LEGENDARY TRADERS · MARKET WIZARDS: THE NEXT GENERATION · CHAPTER 4

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An audited 1,132,045% year, then three strategies that are almost opposites

1,132,045%
2020 return, independent agreed-upon procedure

309.3%
Average annual compound rate, Jan 2020 to Dec 2025

35.5%
Maximum drawdown over the same six years

The record and what it cannot tell you, the small-cap dilution short, the pyramiding rule, the named trades, the 2022 drawdown, the counterweight, and a printable pre-trade check. Every figure is from the chapter unless labelled as our own arithmetic.

1 · The record, and what it cannot tell you

Figure	What the chapter states	What it measures
892,000%	The 2020 return he claimed publicly	His own figure. The independent review found it understated.
1,132,045%	2020 return per the independent firm, Modified Dietz method	Performance, adjusted for deposits and withdrawals
37,127%	Ending 2020 balance against beginning balance	Account growth, depressed by withdrawals during the year
Factor of seven	Growth in his account since 2020	Account growth; basis not specified in the text
309.3% a year	Average annual compound rate, Jan 2020 to Dec 2025	Six-year compound performance
35.5%	Maximum drawdown, same six years	Peak-to-trough decline

Source: Chapter 4, Market Wizards: The Next Generation (2026). Not audited by Complete Trader's Edge.

How the authors checked it

Statements, tax documents and existing Big Four audit reports reviewed; brokers contacted; then an independent agreed-upon procedure commissioned from a top auditing firm, because the documents were complex and the authors lacked forensic accounting expertise. The procedure found his public figure was too low.

Our arithmetic, not the book's

37,127% growth = ending balance about 372 times the start. 1,132,045% time-weighted = money multiplying about 11,300 times. The gap, a factor of about 30, is the compounding that withdrawn profits did not get to do.

309.3% a year for six years multiplies money about 4,700 times, less than 2020 alone on a time-weighted basis. Sevenfold growth over 2021 to 2025 would be about 48% a year. The multi-year figures do not reconcile on one basis from the text; the book's calculation endnote would settle it.

Net worth: the honest answer

The chapter gives percentages only, no dollar figures for his account. No net worth can be estimated from it. His stated goal is to grow the account to $1 billion, a motivating target rather than a fixed aim.

2 · Career arc and the rules that ended the blow-ups

When	What happened
Early childhood	France; parents had met in Germany and moved for his father's job
Just before 10	Family moves back to Germany after the financial crisis; French school, then German school without the language
Age 13	Starts trading about $500 of gift money in an account in his father's name; currencies, then CFDs at 50–100:1
School years	Four or five blown accounts, about $500 to $1,000 each; a DAX short loses 200% and he sells his bicycle
Late school	Free videos up to 10 hours a day; Tim Grittani; research with Miah Lee until 2 or 3am
2018	Finishes school; broker with borrow via a Bahamian entity; several thousand dollars from his 18th birthday
2020	Small-cap shorts plus mid-cap breakouts; audited 1,132,045% year
Mid-2021	Stops mid-cap breakouts as the bull market stalls
2022	Moves to contrarian long-term investing; drawdown of around 40%
2024–2025	Alibaba and Centene theses; 200-day average as the gate

The four beginner mistakes (Schwager's list)

No defined trading method. No risk control. Excessive leverage. No post-trade reviews. Fröhlich adds his own: stubbornness about taking losses, which took longest to fix.

The two rules that stopped the wipeouts

A maximum potential loss on any single stock, and a maximum loss across the portfolio on any single day. Coyle calls this the most critical takeaway of the interview: the rules did not make him profitable, they kept him alive long enough to become profitable.

3 · Strategy one: the small-cap dilution short

A company with $1m of working capital burning $500,000 a quarter must raise money within six months. In small caps, raises tend to coincide with sharp gap-ups: a handful of small-cap underwriters buy stock, warrants or convertibles cheaply, a press release appears (sometimes recycled, sometimes, he says, fabricated), the stock rallies pre-market on thin volume, gaps up, and they sell into it. Many gapped 100%+ and closed down 30%.

Layer	What he did
Fundamental	SEC filings for impending working-capital problems; judged whether news was bogus; researched underwriters and their deal patterns; skipped shorts where prospects had improved
Technical	Separated gaps by size (50% vs 300%) and intraday path; aggregated ~250 similar cases into an average-day template; research back to 2000
Entry	Waited for weakness, such as the first red candle
Size	About half the intended position first; added only if working; average trade ~10% of equity in those years
Attempts	Three failed shorts in one stock in one day, then stop; may retry the next day
Exit	Usually by the close: best exit per research, expensive borrow on small floats, overnight gap risk

Four stop types

Stop	How it works
New daily high	Exit if the stock makes a new high for the day
Percentage	Exit a set percentage above entry
Standard deviation	Exit on a set number of standard deviations above the open (his preferred; adapts to volatility)
Time	Exit if the expected daily pattern has not appeared by a given time

SONN, 14 April 2020: scanner hit on a huge gap on massive volume; historical analogues favoured a fall; cash running out; warrants and convertibles likely to be converted and sold. About 20 minutes of analysis. First short stopped for a small loss, second near the high covered near the opening range, third after a bounce.

4 · Strategy two: mid-cap breakouts and the pyramiding rule

Element	Criterion
Universe	Market cap $1bn–$5bn, smaller floats; 2020 themes hyped on social media
Catalyst	Any positive news, validated by a 40%–100% move and a volume surge
Consolidation	Ideally holds the upper half of the range before breaking out
Entry	Breakout, or earlier in the upper range: cup-and-handle, or converging above the 20-day EMA
Initial size	About two-thirds of the intended position
Stops	Below consolidation / below breakout-day low / trailing 20-day EMA / 9-day EMA if parabolic
Exits	Hysteria (distance from 9 and 20 EMA, consecutive up days, volume, rising ADTR), wide excursions, resistance
Environment	Strong bull markets only. Traded spring 2020 to mid-2021, then stopped

The independent-setup rule

Add only when a second setup appears that would qualify as an initial entry with no position on. Size the add so a stop-out cancels the open profit exactly. If the add fails quickly, the whole trade is dead.

Our worked example: 1,000 shares from $20, stock at $30, new stop $27

Scenario	Original 1,000	Added 2,330	Net
Stop hit at $27	+$7,000	-$6,990	About breakeven
Runs to $40	+$20,000	+$23,300	+$43,300
Runs to $60	+$40,000	+$69,900	+$109,900

Illustration by Complete Trader's Edge. Ignores slippage, gaps through the stop, costs and tax.

GRWG, late 2020 to early 2021: August 2020 earnings sparked a 100%+ week; months of consolidation into the 9 and 20 EMA; initial entry there; add on the second earnings catalyst; add on a pullback to the 20 EMA; exit on hysteria.

5 · Strategy three, sizing, and the 2022 drawdown

Golden goose part	Meaning
Neglected or hated	Strong company discounted for risks he judges external or overblown
Fundamentals	Viable long-term model, exposure to growth themes
Valuation	A genuine discount; high short interest is a plus
Chart	Consolidating; substantial size only above the 200-day average or on a major breakout
Catalyst	Expected or realised, not priced by the market (the surprise)
Portfolio fit	Ideally uncorrelated with existing holdings

Alibaba: 2024 P/E near 10, low double-digit earnings growth, cloud optionality, big buybacks; stimulus expected. Six failed probes from 2022 cost over 2% of equity; then scaled in and pyramided, making more than 20 times the losses. Profits taken into parabolic 2025 rallies; re-entered on 200-day reclaims and tests. Centene (summer 2025): bet that ACA subsidies would be protected; the chapter gives no outcome.

Sizing and Kelly

Around 5% of the account per theme, up to about 10%. He thinks successful traders under-size relative to half-Kelly, but keeps to about 5% for peace of mind. Kelly: $F = Pw - (Pl \div W)$, where W is average win divided by average loss. Over-betting hurts more than under-betting; double Kelly erases all compound growth.

2022 mistake: bought falling stocks because they were cheap, too large, and added to losers; drawdown around 40% (the audited six-year maximum is 35.5%; the chapter does not reconcile them). Lessons: never trade your whole net worth, wait for a bottom and the 200-day, watch the market cycle, plan for the worst case.

6 · Counterweight and a pre-trade check

Caution	Why it matters
No dollar base	Percentages only; extreme returns are easier on small capital
2020 was a moment	Uncrowded small caps and a stimulus euphoria; setups fell from 2–3 a day to 2–3 a week
Survivor's path	Four or five blow-ups at 100:1 were survivable because the stakes were small and his parents housed him
Do not copy the switches	Coyle: most traders who change style for a money goal end badly
Online statistics	Win rates and expectancy figures circulating about him are not in the chapter

Seven questions before any trade

- [ ] **1.** What is my maximum loss on this position, and on the whole account today?
- [ ] **2.** How many times have I already tried this idea today? Three is the cap.
- [ ] **3.** Who is forced to buy or sell here, and why?
- [ ] **4.** Is this an initial entry, or an addition? If an addition, would I take it with no position on?
- [ ] **5.** If the stop is hit, does the addition cost more than my open profit?
- [ ] **6.** Does the current market suit this strategy, or am I trading last year's environment?
- [ ] **7.** Am I sizing below my own estimate of the optimum?