Speculation as a fine art

By D. G. Watts

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FOREWORD

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This article was written by D. G. Watts, “one of the wisest and most brilliant men who ever adorned the New York Cotton Exchange” in the 1880s. A timeless article on the fascinating subject of speculation that is relevant for both speculators and investors. We came across this article over 30 years ago and have read it frequently in our quest for success.

One wise analyst has been quoted as saying that “a speculator will invest 10% of their monies to achieve a 100% return whereas an investor will invest 100% of their monies to earn a return of 10%.

I and my legion of subscribers are proudly in the camp of speculators as there are many opportunities, long-term and short-term in all investment sectors, from resources, banking, bio-techs, pharmaceuticals, autos, restaurants, etc.

We strive to discover those special situations which have the potential to return gains of 1,000% and more.

I hope my subscribers and readers enjoy and benefit from this as much as I have.

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SPECULATION AS A FINE ART

By D. G. Watts

Since de Quincy wrote his essay on “Murder as a Fine Art,” many things have been considered under a similar title. We read recently an article on “Invalidism as a Fine Art.” If murder and invalidism can be so treated why not speculation? Speculation is a fine art, and requires a high order of talent in the artist.

Before entering on our inquiry, before considering the rules of our art, we will examine the subject in the abstract. Is speculation right? It may be questioned, tried by the highest standards, whether any trade an exact equivalent is not given can be right. But as society is now organized speculation seems a necessity. Is there any difference between speculation and gambling? The terms are often used interchangeably, but speculation presupposes intellectual effort; gambling, blind chance. Accurately to define the two is difficult; all definitions are difficult. Wit and humor, for instance, can be defined; but, not withstanding the most subtle distinction, wit and humor blend, run into each other. This is true of speculation and gambling. The former has some of the elements of chance; the latter some of the element of reason. We define as best we can.

Speculation is a venture based upon calculation; gambling a venture without calculation. The law makes this distinction; it sustains speculation and condemns gambling.

All business is more or less speculation. The term speculation however, is commonly restricted to business of exceptional uncertainty. The uninitiated believe that chance is so large a part of speculation that it is subject to no rules, is governed by no laws. This is a serious error. We propose in this article to point out some of the laws that govern in this realm.

There is no royal road to success in speculation. We do not
Undertake, and it would be worse than folly to undertake, to show how money can be made. Those who make for themselves or others an infallible plan delude themselves and others. Our effort will be to set forth the great underlying principles of the art, the application of which must depend on circumstances, the time and the man.

Let us first consider the qualities essential to the equipment of a speculator. We name them: Self-reliance, Judgement, Courage, Prudence, and Pliability.

1. SELF-RELIANCE. A man must think for himself, must follow his own convictions. George MacDonald says: "A man cannot have another man's ideas any more than he can have another man's soul or another man's body." It is better to make a mistake and learn why the mistake is made than to be right on another man's judgement. Self-trust is the foundation of successful effort.

2. JUDGEMENT. That equipoise, that nice adjustment of the facilities one to the other, which is called good judgement, is essential to the speculator.

3. COURAGE. That is, confidence to act on the decisions of the mind. In speculation there is value In Mirabeau's dictum:

"Be bold, still be bold, always be bold."

4. PRUDENCE. The power of measuring the danger, together with a certain alertness and watchfulness, is very important. There should be a balance of these two, prudence and courage; prudence in contemplation, courage in execution. Lord Bacon says: “In meditation all dangers should be seen; in execution, none, unless very formidable.” Connected with these qualities, properly an outgrowth of them, is a third, viz.: Promptness. Thee mind convicted, the act should follow. In the words of Macbeth: “Henceforth the very firstlings of my heart shall be the firstlings of my hand.” Think, act, promptly.

5. PLIABILITY. The ability to change an opinion, the power of revision. “He who observes, says Emerson, “and observes again, is always formidable.”

The qualifications named are necessary to the makeup of a speculator, but they must be in a well-balanced combination. A deficiency or an overplus of one quality will destroy the effectiveness of all. The possession of such faculties in a proper adjustment is, of course, uncommon. In speculation, as in life, few succeed; many fail.

Each department of life has its language, expressive if not elegant, and in dealing with this subject we must perforce adopt the language of the street. The laws given will be found to apply to speculation of any kind. There are universal laws; but for the sake of clearness we assume the case of speculation as conducted in one of our exchanges, where they can be best demonstrated. We divide them into two groups, laws absolute and laws conditional.

Laws absolute. Never overtrade. To take an interest larger than the capital justifies is to invite disaster. With such an interest a fluctuation in the market unnerves the operator, and the judgement becomes worthless.

1. Never “double up”; that is, never completely and at once reverse a position. Being “long,” for instance, do not “sell out” and go “short.” This may occasionally succeed, but is hazardous, for should thee market again begin to advance, the mind reverts to its original opinion and the speculator will “cover up” and “go long” again. Should this last chance be wrong, complete demoralization ensues. The change in the original position should have been made moderately, cautiously, thus keeping the judgement clear and preserving the balance of the mind.

2. "Run quick" or not at all; this is to say, act promptly at the first approach of danger, but, failing to do this until others see the danger, hold on or close out part of the interest.

3. Another rule is, when doubtful, reduce the amount of the interest, for either the mind is not satisfied with the position taken, or the interest for safety. One man told another that he could not sleep on account of his position in the market; his friend judiciously and laconically replied; "Sell down to a sleeping point."

Rules Conditional. These rules are subject to modification according to the circumstances, individualuality and temperament of the operator.

1. It is better to "average up" than to "average down." This opinion is contrary to the one commonly held and acted upon; it being the practice to buy and on a

decline to buy more. This reduces the average. Probably four times out five this method will result in a reaction in the market that will prevent loss, but the fifth time, meeting with a permanently declining market, the operator loses his head and closes out, making a heavy loss - a loss so great as to bring complete demoralization, often ruin.

But "buying up: is the reverse of the method just explained; that is to say, buying at first moderately, and as the market advances adding slowly and cautiously to the "line." This is a way of speculation that requires great care and watchfulness, for the market will often (probably four times out of five) react to point of "average." Here lies the danger. Failure to close out at the point of average destroys the safety of the whole operation. Occasionally (probably once out of five times) a permanently advancing market is met with and a profit secured. In such an operation the original risk is small, the danger at no time great, and when successful the profit is large. This method should only be employed when an important advance or decline is expected, and with a moderate capital can be undertaken with comparative safety.

2. To “buy down” requires a long purse and a strong nerve
   and money. The stronger the nerve, the more probability of staying too long. There is, however, a class of successful operators who “buy down” and hold on. They deal usually in relatively small amounts. Entering the market prudently with the determination of holding on for long periods, they are not disturbed by its fluctuations. They are men of good judgement, who buy in times of depression to

hold for a general revival of business – an investing rather than a speculative class.

3. In all ordinary circumstances our advice would be to buy
   at once an amount that is within the proper limits of capital, etc., "selling out" at a loss or profit according to judgement. The rule is to stop losses and let profits run. If small profits are taken then small losses must be taken. Not to have the courage to accept a loss, and to be too eager to take a profit, is fatal. It is the ruin of many.

4. Public opinion is not to be ignored. A strong speculative current is for the time overwhelming, and should be closely watched. The rule is to act cautiously with public opinion; against it, boldly. To go with the market, even when the basis is a good one, is dangerous. It may at any time turn and rend you. Every speculator knows the danger of too much company." It is equally necessary to exercise caution in going against the market. This caution should be continued to the point of wavering – of loss of confidence – when the market should be boldly encountered to the full extent of strength, nerve and capital. The market has a pulse, on which the hand of the operator should be placed as that of the physician on the wrist of the patient. The pulse-beat must be the guide when and how to act.

5. Quiet, weak markets are good markets to sell. They ordinarily develop into declining markets. But when a market has gone through the stages of quiet and weak to active and declining, then on to semi-panic or panic, it should be bought freely. When, vice versa, a quiet and firm market develops into activity,

and strength, then into excitement, it should be sold with great confidence.

6. In forming an opinion of the markets, the element of chance ought not to be omitted. There is a doctrine of chances – Napoleon in his campaigns allowed a margin for chance – for the accidents that come in to destroy or modify the best calculation. Calculation must measure the incalculable. In the "reproof of chance lies the true proof of men." It is better to act on general than special information (it is not misleading). viz.: The state of the country, the condition of the crops, manufacturers, etc. Statistics are valuable, but they must be kept subordinate to a comprehensive view of the whole situation. Those who confine themselves too closely to statistics are poor guides. "There is nothing," said Canning, "so fallacious as facts, except figures." "When in doubt do nothing." Don't enter the market on half convictions; wait till the convictions are fully matured.

7. We have written to little purpose unless we have left the impression that the fundamental principle that lies at the base of all speculation is this: Act so as to keep the mind clear, its judgement trustworthy. A reserve force should, therefore, be maintained and kept for supreme moments the full strength of the whole man should be put on the stroke delivered.

It may be thought that the carrying out of these rules is difficult. As we said in the outset, the gifted man only can apply them. To the artist alone are the rules of his art valuable.