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TRUTH OF THE STOCK TAPE

A STUDY OF THE STOCK AND COMMODITY MARKETS

WITH CHARTS AND RULES FOR SUCCESSFUL

TRADING AND INVESTING

By

William D. Gann

A practical book written by a successful Wall Street man who has proved his theory in actual trading. He writes from twenty years' experience and gives examples of his rules by the Case System.

This is the only book published covering the investment and speculative field of Cotton and Grain as well as Stocks. It is fully illustrated with 22 charts showing plainly the successful method of trading.

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Book II — *How to Trade.*
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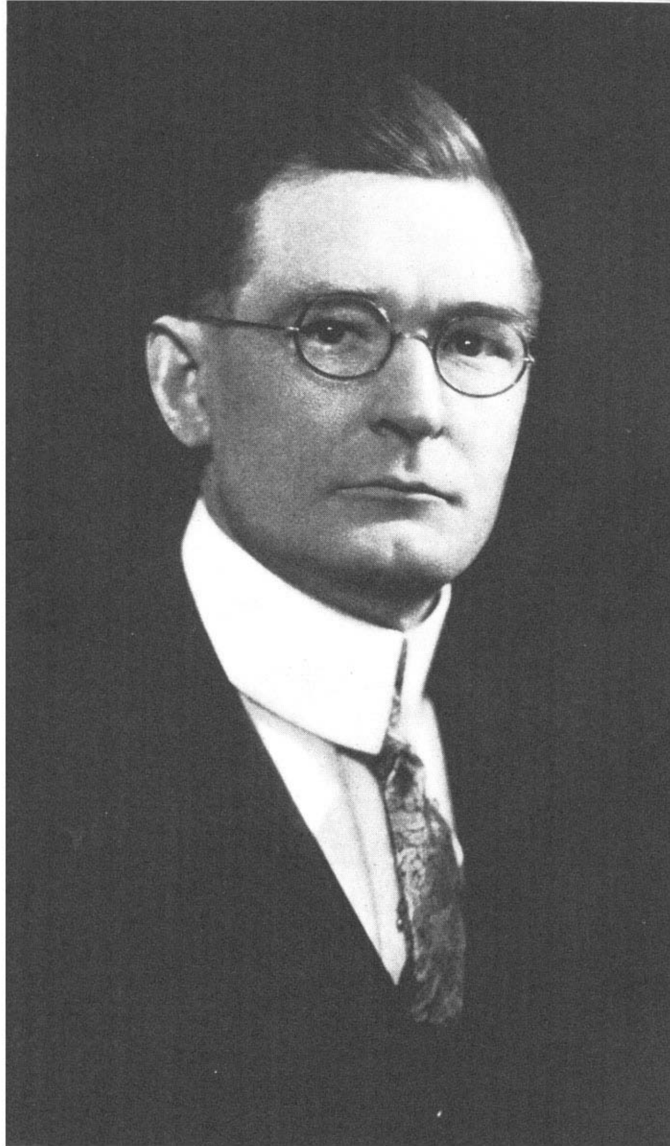

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IN FOUR BOOKS
EMBRACING
The Preparation and Knowledge
Required; Methods of Operating
And Determining Position of
Stocks and Commodities

FINANCIAL GUARDIAN PUBLISHING CO.
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Gann Study Group

DEDICATED

TO

MY SUBSCRIBERS WHO HAVE ENCOURAGED ME

AND TO THE

THOUGHTFUL STUDENTS OF FINANCIAL ECONOMICS

WHO DESIRE TO FOLLOW PRACTICAL RULES FOR TRADING

INSTEAD OF GUESSWORK AND GAMBLING METHODS

PREFACE

"Receive my instruction, and not silver; and knowledge rather than choice gold. For wisdom is better than rubies, and all the things that may be desired are not to be compared to it."-- PROV. 8: 10-11.

In addressing you on the subject of investing your surplus funds, I might state that there is no other subject which I could select that so closely concerns your welfare and regarding which you might receive valuable assistance from my instructions.

In the United States a stupendous sum, reaching into millions of dollars, is wasted annually in foolish speculations and unwise investments. This senseless waste can be traced to one and only one source, namely, lack of knowledge. Men and women who would not attempt to treat the slightest ailment, or even adjust so common a thing as a kitchen faucet, but would hand each difficulty over to its respective specialist, the doctor or the plumber, will on the spur of the moment and without the slightest preparation, undertake the investment of thousands of dollars in enterprises about which they understand absolutely nothing. Is it any wonder then that they lose?

I offer you suggestions and advice in the science of speculation and investment in the same spirit as the physician. He would not think of guaranteeing you perpetual life or insuring you against the common ills to which the flesh is heir. But in your difficulties he brings to your aid the accumulated experience of his profession, and a skill and knowledge which required years to accumulate and is ready for your instant use. I do not offer you a beautiful theory which will not work in practice, but give you invaluable advice, which if followed, will insure success in practical everyday Wall Street speculations and other fields of investment.

It has been well said that a writer who writes first for remuneration and secondly because he believes what he writes, will never achieve enduring fame, and that the salesman who does not believe in his goods will never make a success. I believe in the theory and rules that I have laid down in this book for you to follow, because I have tested and proved them.

It is my object in this work to facilitate and focalize the essential principles for practical use. My knowledge comes from over twenty years' experience, in which I have traversed the rough and rugged road that the inexperienced trader's foot must press before he reaches the goal. Hence my object in writing this book is to give to the public something new and practical, not theory alone which would fail in practice.

Read this book carefully several times; study each chart and subject thoroughly, and a new light and knowledge will come to you every time you read it.

If I succeed in teaching only a few to leave wild gambling alone and follow the path of conservative speculation and investment, my work will not have been in vain and I will have been amply repaid for my efforts.

W.D. GANN.

NEW YORK CITY,
January 27, 1923.

CONTENTS

BOOK I

PREPARATION FOR TRADING

CHAPTER		PAGE
I.	WHAT IS TAPE READING?	2
II.	CAN MONEY BE MADE IN WALL STREET? OR CAN THE STOCK MARKET BE BEATEN?	3
III.	HOW TO READ THE STOCK TAPE	5
IV.	HOW THE TAPE FOOLS YOU	8
V.	HOW STOCKS ARE SOLD	16
VI.	YOUR WEAK POINTS	20
VII.	ESSENTIAL QUALIFICATIONS	22

BOOK II

HOW TO TRADE

VIII.	RULES FOR SUCCESSFUL TRADING	28
IX.	METHODS OF OPERATING	40
X.	CHARTS AND THEIR USE	51
XI.	THE SEVEN ZONES OF ACTIVITY	55
XII.	HABITS OF STOCKS	59
XIII.	DIFFERENT CLASSES OF STOCKS	68
XIV.	HOW TO READ THE TAPE CORRECTLY	76
XV.	WHEN THE TAPE FINISHES AND GIVES FINAL SIGNALS	83

BOOK III

HOW TO DETERMINE THE POSITION OF STOCKS

XVI. POSITION OF GROUPS OF STOCKS 88
XVII. GENERAL TREND OF THE MARKET 90
XVIII. HOW TO TELL THE STOCKS IN STRONGEST POSITION 93
XIX. HOW TO TELL WHEN STOCKS ARE IN WEAK POSITION 99
XX. JUDGING FINAL TOPS AND BOTTOMS 103
XXI. NUMBER OF TIMES A STOCK FLUCTUATES OVER THE SAME RANGE 114
XXII. CROSSING OLD LEVELS 117
XXIII. TOPS AND BOTTOMS ON RAILROAD STOCKS 127
XXIV. BOTTOMS AND TOPS ON INDUSTRIAL STOCKS 135
XXV. ACCUMULATION OF LOW-PRICED STOCKS 143
XXVI. HOW TO WATCH INVESTMENTS 146

BOOK IV

COMMODITIES

XXVII. HOW TO TRADE IN COTTON 152
XXVIII. PROPER WAY TO READ THE COTTON TAPE 158
XXIX. HOW TO DETERMINE A CHANGE IN TREND 165
XXX. THE BOLL WEEVIL 168
XXXI. WHEAT AND CORN TRADING 170
XXXII. JUDGING ACCUMULATION AND DISTRIBUTION ZONES 173
SELECTING A BROKER 185

CHARTS

1. Dow-Jones' Averages: Yearly High and Low 66
20 Industrial Stocks: 1896-1922.
20 Railroad Stocks: 1885-1922.
2. Studebaker Weekly High and Low 77
September 4, 1920, to January 6, 1923.
3. U. S. Rubber Monthly High and Low: 1914-1922. 84
4. Continental Can Monthly High and Low: 1914-1923 91
5. New York Central Swing Chart: 1896-1922 96
6. U. S. Industrial Alcohol Monthly High and Low: 1914-1922 100
7. U. S. Steel -- 3-point Moves: October 2, 1916, to December, 1917 105
8. American Smelting and Refining Monthly High and Low: 1901-1908 107
9. Corn Products Monthly High and Low: 1906-1922 110-111
10. Republic Steel Monthly High and Low: 1913-1922. 118
11. Dow-Jones' Averages -- Monthly High and Low -- 20 Railroad Stocks: 1896-1922 128-131
12. Dow-Jones' Averages -- Monthly High and Low -- 20 Industrial Stocks: 1897-1922 136-139
13. October Cotton Weekly High and Low: November, 1919, to January, 1923 160-161
14. May Wheat Monthly High and Low: 1895-1922 174-176
15. May Wheat Swing Chart: 1895-1922 178
16a. May Wheat Weekly High and Low: April 16, 1921, to January 6, 1923 182
16b. May Daily Wheat High and Low: December 13 to 29, 1922 182

Perhaps one of the wisest things Emerson ever said:

"Many times the reading of a book
has made the fortune of a man --
has decided his way in life.

"To use books rightly is to go to them for help;
to appeal to them when our knowledge and power fail;
to be led by them into wider sight and clear
conception of our own."

TRUTH OF THE STOCK TAPE

BOOK I

PREPARATION FOR TRADING

"No man can learn what he has not preparation for learning, however near to his eyes is the object. A chemist may tell his most precious secrets to a carpenter, and he shall be never the wiser -- the secrets he would not utter to a chemist for an estate." -- EMERSON.

In 1917 when the United States was forced to enter the war against Germany we heard on every hand "we are unprepared for war." Wilson's period of "watchful waiting" instead of preparing for the inevitable had at last brought us face to face with war without being ready.

Lawyers, doctors, engineers and professional men who make a success spend anywhere from two to five years' time studying and preparing to practice their profession before they begin making any money.

Men enter into speculation in Wall Street without any preparation. They have made no study of it whatsoever. They try to deal in something they know nothing about. Is it any wonder then that they lose?

Speculators and investors who simply guess, follow tips, rumors, newspaper talk and so-called "inside information" have no chance of ever making a success. Unless they follow some well-defined plan based on Science and Supply and Demand, they are sure to lose.

Over twenty years of study and experience places me in a position to give you a definite, practical set of rules and instructions which will lead to success if you follow them.

No great success or gain can be expected unless a man is willing to study and learn by past experience. You cannot get something good for nothing and must pay with time, money, or knowledge for success.

CHAPTER I

WHAT IS TAPE READING?

Tape reading is a study of fluctuations of stocks as they appear on the stock tape and the ability to judge the ones that are in a strong or weak position and determine the psychological moment to buy or sell. We must also be able to determine the stocks that are inactive and show no definite trend.

Tape reading is psychological because the mind acts and is influenced by everything it sees, hears, smells, tastes or feels. In reading the tape, we are not influenced alone by what we see, but by what we feel or sense, which cannot always be explained or a satisfactory reason given because it is "intuition."

What is *intuition?* You often hear traders say "I am buying or selling this stock on my intuition. The best definition I can give of intuition is that it is *instantaneous reasoning*. It is that something which tells us when we are right or wrong before we have time to reason it out. The way to benefit through intuition is to act immediately, and not stop to reason or ask why. That is what a good tape reader does.

The tape registers the dominating force currents from business all over the country. It contains the condensed opinion of the majority and weighs the hopes and fears of manipulators, the public, and business men. That is why it is a reliable guide and business barometer, if you know how *to read it correctly*. And here is where the "rub" comes. *The tape tells the truth, if you can interpret it correctly*.

Tape reading requires a strong will power and a mind that, when it once sees the trend of the market, cannot be changed until the tape shows the change and is not influenced by news, false rumors, tips, or hearsay. Being able to read the tape correctly and act on your judgment is an entirely different proposition, which I will explain later on.

CHAPTER II

CAN MONEY BE MADE IN WALL STREET?

OR

CAN THE STOCK MARKET BE BEATEN?

You have often heard the expression "99 out of every 100 who go into Wall Street lose." Then one man out of every hundred must win. Therefore, my answer is that Wall Street can be beaten and that you can make money by speculating and investing along conservative lines and by trading in a few selected stocks.

But how are you going to do it? You must have knowledge and science. Know! Know !! Know!!! more than the other fellow or the common trader. Find out how successful men in Wall Street have made their fortunes; then go and do likewise. Remember that "Knowledge is Power."

Statistics show that 98 per cent of business men fail sooner or later. Then why do men go into business? Because 2 per cent of them make fortunes out of general business and keep them.

Just ask yourself the question, "Who gets all the money that is lost in Wall Street?" It does not evaporate; for every dollar lost some one makes a dollar. Then the way to make it is to trade the same way the fellow does who gets what you lose. Remember that every time you buy some one sells and every time you sell some one buys.

The majority of people who buy stocks lose money in the end. Why? Because they guess, follow newspaper dope, fake tips or inside information. They do not make safe investments; they gamble on 10 or 15 points' margin. They nearly always buy near the top, and, of course, nothing can keep them from losing.

The general public do not sell stocks short; therefore they are always wrong in a Bear market. When a man loses money buying stocks and refuses to sell short, he can always look back and say "if I had only sold when I bought, look how much profit I would have made." Then, why doesn't he learn to sell short? (In another chapter I will show you the proof that it is safe and practical to sell short.)

At the present time, there are over 700 stocks listed on the New York Stock Exchange, and if you group them under their proper headings, there will be over 20 different groups. If you study the action of all the stocks in one group and watch them on the tape, you will find it is too much for you, and that you cannot make money trading in all of the stocks in any one group, much less by trying to trade in several groups.

Tape reading requires *patience,* and the essence and value of it is *concentration*. There is no such thing as a man being born with a mind that can concentrate on 10 things at one time, much less 700. Then *success* depends upon *selecting* a *few stocks* and *concentrating* upon them.

CHAPTER III

HOW TO READ THE STOCK TAPE

The general opinion prevails with the public, especially among traders outside New York City, that the proper way to read the tape is to stand at the ticker and watch every quotation as it comes out. Nothing is more erroneous.

Expert tape readers are very few and far between. It is a study of a lifetime. While the tape shows the trend of the market, there are so many minor changes and quick reversals that the average man can not tell whether the big trend has turned or whether it is only a minor change that will last a few hours, a few days, or a few weeks before the main trend is resumed again.

If a trader goes into a broker’s office to watch the tape, he will find anywhere from two or three to a dozen traders standing around the ticker, all talking from time to time and expressing their opinions or what they hear on different stocks. He must also listen to the gossip that comes over the news ticker, floating rumors from the street, and information about buyers and sellers that comes from the floor. With all of these disturbances, there is not one man in a million that can concentrate enough to tell anything about what stocks are going to do.

Besides, if he is able to pick a winner, and starts to buy or sell, he will be influenced by what someone says who is standing around the ticker and the result is that he will not act at the right time. Then it is impossible to beat the market by tape reading in a broker’s office.

No matter how strong a man's will power may be, he is influenced, consciously or unconsciously, by what he hears or sees, and his actions or executions are interfered with accordingly. This is the reason why a few big traders, like Livermore, have a private office with a ticker, where they can be

away from all outside influences and watch the tape, form their impressions, and act on them without being influenced by things they do not want to hear. But only traders who have a very large amount of money and can devote all of their time to the market and tape reading can afford to have an office and a ticker where they can study the tape alone without interference. The average man cannot afford this.

Then it is *necessary* to *know how* to *read* the *tape without seeing it,* or without watching it all the time. Market movements of importance, i.e., the long swings, require weeks and sometimes months to get ready, or for accumulation and distribution to be completed. There is always plenty of time to buy or sell one or two days after a big move gets under way. Therefore it is not necessary to watch the tape every day, or every hour, in order to determine what stocks are going to do. It can be read just as easy and better after the market closes. The tape is simply a record of prices, and if you have this record of high and low prices made during the day, you can form your judgments from it.

Market movements depend upon Supply and Demand. It requires volume of trading in proportionate large or small amounts to move stocks up or down. The volume of sales to the stock market is the same as the steam is to the locomotive or the gasoline is to the automobile. The sales are the motive power which drives prices up or down.

For example: United States Steel has five million shares of common stock, and it requires a very large volume of sales to move this stock up or down very much. General Motors has fifty million shares of common stock and its fluctuations are confined to a very narrow range, because the buying or selling of 100,000 shares will not move it more than a point, if that much, while the buying of 100,000 shares of Baldwin will often move it up or down five or ten points, because there are only 200,000 shares of Baldwin outstanding and seldom ever over 100,000 shares of stock floating in the street.

Therefore, in order to understand the meaning of volume, you must know the total capital stock outstanding and the floating supply of the stock you are trading in. Mex Pete for several years has made moves of from 50 to 100 points while U. S. Steel has not moved 10. The reason was

that the floating supply of Mex Pete was very small while the floating supply of U. S. Steel was very large.

Another thing the tape reader must know is the financial position of the stock, whether it is weak or strong. It is not easy to frighten investors and traders and start a selling move in a stock which is generally known to be in a very strong financial position. Neither is it easy to force a stock by manipulation to very high levels that is generally known to have very little intrinsic value. Many stocks, known as *"Mystery Stocks,"* which are supposed to have large concealed assets, often have big moves up or down because the public buy or sell on the hope that something favorable is going to happen or on the fear that something unfavorable is going to happen.

As a rule, a stock that pays extra dividends or cuts a melon, is talked about and rumors circulated months and even years before the actual event takes place. Then, of course, when the good news comes out, it has been anticipated and discounted and the stock declines instead of advancing, as the public expect.

The tape is the great scale in which the weight of all buying and selling is weighed and the balance of Supply and Demand shown by the loss or gain in prices. When *Supply exceeds Demand, prices decline* to a level where Supply and Demand are about equal. At this stage fluctuations become narrow and it may require weeks or months to determine which way the next move will be. When *Demand exceeds Supply, prices advance*.

Then how can the man who stands over the ticker day by day determine a big move before it starts? He can not. The ticker will fool him once or twice each day while it is getting ready. It requires time to buy a large amount of stock when accumulation is taking place, and it requires time to distribute a large amount of stock at the top. One day, one week, or one month is not enough for a big move. Sometimes it requires several months, or even a year, to complete accumulation or distribution. While this process is going on, you can keep up a chart of the stock you are interested in and judge much better when the big move starts, than you can by *watching* the *ticker every day*.

CHAPTER IV

HOW THE TAPE FOOLS YOU

The tape is used to fool traders, for often when stocks look the weakest on the tape, they are the strongest as accumulation is taking place. At other times when they are booming and very active and appear the strongest, they are really the weakest, because the insiders are selling while everybody is enthusiastic and buying.

The man who watches the tape daily is influenced by his hopes and fears. He can not help it. Suppose that the market has been strong all day, and the very stocks that he is interested in are gradually moving up, when suddenly, around 2:30 P.M. the market starts to break. It goes down for fifteen minutes and active stocks are off a point from the highs all around. It does not rally and by five minutes to 3, or closing time, they are off another point. The volume is heavy and he decides that something is wrong and he sells out at the close. The next morning stocks open up from 1/2 to 1 point. Why? Because the selling in the last half hour the day before was simply the result of profit taking and all of the traders who were scared sold out at the close rather than carry them over night, the result being that the supply of stocks to be offered next morning was limited, and the reaction had in no way interfered with or changed the main trend.

One great mistake the man makes who watches the ticker all the time, is that *he trades too often*. He gets in and out sometimes several times during the day, and each time he pays commission. If he buys or sells higher or lower each time, even though he has made profits on his trades, he is increasing the percentage against him. A man who makes 300 trades in the year, or, say, one for each market day, must pay an average of 1/2 point getting in and out. It cannot

be done for less. Then 1/2 point on 100 shares 300 times, is 150 points for expenses during the year. Where is the man who can make money with such a handicap? Suppose a man makes one trade each month, or twelve trades during the year. His expenses are only six points against the scalper's expense of 150.

Another important fact traders overlook is that the more times a man gets in or out of a market, the more times he changes his judgment. Therefore, the percentage of his being wrong increases. In a bull or bear market, there are often big reverse moves opposite to the main trend, from which big profits can be made, but a man can not catch them by jumping in and out every day. He must wait until he has a real cause and sufficient reasons, based on facts, before he makes a trade. If he jumps in or out on hope or fear, he will not only *make losses,* but he *will miss* the *real opportunity when it comes*. The daily moves generally mean very little to the main trend of the market.

OVERNIGHT BUYING OR SELLING ORDERS

As a rule, out-of-town buying orders accumulate over night. If the buying orders are in excess of the selling, stocks will advance for the first thirty minutes, while the public's buying orders are being filled. Then a reaction will take place. Prices may go lower than they were at the opening; drift along in an uncertain way until about 2 :30 P.M. when the professional crowd on the floor decide to even up; then either advance or decline for thirty minutes, according to whether the floor traders are long or short.

Remember that the professional floor traders have no commission to pay. You can buy a stock that goes up 1/2 point; then sell out and you are just about even, after paying taxes and commission, while the scalper on the floor makes 1/2 point, because he saves the commission.

The newspapers on Sundays usually carry a review of the market for the past week and the public, after reading all of the news, send in their buying and selling orders for Monday morning. If the orders are very heavy, they will influence the market for thirty minutes and sometimes one

hour. After this, the trend of the market will be the opposite.

A market that has been strong during the week or especially during the latter part of the week and closes strong on Saturday, is likely to open strong Monday and finish the advance in the first hour on Monday. Therefore, be very careful about buying stocks on Monday morning's strong opening. Public buying orders which accumulate over Sunday are all executed Monday morning and as soon as this demand is supplied professionals start selling and the market has a reaction in proportion to its condition and position at the time.

Even if it is a bull market and going higher you will be able to buy cheaper on Monday afternoon or Tuesday when the professionals are hammering prices down after the public buying wave has been satisfied.

The above rule is reversed in a declining market. If stocks have been weak all the week or during the last two or three days of the week, and close at the low on Saturday, forced selling by the public will come in Monday morning and cause lower prices during the first 30 minutes to one hour. After this pressure is off, the market will rally. Therefore, it pays to sell on a strong rally Monday or to buy on a weak market on Monday morning. This rule of course applies to normal markets.

FALSE HOPES

Another point, when a man is long or short of the market, and has a loss, it is but human nature to hope that the trade will go his way. Suppose he is called for margin early in the day. He tells his broker that he will either put up the margin before the close or sell out his stocks. The result is he waits all day, and the market fails to rally. The last hour comes, and hope gives away to despair and he sells out at the close, which causes the market to close weak and near the bottom, because hundreds of people are doing the same thing at the same time.

The same rule applies to people who are short of the market. Stocks start advancing early in the day, and they wait for

a reaction on which to cover. They look for a reaction around the noon hour, but it fails to come. Again around 2 :00 P.M. the market is stronger, and they hope for a reaction, but the advance continues, with the result that near the close all of the shorts get frightened and buy in their stocks. Of course, the market closes on top and is left in a weak technical position, and the next day the reaction comes.

For a trader to succeed, he must study human nature and do the opposite of what he finds the general public does. The first day of a decline no one worries much, because they consider it a natural reaction. A market will often start declining on Wednesday. On Thursday the decline continues, and the traders begin to sit up and take notice and think they had better get out on the next rally. But Friday comes, and no rally; instead stocks get weaker. Why? Because people who would not sell on the first or second day of the decline begin to sell on the third day, and by Saturday the whole crowd gets scared and decides to get out and not go over Sunday. The result is that prices will break badly in the last hour and close near the bottom, while the wise trader or tape reader who knew his business sold on the first indication of weakness the first day and did not wait until everybody was selling.

This same rule applies to declines and advances lasting weeks or months. The longer the market goes one way or the other the greater the buying or selling in the last stage, because *hope* or *fear increases* as the market *advances* or *declines,* and it is *hope* and *fear, not sound judgment,* that most people trade on.

STOCKS DISCOUNT FUTURE EVENTS

The stock market is an accurate barometer of business conditions. Stock prices are nearly always six to twelve months ahead of business conditions. First bond prices rise; second stocks advance; third comes business boom. The same happens in a decline. Stocks will be down six to eight months while business is booming, because they are discounting the future business depression.

Market movements, that is, the main swings, are the

result or effect of causes which, as a rule, exist long before the effect is known to the general public. In most cases, news is discounted before it comes out and seldom has much effect after it is generally known. Either good or bad news that is expected usually falls flat as far as the effect on the market is concerned.

For instance, an extremely good or bad quarterly or annual report on a stock comes out and the market does not go up or down on it for the reason that it is not news to those on the inside. They knew it thirty to ninety days beforehand. Therefore, when the public gets the news and acts on it, it is too late, for those on the inside who "know" have already discounted it.

If bad news comes out suddenly and stocks start selling off in large volume, then it is safe to assume that the market is going lower, that the public is long of stocks and the insiders are out. If good news appears and stocks start down, it shows that it has been discounted. Your charts will show whether the market is in a period of distribution or accumulation.

SUDDEN UNEXPECTED NEWS

Sometimes sudden, unexpected events happen unforeseen. For instance; the earthquake in San Francisco in 1906 was wholly unexpected and unforeseen by either the public or the insiders. It caused great loss and damage to property, and the market started breaking immediately after it, and declined for several weeks until it discounted the damage done to the various properties affected in that territory. When news of this kind comes out, that the market has not had time to prepare for, its full weight and effect must be felt after it comes out.

On February 3, 1917 Germany suddenly and without warning declared the U-Boat war against the United States. The stock market had not fully discounted this event because neither the general public nor the insiders knew it was coming. Once the news was out, everyone knew that it meant that the United States must enter the war against Germany. Therefore, it was bad news which had not been fully discounted

and the market had yet to measure its effect. The result was that stocks opened off anywhere from 5 to 20 points, but supporting orders had been placed and the buying by shorts afforded enough support to stop the decline in the first hour of trading.

When a move of this kind occurs and a market opens away up or down, making a wide range, it is always well to sell out long stocks or cover shorts and wait, because in doing this you are following what the big traders do. On February 3rd, after you saw the market open down on heavy selling and you watched it for thirty minutes and saw that prices did not get much lower than the opening, it would be an indication that prices had opened at a level where there was support and that a rally would come. If you were short, the proper thing to do would be to cover at the market, then wait and see how stocks acted on the rally that day and the following day. If the rally was small and stocks again declined easily and began to break the low levels made on the day the bad news came out, it would be an indication that prices were going lower.

ELECTIONS

You will find it of great value if you will go back over the years of Presidential elections and study the action of the market and the formation of it on the chart in the early part of the year and again just previous to the election and following it. In most cases you will find that the event, whether considered good or bad, was discounted beforehand.

There is seldom ever a presidential year but what at some time there is a scare and severe decline. Public sentiment gets mixed. They decide the Democrats are going to win and the market starts in to discount it. However, it makes no difference whether there is a Democratic president or a Republican. If stocks have been distributed and are in the hands of the public, they will go down during a Republican administration. We have had just as many panics when a Republican president occupied the White House, as have occurred when the Democrats were in power. It all depends upon at what level prices are, and the condition of affairs

throughout the country. This will be plainly registered by the tape and your chart will show it. If not, wait until you get a clear indication.

An extreme decline occurred in July and August, 1896, which was known as the "Silver Panic." The whole country got scared and decided that Wm. J. Bryan was going to be elected and that his silver dream would become a reality. Investors and traders sold stocks regardless of value and on August 8th, the average prices of industrial and railroad stocks reached a level which was the lowest from that day until the date of this writing.

In 1912, when Wilson was elected for the first time, the stock market advanced in September and October previous to the election, because the Republicans were convinced that the Democrats would not win. Therefore, they did not create any scare to start the public selling stocks. Of course, after Wilson was elected, which really was an unexpected event to investors who believed and feared that the "d----- Democrats" would ruin the country, they then began to sell stocks and discount the Democratic administration. The war followed in 1914 and completed the liquidation and made it even worse than it would have been. But this decline in stocks would have taken place even though a Republican had been in power, for the good and sufficient reason that prices were high, and that stocks had passed from strong hands into weak, and the general condition of the country was not such as to warrant the existing level of values at the time of the election.

AFTER-ELECTION RALLIES

When any important election, either presidential or otherwise, takes place, and the market has pretty well discounted it, but the general public throughout the country figure that the event is favorable, they, of course, send in buying orders the next day after election and stocks are strong until this demand is satisfied. It will always pay you to wait two or three days after election and see whether the market continues to move in the same direction after election as it did before. Stocks were strong the first day after

Wilson was elected the first time, but the decline started promptly after public buying orders had been filled. Always be careful of buying on top of after-election rallies. In the same way, if stocks open off and decline the first two or three days after election, be careful about selling them, as it may be only the public selling because they are scared and the insiders may support the market and start an advance.

CHAPTER V

HOW STOCKS ARE SOLD

When new companies are formed and capital is needed, the stock has to be sold to the public, and there is no difference in the method of selling stock and the method used by business men in selling their goods. A good business man advertises his goods and that is what the manipulators do. When they wish to distribute stocks and get them into the hands of the public, they use the newspapers in every way possible to advertise the stock. Their fluctuations are given wide publicity and everything possible is done to attract the public.

It requires wide fluctuations and activity to entice the public to take a hand. They may pay very little attention to a stock selling around 40 when it is only fluctuating 5 or 6 points in three or four months, but when this same stock reaches 150 and begins to fluctuate 5 and 10 points each day, everybody talks about it. They see great opportunities for making big profits and begin to trade in it. The result is that the wide publicity and advertising induces the public to buy all the stock at a high price. Then the decline starts. They hold on and hope, and nothing much is said about it until the stock gets near the bottom, when all the bad news comes out and everybody talks about it.

THE WISH IS FATHER TO THE THOUGHT

When you read the opinion of any man, whether it be a newspaper writer, the president of some big bank or the head of some large corporation, consider and give due weight to the fact that when he talks optimistic, he has something to sell to the public and is not likely to talk in a way to hurt his own business.

Many years ago there was a Mr. B. in Wall Street who gathered a lot of information and sometimes wrote for the newspapers. He was well known and often visited different brokerage offices, and traders eagerly sought his opinion. They would say "Mr. B., what do you think of Union Pacific?" He would reply: "I think it is going up; anyway, I hope it does, for I am long of it." Now, that was his reason for thinking the stock would go up. He owned some of it, and his hope and wish was that it would advance. He certainly did not feel like telling the other fellow that he believed it was going down. If he did, he might start a selling wave that would hurt his own interest.

OVER-OPTIMISM

If you have read the newspapers carefully over a long period of years, or if you will go back and look up records, you will find that prominent business men who are heads of large corporations, are nearly always optimistic. Panics come, and depressions lasting from one to five years, with stocks declining anywhere from 25 to over 100 points, yet these men are always optimistic. Do you believe that they are so far wrong in their judgment that they can not see the trend at the time? Certainly not. They have goods to sell. They must conceal it from the public and talk for their own interests.

I can not recall the time when the officials of the U. S. Steel Corporation were ever pessimistic. Yet, the stock has passed its dividend several times and suffered severe depressions, which as far as the records are concerned, were all unforeseen by the directors.

It is a good thing to be an optimist, but whether it be in business or the stock market, it is the truth that helps and protects, and not false hopes and unwarranted optimism. Hopes will not keep the margin call away from you in a panic. The only way to avoid these uncomfortable conditions is to go with the trend of the market and not against it.

The newspapers, as a rule, are against printing anything of a pessimistic nature. In 1920 and 1921 when I issued my forecast on general business conditions, I had based it

on the truth and scientific facts. It showed that very depressing conditions were coming in 1920 and 1921, but most of the newspapers refused to publish my predictions. Yet they were all fulfilled with remarkable accuracy.

Forewarned is forearmed! It is certainly better to tell the public before depressing conditions start that they are coming and let them prepare for them, than to wait until the crisis is on and then tell them -- as the newspapers do -- what caused all the trouble. Every effect is the result of a cause, and the cause must exist long before the effect can be seen by the general public. The proper thing to do is to determine the cause and act on it, for if you wait until you can see the effect, loss in the stock market is certain.

TRADERS APE

After a man has been around Wall Street for twenty years and watches the actions of traders and listens to what they talk about, he will be convinced that the origin of man was certainly from the monkey or the ape, because the average trader simply apes some leader, repeats what he heard some great man say, believes it and applies it to his own case to increase his hopes or assuage his fears.

The late Mr. Morgan once said, “A man who is a bear on this country will go broke.” I have often heard traders in a brokerage office talking bullish and buying, say, when a conservative man would warn them that bulls sometimes make money and bears sometimes make money but that a hog never makes anything: “Don’t sell stocks short. A man who is a bear on this country will go broke.” When Mr. Morgan, whose opinion as a business man is worthy of respect, made this statement, he was not talking about the stock market at all. If he had been, he would have said that the man who is a bull at the top of markets, which occur every few years, is sure to go broke, and the man who is a bear at the bottom is sure to go broke.

If traders would only use a little “horse sense” and do their own thinking, stop aping and swallowing all the newspapers tell them and analyze the reason or the motive behind the men who talk optimistic at the top and pessimistic at the

bottom, they would make a great deal more money. To make success in the stock market you must do your own studying and thinking. Be neither a bull nor a bear, and no matter whose opinion you follow, you will be much better off if you can verify it by your own study of charts, which show the conditions as revealed by the tape, and the thoughts and opinions registered by the majority, and not the opinion of one man or one group of men, no matter how strong they may be.

The Standard Oil interests might be very bullish, and talk bullish. They might be honest and conscientious about it, and might be backing up their opinions by buying Standard Oil stocks, but the tape will register the buying and selling of all the people in the United States, and if that force of supply and demand shows that the selling of the many is greater than the buying of the few, the stock will decline until it reaches a level where demand exceeds supply.

SIGNS OF THE TIMES

The Bible says "There is a time for everything." All the laws of Nature teach this. There is a time to sow and a time to reap. The four seasons of the year teach us that there is a reaping time and a sowing time, and that we can not reverse this order of Nature's laws. Man does not try to grow oranges on Greenland's icy mountains; neither does he expect to cut ice from the tropical rivers in Florida, because it is out of season, time, and place. It is the same with the stock market. There is a time to buy and a time to sell, and when this time comes, neither bunches of bears nor bevys of bulls with hot air, hope, optimism, extreme pessimism, depression or bad reports, can force prices above or below the zones of Supply and Demand, out of season. You must learn to go with the tide, and not against it. Discern the signs of the times, and do not get caught in the undertow when the tide is flowing out. Those who hesitate and are late in buying or selling in the last stage invariably have to take losses.

CHAPTER VI

YOUR WEAK POINTS

Man know thyself! It has been well said that the greatest study of mankind is man. Experience is the only school in which most of us learn. Therefore it is necessary to analyze the cause of our mistakes much more carefully than our successes. A great success, either in business or the stock market, is not attained over night.

> "The heights by great men reached and kept
> Were not attained by single flight,
> But they while their companions slept
> Were toiling upward in the night."

Mushroom growth is followed by mushroom decay. A man who suddenly becomes wealthy over night or by a master lucky stroke in the stock market, seldom keeps it. It is the old story: "Easy come, easy go." The man who makes a success and keeps his money is the man who, after years of experience, has profited by his mistakes and schooled himself against his weak points.

To make a success in speculation, you must master yourself. You will find that you are either a natural born Bull or a natural born Bear, i.e., you either always hope and believe that stocks will go higher than they do, or you hope and believe that they will decline lower than they do. Then, you must discount your weak points in trading, and know that a lot of your judgment is not judgment at all, but the result of your natural weakness or inclination for one side or the other. Learn to see things in a normal state and do not exaggerate either on the bull or bear side.

Some men will find that they have too much nerve; are too hopeful; therefore they overtrade. Others will find that they lack nerve or courage and are afraid to buy or sell

enough at the right time. These weak points must be overcome. You must learn to trade so that there will be no hope and no fear when you enter the market. You enter it as the result of deliberation and upon what you believe to be the proper basis for buying or selling. But you must remember that you can be wrong and that the way to *protect yourself against wrong judgment* is to *place a stop loss order at the time you make the trade*. Then you do not have to hope it will go your way or fear that it will go against you, for you know that your loss is limited, and if the loss comes, you will be in a position to make another trade later which will probably prove profitable.

CHAPTER VII

ESSENTIAL QUALIFICATIONS

PATIENCE

Patience is a virtue, especially in the stock market. Acquire it if you can. You must have patience to wait for the right opportunity to come, and not be overanxious and get in too soon. Once you buy or sell a stock and it starts moving in your favor, you must have patience to hold it until there is a good reason or sufficient cause for closing the trade. Never close a trade just because you have a profit; do not become impatient and get out for no real reason. Every act, either in opening or closing a trade, must have a sound basic cause behind it. Hopes and fears must be eliminated. There is no use selling a stock because you fear it is going down, nor buying it because you hope it is going up. Look at your charts and see which way the trend points and follow it. If no definite trend is shown, use your patience and wait.

NERVE

Nerve is just as essential as patience; in fact, nerve is the equal of capital. In getting my experience, I have been broke over 40 times, i.e., I have lost all of my money, but there never has been a time yet when I lost my nerve. Years ago, when I was experimenting and working on methods for forecasting the market, I would get in the market wrong and lose all my working capital, but I never let it get my "goat." I studied very carefully how I made the mistake and what the cause of the loss was. In this way, I profited by every mistake and loss, and was enabled to perfect my method of forecasting and trading so that I could make a success.

Looking backward brings nothing but regrets. I always believe in facing the future with nerve and hope. But let the nerve and the hope be based on some sound principle that will prevent costly mistakes of the past. During my career I have seen many traders who had made one mistake after another and suffered severe losses, and still had some capital to work with but when an opportunity appeared, they lacked the nerve to act. In cases of this kind, the nerve would have been more valuable than capital.

KNOWLEDGE

In the early part of my career I made some great successes, and what might be called lucky strikes. I made a lot of money easily and then I spent or lost it easily. But I did not give up or lose my nerve. I always figured that I was a better man after each reverse, because I had acquired experience.

Experience is the only school to learn in and the burnt child is the one who knows the pain from having put his fingers in the fire. Mistakes are all right and hard to avoid. They are good for us, because if we profit by them, they prove valuable. But it is wrong to make the same mistake the second time. Therefore, use every mistake as a stepping stone to progress; analyze each mistake you make and the cause of every loss, in order to avoid repeating the same error in future.

With each experience I had, good or bad, I accumulated knowledge, and after all, knowledge is the greatest power of all, for capital will always come to knowledge. Several years ago a brokerage failure occurred suddenly and unexpectedly, and I lost all of my money. To the ordinary man's way of figuring I was broke, but as a friend of mine expressed it at the time, “He may be without cash, but the knowledge that he has of the stock market is worth hundreds of thousands of dollars and in a short time he will turn that knowledge into cash.” I did come back quickly in a few months’ time on a small capital, because I had a greater knowledge of the stock market than ever before, and knowing, by experience, that I had a method based upon mathematical

science which could be depended upon to forecast the stock market, I had the nerve to pyramid and press the market hard when my science showed that I was on the right side. What would have been the result had I been without knowledge and only filled with hope? I would have stayed broke, as other traders do who follow the fairy phantom of "hope" in Wall Street trading.

HEALTH AND REST

Good health is essential to success in any line. It is one of the great assets for success in the speculative market. At least twice a year a man should close up all of his trades, get entirely out of the market, and go away for a vacation or stay away from the market and rest up. Let your mind rest and your judgment get clear. The man who continually sticks to any business too long without a rest or change gets his judgment warped. He gets in a rut and sees things from a one-sided point of view.

When you are in the market on either side, it is but human nature for you to hope that it will go your way, and you, therefore, give greater weight to any event that seems to indicate a favorable move to your side. When you are out of the market, you are able to see things as they really are, and judge the market without a distorted view, with hope and fear eliminated. Traders who are continually in the market day in and day out and never allow any time to elapse between trades, sooner or later lose all their money.

I know one trader who follows scientific forecasting and makes a success. He never makes more than five or six trades in the year. If he buys stocks during the winter or early spring for a rise, and the advance materializes as he expected, he sells out and takes his profits. Then he leaves the market alone, sometimes for several months. In the summer, if he sees indications of a bull or a hear market starting, he gets in again, and if the market moves his way, he may follow it up and pyramid for several months. When he gets an indication that the end is near, he closes up his trades, takes his profits, and like the wild geese, wends his way to the sunny South. Sometimes he stays all winter in

Florida, hunting and fishing; then goes over to Hot Springs, Arkansas, takes a course of baths; returns to Wall Street in good health and fit for another tilt with the Bulls and Bears.

He makes a specialty of trading in certain favorite stocks. He studies them closely and watches for certain signs that he considers almost infallible. When these signs come, he acts. He does not hurry until the time comes, but when it does, then there is no hesitation -- he buys or sells. He keeps cool, calm and collected, and waits for the time to open or close a trade.

Another thing he never does is to expect any fixed amount of profits or set any specific time for getting out. I have often seen him make a trade and it would go against him. He would get out and say, "Well, I guess I'll go back to my office and watch them for awhile." Sometimes it would be days or weeks before he made another trade, but when he did, it was based on some good sound reason, and 90 per cent of the time the second trade proved a winner. But suppose he had held the first trade he made and hoped it would move his way. His judgment, being biased, would have become more unreliable all the time. There is nothing like being out of the market and looking them over from an impartial viewpoint. When there is no definite trend, stay out, watch and wait, and your patience will be rewarded.

BOOK II

HOW TO TRADE

"The greatest achievement was at first and for a time a dream. The oak sleeps in the acorn; the bird waits in the egg; and in the highest vision of the soul a waking angel stirs. Dreams are the seedlings of realities." -- ALLEN.

Have a well-defined plan before you start trading, then follow that plan, as the architect does in building a house, or the engineer in constructing a bridge or driving a tunnel.

The man who changes his ideas or his plans, which are based on something practical, for no other reason than that he hopes or fears the market will do something different, will never make a success.

Don't guess or follow tips. Very few people from the inside ever give out good information. Have a reason for every trade; don't trade on hope. If that is the only reason or excuse you have for holding a stock, get out quickly and you will save money. Conditions change and you must learn to change your mind.

First find out if a rule is practical; if it is based on sound reasoning. Go back over past records and convince yourself that it pays to use it. The valuable part of the rules that I have laid down and the theory that I am teaching is that it can all be proved. You do not have to accept my word for it. Look up the records; examine the facts and satisfy yourself.

CHAPTER VIII

RULES FOR SUCCESSFUL TRADING

If you can not follow a rule, do not begin speculating or investing, as you are sure to lose.

Learn to adhere strictly to a rule or do not follow it at all.

The following rules should be carefully studied and applied in your trading:

1ST: CAPITAL REQUIRED

You would not try to run an automobile and start out to travel several hundred miles unless you knew how much gasoline it required to run a given number of miles. Yet, you go into speculation without knowing one of the most important things, -- the amount of capital required to succeed and make speculation a business.

Do not try to get rich in a few months or a year. A man certainly should be satisfied if he can acquire a competent fortune over a period of ten to twenty years. Often we have one year when a man with nerve and knowledge and a small amount of capital can make a fortune. I have been able to pile up enormous profits in a short time by pyramiding, but this can not be done continuously and I do not claim to be able to do it. What I am trying to teach you is a safe, sure way, which will yield more profits than any other business on earth if you will only be conservative and not make speculation a wild gamble.

A man may go into business and lose all of his money and then years pass before he has another opportunity to make a large amount of money in that or any other business. Yet, in the speculative markets opportunities return every

year, provided a man has studied enough to see them when they appear. The chances for gain are so unusual and so many great opportunities do come in Wall Street that the average man gets greedy, gambles and does not wait between times for the real opportunity.

People expect more profits in speculation than in any other business. A man who would be satisfied with a return of 25 per cent per year in a business is not satisfied if he doubles his capital every month in Wall Street. Many people are satisfied with 4 per cent in a savings bank, but when they come to Wall Street and put up $1,000.00 they expect to make $1,000.00 in two or three weeks. They are the people who buy on a 10-point margin and always lose.

Do not expect the impossible in speculative markets. Great and unusual opportunities, when you can start at the bottom or top of a move, pyramid and make a fortune, occur every few years. Two or three times each year, when stocks are at the extreme high or low, there are opportunities for making 10 to 40 points' profit.

You may think an average of 1/2 point a day, or 3 points a week, is too small a profit to bother with. Yet, in 52 weeks it would amount to 156 points, or $1,560.00 a year, on a 10-share trade. Make speculation a business, not a gamble. Go into it to stay, not to gamble all on a few trades, lose and quit. Be patient. If you can double $1,000.00 the first year and keep doubling it for ten years, you would have over a million dollars.

Active leading stocks make major moves of 10 to 40 points three to four times a year. If you are able to catch half of these major moves on conservative trades, your profits will be enormous. Do not try to catch all the minor fluctuations. The inside manipulators themselves do not get one-tenth of the minor fluctuations. Why should you expect to?

In beginning to trade in stocks the most important thing to know is the amount of capital required. Many traders make the mistake of thinking that about 10 points margin is enough. Nothing is more erroneous. The man who starts trading on 10 points' margin is gambling, not even making safe, speculative ventures. When you start to trade use your

capital as you would in a business, and in such a conservative way that you can continue.

For trading in stocks selling at $100.00 per share or over, you should have $5,000.00 for each 100 shares you trade in; $2,500.00 for trading in stocks selling over $50.00; $1,500.00 for stocks selling around $25.00; $1,000.00 for stocks selling at $10.00 to $15.00. This amount of capital is not to margin stocks and let them run against you 10 to 30 points. It is to be used to make a large number of trades and pay small losses when they occur. You should always limit your loss on each trade to about 3 points and never more than 5 points.

If you have only $300.00 to start trading with, when you buy or sell a stock, place a 3-point stop loss order on it. This will allow you to make ten trades on your capital. Suppose you make five consecutive trades and lose, your capital will be half gone, but if on the next trade you are right and make 15-points' profit, you will regain all of your losses; or, if you make three trades with 5 points' profit, they would wipe out the losses of five trades with 3 point losses on each.

2ND: LIMIT YOUR RISK

A strong will power is just as essential as plenty of capital. If you have not the firmness, will power, and determination to *protect every trade with a stop loss order,* do not start trading, for you will fail.

I have often heard traders say "If I place a stop loss order at a certain point the market is sure to catch it." Yet they realize afterward that the stop loss order being caught was the best thing that could happen to them. There is nothing better than getting out quickly when you are wrong. The man who refuses to get out when he is wrong usually stays until his money is gone and the margin clerk sells him out.

A lot of people do not know *how to place a stop loss order* on a trade when they make it. A stop loss order is an order given to the broker that becomes a market order when the stock reaches the price at which it is placed. For example:

We will assume that you buy 100 shares of U. S. Steel at 106. You feel that 2 points is enough to risk on the trade And that if it declines to 104 you would sell it out. It is not necessary for you to sit in a broker's office and watch the ticker until Steel declines to 104 and then get up and tell the broker to sell 100 Steel at the market. When you buy the stock simply give your broker an order reading as follows:

Sell 100 U. S. Steel at 104 Stop G. T. C.

which means “good till cancelled.” Now, suppose that Steel declines to 104. When it reaches this price, your broker sells 100 at the market. He may get 104 for it or he may get 103 7/8 or 103 3/4, but you know that when it reaches this price your stock will be sold. A broker can not guarantee to sell your stock at the limit of your stop loss order, but he does sell it immediately at the next best price after your stop loss order price is reached.

Suppose that you sell U. S. Steel short at 106 instead of buying it, and that you want to protect yourself against loss. You give your broker an order to buy 100 U. S. Steel at 108 stop G. T. C. If it reaches this price, he buys in the stock.

If your stop is not reached and the market goes in your favor, you must then cancel your stop loss order when you close out your trade with a profit. You can, of course, give a stop loss order good for one day, one week, or any specified length of time, but the best way to place the order is G. T. C.; then you do not have to worry about it.

3RD: OVERTRADING -- THE GREATEST EVIL

Overtrading is the cause of more losses than anything else in Wall Street. The average man does not know how much capital is required to make a success and he buys or sells more than he should. Therefore he is forced to get out of the market when his capital is nearly exhausted and probably misses opportunities for making profits. Make up your mind how much loss you can afford before you make a trade and not afterward.

Stick to small quantities. Be conservative. Do not overtrade, especially at the bottom or top of long moves. Fortunes are lost trying to catch the last 3 to 5 points in extreme moves. Keep cool. Avoid getting overconfident at tops and bottoms. Study your charts carefully and do not allow your judgment to be influenced by hope or fear.

Many a trader has started out trading in 10 shares and made a success because he started near top or bottom; then when the market had reached extreme, he began trading in 100-share lots and lost all of his profits and capital too, because he violated the conservative principle which helped him to make a success.

If you make *one trade* and it *starts to go against you, you are wrong. Then why buy or sell more to average a loss?* When things are getting worse, day by day in every way, why do your best to make them get worse in every way? Stop the loss before it is *eternally too late. Every trader should remember that the weakest point of all is overtrading, and the next, failing to place a stop loss order, and the third fatal mistake of all, averaging a loss. Eliminate these three mistakes and you will make a success. Cut short your losses,* let *your profits run,* pyramid or increase your buying or selling when the market is moving in your favor, not when it is going against you.

Remember that wild, active markets are brought about by feverish manipulation, and that they increase the imagination, exaggerate your hopes, and take away all sense of reason and proportion. Therefore, in extreme markets try to keep a cool head. Remember that all things come to an end, and that a train going 60 miles an hour will cause a greater smash-up if it leaves the track than one traveling 5 miles an hour. Therefore, in a wild runaway market, jump before she bumps, for you will never be able to get out once the crash comes. When everybody wants to sell, and no one wants to buy, profits run into losses fast.

The great bull market of 1919 shows plainly what happens when everybody gets crazy bullish, and can see no top in sight. This bull market reached a point where everybody was bullish and buying, and no one on the outside dared to sell short. It was one of the fastest markets in history. And

what happened? When the "bubble busted" in the early days of November and the decline started, some stocks were off 50 to 60 points in two weeks' time, and the profits made during the whole campaign that year were wiped out in ten days. The man who waited for a rally to get out on after the move started down never had a chance, because everybody was trying to get out, and the further prices declined, the more people there were forced to sell out, with the result that the market got weaker as it declined lower.

4TH : NEVER LET A PROFIT RUN INTO A LOSS

More traders are ruined by violating this rule than any other, except overtrading. When you buy or sell a stock and it shows you a profit of 3 to 4 points, what is the sense or reason for ever risking any more of your capital on it? Place a stop loss order where you will get out even or better; then you have all to win and nothing to lose. If the trade continues to move in your favor, you can follow it up with a stop loss order.

People often buy or sell a stock and it shows them a good profit, but they are "hoggish," expect more, hold on and hope and let it run into a loss, which is very poor business, and the man who follows it will not succeed in the end. Always protect your principal in every way possible.

5TH: DON'T BUCK THE TREND

The way to make money is to determine the trend and then follow it. When you are in a Bear market and the long trend is down, it is always much safer to wait for rallies and sell short than to buy. If you are in a big Bear market where stocks are going to break from 50 to 200 points, you can miss the bottom several times on the way down and lose all of your capital.

The same applies to a Bull market. You should never sell short on an advancing market. It is better to wait for reactions and buy than to try to pick tops for selling. Big profits are made by going with the trend and not against it.

One of the most vital and important things for either an

investor or a trader to learn is to take a loss and take it quickly. When you see that you are wrong there is no use putting up more margin and holding on and hoping. If you take a small loss quickly and get out of the market, your judgment will be much better and you can see an opportunity to get in again and make profits.

6TH: WHEN IN DOUBT GET OUT

When you buy or sell a stock and it does not act right immediately or start to move in your favor within a reasonable length of time, get out of it. Your judgment gets worse the longer you hold on and hope for the market to go your way, and at extremes you always do the wrong thing. It is much better to take a quick loss of 2, 3, or 5 points than to hold on and hope and eventually take anywhere from a 10 to a 50-point loss.

Stocks are not going to stop going up or down once they start just for your benefit. Always remember what Jim Keene said: "If stocks won't go your way, you must go their way." Always go with the tide; never buck it. If you were on a railroad track and saw a train coming at 60 miles an hour, would you stand there and hope that the train would stop before it hit you, or would you hope that maybe you could knock it off the track? Of course you wouldn't. You would get out of the way and do it quick. You should do the same thing in the stock market -- Get out; let them go by, or get aboard and ride with them.

7TH: TRADE IN ACTIVE STOCKS

Always confine your trading to standard, active stocks listed on the New York Stock Exchange. Outside stocks have spurts, but the active leaders yield more profits in the long run. Stocks traded in on the New York Stock Exchange always have a good market and you can get in and out when you want to. Ninety per cent of the unlisted and curb stocks disappear sooner or later. Leave the pups, cats and dogs, and mining stocks alone.

The same group of stocks over a long period of time do

not remain leaders. Changing conditions in the country cause certain groups to lead for a time, then become laggards, while new groups become public favorites and leaders.

It is the same thing with individual stocks of the different groups. As a rule, a stock that becomes a favorite and a leader will continue active anywhere from five to ten years. After this period of time, it will pass into the hands of investors and its activity will cease. Fluctuations will become narrow because investors do not jump in and out every day. They hold for a long time, and finally when they do start to sell out for some good reason, or get scared, then the old time leaders become active on the down side until liquidation has been completed.

Of course, the big money is always made in trading in stocks that fluctuate over a wide range. For this reason, you must always be on the lookout for a new leader that will give opportunities for making big profits. Be up-to-date, keep up with the new stocks as they are listed, watch their development, and you will be able to pick the new live leaders and discard the old, inactive stocks. Big money is made, not from dividends but from fluctuations, if you know how to trade quickly. That is why it pays to trade in active stocks that make a wide range. If you have to take a loss in stocks of this kind, you can make it back very quickly, because opportunities occur often.

8TH: EQUAL DISTRIBUTION OF RISK

There is an old saying, "Never put all of your eggs in one basket." And in the stock market it is a very good rule to follow. If you are in position to do so, select as many as four or five stocks, one from each of the different groups. Buy or sell in equal amounts.

Divide your capital up so that you can make seven to ten trades with it. Suppose you have $5,000.00. Trade in 100-share lots and limit risks to 3 to 5 points. You would be able to stand five or six consecutive losses and still have capital to work with. By letting your profits run one big profit will often wipe out four or five small losses. But, if

you take big losses and small profits, you have no chance of gaining in the end.

If you can only trade in 50 shares, take 10 shares each of five different stocks. Place stop loss orders on these trades from 3 to 5 points away, according to the indications on the stocks you are trading in. Two of these stocks may go against you and catch your stop while the other three may not. This will leave you part of your holdings and if they move in your favor, will make back your losses on the others and show profits.

If you get into the market right and with a reason, records show that it very seldom occurs that you would get the stops caught on all of your stocks. You may not always make as much profit as you would to trade in one or two of the active, fast moving stocks, but you will be safer. That is my aim: To teach you safety; help you protect yourself and cut short your losses in every possible way and let your profits run.

9TH: FIXING A PRICE OR POINT TO BUY OR SELL

The majority of people have a habit when they buy or sell a stock, of fixing in their minds a certain figure at which they expect to take profits. There is no reason or cause for this. It is simply a bad habit based on hope. When you make a trade, your object should be to make profits and there is no way that you can determine in advance how much profits you can expect on any one particular trade. The market itself determines the amount of your profit, and the thing that you must do is to be ready to get out and accept a profit whenever the trend changes and not before. Remember the market is not going to act to please you or go to certain figures just because you want to buy or sell at those figures.

Many traders lose big profits by fixing the price at which they intend to sell. Stocks sometimes go within 2, 3 or 4 points of their selling price and start to decline. They hold on and hope. Just because it does not reach the point that they have fixed in their minds, they often hold on and hope until they lose all the profits and take a loss, refusing to see that the trend has changed. *Hope will ruin any man who*

follows it in the stock market. To succeed you must *face facts,* and *facts* are often *cold* and *stubborn* and *do not agree* with your *hope,* but you must accept them for your own good.

In nearly every bull or bear campaign in the market the general public gets certain fixed points in their heads where stocks are going to make tops or bottoms. The newspapers talk about certain favorite stocks going to 100, 125, 150 or 175. Everybody gets the idea that these prices are going to be made and they become "hope" prices, but are never realized.

To illustrate this: During the fall of 1909, when the bull campaign in stocks was at its height and Steel common had advanced to around 90, the newspapers began to talk of 100 for "little Steel." The public all got the idea in their heads that Steel was sure to make 100 and that was the place they were going to sell and take profits. The writer predicted that Steel would advance to 94 7/8 and no higher, which it did, and he sold out, while the "hope" crowd held on and eventually took losses, for U. S. Steel declined eventually to 38. Several years later when it did reach 100, it was the place to buy and not to sell, for it immediately advanced to 129 3/4.

The man who tries to get the last point or the top or bottom eighth generally loses all his profits. You do not have to get in at the bottom and out at the top to make big money. All you have to do is to look over the list of the active leading stocks and you will find that they make moves of from 50 to 150 points between bottom and top every few years. Then, if you can get in after the stock has advanced 10 points from the bottom, and sell out within 10 points of the top, you certainly will be able to accumulate plenty of profits.

Never get the *idea* in your *head that you can or will hold* a *stock until it goes your way*. This is nothing but pure *stubbornness* and is *not based on any sound logic or reasoning*. In case of doubt, get out. Do not hesitate. Delays are always dangerous. Do as the insiders do: If they can not get what they want, they take what they can get; if the market will not take what they have to offer, they offer what it will take; if the market will not go their way, they go its way. A wise man changes his mind, a fool never.

10TH: WHEN TO TAKE PROFITS

Never close a trade just because you have a profit. The time to hold on is when the tide is running in your favor. When tempted to close a trade just because you have a profit ask yourself the questions: “Do I need the money?” “Is the move over?” “Do I have to sell?” “Why should I take profits?”

Look at your charts; do what they tell you. If they do not show a change in trend, wait. Protect profits with stop loss order, but do not take a profit too soon. This is just as bad as taking a loss too late. Patience to hold on when you are right and nerve to get out quickly when you are wrong will make a success.

11TH: ACCUMULATE A SURPLUS

A surplus must be accumulated before you increase your trading quantities. Margins are not to hold on with, only “lambs” do that. If big risks are required, do not make the trade. Wait for an opportunity when you can buy or sell and place a stop loss order 3 to 5 points away. It is financial suicide to take big losses when they can be prevented.

You must not expand until after you have made profits. Every important business concern carefully creates a surplus and is proud to publish it. No business is run without a loss at some time and a speculator or investor must expect losses. Therefore, he must create a surplus out of which he can pay losses and still continue to trade.

In very active markets, when trading in high priced stocks, as a rule it does not pay to take a loss amounting to more than two consecutive days’ fluctuations. If stocks go against you two days, they are likely to go more. Take your loss out of your surplus and leave your capital unimpaired and wait for another opportunity.

12TH: BUYING FOR DIVIDENDS

A great many people make the mistake of always wanting to buy stocks that will pay dividends. Do not buy stocks

just because they pay dividends, nor sell them because they do not. Often people hold stocks because they continue to pay big dividends, only to see their capital half or more wiped out; then the dividend is cut or passed altogether. Look to the protection of your capital, not for dividend returns. Trade for points of profit, not dividends. Fluctuations yield more money than dividends and you will be able to tell when stocks are being accumulated or distributed for an advance or a decline.

If a stock is selling very low or out of line according to the dividend it pays, there is probably something wrong and it is a better short sale than a purchase. If a stock is selling very high and pays no dividend, there is a reason for it and you should not sell it short. Probably it is going to pay a dividend or it is in a very strong position. Otherwise it would not be selling at a high price.

Manipulation for a time will force stocks above or below their intrinsic value, but in the end Supply and Demand govern the course of prices, and values are based on these factors. I intend to teach you how to tell when Supply and Demand show the place where you should buy or sell.

The word “dividend” means a division of profits or earnings, but often when you buy Curb or mining stocks the word means “divy,” or that you divide up your capital with the other fellow and later lose all.

CHAPTER IX

METHODS OF OPERATING

After you have learned the rules for successful trading, it is then necessary to determine the best methods for operating either on the buying or selling side. All of these factors help you to overcome the weak points and enable you to make a better success.

BUYING OUTRIGHT

Many people think that the only safe and sure way to make money on stocks is by buying outright. This is a sad mistake and has caused many a trader to come to grief. Study the records of past movements and you will find ample proof of my statement. You need only to refer to the great depressions that have occurred during the past forty or fifty years to prove that it can cost the entire amount of the price you pay when buying outright, i.e., stocks will not only go down to nothing, but they can be assessed.

How many people have you heard say "I own my stocks outright; I have nothing to worry about." They are just the people who should worry. Every year many stocks go out of existence or are assessed. How do people know that they have the one safe, good stock on the list?

At present there are about 700 stocks listed on the New York Stock Exchange. In five or ten years from this time conditions may so change that over 25 per cent of these stocks will be worthless or have declined enough to ruin any man who buys them outright and holds them.

You must have something better than buying outright to protect you in order to make money. It is just as safe to trade on conservative margin, and you will make much

greater profits when you know the right stock to buy or sell and the right time.

In the boom which culminated in the Fall of 1919, many stocks had advanced in nine months from 25 to over 100 points. Suppose people bought any of these stocks outright within 20 to 50 points of the top and held them through the decline of 1920 and 1921. Some stocks declined 100 to 180 points. There were no exceptions. All stocks suffered tremendous losses, and many of them will never sell again at the prices they reached in 1919.

The man who sold stocks short in 1919 and played the short side in 1920 and 1921 until the summer of 1921 was the man who made the money. Below I give you the high prices of some stocks in 1919 and the low prices in 1921, which will prove to you what can happen to a man who buys stocks outright and feels safe:

	High 1919	Low 1920 & 1921	Points decline
American Woolen	169 1/2	55 1/2	114
Am. Intern'l	132 1/4	21 1/4	111
Atlantic Gulf W. I	192 1/4	18	174 1/2
Crucible Steel	278 1/2	49	229 1/2
General Asphalt	160	32 1/2	127 1/2
Kelly Springfield	164	25 1/2	138 1/2
Mexican Pete	264	84 1/2	179 1/2
Republic Steel	145	41 1/8	103 7/8
Studebaker	151	37 3/4	113 1/4
Transcontinental Oil	62 5/8	5 5/8	57
U. S. Food	91 3/8	2 3/8	88 5/8
U. S. Rubber	143 3/4	40 1/2	103 1/4

Most all of the above stocks were still paying dividends when they had declined 25 to 50 points from the top and they no doubt looked attractive to a lot of people who bought them either on margin or outright. How many men will have the nerve to hold on when they see their capital shrink from 50 to *75* per cent? Very few of them, and a man would be a fool if he did.

This is another proof that you must place a stop loss order for your protection, because when a stock starts to go against you, it certainly can go enough to cost you all of your margin and exhaust your patience, causing you to sell out, probably just at a time when you should buy.

I have not picked 1919 as an exception of a Bull market or 1920 and 1921 as exceptional Bear years, because they are not. These same kind of declines have occurred in 1857, 1873, 1893, 1896, 1903, 1904, 1907, 1910, 1914, and 1917, and they certainly will occur again. Therefore, be a Bear in a Bear market and a Bull in a Bull market.

Don't forget the fact that when stocks start to go against you, they can go a long way in either direction, and that the man who buys outright near the top and thinks he is safe, or the man who sells short near the bottom and puts up 50 points margin and thinks it is enough, can both be wiped out.

You might argue that a man who buys outright in panic years near the bottom is perfectly safe and doing the right thing. My answer is that the man who buys on margin at the bottom of a panic is just as safe and can make more money because he can carry more stock and I intend to teach you how to tell when stocks reach top or bottom.

SELLING SHORT

I am not going to tell you that it pays to sell short; I am going to prove it to you by indisputable records covering over thirty years of market movements.

A lot of people trade in the market for years and never seem to realize that there are two sides to it. I have often heard people remark when stocks were declining fast, "I can not sell short." The man who is a born Bull, chronic to the core, will never succeed; neither will a chronic Bear succeed any better. You must have no sentiment in the way you make money in the market. Your aim and object should be to make profits and you should have no choice of how you make them, whether it be on the buying or selling side. The Royal Road to Success is to be a Bear in a Bear market and a Bull in a Bull market.

If you only trade on the Bull side of the market, you have 50 per cent more against you than if you trade on both sides. What chance has a Bull in Bear years or years of panic and depression? He may buy near the bottom of a break, but unless he grabs profits quick, he will soon have losses; while the Bear who sell stocks short on every rally,

covers them on the breaks and waits for rallies to sell again, is sure to pile up big profits because he is going with the trend, which you must always do.

Study the charts and convince yourself that at the right time there is just as much money on the short side as there is on the long side. Then make up your mind, if you expect to succeed, that you will sell short when conditions warrant.

Your friends, brokers, and the newspapers tell you that it is dangerous to sell short; that there might be a "corner." The chances for a corner in a stock are about one in a thousand. There have been only two important corners in the last 30 years, -- Northern Pacific was cornered in 1901, when it went from 150 to 1000 per share; Stutz Motors was cornered in 1920 and advanced from around 200 to around 700.

Stocks are made to sell and the insiders sell them near the tops just as fast as they can. You are always safe in doing what the insiders do. Stocks with large capitalization are perfectly safe to sell short, because there is a large floating supply of stock and it is impossible to corner them.

The newspapers tell you what the insiders want you to know, not what you need to know. Watch the newspapers. When things are the worst and it is time to buy stocks, they never tell you anything about the good times that are coming, but when stocks are top and the insiders want to unload all they bought at the bottom, the newspapers tell you about dividends, extra dividends, melons, rights, and large earnings, when they should tell you that you are picking "lemons" and are getting "wrongs" not rights on your stock.

A wise man does not expect something good for nothing, and only fools expect the fellow who is on the inside of the game, playing against them, to tell them what he is doing.

The sentiment among brokers is always bullish near the top and bearish near the bottom. The average broker knows no more about the market than you do, and there is no reason why he should. His business is to buy and sell stocks for commissions. That is the way he makes his money, and a broker who does this well earns all you pay him. His business is too confusing. He hears too much on both sides of the market to make his judgment any good.

In December, 1920, when stocks were declining rapidly on two-million share days, the newspapers told you about high money, frozen credits, depression in business, unemployment, buying power reduced, people unable to buy luxuries, automobiles, etc. At this time Studebaker sold at 37 3/4, which was the bottom. It steadily advanced, and not much was said about it until it got above 100.

Now, for several months past, every few days the newspapers tell you about the wonderful earnings of Studebaker. Tips are all around Wall Street that Studebaker is going to 175 or 200 a share. Why tell the outsider all this good news now after Studebaker is up nearly 100 points, and what will be the story told to the suckers who buy the stock at present levels, when it again sells down around 50 or 60, which it will in the latter part of 1923 or 1924? It is the writer's opinion that the man who sells Studebaker and pays the dividend for the next year will make more money than the people who buy it and get the dividends. This applies to other stocks as well as Studebaker.

PYRAMIDING PROFITS

Many a trader has begun at the bottom of a Bull market to trade conservatively and accumulated a large amount of profits. Finally he begins to pyramid too heavily and too fast near the top, with the result that when the trend turns he gets caught overloaded and loses all the profits he has made and probably a lot of his capital. Sad experience has taught me that it is better to be safe than sorry. In speculation let "safety first" be your motto.

In trading, your first risk should be your greatest. Suppose on your first trade you risk 5 points, which, if lost, comes out of your capital. We will assume that the stock moves 5 points in your favor. You can then buy a second lot and place a stop loss order 5 points away, and if it is caught, you will still be only loser 5 points, because you will be even on your first trade.

Pyramiding all depends on where you get in on a stock, -- whether near the bottom when a move starts upward or near the top when it starts downward. On active stocks, as a

rule, it is safe to pyramid every 10 points up or down, but you should decrease your trades and never increase them.

Suppose your first trade is 100 shares and the market advances 10 points; then you buy 50 shares and it advances 10 points more; you buy 30 shares and it advances 10 points more; you buy 20 shares and it advances 10 points more, and you buy 10 shares. After that every 10 points up you buy 10 shares more. In this way, if you follow up with a stop loss order, your profits will always increase while your risk will decrease. Your last trade may show a loss of 3 to 5 points according to how you get out on stop loss orders, but all of your other trades will show big profits. It is always safer to pyramid after a stock moves out of accumulation or distribution zones.

Learn to adhere strictly to a rule or do not follow it at all. One thing you must not overlook, that every time a stock moves in your favor 5 or 10 points, the chances against it moving further in your favor have decreased. This does not mean that the stock will not go a long way in your favor, but it is the percentage against you that must not be overlooked.

BUYING AND SELLING ON A SCALE

Many investors and traders have the idea that the only successful way to trade is to buy or sell on a scale up or down. I have never yet seen a scale method that would beat the market. Some one asked Russell Sage if he believed in buying on a scale. He said that there were only three men who had money enough to buy on a scale, -- Carnegie, Morgan and Rockefeller, and they had more sense than to do it.

A scale method will not work for the reason that you add to your holdings when the market is going against you, thus increasing your risk. If the market is going against you on the first trade and it looks like you are in wrong, the thing to do is to get out quickly and not buy or sell more. The time to take additional risk is when the market is moving in your favor, as shown in my pyramiding plan. It is all right to buy or sell more if you are doing it when you are making profits, but when you are trying to average, with

losses piling up against you, you are sure to make a serious mistake, which will sooner or later cost all of your capital.

HEDGING IN STOCKS

Traders who buy a stock of one group and it starts to move against them, figure that they can even up by hedging or selling something short in another group. This very seldom pays. It is much better to take a loss and take it quickly on the trade that is going against you, and start a new deal.

There are some instances, or have been in the past, where rails and industrials spread apart and then come together again, but to make a play of this kind requires a long period of time. For example:

In November, 1919, when 20 industrial stocks were selling on an average of 119, the Dow-Jones 20 rails were selling at 82, the industrials being 37 points higher than the rails. The writer figured that the industrials would sell lower than the rails within two years, which they did. In August, 1921, the rails were selling at 70 and the industrials at 66, the rails being 4 points higher than the industrials, or a difference of 41 points in favor of the rails in 21 months.

Of course, a trader who sold the high-priced industrial stocks short and bought rails, even at the top in 1919, would have made money, but this is not the way to trade, for the rails declined about 18 points while industrials were declining 55 points.

Therefore, the proper way to trade would have been to keep short of industrials as long as the trend was down, and not do any hedging. The great fundamental rule that you must learn in order to be a success is to follow the trend of the market. If you can not determine a definite trend, get out and wait until you can. You can always make plenty of money after the trend is well defined.

FAILURE TO FOLLOW RULES

The long swings in the stock market last on an average of two years, or approximately 600 market days. If you stand at the ticker and watch the fluctuations, it will make

you change your mind 1200 times in two years. Ninety per cent of the time you will be wrong, because you are not changing your mind for any good sound reason, but simply because a minor move, which may last but a few hours or a few days, has changed the appearance of the position of the stock to the man who views it from short range, standing over the ticker.

Every time you change your mind and change your position, you increase the percentage against you, because you are paying taxes, interest and commission. If you get in wrong, the ticker will keep you wrong because it will make some minor moves every few hours or every few days that will renew your hope and keep you in. On the other hand, if you are in right, and are watching the ticker daily, some of these minor moves that mean nothing will get you out and you will lose a good position. Then, you must realize that you have very little chance to make any money watching a ticker, changing your mind and being wrong 90 per cent of the time.

The *stock tape moves in mysterious ways* the *multitude to deceive,* because the public are *influenced* by their *hopes and fears*. They sell on fear and buy on hope, thus getting in or out near the top or bottom, while the man who trades on some well-defined plan buys when the public sells and sells when the public buys. The *stock market does not beat you. You beat yourself* by following your own weaknesses, by listening to the man who knows less than you know, by reading the newspapers, following the gossip of the Street, all of which is put out to influence you in the wrong direction.

When the average trader comes to Wall Street he is looking for information. He asks the bootblack "What do you think of the market?" He also inquires of the waiter in the hotels, the office boy, his broker, friends and strangers around the broker's office. I am conservative when I say that the average floating trader asks the opinion of 10 to 12 people every day, most of whom are all guessers and know no more about the market than he does. If their opinions agree with his, he considers it good information and follows it, and of course, loses money. If half of the people he talks to disagree with him, he probably does not act on his own

judgment, and later finds that it was right. He says to himself "If I had only bought when I intended to, I would have made money, but I talked it over with the broker and the boys, and they convinced me that I was wrong."

"A wise man changes his mind, and a fool never." A wise man also investigates and then decides; a fool just decides. The man who is fixed in his opinions on stocks, either a born Bull or Bear, will never make any money. A man must always be of open mind, ready to change his mind and act quickly when he finds that there is a good reason to do so. In *Wall Street* the *man who does not change his mind will very shortly have no "change" to mind.*

I know of a trader now in Wall Street who is an old man, probably eighty years of age. He has made several small fortunes in his day and some of his big profits were made when he got in stocks that moved quickly 50 to 100 points. After that, he would lose all of the money that he had made, trying to catch another move where he could make 50 to 100 points quickly.

This man had been broke for several years prior to 1915. When the great war boom started, he got hold of a few hundred dollars capital and started buying stocks and pyramiding. He got in at the right time, on the right stocks, i.e., he bought near the bottom; stocks began to advance and he began to pyramid. He bought Baldwin below 50, Crucible Steel below 40, Beth. Steel below 50, Studebaker below 60. He was fortunate enough to get into the real "war babies."

He was trading in odd lots in the beginning and when the market reached top in the fall of 1915, he was carrying thousands of shares. His equity with the broker was over $200,000. I said to him "Now is the time to turn your paper profits into cash." At that time Baldwin showed him over 100 points' profit, Crucible over 100 points and Beth. Steel several hundred points' profit on his original trades. But he had gotten so bullish and so full of hope that he thought everybody was crazy and that every stock on the list was going to be a Beth. Steel and go up to 700.

I remember one day in October, 1915, when Baldwin advanced to 154, which was the top, and the market was very wild and excited. I said to him "Now either sell out

all of your stocks or protect your profits with close stop loss orders." He said "Stocks haven't started to go up good yet" and he gave me an order to buy 500 more Baldwin. He said "I am going to sell Baldwin around 250, not 150." That afternoon Baldwin declined to 130, and all of his other stocks in proportion, but he held on and hoped. Stocks continued to go down, and in a few months Baldwin was back around 100 and he was forced to sell out his big line of stocks, and his profits of $200,000 were reduced to where his account showed less than $10,000.

Now, where is the mistake with this kind of trading? This man saw the opportunity at the right time. He bought small amounts of stocks at the right time and he pyramided right. But he failed to get out at the right time. A *profit is never a profit so long as it is on paper*. It must be turned into cash. This man refused to see the market as it really was. He was so bullish that he could not believe a 20 or 30-point reaction showed that the trend had turned, at least temporarily. Once a man has a profit and protects it with a stop loss order, he knows that that much money is safe and he is sure to get it, but if he holds on and hopes, and increases his buying at the top, he is sure to lose.

This man, after making and losing money, again went broke in 1917, and as yet has not come back, because he is getting too old, and he is too hopeful. To this day, he will listen to the advice of any clerk in a broker's office or, in fact, anyone around a brokerage office, who will tell him of a stock that is going up 100 points, and he will believe it. Why? Because he hopes to get in again on a stock that will go up 100 points or more, pyramid it and make a fortune. If you tell him that you know of a stock that is sure to go up 5 or 10 points, he will pay no attention to you. He is not interested in making 5 or 10 points. He wants to make 100.

Some people never learn by experience. This man has been trading ever since before the Civil war, and in over 50 years has not learned that abnormal markets, where prices advance over 50 to 100 points in a few months, occur only three or four times in a lifetime. He is expecting things to happen every year which experience should have taught him are not likely to happen more than once in 20 years. He

does not see that markets are normal most of the time, and fluctuate in a normal way. Therefore he does not reason right or do any sound thinking. He works on an exaggerated bump of hope, and of course, meets with disappointments and losses.

You must always learn that normal profits must be accepted in normal markets, and in abnormal times you can try for abnormal profits, but protect your trades whether they show profits or not, with stop loss orders, and *be ready to change your mind* when conditions change.

CHAPTER X

CHARTS AND THEIR USE

WHAT YOU SHOULD KNOW ABOUT A STOCK

It is all well enough to know the history of a company, whether it is old or new, its earnings over a long period of years, how long it has paid dividends and its future prospects; also whether it is over-capitalized or whether the capitalization is conservative or not. But all of the information that affects the future price of the stock is contained in its fluctuations and you need nothing more than its record of prices.

A lot of people say that charts are of no value in determining the future; that they simply represent past history. That is correct; they are records of the past, but the future is nothing but a repetition of the past. Every business man goes on the past record of business in determining how to buy goods for the future. He can only judge by comparison with past records. We look up the record of a man, and if his past has been good, we judge that his future will be good.

Charts are simply a picture, which show plainer than we can convey in words. The same thing could be told in words, but you grasp it quicker when you see it in chart form. You would recognize a man and his good or bad qualities quicker from seeing his photograph than from reading a description of him.

I want no better authority on anything than the Bible. “The thing that hath been, it is that which shall be; and that which is done, is that which shall be done; and there is no new thing under the sun.” This shows that history is but a repetition of the past and that charts are the only guide

we have of what stocks have done and by which we may determine what they will do.

If a machine instead of a human being made the market, then it might be different, but to those of us who know how to read the signs of what the manipulators are doing and of what they intend to do, charts and past records are of great value.

Therefore, you should have a chart of monthly high and low prices as far back as you can get them; then a chart of weekly high and low prices anywhere from 6 to 12 months back, and last a chart of daily high and low prices 30 to 60 days back. This will show you what the tape tells about the past, present and future condition of the stock. If the indications are not clear, you will have to wait a little while until the tape shows which way the balance of power lies and whether supply or demand is equal or one is overbalancing.

VOLUME

Do not overlook the volume of sales, for this is what tells whether supply or demand is strong enough to move the stock up or down. Consider the daily, weekly, and monthly volume of sales according to the total amount of stock outstanding. For instance:

If you look up U. S. Steel for the last three months of 1922, you will find that it was in a narrow range for several weeks and the total sales only 300,000 shares. You can not expect any big movement will take place either way immediately. Why? Because there are five million shares of U. S. Steel and one million or more shares must change hands before any big move will take place from any resistance level. The greater the volume of stock the longer the time required to accumulate or distribute a line sufficient to cause a long swing move up or down.

WHAT VOLUME TELLS

The volumes of sales on each individual stock show the percentage that is being bought and sold. That is why the tape and fluctuations tell the truth, provided you interpret

the tape correctly. Certainly a stock cannot be distributed or accumulated without a large volume of sales. Some one must buy and sell a large per cent of the capital stock near bottom or top in order to cause a big move in either direction. Therefore, study volume closely, the time required to sell a large amount of stock, the number of points which it moves up or down while the volume of sales is accumulating.

Suppose U. S. Steel has advanced 20 or 30 points, and it reaches a level where there are 200,000 shares in one day, but the stock only gains one point. The next day there are 200,000 shares and it makes no gain. This is plain enough that at this point the supply of stock exceeds the demand, or at least that buyers are able to get all the stock they want without bidding prices up. In a case of this kind, the wise thing to do is to sell out, watch and wait. If all the stock at this level is absorbed after a reasonable length of time, and it moves up to new high prices, it will then, of course, indicate still higher.

In a big bull market, when stocks reach the distributing zone, they will fluctuate over a wide range and the volume of sales will run several times the total outstanding capital stock. For instance: In the latter part of 1919 and spring of 1920, Baldwin Loco. sales ran from 300,000 to 500,000 shares per week, while the stock was fluctuating between 130 and 156. This was when distribution was taking place, and the public was full of hope and buying regardless of price.

After that, a long decline started and Baldwin reacted to 62 3/8 during the week ending June 25, 1921. It was down 93 points from the high of 1919. During the last week of the decline, it went down from 70 to 62 3/8, over seven points, and the total sales for the week were less than 110,000, which showed that liquidation had about run its course and that there was very little stock pressing for sale. The amount of sales at this time in one week were about half of the capital stock and probably about as much as the floating supply, while when the stock was nearly 100 points higher, the capital stock was changing hands about twice each week.

After Baldwin reached the low level of 62 3/8 in June, 1921, notice it began to rally on small volume, which showed that there was not much stock for sale and that it did not

require heavy buying to put it up. The supply of stock in the hands of the public having passed into strong hands, it was easy to start the advance in this stock which continued until it reached 142 in October, 1922, where distribution again took place. This is how volume shows you when accumulation or distribution is taking place.

CHAPTER XI

THE SEVEN ZONES OF ACTIVITY

The stock market can be divided into seven Zones which determine the different stages of activity. There are three Zones above normal and three below.

The *Normal Zone* represents something near actual intrinsic value, as far as human judgment can be depended upon and as far as the ticker tape can analyze it from supply and demand. The line marked "normal" we consider as a place where buying and selling is about equal and fluctuations are very narrow, there being no incentive or reason apparent for any wild speculation up or down. Either accumulation or distribution may take place around the Normal Zone. Investment stocks or gilt-edge bonds may start downward from this zone, while speculative issues, which have prospects or exaggerated hopes of big earnings, may start up from this zone.

The *First Zone above Normal* marks the period of quiet advancing prices which attracts very little attention. This zone may last one month, three months, six months or a year, according to the cycle the market is passing through in general conditions, because from Normal to the Third Zone at one time may be reached in twelve months and at another time may not be reached for five or ten years, viewing the market from a long swing standpoint.

The *Second Zone above Normal* marks a period of greater activity when pools begin marking up stocks. You will hear reports of better business and the public will become interested in the market and buy on a small scale, but most people will wait for a reaction back to Zone I to buy. Of course, this reaction seldom ever comes.

The *Third Zone or highest above Normal* marks a period of distribution. In this zone great activity takes place

and extremely wide fluctuations. Stocks are very feverish; the public buy madly; reports of big earnings come in; dividends are increased and stock dividends declared. Everything is optimistic. Prominent men talk of the greatest prosperity ever known. Weeks and months go by and stocks continue to advance. Reactions are very small. People who wait for reactions become discouraged and buy at the market at any price. You hear of fortunes being made by the office boys, the bootblack, bookkeepers, stenographers. Everybody is rolling in wealth and all of them are dreaming of fortunes yet to be made. Most of the fortunes that they are counting on, of course, is paper profits. They have not yet cashed in, and not 10 per cent of them ever do cash in at this stage of the game. They get too full of hope to sell. This stage of the market occurred from August until the end of October, 1919. Many of my readers know what happened to them.

In this stage, for weeks and months, every few days stocks will open up anywhere from 1 to 5 points higher and keep on going up without much reaction. After this has happened and the end is near, although no one can see it, traders all go home some night, hopeful with the sky clear and not a sign of disturbing cloud, and come down next morning and find stocks opening off anywhere from 1 to 5 points. There may be no news out or any reason at all for the decline, but the real cause of it is that the market has reached the stage where Supply exceeds Demand. Everybody has bought to full capacity and there not being any large amount of buying orders in at the opening to support prices, they open off. This is your first sign of the end. Take warning! Get from under, for with this first lightning strike, you may know that the storm is gathering, and it behooves you to protect yourself. After this first sign of the end, stocks may go lower for a while and then rally up near the high points and hold for a time, but it is the warning that the "saturation point" is about reached, and the wise man will get out in time.

The history of the world shows that there never has been a time when there was a great demand for anything, whether it be a product of the mine, factory, or farm, that sooner or

later, a supply in excess of that demand did not develop. Just as soon as any business becomes profitable enough for a few men to make big money, enough people will get into it to cause overproduction and force prices down. This is but a natural law. It is caused by the weakness of human flesh and it applies to the stock market the same as to any other business. When stock prices reach this third zone above normal, fluctuations are so wide and rapid that fortunes or big profits can be made very quickly. This attracts all classes of people to the market. They buy and continue to buy, and prices continue to rise until somebody from the inside, outside, top side or bottom side, supplies the demand, and the whole crowd find themselves at the saturation point loaded with stocks, looking for a buyer, and he is not there. Then follows the deluge back to Normal and on down to the final and third stage below normal.

The *First Zone below Normal* is marked by a quiet decline from high prices and what might be termed the first bad shake-out of the weak holders. A rally follows but stocks become dull on the rally because the Supply is still greater than the Demand and distribution is still going on. A lot of people who miss the market in the third stage above normal are wise enough to sell out in the first stage down, and professional traders, seeing that the bull market has terminated, go short of the market on every rally with the result that prices begin to work lower slowly.

The *Second Zone below Normal*. -- Liquidation increases, breaks become bigger and rallies smaller; reports of falling off in business come to light and a more conservative spirit underlies general conditions. People are less hopeful, become more conservative and stop buying. The result is that the market is without much support and gradually works lower.

The *Third and final Zone below Normal* is exactly the opposite of the third zone above. It marks a period of panicky conditions, extreme pessimism; investors lose confidence and start selling out. There is great excitement throughout the country and reports of poor business; dividends are passed or reduced and even the men who were optimistic at the top, now begin to sound a word of caution

and hint that things may get worse before they get better. The supply of stocks seems unlimited; everybody is a seller; no one wants to buy. You hear people say that they are not worth the paper they are written on. They are talking about the same stocks that they bought 50 to 100 points higher. When this stage is reached, it is the time to cover shorts and buy stocks when nobody wants them. In this stage, it may be necessary to watch and wait for several months until you see that liquidation has been completed and that accumulation is taking place, as there is always plenty of time to buy after the quiet advance starts. Remember, it is always darkest just before dawn, and it is always brightest at noontime, just before the sun starts to recede.

CHAPTER XII

HABITS OF STOCKS

The stock market is driven by human energy, i.e., prices are made through buying and selling of human beings, and as human beings have certain habits, certainly the market or the individual stocks reveal the habits and methods of the men who make markets. You should become thoroughly acquainted with the stocks you trade in, and by studying them, you will learn their individual moves which are peculiar to themselves. This is caused, as I have explained elsewhere, by a certain group of men or pools that operate in a stock for a long number of years.

Investigate and learn all you can about the stock that you trade in before you make a trade, not afterward. Study the number of points each individual stock makes in its moves up or down. Note carefully the volume of sales on which it culminates in major or minor moves. Note whether it makes it bottoms or tops by a very fast run up or by a slow, creeping movement. Some stocks make sharp tops and bottoms, some make round tops, other make square tops, some make double tops and bottoms, some make triple tops and bottoms, while others only make the single, or sharp top and bottom. By a double or triple top I mean a stock reaching a certain level, then having a big reaction and moving up to the same high level a second or third time, and vice versa.

TOPS AND BOTTOMS-FLAT OR SHARP

Stocks are no different than human beings -- they have their peculiar habits and moves. It is just as easy to tell what a stock will do by getting acquainted with it and watching its moves over a long period of time, as it is to tell what

a human being will do under certain conditions after you have known him for many years. Remember that stock market movements are made by human beings; therefore they reflect what the human mind thinks and reveal the actions, desires, hopes, wishes and aims of the men who manipulate special groups of stocks that they are interested in.

Stocks do not all move alike. Some are leaders, others are laggards; some are fast movers, some slow movers.

The stocks that lead and reach top first make what we call on a chart *flat tops* -- that is, they reach a level and remain there for several weeks or months, fluctuating up or down over a wide or narrow range according to the kind of a stock, but never getting much above the level where distribution started. These stocks, of course, are the first to lead a decline when a bear market starts.

The stocks which are late movers and start their advance after the general market is about top are rushed up fast and make what is known as a *sharp top*. They do not remain long at top levels, but decline quickly, because the general market has already turned downward, and, of course, the late mover, which is going against the trend, must naturally meet with greater selling pressure at high levels than the stock which is already down considerably from the top.

Then the question might be asked, “Where does distribution take place in stocks that make sharp tops?”

They are distributed as they run up and are also sold on the way down. After making a sharp top, they usually break back 10, 20 or 30 points and then halt. At this level most people think they are down too much to sell short and have reacted enough to be good purchases; therefore they buy them. In a case of this kind, distribution often takes place 20 or 30 points below the top in the late movers, while the stocks which lead the advance are distributed within 5 to 10 points of the top.

The leaders make the same level many times, some stocks as much as 10 or 15 times, while the late mover is more of a volcanic eruption. It shoots up to the top and never makes the same high price the second time, because when the explosive buying power is over, it recedes quickly to a level

that might be termed semi-normal. It is a quick recession from high temperature.

TIME REQUIRED FOR DISTRIBUTION

The time required to distribute stocks depends upon the stock, the amount of shares outstanding, general conditions and how well the stock is known or advertised among the public.

For instance: In a market like 1919, when trading averaged two million shares per day for over sixty days, it would be easier to distribute a million shares of stock in sixty days when the public were all wild and madly bullish, buying everything in sight, than it would be to distribute them in one year's time in a normal market. When stocks reach a level where distribution is taking place, they make rapid moves up and down. There is a large volume of trading and both short selling and buying is taking place. People are attracted to the stock that makes fast moves up or down, because there are great opportunities for making money.

People once convinced about a thing remain convinced for a long time. For example: A stock moves from 120 to 150 seven or eight different times -- that is, every time it comes down around 120 it rushes up again to 140 and 150. The public finally become convinced that every time it gets down around 120 it is a sure buy for quick profits. Now, eventually, after the stock has been thoroughly distributed, it declines to 120 and fails to rally. Everybody is long of it, holding on and hoping. It goes down 10, 30, 40, or 50 points, until investors and traders become disgusted, scared and sell out.

Some of the surest signs of distribution are fast moves up and down on large volume, increased dividends, stock dividends and special privileges to stockholders, which really is the bait that catches the sucker and in the end causes a big loss.

MISJUDGING THE TIME OF ACCUMULATION OR DISTRIBUTION

It requires different lengths of time in various stages of the market to accumulate or distribute stocks. A pool may

form in the early part of the year and buy a large amount of stock, expecting a spring rise. The advance comes in April or May, and the pool sells out, distributing its line of stock to the public. A break occurs in June or July and the public gets scared and sells out the stocks they bought at the top. Then this same pool, or another one, buys back the stocks, and another advance comes. This may go on for three or four different times with the stock being distributed at the different stages, which are only minor periods of distribution, and finally when the extreme high or final zone of distribution is reached and everybody is so bullish, the stock is distributed for a long bear campaign.

The same occurs on the way down. The market halts and holds at one level for some time, then rallies, where the bears put out a line of shorts and the stock continues downward, going through two or three different stages of liquidation before the final stage is reached where accumulation takes place for another big bull campaign. This is all fully shown on the Charts Nos. 11 and 12, showing the different tops and bottoms on the Averages of the railroad and industrial stocks.

Bull or bear markets all move in sections of three to four waves up or down, individual stocks working out their high or low points according to their Time factor and individual vibrations. See chart on Industrial Alcohol which shows the different levels or sections on the way down. Each resistance level might have been considered a bottom, but it was only a temporary bottom, as it shows plainly that it failed to make higher tops on each succeeding rally.

Many stocks will halt near the end of a bull or bear campaign and make a level which looks like accumulation or distribution, and appears to be the final top or bottom, but if the public buy heavily, or shorts all cover around a level of this kind, there may be built up, even at a very high or very low level, a weak long or short interest which will cause a final drive making the final top or bottom, as the case may be.

Often when stocks are nearing final top, professional shorts will put out a big line of short stocks; then something will occur to cause them to get scared and start to cover,

and their buying, together with public buying, will force prices to a level a little higher than previous tops, all of which is plainly shown on the charts Nos. 11 and 12 on Rails and Industrials. This rule is also fully explained in the example given in regard to Retail Stores and its bottom of December, 1920, and the next bottom February and March, 1921.

RESISTANCE LEVELS

Before you start trading in any stock, get a chart on it for several years back, if you can. Study it closely. Note the levels at which bottoms and tops have been made. Find out where its previous resistance points have been made. Then you will be able to determine whether you are entering the market at a safe or dangerous level.

Suppose in 1921 you wished to buy a railroad stock which paid a good dividend and had prospects of advancement. We will presume that you made up a chart on New York Central from 1896 to date. (See Chart No. 5.) Now read about New York Central under chapter "How to Tell the Stocks that are in the Strongest Position." Thus you will see that by having a record of stocks, you get acquainted with their movements and are able to know whether you are buying near the top or bottom of a move.

Suppose you make up a chart of a stock and find that it has advanced from $10 a share to $50 and is selling at $40. This would not be a safe place to buy, because it is too close to the high price and too far away from the low price. Of course, this does not mean that many stocks which have reacted from $50 to $40 are not good purchases. I am merely giving you an example of a place of safety in buying or selling. No matter whether it is a small move or a large move, before you buy or sell you should wait until the stock shows that it is meeting with resistance one way or the other. Always remember that you should *have a reason for making a trade. Do not buy or sell on hope;* that is pure gambling and *gamblers always lose* sooner or later.

WHEN TO BUY OR SELL AFTER EXTREME TOPS OR BOTTOMS

The way to tell when to buy or sell after stocks are away from extreme tops or bottoms is to watch reactions and rallies. The average stock reacts 5 to 7 points, sometimes 10; low priced stocks 2 to 3 points.

Watch the time required to complete major or minor moves. In very active markets stocks will seldom react more than two days or the third day they will sell higher. Buy on the second day's reaction and stop three points.

If stocks get dull or narrow near bottom or top, wait for activity, then buy or sell.

After a stock has held below a top or bottom for two weeks or more, gets active and makes a new high or low, then buy or sell as soon as it gets active in new territory.

GETTING IN WHEN THE MOVE STARTS

Many people see a stock start advancing and wait for a reaction on which to buy. The reaction does not come and they get left. Reactions, cross-currents and reverse moves take place during the accumulation stage. When this is completed and the stock moves up out of the accumulation zone, it does not react much. Why? Because the insiders have bought all of the stock that they want and their next *objective point* is to move it up to the *distributing level* where they can start to sell. They do not come back to let you or anyone else get on once the move starts.

He who hesitates in Wall Street is lost. Therefore when you see a stock starting to move, if it is very active and the volume of sales large, do not wait; buy at the market.

The same rule applies to selling. When once a stock breaks out of the distribution zone, if you are long of it, sell out at the market and go short. There is no use holding on and hoping. The stock is not going to move back to a high level just to let you sell out, no more than the 20th Century train will back up to the Grand Central station to let one passenger get on after it is twenty miles out. You must get on when they holler "All Aboard" or you are left, and this certainly applies to the stock market.

Of course, you must study the stocks and be able to determine when these big moves start. As a rule, when accumulation or distribution is finished and the move is under way, you can make more money in one to two months' time, while the run is on, than you can trading for the narrow swings in six months' time.

NARROW FLUCTUATIONS AND DULLNESS

Markets nearly always culminate at the top of Bull movements with wide fluctuations and large volumes of sales, which may keep up over several months, finally culminating with several days of two to three million shares. When these signs come, take warning, for the end is near.

Bear markets, which are very rapid and fast, also wind up with wide fluctuations and large volumes of sales. For instance: On December 22, 1920, stocks declined rapidly and the volume of sales reached 3,000,000, which was the largest day of the year. The market had been declining for several weeks and the volume of sales had been running high. This was the final culmination, from which a big rally started, and many stocks have never sold lower than they sold on that date.

For many years when sales of two to three million have occurred at top or bottom, it has always marked the turning point one way or the other. When a stock or group of stocks on Averages remains for a long time in a narrow range and the volume of sales is small, it is a sign that either distribution or accumulation has run its course and the market is getting ready to turn. After short weeks, months, or years, watch which way the market turns and go with it.

Averages. -- The range on Railroad stocks in 1921 was only 11 points on Averages. The market was down to 66 on Averages against a high price of 138 in 1906. This was the shortest year's fluctuations since 1912 and indicated that liquidation had run its course, because Railroad stocks became very dead and inactive and everybody afraid to trade in them. Then the upward move started.

In comparing the position of Railroad stocks with Industrial stocks, note on Chart No. 1 of Yearly Averages that

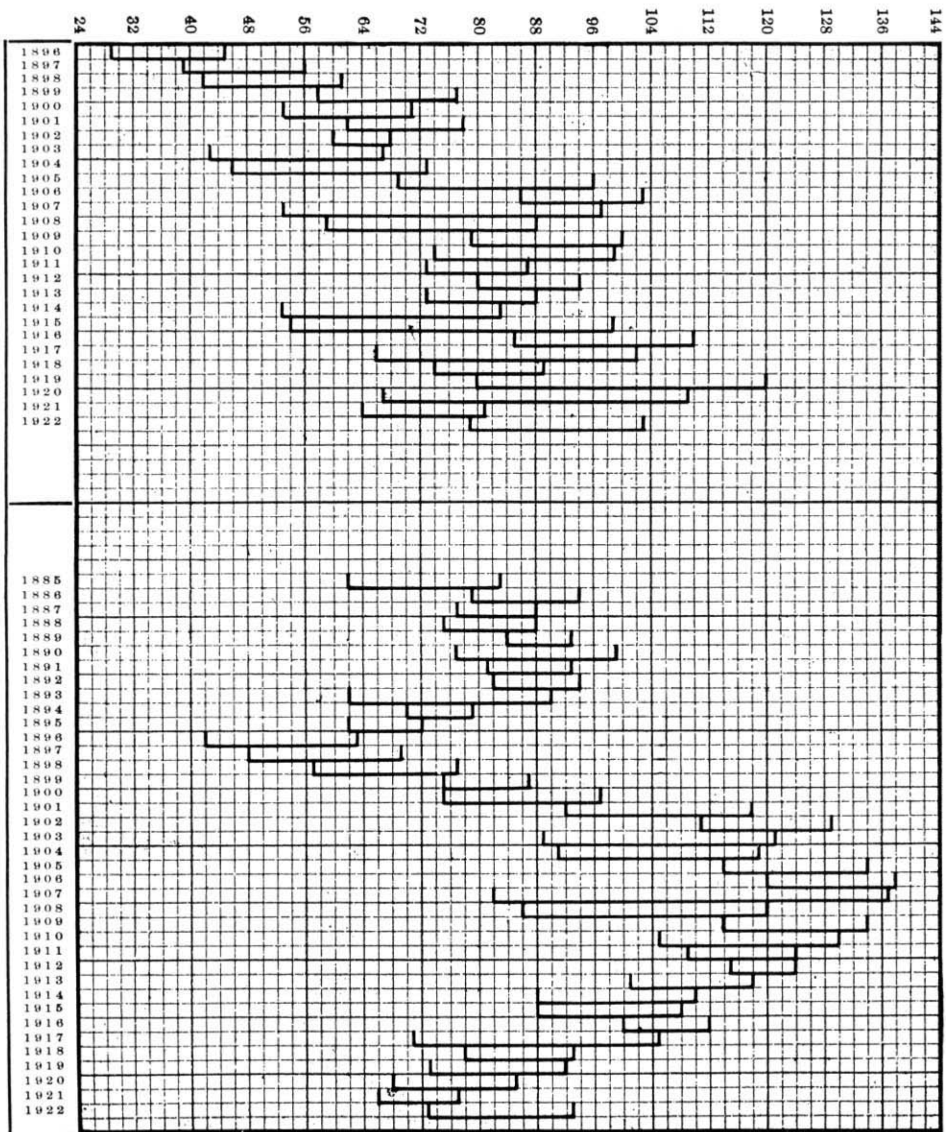


CHART No. 1.—Dow-Jones' Averages, Yearly High and Low.

20 Industrial Stocks: 1896–1922

20 Railroad Stocks: 1885–1922

both Rails and Industrials made extreme low prices in 1896; that Industrials made a higher bottom in 1903 and a still higher bottom in the panic of 1907, and declined to the same level in the 1914 depression; in 1917 made a still higher level and in 1921 went only two points lower than the low of 1917, while Railroad stocks declined below the level of every year, except 1898.

This shows that Industrials were receiving better support and were in position to advance faster than Rails. They have advanced 40 points on Averages from the low point of 1921, while Rails have advanced only 27 points. This is the way to compare the Averages of different groups or individual stocks to determine the ones that are in the weakest or strongest position.

Many stocks when they reach low levels and accumulation is taking place remain in a very narrow range for many months, but once they break out of this range, great activity develops and you should watch the trend and go with it. For example:

Mexican Pete. -- In 1918 advanced to 98 in February; reacted to 90. Traded between 98 and 90 until May, 1918; then advanced to 102. Reacted to 91 ; advanced to 102 again in June; then reacted to 96; advanced to 103 in July; then in the month of August traded in a range from 100 to 102, only two points, which was the shortest month of fluctuations in its history. This short month of extreme dullness at the top of an advance showed that accumulation was taking place and that the insiders were simply waiting, giving everybody an opportunity to sell all the stock they would and to encourage a big short interest before starting the big advance.

Therefore, this showed that it was getting ready for a big move one way or the other. In September it reacted to 98, then advanced to 104, which was above all previous tops since January, 1917. The advance continued, with only small reactions, until the stock reached 194 in October, 1918. It reacted to 146 and continued to make higher bottoms until it finally reached 264 in October, 1919.

CHAPTER XIII

DIFFERENT CLASSES OF STOCKS

DOES IT PAY TO BUY NEW STOCKS?

When companies are first organized and their stocks are listed on the Curb or New York Stock Exchange, they are held by the insiders or people who form the companies and sell stocks in order to carry on the business. Therefore, they are distributed to the public. While they may advance for a short time after they are first brought out, the man who buys and holds them is sure to have big losses, if not suffer the loss of his entire capital before he sees a profit. For example:

U. S. Steel. -- In 1901 when the U. S. Steel Corporation was organized, the common stock, of which there was 5,000,000 shares, was put on the market around 40. It advanced to 55 and in less than 60 days, on May 9th, when the Northern Pacific corner occurred, it declined to 24. The highest it ever rallied after that was 48. It then slowly declined until it reached 8 5/8 in the Spring of 1904. The stock traded between 10 and 12 per share for nearly a year. This was the time to buy because it showed that it had reached a level where the insiders were supporting it and taking back all the stock that they had sold in the 40's.

The stock did not get above 50 until 1908. Therefore, the people who bought when it was first issued and held it had to wait seven years before they were even on it. Besides, over 75 per cent of their capital was wiped out when the stock was near the bottom, and it takes a man with a lot of nerve and a big bump of hope to hold a stock when it is that much against him. This is one of the few stocks that did come back and go higher after it was first distributed to the public. Hundreds of others are either assessed or go out of existence.

Transcontinental Oil. -- One more example of a stock that cost the public millions of dollars in 1919. Transcontinental Oil, which was placed on the market around 45 in 1919, advanced to 62 in November of that year. Hundreds of people were induced to buy and were told that it would go to 100 or higher. It started on its long decline because the insiders had sold out to the public and there was no support to the stock. In a little over twelve months, or in December, 1920, it sold at 6, which would wipe out 90 per cent of the capital if a man bought it outright anywhere near the top.

Make up a chart on this stock and study it. See how it looks at the top and how it looks at the bottom. After it sold at 6 in 1920, it advanced to 13 in April, 1921; then declined to 6 in August, 1921, the stock becoming very inactive, which showed that it had reached a level where the selling was over, and somebody was buying it. It advanced to 12 in December, 1921, which was one point lower than the high price of April. Then declined again to 7 1/2 in March, 1922, where it again became inactive and dull, showing that there was support and that the stock was thoroughly liquidated. This was the time to buy. The stock has since advanced to 20 in May, 1922, and still shows upward trend.

Transcontinental Oil was not the exception. Almost every other new company which placed stock on the market in the boom of 1919 declined in the same way. Always bear in mind that new securities are floated in boom times when everybody wants to buy and they are put out at high prices so that they can be sold all the way down. Therefore, great caution should be used in buying new stocks and you should get out quickly when they start to decline and go short.

Then, when you think stocks have reached bottom, wait and give them plenty of time to show whether the Demand is strong enough to give them permanent support or whether they have reached temporary bottom, only to break out and go lower a few months later. When stocks reach top or bottom you do not have to be in a great hurry to get in or out, as the insiders require a lot of time to accumulate all of the stocks they want near the bottom and require time to make a market to distribute them near the top.

BUYING OLD OR SEASONED STOCKS

It takes time, sometimes several years, to distribute a large amount of stock and get it into the hands of investors who will hold and not sell out when it advances or declines. Therefore, the average stock is manipulated over a wide range for many years, varying anywhere from five to ten years, until investors absorb it all. After that if it is a fairly good company with established earnings, it will fluctuate over a narrow range, because the investors have it and there is no manipulation in it.

But remember one thing, that after a stock is in the hands of investors there is no more money in it for the insiders until such a time as they can start a scare and get investors to sell out. This requires a long time, because investors who have confidence in a stock and who have held it for several years are slow to let go of it. As long as it pays dividends they feel safe and hold on.

Finally when it reaches lower levels than it has been for a long time, heavier selling starts, and as there is no support of any consequence, the stock declines rapidly until it reaches a level where the wise manipulators are willing to buy it back again. This is why it is often safer to sell a stock short when it is down 50 points from the top than when it is only down 10, as all support has been withdrawn; everybody wants to sell and no one wants to buy. I can cite you hundreds of examples of this kind. A few will suffice.

New Haven. -- This railroad had paid dividends of 4 to 10 per cent for about thirty years. The stock was in the hands of investors and it started to decline. When it was down from 280 to 200 it still paid dividends. Investors held on because they thought it was all right. Later when it was selling at 150 in 1911 it was still paying 8 per cent and investors were holding it because they felt that it was safe; it had paid dividends so long.

But the insiders who were out of it and had been selling it short for many years, knew that the time was coming when all the dividend would be passed. In 1913 the dividend was reduced to 5 per cent and the stock declined to 66 on heavy liquidation. The highest it ever rallied after that was 89

in 1915, the entire dividend being passed in 1914. A lot of people who had held on and hoped did not sell out when the dividend was passed, but as the stock slowly worked to lower levels they lost hope and sold the stock for what they could get, the result being that it declined to 12 in 1921.

This shows that stocks are never so low but what they can go lower and are never so high but what they can go still higher. How many people would sell New Haven short at 50 a share when they knew it had sold as high as 279? Yet, it was a safe short sale all the way down to 12. When conditions change the price at which a stock has sold makes no difference and you must play it as it is.

Union Pacific. -- The same thing applies to selling stocks short. A lot of people knowing that Union Pacific sold at 3 1/2 a share in 1896 and was assessed at $20 per share could not realize that it could be worth 50 per share in 1899. Therefore, they sold it short and went broke. In ten years after it was assessed, it sold at 195 3/8 and paid 10 per cent dividends. It went to 219 in 1909.

Therefore, people who could not forget the low prices at which the stock had sold and were not broad enough to see the changed conditions brought about by E. H. Harriman, lost fortunes bucking the trend and selling it short whereas if they had only gone with the trend instead of against it, they could have made a fortune.

Am. Sugar Refining. -- This was another stock which fluctuated wildly for many years until the stock was distributed and nearly all held by investors. Then it quieted down and remained in a narrow range for many years. In 1919 its dividend was increased to 10 per cent, the highest paid for twenty years. Yet, in the big boom and extreme high prices for sugar, the stock failed to advance anywhere near the high prices at which it sold in 1898 to 1906, the years when it was being manipulated and distributed.

In 1921 the entire dividend was passed and the stock declined to 47 5/8. Of course, everybody knows how quickly the bottom fell out of the sugar market without warning, but you might ask how the investor would know when to sell out the stock to protect his investment. We will assume that there was no indication or warning for him to sell out

in 1919 at high prices. But there must be some place when a stock starts down where it will reach a level that shows weakness and support withdrawn.

In 1914, which was a panic year, the low price was 97; in 1915 low 99 1/2; in 1916 low 104; 1917, another panic year, low 89 1/8 ; 1918 low 98; 1919 low 111 1/4. Notice that from 1914 to 1919 the stock was being supported around 97 and that in 1919 the low point was 111 1/4. Now, in 1920, when the stock sold early in the year at 142, everything might have looked all right for it, but when it broke through 111, the point at which it was supported in 1919, and then declined below 98, the support in 1918, it certainly was warning enough that support had been withdrawn and that an investor should sell out. He certainly had an opportunity to buy it back again over 50 points lower if he wanted to.

Therefore, you see that you must be careful about buying stocks when they are first listed and new, and must also be careful about buying them after they have passed into the hands of investors and have become stale after the company is many years old. The time to make money trading for fluctuations, or points of profit, is when stocks are in the distributing stage, which lasts anywhere from one to five years, sometimes longer. After that you must look for new and more active stocks.

Market movements are made by men and they represent the activity and energy of human beings. A young boy is more active, moves faster than an old man, but he makes more mistakes, has more ups and downs. An old man when once he starts down hill and old age gets a grip on him, seldom ever rallies or comes up again. It is the same with old stocks. Therefore, always play the favorites, the leading active stocks which have wide ranges of fluctuations and are traded in in large volume on the New York Stock Exchange.

SELLING LOW-PRICED STOCKS SHORT

Always remember that every time somebody buys, someone else sells, and vice versa. Do not forget this fact -- that

there is just as much stock when prices are low as when they are high, and somebody always owns the existing capital stock of a company. For example:

U.S. Steel. -- When Steel sold at the lowest price in its history, 8 5/8 in May, 1904, there were five million shares. Again, when it sold at the highest price in its history, 136 5/8, in May, 1917, there were still five million shares. Somebody owned the five million shares when prices were the lowest, and somebody owned the five million shares when they were at the highest. It was the insiders who owned the stock at the bottom, and the outsiders who bought it at the top, because it was paying 17 per cent dividend. While it was paying no dividend, it sold at the lowest.

A large percentage of the public buy low-priced stocks for the reason that they think they will go down less and hope that because they are low, they can go up high. This, of course, is a false impression and not based on any sound fundamental principle. Most of the time, when stocks sell at low prices, they are not worth any more, probably less than they are selling for. When they sell at high prices they are worth what they are selling for or there is some reason or cause for the high level of quoted value.

Certain low-priced stocks always become favorites of the public and they buy them, which enables the pools and insiders to sell them out. Then, of course, they go down, because there is no support. The public having bought to capacity, can not buy any more. Prices decline, and finally the public, becoming disgusted, sell out near the bottom. You can always make big profits by selling short low-priced stocks that are favorites and in which there is a big long interest. For example:

Southern Railway. -- Was a great favorite with traders throughout the South from 1901 to 1920. Every time this stock advanced above 30, they would become very bullish, hoping and expecting that it would advance to 50 or higher. A chart of it will show you that it was a good short sale every time the public bought it heavily.

Erie is another stock that the public have always bought on hope and there have often been big opportunities for selling it short at comparatively low levels, as it has always

declined until the public became disgusted and sold near the bottom.

The percentage of declines in low-priced stocks is often greater than the declines in high-priced issues. Therefore, the medium low-priced stocks are safer short sales because they rally less.

BUYING HIGH-PRICED STOCKS

When a stock starts to advance, say from around 100, which is its normal level, it will meet with a lot of selling every five to ten points up because people who think it is high enough and have profits, sell out. If it continues to advance, most all of the public will sell out. Then, the professionals and the public will decide that it is too high and start to sell short. They all look for a reaction, but it does not come. The stock continues to advance until it reaches a level where all the shorts have been so badly licked that they cover up and quit.

A lot of people after seeing a stock advance from 100 to 200 become convinced that it is never going to stop going up and they buy. The result is that at a high level a weak, long interest is built up, and the short interest run in, and, of course, the stock eventually starts on a long decline. Often people who believe a stock too high at 110 will think it cheap enough at 180, after it has reacted from 200. You can always make money buying high-priced stocks when everybody is getting out because they think they are high enough for a reaction.

This is why stocks halt and react at low levels and then when they get to high levels, rush up fast and react very little, because the stock has been absorbed and the selling pressure is no longer encountered. Of course, all stock must eventually reach a level where distribution will take place, and supply exceed demand, as the only object of any one buying stocks is to sell them again. The *big money is made in the last stage of a bull market* when prices are feverishly active, and the *big profits on the short side are made in the last stage of a bear market when everybody wants to sell and nobody wants to buy.*

STOCKS THAT ARE YOUR ENEMIES

Any trader who has followed the market for ten years or more and has been an active trader, if he will carefully analyze his trading, will find that there were certain stocks which he was never able to make any profits in. He always seemed to get in too soon or too late. No matter if he sold them short or bought them he always ended up with a loss, while other stocks always seemed to favor him, so much so that he would call them his pets. Now there must be some cause for this, as nothing just happens. Everything is the result of a cause. When you find that a stock does not seem to work well for you, leave it alone. Quit trading in it, and stick to the ones that favor you. I could explain to you the cause for this, but it is not necessary, and many of you would not believe it.

My own experience in trading and my analysis of the cause of effects enabled me to discover the reason for these things. For many years Mex Pete was one of my particular pets. I could always make money in it. My forecasts on it were so accurate that people all over the country who subscribed to my market letter called me the “Mex Pete Specialist.” I was able to catch its moves up and down over 90 per cent of the time just the same as if I had been making the fluctuations myself. Many other stocks work just as well as this for me, while others do not favor me and I have never made any money out of them. It makes no difference whether you know or do not know the reason why a thing works or does not work; just as soon as experience teaches you that there is something that works against you, the only thing to do is to quit.

CHAPTER XIV

HOW TO READ THE TAPE CORRECTLY

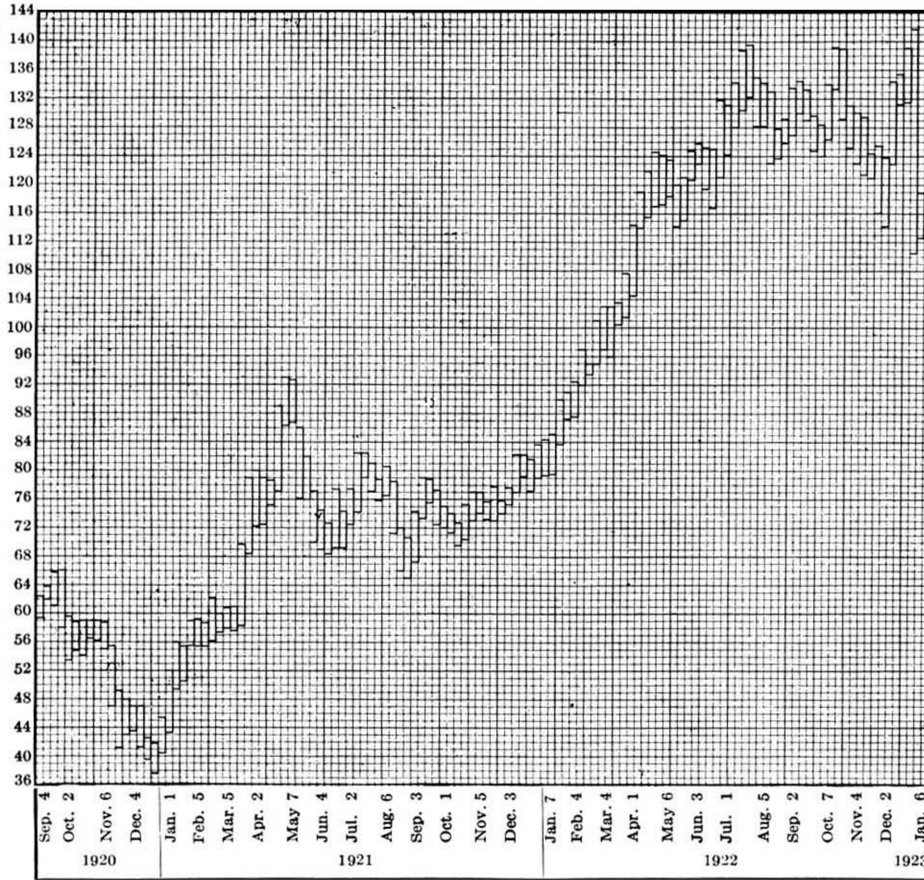
The best way to read the tape correctly is to stay away from it. Get the records of the day's prices and the volume of sales, make up your chart and judge it when you are not influenced by rumors, gossip or reports or by the way the tape looks when it is making a move that only lasts thirty minutes or one hour. When final tops or bottoms are made, for a major or minor move, it will be plainly shown by the volume of sales and the time consumed at bottom or top before the move starts.

A stock, in order to go up, must have reactions, but each succeeding bottom or top must be higher if the stock is going to continue upward, until it reaches a level where the selling is so strong and the volume of stock offered so great that there is not enough demand to absorb it. Then a reaction will take place and the stock decline to a level where the demand again exceeds the supply and the trend will turn up.

Studebaker. -- Notice the weekly Chart No. 2 on Studebaker which runs from September, 1920 to January 6, 1923. A decline started from 66 on September 25, 1920 and declined to 54 on October 2; then rallied to 59 in the week of October 9. For four weeks following this date, it made the same level of prices, failing to advance higher. This showed that the supply of stock was greater than the demand. A decline started on November 3 and by November 8 prices had broken below 54, the bottom made on October 2, which showed that the trend was again down.

During the period from October 9 to November 6, when prices were fluctuating within the range of two or three points, and each week getting up around 59, the man watching the tape would have been fooled many times, because each time it made 59 it would look like it was going higher,

CHART NO. 2.—Studebaker, Weekly High and Low.
September 4, 1920 to January 6, 1923



and how could he tell but what the buying would be great enough to carry it through. The proper thing to do when a stock makes a level like this is to sell out and go short with a stop one to two points above the level; then wait until supply or demand forces it higher or lower.

In this case, the stock declined rapidly to 41 on November 20, then rallied to 48 the following week. After that each week made a lower top and a lower bottom. In the week ending December 25, 1920, the high of the stock was 41 3/4 and the low 37 3/4. The volume was large, but the stock did not decline over two points below the previous week and it closed near the top prices of the week, which was an indication that the buying was better than the selling. The following week it advanced to 45 1/2 which was higher than the two previous weeks, but resistance was met at 47 to 48. During the week ending January 8, 1921, it advanced through this level up to 52 and continued on up to 59, the resistance levels made in October and November, 1920.

Studebaker reacted from this resistance level again back to around 55, and during the week ending February 19, advanced through this level to 62, which showed that the trend had turned up again, and if you had sold out and gone short with stop at 60, you should have covered and gone long when it crossed this level.

Note that for three weeks it held in a narrow range, but did not break back below 58. Then the advance was resumed and by April 2 it had reached 80, which was above the last high price made. From this level, the stock reacted to 72, but the following week it received support at a higher level, and so on each week until the week ending April 30, 1921, when it advanced to 93, and the volume of sales was 359,760 shares. Again the week ending May 7, it fluctuated from 92 1/2 to 87 with a volume of sales amounting to 227,300.

Now note that from the bottom, which was made during the week ending December 25, 1920, at 37 3/4, every rally was from a higher bottom, which showed that the buying was better than the selling and that the stock had not yet reached a level where supply was greater than demand until it advanced to 93, where the large volume of sales showed

that there was enough selling to check the advance. Note that the week beginning May 9, 1921, the stock opened at 86, breaking the levels of the two previous weeks where there was large volume. This was the first indication that the trend had reversed and that you should sell out and go short.

This advance, which amounted to 55 points, lasted a little over four months, during which time the weekly chart shows that the trend never changed, but during this time, if you will go back over the tape, you will find dozens of times when you would have sold out and gone short and lost money. Why? Because a move that would run thirty minutes, three hours, or three days, down, would fool you and make you think that the trend had changed.

After the trend on Studebaker turned down, it declined sharply until it reached 70 the week of May 28, 1921. After that you will notice it held in a narrow range for three or four weeks and only declined less than 2 points lower than this level, which showed that there was some support. Then it rallied to 82 1/2 the week ending July 9. After holding around this level for several weeks, which showed that it was again meeting with heavy selling, the trend turned down again and it declined to 64 3/4 on August 25. Then followed a sharp rally to 79 on September 10, then five or six weeks of a slow decline down to 70; then six or seven weeks more of narrow trading in a range of about four points.

Finally, the week ending December 10, 1921, it crossed the levels made on September 10, but again halted around 82, the levels made on July 9 to 16. Then the advance started. The long period of time in a narrow range showed that accumulation was taking place. The advance continued, resistance levels being raised until it reached 124 1/2 on April 22, 1922. Then followed a quick decline down to 114 1/4 from which it advanced to 125 7/8, being higher than the previous level, but the stock narrowed down and the volume was small. In the week ending June 17, the stock declined to 116 5/8, again getting a higher support than the last level of 114 1/4 made on May 13, 1922.

Then increased volume and great activity started and the stock advanced to 139 3/8 on July 19, 1922, where the

volume during the last two weeks amounted to 400,000 shares. Besides, the volume on the advance from 116 5/8 up to 139 3/8 amounted to 1,600,000 shares, which was nearly three times the total capital stock outstanding and probably five or six times the floating supply of stock. This showed plainly that distribution was taking place, and that the public was buying this stock and that the insiders were selling out.

A decline started and on August 12, 1922, it declined to 123, but the volume was only 110,000. The following week it fluctuated in about a four-point range with a volume of only 46,000, which showed that the selling pressure was not yet great enough to bring about a big decline. It advanced to 134 and again declined to 123 3/4 on September 30, failing to go through the level made on August 12.

After this, a rapid advance started and in the week ending October 14, 1922, it advanced to 139 3/8, the same level made on July 19. The volume of sales was 205,000 shares this week, which was an indication that selling was taking place and that you should sell out and go short with a stop loss order one or two points above the old level. The following week that volume of sales was 242,000 and the stock declined to 129, a plain indication that the selling was greater than the buying. The stock continued to work lower, but met with stubborn resistance around 123 to 122 where it held for two weeks.

Finally, in the week ending November 25, 1922, it declined rapidly to 116 and on Monday, November 27, it declined to 114 1/4, the same low level it made on the reaction May 13, 1922. Now the man who is simply standing at the ticker watching the tape would hardly remember that 114 1/4 was the low price made on May 13, therefore the last point where support was given, and from which it rallied to new high levels. But the man who had the record of the tape on a chart would certainly be watching this point. When it reached 114 1/4 large volume of sales appeared on the tape and it showed plainly that the support was there. This was the point to buy the stock protected with a stop loss order one to two points below the old resistance level of 114 1/4.

The stock rallied to 123 3/4 the week ending December 2, 1922, and the volume of sales was 240,000 shares, which

showed that the buying was better than the selling. Note that the two previous weeks the highest point was 125 1/2. In the week beginning December 9, the stock was very active and the volume of trading large. A stock dividend of 25 per cent was declared, and the stock advanced to 134 1/4, the volume of sales being 500,000 shares for that week, which was the largest for any week since the stock sold at 37 3/4 in December, 1920. This was plain evidence that the public was buying stock and that it was in the zone of excitement and great activity which nearly always marks the end of a movement up or down.

The advance continued, the stock reaching 141 3/4, a new high level on December 27, 1922, which was just two days before it sold ex-stock dividend. The volume of sales for the week ending December 30 amounted to 240,000 shares. After the stock sold ex-dividend, it declined to 110 3/8, then rallied to 119 on January 2, 1923, which would equal 148 3/4 counting the stock dividend of 25 per cent.

The total volume of sales between May 13, 1922, and December 30, 1922, amounted to over 7,000,000 shares. The range of the stock was 114 1/4 to 141 3/4. Now, this is where volume tells. Certainly when the capital stock has changed hands fifteen or twenty times in a range of 27 points, after this stock is up over 100 points, there is no question but what distribution is taking place and the stock is getting ready for a long decline. Therefore, instead of investors buying the stock because it pays 10 per cent, and has declared a 25 per cent stock dividend, they should sell out and go short.

Now, the question is to determine the position of the stock in January, 1923. After it advanced to 119, it started to decline and short sales would be in order with a stop loss order at 120 to 121. The resistance level at 114 having been broken, the trend of the stock is down, and when it breaks 110, the price made on December 29, 1922, it will be in a weaker position and should be followed down until signs of support, both in volume and time, are shown. By *time* I mean that the stock must hold a resistance level for several weeks without breaking lower. The period of time required to distribute Studebaker was about eight months,

or from April to December, 1922. Note the last period of accumulation when the stock sold around 65 and fluctuated between that price and 80, that the period of accumulation was about six months, or from June to December, 1921, and that the stock advanced 76 points from the low point made on August 25, 1921, and if you count the stock dividend, it advanced about 84 points.

This same rule and reasoning should be applied to any other stock that you wish to determine the trend of. During the period of accumulation or distribution, the man who tries to read the tape must get fooled dozens of times and make mistakes in trying to follow minor moves which do not mean anything. Therefore, the correct way to read the tape is to keep up a chart showing moves of from three days to one week and the amount of volume. Of course, you must consider the total outstanding stock and the floating supply. Again I *emphasize* the *fact* that the *correct way* to *read* the *tape* and *interpret* it *accurately,* is to *stay away from it*.

CHAPTER XV

WHEN THE TAPE FINISHES AND GIVES FINAL SIGNALS

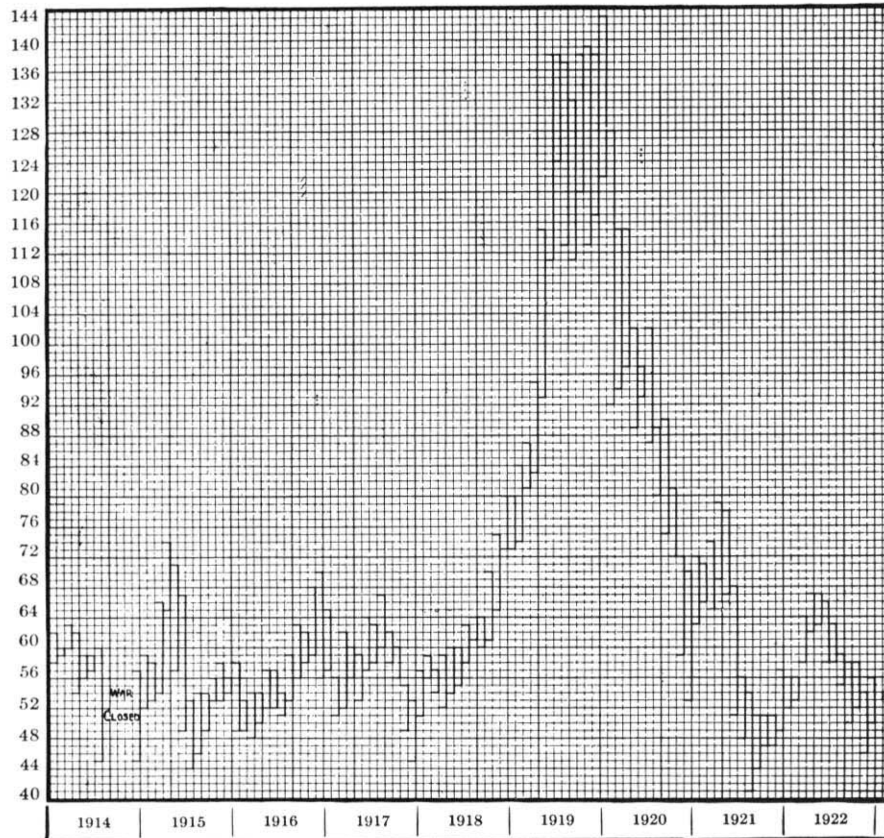
The truth that the tape has to tell you cannot be told in one day, in one week, or in one month. It begins to tell its story the first day that a stock reaches the buying or selling zone, but it requires time to complete the story; to assemble all of the facts; to finish the accumulation or distribution and give the final signal that a new move is on. Chart No. 3, showing U. S. Rubber at the top of 1919, is an important and valuable example of this.

U. S. Rubber. -- When U. S. Rubber advanced to 138 in June, 1919, and reacted back to 124, then rallied to around 138 again, holding until August around the same level, it showed that selling pressure was sufficient to stop it. It declined to 111 in September; rallied again to 138 in October, made 139 in November; declined to 113 in November, receiving support 2 points higher than the September bottom. Then rallied to 138 in December and in January, 1920, advanced to 143, or 5 points above the high price made in June, 1919.

Now, making a new high, would ordinarily be an indication that it was going higher, but after a stock advances into new territory, if it is going higher, it will continue on up without breaking back below the old top levels. In this case, U.S. Rubber, within a few days, declined to 136 which showed that heavy selling had been encountered; that the new high level was made at the expense of shorts and outside buying; that the selling which started in June, 1919 was still there and that someone was supplying the stock.

A rapid decline followed in February, 1920, and when the stock broke below 112, which was under the last support point, it was a signal that distribution had been completed

Chart No. 3.—U. S. Rubber, Monthly High and Low. 1914–1922



and that a big downward move would take place. In the previous June, 1919, after U. S. Rubber had advanced from 45 in December, 1917, it showed that it had reached a level where heavy selling had commenced, but the tape could not tell when this selling would be completed, and all the stock distributed. But it did tell the final story in February, 1920, when it broke under 112 and promptly declined to 92, and never rallied above 115 again until it sold at 41 in August, 1921. All the way down the selling pressure was plainly indicated, and the stock continued to make lower tops and lower bottoms. The tape was telling part of its story all the time, but it did not show that it had finished until November, 1921, when, after three months in a narrow range, the stock moved up into new high territory.

Thus you see that after any big advance or big decline, it requires time to tell when the next big move is going to start, and the man who expects to read this from the tape, day by day, will get fooled many times. Therefore, he should wait until he gets a definite indication before deciding that the big trend has turned and a major move started. The larger the capital stock of the Company, or the more shares outstanding, the longer it requires to complete accumulation or distribution. The length of time, as well as the total number of points that a stock has moved up or down from high or low levels, must be considered in judging whether accumulation or distribution is taking place.

After U. S. Rubber was up 100 points from the low and had reacted from the same high level for eight months and after the panicky decline in November, 1919, had plainly shown that the bull market was over, you would not expect that U. S. Rubber making a new high, was going to very much higher levels. But you should wait a few days to see whether the price could be maintained before going short. The daily high and low, weekly high and low chart and the total volume of sales will help you to determine when a false move of this kind is made, and the trend reverses, because a move of this kind into new high territory, causes all the shorts to cover and leaves the stock in a weak technical position.

TIME FOR ACCUMULATION AND DISTRIBUTION

When a stock uses up several months' time either in accumulation or distribution, it will require then several months for the run between accumulation and distribution. All of the stock is not sold on the first rally, nor even on the second or third. Stock has to be bought and the market supported on the way up until it reaches a level where the supply is greater than the demand and the insiders are willing to sell out. Then it hesitates and moves up and down over a narrow or wide range, according to the kind of stock, until distribution is completed.

The same occurs when a stock starts down. It requires a long time to convince people that after a stock has been selling at 140, it is going down 100 points. Some people buy when it is down 10 points, others buy on 30, 40 and 50-point reactions, believing the stock cheap because they remember the price at which it formerly sold -- 140, with the result that when it continues downward, they all get scared and sell out, causing the last rapid decline which may be anywhere from 10 to 30 points.

If people would only learn to watch and wait, they could make a lot more money, but they are in too big a hurry to get rich, and the result is they go broke. They buy or sell on hope, without a reason.