

How I Trade and Invest  
in **STOCKS**  
& **BONDS**

Richard D. Wyckoff



# **How I Trade and Invest In Stocks and Bonds**



RICHARD D. WYCKOFF

"We succeed in proportion to the amount of  
energy and enterprise we use in going after  
results"

# How I Trade and Invest In Stocks and Bonds

Being Some Methods Evolved and Adopted  
During My Thirty-three Years  
Experience in Wall Street

By

**RICHARD D. WYCKOFF**

*Editor, The Magazine of Wall Street*

**ILLUSTRATED**

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**TO MY WIFE**

**Whose unfailing courage, co-operation  
and belief in me has enabled me to  
attain some of my ideals**

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## FOREWORD

During the last thirty-three years I have been a persistent student of the security markets. As a member of several Stock Exchange firms, as a bond dealer, trader and investor, I have come into active contact with many thousands of those who are executing orders and handling markets, as well as those who deal in such markets, namely traders and investors.

For the past fifteen years I have edited and published *The Magazine of Wall Street*, which at this writing has the largest circulation of any financial publication in the world.

These experiences have given me an opportunity to study not only the stock and bond markets, but all those related thereto, and have enabled me to observe the forces which influence these markets and the human elements which contribute so largely to their activity and wide fluctuations.

Out of this experience I have evolved or adopted or formulated certain methods of trad-

## FOREWORD

ing and investing, and some of these I have collected and presented in the pages which follow.

My purpose in preparing this book has been two-fold. Primarily, I have in mind the thousands of new investors who find the securities market a vast, technical machine, too complex to be understood by many. It has been my effort to do away with this impression—to emphasize the fact that, in Wall Street as anywhere else, the chief essential is common sense, coupled with study and practical experience. I have attempted to outline the requirements for success in this field in a way that will be understandable to all.

Furthermore, as I learned in preparing my first book, "Studies in Tape Reading," it is of great personal advantage for me to write out and thus clarify and crystallize in my own mind the principles upon which I endeavor to operate. And so, from both standpoints it seemed to me well worth while to arrange my impressions in methodical and coherent order.

RICHARD D. WYCKOFF.

Great Neck, L. I.

March, 1922.

I hold that a man who is long-headed, who foresees and judges accurately, has an advantage over his neighbor, and it is not accounted immoral for him to use that advantage because he is individually better fitted for the business; and it inheres in him by a law of nature, that he has a right to the whole of himself legitimately applied. If one man, or twenty men, looking at the state of the nation here, at the crops, at the possible contingencies and risks of climate, at the conditions of Europe; in other words, taking all the elements that belong to the world into consideration, be sagacious enough to prophesy the best course of action, I don't see why it is not legitimate.

Henry Ward Beecher.

# How I Trade and Invest in Stocks and Bonds

## I

### FIRST LESSONS

**A**T the suggestion of my first employer in Wall Street, I began the study of railroad and other corporation statistics about the time my trousers were being lengthened from knee to ankle and I was receiving the munificent sum of \$20 per month. This was in 1888.

With numerous interruptions my studies continued until 1897, when I began to put them into practice by purchasing one share of St. Louis & San Francisco common at \$4 per share. At that time some of the other leading stocks were selling at the following prices: Union Pacific 4, Southern Pacific 14, Norfolk & Western 9, Atchison 9, Northern Pacific 11. Reading 17. To put it mildly, prices were very low. Many roads were just emerging from, or were still

in, receivership, and Irish dividends were the rule.

As I saved a little money I began to buy more one share lots and finally I became such a pest in this respect that the Stock Exchange firm which I "favored" with my orders said they didn't care for the business, whereupon I decided to buy more shares, of fewer varieties.

This is the way most people begin their operations—by purchasing outright, believing that they are safe. It is true they are safe in the possession of their certificates once they have them in their safe deposit boxes, but in no other respect. They are not safe against fluctuations or shrinkages in value or earning power. Nevertheless, if their securities are well selected, and bought at the right time, the chances are strongly in favor of their making money.

It was my practice about that time to sit up nights, read the financial papers, and study probably future values of securities, and when I didn't have money enough to buy, I would make my selections just the same and write my imaginary purchases in a book with reasons alongside why they should ultimately be

worth more money. Two of these I still retain in my memory, viz., Chicago, Burlington & Quincy at 57, and Edison Electric Illuminating of New York, at 101.

I mention these incidents because they illustrate a very good way for anyone to begin to learn the business of trading and investing in securities. Just as in any other line it is practice that makes perfect, and most of the fatalities in Wall Street can be traced to lack of practice. You don't have to risk real money when you are learning, and I always advocate two or three *years*—not two or three months, mind you—of this kind of study and paper practice when one is seriously considering participation in this greatest of all games.

But study and practice are the two things farthest removed from the minds of the majority. Everyone knows that people who engage in speculation for the first time do not want to bother with such details. The average man who comes to Wall Street comes to speculate, although he may pay in full for his purchases. All he asks is to be told "something good." That is not speculation, it is gambling; for speculation, to quote Thomas

F. Woodlock, "involves the use of intelligent foresight." Most people use neither foresight nor intelligence.

It might seem to the reader a long while to wait, but in my case I did not begin to invest until eight years after I started to study, and I did not commence trading for six years after that, so it may be admitted that I went to school and got a foundation knowledge which has been of inestimable value.

In connection with my one share purchases I found that although I had correctly figured financial conditions and earning power of the companies whose securities I held, their prices would often fluctuate widely as a result of general market conditions. In other words, a stock might go down, although everything in the way of intrinsic value and future possibilities pointed upward; so I made up my mind that there were other factors to be considered and found that these were principally three, viz., manipulation, technical conditions and trend of the market.

In order to study the market closely I identified myself with a leading New York Stock Exchange house which did a big business for

some prominent operators, and there I learned how necessary it is to observe the proposition, not from the standpoint of the outsider who is endeavoring to anticipate the fluctuations from what he sees on the surface, but from the standpoint of the insider who is a factor in influencing prices.

Investigation proved that many of those who were thus able to affect prices often made the same mistakes as small traders, only their errors ran into big money, which, however, was not out of the proportion to their profits. Years before, in my clerical capacity in the brokerage business, I had noticed tendencies among small traders which I now found magnified many diameters in the case of large operators.

In the study of technical conditions, which was my next step, I found that the most important factor was the trend of the market and that the overbought or oversold condition of the market had the most to do with the immediate direction of the next swing.

No doubt the principles which will be found in my book, "*Studies in Tape Reading*," were rattling around in my head for a long time be-

fore I wrote them out, and as I did this they clarified and crystallized. When I realized this, I began to put them into practice by trading in ten share lots, although I had operated in a much larger way some years before. It seemed to me that, with the right principles and a sufficient amount of practice, I could gradually build up my trading on a strong foundation that would not lead to flash-in-the-pan results but to a steady increase in speculative ability and consequent profits.

Being in the brokerage business, my immediate object was to make more money for my clients, because I realized that this was the only way in which they would become permanent and successful clients. My ultimate object, however, was to get out of the brokerage business and devote my time to the security markets, and it is a satisfaction to say that I arrived at that point some years ago.

Unlike many who operate in order that they may make money with which to enlarge their market operations, I am more interested in realizing profits so that I may have more money to invest. Just as its staff writers, through the columns of *The Magazine of Wall Street*,

advocate that the business man take his surplus and invest it in sound securities, so I make a business of trading and invest the profits which result. In a word, I trade so that I may invest.

But let us go back a little and note some of the points which came to me while I was studying the subject in an objective way:

The market operations which were carried on in the office of my first employers were not significant because it was a small firm and did not have many customers. The head of the firm traded a little and made some money, because he seemed to understand what he was doing. Most of the customers, on the other hand, neither understood nor made money. Once in a while some one would come in and plunge around, pay a lot of commissions, and then go away disgusted with the business. Traders of this sort should have been disgusted with themselves. The majority seemed to look upon it as a sport or an adventure in which they hoped to prove that their judgment and ability were better than those of all who they knew had failed.

Nearly everyone seemed to be just guessing.

One man certainly carried off the palm at the business of buying at the top and selling at the bottom. Another told me how he had taken one little Reading 3rd Income Bond, worth about \$300, and by pyramiding on the rise in Reading during former years had run up an equity of something over \$250,000. But at this particular time he was down to a shoe-string again.

We had one old fellow who bought nothing but the very highest grade railroad bonds, and only when they were very low. Collecting these and clipping coupons was a mania with him and in order to indulge his mania he economized to the point of using a piece of plain manila twine to hold his eye glasses. He and other out-and-out investors were the most satisfactory clients because they kept coming around year after year, while those who speculated disappeared one after the other. As for the latter, I noticed a very marked tendency to accept a small profit and stand for a big loss.

About that time I heard of a prominent Brooklyn man who after several attempts at speculation said to himself, "I know the secret of this game—these traders are all taking small

profits and big losses. I will open a bucket shop and when they do this they will force me to take small losses and big profits." He did. And in a short while he bought a couple of hotels and was rated as a millionaire. No doubt he mistrusted his own ability to trade as the others were doing and followed strictly this profitable principle (the bucket shop proprietor may have two different kinds of principles although they are spelled the same way), but he knew if he got into the business he would be obliged by the very ignorance of his clients, to make more money than he lost.

Turning again to my brokerage office, I must say that impressions derived there were not conducive to speculation, but showed the marked advantages of shrewd investing.

The next firm with which I became identified was one which had private wires, branch offices and a considerable number of clients, large and small. Some of them were big traders and a few were very successful. Here I really began to learn something from observation of their methods. The one who impressed me most strongly was a high official of the telegraph company from which we leased some

of our wires. He stuck out from the rest because of his fixed policy of cutting his losses short (here was that same principle bobbing up again). He never gave an order unless it was accompanied by a two-point stop. He dealt in the most active and widely fluctuating issues on both sides of the market. Unlike many of the customers who were "fluent losers" he was the only man whom I remember as being persistently successful. He would usually trade in two-hundred share lots at a time and generally managed to get a little larger profit than the two points and commission which he risked.

While I was with that firm the panic of 1893 occurred. General Electric declined from 114 to 20, and American Cordage crashed down from 140 to reorganization levels. This experience showed me what risks people ran who made speculative commitments without limiting their possible losses or watching them closely and getting out when they found they were wrong. The market for these and other stocks simply melted away, there being few buyers and many compulsory sellers. I had seen these things before in the Baring panic of 1890 but

they did not make the same impression on me because I had not come into such close contact with those who were making speculative commitments of considerable size.

A few years later I secured a position with a large, ambitious and growing New York Stock Exchange house which had private wires, branch offices and correspondents all over the country. Its long list of customers and its important connections made it develop rapidly into one of the biggest houses in the Street. Here I was able to obtain a still broader view of the markets, for the concern did a big cotton and grain, as well as stock and bond, business. Many of their people made considerable money. A few made spectacular profits in a short while, but I observed that their sudden wealth led to over-extension and big losses because they evidently did not have the same judgment where larger amounts were involved. This was another point in favor of the slowly building up process.

The big wire houses in Boston, Philadelphia and Chicago poured their business over our wires, but not knowing the operations of their individual customers, I could only judge by the

composite that was presented to me through having everything come in the name of the house. Two kinds of operations were evidently going on. One was a large inflow of buying and selling orders, evidently arising from those who were endeavoring to anticipate the immediate fluctuations. The result of these was indicated in a corresponding inflow of money to margin such transactions and take care of the losses which resulted in the net, proving that the traders in other cities were no different from those I had met here; that is, that they were more or less unpracticed and inefficient at the business.

The other kind of dealings impressed me the most. They consisted of a steady line of orders to purchase securities like Atchison General Mortgage 4s, and Incomes, Norfolk & Western preferred, Union Pacific preferred, and the better grade of stocks and bonds in companies just emerging from receivership. These were bought in very large quantities and shipped away, principally to the West. Evidently there were some people in that great railroad center, Chicago, and in its tributaries, who were familiar with the railroad business,

and who saw possibilities in the future for such stocks and bonds in spite of a disastrous past.

*In the bull market which began with McKinley's first election in 1896, and ran for several years, these Union Pacifics, Readings, Atchisons and others which had been through receivership, reorganization and assessment, multiplied many times in value and furnished the most striking lesson I had received so far.*

It was plain that the most successful class of our clients was the far-sighted investors who held, or were often able to pick up, stocks like Reading and others at less than the amount of the cash assessment that had been paid in. For these assessments they were usually given preferred stocks, and when the market prices of the latter eventually rose to around par, they had their assessment money back and either a recovery of their former losses or a big profit on the common stocks which they had acquired at the low figures.

I had a good many lessons in speculation during my four years with that firm. It being a bull period there were numerous instances of the development of small accounts into big ones. Governor Flower was the bull leader at

the time and some of his stocks went from small to big figures. He had a large following, was perfectly honest with it and made a great deal of money for the public until the day he ate too many radishes at his fishing club in Riverhead, Long Island, and passed away. Next morning most of those who had made money on the bull side and had loaded up with many times what they started with lost the bulk of it at the opening.

One of my fellow clerks gave an illustration of what could be done with a little money. Starting with a small quantity of stock he pyramided until he realized the sum of \$3,000, which looked very large to a thirty-dollar-a-week clerk. I found that he was not basing his judgment on the news, but on a study of the fluctuations. His specialties were American Sugar and Brooklyn Rapid Transit. Out of his profits he bought a home for himself, paying his three thousand dollars down, "so they couldn't get it away from him." He kept charts of the market and studied them intelligently, just as many other people then known as "chart fiends," were doing.

To keep charts in those days was looked upon

as making one fit for the squirrels. In and out of many brokerage offices there hustled wild-eyed individuals with charts under their arms, who would hold forth at length on double tops and bottoms and show you just where and how and why the "big fellows" were doing this or that with their favorite stocks. Yet none of them seemed to have much money. Possibly it was because they followed a strict set of rules and did not use much intelligence. It seems that the charts told them exactly what to do!

Successful students of the market were few but there were some; and I began to get a line on their methods of reasoning. I was surprised to find that the market itself did give frequent evidence of its future course and began to investigate along those lines. It did not interfere with my study of intrinsic value and earning power but rather supplemented it, for I often found that statistics and the action of the market would all point in the same direction.

So far as manipulation was concerned, it appeared to have one of three objects: Making the public buy, sell or keep out. And I judged that the manipulators were endeavoring

to do the opposite. The market at that time consisted of a comparatively few stocks, although they were increasing. The dominant trading factor was James R. Keene. The Rockefeller party was active in some of its stocks. Morgan had not yet "sprung" the Steel Trust, Gates and Harriman were just coming over the horizon, and the Gould sun was about setting. It was a market which could be easily stung by a group of new powerful interests working in harmony, but while public participation and volume of trading was large, it was not to be compared with the markets of today in the number of participants or the large number of stocks dealt in.

Having secured a new angle on the market I began myself to try to judge it from its own action, principally with regard to the general trend. Dow's theory of price movement made a considerable impression on me. I understood clearly his theory that there were three distinct market movements going on simultaneously—(1) the long trend extending over a period of years; (2) the thirty to sixty day swings; (3) the small swings running from one to sev-

eral days. The value of these suggestions appeared to be great when properly applied.

I thirsted for stock market and investment knowledge but much to my regret there were very few people who could assist me and very little printed matter which was of any value whatever. So I had to dig it out for myself, the best I could. It was a slow process or else I was not bright enough to absorb it quickly, but I made progress, as I will show in succeeding chapters.