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

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

BOOK III

HOW TO DETERMINE THE POSITION OF STOCKS

"Read, not to contradict and confute, nor to believe and take for granted, nor to find talk and discourse; but to weigh and consider."

-- FRANCIS BACON.

A man has to buy and sell to make a profit, that is, he has to get in right and get out right. Then he must watch for the proper time to start his trade and the proper time to close it. Getting in right does not help if you fail to get out right. The time to act either when buying or selling must be determined by the condition of the market at the time and by the position of the individual stocks that you intend to trade in. You might be able to buy and make profits in some stocks after a bull campaign has about finished, while others you might be able to sell short and make profits after the major swing of a bear market has finished. This is fully explained under the chapters "How to Tell the Stocks in Strongest Position" and "How to Tell When Stocks Are in Weak Position."

Do not buy a stock of one group just because some stock in another group goes up. Neither sell a stock of the same group because some one of that group has already started down. Analyze the position of the stock you intend to trade in. Find out if it has passed out of the accumulation or distribution zone. Stop to think before you act; look before you leap; examine before you buy and remember that it is always better to be safe than sorry. It is much better to take a small loss quickly than to hold on and hope and take a big one later.

CHAPTER XVI

POSITION OF GROUPS OF STOCKS

It is very important to watch the position of the different groups of stocks. To be a success you must keep up with the times and follow the leaders. The way to do this is to keep up a monthly high and low chart on several stocks of each different group; also keep a yearly chart of the different stocks. The further back you have records the better you will be able to judge the position of a group.

Many years ago Traction and Railroad stocks were the leaders. Then followed the Copper boom. After that the Motors, Rubbers and Oil stocks. Of course, every few years some kind of a boom develops in different mining stocks, but they are a class of stocks which you have to be very careful of, as they are probably the most uncertain of all.

During the past few years the man who stuck to Rails has made very little money because the opportunities have not been there. The Motors, Rubbers and Oils have been the stocks which have made wide fluctuations and offered unusual opportunities for trading.

The day of Railroads is passing and the big fortunes will not be made in them in future. Competition is getting keener every day in the Motor industry and it will eventually narrow down to a good return on invested money, but will not produce enormous profits. For this reason you must be wide awake and in future look to the new things which will offer unusual opportunities and attract speculators, causing wide fluctuations.

In future you must watch for the new industries that develop and get into their stocks, just the same as the people who let Rails alone and got into motors and made a fortune. Those who sold out Coppers in 1916 and played the Oils in 1918 and 1919 made fortunes.

In my judgment, the Aeroplane and Radio stocks will be the ones in the next few years that will make fortunes as great as any that have been made in Oils or Motors. The Chemical stocks also offer great opportunities in future, as this country has made great progress along chemical lines since the war and the business is growing on an enormous scale.

A wide range is what the trader requires in order to make big profits. As long as stocks move between 20 to 100 points each year, you certainly will be able to make some money on the long or short side, probably both. But when they narrow down to 5 and 10 points in a year, your chances are very much against big profits.

In 1916 Copper stocks reached the highest level that they had made for many years. But in 1919 when Oils and Industrial stocks reached the highest level in their history, Coppers only had a moderate rally. After that they worked lower each year until 1920 and 1921. By keeping a chart of this group and some of the leading issues, you would be able to see that in 1919 the Copper stocks had been heavily distributed because they failed to rally to the 1916 level. Therefore, they were good short sales for a long decline.

CHAPTER XVII

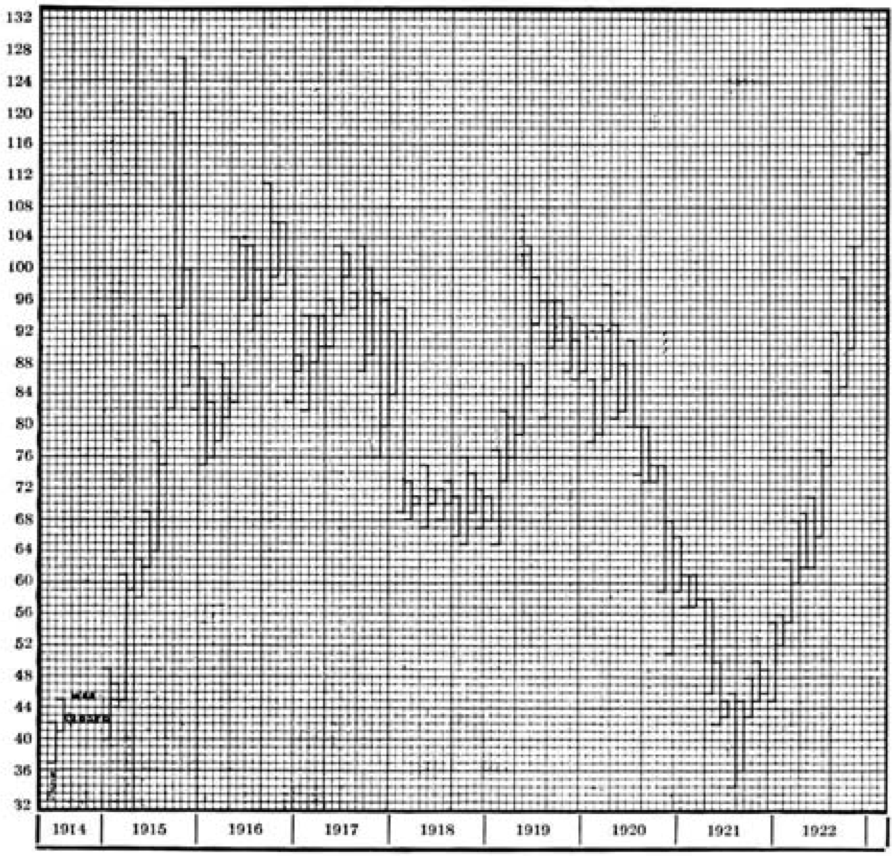
GENERAL TREND OF THE MARKET

There is always a certain group of stocks which will follow the general trend up or down, while others for a long time will work opposite to the general trend. The Dow-Jones 20 Rails and 20 Industrials for many years past have been the best guide for the main swings, but since the number of stocks listed on the N. Y. Stock Exchange have increased from 100 to over 700, naturally there must be a large number of stocks which will follow their individual trend and not the general trend of the market. Therefore, it is necessary to make a close study of the individual stocks and determine their trend regardless of the trend of the general market.

An example of this kind occurred in the decline in October and November, 1922. When all of the active leaders like Baldwin, Crucible Steel, Studebaker, and U. S. Steel were declining rapidly, Continental Can was advancing almost every day. Look at Chart No. 4 on Continental Can and see the different position it was in as compared to Baldwin Locomotive and other stocks. It had made a new high level and showed plainly that its trend was up, which it would follow regardless of the trend of the general market. I have explained this in regard to stocks that are late movers and those that finish before and after final accumulation or distribution is completed.

While you could have been selling Baldwin Locomotive, Crucible Steel and other leading stocks and making big profits in the decline of November, 1922, at the same time you could have been making big profits by buying Continental Can. Many traders foolishly sold Continental Can because it looked high, was advancing and paid no dividend. This was in direct violation of my rule to always sell the weak

CHART NO. 4.—Continental Can, Monthly High and Low. 1914–1923



stocks and buy the strong ones, which is really following the trend of each individual stock. By watching closely the daily high and low, weekly and monthly charts, you will be able to determine when each individual stock has changed its position from strong to weak.

CHAPTER XVIII

HOW TO TELL THE STOCKS IN STRONGEST POSITION

If you are waiting for an indication to buy stocks, you want to select the strongest stock in a certain group, as the stock which is in the strongest position is naturally the one that will lead in a Bull market and the one in weakest position will lead in a Bear market.

STUDEBAKER

Suppose in 1920 or 1921 you were watching and waiting to buy one of the Motor stocks. Note that the low price on Studebaker in 1917 was 34; again in 1918 low 34. The high in 1919 was 152. It declined to 38 in December, 1920, holding 4 points above the support levels of 1917 and 1918, which showed that it was in a strong position. However, the general group of Motor stocks in the Spring of 1921 did not show any sure signs of having made bottom, but Studebaker led the advance.

It made 93 in April, 1921; then followed the decline in May, June, July and August, which carried all the Motor stocks to new low levels. However, Studebaker, in August, 1921, when final bottom was reached in the general list, was still selling at 65, up 27 points from the low of December, 1920, while other Motor stocks were lower than they had sold in 1920 or the early part of 1921. This was a plain indication that Studebaker was receiving strong support. Otherwise, it could not gain 27 points while others were losing.

It remained in a quiet, narrow range from 65 to 72 for several weeks, showing plainly that it was well supported and being accumulated. If you had been waiting to buy again, this would be the time. After that Studebaker worked up, making higher tops and higher bottoms each month, as shown on Chart No. 2.

On May 16, 1922, the low price of the reaction was 114 1/4; on June 12, 1922, low price 116 5/8; then on August 11, 1922, the low of the reaction was 123; again on September 29, 1922 low 123 7/8, showing progressive bottoms. On November 27, 1922, it declined to 114 1/4, the same support level of May 11 and 16, 1922, from which it rallied to 141 3/4 in December -- the highest of the year.

A 25 per cent stock dividend was declared in November, 1922, and as the stock had been placed on a 10 per cent dividend basis in July, 1922, besides an extra dividend of $1.50, it was only natural to suppose that this was the last good news which the stock had discounted. After it sold ex-stock dividend in December, 1922, it declined to 110 3/8, breaking all previous support levels and indicating that the trend had turned down. Therefore should be sold short on all rallies. It may remain in a distributing range for several months before it starts on a long decline, but at this writing shows plain enough that it is going lower.

RAILROAD STOCKS

On Chart No. 1 which shows the yearly high and low of the 20 Railroad stocks, you will notice that the extreme high price was made in 1906 and that after the 1907 panic stocks rallied in 1909 within a few points of the highest level. After that they continued to work lower. In 1916 and 1919 when Industrial stocks made the highest prices in history, as you can see by the chart, railroad stocks only made feeble rallies. In fact, after the rally in 1916 rails made lower bottoms and lower tops every year until June, 1921.

After the Average low price on Rails in June, 1921, they continued to advance, reaching 77 in December, which was the high of the year, as you can see from the chart. In January, 1922, they reacted to 73; then advanced to 78 in March, 1922, which was higher than the level of 1921 and the first time that Average prices had made a higher top on the yearly chart since 1916. In fact, in 1916 the rally was only 4 points above the 1915 high and the big trend on Railroad stocks was really down from 1909 to 1921. So when finally they made a new high, it was a sure indication that the trend had turned and that they were going higher. They advanced to 93 on Averages in October, 1922, where they met with a resistance at the same high prices of 1918 and 1919.

Now, suppose in 1921 that you knew rails must reach bottom some time and were watching to find the strongest one to buy. Refer to New York Central Chart No. 5.

N. Y. CENTRAL

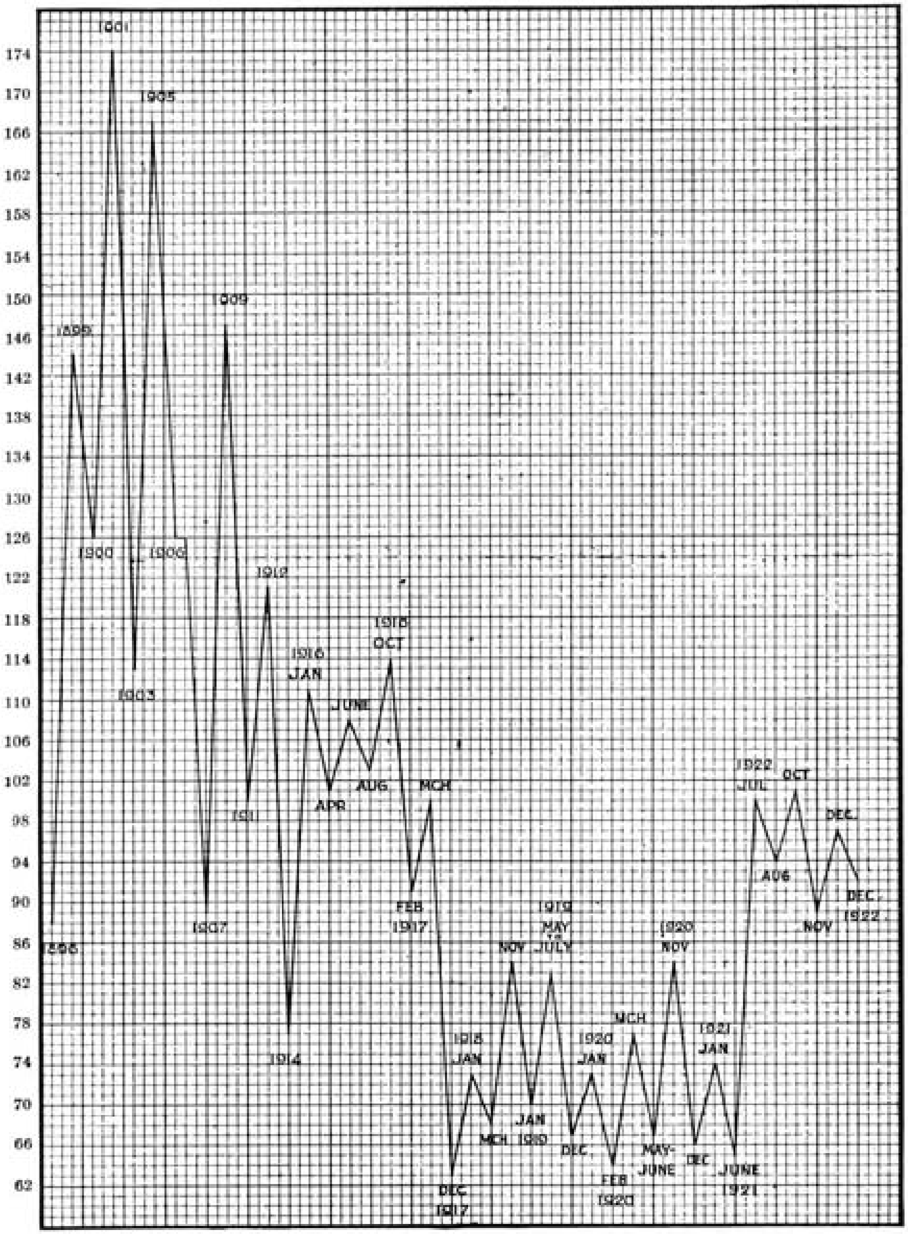
It is an old stock and you can get its record for a long number of years back and see how it established zones of accumulation and distribution. In 1893 low 90; 1896 low 88; 1907 low 89; 1908 low 90 1/8. This shows strong support between 88 and 90, and that the stock had been bought around these levels in panicky depressions over a period of 15 years.

In 1914 it broke 88 and declined to 77. Now, after breaking the support of such a long number of years, it was a plain indication that the stock was going lower and that it should be sold short and that you should watch for a new base of support before buying again.

In 1917 Railroad Stocks declined below the panic price of 1914 and 1907. In fact, the Averages reached the lowest they had been for nearly twenty years. The Government was forced to take over the Railroads in order to handle business on account of the war.

In December, 1917, New York Central made a low of 63. In February, 1920 low 65; in June, 1921 it again sold at 65, showing that for four years it had received support at the same levels. Yet, during 1920 and 1921 Southern Pacific, Great Northern Pfd., Northern Pacific, Norfolk & Western, Missouri Pacific, Wabash Pfd. A and many other railroad stocks had sold lower than they had for many years. New York Central held up although the Averages of Rails were several points lower than the panic price of

CHART No. 5.—New York Central Swing Chart, 1896–1922



1917. This was another opportunity to buy with a stop 3 points under the old base of 63.

The high price made between 1917 and 1921 was 84. After being accumulated between 65 and 75, the stock crossed 84 in March, 1922. This was a signal for much higher prices, and if you wanted to pyramid, should buy more at this level. It advanced to 101 in October, 1922, where distribution started, and then began making lower bottoms, showing that the trend had turned down.

St. Paul. -- Another rail that made lower prices every year from 1909 until 1921. It has shown accumulation for some time and at this writing both the common and preferred stocks now indicate that they are on the upward trend.

Rock Island. -- Made a low price of 16 in December, 1917, and has been making higher prices each year. Note how it led the advance in 1922 and made a new high. This is the way to select the stocks to buy. The ones that will not go down, and make higher bottoms in years of depression, will certainly lead the advance when the turn comes.

Southern Railway. -- Another stock that is now in a very strong position. Has made higher bottoms ever since 1913 and still indicates higher prices.

Union Pacific. -- Low in the panic of 1907 was 100; in 1917 low 102. Another stock that you had a chance to buy at the old support level. February, 1920 low 110; June, 1921 low 111, a still higher support, and the place to buy with a stop loss order under 110.

You can see that Union Pacific made higher supports on each big decline from 1907 to 1921, while numbers of other railroad stocks were reaching new low levels all of these years, which showed that they were in a weak position and without much support. Union Pacific rallied to 154 in September, 1922, where distribution started.

BUYING AND SELLING POINTS

You follow this same rule in any group of stocks in order to locate the strongest or weakest individual stock of the group. When you have the record of a stock for a long number of years back and see where it gets its support in extreme panic years and where it meets with resistance in boom years, you can easily tell the levels where it is safe to buy or sell with a risk limited to two or three points.

American Can. -- The low in July, 1914 was 20. It advanced to 68 in October, 1915; declined to 51 in 1916; then advanced to 68, the same top, where it held for several months without going higher, giving you a chance to sell out and go short. It declined to 30 in the panicky break of 1917 and advanced to 68 in September, 1919, where it held for nearly two months without advancing into new territory. This was another opportunity to sell out and go short with a stop 3 points above the old level.

It declined to 22 in December, 1920, which was two points above the support level in 1914. It rallied to 32 and again in June, 1921 declined to 24, receiving support at a higher level. Then remained for four months between 24 to 29, showing plainly that the stock was being accumulated. You could then have bought again around these levels.

In the fall of 1922 it crossed 68, the old resistance levels, which was an indication for higher prices and you should buy more.

American Loco. -- In December, 1920, low 74; rallied to 91 in May, 1921. Declined to 74 in June, 1921, receiving support at the same level and giving you an opportunity to buy with a stop under the old base. It advanced to 117 in April, 1922, which was the high price made in October, 1919. At this level you should have sold out and gone short with a stop loss order at 120, or 3 points above the top. It then declined to 109 and held for several weeks in a narrow range, failing to break the support level around 108, which was made in March and April, 1922.

In August, 1922, it made 118, crossing the old levels and indicating higher prices. It advanced to 136 in October, 1922, where it met with heavy selling and the trend reversed. In November, 1922 declined to 116, which was the old resistance level of October, 1919, and April and May, 1922. A stock nearly always gets support the first time it reacts back to old high levels and the main trend would be considered up as long as it stayed above old resistance levels.

CHAPTER XIX

HOW TO TELL WHEN STOCKS ARE IN WEAK POSITION

You always want to know the stocks that are in the weakest position, because they are the safest to sell short in a Bear market. The ones that show weakness first naturally will be leaders in a Bear market. After the trend turns down from the top and stocks have declined for quite awhile, the next thing which will show that a bigger decline will take place is the breaking of important support points.

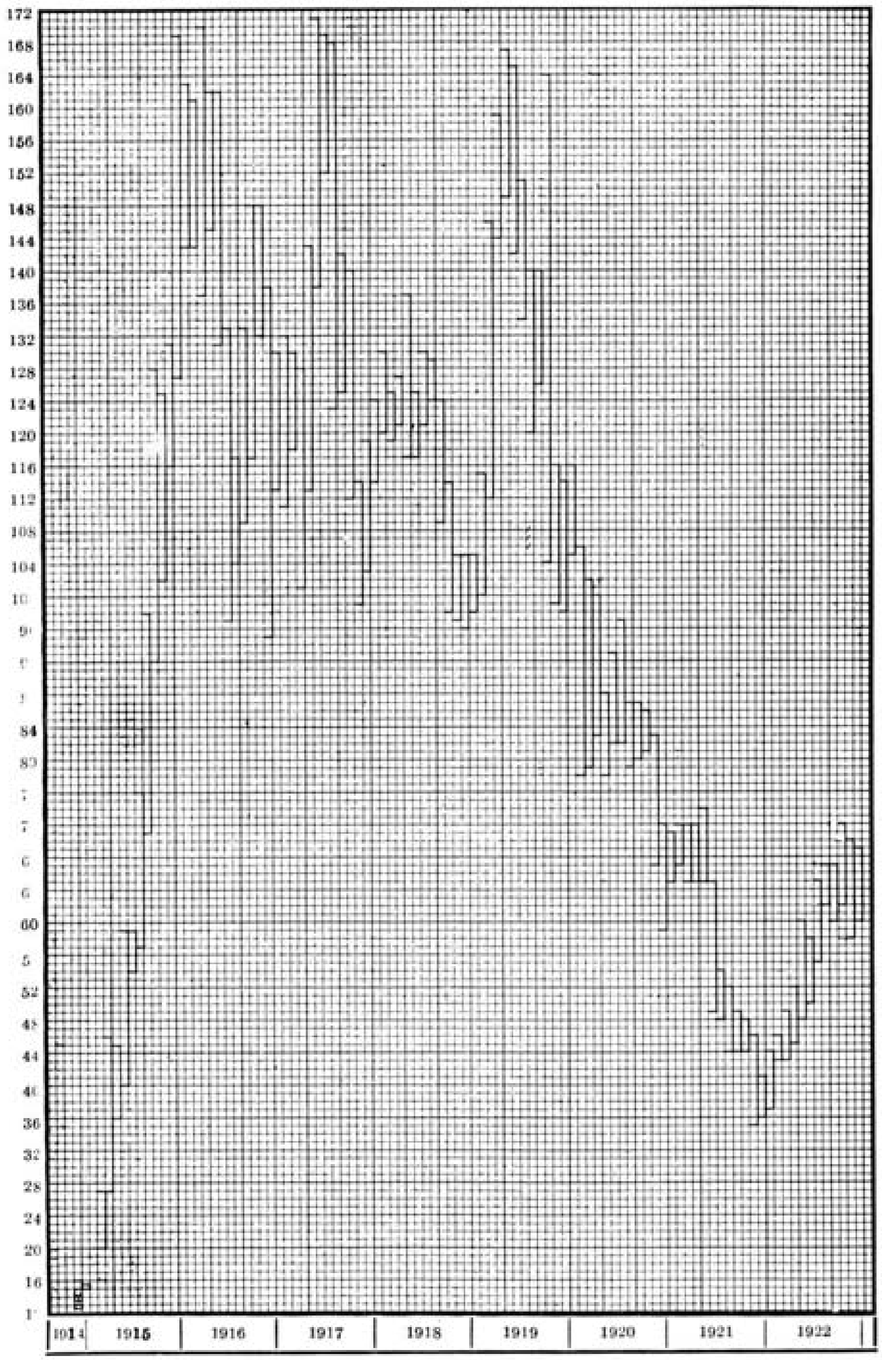
INDUSTRIAL ALCOHOL

Started up from a low price of 15 a share in January, 1915. Advanced to 170 in April, 1916; again in 1917 advanced to 171 and in May, 1919 advanced to 167. Declined to 120 in August, 1919, and made the last advance to 164 in October, 1919. Notice on Chart No. 6 that the selling zone from 167 to 171 extended over a period of four years.

Now, notice the support points. December, 1916 low 95; November, 1917 low 99; December, 1918 low 96; December, 1919 low 98. This stock showed distribution and that it was in a weak position, because in 1919 when Industrial stocks reached the highest Average in history, this stock failed to reach its previous high levels made in 1916 and 1917. Therefore, it was getting in position for a big decline.

When it broke the support of 95 to 99, it declined to 78; then rallied to 102, and continued to work lower until November, 1921. Yet, many other stocks made low prices in December, 1920 and in June and August, 1921, but Industrial Alcohol declined to 35. So you see what enormous profits can be made on the short side if you pick the stocks that are in the weakest position and continue to follow them down as long as the trend continues to show lower.

CHART NO. 6.—U. S. Industrial Alcohol, Monthly High and Low. 1914–1922



Notice how many times you could have bought the stock between 100 and 96 and how many times you could have sold it around 165 to 170, making profits every time on both the long and short sides. Then, finally when the support around 96 was broken it declined 50 points more. Again I remind you that stocks are never too low to sell as long as the trend is down, and never too high to buy as long as the trend is up.

After Industrial Alcohol reached 35 it remained for about two months in a 5 or 6 point range and since that time has been making higher tops and higher bottoms. It reached 72 in October, 1922, and as this stock was one of the last to make low prices in 1921, it will naturally be one of the last to complete its upward swing.

If you had been short of this stock in June or August, 1921, when other stocks made bottom, there would have been no reason for covering as it was making lower prices every month and showing plainly that the trend was down. You should at least have waited to cover until it made a higher price than a previous month, which would have been 42, when it went over the high price of December, 1921.

ATLANTIC GULF AND WEST INDIES

Another stock which had a phenomenal rise in the Bull campaign of 1919. Notice that its support levels in 1917 and 1918 were between 88 and 92. You could have bought it around these levels numbers of times and sold it out with profits of 15 to 20 points. It had a top, or resistance level from 1917 until the early part of 1919 between 117 to 120, where you could always have sold it and gone short. It declined to 92 in February, 1919. The previous low price was 89 made in December, 1917. This was the place to buy, protected with a stop under the old support levels.

It advanced and in April, 1919 crossed 120, which was an indication for much higher prices. In May, 1919 it crossed the high of its history, 147; advanced to 188 in June; reacted to 140 in August; advanced to 192 in October, 1919.

After that it began making lower bottoms and lower tops. In February, 1920 it declined to 137; rallied to 176 in April, 1920, where it again was distributed for several months, finally breaking the support of 137 and continuing the decline, the rallies getting smaller all the time.

In November, 1920 it broke through the supports at 92 and 88, which left no other support level except the low price of 27 made in 1916. It declined to 62 in December, 1920, and while other stocks were rallying in January, 1921, it continued on down, finally declining to 18 in June, 1921.

After making bottom for two months at 19 it started to rally. Advanced to 36 in December, 1921; reacted to 24 in February, 1922, holding for several weeks at this higher support point; advanced to 43 in May, 1922; then declined to 19 in January, 1923, where it was again supported, and you should buy with a stop two to three points under.

Thus, you can see how safe it is to sell a stock and keep short of it as long as it shows weakness, regardless of what other stocks are doing.

CHAPTER XX

JUDGING FINAL TOPS AND BOTTOMS

Before any stock, or group of stocks, starts on a big advance or decline, a long period of time is required for preparation, or accumulation or distribution. It requires time to prepare and lay the foundation for a building. The larger the building, the more time required to construct the foundation. It is the same with stocks. The greater the advance or the decline, the more time required in preparing for it. For example:

U. S. STEEL

Take U. S. Steel which was incorporated February, 1901. It was a new stock and the largest corporation of its kind in the world at that time. Its common stock was all water, and as water seeks its level, Steel common with its five million shares of water had to seek its level. It required many years to reach that level. The stock declined from 55 in 1901 down to 8 3/8 in 1904. When it reached the level of 12 it remained from December, 1903 to September, 1904 fluctuating between 12 and 8 3/8. Most of the time the fluctuations were between 9 and 10. It was at very low ebb, slow narrow fluctuations with very small volume of sales. This is where accumulation took place, which required about ten months and gave you ample time to watch it and see that it was receiving support. You did not have to be in a hurry about buying, as it was preparing for its long advance.

We will overlook the top at 94 7/8 in 1909. However, you can look it up for yourself and see that the entire capital stock changed hands several times between 88 and 94, and some days the trading in this stock alone ran over half a million shares, which, of course, showed that it was being distributed. Now, look at the final top in November, 1916 on Chart No. 7, when it reached 129 3/4. There was a wide range of fluctuations and big volume. It declined to 101 in December, 1916, rallied to 115 in January and early February, 1917, and on February 3, 1917, when the Germans declared the U-Boat war, it declined to 99, which was only two points under the December low. Then the advance started, which carried it up to 136 5/8 in May, 1917.

The volume around this top was over fifteen million shares, or three times the total capital stock. Note the 3-point chart, which shows how active it was and how it was moving up and down while distribution was taking place. The distribution of this stock was really going on from October, 1916 until May and June, 1917. Therefore, the man who wanted to sell out and go short had plenty of time to watch the stock and determine when distribution had been completed. It was getting ready for a long decline, but had advanced 98 points from its extreme low level of 1914, and it required time to distribute it. But note after distribution was completed, how rapidly it declined, reaching 80 in December, 1917.

The general impression among the public is that "as steel goes so the market goes"; that is, they feel that U. S. Steel is the leader, either up or down. There was a time when it was the leader, but it is not now. The majority of stocks made high prices in October and November, 1916, and were at much lower levels in May, 1917; yet U. S. Steel went 7 points higher in May, 1917 than the high of November, 1916. People who bought other stocks, expecting them to follow the lead of U. S. Steel and make higher prices than in 1916, got badly fooled and lost their money. This is another illustration and proof of my rule: "Do not buy stocks of a different group because some other stock is strong."

GENERAL MOTORS AND STUDEBAKER

Trade in the stock that gives the strong or weak indication; do not try to pick one to follow it. Judge each stock according to its individual position, -- by Time, Space and Volume. Do not expect General Motors to have a big

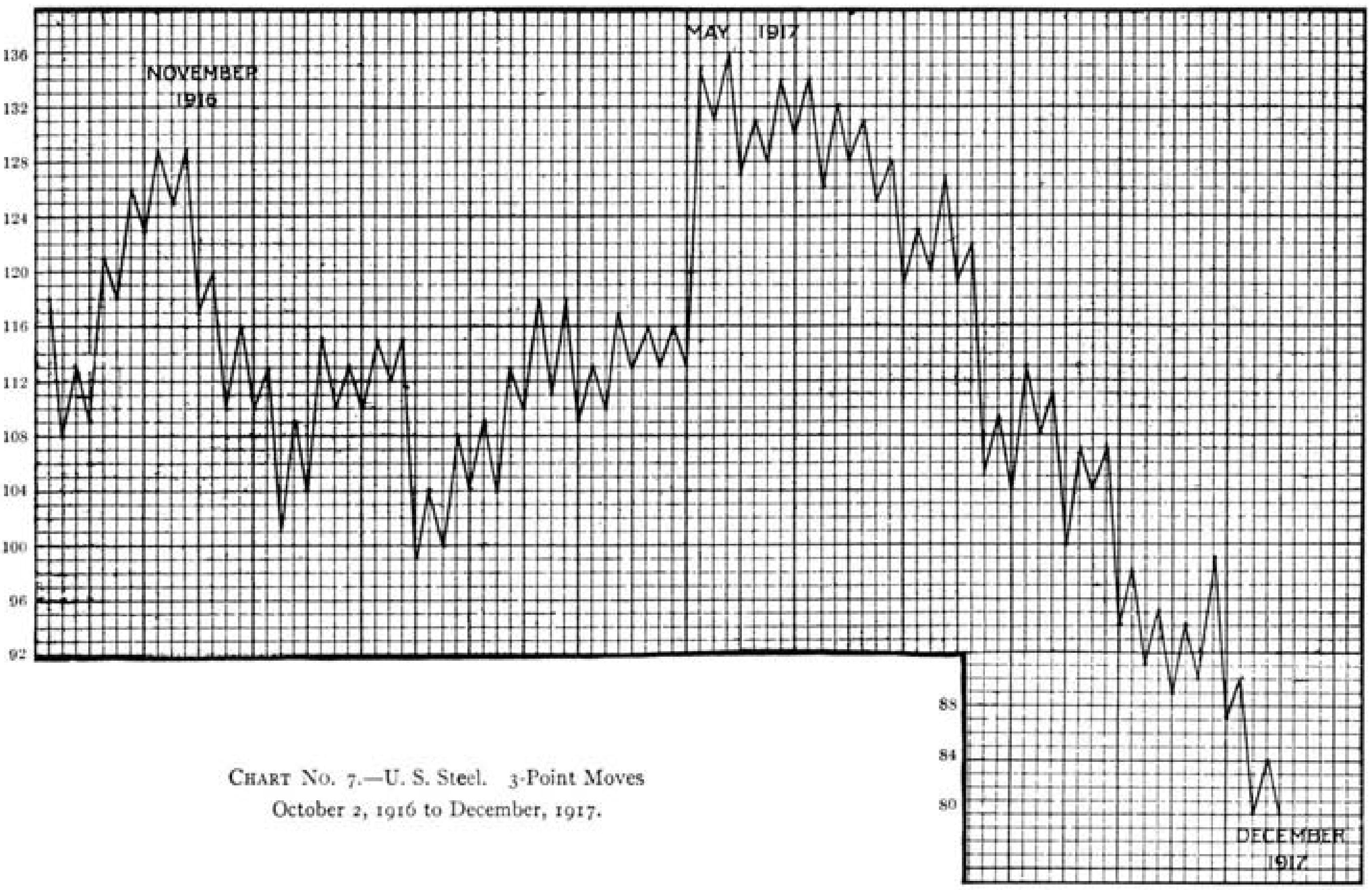


Chart No. 7.—U. S. Steel. 3-Point Moves
October 2, 1916 to December, 1917.

advance because Studebaker has already advanced. Look up General Motors chart and note its position. Also consider that it has a capital stock of fifty million shares, while Studebaker has only 750,000 shares. Don't forget it requires buying power to put a market up and selling pressure to put it down. It requires a much larger buying power to move a stock with several million shares than it does one with only 750,000.

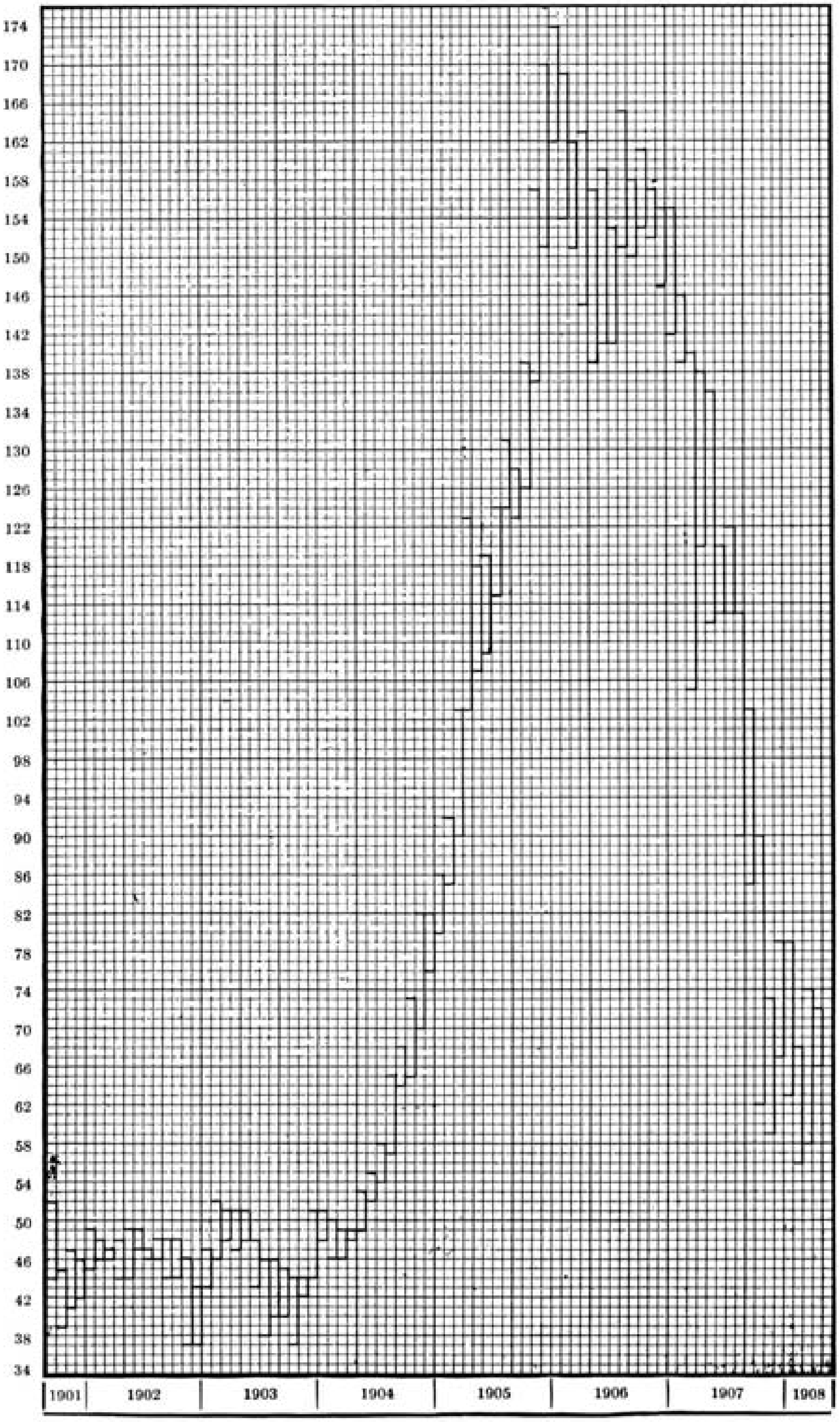
Did you ever stop to consider that with a stock like General Motors, each point up or down means a gain or loss of fifty million dollars on the total capital stock? This is why so much buying and selling occurs at every point and why it moves so slow. When General Motors increased its stock in 1920 and issued 10 for 1, the price was 42 in March, 1920, which equalled the value of 420 per share for the old stock. A slow decline started. It reached 13 in December, 1920, which was nearly 30 points down in nine months' time. This big decline was produced because with fifty million shares, there was no pool that was willing and had the money to support it. It continued to decline until it reached the low price of 8 in January, 1922; then advanced to 15 in June, 1922.

This advance of 7 points seemed very small compared with what Studebaker and other motor stocks were doing. Yet, the percentage was just as great. Studebaker advanced from a low of 65 in 1921 to a high of 141 in 1922, which was a little over 100 per cent increase on its selling price, and General Motors advanced from 8 to 15, nearly 100 per cent on its selling price. So many people get fooled in buying low-priced stocks and simply hope and expect them to advance in points almost proportionate to a high-priced stock. Low-priced stocks do advance and decline in proportion to high-priced stocks, and even greater at times, when you figure the percentage on the price at which they are selling.

AMERICAN SMELTING AND REFINING

Note Chart No. 8 on American Smelting and Refining, and the long period of accumulation from September, 1901 to May, 1904 when it made a range from 37 to 52. Now,

Chart No. 8.—American Smelting and Refining. Monthly High and Low, 1901–1908



when once it broke out of this range of accumulation, it was a plain indication that the advance would last for a long time, and that it would be a big one. It advanced to 174, never having any big reaction. It reached the high price in January, 1906; then distribution started which lasted for a year. It fluctuated between 174 and 138 and finally in January, 1907, broke under the distribution point of 138 and declined rapidly, reaching 56 in February, 1908. Thus you see that after great activity and a long time in a narrow or wide range at top or bottom, a big move follows in which you can make profits rapidly. Then how foolish it is for anyone to try to buck the trend or to hold on and hope when stocks start to go against them.

Suppose that when the advance in this stock started, you sold short around 50 because it was near the old high price. When it crossed 52, it plainly showed up, because it was in new territory. Suppose you decided to wait for a reaction to cover your shorts, which reaction did not come. The stock advanced to 62, 72, 82, 92, and on up to 174. What good would margin do? You would simply be throwing your money away, because you would be bucking the trend. Again let us suppose that you started selling short at 100, and tried to average, as so many people foolishly do. You would have been ruined.

The same thing applies to the man who bought the stock around 138 in early 1907, and it declined to 56. What chance would he have, trying to average or by buying the stock outright and paying for it? He never would have gotten out. Just go over records of stocks for as many years back as you like and study them, and you will find out that it does not pay to buck the trend or try to average. The proper way to trade is to go with the trend, and pyramid while you are making profits, and not when the market is going against you. I reiterate: *Stop your losses quickly and let your profits run.*

PROGRESSIVE TOPS AND BOTTOMS

It always pays to keep a chart of Averages of any group of stocks, as you can then judge when they have reached a level where they are receiving support or being distributed. But, of course, you cannot trade in Averages; therefore, must keep a chart of some of the individual issues of each group in order to determine the best ones to trade in and the right time to buy or sell.

On active stocks 5 to 10-point moves will help to show when tops or bottoms are being made. On stocks selling 25 to 60 per share 3-point charts will show best, but on stocks selling 100 to 300 per share 5 and 10-point moves are much better because it requires a wider range in which to buy or sell a large amount of stock.

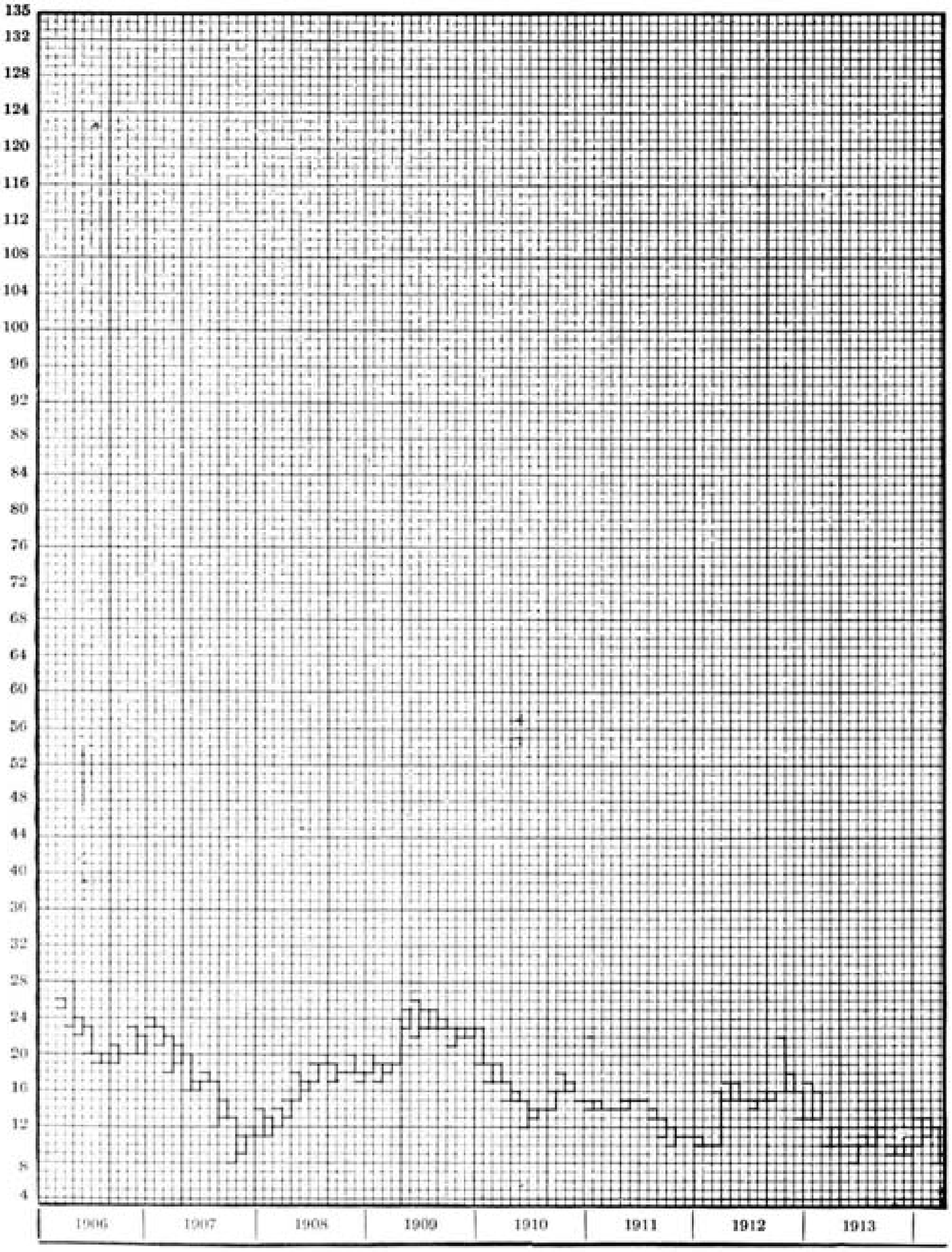
Sometimes stocks require several years to lay a foundation for a big Bull or Bear campaign. Suppose you were keeping Oil stocks in 1913 and were watching for something which would lead an Oil boom when it developed. Take California Pete.

California Pete. -- The low in 1913 was 16; 1915 low 8; 1916 low 16; 1917 low 11, at which price it remained in a narrow range for about four months, showing that the stock was receiving support at a higher level than the low price of 1915. Having declined from 72 a share, the high price in 1912, it had shown accumulation between 16 and 8 from 1913 to 1917.

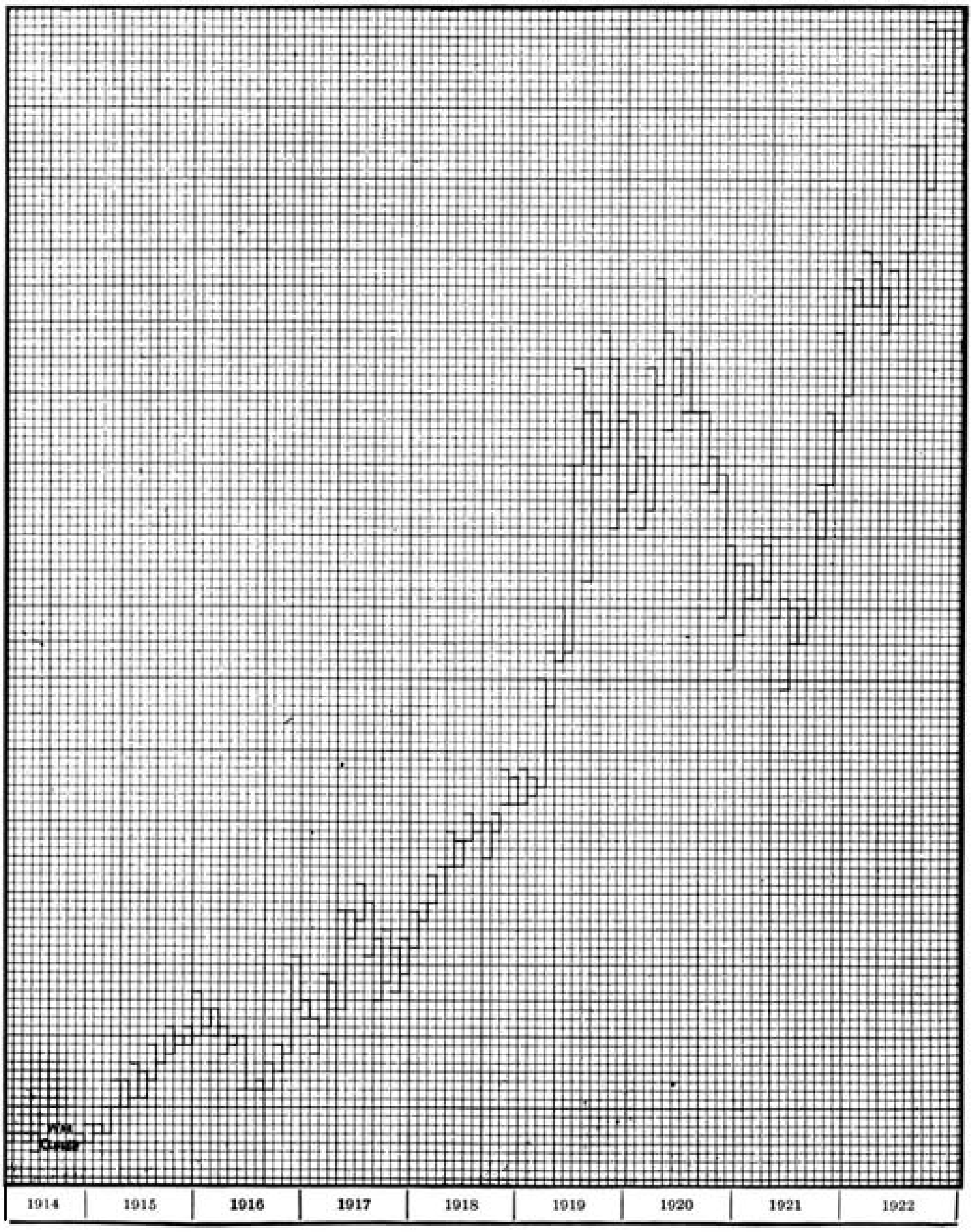
It advanced to 56 in 1919; declined to 15 in November, 1920, and advanced to 71 in July, 1922. This is what we call "progressive" bottoms, i.e., each support several years apart being higher. 1915 support 8; 1917 support 11; 1920 support 15; and in 1921 low 30. As long as a stock makes higher bottoms and higher tops, the trend is up and it is safe to follow the advance. This rule applies to daily, weekly, monthly or yearly movements.

Mexican Pete. -- Another example of progressive bottoms or higher support. In 1913 low 42; 1914 low 51; 1917 low 67; 1918 low 79. In October, 1918 made its first big advance to a new high and reached 264 in October, 1919; declined to 84 1/2 in August, 1921, making a still higher bottom than the last bottom in 1918. So you see all of these years Mexican Pete was receiving support at higher levels, which showed that it was preparing to reach extreme high levels before distribution would take place.

CHART No. 9.—Corn Products,



Monthly High and Low. 1906–1922



Look up in the same way any stock you are interested in or wish to trade in and note its position over a long number of years. The larger the accumulation or distribution and the more time consumed at top or bottom, the greater the advance or decline will be. As an example, -- see Chart No. 9 on Corn Products.

Corn Products. -- Sold at 28 when it was first incorporated in 1906. It declined to 8 in 1907; advanced to 26 in June, 1909; declined to 10 in 1912; advanced to 22 in 1913; declined to 8 in 1913; rallied to 13 in 1914; declined to 7 in July, 1914. It remained in a narrow range and did not sell above 10 until the Spring of 1915.

It was first supported at 8 in 1907; again at 8 in 1913; and on the extreme war scare sold at 7 in 1914, and showed a long period of accumulation. 28 had been the high of its history, which price was made in 1906. It crossed this level in 1917. This was a period of ten years that the stock had ranged most of the time between 20 and 8, showing a long period of accumulation and getting into new high territory showed that it was in position for a big advance.

In 1919 it advanced to 99; declined to 77; then advanced to 105. In December, 1920 declined to 61; rallied to 76 in March, 1921; then declined to 59 in June, 1921, receiving support two points lower than the previous level. Then it advanced to 134 in October, 1922.

Thus, you see that after the stock crossed its high level for ten years, it became more active than ever, never reacted below 24 and steadily advanced to 105 in 1920, the reactions being very small and every bottom higher and showing plain indication of the upward trend.

It is just as important to determine where stocks reach top or distributing zones in order to sell out and go short as it is to find accumulation and the bottoms at which to buy. Refer to Chart No. 3 on U. S. Rubber:

U.S. Rubber. -- Notice that it reached 138 in June, 1919; made the same high in July; made 137 in August; again in October made 138; in November 139, and in December, 1919 made 138. During all this time the bottoms had been between 111 and 117. The stock was finally rushed up to a new high of 143 in January, 1920, and quickly broke back, which was an indication that distribution had been completed and that it was ready to start on the long decline.

It began making lower tops and lower bottoms every month, but when it broke through 111, it showed that all support had been withdrawn and that distribution had been completed. The stock declined to 41 in August, 1921. Its support points from 1914 to 1917 had been between 44 and 45.

You might ask why certain stocks reach levels over a long number of years where they meet with support or resistance. The reason is that the same men manipulate these stocks. They are usually on the inside and know something about their value. Therefore, they buy them around a certain level and hold until they reach a level which they consider high enough; then sell out and go short, or wait unti] they decline to around the same levels again, where they buy for another campaign. You should study very carefully the stock that you trade in, in order to determine what its past points of support and resistance have been.

THE SIGNS OF A CHANGE

When you see the clouds gather you know that it is a sign of rain, and you seek shelter, because experience has taught you that certain formations of clouds invariably indicate rain or storm. When you see the same signs in the stock market that have always meant distribution in the past, you should take it as your warning, stand from under, and protect yourself against the decline. Likewise, when you see the same kind of bottoms that have always indicated accumulation, you should cover shorts and buy.

You judge a tree by the fruit it bears; in stocks you must judge each by its own signs and signals and not by what other stocks do. When you get an indication and the time comes to buy or sell, place your order at the market; do not limit buying or selling prices. This often causes losses because you miss your market by an eighth or a quarter and thus lose big profits. When it is time to get in or out, never quibble over a fraction; do not lose points by trying to save an eighth.

CHAPTER XXI

NUMBER OF TIMES A STOCK FLUCTUATES OVER THE SAME RANGE

Very active stocks and those that are high priced, when they reach a level where the insiders want to unload, make rapid moves up and down for several months over a wide range, which causes traders to buy and sell because there are unusual opportunities. The stock remains around the high level long enough for them to become accustomed to the price and feel safe enough to buy.

Suppose that a stock has advanced 20 or 30 points straight up, without much reaction, and it reaches top. It can not be distributed in one day, one week, or one month, but the sure sign of accumulation or distribution is a stock moving up or down many times over the same range, especially making moves of 5 points or more without getting above its high point, and at the same time not breaking under its resistance levels on the down side. Sometimes a stock will move over the same range anywhere from 10 to 20 times, working up and down.

Note Studebaker in 1922, and Industrial Alcohol, U. S. Rubber, and American Woolen in 1919. You will see how they fluctuated up and down over a wide range while distribution was taking place. Studebaker moved up and down over the same range over 20 times between 114 and 139 between May and November, 1922. The big swings up and down over this same range were only 5 or 6 times, but counting 5-point moves or more, it covered the same territory over 20 times. That showed that distribution was taking place, and that it was preparing for a long move down.

WHEN TO STAY OUT AND WATCH

If you have been successful and followed a bull campaign up for many months and accumulated a big line of profits, you must be on your guard for the first real indication of a change in trend and the end of the bull campaign. When you get this sign of the end, which, as I have explained, is larger volume and rapid, feverish fluctuations, then get out, watch and wait; that is, sell out your long stocks and wait for the opportunity to go short. *Never be in a hurry to get in again once you are out with a good profit.* Opportunities always come again in the stock market if you only have the patience to wait for them.

Another time when you should get out and watch is after the first signs are shown that a bear market is culminating. It takes time to accumulate stocks and you do not want to get in too soon. If you have made big profits on the way down, you can afford to wait a few weeks or months until the signs are plain that another bull market is starting.

INSIDE INFORMATION

Wide fluctuations occur more often at high levels than at low levels, because distribution is taking place. When stocks reach very low levels after a final drive, they slow down and often work for some time in a very narrow range while accumulation is taking place. Accumulation and distribution are exactly opposite. When the insiders want to sell stocks, they make all the noise possible and do everything to attract the attention of the public and create a large public buying power. When stocks decline to low levels and they want to accumulate a large line, they work just as quietly as possible. They use every means to disguise the fact that they are buying stocks, and do everything to discourage the outsiders from buying them.

There is nothing wrong in the tactics employed by manipulators. It is simply business policy, and you would pursue the same policy if you were in the same position. They must buy stocks from some one, and they want to buy them as cheap as they can. Then you cannot expect the fellow on the inside, if he is honest and working for his own interest, to tell you that he is buying. Neither can you expect, when stocks get near the top and he is selling, that he will tell you that he is selling out, because he thinks they are high enough. He would be a fool if he did, because in order to cash in and get his profits, he must sell stocks to some one.

So many people believe the only way to make money in the stock market is by getting "inside information." I can tell you, after twenty years' experience, that inside information is impossible, and the sooner you get the idea out of your head that inside information will help you, the better off you will be. If you were playing poker with a man, would you expect him to show you his hand, and not expect to see yours? He certainly would not, and you know that he would not. If he did, you would win all his money. Then, why do you expect the man on the inside, whether he be a banker, pool manager, manipulator, investor or otherwise, to tell you what he is doing when he is trying to make a market to sell out a line of stocks or to accumulate a line?

You may be able to find out what he is doing if you can interpret the tape correctly, because it tells the story of everybody's buying and selling, and it never lies if you know how to read it right, for neither the insiders nor the outsiders can hide or disguise the amount of buying or selling. Every share bought or sold is registered on the tape. If you know how to correctly analyze the volume of sales and space movements, you will be able to tell when to buy and sell.

The most important thing of all is the *Time* factor, which I use in making up my annual forecasts. It is not my object here to give away that secret, but I am showing you plain enough and giving you rules enough that, if you follow them, you will be able to make a success in the stock market. The price you pay for this book means nothing. One idea that I give you may be worth thousands of dollars to you in the next five to ten years' time, if you will only follow it. If I only succeed in teaching you how to avoid losing your money for the first three to five years, and you can keep even and get experience, then there is no estimating the value of this knowledge, for after a few years' experience and study, you will then be able to make money rapidly.