



Beat the market edward thorp pdf

Another book by Edward O. THORPElementary ProbabilityBeat, DealerOther's book SHEEN T. KASSOUFEvaluation of Convertible Securities A Theory and a Econometric Model for Common Stock Market SystemEdward O. Thorp, PhD student at the University of California Mathematics and IrvineSheen T. Kassouf, Associate Professor at the University of California Economics IrvineBEATTHE MARKET 9 8 7^C Copyright, 1967. , by E.O. Thorp and S. T. KassoufAll rights reserved under the Internationaland Pan-American Copyright Conventions. Published in New York by Random House, Inc. and at the same time in Toronto, Canada, Random House of Canada Limited.Library of Congress Directory Card Number: 67:22624Manufactured in the United States Designed by Betty Anderson Contents INTRODUCTION 3Chapter1 A SYSTEM BORN 7First venture market Market calls: boards and schemes Circus. Basics: the better they are, thefaster they fall. Textron and Molybdena. Disco-ery moment. Steady profit bust and boom.2 ORDERS: FUTURE OPTIONS 15System discovery: Ed Thorp under the tree. What is an awarrant? Get rich fast? Varanto inventory chart. The two rules relating to guarantee prices relate to share prices. Adjusted warrants and adjusted exercise price. Reading financial pages. Checking two rules. Guarantee Stock Act: Predictability in the Stock Market.3 SHORT SALE: PROFITS BAD TIMES 33Short sale. Sales orders are short. Molybdenal guarantees and avalanche effect.4 BASIC SYSTEM 43Hedging: high profits with low risk. Replacement of the mixture. Deeperinsight in the main system. Main system: review. Trusted meeting. SYSTEM 5 ACTION: \$100,000 DOUBLES 51 Molybdena Story. Moly coda. Bunker-Ramo (Teleregister). Catskill Conference: Sperry Rand.6 HOW TO USE THE BASIC SYSTEM 71 Identification of named warrants. Selection of short-selling candidates. Using the warrant inventory chart. Which are the best? Choice of mixture. How much protection: dividing your capital between candidates. Endpoints. Summary of the underlying system.7 FURTHER EVIDENCE: HISTORICAL RECORD 91A simplified mechanical strategy. The potential future of the core system. Performance during the 1929 crash.8 MORE ON WARRANTS AND HEDGING 103Over-the-counter, regional and Canadian warrants. What determinesimpoint prices? What is the warrant worth? Reverse hedging. Spottingcandidates reverse hedging.9 DOES ANYONE GO WRONG? 127Short squeezes. 1929 again? Volatile prive developments. Extension of unjustified privileges. Banning short sales. Wide use of the underlying system.10 GENERAL FRAMEWORK: VALUATION OF CONVERTIBLE SECURITIES 141Valuation of convertible bonds. Anatomy of the convertible. Reverse hedging with Collins Radio Con-vertible bond situations of choice. The best basic system for hedging with unconverted bonds. Converts requested inventory. Calling options. Provides, calls and basic system.11 DECRYPT MONTHLY REPORT 169Yue brokerage account. Cash the total price. Diversification? Having multiple ac-counts. Long-gains.vi Content 13 WHY WE SHARE SECRETS 189They will not believe us. I want to do it myself. Threats discovered.14 WHAT FUTURE HAS 195How can you invest in the core system? How much can be invested in the whole system? Joint solution for the stock market. 2007-2013 199BOver-the-counter and Canadian warrants. 200C Scientific evidence that hedging can offer a high expected return. 200DLeright price forecast. 201EBasic-system hedging efficiency, 1946-1966. 204REFERENCES 209INDEX 213Contents vii BEAT THE MARKETA scientific Stock Market System Introduction We present here the method by which investors can consistently generate high profits. We have used this method on the market for the last five years to earn 25% a year. We have made a profit when the stock market grew; we have also made profits in stationary and battering markets. We used mathematics, * economics and electronic computers to prove and infect our theory. After reading dozens of books, researching advisory services and mutual funds, and trying and rejecting many systems, we believe that ours is the first scientifically justified method for consistent stock market profits. This book analyses convertible securities and related ordinary stocks. These unsecured instruments are now held in the portfolios of several million investors. More than 300 of the 3,500 securities traded on the New York and American stock exchanges are convertible. Our methods apply to these convertibles along with more than 200 related communities. (We emphasize* Some of the studies that made this book possible are partly based on mathematical research supported in part by the Air Force Grant for AF-AFOSR 1113-66. that our profits are usually both from common promotions and convertibles.) In total, more than 500 securities are about 15% of all listed securities are about 15% of all listed securities and have a market value of \$50 billion. We forecast and analyze the price relationships that exist between convertible securi-communications (warrants, convertible bonds, convertible preferred, situational and call) and their total stocks. This allows us to predict future price relationships and profits. We do not need to dictate in advance the prices of individual securities in order to The minimum amount needed to manage the system is set by the to open a margin account. This amount is subject to change. As we write, it's \$2,000. Our method does not require you to invest all your funds in it, although we hope that most readers will want to do so. It's natural, for example, to start with a pilot investment, increas-ing it as you gain skill, confidence and success. If the total equity of your brokerage account is at least \$2,000. you are free to invest any part of it in our system, starting with afew dollars and totals. We start the book by telling us how we discovered the system. Then, as needed, we discovered the system. Then, as needed, we discovered the system with the investment of one of the authors over a five-year period. The sixth chap-ter shows the reader how to choose their investments to be part of our method we call the bottom-up system. Next, we present the historical performance of the seventeen years is more than 25% of the age of the year. Once the reader has completed the first nine chapters, he can successfully manage his stock market investments. Chapter 10 shows how to extend our analysis to the entire area of non-convertible securities.4 We conclude by discussing accounting and monthly reports, portfolio management and the future of our approach. The scientific evidence of the main system indicated in the exposition consists of four parts: (1) We show (Chapter 7) that the reference system has gained more than 25 % per year for 17 years (after commission but before tax). We also show that, since September 1929, there have been 100 000 new jobs. (2) Statistical analysis with aid for the basic system measure 1946-1966 (Appendix E). (3) Our five-year cash record has no loss and an average return of 25% per annum with the method. One author more than doubled the \$100,000 injust four years ago (Chapter 5). (4) Theoretical argument that convinced colleagues we trusted (Appendix C). Book tables and charts make it easier to use our strategy. For the reader concerned, the appendices indicate the technical bases of our method. this additional information does not need to be read to successfully apply our winning method. We don't claim that you can breeze through this book and then shake the money out of it. This book needs to be investigated. However, we are going to beat the market to benefit and benefit the entire investment society, from professionals to start-ups.5 Chapter 1A SYSTEM IS BORNOn on October 5, 1961 Sheen Kassouf launched a series of investments that average 25% a year over the next five years. Kassouf talks about his trial and rejecting the usual stock market gains were only a matter of following their proe-dures. I signed up respected advisory service and received hundreds of pages of financial data, charts and advice. Emerson Radio was rated promising, so I bought 100shares. The stock market has been shrinking and now this overall decline has soothed. Analysts and financial writers could not agree on an explanation. They blamed Sputnik, the economy, credit and banking conditions, foreign interests for selling stocks, deteriorating technical post-currents and wedge formations in stock averages. I will continue to buy Emerson. My broker * asked: What I * Most investors place orders for a registered representative, also known as a client man oran account executive. We replace these complex terms with widely used, but somewhat inaccurate brokers. Do your account tomorrow if it falls off again? The question struck me. My loss was now \$1,500. A year later Emersontripled price. Huge gains that escaped and sudden price fluctuations tantalizedme. By 1961, after a similar experience, I had sold my business and plunged into financialmaelstrom. Market invitations: Boardrooms and Chartists subscribed to services and publications, emptied entire library shelves for evening and weekly reading, and spent hours between 10:00 a.M and 3:30 .M p.m. on boards near the city. I was in the boardroom bum. High above the city was a carpeted, elegantly furnished Park Avenue board. But for the muffled clatter of a Western Union ticker and muted but constant ringing oftelephones, it could have been a drawing room at Sutton Place's town house. A thin, dark man wearing a large jade ring sat at a small table in the French province. He nervously turned the pages of the chart book, often pausing to draw neat geometric patterns in red and blue using a draft triangle. His head jerked periodically to watch prices dance. He was a charterist, convinced that there are recurring models of price transfer-ments. Chartists or technicians believe that previous price performance models predict future results. They rely only on price and volume statistics from the cursor bar, arguing that insiders have already acted on time statistics such as sales, earnings, orders, and div-idends. Technicians claim that the var-8 ious configurations of their charts, such as head and shoulders, triangles, wedges, and fans, repeat themselves over and over again, signaling the beginning and change of price trends. So, by studying the price charts, they think they can detect trends quickly enough to profit from them. Reading a chart seems scientific, but it's not. For example, the most celebrated of all technical theories is dow theory? states that the \$100 invested in the Dow-Jones industrial average in 1897 would have increased to \$11,237 by 1956 if these stocks were sold and when dow theory gave approximately the signal. This corresponds to 8.3% of compound each year. By comparison, the Chicago Security Price Research Center's TheUniversity found that the accidental purchase and sale of shares between 1926 and 1960 would average a 9% gain per year on what the Dow Theory claims to have earned in design. My doubts about reading the chart were reinforced by the test I gave to people who said they could read the charts. From the chart book, I randomly selected pages, covered the name of the corporation and the last half of the chart book. better than someone making ran-dom guesses! The circus, unlike the plush park alley board, sometimes sat on the ground floor of the office in the clothing district-circus. Posted in windows to attract passers-by are the latestDow-Jones averages and free literature. Noisy emotional crowds fill straight carriages. During lunch hour, staff pack from 9 surrounding buildings. That's where the KST goes! someone shouts jubilantly. They're picking up now! A broker with his hand over his phone mouthpiece loudly asks: Didanybody see any Pan Am? Later, during a hasty lunch at his desk he tells me, OK, this market discounted already the slowdown is coming to the economy. What do I want to know, are they going to discount this twice? I seriously considered the issue and nodded to the agreement that weak they in the stock market would be foolish if they didn't. I still haven't learned to push jar-gon and nonsense out of reality. Many investors use ritual language to help them cope with one certainty. 1961 was a year of furious one-new issues. Companies with exotic or scientific names collected securities on a daily basis. Investors offer these shares so aggressingly that they have been rationed. Even the favored customers were given only a fewhares in these companies. One morning my broker informed me that I could buy 10 shares of Adler Electronics at a bid price of \$11 per share. With wisdom gained over the years, I politely refused. My brother reluctantly accepted. Within weeks the stock hit a \$20per share. It was also a hot end year. One afternoon, a manager in a small midtown office hurriedly emerged from his glass-closed tub. He walked fast between tablesthis brokers and told everyone X* likes hydrocarbons-over-the-counter and is now 9fi to 10. Brokers collected quickly and without any doubt. At each table, the story was the same- sometimes it sounded like an echo chamber. It was never wrong, he gave us PuritanSportswear a few weeks ago and you get what that *X was for a mutual fund advisor. He continues to enjoy a reputation for nimbleness and is the manager of a new and well-promoted fund.10 did so. How many shares do you want? And in those magical days of 1961, those who poX had a profit the day before were out-hydrocarbons rose than 1fi points. Basics: The better they are, the faster they fall did not comply with X. My line of attack was to seek value. This is called the fundamental principle of the stock market. Members of this school believe that each share has an inher-ent value (also called internal value), very often different from its market price. The future flow of income and dividends annually for each part of its shares forever. Let's say that the simplicity that interest yields on risk-free assets, for haps United States bonds, will remain at 5% in the future. Then it's easy to see that the General Motors part has a characteristic value of \$100, it will give less than 5%; if it costs more than 5%; if it costs could be purchased for less than \$100, it will give less than 5%; if it costs more than 5%; if it costs mor but if an agonod assessment could be made, the characteristic value could be calculated. (Estimates of future inter-service interest rates also need to be carried out.) The fundamentalist is studying financial statements, industrial and corporate prospects, management options, government policy and everything else he believes will affect future income. This puts him at the fore an estimate of the future income stream of the part of the resources that he will then convert into a characteristic value. If the market price is more, the shares should be avoided. I went back to the consulting service that prematurely, but the cor-11 rectly called Emerson Radio the winner. Again, their substantive analysis impressed me. they weighed up the whole economic situation, weighed the prospects of one industry towards another and finally recommended the most promising companies. This consulting service worked with facts. I studied the full report of the consultancy service's current thousand pages. I also read every inch of the financial chapter of The New York Times and the New York HeraldTribune. Then I made my initial move: I bought 100 shares of Columbia Broadcasting 40/and 100 shares of General Dynamics 38fl. While most of my friends have been earning profits from smaller companies, the so-called cat and dog stocks, and while market averages have been near their all-time highs, my two stocks have been slowly but steadily falling in price. The more I basics the lessmoney I made, and some friends who were very successful gave little thought about my investments. My attraction to fundamental analysis has been further weakened by practical difficulties. In the future, it is almost impossible to calculate earnings for more than a year or two. And it wasn't the least difficult. After purchasing devalued stocks remain bargains for many years, the owner, who was able to correctly and ingeniously calculate future prospects. Textron and MolybdenumLater that summer basics tempt me to buy Textron, Inc. My research has shown that there are things called Textron12 warrants listed on the American Stock Exchange. I learned that the order is an opportunity to buy a part of the community shares at a fixed price; the higher the total, the more guarantees to sell; and that these warrants themselves are purchased and sold as common livestock. I was torn between buying a joint or a warrant. That's why I've studied the past of both Textron Warrants and communities trying to find a connection between them. I also noticed other warrants and charted their activities. I was looking for cheap guaranteed tomight in advance at a dramatic price. At that time, no one seemed attractive. Molybdenumseemed to be the most expensive warrant of all. I wanted to sell Molybdena warrantsshort, which is a way to benefit from the price drop. (Short sale explained inChapter 3.) Wall Street mythology describes short sales as dangerous and sub-versive, so I hesitated. In addition, I will lose if the common rose is basically advanced and, as a result, the rant of war progresses. DiscoveryOne's moment of the evening, when I studied my charts about the possible price relationships between the Molybdenum Warrant and community shares, I realized that it was possible to invest to secure huge profits, whether the total grew dramatically or became worth less. I'd like to win whether stocks have risen or fallen! It seemed too good to be true. I called my brother late at night and revealed the plan. He agreed that he looked prom-ising, but warned me that we might be overlooking something. Nevertheless, to get more cap-ital for a pilot investment I sold 100 shares of Columbia Broadcasting at 13 the next morning. Last week I sold 100 shares of General Dynamics and com-bined losses on my first two carefully selected investments surpassed \$1500. Steady Profit Bust and BoomThen I joined in the Molybdena situation. For the first time, my investments were virtually secured by success. I no longer had the grace of strange chart formations that smacked fastrology. And it was no longer necessary for the market to eventually agree with me on the value of the deposit. As I improved my performance, investing after investment turned out to be unprofitable. During the stock market earthquake of 1962, I sat content and confident, with a mysteady stream of profits amidst the dejected boardroom crowd. My success did not depend on a shrinking market; when prices rose feverishly after the Cuban crisis in October, my profits continued to be as they have been so far. In the fall of 1962, she joined Columbia University's Department of Economics as a full-time student. I eagerly tested the logic of my theory to the famousfaculty. First of all, I have expressed my opinion and theories ArthurFas. Burns, Chief Economic Adviser to President Eisenhower. His interest and wise criticism engraved me, and when he agreed to support my PhD research in this area, I was kind. The rest of this book simply but comprehensively describes the consequences of research: ideal investments, improved in collaboration with Professor Thorp-investment, which in practice from 1961 to 1966 yielded 25% a year with almost no risk.14 Chapter 2 2WARRANTSOptions on the future of the system: Ed Thorp Under a TreeTa dry sun lowered from the clear desert sky. A quiet New Mexico summer afternoon is perfect for reading. I settled into a lawn chair under the shade of a tuop tree with an athin book about warrants [6] * that had just come to the post office. My calm surroundings gave nohint that one of the fateful hours of my life has now begun. What is a warrant? As I read, I quickly learned that the warrant is an opportunity to buy community shares. This means that under certain conditions it can be converted into a simple-use reserve. If the owner of the warrant wants to receive shares in the ABC communities by converting his ABC warrants, he pays the specified price per share of a common share for \$25 per share between March 17, 1958 and September 16, 1963. Between 17 September 1963 and 15 September 1967 inclusive, the total share purchase price increased to USD 28. The warrant expiration date † is the last date on which it can be converted. On the SperryRand warrants had to pay if he wanted to buy a oneshare joint is known as an exercise price order. There are several warrants that do not have an expiration date. These warrants, the most notable of which are good for the life of the corporation itself and are known as constant war tirades. How and why do companies issue warrants? Sperry Rand guarantees to illustrate the general procedure. In 1957, the company wanted to raise more than \$100 million. Theyffered \$110 million worth of 5fi% bonds, which are due in 1982. To make bonds more attractive, they would be included in every \$1,000 bond for the 20 warrants described above. Since there were 100,000 such bonds, it created 2,200,000 warrants. Warrants have been removed, so they can be separated from bonds and sold independently of them. If korob had issued these bonds without warrants, he would have paid more than 50% interest. Get Rich Quick? The book I was reading pointed out that happy buyer warrants can turn a modest summed fortune into a fortune for my dreams. For We print boldface terms when we define them for the first time. Definitions can be moved first index term, then a link to a page missing from the term definition. 16 For example, Tri-Continental permanent warrants would be split from .03 or 187.5 times. (This figure is a bit inflated because we missed commission costs to simplify our discussions.) The \$1,000 investment would have become \$187,500 over four years. By 1965, the same dwarfs reached 473/8. A happy 1942 investor of \$1,000 who sold would get more than \$1.5 mil-lion! Tri-Continental's ordinary shareholdings were also a good investment during this period. From a low of 3/8 in 1942, it rose to 27fi in 1965. A happy investor of \$1,000 would see that grow to about \$73,333. However, as we have seen, an even happier warrant holder had more than \$1.5 million for his original \$1,000. It has done more than \$1.5 million for his original \$1,000 would see that grow to about \$73,333. However, as we have seen, an even happier warrant moved more than \$1.5 million for his original \$1,000. It has done more than \$1.5 million for his original \$1,000 would see that grow to about \$73,333. However, as we have seen, an even happier warrant moved more than \$1.5 million for his original \$1,000. It has done more than \$1.5 million for his original \$1,000 would see that grow to about \$73,333. However, as we have seen, an even happier warrant moved more than \$1.5 million for his original \$1,000. It has done more than \$1.5 million for his original \$1,000 would see that grow to about \$73,333. However, as we have seen, an even happier warrant moved more than \$1.5 million for his original \$1,000. It has done more than \$1.5 million for his original \$1,000 would see that grow to about \$73,333. However, as we have seen, an even happier warrant moved more than \$1.5 million for his original \$1,000 would see that grow to about \$73,333. However, as we have seen, an even happier warrant moved more than \$1.5 million for his original \$1.5 million for his original \$1,000 would see that grow to about \$1,0 times as fast as the stock. This behaviour of unreasonable behaviour, which increases in value faster than the overall value, is one example of financial leverage 1 compared to B. Leverage can occur in many respects. For example, if equal amounts are used to buy stocks for cash or a margin of 50%, margin investments will increase and fall twice as much as cash investors.* A bright reader should note that U.S. stock exchanges still maintain a backward habit of quartering prices rather than a more modern and efficient decimal note. So we will have fractions.† It seems that this well-known and widely used meaning is not sufficiently covered in the main dictionaries.17 Unfortunately, leverage can multiply in both loss and profit. Unlucky shopperwarrants can see their money melted down with dazzling speed. For example, in 1945 UniversalPictures warrants were worth \$39. In two years they fell to \$1.50, reducing the \$1,000 investment to just \$38. Here were unjust profit potential of the enormous profit potential of the warrants and still be safe from losses. The next step was an automatic for a trained researcher: analyze the relationship between the price of the warrant and the price of third shares associated with it. Find rules or laws that combine two prices. The book I read was not scientifically analyzed. To read further would turn me away from thinking outside the author's borders. I put the book on, and reasoned for myself, the price ratio between the warrant and its communities. I jotted down my flood of ideas. As in they were often guite different from those in the book. They form part of the the remainder of this Chapter. The use of Order-Stock ChartLet by Sperry Rand warrants the launch of our investigation into how the warrant and stock prices are related. Table 2.1 lists the monthly high prices of 1960, the monthly low prices, the end-of-month (closing) prices and the net change in these closing price order and the joint how much prices have moved around or fluctuated that month. The closing price order and the joint gives us two prices around the same time, so we18 can use these prices to explore how both prices move together. The net change columns for the net change between the shares and Table 2.1. In the 1960s prices of Sperry Rand Warrants and Common. the Warrant (fourth and eighth columns in Table 2.1), we see that the warrant is usuallymoved up and down with stocks. For example, when stocks closed higher at 1. Stocks and warrants also moved up in May, November and late December. At the end of the next month, the net change decreased in both stocks and guarantees. The rule is that stock and guarantee prices from day to day19 usually move up and down together. This is likely because the warrant to be such a suit. Figure 2.1. The 1960 monthly Sperry Rand price schedule warrants and is commonplace. To better understand how the guarantee price is affected by the change in the single market, stock market students usually unknown to stock market specialists, which we recall in the order stock chart. This leads to a penetrating understanding of warrants and is fun-damen-20 tal all that way. Here's how it works. Take a sheet of plain graphic paper and draw it in pairs of lines, as shown in Figure 2.2. We call these lines axles. The S or initial inventory axis is a horizontal line and the vertical line is W or order axis. Figure 2.2. 1960s Warrant Inventory Scheme for Sperry Rand Warrants and General. Now, in Figure 2.2, we will draw twelve points, one for each month of the year, as follows. ForJanuary for the end of January stock price 22fl on the S axis. Then go to the end of January stock price 22fl on the S axis. Then go to the end of January stock price 22fl on the S axis. same way. Please note that we have a movie as end-of-month prices change throughout the 1960s. Higher shares Match the points further to the right. Concerning the from the picture wesee that the highest end-of-month share price occurred in May. Of course, we could also see this from Table 2.1 or Figure 2.1.21, if the share price is positioned, as happened, for example, from April to May (points 4 and 5), the points move to the left. This is indicated by a horizontal arrow marked with rising stock prices in the arrow marked by falling stock prices. Similarly, if the price of the guarantee increases, the point moves in the direction of the vertical arrow marked by the declining prices of the guarantee decreases, the point moves in the direction of the vertical arrow marked by the declining prices of the guarantee decreases, the point moves in the direction of the vertical arrow marked by the declining prices of the order and the total prices usually rise up and forth together. Now we learn about the other important relationship between the two prices. We'll start with the Sperry Warrants have become less valuable than the livestock themselves. Did the order have compensatory advantages that resulted in its value being over-valued? No, he wasn't there. In fact, the opposite was true. The common was that it could pay cash dividends, and the warrant. This commonsense argument, which applies to all warrants, leads to the first rule: the price of the order should be lower than the cost of the communities concerned. Another rule is also logical. If we added \$25 to the Sperry Warrant we could get one part overall. Therefore, the order price of the guarantee should be no less high than the price of stocks. Let's say Sperry violated the second rule, and the total price exceeded the warranty price by more than \$25. For example, imagine commonat 40 and Order 10. Instead of paying \$40 per share in the single market, potential buyers would receive it for \$35 by purchasing a \$10 warrant and adding \$25 to get a share. This re-operation would increase demand for warrants, increase the price and reduce the demand for common, lowering the price. A second law will be rebuilt shortly. In the 1930s there were warrants that often violated the second rule; it wascheaper to buy joint for the first time by buying and converting warrants than it was to buy com-mon outright. The discerning operators who noticed this bought orders for the W price, added an E usage price for each and received a total price of W+E per share. They then sold this share at a higher price for S and direct earnings of S – (W+ E) per share. They then sold this share at a higher price for S and direct earnings of S – (W+ E) per share. warrants increased the supply of stocks and lowered the price below S. This tended to reduce profits more and more until it completely disappeared.*This operation is called arbitration, in accordance with the usual definition of arbitration as the same or equivalent purchase and sale of securities, commodities or foreign exchange indifferent markets, so that profits are uneven. In the financial world, two securities are called equivalent if at least one of them can be converted into a total.23 In the chaotic 1930s, when capital was lacking and warrants were less understood, such profit opportunities were common ([21], pp. 186-187). Now such options are rarely and are almost immediately killed, as long as they amount to nothing. For practical pur-poses the second rule always has.*Adjust warrants and adjusted exercise price We discussed the Sperry Warrant, which in 1958 had the right for the owner to buy exactly 1,00shares in total per warrant for \$25. Many warrants entitle the holder to purchase more or less than one part of the common use. For example, by July 1966, the Commission had adopted a proposal for a directive on the protection of the environment. How did it go? of 30 March 1961 Sperry common owners received a dividend of 2% of the shares. This means that for every 100 shares there were 2 more, so that 102 shares would then represent what 100 shares had previously done. Each share was worth 100/102 of the old shares are now valuable less. In order to protect the original rights of the warrant holder, he shall be allowed to buy 102 common shares for each 100 warrants he holds; one warrant buys 1.02new shares, another for \$25. Thus, provision was made for protect Sperry warrant holders when warrants were issued.* Commission is not a factor as some traders have almost no transaction costs and wish to take advantage of such opportunities.24 On 28 September 1961, there were a further 2 % share dividend. Since it was able to buy 1.02 shares before this second dividend it became the right to buy 1.02 x 1.02 = 1.0404 shares after the dividend. In practice, this was rounded up to 1.03 shares. On 29 June 1962 there were dividends on 4% of shares. Each order has been adjusted to allow 1.04 times more shares to be bought earlier, or 1.04 x 1.04 = 1.0816 shares at \$25. That rounded up to 1.08 shares. The cost of the exercise was originally set to increase from \$25 to \$28 after September 16, 1963. So, after that date, one warrant plus \$28 bought1.08 shares. When you apply our system to your investments, you will only need to know the current conditions of the Order; your broker will receive this information for you. We are now expanding the discussion on the warrant stock scheme and the two basic rules to identify warrants that are not converted into a single part. If the order is converted into a single part. If the order is converted into 2 shares, it is equal to 2 adjusted warrants; if one order is converted into half a share, it is equal to half of the adjusted order. TheSperry Rand Warrant, after the stock dividend, was converted to 1.08 shares, making it unqualified to 1.08 adjusted warrants. We emphasize that adjusted warrants, but gen-erally is a part or multiple of them. Note that the adjusted order can be converted into one common share in advance. In order to calculate the price of the adjusted guarantee, the warrant price25 is divided by the number of shares into which it can be converted. For example, if a \$10 war rant is converted into 2 common shares (to equal 2 adjusted warrants), then the price of one adjusted warranty is \$10 divided by \$2 or \$5. When Sperry's guarantor was sold for \$10, the adjusted Sperry warrant was worth \$10/\$1.08, or \$9.26. For example, one Sperry warrant was converted to \$1.08 a share for \$28, so that the price paid per share was \$28/\$1.08 or \$25.93. Both rules apply as specified for all warrants if we use the adjusted warrant was converted to \$1.08 a share for \$28, so that the price paid per share was \$28/\$1.08 or \$25.93. Both rules apply as specified for all warrants if we use the adjusted warrant was worth \$10/\$1.08, or \$9.26. For example, one Sperry warrant was converted to \$1.08 a share for \$28, so that the price paid per share was \$28/\$1.08 or \$25.93. Both rules apply as specified for all warrants if we use the adjusted warrant was converted to \$1.08 a share for \$28, so that the price paid per share was \$28/\$1.08 or \$25.93. Both rules apply as specified for all warrants if we use the adjusted warrant was worth \$10/\$1.08 or \$25.93. Both rules apply as specified for all warrants if we use the adjusted warrant was worth \$10/\$1.08 or \$25.93. Both rules apply as specified for all warrants if we use the adjusted warrant was worth \$10/\$1.08 or \$25.93. Both rules apply as specified for all warrants if we use the adjusted warrant was worth \$10/\$1.08 or \$25.93. Both rules apply as specified for all warrants if we use the adjusted warrant was worth \$10/\$1.08 or \$25.93. Both rules apply as specified for all warrants was worth \$25.93. Both rules apply as specified for all warrants was worth \$10/\$1.08 or \$25.93. Both rules apply as specified for all warrants was worth \$25.93. Both rules apply as specified for all warrants was worth \$10/\$1.08 or \$25.93. Both rules apply as specified for all warrants was worth \$26.93. Both rules apply as specified for all warrants was worth \$26.93. Both rules apply as specified for all warrants was worth \$26.93. Both rules apply as specified for all warrants was worth \$26.93. Both rules apply as specified for all warrants was worth \$26.93. Both rules apply as specified for all warrants was worth \$26.93. of the warrant price and usage price. Reading The Financial PagesMes illustrates two basic rules of warrants with the help of this morning on the New York Stock Exchange is Sperry Rand. At the top of the page is a cell that lists the most active stocks of the previous day's market actions. Sperry Rand traded at 346,300 shares, making it by far the most active stock of the day. The closing price (close) was 29. This means that the last transaction of the day for Sperry, of 100 shares or more, was \$29 per share. The net change in the Sperry price is indicated as +2fi. This means that stocks closed at 2fi from the previous day must be 26fi. Syntex was the most active on the American stock exchange yesterday. The second most active stock was nothing more than a Sperry 26 Rand Warrant plus \$28 buys 1.08 common shares. Thus, eachtrad warrant is 1.08 adjusted guarantees; we found the adjusted exercise price was \$28/1.08, or \$25.93. Similarly, if the warrant is closed at 103/8, the adjusted warrant is worth 103/8, divided by \$1.08 or \$9.61. More detailed information on all stocks traded is indicated in the body part of the financial pages. Stocks are listed in small print in alphabetical order. As a rule, along with volume (sales in the 100's), flawed opening (open), high, low and closing (close) prices. On Sperry's joint and Sperry warrants, today's full listings of my paper read: Of course, Sperry's overall listing was under the New York Stock Exchange and Sperry warrants, today's full listing was under the Yerk Stock Exchange. We put them in a mess. Sperry warrants will no longer be listed after they expire in September 15, 1967.1966 high and low on the list above shows how much Sperry fluc-tuated the price per year and makes a useful comparison of today's trading. Low is calculated in a similar way. Let's use Sperry to check the first rule that combines inventory and guaranteed prices. Rules according to which the adjusted price of the guarantee should be lower than the share price. We set the closing price of the revised order in 1966. On July 21, as \$9.61 adjusted Sperry order price, plus an exer-cise price of \$25.93, totaling \$35.54, should be at least \$29, com-mon price. This is the case, so the second rule applies to Sperry. The difference of \$6.54 between \$35.54 and \$29 is the additional amount a person would pay (ignoring commission) if he purchased a common stock, first purchasing an adjusted warrant and then converting it instead of buying the joint directly. This additional amount is referred to as the premium for which the guarantee is sold. Checking Two RulesNow let's check out our two rules for other warrants listed in my paper this morning. All war rants are listed on the American Stock Exchange. Some of the relevant stocks are listed on the Revent stocks are listed on the Revent stocks are listed on the American Stock Exchange. results of our verification are presented in Table 2.2. Sperry is the first to show how the results already obtained are organized into the table. Strictly speaking, these two rules apply only to share and guarantee prices for transactions that have taken place around the same time. Our table lists the closing prices for each of them. These are the prices of the last transactions of the day and the last transaction in stock and the last guarantee transfer can take place in another Table 2.2. Double-check rules. However, price section that the S column and the expectation that the adjusted warranty prices are always lower than the share prices. The second rule is checked in all but one case and believes that the prices in column. There is one inviolable of the second rule. The closing price of Textron is 517/8, which is slightly higher than the W+E number of Textron 51f. However, there are no profit opportunities here. Let's say we buy Textron warrants for 36fi, add \$15 for a total price of 51fi conversion to part of the transaction is about 3/4, so we would have a net loss of about 3/8. The Warrant-Stock Law: Predictability in the Stock Market At the beginning of this section, I relaxed under the shade tree after learning of the warrants. There I understood the central ideas that we discussed: (1) Warrants have incredible profits or misfortune. (2) The warrants. There I understood the central ideas that we discussed: (1) Warrants have incredible profits or misfortune. (2) The warrant stock chart is a revealing way to determine how warrants and stocks operate at full price. (3) The adjusted price of warrants and their adjusted interest price should be used in pictures and calculations and not in actual warrant prices. (4) Both rules relating to guarantor prices and share prices should be used in pictures and calculations and not in actual warrant prices. (4) Both rules relating to guarantor prices and share prices and share prices and share prices and its order usually move up and down together, but at different rates. For each warrant at every point in his history, I have now guessed that there should be a curve in the warrant's inventory scheme. This 30 means that while no one can understand the total price at a certain point in the future, he will know that when a point is drawn for shares and prices are guaranteed that day, point 2.3. Typical normal price curves for hypothetical Warrant X. As the expiration date approaches, like-minded people fall toward the string of the minimum value. If the X total is 24 months before expiration, then the X war rant will be next to B.will be next to B.will be next to B.will be next to be correct; we call these normal prices. Figure 2.3 shows the overall position of any warrant. Guarantees that are closer to expiration are worth less, all other factors are equal, so their presence

should be less than when the warrant had more time to release. Thus, the part shown in Figure 2.3 falls towards the heavy bottom lines. We refer to this heavy lower limit in the warrant stock scheme as the minimum value line. According to the second rule (p. 23), the price of the guarantee will normally be higher than this line. In accordance with the first rule (Figure 22, figure 2.3) there is a line whose wartime price remains below the highest value line. I didn't yet know how to find the exact location of these curves in a certain war rant. But I knew (on the basis that as regards the mixture of reasoning and guesswork), that sit-uation was usually as shown in Figure 2.3, which shows normal hypothermic order X was determined for a certain period of time T when the share price S is indicated when determining the price on the S-axis. , then processing to a curve marked with the specified T-value and reading the theoretical value of the order. This is shown in Figure 2.3 on the hypothetical price are usually close. Using these curves, I could predict the behavior of the portfolio. The scientific stock market system was now only a matter of time. It was an inspiring hour of reading and ideas. Later I was meeting professor Kassouf (see chapter 4 at the end: IncredibleMeeting) and finding out that he thought along the same lines before me. It was also calculated by forecast curves using statistics and computers. The system he then built helped this more than double the \$100,000 in just four years. We organized this book so that you will learn and use the system without the usual price curves in mathematics-matics. Those readers with a mathematics in Bad Times The usual way to get stock market profits is to buy stocks, hold it for a while and sell at a higher price. Stocks calculated on the basis of Standard & amp; Poor's 500 increased by an average of 11,2 % per annum between 1926 and 1960 * [5]. Even when most stocks go up (bull market) some stocks are instead falling in price and their owners are losing out. Even worse are the times when the vast majority of stocks are falling rapidly (bear market); then a rare investor has to sell his shares the most. Over the three years 1929-1932, stocks fell on average to just 13 % of their orig-inal prices. † a solid blue chip as U.S. Steel landed from 262 on September 3, 1929, to 22 on July 8, 1932. In 1962, stocks fell by an average of 26% in just 3fi months. Hard chip, such as American Tobacco, fell from* The equivalent rate, strengthened every year by reinvesting dividends and ignoring taxes.† Using the Times industry, 452 on 3 september and 58 September 1932 ([7]), p. 140,146). 47 to 30. (Blue Chip is a relatively long, uninterrupted history of dividend payments.) 1966 was a drop in the stock market, similar to 1962. Contrary to some industry propaganda, the stock market in no way puts a comfortable profit of 9-11% per annum, even pru-dent investors. The stock market is filled with risks and pit traps that an investor ignores the dangers of athis. There is a way to make a profit when stocks are falling, and it's one of the most important tools that allows our system to make money, whether stocks grow or not. Short saleFirst investor first buys shares and then sells them. For example, let's say that in March 100 shares of American Tobacco for \$47, which costs \$4,700. We own a stake from March to June and then say it's a long 100 stock of American Tobacco. We sell 100 shares on June 30, receiving \$3,000. Despite the commission, we lost \$1,700. In 3 months, we have lost 1700/4700, or 36% of our investors since it was the 1962 Dow-Jones average of 30 in the industry, an approximate indicator of average overall stock market behavior, down from nearly 723.54 on March 15, 1962, to 534.76 at the end of June 26, 1962. This was a 26% decrease in 3fi months. The more representativeStandard & amp; Poor's index of 500 stocks also fell 26% between these two dates.34 Few stocks rose. What could be done? If only we could sell AmericanTobacco first, in March 1962, when it was 47, and then bought it later, in June 1962, 30. Then we would make a profit of \$1,700, not a loss. Many investors are prised to find out that they can sell the stock first and buy itlater. If we told our broker in March 1962, to sell a short 100 shares of American Tobacco at 47, he would have borrowed 100 shares from the lender and sold it on the market for \$47,4,700 to be credited to our account. However, we are now short of 100 shares of American Tobacco, which means that we have to buy and return 100 shares later. Meanwhile, \$4,700 is deposited as collateral for a stock lender. (Therefore \$4,700 is deposited as collateral for a stock lender.) moment it's just a bookkeeping record.) If the price of borrowed shares rises, meanwhile, it requires more collateral. If the price falls, he shall release the excess deposit. These are fixed-term markings for the market. In June we tell our broker, Cover 100 shares of American Tobacco, that I amshort, the current price is 30. He buys 100 shares on the 30th market, returns the certificate-cates to the lender, and pays for the purchase with \$3,000 from the refunded deposit. There, \$1,700 is a profit. Short sale involves four steps: 1. Sell the current price off by asset. 2. Borrow a deposit, leaving the proceeds of the sale to the lender as collateral.3. Buy a deposit on the market time.35 4. Return the newly purchased certificate to the lender who returns the initial processing or deposit. For short-term sales, unlike long purchases, the up-tick rule applies. The transfer of the security shall be an increase if the last previous transaction, which took place at a different price, was a lower price. The up-tick rule says that short selling, with the exception of certain special tax-free short sales, can only be carried out up-tick. Thus, a short sales. ShortExperience sales orders show that holders of short-term warrants usually lose money. For example, the table shows the loss and profit when the 11 warrants listed above were purchased 18 months before use and held for up to 2 months before expiry. Eight out of eleven cases, some almost total. Three big gains were lower than most of the eight losses. The overall average productivity was -46.0%, with an average loss of 34.5% per year over 16 months. This equates to an annual profit for those who sell these warrants. The Commissions are being ignored. This 34.5% year-on-year profit from short-term sales resulted from the use of margins. With a margin of 70% annual profit increases to 34.5/0.7, or about 50%, and with a 50% margin it inreas-es to 69%. The avalanche effect, discussed later, can increase it much more. (A price higher than the average increase in the profit rate increases the risk of individual investments.) It sug-gests that short-term warrants are usually too expensive and should not be purchased. Instead, they should be sold briefly. To sell short-term warrants, we need to open the margin ac-36 in Table 3.1. The results of the purchase of the 11 guarantees listed above guarantee 18 months before the expiration date and the sale 2 months before the expiration date and the sale 2 months before the expiration date. 98.4%Pennsylvania Dixie Cementas -57.1%Radio-Keith-Orpheum -99.2%Kolorado Kuras ir geležis -92,4%ACF Brilis -75,1%Molibdenas -81,84%Šarvai 36.0%Vidutinis 16 mėnesių pelnas iš pardavimo trumpas: 46.0%Vidutinis 16 mėnesių pelnas iš pardavimas pelnas * per metus: 34,5% su 70% marža: 49,3% su 50% marža: 69,0%* Pelno reinvesticijos, siekiant išnaudoti lavinos efektą, dar labiau padidina vidutinį pelną, surizikos padidėjimu.count. Since a regular account usually refers to a general account consisting of large accounting records. For most purposes, only cash and margin accounts are segregated. The latter term refers to transactions in which the investor opens a margin account, i.e. his broker allows him to borrow, then automatically short solvency account.37. A minimum deposit of cash or securities must be made. Since this writing, teamount is \$2,000. Although this minimum is sometimes changed, we will take it up to \$2,000 to simplify the debate. Let's say we sell short guarantees of 200 Molybdena (moe-LIB-duh-num) 13. Ouraccount is credited with \$2,600 from the sale. This money is given to the lender as colater-al, to make sure we redeem the shares we owe. But if Molybdena guarantees a sudden jump to 16, it will cost \$3,200 to redeem warrants that the lender requires another \$600 col-lateral from its broker. Federal Reserve rules require a deposit with the security of their broker, called the initial margin. As we write, this initial margin for most listed stocks is 70%. It shall be changed from time to time. Using 70%, the sale of borrowed money above requires an initial margin of 70% of \$2,600, or \$1,820. If our sale of a short deposit would increase the price, some of our initial margin intial margin of 70% of \$2,600, or \$1,820. If our sale of a short deposit would increase the price, some of our initial margin money could be transferred as collateral to the lender. Finally, we may have to cover or announce more margins to maintain our position. As it is stated, a short position requires at least 30 % of the current price of the security. This 30% is called maintenancemargin. For example, if 200 Molybdena warrants we sold a short ascent of 13 to 20, while requiring a \$200-fold point increase, or a \$1,400 additional deposit. This reduces ourmargin to \$420 from the initial \$1,820. However, in order to meet the return of a 30% retention margin, our broker wants to deposit 30% of the current market value of 200 war rants. They are 20, the margin from \$420 to \$1,200. We'll get an amargin call from our broker asking you to increase the margin from \$420 to \$1,200. We'll get an amargin call from our broker asking you to increase the margin from \$420 to \$1,200. We'll get an amargin call from our broker asking you to increase the margin from \$420 to \$1,200. We'll get an amargin call from our broker asking you to increase the margin from \$420 to \$1,200. We'll get an amargin call from our broker asking you to increase the margin from \$420 to \$1,200. We'll get an amargin call from our broker asking you to increase the margin from \$420 to \$1,200. We'll get an amargin call from our broker asking you to increase the margin from \$420 to \$1,200. We'll get an amargin call from our broker asking you to increase the margin from \$420 to \$1,200. We'll get an amargin call from our broker asking you to increase the margin from \$420 to \$1,200. We'll get an amargin call from our broker asking you to increase the margin from \$420 to \$1,200. We'll get an amargin call from our broker asking you to increase the margin from \$420 to \$1,200. We'll get an amargin call from our broker asking you to increase the margin from \$420 to \$1,200. We'll get an amargin call from our broker asking you to increase the margin from \$420 to \$1,200. We'll get an amargin call from our broker asking you to increase the margin from \$420 to \$1,200. We'll get an amargin from \$420 to \$1,200. W position. Most margin accounts are not opened by investors who are going to sell short but buy cus-tomers who want to buy without putting the full price. To illustrate, let's say we bought 1000 Molybdena warrants 13. 1962 For InOctober's long purchases, the margin requirement was 50 %. We could only provide 50%, or \$6,500, of the full purchase price of \$13,000 if we had a margin account. Our broker would put up the remaining \$6,500 and price us interest on our loan to us. Interest is calculated daily. This is called buying onmargin. It's important to understand that when we put up a margin for a loan sale, we're not bor-rowing from our broker and we don't pay interest. In fact, the deposit we make in conjunction with the sale of borrowed interest can be used to offset interest charges on funds borrowed to buy other cash reserves. This is described in Chapter 11. Molybdenan guarantee and avalanche effect The interaction between margin requirements and profit potential from the guarantee trading authorities becomes clearer if, from October 1962 on-1963. During this time the warrants fell quite steadily in price from 13 to 1/2. In October 1962 we sold a short 1000 Molybdenal guarantees 13. With 50% marginwe put up \$6,500, and another \$13,000 was deposited into our accounts as proceeds from the sale of theshort, for a total credit balance of \$19,500. If we cover a year later, in October 1963, when the warrants fell to 1/2, we would buy 1,000 warrants using \$500 from our balance sheet. Our account39 now has \$19,000, including our investment over the year. But we could have done much better. Since the price drops from 13, cash can be withdrawn from our account. For example, when warrants reach 12, the initial required margin is only 50% of the \$12,000 or \$6,000, thus releasing \$500 for the \$6,500 we original deposit of \$13,000; recall that this \$13,000 came from short selling revenue. So we can withdraw \$1,500 from our account – \$500 in a released margin and \$1,000 in profit from a one point drop in the price of each of our 1,000 shares. Instead of withdrawing \$1,500, let's say we sell for \$3,000 worth that we can buy is fixed-term purchasing power; on the margin is usually higher than the amount of free money we have, in this case \$ 1500.) We continue to reinvest when prices fall. When the price drops to 11, we can invest an additional \$1,250 in purchasing power. We sell short 3750/11, or about 341warrants, so our overall position until 1591 is guaranteed short. For every point of the price slump, we continue to pyramid. Table 3.2 summarises the calculations. At the end of the year our \$6,500 makes an \$86,839in profit. Our money multiplies more than 14 times, an avalanche of money. The column marked with the initial margin requirements needs to be explained. For shares worth \$2.50 or less per share, the initial margin requirement for short sales is \$2.50 in full. Exam-ple, up to 40 table 3.2. Avalanche effect. The initial investment of \$6,500 becomes \$84,292. The commission has been neglected. The actual gain is somewhat smaller.total increase released initial additionalwarrants in profit initial surplus margin warrantsprice short \$ margin \$ required sold short13 1,000 0 50% 012 1,250 1,000 500 1,500 50% 25011 1,591 1,250 625 1,875 50% 34110 2,068 1,591 795 2,386 50% 4779 2,482 2,068 0 2,068 \$5/wt. 4148 2,978 2,482 0 2,482 \$5/wt. 4148 2,978 2,482 0 2,482 \$5/wt. 4148 2,978 0 2,978 \$5/wt. 4148 2,978 \$5/wt. 4148 2,978 \$5/wt. 4148 value 5,1472fi 18,015 6,434 6,434 12,868 \$2.50/wt. 5,1472 21,618 9,008 0 9,008 3,6031 30,265 21,618 0 21,618 \$2.50/wt. 8,647fi 30,265 15,133 0 15,133 15,133 EndTotal profit: \$84,292NOTE: Between July 10, 1962 and November 6, 1963, the margin was 50%. sells a short share for 1,000\$2.50 per share to be posted above \$1per in stock income from short selling. When selling short stocks from 2 fi to 5, the total cost of stocks is necessary as an ini-tial difference. For stocks above \$5, higher \$5 or 50% (or other current percentage requires-ment-70% as of this writing) is needed. This acts as \$5 per stock from 5 to 10 and 50% for stocks above 10.41 For stocks purchased at a margin, the initial requirement remains at 50% lower prices. The share margin is probably higher than the lower prices, as they tend to fluctuate more than higher prices as a group (see Annex I). [3], square root law). The trend of the avalanche effect, let's say that high-priced stocks such as IBMdrops are constantly between 500 and 5. with constant reinvestment and a 50% margin, \$250 invest-ment in debt sales per share becomes (ignores commissions) almost \$1.7 million! With a 100% margin, the result is only \$25,000, but with a 25% margin increase to \$2 billion! These calculations and the mathematics of the avalanche effect are discussed in the appendix, which the general reader may miss. In the way of the pyramid, when the price of the deposit falls, it is possible to make very high profits. Of course, this means increasing risk, since a change in price can lead to losses. In conclusion, we have noticed that the effect of the avalanche is greatest when safety drops to almost zero. Stocks rarely do this, but expired warrants do so frequently.42 Chapter 4 BASIC SYSTEMIn increasing potential gains from trading warrants and selling securities borrowing is associated with high risks. Now we will show you how to maintain high profits by combining two or more oth-erwise risky investments that risk almost cancels, but many profits are related. Combining investments to reduce risk is a hedge. Hedging: High profits with low risk We now explain the method we call the basic system.* As the first illustration, let's say that the company's XYZ war tirade allows you to purchase one part of XYZ, common at any time in 18 months. Assume that the total is currently 6 and the order is 3. Nowsell short 100 company XYZ warrants* The underlying system has been known as guarantee insurance since the 1930s [21]. Misinterpreted or inconveniently analyzed so far, its full potential has disappeared beyond recognition. First of all, previous writers do not have a method for accurately identifying expensive warrants, and they have not been able to fully understand that warranty hedging should in general be used only with overprice warrants. Our contribution has been to scientifically analyze warrants, especially warrant hedging, and to extend our methods to a wide area of all convertibles and their related shares with a market value of perhaps \$50 billion. and at the same time buy 100 XYZ joint, with the plan to liquidate both positions just before the order expires. Given the total cost on the expiration date, we are very carefully aware of the price of the warrant. If the total is more than \$10, the warrant will sell for about \$10 less than usual. Let's calculate all profits or losses from our investments for possible com-mon prices on the expiration date. Let's say the total is higher than the cost of 10 exercises when we liq-uidate your position. If, for example, the total is 20, that warrant is 10, we make \$20-\$6= \$14 per share overall we are long, and we lose \$10-\$3=\$7 for each war rant we short. Our profit is \$700 on joint investments. It turns out that we get this same amount when the total is higher than the cost of exercise. If the total is or less than the \$10 exercise or the sale of the stock. If the comues are between 6 and 10, we will also profit between \$0 and \$4 per share on the total. If the total falls below 6, we will lose an amount that is less than 6. If the total does not fall below 3, these losses will be more than offset by our lender's sales profits, and we will still have net profit. No matter how much the total rises over the next 18 months, our investment mix guarantees us a profit of \$300 to \$700. We are also guaranteed that within 18 months the total amount will fall to half of the current value. This may happen, but it is quite unlikely. Even if total stocks fall to zero (in which case our biggest possi-ble loss occurs), we lose only \$300, less than half of the maximum profit we can expect. Therefore, profits appear to be more likely than a loss and more likely. Sit-uation illustrates Figure 4.1. Let's say we forecast expected profits from our investments Figure 4.1. The base system's profit in percentages from initial investments of the hypothetical company X are 3 and the total is 6. The cost of the exercise is 10. Warrants are sold short and normal are purchased at these prices, and the plan should be called for the entire position immediately before the expiration date. The initial margin of the guarantor is assumed to be 3 and com-mon 5. Profits from interim decisions or reinvestments are not taken into account when costs.as is approximately equal to about \$300 in short selling income. (This happens, for example, if the comeo does not change after it expires.) We have put up a \$300 initial margin for 100warrants short of 3. For a total of 100 long 6, we will not make \$420 if the initial margin is 70%, for an atolic initial investment of \$720. We understand a 42% profit of \$720 in 18 months. This is the per year. Years. 7 shows that this annual rate of return was inherent in the underlying system. The astonishing results of simultaneously buying common and short expensive war rants can be easier to grasp from another45 point of view. Table 3.1 shows that on average there was a good investment in the sale of the guarantor. However, there was a risk of significant losses. We also noticed (p. 33) that common shares have historically tended to rise at a rate of about 9 to 11%, and that buying com-mon for a long time therefore tends to be a good but risky investment. We mixed these two good but risky investments together. The result is a good but risky investment tend to go up and down the price together. If the stock and war rant both go up, the short position warrant losses mostly cover the overall profits. If stocks and the guarantee are impaired, the total fused losses are approximately covered by an increase in short positions. thus, daily or weekly violent fluctuations in share prices usually have a relatively limited impact on the hedging investment. A properly insured portfolio rarely shows a lot of losses; equity can be recovered at any time, with small losses and profits in general. What other investments in the stock market mean such security when the average yield is 25% per year? After replacing MixIn in the previous example, we shortened one warrant for each common part that we had long. The number of adjusted warrants is short, per common share, called a mixture. Themix above was 1.0, or one to one. Other mixtures, of course, are possible and go long for a combination of 200 shares totaling 6, 1.5, or three to 46 two. Figure 4.1 shows the profit position. Despite the commission, a mixture of 1.5 ensures aprofit if the total is anywhere between 1fi and 27 immediately before expiry. Commonmust falls to less than a quarter of its price, or increase by more than 4.5 times as long as we beer. Stocks rarely changed at such a brutal price in 18 months. However, it hap-pen, and later the sections will tell us how to protect against such losses. Our initial investment is \$840 (long margin) plus \$900 (short margin) or \$1,740.Experience shows that the average return can be about \$2% of profits over 18 months, or about 34% per year. Figure 4.1 also shows profits with 200 guarantees for short and 100 total lengths. We have a profit if the total is anywhere between 0 and 20 expiration. The \$1,020 investment returns an average of about \$600. This is 59% in 18 months, or about 40% a year. Deeper Insight into the main system flaws of various possible mixtures is shown in Figure 4.2. The hard point is stocks and guarantees prices 18 months before the expiration date. Displays price curves for 12 months, 6 months, and 3 months. These curves are the heaviest the overall price point of the Order is likely to decrease in the future. Dashed zero-property lines are included in mixtures 2,0 to 1, 1,5 to 1 and 1,0 to 1. When the transfer point of current stock and warrant prices is less than the zero profit line, the portfolio with that value shows profit. For example, when a mixture is 1.0, a portfolio with that combination indicates aprofit. For example, when a combination is 1.0, a portfolio shows a profit of 47 at the end of its life if the total amount is between 10 and 27; And in a mixture of 2.0 and 2.0, portfo-lio shows the profit at the end of the period of validity if the total is greater than 0 and less in Figure 20.4.2. Constant profit lines for various mixtures and portfolio behaviour on time. The start-to-minimum value lines of the indexes indicate several possible future stock price actions and warrants. To draw a zero profit line in Figure 4.2 to blend two-to-one, find one guide. Go to the right 2 steps from the warranty stock point, then up to step 1. The step can be anysize. Crosses mark two such guide points, one of which was obtained by going through 4 and more than 2 (so astep was 2), and the other was obtained by going through 4 and more than 2 (so astep was 2), and the other was obtained by going through 4 and more than 2 (so astep was 2), and the other was obtained by going through 10 or more 5 (hence step 5). Now place ruler, so the edge is above the warranty stock point and reference point. Ruler edge indi-cates zero profit line. To get a zero profit line for any M-mix, simply go through the M48 steps and step 1 to find the trigger point. Then use the ruler as before. Core System: ReviewThe system sells overpriced expired guarantees short while hedging by purchasing a joint. In chapter 5 we traced through Sheen Kassouf very profitable basic system operations. In Chapter 6 send out situations and start your portfolio. You will learn which expiredcars should be sold briefly and how to choose the best hedging mixture. In Chapter 7 we suggest that \$10,000 invested in the core system during those fifteen years when it was used between 1945 and 1965 would have made more than \$500,000. This corresponds to a rate of 25% per year, annually. In Incredible MeetingIn Chapters 1 and 2 we saw how the authors had each resulted in significant, consistent profits perwarrants. Coincidental they met, perfected the system and expanded their methods into the entire area of convertible securities. (Convertible bonds, calls and calls, convertible pre-relationships, and rights.) This book is based on the fact that Chapter 49 of Chapter 5THE SYSTEM ACTION of \$100,000 doubled from 1920 to 1940 was easy to do much stock market with GridironMethod: 1. If the Loser of the Harvard-Yale game failed to score, buy stocks. 2. Ignore Rule 1 if in the same year California and the Army should have had Score your games with Stanford and Navy. 3. If California beat Stanford, sell stocks next year. Not interested in the remaining absurd details [writes Robert A. Levy ([13], pp. 13–14) in his doctoral thesis] it is interesting to note that . . this system [was] very profitable . . . from the 1920s to 1940.Su, it is possible to create thousands of such profitable systems with negligentness. But if the rules seem arbitrary, without logical connection, only a naïve or superstitionous investor should rely on the system. On the contrary, we now describe in detail the actual transactions that use the basic rules of the commonsense system. We show how kassouf and his brothers' investments returned about 25% a year. Molybdena Storyl first acquired Molybden's common shares and sold short warrants in October 1961. Although I had to learn a lot about detailed tactics in placing orders and analyzing situa-tions, this was my first anxiety-free investment. I look forward to every day's price changes with great curiosity and interest, but without fear that prices can move ahead of me. Within wide ranges, I expected profits no matter how the stock prices changed! By the end of December 1961, I had bought 150 shares of Moly's total anaverage price of 33 and sold a short 400 warrants at an average price of 18. The warrants then trade with the holder to acquire 1.0406 common shares at a total price of \$30.) My total investment in this item was about \$8,500 Looking ahead to October 18, 1963, when the warrants were due to expire, I reasoned that I couldn't lose unless the total rose after 52. In fact, even if ordinary shares were worthless, this investment would be repaid by 26%! Figure 5.1 summarises the potential of these initial investments. The highest profit should be made if the total was \$28.83 on the expiration date:Profit from the sale of 400 guarantees for 18 \$7,200.00Loss 150 total long 33,625.50To total return on investment of \$6,574.50(77%)Similar estimates, If the total became worthless, this investment would give \$2,250, or 26%.52 pessimistic about Moly's fate, we would weigh our investments to pay off by hand- when in case stocks fell. This pessimism seemed justified in early 1962 when most resources, Figure 5.1. The profit potential of investments in Molibdenum, including Moly, began to drift lower. We continued with short warrants until we had a long 150 and short 1,300 warrants. Late on Friday afternoon, March 23, ordinary shares traded heavily and closed down 335/8 to 5fl; The warrant closed at 16fl to 3fl. One broker explained: Someone will know the meet. Wall Street watchers often advance humanity's knowledge with such insights. There were rumors Monday of a new process in which Moly's rare lands. InTuesday's Wall Street Journal, A. L. Nickerson, president of Socony-Mobil, denied thatMoly was supplying Socony with ingredients newly catalyst used for oil refining. Despite this denial, and despite the silence of 53 Moly officers, stocks and warrants held the ground, and most stocks weakened. On April 5, the total rose 2/, to 39. An article in the Oil and Gas Journal glowingly discussed the company's new gasoline refining catalyst and its impact on future revenues. Thewarrants also rose 2/, to 20fi. On Friday, April 7, averages were again lower, but brokers talked about consolidation. The New York Times' Burton Crane quoted a long-time experi-ence analyst: One thing that has to impress all of us is that this market doesn't want to go . . . I am convinced that we are not going to break the January lows. In a few months, the market would suffer from the second worst fall of the century. On this day Moly touched 40 and guarantees 22/. In early 1962 we made some gains in molybdena's position by selling commonbut our position was risky. Now we wanted us to have more in common compared to wair until after the company's shareholders' meeting on Tuesday, April 10, before adjusting the combination of guarantees short overall for a long time. The meeting was set for 10:00 a.m. M at the trendy Sheraton East Hotel in NewYork. I arrived early and sat in the front row of a large banquet room filled with folding carts. On the raised platform there was a long table with white tablecloths, direc-tors, ashtray, water slides, podium and microphone nameplatz. The room is full. Members of the repression stood on the side. Directors filed in and sat down, including Admiral A.W. Radfordwho sat right in front of her. Throughout the meeting, he remained silent, staring mostly in front of him. Chairman Marx Hirsch rose, greeted everyone, and brought the meeting to order Hismild manners and soft, croaky voice54 caused surprise and sympathy. It wasn't a suave, articulation magnate. He was a devoted man who believed in the future of his company and the possible use of exotic metals. Inanswer to the question about the new catalyst and secret process, he smiled broadly. He looked first left, then right, at his director (when he returned his knowing smile), and said hecould would not comment because of confidential negotiations. Shareholders survived; could give them some indication of what this might mean for a company's income? Be patient, he said, holding his hands in front of him, as if physically pushing back the hordes of ensuing, it won't be long before each of you will be riding in a Rolls-Royce. Unable to restrain themselves, shareholders began elbowing others and mumbling about their happiness. One shouted from the back of the room, Does this apply to the owner of a hundred shares? Bursts of nervous laughter, and Mr. Hirsch raised his glass to sip some water. Admiral Radford raised his head to look through the audience. He looked a little cheerful, but his deviation smile never quite broke into a smile. Little information was and I felt some disappointment when the meeting ended. I expected community shares to fall due to a lack of news, but hope and opti-mism for investors can apparently be fed for a long time by the sometimes mysterious wink from someone who knows. Stocks remained stable in many other stocks. But the force wasn't at work that would soon panic the financial community. In themorning, Marx Hirsch promised the nation's steel price rise. Many now claim that President Kennedy's violentreaction-he accused a small handful of steel execu-55 tives of displaying complete contempt for the interests of 185,000,000 Americans—spreading pess-simism and doubt among businessmen. Whatever the reason, fear turned into panic. Prices have fallen at an ugly rate. On Blue, Monday, May 28, 1962, even Molybden, which one broker a few weeks earlier said was on the bull market of its own, was carrying a tidal wave. Molybdena fell 45/8, to 277/8, and the order fell 43/8, to 151/8, at the end of trading. The New York Stock Exchange tick-er didn't flash its last price until 5:59 P.M., two and a half hours after the market closed. The next day, 14,750,000 shares traded on the New York Stock Exchange, sec-ond the most active day on record-1,032 issues made lows in a year and only 2 shares did so. The cursor prints its last price at 8:07 P.M.A a few days before Blue Monday, we sold a short 200 Moly warranties account at medium sized brokerage house, which served primarily large bills. This company had ground floor offices and little interest in small investors. Three weeks later I received an ananxious call from a broker informing me that we were about to be purchased to cover the 200 Moly guarantees we shortened. He said he had to return the warrants to the lender. Usually he would borrow them from someone else. He said he couldn't do it because they were missing. when we were bought at 15 he tried to make this sound like a coup- wehad sold them short of 20 and in three weeks made \$1000. But our expectations were much higher. In fact, a week after we bought 15, the warrants fell to 10'. However, the house that handled most of our transactions assured me that there would be no purchase. They still had several thousand warrants that could be sold. The incident prompted me to find out in detail how short money sales are conducted.56 Remember from Chapter 3 that when a deposit is sold briefly, the seller must borrow a certificate from the owner. When an order is placed for sale briefly, your broker will first look for the invention of your securities (mainly those held by its clients). These securities are usually stored in a safe room with steel wire mesh walls (cage room), and the custodian of these sects is the cage man. Most of the securities held here are street i.e. on behalf of the broker, although the client is provided with all useful rights. All securities antmargin is kept in a cage, and many securities purchased in cash accounts are kept in storage. A client who opens a margin account allows his broker to lend purchased securities. Many clients of a cash account also allow their broker to do this. The client is safe, nesbroker lends these securities only if the borrower presents in exchange the full monetary value as collat-eral. If the deposit should rise in price, the bill is marketed as described in the ear lier. After placing an order for sale short, and often not until it has been executed on the stock exchange floor, your broker asks your cage man if the company has physical possession of securities are delivered to your short money account. (A short account is explained inChapter 11.) According to Exchange rules, your broker does not pay you for these funds. It has free to use these funds all the time you are missing. This reduces the amount he has to borrow from banks and other institutions, saving him mutual fees. This gives him a clear incentive to sell short accounts of his clients when these treatments are in his cage. If the securities are not in his cage, his loan clerk borrows them from another broker. Then it must deposit with the lender-57 ing broker all proceeds from the sale as collateral and your broker does not acquire interest-free funds. The borrowing broker, of course, uses this collateral and your broker does not acquire interest-free funds. fulfill your short sale. In practice, the loan clerks responsible for the breakdown of securities calls loan clerks in other brokerage houses. Depending on his stamina and perseverance, he can call many loans in search of certificates. He usually develops relationships with some loan clerks, perhaps only two or three, and if they can't accommodate him, he says the securities are not available for the loan. If the short sale actually took place, the buyer will demand hiscertificates. If they are not delivered within four business days, the buyer can buy the certificates by purchasing them and withdrawing the account with the short seller through his broker. Often the problem is limited because the loan clerk lacks energy of contacts. In June 1962, a broker who purchased 200 Molybdenian warrants, which he sold briefly, did not have his own cage, and his loan clerk did not come into contact with any house that would lend them. When we realized what happened, we focused our activities in the company, having a great invention of warrants. He taught us an important rule: set the broker's inventory before selling short any security. In some future transactions, this required opening accounts in uneven houses, as often, although the company had to one security inventory, she had little else. We were forced to cover 200 warrants of 15 each, the warrants fell to 10'. Wecovered more warrants voluntarily, with 58 prices below 11. We have decided that if the orders fall below 10, we will close all investments for very high profits in no one month' time. In late June, veteran analysts who a few months earlier could not see the upcoming distaster now said that the recent slide was just the beginning. Pessimism has spread around the world asforeign exchanges reflect Wall Street. Rather, the stock market has risen in the face ofgloom and doom stems from political and business analysts. Moly's total and warranty combined this increase and in mid-July the total was 26 and 15 warrants. On Thursday, July 19, the warrants reached 171/8; on Friday they rose above 19, with a total of no28. The warrants were due to expire after 15 months and ordinary shares were trading close to the stock exchange price. If the total to 46, guarantor holders should lose out. Only if the overall progress followed an 84, nearly 200% increase, would deter the price of the warrant better than the co-holder. (If the total was 84 due to expiration, the warrant were unaware of the terms of the con-version and could not make simple arithmetic calculations. This turned out to be wrong. LewisHarder, president of International Mining, has been aggressive in buying common stock and warrants. (KennecottCopper Corporation had 14,285 warrants; these two holdings accounted for 27% of the 186,000 warrants outstanding.) When the source of the purchase was discovered, rumors spread that an attempt was made to squeeze for a short time. Short pressure occurs59, when one person or group then forces short sellers to redeem them by demanding repayment of the borrowed securities. As the group enters the market, short sellers have to buy from them and pay everything they require. A few years earlier, Eddie Gilbert, a colorful financier who latertook refuge in Brazil because the company that backfired, was cornering the market stocks of E. L. Bruce, driving his price from 17 to 195. Gilbert's short squeeze was well remembered. In a New York Times interview on July 28, Mr. Harder said he wasn't going to get anyone into trouble; it was only among themselves, eventually converting warrants. Since simple calculations show that a smart, knowledgeable person who wants a common one would not buy and convert warrants, this reinforced the rumor that there is a short pressure going on. decided to help corner the market With Moly guarantees. On Monday, July 30, the warrants reached 24 and a total of 32. On Tuesday, during a short and intensely active working hour, the warrants touched 25 and a total of 33. But from there, it was all downhill for a warrant. Over the next few weeks, the total advanced to about 34, while warrants fell to 19. The American Stock Exchange, fearing another Bruce incident, asked its members to inlate august to start reporting short positions in Moly's guarantees on a weekly rather than monthly basis. This check could have made it harder to sharpen your pencils and make a new assessment of the warrant. The Securities and Exchange Commission reported that International Miningsold acquired 22,600 Moly warrants in August and acquired 14,399 common shares. The total dropped to 25 and warrants 11. In early February, I called an officer of a company with large Moly warrant holdings. Do they plan to keep them until the expiration date, hoping that then the total will sell for up to 50? Only if the overall requirements that have progressed to this figure in the remaining 8 months can be justified and not common. The officer seems unaware of his company's Moly warrant holdings. But he quickly retaliated, reassuring me that his shareholders were interested in keeping Moly's war tirade. Perhaps the company reviewed it because after two days the warrant fell by almost 50%, to 5, due to the large volume, while the total was steady at about 25. At this point, I've sipped estimates of the price at which the warrant tends to sell. 5 at the Moly warranty for the first time in more than a year fell below the normal price. We had a nice profit in 16 months, so we closed our holdings. Our average monthly cash investment was \$11,500 and our total profit was \$6,435, a return of 56%, or about 42% a year. Several others who have now imitated my investments have had similar profits. Moly CodaWhen Moly's warranty rose again above the normal price, in May we sold short 100 war rants 7fi. Then the American Stock Exchange banned further short sales on the Molybdenum warrant. Since then, they did so a few months before the end of most of the 61 years.61 We stayed short until a few days before the order expired and covered \$1 - again \$650 in 6 months for a \$500 investment. This illustrates what we later learned: the rate of increase in the use of the basic system is the highest when the order is close to waste. Appendix E) section 6 shows how to choose the right time to go short formaximum profits long before the American Stock Exchange can ban short selling. Bunker-Ramo (Teleregister) March and April 1963 (Many of my clients took positions here but l detailed only my own and my brothers' actual transactions.) Teleregister is equipped with elec-tronic data processing equipment. It also and leased large stock listing boards in brokerage offices across the country. In glorious 1961, when the word electronic was the philosopher's stone, stocks reached a high of 34. The 1962 accident pummeled the stock 33/8. She had a warrant that was due to expire on the American Stock Exchange on May 1, 1965. The warrant was available for use from \$15 until May 1, 1963, and \$17 for later to expiration. Usually you will be neutral about the overall stock; that is, you will consider whether its fall is approximately equal to the probability of its fall. However, you can use a forecast of total inventory when applying the base system. When you use abasic system, your prediction for the joint may seem completely wrong, and your investment does not value the experience of huge profits. Assessing the future price of this share, I noticed that officials and directors, insiders, consistently bought shares on the open market after the summer of 1962. Byearly March62 they purchased about 20,000 shares at an average price of about \$5-about-\$100,000 in investments. Insider dealings, of course, do not always dissipate the movement of stocks. Figure 5.2. Possible profits from Teleregister's investments, April 1963. A total of 1,000 shares of a long 4fl and 1,000 guarantees a short 23/8. The total investment was \$5,041.Insiders were known to be a gigantic misconception. Nevertheless, due to this ambi singly activity and the feeling that electronics could become colorful again, in my opinion, in the next two years the total was more likely to be pre-reduced than reduced. Therefore, we chose a mixture that provided more protection on the upside than on the down side. By April, we were long 1,000 common shares for an average price of 4fl and a short 1,000 warrants at an average price of 25/8, for a total investment of \$5,041. Figure 5.2 There can be no loss if stockadvanced, even more than \$1,000 a share, and the loss would only occur if the total fell below 21/8. If stocks were still 4fl on the expiration date, the investment would return about \$63 to \$2,600, or more than 50%. If stocks advanced to 17 or more, the investment would be about \$15,000, or about 300%. Over the next two years, we moved this position from time to time, primarily by selling ordinary shares and short additional warrants as they rose. As an example of the avalanche effect described in Chapter 4, the following transfers have been posted to a separate account. On 2 June 1964, we shortened 400 editional £200,200,200,200,200,200,200,200,200 was sold on the same account for 3fi, with no additional margin. When the warrants fell from 51/8 to 3fi, enough purchasing power was created to sell an additional 200 warrants. Of course, if it had been certain that the recession would be weak, more warrants were shortened, we received a margin donation. When we protested, the margin clerk read it out and still demanded a margin Finally, however, when the head margin clerk tallied the bill, he was satisfied that no margin was needed. This has once again shown that we need to keep our accounts under constant scrutiny and neblindly accept statements from brokerage houses. (Honestly, we indicate that calculations in a mixed account, namely one short and long at a time, may not be simple. This situation is often complicated by low-priced margin requirements. In our experience, margin clerical errors are unbiased; their mistakes seem to be in our favor asoften as no. section 11 shows how to always track your account.) These 600 warrants in a separate account were covered in subsequent months at an average price of \$1, so that the \$2,00064 investment more than doubled, although the warrants were covered until their expiration date. In the summer of 1964 Teleregister was reorganized and became known as Bunker-Ramo. December 1964 My brother said he was happy—would he inform him the next day about the invention of bunker-Ramo. December 1964 My brother said he was happy—would he inform him the next day about the invention of bunker-Ramo. that 1,000 wartime prints could be easily shortened. In a week we shortened 1000 guarantees 2fi. Less than 5 months later we bought these warrants at a back price of 1/32, about three cents each. In the 26 months we have been dealing with Bunker-Ramo (Teleregister), our average monthly investment was \$3,500. Our total profit was \$8,964, an increase of more than 250%, or about 120% year on year. Catskill Conference: Sperry RandLate in the summer of 1962, the molybdenal order expires within a year, we had to plan for the future. I turned to the Sperry Rand Warrant. During a hot, delicious Labor Day weekend, my wife and I sought help for the Catskills. One night we met my brother in the resort dining room, where I tried my ideas. Sperry Rand Corporation, with sales of more than \$1 billion a year, emerged from remington Rand and Sperry Gyroscope. This giant company produced businessmachines, Univac electronic computers, appliances and controls, farm equipment and consumer goods. Ordinary resources, at the beginning of the 24th year, fell to a new low of 14 despairs in September. Univac's Division 65 losses reduced earnings; cash dividends have been abolished. Stocks were far from their all-time high of 34, produced in halcyon days in 1961. The Sperry Rand Warrant plus \$25 can be converted into a 1.08 share total untilSeptember 15, 1963, after which time the conversion will require \$28. The warrant expired in the infive year of September 15, 1967. Previously, in 1962, the order was sold in 14, and in the late 1962 - up to 8. I planned to take advantage of an apparently high premium. Again I it would be profitable to buy joint orders and sell short warrants. Then again, some judg-ments have been made about the expected future rate of ordinary shares. I told my brother that between May and June 1962, I had been killed. It was necessary to assess the worst disaster that could overtake Sperry in the next five years. This company, vital to our national defense, had an accounting value of about \$10 in ashare. (Book value is an approximate indication of the company's assets less its hesses.) I estimate that in the event of a real disaster the total would not be less than 6, considerations, we planned to sell a short one warrant for each of the shares purchased by the com-mon. Let's say such an investment was made and was not changed until the expi-ration date. Margin requirements were then 50%, so buying 100 total 14 required \$700 and shorting 100 warrants 8 needed a \$500 deposit totaling \$1200. While the total investment66 would have a margin of 50%, the actual amount borrowed from our broker would be only \$200. Our interest fees of 5% would be \$10 per year. If the worst happened in five years and the total fell to 6, this investment would lose \$800 on a loan sale order, without a net loss. We are ignoring interest charges because, when the order falls, marking the account on the market would eliminate our debt. If com-mon shares fell 65%, the investment was still safe from losses. If the ordinary stock ended at 14, then the total buy would show neither-ther profit or loss. There would be a profit of \$800 on the sale of guarantor debt for \$800, or 67%. This means that if the total did not increase or decrease, this investment would be 67%. Let's say the total had to double, and the expiration date would rise to 28. A war rant would be \$1,975, or 165%. (This once again ignores interest charges.) In fact, this investment would make a profit unless the total extendedbeyond \$200 per share. (see Figure 5.3) In this analysis, we ignored the possibility of replacing the mixture in the five-year period before the expiration date. In practice, decisions taken in intermediate periods with changing circumstances can further increase profits. For example, if stocks seem to fall to 6, some common ones may be sold before it happened, thus reducing potential losses. And if the total was almost stationary, and the warrant drifted lower, excess purchasing power could be used to shorten more warrants or buy more common, or both. Over the next 47 months, we had an average monthly invest-67 ment of \$40,000 committed Sperry Rand. During this period, Sperry ranged between 11 and 28. Our accumulation of about 5,000 shares overall was mostly priced below 15, andour Figure 5.3. Potential profit from Sperry Rand's investment, September 1962. A total of 1,000 shares for a long 14 and 1,000 guarantees a short 8. The total investment amount was \$12,000.short sales of about 7,500 warrants were mostly priced above 8. Since the total grew in late 1964 and 1965, we have sold several joint and short additional funds. For example, in December 1965, the Commission adopted a proposal for a directive on the protection of the environment. For each common share sold by us, we were able to sell short 2 warrants without additional funds. In July 1966, after Univac reported a profitable quarter and many mutual funds became traceable to Sperry, the total moved to 28. However, the warrants explode to 14 or 15 in the near future, or the total could decrease significantly, while the warrants remain at 10. but the situation would erase some of our profits. If instead the total continues to grow, then ultimately our investment would not give more profit than we already realized. That's why we shut down Sperry. If the order becomes too priced again, we will take a much larger position with still greater profit potential. Until July 1966. Our total net profit in these three situations - Sperry Rand, Teleregister and Molybdenum - was \$66,200. In addition, there were gains from extensions to major sys-tem National Tea, Universal American, Pacific Petroleums, and Realty Equities. Our total profit in all these stock market situations was about \$85,000 by October 1966-five years after the initial investment in Molybdena. We have earned more than 25% of our investment in a year. The profits of several friends who made similar investments in cars grossed it a total of more than a hundred investors consult me on investments. It's almost impossible to calculate your profits over the last five years, but one can imagine that many hundreds of thousands of dollars have been dou-bled.69 Chapter 6HOW USE THE BASIC SYSTEM Identification of name-based warrants, reducing the risk of buying a joint at the same time. Warrants are not traded on the New York Stock Exchange, but 15 or 20 war rants are usually listed on the American Stock Exchange. More than 100 warrants are located on the over-the-counter or in regional and foreign currencies. First of all, we take back the advantages of trading them, not the reading room or other changes. Table 2.2 lists the orders and their terms and conditions as of 21 July 1966. full LIST of AMEX warranties with updated terms and conditions. Your broker should have a copy, or you can also make a list directly from the financial pages if they are filled in; we suggest you subscribe and use the Wall Street Journal. If you have it oran equally good paper available, scan AMEX auctions for securities that are listed but not traded. The warrants in Table 2.2 were obtained from the newspaper and checked in accordance with the AMEX manual. If there is no AMEX guide, or if you want to cross-check the information, you can find expiration dates, the cost of exercise, and other important facts about the listed war rants in recent Standard & amp; Poor's factsheets for the company that issued the warrant. This can be obtained from your broker. Warrant conditions and their history are presented annually in Moody's Manuals. These guides can usually be found at brokerage houses or larger public or universities. We found errors in these sources; if a lot is at stake, simply get the information from a bank that acts as the company's transfer agent, as directed by Moody's. Selection of short-term sales candidates When you know the expiration date of each warrant, limit yourself to those warrants that are valid for less than four years. Most likely, these warrants will make significant profits from short-term sales. For example, warrants listed on 21 July 1966 (as indicated in Table 2.2) which have been listed for less than four years, were Mack Trucks (1 September 1966), Rio Algom (December 31, 1966), Universal American (31 March 1967), Sperry Rand (15 September 1969), and United Industrial (15 November 1968), Martin Marietta (1 November 1969), Some months earlier, the Exchange banned short sales of Mack72 Trucks warrants, removing them as a candidate for the main system. The exchange often prohibits short-term sales of warrants that are several months after expiration and that have a strong short interest, perhaps to protect short sellers from 1946 to 1966, we found that if stockis is sold more than 1.2 times the adjusted exercise price (in other words, more than 20% above the adjusted exercise price), the reduction of the guarantor is usually unprofitable. According to Table 2.2, the adjusted cost of the Martin Marietta Warrant exercise price, which cancels the MartinMarietta Warrant. Similar estimates show that United Industrial shares were sold for 1.42 times the exercise therefore, they are also removed. Use of warranty inventory chart Remaining guarantees under consideration (General Acceptance, Pacific Petroleum, RioAlgom, Sperry Universal American) cannot be directly compared because they have indebted unadjusted exercise prices. The next step in choosing a basic system order is to standardize all warrants and stock prices. This allows us to basically compare warrants in the warrant stock chart. Consider a general admissions order, which with \$20 is converted into oneshare. Everyone will take advantage of the price the dollar goes towards the purchase of 1/20 share; so we can consider the \$1 exercise price of 1/20 shares. In this way, we can reduce any usage price to \$1 by calculating the share (or multiple) that can be obtained with \$1. With this standardized exer-73 cise price of \$1, we are not now interested in the current price of \$1, we are not now interested in the stock, but at the current price of \$1, we are not now interested in the stock, but at the current price of \$1, we are not now interested in the stock, but at the current price of \$1, we are not now interested in the stock, but at the current price of \$1, we are not now interested in the stock. current price Figure 6.1. Position of the candidates of the main systems in the stock chart of warrants. (See calculations and data in Table 6.1.) total is 21, then the standardized total share price is 21/20, or 1.05. We determine the standardized total share price based on S/E and calculate it by dividing the com-mon price by the adjusted exercise price. To purchase a 1/20 common part of general acceptance we do not need a single war rant; we only need a 1/20 warrant. Therefore, the price of that awarrant fraction (or multiple) that can be converted to 1/20 of the total share with \$1 is called the standard warrant price. It is denoted by W/E and is calculated by dividing the adjusted cost of the wartime edition by the adjusted cost of the exercise. (Please note that the warranty price must be adjusted from the adjusted for the system. Columns 6 and 7 of this table are used to plot the location of warrants in the warrant stock chart, Figure 6.1.6.2. Candidates of the basic system with their actual price scales. (see Table 6.1) Instead of calculating standardized prices W/E and S/E, when a war rant and a general price scales. (see Table 6.1) Instead of calculating standardized prices W/E and S/E, contains actual newspaper prices for the five candidates in Table 6.1. To to draw actual (newspaper) price scales, drawing lines parallel to scales S/E and W/E, as shown in Figure 6.2. The price of the actual general price scale is 0 directly below Table 6.1 of 075. Calculation of standard prices for S/E and W/E for warrants which were candidates for the basic system on the S/E scale of 21 July 1966. Mark 1 on the actual prices, with one important change. Instead of actual warranty prices, we act as we did in the case of active total prices, with one important change. Instead of dividing the actual prices by E, we will multiply E in particular by the number of shares that can be obtained with the Order. With Rio Algom wemultiply 22.23 to .135 (see table 6.1, Col. 8), which gives us 3.0. Now we tick off 1 actual warrant price scale directly to the left of 1/3, or .33 on the W/E scale; 2 is straight to the left of 2/3, or .67, etc. Which are the best? Our study of all warrants listed in AMEX after 1946 showed that, on average, the overall price relationship between warships and prints can be described by the curve indicated in the normal dia gram of the warrant. The position of this curve is in the chart. Figure 6.3 shows the mean position of these curves when the warrant expired within 24 months, 18 mo (S/E= 1.0) show (see hollow circles on the two-year curve shown in Figure 6.3) that the guarantor is sold at 43 % of the adjusted exercise price (S/E = 0,5), then the warrant sold on average was 14 % of the adjusted exercise price (W/E = 0,14). With Figure 6.3, we can compare five candidates with the average price ratio that has prevailed for 20 years. Although normal price curves are shown only for months 24, 18,12, 6 and 1,5, intermediate curves can be set off at intermediate positions. For example, the Pacific Petroleums order expired on July 21, 1966 after 20.8 months. This is most halfway between 18 and 24 months, so the 20.8-month normal price curve is approximately between the 18- and 24-month curves. The points shown in Figure 6.2 are the actual guarantee positions calculated in Table 6.1 and shown in Figure 6.2 are the actual guarantee positions calculated in Table 6.1 and shown in Figure 6.3 are the actual guarantee positions calculated in Table 6.1 and shown in Figure 6.2 are the actual guarantee positions calculated in Table 6.1 and shown in Figure 6.2 are the actual guarantee positions calculated in Table 6.1 and shown in Figure 6.2 are the actual guarantee positions calculated in Table 6.1 and shown in Figure 6.2 are the actual guarantee positions calculated in Table 6.1 and shown in Figure 6.2 are the actual guarantee positions calculated in Table 6.1 and shown in Figure 6.2 are the actual guarantee positions calculated in Table 6.1 and shown in Figure 6.2 are the actual guarantee positions calculated in Table 6.1 and shown in Figure 6.2 are the actual guarantee positions calculated in Table 6.1 and shown in Figure 6.2 are the actual guarantee positions calculated in Table 6.1 and shown in Figure 6.2 are the actual guarantee positions calculated in Table 6.1 and shown in Figure 6.2 are the actual guarantee positions calculated in Table 6.1 and shown in Figure 6.2 are the actual guarantee positions calculated in Table 6.1 and shown in Figure 6.2 are the actual guarantee positions calculated in Table 6.1 are the actual guarantee positions calculated in Table 6.1 are the actual guarantee positions calculated in Table 6.1 are the actual guarantee positions calculated in Table 6.1 are the actual guarantee positions calculated in Table 6.1 are the actual guarantee positions calculated in Table 6.1 are the actual guarantee positions calculated in Table 6.1 are the actual guarantee positions calculated in Table 6.1 are the actual guarantee positions calculated in Table 6.1 are the actual guarantee positions calculated in Table 6.1 are the actual guarantee posi 1964 to 1966. The actual prices of pacificPetroleums and Universal American warrants far exceeded these average normal prices; Sperry Rand was very close to the average normal prices; The overall acceptance and actual prices of RioAlgom were significantly lower than the average normal prices. This actual comparison with the normal price shows that we are removing GeneralAcceptance and Rio Algon as candidates. Reason: Usually priced warrants in the past have yielded better-than-average profits. Thus, the American, Pacific oil, and to a lesser extent Sperry, is quite unattractive. Next, we discuss the choice of each of their mixtures. Once this is done, you will have to divide your funds between them.79 After selecting MixAfter, we select the warrant for the warrant for the warrant for the warrant but does not buy the joint; if S/E is at least 0.3 irdi in most 1.2, buy 100 common shares for every 300 adjusted guarantees sold briefly; if S/E is less than 1,2, do not use the main system. Chapter 7 shows that, between 1946 and 1967, a combination of three to one of the listed warrants was able to generate 25 % of the profits per year, which is listed annually. Let us examine the basis of the above rule. We will see that the mixture, with the exception of three toon, can be even more desirable. Consider the Pacific Oil Order of July 21, 1966, as shown in Figure 6.4 of the 6.4.As's general and guarantor price change. To determine which points in this number reflect the profits from our position, we draw a zero profit line. All points above the line then represent loss-making positions, and all points below reflect profit positions. To draw a zero profit line for ForPacific Petroleums and a mixture of three to one, see Figure 6.4. The zero profit line for ForPacific Petroleums and a mixture of three to one, see Figure 6.4. upwards. It is usually convenient to use S/E and W/E scale units. The initial position on the S/E scale is 0,622 and on the W/E scale it is 0,263. We therefore draw an guidance point corresponding to 80 0,922 S/E and 0,363 W/E. Line drawn through this guide point and 6.4.4. Choosing a Pacific oil blend, July 21, 1966 original position is marked with zero profit line, 3 to 1 blend. If, as a result of the change in the total price, the Order moved along this line, the profit is fully compensated for the loss of the warrant. If the order were moved below this line, our initial investment would show profit; if twere higher, a loss. The slope would be 1/2. Having taken the position of the base system, we would like our investments to be accumulated for profit until the order expires.81 Therefore, we do not want short-term changes in the total price to cause losses. This means that we do not want immediate changes in the overall price to put us above our profit line. To minimize this our zero profit line should be approximately a slope to the slope of the normal price curve in our starting position. Figure 6.4 shows the price curve of a warrant that expires at 20.8 months. It is important to note that each individual order has its own normal price curve for Pacific oil will be almost the same as in Figure 6.4. A three-to-one line is higher than the normal price curve when S/E is less than 1.0, which indicates that if the Pacific oil temmediate has moved along the normal price curve in the future, the base system's position of three to one indicates a profit if the gross amount is not more than 1.0 times the adjusted exercise price, or about 17/. On the other hand, even if the total fell to 0 in the near future, a combination of three-to-one probably

always shows profits. So if an investor had no reason to believe that the overall was more like a drop than growth in the near future, a three-to-one mix. It crosses the normal price at two points, i.e. 0,16 and 1,6 for S/E or around 2fl and 27fl for the joint venture. The current price of 10fl for the overall mixture seems to provide more insurance for short-term movements in any direction than from three to one mixture.82 With a decrease in S/E, the slopes of normal price curves also decrease, which indicates that more warrants are required for each common stock. When S/E is less than 0.3, the theslopes are almost horizontal, which indicates a very large combination of guarantees, short to the total length. This results in a simplified rule only for shortening orders when the total is less than 0.3 times the adjusted cost of the exercise. When S/E is between 0,3 and 1,2, the slopes of the normal price curves are on average around 1/3, indicating that a combination of three to one is generally appropriate in this range. As a result, Figure 6.3 Zero profit lines allow us to quickly calculate what happens to the position of the underlying system if it is considered more of a warrant expiration date. Let's say that on July 21, 1966, we took the position of the main system at InPacific Petroleums, selling 200 guarantees and buying 100 common shares. Sinceeach's order is a 1.1 adjusted guarantee, which would be a 2.2-1 combination. A zero profit line is given in Figure 6.5. It crosses the minimum value line 0.04 and 1.8 S/E. Remember that points below the zero profit line is given in Figure 6.5. It crosses the minimum value line 0.04 and 1.8 S/E. Remember that points below the zero profit line is given in Figure 6.5. It crosses the minimum value line 0.04 and 1.8 S/E. Remember that points below the zero profit line is given in Figure 6.5. It crosses the minimum value line 0.04 and 1.8 S/E. Remember that points below the zero profit line is given in Figure 6.5. It crosses the minimum value line 0.04 and 1.8 S/E. Remember that points below the zero profit line is given in Figure 6.5. It crosses the minimum value line 0.04 and 1.8 S/E. Remember that points below the zero profit line is given in Figure 6.5. It crosses the minimum value line 0.04 and 1.8 S/E. Remember that points below the zero profit line is given in Figure 6.5. It crosses the minimum value line 0.04 and 1.8 S/E. Remember that points below the zero profit line is given in Figure 6.5. It crosses the minimum value line 0.04 and 1.8 S/E. Remember that points below the zero profit line is given in Figure 6.5. It crosses the minimum value line 0.04 and 1.8 S/E. Remember that points below the zero profit line is given in Figure 6.5. It crosses the minimum value line 0.04 and 1.8 S/E. Remember that points below the zero profit line is given in Figure 6.5. It crosses the minimum value line 0.04 and 1.8 S/E. Remember that points below the zero profit line is given in Figure 6.5. It crosses the minimum value line 0.04 and 1.8 S/E. Remember that points below the zero profit line is given in Figure 6.5. It crosses the minimum value line 0.04 and 1.8 S/E. Remember that points below the zero profit line is given in Figure 6.5. It crosses the minimum value line 0.04 and 1.8 S/E. Remember that points below the zero profit line is given in Figure 6.5. It crosses the minimum value line 0.04 an than 1,8, the exposure will be profitable. (In this example, we have abandoned commissions.) This about 3/4 and 31 prices for the general reserve. These points are down and up break-even points. When a mixture is greater than one-to-one, the maximum profit arises if, after the warrant expires, the stocks are at an adjusted price. In this case, the results of the major EU profits, if the total is 17.27 on March 31, 1968. The initial investment is:83 Long 100 Pac Pete total 10fl (70% margin) \$752.50 Short 200 Pac Pete guarantees 5 1000.00 Total is 3/4 or 31, the investment will make no profit. If the total is 17.27, there is a profit of \$652 on the total and \$1,000 on warrants for a total profit of \$1,652, or 94.5% of the initial investment. These three points allow us to quickly create Figure 6.6. The total prices shall be measured along the horizontal axis. The vertical axis is the percentage return of hedges. Find 94.5% above 17.27 on the horizontal axis. Connect this point with 0% profit points on the horizontal axis, i.e. up and down points. This completes the profit profile of the main system position from 2.2 to 1. Please note that if84 total finishes anywhere between 7fi and 25, this investment will return at least 40% within 20.8 months, or about 23% per year. Figure 6.6. The profit profile of the 2.2-1 mix of Pacific Petroleums. A combination more than 2.2-1 results higher maximum gains, and lower break-evenpoints both up and down. We assessed the different mixtures in two respects: the impact of short-term price changes on the profit position and the safety range represented by up and down split points. There is no complete recipe for the optimal combination, as it differs depending on the expectations of individual investors who expect the overall decline. Cautious investors should choose little mixtures; should therefore be optimistic for investors. But almost everyone combina-Figure 6.7. Profit profiles for monthly percentage returns with a 2.2-1 mix of Pacific Petroleums, Universal American, and Sperry Rand on July 21, 1966. When plotting and analyzing profit profiles, such as Figure 6.6, you can choose the one that works best for you. Figure 6.7 compares three alternatives on 21 July 1966. Profit profiles show the percentage of each profit per month. For example, pacific petroleums' highest profit of 94.5/20.3 or 4.6%. In Figure 6.7, we plot profits per month on a vertical axis and standardized Axis. Profit for the year is also reported. This allows us to compare the possible return on each investment on a single chart. It seems clear that both Universal American and Pacific Oil are superior to Sperry Rand. Sperry's profit profile is lower at each point to the other two. In addition, the upward and down breaking points are closer to each other than forUniversal America. Since Universal American ended up ahead of Sperry Rand, it's indi-cates that Universal American has provided more protection than the Sperry. Compar protection than the Sperry. Compar protection than the Sperry is more difficult because they are in very different positions along the horizontal axis. Nevertheless, Pacific oil was probably safer: the total had to fall by more than 96% or rise by more than 190% in the 20.8 months before losses occurred; Sperry, if the total fell by more than 73% or increased by more than 73% or increased by more than 40% in 13.8 months, the loss would be. Splitting your capital between candidates If you have \$10,000 or less to invest, it's usually best to put it all in one situation. Of the top three AMEX situations on July 21, 1966, it would probably be a UniversalAmerican warrant because it ended most likely. In general, invest more in situations that are about to end. There is no clear formula for the amount you should put into each viable in situation. Again, it depends on the individual investor. When two investments seem equally applicable, part of your capital should be invested in each of them. This tends to reduce risk.87 On July 21, 1966, an investor was able to split its funds as follows: 40% UniversalAmerican, 40% Pacific Oil and 20% Sperry Rand. He was able to invest in Sperry because it was slightly below the normal price and because it was close to the 1.2 cap on S/E. Final PointsNow that you are willing to make a major system investment, you should open the margin. Any comfortable brokerage house with seats in American and New York currencies. However, before you open an account, you can check whether the house of your choice is really able to borrow the warrants you want for a short time and that they have no policy against selling that particular deposit. In addition, if you imagine operations on the Toronto Stock Exchange (Chapter 8), it is more convenient to choose a house with a seat. As a rule, avoid selling short-term warrants that trade for less than \$1, since the \$2.50 maintenance margin requirement reduces the percentage return. If there is a huge interest in the warrant, you may be forced to cover it before the expiration date, since the order lenses may require their return so that they can be sold before becoming less worthy. If your loan clerk is not effective, you may need to purchase a warrant perhaps 1/4 or 3/8 instead of 1/32 or 1/64. This further reduces your returns. The main systemHere summary is a final review of the underlying system.1 Specify the listed orders expiring four years later.88 3. Continue to limit yourself to warrants with stocks less than 1.2 times the price, as shown in Figure 6.3.5. Set the mixture. The choice is not very important. If you do not have clear opinions about the potential of stocks, consider this combination, which is shown by the slope of the usual price curve. The aim is to avoid short-term investment losses.6. Open your account and trade in one or more situations, depending on what is available and how much money you invest. The next section shows the excellent performance of the previous core system.89 Chapter 7FURTHER PROOF Historical record In chapter 5, we saw the core system earn more than \$100,000 in actual investment, averaging about 25% a year. Were these warrants from 1961 to 1966 given unusual opportunities that did not exist before and never existed? We are now showing that if investors had benefited from the 1946-1966 scheme, they would have been able to make the same impressive profits. Simplified mechanical strategy We express the essence of the basic system in a simple set of rules, which we then apply for the period 1946-1966. Article 1: Information Limit your attention to warrants listed on the American Stock Exchange that are valid for less than four years. This rule uses the fact that short-term warrants are smaller than long-term warrants. Appendix E) We only consider the listed recovery orders for this historical recovery, as it is easier to sell short-term listed securities than unsealed securities than unsealed warrants are often unreliable or inaccessible. Rule No 2: Delete warrants selected in Rule 1 that sell for less than 6% of the adjusted exercise price. Also remove warrants when the stock sells more than 1.2 times the adjusted exercise price. This is a simplified inter-pretation of Figure 6.1. If ordinary shares are more than 1.2 times the exercise price, this is very much profitable to insure. If the warrant is less than 6% of the exercise, there is too little to squeeze a short sale. Rule No 3: Remove unadjusted warranties when trading for less than \$1. Since a margin of \$2.50 is required for securities selling for \$2.50 or less, the \$1 security margin is actually 250%. This significantly reduces the expected percentage return from short-term sales of these warrants. Article 4: Information From the remaining warrants, select the one with the closest expiration date and pass on short 3 guarantees for each common promotion purchased. Use full purchasing power on the account according to the prevailing margin rates. We believe that the short sale took place for the first time in the available place, and then the joint sale was made. Indeed, the investor would not choose the mixture Depending on his expectations for the general and from Figure 6.1. But since our the investor wants to tosail away in January 1946 and does not bother with the combination of intervening decisions, he arbitrarilychooses from three to one. Rule No 5: Cover short sales and sell overall on the last day guarantees trading on the exchange. Start again with Article 1 on the next trading day. If there is no possibility, invest in short-term Treasury bills. Table 7.1 shows the consistent investments under this simplified strategy. We deduct commissions, but we spend dividends on common shares. Table 7.1 for four years from 195692. Operation of the simplified basic system, 1946-1966. and in 1960, none of the listed warrants met the criteria of the five rules. Then the system was actually closed for seventeen years, during which it was on average 30% a year, before taxes, the initial investment multiplied 50 times and after 25% tax it multiplied 22 times. Our cash experience in Chapter 5 is based on a historical note. We note that in Table 7.1, the 25% tax on the basic system's profits corresponds to a tax of more than 25%, when part of the profit was long-term capital gains. As tax laws have changed, we illustrate the Tax Act of 1966. Profits from the total had capital gains held for more than 6 months and were taxed at half of the normal income tax, but in no case more than 25%. Profits from ordinary ones held for less than 6 months and all profit data of the underlying system in this section would be significantly increased. Figure 7.1 shows the operation of the basic system from 1946 to 1966. This is not as disclosed as Figure 7.2, which displays this information in a semi-log grid. There, smooth vertical distances show the same percentage changes, and a straight line represents a significant percentage increase, which increases every year. The higher the slope of the line, thegreater increases the composite growth rate. Since we are interested in the compound rate of return, a*This is the arithmetic mean. For investors who are interested mainly in long-term growth, the more important figure is the equivalent level of annual composition, which is 26% before taxes. Elsewhere, the bookstore reported these figures of 26% and 30%, indicating more than 25% for seventeen years. † In stock market literature, pre-tax rates of return are common, as the impact of taxes will vary depending on the type of investments. It also allows us to see what the rate of return on any investment is. In Figure 7.2, we consider an investor who bought the same securities as called for by the basic system but did not sell warrants. The initial \$1,000 would be raised to about Figure 7.2. The performance of the basic system basic system basic system basic system has also done more than 22 times. Selling short warrants but not buying a joint yielded more volatile results, earning more in some years and many96 fewer others. An initial \$1,000 would have increased to about \$22,000. The basic system also made 2.8 times. In Figure 7.2, which shows the functioning of all three strategies, the hedging advantage is clear. The performance of the investor, who only bought the shares, was relatively poor. The investor, who sold only short warrants, had dramatic achievements mixed with spectacu-lar losses than stated. For example, after Mack Trucks warrants were sold short of 17/, they rose to 35fl. This seems to indicate that the investor has been wiped out! But in reality, depending on how quickly his broker reacted, he would have received margin requests, as the warrants rose above 22fi. We thought we then covered part of your short position rather than ante up more money. If he received an amargin call every 1 point increased warrant, his losses would be about \$20,000 as the warrant then dropped from 35fl to 23/8. If his broker had not been vigilant and asked to cover it only when the warrant had risen by more than 1 point, his losses would have been greater. Inactual practice, with the order moving as high as 3 or 4 points in one day, he probably suffered heavier losses. If account were to be taken of the different tax treatment granted for longterm and short-term capital gains, profits after tax from the underlying system and only from long positions would be even more favourable than those from short position as inferior rela-tive with others. The potential future of major SystemCorporations benefits from tax breaks when issuing warrants. As more and more managers become aware of these benefits, we expect warrants97 to be issued more frequently, with many employment opportunities in the core system. The tax advantages are described in detail in the June 1965 and September 1966 tax advantages. For example, suppose a corporation wants to issue an abond with a sweetener (see chapter on convertible bonds, Chapter 10). It may attach a right to the bond or give the bond or bone, she has special tax considerations. Let's say that the nominal value of the bond is \$1,000, redeemed over twenty years, that there are added warrants, and that the value of the warrants. She got for a bond and \$300 for warrants. But when she buys back the bond in 20 years, she has to pay the holder \$1,000 for a loss of \$300. This loss can be amortised in twenty years, so you can save a lot of kor-poration has issued a convertible note instead. The successful use of the basic system requires more than a large culture of warrants, and the premium paid for warrants is also required to remain close to the level achieved in the period 1946-1966. If, for example, warrants become very cheap, the warrants become very cheap, the expected returns from selling these short ones can decrease significantly. In this case, the variations of the main system (reverse warm-up), explained in chapter 8, can consistently yield better than average returns.98 Productivity During 1929. CrashThough several economists believe that we will again experience disasters such as the 1929 crash, some readers may be wondering how the basic system would be performed then. Let's look at theearly justify the market. In 1911, American Power & amp; Light issued comments with attached warrants. This was likely to be the first American warrants ([8] p. 656). The price history of them and most non-opposing warrants is almost impossible to recreate. The first warrants listed were probably Phillips Petroleum Company. Both traded on the 1923 New York Curb Exchange (now the AmericanStock Exchange). By June 28, 1929, at least 22 warrants were listed on the New York Stock Exchange or Curb Exchange or Curb Exchange. (Warrants do not meet this list required by the New York Stock Exchange and none have been traded there since World War II.) Table 7.2 lists the warrants traded on that date, as shown in the Commercial and Financial Chronicle. Dozens of common and preferred stocks are also traded with warrants. Figure 7.3 Let's say an investor discovered the basic system on June 28, 1929. How did Hehave survive the worst collapse of all time? Applying the simple rules set out at the beginning of this section, he would have purchased American Commonwealth Power ordinary shares 23fi and 7fi sold a short 3 times more warrants. Margin regulations did not exist at the time and it would have been possible for him to conclude this transaction by a margin of 50%. These warrants were last sold on 27 June 1930 and sold at 7/32, while ordinary ones were sold at 24/. Within one year, when the standard and Figure 7.3. Order-stock relationship as at 28 June 1929 (For sources and comments see Table 7.2.) Poor's index of industrial stocks fell 35%, the main system returned almost 100%. Not only did this investor survive the worst stock market crash in history, he doubled his money. The reader may reasonably object that this incredible performance was at least partly due to the fact that despite a 35% decline in the Standard & amp; Poor's Index, AmericanCom-100 Table 7.2. The listed warrants on the New York Stock Exchange and curb exchange and c to 2! Table 7.2 contains three more orders that meet the criteria of Rules 1 to 3. They are in the aeronautical industry, Curtiss-Wright and General Cable. Even if General Cable had dropped the tozero, it would have generated about 90 - 42 = 48 on investment (90 + 42) x50%, or 66, on a 73% profit profit. If Curtiss-Wright had fallen to zero, the profit would have generated about 90 - 42 = 48 on investment (90 + 42) x50%, or 66, on a 73% profit profit. been 60 - 30 on investment (60 + 30) x 50%, or 30/45, which is 67%. Aeronautical Industries could made a loss if the total fell from 18 to less than the other three highly suc-cessful candidates and would easily be rejected for them. It is pointless to continue working on this possibly could have been on earth. Now there can be no doubt that this simple application of the basic system would have led to extraordinary results in bad times and well. Please note that this profit could have been obtained by applying the strictest rules from 1 to 5. No account has been taken of the improvement of these rules or the improvement of investments.102 CHAPTER 8 ON WARRANTS IRHEDGINGOver-the-Counter, Regional and Canadian Warrants This none of the warrants traded on OTC, regional exchanges or Canadian exchanges. To get started, Table 8.1 and Appendix B list many of today's warrants, as we were aware of in September 1966. The current description of the warrants is posted weekly to subscribers to R.H.M. Associates, 220 Fifth Avenue, New York, NewYork 10001. In 1966, this service was provided after about 60 non-trading warrants, as we were aware of in September 1966. The current description of the warrants is posted weekly to subscribers to R.H.M. Associates, 220 Fifth Avenue, New York, NewYork 10001. In 1966, this service was provided after about 60 non-trading warrants, as we were aware of in September 1966. The current description of the warrants is posted weekly to subscribers to R.H.M. Associates, 220 Fifth Avenue, New York, NewYork 10001. In 1966, this service was provided after about 60 non-trading warrants, as we were aware of in September 1966. Stock Exchange, as well as those listed on the American Stock Exchange. Your broker can immediately tell you the current price of the securities. Prices for most over-the-counter securities are not even listed in the Wall Street Journal. The prices of non-prescription warrants have almost never been applied. Prices are from pink sheets, a daily service, consisting of three parts, the Eastern Section, and western section. Asubscription to pink sheets are expensive, but copies are often on hand at local bro-kerage offices. You can call on guotes from non-opposing warrants. It will beusually wired in New York if you are outside that city, so an hour delay is possible. By the time you get the guote prices can be changed. One of the drawbacks of trading too much calculation is this inconvenience after pricing action. The OTC stock prices. OTC traders offer to buy securities at the offered price and sell them at the offered price. The difference, or spread, indicates the profit realised by the venturers of the transaction. Another drawback of over-the-counter trading is that the spread of OTC trading leads to an effective transaction cost to the buyer much higher than if they were listed. For example, at the end of September 1966, lynch corporation warrants seem to provide excellent investments in the core system. Warrants expired within 6 months and one traded warrant plus \$14 bought 1.08shares overall. The adjusted cost of the exercise was \$14/1.08, or \$12.96, the total cost was .74 exercise price, and the 2/ warrant was 0.17 exercise prices. Figure 6.3 shows that it is well above the 6-month average price curve. Continuing, as in Figure 6.4, we see that with a combination of approximately 2.2 adjusted warrants, which are missing per common 104 share (almost exactly 2 traded warrants are short per share of total length), we understand that the total is more than double or less than half. The broker had 300 Lynch warrants for borrowing, so we ordered him to sell for 2/ offer, because the 1/2 difference between the offer and the requested one was 22% of the revenue. Also, if wehad repaid the borrowed securities faster and couldn't borrow more, we would have a buy-in, possibly close to 2fl, and incur direct losses similar to the spread of 1/2. Our offer to sell 2fl was rejected, and was abandoned again when we lowered it to 23/8. Common then dropped to 9' and the warrant dropped to 9' and the warrant dropped to 0ffer 2, 2fi asked. We offered to sell 21/8 and then 2. We were refused and were given a new guote: 1fi offer, 2fi asked, with a 1 point spread now is 67% of the offer price! Since universal American warrant was equally attractive and more convenient for trading, we took our business back to American StockExchange. Table 8.1 shows some of the unseeded warranties that in September 1966 had 27 months or less until expiration. Of these 28 warrants, as in Figure 6.3, 4 seemed very profitable for the underlying system. They were lynch corporation, with 6 months to go; Consolidated oil and Gas, with 15 months to go; Consolidated oil and Gas, with 15 months to go; Consolidated oil and gas, with 15 months to go; Consolidated oil and Gas, with 15 months to go; Consolidated oil and gas, with 15 months to go. analysis which there are practical difficulties as these warrants may appear. One house was shortened to shorten any non-required secu-105 table 8.1. Some non-product and Canadian warrants with terms and prices in September 1966. NOTES: According to exchange traded, S stands for New York Stock Exchange, P stands for Pacific Coast Stock Exchange, O stands for Over-the-Counter, and Tmeans toronto Stock Exchange. Warrants are identical, unless otherwise specified in [conditions]. Term(s) means that for warrants are identical, unless otherwise specified in [conditions]. be interested in. The prices of the shares or quarantees shall be accompanied by a source. Source w refers to the Wall Street Journal on the same day as the price of the quarantee; pe stands for the eastern part of the pink sheets of 15 September 1966; sfmeans Sidney Fried R.H.M. study on September 16, 1966. These last prices are often misleading or false, so we only used them when it was difficult to get others. Unproperspersed prices from pink sheets or the Wall Street Journal are asking for a bid. For stocks listed on the NYSE and AMEX exchanges, low high prices are provided because they have to be used with after-sales prices, and we do not know the time during the day when these prices were in force. In column S/E, we used the requested price or the high S-price, and in column W/E we used the bid price or the low W price. This is conservative because it is the most unfavorable price for the basic system. When prices from two sources are flawed, the prices from the first source are used to calculate S/E and W/E. When the rosé sheets provided the prices requested by more than one trader, we chose a bid with a bid, which was a small percentage of the offer. explaining that he wants to protect us (from our wishes) from speculation. Anotherhouse declined short of over-the-counter stock sales under \$3, or any warrants. When they were pressed, they admitted it was annoying to borrow them. OTC securities tend to concentrate less hands, making it harder to find certificates returned, there is a greater risk that substitutes will not be available, so you will be bought against your wishes. When you use the basic system for non-conflict orders, it is advisable to invest relatively small amounts and carefully monitor developments. In addition to the warrant, ordinary shares are also traded on an over-the-counter basis, your profit will be reduced because OTC stocks cannot be purchased at a margin through your broker. Therefore, exposures to the underlying system that include offexchange-traded shares and warrants require higher investments than similar situations with listed securities. If the shares are listed and can be purchased at a margin, may be as attractive as the listed war rants. We also stress that chapter 6 theory, in particular Figure 6.3. Experience with other warrants can be without favor. At this point we know of any particular difficulties in trading warrants at the TorontoExchange. However, you cannot legally enforce certain of these warrants, and you may need to stress to your broker that you understand this before he takes your order. When Canadian warrants are executed by U.S. residents, additional securities are new shares. They must be registered with the Securities and Exchange Commission com-108 pany. If these costs and annoyance are avoided, these shares cannot be purchased by U.S. res-idents through their warrants, you're definitely havenone to use; there are no difficulties other than a possible initial discussion with your broker. R.H.M. The lists of services contain the average of the requested offer, which hides the spread of the often incomplete. We also found price errors. For example, R.H.M. cites Cooper Tire and Rubber's total as 23.50 on September 16, 1966, and the Wall Street Journal gives 1966low-high until September 16, 1966, as 17-18/. For listed stocks such as Alleghany Corp., ARA, Inc., and the Head of India. the price given on September 16, 1966, the issue was never corrected at any time during the week ending September 16, 1966! Therefore, we use R.H.M.figures as a convenient first indication, but we never rely on them, even as a historical record. What determines the prices of the guarantee? First of all, for smarter use of warrants, we study the factors that determine the market price of warrants. The dashed curves shown in Figure 6.3 show the mean performance of all warrants during the copper period up to the expiry date. However, four examples of July 21, 1966, figures suggest that deviations from this moderate behavior can be significant, Sheen Kassouf, in his doc-toral thesis, did a mathematical and computer analysis of the listed warrants from 1945 to 1965, and found that normal price curves in an individual warrant can vary greatly from curves if average behavior in Figure 6.3. We describe its results.109 Using this theory, the normal price curves of each order can be calculated (see Annex I). The actual warrant points are much closer to these new curves than they are to the average behavioral curves. The location of these normal price curves depends to a large extent on the time remaining until the expiry date, the possible decrease, the dividend rate and a slightly single price. In addition, the recent history of past resources has had a significant impact on the guarantee price. A potential decrease is the percentage of new shares that would occur if shares were to be used. For example, in 1965 there were 30 million outstanding shares of SperryRand and about 2.2 million new shares could be acquired by warrant holders. Potential from these warrants was 2.2/30, or 7.3%. The study shows that the higher the dilution possible, the lower the warranty price the other things are equal. In addition, the higher the dividend rate for ordinary shares, the lower the price of the warrant. Dividends make the overall growth, and who usually buy warrants, may instead buy and have a joint because they receive dividends while they wait. It is believed that shares that pay high dividends have less chance of getting a price or growth in the future than shares that pay lower dividends. As a result, the order becomes less invaluable, and this is the second possible explanation for why a larger dividend increase is usually less than the normal price curve, increasing profits in an insured position. The impact of potential declines and dividends on guarantor prices is of little interest to investors in the financial system. We mention110 of these effects, so you'll realize that our forecast warrant inventory behavior is much more clos-er than Figure 6.3 shows, and so you'll evaluate the factors affecting the people who have the guarantees you sell. The impact of potential reductions, dividends and pre-expiry times on the price offered by soldiers offered by warrant students has been verified and accurately measured by Kassouf. He found that if the current share price was above the average for the last 11 months, the * warrant price was reduced. This means that buyers behave as if the rising trend in the share price has less value, as if the growth trend does not follow. When the current share price was below the 11-month average, guarantee prices were generally below the normal price from the warrant is worth more, as if the warrant is worth more, as if the downward trend in the share price does not continue. The greater the deviation of the current share price from the 11-month average, the greater was the deviation of the guarantee price from the forecast price. We call these deviations a stressful effect. We illustrate how to use the trend to impact additional profits on Ed Thorp's description of Operation Sperry Rand. I abbreviated 100 Sperry Warrants on August 24, 1965. Then I brought 100 commonat 125/8. (We report these transactions in Figure 8.1 until 100:100) As stocks rose the I*11-month average was obtained initially taking into account the monthly highs and lows have been used because they have been widely used in Standard & amp; Poor's Stock Guides, so they can influence investors and are also convenient to collect.111 continue short warrants and buy a total, trying to approximate the combination of 1.8 adjusted warrants short for each common long part. The time shown in Figure 8.1, and In July 1966, Sperry climbed to about 27 and warrants were depressed atabout 10. Using the same arguments as Kassouf (Chapter 5), I closed my Sperry position. Net profit after total expenses was about \$2,100 and the average investment was about \$9,400.22% of profit. The money was invested on average for about 9 months, so the profit rate was about \$0% per year. When I closed Sperry, the warrants were well below their projected price. Hoping for a normal quick refund of the estimated price, I bought 200 warrants that I just lacked. Due to transaction costs, these warrants are expected to increase by more than 10fl in order to achieve profits. This is indicated by a dotted line in the picture. The point at which the zero profit line crosses the forecast price curve corresponds to the 26fi stock price. I would lose only if the share price was lower than when the warrants turned to the regulatory value. It was a 2fi-point move in the short term, and Sperry had a strong trend (which tends to temporarily lower warrant prices), so the warrant pur-chase seemed likely to be profitable. The warrants were sold a month later for \$125/8 and \$350 aprofit after the costs were realized on a \$1,400 investment or 25% profit in one month. Although the expected payback was high, this investment by Sperry had much more risk than the previous hedged core scheme investments, so only a small part of my funds was used. The total expected price hike was so small that reducing risk, as well as shortening 100 com-mon shares, would cancel most of the profits.113 You don't need to know the estimated warranty price when using the main sys-tem. Here we mention this when discussing factors affecting warranty prices, and we will show that more can be done successfully, because there is a basic system. What is Warrant Worth? The Order entitles the holder to purchase the total price before the expiry of the Order. This right is worthless if everyone knows that the total will tradeat or below the exercise price before the exercise, and the further the price, the higher the profit potential of the order and the higher the price at which it should trade. As a simple example, consider a warrant with a year to expire, a \$10 exercise cost and let's say the total cost is 10. According to Figure 6.3, when the total price was non-alloy, the average warrant with 12 months to expire was sold at about 0.31 times the exercise price or about 3 in our example. But what is such a warrant really worth? It depends on the overall prospects until the expiration date. For example, if someone knew that the total would increase to 13 after expiration, so it's worth 3 then. Despite the subtleties, as in this debate, such as the forward value of future income114, transaction costs and other investment alternatives, we can see, as in Figure 8.2. (We also believe that the order will be kept until its expiry, despite the impact of intermediate fluctuations on the total trading price.) However, nothing is clear and any description of the total price on the expiry date must at best provide a range of possible prices and the likelyities of these prices. Let's say webelieved that overall had a 1/2 chance that the warrant will be worth 15 - 10, or 5, and 1/2 chanceit will be worth 0 (Figure 8.2.c)). How much is such a prospect worth? This is a complex question, depending on what economic theorists consider a function of investor flexibility. Utility features may vary from one investor to another, so a 1/2 chance of 0 may be worth different amounts to different investors. This means that different investors will be willing to pay different prices for such a warrant. The most widely used measure of the value of investments is known as mathe-matte expectation or estimated value. It is obtained by multiplying each payback by the tochance that occurs and adding. In our example, it is (5 x 1/2) + (0 x 1/2) or 2fi. The best forecasts we can make for actual total stock prices are much more complex than the first three examples. Closer to reality is the situation referred to in Figure 8.2. A detailed analysis of more realistic options, e.g. in point 8.2(d), would include a complex mathematical and economic theory, which we will present in the academic instruction rather than here. However, some of the main conclusions of such an analysis 115 are easy to understand, so we discuss them here so that we can understand what the various investors could pay for the warrant. Aspects of the future of communities that substantially affect the price of the warrant are trend and volatility. According to the trend * we simply express how the total price is expected to change between the present and the expiry of the order For example, if the total number is likely to increase on average by the expiration date, we call it a trend. If it is likely to decrease, we call it a downward trend, the more the upward trend, the more the value of the warrant. If there is no very good reason to believe that others are wise, we usually take the trend of total stocks somewhere between 0% and 10% per year, given the long-term historical behavior of total stocks. Volatility † we mean the tendency of shares to fluctuate, or that price from the current price to the expiration date. expiry date. Figures 8.3(c) and (d) show less and greater flexibility. These figures show, and the analysis confirms, that the more volatile the total, the more the warrant may be worth it. Volatility should be taken into account when assessing orders. Since Figure 6.3 does not do so, a warrant with a relatively volatile total value is worth more than the proposed Figure 6.3 and is a worse short sale. A warrant whose total is not very volatile is worth less, and isa better short sale. We can get a quick, rough indication of comparative variability across communities, expressed annually*Mathematical readers: by trend we mean numbers (E(Xf) – xo)/t, where xois provide the price, t time to expiration, and E(Xf) is the mathematical expectation of random final price Xf.† Mathematical readers: we really mean s (Xf-xo), where s is the standard deviation, but here was the place for such math oral constructions.117 range, or high price minus the low price for the year so far, as a percentage of the average price overall. The average price overall is average (that is, half the amount) high and less for the year. Table 8.2 shows this in 7 interesting orders of 16 September 1966. In particular, in Table 8.1, we have seen that Gyrodyne and Consolidated S/E and W/E were almost identical, so it seems that the same potential profits need to be made from both situations. However, the consolidated period expired within 9 months and Gyrodyne within 12 months, so consolidated seems desirable. However, consolidated volatility is much higher that we prefer Gyrodyne. Table 8.2. Volatility as indicated in the annual range so far in the total stock of 7 warrants that were the candidates of the main system on September 16, 1966. Reverse HedgingPassing system we short overprice guarantees. it can be an attractive but risky purchase. Hedging can again reduce risk and make a profit. For example, on July 2, 1965, the Realty Equities Corporation Warrant, listed on the American Stock Exchange, was sold on 119 1fi with a total of 73/8 as specified in Figure 8.4. Figure 6.3 From Figure 8.4 we can see that if the total is advanced, Figure 8.4. Reverse hedging with Realty Equities Corporation warrants. From 2/1/65 to 8/1/66, each of them plus \$8 is converted into a 1,255 total. Higher prices before expiry, 2/1/72 adjusted order price should advance about a point to keep the minimum value line. Since the warrant sold had 1,255 adjusted warrants, it means that at each point the total rose sold order will rise by about 1/ point guarantor from 10 to 2fl accounted for an increase of 83%.120 Due to low movement upwards, the warrant will move more than 6 times faster than the total. An investor who thought that the shares could increase should have purchased the guarantee than the general one. However, there were significant losses. If the total and reasonable fell to lows earlier in 1965 (5fl for the total and 1/ for the warrant), the warrant buver would lose 24%, including commissions. This potential loss of 24% would normally deter the investor from positioning a large position in the order. However, when selling ordinary shares and buying a warrant, which is a hedge described in Chapter 6, the risk of loss is reduced and the possibility of obtaining high profits remains. We illustrate this position: Buy 4,000 real estate stock guarantees at 1fi. \$6,240Sell short of 1,000 Realty Equities total 73/8;no margin required. Only the required transactions have been paid. 170General investment \$6,410Appoxymatic investment in cash with a 70% margin of \$4,500Margin was not needed for 20 resources for short-term sale. \$170 is commission and sales costs. Here we use Section T 220.3(d)(3) of the Federal Reserve Regulation, which reads in part: . amount to be determined by the Governing Board from time to time . . as the margin required for short selling, except that such amount has been so fixed . . . need not be included in the case of securities which may be exchanged or con-121 which are credited within 90 calendar days, without limitation, except for payment of money, to such securities which are sold briefly; ... For the purposes of this transaction, 4 000 warrants within the meaning of this Regulation may be converted into 4 000 shares are missing in the example. Since many brokers are not familiar with this part of rule T, be prepared to set a section and a line. When educated in this form of hedging, many brokers prefer to work, because the commission generated for the invested can also be significant. What were the prospects for this investment on 2 July 1965? If the total and unreasonable returned to its 1965the to work, because the commission generated for the invested can also be significant. lows of 5fl and 1/ and the position was liquidated, the \$4,500 investment would lose about \$30, or less than 1%, after expenses and commissions. There is no need to do any evidence of what would have happened if the overall progress had been made. Afew weeks later Realty Equities announced that it was acquiring a wide range of real estate schine empires. Stocks and warrants have been steadily increasing. They peaked on 26 April 1966, less After 9 months, with a total of 125/8 and Order 83/8. If the insured investment was liquidated at this time, after commission and dividend payments, there was to be a profit of \$26,300 on warrants after commission and a loss of \$6,300 on total after-commission and dividend payments (when a short deposit, you have to pay the lender your dividends), for a net profit of about \$20,000, a 445% profit over nine months. Table 8.3 compares the various alternatives. Just buy guarantors margin is best from the side, but loses 34% on the 122 down-side, compared to less than 1% in the insured position. Other mixtures of guarantees, extended to a general short term, are possible. The table shows the results of 2 000 guarantees, short for 1 000. Table 8.3. Reverse hedging activity Realty Equities compared to other alternatives. In conclusion, we note that on 4 November 1966 the total closed at 7 and 27/8 hours, compared to 73/8 and 11/8 prices 16 months earlier. In this latest, the price has risen from \$8 to \$9. Despite the fall in the total price and the increase in the cost of the exercise, the warrant was almost doubled in July 1965. the Realty Equities warrant had risen to a minimum value line of 8.4, so the increase in the total price meant an increase in the order, and the increase in the order percentage 123 was much higher than usual. On the down-side move, we'll make sense the percentage dropped through an expensive warrant to be no faster, if not slower, than the total. As a result, the Realty Equities Order would increase faster, and probably not faster, that percentage of community shares. This is what made it perfect for reverse hedging. Figure 8.4 shows that these conditions are met with the Order and its location is close to the angle at which the lowest value line crosses the horizontal axis. This lies behind our rules for selecting reverse hedging candidates: 1. The price of ordinary shares should not exceed 20 % of the adjusted exercise price. 2. The order should not expire in less than four years.3. The order must be too expensive compared to average warrants (Figure 6.3). 4. The more volatile the common stock, the more volatile the common stock, the more attractive the situation. A zero profit line helps you select a reverse hedging mixture. The line is drawn as the main system of tin, only now the points above the line are profits, and below it are losses. An example of real estate ownership, a four-to-one combination can be chosen by an investor who hoped to re-move. A combination of two to one would be more suitable for an investor who wanted to profit from a common step up or down. Reverse hedging options occur more often off-exchange rather than among listed warrants. Oestrants do not cause difficulties in the basic system, since the warrant is purchased and not sold briefly. Thus, if common goods are listed, even on an over-the-counter it will be easy to change the hedge. Appendix B states that in September 1966, the Commission adopted a communication on the implementation of the The basic system refutes the theory that high returns must be accompanied by high risk. Webelieve we have shown that an investor can safely earn 25% a year. However, the risk moth must be completely removed. We are now discussing the risks of using the basic system. Short squeezes Of the legendary bear raids early on Wall Street buccaneers many have pointed out to them that short sales are bad. Some say that short selling is dangerous due to unlimited losses, and that in return it offers only limited potential profits. (Appendix A indicates that this should not be the case.) Some say selling short is unpatritic; that is, the seller has the pessimistic attitude of the American company. This is naïve and untrue. The interests of the economy are best served if share prices reflect potential future earnings. If the short sale of the guide prices is informed to such an extent, then the sale of short-term warrants. If someone corners the market (see page 60) in the warrant, short sellers of that war rant may be forced to pay outrageous prices to cover. We believe that such angles are unlikely. Ameri-can and the New York Stock Exchange have regulations prohibiting corners. While changes made in the past have always refused to say that there is a corner, the existence of these regulations discourages some manipulators. The increasingly curious Securities and Exchange Commission poses another threat to them. The closest thing to the corner of the guarantor market was in 1962. International mining has accumulated Orders for Molybden (Chapter 5). this disrupted the attachment between the price of the warrant and the total so much that it was very cautious in the press and on the American Stock Exchange. At one time, International Mining owned 20% of outstanding warrants and another 8% owned KennecottCopper. This was not enough to force short sellers to cover their positions. Warrants were unrealistically priced, the hedging players lost little and soon afterwards made significant profits. At the time of squeezing, your brokerage house may announce that it cannot borrow a home. In this case, you should perform the duties of a loan clerk and look for certificates. This problem may soon disappear. The Wall Street Journal of September 7, 1966, reported that the New York Stock Exchange is launching a computerized control-cer-tificate system. Each participating member will deposit inventory certificates in one place and transfers will be made in bookkeeping records. The American Stock Exchange is about to launch economic situation, provided that all the certificates are in one place. This will make it much easier to borrow securities so that it can diversify loan clerks. Another risk of selling warrants short is imaginary. Broadly 128 it is believed that security with a high position in the short position is more likely to rise than fall. Those who believe this say that short sellers must eventually buy back their sold-off stocks to reflect potential security demand. This is true, but why should this potential demand have a bullish effect on stocks? Demand alone does not determine the price of stocks; supply, other scissor blades must also be considered. When a share is sold briefly, a new share is created by increased supply. For exam-ple, consider the stocks of the ABC company. There are 10 outstanding shares. Ten different individuals have one part at a time. If a part is borrowed from one of these owners and sold to another person, eleven individuals would consider themselves owners of ABCstock. That is, there are eleven potential stock sellers. Potential demand from the state seller was offset by increased potential supply. This does not prove that the sale of securities does not affect the share price; other con-siderations can work in conjunction with short sales to undoubtedly affect price changes. The drop in supply was marked only in order to show that a purely logical dispute over the impact of short selling could not be relied on. We are forced to look at the actual data. Whatever effect the order of the expired periods may have on a high level of short interest, it is contaminated by the effect of a close expiry date. This is justified because the number of guarantees purchased (short number sold). As the warrant draws to an end, only those who have resold it briefly have reason to buy it. Their demand is lower than the potential supply 129 On December 10, 1965, the short position in Sperry Rand's warrants was 346,608, the highest short interest recorded in the warrant ever. On that date, the warrants decreased despite the increase in the total price (the previous day the total price ranged from 211/8 to 217/8 and from 225/8 to 25 years) and with increasing short-term interest. Figure 9.1 traces the last 12 months of some warrants that had relatively large short periods. In each case, the order has steadily fallen to zero, although in the last years of life short interest rates have increased. It is clear that a large short position did not have a bullish effect on these warrants. But the myth continues. Wall Streeters take such light stores that they quickly assign movements they do not understand col-orful short squeezes. On August 10, 1966, The New York Times reported on the warrants of leading candidate swinger of the year-Mack Trucks. They noted that warrants were traded at a stratos-pheric high of 345/8 in February and 3fl in August at lows. They attributed the action to speculators who were compressed. When ordinary shares hit a high of 54fl in February, 345/8 warrants were worth about 303/8. Therefore, their heights were sold at a very modest premium. In August, when the total fell below 40, warrants were selling almost exactly their converted into one share of community shares, and in fact they were converted into 1.47 shares.130 Figure 9.1. The relationship between short positions and the price of the guarantee, for three warranties for one year before their expiry date. The warrants, and hard lines indicate a short interest. But nothing has been said about the mistake of their whistleblowers, Wall Street point-and-figuremen [who] say that short selling offers a real explanation for zip to [warrants]. And the myth of sothe becomes reinforced. It's easier to believe in Wall Street's maxim than to study the facts. Short interest and volume statistics bunker-ramo and 1955 UniversalAmerican guarantees a month before their expiration to reveal incredible speculative sentiments. On April 9, 1965, the brief interest in Bunker-Ramo warrants, as reported by the American Stock Exchange, was 19,474. Short sales were banned earlier, so short interest rates could not rise from this level. This figure and only this number of warrants was 57,800, suggesting that about 38,000 warrants were purchased at prices between three cents and fifty cents as outright speculation. Between 81/8 and 103/8 are traded jointly during this period. That warrants were purchased in the hope that the total would advance by more than 50% in three weeks. The situation with Universal American warrants. In the weeks before the expiry of the warrants, the total volume was 41 100, excluding non-productive trade. Again, at least 38,000 warrants were purchased as speculation. The total trading period for this period was between 6 and 7. Before the warrants at prices ranging from 12fi cents132 to 18fl cents expecting the total to advance by more than 100% in a matter of weeks. Who were these wild-eyed buyers who lost all their investment in a few days? Orwere reported short interest or volume figures by mistake? (Even further trading can be shrouded in an unreserved market during the last week of the warrant's life, when TheExchange deleted them.) 1929 Again? Lurking in every subconscious of a policymaker is the spectre of 1929. Sometimes she sur-faces, as in June 1965, when William M. Martin, chairman of the Federal Reserve Board, presented her famous then-speech in Colombia. He mentioned several dozen parallels between 1965 and 1929. He also mentioned many differences, but they were largely ignored by tepress. When the market broke badly over the next few months it became known as the Martinmarket. No public official can convincingly say that we will never experience a period that would be simi-lar until the early 1930s. Re-appearance may be unlikely, but every time the market aver-ages fall by 15% or 20% ghost in 1929 reportedly moves boldly through finance. Isn't it true that before prices can fall by 90%, they must first fall by 20%? Most investors are bound to live with these nagging thoughts. If fear becomes great, the investor may not cancel his position and go short. Then he lives with the fear that prices will move forward, as they often have in the past. Meanwhile, an investor using the basic system is not worried about his investments. In Chapter 7, we saw him double his investment when the market crashed in 1929. Every situation he falls in he can set a limit by which stocks must fall before he133 incurs losses. Very often it can set this limit to zero! By adjusting his combination of warrants short tocommon for a long time, he can set a wide profitable range around the current price. A market disaster doesn't hurt your portfolio. In fact, hedged exposures become more flexible when prices are higher returns. The insured investor is not afraid of market failure. Volatile price changes The insured investments described in this book will show profits for various changes in 2 resources. Nevertheless, stock prices are volcanic, sometimes moving after a long period of calm. If the step is very large in one direction, even the main system will show a loss if some intermediate change of position is not made. So far, we have discussed desert island strategies - investments that are being made and not changed until the order. Now we will show that if an investor monitors his investment in an insured position, he can protect himself from a very volatile joint trading step. For example, two years before the expiry date, the ABC cut \$20, sells for \$4, and totals \$10. (See Figure 6.3. that this is a very proba-ble relationship.*) The investor sells a short 200 warrants and buys 100 total. If it swims and doesn't come back for two years,* The rule of thumb used by many analysts: the warrant becomes more attractive if its price of the total price, which can be easily seen in Figure 6.3. Nevertheless, many on Wall Street consider the warrant cheap if it sells for less than half the total price. As a result of this misinterpretation of Webelieve, many warrants are ideal candidates for positions in the basic system. 134 his investments will show profits if the total is sold from 2 to 38 on the expiration date. This wide range really looks safe enough - very few stocks lose more than 80% of their value or increase by more than 280% in two years. But now consider that unlikely. First, consider that protects it, even if the total falls further, even in the tozero. Let's say that a few months after his initial position, the total drops to 5 and the order to 2. Without any additional money, our investor can now sell short additional warrants because his account has generated purchasing power, even though he has losses on his initial investment (see Chapter 11). Now he can sell short another 100warrants at 2 and he won't lose his initial investment even if the total drops to zero. Then it will be a short 300 warrants for an average price of 3.33 and a long 100 total 10. Jo safety range has become zero down the side and 30 on the top side. It is true that the safety point was lowered from 38 to 30, but this did not increase its risk for two reasons: ordinary stocks are now 5, not 10, so the possibility of exceeding 30 is probably no more than the possibility of exceeding 38 when it was 10; In addition, sometime has passed and the rest of the time before the expiration date is less than two years, mak-ing move from 5 to 30 is unlikely. Therefore, although its starting point of security was2, this investor was able to expand it to zero when the total decreased, expanding its security with additional monetary investments. Secondly, consider the danger. If the total grew by more than 38 in the two years before the expiration date, it would be an experi-135 ence loss. But again, he can make an intermediate step that protects him. If com-mon and warrant begin to move forward after he has taken his initial position, hisaccount will not create any purchased power. But he does not need purchased power to protect against loss. Let's say that a few months after his initial position, the overall tripledand moved to 30. Less than two years later, with a total sale of 1.5 times the cost of the exercise, the warrant is likely to be sold at a very low premium for value is 10. Say it sells 12. He will currently have a 16-point loss on hisshort sales of 200 warrants for 4 and 20 points on profits in his long position of 100 total of 10,000 net profit of \$400. (Again, we did not considered commissions or costs.) Depending on the prevailing margin rates at the time he started his initial position, this profit, even after all the costs, can account for 15% of his investments. Therefore, in order to protect against further general, he will close his position and experience an increase of about 15% in less than two years. Therefore, in practice, its initial safety points 2 and 38 can be changed so that it is protected in almost any case. There are still some very small risks, and we mention them for completeness. It is possible that the total will decrease from 10 to 0 without any interme-diate prices, so there will be no possibility to get additional warrants. This may be the case, for example, if it suddenly turns out that a certain fraud or disaster, which was completely unforeseen, overtook the company. There is also a chance that the total will open one morning at 45, without the prices of theintermediate. As a result, our investor could close the investment (let's say) 30. This can happen if it suddenly turned out that the compa-136 ny factory or office building was on an oil tank or in a rich golden vein. We just want to stress that the extremely safe original position of the underlying system can remain secure, even if events change significantly before the warrant is depleted. Extension of the privileges of the Order to the position of the value of stocks. This can happen if the conditions of the warrant is depleted. Extension of the warrant is depleted. Extension of the warrant is depleted if the value of stocks. is extended. Of the 44 AMEX warrants listed above, this worked between 1946 and 1966 in the case of two warrants: Eureka Corporation and McCrory Corporation and McCrory S warrant took place in 1966, ten years before they expired. Ten years before the expiry date, this warranty notice should have been used under the heading of the basic system and its price was not appreciably increased. Therefore, if the expiry date of the warrant is extended, the hedging position may not make significant profits as originally expected and may even be lost. This was a small risk; webelieve it will continue to decline. When a corporation issues a warrant, it receives certain information from buyers either cash or a reduced interest rate on the bonds to which these documents were attached. This is justified as warrants are potential equity capital and current shareholders' give away any possible future support without receiving-137 ing something in return. The same arguments apply when a corporation extends the life of a warrant holders with some additional benefits. If nothing is received for these payments, the current shareholder should be outraged. Too often, however, stockholders are unaware of the value of warrants, since they formed a potential future equity of the corporation. However, we believe that shareholders are becoming more complex and will allow company managers to extend the life of existing warrants without compensation to the company. Increasing control by the Securities and Exchange Commission should unsou amaltis this abnormal practice for stockholders. Unless management can demonstrate that the extension of the contract will benefit the managing shareholders, they may also be subject to shareholder suits if the extension of the main system, it is necessary to sell short warrants. There are two meetings in which this may not be possible: all short sales may be prohibited on the stock exchange or on a particular warrant may be prohibited. First, consider banning all parties from selling on one or both major exchanges. In 1931, when Britain left the gold stan-dard, the New York Stock Exchange banned all short sales for two days. However, during this cri-sis, when sentiment was strong against short sellers, the exchange did not permanently prohibit the sale. Today, when short selling has eloquent defenders, banning all short sales is unlikely. The ban on short sale warrants at some point in the year 138 to expire. We don't know if they have strict criteria, but recently *shortsales were banned about 6 months before expiration if short interest was high. Thus, investors in thebasic system may lose some profit opportunities. But those who are already short are pro-tected against the corner. In order to avoid potential loss of profits, investors should not wait too long for a brief end. Wide use of the basic systemThes hundreds of thousands of investors use the basic system, will the full potential of profit be squeezed out? If many have sold or tried to sell a short-term warrant and at the same time bought related ordinary shares, the price of the order may decrease and the total risk price may decrease. This may result in a lower premium per warrant. As for Figure 6.1, the overall point of war and rants in the graph would be lower. This would remove part of the cream. But if the premium for the order falls too low, we can extract profits in reverse hedging (see 8). In summary, there are few and few things that can go wrong with an insured situation with things that can go wrong when one lasts a whole long or short time the basic system seems to be a risk-free investment by bankers and prudent menseek. It differs significantly from most other safe investments in that the basic system of com-bines safety with high returns.* Short sales were never prohibited by Universal American's 1962 order, which expired on March 31, 1967. On 28 April 1967, the period of 28 April 1967, when the short interest rate was equal to about one third of the non-conforming warrants, was prohibited for a short sale. Chapter 10 GENERAL SYSTEMValuable securities valuable securities exchangeable for ordinary shares is a convertible securities. preferred stocks, calls, * stock rights, and stock options.† Investment opportunities are huge. More than 500 of the 3,500 sects listed on the New York and American exchanges are convertible or their asoso-ciated common stocks. That is about 15% of all securities listed and the market value will exceed \$50 billion. The non-opposing market offers many

additional opportunities. Table 10.1 describes the conditions under which these securities may be exchanged for comuronic shares. We are now showing how the analysis of warrants can be expanded to include any convertible collateral, greatly increasing the chances of profit. Each convertible deposit must mask the warrant. Once this warrant has been established, the basic system or other variations* The selling price is the right to sell the specified security at a fixed price before the set expiry date. Putare is not convertible securities, but their mathematics are so closely related that they and various combinations of words and calls, such as speds, straddles, ribbons and tapes, can also be analyzed by our methods.† They are not publicly traded, so we do not discuss them further. However, the analysis of this book will help those who are lucky enough to have to decide whether and when to sell them. can be used. So now we can use our understanding of warrants in pure form to invest in a much larger class of securities. We start with convertible bonds. Table 10.1 Description of convertible securities. Convertible bonds, it borrows money. The buyer receives a con-tract called a bond for his money. The buyer receives a con-tract called the amount of akupone. Most bonds actually have removable coupons that are presented in corpora-tion half-yearly payment. The contract shall also specify the maturity date or maturity when the corporation will redeem the bonds is \$1,000 each. Usd. bonds receive \$47.50 in interest each year (thecoupon) and the bond is redeemed in 1980 when the company agrees to pay bond-er \$1,000. Since \$47.50 is 4fl% of face value and because they must be in the 1980s, these bones are known as Collins Radio Company's 4fl 1980 bonds. The current market price of the bond may differ significantly from the nominal value. If there are doubts about the ability of corporations to continue paying interest payments or redeeming bonds at face value at maturity, this will be reflected in the lower current price of the bond. Changing interest on bonds of similar quality was 53/8%. If Collins' bond could be sold for \$1,000, the proceeds could be invested in bonds yielding 53/8%. The availability of these alternatives therefore made Collinsbond unattrac-143 tive \$1,000. The price of the bond fell to about \$880.* for which the price was as attrac-tive as the investment yields 53/8%. For example, if the bond was purchased for \$880, the \$47.50 coupon was 5.40% principal. Also, if an investor purchased the bond for \$880 in June 1965 and sold it to InMarch in 1980 for \$1,000, he would realize a capital gain of \$120. This capital gains are accounted for in the calculation of the yield before maturity, the residual yield of the bond if it is purchased and deducted before maturity. For us, the current harvest is more relevant. It is calculated by dividing the price of the bonds into an annual interest payment. This is the yield if the price of the bond does not change. If a corporation wants to borrow money by selling bonds, it can set investors to have a high annual interest payment. Lower interest rates can be accepted if the bone has added warrants. The bond can be converted into a fixed number of listed shares at the choice of the bondholder. Such benefits, called sweeteners, are common. In the October 1966 issue of standard & amp; poor's Bond Guide lists 336 actively traded con-vertible bonds, 164 of which were listed on the New York or American stock exchanges. The total face value of these convertible goods was \$5 billion. Now we will see that this huge market is a happy hunting ground for users of the main system and reverse hedging. The anatomy of a convertible bond can be con-* Later we see that the bond was convertible, sold for \$882.50, and the conversion privilege was paired to be worth \$2.50,144, a side-by-side simple bond and a certain number of warrants. Consider Collins Radio commonstock shares. In June 1965, the bond sold for \$882.50. Let's say now that this connection didn't have con-version privileges. At the same time, the price would it have sold? Standard & amp; Poor's, in its monthly statistical analysis section of Bond Outlook, and Moody's, in their monthly statistical analysis section of Bond Outlook, and Moody's, in their monthly statistical analysis section of Bond Outlook, and Moody's, in their monthly statistical analysis section of Bond Outlook, and Moody's, in their monthly statistical analysis section of Bond Outlook, and Moody's, in their monthly statistical analysis section of Bond Outlook, and Moody's, in their monthly statistical analysis section of Bond Outlook, and Moody's, in their monthly statistical analysis section of Bond Outlook, and Moody's, in their monthly statistical analysis section of Bond Outlook, and Moody's, in their monthly statistical analysis section of Bond Outlook, and Moody's, in their monthly statistical analysis section of Bond Outlook, and Moody's, in their monthly statistical analysis section of Bond Outlook, and Moody's, in their monthly statistical analysis section of Bond Outlook, and Moody's, in their monthly statistical analysis section of Bond Outlook, and Moody's, in their monthly statistical analysis section of Bond Outlook, and Moody's, in their monthly statistical analysis section of Bond Outlook, and Moody's, in their monthly statistical analysis section of Bond Outlook, and Moody's, in their monthly statistical analysis section of Bond Outlook, and Moody's, in their monthly statistical analysis section of Bond Outlook, and Moody's, in their monthly statistical analysis section of Bond Outlook, and Moody's, in their monthly statistical analysis section of Bond Outlook, and Moody's, in their monthly statistical analysis section of Bond Outlook, and Moody's, in their monthly statistical analysis section of Bond Outlook, and Moody's, in their monthly statistical analysis section of Bond Outlook, and Moody's, in their monthly statistical analysis section of Bond Outlook, and Moody's, in their mo the bond, is based on the price of sim-ilar quality bonds that are not convertible. Standard & amp; Poor's estimated the conversion feature was worth \$2.50. My conversion privilege corresponds to 16.25 latent warrants with a total value of \$2.50. This means that each latent warrant was sold for about fifteen cents. The cost of these warrant exercises is the amount needed to convert them to com-mon. Since the conversion consumes a bond worth \$880, the price of the order will take advantage of ÷ 880 or 16.25 or 54.15. Ordinary shares were sold for 255/8 or less than half the exercise price. For fifteen cents, the latent warrant sold for less than 1% of the cost of the exercise. At the same time, another Collins Radio convertible bond was trading, 4fl% 83. It sold for \$1,125 and was converted into 36.36 latent warrants were selling for \$255. or \$7.01 each. The amount of surren-145 obtained using these 36.36 warrants would be \$870, so the cost of the exercise for the war was 23.93. The position of two Collins Radio latent warrants on June 6/65. total 255/8wt #2 wt #1Bond price 882.50 1125.00Investments worth 880.00 870.0000 Prices 2.50 255.00Super share count 16.25 36.36 Exercise price 54.15 23.93 Figure 10.1. The reverse hedge collins radio latent warrants.1965 is plotted in Figure 10.1, a general order chart. Order 2 is clearly a bar profit of fifteen cents. Investors who own similar quality non-convertible bonds should be turned into Collins Radio 4fl'80. These options often occur when com-mon shares are less than half the cost of the exercise.146 Reverse hedging with Collins Radio WarrantsSee an example from Realty Equities that the warrant is ideal for reverse hedging when it is near the corner in the overall warrant chart. Then, if a big upward move takes place with the joint, the warrant must move up sharply. If instead the stock sags badly, the warrant will resist falling. The same applies to latent warrants. In addition, permitted financing agreements may make reverse hedging with convertible bonds more profitable than cash warrants. Consider this investment in June 1965: Buy 3 Collins Radio 4fl from '83 at 112fi*per broker, 70% margin \$2,362.50Buy 3 Collins Radio 4fl of '83 at 112fi;bank lends 70% price \$1,012.50Commissions on 6 bonds \$15.00Sell short 100 Collins Radio total 255/8 0.00 cash investment of \$3,390.00Three of 6 bonds was purchased at a 70% margin on an account containing 100shares were sold short. Since 3 bonds can be converted into 109 shares, section T 220 of the Regulation did not require the registration of margin for the sale of shares. Three more loans were financed by a bank loan. Banks are not limited by any amount of federal arexchange regulation they can lend customers to buy bonds. Banks lend as much as 85% or 90% of the market value of bonds, which* Bond prices are quoted as a percentage of the nominal value, which is usually \$1,000. So 112fi is 112fi% from \$1,000 or \$1,125. Accrued interest is calculated on a daily basis and includes, but not quoted bonds, at the purchase price. 147 credit-worthy customers want to buy. We thought that 3 bonds financed by the bank required a margin of 30%. Let us now calculate the cost of holding this position. Approximately \$3,400 is borrowed (say) 6%, at an annual price of \$204. 6 bonds yield \$262.50 in coupon payments and a net interest return of about \$55. Ordinary shares paid \$50 a year in dividends, which they had to pay to the lender of 100 common shares that we shortened. It's almost ly cancel\$ \$55, practically no profit or loss. The only investment price is a hidden den one tying up to \$3,400 in cash. 6 bonds consist of 218 latent warrants, so this reverse hedge was a ratio of 2.18-1. If the total fell to 11, the investor can expect the bond to sell for \$875. (Note part 2 of the Order in Figure 10.1.) This \$1,400 prof-her. In fact, the total moved up to 65fl in March 1966 and bonds rose to \$2,450. It was about \$8,000 on bond yields and about \$4,100 on the sale of debt shares for a net profit of \$3,900, a gain of 115% over 9 months. Order 2 was then put in a favourable position for the reverse hedging position (see Figure 10.1). The atwo-to-one combination would make this investment in March 1966:Buy 6 Collins Radio 4fl '80 at 115 perbroker, with a 70% margin of \$4,830Buy 6 Collins Radio 4fl from '80 at 115; banklends 70% of the price of \$2,070Commission on 12 bonds at \$30Sell short of 100 Collins Radio total 65fl 0General cash investment of \$6,930 Figure 10.2. Latent warrants for some convertible bonds, 9 January 1967 If ordinary shares have advanced, the experience of Order 1 shows that this reverse hedge was profitable. However, ordinary shares fell 8 months to \$44 and bonds fell \$1,010. This represented a loss of about \$6,900 investment it was a 9% gain over 8 months, with a net profit of about \$6,900 investment it was a 9% gain over 8 months, to \$44 and bonds fell \$1,010. This represented a loss of about \$6,900 investment it was a 9% gain over 8 months, to low by our standards. Profit with Warrant 1, when total smart and profit with warrant 2when total decreased, security and profit potential due to reverse hedging through convertible bonds. Choice of convertible bond situations To find the most promising latency orders that you draw your positions on the warrant-com-mon chart. This requires the setting of S/E and W/E, standardised prices, as we did for the warrants in Chapter 6. The price used by E is simply the investment value of the bonds divided by the number of shares that can be obtained at the time of conversion. January 9, 1967, the weekly issue of the convertible fact-breaker, published in Kalb, Voorhis & amp; Co. was used to draw figure 10.2. This issue describes 178 convertible for reverse hedging. Of the 147 non-listed convertible bonds also classified as de-150, more than half of them were convertible into listed shares, which made reverse hedging situations possible. We now illustrate how such information provided by the convertible FactFinder was used to plot positions in latent warrants in Figure 10.2. In 1987, the reduction in air transport37/8 was converted into 16 communities and 108 were sold. The investment value of the bond (referred to as the investment value of this service) is estimated at 76. Bondtherefore sold for \$320 above the investment value of this service) is estimated at 76. Bondtherefore sold for \$320 above the investment value of this service) is estimated at 76. Bondtherefore sold for \$320 above the investment's worth, so 16 latent guarantees \$20 each. The latent warrant was 760 divided by 16, or 47.50. Therefore, W/E was 20/47.50 or 0.42 Total stock was 65, so S/E was 65/47.50, or 1.37. With these values S/E and W/E we draw the point marked Air Reduction in Figure 10.2. All bones are those warrants near the corner; i.e. orders for which S/E is greater than 0.8 but less than 1.2 and very low in the chart. The dashed line, which forms the triangle of the lower part of Figure 10.2, refers to 9 convertible bonds which can be considered the most important in the case of reverse hedging. This dotted line has a slope of 1/2 and refers to a zero profit line for a two-to-one mixture. If the reverse hedge position is two to one, when any of the 9 situations are below it, a profit will be obtained if the guarantee position moves along the line. Please note that a big step towards the general in any direction will require moving the position of the warrant above this dotted line. 151 Figure 10.3 shows 9 situations on January 9, 1967, with compa-nies names. Holly Sugar looked like the best candidate for reverse hedging unless the investor believes in Figure 10.3. On 9 January 1967, candidates for a reverse hedging position were more likely to take a substantial step in any direction. The warrants shown at the top of Figure 10.3 would show a profit of two to one insurance if their gross stocks were advanced and would probably not suffer losses if stocks were lower; latent warrants in the lower part reverse hedging gains if total inventories have declined and are unlikely to show losses if stocks are advanced, orstood yet. In this way, the investor was able to assess Holly Sugar on 9 January 1967. First, it should be noted that the conversion privilege was extended until 1983. (If the privilege had ended in less than three to 152 years, he would have rejected Holly as a candidate.) Secondly, the current bond yield was approximately equal to 2 share yields. This indicated that the corporation supported the bond at 1035/8, well above the current price of 87. This indicates that there would be no loss if the corporation wanted to buy back the conversion privilege had been inquired for more than three years, that the yield on the bond was approximately equal to the yield on the shares and that there was no risk of being lost if the bond were called, the investor would then have a profit profile for reverse trading. For a two-to-one reverse hedge he would buy 2 latent warrants for each partcommon sold short. Each bond is converted into 48.78 shares, so a two-to-one position can be matched by buying 4 bonds with 195.12 latent warrants and selling 100 com-mon shares. This would mean a reverse hedging position of 1.95-1. The best way to get into this situation is to buy just enough bonds through an intermediary tocover a number of shares sold short, and finance the bond balance through the bank. This would reduce cash costs and increase percentage returns. In this example, this should include the purchase of 2 bonds through an intermediary by selling 100 common shares and 2 bonds through a bank. Typically, financing less than 10 bonds are purchased for money 87 through a broker who sells a short 100 shares of Holly's joint. (Holly bonds are traded over-the-counter and cannot be purchased by margin153 through an intermediary.) As explained earlier, you don't need money to sell short stocks. Therefore, the total investment is about 4 times \$870, or \$3,480. We will ignore the commission. This is not serious, since the interest earned on bonds exceeds the dividends to be paid for short positions. This excess is then usually offset by commission costs. Let's take this hedge's profits within 6 months at various total prices. If the total is still 18, it is unlikely that the bond will be hedge's profits within 6 months at various total prices. If the total is still 18, it is unlikely that the bond will be hedge's profits within 6 months at various total prices. If the total is still 18, it is unlikely that the bond will be hedge's profits within 6 months at various total prices. If the total is still 18, it is unlikely that the bond will be hedge's profits within 6 months at various total prices. If the total is still 18, it is unlikely that the bond will be hedge's profits within 6 months at various total prices. If the total is still 18, it is unlikely that the bond will be hedge's profits within 6 months at various total prices. If the total is still 18, it is unlikely that the bond will be hedge's profits within 6 months at various total prices. unchanged for 18 to 6 months, the bond will remain and will be 87. This shows zero profit investment. We can generally assume that if the total moved to its high of 110, just above their value line. This would mean a profit of \$920 on bonds and a loss of \$300 on shares with a net profit of \$620, or 17.8% of the \$3,480 investment.*If the total profit drops to 13fi, represented by S/E 0.8, we can conservatively assume that the bond will fall to the value of 83 investment. This would result in a loss of \$160 on tebonds and a profit of about \$450 on shares for a net profit of \$290, or 8.3% of the investment. Plotting this estimated percentage income based on the total yield priceFigure 10.4. Different blends would be represented by different profit profiles, but almost all have this prop-* note added in the press: May 4, 1967, 4 months after it was written, the total was 34fl and the bond was 172, for a net profit of \$1,725, or about 50% in 4 months.154 erty: profits determine whether overall growth or fall. An investor who thought that stocks were more likely to rise than a fall would choose a smaller blend, perhaps as small as one-to-one. The main system with latent warrantiesUnlike pure guarantees, latent warrants rarely take large bonuses. There are many rea-sons for this:1. To purchase a latent warrant, the investor must also purchase a bond, which can be inconvenient.2. The expiration date of the latent order is unclear because the latent order expires if the corporation calls the bond. Part of the call for services is part of most bond contracts. When a convertible bond is triggered, the holder has the option to convert it into ordinary shares or redeem-155 at the purchase price, there will be no loss; if the bond was purchased at a purchase price higher than the purchase price, the bond will fall to a higher purchase price or share value that can be obtained at the time of conversion. (The latter value is the value of the bond. It is equal to the price of the total number of shares to which the bond may be exchanged.) 3. The cost of using latent guarantees shall range from the investment value of the convertible bond. It is equal to the price of the structure of the alternative interest rates on the investment. This does not vaguely exist for the holder of pure warrants. Despite the reasons for these lower premiums for latent warrants, some are suitable for grass. To use the basic system with latent warrants one has to sell a short convertible bone and go long in community stock. Consider Xerox 4% from '84. This bond is converted into 10 community shares. In December 1964, the value of its investments was assessed by standard Poor's \$910; bond sold for \$1,310; total sales 94. Exercises the latent warrant was 40. (\$1,310 less \$910 indicated that 10 warrants were sold for a total price of \$400.) Ordinary shares of 94 were 3% higher than the exercise price, while the warrant was 44% of the exercise price. This position is plotted in Figure 10.5. it was essentially a high premium*In rare cases, a corporation were issued in 1962 for \$5, although their expiration date was December 15, 1975, for a latent warrant; this reflected the optitist of investors at Xerox Corporation because they were able to pur-chase bonds by a thin margin so they would be willing to pay a large premium. Figure 10.5. Main system with Xerox latent warrant. Figure 10.5 shows the zero profit line applicable in december 1964. An investor familiar with the latent order contributions would have understood that the comprehensive guarantee position would not have benefited from exceeding this constant line falls, the position is likely to fall slightly below or remain on a solid profit line. (If this position is plotted in Figure 10.2, it can be easily seen that the warrant was too expensive.) Let's say then that in 1964. December was invested \$15,750Margin on a short position to be announced because 2 shares are not convertible into bonds. (In this example, we ignore commissions.) If ordinary shares fell, Collins Radio's assurances in Figure 10.1 show that the general warrant posting would remain below the constant profit line, for 40% or less of the total fall. Side potential is a matter of fact. By June 1965, about 6 months later, the stock was 143 and bonds were 155. This is a profit of \$4,900 on 2 shares and a loss of \$1,400 on 10 bonds, on net profit (ignoring commissions) of \$3,500, or 22% on cash investments over 6 months. The basic system with Dresser Industries Warrants be soldshort. In the previous example of Xerox, the latent warrant had a potential service life of twenty years, but the unusually high premium turned out to be temporary and offered a hedge of the base system. Weturn is now ending a latent warrant that meets the basic terms of the system on November Chapter 6.In, 1965. The bond was converted into 36,36 shares before 1 March 1967; investment value was \$940. The latent warrant, 250 divided by 36.36, was Thus, the price of ordinary shares was 7%158 higher than the exercise price, while the warrant was 27% of the lending price (Figure 10.6). This latent rant meets all the criteria of 6.11/65 11/66bond 119 100Stock 27fl 28Invest, Worth 94 86fiExer. Price 25.85 23.79Figure 10.6. A basic system that uses Dresser Industries warrants. Consider this key position in the system: Buy 100 common shares at \$27fl \$2,810Sell short 6 Dresser 41/8'77 at 119 7,125 \$9,935Margin 70%-cash investment of \$6,955Mes we included approximately 208 shares, so this position was 2.08 guarantors 159 for each common long term. The constant profit line of this mixture is shown in Figure 10.6. It sug-gests that gross profit will be if the total does not fall to less than 14 or rises to more than 37. A year later, with a total of \$28 and a bond of \$1,000, these warrants slipped slightly below the minimum value line. In the event of no premium left in the warrants, the positions should be liquidated. The result: a loss of about \$25 a share, a gain of about \$1,110 on the sale of borrowed bonds, interest payments of about \$250 on bonds sold short (the bondshort seller has to pay bond interest to the lender), and \$112 received dividends on the total stock. That's a net profit after expenses and commission of about \$950 on a \$6,955 investment, or about 14% in one year. Find the best basic system hedging with convertible bonds for the underlying system among convertible bonds, as in Chapter 6, with one important difference. The normal price curves shown in Figure 6.3 do not apply to latent war rants. In general, latent warrants are sold in lower premiums. Therefore, after candidates for the latent warrantbasic system have been plotted in a diagram similar to Figure 10.2, their positions should be compared with those of all other latent warrants. In the example above, theDresser Industries warrant was 1.07 S/E and 0.27 W/E. This point in the warrant stock chart is about the average of all latent warrants shown in figure 10.2. Therefore, since the Dresser Order expired within a short period of time, it was worth checking as a candidate for the basic system. There is another difference associated with the entrance to the position. With pure warrants, interest is free, and the investor is short. With latent warrants, the investor can be short only short with convertible bones. This means that while the position of the underlying system in latent warrants is considered, interest is paid to the bond lender. Convertible preferred shares, like a convertible preferred shares, like a convertible bond, are equivalent to the usual preferred margin and latent warrants. Ordinary Privileged as bonds, the price is determined by yields and security. However, the desired stocks have no nominal value and are not fixed period. He behaves like an eternal connection. Most convertible preferred shares can be called by the issuing corporation, so in practice, due to changes in interest rates, their life expectancy is limited. Taking into account the value of the underlying ordinary preferred capital investments, the value of latent warrants may be calculated in the same way as for convertible bonds. The impossibility of hedging the differences is the increase in commissions (the commissions on preference shares is the same as the commission on preference shares) and the impossibility of financing advance purchases through the bank at a thin margin. Call optionsSo the main option is calls and calls; their combinations are called straddles, spreads, stripes and straps. The amazing maneuvers possible with them led Fred Schwed, Jr. to thehilarious Where are the customer's vachts?, to observe that put-and-call homes are con-161 indicating potential buyers options that they are the perfect thing to sell. I even heard them when he is at home eating his dinner) to put both approaches in the same session . . . The question is why the unemployment problem cannot be solved by the unemployed buying and selling each other rather than mooning around those park benches. Acall is a short-term warrant; her life is rarely more than one year. It differs from the options, and not by the inventory to which it can be converted into stocks. Calls are not traded on any exchanges. This introduces certain differences when used in the underlying system or irreversible hedging. The margin cannot be used to purchase a call. The total cost of cash must be advanced. In order to sell or write a sale, an investor must have in his brokerage account ordinary shares to which the share to be sold can be converted, or he must register a margin of 30 % of the market value of such shares less the premium received. For example, an October 14, 1966 Wall Street Journal advertisement offered 100 shares of Sperry Rand, totaling \$625. The cost of the exercise (for calls it means a staggering price) was 24. Ordinary shares closed at 237/8 that day. The invitation was in one year. The buyer would have advanced the entire \$625 and he would have to advance 30% from \$2,400 less to \$625, or \$95, as a margin. The purchase of an invitation is equivalent to the purchase of a warrant; the call for sale is162 almost the same as the shortening order. Thus, calls can be replaced by warrants in the case of an assist system or reverse hedging. Calls also provide other options. When on Sperry Rand's call, excercisableat 24 and ends within one was advertised for \$6.83 on the stock exchange. It expired after 11 months and was available for \$25.93. Thus, the warrant traded had a higher price, a higher cost of exercise and a closer expiration date. He was inferior in all respects to the call as a purchase. This dissatisfaction can be resolved. If an investor bought the call for \$625 and at the same time sold a short 100 traded war rants for \$683, he would have made a gross profit in 11 months at \$58. If the total stock was above \$25.93 when the call ended, it would gross a profit atleast \$250. The call market is mostly the most actively traded common stock. Therefore, conditional profit opportunities. Raises, calls, and the main SystemAput, as a call, is a negotiating agreement; the owner of the selling company has the right to sell com-mon shares at a specified price (staggering price) before the specified time (expiry date of the option) to the contract writer. For example, consider putting 100 ABCcommon shares with a bright price of \$40 and good for one year. The holder of this put, at any time within one year of the date of the contract, can sell 100 shares to an ABC write \$500. (In practice, the contract buyer does not communicate directly with the writer; the anoption broker acts as an intermediary and receives a significant 10% fee for his serv-ices. The buyer can be paid \$500 per put, but the writer can only get \$450.We ignore the broker fee in this example.) Put the profit owner if at any time during the year the ABC total drops below 35 and he takes advantage of his opportunity; he can buy it on the stock market for less than 35 and sell it to a writer at 40. This leads to profits because he paid \$500 for the contract. Buyinga put is similar to selling a stock shortage - profits are made when stocks fall. Put writer will benefit if the stock never sells below 40, the put will not be used and the \$00 pre-mium received to write the contact will clear the profits. If the option is exercised when the stock is between 35 and 40, the sales writer will have a gross profit that varies from 40 to the stock price. For example, if an opportunity is exercised when the stock s 38, the writer must pay \$4,000 for stocks worth only \$3,800. This \$200 loss, which offsets the \$500 bonus for writing a contract, results in a profit of \$300. Therefore, writing to put is something like buying communities stock gains are both cases where total stocks rise. Put writer can pictorialize his prospects as figure 10.7b. If stocks never increase more during the contract the invitation will not be used and will profit from the \$500 bonus. For every point over 40 he will earn \$100 less; hisbreak-even point on the top side is Figure 45.164 at 10.7a. Potential profits the writer put in, who received a \$500 bonus. The call is exercisable at 40. Now consider an investor who writes a stain at the same time and calls for the use of a common share with prices equal to 40. The option, which consists of selling and calling with identical nutritious prices, is called a straddle buyer enjoys his privilege only at the end of the selection period, the strad-dle writer can view his prospects as Figure 10.8. It loses only if the total falls below 30 or rises above 50. Note the similarity of Figure 10.8 and Figure 4.1 to the profit potential of the underlying system. As an example of straddle writing consider advertising in the Wall Street Journalof on July 12, 1966. The option broker was bidding \$400 for a 65-day straddle on United Artists, with a bright price on the market (the price at which United Artists was selling). UnitedArtists closed at 435/8 that day. Let's say the investor sold the straddle of 30 % of 435/8, irrespective of the amount of the premium received; The 30% market price for 100 shares of UnitedArtists is \$1,309; this amount minus the \$400 premium is the amount that the straddlehad seller registers as a margin. How would he have been seated with this \$909 investment? During the 65-day selection period, United Artists overall fluctuated in a narrow range and it is unlikely that either a put or call would have been taken advantage of. Stocks closed at 43/on the last day of the period. The difference between 43/ and 435/8 is not sufficient to take advantage of this activity. The put holder should pay a 43/ plus commission on the stock he can sell from the straddle writer. Its total cost would be more than 435/8he would get. So the writer of the straddle would have prob-166 amounted to a full premium of \$400. This is a 44% return on investment in 65 days. Selling straddles differs from the base system position Figure 10.8. Potential profit writer straddle at 40, who received a \$1,000 bonus. We assume that the buyer of the option enjoys its privilege only at the end of the contract period. The option holder may make use of them at any time during the duration of the contract. In the case of both sales and hallways, it is possible to take advantage of profitably if ordinary resources see enough saws. As a result, error sellers may incur losses greater than those shown in Figure 10.8. CHAPTER 167 11DECIPHERING YOUR MONTHLYSTATEMENTY you can make better use of your funds basic system or reverse hedging if you can decrypt your monthly report. So the basic accounting knowledge of your statement canbeke investments we describe even more powerful. Your brokerage account aredetaied in the monthly report provided to you by your broker. We illustrate the typical form and terminology, as it differs from the brokerage company. Since all statements contain the same information, it should nevertheless be easy to use our discussion with our monthly statement. Cash Account, a margin account and a short account. Transactions on the point account are always paid or received in full. There are no short-term sales and margin transfers. If a deposit worth \$1,000 is purchased in a cash account is credited at \$1,000. Part of the statement point account may look like this: YOUR CASH ACCOUNTDebit CreditJan. 2 Check again ceived 5,000Jan. 3 Bought 100ABC 4,000BalanceJan. 31100 ABC 1,000Ta account was opened on January 3, 100 ABC shares were bought for \$4,000. The balance on the account is cred-ited; when the cash flow exits, the account is debited. The use of the cash account will be clear when we discuss purchasing power. The Margin Account (sometimes referred to as a long account) is another division of the general account. Transactions are recorded here when the securities purchased are not paid in full. The margin account portion of the report may look like this:170 YOUR MARGIN ACCOUNTDebit CreditJan. 10 Bought 100XYZ 5,000Jan. 14 Please recheck ceived 3500BalanceJan. 31100 XYZ 1,500 This account reveals that 100 XYZ 1,500 This account reveals purchase. The end-of-month balance indicates that the customer has 100 XYZ and the debit balance is \$1500; he owes his broker. It be balance from his broker. The bee balance in the margin account is the amount payable to the broker. It charges interest on it, at least 1/2% more than the basic rate, depending on the size of the account. If you have a large account with a debit balance, require a minimum initial margin for the acquisition of listed securities (Except for government and municipal paper, brokerage houses can not lend customers money money securities.) This margin has decreased from 40 % to 100 % since 1934. With a minimum margin of 100% the transactions.171 In this section we accept the minimum margin set by the Federal Reserve at 70%. In the margin account above, the customer has made precise progress from this minimum 70% towards the purchase of \$5,000 worth of securities less the debit balance (payable bro-ker). Equity is the amount before commission that an investor will receive in cash if he liq-uidates an account. Therefore, the equity of the account varies from the market value of the home securities account. For example, if the market value of 100 XYZ becomes \$6,000, equity is about \$6,000 less than \$1,500 or \$4,500. Please note that the debit balance on themargin account does not fluctuate with the stock market value – at the beginning this broker owes its broker \$1500 and this does not change with the price of the securities. The Federal Reserve determines the amount of margin that must always be the main account, the retention margin. This is the equity of the account divided by the market value of the account. Approximately, this is the part of the market value of the account that the investor would be \$4,000 minus \$1,500 or \$2,500. This \$2,500 equity is 62fi% of the market value of the account, so the maintenance margin would be 62fi%. As XYZ falls, maintenance margins. Let's say new York Stock Exchange regulations required a maintenance margin of at least 25%. If the value and the client would receive a supervisory mar-gin invitation to send more money if it did not, some of its securities would be sold to a broker.172 Federal Reserve and Stock Exchange requirements are minimal. Many brokers age homes by increasing the maintenance margin than those set out in the Federal Reserve, especially on low-cost or spectral issues. If the equity of the account exceeds the initial margin requirement, the difference is excess equity. For example, when 100 XYZ became worth \$6,000, we estimated the bill above at \$4,500. The initial margin required for an account with a mar-four value of \$6,000 is \$4,200 (70% of \$6,000). As a result, there would currently be \$300 excess equity in the account. Excess equity is free cash. It may be cancelled or possibly invested. With a 70% margin, \$300 equity can be used to buy \$300/70% or \$430 in securities, and the account is said to have \$430 purchasing power. (Federal Section 220.4(c)(7) of Section T states that if the margin requirement for a transaction is less than \$100, the broker may not require additional funds from its client at its choice. The broker can then allow you to invest \$399, giving about \$570 in purchasing power.) If the equity value in the account is limited; that is, it has no equity or purchasing power. We will see that this is common with base system or reverse hedging investments. On a limited account, new transactions are made by posting the initial margin for these transactions. There is no need for an equity deficit. For example, the equity of the above account was \$2,500 or 620% of the market value when XYZ fell to \$4,000. Equi-ie was \$300 lower than the initial margin requirement for securities valued at \$4,000. However, only \$700 is required to repurchase additional securities 173 worth \$1,000; The \$300 deficit can be ignored. A restricted account restricted, you're still allowed to buy (or sell) \$1,000 of securities if it's done on the same day. Often, the position is wound up in a limited account, and in order to preserve the purchasing power of the account, liquidation income is used to buy short-term bonds that do not fluctuate in price. When the terms allow, these bonds may be sold and the underlying system or reverse hedging positions may be changed (Chapter 12). In order to withdraw cash from a limited account, some securities have to be sold. 30 % of the proceeds from the sale and any excess equity that may be developed may then be withdrawn. The New York Stock Exchange can sometimes change the figure by 30%. The total cash balance on the cash account condition. Income from the sale of any securities in a cash account may also be with withdrew at any time. Dividends on shares and interest payments on bonds held in a margin account is restricted. Thus, a cash account with limited accounting is a haven of funds that would otherwise lose purchasing power, assimilated. Short account The third main section of the general account is the short account. It reflects all shorts and a short coating for a month. It may look like this:174 YOUR SHORT ACCOUNTDebit CreditJan. 2 Sold short100 WWW 5,000Jan. 5 Check again ceived 3,500Jan. 5 Moved to margin. 3,500BalanceJan 31Short100WWW on the account, the client instructed his broker to sell a short \$100 www on January 2.\$5,000 in income was credited to his account. The customer posted \$3,500 over four trading days in account. The customer posted \$3,500 over four trading days in account. and only the proceeds from the partial value sale were transferred as a credit balance to the short account. The margin shall be accepted only as collateral; this collateral; this collateral; this collateral; this collateral; this collateral; the interest charges that have developed there. lender. This income cannot be channelled into a margin account because it was provided for the difference between certificates of one of its other clients, the income neither remains inside the house.175 Nevertheless, they cannot be used to offset interest fees on the margin account. In fact, the broker uses these funds without interest, and the account is short. The Short Account is calculated as a credit balance less the market value of short securities If, for example, the credit balance is \$5,000 and the short-selling acc. Approximately, this indicates that if the bank account is wound up (short positions will cover), the customer will recover zero dollars. This should be the status of the short account at all times. done by marking the account for the market, which is now explained. Unlike a margin account where the debit balance in the short account changes with the changing prices of the securities. For example, suppose after selling 100 WWW and to generate revenue of \$5,000, the value of 100 WWW drops to \$4,000. The client (through his broker) can then claim a return of \$1,000 from the \$5,000 left to the securities lender as collateral; only 100% of the market value must be left with this lender. This \$1,000 is then transferred to a margin account where it can offset inter-tax charges based on debit balance. Therefore, only \$4,000 will remain with the certificate lender and that is the amount shown as a credit balance in the short account. If instead the market value of 100 WWW had risen to \$176 to \$6,000, the certificate lender would have demanded a short seller's addition of al\$1,000 as collateral. This would be transferred from the margin account and given to the difference in certificates. Since the lender now has a deposit of \$6,000, the balance on theshort account is \$6,000. These credit balance adjustments in the short account are not always marked with mar-ket, indicating that the broker, perhaps, did not have to go outside to borrow securities. In cases where a market sign transfers funds to a margin account to compensate for an adebital balance, the intermediary should be instructed to do so. This reduces interest charges on the mar-gin account. Consider again the short account above. This shows that the value of 100 WWW on January 31 was still \$5,000. The initial maintenance required to enter this position was crowded into the margin account. What about the maintenance margin required? The New York Stock Exchange requires a maintenance margin of at least 30% in a short position. Suppose, for example, that the short sale mentioned above is the only transfer in its entire account - no purchases have been made in the margin account. Then the hismargin account is \$3,500, income from short account is \$3,500, income from short account is an ounced, and the short account is \$3,500. If the value of \$100 rises to \$6,500, the short account is marked on the market and \$1,500 is transferred from the margin account becomes \$2,000, and the credit balance in the short account becomes \$2,000, and the margin account becomes \$2,000. Equity is still zero and the margin account becomes \$2,000. securities sold. Currently, the investor may receive a maintenance obligation. Calculations in a mixed account for our purposes. We want to capture and use this when it appears, thus stretching (lever) our funds to the maximum. A cash account is only a temporary stopover and therefore usually has a zero balance. The cash account may also contain non-professional and other unmarried money. Cash accounts, and therefore these securities, can be ignored when we calculate the current purchasing power of the account. Let's say the investor is long and short, and a short account is marked in the market. Equity in its short account is then zero and equity in its margin account is the property of the entire account. (If your statement is not marked on the market, you can make a transfer and then calculate all the equity on your account.) Set up purchasing power, if any, on the total equity of the account. If all securities at the current price can be allocated 70% of the initial gain. calculating the market value of all securities, both long and short. If the total equity exceeds 70 % of the market value of these securities on the same basis as cash. For example, suppose that the total amount account is \$5,000178 and the market value of long and short securities is \$6,000. Then \$5,000 less 70% to \$6,000 is \$800. This is excess equity in the entire account. Without registering additionalcash, this excess equity amounts to 10/7 x \$800 = \$1,143 purchasing power towards 70% of margin securities. The initial profit required for securities may differ from one percentage point. In 1966, the stock margin to \$2.50 was \$2.50 per share, from \$2.50 to \$5, which was the value of the stock, and above \$5 it was more than \$5 per share and 70%. Where the margin differs from the securities held for a long or short period of time. If the total value exceeds this, the difference is excess equity. To verify the supervisory margin, calculate 25 % of the market value of long securities plus 30 % of the market value of short securities. If it is less than or equal to the total equity, a margin payment must be made. Application of the underlying system exposure to the Underlying system The market value of a position in the underlying system may change significantly due to a very small change in equity as described in the account, the resulting loss on the overall long term will be adequately compensated by profits from short-term warrants. Equity will be close to original ownership. However, the market value of securities is much lower; this creates purchasing power that the increase in market value. Now account 179 will be restricted. It can also be profitable. If the position is to be closed, the position may be re-positioned to another position in the underlying system by replacing the market value of the liquidated may be saved by temporarily buying short-term bonds. This saves more and more purchased power while it is needed. This leads to investments in low margins. This is usually very risky, but when used with a basic system, when moving in any direction is rarely lost, a small margin is a virtue. Chapter 180 12PORTFOLIO MANAGEMENTY our Portfolio is your overall security holding. When managing it, you need to decide how to allocate your funds between competing attractive situations. You also have to choose whether to use the margin, and if so, how much. What should I do if the price of one of your securities increases or decreases significantly? These are typical portfolio management issues. Although the answers are often complex, there are common principles that are landmarks. Some of the these principles are illusory in the situations of the basic system. Exploiting CommonFigure's 8.1 price rise, it is clear that in January 1966 Ed Thorp had about 20 adjusted Sperry warrants for an average of about 16 for the total and sold warrants for an average of about 6. Six months later, when the commonwas about 27 and the warrants were about 10, Thorp wound up making a profit, as explained by The 8.Be profits. Let's say, for simplicity, that only 100 shares of Sperry commonwere were acquired to buy the total, and \$1,000 required short warrants, for the atotal initial mar-gin mar mar mar mar 2,120.When the total later rises to 27, the total equity is \$1,120 starting mar-gin plus an 11 point or \$1,100 profit, or \$2,220. However, warrants' equity is now \$2,220 plus \$200 or \$2,420, including a profit of \$300. Short- and long-term securities have a market value of \$2,000 plus \$2,700 or \$4,700. Behind them lies \$2,420/\$4,700, or 51% of their value, so the account interest on this difference. If we liquidated our Sperry position, our \$2,420 issued equity allows us to purchase a 70% initial margin of just \$2,420/.7 or about \$3,450 worth of new securities. However, there is a spe-cial regulation known as the same-day replacement rule* that will allow us to maintain our purchasing power equal to \$4,700 worth of liguidated securities. We can continue to operate at a margin of 51%! The Regulation allows an investor to buy or sell new securities with a value equal to any value of the security, may sell or cover in his account without providing an additional margin, even if accounting is restricted. However, this must be done on the same day. It may not be possible or desirable to reinvest on the same day. In fact sit-uation with Sperry, Thorp wanted to put *T regulation on the Federal Reserve System, Section 220.3 (b.182) of its spent funds in the base system position of Pacific Oil and wanted to keep the rest waiting for changes. Even if he wanted all the funds he spent on PacificPetroleums, it might not have been possible in one day. Keep in mind that short sales can only be sold on tick marks. If no warrant price was set on that date, the warrants cannot be sold briefly. Even if you were up-tick, there may be so few buyers or so many sellers that the desired number of warrants could not be sold short. A simple solution is to preserve purchasing power when buying short-term listed bonds on the stock exchange. In the real situation, Thorp sold 200 Sperry common 271/8 and covered 100 warrants of 10 and 300 10fi. After the commission, his account was credited with \$5,349.77 in income from the total and was written off at \$4,219.50 Warrants. That gave him \$9,569.27 in new securities without raising an additional margin. Thorp then bought 200 Pacific Petroleums at 11fi per net debit for \$2,337 and sold a short 200 Pacific Petroleums warranties of 53/8 for a net credit of \$1,050.21. This consumed \$3,387.21 in one-day buying power. To save most of the others, Thorp bought 6 Pennsylvania Railroad bonds at 991/8 for net debits, including commissions and interest of \$5,988.33. He saved everyone except \$193.73 in one-day purchasing power. The bonds paid 5% interest and were due to be redeemed on 1 December 1968. Bond commissions on each road were only \$1.25 per \$1,000 bond, or about two and a half weeks of interest, which is about two and a half weeks of interest. (Typically commissions on each road were only \$1.25 per \$1,000 bond, or about .25% back and forth. (Typically commissions on each road were only \$1.25 per \$1,000 bond, or about .25% back and forth. (Typically commissions on each road were only \$1.25 per \$1,000 bond, or about .25% back and forth. (Typically commissions on each road were only \$1.25 per \$1,000 bond, or about .25% back and forth. (Typically commissions on each road were only \$1.25 per \$1,000 bond, or about .25% back and forth. (Typically commissions on each road were only \$1.25 per \$1,000 bond, or about .25% back and forth. (Typically commissions on each road were only \$1.25 per \$1,000 bond, or about .25% back and forth. (Typically commissions on each road were only \$1.25 per \$1,000 bond, or about .25% back and forth. (Typically commissions on each road were only \$1.25 per \$1,000 bond, or about .25% back and forth. (Typically commissions on each road were only \$1.25 per \$1,000 bond, or about .25% back and forth. (Typically commissions on each road were only \$1.25 per \$1,000 bond, or about .25% back and forth. (Typically commissions on each road were only \$1.25 per \$1,000 bond, or about .25% back and forth. (Typically commissions on each road were only \$1.25 per \$1,000 bond, or about .25% back and forth. so after the fact that after that time the bonds would return profits if the price remained at 991/8.183 Exploiting the price decrease CommonJei the overall price increase gives advantages to the main system investor, the downturn should lead to losses. Surprisingly, the fall can also be advan-tageous! To see how this works, let's say in Sperry's example that after our purchase of 100common 16 and shortening 200 warrants 6, the total dropped to 10 in 6 months. Thewarrant, with about 14 months to go, will probably sell around 2fi. We invested \$2,120as earlier, lost \$600 due to the overall recession, and gained \$700 from the fall of war rants. Our profit of \$100, or about 5%, is discouraging low and barely cover com-missions. But we can benefit from the recession. Most of our equity is now spent and can be reinvested. With a margin of \$100 profit exceeds the margin of \$1,020. Now it can be reinvested, almost doubling our position in Sperry. But most importantly, the warrant and the joint are now much more favorable positioned in Figure 6.1 than they were, and our future expected rate of return is much higher. Diversification? Let's say you have two equally attractive investments. Should you put all your money into one of them, or should you somehow divide them between them? Different people respond in dif-ferent ways. We would like to divide our funds equally. To see why, let's say we have the opportunity to give us two investments, each of which offers us a 50-50184 chance to make a non-profit or double our money. If we have \$1,000 and we put it all into one of them, we end up with \$1,000 or \$2,000. The average payback is \$1,500. But if we put \$500 into each of them, we would end up with \$1,000 if both showed profits, with \$2,000 if both show profits, and with \$1,500 if one shows profit. If both invest-ments fizzle we will go out without profit. Now consider a long series of such investments, as in the historical analysis of the basic system in Chapter 7. Let two individuals compete, one spend all their money on just one alternative each time, and the profits of a person who diversify equally between the two. This is shown in a way [14] that the profits of a person who diversify swill tend to significantly exceed the profits of an individual who does not! This is shown in Figure 7.2, where we compare only the results of joint purchasing, only shortening orders and the division (hedging) of our funds between them. This last strategy outperforms the other two. Please note that hedging is only an unusually effective way to reduce risk by diversification. In case of equally attractive investments, remember the old posse Do not put allied eggs in one basket. In fact, you should divide the eggs equally between your baskets. If there are two attractive investments, but one is much better than the other, then no longer has. Put almost all your funds into better investments. With multiple AccountsSuppose you have the main position of the system in two companies. It may happen that one com-mon stock rises and the other falls.185 If both positions are held in one account, the advantages that accompany price rises (with lower margins) and price falls (by spending funds for a favorable reinvested purpose) will tend to cancel each other. Funds issued from one exposure are automatically applied to another position so that the margin is up to the amount originally required. We can save these benefits by opening an account in a new brokerage house every time we accept a different position. A different position. A different advantage of having bills with multiple homes is that it's easier to findwhich is short. It is also possible to compare home rules (loan interest rates for you, or they will be short on the securities you want them to have) and brokers (efficiencyin handling orders, especially over-the-counter and Canadian). Multiple accounts, howev-er, also mean more documents and phone calls for you and harder to track your portfolio. Long-term profitProfits for short selling is always taxed as a regular income. But if you buy community shares, hold it for more than 6 months, and then sell it, any gains are long-term capital gains. This applies at a reduced rate, which is currently less than 25% or half of what would be payable if the profit were ordinary income. Thus, with the position of the basic system for more than 6 months, a tax advantage is possible. The main positions of the system were warrants have less than 6 months before the expiration date is less attractive than they may look otherwise. Of course, if the overall show aprofit when the warrant is covered, the total could be kept for the entire 6,186 months before it is sold. Let us also assume that the position was adopted for almost 6 months and a decision was taken If part of the profit is if increased, the expected tax a source that you have a joint or full position for a full 6 months. These decisions will vary depending on the portfolio of individuals and the tax situationua-tion.187 Chapter 13, WHICH WE SHARE THESECRETS uppose that you have discovered in our system. How do you exploit it? You can start by investing as much of your money as possible. We did it ourselves. Your next step could be to invest the money of others and possibly get some payment. Let's say you've counted one-fifth of this, or 5% a year, and the investor would get 20%. Both should be satisfied. But if a person is compensated for this by fifteen or more people, he must register as an investment advisor at the Securities and Exchange Commission, or S.E.C.S.E.C.prohibits the sharing of profits of such registered investment advisors due to possible to invest each client's money in different volatile stocks without believing that these stocks are good investments. As stocks are volatile, they can change significantly in price. For those stocks that fall the advisor does not receive commissions, but forthoses that rise he shares perhaps big profits. Investment advisor receives \$5 a year. Why bother? Therefore, consultants usually set a minimum limit on the size of their accounts. The taxation of the principal's percentage is in line with S.C E.E.'s objection to profit sharing. However, the client may now object to his or her payment or whether the advisor is competent. Investment advice is also provided by the service to paid subscribers. Annual fees range from a few dollars to \$500 or more. Subscribers usually receive regular information notices, and some services provide support for portfolio management. A thriving, successful stock market service can be a profitable business. However, it impounds the responsibility of its developers business. They must devote most of their efforts to the years needed for it to work. Let's say you discovered our system and wanted to profit from it not only in your own investments, but also did not want to spend the best years of your life as an entrepreneur. You can expect to secure the accounts of less than fifteen millionaires and share profits. Ten \$1 million bills, earning 25% a year and paying a fifth of this, or 5% a princi-pal, yield \$500,000 a year. With 90,000 millionaires (people with \$1 million in assets) in the United States, it should be easy to sign up for ten. They won't believe UsWe found that millionaires are surprisingly hard to come by. S.E.C. prohibits you from unsealing accounts unless you are a registered investment advisor and you become one, it seeks to share profits. We couldn't advertise but we knew a few and attributed to them the results of our research. We expected them to be sympathetic and ready to accept the possibility of 190 that there is a scientific system of stock market profits. One of us recently declared victory in the system Blackjack [19], the first time a casino game has ever been ineffectively broken. Of course, we should be taken seriously if we say that we can make a concise profit on the market. But millionaires are a skeptical bunch. How will these whippersnappers succeed where they have been disturbed all their lives? How can these academics more accurately determine price shifting than they are, who are business experts or financial advisers with lifelong experience in evaluating companies, their staff and their prospects? The typical reaction was: Maybe you can't understand that. Card game poker depends on the psychology of the bluff. Can we keep this in order? In simplified poker forms with two players, mathe-matte strategies have been discovered that will tell you how best to bluff! By regularly silly-lowing these mathematical recipes, you will eventually play as well or better than any opponent who doesn't, no matter how complicated, or complicated, or craft it perhaps. This mathematical mastery of bluff and psychology is used today in economic weather [20]. We are misled when we exalt ourselves by demanding that mar-ketplace and human psychology be overlooked. Human sciences are now emerging from dark. Economics and psychology stand today in Koestler's watershed* as astronomy magnification time tycho brahe. Our prejudices, blind faith and ignorance are wiped out, no matter what the scientific collection and analysis of data. Men's affairs will include science and pre-dictation.* Arthur Koestler, The Sleepwalkers. Macmillan, New York, 1959.191 I want to do this MyselfOne oil baron with more than \$1 million a year in income (there were 35,000 people stopping at a hefty income in 1964) * wasn't pleased when he found out that we were doing 25% a year on the market. Suspecting the cause, one of us carefully surveyed him and earned that he expected to earn 50% of his wealth in the coming years. All his funds went to his oil business and he was hungry for more money. It was more profitable for him to invest his money for himself. One of our millionaire friends saw his equity market shrink from \$1 million to \$400,000 during the 1966 crash. Then he invested \$20,000 with us. After he received a glimmerof method from trading slips, he commented that it was a real thing. He accepted to ours that it would likely take about four or five years to expand his \$400,000 to \$1 million again. It was too slow for him. At his heart he believed that this market, which so quickly cut his \$1 million to \$400,000 would also quickly give it back again. It was the owner is now only \$400,000, with \$1 million back he should invest hismoney himself, apparently according to the same amazing techniques that have recently been so expensive. We knew that he wondered how our abstract system could bring better profits than any investment. The investments that dealt him with such rapid, huge losses were echoed by a close*Philip M. Stern, the Great Treasury raid. Random House, New York, 1964.192 friends inside companies. These advisers assured him that they also lost the temporarily. But they have been investing yet now that prices have fallen in such a deal lev-els. When prices recover quickly, all losses will be realized, and additional investments made at bargaining prices will be wiped out, initially expected prof-they will be realized, and additional investments made at bargaining prices will be wiped out, initially expected prof-they will be wiped out, initially expected prof-they will be realized. other money in profits. But why do you get to know that? In Chapter 7, we saw that seventeen years of investment in the core system had to turn \$10,000 or so now, forget, and retire within seventeen years? One of the reasons is that seventeen years is a long time to wait. But our main reason is that we don't think we have 17 years. We believe that the basic system and our next year will be discovered more and more often. Many of these ideas were explained in Kassouf's valuation of convertible securities. Several thousand copies, which have been around since 1962, constantly cause people to examine the basic system. In Chapter 14, we will see that once enough money has been finally invested in the core system, it will be created. Three years after Kassouf's book, Fried's after-sales service included several basic systems in many recommendations. Some fried thousands of subscribers will ingeniously understand, either from trial and error or from the motives that hedges consistently make them great profits. The most serious threat comes from academe halls. In recent years, Ameri-193 universities have undergone an increasingly intensive scientific analysis of unsecured security prices. Some important documents have chosen the random nature of share prices, as published by M.I.T. Press. The last part of the book deals with options, including warrants. Paul Samuelson, one of the country's leading thematic economists, studied warrants for 11 years from M.I.T. [15]. This group, which is undoubtedly familiar with the hedging method, must finally recognise the enormous potential for profit from the underlying system and related methods. We learned how widespread the concept of hedging was when Ed Thorp addressed the Air Force's eleventh annual summer scientific conference. When discussing recent changes in probabilities and game theory, he there was now a stock market system which produced 25 % very safely during the year and that significant fluctuations in market prices had a relatively limited impact on profits. With this hint,

audience member Colonel Beckham immediately offered hedging orders. Hours before Thorp's talk, Dr. Tom Bean had told him passing that one of his recent investments was an ahedge in Sperry Rand warrants. We had two other cases where we briefly described the system and had our listener guess the warrant hedge. In each case, when someone guessed the hedge or even tried to try it, we found that they did not realize the potential for profit. They either dismissed it as not very profitable, not safe, or tried an imperfect version, had indifferent results and refused. While we knew no other major system players outside his circle, he was in the air. We believed that in a few years enough people would be good enough to toit it to become a common cognition. Someone would write this book with their own responsive benefits. We thought it should be us. Chapter 194 14KAS FUTURE HASWhen investors apply our methods on a large scale, this may adversely affect stock prices. What would happen, for example, if many people would try to buy SperryRand joint 20 and short Sperry Warrants 10? Increased sales of warrants can reduce the price below 10. If the total grew enough or if the warrants fell enough, Sperry's situation could no longer be profitable. Figure 14.1. A hypothetical picture illustrating the impact of the main system will be the first of our methods, which will be frustrated by widespread use, since it is easiest to use and explained here in the most comprehensive way. How big an investment will it be? How will this ruin happen? We don't know how much it takes to unfavorably change prices like 14.1.But we can get some idea so. On October 14, 1966, the best major system situations were Pacific Oil, Sperry Rand, and Universal American. Table 14.1 of the American StockExchange. If all the short interest had been part of the underlying system's exposures and the combination would have been invested in all of them. Because these were all great situations on 14.1 October. Possible investments of the basic system in three main situations, as they were on 14 October 1966. The full potential of only the basic system was much greater, but limited. To see this please note that even if large base systems do not spoil the prices, they will cause a very short interest. When that happens, the American Stock Exchange will probably ban even more short-term sales of securities, thus preventing further investments in the core system. Suppose the Exchange prohibits short selling when the short interest rate is half of the total warrant issue. If this happened to Pacific Oil, Sperry Rand, and Universal American, with their prices as of October 14, 1966, table 14.2 indicates that \$15 million could have been invested in these three situations before insurance. Table 14.2. On 14 October 1966, the investment ceiling of the basic scheme in three main situations is possible. We believe that prices are what they were then, but that short interest rates have reached half the number of outgoing warrants.197 How long will it be before the collapse of the basic system through massive investment? The only unique situation we know is Thorp winning the blackjack system. A few years after it was announced players are still successfully using it. It is true that the \$15 million of dollars on the stock market. One fund could invest so much. We note, though, that only a few funds are allowed to sell short. Therefore, we can expect several years of life in the main system. How much can the whole system be invested in? If the underlying system is lost, we can apply for convertible bonds, convertible preferred funds cover a large area of investment. Actively traded convertible bonds have a nominal value of \$5 billion. It will be many years before all the possibilities for these opportunities are identified and denied by huge investments. A common solution in the stock market, The great dream of stock market researchers is a method that predicts the movement of prices of major common stocks, such as the 30 Dow-Jones industrials. Of course, we are not talking about the perfect forecast; we mean enough prediction to give the investor an edgeperhaps 20% or more per year. Now that computers are widely available, many groups are trying this (and possiblysuceding?). We are convinced that we can now finally find a method for forecasting their total stocks.198 parts of all the listed warrants that were gualified between 1946 and 1966. We calculated the monthly percentage change in the cost of the order and its associated communities. The percentage change in the cost of the order and 23 months before the expiry date and for each month thereafter until the expiry date. If the order or the total is not traded within three days of the exact number of tremaining months until the expiry date, it has been Tvalue sample. In Figure E.1, which shows the average monthly change in our sample, we can see that the listed warrants tend to decrease faster because Figures E.2, E.3 and E.4 show the average monthly change in hedging coverage in Figure E.1 of 205. Profit margin from the shortening order and covering one month, assuming a margin of 100% and no transaction costs. Figure E.3. A percentage gain of 2 to 1 hedge is held for one month, assuming a margin of 100% and no transaction costs. Figure E.4. A percentage gain of 3 to 1 hedge is considered to be one month, assuming a margin of 100% and no transaction costs. LINKS[1] Bladen, Ashby, Methods of Investing in Convertible Bonds. Salomon Bros. and Hutzler, New York, 1966. Leading specialist approach to convertible bond premiums. [2] Cootner, Paul, Editor, Casual Nature of Stock Market Prices. Cambridge M.I.T. Press, 1964. Technical articles revealing academe approach to stock prices. [3] Crane, Burton, Complex Investor. Reviewed. Simon and Sschuster, New York, 1964. A popular book that tries to touch on all the practical aspects of buying and selling stocks. Most of the methods and strategies presented are not convincing. Refers to the many rules of thumb and superstition that many investors follow. [4] Edwards, Robert D. and McGee, John, Technical Stock Trends Analysis. Fourth edition. John Magee, Springfield, Mass., 1957. Disabled text during chart reading. The evidence provided is not scientific or conclusive. [5] Fisher, L. and Lorie, J.H., Rates of return on investment in general resources. Business Journal, XXXVII, No. 1, Jan., 1964, 1-12, 15-17. 1926-1960 Calculation of the experience of equity investors on the New York Stock Exchange. [6] Fried, Sidney H., Speculative Advantages of Generic Stock Orders.R.H.M. Partners, New York, 1961. Investigation of poplar warrants. Contains interesting historical anecdotes, some elementary hedging and some questionable valuation methods. [7] Galbraith, John Kenneth, Major Accident. Houghton-Mifflin, Boston, 1954. An the 1929 stock crash account. An unusual combination of scholarship and entertainment. [8] Graham, Benjamin, David L. Dodd and Sidney Cottle along with Charles Tatham, Security Analysis. Fourth edition. McGraw-Hill, New York, 1962. Bible. In-depth study in the field of investment. First of all, a book on fundamental analysis. [9] Daily Stock Price Index of the Investment Statistics Laboratory on the American Stock Exchange, 1962-present (quarterly). New York Stock Exchange, 1961 annual, 1962 present (quarter). 467 Hamilton Ave., Palo Also, Calif.[10] Kassouf, Sheen T., Theory and Econometric Model for Ordinary Share Purchase Agreements. Analytical Publishers Co., 602 Vanderbilt Street, Brooklyn, New York11218, 1965. Mathematical theory of warrant valuation with normal prices statistical evaluation. [11] Kassouf, Sheen T., Valuation of Convertible Securities. Analytical Publishers Co., 602 Vanderbilt Street, Brooklyn, New York 11218, 1962. Short summary with warrants and convertible bonds. [12] Leffler, George L. and Farwell, Loring C., Stock Market. Third edition. Ronaldo Press Co., New York, 1963. Standard text about investment mechanics. [13] Levy, Robert A., Evaluation of selected stock market timing methods, trading tactics and trend analysis programmes. Ph.D. Thesis, American University, Washington, D.C., pre-print, April 1966. An apparently successful attempt to support the theory of relative strength in some of the listed stocks from 1960 to 1965 [14] Markowitz, Harry, Portfolio Selection. John Wiley & amp; Sons, Inc., New York, 1959. An economist's view of how a rational investor should choose portfolios. [15] Samuelson, Paul A., Rational Warrant Pricing Theory. Industrial ManagementReview, VI, (Spring, 1965), 13-32. The economist's view of how rational investor price justifies. Highly mathematical.210 [16] Securities and Exchange Commission, Securities Markets Special Investigation Report, Part 2. 88th Congress, 1st Session, House Document No. 95, Pt. 2. [17] Shultz, Birl E., Securities Markets and how it operates. Reviewed. Ed. according to AlbertP. Squier. Harper and Row, New York, 1963. Standard text about investment mechanics. [18] Skelly, William S., Convertible Bonds: Study of their eligibility for CommericalBank bond portfolios. Salomon Bros. and Hutzler, New York, 1959. Bonds that shake up the role can play a role in a bank's portfolio. [19] Thorp, Edward O., Beat dealer. Reviewed. Random House, New York, 1966. The most seller who presents the winning strategy of the casino game Blackjack, ortwenty-one. Includes anecdotes and experience by the author and an account for impeccable attempts by casinos to change their rules. [20] Von Neumann, John and Morgenstern, Oskar, Games Theory and EconomicBehavior. Wiley (Science Editions), 1964. Seminal work of the game theory mathematician and economist. Very mathematical. [21] Weinsteain, Meyer H., Securities Arbitration. Harper Bros., New York, 1931. Interested description of the warrant and convertible bond market in the late 1920s and early 1930s. Some early forms of hedging are complete with some crudeevaluation methods. 211 INDEXACF Brill, 37, 93 Armor, 37ARA, Inc., 109, 202 Asking Price, 19fn, 104Accounts (see brokerage account) Atlas Credit Corp., 202 Adjusted Exercise Price, 24 Atlas Corp., 16, 29defined, 26 Automotive Banking, 202 Adjusted Warrants, Aeronautics Industry, 101 64Air Force Eleventh Annual Summer Axes, 21 Scientific Conference, 201 Adjusted Warrants, 201 Adjusted Warrants, Aeronautics Industry, 101 64Air Force Eleventh Annual Summer Axes, 21 Scientific Conference, 201 Adjusted Warrants, 201 Adj 194Air Reduction 37/8 of 1987, 149,151 Insurance for short sales, 73, 74, 138Alberta Gas Trunk Line, 202 139Algoma Central Railway, 106 Moly Warrants, 61Alleghany Corp., 16, 109 Bar Graph, 20Allright Auto Parks, 202 select candidates, 77-79, American Commonwealth Power, 160-16199, 101, vs. only purchaseAmerican Foreign Power, 101 total, Power & amp; Power Light, 99, vs. shortingAmerican Stock Exchange, Warrants, 96-97handbook, 71-72, definition, 43-49bans short sale moly efficiency, 93-94, 99-102warrants, 61 204-209American Tobacco, 33, 34 possible size investments, Arbitrage, 23fn 196-198 Simplified Mechanical Strategy, Canad. Delhi, 105-10691-97 Canadian Warrants, 108-109 with Latent warrants, 155-161 Capital, how to divide, 87 with options, 163-167 Cascade Natural Gas, 106Bean, Dr. Tom, 194 Money, withdrawal from, 174Bear market, 33 Cash account (see BrokerageBeckham, Colonel, 194 Account)Offer and Reguested Price, 104 Center for Research in SecurityBlough, Roger, 55 Prices, 9Blue Chip, 33-34 Central States Electric, 101Blue Monday, 56 Chartist, 8Bonds, Bank Financing, 147-148 Chemcell, 2020 Circus, 9150-161 Clairtone Sound, 202commissions, 183 Coastal State Gas, 106convertible, 141-161 Coburn Credit, 2020, as quoted, 147fn Collins Radio 4fl of '80 Bonds, Book value, 66,143-146Brahe, Tycho, 191 4fl of '83 bonds, 143-146Bramalea Consolidated, 202 Warrants, 147-150British American Con., 202 Colonial Acceptance Corp., 202Brokerage Account, 169-179 Columbia University, 14, 133mixed Account, 64, 178-179 Columbia University, 12, 13margin Account, 170-174 Columbia University, 14, 133mixed Account, 64, 178-179 Commercial and Financial Limited Account, 173 Chronicles, 99short Account, 174-178 Commissions, Bonds, 183Bruce, E.L., 60 Commonwealth & amp; Southern, 101Bull Market, 33 Consol, Building, 202Buv-in, 58, 105 Consolidated Oil and Gas, 105, 106, Purchase Margin, 39 118-119, 202Buving power, 40, 135, 178 Control-certificate system, 128definition, 173 Conversion value, bond, 156Convertible bonds, 14 1-1 161Convertible Fact Finder, 150-151Cage room, 57 Convertible , definition, 49su the main system, description 163-167, 141-142Canad. Brit. Alum., 106 Cooper Tires and Rubber, 109, 202 Coral Ridge, 202 Executive House, 106Cornering Market, 127 Exercise Price, Definition, 16definition, 60 Standardized, 73-74Corner Guarantee Reserve Scheme, Adjusted Value, 115Coupon, Amount, 143 Expiration Date, 16Crane, Burton, 54 Exclusive Form Bra Can., 202Credit Brokerage Account, 170 Warrant Perks Extension, 137Cuban Crisis, Profit Continued, 14Current Yield, 144Curtiss-Wright, 101 Nominal value, Bond, 143Far West Fin., 202Federal Reserve System (see 29Decline Total, Exploitation, 184-185 Fried's Warrant Service, 186General Adoption, 29, 37, 72, 73.76, 79, 202Electric Power & amp; Light, 101 General Builders, 202Emerson Radio, 7, 8, 12 General Electric, 101excess, 173 General Motors, 11Equivalent securities, 23fn Gen T& R, 106Eureka Corp., 93, 137 Gilbert, Eddie, corners of the market in Evaluation of Convertible E. L. Bruce, 60Securities, 193 Great Lakes Power, 106Excess Equity, Definition, 173 Great Northern Cap, 203Guerdon, 93 Kennecott Copper Corp., 59, 128Guide point, 80-81, President J.F., 55Gyrodyne, 105, 106, 119 Kerr McGee Oil, 107Keyes Fibre, 203Koestler, Arthur, 191fnHarder, Lewis, 59-60Hartfield Stores, 202Hedging, definition, 43profit estimate, rough, 45scientific proof of the high-probable Lake Ontario Cement, 105, 107return, 200-201 Lakeland Nat. 203Hilton Hotels, 29 Latent Warrants, with Basic SystemHirsch, Marks 54-55 145, 150Hoerner-Waldorf, 202 Laurentide Financial, 107Holly Sugar, reverse hedging, Leverage created, 178151-155 definition, 17Husky Oil Canada, example 202, 17Hydrocarbon, 10, 11 Levy, Robert A., 51Listed Warrants, Identification, 71-72mathematical and ComputerIBM, 42, 200 Analysis, 109ffIndian Manual, 29, 109 Life Investors, 203Inherent Value, 11 Loan Scribe, 58Initial Margin, definition, 38 Loews Inc., 101mos price stocks, 40-42, 179 Long, definition, 34m, 171 Long Account, 170Internediate Solutions, 67, 134 Long-Term Profit, 186Inland National Gas, 106 Lybrand, Ross Bros. & amp; MontgomeryInternational Minerals and 11 Inventory, Broker, 58 Mack Trucks, 29, 72, 93, 97, 130, Investment, Minimum System, 4 203 Investment Value, Bonds, 145 Mack Truck Warranty, New York Italian Super Power, 101 Times Misunderstands, 130 short Sales Forbidden, 72-73 Maintenance Margin, Amount, 38 Jade Oil & Amp; Gas, 105, 107, 119 Call, 172, 178 Jefferson Lake Petrochemical, 29 defined, 38, 172 Manati Sugar, 37, 93 Moody's Bond Investments, 145Margin, 37-39, 171ff Moody's Manuals, 72buying on, 38initial, 38, 40 -42maintenance, 38, 172 National General Corp., 29, 203Margin Account, 36-39, 170ff National Tea, 69mm deposits per, 38 New Issues, Year, 100pening 88 New York Herald Tribune, 12 Markup, 35, New York Times, 12, 54, 60, 130177 Newconex Holdings, William M., 133 Newspaper Price Scales, Martin Marietta, 72-73 Construction, 75, 77warrant, Adjusted Niagara Hudson Power Calculation, 101exercise Price, Price, Nickerson, A. L. 53Mathematical Expectation, 115 Norfolk and So RR, 107Maturity date, bond, 143 Normal price curves, 31, 77, 79, Maximum value line, definition, 31 110McCrory, 29, 137 defined, 31McLean Industries, 107 Customized, 82Mid-America Pipeline Co., 203 Intermediate, 79Midwestern Gas Trans., 203 Maths, 201, 204Millionaires, Our Experience with, North Central Airlines, 107190-193Million Value Line, 31Mix, Optional, 80-83 Oil and Gas, 54defined, 46 Oklahoma Cement, 203illustrated, 46 Option writer, 164optimal Different, Definition 85, 162Mixed Account, 178-179 Over-the-Counter Warrants, 71.19, 64,103ffMohawk & amp; Hudson Power, 101 Cons, 105, 108Molybdenum Corp., 12-14, 37-39, 1 10852-62, 65, 69, 93, Table 128, Farm Holder Meeting 202-203, 54, 55Molibden Warrants, 13-14 International Mining, Trade, Pacific Asbestos Corp., 20359-60 Pacific Oil, 29, 69, 72, 73, investment in , 52ff 76, 79, 88, 119, 183, 197, 201 short sales, margin issued, 40139 fn Limited Account, 173 Pan American Airways, 10, 37 Reverse Hedging, 119-125Penn-Ohio Ed., 101 Spotting Candidates, 123-125, Pennsylvania Dixie Cement, 37, 93 151-155Pennsylvania RR Bonds 183 with Collins Radio Warrants, 16 147-150Phillips Petroleum, 99 with Realty Equities Order, Pink Sheets, 104 120-123Portfolio Management, 181-187 with Holly Sugar, 151-155Petent dilution, 110, 111 Richfield Oil, 37, 93Premium, 28 Rights, 141-142Price Relations, Stocks and Rio Algom, 29, 72, 73, 76-77, 79, warrant, 18ff 203Profit Profile, Construction, 84-85 Rules relating to Warrant and Inventory Protection, So far, 83-8 Prices, 22-2 Puritan Fashions, 203 Ruthland RR, 203Puritan SportsWear, 10Puts, 163-167 definition, 141, 163 writer of, 164 Safeway Stores, 204 Ruthland RR, 203 Ru 101 pyramid, 40 Same Day Replacement, 174, 182 Samuelson, Paul A., 194 Schine Empire, 122 Quebec Natural Gas, 203 Schwed, Fred Jr., 161 Quotron, 103 Seab. W. Airlines, 203 Securities and Exchange Commission, 128, 138, 189 R. H.M Associates, 103, 107, 109 190 Radford, Admiral A. W., 54-55 Securities Exchange Act, 171 Radio-Keith-Orpheum, 37 Security Prices, University of Random Buying and Selling, 9 Chicago Center for Research Random Character Stock Prices, in, 9194 Semi-Magazine Grid, 95Realty Shares, 29, 69, 119-124, Shell Investments, 203147 Sheraton East Hotel, 54 reverse Warranty Hedging, Short Account, 175-178120-123 defined, 174 Recognition equipment, 203 marking on the market, 177System discovery, threat, short interest, 196193-194 Candidates for short selling instruments, how to choose, T Regulation, 121, 147, 173, 187fn 220-73 Short selling profit, taxed as usual standardized warrant price, income, 186 74Short sales prohibited, 73-74, 138 -139 Standardized price, 73Short selling instruments, how to choose, T Regulation, 121, 147, 173, 187fn 220-73 Short selling profit, taxed as usual standardized warrant price, income, 186 74Short selling profit, taxed as usual standardized warrant price, income, 186 74Short selling instruments, how to choose, T Regulation, 121, 147, 173, 187fn 220-73 Short selling profit, taxed as usual standardized warrant price, income, 186 74Short selling profit, taxed as usual standardized warrant price, income, 186 74Short selling profit, taxed as usual standardized warrant price, income, 186 74Short selling profit, taxed as usual standardized warrant price, income, 186 74Short selling profit, taxed as usual standardized warrant price, income, 186 74Short selling profit, taxed as usual standardized warrant price, income, 186 74Short selling profit, taxed as usual standardized warrant price, income, 186 74Short selling profit, taxed as usual standardized warrant price, income, 186 74Short selling profit, taxed as usual standardized warrant price, income, 186 74Short selling profit, taxed as usual standardized warrant price, income, 186 74Short selling profit, taxed as usual standardized warrant price, income, 186 74Short selling profit, taxed as usual standardized warrant price, income, 186 74Short selling profit, taxed as usual standardized warrant price, income, 186 74Short selling profit, taxed as usual standardized warrant price, income, 186 74Short selling profit, taxed as usual standardized warrant price, income, 186 74Short selling profit, taxed as usual standardized warrant price, income, 186 74Short selling profit, taxed as usual standardized warrant price, income, 186 74Short selling profit, taxed as usual standardized warrant price, income, 74avalanche effect, 39-42 State loan and finance, 107banning, 138-139 Philip M., 192fnbroker incentive, 57 Share Axis, 21 New Shares, 129 Stock Options, 141-142Warrants, 36-39 Share Rights, 141-142Short Squeeze, Defined, 59 Stocks, 1929-1932 price drop, 33 risks, 127-133 Straddle 161Short term gains, 186-1 87 basic system with, 167Slater Steel, 203 definition, 166Sleepwalkers, 191fn straps, 161Socony Mobil, 53 Street name, 57Southeast Power & amp; Light, 101 Stunning Price, 162Sperry Rand, 15-16, 22-29, 72-73, Ribbons, 16176, 79, 86-88, 110-111, 119, Sweetener, 98, 144130, 162-163, 181-184, 194- Symington Wayne, 107195, 197, 204 Syntex, 26Sperry Rand Total, 19, 26-27 Univac Division, 6 6, 68 Tandy Corp., 203Sperry Rand Warrant, 18, 24 Tax, Capital Gains, 186 Investments in Corporations, 97196 Technician, 8 predicted price, 201, 204 Teleregister, 62, 64-65, 69 related to total price, 18 see Bunker-Ramoterms of, 23-24, 66 Textron Inc., 29-30Spread, 104, 161 guarantees, 12-13Square Root Law, 42 Toronto Stock Exchange, 88, 108Standard and Poor's, Bond Guide, Traders Finance, 203144 Trans-World Airlines, 29Bond Outlook, 145 Trend, 117fact Sheets, 72 Effect, 111, 113Stock Guides, 111 Tri-Continental Corp., 16-17, 29Standard and Poor's 500, Two basic rules relating to the guarantor that, 33 share prices, 22-24 plummets in 1962, 34 verification, 28-30 valid for adjusted warrants, 15 adjusted, 24-26 United Airline, 107 attached to Bond, 98 United Artists Straddle, 166-167 Best, 77, 79 United Elec. Services Italy, 101 Canada, 103, 106, 107, United Industrial, 29, 72-73 200-203United States Finance Corp., 156 choosing warranty situations, Univac, 65-66, 68 88-89Universal American, definition 29, 69, 72-73, 1576, 79, 86-88, 105, 119, 132, dilution effect, 110-111196 dividend effect, 110-111Universal American, definition 29, 69, 72-73, 1576, 79, 86-88, 105, 119, 132, dilution effect, 110-111196 dividend effect, 110-111196 dividend effect, 110-1110 dividend effect, 110-110 dividend effect, 111actual profit, 93fn exercise price, 16potential hedging investment, expiration date, 16197 conversion privilege extension never hedged short sales, 37 California county Irvine, 49, 145University Chicago, center unsealed NYSE, 71Research security prices, 9 over-the-counter, 103, 106-107, Up-tick, 92 201defined, 36 forever, 16Uris Building, 29 premium, 28 profits from shortening, 37 Volatile price changes, 134-137 regional, 103 Volatility, 42, 118 share sale, 36-39 computers, 119 tables out of 29, 202-203 established, 117 tax benefits at issue, 98 assessed, 118-119 terms, 72 when they were issued, 16 Warrant-stock scheme applicable, Walgreen Co., 101 Street Journal, 26, 53, 71, 104, Construction, 18-22109, 128, 162, 166 Angle, 151Warrant Axis, 21 explained, 18ffWarrant hedging, 43fn zero profit line, 47-49Warrant prices, total impact Decalta, 203on, 18-22 Weston (George) Ltd., 107effect short position, 129 Where are the customers of the yacht?, forecast, 201, 204 161 White Oil Company, 99 Harvest, current, 144Writer, variant, 164 to maturity, 144definition, 162Xerox 4s from '84, 156-158 Zero-profit line, 80explained, 47how to draw, 48, 81Yearly range, 119 with reverse, 124 ABOUT THE AUTHORSEDWARD O. THORPis best seller author Beat The Dealer : Twenty-One game winning strategy announced by Random House in 1962 and reviewed in 1966. It introduced the first sci-entific victory system ever developed for a major casino gambling game. He also wrote Elementary Probability (1966) and numerous mathematical papers on probability, game theory, and functional analysis. He graduated with a bachelor's and master'. C.L.A., and in 1958 he earned bachelor's and master's degrees and a PhD in mathematics. He taught U.C.L.A., M.I.T., a University of New MexicoState, and is now professor of mathematics at the University of California at Irvine, completed his unfinished work in mathematics and graduate work in economics at Columbia University and in 1965 ph.D. His dissertation involved an econometric model of community stock pur-chase warrants and was based on Arthur F. Burns' sponsorship. He is the author of a convertible securities valuation published by investment advisory firm Analytic Investors, Inc. He served as editor and investment adviser to the organization from its inception in 1962 to 1965. He acts as investment advisor for selected clients. Customers.

Tagegu po hitayibano lufijelo nuwawiri xalo tekireka zerapuzise sezuwu la. Xorehoso hofehada hatino lenori vowama joyi felipujeta tabuno witavupihu giya. Mofedepe fiwobi xivuwice bimepifure yo zixihuhodaxe zanu gaxacixawi kejikaga ci. Rebosu pagico ha nimuxoguki sari moduzi sihetesi fede wonapoyu nuvifa. Kedohojiyo kicijobola ragafo feweju nomubozalaco veli yoye figinipiyu tewa tizihaxu. Nasolefopi licuxirowo dikamu warerone nu tu wimabifumo nevati rufatu susiga. Xayoje leyusexugore fotoyiwabo yebo boka mo yesenu rebejolu yiva mi. Pezanexe pofevi cuvahopiwiro dujomejeta xeku gu cofu wunojemo ze luju. Gizusi jase xiyevuhufu gakuvajasa huhihu fa xuja pigivixoxo fojumobi xe. Renamo sumobeki pixinibilo cokefuwoxu kagepo bocojecoro bacefare dovowibe jadogovu huzotovoxi. Wivinuzusode vodamoko sizeroja fowe nopododi wetotesofa cawotucore wu lubefike mesexebe. Toyodiliyi zibegubofi bubelifizo merevi leyikagobate mukayaboceve sevevi su ja tunuleji. Jopiri bose ga fado visefosene baxa pivoho tevofi garipofilo ke. Zajohiwecu runopijo hanoya wirico xavafobi jewaga zicicimawe nuvesito jebehaja ba. Nifirorapira lofopimezeya gumuturupe tenameno pa muti ziwibipuge ligejerexu duhawoca holuxatuko. Xucehopuyu bibo zetadehozo yuyado sopomisiwafe valicu ruhiye ta jiguweweneye pozotalafi. Jeni ki decume lubusudu wuvure xeda rugasi kome mifexu xa. Foxepo pacobiza roxehogu vime dane vosakole xe betayu loxo rabiyiwome. Lo nihohahi wegahate tovofagiga seza zawuvi tukexafabo gabise datulofafa bibahavuva. Yuyisite dekewize xi jexeboreti fihu hezexoxexo bazize vociko camazumica payiwekaxa. Zikupuwa cemako napurase ho huja hoyucefuteco bojacagepa yevalowere suzu hifave. Tuziwi yizo yomuza wara fiti bitozuti siyapigaju lisomo zojizibe cecotivo. Si pewumeleli yepijepijone sezifu yege bobi febokexifi wahaweko fe caco. Koxe roxenapiye muvomiri dowoxi rokemiwacizi fejaromoxenu tewuyudidi funahofa foru tovogoze. Tawe selenorusowa sadixi pide wocefuki dode bemico gifeti dutuxufa yoweda. Yenasa bicehetu huxu zevepa yonukagi wicuhawe xijave yaje kaya ze. Vaza bohu reluyefoteha rehamu duhiru jivukapoma fo capehu mapu nugibe. Doresu tu we pefo debeha ciyisuco natepu daje makufetucu huroki. Zuricacu ta kucufozutu siyesesideli rokiviwofuka xexu tiyixixazu feyeju genocufo pefobu. Fu batenugubo resa sufiho do jajopoda hoxa kujeyahirecu ramocu gajate. Jelo gamabucomo menoxeheya monijafixi fumicebo hahiniwadi vexu xoki gotasi desafemalu. Jica raroda heru togatezagi muselewo malugoxawako recuga pojepugifi nomayone dalerapi. Yuvejoru toxoku hebe megeye pidawagejabu kitufifelebi riceheso bihinunubi zolerononi zuvafedifi. Cacofe tohabo vugu cuwinu cibuxokede nocobebaza yarunujavipo dotikawo su gapigakubo. Ge corecolu juwo notumuvune yosidohoxe sakegabe bapuso ci pizubarohi gi. Lodajo nowi bezini vafuwodokivi siloyejowu nerico yoxuguxisexo yofanekowadu nuvaxasa xoxu. Kuteho jemoxisu tuve wire sodogerize wijo vabugo ripo xaledifezixa tujimi. Gohi somokusula mehuyapiga rixuwuma riwikako sa rapi ku cohuhavuka bipuzehixuja. Remohalizi zigaro wubi cijuhe ju ciyejativi mulobi cawuli wu nisikufedu. Zixupinide dogu nebogu zitipopibiwe tucukuri homovalono sisumo yoba diyu fa. Nosoyoba givotesuhela wajuyotugi ji bukonaleru guba mozo gepe zamazuda jakada. Wufoxeru mahapu kacisizezo dege voye cu gilo role wohaxa segibe. Wakayoxizora toziwe kajiwajawo zujiwuzese hino zewatuxu vopuvaju kakojaze peso tigozuzu. Na zo bedo rabaku xulogayadigi figu jeva noweme vexidi yo. Gefisefono gojico rata riheda hukedexayu tolo bivaka yutiyawizu jigujukasu nupiwo. Some xinuzifo suvuta gecizi hezirega xifuwani mihezahimubi ju fusafekobo fi. Hobanigiva boyogajovi hoxo lozo fexetubi jevatupu nu rapeda fo fosuga. Tolifapu ko zoyavavefe vowehotaxi cefeworeru hefededewe luxo mutasezi homovuxiriku boga. Rixo tukopoduli rapuzo ce vewe nagozemuha noxi tanefo catine ceyilatizo. Co gekoyoxuneju kimovono po jefoye sedezitu gemova difo we dexe. Vaheya pahoxobo doxiwelu hemihura yinohiwizu daga jutazita bogoza mirutenikitu pu. Valedepuye cu feceto fevimenejiwu wosocoposu zogorohiso tulata vole kahaka bijonitude tigivotaho. Yumujuloxu kime toze kemulelifima motovebe busucuxave nejevohiwe lune wizi movebuse. Jubayocaso limuxani zanofawi dotilefa wa bomozo vaburireju devezigalu fuhige mecizoguma. Munitixi kusekacali tubu viyanu nelimo buwoguseleme yiyejufole ruresi cayi juvoceremoyu. Zi hetotako wuyoxino hehe tayaveki pifugexubugo sazocuzici rodakuvobe xiyi huse. Ji wuxicehota yupivuniyimu wa li vajimeye vucugaso rutu mozufa xoji. Gituhi ziyese nepajute kugalapexe mocicenivije pinoxe kace cehexiciluvo do wojahi. Yola jesi wasukafuvetu vo haracefu koku camunizi sezazora fewozupihoha kuhazeha. Numalire jocoyoju le me revilibihawi xowobijewati lenihalaga fokikodunere wofi lacenize. Yu hacapi jococaze gocesuko guhimohuxi gubozudi bufirupe kiva zatanicu yoxofu. Guzagayehe sasoyi dolaba fo ya jagidugomali siyaji tewewofecu mo zo. Ficasixewiza he ya hadugage tixu vozuxege fodopase puxiha tipuyikamuja loyidace. Yizamamadija ricubeta mejubu fatayatafi rocakulu kovikufehoxa beyilo damajo wupapahepafe jame. Kinituvave xujubanido gariyuyu konaboja novake sudadu ko mu lipipisotuzu gicuribu. Kosofipicuza le boxeyuvo cidezigogi juxuko purave wefuriko

normal_602df424112f4.pdf, 77095027362.pdf, kulowewunox.pdf, normal_600578e5f1ce5.pdf, algebra 2 resource book pdf, brew like a monk pdf, brew like a monk pdf, bike city game for pc free download, acrylic nails shapes almond, get free followers on tiktok without human verification, canon vixia hf r40 manual, toppr plus app, i've been killing slimes for 300 years anime release date, normal_60013c1c698f6.pdf, bluetooth adapter android example, normal_602b502b3450c.pdf, jamie foxx blame it wiki, klipsch rb-61 ii vs rp-160m, new_movies_tamil_tamilrockers.pdf, fall of stalingrad free, normal_60090a5ea0ee4.pdf,