

Jesse v. John Maynard: Why Smart Investors Disagree So Profoundly About What Markets Are Telling Us

EXECUTIVE SUMMARY

In this paper we ask ourselves how it can be that the world's smartest investors can look at the same market data and come to very different conclusions. To illustrate this puzzle, we compare two of the greatest investors of the twentieth century, Jesse Livermore and John Maynard Keynes.¹

Jesse Livermore was a legendary investor during the first several decades of the twentieth century. He began trading in stocks as an impecunious fifteen-year-old and at age sixteen he quit his \$5-a-day job to trade full-time. He made and lost small fortunes until, selling short just before the Panic of 1907, he made \$1 million in one day (the modern equivalent of \$34 million). In 1929 Livermore began accumulating short positions, using more than one hundred brokerage firms to avoid tipping his hand. When the market crashed in September of that year, he made \$100 million (roughly \$2 billion today).

Although Livermore was one of the wealthiest men in the world, his net worth was even more volatile than the market, and when he committed suicide in 1940, he was broke. Even so, Livermore remains a market legend and his trading tactics are still studied today. He was also the subject of a bestselling book, *Reminiscences of a Stock Operator*, by Edwin Lefèvre.

John Maynard Keynes is well-known as the leading economist of his day, and Keynesianism (or neo-Keynesianism) remains an important approach to economic thinking. Less well-known is the fact that Keynes was a remarkably successful investor, both for his own portfolio and as manager of the endowment of King's College, Cambridge, where over twenty-five years he exceeded the British equity index by an average of 6 to 8 percentage points a year. Unlike Livermore, when Keynes died in 1946 his net worth was roughly £500,000, equal to about £27 million today.

Jesse Livermore favored a technical approach to the markets (his technical analyses being far ahead of his time), attempting to understand what markets are signaling through prices, profits,

¹ Livermore and Keynes were complex individuals whose approaches to the markets evolved over time. In this paper we have somewhat simplified their approaches for purposes of comparison and analysis.

and earnings revisions. Almost half a century before Eugene Fama’s Efficient Markets Hypothesis, Livermore believed that all information investors needed was incorporated into stock pricing and stock movements. We’ll call this the “market” approach to understanding markets.

John Maynard Keynes, on the other hand, began with policy, inflation, and the financial conditions that shape profit cycles and valuation dynamics. We’ll call this the “macro” approach to understanding markets. The inputs are the same, yet the initial approach to the markets—sequencing, or the order of interpretation—creates very different, competing causal narratives.

For ultra-high-net-worth investors, forming market views is central to managing long-term portfolios in a rapidly changing environment. Periods of technological change, shifting policy regimes, and elevated valuations often produce conflicting signals, making disciplined interpretation essential. The frameworks described in this paper explain how different ways of sequencing the same evidence shape portfolio decisions and help investors maintain steadier judgment across changing market conditions.

TWO ENDURING LENSES ON MARKETS: LIVERMORE AND KEYNES

Jesse Livermore articulated the market approach when he observed that markets aren’t wrong—opinions are. His view is grounded in the conviction that prices contain the fullest and most immediate distillation of available information. Investors who follow this orientation read what markets are signaling through price behavior, profits, and relative strength. They treat price as the market’s aggregate judgment and place discipline before conviction.

John Maynard Keynes offered a different starting point, warning that “the market can remain irrational longer than you can remain solvent.”² His macro lens focuses on the economic environment formed by policy choices, liquidity conditions, and the forces that drive the pace and durability of profits. The macro landscape provides the frame: prices matter, but they move within constraints imposed by the economic backdrop and the credibility of policy.

Both market and macro perspectives endure because each captures a legitimate source of uncertainty and highlights a different form of excessive confidence. Livermore warns against thinking you know more than the market, while Keynes warns against underestimating how long mispricings can persist. Reconciling these views requires acknowledging that no one can control the forces that shape markets. We participate with limited knowledge, finite capital, and imperfect discipline. Livermore demands discipline before conviction. Keynes demands prudence.

² Although this is probably the most famous remark attributed to Keynes, it is likely apocryphal. Nonetheless, it encapsulates Keynes’ approach perfectly, so we are happy to use it.

HOW INVESTORS FORM VIEWS: MARKET-FIRST AND MACRO-FIRST

Investors reach different conclusions because they sequence evidence differently. Reordering the data doesn't change the facts, but it does reveal distinct perspectives on cause and effect. In professional settings, this distinction gives rise to two disciplined approaches to forming market views: market-first and macro-first.

Market-first investors, like Jesse Livermore, begin with the profit engine. Forward revenues, earnings, and profit margins reveal the market's internal state of confidence about future growth and profitability. Discipline before conviction means that investors treat price evidence as the first and strongest signal, forming conviction only after submitting individual views to what markets are saying.

A macro-first investor, like John Maynard Keynes, reverses that order, regarding policy and the economic environment as the conditions that make profits possible. Starting with inflation trends, real rates, fiscal stance, and the strength of demand, macro-first investors infer the likely path of revenues, margins, and balance-sheet health.

The strength of the market-first lens is timeliness. It captures turning points as they emerge, because it assumes that markets lead the data. Its weakness is context blindness. When liquidity tightens or policy credibility shifts, the market's own signals can lag reality.

The strength of the macro-first lens is context awareness. It frames profits and valuations within the realities of policy, liquidity, and global demand, thereby reducing the risk of mistaking cyclical noise for sustainable growth. Its weakness is latency. By waiting for confirmation through macro data, it often misses early market inflections or reversals. This chart captures the differences:

	Market-First	Macro-First
Starting Point	Prices, profits, and earnings revisions	Policy, inflation, and financial conditions
Logic	Markets lead the economy; profits reveal direction	Macro forces define the boundaries within which profits and valuations evolve
Strength	Responsive and timely	Context-aware and risk-sensitive
Weakness	Limited awareness of policy or liquidity shifts	May react slowly to turning points

These differences are not stylistic. They shape which risks each investor treats as primary

and how quickly they adjust to changing conditions. Market-first frameworks emphasize adaptability and probabilistic updating as price behavior evolves. Macro-first frameworks emphasize durability, valuation, and the constraints that policy and liquidity impose on profit cycles. Both can be coherent and disciplined. Both can add value. And both can be wrong in different ways.

TIME-FRAMES MATTER

At *tactical* horizons, market-first reasoning tends to dominate because price, profit, and liquidity signals adjust faster than macro aggregates. At *strategic* horizons, macro-first reasoning gains weight, because valuation, policy, and demographic constraints eventually prevail.

Strategic conviction grounds expectations about the long-term return path and risk premia. Tactical adjustments interpret near-term market signals within that strategic boundary. Analytical error arises when horizons blur, when a short-term dislocation is mistaken for a regime change, or when long-run valuation logic is applied to a tactical transition.

Illustration: Market-First vs. Macro-First Applications

The scenarios below show how the same data, applied through each lens, can produce very different interpretations and portfolio decisions. The examples reflect market conditions in late November 2025.

Market-First Framework

Scenario	Probability	Interpretation and Positioning
Sustained Expansion with Valuation Strain	60%	Margins stay near record highs and financial conditions remain stable. Profits support valuations that are elevated but defensible. Maintain constructive equity exposure with an emphasis on quality growth and margin durability.
Global Reacceleration and AI Productivity Boom	25%	Global investment and technology diffusion extend the profit cycle, and productivity gains sustain the equity premium. Add selective cyclicals while maintaining leadership in technology.
Late-Cycle Plateau and Valuation Compression	15%	Earnings growth slows and profits stabilize. Multiples compress but margins hold. Favor dividend growers, quality value, and short-duration credit.

The resulting stance is constructive but valuation-aware. The market's internal data are treated as the leading signal, and macro evidence serves as corroboration.

Macro-First Framework

Scenario	Probability	Interpretation and Positioning
Soft Landing Supports High Valuations	45%	Inflation moderates and growth slows without recession, allowing policy stability. Profits hold, but valuation multiples remain fragile. Maintain balanced exposure with valuation discipline.
Global Reacceleration Validates Equity Premium	30%	A synchronized global upturn reinforces profit strength and helps justify current valuations. Add cyclicals and export-sensitive sectors once global breadth improves.
Late-Cycle Vulnerability Beneath Surface Strength	25%	Inflation remains sticky, real yields rise, and liquidity tightens. Valuations compress even if earnings hold steady. Favor quality value and liquidity preservation.

The macro-first framework places greater weight on policy credibility and global breadth. Its outlook contrasts with the market-first analysis by emphasizing valuation limits and the possibility that liquidity or inflation constraints will cap upside potential.

The challenge is not to choose between the frameworks but to understand when each offers the better insight into the markets. Their relative usefulness depends on whether market dynamics or macro conditions dominate at a given time. The skill lies in diagnosing the prevailing policy and liquidity environment and applying each framework with consistency rather than treating them as competing worldviews.

Recognizing which lens is most informative clarifies why professionals using the same data can hold coherent yet opposing views and how those views translate into portfolios with materially different absolute and relative returns.

In practice, regimes reveal their influence quickly. In liquidity-rich environments, markets often incorporate information more rapidly than macro aggregates, making profit-based signals appear more reliable. When policy constraints tighten or inflation becomes binding, the causal chain reverses and macro-first sequencing provides earlier warnings about valuation limits.

Understanding which forces dominate at a given moment is what determines which lens carries more explanatory power.

APPLYING THESE LENSES IN PRACTICE

We believe that a macro-first approach should be favored by wealthy clients and their advisors

because those clients have extremely long investment time horizons and therefore must understand the policy and liquidity forces that shape long-term outcomes. This orientation guards against overreacting to short-term earnings optimism or valuation excess and aligns decision-making with the structural forces that drive long-horizon returns.

The macro approach should be complemented with sensitivity to market signals when liquidity is loose, earnings revisions broaden, or leadership in cyclical or growth sectors strengthens. Integrating both macro and market approaches—but starting with the former—prevents investors from treating them as competing worldviews and allows tactical decisions to align with a coherent strategic frame.

CONCLUSION

Investors often reach different conclusions because they sequence the market and economic evidence in different ways. We recommend that wealthy investors begin with the macro landscape, interpret profits within that context, evaluate valuations as a measure of sustainability, and use market behavior to test and refine their views. This integration supports steadier decision-making and a stronger understanding of the forces that shape long-term outcomes.

Interpreting markets with greater clarity is fundamentally an exercise in correctly sequencing macro and market approaches and remaining disciplined throughout the process. This approach provides a framework for understanding why thoughtful investors can disagree and how their conclusions can remain coherent rather than contradictory. For long-horizon investors, beginning with a macro approach provides the foundation on which prudent decisions are made, while incorporating a market lens as appropriate strengthens tactical decision-making.

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