PREFACE TO THE COLUMBIA EDITION

Since this book was first published, nearly twenty years ago, a lot has changed in the world of trading. Open outcry is nearly dead, exchanges have merged, and newfangled instruments have been created—some of which generated losses that brought the global financial market to its knees.

One thing that has not changed over the past twenty years is the decision-making mistakes that traders and investors make in the markets. Whether you are a professional managing other people's money or an individual managing your own money, you are susceptible to these mistakes—if not on the same scale of operations. Since the book's first printing, we have witnessed some colossal risk-management disasters. For example, Nick Leeson of Barings Bank lost 827 million pounds ($1.4 billion) in 1995 betting on the Japanese stock market. Toshihide Iguchi of Daiwa Bank lost $1.1 billion the same year. Yasuo Haminaka, a.k.a. Mr. Copper, of Sumitomo lost $2.6 billion trading copper in 1996. Then there was John Rusnak at Allfirst Bank, who lost $691 million in 2002 trading currencies. Chen Juilin of China Aviation Oil Corporation lost $550 million in 2005 trading jet-fuel futures (It was a spectacular fall from grace for the "King of Aviation Oil.") And Jerome Kerviel of Societe Generale dropped a stunning 4.9 billion euros ($7.4 billion) between 2006 and 2008 in equity derivatives.

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These highly publicized cases, and others, riveted media, management, and academic attention on the strategies and controls of the risk-management business. While the many postmortems offered valuable lessons, mostly in the areas of internal controls and hedge-strategy selection, these autopsies have largely overlooked what went on inside the minds of the individual traders actually pulling the trigger on the trades. While lax controls may have *enabled* these losses to occur and questionable hedging strategies may have *contributed* to the losses, neither factor *caused* the losses; traders did. And to understand and prevent losses we need to get inside the mind of the individual. This book does that. I use Jim Paul's story as a parable to point out the three biggest mistakes that investors and traders make every day in the markets. These have not changed and never will. The mistakes are timeless, and so are the lessons for avoiding them. I've talked to hundreds of traders and investors since the book's publication, and to a person they've agreed with the premise of the book and the lessons it holds. This is because all of us lose money as some point; and the book simply identifies the mental processes, behavioral characteristics, and emotions that lead us into those losses. Then it offers a prescription for avoiding those processes, characteristics, and emotions—and the losses that accompany them. May the lessons teach and the stories entertain.

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