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## Review of 'Trend Following'

Posted by [Michael Seneadza](#) on August 19, 2004 08:04 PM (See [all posts by Michael Seneadza](#))

Filed under: [Books](#), [Books: Business](#), [Books: Nonfiction](#)

From the moment I first heard about [Michael Covel's](#) 'Trend Following: How Great Traders Make Millions in Up or Down Markets' I knew I'd like the book. Now that I've read it I can safely say that this book is a classic and a must-read for anybody involved with the markets -- even those of you who are just blindly plowing money into your retirement accounts.

I'd put 'Trend Following' right up there with other essential reads like the 'Market Wizards Series' and 'Reminiscences of a Stock Operator'. (There's a reason why the book has received so many [accolades](#) and is a [top seller](#).) Like the 'Market Wizard' books, 'Trend Following' reveals the methods of some of the greatest traders in history. The difference being that 'Trend Following' examines the best of the best, who all happen to be trend followers. Some of the traders who are profiled are: [Bill Dunn](#), who has returned 24% for 28 years; [John W. Henry](#), owner of the Boston Red Sox, who returned 21 times the S&P 500 from 1998 through 2003; and [Ed Seykota](#), who is very likely the greatest trader in history as evidenced by his just under 60% average annual return from 1990 to 2000. 'Trend Following' reveals the simple method which all of these traders used to achieve such spectacular results.

Covel takes no prisoners in showing why trend following is the superior trading methodology. He lays waste to all other styles of investing/trading -- 'buy & hold' (Warren Buffett fans will just love chapter 9), fundamental analysis, or even (gasp!) technical analysis. I've always been a proponent of simplifying things and it's the simplicity that I love about trend following. Trend followers focus mainly on price itself to determine when to enter and exit trades and they'll go short just as easily as going long. The book illustrates how that methodology has allowed them to make huge profits from some of the greatest financial disasters of modern times such as the [Enron debacle](#), the [collapse of Long Term Capital Management](#), the [1997 Asian Contagion](#), the [1987 stock market crash](#), or the popping of the [NASDAQ bubble](#). If you look at charts of any of those events you'll see that the markets were already trending down before the events took place. Trend followers were already positioned to profit because price told them to be short -- there was no magic formula.

» [Full Olympics Medal Table](#)

Country	G	S	B	T
China	15	9	8	32
<u>United States</u>	14	11	10	35
Japan	9	4	2	15
Australia	7	5	8	20
Italy	5	6	3	14
France	5	3	5	13
Ukraine	5	1	1	7
Russia	4	8	10	22
Germany	4	3	7	14
Turkey	3	0	1	4

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


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The book also explores the mindset and traits of a successful trader via discussions of human behavior, decision making and the science of trading. The culmination of the book is a chapter devoted to developing a trading system, complete with a discussion of two topics that I'm always thrilled to see -- [position sizing](#) and [expectancy](#).

If you want to improve your trading results I highly suggest that you study this book.

P.S. One thing that the book left me wondering is how the average person can take advantage of the trend following money managers who were profiled. I'd like to know if there are trend-following funds that people could put their IRA money into, or does one need to be an [accredited investor](#) to buy into those funds. I plan to find some answers to those questions forthwith.

Update: Good news, apparently the average Joe can access at least some of these funds. Mr. Covell just sent me the following info about John Henry funds:

"But smaller investors can buy into a fund of funds that divides its money among several futures funds that may vary by risk profile and type of investment. The cost of entry is as low as \$5,000 (\$2,000 for an individual retirement account), with fees that run about 1% of assets and up to 2.5% of profits. The top performers this year in this group are John W. Henry's Millburn series of funds, with a 29% return, and the Dean Witter Portfolio Strategy Fund, up 28%."

BusinessWeek

DECEMBER 29, 2003

Originally posted on [TraderMike.net](#)

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[Trend Following: How Great Traders Make Millions in Up or Down Markets](#)

**Michael W. Covell**

Book from *Financial Times Prentice Hall*,  
Release date: 23 April, 2004

[\\$18.70 at Amazon.com](#), Usually ships within 24 hours

On [Michael Phelps makes us proud](#) by Eric Olsen  
*he seems extremely good-natured and level-headed -...* [\[more\]](#)

On [Why do you HATE Bush?](#) by Mike Kole  
*Boom: "I was trying to state that I don't believ..."* [\[more\]](#)

On [Keeping Count in Iraq](#) by Shark  
*...my typo errors being an obvious exception...* [\[more\]](#)

On [Questions for Vets for Kerry](#) by Shark  
*...and a video of Bush anywhere near Vietnam has y...* [\[more\]](#)

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*Aboriginals in Canada? Really? Outside of that ...* [\[more\]](#)

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On [Old 97's - Drag It Up](#) by dw  
*Bill -- good point. I was going to say "towards be..."* [\[more\]](#)

On [Be Quiet, Stupid Hippies](#) by Douglas Mays  
*To stay on subject and respond to comments: hhhmm...* [\[more\]](#)

On [Why the McGreevey scandal matters](#) by boomcrashbaby  
*It is true that McGreevey signed a bill in Janu...* [\[more\]](#)

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*What a show! I saw the Ramones once in Seattle at...* [\[more\]](#)

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**Jack D. Schwager**

Book from *HarperBusiness*, Release date: 27 January, 1993

[\\$11.90 at Amazon.com](#), Usually ships within 24 hours



[The New Market Wizards : Conversations with America's Top Traders](#)

**Jack D. Schwager**

Book from *HarperBusiness*, Release date: 26 January, 1994

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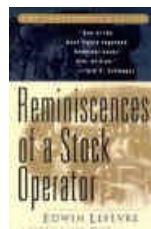


[Stock Market Wizards : Interviews with America's Top Stock Traders](#)

**Jack D. Schwager**

Book from *HarperBusiness*, Release date: 15 April, 2003

[\\$11.17 at Amazon.com](#), Usually ships within 24 hours



[Reminiscences of a Stock Operator \(A Marketplace Book\)](#)

**Marketplace Books**

Book from *Wiley*, Release date: 11 May, 1994

[\\$13.97 at Amazon.com](#), Usually ships within 24 hours

(Amazon information updated at Thu, 19 Aug 2004 20:09:40 -0500)

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On [American and Blogcritic](#) by Mark Saleski  
*i would like to state for the record that i did [\[more\]](#)*

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*"Hmmm... medicine costs a lot to develop, it's tru... [\[more\]](#)*

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*I watched an Iraqi boxer utterly destroy a North K... [\[more\]](#)*

On [Hamm: I'm Proud to Be of the Same Species](#) by RJ  
*"Usually they do stagger the start times for Prime... [\[more\]](#)*

On [Average Joe: Hawaii](#) by Marshall Mathers  
*See bitch...you got the looks...but not the attitu... [\[more\]](#)*

On [DVD Releases For Week Beginning August 16th 2004](#) by judy the obscure  
*"Duel" on dvd! Yes! There is a God! Now if we c... [\[more\]](#)*

On [How to cast The Da Vinci Code without pissing me off.](#) by judy the obscure  
*oh yeah and Monica Belluci (?) (Cleopatra in "Aste... [\[more\]](#)*

On [Guitar World's "100 greatest metal guitarists of all time"](#) by Bommer  
*sorry i correct myself... you haven't even got Ja... [\[more\]](#)*

On [The Prodigy - "Always Outnumbered, Never Outgunned" - The First Review](#) by

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*Duker, you're a hard-shelled softie, aren't you?* [\[more\]](#)

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*Wow, if the Scream series scared you that much, "D..."* [\[more\]](#)

On [Southern Rock Literei](#) by Vern Halen  
*Track down a copy of the New Skynyrd's Endangered ...* [\[more\]](#)

On [A Beautiful Mind | Sparks of Genius](#) by Eric Olsen  
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