BUYING AND SELLING WAVES

Every upward or downward swing in the market, whether it amounts to many points, only a few points, or fractions of a point, consists of numerous buying and selling waves. These have a certain duration; they run just so long as they can attract a following. When this following is exhausted for the time being, that wave comes to an end and a contrary wave sets in. The latter may attract more of a following than the former. By studying the relationships between these upward and downward waves, their duration, speed and extent, and comparing them with each other, we are able to judge the relative strength of the bulls and bears as the price movement progresses.

All stock market movements, however large or small, are made up of buying and selling waves. The market does not rise and fall like the water in a tank which is being filled or emptied. It moves to a higher or lower level by a series of surges — a good deal like an incoming or outgoing tide, with successive waves higher or lower than those preceding.

The small buying and selling waves which occur during every stock market session run so many minutes (see Wave Charts, Sect. 22M). They are caused largely by the restlessness of active professional traders, much like the ripples produced by the wind upon the ocean. Traders must have activity; they make their livelihood by trading on fluctuations. Therefore, they engage in a ceaseless tug of war, trying to put prices up whenever the condition of the market is favorable, or drive them down when they find that the bulls are weak or have overextended themselves. The degree of success or failure attending their efforts enables us determine whether the market is growing stronger or weaker.

These small waves are part of the larger waves which run several days, and eventually make up movements of 3 to about 5 points. The 10 and 20 point moves are made up of 3 to 5 point waves, and the bull and bear markets are composed of many swings of 10 to 20 points or more.

You can easily confirm the above by examining any chart. It is important that you do this so as to impress upon your mind these numerous waves of various sizes, inasmuch as this will help you to understand the market. You will thereafter <u>think in waves</u>.

When you are looking for an opportunity to buy, watch for the <u>down</u> waves in the market and in your stock. After you have bought, you sit through a number of small, medium and good-sized waves, until finally you observe that it is about flood tide in that stock. Then watch for an especially strong up-wave and give your broker an order to sell your stock at the market.

The waves of the market furnish a clear insight into changes in supply and demand. By learning to judge all sizes of market waves, you will gradually learn to spot the time when a rising market or a rally, and the time when a declining market or a reaction has halted and is about to reverse. <u>These are the turning points.</u>

To be able to say when these turning points are occurring — at the bottom of a bear market, or at any important rallying point on the way down to the bottom, or at the top of a bull market, or at any important reactionary point on the way up, — is a mark of ability in an investor as well as a trader.

Remember: The market itself tells us everything we need to know about its probable future action. Every significant change in supply or demand is registered on the tape. When you have learned to analyze the market by its own action, as recorded on the tape or on your charts, then you will be proficient in the art of operating in stocks.

Of all the things that are most desirable to know about the stock market, these two are the most important:

(1) First, to be able to determine the final top of a bull market; and second, to determine the top of the intermediate swings, and finally the top of the minor moves.

(2) To be able to determine the final low in a bear market; the bottom of the intermediate swings, and the end of the minor moves.

<u>Master this branch</u> of the subject thoroughly, it is vital.

But there is one step more: Your education will not be complete until you can cover <u>all</u> your shorts and <u>go long at the bottom</u> of a panic, a depression or of an intermediate swing, and sell out <u>all</u> long stocks and <u>go short at the top</u> of a boom or an intermediate bull movement. This will be the result of practice, training, and experience. It requires great flexibility of mind and absolute control of your emotions. You can learn to do it if you will study and faithfully practice this Method.