

# THE ART OF TRADING

A Manifesto for the Wolf Pack

Compiled from the Blood, Sweat, and Lessons of Legendary Traders

*"There is nothing new in Wall Street. There can't be because speculation is as old as the hills. Whatever happens in the stock market today has happened before and will happen again."*

— Jesse Livermore

# PART I: THE LEGENDS

## JESSE LIVERMORE (1877-1940)

"The Boy Plunger" — Made \$100 Million Shorting the 1929 Crash

### The Story:

At 14, Jesse Livermore ran away from home with \$5 in his pocket. He got a job posting stock quotes at a brokerage in Boston. He watched the numbers. He noticed patterns. He started betting on those patterns in 'bucket shops' — illegal gambling dens where you bet on stock prices without actually buying shares.

He was so good they banned him. Every bucket shop in New England refused his money.

So he moved to New York with \$2,500 and promptly went broke. Then he rebuilt. Went broke again. Rebuilt again. Over 40 years, he made and lost fortunes multiple times.

In 1929, while the world celebrated the roaring bull market, Livermore saw something different. He shorted the market. When Black Tuesday hit, he walked away with over \$100 million — equivalent to billions today.

## LIVERMORE'S CORE TEACHINGS

### 1. THE SITTING PRINCIPLE

*"It never was my thinking that made the big money for me. It always was my sitting. Got that? My sitting tight!"*

**What this means:** The amateur tries to catch every wiggle. The professional buys right and SITS. Livermore's biggest profits came not from brilliant entries, but from his patience to let winners run for months.

### 2. MARKETS ARE NEVER WRONG

*"Markets are never wrong; opinions often are."*

**What this means:** You can think a stock SHOULD go up. You can have the best thesis in the world. But if the market disagrees, the MARKET IS RIGHT. Price is truth. Everything else is opinion.

### 3. THE DANGER OF HOPE

*"Instead of hoping he must fear; instead of fearing he must hope. He must fear that his loss may develop into a much bigger loss, and hope that his profit may become a big profit."*

**What this means:** The amateur HOPES his losers will recover. FEARS his winners will reverse. The professional FEARS his losers will get worse. HOPES his winners will continue. Reverse your natural instincts.

#### **4. THE COST OF TIPS**

*"Few people ever make money on tips; beware of inside information. If there was easy money lying around, no one would be forcing it into your pocket."*

**What this means:** If someone's pumping a stock on Twitter, ask: Why? What do THEY have to gain? The answer: They're already in. They need YOU to be exit liquidity.

#### **5. KNOW WHEN YOU'RE WRONG**

*"Losing money is the least of my troubles. A loss never bothers me after I take it. I forget it overnight. But being wrong — not taking the loss — that is what does damage to the pocketbook and to the soul."*

**What this means:** A small loss is nothing. A small loss that becomes a big loss because you refused to admit you were wrong — that destroys accounts AND destroys your psychology.

# PAUL TUDOR JONES (Born 1954)

Made \$100 Million in ONE DAY on Black Monday 1987

## The Story:

Paul Tudor Jones grew up with trading in his blood — his uncle was a legendary cotton trader. After college, he got a job on the floor of the New York Cotton Exchange.

In his twenties, he noticed something. The market patterns of the 1980s looked eerily similar to the patterns of the 1920s. Using Elliott Wave Theory, he calculated a 92% correlation.

He predicted a massive crash. When Black Monday hit on October 19, 1987 — the largest single-day percentage drop in stock market history — Paul Tudor Jones was short. His fund made 62% THAT MONTH. While others lost everything, he tripled his money.

## PTJ'S CORE TEACHINGS

### 1. THE 200-DAY MOVING AVERAGE

*"My metric for everything I look at is the 200-day moving average of closing prices. I've seen too many things go to zero. The whole trick in investing is: How do I keep from losing everything?"*

**What this means:** Simple rule: If price is above the 200-day MA, you can be long. If it breaks below, GET OUT. This single rule would have saved millions of people from the 2008 crash.

### 2. THE 5:1 RULE

*"5:1 (risk/reward). Five to one means I'm risking one dollar to make five. What five to one does is allow you to have a hit ratio of 20%. I can actually be a complete imbecile. I can be wrong 80% of the time, and I'm still not going to lose."*

**What this means:** You don't need to be right most of the time. You need to make MORE when you're right than you lose when you're wrong. With 5:1 risk/reward, you can be wrong 80% and still profit.

### 3. DEFENSE OVER OFFENSE

*"The most important rule of trading is to play great defense, not great offense."*

**What this means:** The amateur thinks about how much he'll make. The professional thinks about how much he could lose. Protect first. Attack second.

### 4. LOSERS AVERAGE LOSERS

*"Losers average losers."*

**What this means:** If you bought at \$10 and it's now at \$5, and you buy more to 'average down'... you're adding to a LOSING position. You're doubling down on being wrong. Winners

don't do this.

# ED SEYKOTA (Born 1946)

Turned \$5,000 into \$15,000,000 in 12 Years

## The Story:

Ed Seykota was an engineer who got interested in computers in the 1970s. He developed one of the first computerized trading systems, a trend-following approach that removed human emotion from the equation.

The results were staggering. One client account grew from \$5,000 to \$15,000,000 over 12 years. That's a 250,000% return.

## SEYKOTA'S CORE TEACHINGS

### 1. THE THREE RULES

*"The elements of good trading are: 1, cutting losses. 2, cutting losses. And 3, cutting losses. If you can follow these three rules, you may have a chance."*

**What this means:** If Seykota — one of the greatest traders who ever lived — says the ONLY thing that matters is cutting losses, maybe we should listen.

### 2. EVERYBODY GETS WHAT THEY WANT

*"Win or lose, everybody gets what they want out of the market. Some people seem to like to lose, so they win by losing money."*

**What this means:** If you keep blowing up, ask yourself: What am I getting out of this? Some people unconsciously WANT to lose because winning would require discipline they don't want to have.

### 3. PRICE IS TRUTH

*"The trend is your friend except at the end where it bends."*

**What this means:** Seykota doesn't care WHY a stock is moving. He cares THAT it's moving. Price contains all information. Everything else is noise.

# PART II: THE TEN COMMANDMENTS OF TRADING

Universal truths that ALL the legends agree on

## **I. THOU SHALT CUT LOSSES**

Small losses are the cost of doing business. Big losses kill accounts. Cut early. Cut always.

## **II. THOU SHALT LET WINNERS RUN**

Don't scalp your winners. The BIG money comes from BIG moves. Let them breathe.

## **III. THOU SHALT TRADE SMALL**

You're probably trading 2-5x too big. If you're uncomfortable, you're oversized.

## **IV. THOU SHALT HAVE A SYSTEM**

Random trading = random results. Have rules. Follow them. Always.

## **V. THOU SHALT PROTECT CAPITAL**

If you lose 50%, you need 100% just to break even. Protect what you have.

## **VI. THOU SHALT KILL THY EGO**

The market doesn't care about your opinion. Being wrong is fine. Staying wrong is death.

## **VII. THOU SHALT NOT OVERTRADE**

The best trades come from NOT trading. Wait for YOUR setup.

## **VIII. THOU SHALT FOLLOW THE TREND**

Don't fight the tape. The trend is information. Respect it.

## **IX. THOU SHALT MASTER EMOTIONS**

Fear and greed are the enemy. Recognize them. Don't act on them.

## **X. THOU SHALT LEARN FROM LOSSES**

Every loss is tuition. Pay attention or pay again.

# PART III: APPLICATION FOR THE WOLF PACK

## FOR A \$1,500 ACCOUNT

### Position Sizing

- Never risk more than 2% = \$30 per trade max loss
- If uncomfortable, cut in half — Kovner's rule

### Trade Selection

- Wait for YOUR setup — Don't trade every day
- Demand 5:1 risk/reward — PTJ's rule
- Confirm before acting — Livermore's confirmation principle

### Psychology

- Cut losers immediately — Seykota's three rules
- Let winners sit — Livermore's sitting principle
- Kill your ego — Schwartz's mantra

## THE DAILY REMINDER — Before Every Trade, Ask:

1. Is this MY setup? (Or am I chasing?)
2. Where's my stop? (If it hits, I'm out)
3. Is my size right? (Can I sleep at night?)
4. What's my target? (5:1 minimum)
5. Am I following the trend? (Or fighting it?)

*"The game of speculation is the most uniformly fascinating game in the world. But it is not a game for the stupid, the mentally lazy, the person of inferior emotional balance, or the get-rich-quick adventurer. They will die poor."*

— Jesse Livermore



AWOOOO ■  
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*"We have nothing to gain except each other — that's pack."*  
— Tyr, January 1, 2026