

BUYING AND SELLING TESTS

Coordinating Your Studies

In reading over the preceding Sections, it may seem to you that the analysis of the market's action and the behavior of individual stocks is quite complex, requiring a large expenditure of time and effort. This is a perfectly natural reaction and one that is common to all students taking up a new subject. Therefore, we caution you against any inclination to grow faint-hearted and to wish for short cuts. Only perseverance can bring understanding and ultimate success.

Instruction must necessarily go into detail in order to properly equip students. Even so simple a subject as arithmetic seems difficult to the novice after early enthusiasm wears off and he strikes the more complex phases of the science. But by constant study, practice and everlasting stick-to-it-iveness, he presently discovers that it all boils down to a matter of routine reasoning. The detailed steps of his early training become simple, sub-conscious, more or less automatic, mental procedure. Thus, he finds that it is no longer necessary to work out every little step in a problem nor to labor painfully from A to Z. Constant repetition so fixes the various principles in mind that he is able to function instinctively. And so he skips easily over intervening stops, from the outline of the problem to its solution, without undue effort.

In a word, from constantly applying the same basic principles and from practice in coordinating them, the novice becomes a proficient mathematician. The same is true in the stock market.

We now illustrate this by setting forth a condensed summary of the principal steps we have taken heretofore in interpreting our chart records. This

summary also shows how to coordinate your reasoning processes. It will be explained by applying it to a specific case.

BUYING AND SELLING TESTS

These buying and selling tests outline in a general way the successive steps to be taken when determining the most advantageous buying and selling points with respect to the market as a whole and with respect to individual stocks or groups of stocks.

BUYING TESTS

<u>Indication</u>	<u>Determined From</u>
1. Objective Accomplished on Down Side	Figure Chart
2. Activity Bullish — volume increasing normally on rallies and decreasing on reactions	Vertical Chart
3. Preliminary Support	Vertical and Figure Charts
4. Stronger Than Market — responsive to rallies and resistant to reactions	Vertical Chart
5. Downward Stride Broken, i.e., supply lines penetrated	Vertical or Figure Charts
6. Higher Supports	Vertical or Figure Charts
7. Higher Tops	Vertical or Figure Charts
8. Base Forming	Figure Chart
9. Estimated Probable Profit Exceeds Indicated Risk	Figure Chart for probable objective. Vertical Chart for placing stop.

SELLING TESTS

1. Objective Accomplished on Up Side	Figure Chart
2. Activity Bearish — volume increasing normally on reactions and decreasing on rallies	Vertical Chart
5. Preliminary Supply	Vertical and Figure Charts
4. Weaker Than Market — responsive to reactions and sluggish on rallies	Vertical Chart
5. Upward Stride Broken, i.e., support lines violated	Vertical, or Figure Charts
6. Lower Tops	Vertical or Figure Charts
7. Lower Supports	Vertical or Figure Charts
8. Crown Forming (lateral movement)	Figure Chart
9. Estimated Probable Profits Exceed Indicated Risk	Figure Chart for probable objective. Vertical Chart for placing stop.

The above buying tests would ordinarily be applied to an average or to a stock after a decline and the selling tests after an advance.

Before making any commitment, always make sure that the estimated probable profit as determined by the figure chart objective, is at least three times the risk involved in employing a properly placed stop. The vertical chart must be used to determine the logical points at which to place stop orders.

The charts of Atchison, pages 6 and 7, afford a typical illustration of: (1) The application of these buying and selling tests, (2) How to coordinate figure chart studies with the vital information given by vertical charts, and (3) The application of the principles explained in previous sections.

The charts are keyed to correspond with the comments below wherein the various indications, given by Atchison in its recovery from the oversold position of 1932, are briefly listed:

1. The speed and severity of the decline from \$1 1/2, June 16th, to 17 7/8, June 28th, occurring without intervening corrective rallies, creates an oversold condition (Sect. 14M, Pg. 3, Par. 3).
2. The sudden or precipitous breaking of the previous supporting level around 24-25 has the appearance of a shakeout (Sect. 21M, Pg. 2, Par. 3), later confirmed by a rapid recovery as revealed by the 3 point figure chart.
3. An abnormal expansion of volume, appearing June 28th, after the sharp extension of the downward movement (Sect. 7M, Pg. 3, Footnote) indicates the climax of the movement and the development of Preliminary Support — Buying Test No. 3.
4. On the one point figure chart, the stock at 18 has fulfilled the objective indicated by supply across the line of 29s — Buying Test No. 1.

Under these conditions, 1, 2, 3 and 4 above, the stock should be placed tentatively in Position 1 on your Position Sheet (Sect. 19M, Pg. 1, Par. 5) and if you have acquired sufficient proficiency to recognize these preliminary symptoms of a turning point, you may now venture a purchase somewhere around the low point, say at 19 with a stop under the danger point, say at 16 5/8. (Sect. 23M, Pg. 14, Par. 2.)

5. A quick rally to 20 3/8 on comparatively light volume implies a scarcity of offerings and confirms previous indications of a change from weakness to strength by breaking the downward stride from B to C — Buying Test No. 5. (Sect. 15M, Pg. 3, Par. 1.)

The stock is also showing a tendency to rally easily in relation to the performance of the general market. Note the lifting of the low points from June 29th to July 1st while the Times Average is still responding sluggishly to the lifting of pressure — Buying Test No. 4. (Sect. 8M, Pg. 10, Par. 1.)

6. Evidence of preliminary support now becomes more clearly defined on the 1 point figure chart, so when the price reacts to) 18 5/8 on very light volume we either buy another lot with a stop as before, or, if we missed our first chance, we buy now. Also, we put the stock definitely in Position 1 on our Position Sheet.
7. Another fast rally on increasing, but still comparatively light, volume adds to the accumulating evidence of increasing strength — Buying Test No. 2: The stock is now more clearly stronger than the market which is still making new. lows. (Sect. 8M, Pg. 9, Last Line.)
8. The rally from 17 7/8 is checked by continuing weakness in the general market; it is checked also as the stock touches the down trend supply line A-B. If it now reacts toward the supports around 18-18 1/2 on diminishing volume we will have another buying opportunity, with a stop placed as before, around 16 5/8. We cancel our Position 1 to reflect our anticipation of a probable setback.
9. Volume promptly tapers off on the reaction and the price holds at higher supports. The stock again is relatively and quite noticeably stronger than the market. Support on the line of 19 has stretched out to a count of five and on the line of 20s to six. The stock is again in Position 1.

On July 9th the stock develops a perfect apex (note how the price movement and volume have narrowed into extreme dullness). A rally out of this hinge position will easily penetrate the supply line A-B (Buying Test 5) and put the stock on the springboard at 21 for still another buying opportunity if we have preferred to wait for all our indications to be fulfilled.

10. Here the price bobs up on comparatively light volume — bullish; penetrates the supply line A-B; responds promptly to an upturn in the market; adds one more point to the indicated immediate objective on the figure chart; and fulfills Buying Tests 6 & 7 by recording higher tops and higher bottoms, volume relationships meanwhile remain bullish. Also, the stock is now in Position 2 (Sept. 19M, Pg. 2, Par. 1) thus fulfilling Buying Tests 8 and 9.

Thus we have ten distinct buying signals around the low point. By comparing this study with previous ones, and applying what you have learned to these charts of Atchison, you will find numerous other significant symptoms in the action of the stock here and on the way up from the low point. (For instance, note how the stock rallies promptly on July 14th after completing a normal cor-

rection of the two days' rise from the July 9th support. See also how volume builds up consistently as the price advances out of the supporting area, July 9th to 15th.

Continuing bullish indications develop as follows:-

1. Prompt shrinkage in volume on a brief and less than normal recession from the resistance level around 25, July 18th and 19th; and similar behavior all the way up to Aug. 6th, which is as far as the vertical chart goes.
2. By the time the stock recovers to 25, July 21st, it is apparent, from reference to the 3 point chart, that the last phase of the drop, June 24th to 28th, was a terminal shake-out. (Section 21M, Pg. 2, Par. 5.) Hence, taking the line of 24-25 as representing the probable extent of accumulation we have, on the 3 point chart, indicated longer range objectives of 48-49; then higher up across the 28 to 30 levels, possibilities of 60 to 64.
3. On the 1 point chart, meanwhile, we have indicated local objectives (or possible points at which the stock might be expected to encounter resistance to its advance) first at 28 on the basis of ten 22s added to 18; then thirteen 24s, indicating 37 as the next critical point to watch on the upside; and next twenty-nine 24s, including all the loose ends and blanks, indicating 54. Later, in the absorption area 45-49, new support across the line of 45 indicates an objective of 58, etc.

With the preceding comments as a foundation you should have little difficulty in applying the Buying and Selling Tests outlined on Page 2 to other situations as you encounter them from time to time in actual practice.



