

# [PDF] Hedge Fund Market Wizards: How Winning Traders Win

Jack D. Schwager, Ed Seykota - pdf download free book

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#### Books Details:

Title: Hedge Fund Market Wizards: Ho  
Author: Jack D. Schwager, Ed Seykota  
Released: 2012-05-29  
Language:  
Pages: 544  
ISBN: 1118273044  
ISBN13: 978-1118273043  
ASIN: 1118273044

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#### Description:

**Guest review of *Hedge Fund Market Wizards*, by Stanley Druckenmiller** Jack Schwager's newest book, *Hedge Fund Market Wizards*, like his previous works, is yet another solid contribution toward how to effectively manage capital. The book will have strong appeal to three main audiences; those managing capital professionally, those evaluating professional money managers, and those readers who want to manage their own money more effectively. The fact that markets and the money management industry have gone through tumultuous change makes the central message of the book

all the more powerful...that the key ingredients to successful performance are timeless and true in radically different environments. Those ingredients, an appreciation for the balance of risk versus reward in a trade, discipline, adaptability, an open mind, and intellectual honesty that enables one to learn from mistakes, come to life in Schwager's riveting interviews with a number of managers. The characters' stories highlight their very different personalities and lifestyles and are interesting in and of themselves. But it is Schwager's unique ability to illustrate their winning strategies and interweave their personal backgrounds and emotional highs and lows that makes *Hedge Fund Market Wizards* both a highly entertaining read and learning experience. What most jumps out at the reader is how radically different styles and approaches all share the common traits mentioned above. By exemplifying these traits in a number of managers with seemingly different investment philosophies, whether it be short term vs. long term trading, large capital or small, or technical vs. fundamental analysis, Schwager is able to better highlight their essential importance to successful investing. By highlighting their differences, the common thread of their similarities is much more evident. Schwager reinforces the message with succinct summaries of what these commonalities are throughout the book. Whether a reader is a professional money manager or simply managing their own capital, I have no doubt they will find *Hedge Fund Market Wizards* both entertains and enhances their ability to grow their capital. *Stanley Druckenmiller founded Duquesne Capital Management, which compounded at 30% per annum without a single losing year from its inception in 1981 to its closing in 2010. From 1988 to 2000, he also served as Lead Portfolio Manager of the Quantum Fund and Chief Investment Officer of Soros Fund Management (1989-2000) where he had overall responsibility for funds with a peak asset value of \$22 billion.*

### **Jack Schwager's Five Market Wizard Lessons**

Jack Schwager *Hedge Fund Market Wizards* is ultimately a search for insights to be drawn from the most successful market practitioners. The last chapter distills the wisdom of the 15 skilled traders interviewed into 40 key market lessons. A sampling is provided below: **1. There Is No Holy Grail in Trading** Many traders mistakenly believe that there is some single solution to defining market behavior. Not only is there no single solution to the markets, but those solutions that do exist are continually changing. The range of the methods used by the traders interviewed in *Hedge Fund Market Wizards*, some of which are even polar opposites, is a testament to the diversity of possible approaches. There are a multitude of ways to be successful in the markets, albeit they are all hard to find and achieve. **2. Don't Confuse the Concepts of Winning and Losing Trades with Good and Bad Trades** A good trade can lose money, and a bad trade can make money. Even the best trading processes will lose a certain percentage of the time. There is no way of knowing a priori which individual trade will make money. As long as a trade adhered to a process with a positive edge, it is a good trade, regardless of whether it wins or loses because if similar trades are repeated multiple times, they will come out ahead. Conversely, a trade that is taken as a gamble is a bad trade regardless of whether it wins or loses because over time such trades will lose money. **3. The Road to Success Is Paved with Mistakes** Ray Dalio, the founder of Bridgewater, the world's largest hedge fund, strongly believes that learning from mistakes is essential to improvement and ultimate success. Each mistake, if recognized and acted upon, provides an opportunity for improving a trading approach. Most traders would benefit by writing down each mistake, the implied lesson, and the intended change in the trading process. Such a trading log can be periodically reviewed for reinforcement. Trading mistakes cannot be avoided, but repeating the same mistakes can be, and doing so is often the difference between success and failure. **4. The Importance of Doing Nothing** For some traders, the discipline and patience to do nothing when the environment is unfavorable or opportunities are lacking is a crucial element in their success. For example, despite making minimal use of short positions, Kevin Daly, the manager of the Five Corners fund, achieved cumulative gross returns in excess of 800% during a 12-year period when the broad equity markets were essentially flat. In part, he accomplished this feat by having the discipline to remain largely in cash during negative environments, which allowed him to sidestep large drawdowns during two major bear

markets. The lesson is that if conditions are not right, or the return/risk is not sufficiently favorable, don't do anything. Beware of taking dubious trades out of impatience. **5. Volatility and Risk Are Not Synonymous** Low volatility does not imply low risk and high volatility does not imply high risk. Investments subject to sporadic large risks may exhibit low volatility if a risk event is not present in the existing track record. For example, the strategy of selling out-of-the-money options can exhibit low volatility if there are no large, abrupt price moves, but is at risk of asymptotically increasing losses in the event of a sudden, steep selloff. On the other hand, traders such as Jamie Mai, the portfolio manager for Cornwall Capital, will exhibit high volatility because of occasional very large gains-not a factor that most investors would associate with risk or even consider undesirable-but will have strictly curtailed risk because of the asymmetric structure of their trades. So some strategies, such as option selling, can have both low volatility and large, open-ended risk, and some strategies, such as Mai's, can have both high volatility and constrained risk. As a related point, investors often make the mistake of equating manager performance in a given year with manager skill. Sometimes, more skilled managers will underperform because they refuse to participate in market bubbles. The best performers during such periods are often the most imprudent rather than the most skilled managers. Martin Taylor, the portfolio manager of the Nevsky Fund, underperformed in 1999 because he thought it was ridiculous to buy tech stocks at their inflated price levels. This same investment decision, however, was instrumental to his large outperformance in subsequent years when these stocks witnessed a prolonged, massive decline. In this sense, past performance can sometimes even be an inverse indicator.

## Review

"A must-read for all would-be traders...while the book's focus is clearly on trading and investing, there is more than enough human interest on offer for the general reader.... Like Schwager's other works...*Hedge Fund Market Wizards* looks set to become a classic." (*Money Week*, June 2012)

"Offers valuable guidance and timeless insights for both investment professionals and market enthusiasts looking to improve their trading abilities by learning from the best." (trade2win.com, July 2012)

"This book is destined to be a classic just like the others by Jack. But the latest goes one step further, these traders aren't just at the top of their game, they have defined it. What can I say? This book was so good it almost made me want to get back into the game again!"

—**Paul Wilmott**, mathematician and ex-hedge fund manager

"Brilliant! Brilliant! Brilliant! Another book about true traders by a true trader. Jack Schwager has become the official author of traderdom for this and future generations. Not only does *Hedge Fund Market Wizards* deserve a spot in every respectable trader's book collection, but the entire series should be read annually by both professional and aspiring traders. Timeless wisdom, priceless concepts!"

—**Peter Lewis Brandt**, Futures Trader, Stableford Asset Management, and Author of *Diary of a Professional Commodity Trader*

"I read Jack Schwager's first *Market Wizards* book when I was just starting out as an investor more than 20 years ago. It put into brilliant focus the importance of trading psychology and knowing thyself. His latest work is yet another masterpiece. It brings to light new concepts in the world of investing that apply to all investors in today's markets. Anyone who reads this work will immeasurably enrich themselves on many levels because trading is life and life is trading."

—**Dr. Chris Kacher**, Founder of [www.SelfishInvesting.com](http://www.SelfishInvesting.com), and Author of *Trade Like an O'Neil Disciple*

Author Jack Schwager seems to have built his career on the market wizardry of others. Based on this fourth wizard book—interviews with 15 hedge-fund managers who recount their careers and strategies—Schwager's long experience with wizardry has served him well. Readers captivated by the hedge-fund mystique won't be disappointed. Readers looking for insight into exactly how successful hedge-fund managers achieve success will have plenty to chew over. Schwager attempts to boil down the interviews into 40 "Market Wizard Lessons." Examples: Value investing works. Position size can be more important than entry price. Sometimes it's useful to do nothing. But the one that may ring truest is this: There is no Holy Grail in trading. What works for one may not work for another, or for you. Fortunately for us, there's a wide enough variety of portraiture in Hedge Fund Market Wizards that at least a few lessons should resonate.

—**Barrons.com**

“Determining how great traders acquire and use their special skills has been an elusive quest. We have no shortage of cookbooks on how to trade, but only a limited number of books describe the decision processes of those who speculate as a profession. Trader confessionals exist often as testimonies to egos, but few focus on the details of decision making. Material that does successfully capture the essence of how speculators think is the Market Wizards series by Jack D. Schwager.... Even in the interviews of well-known traders, Schwager’s probing questions extract many new insights.”

—**FAJ Book Review**

“Even in the interviews of well-known traders, Schwager’s probing questions extract many new insights. The Ed Thorp interview, which is the longest, is almost worthy of a book in itself.”

—**CFA Institute review**

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