

Jesse Livermore





Strategy Development

Core Trading Strategy: Jesse Livermore's core strategy was based on market trend analysis. He believed that stock prices moved in trends and that it was possible to identify and profit from these trends. He used technical analysis, studying charts and market data, to make informed decisions.

Development: Livermore developed his strategy through years of experience and observation. He started trading at a young age and learned from both his successes and failures. His approach was to buy stocks during bull markets and sell them when the market's momentum changed.



Timing Trades

Livermore focused on entering trades at what he called "pivotal points" - key price levels where a stock is likely to make a significant move based on historical data. Specifically:

- He waited for stocks to **breakout** of established trading ranges, either to new highs or new lows
- He looked for increased trading volume as confirmation of breakout
- After a breakout, monitor prices continue moving in the breakout direction for the first few days

Livermore believed in trading with the prevailing trend. He would go long on stocks reaching new highs and short stocks making new lows

For exiting positions, Livermore followed these guidelines:

- He used price action to determine when a trend was likely ending, looking for **reversals** at pivotal points



Risk Management

- Stop loss orders – automatic sell orders triggered when a security hits a specific price.
- It is foolhardy to make a second trade, if your first trade shows you a loss. Never average losses.
- Continue with trades that show you a profit, end trades that show a loss.
- Never Rely on Tips or Inside Information



Adaptability

- **Trend-Based Adaptation:** Livermore adjusted his trading strategies based on market trends—going long in bull markets and short in bear markets.
- **Managing Volatility:** He reduced trading volumes during high volatility to manage risks better.
- **Use of Technical Indicators:** Relied on price breakouts and trading volumes to confirm market direction before taking large positions.
- **Quick Reaction to Adverse Conditions:** When the market was going down, he quickly sold off losing trades to protect his money.
- **Discipline Meets Flexibility:** Balanced the need for adaptability with a strict adherence to his trading rules.



Psychology

- Role of Psychology:
 - Livermore emphasized understanding human psychology, particularly the emotional drivers like fear and greed in the stock market. He believed that human nature remains constant, and understanding how people think and react was critical to successful speculation.

Quote: “Fear and hope remain the same; therefore, the study of the psychology of speculators is as valuable as it ever was”.

- Maintaining Discipline
 - Livermore used a disciplined system of following market trends and waiting for confirmation before making trades, regardless of his personal opinions.
 - He stressed self-control and avoided tips or emotional trades. Instead, he relied on his analytical methods, such as reading the tape and identifying trends.



References

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