

"In *The Little Book of Trading*, Michael Covel does an excellent job addressing what makes trend following such a successful strategy over time in most markets."

—Tom Basso

Former President and founder of Trendstat Capital Management and author of Panic-Proof Investing: Lessons in Profitable Investing from a Market Wizard

THE LITTLE BOOK of TRADING



*Trend Following Strategy
for Big Winnings*

MICHAEL W. COVEL

bestselling author of *Trend Following* and *The Complete TurtleTrader*

NEW FOREWORD BY COLE WILCOX

Cofounder and CEO/CIO, Longboard Asset Management, LLC

More Praise for *The Little Book of Trading*

"I strongly feel that you have to have three things present to be a successful investor/trader: 1) you have to have mental discipline and control, 2) you have to carefully control risk and deal with various forms of portfolio management, and 3) you have to have a buy/sell strategy. In *The Little Book of Trading*, Michael W. Covel does an excellent job addressing what makes trend following such a successful strategy over time in most markets."

—Tom Basso, Former President and Founder of Trendstat
Capital Management and author of *Panic-Proof Investing:
Lessons in Profitable Investing from a Market Wizard*

"*The Little Book of Trading* reveals the secrets of trend following insiders, giving you the freedom to trade all markets: interest rates, copper, currencies, stocks—you name it! Covel encourages you to take that TV blaring CNBC and throw it right out the window. Charts cut the noise."

—Addison Wiggin, Bestselling author of
The Demise of the Dollar; Executive Publisher,
Agora Financial, LLC

"If you're in search of the big returns, buy and hold style indexing isn't going to cut it. In *The Little Book of Trading*, Covel profiles the managers that not only survived the GFC, they made fortunes on it."

—Mebane T. Faber, Founder and Chief Investment Officer,
Cambria Investment Management

"In today's global financial climate, where both stocks and bonds always sit at potentially very dangerous turning points, successful wealth management intent on 'real, not relative' returns requires a tactical trend following posture to asset

classes. This may be best achieved with the inclusion of a healthy allocation of managed futures. Covell nails it."

—Arthur T. Doglione, Founder and President,
Alpha Fiduciary, Inc., Phoenix, AZ

"In *The Little Book of Trading*, Michael Covell has collected many gems of wisdom from some of the great traders of our time. After reading this book and icing together all of the commonalities therein, you'll begin to understand what it takes to be successful in the markets. Ignore these key truths and, one day, you'll watch your account disappear."

—Van K. Tharp, PhD, President, The Van Tharp Institute

"Michael Covell is an expert in the field of trend following. His *Little Book of Trading* is an inside look at why top professional traders and fund managers are hugely successful. Highly recommended."

—Mark Melin, author, *High Performance Managed Futures*
(Wiley, 2010); Editor, Opalesque Futures Intelligence

"Michael Covell's unique insight into trading is invaluable. Both novice and experienced traders can benefit from Michael's thorough knowledge of markets around the globe. *The Little Book of Trading* is a must-read for serious investors."

—Louis G. Navellier, Chairman and founder,
Navellier & Associates, Inc.

"Imagine being in the circle of trust of some of the greatest traders of all time, knowing what made them successful and having them share heartfelt advice. Through the eyes of Michael Covell in *The Little Book of Trading*, you will truly feel this experience."

—Murray A. Ruggiero Jr., Contributing Editor, *Futures Magazine*;
VP, Research and Development, TradersStudio Inc.

Little Book Big Profits Series



In the *Little Book Big Profits* series, the brightest icons in the financial world write on topics that range from tried-and-true investment strategies to tomorrow's new trends. Each book offers a unique perspective on investing, allowing the reader to pick and choose from the very best in investment advice today.

Books in the *Little Book Big Profits* series include:

- The Little Book That Still Beats the Market* by Joel Greenblatt
- The Little Book of Value Investing* by Christopher Browne
- The Little Book of Common Sense Investing* by John C. Bogle
- The Little Book That Makes You Rich* by Louis Navellier
- The Little Book That Builds Wealth* by Pat Dorsey
- The Little Book That Saves Your Assets* by David M. Darst
- The Little Book of Bull Moves* by Peter D. Schiff
- The Little Book of Main Street Money* by Jonathan Clements
- The Little Book of Safe Money* by Jason Zweig
- The Little Book of Behavioral Investing* by James Montier
- The Little Book of Big Dividends* by Charles B. Carlson
- The Little Book of Bulletproof Investing* by Ben Stein and Phil DeMuth
- The Little Book of Commodity Investing* by John R. Stephenson
- The Little Book of Economics* by Greg Ip
- The Little Book of Sideways Markets* by Vitaliy N. Katsenelson
- The Little Book of Currency Trading* by Kathy Lien
- The Little Book of Stock Market Profits* by Mitch Zacks
- The Little Book of Big Profits from Small Stocks* by Hilary Kramer
- The Little Book of Trading* by Michael W. Covel
- The Little Book of Alternative Investments* by Ben Stein and Phil DeMuth
- The Little Book of Valuation* by Aswath Damodaran
- The Little Book of Bull's Eye Investing* by John Mauldin
- The Little Book of Emerging Markets* by Mark Mobius
- The Little Book of Hedge Funds* by Anthony Scaramucci
- The Little Book of the Shrinking Dollar* by Addison Wiggin
- The Little Book of Bull's Eye Investing* by John Mauldin
- The Little Book That Still Saves Your Assets* by David M. Darst

THE LITTLE BOOK OF TRADING



*Trend Following Strategy
for Big Winnings*

MICHAEL W. COVEL



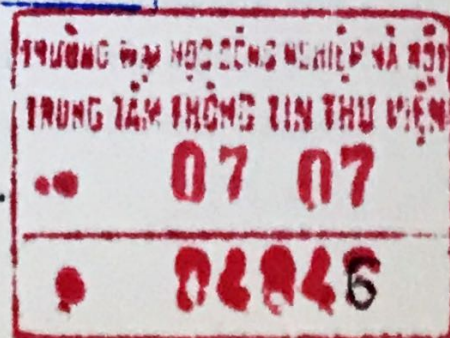
GIFT OF THE ASIA FOUNDATION
NOT FOR RE-SALE

QUÀ TẶNG CỦA QUÝ CHAU Á
KHÔNG ĐƯỢC BÁN LẠI



WILEY

John Wiley & Sons, Inc.



Cover design: Paul McCarthy

Copyright © 2012 by Michael W. Covell. All rights reserved.

Published by John Wiley & Sons, Inc., Hoboken, New Jersey.

Original publication: Copyright © 2011 by Michael W. Covell. All rights reserved.

Published simultaneously in Canada.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without either the prior written permission of the Publisher, or authorization through payment of the appropriate per-copy fee to the Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923, (978) 750-8400, fax (978) 646-8600, or on the Web at www.copyright.com. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, (201) 748-6011, fax (201) 748-6008, or online at <http://www.wiley.com/go/permissions>.

Limit of Liability/Disclaimer of Warranty: While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor author shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

For general information on our other products and services or for technical support, please contact our Customer Care Department within the United States at (800) 762-2974, outside the United States at (317) 572-3993 or fax (317) 572-4002.

Wiley publishes in a variety of print and electronic formats and by print-on-demand. Some material included with standard print versions of this book may not be included in e-books or in print-on-demand. If this book refers to media such as a CD or DVD that is not included in the version you purchased, you may download this material at <http://booksupport.wiley.com>. For more information about Wiley products, visit www.wiley.com.

ISBN-13 978-1-118-52390-2 (Hardcover)

Printed in the United States of America

10 9 8 7

*This book is dedicated to my grandparents:
Wesley Albert Kavaliauskas, Anna Lenore Margis,
John Brooke Pruden, Jr., and Mary Margaret Wright.*

Contents

Introduction: A Wake-Up Call	xiii
Foreword	xxiii
<i>Cole Wilcox</i>	
Foreword	xxxiii
<i>Cullen O. Roche</i>	
Chapter One	
Stick to Your Knitting	1
<i>Gary Davis, Jack Forrest, and Rick Slaughter</i>	
Chapter Two	
Someone's Gotta Lose for You to Win	21
<i>David Druz</i>	

Chapter Three	
No Guts, No Glory	37
<i>Paul Mulvaney</i>	
Chapter Four	
In a Land Far, Far Away from Wall Street	53
<i>Kevin Bruce</i>	
Chapter Five	
Think Like a Poker Player and Play the Odds	65
<i>Larry Hite</i>	
Chapter Six	
Stand Up, Dust Yourself Off, and Keep Going	83
<i>David Harding</i>	
Chapter Seven	
Throw Away the Fundamentals and Stick to Your Charts	103
<i>Bernard Drury</i>	

Chapter Eight

Study Hard and Get an A+ 117

Justin Vandergrift

Chapter Nine

You Can't Know Everything 131

Eric Crittenden and Cole Wilcox

Chapter Ten

Make It Work Across All Markets 147

Michael Clarke

Chapter Eleven

Stay in the Moment of Right Now 163

Charles Faulkner

Chapter Twelve

Sing the Whipsaw Song 181

Appendix A: Getting Technical: What is
Capitalism Distribution? 187

Appendix B: Fund Performance Data	193
Glossary of Key Terms	201
Author Disclaimer	207
Acknowledgments	209