The Art and Science of Speculation

As a follow up to the article below I have created a new website https://artofrealwealth.com/ and Medium publication The Art and Science of Real Wealth.

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According to me, the difference between an investor and a speculator is that a speculator is only interested in return on financial capital.

So in some way all of us are just speculators if all we are looking for is return on financial capital.

An investor is someone who invests in a business hands on, not just buying shares in the stock market.

An investor will research the business, be an active participant and will be interested in the business as a whole.

Not just its profits and revenues, but also its employees, its clients and its contribution to society.

He will not just put money, but also his blood, sweat, tears and guts into the business.

In these times, all we have is Casino Capitalism run and owned by Wall Street/Dalal Street Pimps.

The only ones who make money in today's Casino Capitalist Stock markets are Wall Street/Dalal Street Pimps, and of course smart traders like me who have figured out the market finally, after being raped even upto bankruptcy by the Wall Street/Dalal Street Pimps.

The biggest con act in the finance industry today are mutual funds and ULIPs and also so called “strategies” of “Buy and Hold”, vigorously promoted by many billionaire investment managers and hedge fund owners.

They want us to “Buy and Hold” so that they can cash their profits.

What the Wall Street/Dalal Street Pimps actually want us to do is not “Buy and Hold” but “Buy and Hold the bag.“

So for now it is better to be a Short term Speculator or a ICU Lottery Ticket Speculator and only risk money you can afford to lose.

With the rest of the money, invest in a property that will get you a residential rental income.

Or invest in a professional company that will invest in residential rental properties.

Or if you are really willing to work hard and be hands on to make your investment grow, then invest in a farm and practice progressive and natural farming.

By 2025 a farmer with 5 acres, who is educated in the art of progressive and natural farming and cooperative marketing, will be making more money than a software engineer working for an IT/BT Coolie.

Do not invest in any farmland or property now unless you have been lucky enough to already own it.

Wait till 2023.

By then prices will be 1/10th of today’s prices which has lead to a bubble in every asset due to the pumping of “free” money by all the FUKUS central banks and Japan.

Until 2023 just invest in Sovereign gold bonds.

And also short term liquid funds.

The interest rate may be only 2%, but at least getting 2% is better than losing 50% of your money investing in overpriced “assets”.

I have also given a formula at the end of this article for investing in stable low risk evergreen dividend paying stocks.

Thoroughly study past economic bubbles and crashes for upto 300 years.

Take the Kondratiev Wave seriously.

This calls for even more patience, but if you can follow the Kondratiev Wave, even one trading period of a few months in your life time will change your family for generations.

Knowing when to jump onto the next technological breakthrough and jumping out when you see the end of the cycle can change your family for generations.

Nikolai Kondratiev was one of the most underrated economists, but in my opinion, his theories are most suited in the long term and for this world in general. He had a lot of significant and useful theories on agriculture, which is the basis and only long term sustainable policy for any economy.

Unfortunately he was born during Stalin’s rule, and Stalin being the asshole that he was, had Nikolai Kondratiev sent to a labour camp and then had him shot for exposing the unpleasant truths of Stalin’s policies.

These Kondratiev cycles last as long as 50-60 years.

The tech enabled finance and casino capitalism revolution started in 1971.

I expect it to collapse by March 2020.

All tech and tech enabled finance does is intangible.

All you need is a computer and some smart software to produce profits.

It actually produces nothing, it just drives people and finally countries in to debt, and produces profits only for a few select Wall Street/Dalal Street Pimps.

So after mid 2020, the next cycle of the Kondratiev Wave will begin and it will be back to technologies and businesses promoting sustainable growth using tangible and measurable products especially in agriculture, energy (Nuclear Fusion and other energy sources from our Shastras and innumerable ancient texts), organic and natural food products and FMCG, traditional healthcare (Ayurveda), artisanal guild cooperative production, community owned banks, water pollution control, water conservation and recharge, biodegradable replacements for plastic and other toxic products, and natural replacements for animal products.

I am setting up an investment fund to chase the above opportunities and have quite a few good leads and potential opportunities.

If you are interested in the above opportunities and are serious and patient and high risk tolerant, then use my feedback form at my company □□□□□ □□□□□□□ (Shambhala Samathvam) to contact me.

The Art and Science of Speculation

I was fascinated by the stock market ever since Harshad Mehta became famous.

People have mixed views about Harshad Mehta, but if it wasnt for him, many people including me would have not been fascinated by the stock market.

It was not the thousands of crores, his Lexus cars or his penthouse with a mini golf course that really made him important.

That was only to fill and sell the magazines and TV shows.

More importantly it was the mass hysteria that he created which made him extremely powerful.

Just rumors of his investment took a junk stock like Karnataka Ball Bearings to more than 100 times it original value in a few months.

If rumours of his selling a stock came, that stock collapsed.

Banks were lining up and running behind him to give him money to invest.

It was not the money that he made or the fancy stuff that he had, but the power that he had over the Indian stock market is what fascinated me.

The power that Harshad Mehta had and the madness he inspired is what led to my introduction to speculating in the financial markets.

I am largely a self taught speculator.

After more than 25 years of speculation, and big wins and even bigger losses I thought I should at least briefly write down my lessons from my experience so that people can learn from both my mistakes and successes.

One can never truly be a master at speculation.

It is a continuous learning processes and every trade is a new lesson to be learnt.

Speculation is a combination of both art and science.

It is very rare to find a person who has a combination of both artistic and scientific talents.

But such people who can combine both artistic and scientific abilities make the best speculators.

In fact not just in speculation, but in any field, the people who combine art and science into their work, will come out as the highest winners in their field.

<u>To be a success in speculation you must conquer four fundamental things:</u>

- Ignorance
- Fear
- Hope
- Greed

To eliminate ignorance, follow overall market patterns for at least 18 months to two years, focus on the charts and institutional buying and selling, and insider buying and selling, pledging of shares you will gain some measure of knowledge.

Ignore and black out all the news, especially TV news and internet message boards.

Remember the stock market is only 15-20% of the financial markets, there are much larger and profitable and less manipulated markets like commodities, bonds and currencies which also offer immense opportunities.

These markets are still manipulated, but unlike investing in the stock market which is completely opaque, the commodities, bonds and currency markets are relatively more transparent.

In Bharat only the equities markets are developed and extremely liquid, so trading in the commodities and currency markets in Bharat has huge spreads and low liquidity.

Trading in the bond markets is only available to professionals.

All the markets in the world are tied to the USA.

If the USA markets fall, the whole world falls, it the USA markets rise the whole world rises.

So for the best trends in the USA for equities, financials and commodities follow the CBOE Commitments of Traders (CBOE COT).

This is the best indicator for the trend of the market.

Here is an explanation of the CBOE COT.

However the CBOE COT is only numbers and very difficult to understand.

As they say a picture speaks a thousand words – so to look at the CBOE COT in pictures, use the CME Quik Strike.

This gives you the map of the USA markets.

With this map if you learn to navigate it properly you will have at least a 20% idea of the trend.

The rest is left to chance since the markets are completely irrational.

It is run on the madness of crowds and as we know madness can never be understood.

Genius is found even in madness but is limited to probably one in a million.

For the rest of the crowd all that is found is madness.

That all the secrets I reveal about my practices.

You figure out who to follow from CME Quik Strike.

Hint:

The Managed Money are the wolves.

The Dealers are the shepherds and the Producers are the sheep – they can fight the wolves and direct the sheep.

Shepherds can even direct the sheep off the cliff and the sheep will blindly jump.

But sometimes the sheep just jump over the fence and run away and escape and leave the shepherd and wolves chasing after them.

Another good site is the Barchart.com Commitments of Traders.

These charts are much easier and simpler to read than the CME Quik Strike and give the added advantage of the current price of the commodity also.

The most exciting market in the world is the Shanghai Composite (SSEC).

The Shanghai Composite (SSEC) is a good gamblers most orgasmic wet dream and a clueless gamblers worst nightmare.

The Shanghai Composite (SSEC) can fall 4% in a day and rise 2% the next day.

Can you imagine the scale and magnitude of profits or losses that can be made by trading on the Shanghai Composite (SSEC)?

However do not speculate in the commodities, bonds and currency markets with more than 0.5% of your net liquid income (net cash only, not land, gold etc), after all expenses, including your planned foreign world tour with your wife, mistress or toyboy whichever may be the case.

I have made huge amounts of money before I reached 30, that ordinary people would not make in a life time.

But finally I have only been an eventual failure in speculation over the last 25 years.

That is because I could not conquer hope and greed.

People may conquer fear, but hope and greed is the is downfall of most speculators.

Forget about candlesticks, momentum, MACD, CCI and fundamental analysis.

No matter how many books you read, or however many years of experience you have, if you cannot conquer fear, hope and greed, you will never be a success in speculation.

First develop a disciplined mind to conquer fear, but more importantly to conquer hope and greed.

The only way to conquer fear, hope and greed is by the sincere and sustained practice of □□□□□ (Dhyan) to achieve □□□□□□□ (Samathvam).

Of course I must not forget to mention that before you start to practice □□□□□ (Dhyan) in speculation, it always helps to get kicked in the face many times so that you feel and understand what fear, hope and greed is.

Only when you feel and understand fear, hope and greed, then you have some chance of learning to conquer it.

You cannot do this by paper trading, you have to put your real money at risk.

Of course since you are putting real money at risk, only put money that you can afford to lose.

Of course you can be a bigger ass like me and make and then piss away huge amounts of money so that you learn what real fear, hope and greed is.

But what I did was totally unnecessary, and would not advise anybody to make my mistakes.

In the recent past from 2019 onwards, I have learnt to conquer hope, but more importantly I am learning to conquer greed.

So my results are starting to improve since 2019.

I have returned more than 30% on my investments from 2019 to

date when markets the world over have negative returns.

I am ordinarily not a greedy person at all.

Almost all the money I have I spend on others.

Ask my friends what I would do if I had only Rs 10 in my pocket and saw someone in need.

But when I speculate I used to get very greedy.

I wanted double the profits than what I already had. I would double my bets instead of taking my cards off the table.

This has been my downfall till the recent past until 2018.

I figure if even a world class speculator like Jesse Livermore did break his rules and make mistakes, I also have made the same mistakes, but hopefully am learning not to repeat them in the future.

Jesse Livermore broke his rules too often, that he finally went bankrupt and shot his brains out.

That happens when you dont learn from getting kicked in the face many times.

My favourite all time book on speculation is Reminiscences of a Stock Operator.

It is about Jesse Livermore, the greatest speculator in modern history.

By the age of 15, he earned $1000 ($28000, Rs 18,00,000 in 2017 value).

He made $100,000,000 ($1.4 billion, Rs 9100 crores in 2017 value) in the crash of 1929.

Just follow the below rules by Jesse Livermore and you will be a success at speculation:

1. Cut your losses.
2. Let your winners run.
3. Nothing new ever occurs in the business of speculating or investing in securities and commodities.
4. Money cannot consistently be made trading every day or every week during the year.
5. Don’t trust your own opinion and back your judgment until the action of the market itself confirms your opinion.
6. Markets are never wrong – opinions often are.
7. The real money made in speculating has been in commitments showing in profit right from the start.
8. As long as a stock is acting right, and the market is right, do not be in a hurry to take profits.
9. One should never permit speculative ventures to run into investments.
10. The money lost by speculation alone is small compared with the gigantic sums lost by so-called investors who have let their investments ride.
11. Never buy a stock because it has had a big decline from its previous high.
12. Never sell a stock because it seems high-priced.
13. I become a buyer as soon as a stock makes a new high on its movement after having had a normal reaction.
14. Never average losses.
15. The human side of every person is the greatest enemy of the average investor or speculator.
16. Wishful thinking must be banished.
17. Big movements take time to develop.
18. It is not good to be too curious about all the reasons behind price movements.
19. It is much easier to watch a few than many.
20. If you cannot make money out of the leading active issues, you are not going to make money out of the stock market as a whole.
21. The leaders of today may not be the leaders of two years from now.
22. Do not become completely bearish or bullish on the whole

market because one stock in some particular group has plainly reversed its course from the general trend.

23. Few people ever make money on tips. Beware of inside information. If there was easy money lying around, no one would be forcing it into your pocket.

There was one very important lesson that Jesse Livermore forgot to mention.

Never put all your eggs in one basket.

Never go for “All or Nothing”, because most times you will end up with nothing.

Never risk more than 10% of your trading capital in a single long term equity trade.

If you are trading short term and volatile products, never put more than 2% of your trading capital in a single trade.

Short Term Trading

(hourly to daily to weekly to monthly to even currencies but can be applied to other short term also commodities, futures etc)

For short term trading the only person I would recommend to learn from is Chris Lee from Pip Mavens.

He has taken 11 years and lost more than $ 350,000 before he became a profitable trader so if you learn from him you will save 11 years and probably not have to lose more than $10000 after you master his instructions.

Chris Lee writes like Zen Master, and his trading is also like a Zen Master, at least from the equity curve what he shows on his website which I assume to be the truth.

Long Term Trading

(> 1 to 5 years)

The Art of ICU Lottery Ticket Speculation

Due to dumb luck, or maybe some talent, I am not sure which, I have been a reasonable success at **ICU Lottery Ticket Speculation.**

ICU Lottery Ticket Speculation means investing in almost dead stocks or stocks which have fallen significantly from their highs.

They were once flourishing companies, but due to some turn of fortune and change in business conditions they ended up in the **ICU.**

Just like for a human, there are only two outcomes for a stock in the **ICU:**

Death or Recovery.

This is a really risky and extremely complicated method of speculation.

The odds of success even among the most sophisticated of **ICU Lottery Ticket** speculators is less than 15%.

But if even one of that 15% clicks, you can make more than 10+ times your money when the stock recovers.

My success rate in **ICU Lottery Ticket Speculation** has been more than 40% in the USA, but because of my mistakes in not following Jesse Livermore's rules and my addendum rule I have mentioned above all my gains have disappeared.

So I have only one Lottery Ticket now.

In the biggest Wall Street Pimp whose collapses caused world wide turmoil in 2008 – Lehman Brothers.

Hopefully it should pay off by late 2021 and even if it goes bust, I have learned my lessons from my previous mistakes and have only invested money I can afford to lose.

My Principles of ICU Lottery Ticket Speculation

- The first principle of ICU Lottery Ticket Speculation is extreme patience.

It sometimes takes as much as two years to see at least 2X returns and in the meanwhile the stock could at the worst decline by 60% or even 80% and at the best could remain flat and go nowhere.

In those two years you probably would have made more money in a USA savings account (it is only 0.5% interest in the USA compared to 4% in any Indian savings account).

Some of you may think that if a stock declines by 60% it is going to fail.

There are conditions to this decline.

If it is a sudden fall on huge volume then better to get out. But if it is a gradual fall on very low volume, then this is the best time to accumulate in 45 – 70 day intervals.

Start to accumulate only when the trend has flattened out or begins to turn upwards. Never accumulate in a downward trend or falling knife.

To spot a trend change follow the money flow in the Webull app for at least two months.

Webull is doing a valuable service to humanity by providing such valuable information for free in its extremely useful app.

Volumes in such stocks are extremely low and illiquid so that is why I say only risk money you can afford to lose.

Some of you may think that you can keep your money in a savings account and then invest just before the stock is going to go up.

This is a very difficult thing to do and can only be done if you have insider knowledge and it is illegal to trade based on insider knowledge.

Martha Stewart who was almost a billionaire, sold a stock when informed by an insider, to avoid a loss of less than $50,000.

This cost her 6 months in jail and a 2 year house arrest.

Same was the case with Rajat Gupta.

He never even made a penny from the insider information he leaked, but it cost him two years in the big house.

This sort of punishment is very rare in Bharat.

Here, even a world class fraud POS like the King of Good Times still remains a member of Parliament, walks free and probably will still be left with his overseas holdings which are enough for his generations.

- The second principle of ICU Lottery Ticket Speculation is that you must be prepared to lose money but cut your losses by strictly setting a limit on how much you can lose and sell at all costs when you lose more than the limit you set.

Never hope it will go back up, just sell if your limits are broken.

If it starts to go back up, then buy it again after it starts going back up.

Also set sliding limits as you make profits. As your investment moves up, raise the sell limit so that what little profit you make is banked if the investment falls below your limit. Keep raising your sell price limit as the investment goes up.

Do not at any cost maintain your sell limit at your original buying price. Bank whatever profit you get if your sliding sell limit is broken.

- The third principle of ICU Lottery Ticket Speculation is that you must let your profits run.

If you follow the above principal of sliding limits you should have a good chance of letting your profits run.

- The fourth principle of ICU Lottery Ticket Speculation is that you should not put more than 10% or a maximum of 15% of your capital in any single stock and in that you should cut your losses if the stock declines by more than 15%.

- The fifth principle and this is most important is to figure out which stock is down due to bad business strategy and which stock is down due to the dubious morals of the management (Kingfisher, Glodyne Technologies, Zylog Systems, Surya Pharma, Geodesic, Hindustan Motors, Rasoya Proteins, C Mahendra, Nakoda, Nissan Copper, Birla Cotsyn and other Yash Birla companies).

I lost a good bit of money on all of the above because I was not familiar with the morals of the management of the companies listed in the Indian stock market.

But in the USA, my strike rate was more than 50%, some of the huge wins I made was Healthsouth and Calpine (before it went bankrupt).

In the USA most stocks go bankrupt because of high debt and aggressive expansion and also because of shady and dubious morals of the professional management who have no stake in the company and leave all the risk to the shareholders in pursuit of their bonuses and stock options.

In Bharat most stocks mainly go bankrupt because of the shady and dubious morals of the management and promoters of these companies.

They are most willing to milk the company dry to enhance their personal fortunes.

- The sixth principle, is that the most exciting time to invest in a ICU lottery ticket stock is when it is doing nothing for at least 8-12 months and has crossed it all time low over at least 8-12 months. So you have to watch these stocks for a long time.
- The seventh principle is never catch a falling knife. It is only very rarely that stocks that have fallen sharply bounce back in a fast time. Most of the stocks that fall sharply either go bankrupt or reach their all time lows in about 18-24 months after beginning of the collapse of the stock.
- The eight principle is keep your powder dry. Do not invest just for the sake of investing or because you have money to invest. Wait for the right opportunity. Always keep your money liquid in a liquid daily dividend fund which you can deploy in two or three days. Do not keep it in a bank deposit. Liquid daily dividend funds give more returns and since they are dividends they are tax free.
- The ninth principle is do not jump blindly into the pool. First dip your toes into it and use the steps to descend into the pool. Never invest all at once in a stock. Always do so in installments, may be a week, month or even six months depending on the volatility of a stock. The more volatile the stock is, then take even more time of at least 2-3 months between each investment. Do not make short term investments in volatile stocks unless you are prepared to watch them and trade them frequently in a daily basis.

- Little drops of water make the ocean. Forget about huge 1000% gains in a one time big investment. Instead invest in little drops to make a good ocean which rises and fills slowly with every drop.

But remember oceans once formed, lift all boats and even destroy not only boats, but entire cities if there is too much tide.

So learn to ride the oceans, and always float above the tides. The moment the tide gets too rough, get off the boat (liquidate your investment) and head to safe dry land (keep the money in liquid daily dividend funds till the next opportunity comes up.)

- Thoroughly study past economic bubbles and crashes for upto 300 years. Take the Kondratiev Wave seriously. This calls for even more patience, but if you can follow the Kondratiev Wave, even one trading period of a few months in your life time will change your family for generations.

Knowing when to jump onto the next technological breakthrough and jumping out when you see the end of the cycle can change your family for generations.

- **And finally the last and most important principle of ICU lottery ticket speculation:**

Find a regular job, work hard and smart and with devotion and learn from your job experience and then start a business in what you are good at and invest most of your money in what you are good at.

Even in what you are good at do not invest more than 15-20% of your net worth.

- Just use money you can afford to lose in ICU lottery ticket speculation.

Thats what you do if you are a sensible lottery player, you only gamble what you can afford to lose.

Dont mortgage your grandfather's house and wife's jewellery to do ICU lottery ticket speculation, because there is a very good chance you will no longer have the winning ICU lottery tickets, grandfather's house and even your wife.

The Art of Low Risk, Stable and Dividend Investing in Evergreen Stocks

This is one of the best articles I have come across on HNI Investing and the mistakes we are making following conventional myths.

Most damaging myths in Indian investing: Perils of an Indian HNI

More importantly he has given the formula to identify good investments.

Extract from the above article:

How to compound with relatively low risk

No one that we have met can time the stock market. Neither can we, and we make no attempt to do so. We know of only one way to generate significant real returns in a consistent manner – buy clean, well-managed Indian companies selling essential products behind very high barriers to entry. We call it the Consistent Compounding approach, and have seen it work, both in theory and in practice.

To build the portfolio without using any human judgement each year on June 30 we invest in stocks which in each of the preceding 10 years have grown revenues in double digits and delivered pre-tax-ROCE of at least 15% per annum (throughout the 10-year period). Then hold these stocks for the next 10 years. If you had invested Rs 100 using this method on June 30, 2000 then in mid-May 2020 your wealth would have compounded to Rs 1,463, a compounded return of 14.4 per cent per annum.

In contrast, the same exercise with the Sensex would have yielded Rs 673 implying a return of 10.1 per cent per annum (both expressed on a total return basis.) In short, in the space of 20 years, using the most rudimentary of financial filters, this method of investing would give almost 15 times compounding as opposed to a mere 7 times compounding from Sensex.

My formula for investing is far simpler :

Invest in dividend paying stocks that have paid at least 8% dividend(on current market price) over the last 5 years and are quoting at a discount to current audited book value and are generating positive free cash flow.

I have arrived at my formula after trying various alternatives over the last 20 years and losing money and now finally making money using this formula.