

# TREND COMMANDMENTS

TRADING FOR EXCEPTIONAL RETURNS

**MICHAEL W. COVEL**

## Praise for *Trend Commandments*

“Fire up the barbecue. Michael Covell 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

“Covell’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 Covell’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 Covell 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 Sjuggerud**, 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. Covell 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*, Coval 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

*Trading for Exceptional  
Returns*

Michael W. Covel

**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.<sup>1</sup>**

# Contents

Acknowledgments	1
Ignition	3
Expectations	9
Jargon	11
Show Me the Money	15
Blowing Bubbles	25
Speculari	29
Fundamentals Are Religion	33
Everything Flows	39
Systematic Trend Following	41
Change	45
No Prediction	47
Price Action	51
Place Your Bet	55
Trading Systems	59
Trade Everything	65
Drawdown	69
Entry	73
This Way to the Egress	75
Losers Average Losers	79
Home Run	81
Robust	85
Push the Button	87
Wash, Rinse, Repeat	91
Zero-Sum	95
Crash and Burn	97
Inefficient Markets	101
Benchmark	105
Haters	109
The Root of All Evil	113

Panicky Sheep . . . . .	117
IQ vs. EQ . . . . .	123
Commitment . . . . .	127
Decide Now . . . . .	131
Science . . . . .	135
Statistical Thinking . . . . .	137
Aha! . . . . .	143
Hero Worship . . . . .	147
Buy and Hope . . . . .	151
Convert . . . . .	155
Oracle of Omaha . . . . .	157
A Seinfeld Moment . . . . .	161
Snow Job . . . . .	165
Twit Me a River . . . . .	169
Goldline . . . . .	173
Intoxication . . . . .	175
Parliament of Whores . . . . .	181
Crowded House . . . . .	185
Black Box . . . . .	187
Lucky Monkey . . . . .	189
Honest . . . . .	193
Under the Radar . . . . .	199
Ethos . . . . .	201
Games People Play . . . . .	205
Blood Hound . . . . .	207
Epilogue . . . . .	211
<b>Extras</b> . . . . .	213
Surprise, Surprise, Surprise . . . . .	215
Origins . . . . .	221
Cheat Sheet . . . . .	235
Quick Commandments . . . . .	239
Bibliography . . . . .	242
Endnotes . . . . .	246
About Trend Following & Michael Covel . . . . .	265
Index . . . . .	267

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



# 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.

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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.<sup>2</sup>

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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.”<sup>3</sup>

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.

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

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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?

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**Tomorrow is always another day in the dream factory.**

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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.

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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?”<sup>4</sup>*

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.<sup>5</sup>

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.

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**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.**

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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.<sup>1</sup>*

# 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.

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

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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.<sup>3</sup>

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