

## Big Wave Commentary

### The Zurich Axioms... Investment Secrets of the Swiss Bankers

I read a lot. Besides the Ledger, I read daily research, newspapers, magazines and books. Most books are not helpful, but occasionally I come upon one that I consider a classic "must read". Consider this suggestion an early Christmas list suggestion and if the kids don't get it for you, buy it yourself.

The book is called "The Zurich Axioms". The author is Max Gunther. The background on the book is pretty interesting in itself. Immediately after World War II, a group of Swiss bankers and businessmen set out to make money by investing in everything from stocks to real estate, commodities to currencies. They all made fortunes. The son of one of these bankers was Max Gunther and he asked his father if this group had even written down the principles or axioms of how they invested. They had not and so the group decided that before they all got too old, it would be a great idea to get this down in writing, hence the book.

I read this book when I was trading futures down at the Chicago Mercantile exchange at an urging of an old time livestock floor trader. I wondered why a guy trading pork bellies would recommend an investment book written about Swiss bankers. But after reading it, and experiencing the market's ebb and flow for many years since, I now realize how these axioms have not only influenced my trading and money management techniques, but also have helped me manage my own business over the last 11 years. It is a book worth sharing. In my view, it is an insight into how successful traders think and therefore an important clue as to how markets really work.

A lot of these axioms totally go against conventional investing wisdom. You won't hear any of the talking heads on CNBC mentioning these axioms. But I can tell you that a good number of the legendary great traders in this business (Rainwater, Rogers and Soros

to name a few) all incorporate a good number of these axioms in their trading philosophies.

So without further ado, here are the 12 axioms with a brief explanation

**On Risk:** Worry is not a sickness but a sign of health. If you are not worried, you are not risking enough. Always play for meaningful stakes. If an amount is so small that a loss won't matter, then it isn't likely to bring any significant gains either. Resist the allure of diversification.

**On Greed:** Always take your profit too soon. Decide in advance what gain you want from a venture and when you get it, get out.

**On Hope:** When the ship starts to sink, don't pray. Jump! Accept small losses as a fact of life. Expect to experience several while awaiting a large gain.

**On Forecasts:** Human behavior can not be predicted. Distrust anyone who claims to know the future, however dimly.

**On Patterns:** Chaos is not dangerous until it begins to look orderly. Beware the Historians Trap (history does not repeat itself) the Chartist's Illusion (graphs lie) the Correlation and Causality Delusions (don't find patterns) and the Gambler's Fallacy (it's only luck).

**On Mobility:** Avoid putting down roots. They impede motion. Do not become trapped in a souring venture because of sentiments like loyalty and nostalgia. Never hesitate to abandon a venture if something more attractive comes into view.

**On Intuition:** A hunch can be trusted if it can be explained but never confuse a hunch with a hope.

On Religion and the Occult: It is unlikely that God's plan for the universe includes making you rich. If astrology worked, then all astrologers would be rich.

On Optimism and Pessimism: Optimism means expecting the best but confidence means knowing how you will handle the worst. Never make a move if you are merely optimistic.

On Consensus: Disregard the majority opinion. It is probably wrong. Never follow speculative fads. Often the best time to buy is when nobody else wants it.

On Stubbornness: If it doesn't pay off the first time, forget it. Never try to save a bad investment by averaging down (buying more).

On Planning: Long range plans engender the dangerous belief that the future is under control. It is important never to take your own long range plans or other people's seriously. Shun long term investments.

One of the best traders in the world, Larry Williams, recently stated that if he had one book to recommend to beginning or experienced traders, The Zurich Axioms would be the book.

You need to read the book and think about what these axioms have to say to you and how you might benefit from adhering to all or some of them. In general, these axioms point you toward the importance of having a working investment strategy in place, before you invest. Whether you buy into these axioms is up to you and your personal style.

On the personal side, Happy Holidays to all and I look forward to sharing my thoughts with you in 2008. There is an old Chinese proverb, "May you live in interesting times". I believe, the economy and markets during 2008 will be very interesting, possibly one of the most pivotal years of this decade. Here's to an interesting and prosperous new year.

*Big Wave coaches traders, online investors and individuals. Through our coaching and trading seminars we develop trading systems to help you become a better trader. Workshops are held on a regular basis to teach you're the ins and outs of trading. If you would like to learn more about trading workshops and private coaching, check out website at [www.bigwaveadvisors.com](http://www.bigwaveadvisors.com) or email me at [dave@bigwaveadvisors.com](mailto:dave@bigwaveadvisors.com) or call at 630-682-5520.*

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