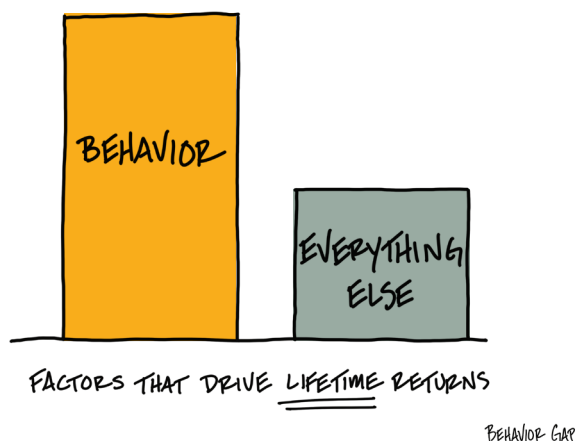


Lessons from a legend: How the wisdom—and the failures—of Jesse Livermore applies to investing in 2024 and beyond.

In 1892, 15-year-old runaway Jesse Livermore made his first stock “trade”—it was actually more of a bet, in a “bucket shop,” where one could gamble on the rise and fall of stocks—and made \$3.12 on a \$5 wager. By 1897, he’d amassed \$10,000. When he went massively short on the market before the 1907 Bankers’ Panic financial crisis, he made \$1 million in a single day. He would go short again in 1929 and make approximately \$100 million (about \$1.7 billion in today’s dollars) from the Great Wall Street Crash¹. Along the way, Livermore lost it all several times, but reportedly paid his debts as he bounced back each time. He spoke often about the importance of controlling emotions, decades before the concept of behavioral investing caught on.

Periodically, we present “Lessons from a Legend”—stories where we highlight the philosophies, methods, and knowledge that they attributed their success to. (Read our first, on the “Great Wolf of Wall Street,” Bernard Baruch, a friend of Livermore’s, [here](#)). Historically, these bedrock principles have worked, over full-market cycles and even centuries. Livermore was a pioneer in technical trading. He would grow to develop, and use to his advantage, a preternatural understanding of crowd psychology and the emotional elements of investing. Here, we present some quotes from Livermore’s 1940 book “How to Trade in Stocks,” along with our thoughts on how they apply to today’s—and tomorrow’s—investing environment.



“The human side of every person is the greatest enemy of the average investor or speculator.”

—Jesse Livermore (1877-1940), legendary investor, millionaire at age 30, and subject of the 2001 book, *World’s Greatest Stock Trader*

“Markets are never wrong. Opinions often are. The latter are of no value to the investor or speculator unless the market acts in accordance with his ideas.”

At NewSquare Capital, we don’t offer opinions on where the market is headed. We believe that to beat the market, you’ve got to zig when others zag. People want predictions and opinions. They encompass most of the programming on CNBC and a lot of the headlines elsewhere. We take a distinctive approach, preferring to listen to the market, study its trends, and look for opportunities, always backed by risk management. Many people think you need to be right almost all of the time to be a successful investor, but if you manage the downside, that is not true. The key is, when things don’t go your way, cut your losses and try again. In other words, at times, we’re going to be wrong, but we’re not going to stay wrong.

“The Game of Speculation is the most uniformly fascinating game in the world. But it is not a game for the stupid, the mentally lazy, the man of inferior emotional balance, or for the get-rich-quick adventurer. They will die poor.”

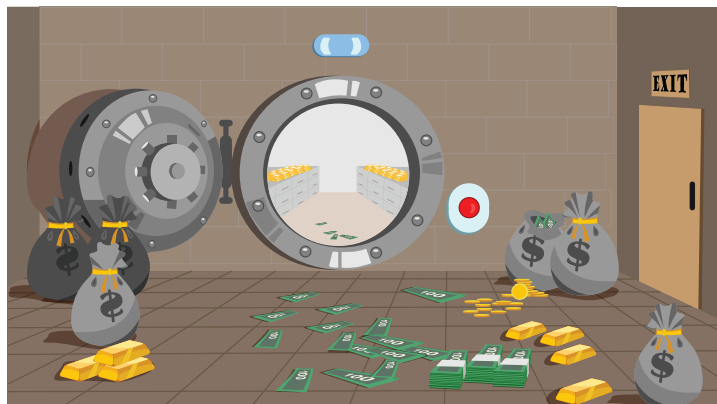
Every investor can fall victim to the emotions and biases that are hardwired into the human brain. They can lead us to make decisions that take us off course, trying to chase performance or time the market. The solution starts with awareness: know that we all feel these emotional tugs when investing. Understand them and your own limitations. Manage your expectations and trust the process. It represents the logical, thinking side of the brain and holds the key to managing risk. The reason most people fall short of the goals, is usually not the process, but failing to manage the emotional and psychological challenges inherent in investing.

People often asked Livermore how they, too, could get rich in the market. He wrote, **“It’s difficult to exercise patience with such people. In the first place, the inquiry is not a compli-**

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ment of a man who has made a scientific study of investment in speculation. It would be the same or it would be as fair for the layman to ask an attorney or surgeon, ‘How can I make some quick money in law or surgery?’ ”

People ask us, and probably all investment professionals, the same question. Maybe it’s because these days, everyone has easy access to stocks through their phones and computers. Doctors and lawyers spend years mastering their craft. The bedrock philosophies of successful investing are easy to understand on the surface, but they can be hard to implement through the market’s swings. It takes time and failure—as it did for Livermore—as well as effort to be a great investor. We strongly believe that is why it’s important to have an advisor or investment manager that you trust, with a process that matches your risk tolerance.



“Anyone who is inclined to speculate should look at speculation as a business and treat it as such and not regard it as a pure gamble, as so many people are apt to do.”

Every New Year’s weekend, Livermore literally locked himself in the vault at Chase Manhattan Bank, with a desk, a cot, food, and “the making for some old fashioned.” He would sit amid piles of cash—he liked to physically touch the money after a year of paper transactions—and review all of his trades. He paid particular attention to the losers, trying to figure out why they didn’t work, and how to avoid making the same mistake again. Sometimes, he had *a lot* of them to review. The great, truly successful investors don’t get there without blowing up at least one account or making a huge mistake. The great ones treat investing like their only business and learn the right lessons over time.

“Analyze in your own mind the effect market-wise that a certain piece of news, which has been made public, may have in relation to the market. Try to anticipate the psychological effect of this particular item on the market. If you believe it is likely to have a definite bullish or bearish effect market-wise,

don’t back your judgment until the actions of your market itself confirms your opinion.”

Essentially, Livermore is saying, don’t fight the market. Listen to it. If you think that some event should drive stocks higher and it doesn’t, let go of your preconceptions and consider reevaluating. Make sure that the market confirms your opinion. We’ve seen, far too many times, investors buy a stock because they think it’s going to go up. If it falls, it’s very easy to give in to emotions and say, “I’m going to wait until it confirms my opinion and turns around.” A year later, the stock is still in their portfolio, but way down. We believe the best investors don’t let that happen, at least not too many times.

Livermore addressed the issue of mounting losses. **“That is the time that you should be worried. That two-point loss could be followed by two points the next day or possibly five or 10 within the next week or two. That is when you should be fearful because if you did not get out, you might be forced to take a much greater loss later on. That is the time you should protect yourself by selling your stock before the loss assumes larger proportions. Profits always take care of themselves, but losses never do.”**

That’s not to say that every time an investment loses a bit of its value, it’s time to sell. Periodic losses happen, and should be baked into your risk management process. Livermore is again addressing the emotional component of investing and the biases that can lead us astray.

“Speculation is very similar to playing a game of cards. Whether it be poker, bridge, or any similar game, each of us is possessed with a common weakness of wanting to have an interest in every pot, and we certainly would like to play every hand at bridge. It is this human frailty which we all possess to some degree that becomes the investors’ and speculators’ greatest enemy and will eventually, if not safeguarded, bring about his downfall.”

That happened to Livermore, and more than once. He went bankrupt three times, either before he had fully formulated his trading philosophy or because he ignored or broke his own rules. “What beat me,” says the main character in *Reminiscences of the Stock Operator*, a 1923 fiction bestseller based on Livermore, “was not having enough brains to stick to my own game—that is, to play the market only when I was satisfied that precedents favored my play.”

In the end, Livermore committed suicide, at a time when his liabilities once again outpaced his assets. He suffered from depres-

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sion, and some speculate that he had bipolar disorder, which stems from a chemical imbalance in the brain and is treatable today. Still, his string of bankruptcies and tragic death point to a man who periodically got away from the principles that made him successful, especially risk management, given what appears to be excessive use of leverage.

Market Review

The bull market rolled on during the second quarter, despite the continued fading of expectations around interest rates cuts, still-high geopolitical risk surrounding wars and the November election, and rising bond yields. The S&P 500® Index advanced 4.3% in the second quarter and 15.3% in the first half, closing the period up 31.5% since October 2023. Strong corporate earnings, resilient and strong economic data, and continued enthusiasm around artificial intelligence buoyed U.S. equities. Multiple indexes, including the S&P 500®, the Dow Jones Industrial Average, and the NASDAQ, repeatedly reached all-time highs.

However, the gains have been extremely concentrated. The “Magnificent Seven” stocks of Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta Platforms, and Tesla accounted for more than half of the year-to-date gain, and Nvidia alone contributed nearly one-third of the advance. The equal-weighted version of the S&P 500®—which gained just 11.6% in 2023 compared to the headline advance of 26.3%—declined in the second quarter. So did the Russell 2000® small-cap index, which hasn’t sniffed a record high since November 2021.

Year-to-date gains	Contribution to Return (as of 6/30/2024)	Percent of Total Index Return
S&P 500® Index	15.29%	100%
Nvidia	4.58%	29.95%
Alphabet (Google parent)	1.13%	7.39%
Microsoft	1.35%	8.83%
Amazon	0.95%	6.21%
Meta Platforms (Facebook parent)	0.88%	5.76%
Top 4 Stocks	8.89%	58.14%
Other 496 Stocks	6.40%	41.86%

Source: FactSet

Very few stocks or sectors are keeping pace with the large-cap names benefiting from AI. One example that’s far from Nvidia: shares of power producer Vistra, in the utilities sector, advanced more than 300% in the 12 months through the end of May, driven by expectations for surging demand to power AI data centers. Many indexes are struggling on a relative basis, especially those for small-cap or value stocks.

Various Index Returns		
Various Indexes	2q24 return	YTD return
S&P 500®	4.28%	15.29%
S&P 500® Equal Weight	-2.63%	5.07%
S&P 500® Growth	9.59%	23.56%
S&P 500® Value	-2.10%	5.79%
Russell 2000® (small-cap)	-3.28%	1.73%
Russell 2000® Growth	-2.92%	4.43%
Russell 2000® Value	-3.65%	-0.86%
S&P Midcap 400®	-3.45%	6.15%
Bloomberg Commodity Index	2.89%	5.14%

Analysis of data from spglobal.com, accessed July 5, 2024.

We highlight the lopsided nature of 2024 markets not to argue that the AI stocks are bad, or even overvalued. Most are backed by very strong fundamentals. But, small- and mid-cap names historically outperform their larger counterparts over full market cycles, and value stocks outshine growth for long periods of time, including 1999-2010. That almost assuredly, at some point, will happen again.

The point is, there is opportunity out there, beyond the “Magnificent Seven” and their high-flying friends. We realize that portfolios that aren’t heavily weighted in these names have trailed the big, headline indexes. We know that diversification helps balance risk and return over the long haul, even if it hasn’t felt that way for a while. We trust that our disciplined, long-term approach will—as it has in the past—help our investors reach their goals.

¹ <https://jesse-livermore.com/jesse-livermore-timeline.html>,
<https://www.investopedia.com/terms/j/jesse-l-livermore.asp>

Indexes referenced:

The Dow Jones Industrial Average (DJIA) is one of the best-known stock market indexes in the United States that measures the daily price movements of 30 large American companies on the Nasdaq and the New York Stock Exchange. It is widely viewed as a proxy for general market conditions and the U.S. economy as a whole.

The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

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The Russell 1000 Index is a stock market index used as a benchmark by investors. It is a subset of the larger Russell 3000 Index and represents the 1000 top companies by market capitalization in the United States.

The Nasdaq Composite is a stock market index that includes almost all stocks listed on the Nasdaq stock exchange. Along with the Dow Jones Industrial Average and S&P 500®, it is one of the three most-followed indices in the United States.

The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

The S&P 500® Equal Weight Index (EWI) is the equal-weight version of the widely-used S&P 500®. The index includes the same constituents as the capitalization weighted S&P 500®, but each company in the S&P 500® EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

The S&P 500® Growth index measures constituents from the S&P 500® that are classified as growth stocks based on three factors: sales growth, the ratio of earnings change to price, and momentum.

The S&P 500® Value measures constituents from the S&P 500® that are classified as value stocks based on three factors: the ratios of book value, earnings and sales to price.

The S&P MidCap 400® provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment.

The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index.

The Russell 2000® Growth Index measures the performance of the small-cap growth segment of the US equity universe.

The Russell 2000® Value Index measures the performance of the small-cap value segment of the US equity universe.

Additional statistical data sourced from: Bloomberg Finance, LPL Research, Morningstar, and NewSquare Capital, LLC.

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