

Jesse Livermore's Methods of Trading in Stocks: A Comprehensive Guide

Jesse Livermore was one of the most successful traders in history. He made his fortune by trading stocks and commodities, and he is known for his uncanny ability to predict market movements.



Jesse Livermore's Methods of Trading in Stocks

by Richard D. Wyckoff

★★★★☆ 4.3 out of 5

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Livermore developed a number of trading methods that are still used by traders today. These methods are based on his theories about market behavior, his trading strategies, and his risk management techniques.

Livermore's Theories on Market Behavior

Livermore believed that the stock market is a cyclical phenomenon. He said that the market moves in predictable patterns, and that it is possible to profit from these patterns by trading in the right direction.

Livermore identified four main phases of the market cycle:

1. **Accumulation:** This is the phase when the market is consolidating after a decline. Livermore said that it is important to buy stocks during this phase, because they are likely to rise in value in the next phase.
2. **Mark-up:** This is the phase when the market is rising. Livermore said that it is important to hold onto stocks during this phase, because they are likely to continue to rise in value.
3. **Distribution:** This is the phase when the market is peaking. Livermore said that it is important to sell stocks during this phase, because they are likely to decline in value in the next phase.
4. **Decline:** This is the phase when the market is falling. Livermore said that it is important to avoid buying stocks during this phase, because they are likely to continue to decline in value.

Livermore's Trading Strategies

Livermore used a number of different trading strategies, but his most famous strategy was the "Livermore Gap." This strategy involves buying a stock when it gaps up (i.e., it opens significantly higher than the previous day's close) and selling it when it gaps down (i.e., it opens significantly lower than the previous day's close).

Livermore also used a number of other trading strategies, such as:

- **Trend following:** This strategy involves buying stocks that are in an uptrend and selling stocks that are in a downtrend.

- **Support and resistance:** This strategy involves buying stocks that are approaching a support level and selling stocks that are approaching a resistance level.
- **Moving averages:** This strategy involves using moving averages to identify trends and trading opportunities.

Livermore's Risk Management Techniques

Livermore was a firm believer in risk management. He said that the most important rule of trading is to never risk more money than you can afford to lose.

Livermore used a number of different risk management techniques, such as:

- **Stop-loss orders:** This technique involves placing a stop-loss order below (for long positions) or above (for short positions) the current market price. If the market price reaches the stop-loss price, the order will be executed and you will be out of the trade.
- **Position sizing:** This technique involves determining the amount of money you will risk on each trade. Livermore said that you should never risk more than 1% of your trading capital on any one trade.
- **Money management:** This technique involves managing your trading capital in a way that minimizes your risk. Livermore said that you should never let your trading losses exceed 25% of your trading capital.

Jesse Livermore was one of the most successful traders in history. He developed a number of trading methods that are still used by traders today.

These methods are based on his theories about market behavior, his trading strategies, and his risk management techniques.

If you are interested in learning more about Jesse Livermore's trading methods, I recommend reading his book, "How to Trade in Stocks." This book is packed full of valuable information and insights that can help you become a more successful trader.



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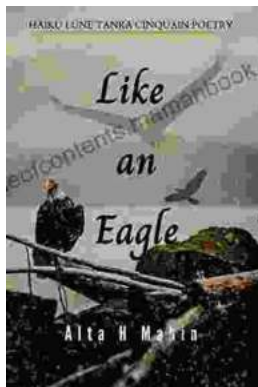
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