# Jesse Livermore Money Management Rules

## Jesse Livermore’s Rules for Money Management

For all of those who may not know Jesse Livermore, he was one of the greatest traders of the 20th century. He started out in bucket shops and was later able to amass a fortune equivalent to billions of dollars today. Livermore’s rules for trading were sound and have sparked interest in the trading community for the last 75+ years. In this article, we are going to discuss the money management rules Jesse Livermore used when trading. These money management principles are just as valid today as they were when the market crashed in 1929.

## Rule 1: Don’t Lose Money

This is a simple of enough concept right? Well if it was this easy, we all would be millionaires. However, Jesse Livermore is laying out the basic tenet that a “speculator” should do everything in their power to stay in the trading game. So, one should not place all of their funds in one position. Also, it is not in the best interest of a trader to establish their entire position at once. Jesse Livermore believes that traders should enter trades in lots, where you would purchase your first 25% of shares at a pivot point and then continue to add to this position until you are able to take a full stake. The goal here is to add to a position as it goes in your favor, which again will prevent the loss of funds, because if you are wrong you can easily exit the position. This may work well for larger investors, or investors with longer timeframes, but I do not think this will work well for day traders, as this will dramatically increase your trading costs.

## Rule 2: Always establish a stop

Jesse Livermore stated that a stop is one of the most important parts of trading. Livermore felt that a stop should be established prior to entering a trade. This stop should take in account for the size of your account and the volatility of the stock you are trading. Livermore's personal rule was that he would not risk more than 10% on any one trade. Livermore also stressed the fact that your stop, if hit should not generate a margin call. He felt that the last thing a trader should do is fund their account for a margin call. This is a recipe for producing massive losses, which is a direct contradiction of Rule#1. Livermore called traders who did not establish stops, "Involuntary Investors". Livermore described involuntary traders as people who buy and hold a stocks in hopes that they will rally. These traders will not sell their stocks for any reason until their targets are met."

## Rule 3: Keep cash in reserve

Livermore felt that cash is king. A trader without cash is equivalent to Blockbuster with no movies. Livermore stressed that traders must fight the urge to constantly be in a position. This desire to constantly trade will tie up capital, that should be used for more promising opportunities. So, Jesse Livermore felt that a traders should always keep a portion of their account in cash, so that you are armed to take what the market offers you. Patience is the key to success, not speed.

## Rule 4: Let the position ride

This for me is the hardest part of trading. I will at times put on two or more losing trades, which then affects my perception of risk and the market. Then on my fourth trade or so, I will put on a position and close it out right before it gives me a huge gain, because I have been conditioned to now believe that the market is only offering small moves. This part of trading, is proving to be my own personal struggle. Livermore believed that a trader that is able to keep their losses small and let their winners run would ultimately be successful at the game. He felt that if you were right in your position and nothing about the trade told you otherwise, that you should hold that trade as long as possible. Traders should be overly concerned and monitoring losing positions, but with winners, you should just let them run. Now this rule does not have any place for apathy. You should not go out and simply buy and hold a position forever. Remember, even with winners, you still must have a stop in place, do not forget money management Rule #2.

## Rule 5: Take the profits in cash

Jesse Livermore felt that after a huge winning trade, you should take 50% of that and place it in cash. This money should be put aside in the bank, hold it in reserve, or lock it up in a safe-deposit box. I do not necessarily agree with this money management rule, because if you treat your investment wins as if they are going to eventually leave you, this must have some affect on your subconscious, which in turn will hurt your profits. I think if you put aside maybe 20% and then treat yourself to a nice dinner or a small shopping spree is better because it provides you positive reinforcements of your trading activities.

It is a shame that Jesse Livermore was unable to follow his own money management rules, because if he had, maybe his life would not have ended so tragically.