Intermarket Interview with Roy Longstreet (1985)

Roy Longstreet was a legendary grain trader and pioneer of technical analysis of commodity markets. As a principal of the brokerage firm Longstreet Abbott, Roy's specialty was a technical approach known as "analog-year research."

Roy had great insight on the role of emotions in market speculation.

From time to time, we wonder what it was like trading futures before the tremendous volatility found in the agriculture markets crept over into the financial markets. Prior to T-bonds and stock indexes, futures markets flourished, but were not the stuff of the world's financial executives as they are today. This month's Intermarket interview probes the memory of Roy Longstreet, an individual once considered a major market force, who lived and traded through the financial upheaval of the Great Depression, as well as the financial futures proliferation seen in the last decade.

Roy Longstreet today is an 84-year-old resident of St. Louis. Far from retirement, Longstreet remains an active trader — a speculator whose only concession to time is the size of the positions he takes. The author of a book on trading, Longstreet left a South Dakota farm as a teenager on the eve of World War I, graduated from Iowa State University and received an MBA from the University of Chicago.

His work as a hedger, first for Swift & Co. in 1927 and then for Ralston Purina, led him to trade his own account. He is considered by many analysts one of the foremost developers of a modern fundamental research approach to markets.

IM: Why have you succeeded in trading to such a degree and why do most traders fail?

LONGSTREET: Many major problems people have in trading are caused by their expectations — of where the market is headed, how much money they will make from this trade, etc. One thing I learned that has helped me: it is wrong for a person to enter any market with any preconceived expectations.

IM: When you trade, don't you at some level need to have expectations?

LONGSTREET: No. I think that is one of the big misunderstandings people have in this business. People should substitute thanksgiving for expectations. Having expectations simply interferes. It interferes with our soul growth.

IM: So you never approach a market with expectations?

LONGSTREET: I do and I don't. In becoming successful, I changed my thinking — I concentrate on possibilities rather than probabilities.

I've reached the point where I disagree with nature. Nature wants you to know where your limits are. The first thing that I do when I examine a new subject, a new commodity, or a new thought about an old commodity, is to try to place limits on how far it can go for me or against me. I do that purposely, and yet that's in conflict with the idea of not fostering any expectations.

IM: So you approach the market as a pessimist?

LONGSTREET: No, not as pessimist. But as one who is willing to accept anything that happens and be thankful for it.

IM: So if you buy a market today, you'll be able to accept that it's down tomorrow?

LONGSTREET: That's right.

IM: How do you handle the situation when what you don't want to have happen occurs?

LONGSTREET: I know that there's always a possibility that what I don't want to happen, will happen. The market will not act in accord with my expectations.

You have to ask the question, 'How must you function in order to survive?' The answer is to be able to accept a loss. Not having expectations makes it a little easier to accept a loss. You must realize that losing is a part of soul growth, so to speak. It's necessary. It's hard to accept, but necessary.

IM: If taking a loss helps develop soul growth, as you put it, what does taking a profit do?

LONGSTREET: Taking a profit can be just as injurious to your financial situation as taking a loss. It can be even more harmful than taking a loss. It can give you overconfidence. Taking a profit can lead you to believe that you know more than you really do. Every man is in that position. It's human nature.

IM: How old are you?

LONGSTREET: 84. I was born in 1901.

IM: How did you start out in the business?

LONGSTREET: I am from an agricultural community. My father was a farmer and laborer. He came here from Holland. He was a laborer all his life, working for someone else. A part of his laboring experience was in farming, but that isn't what prompted me to take up trading.

IM: Did you at a young age become a laborer as well?

LONGSTREET: No, I never did. I left home when I was fourteen years old.

IM: How did you support yourself?

LONGSTREET: Well, to give you an example, when I left my home — a farm in South Dakota — I went to a high school about 35 miles away in Sioux Falls. I approached the principal and described to him my predicament. He said, "Well, if you'll sweep the floors here, I'll provide room in my office to sleep." The teacher in the domestic sciences always left a little food at the end of her class so that I had a little bit to eat. She knew the predicament I was in — that I was destitute.

Luckily, this didn't keep up too long. The athletic coach, who already had a family of five children, took pity on me and took me into his home.

IM: The football coach?

LONGSTREET: Yes

IM: He took pity on you because you were so good in sports?

LONGSTREET: At the time that he took me into his home, I had yet to demonstrate any ability on the field. Subsequently, I did.

When I went into his home, I stopped sweeping floors. I got a job in the public park. It paid me a very small sum of money by the hour. Anyway, he fed me, provided me a place in his home to sleep. He never supplied me with any money.

Actually, he did give me five dollars when I graduated, and the next morning, He told me that I had to make a living and find another place to stay.

I moved out and continued to work cutting grass. But I knew I wanted to go to college, and I had the impression that the YMCA could help me find employment while I went to college. So I wrote to the YMCA in Ames, Iowa, and told them my predicament. They wrote back saying, "You'll need at least a minimum of $300. to go to University, and if you don't already have it, don't come."

But I went out to Ames anyway, and the first place I went was to the YMCA office and said, "Here I am." The person there said, "We told you not to come." I said, "Well, I know, but I'm here." That told me they couldn't help me and that was the end of it.

So I went to the athletic director. By that time I was 17 years old and had some size. I had played tackle on the high school football team.

The athletic director looked me over and said that he saw something that he was interested in and I possibly could be a football player, which I already was. He took me down to the gymnasium and said, "We have a room here for you, I'll arrange for you to wash dishes in the girl's dormitory. That way, you can have some food." That's how I started my college career.

IM: I assume that not many people back then knew they wanted to go to college, especially runaways. How did you know?

LONGSTREET: As a high school athlete I became acquainted with people who had gone to college. They encouraged me to go.

IM: To improve your quality of life?

LONGSTREET: No. As I remember, after every football game the referee — as much as anybody — encouraged me to attend college. He saw that I could play football.

But I wanted to go to college for the learning. My original reason for leaving home was that I wanted an education. I didn't know what an education really was, but just that I wanted it.

IM: So you spent four years at Iowa State? Did you graduate?

LONGSTREET: Yes. With a Bachelor of Science degree in animal husbandry.

IM: What made you got to the University of Chicago, after receiving a degree in animal husbandry?

LONGSTREET: I went there because I received a scholarship. That paid my way through the University of Chicago…

IM: (Interrupting) Your received good grades at Iowa State?

LONGSTREET: Yes. I was the top student in the class. If you go to Iowa State today, you can still see a plaque with my name on it.

I decided to go to the University of Chicago for a very strange reason — not to get an education, but to meet a man, Alonzo Stagg. When I lived in the coach's home during high school, he told me so many stories about Alonzo Stagg — the man — that I decided that I must meet him. So here was a chance for me to do so. Thank God I did.

IM: Why?

LONGSTREET: He was an outstanding human. Outstanding! I learned a great deal from him. The most important thing I learned from him was perseverance. Do you know anything about the history of Alonzo Stagg?

He was a son of a shoe repairman. Alonzo wanted to go to Yale, but his father had no money. Yet he was determined. At Yale, he had no money and so he had to struggle — he lived in an attic and he often didn't eat. Yet on the playing field it didn't show. He never lost a baseball game when he pitched. Never. When the Yale alumni found out that he was that good, they wanted to keep him, but the only way they could keep him was to feed him. He was physically going downhill when the alumni got hold of him. Alonzo Stagg was determined that he would stay at Yale — he persevered. When Alonzo Stagg graduated from Yale, he wanted to become a minister, but he had a speech impediment. And he realized that he could not function as a minister, but he could do the second best thing — he could teach the same lessons through athletics.

He became athletic director at the University of Chicago and, of course, had an outstanding record of achievement as a coach. He lived to be 101 years old.

The thing that impressed me was that Alonzo never gave up. As I said, I learned the importance of determination from him while I was getting an MBA.

IM: Before it was even fashionable. What happened after graduation?

LONGSTREET: In 1927 I found employment at Swift and Company. Being a farm boy, I knew a little bit about the meat packing industry, and my MBA got me some attention. At Swift, I got interested in why hog prices changed. This change in price would drastically affect the company's profits from a quarter-to-quarter standpoint. Very quickly, I began to discover things that made me differ with my immediate superior.

IM: Meaning you learned more than he knew about the subject?

LONGSTREET: Yes.

IM: What did you learn?

LONGSTREET: I learned about the importance of markets — that the markets have a tremendous impact on the profitability of a company. One of the sons of G.F. Swift was in charge of purchasing and selling hog for the company. I remember every Monday morning, the first thing I did was to go and tell him how many hogs were slaughtered the previous week. He looked up to find out how many hogs Swift had slaughtered. And if the company slaughtered less than a certain percentage of the total, his comment was that they didn't pay enough. If it was more than a certain percentage, the company paid too much.

By 1928, I was talking to him about storing pork. I believed that the company should buy pork and store it — I was bullish but I don't remember why. But my immediate superior felt that I was interfering with his position at the company. So my interest in markets got me fired.

IM: Did you get fired on the spot?

LONGSTREET: No. They were very kind. I was fired in a very gentle manner. They arranged for Ralston Purina to take an interest in me. At that time, Ralston Purina was just developing an interest in commercial research. It was through them that I became interested in the grains — corn, wheat. I got the company to agree that I could trade commodities.

IM: For the company?

LONGSTREET: No. For myself. Eventually, it got to the point that I was in charge of all of the company's hedging.

I went through a period of learning. I didn't really know what I was doing and of course, nobody could teach me. I had to learn for myself. Actually, trading has been a process of learning ever since. You learn about the markets and you learn about yourself.

IM: What was the year 1929 like?

LONGSTREET: 1929, the beginning of the Great Depression. I remember people who were concerned and frustrated. They couldn't understand why the market was going down the way it was. The stock market fell between 40 and 60% that year. The stock market's effect dragged all the commodities down. I saw the commodity markets falling and at the same time I didn't understand why, but I became fascinated by it.

IM: When did you begin doing well?

LONGSTREET: It really wasn't until the Second World War broke out in 1939 that I began to wake up and realize what was happening as far as how to trade. But during that time I had succeeded in drawing attention to myself and making money for the company.

When the war broke out, I was in charge of hedging. I was short a large position for the company and when war broke out the markets soared, phenomenal limit moves causing millions of dollars of paper losses to the company.

I'll never forget a meeting the chairman, William A. Danforth, called among the executives one morning while this was happening. Danforth bought and built Ralston Purina into a major firm. He was an exceptional individual. His word was it. Anyway, I walked into the meeting with all these executives looking at me. They all knew about the great paper losses the company had sustained due to the positions I had put on. Just as I sat down, Danforth said, "Well, Roy, how did you sleep last night?" I said, "Fine!" He looked around his office and said, "Meeting dismissed. Roy slept all right last night." And it was dismissed. He wanted to see if I was bothered by these huge losses. When he saw that I wasn't, he was comforted.

IM: Did you get out of these losses?

LONGSTREET: No. I stayed with the position and within days the market fell back and eventually the positions turned out very profitable. The market soared and then within a matter of weeks, plummeted.

During this period, I learned about analogue years. These were my salvation. Analogue means similar. At one time I had the idea that history would repeat itself. In other words, if you have an overvalued situation, you look back at all other times in history where the market was similarly overvalued and examine how it acted. Look for similarities in patterns. When you've located what you consider an analogue year, you have a framework for taking action in today's market.

For example, I knew that when World War I broke out in 1914, the markets acted in a very similar way to how they acted after the outbreak of the Second World War. I felt very comfortable with this short position, because I knew it would repeat. But since that time I leaned that I was wrong. I was right on the move, but for the wrong reasons. I had the idea that markets always repeat. I no longer believe this. Nothing ever repeats exactly — nothing. There are some things that repeat in principle. For instance, bear markets are more apt to act like a previous bear market than are bull markets.

IM: Why is this?

LONGSTREET: Nothing is ever identical in detail in any market. But bear markets are more similar to each other in structure than bull markets. In a bull market, too often emotional influences rule the market, and so price action tends to vary according to the amount of emotion.

IM: What do you look for in an analogue year?

LONGSTREET: I look for a number of things. I started looking for those markets that in the past had acted in ways similar to what I think is possible this year. That involves quite a search, because I don't always think and therefore I don't quickly find a market that has similarity. But I will pursue that and pursue it until I come close to it. It's always in the back of my mind — is this market acting in a similar fashion to the way it acted in 1976 or 1924?

I look through the books that I keep, look for the market that acted like what we've seen and what I expect. I'm looking for a needle in a haystack. As I proceed, I will find some similarities between the pattern that I chose and today's market action.

IM: I've been told that you are a pioneer in fundamental analysis.

LONGSTREET: I don't know whether I'm a pioneer or not. Fortunately, that's where I started. Had I not started there, I doubt if I would have learned as much as I had. I'm not one who knows it all. I've learned some things which are valuable to a trader and have kept me going on.

First of all, there is a difference between possibilities and probabilities. Probabilities involve forecasting. My forecasting used to be grounded in fundamental analysis. I didn't always know the fundamentals, but I attempted to know.

I used to believe what all fundamental traders believe: that all markets always responded to fundamentals, so if you know and understand the fundamentals before others, you will succeed. I no longer believe that. I believe that markets are made by men and that there are four classes of men.

IM: So you're no longer a fundamental analyst?

LONGSTREET: I wouldn't say that. I would answer it this way: I believe that men make markets and man doesn't change. Man may or may not interpret the importance of the fundamental the way I do. I believe that there are different classes of men and that in every market, there are always these four classes of men to a greater or lesser degree. Of course, there are much more than four types of men in the markets. But for the sake of simplicity and analysis, I have reduced them to four. Each group can at any one time be dominant. The key is to know what the mix is of men who are making the markets. It's a question of which class will win out, and which class is dominant.

The first class of men doesn't think. The second does think, but must have a reason for taking action. They are going to succeed over the long haul. The third class is in there professionally — hedgers, commercials. The fourth class thinks that they think. They are highly emotional and are never able to control their emotions.

IM: How does the first class differ from the fourth class?

LONGSTREET: The difference is this: many people can't think, but only do what they are told. Usually, the first class makes up the majority of a market. Today they don't — they need to have an exciting market. The second group is comprised of people who are intelligent and are able to think for themselves — the successful traders. The members of the fourth group try to think for themselves, but are incapable of anything more that emotional thinking.

IM: So 1975-1980 might be a period of time where the metal markets were dominated by those who don't think — the outside speculator who just wants to buy a bull market. The commercial might be someone who sold the metals, and the higher they got, the more the commercial sold.

LONGSTREET: There's a difference between those who speculate for money, and those who trade — not to make a lot of money — but to protect their inventory. The hedgers are the third class and think more long term.

The ride up was caused by those who don't think, but the wild excessive top to the gold — and to virtually every market — is caused by the fourth group — the emotional traders.

IM: In other words, you slept well in 1939 because you believed this rally to be a temporary thing due to your knowledge of how the markets acted when the First World Was was announced? You didn't know if the rally against you would last for days or weeks, but you were protecting an inventory and didn't react emotionally.

LONGSTREET: Yes.

IM: I would think that the actions of the first and fourth class are very similar.

LONGSTREET: Yes. What you mean is, those who are emotional actually are unable to think. They think that they think, but they respond to their emotions.

IM: How does the market act when it is dominated by those who think?

LONGSTREET: It never is except for occasional and very brief periods of time. For example, if the major trend is down, but the market rallies back part way, those who think will be selling into the rally, and the rally will turn down due to the forces of the second class. Thus, the second class takes advantage of the excesses caused by the first and fourth classes when it contradicts the major trend.

IM: How does breaking the market into these four classes allow you to approach the market and understand it?

LONGSTREET: I'm not sure that I do understand it. This is relatively new to me. It's only been in the last two or three years that I have begun to realize that men are making markets. So I'm not sure that I can answer that question intelligently.

Bull markets breed emotionalism and therefore attract the fourth class, as well as the first class. The third class is always in the market, by necessity. And the second class is never very far, always looking to get in early on an attractive opportunity. So the first and fourth class of men change the market in its later stages, bringing extremes. I think there were fundamentals that caused the gold market to go up, but not as high as it did. At key turning points in the market, the fourth class dominates, such as when we saw $800. gold.

IM: How did you train analysts?

LONGSTREET: Very simply, I had a book for everything — a book for corn, a book for wheat. I assigned an analyst to one or a couple of books. They were instructed to look for pattern similarities — analogue years — and try to establish a cause-effect relationship in fundamentals and price movement. As things would develop in a market, each individual would write down his ideas about what happened during that day in the specific commodity he was in charge of. It thought that the information gathered would help me today.

I ended up realizing that this approach only got a lot of junk. People who write about markets are simply doing that which is necessary to keep their jobs. Whenever there was a movement in the market, it was necessary for the analyst to feel that he knew why it occurred. Usually, what they said was worthless.

IM: The correct answer to the question, "Why did the market fall?" is simply that there was more selling that buying.

LONGSTREET: Right. Why there was more selling than buying can be known, but it is often not important. I'm one of those than doesn't know all the reasons why there was more selling than buying. But the difference between myself and the next trader is that I know I don't know. Most other people believe that they know.

IM: So you have no problem entering a market when you know you don't know the reason behind the move?

LONGSTREET: Ah! I know that I can know something. I know that the market moved, and I know that the increased buying was caused by something. I may have an idea but I don't know if it's the correct reason.

But I can know that so long as my interest is truth and truth alone, and that I persevere in my search for truth, some parts of the truth will come through. Thus, I need not necessarily know the reason behind the market's behavior in order to profit from it. That's been proven over the years.

IM: Would you consider yourself a long-term trend trader?

LONGSTREET: Oh yes. I put on a trade today that I may hold for eight months. But then again, I may get out of it tomorrow.

IM: Tell me about your first major success in trading.

LONGSTREET: Well, it's very difficult for me to remember all of them. Actually, in the early years I was confused. I didn't know it, but I was feeding my soul food that was required for it to grow — namely, disappointment. I had no framework within which to understand the market and to take action in it. At that time, I lived on expectations, not possibilities.

IM: When did you begin to understand the markets?

LONGSTREET: (Long pause) Sometime in the 1940's, although I can't pinpoint it. The thing that opened my eyes was that people make markets. The corn market doesn't move up because there is a short corn crop, it moves up because people think that the existence of a short corn crop will mean that the price should go up, so they buy. Nor does the bond market move due to a shift in the money supply. And it depends on what class of men is dominant in the market. You have to think, not in terms of the market rallying because of a short crop, but the class of men which dominates the market, and what will influence these men to buy, sell, or stand aside. Perhaps one class of men will be influenced by a crop report or news of the money supply while another class of men will look on the resulting hell breaking loose as an opportunity.

IM: When did you first make a lot of money?

LONGSTREET: That depends on what you call a lot of money. A lot of money to me is several million dollars. In the early 1930's a thousand dollars was a lot of money to me. It took me a good period of time before I realized that there was as much danger in success as there is in failure. I didn't realize it. Usually the money I would make I would give right back.

IM: When was the first time that you made so much that you overwhelmed yourself?

LONGSTREET: That didn't occur until the 1960's. It actually happened first the other way round. I lost a million (dollars) in a day — in just one day — in the bean complex.

IM: How did you get to the point where you could lose that much?

LONGSTREET: I steadily built it up, all of it through trading, making money over months and years. Obviously I had more than $1 million because I continued to trade. But I feel that I learned more from that experience than I did in making all the money over the many years prior to that.

IM: How did it feel to lose a million in one day?

LONGSTREET: I have some property west of here. I go out there on weekends. Fortunately it happened on a Friday, so I was able to seek refuge on my property, away from it all. Over the weekend it really began eating into me. So I called a friend of mine. Do you know Tom Jordan?

IM: No.

LONGSTREET: Well the only way for me to convey to you anything about Tom Jordan would be to relay this story. This story describes him better than I could ever describe him.

Tom Jordan was from New Orleans, and he was one of these individuals that based his action primarily on emotion. He wanted to get married — this was in 1946. In order to get married to his future wife, he had to go to New York, where she lived. She had a mother who was very protective and who wanted to find out what her daughter's life would be like married to Tom Jordan. He told me that he had enough money to get to New York from New Orleans, and enough money to pay his room, but not to buy food. He somehow finagled his was into her mother's heart, so that she served him and paid for his food — which was one meal a day.

He needed money so he got up enough courage to ask her to lend him $300 to buy one contract of cotton. This was in January. She turned him down — she was wise enough to invite a banker to one of the meals with the three of them to discuss his request. The banker advised her, "No way."

This was in January. I'll skip over some details. By October, a great cotton market ensued in which Tom made and lost back over $30 million.

IM: How?

LONGSTREET: How? He borrowed enough money somewhere to get started. Anyway I called him up over the weekend.

IM: He'd certainly be the type of guy that would make you feel better about losing only one million.

LONGSTREET: Exactly. Anyway, I was still so shaken from my experience. So I called him and asked him to tell me how he had done it. I was interested in learning the technique — how he pyramided. He said, "I don't know. All I know is that I knew something about cotton. That isn't important. The important thing for you to know is that I'm here now. And the other important thing for you to know is that I broke two brokerages — they went out of business because of me. But it didn't stop me because I had an account with a third broker."

He continued," Don't feel that you have to do it my way — I can't tell you what my way is. All I want you to know is that something I do worked for me. You're going to have to do it your way. No other way, until you learn to do it the way, which is a process of trying your way and failing and not giving up." Those were his words, " I can't tell you what the way is. All I know is that I failed. And if you fail and quit, you're through. But you can fail and keep on."

IM: Did you go back into the office Monday morning and trade?

LONGSTREET: No. I went back into the office and called him up again. I said to him, "I hate to ask you this question, because you already told me that you don't know. But I still want to know — is there something I can do to make this back? I lost $1 million on Friday. That's a lot of money for me. Its not $30 million that you lost, but it's a lot of money for me."

He said, "I can't tell you. But I'll give you a clue. When I lost the $30 million, I called my broker, talked to him about what had happened. I asked him, "Do you have enough money in my account so that I can buy the limit in wheat?" I asked him why he picked wheat. He said." I don't know. I just did. I realized that if I was going to continue, I must continue. I had to buy something."

Tom Jordan told me one other thing that was important. He told me, "Whatever you do, don't piddle. Make it big — whatever you do. Big enough that it commands your entire attention."

IM: So you knew what you were doing before losing this money. But you wanted the $30 million trade.

LONGSTREET: No. I wasn't after $30 million. I've never traded for money.

IM: Then why weren't you satisfied with what you were able to do?

LONGSTREET: Do you know what Fibonacci teaches us?

IM: The geometric growth pattern of numbers.

LONGSTREET: What does that tell you?

IM: That as the numbers increase, the growth rate of the next number is geometric.

LONGSTREET: What does that tell you about human nature?

IM: That as we accumulate wealth, we always want just a little bit more.

LONGSTREET: Not just a little bit. The more we have, the more we want. Fibonacci observed this studying the pyramids. Each that was built was bigger than the one before. Being a mathematician, he observed that the progression was such that pyramid building must be stopped. Just like in trading — if you don't control yourself, you must eventually go broke, because it's impossible to feed your mind, your imagination.

IM: You've lost $1 million in a day. Have you ever made that much in one day?

LONGSTREET: Not in one day. But within four months after that episode I made over three million.

I guess I took to heart a lesson learned from Alonzo Stagg, and which I had relearned from Tom Jordan, not to quit.

IM: So it was then that you learned how to pyramid?

LONGSTREET: Yes. The ability to pyramid is, I think, something which is inherent in someone or it is not. You can't learn the instinct to pyramid. To pyramid intelligently, to pyramid with discipline — that you can learn.

IM: Was that the key to your success?

LONGSTREET: Discipline, not pyramiding.

IM: When you are planning a campaign, do you know ahead of time at which price levels you will add on?

LONGSTREET: No. And I don't want to. That leads to expectation. At one time I used a mechanical approach where a certain price level would cause me to add on. But I want to eliminate as much as possible this appetite for expectation, and be satisfied with possibilities.

IM: When you would want to buy, would you keep adding on in equal units, would you add on in greater size, or in a percentage of the total position?

LONGSTREET: Well, I add on in equal units, but I add on only if I really believe myself correct.

IM: How do you approach a campaign in terms of pyramiding?

LONGSTREET: Well, that gets me to another lesson. I believe that a passage in the Bible, a quotation of Jesus, has something to offer traders who are pyramiding. He said, "If you only believe." He was asking people to have a sort of supreme confidence.

I'll tell you about another experience. Now keep in mind that this is my experience, not something that somebody told me. This experience at that time meant nothing, but since that time has meant everything. It's about this idea of pyramiding.

At one time, I had a very profitable business managing money for other people. I had a number of clients in California and went to visit two of them. The second was a cotton farmer named Sherman Thomas. I visited a fellow first whose name I forget — and I want to forget, for his sake. He had started with some $40,000 in his account. During the previous year I had lost

$4,000. He was greatly disturbed, because he expected something he didn't get. He was disturbed and he told me so in so many words.

After my visit with him I traveled up north from Los Angeles to where my second client, Sherman Thomas, lived. But after seeing this first gentleman I was really depressed, and I don't mean maybe. I mean really depressed — because I don't like to disappoint people. And I had, and had been told about it.

Sherman Thomas had lost the same percentage of money. But when I got off that airplane I never was greeted like I was by this fellow. "Am I glad to see you!" He greeted me like a long lost brother. I knew I had lost money for him, so I was skeptical of him acting this way. But he was sincere. He was optimistic and he gave me confidence, so much so that he convinced me that I had the ability to make him money. He asked me to make him $800,000 which was the amount of money he had lost the previous year in business. I did not promise to do it for him until we got into a friendly disagreement on the meaning of faith. He felt like he knew it and I felt like I knew it.

IM: The meaning of faith?

LONGSTREET: The meaning of faith. He told me, "You'll find out that I'm right and you're wrong." Well I did find out, but not until after I had contacted many minister friends I had. I was disappointed because none of them told me in terms I could understand.

Anyway, as I was leaving, he reiterated that he wanted me to make him $800,000, and he said he would risk $60,000 to make it.

But he only put up $3,000. He would have put up more if I'd have asked him to, but it wasn't necessary. I told him that when I put on a position large enough to require more margin money, my secretary would notify him of how much was required and he would put up whatever margin was necessary up to $60,000.

So I traded. It was almost a mystical experience for me. Within three months his $3,000 grew to $400,000! And we never needed any more than the original $3,000.

IM: Confidence.

LONGSTREET: But it ended right there. You see, I had a picture of him having confidence in me. That's why it happened — I believe. But one day he flew out to St. Louis to withdraw $100,000 from his account. I was mistaken — he didn't believe in me. He never would've gone to the expense of flying out here to withdraw some money had he believed in me.

So I became angry and told him, " Get out of here. Just walk down to the office and get your check. But we're through. You don't believe in me."

But anyway, this incident told me nothing immediately, but almost everything eventually. Believe — if you can only believe. Pyramid only if you have faith. You're in danger whenever you pyramid a position. Unless you really, really believe, you better not do it. And I mean it. Do it only if you believe completely in yourself and in your analysis of the situation. Otherwise, don't pyramid.

IM: So how did you make that type of return?

LONGSTREET: I don't know. All I know is that I believed I could do it.

IM: Was it in one commodity?

LONGSTREET: No. In several. Actually, I was as surprised about it as anyone. My secretary was supposed to call him whenever I would put on positions that required margin money. She didn't call after I had put on an especially large position and I was about to criticize her. She said, "It's not necessary, you're making money." I didn't know it. All I know now is that I believed.

IM: So you're saying that nobody can tell anyone else how to pyramid?

LONGSTREET: That's right. And that's what Tom Jordan told me: There's a belief that somebody knows, and if we can just find that person, we can imitate him. But successful people don't imitate. Each person must do it the way, and the only way to find the way is to do it your way, fail, and persevere.

IM: How were you able to fail from 1929 until 1960, and still have enough money to lose a million?

LONGSTREET: I was trading well, yes. But I was mistakenly thinking it was my technique. I thought I could learn from talking to those people more successful than I, trying to discover what their technique was. I never realized that I was looking for somebody who knew, but the only person who had the ability to know what was right for me and could teach it was me.

IM: So you're saying the most important thing any trader can do is generate his own decisions and his own approach.

LONGSTREET: Yes. Because that's the only way any of us learn. We can't really learn from anybody else. That's my belief. I can't feel truly comfortable doing things your way. I'll always have a nagging doubt until I discover my own way.

IM: When were you trading at your best?

LONGSTREET: Today. I operate based on principles today. This is the first time in my life I'm trading based on principles.

IM: Are you making the most money you've ever made in your life?

LONGSTREET: No. And I don't want to make the most money. What I want to do is operate based on principles. Maybe I'll change that tomorrow. Today I want to be sure that I'm being patient. When I put on a trade, it doesn't have to work for me this instant, so long as it doesn't work against me in a major way. Patience doesn't mean just waiting. It means being able to sit and learn - that thing which you feel is necessary to learn — however long it takes.

IM: Were your trading capacities at a higher level in the 1960's than they are today?

LONGSTREET: I wouldn't say so. I'll put no limit on the amount of volume I'll trade today, although I do insist that I examine my position in terms of moderation.

IM: There was a time where you didn't use moderation?

LONGSTREET: Yes.

IM: What principles other than moderation and strong belief do you base your trading on?

LONGSTREET: Detachment or lack of emotionalism. Patience, moderation. They all are interrelated; if I don't trade in moderation, I'm not going to be detached.

IM: How can one pyramid and still remain detached?

LONGSTREET: Why does one trade? Is it to make money, or is it a process of growth for the individual? Self-discovery? If it's the latter reasons, you don't want to place limits on it, because it may be necessary for you to pyramid in order for you to find out who you really are.

IM: After pyramiding his way to $30 million, did Tom Jordan know himself?

LONGSTREET: No. Not really. But he taught me one thing that I hadn't thought about, but worked very well for me. That is — concentration. You should concentrate on one thing. You should be so involved in that one thing that you will attempt to become master at it. You no longer need to trade everything. That the answer in self-discovery is to attempt to do something that you've never done before. Make the attempt, so that you can discover yourself in the new experience.

The person's role in his trading is the most important element in success. People don't think they need to know themselves. It's ridiculous. Most people tell me, "I know myself as much as I need to." They are wrong.

IM: What do you know about yourself today that you didn't know in the 1960's?

LONGSTREET: I know that I'm a body that requires meat, potatoes, etc. I also know that I'm a soul that requires my ability to convert adversity into success. This to me is very significant. You never grow without adversity. It's all in how you handle it, not the fact that you have it. Having it means nothing. But if you can manage your thinking so that you aren't upset by it, that's growth.

IM: Did you ever put yourself in a position in trading where your being wrong would wipe you out?

LONGSTREET: Yes. In the beginning, many a time I'd have to call my wife up and say, "Can I have another $100?" She'd ask what had happened to all the money I had been trading. "It's gone." Too many times I called her up and she made the journey to bring me $100. I've been wiped out many times. And I might get wiped out tomorrow.

What I'm talking about might not fit anyone else at all. But it fits me. I feel I'm making progress — that I am a different person that I was when I began trading, because I've experienced self-discovery. Not that I've discovered everything about myself. But I am perfectly willing to have enough courage to admit that there's something that I don't know.

IM: How will you handle yourself if your positions go strongly against you today?

LONGSTREET: I may close them out. But it won't bother me. I've arrived at the point where it's necessary for me to have adversity occasionally. I can truthfully say that those positions could go against me, I could close them out for a decent loss, and yet I could be thankful for everything that happened.

IM: You're thankful when the market goes against you?

LONGSTREET: I'm thankful. It's difficult, but it's necessary.

IM: When do you take a profit?

LONGSTREET: I foolishly operate on signals. I believe I do not know all the signals, but I know some of them. And, I compliment myself in that I have enough courage to act when I read that a signal is given.

I've simplified markets into certain patterns. One involves a market rising from a bottom. Another is a falling market. Basically, the trend is your friend — I look to latch on to a trend.

IM: So you bring home most of your positions overnight?

LONGSTREET: Yes. Very seldom do I get in and out during the same day.

IM: Do you feel comfortable initiating a position toward the end of the day?

LONGSTREET: The only time I'll feel comfortable taking a position near the close is on a limit break or a limit rise. I feel that there's terror and haste in market activity on or near the close of a market. There's terror in being forced to do something that you don't want to do. I'd rather do it because I believe and if I believe, then I'm ready to take a position almost any time.

IM: Were your most successful trades very long-term trades, trades that you held for months?

LONGSTREET: Most of the most successful ones were very long-term trades.

IM: Do you ever put all your positions on at once or do you always stagger into it?

LONGSTREET: Sometimes I'll put on a very small position all at once. But staggering in ties into the principle of patience. Quite often I'll put on even a very small position in a very gradual way, just for discipline. I add on, not because the market has gone up, but because it complies with what I think the market should be doing.

I almost always stagger into a major position. Every order I put in usually is a market order. If the market isn't acting as I think it should, I refrain from trading or adding on.

I don't' know whether I'll be successful on any big campaign I undertake, but I have to exercise discipline. As it goes with me I feel good but I don't want to feel too good.

I'm long gold from a much lower level and today, it's down eight dollars — so what? Nothing goes straight up or down and the market makes mistakes. I think that this is a mistake.

IM: Who were the great traders in your lifetime?

LONGSTREET: Arthur Cutten was one of them. He was a Canadian who started with nothing. When he lived in Chicago he was successful as a commodity trader. But when he moved to New York, he became a victim of Fibonacci's numbers — he died poor.

IM: How wealthy was he in his day?

LONGSTREET: I have an idea it was in the hundreds of millions for a brief time. I never knew if he traded intellectually or not. I have a feeling he was good at catching emotional swings in the market.

IM: How about Jesse Livermore?

LONGSTREET: Livermore was a swinger. And as a trader, he never gave up. Well, I guess he finally did, since he shot himself.

Dan Rice was a great trader who I found myself time and again opposing. I remember the wheat market in one year — I forget the year. I was a party to the pushing of the wheat market up a lot higher relative to what you could buy wheat for in Michigan and deliver to Chicago. So that's what Dan Rice did.

IM: Was W. D. Gann any good?

LONGSTREET: What little I know came from my attempt to apply his technique. I must admit, I never did learn it. I believe he was a tremendously successful trader, but my attempt to learn and apply his technique as I understood it was for me a complete failure.

IM: Can you corner a market?

LONGSTREET: Oh yes. I did corner a market. I cornered the meal market.

I think it was in 1962. I didn't corner the meal market to corner it. That was not my intention. I cornered it primarily to take advantage of long-term capital gains. I found myself in a position of cornering the market. I never knew I had done it.

IM: Did you pyramid?

LONGSTREET: Yes. I've been in brokerage because of it. Actually, I was rendering a service for a fee at that time. I benefited from my relationship with the nameless parties in such a way as they were making money out of me on paper transactions. You don't put meal away in storage, because you have to pay for it if you do. So they made a lot of money on my recommendation. But when it was all over, they wouldn't take their damn meal back. They said, honestly, "We're making money on it." They were holding the paper of my position — it wasn't costing them anything. So, I said, "Look, either you straighten this out and take the meal back, or…"

They said, "What does that 'or' mean? You can't be a broker." Out of sheer ego, I found that I could be. And that put me in the brokerage business.

IM: More than $10 million?

LONGSTREET: Not quite that much. That was the year that I lost the million in one day and then I made back four million in the following quarter. I was very comfortable with my trading at that time. So later that year I wasn't focusing minute-by-minute on the meal trade, so long as I knew it was working for me.

IM: So you just bought a lot of meal, and you held, and by January…

LONGSTREET: I just carried it over till January…

IM: Did you have problems liquidating?

LONGSTREET: Yes. Yes. I could not sell my long cash unless I wanted to discount them two dollars.

IM: How? Did you sell all that you had hoped?

LONGSTREET: I know that the market was quoted at this price, I tried to sell it at this price, but the only way I could do it was to discount it two dollars below…

IM: So did you sell it on the cash market or on the futures?

LONGSTREET: Well, I was selling cash at that time because I hadn't received delivery on the cash.

IM: How much did you have? More than the equivalent of 200 futures contracts?

LONGSTREET: Oh yes, I don't know how many contracts I had, but it was a large, substantial amount.

IM: Was it probably more than 500 futures contracts?

LONGSTREET: Could be. I never cornered any market on purpose. I don't believe in it. I think it's an error to think you can corner a market and make money on it.

IM: Why?

LONGSTREET: It violates my concept of moderation. Markets go up on the basis of supply and demand. That's what Hunt found out when he cornered silver. As I know the man, he'll never trade again. He's through trading. And I don't want to be through.

IM: How do markets act when they are being manipulated or cornered?

LONGSTREET: Look at the way silver acted. He tried to corner the silver market. He did it by having a huge position in the silver futures market and then taking delivery, and at the same time buying silver mines.

IM: So you don't have any specific approach to pyramiding; you handle if differently each time.

LONGSTREET: Right.

IM: So when you pyramid on the long side, you put on a position and then buy every weakness?

LONGSTREET: Well, some of the time I pyramid on weakness, but most of the time I add on into strength.

IM: When you buy strength on a pyramid, do you often times see a position where the market has a setback and you could have bought it lower on pyramiding if you could have waited?

LONGSTREET: No, if I just have the feeling I should have, I don't want to even do it.

IM: Do you remember much about the potato market wars?

LONGSTREET: Oh, yes. I was big in potatoes, but the potato market discouraged me. Primarily because I was at the mercy of the Idaho fellow until the government came in and enforced the rules. And when I woke up and realized that you can break the rules and get away with it, I wanted nothing to do with that market. I haven't traded in the potato market since.

IM: So it seems to me that the period 1959-62 was a very successful time for you. Before that, were you that successful?

LONGSTREET: Yes.

IM: Did that success go to your head? Did you do a lot of careless trades that you wouldn't ordinarily have done had you not had that success?

LONGSTREET: Oh yes.

IM: So success was for you as much a learning process as was failure.

LONGSTREET: Oh, much more. And I couldn't have withstood failure without a prior success.

IM: You told me that in the '30's there were many times where you had to go back and ask for more money. And you're not doing that today. What is the difference? Is it that you're not trading as much and so you're not forcing it? You're not taking bad trades?

LONGSTREET: A larger percentage of my trades are profitable. I can't tell you why. I attribute that to the feeling, ' I can.' There was a period in my life when I believed that I couldn't.

IM: Could you still make money during that period?

LONGSTREET: No. I think there are still some times when I feel like I've lost in a particular trade, but it isn't devastating. As long as I've learned something from it, no trade can be devastating.

IM: Do you take losses quickly?

LONGSTREET: It is something that I've learned to do that I think is invaluable. You see, I try never to let a trade get to me to the point that I'm anxious about it. I'm not a master of my anxiety, so once I feel myself coming to that point, that alone is reason enough to get out of the trade. Once I begin to worry about it, I might better be out of it. There's no way to recoup my losses by keeping this trade, since there's no way I can.

A good trader doesn't let fear or anxiety dominate him. He must demonstrate that he can by doing something about it and not worrying.

Most of the people who have traded commodities are walking dead men. They remember and fixate on the fear they experienced when they were wrong. Unless they can shake that, they'll never trade well again. The experience has been so painful that they will remember it for the rest of their lives.

IM: Why do you steadfastly say that you're not successful in a conventional sense?

LONGSTREET: In a conventional sense, who doesn't think about money as the only standard?