

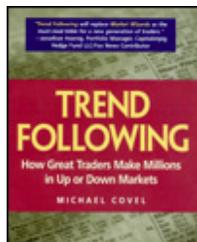
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This article is published in the following issue:



September, 2004

Volume 3, No. 9



Book Review

by: *Gail Osten*

Trend Following: How Great Traders Make Millions in Up or Down Markets.

By: Michael Covel

Publisher: Financial Times Prentice Hall, 2004

I have a couple of initial statements to make about Michael Covel's new book:

1) Please read it whether you think you have an interest in trend following or are not quite sure. I guarantee you will be happy that you took the time. It, of course, covers how trend following works, how it's done, and who can do it, and it doesn't beat around the bush with generalities. But, on top of that, it really delves into the human nature of inventors and traders like I've seen few books do well, and that alone will make it worth the read.

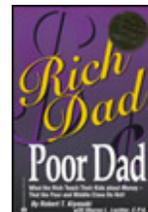
2) Do not be put off by the use of "how great traders make millions..." in the title, because you are going to learn how some have done it (and you could have been on the gravy train with them). Rest assured, it isn't like the books whose titles begin How I Made Millions in the (fill in the blank) Market.

3) Once you begin reading the book, if you have a choice, I bet you will put it down only for meals and bathroom breaks. It's that well done.

I asked Michael Covel why he wrote the book. He said that there was not one definitive book that dealt just with trend following from cover to cover, so he filled the void. Covel is qualified to get the job done. As president of trendfollowing.com, he has been researching the most successful trend following investment managers and consulting on trend following for about ten years. So he had access to John Henry, Bill Dunn, Ed Seykota, Jerry Parker, Richard Dennis and the like – the kings of trend following.

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ISSUE Departments

September, 2004

Editor's Note

The back-to-school authors in this issue had a difficult task, and it was this – to make their stories straightforward primers – perhaps even more basic than those stories we normally present.

Your Letters

Readers' thoughts and questions.

Ask Slim

In this column, I will answer your questions on the technical and psychological aspects of trading and trading methodologies.

Market Timeline

Relative Effects of News Events and Headlines

Book Review

Trend Following: How Great Traders Make Millions in Up or Down Markets.

Book Review

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with every tick of the market, follow CNBC reports, spend a lot of time exploring market fundamentals and listen intently to brokerage firm analysts, trend following is miles away from their approach. It is much more "stick-to-the-rules systematic," once a variety of discretionary decisions are made at the outset. Emotion and subjectivity are eliminated.

For buy-and-hold investors who have been clinging to the old buy-low-sell-high maxim (and carried that thought through the dot.com bubble), trend following is going to be a change. For those who have never gone short the market, TF also will offer the chance to do so, if they are willing to recognize (finally!) that the market does indeed goes up and down.

For those who understand that the traded price alone – not share price, not P/E, not supply and demand, etc. – is king in the markets, TF will make ultimate sense.

Those who think that trend following is only for commodity futures traders will learn that it applies to the equities side as well. The resurgence in trend following came about when the stock market was in sleep mode, so most investors just assume it is all about diversified commodity funds. Not so.

All that said, here are some of the topics covered fully (and well) in Covel's Trend Following:

- The great trend followers, their approaches and claims to fame, including their results over the years;
- Performance data for trend following and how absolute returns, volatility (including the "vomatility" threshold), draw downs, correlation and the zero-sum game factor in;
- A fascinating section on the high-profile trading events where trend followers won huge profits (in many cases, where the buy-and-hold crowd were being blown away), including the stock market bubble, the Enron scandal, September 11 terrorist actions, the collapse of Long Term Capital Management, the Barings Bank meltdown and others;
- Human behaviors that will almost guarantee losses in the markets, the importance of curiosity over standard higher education;
- The simple (but not unsophisticated) nature of decision-making in trend following;
- The science of trading, the importance of defining risk in number terms, and the belief that the world is not linear, with unexpected events peppering pricing in the markets;
- Trading's holy grails unmasked;

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- How to determine what trading system you should be using in trend following (which market, order size, when to buy or sell, when to get out of a losing position and a winning position).

I am grateful to Michael Covel for doing such a masterful job over eight years of fairly researching each of his TF topics and making each section enough in depth to truly understand the topic without dragging it out. Very well organized and well written as well, with lots of analogies to baseball. He, like TF master John Henry, are avid baseball fans.

But as you read it, you'll see that those analogies will make points very clearly.

Again, get this book. Covel has hit a homerun with it .



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