

# PART ONE

## REMINISCENCES OF A TRADER

Experience is the worst teacher. It gives the test before giving the lesson.

—UNKNOWN

*I made \$248,000. In one day, a quarter of a million dollars. The high was unbelievable. It's literally like you expect God to call up any minute and ask if it's okay to let the sun come up tomorrow morning.*

*I had a special desk that was a copper pedestal coming out from the floor, and on top of it was a giant 3' x 6' x 7" piece of mahogany. The tabletop looked like it was suspended in midair. The credenza was a matching piece of wood bolted to the wall, also looking like it was suspended in midair. When you walked into the office all you could see was carpet stretching out in front of you, a copper column rising up from the carpet, and two pieces of wood levitating in midair, defying gravity. And that is just what I thought I was doing: defying gravity. I sat down at my desk on the edge of my chair waiting for the market to open, ready to have another \$50,000 day, and thinking life didn't get any better than this. I was right. It didn't.*

*The market opened down that morning and never traded higher than it did on that last Friday in August. It started down that Monday, and I proceeded to lose on average about \$20,000 to \$25,000 a day, every day, for months. The decline was relentless, with only occasional spasms to the upside. Fortunately, I started getting the clients out of the market. Most of the clients got out with some profit, some with small losses. Naturally, I didn't get out. I was in for the long pull. This was going to be the Big Trade. Kirby and I were going to make \$10 million on this trade.*

*By the middle of October I was under water. I didn't know how far under I was, but I knew I'd lost most of my money. As the position got increasingly worse, I began to get margin calls. I'd wait a few days to see if the market rallied so I wouldn't have to meet the margin call. If it did, fine. If it didn't, I'd spend the next couple of days trying to borrow money from my friends. I'd be on margin call for two or three days at a time, but the brokerage firm's attitude was, "We know you're a big wheel. You're on the Board of Governors of the Exchange. You're on the Executive Committee. You're an officer of your firm, etc. We know you're good for the money."*

*The first week in November, I was under water big time: \$200,000 or \$300,000. I didn't even know how much it was. Bean oil had gone from 36 or 37 cents a pound down to 25 cents. So from the high in August, I was down \$700,000 or \$800,000. To make matters worse, I'd borrowed about \$400,000 from my friends.*

*The firm finally, and mercifully, pulled the plug on me because I couldn't. On November 17, one of the senior managers from the brokerage firm came into my office and proceeded to liquidate all my positions.*

*I went from having everything on August 26 to nothing on November 17. However, I didn't intend to give up on trading. I viewed it like blackjack in the caddy pen: I wasn't going to quit playing, but I was going to quit losing.*

I didn't lose that kind of money simply because of a faulty method of analysis. That may have played a role, but something else was going on to keep me in a losing position even to the point where I went into debt to hold onto it. That something was the psychological distortion accompanying a series of successes, drawing my ego into the market position and setting me up for the disastrous loss.

As mentioned in the preface, these same distortions afflicted Henry Ford and contributed to his company's downfall in the 1920s and 1930s. And these distortions continue to afflict businesses, managers, and CEOs today. For example, in 1993 management guru Peter F. Drucker wrote in the *Wall Street Journal* that "the past few years have seen the downfall of one once-dominant business after another: General Motors, Sears and IBM, to name just a few" and that "IBM's downfall was paradoxically caused by unique success."<sup>1</sup> Drucker has

also said, “Success always obsoletes the behavior that achieved it.” While some of the factors contributing to these downfalls were a function of the particular strategies the firms employed (Drucker called them the Five Deadly Business Sins), there were other factors that were a function individual managers’ decision making. This book explores the latter factors.

Personalizing successes sets people up for disastrous failure. They begin to treat the success as a personal reflection rather than the result of capitalizing on a good opportunity, being at the right place at the right time, or even being just plain lucky. People begin to think their mere involvement in the undertaking guarantees success. Apparently, this is a common phenomenon. Listen to An Wang, founder of Wang Laboratories: “I find it somewhat surprising that so many talented people derail themselves one way or another during their lives . . . all too often a meteoric rise triggers a precipitous fall. People fail for the most part because they shoot themselves in the foot. If you go for a long time without shooting yourself in the foot, other people start calling you a genius.”<sup>2</sup> Listen to Herb Kelleher, CEO of Southwest Airlines: “I think the easiest way to lose success is to become convinced that you are successful.”<sup>3</sup> This “becoming convinced” is the process of personalizing achievements or successes. Learning to recognize and prevent that process is what this book is all about.

When I was a kid, my father told me there are two kinds of people in the world: smart people and wise people. Smart people learn from their mistakes and wise people learn from somebody else’s mistakes. Anyone reading this book has a wonderful opportunity to become wise because I am now very, very smart. I learned a lot from the mistakes that led to a million-and-a-half-dollar loss in the market. But there is more to the story than the fantastic fall from the pinnacle of millionaire trader and member of the Executive Committee at the Chicago Mercantile Exchange. There is the almost fantasy-like ascent to the top that set the stage for the collapse.

