COMMON SENSE

in

STOCK

SPECULATION

A treatise on stock speculation and investment, including the experiences of successful traders.

by

MAURICE COWEN

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Chances for Success in the Stock Market

Stock market speculation, notwithstanding all the calumnies and maledictions heaped upon it since its inception, is steadily increasing throughout the length and breadth of the land.

There is no gainsaying the fact that speculation has been the cause of many a lost fortune, but one should not forget that practically all business enterprises of whatever nature are also, in the last analysis, speculation pure and simple. The farmer who plows, fertilizes and plants his lands gambles on weather conditions for a good crop, and then on the prices his products may ultimately bring; the man who buys a house speculates on his tenants remaining therein and the probability of selling it some day for a higher price; the merchant who lays in a stock of goods gambles on the possibility of their ready sale; etc., etc.

The difference is that in one case a loss or gain is realized slowly and gradually, whereas in the other case they occur more quickly.

That the percentage of losses in stock speculation is greater than in business speculation is due to the fact that in the former case values (and all values constantly fluctuate, whether seen or unseen) are registered in plain figures on the quotation board or ticker tape, while in the latter case the changes in value, whether it represents the purchase of a house or goods, are not visible. This visible evidence, in the form of changing stock quotations appearing at all times during the business hours of the stock exchange, which influences timid people to buy or sell, more often than not to their detriment, is the principal cause of all the odium which has unjustly fallen upon stock speculation.

This book is not written as a defense of stock speculation, but in the fair spirit of showing, without omission, both its virtues and faults, in order to guide those who intend to speculate, through the dark forest of speculative activities and safely past the rocks and quicksands of ignorant, stupid and blind ventures.

The stock exchange serves as a medium through which corporations are enabled to sell their shares or obligations to the public in order to secure capital for carrying on and extending their business.

All railway, mining and vast commercial enterprises necessarily depend upon the public to purchase a substantial amount of their shares or bonds, for it is quite evident that even one or more groups of wealthy capitalists cannot supply anywhere near the billions of dollars required to run all the business of the various companies.

Unfortunately, the stock exchange, despite its strict regulations, offers many an opportunity to unscrupulous wealthy men for practicing deception and fraud upon guileless and innocent people who come to Wall Street for the purpose of purchasing stocks that will bring them higher dividends than those offered by savings banks with a chance of enhancement in value.

All the mischief that was ever created and almost all the losses that are due to stock speculation can be traced directly to three primary causes; first, lack of information; second, gullibility on the part of investors; and third, the actions of unscrupulous wealthy manipulators, who spread false rumors and tips concerning sudden prosperity in stagnant or moribund companies, of the shares of which they have accumulated a certain quantity at low prices and which they aim to unload on the public, once they have put up quotations where their greed may be satiated.

The trouble is that most investors in the stock market do not take as much pains in investigating the merits of a stock in which they invest hundreds or thousands of dollars as they would in the purchase of a good cigar.

The exercise of just a little prudence or common sense in inquiring thoroughly about a speculation or investment would eliminate most of the harm and pitiable losses that are daily occurrences in Wall Street.

The purpose of this book is to help the investor in distinguishing between good and bad speculations or investments, and if it only serves to prevent some of the losses due to ignorance and gambling impulses, it will at least have fulfilled a good part of its mission.

Good and Bad Investments and Speculations

What is a good investment stock?

The answer would naturally be a railroad or industrial stock, common or preferred, which has steadily paid, for a period of say 5 years or more, in good or bad times, an average dividend of 5 to 6% on the capital invested. This does not necessarily mean a fixed dividend of 5 or 6% during the period, but it may be fluctuating dividends ranging from 2 to 8%, according to good or bad times, as long as the average is from 5 to 6%. In determining what is a good investment stock, one must also consider present and future prospects.

Preferred stocks, from the investment standpoint, are better than common, for the evident reason that the former are entitled to dividends before the latter. In bad times, dividends are often continued on the preferred, while the common go without them for very long periods.

However, preferred dividends are nearly always stationary and not subject to increase.

Dividends on common stocks are paid after the preferred stocks have been provided for, and may be decreased or increased according to earnings. In case of great earnings, there is no limit to the amount that may be paid on the common, whereas the preferred rarely enjoys more than a fixed dividend rate. Speculation therefore is greatest in common stocks.

The added advantage in speculating or investing in good stocks, whether preferred or common, is the probability and, one may say, almost certainty of considerable enhancement in their value if bought during times of depression.

Times of depression occur frequently in the stock market and there are limitless opportunities of securing standard investment stocks, of which the investor or speculator may avail himself by the exercise of a little patience.

All stocks which cannot return an average of 5 to 6% for a period of 5 years or more should not be classed as investments, but as speculations.

Stocks that have formerly paid good dividends and are again earning sufficiently to warrant resumption of dividends may be classed as good speculations, if bought on good breaks; that is, at a time when the general market has fallen about 10 points or more. Even when buying such stocks on a depression of say 10 points or more, such purchases should be protected by heavy margins and a sufficient amount of money should be readily available to purchase stocks outright in case of panic.

Those who wish to speculate on margin only should confine their operations to preferred stocks of the best sort, as these, even in times of panic, rarely decline more than an average of about 10 points and are certain to recover to the price paid when the market again begins to ascend.

When, What and How to Buy

The greatest obstacles in the way of successful speculation are ignorance and fear.

When opportunities present themselves, the inexperienced investor suddenly realizes that he has not sufficiently studied or investigated the conditions affecting the particular stock or stocks he is interested in and therefore fears to make a venture.

Those who intend to make money in speculation should understand that they cannot hope for much success if they will not try to learn a little of the past, present and prospective earning power of the companies whose stocks interest them. There are many sources and channels of information available to them for the mere asking.

The broker, whose business it is to see that his clients should prosper, generally possesses all the requisite information that a customer need know on which to base his investment or speculation, and is always ready and willing to furnish it to him gratis, if he will only take the trouble to ask for it.

The investor or speculator would do well to study in all spare time as much as possible of the reports and statistics of the companies he is interested in, so that he will be prepared to act wisely and promptly. He will then be in position to take advantage of any declines in the market and select without hesitation those stocks which show the best chance of a rapid recovery and consequently good profits.

There are many active standard dividend paying investment stocks which the investor need not hesitate to buy when a 10 point decline takes place. He may choose from any of the following:

Atchison, Topeka & Santa Fe R. R.
Baltimore & Ohio R. R.
Canadian Pacific Ry.
Great Northern Preferred
Lehigh Valley R. R.
N. Y. Central & H. R. R. R.
Norfolk & Western Ry.
Northern Pacific Ry.
Pennsylvania R. R.
Reading Co.
Southern Pacific R. R.
Union Pacific R. R.
General Electric Co.
International Harvester Co. of N. J.
National Lead Co.
U. S. Steel Corporation
Westinghouse Electric & Mfg. Co.
Western Union Telegraph Co.

The investor should divide whatever amount of stock he can safely afford to buy into two or three lots, purchasing the first lot on a 10 point break, the second about 2 points lower, and the third in case the market goes still lower. This method of purchase is called scale-down buying or averaging. This will provide for a 15-point decline in a standard dividend payer.

The investor should beware at all times in making his purchases not to buy into a stock regarding which there are rumors of a reduction in the dividend, there being plenty others from which to choose.

After a general decline, averaging about 10 points in all stocks, whether in a bull or bear market, there is nearly always the certainty of a recovery of about one-half of the decline. When this recovery takes place, it is best to take profits, inasmuch as almost invariably there is a secondary reaction of a few points, when the stock may be bought again.

The speculator should never regret that he did not buy all that he could have afforded to buy, as this condition always leaves him in position to take advantage of other opportunities.

Cat-and-Dog Opportunities

The term ''Cats & Dogs'' is applied to slow-moving, speculative stocks, about or below $20 a share, whose prospects for dividends are remote. Notwithstanding this deprecating appellation, considerable money has been made by speculation in them, because they are reasonably safe to buy during sharp declines and comparativly little capital is required to purchase outright quite large amounts of such stocks. They offer splendid opportunities with little risk.

The rank and file of speculators rarely go into such stocks because they are not sufficiently active to produce quick profits. They want action and will take chances with the high-priced speculative stocks which move rapidly, in preference to the slow but safe small-priced stocks. The vast majority of speculators do not or cannot afford to buy the high-priced stocks outright, but gamble with them on 10 or 20 point margins. The inevitable result is that when a decline takes place, they are easily frightened into selling and as a consequence in nearly all cases suffer severe losses. Only then it occurs to them that had they purchased outright some small-priced stock, they would never have feared any decline and at the worst would have but suffered the unpleasantness of a temporary depreciation in its value.

Speculators usually take profits or losses slowly and hesitatingly. If they have a reasonable profit, hope and greed impel them to hold out for more and too often they wait until the tide turns against them. If a loss is shown, hope and the dread of loss make them hang on, and as the stocks keep on dropping in price they are suddenly obsessed by fear and take severe losses, usually just about the time when the decline is over.

If they could have afforded to buy their stocks outright, they would have enjoyed the sense of security in the knowledge of owning them and patiently awaited the inevitable recovery which always follows a decline.

If the speculator would first consider well the extent of his capital and from a little careful preliminary study of general stock market history judge the possibilities of gain or loss in high-priced as compared with low-priced stocks, he would pay more attention to the stocks in the cat-and-dog class, which he could really afford to buy outright, and thus avoid the usual regrets which follow blind speculation in high-priced stocks on thin margins.

When the price of a stock which has been in the cat-and-dog class goes up beyond its customary narrow range of fluctuations (usually from 2 to 4 points approximately), most speculators, who formerly held it up to ridicule and would not be guilty of acknowledging ownership of it, begin seriously to modify their attitude. Then, when the stock has about doubled in value, their respect for it has considerably heightened and they begin to make inquiries regarding the cause of its extraordinary rise. After due investigation, when they have learned that the company, whose stock they had heretofore despised, has earned sufficiently on it to warrant dividends, they begin speculating in it at what probably proves to be temporary top prices.

Going back a little into cat-and-dog stock history, we find the following astonishing revelations:

	Lowest	*Price*
Atchison, Topeka & Santa Fe R. R.	1900	\$18⅝
Minneapolis, St. Paul & S. S. M. R. R.	1900	14
Reading Co.	1900	15
American Agricultural Chemical Co.	1907	10
American Can Co.	1907	3
American Car & Foundry Co.	1900	12½
American Locomotive Co.	1903	10½
American Woolen Co.	1903	7½
Bethlehem Steel Co.	1907	8
National Lead Co.	1903	10½
Pressed Steel Car Co.	1907	15⅜
Republic Iron & Steel Co.	1903	5⅝
U. S. Rubber Co.	1903	7
U. S. Steel Corporation	1904	8⅜

The above list represents but a few prominent instances of transformation from the cat-and-dog class into gigantic speculative and dividend-paying stocks.

Let us assume that one's capital is \$2,000. \$1,000 of this may be set aside for speculation in standard dividend-paying stocks and the remaining \$1,000 for speculation in small-priced stocks.

First, the speculator should wait until there is an average decline of about 10 points in all stocks. In such event, the small-priced stocks usually decline from about 2 to 4 points, ofttimes more. From among such stocks he should select those which in the last rise had shown the most activity. As it is a good rule in speculation not to put all one's eggs in one basket, the speculator should diversify his purchases. He may buy a little of each stock which has declined to the extent above indicated, buying more of the stock or stocks which had previously shown a strong upward tendency.

The speculator should not buy all that he can afford to buy at one time, because the market may go a little lower and he will then be able to purchase the balance to better advantage.

As an example, if one stock which sold at $10 declines to $8, and another which sold at $20 declines to $16, the total cost of both would be 24 plus commissions, thus making the average cost $12 per share.

With $1,000 one can usually buy outright in this way approximately 75 to 90 shares. A 2-point profit on say 75 shares would be $150, so that one can readily see the advantage of trading in such stocks.

With the remaining $1,000, one may buy 10 or 20 shares of a standard dividend-paying stock, which, on a recovery of 5 points, would show an additional profit of $50 or $100.

Thus, a profit of $200 or $250 on an investment of $2,000 is evidently sufficient to warrant patience on the part of the speculator until another opportunity presents itself. In this connection, it is well for the speculator, once he has taken his profits, to restrain any desire to speculate further until such opportunity does present itself, even if it takes many weeks to materialize.

A contributing cause to failure in speculation is the get-rich-quick habit and the constant desire to be in the speculative swim, so to speak. It is well to bear in mind that the Stock Exchange is a well-constructed building and will not move away, that the market is always there, that prices do not continue to go up indefinitely, no more than trees will reach the sky, that bad news is more frequent than good, that stocks usually drop more quickly than they rise, and that by the exercise of a little patience the speculator's opportunity is bound soon to come again.

Earning Safely 10 to 20% on Your Capital

As stated previously, preferred stocks are the best to buy for investment.

In bad times, although dividends may not be fully earned on them, corporations often make up any deficiency from surplus funds and continue the regular rate of dividend, except in the case of a protracted period of poor business, in which case the dividends may be reduced or temporarily suspended.

The reason why corporations will maintain preferred dividends from surplus funds is that the cutting or passing of dividends on preferred stocks is harmful to their credit standing.

Many preferred stocks are cumulative, in which case any omitted or passed dividends are credited to such stocks and paid back when business is again in a flourishing condition.

It is strange how most speculators clamor and climb for common stocks with insecure dividends or those paying no dividends but with prospects for them, and utterly neglect the safe and liberal dividend paying preferred stocks. They seem to prefer to chase a fast-moving uncertainty rather than take advantage of a slow-moving certainty. It is but another manifestation of that fatal malady, getrichquickitis.

The old proverb, "A bird in the hand is worth two in the bush," aptly applies to the case of buying a preferred stock which has regularly paid dividends for years or a common stock which might or might not pay a dividend.

Good railroad preferred stocks can usually be bought at prices to net from 5 to 6% on the investment, whereas good industrial preferred stocks will net from 6 to 8%. The reason for the higher return on the latter is commonly assumed to be that the income of industrial companies is not so regular or stable as in the case of the railroads. Notwithstanding this assumption, one may learn from a cursory study of general stock history that industrial stocks have proven to be, if not safer, at least just as safe as railroad stocks.

Industrial preferred stocks usually pay 7% dividends and they can be purchased at nearly all times for about $100 a share (except when there is a great boom in the stock market), and sometimes below this price.

The range of fluctuations in industrial preferred stocks is usually about 10 to 20 points below par in bear markets and about 10 to 20 points above par in bull markets.

Some preferred stocks participate in earnings after certain dividends are earned and paid on the common; these, together with cumulative preferred shares, on which back dividends are owing, often exceed, in bull markets, the range above stated. Such stocks, if watched carefully by the speculator, offer both splendid investmnt and speculative opportunities.

Preferred stocks are quite safe to buy on margin. A 20 point margin on a good preferred stock is ample for any emergency. Nevertheless, it is best at all times to be prepared to protect it with a further margin in the rare case of panic.

As an example of what can be earned on a margin investment; let us assume that we have bought, with $200, 10 shares of a good industrial preferred stock, paying 7% dividends, at $100 per share. The broker loans the balance, or $800, at the rate of 6% per annum, which rate is rarely exceeded. The interest that will be paid on the $800 to the broker, if the stock is held a year, will amount to $48. As the dividend return on the stock during a year will amount to $70, there is a difference of $22 in favor of the stockholder, who thereby *earns* 11% *on his capital of* $200.

Furthermore, every point that the stock has advanced above the price paid will bring an additional profit of $10 when sold. So that if a preferred stock, bought on a reaction of 5 points, be held for both investment and speculation, there is very little likelihood that at least a 5 point profit, plus the 11% rate of interest, will not be earned, providing general business conditions remain good or improve. Of course, if the stock should advance 5 points soon after it is purchased, it would seem most prudent for the investor to take such profit and either buy another preferred stock which has not advanced much or await another opportunity.

On a 15 point margin, at 7% preferred stock, bought at $100, will net 12 2/3% *on the capital invested.* On a 10 point margin, *it will net* 16%.

Many business banks will loan money to private individuals on standard preferred stocks to the extent of 80% of their value, at the rate of 5% per annum. By buying the stock outright, through the broker, one can personally secure a bank loan of $800 on it, paying 5% for the use of the money and thus 1% less than to a broker. In this way he can *earn* $30 *or* 15% *on the* $200 *invested.*

There are times of severe depression, when a good 7% industrial preferred stock can be bought at $95 and even $90 a share.

A purchase at $95, on a 20 point margin, the broker loaning the balance at 6%, will return an *income of* 12½% *on* $200. With a bank loan at 6%, *the return would be* 16¼%.

On a 10 point margin, with a broker's loan at 6%, *the income would be* 19% *on* $100.

If bought at $90, on a 20 point margin, the balance loaning at 6%, *the income would at* 14% *on* $200. With a bank loan at 5%, *the income would be* 17½%.

On a 10 point margin, with a broker's loan at 6%, *the income would be* 22% *on* $100.

There are brokers who charge less than 6% on odd lots and large-scale traders can borrow at call money rates or slightly above, thus greatly increasing the return on the capital invested when lower rates are obtainable.

Best Methods for Successful Speculation

This chapter is devoted to a brief recounting of the experiences and methods of a few successful traders, whose names the writer is not at liberty to mention. All those who have been consulted are of one accord in that speculation was, as far as they were concerned, no smooth path strewn with roses or other beautiful flowers. Their methods were evolved from hard and bitter experience alone. Let us get to the point.

Trader No. 1: "My first losses were due to the fact that I never desired to speculate on the basis of paying cash for my purchases. I started with $1000. After many ups and downs with volatile high-priced speculative stocks, I finally went broke.

"I put on my harness and went back to real work again until I had again gathered together a capital of $1000. In the meantime I kept track of the market and mapped out a plan based on plain horse sense which I would follow when I again entered the financial forest. I was now ready.

"Instead of rushing immediately into a broker's office and listening to the tip-laden conversation of wiseacre chairwarmers, I decided to wait until there was a good shake-out in the market. My patience was soon rewarded. Crops did not promise well or Mr. Morgan was reported sick, I don't remember the reason, but one thing was sure, the market took a header for about 10 points all around Then I made a sensible rush for my broker's office.

"I bought 20 shares of each of 5 small-priced stocks averaging about $10 a share. This time I feared no margin clerk, serene in the knowledge of owning what I bought. I took a 2-point net profit on each lot when the market recovered and made about $200. Then I left the Street and attended to my business.

"About four weeks later, the Interstate Commerce Commission threatened something or other, and there was another break. This time I bought about 120 shares of small-priced stocks whose average value was $10 per share. Two weeks later I realized a profit of about $250.

"I owe my success to patience and small-priced stocks which are not in danger of receivership, buying on good breaks."

Trader No. 2: "After losing a good deal of money, I decided to apply a little common sense to the game before I made a fresh start.

"The thought occurred to me to select some active standard investment stock that had been paying dividends for many years. It was at a time when stocks were recovering from a long bear market. I chose Great Northern Preferred and decided to operate in this stock only.

"With a capital stock of $2000, I figured that I could buy as much as 40 shares of this stock on a 50 point margin in lots of 10 shares each. I decided always to buy the first lot on a 7-point break from any new previous high level and the next 3 lots every 2 points lower. At times, the first lot showed a paper loss, the second and third lots rarely showed it, and I do not recall ever having had to buy the fourth lot.

"Whenever the third lot showed a 7-point profit and the second and first a 3 point profit, I took them. If the second and third lot dropped again to the prices originally paid for them, I would buy them again and take profits if they advanced 3 points, repeating the operation if the market allowed it. If I could only buy the first lot, I would hold that for a 5-point profit. If the decline allowed me to buy the three lots, I would be satisfied with a 2-point profit on the first lot, when the market had recovered to that extent, for by that time the stock would have risen 13 points, more than recovering the decline and being then in a position to react again. I would then leave the market alone until another break happened. That is all there is to my method."

Trader No. 3: "My first session in Wall Street lasted one year, during which time I bought and sold short active high-priced common stocks on 10 and 20 point margins. I believe I tried every method of margin speculation that was ever magnanimously suggested to me or published, including all the scientific chart systems. After trying them all, now winning and then losing, mostly then, I finally was compelled to retire, sad but wiser, with well worn empty pockets and the harrowing knowledge of having lost, in addition, a good year's valuable time.

"I was, however, not entirely discouraged and decided to return some day and profit by my experience. The lesson I had learned was to give up margin trading in common stocks, and if I did any margin trading at all to do it in good preferred stocks. In my experience I learned that these have a narrow range of fluctuations in all kinds of markets and if they did not show much gain they would not in any event go much against me and would at least give me a comfortable return on my margin investment.

Trader No. 4: "I trade only in standard 7% industrial preferred stocks on a 20-point margin.

"For instance, with $1500 I can buy 75 shares. I prefer to diversify my purchases when there is an opportunity to do so. My plan is to wait for a break and buy 2 or 3 preferred stocks which have declined about 4 points or more. If they recover 4 points, I make $300 to $375, or about 25% on my outlay. If they do not, I have a good investment netting me a very liberal return on my margin. I can always count on at least 3 to 5 opportunities during a year to repeat this profit.

"My motto is, *Speculate in bargains.*"

Advantages and Disadvantages of Short-Selling

Short-selling is a form of speculation which should be strictly avoided by inexperienced traders.

Even those who have been a long time in the business of stock trading are rather chary about taking chances with it. More than one time in their experience they can well remember having shorted some stock, which they were firmly convinced was too high and could not do otherwise than go down, and then having been unexpectedly surprised by a violent rise and burnt fingers.

The master manipulators of the stock market take a sort of fiendish delight in squeezing a short interest, that is, those wise speculators who are positive a stock is selling too high and pounce upon it with the idea of a certain profit when it goes down to what they think is its proper value. Such speculators succeed some of the time, but not most of the time. There is an element of danger in borrowing and selling another man's property which far exceeds any risk that may be incurred in a speculative purchase. There is no telling when a corner may be effected in a stock which certain interests might be seeking for control, and the price of the stock, regardless of its earning power, may go up temporarily far beyond any probable future value it may have and thus entail a severe loss on the pessimistic speculator. A little study of stock market history will show some notable instances of the dangers of short-selling.

Not only is it extremely risky from a speculative standpoint, but in principle and practice it is not ennobling nor conducive to proper considerations of human welfare in general. This remark may appear somewhat pious and out of place in a book devoted to speculation; still, while recognizing that short-selling serves a legitimate purpose in the functions of the stock market, inasmuch as it represents a trade based on the probable overvaluation of a stock and is often helpful in checking declines, it is essentially a gambling proposition—usually a very poor one—and one that makes the short-seller, who finds his speculation going against him, wish and hope for something bad to happen that will bring the stock down to a point where he can recover his loss and make a profit.

The purpose here is not utterly to decry short-selling, but to point out particularly that as a form of speculation it is usually unsafe.

How to Get Out of a Bad Speculation

It is a rather difficult matter to discover a cure-all for every kind of bad speculation, yet by the application of a little common sense, courage and patience a way out can be found for practically any dilemma or bad situation into which a speculator may have placed himself. "Where there's a will there's a way," and, figuratively speaking, as long as one is still hanging on to an upset boat there is a chance to right it, get in and row back to safety.

The physician, in his earnest endeavor to save the life of his patient, often finds it absolutely necessary to recommend the excision of the diseased portion which is affecting and endangering the entire body. So it needs must be in handling a bad speculation. Some cases require treatment, while in others the knife must be used. In speculation, however, the speculator must be his own physician or surgeon and apply the remedy or knife himself.

The speculator who finds himself in a trying difficulty may glean some valuable suggestion from the following recital of experiences of traders who learned to get out of a bad plight through a little sensible thinking and courageous action:

No. 1: "When the dividend on the stock of the New York, New Haven & Hartford Railroad was reduced, I was influenced, like a great many others, by the talk that the worst had been discounted and that the stock was then at a level from which it would surely have a good recovery. On the strength of such vapid rumors I bought 100 shares at 105 on a 25-point margin. After waiting some time I heard new and bad rumors to the effect that the dividend would in all probability be further reduced or passed.

"I reasoned that the rumors on which I had bought the stock proved groundless and that these latest rumors were also untrue; so in defiance I decided to hold on to my stock. The stock then tumbled to 96. I was in a quandary, with a loss of about $900 staring me in the face. I saw a vision of the remnant of my margin, $1600, quickly vanishing. I decided to act quickly.

("During the time that New Haven zigzagged from 105 to 96, I had plenty of time to worry and do some intermittent thinking, as well as to observe that various good investment stocks had a dignified way of fluctuating within a narrow range of about 3 to 6 points throughout the different market changes, while speculative stocks would sometimes rise or fall 10 points or more.)

"I immediately sold my New Haven Stock, taking my loss, and bought 100 shares of Atchison, Topeka & Santa Fe, at 94¼. When Atchison rose 2 points I sold it, thereby reducing my New Haven loss from 9 to 7 points. Then I thought it best to keep on trading in Atchison or any other good investment stock, buying on reactions and selling on rallies. In due course of time I recovered the money I had lost on New Haven and have been trading in good investment stocks ever since.

"The lesson I learned was to sell out a bad stock and recover the loss on a good one."

No. 2: I was in the habit of buying the stock that moved the fastest, regardless of its price or value, and using stop-loss orders. I would buy a stock say at 90 and put in a stop-loss order 2 points below. As is often the case, the stop-loss order would be executed and the price of the stock would rebound considerably above the price at which I originally bought it, thus doubling the aggravation.

"After considerable meditation over a method for limiting losses, I decided to open a second account with my broker. My purpose was to do away with stop-loss orders. The next time I bought a stock, instead of putting a stop-loss order 2 points under the purchase price, taking a loss if it went down, I would sell short the same number of shares on Account 2. I figured that in case my purchase at 90 on Account 1 was wrong, by selling short the same quantity at 88 on Account 2 there would be a difference of 2 points against me without it being an actual loss. I would thus be long at 90 and short at 88, sort of on the fence and apparently ridiculous, but at least without having to take an actual loss and putting me out of my perplexity for the time being. It served to save worriment and give me a breathing spell to think things over.

"I would then wait until the market showed a definite trend one way or another. If the stock dropped say to about 80 and the general market then grew dull, I would take my profit of say 8 points on the short sale, thus reducing my purchase price from 90 to about 82. At that point, the stock having suffered a severe break, I figured that the chances were favorable for a good rally, when I could break even or better.

"If the reverse happened and the stock went up about 10 points, say to 100, when the market became reactionary I would take my profit on the 90 purchase and wait for a decline to cover the short sale so as to let me out even or better. By adoping this method I found that I could nearly always get out of a bad speculation."

The latter method, which may be serviceable for active margin speculators, is not recommended to investors.

Not every stock that suffers a severe decline is necessarily a bad speculation. Before allowing one's self to fall into a blue funk through worry over a probable loss, it were better cheerfully to take a mental accounting of the nature of the stock purchased, the circumstances and considerations that led to its purchase, the reasonable prospects of enhancement in its value, regardless of temporary fluctuations, and the state of the general market.

If the stock is a standard dividend payer and has gone down with others in a general break through some bad development affecting all, there is little ground for fear if it was not purchased on a slim margin. The stock market has an almost invariable habit of recovering from all declines. Stocks of investment character are bound to go back to and above the prices paid for them, unless they were purchased blindly on the crest of a great bull wave. If it was purchased at a price netting a good income, there is little probability of the depression lasting for any considerable length of time.

If the speculator has ample funds to carry the stock and purchase another lot of the same number of shares somewhere near the low level of the break, it would be the part of wisdom to do so. If the second lot is bought on a break of 10 points, the chances are 10 to 1 that the stock will recover half the decline or more, thus allowing him to come out whole or better.

If the stock is highly speculative, there is no remedy but that of bravely taking the loss and immediately purchasing in place thereof the same number of shares of an investment stock which will afford the opportunity of recovering the loss. At a time of severe depression, good stocks can be purchased at liberal concessions and the replacement can easily be made.

There is little or no chance for speculators whose entire means are limited to thin margins. Their only remedy is to take their chances or losses cheerfully and either profit by their experience on some other occasion or leave Wall Street severely alone.

Puts and Calls

Puts and Calls, reduced to plain language, mean options or privileges, to sell to or purchase from the maker a specified number of shares of a certain stock at a fixed price within a specified period of time.

A put gives the holder the right, for a specified time, to put or deliver stock to the maker. A call gives the holder the right, for a specified time, to call for or receive stock from the maker.

By way of explanation, let us say, for instance, a man owns 100 shares of U. S. Steel common, which may be quoted today at 80. Believing that it will not advance much during say 30 days, he sells a 30-day privilege (call), receiving therefor $125.00, for which he agrees to deliver the stock at 83¾, or 3¾ points above the ruling price. As his original intention was to sell the stock in the open market at approximately 85, but believing that the price will not advance to that point in about 30 days, he figures that by selling an option for this period, in case the market does not advance during this time he will have reduced the cost of the stock to him by $125.00, or 1¼ points. Should the price advance and the option be exercised, he will still receive the equivalent of 85, by adding 1¼ to 83¾.

The buyer of the call, after adding the 1¼ points plus ⅛ as sale commission to the broker, to the option price of 83¾, makes the difference between 85⅛ and any higher figure at which he wills to sell the stock, provided it advances sufficiently within the time limit agreed upon to allow him to take a profit. Judging from average price fluctuations in the stock market, the advantage consistently lies with the seller of the option, owing to the generally disadvantageous price limits set by him to the buyer.

A put operates in reverse fashion to a call. The seller is willing to accept stock at a price below the ruling one within a certain period.

The prices asked for puts and calls vary in accordance with the activity or inactivity of the market, as do also the stock price limits above or below ruling market quotations. The sellers of options are shrewd guessers, as a rule, who make a life study of their profession, and rarely do they err in their opinions regarding the extent of stock fluctuations over limited periods. At times, of course, they opine incorrectly, allowing the outsider to make a killing, but usually they allow nothing good to "get by" them, to borrow a street expression. The logic is that nobody endowed with average sanity will voluntarily hawk in the public market ten-dollar gold pieces for a dollar in silver. It is human nature to conserve our golden opportunities for yours truly.

It requires extraordinary shrewdness on the part of the buyer of options and at least a parity of ability with the seller in order to get a fair chance to squeeze a dollar of profit out of such transactions. On occasion, considerable money is made, through sheer good fortune, in this form of speculation, but the odds against making it are usually 100 to 1. This subject may therefore be dismissed with the admonition that it is a game for simon-pure gamblers, with the proverbial gambler's chance for success; in fine, a business or vocation well worth leaving entirely alone.

Pirates of Wall Street

This term is no misnomer when applied to the cliques of crooked manipulators who make worthless securities the instruments through which they ply their nefarious trade. There is no word nor term sufficiently expressive to characterize such heartless creatures, who play upon the weaknesses of innocent and gullible near-investors, and lure them on to certain financial ruin, by means of tips and golden-hued promises of fine fortune-making investments in questionable mining, oil and industrial enterprises.

The curb market is the favorite and most convenient place for their despicable operations. From time to time different mining and oil stocks are floated at prices ranging anywhere from a nickel to $10 or more per share. Such low prices appeal to unthinking individuals with small capital, who have heard of wonderful fortunes made in such stocks. When one of these stocks is manipulated upward, good rumors having been previously spread concerning it, a buying stampede soon takes place. A few make a little money occasionally, but nearly all lose in the end.

The Stock Exchange itself is not free from the rascalities of certain powerful and unscrupulous manipulators, who at times make a grand killing by inflating worthless railroad and industrial securities to prices representing fictitious values. By various tricks and artifices they finally hang them on to the necks of thoughtless specu lators, who ultimately and sadly discover that they have eagerly and blindly grasped—not for investments promising melons, but for just ordinary lemons.

.A little study of stock market history will disclose some of the huge scandals perpetrated on a misguided and unsuspecting public. It makes some very interesting and instructive reading.

Some good stocks are daily traded in on the curb, but the vast majority of them, particularly new mining and oil ventures, should be strictly avoided by all investors, unless positive and reliable information can be had as to their real worth.

On general principles, it would seem to be the wisest course not to place any permanent investment value on most mining or oil properties. Engineers may conscientiously furnish promising reports of rich ore veins or inexhaustible oil gushers, but to err is human and their estimates do not always prove to be right. It often transpires that the supposedly rich ore veins or inexhaustible oil supply peter out.

Moreover, from an investment standpoint it is reasonable to assume that every pound of metal taken out of a mine or gallon of oil out of a well makes that mine or well so much the poorer, thus disproving the permanent investment value of such properties.

While not a few mine and oil stocks traded in on the curb prove to have exceptional and long-living value, most of them do not possess any real intrinsic worth. A careful study of the prices and longevity of curb stocks, particularly mining ventures, will reveal that by far the greater percentage of them, which in times gone by were heavily traded in, have now either passed into utter oblivion or suffered enormous depreciation in value. The suggestion is therefore respectfully made that faith be placed solely in standard dividend paying railroad and industrial stocks. Why buy perishable comestibles for long-pull speculation or investment?

Why You Lose

The novice in speculation should engrave upon his memory the fact that the history of speculation proves conclusively that approximately 98% of all margin speculators, after various ups and downs on the slippery scale of fortune, finally lose all, and that his ambition and efforts are directed, perhaps subconsciously, toward becoming one of the 2 in 100 who do succeed. Were my honest advice requested, I should very gladly and readily counsel total abstention from margin speculation in every form. This book, as can be readily understood, is intended as a serious warning to those who speculate on margin, as well as an earnest caution to those who would invest in the best securities.

For the speculator, unless he be possessed of an ingrained sporting tendency, qualifying him to be what is termed, in gambling parlance, a game loser, the best and only advice is contained in the familiar saying, "Leave hope behind all ye who enter here."

As for the investor, he should ever bear in mind that even the best gilt edging wears off in time; that there is no guarantee of permanent prosperity for any business whatsoever, transportation, industrial or any other kind. All things and conditions of the universe, not excluding man, his enterprises and methods, are constantly changing. Good management in a corporation today may change to bad tomorrow. Good business conditions may prevail this year, but not next. And the changes take place more quickly than one can notice.

As examples of mismanagement or changing conditions, one need but contemplate what has happened to what were once termed gilt-edged, prime, good-as-gold securities, such as the old Rock Island Company, Third Avenue Railroad Co., Metropolitan Railway Co., New York, New Haven & Hartford Railroad Co., the old Wabash Railroad Co., Missouri Pacific Railroad Co., Denver & Rio Grande R. R. Co., Chicago, Milwaukee & St. Paul R. R. Co., and others too numerous to mention. The gilt edge in all these cases, you will agree, had faded to a dull brass. And what has become of the golden-voiced choruses of the high and reputable banking and brokering authorities, who in former times sang the praises of these stocks and bonds into the ears of gullible widows and others, anent the advisability of investing in these high-class properties? Alas, they have now died down to conscienceless babblings about changed conditions, or subsided into helpless silence.

The lesson to be learned, in order to preclude loss as far as possible, is to study the full past history of the stock you would invest in, its present condition and—very particularly—to scan the horizon constantly for any and all conditions or developments which may be shaping themselves in a way to arrest, hinder or enhance the future progress of the business. "Eternal vigilance is the price of safety."

Brokers and Breakers

If you do not know how, or have not the time, to secure information yourself, ask your broker to get it for you. If your broker is not very willing or lacks the intelligence or facilities to secure information for you on any stock, protect yourself by placing your account with one who will look out for your interests. There are many prominent and responsible brokerage concerns to choose from, without selecting one hap-hazard fashion.

The business of the broker should not be merely to get your commission, but to earn it. One cannot imagine a better way than by his having a statistical department which will be able to give at short notice all the information necessary upon which to base an investment.

The average broker, sad to say, has well earned the reputation of selfishness and coldheartedness. Too few ever become acquainted with their customers. Perhaps their inward justification is that they know too well the finish of the average newcomer; so by avoiding acquaintanceship and leaving the brunt of future explanations or consolation to suave, well-paid clerks, they save themselves these annoyances and leave themselves free to arrange their bait for the new catch. Mr. Average Broker may also justify his position by claiming that if he were to give his prospective client a heart-to-heart talk on the dangers of speculation, the latter would become discouraged, gather his senses and refuse to take the leap, thus precluding commissions and interest for the former. So it therefore behooves him to encourage Mr. Prospect to buy. And he does it with a vengeance, as one can realize by the unanimity of alluring appeals to buy this, that, or the other stock, at all times, in all the literature of brokers and their advertisements.

Mr. Average Broker is out for his "eighth," as the Spanish Buccaneers were out for their "pieces of eight." Having secured this, why worry about the rest? Is your principal in danger? That is not his concern. Therefore, a speculator or investor should choose his broker with the same care as he does his investment. Choose one who is willing to get acquainted with you, not merely with your name, and then endeavor to judge if he possesses the sterling qualities of decency and honesty and shows an earnest desire to tell you something of the pitfalls of speculation. If your prospective broker evinces a wholesome desire to look out for your interests and understands the value of keeping accounts alive, by conservative suggestions and observations relative to stocks, then your confidence may not be misplaced.

Curb Stocks and Fakers

Speaking of curb stocks, BEWARE! The capital letters cannot be made too large. Here is a veritable inferno of lost fortunes, broken dreams and blasted hopes. Verily, the financial pages of newspapers fairly bulge at nearly all times with advertisements of new mining, oil and industrial stocks, extending to you the fairy wand of limitless fortune for the mere touch to realize it. Let us say, an exceptional demand arises for copper at good prices. Immediately, finely worded advertisements appear from the clever word-devils of good-Samaritan brokers in regard to this or that wonderful bottomless copper mine or prospect. They beg and implore you (you, whom they never knew nor would care to know once you served their purposes) not to neglect this unusual opportunity to get rich, for your own sake, for the sake of your family and the cat, and not under any circumstances to miss the chance to jump on for 10c and get off for $10.00. How many of these advertisements have you seen? And how often?

Regardless of the fact that there are some worthy curb stocks, it is by no means far-fetched to say that of all the stocks ever brought out on the curb barely more than two in one hundred ever proved in the end a good investment. While a few make good, nearly all fizzle. The man who monkeys with such stocks is apparently unconscious of the fact that he is placing himself in the position of the race-track gambler on the short end of a 100-to-1 shot. The best advice is to give such stocks an extremely wide berth. If he will insist upon his folly, a good suggestion might be to halve the original capital contemplated for investment, take one-half and spend it on a good and glorious time, then kiss good-bye to the other half as it is tenderly deposited for the long chance. This procedure may help to reduce his sorrow and multiply his joy.

Stop—Look—Think

In conclusion, I would utter a few additional words of warning—particularly to all those who have labored hard and honestly for the money they have saved by dint of self-denial and sacrifice. In contemplating speculation, whether margin or cash, one is about to risk in a single moment what has probably taken years to accumulate. During the long period of saving, perhaps at more than one time a way was carefully and successfully planned to increase the usual amount of the bank deposits. And more than once one has been pardonably proud of one's common sense and prudence. One must admit, therefore, that these qualities are more vitally essential in the fateful step one takes when he risks the accumulation of years in a single, impatient, blind plunge into the dark and troubled waters of thoughtless speculation. To such I most sincerely bring to mind the familiar sign at the crossroads, "Stop, Look, Listen!" And one should look and listen long before making a venture.

Numberless thousands have lived to rue the day they had risked their all on the bombastic tip of a dear friend or a subtle stock-jobber. Many an old man, with broken heart and dejected spirits, who once knew the pleasures of wealth and comfort, ekes out some form of miserable existence today as the result of some ill-timed venture. The grave and the river hold many a sleeping soul, freed from the torment of unaccustomed poverty. Occasionally, the novice in speculation is warned by some kind-hearted old-timer of the ominous import of the fact that Wall Street is a tortuous path, bounded at one end by the Trinity Church graveyard, and at the other by the foreboding waters of the East River, and that there especially the road to fortune is neither straight nor rose-strewn. But the combinations of heavy pocketbooks and light heads heed not. Caution is a rare quality.

There are two kinds of speculation—thoughtful and thoughtless. One should consider and study every angle of speculation *before* entering into it. One should first go, early and often, into the customer's room of any prominent broker's office, there to study and learn as much as possible. The broker or his clerks will never show one the door. One is perfectly welcome—pardon the simile—as welcome as any fish that ever lingered longingly near a fisherman's bait. The average speculator is in no better position than the average fish, whose main idea is to avoid the hook, snatch a piece and swim away; a case of nibble and run or feast and be done. Unhappily, many escape one hook only to be caught on another. If one figures himself as an average man, he may glean some idea of his chances in speculation by studying the faces of the customers in the broker's office for signs of success or failure. If happy faces predominate, the encouragement is self-evident. If not, it might not be a bad suggestion to get acquainted with some of the sad ones, when one should judge them to be in a tractable mood. As growing intimacy breeds confidence, they may unfold many an enlightening tale and thus enable you to profit by their experiences.

The reader may have judged the writer as somewhat inconsistent, in that in the first pages definite advice and methods governing speculation are given and in the last ones speculation is rather generally discouraged. The first pages are intended for those who can afford to speculate and can bear their losses without sorrow, in case they prove to their own satisfaction that they have not the natural ability to succeed in this line of endeavor. The final pages are intended for those who can ill afford to speculate and who would suffer greatly in case of loss, and for these I cannot make my advice too strong. Speculation is a battle of wits, whether in Wall Street or elsewhere; the majority lose, the minority win.

THE END