TRUTH
OF
THE STOCK TAPE

A STUDY OF THE STOCK AND COMMODITY MARKETS
WITH CHARTS AND RULES FOR SUCCESSFUL
TRADING AND INVESTING

BY

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

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Underwood and Underwood

CHAPTER XXII

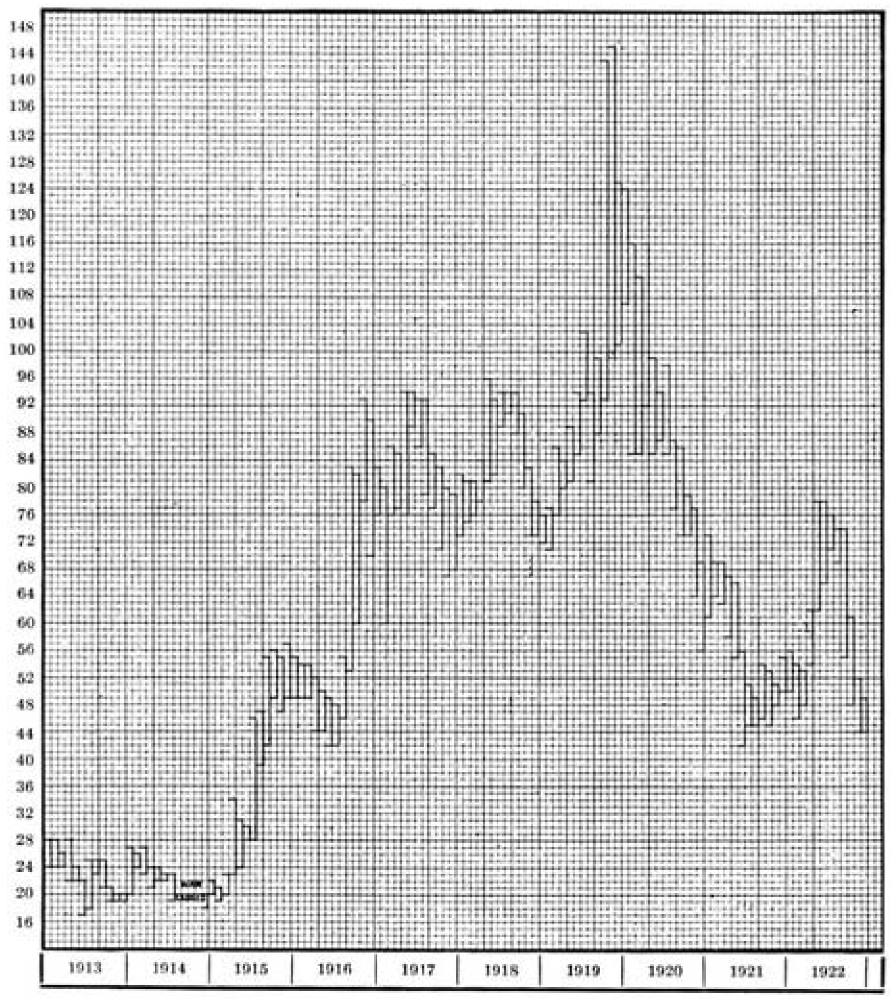
CROSSING OLD LEVELS

When stocks establish certain levels of accumulation or distribution over a long number of months or years and then cross them it is almost a sure sign that they are going to new high or low levels before they meet with resistance again. As a rule it is always safe to buy or sell a stock around old bottoms or tops with a stop loss order three points above or below previous high or low prices. For example: see Chart No. 10 on Republic Steel.

Republic Steel. -- In 1916 the high was 93; 1917 high 94; 1918 high 96. It was a sale every time it reached these levels. In 1919 it crossed 96 and advanced to 104; then reacted to 81; crossed 96 the second time and advanced to 145. A stock going into new high territory the second time is always safer to buy than the first time, as the first time it goes through it is likely to meet with a lot of selling to drive it back, but the second time the stock has all been absorbed and it is easy for it to advance. Note from 1914 to 1919 the bottoms were "progressive" or higher on Republic Steel.

Wabash Pfd. A. -- December, 1916 high 60. Worked lower each year, making lower bottoms and lower tops until December, 1920, when it reached 17. It ranged between 18 and 24 all during 1921, while accumulation was taking place. Declined to 20 in August, 1921, making another higher bottom, and sold at 20 every month from August, 1921 to February, 1922. Here was a strong indication of support and you should buy the stock with stop at 18, and buy more when it crossed the high price of 24 made in 1921. It advanced to 34 in April, 1922, which was the old resistance level of October, 1920. Distribution took place and it declined to 23 in December, 1922, receiving support and remaining in a 2-point range for several weeks; then started upward again.

CHART NO. 10.—Republic Steel, Monthly High and Low. 1913–1922



In studying the different groups of stocks, you should watch the position of each individual stock to see which one is in position to lead an advance or decline.

Crucible Steel. -- Started its big advance in 1915 and made 109 7/8. It made lower tops in 1916, 1917 and 1918. The bottom in 1916 was 51; in 1917 low 46; 1918 low 52. When the stock crossed the high price of 1918, it was an indication for a further advance, and when in 1919 it had crossed the top of its history, 109 7/8 made in 1915, it was a sure indication that it was going to make extreme high prices.

The fact that it held around 46 to 52 for three different years on declines showed accumulation. Crucible advanced to 278 in 1920, which, of course, was an extreme price and not based on intrinsic value. Therefore, after doubling the capital it suffered an extreme decline back to 49 in August, 1921, where it was again in its old zone of bottoms and was a purchase for another advance.

CUTTING AND INCREASING DIVIDENDS

I have stated before that you should never sell stocks just because they do not pay dividends, nor buy them because they do. In December, 1921, Crucible advanced to 69. It was then paying 4 per cent. It declined to 53 on February 27, 1922. Early in March the dividend was passed, when the stock was selling around 58. It declined to 53 1/2 and failed to break the low price made before the dividend was passed. This was an indication that the passing of the dividend had been discounted, and that if the stock could hold above the levels previously established, it was a purchase regardless of dividends.

It advanced to 98 in September, 1922, which was the level from which the last break started in 1921. Around this time a new issue of stock was offered to stockholders at $100 per share. This caused selling in the old stock and reversed trend, the stock declining to 59 in November, 1922.

Always watch a stock when new stock is offered at a price around which the old stock is selling. If the old stock fails to get higher than the price at which the new stock is offered, it is an indication of good selling and you should sell out and go short.

United Retail. -- Another instance of the effect of dividend reduction is United Retail Stores. The low price made in December, 1920 was 46. The stock rallied to 62 in May, 1921; declined to 47 in August, 1921, again receiving higher support. It advanced to 57 in January, 1922 and showed every evidence of having been accumulated for the past year. In February, 1922, when the stock was selling around 53, the dividend was cut and it declined to 44.

Now, if you had bought around the old level of 1920 -- 46 -- and placed a stop 3 points away, or at 43, it would never have been caught. During March, 1922 the low was 44 and the high 47, a 3-point range for a month, which showed that the stock was being supported. It opened at 45 in April; then the advance started. Suppose you had waited until it crossed the high price made in March and bought at 48. In a little over thirty days after that time, the stock advanced to 71. After reacting 10 points, continued on up to 87 in October, 1922, the old resistance level of 1920, where it met with heavy selling, and declined to 66 in December, 1922, another resistance level.

This shows you that the insiders knew a long time before the dividend was cut that it was going to be cut, and they were buying the stock. Now, all you had to do was to wait and see if they would give it support around the previous low level. After they had held it for two months without permitting it to break 3 points under the old bottom, it certainly was safe enough for you to buy and risk 3 points on.

In many instances when dividends are cut it is the time to buy as the worst is known and has been discounted. As a rule when dividends are increased and extra dividends paid, the insiders are distributing stock and they bring out the good news in order to entice the public into buying. I could cite you hundreds of instances, but one example will suffice.

U.S. Steel. -- Advanced to 136 5/8, the high of its history, in May, 1917. It was paying 5 per cent dividend. The dividend was then increased, or an extra dividend paid, which equalled 17 per cent. But the stock never sold as high again and declined to 70 1/4 in 1921, because the insiders knew that the earnings were the best they probably would ever be and it was the time to bring out the good news and facilitate distribution of the stock.

Book Values. -- Another thing I wish to call your attention to that misleads many an investor is “book values.” Statisticians had figured the book value of U. S. Steel at around $250 a share in 1917, and, of course, the poor suckers who bought it at the top thought it would go there. As far as the advance in price is concerned, “book values” mean nothing, because the company is not going to be liquidated. Therefore the book value is only good to create false hopes and make people buy and hold on, thinking that the stock should sell somewhere near its book value. Not one stock in a hundred ever sells anywhere near the book value.

In February, 1915, U. S. Steel passed its dividend. The stock was selling around 40. It declined to 38 and has never sold lower since. That was the time to buy a real bargain, not when it paid 17 per cent and sold above 130.

In 1915 the high on U. S. Steel was 89; in January, 1916 low 80; again March and April, 1916 low 80. The stock held in a range of 9 points for nine months and in August, 1916 advanced to 90, which was above the high price of the previous year. After holding for so long in a narrow range, it was a sure indication of a big advance, because the stock had been accumulated. Otherwise, it would have declined below 80. It advanced to 129 without reacting five points.

After the high price of 136 5/8 in May, 1917 it declined to 80, the low price made in 1916, where it received support. According to the rule, you would have bought with a stop 3 points away, or at 77. It advanced to 116 in August, 1918. Remained two months around 116, which showed that distribution was taking place and that you should sell out and go short with a stop 2 or 3 points above 116. It declined to 89 in January and February, 1919; remained for two months in a very narrow range without breaking the bottom of the previous month. Here was another chance to buy with a stop 2 or 3 points under the old bottom.

The stock advanced to 115 in July, 1919, failing by one point to reach the 1918 top. Here you should sell out and go short again with a stop above the old levels. The stock continued on the down trend and in 1920 broke the bottom of 89 made in 1919 and also broke the support points at 80 made in 1916 and 1917, which showed that support had been withdrawn and that it was going lower. It declined to 70 1/4 in June, 1921. Remained in a narrow range during July and August, fluctuating between 72 and 76. This showed that accumulation was taking place and that you should buy with a stop loss order under 70, or buy as soon as the stock crossed the levels made for two months, which showed that the trend had again turned up.

It advanced to 111 in October, 1922, where it reached the distributing zone of 1919 and 1920. At this writing it shows that distribution is taking place and the stock is getting ready for another downward move before the end of 1923.

You should always study each individual stock separately and learn how to follow its moves. No two work just exactly alike; neither do all stocks make tops and bottoms at the same time, but they do show plainly when they are in a strong or a weak position, and you will be able to judge the position of a stock in each different group by making up a monthly high and low chart for several years back.

WHEN STOCKS MAKE NEW HIGHS OR LOWS

When a stock advances or declines into new territory or to prices which it has not reached for months or years, it shows that the force or driving power is working in that direction. It is the same principle as any other force which has been restrained and breaks out. Water may be held back by a dam, but if it breaks through the dam, you would know that it would continue downward until it reached another dam, or some obstruction or resistance which would stop it. Therefore, it is very important to watch old levels of stocks. The longer the time that elapses between the breaking into new territory, the greater the move you can expect, because the accumulative energy over a long period naturally will produce a larger movement than if it only accumulated during a short period of time.

1921 HIGH PRICES

1921 was low year of the depression. Although there was a strong rally up to May, 1921, most stocks made low prices in June and August, 1921. Now just look up a list of stocks and see the ones that crossed the high prices made in the early part of 1921. They are the ones that led the 1922 bull market and had the biggest advances, while stocks that failed to make the highs of 1921 are yet selling at low levels (January, 1923). Following are some examples of stocks that made new highs:

Allis Chalmers: 1921 high 39; advanced to 59 in 1922.
American Can: 1921 high 32; advanced to 76 in 1922. When it crossed 68 it was in new territory for its history and indicated much higher prices. Up to this writing in 1923 it has advanced to 84.
American Smelting: 1921 high 44; advanced to 67 in 1922.
American Woolen: 1921 high 82; advanced to 105 in 1922.
Atchison: 1920 and 1921 high 90; crossed this price in 1922 and advanced to 108 in September, 1922.
Baldwin: 1921 high 200; advanced to 142 in 1922.
Canadian Pacific: 1920 and 1921 high 129; crossed it in February, 1922 and advanced to 151 in September, 1922.
Chile Copper: 1921 high 16; 1922 high 29.
Coca Cola: 1919 high 45; 1920 high 40; 1921 high 43; crossed all of these highs in the early part of 1922 and advanced to 82.
Continental Can: 1919 high 103; 1920 high 98; 1922 high 68; crossed all of these highs and advanced to 124 in 1922.
Great Northern Pfd.: 1921 high 79; crossed in 1922 and advanced to 95.
L. & N.: 1921 high 118; crossed in 1922 and advanced to 144.
New York Central: 1921 high 76; crossed in 1922 and advanced to 101.
Pan Pete: 1921 high 79; advanced to 100 in 1922.
Sinclair Oil: 1921 high 28; advanced to 38 in 1922.
Studebaker: 1921 high 93; crossed it in January, 1922 and advanced to 141.
U.S. Cast I. P.: 1921 high 19; advanced to 39 in 1922.
U.S. Steel: 1922 high 88; advanced to 111 in 1922.

Thus you see that all of the stocks which crossed the high of May, 1921, early in 1922 had big advances, because they were in strong position, and the buying power being strong enough to carry them over the previous years highs, showed that they were going higher.

STOCKS THAT DID NOT CROSS 1921 HIGHS IN 1922

You will note that the stocks which did not show strength in the early part of 1922, and were unable to advance anywhere near or cross 1921 highs, have proved to be laggards and are still selling at comparatively low levels (up to this writing). This again proves my rule to *buy the strong ones and sell the weak ones,* and do not let the price at which they are selling prejudice your judgment, as the stock that is selling the highest will often continue to advance while those that are selling low will continue to decline.

The following stocks failed to cross the highs of 1921 during 1922. Note the levels at which they are now selling (January, 1923):

American Agricultural Chemical: 1921 high 50; selling at 32 at the end of 1922.
American International: 1921 high 53; selling around 26 at the end of 1922.
American Linseed: 1921 high 60; selling at 32 at the end of 1922.
American Sumatra Tobacco: 1921 high 88; although this stock is a late mover and did not make bottom until after the other stocks, it was still selling around 28 at the end of 1922, which is near low levels.
Atlantic Gulf: May, 1921 high 44; selling at 22 at the end of 1922.
Chandler Motors: 1921 high 85; 1922 high 79; selling at 65 at the end of 1922.
International Paper: 1921 high 73; selling around 52 at the end of 1922.
Pierce Arrow Common and Preferred: High of 1921, 41 and 49 respectively; both selling at low levels at the end of 1922.
United Drug: 1921 high 105; did not rally above 84 in 1922.
U. S. Industrial Alcohol: 1921 high 74. It was a late mover and did not make bottom until November, 1921, but only rallied to 72 in 1922 and failed to cross 1921 top.
Virginia Carolina Chemical: 1921 high 42; selling at 25 at the end of 1922.
Worthington Pump: 1921 high 55; declined to a new low level -- 27 -- in November, 1922.

You see that Pierce Arrow, Chandler, and General Motors all failed to make 1921 highs and at the end of 1922 were selling at low levels, while Studebaker, which made a new high in the early part of 1922, was selling at a high level in December, 1922. General Asphalt 1921 high 78; rallied to 73 in 1922 and failing to reach the high of 1921, showed that it was meeting with heavy selling, because it remained a long time around high levels; then declined to lower prices than it made in 1921. This is the thing to watch. When stocks advance near old high levels and remain a long time and fail to go through, distribution is taking place, and as soon as they break out of the distributing zone, they should be sold short. Traders who bought Asphalt, expecting it to follow Pacific Oil, Mexican and Pan Pete, suffered big losses, because the other stocks showed that they were in strong position, while General Asphalt showed that it was in weak position.

The Rubber and Sugar stocks all failed to cross the high prices of 1921, and at the end of 1922 were selling at lower levels. The Rubber stocks have recently (January, 1923) started to advance, and if they cross the high levels of 1921 and 1922, they will then indicate higher prices and may continue to advance while other groups of stocks decline. Then, you should buy Rubbers and not sell them, expecting them to follow stocks which made high levels and were distributed during 1922.

BUYING OR SELLING AFTER A STOCK SHOWS CHANGE IN TREND

After accumulation or distribution takes place, a stock moves into new territory, either high or low, showing that the stock has been absorbed or distributed and that a new move is starting.

Refer to Chart No. 9 on Corn Products. Note that after the stock halted at 108 and remained for several weeks in a narrow range, while it was being absorbed between 106 and 108, fluctuations were very narrow and you would not be able to make much money trading in it. But if you bought it after it crossed 108, which showed that the trend had again turned up, you would have been able to make 20 points' profit in less than 60 days.

Now, the same condition will develop in the opposite direction. Since September, 1922, the stock has been holding for over four months between 124 and 134 and you would only be able to make small profits trading in and out. After it breaks 124 it will show plainly that the trend has turned down, and if you sell short then, you no doubt will be able to make quick profits.

The *big profits* are made *in the runs between accumulation and distribution*. Therefore, you *make more money* by waiting until a stock *plainly declares its trend* than by getting in before it starts. It is just like a race. It often takes fifteen or twenty minutes to get the horses away from the post, but once "they're off" the race is over in two minutes. It is the getting ready that takes the time, the run is soon made, once the firing line is crossed. What difference does it make whether you buy a stock 10, 20 or 30 points above the bottom so long as you make profits?

The same with selling short. It makes no difference how much the price is down from the top. When it breaks *out* of the *distributing zone,* it is a *safe short sale* and you will make *quick profits*. *Get the idea of prices out of your head. Forget about the bottoms and tops; trade to make profits, not to try and catch the bottom or top eighth*. The *insiders do not do it, and you can not hope to do better than the man who makes the market.*

CHAPTER XXIII

TOPS AND BOTTOMS ON RAILROAD STOCKS

In another chapter I have told you about stocks and groups of stocks which are leaders, and you should always follow the leaders, either up or down. From 1896 to 1909, the railroad stocks were the leaders, and banks discriminated against industrial stocks in loans and accepted the rails as gilt-edge securities.

Note on Chart No. 11 the low price of the Dow-Jones 20 Rails was 42 in August, 1896. After a long advance, they made the first important top in April, 1899, when prices reached 87, although they were within 1 to 2 points of this same level in February and March. A big reaction occurred in May, which carried prices down to 78. A rally followed in September, bringing prices up to 86, within 1 point of the April top. They met with stubborn resistance at this level, and declined to 73 in December, 1899, then rallied to 82 in April, 1900, and again in June declined to 73, making a double bottom or reaching the same price as made in December.

After this double bottom, a big advance started, which did not culminate until May, 1901, when prices reached 118. On May 9, 1901, the Northern Pacific corner took place, which caused a panicky decline, average prices declining to 103. This was the first sudden big break in the bull market and showed that it was over for the present, and that you should then watch for a rally to sell on. A rally followed in the latter part of May and in June, carrying prices near the top of May. Then a decline to 105, where prices held for four months, just above the level made in the May panic. Here accumulation took place again, while stocks were moving over a narrow range.

Then followed a long slow, advance to September, 1902,

CHART NO. 11.—Dow-Jones' Averages, 20 Railroad Stocks, Monthly High and Low, 1896-1922.

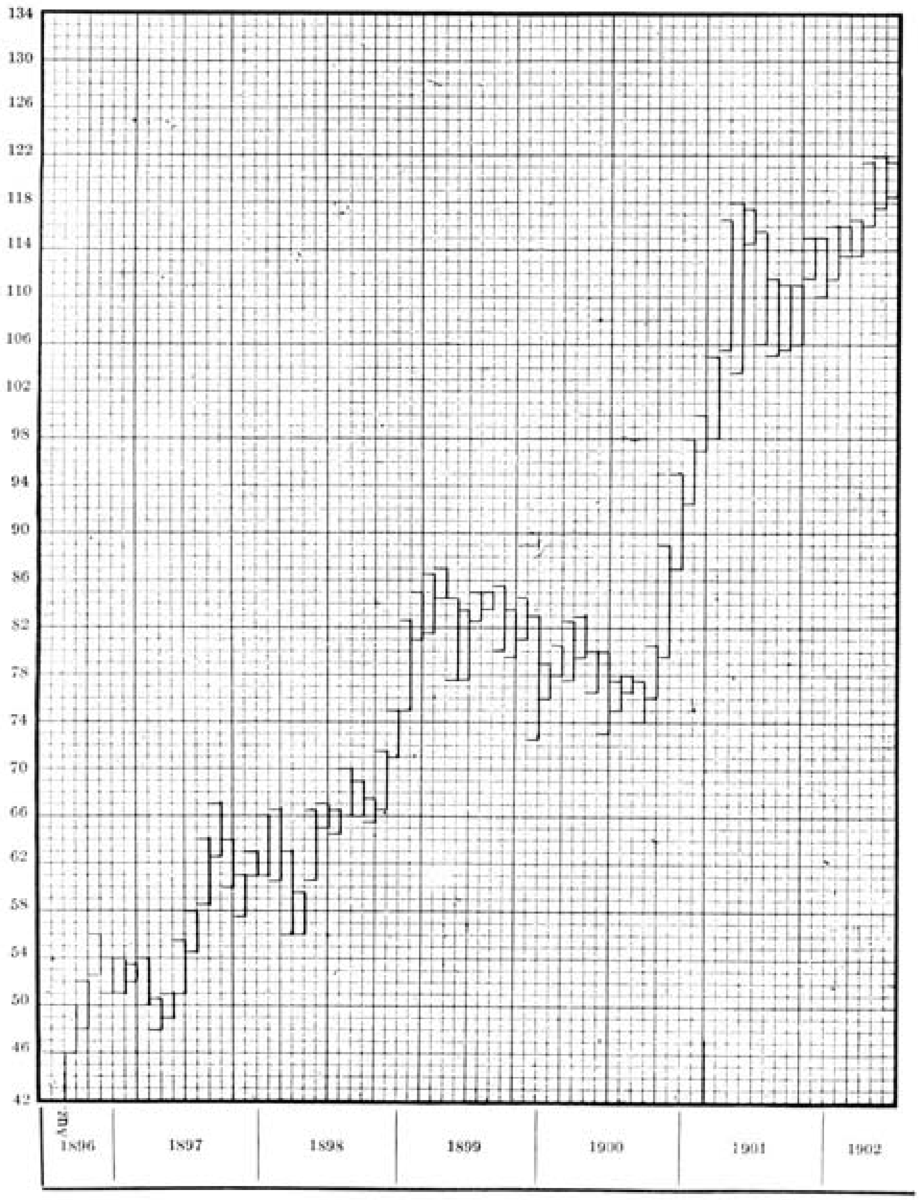


Chart No. 11—Dow-Jones' Averages. 20 Railroad Stocks. Monthly High and Low. 1896–1922.—*Continued*

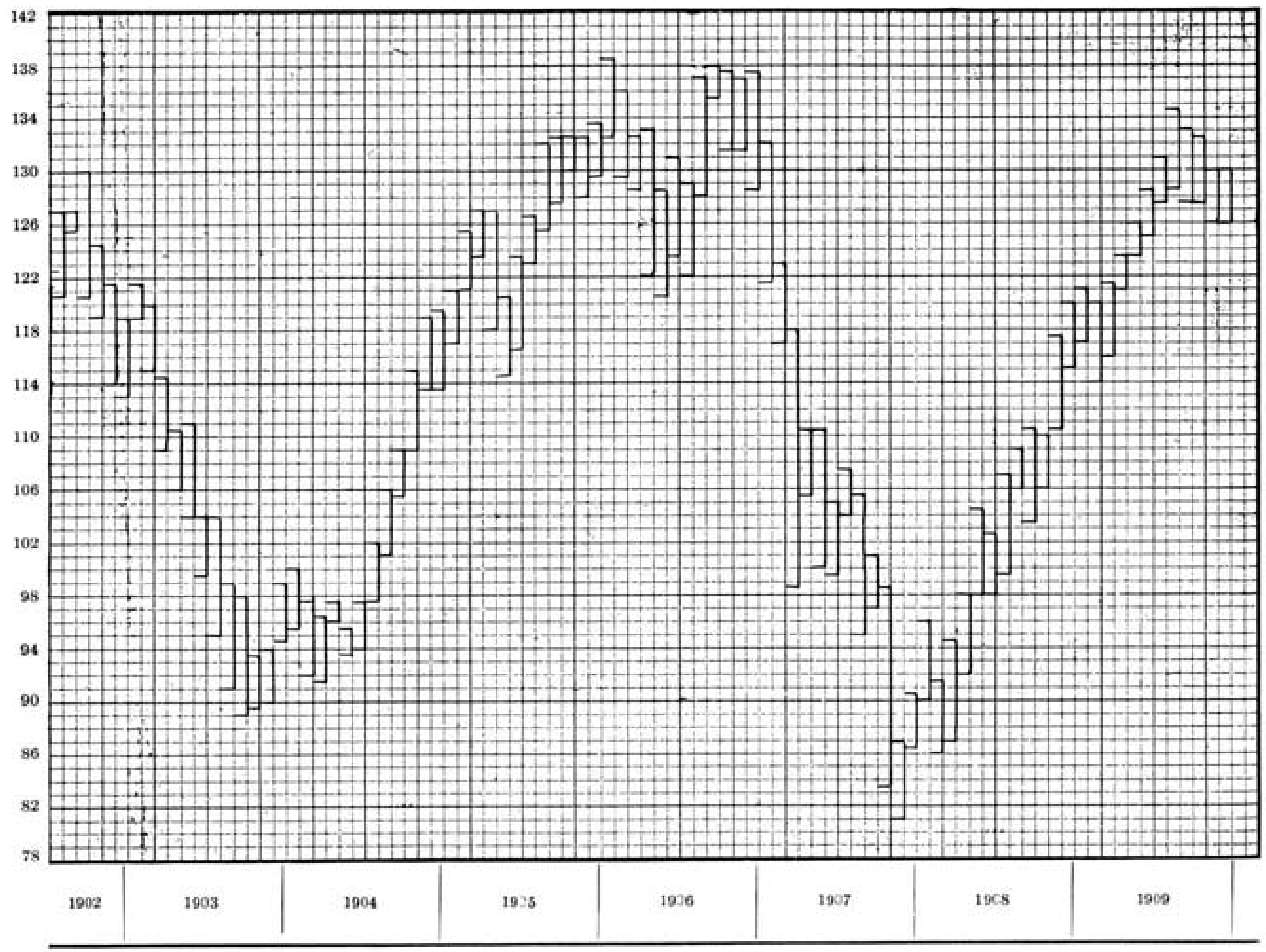
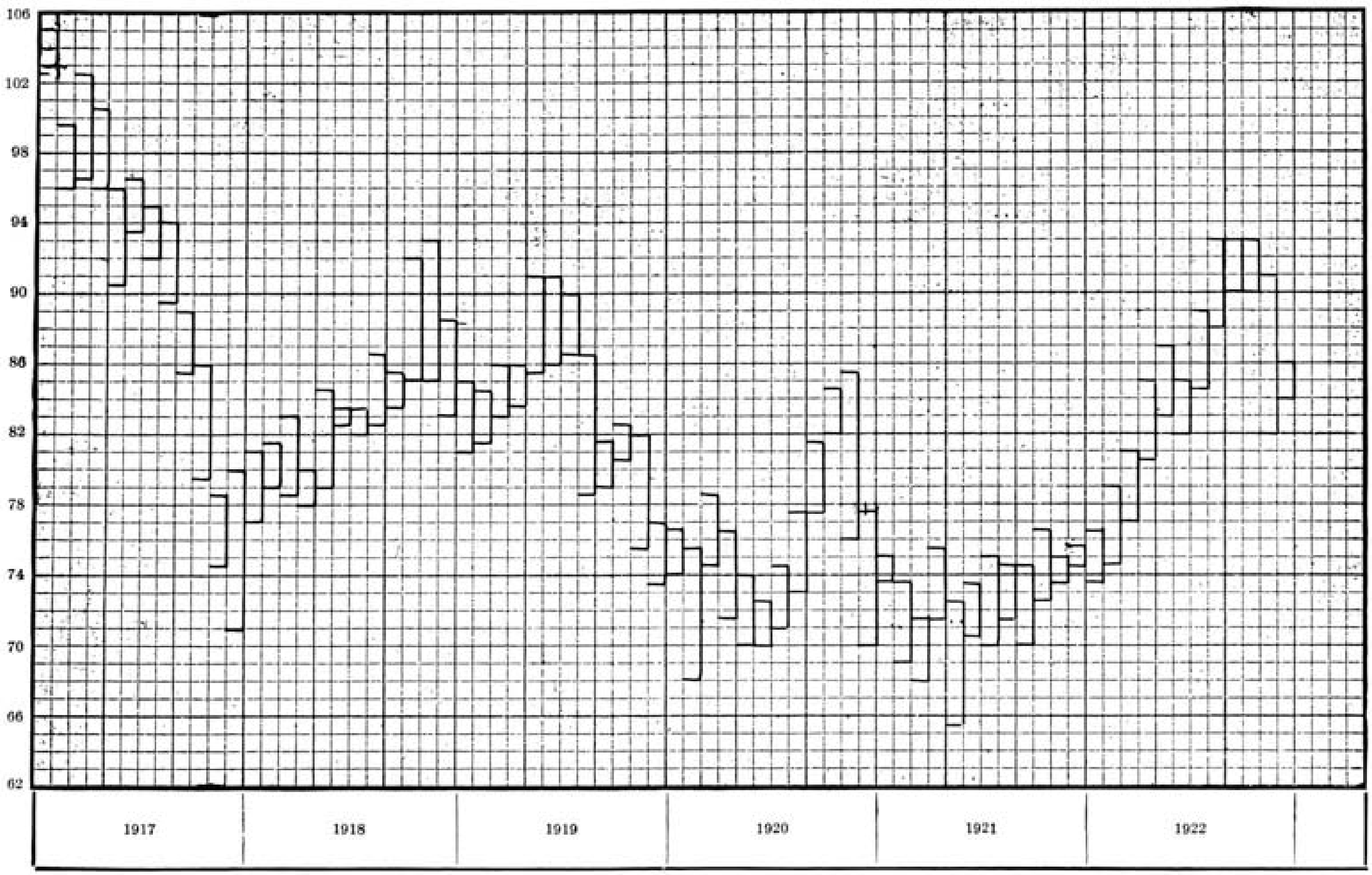


CHART NO. 11—Dow-Jones' Averages. 20 Railroad Stocks. Monthly High and Low. 1896–1922—*Continued.*

Chart No. 11.—Dow-Jones' Averages. 20 Railroad Stocks. Monthly High and Low. 1896–1922—*Continued*.



when prices reached 129, where they made a sharp top which was followed by a rapid decline to 89 in September, 1903. Note that accumulation occurred from September, 1903 to June, 1904 at which time the bull market was resumed. Stocks rallied to 127 in April, 1905, this price being within 2 points of the high level of September, 1902. A rapid decline carried prices down to 115 in June. Then they advanced to 138 in January, 1906, which was the highest in history and Averages were up 96 points in ten years. Prices started to decline and following the San Francisco earthquake, declined to 120 in May, 1906. Then they advanced to 138, in September, making the same top as in January.

They remained around this same level with fluctuations narrow, until January, 1907 when they broke out of the distributing zone, and after such a long period of advancing markets, with distribution which had lasted for over a year, it was but natural that a drastic decline should follow. A silent panic occurred on March 14, 1907, carrying prices down to 98. This was one of the most rapid declines that has ever occurred on the Stock Exchange. After this, a sharp rally followed; then another decline, bringing prices down to around the low levels of March 14, and in some cases, stocks selling lower. After this, the market rallied and held up until August, but was very dull on the rallies, which showed that liquidation had not been completed. Liquidation started again in September, 1907, and finally wound up with a panicky decline in November, when the Averages reached 82, which was 56 points down from the high of the early part of the year.

Accumulation took place until March, 1908, when the bull market started again, which culminated in October, 1909 with prices at 134, within 4 points of the highest in history. Here they met with resistance, and distribution took place over a narrow range, lasting about six months. The decline started in 1910, and wound up with a sharp break in July, which carried the Averages to 106. This was a sharp bottom, and prices rebounded quickly. They continued upward until July 1911 when the Averages reached 124. Then fluctuations became narrow at the top, and the market was very inactive for several months. A sharp decline occurred in August and September, carrying prices down to 110. Then followed a slow advance to August, 1912, when prices reached 124, the same top as 1911. Here they made a flat top from August to October, 1912. Then declined to 100 in June, 1913. The market was narrow and inactive, and slowly worked up to 110, making a slightly lower level than April, 1913. There was a small rally and a narrow market in May and June, 1914, and in the early part of July the big decline started, which wound up with a big break after the war broke out and caused the Stock Exchange to close on July 30th.

The Exchange opened again on December 15, 1914, and the Averages declined to 87 in December. They remained in a narrow range around the same level until March, 1915. Here an advance started, and prices reached 108 in November, 1915, finally working up to 112 in October, 1916. Note that this was the year of distribution in the rails, and that they only got three points higher in 1916 than the top of 1915, while industrials at the same time were having a big advance because war conditions were favoring industrials and working against the rails.

1917 was a year of big declines and great liquidation in the rails. Prices made the lowest for many years, declining to 71 in December, when the Government was forced to take over the railroads, which brought about a sharp rally in stocks. The averages advanced to 93 in November, 1918. Then came the end of the war, and they declined to 81 in January, 1919. Then followed the greatest industrial boom in the history of Wall Street, but rails failed to have any big advances, and only reached 92 in July and August, which was 1 point lower than the high prices of 1918; while industrial stocks advanced over 20 points higher than the 1918 prices, because industrials were now leaders and the rails were the laggards. In February, 1920, the rails declined to a new low level, making 68. After this, the rails and industrials began to work closer together. The rails rallied to 85 in November, 1920; then followed a long decline which carried them down to 66 in June, 1921, which was the lowest price at which the Averages had sold since 1897.

From this level, they advanced to 93 in August, 1922, which was the same top made in 1918. They remained at this same level during August, September, and October, 1922, holding in a narrow range while distribution was taking place. In November, they broke out of the distributing zone and declined to 82 on November 27. Since that time they have rallied to around 87 (January, 1923) where they are very dead and inactive, and meet selling on every rally. Every indication now seems to point to liquidation but the proper thing to do is to wait and see whether they become active and advance above the level of 86 or start activity on the down side and break under the level of 82 made in November. It is my opinion that before rails cross the 1922 highs again, they will sell at very much lower prices.

CHAPTER XXIV

BOTTOMS AND TOPS ON INDUSTRIAL STOCKS

Chart No. 12 shows the tops and bottoms on the Dow-Jones 20 Industrials from 1896 to December, 1922.

Note that the low in August, 1896 was 29. They rallied to 77 in April, 1899, where distribution started; declined to 68 in May; then rallied to 77 in September, 1899, making a double top; declined to 71 in October; rallied to 76 in November, failing to make the old top by one point. This was really a triple top, and failing to cross it showed big distribution and indicated a long decline to follow.

Prices declined to 58 in December; then rallied to 68, which was the bottom of the distributing zone. In 1903 during November and December, prices declined to 42 1/2, then rallied to 50 in January, 1904, and held in a 4-point range until June. They showed that accumulation was taking place, and that stocks were getting ready to advance, although at this time railroad stocks were the leaders. In July, 1904 the advance started, and continued, subject to minor interruptions, until January, 1906, where final top was made, prices reaching 103. This was a sharp top, and a decline followed, bringing prices down to 86 in July, 1906. They rallied to 96 in August and remained around the same level in a 4-point range, for about six months, until January, 1907. This showed big distribution in a narrow range and the long length of time indicated a big decline to follow.

1907 was a bear year in industrials as well as rails, and they declined to 53 in November, making a sharp bottom, as you will see from the chart. After this followed the long advance to the top in August, 1909. The industrials were now becoming more prominent, and were assuming the leadership over rails. Prices reached 100 in August, making a flat top, holding the same level for six months while dis-

CHART NO. 12.—Dow-Jones' Averages, 20 Industrial Stocks. Monthly High and Low. 1897–1922

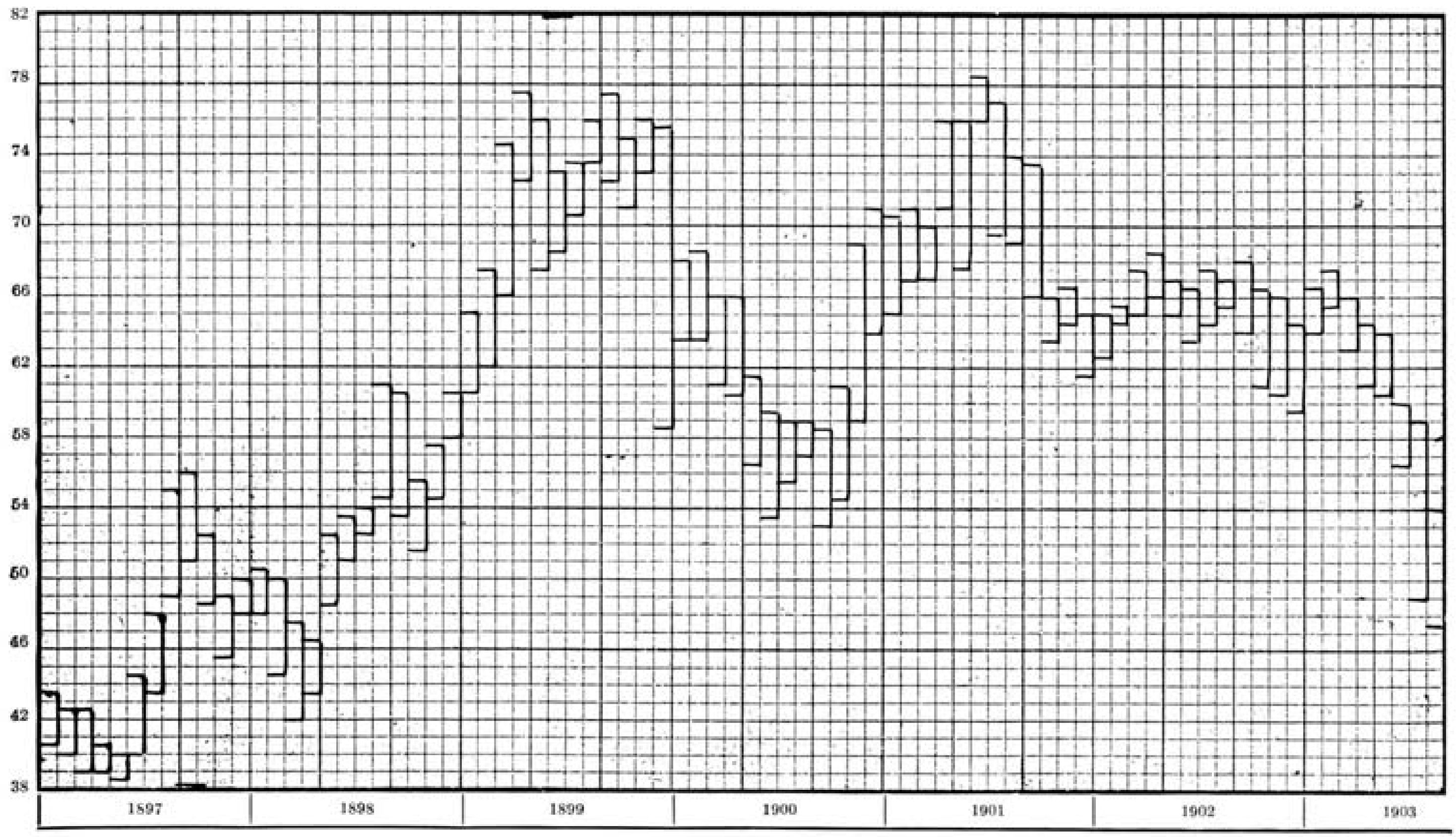
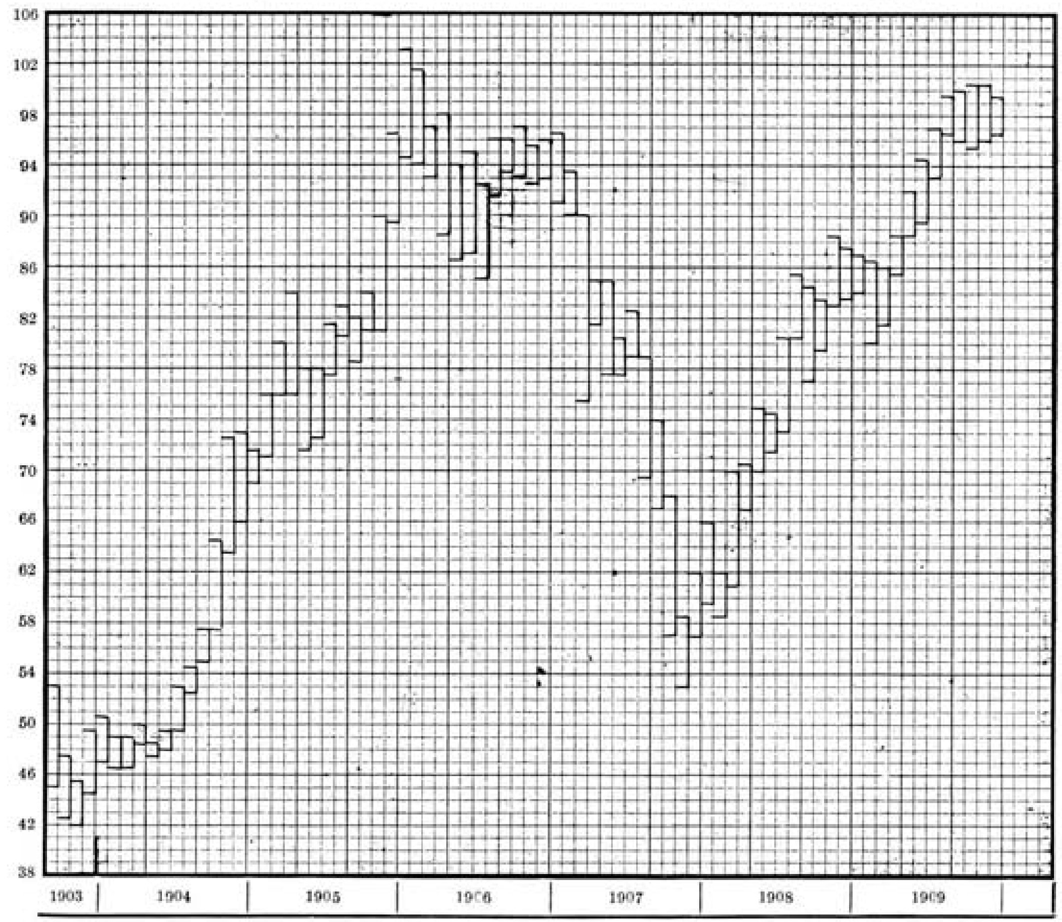


CHART NO. 12.—Dow–Jones' Averages, 20 Industrial Stocks. Monthly High and Low. 1897–1922—*Continued*.



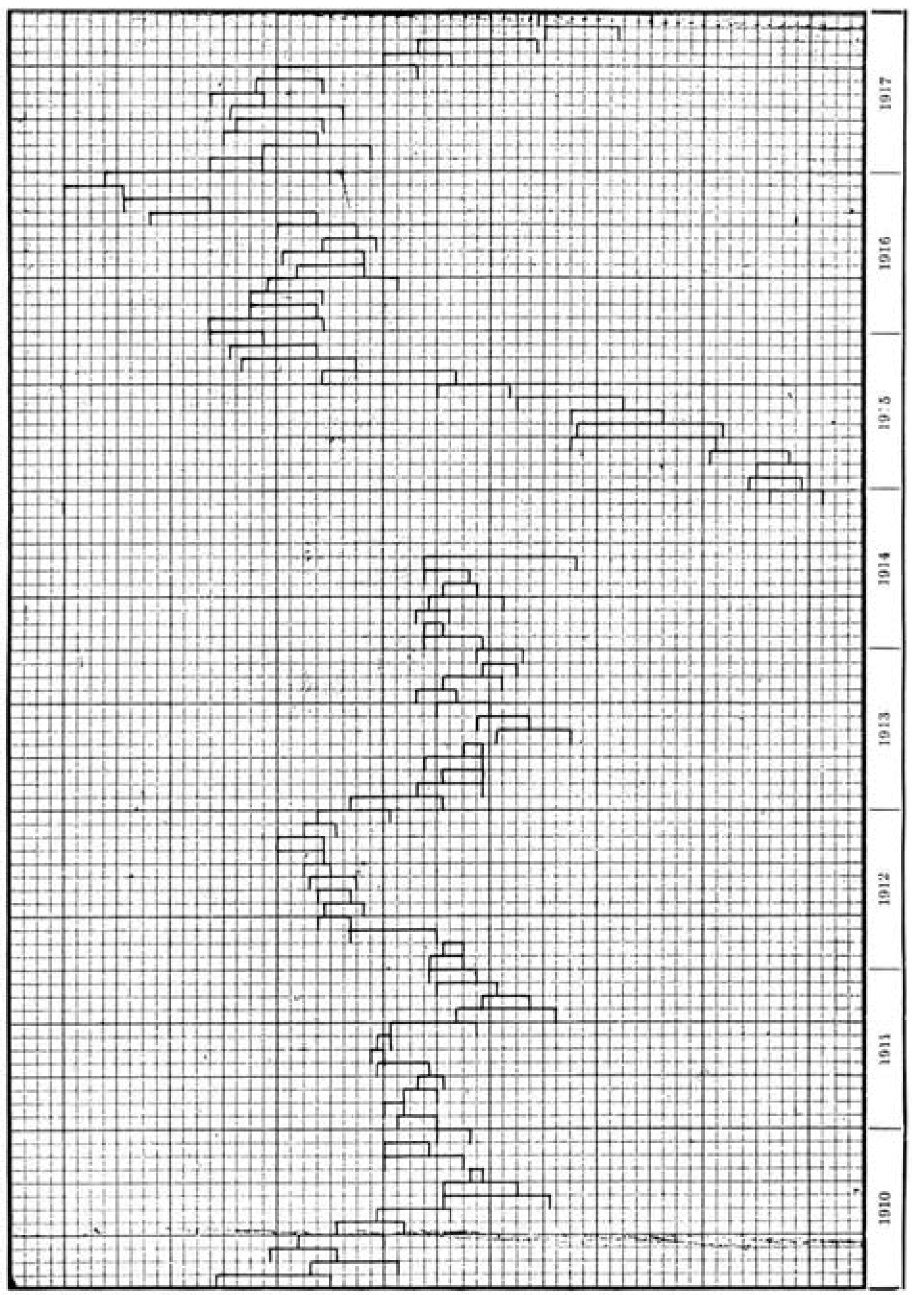


CHART NO. 12.—Dow-Jones' Averages, 20 Industrial Stocks. Monthly High and Low. 1897-1922—*Continued.*

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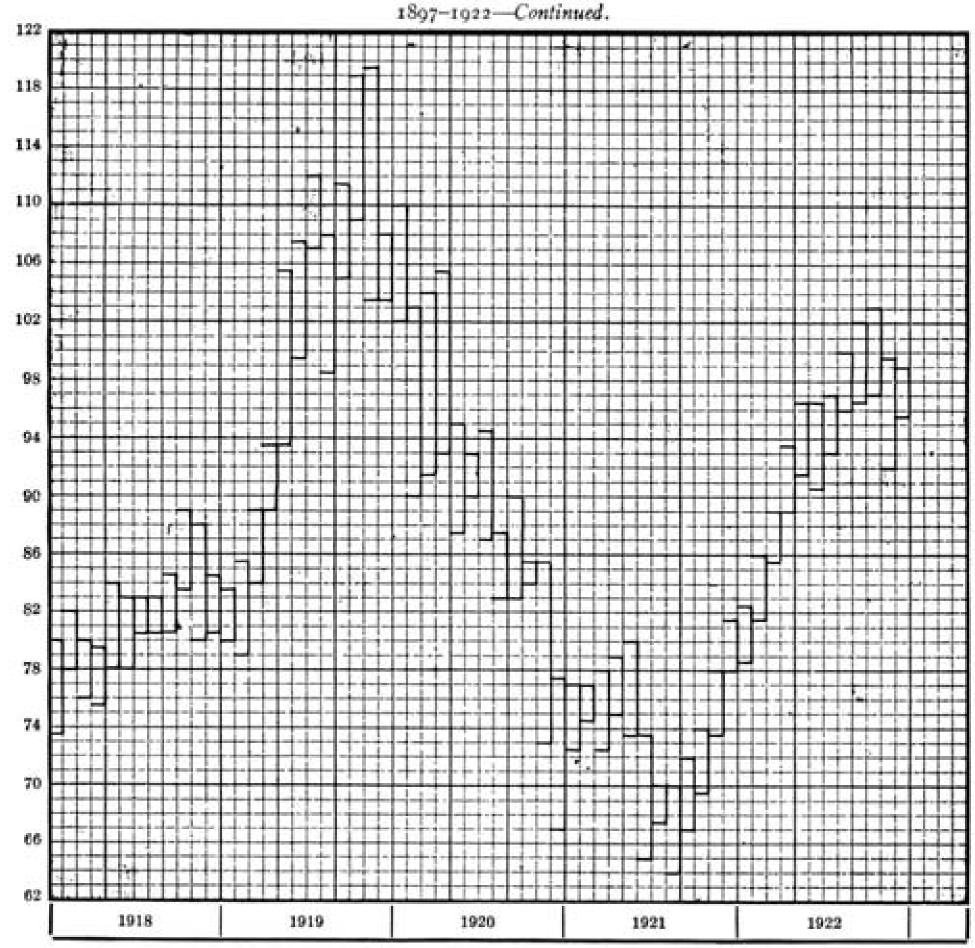

tribution was taking place. A decline started in January, 1910. Prices reached the low of 74 in July, 1910.

Then followed a slow rally, making top in July, 1911 and at the top the market remained for two months, very narrow and inactive, while distribution was taking place. You have often heard it said “Never sell a dead market,” but you must consider whether prices are near the top or bottom when they become dead. If they get very narrow and dead near the top, it is a sign of decreased buying power, and only a question of time when something will occur to cause buyers to become sellers and force stocks down. The break started in August, and declined to 73 in September, 1911, making a double bottom.

Then followed a slow advance to October, 1912, the first top being made in June and the market holding about six months for distribution. Then followed a decline to June, 1913, when Averages reached 73, making a triple bottom, or practically the same level as 1910 and 1911.

In 1914 the top was made from February until July, in a very narrow market. Stocks would rally and become dead and inactive, which showed that the buying power was not there, and that liquidation was taking place. In the early part of July the decline started. Activity was on the down side, and prices broke under the distributing level. The Exchange closed July 30, and when it opened in December, prices declined to 53, making the same level as in 1907, or a double bottom, although it was seven years apart.

Prices fluctuated in a narrow range until the spring of 1915, when the industrial stocks led the advance, with “war babies” coming to the front every day. The Averages reached 99 in December, 1915, which was the first top in the great war boom. They declined to April, 1916, making 85. Here accumulation took place, and they rallied rapidly to November, 1916, when the Averages reached a new high for their history -- 110. From this top there was a sharp decline, and the real distribution took place under 100, or after stocks were down 10 points from high levels. I have explained something in regard to this in a previous chapter, about where sharp tops are made and distribution takes place after the first big decline.

In 1917 prices declined and reached the first low, 87, in February. They rallied from this level but were very inactive on the rallies. Stocks looked very cheap when compared to the high levels of 1916 and the public bought them. The decline continued during 1917 and bottom was reached in December, prices making 66. This was a sharp bottom. Then accumulation occurred after prices were up 10 points. The chart will show you that the accumulation took place between 76 and 84, so you see that the same rule applies -- *distribution takes place below the level of sharp tops and accumulation several points above the level of sharp bottoms.*

1918 was a year of narrow fluctuations. Prices had advanced to 88 in November, 1918, when peace was declared. Then followed a quick decline to 80, where you will see that prices held for four months in a 4-point range, making the same low level every month. This was the second stage of accumulation and showed that it was getting ready for a big advance, which started in February, 1919. You will find my Annual Forecast for 1919 in the back of this book. You can see how accurately I foretold the big advance in Oil Stocks and Industrials for that year. 1919 recorded one of the greatest advances in the history of the Stock Exchange, the industrial stocks rising nearly 40 points on Averages in nine months' time. Of course, many individual stocks had advanced from 50 to 150 points. The volume of sales was the greatest of any year on the Stock Exchange, the average daily sales running close to two million shares per day during August, September and October. In the early part of November, the advance culminated with a sharp top. There had been only two reactions during the year, one occurring in June and the other in August. Distribution took place on the way up, because the public was buying stocks regardless of price, name, previous condition or future possibilities. They were buying on hope, believing that the *Bull market* would never *end,* but it did, *suddenly and unexpectedly, as all highly manipulated market movements do.*

A panicky decline followed in November, 1919, and prices declined to around 103. They rallied and held in a narrow range, making 109 in January, 1920. A second period of distribution took place in January, which was followed by a severe decline in February, carrying prices down to 90. In April the Supreme Court handed down the decision declaring stock dividends non-taxable. This caused another wild wave of speculation, with many companies declaring stock dividends and the public buying everything on hope. The Averages reached 105 and from this level the long decline started, which continued until December 21, 1920, winding up with a three million share day, and the Averages at 67, the same level as they made in 1917. Read my Annual Forecast in the back of the book, and see how accurately I foretold the 1920 market and forecasted the panicky decline to the exact date.

After this decline, a sharp rally followed to May, 1921, when prices reached 81. The market became slow and dead at the top, showing that the supply of stocks was greater than the demand. Liquidation broke out again around the 10th of May, and prices continued to decline until liquidation was completed in August and averages had reached 64. This was the third zone below normal, or the zone of extreme depression, and the place for accumulation and buying. It was exactly opposite to the feverish zone of distribution of October, 1919.

After the August, 1921, break, a slow rally started. See my 1921 Stock Forecast in the back of this book. It called the exact top for May and the bottom in August, 1921.

Reactions were very small and stocks continued upward to October, 1922, when prices reached 103.42, where distribution started. The break which occurred in November, 1922, carried prices down to 92, which was 4 points under the bottom of the distributing zone. My 1922 Stock Forecast, issued in December, 1921, called final high for October to the exact date and predicted the decline for November, 1922.

You can see from the top that by January, 1923, distribution has been going on for about six months. They rallied to just above 99 in January, 1923, and it is the writer's opinion that the high prices made in October, 1922, will not be exceeded by three points until Averages decline to 75 or lower. Distribution will take place on every rally in the Spring of 1923, and the Fall of 1923 will witness panicky conditions in the stock market and drastic declines.

CHAPTER XXV

ACCUMULATION OF LOW-PRICED STOCKS

If you go back over past history, you will find that most of the stocks that have sold at very high levels, i.e., anywhere from $100 to $300 per share, at some time in the early stage of their career have sold at very low levels, and that the accumulation of many stocks which have become leaders has taken place below $25 per share. For example: See Chart No. 9 on Corn Products.

CORN PRODUCTS

In the great bull market of 1906, Corn Products sold at 28, which was the high price of that year. In the bear market of 1907 it declined to 8. In the bull market of 1909 it advanced to 26, failing by two points to reach the high price made in 1906. In 1911 it declined to 10 and in 1912 it advanced to 22, again failing to reach the high level of 1909. In 1914 it declined to 7, which was the lowest in its history. In 1915 it recovered rapidly and advanced to 21. In 1916 it advanced to 29, which was the highest price of its history up to that time, and one point higher than the level of 1906. 1917 was a bear year and many stocks sold lower than they had for many years, but Corn Products only reacted to 18 and before the end of 1917 had sold above 29, the highest of 1916. The stock being in new territory, and higher than it had sold for ten years, showed that accumulation had been completed and that a big advance was likely. Therefore the logical course to pursue was to follow the advance as long as the trend showed up.

It advanced to 37 late in 1917, thus making a new high in a bear year and showing that there was buying power enough to carry this stock up against the trend of the general market. Now, when a stock has never sold higher than a certain figure for a number of years, a lot of people think that when it reaches that level or gets any higher, that it is due for a reaction. This is a great mistake. 1918 was a year of irregularities and reactionary price movements. It could not be termed a bull year. Yet Corn Products advanced to 50, and when other stocks suffered a big decline in January and February, 1919 this stock only reacted to 46, or four points from the high.

Then the 1919 bull campaign started and Corn Products began to advance. It continued to make higher tops and higher bottoms, showing that demand was greater than supply, advancing to 99 in 1919, and in the spring of 1920 to 105. When it reached this level, if you look at a weekly and monthly chart, you will see that distribution started. In fact, it made a sharp top, reacted quickly to 88, then rallied to 97, where it showed weakness. After that the trend was down, and it declined to 61 in December, 1920; advanced to 76 in March, 1921; declined to 59 in June, 1921.

The fact that it only declined two points below the low level made in 1920 and showed accumulation around this level, it could naturally be considered in strong bull position and should be bought with a stop under this low level. It advanced to 68, reacted to 64, held in a narrow range between 64 and 68 while accumulation was taking place during July and August, 1921. Then the advance started. It continued upward with very little reactions until it reached 105, the high price of 1920. Of course, around this level it met with heavy selling because a lot of people thought if it reached the highest price of its history, it was high enough.

It advanced to 108 in March, 1922, which was three points above the highest price made in 1920, and showed that somebody was still buying the stock, although it was meeting with heavy selling. It declined to 99 in May, 1922 and around this level became very inactive and the volume of sales was very small, which showed that selling pressure was decreasing. It started to advance slowly, and gradually began to make higher resistance levels, until in August, 1922 it advanced above the high price of 108 made in March, 1922. After five or six months' time, and only reacting nine points, then making a new high level, showed plainly that the trend was up and that the stock should be bought and followed up as long as it showed an upward trend.

It advanced to 134 during the week of October 21, 1922. After that it reacted to around 124; then rallied five or six times up to around 132-133, but failed to make the high price of October 21st. It remained in this trading range between 134 and 124, from October, 1922 until the date of this writing, January 12, 1923. This shows that it has reached the level where it is meeting with great resistance and heavy selling, and the proper thing to do is to be out of long stock, and short. If it breaks under the level of 124, it will show plainly that distribution has been completed, and you should then follow the downward trend until it reaches a level where it meets with resistance and shows accumulation.

CHAPTER XXVI

HOW TO WATCH INVESTMENTS

A lot of people handle their investments the same as they do their health. They never consult a doctor until they are seriously ill; then it may be too late, or the expense will be ten times greater than if they had consulted a doctor and protected themselves against future ailments. No matter if you hold gilt-edge bonds or preferred stocks as an investment, they should be looked over by an expert at least once a year to see if there are any symptoms of weakness developing in the list. Investments should be sold out on the first sign of a change in conditions, and you should not wait until everybody is selling and you are forced to sell on a liquidating market. Very few people are willing to pay even $25 a year to have their investments looked over, and receive real expert scientific advice, but after they have losses of thousands of dollars, and it is too late for expert advice to help them much, then they are willing to pay hundreds of dollars for helpful information. It is the old, old story of locking the stable door after the horse is stolen.

FRENCH BONDS

It is impossible for the best human judgment to pick a number of stocks or bonds that will all prove sound. It is also impossible to run any business without expense, and the expense in the investment business is occasionally taking a quick loss. When you find that one of your investments shows weakness, sell on the first indication -- do not hesitate. Many people bought French 7 1/2's and 8's above 100 because they pay 7 or 8 per cent. The very fact that they pay an abnormal yield on investments should have shown the man who thinks, that there was something wrong with the credit of the French Government; otherwise they would not have to pay such high interest if their security was gilt-edge. When these bonds declined to 99 it was a danger signal and they should have been sold out immediately, but many investors did not sell for the very reason that they yield a high return. Now the 8's have declined to 93 and the 7 1/2's around 89, and there is no prospect in sight for them going back to par any time soon, so the man who bought because he received a higher return for his money, now has a shrinkage in his capital of 7 to 10 per cent, which eats up a lot of interest.

CHANGING TO SPECULATIVE ISSUES

It is always better to be safe than sorry. Many large estates have been wiped out because the younger generation refused to sell the investments that their fathers made and switch into something better just as soon as the investments began to show shrinkage. Many men leave fortunes to their wives in gilt-edge investments which are paying 4 1/2 to 5 1/2 per cent. They have bought them for safety, for the protection of principal and not for large yield. A woman wants a large income so that she can live on it. She will sell out gilt-edge investments and buy speculative issues because the return is large and often in a few years she finds herself not alone without an income, but with her capital half wiped out. The gambling instinct is so strong in human beings that they never look for safety until it is too late. They listen to the story of bond salesmen -- get-rich-quick schemers who play on their hopes and get them to change from safe investments into gambling speculative investments, and in 90 per cent of the cases, the result is losses.

DISCRIMINATION AND INVESTIGATION

At the present time, when we are in a reconstruction period after the greatest war the world has ever seen, discrimination is more necessary than ever, and every investor needs the service of an expert. Many people have the idea that if they buy bonds which are sold by J. P. Morgan & Co., Kuhn Loeb & Company or the National City Bank, they are buying something gilt-edge and guaranteed. These banks are in the business of selling bonds for a commission. They do not guarantee them, but they do make money on every bond they sell. Yet, the buyer may never see a profit. The very best houses must sometimes handle issues which are unsound, and you must not buy bonds without investigating their merits just because they are sold by a house with a long established reputation. The French Government issues were all floated here by our highest class bankers, but that has not prevented these bonds from shrinking in value, and the bankers who sold you the bonds made no guarantee that they would support the market and prevent a decline.

LIBERTY BONDS

The best securities are bound to shrink in value at times. It is a question of Supply and Demand. The U. S. Government is the soundest government in the world today, and it was at the end of the war in 1918. Then why did Liberty Bonds decline to around 85? Because there were billions of them in the hands of the public, and when the depression of 1920 and 1921 set in, the people were loaded with bonds and short of cash. Therefore, when they needed cash, the only way to get it was to sell Liberty Bonds. The result was that everybody were sellers and there were very few buyers, and bonds declined. When they had been absorbed at low levels by large investors, they gradually worked back to 100 again.

ATCHISON

A lot of people have the idea that there is such a thing as investments being so good that they cannot decline. They forget the fact that Supply and Demand govern prices and that there must be a buyer for every seller. If buyers are scarce and sellers are numerous, stocks or bonds go down. Suppose you were carrying Atchison Railway in 1915. It advanced to 111, reacted to around 105, rallied to around 108, where you can see from a chart it held during 1916 and part of 1917 without getting above this level. Here was an indication which showed plainly that the supply of the stock, after it made 111, was greater than the demand, and as the yield on the money invested was small compared to the high interest rate, the investor should have sold out Atchison and waited for a favorable opportunity to repurchase. On the break in the latter part of 1917 it declined to 75. During 1920 it held around 76, making the same level four or five times, which showed that it was receiving support and had reached a level where conditions were just opposite to what they were when the price was around 108. The demand was greater than the supply, and the stock stopped going down. After all the stock was absorbed at a low level, it started to advance, and again reached 108 in September, 1922, where it held for a short time without crossing the old level of 1916. This was the place to again sell out investments and wait. Atchison then declined to 98 in November, 1922. When it reaches a level where the demand is greater than the supply, it will again be time to buy. This may be several years off yet.

VALUE OF EXPERT ADVICE

You should keep a chart of all of your investments. It requires but little time to keep up a monthly high and low chart and it will show you when you should get out. If you are not sure of your own judgment, secure the services of a reliable expert whom you can depend upon. A lot of people feel that they cannot afford to pay out $100 to $200 each year for expert advice to protect their investments. If they would only look at it from a sensible standpoint, they would realize that they cannot afford to be without expert advice. Consider the price of my service -- $ 100.00 per year for my Annual Forecast on Stocks, together with a supplement issued once a month or more often. You have the privilege of asking my opinion at any time on any investment you hold and securing advice on how to switch your investments so that they will prove profitable and safe. The cost per year is one point on one hundred shares of stock. Many people carry thousands of shares and let their investments shrink thousands of dollars, when by paying $100.00 per year for my service, they would be able to save hundreds of times the amount they pay me.

Expert service works both ways. It not only protects you against loss, but helps you secure your profits at the right time. If you saw a plain indication that your health was breaking down, you would not wait until your case was hopeless, but would secure expert medical advice at once and be willing to pay a good price for it. Your investments, in one way, are more vital than your health, because if your investments shrink to a level where they cause you to worry, you are sure to undermine your health. I have seen hundreds of cases in Wall Street where men lost their money, then lost their health. Therefore, expert scientific advice performs a double service -- provides protection for your health and your capital.

In Wall Street opportunities come more often than in any other business, but you must have knowledge in order to recognize them.

OPPORTUNITY

They do me wrong who say I come no more,
When once I knock and fail to find you in;
For every day I stand outside your door
And bid you wake and rise to fight and win.

Wail not for precious chances passed away,
Weep not for golden ages on the wane!
Each night I burn the records of the day;
At sunrise every soul is born again.

Laugh like a boy at splendors that have fled,
To vanished joys be blind and deaf and dumb;
My judgments seal the dead past with its dead,
But never bind a moment yet to come.

Though deep in mire wring not your hands and weep;
I lend my arm to all who say, "I can!"
No shame-faced outcast ever sank so deep
But yet might rise and be again a man!

Dost thou behold thy lost youth all aghast?
Dost reel from righteous retribution's blow?
Then turn from blotted archives of the past
And find the future's pages white as snow.

Art thou a mourner? Rise thee from thy spell,
Art thou a sinner? Sins may be forgiven,
Each morning gives thee wings to flee from hell,
Each night a star to guide thy feet to heaven.

-- WALTER MALONE.