

Chapter One



Failure Is Not Predictive



The Story of Bob Gibson

On April 15, 1959, Bob Gibson played in his first major league game, coming in as a relief pitcher for the Cardinals as they trailed the Dodgers 3–0. Gibson gave up a home run to the very first batter he faced—an ignominy suffered by only 65 pitchers in the history of the game.¹ In the next inning, Gibson gave up another home run. Gibson got a chance to redeem himself coming in as a relief pitcher

the next evening, but again was hit hard by the Dodgers. Two nights later, Gibson was brought in against the Giants with two outs and two runners on in the eighth inning and promptly gave up a double. After that game, Gibson sat on the bench for a week, and then was sent back to the minors. It is hard to imagine a more demoralizing beginning.

Despite his dismal start, Gibson ultimately went on to become one of the best pitchers in baseball history. He is widely considered among the top 20 pitchers of all time. Gibson played 17 seasons in the majors, winning 251 games, with 3,117 strikeouts and a 2.91 earned run average (ERA). In 1968, he posted an unbelievably low 1.12 ERA—the lowest such figure since 1914. He won two Cy Young awards, twice was named as the World Series most valuable player (MVP), played on nine All-Star teams, and was elected to the Baseball Hall of Fame in his first year of eligibility.

If at First You Fail

One of the surprises I found in doing the *Market Wizards* books was how many of these spectacularly successful traders started with failure. Stories of wipeouts, or even multiple wipeouts, were not uncommon. Michael Marcus provided a classic example.

Michael Marcus was enticed into trading futures when he was a junior in college. There he met John, a friend of a friend, who dangled the prospect of being able to double his

money in two weeks by trading commodities. Marcus fell for the pitch, hired John as a trading adviser for \$30 a week, and opened a futures account with the money he had scraped together in savings.

Standing in the customer gallery of the brokerage firm, watching the clicking prices on the wall-size commodity board (this was back in the 1960s), Marcus quickly realized that his “adviser,” John, was clueless about trading. Marcus lost money on every trade. Then John came up with the idea that was “going to save the day.” The trade was buying August pork bellies and selling February pork bellies of the following year because the price spread between the two contracts was greater than the carrying charges (the total cost of taking delivery in the nearby contract, storing the commodity, and redelivering it in the forward contract). It seemed like a can’t-lose trade. After placing the trade, Marcus and John went to lunch. When they returned, Marcus was shocked to find that his account had been almost completely wiped out. (Marcus would later discover that August pork bellies were not deliverable against the February contract.) At that point, Marcus told John that he thought he knew as much as he did—which was nothing—and fired his adviser.

Marcus then managed to rustle up another \$500, which he lost as well. Unwilling to give up and accept failure, Marcus decided to cash in \$3,000 from the life insurance left to him by his father, who had died when he was 15. He

then started reading up on grains and making some winning trades. In 1970, he bought corn based on a recommendation in a newsletter he subscribed to. By sheer luck, 1970 was the year of the corn blight. By the end of that summer, Marcus had turned the \$3,000 into \$30,000.

In the fall, Marcus started graduate school, but found himself so preoccupied by trading that he dropped out. He moved to New York, and when asked what he did for a living, he told people rather pompously that he was a “speculator.”

In the spring of 1971, there was a theory around that the blight had wintered over and would infect the corn crop again. Marcus believed this theory as well, and he intended to capitalize on it. He borrowed \$20,000 from his mother, adding it to his \$30,000 account. He then used the entire \$50,000 to buy the maximum number of corn and wheat contracts he could on margin. For a while, the market held steady because of the blight fears, but it didn't go higher. Then one morning, there was a financial headline that read, “More Blight on the Floor of the Chicago Board of Trade Than in Midwest Cornfields.” The corn market opened sharply lower and fairly quickly moved to and locked *limit down*.² Marcus stood by paralyzed, hoping the market would rebound, and watching it stay locked limit down. Given that his position had been heavily margined, he had no choice but to liquidate everything the next morning. By the time he

was out, he had lost his entire \$30,000 plus \$12,000 of the \$20,000 his mother had lent him.

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Michael Marcus

I asked Marcus whether with all these failures he ever thought of just giving up. Marcus replied, “I would sometimes think that maybe I ought to stop trading because it was very painful to keep losing. In *Fiddler on the Roof*, there is a scene where the lead looks up and talks to God. I would look up and say, ‘Am I really that stupid?’ And I seemed to hear a clear answer saying, ‘No, you are not stupid. You just have to keep at it.’ So I did.”

He did, indeed. Eventually, it all clicked for Marcus. He had an amazing innate talent as a trader. Once he combined this inner skill with experience and risk management, he was astoundingly successful. He took a trading job at Commodities Corporation. The firm initially funded his account with \$30,000, and several years later added another \$100,000. In about 10 years’ time, Marcus turned those

modest allocations into \$80,000,000! And that was with the firm withdrawing as much as 30 percent of his profits in many years to pay the company's burgeoning expenses.

“One-Lot” Persists

Although many of the Market Wizards started off with some degree of failure, perhaps none reached the depth of despondency over their losses as did Tony Saliba. At the start of his career when he was a clerk on the floor, one of the traders staked him with \$50,000. Saliba went long volatility spreads (option positions that gain if the market volatility increases). In the first two weeks, Saliba ran the account up to \$75,000. He thought he was a genius. What he didn't realize was that he was buying these options at very high premiums because his purchases followed a highly volatile period. The market then went sideways and the market volatility and option premiums collapsed. In six weeks Saliba had run the account down to only \$15,000.

Recounting this episode, Saliba said, “I was feeling suicidal. Do you remember the big DC-10 crash at O'Hare in May 1979, when all those people died? That was when I hit bottom.”

“Was that a metaphor for your mood?” I asked.

“Yes,” answered Saliba. “I would have exchanged places with one of those people in that plane on that day. I felt that bad. I thought, ‘This is it; I've ruined my life.’ . . . I felt like a failure.”

Notwithstanding this dismal start, Saliba had one important thing going for him: persistence. After his disastrous beginning, he came close to quitting the world of trading, but ultimately decided to keep trying. He sought the advice of more experienced brokers. They taught Saliba the importance of discipline, doing homework, and a goal of consistent, moderate profitability, rather than trying to get rich quick. Saliba took these lessons to heart and switched from trading options in Teledyne, which was extremely volatile, to trading options in Boeing, which was a narrow-range market. When he did go back to trading Teledyne, his standard conservative order size led to ridicule by the other brokers and the sobriquet “One-Lot.” Once again, Saliba persisted, this time putting up with all the ribbing and not being goaded into departing from his cautious approach. Ultimately, the persistence and attention to risk control paid off. At one point, Saliba put together a streak of 70 consecutive months with profits in excess of \$100,000.

Two Key Lessons

There are two key lessons that can be drawn from this chapter.

First, failure is not predictive. Even great traders often encounter failure—and even repeated failures—early in their careers. Failure at the start is the norm, even for those who ultimately become Market Wizards. As a related comment, the fact that most people who attempt trading fail at the beginning suggests that all novice traders should start

with small amounts of cash because they might as well pay less for their market education.

Second, persistence is instrumental to success. Most people faced with the types of failures encountered by the traders detailed in this chapter would have given up and tried some other endeavor. It would have been easy for the traders in this chapter to have done the same. Were it not for their relentless persistence, many of the Market Wizards would never have discovered their ultimate potential.