Up until five years ago, I had spent my entire life studying mathematics and science and doing pure and applied mathematics. The latter consisted largely of applications of statistics and invention of various mathematical algorithms mostly for classified U.S. government uses.

Some five years ago, Jim Simons, who I had met several years before when we both worked at the Institute for Defense Analyses in Princeton, New Jersey, persuaded me to come down and consult for a day in March 1977 on a new venture he was into - currency speculation, a subject I knew nothing whatsoever about. That day he showed me closing daily price charts of some major currencies he was maintaining and I observed that some of the currencies and especially the Japanese yen seemed to be moving along a line. At the time, Jim and I discussed a model in which the yen appreciated at a regular rate over several months because the positive Japanese trade balance caused a relatively constant excess of commercial trade demand for yen as against dollars. In retrospect, the relevant yen chart does not just look closer to a line than random; it looks fantastically closer. My best guess is that the Japanese government perhaps under foreign pressure decided the yen at long last was undervalued and the official authorized to carry out the yen revaluation did so in precise Japanese manner exactly c % a day to the best of his ability.

In any case, this notion of following currencies as they trended along lines proved a valuable one. I used it off and on with profit and in retrospect it might have been better on currencies to have used it more rather than less up till now.
During the next summer (1977), I consulted here in Stony Brook for Simons: watched, concurred with and advised Jim as he traded, made several statistical applications, invented a nice algorithm and discussed and later used a variety of line trading in which you sell or buy a currency according to whether it is too far above or below its "line".

During that summer I suggested buying British pound sterling, an idea I had while lying on the beach which turned out to be about two hours late but which was still valuable and could have been more valuable. Funny as it seems the notion of buying pounds was original at the time. One currency maven we used to consult with said you never buy pounds, you sell them. In fact he had made so much money selling pounds, that he named his son Sterling.

My reasons were partly wrong and luck and timing were involved, subjects I'll return to.

In early 1978, Simons formed Limroy and I moved to Stony Brook on a more permanent basis. For the first year we traded jointly discussing all trades before they were made if we were both in Stony Brook. During the year 1979-1980, we evolved into trading separate accounts with more or less discussion at various times.

Let me now discuss some events from my past several years of trading with a view to illuminating some of my trading characteristics - faults and virtues.

Some years ago, after following a long yen trend over many months with a very handsome profit and the yen sitting at about 177 to the dollar I became fearful of an oil cutoff shock and consulting the literature and finding that the yen lost 7% in value in one day in a previous Arab oil embargo scare (1974) I got out of my yen position. Two days later, Carter announced a massive dollar defense package and the yen lost perhaps 6% in value instantly. I had an explicit
reason for what I did - it was however not the right reason. Luck was at work.

I consider luck to be very, very, very important in this business. I don't want to neglect to mention that just as in science or mathematics the well prepared mind helps you to realize the opportunity or danger. In this trading business in my opinion the well trained mind needs:

(a) a sense of value
(b) a vast flow of economic, financial and international political information
(c) constant worry
(d) patience
(e) timing.

Supposedly, good advice for a first lieutenant in battle is:

"If you don't know what to do, do something."

Perhaps for personality reasons, I follow the opposite policy: if I don't have a reason for doing something, I leave things as they are and do nothing. Here are two examples which illustrate other things as well.

A while ago when gold was running up, Simons and I separately bought gold someplace in the four hundreds. It continued to run up and after a while Jim sold his gold at a good profit while I continued to hold mine. As it continued to appreciate, Jim nagged me every now and then to take my profits but I couldn't find any specific reason or news for action so I did nothing. Finally some news item on my Telerate screen which I don't even remember caused me to close out my position at around $815. The next day it went to $835. and I complained to Jim about his nagging. The next day it went to $865. The third day it went to $650. or so.

The second story concerns the dumbest thing I ever did in this business. We had somehow gotten into the habit of trading coffee entirely on the advice of a certain Colombian at Hutton.
I bought some coffee between 190 and 200 and Simons bought some more between 200 and 210 on strong advice from that non-Limroy connected person that coffee was breaking up to new highs and was protected from falling until the June-July freeze season. Soon coffee started to fall and fall and fall. There was no news that I could find out and my advisor said to hang in there. Simons said the hell with it and sold out of his position at a local maximum in the 180's. I on the other hand sat with my position down into the 130's. I finally asked Jim to sell my positions out since I could not stand selling at prices which had fallen so low without an apparent reason. By that time it didn't matter much since coffee stayed in the same range for a long while, but it got my mind off the subject so I could concentrate more profitably on other things.

I don't know whether this trading tendency of stubbornness and refusal to close my eyes and get out of a position which has gone against me for reasons I cannot discover is a good one or a bad one. There is the danger of riding a position down say for a long time and a good loss. On the other hand, the market oscillates up and down frequently for essentially random reasons and if I had good reasons for buying something (say) and it drifts down against me for random reasons and my arguments still seem germane, it might be an even better buy and I will frequently increase my position in such circumstances and feel particularly vindicated when it finally turns around and goes my way.

After this horrendous example of following someone else's advice blindly it seems a good time to mention another tendency I have. I don't like to follow other people's advice. When people come to me with suggestions, I rarely do what they tell me or if I do, I do them in my own way. Frequently this is because I am already considering the same thing but waiting for the right time - a panic selling or some internal estimate I have of lowering interest rates to buy (say). Also I do not like to follow the herd. If everyone is buying Swiss franks (say) and
the graph is running up and constant advice is appearing in the tout sheets and newspapers to buy Swiss francs, it is often good to buy Swiss francs since these runs especially in currencies last longer by experience then you expect - now perhaps even more so with the increasing participation of computerized trending schemes. The great trader, Jesse Livermore, said: "It is never too late to enter a bull market", but increasingly I have deviated from this maxim perhaps to my loss and become a so called contrarian.

Along with and similar to my tendency to do nothing when I have no reason goes a stubborness about holding positions. For example, I have been long bills and bonds in varying amounts throughout the year, never completely out until late March and never short, so essentially similar positions were held well over a year (and one could say 2 years). I cite this as an example of stubborness. However, one might ask how I managed to earn approximately 50% on the capital allotted to me given that I have basically been wrong on interest rates coming down. Part of the answer lies in very good trading techniques and timing. The size of the positions was being constantly varied and through luck or whatever I mostly had smaller long positions when interest rates were rising and larger long positions when interest rates were falling.

A second answer is courage. For example: during January 1982 horrendous money supplies were being reported in many cases larger than I expected. I was long some bonds going into this period on which I was taking losses. Against various published advice and private advice of a man whose opinion I greatly respect, I greatly increased my long treasury bill position. In fact, I bought among other times at what turned out to be the low close of the move one Friday and then was shocked by a large reported money supply after the close of trading which did not however prevent the market from running up day after day the next few weeks.
2. I dislike following the crowd - I am a contrarian, I resist taking the advice of others either in personal communication or from the literature. When I do, I try to do things in my own way if buying (say) waiting for dips.

3. I am stubborn in positions. I will hold positions both losing and winning for very long times if I cannot find convincing arguments to do otherwise.

4. I try to buy cheap or sell expensive in efforts to catch panic buying at tops or selling at bottoms. (This frequently leads to losses at least initially but hopefully not enormous losses.)

5. I tend to read too much sometimes when I should be acting. I hate to sell (say) in a falling market. (Sometimes one should force a sale (say) at essentially any price because things will be much worse later.

6. I have good techniques:
   (a) in timing purchases and sales at local minimums and maximums.
   (b) in "automatic" hedging of positions going against me.

7. I am patient
   (a) waiting for situations to come up or develop
   (b) watching as a buy (say) I am interested in goes lower and lower. If it runs up before I have bought in, then I have missed it. I don't chase it.

8. I am courageous in losing positions holding on and sometimes enlarging them.

Here is my record. From June 1978 - July 1979 Simons and I were trading jointly. The numbers are trading profits (or losses) and do not include an additional profit just under 80% of libor on the capital since most of the funds used as margin or reserves for trading can be held in interest bearing accounts of various kinds. (E.g. the 9 million on 24 million capital alloted to me - 38% trading profit this year would actually amount to over 50% if interest income were added in.) Payments to management have not been subtracted.
July 1979 - March 1980 +31 million
April 1980 - March 1981 + 3 million
April 1981 - March 1982 + 9 million

I mention some of my characteristics in trading hopefully to learn from the analysis. There is a statement associated with Winston Churchill but I believe due to Santayana, a late 19th century Harvard professor of religion, that those who do not read history are doomed to repeat it. However, my pessimistic belief is that we are doomed to repeat history whether we study it or not.