

WORLD'S GREATEST LOSS TAKER

A Longitudinal Study of the Trading Methods of George Soros

By

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Contents

- **Introduction: 3**
- **Caveats: 4**
- **Infallible?: 5**
- **Best Loss Taker: 9**
- **Losing to Win: 10**
- **Trend Following: 11**
- **Interim Summary: 12**
- **Philosophy: 13**
- **Reflexivity: 14**
- **Boom/Bust: 16**
- **Hypothesis: 18**
- **Detour: Echoes of Livermore: 20**
- **How to Find Ideas: 21**
- **Taking a Position: 22**
- **Defense/Taking a Loss: 23**
- **Price Action: 24**
- **Reality vs Expectations: 25**
- **Backache: 27**
- **The Jugular: 29**
- **Large Losses: 31**
- **Conclusion: 32**
- **What Makes a Great Investor: 33**
- **Bibliography: 34**
- **About Me: 35**

Introduction

George Soros really doesn't need an introduction. If you're alive and can read this paper, it is very likely you already know his name. In the rare event you haven't heard of him, he is/was one of the greatest traders of all time. I have always had significant respect for his trading skill and when I started spending a lot of time studying the "greats" it was only natural for me to study Soros. Accordingly, I consumed much material by and about Soros. The product of my research is what you are now reading.

The goal of this research is to decipher those things from Soros's trading tool kit that can be used by the masses to increase their odds of successful investing/trading. As a quick clarification, I use the terms "investing" and "trading" interchangeably throughout this paper. I do not believe there is a universally agreed upon definition of either and my intention is for them to indicate attempts to make profits in liquid markets.

Caveats

There are elements of Soros's success that cannot be replicated. For one, he had very little competition when he was running his fund. Studying history, it becomes clear that minimal competition combined with being an early mover in the investment space tends to result in great returns. Once competition comes after the same returns, the returns decline. Beyond that, according to a 1995 *The New Yorker* article, Soros enjoyed many years of tax-free returns. Another thing Soros had that no average Joe had was a vast global network of contacts in high places. You and I can't call the head of a central bank; he could (and probably still can). Finally, some degree of luck in the form of good timing for his approach was present.

Further, in *Soros on Soros*, Soros says he does not subscribe to any specific investment style and instead tries to change his style to suit the environment. That could be argued to negate all of what follows. A few related comments:

- It could be Soros didn't want to give away his "formula" and made these comments to distract and confuse people like me trying to crack the code. He was certainly no stranger to secrecy early on for fear others would follow his lead.
- Soros has consistently farmed out some of his capital. It could be his changing style pertained more to finding external managers doing different things to suit the environment than him changing his own spots. In *Soros on Soros*, he even says, "*I have learned to be very broadminded as to the right approach [to investing]. I am willing to use different people employing different approaches...*" I view this as basically confirmation he outsources vs. changing his personal style.
- The information below combines comments from Soros and various sources who were close to him. The consistencies span a few decades. This gives me more confidence in what follows.

Ultimately, after doing significant research, I do believe there are elements of Soros's approach that can be used by anyone to increase the odds of success in speculating and highlighting those is, again, the goal of this paper.

Infallible?

Much media commentary implies Soros's great skill, allowing him to make a fortune, is/was his ability to foresee and predict events better than others. Usually reports start with talk of him breaking the Bank of England in 1992 and making \$1 billion and then go on to discuss various other amazing trades over the years touting Soros as an infallible seer.

However, **studying his patterns and triangulating information from many sources, it becomes clear that the contention that Soros is an infallible seer couldn't be further from the truth.** My guess is that will come as a surprise so let's look at some evidence.

First, consider what Scott Bessent, who worked for Soros for years and was recently his CIO, has to say:

“George [Soros] has a terrible batting average – it's below 50 percent and possibly even below 30 percent...”

In this case, batting average means how often he is right (winning trade) versus wrong (losing trade). Being right 30-50% of the time means being wrong 50-70% of the time and is hardly infallible. You might think Bessent is incorrect, but Soros essentially confirms this in Robert Slater's biography, *Soros*:

“People are basically misguided in their view of my infallibility, because-and I don't mind [stressing] this-if anything, I make as many mistakes as the next guy.”

Based on Scott Bessent's take, it sounds like Soros might make more mistakes than the next guy. So, he is definitely not infallible.

Maybe Soros's skill is being better than the rest in market analysis and predicting events. Based on what Soros and others have to say about his analytical abilities, maybe not. In discussing his early analytical prowess in *SOROS* the authorized biography by Michael Kaufman, Soros says:

“What I was doing was to some extent intuitive...I did not have the analytical skills that a normal analyst has. In fact, there came a point when they introduced a certificate for security analysts, a sort of professional qualification. After avoiding it for a while I sat for the exam and I failed every conceivable topic.”

While this statement could be interpreted as Soros saying he had unique analytical skills, Soros provided a comment in his book *Soros on Soros* that did not leave any room for interpretation:

“I think my analytical abilities are rather deficient...”

If that isn't enough, consider what former Soros partner Jim Rogers said when asked what he learned from Soros in *Inside the House of Money* by Drobny:

“I did not learn anything from him except there are great traders and there are great investors in the world.”

In case that isn't clear, in Jack Schwager's *Market Wizards*, Rogers stated he was the analyst and Soros was the trader in the early days. In short, Rogers didn't learn anything about being an analyst from Soros.

Further, Soros is apparently not great at predicting the future. Consider what Stan Druckenmiller has to say on the topic:

“...when I went over to work for George [Soros]...to my really big surprise, I was as proficient as he was, maybe more so, in predicting trends.”

While this may not seem substantial, to provide some context, in a recent interview with Kiril Sokoloff on *RealVision*, Druckenmiller said:

“I've just never had the trust in my own analytical ability to go in an illiquid market...”

While slightly lacking context for brevity, the point is Druckenmiller would only bet big in the deepest most liquid markets so he could always get out because he didn't have enough faith in his predictive analytical abilities to trade big in illiquid markets. To Druckenmiller, the stock market didn't count as liquid because it wasn't trading 24 hours a day. So, if Druckenmiller doesn't have much faith in his own predictive analytical abilities and thinks he is at least as good as and likely more proficient than Soros, he can't have a lot of faith in Soros's predictive abilities.

Colm O'Shea further supports the view that Soros doesn't know the future in *Hedge Fund Market Wizards*:

“Even though [Soros] will sometimes play up to his public image as a guru who knows what is going on, it is in no sense what he does as a money manager...He doesn’t let his structural views on how he believes the market will play out get in the way of his trading.”

And Soros confirms these views:

“My financial success stands in stark contrast with my ability to forecast events...in predicting financial markets, my record is less than impressive.”

Some say Soros can move markets, that his capital base and presence allow him to dictate where prices go. But he quickly dispels this contention in *Soros on Soros*:

“...my influence [on markets] is largely illusory. A market move may become associated with my name, as happened once with gold. But if we try to move against the market, we get trampled on. That happened to us more than once...”

Finally, some say Soros may be/thinks he is God which would account for his performance. However, in a *60 Minutes* interview, he said:

“If you think that you’re God, and you go into financial markets, you are bound to come out broke. So, the fact that I am not broke, shows that I don’t believe that I am God.”

So, let’s recap. **Soros loses at least half the time and probably more, he is not a great analyst (and probably not even a good analyst really), he is bad at predicting the future, he cannot singularly move markets, and he is not God. This flies in the face of most of what you pick up from the media. Perhaps more importantly this begs the question, what is he good at?**

In *Soros on Soros*, Soros said:

“...I do have a very strong critical faculty. I am not a professional security analyst. I would rather call myself an insecurity analyst...I recognize that I may be wrong. This makes me insecure. My sense of insecurity keeps me alert, always ready to correct my errors.”

For more on this, let's hear more of what Soros has to say:

“If I had to sum up my practical skills I would use one word, survival.”

This is not entirely clear...let's hear what others have to say on the topic.

Best Loss Taker

- *“Soros is also the best loss taker I have ever seen...If a trade doesn't work, he's confident enough about his ability to win on other trades that he can easily walk away from the position.” – Stan Druckenmiller*
- *“George Soros has the least regret of anyone I have ever met...When a trade is wrong, he will just cut it, move on, and do something else.” - Colm O'Shea*
- *“He is willing to take vigorous action when he is right and really take advantage of an opportunity, and to cut his losses when he's wrong...” - Byron Wien*
- *“When George is wrong, he gets the hell out. He doesn't say, 'I'm right, they're wrong.' He says, 'I'm wrong,' and he gets out, because if you have a bad position on, it eats you away. All you do is think about it - at night, at your home. It consumes you.” - Allan Raphael*
- *“He takes a loss better than anyone I have ever met. He may think that the market did not react as it should have, which is to say as he predicted. But once the mistake is made, he understands it and goes on.” - Anonymous Source from Slater's Biography*
- *“Soros has been cutting losses all his life...he had always taken risks but he kept his eye on the exit. **In wartime, he had learned from his father that the trick, the real trick was to survive, to move on, to pursue new goals.**” - Michael Kaufman*
- *“His ability to recognize his mistakes quickly and to reverse them established his success as a financial speculator.” - Michael Kaufman*

And back to Soros again:

- *“My approach works not by making valid predictions but by allowing me to correct false ones.”*
- *“...where I do think I excel is in recognizing my mistakes, you see. And that is the secret to my success. The key insight that I have reached is recognition of the inherent fallibility of human thought.”*

So, it isn't his analytical prowess, prognostications, market moving, or being always right that are responsible for his success at all. Per people close to him, and George himself, his real skill is that he is the best loss taker!

Losing to Win

How could it be that being a great loss taker leads to being one of the best traders of all time? Essentially, it comes down to something famed speculator Jesse Livermore said:

“The speculator has to insure himself against considerable loss by taking the first small loss.”

So, by taking a small loss, the loss doesn't get bigger. Supporting this theory is another comment from Druckenmiller:

“I've learned many things from him [Soros], but perhaps the most significant is that it's not whether you're right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong.”

Winning by losing doesn't make sense at first glance. And it certainly goes against Western cultural norms. If a football team loses 9/10 games by 1 point then wins the 10th game by 100 points, they had a terrible season and were losers.

With money though, the frequency must be viewed in conjunction with the magnitude. Looking at the football example above, let's pretend, instead of points, it was money. If I lose \$1 9 times that's -\$9. If I make \$100 once that's \$100. The net of the two would be +\$91. So, despite being a 90% frequency loser (lost 9/10 times), I'm net profitable and a winner because my 1 win covered my 9 losses and then some.

Most want to be frequency and magnitude winners. In my experience, over a sufficient time horizon, real world investing allows one or the other but not both.

Soros is clearly a frequency loser (per Bessent his batting average is <50%) but a magnitude winner (he is one of the richest men on earth). Food for thought.

Trend Following

Infrequent large gains and frequent small losses is incidentally what a group of investors called trend followers experience. They tend to win around 40% of the time or less. Not so coincidentally, Soros's batting average is around 40%. And Soros is an admitted trend follower:

- *"...even a cursory look at commodity, stock, and currency markets confirms that trends are the rule rather than the exception."*
- *"We position the fund [Quantum] to take advantage of larger trends..."*
- *"Most of the time I am a trend follower...most of the time the trend prevails..."*
- *"There are periods of choppy markets when my style of investing is worse than useless."*

NOTE: Choppy periods are the bane of trend following.

Trend followers don't really need a reason to do something. By this I mean, they follow trends in price without worrying about fundamentals or reasons. They believe prices are the ultimate arbiter of what is going on and typically move before reasons become evident.

With this in mind, and further reinforcing the reality that Soros adheres to trend following methods and principles especially as it relates to taking action before doing too much research, here are some comments from a former protege and from Soros's biographer:

- *"George always used to say, 'invest first and investigate later.' That meant, form a hypothesis, take a toehold position to test the hypothesis, and wait for the market to prove you right or wrong." - Jim Marquez*
- *"...he [Soros] adapted a dynamic sense of time. 'Invest first and investigate later,' he would tell his proteges years later, urging them not to hesitate but rather to act quickly when preliminary research pointed to some potential advantage." - Michael Kaufman*

And, again, Soros confirms these comments:

"Generally, we followed the principle of investing first and investigating later."

In *The Alchemy of Finance*, Soros also said:

"...I often invested without a worthwhile hypothesis."

Interim Summary

At this point, I will pause and say that it is my contention that Soros is predominantly a fundamentally driven selective trend follower who respected price action above all else and had a very tight stop loss protocol. And his true skill was being the world's great loss taker. Thus, the biggest lesson from Soros is how to take a loss.

However, to delve into how Soros took a loss, we will need to go into Soros's process in detail. As circuitous as it may sound, the easiest way to arrive at his loss taking methods is to take it from the top starting with his underlying philosophy and related idea generation methods.

Philosophy

The foundation of Soros's process was his philosophy which governed his overall view of how markets operate. Soros has done his best to convey his philosophy over the years in several books and, despite his efforts, many find it difficult to understand. Those of a philosophical inclination, thus making it easier to digest in theory, didn't have a lot of luck with the philosophy either. I say all of this to set the tone for what follows. Perhaps the following quote from Soros's son Robert is the best preface to Soros's philosophy:

“My father will sit down and give you theories to explain why he does this or that. But I remember seeing it as a kid and thinking, Jesus Christ, at least half of this is bullshit...If you're around him a long time, you realize that to a large extent he is driven by temperament. But he is always trying to rationalize what are basically his emotions. And he is living in a constant state of not exactly denial, but rationalization of his emotional state.”

All that said, to George Soros philosophy is the foundation of his trading. He says as much in *Soros on Soros*:

“...[reflexivity] is crucial to my analysis of market behavior.”

In as much as he believes this and this paper is an attempt to distill his methods, it would be irresponsible to gloss over these topics.

In my mind, **his philosophy has two parts: Reflexivity and the Boom/Bust model.**

Reflexivity

Here is the most concise yet robust explanation of reflexivity that I found direct from Soros:

“I came to realize that market participants cannot base their decisions on knowledge alone, and their biased perceptions have ways of influencing not only market prices but also the fundamentals that those prices are supposed to reflect. I argued that the participants’ thinking plays a dual function. On the one hand, they seek to understand their situation. I called this the cognitive function. On the other hand, they try to change the situation. I called this the participating or manipulative function. The two functions work in opposite directions and, under certain circumstances, they can interfere with each other. I called this interference reflexivity.”

In case you find yourself wondering what you just read, consider the following comments from longtime Soros associate Robert Miller from Slater’s book:

*Q: “Have you read *The Alchemy of Finance*?”*

Miller: “I’ve read portions of it.”

Q: “Can you talk about what the theory does for somebody?”

Miller: (breaking into laughter) “Probably not.”

Later, in *Soros on Soros*, Soros offered an even shorter explanation (the relevance of which will become evident momentarily):

“I can summarize the main idea [of reflexivity] in a few words--two words, in fact: imperfect understanding.”

To the extent I fully understand the concept of reflexivity, I believe it has validity. However, I am skeptical of how useful it is in actually making money beyond providing an overriding perspective that human thought is inherently flawed and thus making mistakes is not cause for embarrassment (which would allow one to take losses well without feeling bad).

Soros said as much in *Soros on Soros*:

“To others, being wrong is a source of shame; to me, recognizing my mistakes is a source of pride. Once we realize that imperfect understanding [reflexivity] is the human condition, there is no shame in being wrong, only in failing to correct our mistakes.”

I also think the theory lends to the perspective that people, and their thoughts, really run markets and they influence each other dynamically. At the same time, people are irrational, so expecting markets to be rational is not wise. In my mind, this conceptual framework of uncertainty and instability would likely lead to an inclination to always choose flight in fight or flight situations. Live to fight another day.

All that said, as it pertains to reflexivity in markets, Soros has said:

“...in most situations it [reflexivity] is so feeble that it can be safely ignored.”

I will leave it to readers to explore reflexivity in greater detail if they are so inclined.

Boom/Bust

Next is Soros's Boom/Bust model. In *The New Paradigm for Financial Markets*, Soros described it conceptually as follows:

“...markets never reach the equilibrium postulated by economic theory. There is a two-way reflexive connection between perception and reality which can give rise to initially self-reinforcing but eventually self-defeating boom-bust processes, or bubbles.”

According to Soros, again in *The New Paradigm for Financial Markets*, the Boom/Bust sequence has eight stages:

1. The trend is not yet recognized.
2. The period of acceleration when the trend is recognized and reinforced by prevailing bias.
3. A period of testing where prices suffer a setback.
4. If the bias and trend survive the test in step 3, both emerge stronger.
5. A “moment of truth” comes where reality can no longer sustain the exaggerated expectations created by step 4.
6. A twilight period sets in where people keep playing even though they no longer believe.
7. A crossover point is reached where the trend shifts down and bias goes with it.
8. Catastrophic downward acceleration commonly known as a crash.

Longtime Soros associate, Byron Wien, succinctly summarized the boom/bust theory:

“His [Soros's] idea is that things do very well and then they do badly. You should know that while they're doing well they're about to do badly and, to oversimplify his theory, the important thing is to recognize the inevitability of a trend change, the key point is the identification of the inflection point.”

Soros has given examples of the boom/bust model in several of his books. I will leave it to readers to explore these.

Before proceeding, I will add the following regarding the boom/bust model which comes from Soros in *Soros on Soros*:

“...I want to emphasize that there is nothing determinate or compulsory about it [the boom/bust pattern]. First, the process may be aborted at any stage. Second, the model describes the process in isolation. In reality, many processes are going on at the same time, interfering with each other, and boom/bust sequences are punctuated by external shocks. Only rarely does the actual course of events resemble the isolated model. Still, the model establishes a certain sequence, with certain stages, and we could not have a boom/bust process in which key stages are out of sequence. So, if and when it occurs, it does follow a specific pattern.”

In what I will dub “Sorosian” fashion, he describes a theory but adds the caveat that the theory’s potential usefulness exists only in extreme cases which is somewhat disappointing.

Regardless, I believe the preceding factors are essentially a backdrop for how Soros speculates. A framework if you will for how he thinks that operates at a level similar to subconsciousness. As you will see later, one of Soros’s best skills is to really go for it (take big risks) when the stars align. Although I can’t substantiate this with evidence from my research, based on logic, I believe the boom/bust process is used to help determine when the stars have aligned thus prompting Soros to go for the “jugular” as he puts it.

Soros also said:

“...I also have a theoretical framework. In my investing, I tend to select situations that fit into that framework. I look for conditions of disequilibrium.”

So, he is always on the lookout for boom/bust processes.

Hypothesis

Ultimately, the material above, while very important to Soros, is difficult to practically and frequently apply. So, in an effort to generalize his process and present something that the layman can interpret and use frequently, I offer the following direct from Soros:

“...I have a thesis and I test it in the market.”

So, he starts with a thesis, likely governed by his overarching philosophy. However, it appears none of these theses were that amazing. The following comments from Soros provide insight:

- *“...I don’t like working. I do the absolute minimum that is necessary to reach a decision. There are people who love working. They amass an inordinate amount of information, much more than is necessary to reach a conclusion. And they become attached to certain investments because they know them intimately. I am different. I concentrate on the essentials.”*
- *“[Prior to the early 1980s] I had insisted on knowing far too much about every situation before I made an investment, and often I ended up selling that investment far too soon because I thought that it was not as sound as it ought to be.”*

NOTE: Selling far too soon due to valuation is something a trend follower would never do; they would ride the trend until the price turned, whatever the valuation.

We get additional insight from Michael Kaufman (Soros’s biographer):

“He [Soros] moved in and out of markets abruptly, forming no sentimental attachments to companies, neither loving the stocks that brought him gains nor hating those that cost him.”

And former Soros associate Colm O’Shea shares similar commentary more recently in *Hedge Fund Market Wizards* (proving things have likely not changed):

“George Soros...has no emotional attachment to an idea. When a trade is wrong, he will just cut it, move on, and do something else.”

You may think this all sounds crazy and performance would suffer from such a laissez-faire approach, but consider another quote from Soros:

“I deliberately loosened the constraints under which I had been operating...The result was, ironically, a period of absolutely fantastic performance...I wasn’t doing as much ground work...even though I was much looser, I was not irresponsible...”

My guess is, nowadays, Soros has teams of first-class analysts working for him to feed him well baked ideas. And, historically, when Soros was at the helm, he hired people who complemented his trading skills with analytical abilities. Examples from when Soros was at the helm of the Quantum Fund include Jim Rogers, Allan Raphael, and Jim Marquez.

Regardless, the larger point here is that there was no in-depth brain trust to form an idea when Soros was running the ship. These guys came up with something using “essentials”, put on a small position, and waited to see if the market proved them right (i.e. they were making money). Also, keep in mind Soros’s quote in the trend following section about often investing without a worthwhile hypothesis.

Bottom line here, **if trying to replicate Soros, don’t spend too much time or energy trying to find a foolproof idea; he didn’t.**

Detour: Echoes of Livermore

Incidentally, the commentary above from Soros echoes the lessons of Jesse Livermore. Consider the following quotes from Livermore's book *How to Trade in Stocks*:

- *“Behind these major movements is an irresistible force. That is all one needs to know. It is not good to be too curious about all the reasons behind price movements. You risk the danger of clouding your mind with non-essentials. Just recognize that the movement is there and take advantage of it by steering your speculative ship along with the tide. Do not argue with the condition, and most of all, do not try to combat it.”*
- *“...good speculators always wait and have patience, waiting for the market to confirm their judgement.”*
- *“...don't back your judgement 'UNTIL THE ACTION OF THE MARKET ITSELF CONFIRMS YOUR OPINION'”*
- *“It is foolhardy to make a second trade, if your first trade shows you a loss.”*

Eerily similar, right?

How to Find Ideas

While I think my point is sufficiently clear regarding how much time to spend on formulating ideas and that taking losses well is much more important, for those interested in how they found ideas, the following comment from Jim Rogers might shed some light:

“We aren’t as much interested in what a company is going to earn next quarter, or what 1975 aluminum shipments are going to be, as we are in how broad social, economic, or political factors will alter the destiny of an industry or stock group for some time to come.”

Further, according to Slater’s Soros biography, they subscribed to dozens of trade publications, journals, etc. and Rogers spent most of his waking hours reading and looking for ideas that fit the mold of his quote above.

Beyond that, according to Soros in *Soros on Soros*:

“I am particularly keen on investment theses that the market is reluctant to accept. These are usually the strongest. Remember the saying, ‘The market climbs a wall of worry.’”

Soros also said:

“...when you are confused it is best to do nothing.”

If you want more specific examples, I advise reading Soros’s books. Also, Jim Rogers wrote a series of books where he delves into his analytical process. However, again, according to my research the lesson of Soros (which we’re heading toward) is how to take a loss.

A final note on this, you might be wondering why they even bothered to find ideas as opposed to just using price action given the comments above. I believe there are two primary reasons. First, while Soros became more of a trend follower (per my research) he was formerly a Wall Street analyst. Point being, he came from the idea finding background as opposed to certain price-only traders. Second, as we will see shortly, Soros determined how much risk to take on a case-by-case basis. I believe the underlying research helped to inform his risk decisions.

Taking a Position

Continuing along, per above, we know that once a thesis was established, a “toehold” position (aka small) was taken. Depending on the result, the position was typically either cut (loser) or added to (winner).

You might wonder how big of a position Soros took or how much he risked. I was unable to find a concise answer in my research. Here’s what I did find:

- *“In the earlier days, we were leveraging to the hilt” - George Soros*
- *“If the stock goes up you buy more. You don’t care how big the position gets as part of your portfolio. If you get it right, then build [the position].” - Allan Raphael*
- *“As far as Soros is concerned, when you’re right on something, you can’t own enough.” - Stan Druckenmiller*

Also, in *The Alchemy of Finance*, Soros said:

“One of the hardest things to judge is what level of risk is safe. There are no universally valid yardsticks: each situation needs to be judged on its own merit. In the final analysis you must rely on your instincts for survival.”

Once a position was on (whatever the size), defense came into play. At this point, I’d like to shift focus and discuss the ways in which Soros would exit (drum roll).

Defense/Taking a Loss

From various readings, which I address separately below, I know **the following would typically cause Soros to get out of a position:**

- 1. Price action he didn't like**
- 2. Events not materializing as he expected**
- 3. A backache**

With a few exceptions outlined shortly, my research indicates Soros followed these methods regardless of whether a position was profitable or not. Combining this with factors such as his “batting average” from earlier, we can only infer Soros used these methods to get out of positions that didn't work quickly thus resulting in his high losing trade percentage.

Price Action

Regarding price action, Soros said in *Soros on Soros* that he didn't have a prescribed method of exiting. But given what we know about his loss ratio (>50% per Bessent) and him being the world's best loss taker (per Druckenmiller), using deductive logic, we can infer if the price went against him much, or didn't go in his direction in the right amount of time, he would likely move on.

In addition to all of the quotes about him taking losses earlier in this paper, Colm O'Shea's comments below confirm the price action theory:

*“When a trade is wrong, he [Soros] will just cut it, move on, and do something else. I remember one time he had this huge FX position. He made something like \$250 million on it in one day. He was quoted in the financial press talking about the position. It sounded like a major strategic view he had. Then the market went the other way, and the position just disappeared. It was gone. **He didn't like the price action, so he got out.** He doesn't let his structural views on how he believes the market will play out get in the way of his trading. That is what strikes me about really good money managers - they don't get attached to their ideas.”*

How can the layman use this? Soros never got specific. My other research has led me to the conclusion that there is no hard and fast “right” answer. That said, in my opinion, the best solution would be to use both trailing price stops and time stops (exit if a position doesn't work after a specified amount of time). Specific details on these are too numerous to explore in depth in this paper. My best advice would be to explore these topics in general and find what works for you personally. Also, bear in mind most trend followers do not advocate risking too much on any one trade (i.e., <0.50% of capital to the stop) or placing stops too close to entry (since close stops get triggered often).

Reality vs Expectations

Soros constantly reevaluated his market theses. This is confirmed by associates:

- *“...He always rethinks a position. You always have to rethink it and rethink it and rethink it. Things change. The prices change. Conditions change. It was up to you as a fund manager to constantly rethink your position.” - Allan Raphael*
- *“George would try to find out if the market was acting differently from what you expected. Let's say I expected bank stocks to go up and if bank stocks were sideways to down for any amount of time, he would say, ‘Let's go over our assumptions. Let's go over the reasons why you're doing this, why the perceptions are that this should happen, and then try to reconcile [that] with what the market is saying.’” - Jim Marquez*
- *“...constantly examine and cross-examine. He would try to go to the jugular and say, ‘Do you still believe what you told me yesterday?’” - Jim Marquez*
- *“...constantly probing, and after a while, it's very wearying. Very wearying.” - Jim Marquez*

And Soros himself:

“I watch whether the actual course of events corresponds to my expectations. If not, I realize that I am on the wrong track.”

We know Soros viewed his ability to correct his mistakes as the secret of his success and that he was the best loss taker. So, we can infer when he was “on the wrong track” he likely got out. However, that wasn't always the case. The quotes below from Soros offer a more detailed explanation:

- *“When there is a discrepancy between my expectations and the actual course of events, it doesn't mean that I dump my stock. I reexamine the thesis and try to establish what has gone wrong. I may adjust my thesis or I may find that there is some extraneous influence that has come into the picture. I may end up actually adding to my position rather than dumping it. But I certainly don't stay still and I don't ignore the discrepancy. I start a critical examination. And generally, I'm quite leery of changing my thesis to suit the changed circumstances, although I don't rule it out completely.”*
- *“...if something goes wrong and I know what it is, but I think the original thesis is valid, and that the damage is coming from an extraneous source, I am more likely to increase my position than to sell out.”*

- *“You need some convictions to avoid getting faked out, but having the courage of your convictions could get you wiped out if your convictions are false. So I prefer to take a stand only when I have well-founded convictions.”*

The point of sharing these quotes is to show exiting wasn't universal and there were circumstances under which Soros would stick with a losing position. How many times or for how long is another question. Based on everything we know so far, he probably got out more often than not.

Also, the dynamic interplay described by the theory of reflexivity would lead to the conclusion that anything could happen and what was happening wasn't what was expected and Soros was thus likely wrong and the only appropriate action was to correct his error (by getting out). When in doubt, get out. If everything didn't make sense, gone. Best loss taker.

How can a reader use this? Watch events versus expectations in conjunction with price and ask yourself, “What would Soros do?”

Backache

Another thing that emerges from studying Soros is that he used a backache to help know when to exit a position. The backache is a little harder to discern than price action or reality vs expectations. For more on the backache, let's see what Soros's son Robert had to say:

"I mean, you know the reason he [Soros] changes his position on the market or whatever is because his back starts killing him. It has nothing to do with reason. He literally goes into a spasm, and it's this early warning sign. If you're around him a long time, you realize that to a large extent he is driven by temperament. But he is always trying to rationalize what are basically his emotions."

And Soros says:

- *"I feel the pain. I rely a great deal on animal instincts. When I was actively running the Fund, I suffered from backache. I used the onset of acute pain as a signal there was something wrong in my portfolio. The backache didn't tell me what was wrong-you know, lower back for short positions, left shoulder for currencies-but it did prompt me to look for something amiss when I might not have done so otherwise. That is not the most scientific way to run a portfolio."*
- *"When I'm short and the market acts a certain way, **I get very nervous. I get a back ache** and then I cover my short and suddenly the back ache goes away. I feel better. There's where the instinct comes in."*

Quick side note, while Soros says short (vs long) in the quote above, I believe this same concept was applied regardless of long or short. Meaning if he felt bad about a long position he would get out.

The question you the reader probably have is, what if I don't get a backache? **My contention is that the backache is Soros's psychosomatic manifestation of his nervousness** and Soros says as much above. While no one else might get a backache, anyone with a pulse who trades gets nervous. I think Soros's backache was synonymous with most people's nervousness and whenever his backache/nervousness provided a cue, he just got out of his position.

How can you the reader use this? If my theory is right, whenever something feels wrong, just get out. If you've ever traded, you should know how good positions feel. You basically forget about them. It is easy and doesn't cause much, if any, thought (unless you're highly leveraged and you watch every tick in which case, good luck). So, if a position causes any questioning, strife, increase in pulse or blood pressure, get rid of it. Become the best loss taker.

Of course, in Sorosian fashion, there were no definitives. But the overwhelming evidence from the people around him is most of the time he just got out.

With defense explained, let's go back to offense.

The Jugular

I believe one of the biggest things that led to Soros's amazing success was his ability to bet big when the timing was right. Consider the following:

- ***“Soros taught me that when you have tremendous conviction on a trade, you have to go for the jugular. It takes courage to be a pig. It takes courage to ride a profit with huge leverage.” - Stan Druckenmiller***
- *“If the stock goes up you buy more. You don't care how big the position gets as part of your portfolio. If you get it right, then build.” - Allan Raphael*
- *“He is willing to take vigorous action when he is right and really take advantage of an opportunity...” - Byron Wien*

Soros confirms this:

“Occasionally I develop some conviction and, when I do, the payoff can be substantial.”

I am not convinced this can be distilled to a formula. To the extent it can be, I imagine it would entail everything coming together. Inferring from above, for Soros, everything coming together probably meant it was a reflexive setup demonstrating isolated boom/bust characteristics where price action and fundamentals agreed and none of the stop loss protocols were triggered.

Even then, he kept his risk contained despite going for the jugular. Continuing the quote from above:

“Occasionally I develop some conviction and, when I do, the payoff can be substantial; but even then, there is an ever-present danger that the course of events fails to correspond to my expectations.”

In a *Western Truth TV* interview, Soros said the maximum risk with the famous GBP trade in 1992 would have only amounted to roughly 4% of his portfolio had things gone wrong. So, he continued to manage risk and respect price regardless of conviction.

All that said, I think the average person should avoid making large leveraged bets. While doing so could allow spectacular returns, it is a double-edged sword. Consistent application of Soros's methods combined with low leverage and risk management should allow reasonable returns. If you swing for the fences, you might go down swinging. As Soros said in *Soros on Soros*:

“There is no way one could produce results like ours without ups and downs.”

With that in mind, let’s explore some of Soros’s losing periods.

Large Losses

We have already established Soros was far from infallible, but I felt it couldn't hurt to further demonstrate **he was also subject to some difficult times performance wise**. Here are a few specific examples of times Soros didn't do well:

- *“If I look back on my performance, there are many instances where I lost up to 20 percent in the course of a year from the top to the bottom of that particular move...”*
- *“In September 1981, when we were down some 26 percent, we also had some fairly large redemptions. The fund was cut from \$400 million to \$200 million.”*
- *“We suffered a very serious loss in a matter of a few days. However, we were way ahead for the year, so we actually ended the year, 1987, in the plus column...”*
- *“We were wrong on the yen in 1994...It has been said that we lost \$1 billion, but that's incorrect. We lost \$600 million in February 1994, but made it up by the end of the year.”*

Along this line of thought, in *Soros on Soros* Byron Wien said:

“As I listen to the story of the Quantum Fund, what seems from the outside like an unbroken chain of success turns out to be a series of ups and downs.”

Soros replied:

“You are absolutely right.”

Human after all.

Conclusion

Below I add an anecdote, but that's pretty much the long and short of what I have to offer in this paper. As I have mentioned throughout, with Soros, nothing is definitive. To the extent he ever reads this, he might call BS and negate it which, while I could argue against with evidence, I would not be able to refute (obviously). But, while not bulletproof, the evidence from multiple sources and multiple decades is compelling. So, let's recap:

First, always keep the fact that Soros's self-professed best skill was being a great loss taker at the top of your mind. He won by taking losses not by being right or omnipotent. Next keep reflexivity and the structure of the boom/bust model process in the back of your mind. From there:

1. Accept human fallibility as a universal truth and come to embrace taking a loss when necessary as the only logical action given the universal truth.
2. Develop a thesis about the future (doesn't have to be amazing).
3. Take a "toehold" (i.e., small) position to see if it works.
4. If it does work, add to it and ride the trend. If it does not work, get out.
5. If convictions are high, go for the jugular (aka bet big) but still manage risk.
6. Constantly reevaluate all aspects of the thesis, real outcomes, and price action.
7. If anything makes you think twice (emotions, price action, events not happening as expected) get out - you can always get back in.
8. Repeat.
9. Hope you get some good luck!

What Makes a Great Investor

When asked what characteristics Soros looks for in identifying successful investors, he said:

“Strangely enough, the most important aspect is character. There are certain people whom I can trust, and those are the people whom I want as partners. There are incredible moneymakers whom I don’t trust, and whom I wouldn’t want to have as partners.”

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Author's Note:

I did my best to provide pertinent details of the materials referenced throughout this research. My goal here is/was to provide source materials, not to stand tall before an MLA style guide panel for documentation perfection. As such, I ask that you forgive any stylistic imperfections instead focusing on content.

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About Me

Hello!

I'm George Coyle the author of this research. As stated earlier, I've always been intrigued by the trading success of George Soros and decided to use my research skills to "decode" Soros's trading method (to the extent possible). Hopefully you enjoy this work, and it helps you on your trading quest.

If you like this paper, you'll probably enjoy my work on the principles of great traders which condenses the consistent lessons of some of the greatest traders (including Soros) of the past century using their own words/quotes. You can find that, for free as well, here:

www.traderprinciples.com

I'm also the founder of Triangulated Research which produces a fee-based weekly newsletter, Tell Me A Story (TMAS). Similar to the work in this paper, TMAS uses a "triangulation" method to find secular trends by combining evidence from many sources (mostly CEO commentary in transcripts). We then share the quotes that prompted the research, the companies who say they are impacted, and the story (hence the letter's name). I think TMAS is the kind of research Soros would have used in his heyday; long-term thematic work focused on the "essentials". If you'd like to know more, please take a look at our website: www.triinv.com.

Finally, if you'd like to get in touch you can reach out at: info@triinv.com.

Please note I have entirely omitted anything to do with Soros's personal politics in this paper and I am not interested in discussing, nor will I respond to, related messages.

Thanks for checking out my work!

George

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