The Game in Wall Street

and how to play it successfully

“Hoyle” and Clem Chambers

SAMPLE

PREFACE BY CLEM CHAMBERS

This book was written over a hundred years ago.

At a time when the car had just been invented, mass production wasn’t discovered, if you needed your appendix removed you would likely die from the operation and there were a mere 1.5 billion people on earth. Money was gold and silver.

Yet for the investor this book is still as true today as it was then.

Mark Twain, a contemporary of this book said, “history doesn’t repeat itself, but it does rhyme.” He may well have been wrong because many of the lessons in this book are still crucial.

The opening passage is extremely important. When you enter the game of trading or investing you are playing a game against full time skilled professionals. How would you fair in a winner-takes-all game of tennis with Federer? Would you even dare come onto the court?

Of course, many people do not trade or invest because that’s exactly what they fear. As you are reading this book you aren’t one of them. By reading this book you put yourself in a small minority of participants that actually want to learn the game. As such you have a chance to win as the market then and now remains a place where the-one eyed man is king amongst the blind gamblers.

The stock market is overrun with degenerate gamblers and this is the advantage of the investor or highly skilled trader. It’s easier to make money because of it, so that if you play the game correctly you are not prey to the big skilled predators that stalk the field.

How do the predators operate? There are a host of swindles in the market and most of them remain. Some, like insider trading, have become illegal, but like most crimes they are reimagined and rebooted. In 1890 insider trading was legal, but once made illegal it morphed. No alongside illegal insider trading there are “expert networks” and other such constructs that skirt the law.

The Game on Wall Street concerns itself with “pool” stocks. You can consider them market manipulated shares. They are identified as stocks that turn over huge volumes for no apparent reason, or rather for no benefit to the companies’ business. A $36m market cap company turns over $2 billion in equity in a year.

What is the story?

The narrative is, if you want to gamble, the stock market is a very convenient place to do it. It sounds like business rather than gaming for a start. A stock investor can hold his head up in society, whereas a card player must keep his addiction private. The US has long been a country where gambling is difficult, so the stock market is and always will be the biggest casino around.

This is why these stocks trade so furiously. They are the horses running in a race, and the race being for gamblers, is run by the house.

The obvious thing to do is not play that game.

The game is still on as I write. It has changed little. In the dotcom boom it was imaginary tech business. After the dotcom crash it was imaginary mining companies. In 2013 it's back to the internet again. None of it is illegal today. In 100 years it probably won't be legal but the market will have shifted to another stock equivalent of betting on a raindrop falling down a window pane. However, the stock market is "not a game of chance." The house needs to win but there is no built in house edge. The house edge is manufactured by manipulation.

Manipulation and conspiracy is the watchword of the crazy brigade in any field of endeavor. People are sore losers. People seldom believe they lose because of their own decisions, they feel robbed even when there is no one to blame. As such, believing in manipulation and conspiracy is not necessarily healthy. But it does exist.

In 1893 it was only a handful of companies that were manipulated and so it is today. They stand out like a beacon. Their existence is to draw trade moths to their flame. As such it's easy to steer clear. If you see investors drawn to a stock like the Eloi drawn to the siren in HG Wells' book *The Time Machine*, you know not to follow them. There are plenty of real opportunities to follow, without marching into the den of the Morlocks.

However, this book isn't about avoiding manipulation, it's about understanding it and how it has to follow a set pattern. Once you understand the pattern you can jump on it and ride with the manipulators on its magic carpet.

You can do this.

Funnily enough it's a form of illegal activity that is totally legal. The illegal version is called front running, where a broker buys before your big order so that the price rise caused by you creates for him a small profit.

In this case knowing what manipulators have to do to make their crooked profits, you front-run their plan and profit. This is totally legal as you do not know them or their plan, you just understand the shape of what happens next.

You can do this. In its basic form it is trend following.

Be warned that dicing with a manipulation is a highly skilled game. For a start some manipulations simply do not work. But the idea is sound. Not all manipulations are illegal or rather not all manipulations can be proven as such.

Take a stock on the edge of a major index. A fund can buy that stock consistently driving its price high enough to enter that index. They can then unload to the tracker funds that must own it. Likewise a shorter might push down the price of a weak stock so it falls out of an index. Then buy it back as trackers who must now sell unload. This is why stocks that fall from an index often rally. They rally because the shorts have done their manipulation and must cover. This is not 1893, this is 2013.

By definition the plan laid out in this book to coattail these manipulations looks very much like contrarian investing. That is because the small group of manipulators is the ultimate winner and the large group of traders is the loser. As such you need to run against the herd mentality and run with the manipulators' plan.

Remember, if you win doing this you hurt the manipulator as they make less money.

Yet let's stop here and think again.

This cycle of manipulation is about accumulation and distribution. A large holding is built up, the price is made to rise, the holding is sold at a high price.

This is the cycle today. A fund builds up a big holding, it pays IR and PR people to get press for the stock, their chief spokesman will go on TV and say how smart he and his positions are, the stock rises, they sell out. There is nothing illegal there. However this cycle can be very illegal.

Someone gets a block of cheap stock of a near defunct company, spreads lies and false rumors about the stock, flaunts stock market rules on disclosure, artificially inflates the share price using illegal market manipulation techniques like wash trades, sells out at a profit.

It's the same idea, the same form, the same structure. One is legal, one is illegal. Yet it is the same game and the same outcome. The uninitiated trader ends up buying expensive stock at the top of the market.