The Creator of Japanese Candle Charts
Honma's Secret Methods of Investment

The God of Trading, Honma

by **Lee Hyong-do**

Discover the investment secrets and the 58 alchemic techniques From the candlestick chart creator, the richest man in Japan during the Edo Era

Those who have researched Honma Munehisa often define his trading techniques as the science of human mind (or market psychology), because his insightfulness with regard to the human mind is undeniably obvious as you will see in his writings. In his case, the insight into the human mind is not just about an individual's psychology, it is more about the general psychology of those who paricipate in trading. People who enter the market have to be able to hear the sound coming from market psychology.

This sound tells us "the price begins to soar after bounding up from the bottom," or "the price begins to fall after hitting the ceiling."

Even when the price temporarily goes up and down during the uptrend, the sound will tell you that it will continue to rise or it will continue to fall. Therefore, not being able to hear this sound coming from the market psychology is to be miserably shoved away from the market after being abused by the bouncing market price. When the market moves fast, you have to be able to respond quickly. In order to do that you have to create calm within your mind, and quietly listen to the sound coming from the market.

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by Lee, Hyongdo

Discover the investment secrets and the 58 alchemic techniques

From the candlestick chart creator, the richest man in Japan during the Edo Era.

They are sure to help you start winning in the stock market

Honma's Fountain of Gold is revealed for the first time

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*Quotes from Honma Menehisa are boxed to distinguish them from words by the author in the main part of the book.

Honma Munehisa, the Creator of the Candlestick Chart

I was motivated to write this book, *The God of Trading, Honma* for a simple reason: it all started with a rather mundane and ordinary question that suddenly popped into my head about the person behind the candlestick chart, which all investors turn to as an essential reference in stock trading. While investing in the stock market I used to refer to the candlestick chart myself all the time without any critical thought about the chart itself. I believe that I'm not the only one with regard to this. Then one day, I wondered who created the chart and wanted to know more about the creator. However, I found nobody was really able to give me clear answers to my questions.

A candlestick chart is a type of bar-chart used primarily -- and very conveniently – by people around the world as an essential tool in investment. The chart reflects the market psychology, and shows the price and directional shifts of security markets for anybody's easy and clear understanding of them. An essential and useful tool, I had been using it all those years without ever wondering about the man who was behind it all. While thinking about it, an idea flashed into my head like lightning, and I shouted: "It is the man!" I thought if a person could create such a useful investment tool, he must be someone with extraordinary insights and philosophy, not to mention the holder of great investment secrets; the guru of all gurus and the master of all masters in stock investment. He must be more than qualified to become my master I thought and if that was indeed the case, I could find the short-cut to winning in the stock markets – which is like a jungle – with the lessons about investment that I could learn from him. These were some of the thoughts that set me out on a journey in search of this man, Honma Munehisa.

People often say that the stock market is the flower of capitalism. It would be really foolish to think that successful investors participate in this market without a certain philosophy about it. I think that investment should begin from the point of view in which you realize the need of an investment philosophy. This is a way to minimize the chance of loss as well. If you jump into trading with a poorly developed philosophy, whatever you gain from the market will be transient and this kind of luck can hardly be expected to be sustainable. I arrived at this point of view only after numerous failures. Then, I set out on my journey in search of Honma Munehisa and finally came to know him after overcoming a number of problems during the entire process. I am confident that readers will not only learn simple investment techniques but they will also discover the path to investment philosophy, insights into the movement of the world, ways to control the mind, and the mindset with which you should invest when they come to know Honma Munehisa.

To write this book, I researched and collected many resources about his life and events that are associated with him. Before this process, they were organized systematically so that they would appeal to readers more realistically and intimately. I also researched various other historic resources and interviewed many people with regard to the Honma family clan to facilitate readers' understanding of him and his legendary achievements. I took the visual factors into account as well and included related photos.

From the beginning I had the assistance of my old school friend, Kang Shin-yong who translated the resources that were written in Japanese – which otherwise would have been hard for me to comprehend. An expert in Japanese history, he majored in the history of Theology at Dosisha University in Japan as a graduate student. This book would not have been possible if not for his priceless assistance.

I also want to extend my appreciation to my wife Jongmi, the wonderful mother of my children and my companion through this entire difficult journey. She is the one who makes this book truly significant for me. I would also like to thank Yein, my oldest daughter who pushed all our books on the book shelf aside so that she could proudly display Daddy's book at the center of it; Yejin, my second daughter who is so adorable that I cannot find words to describe her but sometimes causes me concern over her indulgence in computer games; and Yeju, my adorable youngest daughter.

In conclusion, I sincerely hope that this book will present readers the right path to investment, a path that begins at the moment of trading and leads to the inquiry into the self and eventually makes you arrive at a philosophy. I hope they will all be successful in the market and take their place proudly in society.

March 2013 Lee, Hyungdo

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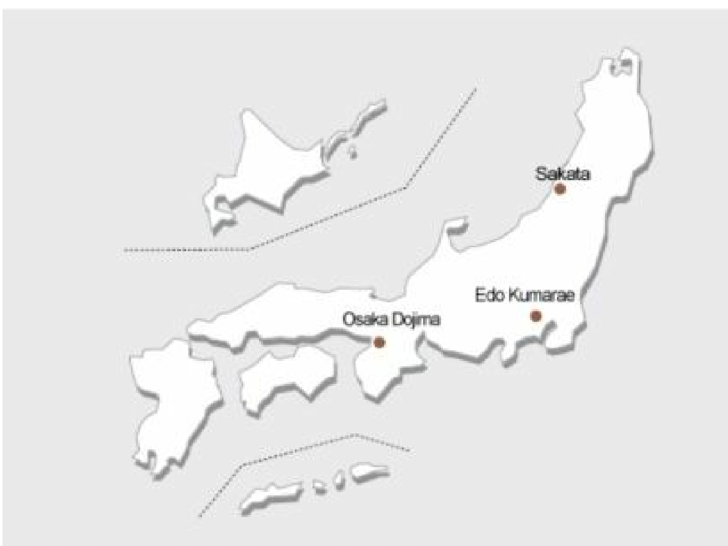
Honma Munehisa (本間宗久,1717~1803)

Honma Munehisa was a rice merchant with such unprecedented trading techniques that he was called the god of the markets. He achieved such success in the family rice trading business that had been passed down for three generations, that by the time he was given control over the family business, the Honma family clan was the richest in Japan. He developed the candlestick methodology that is used worldwide, as well as Sakata's Five Methods, which is a set of methods to decide the timing of selling and purchasing.

Honma's Fountain of Gold, a recently released book about his trading secrets, holds a significant position in the modern stock market.

Traces of Honma Munehisa

The areas marked on the map denote the locations that are referred to in folk songs introduced in this book. When he was given control of his family business, Honma began trading rice at the local rice exchange in the port city of Sakata and amassed a huge fortune within a short time. Sakata was one of the most famous rice producing regions in Japan at the time and the rice produced from this port city was transported to Osaka and Edo for trading. Encouraged by his success in Sakata, Honma Munehisa ventured to Edo and began trading there, but returned home after experiencing a huge failure. He took a break for a while before he ventured out again. Afterward in Osaka he started building trading experience that helped score dozens of consecutive winning trades. In his later life, he went to Edo and continued trading in the local exchange while recording his trading secrets for the next generations.



Sankyo Warehouses

A total of 15 warehouses were constructed between 1893 and 1897, but only 12 of them remain today. One of them is used as an archive center by the Sakata city government and two others as a gallery and retail store.

The rest are still used as warehouses for farm crops. According to documents available in the archive center, the maximum storage capacity at the time was a high as 1,134 tons.

Honma's Ancient Residence

The house was donated to a daimyo in 1768 by Mitsuoka, the third generation head of the Honma family clan. It was built to accommodate an official from the feudal government when he came to inspect the administration of the region and it was built to meet the standards of the Hatamoto Samurai class. Later, the Honma family clan reclaimed the house for their own use during which time the family renovated the rear part of the house in a mix of styles of the Samurai and merchant class. After Japan's defeat in WWII in 1945, the house was turned over to the government and was used as an official building. But today, it is designated as a cultural asset that belongs to Yamakata city and it is open for the public to visit and tour.

An Erosion Control Forest (防沙林)

Built as part of a mega-scale public interest project by Honma Mitsuoka in 1758, the forest was designed to control erosion with pine trees that line the astonishing 35km length along the Shonai beach beginning from south Tsuruoka. During that time, the region was constantly subjected to damage by natural disasters each year due to the wind and sandy dust from the East Sea. Nobody could do anything about it for financial reasons, but Mitsuoka came forward to solve the problem with his private capital. Thanks to this erosion control forest, the Shonai Plains emerged as the best granary in Japan. This consequently triggered rapid growth of the commercial and logistics businesses in Sakata as well. This project earned the Honma family clan recognition as not only the biggest landlord family clan in Japan but also as the family clan that took the first initiative in public interest services.

Honma Museum

This building was originally constructed in 1813 by the fourth generation head of the Honma family clan as a vacation house. Built as another public interest project, the construction of the building was intended to give jobs to port workers who had no jobs and would starve during the entire winter season. The family clan donated the house to the Sakai family clan so that the daimyo of Shonai could rest when they made an inspection of the region, but Honma actually used it as a vacation house. The house was used as a vacation house for about 100 years after it was constructed. In 1945 Japan was defeated in WWII and the building was transformed into the Honma Museum in 1947 in order to promote the cultural heritage and traditions of Japan. The opening of the museum gave the Honma family clan an opportunity to become catapulted into the spotlight again after their reputation went into a downward spiral during the turbulent post-war period.

Tohoku University of Community Service and Science

The only university specializing in community service and science in the world, it was founded in 2001 in honor of the public service spirit of Honma Mitsuoka. The port city of Sakata has a long history where many wealthy and powerful families took the initiative in various projects to serve the community. This university's declared founding mission is to honor and preserve the spirits of their ancestors through academic studies and to use them to illuminate the future. It is based on the motto left by Honma Mitsuoka two hundred years ago; "providing is advantageous." In 2005, a graduate school was founded in a nearby city Tsuruoka.

Honma's Grave

Honma Munehisa died at age 87 and now rests in a small shrine called Tsuitokuji in Edo, Sakamotomachi. His grave is visited by a constant stream of followers who have learned from his collection of secrets and his hidden insights of trading and human psychology.

Part One

Secret Found in a 250-year Old Folk Song

酒田照る照る，堂島曇る，江戸の藏前雨が降る
本間さまには及びもないが，せめてなりたや殿様に
When it is sunny in Sakata,
It is cloudy in Dojima,
And rainy in the rice warehouses of Edo.
Ah, we will never be like a Honma,
But I would settle to become a local lord.

01. Honma, the richest man in the world as he appears in a folk song

It was by pure chance that I got to know about Honma Munehisa (本間宗久, 1717-1803)[1]. While researching the investment techniques known as “Sakata’s Rules” for the stock market, I came upon a folk song with a profound message. Until then, people thought little about “Sakata’s Rules.” Most people thought perhaps it was a set of rules formulated by a man named Sakata, and I was no exception.

1 His name, 本間宗久, is read either Honma Munehisa or Honma Shokyu. Since it’s a proper noun, his name must have had a single pronunciation during his lifetime. However, his name is recorded only in Kanji (Sino-Japanese characters) without Yaminaga (Japanese pronunciation key for Kanji), and the name could be pronounced in two different ways. In this book, his name will be written as Honma Munehisa, which is more widely-known than the other.

However, while learning the real meaning behind the folk song, I was able to discover a few interesting facts. It was only much later that I finally realized that the song was like a key that can lead us to a brand new world.

酒田照る照る，堂島曇る，江戸の藏前雨が降る
本間さまには及びもないが，せめてなりたや殿様に

When it is sunny in Sakata,
It is cloudy in Dojima
And rainy in the rice warehouses of Edo
Ah, we will never be like a Honma,
But I would settle to become a local lord.

This folk song is about a man named Honma (本間) but it does not specify which person from the Honma family clan it is about. Honma is a last name and it could be about the head of the family clan or Honma Munehisa. However one thing is clear: the man Honma was a legendary figure.

There are several locations indicated in this folk song: Sakata(酒田), Dojima(堂島) and Edo(江戸). From the way the weather conditions of these three locations are juxtaposed in the song, we can see there must be some connection between them. But it is not clear how and what they are connected. The lone possible clue is the word whose meaning indicates the rice warehouse.

There is something we need to understand before moving on. The word Kuramae (藏前) in the song is the name of a place that still exists in Tokyo today. You come to this place next to Sumida-gawa (隅田川) on the left if you go from Asakusa (浅草), Daito-gu(台東), Tokyo towards Nihon-Bashi(日本橋). However, I translated the words as"rice warehouse" after having researched records where 藏前 was sometimes written as藏米. I figured people during that period were confused over the two words because they are pronounced similarly in Japanese(藏前 is read as Kuramae and 藏米 is read as Kuramai). Or the warehouse was so iconic to the place that people did not think it necessary to distinguish the two words. For these reasons, I came to believe that all locations indicated in the folk song were connected with each other through the rice.

And the word "local lord"[2] in the last line refers to the lord of a single domain called han (藩) under the Baku-han system (幕藩體制) -- which is equivalent to the feudal system of the West -- during the Edo Era. Han was the name of the estate belonging to a warrior in Japan during the time and the fiefs of the daimyos (the domain lord) during the Edo period were called han. Since the Meiji Restoration Era began in 1868, it appears that this folk song was written at least 140 years ago. An important fact is indicated in the last line of the song which goes "Ah, we will never be like a Honma, but I would settle to become a local lord." From this line we can conclude that the man referred to as Honma was a figure considered by many to be greater than a local lord.

2 In folk songs, Tomosama(殿様) usually refers to a noble class person such as a warrior. During the Edo era, however, the particular term was used for daimyos or Hatamotos(旗本), the samurai in the direct service of the Tokugawa shogunate. In this book, I translated it as a local lord with the context of this particular folksong taken into consideration.

In addition, we find a clue about the estate that belonged to the local lord mentioned in this song and the line that reads: "When it is sunny in Sakata, it is cloudy in Dojima, and rainy in the rice warehouses of Edo."Considering how Sakata is described as having a positive climate, we can assume that the man indicated as Honma must have had a certain connection with the region of Sakata. As for the local lord who is being compared to Honma, he must have been the one who ruled the Sakata region during that time. If my assumptions are all correct, the local lord who ruled Sakata during the Edo Era was a man from Shonai, and he was from the Sakai family clan. If this is all true, that means Honma was a man whose achievements were so great that people admired him more than Sakai, the local lord from Shonai.

This has been my interpretation of the folk song, if just a brief and sketchy one. However, I had to do some further research to fully understand the hidden meanings of the folk song.

What Happened in Sakata, Dojima, and Kuramae?

▸ Sakata

Before moving on, here is a brief overview of the locations indicated in the folk song. The first location that appears in the song is Sakata, a region to the north of present day Yamagata(山形) flanked by the East Sea on the west.

Yamagata Prefecture (山形県, Yamagata-ken)

Yamagata Prefecture is located northwest of Japan and its population is estimated to be over 1.25 million people. The capital is Yamagata city. The area is surrounded by the Ou Mountain range – where the Chokai (鳥海) volcano can be found -- to the east, and the Dewa (出羽)Mountains and the Echigo (越後) Mountains to the west. Those three mountain ranges run parallel to the coast from north to south. The Mogami-gawa (最上川, Mogami river) runs between the two mountain ranges and the Shonai Plain was formed at the bottom of this river. Rice farming is dominant in this agrarian region. This is the region where Shonai-han was located during the period that lasted from the Tokugawa Shogunate to the Meiji Restoration.

[Shonai Plain]

Sakai Tadatsugu (酒井 忠次)[3], the daimyo of Shonai-han, was so loyal a samurai to Tokugawa Ieyasu(徳川家康, 1543~1616) that he is considered as one of the Four Guardians of the Tokugawa.

3 Sakai Tadatsugu (酒井忠次, 1527~1596) was one of the four samuraiwho were considered the most loyal vassals to the Tokugawa shogunate. Called the Four Guardians of the Tokugawa, the other three were Honda Tadakatsu (本多忠勝, 1548~1610), Ii Naomasa (井伊直政, 1561~1602), and Sakakibara Yasumasa (榊原康政,1548~1606).

Ieyasu took over the unified empire after the death of Toyotomi Hideyoshi (豊臣秀吉, 1536~1598). He attempted to increase his power by comprehensively reforming the existing feudal system nationwide because -- after having experienced a period of war earlier in his life -- he was aware that the loyalty of daimyos was[4] not guaranteed when the foundation of power was unstable.

Daimyos were given estates by the shogun[5], the de factor ruler and the military dictator whose power was greater in real life than that of the emperor. Since a shogun was a hereditary military commander, the shogun's powerful authority was passed down for generations within the same family clan as long as the shogunate regime remained in power. The political structure of the 260 years of Tokugawa Shogunate, or Tokugawa Bakufu (徳川幕府) that began with Tokugawa Ieyasu is called the Bakuhan System -- which denotes a political system ruled by shoguns and daimyos (the subordinates of shoguns) – and the shogunate period through which Tokugawa Ieyasu ruled Japan with Bakufu government in Edo is called the Edo Era.

4 A daimyois a samurai who served the shogun, and headeda *Han*estate whose rice production was assessed at 10,000 koku (50,000 bushels). The *Han*, or their estates, were awarded to the daimyos by the shogun.

5 The actual Japanese term for Shogun as we know it is "Sei-i-tai-shōgun (征夷大將軍)." Tokugawa Iyesasu was appointed the first shogun by the emperor in 1603, the year that marks the beginning of the Edo era

During the process of gaining control over Hideyoshi's troops and rising to power, Ieyasu inevitably created many enemies. They vowed their loyalty to Ieyasu but that did not mean they could be trusted. Therefore, after setting up his Bakufu government in Edo, Ieyasu designated the areas around Edo to be under the direct control of his government to protect his political position and he divided daimyos into three groups with each group in charge of politics, the economy, and the military respectively. These three groups of daimyos were called Shinpan Daimyo (親藩大名), Fudai Daimyo (譜代大名), and Tozama Daimyo (外樣大名). Shinpan daimyos were the relatives and descendants of Ieyasu and they were appointed to rule areas closest to

Edo while Fudai daimyos consisted of vassals of the Tokugawa that were assigned to rule areas that were closest to Edo next to Shinpan daimyos. Tozama daimyos were those who had the potential to revolt since they were the feudal rulers that surrendered after the Battle of Sekigahara[6] and therefore less loyal to the new regime. They were assigned to areas that were farthest from Edo because Tokugawa Bakufu always kept them in check. In this way the Bakufu government was able to protect Edo by the loyal Shinban and Fudai daimyos.[7]

6 It was a battle that took place in 1600 in Sekigahara, Gifu (岐阜)Prefecture, between Tokugawa Ieyasu and Hideyoshi. Also known as Tenka Wakeme no Tatakai(天下分け目の戦い), whose literal meaning is the Battle for the Sundered Realm, it was a decisive battle that in fact paved the path for Tokugawa Ieyasu to become the Shogun.

7 When the Bakufu government's power declined later, the Tozama daimyos -- who had a grudge against the Bakufu for discrimination -- took the initiative to overthrow the government and launch the Meiji Reformation.

Shonai-han was located at the current Yamagata Prefecture and under the rule of Fudai daimyos that consisted of vassals of the Ieyasu family clan. Shonai-han was not far from Edo geographically and we can take this as evidence of how trusted the Sakai family clan was by those who were close to Ieyasu.

The city of Sakata is located within the Yamagata Prefecture territory. A small city with a population of barely 100,000, it is considered an industrial port city.

The area is surrounded by the vast Shonai Plain, a fertile granary that has been the center of a great many battles to seize power. It is one of the largest granaries in Japan that stretches 100km from south to north and 40km from west to east. The Mogami-gawa (最上川) is a river in Yamagata Prefecture that runs through these plains and Sakata city on its way to the East Sea. This river was essential for farming in the region and it was also an important waterway for the transportation of rice produced from the Plain to other distribution depots such as Edo and Osaka. Japan being a country with many high mountains, it sometimes took almost a year to transport rice over the land route to Edo. However, once the waterways of rivers and oceans were made available, the transportation time was cut down to about three months.

There is a smaller river that runs from Sakata city towards the Mogami-gawa. Sankyo Warehouse (山居倉庫), one of the most well-known rice warehousing facilities, can be found next to this river in Sankyo. Today this warehouse is a tourist attraction visited by many people. We will learn more about this warehouse in a later part of this book.

Sakata Port had been declining since the Meiji Reformation but the port has been growing again in the modernization period supported by the construction of industrial complexes that include petro-chemical and large-scale shipbuilding industries in the area.

Sakata City: The city seen to the north from Sakata Station. Chokai Mountain can be seen in the distance

Mogami-Gawa: The river is seen from Sakata port at the south part of the river. The river runs into the East Sea to the left.

Niida-gawa – The river runs into Mogami-gawa past the Sankyo warehouses on its way to the final destination in the East Sea.

▶Dojima

The folk song sings: "When it is sunny in Sakata, it is cloudy in Dojima, and rainy in the rice warehouse of Edo." So, what is this place called

Dojima?

Dojima is the name of a place that still exists in Osaka and it has been famous since ancient days for rice trading. According to records the largest rice exchange market in Japan was located in Dojima. The volume of rice exchanged in this market was enormous enough to determine the entire rice supply in Japan as well as the rice price for markets nationwide.

You may wonder what made Dojima the biggest rice exchange market in Japan. The answer can be found in the historic background of the city Osaka that is housed there.

Today, Osaka is a large city with a population of over 2.5million and it creates the Delta of the Yodo River (Yodo-gawa, 淀川) along with the Uemachi Plateau. The city is usually called Suito (水都) or an aqua-polis in English because there are many rivers and streams (Dojima-gawa(堂島川,), Dosabori-gawa(土佐堀川), Higashi Yoko Bori-gawa(東横堀川), Giz-gawa (木津川), and Dotonbori-gawa (道頓堀川)) that pass through the center of the city. Osaka has also been known as the City of Eight Hundred and Eight Bridges (八百八橋) because there are over 800 bridges throughout the city.

The city started to grow rapidly when Hideyoshi built Osaka Castle in 1583. Due to the advantageous geographical proximity to Kyoto, the city continued to grow into a commercial city where crops such as rice and various other merchandise were traded even during the reign of Tokugawa Bakufu, whose capital was in Edo. During the Edo Era, Osaka was such an important city that it was nicknamed the Kitchen of the Nation (てんかのだい

どころ) and eventually it became one of the three largest cities in Japan along with Kyoto and Edo.

Osaka, the Aqua-Polis: The streams that cut across the city serve as waterway channel to transport the grain from around the country to the city, thereby making the city earn the nickname the Kitchen of the Nation.

There is a historic figure we must mention with regard to the city of Osaka: Toyotomi Hideyoshi. In fact, he is the reason Osaka became what it is today. Here is a brief summary of how his construction of Osaka Castle sparked economic growth in this city.

The so-called “100 Years Warring States” period in Japan started with the Onin War in 1467. This turbulent time of history gave birth to many historical heroes in Japan. These heroes from this warring period are called Sengoku daimyos (戰國大名) and the period itself is called Sengoku Jidai (戰國時代). Among the heroes from this period were Oda Nobunaga (織田信長, 1534~1582), a domain daimyo with a relatively small estate that defeated the troops belonging to Imagawa Yoshimoto (今川義元, 1519~1560) thereby achieving a sudden rise to great power. Later he went on to defeat the troops that belonged to Takeda Shingen (武田信玄, 1521~1573) and his son Takeda Katsuyori (武田 勝頼, 1546~1582). Later on, he was rivals with the powerful daimyo Uesugi Kenshin (上杉謙信, 1530~1578). When Kenshin suddenly dropped dead just before a battle, it seemed Nobunaga would conquer all of Japan. But Nobunaga was betrayed by one of his trusted vassals named Akechi Mitsuhide (明智光秀, approximately 1528~1582) and was pushed to the edge in Honno-ji (本能寺) and then set fire to himself. A major historic incident that left a big mark in the records of Japan's warring period, there is a theory that says this incident was planned by Hideyoshi with Mitsuhide as his accomplice.

Whatever the truth might have been, the biggest winner from this Honno-ji Incident turned out to be Hideyoshi. First, Hideyoshi defeated Mitsuhide's troops in a battle to punish his betrayal. Mitsuhide managed to emerge from the battle with his life but ended up being killed by farmers. While Hideyoshi was growing in power, he seized the castle that belonged to his biggest political enemy Shibata Katsuie (柴田勝家, 1522~1583) and made him commit suicide by Seppuku (切腹), a ritual suicide ritual involving disembowelment. Now Hideyoshi was left with no rival to match him except for Ieyasu. But even Ieyasu -- an enemy in an uncomfortable relationship -- became his subordinate after signing a treaty with Hideyoshi. Consequently, Hideyoshi became the ruler of a united Japan after bringing down all the daimyos of Japan in just eight years since Nobunaga burnt himself to death in Honno-ji.

He started the construction of Osaka Castle right before he was to unify the entire nation. Osaka was a critically strategic city since it was close to Kyoto, where the emperor was based. Seizing the city where the emperor resided was of critical importance to become the ruler of a unified Japan. The location had other advantages: the city had a secure waterway transportation system thanks to Yodogawa Prefecture and Osaka Port; it was surrounded by fertile plains; and it was within close proximity to many other developed cities. It was also a strategic point in terms of the military because it was where Ishiyama Hongan-ji (石山本願寺) was located; he waged an attack on the fortress for five years before he finally could bring down Nobunaga.

Once the decision was made to construct Osaka Castle, Hideyoshi went on to plan for a major construction to push growth of Osaka into a city that would surpass Kyoto. For this plan, he ordered all daimyos nationwide to support the construction by supplying raw materials and labor. Behind this order was an intention to weaken the forces of daimyos as well. Afterward, a massive amount of construction materials was delivered to Osaka from around the country and tens of thousands of laborers – masons, carpenters, smiths – were called to the city in order to build the massive castle for Hideyoshi.

Hideyoshi also carried out a comprehensive land survey by sending land surveyors throughout the country and making them measure the land in-person. During this process the cultivated land and pastureland increased explosively and daimyos that collected the rice tax from farmers saw their warehouses overflowing with rice. Most of this rice made its way to either Osaka or Kyoto by merchants and brokers for commercial trading. When Hideyoshi started The Seven Year War with Korea, a massive amount of military rations were traded in these cities before and during the war. By the time the Edo Era began, Osaka had grown into the hub of a nationwide economy and was called the Kitchen of the Nation, a depot for materials and products that came from around the country.

Dojima Rice Market was the center of rice trade and exchange in Osaka. In the past, the rice was traded most dynamically in the front yard of Kitahama (北浜) warehouse. Although the trading site was relocated once to Dojima in 1697, Kitahama became the hub of commodity trading in Japan and where the national price of rice was determined. Beginning in 1710, people started trading the rice that they had in storage as well as the rice that was to be delivered in the coming harvest season. Dojima Rice Exchange held its official opening in 1730 after the Bakufu government approved the commercial trading of rice. A monument in the shape of a boy holding a rice plant is installed on the site to commemorate the event.[8]

8 In Japan, there are currently six stock exchange markets (Tokyo, Osaka, Nagoya, Sapporo, Fukuoka, and JASDAQ), four commodity exchange markets (Tokyo Grain Exchange, Central Japan Commodity Exchange, and Kansai Commodities Exchange) and one international financial future exchange market known as TIFFE (Tokyo International Financial Futures Exchange). Dojima Rice Exchange is considered the birthplace of futures trading

▸Kuramae

The folk song sings: “When it is sunny in Sakata, it is cloudy in Dojima, and rainy in the rice warehouse of Edo.” So, what is this place called Edo?

As was previously mentioned while describing Sakata and Dojima, Edo was the capital of the Tokugawa Bakufu and it is the city we know as Tokyo today. Edo was the center of Japanese history for 260 years since Ieyasu set up his Bakufu government and that is why the Tokugawa Bakufu period is called the Edo Period or Edo Era. In other words, Edo was the capital of Japan during the Edo Era. Everybody is aware that Tokyo is the current capital of Japan today but not many people are aware that the history of the city as the capital of Japan can be traced back as far as the Tokugawa Bakufu.

When Hideyoshi died in 1598, Ieyasu began to move in his ambition of seizing power. The biggest obstacle in his political ambition was Ishida Mitsunari (石田三成, 1563~1600), but he defeated Mitsunari’s troops in 1600 in the Battle of Sekigahara. He went on to bring down the vassals and allies of Hideyoshi and continued to expand his power. Eventually he seized Osaka Castle that belonged to Hideyoro – the son of Hideyoshi, a thorn in his side– and rose to power with quintessential authority. He secured a concentration of power while containing the forces of the daimyos so that his descendants could remain in power even after his death. Even though Ieyasu constantly worried about the daimyos rising and threatening the Shogunate, his grandson and the third shogun of the Tokugawa Shogunate, Iemitsu (家光, 1604~1651), successfully laid a solid governing foundation for the Shogunate's regime over the next few hundred years.

The second shogun Hidetada (秀忠, 1579~1632) formally promulgated Buke Shohatto (武家諸法度) -- which was the set of edicts all daimyos were required to follow -- as an important measure to contain the daimyos. One of the important parts of the edicts involved the marriage system in which all marriages between daimyo families were required to get approval from the Bakufu. The Bakufu government took advantage of family ties as an important measure to contain daimyos and marriage was the most effective tool for that purpose. Shoguns made family ties with daimyo families by marrying their daughters to their sons or having their daughters adopted by them. In some cases, Shoguns adopted daughters from daimyo families so that they had to remain loyal to the regime. The Tokugawa Bakufu regime was careful about kinship and was always aware of the possibility that the daimyos would use marriage to build political power through the establishment of family ties. For that reason, the Bakufu government required all daimyo families to get approval from the government when there was a marriage between daimyo families. Tokugawa also prohibited daimyos from building new castles and he even required that daimyos apply for approval from the Bakufu government when they needed to repair existing castles. All these measures were intended to prevent the possibility of rebellion by daimyos. To ensure strict enforcement of the edicts, Tokugawa promulgated severe punishments including the confiscation of estates in addition to personal prosecution for any daimyo who violated them. All these policies were effective measures to contain the daimyos as Buke Shohatto took root as the established legal system.

Iemitsu, the third shogun who succeeded Hidedata, added another measure to Buke Shohatto: the Alternate Attendance System (Sankin Kotai, 參勤交代). This new system required all daimyos to build a residence in Edo and work on a rotation basis by moving periodically between Edo and their estates. Their wives and children were required to remain at the residence in Edo as hostages. This new policy created significant extra expenses for daimyos first because they had to build a residence in Edo where they would stay with their families in alternating years and second because they and their subordinates had to travel a long distance between their estate and Edo. This new policy engendered such excessive expenditure that it eventually undermined their financial situation.

However, the situation was different in Edo where the new policy created a totally opposite economic effect in the form of a booming economy and dynamic commercial activities. Edo during this time was divided into two districts with distinguishing demographic characters: Yamanote (山手) which was populated mostly by the warrior caste and Shitamachi (下町), which was populated mostly by merchants and artisans. The Yamanote region over the years grew to be a modernized part of the city while the Shitamachi region remained a traditional part of the city where many families continued on with family businesses that had been passed down from one generation to another for hundreds of years. For that reason, in the Shitamachi area there are still many remnants of the Edo Era today. The Asakusa area in particular is marked by many traditional stores, the most famous of which includes Nakamise (仲見世) from which you can see all the way to to Senso-ji (淺草寺). One of the oldest shopping centers in Japan and the symbol of Asakusa, Nakamise refers to the long commercial street lined with traditional stores on both sides, stretching past Kaminarimon (雷門) -- the gate of Senso-ji and the symbol of Asakusa -- and continuing on all the way down to the Hojomon gate (寶藏門).

Nakamise: The street leading to Senso-ji is lined on both sides with traditional stores whose history traces all the way back to Edo Era.

The area surrounding Nihon-Basi is another place where many traditional houses and stores remain today. Originally this area bordered an ocean but when Ieyasu set up his government in Edo, he launched a land-fill project and turned the area into solid ground. Soon after, the Nihon Bashi Gawa (日本橋川) was constructed to serve as a bridge as well as drainage and another large bridge was built from which the Edo Castle could be seen directly in the front. This large bridge was named Nihon-Basi. It was built with wood when it was first constructed in 1603 but it was re-constructed as a stone bridge in 1911. The vicinity of this bridge is another area where you can find many traditional stores that have been passed down as a family business since the Edo Era. Today, it is a thriving commercial district that houses bank and stock company headquarters including the Tokyo Stock Exchange and the Bank of Japan which is Japan's central bank.

Nihon-bashi: Re-built in 1911, the bridge itself has little traces of the Edo Era left today. However, the namesake district around the bridge has a reputation as a commercial district with long-established history.

Monument at the entrance to the fish market: The monument stands to tell that it is where the fish market was first established during the Edo Era. The market was created when people brought in leftover fish products to trade after supplying the fish to the Bakufu government and daimyos.

Original Mark: A mark indicating the original birthplace. Nihon-bashi is the starting point of five roads that were built in 1604 during the Edo Era. This original mark can be found under the Nihon-bashi bridge.

The new policy engendered a cultural boom as well. Realizing that their power was declining, daimyos began to spend more money in an attempt to make themselves look more powerful and distinguished from others. Their drive for power was manifested through the display of a luxurious and high-flying lifestyle which they intended to be indicators of their comparative superiority over others and this trend resulted in the culture of lavishness in Edo. Therefore it is not surprising that Ukiyo-e (浮世)[9], a genre of Japanese art whose popular motifs included pretty dancers, sumo wrestlers, and landscapes, was born during this time. The Ukiyo-e art genre began with monographic ink paintings but starting in the 18th century. Brilliant colors emerged until the colored woodblock prints began to represent Ukiyo-e art. The motifs of this art genre however were mostly everyday activities that had nothing to do with politics or political messages, subsequently making the artworks appealing even to commoners. Some of the most famous artworks by the Ukiyo-e artists from the Edo Era are presented in the later chapters of this book.

9 The term "Ukiyo (浮世)" means floating world and "(絵)",paintings. So Ukiyo-e refers to the paintings by the Edo artists who established their unique school of paintings by describing the lifestyle and the contemporary scenes and customs of the world in which they lived during the Edo period

Nohon-bashi: The painting describes one aspect of the everyday life of commoners who are crossing the Nihon-bashi bridge. The painting is by Ando Hiroshige (1797-1858).

Edo Nihon-bashi, one of the 36 landscapes of Fuji Mountain: The painting describes the rice warehouses near the Nihon-bashi with Fuji Mountain as the backdrop. The laborers are unloading the rice from the boats. The painting is by Katsushika Hokusai (1760-1849).

Kuramae: Visitors today can find no trace of the past in this place, except for the post that informs that there were rice warehouses during the Edo Era

Sumida-gawa: Sumida-gawa is the river that served as a waterway for the transportation of rice to Kuramae. The photo was taken from Asakusa looking towards Kuramae.

At any rate, while Edo was experiencing an increasing number of daimyos and the commercial boomed from the increasing demand for vanity luxuries, the local towns that were under the rule of these daimyos were suffering from increasing financial deficits and declining power. At the time, the main revenue for daimyos was the tax that they collected from the residents of estates that were given to them by the shogun. The commoners on their estates paid their tax with rice and daimyos used this revenue from the tax to pay their vassals and lower-level warriors who did not own any land. In the earlier days of the Bakufu regime, daimyos stored the rice tax in their warehouses and used it whenever necessary. But with the enforcement of Sankin Kotai -- the Alternate Attendance system -- they needed to build additional rice warehouses in Edo or Osaka to pay for their extra expenses. In other words, they had to maintain and manage a rice warehouse in Osaka or Edo so that they could cash the rice stock in or trade it for goods anytime they needed to. As a result, over a hundred rice warehouses – all of which belonged to and were maintained by different daimyos and their estates -- were built in Osaka and an increasing volume of rice was sold and traded. Kuramae was the area of Edo where those rice warehouses were concentrated. In the folk song, I translated Kuramae as “the rice warehouse” for the convenience in understanding this context.

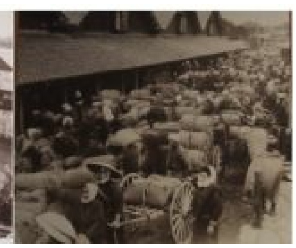
On the post standing in front of the Kuramae station, you will find the following information:

“This street was renovated and reorganized based on what had existed here since 1934. It was in 1621 when the town was named Kuramae; it was named after the many rice warehouses that were built in the area. They were built around 1615 by excavating the hill of Dorigoe and using the dirt to build up the buildings by the riverside of Sumida-gawa at its current location. During that time, there were 67 rice warehouses including one they called Asakusa Bokufu Rice Warehouse with a storage capacity of 625,000 sacks of rice that weighed about 37,000 tons. The rice stored here was used either as contingency rations for the Bakufu government, or to pay Hatamotos -samurais in the direct service of the Tokugawa Bakufu -- and any others who did not own estates. A monument is built near the Kuramae-basi bridge to indicate the location where the rice warehouses used to be in ancient times.”

From rice production to distribution seen through the Sankyo Warehouse

From the Edo Era until today, many warehouses have been built in major national depots for the storage and distribution of rice in Japan. The following photos show how the rice was delivered, stored, and traded in Sankyo Warehouse, which was built in Sakata, the hometown of Honma Munehisa. Since Sankyo Warehouse was built in 1893, it does not have any direct connection with Honma Munehisa. However, we can get an idea of what rice warehouses must have been like during Honma Munehisa's lifetime from these photos because the current warehouses are recorded to have been built based on "past experience" and some records indicate the existence of a rice exchange market (米會所) in the same location.





-The full view of the warehouse facilities
-Sankyo-bashi
-Farmers bringing the rice into the warehouses
-The rice being brought into the warehouses

The rice warehouse was first built in 1886 by Sakata's Rice Trading which later changed its name to Sakata Rice Exchange in 1893. The same year, seven more rice warehouses were added. The number of warehouses continued to increase over the following years; four more in 1894, two more in 1895, and another two in 1897, making a total of 15 warehouses according to records. Each warehouse was 396 square meters and had an average storage capacity of 13,400 sacks or 804 tons. If piled to the maximum height to the ceiling, they could store up to 1,134 tons of rice on average.

Among the 12 that remain today, one has been converted to Shonai Rice Historical Museum (庄内米歴史資料館) by the Sakata city government and opened for visitors. Two of them were converted into a tourist facility called Sakata Yume No Kura(酒田夢の倶楽) which is a combination of gallery and locally-produced souvenirs shop. Other than these three, the rest of the warehouses are still used as agricultural product warehouses by the Agricultural Co-Op Association of Shonai (全農庄内).

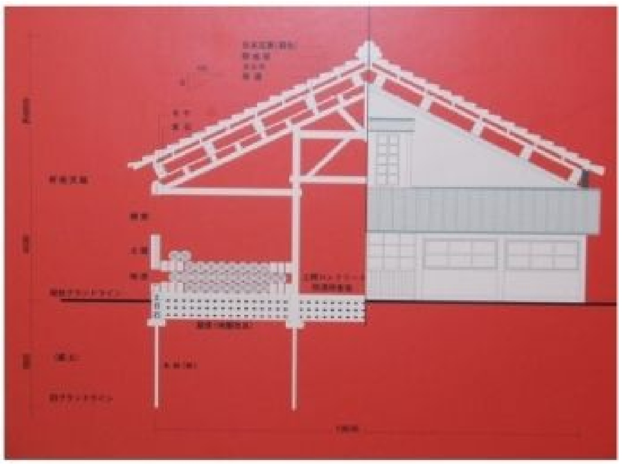
Sankyo-Bashi (山居橋) was constructed in 1893, the same year that the warehouses were built, but it was demolished in 1959 before being reconstructed with wood when the area was developed into a tourist attraction. Two photos at the bottom are from the historic archives and they show how farmers brought in rice to the warehouses en route to the bridge.

When you look at the inside and outside of the warehouses you can see the design genius that is unique in Sankyo Warehouse, where extensive past experience and the technology available at the time resulted in an impressive scientific combination. First there are the Zelkova trees that grow tall behind the warehouses. They create a magnificent sight along with the dark walls of the warehouses but they are more than just decorations. The trees were planted in the shape of an L in a southwest direction so they can get plenty of sunshine beginning from noon throughout the afternoon. In summer, the generous shade of the trees blocks the solar heat and prevents a sudden jump of the temperature inside the warehouses, but in winter, it helps the temperature remain stable by blocking the wind blowing from the East Sea.

The buildings themselves are designed scientifically to keep the humidity and temperature stable inside. The most noticeable structural feature is the gap between the storage space and the ground, which allows good air ventilation. This space prevents the geothermal heat and humidity from entering the storage space, while at the same time dispersing the temperature generated by the piled up rice sacks.

The walls were built by plastering mud in a 20cm thick layer over the wooden frames to realize natural control of the temperature. The mud is plastered all the way up to the ceiling but there is another gap between the ceiling and the tiled roof. The walls are treated with lime for increased fire and water-proof protection. This style of construction is called the Dozo Zukiri (土藏造りwarehouse construction method, which was promoted for the construction of residential buildings for commoners as well after the great fire that took place during the Edo Era. The buildings constructed in Dozo Zukiri style rarely led to a big fire because the roof is detached from the main body of the building. Even if there was a fire in a certain part of the building, it was cut off before spreading to other parts due to this gap.

Zelkova trees behind the warehouses



Warehouse structure

Gutters that were used as water pipes as well as fire hydrant


Scene of rice inspection


Onnakashi

Wood block that was used to print rice coupons

In addition, a gutter was installed from the roof to the ground in front of the warehouses for the fast removal of rain, and the rain was collected and stored to extinguish any fires that did occur. These measures were part of the strategy to prevent any possibility of a big loss due to the spread of fire from one place to another.

You may wonder how much it cost to build warehouses in this design. An archival record has this explanation:

> *"Seven warehouses were built in 1893 but more were added until there were 15 warehouses in total by 1897 with the entire site totaling about six thousand square meters. The total construction cost was 209,387 yen at the time. Considering how the average price of rice was about 3.20 yen per 60kg, and how the same volume costs about 20,000 yen today, we can estimate that the cost was several billion yen in today's value."*

Inside the archive hall, visitors can see various models that show how they were constructed at the time. Here is the process that shows how the rice was brought into the warehouses, according to these models.

Once the rice arrives at the warehouse, it goes through a series of inspections to be graded and weighed as well as other steps.

The inspection process requires an administrative official, an inspector, and two farmers (the buyer and seller). The rice is inspected in accordance with the strict rules mandated in the Standard Guidelines for Rice Inspection and is accorded one of five grades. When the rice is graded, it is then weighed to make sure it is four toi (斗, a Japanese measurement of about 18 liters)[10] as required by law. When the rice passes through all these steps and is approved, the administration issues a receipt which authorizes the rice to enter the warehouse. This receipt was usually called a warehouse receipt. The rice is brought in and out of the warehouses by a group of women specializing in this work. These women were called Onnakashi (女仲仕). According to records, some Onnakashis could carry as many as five sacks of rice at once. If it is true, it means an Onnakashi woman carried 300kg of rice on her back. Inside the museum, there are sacks of rice that weigh 30k and 60kg respectively so that visitors can get an idea of how heavy they were.

When the sum of receipts added up to 10 bales -- or 1,500kg in weight -- of rice approved for storage in the warehouse, the farmer could exchange the receipts for rice coupons[11] which he could sell at any time at market price. The rice coupons were welcomed even in banks. Due to the strict rice inspection and maintenance at Sankyo Warehouse, rice coupons issued from here were highly trusted and welcomed, so much so that they could be cashed at any time. The reputation of these rice coupons was known as far as Dojima and Osaka. The rice coupons issued by Sankyo Warehouse were the most preferred in the Dojima Rice Exchange.

10 The volume unit for measuring rice was: one sho(升), which is equivalent to 1.5kg, one toi(斗) which is ten sho and equivalent to 15kg, and one koku(石), which is ten times atoi and about 150kg. One sack of rice was about 60kg, or four toi.

11 The receipts were called either warehouse receipt (倉荷証券), depository receipt (預米證券) or pledge receipt, but they were exchangeable for rice coupons

Birds-eye view of the Sankyo warehouses and surrounding area

After rice is approved for storage in the warehouse, it is ready to be traded and delivered. As we can see from the bird's-eye view, the ships that carry the bales of rice loaded at the wharf in Nidagawa sail along the river until they arrive at Mogami-gawa, from where they continue to sail towards the East Sea on their way to big cities en route to Nishimawari-koro(西廻り航路)[12]. The ship that they used for rice transportation was called Sengoku-Bune (千石船). As the name of the ship indicates -- its literal meaning is "ship for a thousand bales of rice" -- it could transport 150 tons, which is equivalent to a thousand bales of rice at a time. This has been a brief summary of how the rice is transported from the production regions by ship and sent for storage to such cities as Osaka until it is traded.

12 In 1671, the Bakufu government developed ocean transportation routes with the goal of easier and more convenient transportation of rice from the Shonai Plains to Edo. One of them was the Nishimawari-koro, whichwas the west bound shipping route that connected Sakata to Shimonoseki(下關) , Osaka and Edo, and the other was the Higashimawari-koro (東廻り航路), which was the east bound route that connected Tsugaru Strait(津輕) and Eco via the pacific ocean coastline.

Ruling the World with Rice Trading

From what we have learned up to now, we can tell that the three locations indicated in the folk song – Sakata, Dojima, and Edo – are all connected with each other through rice. Sakata was the major rice producing area in northwest Japan, while Dojima was a major depot for rice producing and distribution in the Kansai region (関西地方), which lies in the southern-central region of Japan's main island, Honshu. Kuramae was also an important hub of rice production and distribution during the Edo Era for the areas around the capital and the Kanto region (関東地方) which lies to the east of Honshu. Even though Sakata was only a rural town farther from the major cities than the other two, the song praises Sakata as if it were greater than Osaka and Edo,

When it is sunny in Sakata,
It is cloudy in Dojima
And rainy in the rice warehouses of Edo
Ah, I will never be a Honma,
But I would settle for being a local lord.

Even though it is only a distant rural town, Sakata in the folk song is described as being more important than Osaka and Edo perhaps because of its close ties with the man named Honma. We can also assume that the man named as Honma here had something to do with the rice which connects all three areas named in the song. Therefore, we can deduce the important secret that is hidden in this folk song that was created at least 140 years ago: it is the rice.

This interpretation is also in line with records of how Honma Munehisa amassed a huge fortune in the rice trading business. In the folk song, Honma is supposed to be wealthier than a domain daimyo. People wished they were a domain daimyo but could not even dream of being a Honma in this song, which indicates that he was a man of wealth that ordinary people could not even dream of possessing. He was a man that belonged to a different level – a level of absolute wealth – whose impact was so great that it could make it cloudy in Osaka of Toyotomi Hideyoshi, and rain in Edo the capital of Tokugawa Bakufu. According to legend, the land that belonged to the Honma family clan reached from today's Akita (秋田) to Nigata (新潟), a distance that takes you over an hour by car. It gives us some idea how amazingly wealthy his family clan must have been.

Given the influence of the folk song, we can also see that he had extraordinary investment skills, so much so that the rice traded in Sakata, a distant rural town, determined the nationwide rice price in Japan during his time. Then we come to the conclusion that Honma Munehisa was a man who ruled the entire country with rice, even though he was from Sakata, a distant rural town, living in a time when the eighty Shogun of the Tokugawa Bakufu during the Edo Era, Yosimune (吉宗, 1684~1751) were the political rulers of the country.

So, who is this man, Honma Munehisa?

02. Dojima Rice Exchange and the Advance Payment Check (先納手票)

Before we get into the stories about Honma Munehisa, it helps to be more familiar with a few things, one of which is the Dojima Rice Exchange of Osaka.

I have already mentioned how Dojima Rice Exchange became the biggest rice trading market in Japan during the Edo Era. In Osaka at the time, rice was traded dynamically because daimyos from around the country had rice warehouses in Osaka and they cashed in rice to pay their vassals and expenses that entailed the Sankin Kotai (参勤交代) system and a luxurious lifestyle as well as the extra living and political expenses. The rice was traded in many different places throughout Osaka but Dojima was by far the biggest market where rice trading included both the trading of physical rice as well the trading of future expected harvests.

What is Futures Trading and the Futures Market?

Futures trading is a sort of action you take today in preparation for something anticipated in the future. In general, trading means people going to the market either to sell or buy goods. When you are in need of a certain good, you go to the market and buy the good that you need by paying the price. However, there are always goods that are not available at the moment or that you don't need until later. Sometimes you have goods that you don't need immediately but may need in the future or goods that will be available for purchase only in the future. These are the kind of situations that call for trading futures. If you anticipate you will need a certain good in the future, you simply wait until the time when you actually need it. But it is a different story if the price is expected to go up in the future and become higher than it is now and also when the price is expected to drop in the future and become lower than it is now. When you run a large-scale business, this price difference can have a major impact on your finances. Of course, you can purchase the goods that you may need in the future in advance if the price is expected to go up, but then you have to accept various risks including less cash flow, interest if you have to borrow money for the purchase, warehousing expenses, as well as price fluctuation.

When taking all these associated risks into consideration, it would be a wise decision to sign a contract to secure the goods that you will need in the future by putting down partial payment as security and that is the basic concept behind futures trading – making partial payment against the goods you want in the future or signing a contract for an order that will be delivered at certain time in the future.

In the West, futures trading began in the 16th century in the Netherlands and spread throughout Europe, while the US belatedly started futures trading in the 19th century but quickly grew to become the global-scale futures market. However, it is important to note that futures trading was already in practice in Japan as early as the 18th century. Dojima Rice Exchange was Asia's first futures market, and it grew on its own without any influence from the West.

Dojima Rice Exchange in Osaka, Asia’s First Futures Market

At the Dojima Rice Exchange, rice trading included the selling and purchasing of rice that was there now as well as future expected harvests of rice. The transportation and information communication infrastructure of Japan 250 years ago was nothing compared to what is available today and the trading of physical rice required a tremendous amount of human labor. It also cost a substantial amount of money to transport rice from the producing areas to Edo or Osaka, and to store and maintain it in warehouses before it was graded and traded. Besides, rice being an agricultural product that could be harvested only in autumn, it was exposed to unpredictable price fluctuation factors throughout the year.

In Japan, rice was the staple food for the entire population, an important agricultural product that was so essential in their lives that it was accepted as cash. However, the rice that they produced was so short of the quantity that they needed to feed the entire population that they had to import rice from Korea. In addition, Japan was constantly hit by natural disasters such as storms and earthquakes and people frequently suffered from famine. All these situations led to sudden jumps in the rice price or cornering and hoarding. The situation was no better even for daimyos who were entitled to collect rice as a tax. It cost them significantly to collect the rice tax and then transport it to the warehouses in Edo and to store and maintain it there. They were also not exempt from the risk of price fluctuation. It would have been to their great advantage if the rice price went up, but if the price went down or worse, took a plunge, it inevitably resulted in a big loss for them because there were too many fixed costs involved with regard to the storage and maintenance of the rice. Then there was the quality problem as well depending on weather conditions. Understandably, their stake in rice trading was tremendous. Then they found an answer that would solve all these problems at once: futures trading.

Future trading was a great solution even in terms of raising capital. Both the Tokugawa Bakufu and daimyos were in need of significant capital revenue. The Bakufu government was always in need of capital to fund the supply of materials and run the government. It also cost them to maintain human resources and to fund various events and administrative works. Daimyos were always in need of capital to pay for expenses that were associated with the Alternative Attendance system and the fixed costs associated with the ruling of their estates. The luxurious lifestyle of the time -- which remained a social issue throughout the Edo Era -- was another reason they had a constant need for cash. As the financial deficit continued to grow on their estates, an increasing number of daimyos started to turn to futures trading, because they could get the currency that they needed immediately by issuing notes that promised the delivery of rice in autumn when it was harvested, even though they did not have the rice in hand at the moment.

This note that promises the future delivery of rice was a pre-requisite condition of futures trading. This note is comparable to the check we use today and people could trade it at any time during the Edo Era. However, it was not exactly the same as the check that we use today; a check for a hundred dollars will always have the value of a hundred dollars and can be exchanged for that sum at banks. But a promissory note for the future delivery of rice was subject to price fluctuation and it could be valued at 80 dollars or 120 dollars depending on the market conditions. In other words, the value of the note was determined by changes in the price of rice. This note was called the "advance payment check. (先納手票)," indicating the giving of money first in return for receiving rice later.

Tokugawa Bakufu gave full government-level support for the promissory note which came to be known as the rice coupon and allowed merchants to trade it for rice at any time they wanted. Even when a daimyo was prosecuted and his estate was confiscated, the Bakufu government excluded the rice coupon from the confiscation and ensured the safety of its circulation. Therefore, the rice coupon was considered an asset as reliable as currency. However, this rice coupon being subject to price fluctuation, it could result in a big loss when unfortunate factors caused the rice price to take a plunge.

Supported by the enormous amount of rice piled up in rice warehouses in Osaka, Dojima thrived with futures trading, allowing some people to make a fortune while the fortune of others were wiped out. A significant number of people among those who lost everything in the futures market included daimyos possessing estates that brought them hundreds of thousands of bales of rice. Even though daimyos were given estates from which they could collect a hundred thousand bales of rice tax, they always found themselves in need of cash as their deficit continued to grow and depleted their revenue. Whenever they were faced with this situation, the only way they could come up with the much needed currency was to issue rice coupons. In order to sell the rice coupons to the merchants, they had to issue them at a much lower price than what was anticipated in the harvest season and the merchants tried to buy them as cheaply as possible because they were well aware of the daimyos' financial situation. Eventually, daimyos who needed currency urgently issued the rice coupons at cheap prices, consequently forcing them to trade rice at a cheap price in the harvest season. As a result, their deficit continued to grow.

The financial situation of these daimyos ended up bringing about a major social change. During the Edo Era when the caste system[13] -- warriors, farmers, artisans and merchants; in descending order -- was strictly followed, some merchants moved up the ladder in the caste system and in some cases they became more powerful than the samurai and feudal lords who were deeply indebted to them. This was a horrific social change for those who belonged to the warriors' caste, such as samurais and daimyos. In general, daimyos were more terrifying than ghosts to the commoners but the situation got to the point where people cynically said that "when a merchant in Osaka is mad, all the lords of the world shiver in fear." This satire targeted the daimyos who were terrified of the merchants to whom they were indebted. When daimyos, the rulers of estates, got themselves into this situation, we can imagine what it would have been like for the lower-level samurai. Some of them lost their land for collection and some of them had to sell their social status. Even though they were to serve daimyos, some of them were pushed to the edge and had to offer themselves as a hired hand to merchants.

13 During the Edo era, warriors were more than just swordsmen. They were a highly privileged ruling class of the nation who were required to abide by strict rules and regulations so that they served as models to all lower class people.

The humiliation was tremendous for samurai who had to bend their necks to the merchants and become their employees, because samurai were supposed to be an elite group of entitled people with special privileges, one of which was often described as “the right to cut down an insolent commoner and not be charged for the act.” For those who had always enjoyed this particular class privilege, falling from grace and having to become obedient and subordinate to commoners from the merchant caste was an extremely humiliating social change.

What brought about this change was none other than the power of rice, and the place called Dojima of Osaka was at the center of it. And Honma Munehisa was the most legendary figure in Dojima.

Then you may wonder; how on earth was he able to amass such a tremendous fortune?

03. Honma's Fountain of Gold: Discovery of the Oldest Book of Commercial Techniques

When talking about Japanese society we must mention the professions that have been passed down for generations as a family business or the secrets that have been passed down only to a few limited number of people. It is often called the craftsmanship that draws our attention. The craftsmanship of Japan embodies their insistence on keeping their own way, and the way they approach the world while respecting their own domains. It is also the manifestation of their vision of building a renowned family business with skills and techniques that are their own. One of the best examples includes the school of swordsmanship, which refers to the tradition where a certain swordsmanship technique is passed down only to direct pupils. Sometimes this exclusive process helped samurai achieve a great success and landed them a job as a feudal lord who received estates worth hundreds of thousands of bales of rice, or as a high-ranking government official whose duties were to serve the shogun or daimyos.

Why Honma's Fountain of Gold Were Lost?

Honma Munehisa's life can be understood within this framework of tradition. After achieving great success and building a tremendous fortune, he lived his later life comfortably until he died at the age of 87. Before his death, he wrote down his secret trading techniques and secrets of success and left those records behind. Many of his contemporary merchants, as well as numerous people who dreamed of becoming a wealthy merchant sought his teachings, but his writings remained a secret. In fact, people were not aware that such records existed until the Meiji Restoration. There was speculation about the possibility that Honma Munehisa had left records of his business techniques, but they were nowhere to be found.

Eventually people came to believe that there were no such records of his secrets, and that all the speculation and rumors about the existence of such a book were nothing more than speculation and rumors after all. With an increasing number of people denying the existence of such a book, Honma Munehisa's records of his business success seemed to have been forgotten by the world all together. Then his handwritten manuscripts were discovered by a distant relative Kato Kosaku, who compiled them along with many other references and records about him into a book titled, Honma Munehisa's Fountain of Gold. Later, this book came to be known by many different titles, such as 'Sanmiden', 'Sisesanmiden', and 'Soubasanmiden'.

It only came to light later that Honma Munehisa began writing his book in 1768 at age 51, and it took him about 30 years until he finished it at age 81. The title of his handwritten manuscripts was <Honma Munehisa's Ishouyakden>..

What we can deduce from these details is that he wrote his secrets of success over a long period of time based on his extensive experience in later life and that it must have been passed down only to his descendents. The title also seems to have been made up by his descendents who have been hiding it from the world.

From his writing, we can understand the reason this handwritten manuscript has been kept a secret from the world for so long. He wrote;

> *"This writing, you should never show to anybody no matter how close they are to you. It is not because I want to remain the only rich person. Rather, it is because this writing could be misunderstood by some people, who are likely to end up making mistakes, and even worse it could cause damage to them and even create hostility against us. It is not advisable for others to see this and that is why it has to remain a secret. The Three Methods in particular are rarely taught techniques and few people in the world know about them. If you sell and purchase based on these rules, you will make profits and build a fortune, and will not end up losing. You have to value this writing and be cautious and determined in keeping this a secret from others."*

Honma Munehisa's Fountain of Gold, which can be considered his book on success in business, is different from the majority of books on business available which seem to describe everything that is right. In his book, he explains his secret methods in plain statements which are simple yet insightful like words coming from the enlightened masters. But if you pay close attention, you realize how they are supported by meticulously structured theories. In fact, his writings can be difficult to comprehend if you don't take that aspect into consideration. Other noticeable aspects of his writing are his specific statements on different conditions; in fact, since they are specifically targeting actual commercial transactions, they are still applied in markets even today.

When Honma Munehisa's writings came to public notice, the Japanese were shocked that his book on commercial success, which had been mentioned only in terms of being a legend, actually existed. They were also shocked at the insightful market analysis and theoretical structure. People are still teaching and making references to his writings today, while searching for the links that connect and run through his legacies -- the candlestick chart, Sakata's Five Methods, and the Fountain of Gold -- and in fact they are still used in markets as investment methods.

Before I move on to the writings of Honma Munehisa, I believe I need to introduce him and his family clan if only briefly.

The Birth of Honma Munehisa and His Family Clan

Legend has it that in Japan, when asked about the Honma family clan, people who did not even know of Sakata would ask in return, “You mean the Honma family clan of Dewa?” This anecdote shows how his family clan was once known as the top landlord family in Japan. The reputation of the family clan has declined now, but during their time the entire world knew of the Honma family clan. But it was not just because they were jaw-dropping rich; the family clan’s legacy included many initiatives in public services and sharing their fortune with society. The family made achievements so great that even the government or public organizations would never have dreamed of attempting them.

Honma Munehisa was born during the reign of the 8th shogun Yoshimune and lived through the reigns of the 9th shogun Iesige(家重, 1751~1761), 10th shogun Ieharu(家治, 1761~1786), and the eleventh shogun Ienari (家齊, 1786~1841), before he died in 1803.

According to records, Honma Munehisa was born in 1717 in Dewa, the granary of Shonai-han. Later, he was adopted by the Honma family, a wealthy farmer’s family of Sakata and that’s how he got his name Homma Munehisa. People referred to him as “Dewa no Tengu (Dewa’s Tengu)” because he was born in Dewa. Tengu refers to a legendary supernatural monstrous figure that appears in Japanese folklore and it is considered the god of all gods, comparable to the mountain gods of Korea. Comparing Honma Munehisa to a Tengu reveals a uniquely Japanese sensibility in describing him as a man who amassed a huge fortune with extraordinary business skills, a man who lived on a different level than most people yet made them feel emotionally attached.

Emblems of the Honma family clan: The emblem on the left was for the family clan, and the one on the right was for the transportation tools that belonged to the family clan, or for the general use for the women of the family clan.

14 According to Danaka Shoubu, the director of Honma Museum, there are two major theories as to how Honma Munehisa became a member of the family clan. One of them claims Honma Munehisa was adopted as a son of the family, while the other claims he was born the fifth son to the head of the family clan. Mr. Shoubu said the museum supportedthe theory about him being born the fifth son to the head of the family clan. He then handed me a book titled The Honma Family ofSakata(酒田の本間家, 1972, Sato Saburo (佐藤三郎), Chuo Kikakusha (中央企画社), where the origin of the Honma family clan and the family background of Honma Munehisa was explained as follows:
"The origin of Honma family clan traces all the way back to the 62ndemperor Murakami (村上天皇, 946~967). However, it is not certain because no written record is available from this period. In general, Haramizu is considered the forefather of the Honma family clan because he laid the foundation of wealth and stabilityfor the family clan in Sakata. Haramizu left his family at age 16 to became independent, and opened his own business called Nigataya ((新潟屋). He had such mastery of commercial business that he was able to build an enormous fortune during his lifetime. For example, when the leaders of Sakata had a fund-raising campaign in 1718 to collect 2,800 nyangs for the local government, Haramizu was asked to contribute 100 nyangs, which was the amount expected from the second richest group of people. Members of the richest group of people were expected to contribute 150 nyangs. But at the fund-raising campaign that happened in 1736 for the same purpose with the target amount of 740 nyangs, he contributed 120 nyangs in his oldest son's name, making him one of the biggest contributors.
There are some records that imply how rich Haramizu was and how Honma Munehisa was believed to be his fifth son. One such record is the instructions for distribution of his fortune in his will. In thisdocument, he left 300 nyangs each for his second and third sons, and 100 nyangs each for his fourth and fifth son, who was Honma Munehisa. And he left 1,551 nyangs for his oldest son, after taking only 200 nyangs for himself for living expenses after his retirement.

Honma Munehisa lived during the mid-Edo Era, which was marked by a strict social caste system - warriors, farmers, artisans, and merchants; in descending order. Except for the warriors' class; commoners, farmers, merchants, and artisans were not allowed to have a family name or carry swords. This rule was called the prohibition of Myoujitaitou (名字帯刀の禁), which literal means "the denial of the right to bear a surname and to wear a sword," during the Edo period. Therefore, it is questionable that he was able to bear a surname when he was adopted by the Honma family, which belonged to a merchant class. However, considering how Honma Munehisa and Mitsuoka (光丘, 1732~1801), the third head of the Honma family clan, were awarded a government official's position and promoted to the warrior caste by the daimyo of Shonai, it is probable that they were allowed to bear a surname after the promotion in status and that he was named Honma Munehisa at the time when he was adopted by the family.

There are different opinions as to who exactly adopted Honma Munehisa into the family: some believe that it was the progenitor and the first head of the Honma family clan, Motomitzu (原光, 1674~1740), and others believe it was the second head of the family clan, Mitzutoshi (光壽, 1691~1754). According to some records, Honma Munehisa addressed Mitsuoka, the third head of the family clan who was 15 years senior to him, as a big brother, while in others, he called him uncle. Mitsuoka was the oldest among the children of the family, four sons and five daughters. Therefore, he rightfully became the head of the family clan as the oldest son of the legitimate line of descent according to tradition, while Honma Munehisa remained just a respected member of the family clan throughout his life because he was an adopted son.

Being Called Dewa's Tengu

In any case, it is clear that there was a time in history when Honma Munehisa was given control of the family business even though he was not the oldest son of the legitimate line of descent. Before he was in charge of the family business, his father Motomitzu, who dearly prized Honma Munehisa's cleverness, asked the daimyo of Shonai-han to take him along with his group on his trip to Edo. Honma Munehisa learned many lessons during this trip. At the time, Edo was one of the largest cities in the world with a population pushing a million when during the same period the population of Paris or London remained at around 800,000. We can only imagine how impressive the bustling streets of the thriving city of Edo must have been to a little boy from the rural town of Sakata. With Yoshimune's prohibition of luxury being in effect in Edo at the time, the practice of austerities was routine for the people and commercial transactions were almost nonexistent. Nonetheless, the trading of rice was thriving.

In one of the posthumously discovered manuscripts, Honma Munehisa allegedly thought after he returned to Sakata:

> *"The fertile land that stretches some tens of miles in Dewa has been producing rice since ancient days and has a reputation in the world. In Sataka, rice is dynamically sold and bought and merchants from around the country are rushing to the town because there is a rice market. For the same reason, the ships anchored in*

the ports are creating forests of sails round the clock. Ah, is this the trade I should apply myself to?"

Beginning around this time, Honma Munehisa began to study the price of rice. You can notice how thoroughly he researched and how scientific his theories are in part 2 of this book about his trading techniques.

A few years after in 1750, he was put in charge of the family business when Mitzutoshi, the second head of the family clan, retired at age 60 and awarded Honma Munehisa full authority over the family business. To abide by tradition, Mitsuoka, the oldest son of the legitimate line of descent, should have succeeded him and taken over the family business but he was only 19 at the time and had to apply himself to further studies. So Mitsuoka left for Ehime to further his studies while Munehisa was put in charge of the family business.

Honma Munehisa believed that, considering the geographical location of Sakata, the only way to make profits out of commercial business was in rice trading. So he brought what he had been researching alone for so long into practice, which was to trade rice with the capital made available from the family business. His predictions on the markets were amazingly accurate and legend has it that he made tens of thousands of yen (a few hundred thousand yen at today's value) almost instantly. Four years later, Mitsuoka returned home when Mitzutoshi passed away.

Upon his return home, several conflicts arose between him and

Honma Munehisa, eventually causing Honma Munehisa to leave his hometown. It had something to do with the way Honma Munehisa was running the family business. From the beginning, the head of the family clan was at the center of all affairs that involved the Honma family clan. It was customary for all family members to follow the decisions made by the head of the family clan, even if they were married and had moved out to start their own family somewhere else. However, the head of the family clan was not able to carry out all the heavy duties and responsibilities throughout the generations. When the head of the family clan felt he was in need of a helping hand, he appointed somebody among the family members to assist him. This person was called Omise-no-Oyakata (お店の親方), which can be translated as a manager and the head of the family clan called him Danna (旦那, だんな), which means the master of the house. However, sometimes the manager became negligent in his duties when his power grew and he made a lot of money on his own. When this happened, the head of the family clan declared a severing of the relationship, fired him from the position, and banned him from coming in and out of the family clan. This happened several times until the 10th generation. People believed that the system in which the head family becomes the center has been the main engine behind keeping the Honma family clan a wealthy landlord family.

The same thing happened to Honma Munehisa. Mitsuoka declared a severing and banned Honma Munehisa from coming in and out of the head family's residence. It is believed that he thought Honma Munehisa had been using the capital of the family clan for risky gambling. The first head of the family clan, Motomitzu had strictly banned investment – which they believed was a form of gambling – because it was not the “Right Way.” As the new head of the family clan who is responsible for the family lineage and responsible for honoring the late grandfather’s will, it might have been inevitable for Mitsuoka to make that decision. It happened in 1754 when Mitsuoka was 23 years old, and Honma Munehisa, 37.

After having been kicked out of the family, Honma Munehisa went on his way to Edo. But while in Edo, his predictions turned out wrong continuously and he became completely broke. Stupefied at his failure, Honma Munehisa did some hard thinking to analyze his failures. First, Edo was different from Sakata in terms of the scale of trading. And above all, he was not able to read the market trends because his mind was full of ambition. In fact, when he first arrived at Edo, he was determined to make a success to prove himself and impress Mitsuoka with his skills.

Honma Munehisa pulled himself together and this time he left for Osaka. While in Osaka, he patiently waited for the perfect chance to trade and wound up making profits tens of times more than what he had lost in Edo. His trading methods at the time became the focus of everybody’s attention, but he did not discuss them with anybody. He watched the market trends and placed his orders on his own. He was a nimble man who knew exactly when to pull out or jump into the market. Whether selling or buying, he won a hundred times out of a hundred ventures without fail. People started to call him Dewa no Tengu -- a legendary monster from Dewa -- from then on.

Memorable Anecdotes

It was a particularly cold night in November the year that Honma Munehisa was in charge of the family business as the manager. In the same village where he lived, there was a man named Toubeiya Zenbei (搗米屋善兵). He was familiar to Honma Munehisa because he was a rice merchant who frequently visited the Honma family clan. While passing by his house one freezing cold winter night, Honma Munehisa saw him milling the rice. He was working so hard that he was covered with sweat even though it was a freezing cold winter day. Honma knew how Zenbei got into the rice trading business and failed and also how he was about to lose everything he had – his house and land – to pay his debts. When Honma saw him working so hard milling the rice, he stopped and said to Zenbei,

"I suppose the income won't be nearly enough to make up for the loss from your failed rice trading business no matter how hard you work and how many sacks of rice you mill every day?"

"It won't, but I cannot just sit and watch my wife and children go hungry. I must do something to feed my family for now…. but I hope to make up for the failure sooner rather than later, sir."

Honma Munehisa thought for a while before he asked,

"If I remember correctly, you failed last time in purchasing the rice, isn't that right? Suppose you had money now. Would you use the money to buy or to sell?"

"Of course I would buy. No question about it."

Zenbei answered with confidence. Right on the spot, Honma Munehisa told him he would loan the money to him. Zenbei immediately ran down the Honmachi road to go to the market and started buying as much rice as he could. A few days later, the price of rice started to skyrocket and Zenbei was able to keep his house and land that he had feared losing. He even made an enormous profit. Zenbei never forgot Honma Munehisa's favor. When Honma Munehisa was living in Edo, he visited him every year and briefed him on the rice farming conditions of Sakata.

Years passed and one day, Honma Munehisa called on Zenbei and said to him,

"I wonder why the rice merchants of Sakata are so ignorant of the true value of trading. Are they all blind? I will teach you some secrets."

According to records, that was how Honma Munehisa began to write down his secret trading techniques based on his experiences, which later came to be known to the world as Shonai Honma Munehisa's <Honma Munehisa's Ishouyakden>. The content of this book includes 87 subjects explaining the trading business and the rise and fall of market prices. Since the book was written more than two hundred years ago and its content is based on the lunar calendar -- which divides the year into 24 divisions with each division having its own agricultural conditions -- many parts of the book are hard for us to comprehend. However, its analysis of the markets is so logical and scientific that it is still valued as a good reference for today's stock trading. There is another anecdote that shows his ability to collect information. His hometown Sakata was about 600 km away from Osaka. It was a long distance, but Honma Munehisa set up a human network between the two cities by placing a man every 4 km along the way in high places such as the roof of a tall building or mountain, so that they could relay market updates to him through signals at certain time intervals. He was likely able to make all those legendary achievements because he had such devoted commitment to what he did. In chapter 30 of the book, he warns of the way you approach the market by telling us: *"The rise and fall of the rice price depends on the law of nature, which you should never meddle with unless you are highly skilled."*

A look into the history of Honma Munehisa's family tells us that he was married to a woman named Miya (美也) from the Gatou (加) family in Nihi-hori-mura (新堀村), the younger sister of the woman who was married to the second head of the Mitzutoshi family clan. They had a son named Kyusaku (久作) but he died at the age of 19. They also had a daughter who was younger than the son, but she also died when she was a little child. So they adopted Inosirou (猪四郎) from the Gatou family, who was the younger brother of his wife Miya, and called him Kourin (光林). Kourin succeeded Honma Munehisa and lived in Negishi(根岸), Edo. Three generations later, his descendants returned to his hometown Nihi-hori-mura, and have been continuing the family lineage ever since, and today bear the original surname, Gatou.

In their later years in life, Mitsuoka and Munehisa made peace again and mended their relationship. While Honma Munehisa took a capitalistic approach to make profit by making money through rice trading, Mitsuoka built the family fortune through commercial business, the money lending business, and land leasing business while fulfilling his responsibilities to the family clan. These two people are credited with causing the Honma family clan to thrive for generations.

Honma Munehisa lived a comfortable life until he died at the age of 87. He died in 1803 -- two years after the death of Mitsuoka -- and his tombstone can be found in Tzuidokuji (随徳寺) temple, Sakamoto-machi, Edo (坂本町).

04. Providing is Advantageous

Speaking of Honma Munehisa, there is a man we must mention: Mitsuoka, the third head of the Honma family clan. While Honma Munehisa can take the credit for building the wealth for the Honma family clan, Mitsuoka was the one who prospered the family clan with his management. Honma family clan was able to grow into the most prominent merchant family in Japan because of these two people.

Honma Mitsuoka, the Pioneer of the Public Works

Mitsuoka holds a special place for the Japanese people. It is not an overstatement to say that most tourist attractions and historical relics and heritages that promote Sakata both inside and outside of the country have something to do with the Honma family clan and this powerful influence of the family on Japanese history can be traced to Mitsuoka’s generation.

Portrait of Honma Mitsuoka

View of the Tohoku University of Community Service and Science

A poster inside the campus reads “What is good for everybody is good for yourself..”


The erosion-control forest along the coastline in Shonai


A tall pine tree


Pine trees growing skewed after having been beaten by the ocean wind


View of the city of Sakata protected by the erosion-control forest


Full view of the Honma Museum of Art


View of the garden


The old residence of the Honma family

Mitsuoka was born in Sakata in 1732 and became the third head of the family clan in 1754 at age 23. His life was devoted to realizing his ideas of business management which included lending money and purchasing land with the intention of leasing the land to tenant farmers, in addition to commercial business. He tried to overcome the drawbacks associated with Honma Munehisa's purchase-oriented business practices until he successfully broke free from Honma Munehisa's influence.

He is particularly famous for his unique business management philosophy. The Japanese often refer to him as the "businessman of ethics management" and "an exemplary business leader with dedication to public works." The best example of his legacy is the Tohoku (東北) University of Community Service and Science in Sakata. When you travel from the center of Sakata and cross the Dewa Obasi (出羽大橋) bridge that connects the south and north of Mogami-Gawa, you come across some rather unique scenery near the city limits. There, you can see a few buildings lining the side of the road without any fence or border with rural scenery as the backdrop. These are the main and auxiliary buildings of the university. Founded in 2001, Tohoku University has unusual founding missions and curriculums, similar examples of which cannot be found anywhere in the world. They are based on the beliefs that the world is not going to evolve with the development of technology and science alone, and that the world needs the philanthropic ideology of public works. The essence of the founding missions and curriculums can be summed up in the motto Mitsuoka adhered to while he was alive: "If you have something that others are in need of, give it to them. That's the advantage. Providing is advantageous."

Sakata has the reputation of being the hometown of many people who committed themselves to serving the community. Throughout history, many wealthy people in addition to the leading figure Mitsuoka, shared their fortune to serve the community while contributing to the local economy and even today the town produces many forerunners in various sectors of society, such as literature and the economy to name just a few. In 2005, the town saw the founding of a graduate school in a nearby city, Tsuruoka (鶴岡) as well.

As I have mentioned previously, Mitsuoka lived by his belief in providing what he had to others throughout his life. His first initiative in public work was the construction of an erosion control forest (防沙林). The wind blowing from the eastern sea to Japan was so tremendous that it was considered the strongest wind in Japan. Besides, the wind blew throughout the season causing great problems and disasters to farming as well as people's livelihood. But people had to put up with it for generations because they did not know what to do with such a natural phenomenon. It was Mitsuoka, the third head of the family clan, who took the initiative to build the erosion control forest with the goal of enriching the livelihood of the people and the community.

At first, he had silk trees planted on a hill that he had artificially built along the coastline. Silk trees being known to flourish even in the austere climate and infertile soil as long as there is enough sunlight, they grew well on the coastline and secured the ground against erosion. Later he brought in black pine trees -- pine trees growing on the beach -- from the Noto (能登)[15] peninsula and planted them along the coastline as well. Even though the strong wind from the ocean often blew away the seedlings, he kept planting new trees between those already established. Legend has it that all the trees along the coastline were planted by human hands and none of them grew on their own naturally, attesting to the challenges that they were faced with and the hard work that they did for the community. It was not an endeavor that could be fulfilled in the short-term either, the work continued for generations until the solid forest we see today was created. It was a project initiated by the Honma family clan, but other local leaders also chipped in to cover the cost voluntarily.

15 In ancient days, the name of the town was written as 能都. But later, the written name was changed to 能登, whose pronunciation in Japanese is the same as the old one.The town is located in Ishikawa, Japan.

Today, it has grown into a forest of pine trees that spans 35km from south Tsuruoka along the Shonai beach. With the width alone spanning 2km on average, the forest is so thick that from the residential section, you cannot even see the ocean beyond the forest. When I took a walk through the forest towards the ocean, I could see the trees growing slanted, obviously because they had been battered by the wind for over 200 years. Thanks to these trees, people were able to enjoy a more enriched life in Sakata, as well as in Tsuruoka to the south, Kaetsu(下越) district of Nigata to the north, and Shonai Plain, all of which were able to prosper without having to suffer from the strong winds and dust again, until they came to be widely known as the best grain belts in Japan.

Even though it was a mega-scale public work initiated by Honma Mitsuoka in 1758, it should be considered as a never-ending endeavor, because if left neglected at any time, the erosion control forest could become helpless in the face of the ocean wind and dusty land wind at any moment. For this reason, the Yamakata provincial government maintains this erosion control forest today while continuously supplementing the forest with more trees that they grow in the designated nursery section.

Nobody Starved in Shonai-han

The Buke Shohatto (武家諸法度), a collection of edicts governing the warrior houses, mandated local lords of every han to stay in Edo once every half or full year, creating tremendous extra expenses for them. Many of the local lords also found themselves cash strapped because of the luxurious lifestyle of the time. All these circumstances translated into significant pressure on their financial situation and accumulating deficit. As a result, a financial solution became the biggest issue among the daimyos, and many of the daimyos who failed to find a financial solution went bankrupt. One example of such hans was Choshu-han (長州藩)[16], a feudal domain which came to be known as the place where the Meiji Restoration started. The Chosu-han's local government declared that they were wiping out all forms of debt, which in today's terms would be declaring default on all debts, in spite of strong protests from the merchants. Another feudal domain, Satsuma-han (薩摩藩)[17], which played a critical role in bringing down the Bakufu regime, also resolved the deficit problem by declaring that all government debts would be paid over a 250 year period. All these led to acts of violence.

16 It is located in the Yamaguchi Prefecture, westernmost prefecture on Honshu Island. The area is also the southernmost point of Mainland, Japan.
17 Satsuma-han is located on the southern island of Kyushu, which is the third largest island further down the south to the Honshu Island.

Even the samurai working for the feudal domain governments were pushed to the edge and many of them had to borrow money from merchants at such high interest rate that there was no way they could possibly pay it back. Consequently, they ended up having to hand over the estates that they were given by the local lords to the merchants, or even sell their warrior caste status. The deepening financial crisis of the governments affected the commoners as well, many of whom became so impoverished that they had to leave their land and wander around in other towns. Eventually, an increasing number of angry commoners joined the peasants' rebel group.

The situation was not much different in Shonai-han either. It was in these circumstances that Mitsuoka took the initiative to solve the han government's financial crisis. He first tried to resolve the crisis by paying off debts for the government and then demanding that the government pay the original debts at a much lower interest rate. He resolved the debt problems for samurai and commoners in the same way. However, there were often cases where he could not resolve the debt problem with this lower interest initiative. His solution for the land owners who were at risk of losing title to their land -- which they had put up for collateral -- and could not even pay off their debts at a much lower interest rate was to allow them to continue to keep the land and farm, but this time only as a tenant farmer instead of land owner. In this way, he was able to help the commoners remain the de facto owner of their land. The terms of the tenant farming set forth by the Honda family clan were so advantageous for the farmers that all farmers in Shonai-han wished to be their tenant farmers, according to the records.

When the harvest was bad or there was a famine, he opened up his warehouse and launched a relief initiative so that nobody in Shonai-han was left to starve. The news about his relief efforts spread to neighboring *hans* and there were many people who secretly sneaked into the Shonai-han domain from other towns, according to legend.

Mitsumichi, his oldest son who succeeded him to become the fourth head of the family clan, also took up his father's philanthropic spirit and carried on his father's legacy by initiating many philanthropic projects for the community. In the early 1800s in particular, Sakata was hit by one massive natural disaster after another including the earthquake induced by the volcanic activities of Chokai Mountain and inferno.[18] At such times of crisis, Mitsumichi released stores of grain for the impoverished people and he even loaned them money at no interest. Sakata was a port city where the economy was heavily dependent on port workers. Work in the port started in spring and peaked in summer and autumn but in winter, there were no jobs available. During the winter season, many port workers were unemployed and had to manage to survive day to day with an empty stomach.

18 The history of Shonai-han records that the inferno that took place in 1805 left 1,300 resident buildings in ashes. The history also records one of the worst harvests in 1833 as well as other natural disasters such as earthquakes and a tsunami

Having witnessed this reality going on for years, Mitsumichi finally came to the conclusion that giving loans at low or no interest rates was not going to solve the problems at the bottom line and he decided to create jobs himself. One of the projects he carried out for this job creating initiative was the construction of his vacation house which took place in 1813. The design of the vacation house called for many stones to create a landscape similar to the Chokai Mountain and many port workers had to be hired to transport them to the construction site and arrange them to create the replica landscape. Once the construction was completed, he donated it to the daimyo and his government officials from Shonai-han so that they could stay there during their visits to Sakata for administrative reasons. The house was also used as a vacation house for the Honma family clan as well. Originally, it was a one-story building, but it was expanded to become a second-story building near the end of Meiji Restoration period.

A hundred years later in 1945, Japan became a defeated nation after it surrendered to end WWII, and the nation underwent a series of major social changes. The Honma family clan was also about to lose a significant portion of their 3,000 hectares of land due to the dramatic agricultural land reform. While the Honma family clan's reputation continued to decline, the family had to decide what to do with the vacation house property. The property was massive -- about 20,000 square meters in total -- but the vacation house was left unoccupied more often than it was occupied. Eventually, it was decided that the property would be turned into a museum, and it has been open to public since 1947 under the new name: Honma Museum of Art.

The villa within the property has been an important guest house for VIPs visiting Sakata, including Helen Adams Keller (1880-1968) who came to visit the city the year after the museum was open.

The museum director Danaka Shoubu (田中章夫) showed me around the museum and explained many things about the Honma family clan. He said “the purpose of constructing this villa itself alone can show us how much the Honma family clan cared about the community.” He added that the residents of Sakata have an emotional attachment and deep affection for the family clan for that very reason. Visitors were not allowed to take photos inside the museum to protect the historical relics, but I was able to take a picture of the garden landscape, which according to legend, the emperor gazed out on from the second floor while he was staying in the villa.

As we can see from these episodes, the Honma family clan was so caring about those in need instead of ignoring them that during the two hundred years that they remained a wealthy landlord, there were never any conflicts or disputes between the tenant farmers and the family clan. Even during the turbulent time when the Meiji Restoration created sweeping changes throughout society following the fall of the Bakufu regime and when the peasant revolts were rampant throughout Shonai-han, the Honma family clan was left unscratched without any episode of violence by the peasant rebels. These were the results of Mitsuoka’s philosophy of business, which can be summed up into his statement: Providing is advantageous.

Then there was another episode regarding the family clan’s legacy. When the Bakufu government tried to relocate the daimyo of Shonai-han to a different domain, the commoners and samurai from Shonai-han took up the issue and made the Bakufu government rescind the relocation order. This incident originated with the Tokugawa Bakufu's order to send the Lord of Kawagoe (川越)[19] to Shonai-han, the Lord of Shonai-han to Nagaoke(長岡)[20], and the Lord of Nagaoke-han to Gawagoe-han. This order from the government was called Sanbouyogy(三方領知) (1840).

19 A city in Saitama(埼玉)Prefecture, Kawagoe is located at a key location in the north of Edo
20 A city in Nigata, Honshu Island, Nagaoke is neighboring with Shonai-han

It all started with the financially-troubled Lord of Gawaoe-han who adopted a son from the shogun's family lineage and asked the Bakufu government to support him in raising the child. The Lord of Gawagoe-han asked the Bakufu government to send him to Shonai-han, because he had long been coveting Shonai-han, a domain with strong financial revenue with the support of the Honma family clan.

However, the Lord of Shonai-han was a Fudai daimyo – which refers to a class of daimyo who were hereditary vassals of the Tokugawa and one of the four guardians of Ieyasu as well. Given his strong tie to the Bakufu government, we can imagine how the Gawagoe-han daimyo's request put him in hot water. He was one of the most loyal and trusted vassals of the Bakufu government and therefore was not in a position to reject the order from the Bakufu government. While the Shonai-han's daimyo were caught in this tricky situation, the commoners strongly protested against the government's decision. The power behind the peasants' protest against the government's decision at this time was none other than Mitsuderu (光輝), the fifth head of the Honma family clan. It is only my guess but he probably supported the peasants' protest because he was aware of the terrible consequences: the change of daimyo could create problems in the trusting relationship that took so long to build between the daimyo family, samurai class, the Honma family clan and commoners; and the cost of the broken relationship could mean an astronomical amoun of loss that cannot be even calculated in terms of money. And perhaps the peasants were aware of the possible consequences of the decision as well when they strongly protested against it. At any rate, the Honma family clan, samurai, commoners, as well as the Sakai family clan -- which was the Shonai-han's daimyo family -- traveled between Sakata and Edo where the Bakufu government was located and staged a series of strong protests against the government decision until finally the government gave in to their demands and took back the order. It was an unprecedented victory by the protesters because it meant the Bakufu government whose power was stronger than the emperor had given in to the demand of a mere domain. After this incident, the relationship between the Sakai family clan and the Honma family clan grew stronger than ever.

The close ties between the Honma and Sakai family clans continued even afterwards. During the late Tokugawa Bakufu period, Shonai-han participated in the Boshin War that took place in 1868 between the Imperial Meiji Restoration troops and the Tokugawa Bakufu troops. The Honma family clan dynamically supported the troops with the latest weapons that they purchased. But the Tokugawa Bakufu government ended up losing the war and the defeat caused significant loss for the Honma family clan as well as the Shonai-han government. During the war, commoners voluntarily organized militia groups to fight in the war for the Bakufu government and even after losing the war, they worked together with the Honma family clan to pay off the astronomical amount of war compensation the Meiji government imposed on them. All this was possible because there was an unshakable trust and full-hearted support from the commoners for the Honma family clan.

The Honma family clan is still committed to serving the community and taking the initiative in public works in Sakata by faithfully abiding by Mitsuoka's philosophy about providing being advantageous. The former residence of the Honma family (本間家舊本邸) is one of the historic sites that can give us the most palpable traces of Mitsuoka.

This residence -- which was built in 1768 and donated to the Sakai family while they were the daimyo's family -- was built in the Bukeyashiki style (武家屋敷, samurai residence) so that the Junkenshi (巡見使) -- the traveling inspectors sent by the bakufu government -- could stay while they visited the town for administrative inspections. However, the Junkenshi stayed in the residence only once and the residence was returned to the Honma family clan. When the Honma family clan took over the residence, the rear side of the building was renovated in the Shokezukuri style (商家造り, merchant residence). I was told that this is the only residential building in Japan that has been built in both styles; samurai and merchant styles. The house has 23 rooms built side by side in length and has actually been occupied by the family until 1945. After the war, the residence was briefly used as a residence for government officials. Presently, the house is open to the public and managed by Makiko(万紀子), the oldest daughter of the tenth head of the family clan.

Part Two
Honma's Fountain of Gold

Farming and investment share the same roots;

It is the people who do the work,

But it is the grace of heaven that makes things grow.

Those with a pure mind who believe in heaven

Will be guided into a bountiful world;

The mind always counts more than the loss or profit.

01. The Rule of Three (三位の傳)

In trading, the beginning is crucial

> *In trading, the beginning is crucial. If the beginning is bad, the ensuing course will continue in disorder. You should never rush when entering trading because rushing is the same as a bad beginning. When buying or selling, wait for three days from the moment you feel you could profit from a certain market condition. This is the rule. Consider the distribution condition of the rice in addition to the ceiling and bottom prices of it before you make your decision. This is the rule of the three. If you are not able to figure out which is the ceiling price and which is the bottom price, wait until you are certain even if it takes months instead of three days. When you finally initiate the trade, you should also be thinking of the time when your prediction is expected to come true. Restraining yourself from rushing into the trade is all about closely watching the ceiling price and the bottom price. When you become capable of identifying the ceiling and the bottom, then you have reached the ultimate point where you don't lose. If you desire to make profits out of rice, you must avoid excessive greed.*

There is an old saying about the importance of finding the right hole for the first button. The message of this old saying is how important the start is in everything you do. When you are in business, you are full of ambition but making a start without any clear profit-making model is to put yourself in a precarious position.

Sometimes people get into business with the goal of making money but end up wasting their money and energy and even worse, wiping out their fortune. At other times, people become the victim of their own ambition and greed, and end up being cheated by a con man or become a con man themselves. If that’s what happens in the end, it would have been better if you had never got into business in the first place. If you want to make money, you have to know how to make money. It is not right to set out on a journey toward an unclear future with ambiguous ambition alone.

Would you be able to achieve success in business if you had a clear profit model? The teachings from Honma Munehisa indicate that there is something that is more important than a profit model. Honma Munehisa himself learned this lesson the hard way when he was a young man.

Honma Munehisa is known to the world as a man who won a hundred times out of a hundred battles, and made great profits every time he made a trade, but in fact, he experienced some hard times in following one failure after another.

This is an anecdote about him when he left Sakata and went to Edo. He applied everything within himself to trading with a renewed determination, but he kept losing with every attempt. He burned the midnight oil while he prepared for trading but the result was always a failure. After day after day of repeated failures, he was getting close to becoming broke. He learned that repeated failure meant becoming poor and having to face himself fall into a state of feeling like an incapable and useless human being was degrading. He also learned that facing the self as a loser was like facing death. After losing all the money that he had brought with him from his hometown -- not to mention his dreams and all his youthful energy -- he was desperate. He went to the temple that he had frequented in his hometown to take a break and to pull himself together. He felt that something would change if only he heard the monks chanting and beating the wooden blocks. He had to do something or anything so that he could turn himself around instead of allowing himself to continue in a downward spiral.

While he was staying in the temple, doing nothing really fruitful, the chief monk of the temple came to see Honma Munehisa as he was turning and tossing in his bed. Watching the man who had locked himself in the room without going out even once, the monk asked Honma Munehisa,

"Mind if I ask you what you are doing lying in bed?"

Seeing the monk who stood in the doorway, Honma Munehisa reluctantly sat up and said,

"I was just lying down. I don't have anything particular to do, do I?"

Sensing how desolate he felt, the monk beckoned to him and said,

"Come here. Come here and sit down."

Honma Munehisa dragged himself out to sit on the wooden porch, next to the monk.

Then the monk asked him,

“Do you see the flag over there?”

He was pointing at a flag that was fluttering behind the fence.

“Yes, I see that.”

“Why do you think the flag is fluttering?”

After thinking for a while, he answered,

“Of course it flutters because the wind is blowing.”

“Is there another answer?”

Honma Munehisa stared at the monk, blinking his eyes, before he managed to answer,

“Well, could it be because of the chi energy that runs through the universe?”

Believing that there must be a different answer, he thought hard but he could not come up with anything that sounded reasonable. All he could find was an answer which he thought was just as lousy as the first one. The monk stared at Honma Munehisa‘s face for a while and said,

“The flag is fluttering because your mind is shaky.”

After spitting out the words that seemed to have boiled out of his mind, the monk walked away towards the grand hall.

The monk’s words hit Honma Munehisa hard; he felt he had just been hit by a hammer on his head. He sat there for a while sensing only his pounding heart in total dismay before he bolted up and cried out,

“So that’s the kind of a person this man has been!”

After awakening to a major truth, he never lost in trading. He made profits each time he traded and was able to build a huge fortune. People started calling him Dewa No Tengu from then on, and people also said that he was the god of the markets who could win a hundred times in a hundred battles, a man who moved the world without moving himself.

The lesson he was awakened to by the monk's words was the way to see his own self, which kept his mind with all sorts of vain thoughts and anxieties, and the way to see through the minds of others with his own self as the mirror. He realized he could not expect to become successful as long as he remained in his present state. He realized how important it was to see that his mind was bouncing and jumping like a crazy wild horse and how important it was to break free from the morbid waves his mind kept generating. In a nutshell, the monk had guided Honma Munehisa to enter into his inner world through the flag.

When you first start business and make deals with others, it counts to have good business skills and a clear profit model. It also counts to have accurate analytic ability, the art of speech that can win the hearts of others in the shortest time, and the insight to see through others to identify their shortfalls and greed. But Honma Munehisa realized something more important than all of the above through his conversation with the monk: you need to know yourself first before you launch or start anything.

What do we need to do first? Honma Munehisa' s Fountain of Gold teaches us that you need to know yourself first and get full control over yourself. It is to say that if you have the urge to jump into trading, you need to understand that it is only an urge and that is the sign of greed starting to grow within. If you feel sexual desire for example, you must realize that you are feeling this desire and you should not let it take control over yourself. Having a sexual desire often does not translate into engaging in an actual sex act because a sexual act requires the other party's consent. Therefore, sexual desire is just that: a desire and if you make a move based on desire alone, you are most likely to fail in your relationship. The same applies to business. When you develop a desire for trading, you must realize that the desire originates from the greed for profit and that it is only a feeling that has little to do with the possibility of making actual profits. Therefore, you need to identify and control the greed when it grows in you. Meticulous analysis of the possibility of making actual profit should be your priority.

There are two key components in Honma Munehisa's Fountain of Gold: "Sakata's Five Methods" and the "Candlestick Chart."

First, he had a surprisingly accurate insight into human psychology which he laid out in chart form instead of just using insight to understand market conditions. The other is his meticulous analytical ability, especially with regard to the supply and demand for rice. He had the eyes of a sword master that enabled him to predict the movement of others in advance and he had the mindset of a scientist which allowed him the accurate assessment of geographical and meteorological conditions, all of which were elements that could determine the outcome of his battles. In addition, he had the skills of a theorist with which he was able to organize and arrange his findings into systematic data. The final results of these extraordinary abilities were the "Candlestick Chart," "Sakata's Five Methods," and Honma Munehisa's Fountain of Gold.

We can see all these aspects of him in his writings, such as:

"You should never rush when entering trading because rushing is the same as a bad beginning. When buying or selling, wait for three days from the moment you feel you could profit from a certain market condition."

People often talk about the importance of timing. People also talk about a golden opportunity. When Honma Munehisa advised people to wait for three days, he means you have to be able to control your mind that is creating the greed that tells you "you will regret it if you miss this opportunity" and "this is the golden opportunity."

Does he mean that we have to wait for three days without exception? There is a potential dilemma in this question: Do we have to trade three days after or do we still have to wait three days even after that? It is a matter of fact that you have to grab the opportunity when it presents itself, which is one of the most frequently used clichés. Therefore, what is important in this question is the criteria for decision making. If an opportunity calls for an immediate action to make a deal, you have to jump in. Otherwise, you have to wait, be it only three days or even a year. In other words, even though you are advised not to make the decision based on greed that whispers how it is a once-in-a-life-time chance and that you must grab it now, you have to make the deal only if you have carefully analyzed the situation with a mind that is under control and you have arrived at the conclusion that the deal can bring about profit. Then the question will be: what are the criteria for making such decisions?

Honma Munehisa used the method of three points to answer the question. It is very important to understand what his concept of three signifies. In fact, all his business techniques can be summed up in terms of three. But the concept of three did not occur to him out of thin air. We can see what a long way he had come before he became awakened to this concept from his conversation with the monk. So what does the number three signify to him?

There is a story about investment that is less known to the world. It is not clear who the man was in this episode, but I am introducing the story here because there are similarities with Honma's concept of three.

There was a man who lost a fortune in a failed stock investment. While agonizing over his loss, he visited a monk who had a reputation for enlightenment and wisdom. The man sought some advice from the monk.

"Dear monk, I keep losing no matter how hard I try to do everything right. What should I do to make some money?"

When the failed man asked the monk that, with a face full of agony, the monk answered, ever so nonchalantly and casually,

"That's easy. You buy when it is cheap, and sell it when it is expensive."

It has now become a joke among people but it nonetheless holds a significant message. As the monk said, you can never lose if you buy things when the price is cheap and sell them when the price is high. What could be simpler? This is indeed the essence of a successful business strategy. However, it is not so simple to figure out which price should be considered cheap and which price should be considered expensive.

The three points Honma Munehisa mentioned with his technique refer to the floor, ceiling, and middle prices. In a way, his concept of three points has everything to do with what the monk advised the man: buying things at the floor price and selling them at ceiling price. Honma Munehisa graded prices into three types: floor, ceiling and middle. If you make a purchase at the price that is closest to the floor, you can hold onto your purchase until its sale will make enough profit and you don't even need to worry about the rise and fall of the price. But if the price you pay was closer to the ceiling, you should not let greed get the best of you: you certainly have to sell your purchase as soon as possible without hesitation. Therefore, his technique of three points is all about buying things at the floor price and selling it at the ceiling price. If you make your purchase when the price is closer to the middle point, you need a tool to analyze the situation. If you are not sure about the price you paid, you are advised to wait and watch the market instead of trying to trade. This is the situation when you wait for three days, watching and analyzing the general supply and demand condition of the rice, according to him.

How do we find out the floor, ceiling and middle price of rice as he directs in his book? I need to address the famous theory known as “Sakata’s Five Methods” to answer that question. To understand this theory about “Sakata’s Five Methods” – which is also called “Sakata’s Methods” in Korea, and Sakata Constitution in Japan – we have to first understand the candlestick chart, which in short is known as the candle chart.

Downtrend is Strong Early in the Month and Weak in Late Month

> *In the rice market, the downtrend is usually strong at the beginning of the month and the price often continues to drop towards the end of the month. Therefore, the sign of a bull market is weak at the beginning of the month but it starts to become strong towards the end of the month when the price often takes a sharp increase.*

Honma Munehisa experienced tremendous confusion over the constantly fluctuating rice price while engaging in trade at the Dojima Rice Exchange. Besides, he had no idea compared to other prices whether a certain price could be deemed cheap or expensive. He had trouble in deciding the perfect time to enter the trade because the rice price went up and down tens or hundreds of times in just a day.

In the beginning, he relied on his hunches about the price to sell or to buy and he repeated the same practice of buying the rice when the price started to go up and selling it when the price started going down. Sometimes he was fortunate to make tremendous profits, but a winning streak did not always help in the face of the constantly changing rice price. Eventually, he wound up accumulating a tremendous loss.

The price rocked more than ever when the Tokugawa Bakufu announced a new policy on rice or when any of the important rice granaries were reportedly damaged seriously by disease or harmful insects. He felt all the more helpless when the rice price jumped at the hint of a rumor or news about a powerful daimyo going through a cash flow crisis or a large amount of rice being imported from Korea. There was no price that guaranteed security and profit and there was no price that was absolutely cheap or absolutely expensive. The price went up when he thought he sold it at the highest price and it went down when he thought he purchased it at the lowest price.

Eventually, Honma Munehisa was compelled to stop entering trades. It was not just the financial loss that trading brought him when he based his trades on the market atmosphere or without any set of decision-making criteria. It also caused serious psychological confusion, despair, a sense of defeat, lost identity, and all other kinds of emotional damage.

After much thought, Honma Munehisa came to realize that what he needed were tools that would save him from the dilemma and allow him to understand price changes easily. So he began to work to turn the changes of the rice price that took place in Dojima Rice Exchange into a chart so that he could track the trend of price changes and fluctuation.

One might wonder if there was any kind of chart at all available at that time, the kind of chart or tool that people could use for reference before trading in Japan at around the time when Honma Munehisa was working on his own chart. We might imagine that there must have been some kind of reference that the merchants turned to for reference even before Honma Munehisa's time, but what could it have been?

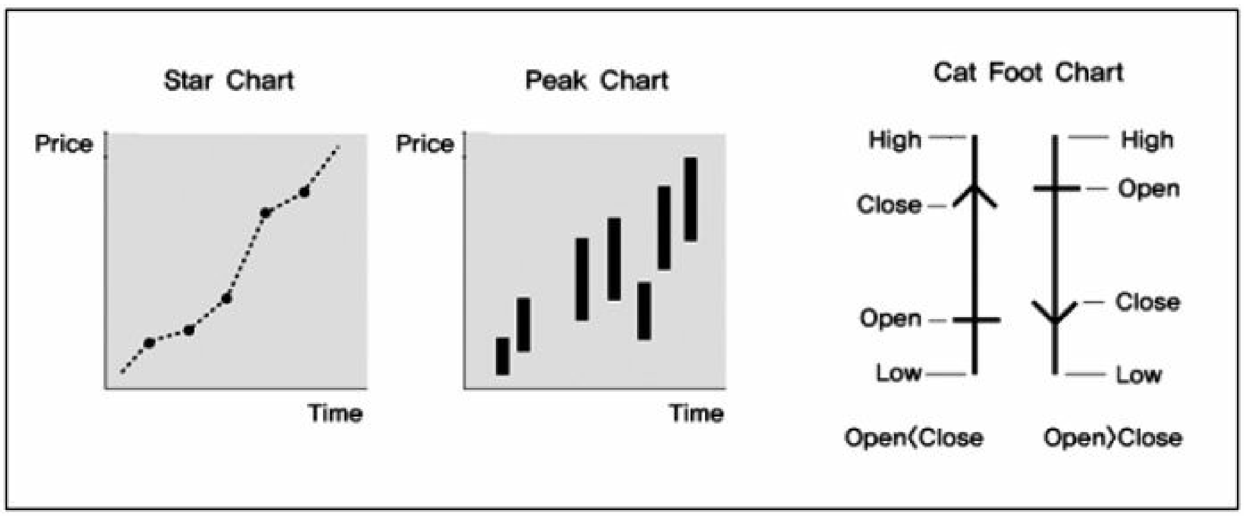
We need to know the historic background of the time to find out the answer to that question. In Japanese history, the period that spans from Oda Nobunaga's time to Toyotomi Hideyoshi's is called the Azuchi-Momoyama period (安土桃山). The name originated from the names of two castles: Fushimi castle[21] that was built along the border between Osaka and Kyoto and Azuchi castle that Oda Mobunaga built in Shiga-han in northern Kyoto. Legend has it that rice was already being traded through rice coupons as early as 1580 during the reign of Hideyoshi in the Azuchi-Momoyama period, which is about 130 years before Honma Munehisa's time. If that is true, it is hard to imagine that they entered the trading of rice without any effort to put the fluctuating price trends down as a diagram for all those years. However, I was not able to find anything that explained how they charted the changes of the rice price at the time and I could only make guesses based on the records from Honma Munehisa's time.

21 Also known as Momoyama Castle, the construction of the original castle was completed in 1596 in Kyoto's Fushimi Ward. Hideyoshi died in this castle in 1598. In 1600, two years after his death, the castle was seriously damaged during a battle for the possession of it, but was re-constructed in 1601 by Ieyasu. The castle closed down in 1625 when the administration of the government moved to Osaka. The surrounding area was developed into flower gardens, thereby giving it a new nickname, Momoyama (桃山), the mountain of apricot flowers

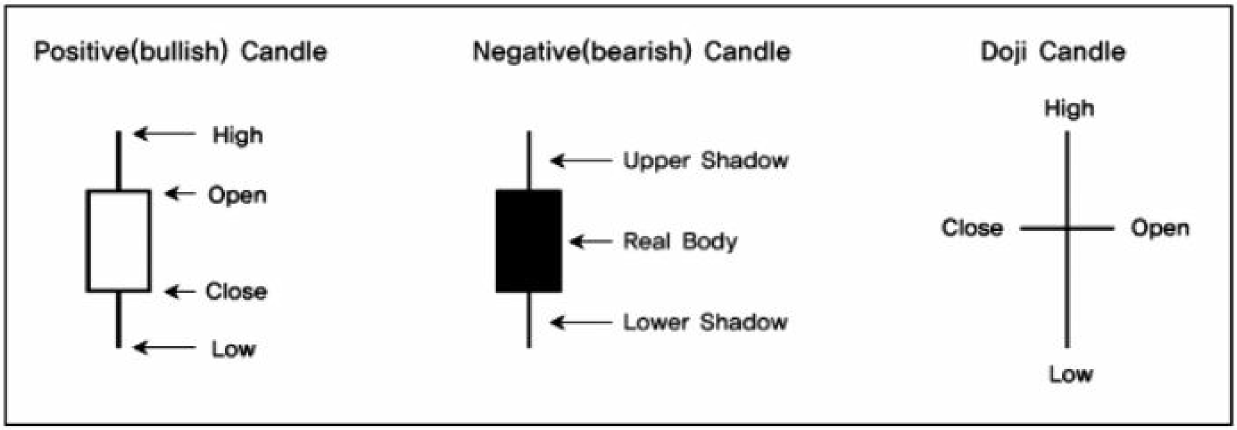
According to records, it was the earlier days of the reign of Yoshimune, the eighth shogun, when the official trading of rice began. Since Yoshimune became the shogun in 1716 and Honma Munehisa was born in 1717, we can tell that Honma Munehisa entered the rice trading business shortly after Dojima Rice Exchange was established.

According to Honma Munehisa, his contemporary rice merchants used three types of charts to understand price movements, if rudimentary and simple ones: the Star Chart, which was made by indicating the price changes with dots and connecting them with lines; the Peak Chart which indicated the low and high prices with bars, and the Cat Foot Chart which indicated the price changes in the shape of a sail. Considering the level of preciseness and elaborateness of these charts, we can assume that they were developed in the order listed above.

<Various Charts Used in the pre-Candle Chart Era>



<Kind of Candles and their Significance>



At any rate, Honma Munehisa concentrated on finding ways to chart the market trends, while participating in trades and collecting available data and information. Recording study after study, he realized that the most important thing to do for him was to write down the opening price of rice; as well as the highest, the lowest prices, and the closing prices. These were the most crucial prices to get a grip on the daily fluctuation of rice prices. However, the problem was that just writing down these prices did not really help anyone. He had to find ways to get a comprehensive grip of the market conditions based on these prices. So this time, he wrote down all those different prices on paper, trying to figure out the best way to get the best analysis out of it. After hard and intense work, he noticed his eyesight getting dimmer. When he turned his head away from the papers, he noticed the oil was almost burnt away in the lamp. He put more oil in the lamp and raised the wick higher to make the room brighter before turning his eyes back to the papers that he had been working on. Just at that moment, the shape of the wick inspired an idea in his mind. The idea sent chills down his spine. He turned his eyes to the lamp and again watched how the wick was burning aflame. The flame flickered like the fluctuating prices of rice that he had witnessed during the day and it was creating a wide variety of shapes as the wick burned down to the bottom. Right then, he knew he was looking at what he had been searching for all those hours. He immediately wrote down the opening, closing, high, and low prices of the rice on paper and arranged those pages in the shape of a burning wick. There was some confusion in arranging the prices, but once they were set in place, it made a great diagram of price indexes. It was the moment when the question that had been boggling his mind was finally answered. The final shape he came up with was the shape of the candle and the diagram he created was the candlestick chart – or candle chart in short – that is still in use today. It was an eureka moment for him indeed.

It was much later that Honma Munehisa named the price arrangement a "candle" because he thought it reminded him of a candlestick and named the price index diagram, in which he wrote down prices in time sequence, a candlestick chart.

The candle can be divided into two parts: body and shadow. The shadow is also divided into two parts: upper shadow and lower shadow or in some cases wick and tail.

The line that runs straight from top to bottom is the shadow or tail and the rectangular shape in the middle is the body. The open refers to the price of rice when the market was open for the day, and the low refers to the lowest price of the day while the high refers to the highest price of the day. The close means the price at the time when the market is closing for the day. The positive candlestick refers to the market formation where the close price is higher than the open price. The negative candlestick on the other hand refers to the market formation where the close price is lower than the open price. The Doji candlestick refers to a day when the open and the close prices are the same. Therefore, if the price showed an up-trend throughout the day until the market closed at the highest price, the candle will have no upper and lower shadows. If the price kept going down throughout the day until the market closed at the lowest price, the candle chart will show the same shape. The only difference between the two candlesticks is that one will be a negative candlestick and the other will be a positive candlestick.

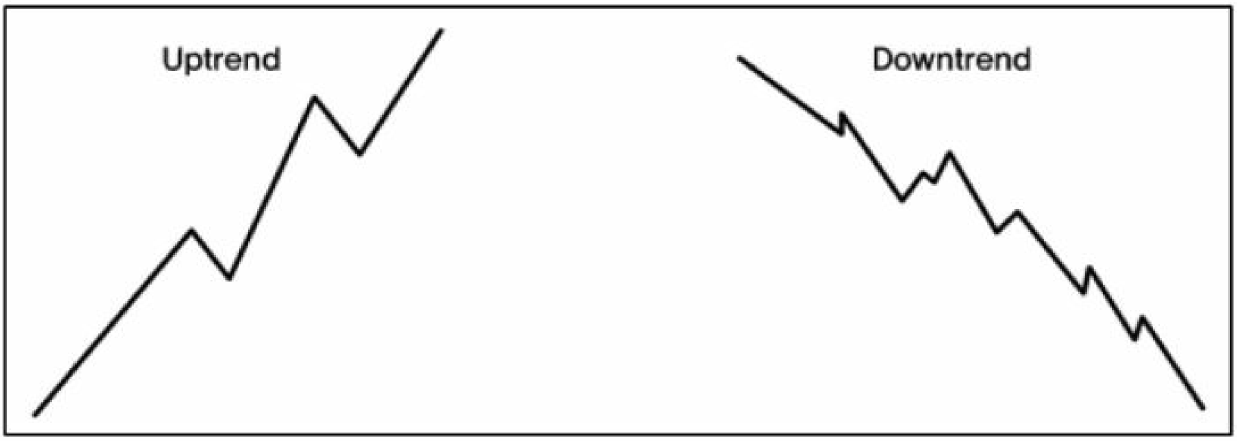
Even though the shapes of the candlesticks differ depending on the price changes, together they make a convenient price analysis tool because you can view the price changing trend in a single view. All you have to do is look at the shapes of candlesticks to find out how the price has been changing for any given day. When the candles are juxtaposed side by side with certain time intervals, you can also understand how the price changed over a certain time period. If you juxtapose the candles for a week's period, you can understand the price changes of the entire week, and if you juxtapose the candles from top to bottom based on the price level, you can get a complete grip on the rise and fall of the price from the chart. This kind of Japanese chart has kept evolving since Honma Munehisa's time, until it became the

Japanese chart that we know of today. Since you can get hundreds and even thousands of patterns depending on how you arrange the candlesticks, there are even analysts who specialize in analyzing the candlesticks alone.

The candlesticks are named based on the time period they cover: a candlestick of a day is called the daily candlestick, and the candlesticks of a week's period are called the weekly candlesticks. In this way, you can create a monthly or yearly candlestick charts. Of course, you can create a more detailed chart with sixty candles, or thirty candles. You can also create a chart with five candlesticks or just a single candlestick. Today, there are diverse candlestick chart patterns that correspond to the explosive growth of trading that resulted from the advancement of the Internet and the stock markets. Even though the market conditions are not the same as 250 years ago when Honma Munehisa lived, his candlestick charts still make a useful resource.

Only after coming up with the candlestick pattern was Honma Munehisa able to break free from the mind-boggling and incessantly changing whirlpool of price fluctuation and he had in his hand a tool that allowed him to see through the markets and make well-informed, objective decisions. With his candlestick charts, he was able to compare daily candlestick charts with the ones that corresponded to the same day a week ago and could tell if the rice was selling at a higher or lower price than it was a week ago.

<Identifying the Trend>



When these candlesticks accumulate, they can identify the changing patterns of the rice price of the past and allow you to see a valuable prediction on how the price is expected to change in the future. If the opening rice price is lower than the closing price of the previous day, and if this market behavior continues for days to bring down the price further and further, this is a definite sign of a bearish market. On the other hand, if the opening price continues to debut higher than the closing price of the previous day, you can tell that it is a bullish market. These kinds of market conditions – bearish market and bullish market – are called a trend and analysis done to understand this trend is called identifying the trend. Decisions regarding the price trend can help you develop corresponding strategies – such as deciding how to trade rice and what is the appropriate price for buying or selling.

Therefore, the candlestick was a revolutionary tool that brought Honma Munehisa safely to shore out of the deep and wild ocean called Dojima Rice Exchange. It was a tool in the shape of a little candle that helped him chart the fluctuating world and the minds of the people of the world. The candle that he conceptualized was an amazing discovery that changed him and it was a brilliant achievement that he objectified the trade of “random walk” and further elevated it to the level of science.

From Honma Munehisa’s writings, we can see how he identified the market that existed 250 years ago either as a down cycle of up cycle, which is quite amazing. This attests to the fact that his legendary success at the Dojima exchange was not just a simple stroke of luck. The down cycle is strong earlier in the month and weak in the later month, while the up cycle is weak early in the month and strong towards the end of the month. These cycles of market – down cycle with strength early on and weakness later; and the up cycle with weakness early and strength later – is often talked about in today’s market, but Honma Munehisa was talking about them hundreds of years ago. At the foundation of his ability to identify the up and down cycles and the price trend was the candlestick of price changes. If not for the price data that has been built up over an extended period of time and research on that data, I believe the identification of price trends that I discuss in this part of the book would not have been possible. Therefore, Honma Munehisa did not just turn the price changes of rice into the candle shaped chart. I believe he researched the price changing trend until he was able to see the pattern of the market. This part is all about his awareness of the market.

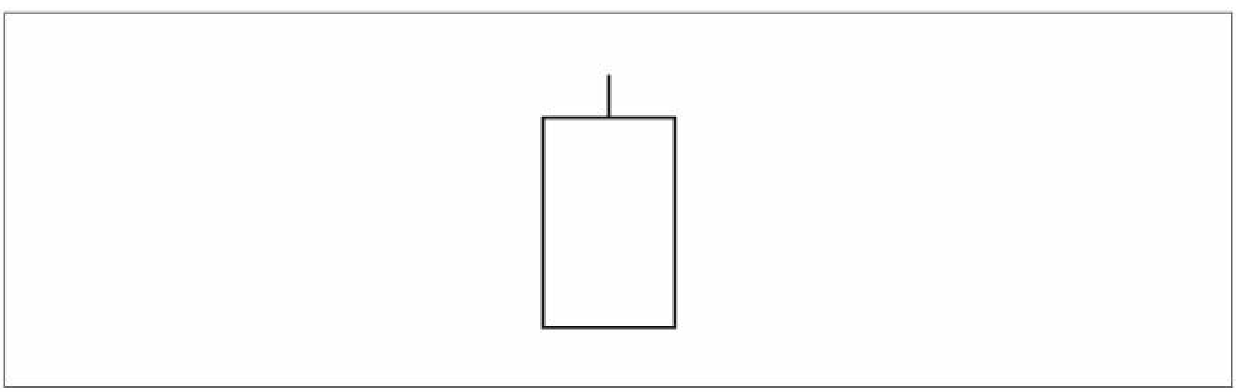
When people run to the West, I turn to the East

When the rice price starts going up, orders rush in from everywhere all at once, and soon the Osaka market becomes part of the show as well. The rice price goes up faster when people place orders even for stored rice and it becomes more evident that a buying spree is taking place. But when you wish to be in the position to place buy orders like everybody else, it is important to be on the side of those who place sell orders. When people move in unison, running towards the west with determined intention to be part of the rally, it is time for you to head to the east and you will discover great opportunities.

The candlestick chart is so much in use these days that sometimes it feels like it is the only chart out there. Under these circumstances, some people's viewpoint of the candlestick chart becomes robotic and even scratchy. They often take the shape of candlesticks for granted and when they see a long upper shadow they rant: "the price has been pushed down," "there have been some profit taking forces," "it was hit by resistance," or "there comes the wall of offerings." These interpretations of the market are like putting coins in a vending machine and watching coffee pour out. When they see the lower shadows, they will say "the force is controlling the closing price," "the buying is strong at the low," or "the support has been confirmed by the support level." With regard to the shapes of candles, there is the hammer pattern, inverse hammer pattern, tombstone pattern, or cross pattern. Of course, e candles can create many different shapes, and the shapes can differ depending on how you arrange multiple candles in a single chart. Therefore, many different interpretations can be expected from different shapes of candles and arrangements of them. When the trading volume and the moving average are added to the candlesticks, in addition to the market resistance and support levels, you have a feast of interpretations.

But what I want to stress here is something that is more fundamental in nature. Instead of taking just a superficial look at the candles and digging for interpretations from others, we should take a deep breath and take a closer look into the candles with an inquisitive mind. We need to go deep into the candles contemplatively, and become mindful of all things that the candles signify – like we are staring at the fluttering candle flames.

<Typical Candle-shaped Candlestick Patterns>



To look deep into and through the candle is to think about the time when the candle was created. It is important to make time for judging and arriving at a conclusion on the day's activities and for reflecting on them, just like Honma Munehisa did 250 years ago; drawing candles with his hand after the day's trading was over. Trading takes place hundreds and thousands of times a day and people do the best they can to make a profit, keep their profit, or at least not to lose -- that was how the rice price was established back then.

Those who participate in the market enter trading with positive expectations, believing that they can make something happen if they use the best ideas they have come up with. Some of them win but others fail. You can whistle away the time contentedly and satisfactorily when you win and make a profit, but when you experience one loss after another, each day can be excruciating pain. You are likely to spend every day despondently, while you eat yourself up by a sense of despair, helplessness, self-blame, and anxiety. There were many of those kinds of days during the trading time in Dojima Rice Exchange.

Suppose shocking news, such as an earthquake had struck a certain part of Japan hit Dojima Rice Exchange. The rice price would skyrocket in Dojima Rice Exchange ahead of all other regions in the country and eventually the impact of the price condition in the exchange rocks the entire nation. This was the kind of market movement that had such serious repercussions it was capable of shaking down even the Tokugawa Bakufu. It didn't have to be natural disasters like an earthquake; sometimes the price of rice that had been going up gradually over an extended time made a sharp rise at a certain point and went out of control as it continued to skyrocket.

This was the kind of day that frequently happened at Dojima Rice Exchange. On days like this, the market was awash with the cries and laments of all those people who had entered the trading and they were all charted in Honma Munehisa's candlestick – this is the very essence of the time of the candle, and the heart of his candle.

Honma Munehisa knew better than anybody how important it was to take time to think about the time of the candle because he was right there in the market when everything was taking place and he was the very person who was able to chart everything that had happened in Dojima Rice Exchange market in the shape of candles. Therefore, when he looked into his candles he was able to read all the stories that the candles were holding within. He was well aware how the human mind changed and swung hundreds and thousands of times even in just one short moment and how greed and fear manifested themselves on the surface. He knew his candles were the sum of all those human stories. He became insightful about human psychology and market behavior because he had learned from the monk how to place his mind on the flag and see through it and also because he succeeded in charting human psychology in candles. Many people today turn to the elaborate interpretations of statistics and data, created and compiled by numerous market experts before entering trading, but unless they can reach the point of awakening where they can see through the human mind as it goes through many changes – like the burning of candlesticks -- they will always find it hard to remain successful in trading. I believe that it is hard to nurture the right knowledge, but it is just as hard to put that right knowledge into action and to acknowledge what you are doing when you take certain actions.

From Honma Munehisa's writing which I introduced earlier, we can tell that the market atmosphere at the time was shifting towards an increase of the rice price. In his writing, he explained how the orders were rushing in from around the country and how people were willing to pay even for stored rice. It is easy for anybody to be carried away when the market rallies with a tremendous uptrend. But the urge that keeps telling you to take part in the bustling market is not coming from your own mind. You have not arrived at this urge after contemplating the market yourself. You are just compelled to enter the trading because you allowed the market atmosphere to take full control over your mind. You find yourself in this situation all because you have not given enough thought to the rice price yourself. In other words, you have to think hard about the time of the candle first and foremost before you take any action.

For example, when prices in the real estate market continue to increase, everybody jumps in to buy property. Newspapers are flooded with articles about real estate and how to make money out of the dynamic real estate market and you hear people everywhere talking about how the price of apartments and residential houses is expected to continue to go higher. All these articles and dialogues coerce you to consider buying a property and fantasize about making an easy fortune within a short time by purchasing property even if it means you have to take out a loan. Banks make it easier for you to take loans from them by increasing the loan-to-collateral ratio because the value of real estate properties as collateral keeps increasing.

The stock market is similar to the real estate market. Stock and securities companies encourage people to participate in the market by announcing their predictions for the future increase of stock prices of certain promising companies such as Samsung and Hyundai, acting like auctioneers who urge bidders to keep pushing up the price competitively. It is not easy to make a cool-headed decision in this kind of situation.

Honma Munehisa has advice for us when we find ourselves in this kind of confusing position: when people rush to the west, head to the east. But for what reason does he tell us to do that?

As I have mentioned previously, he was able to chart trading price data over an extended time period in the shape of a candle he had conceptualized and he was able to see through the market behavior and trends before making the right decision based on his chart. This part of the book is about what happens after certain trends come to an end after a certain period of time. Just as the bus you ride on is destined to arrive at its destination someday, there is a time when a certain market trend arrives at its final destination. Even in the bearish market, someday there comes a time when the price reaches the floor. The rice price is same; when the market is bullish, it looks as if the price is going to keep increasing endlessly, but someday, the price reaches its ceiling and the uptrend comes to an end.

This part of the book is about Honma Munehisa's position on this issue. What would happen when a specific market trend comes to an end after a certain period? Honma Munehisa discusses how the rice price eventually hit the floor during the downtrend and also how it hit the ceiling during the uptrend. In this part, he addresses what to do when the rice price reaches the ceiling after a certain period of uptrend.

However, his instructions can be misunderstood and cause damage to people if they are not followed carefully. It could be particularly dangerous if people are encouraged by his instructions to sell during the uptrend when the rice price continuous to increase and many people rush in for follow-through buying, believing that it is the time that Honma Munehisa advised us to head to the East when others rush to the West.

At this point, we need to examine the selling aspect. I have already mentioned how rice was traded as futures in Dojima Rice Exchange. What I will discuss in this chapter is the importance of not taking the short futures position during futures trading. A short position in a futures contract is equivalent to betting on the possibility of the price going down.

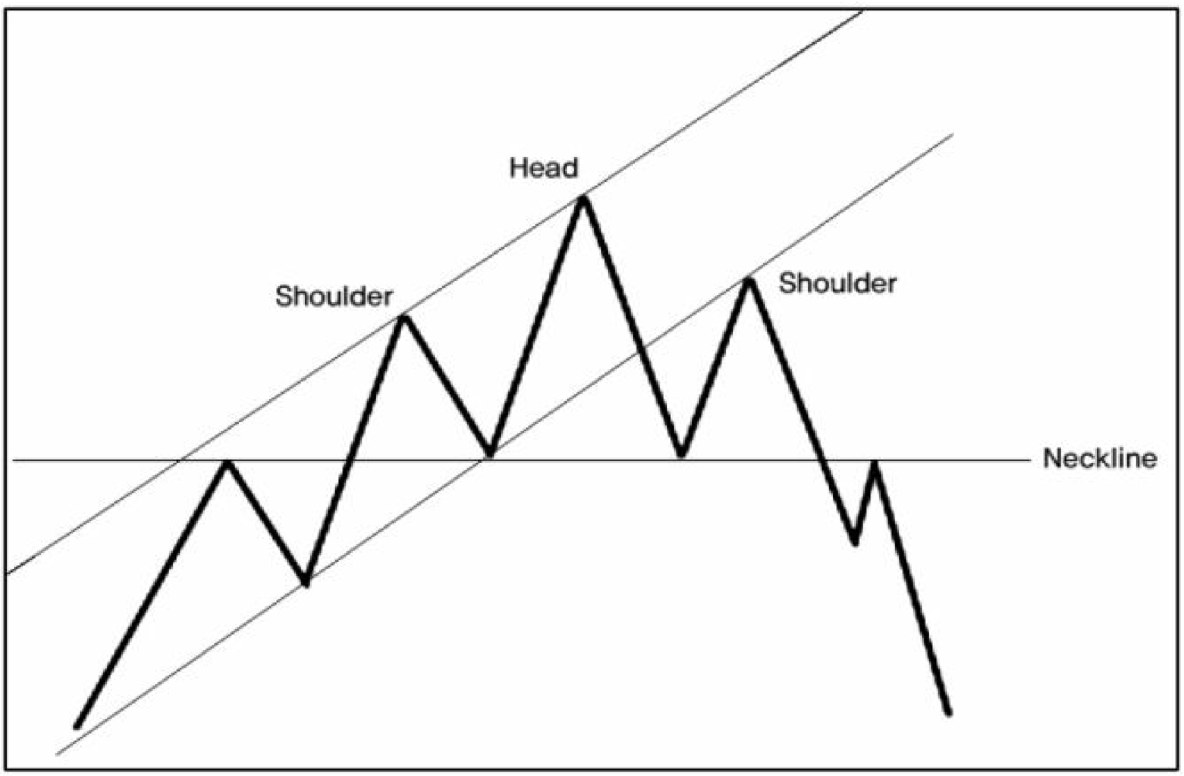
For example, suppose there is a daimyo who issued a coupon with the promise of delivering rice when it is harvested in autumn. He issued the coupon at a really high price because at the time, the rice price was skyrocketing. After the coupon was issued, the rice price started to go down and when the time came to deliver the rice as he had promised, the rice price was only half of what it was at the time the coupon was issued. In this case, he wins in the futures trading and makes a 100% profit. In other words, if a bale of rice was a hundred dollars at the time the coupon was issued and the rice price went down to 50 dollars per bale in the harvest season, he was able to sell 50 dollars worth of rice for 100 dollars. However, if the rice price skyrocketed and a bale of rice reached 200 dollars after the harvest season, he would have to take a significant loss because he had sold 200 dollars worth of rice for only at 100 dollars.

In this chapter, Honma Munehisa advises people to head to the East when people rush to the West, which means when the rice price is continuing to increase, he is telling us to sell because the price is expected to drop in autumn. Therefore, if this prediction turns out to be wrong, you are likely to suffer a significant loss in the end. However, Honma Munehisa gave us the advice believing that the rice price has reached the ceiling and the additional increase was not likely. But what made him to think that way? What was he looking that we could not see?

To understand the ceiling price and the highest price of rice according to Honma Munehisa, we have to examine his five methods commonly known as “Sakata’s Five Methods.” They comprise five patterns: “Three Soldiers,” “Three Gaps,” “Three Mountains,” “Three Rivers” and “Three Methods.” Of these five patterns, the “Three Mountain” pattern is the one designed to recognize the ceiling of the price.

The “Three Mountain” pattern charts the fluctuation of the rice price in the shape of three mountains, which has many similarities with the head & shoulder pattern that people currently use to understand the highest price in market analysis. The head and shoulder pattern has a head in the middle and a shoulder on either side. In "Sakata's Methods," they are shaped as one tall mountain in the middle and a lower mountain on each side, instead of a head and shoulders. However, in the "Three Mountain" pattern, the different heights among the three mountains are not really that significant.

<Head & Shoulder>

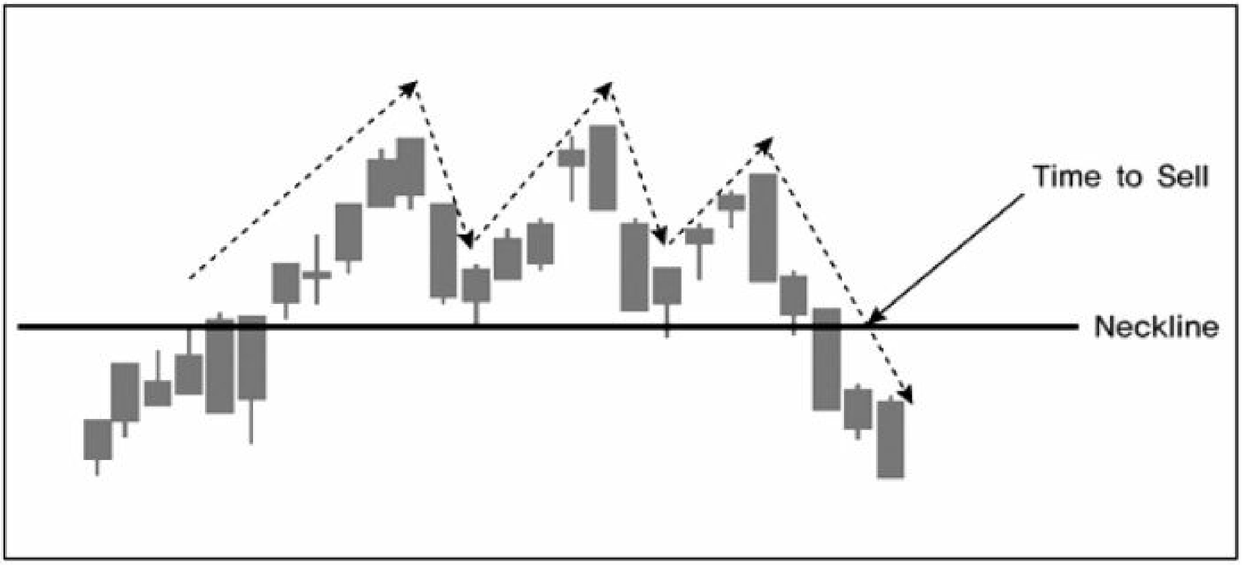


The head & shoulder pattern is one of the most popular technical patterns people use to identify the upward thrust in the market and it corresponds to the "Three Mountain" formation as identified by Honda Munehisa. The shapes of mountains in his patterns all differ from each other, just like the shapes of mountains we see in nature. Even though there are three mountains, the one in the middle does not necessarily have to be the tallest nor do the other two mountains always have to be lower than the middle one. His three mountain pattern reflects human psychology and therefore the middle one usually turns out to form the tallest. Technical analysts from the west made the typical head & shoulder pattern based on the same observation.

Honma Munehisa recognized that the shapes of three mountains appear when the price is sitting at close to the highest point. Of course, we wonder why he thought that. Why did he think the three mountains reflected the people's mentality and how did they influence the people's minds in return? Perhaps answers to these questions might have allowed Honma Munehisa to believe that when the three mountain pattern appeared, it was closer to the ceiling price and it was time to come up with a trading strategy that corresponds with the market formation.

When you look at Honma Munehisa's "Sakata's Five Methods," you can see how all the five patterns include the word "three." This is Honma Munehisa's unique way of understanding human psychology, which is explained in detail in the following.

<Three Mountains Pattern>



In trading any kind of commodity – not just rice, but also pepper, garlic, cabbage, and even real estate – the minds of people engaged in the trading go through a series of wild changes depending on the movement of the price.

For example, when rice is available either for purchase or selling at any time and the price remains more or less the same, people's minds remain calm. Even when the rice price starts to increase, people do not show any significant reaction until the price reaches a certain point. It all changes when the rice price shifts constantly on a daily basis. This is the time when quick-thinking merchants – as well as ordinary consumers -- who have been anxiously following the price increase, jump into trading, and cornering and hoarding become rampant in the market. Those who did not succeed in purchasing rice at this time experience temporary mental breakdown, and those who have stored rice at home or elsewhere bring the rice out to the market. But this temporary chaotic situation settles down shortly, because those who could not participate in trading at the current market price go on a buying spree when the price goes down even just a little bit – which they think is comparatively cheap – and many experienced merchants or those who are money smart buy the rice back again when the price drops even temporarily. This kind of movement pushes the rice price down to a certain point until the price stops its downtrend and makes a turn to the uptrend. From this moment, those who took the blow when the price began to drop – which was only a temporary decrease – start buying and even hoarding the rice again and all the people participating in trading want to buy the rice instead of selling it. When the market is formed in this way the price rises faster and higher than the normal pace before all this happened.

The more the rice price increases, the more people regret having sold off their stored rice during the temporary increase instead of buying out and they become determined to buy out and keep the rice if the price plunges again. Those who failed to join in trading during the price increase remain on standby with the plan to buy and even those who made profits by selling their rice regret that the price did not increase more so that they could have made more profits. This group of people also remains on standby either to buy or sell depending on the price change. Eventually what happens is that the price rarely decreases but continues to increase. The number of people who wish or try to buy the rice, rises to far more than the number of people who are willing to sell while the price continues to skyrocket and the market becomes over-heated.

When the price has increased to a certain limit, many people grow anxious and become concerned about the market. Some of them decide to sell off the rice after having made profits to a satisfactory level, causing the price to take a plunge. But the price increases again when others buy back the rice with the expectation of a further price increase. The price keeps going up and down in this way for a while. This kind of rocketing market formation is what creates the three mountain pattern of the market.

When the three mountain shapes appear, people share the common understanding that an additional increase in price does not seem likely and they become more aware of the price limit. More people offer the rice for sale at this point, while those who want to buy remain reluctant. In this formation, the price continues to go down afterwards. After having experienced this kind of market formations, Honma Munehisa came to the conclusion that people sense three strong identical urges in terms of their psychology. People are not sure what to do when they sense the urge for the first and the second time, but when it happens the third time, they become strongly confident over their urge, which is the kind of urge that has a significant impact on the masses.

Honma Munehisa was sure that when three mountain shapes appear in the market conditions, it didn't just signify a simple up and down of the price; he was sure that it signaled an extended period of downtrend of the price. For this reason, he advised us to head to the East when people rush to the West. He didn't mean just to be on the opposite side of the market trend;

his message in this advice is that it is time to study the market and research the ceiling before taking action.

When Everybody is Weighed Down, Start Buying with Renewed Determination

When the rice price keeps dropping without showing any sign of rising again, and rumors abound about the highest grade rice being offered everywhere, you become unsure how far the price is going to drop and if the market will remain sluggish. When the market is in this state and you agree that it certainly is a bear market, it is actually time for you to start buying rice with a renewed determination. It might feel like jumping into the ocean and not something likely to bring about success, but that is the time you have to buy without any reservations, and you are sure to make a profit. You feel good inside when the price goes down if you had expected it to go down, so sit tight and ignore the market when the market atmosphere is sluggish. Soon, the market will become bullish and the price will start going up so fast against everybody's expectation that your mind will find it hard to keep pace with the speed of the market when it happens. When the price actually starts to go up, you feel the same; it feels like jumping into the ocean, and that is the secret.

From this writing by Honma Munehisa, we can see that there are many similarities between the market conditions of his time and our time – be it the real estate or stock market, or even the foreign exchange market and international oil markets -- even though there is a big gap in time and the difference in the commodities being traded.

During the Edo period, it took a significant amount of time to travel between Osaka, Sakata, and Edo because these cities were far apart from each other. The transportation and communications during the time were nothing like what we have available today; the fastest transportation available at the time was waterborne transportation by ship or land transportation by horse. However, the market was always bustling with travelers and merchants who came from around the country, carrying with them all sorts of rumors and information. It is easy to imagine the significant investment some of the wealthy merchants had to make to get access to the valuable data from the market, and we can imagine how some of them even built some kind of network with well-established organizations to collect the information. Even 250 years ago, some of the information and rumors that circulated in and out of the market had little value as market information or were simply outdated useless information. But some of the people must have had access to valuable information that was true, even if it was not easy to come by.

We can tell from this writing that Honma Munehisa had the insight to see through the market and that he must have had an information network through which he could filter the rumors and news that circulated around the market and evaluate them in his own way. At the start of his writing, Honma Munehisa points out how “rumors abound about highest grade rice being offered everywhere.” When he mentioned “from everywhere,” he could mean the rice markets near the daimyos' rice warehouses in Osaka, or it could include markets in Osaka, Edo, Kyoto, and Sakata, as well.

Investors today have easy access to all kinds of resources about the interest rate, exchange rate, oil price, the movement of raw materials, not to mention analysis of the global economy, the Internet, newspapers and news agencies. However, during Honma Munehisa's time, it was not easy to find out the exact harvest and yield condition of rice in local areas and it must have been almost impossible to get accurate information about an earthquake, storms, winds, precipitation and disaster damages, all of which had a direct influence on the crop harvest. Building a data base of the quantity and grades of rice was no exception.

Harvest crop appraisal and rice supply forecasting are more important than anything for merchants, but you cannot count on rumors and hearsay to get accurate information about them. Therefore, you need to set up and operate an information network at major rice granaries if you wish to get the most accurate harvest crop appraisal and rice supply and demand forecast. From the way he treated rumors and hearsay, we can assume that Honma Munehisa had just that kind of information network. In his writing, he warns about rumors and advices that you should buy instead of sell when you believe it is a bearish market and everybody thinks the rice price is likely to continue to drop. The prudence that enabled him to see the reality beyond rumors indicates that he must have had some kind of an information network.

Of course, there are equally unconventional indexes that ordinary people use as signs that indicate the floor prices in today's market as well. For example, people often say that when you are not sure if the market has indeed hit the floor, all you have to do is go to the market and see what's going on there. According to some people, "the market has hit the floor if the market floor is rather deserted and you see only a handful of old people dozing off on chairs in front of the index screen." Some people claim that you can tell that the market has hit the floor if everybody becomes a pessimist and everybody looks sick just hearing the word stocks. There are also those who claim that you can tell it is a bear market if the newspapers are full of news about people committing suicide after stock investment failures, one after another companies going bankrupt, and newspapers reporting about the global economic crisis almost on a daily basis. More insightful people point out that you can tell if the market has hit the floor if the government announces the third policy designed to bring about market stability.

At any rate, it is not easy to become a buyer if you know very well what it is like in the downtrend market. When the market enters the downtrend cycle, everybody including the news media takes a gloomy view of the market and everybody thinks the price is guaranteed to go down. In such circumstance, it is hard to decide that it is the time to buy. When the price continues to go down for an extended period of time and then starts moving sideways, people feel all the more unsure about the market psychologically, even more than if the price had continued to go down.

People feel this way because this is the time when nobody can tell when the market is going to be caught up in the perfect storm of downtrend and the fear of additional price decrease takes control over people's sub-consciousness. According to Honma Munehisa, however, this is the very time to start buying. He encourages buying with the hell-bent kind of determination as if you are jumping into the ocean.

The problem: to be on the buyer's side during the downtrend is just as risky as to be on the seller's side during the uptrend. The reason is, as I have explained previously, buyers are likely to experience significant loss if the price goes against the forecast and falls further.

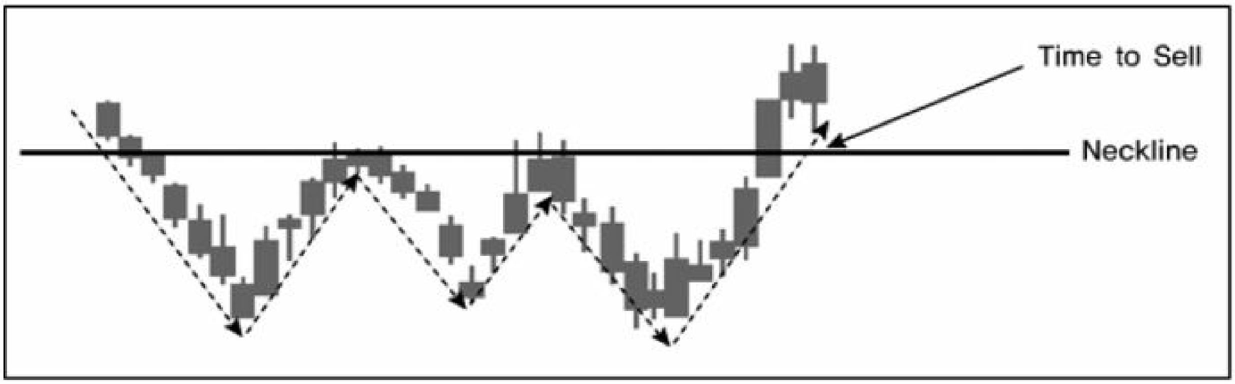
For example, suppose somebody bought a bale of rice with a coupon at the market price, which is a hundred dollars. If the rice price continues to drop until it reaches 50 dollars per bale in the harvest season, the buyer ends up having to pay twice the market price because he had already paid 100 dollars for the rice that now costs 50 dollars. Then why did Honma Munehisa encourage people to enter such a risky thing as trading? What could have convinced Honma Munehisa to trade in that way? We can find the answer to these questions in Honma Munehisa's viewpoint on the floor price. Just as there is a neckline in uptrend, there is also one in the downtrend. So what did the price floors look like to him?

We can find the answers in the three rivers pattern in "Sakata's Five Methods." I believe this pattern came to represent the price floors because water naturally runs from a higher place to a lower place. And the bottom is not made of cement; it is a floor whose nature is similar to water that goes up and down as it flows. However, the floor in his pattern is not the same as the pattern with one or two floors, as identified by the analysts in the West. His pattern has three bottoms, therefore a more secure, solid, and credible pattern. In today's stock market, a pattern with a single bottom is called the V-pattern and the pattern with a double bottom is called the W-pattern. But when another bottom is identified and added, it creates the VVV pattern, which Honma Munehisa termed the "Three Rivers" pattern.

This pattern can be explained in this way in a chart.

The shape of the "Three Rivers" pattern is similar to the reversed three mountains pattern. The reverse head & shoulder pattern is also similar in shape, therefore it can be considered as another form of the "Three Rivers" pattern. When the market formation creates this pattern, the price makes a slight up and down movement without creating any particular trend or causing a further drop. However, in this market formation, the market is dominated by the downtrend psychology. People are used to the price decrease at this point, and the atmosphere in the market is tense with pessimistic forecasts. Given this circumstance, everybody is ready to jump into trading if the rice price shows even a slight sign of going up. However, this is the safest time to buy the rice. Since buying the rice when the price is near the floor can be considered a big gain in itself, you can make substantial profits if you hold on to your commodity without worrying about small up and down movements of the price.

<Three Rivers Pattern>



Honma Munehisa advised against frequent trading. He recommended doing so only a few times a year in what he called the "time to enter trading" or when the market formation displays the three rivers pattern. According to his "Three Methods" – which is the essence of his trading techniques – the best time to buy among the three price levels is when the price is established at the bottom level. When the sign of the "Three Rivers" pattern appears in the market, it is an even more advantageous time to enter trading because this is a pattern that does not appear often. The problem then is how to identify the bottom level. If you familiarize yourself with the "Three Rivers" pattern in "Sakata's Five Methods" and gain a full understanding of it, you will have no problem. If you have waited and made your purchase at the bottom price, then you can just wait for the opportunity to make the most satisfying profits, that is, you can wait for the "Three Mountain" pattern – which represents the ceiling price – to appear and sell to realize your profit. But this is easier said than done. For those who are addicted to selling and buying, entering trading only two to three times a year may seem humanly impossible.

Honma Munehisa's "Three Methods" is a rather simple technique; it is all about buying at the floor price and selling at the ceiling price. Therefore, if you live by this technique, you can make big profits. Investment is easy, but it can also be harder than anything you do.

02. Crop Harvest Appraisal is the Basis of the Market Price

Rice Price Stagnates From Winter to Lunar February

The rice price remains in stagnation at the floor from winter to lunar February, but it is certain to rise beginning in March and April and continues to increase until May and June.

In the Chinese classic, The Outer Teachings of Chuang Tzu (莊子外篇), there is a story about a bird called Yuanchu (鵷鶵) whose literal meaning is a fabulous bird or a young phoenix. Yuanchu is the kind of bird that migrates between the south and north oceans in China. Since the bird has to travel such a long distance, it has to perch on tall trees once in a while to take a break. Regardless of how tired it may be; legend has it that it never rests on any trees except for the empress tree (paulownia tree). When it is hungry, it would eat nothing but the bamboo fruit regardless of how hungry it is, and it drinks nothing but the sweet water from the Amrita Spring regardless of how thirsty it is.

We can't blame this bird for having an arrogant attitude and particular tastes. The bird developed its own unique way of life based on long years of experience and the habit has been passed down for generations. It is their way of survival and an important way to protect themselves from the dangers that may arise from inconsistency.

We can think of the same habits in trading. We don't buy things just because it is cheap and there are things that we simply can't buy even if the price is cheap anyway, such as an apartment, property, or even blue chip stocks of certain companies. In the same way, a commodity is not always a bad commodity just because some market-smart people are avoiding buying it, and a commodity is also not always a good commodity just because people with particular taste have a penchant for it. In trading, what is absolutely great or what is absolutely the most admired do not necessarily have to be the best commodity for trading.

There is a tree that is very similar to the empress tree: the lacquer tree. The lacquer tree is shorter than the empress tree, but the sap from the tree can make outstanding lacquer for coating with a deep color that no other trees can match, and the young tubers are a much sought-after ingredient for by gourmet connoisseurs. However, the sap from the tree is poisonous, and some people experience tremendous suffering if they so much as brush against the tree and come into contact with the poisonous sap. This is one example of how what seems good for some people is not necessarily good for everybody, and what seems bad for some people does not necessarily have to be bad for everybody. The value of a commodity is not absolute, and what you need to pay attention to the most is choosing what is the most appropriate for your cause.

The same applies to large corporations. Large corporations are not always guaranteed to become successful if they produce certain items that some other small or medium sized companies produced and made money selling. Rather, expanding their business lines like octopuses stretching out their legs can actually take a toll on the large companies' success. Large corporations should have decisiveness in giving up on items that are more suitable for small and medium companies and searching out the demand for items that correspond better to their visions and productivity. The same goes for small and medium companies as well. If they develop visions and launch business lines that require capacities beyond what they have, they are more likely to face trouble and land at a situation where they can hardly expect sustainable growth. Therefore, what you have to keep in mind when doing business or entering trading is that you have to be conscious of what you are.

Honma Munehisa was a man with a consciousness that could be comparable to that of a fabulous young phoenix. He knew the price range that was most ideal for him and he did not try to sell or buy if the price was not within his ideal range. He knew what he wanted and he waited patiently for it.

This chapter shows his awareness. Honma Munehisa gathered data about price changes and built up his own database in the shape of candles and with his candlestick charts, he was able to identify the market trend as well as the ceiling and floor prices. In this chapter, we can see his awareness of patterns; he discovered not just the shape of the floor prices but also the shape of the period.

Even in today's market, people talk about "100 days of rock bottom price." This term signifies that when a price that has been going down for a while, it starts to move sideways at the rock bottom level, and the price is likely to bounce back off the bottom. If Honma Munehisa's 'Three Rivers" pattern identifies the rock bottom price line, the three months period where the price stagnates at the bottom corresponds to his understanding of the period when the bottom price line is established. This understanding is another result of his long research but in this chapter, he is not making it clear if he is addressing the three months of stagnation period during the downtrend or a certain period that appears in the middle of an uptrend. However, from the context, I would think he is addressing the three months period when the market moves sideways at the bottom level during the downtrend, since he pointed to how the price stagnates at the rock bottom price from winter to lunar February.

The reason I interpreted it that way is because Honma Munehisa is identifying two different sets of time tables: from winter to lunar February, and from March and April to May and June. With regard to rice farming, the winter, spring, and autumn are particularly important in terms of rice supply. Since the rice is harvested in autumn, the rice supply is stable in autumn and therefore the price tends to be stable as well. The winter is the same as autumn, but in spring and summer, there often appears a shortage of rice. Since Japan was an agricultural society during the Edo Era, the rice price stabilized in autumn because the rice was abundant in autumn. If the price went down in winter and stagnated for three months at the bottom price range, that meant the rice supply had been sufficient and the consumption had been dynamic before the winter. Therefore, considering the general trend of a year's supply of rice, the rice price is sure to increase in spring when there is a shortage of rice.

That is the reason Honma Munehisa declared that the price was sure to increase from March and April and would continue to increase until May and June. Even though his writing introduced in this chapter is only short, it is enough to reveal his analytic ability when it comes to the supply and distribution of rice. His writing is worth noting because it covers the supply and distribution trend, which needs to be considered as a priority in trading. We can tell how confident he was in his trading technique and what a natural-born, competitive merchant he was from the line that declared "the price certainly starts going up." Since he entered trading only when he was sure to win, he made profits on every deal he made, and he always waited for the time and price that he wanted before jumping into trading. He was indeed like the bird mentioned in Chuang Tzu's teachings.

The Rice Price Goes Down After Hitting the Ceiling in Lunar January

> *The rice price that hit the bottom price in winter and lunar January will start to go up in May and June. The rice price that hit the ceiling by lunar January and February will start to go down in May and June. If the price falls enough in May, it makes a sharp increase in June. If it doesn't plunge in May, it will definitely crash in June. Do not doubt this. The rice price that remains at the rock bottom price range in July, August, September, and even October will start to go up by December.*

In this writing, Honma Munehisa shows how he attempted to analyze the supply and demand of rice again. Perhaps it helps to understand the supply and demand before moving on. Honma Munehisa is expressing his opinion about the yearly movement of the rice price. Unlike his writing mentioned in the previous chapter, he is explaining that if the rice price continued to increase until it reaches the ceiling by Lunar February, it would go down in May and June in this chapter. But if the price took a plunge in May, it was sure to bounce back in June, according to him.

It happens that way because, according to Honma, the supply of rice is limited, and so is the demand or the consumption of rice as well. The harvest of fresh new rice entails an increased demand for it and the price remains stable, or likely goes down, but if the price continues to go up from autumn to winter instead of going down, that is because the rice is locked up in the warehouse by those who expect a further increase in price. However in this case, the desire to realize profit becomes strong in the market because there has been sufficient supply of freshly harvested rice and the price went up continuously thereafter. But this desire cannot be sustained after spring. When summer is approaching, the people's psychology is heavily weighed down by the approaching autumn season, and it becomes more likely that people who have kept the rice in their warehouse decided to bring the rice to the market for offering. Therefore, the price is likely to be established at the ceiling. This is the kind of scenario Honma Munehisa saw through.

Ceiling Price of Rice Between July and October

> *I would say that if the rice price peaked at the ceiling level during July, August, September, and October, it is most likely to decrease until December then after.*

In this chapter, he explains some exceptional cases in which the rice price continues to rise through summer and even until the early autumn. How can we understand this kind of price increase? One might suspect that Honma Munehisa had some errors in his analysis of the rice supply and demand. However, this forecast only reflects some major disasters such as earthquakes, storm, or damage from various diseases and harmful insects that most frequently occur between July and October. These natural disasters and weather conditions can deal a serious blow to the harvest quantity in major rice granaries and effectuate a significantly lower quantity of rice. The price goes down in November and December, according to his forecast, because by then the market that was rocked by unfavorable factors and bad news temporarily regains its balance and stabilizes after the damages are more accurately measured and the harvest quantity becomes clearer.

Honma Munehisa believed that what decided the rice price was basically the supply of, and demand for rice, and the price changes that happen when the trading participants' forecast of the supply and demand situation affects people's psychology. Therefore, the most important thing is the rice harvest situation and the actual quantity of rice harvested and getting an accurate grip on them was the basics of trading. He thought you could win in trading only when you were capable of reading people's psychology based on this knowledge and understanding of reality. "Sakata's Five Methods" that he had compiled over time and which are based on the candles, is an objective tool you can turn to in order to read the very psychology of the people who participate in the market.

They laid the foundation upon which he was able to analyze the process through which the rice price was established either in the ceiling or floor price range through the year, or how the price had been changing throughout the year. He also observed the rice price reaching either the ceiling or floor prices based on the quantity of rice that he had expected to be harvested while taking all factors that could impact the final amount of rice -- such as diseases and harmful insects, as well as weather conditions such as storms – into consideration.

What to do in a Bad Harvest

① *When it rains a lot in June and July*[22]*, and the weather is chilly and cool, with the few days that are sunny, our neighboring areas will have a bad harvest. There are areas whose harvest turn out will be different even though the weather condition has been similar: Kyushu, Shikoku, Chugoku, Kinai, Tokaido, and Oshu. Good harvest in the north region, bad harvest in Kansai region, good harvest in the western region, and bad harvest in Kanto – even if the year's harvest condition follows this pattern more or less, you must remember that there are differences.*

22 It refers to the weather condition in Sakata.

② *If the weather condition in the region is irregular in June and July and the rice is not growing well, and the rice paddies crack and dry, you can expect a good harvest as long as you have enough sunlight beginning from the end of June until around July 20. You have to watch out for natural disasters such as storm, flood, and harmful insects from June to August. This is not restricted to the region alone; the same applies in Kyushu and Edo.*

③ *In November, the month of frost*[23]*, consider new offerings, offerings of stored rice, the year's harvest quality, and the balance between the supply and demand before beginning the trade with 50-*

60 koku but not exceeding 100 koku. A decrease by 40-50 is rare afterwards. You begin trading with the harvest forecast in mind, and after decreasing by 10 or 20-30 koku it will start going up depending on the changes that happen during the year. Due to natural disasters in Osaka, sometimes the price makes a sharp increase beginning with the first trading in June. At any rate, always remain cautious because what goes on in Osaka and regions such as Kyushu will have an impact in our region. It is truly unpredictable, indeed.

23 This refers to the trading that happens during the period between June and November when the market is influenced by the upcoming release of new crops and harvest conditions. The supply and demand of rice, which is the determinant of the rice price, is influenced by the rice reserves as well during this period. The trading begins with the rice price decreasing because there are enough rice reserves and new crops are soon to be harvested, but the decrease tends to remain small if the price is already at the bottom zone and the harvest forecast is not very good. However, according to him, the price will soon start going up and continue to rise. But if the harvest forecast in major granaries such as Osaka is not good, the price can show a sharp increase beginning in the early stage of trading in June.

I have mentioned how rice was traded in Dojima Rice Exchange as futures as well as spots. Buying and selling the rice with cash does not need any further explanation, but trading the rice in futures does. So here is a more detailed explanation.

During the earliest days of the rice exchange market, people used promissory notes commonly known as rice coupons to buy and sell the rice. These rice coupons weregenerally issued by daimyos, the head of the han estates, during the Tokugawa Bakufu 250 years ago. The rice coupon is based on the system in which sellers get payment in advance with the promise of delivering the rice in the future. If the market price of a sack of rice was 100 dollars, the seller could issuea rice coupon in exchange for a hundred dollars. When the issuer, or the daimyo, was in need of cash urgently, he could issue the rice coupon at a price that is much lower than the current market price, but if the rice price is experiencing a sharp increasein the market, he could issue it at a price that is higher than the current market price of the rice, as well. Since the rice coupon could be traded for rice at anytime, it was more convenient for the sellers to keep the rice coupons instead of keeping the rice, because the sellers didn't have to spend extra money to store and maintain the actual rice in a warehouse. Daimyos even preferred rice coupons over the actual rice because they could expect some extra profits depending on the price changes. Therefore, futures trading was established because it was good for both the daimyos and rice merchants.

Buying futures means paying money in advance to buy the rice coupons, and selling futures means to issue rice coupons in exchange for advance payment.Of course the rice coupon was issued and sold to

anybody who could deliver the rice when it becomes available or when necessary.
Selling the rice coupons that they bought with advance payment was also called selling, and buying back the rice coupons that they had sold for advance payment was also called buying. In today's market, buying back and selling back are called futures transactions. The rice coupons were freely sold and bought, and they were traded among many people other than the original sellers or issuers, depending on the changes of the rice price in the market.

> ④ *However, in case the rice price begins to increase from the floor price, by 10 koku if it went down by five koku and 20 koku if went down by ten koku, while being mindful that the price will remain at the ceiling level in August, September, October, November, December, and January the next year. If the harvest is bad while the price remains at the ceiling, the condition will remain that way for two to three months and the price will not go down. It will start to go down slightly beginning in the lunar February, but in April, May, and June, the price becomes so high that even merchants will not attempt to buy. If the weather remains good in June and the sunlight is good during the* 토용 *– which indicates the eighteen days prior to the beginning of autumn -- the atmosphere becomes bad. In June particular, those who are beginners and those who are skilled will sell out the rice that they bought from other regions, thereby causing a price crash and the inventory will go down by 70-80 koku and even up to 100 koku.*

In this chapter, Honma Munehisa is more specific about harvest appraisal and the supply and demand for rice, and from this account we can see his sharp analytical skill and attention to details. From his statement, we can learn how he applied his analysis to the harvest condition – which he took seriously when entering trading at the Dojima Rice Exchange – based on the Three Methods that he developed himself. You can see how he applied himself to trading safely by taking various factors such as the harvest conditions of major granaries into consideration, instead of simply going on hunches like most of his contemporaries did.

In general, it is natural for the rice price to go up when the forecast says the volume of rice available in the harvest season is expected to decrease due to various damaging factors that affected the crops. However, even if the price actually continues to rise, you have to be mindful of the possibility of the rice price going down because you can expect the volume of the rice harvest to actually increase instead of decrease if there has been enough sunlight. But if the harvest forecast is seriously unfavorable due to such major factors as insects, storms, and bad weather conditions, the price of rice tends to remain strong at the ceiling level without going down for several months, according to him. He points out that you still have to be mindful of various other factors because even if the harvest forecast does not sound good due to the bad weather conditions, harmful insects, and storms; not all the same in regions throughout the country will suffer equally.

We need to note how he repeatedly mentions the trend. When the rice price stagnates at the lowest level, the range of a price decrease remains small. But when it increases, it tends to increase sharply. And during the downtrend, the increase will remain small and the decrease tends to be big. He points out that during the uptrend, the rice price will fall by five koku but when it rebounds, it will rise by ten koku. If it falls by ten, you can expect it to rise by 20. When the market crashes, the price could fall by as many as 70 up to 100 koku, according to him. So according to Honma Munehisa's advice, you don't need to worry about the price decrease if the rice price is on an uptrend, and instead you should try to buy each time the price falls even if it's only a little. But when the market is in a downtrend, you are destined to lose if you buy rice just because the price went down no matter how significantly the drop was. During the downtrend, Honma Munehisa advises us that you can do better if you buy rice when the price shows a slight sign of increase and ignore the decrease of price no matter how far down it has gone. This is what people call the trend, and the power of the trend.

And from this came such maxims of investment as "jump on the back of a horse while it runs," and "those who move can move farther." With regard to the downtrend market, people say "do not grab a falling sword," "under the floor there is an underground" and "under the first level of underground is the second level of the underground." Therefore, when you are in trading, you can either cause a tremendous loss or gain tremendous profit, depending on the accuracy of your market trend analysis. That's the reason why your perception of market trends is important.

The main lessons that we have discussed based on the statements from Honma Munehisa's Fountain of Gold can be summarized into three points: your attitude towards the trading and market trends, the high price or trading at the high price range, and trading at the floor price range.

Honma Munehisa was well aware of the way the market price was decided by the supply and demand 250 years ago. And he was always mindful of how the harvest condition determined the volume of rice produced, and how the volume of the rice produced determined the trading price in the market. If your analysis tells you that the harvest is going to be good, you should sell out any rice that you have in storage, not to mention any rice coupons that you might have before most other people in the market come to realize the harvest is promising. On the other hand, if your forecast tells you that major granaries are expecting a bad harvest and you don't see any possibility of improvement until the harvest season, you should do your best to buy up as much rice and as many rice coupons as you can. When the harvest season approaches and people come to get an accurate picture of the actual harvest conditions, the rice price will make a strong movement in a certain direction. When this happens, those who made just the right moves based on accurate analysis of the harvest conditions in advance will be able to make tremendous profits. Honma Munehisa was keenly aware of this reality. That is the reason he explains and stresses repeatedly over many chapters the importance of the supply and demand factors that affect the rice price, and the analysis of supply and demand which he believed should be the priority for merchants.

Even though the commodities being traded today are more diverse than hundreds of years ago, the most essential task for commercial traders remains the same: it is to respond to the market conditions with an accurate analysis of supply and demand. The price changing patterns of most of today's popular commodities – such as the semi-conductor, LCD, gold, petroleum, steel, diamond, cabbages, garlic and radishes— are decided by the balance between the supply and demand of those commodities, as well.

When major crop producing areas are hit by a storm and suffer serious damage to their crops, the price of their agricultural products increases sharply in the market because people expect the harvest will be bad and there will be a shortage in cities due to the expected decrease in the supply of the crops come harvest time. This is the classic scenario that demonstrates how the price skyrockets not because of the increased consumption of the commodity, but because of an expected problem in the supply and distribution of the commodity.

A while ago the news media reported how the skyrocketing oil price was going to deal a blow to the economy almost every day. It is natural for the oil price to go up because the dynamic global economy basically pushes up the demand for the oil worldwide. Besides, the supply of oil has been less reliable than the demand because OPEC, the group of oil exporting countries, often encourages limiting the production of oil with the intention of keeping the volume of oil production under their control. In addition to this factor, the war in Iraq and Afghanistan, as well as terrorist activities, cause people to be concerned about the supply of oil, consequently pushing the oil price to increase sharply. What if the U.S. had been decreasing the interest rate for a few years straight with various financial indexes pointing out that the economy had hit the bottom? In this situation, what would people with money do when they saw any sign of the global economy reviving? They are most likely to turn to oil because the revival of the economy necessitates the increased demand of major raw materials, oil in particular, and oil always guarantees profits. This is the kind of market understanding that is important.

Anybody who can predict this kind of market movement and trend is able to make a huge fortune. Just as Honma Munehisa was able to predict the movement of the rice price based on his analysis of the expected volume of harvest 250 years ago, the most important thing for us in today's market is to analyze the supply and demand of respective commodities.

In the stock market, the interest rate is the most important determinant of the supply and demand. If money abounds in people's pockets, it eventually flows into the stock market, and strong capital inflow builds a stronger stock market, thereby increasing bullish sentiment. When this happens, the condition is ripe for the stock prices to go up. However, if the interest rate falls, more capital circulates among the people to create a dynamic cash flow resulting in a boost to the economy. When the interest rate is low, it is easier for individuals and businesses to take loans out at banks, and due to the low interest rate, less money flows into the bank. When more capital circulates among the people and businesses, the money moves in the direction where there are better investment opportunities, such as the real estate and stock markets. However, if the interest rate continues to go up, the capital that had been circulating among the people and businesses slowly flows into the banks, and the resulting consequences often include fewer new investments, a heavier burden of interest on the part of the people and businesses and stronger pressure from the financial institutions to repay debts. When there is less capital among the people and businesses, the stock market enters a downtrend after hitting the ceiling.

As we can see, the analysis of supply and demand enables us to see the larger picture of cash flow and set up strategies that can best correspond to the reality. For that reason, accurate analysis of the market is one of the most essential tasks for anybody who intends to invest for profit. From this background came this motto of investment;

"The supply and demand comes before everything."

As Honma Munehisa said 250 years ago,

"*At the foundation of the high and low in market trends is good or bad harvest conditions.*"

03. Listen to the Words Coming from the Market

Nimble Response is Required When the Market Moves Fast

When the market shows either a sharp increase or decrease of price, just follow the trends instead of trying to predict the day when the price will hit the ceiling or bottom.

In this chapter, Honma Munehisa mentions the market trends again to explain how to respond to the market when it repeatedly records a sharp increase or sharp decrease. In general, it is the hardest time to sell or buy when the market bounces up and down like this. The market can show both an increase and decrease in a single day, or make an increase one day and then a decrease the next day. When the volatility is great and it is hard to tell when the price is going to fall or rise, it is not easy to figure out how to respond. How can anybody invest when you cannot see an inch into the future on days like these?

But when the market is formed in a way where making decisions is more difficult than most other times, you have to be more committed to analyzing the market trend and following it, according to Honma Munehisa. If the market is in an uptrend, the price will eventually go up and therefore you can ignore a few days of sharp price changes, or a day's sharp fall and rise of the price. If you react to each and every small movement, it takes a toll on you psychologically and if you happen to go against the movement of the price, you can end up experiencing a tremendous loss. Therefore, if the market is in an uptrend, it is better to buy and keep, and in a downtrend, to sell and remain that way. In the case of spots, it is recommended to sell spots and keep the cash. This is the lesson Honma Munehisa stresses and it is the rule that you must always keep in mind.

Those who have researched Honma Munehisa often define his trading techniques as the science of the human mind (or market psychology) because his insightfulness with regard to the human mind is undeniably obvious as you can see in his writings. In his case, the insight into the human mind is not just about an individual's psychology, it is more about the general psychology of those who participate in trading. People who enter the market have to be able to hear the sound coming from the market psychology. This sound tells us "the price begins to soar after bounding up from the bottom," or "the price begins to fall after hitting the ceiling." Even when the price temporarily goes up and down during the uptrend, the sound will tell you that it will continue to rise or it will continue to fall. Therefore, not being able to hear this sound coming from the market psychology is to be miserably tossed away from the market after being abused by the bouncing market price.

When the market moves fast, you have to be able to respond quickly. In order to do that you have to create calm within your mind and quietly listen to the sound coming from the market.

Three Methods

If in the beginning of a new trading there comes a big rally and the price hits the ceiling, the price of the day will reach up to 2.3 koku[24] *and then the trend of the day changes and brings the price up to 3.2 or 3.3 koku. You have to watch this price of the day of 2.3 koku. This will change to 2.6 koku within two days but the market is not strong enough to support it at the level of 2.3 koku and it tumbles to 3 koku. This is the time to sell. Since the price rapidly increased to 2.3 koku, the atmosphere is good when it reaches around 3-4 koku and for that reason, people naturally buy back when it reaches 3 koku when it falls to the level of 4 koku, but it continues to fall down to 5 to 6 koku for the lack of natural buying force. This is the time to think of the rice and buy. It certainly will rise to the level of 3 koku. This is the biggest change during the stagnant stage. If the price increases even as little as 0.1 or 0.2 koku from 2.3 kuku, stay on top of the market and buy the contracts. If in the next month the price goes up by 2.6 or 2.7 koku with the 3 koku neckline, and remains there, you have to sell off. These are the Three Methods.*

24 The amount of rice, indicated in terms of koku and sho can be understood easilywhen you think about the dollar amount. For example if one koku of rice is a hundred dollars and you bought two koku of rice at a hundred dollars, that means the rice price has dropped. However, if one koku of rice was a hundred dollars but you could buy only a half koku for the same money, you can see that the price has gone up. In this way, you can understand his statement better. His explanation sounds complicated because he is addressing the rise and fall of the rice price in terms of the futures, but his analysis is

based on the fact that the rice coupons could be traded for rice at anytime, and the amount of rice you can get for the rice coupon varies depending on the market condition

What Honma Munehisa tries to explain in this chapter is the movement of the rice price after the ceiling price has been reached and how you should respond to the market formation either by selling or buying. He describes in detail how the price moves and how you can respond to the changing prices either by selling or buying with specific descriptions of how the price enters the downtrend.

He explains how the price continues to fall without going over once it hits the ceiling and the way it creates resistance all along the down turn. When this happens, remain mindful of the resistance price, and react by selling when the price is formed around the resistance price range instead of selling as everybody else does when the price makes a temporary increase as a rebound after a fall. This is called Trend Following in today's market.

In general, the market often distresses traders when it goes up and down repeatedly, be it an uptrend or downtrend. Therefore, unless you live by certain principles, you are likely to make the mistake of entering trading just as the market atmosphere is changing and the price either goes up or down briefly. However, if you enter the trade with full awareness of the trends, you will not be tempted to enter when the price goes up briefly during a downtrend. Instead, you will remain mindful of the resistance price of the previous session and can accurately pinpoint the time to sell when it arrives. In this chapter, 2.3 koku and 3 koku are the resistance prices. If you can live by this rule, you will make significant profit by selling even during a downtrend. This kind of trend following technique applies equally to an uptrend, except that in the uptrend, the resistant price will be replaced by the supporting price.

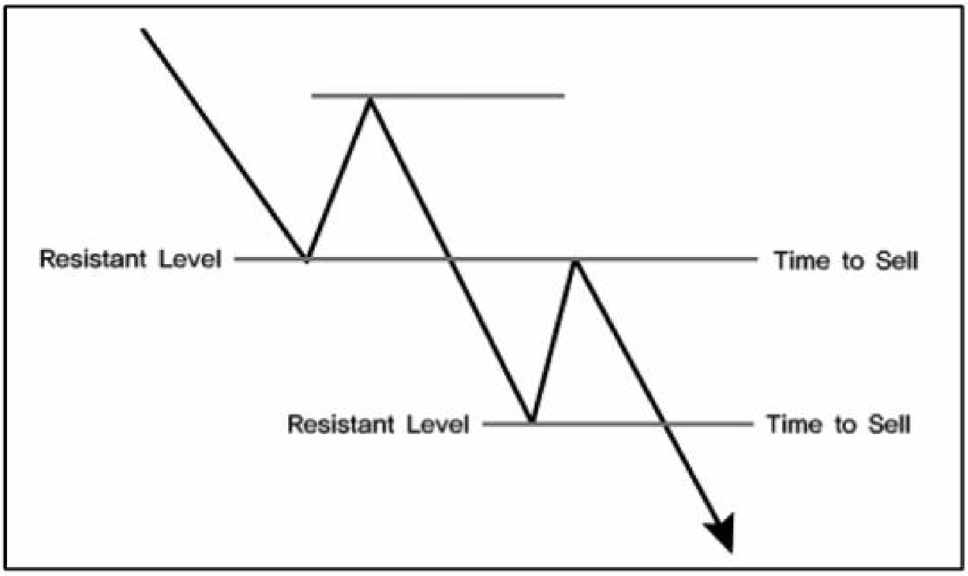
There is one thing you must be wary of. When the price shoots through the resistance price and continues to rise to create a golden cross, you have to immediately stop selling and start buying instead. This is what Honma pointed out when he said you have to buy if the price increases 0.1 or 0.2 from 2.3 koku. If the same market formation occurs the following month, he advises to lowering the neckline below 2.3 koku. In his statement, 3 koku is the price line where selling is recommended, but if the price shoots through it and makes a golden cross, he says you have to immediately stop selling and start buying again. What he indicates in this statement is that he was aware that the trend is not an absolutely unchanging principle and that it was a variable formation that is subject to the supply and demand of a commodity and to market psychology.

In today's market, many people mistakenly believe that all available technical analysis tools are absolutely unchanging principles. Standing by principles is important, but you should never be stubborn about them. For this reason, people say "stubbornness is the shortcut to failure," and "you can survive only when you are flexible like water." You need the kind of bravery that lets you boldly let go of any rules that you abide by when you realize the market rejects them.

The trend following technique during the downtrend can be summarized this way: in order to confirm a downtrend, you need to check whether the price has shot up through the low of the previous day and formed a golden cross, or whether it turned into resistance instead of making a breakthrough first. Then check if the price shot down through the low that was formed during the rebound and a dead cross was formed. If the price crashed the low, you have to respond to it with an immediate sell. This is the essence of trend following. The heart of Honma Munehisa's trend following techniques during the downtrend is all about going for further selling each time the price drops below the low and makes a dead cross and continuing to accumulate sell volume, but when the resistance level is broken through and a golden cross appears, you have to immediately liquidate your short position.

I have already discussed the three mountains and three rivers patterns from "Sakata's Five Methods" previously. In this chapter, he reveals his thoughts on the "Three Methods." "Three Methods" is often understood as meaning to just taking a break, but it is more about trend following. During the downtrend or uptrend, the movement follows specific patterns: going down, rebounding and then going down again if it is a downtrend, and going up, adjusting, and then going up again if it is an uptrend. These three movements are called the "Three Methods." Therefore, depending on the direction of the trend, the downtrend is called the "Falling Three Methods," and the uptrend is called the "Rising Three Methods."

<Falling Three Methods>



So why is the "Three Methods" interpreted as meaning to take a break? It is because of the bounding back movement that occurs in the middle among the three movements. For example, if the price keeps falling during the downtrend, and at some point falls more than usual, the traders begin to develop the commonly shared opinion that the price is cheap. This formation initiates a temporary rush to buy among traders, thereby stopping a further fall of the price and making it go up instead. However, this does not mean that the market has broken free from the impact of the downtrend, and the expectation for the price increase for an uptrend is not high. Therefore, the prevailing mentality in the market is to sell if only for a small profit, and even those who have not been able to sell become motivated to sell when the price shows an increase. Since the buying mentality is weak and the selling mentality is strong, the price is sure to turn downward. This is the movement that goes against the temporary trend during a certain trend and the limit of the movement.

But the real problem is the time when the price rebounds shortly before falling further. When the rebound is over and goes back to a down turn and continues to drop surpassing the previous low – which is the price range where the rebounding began – it causes tremendous distress in the minds of the people in the market and they become scared of how much the price is going to go down. This is the kind of market formation where you see people rushing to sell off or to dump. What Honma Munehisa warns us about in his statement with regard to this kind of market formation is that you have to keep observing the market until the rebounding is over and see if the price actually goes below the previous low. If the downturn that follows the rebound surpasses the previous low, you have to sell without hesitation, but if it doesn't go below the previous low, you should remain observant for now. This kind of attitude applies when the market rebounds, as well. If the price rebounds after a continual drop and if the rebound continues after surpassing the resistance and forming a golden cross, you have to change your position because this cannot be accepted as a downtrend anymore. Therefore, he advises that we have to watch the market closely if the resistant price is surpassed.

Perhaps, his "Three Methods" have been interpreted as meaning to take a break because of the period of time where you should remain observant of the market movement. But as I mentioned earlier, the more accurate understanding of his “Three Methods” is that it is about ways to react to the trends either by selling or buying.

The specific strategies Honma Munehisa explains in this chapter are still valid in today’s market and they are quite accurate trading techniques. As evidenced by his writings, we can tell that his trading techniques had reached a certain level as early as 250 years ago. His opinions on price movements as expressed in his Fountain of Gold also make us believe that he researched the market in depth and that it was not an overstatement to refer him as the father of the markets.

The Peak Ceiling Price

> *The peak ceiling price refers to when the price has gone through several months of going up and down, eventually pulling the price up by 50-60 koku, and rallies until it reaches the point where it stops going up and nobody can tell if it is going to go up further or down.*

This statement is about the conditions of the ceiling price during the course of a downtrend. In the previous chapter, I explained how the ceiling price is established with reference to the "Three Mountains" pattern of "Sakata's Five Methods" using a chart. And I have also mentioned the reason the "Three Mountains" pattern appears. According to Honma Munehisa's analysis the ceiling price is established in accordance with the rule of supply and demand, as well as the psychology of market traders, and the traders reach the strongest agreement on the high when the ceiling price appears three times.

In this chapter, he is more specific about the conditions that result in the establishment of the ceiling price. The three conditions he identified are: a few months of ups and downs, or rise and fall in the sidewalk or box pattern without any additional increase; second, the price has to have increased by 50-60 koku, or the price is within the range where the possibility of an additional increase can be suspected after the price having increased enough; and third, a commotion among traders trying to corner and hoard when there is a sharp increase of the rice price. Honma Munehisa says that the price has reached the ceiling when all these conditions are met.

If the price went up continuously for several months until it hit the ceiling and then just took sidewalks instead of showing any further increase, it means a tremendous wall of offerings has been formed at the high level. People anticipate a price increase and the price will go down and up a few times, but once it reaches the ceiling level, an additional increase is not likely because too many offerings for sale have formed the resistance. In this situation, if the price shows even a slight sign of increase, people rush in to buy and the buying still remains strong, making it a perfect chance to sell. The reason can be found in the market mentality: when the offerings for sale accumulate for an extended period of time, containing any additional increase of price, while the traders are closely watching for any sign of price increase, there forms a common understanding among people about the possibility of a decrease instead of an increase. When this happens, the market experiences growing buying power and rapidly dwindling selling power, and the market can easily make a shift to a downtrend.

On an individual level, some people might have been born with outstanding abilities but as a part of the mass, people have a naïve side to their nature which allows the collective psychology to control them. For example, if somebody bought an apartment, land, gold, diamond, stocks, or rice and one day became convinced that they bought them at an expensive price, and they became gripped by fear of how far the price would go down, then they would rush to sell it. However, if that psychology establishes a collective agreement, the price is destined to go down from then on. If those who planned to purchase something begin to think that they could buy at a much cheaper price, the entire market can turn to chaos where there are only a few people who try to buy and crowds of people who want to sell. This is the very force that leads the price into a downtrend cycle. This is all about supply and demand and the psychology of the masses. Honma Munehisa studied it and was aware of it more than anybody. Therefore he was able to wait. He was able to keep his composure during the downtrend without selling or being concerned over the up and down of the price and he was able to have peace of mind during the uptrend after having made his sales. That is the very source from which his "Three Methods" come; the supply and demand, and the psychology of the masses.

This kind of ceiling price manifests itself in the shape of the "Three Mountains" pattern in "Sakata's Five Methods." You can turn to the "Three Mountains" pattern that I have addressed previously to understand the diagram of it.

Movement After Hitting the Ceiling

The downtrend that follows after the ceiling will push down the price beginning with 10 koku per month in May and June and 30-40 koku each month thereafter. However, depending on the market formation, sometimes the price can either decrease for three months, and increase beginning from the fourth month. Sometimes it starts to fall beginning in the fifth month, or falls for the entire six months. In this case, the ceiling price will appear, and you have to sell if the price takes even a slight fall regardless of whether there is little change of trend during the five to six day period that you have been observing. By the end of the month, it is sure to fall by 20-30 koku. Beginning from the end of the month, even if you made no trading no matter how you tried previously, you will begin to sell ten days after, until about the 20th. If the price stagnates at the low that was recorded at the end of the previous month until the 4th or 5th of the following month, or goes down by 5, 6, or 10 koku, it is sure to increase at the end of the month. You have to understand this well. The second is to end, the third is sufficiency, the fourth is turning around, and this is the three methods. This is all about the price going down for two to three months from the ceiling. In the fourth month, the price increase depends on the commodity, but you should not be reckless and try to sell.

It is not easy for people to express their true intentions in writing; it is difficult for us to read other people's mind from their written words alone. For this reason, it is better for you to try to express your thoughts verbally instead of trying to write them down. For the same reason, it is better for you to try to understand the true meanings that are enfolded in the words spoken by others because there is always a strong possibility that the words they speak are not good enough to express what is truly in their minds. This is similar to the idea Honma Munehisa tried to express in his writing. People should not rely too much on his words alone and end up missing his real message and misunderstanding his advice.

No matter what theory you study, and no matter what knowledge or experience you get from others, you are likely to hit the wall more than a few times if you pay attention only to the verbatim words and rely on them only. Those who have created a theory or teach others about it are more able than others in applying the theory for their use, but those who learn it from others are more likely to have a narrow understanding of it, and worse, they can restrict themselves with the knowledge itself and become incapable of appropriating it to their best advantage. Therefore, you have to try to remain unrestricted by what you've learned and know.

In the book of Luke, there is a passage about a conversation that took place between Jesus and the people. When the people asked Jesus if it was all right to cure on a Sabbath day, Jesus said, "Suppose one of you has a hundred sheep and loses one of them. Doesn't he leave the ninety-nine in the open country and go after the lost sheep until he finds it?”

This passage tells us that the people’s perspective on the Sabbath day was significantly different from that of Jesus. People’s view of the Sabbath day was that it was a day that they were required to observe faithfully and that it was a social norm and anybody who violated it was subjected to criticism from society and even faced prosecution. In this case it was easier for people to say the Sabbath day had to be observed than to comprehend the true meaning of the Sabbath. But Jesus didn’t simply follow the norm of society. He followed the essence of religious tradition of the society that he belonged to and his view of the day was that the Sabbath was there for the people. Since Jesus understood the essence of Judaism better than most, he was able to distance himself from Judaism in its popular form and remain unrestricted by it.

There is a paragraph that makes this chapter of his statement particularly difficult to comprehend: *The second is to end, the third is sufficiency, the fourth is turning around, and this is the three methods.* This paragraph signifies the general course of movement that follows the onset of a trend, which is beginning – ending of the short term trend – rebounding – and turning to fall again. To be specific, as I have mentioned while explaining the “Three Methods,” when the market forms a downtrend, the price continues to fall to push down the price, effectively spreading the idea among people that the price is in the low and making them rush to buy. As a result, the price rebounds shortly, but instead of evolving into a trend, this rebound soon turns into a downtrend again. This is the process he addresses in his statement.

Another part that is worth taking note of is the paragraph that reads: *On the fourth month, the price increases depending on the commodity, but you should not be reckless to try to sell*. The fourth month when the price rebounds during its downtrend course, he advises, is not the time to sell; rather, it is a time to keep observing the market until you are certain of the resistance price. This is the period of observation as addressed in his "Three Methods." When the market formation is in this shape, you have to keep watching if the resistance price exhibits a golden cross and if it does, you have to let go of the downtrend mentality and establish responding strategy anew. If the rebound fails to push the resistance price to exhibit a golden cross and turns to fall and push the previous low to exhibit a dead cross, this is the time when you have to sell more than ever.

In this chapter, we find one of the most important ideas of Honma Munehisa. According to him, the downtrend after the ceiling price continues for five to six months and it could also show a rebound, but the range of fall is substantial. With regard to this, he states: *In this case, the ceiling price will appear, and you have to sell if the price takes even a slight fall regardless of whether there is little change of trends during the five to six day period that you have been observing.*

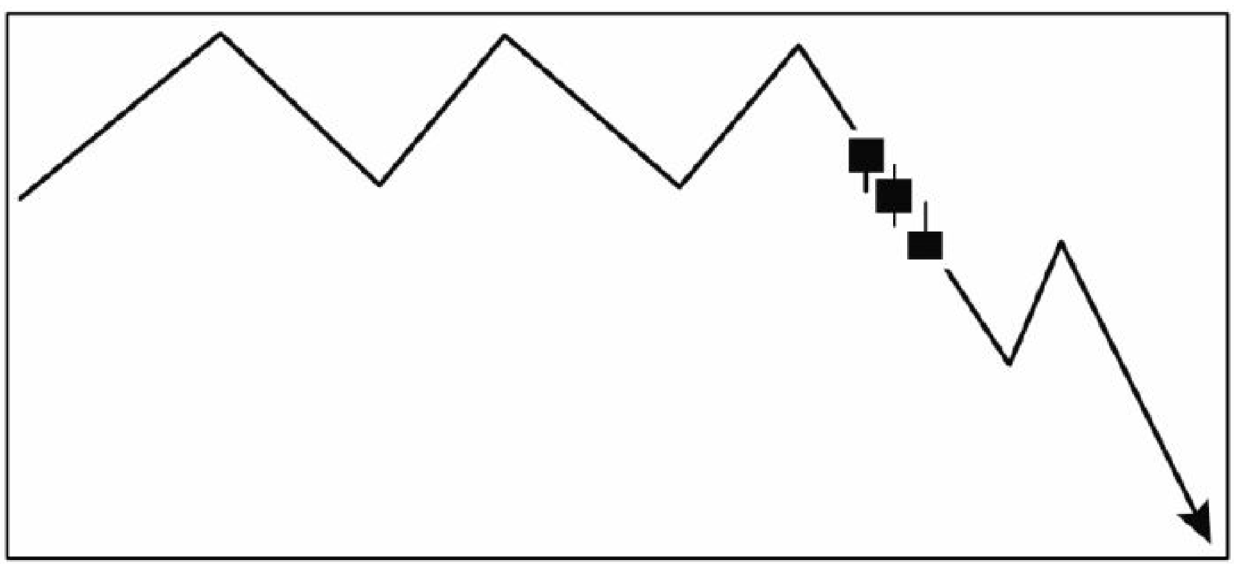
While introducing Honma Munehisa, I explained how he advised selling off the spots, which is rice, when the "Three Mountains" pattern appears to indicate the ceiling and also sell off the futures contracts, such as rice coupons. However, there is a question; when is the “Three Mountains” pattern complete and how do we know it? It is not easy to identify the perfect timing that Honma Munehisa stresses: is it the time when the “Three Mountains” pattern is relatively complete, or is it when the “Three Mountain” pattern is completed to perfection, or when the price falls below the three mountains as they are in the middle of being completed. If you sell belatedly, you can experience chaos during the rebound, but if you sell too early when the “Three Mountains” pattern is not yet made, you are likely to face risks because the uptrend could continue on against your forecast.

Honma Munehisa’s “Sakata’s Five Methods” explains this situation with the pattern of three soldiers. The “Three Soldiers” pattern refers to the time when three identical candles appear in a row. For example, sometimes the negative candles which signify the falling price or the positive candles that signify the rising price appear in a row. As I explained earlier, the candles are the price indexes in the shape of a candle and they indicate the open, close, high and low prices. The open is the price established at the time when the market opens, and the low indicates the ground of the time. In the same way, the high means the highest price of the day, and the close is the price that was listed when the market closed for the day. If the market closes at a price lower than the opening price, it is called a negative candle, and if the closing price is higher than the opening price, it is called a positive candle.

If the close continues to be lower than the open, and if the close continues to fall after slight ups and downs during the day, this signifies a downtrend. On the other hand, if the close continues to be higher than the open, and the close continues to rise, the market has entered an uptrend.

When three negative candles appear in a row at the high price level, you can consider that it is a possible sign that the market is turning bearish. If three positive candles appear in a row at the bottom price level, there is a possibility that the market will become bullish. Honma Munehisa terms these three identical candles that appear in a row the “Three Soldiers” pattern in his “Sakata’s Five Methods.” When three negative candles appear in a row, it is called the “Three Black Soldiers” pattern, and if three positive candles appear in a row, it is called the “Three Red Soldiers” pattern.

<Three Black Soldiers Pattern>



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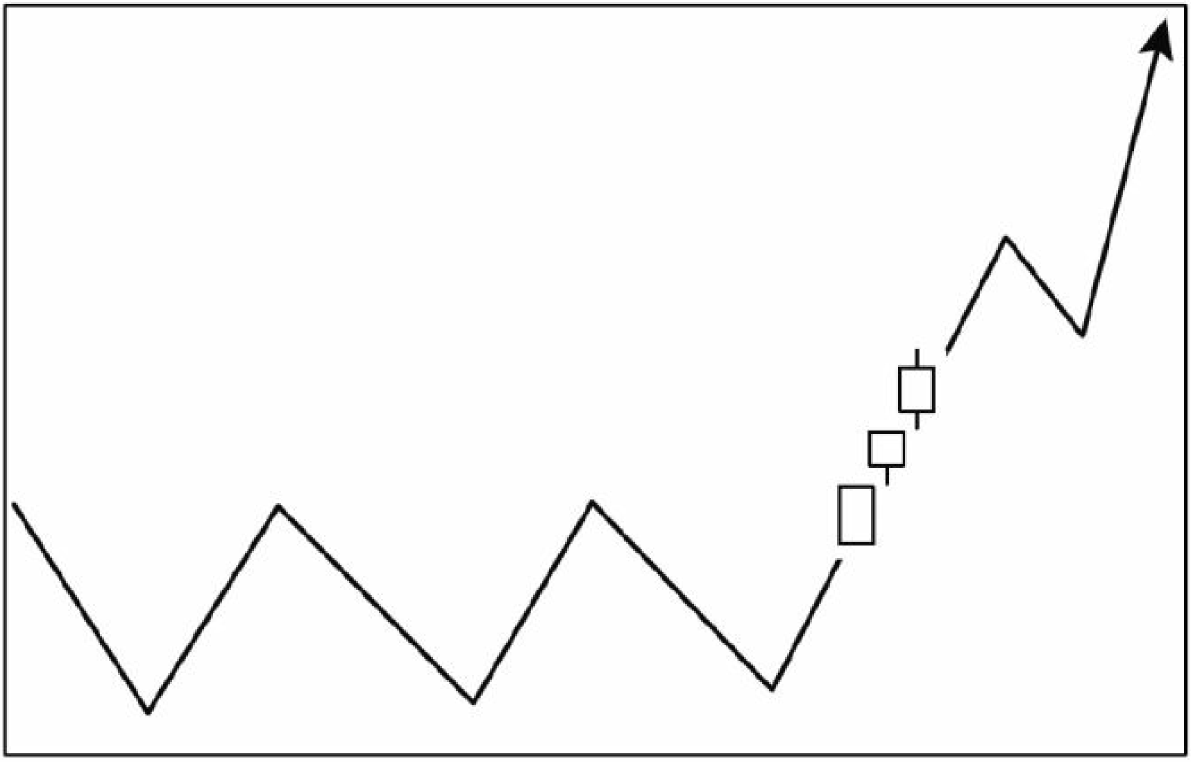


If the “Three Mountains” pattern is made and the “Three Mountain” pattern of the previous downtrend makes a dead cross, you can be certain that the market has definitely shifted to a downtrend. It is a strong indication that it is the time to buy. The trading volume is important because it indicates that the market psychology has made a full shift to the downtrend and also because the trading volume itself establishes a powerful belt of offering which is difficult to make a golden cross.

Therefore, the best time to sell is when the three black soldiers pattern appears, right before the bottom of the second of the three mountains – which is the previous low – has crashed.

If you look at it from a different perspective, the best time to buy is when the “Three Rivers” pattern – the reverse “Three Mountains” pattern –

appears and the “Three Red Soldiers” pattern appears and exhibits a golden cross. If the volume of trading supports this formation, it can serve as the powerful support price to establish the bottom price range.

It is difficult to get a full grip of these times to sell or buy unless you have been closely watching the market with great interest and been waiting patiently for the perfect timing. Even if you were able to identify the best time to enter or exit the trade, you can be easily shaken by any small movement in the market and become greedy for realization of additional profit unless you have a good awareness of your position in the market. However, if you are one of those who have been prepared and waited for the perfect timing, you are likely confident that you have made your purchase at the bottom price, and ignore small changes or slight ups and downs in the market better than others. As a result, you can stand stronger than others in the market and you can build greater profit than others, as well.

In this chapter, Honma Munehisa said *‘the downtrend after the ceiling price will begin to drop by 10 koku for a month between May and June, and then fall about 30-40 koku each month,”* demonstrating his expectation of big profits. He also shows his confidence when he stated, *“according to the movement after the ceiling price, the downtrend grows stronger early in the month, but grows weaker until the end of the month by 2-30 koku, or 3-40 koku. Do not suspect this.”* This part shows us how confident he was about his theory. And he was a man who was able to build a huge fortune that corresponded with his confidence.

04. The Importance of Things That Are Natural

The Highs and Lows of the Trend are the Law of Nature

The rise and fall of the rice price follows the law of nature, and it is hard to identify either the down or up moments while it goes up and down continuously. Those who are ignorant of this rule should not even attempt to try their hand at trading.

In Chuang-Tzu's *The Fundamentals for the Cultivation of Life* (养生主), there is a sentences that read, "Our life has an end but not of our knowing. Following what is without an end with what is with an end will only put yourself at risk. It will be riskier if you still want more knowing."

Honma Munehisa carried out study after study while trading rice until his death at age 87, but it seems that he always had a sense of awe towards the market. He tried to warn us how dangerous it is to enter the trade with ambition only and how likely it is to cause losses. While young, he was ambitious and arrogant enough to believe that he could stay on top of the market, and even control the market price, but he ended up failing. Of this experience, Honma Munehisa said,

"The real shape of the market trend is not something you can identify or move with the power or wisdom of humans."

When the price is moving swiftly in the market, people often become drawn into the trade by the greed of expectations, but when thousands or tens of thousands of people enter the trading all at once, the price easily gets out of control and it is unpredictable how the price is going to move and at what point it will settle. When facing such fluctuating price movement and changes, we humans are just as helpless as the candles in the wind or the leaf in the stream. The market price makes a movement completely the opposite of everybody's confident forecast and everybody is sure that the price is going to go up, and sometimes the market suddenly becomes bullish when everybody's pessimistic perspective indicates it should be bearish. This kind of market movement is called the random walk. It is like thousands of chickens running around when the market moves so randomly.

Therefore, those unskilled amateur traders might be able to identify the market trend, but it is like a brush with death when that happens because it could be a deadly fall that that they see right before their eyes. Therefore, people say that in order to survive in the market, you have to be flexible like a snake. You have to able to humbly back off when the price moves against your predictions and you need to obey the direction in which the market flows, instead of being overly confident of your ability and believing that you can move the market and move ahead of others.

In Chuang-Tzu's *The Fundamentals for the Cultivation of Life* (养生主), there is a story about a butcher named Pojung. He once cut up an ox for the ruler Wen Hui (文惠君), who was astounded by the butcher's skills.

The king sad,

"What admirable skills you have! I am curious about how you trained yourself to such perfection."

Pojung laid down his knife and replied,

"I believe that it is more about Tao, the Way, than about skills. When I first began to butcher oxen, I could only see the carcass. After three years, I no longer saw the carcass. Now, I do not look at it with my eyes; I deal with it with my spirit. When I stopped seeing it with my eyes, I began to see it through my spirit.

"I slid my knife through the skin, flesh, and bones in accordance with the natural rules. I never made mistakes that damaged the flesh or bones, not to mention major bones.

"A good butcher changes his knife once every year because he is slicing flesh, and an ordinary butcher changes his knife every month because he is cutting bones. I have cut up thousands of oxen in the past 19 years, but my knife always has an edge that is as sharp as if it came fresh from the whetstone. There are joints in skin, flesh, and bones; and the edge of my knife has no thickness. The blade has more room than enough, and there is no reason why it should be damaged.

"But when it comes to complicated joints where the muscles and bones are mingled together, I carry out my task with caution and care, moving my hands slowly and carefully."

After hearing him, the ruler Wen Hui was very impressed.

We can see how Pojung has reached a certain level of mastery in his work because he was able to slice and separate flesh, skin, and bones without causing damage to any of them, but more than that, his mastery can be found in the fact that, even though he is confident of his mastery skills, he deals with his object always with caution and care, especially when he needed to work on joints where muscles and bones are mingled together.

While trading in the market, you often meet people who won in the market nine out of ten deals but end up suffering irreversible loss of fortune just from a single mistake. Most of the time, the cause is momentary arrogance, laziness, or even the imprudence of believing they could move ahead of the market. The market needs to be respected always and those who participate in the market are just participants; they are not there to lead the market. Unless you awaken to this truth, you are no different from those who jump into trading rashly and even gamble on the market until they finally fall out of the market altogether.

Even if your vocation is digging up the ground, you should be able to achieve mastery at what you do in ten years. This is the genuine attitude.

What Happens When Stagnation Shifts to an Upturn

> *When you feel an upbeat mood in the market and the trend shows signs of upturn while you are watching carefully for any sign of price increase or decrease from the stagnant stage after a major shift in the trend and the market has hit the ceiling zone, everyone, including you thinks it's time to buy and the rush to buy creates an uproar. This is the best time to sell. That is how the trend proceeds – the trend repeats several times over without any dramatic shift, during which time the price continues to go up and down, and down and up. It is best for you to concentrate on the ceiling and the floor without allowing yourself to lose control of your mind because of the market atmosphere and the repeating trend. However, when the price stagnates at the floor without showing any sign of movement, you should not sell even when the price starts to go up on its own accord. You have to gradually increase your buy instead. You do this not during the repeating trend, but during the trend when the price goes up of its own accord.*

This is about the scenarios that often appear in the last stage of a trend – a flame shows when it happens at the ceiling, and a last sell off frenzy occurs when it happens at the floor and the market reaches the "true floor" when that happens.

When the bullish trend reaches its peak everybody is excited and the price surges like fireworks that celebrate the grand finale of a bullish trend. Everybody is happy and excited as they exhaust all their bullish sentiments. But the buying frenzy comes to an end abruptly and the price begins to plunge.

When the market hits the floor, a sense of uncertainty prevails, and the price action scares everybody because it acts like it is going to fall endlessly. Bad news hits the market again and again as if it is sprinkling salt on the wound, effectively scaring off people and making them run for clearance sales. The price hits the true bottom and rebounds only after going through a period of turmoil, during which time all remaining offerings are traded off in the market by those who have been stupefied by tremendous loss.

This is the kind of market scene that often misleads people into going against the market trend. You have to be careful in this situation because you can cause significant loss when you go against the market trend, and you can easily make the mistake of buying at the highest of the high or selling at the lowest of the low. People often describe these kinds of situations as being "taken for a ride at the ceiling," or "wiped out at the bottom." Therefore, you are likely to fail a hundred or even a thousand times if you allow yourself to be misguided by the market atmosphere.

If you are waiting for a new buy signal, you are advised to remain cautious of the price action no matter how high the price is predicted to go even if in reality the price remains higher than a certain zone. New entry is all the more undesirable if the trend fails to explode, and the price continues to go up and down and even move sideways.

In other words, as Honma Munehisa stressed, you always have to remain mindful of the ceiling and the floor, and be aware of what zone the price has reached at the moment.

Among the many signs that indicate the bottom and the ceiling, Honma addresses the condition when the price continues to go up and down without forming any particular trend and moves sideways in the statement. His opinion is that this is the sign either of the ceiling or the bottom. If the price acts that way near the ceiling before taking a sudden drop and if you see a bullish atmosphere, you should be ready to sell instead, but if it continues to move sideways near the bottom and begins to rise slowly, you should think of buying. Always remaining mindful of the ceiling and the bottom is a good way to keep your greed on check.

Dropping down from the Stagnation State

> *If the price action shows any sign of dropping from the state of stagnation, everybody thinks they can do better by selling what they have when the price has gone down even a little, and even those who have been buying start to sell off what they have due to the gloomy prospects of the market. When this happens, the market seems to have reached an oversold condition, but the price falls further because everybody is rushing to sell. This is the time to buy and a perfect opportunity to make a profit. It is not easy to decide to buy in this market formation, but you have to buy. Even experienced traders have many regrets. It is best to identify repetitive trades during the stagnation as quickly as possible with your target on the change of trend per 10 koku.*

This chapter is similar to the previous one in terms of its context. However, while the previous chapter addresses the importance of selling when the trend explodes at the ceiling, this chapter is about identifying the opportunity to buy, which comes when the price takes a fast fall to the bottom.

For most people, it is a challenge to identify the best time to buy or sell, and more often than not, people become easily tempted by the market atmosphere when they make buy-and-sell decisions. But Honma Munehisa stresses the importance of going against the crowd. As he repeatedly noted, the opportunity is only for those who are prepared and remain mindful of the "Three Methods". The sudden drop in price as the result of market psychology will look like a great opportunity for those who mistakenly understood it as a sign that the price is at a low and it is going to remain at the bottom for a while, but for others, the sudden drop of price is sure to frighten them and they rush to enter the trade to sell.

Think about it. Why would anybody decide not to buy when you are guaranteed to make a profit by buying when the market is at the oversold level after an additional fall from the bottom level? Therefore, you always have to remember to live by the "Three Methods" and look for the true opportunity. Always ask yourself this question: Is the market at the bottom, or at the ceiling, or is it time to take a break?

Wait Calmly When You Have Missed the Perfect Time to Buy

> *If the rice price goes up by 2 koku just when you have decided to buy rice, you may think you missed the perfect time to buy and it is a better time to sell, but this would be a big mistake. When you have missed the best time to buy, you should wait for the next opportunity to buy.*

I mentioned previously that Honma Munehisa lived during the reign of the 8^{th} shogun, Yoshimune. Yoshimune is also known by his nickname, which was the Rice Shogun, because during the Kyōhō (享保) period that he ruled, the rice price fluctuated more than ever and he tried every measure he could think of to stabilize it.

Yoshimune was known for his penchant for martial art and was so frugal that he made his children wear cotton clothes and preferred eating unmilled rice. When the Tokugawa Shogunate was established and became stabilized, Japan enjoyed the long period of peace that followed, but it was during this peaceful time when people gradually developed a taste for luxury and high living style, subsequently bringing about disorder in politics and a troubled financial situation. When Yoshimune took power, it was the time when people began to recognize the need for political reformation. Given the circumstances, people held high expectations for him because of his frugal way of living and down-to-earth character. Keenly aware of the need for political reformation himself, Yoshimune took a wide variety of initiatives designed to bring about changes, which came to be known as the Kyoho Reformation (享保改革).

Once the Bakufu regime stabilized, the country enjoyed social stability and economic prosperity. However, it also brought about a widespread hedonistic culture among the ruling warrior class. The Sankin Kotai clause in Buke Shohatto created financial crisis for the government while the deficit kept growing in local estate governments. Yoshimune was determined to solve these problems and made them his priorities. The measures he took to fight these issues included sumptuary regulations and tax increase law which intended to bring about more tax revenue for the government.

One unique policy of Yoshimune was that he lifted the existing ban on all killing. The ban was first declared in 1685 by the fifth Shogun, Tsunayoshi (綱吉, 1646~1709), and it banned all killings of living creatures, including fish, livestock, and even birds. During that time, there is a record of someone being prosecuted for having killed a mosquito that landed on his face, testifying to the uniqueness of the edict.

There are many theories as to the reason why he declared such ban on all killing. Tsunayoshi had a son who died very young and he was without any children who would carry on his family lineage. Then one day, a monk named Ryuko from Gokokush told Tsunayoshi that he was not blessed with a son to continue the family because he had committed too many killings in his previous life. So there comes a theory that he declared the ban on all killings to resolve his karma. The monk Ryuko having been born in the year of the dog, also told Tsunayoshi that dogs deserved more care and better treatment than any other animals. As a result, during the reign of Tsunayoshi, anybody who threw a rock at dogs or beat dogs were arrested and prosecuted. If a dog became ill, the law mandated that it had to be taken to a vet and should receive the utmost medical care. The negative side of this policy was that the dogs became high-maintenance for many people and they abandoned so many dogs in the mountains and fields that the situation got almost out of control.

Another theory involves murders. Sixty years had passed since the Tokugawa Bakufu took power, but people were still living with the mentality of the warring period. Fighting was almost a daily routine, and aggravated assault was so rampant it wasn't even considered a major crime. Murder was rampant and people killed even in broad daylight. So the theory goes that he declared the ban on all killings to eradicate any traces of the warring period for the new era. The negative legacy of the warring period included the justified suicide by disembowelment which was often attributed to loyalty to the Shogun, and the duel that took place in the name of an honor fight. Tokugawa Bakufu cherishing the centralized government system, the government banned all killings in order to raise awareness of the new era that was different from the warring period, and to promote social stability and loyalty to the shogun, according to another theory.

Whatever the background was, this ban on all killing was lifted by

Yoshimune because he found it full of loopholes and nonsense, and also because he wanted to mull the complaints about the Bakufu government with this reform measure. It could also have been possible that he was personally not comfortable with the ban considering his penchant for martial arts and hunting. Legend has it that Yoshimune indeed enjoyed falcon hunting after he lifted the ban on all killing.

Now we will return to the rice. During the reign of Yoshimune, the rice price fluctuated more than ever, as I mentioned previously. One example involved a swarm of grasshoppers that attacked the granaries so badly that it was impossible to harvest the rice. As a result, millions of people suffered from famine and hundreds of thousands of people died of hunger. Even without this kind of natural disaster, Japan was always subject to a shortage of rice, because the rice production was not sufficient to keep up with the demand and the rice price surged frequently for the same reason. These kinds of situations often lead to riots by the impoverished people. Yoshimune took the issue seriously. He once suspended all rice trading at the rice exchange indefinitely after he came to a decision that the rice exchange in Osaka was pushing the rice price to go up. In the meantime, he promoted the development of agricultural land, effectively increasing the land available for farming from 910,000 to 3 million 정보, thereby increasing the volume of rice production significantly. Due to these revolutionary measures to solve the rice supply and demand problem, Yoshimune was able to successfully stabilize the rice price.

Ironically, it was these very measures such as the sumptuary regulations, tax increase, suspensions of trading at the rice exchange, and the development of agricultural land that got Yoshimune in trouble. He succeeded in stabilizing the rice price but it resulted in an excessive restriction on trading while the volume of rice production increased significantly. The result was an upset of the balance between supply and demand. At some point, the price began to go down and once it started to go down, the decrease accelerated and plunged and nobody could tell how far the price was going to drop. While the Bakufu government and local lords were able to benefit from the increased tax revenue and more rice in their storage, the financial situation did not really improve due to the fallen rice price. On top of this, the cost to store and maintain the rice storage and the warehouses in addition to many other expenses were on the rise. Combined with the inflation that resulted from the comparative increase of consumer product prices, the financial situation grew worse than it was before.

Eventually, Yoshimune accepted suggestions from the merchants, and re-opened trading at the rice exchange, while increasing the volume of currency in an effort to stop the rice price from going down further. But this time his measures resulted in inflation, making the livelihood of the warrior class worse than before. Yoshimune fought a war against rice throughout his reign of power, but he failed to solve the issue completely. If there was anything positive that came out of his era, it was the improved balance between the supply and demand of rice.

Honma Munehisa was a man who was primarily involved in the trading business during this period of Yoshimune's political reforms and was at the center of the war on rice that Yoshimune was fighting at the front. Therefore, he was a seasoned commercial trader who had first-hand experience of mega trends, both big increases and decreases of the rice price.

In this chapter, he explains what to do when you have missed the time to buy, and he warns about the mistakes most traders and brokers are likely to make. The opportunity to buy is the time when the price is at the bottom, in accordance with his "Three Methods." To be more specific, it is the time when the price hits the bottom and slowly begins to rebound. Therefore, if you were not able to enter trading when the price started to move from the bottom, you are likely to find yourself having trouble in deciding whether to enter or exit the trading because the price could have increased to a certain level in the blink of an eye again, and you will find yourself wondering: should I follow the crowd even belatedly, or should I remain observant, or should I even react by selling?

What you need to remember at this point is that the price is making an increase from the bottom. If you are keeping an eye out for the time to sell just because the price has made a certain increase, it is like you are betting on a 15% price increase when the price increase could be as high as 100% soon. This is a truly foolish and risky thing to do. If you sell it will be like selling for a trifling amount of profit, and if you sell on futures, you can face the risk of losing your entire fortune.

Honma Munehisa's advice from this chapter can be summed up as 'do not sell at the bottom.' The price may have increased a little bit but that is not the ceiling; in fact, it is still at the bottom. You must not forget this. Therefore, if you missed the time to buy, remain calm and concentrate only on entering the trading to buy instead of presupposing the ceiling immaturely.

The market trend has a strong inertia by nature, and once it starts making its move from the bottom, it continues on with its move until the trend comes to an end with the continuous feeding of the buying force. This is the people's psychology and the natural course of human greed. You can remain unshaken during the time of slight fluctuation and count on the trend, only when you have a full understanding of this. This is the people's psychology that still remains valid in today's market.

Bear Suddenly Losing Its Edge

> *There are times when the price continues to rise for two or three months then takes a sudden plunge. This is the time that you must buy. The price will definitely go up shortly, and when it does, that is the time to sell.*

This chapter may possibly mislead many people, but if you understand what he is addressing, it can be very useful. Once a spike is created in the market, you can be sure that an adjustment period will follow, mainly because the gap in buying will be partially filled during the spike. The buyers enter trading with the expectation of an additional increase in price, but if the price continues to go up, the market forms a price zone which makes people more concerned over the possibility of a bearish adjustment than excited over the possibility of an additional increase. This is the time when a buyer's profit-making desire grows stronger than ever, while existing buyers wait for the adjustment process so that they can buy at a cheaper price. Consequently, a gap in buying is created at this time. In this market formation, bad news tends to become exaggerated and its impact on people significantly stronger.

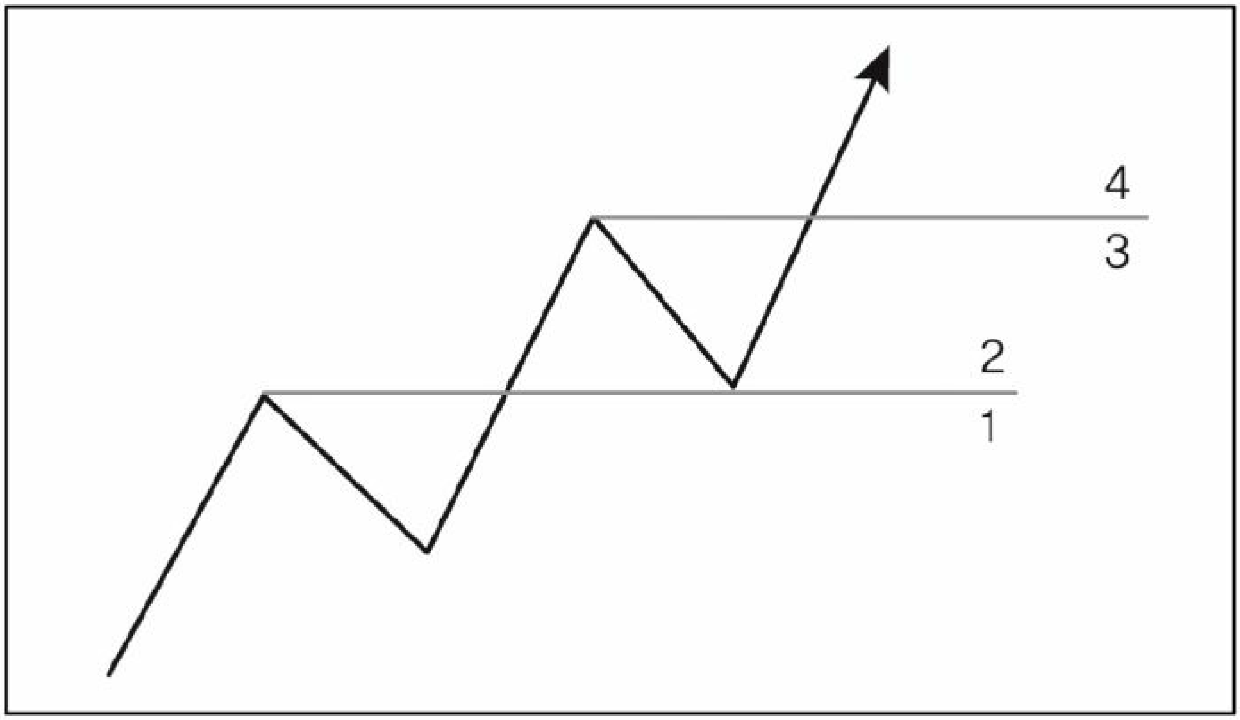
If the price takes a sudden plunge in this market formation you have to proactively start buying while other people are hesitating to enter trading. However, Honma Munehisa advises that in this market formation *"the price will definitely go up shortly, and when it does, that is the time to sell."*

How are we to interpret this tip? If the price is on the uptrend, aren't we supposed to hold on to the offering patiently until the price reaches the ceiling, as he has pointed out repeatedly? If so, then why is he advising us to sell and sell quickly in this case?

But if you give a little more thought to it, you will realize how meticulously detail-oriented he was with regard to the price action. I want you to pay attention to his "Three Methods," which I explained previously as a trend following technique.

Trend Following is a technique that requires a good understanding of the process by which a trend is established, and it can also help you make the right buy-and-sell decisions. His "Three Methods" is all about this trend following. There are two types of "Three Methods, "Falling Three Methods" and "Rising Three Methods," both of which are in fact the same in nature. Let me explain the "Rising Three Methods" with charts.

<Rising Three Methods>



The price zones, in which you have to aggressively begin to buy at the sight of any sharp drop in price during the upward market as discussed in this chapter, are number 2 and number 4 in the figure of the "Rising Three Methods". And the price zones in which you have to sell offerings that you bought during the uptrend is number 1 and number 3 in the same figure. The reason is because you must sell when you are not sure if the price is going to surpass the previous high. If the price surpasses the previous high and makes a golden cross, it is time to buy back. This is the essence of the trend following technique. In other words, you have to make buy-and-sell decisions based upon your view of the trend, even if it means you have to buy back at a little higher price.

Honma Munehisa is right on target on this issue. Therefore, you can read and comprehend this chapter only when you have a full understanding of this trend following technique.

Aim for a Bigger Profit: Don’t Rest on a Small Profit

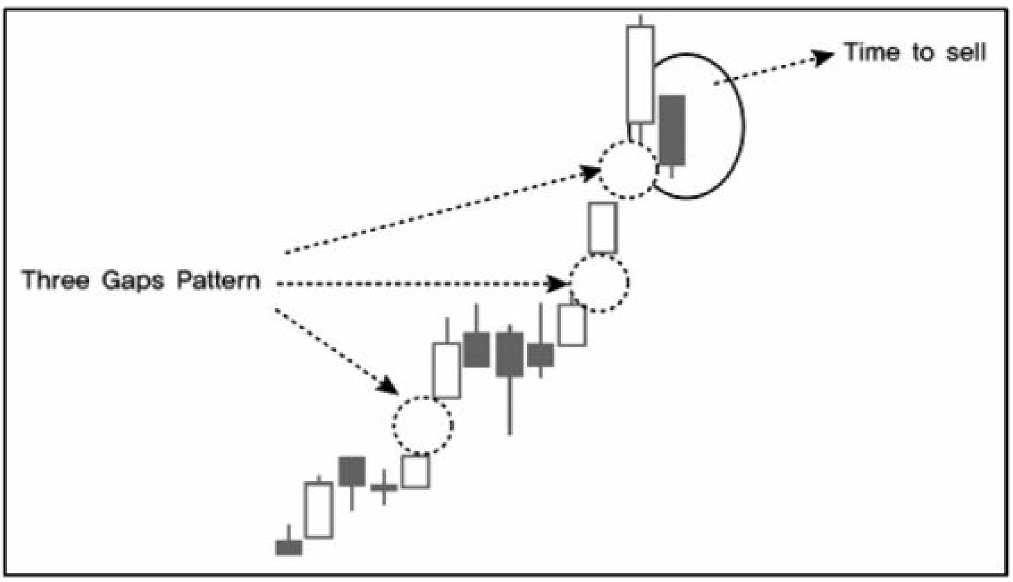
> *There are times when just as you have made your buy at the bottom and expected some profit, the price stagnates or goes down slightly. When this happens you think you have miscalculated the market and you regret that you didn’t sell when the price went up previously. But this is the wrong way to think. When you buy at the bottom, you should never sell until the trend makes a shift.*

Trading is simple; you buy when the price is cheap and you sell when the price is expensive. However, everyone knows how difficult it is to do that. Honma Munehisa tells us to buy at the bottom and sell at the ceiling. His “Three Methods” is all about this rule. He explained this rule by charting the process in which the market establishes the bottom, creating the “Three Rivers” patterns. He also explained the process through which the market establishes the ceiling creating the “Three Mountains” pattern. As long as you stick to this rule -- buying at the bottom and selling at the ceiling -- you will not become distracted by the temporary market atmosphere. Once you take a firm position, you can relax. You are in a good position, when you bought at the bottom and sold at the ceiling.

He also developed the “Three Soldiers” pattern to explain how certain trends begin to form, and he went further to develop the trend following called “Three Methods,” which helps you make the right buy-or-sell decisions in accordance with the trend.

Now the last of his patterns is the “Three Gaps” pattern, which as he explains appears when the price makes an unusual increase as the market rallies. This trading method is based on the fact that market participants are sensitive to the trends, and when they become overheated in their market psychology, you can be sure there will come a time when the heat cools down.

<Three Gaps>



When the price moves to establish a trend and the market mood heats up, the robust market activities excite the market participants’ psychology. Anticipating an additional price increase, people dynamically enter the trading to sell regardless of the low or high of the price. This overheated market results in the creation of a gap, which is a term that today’s technical market analysts are using.

In the case of upward activity, the gap is created when the market opens not at the close of the previous day, but at a price that is higher than the high of the previous day. This price action creates a price zone where no trading activities take place relevant to the previous price. For example, if the high of the previous day was 15 dollars and the open of the day is 16 dollars, there is a gap of a dollar. This one dollar is the gap where no trading activities took place and this is the gap Honma Munehisa addresses in his "Three Gaps" pattern.

When a gap is formed during the uptrend, it is because people enter the trading to buy, believing that they can make profits by buying -- even if they have to pay a high price -- because of their high expectations for an additional price increase. When the gap is formed, it indicates that the market has begun to overheat and if three gaps are formed during a trend, it indicates that the price has been substantially overvalued. When three gaps appear, people's profit-making desire grows stronger and those who made their buy at the high price zone begin to fear that they probably have made their buy at the ceiling. Therefore, everybody wants to enter the trading to sell, while nobody wants to enter the trading to buy at such a high price anymore. Eventually, the overheated demand starts to cool down significantly, upsetting the balance between demand and supply, before forcing the price to take a plunge. In this market formation, you can see negative candles with a long main shaft, and those who made their buy at a high price can expect a tremendous loss.

In this chapter, Honma Munehisa warns about targeting small profit and jumping into trading to realize a profit immediately when you see an opportunity. He advises that you should hold back instead until you can make more profit, disregarding the small up and down price action. You can only expect a small profit when you react too sensitively to the price action. When you become overly sensitive to the price action, you cannot hold on to your offering for long, and you eventually end up facing a situation in which you have to buy back at a higher price. Even when you can expect to make a decent profit, it is not easy to buy the commodity at a price that is higher than the price you have sold. Therefore, he is stressing that if you made your buy at the bottom in accordance to the “Three Methods,” you have to wait until the price reaches the ceiling, without losing your position over small fluctuating waves in the market.

However, the problem is: it is not easy to make decisions on the time to enter trading to buy, identify the time to sell, and for what amount of profit you should settle. When you try to realize profits carelessly, you are likely to become confused over the time to buy if the price makes an additional increase, and you are also likely to become confused and end up buying at the ceiling. Therefore, it is important to stand by the rule in which you don’t attempt to buy back until the price reaches the bottom once you have made your buy. You can resist the temptation to buy back when you are aware that buying back directly translates into a loss when you have sold at the ceiling and there is no reason to buy back. You are likely to lose control if you don’t stand by this principle.

Honma Munehisa addresses a few occasions in which people enter trading to sell when they can make profits and one of the best examples is the "Three Mountains."

The "Three Mountains" pattern appears during the uptrend because of the resistance price. In other words, it appears when the price cannot surpass the high. Even if it surpasses temporarily, it retreats and falls lower than the resistance price and this is the main reason a "Three Mountains" pattern appears. Honma Munehisa says that when the resistance is established and the price acts like it has hit a wall, this is the time to sell. If the price fails to make an increase, and only takes sideways, all you can expect is a fall.

From this perspective, you can see how to explain the time to sell with Honma Munehisa's "Three Methods" in the same context. In identifying a trend, it is essential to find out if the price has surpassed either the resistant price or the support price within the trend following zone. According to the "Rising Three Methods," you have to go for profit-taking if the price has surpassed the resistant price, or the price failed to go down below the support price.

Another time to sell according to Honma Munehisa is when the "Three Gaps" pattern emerges. The emergence of the "Three Gaps" pattern indicates that the price has been inflated due to people's excessive expectations. It indicates that people went for the follow-through buying to a certain degree, which is evidence that the people are in an unsure state of mind. When this happens, the price is sure to act against the trend and you have to go for profit-taking. If you have been holding on to a commodity that you have bought at the bottom until the “Three Gaps” pattern appears, there is no reason to hesitate to sell and make a profit because it is certain that you have made significant profits already.

To be more specific about the accurate time to sell, you are better off to go for profit taking only after you are certain of the bearish reversal sign, because the emergence of the “Three Gaps” pattern during the uptrend does not necessarily translate into a bearish reversal. If the price falls below the initial price of the third gap -- in other words, if the price crashes and falls below the open of the day -- you can be assured that it is a bearish reversal sign. However, the open of the day when the third gap appears and continues to surge and even surpasses the previous high, is more likely a sign that the trend has not been completed yet. But most of the time, there is a good possibility of a bearish reversal if the overhanging demand is weak because there have been excessive buys and the commodity holders are in an unstable state of mind. The bearish reversal is most likely to be seen when the price falls below the open of the day that the third gap emerged.

This kind of bearish reversal tends to create significant trading activities at the ceiling zone, while building up offerings which push the price drop continuously and become the main engine in the formation of a trend. That is what you can expect because when the price was at the ceiling zone prior to the bearish reversal, the demand was still strong because the market was in a bullish mood. However, the supply is just as strong as the demand because the commodity holders can already be sure of significant profit at this point, and they become concerned over the excessive surge of the price. For this reason, many transactions occur at the ceiling zone and a significant amount of offerings become available for sale. When there are a significant number of trades at the high price zone, the additional increase becomes suppressed even if the price attempts to make an additional increase due to the supply that remains at this price range. When this process repeats, the supply will continue to accumulate in the high price range while the desire to sell grows stronger and the suppliers turn to an aggressive selloff even if they expect a certain degree of loss. The stronger the selloff mentality grows, the weaker the buyer’s mentality becomes. Buyers try to buy at a cheaper price, eventually accelerating the price plunge. This is the scenario that is behind the formation of a trend.

Honma Munehisa had the insight to read this nature of the market and identified the time to sell based on the resistant price. The main lesson to learn from this chapter and his concept of “Three Mountains,” “Three Soldiers,” and “Three Gaps” patterns is that the critical thing you need in order to identify the perfect time to sell or buy is knowing if the resistant price has been broken through.

You can never buy or sell carelessly and that is the most important thing to remember.

Downward Adjustment After Rising

When the new crops become available, the price sometimes changes by one or two koku, remains at the bottom, rises by 5, 6, 10 koku, drops by about two koku and then remains stagnant. When the market formation is in this shape, those who buy the rice are not enthusiastic, while those who sell the rice are aggressive. This is the time when you should never sell new crops. If you are the seller, you must buy the rice at this point[25]*. This is the rice whose price is rising from the bottom. When you see the downward adjustment after rising, the best thing you can do is to think of the time when the price hits the ceiling.*

25 The paragraph that reads "If you are the seller, you must buy the rice at this point" indicates that if you were in the position of selling the futures, you must give up your selling position at this point. As I have mentioned previously, issuing the promissory note in exchange for advance payment is considered a selling order. You can make profits if you made your sell when the rice price was expensive and trade the rice coupons when the price is cheap. However, you suffer loss if the price goes up, relevant to the amount of increase. In other words, the seller in this case is betting on the prospect of the rice price going down in the future.

If the price begins to rise with the release of a new crop of rice, it means the price is beginning to rise from the bottom, because, except for some special occasions, the price is sure to fall with a greater quantity of rice becoming available with the harvest in autumn. The price settles in autumn, begins to rise in winter, and it continues to rise through the spring until the summer. When autumn arrives, there is pressure to drop the rice price.

Therefore, the rice price is formed at the bottom around the time when new crops become available in the market.

However, if the price begins to rise at around the time when a new crop of rice becomes available, it means the price is bouncing off the bottom. If the price either falls or rises by one or two koku, and then goes up by 5 to 10 koku and then falls about two koku, but continues to increase gradually, this is the sign of a major trend. Therefore, you have to buy aggressively. In other words, this price action is the sign of the birth of a big trend. If you misunderstand this action and sell just for a small profit, or misunderstand this price action as the sign of a downtrend and sell futures, you are sure to suffer a tremendous loss.

When You Have Made a Wrong Decision, Sell Quickly and Rest

You should never distribute and accumulate[26] at a time of bad luck. When you have made a wrong decision, quickly sell off and take a break for 4-50 days. Even if the trading has happened as you expected, take a break for 4-50 days after the trading, think of the distribution of the rice and the appropriate timing based on the "Three Methods" before you make your next move. Above all, remember you are sure to cause a loss when the trading concludes, if you forget about this break upon seeing an opportunity for profit. However, taking a break after concluding a trade does not mean to rest without any thought of the market; you closely watch the market movement with a calm mind during this break. If you find an opportunity to make a profit based on the selling method of the previous year, you are likely to become attached to it. But the best thing is to let go of your attachment to the previous year, and think of the current year's harvest, volume of offerings, and the market mood.

26 Distributing and accumulating is to buy or sell the desired amount through a series of trades instead of all at once. In this way, you can end up buying or selling the rice at a price that is the average of a certain periodduring which you had been buying or selling. This is a trading method designed to protect you from the risk of temporary price fluctuation

One of the frequently used buy-and-sell methods is the Autostock system. This system is popular among many investors because it prevents psychological instability due to the temporary rise and fall of the price when the stock price is expected to rise and also because it effectuates the decrease of the purchase price. This method, which sometimes is called the Watering Technique, can expose traders to significant risks when they go against the trend. The reason becomes clear when we take a look at the following case as an example.

Suppose Mr. Kim bought the stocks of a company after having researched hard before he invested. However, he bought them at a time when the market was turning downward after hitting the ceiling. The stocks Mr. Kim bought were not free from the overall market atmosphere. He bought the stocks at 15 dollars per share, but instantly the price plunged to 12 dollars per share. He realized he had bought the stocks at a bad time, but he does not expect the price will be going down any further. So he used his savings to buy more stocks at 12 dollars per share. Now, you can say that he bought the entire stock at an average price of 13.5 per share. However, the price kept going down until it reached 10 dollars per share and while Mr. Kim is wondering if he should liquidate them all at a small loss, the price plunged more and became 8 dollars per share. Eventually, Mr. Kim ended up creating a significant loss.

Mr. Kim could have sold all his stocks at a small loss when he realized he made a wrong decision, but he lost the opportunity because he turned to the Autostock technique. Autostock technique increases the volume of your purchase basically and it can create a significant loss if you happen to go against the trend. However, if he turned to the Autostock technique during the uptrend, he could have made a significant profit. In uptrend, the price is sure to make an additional increase, even if the price of stock he bought at 15 dollars per share went temporarily down to 12 dollars per share and the average price of his stocks – which is 13.5 dollars – is still a cheap price after all. The more stocks you build up the more profit you can get as the price goes up. Therefore, if Mr. Kim turned to the Autostock technique during the uptrend, he would have made additional profits on each extra share of stock he bought.

We need to note how Honma Munehisa advised us to sell off anything you have quickly when your decision turns out to have been an error. This is a good example of a trend reverse. In other words, it addresses the case where the support price collapses. If you made your purchase because you wrongly believed it to be an uptrend and the price continues to fall below the support price, it means you have made a wrong decision on the trend. During the uptrend, the price continues to rise while supporting even the support price. But if the support price crashes helplessly, you are better off to sell even if the price makes an increase again and remain observant of the market. The crash of the support price can be considered as the side walking of the market, and in the worst case, it could lead to a downtrend. Therefore, this is not the time to Autostock; it is time to sell off and remain observant of the market, while evaluating your decision to see if it is right or wrong.

This is the reason you need to step back from trading and take a break. Since it is not easy to make balanced decisions while maintaining your position, it is a challenge to have an accurate evaluation of the market. You have to accept that it is now time for the human mind to work. The break Honma Munehisa addresses is not a break to leave the market and go fishing or traveling. It is more about a state in which you don't take any position. It is a way to view the market objectively and accurately. You need a break not just when you have made a wrong decision but also when you have sold off to your profit. If you enter trading immediately after selling off what you have to your profit, your memory of the profit making can prevent you from making accurate decisions on your next move and even make you become attached to the position that made you successful the last time. It also is likely to lead to a losing trade by making you develop a preference for a certain direction. Therefore, you need to try to evaluate the market atmosphere and the supply and demand state instead of hurrying to enter trading. With more diversified variables in the modern market, such as the interest rate, oil price, raw material price, dollar exchange rate and various economic indexes than in Honma Munehisa's period, the attention to details is more necessary than ever.

People say that even taking a break is a form of investment; but this break is not to travel, play golf, or sleep more. Honma Munehisa stresses that it is a break in which you break free from all attachments to inertia, preference and stubbornness; and avail yourself of the opportunity to observe the market with a calm mind that is not chained by anything.

05. Mind Over Profit

State of Mind at the Time of Good Luck

> *When an opportunity presents itself to make profit from trading, you should go for the profit-taking at an appropriate level. Then take a two day break. If you forget to take a break at this time, you are sure to cause a loss at the end of trading no matter what profit-making opportunity knocks at your door. You cause a loss because your greed prevents you from making the right decision and because you become so overconfident of your winning that you wish to make 200 when you made a 100 profit before, and wish to make 2000 profit when you have made 1000 profit. This is the kind of greed that puts you in a delusional state. You have to be all the more careful at a time of bad luck. It is important to take your hands off the market. You have to be prudent.*

In this statement, he uses the term Delusionary State. I already introduced an anecdote in which Honma Munehisa was able to awaken to a truth while talking with a chief monk of the temple that he visited. From this anecdote, we can guess that Honma Munehisa was deeply influenced by Buddhism. We can find the influence of Buddhism in many parts throughout *Honma's Fountain of Gold*, and a delusionary state is one of the terms associated with Buddhism.

The delusionary state can be defined as a state in which you get lost and wander vainly. You cannot see the world as it is, and you become lost in a world that you have created in your own mind. In a nutshell, you are in a vain dream. When making profits from trading, most people imagine their fortune growing continuously, and they are happy with the fortune that they build. They imagine buying the car that they always wanted to have and buying multiple houses or even buildings. Some people may even consider a fancy tour to foreign countries, and even further, getting into a sweet romance. This is what a delusionary state is all about.

When you are trapped in this delusionary state, you tend to become excessively greedy, become more barefaced, and no amount of fortune can really impress you. Your greed takes the good out of you and you covet a fortune bigger than the market can provide you. You are not satisfied with the profit that you are making at the present time. Your blind greed makes you miss the time when the trend shifts, and you continue to hold on to your offering with stubbornness, until you are hit with significant loss which knocks the sense into you and snaps you out of the delusionary state.

That is the reason you must remain humble when in the market. If you continue to enter trading without a break after making a small profit by selling, your confidence can ruin you and you can cause a significant loss by taking a small loss for granted. All of these can be expected when you are in the delusionary state. You can wipe out your fortune while allowing your mind to be chained to the mental inertia after having made a profit in the past, and you can fall out of the market due to arrogance – which was born out of a one-time success in the past -- of not taking the market seriously. The market is an object of awe you should never underestimate and it is like a living creature that has a life of its own. Therefore, you cannot make a rash judgment of it, try to run ahead of it, or make a judgment with your mind full of arrogance and greed.

You need to avoid thoughts of profit when you are winning or thoughts of loss when you are losing, and think of selling and buying instead. This is not an easy thing to do, but you are likely to lose at selling or buying when you allow yourself to become controlled by emotions, thereby losing the ability to make accurate decisions and becoming unable to see what you really need to see. Letting yourself be controlled by your emotions is all about the delusionary state, whether you win or lose in the market.

If you are not in a delusionary state when trading, you will be able to identify the trend accurately, and you will give up whatever position you have when the market price acts against the trend. Therefore, what is important is not winning of losing; what is important is how accurately you can identify the time to sell and to buy.

Don’t Be Carried Away by Winning

Never let yourself be carried away by winning when you have achieved 80-90% of your goal after several months. Instead, focus on making profit naturally. You must never ever lose yourself in greed.

Legend has it that Honma Munehisa had studied the Chinese military classic, *Six Secret Teachings and Three Military Strategies*, by Wang Taigong. Some scholars argue that the book was not actually written by Wang Taigong. They claim other experts in military strategies wrote the book using his name in context. But it is still widely acknowledged that the book was written by Wang Taigong. The *Three Strategies* part of the book survived because according to some people, during the late years of Emperor Qin’s period the book was handed over by Huang to Zhang Liang (張良), an eminent minister of Liu Bang, the founder of the Han dynasty.

Also known as Jiang Taigong, Wang Taigong is recorded to have lived as a recluse to distance himself from the corruptness and tyranny during the later years of the Shang Dynasty in the 12th century, B.C. According to records, he lived in poverty until he was over 70 years old, making a living by selling food or butchering. Jiang Taigong as we know is famous for his fishing. In fact, in the Wentao (文韜) and Wutao (武韜) chapters in the Six Secret Teachings and Three Military Strategies, he is recorded to have met King Wen -- the father of King Wu who brought down the Shang Dynasty and founded the Zhou Dynasty -- while he was fishing away his last years as a recluse. In other records, he is believed to have lived in hiding, somewhere near the East Sea. All these records indicate that he spent his last years fishing.

As the chief counselor to the King Wen and his son King Wu, Wang Taigong made a great contribution to the founding of the Zhou dynasty after bringing down the Shang Dynasty. He made a living at lowly jobs and lived in poverty most of his life, not becoming a central figure in Chinese history until he was close to 80. He is a historic personage that Chinese people affectionately revere as the leading figure in military history along with Confucius who they revere as the leading figure in the scholastic history of China.

Little is known about Huang Shigong who, according to records, takes credit for helping Wang Taigong's *Three Military Strategies* survive till today. However, there is a famous anecdote of him with regard to his encounter with Zhang Liang, who once offered his entire fortune to recruit assassins to assassinate Emperor Qin. But he found himself on the run after his assassination plot was botched. On the run, Zhang Liang came across an old man with a hunched back on a bridge. The old man intentionally dropped his shoes over the bridge, and asked Zhang Liang,

"Young man, I dropped my shoes over the bridge. Would you go down and fetch them for me?"

Zhang Liang suspected that the old man had intentionally dropped the shoes and he thought the whole thing was strange. Nonetheless, he went down, picked up the shoes, came back and handed them over to the old man. The old man scanned Zhang Liang top to bottom carefully, and said,

"Young man, would you be kind enough to help me put them on, too?"

Zhang Liang thought it was strange that the old man was asking him for that kind of favor, but he helped him put the shoes on. Afterwards, the old man turned around and started to walk away, without so much as an acknowledgement for the favor. Zhang Liang thought he was an odd old man and was about to set out on his own way, when suddenly, the old man turned around and told him,

"Young man, I see that you are a man prepared to learn. Wait for me here early in the morning, five days from now."

After finishing what he had to say, the old man turned around and was gone, without waiting for Zhang Liang to answer him. Zhang Liang thought the whole thing was very odd, but he went to the bridge early in the morning five days later, just as he was told. When he arrived there, the old man was already waiting for him. When he saw Zhang Liang, the old man said,

"What bad manners you have to be late to a meeting with an old man. I will see you again five days from now!"

The old man barked with annoyance in his voice and then was gone again. Even though Zhang Liang thought it was absurd, he was on the run and had nothing better to do anyway. So he went to the bridge again five days later. The old man was waiting for him again on the bridge, and told him once more, to meet him on the bridge five days later before he was gone. Eventually, Zhang Liang was able to wait for the old man by being there so early in the morning that the sun had not even risen. The old man was very pleased finally. He told Zhang Liang that he would make a great counselor to an emperor and handed him a book. This old man's name was Huang Shigong and the book he handed over to the young man was the *Three Military Strategies*, according to records. Had Zhang Liang ignored the old man's words and not shown up at the bridge to meet him, perhaps the *Six Secret Teachings and Three Military Strategies* might not be the same as we know it today.

On the Wentao (文韜) and Wutao (武韜) chapters in the Six Secret Teachings and Three Military Strategies, there is a section that explains how Wang Taigong met King Wen. At the time of their encounter, Wang Taigong explained the philosophy of governing the kingdom and the world to the king, holding a fishing rod in his hand. His explanation was as follows:

"When the fishing line is thin and the bait is clearly visible, small fish will bite. When the line is thicker and bait is fragrant, medium sized fish will bite. When the line is thick and the bait is big, large fish will bite. By the same logic, if you use families as the foundation of the state, the state will be yours. If you use the state as your base to conquer the world, you will be able to conquer the world."

The message of this teaching is about knowing exactly what you are targeting and how to act accordingly. Known as Wang Taigong's *Theory of Bait*, this teaching can be considered relevant to the following teaching by Honma Munehisa:

> *"Never let yourself be carried away by winning when you have achieved 80-90% of your goal in several months. Instead, focus on making profit naturally. You must never ever lose yourself in greed."*

Let us consider the phrase that reads: "When you have achieved 80-90% of your goal in several months." When you invest, you may think for ten minutes before making your investment or you may think for a day or a month. As Honma Munehisa says, you may also think for several months before you reach a decision to make an investment. It is not easy to concentrate and think only of the investment for several months, without your thoughts being sidetracked. Of course, some people may even think for several years, as opposed to several months, before reaching a decision. In this case, I would guess that people are likely to think the deepest and longest when it comes to serious issues such as marriage. I think that investing should be the same.

Of course, nobody can guarantee that the possibility of success is in proportion to the time you spend thinking, but it is likely that your chance of success is better if you have thought about something for many hours and days.

This is in the same context as Wang Taigong's theory of bait. If you have waited patiently until you can identify the best opportunity, you will not jump into trading after making only 20-30% of your profit goal. You would also not let greed get the better of you and subject yourself to risks by making buy-or-sell decisions when you have achieved 80-90% of the profit goal. When a great man uses families, he is intending to rule a state. But when an emperor uses his kingdom as the base for his action, you can be assured that he has an eye on ruling the entire world. We need to take this to heart. You have to treasure what you have invested in, and you must not forget your goal when you make investments. This is different from careless investment. Being carelessness is all about half-heartedness and vulnerability, not abiding by any principles, letting yourself feel insecure and not taking yourself seriously. The source of all these is greed, lack of principles, near-sightedness, and impatience.

When you make investments, you have to have a clear vision of what you are aiming for: a small fish or a big fish. And you also have to know what bait is the most appropriate. You make certain of the bait you use and what fish you aim to catch when you go fishing, and that preparation is all the more important when it comes to an investment. You must aim to win what you have aimed to win – this is why Honma Munehisa advised us not to be carried away by a small gain. Would it be enough if you only achieved what you targeted?

Eye the Bottom, Aim for the Ceiling

When you buy and sell, you have to eye the bottom and aim for the ceiling. You must keep this in mind.

On the Wentao (文韜) and Wutao (武韜) chapters in the Six Secret Teachings and Three Military Strategies, Wang Taigong also addresses King Wen about how a sage governs a state. He said:

“A sage has nothing to worry and be constrained about. A myriad of things come his way naturally. So what constraints and worries would he have? All things grow and flourish naturally on their own. By the same logic, people do not realize the grace of the sage because he takes action-less actions and provides generosity like nature. People do not perceive changes just as they do not realize the transitional changes of the four seasons. As long as a sage understands this law of nature and lives by it, he will be able to move all things under the sun naturally”

Let us think about the phrase that reads: All things grow and flourish naturally on their own. Everything that a sage does is in accordance with the law of nature and thereby is natural, even though you cannot see what he does visually. He does things, but people do not notice. He may even look as if he’s done little for anything.

It seems Honma Munehisa put similar logic in action when trading in the market. He stated *“the rise and fall of the rice price follows the law of nature and it is very difficult to identify the rise or fall of it. Those who are* *ignorant of this way should not enter trading because they are fools."* From this statement, we can tell he knew exactly what he had to do when trading the rice.

The mastery of trading and investment that unfolds naturally is what Honma Munehisa thought was the most important. It is the kind of trading where you have a grip on the important factors and follow through with them, because that's how you make everything go smoothly, just as all things come out in spring and flourish and prosper through the summer on their own, naturally.

This is what he meant when he stated *"You have to eye the bottom and aim for the ceiling. You must keep this in mind."* We can tell that his technique was inspired by the phrase that reads, "All things grow and flourish naturally on their own," and was made specific to rice trading. In a way, it is the right way of a Sage in rice trading. If you make your buy at the bottom, the market price moves on its own to your great advantage, and you only need to sell at the ceiling to realize profit. If you sell at the ceiling, you can make a big profit by buying at the bottom again, because the market price moves naturally on its own. This is a technique of rice trading that does not put you through anguish and keeps you safe from the fluctuating market price. Therefore, you have to constantly ask yourself what am I doing, where am I, and where does the market price stand, while restraining yourself from carelessly entering the trade.

Sharp Surge as if the Rice Bags are Flying

> *When the market price remains more or less the same for two to three months and the same price action repeats over and over, most people become less enthusiastic, and even the optimistic people lose their positive perspective, while the sellers who trust their analysis of the market formation accelerate their selling frenzy. But the price is sure to go up after this period. When it does, the market will rally, be it proactively or passively, and the market price will surge as if rice bags are flying through the air. This market formation sneaks up on you from behind, while ten out of ten people are facing one direction. You would see it coming if it approached from in front of you, but it doesn't, and people will be taken by surprise. This is in accordance with the nature of Ying and Yang.*

His expression of *"rice bags flying through the air"* is significant. He explains that the upward price action is so extraordinary that it is like rice bags are flying through the air. I think it is an excellent description of people's mentality, how sensitively they react to the price action and profit-making opportunities. Everybody enters trading with the goal of making a good profit, but most of them end up losing. What could cause this?

In the Long Tao (龍韜) Xuan Jiang (選將) chapters of Six Secret Teachings and Three Military Strategies, there is a list of criteria you can use when recruiting outstanding talent. The book recommends using the following eight categories in selecting talent, because people are often two-faced.

1. Ask a question and see how he answers.
2. Have a debate and attack him mercilessly and persistently and see how spontaneously he can handle the situation.
3. Send a spy and see how diligent he is when alone.
4. Open your heart to him and ask him questions to assess his morals.
5. Entrust assets to test his honesty.
6. Place a beautiful woman in his company to test his integrity.
7. Test his bravery in times of crisis.
8. Get him to drink too much and see how he behaves when he is drunk.
9.

Since people can be double or even triple-faced, you cannot make decisions recklessly based only on what you see on the outside. Therefore, it was natural that Wang Taigong judged the people he met based on a certain set of criteria that he developed on his own. If you hire somebody because he has a good reputation among people and ignore others because they have a bad reputation among people, the world would soon be filled with scammers and schemers that have good connections with like-minded dishonorable people. But the world does not work that way, and there are people like

Wang Taigong who have multi-dimensional and complex sets of rules to make sure they can discover the true value of people. And this kind of criteria is not so much a tool to evaluate the people, as a means to see the different sides of people as they really are.

In the market, it is natural that you become distrustful when people are excessively optimistic or pessimistic, and if the opinions of people are solidly developed in a certain direction, you can be sure that these are opinions that are missing vitality and are dead thoughts. Therefore, following those opinions will be like digging up a grave in a group.

Honma Munehisa was different: he perceived the market as an always-moving and evolving organism, and it seems he had such an open mind in this respect that he could always shift his position in trading at any time. Since the market is a living organism, those who participate in it can never win at trading, unless they become living organisms themselves. You have a better chance of winning only when you can be alive and move in concert with the movement of the market. Therefore, Honma Munehisa warned us against remaining stubborn or letting ourselves be controlled by emotions or greed when entering or exiting trade. You have to listen carefully to what others say, but it is you who have to make decisions based on information and principles. And you need the courage and open mind that will allow you to take a path that may be the opposite of what the majority takes.

That is what he meant when he said:

"This market formation sneaks up on you from behind, while ten out of ten people are facing one direction. You would see it coming if it approached from in front of you, but it doesn't, and people will be taken by surprise. This is in accordance with the nature of Ying and Yang"

The price action is something that is noticeable only to those who can see it. And you can see, sense, and notice it only when you are capable of seeing it as it is. This is the mastery of trading, which Honma Munehisa sought to reach, even though it is not an easy goal for anybody. This is the essence of trading secrets, the mastery of trading, the law of nature, and it is the level that you can never reach while you are still an amateur.

You Will Succeed Only When You Sell Well

There is no major change within a year, except for a rise once, and a fall once. Even during the rise, the price goes down slightly, and during the fall, it goes up slightly. But this repeated cycle is not the market trend that is headed to the ceiling. Don't be fooled by the repeating cycle of market action. The first step is more important than anything. The decision to buy should not be made lightly; don't be dispirited when you see an opportunity for profit making. The decision to sell may look easy but it is very difficult to handle. When the price starts going down, you have to buy back[27] *because you cannot tell how far down it is going to fall. When the price falls, don't lose yourself in the commotion of others. The best thing to do is to let go of any greed, and buy out.*

27 Buying back is to liquidate all that you have purchased expecting the rice price to drop. It refers to the case when the issuer of the promissory note delivers the rice when the rice price drops, or buying back the promissory notes expecting the price to make further drops without having to deliver the rice at the moment. If you issued a hundred dollar promissory note and bought it back at 50 dollars in future trading, you have made 50 dollars of profit

In Chuang Tzu's classic, Tsai Yu (在宥), there is a conversation that took place between Tsui Chu and Lao Tzu. First Tsui Chu asked Lao Tzu,

"If the empire is not to be governed, how are men's hearts to be kept in order?"

Lao Tzu answered,

“Be careful not to interfere with the natural goodness of the human heart. The human heart may be suppressed or stirred up when you interfere with it, and in either case, the result is fatal. The hardest heart may be softened with gentleness or it can be injured with sharpness. But try to cut and polish it, then it will glow like fire or freeze like ice. In the blink of an eye it will pass beyond the limits of the Four Seas. In repose, it is profoundly still; in motion, it runs far away in the sky. No bolt can bar, no bond can bind. That is the human heart.”

According to this statement, the human heart is hard to understand, and it moves in directions nobody can predict, but if you attempt to meddle with it, you can create an unknown ripple effect to the great confusion of the world. Therefore, the human mind is not an object to control, but an object to understand. Instead of trying to change it intentionally, you have to be able to accept it and see it just the way it is. This is the basis of being natural.

The market repeatedly moves up and down, and may seem to be attracting people in a certain direction along the way, but the truth is, it is the people that are attracted to it and moved by it. In other words, people begin to gravitate in a certain direction when they anticipate the rice price to move in a certain direction. But if the price moves without any direction while taking sidewalks or repeatedly moves up and down only, it means that the people have been fooled by the market. This is what Honma Munehisa is stressing when he states “Don’t be fooled by the repeating cycle of market action.”

When you see profits, you easily become greedy and it is a natural response. However, greed has little to do with the market action and if your greed guides you in the opposite of the direction you should take in accordance with the market action, you can cause loss instead of creating profit. Therefore, all you need to do is read the market movement with calm mind and think of the most appropriate response. When you allow your greed to take over in entering or exiting trading, you will be constantly exposed to various risks. Suppose your greed got the better of you and you entered trading. Suddenly you realize you have made your buy at a higher price than necessary and the price begins to move in the opposite direction to what you anticipated and goes downward. Then suddenly, your mind becomes cold and your greed transforms into fear. All you can do at this point is to sell off and swallow some loss. This is the structure of loss, brought about by greed.

Therefore, whether you buy or sell, make profit or lose, you have to strive to see the market accurately, without being overtaken by unrealistic anticipation, greed, fear, disappointment, or impatience, while listening to the voice coming from the market. If you are to win in trading, it is important to ignore what goes through your volatile mind and try to see the market just the way it is.

06. What To Do During a Break

When the Cool Air is Strong in Summer

> *If the weather is unpredictable and it rains a lot in summer, you naturally think you will have a bad harvest. When the cool air is strong in summer, and the bad insects are rampant and there are frequent natural disasters such as flooding and storms, you have to start buying when the price is weak. If the weather is moderate in June and July with lots of sunlight, and you expect a good harvest, don't rush to buy. The months of August and September will be the time to buy. Even though the time to buy can come a little later in September, you have to be ready to buy in August. Even in a good harvest year, the price always begins to rise in September and October. Even if you see signs of the first good harvest in ten years, the price can make an unexpected move against everybody's prediction because of unpredictable causes. It is very rare to harvest rice without any unexpected factors affecting it beforehand.*

In general, when autumn -- the harvest season -- approaches, the price rice begins to fall slowly until it nears the bottom because the supply of rice increases with the new harvest and the price becomes stabilized. However, the rice price at the rice exchange market often continues to drop until autumn as a precautionary reaction. The downturn of the rice price reaches its peak during the harvest and usually reaches the bottom at the same time. But after that, the price begins to go up beginning in autumn, and by the time spring arrives and there is a shortage, the price demonstrates a significant increase.

However, the price can increase during the harvest period when people anticipate the decreased supply of rice due to damages by insects, storms, or cold-weather in June or July. In this case, the time to buy can be earlier than usual. This is the case Honma Munehisa addresses in his statement. However, he advises not to hurry to buy when it is obvious to everybody that it is going to be a good harvest year.

Considering Honma Munehisa's advice applies to the situation 200 years ago, there is a problem for modern traders to follow it. Unlike today, the transportation and communications during his time were not well-developed, and therefore it was not easy to analyze the harvest forecast of the granaries nationwide. We can also guess that it was nearly impossible to get an accurate picture of how much damage was done by various insects, storms, and cold weather. In other words, they were likely to make buy-and-sell decisions based on groundless anticipation, which indicates they were exposed to significant risks.

However, Honma Munehisa had his own method to collect and filter valuable information and had his own information network that allowed him to accurately analyze the harvest conditions of major granaries. Therefore, his analysis would have been accurate to a certain degree. We can say that this chapter reflects the experiences of Honma Munehisa, who was a rice dealer based in Sakata, the major granary of Japan.

Even in today's market, the most important thing to do is to meticulously analyze the supply and demand of commodities – be they stocks or real estate or anything else – and read the psychology of the people that change constantly according to conditions, before making buy-and-sell decisions. This is what you need to concentrate on while you take a break from trading.

Taking a Break is Justas Important

> *With these "Three Methods," you shall observe the market and see how the market price is going up and down, and when it does, how much it goes up and how much it goes down before the price action stops. Then think of the harvest conditions of Osaka and continue to watch how everything is going. For example, when you enter to buy, you have to be sure of your decision, instead of following the market price that has been fluctuating. If your forecast was correct, the price will stop where you had anticipated. It is not ideal to think that you must buy rice when it is cheap and sell it when it is expensive. When you think it is a bullish market, you have to buy and sweep based on the entire market formation. But it is not good to buy excessively when you think it is a bearish market. You should not sell even if you are sure the price will go down. You have to think wisely.*

In Waimu (外物) by Chuang Tzu, you will find the following paragraph:

> *"If the Positive and Negative principles operate inharmoniously, heaven and earth are greatly disturbed. Unable to lay perdu, the heart feels as though it is suspended between heaven and earth. So in the struggle between peace and unrest, and the friction between good and evil, much fire evolves which consumes*

the inner harmony of man. But the mind is unable to resist fire. It is destroyed, and with it Tao comes to an end."

Of all things that rule the human mind, the negative and positive principles, or the profit and loss, are probably the two most powerful energies that influence it. For the same reason, financial and economic issues are the most frequently talked about issues in society. You may try to break free from the materialistic world, but as long as you have the instinct to survive, it is impossible. As long as you have roots in the materialistic life, you cannot be free from what's at stake for yourself. In the above paragraph, Chuang Tzu is addressing how the human mind is unable to resist fire, even though it can consume the inner harmony of you. Perhaps he would not have been so insightful about the human mind, if he was not a man with an undisturbed mind himself. He was able to observe thousands and tens of thousands of changes that happen inside the human mind.

However, for those in trading who have to be in a constant state of tension with eyes to the profit moment by moment, or for those in commercial business and investments who cannot resist the fire that consumes their inner harmony; Chuang Tzu's words might seem to apply only to those who have the leisure to sit around and chat. They even might think Honma Munehisa's point about the importance of taking a break is meant only for those who have time for leisure. It might remind them of Chuang Tzu, who went to see a local official to borrow some grain.

Chuang Tzu was a poor man all his life. One day when he had nothing left to eat, he went to borrow some grain from the Marquis Wen of Wei, a local official. However, the Marquis Wen told Chuang Tzu,

"I can loan you some grain. But would it be okay if I loan you three hundred silver coins when I collect the tax from people a little later?"

Upon hearing this Chuang Tzu told him,

"On my way here, I saw a crucian carp in a ditch that was drying up. He looked as if he was about to die and asked me to quickly fetch a bucket of water to save his life. I told him that I was on my way south, where there is a lot of water, and that I would certainly bring some back for him. But the carp grew very angry and said, "all I need for now is a bucketful of water. If that's what you are going to do, you'd better look for me at a dried fish store next time!"

We cannot tell if Chuang Tzu was able to borrow grain from Marquis Wen after this conversation, but we know that he remained a poor man even after that because he was content in that way and he never tried to be rich. Even if he failed to borrow grain from the Marquis Wen, there is no reason for us to believe that such humiliation affected Chuang Tzu or changed his philosophy or way of living, because at the center of his heart was a zone that remained unaffected by any suffering that would be caused by being poor.

When you trade, there are times for everything: time to take a break, time to observe the market, time to buy and sell, as well as time to become greedy and not to be greedy. You win only when you move with these rhythms of the market. You can never expect to win if you disregard these rhythms just because you have suffered a tremendous loss, or insist on remaining ignorant about the rhythms. It is the same when you make a profit: it will be only a matter of time until you see all your profit wiped out if you don't take these rhythms seriously. Therefore, instead of rushing to make buy-or-sell decisions, you have to make sure of the timing. You can keep yourself centered and abide by your principles only when you are firmly secured on the solid ground within.

Since those who buy and sell as their trade have to walk in the jumble of the market, it is more important for them to set a certain zone inside their mind that can remain unaffected by any external impact.

Taking a break is more important when entering the trading market than at any other time. No matter how urgent it is to make a profit and no matter how crucial the moment is, you are almost certain to cause significant loss if you become obsessed about entering the market and fail to take a break when necessary. You may struggle to grab the opportunity that comes your way, but it is not easy when it brushes by swiftly. People cling to the market and pour all of themselves into selling and buying, and try to take the best out of transient passing opportunities. But opportunities are hard to catch, and that's what they are all about.

On the other hand, those who know how to take a break are able to grab opportunities. It is somewhat ironic. Those who bet on the market moment to moment rarely see the market as a whole or grasp the nature of things, but those who know how to take a break can not only see what is beyond the reality, but also can perceive each moment as a part of the grand current of the whole. Therefore, when Honma Munehisa mentioned taking a break, he didn’t mean just to forget about everything: he explained what you need to do while you are on a break. That is the main point of this chapter.

> *“With this “Three Methods” in mind, you shall observe the market and see how the market price goes up and down, and when it does, by how much it goes up and how much it goes down before it stops. And then think of the harvest conditions of Osaka, and continue to watch how everything is unfolding.”*

That is what Honma Munehisa meant by taking a break.

The Year of Capital Drainage

> *If you see a year when capital is drained out of the market between winter and spring, it is because people have intentionally bought too much and ran out of money. If the price does not drop until May in such years, it is sure to crash around June 20.*

The rice price continues to rise during the period of winter and spring, during which time merchants almost unanimously buy and build up their rice reserves, making the piles of rice go higher in warehouses while the capital drains out of the market. But this is when you should think of the time when the rice price goes down and concentrate more on selling than buying, so that you will have more cash than rice. Only then can you start buying the rice at the bottom after the approaching harvest season is reflected in the market and begins to push the price down. However, people often become swept up by the bullish atmosphere of the market, and buy more rice until they find themselves left with almost no money. The rice price does not drop until the spring, and according to Honma Munehisa, the rice price will crash sometime in June.

Three Years at the Ceiling and at the Bottom

> *There are times when the price remains either at the ceiling or at the bottom for over three years. When this happens, don't try to enter trading when the price is at the ceiling. The bottom can continue for three years as well. This can happen in any year, so you have to be very cautious.*

In this chapter, he addresses a market formation that is uniquely different from most others. The rice price action in general goes through a cycle of up and down periodically depending on the supply and demand situation, and this cycle is usually a year in length. However on rare occasions, the market moves differently from this general periodic pattern. In this chapter, he talks about when the price goes up and remains at the ceiling for as long as three years, or goes down and remains at the bottom for three years. This kind of market formation can happen due to various factors that influence the supply and demand, such as weather conditions, damaging insects, extended drought, riots, war, or other natural disasters.

When Moving Without a Stable Mind, There Will be Only Loss

> *Even when you anticipate the rice price going up, you become reluctant to buy or sell when you see signs of the price going down, and when the price goes down after having gone up slightly, you think it is a bearish market. People often move without any firm conviction in mind. When you look back and think of the trend later, it seems easy for you to respond to the market formation by selling when the price goes up and buying when price goes down, but it is not easy to identify the market trend accurately. You should remain observant for at least two months until you are sure of a temporary bearish market. As long as your mind is chained to the up and down trend of the market, you will be lost throughout the year because of the market trends. Consequently, you will lose and cause loss in the end.*

In the modern market, it is easier to identify the trend because we have a well-developed internet system and various charts, and you can easily decide on the investment methods that are most appropriate for your case by choosing them from the many investment methods available out there. We are living in a time where the market conditions are completely different from what they were 250 years ago. However, no matter how advanced the investment environment is and how many useful tools people have developed, there are still things that remain more or less the same as 250 years ago. There are many investors who make buy-and-sell decisions based on unreliable anticipation and forecasts in today's market and it was the same a few hundred years ago.

In this chapter, Honma Munehisa addresses the people – whom he described as *"people who usually make a move without any firm conviction in mind"* -- who make buy and sell decisions without basing them on any principles. From this, we can figure out that there were many people who made reckless investments even in his time. If you enter or exit the trading market without certain trading methods of your own, you have a greater chance of losing than winning because it is like going to a battle naked without a weapon. In business, you must have a clear profit making model, and in trading, you must have your own investment methods.

The market being a place where the desires of people from all walks of life come to clash and explode. It is easy for you to become swept up by the market atmosphere and make buy-and-sell decisions recklessly on the spur of moment if your mind is not grounded firmly on principles. Therefore, even though you may be an expert in a certain area and have greater intelligence than most others, the market can make a fool out of you almost instantly. You are easily tempted to make mistakes in buying or selling because the market sometimes acts like it is going to go up, and sometimes to go down. The repeated cycle of going up and down can be confusing to most people, but it can stir up the desire for a fortune in the minds of traders and brokers, while at the same time promoting arrogance, extreme fear, and confusion in their minds at the same time.

Therefore, upon looking back at past markets, people sometimes wonder if it was really themselves who entered the trading market. Many people who trade stocks over the internet today lament that it was not their self that did the trading; their fingers did it. That indicates how difficult it is to keep yourself together when participating in the trading market, which is like fighting a life-and-death war in the middle of an ocean that is seething with wild waves.

Therefore, the principle becomes the entrusted second ego that they create themselves, a second ego that can guide and watch over them in the middle of confusion. This second ego is not just there to guide you to the right way and give you advice when making a decision is difficult. It is there as a friend or even as a teacher who can counsel you when you are shaky and teach you right from wrong. And it helps you keep yourself together and makes you grow through principles.

There is a saying about the principles of trading:

“Even if you lose at trading, you are the winner if you followed principles.”

If you suffer a loss after trading without principles, you become confused and gripped by a sense of self-accusation, but if you stood by your principles, it can boost your self-confidence, and eventually make you win and make a profit even if you have failed in the beginning. The biggest reasons for this are first, because you build your confidence in trading, and second, because you raise your chances of winning by moving in the right direction while solidifying your principles for future trading. But you might wonder: Did Honma Munehisa stand by his own principle because it offered high possibility of winning? And what was this principle?

For Honma Munehisa, the winning principle was the “Three Methods.”

Going Against the Trend is Not Allowed

There are times when you decide to sell off your offerings because your forecast for the market is gloomy, but your forecast turns out to be wrong and it leads you to loss. Intending to distribute,[28] some people begin to sell off their rice when the price is moving upward, but this is very wrong. You must not go against the trend. The same applies when you buy. When you realize your market forecast was wrong, take your hands off the market and remain observant.

28 When you issue the promissory notes in exchange for advance payment, you are selling the rice as futures. To distribute is to make this sale over a few transactions when you predict the rice price to go down. The final price of the rice in this case will be the median price of all rice purchased.

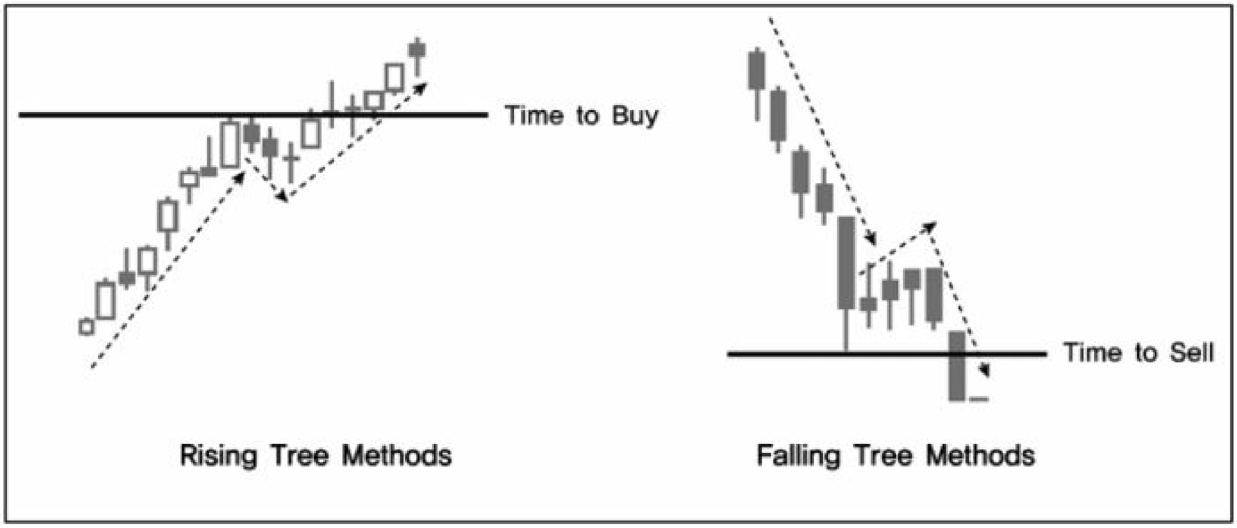
Of all trading methods, the Autostock is very useful when you are following the trend. Since the market price repeatedly goes up and down, market participants are easily shaken by a slight change of price, and many people regret selling off their offerings when they could have made significant profit from them if only they had decided to hang on a little longer. Autostock is a method that can protect you from the impact of the rise and fall of the price, while giving you peace in mind while trading. But this method comes with a risk, and the risk is high when you happened to go against the trend. For example, you are sure to cause a loss when you sell your offering based on a misinterpretation of the market formation that is bullish. If you see any indication that your assessment of the market formation was wrong, you have to exit the trading and remain observant, while taking time to carefully re-evaluate the trend. However, if you continue to remain in a losing position and increase your selling orders each time the price goes up instead, you are likely to suffer significant loss because even though you sold your offering at a higher price and the average cost of each offering is higher, any additional sell-off orders will eventually translate into your loss in the books. This is the risk involved in Autostock.

So, how can you tell if you have gone against the trend?

In general, it is very difficult to identify the trend reverse, because it is not easy to identify the signs of trend reverse when you have developed a certain prejudice about the market trend, particularly if you made your buy decision after struggling for a while to figure out if the market is bullish or bearish. Even if you see the signs, you are likely to identify it as a bearish trend, because of your pre-existing perspective on the market formation.

In any case, it is important to react swiftly once you notice the risk signs, and this has to be the primary principle of trading. You can make reference to Honma Munehisa's "Three Methods" to identify the risk signs in trading.

<Time to Buy and Sell According to the Three Methods>



There are two types of “Three Methods:” “Falling Three Methods” and “Rising Three Methods.” The pattern for the both types is the same. The “Three Methods” was inspired by how the market price always goes through a pattern of going up and down -- both during the downward and upward movement – and the price indicators include the support price and resistant price. During the bullish market, you can see how the price spikes going up, surpassing the previous high and exhibiting a golden cross, all the while maintaining the support price line. Therefore, if the price plunges down and falls below the support price line and takes a plunge to create a death cross after you have entered the market to buy believing that it was a bullish market, you must realize that it is a risk sign for you. And if you made a move to sell believing that it was a bearish market, but then the price spikes up, surpasses the resistant price line and creates a golden cross, you must realize this is also another sign of risk. These are some of the risk signs that you can identify by applying Honma Munehisa’s “Three Methods.”

If you are considering Autostock within the guidelines of the "Three Methods," this is what you do:

If the price spikes up and surpasses the previous high and creates a golden cross when you entered the market to buy, believing it was a bullish market, the time is ripe for you to make additional buys. But if you entered the market to sell believing that it was a bearish market, the best time for additional sells is the time when the resistance of the resistant price line is confirmed and the price drops down below the previous low. In other words, you should not Autostock while the price is moving the opposite direction of the trend, be it bearish or bullish, and you should enter the market to buy or sell only when the trend is confirmed – which is the time when the previous high is surpassed during the bullish market, and the support price is broken down during the bearish market.

07. Observe the Rice as a Whole

Two Types of Regret

> *When it comes to regret, there are two types and you must think about them. You regret when you miss a 20-30% profit just because you have rushed for no reason when you could have waited for five to six days for a much bigger profit while the price moves up. This is the kind of regret you can just laugh about and forget. And then there is the regret after losing and causing a loss when the rice price drops even though you could have made a 70-80% profit, just because you were greedy and you rushed. This is the kind of regret you get after working hard but in vain. You have to think seriously about it.*

I have mentioned that in Honma Munehisa's "Three Methods," the "Three" refers to the three levels of the price: the ceiling, the bottom, and the middle. While the "Three Mountains" and "Three Rivers" patterns are the result of his pattern research with the goal of identifying the ceiling and the bottom, the "Three Methods" is the result of his research into the middle price that falls between the ceiling and the bottom. The "Three Methods" is a particularly resourceful tool in identifying the trend that is established during the process in which the price reaches either the ceiling or the bottom, and it can be a useful tool in helping you identify the time to buy or sell while a certain trend is in progress.

You cannot always count on the support price being supported and the resistance price being resisted during the rise and fall of the price, as pointed out by Honma Munehisa in the “Three Methods.” However, it is certainly true that there is a better chance for a trend to become reinforced when the support price is broken down and the resistant price is surpassed. This is what Honma Munehisa is addressing in this chapter.

When you regret having rushed in and missed making a 20-30% potential profit – in spite of having entered the market to buy or sell in accordance with the “Three Methods” -- Honma Munehisa said it is an understandable mistake and you can just laugh and forget about it. However, if you ended up losing with the rice through which you have been making 70-80% profits, you have to seriously think about your trading methods, because this is evidence that you have not traded in accordance with the “Three Methods” and principles.

For example, suppose a trader bought rice and was making a great profit out of it, when suddenly the rice price hits the high and then starts going down with some ups and downs along the way. So the trader carefully observed the rice price, while watching to see if the rice price was going to spike up and surpass the resistance of the previous high. But it didn’t and he sold off his rice. However, as soon as he sold off his rice, the price starts making a surge, surpasses the previous high, and even increases another 20-30%. Then those who have sold off the rice already would have to swallow a bigger sense of failure, because they have sold the rice when they could have waited a little longer and made 20-30% additional profit. However, it is not worth the regret that you have failed to sell the rice when it is at the high. This is the kind of loss you can laugh and forget about because the trader in this example had followed through on his principles.

On the other hand, suppose there is a trader who is enjoying about 70-80% profit relevant to the price he paid when he bought the rice. When the price kept going up and down without being able to surpass the previous high, he began to feel the urge to sell off, but he ended up deciding to hold on to the rice with an expectation that the price would go up higher. However, the price failed to break through the resistance price, and worse, it went down below the previous low and continued to drop. He had not sold the rice because he expected the price to go up again and also because he was enjoying such substantial profit already that he failed to think of the possibility of the price going down lower. But to his great disbelief, the price continued to drop until it reached below the price he paid when he purchased it. In this case, he has missed the perfect time to sell off: he should have sold off at whatever cost when the price was going below the previous low and continued to drop, in accordance with the principles discussed in the "Three Methods." But he did not do it, and he not only lost all the profits that he had already made, but also lost more. This is the kind of big failure that brings about a sense of self-blame for having entered the trading market without any principle. Honma Munehisa says that this is an instance that you must regard seriously because this is trading where a principle is missing.

The best way to identify the time to sell or buy is to keep the "Three

Methods" as a principle.

Grasp the Movements at the Ceiling and Bottom

> *When you buy or sell in response to small trends that appear during the grand overarching trend of a bullish market, you are likely to make a big mistake by going against the grand trend. The rice price goes up or down in accordance with the law of nature, and we humans cannot predict it with our mathematical skills. The profound rule is, you have to grasp the order of the bottom and ceiling and just remain mindful of daily price action.*

Some trends are three months long, and some are even six months, a year, or even three years long. The grand cycle of the rice price is generally a year of going up and down. It touches the bottom and starts to rebound beginning with the harvest period in autumn until the following spring. When the harvest season approaches the following year, the price begins to drop due to the anticipated increase of the rice supply and the increasing offerings for sale, and this decrease continues until the harvest period. Therefore, the rice price creates two trends in general each year, the time when it remains at the bottom, and the time it remains at the ceiling.

Even though a macro approach is required in response to the market, a trend is in fact the outcome of accumulated very small daily actions, and a trend is established only after tens or tens of thousands of daily trading activities. From this perspective, you can understand how dangerous it is to predict the trend in advance, set your direction based on a prediction, and enter the market either to sell or buy. Without question, you have to check daily trading activities and the price fluctuations every day.

The reason you need to check and confirm the rice price changes every day is because you want to know if a trend is continuing without crashing down. You can protect your profits and prevent loss only when you respond properly to the market when you notice any sign of a major shift, such as a trend reverse or the price approaching the ceiling. This is the point of Honma Munehisa's advice that reads: "You have to grasp the order of the bottom and ceiling and remain mindful of daily price action."

However, if you only stare at the trading activities and remain cautious of price actions without any criteria for evaluation, you will be no better than a scarecrow, standing there on guard, not knowing why you are standing there and guarding against what.

In general, you need to be sure of the trend in order to find the best time to sell or sell off what you have bought. This is all about timing and that is the essence of trading and the most important thing in trading is to identify this perfect time. It is not an overstatement to say that all traders and brokers are striving hard to become capable of pinpointing this perfect time to buy or sell, just like soldiers who go through a long period of rigorous training in order to sharpen their skills in battle.

Honma Munehisa's "Sakata Five Methods" is also all about this time to buy and sell. The "Three Mountains" and "Three Rivers" patterns -- which are the two most essential parts of his five methods -- are the tools designed to find the macro-level time to buy and sell. While these three methods are helpful in finding the perfect timing during the trend-forming process, the "Three Soldiers" pattern is helpful in finding the right time while the price is near the ceiling or the bottom. The "Three Gaps" pattern can help you identify the time to buy or sell by checking to see if the market is overheated or not.

Honma Munehisa said that as long as you have full understanding of these five patterns and apply them properly in trading, you will be able to see miracles – which he defined as how a hair-splitting difference can bring about a thousand different outcomes – and be guided to the world of wealth.

However, Honma Munehisa advises us against the micro approach when entering the trading market. With the advancement of the internet, we can see many day traders who are engaged in short-term trading for profit. But day trading is dangerous because when you do such short-term trading, it is difficult to follow the trend, you can be trapped in a confusing situation, and can even go against the trend. What they need to realize is that the market formation is about a current that flows like an overbearing river in accordance with the balance between supply and demand, and it is all about the psychological inertia of the market participants. And the price action is impossible for even several groups of people to turn back or change. That is the reason Honma Munehisa defined it as "the law of nature."

Who can stop the spring from coming? You cannot reverse the changes of the four seasons; all you can do is to understand those changes.

Changing How You Think

> *When the price remains stagnant after a period of market fluctuation and the market formation seems somehow bearish, many thoughts will cross your mind. You listen to stories from various sources, but you don't find any sign of a bullish market. When the market is in this condition, you might become tempted to sell, believing that you are sure to regret it if you don't because the market seems sure to push down the price by 20-30 koku. But change your mind, and join the group who enter the market to buy, because this is the best solution. Everybody thinks it is risky to buy rice under this market formation and they are all reluctant to place an order to buy, but if you believe in my statement, and enter the market to buy instead of stubbornly insisting on your own way of thinking, you will certainly see the opportunity coming your way to make a profit. When you are sure of a bullish market and become tempted to buy, you have to change your thinking, and sell the rice instead. This is the secret of rice trading. Never forget it. When you think it is a bullish market, so do other people think it is a bullish market. And it is the same with the bearish market; if it looks bearish to you, it looks bearish to others.*

When you read this statement, you might wonder what makes him so sure about having to go against the movement of all other market participants and start buying instead of selling when everybody believes the price is sure to go down. Of course, you can think of it within the context of the "Three Rivers" pattern that explains the bottom, but you will be tempted to think twice to see if there are any other factors that are reflected in his confident statement.

He did not mention this himself, but there is a very important investment method in today's market: Fundamental Trading. Fundamental trading is a method by which you focus on the company-specific values of its fundamentals, and find the time to buy and sell their stocks after evaluating the trading price – to check whether they are overpriced or underpriced.

The rice production in Japan always fell short relevant to the consumption, so much so that during the Edo era, rice was one of the most important commodities to import from Korea. Since rice was the staple food for Japanese, and therefore the means of survival, the rice was used to pay the warrior class of people and was used as a means of payment in commercial business transactions. Therefore, when it came to rice trading, the buyers were always in a comparatively advantageous position to the sellers. In other words, rice being a must-have commodity for all people, and also being a commodity in a constant state of shortage, it had its own integral value as a fundamental. So you can be sure that the rice price rarely takes an unusual plunge, unless there has been some unexplained sell off frenzy in the market.

Honma Munehisa having been a trader with extensive experience in the rice trading business for so long, must have been aware that when it comes to such an essential commodity as rice, there certainly were limits to its ceiling and the bottom. In that case, it would seem that when he advised us to buy instead of sell when everybody is anticipating a further drop in the rice price, he must have believed rice was underpriced, because he saw an unusual plunge of price for such a market fundamental. In other words, you will not need to hesitate to buy no matter how others insist on the possibility of an additional drop of price, because when it comes to the fundamental commodity, you can sell it at a good price anytime, and it is only a matter of time until that happens.

My Two-Cents Worth of Opinion

You should not make buy-or-sell decisions based on your two cents worth of analysis. Take your position with the "Three Methods" as your indicator, and faithfully move forward in just one direction.

Those who compare the market to a battlefield often define themselves as warriors fighting against themselves. Perhaps that is why there are many expressions in the market that are associated with war. When a day's trading is over, people say "it feels like I just came out of a war," or "the day was like a battlefield." There are people who also say "I won in the war against myself, even though I suffered a loss," and "it was a miserable day because I lost in war against myself and I also caused a loss." Those who participate in the trading market without their own trading techniques or profit-making model define themselves as "a bullet sponge", or "fighting a war naked." All these expressions are testimony to the seriousness of trading in the market and how the market is like a battlefield where you have to bet your life to fight and win.

Trading may look complicated, but in fact it is a very simple act. All you do is you pay money to buy and you sell for a price. It is such a simple act that anybody can do it: a small child, old people, women, and men. Even a three year old can learn how to trade, and it is so simple that legend has it somebody made a monkey do the trading for him. However, if you think just a little bit, you will realize that there are so many factors behind the act of trading that you cannot simply define it as an act of selling and buying.

When purchasing merchandise, people do not just go into the store and buy it. People at least try to strike a bargain for a cheaper price, and compare the quality and price between products and even between stores. In addition, service is another important factor in business transactions, and so are the design and display of products. When you take the price fluctuation factor into account, it gets all the more complicated. For example, if you are planning to buy a LCD monitor, you will think hard before you decide to buy it now or later, especially if the price of monitors is going down. When you want to buy something at auction at a cheap price, you can win only when you bid higher than others. But if you do not want to buy at too high a price, what strategy can you turn to? When you consider all these factors, trading is not as simple as people think. Trading can happen in an infinite number of ways, and it can get extremely complicated.

Even though many people compare the trading market to a battlefield, oftentimes they cannot enter or exit the trading market like they are at war when they actually trade. To fight a war, you need to consider many factors and there are many things to prepare. First of all you need an army, the formation of which is not that simple. You need a clear cause to build an army, and you need order to maintain it. You also need more than just a few things before you build an army: the selection and evaluation of the personnel, the formation and training of soldiers, weapons, strategies, and tactics, among many other things. Only when all the necessary elements are prepared, can soldiers be sent out to the actual battlefield and fire their guns. In a way, firing a gun is a simple act. All you need to do is to aim at the enemy and pull the trigger. But behind such a simple act as firing a gun are numerous elements and factors that had to be prepared and set in place.

Trading is a simple act of selling and buying as well, but when you approach it without being prepared, you can face devastating loss, in addition to significant mental drainage due to the various unexpected situations and the rivals who compete with you well prepared. Therefore, those who enter the trading market need to be prepared for it in advance and you have to strive to follow through the strategies that you have set up.

When Honma Munehisa said *"You should not make buy-or-sell decisions based on your two cents worth of analysis,"* he is warning about a spontaneous decision to enter the market. If you trade like a little leaf drifting aimlessly on the surface of water, and easily get lost in the ups and downs of the market price, you can be set on the path to bankruptcy after accumulating one loss after another. In order to trade, you must have strategies and tactics. For Honma Munehisa, "Three Methods" was his strategy and tactic.

"Three Methods" is an analysis tool with three objectives: first, to identify the market formation and position; second to identify the trend and which direction it is headed to; and third, to identify the time to enter the trading market and the time to buy and sell. You have many questions to ask and be answered before entering the trading market: is the market at present at the ceiling or the bottom, or even in-between; is a trend in progress, or is it the beginning or ending of a trend; is this the time to enter the trading market or time to take a break, or even time to leave the market for a while. If you can still lose at trading even if all these factors are considered, you can imagine what it would be like if you entered the trading market compulsively and spontaneously without being prepared.

Let Go of Greed

> *Some people enter the trading market without a firm position, believing the price will either go up or down, and then become dispirited in just five to six days at the movement of the rice, then they go forward with a selling off frenzy, before entering the market again in less than 14-15 days to buy back, all the while creating loss. This happens when you rush and you become obsessed in your mind by the thought of making profits. Let go of greed and be watchful of the price. Take your position when the price is going up or down, and enter the market either to sell or buy with consistency in accordance with the "Three Methods."*

People say knowing too much is a problem. It is true for those in trading. The most important things for traders and brokers can be summarized in a few words: keep it simple. Maintain simplicity until the end. The nature of the trading act is too simple to apply all the things that you know about it, particularly if you know too much about it. What is most important is to stick to only a rule or two – which have the highest possibility of winning – and concentrate on those rules only. If you sell or buy at random, you have a 50/50 chance of losing and winning. The winning stake can be lower if you try to apply an excessive number of techniques, or you apply techniques that have no clearly proven records. If your winning stake goes down to 45/55, it is only a matter of time before you accumulate so much loss that you wipe out all your fortune. However, if the winning stake goes up to 55/45, it is only a matter of time before you see tremendous profit.

Therefore, it is crucial for you to increase the winning stake and it doesn't help to attempt to apply all the wide variety of techniques that you may have heard or learned in your trading. When you become compulsive in applying a wide variety of techniques to increase your winning stake, you are most likely hiding the greed to increase the winning stake as much as possible and to gain the highest profit. But it is these kinds of greed that eventually make your winning stake take a fall.

When you have greed for high profits, you are more likely to enter the trading market frequently, with your mind obsessively occupied by the moment to moment market action, and you are also likely to try all the techniques that have the reputation in the market for winning. In theory, you can make a profit if you enter or exit the trading market even at the slightest chance of the price going down or up. Since you can make a profit several times a day, theoretically you can end up making an astronomical amount of profit if all those little profits add up in a year. But that would never happen. In fact, if you become obsessively occupied by entering the trading market each time the market shows small ups and downs in the price action, you are more likely to increase the possibility for greater loss. In terms of your psychology, you can exhaust yourself internally, and can also suffer tremendous anguish at heart when moving forward only for profit and betting in the market so frequently.

Besides, frequent trading prevents you from seeing the market as a whole, and it obstructs you from making a long-term plan. Even if you start making profits, you cannot keep your profit for a long time. It is fatal for traders and brokers if you cannot make your profits grow. You can absorb any possible loss only when you have swallowed enough profits while you have a winning streak. But since frequent trading prevents you from seeing the market as a whole and keeping your profits for a long time, your risks grow each time you make a new trading move, and expose yourself more to loss than profits, all because you cannot stand the uncertainty of the future.

Therefore, the best thing you can do is to concentrate on only one or two trading methods and perfect those methods through intensive, focused research. The methods that might seem simple and unsophisticated can turn out to be a safer profit making model. The winning stake of 55% might not look that impressive, but it could turn out to be a winning card that brings you good fortune. If you are capable of applying the profit-winning card to a wider variety of practices – in other words if you can expand your profit-making range – you can increase your profit significantly. If the day traders make 10 dollars profit per each sale, you can aim to make 5,000 or even 10,000 dollars per sale if you are confident of your techniques. This trading may seem only a paper-thin difference, but the outcome can make a thousand miles of difference.

Honma Munehisa‘s “Three Methods” may seem simple, but that is where you discover the secret of Honma Munehisa‘s enormous fortune.

Remain Consistent

> *Even if you understand my statements, you might still fail to see the rice market as a whole depending on how the market changes. Sometimes, you should just observe the market to see if the rice price is going up or down, in accordance with the "Three Methods". Think of the price changes every day and every month. When the price moves a little, you become tempted to enter the trading, and you keep trading throughout the year without a break, until eventually you cause loss.*
>
> *The good opportunities to trade come twice a year. Think of the "Three Methods," always remain mindful of the rise and fall of the price, and observe for two to three months. You have to remain consistent when buying or selling. When you are not sure, you must wait, even for several months, and wait for the time that you anticipated. Make it a rule never to enter the trading market based on unreliable analysis, and against the "Three Methods." There is no question that you will lose if you enter the trading based on a reckless decision.*

There is a maxim in today's investment market: Keep stocks for the short term, but keep cash for the long term. It can be compared to a cicada that waits for seven years underground, before it emerges into the world to sing loudly during the summer before it dies. There are many different types of commodities available for trading in today’s stock market, but it is similar to the rice market of Japan 250 years ago when it comes to the market cycle. There are companies like Samsung Electronics or Lotte Confectionaries that grow continuously and accumulate their profits so that long-term investors can enjoy high returns, but stocks of most companies tend to go through cycles of up and down, depending on the economic conditions. Therefore, long-term investment is not attractive, unless you invest in companies with a certainty of high returns. The maxim about keeping currency for the long term came out of this reality.

The rice market of Japan being subject to a similar cycle, Honma Munehisa was inspired by the periodic changes of the market when he advised people to trade only twice a year. But what is more important than trading only twice a year is trading at a time when a trend is being established, and remaining observant of market price fluctuation, all based on this “Three Methods” the whole time. When he advised trading only twice a year, he meant for us to trade when the two trends are being established. Once a trend is established, then you have to see the market as a whole, without being carried away by the fluctuating rice price, and remain consistent, unless the trend is shattered. Being consistent in this case means in terms of the trend. If a trend is destroyed, you don’t have any consistency and you don’t need to maintain it. You have to remain observant of the market until the next trend is established.

Rules of Trading during Market Stagnation

> *When the market price remains stagnant, you will think you have hit the target when you make 20 koku of profit after selling 4-500 nyangs' worth of rice, and you continue to sell, but this is very wrong. If the high and the low during the stagnation is one and 20 koku respectively, you have to quickly disregard the high and low of one and 20 koku. You should not become envious of buying and selling.*

Possible trading during a sideways market where the price goes up and down without establishing a trend is short-term trading. But if you continuously move forward in one direction and accumulate your offering like trend following, you can create a significant loss because sideways market formation does not have any trend, and the price keeps going up and down alternately. Therefore, if you sell off just because the price goes down and you make additional sales because the price drops further, you may soon find yourself losing because what brought you profit could soon turn around and start causing loss. The more the price goes up the bigger your loss can grow. Even if the price takes a plunge, it will become a transaction that does not bring any profit in the end. Of course you can deal with it when there is a possibility of a further fall in the price, but if the price action turns to a downturn trend, you can even wipe out all your fortune. Therefore, short-term trading is the only available trading during a sideways market because it is impossible to predict when the price is going to go up or down. Since the sideways market has a low possibility of profit and high possibility of risks, it would be wiser to stay away from trading under this market formation.

But there are some people who become carried away by a small profit and boast of having made profit during the market formation where the risks are high and possibility of making a profit is low. Some people even propagate elegant techniques that brought them profits, making it sound as though they are great trading techniques. I think they are all very wrong in what they do and it could even cause damage to others. Elegant techniques are not called for in trading; they are called for in researching and observing the market so that you can analyze the market accurately and decide the right time to enter trading. When trading, simplicity rules. The formation of a trend is the only thing that you need to watch out for.

That is why Honma Munehisa advises us to trade only within the zone where a trend has been established. The essential lesson of this chapter is to disregard or even ignore an opportunity if the profit is minimal.

When Tempted to Enter Trading, Wait Two Days

> *When your inner voice tells you, "the rice price is sure to go up, I must buy it today", wait for two days. It is the same when it whispers "it is sure to go down". This is a profound secret. When the price has reached the ceiling, the best thing you can do is to identify the time to sell. The best thought you can have when the price reaches the ceiling is the thought of selling. When it is at the bottom, the thought of buying is the best. You should not forget this.*

In Chuang Tzu's book, there is a story of Lord Ren (任公子), who used fifty cows as bait on his giant fishing hook and rope to fish. He waited for over a year to catch a fish with fifty cows of bait in the Eastern Sea but he could not catch any. It was surely expected because few fish will jump at cows to eat. But finally he caught a fish that was so big that each time it moved, the ocean created waves and a tsunami as high as mountains. When it struggled, it made a noise that reached a thousand miles and made people shiver in fear. So Lord Ren made fillets out of this giant fish and fed many people until they were stuffed.

Those who fish in small streams with a thin fishing rope and minimal bait can never catch a giant fish. If you want to be a fisherman, you need to check what it is that you really want to do. If you have a giant greed and wish to catch a giant fish, you cannot choose a small fishing rod. And you cannot complain when you fail to catch your targeted fish in a few days. If you are aiming for a big fortune, you need to have a big mind. You also need to be able to endure small sufferings and give up small pleasures. The same rule applies to trading.

When the rice price surges in the market, everybody thinks of buying. Then if it continues to surge, everybody thinks of selling. But there is something you need to think about first: in what position the price is now. Is it at the ceiling, or at the bottom, or anywhere else? You must wait for two days while contemplating this question. Honma Munehisa‘s message is to think of this question without being swept up by the market atmosphere. It is the same when the price is taking a plunge.

People usually turn to follow up trading in order to make a fortune: to be more specific, they turn to it when they want to hit a jackpot. But you need to think about whether you can truly make a big fortune from it. The trading that can really make you win big is to buy at the bottom and sell at the ceiling. Nothing can bring a bigger fortune than this. Ask yourself if it is truly right to turn to follow-up trading to make the profit that you targeted, and think of the fish Lord Ren caught after waiting for a year.

When I am Optimistic, All Others are Optimistic Too

> *When the market seems bearish and you are frequently tempted to sell off, wait for three days, change your mind, and you are sure to win if you decide to buy instead. You also need to change your mind when you are sure the price is going to go up. This is a profound rule in rice trading. Don't forget this. When you are optimistic, all others are optimistic: when you are pessimistic, all others are pessimistic too. People's minds cannot comprehend the profound law of Ying and Yang, which governs the rise and fall of the rice price; it is destined to go down after going up to its limit, and to go up after going down to its limit. You only need to rely on the "Three Methods."*

As long as you are in the trading market, you need to remain unaffected by the market atmosphere. Many people in the market make their buy-and-sell decisions following the direction most other people are taking. It is out of question that you should not enter the market to buy just because the market atmosphere is excited over the prospective of price going up, but thinking of going the reverse of the popular move and selling like a robot is not recommended, either. What is important is to think, not act like a robot.

Is it at the ceiling or at the bottom? Is it near the ceiling or the bottom? If the price is near the ceiling, you can probably make a small profit by buying, but there is a bigger possibility of losing than winning in this case.

If the price is near the bottom, you have a bigger possibility of winning than losing. Therefore, when the market atmosphere is shifting to a certain direction, you need to determine whether the current market position is in the same direction or the reverse direction. It can be geared to the same direction as the market atmosphere, but it could also be going in the opposite direction. Honma Munehisa‘s analysis is that it is different most of the time. Accordingly, he repeatedly stresses the importance of going in the reverse. But the surest thing to do is to observe and analyze the market position, while disregarding the market atmosphere all together.

Don’t Rush to Make Profit

> *When you rush to make a profit you are more likely to suffer a loss each time you make a trade because you become more vulnerable to the daily high and low and you trade each time the price action shows any changes. In the case of the new crop of rice, think of the weather conditions and harvest conditions of different granaries. When planning to purchase, make your plan based on the “Three Methods,” while being mindful of the ceiling and bottom, and consistently react dynamical. This applies to the rice offerings available in spring and summer as well. Since the beginning is important, the best thing to do is to remain observant for months, until you are sure you have identified the bottom. It is important to sell off when the timing is ripe for trading. In principle, you must take a break for 4-50 days once a deal is closed.*

I have already mentioned in the early part of this book how Honma Munehisa went through a difficult time of failure while he was an ambitious young man. When reading Honma’s Fountain of Gold, you constantly run into passages where he describes both directly and indirectly how much he suffered from the painful experience of failure. You will also learn about the trading technique that kept him trapped in loss and that he had struggled very hard to get over it. It was the kind of trading technique that made him react compulsively to the daily high and low of the market price, and repeatedly enter the trading. It was the technique that guided him to a loss almost without exception, and made him greedy and rush to make a profit, instead of remaining observant of the market as a whole.

While he was a novice, it is understandable that he did not know what to make of the market formation and how to read signs, and that makes a person become more susceptible to temptation of the market atmosphere. We all remember having gone through similar experiences. Then you start accumulating loss, and as the loss increases you become more nervous, and the more you rush the higher your loss can accumulate. In the end, when you start seeing the bottom of your capital, you become so desperate that you bet even your seed money on the market like a gambler. Winning a jackpot never happens for those who are impatient and rush to make a big fortune in the shortest time. The fish of money will be naturally drawn to you if you hold your fishing rod and wait patiently and persistently, but if you are a fisherman who chase after the fish and begs for it to come and take your bait, you are not likely to catch anything. A fortune tends to slip between your fingers if you are impatient, even if you managed to grab any opportunity to make a fortune.

Impatient trading is the short cut to a total wipe out. The more you grow impatient and anxious, the higher your possibility of failure and increased debt. Soon the capital runs out and when it does, you tremble in extreme confusion, regret, and lost identity. Being wiped out is not just about running out of money: it is about losing your confidence and even momentum. Therefore, even when you see an opportunity to win, you hesitate and end up missing it because you have no confidence anymore. When this cycle repeats a few times, you become reckless, and pour any money that you have left into trading. But now you have already missed a big opportunity, and you become nervous if the price moves just slightly, and you liquidate everything you have as if you have been victimized by a fire. So this is how your chance of failure in trading increases, while losing or making just a minimal amount of profit even in trading where you could have won big. In the end, you enslave yourself with self-hatred, self-loathing, and jealousy, and it affects your family and relatives. Some people end up becoming violent, and worse, they end up getting divorced or other terrible consequences. Some people suffer such serious self-hatred and despair that they kill themselves. These are only a few examples of consequences that you suffer when you fail big in trading. Of course, these are not just restricted to those who have failed in the trading market. These are general psychological disasters that anybody can go through when they fail in business, or lose the value that they have been searching for.

Honma Munehisa did not reach the point where he was left with the ultimate choices, but had he not learned a lesson from the chief monk of his hometown temple, and had he not awakened to the truth even after learning the lesson and put his awakening into practice, he would not have been much different than most other trading losers. At a guess, he repeatedly warns against trading recklessly and following market actions because he is well aware of this psychology after having experienced failure while a young man.

The market price goes up and sometimes goes down by its nature, and you are sure to fail if you react to every short-term movement of it by entering the trading market. The price goes up on its own in the market and when it goes down, it will go down on its own, as well. But if you can observe the market as a whole and remain mindful of the trend, you are less likely to lose or fail because you can accumulate profits, and recover a loss even if you created a loss temporarily after having entered the trading. Therefore, Honma Munehisa repeatedly tells us to make a buy or sell decision in accordance with the trend, and taking the ceiling and the bottom into consideration. It is easy to say but difficult to do for traders and brokers whose fortune depends on the rise and fall of the price.

Like Lord Ren who disregarded small profits and used cows for bait and waited patiently for a big fish instead, you must make yourself a big person. It is a condition for success.

A Good or Bad Harvest is the Foundation

> *At the foundation of the rise and fall of market price is the good and bad harvest. The best thing to do is to think about the harvest situation and the volume of rice reserve in the Kyushu, Capital, locals, and Kinki region. "Three Methods" is not better than the capability of identifying the high and the low, and the real technique is to identify the time of upward movement when something happens at the time of three positions. You have to seriously consider this.*

In this chapter, he stresses the simple fact about price being dependent on the supply and demand. Being simple does not mean being less important. If there is a big demand, the price is sure to go up, and if there is big supply, it goes down, and this is fact. It may look like a cliché but it is something you cannot ignore. In fact, he stresses that it is one of the most important things to remember.

The balance between the supply and demand rules above everything else in any commodity; diamonds, gold, petroleum, or anything else. The price is destined to go up if the demand is high. Therefore, it is extremely dangerous to predict the ceiling in advance when in trading, because there is no guarantee that the ceiling that you have seen in the past will appear in the same shape today. The price can make a further increase depending on the supply and demand situation. The ceiling and the bottom is not to be predicted, it is only to be confirmed.

Honma Munehisa's "Three Rivers" and "Three Mountains" patterns are the tools for confirmation, not the tool for prediction. Instead of making decisions based on such vague predictions as "now that it has gone up this far, it is time to sell," you must enter the trading market only after you are confident and can say "now the ceiling has been completed." You should not enter the market to buy just because "the price went down enough and I see the 'Three Rivers' pattern." Instead, you have to enter the market only when you are sure and can say "the 'Three Rivers' pattern has been completed." It may sound more or less the same, but in fact, the difference can be enormous in the end.

> *"The real skill is to know the time of an upcoming upward movement after something happened during the time of the three positions."*

You have to contemplate this statement deeply. It is certain that you are going to see the time to buy when the "Three Rivers" pattern is created. However, it is not the time to buy if the "Three Rivers" pattern is in progress. The time comes only when the three rivers pattern is completed, making it a good time to make your move in order to trade. But the most excellent timing – the opportunity and the time you must buy –requires a more elegant approach, and you can get a better sense of it with the help of the three soldiers pattern. It is the time for proactive trading when the “Three Red Soldiers” pattern appears at the bottom, or “Three Black Soldiers” pattern appears at the ceiling. This is the real skill Honma Munehisa addresses.

Even the most skilled traders in today’s market often experience losing and failure, one of the major reasons for that is because they are entering the trading market based on prediction instead of conviction. You have to let go of greed, don’t trust yourself, and remain humble and obedient to the market when you enter the trading. Profit is not created just because you make your move; it is something that is given to you by the market movement.

If I may stress one more time, even though there are many things you have to be cautious about, nothing is more important than avoiding prediction-based trading. You will face serious confusion if you took the position of a seller just because you were certain that the price was at the ceiling, but the price makes an additional increase after surpassing the previous high and creating a golden cross. Therefore, a little slow is in fact a little faster in the market, because you can make enough profits even after you wait a little until you are certain of the market movement.

08. What To Do and What Not To Do

Don’t Sell the Rice During a Good Harvest Year

I would say not to sell rice in a good harvest year. They forecast of a good harvest can lead to a bearish market. But it is rare that every granary in Japan has the same good harvest in any given year. Some granaries are sure to have a bad harvest, and the price is destined to rise in Osaka beginning in September and October. And there are people who start buying up in winter because everybody is speaking of a good harvest.

The maxim that people use in the trading market is ‘buy on rumor and sell on news.” It is such simple logic and hard to disagree with. The following conditions have to be met in order to prove this maxim to be true.

First, the content of the news and rumor has to be same. It is a whole different story if the rumor is different from what they say in the news. If you sold on the rumor and the forecast of the news is much more optimistic than the rumor, you are losing a profit-making opportunity when the price makes a repeat increase. But you can enjoy tremendous profits if the news was less accurate than the rumor in this case.

Second, the content of the rumor has to be reflected in the price until the news comes from same content. If the time between the rumor and news announcement was too short for the price to be reflected in the market, you can be sure that there is enough room for the price to go up even after the announcement of the news. Therefore, the issue is not just the value of the rumor or news content; it is also about whether or not the feed has been reflected in the market.

If these two conditions are met, you can count on the maxim that tells you buy on rumor and sell on the news. But Honma Munehisa went one step further and he looked more deeply into the background of this maxim. However, he addresses his “Three Methods” within the context of the balance between supply and demand, more than just to figure out whether or not the rumor has been reflected in the price.

When everybody predicts a good harvest year, anybody can anticipate that the rice supply and the price will be stable, and the good harvest will even work to bring down the price. This is something anybody who has been in the market can predict, and this universal knowledge is sure to be reflected in the market price. Therefore people will try to wait until they buy rice, so that they can buy it at the cheapest possible price. For this reason, the price establishes a trend before it starts going down, and reaches the bottom around the time of harvest in autumn. This is the time when the rice reserve in warehouses shows the bottom, and the market is flooded with rice offerings, including the new harvest crop. People will think that the price will go down in winter, and they will decide to wait until winter to buy the rice.

But that is too late. The market is flooded with rice offerings, and the distribution seems to be going very smoothly, but there is always the possibility of an imbalance between the supply and demand because the rice reserve is running out. Therefore, it is likely that by the winter time, the price could have made its first increase already. If you sell rice during the time when new crops become available, it is like selling the rice at the bottom, and this can happen when you are ignorant of the nature of the market price action. If you sell the rice in futures, you are surer to be headed to a significant loss.

If we think about this maxim "buy on rumor, sell on news" with regard to the rice, you know you have to sell rice when the rumor has it there will be a good harvest, and when the good harvest becomes a reality and sufficient supply of the new crop becomes available in the market, you should stop selling and begin to buy, instead.

What Honma Munehisa is addressing in this chapter is about finding the bottom based on the supply and demand situation. This is the essence of his message that says "do not sell the rice in a good harvest year."

Don’t Buy Rice in Bad Harvest Year

> *I would say not to buy the rice in a bad harvest year. People predict the price to be high on account of the bad harvest forecast. All merchants everywhere think the same and in everywhere people keep the piles of rice uselessly. The market will see the overbought until July, August, September, and October relevant to the rice harvest condition. With people rushing to buy, the final results of people having piled up rice reserves will finally show in the decrease of price.*

This chapter is the sequel of the previous chapter. It is easy to understand if you read it as the reverse of not buying in a good harvest year.

It is almost certain that there will a bad harvest if: the rumor has it the year is going to have a bad harvest; there had been storms, flood, drought or insect damages to everybody’s knowledge; and major granaries had been hit by earthquakes. In this situation, everybody expects the rice price to go up and start piling up rice reserves in warehouse instead of selling, with intention of selling it later when the price goes up to the maximum. Therefore, rice becomes scarce in the market, and price could soar so high it would be compared to the price of gold.

It is important to figure out if this increase is excessive or not. If you can tell the rice is overpriced relevant to the harvest condition in local granaries, the price is very likely to hit the ceiling shortly before taking a free fall just as the new crops become available in market. The reason is because the harvest turned out better than predicted, and the warehouses are packed with hoarded rice reserves. Under these circumstances, there is no reason the rice price should make such an unusual increase. Rather, it is more likely that the market will be overtaken with the people who wish to sell while the price is high. Therefore, when he said not to buy rice in a bad harvest year, he was more likely warning about the possibility of buying the rice at the ceiling, and also the possibility of the price hitting the ceiling around the time when new crops become available in the market in accordance to the rule of supply and demand. Therefore, it is the time to buy rice instead of selling it. However, people often make a momentary misjudgment and sell rice in a good harvest year and buy rice in a bad harvest year. This is all about the market psychology and the market participants' psychology.

Do Not Buy at the Ceiling or Sell at the Bottom

> *Do not buy at the ceiling or sell at the bottom. Just remain mindful of the market. You can never tell either the ceiling or the bottom while the price is moving up or down, and besides you often become caught up in the hype and insist on either selling or buying without thinking of the time when the up or down action comes to an end, until you cause a loss of money. When the price is going up unusually high, count on it to go down for certain. When it goes down, count on it to go up later, all the while waiting for an opportunity with determination, and letting go of greedy mind.*

Honma Munehisa is repeatedly stressing this lesson: sell at the ceiling and buy at the bottom. If other words, he warns against buying at the ceiling and selling at the bottom. The reason is explained in this chapter; you are likely to create a loss by failing to think of the possibility of the increase of price coming to a stop after an upward movement and vice versa. So this message can also be interpreted as to say that you must try to identify the price position anytime you need to make buy-or-sell decisions.

Honma Munehisa is known to have devotedly researched about military strategies, particularly the *Six Secret Stories and Three Military Strategies.* I believe that his "Three Methods" has a lot to do with his research about military strategies. There are many conditions to be met in order to win at war, and the most important of all will be to be prepared until you are sure to win.

If you prepared to be in a position where there is only one possibility of winning, the enemies are sure to become defeated, and therefore you will try to hold on until you reach the winning position cautiously instead of going out and engage in fight. In this situation, you can even expect a victory without shedding a drop of blood. This kind of advantageous position cannot be even compared to the case where you win by having your soldiers clash with the enemies and win with the power. The best you can expect from a war is to win with minimal damage. But how can you be on this winning position? This will be the most important question if you are a general who is about to face a war.

Honma Munehisa's "Three Methods" is often estimated to have been inspired by the same question. What is the winning position for a merchant to make profits out of trading? Could it be possible to trade where you can win a tremendous gain each time you make your move, without having to fight with enemies or worry about small profits?

Perhaps the same question interests many people who enter today's trading market, as well. Wondering if there is a good investment that can return good profit and ensure safety, people poke into various available offerings, such as the land, apartment building, or commercial building, stocks of banks and various products offered by the securities companies. The essence of investment is profits, and people seek higher returns relevant to the market average.

When the price drops, the bad news gains bigger momentum, and cause more fears in people's minds, while the good news are easily ignored or taken for granted. Therefore, when it drops, it drops with accelerated momentum. On the contrary, when it goes up, the bad news do not attract people's attention as much, while the good news become exaggerated and create rose-colored fantasy in people's minds. Therefore, the upward action can gain momentum every day. This is all about human psychology.

It is difficult to buy and easy to sell at the bottom, while it is difficult to sell and easy to buy at the ceiling, and this is one of the biggest reasons why people fail in investment. There is a proverb among the market participants that says "bad news broken at the bottom is a lifetime opportunity." And some people also say that when the price is at the bottom, it feeds on bad news to go up. Therefore, when good news breaks at the bottom, you have to pay attention and carefully analyze and evaluate them. Once you made your buy, you must hold on to it tightly even if the market is shaken hard, or the bad news has been broken.

"Three Methods" is all about winning without having to fight. It is about the vision of having the bravery that can easily ignore small fluctuating moves. When you invest or trade, you have to try to be on the winning position. Therefore you have to keep asking yourself: What time is it now? Where are we now?

Bad Harvest in Good Harvest Year, Good Harvest in Bad Harvest Year

> *There are such things as bad harvest in a good harvest year and good harvest in bad harvest year. If the harvest has been good for two to three years and each region has enough supply of rice, you don't need to be too concerned at bad harvest. If the supply of rice has been short by 50-60% for four to five years, the price will increase even if the harvest is bad. If the harvest has been good for two to three years consecutively, people become less concerned about the short supply and become lazy. When this happens, think of the possibility of price making a shift within a year or two and surge.*

In this chapter, he is laying out the process in which supply and demand unbalance is created. The rice price shows little noticeable changes even if the harvest is bad, if the harvest has been good for several years. Even if it goes up, the increase remains comparatively smaller than usual. The reason is people do not rush to buy and stack up rice reserves because there are enough rice reserves already due to the years of good harvest, and people have optimistic forecast of the market. Therefore, the supply of rice remains smooth in the market. In other words, a bad harvest that comes after years of good harvest has little impact on the price. Rather, the price could make an unusual decrease even if the harvest turns out to be bad.

When the harvest has been bad for several years and little rice reserves are left in warehouse, the price rarely makes a dip even though the harvest is good, because the supply of rice remains short in the market. The reason is because, even if the new crops become available in the market after a good harvest, people have been cornering and hoarding rice with the intention of piling up rice reserves during the years of bad harvest. For this reason, the price could go up even though the harvest is good.

When stimulated psychologically to a certain direction, people develop certain inertia, which allow them to absorb impacts that come from other directions as well, in order to maintain the state of inertia. This is the psychology behind the price maintaining a certain direction during a trend. In the trading market, there is a proverb that goes “the uptrend feeds on bad news, and inflates good news as it forms.” This proverb is addressing this kind of psychological factor. Of course, the same goes with the proverb that goes “the downtrend feeds on good news, and inflates bad news as it forms.”

People tend to develop gloomy forecast when the harvest is finally good after years of being bad, and consider the year’s good harvest as an accident. Even though the harvest is good, they often think it will be a bad harvest the following year. So they continue to hoard and the buying force rules the market overpowering the selling force, consequently pushing the price up in spite of the bad news about good harvest.

When the harvest turns out to be good the following year against everybody’s gloomy forecast, that’s when the problem happens. In other words, now that the market made a move that completely went against everybody’s prediction, people start acting quickly to respond to the years of good harvest, thereby making the price take a plunge. The reason is simple. If the harvest continues to be good for years, there is enough supply of rice in the markets, and even the rice that has been reserved in warehouses in preparation for a bad harvest starts coming out in market. Under these circumstances, the price goes through the process of adjustment, while the expectation for the continuous increase of rice price is shattered. With the buying force gone, the only thing to happen is the rapid drop of the rice price. The same phenomenon happens when the years of good harvest is followed by years of bad harvest. The only difference is the price action is the reverse to the time when the years of bad harvest is followed by years of good harvest.

And there is one point we should not miss in this chapter: the trend is formed by anticipation to a certain degree, but ultimately, it is decided by the supply and demand. That means the trend can shift at any moment when the supply and condition is changed. Honma Munehisa analyzed the co-relation between the supply/demand and the people’s psychology as follows:

“When in shortage, you have surplus, and when in surplus, you have shortage. When you have enough of something, people tend to become less cautious and determined about it. That is why there is a shortage of it. When you are short of something, people become more cautious and determined, and that’s why there is a surplus of it.”

Honma Munehisa was capable of reading people’s mind in this way, and that’s how he was able to head for the West when people headed for the East, and also able to sing a song alone, when all others sing in chorus looking together at one direction.

Leave Emotions When Trading

> *You should never sell or buy because you are angry. This should never happen.*

Sometimes people make business deals based on emotional reasons because they sometimes fail in trading. When you trade out of sense of defeat, it could lead you to a bottom-less pit of failures. When you are caught up in emotions, you become blind to the market movements, and you become more likely to react to the price fluctuation – be it small or large – with emotional outbursts. Having arrived at this stage itself indicates your failure.

If you find yourself responding to the market changes sensitively and emotionally, you must take your hands off the trading, exit the market, and take a break to cool down your head. If you have already caused a loss, acknowledge the loss and stay away from entering the market for additional trading. If you respond to your failure emotionally, it is like a general who had been defeated in war becoming verbally and physically abusive to his solders, and punishing them for no reason. If this situation continues, the general could be killed not by a war but by his own soldiers. Trading is very similar to this. Trading emotionally is like shortening your life voluntarily on your own.

It is the same when you are winning, instead of failing. If you cannot overcome the temptation to become lazy and arrogant, you are exposing yourself to the risk of not being able to keep your profits and not being able to stop the leak of capital. Before you know it, you will start losing. Besides, even if you made profits and felt excited, you can easily turn emotional once you start losing due to the changes in market condition. When this happen, you are likely to accumulate loss because you cannot make the accurate decision on whether or not you should selloff or place more orders. Therefore, when you enter the trading market, you always have to be cautious and careful, both in times of winning and losing.

Rice Trading is like Military Strategy

> *Three Military Strategies and Six Secret Teachings is the Wen Wei (文偉) of Military Strategies. It teaches you the importance of being well prepared, and the skills to build strong base. You also need to learn how it is impossible to win and defeat the enemies every time. Rice trading is like the military art. You trade with tens of thousands of people but you do not say you make laws and abide by them. Three Methods should be more open for interpretation than the writings in the Three Military Strategies and Six Secret Teachings. If it is cold for three years after making a shift in July, you arrive at a formation comparable to the Eight Formations (Ba Zhen 八陣). You must cherish the lessons with a sense of awe and respect.*

This is a rather unique chapter, because he is directly mentioning the *Six Secret Teachings* and *Three Military Strategies*, and he is comparing the trading to the military art.

Here, he mentions the term "Eight Bases" (八陣), a word that is not found in *Six Secret Teachings and Three Military Strategies*. However, many unique battle formation and tactics are addressed in the book, and some people claim that "Eight Bases" is one of the terms included in the book.

'Eight Bases" became widely known because of Zhuge Liang (諸葛亮). In the novel, Romance of the Three Kingdoms (三國演義), Zhuge Liang wins numerous battles with the help of his “Ba Zhen Diagram,” also known as “The Diagram of Eight Formations.” His victims include Lu Xun (陸遜), an officer of Wu who became immobilized because of the diagram; Sima Yi (司馬懿) a warrior who got the painful taste of this diagram; and Menghuo, who is credited for the famous term that reads “having been arrested seven times and set free seven times (七縱七擒).

“The Diagram of Eight Formations” was made all the more famous by the scene in the novel in which Huang Chengyan (黃承彥), Zhuge Liang’s father-in-law -- came to the rescue and saved Lu Xun when he was trapped in the “Eight Formations” Zhuge Liang had set up. The piles of rock believed to have been made by Zhuge Liang still remain in the historic site, adding more realistic touch to the classic novel *Romance of the Three Kingdoms*.

Because of this story about Zhuge Liang’s “Diagram of Eight Formations” in the *Romance of the Three Kingdoms*, many people believe the diagram to be a form of maze in the woods, designed to confuse the enemies and make them lost, so that it is easy to attack and defeat them. However, the diagram is about setting up a military base. When you set up a base, you have to take the number of enemies and their military power into consideration, as well as the surrounding natural environments. Therefore, there are many factors you have to consider when you build a military base, and “Eight Formations” was one of them.

According to the Six Secret Teachings and Three Military Strategies, the “Round Formation” (圓陣) is to protect yourself from the enemies when they suddenly lunge at you in the wide open plains. You build a defensive wall with wagons and chariots and protect all your soldiers behind the wall. The "Square Formation" (方陣) is built to concentrate on the front attack. You mobilize your soldiers on the front line, and reinforce the sides, so that you can disperse the enemies. The "Three Formation" (三陣) can be divided into three different types: "Sky Formation" in which the soldiers formation is directed to the direction of sky; "Earth Formation" in which you set up the formation with the mountain, hills, rivers, and lakes considered; and "Human Formation," in which you have to decide whether you will be using the horses or chariots, or even turn to persuading. "Four Martial Assault Formation" (四武衝陣) is to defeat the enemies by using four assault wagons, while the "Dark Cloud Formation" (烏雲陣) is to defeat the enemies by continuously dispersing and gathering without any set formation.

"Eight Formations" is one of those many different types of military strategies designed to confuse and defeat enemies. Some claim that Zhuge Liang built a maze out of piles of stones in accordance to the "Eight Formations" strategy when he was able to confuse and defeat his enemies to a great victory, but this explanation is believed by many others as a made-up story by Luo Guanzhong (羅貫中). So when Honma Munehisa mentioned the "Diagram of Eight Formations," he is addressing the position that can bring sure winning like the wondrous "Eight Formations" did for Zhuge Liang. Therefore, the market participants should be able to use such tactics like the "Eight Formations," and know the right time and place where you can set up the formations.

In this chapter, Honma Munehisa says eight formations of situation come after three years of cold weather. Since you can expect a bad harvest in this situation, you have to buy the rice at the bottom. In addition, you can also say that the “Three Methods” is another form of “Eight Formations,” which is the strategy that brings you nothing but the victory.

When Uncertain, Divide and Sell

> *When everybody is encouraging to buy the rice and the price begins to go up, you begin to buy repeatedly without thinking of the possibility of rice price increase coming to a stop, until you bought so much rice at such a high price that you cannot make any profit. You have to avoid this kind of situation. If you want to stop doing this, buy 1,000 nyang's worth of rice, sell 500 nyang's worth out of it, and then remain observant of the bearish or bullish signs of the market. Since you don't know where the ceiling is, it is not recommendable to sell everything that you have without leaving any reserves. It applies the same when you make profits by selling. You can never tell how much the price is going to drop when it goes down. Think the same way as the time when it goes up.*

There was a monk named Takuan Soho (宅庵宗彭, 1573–1645), who was the chief monk of Daitokuji Temple (大德寺) during the reign of the second shogun, Hidetada. As I had mentioned previously, Hidetada tried hard to put the Tokugawa Bakufu on a solid foundation. He formulated the Buke Shohatto (武家諸法度), a collection of edicts governing the warrior houses to contain the daimyos, as well as the various regulations for the Imperial Court and court nobles (禁中竝公家諸法度) to contain the emperor from growing his power. One of the major regulations included a clause that defined the pursuit of academic studies as the main mission of the emperor, which I believe was the Shogun's attempt to keep the emperor away from the politics. He also tried to cut off the emperor's influence on the daimyos, and limit the temples' relationship with the emperor to contain their economic power.

There was an incident called "Purple Robe (紫衣) Incident" with regards to the Bakufu government's attempts. "Purple Robe" indicates the robe monks wear in temples. In 1613, the Bakufu government announced the "Act prohibiting the Imperial Court from granting purple Buddhist robes to high-rank priests (勅許紫衣之法度). With this act, the chief monk candidates of ten temples in five major mountains in Japan could be nominated as the chief monk only after their get the approval from the Bakufu government. However, the Daitokuji and Myoshin-ji (妙心寺) were two powerful temples, and they had never been subjected to the pressure from the Bakufu government. So they appointed their chief monks only after the approval from Emperor Go-Mizunoo (後水尾 1611~1629) and did not bother to get the approval from the Bakufu government. The Bakufu government made an issue out of this incident in 1627 when it confiscated the purple robes from the monks, and went further to prosecute the involved monks. The chief monk Takuan Soho strongly criticized the Bakufu government's atrocity, and he was excelled to rural area in retaliation.

Takuan Soho, who had a reputation as a great Zen master, stayed in Kaminoyama area in exile, and he often ate pickled radish. So from this historic background came the name of the pickled radish we enjoy today, Takuan.

Another historic incident that involved food and monks is Udon. It was during the Edo Era when Udon first came about along with Takuan. Presently it is one of the most popular culinary products. Udon is one of Japanese's iconic dishes today and was created by Genchin (元珍), a monk who came to Japan from Korea. Genchin was an erudite monk in Japan and he often served people with noodles he made by mixing wheat and buckwheat powder, which was how Udon was originated. Perhaps Honma Munehisa enjoyed this noodle dish himself, since merchants constantly on the move probably found Udon a simple and easy to eat dish.

Now, let's get back to the content of this chapter. Honma Munehisa advised *"When buying, think of making 80% of profits. When selling, think of 20% of profits."* The maximum profit is about 80% but since this is not a definite number, he advised to sell in several transactions. This is a trading method most recommendable to those who are not well prepared or lack technical skills.

However, there is a part that is interesting in his statement: think of the 20% profit. Selling is to let go of what you have for a price. If I could guess, Honma Munehisa said 20% of profit because he believed buying was a more advantageous game than selling, since Japan was in a constant shortage of rice supply. The rice having been used as an alternate form of currency, I believe rice had its own fundamental value by nature.

Mindset is Everything

> *When trading futures in the eleventh month of frost, your mindset is the most important. For example, you should be ready, in your mind to make 500 koku of profit when you can make a thousand koku of profit, depending on your financial situation. You should also take 50 koku of profit when you could have made 100 koku of profit. Unless your mind is set in this way, you will be tempted and reckless, trade be it at the ceiling or at the bottom, until you fail to make any profit after having worked so hard. Those who want to take this path have to have this kind of mindset.*

In today's trading market, people often say "return the tail and head to the market. Some people say "buy at the knee and sell at the shoulder. All these sayings have the same message: you have to enter the market without greed. When you are determined to buy at the bottom and sell at the top of the head, you have a better chance to lose than to win. When entering trade, you have to make your move only when you are certain and sure of the market formation instead of relying on predictions, and you always have to be humble. Profit-taking at a point that returns little when you could have aimed for bigger returns is a problem, but it is dangerous to aim for a profit that is too high for you. Therefore, you can save yourself from risks only when you are prepared to share part of your profits with others.

Do Not Rush to Trade

> *Don't rush in trading. When you sell or buy based on your personal thoughts, it is because you have no skills and you think there is no tomorrow in the market. You make your move only when you are certain of the timing after waiting for days and even months, all the while remaining watchful of the market fluctuation. You make mistakes because you make your move without being mindful of the ceiling and the bottom. All this is because you rush to trade.*

In the Talmud, there is a story about a rabbi named Hillel. When Hillel was in a hurry on his way somewhere, a student came and asked him,

"Master, where are you going in such a hurry?"

Hillel put more speed on as he answered,

"I'm in a hurry for a good cause."

The student was curious about the good cause, so he followed after his master. To his surprise, it turned out that Hillel was going to a public bathing house.

"Master, is going to a public bathing house a good cause?"

"It is a good cause to keep clean. Romans polished statues to sparkle, but keeping yourself clean and sparkling is a better cause than that."

Those who are in the trading business should be able to reflect on themselves and maintain a space in their heart where they can rest and keep tranquil, so that they will not be swept up by the market atmosphere. They need to always keep their minds clean and clear.

Most often, you rush because greed gets the better out of you. When in trading, there are times when you see an opportunity the like of which you believe will never come again in your lifetime. Sometimes you can almost see the profits and money raining down in front of you. This is the time to keep your composure and remain cautious.

If you made a buy at the bottom in accordance with the "Three Methods," you don't need to rush for anything because you are assured of profit, and you don't need to become nervous when the price goes up or down. Since you did not make your buy in order to make profits on the same day, you can relax and ignore the daily ups and downs of the price. The profit is sure to follow in this case.

But if you did not make your buy at the bottom, and traded without thinking of the bottom, what would you do if the price goes down on the same day as you made your buy, and falls down below the price you paid? And what would you do if the price went up on the same day but it took a plunge the following day and made a fall twice as big as your gain of the previous day? You are certain to become nervous at the situation and you are likely to lose money because you traded without any trading strategy.

This may sound like there is little difference, but the outcome can be significant. That is why you must consider the "Three Methods" above all, even if you can almost see the profits when trading.

Foolish Debates over the Highs and Lows of the Market Price

> *No matter how close a friend you are with someone, it is not good to give advice to your friend on buying and selling. When your analysis turns out to be wrong, you can create a big conflict. In addition, debating the high and low of the market price is not good, either. Those who follow the path do not force their analysis on others, and do not trade based on analysis by others. If the prediction turns out to be correct even just to a certain degree, you become arrogant and want to boast of your analytical skills. You have to avoid this attitude. Of course when you explain your method to others, you can make the others believe you and could possibly help the others make some profits – perhaps two or three koku – but you can never give them a winning card. Do not get involved in somebody else's business when you trade. It is most ideal to listen to the news about what it is like in Kyushu, the market conditions in Osaka, bad harvest and good harvest, and the general harvest conditions. Never tell others what is in your mind. This is a grand secret. Always keep it to yourself.*

In the Talmud, there is a story about a painter.

On one cold winter day, the painter found a job, which was to paint a small boat. He decided to take the job, and he worked hard at painting the boat. Since the paint does not apply evenly if there are small holes, he even filled up what needed to be filled up and evened out what needed to be evened out, until finally he completed the job. The client was very satisfied at the job the painter had finished.

The following spring, the owner of the boat let his children take the boat to the stream because they wanted to fish in the lake. The children took the boat excitedly. The children brought the boat to the lake and sailed to the center of it, when suddenly, the boat owner bolted up and began to run to the lake. The terrified-looking boat owner screamed at the top of his lungs to the children to get the boat out the water and bring it to the land, as soon as possible. He was doing this because he had just remembered how he had created a hole in the boat the previous winter and left it unrepaired. He was afraid that if anything happened to the boat, the children – who could not swim – would all drown. But to his great relief, the boat was safe, and the children were able to sail safely off the lake. Trying to keep himself calm, the boat owner checked the bottom of the boat where there used to be a hole. To his surprise, the hole was repaired and painted over neatly. It was the painter who did all the repair and painting.

The boat owner went to the painter with a gift and thanked him. The painter did not boast of his good deed to others and he did not even need to, but he turned out to have done a great favor for someone.

It is the same for traders; as long as they do the best job they can in their trade, they can do great favors for others. They should not try to help others by giving them advice. You do not do trading to show off your skills.

You do the trading based on your own judgment and you cannot follow the analysis of others. If you base your buy and sell decisions on the analysis of others, you are no better than a toddler who can barely walk. A toddler would not likely survive in the brutal world of trading. Even if your advice turned out to be resourceful to others for now, it can cause damage to others in the long run. If you have time to give advice to others, you'd better use that time to study the harvest situation in granaries, and analyze the market condition in Dojima Rice Exchange, or major rice granaries.

Therefore, you need to notice how -- according to legend -- Honma Munehisa never answered any questions about trading, no matter how sincerely the rice merchants of his time were curious about his secret to success and requested his help. It is vain and useless to discuss trading and advice on trading to others.

Let Go of the Preconception from the Previous Year

Those who made profits by selling based on the previous year's experience tend to cling to the winning experience and continue to sell only as they did the previous year. But this is not good and not even reasonable. When new crops become available, let go of any preconceptions you had developed in the previous year, and only think of the current year's harvest condition, the volume of supply, and the overall atmosphere. More than anything, the best time to buy rice is autumn. When you are not sure what to make of the price, you have to make a decision based on the current market formation. This rule applies the same to those who made a profit with the previous year's method of buying.

When reading Honma Munehisa's writings, you can see the depth of his thoughts and insightfulness. You can also see that his trading methods were so insightful and intuitive that they are still resourceful and useful in today's market.

There are many among today's traders who insist on going in only one direction. Some of them insist only on selling, and in fact, they make significant profit through their selling. They insist on selling regardless of the market price going up or down. They think only of selling, wither asleep or awake. So if you ask them why they are so insistent on selling, they answer,

"I am a pessimist. I feel comfortable with selling, but I am nervous when buying. Once I took the buyer position, I could hardly sleep for many days. When I take the buyer position, I begin to worry if the sky is going to fall down or if a war is going to break out somewhere. When you take a buyer position, the entire world seems to be full of accidents and disasters, and I become so paranoid that I fear getting hit by a car and killed while walking in the street. So I only take part in selling. It may sound funny to you but when I sell, I have peace of mind, the world seems to be a good place to live, and I am awash with a feeling of happiness. I may be a pessimist but I am not a naysayer."

During Honma Munehisa's time, the supply of rice was always short relevant to the demand. The rice price went up easily but rarely came down. Therefore, the buying position had many more advantages than the selling position. But in today's stock market, many people claim that selling has more advantages than a buying position. The reason is because there is more bad news than good news in the world; bad news carries a greater impact than good news, and it costs less to bring down the stock price than to push it higher.

Even though many people agree with this analysis, there are still traders who insist on buying. Some of them are pathological optimists, but the most fundamental reason is because they are comfortable with buying. In other words, the buying position suits their personal character better. According to them, they don't feel good even when they are winning through selling, because they feel sorry and guilty before the world when they create profit by selling and they also don’t feel good about making profits when the national economy seems ready to crash and everybody is suffering from the pain of loss. They say they have a personality that cares more about what is less burdensome and brighter and they feel more comfortable to remain in the buying position, watching all others around them smiling.

While there are people who insist on only one path intentionally, I don’t think it is ideal to constantly go in a single direction out of habit, even without realizing it. When you insist on one direction, you can build your own knowhow, which in turn protects the traders eventually, but if you remain in the same position just because you made profit in that position, that would be a very dangerous trading method.

Honma Munehisa‘s philosophy on the market is, you have to be flexible in trading, and humble and obedient to the market. You must observe the market and listen to the sounds coming from the market.

Trading Throughout the Year Brings About Less Winning

If you trade throughout the year, you become more distant from the winning streak. Sometimes it is best for you to keep your hands off and take a break.

It is marvelous that you can apply the same experiences Honma Munehisa had in the Osaka Rice Exchange 250 years ago in today's market. In the past and in present, you become more distant from a winning streak if you trade too frequently. You can easily figure out how the frequency of trading is in proportion to the risks.

Suppose the possibility of winning and losing in general trading is 50/50. Then, the money you have will go down more each time you trade because there are many fixed costs involved in trading, such as the cost of trading, fees and tax. Therefore, even if you did not lose anything in trading, you are losing your money in the end.

Besides, you have a 50% risk each time you enter the trading, and if you trade throughout the year, you are exposed to various risks that are associated with changes in government policies and economic conditions, in addition to various natural disasters, terrorist activities, war, and internal conflicts, among many others.

If good news and bad news have a 50/50 chance to influence trading, you may say it is an even-out chance. But the rule of nature is not really that fair for those who are in trading. Frequent trading or excessive trading is always less likely to result in winning.

In today's market, there are more risk factors than in the past because the impact of news is more diverse and complex than in the past. Investors and traders are the ones who carry all global issues and burdens on their shoulders. If the US -- such a distant country from Korea -- is hit by a terrorist action, it can directly impact the stock market, bond market, and foreign exchange market in Korea. Suppose the Middle Eastern countries reduce their oil production, or OPEC announces that they will freeze oil production. Then the impact will make the other markets moan. Each year, they have to watch what the Monetary Policy Committee is dong with the interest rate, and they also have to pay attention to the interest rate policy of FOMC of America.

They also have to take a fatal blow when there are companies that suffer from labor strikes, go bankrupt, or become subject to government investigation due to fraudulent accounting records. They also have to be cautious of the price action of such unlikely commodities as iron, lumber, pulp and many other raw materials, all of which call for an appropriate response.

There are issues that seem to have nothing to do with the market, but they often become the issues at hand when trading begins. Traders and investors are the poor group of people who have to carry all these burdens on their shoulders.

Given the situation, if they trade throughout the year, it means they live that full year in constant pain and anxiety. That eventually takes a toll on their physical and mental health. How much profit can you really get out of the market if that is what you get in the end? And what sense of reward can you expect? That is why Honma Munehisa stated:

> *"There are no more than two to three times for trading throughout the year. This rice, you make your move to buy it when the price increase and decrease has gone on for two to three months, but you have to take your position without being distracted by the high and low of the price. If you are not sure, you have to wait for days or even for months, until you are certain of the market formation and make your move. You gain nothing if you change your mind too frequently."*

Trading only twice or three times a year is enough. For the rest of the time, you must take a break. You can win two or three times at trading only when you make sure to take a break in between.

Do Not Trade Based on the Daily Market Fluctuation

It is not advisable to trade based on the daily fluctuation of the market price. Think of the 'Three Methods", and observe the market to see how much the price is going up or down during the up and down trend, and at what point it stops, while at the same time thinking of the harvest condition of local granaries and market formation in Osaka, and what position you should keep. For example, when you make your move to buy, you must buy after making a firm position, and disregarding the ups and downs of the price that you have seen. But thinking of buying at cheap price and selling at higher price only require too much work and does not return good profit. When you think the price is going up, think of the rice as a whole, and think only one direction of buying. But if your prediction proves wrong, quickly sell and take a rest, while remaining watchful of the rice movement. You are likely to selloff excessively during this period because you think it is a bearish market. It is very bad. Make sure to take a break, instead of selling, even if the price is moving downward. The same applies to the time when you think of selling after the price has hit the ceiling.

This chapter is a good summary of Honma Munehisa's trading techniques. Once you have decided on your position with the ceiling and bottom taken into consideration, you stay in that one direction, while disregarding the ups and downs of the price. But what you need to remember is to keep watching the harvest condition and the supply and demand. If you are closer to your goals, then make your move as you originally planned.

Therefore, the most ideal trading is to analyze the market on your own, build your skill to evaluate the companies, until you become capable of making buy and sell decisions on your own.

Decide on the Capital Before You Start

> *When entering the trade, you must decide on the source of your capital, and how much you are going to use for trading. If you are on the buying side, you can begin with just a little capital and buy rice in small quantities, and when you start making profits, you can increase the volume of your purchase until you buy the volume you had targeted originally. If everything goes the way you anticipated, you must wait until you are sure of the price increase. If the price increase is far more than you expected, you can easily become greedy and get carried away by a few wins. This is when you are most likely to make the mistake of buying more than you can afford to. The best thing to do is to stop when you have spent the amount of money you had originally planned, even when the price continues to go up. The same applies when you are a seller.*

There are only a few principles that anybody in trading has to remember. The first is to know and understand who you are. This will keep you from becoming greedy or responding to the market for emotional reasons and allowing yourself to become swept up by the market atmosphere. The most important thing is to remain awake so that you can always be on guard.

The second thing to do before you make your move in trading is to find the investment method and the profit-making model that is the most appropriate for you. Since the trading market is like a battlefield, you need to enter it with strategy, tactics, and weapons of your own.

Third, you must have your own rules for managing your capital.

What he is addressing in this chapter is the third item: the management of capital. For example, you must abide by rules such as never going for additional capital, or making sure to withdraw the profits that you make so that they are not mixed up with the investment capital. These rules can effectively limit the loss that you may incur, and they can also prevent you from becoming greedy for investments. Your chance of losing grows bigger if you had used additional capital, if you lose in trading. And if you mix up your profit with investment capital and use the funds for re-investment, your profit will go down quickly if you lose in trading, and you can even end up in the red. But this is only about the personal rules you keep and abide by and they are not absolute necessities for everybody.

Another example of capital management is the case where you limit your trading capital to only 50% of your total capital, and keep the other 50% in cash. Some people use only 30% of their total capital for trading but when they are sure of winning and making profits, they increase the limit up to 70%. In this case, 70% is the maximum they can use for investment, and they keep the other 30% of capital in cash as a rule.

When you have currency while entering the market, you can ensure a certain degree of peace of mind, and you can also limit your loss to a certain degree, if you happen to fail in your trading. And in some cases, you can use currency for Autostock when necessary, so it is like you have a highperformance weapon in hiding. Whatever rules you may decide on, you must have your own capital management rules, and abide by them when entering or exiting the trading market.

In this chapter, Honma Munehisa tells us to set the amount of capital you are willing to use in trading and not to spend any more than that. He stresses that you should not use additional capital when you start making profits, because you will only end up becoming greedy and recording an overall loss even while you remain in a winning position.

If I may elaborate on this, we can look at it this way: Mr. Kim used 1,000 dollars to start a rice trading business. He bought 10 sacks of rice with 1,000 dollars, thinking the price would not go down any further. But the price went up and it became 200 dollars a sack. Now the market is excited over the possibility of a further increase, and Mr. Kim is tempted to make a fortune using this golden opportunity. So he spent an additional 6,000 dollars to buy 30 more sacks of rice. Now, the average price of the 40 sacks of rice turns out to be 175 dollars per sack. However, the rice price begins to go down against everybody's expectation, and the price per sack dropped to 150 dollars. Mr. Kim's loss per sack of the rice is 25 dollars, and his overall loss becomes 1,000 dollars. If he had held on to the 10 sacks of rice he had originally bought, he could have made profits even if the price went up to 200 dollars and then dropped to 150 dollars, because he would have made 50 dollars per sack and the overall gain would have been 500 dollars.

This is the kind of case Honma Munehisa warns about. You have to be sure to invest only within the limit of your originally planned capital. If you use additional capital just because you are winning, you are more likely to end up losing it instead of winning in the end. When your profit grows, make sure you remain in your original position while being watchful of the perfect time to enter the trading, instead of using additional capital for more trading.

You can tell the difference between trading with and without capital management principles when you see the end results. You must be sure to have your own capital management rules.

Do Not Start Trading As a Pastime

Some people turn their hands on trading as a pastime, which is really undesirable. Your beginning is not good if you are pulled into the trading in this way. It is impossible to stop unless you are a skilled trader. For example, you are likely to repeat buying and selling when you have sold a hundred nyang's worth of rice and the price goes up, because you regret the 100 nyangs you used in the previous trading. If the price continues to go up, you feel obliged to sell. When you continue to sell each time the price goes up, it becomes a tiring process and it is not easy to buy back once you have sold off. You can realize a big failure this way. All this can happen if you start trading only as a pastime without putting much thought into it. Even if you trade only a hundred nyangs worth, you cannot understand it easily. You should begin trading only after you have given enough thought to the harvest condition, capital situation, and the fluctuation of the rice price in the market.

In this chapter, he is telling us not to mess with a poisonous snake just because you need a pastime. The market is like a poisonous snake; you can be bitten by it and even lose your life if you mess with it just because you need a pastime. When you put your hands on a snake, you have to carefully grab its neck with extreme caution, but if you happen to touch the tail or any other part, you are likely to get bitten by its sharp fangs and become poisoned by it.

Trading as a pastime is not allowed, even if you plan to spend only 10 dollars, because before you know it, the ten dollars could grow to a few thousands or a few hundred thousand dollars. Honma Munehisa warns that when entering trading, you have to consider the ceiling and the bottom of the market, and always remain awake to the harvest conditions and the supply and demand.

No matter how small the trading you enter, you always have to fight like a warrior on the battlefield. Even if the market moves and tempts you to join, you will be better off just running away, instead of entering it, if you are not prepared for the ride. Trading is like standing on the edge of a sharp knife. You always have to keep this in mind.

Never Show These Writings to Others

> *This writing, you should never show to anybody no matter how close they are to you. It is not because I want to remain the only rich person. Rather, it is because this writing could be misunderstood by some people, who are likely to end up making mistakes, and even worse it could cause damage to them and even create hostility against us. It is not advisable for others to see this and that is why it has to remain a secret. The "Three Methods" in particular are rarely taught techniques and few people in the world know about them. If you sell and purchase based on these rules, you will make profits and build a fortune, and will not end up losing. You have to value this writing and be cautious and determined in keeping this a secret from others*

The modern society in which we live in today is different from Honma Munehisa's time in many ways. Transportation, IT technology, and international trading have advanced so much compared to his time that it is almost meaningless to compare them. For those who live in this modern society, perhaps the story of a rice merchant who lived 250 years ago might sound totally irrelevant.

Even though there are many more complicated factors to consider in entering trading, and the speed of trading has become faster due to the Internet, and the frequency and amount of trading volume have increased at an explosive rate, the truth always remains the same, unchanged. The truth is the answer to this question: How can we win in the trading market? Honma Munehisa found this answer, and he proved he was right by building an enormous fortune during his lifetime.

While writing this book and introducing him, I have stressed his answer numerous times, and I believe readers will have clearly understood it – Honma Munehisa was right.

I can summarize his points as follows;

1) You must be able to see the market as it is, if you are to win in the trading market. You should never see the market with your mind clouded with greed and all kinds of emotions. For this, you must remain calm within.
2) You must find a way to win without fighting. You can do it with Honma Munehisa's "Three Methods." Buy at the bottom and sell at the ceiling. Nobody can win naturally like all things growing on their own in nature. Money does not come to you just because you are anxious to grab it. Like the plants that grow on their own if only a farmer plants seeds and nurtures them, money will grow on its own after a certain point.
3) In order to win in the market, you must know the people's psychology. It is not the kind of psychological understanding with the goal of identifying their weak points. It is about understanding

the overarching rules that govern people’s greed, fear, and their life. When it comes to psychology, people of modern society are not much different from the people of society 250 years ago.

Honma Munehisa

Honma Munehisa was born in 1717 in Dewa, Japan, during the reign of the 8th Shogun of Tokugawa Bakufu, Yosimune. At age 23, he was adopted by the Honma, a wealthy merchant family from Sakata. He amassed an enormous fortune with godly trading skills at the Dojima Rice Exchange in Osaka, and made the Honma family the richest merchant family during the Edo Era. In Japan, he is called the god of the markets and the heaven of merchants. He created the candlestick chart, which is a popular investment tool in the stock market, and produced Sakata's Five Methods.

About the Author:

Lee Hyung-do majored in theology at Yonsei University, and he received a master's degree in theology from Hanshiu University. He enrolled at the Korea National University. He enrolled at the Korea National University of Arts and studied the Film Scenario. but he quit to pursue his passion for writing. His writing career began as a drama script writer after winning scenario and drama script writing contests by Moonhwa Daily News and KBS radio broadcasting company. He has written scripts for TV and radio dramas and documcntarics. Currcntly, he is a member of the Korean Radio & TV Writers Association and the CEO of Dhampus Co.

Honma Munehisa, a man who charted the tempestuous market psychology in candlestick patterns

Honma Munehisa is known for his extraordinary skills that made him a winner in virtually every trade that he entered in Dojima Rice Exchange, where the futures trading of Japan originated. His skills in trading rice were so outstanding that people called him Tengu of Dewa, or the god of the markets. His insightful knowledge about the perfect time to either enter or exit the market had such impact that the nation's market price of rice was determined by his trading activities.

Honma Munehisa is the creator of the candlestick chart, which is still used in stock markets around the world, and he also developed the Sakata's Five Methods, a set of tools that can help you identify the perfect time to enter trading either to sell or buy. He is also the man who made the Honma, a family clan considered to be the model of ethical business practices, the wealthiest family clan in Japan during the Edo Era. This book explains his 58 alchemic strategies that will help you win at every trade.