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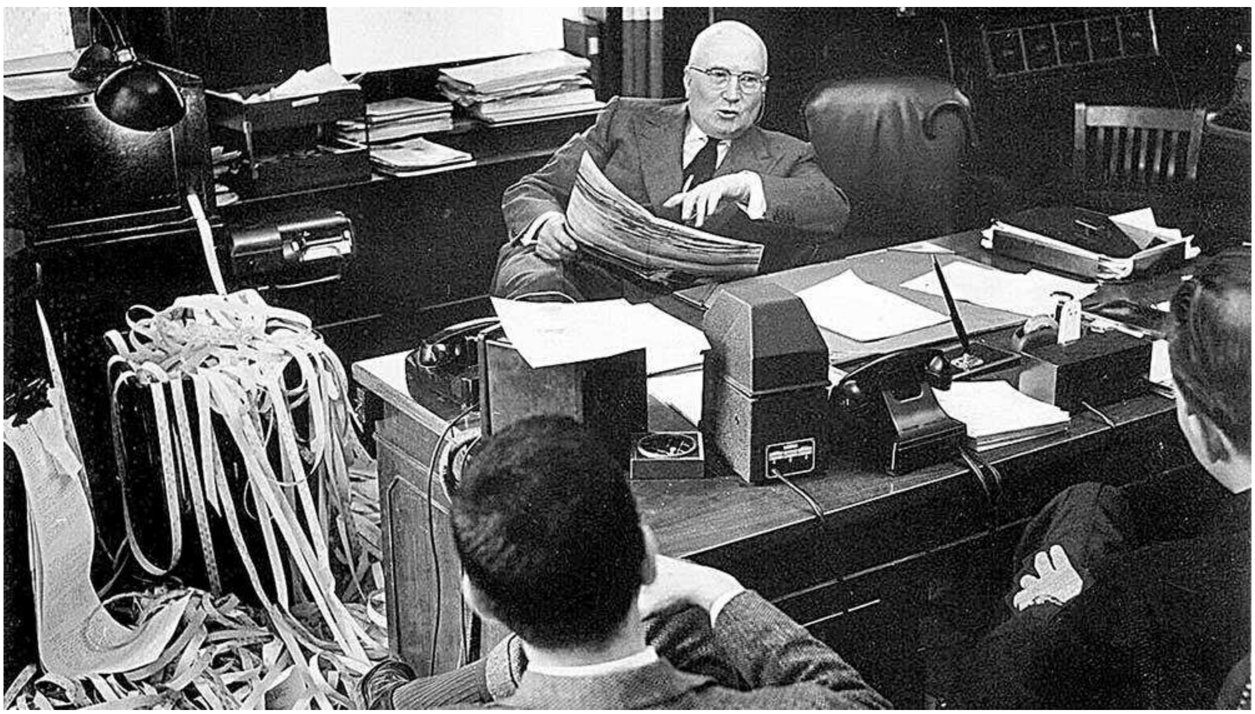
Gerald Loeb's Strategies For Winning On Wall Street Still Ring True



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Across nearly five decades in the 20th century, Gerald M. Loeb prospered in the world of Wall Street. So what made Loeb really stand apart?

Perhaps it was Loeb's ability and desire to articulate exactly what it takes to win in the bond and stock markets. Loeb's gift to investors ultimately came in the form of a book, "The Battle for Investment Survival."

Loeb writes with brutal honesty.

"Nothing is more difficult, I truly believe, than consistently and fairly profiting in Wall Street," he wrote at the start of Chapter 1. "I know of nothing harder to learn. Schools and textbooks supply only a good theoretical background."

Most individuals lose money on Wall Street because they don't prepare thoroughly, Loeb noted, or they don't spend enough time finding a professional who has mastered the skill of market timing.

Loeb wanted people to take matters into their own hands. That is, don't be sold something on Wall Street. Do your own research and find something to buy.

Don't simply trust an AAA rating for a bond or a very high price in a stock, because those are just snapshots of a security's value in a moment of time. Instead, look for high-quality merchandise on the market with a true potential to rise in value.

"If you know what you want and why you want it and when you want it, you'll generally pay a lot less for it than you will if you buy something that somebody else persuades you to buy," Loeb, who eventually rose to the role of chairman of the Manhattan brokerage E.F. Hutton, was quoted as saying in "The Wizard of Wall Street" by Ralph Martin.

No Short Cuts

Through "The Battle for Investment Survival," Loeb tells readers to take no short cuts. Watch a stock carefully, understand its price behavior, and find correlations between its price cycles and how it relates to the company's underlying fundamentals. Be patient, wait for all the proverbial stars to align, then strike big.

Last, but not least, recognize your mistakes early and exit a losing position quickly.

How influential is "The Battle for Investment Survival" since it came out in 1935? So much so that the San Francisco native also oversaw 10 revised editions of his book over the next 30 years.

The book deeply moved William O'Neil, a successful broker during the 1960s who formed an equity research firm that has served hundreds of institutional investors. O'Neil, who later founded IBD in 1984, once met with Loeb (1899-1974) to ask if he always stuck with the rule of selling a stock if it fell 10% below the purchase price. Loeb replied that he much preferred to be out of such a position well before such a loss. Without question, the first job in stock investing is preserving capital.

"I think meeting Loeb made a big impact on Bill O'Neil," Bryan Anderson, market strategist at Austin-based Beck Capital Management, told IBD. Anderson also worked for William O'Neil + Co. as an in-house equities portfolio manager from 1993 to 2000. "Loeb had great personal qualities. He valued honesty. He valued flexibility of thinking and being unbiased. You see that throughout the book."

Other golden nuggets in Loeb's book that resonate with IBD's CAN SLIM investing paradigm:

Concentrate on your best investments. "Diversification is a necessity for the beginner. On the other hand, the really great fortunes were made by concentration," Loeb wrote in a foreword to the 1965 edition. "The greater your experience, the greater your capability for running risks, and the greater your ability to chart your course yourself, the less you need to diversify."

Take profits often; lock in gains frequently. "Many 'long-pull' traders ignore a sign of a change of trend because they feel it is temporary. Often they are right, but eventually they are wrong, and usually at great cost. The short-term method requires the closing of the trade for a reason, and if later the situation changes, then one can re-establish the position," Loeb wrote.

A stock can plunge even if the market is doing fine. In the postscript section of his book, Loeb notes that from 1960 to 1964, the Standard & Poor's average of 425 industrial stocks rose, but seven leading electronics companies within the average underperformed. Among those seven, Loeb added a simple line graph of Transitron Electronic falling from 60 to 4.63 over the same time frame, a 92% plunge.

Even within a single industry, performance among companies can vary greatly. Loeb showed how Chrysler emerged as a big market winner, rising from 11.50 in 1961 to 50 by 1964 as new management led to outstanding growth in car sales, earnings and cash dividends. But rival American Motors, "which had prospered mightily in the 1957-59 period, due to its success with compact cars, saw the demand shift and was adversely affected," Loeb wrote. From 1960 to 1964, AMC shares sank from a peak of 23.50 to 15.

Build your position as a stock rises in price, not falls. "I believe in pyramiding, not averaging," Loeb wrote.

Financially Responsible

Loeb was born in July 1899 in San Francisco. His father sold a successful wine merchandising business in New Orleans and moved to the West Coast to start anew. Loeb's mother came from a wealthy family in which Loeb's grandfather struck it big in silver in Nevada, then invested his winnings in real estate in the Bay Area.

The 1906 San Francisco earthquake all but shattered the family's wealth. Two years later, Loeb's father and grandfather died just two weeks apart. Loeb's mother, now widowed, moved into a boardinghouse to raise Loeb and his younger brother.

Loeb learned to take financial responsibility at an early age. When Loeb was just 10, his mother took them on a trip to Europe and let young Gerald handle the hiring of a taxi, paying the hotel bill and tipping waiters on the steam ship across the Atlantic.

"She always wanted me to be boss of my own money, even at the earliest age," Loeb said. "For me, this freedom of experience . . . was the beginning of my financial education."

At age 11, Loeb contracted polio. Forced to spend much of his days in bed, Loeb devoured books. The physical handicap did not prevent Loeb from finishing high school, but he quit a plan to study architecture.

An inheritance from his father sparked a lifelong passion in securities investing.

At age 21 and with $13,000 in hand (roughly $221,000 in today's dollars), Loeb made two bond investments. The first purchase, a 15-year S.W. Straus Real Estate bond that offered 6% interest, was illiquid and market prices were arbitrary. The stated value of the real estate tied to the loans was highly questionable. Loeb sensed something was amiss and redeemed the bond for a small loss within a year. Later, the bond crashed to zero value after the issuers no longer could offset the big losses with the money received from bond sales.

For his second purchase, he called upon his father's friend, a senior partner at a top brokerage in San Francisco, who recommended a high-quality British bond, payable either in sterling or dollars at the customer's option. Unlike the first bond, which paid a handsome commission to the seller, this bond gave the broker only $2.50 to $5 in commission. In the process, Loeb also learned how the broker sent the order to New York via telegraph, bought the bond on the floor, had the cashier ensure that it was authentic, and finally got it mailed to the new owner.

A year later, Loeb saw the value of the bond rise and took his profit. He decided that he would do business the same way by acting in the customer's best interest.

One day during his first job as a bond salesman, Loeb got a verbal lashing for refusing to follow bosses' orders to sell low-quality bonds to a physician client that would have given the broker the biggest commission. He quit the same day. Loeb immediately got a job at a respectable brokerage, learning every aspect of the business by assisting the bond salesman, the statistician and the stock trader.

Becoming A Reliable Source

Loeb thrived in the securities business by adopting the ticker-tape machine, a sophisticated new technology at the time. Loeb not only learned much about tracking actionable price trends, but also became a reliable source of information to his customers. Trust among his customers was so great that they gave him discretionary power to buy stocks without client approval, then allocate the shares to accounts accordingly.

"He was giving people honest information," Anderson said. "Others were giving customers old information."

To further promote knowledge about business and the markets, Loeb launched an annual competition in 1957 to recognize excellence in financial journalism. He cared about the impact it could have to the public understanding of financial markets. The University of Connecticut acted as the initial steward of the awards. But in 1973, just a year before his death, Loeb decided to ask Harold Williams, a corporate lawyer who served as dean of UCLA's business school at the time, to become the new home of the prizes.

Williams, who served as commissioner of the Securities & Exchange Commission, says Loeb was aware of his past speeches on the issues of corporate governance and the role of board directors. "He felt my views were hospitable," Williams told IBD.

Next year, the Gerald Loeb Awards celebrates its 60th anniversary with an awards banquet slated for June 27, 2017. The nonprofit organization, which operates primarily on sponsorships and private support, will begin calls for entries in January.

"Quality journalism is essential for our students to get to know the challenges in global business and financial markets," Judy D. Olian, current dean of the UCLA Anderson School of Management, said. "It presents the ethical dilemmas new managers will face, and forces them to ask what type of managers they want to become."

Loeb's Keys

Excelled on Wall Street as a top-performing broker; rose to chairman at E.F. Hutton; wrote the best-seller "The Battle for Investment Survival."

Overcame: death of his father at young age, polio, limited education

Lessons: Don't be sold on something. Do your own research and find investments with true potential to rise.

Quote: "Concentration of investments in a minimum of stocks ensures that enough time will be given to the choice of each so that every important detail about them will be known."