# HOW TO DETERMINE THE TECHNICAL POSITION
# OF AN INDIVIDUAL STOCK

The Position Sheet described in Section 18M requires the determination of the technical position of as few, or as many, stocks as we wish to include therein. In Section 18M, Pages 4 and 5, we explain the five different positions in which a stock may stand; or it may be a combination of these positions. The following examples will show how to determine in which (one or more) of the five positions any stock, or an average, stands at any time. In order to study these it is advisable to remove the charts from the binder.

In deciding these positions we must bear in mind the principles brought out in Section 14M and Section 16M, Pgs. 1 to 4, so it would be well for you to review these sections carefully before proceeding further.

As you will appreciate from this review, the turning points of the minor moves can best be judged from vertical charts. The figure chart, being less sensitive, is apt to develop indications of ah impending minor move sluggishly, or too late for you to <u>anticipate</u> the actual turning point; or, a substantial part of these minor moves may tie over before you can arrive at your decision. Therefore, you should determine Positions 1 and 3 by means of your vertical charts (or the equivalent — Sect. 4M, Pgs. 22 & 23).

Preliminary decisions may be made with respect to Positions 2 and 4 from your figure charts alone. As you acquire experience, you will find that you are able to judge these positions more and more accurately from the figure charts. But even then it is advisable to check your conclusions with the aid of vertical charts (or their equivalent).

<u>On the Bull Side:</u> In order to get into Position 1 a stock (or an average) must give indications of ability to develop a minor move upward. This may be: (1) in the nature of a rally from a low point; (2) at a level where the indicated

minor move is the forerunner of a large advance; or (3) at a level in a trading range where the stock, by its own action, indicates the probability of a small move up through the previous tops of the range.

In order to get into Position 2 a stock (or an average) must give indications of preparation for a large advance. This may be: (l) at the bottom of a downward movement whore it gives evidence of being under accumulation; or (2) in a period of rest following a previous advance whore it gives evidence of absorption (reaccumulation) in preparation for a further advance. A stock may also be placed in Position 2 when, by its own action, it shows ability to advance persistently — recording a series of higher tops and bottoms on successive minor moves — even though there has been no apparent evidence of previous preparation for the advance (Sect. 21M, Pg. 3, Par. 4).

On the Bear Side: In order to get into Position, 3 a stock (or an average) must give indications of a probable small move downward. This may be: (l) in the nature of a reaction from a high point; (2) at a level where the indicated minor move is the forerunner of a large decline; or (3) at a level in u trading range where, by its own action, the stock has shown inability to rally and thus indicates the probability of a small move down through the previous supporting level.

In order to get into Position 4 a stock (or an average) must give indications of preparation for a large decline. This may be: (1) at the top of an advance where it gives evidence of being under distribution; or (2) in a period of rest after a previous decline where it gives evidence of meeting new supply (redistribution) in preparation for a further decline. Or, it may logically be placed in Position 4 when, by its own action, it gives indications of ability to decline persistently — recording a series of lowering bottoms and tops on successive minor moves — even though there has been no clear cut evidence of previous distribution (preparation) for the decline.

In brief, we assign a number 1 or 3 position to a stock whenever our judgment of its behavior leads us to anticipate a small move up or down — provided the extent of the indicated movement meets the requirements of the definitions given on Pages 4 and 5, Section 18M. Likewise, we assign a 2 or a 4 position whenever our analysis of a stock's behavior leads us to anticipate a large move up or down —provided the extent of the indicated movement fulfills the requirements of the definitions given on Page 5, Section 18M.

It is important to note that Position 1 may build up into Position 2 and Position 3 may build up into Position 4; but the reverse is not true. It may become necessary: (1) to cancel an established 2 or 4 position, or (2) to change these positions to Neutral, or (3) to transfer a stock from Position 2 to Position 4, and vice versa. But these positions should not be reduced to 1 or 3. For instance, suppose you have placed a stock in Position 4 in the expectation that it will decline 23 points. If it subsequently declines 18 points, do not reduce the originally established 4 Position to Position 3 simply because the stock may have only 5 more points to go. Leave it in Position 4 until you have reason to believe that it cannot fulfill the original indication; or until its action becomes doubtful (when you should change it to Neutral). Or, if it accomplishes its objective, continue to let the originally established position stand until the stock's action otherwise warns you of an impending change of trend.

The advantage of this last mentioned procedure is that, should a stock merely go into a resting spell after it has attained one objective and then show that it intends to extend that original objective, your previously assigned 2 or 4 position will continue properly to reflect its possibilities.

A Neutral Portion develops, as already explained, when there is no definite indication of a move in either direction; or when we are in doubt as to the ability of a stock to move decisively either way. This may be: (l) when it gives tentative, but not wholly convincing, indications of having exhausted its rally (Position 1) or reaction (Position 3) possibilities, that is, when it leaves us temporarily in doubt as to whether it may rally or react further, or reverse; (2) at a point in an advance (Position 2) or a decline (Position 4) where the price begins to hesitate or otherwise gives tentative, but not wholly convincing, indications of a possible change of trend; (3) when its price movement and volume indications are so contradictory or inconclusive as to leave us in doubt; and (4) when extreme dullness prevails in a narrow trading range, or the price is swinging up and down in a trading zone without giving indications of developing any well defined trend.

Contrary to what most people believe, a neutral position is important. It has advantages as fully as any other position because it is just as vital for you to know what stocks to avoid as it is to know which to buy or sell: to know when to stay out as well as when to go in.

It is a mistake to suppose that you must be in the market (long or short) all of the time. It is also wrong to believe that you must always be able to arrive at a bullish or a bearish conclusion and that you have no choice except between these two positions. (See Sect. 25M, Pg. 7, Par. 2.)

To take a position when you are in doubt, or when the indications are not clear, is to invite almost certain loss. It is true that there may be times when a neutral position may lose you an opportunity, but there are plenty of other opportunities coming along — daily, weekly or monthly. Have patience to watch and wait for these. Learn to bide your time so that, when you do make a commitment, you can do so with your stop order placed where the risk will be in proper proportion to the indicated probable profit. Should you miss a logical buying or selling opportunity, stay neutral until you get another chance to establish a logical position. In other words, do not run after a stock if it should got away from you merely because you fear it will never again give you a chance to get in. Let somebody else take the risk of playing with that stock while you wait for the next opportune moment to get into it — or search for another opportunity.

Most people take positions merely because they think they are missing opportunities; because they <u>fear</u> the market may get away from them; or because they feel that a neutral position is a reflection upon their judgment. Those who operate in that way are running unknown and unnecessary risks.

There are situations which make it impossible for anybody to see the outcome with certainty (though you probably can find plenty of people who are willing to guess it for you — at your expense). A neutral position is always best in such periods of doubt and uncertainty. Do not fear to be out of the market entirely at such times. Such periods are frequent. The big interests do not attempt to force the issue when conditions will not favor their plans — so why should you? They frequently let the market rest to see what it will do when left to itself.

Nothing clears the mind like a shift to a neutral position after the completion of a campaign. (Sect. 25M, Pg. 4, Par. 3.)

Do not permit prejudice in politics nor prejudice due to personal commitments to bias your judgment. Never, under any circumstance, take a position in the market merely because you feel that you must make some money now, right away, because you need a new car or a new suit of clothes. If that is your only reason, you are likely to find yourself without a spare tire — or a shirt. Purchases and sales should be made <u>only when they are indicated by technical considerations.</u> Let the market be your boss. Obey its dictates. It will not be swayed by what you and I may want — by what we hope or fear.

Let us now endeavor to apply the above to our purpose, as expressed in the first paragraph of this Section:

Turning to the charts on Pages 8 to 10, Sect. 9M and reviewing the text in connection therewith, Section 10M, Page 1, Pars. 2 and 3, we see that this stock is in a neutral position during the first two weeks of the movement recorded on the vertical chart (duplicated on the figure chart by the first two columns of figures at the left of the page). It is neutral because, as yet, we have had no clear indications of a move in either direction; so far as we can tell from the limited background on our charts, thé stock seems to be in a small trading range between 30 and 34.

However, when it rises to 35 1/2 (at C on vertical chart) we have some basis for formulating a conclusion. Thus, we note that the price has now been rising steadily four successive days and on the last of these days there is a marked increase in volume which suggests a buying climax. The following session seems to confirm this, for, after making a fractionally higher top of 35 5/8 the price reacts, wiping out all of the previous day's gain and the closing is near the low. We therefore conclude the stock is due for a reaction. Accordingly, we may reflect this expectation by placing the stock tentatively in Position 3. We put it in that position tentatively, but not 'positively because we still have insufficient evidence to judge how much it might react. A normal reaction would be to about 32 (halfway back to 30). The one point figure chart (at C-D) shows a line of two 34s which confirms this, but to get into a definite 3 Position we should have grounds for expecting a setback of at least ,5, and preferably 4, points since the latter would fulfill our requirements of an approximate 10% shrinkage in price. (Sect. 18M, Pg. 5, Par. 2.)

After completing the more or less expected normal reaction to 32, the stock shows it is still in a weak technical position. That is, instead of rallying easily, the price goes into a narrow range with volume shrinking as it tries to rally. It has now worked into an apex or dead center (at F), as explained in paragraph 5, page 1 (Sect. 10M) which you should read over again at this point. Obviously our tentative Position 3 has now become definite for the reasons given just above and in the previous text. Moreover, our figure chart now shows a line of three 33s, forecasting a dip back to 30.

At G we prepare to cancel our 3 Position, but without actually doing so. Reasons for being ready to cancel it: (l) The last phase of the drop from D is precipitous, creating the possibility of an oversold position as the price strikes a previous supporting level; (2) volume has increased rather sharply on the drop to 29 5/9 thereby suggesting the possibility of a minor selling climax; and (3) next day, although the price makes a hew low (at H) and the closing is on the bottom, the downward thrust has shortened with volume still comparatively heavy, indicating that on this and the previous day somebody is holding the bag for the sailors — a large demand is overcoming large supply — the buying is of better quality than the selling; (4) the reaction has fulfilled the figure chart objective.

If the above reasoning is incorrect, that is, if it should later turn out that the increasing volume to G should have been interpreted to mean that liquidation is breaking out, we probably will be warned of this by the stock's inability to rally convincingly from the critical supporting level around 30. We are not likely to be long in doubt. Should it rally poorly, as it did previously at F, or should the price continue to decline on increasing volume, we must let our 3 Position stand. But if it quiets down and tends to hold, we must conclude that this means the break to a new low is failing to follow through.

Volume is low over the next two sessions and the price moves laterally in a narrow range. This looks as if the selling pressure were lifting — volume is diminishing at the bottom of the reaction. At first glance it might seem that the action at G is the same as at E. But the important difference is that the situation around G is much more critical since the stock is now at the bottom of a trading range where it has twice previously been supported, so if the support comes in here again we would have presumptive evidence of possible accumulation. Moreover, it may now be considerably oversold and hence in a position dangerous to shorts. The more expert of these shorts will be disposed to cover quickly if they find that no further offerings are coming into the market. Note also that the three days' sidewise movement (or lack of further progress on the downside — right of G) has put the stock in a position to penetrate the minor trend supply running from the high point at D through F. If it should begin to rally it will break the angle of this downward movement from 35 5/8.

With the indications thus finely balanced between bullish and bearish possibilities, we decide to cancel our 3 Position and change it to Neutral, while we wait for further and more definite indications.

Our one point figure chart now shows a line of five 30s, (A to G) but we are not justified in accepting this as a basis for a recovery to 35 because, as our vertical chart analysis shows, too much still depends on what the stock will do next. If the demand around 30 is of better quality than the selling, chances are the stock will first stage a part-way (50%) recovery of the loss from D to H. This is not enough to put it in Position 1. Furthermore, we can judge better what its possibilities are by the way it rallies and by what it does if and when it reacts after such a normal technical recovery.

Next day it confirms our first suspicions (see Par. 3, Page 6) by rising through our minor trend supply line D-F. Volume is almost as large in the two-hour (Saturday) session as on the two preceding days. Relatively, therefore, volume has increased on the rally — a bullish sign. (*) We expect the rally to continue. It does next day, but a volume surge warns us to be on the lookout for another change, especially since (at I) the stock is close to completing the anticipated part-way recovery. It <u>may</u> rally further or react at once. We shall have to watch this next reaction carefully because the price is still close to the critical 30 level and, unless it continues to meet support, we shall have to restore the 3 Position.

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* While it is not well arbitrarily to double all Saturday volumes, situations of this sort frequently arise where mentally doubling the actual volume of a two-hour session will indicate the relative change of Saturday volume more clearly and afford a more significant basis of comparison with the full five-hour sessions.

A good way to do this is plot Saturday volumes on your vertical charts as they actually occur. Then place a small letter "s" above the vertical bar. Locate the "s" so that the top of the letter will come to the level where the vertical line would end if you doubled it. Or, you may prefer to use only the vertical bar to indicate Saturday volume, making the lower half solid to show the actual volume for that day, and the upper half dotted to show what it would be if doubled in all cases.

The first mentioned procedure has been followed in constructing all of the vertical charts in this volume. (Footnote continued on next page.)

A quick reaction from I, cancelling all of two days' previous rise, before the stock can recover fully 50% of the loss from D to H, puts us on the anxious seat if we have been inclined to become bullish. Volume is less, but not decisively smaller and the low closing leaves the price hanging perilously hear the former lows. We are still Neutral but on the alert to swing with it whichever way it goes next.

Two more session pass and we now (at J) decide to become bullish and place the stock in Position 1. Our reasons: If it were the intention of the operator in this stock to drive it lower, instead of supporting it, he most probably would have followed up the advantage of the less than normal rally (to I) at once, utilizing this weak rally indication to frighten holders so they would be driven to liquidate on a drive through the previous low points G-H. Instead of following through on the down side (at J), the price comes to rest at a higher level; and on fairly constant volume it begins to move sidewise, with the low points (around J) tending to edge upward. This looks like good buying rather than good selling. Between G and J the stock has been nine days moving laterally around the bottom of the range 30-55. Thus it has laid a base which should support a more aggressive rally than the previous one (to I). On the one point chart, this

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The advantage of the above methods, as compared with arbitrarily doubling all Saturday volumes, may be seen by considering the two examples at F and at O on the vertical chart, Sect. 9M,; Pg. 9. By first considering the actual Saturday volume at F, our attention is immediately brought to the fact that the stock has worked out to a dead center or pivot, on impression that might be lost if the volume were arbitrarily doubled. Second, if we consider the volume as is, we see that it was very light on a rally. And third, on the other hand, if we consider the volume as being doubled, our reaction is still bearish because, on the basis of the doubled volume, we see that the price has recorded practically no gain on volume that is relatively high compared with the several preceding sessions. In other words, the price on this day has risen only an eighth of a point above that of the previous day and the range has narrowed as it tries to rally, denoting a shortening of an upthrust on relatively large volume.

Again, between O & P, note how by first considering the actual volume we get a clear impression of the true significance of the volume indication, which would be lost if the Saturday volume had been doubled arbitrarily. Thus, the actual volume shows a continuing and sharp shrinkage on a reaction, showing that there is little stock for sale on the setback (no pressure). These impressions and the appearance of another dead center, might be destroyed if the volume had been doubled as a matter of iron clad rule.

amounts to a count of three 30s at J; and, if we take in the full width of the supporting level across 30 (A to J) we find it stretches out to a; total of 7 which would qualify for a Position 2. (Sect. 18M, Pg. 5, Par. 1.)

However, we do not put the stock definitely in Position 2, yet, because, as our studies so far have indicated (reread Sect. 10M, Par. 2, Pg. 2 down through Par. 3, Pg. 3) we are not convinced that the campaign of accumulation has been completed. Until there are additional indications of preparation and until we have reason to believe that tie period of preparation is nearing completion, we do not wish to become too enthusiastically bullish. We must recognize that there may be a number of tracing swings before the psychological time comes to buy, and we cannot be certain at this early stage of the campaign that a worth while advance may get under way. Should the stock immediately fulfill the limited 7 point objective we now have on the figure chart, that might be the end of the move and we should prefer a more substantial opportunity. Under these conditions Position 1 sufficiently reflects its possibilities.

On the day following J, the price rallies easily (indicated by the wider spread between high and low) on comparatively light volume, indicating .that the previous accumulation has created a scarcity of offerings. This rise takes the price out of the downward angle represented by our readjusted supply line D-I. It shows more strength by following through on the up side next day, with no hesitation around the previous (I) rally top.

But at K we cancel Position 1 and put it in Neutral again. It gets into Position 3 here because: (1) the rise from J to K has been abrupt, creating ah overbought condition; (2) the price is running into a resistance area — the former top between 34-35 at C-D; (3) the upthrust to 33 7/8 (K) cannot be sustained as indicated by an immediate reversal of this day's bulge — note the low closing; (4) volume is climactic on what appears to be the top of the rally; and (5) the stock has accomplished its Immediate (G-J) figure chart objective.

We have no indication as to how far it will react, except to estimate that it may go halfway back to 30. However, as we suspect the stock is under accumulation, we surmise the operator is more likely to let it go all the way back to 30 or thereabouts — that he probably will prefer to let it appear dull and weak for a while in order to shake off any outside following attracted by the run up to K. On this basis, we may, if we wish, put the stock in Position 3 instead of merely Neutral.

At L it goes into Neutral Position again, having fulfilled our surmise of a reaction back to 30. It stays in this position until it reaches M where a two weeks' dull sagging movement exhausts itself in a quick dip to the supporting level without bringing out any quantity of offerings, (as explained in Sect. 10M, Pg. 4, Line 7). You accordingly put the stock in Position 1 here on the strength of these bullish indications, reasoning that it is now ready to go up without further material reactions. You also put it definitely in Position 2 at this point.

The base on the one point figure chart has stretched out to a count of eleven on the line of 30s, including four blanks. The rally at N, next day, increases this to twelve 30s, including five blanks and the three point chart promises a rise of 21 points. With the stock in Positions 1 and 2 and on the springboard, ready to go, you, of course, buy as already explained in Sect. 10M, Pg. 3, Par. 1 and Pg. 4.

With the above detailed explanation as a foundation, you should have no difficulty in identifying subsequent changes of position. We will indicate these for you as they appear from here on with the recommendation that you determine the reasons for them yourself in order to get the necessary practice and thus firmly implant the principles above developed in your mind. Before doing this, review the preceding discussion carefully. At the same time, mark the various positions directly on the chart as you reread the text. Then mark the rest of the chart in the same way as you follow the further movements of this typical campaign from N onward.

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|---|---|---|---|---|---|---|
| At O, | minor trend | Neutral, | intermediate trend | Position | 2 | |
| At P, | " | " | " | " | " | |
| At Q, | " | Position 1, | " | " | " | |
| At R, | " | Neutral, | " | " | " | |
| At S, | " | Position 1, | " | " | " | |
| At T, | " | Neutral, | " | " | " | |
| At U, | " | Position 1, | " | " | " | |
| At W, | " | Neutral, | " | " | " | |
| At X, | " | Position 1, | " | " | " | |
| At Y, | " | Position 3, | " | " | " | (unchanged) |

The stock gets into Position 3 at Y because of: (l) The excessively large volume appearing after a steep rise which (2) has brought the price up to the indicated 3 point figure chart objective and (3) the quick reversal on heavy volume, plus inability to make further progress in proportion with this heavy volume. Position 2 is allowed to stand for the time being as we cannot tell yet whether the operator will elect to complete his campaign by distributing the balance of his stock on the way down from 50 3/4; whether he may support it on a corrective reaction and then finish distributing on rallies back to or around the 50-51 level; or whether he — or some other interests — may reaccumulate for a new advance.

Also, our figure charts do not, as yet, show any evidence of a top forming which leads us to conclude that the 2 Position should be allowed to stand, pending further indications.

Volume continues very heavy as the stock starts downward from Y. At first this looks like a case of distributing on the way down from the high point, in which event it is possible the stock might drop some distance without first developing a congestion area (or horizontal formation) around the high point on the figure chart. Therefore, on the basis of what the vertical chart indicates we either cancel Position 2 and call it Neutral — but net Position 4; or, if we prefer, we may leave it in Position 2 but with a question mark behind this entry on our Position Sheet (thus:- x?) to show the doubt in our mind. Having taken profits on our long stock (see Sect. 10M, Pg. 6, Par. 4), we are quite willing to stand aside while we wait to see how it behaves on a further reaction. Our Position 3, meanwhile, will take care of the possibilities of a further setback.

As the reaction continues to 45 5/8 (at Z) and volume dries up there, showing the reaction is over, we look for a rally back toward the previous high so: At Z, the minor trend indicates Position 1 and Position 2 still stands.

At AA, the minor trend indicates Position 3 and Position 2 is changed definitely to Position 4.

At BB, it goes back into Position 1 and Position 4 is cancelled, becoming Neutral.

The support coming in at Z and again at BB suggests that the trading range 46-50 may turn out to be an area of absorption for a new advance of 12 points, see figure chart and review Sect. 10M, Last Par., Pg. 7 through Par. 3, Pg. 8. If you will now turn the vertical charts upside down and hold them against the light so you can see the picture in reverse, you will appreciate the reason for this more readily. Looking at the charts in reverse like this gives the clear impression that the minor moves to Z and BB merely mark-a resting spell preceding a further important swing in the direction of DD. You will find this plan of looking at your charts in reverse, so that a down move takes on the appearance of an upswing, and vice versa, frequently is very helpful in judging turning points. It enables you to see both sides of the, market without the prejudice which leads some operators to develop either a "bull complex" or a "bear complex" from always looking at things through the; same eyes.

At BB, the tendency of the bottoms of the daily price movement to round upward indicates that the market for this stock is now sold out. Hence the light volume means light demand is putting the price up, a condition that frequently is characteristic of such situations, where the short interest suddenly wakes up to the fact that it has sold itself "into the bag." These shorts first try quietly to cover without bidding the price up against themselves. But this cautious bidding finds offerings scarce and the price inclined to "sneak" up. Result: The shorts become apprehensive. Other traders, sensing the sold out condition, begin to buy quietly also, thereby increasing the anxiety of the shorts until the stock's manager takes advantage of their dilemma to run the price up. Thereupon, a scramble to cover ensues; demand become brisk end volume increases — but not until the rise is partly underway. Hence:

| | | | | |
|---|---|---|---|---|
| At CC, we place our hypothetical stock in | Position | 1 | and Position | 2. |
| At DD, the indications are that it is in | " | 5 | " " | 2. |
| At the numeral 7 " " " " " " | " | 1 | " " | 2. |
| At FF, " " " " " " | " | 3 | " " | 5. |
| At KK, " " " " " " | " | 1 | " " | 5. |
| At LL, " " " " " " | " | 3 | " " | 5. |
| At MM, " " " " " " | " | 5 | " " | 5. |
| At NM, " " " " " " | " | 3 | " " | 5. |

With the above illustrations before you, you should next practice assigning positions to the balance of the chart and to the situations discussed in Sections 7M, 16M and 17M. By reading the text of these sections over again, you can decide what positions are developing. Mark these on the charts as you go along. This will help to fix the idea of determining positions still more firmly in your mind. If you have any difficulty, consult us and we shall be glad to help you.