

Bucket Shops

“Bucket Shops”: Storefront where speculators bet on the movement of stocks/commodities using small sums of money plus margin borrowing. Almost like a horse parlor

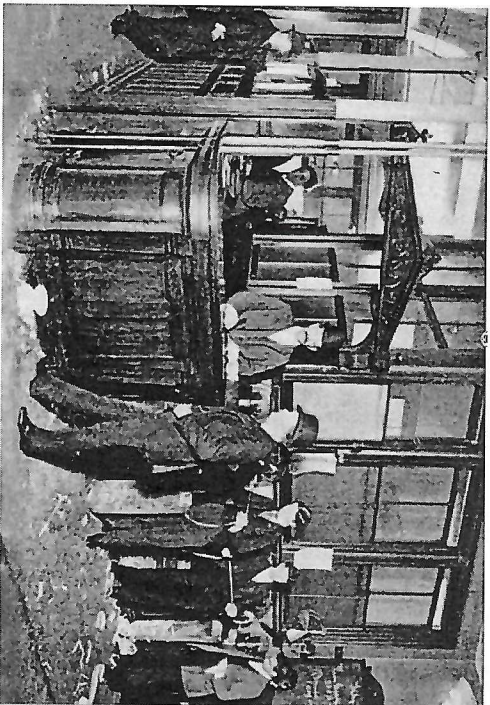
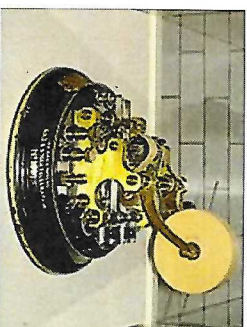
No actual transactions in stocks took place since they were simply betting on posted price changes

Bucket Shop had 100% Risk since there was no actual trade.

Offered tight margin to automatically close the trade (down 10%)

Delayed tape resulted in many customers losing the margin quickly. House won 95% of the time

Nov 1867: Ticker Tape inventedEdward Calahan. Thomas Edison improved the device in 1869.....still lag from action on Wall Street



1901 Bull Market

The Northern Pacific Railroad Trade

- Only purpose was a bigger line

Sensed a Big Break/Correction coming

Plowed ALL Profits + 4x Margin to Short Side (Rails and Steel) Fast moving market;

Stocks dropped sharply BUT Volume was huge and fills were late. Tape was lagging in reporting trades (@2 hrs).

His Fills were terrible: \$100 order \$85 Fill; \$80 order was filled at \$65

Market rallied and he covered but with the lagging tape, all 50k was gone. Broke.

Lesson: Trading in "Real Time" Tape was different than trading in Bucket Shop. Short term trades would not work on Wall Street



President – US Events
Theodore Roosevelt, President SF Earthquake 4/18/06

Logging news 3d later
 Model T affordable car introduced

William Taft, President

Personal Life

Lesson: Conviction
Maximize when Right

1906 - 1910

Market Speculation
 Lawson tells JL to short Union Pacific. Atlantic City Story

JL takes all the credit, brags to the press. Lawson livid
 Union Pacific Pool washes up the stock and 10% dividend. Goes Broke

Lesson: Pilot Positions, Pyramiding

Starts Trading for Lawson and his other associates
 Boston's Thomas Lawson recruits JL as 'front man'

Covers shorts Makes \$250k (\$5.9M) 29 y.o.
Lesson: Plunging - Margin

Plunges all-in on the short side too soon
 Aggressively Shorting disfiguring it with longs
 "Panic of 1907" Profits \$1M in a day JP Morgan steps in

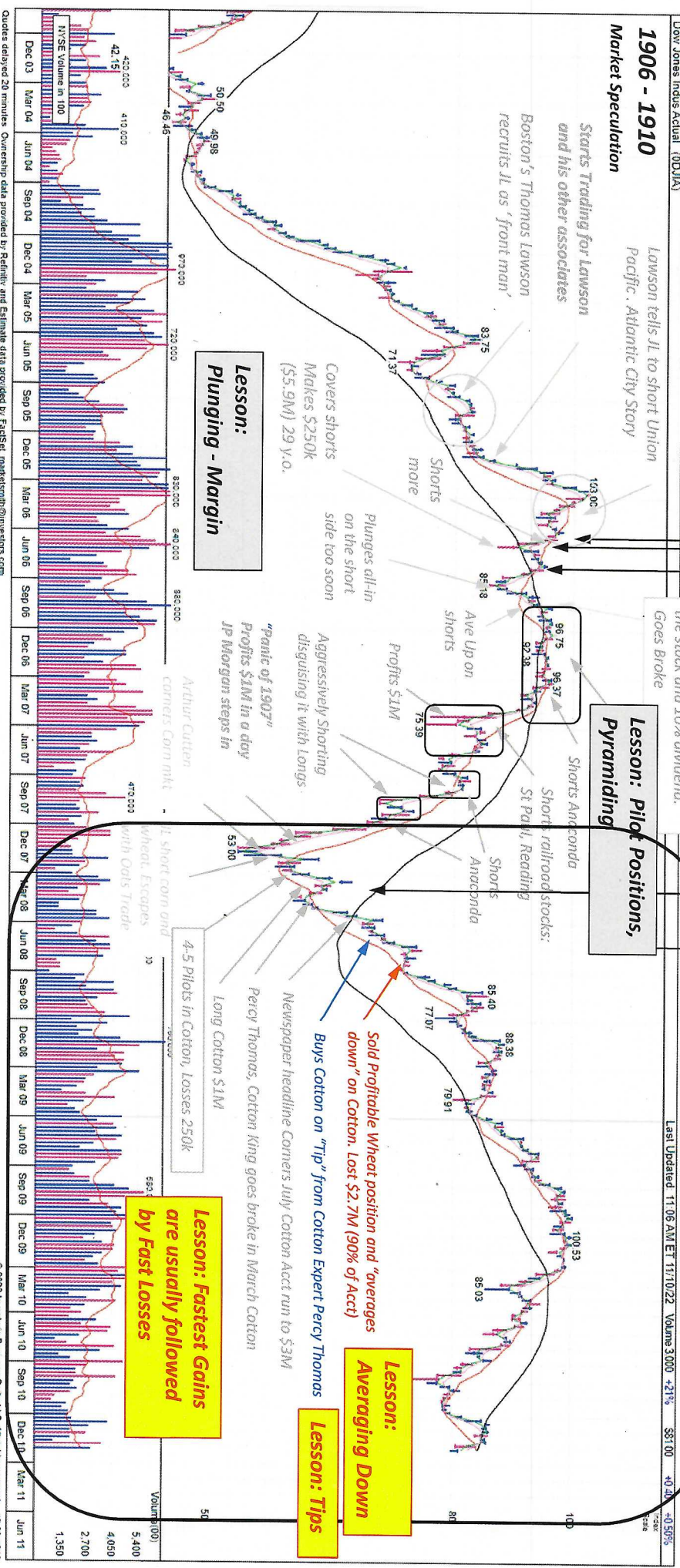
Arthur Cutten corners Corn mkt
 Wheat Escapes with Gals Trade
 4-5 Pilots in Cotton, Losses 250k
 Long Cotton \$1M
 Newspaper headline Corners July Cotton Act run to \$3M
 Percy Thomas, Cotton King goes broke in March Cotton

Sold Profitable Wheat position and "averages down" on Cotton. Lost \$2.7M (90% of Acct)

Lesson: Averaging Down

Lesson: Tips

Lesson: Fastest Gains are usually followed by Fast Losses



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“The first change I made in my play was in the matter of time. I couldn't wait for the sure thing to come along and then take a point or two out of it...I had to start much earlier....In other words, I had to study what was going to happen; to anticipate stock movements... the essential difference between betting on fluctuations and anticipating inevitable advances and declines, between gambling and speculating.”

