COMPARING STRENGTH AND WEAKNESS

GROUP CHARTS

Having completed our study of the composite average, our next step should be to acquire an understanding of Group behavior because, in practice, after we amine the position and trend of the various groups and, finally, select from the best situated Groups those Individual Stocks which promise the best moves. (Sect. 6M, Pg. 1, Pars. 2 & 3; Sect. 7M, Pg. 5, Par. 2 and Sect. 9M, Pg. 1, Par. 1.)

If your Trend Charts are made on transparent paper they may be laid over other charts of groups or individual stocks to show which groups and which stocks are stronger or weaker than the general market, as represented by the averages. Or you may make these comparisons by laying one chart above another with the time scales in alignment so that each day of the week on one chart will be opposite, and correspond with, the same date on the other chart or charts you wish to compare. The illustrations which follow will make this clear.

One of the best indications of the future course of a group or a stock its comparative strength when the rest of the market is weak, or its comparative weakness in a strong market.

James R. Keene used to say: "Watch the stock that shows strong resistance to pressure when the market is weak, and buy those stocks for all you are worth." (Illustrated by action of U. S. Steel from Nov. 28, 1936 to Mar. 6, 1937. See chart oh Page 17 and note how Steel shows stubborn resistance to every down swing in the market — as represented by the N. Y. Times Average — and how it responds vigorously to every up swing until March 6th.)

The reason for this: Someone is trying to buy while the market is weak. He would not do this unless he has reason to believe that he can sell it later at a higher pride. So he takes advantage of the weakness in the rest of the

market by holding the bag for all the offerings of other people who are prompted or compelled to sell.

When a stock is exceptionally weak in a strong market, we conclude that somebody knows something to its disadvantage and is forcing his offerings on a market that is otherwise strong. This may indicate need for urgency, based on fear or necessity; or it may signify the taking advantage of a strong market. (The chart of American Can, Page 18, illustrates the idea. From Nov. 17, to Dec. 12, 1936, the stock responds feebly to rallies and advances in the market but sinks rapidly with every down swing. From Jan. 9, 1937 onward it is again exceptionally weak.)

Large operators often test the market for a stock by buying 5,000 to 25,000 shares in order to see how easily they can buy it, or by selling a similar quantity to ascertain how well the market will absorb their selling. Thus they are able to decide which side shows the least resistance. If they find other people are trying to buy it and that the stock is rather scarce, they regard it as a bullish indication and take a long position. Or, if the price yields easily to pressure, they regard it as a bearish indication and take a short position.

A small operator is unable to test the market in this way before he takes a position, but by a close study of his charts, he is able to estimate the comparative strength or weakness of a stock and thus reinforce his judgment as to whether, considering the trend, it is time to buy or sell it.

When large interests are planning a campaign, in a stock, they "lay the foundation." That is, they accumulate or distribute a quantity according to the size of their venture and the anticipated profit to be derived therefrom. This quantity bears a relation to the estimated number of points profit. (Figure charts afford a means of judging this relation and hence frequently indicate the approximate objectives of such campaigns. See Section 9M, Page 4, Paragraph 3,

and Page 6, Paragraph 2; also Section 10M, Page 3, Paragraphs 1 and 2.)

If a stock is below value, and these interests see a large profit ahead, they will take all they can buy at certain levels, then gradually raise their bid prices until they get all they want (Sect. 9M, Pg. 9, between the letters A and R shows this graphically). They buy preferably on reactions until such time as they are ready to mark up the price. Or if a stock is above value, and they see trouble ahead, they will sell all they can at certain levels, supporting the price on reactions and unloading on rallies until they are ready to let it drop. (Sect. 10M, Pgs. 10 to 12.) This is why these supporting points and the points of resistance (a phrase originated by me many years ago), are so important for you to watch.

In brief, when you see strong support in a stock, with the rest of the market weak, you know the buying is better than the selling — that insiders are probably doing the buying because they believe they can sell out later at a profit. And when you see the reverse, that is, strong resistance in a stock with the rest of the market advancing, you know the selling is better than the buying — insiders are selling because the outlook for that stock is turning sour, or because they believe they can later reaccumulate at a lower level.

When you see these indications on the tape or on your charts, follow them. That is, select, *the best* of them if there are many. To do this is to have the insiders working *with* you and *for* you. You are then playing the game as they play it. This is not a guarantee of profit, but if your judgment be good, and you choose the right time for action, you will find that you can realize a profit in the majority of instances.

Likewise, when an individual stock in any group is stronger than the Average of that group, this is an indication that such a stock is likely to move sooner and faster than the Average, provided its behavior otherwise confirms the indication. If it is weaker than its group, this'mayi signify that the stock is

preparing to decline more rapidly than the Average.

The fact that, an individual stock may, be moving against the trend of its group does not destroy nor impair the value or effectiveness of the indications given by the Average in which it is included. On the contrary, such action, of itself, frequently conveys significant information which should not be ignored with respect to the behavior and position of that stock.

In like manner, by comparing the behavior of the various Group Averages with the action of the whole market — the way they respond or fail to respond to advances and declines, rallies and reactions in the Composite Average — you may gain valuable additional information on which to base your stock market campaigns. (See charts on Pages 21, 22 and 23.)

These comparisons are especially important because they help you to select the best opportunities and to avoid the slow movers ("sleepers") — thereby keeping your capital working at maximum efficiency.

Bear in mind that all stocks do not move at all times in harmony with the prevailing trend; nor do they all rise and fall together (see Sect. 4M, Pg. 20, Last Par. and the chart illustrations herewith). Bull markets usually begin with advances in the leaders, that is, the seasoned, higher grade, and higher priced issues (Sect. 22M, Pg. 4, Par. 3). This is so because the big interests, who are best informed as to prospects for approaching recovery, dominate these stocks and hence reflect their sentiments toward the market by their operations in the leaders. As the rise, in the leaders continues, large independent operators, taking their cue from the action of the leaders, are encouraged to begin bullish operations in the secondary issues and specialties. In due course, the public is attracted by bullish demonstrations in various parts of the list and by the revival of market activity, whereupon the lower priced and more speculative stocks come into line. Thus demand rotates from group to group as, for instance, from Steels to Rails to Coppers, etc., and from one stock to another.

As the rise progresses, individual stocks and groups of stocks that have advanced too rapidly may rest and react while other stocks and other groups are brought forward. Thus bull markets are built up by a Process of Rotation. That is, demand shifts about from week to week, day to day and even from hour to hour. (A glance at the charts on Pages 19 & 21 to 23 will help you to grasp the idea.)

Price movements tend to become increasingly selective (mixed) after a prolonged advance because when the big follows see that some industries have about attained maximum prosperity, they will wind up their speculative campaigns in those groups and turn to those laggards in which there is still room for improvement.

When large interests are distributing at the tops of the intermediate or major swings (or on the way down from the extreme highs), they sometimes fool the public by rapidly marking up the prices of a few easily influenced stocks; or by applying hypodermics to a few of the leaders. These whooping up tactics maintain the atmosphere of bullishness so essential to keep the public in a buying mood while other stocks are being unloaded. (See action of U.S. Steel in March, 1937, Page 17, which exemplifies this principle.)

An indication that demand is being exhausted may be given when the majority of stocks respond sluggishly to such whooping up maneuvers; or when they tend to fall back quickly on repeated attempts to continue the process of rotation; or when the leadership of an advance shifts from the recognized leaders to the secondary issues and to the "cats and dogs"; or when representative stocks fail to follow the strength in a few hypodermically stimulated fast movers.

The Process of Rotation operates in much the same manner at the begin-ing and during the course of a bear market. That is, supply rotates to break down prices in one section of the list after another until offerings are finally exhaust-ted. Likewise, selling pressure rotates while the market is in process of forming a bottom. Hence some stocks may reach their downward objectives sooner than others. Therefore, when we see that the early leaders of a decline are re-

fusing to move materially lower, while supply is still rotating to other stocks, we have an indication that demand is overcoming supply. This helps us to determine the levels at which accumulation is taking place.

Supply in a falling market rotates more rapidly than demand in a rising market. This is explained by the fact that there is seldom (if ever) sufficient buying power to lift all stocks at once in bull movements, whereas, in bear movements, fear, necessity, or both, eventually compel holders to liquidate all stocks without regard to value. This characteristic difference may easily be seen by reference to the accompanying charts. (*)

Another reason why stocks fall more swiftly and uniformly than they advance is that the public long interest is always greater than the public short interest. Most people are willing to buy stocks but fear to sell short, although intelligently conducted short selling operations often yield more substantial profits and involve no greater risk than commitments on the long side. At any rate, those who are long of stocks greatly outnumber those who are short. Consequently, upward price movements are retarded by frequent profit-taking on the part of the numerous bulls, especially in stocks below the $50 class which attract the largest outside following. But downward movements are not so effectively retarded by profit-taking on the part of the relatively few bears.

And, because the public's attitude is unbalanced (leaning always toward the bull side), actual and potential demand for stocks is greater when the market goes up than when it goes down. In other words, the majority will buy while

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* The bull market which began with the recovery from the 1929-1932 "bear' market lows might be cited as a partial exception to these characteristics. Having been driven down to ridiculous extremes, stocks moved upward rapidly and relatively more uniformly on the July-August, 1932 rise than in succeeding years because the 1932 rebound was largely in the nature of a technical correction of an excessively oversold condition in practically all stocks.

We must be careful not to confuse the beginnings of a bull market with ordinary technical rallies in a bear market, however. In the case of such, rallies, which develop out of an oversold condition, the sensitive leaders and the faster moving speculative types of stocks may rally sharply out of a selling climax, whereas the majority of other issues are likely to rally sluggishly.

the market is strong but this demand fades away when it is weak. In fact, the untrained trader and investor hangs on to his stocks through falling markets until prices reach a point where hope suddenly evaporates. Then he sells out in a-panic. The herd psychology that characterizes the Wall Street public often causes unskilled investors to reach this panicky state of mind simultaneously. Thus there is a concerted rush to sell which cleans out all of the weak holders at about the same time, relieving the market of pressure and reducing the supply quickly at that point. (See Selling Climaxes, Sect. 7M.)

The Principle of Rotation is operative also in group movements. Thus, strength or weakness in the lending stock of a group influences traders to buy or sell other stocks in the same group. This helps those who are conducting a campaign of accumulation or distribution to work their stock to the lower or the higher level at which they wish to acquire or unload their line. At the turning point in a falling market, the continuing weakness in other stocks creates the atmosphere of general pessimism, which induces the public to go on selling around the bottom. This affords large operators an opportunity to buy what they want without bidding prices up. Similarly, at the turning points in a rising market, the rotation of strength to other stocks in a group enables the large operator to unload the one he has marked up to its objective under cover of the activity and strength in the other issues, without forcing his offerings upon the market.

This explains why you so often see individual stocks in a group topping out, or rounding out a bottom, one after another and why all stocks do not necessarily touch their highs or lows together, on the same day or in the same week, or perhaps the same month. It likewise explains why some of the leaders of one phase of a bull market may not lead nor actively participate in its later stages. (Refer to the charts on Page 19 for an illustration of these observations.)

You must strive to take advantage of the above principles. Seek out the stocks in the strongest position when buying and the weakest to sell short. <u>Aim to pick the leader</u> of a group for your operations.

It is a mistake to trade in the laggards in a group simply because the leader "is too high." (Compare the action of Crucible and U. S. Steel with Republic and Otis, Page 19.) Some of these other stocks may be in preparation for moves which will come after the leader is finished. (Illustrated by American Rolling Mill between Oct. 24 and Nov. 14, Pg. 19.) That gives you an opportunity to switch from the leader (when you see it may be near the end of its swing) to the next best issue or issues, that is, to those which may not have come fully into line with the advance in the leader. But in searching out these opportunities, you must be sure to weigh each situation carefully. The fact that a stock is moving sidewise around a low point (see Otis Steel, Pg. 19), while others in the group are going up, is, by itself, no assurance that this laggaîd must be under accumulation. Study its volume behavior. Note particularly whether the price shows a tendency toward rising supports (as in the illustration, Sect. 9M, Pg. 9, between M and S, for example) after it has been in the range for some time. If it does not show such a tendency, better leave it alone. A stock that persistently hugs a low line of supports (stays near the bottom of an apparent range of accumulation) and refuses to rally well when the rest of the market is strong, is very apt to be subjected to a shake-out (see study of Anaconda, Sect. 16M, Pg. 17, Par. 3 and Pg. 18, Par. 1), or it may be in a weak position.

Therefore, bear in mind that even though a group may be in a strong position, every stock in that group may not be desirable nor in a position to-move aggressively. Vice versa, in a weak group, some stocks may be in a relatively-stronger position than others, while some may be neutral.

Some people endeavor to compare strength and weakness by working out the relative daily gain or loss in percentages to secure a ratio or index number. This not only involves unnecessarily laborious calculations but creates the danger that you will acquire the habit of using mechanical methods thereby defeating

your purpose, which is to develop judgment. Moreover, such schemes are neither sensitive nor reliable.

Judge the progress of stocks and compare strength or weakness directly from your charts as herein explained and as shown by the more detailed instructions which follow. From your vertical charts you can see immediately, by casual inspection, how a stock is behaving in relation to the general market averages and in relation to its own group. Changes in its action become apparent at once so that you can adjust your conclusions promptly. You do not have to wait until some impractical, complicated mathematical formula is worked out. In any case, your formula is likely to be upset or contradicted when it is too late for you to act to the best advantage.

The correct way to spot a change from comparative strength to weakness, or from comparative weakness to strength, and to judge whether a stock is behaving bullishly, bearishly or indifferently in relation to the market as a whole, is to observe how the stock responds to up and down swings in your Composite Average and Group Averages (*) as you make new entries of its price movement on your charts from day to day and week to-week.

For instance, turn to the chart of Electric Auto-Lite (Pg.20), covering the page with a blank sheet of paper so that the plottings may be exposed one day at a time as suggested in Section 7M, Page 2, Paragraph 3. You will observe that this stock shows a strong advance to July 12th, during which it rises more aggressively than the market as a whole, as represented by the Dow-Jones average of 30 Industrials. This is followed by a period of consolidation and a normal reaction on July 25th (half-way back to the July 1st low). On Aug. 12th ELO leads the market to a new high with a quick mark-up. A reaction to Aug. 20th

* The N. Y. Times 50 stocks and N. Y. Herald Tribune 100 are Composite Averages. The Dow-Jones 30 Industrials, 20 Rails and 20 Utilities, are, in effect, Group Averages.

brings the Average down to the lows of August 2nd and 8th, but ELO here gives a significant indication of comparative strength by holding above the lows it recorded at that time.

From here on until it reaches 38 3/4 on Oct. 21st the price rises consistently to new highs, with every up-wave in the Average. But what is especially informative, from the standpoint of comparative strength, is the stock's refusal to participate fully in reactions in the market as a whole. Note particularly the ascending line of supports (low points) after it leaves the Aug. 20th low.

During the sidewise movement of Sept. 12th to Oct. 1st which, at first glance has the appearance of a range of distribution, the stock signals further strength to come by rising to a new high with an up-wave in the Average. Thus, on Oct. 1st it moves into new high ground while the Average is rallying to a lower top. This bullish indication is confirmed when the down-wave of Oct. 3rd fails to follow the Average under the reaction low of Sept. 20th and the price holds instead at a higher support (29 1/8 compared with 28 3/8).

On Oct. 21st a new phase begins. Here, after a quick run-up to a new high, there are six days of hesitation and a narrowing of the daily price range, followed by a quick dip (to Oct. 31st) which is comparatively more extensive than the reaction in the Average to Oct. 30th. This change to comparative weakness is confirmed by a sluggish rally to a lower top on Nov. 7th in the face of the rise to a new high in the Average. Electric Auto-Lite's responsiveness to strength in the market then continues poor until Nov. 26th, at which time a change to strength is indicated by the leveling off of the low points (Nov. 22nd to Dec. 2nd) while the Average at the same time is recording a series of steeply descending bottoms, day by day.

Now compare the graph of Procter & Gamble (PGM) with the Industrial Average and with ELO. You will see immediately the contrast between a compara-

tively strong and a comparatively weak stock.

From July 1st to 23rd, PGM moves in harmony with the market. But, after settling down to complete, a normal reaction (to 51) on Aug, 20th, it drifts sluggishly in a small range without appreciable lifting power while other stocks (such as ELO) and the market are steadily advancing to- the September highs. Since July 23rd there has been little to indicate a decisive trend in PGM on the basis of comparative strength or weakness except the fact that, following the corrective reaction to 51, the stock has failed to behave as well as it did in July, and now it is not responding readily to the bullish action, of the Average. This at least cautions us to become wary on the bull side of PGM.

When the general market reacts between Sept. 18th and 20th, we observe that PGM has developed a more definite symptom of weakness in that it responds promptly by becoming active on the downside. (Note the widening spread of the daily range from high to low.) Between Sept. 21st and Oct. 3rd the stock gives another bearish indication because, whereas the Average, ELO and other leading stocks complete this reaction well above their July and August supports, PGM now is almost back where it started from at the beginning of July.

From here on PGM shows very little rallying power (Oct. 3rd to 23rd) but, rather, a marked tendency to remain dull and sluggish around its August-September-October bottoms (at 51) notwithstanding a steady new advance in the Average. With the stock in this position, we must recognize that there is danger it will develop new weakness, or it may be subjected to a shake-out. (See Pg. 8, end of Par. 1). A brief, but weak, three-day bulge to a lower top (Oct. 21st to 23rd) marks the final attempt to rally away from a danger zone and makes the picture very ominous for the bulls in this stock. (Compare with action of N. Y. Times Average, Apr. 7th to 14th; Sect. 7M, Pg. 16, Pars. 1 & 2). And the immediate loss of this gain in the next two days in an otherwise strong market, says: "Get out now if you didn't do so before; and sell me short if you are so inclined.

Applying the same line of reasoning to the chart of Commercial Solvents (CV), we see that here we have an illustration of a stock swinging at random and hence in a more or less neutral position. In other words, judged by the factor of comparative strength and weakness, CV shows no evidence of developing any consistent trend. Thus, after an abortive run-up (July 1st to 23rd), the stock alternates from moderate weakness (July 24th to Aug. 8th); to stability (Aug. 9th to Sept. 4th); to mild rallying power; then to weakness, to stability and back to temporary strength; and, finally, to a neutral position again in late November and December.

In order to demonstrate how the principle of Comparative Strength and Weakness may be applied in a practical way, let us now assume that it is early August, 1936 and that CV, ELO and PGM are the only stocks we are keeping under observation at this time. Assume also that we are just entering the stock market and have decided to take a long position, say about August 1st. Obviously, on the basis of what our charts show us, as above outlined, and without consideration of any other factors whatsoever, we would select ELO and PGM as logical purchases but we would have nothing to do with CV.

As the days go by, our observation of the comparative strength and weakness of these stocks tells us to stay long of ELO until October 21st; to close out and be neutral toward PGM not later than Sept. 19th because it is not acting right; and to continue to avoid CV. (*)

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* Two very common faults of most people — which you should eradicate immediately if you possess them — are: (1) Failure to wait until a stock acts just right before they jump into it, and (2) A habit of optimistic stubbornness which causes them to become wedded to their commitments instead of cold-bloodedly disposing of them when they <u>no longer</u> act right.

The case of CV demonstrates what can happen to an investor or a trader who is guilty of Fault No. 1. He may miss the whole of an important movement in the stock market by a careless choice of commitments, or by inability to wait until a contemplated issue behaves right.

The action of PGM is an object lesson in the folly of both faults. Grant that we had bought this stock about August 1st on the basis of its comparatively good behavior at that time and in the belief that it should advance as well as ELO. Obviously, we should cast prejudice, inertia and pride of opinion aside by

From the above study you can see how the factor of Comparative Strength and Weakness oftentimes is highly informative, aiding us: (1) to select the best stocks for our purpose and avoid the wrong ones, (2) to detect turning points, thereby enabling us to time our purchases and sales to the best advantage and (3) to determine when preparation for a worthwhile move — up or down — is about completed.

Our next set of graphs (Pgs. 21 & 22) should be analyzed in the same way. But the particular point we wish to bring out in these illustrations is-the Principle of Rotation. Thus, note how the Oil and Rubber Groups (Pg. 21) start upward about Jan. 22nd, moving in harmony with the general market (Times Average) until Feb. 11th to 14th. Rubbers then react while the rotation of demand to other groups, as for instance, the Steels and Chemicals (Pg. 22) holds the Times Average in the range 119-122.

Meanwhile, preparation for an up-move continued in the Steel Group a week longer (to about Jan. 30th) while Oils and Rubbers were being marked up. Next, as Oils and Rubbers begin to meet resistance to the advance, demand shifts aggressively to Steels between Feb. 10th and 18th.

Oils and Rubbers complete their reactionary movement simultaneously, on March 9th, four days ahead of the Times Average. We take particular note of this, that is, the ability of these groups to hold around and above the low points of Feb. 25th while the Times Average is still sliding down to the March 13th low and a little under the Feb. 25th support, because such action not only gives an indication of comparative strength in Oils and Rubbers, but implies

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disposing of this stock the moment we see the subsequent change in its behavior. By its own action, the stock has said "get out" as early as Sept. 19th (Par 2, Pg. 11). Common sense should warn us that we have nothing to gain by staying with it any longer. On the contrary, we have much to lose. There is now grave danger that the stock may decline. And even though it may not move against us, but might remain dormant as did CV, there is still no advantage in allowing our-selves to become "hung up." The capital tied up in a stock that doesn't act right can yield no profits. Worst of all, it is not available for use where it can be made to produce a profit.

also that they are likely to be among the leaders in the market's next upswing. (That is, provided their action otherwise is in conformity with the inference drawn from this one factor of comparative strength.)

Likewise, refusal of Oils and Rubbers to participate fully in the setback to March 14th, that is, their tendency to react relatively less than the market, helps us to diagnose the break in the Average (from March 6th to 14th) as a technical corrective reaction rather than the beginning of a bear trend. In other words, our reasoning at this point is as follows: The Composite Average did not give indications of extensive distribution on the rise to 124 and our studies of our other records generally do not indicate anything more than the probability of a corrective reaction in the market. Therefore, we conclude that the relative strength in Oils and Rubbers should be interpreted to mean that these groups are being supported or reaccumulated under cover of the rotation of offerings in other, groups (as for instance, Steels) which are still being allowed to react. And we conclude further that the comparative strength of these groups (March 9th to 14th) probably is the forerunner of a turning point in the market as a whole — a turn that is likely to come when other groups have completed their reactions in sufficient number to place a predominating percentage again in bullish positions.

In late March and early April, there is a significant change — the above conditions begin to be reversed. Thus, Oils are failing to make appreciable progress as demand rotates in that group from Mar. 19th to Apr. 7th. A further indication of increasing pressure appears when they respond hardly at all to the Mar. 31st-Apr. 6th run-up in the Times Average. Exhaustion of demand in the Oils is confirmed when the Group Average starts downward (Apr. 9th) while the Composite Average, the Steel, Rubber and other Groups, are still steady, strong or advancing. But as demand continues to rotate, we observe that these other groups also respond sluggishly to upward impulses — bearish indications

(see Pg. 5, Par. 4). Steels falter and react a week ahead of Rubbers, having meanwhile been subjected to what-looks like an application of hypodermics (the fast mark-up from Apr. 1st to 6th), evidently designed to facilitate the distribution elsewhere. (Pg. 5, Par. 3.)

Rubbers continue to make steady progress, rotating to a new high, a week later than Steels and Oils and after those groups have already started downward. This late strength in the Rubbers helps to hold the Composite Average well up in the distribution range 126-123 to give the market the appearance of strength when, actually, the support underneath has become hollow as a result of the active rotation of supply from Oils, to Steels, to Rubbers, etc., successively. And, finally, the increasing weight of this selling pressure precipitates a general collapse, terminating April. 30th. Then the whole process starts over, again and, by studying our charts carefully, we are able to single out the stronger from the weaker stocks and groups of stocks, as before, by watching to see which ones offer the strongest resistance to the decline. Thus we see that the Rubbers, for example, react relatively much less than Oils, and Oils less than Steels, etc.

Additional charts are presented on Pages 23 to 25 in order to provide some further graphic illustrations of the principles developed in this Section. It is suggested that you use these as a basis for independent studies to test your own ability, to apply what you have learned.

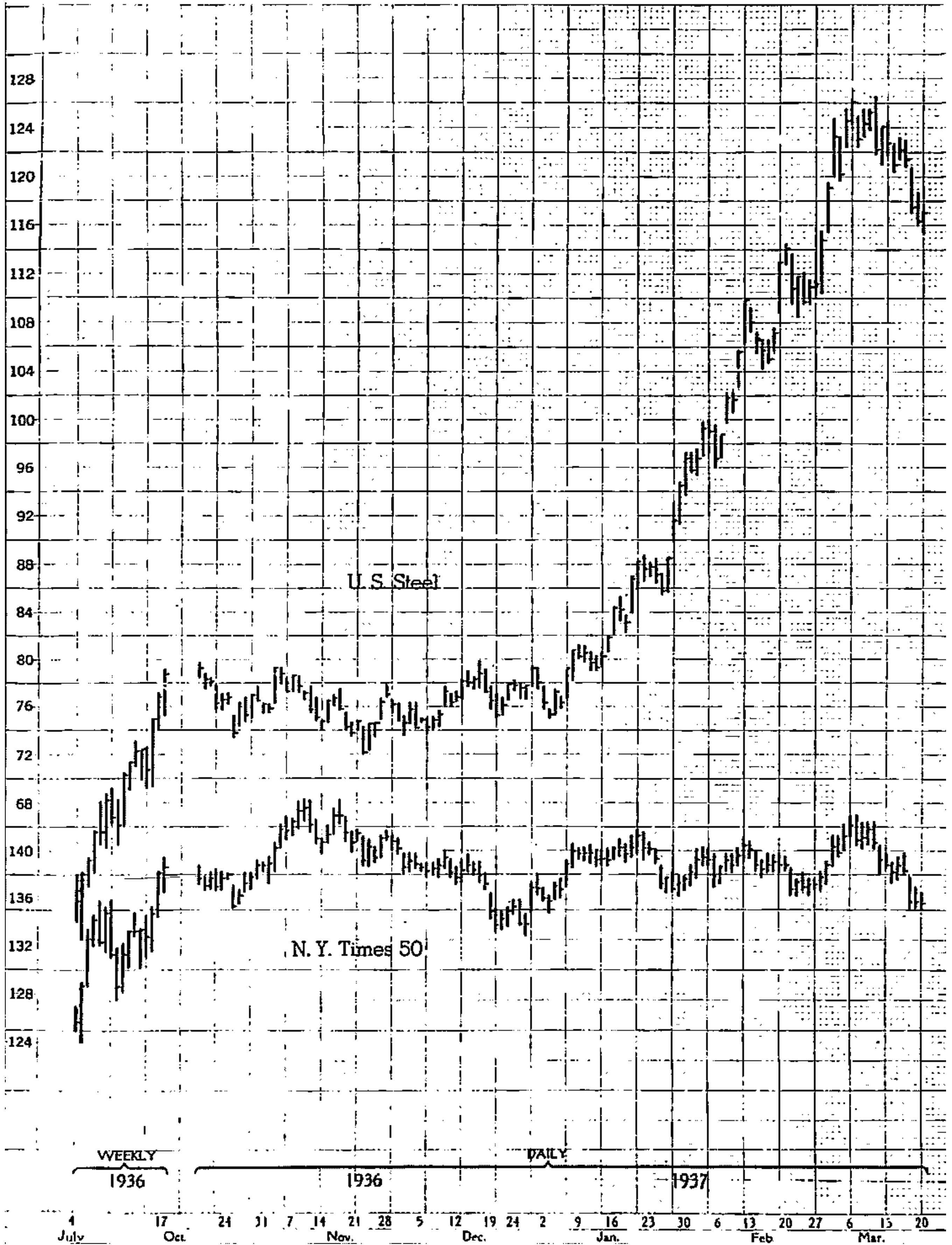
The graphs on Page 24 show the advantage of comparing the action of an individual stock with the Average of the Group to which it belongs, as well as with the Composite Average. In this instance, note particularly how Auburn's failure to participate fully in group strength and its inability to respond as aggressively as before to a fresh upward surge in the general market during the week ended Apr. 4th, emphasizes the development of significant weakness and the weak character of the final rally to 51 3/4. This marks a decisive change in

behavior, compared with previous performance. About Apr. 4th, the stock is on the hinge at 50 (Sect. 10M, Pg. 1, Par. 5) and the outcropping of acute, weakness becomes pronounced in the next four sessions, showing that the stock is on the springboard (Sect. 14M, Pgs. 4, 5, & 6) for an important slump. Distribution in the range 46-54 evidently was thorough since AAC continued extremely sensitive to reactions and highly indifferent to rallies in its group and in the market even after the excessively severe slump to Apr. 26th.

On Page 25 are presented two classic examples of weak stocks in a strong market. Note especially how the factor of Comparative Strength and Weakness reflected the bearish behavior of Penick & Ford, in spite of its thin market and small daily turnover. (Volume was generally less than 500 shares daily and only reached or crossed 1,000 shares on three occasions during the six months period shown on the chart).

As you study these charts, remember that they are intended only to illustrate some typical cases. They should not be regarded as covering all possible conditions nor be used as exact standards of comparison. In brief, do not make the mistake of attempting to classify chart formations according to mechanical rules with the idea that you may discover automatic buying and selling signals from similar "patterns." You are being deluded if you believe that a system of drawing "triangles," "heads and shoulders," and similar imaginary geometrical diagrams on your charts will produce results or relieve you of the necessity of employing judgment and sound, practical reasoning.

One other word of caution: Comparative Strength and Weakness is a very valuable means of determining a stock's position and possibilities <u>but this principle must be used with due regard to the other contemporary technical manifestations</u> to be taken up in following sections.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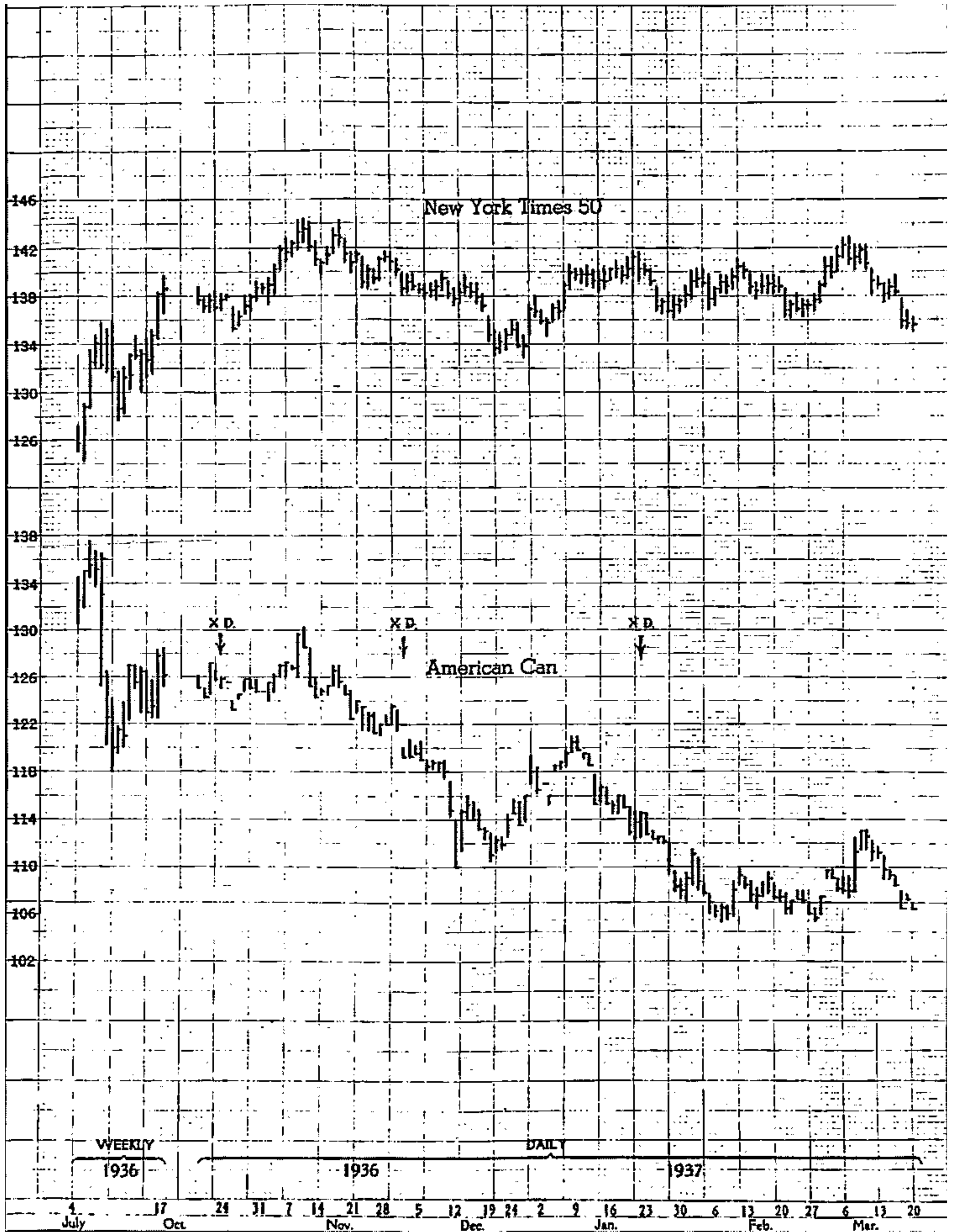
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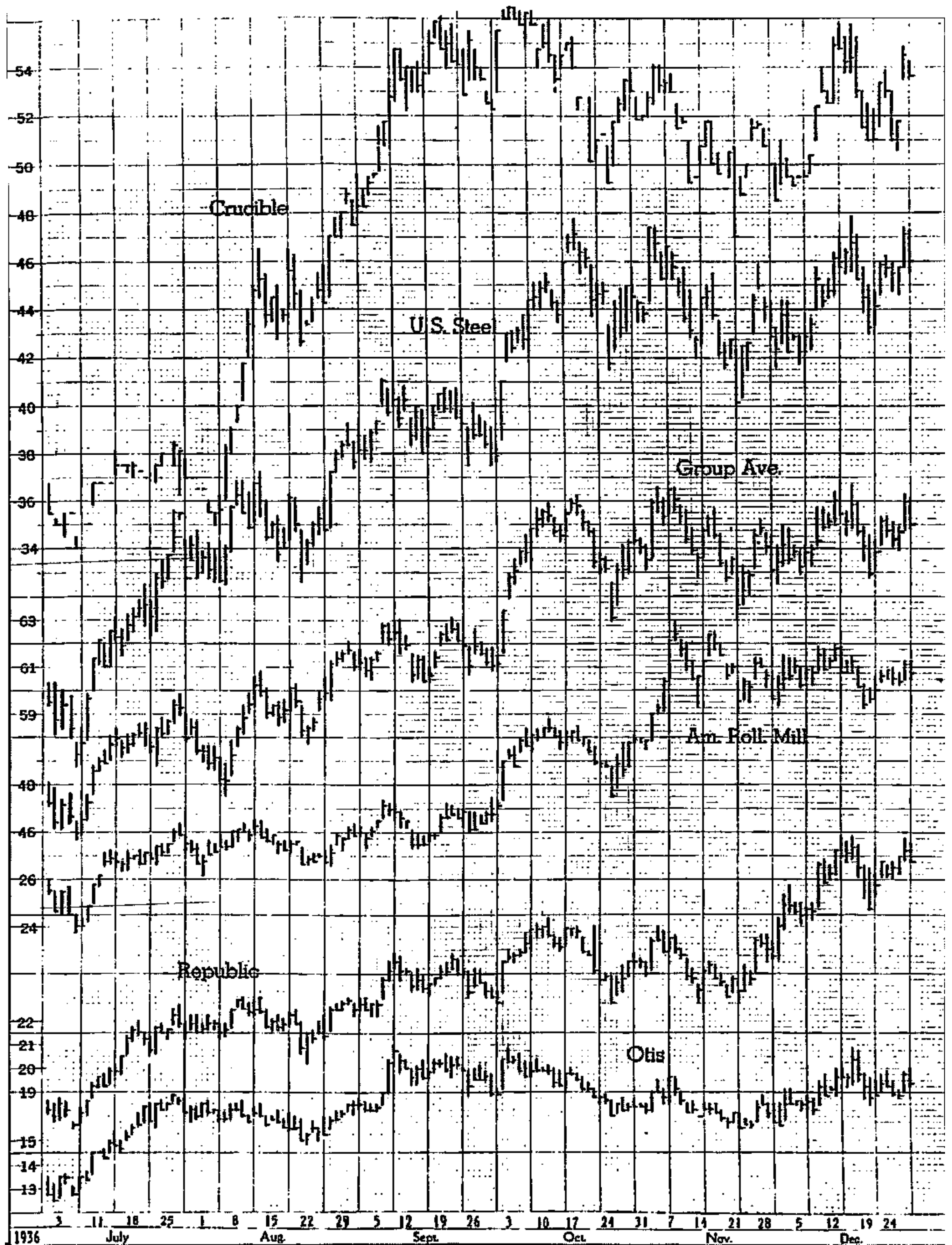

Crucible
U.S. Steel
Group Ave.
Am. Roll. Mill
Republic
Otis
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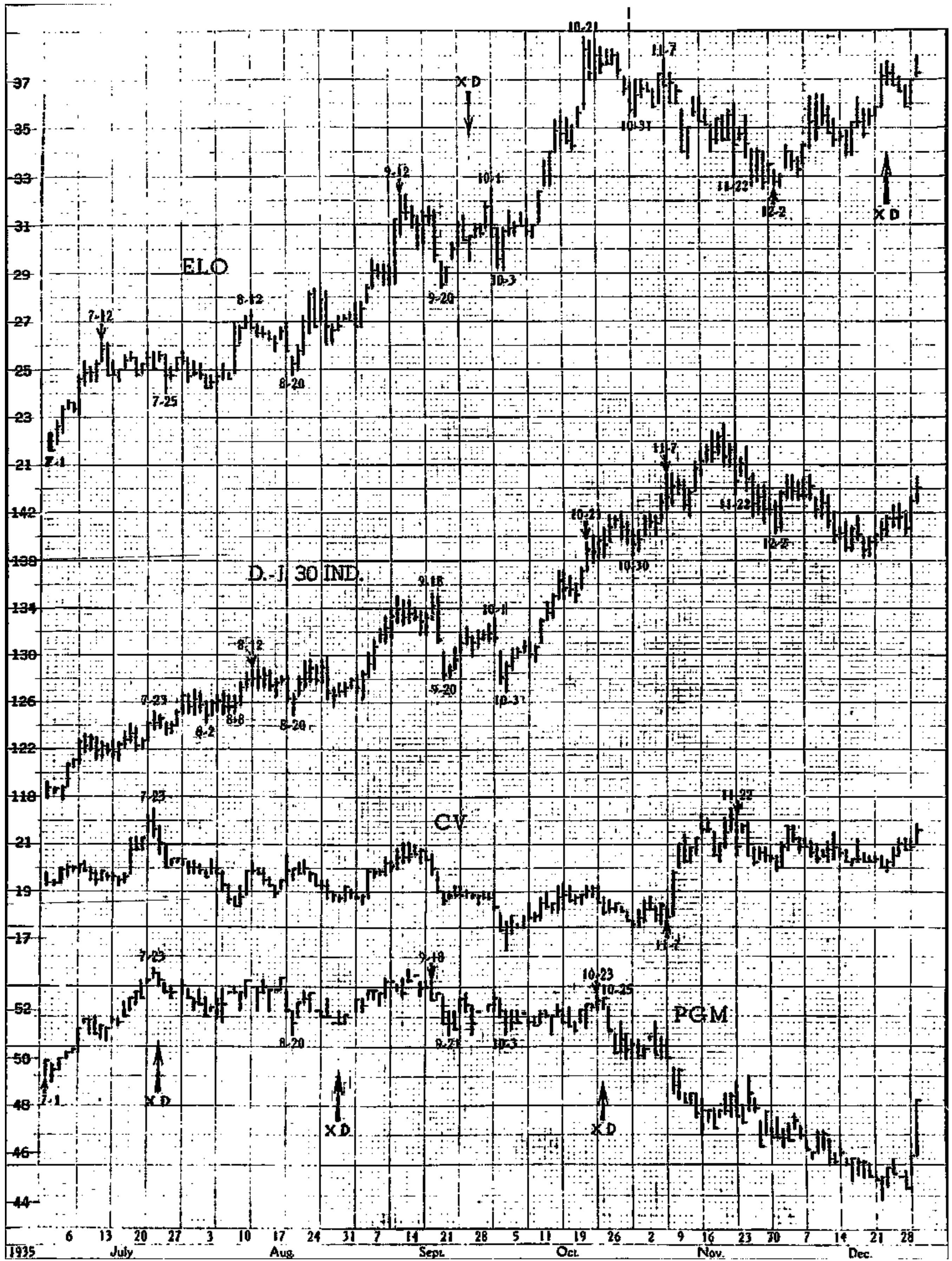
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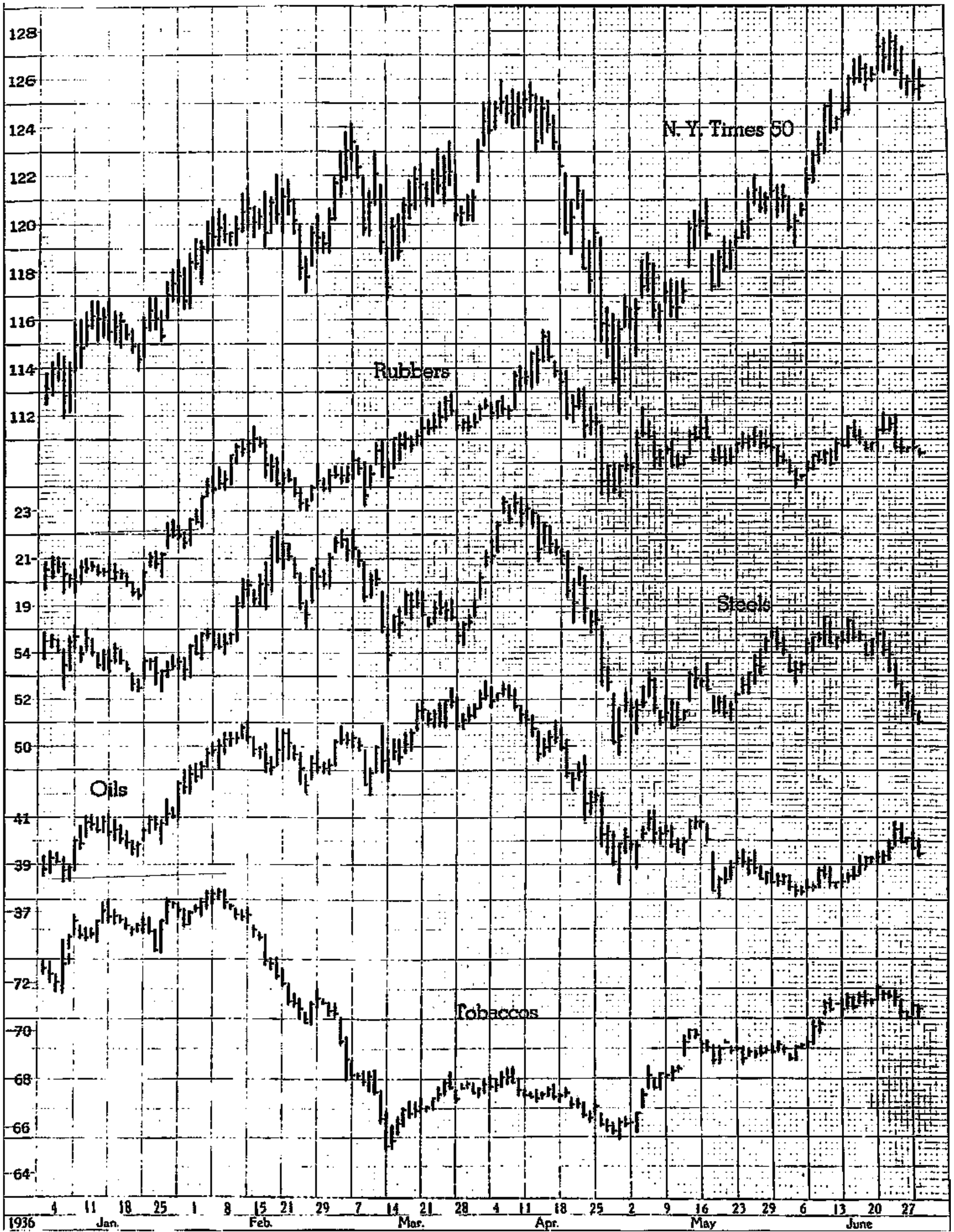

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N. Y. Times 50
Rubbers
Steels
Oils
Tobaccos
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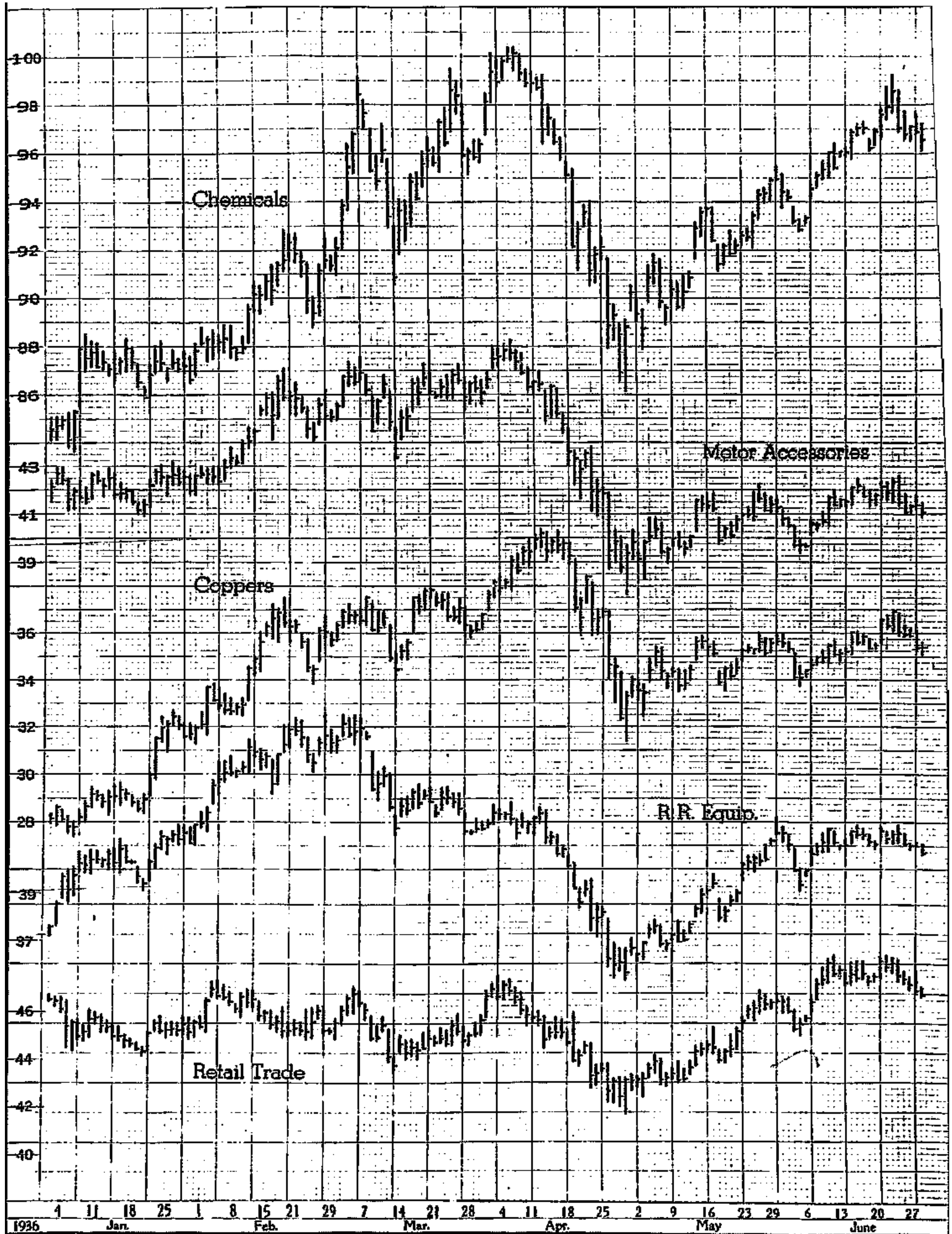
Chemicals
Motor Accessories
Coppers
R.R. Equip.
Retail Trade
100
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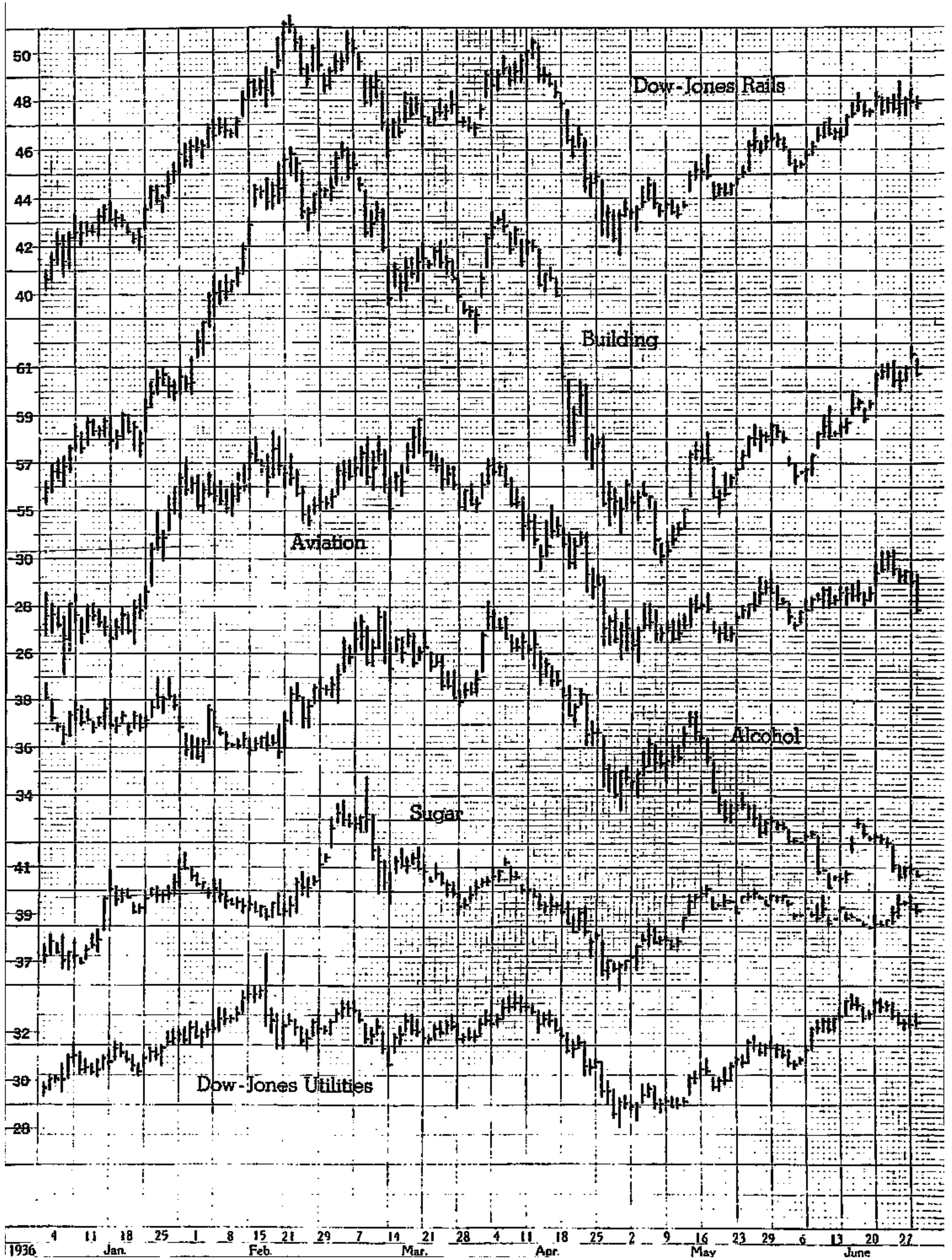
1936 Jan. Feb. Mar. Apr. May June


Dow-Jones Rails
Building
Aviation
Alcohol
Sugar
Dow-Jones Utilities
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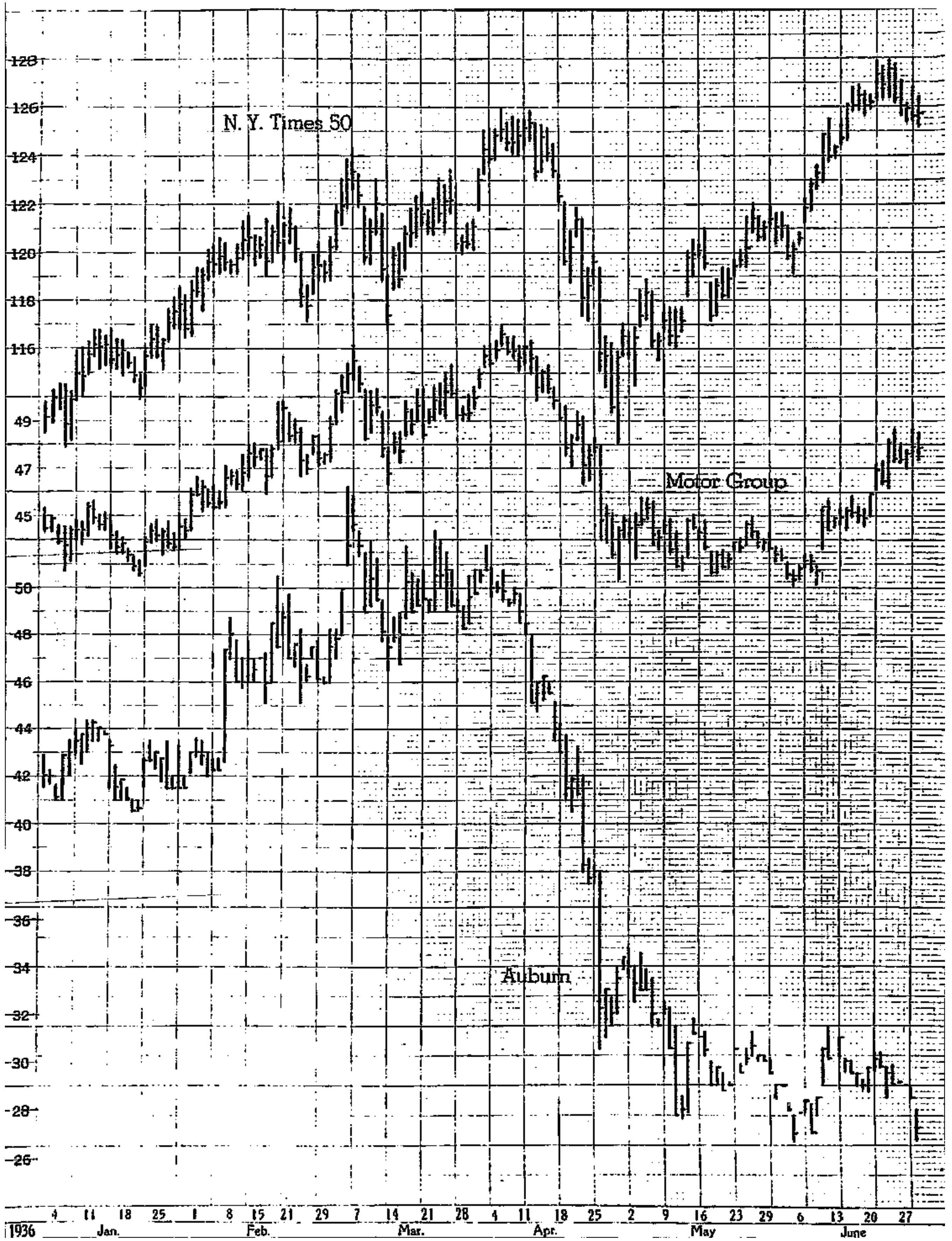

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Motor Group
Auburn
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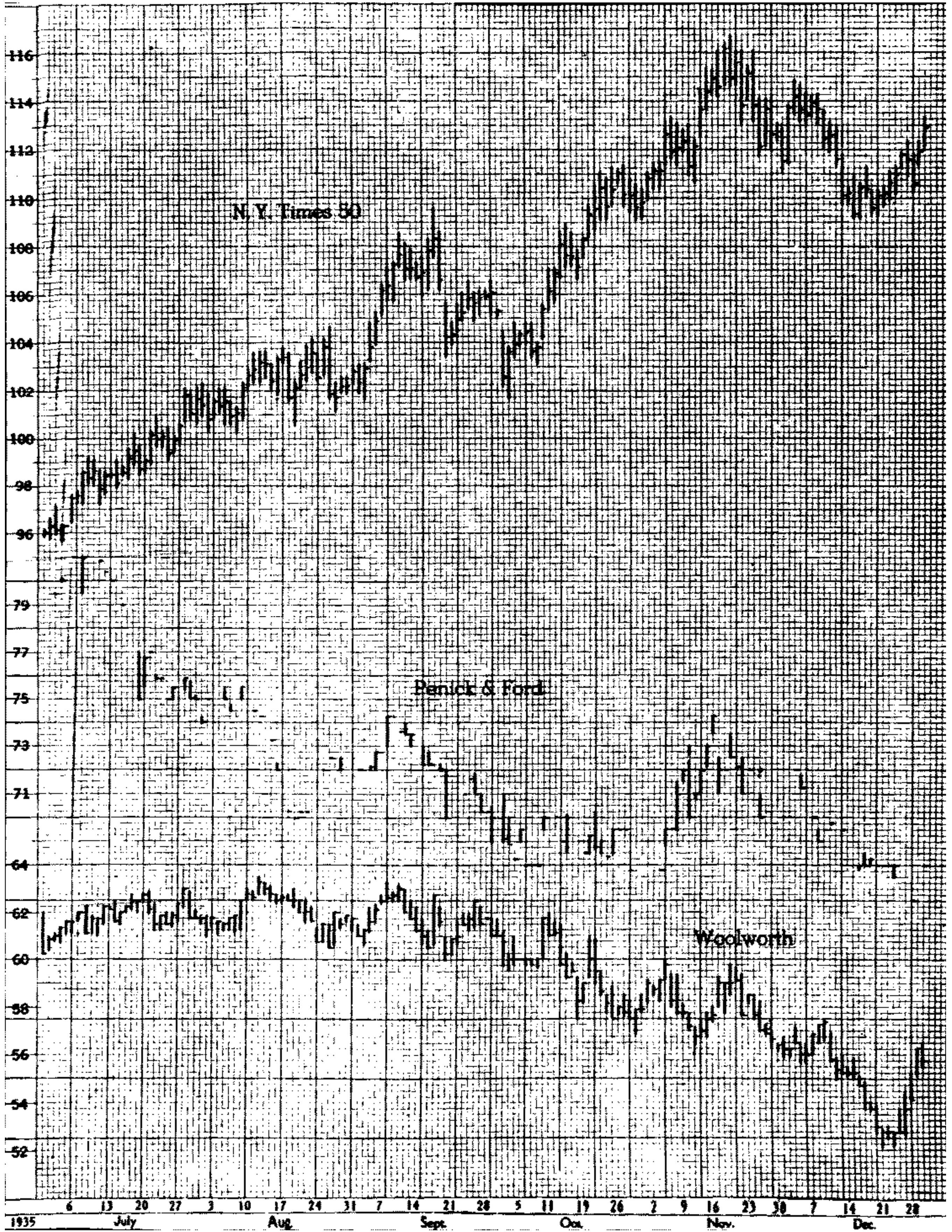
1936 Jan. Feb. Mar. Apr. May June



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Renick & Ford
Woolworth
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