THE PITFALLS OF SPECULATION

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CONTENTS

Chapter		Page
I.	Introduction	5
II.	Ignorance, Over-Speculation, etc.	15
III.	Manipulation	23
IV.	Accidents	33
V.	Business Methods in Speculation.	41
VI.	Market Technicalities	51
VII.	Tips	67
VIII.	Mechanical Speculation	77
IX.	Short Selling	91
X.	What 500 Speculative Accounts Showed	101
XI.	Grain Speculation	113
XII.	Suggestions As To Intelligent Methods	125
XIII.	Conclusion	141

"So great are the opportunities offered by speculative changes, that, with proper methods and self control, the poor man cannot afford to overlook them."

I

Introduction

The Public Attitude Toward Speculation

THE public attitude toward speculation is generally hostile. Even those who venture frequently are prone to speak discouragingly of speculative possibilities, and to point warningly to the fact that an overwhelming majority of speculative commitments result in loss, while those who venture not at all, and consequently are incompetent to judge, dismiss the subject with the statement that marginal trading is gambling, pure and simple, and is therefore pernicious.

Those who enter into the subject a little farther, and attempt to adduce more specific argument against speculative possibilities, lay stress upon the statement that manipulation, trickery and wholesale deception render it impossible for the outsider to enter the field safely or intelligently. These statements, usually unsupported, and frequently insupportable, are accepted by the prejudiced multitude as gospel truth, without any attempt being made to examine their foundation or correctness.

So far as the question of gambling is concerned, it would be entering a very large field to attempt to define just what is and what is not gambling.

The idea that the man who buys a certain stock outright invests, while he who buys on margin gambles, is a popular fallacy. The speculator purchases in the hope of an advance, and if two purchases are made for parallel reasons, one for cash, and one on margins, both purchases are speculative.

That speculative fluctuations are largely used as a basis for gambling operations, is unquestionably true, and possibly an acceptable dividing line may be drawn on the following hypothesis: gambling, in the general acceptance of the term, is founded upon blind chance, the equal possibility of certain events occurring or not occurring; this is modified in some cases by the exercise of superior skill in such games as admit of skill; but fundamentally, gambling is wholly dependent upon the equal chances of two or more opposed individuals.

The trader, therefore, who takes "flyers" with no knowledge of his subject, or the properties in which he deals, merely gambles on the ultimate rise and fall of the market; but the trader, who, after careful investigation and study, purchases a property, either outright or on margins, because he has reasons for believing it to be cheap, and that it will enhance in value, is a speculator.

Those composing the gambling element are in the majority, and it is needless to say, are the greatest losers; in fact their losses foot up almost the sum total of speculative deficiency, and consequently the sum total of the gains reaped by the real speculator.

The statement that most public commitments are made on no better foundation than a mere guess, may seem a trifle bold, and the counter statement may be made that few people purchase a stock without some reason for so doing. This is admitted on the same basis that the man who bets on a certain number at roulette because it has not recently appeared, or in hope of an immediate repetition, considers that he has a reason for his action. Thus a great number of amateur, or semi-professional traders, buy a certain commodity for no better reason than that the stock has declined, or, more frequently, from a participation in a period of speculative intoxication. They can give reasons for their ventures, but they are without foundation, and are no more worthy of consideration than the reasons given by the roulette player for "staking" upon a certain number.

On the other hand, the speculator, with a carefully acquired knowledge of the normal value of certain properties, fully posted on conditions in general, and those affecting, or liable to affect his favorite property in particular, patiently waits the opportunity to buy, not at a normal price, but at a price far below the actual value of his property. He knows that speculative prices move in cycles, more or less pronounced and prolonged, and in the revolution of this cycle he will be given an opportunity not only to purchase at a price far below a normal valuation, but to sell at a price far above it.

This looks simple enough in the telling, and is merely the operation of Anselm Rothschild's famous advice, "buy cheap and sell dear." But when the statement is made that over 90% of public purchases are made at the approximate high tide of a market and about the same percentage of sales at the approximate low tide, in short, that the most simple and reason-