The Little Book of Market Wizards by Jack Schwager
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- No single path or way in the markets. There are a million ways to make money in the markets.
- It is just a quirk of trading that you could be successful for the short-term without knowing anything, and that possibility fools people.
- The essence of the idea is that you have to learn to let the arrow shoot itself….In trading, just as in archery, whenever there is effort, force, straining, struggling, or trying, it's wrong….The perfect trade is one that requires no effort.
- When everything is going wrong: 1) Reduce your trading size 2) Stop trading
- How stops should be set according to O'Shea – you need to decide where you are wrong. That determines where the stop level should be. Then you work out how much you are willing to lose on the idea, Last, you divide the amount you're willing to lose by the per-contract loss to the stop point, and that determines your position size. The most common error I see is that people do it backwards. They start with position size. Then they know their pain threshold, and that determines where they place their stop.
- You should place a stop at a level that disproves your trade premise, as opposed to placing a stop based on your pain level.
- Options can be used as an alternative risk management tool that avoids this frustrating scenario at a predetermined fixed cost.
- If the market is moving against you, and you don't know why, take in half. You can always put in on again. If you do that twice, you have taken in three quarters of your position. Then what's left is no longer a big deal.
- When in doubt, get out and get a good night's sleep. I've done that lots of times and the next day everything was clear…While you are in (the position), you can't think. When you get out, then you can think clearly again.
- In trading, 80% of your profits come from 20% of your ideas.
- There is nothing magical about the 1% limit, you could use 0.5% or 2%, or whatever number is most appropriate for your strategy. The key point is that there is a strict loss limit on every trade.
- That need not to be wrong is exactly why people lose. So, the irony is that amateur traders lose money because they try to avoid losing. Professional traders, however, understand that they need to take losses in order to win. They understand that taking losses is an integral part of the trading process. To win at trading, you need to understand that losing is part of the game.
- There are four types of trades; winning trades and losing trades plus good trades and bad trades. A good trade can lose money and bad trade can make money. A good trade follows a process that will be profitable (at an acceptable risk) if repeated multiple times, although it can lose money on any individual trade.
- You can't win if you are not willing to lose. You have to be willing to make mistakes regularly; there is nothing wrong with it. Make your best judgment, being wrong, making your next best judgment, being wrong, making your third best judgment, and then doubling your money.
- One of those lessons is that you can't win if you're trading at a leverage size that makes you fearful of the market.

- If you’re ever very nervous about a position overnight, and especially over a weekend, and you’re able to get out at a much better price than you thought possible when the market trades, you’re usually better off staying with the position.
- The market instead barely moves against you at all or goes the other way, it implies that there are some very strong hands positioned in the same direction you are. The lesson is: if the market lets you off the hook easily, don’t get out.