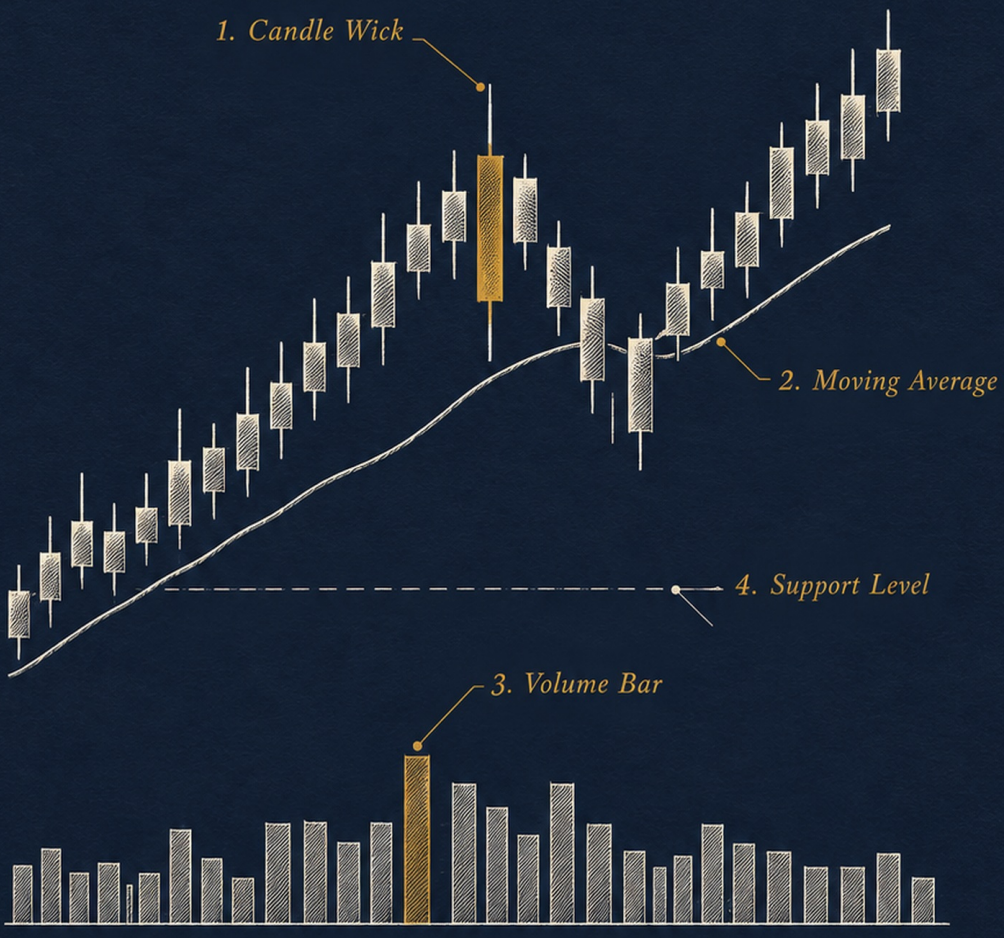
TRADE'S ANATOMY

The market is not against you.



REX

Trade's Anatomy

TRADE'S ANATOMY

The market is not against you.

How I stopped blaming the market and built a process.

Investing and trading is not luck. It's discipline.

Rex

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First edition.

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A WORD ON THE TITLE

If the title made you think of a hospital drama, that is on purpose. Grey's Anatomy borrowed its name from a medical textbook that has been teaching students how the human body is built since 1858. Every episode is the same idea: open something up, look at what is actually there, learn from it, and go back in the next day a little better.

That is what this book does with trades. Mine, mostly, and a few famous ones. I take them apart, the losses more than the wins, and look at what was really inside: the reason I bought, the reason I sold, and the gap between the two where the money went.

There are no wizards in these pages and no secret indicator. Just anatomy. Once you know how a trade is built, you stop blaming the market for what happens to it.

INTRODUCTION

The trade that cost me £37 and taught me everything

One day, I bought ten shares of Uber.

I can tell you exactly why, because I wrote it down afterwards and the honesty still stings a bit: "Impulsive purchase following self-driving-car news and the new CEO's positive financial growth narrative." That was it. That was the whole plan. A headline, a good feeling, a tap on my phone. I am not even an Uber user. I could not have told you how the company made its money, what it was worth, or what would have to happen for me to be wrong.

It went into loss almost straight away. Not a disaster, a few percent. But I could not stand it. There was nothing underneath the position, no reason to hold, so every red day felt like a personal insult. Sixty-eight days later I sold, down 6.3 percent. Bought on impulse, sold on discomfort. Both ends of the trade were pure feeling.

The loss was £37. I have spent more on a round of drinks. And yet that £37 might be the best money I have ever spent, because it was the trade that finally made me stop and ask a question I had been avoiding for years: what am I actually doing?

Because Uber was not the first. Five years earlier I had bought Virgin Galactic near the top of the space hype, convinced that space tourism was the future and that I had spotted it early. I was right about a lot of it. The spaceport was real. The aircraft was real. The test flights worked. And I still lost 96.8 percent of my money, because I did not understand one word, dilution, and I averaged down five times into a company that was paying its bills by printing new shares. I did not buy a bargain five times. I funded a decline five times.

And then there was the trade that worked: Amazon, bought when every AI stock was going vertical and Amazon, for some reason, was not. I knew that business. I have been a customer for years, my day job has kept me close to how online retail works, and I could see with my own eyes how much of what they do could be automated. I wrote down why I was buying. I gave myself a window. Five months later I sold, up 15.4 percent, and it was the calmest trade I have ever made.

Three trades. Same person, same phone, same amount of intelligence. One a wipeout, one a scratch, one a clean win. The difference was never luck and it was never talent. The difference was whether I had a process or a feeling.

Who I am, and why you should care what I think

I am not a fund manager. I am a thirty-something with an ordinary day job, and on weekends I help coach a kids' football team. I have a partner and a young son. I am, in other words, exactly the kind of person who is supposed to just put money in a pension and not think about it.

I did think about it, though, because I have a goal with a date on it. I want to reach financial independence, the point where my investments could pay my living costs and work becomes a choice, within ten years. Not to stop working. To stop needing to. And when you have a real number and a real deadline, you cannot afford to keep making Uber-style decisions. The maths does not forgive it.

So over the last year I built myself a process. A proper one, written down, with rules I have to follow before I am allowed to buy anything, rules for how much I am allowed to risk, rules for when I have to sell, and a review I have to write after every trade, in my own words, about what I really thought going in and how it really felt coming out. It is the most boring thing I have ever built. It is also the reason I now sleep fine with money in the market.

This book is about that process. Not so you copy it. My numbers are mine, my risk appetite is mine, my goal is mine. It is here so you can see how someone with no finance degree went from "space tourism is the future, buy" to a written case with an entry, a stop, a target and a kill condition, and so you can borrow whatever pieces fit your own life.

What you will be able to do by the end of this read

When people say investing is scary, what they usually mean is that the vocabulary is scary. P/E ratio. Market cap. RSI. Credit spreads. Yield curve. Fear and greed. Pump and dump. Earnings beat. Macro. It sounds like a language designed to keep you out, and to be fair, some of it was.

By the end of this, that language will have no secrets for you. You will understand what the market is actually doing when the news says it is "rattled" or "buoyant". You will be able to look at a company and ask the five or six questions that matter. You will know what a chart is telling you and, more importantly, what it is not. You will understand why interest rates move everything, why a war in the Gulf moves oil before it moves anything else, why a company can beat expectations and still fall, and why a stock going up 50 percent in a month is usually a warning, not an invitation.

You will understand the difference between a correction and a crash, between an investment and a bet, between a value investor, a growth investor, a momentum trader and a contrarian, and you will start to work out which one you are.

And you will see, step by step, the process I use: how an idea earns the right to become a trade, how I size it so that no single mistake can hurt me, how I get in, how I get out, and how I learn from it. By the end you should be able to read the daily noise, the earnings reports, the headlines and the charts and know exactly what they mean, whether you then decide to invest yourself, or hand your money to someone else and finally understand what they are doing with it.

One promise, and one warning

The promise: everything in this book is real. The trades are my trades, with real percentages. The quotes are real quotes from real people, and the company stories are ones you can check. If I am not sure a story happened exactly the way it is usually told, I will say so.

The warning: I am still on the journey. I have not reached financial independence yet. Some of the

positions I mention will go wrong after this is written, and that is fine, because the point was never to be right every time. The point is to make good decisions, repeatedly, with a system that catches me when I am about to do something stupid. As you will see, "about to do something stupid" is my natural state. The process is what stands between that and my money.

Let's start with the biggest myth of all: that the people who win at this are lucky, or gifted.

CHAPTER ONE

Luck, talent, or discipline?

The rocket that had one launch left

On 28 September 2008, a small rocket called Falcon 1 lifted off from Omelek Island, a speck of coral in a Pacific atoll. If you had been watching from the SpaceX control room in California you would have seen a lot of very tired people holding their breath, because this was the fourth attempt, and the first three had all failed.

The first one, in March 2006, caught fire and fell into the ocean about half a minute after launch. The second, a year later, got further, then started spinning and never made orbit. The third, in August 2008, only a few weeks before this one, lost its payload when the two stages of the rocket bumped into each other during separation. Three launches, three failures, and Elon Musk has said many times since that he had only ever budgeted for three attempts. The fourth was scraped together in eight weeks from parts already built and the last of his own money. He has been open that if that one had failed too, there was no fifth. SpaceX would have been finished.

It didn't fail. Falcon 1 reached orbit, the first privately developed liquid-fuelled rocket ever to do it, and three months later NASA signed a contract with SpaceX worth around 1.6 billion dollars to fly cargo to the space station. The same December, on Christmas Eve, Musk

closed a financing round for Tesla that, by his own account, saved that company from going bust within days. Two companies, both days from going under, in the same week of the worst financial crisis in eighty years.

People love this story because it sounds like luck. Rocket makes it on the last try. Money arrives on Christmas Eve. It reads like a film.

But look at what actually happened between launches three and four. The gap was about eight weeks. In that time the engineers found the exact cause of the failure, a new engine that kept producing thrust for slightly longer than the old one, so the first stage was still pushing when the second stage tried to leave. They changed one thing, the timing of the separation, tested it, and flew again. No new rocket, no new idea, no miracle. A precise diagnosis, one fix, and the discipline to go back out and do it properly.

That is not luck. Luck is what you call discipline when you only see the last frame.

Why I start a book about money with a rocket

Because the whole world tells you, in a hundred small ways, that people who make money in markets are either lucky or gifted. The lucky ones bought Bitcoin in 2012 or Tesla in 2019. The gifted ones have some sixth sense for a chart, or an uncle at Goldman. Either way, the message is the same: this is not for people like you.

I believed that for a long time. It gave me a comfortable excuse when a trade went wrong, and an even more comfortable excuse for not learning. And then I noticed

something about every single person and company I actually admire: none of them behave as if it is luck. They behave as if it is a job. A repetitive, unglamorous, checklist-driven job.

Morgan Housel, who wrote The Psychology of Money, one of the few finance books I would give to a friend, puts it in one line: "Doing well with money has a little to do with how smart you are and a lot to do with how you behave." I have read that sentence twenty times and it gets truer every year, because I have now watched myself be smart and behave badly, and be average and behave well, and only the second one made money.

So this chapter is about the boring truth behind the exciting stories. Then it is about my own three trades, which are much less exciting and much more useful.

Amazon: the stock is not the company

In December 1999 Amazon's share price hit about 113 dollars. Less than two years later it was around 6. That is a fall of more than 90 percent. If you had put ten thousand pounds in at the top, you would have been looking at less than a thousand.

Now, most of the companies that fell 90 percent in the dot-com crash simply died. Pets.com, Webvan, Boo.com, hundreds of them. The lazy lesson from that period is "internet stocks were a bubble". The correct lesson is more interesting: a real long-term theme, the internet, was absolutely right, and most of the stocks riding it still went to zero. Being right about the future is not the same as being right about a company, and being right about a company is not the same as being right about the price you paid. Three different questions. Most people ask one and think they have answered all three.

Jeff Bezos wrote his first letter to shareholders in 1997, two years before the peak, and the phrase he chose to build it around was "It's all about the long term." He then listed what that meant in practice: they would make decisions based on long-term market leadership rather than short-term profit, they would measure themselves by cash flow rather than accounting earnings, and they would tell shareholders plainly when they were making bold bets that might not pay off. That letter has been reprinted at the back of every Amazon annual report since. It is a set of rules, written down in advance, so that when the pressure came, the company would not have to decide, under pressure, what kind of company it was.

When the pressure came, the stock fell 94 percent and the company kept executing the letter. Bezos has said that during those years he would remind the staff that the stock was not the company, the company was the company. Twenty years later Amazon is one of the most valuable businesses on earth.

I am not telling you this so you go and buy any stock that has fallen 90 percent. Please don't. Virgin Galactic fell 90 percent too and I have the scars. The point is narrower: Amazon survived because it had a discipline it had committed to in writing before the crisis, and it was measurable. Cash flow, not vibes. When I finally started writing down what I would do before I bought something, rather than deciding under pressure afterwards, that letter was part of the reason.

Apple: discipline is saying no

In 1997 Apple was, by Steve Jobs's own later account, about ninety days away from running out of money. It

had lost around a billion dollars that year. The product line was a mess: dozens of Mac variants with names like Performa 6400 that nobody, including Apple's own staff, could tell apart.

Jobs came back, took the hundreds of product configurations and drew a two-by-two grid on a whiteboard: consumer and professional, desktop and portable. Four boxes. Everything that did not fit in a box got killed. Whole teams, whole product lines, gone. He also took a 150 million dollar investment from Microsoft, the company Apple fans considered the enemy, because pride was not going to pay the bills.

He explained the thinking that same year, at Apple's developer conference: focusing is not about saying yes to the thing you have to focus on, it is about saying no to the hundred other good ideas. He later told his biographer Walter Isaacson that deciding what not to do is as important as deciding what to do.

Every investor I know who loses money, including me, loses it because they say yes too often. Too many positions. Too many "just a small one". Too many stories. The single biggest improvement in my results came not from a better way to find winners but from a filter that rejects most ideas before I am allowed to spend a minute on them. I call it the gate and you will meet it in Chapter 6. It is my two-by-two grid.

Nvidia: thirty days from going out of business

Jensen Huang started Nvidia in 1993 in a Denny's diner in California. For most of its first decade it was a struggling chip company that nearly died more than once. He has said that Nvidia's unofficial motto for

years was "Our company is thirty days from going out of business", and that he still opens presentations to new staff with it, decades later, while running one of the most valuable companies in the world.

I love that because it is the opposite of how most people run their money. Most of us get careful when we are losing and careless when we are winning. Huang runs the company as if the wolf is always at the door, in good years and bad, and that permanent low-level fear is what keeps the discipline in place when the stock is up 200 percent and everyone is calling you a genius.

You will see later that my process has a rule about this. When a position I hold jumps 15 percent or more in a single day without hitting a target I set in advance, I am required to trim it, not celebrate it. A stock going up that fast without a reason is not a gift, it is a warning, and the warning is loudest exactly when it feels best.

Buffett: the rule you already know and never follow

Everyone knows the Warren Buffett line about being fearful when others are greedy and greedy when others are fearful. What people forget is where he said it and when. It was in an opinion piece in the New York Times on 16 October 2008, titled "Buy American. I Am." The stock market had just had its worst week on record, banks were failing week by week, and he wrote a public letter saying he was moving his personal money from bonds into shares.

Read that again. Not "I think this is the bottom". He did not claim that. He said, in the middle of the panic, that he could not predict the short term at all, but that fear was the friend of the long-term investor, and that he

was acting on that today. The market did fall another 25 percent or so after he wrote it, bottoming in March 2009. And then it went up for a decade.

What that piece shows is not a prediction. It is a rule, applied. "When it is cheap and everyone is scared, buy, in stages, and do not pretend you know the exact bottom." He had written down that rule decades earlier, and in 2008 he simply did what the rule said, in public, while it felt terrible.

The best entries I have made all felt terrible. The worst ones all felt great. If you take one thing from this whole chapter, take that.

My three trades

I promised you real trades. Here they are, not quite in the order I made them, because the lesson matters more than the sequence.

Virgin Galactic: right about the future, wrong about everything else

A few years ago I bought shares in Virgin Galactic for the first time. Space tourism was the future. I still believe that. Virgin Galactic was the only pure-play company you could buy shares in, it had a real spaceport in New Mexico, a real aircraft, real test flights that had reached space. I was, in my own words at the time, "genuinely impressed" and I thought it was way undervalued.

Here is what I did not do. I did not check how the company was paying its bills. It had no revenue worth mentioning, and a business with no revenue funds itself by selling new shares. Every time it does, your slice of the company gets a little smaller. That is dilution. It is a

quiet, legal, relentless way for an early investor to lose money while the company keeps going.

So the price fell. And I did what felt sensible: I bought more, because it was cheaper. Then it fell again and I bought more again. Five times in total. Each time the lower price felt like a better deal. What I was actually doing was buying an ever smaller share of a company whose share count kept climbing. The company later did a reverse split, one new share for every twenty old ones, which is usually the sign that a stock has been crushed. By the time I finally closed the position, five years after the first buy, I had lost 96.8 percent.

The line I wrote in my review afterwards is the one I now read before any trade in a company that is not yet profitable: time may save Virgin Galactic. Time will never save its diluted investors. You can buy years early, sit through a huge rally, be right about the technology, and still end up with nothing, because the company survived by giving your share away to new buyers.

Uber: no case, no conviction

You have read this one. A few years ago, one April: ten shares, a headline about self-driving cars, and a new CEO saying nice things about growth. No written reason. No idea what I would do if it fell. No idea what I would do if it rose, either, which is the bit people miss. I did not know why I was in, so I could not know when to be out.

It went into loss immediately and I sold sixty-eight days later, down 6.3 percent, because holding it felt uncomfortable and I had nothing to check the discomfort against. Both the entry and the exit were reflexes. The £37 did not matter. What mattered was

seeing it clearly for the first time: I had no process, and without one, I was going to keep doing this in bigger sizes until it really hurt.

That was the trade that made me build the process. Everything in the rest of this book exists because of ten shares of a taxi app.

Amazon: buy what you know, when the crowd has walked past it

Around the same time, the market was in full AI fever. Chip companies, software companies, anything with "AI" in the earnings call was going straight up. Amazon was not. It just sat there, and that struck me as strange, because if you think about which company on earth could save the most money and improve its margins the most by using AI and robots, it is the one with the warehouses, the delivery vans, the biggest online shop in the West and one of the biggest cloud businesses. I know that company. I use it constantly, and my own job gives me a view of how online retail logistics work from the inside. I could explain why I was buying to my partner in two sentences.

So I bought it with a plan: I wanted a profit inside three to six months, and I was not going to hang on for a round trip. Five months later, up 15.4 percent, I sold. The exit was not perfect, I did not have a precise target written down, and that became a rule afterwards: set the take-profit before you enter, so the exit is a decision, not a hope. But it was calm, it was planned, and I closed a winner instead of watching it evaporate. The same trade will come round again. It did, in fact. I bought Amazon again later that same year, a new trade, and this time with a written entry zone, a stop and two targets.

What the three trades have in common

Nothing about my intelligence changed in the five years between those trades. What changed was the presence or absence of a process. Virgin Galactic had a belief and no rules. Uber had a headline and no rules. Amazon had a reason I could explain, a window, and a decision to bank the win.

Ray Dalio, who built the biggest hedge fund in the world, boils his whole philosophy down to a formula: pain plus reflection equals progress. Pain on its own is just pain. I had plenty of it after Virgin Galactic and learned nothing for years, because I never sat down and reflected in writing. I stayed away from stocks and shares for a long time after that. When I came back, Uber was the first loss I actually wrote about, and that is why it changed everything.

Peter Lynch, who ran the Magellan fund at Fidelity through the 1980s and averaged around 29 percent a year, had a rule so simple it sounds like a joke: know what you own, and know why you own it. I owned Uber and could not answer either half. I owned Amazon and could answer both in a sentence. Guess which one made a profit.

The doctrine I run on now

One day I wrote down, for the first time, what I actually believe about investing. Not a strategy yet, just the principles the strategy would have to serve. They have been edited since, but the core has not moved.

First: only my index fund is a hold-forever position. A cheap fund that tracks the biggest 500 American companies is the anchor of everything, it gets money

every month no matter what, and I never sell it into a panic. Everything else I own exists to make money and then be sold. Buy a great business in fear at a good price, set a target, sell, and then either re-enter lower or move on. Being very long-term bullish on a company does not mean I cannot trade it. Those are two different jobs.

Second: every decision runs on three things. The reward compared to the risk. My confidence, which has to come from understanding, not from a headline. And timing, which is what the chart is for. If any of the three is missing, I wait.

Third: there is a difference between an investment and a bet, and it is not the amount. A recoverable asset, a real profitable business or a proven index, can be traded through its ups and downs, because if it falls 30 percent tomorrow, recovery is a matter of time, not a matter of if. An all-or-nothing bet cannot be traded that way, because a fall might be the beginning of the end. Virgin Galactic was a bet I sized like an investment. That is the whole mistake in one sentence.

Fourth, and this is the one that took me longest to accept: the biggest threat to my money is me. Not the market, not the news, not the Fed. My impulse to buy near the top because it feels safe when everyone is buying. My impulse to sell when it hurts. My impulse to add to a loser because a lower price "must" be a better deal. A process is not there to find brilliant ideas. It is there to catch me.

What I actually do

At the end of most chapters I will show you what this looks like in my real routine, so the ideas do not stay

abstract. Here is the shape of it, before we fill in the detail.

Every idea, whether it comes from the news, a chart, a friend or my own head, has to pass a three-part filter before I am allowed to spend serious time on it: is the business sound, is the wider environment a headwind or a tailwind, and is the price at a sensible place on the chart. Most ideas fail one of the three and go on a watch list with a note saying what would have to change.

If one passes, I answer five quick questions, then I write a case. Not a note, a case, with a thesis in one sentence, the scenarios and their rough odds, the size I am allowed, the price at which I am wrong, and the price at which I take profit. I write my own bias check into it. If I cannot write the pitch cleanly in three sentences, the idea is not ready and it goes back on the list.

If the case is good and the overall market is not flashing red, I buy in stages, never all at once, because I know I tend to buy near tops. I manage it against the plan, not against my mood. I sell for a legitimate reason: target hit, thesis broken, stop hit, the market getting euphoric, or a once-a-year audit that says the position no longer fits. Never because it hurts.

And when it closes, I write a review that asks two questions: what did I really believe going in, and how do I really feel about it now. That library of honest answers is the only thing that gets better every year.

That is it. That is the whole system, and none of it requires talent. It requires that I do it every time, including the times it feels stupid, which is most of them.

WORDS YOU NOW OWN

Dilution. A company issuing new shares to raise money. Each existing share now represents a smaller slice of the business. Common in companies that are not yet profitable. My Virgin Galactic lesson.

Averaging down. Buying more of something as its price falls, so your average cost drops. Fine for a profitable business in a panic, deadly for a struggling one funding itself by dilution. A lower price is not a reason on its own.

Reverse split. Swapping many old shares for one new one to lift a collapsed share price. Usually a sign that things have gone badly.

Thesis. The reason you are buying, in one sentence, that you could explain to a friend. No thesis, no trade.

Position. Your holding in a particular investment. "A position in Amazon" just means "some Amazon shares".

Take-profit and stop. The price at which you plan to sell for a gain, and the price at which you accept you were wrong and sell for a loss. Both decided before you buy, not after.

Anchor. My word for the core, hold-forever index fund that everything else sits on top of.

Investment vs bet. An investment is recoverable if you are wrong on timing. A bet is not. Size them differently.

CHAPTER TWO

Reading the room. Market health, sentiment, and the people who move it

The day the market went up 9.5 percent

On 2 April 2025 the US President stood in the White House rose garden holding a board of tariff rates for almost every country on earth. He called it Liberation Day. In the two trading days that followed, the American stock market lost trillions in value, its biggest two-day fall since the Covid crash. Then, on 9 April, a post appeared announcing a ninety-day pause on most of those tariffs. The S&P 500 rose 9.5 percent in a single afternoon, one of its biggest one-day gains since 2008.

If you were watching your phone that week you experienced it as chaos. Red, red, red, and then suddenly the greenest day in years. What was the market doing?

It was doing what it always does: repricing, in real time, the collective guess of millions of people about what the future is worth. Every headline, every rumour, every data release gets absorbed and turned into a price. The market is not a place. It is a giant, permanent, slightly hysterical vote, and the vote is weighted by emotion.

Once you accept that, a lot of the fear goes away, because you stop trying to understand the market as if it were a machine with a manual and start reading it as if it were a crowd. Crowds have moods. Crowds have plumbing too: the machinery underneath that has to keep working for the whole thing to function. And crowds have a few loud people at the front who can turn them. This chapter is about reading all three.

Themes: what the crowd is currently in love with

At any given time the market has a handful of themes, stories about the future that money is chasing. In 1999 it was the internet. In 2007 it was housing and anything built on it. In 2021 it was electric vehicles, space, and anything with "disruption" in the pitch deck. That is the theme that took me into Virgin Galactic. From 2023 onwards it has been AI: first the chips, then the data centres, then the power stations to run the data centres, then the software that is supposed to make money from all of it.

Themes are real and they matter. Being on the right side of a twenty-year trend is one of the few genuine advantages a small investor has, because you are allowed to wait and a fund manager with quarterly targets often is not. Part of my process is to score every company on its trajectory: is the world moving towards this business over the next twenty to thirty years, or is its future uncertain? A company with a structural tailwind earns a lower bar to clear. A company whose best days might be behind it, however good the numbers look today, earns a higher one.

But themes have a life cycle, and the cycle is where people get hurt. Early on, nobody believes it. Then a few people make a lot of money and the theme becomes a story. Then the story reaches the mainstream and every company remotely connected gets bought regardless of whether it makes money. Then it becomes obvious and everyone is in. Then it breaks, not because the theme was wrong, but because the price got years ahead of the reality. The internet was right. Most internet stocks in 2000 were still a terrible buy.

The way I use this: a theme gets a company through the door. It never gets it a trade on its own. Within any real theme there are a few businesses that will capture most of the value and a long tail that will capture nothing, and the difference between them is fundamentals, which is the next chapter. A sector I like is not a plan. It is a place to look.

Sentiment: fear, greed, and how to measure a feeling

Sentiment just means the mood of the crowd. It sounds unmeasurable, but it is one of the most useful signals there is, because the crowd's mood tells you what is already in the price. When everyone is terrified, a lot of bad news is already priced in and the surprises tend to be good. When everyone is euphoric, the good news is in the price and the surprises tend to be bad.

The tool most people use is the Fear and Greed Index published by CNN. It is a single number from 0 to 100 built from seven ingredients: how far the market is above or below its recent average, how many stocks are hitting new highs versus new lows, how broadly stocks are rising, how many people are buying protection with

options, how much appetite there is for riskier bonds, the level of the volatility index we will meet in a minute, and whether money is hiding in safe assets like government bonds. Below 25 is extreme fear. Above 75 is extreme greed.

What I do with it is deliberately simple. Under 25 is where I want to be a buyer of things I already believe in. Over 75 is where I want to be trimming. Under about 15 to 20 is capitulation, the point where people are selling because they cannot stand it any more, not because anything new has happened, and that is historically where the best entries live. I will not pretend this is comfortable. The best entries feel terrible. That is what makes them the best entries.

The mistake beginners make is treating sentiment as a prediction. It is not. Fear can get more extreme. Greed can last for months. Sentiment tells you where the risk is, not when it will show up. Extreme greed means the downside is bigger than it looks. Extreme fear means the upside is bigger than it feels. That is enough to act on if you act in stages, which is why every entry I make is staged.

There is a psychological map that goes with this, and I keep it in my process notes: capitulation, then disbelief, then optimism, then euphoria, then back to fear. The job is not to predict where the crowd is going. It is to be honest about where it is now. Map where the asset sits, not where you wish it sat.

Market health: the plumbing

Here is the idea that changed how I read a falling market.

A price falling is not, on its own, dangerous. Prices fall all the time. What is dangerous is when the machinery underneath the market starts to break: when companies cannot borrow, when banks stop trusting each other, when the people who provide the market's liquidity step back. Those things show up in a small set of numbers that most people never look at, and they tend to show up before the crash, not after.

I call this the plumbing, and I check it every day. Here are the gauges.

VIX: the fear gauge

The VIX is published by the Chicago Board Options Exchange and it measures how much volatility investors expect in the S&P 500 over the next thirty days, based on the prices they are paying for options, which are basically insurance contracts. When people are paying a lot for insurance, the VIX is high.

Below 20 is calm. 20 to 30 is elevated, the market is nervous. 30 to 40 is fear. Above 40 is panic, and since the financial crisis you have only seen that a handful of times: 2008, 2010 and 2011, a few days in 2015, March 2020, August 2024 briefly, and April 2025. You do not need to know the maths. You need to know that a VIX of 14 means "nobody is worried", which is itself a warning if everything else is stretched, and a VIX of 45 means "everyone is terrified", which is usually closer to an opportunity than a threat, provided the next gauge is fine.

Credit spreads: are companies able to borrow?

This is the one that matters most, and the one it took me longest to find a plain explanation of. When a company borrows money by issuing bonds, it pays more interest

than the government does, because it is riskier. The gap between what a risky company pays and what the government pays is called the spread. For the riskiest companies, called high-yield or, less politely, junk, the spread is tracked as a single index, and it is the market's honest opinion about whether businesses are about to start failing.

When the spread for junk-rated companies is below about 4 percentage points above government bonds, the world is calm. Between 4 and 6 is watch. 6 to 8 is stress. Above 8 is crisis, the level you saw in 2008 and for a few weeks in 2020. But the level matters less than the speed: a spread that jumps by a percentage point and a half in a few weeks is the tell, because it means lenders have suddenly got scared, and lenders getting scared is how a dip turns into a crash.

The reason this works is simple. Stock prices are opinions about the future. Credit is about whether the bills get paid this quarter. When stocks fall and credit is calm, it is a mood swing. When credit widens fast, something is actually breaking.

The yield curve: the recession alarm

Governments borrow for different lengths of time, and normally borrowing for ten years costs more than borrowing for two, because more can go wrong. When that flips and short-term borrowing costs more than long-term, the curve is said to be inverted, and it has preceded almost every American recession in the last fifty years. It is usually written as "2s10s", the ten-year rate minus the two-year rate.

Two things about it that took me a while. First, it is a slow signal. An inversion can sit there for a year or more before anything happens. Second, and this is the bit

that catches people out, the danger often arrives not when the curve inverts but when it un-inverts, when short rates fall fast because the central bank is cutting in a hurry. The curve going back to normal after a deep inversion has often marked the start of the trouble, not the end of it.

Breadth: is everyone coming to the party?

Breadth asks a simple question: how many stocks are actually going up? A market where the index is at a record high but only ten giant companies are driving it, while most stocks are below their long-term average, is a market standing on one leg. The gauge I watch is the percentage of large companies trading above their 200-day moving average, a line you will meet properly in Chapter 4. Above 60 percent is healthy. 40 to 50 is weakening. Below 30 is washed out, which sounds bad but is usually where bottoms form.

There is a related old-school signal called a distribution day: the index falls on heavier volume than the day before. Volume is how many shares changed hands. A fall on heavy volume means big holders are selling, not just twitchy retail. Four or five of those in a couple of weeks is a warning.

The MOVE index, and a few others

The VIX has a cousin for the bond market called the MOVE index. When it spikes, the plumbing of the whole financial system is under stress, because government bonds are what everything else is priced against. There is also a measure of how much banks charge each other to borrow overnight compared with the official rate, and it almost never gives a false alarm. And there is a rule of thumb called the Sahm rule: when unemployment has

risen by half a percentage point from its recent low, a recession has usually already started.

You do not need to watch all of these. You need to know they exist so that when someone on the news says "credit markets are showing stress" or "the curve has un-inverted", you know exactly what they mean and roughly how worried to be.

Correction or crash: a price event or a system event

Here is how I use all of the above. The market's vocabulary for falls is quite precise. A pullback is a drop of 5 to 10 percent. A correction is 10 to 20. A bear market is 20 percent or more. A crash is not a percentage, it is a speed: a fall that is rapid and disorderly, where people are selling because they have to, not because they want to.

A correction is a price event. A crash is a system event. They can look the same on the first day, and the plumbing is how you tell them apart. If prices are falling and the VIX is up but credit spreads are calm and breadth is intact, it is a mood swing, and mood swings in a healthy market are where I want to be buying quality in stages. If prices are only down a little but spreads are widening fast, banks are nervous and the MOVE index is spiking, even a shallow drop is a warning, and I want to be protecting first and buying later.

The 2020 Covid crash is the perfect example of both at once. The S&P 500 fell about 34 percent in 33 days, the fastest fall of that size in history. Credit spreads exploded. It was a real system event, and then the central banks and governments threw more money at it than had ever been thrown at anything, and the market

turned on a dime and made new highs within months. The lesson is not "buy every crash". The lesson is that policy can reverse a panic overnight, and that the plumbing turning back to calm is the all-clear, not the headlines.

The opposite lesson comes from Japan. The Nikkei index peaked in December 1989 and did not get back to that level for more than three decades. "The index always recovers" is an assumption built on American history. It is a good assumption for a broad American index fund, which is why that is my anchor. It is not a law of physics.

I keep a simple traffic light on all this: green, amber, red. It is scored across six categories: valuation, credit, breadth, sentiment, the economy, and crypto, because crypto is where the first cracks in risk appetite tend to show. When the light is green I can open new trades normally. When it goes amber, my bar for a new trade goes up: only the highest conviction ideas get through, and the fragile positions I already hold get trimmed first. When it is red, I do not open anything new, I move stops up to protect what I have, and I write a shopping list of the great businesses I want to own at lower prices, so that when capitulation comes I am buying from a list, not from a feeling. Protect the base, keep the anchor, ready the powder, and buy fear in tranches.

Two warnings, which I learned the expensive way. A monitor that is always red is as useless as one that is always green. If your system says "danger" every week, you will either ignore it or never invest, and Peter Lynch was right that far more money has been lost preparing for corrections than in the corrections themselves. High alarm has to be rare or it is noise. And a market that is calm at the plumbing level while the index drifts down is a buying opportunity dressed up as a threat. My own

traffic light sat at amber for nearly three weeks in the summer while credit and breadth were perfectly fine, and I watched two good entries go past because I had built a rule that was too twitchy.

The people who move markets

Some people are the news. When they speak, prices move within seconds, and you cannot read the market in the 2020s without accounting for them.

In May 2020 Elon Musk posted seven words, "Tesla stock price is too high imo", and Tesla fell about 10 percent in the following hours, wiping billions off a company he ran. The Liberation Day tariffs I opened this chapter with were announced by the President and then paused by the President, and both moves shook markets more than any economic data release had in a decade. When Jensen Huang gives a keynote, the guidance he offers moves not just Nvidia but every chip company, every data centre builder and, because chips have become such a large slice of the American index, the whole market.

The mistake is to treat what these people say as analysis. It is not analysis. It is an event, like a storm. My rule is to read between the lines and watch the follow-through, not the first headline. A post is not a policy. A walk-back within days is the normal pattern, not the exception, and the market has learned it too, which is why the second announcement often moves prices less than the first. Separate signal from bluster, and never size a position on a tweet.

There is a second, quieter category: the chief executives of companies I actually own. For those I do care what they say, but only about their own company. A boss

saying demand is strong and margins are improving is a signal. A boss saying the market is undervaluing them is noise, because every boss says that.

And there is a third category I keep on purpose: the bears. A handful of investors who have made careers out of spotting what breaks, people like Michael Burry, who was right about 2008 and early about most things since, or Jim Chanos, who reads accounts the way a detective reads a crime scene. I do not trade on what they say either. Their job in my process is to supply the argument against whatever I am about to buy, because I have noticed that every source I naturally follow is bullish, and a room full of bulls is not research. Any single voice, bull or bear, is allowed to move my confidence by one notch at most.

Earnings: the four times a year the truth comes out

Every three months, public companies have to publish their results. In America the seasons start in mid-January, April, July and October, and for about six weeks each time the market is dominated by companies reporting. This is when the story meets the numbers.

The vocabulary is simple once decoded. Before the report, analysts publish their expectations, called the consensus. A company that does better than consensus has beaten. Worse than consensus, it has missed. But there is a third thing, and it matters more than either: guidance, what the company says about the next quarter or year. A business can beat this quarter and fall 10 percent because it guided lower for the next one. Guidance beats the quarter, every time.

Now the counterintuitive part, which I learned from my own trades and then tested against years of history. A well-telegraphed good result often makes the share price fall. The reason is that the good news was expected, so the price rose in the days before, and once the news is confirmed there is nobody left to buy. The traders' phrase is "buy the rumour, sell the news". I checked it on Amazon: across six consecutive recent quarters, Amazon beat expectations and the stock fell on five of them. Tesla's quarterly delivery numbers, a scheduled event I watch because I hold the stock, went the same way, five negative reactions out of six, including one recent delivery report that was a big beat and produced a fall of about 7.5 percent, because the four days before it had already priced the news in.

So my rule now: if I hold something into a scheduled event, that is a deliberate choice, not the default. The run-up into the event is the payment. I trim into it. And a beat that sells off afterwards is not a broken thesis, it is the pattern, and often a re-entry. I sold my Amazon position straight into one of those sell-the-news days, because I wanted the planned win more than I wanted to gamble on the print. That instinct is now written down as a rule.

Wars and geopolitics: what actually moves

When something frightening happens in the world, the temptation is to sell everything. History says that is almost always wrong, and the reason is that the market's reaction to geopolitics follows a pattern you can learn.

I had a live lesson not long ago, when the Gulf became a war zone and, over the following months, produced a series of flare-ups and ceasefires around the Strait of Hormuz, the narrow channel through which a fifth of the world's oil passes. I logged every episode, and by the summer I had a playbook that had held four times out of four.

Oil moved first and most, up 4 to 7 percent on the day of each flare-up, because oil is the one thing a Gulf war directly threatens. The volatility index popped but never cleared 25, which told me the plumbing was fine. Bitcoin, which people like to call digital gold, sold off with everything else, and gold itself actually fell on the headline day in three of the four episodes, because when people are scared they sell what they can, not what they should, and gold is easy to sell. Credit spreads barely moved. And in every case the panic faded within one to three sessions.

The bigger picture told the same story on a longer timeline. The acute phase, in the first weeks, saw Brent crude rise more than 50 percent in a month to around 120 dollars, the S&P fall about 8 percent, and Bitcoin, far from acting as a hedge, sitting about 35 percent below its previous highs. Then a ceasefire produced an 11 percent rally in nine days. Then months of fragile back-and-forth.

What I took from it, written in my notes as a rule: fade the flush in stocks and crypto, do not chase the oil spike, and never chase a gold "safe haven" story on the headline day. Credit is what tells the two apart, every single time. If spreads stay calm, a war is a price event. If spreads break, it has become a system event, and everything changes.

This is not me being clever. It is the same pattern the Cuban missile crisis, the Gulf wars, and 9/11 followed. Markets hate uncertainty, price the worst case fast, and then, once the shape of the thing is clear, get back to caring about earnings and interest rates. Howard Marks, one of the best investors alive, titled a memo in 2001 with the line I now use for all of it: you can't predict, you can prepare.

What I actually do

Every weekday afternoon, before I look at any individual stock, I read the room. Sentiment first: the fear and greed number, and where it sits against the map. Then the plumbing: the VIX, the junk bond spread, the yield curve, breadth, and the MOVE index, each against its thresholds. Then the themes and the movers: what is the market rotating into and away from, has anyone said anything, and is there an earnings date or a central bank meeting coming for anything I hold.

That produces the traffic light. Green, amber or red, with a one-line reason I could explain to my partner. Only after that am I allowed to look at opportunities, and the light decides how high my bar is. A brilliant company at a great price on a red day is still a no, because individual discipline is worthless if the whole market is breaking.

It takes twenty minutes. It is the twenty minutes that stopped me being the person who sold Uber because it hurt.

WORDS YOU NOW OWN

Sentiment. The mood of the crowd. Measured by the Fear and Greed Index (0 to 100). Under 25 extreme fear, over 75 extreme greed.

Capitulation. The moment scared holders give up and sell regardless of price. Usually the bottom, always horrible.

VIX. The volatility or "fear" index. Under 20 calm, over 30 fear, over 40 panic.

Credit spread. The extra interest risky companies pay to borrow compared with the government. When it widens fast, lenders are scared and a dip can become a crash.

High-yield / junk. Bonds of the riskiest borrowers. Their spread is the market's honest opinion on whether businesses are about to fail.

Yield curve / 2s10s. Ten-year government interest rate minus two-year. Inverted (negative) is a recession warning; un-inverting after a deep inversion is often when the trouble arrives.

Breadth. How many stocks are participating in a move. A record high with poor breadth is a market on one leg.

Volume. How many shares changed hands. A move on heavy volume is real; on light volume, suspect.

Pullback / correction / bear market / crash. 5 to 10 percent, 10 to 20, 20 plus, and "fast and disorderly" respectively. A correction is a price event; a crash is a system event.

Consensus, beat, miss, guidance. What analysts expect, better than expected, worse, and what the company says about the future. Guidance matters most.

Sell the news. A stock rising before an expected good event and falling when it is confirmed. A base rate, not a bug.

Market mover. A person whose words are an event in themselves. Read the follow-through, not the headline.

Plumbing. My word for the credit and liquidity gauges that tell you whether the system is working underneath the prices.

CHAPTER THREE

Reading a company. Fundamentals without the jargon

The company that beat every quarter and still nearly killed me

In 2021, if you had looked at Virgin Galactic's quarterly reports, you would have found a company doing what it said. Test flights happened. Milestones got ticked. Richard Branson himself went to space in July that year, and the stock had two huge peaks that year, one in February and one in the weeks before his flight. Every press release was a win.

And underneath, the one number that mattered was quietly going the wrong way. The share count. In the years I held it, the number of shares in existence kept rising, because a company with no real revenue pays its engineers and its fuel bills by selling new pieces of itself to new investors. The business was progressing. My slice of it was shrinking. I never looked, because I did not know that was the thing to look at.

That is what fundamentals are: the handful of numbers that tell you whether a business is real, whether it is getting stronger or weaker, and whether the price you are being asked to pay bears any relation to what you are getting. It is not accounting. You do not need to read a balance sheet line by line. You need a handful of

questions, and this chapter is those questions, in plain English, with the words the industry uses so you can recognise them in the wild.

First, what are you actually buying?

A share is a slice of a business. Not a lottery ticket, not a symbol on a screen, a legal claim on a fraction of the company's profits and assets. If a company has one billion shares and you own one, you own one billionth of everything it earns for as long as you hold it.

That sounds obvious, and it took me five years and a 97 percent loss to actually behave as if it were true. Because if a share is a slice, then two things follow immediately. First, the business has to be worth something, which means it has to make money, or have a credible path to making money. Second, the number of slices matters. If the company doubles the number of shares, your slice halves, even if the business is exactly the same.

Peter Lynch put it as "know what you own", and I would add one word: know what you own, and know how many slices there are.

Market capitalisation: the price of the whole thing

Market cap is the simplest number in finance and the one people misuse most. It is the share price multiplied by the number of shares. It is what the market says the entire company is worth today.

The reason it matters more than the share price is that the share price on its own tells you nothing. A 10 dollar share is not cheaper than a 1,000 dollar share.

Berkshire Hathaway's A shares cost several hundred thousand dollars each and it is not an expensive company; it just never split its shares. A 50 pence share in a company with ten billion shares is a five billion pound company. Always think in market cap, never in share price.

The industry sorts companies by size, and the size changes how they behave. The giants, from a few hundred billion dollars up into the trillions, move slowly, are followed by dozens of analysts, and are very hard to push around. Large caps, tens of billions, are still deep and liquid. Mid caps, a few billion, and small caps, under a couple of billion, are where the big percentage moves live in both directions, where a single fund selling can move the price, and where the pump and dump stories in the next chapter happen.

My process uses size directly. The top tier of quality in my system needs, among other things, to be worth at least 500 billion dollars, and the trillion-dollar companies get a slightly more relaxed set of rules, because a business that size with a real product and real cash is, in my experience, the closest thing to a recoverable asset that exists. If it falls 20 percent on a bad quarter, that is a price to buy at, not a reason to panic. A two billion dollar company falling 20 percent might be the beginning of the end. Same percentage, completely different meaning, and the difference is size.

Why market cap means different things in different sectors

This is the bit that confuses everyone, so let me be concrete. Today a big American electricity utility might be worth 80 billion dollars and earn 4 billion a year. A software company might be worth 80 billion and earn 1

billion. The market is valuing one at twenty times its profit and the other at eighty times. Is the market mad?

No. It is valuing three things that differ by sector. Growth: the software company might double its profit in four years, the utility will grow at roughly the rate of the economy. Margins and capital: the software company needs almost nothing to sell one more copy, the utility needs to build a power station. Cyclicality: a utility earns roughly the same in a recession, a chip maker's profit can halve. A dollar of profit that grows fast, costs nothing to produce and never goes away is worth a lot more than a dollar of profit that is flat, expensive and disappears in a downturn.

So a bank, which is valued mostly on the assets it holds, might trade at one times its book value. An oil company might trade at eight times its earnings because nobody trusts the earnings to last. A young technology company might trade at twenty times its sales, never mind its profits, because the market is betting on where the sales are going. None of these numbers is "right". They are the market's shorthand for the sector's growth, risk and capital needs, and the skill is not comparing a bank to a software company, it is comparing a company to its own sector and its own history.

P/E and its cousins: what you are paying for a pound of profit

The P/E ratio, price to earnings, is market cap divided by annual profit. Or, the same thing, share price divided by profit per share. A P/E of 20 means you are paying twenty pounds for every one pound the company earns this year. Turn it upside down and it tells you the earnings yield: at a P/E of 20 you are getting a 5 percent

return in profit on the price, before you consider whether that profit grows.

A few variations you will hear. Trailing P/E uses the last twelve months of actual profit. Forward P/E uses what analysts expect over the next twelve months, and is the one that matters for growth companies, because you are buying the future. The PEG ratio divides the P/E by the growth rate, so a company on a P/E of 30 growing at 30 percent a year has a PEG of 1, and a company on a P/E of 30 growing at 10 percent has a PEG of 3. Roughly, a PEG under 1 is cheap for its growth, over 2 is expensive. I looked at Meta one summer and one of the things that got it through my fundamental gate was a PEG under 1: a huge business on a forward P/E under 18 while still growing profit at a decent clip. That is the number talking, not the story.

What P/E does not tell you is whether the E is real, which is the next question, and whether the multiple is high or low for that business, which you can only know by comparing it with its own past. A company that has traded between 20 and 40 times earnings for a decade and is at 22 is cheap for itself. A company that has traded at 8 to 15 and is at 22 is expensive for itself. Cheap and expensive are always relative to the sector and to the company's own history, never absolute. The market does not owe a company a P/E of 15.

One last thing. Interest rates change what every P/E should be. When you can get 5 percent risk-free from a government bond, an earnings yield of 3 percent (a P/E of 33) looks silly. When rates are 1 percent, it looks fine. This is why rising interest rates crush the most expensive stocks first, and it is the bridge to Chapter 5.

Free cash flow: the number that cannot lie for long

Profit is an opinion. Cash is a fact. That is an old accountants' saying and it is the most important sentence in this chapter.

A company's reported profit, its earnings, is calculated according to accounting rules that leave a lot of room. When you spend money on a building or a machine, the rules let you spread that cost over years, so this year's profit looks better than this year's bank balance. When you sell something on credit, it counts as revenue today even though the cash arrives later, or never. There are honest reasons for all of this, and there are dishonest ones, and from the outside they can look identical.

Free cash flow cuts through it. It is the cash the business actually generated from operating, minus the cash it had to spend on equipment and buildings to keep going. What is left is what the company could, in theory, hand to shareholders, pay down debt with, or reinvest. It is much harder to fake than profit, because cash either arrived in the bank account or it did not.

Bezos built Amazon's entire financial philosophy on this. In his 2004 letter to shareholders he wrote that Amazon's ultimate financial measure, the one they most wanted to drive over the long term, was free cash flow per share, not earnings. Not because earnings were unimportant, but because you cannot spend earnings. My fundamental gate asks for positive or at least credible free cash flow before I will look further, and it is the first place I go when a company's profits look good but something feels off.

Here is a real example of why. One summer I ran one of the biggest companies in the world through my process.

The headline numbers were spectacular: tens of billions of free cash flow over the trailing year, a net cash pile of over a hundred billion, share count falling. A clean pass, I thought. Then, while checking the sources, I found that the most recent quarter had been the company's first negative free cash flow quarter since its stock market listing more than twenty years earlier, that it had paused buying back its own shares, and that it had announced a very large share issue to fund its AI spending. The trailing numbers were true and completely misleading, because the trend had just turned. I downgraded the gate from pass to marginal and put it on a watch list. Nothing about the share price had told me any of that. The cash flow statement had.

Balance sheet in one paragraph

You need two things from it. Does the company have more cash than debt, called net cash, or more debt than cash, called net debt? And can it comfortably pay the interest on that debt from its profits? A company with net cash can survive a bad year or two and can buy back shares when they are cheap. A company with heavy debt is fine when things are good and fragile when they are not, because debt does not care about your excuses. The 2008 crisis was, at its core, a lesson that leverage plus correlation is the killer: when everyone is borrowed and everything falls at once, liquidity vanishes exactly when it is needed. I am willing to hold a business with some debt. I am not willing to hold one whose survival depends on the credit markets staying open.

Dilution and buybacks: is your slice growing or shrinking?

Now the number I never looked at. Shares outstanding, and, more important than the number, its direction.

If the share count is rising, the company is issuing new shares: to pay staff, to fund losses, to make acquisitions. Each new share makes yours a smaller slice. Twenty percent more shares means your slice is worth twenty percent less of the business, before the business has done anything. A company that is losing money and issuing shares to fund the losses is, from the shareholder's point of view, a slow leak. Virgin Galactic was a slow leak I kept topping up. When I looked at a fuel cell company that had just reported revenue up 165 percent and its first ever profitable quarter, the number I circled was that the share count was up almost 25 percent in a year. Impressive company, worse slice. It went on the watch list, not in the portfolio.

If the share count is falling, the company is buying back its own shares, which makes every remaining share a bigger slice. Apple has spent more than 700 billion dollars buying back its own stock since 2012, more than the entire value of most companies, and it is a large part of why its profit per share has grown faster than its profit. Buybacks are not automatically good: a company buying back expensive shares is wasting money. But a business generating real cash and steadily shrinking its share count is doing the exact opposite of what Virgin Galactic did to me.

So my rule now has two halves. Before I buy, I check the share count trajectory over the last few years. And at every add, I check it again, because a company can start diluting after you bought it. "No imminent dilution" is

written into my fundamental gate as a pass condition, and "dilution coming" is a fail, full stop, no matter how good the story.

Moat: why some businesses stay great

Warren Buffett popularised the idea of an economic moat: the thing that stops competitors from taking a great business's profits away. A castle with a wide moat can be attacked all day and still stand. A great product with no moat gets copied within two years and its margins get competed down to nothing.

Moats come in a few shapes and you can learn to spot them. Network effects, where the product gets better the more people use it, so the leader pulls away: a marketplace, a payment network, a social platform. Switching costs, where leaving is so painful that customers stay even when annoyed: business software that runs your whole company, a bank account with all your direct debits. Cost advantage, where scale lets you sell cheaper than anyone and still make money: this is Amazon's logistics, Costco's buying, TSMC's factories. Brand, where people pay more for the same thing because of what it says about them: Apple, Ferrari, Hermès. And regulation or licences, where the government has effectively limited the competition: utilities, airports, some defence contractors.

A moat is the difference between a company that will still be earning in ten years and one that just had a good year. It is the reason my top quality tier requires "a moat" alongside size and cash flow, and it is the reason I spend more time asking "who could take this away?" than "how fast is it growing?". Growth without a moat is a target painted on your back.

The people behind the company

I was slow to take this seriously, because it sounds soft. It is not. The single best question you can ask about management is: do they do what they say they will do?

Every quarter, companies give guidance. Every quarter, you can check whether they hit it. A management team that has met or beaten its own guidance for six quarters running has earned the right to be believed about the seventh. A team that keeps promising and slipping, however charismatic the boss, has not. This is checkable, it takes ten minutes, and almost nobody does it. There is a subtler version too: a company can beat its earnings number every quarter and still miss every strategic promise it makes. Look at the promises, not just the number.

Then, skin in the game. Founders who still own a big chunk of the company behave differently from hired managers with a three-year bonus plan. Not always better, founders can be stubborn, but their money is on the same side of the table as yours. And watch what insiders do with their own shares. Executives sell for a thousand reasons: a house, a divorce, tax, diversification. They buy for one: they think it is cheap. Insider buying is a signal. Insider selling is noise, unless it is everyone at once.

Then capital allocation, which just means: when this company makes money, what does it do with it? Reinvest in the business at good returns, pay down debt, buy back shares when cheap, pay dividends? Or make expensive acquisitions, buy back shares at the top, and pay executives in ever more stock? A great business run by a poor allocator slowly bleeds. This was the heart of my decision to wind down a position in a

company whose whole thesis had been that it would never sell its core asset. When it sold some, twice, the thesis was dead, and I re-scored the position from four stars to two the same week, not because the price had moved but because the people had changed what they did.

There is one more human element and it is the market movers from the last chapter. When the boss of a company you own is also a person who moves markets with a post, you are holding two things: the business, and the person. Price both.

What is already priced in?

This is the question that separates people who understand markets from people who just know facts about companies, and it is the last gate in my fundamental check.

Everything you can read about a company is also readable by millions of others. If you know Nvidia's revenue is growing fast, so does everyone, and that growth is already in the price. Your opinion about a company only matters as an investment if it differs from the crowd's, or if you are willing to wait longer than the crowd.

So I force myself through a short checklist before I am allowed to use the words "undervalued" or "upside". What does the consensus expect, and how does my view differ? Where does the valuation sit against the company's own history? If it looks cheap in the headline but mid-range against its own past, it is already priced. What move is the options market implying around the next event, which tells you how much surprise is expected. How many people are betting against it (the

short interest), and how crowded is the trade on the buying side? And how discovered is it: a company followed by two analysts with no retail chatter can be mispriced for years; a company followed by forty analysts that everyone on social media is talking about is, by definition, fully discovered. If your edge is already consensus, you don't have one. Cut your confidence a notch.

For a valuation anchor I use independent research houses first, people like Morningstar or the finance professor Aswath Damodaran, who publish fair value estimates without a bank's incentive to sell you the stock, and then the big banks' targets as a consensus base. I never use a single price target. I use the range, and I notice who is an outlier and why.

How it actually makes money

Last question, and it is the one I got wrong on Uber and right on Amazon. Can you explain, in two sentences, how this company turns what it does into cash?

I could for Amazon: it sells things and takes a cut of other people selling things, it rents computing power to businesses, and it sells advertising to people trying to reach its shoppers. Three engines, and I could see the first from my own job. I could not for Uber. I had a vague idea about taking a cut of rides and I had a headline about robots. That is not understanding, that is a mood.

And I will be honest, because the book is only worth anything if I am: when I bought Amazon I wrote down that I was "not sure what AWS actually does". That was one of the three engines and the most profitable one. I got away with it because the other two were enough and the price was right. I would not accept that from myself

now. The fifth question in my quick screen is "do we understand how it actually makes money?", and a no is a stop. Not because you need to be an expert, but because if you cannot explain the engine, you cannot recognise when it breaks, and knowing when a thesis is dead is worth more than knowing when it is alive.

The recoverable asset test

Everything above rolls up into the one question I ask before any position that is not pure speculation: if this fell 30 percent tomorrow, is recovery a matter of time, or a matter of if?

For a giant, cash-generating business with a moat and a falling share count, it is a matter of time. That is an asset I can trade through its ups and downs, average into on fear, and hold through a bad quarter without losing sleep. For a loss-making company with a rising share count and a great story, it is a matter of if, and possibly no. That is a bet. I can still make a bet, but I size it like a lottery ticket and I never average down into it. The whole difference between my Virgin Galactic and my Amazon trades is that one failed this test and I never asked, and the other passed it and I did not need to.

What I actually do

My fundamental gate, the first of the three you will meet properly in Chapter 6, is a one-line pass or fail with four parts. Is it a recoverable asset? Is the free cash flow positive, or at least credibly on its way? Does it have a real market position, a moat of some kind? And is there dilution coming? Fail any one and the idea is rejected before I spend an hour on it, with a note about what would have to change.

If it passes, the written case gets a fundamentals section: how it makes money, the trends in revenue and margins, the one risk metric that matters for this company, management's track record against its own guidance, the moat, and a dilution check. It gets a valuation anchor, the independent fair value versus the bank consensus versus the price, and the key multiple compared with its peers and its own history. And it gets the priced-in checklist, every time, before I am allowed to write the word upside.

None of this takes a finance degree. It takes a company's cash flow statement, its share count, its last six quarters of guidance, and the willingness to ask "who could take this away?" and "what does everyone already know?". The whole thing, done properly, is an hour. I lost 97 percent of a position once because I did not spend that hour.

WORDS YOU NOW OWN

Share. A slice of a business, with a claim on its profits and assets.

Market capitalisation (market cap). Share price times number of shares. What the whole company is worth. Always think in this, never in share price.

Giant (mega) / large / mid / small cap. Size categories. Bigger is slower, safer and more liquid; smaller is where the big swings and the scams live.

P/E ratio. Price divided by earnings: what you pay for a pound of profit. Trailing uses the past year, forward uses the expected one. High or low only means something against the sector and the company's own history.

PEG. P/E divided by growth rate. Under 1 is cheap for its growth.

Earnings yield. P/E upside down. A P/E of 20 is a 5 percent earnings yield. Compare it with what a bond pays.

Free cash flow (FCF). Cash generated by the business after the spending needed to keep it running. Harder to fake than profit. Bezos's favourite number and mine.

Net cash / net debt. More cash than debt, or more debt than cash. Fragility lives in net debt.

Shares outstanding. How many slices exist. Rising is dilution, falling is buybacks. Check the direction before every buy and every add.

Moat. What stops competitors taking the profits: network effects, switching costs, cost advantage, brand, regulation.

Guidance track record. Does management hit what it said it would? Checkable every quarter.

Insider buying / selling. Executives buying with their own money is a signal. Selling is usually noise.

Consensus / priced in. What everyone already expects, which is already in the price. Your edge is only what differs from it.

Short interest. How many shares are being bet against. Crowded either way is a warning.

Fair value. An independent estimate of what a share is worth, versus what it costs. Use a range, not a number.

Recoverable asset. One where a 30 percent fall is a matter of time to recover, not a matter of if. The line between an investment and a bet.

CHAPTER FOUR

Reading the chart. Technical analysis for humans

Three weeks in January

In January 2021, shares in a struggling American video game retailer called GameStop went from about 17 dollars to an intraday high of 483. Not over a decade. In about three weeks. A group of retail traders on an online forum noticed that hedge funds had bet enormously against the company, so much so that more shares had been sold short than actually existed, and they started buying. The price rose. The funds that had bet against it had to buy shares to close their bets, which pushed the price higher, which forced more buying. Within days it was on every news channel in the world. Within another two weeks the price was back under 50.

If you had looked only at the company, nothing had changed. Same shops, same declining sales, same balance sheet. Everything that happened was in the chart: who was positioned where, how crowded the bet was, how fast the crowd could turn, and how quickly it would all unwind. That is what technical analysis is for. It does not tell you what a business is worth. It tells you what the people trading it are doing, and sometimes, what they are about to be forced to do.

I came to charts late and suspicious. It looked like astrology with more lines. Then I noticed that the two worst trades of my life were bought at almost exactly the point the chart was screaming at me not to, and I decided the lines might be worth learning. This chapter covers the handful of lines that actually earn their place.

First principle: the chart is a record of behaviour

A price chart is nothing more than the history of every buyer and seller agreeing on a price, plotted over time. When you look at it that way, a lot of the mysticism goes. A rising line means, for a while now, buyers have been more eager than sellers. A level where the price keeps bouncing means a lot of people have decided that is where they want to buy. A level where it keeps stalling means a lot of people want to sell there. None of that is magic. It is crowd memory, written down.

The reason it matters for me is timing. My fundamental work tells me whether a business is worth owning and roughly what it is worth. It tells me nothing about whether this week is a good week to buy it. Great businesses can be terrible buys for a year at a time, and the chart is the only tool that helps with that. In my process, the technical gate is the third of three, and it decides not whether I like a company but whether now is the moment.

Trend: which way is the river flowing?

The most basic question. Over the timeframe I care about, is the price making higher highs and higher lows, lower highs and lower lows, or going sideways?

The standard tool for this is the moving average: the average price over the last so many days, drawn as a line that follows the price around. Three are used almost universally. The 20-day tells you the short-term mood. The 50-day tells you the medium-term trend. The 200-day tells you the long-term trend, and is the single line most professionals watch, because a stock above its 200-day average is, by definition, higher than it has been on average for most of the past year.

You will see the letters MA, SMA and EMA. A simple moving average (SMA) weights every day equally; an exponential one (EMA) gives more weight to recent days, so it turns faster. The distinction does not matter much. What matters is three things. Is the price above or below the line? Is the line itself sloping up or down? The slope tells you as much as the level. And are the lines stacked in order, 20 above 50 above 200 in a healthy uptrend, or the reverse in a downtrend?

Two crossings have names because they are watched by so many people that they move money on their own. A golden cross is the 50-day rising through the 200-day, which is taken as confirmation that a new uptrend has started. A death cross is the 50-day falling through the 200-day. Neither is a prediction, both are late by definition, and I have watched plenty of death crosses mark the exact bottom. But a death cross on heavy volume, in a stock that is already below every average with no sign of a base, is one of my hard red flags. It overrides a good fundamental story until the chart repairs itself.

Support and resistance: where the crowd has drawn its lines

Support is a price level where buyers have repeatedly stepped in. Resistance is a level where sellers have repeatedly stepped in. You can see them on any chart as the places the price keeps bouncing off. They exist because people remember. If a stock fell to 100 three times and recovered each time, thousands of people now have "100 is cheap" in their heads, and their orders sit there. If it hit 150 three times and failed, thousands of people who bought near 150 are waiting to get out at break-even, and their orders sit there too.

Round numbers act as support and resistance for the same reason. There is nothing special about 100 or 500 or 1,000 dollars, except that humans set their orders at round numbers, which is enough.

The most useful thing I learned about these levels is what happens when they break. When resistance is broken with conviction, it often becomes support, because the people who sold there now regret it and buy back on the first dip. And a failed breakout, where the price pushes through a level, cannot hold, and falls back, is often the strongest reversal signal on the chart, because everyone who bought the breakout is now trapped and wants out. In my process, an entry near a well-tested support level in a rising trend is graded A. An entry chasing a breakout that has not yet proved itself is graded C, whatever the story.

RSI: how stretched is the rubber band?

The Relative Strength Index was invented by an engineer called Welles Wilder in 1978 and it is the one indicator I use every day. It runs from 0 to 100 and

measures, roughly, how much of the recent movement has been up versus down. High numbers mean the price has been rising hard and fast. Low numbers mean it has been falling hard and fast.

The conventional reading is that above 70 is overbought and below 30 is oversold. I use it a little differently. Above 70 is a wait, not a sell: the stock can stay overbought for weeks in a strong trend, but buying there means paying for a rubber band that is already stretched. Below 40 is where I start to get interested in something I already like, and below 30, in a business that passed my other gates, is where the best entries have come from. An RSI in the 40s and 50s tells me nothing at all, and I have learned to say so rather than invent a read.

Two cautions. RSI alone is not a reason to buy. A stock in a real decline can sit at 25 for months while the business falls apart, which is a lesson I paid for. Oversold means "the sellers have been busy", not "the sellers are finished". And there is a subtler signal called divergence, when the price makes a new low but the RSI makes a higher low, which means the selling is losing energy even though the price has not turned yet. It is one of the few things on a chart that sometimes gets ahead of the price rather than behind it.

Volume: is anyone actually there?

Volume is the number of shares that changed hands. It is the chart's lie detector. A price move on heavy volume has a lot of money behind it and is more likely to be real. The same move on thin volume might be a handful of trades in a quiet session and can reverse the next morning.

The reads I use are simple. A breakout on rising volume is confirmed. A breakout on falling volume is suspect. A pullback on declining volume, where the price drifts lower but fewer and fewer people are selling, is constructive, sometimes called coiling, because the sellers are running out. A sudden spike in volume with no news is a flag to go and find the news. And volume confirms; it never predicts. Pair it with price and trend, never read it alone.

Extension: how far from home is it?

Here is the concept that, if I had understood it earlier, would have saved me from buying Virgin Galactic near its top. Extension simply means how far the price has travelled from its own averages, and how fast.

A stock 5 percent above its 50-day average is normal. A stock 40 percent above its 200-day average, having doubled in six weeks on no change in the business, is stretched, and stretched things snap back. My rule of thumb, written into the process: if something has run more than 20 percent in 30 days with no new catalyst, I do not chase it. I wait for a 5 to 10 percent pullback, and if the pullback never comes, I let it go. There is always another trade. There is not always another chunk of capital.

The mirror of that rule applies to positions I already hold. If something I own jumps 15 percent or more in a single day without reaching a target I set in advance, I trim it. A one-day move that size on a mid-sized company is a mood, not a valuation, and my own experience is that a sharp correction within a couple of sessions is more likely than not. Bank part of the gift.

Grading a setup

All of this gets rolled into a single letter in my written case, because a grade forces me to be honest rather than vague. Vague technical analysis, "it looks bullish", is not a read and I am not allowed to write it.

An A setup is a pullback to a well-tested support level in a stock that is still in an uptrend, with the RSI under 50 and volume drying up into the dip. That is a quality business taking a breath. A B setup is a stock near support with a mixed trend, or a base that is forming but not yet confirmed. Buyable in stages, with a tighter stop. A C setup is no clean entry at all: chasing a breakout, buying into an extended move, buying a falling knife, a stock in free fall, with no base. If the grade is C, the case says so and names the level I would need to see before it becomes a B.

There are also a few things on a chart that override everything else, however good the fundamentals: a death cross on heavy volume, an RSI above 75 at a brand new high, a gap down on earnings that has not been given two or three sessions to settle, and a stock below all its averages with no base at all. Any of those and the technical gate fails, full stop, and the idea goes on the watch list with a note about what would fix it.

Patterns: useful in small doses

There is a whole industry of named chart shapes and I use them sparingly, because they confirm rather than predict and it is very easy to see a pattern that is not there. A few are worth knowing because so many people watch them.

A head and shoulders is three peaks with the middle one highest and a line, the neckline, joining the two dips. A break below the neckline on volume is the classic sign a rising trend has finished. Upside down, it marks a bottom. A double top or double bottom is the price failing at the same level twice, buyers or sellers exhausted. Triangles are the price coiling into a tighter and tighter range before it breaks one way, and flags are brief pauses after a sharp move that usually resolve in the direction of the move.

The one framework I actually think in is Stan Weinstein's stage analysis, from a 1988 book that traders still pass around. A stock cycles through four stages: a flat base after a decline, then an advance, then a flat top, then a decline. You want to buy at the transition from base to advance, when the price breaks above a flat base and the long-term average turns up, and you want to be out, or at least not adding, once the advance turns into a top. It is simple, it is durable, and it tells you the one thing that matters: where in the trend are we?

The other principle worth carrying is that the right tool depends on the regime. In a trending market, buying pullbacks and riding the trend works, and betting on reversals gets you killed. In a range-bound market, buying support and selling resistance works, and chasing breakouts gets you killed. Before you use any of the above, ask which kind of market you are in.

Volatility: the price of admission

Volatility is how much a price moves around. It is not the same as risk, though people use the words interchangeably. A stock that moves 5 percent a day is

volatile. Whether it is risky depends on whether you have sized it so that 5 percent days do not hurt, and whether the business underneath is recoverable.

You will hear beta, which measures how much a stock moves relative to the whole market: a beta of 2 means it tends to move twice as much as the index, in both directions. You will hear implied volatility, which is how much movement the options market is pricing in for the future, and realised volatility, which is how much it actually moved. And the VIX from Chapter 2 is just the implied volatility of the whole American market.

The reason volatility matters to a small investor is sizing, which is the whole of Chapter 7. A volatile stock needs a wider stop, because normal noise would trigger a tight one, and a wider stop means a smaller position for the same amount of risk. That single sentence is most of what separates people who survive volatile names from people who get shaken out of them. Volatility is not a reason to avoid something. It is a reason to own less of it.

Pump and dump: anatomy of a manipulated chart

Now the dark side, and the reason I think everyone should understand charts even if they never trade on them.

A pump and dump is the oldest trick in the market. Someone accumulates a position in a small, thinly traded stock or coin, then creates excitement, through promotion, fake news, paid influencers, or a coordinated online push, so that a crowd buys and the price spikes. Then the promoter sells into that crowd, the buying dries up, and the price collapses, leaving the

late buyers holding something worth a fraction of what they paid. The film The Wolf of Wall Street is a dramatisation of a real 1990s firm that did exactly this to thousands of people with penny stocks. Today it happens on messaging apps with obscure crypto tokens, and the mechanics are identical.

On a chart it has a signature you can learn to spot. A stock that has gone nowhere for months suddenly spikes on enormous volume with no news that would justify it. The rise is vertical, not a trend but a spike. The promotion arrives before or during the move, never after. The company is tiny, which is why it can be moved at all; you cannot pump a trillion-dollar business. And the collapse, when it comes, is as fast as the rise, because there was never any real buying underneath, only the crowd chasing itself.

I mention pump and dumps for one reason only: so you can recognise the chart and walk away. I have no interest in penny stocks, obscure tokens or anything whose price depends on a promoter. Nothing in my process goes anywhere near them. The point of knowing the shape is the same as knowing what a phishing email looks like. You learn it so you never click.

Rise and fall analysis: learning an asset's history before you trade it

There is a different kind of study that happens to start from the same raw material, big price moves, and I want to draw a clear line between the two, because I did the second one and it has nothing to do with scams.

For every asset I am close to and plan to trade over a long period, quality businesses and major assets I already own or want to own, I went back through its

entire trading life and pulled out every rise or fall of 20 percent or more. Then I researched each one and wrote down what actually caused it. The causes fell into a few buckets that repeat across almost every company: product and execution news, the wider market, a statement by the founder or boss, regulation or a lawsuit, a capital raise, an analyst upgrade or downgrade, a wave of retail speculation, or a competitor's move.

What came out is a portrait of the asset's investors. Not who they are by name, but how they behave. How big the moves tend to be. How long a rise usually lasts before it runs out. How long a fall usually takes to recover, and whether it recovers at all. Which causes produce the wildest swings and which ones the market shrugs off. Whether the stock habitually sells off on good news. For one company I follow, the founder's own public statements turned out to be a whole volatility category on their own, which changed how I hold it around anything he says.

The point of that exercise was not to predict the next move. It was to stop being surprised. When a stock I own drops 12 percent in a day and I can see how many times it has done that before, what caused it each time and how often it recovered, the drop is a data point rather than an emergency, and I know whether my plan already covers it. I only do this for names I intend to live with for years, because it takes real work and the payoff comes over dozens of decisions, not one.

A note on GameStop, and squeezes in general

The GameStop episode was not quite a pump and dump, because there was no single promoter selling into the crowd; it was a short squeeze, and squeezes are worth understanding because they explain some of the most violent moves you will ever see.

When investors bet against a stock, they borrow shares and sell them, hoping to buy them back cheaper. If the price rises instead, their losses are unlimited, and at some point they are forced to buy back, which pushes the price up further, which forces the next person to buy back. In October 2008, Volkswagen became, for a single day, the most valuable company in the world for exactly this reason, when a rival carmaker revealed it had quietly bought up most of the available shares and the funds betting against Volkswagen had nowhere to buy them back.

Two lessons for a normal investor. Never bet against something purely because it looks expensive; the price can go much further than you can stay solvent. And never buy something purely because it is squeezing; the squeeze ends the moment the forced buyers are done, and the chart going vertical is the signal that the end is close, not far.

What I actually do

The technical gate in my process asks four questions before I am allowed to build a case. Is the RSI under 70? Ideally under 50 for a fresh entry. Is there clear support nearby that I can put a stop under? Is the trend intact, meaning the price is not below every average with no base? And does the setup grade at least a B?

If it passes, the written case gets a technical section with the current price, the 52-week high and low, where the price sits against the 20, 50 and 200-day averages, whether there has been a golden or death cross, the RSI, the nearest support and resistance, the volume read, any pattern I can defend, and the grade. For any position I hold, I re-derive those levels on a schedule, weekly for a fast trade and monthly for a slow one, and I am only allowed to move them to genuine new structure. Never widening a stop because the price is getting close. Never lowering a target because it is taking too long.

None of it predicts. All of it keeps me from buying stretched things at the top and selling scared things at the bottom, which, as it turns out, is where most of my losses came from.

WORDS YOU NOW OWN

Technical analysis. Reading the chart to understand what buyers and sellers are doing, and when to act. Timing, not valuation.

Trend. Higher highs and higher lows (up), lower highs and lower lows (down), or sideways. Which way the river flows.

Moving average (MA / EMA). The average price over the last 20, 50 or 200 days, drawn as a line. EMA weights recent days more. The 200-day is the one everyone watches.

Golden cross / death cross. 50-day average crossing above or below the 200-day. Late, widely watched, and a death cross on heavy volume is a hard red flag.

Support / resistance. Levels where buyers or sellers have repeatedly stepped in. Broken resistance often becomes support. A failed breakout is a strong reversal signal.

RSI. Relative Strength Index, 0 to 100. Over 70 stretched, under 40 interesting, under 30 oversold. Not a buy signal on its own.

Divergence. Price makes a new low but RSI does not. Selling losing energy.

Volume. Shares traded. Confirms moves; a spike with no news is a flag to find the news.

Extension. How far and fast the price has travelled from its averages. Over 20 percent in 30 days with no catalyst, wait for a pullback.

Setup grade. A: pullback to support in an uptrend, RSI under 50, volume drying. B: near support, mixed trend. C: no clean entry.

Stage analysis. Weinstein's four stages: base, advance, top, decline. Buy the transition from base to advance.

Regime. Trending or range-bound. The right tool depends on which.

Volatility / beta. How much a price moves; beta is that movement relative to the market. A reason to size smaller, not to avoid.

Pump and dump. Accumulate a thin stock, promote it, sell into the crowd, collapse. Vertical spike on huge volume with no real news is the signature.

Short squeeze. Forced buying by people who bet against a stock, driving it vertical. The vertical move signals the end, not the beginning.

Rise and fall analysis. An asset's full history of big moves, each with its cause, size, duration and recovery time. A portrait of how its investors behave. Turns a scary drop into a data point.

CHAPTER FIVE

Reading the world. Macro, rates, rotation and the tribes

The year nothing was wrong with the companies

In 2022 the biggest technology companies in the world had, for the most part, a perfectly good year as businesses. Revenues grew. Profits were fine. Nobody's product broke. And the Nasdaq, the index of those companies, fell by about a third. Some of the most exciting growth stocks fell 60, 70, 80 percent.

What changed was not the companies. It was the price of money. The American central bank, the Federal Reserve, took interest rates from essentially zero in March of that year to around four and a half percent by December, the fastest rise in forty years, and every asset on earth got repriced against the new number. If you did not understand why that happens, 2022 looked like a mystery. If you did, it was one of the most predictable years in a decade.

That is macro. The big, boring, slow-moving forces, interest rates, inflation, currencies, the economic cycle, that sit underneath every individual company and periodically overrule all of them. You do not need an economics degree. You need to understand about five things, and the first one is the one that explains 2022.

Interest rates: the gravity of finance

Warren Buffett has compared interest rates to gravity, and it is the best one-word explanation there is. Everything in finance is priced relative to what you could earn risk-free by lending to the government, and when that number changes, everything else moves.

Here is why. Suppose the government will pay you 1 percent a year to hold its bonds. A company earning a 3 percent return on its share price (a P/E of 33) looks fine, because you are getting three times the risk-free rate for taking some risk. Now suppose the government pays 5 percent. That same company at 3 percent looks absurd. Why take the risk of a share for less than the bank gives you? So the share price has to fall until its earnings yield is attractive again. The company did nothing wrong. Gravity got stronger.

It hits the most expensive stocks hardest, and the ones whose profits are furthest in the future hardest of all, because a pound of profit expected ten years from now is worth a lot less today when you can earn 5 percent a year waiting for it. That is why a loss-making growth company fell 80 percent in 2022 while a boring utility fell 5.

Rates also change what companies can do. Cheap money means cheap borrowing, easy acquisitions, easy funding for loss-making ideas. Dear money means the opposite, and it exposes every business that only worked because borrowing was free. There is an old line that when the tide goes out you find out who has been swimming naked, and rising rates are the tide.

In practice, what I watch is simple. The level of the ten-year government bond yield, because it is the number the whole market prices against; when it is high and

rising, risk assets struggle. The direction of central bank policy, because the market moves on the change, not the level: a first cut after a run of rises is a bigger event than the fifth rise. And the gap between what the central bank says and what the market expects, because that gap is where the surprises live.

Inflation and the economic cycle

Central banks move rates for one main reason: inflation. When prices are rising too fast, they raise rates to slow the economy down. When the economy is weak, they cut rates to speed it up. So the whole machine runs on two data series, inflation and employment, which is why the monthly inflation print and the monthly jobs report move markets more than almost any company's results.

The economy itself moves in a rough cycle: expansion, peak, contraction, trough, and round again. Nobody rings a bell at the turns, but different kinds of companies do well at different points, and money rotates between them. This is where a lot of the mysterious phrases on the news come from. "Rotation into defensives" means investors are selling growth companies and buying the boring ones whose profits hold up in a downturn: utilities, healthcare, consumer staples. "Risk-on" means the opposite.

I keep a rough map of this in my process, and it is worth sharing because it explains so much of what you see. When rates are high and falling, long-duration assets do well, meaning things whose value depends on profits far in the future: bonds, housebuilders, growth technology, gold, and historically the riskier corners of crypto, while banks struggle because their lending margins shrink. When rates are high and stable, banks, energy and

defensives lead, and anything heavily indebted suffers. When rates are low and rising, value stocks, energy, commodities and financials tend to lead and expensive tech and utilities lag. Layer the economic cycle on top: early in a recession money hides in defensives; as recovery starts it moves to financials and consumer companies; in early expansion to technology, industrials and materials; late in the expansion to energy, commodities and real assets; and at the peak back to healthcare, utilities and staples.

None of this is precise. Its use is that it tells me which way the wind is blowing before I try to fly a kite. A company fighting the rotation needs a much better reason to be bought than one riding it, which is exactly what my macro gate asks: is the sector rotation and rate backdrop a tailwind, neutral, or a headwind? Neutral or better, and the idea proceeds. A headwind, and it needs to be exceptional.

The sharper version of the same question, which I ask before any company reports results: what is the market rotating into or away from right now, and does this company's report resolve that question? A software company reporting strong cloud growth in a month when the market is desperate to know whether AI spending is turning into revenue will move far more than the same numbers in a quiet month. Context decides the reaction, not just the numbers.

The calendar: never trade blind into a known event

A specific, practical rule that has saved me more than once. There are a handful of scheduled dates every month when the whole market can move several

percent in minutes, and you should know when they are before you press buy.

The American jobs report, called non-farm payrolls, comes out on the first Friday of the month. The inflation print, CPI, comes out mid-month. The Federal Reserve meets eight times a year and announces its rate decision on a Wednesday afternoon, with the Bank of England on a similar schedule on a Thursday. Earnings seasons run from mid-January, April, July and October. The oil cartel, OPEC, meets on a schedule too, and moves oil and everything that depends on it.

My rule is that I never open or add to a position in the last day or two before one of these if the position is sensitive to it, and I never add to a company in the run-up to its own results. Not because I expect bad news, but because the outcome is a coin flip I cannot analyse, and a process that relies on coin flips is not a process. If I want to own something, I can own it the day after, when the flip has landed.

The dollar, the pound, and the hidden trade in every trade

If you are a British investor buying American shares, and most of the best businesses in the world are American, you are making two bets whether you like it or not. One on the company. One on the exchange rate between the pound and the dollar.

Say you buy a share for 100 dollars when a pound buys 1.25 dollars, so it costs you 80 pounds. The share does nothing, but the pound strengthens to 1.40. Your 100 dollar share is now worth 71 pounds. You have lost 11 percent without the company doing anything. The reverse is also true: a weakening pound quietly flatters

every dollar holding. This is why, when I log a position, I track the currency effect as its own line, separate from the stock, so I know which bet is making or losing me money.

The other currency thing worth knowing: the dollar's overall strength, measured by an index called DXY, is a headwind for commodities, emerging markets, gold and crypto when it is rising, because all of those are priced in dollars and become more expensive for everyone else. And roughly 70 percent of the revenue of the biggest British companies comes from overseas, so a weak pound actually lifts their reported profits, which is why the FTSE 100 sometimes rises on days the pound falls. Once you see that, a lot of odd headlines start making sense.

Geopolitics, briefly, again

I covered wars and shocks in Chapter 2, so one paragraph here to place them in the macro picture. A geopolitical shock is a macro event that arrives without a calendar. It moves oil first, then the currencies of the countries involved, then bond yields as people run to safety, then stocks. The question that decides whether it matters beyond a few days is whether it changes the path of inflation and interest rates. A war that pushes oil to 120 dollars and keeps it there feeds into inflation, which keeps central banks tight, which is bad for every asset. A war that spikes oil for a week and fades is a price event. Credit spreads, again, tell you which one you are in.

The tribes: which kind of investor are you?

The market is not one crowd. It is several tribes with different beliefs about how money is made, trading against each other, and half the confusion beginners feel comes from reading advice from one tribe while unknowingly belonging to another. Here are the main ones, with the person who best represents each.

The indexer. Believes that beating the market consistently is close to impossible for most people, so the smart move is to own the whole market cheaply and hold it for decades. The founder of this tribe is John Bogle, who launched the first index fund for ordinary investors at Vanguard in 1976 and was ridiculed for it. It is now the biggest tribe in the world by money, and it is the anchor of my own portfolio. If you take nothing else from this book, take this: a low-cost index fund, bought every month regardless of the news, is a strategy that beats most professionals over twenty years.

The value investor. Believes the market regularly misprices businesses and that buying a pound of assets or earnings for fifty pence, then waiting, is the surest way to compound. Benjamin Graham wrote the founding texts in the 1930s and 1940s and Warren Buffett is its most famous student. "Price is what you pay, value is what you get" is the tribe's motto. Its weakness is the value trap: a company that is cheap because it deserves to be, and stays cheap forever. Virgin Galactic looked cheap to me five times.

The growth investor. Believes the best returns come from owning the companies that will be much bigger in ten years, and is willing to pay a high price today for that future. Peter Lynch's "know what you own" belongs

here, as does anyone who bought Amazon or Nvidia early and held on. Its weakness is paying any price for a story, which is how growth investors got crushed in 2000 and in 2022 when rates rose.

The momentum or trend follower. Believes that what is going up tends to keep going up, and what is going down tends to keep going down, for longer than seems reasonable, and that you should ride trends and cut losers fast without worrying about why. The most famous experiment in this tribe was run in 1983 by a trader called Richard Dennis, who bet a colleague he could teach a random group of people to trade profitably in two weeks using a set of rules. He recruited people with no experience, taught them a trend-following system, gave them real money, and the group, known as the Turtles, went on to make a fortune. It is the strongest evidence I know that discipline can be taught and talent is optional. The tribe's weakness is that trends reverse, and a pure trend follower buys the top of every bubble by design.

The contrarian. Believes the crowd is usually wrong at the extremes and that the money is made by buying what everyone hates and selling what everyone loves. John Templeton, one of the great investors of the twentieth century, put it as buying at the point of maximum pessimism. Buffett's 2008 article was pure contrarianism. The weakness is that the crowd is right most of the time, and being contrarian by habit rather than by evidence is just a different way of losing. In one of the Japanese stock market's most famous stories, a trader called Takashi Kotegawa turned a small stake into a fortune in the 2000s largely by buying stocks that had crashed too far, too fast, and selling them days later when they bounced. That is contrarianism with a

stopwatch, and it only works with rules about when you are wrong.

The macro investor. Believes the big money is in the big forces, currencies, rates, commodities, whole countries, and trades those directly. George Soros is the tribe's icon for betting against the pound in 1992 and, by the usual accounts, making a billion dollars in a day when Britain was forced out of the European exchange rate mechanism. Almost nobody does this well. But every investor needs a little of the macro tribe's thinking, which is why this chapter exists.

The quant. Believes that human judgement is the problem and that patterns in data, exploited by computers at scale, are the answer. Jim Simons, a mathematician, built Renaissance Technologies on this idea and its main fund posted returns over three decades that no human stockpicker has come close to. You and I cannot do this. But the quant tribe's habit of scoring every decision, tracking hit rates and refusing to trust a story without data is one I have borrowed wholesale, as you will see in Chapter 8.

The day trader. Buys and sells within the day, dozens of times, on tiny moves. The studies on this tribe are brutal: the large majority lose money after costs. I mention it only so you can recognise it, and so you know that nothing in this book is about it.

Where I sit

I am an indexer at the core and a swing trader on top. A swing trade is a position held for somewhere between a week and a couple of years, bought because a good business or theme is temporarily out of favour and sold when it is back in favour. My rules borrow from three tribes: I look for value, in the sense of a great business

bought in fear, I ride the trend once it confirms, in the sense that I add to winners not losers, and I am contrarian about sentiment, in the sense that extreme fear is my buy signal and extreme greed is my sell signal. Conviction-based, not fear-of-missing-out based. The label matters less than knowing which rules you are playing by, because the worst trades come from playing one tribe's game with another tribe's rules: buying a momentum stock with a value investor's patience, or holding a value stock with a day trader's nerves.

What I actually do

Every day, before any individual stock, I read a short macro dashboard: the dollar index, the ten-year bond yield, the VIX, oil, gold, the main indices and the fear and greed number. From that I ask two things. What is the rate cycle doing, high and falling, high and stable, or low and rising? And where are we on the rotation map, which sectors is money moving into and out of? That gives me a tilt, a list of sectors that have the wind behind them and a list that do not.

The macro gate then applies that tilt to any idea. A company in a sector the rotation is leaving, at a moment when rates are a headwind, needs an exceptional case to get through. A company the wind is behind needs a good one. Then the calendar check: is there a central bank meeting, an inflation print or a jobs report inside the next couple of days, and does this company report soon? If yes, I wait. And for any American name, the currency check: which way has the pound been moving, and am I comfortable making that second bet alongside the first?

Ten minutes, most days. It never tells me what to buy. It stops me buying a good company at the moment the whole world is about to be repriced against it.

WORDS YOU NOW OWN

Macro. The big forces beneath every company: rates, inflation, currencies, the economic cycle.

Interest rates / the risk-free rate. What the government pays to borrow. The gravity everything else is priced against. Rising rates hit the most expensive, furthest-in-the-future stocks hardest.

Central bank. The Federal Reserve (US), Bank of England (UK). They set short-term rates to control inflation and employment. The market moves on the change in direction, not the level.

Ten-year yield. The bond rate the market prices most things against. High and rising is a headwind for risk assets.

CPI / NFP / FOMC. The inflation print, the jobs report (non-farm payrolls), and the Fed's rate-setting meeting (the Federal Open Market Committee). The three scheduled events that move everything. Never trade blind into them.

Economic cycle. Expansion, peak, contraction, trough. Different sectors lead at each stage.

Rotation. Money moving between sectors as the cycle and rates change. "Into defensives" means out of growth and into utilities, healthcare, staples.

Risk-on / risk-off. The crowd chasing growth and speculation, or running to safety.

DXY. The dollar index. A strong dollar is a headwind for commodities, gold, emerging markets and crypto.

Currency risk. The second bet inside every foreign share. Track it as its own line.

The tribes. Indexer, value, growth, momentum, contrarian, macro, quant, day trader. Know whose rules you are playing by.

Swing trade. A position held from a week to a couple of years, bought out of favour and sold back in favour. My tribe.

CHAPTER SIX

The gate. How an idea earns the right to become a trade

Five things on a piece of paper

In 2001 a doctor at Johns Hopkins hospital in Baltimore called Peter Pronovost tried an experiment. Patients in intensive care were dying of infections from the lines inserted into their veins, and every doctor knew the five steps that prevented it: wash your hands, clean the patient's skin, cover the patient, wear sterile clothing, dress the site. Simple, obvious, taught in medical school. Pronovost wrote the five steps on a checklist and asked the nurses to watch whether the doctors actually did them. In a third of cases, they skipped at least one.

So the hospital gave the nurses permission to stop a doctor who skipped a step. The infection rate for that procedure fell from 11 percent to almost zero, and over the following year or so the checklist was estimated to have prevented 43 infections and 8 deaths in one unit. When the state of Michigan rolled it out across its hospitals, infection rates fell by two thirds in eighteen months. Nobody learned anything new. They just stopped skipping steps under pressure.

The surgeon Atul Gawande wrote a whole book about this, The Checklist Manifesto, and his argument is the argument of this chapter. In any field where the

knowledge is available but the pressure is high, the failure is almost never ignorance. It is skipping a step you already know, because you are tired, or excited. A checklist is not an insult to expertise. It is the thing that lets expertise survive contact with a bad day.

My gate is a checklist. Every idea, whatever its source, has to pass through it before I am allowed to spend money, and the steps are deliberately boring. Uber and Virgin Galactic would both have failed it inside ten minutes.

Two kinds of decisions

Before the gate itself, a distinction I borrowed from Jeff Bezos. In his 2015 letter to shareholders he described two types of decision. Type one decisions are one-way doors: consequential, hard or impossible to reverse, and they deserve slow, careful, deliberate thought. Type two decisions are two-way doors: if you walk through and do not like what you see, you can walk back. Those should be made fast, by individuals, without waiting for perfect information. The mistake big organisations make, he wrote, is using the heavy process on everything, which makes them slow. The mistake I made was the opposite: treating one-way doors like two-way doors, and walking through them on a whim.

Buying a small, liquid position in a giant business is close to a two-way door; if I am wrong I can sell tomorrow at roughly the same price. Averaging down five times into a diluting company with a collapsing share price was a one-way door, walked through five times without pausing once. The gate exists so that I slow down in exact proportion to how hard the decision is to undo.

Stage zero: what kind of thing is this?

The very first question is not about the company. It is about what type of asset I am looking at, because different types need different questions. A single company is judged on its business, its cash flow and its people. A fund or an index tracker is a basket, so it is judged on what is inside it, how concentrated it is, how it is built, and what it costs. A physical commodity like gold or silver has no earnings and no boss, so it is judged on the four things that actually move it: real interest rates, the dollar, who is buying, and how crowded the trade is. Ask the stock questions of a lump of gold and you will get nonsense back.

That sounds obvious. It is the mistake behind one of my worst near-misses: nearly buying a thematic fund because I liked the theme, without looking at the ten companies that made up most of it. A sector I like is not a fund case. A miner, incidentally, is a company, not a commodity, even if all it does is dig up gold; it has costs, debt and management, and it behaves like a leveraged bet on the metal.

The three gates

Once I know what I am looking at, the idea meets the three gates. They are cheap on purpose. Each is a one-line pass or fail, and an idea has to pass all three before I build anything. Most fail one, and go on a watch list with a note saying what would have to change. That note matters: "watching, needs a pullback to the 200-day" is a plan; "watching" is a hope.

The fundamental gate is Chapter 3 boiled down. Passes if the business is recoverable, has positive or credible free cash flow, has a real market position, and

has no dilution coming. Fails if it is speculative, structurally leveraged, has no path to profit, or is about to issue shares. For a crypto asset the questions translate: is it a real network with real adoption, top of its class, not a meme or a promise. Virgin Galactic fails on the first line.

The macro gate is Chapter 5 boiled down. Passes if sector rotation and the rate and currency backdrop are tailwinds or neutral. Fails if the idea is fighting the rotation, facing a rate headwind, or sitting under building regulatory risk. Neutral is fine. I am not looking for the wind to be behind me, only for it not to be in my face.

The technical gate is Chapter 4 boiled down. Passes if the stock is not overbought, has clear support nearby, grades at least a B as a setup, and the trend is intact. Fails on an RSI over 70, a death cross, or a price below all its averages with no base. Uber, bought on a news spike, fails here.

A partial pass is not a pass. Two out of three is a watch-list entry with a specific trigger, never a trade. The discipline sounds harsh until you notice what it does: it means the only ideas that reach the expensive part of the process are the ones where the business, the environment and the timing all line up, which is rarer, which is the point.

The sixty-second screen

Anything that clears the three gates gets five questions, and I try to answer them in about a minute, because if I cannot, that is itself the answer.

One: can I state the thesis in a single sentence? Not a paragraph. A sentence a friend could repeat back. Two: does it earn its keep for the time the money is tied up? Twenty percent in five years is a failure, because the index would do better; twenty percent in six months is a success. Money locked up is money not working elsewhere. Three: is the upside big enough to beat just buying the index over the same period? If not, buy the index. Four: if this went to zero tomorrow, does the portfolio survive? If not, it is too big before it has even started. Five: do I understand how it actually makes money? A no here is a stop.

The first four take seconds once you have the habit. The fifth is the one I still find hardest to answer truthfully.

The portfolio gate

The idea has cleared the business, the environment, the timing and the screen. Now a different question: is there room for it?

Room is not just cash. It is whether adding this position breaches any of the caps I set for myself: the maximum number of active trades, the maximum share of the portfolio in any one theme, the floor below which the index anchor must never fall. It is whether the idea is correlated with things I already hold: three different ways of betting on the same thing, say three companies whose price is really the Bitcoin price in disguise, is one bet, not three, and it should be sized as one. It is whether this position adds something new or just more of the same.

And it is tax. In Britain, gains inside an ISA are tax-free and gains in an ordinary account or on a crypto exchange are not, and the difference can be the whole

profit. So the gate asks, before I buy, which wrapper this goes in, and if it is a taxable one, what the tax bill would be at exit and what record-keeping that creates. Finding out at the point of sale is too late. The rule is simple: trade the tax-free account on merit, and treat every taxable disposal as a decision with a cost attached.

The case: writing it down before you can act

Everything so far is a filter. What comes next is the work, and the rule is absolute: no case, no position. A trade I cannot write down is a trade I do not understand well enough to hold through a bad week.

The case is a document with a fixed structure, and the structure is the point. A free-form note lets you skip the uncomfortable sections. A template with headings does not. I will walk through mine section by section, not so you copy it, but so you see what a complete decision actually contains, because the gaps are where my losses were.

The pitch, written first

Two or three sentences, no hedging: why this, why now, and the size of the prize. I write it before anything else, and if it will not come out clean, the idea is not ready and goes back to research. This is the single most useful discipline in the whole document. A thesis you can only express in a page of caveats is not a thesis.

Position type

Is this a core holding or a swing? The answer decides everything about how it will be managed. A core holding, an index fund or a genuine long-term

compounder, gets no hard price stop; dips are places to add, and it is only sold if the reason for owning it dies. A swing, a single stock or a tactical crypto position, gets a hard stop, mandatory, and only proceeds if the reward at the first realistic target is at least twice the loss at the stop. Confusing the two is a classic error: holding a swing like a core position is how a 10 percent loss becomes a 90 percent one.

Risk against the alternatives

The first number in every case is not the upside. It is a comparison. What does this trade have to deliver to beat the simplest alternatives: the index fund, the growth index, or just holding the core position I already have? If the expected gain over the holding period is not meaningfully better than what the index would give me for less risk, the case stops here and I buy the index. This is the question almost nobody asks and it is the one that kills most good-sounding ideas. "It will probably go up" is not enough. It has to go up more than the thing I could buy with no research at all.

Valuation anchor and what's priced in

From Chapter 3: an independent fair value estimate, the consensus target range, the key multiple against the company's own history and its sector, and then the priced-in checklist, every time, before the word upside appears. Plus a short section on the people: has management hit its own guidance, do the insiders have skin in the game, what do they do with the cash.

The size of the prize: expected value

This is the section that changed how I think, so it gets the most space.

Every trade has more than one possible outcome, and pretending otherwise is how you end up surprised. So the case lays out scenarios, usually three or four: a bear case, a base case, a bull case, and sometimes a rare blowout case. Each gets a target price, a rough timeline, the catalyst that would get it there, and a probability. The probabilities have to add up to roughly 100 percent, which sounds trivial and is not; it forces you to admit that if the bull case is 60 percent likely, the bear case cannot also be 50.

Then the arithmetic. Multiply each outcome by its probability and add them up. That is the expected value, the average result if you could make this exact bet a hundred times. A trade with a negative expected value does not proceed, however exciting the bull case, and a trade with a modest positive expected value is not worth the risk of being wrong on the probabilities.

The lesson buried in this is one that took me a long time to accept: probability and payoff are separate, and you must keep them separate. A 70 percent chance of making 10 percent is a worse bet than a 30 percent chance of making 200 percent, because seven is less than sixty. Most beginners chase high-probability small wins and get wiped out by the occasional large loss. The better game is often a lower-probability trade with a large payoff and a small, defined loss, provided you are honest about the probability.

Where do the probabilities come from? Partly from the type of setup, using base rates: an oversold bounce in a quality business reaches its first target before its stop more often than not; a breakout on momentum works less than half the time but the winners run a long way; a deep-value turnaround is a coin flip that takes a long time. Partly from the specifics of the company. And

partly, as Chapter 8 explains, from my own track record, because over enough trades I can see whether my 60 percent guesses actually come true 60 percent of the time. They did not, at first.

Quality tiers and the return I demand

Not every business deserves the same bar. A giant, cash-generating, moat-protected business on the right side of a twenty-year trend, bought at a good price, is a different animal from a small, unproven, share-issuing one, and my process says so explicitly by sorting companies into tiers.

The top tier is the elite: huge, wide moat, no dilution, riding a structural trend. For that tier, at a good entry, a modest expected gain is enough, because the chance of being wrong is low and the chance of recovery if I am wrong is high. The middle tier is solid but cyclical or mixed, and needs a bigger expected gain to justify the extra risk. The bottom tier is small, unproven or dilutive, and needs a very large expected gain or it is a pass, because the downside is real and possibly permanent.

Two things scale the bar as well as quality. Time: the longer my money is locked up, the more it has to earn, because a slow trade has to beat a slow index. And probability: the lower the odds of the trade working, the bigger the payoff has to be when it does. My process turns those into a minimum reward-to-risk ratio for each combination, and the formula is less important than the shape of it. High quality, quick trade: a low bar. Low quality, slow trade: a very high bar. Fast money is cheap money. Slow money from a weak business is the most expensive money there is.

There is also a documented exception, which I mention because a process without exceptions is a process people quietly break. When every gate passes, conviction is high, the timing is clean and the reward-to-risk is excellent, I am allowed to accept a return below the normal floor for that tier, provided I write down why I am doing it. An exception you have to write down is used rarely. An exception you can take silently is used every time.

The original thesis, frozen

Once the case is written, the original thesis and plan are locked: the reason, the entry levels, the targets, the price at which I am wrong. They never get edited. Everything after that goes in a dated change log underneath, with one column that just says: is the original thesis still intact, yes or no?

Why freeze it? Because the whole learning system in Chapter 8 depends on scoring what I predicted against what happened, and if I could quietly rewrite the prediction as the price moved, I would always look right in hindsight and learn nothing. It is also the antidote to the oldest self-deception in investing: buying a stock for one reason, watching that reason fail, and finding a new reason to keep holding it. If the frozen thesis says the reason was X and X is dead, the position is dead, whatever the new story is.

Entry plan and exit levels

The entry section says how I get in: one first entry, and what I will do if the price then falls, rises or goes sideways. That is Chapter 7's subject, so I will leave it there.

The exit section is set before I buy, not after. A first target where I take part of the profit, a main target, sometimes a runner, and a stop, with the reward-to-risk at each target calculated against the stop. Plus the hard exit: the event, not the price, that ends the trade regardless. And a euphoria override, a list of signs that the crowd has gone mad, any three of which mean I take at least half off the table: extreme greed on the sentiment gauge for a week, the stock in every mainstream "must buy" list, a 50 percent rise in a month with no change in the business, the valuation at a multi-year high, and everyone I know suddenly asking me about it. That last one has never once been wrong.

A deadline, and a thesis-killer

Every case has a timeline of expected catalysts with a date on each, and a deadline. If the deadline passes and the base case has not started to play out, I re-examine the thesis rather than quietly extending it forever. Hope does not get an extension.

And every case names its risks, five or so, with the probability, the impact and what I would do about each, and then names a single thesis-killer: the one thing that, if it happened, would end the trade regardless of price. For a business built on one huge customer, the customer walking. For a company whose whole appeal is that it never sells its core asset, selling it. A thesis with no kill condition is a belief, not a trade.

The recovery test

One question, asked of every case that goes in a long-term account: if this dropped 30 percent tomorrow, is recovery a matter of time, or a matter of if? A matter of time, and I continue. A matter of if, and either I do not propose it, or I size it as pure speculation, small enough

that a total loss is a shrug. This is the question that separates my Amazon from my Virgin Galactic trades, and I never asked it once in five years of holding the latter.

The self-critique

The last section before the decision is the one I like least, which is the reason it is there. A list of questions about me, not the company. Am I buying because I am afraid of missing out? Am I adding to a loser to avoid being wrong? Am I selling a winner out of fear? Did I build my conviction from one bullish article? Would I recommend this to someone I respect, and if not, why am I doing it? Am I chasing? Am I forcing it?

Then a check on the five forces that drive money decisions, which I keep in my process notes because naming a bias removes most of its power. Money: loss aversion, the urge to get even, recklessness with recent profits. Belief: being in love with the story or the founder. Relationships: buying because someone I respect did, so the conviction is borrowed, not built. Status: trading to look clever, or holding a public call out of ego. Health and stress: revenge trading, tired decisions, checking the price compulsively. If any one of those is driving the trade, the rule is a 24-hour pause before anything happens. Decisions made cold, executed warm.

The plain-English summary and the ask

Finally, the case ends where it started: with a story a non-expert could repeat. What it is, what has to be true for the base case, what would prove me wrong, and the one-line ask. And then a signature line, a literal yes or no, because a case that ends without a decision is a research note, and research notes do not make money.

Go or no go

Four things have to be true for a case to become a trade. The case is complete. It beats the index over the same period. The expected value is positive. And the overall market light from Chapter 2 allows it: on a red day even a perfect case waits.

There is one more question I ask when a good business fails a gate by a whisker, which I think of as the Buffett question. Am I judging this business fairly on the strength of its product and its customers, or am I reflexively declining it because the price and the chart look unfavourable today? Sometimes the honest answer is that a truly great business at a slightly-too-high price deserves a smaller starting position rather than a no. The gate is there to stop me being reckless, not to make me miss the best companies in the world because their RSI was 63.

And a no is not a dead end. An idea that failed a gate is rejected, with a note about what would fix it. An idea that passed everything and that I still turned down, because I did not like the entry or the size, is declined, and I track it on paper anyway to see whether it would have worked, because a no is a decision too, and decisions get scored. A decline is a verdict on one setup at one price on one day. It is never a verdict on the company forever.

What it costs, and what it saves

Written out like this, the gate looks like a lot of work, and I want to be honest about that. A full case takes me an hour or two, sometimes an evening. But most ideas never get that far; they fail a gate in the first ten minutes, which is the entire economic point. The

expensive part of the process is only ever run on the small number of ideas that have already proved they deserve it.

And here is the sum that convinced me. Uber, with no case, cost me £37. Virgin Galactic, with no case, cost me 97 percent of a position. Amazon had the beginnings of a case and made 15 percent. Every trade I have made since with a full case has had a stop I knew in advance, a target I set cold, and a reason I could re-read on a bad day. Some of them lost. None of them lost the way the caseless ones did, because the loss was decided before the trade began.

Buffett has a thought experiment about a punch card with twenty slots, one for every investment you are allowed to make in your lifetime. With only twenty, you would think very hard about each one and pass on almost everything. The gate is my punch card. It does not stop me from investing. It stops me from investing in things I have not thought about, which, it turns out, was most of my problem.

WORDS YOU NOW OWN

Gate. A cheap pass-or-fail filter an idea must clear before you spend real time or money on it.

Three gates. Fundamental (sound business, no dilution), macro (environment not a headwind), technical (timing not stretched, support nearby). All three, or watch list.

Watch list. Ideas that failed a gate, with a written note of what would have to change.

Asset class routing. Judging a company, a fund and a commodity by different questions.

Portfolio gate. Capacity, concentration, correlation and tax wrapper checked before the deep work.

Correlation. Positions that move together. Three ways of owning the same bet is one bet.

Tax wrapper. The account type. ISA gains are tax-free; other accounts and crypto exchanges are not. Decide at entry.

Case. The written document a trade must have before it exists. No case, no position.

Pitch. Two or three sentences, no hedging, written first. If it will not come out clean, the idea is not ready.

Core vs swing. Core gets no hard stop and dips are add zones; swing gets a mandatory stop and needs at least 2:1 reward to risk.

Expected value (EV). Each outcome times its probability, added up. Negative EV does not proceed.

Probability vs payoff. Keep them separate. A 30 percent chance of 200 percent beats a 70 percent chance of 10.

Quality tiers. Elite, solid, weak. The return demanded rises as quality falls and as lock-up lengthens.

Frozen thesis. The original reason and plan, never edited. Changes go in a dated log.

Reward to risk (R:R). Gain at the target divided by loss at the stop.

Euphoria override. Three or more signs the crowd has gone mad means take at least half off.

Thesis-killer. The one event that ends the trade regardless of price. No kill condition, no trade.

Recovery test. Down 30 percent tomorrow: a matter of time, or of if?

Self-critique / the five forces. Money, belief, relationships, status, health. If one is driving the trade, pause 24 hours.

Rejected vs declined. Failed a gate, versus passed everything and turned down anyway. Declines are tracked and scored.

CHAPTER SEVEN

Sizing and entries. How much, and how

The sign on the wall

There is a famous photograph of the hedge fund manager Paul Tudor Jones at his desk in the 1980s, and behind him, taped to the wall, is a sheet of paper with three words on it: losers average losers. He has said it is the most important rule he knows. The instinct to add to a falling position, to buy more because it is cheaper, feels like discipline and is in fact the exact opposite. It is how you build your biggest positions in your worst ideas.

I know this because I did it five times with some of my positions. Every add felt sensible. Every add made the eventual loss bigger. And the lesson, when it finally landed, was not "never buy more of something". It was that how much you buy, and when, and in what order, is a separate skill from choosing what to buy, and most people never learn it because nobody teaches it. Stock picking gets all the attention. Sizing is where the money is actually won or lost.

George Soros put the same idea another way: it is not whether you are right or wrong that matters, but how much you make when you are right and how much you lose when you are wrong. That is a sizing statement. A trader who is right half the time and makes three times what they lose will get rich. A trader who is right 80

percent of the time and loses ten times their average win on the other 20 percent will go broke. This chapter is about being the first person.

The one formula

Here is the rule that sits at the centre of my process, and I would argue it is one of the most important sentences in the book.

Position size equals risk budget divided by stop distance.

Take it slowly. The risk budget is the amount of money I am willing to lose on this one trade if I am wrong. It is a small, fixed percentage of my active portfolio, decided in advance and scaled a little by my conviction. The stop distance is how far the price would have to fall from my entry before I admit I am wrong and sell, expressed as a percentage. Divide the first by the second and you get the size of the position.

An example with round numbers. Suppose my active portfolio is 10,000 pounds and my risk budget for a normal trade is 1 percent, so 100 pounds. I want to buy a stock at 50 with a stop at 45, which is 10 percent below. 100 divided by 10 percent is 1,000 pounds. That is the position. If the stop is hit, I lose 100 pounds, exactly the amount I decided I could lose before I started. Now suppose the chart gives me a tighter stop, at 47.50, 5 percent below. 100 divided by 5 percent is 2,000 pounds. Same risk, twice the position, because the trade has a clearer point at which it is wrong.

Notice what this does. The size is set by the risk, not by how excited I am. A volatile stock with a wide stop automatically gets a smaller position. A stock with a

clean nearby support level automatically gets a bigger one. And every trade, whatever its size, risks roughly the same amount, so no single loss can do real damage. The Turtles, from Chapter 5, were taught almost exactly this in 1983: size every position by its volatility so that each one carries the same risk. It is one of the few ideas in trading that has survived forty years without changing.

There is a deeper theory behind it, called the Kelly criterion, worked out by a Bell Labs scientist in 1956 and used by the mathematician Ed Thorp to beat first blackjack and then the stock market. It says the optimal fraction of your capital to bet depends on your edge and your odds, and, crucially, that betting more than that fraction guarantees ruin in the long run even with a winning strategy. You do not need the maths. You need the moral, which is that too big is fatal even when you are right, and the risk-budget formula is a practical way of staying well under the line.

The ceilings

The formula sets the size. Three ceilings then cap it, and the position is the smallest of all of them.

The first is a maximum for any single swing position as a share of the portfolio, a little higher for the ideas I have the most conviction in, with a hard ceiling above which nothing goes regardless. This exists because the formula can produce a large number when the stop is very tight, and a tight stop is not the same as a safe trade. The second is a cap on total heat: the sum of every open trade's risk budget, so that if every stop were hit on the same day, the total loss would still be a number I could live with. If a new trade would push the

total over the cap, it is resized or it waits. The third is a limit on the number of open swing trades at once, which is a ceiling, not a target. Most of the time I am well below it, because most ideas do not clear the gate.

There is a floor too, and it is about fees. A position has to be big enough that the dealing costs on the way in and out are a small fraction of the expected gain, roughly under 2 percent each way. Below that, the broker is taking a fifth of your profit before you have started, and the right answer is a fund, a bigger position, or no trade. The exact numbers depend on your broker, and one of the first things I did when I got serious was work out, for each account I use, the smallest trade that made sense.

And there is a reserve. A minimum amount of cash that is always available, because the best entries come in panics, and a panic is precisely when you cannot raise money by selling something else without selling it badly. Never fully invested is a rule, not a mood.

Size up on evidence, not confidence

One more sizing rule, and it is the one I am proudest of, because it is the opposite of what my instincts wanted.

The risk budget starts small. It only goes up when the record says it should: after a meaningful number of closed trades, with a positive average result and a track record that actually beats the index. Not after a good month. Not because I feel sharp. After the journal, which you will meet in the next chapter, produces the numbers. And if the numbers turn negative, the budget goes straight back to the base.

Every beginner does the reverse. Three wins in a row, confidence soars, size doubles, the fourth trade is the

big loser. The performance ladder is designed to make that impossible. It means the person who gets to trade bigger is the person who has proved, on paper, that they should. Size to the evidence, not the excitement.

Entry one is sacred

Now the second half of the skill: not how much, but how.

The single worst habit I had was buying everything at once. See the idea, like the idea, buy the full position, and then discover over the following week that the price had other plans. The fix is staged entries, and my process treats the first entry differently from everything after it.

Entry one is the fear entry, the great-price entry, and it is sized by the formula above. It happens at a level I chose in advance, usually a pullback to support in a business I already wanted, ideally when sentiment is scared. It is sacred in the sense that it is the only entry that does not depend on what the price does next. Everything after it is conditional, and the condition is direction.

Three roads after the first entry

After entry one, the price does one of three things, and my process has a different rule for each.

The price falls. If the thesis is intact and the business is recoverable, this is where I scale down: buy the next tranche at a lower pre-planned level, and the next at a lower one still, with a limit on the total. This is the classic ladder and it works beautifully on a quality business in a panic, which is exactly the setup it was designed for. It is also, on its own, a trap, because a

ladder that only ever buys lower will fill completely only when you are wrong. You end up with your maximum size in your losers and your minimum size in your winners. So the scale-down rule has two conditions welded to it: the business must have passed the recovery test, and the thesis must still be intact when I check it at each rung. A lower price is not a reason. It is a price.

The price rises. This is the road most people never plan for, and it is where the money is. If the trade confirms, meaning the price rises through the levels I expected on decent volume, I pyramid: add to the winner, in decreasing tranches, say half the intended position first, then 30 percent, then 20, and only ever when the previous tranche is already in profit. With each add, the stop on the whole position moves up, so the trade is protecting more of its own gains as it grows. The pyramid ends when the next tranche can no longer clear the reward-to-risk bar for that quality tier, because the price has moved too far from the stop. The maths ends the pyramid, not willpower.

Adding to winners feels wrong, which is why almost nobody does it. It feels like chasing. The difference is that chasing is buying something because it went up; pyramiding is buying more of something you already own, already researched, and already set a plan for, because it is doing what you said it would. It is the best expression of Soros's rule: when you are right, be right in size. I reserve it for high-quality businesses in a confirmed trend with a big target; it is not appropriate for weak companies, and never for anything leveraged, because pyramiding a leveraged vehicle is leverage on leverage.

The price goes sideways. It hits a real resistance level and stalls. Here the option is to cycle: sell part of the position near the top of the range and buy it back near the bottom, repeatedly, as long as the range holds. This is only sensible in a tax-free account, because in a taxable one every sale is a tax event and the tax usually eats the edge. And there is a specific piece of arithmetic to do before trying it, which most people skip: how often does the re-entry actually have to work to break even, given how far the stock might run away without you? The answer is often "more than half the time", which is a higher bar than it sounds, and the reason I cycle rarely.

Two keys

Every one of those continuation rules produces a signal. The price hits the next rung. The pyramid condition is met. Resistance is touched. And here is the rule that stops the signals from running me instead of the other way around: no signal fires on its own.

Every add, every trim, every re-entry needs two keys. The first is the quantitative one: the level is hit, the tier and the reward-to-risk still work, the caps and the heat are not breached. The second is the contextual one: the overall market light is not red, today's news has not changed the picture, the company is not about to report results, the move has volume behind it, and the frozen thesis is still intact when I re-read it. Both keys turn, or nothing happens. A fired trigger produces a fresh look at the trade, not an automatic order.

The maths can permit a trade or veto it. It can never compel one. That sentence is in my process in bold, because the day I let a spreadsheet order me into an add

I do not believe in is the day I stop being an investor and become a worse machine than the machine.

Never into an event

A specific rule that belongs here because it is the most common way the two keys save me. I never add to a position, and never open a new one, in the last day or two before the company reports results, or before one of the big scheduled macro events from Chapter 5. Chapter 5 gave the reason: the outcome is a coin flip I cannot analyse, so the day after is soon enough.

The sell-the-news pattern from Chapter 2 is the other half of this. If I hold something into its own results, that is a deliberate choice, made cold, not the default. And where the base rate says the stock usually falls on the print even when the news is good, the run-up into the event is the payment and I trim into it. Holding a full position through a binary event hoping to be paid twice is not a strategy. It is a bet, whatever I call it.

There is a related rule for the fast, unexpected gift. If a position jumps 15 percent or more in a single session without hitting a target, and the company is not one of the giants, I trim a chunk regardless, for the reason given in Chapter 4.

The mechanics: orders and the shape of the market

A short, practical section, because the difference between a good entry and a bad one is sometimes just the type of order you used.

A market order buys now at whatever the price is. Fine for a giant, liquid stock; dangerous for a thin one, where

"whatever the price is" can be several percent worse than you expected. A limit order buys only at your price or better, and is how every planned rung of a ladder should be placed: you decide the level cold, the order sits there, and the market comes to you or it does not. A stop order sells automatically if the price falls to a level; it is how a stop loss is actually implemented, and it turns into a market order when triggered, so on a thin stock it can fill well below your level in a fast move. A stop-limit order avoids that by only selling at your price or better, at the cost of possibly not selling at all in a crash. And a stop-buy, which triggers a purchase if the price rises through a level, is sometimes used to confirm a breakout before entering; I have found it mostly useless on smaller companies, where it fills on noise and gives you a worse price for no real confirmation.

The shape of the market matters too. Liquidity, meaning how easily you can buy or sell without moving the price, is a property of the stock, not of your broker. In a giant, you can place a resting stop and trust it. In a thin fund or a small company, a resting stop can be triggered by a single wild trade, a wick on the chart, that reverses within minutes, and you will have sold your position at the low of the day to nobody in particular. On thin names I watch the level manually or use a stop-limit. And above a certain size in any name I check the spread and the daily volume before committing, because a position you cannot get out of is not a position, it is a hostage.

Cash is a position

Last thought. The hardest sizing decision is not how much to buy. It is how much to leave alone.

Every rule in this chapter, the caps, the heat limit, the reserve, the rung levels that may never fill, is a way of holding cash on purpose. That feels like failure when the market is rising and everyone else is fully invested. It is the exact opposite. Cash is what lets you be the buyer when the market is panicking and everyone else is a forced seller, and the buyer in a panic is the only person in the market who is guaranteed a good price. Buffett's whole 2008 article was a man with cash writing to people without it.

I keep a shopping list for exactly that moment: the great businesses I want to own, and the prices at which I want to own them, written down in calm conditions so that when the day comes I am executing a plan rather than trying to think while my portfolio is on fire. Protect the base, keep the anchor, ready the powder, and buy fear in tranches. The tranches are this chapter. The powder is the cash you did not spend.

What I actually do

For every case that clears the gate, the sizing section runs the same way. Find the stop, on structure, at the price where the thesis is wrong. Measure the distance from entry to stop as a percentage. Take the risk budget for that conviction level. Divide. Then cap the result against the single-position ceiling, the heat cap and the position count, and take the smallest number. Check it clears the fee floor. Write down the size in shares, not just pounds, so there is nothing to work out on the day.

Then the entry plan: entry one at its level and size; the scale-down rungs below it with their sizes, each conditional on the thesis surviving a check; the pyramid rungs above it with their sizes, each conditional on the

previous being in profit and the stop ratcheting up; the price above which I will not buy at all; and the calendar of events I will not add into. All of it on limit orders where the account allows, so the decisions are made once, cold, and the market either comes to my prices or it does not.

It takes ten minutes on top of the case. It has never once been the interesting part of a trade. It is the part that decides whether an interesting trade is allowed to hurt me.

WORDS YOU NOW OWN

Risk budget. The fixed amount you are willing to lose on one trade, as a small percentage of the portfolio, scaled slightly by conviction.

Stop distance. How far from entry to the price where you are wrong, as a percentage.

Position size = risk budget ÷ stop distance. The one formula. Tight stop, bigger position; wide stop, smaller one; same risk either way.

Kelly criterion. The maths of bet sizing: too big is fatal even with an edge.

Ceilings. Max single position, max total heat (sum of open risk budgets), max number of open trades. Size is the smallest of all of them.

Fee floor. A position too small for the dealing costs to be under about 2 percent each way is not worth making.

Reserve. Cash that is always available for panics. Never fully invested.

Performance ladder. Risk budget rises only when the journal proves it should, and falls back when it does not.

Staged entry / tranche. Buying in planned pieces rather than all at once.

Scale down. Adding at lower pre-planned levels, only in a recoverable business with an intact thesis. A lower price is not a reason.

Pyramid. Adding to a winner in decreasing tranches, only when the previous one is in profit, with the stop ratcheting up. Never on a loser, never on leverage.

Cycle. Selling near the top of a range and re-buying near the bottom. Tax-free accounts only; do the break-even maths first.

Two keys. Every trigger needs the numbers and the context. The maths permits or vetoes, never compels.

Binary event. Results, a rate decision, a launch: a coin flip you cannot analyse. Never add into one.

Market / limit / stop / stop-limit orders. Now at any price; at your price or better; sell if it falls to a level; sell at your price or not at all.

Liquidity / wick risk. How easily you can trade without moving the price. Thin names can trigger a stop on a single wild trade.

Heat. Total risk across all open trades.

Shopping list. The businesses and prices you want in a panic, written down while calm.

CHAPTER EIGHT

Managing, exiting and learning

Why planes are safe and hospitals are not

In 2015 the journalist Matthew Syed published a book called Black Box Thinking, and its central comparison has stayed with me more than anything I have read about markets. Commercial aviation is one of the safest activities humans have ever invented. In a typical recent year, a few hundred people die in airline crashes worldwide, out of billions of passengers. Healthcare, by contrast, kills hundreds of thousands of people a year through preventable error, by some estimates.

The difference is not that pilots are smarter than doctors. It is what happens after something goes wrong. Every aircraft carries a black box. Every crash is investigated by independent experts, the findings are published, and every airline in the world changes its procedures as a result. Failure is treated as data. In medicine, historically, a death from error was a private tragedy, a matter for a quiet meeting, sometimes a lawsuit, and the same mistake was made in the next hospital the following week.

Most investors run their portfolios like the hospital. A losing trade is embarrassing, so it is not examined. A winning trade is flattering, so it is not examined either.

Twenty years pass and the person has made two hundred trades and learned almost nothing, because nothing was ever written down and compared with what actually happened. This chapter is about running your portfolio like the airline: what to do while a trade is open, how to close it, and the black box that turns every close into a lesson.

Managing: the trade is alive

A position, once open, is not a thing you own. It is a thing you are responsible for, and the responsibility has a rhythm.

Daily, for anything I hold, a glance: the price against the plan, and a one-word status. On track, meaning the thesis is playing out on schedule. Slow, meaning the thesis is intact but the timeline is stretching. At risk, meaning something in the plan has been challenged. Stop hit or target hit, meaning a pre-committed action is due. That status is not a feeling. It is read off the case, against the frozen thesis and the dated timeline.

Weekly, for the faster trades, I re-derive the levels: where is support now, where is resistance, has the trend changed. Monthly, for everything, a thesis check, which is a single honest question: is the reason I bought this still true? Not "is it up or down", which is noise, but "is the thing I said would happen happening?" And for any position more than 30 percent underwater, a formal review rather than a glance, because a loss that size means either the thesis is dead or the market is offering something, and I need to know which.

The rule that governs all of this is that levels only move to genuine new structure. If a stock builds a new base higher up, the stop can move up under it. If a new

resistance level appears, the target can be re-examined. What is never allowed is widening a stop because the price is getting close to it, or lowering a target because the trade is taking too long. Those are not level updates. They are the frozen thesis being quietly rewritten by a person who does not want to be wrong.

When the market overrides the trade

There is a layer above any single position, and it is the traffic light from Chapter 2. When the overall market goes amber or red, the rules for every trade change at once, whatever the individual case says.

At amber, the bar for anything new goes up, and I start trimming the most fragile things I hold. Fragile has an order: the leveraged and the crypto-linked first, then the high-growth names that move twice as much as the market, then the quality names, and the index anchor never, because the anchor is the one thing I hold through everything. Every open swing gets its stop confirmed and no stop gets widened. At red, nothing new opens, stops move up to protect what has been earned, and I write the shopping list of great businesses I want at lower prices. And at capitulation, when the sentiment gauge is on the floor and the plumbing has started to calm, the protection is already done and the job flips to buying from the list, in tranches, while it feels terrible.

I learned the cost of getting this wrong in both directions. Too twitchy, and my light sat on amber for three weeks while nothing was actually broken, and I watched two good entries go past because a rule, not a reason, was holding me back. Too relaxed, and you are the person fully invested on the day the plumbing

breaks. The light has to be rare in its alarms and decisive when it sounds, and calibrating that took a year of writing down when it was right and when it cried wolf.

Exiting: the five legitimate reasons

There are exactly five reasons I am allowed to sell, and "it hurts" is not one of them.

The target is hit. The case set a first target where I take part of the profit, and a main target where most of the rest comes off. When the first target fills, something specific happens next: the stop on the remaining position is recalculated to a real structural floor, a level on the chart that would have to break for the thesis to be wrong, and I rate my confidence in that floor. This came from a painful discovery that after taking profit on a first tranche I was leaving the stop where it had always been, at the original entry, which meant the remaining shares were carrying more risk than the day I bought them. A stop set by default, without a reason, is worse than no action at all, because it feels like protection and is not.

The thesis-killer fires. The one event named in the case that ends the trade regardless of price. This is the cleanest exit there is, because the decision was made months ago by a calmer version of me. When a company whose entire appeal was that it would never sell its core asset sold some of it, the case said what to do and I did it, even though the price at the time was a fear price and every instinct said wait.

The stop is hit. On a swing, the stop is not a suggestion. If the price reaches it, the trade is closed, the loss is the loss I agreed to before I started, and the

review happens within the week. The temptation is always to give it one more day. The frozen thesis exists so that "one more day" has to be justified in writing against a plan that did not include it.

The crowd goes mad. The euphoria override from Chapter 6: three or more of the signs that sentiment has detached from reality, and at least half the position comes off regardless of where it sits against the target. This is the rule that takes profit at the top, not because I can call the top, but because the top has recognisable symptoms and the price of selling early is much lower than the price of watching the whole gain disappear.

The annual audit. Once a year I look at everything I hold against the plan for the portfolio as a whole, and anything that no longer fits, a position that has drifted into a role it was never meant to play, gets sold on merit even if nothing is wrong with it.

That is the whole list. Notice what is missing. "It is down and I feel sick" is not on it. "It is up and I am scared of losing the gain" is not on it. "A man on the internet said it will crash" is not on it. Every exit has to match one of the five, and if it does not, I am not selling, I am reacting, and the case exists to catch exactly that.

Two small rules that stop repeated mistakes

The first is the sell-the-news trim from Chapter 2, restated as an exit rule: if I hold a name into a scheduled event where history says the price usually falls on good news, the run-up is the payment and I trim into it, then treat a beat-that-falls as a re-entry pattern rather than a broken thesis.

The second is a guardrail against a loop I fell into. If I stop out of a position at a level and then re-enter at the same level, and it happens twice with no new reason between, I stand down from that name for a while. The market is telling me my level is wrong, and the process is not allowed to keep paying to find out. I tried using fixed waiting periods for this and they never worked consistently; a re-entry can be right in a week or wrong in a quarter. The trigger is repetition, not the calendar.

The black box: the post-trade review

Now the part that makes all the rest compound.

The moment a position closes, for any of the five reasons, a review is due within seven days, and it has two halves by design. The first half is mechanical: every transaction for that position pulled from the records, the total invested, the total recovered, the profit or loss in money and in percent, the holding period, the tax position, and what the index did over the same period, so that I can see whether the trade beat the thing I could have bought with no effort at all. Numbers, from the records, never from memory.

The second half is the reason the first half is worth doing, and it is a conversation with myself in two questions. What did I really believe going in? Not the polished thesis from the case, the actual reason, in my own words, including the embarrassing bit. And how do I really feel about the outcome now? Relieved, annoyed, vindicated, lucky? Those two answers get written down verbatim, and the most useful sentences in my whole process came out of them. "I could not stand it, I did not know why I went in" was the answer for Uber. "Time may save the company; it will never save its diluted

investors" was the answer for Virgin Galactic. Neither would have appeared in a purely numerical review, and both changed the rules.

Then the review asks the analyst's questions. Was the thesis correct? Did the exit happen as planned, and if not, why? Did the numbers hold up? Was I right for the right reasons, or right by luck, or wrong by luck? Which of the five forces was driving me, if any? What would I do differently? And the last one, the one that closes the loop: what single rule should change as a result? If the answer is nothing, fine. If the answer is something, the process gets edited that day, and the trade becomes an entry in a small library of examples, the ten or fifteen trades that actually taught something, cited by name the next time a similar setup appears.

That library is deliberately small. A library of everything teaches nothing. Each entry earns its place by carrying a lesson no other entry carries, and entries get pruned when a newer trade teaches the same thing better.

The journal, and why the score is not the money

Underneath the reviews sits a plainer document, and it is the one that would survive if everything else burned: the journal. Every time a trade opens, a line: the ticker, the date, the thesis in a sentence, the entry, the stop, the target, and one number that most people never write down, my probability that it works. Sixty percent. Forty-five percent. Whatever I truly believe. When the trade closes, the line gets its outcome, one or zero, the return I predicted, the return I got, and what the index did meanwhile.

The probability is the key to everything, and here is why. Over enough trades, I can compare what I said with what happened. If the trades I called 60 percent came good 60 percent of the time, I am calibrated: my confidence means something. If they came good 40 percent of the time, I am overconfident, and every expected value I have ever calculated was too rosy by exactly that gap. There is a simple score for this, called the Brier score, borrowed from weather forecasting: for each trade, take the difference between the probability you gave and what happened, square it, and average across all trades. A perfect forecaster scores zero. A coin flipper scores a quarter. Mine, early on, was worse than I wanted it to be, and knowing that number was worth more than any single trade.

The researcher Philip Tetlock spent years studying who forecasts well, and his finding was that the best forecasters, a group he called superforecasters, were not the most expert or the cleverest. They were the ones who kept score, updated in small steps, and treated their own confidence as a thing to be measured rather than trusted. Ordinary people who scored themselves consistently beat professional analysts who did not. That is the whole argument for the probability column. It turns a trader into a forecaster, and forecasters can be improved.

The second thing the journal teaches is the hardest lesson in this book, and I will let the poker player Annie Duke name it. In her book Thinking in Bets she describes a habit she calls resulting: judging the quality of a decision by the quality of its outcome. A drunk driver who gets home safely made a terrible decision with a good result. A sober driver who gets hit made a good decision with a bad result. In markets, the

equivalent is everywhere. A losing trade with a well-built case, a positive expected value and a properly sized position was a good decision that happened to land on the wrong side of its probability. A winning trade that broke every rule, bought on a tip, oversized, no stop, was luck, and luck is the most expensive teacher there is, because it teaches you to do it again.

So the journal scores the decision, not just the profit. Did I follow the process? Was the probability honest? Was the size right? A trade can be a loss and a good decision, and a profit and a bad one, and over a hundred trades the good decisions are the only thing that reliably makes money. That is the sentence I would put on the wall if I were Paul Tudor Jones. Score the decision, not the result.

The journal has one more job. It is the evidence the performance ladder in Chapter 7 runs on. Sizing goes up when the journal says the record has earned it, and not before. The person who has done the boring work of scoring a hundred decisions is the person who gets to bet bigger, which is exactly how it should be and exactly the reverse of how most people do it.

The no that gets scored too

A last piece of the loop that most people never build. When a case clears every gate and I finally don't enter it, because I did not like the entry, or the size felt too big, or I simply hesitated, that decision is written down and followed. The frozen plan sits on paper, and every week I check whether it would have hit its target, its stop, or neither, until it resolves into a verdict: missed opportunity, good call, or inconclusive.

This is uncomfortable, which is why it works. A few of my declines turned out to be good calls: the stock fell through its stop and I was glad to have watched. More than a few turned out to be missed opportunities, and the pattern in them was that I was declining good businesses because the price or the chart looked scary on the day, which is a bias with a name and a fix. Without the paper trail I would have remembered only the good calls, because that is what memory does. And a decline is always a verdict on one setup at one price on one day. The same company with a better setup gets a fresh case, not a stale no.

The loop

Put the whole book together and it is one loop, and the loop is the process.

Read the room, so you know whether today is a day for opening anything. Read the company, the chart and the world, so an idea can pass the three gates. Write the case, cold, with a thesis, a size, a stop, a target, a kill condition and a critique of yourself. Enter in stages, with two keys on every add. Manage against the plan, not your mood. Exit for one of five reasons. Then, within a week, sit down with the black box: the numbers, the two honest questions, the probability you gave against what happened, and the one rule that should change. Edit the process. Go round again.

None of it requires talent. All of it requires doing it every time, including, especially, the times you would rather not. The people in this book who made it, from a rocket company with one launch left to a fund manager with three words on his wall, did not have a gift the rest of us lack. They had a loop, and they refused to skip a

step. I have one now. It is the most boring thing I have ever built, and it is the first thing in my financial life I would not trade for anything.

WORDS YOU NOW OWN

Status. On track, slow, at risk, stop hit, target hit. Read off the plan, not off your mood.

Thesis check. Monthly: is the reason I bought this still true? Not "is it up or down".

Underwater review. A formal look at any position more than 30 percent below cost.

Level recalculation. Moving stops and targets only to genuine new structure. Never widening a stop or lowering a target because price is near.

The market light. The overall market state that can cap or pause every trade regardless of its own case.

Trim ladder. The order in which positions are reduced when the light goes amber: leveraged and crypto-linked first, high-growth next, quality last, the anchor never.

Five legitimate exits. Target hit, thesis-killer, stop hit, euphoria override, annual audit. Never "it hurts".

Post-first-target stop. After taking first profit, recalculate the remaining position's stop to a real floor with a confidence rating. A default stop is worse than none.

Repetition guardrail. Stopped out and re-entered at the same level twice with no new reason: stand down.

Post-trade review. Due within seven days of any close. Numbers from the records, plus two honest questions in your own words, plus one rule change.

Example library. The ten or fifteen trades that actually taught something, kept small on purpose.

Journal. Every trade logged at open with a probability, scored at close with the outcome.

Calibration. Whether your 60 percent calls come true 60 percent of the time.

Brier score. The average squared gap between your probability and the outcome. Zero is perfect, a quarter is a coin flip.

Resulting. Judging a decision by its outcome. A losing trade can be a good decision; a winning trade can be luck.

Score the decision, not the result. The rule that makes the journal worth keeping.

Declined case tracking. A no that passed every gate is followed to a verdict: missed opportunity, good call, or inconclusive.

The loop. Read, gate, case, enter, manage, exit, review, edit, repeat.

CONCLUSION

What you can do now

At the start of this book, the vocabulary was the wall. P/E, market cap, credit spreads, RSI, the yield curve, a beat, a miss, a squeeze. Read those words again now. None of them is a secret any more. You know what a company is worth and why the market prices a utility and a software firm so differently. You know what the plumbing is and how to tell a correction from a crash. You know what a chart is actually a record of, what the rotation map is doing to your sector, and which tribe you belong to. That alone puts you ahead of most people who have been buying shares for years.

But the vocabulary was never the point. The point was the loop, and the loop is yours to build.

You now know how to read the room before you look at any single company, so that a good idea on a bad day waits. You know the three questions an idea has to pass before it deserves your time, and the five it has to pass before it deserves your money. You know that a trade you cannot write down in three clean sentences is a trade you do not understand, and that the case you write before you buy is the thing that will hold you steady on the first bad week. You know how to decide the size from the risk rather than from the excitement, how to enter in stages, and how to add to a winner instead of a loser. You know the five reasons to sell and the one reason that is never allowed. And you know that the review you write afterwards, in your own words,

with the probability you gave against what happened, is the only part of all this that gets better every year.

None of that requires talent. I am proof of that. It requires a routine you follow every time, including the times it feels stupid, which will be most of them. Start smaller than you think you should. Write more than you think you need to. Score the decision, not the result. And when the crowd is terrified and every instinct says wait, remember that the best entries feel terrible, and that you now have a shopping list written on a calm day for exactly that moment.

You will still get things wrong. So will I. The investors who get better are not cleverer or luckier than the ones who don't. They have a process, and they have the discipline to follow it on the days it feels pointless. That is the entire difference, and it is available to anyone.

That is the whole book. Not luck. Not talent. A process, and the discipline to run it every time.

ABOUT THE AUTHOR

Rex

Rex is a pen name. Behind it is an ordinary investor with an ordinary day job, who is not a fund manager, an analyst or a financial adviser, and who has never worked in the City.

He invested for over five years, through two bull runs, and lost on position after position. He came out only a few percent ahead overall, a poor result against what the market did in those years. Out of that frustration he decided something had to change. The process described in this book is the one he built afterwards, and still runs, on his own money. He has not reached financial independence yet. This is the first of a series of books written along the way. He is sharing the journey as it happens, in the hope that it encourages others to start their own, if they wish to. The name stays out of it because the name was never the point.