

TREND COMMANDMENTS

TRADING FOR EXCEPTIONAL RETURNS

MICHAEL W. COVEL

Praise for *Trend Commandments*

“Fire up the barbecue. Michael Covel skewers the sacred cows of Wall Street with tasty bite-sized bits of the truth about what it really takes to succeed in trading and life. Wide-ranging, irreverent, revealing, eminently quotable, and right on the money.”

—**Charles Faulkner**, Market Wizard Trading Coach

“A rapidly moving, non-technical, and outside-the-box effort that smartly captures the essentials of trend following.”

—**Peter Borish**, Chairman and CEO, Computer Trading Corp

“Covel’s *Trend Commandments* offers a breezy rumination on what is *right* about trend following and what is *wrong* about conventional trading approaches.”

—**Jack Schwager**, Author of *Market Wizards* and *Schwager on Futures* series

“Michael Covel’s *Trend Commandments* is full of practical wisdom in bite-size portions on the benefits of trend trading—written in a straightforward storytelling format. It’s definitely one to add to your financial bookshelf.”

—**David Stendahl**, Signal Financial Group

“Michael Covel is the very best at explaining the concepts of successful trend following in plain English. I’m certain you’ll be a successful trader if you follow the ideas he outlines in *Trend Commandments*. This book (and his previous two!) are required reading for new employees in my office.”

—**Steve Sjurgerud**, DailyWealth

“An outstanding book for anyone who wants to become rich by trading markets. Today, government regulations and fiscal and monetary policies are badly distorting financial markets. Covel accurately explains why, in this ‘manipulated’ financial environment, you should never expect markets to move as you wish or expect. Rather, disregard your fundamental beliefs and simply follow the trend. Highly recommended!”

—**Marc Faber**, Managing Director, Marc Faber Ltd.,
and Editor, “Gloom Boom & Doom Report”

“Investors have experienced two bear markets in the last decade. This has led to rising volatility, uncertainty, and investor angst. For some it has been a lost decade, but for trend traders it has been a decade of opportunity. *Trend Commandments* helps you focus on what matters most: the trend of the markets, whether up or down. You can profit from either. *Trend Commandments* is essential reading for those who have the desire to thrive and survive in an era of fast-paced trending markets.”

—**Jim Puplava**, CEO, Chief Investment Strategist, PFS Group

“Buy and hold has been a difficult investment system for investors for a decade. In *Trend Commandments*, Covell challenges readers to think differently and question their beliefs about market ‘truths’ ingrained in them for years. Forewarned, you just may never see the world the same way again.”

—**Mebane Faber**, Cambria Investment Management

“If you are even thinking of a career in trading, put down all the other books. Buy this one. Read it. Now you can start your career.”

—**James Altucher**, Managing Director, Formula Capital

“*Trend Commandments* is a compelling read taking on serious issues in an entertaining format. The chapter of ‘Inefficient Markets’ is a must read, and I’m still laughing at the ‘Intoxication’ chapter—because in truth there is humor.”

—**Mark H. Melin**, Author of *High Performance Managed Futures*,
Director, Managed Funds, Peregrine Financial Group

“Successful traders need rules and the rules in this book are better than most since they are from the most successful traders in the world. Catch my drift? To be successful you must learn and apply these rules. I rate this book a 3x—as to be read at least three times.”

—**Timothy Sykes**, Author of *An American Hedge Fund*

“In *Trend Commandments* Covell writes, “Golf Legend Jack Nicklaus is famous for saying: ‘Don’t be too proud to take a lesson. I’m not.’ Learn the fundamentals of the game and stick to them.” Every beginning or experienced trend follower should take lessons from this book and your previous books. I have been a trend follower for over 40 years and I am not too proud to take lessons.”

—**James O. Rohrbach**, Investment Models, Inc.

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COMMANDMENTS

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*Trading for Exceptional
Returns*

Michael W. Covel

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© 2011 by Michael W. Covel
Published by Pearson Education, Inc.
Publishing as FT Press
Upper Saddle River, New Jersey 07458

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Printed in the United States of America

First Printing June 2011 with corrections July 2011

ISBN-10: 0-13-269524-3

ISBN-13: 978-0-13-269524-4

Pearson Education LTD.

Pearson Education Australia PTY, Limited.

Pearson Education Singapore, Pte. Ltd.

Pearson Education North Asia, Ltd.

Pearson Education Canada, Ltd.

Pearson Educación de México, S.A. de C.V.

Pearson Education—Japan

Pearson Education Malaysia, Pte. Ltd.

Library of Congress Cataloging-in-Publication Data

Covel, Michael.

Trend commandments : trading for exceptional returns / Michael W. Covel. — 1st ed.

p. cm.

Includes bibliographical references.

ISBN 978-0-13-269524-4 (hardcover : alk. paper)

1. Investments. 2. Stocks. I. Title.

HG4521.C818 2012

332.63'22—dc22

2011011412

To breakfast at Tiffany's...

This is your last chance.

**After this, there is no
turning back. You take the
blue pill—the story ends,
you wake up in your
bed and believe whatever
you want to believe.**

**You take the red pill—
you stay in Wonderland
and I show you how deep
the rabbit hole goes.¹**

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Acknowledgments

A very special thank you goes to Michelle Sanks, my editor and researcher in chief.

Also: Salem Abraham, James Altucher, Karla Anselmo, Greg Avallon, Arlana Aylward, Bryan Aylward, Christian Baha, Bryan Bangerter, Aisha Barber, Jesse Barkasy, Steve Beamer, Marty Bergin, Peter Borish, Danielle Bourbeau, Tim Bourquin, Jim Boyd, Jason Burack, Gibbons Burke, Steve Burns, Sandy Brasher, Kevin Bruce, Jim Byers, Chuck Cain, Kavita Channe, Michael Clarke, CME, Jerome Covell, Johanna Covell, Mary Covell, Eric Crittenden, Luke David, Gary Davis, Rebecca Clear Dean, Gary DeMoss, Nikesh Desai, Bernard Drury, David Druz, Bill Dunn, Guy Edrington, Robin Eggar, Martin Ehrlich, David Eifrig, Billy Emerson, Alistair Evans, Mebane Faber, Charles Faulkner, Jack Forrest, Black Francis, Debbie Gallaher, Kevin Gallaher, William Gallwas, Danuza Gartner, Jason Gerlach, Marcus Gersbach, Michael Gibbons, Mark Gjormand, Dave Goodboy, Norman Hallett, David Harding, Esmond Harmsworth, Betsy Harris, Betty Henon, Paul Henon, Larry Hite, Dalice Huffman, Ed Holiday, Brian Hurley, John Hurley, Patrick Hurley, Virginia Hurley, Withers Hurley, Brian Hunt, Bucky Isaacson, Marshall “Jake” Jacobs, Ajay Jani, Bobby Johns, JonPaul Jonkheer, Perry Jonkheer, Shaun Jordan, Chris Kacher, Joseph Kavaliauskas, Sylvester Kavaliauskas, Chris Kemp, Ken at Breakout Stocks, Jordan Kimmel, Martin Klitzner, Jeff Kowiwoda, David Kreinces, Krystal Plandor, Katrina Kurdy, Eric Laing, Brandon Langley, Kimberly Laube, Jeffrey Lay, Charles LeBeau, Jez Liberty, Lindsay LoBello, Jeff Macke, Alex Mann, Erin Marie, Michael Martin, Paloma Martinez, Luci Mattinen, Brian McHugh, Mark Melin, Juan Carlos Mendoza, Todd Miller, Gareth Moore, Rika Monette, Gil Morales, Jerry Mullins, Paul Mulvaney, Jered Murphy, Victor Niederhoffer, David Nott, Tom O’Connell, Matthew Osborne, Michelle Pelle, Julie Phifer, Tim Pickering, Jim Preston, Nancy Preston, Jim Puplava, Barry Ritholtz, Lloyd Ritter, Baron Robertson, Jon Robinson, Cullen Roche, Jim Rohrbach, Ian Rummer, Marlene Sanchez, Michelle Sanks, Barbara Schmidt-Bailey, Steve Segar, Ed Seykota, Greg Shaughnessy, Mike Shell, Marsha Shepard, Steve Sjuggerud, Richard Slaughter, Nell Sloane, Alex Spiroglou, David Stendahl, Clint Stevens, Matthew Stich, Susan Stich, Celia Straus, Leodalys Suarez, Samantha Sue, Jon Sundt, Timothy Sykes, Larry Tentarelli, Irve Towers, Dennis Tran, Sandy Lyn Truong, Francisco Vaca, Justin Vandergrift, Robyn Vandergrift, Trish Vianna, Damon Vickers, Danny Walsh, Matt Waz, Bryan Werlemann, Paul Wigdor, Addison Wiggin, Cole Wilcox, Bryce Woodall, Luciana Antonello Xavier, Daniele Yeonas, Monica Yeonas, Thai Yin, Jack Zaner, zerohedge.com.

Do not strive for things
occurring to occur
as you wish,
but wish the things
occurring as they occur,
and you will flow well.¹

Ignition

Trading for exceptional returns may not appear realistic in the schizophrenic cacophony:

“What is the right approach for investors faced with an unusually uncertain economic outlook and volatile markets?”

“Big concerns over job insecurity, consumer and corporate spending, and housing prices.”

“Should you buy gold?”

“Where are markets headed?”

“Oil shock, dollar drop, Japanese earthquake, elections!”

That’s white noise.

Yes, sure, of course, you may have more options, but an explosion of naiveté has muddied the waters. Ignorance and confusion reign supreme. The idiot box is no longer just the bedroom flat screen. It is every PC, Mac, iPhone, and iPad. People absorb TMZ and Drudge via an intravenous drip. We are in a voyeuristic world where living vicariously through someone or something is accepted without hesitation and, in fact, encouraged.

With brain synapses bombarded nonstop, it is no surprise that this has brought attention spans down to just a few seconds—about the same as a goldfish. However, an incessant barrage of information across every known connected device will not punch your ticket to financial freedom.

Retirement plans that have elderly dining on cat food, buying gold because you are scared, canning food, and setting up a crisis garden are not solutions. If that’s your direction, this book is a tough love punch to your gut. Brutal honesty about what it takes to get ahead with your money is coming in these pages like a hard rain. There is no reason to continue on the hamster wheel.

You simply need a winning philosophy and strategy, backed by proven positive results that you can execute. Push the pause button.

You don’t have to be a hamster running through a Habitrail®. “Despite all my rage I am still just a rat in a cage” is not fait accompli.²

In the film *Contact*, Jodie Foster plays a character called Ellie, a scientist who cannot figure out an alien signal from the deep reaches of outer space until she finds the key—the “primer.” Finally she receives help from a Carl Sagan-like benefactor named S. R. Hadden:

Hadden: The powers that be have been very busy lately, falling over each other to position themselves for the game of the millennium to decipher the alien signal. Maybe I can help deal you back in.

Ellie: I didn’t realize that I was out.

Hadden: Oh, maybe not out, but certainly being handed your hat. I have had a long time to make enemies Doctor...and I wish to make a small contribution. A final gesture of goodwill to the people of this planet....

Ellie: You’ve found the primer!

Hadden: Clever girl.

Today, John W. Henry is the owner of the Boston Red Sox baseball team. He also now owns the famed Liverpool Football Club in Britain. Red Sox price: \$700 million. Liverpool: \$476 million. He is not broke.

How did he make that fortune?

Trading in a very rigid, rules-defined, way.

In 1995, Henry, a former farmer from Arkansas who began his trading career humbly hedging his crops, made speculative trading history. His trading strategies essentially *won* the money lost by rogue trader Nick Leeson of Barings Bank (often referred to as the “Queen’s bank”). Leeson bet wildly and lost \$1.3 billion. The Queen’s bank collapsed. Leeson was the *Time* cover boy. Media ate up the bank’s implosion and coverage was nonstop. Leeson was the known loser. Henry was the then-unknown winner.

Henry won practicing a form of trading called *systematic trend following*. His big win was never revealed (see my first book, *Trend Following*). Some tight insiders knew, but with detective-like probing, I outed Henry’s win.

Just like S. R. Hadden, the primer to Henry’s moneymaking system was deep in my mind *and* gut.

But money success is much more than some event in the long ago dot-com era. It is about an ongoing profit system that reaps spoils when markets crash and fear cascades—as in 2008. It’s also about finding big trends to ride even when there is no panic or crisis. Trend following, however, is not theoretical or academic wonk talk. There are decades of substantial performance proof.

Big money making starts with trends, or waves. Anyone who makes significant money rides waves. And guess what? No one can predict the next big one. The only certainty is that when the big wave comes, trend followers will surf the new beaches.

That simple-sounding ideology is instrumental for financial flexibility, as trend followers trade that same philosophy in all markets. You can storm into any moving market, be it an obscure currency or a stock in wild emerging markets. Trend following is agnostic to both the market and direction. It is a James Bond “007 license” to pursue whatever market is flowing up or down.

Now, nearly 20 years after outsmarting the Queen’s bank, John W. Henry and his trend trading peers still operate in an essentially secretive underground society, a financial parallel world. Henry’s accomplishments are astounding, but many of his trend-trading peers have also killed it. Traders such as David Harding, Ken Tropin, Louis Bacon, and Bruce Kovner have become billionaires trading unpredictable trends.

Additionally, mysterious firms not built around individual names, are also making trend-chasing fortunes. Sunrise Capital, Transtrend, BlueCrest, Altis Partners, Aspect Capital, and Man Investments just to name a few, are some of today’s top traders, pulling billions in profits out of the markets—quietly and effectively. While seemingly everyone else is mainlined into the *matrix* for a daily fix of mutual funds, news, and government, trend traders keep on keeping on. But this is not about hero worship; it’s about *learning* from winners.

John W. Henry was recently asked how he did *that*—meaning make the money. He quipped, “I didn’t do that. Mathematical formulas did that. It’s made through trend following.” The interviewer noted that the U.S. dollar was down and asked if he bet against it. Henry replied with a smile, “Right, very good.” The interviewer said, “I don’t get that.” Henry with a touch of sarcasm added, “Neither will your readers.”³

If you are thinking that I have inserted a conspiracy theory, *X-Files*, or Area 51 edge to trend following, smart thinking. Trend traders are dialed in and average investors are lost? Indeed. Many investors today hide their money under mattresses. Everything that used to be safe is now risky.

Real estate has cratered. Stocks are up one day, and down the next. Buy and *hope* with no S&P 500 Index returns for a decade. Dot-com bubble? Check, that disaster never left. Politicians on both sides of the aisle are just fear mongers. And let’s not forget about salesmen hawking gold as a hedge against the end times.

Don’t fret! There is good news. This book is real hope. It is the *primer* that unlocks the path of trend trading.

Trend Commandments is a new inspirational vantage. It is not my prior books. The tone is different. The style is different. Its objective is to be more accessible and rooted in principles over personalities. I thought a different approach to get this story out was required, for very few are yet aware of what's in these pages.

If you are not criticized, you might not be doing much.

Sadly, many still see making money wrong. They make wildly inaccurate assumptions about what constitutes a winning trader:

- Do they possess a unique talent?
- A special inborn gene or divine gift?
- The innate talent of a child prodigy?
- Inside knowledge?
- Ability to predict markets?
- Degrees in finance or an MBA?
- Huge starting capital?

One answer: No.

Why do we not know that? Instant gratification is our Achilles' heel. Multitask this and that. Kardashians. Now. Faster. Easier. Patience is a four-letter word.

How does the latest iPad help you to make money trading the markets? How does attending a Code Pink or Tea Party rally help? How does connected 24/7 help you? TweetDeck, favorite blog, fancy broker tools...all will do what? How does electing your favorite politician help you to make money? How would changing the government in Egypt, Libya, or the United States for that matter make your retirement easier?

Tomorrow is always another day in the dream factory.

Let's be honest. It's all about you. It's you, your friends, and your family against the world.

This book is for people who want above and beyond an average. It's about getting wealthy and thriving. Now, faster, and easier doesn't work for market prosperity. That's not strategy. Trend following traders don't play that way, and neither should you.

Ten years ago, Jason Fried of 37signals.com was hired as my first pro web site designer. He has since moved on to ventures far exceeding simple web site design, so it was very random that his book *Rework* inspired me to write *Trend Commandments*. His big question made me think:

“Taking a stand always stands out. Who do you want to take a shot at?”⁴

A valid question. My answer: Wall Street, the government, and media for starters.

Let go of them.

That is a breath of fresh air in an era of constant depression and recession talk, nonstop predictions, clueless economists, and Federal Reserve Ponzi schemes. *Trend Commandments* is for those who know deep down that there is a real way to make money in the markets, but just do not know how yet.

However, you will be surprised that the *secret* is hiding in plain sight.

There was a great story on author Seth Godin’s web site. He had a college professor who worked as an engineering consultant. There was a 40-story office tower in Boston with a serious problem—an unsightly dark smudge was coming through the drywall. The multimillion-dollar fix would be to rip out all the drywall. Godin’s former professor was hired in a last-ditch effort. He said, “I think I can fix it, but it will cost you \$45,000.” The owners instantly agreed. The professor wrote down the name of a common hardware store chemical. “Here,” he said and sent a \$45,000 bill. It was a bargain.⁵

The words condensed into *Trend Commandments* were gleaned from my 15 years of behind-the-scenes learning at the feet of great trend following traders. It was a one-of-a-kind educational journey. My books *Trend Following* and *The Complete TurtleTrader* have sold more than 100,000 copies (no bragging, just for reference). My documentary film *Broke* outlined the Great Recession from a trend following perspective. That took three years and 100,000 travel miles alone.

You might argue against my words, but arguing against my passion and research will be exhausting. Trust me, but verify every word herein. Accept nothing without questioning why. Find holes in the arguments, and when you can’t, send me a thank you card.

You want confidence and inspiration? It’s here.

**Trend following starts with
knowing when to do nothing.
The market is screaming like a
spoiled brat? Step to the side.
That’s your first play.**

Note: There are not only 10 trend commandments. There are dozens of perspectives, comparisons, critiques, rules, and examples herein. And don’t feel compelled to read linearly; start anywhere. Also, be careful that you don’t singularly fixate on trading rules alone (read: entry/exit). If you exclude the discipline, psychology, and perseverance, etc., needed to excel in the long run, you won’t make it.

*If you must play, decide upon
three things at the start:
the rules of the game,
the stakes,
and quitting time.¹*

Expectations

Who will *Trend Commandments* reach?

This book is for those kindred spirits who grasp there is no secret to trading but rather just knowledge you have not yet discovered. It is for anyone who wants to make the most money possible—without going broke or going overboard on risk.

It is for investors and traders small and large, young and old, female and male—worldwide. *Trend Commandments* is also for anyone fascinated by how great trend traders think and act to make a fortune. If you have other reasons for reading this book, that is fine too.

My words are not a set of magic rules for becoming a wealthy trend following trader with no work on your end. To achieve the pot of gold, you will need more than *that*. However, to explain all the details you will need, you must know what you are up against.

The well-constructed fortress of government, media, and Wall Street, all designed to bleed you dry, is “The Wall” (think Roger Waters). None of those players want you to comprehend or act on the contents of this book. If you do get it, those groups lose power and money. They do not want to lose anything. Their grip on you is stranglehold tight.

Getting rich is a fight; make no mistake about it.

Panics do not destroy capital—they merely reveal the extent to which it has previously been destroyed by its betrayal in hopelessly unproductive works.²

There cannot be a suggestion that the attempt of describing, explaining, predicting, and controlling is wrong, no matter how foolish it may appear. Let men be fools because that is part of their nature.³

Henry Ford: "If I'd
asked my customers
what they wanted,
they would have said
a faster horse."¹

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