Stock Operations, The Livermore Method

A Presentation Detailing the Results of my Research
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Motivations and Goals

- The primary aim of the project is to test the method detailed by Jesse Livermore.
- Secondarily, I hope to improve my speculative prowess.
- Tertiary aim is to generate superior returns on capital.
- Quaternary aim is to learn more about Livermore, his life and career, and detail and organize his thoughts.
I originally became interested in the gold market circa 2005-2006

My experiences in speculation were limited, but satisfying

Around 2010, I stopped trading owing to the incipient bear in gold

Sensing the end of this down trend in Q3 2015, I chose to re-enter the market

Not entirely satisfied with earlier performance, and convinced I could improve upon it, I chanced upon a book about Livermore and found myself intrigued
Key Tenets

- Cut Losses Quickly!!!
  - Fear a Big Loss

- Hold Profitable Positions!!
  - Hope for a Big Gain

- Pyramid Up!

- Use Pivot Points to Time Entry
Key Tenets II

- Decide on an Acceptable Exit Point and/or if the Stock is no longer “Acting Right”

- Control Your Emotions

- Be Patient

- Plan your Trade, and Trade your Plan!
Some Great Examples From My Research

- Premise: Cut Your Losses Quickly
  - Corollary: Small Losses Frequently Become Big Losses!

- On 10/28/2015 I acquired 750 shares of Goldcorp for $15.60

- Less than an hour later, I felt very uneasy with the trade, and closed it out for a small loss at $15.47. Within days, Goldcorp was in the $12 range.

- By December 2015, Goldcorp was in the $10 range.

- Not until February 2016 would I have been able to break-even had I continued to hold, more likely would have sold out with a much larger loss.
Goldcorp, 1 Year Chart
Livermore Method in Action

Premise: Hold Profitable Positions, Add to Winning Trades

- A few days into October 2015, Barrick Gold started to make a strong impulse move.

- Having missed the first leg, I aggressively bought into trend.

- I acquired 35 Call Options on Barrick for $2.5 ($250/contract)

- The contracts reached a high of $3.15 before I was stopped out at $2.90 on a strong reactions shortly after the high

- Total profit = $1400 - commission
Barrick, 1 Year Chart
Livermore Method in Action!

- More recently I noticed that Goldcorp had penetrated a key pivotal point on 3 March, 2016, which happened to be a Thursday.

- I decided to acquire to 10 contracts at $0.20 ($20/contract) based on the penetration of this key pivotal point.

- Goldcorp opened up strongly on Friday, and I promptly sold the options for $0.92 ($92/contract).

- Total Profit = $720 - commission.
Intangibles

- Fear is the most important emotion to overcome
- On many occasions, I correctly identified a profitable set-up to exploit
- Unfortunately, I failed to act on this knowledge out of fear of loss
- In part, this is the result of a diminished bankroll
  - Proper bankroll sizing is key to success
- News items are essentially meaningless
Conclusion

- Livermore was the best there ever was
- Everything he said about the market is right
- Making a serious loss is the result of carelessness and negligence, not random chance
- Making a serious gain is the result of care and hard work
- I would not attempt to speculate in stocks without the knowledge afforded to me by Livermore, nor should anyone else