

FOREWORD BY PETER BRANDT

THE LITTLE BOOK



of

MARKET  
WIZARDS

*Lessons from the Greatest Traders*



JACK D. SCHWAGER



THE LITTLE BOOK  
  
OF  
MARKET WIZARDS

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JACK D. SCHWAGER

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*To Jo Ann*  
*The most important person in my life*  
*With love*





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# Foreword



AS A LONG-STANDING TRADITION each year during the Christmas to New Year's break, I watch *The Bourne Trilogy* and read Jack Schwager's *Market Wizards* series—*The Bourne Trilogy* for pure entertainment, the *Market Wizards* series to prepare me emotionally and mentally for the coming year of market combat.

No author—living or deceased—has created such a rich archive of printed material on the profession of market speculation as has Jack Schwager. An entire generation of traders owes a debt to the *Market Wizards* series and to Jack for at least some portion of its success. There is no doubt in my mind that the *Market Wizards* series will remain just as timely 80 years from now as Edwin Lefèvre's *Reminiscences of a Stock Operator* remains today.

What novice and aspiring market participant would not want to spend time with and pick the brains of 59 of the world's most successful and accomplished market traders? That is exactly what Jack Schwager's *Market Wizards* books offer, bringing to us all the insights, processes of market operations, risk management principles, and key lessons from "Hall of Fame" stock, interest rate, foreign exchange, and futures market speculators.

As someone who has lived off trading profits since 1981, I am not a fan of the how-to trading books that provide the step-by-step details of another trader's "secret sauce." I am a staunch believer that all consistently profitable traders have two things in common: an approach to the markets reflecting one's unique personality and aggressive risk management. At each reading of the *Market Wizards* books, these two components of profitable trading emerge in fresh new ways, challenging me to reflect on my own method of market speculation—past, present, and future.

*The Little Book of Market Wizards* brings new life to the *Market Wizards* series. In one sense, it is a CliffsNotes version—a quick reminder of all the interviews that have come before. Yet, in a different sense, the book brings remarkably new dimensions that only Jack Schwager could tease out of his extensive interviews with the trading greats.

*The Little Book of Market Wizards* is the thematic interpretation of Jack's five dozen interviews over four books in which he boils down all the *Market Wizards* content into buckets or categories vital for trading success.

In addition to the themes of aggressive risk management and the need for a unique personalized trading approach, which I have already mentioned, *The Little Book of Market Wizards* identifies many other common denominators shared by successful traders, with extremely useful real-life examples for each. These themes range from patience to a need for an edge, from hard work to discipline, from losing as part of the game to dealing with emotions, and from handling losing streaks to making mistakes.

Most novice and aspiring traders errantly believe that the secret to profitable trading resides in identifying trade entry signals. Clever marketers, most of whom are not successful traders, feed this false belief, offering trading systems with a 70 percent to 80 percent win rate.

All market participants—newbies or veterans, those struggling to succeed or those with a long history of profitability, discretionary or systematic traders, and private speculators or hedge fund managers—will soon add *The Little Book of Market Wizards* to their list of favorite books on trading and the markets.

With *The Little Book of Market Wizards* I have found a new book to read at the end of each year. In fact, it will be the first book I will read, reread, and read again. Thank you, Jack, for another great gift to market participants.

—Peter L. Brandt, trader



# Preface



OVER THE COURSE OF the past 25 years, I have interviewed some of the world's best traders in a quest to discover what made them so successful—a project chronicled in four *Market Wizards* books. I sought to answer the question: What differentiates these traders from ordinary market participants? What common traits do they share that might explain their extraordinary success?

*The Little Book of Market Wizards* is a distillation of the answers to these questions. Essentially, this book provides an overview of some of the major insights garnered across the four *Market Wizards* books, spanning a quarter century. *The Little Book of Market Wizards* is not intended as a replacement for the books in the *Market Wizard* series, but rather as a pithy introduction. I have extracted the lessons that I

thought were most important in the interviews conducted for the *Market Wizards* series. Individual readers, however, are likely to draw their own points of emphasis. This realization has become clear to me over the years when different readers continually mentioned different interviews as their personal favorites. Those who want to go deeper can, of course, follow up with the original interviews in the four *Market Wizards* books.

Readers with an interest in trading and investing who have not read the *Market Wizards* books should find this book provides a concentration of valuable trading advice in a concise and accessible format. Former readers of the *Market Wizards* series, however, should still find this volume useful as a convenient, concise review of the critical trading lessons embedded in the original interviews.

This book is not intended as a how-to on trading, nor is it a book on techniques for making trades. There are no suggestions or recommendations for making a fortune in the markets. Too many aspiring traders look for how-to books for a task that does not lend itself to such a formulaic treatment, while entirely missing the point that there are concepts that are essential to success in trading regardless of the methodology. Readers looking for the secret formula to making easy money in the markets will not find the answer here and are likely to be disappointed—although I would argue that they would likely be disappointed as well with the results

of following the prescriptions of books that promise such an outcome. Readers who, instead, seek to build the foundation for potential success in the markets should find the ideas in *The Little Book of Market Wizards* valuable, if not essential.

Although, ostensibly, this book is about success in trading, in a broader sense, it is about success in general. Readers will find that most of the traits highlighted are equally applicable to success in any endeavor. I recall many years ago, after finishing a talk on the topic of success in trading, I was approached by one of the attendees. He introduced himself and said, "I am a minister, and I was fascinated by how many of the points you made were also critical to my success in building a congregation." Now, it is hard to get further from trading than the ministry, yet the same key elements seemed to apply. I suspect there are some common principles of success, and I have simply discovered them through the perspective of great traders.



## Chapter One



# Failure Is Not Predictive

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## The Story of Bob Gibson

On April 15, 1959, Bob Gibson played in his first major league game, coming in as a relief pitcher for the Cardinals as they trailed the Dodgers 3–0. Gibson gave up a home run to the very first batter he faced—an ignominy suffered by only 65 pitchers in the history of the game.<sup>1</sup> In the next inning, Gibson gave up another home run. Gibson got a chance to redeem himself coming in as a relief pitcher