

Who is Marty Schwartz?



Marty Schwartz is best known for his repeated entries in the U.S. Trading Championships, a four-month trading championship where contestants begin with \$400,000 in trading capital. In nine of the ten championships, his average return was 210 percent non-annualized, making more money than all the other contestants combined.

He is also the author of Pit Bull: Lessons from Wall Street's Champion Day Trader, a semi-autobiographical account of his career as an independent trader.

Marty Schwartz's responses in Market Wizards are unique because he is an individual trader and his advice is geared towards individual traders. Most of the other traders interviewed in Market Wizards are professional money managers, and while they are extremely successful traders, their experience and responses are best suited for people with backgrounds similar to theirs. Schwartz's story should also encourage traders whose initial attempts at trading have not been successful since Schwartz himself was consistently unsuccessful over a 10-year period. It wasn't until he found a trading style that matched his personality and changed his mindset that he became successful.

### **Reflecting on his history of consistent losses in the stock market:**

In 1976, I met my wife-to-be and she had a profound effect on me. She made me realize that my life was not a dress rehearsal; it was the real thing and I had been screwing it up. Although I had steadily earned good salaries, I was still almost broke because I consistently lost money in the market. By mid-1978, I had been a security analyst for eight years and it had become intolerable. I knew I had to go something different. I always knew I wanted to work for myself, have no clients, and answer to no one. That, to me, was the ultimate goal. I had been brooding for years, "Why wasn't I doing well when I was groomed to be successful?" I decided it was now time to be successful.

---

### **Turtle Wealth Management**

Business Off: T-5, 3rd Floor, National Plaza, Alkapuri, Vadodara-07, Gujarat.

Research & Service Off: G-14/15, Ground Floor, ITC Bldg., Majura Gate, Ring Road, Surat-02, Gujarat.

[www.turtlewealth.in](http://www.turtlewealth.in)

**On analyzing market sentiment:**

I talked to my friend Bob Zoellner several times a day, and he taught me how to analyze market action. For example, when the market gets good news and goes down, it means the market is very weak; when it gets bad news and goes up, it means the market is healthy.

**When did you turn from a loser to a winner?**

**When I was able to spate my ego needs from making money.** When I was able to accept being wrong. Before, admitting I was wrong was more upsetting than losing the money. I used to try to will things to happen. I figured it out, therefore it can't be wrong. When I became a winner, I said, "I figured it out, but if I'm wrong, I'm getting the hell out, because I want to save my money and go on to the next trade." *By living the philosophy that my winner are always in front of me, it is not so painful to take a loss. If I make a mistake, so what!*

**Did you make a complete transition from fundamental to technical analysis?**

*Absolutely. I always laugh at people who say, "I've never met a rich technician." I love that! It is such an arrogant, nonsensical response. I used fundamentals for nine years and got rich as a technician.*

**What was your experience during the week of the October 19 stock crash?**

I came in long. I have thought about it, and I would do the same thing again. Why? Because on October 16, the market fell 108 points, which, at the time, was the biggest one-day point decline in the history of the stock exchange. It looked climatic to me, and I thought that was a buying opportunity. The only problem was that it was a Friday. Usually a down Friday is followed by a down Monday.

**What happened that Monday? When did you get out?**

The high in the S&P on Monday was 269. I liquidated my long position at 267.5. I was real proud of that because it is very hard to pull the trigger on a loser. I just dumped everything. I think I was long 40 contracts coming into that day, and I lost \$315,000.

**One of the most suicidal things you can do in trading is to keep adding to a losing position.** Had I done that, I could have lost \$5 million that day. It was painful, and I was bleeding, but I honored my risk points and bit the bullet.

That's another example where my Marine training came into play. They teach you never to freeze when you are under attack. One of the tactics in the Marine Corps officer's manual is either go forward or backward. Don't just sit there if you are getting the hell beat out of you. Even retreating is offensive, because you are still doing something. It is the same thing in the market.

---

**Turtle Wealth Management**

Business Off: T-5, 3rd Floor, National Plaza, Alkapuri, Vadodara-07, Gujarat.

Research & Service Off: G-14/15, Ground Floor, ITC Bldg., Majura Gate, Ring Road, Surat-02, Gujarat.

[www.turtlewealth.in](http://www.turtlewealth.in)

The most important thing is to keep enough powder to make your comeback. I did real well after October 19. In fact, 1987 was my most profitable year.

### **You liquidated your long position very well on October 19. Did you think about actually going short?**

I thought about it, but I said to myself, “Now is not the time to worry about making money; it is the time to worry about keeping what you have made.” Whenever there is a really tough period, I try to play defense, defense, defense. I believe in protecting what you have.

The day of the crash, I got out of most of my positions and protected my family. Then at 1:30 P.M., with the Dow down 275 points, I went to my safe deposit box and took my gold out. Half an hour later, I went to another bank and started writing checks to get my cash out. I started buying Treasury bills and preparing for the worst. I had never seen anything like what was going on.

### **What stands out as your most dramatic trading experience?**

*The most gut-wrenching time was in November 1982. I had a much smaller net worth then, and I took a \$600,000 loss in one day.*

What happened?

It was Election Day, and the Republicans did much better than expected in the congressional races. The market ran up 43 points, which at that time was one of the largest point advances in history. I was short, and like an imbecile, I sold more with the S&P locked at the 500-point limit against me and less than an hour left in the trading session.

My wife, who was working with me at the time, was out that day. The next day she came into work, and every ten minutes she would say, “Get smaller, get smaller.” I kept taking losses, just getting out of the position.

Whenever you get hit, you are very upset emotionally. Most traders try to make it back immediately; they try to play bigger. Whenever you try to get all your losses back at once, you are most often doomed to fail. That is true in everything – investments, trading, gambling. I learned from the crap table at Las Vegas to keep only X dollars in my pocket and never to have any credit, because the worst thing you can do is send good money after bad. If you can physically remove yourself from the premises, which is the same thing in futures trading as getting flat, you can see things in a whole different perspective.

---

#### **Turtle Wealth Management**

Business Off: T-5, 3rd Floor, National Plaza, Alkapuri, Vadodara-07, Gujarat.

Research & Service Off: G-14/15, Ground Floor, ITC Bldg., Majura Gate, Ring Road, Surat-02, Gujarat.

[www.turtlewealth.in](http://www.turtlewealth.in)

After a devastating loss, I always play very small and try to get black ink, black ink. It's not how much money I make, but just getting my rhythm and confidence back. I shrink my size totally – to a fifth or a tenth of the position that I trade normally. And it works. I think I ended up losing only \$57,000 in November 1982, after taking a \$600,000 hit on November 4.

**From time to time, you have alluded to your trading rules. Can you list them?**

I always check my charts and the moving averages prior to taking a position. Is the price above or below the moving average? That works better than any tool I have. I try not to go against the moving averages; it is self-destructive.

Has a stock held above its most recent low, when the market has penetrated its most recent low? If so, that stock is much healthier than the market. Those are the types of divergences I always look for.

Before putting on a position always ask, "Do I always want to have this position?"

After a successful period, take a day off as a reward. I've found it difficult to sustain excellent trading for more than two weeks at a time. I've had periods where I can be profitable for twelve days in a row, but eventually you just get battle fatigue. So, after a strong run of profits, I try to play smaller rather than larger. *My biggest losses have always followed my largest profits.*

This next rule is a major problem for me; I'm always trying not to break it. **The rule: Bottom fishing is one of the most expensive forms of gambling.** It's OK to break this rule on occasion if you have sufficient justification. For example, I bought the S&Ps when they were down sharply. Two weeks ago, I had written down the number 248.45 as the best entry for the S&P. The low today was 248.50. Consequently, I was able to buy into weakness today and make a good deal of money. I had a plan, I carried it out, and it worked. It doesn't always work. It was risky, but I wasn't pyramiding wildly into it, and I knew how much I was risking.

That brings me to my next rule: *Before taking a position, always know the amount you are willing to lose. Know your "uncle point" and honor it.* I have a pain threshold, and if I reach that point, I must get out.

Then, the last words I have at the bottom of the page are: Work, work, and more work.

**Is there anything to add to that list?**

**The most important thing is money management, money management, money management. Anybody who is successful will tell you the same thing.**

The one area that I am constantly trying to improve on is to let my gains run. I'm not able to do that well. I'm always working on it. To my dying day, I'll probably still be working on it.

---

### **Turtle Wealth Management**

Business Off: T-5, 3rd Floor, National Plaza, Alkapuri, Vadodara-07, Gujarat.

Research & Service Off: G-14/15, Ground Floor, ITC Bldg., Majura Gate, Ring Road, Surat-02, Gujarat.

[www.turtlewealth.in](http://www.turtlewealth.in)

**Is that because you do something wrong?**

I just love to take profits. I hear music when the cash register rings. The irony is: How can I be willing to risk 400 points on the downside and only take 200 points of a 1,000-point move on the upside?

On the risk side, you have a method, a plan. Have you experimented with trying to use similar discipline on the profit side?

Yes, but I haven't been able to perfect it. I have had varying degrees of success, but it is my greatest criticism of myself.

**Why the difficulty in this area?**

I think it all relates to my fears of some cataclysmic event. I'm like W.C. Fields: *I have several bank accounts and a few safe deposit boxes with gold and cash. I'm extremely well diversified. My thought process is that if I screw up in one place, I'll always have a life preserver someplace else.*

**Any other rules you can think of?**

Yes. 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. For example, the other day I was short the S&P and got nervous because the bond market was very strong on the night session. The next morning, the stock market was virtually unchanged. I was so relieved that I could get out without a loss, I covered my position. That was a mistake. A little later that day, the S&P collapsed. When your worst fears aren't realized, you probably should increase your position.

**Do you take your losses more quickly in January?**

No, I always take my losses quickly. That is probably the key to my success. You can always put the trade back on, but if you go flat, you see things differently.

**Greater clarity?**

Much greater clarity because the pressure you feel when you are in a position that is not working puts you in a catatonic state.

---

**Turtle Wealth Management**

Business Off: T-5, 3rd Floor, National Plaza, Alkapuri, Vadodara-07, Gujarat.

Research & Service Off: G-14/15, Ground Floor, ITC Bldg., Majura Gate, Ring Road, Surat-02, Gujarat.

[www.turtlewealth.in](http://www.turtlewealth.in)

**Why do most traders lose money?**

Because they would rather lose money than admit they're wrong. What is the ultimate rationalization of a trader in a losing position? "I'll get out when I'm even." Why is getting out even so important? Because it protects the ego. I became a winning trader when I was able to say, **"To hell with my ego, making money is more important."**

**What do you tell people who seek your advice?**

*I always try to encourage people that are thinking of going into this business for themselves. I tell them, "Think that you might become more successful than you ever dreamt, because that's what happened to me." I have the freedom I always wanted, both financially and structurally. I can go on vacation at any moment. I live in Westhampton Beach half of the year and in New York the other half. I have a wonderful lifestyle. My kids think all fathers work at home.*

**What is the best advice you can give to the ordinary guy trying to become a better trader?**

*Learn to take losses. The most important thing in making money is not letting your losses get out of hand. Also, don't increase your position size until you have doubled or tripled your capital. Most people make the mistake of increasing their bets as soon as they start making money. That is a quick way to get wiped out.*

---

**Turtle Wealth Management**

Business Off: T-5, 3rd Floor, National Plaza, Alkapuri, Vadodara-07, Gujarat.

Research & Service Off: G-14/15, Ground Floor, ITC Bldg., Majura Gate, Ring Road, Surat-02, Gujarat.

[www.turtlewealth.in](http://www.turtlewealth.in)