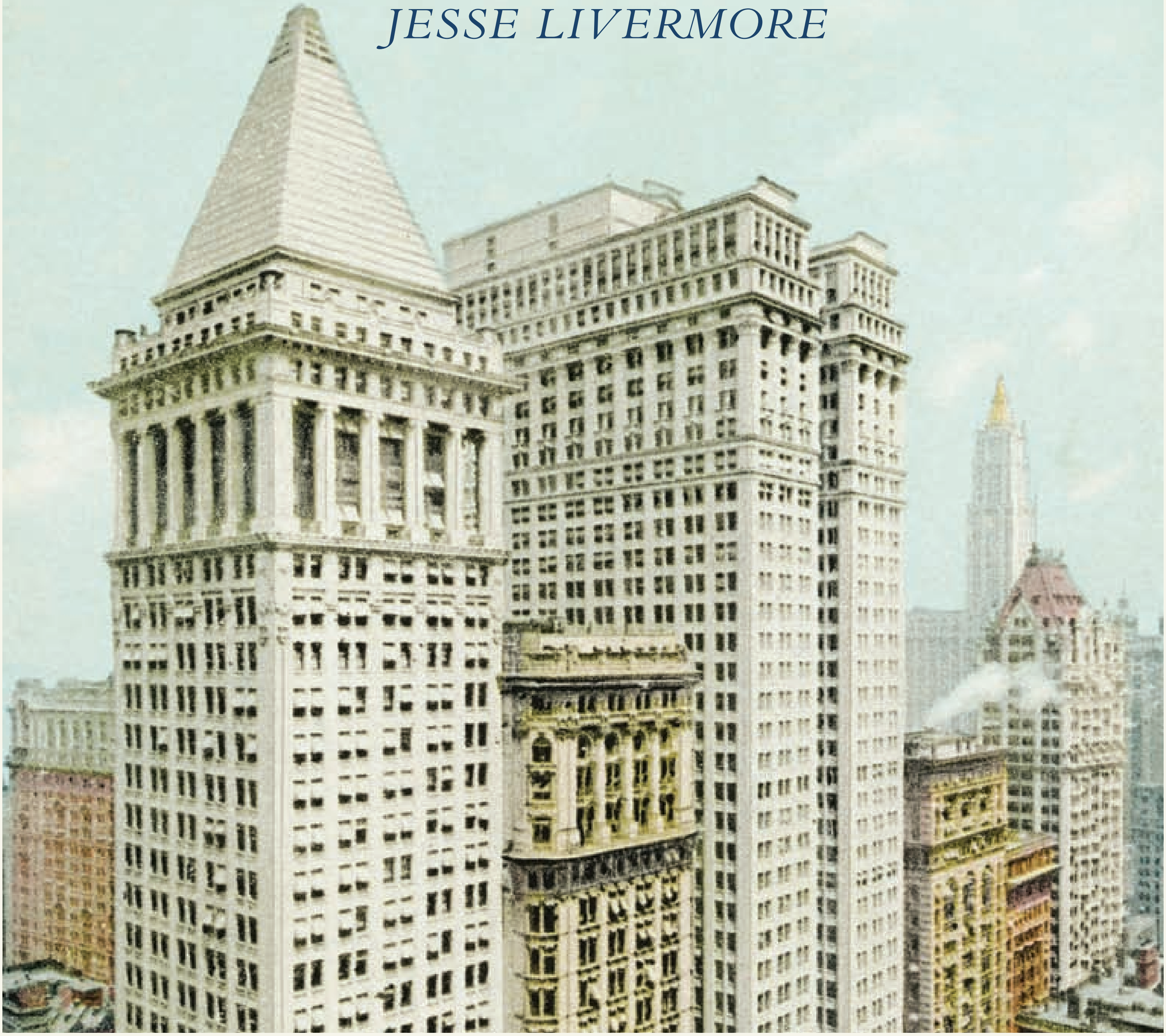
FOREWORD BY PAUL TUDOR JONES

EDWIN LEFÈVRE

Reminiscences of a Stock Operator

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



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 heartbreaking 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 hopscotch 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.

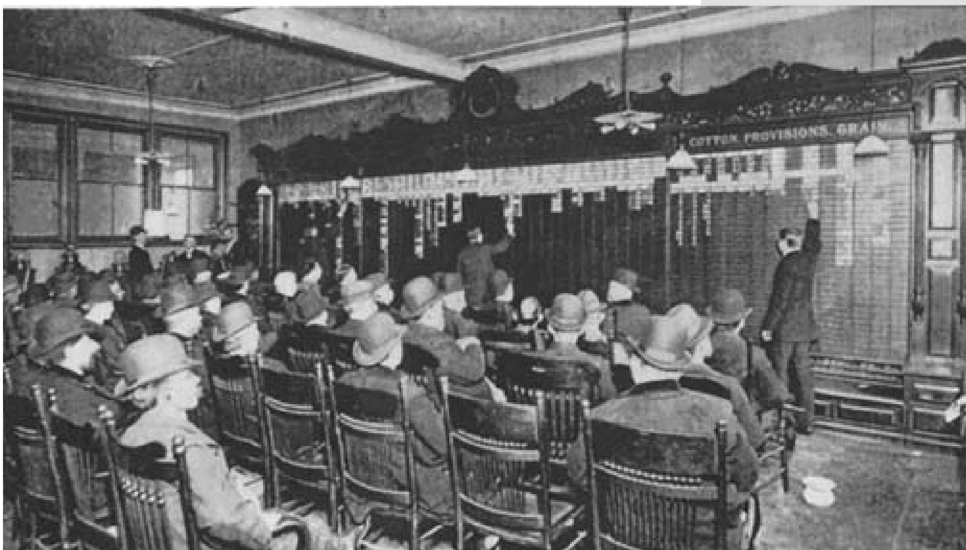
—Jon D. Markman

I went to work when I was just out of grammar school.[1.1] I got a job as quotation-board boy in 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.M. 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 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 appellative. 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

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

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.

Well, I kept up my little memorandum book perhaps six months. Instead of leaving for home the moment I was through with my work, I'd jot down the figures I wanted and would study the changes, always looking for the repetitions and parallelisms of behaviour—learning to read the tape, although I was not aware of it at the time.

One day one of the office boys—he was older than I—came to me where I was eating my lunch and asked me on the quiet if I had any money.

"Why do you want to know?" I said.

"Well," he said, "I've got a dandy tip on Burlington. I'm going to play it if I can get somebody to go in with me."

"How do you mean, play it?" I asked. To me the only people who played or could play tips were the customers—old jiggers with oodles of dough. Why, it cost hundreds, even thousands of dollars, to get into the game. It was like owning your private carriage and having a coachman who wore a silk hat.

"That's what I mean; play it!" he said. "How much you got?"

"How much you need?"

"Well, I can trade in five shares by putting up $5."

"How are you going to play it?"

"I'm going to buy all the Burlington the bucket shop will let me carry with the money I give him for margin," he said. 1.7 "It's going up sure. It's like picking up money. We'll double ours in a jiffy."

"Hold on!" I said to him, and pulled out my little dope book.

I wasn't interested in doubling my money, but in his saying that Burlington was going up. If it was, my note-book ought to show it. I looked. Sure enough, Burlington, according to my figuring, was acting as it usually did before it went up. I had never bought or sold anything in my life, and I never gambled with the other boys. But all I could see was that this was a grand chance to test the accuracy of my work, of my hobby. It struck me at once that if my dope didn't work in practice there was nothing in the theory of it to interest anybody. So I gave him all I had, and with our pooled resources he went to one of the near-by bucket shops and bought some Burlington. Two days later we cashed in. I made a profit of $3.12.

After that first trade, I got to speculating on my own hook in the bucket shops. I'd go during my lunch hour and buy or sell—it never made any difference to me. I was playing a system and not a favorite stock or backing opinions. All I knew was the arithmetic of it. As a matter of fact, mine was the ideal way to operate in a bucket shop, where all that a trader does is to bet on fluctuations as they are printed by the ticker on the tape.

It was not long before I was taking much more money out of the bucket shops than I was pulling

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]

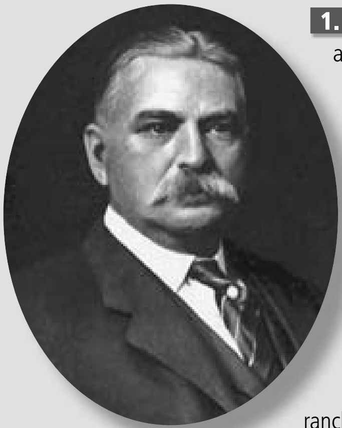
Eventually brokerages and exchanges launched a campaign to stamp out bucket shops because they feared the competition and believed they undermined public support for legitimate investing. In 1889, the *New York Times* estimated that bucket shop patrons were wagering the equivalent of 1 million shares per day at a time when the average daily volume on the New York Stock Exchange was 140,000 shares.[10]

Rising public anger toward bucket shops' unsavory practices also escalated. Some owners would boast about "cleaning up a town"—draining the locals of their savings—before closing up to repeat the game in a neighboring town.[11] Lefevre's colorful narrative brings this bygone era to life.

down from my job in the brokerage office. So I gave up my position. My folks objected, but they couldn't say much when they saw what I was making. I was only a kid and office-boy wages were not very high. I did mighty well on my own hook.

I was fifteen when I had my first thousand and laid the cash in front of my mother—all made in the bucket shops in a few months, besides what I had taken home. My mother carried on something awful. She wanted me to put it away in the savings bank out of reach of temptation. She said it was more money than she ever heard any boy of fifteen had made, starting with nothing. She didn't quite believe it was real money. She used to worry and fret about it. But I didn't think of anything except that I could keep on proving my figuring was right. That's all the fun there is—being right by using your head. If I was right when I tested my convictions with ten shares I would be ten times more right if I traded in a hundred shares. That is all that having more margin meant to me—I was right more emphatically. More courage? No! No difference! If all I have is ten dollars and I risk it, I am much braver than when I risk a million, if I have another million salted away.

Anyhow, at fifteen I was making a good living out of the stock market. I began in the smaller bucket shops, where the man who traded in twenty shares at a clip was suspected of being John W. Gates in disguise or J. P. Morgan traveling incognito.[1.8] Bucket shops in those days seldom lay down on their customers. They didn't have to. There were other ways of parting customers from their money, even when they guessed right. The business was tremendously profitable. When it was conducted legitimately—I mean straight, as far as the bucket shop went—the fluctuations took care of the shoestrings. It doesn't take much of a reaction to wipe out a margin of only three quarters of a point. Also, no welsher could ever get back in the game. Wouldn't have any trade.



1.8 **John Warne Gates** made his fortune selling barbed wire in the late nineteenth century and parlayed the proceeds of a deal with J. P. Morgan into a brokerage and a company that would become Texaco. His nickname, "Bet-a-Million," was earned by a lifetime of heavy betting at the racetrack and card tables.

Born on a farm in Illinois in 1855, Gates showed promise as a capitalist at 16 when he contracted to husk a neighbor's cornfields and used the proceeds to buy a one-third interest in a threshing machine—a venture that proved profitable when the next harvest was abundant. By age 18, Gates had accumulated $1,000 (worth $17,000 today), with which he purchased a hardware store in his hometown.

Gates's career took off when Isaac Ellwood, who had purchased the manufacturing rights to newly invented barbed wire, offered him a job as a salesman. Gates set off for Texas but met little initial success from skeptical cattlemen who disparaged use of "such a flimsy material."[12] In response, Gates rented Military Plaza in San Antonio, built a barbed-wire corral, and invited ranchers to "bring in your worst fence-busters." His pitch: "This is the finest fencing in the world, light as air, stronger than whiskey, cheaper than dirt, all steel and a yard wide." After crashing into the barbs, steers eventually gave up. Sales poured in, exceeding Ellwood's factory capacity.[13]

Gates applied for a partnership stake from Ellwood but was denied. Convinced of his abilities and the promise of the new invention, Gates built his own barbed-wire mill and became a competitor. A patent infringement lawsuit followed, but Elwood eventually joined with Gates in what would become a lifelong partnership and friendship.[14]

Gates consolidated power within the industry, buying competitors large and small until, by 1892, he became the king of the wire industry. Gates then began moving up the supply chain and became active in raw steel, ultimately becoming head of one of the largest players at that time, Illinois Steel Co. His effort culminated with a deal with J. P. Morgan in 1901 to help form U.S. Steel.[15]

Gates thus acquired great wealth and became a large operator in Wall Street after forming a global brokerage, C. G. Gates & Co., which at its peak invested as much as $100 million ($2.3 billion today) at a time. Due to the prominence and speculative fervor of its partners, Gates found itself at the center of many of the era's most inglorious stock manipulations.[16]

As part of his stock operations, Gates gained control in the open market of the Louisville & Nashville Railway from financier and horse-racing pioneer August Belmont. He then sold his stake for a $10 million profit in a sale arranged by J. P. Morgan in the Waldorf-Astoria hotel in April 1902. Gates also became active in the oil business via a stake in the Texas Co., the predecessor to Texaco.

C. G. Gates suffered a huge blow in the Panic of 1907 and was liquidated after suffering a loss estimated by the *New York Times* at $6 million (roughly $137 million today).[17] Gates then announced that he was "through with the Wall Street game" and exited the scene after leasing a shooting estate of several thousand acres in the Savoie region of France.[18]

I didn't have a following. I kept my business to myself. It was a one-man business, anyhow. It was my head, wasn't it? Prices either were going the way I doped them out, without any help from friends or partners, or they were going the other way, and nobody could stop them out of kindness to me. I couldn't see where I needed to tell my business to anybody else. I've got friends, of course, but my business has always been the same—a one-man affair. That is why I have always played a lone hand.

As it was, it didn't take long for the bucket shops to get sore on me for beating them. I'd walk in and plank down my margin, but they'd look at it without

1.9 Livermore's nickname Boy Plunger stemmed from the word *plunger*, commonly used at the time to describe a speculator, or a person who risked big losses for the potential to capture big gains. In some usages, the term implied recklessness. Livermore also always had a very youthful appearance. In a 1908 interview in the *Evening World* newspaper, reporter Rose Tillotson describes him at 31 years old: "The first impression was of extreme youthfulness. His flaxen hair and his blue eyes seem to subtract ten years from the age he frankly acknowledges. But the determined lines of his mouth and chin belie this effect after a moment's scrutiny."

1.10 The ubiquity of the bucket shop was driven by the rapid adoption and low cost of the stock ticker. Within just a few years of the ticker's introduction into commercial service in 1867, America's speculative fever resulted in its appearance in banks, hotels, restaurants, and even saloons and cigar stores.[19] It was only natural that bucket shops should appear where crowds gathered to watch the action of faraway trading floors on the tape. Bucket shop operators sometimes appeared in hotel lobbies in places like Boston, preying on out-of-town guests caught up in the excitement of fast money and the big city.[20]

making a move to grab it. They'd tell me there was nothing doing. That was the time they got to calling me the Boy Plunger. 1.9 I had to be changing brokers all the time, going from one bucket shop to another. It got so that I had to give a fictitious name. I'd begin light, only fifteen or twenty shares. At times, when they got suspicious, I'd lose on purpose at first and then sting them proper. Of course after a little while they'd find me too expensive and they'd tell me to take myself and my business elsewhere and not interfere with the owners' dividends.

Once, when the big concern I'd been trading with for months shut down on me I made up my mind to take a little more of their money away from them. That bucket shop had branches all over the city, in hotel lobbies, and in near-by towns. 1.10 I went to one of the hotel branches and asked the manager a few questions and finally got to trading. But as soon as I played an active stock my especial way he began to get messages from the head office asking who it was that was operating. The manager told me what they asked him and I told him my name was Edward Robinson, of Cambridge. He telephoned the glad news to the big chief. But the other end wanted to know what I looked like. When the manager told me that I said to him, "Tell him I am a short fat man with dark hair and a bushy beard!" But he described me instead, and then he listened and his face got red and he hung up and told me to beat it.

"What did they say to you?" I asked him politely.

"They said, 'You blankety-blank fool, didn't we tell you to take no business from Larry Livingston? And you deliberately let him trim us out of $700!' " He didn't say what else they told him.

I tried the other branches one after another, but they all got to know me, and my money wasn't any good in any of their offices. I couldn't even go in to look at the quotations without some of the clerks making cracks at me. I tried to get them to let me trade at long intervals by dividing my visits among them all. But that didn't work.

Finally there was only one left to me and that was the biggest and richest of all—the Cosmopolitan Stock Brokerage Company. 1.11

The Cosmopolitan was rated as A-1 and did an enormous business. It had branches in every manufacturing town in New England. They took my trading all right, and I bought and sold stocks and made and lost money for months, but in the end it happened with them as usual. They didn't refuse my business point-blank, as the small concerns had. Oh, not because it wasn't sportsmanship, but because they knew it would give them a black eye to publish the news that they wouldn't take a fellow's business just because that fellow happened to make a little money. But they did the next worse thing—that is, they made me put up a three-point margin and compelled me to pay a premium at first of a half point, then a point, and finally, a point and a half. Some handicap, that! How? Easy! Suppose Steel 1.12 was selling at 90 and you bought it. Your ticket read, normally: "Bot ten Steel at 90 1/8." If you put up a point margin it meant that if it broke 89¼ you were wiped out automatically. In a bucket shop the customer is not importuned for more margin or put to the painful necessity of telling his broker to sell for anything he can get.

But when the Cosmopolitan tacked on that premium they were hitting below the belt. It meant that if the price was 90 when I bought, instead of making my ticket: "Bot Steel at 90 1/8,"it read: "Bot Steel at 91 1/8." Why, that stock could advance a point and a quarter after I bought it and I'd still be losing money if I closed the trade. And by also insisting that I put up a three-point margin at the very start they reduced my trading capacity by two thirds. Still, that was the only bucket shop that would take my business at all, and I had to accept their terms or quit trading.

1.11 Cosmopolitan is likely a pseudonym for Haight & Freese Co., which was characterized as "the largest bucket shop swindling concern in the country" with extensive operations in New York, Philadelphia, Boston, and other cities.[21]

In 1902, Haight & Freese had more than 70 offices through the United States and Canada, and was headquartered in Boston. It was founded as a partnership in 1890 as a member of the Consolidated Stock Exchange in New York. Following its expulsion (legitimate exchanges forbid members from conducting bucketing operations), the firm found it difficult to prove that it was able to execute orders without exchange connections. So in 1903, the firm's principals became associated with the Consolidated Stock Exchange of Philadelphia. Although chartered by that city with good intentions, the firm was soon overrun by bucket-shop operators looking for cover.

1.12 Livermore appears to be referring to U.S. Steel, which wasn't created until 1901. The time period he is describing is the late 1890s. So when describing his early trading in this book, Livermore allowed a little color from the 1920s to slip through. U.S. Steel was one of the most widely held stocks of the early century after it was cobbled together in an extensive set of mergers by J.P. Morgan. Traders referred to their favorite stocks with pet names, such as Steel for U.S. Steel; Sugar for the giant American Sugar Refining Co. controlled by the Havemeyer family; or Omaha for the Chicago, St. Paul, Minneapolis & Omaha Railway.

Of course I had my ups and downs, but was a winner on balance. However, the Cosmopolitan people were not satisfied with the awful handicap they had tacked on me, which should have been enough to beat anybody. They tried to double-cross me. They didn't get me. I escaped because of one of my hunches.

The Cosmopolitan, as I said, was my last resort. It was the richest bucket shop in New England, and as a rule they put no limit on a trade. I think I was the heaviest individual trader they had—that is, of the steady, every-day customers. They had a fine office and the largest and completest quotation board I have ever seen anywhere. It ran along the whole length of the big room and every imaginable thing was quoted. I mean stocks dealt in on the New York and Boston Stock Exchanges, cotton, wheat, provisions, metals—everything that was bought and sold in New York, Chicago, Boston and Liverpool.

You know how they traded in bucket shops. You gave your money to a clerk and told him what you wished to buy or sell. He looked at the tape or the quotation board and took the price from there—the last one, of course. He also put down the time on the ticket so that it almost read like a regular broker's report—that is, that they had bought or sold for you so many shares of such a stock at such a price at such a time on such a day and how much money they received from you. When you wished to close your trade you went to the clerk—the same or another, it depended on the shop—and you told him. He took the last price or if the stock had not been active he waited for the next quotation that came out on the tape. He wrote that price and the time on your ticket, O.K.'d it and gave it back to you, and then you went to the cashier and got whatever cash it called for. Of course, when the market went against you and the price went beyond the limit set by your margin, your trade automatically closed itself and your ticket became one more scrap of paper.

In the humbler bucket shops, where people were allowed to trade in as little as five shares, the tickets were little slips—different colors for buying and selling—and at times, as for instance in boiling bull markets, the shops would be hard hit because all the customers were bulls and happened to be right. Then the bucket shop would deduct both buying and selling commissions and if you bought a stock at 20 the ticket would read 20¼. You thus had only ¾ of a point's run for your money.

But the Cosmopolitan was the finest in New England. It had thousands of patrons and I really think I was the only man they were afraid of. Neither the killing premium nor the three-point margin they made me put up reduced my trading much. I kept on buying and selling as much as they'd let me. I sometimes had a line of 5000 shares.

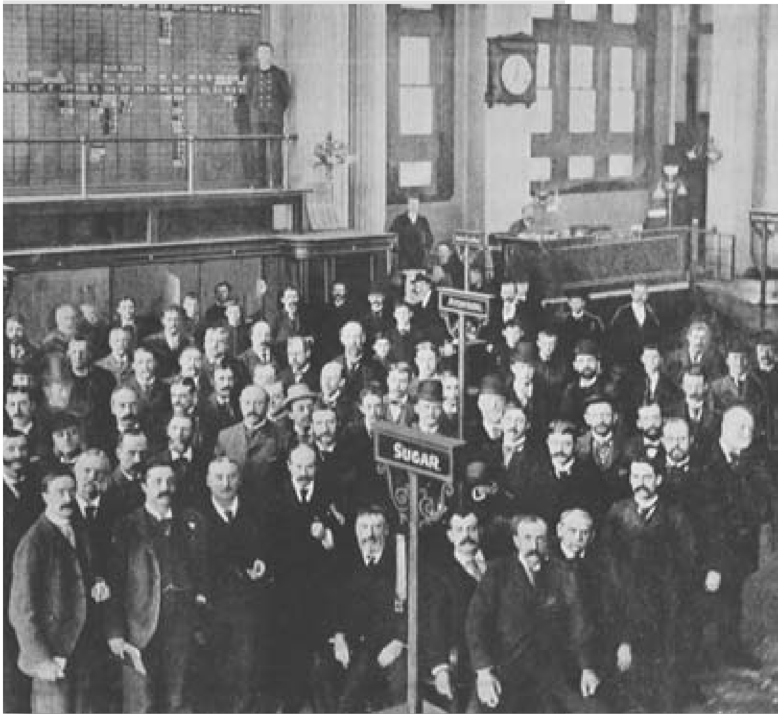
Well, on the day the thing happened that I am going to tell you, I was short thirty-five hundred shares of Sugar. I had seven big pink tickets for five hundred shares each. The Cosmopolitan used big slips with a blank space on them where they could write down additional margin. Of course, the bucket shops never ask for more margin. The thinner the shoestring the better for them, for their profit lies in your being wiped. In the smaller shops if you wanted to margin your trade still further they'd make out a new ticket, so they could charge you the buying commission and only give you a run of ¾ of a point on each point's decline, for they figured the selling commission also exactly as if it were a new trade.

Well, this day I remember I had up over $10,000 in margins.

I was only twenty when I first accumulated ten thousand dollars in cash. And you ought to have heard my mother. You'd have thought that ten thousand dollars in cash was more than anybody carried around except old John D., 1.13 and she used to tell

1.13 Earlier in this chapter, Livemore refers to John Gates and J.P. Morgan as standards of wealth, and here he refers to John D. Rockefeller. Born in New York in 1839, Rockefeller was in his early 30s when he founded the Standard Oil Company with his brother, William, and three other partners. Starting with one oil refinery in Cleveland, the company grew to become the largest and most enduring corporate enterprise in the United States, making Rockefeller the country's first billionaire. In fact, he may have been the richest American of all time, with a peak personal net worth of the equivalent of more than $300 billion.

By the late 1890s, Rockefeller had left control of Standard Oil to his successors, though he retained all his stock. In 1911, the Supreme Court broke the Standard Oil monopoly into 34 new companies, which ultimately remerged to become such current giants as ExxonMobil, Chevron, Amoco, and Conoco. Three of Rockefeller's personal maxims were, "Good leadership consists of showing average people how to do the work of superior people;" "If your only goal is to become rich, you will never achieve it;" and "I always tried to turn every disaster into an opportunity."



me to be satisfied and go into some regular business. I had a hard time convincing her that I was not gambling, but making money by figuring. But all she could see was that ten thousand dollars was a lot of money and all I could see was more margin.

I had put out my 3500 shares of Sugar at 105¼. There was another fellow in the room, Henry Williams, who was short 2500 shares. I used to sit by the ticker and call out the quotations for the board boy. The price behaved as I thought it would. It promptly went down a couple of points and paused a little to get its breath before taking another dip. The general market was pretty soft and everything looked promising. Then all of a sudden I didn't like the way Sugar was doing its hesitating. I began to feel uncomfortable. I thought I ought to get out of the market. Then it sold at 103—that was low for the day—but instead of feeling more confident I felt more uncertain. I knew something was wrong somewhere, but I couldn't spot it exactly. But if something was coming and I didn't know where from, I couldn't be on my guard against it. That being the case I'd better be out of the market.

You know, I don't do things blindly. I don't like to. I never did. Even as a kid I had to know why I should do certain things. But this time I had no definite reason to give to myself, and yet I was so uncomfortable that I couldn't stand it. I called to a fellow I knew, Dave Wyman, and said to him: "Dave, you take my place here. I want you to do something for me. Wait a little before you call out the next price of Sugar, will you?" 1.14

He said he would, and I got up and gave him my place by the ticker so he could call out the prices

1.14 Short selling at a bucket shop was quite different than short selling at a legitimate brokerage. Legitimate shorting involves the borrowing of shares you don't own, normally from another of your broker's clients, and then selling them with the expectation of buying them back at a lower price and pocketing the difference. But since the bucket shops did not buy or sell actual securities, the transaction was not much different from going long. A "buy" or "sell" order ticket was issued with a price that, in reality, was a one-way bet against the house. If a stock went down as expected, then you just redeemed your ticket with the clerk. Bucket shop owners were usually in cahoots with corrupt floor brokers, who would run prices up to knock out stops—triggering losses for short sellers—if customers were making too much money on their wagers.

for the boy. I took my seven Sugar tickets out of my pocket and walked over to the counter, to where the clerk was who marked the tickets when you closed your trades. But I didn't really know why I should get out of the market, so I just stood there, leaning against the counter, my tickets in my hand so that the clerk couldn't see them. Pretty soon I heard the clicking of a telegraph instrument and I saw Tom Burnham, the clerk, turn his head quickly and listen. Then I felt that something crooked was hatching, and I decided not to wait any longer. Just then Dave Wyman by the ticker, began: "Su—" and quick as a flash I slapped my tickets on the counter in front of the clerk and yelled, "Close Sugar!" before Dave had finished calling the price. So, of course, the house had to close my Sugar at the last quotation. What Dave called turned out to be 103 again.

According to my dope Sugar should have broken 103 by now. The engine wasn't hitting right. I had the feeling that there was a trap in the neighbourhood. At all events, the telegraph instrument was now going like mad and I noticed that Tom Burnham, the clerk, had left my tickets unmarked where I laid them, and was listening to the clicking as if he were waiting for something. So I yelled at him: "Hey, Tom, what in hell are you waiting for? Mark the price on these tickets—103! Get a gait on!"

Everybody in the room heard me and began to look toward us and ask what was the trouble, for, you see, while the Cosmopolitan had never laid down, there was no telling, and a run on a bucket shop can start like a run on a bank. If one customer gets suspicious the others follow suit. So Tom looked sulky, but came over and marked my tickets "Closed at 103" and shoved the seven of them over toward me. He sure had a sour face.

Say, the distance from Tom's place to the cashier's cage wasn't over eight feet. But I hadn't got to the cashier to get my money when Dave Wyman by the ticker yelled excitedly: "Gosh! Sugar, 108!" But it was too late; so I just laughed and called over to Tom, "It didn't work that time, did it, old boy?"

Of course, it was a put-up job. Henry Williams and I together were short six thousand shares of Sugar. That bucket shop had my margin and Henry's, and there may have been a lot of other Sugar shorts in the office; possibly eight or ten thousand shares in all. Suppose they had $20,000 in Sugar margins. That was enough to pay the shop to thimblerig the market on the New York Stock Exchange and wipe us out. 1.15 In the old days whenever a bucket shop found itself loaded with too many bulls on a certain stock it was a common practice to get some broker to wash down the price of that particular stock far enough to wipe out all the customers that were long of it. This seldom cost the bucket shop more than a couple of points on a few hundred shares, and they made thousands of dollars.

That was what the Cosmopolitan did to get me and Henry Williams and the other Sugar shorts. Their brokers in New York ran up the price to 108. Of course it fell right back, but Henry and a lot of others were wiped out. Whenever there was an unexplained sharp drop which was followed by instant recovery, the newspapers in those days used to call it a bucket-shop drive.

And the funniest thing was that not later than ten days after the Cosmopolitan people tried to double-cross me a New York operator did them out of over seventy thousand dollars. This man, who was quite a market factor in his day and a member of the New York Stock Exchange, made a great name for himself as a bear during the Bryan panic of '96. 1.16 He was forever running up against Stock Exchange rules that kept him from carrying out some of his plans at the expense of his fellow members. One day he figured that there would be no complaints from either the Exchange or the police

1.15 Lefevre uses many words for "swindle" that are no longer in wide use. The thimblerig was a shell game, typically using three shells or thimbles, and a foam ball the size of a pea. Portrayed on the street as a gambling game, it was instead a con game. The operator would shuffle the pea under the fast-moving shells, then invite a passerby to bet on its location. Co-conspirators would amp up the betting until the mark, or victim, was invited to make the final bet. Then the operator would use sleight of hand to move the pea and cheat the mark. Livermore describes many market operations in which insiders con both buyers and short sellers into elaborate forms of shell-game swindles.

1.16 One of the most searing experiences for market participants at the turn of the twentieth century was the 1896 presidential election between Democratic candidate William Jennings Bryan and Republican candidate William McKinley. Contemporary readers of *Reminiscences* were well versed in the history of this event and its impact on monetary policy. The debate is echoed today among investors persistently concerned about the debasement of U.S. and European currencies.

Renowned as one of America's greatest political orators, Jennings was a populist, suspicious of the banks and the railroads, and an enthusiastic supporter of the restoration of "bimetallism"—a pre-Civil War monetary system that viewed a currency redeemable in both gold and silver as a way to expand the money supply, stoke inflation, and ease the debt burdens of America's poor farmers.[22]

Bryan is most famous for his speech at the 1896 Democratic National Convention in St. Louis in which he attacked wealthy East Coast interests for supporting the gold standard at the expense of impoverished workers and farmers in the South and West. To rowdy applause, he declared: "Having behind us the commercial interests and the laboring interests and all the toiling masses, we shall answer their demands for a gold standard by saying to them, you shall not press down upon the brow of labor this crown of thorns. You shall not crucify mankind upon a cross of gold." Besides clinching him the presidential nomination, the speech secured Bryan's status as an opinion leader and the nickname "the Boy Orator." At 36, he was the youngest nominee of a major party in American history.

The origins of the fight for "free silver" date back to the Coinage Act of 1873, which moved the United States to the gold standard and demonetized silver. Before then, anyone who possessed uncoined silver could deposit it at a U.S. Mint, where it would be made into coin. The law was spurred by the discovery of huge silver deposits in the Comstock Lode of Nevada, which effectively diminished the value of silver as money. Twenty years of economic distress authorities if he took from the bucket shops of the land some of their ill-gotten gains. In the instance I speak of he sent thirty-five men to act as customers. They went to the main office and to the bigger branches. On a certain day at a fixed hour the agents all bought as much of a certain stock as the managers would let them. They had instructions to sneak out at a certain profit. Of course what he did was to distribute bull tips on that stock among his cronies and then he went in to the floor of the Stock Exchange and bid up the price, helped by the room traders, who thought he was a good sport. Being careful to pick out the right stock for that work, there was no trouble in putting up the price three or four points. His agents at the bucket shops cashed in as prearranged.

A fellow told me the originator cleaned up seventy thousand dollars net, and his agents made their expenses and their pay besides. He played that game several times all over the country, punishing the bigger bucket shops of New York, Boston, Philadelphia, Chicago, Cincinnati and St. Louis. One of his favorite stocks was Western Union, because it was so easy to move a semiactive stock like that a few points up or down. His agents bought it at a certain figure, sold at two points profit, went short and took three points more. By the way, I read the other day that that man died, poor and obscure. If he had died in 1896 he would have got at least a column on the first page of every New York paper. As it was he got two lines on the fifth.

followed the passage of the act, as tightened monetary conditions led to deflationary pressures and the panics of 1873 and 1893.

The Bryan Panic, which roughly ran from the time Bryan was nominated in July 1896, until McKinley was elected in November that year, was a consequence of swelling concerns that a Bryan presidency would undermine contracts, disrupt market prices, and erode the wealth of the business class. For many, Bryan's nomination was an unpleasant surprise: On the eve of the convention, the *Commercial & Financial Chronicle* noted that the "thought of rallying around, as a battle cry, a plan for paying one's debts with a fifty-cent dollar, and presenting that as a subject of discussing for three or four months to the people of the United States, is a folly not affording a shadow of a promise."[23]

Soon after Bryan's nomination, stocks sold off, commodity prices plummeted, bank lending seized up, and industrial activity slowed amid plunging demand, as merchants feared the Democrat's monetary policies would result in a severe recession. By the middle of August, the stock market reached the lowest point in 17 years as commercial bankruptcies rose.[24] Toward the end of October, fears escalated in the money markets and currency was redeemed for gold at an alarming rate. Interest rates, previously at 15%, rose to 127% as gold reserves in New York were depleted. Conrad Jordan of the New York subtreasury, predecessor to the New York Federal Reserve Bank, wrote Assistant Treasury Secretary William Curtis, "The banks are hard up for currency and may need more to-morrow and Monday, but I think aid will come from Morgan."[25] He was referring to J. P. Morgan, who helped organize a banking syndicate that made $10 million available to the subtreasury to prevent financial collapse.

After the votes were counted in November and McKinley was declared the winner, *Dun's Review* wrote on November 7 that "a crushing weight has been lifted and rolled away."[26] It must be said that the election of 1896 was one of the most questionable in U.S. history, with widespread voter coercion reported amid a massive propaganda campaign against Bryan and the free silver movement. The themes would resonate for decades.

ENDNOTES

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