



Books for the well-read trader

Everyone knows the value of reading books. But it's not easy to choose a good book — particularly in the field of trading. How does a trader determine which books, among the thousands available, are helpful and which are not?

Unfortunately, most books on the trading shelves are unwittingly written to make readers contributors to Wall Street's vast costs in research, compensation and infrastructure. Our guiding principle is to read books that at least help you avoid doing the conventional, typical things that make you prey to the system.

For this reason, we recommend reading great literature, books about great individuals and textbooks in other fields (e.g., chemistry, ecology, economic theory, music, psychology, physiology, sports, war strategy and animal behavior). You won't find any canned moneymaking systems in any of these books, but you may learn from them to "see things as they are," as Albert Jay Nock advised in his *Education of a Superfluous Man*.

Our favorite fiction writers include William Shakespeare, Miguel Cervantes, Mark Twain, Patrick O'Brian (more about him below) and Herman Melville. The interesting thing about these authors is they didn't start out with a goal of being "great." Their purposes were humble: to make money (Shakespeare), to poke fun at an existing genre (Cervantes), to memorialize personal adventures (Melville) or to pursue a historical interest (O'Brian's descriptions of the adventures, trials and tribulations of the British Navy).

A foundation

There is one book we can recommend as a foundation for trading. Unlike our other picks, this one is actually about the market. *Triumph of the Optimists: 101 Years of Global Investment Returns* (Princeton University Press, 2002) was conceived not as a book to make you a great trader, but as a book about stock market returns in Britain over an extended time.

The authors — Elroy Dimson, Paul Marsh and Mike Staunton, all London Business School professors — gradually expanded the project to an enumeration of risk and return and various strategies in every market in the world from 1899-2001.

Off to the races

To help you understand your role as prey in the market's ecosystem, the deception of the market and the danger of blindly following systems, no book does a better job than Robert L. Bacon's classic on racetrack gambling, *Secrets of Professional Turf Betting* (Amerpub Co., 1956).

Regrettably, *Secrets of Professional Turf Betting* is out of print and difficult to find — a state of affairs for which we can claim credit, having cited it with such frequency in our columns and books that the occasional copy that surfaces in Internet auctions is quickly snapped up.

Some key Bacon excerpts follow. Despite the references to horse betting, the parallels to the market could not be more apparent. (Additional excerpts are posted on our Web site, www.dailyspeculations.com.)

There is no danger of the public ever finding any key to the secret of winning. The crazy gambling urge and speculative hysteria that overcomes most players at the track makes that fact a certainty. But, if the public play ever did get wise to the facts of life, the principle of ever-changing cycles of results would move the form away from the public immediately.

The beginner plunges ahead on a favorite that loses, then bets lightly on a fair-priced horse that wins. He keeps switching amounts and positions, so that he never has a worthwhile bet on a winner at a worthwhile price. He is always one race behind the form of a horse and several races behind the rhythm of the results sequences.

The player who bets eight races and a daily double at \$2 each is not entitled to lose all his money — on average. He is only entitled to lose 20 cents per race if the take is 10%. The balance of his losses are ON PURPOSE, as it were. They are losses caused by his stepping into all the switches and traps.

Some well-to-do horsemen who sent their horses out to do their best for probable betting prices of 3-to-1 "cooled off" as the prices sank below 5-to-2. Instead of trying their hardest to win, they sent the horses out to win, if they could win easily. But the boys were told not to punish the animals, told to pull them back out of the money in the stretch if they saw an easy win was not possible. The horsemen knew that this pulling back out of the money would make a bad race show as the last outing in the past performance charts, thus putting the public off the horse for next time.

For those of a biological or scholarly bent, we recommend supplementing Bacon with *Camouflage and Mimicry* by Denis Owen. The book contains illustrations and enumerations of the many signals and techniques organisms develop to disguise and deceive. Owens writes, "The number and complexity of niches and the organisms that operate within them is astounding. I encourage all readers to look and reflect on the numerous deceptive techniques of such organisms as the insects and the caterpillar."

After you read *Camouflage*, ask yourself: If these rather elementary life forms have developed so many effective deception techniques, isn't it possible humans use at least as many in their own activities? And wouldn't these be reflected in such extensions of their own activity as the markets?

Adventure, science, friendship

The series of historical novels by Patrick O'Brian recounting the exploits of British Navy captain Jack Aubrey and his friend, intelligence agent Stephen Maturin, hold places of honor in our speculative libraries — rich tapestries of adventure, science and human relations. The Maturin character, based on Charles

Darwin, provides a delightful portrait of a 19th-century scientist's passionate interest in the natural wonders of the far corners of the world.

But O'Brian also had a keen grasp of business and markets. Based on contemporary historical records, O'Brian's novels are woven with insights into monetary misadventures and successes. A few passages of interest to traders appear below, and more are on our Web site.

"But I put it to you, my lord, that prize-money is of essential importance to the Navy. The possibility, however remote, of making a fortune by some brilliant stroke is an unparalleled spur to the diligence, the activity, and the unremitting attention of every man afloat."

— **H.M.S. Surprise, Chapter 1**

"I do not suppose," Sir Joseph said, "there are many things that men think about with such deep, careful, zealous attention as money, and the Stock Exchange is an infallible index of their thoughts, the collective thoughts of a large number of intelligent, informed men who have a great deal to lose and win. Even this Heaven-sent victory of yours, and Wellington's at Vitoria, have scarcely moved the City to anything more than bonfires and illuminations and patriotic addresses. These gentlemen know that we cannot go on alone much longer, and at the first stroke of ill-fortune our allies will desert us, as they have so often deserted us before. No, sir: if I were half as sanguine about Napoleon's downfall as you, I should go down into the City tomorrow and make my fortune."

"How would you do that, for all love?"

"Why, I should buy Government stock, India stock, and any sound commercial shares whose value depends on foreign trade: I should buy them at their present dirt-cheap rate, and then as soon as Buonaparte was knocked on the head, or peace was declared, I should sell them at a perfectly enormous profit. Perfectly enormous, my dear sir. Any man with foreknowledge could do the same: any man who could command a considerable sum, or whose credit was good for a considerable sum, could make his fortune. It would be much like betting on a horse race if you knew the winner in advance. That is how fortunes are made on the Stock Exchange; although I must confess that the issues concerned are rarely so great."

"You astonish me," said Stephen. "I know nothing of these things."

— **The Surgeon's Mate, Chapter 4**

"War is nine parts boredom, and we grow used to it in the service. But the last hour makes up for all, believe me."

— **H.M.S. Surprise, Chapter 9**

For information on the authors see p. 10.
