FORMS OF CHARTS

Most of the principal moves in the market are made by large operators, well informed insiders, bankers and pools, whose work we must detect and follow. Practicably every stock has market sponsorship, although a stock's sponsors may not always be active in it (Sect. 14M, Pg. 12).

When important interests are accumulating a line of stock, a study of the transactions will frequently disclose the fact; not in every case, but in the majority. The more important the operations, the more easily are they discovered by studying the price movement, the volume, the activity and the behavior of stocks as the transactions appear on the tape.

An experienced tape reader can, without memoranda of any sort, carry in his head the movements of a number of stocks over many weeks and months and is able to give an opinion as to the present stage of the principal sponsor's operations. But there is a better way than this — an easier, more accurate and more reliable method of tracing these large, inside operations, so as to derive a profit and capital appreciation for the individual investor. I refer to the use of charts, or graphs, as some call them.

Charts are merely the tape transactions in graphic form. They record market history. All transactions appear first on the ticker tape, from which they are tabulated by the newspapers and printed in the morning and evening editions. You, can, from the tape, or preferably from the newspapers and your charts, secure all the information you need to study the market, and operate in it effectively and profitably.

Charts have actual forecasting value because they indicate supply and demand (pressure and support), the volume of trading and the time factor. They form a concrete record of the forces lifting and depressing prices. There is nothing so good for this purpose as charts. All the large interests in the

Street for decades back have kept records of the market and of individual stocks in chart form. Whenever anyone says it is foolish to keep charts, or to use them in judging the market, you may put that person down as uninformed and either unwilling to learn or incapable of interpreting chart records intelligently.

Most of the popular prejudice against charts undoubtedly is due to the fact that many people mistakenly attempt to use charts mechanically — without judgment. They endeavor to draw diagrams or imaginary geometrical patterns on their charts, or apply arbitrary rules or systems such as "oscillators" and other impractical notions. Such methods are wrong. They lead only to errors, losses and discouragement. Therefore, you must remember this:- When <u>you</u> study charts look for the motive behind the action which the chart portrays. Aim to interpret the <u>behavior</u> of the market and of stocks not the fanciful patterns ("gaps," "horns," "flags," "pennants," etc.) which the charts may accidentally form.

One who understands how to interpret charts correctly can usually decide whether the whole market, or any single stock, or group of stocks, is most likely to advance, decline or stand still. Every market and every stock is always in a bullish, bearish or neutral position (Sect. 18M, Pg. 4, Par. 3). The person who can determine, with a high percentage of accuracy, the position in which the market, or a group, or a certain stock stands, holds the key to success in trading and investing.

<u>Selecting the Charts Best Suited to Your Purpose:</u> It may seem at first that an unnecessary number of charts are herein suggested, but remember that I am explaining this Method, without knowing just what experience, knowledge and practice you have had in the market.

I am describing to you all of the records that <u>may</u> be used, and depending upon your selecting therefrom what you find of most value for your individual requirements.

It has always been my rule to reduce the number, of my own charts to the minimum. When I was doing by best work I discarded everything but a vertical line chart of the daily average of 50 stocks, with volumes, and the figure charts of about 150 leading stocks, depending for the balance of my deductions upon study of the stock ticker tape.

After you have studied and practiced with some or all of the charts I have suggested, you can select those you need for your individual purpose. If you do not have access to a stock ticker and desire to invest for the intermediate and major moves, it would be best for you to keep both types of charts mentioned below, together with the Wave chart of Tape Readings described in a later section.

In this Method we use three kinds of charts: Vertical Line Charts, Figure Charts and a Wave Chart.

<u>VERTICAL CHARTS</u> are made by drawing a vertical line to indicate the range of a stock, from high to low, in a single Stock Exchange session. This includes fractions; that is, the exact high and low points are recorded on the chart (see illustrations on pages 4 and 5).

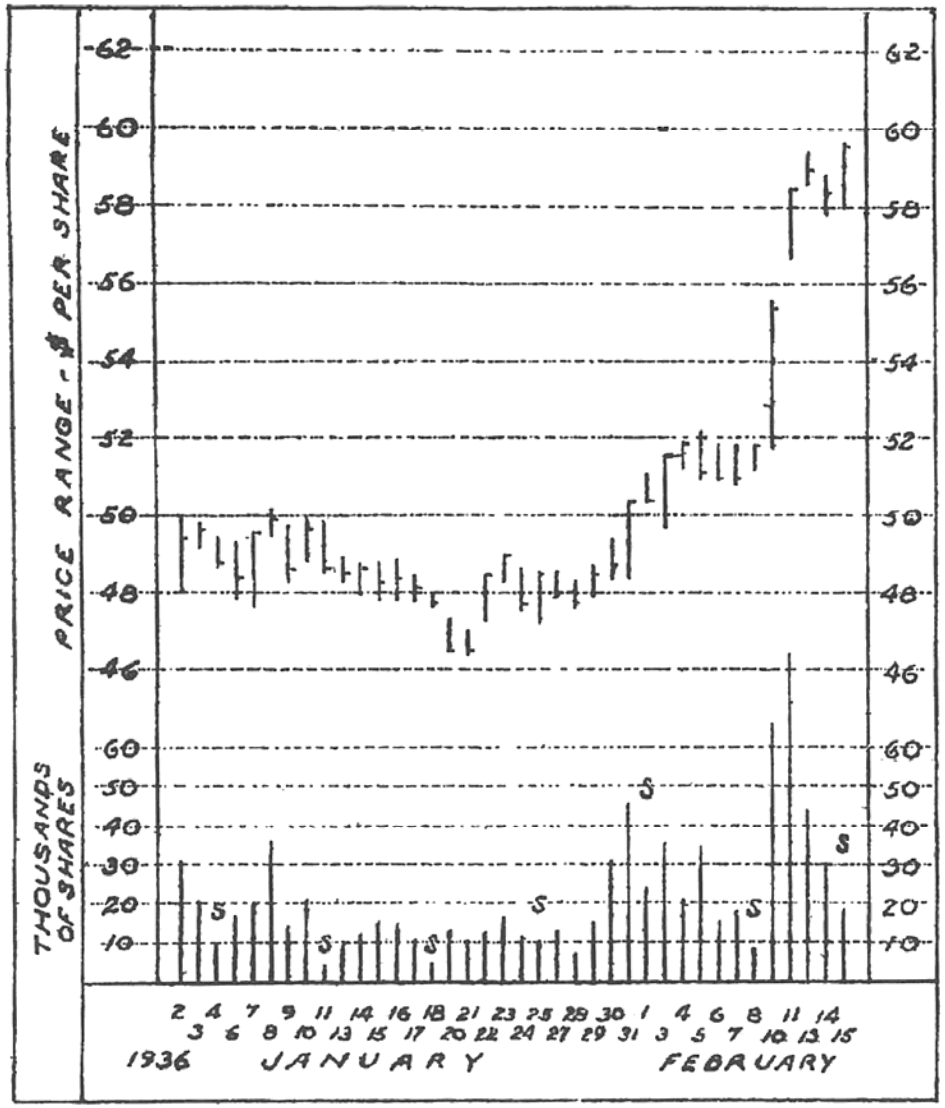
<u>The closing price</u> for the day should be indicated by a short horizontal line, and each day's closing line may or may not be joined to that of the preceding day. The day's transactions represent all the pulling and hauling between bulls and bears for that session, and the closing price indicates the net result of the day's battle — a gain or a loss, therefore the closing marks (or lines joined, so that they make a continuous line) indicate the net progress of the market.

<u>Volumes</u> for each day's trading are recorded by a vertical line extending up from the bottom of the sheet, with a scale at the side. (See illustrations). On Saturdays the letter S may be placed above the volume for that day so that the volume of transactions for the two hour session may be distinguished from

SPECIMEN OF DAILY VERTICAL CHART

UNITED STATES STEEL

January 2 to February 15, 1936



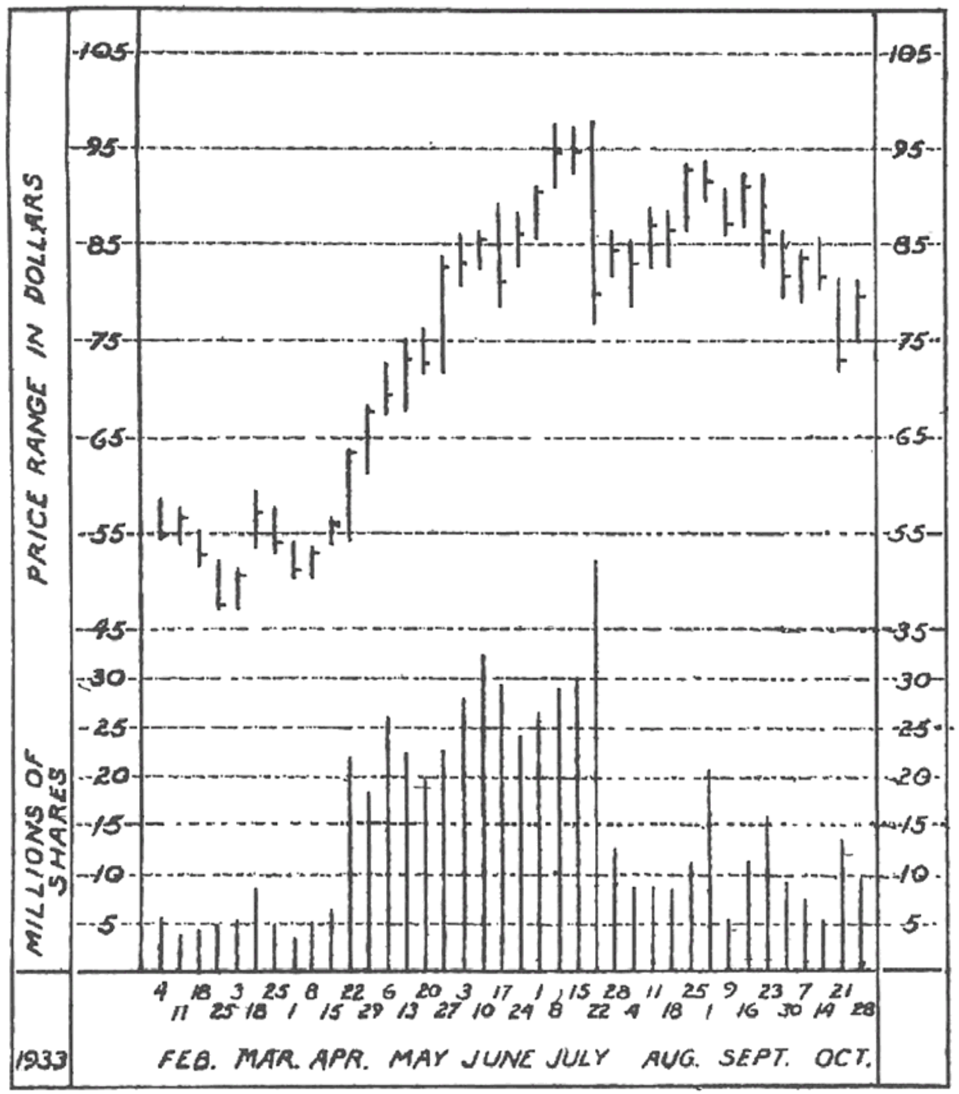
DAILY PRICE RANGE AND VOLUME — U.S. STEEL

Date		High	Low	Last	Volume
Jan.	2	49 7/8	48 1/8	49 3/8	31,000
	3	49 3/4	49	49 5/8	21,100
	4	49 1/2	48 5/8	48 3/4	9,900
	6	49 3/8	47 5/8	48 3/8	18,900
	7	49 5/8	47 1/2	49 5/8	20,200
	8	50 1/4	49 1/2	49 7/8	37,100
	9	49 5/4	48 1/4	48 5/8	14,500
	10	50	48 3/4	49 5/8	20,600
	11	49 7/8	48 1/2	48 5/8	5,800
	13	49	48 1/4	48 1/2	9,900
	14	48 3/4	48	48 5/8	13,400
	15	48 7/8	47 3/4	48 1/4	17,800
	16	49	47 3/4	48 3/8	16,600
	17	48 1/2	47 3/4	48 1/8	10,600
	18	48	47 5/8	47 3/4	5,300
	20	47 3/8	46 1/2	46 1/2	13,000
	21	47 1/8	46 3/8	46 1/2	10,600
	22	48 1/2	47 1/8	48 1/2	13,100
	23	49	48 1/4	49	18,000
	24	48 3/4	47 1/2	47 5/4	12,000
	25	48 5/8	47 1/8	48 1/2	10,500
	27	48 5/8	47 7/8	48	12,500
	28	48 3/8	47 5/8	47 3/4	8,800
	29	48 7/8	47 7/8	48 1/2	15,800
	30	49 1/2	48 5/8	48 5/4	31,100
	31	50 5/8	48 3/8	50 3/8	47,200
Feb.	1	51 1/4	50 3/8	50 3/8	25,600
	3	51 5/8	49 5/8	51 5/8	36,400
	4	52	51 3/8	51 7/8	21,700
	5	52 1/4	50 7/8	51 1/8	36,000
	6	51 7/8	50 7/8	51	12,100
	7	51 7/8	50 3/4	51	18,600
	8	51 7/8	51 1/8	51 7/8	9,700
	10	55 5/8	51 7/8	55 3/8	66,200
	11	50 1/2	56 5/8	58 I/2	82,400
	13	59 1/2	58 5/8	59	44,400
	14	59	57 3/4	58 3/8	30,300
	15	59 3/4	58	59 5/8	19,000

SPECIMEN OF WEEKLY VERTICAL CHART

N. Y. TIMES AVERAGE 50 STOCKS

February 1933 to October 1933 Inclusive



DAILY PRICE RANGE AND VOLUME				Volume
Week Ended	High	Low	Last	(-000)
Feb. 4	58.81	54.30	54.80	5,618
11	57.90	53.92	56.65	4,130
18	55.68	51.47	52.86	4,327
25	52.43	47.02	47.63	4,935
Mar. 3	51.63	47.03	50.50	5,365
18	59.93	55.32	57.04	8,671
25	57.92	52.92	54.07	4,977
Apr. 1	54.08	50.44	51.06	3,682
8	53.52	50.19	52.95	5,087
15	56.93	53.75	56.02	6,562
22	64.03	54.14	63.47	22,147
29	68.63	61.36	67.90	18,659
May 6	73.01	67.60	69.53	26,280
13	75.41	67.80	73.14	22,255
20	76.43	71.43	72.82	19,924
27	83.86	71.42	82.86	22,741
June 5	86.30	80.66	83.12	28,250
10	86.70	82.23	85.39	32,320
17	89.60	78.46	81.10	29,837
24	88.43	82.47	86.03	24,306
July 1	91.27	85.82	90.68	26,737
8	97.94	91.00	94.82	29,054
15	97.86	92.37	94.81	50,184
22	98.05	76.53	79.90	42,336
28	86.60	81.42	84.31	12,849
Aug. 4	85.51	78.57	83.08	8,609
11	89.11	82.24	87.06	8,728
18	88.65	82.76	86.61	8,495
25	93.14	86.79	92.96	11,165
Sept. 1	93.79	89.55	91.51	20,939
9	91.03	85.96	87.12	5,761
16	92.76	86.87	90.99	11,246
23	92.68	82.29	86.16	15,933
30	86.31	79.15	81.58	9,158
Oct. 7	84.49	78.99	83.67	7,741
14	85.62	80.38	81.82	5,476
21	81.38	71.91	72.97	13,738
28	81.20	75.06	79.71	9,829

the volume of the five hour sessions. (Sect. 19M, Pg. 6, Footnote.)

Advantages of a Vertical Chart: It is easily made from the transactions in your newspaper or from the data recorded on our Daily Stock Chart Reports. These show the price movement — highest, lowest and closing, and the volume. From this -price movement alone we are able to judge the supply and demand, the points of resistance and support, and the trend. The volume (number of shares dealt in) indicates the intensity of the trading and the quality of the buying and selling, and is a further essential aid in judging supply and demand.

The Time Factor is also important because it enables us to estimate the speed of the advances and declines — whether the buying or selling is urgent or leisurely; whether it is slow or rapid accumulation, or distribution. The studies which follow in succeeding sections will explain this in a practical way.

From the volume and the price movement we find the greatest aid: (a) in determining the direction of coming moves; (b)deciding when to buy or sell, when to go long or short; (c) when a stock is on the springboard, and (d) when a move is culminating.

Daily Vertical Charts are made to record the daily movements and volume of the averages, or groups or individual stocks. By the use of these charts, we are better able, to discern accumulation, distribution and other phases of manipulative (controlled) or uncontrolled moves in the market. By condensing them into weekly, and monthly vertical charts we are able to visualize the long time trend and to keep our perspective of the long range moves. However, the daily chart is most generally used because of its greater sensitivity and immediate historical value. In other words, weakly and monthly vertical charts aid us to judge the market's present position in relation to the general trend, that is, the major bull and bear cycles; but daily charts are more effective for timing commitments advantageously and for recognizing turning points.

FIGURE CHARTS are equally valuable, but it is best to use these in combination with vertical charts, so that all obtainable deductions may be made therefrom. Figure charts take no account of fractions, nor do they take account of time or volume. They represent the movement of a stock from one full figure to the next full figure above or below, such as from 35 to 36 or 34. (See instructions for making figure charts, pages 9 to 14.) They are of great value in estimating the probable extent of supply and demand and the points of resistance and support.

From the <u>general</u> formations (not so-called patterns such as “saucers,” “baskets,” “fulcrums,” etc., which are popular with some purely theoretical technicians) on the figure charts we are able to detect accumulation or distribution, and we see clearly marked, the lines of support and supply. We can also identify the marking up and marking down periods to excellent advantage by means of these charts.

<u>The most valuable feature of Figure Charts</u>, however, is their <u>horizontal formations,</u> which, <u>in many cases</u> forecast the <u>approximate number of points</u> a stock, or a group, or the average <u>should move</u>. (Sections 10M to 13M.)

It is in these <u>horizontal</u> formations, or congestion areas, on the figure chart that we find the greatest aid: (a) in determining how far a stock should go; (b) when it meets opposition, viz., when it has about reached the end of its move; and with the help of the vertical chart (c) determining the trend, and (d) when a stock is on the springboard.

Figure Charts may be made:

(1) From the fluctuations as they appear on the ticker tape.

(2) From the Report of Stock Sales on the New York Stock Exchange, a sheet that is published after the close of each session.

(3) From the Daily Stock Chart Reports which we will mail, to you each day, containing the one point fluctuations of more than 200 leading, active stocks. This service will be furnished gratis for six months.

(4) From the opening, highest, lowest and closing prices which appear in your daily newspaper; or from vertical charts.

The Tape shows every transaction that takes place on the Stock Exchange floor. In order to build figure charts therefrom it is necessary to watch the tape continuously for five hours on five days a week, and two hours on Saturdays, so that every fluctuation in the full figures will be recorded on your figure chart. This is an easy matter if one is watching only a few stocks, but as the number increases, you may find it necessary to have some assistance.

The Sales Sheet, or Report of Stock Sale's, can be procured from Francis Emory Fitch, Inc. under authorization of a New York Stock Exchange member; it is available about 2 1/2 to 3 hours after the market closes. These sheets contain all the transactions that appear on the tape during the day, arranged so that one can easily run through the different prices at which all the stocks on the list are dealt in, beginning with the opening transaction and including all those that follow, in the order in which they occur. This is the equivalent of reading the tape one stock at a time. It requires but a few moments for each stock, to record the full figure transactions for a day. These sales sheets serve the same purpose as the tape when it comes to building figure charts. One can find them in his broker's offices in New York and he can stop in and get what he wants from them early the next morning following publication. Or, his broker will subscribe to these Sales Sheets for him and mail them to him.

Our Daily Stock Chart Reports contain every one point fluctuation in a selected list of more than 200 leading, active stocks; the New York Times, the New York Herald Tribune and the Dow-Jones averages; the Wyckoff Group Averages; and the principal commodities; together with the volume and daily price range data. This makes it possible for you to keep Vertical and Figure Charts on all or any number of the most representative stocks and averages with little trouble and expense. A further advantage of these reports is their accuracy and the prompt correction of errors which may occasionally occur but which generally are not corrected in other sources.

The Figure Chart, as we have stated, takes no account of anything except the full figures. Fractions are discarded, as they are of no value in these calculations. If you start with a stock which is selling at 50, you pay no attention to any fluctuations except those of a full point or more from that figure. Your next entry after 50 would be either 51 or 49, and after the latter figure is recorded, you would record nothing until the stock sells at 50 or 48. When any full figure is skipped, that is, when there are no sales between say 50 and 53, you would record 51, 52 and 53 just as though there were sales at each of these full figures. But if it rose to only 52 7/8 you would not record 53 until it sold there.

To Make a 1 Point Figure Chart, your procedure should be as follows: The stock stands at 50. It goes to 52. You would, therefore, enter the 51 and 52 in the same vertical column as, and above, the 50, thus:

```
52
51
50
```

It then declines to 45, or even to 44 1/8, but does not touch 44. You would enter in the next column to the right 51, 50, 49, 48, 47, 46 and 45, thus:

```
52
51  51
50  50
    49
    48
    47
    46
    45
```

It rallies to 49 or to 49 7/8, but does not reach 50 therefore, you would enter in the third right-hand column 46, 47, 48 and 49, thus:

```
52
51  51
50  50
    49  49
    48  48
    47  47
    46  46
    45
```

A dip to 48 would call for an entry at that figure in the fourth right-hand column and a rally to 49 an entry of that figure just about the 48 thus:

52			
51	51		
50	50		
	49	49	49
	48	48	48
	47	47	
	46	46	
	45		

Next a dip to 46 1/4, which calls for an entry of 48 and 47 in the fifth column. A rally to 48 3/4 and another dip to 46 1/8 requires two entries in the sixth column. And so on as per the illustration below, and in the charts shown elsewhere in this volume:

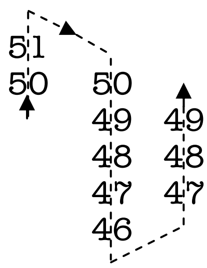
52					
51	51				
50	50				
	49	49	49		
	48	48	48	48	48
	47	47		47	47
	46	46			
	45				

The dotted lines drawn through the figures show the course of the market. These lines, therefore, indicate how the chart should be made and how it should be read.

Dates are indicated on figure charts as follows: On the last day of each month a circle is put around the last entry which appears on the chart for that month, and the initial of the following month is entered a few spaces below the circle in the same vertical column. For example, turn to the 1 point figure chart of Bethlehem Steel on Page 12, Section 11M, and you will see that a circle is marked around the figure 69 in the second column which means that this was the last entry for the month of October, and just below that the letter N indicates that November begins here. A little further on there is another circle with D under it. The circle indicates the end of November and the letter D indicates that December begins here. Then the figure 51 is circled and below is an entry J-31, which means that 51 was the last entry in December, 1930 and January, 1931 begins here. The other months follow in the course.

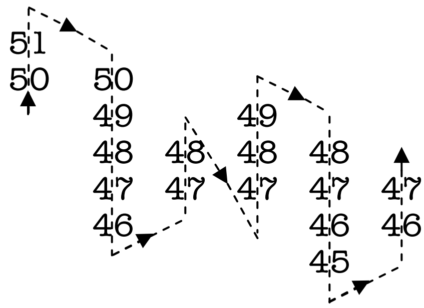
When a stock sells ex-dividend this may be indicated by making all of the entries for that day in red, or some such distinguishing color. The amount of the dividend is then entered in the same vertical column below the graph. If no full figure change occurs on the day the stock sells ex-dividend, the list entry on the chart should be retraced in red, or some other distinguishing color.

<u>To make a 1 point Figure Chart from your newspaper</u>: Suppose you take a stock which closed on Monday at 50. That would be your first figure on the figure chart. Your newspaper records the fact that this stock opened today, Tuesday, let us say, at 50 3/4 and went as high as 51 7/8; so you must record 51 on the figure chart.. It does not go to 52. The lowest for the day was 45 3/4; hence after it made the high at 51 it must have passed 46. You record on your figure chart 50, 49, 48, 47 and 46. The stick closed at 48 1/4, therefore it must have rallied from the low of 46 to 48 and you would record 47 and 48 on your figure' chart which would then look like this:



Assume that Wednesday's transactions will show that the stock opened at 46 1/2, made a high of 49 1/8, a low of 45 and closed at 47. Your figure chart would call for an entry at 47 because the stock closed on Tuesday at 48, and to open at 46 1/2 it must have passed 47, which is the same as selling there. You find that the high of Wednesday was 49 1/8, the low 45, but you do not know which occurred first unless you watched the tape sufficiently to tell whether the high point of Wednesday occurred before the low point or vice versa. If you have not watched the tape, it would be well for you to ask your broker to look at his Sales Sheet and tell you when the stock was highest or lowest. Suppose the high point of the market Wednesday was in the morning. You must assume that your stock went to 49 1/2 after it touched 47. In this case you would make entries on the figure chart as follows: 48, 49. Then as the low of the day was 45, you must record 48 again, then 47, 46 and 45. And as the stock closed at 47 you would record 46 and 47.

When completed, your two-days' figure chart would look like this:



This is not so accurate a method as watching the tape, or using the Sales Sheet, or our Daily Stock Chart Reports; for your newspaper does not give you all of the fluctuations back and forth when a stock is oscillating, say between 45 and 47, once or twice in the day's session. But it is a reasonably good method if other means are not available.

<u>How to make a 3 Point Figure Chart</u>. The 3 point figure chart condenses the history recorded on the 1 point chart-by discarding all <u>reversals</u> of less than three points.

The following explanation will make this clear: Suppose we begin with a small section of a 1 point chart which shows a stock rising from 25 to 31, reacting to 30, then moving upward again to 32, as in Example A. In this, illustration, the rise from 25 to 32 is interrupted by a reversal of only one point.

Therefore, this reversal must be disregarded in making the 3 point chart which will simply show the net or total rise from 26 to 32 in one vertical column as in Example B.

Example A
1 Point Chart

	32
31	31
30	30
29	
28	
27	
26	
25	

Example B
3 Point Chart

32
31
30
29
28
27
26
25

Or suppose that the stock has moved straight up from 25 to 31, when its rise is interrupted by a reaction of two points to 29, after which it recovers and goes to a new high of 52, as in Example C. This reaction to 29 must be disregarded on the 3 point chart because it is a reversal of less than three points, so the 5 point chart (Example D) should show only the full movement from 25 to 32, the same as in Example B:

Example C
1 Point Chart

		32
31		31
30	30	30
29	29	
28		
27		
26		
25		

Example D
3 Point Chart

32
31
30
29
28
27
26
25

Developing our 1 point figure chart a little further, let us say it appears as shown in Example E. Our 3 point chart would then appear as shown in Example F, because after the stock has moved up from 25 to 31 and reacted to 29, its advance to 32 is followed by a three point reversal which forces us to move over to the next right-hand vertical column on our 3 point chart.

Example E
1 Point Chart

		32	
31		31	31
30	30	30	30
29	29		29
28			
27			
26			
25			

Example F
3 Point Chart

32	
31	31
30	30
29	29
28	
27	
26	
25	

Should the decline from 32 continue on the 1 point chart, without a swing of three points, or more in the opposite direction, we must continue to extend our entries in the second column of our 3 point chart until such a reversal of three points or more does occur, when we would move over to the next right — hand column, as in the following illustrations:

Example G
1 Point Chart

		32	
31		31	31
30	30	30	30
29	29		29
28			28
27			27
26			
25			

Example H
3 Point Chart

32	
31	31
30	30
29	29
28	28
27	27
26	
25	

Example J
1 Point Chart

		32						
31		31	31			31		
30	30	30	30			30	30	
29	29		29	29	29	29	29	
28			28	28	28	28	28	28
27			27				27	27
26							26	
25								

Example J
3 Point Chart

32			
31	31	31	
30	30	30	30
29	29	29	29
28	28	28	28
27	27		27
26			26
25			

Example J
5 Point Chart

32	
31	31
30	30
29	29
28	28
27	27
26	26
25	

For additional illustrations of the distinction between the 1 point and the 3 point chart compare the two graphs on Page 8, Section 9M, or remove Page 10, Section 13M from your binder and compare it with Pages 7, 8 and 9.

<u>The 5 Point Figure Chart</u> is constructed in the same manner by disregarding <u>all reversals</u> of less than five points. A 10 point chart would disregard all reversals of less than ten points.

It is VERY IMPORTANT that you learn how to make, read and fully understand a 1 point and a 3 point chart before you go any further with your studies, because if you do not understand these forms of charts, you will not get the full benefit from the forecasts that are possible under this Method.

We also wish to impress on you the importance of using your 3 point figure chart forecast to compare with your 1 point, especially in studying the more important, that is, the long range moves.

The purpose of the 1 Point Chart is to indicate immediate or shorter swing objectives. The 3 Point Chart is designed primarily as a guide to the general trend — to give you a broad perspective of the market and of individual stocks and to indicate the probable objectives of the large swings.

As the small swings eventually build up into large ones (Sect. 5M, Pg. 1, Par. 4), the objectives of the 1 point and of the 3 point charts frequently tend to confirm each other, but hot in all cases. When you find a marked difference between the indications of the two charts it is best to be guided by the more conservative indication.

The 3 Point Chart is most generally used in conjunction with the 1 Point Chart, but for very high priced or extremely volatile stocks, that is, the fast movers, the 5 Point Chart may prove more satisfactory.

<u>The Volume of Sales</u> is not recorded on Figure Charts.

<u>TRENDCHARTS:</u> <u>The purpose of a Trend Chart is to enable you to keep in harmony with the trend</u>.

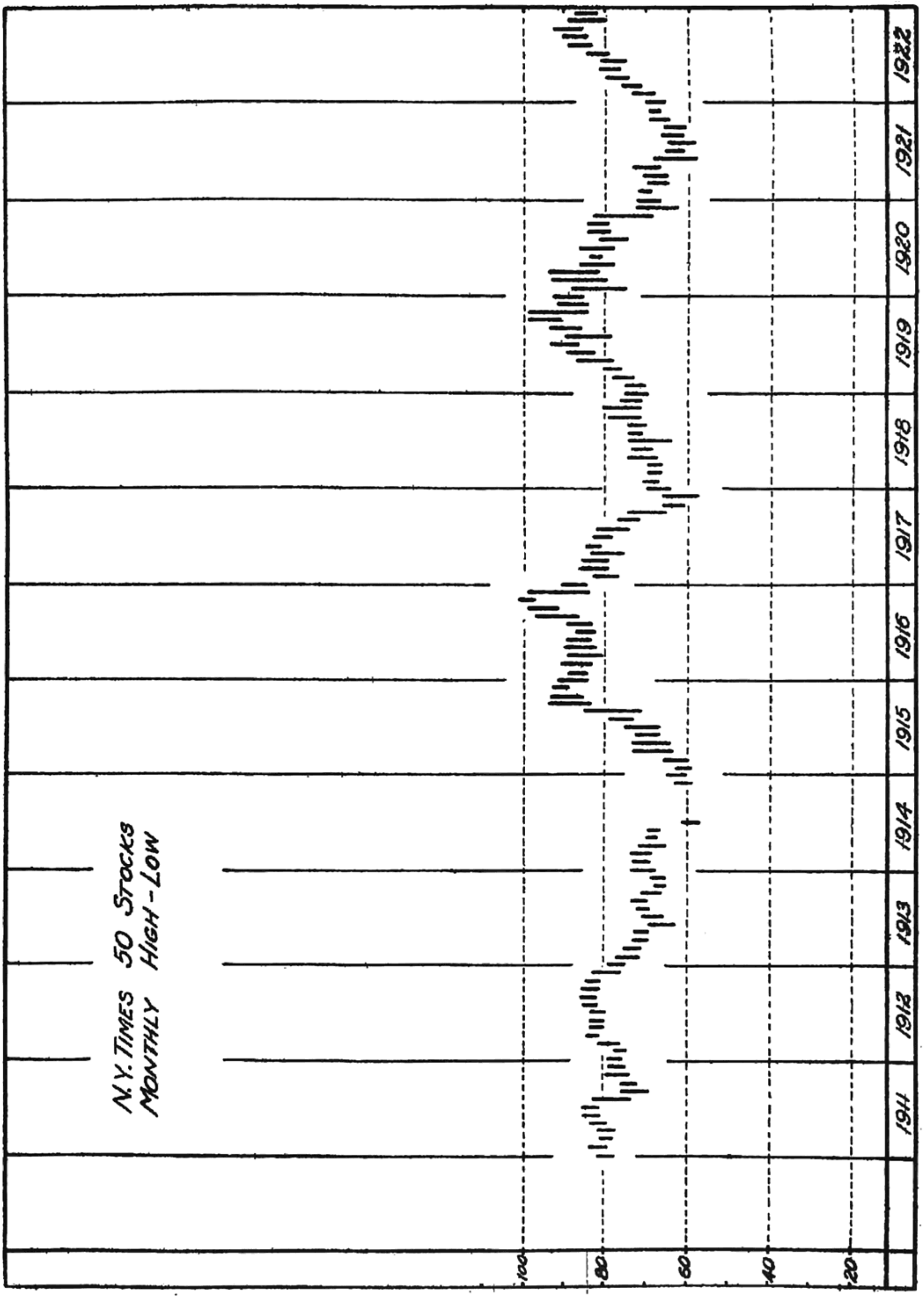
There are two Trends to be considered in trading, as here advocated: (1) the Immediate Trend for active traders who endeavor to get in and out on the email swings, and traders on the floor of the New York Stock Exchange who, not paying any commissions, sometimes can make turns several times a day;
(2) the Trend of the Intermediate Swings of 5 to 30 or more points; these include most of the managed campaigns.

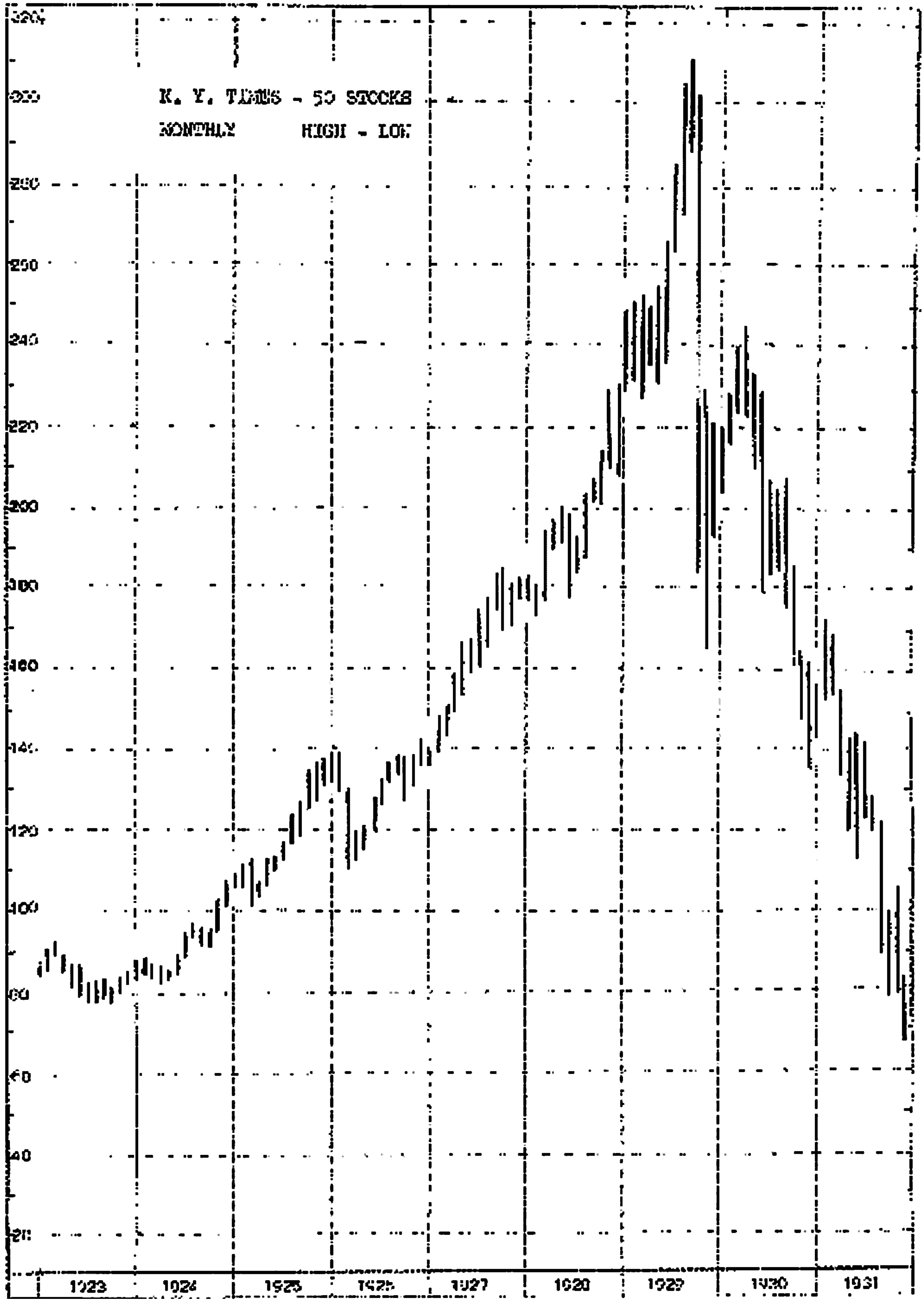
Trend Charts that is, vertical charts of the leading composite averages, may be kept in such a way as to show, on separate sheets, the daily and weekly or monthly movements in whatever group of average figures you may select. If one lives in New York, or near enough to secure the New York Herald Tribune or the New York Times every day, he will find his Trend Chart already made for him each morning in the financial page of these papers. The Wall Street Journal and other financial and daily papers in different parts of the country regularly or frequently carry similar charts. But there is a distinct advantage in keeping one's own records in a loose-leaf binder (this size or pocket size). As each entry is made on the Trend Charts and others, you can study the effect of the change you are recording — their relation to the smaller and larger movements that are under way and more particularly what they forecast.

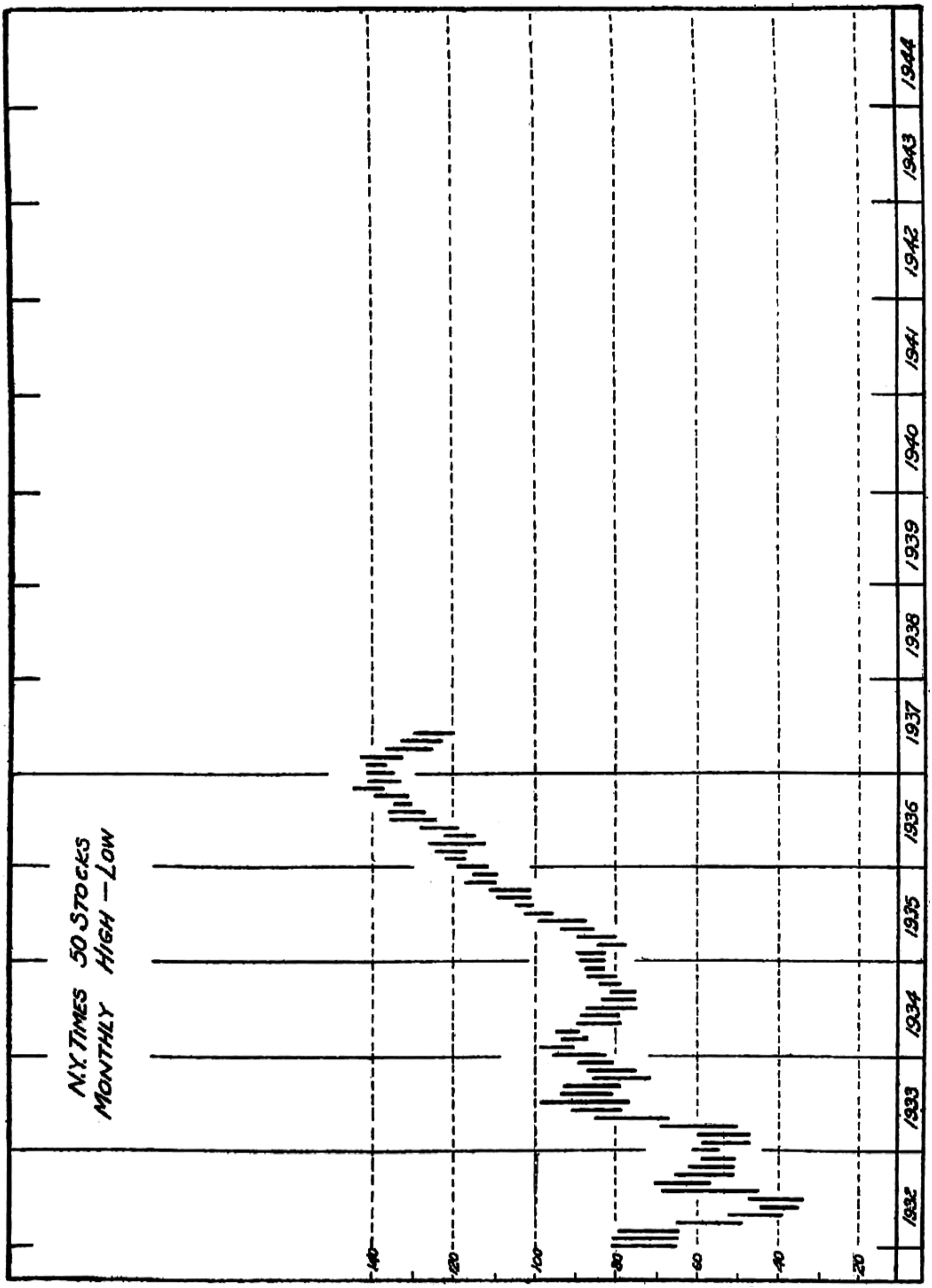
The Trend is the line of least resistance.

It is the most important thing to know about the market or an individual stock.

A bull market, or an upward trend, begins at the very bottom level of a panic or depression. A bear market starts at the topmost point of a boom. This of course, refers to the long trend, or the main swing in prices which, from bottom to top and from top to bottom makes a complete cycle. The cycles since 1911 are shown on the monthly Vertical (Trend) Chart of the hew York Times Average herewith.


N.Y. TIMES 50 STOCKS
MONTHLY HIGH - LOW
100
80
60
40
20
1911
1912
1913
1914
1915
1916
1917
1918
1919
1920
1921
1922


N. Y. TIMES - 50 STOCKS
MONTHLY HIGH - LOW
1923
1924
1925
1926
1927
1928
1929
1930
1931



N.Y. TIMES 50 STOCKS
MONTHLY HIGH — LOW
140
120
100
80
60
40
20
1932
1933
1934
1935
1936
1937
1938
1939
1940
1941
1942
1943
1944

In between these extreme tops and bottoms of the main moves, there occur a number of intermediate swings of 5 to 30 or more points. It is these intermediate swings which afford excellent opportunities for trading and investment profits; hence it is very important to know, first of all, whether a bull market (Uptrend) or a bear market (Downtrend) is under way, and, second, whether we are at the beginning, in the middle, or at the end of one of these intermediate swings, or in a period of transition between the main swings.

The best way to ascertain the above is to keep a Trend Chart (vertical chart of the averages), which is made up of the movements of a large number of stocks, such as the following:

	Industrials	Rails	Utilities	Total
New York Times	25	25	*	50
New York Herald Tribune	70	30	*	100
Dow-Jones & Co.'s Wall Street Journal	30	20	20	70
Standard Statistics Corp.	50	20	20	20

In addition, it is desirable to keep a Wave Chart (as described in Section 22M) to enable you to make a detailed daily analysis of what you see on your Trend Charts.

In a bull market most of your trades should be on the long side and in a bear market on the short side. If this rule be generally followed, it should considerably increase your chances for profit. If, in an up trend, you purchase a stock on a bulge and it afterward goes against you, the chances are the upward trend will give you a profit if you have patience. But if you go long in a down trend, and the market continues to decline, you are likely to have, an increasing loss.

There are, of course, exceptions to this rule. As is explained in Section 8M, all stocks do not move upward or downward together. Months before the

* The Times and Tribune Industrial Averages include a number of Public Utility stocks.

market-of 1929 culminated in September, many individual stocks began to decline; so that while the main trend was upward judging by the averages of a large number of stocks, certain issues were being liquidated while others were making new highs. These stocks which started down early were the forerunners of the main turning point. Their down trends were clearly shown on the individual charts and by the action of the various group averages. In much the same manner, when a bear market is ending, some stocks and some groups of stocks stabilize and start upward ahead of others, moving much faster and farther than the average. Generally, however, stocks tend to move much more uniformly downward in declining markets, than upward in advancing cycles. (Sect. 8M, Pg, 6, Pars. 1-3.)

My claim that the market itself tells you what it is going to do is made good in the illustrations which follow in later Sections. By using the Figure Charts to record the movements of the popular averages, such as the New York Times 50, the Dow-Jones 30 Industrials, etc., we are able frequently to estimate how far the whole market is likely to move. And by using the Trend (Vertical) Charts we are able to judge what direction it will take. This claim is substantiated herein.

We gain an added advantage in estimating the direction and the <u>probable distance</u> of the more important moves of the market, or of individual stocks, or groups of stocks by condensing the figure chart movements into nothing less than 3 point reversals (Pg. 12, Par. 3).

The advantage of using these is especially illustrated in the 3 Point Figure Chart which indicates the 1929 turning point in the market (Sect. 13M, Pg. 10)

Your charts from which you study the Trend should be made, first in the form of vertical charts with volumes, then in the form of figure charts. Both are good by themselves but they are much better used in combination. Both may be on transparent paper, so that they can be laid over other charts when studying the comparative strength and weakness (explained in Section 8M) of groups or individual stocks; or you may easily compare them by laying one chart above another on your table or desk.

Individual stocks should be recorded on both vertical and figure charts, but if your time is limited and it is necessary to reduce the number of your records, then a good plan is to keep the bulk of your graphs in figure chart form together with a permanent file of your daily newspaper or our Daily Stock Chart Reports. By filing these reports in order, as you receive them, it is a simple matter to run back through the sheets for several days or weeks, scanning the price range and volume data to observe significant changes in the volume of trading. This procedure is the same as building a vertical chart in your mind. Thus, when you see that an interesting situation may be developing on one of your figure charts, you can readily bring the equivalent of a vertical chart to bear on it and thereby materially increase the accuracy of your deductions.

To give you a clear idea of the above method of forming mental pictures of vertical charts, we suggest you turn back to the table on Page 4. Cover the figures in the table (under the heading "Daily Price Range and Volume") with a sheet of paper so that only the first line is visible. Make a mental note of the price range and volume for this day, January 2nd. Then slide your paper down so the next line of figures can be read. By continuing in this manner, making mental note the impression you receive whenever there is a significant change in the price and the volume, or both, you will presently discover that you are able to visualize the action of the stock almost as clearly as you can by studying the chart at the left which was made from the figures in the table. For instance, observe in the table how the daily volume builds up while the price is rising from January 29th to 31st and how volume promptly shrinks on the reaction of February 6th to 8th. A little practice in scanning your newspaper or your Daily Report sheets in this way will enable you readily to detect such significant changes of behavior.

If the above procedure does not meet your requirements, another way of conserving time is to keep as many figure charts as you can handle conveniently, together with a file of your daily newspaper or Daily Stock Chart Reports as previously indicated. You can then quickly and at any time make up a vertical chart of any stock in your list, maintaining the chart until your interest in that stock ceased or it may have completed its indicated move. Should you follow this procedure you must record the history of the stock back for two or preferably three months; or for a period sufficient to show its action- around the last important supply or support level, in order to have an adequate background.

Vertical charts are essential for the proper timing of commitments and especially for detecting the minor turning points because there are times when figure charts may be unchanged, while the vertical charts at the same time show persistent supply or demand within a small range. Or the vertical charts may show an exceptionally large volume of shares changing hands, indicating the completion of a move. Or the volume might be shrinking, which under I certain conditions would indicate, at the top of the swing, a lessening of demand, or, at the bottom of a decline, a lessening of pressure. None of these indications is shown on the figure charts.

On the other hand, the figure chart may show many fluctuations on the full figures, while the verticals are unchanged. For example, if the high full figure of a stock on a certain day were 45 and the low 40, there might be sever al fluctuations back and forth between 42 and 43 on the figure chart, but no indication of this would appear on the vertical chart.

For these reasons it is vital to keep both forms of charts.

<u>To define the trend</u> of the market or a single stock, therefore, <u>both</u> the figure and the vertical chart (or its equivalent as suggested on the preceding page) should be used.

In deciding <u>when</u> to act, the tape or the Wave Chart of Tape Readings is the best guide. As indicated in "Buying and Selling Waves" (Sect. 5M), and as fully explained in Section 22M, the tape shows the psychological moment to buy or sell. If you cannot watch the tape, then you may use the Wave Chart to do this work for you.

THE WAVE CHART OF TAPE READINGS wag designed and originated by me, in 1916 in connection with my personal operations in the stock market. It is made to provide a condensed picture of every vital development in every stock market session. It gives a graphic representation of the day's tape action which enables us to study the market's behavior at leisure, just as if we were watching the ticker continuously and setting down every essential impression.

Thus, the Wave Chart is an invaluable aid whereby we may detect changes from technical weakness to strength, and vice versa, and so determine the tumbling points not only of the minor but also of the intermediate swings, frequently several days before the indications are given by the less sensitive popular averages.

The method of constructing and interpreting the Wave Chart will be taken up in a later section, as you must first complete your study of the next several chapters in order properly to understand the principles of the Wave Chart.

GROUP CHARTS: In the selection of the best stocks in which to trade, and invest Group Charts are of material assistance. These are made of about five (more or less) leading stocks in each industry — Oil, Steel, Motor, Copper, Sugar, Tobacco,. Retail Trade (merchandising), Building, Railroad Equipment, etc. There are so many different lines of business represented on the New York Stock Exchange that these groupings can be made to include as many as you like.

The purpose of these charts is to show which industries promise to improve or deteriorate, and to warn you to search in those groups for opportunities.

A better or poorer outlook for the steel industry or the motors, utilities or others, is immediately forecast by important operations of insiders, their bankers, and the large operators having affiliations with them. If the oil business, for example, has been very bad for a long time and the outlook begins to improve, these Group Charts will give you the cue. They tell you, in advance, whether or not the big interests are shaping their stock market positions for higher or lower prices in these stocks. When large interests begin to accumulate or distribute, you can and should do the same.

You can get along without these group charts if you prefer, as our method of detecting stocks in a bullish or bearish position (see "Position Sheet," Section 18M) covers the ground. A glance at the "Position Sheet" will show you whether the Steels, Motors, Oils or others are lining up for a small or a large advance or decline. This should serve your purpose.

The keeping of group averages involves quite a little clerical labor. Therefore, if your time is limited, you may find it more expedient to make up your group charts from the computations which you will find ready-made for you each day on our Daily Stock Chart Report, List #2. (See sample yellow, sheet supplied with your Course.)

However, if you wish to make these tip yourself, you have only to select the leading stocks in each group, enter their highest, lowest and closing prices, and volumes, each day in separate vertical columns. Add up the prices and divide by the number of stocks in the group. This will give you the average highest, lowest and closing price for the group. The volumes should merely be added together. They should not be divided or averaged.

Both Vertical and Figure Charts are used to record changes in the groups. The Vertical Group Charts may be placed one above another, on your desk or table, for purposes of comparison. Likewise, these Group Charts may be laid above any individual Stock Chart and its comparative strength or weakness instantly ascertained. (See illustrations, Section 8M.)

If some groups show greater weakness; than others, search these for the stocks to sell short. Those groups which indicate the greatest cooperative strength will show you where to look among the individual stock charts for the best stocks to buy when the right time comes.

These few suggestions will suffice for the present to indicate how these charts may be used to advantage.

For convenience and future ready reference, we summarize what has been set forth in the preceding pages, as follows:

VERTICAL CHARTS

What is Recorded	Deductions Therefrom	Indication
Price Movement (highest, lowest, closing; and opening if desired)	Supply and Demand. Points of Resistance and Support. Marking Up and Marking Down. Lines of Supply and Support. Changes of Stride and Progress of Movement. Comparative Strength and Weakness.	THE TREND, i.e., the direction of the price movement
Volume	Intensity of Trading. Increasing or Diminishing Pressure of Supply and Demand. Buying and Selling Climaxes.	WHEN to BUY. WHEN to SELL. WHEN to CLOSE OUT.
Time	Speed of Advances and Declines. Duration of Accumulation or Distribution.	WHERE to place Stop Orders
Closing Prices	Net Gain or Loss. Changes in Pressure Up or Down.	

FIGURE CHARTS

What is Recorded	Deductions Therefrom	Indication
Price Movement	Supply and Demand. Points Of Resistance and Support. Marking Up and Marking Down.	The best opportunities.
General Formations	Accumulation or Distribution. Lines of Supply and Support. Marking Up and Marking Down.	Probable DISTANCE a stock, or a group, or the market should move.
Horizontal Formations	Probable Extent or Importance of Accumulation or Distribution.	

WAVE CHART OF TAPE READINGS

Price Movement of the Market - Using Sensitive Leaders as an Index	Supply and Demand. Sentiment of Important Interests. Toward the Market. Critical Points of Resistance and Support. Development of Accumulation and Distribution Areas.	BEHAVIOR of the market at CRITICAL points in the Minor, INTERMEDIATE, and MAJOR Trends. TURNING POINTS in the Minor, INTERMEDIATE, and MAJOR Trends, RESPONSIVENESS of the Market to Buying and Selling Impulses.
Volume of Trading on Alternate Buying and Selling Waves.	Changes in Pressure Up or Down. Quality and Urgency of Supply and Demand (by comparing Volume with Activity and Time) .	
Activity or Intensity of Trading.	Ability of Bull or Bear Forces to Attract Following on Advances and Declines, Rallies and Reactions.	
Time Or Duration of Small Buying and Selling Waves.	Speed of Advances and Declines, Rallies and Reactions. Character of Supply and Demand, Whether Urgent, Leisurely, Timid or Aggressive.	
Price Changes from Wave to Wave.	Net Gain or Loss. Changes in Pressure Up or Down.	