

Remembering Our Colleague Mike Epstein

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On April 22, 2009, Mike Epstein passed away. He was known by many as a great trader and everyone who met him thought of him as a great person. Mike symbolized all that the trading community should be.

He started simply, and throughout a life well-lived, he never forgot that he was just a kid from Brooklyn. Hard work landed him a spot at Wesleyan University where he completed a B.A. in Economics in June 1953. From there, he entered the US Navy. Starting in the enlisted ranks, Mike rose to the rank of Lieutenant before he left the service in 1958.



While in the Navy, Mike was a deep sea diver (wearing the old bell diving suit), a salvage officer, and Commanding Officer (acting) USS Grasp ARS-24. While no one knows exactly what all Mike did in the Navy, several friends told a similar story:

During the Korean War, he was asked to take “the worst assignment in the Navy”, and told, if he lived, he’d get his choice of postings in six months. He accepted the assignment. Once a week, he would go, via submarine to North Korea, and take a squad in for reconnaissance. In six months, he never lost anyone. He was a SEAL before they were called SEALs. When the admiral who’d given him the assignment called him in, he thought he’d done something wrong. It turned out that the six months was up. He picked harbor master of Honolulu for the posting. He loved to dive, and did underwater demolition.

The Mike we all knew later in life seems very capable of having completed a mission such as this. He was a fighter – in the pits of an exchange where he loved to be; behind a trading desk of a firm; or anywhere he found himself, Mike was bound to succeed. To many it seems he knew nothing but success in life, but there may have been a few rough patches in Mike’s life.

Many may not know that Mike was a single father before the term was invented. He managed to trade on the floor of the New York Stock Exchange while raising two young boys on his own. The fact that Mike would be able to do that comes as a surprise to no one. But there is a happy ending – his marriage to Erika could be turned into a movie, a love story involving the gruff trader by day with a heart of gold. Many remember her calls to him during a meeting to remind him to take his pills. It was a love story, and something you wouldn’t expect to see if you judged Mike only from the surface.

Mike left the Navy in 1958 to pursue education, and

used his GI Bill benefits to attend Harvard Business School. The next year he began a career on Wall Street, and would spend the next 51 years doing what he loved – trading and analyzing the markets.

When Mike started in the business, he began working with Wertheim & Co, an NYSE member firm. The firm had “inherited” a factoring business in Mobile, Alabama. Apparently the factoring business couldn’t repay what they’d borrowed. Mike’s boss asked if he knew anything about factoring. He said “No, but my parents’ next door neighbor wrote the book on it.” His boss told him to buy the book and go straighten out the business. We will never know if there really was such a book, for Mike could easily have known that he didn’t need to know anything about factoring to fix the problems. He was confident, and smart.

In 1962, he joined Bear Stearns as an equity trader. It seems to have been here where another great anecdote occurred:

During the Cuban missile crisis, warships were parked off the coast of Cuba and the Soviet Union and the US have nuclear weapons pointed at each other in the highest possible state of alert. The market is falling and Mike Epstein is at the center of the action as a trader on the floor of the NYSE. Mike turns to his boss and asks what he should do. His boss tells him “hit the ask and buy ‘em.” Mike politely questions the sanity of his boss because he realizes the world may be coming to end in a nuclear holocaust. His boss tells him to keep buying, “if they don’t nuke us the market will bounce and if they do you won’t have to worry about paying for them!”

Anyone who ever spoke with Mike for more than two minutes can imagine the sparkle in his eye as he shared stories like that. Even on the phone, you could hear the happiness in his voice, and you couldn’t help but feel better after a short discussion where he told one or two of the million or so stories that he had.

His Wall Street career continued with time spent at Salomon Brothers, where he established the equity block trading department; serving as a hedge fund general partner at Scruggs & Co. Hedge Fund; becoming general partner and head trader at Cowen & Co.; and an independent member and floor trader at the New York Stock Exchange and the American Stock Exchange. There was little that Mike didn’t do. He had, at one time or another, membership on almost every major US exchange:

- NYSE
- Commodities Exchange of NYC (COMEX)
- NASDAQ: National Options Committee
- American Stock Exchange

- Midwest Stock Exchange
- Chicago Board of Trade
- Chicago Board Options Exchange (CBOE)

He seemed to have enjoyed trading on the floor the most. Here he could hear and feel the market. Mike often spoke of listening to the noise of the pits, and it was possible to spot turning points when the noise reached its peak. He was a great desk trader, but he missed the noise that came with being at the center of the action.

Trading was also where Mike seemed to be the most comfortable. He was willing to accept being wrong, and found that he actually needed to be wrong to maximize profits. Too few young traders seem to realize it is best to learn from OPM – other people’s mistakes. Listening to Mike, you could easily learn that it was okay to make small mistakes. Although we can’t confirm the exact percentage, Mike was most profitable when he was right about 40 percent of the time. Any more than that, and he was being too cautious to make the most money possible. Much less than that and he was just making too many mistakes.

Mike concluded his trading career as a wholesale market maker, Vice President, and Director, Quantitative Trading at NDB (Sherwood), formally retiring in 2002. Retirement marked the beginning of the next phase of his life. Almost immediately, at the invitation by MIT Professor Andrew W. Lo, a distinguished academic with deep interest in financial markets, Mike started at the MIT Sloan School of Management in the Laboratory for Financial Engineering as a Visiting Scholar and then a Research Affiliate, “pretty good for a C student from Harvard,” as he described the position. Here he found a great satisfaction in leading weekly seminars, teaching technical analysis to curious undergraduate and graduate students, building on his longstanding role of introducing the subject of technical analysis in academia. Mike was personally responsible for much of the acceptance of technical analysis we see today.

He loved MIT students for their curiosity, energy, and eagerness to learn about markets and trading from a weathered Wall Street veteran, not just in the classrooms. He sent a number of them to internships at smaller trading outfits and started a few on a successful trading career. He inspired a graduate student to interview top technicians for the book The Heretics of Finance: Conversations with Leading Practitioners of Technical Analysis co-authored by Jasmina Hasanhodzic with Andrew Lo, in which they give full credit to Mike. The book’s dedication says, “To Mike Epstein, a tireless and eloquent champion of technical analysis, who gave this project life and supported us every step of the way.”

He also traded his entire life. His last trades were made within hours of his passing, probably in the “yum-yums,” his name for the mini-sized Dow futures which traded for \$5 a point under the symbol YM. These futures were introduced several years ago, and the old

trader was always looking for action.

Until the end, Mike was active in a number of professional associations. He joined the MTA in 1973, as the first member who was not a pure analyst. This broke the rules of the new organization, and probably ranks among the best decisions ever made in the organization’s history. While Mike was a trader, he was also a student of the markets and an analyst at heart. He often spoke of the role the trader has in price discovery, the process that links trading to technical analysis.

He served as President of the MTA and was always active in the organization. Mike was also very active in the MTA Educational Foundation. He served as a Founding Director, a former President, and was the Treasurer at the time of his passing. The Society of Quantitative Analysts also benefitted from Mike’s knowledge and leadership.

One of Mike’s favorite songs was by Maria Muldaur, “Dem Dat Know” from *Louisiana Love Call*. The chorus is known to many who spoke with him:

And that just goes to show you it’s true, what my Momma done said to me:

She said “Dem dat know, know that they know.

And them that don’t know, they don’t know they don’t know.”

Mike knew what he knew and shared that knowledge freely. We are all fortunate to have known him, or have known of him. And few will ever forget their favorite Epstein-isms. Like Yogi Berra, Mike had a way with words. He could make the complex simple, and he could point out absurdity with humor. Over the years, he doubtlessly said many brilliant and witty things. Over those same years, many other sayings have been attributed to him. We can’t prove he actually made some of these statements, but we do know that he coulda...

- Ours is not to say what should be, but to analyze and exploit what is.
- All the profit is in the outliers!
- Nothing more bullish than a failed bearish signal.
- The four most expensive words in the English language are “It’s different this time.”
- Children are the investment; grandchildren are the dividends.

In addition to leaving us with memorable phrases in English, Mike provided many with their introduction to Yiddish as he frequently used words and phrases from this language. To Mike, we say “*Thee Nishmato Tz’roora b’Tzror haChayim*” or “May this soul be bound up in the bonds of life.”

To his family, we say “*Ha-Makom yenahem etkhem b’tokh sha ar aveilei Tzion vYerushalayim.*” (May God comfort you among all the mourners of Zion and Jerusalem.)

