INDIVIDUAL CHART STUDIES — PART VI

VERTICAL CHARTS

As we have seen from preceding studies, the four principal phases of a market campaign are: (I) Accumulation, (II) Marking Up, (III) Distribution, and (IV) Marking Down.

When a stock is in phases (I) or (II) it is said to be in a bullish position and when in phases (III) or (IV) it is in a bearish position. Or, its behavior may be such as to indicate that there is no active interest in it, that is, no campaign is underway or in preparation, in which event its position is neutral. (Sect. 14M, Pg. 12, Pars. 2 to 5 and Sect. 15M, Pg. 4, Par. 4.)

Our object is to determine the technical position of all of the stocks in our list, that is, which of the above three positions each may be in, and to just what degree. (Sect. 18M, Pg. 4, Par. 3.) For this purpose we have to deal with three basic factors: (1) Price Movement, (2) Volume, and (3) The inter-relationships between Price Movement and Volume.

Under the heading of Price Movement we have such collateral or related influences as:

(A) Comparative Strength and Weakness.

(B) Previous Points of Support and Resistance.

(C) Rate of Acceleration, or Angles of Advances and Declines — Trend Lines.

(D) Shake-outs, Terminal Thrusts, Oversold and Overbought Conditions.

Thus, from our analysis of Price Movement alone, we are able to gain much valuable information concerning the present technical position and probable trend of each stock.

However, the Volume, on intensity of trading, may exert an important confirmatory, modifying or contradictory influence upon the indications given by the price movement.

The Volume factor is vital in:

(E) Identifying Buying and Selling Climaxes.

(F) Judging the Quality of supply and demand around previous points of resistance and support, or around previous supply and supporting levels.

(G) Judging the Quality of supply and demand (pressure and support) as the Price approaches established trend lines.

(H) Identifying Shake-outs, Terminal Thrusts (see Sect. 21M, Pg. 3, Par. 3), Overbought and Oversold Positions.

(J) Identifying Zones of Accumulation and Distribution; and Judging when a stock is drifting, i.e., when it is in a Neutral Position or in a prolonged Trading Range wherein alternating rallies and reactions tend to neutralize each other.

(K) Determining whether a trading range represents Absorption (new demand) in preparation for a further advance; or Renewed Distribution (new supply) in preparation for a further decline.

(L) Judging the Character of the Action when a stock reaches indicated minor and major objectives up or down.

From the Inter-relationship between Price Movement and Volume, we are able to judge:

(M) When a move is Beginning and When it is Culminating, thus determining the best Time to Act.

From the above we see how vital it is to study volume behavior and why vertical charts aid us to increase the percentage accuracy of our deductions.

Vertical charts record Volume as well as Price Movement. Hence they enable us to study all three of the basic factors mentioned in Paragraph 3 on the preceding page and the related influences enumerated under items (A) to (M). (Sect. 4M, Pg. 26.)

Figure charts record Price Movement only. As was shown by the studies in Sections 10M to 13M, figure charts are exceedingly helpful in measuring the probable force of accumulation and distribution, or demand and supply. Thus they afford a reasonably dependable means of forecasting the distance a stock, or a group, or the market as a whole, is likely to travel; that is, the objectives of the moves. (Sect. 4M, Pg. 26.)

Figure charts are best for determining the objectives of a campaign, although a fair approximation of the importance and extent of accumulation or distribution can be made from vertical charts if no figure chart is available, by observing the length of time the price remains in an area of preparation. A move which consumes three months in preparation is likely to have a more ambitious objective than a move that is prepared in only three weeks; and a campaign of accumulation extending over one or two years, obviously, has a stronger, more enduring foundation than one that is prepared and carried into execution within one or two months.

While it is frequently possible to judge the direction of coming moves from figure charts alone, there are many times when the figure chart leaves us in doubt, or we have to wait too long for a clear cut indication, as was probably apparent to you when following the illustrations in Sections 11M to 13M. This is especially true when the figure chart is building an extended congestion area. Unless we carefully study volume behavior while these horizontal formations are developing we cannot be sure whether they represent accumulation or distribution, absorption or supply, or simply neutral positions. (Sect. 15M, Pg. 4, Par. 4.)

In brief, figure charts are not efficient for determining the probable trend except perhaps in the hands of experienced, highly proficient, students. Accordingly, we require the vital assistance which vertical charts afford of bringing the Volume factor to bear on price movement phenomena. Vertical charts (or their equivalent — Sect. 4M, Pgs. 22 & 23) are necessary to determine which way the market, or a group, or an individual stock will go. They are likewise more effective than figure charts for comparing strength and weakness; and for establishing trend lines. Also, vertical charts are best for anticipating the turning points of minor moves — the swings of from 3 to 5 or, say 8, points; and for interpreting the action of very low priced stocks.

In the illustration to follow, we shall apply the above principles first to the vertical chart alone, as in Section 7M, and then coordinate our studies of individual figure and vertical charts by considering the two in combination (Sect. 17M) as was done in Section 10M. First, however, you should review the principles set forth in Sections 9M and 14M so you will have them firmly in mind as you proceed.

Our next study begins with Anaconda in a small trading range, 14 1/4 - 15 1/8, out of which it broke on increasing volume, Monday, July 16, in sympathy with liquidation in the general market (see Page 32). Pressure continues with no sign of rallying power until July 26th, when we see evidence of a selling climax in the abnormally large volume accompanying a sudden, sharp acceleration of the downward movement to $10 a share. We conclude from this that demand is now overcoming supply; and with the stock in an oversold condition by virtue of the precipitous drop from 14 1/4 to 10, we may at least anticipate a technical rally. (Compare with Sect. 7M, Par. 5, Pg. 2 to last Par. Pg. 4, including Footnote Pg. 3 and Par. 2 Pg. 12; see also Sect. 14M, Pg. 2, Par. 4 and Pg. 4, Par. 2.)

If we have been keeping records of Anaconda prior to this, we will know that there was a heavy congestion, or supply level, between 14 and 17, formed during November, 1933 and the intervening months to July, 1934. Also, there was a supporting point around 10, (October, 1933) which was the low point reached on the decline from the high of 22 7/8, July 1933. (See figure chart, Pg. 31.)

With this background to guide us as of July 26th, 1934, we can hardly expect an enduring advance to develop out of this selling climax without substantial preparation. That is, giving consideration to the probable number of buyers who were locked in between 14-17, we must assume that the sponsors of this stock are not likely to run it immediately up into this former distribution level merely to bail out all these frightened bulls. Rather, if they plan to begin a bull campaign, they will wear down the overhanging resistance by allowing the stock to remain sluggish and depressed, thereby tiring the public out. Or they will endeavor to shake then out; (Sect. 21M, Pg. 2, Par. 3 & Pars. 1 & 2, Pg, 3) or perhaps they may lay the foundation for a later advance by using both devices.

An experienced operator knows that he can most easily force the public out of his stock by allowing it to remain dull and weak for a considerable period of time. Most market followers, at least the less informed variety, are notoriously impatient. They crave action, seeming to think a stock ought to go up immediately merely because they have bought it. Especially when a bull market is developing or well under way, there are many such people constantly jumping into anything that gets active. The tiring-out process is very effective in discouraging these emotional buyers into selling if it fails to keep on moving. If it rests a while or sags, they become disgusted and hop into another stock that "will move" and again get hooked on the top. Very often, the stock they have just sold will start up once more because its sponsors have shaken off the unwanted, premature bulls. Meanwhile, managers of the second issue, which is now strong, peddle out a little on the bulge to these flighty chasers-after-things that "look" good.

Therefore, with these principles in mind and seeing the selling climax in Anaconda, we conclude that the stock is not yet a logical purchase for a large advance because a proper foundation has not been laid to overcome the old ceiling. We may try for a part-way recovery to 15, but other stocks which do not have the barrier of an old supply level to contend with, are likely to offer better opportunities, at least at this particular juncture.

The above observations show how important it is for you to know something of the past history of a stock, or a group, or the market before you make a commitment in it. However, to illustrate how you must handle your purchases or sales when your selections fail to work out as anticipated, let us assume that we had none of this past history to aid us in making our decision. Instead, assume we had bought Anaconda, July 27th, on the day following the indicated selling climax: First with the idea of making a trading turn on a possible normal correction of the total decline from 15 to 10;

second with the further object of keeping this trade alive if, subsequent action shows that it is building a foundation for a worth while advance. Should its action turn out the second way, we can let our profit run at little risk, as we already have established a long position with a stop very close to the danger point — in this case say at 9 3/8 or about a half point under the July 26th low. (Since this is a low priced stock a half-point stop would be reasonable here.) Therefore, assume that we are long at about 10 1/2.

The stock rallies a little further next day, (July 28th) but the rally is sluggish, as shown by the very small volume and the small spread. This leads us to expect a reaction. Another reason for expecting a recession is that at the high point of Saturday's rally, the price touches the supply line A-B-C. This line is drawn through the high points of July 20th and July 23rd and thus approximately represents the angle of decline, or downward stride of the stock after it left the small trading range 14-1/4 — 15-1/8.

We now observe that should the price begin to move laterally between 10 and 11, or should it rally say to 11-1/2, such action would have the effect of breaking the downward stride previously in effect, thus tending to confirm the action of July 26th as the development of preliminary support. Note carefully that the only purpose of the line A-B-C is to help us to visualize this possibility of a change of stride. (Sec. 15M, Pg. 13, Par. 2.)

On July 30th and 31st, the price dips toward the climax low point, but the light volume tells us there is no renewal of the pressure which was in effect previously — hence the low is not likely to be violated. When the price recovers next day to 11-1/2, we conclude that the downward stride A-B now has been broken; that the dip back to 10-1/2 (July 31st) has tested the previous low and that, since this reaction died out at a higher support, the five days' sidewise movement (July 26th to 31st), represents the formation of a sufficient base of support, or the development of sufficient demand, to induce a further rally.

However, volume remains constant and very small as the rally continues to August 3rd, indicating that the few buyers are timid and unwilling to follow prices upward.

If we were observing this action today, without knowing what actually happened next, we should have to take the stand that everything will now depend upon how the stock behaves, either on an attempt to rally further, or on the way it behaves if it should start to react again, as the small volume up to August 3rd suggests it will. In other words, observing that the rally from July 31st to August 3rd has been relatively weak in point of distance covered with relation to the July decline; and seeing that this rally failed to enlist any increase in volume, we are suspicious of the bull side. Such a weak rally, by dying out so close to the danger point at 10, creates the possibility that any outbreak of fresh pressure or a determined selling drive might easily force the price through the critical low point of July 26th and thus release fresh liquidation. (Sect. 15M, Pg. 6, Par. 3.)

Accordingly, as of August 4th we should have to be very alert, ready to run quickly with respect to the stock we are holding for the short swing trade. On the other hand, if we bought this stock primarily to try for a large advance, then and in that event we would be content to sit tight depending upon our stop at 9 3/8 to take us out if it should develop new weakness. But on the short swing operation we must cut our losses very short because we are trying for only small profits.

In brief, everything now depends upon how the stock behaves when it reacts. Meanwhile, we have decided, in advance, that if the price recedes we may reasonably expect it to attempt to hold around 10 1/2, where it was supported on July 31st. Failing that, we might expect an effort to hold if it should return to the low point of July 26th. Ability to hold around 10 1/2, however, would be more to our liking. Therefore, depending upon the way the stock dips, we shall decide either to stick to our long trading position, or to get out forthwith re gardless of any small loss we might have to take. It is much better to take a small loss than risk a large one if our stock does not act right.

However, on August 6th, (Monday) after reacting to 10 5/8, the price immediately rallies to close at the day's high. Thus we have a rather vigorous rebound from a previous supporting point; a rebound which follows promptly on the completion of a normal correction of the rally from 10 to 11 3/4 (July 26th to August 3rd); and a slight increase in volume which, under the circumstances, appears to be occurring on a rally thus indicating that the stock is developing technical strength.

Now, if we look at our Composite Average and compare the action of Anaconda up to this date with that of the market, we note also that since the climax day Anaconda has shown comparative strength because, on completing the reaction to August 6th, the price met support more promptly than the general market. We therefore conclude that it has successfully met a test of the support. In other words, it has shown by its action that there is still a good quality of demand between 10 and 11; and this buying has now spread out the demand area around 11 sufficiently to sustain another upward push — it has probably completed the secondary reaction which usually follows a selling climax.

The next two sessions bring higher bottoms, higher tops and higher closings with volume improved over that accompanying the rally to August 3rd. Also, by comparison with our general market average, the stock is strong. (See study of ELO, Sect. 8M, Pgs. 9 & 10.)

The recovery continues on August 9th but we do not like this sudden whooping up of the price nor the abrupt increase in volume which accompanies it. This looks too much like a case of hypodermics: as if the support stock taken on the July 26th selling climax is being thrown back on the market on this rally. (Sect. 7M, Pg. 3, Par. 3, Footnote.) We must now decide whether we prefer to (1) close out our long trade, or, (2) wait and see whether the subsequent action of the stock will confirm the bearish implications of this sudden whooping up maneuver.

At this point let us digress again for a moment to observe that, had we acted on the indication of a buying climax (August 9th) by closing out our long trade immediately we should have lost little or nothing because, within five, weeks, the stock was right down where it had started from on July 26th and we should have gained nothing by attempting to get the last point or half-point at the top of the move to August 13th, even though it stayed around the high point for two weeks thereafter.

However, assume we had not sold out immediately after this bearish indication but had waited for more evidence of a turning point. The prompt shrinkage in volume on August 10th and 11th, accompanying a narrowing down of the price movement as the stock recedes from the high point of the 9th, says that it will probably try to rally further. It does, but on the 13th a shortening of the upward thrust (Sect. 21M, Pg. 3, Par. 3.) accompanied by another rather pronounced volume surge indicates bearish behavior. The stock has now completed a better than normal correction of the July decline from 15 to 10; both the speed and sharp angle of the advance from August 6th to 13th suggest that it has developed an overbought condition. Accordingly, we are prepared for a reaction — which develops as anticipated.

On this reaction (August 14th to 18th) volume is very small, at the same time showing a distinct tendency to taper off as the price falls back halfway to the previous support point of 10 5/8 (the low of August 6th). This says the stock will probably try to rally again. In the meantime, remember we have not disturbed the assumed long position which we took in July, that is, the long position which we took to try for an important advance. But now, when the price rallies abruptly toward the previous (August 13th) high at 13 1/2 and volume increases suddenly on the top of this bulge to August 22nd, we again become suspicious of the bull side and watch carefully to see what the stock may do next. It reacts on diminishing volume next day then rallies toward the previous high points over the next two sessions. But volume continues to shrink, thereby indicating exhaustion of buying power. It lacks the momentum necessary to overcome the resistance around 13 1/2.

Here we are also impressed by the fact that the stock has made almost no progress since the volume surge of August 9th. Likewise, though it was relatively stronger than the general market for a time, since August 13th it has fallen out of step because the average has continued to register gains whereas Anaconda, instead of moving with the market, now is going sidewise. Consequently, when the average reaches its high of August 25th, Anaconda is merely rallying back to the point where it gave indications of meeting supply on August 9th and 13th. Meanwhile, the price seems to be working into a hinge position. The development of this apex may be seen clearly by drawing a line of support, F-H, through the successive low points of August 6th and 20th, as indicated on the chart. Obviously, with the price hedged between the trend line F-H and the flat line of tops across 13 1/2-13 3/8, it will not take much of a downward thrust to break the angle of the support line F-H.

Also, reviewing the whole operation since the stock recovered from the July 26th low point, we are impressed with the fact that there has been little consistency in the expansion of volume on price advances. Rather, successive up waves since August 9th present the appearance of hypodermics engineered to fill up the few buyers who can be coaxed to rush in on such made-to-order bulges; and whatever demand previously existed has died out completely by August 25th as shown by the marked shrinkage of volume around this rally top. With so many bearish symptoms, we conclude that the stock has exhausted its possibilities on the up side, at least for the time being. Therefore, it is best for us to close out our long position if we have not previously done so, both the one taken for trading purposes only and the one taken for a possible longer rise. The stock so far has been held in the range 12-13 1/2 for two weeks. If it should start down now the setback may be fairly important. Hence we do not wish to lose what little profit we have; much less let the stock run against us when we have such plain warnings that it is not acting right. (Sect. 8M, Pg. 12, Footnote.)

Increasing volume as the price starts to react, Aug. 27th, confirms our bearish convictions. On returning to the last preceding support point around 12, we note two days' temporary hesitation (Aug. 31st & Sept. 1st) which is also taking place as the price comes to rest on the trend support line D-F, drawn through the low points of July 26th and Aug. 6th. Here we are entitled to expect a rally, or an attempt to rally, out of respect for the previous support point and the influence of the stride line D-F. That is, if the stock is technically strong, it is likely to indicate the fact by rallying to 12 1/2 or better, for that would be normal at this juncture. But, should it fail to rally — where a rally might logically be expected — such action, of itself, would signal acute weakness.

Therefore, when it breaks the Sept. 14th low simultaneously (and markedly) violating our trend line, we stay bearish despite the continuing low volume. The stock's price action says plainly: Don't let this small volume fool you. I'm declining, not so much because of pressing liquidation, but because demand for me is of poor quality — nobody wants to support me.

A quick upthrust (Sept. 5th) on very small volume followed immediately by a downthrust which cancels the bulge, emphasizes the weakness. So we look for more decline, involving a test of the previous supporting points around 10 1/2 and, if that fails, a test of the critical July 26th low.

The price now sags steadily with no sign of support over the next nine sessions. On Sept. 17th and 18th it comes to rest where it was supported previously around 10 1/2 (July 31st & Aug. 6th). There is nothing in the volume behavior to tell us that the move may be climaxing here beyond a relatively slight increase on the 17th. But, in view of the consistently light turnover on the; way down from 13 1/2 we should already have concluded that the July lows are in little danger of being violated because that low volume shows the price is falling as a result of poor demand rather than because of active or increasing supply. In other words, it begins to look as if the sponsors had pulled out their bids and were allowing the stock to slide downward in hope of discouraging public interest, that is, in hope of discouraging outsiders from accumulating; and for the purpose of inducing long holders to unload "because the stock looks so weak."

Therefore, somewhere during the week ended Sept. 15th, while the stock is still receding on small volume, we decide that the moment the price comes to rest around the old supporting points we will venture a long commitment with a stop under the critical July low. Our reasoning now is that if the price comes to rest around these former bottoms there is a good chance that a broad enough foundation will have been built to permit another substantial recovery which might better the first August rise. However, we must remember that our indications are always subject to change or reversal. Hence we cannot hold stubbornly to this viewpoint but must be ready to get out of our long commitment promptly if the stock's subsequent action either contradicts or fails to confirm our present conclusions.

Accordingly, observing that volume tends to shrink on the rally to 12 (Sept. 19th to 22nd) and that the price movement flattens out there over the next five sessions, we employ precisely the same reasoning as in the week ended Aug. 4th (See Pg. 7, Pars. 1 to 3). A small recession to Sept. 29th brings the price to a dead center. If it should now react further, either under the temporary supporting points of Sept. 24th and 25th, or beyond the halfway reaction mark (i.e., halfway back to 10 1/2), we shall have to be prepared to close out our long position immediately. Another reason for doing so is the bearish implication of the stock's failure to participate fully in the rally of the market as a whole from Sept. 17th to 27th.

On Oct. 1st, the price falls beyond the limit we have set and volume increases on the reaction (being appreciably larger than the volume for any single session in more than three weeks). This says definitely: Get out. We must now conclude that if accumulation <u>is</u> taking place, preparation for an advance has not been completed; furthermore, the stock's tendency to hug the low points of July and September is inviting either to a shako-out or to the development of liquidation.

In other words, reviewing the whole history of the stock since late July, we conclude that the consistently low volume witnessed while the price has been traveling in the long trading zone 10-12 with one temporary advance above that zone, has the characteristics of a campaign of accumulation. But this accumulation evidently has not proceeded far enough to exhaust the floating supply of stock, for otherwise the price would not show a tendency repeatedly to seek the low points of the range. Rather, if offerings were becoming scarce as a result of consistent accumulation, the price should begin to show resiliency, that is, a lifting of its supporting points, or a rounding upward of the bottoms, and it should also show ability to participate in rallies with the general market average. (See Sect. 9M, Pg. 9, at M to Q and Sect. 17M, Pg. 25 at A.)

Instead of that, volume tends to build up on recessions, beginning about Oct. 1st; rallies are repeatedly checked at lowering tops; and with each new setback in the general market, Anaconda tends to fall to lower and lower levels until, in the week ended Nov. 3rd, the price is hovering exceedingly close to the July 26th danger point.

Here the stock is in a very critical position. Unless it can rally promptly away from this old low, there is again a strong probability that it will either be subjected to a shake-out or develop new weakness for a further decline. Hence we are unwilling to take a long position at this point.

On the other hand, in view of the upward trend of the general market we are unwilling to take a short position: (1) because the stock has been in a long down wave and so we do not wish to risk selling on this weakness and (2) because if it turns out that new weakness should develop here, the possibility of this proving to be a shake-out would mean that if we did sell short, we might be caught in the rebound which follows that phenomenon. Of course, a third reason for avoiding the short side is that the stock, having come down to the critical July supports, might rally immediately. And this rally might be quite swift because, by Nov, 3rd, the price movement has formed a distinct apex or hinge.

Here, then, we have a very excellent illustration of a situation in which we should be distinctly neutral. At the same time, we must not lose sight of the fact that the stock up to now has been showing many symptoms typical of accumulation. Thus, since its August rally, the price has been kept low and depressed and the daily volume of trading has remained fairly constant at a very low level. Furthermore, the price has now been moving laterally around the 10-11 range for more than three months. These conditions should by now have resulted in tiring out a substantial number of the buyers who are hung up in the stock at higher levels.

For the above reasons, we keep it under close observation watching for the buying opportunity that will develop if and when its future action finally confirms our tentative assumption that accumulation really has been taking place.

On Monday, Nov. 5th, the stock completes four days in a narrow range, on low volume, around the support point at 10. Its ability to hold thus for several sessions increases the chances for a rally. We estimate in advance that if a rally does develop it is likely to meet resistance first at the high point recorded in the week of Oct. 13th and next around the rally top of late September.

Therefore, when the price runs up abruptly in the next trading session, we are not surprised. But we do not regard this rebound as a bullish sign because its abrupt character gives it the appearance of a short-covering movement, hence an effervescent rally. In any event, if the stock is really ready to go into an advance it will give us clearer indications by the way it behaves when it tries to negotiate the September and October rally tops.

It shows weakness next day by failing to follow through the advantage of the previous session, on the same volume. Then it reacts, but volume falls off and the price closes up, near the high, indicating that the recession of Nov. 9th, was a technical setback. So we look for another rally effort. Over the next two sessions volume falls off as the price approaches the October rally top and the closing on the 13th is near the low, marking this day's action as an upthrust which has failed. (See Page 9, Par. 2, Line 5.) Apparently, its sponsors do not want the stock to go up yet and are checking the rally.

We now watch carefully because if the price should react normally toward the low at 10 with volume tapering off promptly, such behavior would put it in a good position to take off for another upward swing which might prove to be the beginning of a fair sized advance — for remember we have tentatively reached the conclusion that accumulation may have been taking place since the July selling climax. Hence, we are all set to buy if the stock behaves right.

But instead of receding halfway back to 10 on small volume and then leveling off — as it should do to give us a clear bullish indication — the stock starts downward rather easily on Nov. 14th. Volume remains comparatively high — a bearish indication confirmed by a steady downward drift over the next several sessions, which returns the price again to the critical 10 level. Next, an abrupt rally accompanied by climactic volume on the buying side, Nov. 26th. Then a week's reaction on diminishing volume. (This is the sort of behavior we were looking for around Nov. 10th to 17th.)

Once more, merely for the sake of a clearer illustration, let us assume that we take a long position, this time around 11 (Dec. 5th). We might do this on the basis of the following tentative bullish symptoms:- The price, having been supported at a slightly higher level on the reaction to Nov. 22nd and again on Dec. 4th, is beginning to evince a tendency to round upward; and during the last three weeks volume has tended to build up, running to somewhat larger proportions than during August, September and October. This relative increase suggests reviving interest on the bull side. As we can now purchase around 11 with a stop once more close to the danger point at 10, we regard a long commitment as a good business risk. For, if an advance should get under way here after nearly five months preparation, it should be sufficiently substantial to be worth going after.

Note that this assumption of a purchase is again made only to illustrate, and to emphasize, the importance of cutting possible losses short immediately and of running quickly when you find that you have made a premature decision or an incorrect diagnosis; or that you have overlooked some important contradictory evidence; or that the action of your stock subsequently fails to shape up as anticipated.

Actually, we are not ready to buy even yet, because while many of the symptoms of accumulation are present, other confirmatory indications which would give us the "go ahead signal" thus far have not appeared. For instance, the reaction to Dec. 4th over-ran the halfway mark. And an indication that is still notably lacking is the stock's ability to respond convincingly to strength in the market as a whole. Thus, whereas the Average has been recording progressively higher tops and higher supports since mid-September, Anaconda is still repeatedly falling back to or toward the supporting level. Since Aug. 13th, every rally has stopped short of the previous upswing, as at 13 3/8, 12 5/8, 12, 11 3/4, 11 1/2 and 11 3/8.

Under these conditions we must recognize that if it tries to advance now, in December, it probably will have serious difficulty contending with the old resistance area, 14-17, to which has been added the additional resistance created by the supply generated between say 12 and 13 1/2, in consequence of the abortive August rise. Therefore, we should have to be prepared promptly to close out a position, taken around $11 on Dec. 5th, if the action of the stock subsequently shows that its sponsors are unwilling to carry it through these overhanging offerings.

The appearance of climactic volume as the stock strikes the old September resistance point on Dec. 6th and 7th, makes us wary of the bull side. The gain in price is not in proportion with the expansion of volume — a bearish indication strongly confirmed when the stock falls back sharply, Dec. 8th, to wipe out that Dec. 7th peak-volume price-bulge. Assuming we wish to wait for further indications of weakness we might allow the stock to fall back halfway to its last low point, namely, 10 1/2, to see how it will behave after a normal correction of the preceding rally. But when it shows confirmatory weakness in reacting beyond the halfway mark we must get out of our long stock, if any, without further ado.

During the next several weeks behavior is inconclusive, continuing about as it has been heretofore. Volume increases abruptly, but only spasmodically, from time to time, invariably coming in on the top of rallies after which the price promptly sinks back, staying persistently and suspiciously close to the supporting line of 10 to 11 notwithstanding a steady advance in the general market.

Again reviewing the situation broadly as it stands around the latter part of February, our impression of its action is that the stock's sponsors have been quietly accumulating, occasionally bidding the price up to get what quantities they cannot acquire around the extreme bottom, promptly checking all rallies produced by such demand in order to keep the price low and depressed. And, after each such buying flurry, the bids are pulled out. The stock is allowed to settle back and turn dull thus discouraging, public interest and the boardroom and other traders who are hooked in on these and former bulges. Expressed another way, we reason that an outside following evidently is attracted on the occasional rallies because volume increases suddenly on every upward surge, but the sponsors easily succeed in getting rid of this unwanted company by allowing the price to sag repeatedly thereby wearing out the premature bulls (Sect, 9M, Pg. 2, Par. 6).

On Feb. 18th there is another of these abrupt rallies accompanied by peak volume, a rally manifestly induced by the sudden rise of the general market. But after that the stock shows acute weakness by drifting downward rapidly until Feb. 23rd where an almost complete lack of rallying power warns us the long expected shake-out may be imminent. And on Feb. 26th it noses downward sharply, as anticipated.

We cannot be sure this drive is merely a shake-out because the price has now broken through all established supports. Also, we must take into consideration the fact that the general market has now become acutely weak and gives evidence of a downward trend of some proportions. It is unlikely that Anaconda will go against this trend decisively all by itself. So we wait to see what this new weakness may portend.

At first, it looks as if the Feb. 26th slump might really prove to be a shake-out since, over the next four sessions, the stock immediately climbs back into the 10-11 range, recording a series of higher bottoms, higher tops and higher closings, though on gradually diminishing volume.

Meanwhile, the rally in our Composite Average has been very feeble, cautioning us to expect a further slump. Therefore, considering that Anaconda, up to March 2nd, has had the equivalent of a part-way recovery during which volume has been falling off; and that by running into the lower fringes of the long trading zone of 10-12, this rally has brought it into a strong resistance area, we continue to hold off awaiting further developments.

Additional weakness is indicated by inability to develop any rallying power after the price has returned to the former supporting level,. Mar. 12th. This warns us to anticipate another downward plunge which is likely to carry it to a new low. But early in the week ended March 16th, the decline is sharply accelerated and on the 13th there is an indication of a minor selling climax.

Now observe how, over the next several days, the price holds in a very narrow range around this low point thereby inferring that downward progress has been checked. On the 15th, it rallies rather vigorously, closing at the high on relatively large volume. A very significant feature of this behavior is that while the Composite Average continues to record a series of lower bottoms during these three days, Anaconda is no longer participating in the market's weakness (Sect. 8M, Pg. 1, Pars. 3 to 5 and Pg. 10, end of Par. 3).

Here we reappraise the whole situation in its broadest aspects once more, concluding that the down swing from Feb. 23rd to Mar. 13th may, in fact, have completed the accumulation which seemingly has been under way ever since September and possibly as far back as the selling climax of July 26th. Viewed thus broadly, we reason further that the slump to March 13th very probably was in the nature of a prolonged shake-out which has now placed the stock in a strong technical position, marking the culmination of Phase I (Sect. 16M, Pg. 1, Par. 1) of a market campaign. Phase II should begin presently.

Since July the price has declined about 7 points, a very substantial shrinkage for such a low priced stock — nearly 50%. The speed of the drop through 10 was such as to frighten even the most rugged holders into unloading, especially those who were lulled into a false sense of security because the stock so often heretofore rallied from that critical level. Also, chances are that a lot of stops were caught on the break-through thus cleaning out more weak holders. Hence, if our interpretation of the action to date is sound the stock must now be in strong hands.

On the basis of the above general and detailed deductions we decide that now, at long last, we have a complete set of bullish symptoms and hence good grounds for taking a long position without qualifications or delay. Additional reasons for so doing are that the bag holding for frightened sellers (indicated by three days' lateral movement in a half-point range on relatively large volume, March 13th to 15th) in the face of general weakness elsewhere, puts the stock in the springboard position. That is, it will require only a small rise to break the downward stride in effect since Feb. 18th, in other words, the supply line K-M-O. Also, the precipitous decline from 11 3/4 to 8 has probably created an oversold condition; and around 8 the price is pulling away from the oversold position line L-N.

The strong probability now is that having engineered a terminal shake-out, the interests who have accumulated the stock will not give the shorts any opportunity to cover nor the sold-out bulls any chance to get back in on reactions again. Which is to say, they are likely now to move the price upward rather steadily and persistently in order to lock in the shorts and lock out potential buyers so that after the advance has run far enough to encounter resistance, they will have this potential buying power available to aid them in furthering the marking-up phase of their campaign. (Sect. 17M, Pg. 8, Par. 3.)

Accordingly, if we did not buy on the evidence of the selling climax around 8 to 8 1/2, we do so either between March 18th to 20th, or around 9, at the point where the stock comes out of the down trend supply line K-M-O. Our stop on any one of these trades, of course, should be at about 7 3/8, approximately 1/2 point under the extreme low point. We are taking a very small risk because if our analysis is correct, the stock should start upward without material delay or reaction (Sect. 9M, Pg. 3, Par. 1 & Pg. 5, Par. 1); and if we are wrong, the loss involved in being stopped out will be too small to bother us or 'prevent us from trying again at the next favorable opportunity.

However, we are not wrong. On the contrary, the stock's behavior fully confirms our position by recording a series of persistently rising supports and rising tops accompanied by higher closings from March 18th to 23rd. Thus it advances as we expected it would. The light volume does not alarm us. Instead, it serves to strengthen our bullish conclusions because, under the circumstances as we reviewed them from the top of Page 19 onward, this light volume most probably signifies a scarcity of supply rather than a poor quality of demand; and past experience tells us that such light volume is a normal characteristic at this stage of a bull campaign. The managers do not want activity in the stock now. They do not wish to advertise it and attract an unwanted public following at these low levels. The public will be coaxed to come in later.

Briefly stated, the vigor of the rise from March 18th to 23rd contradicts our first natural inclination to believe that the price is rallying on small volume (which would be bearish), and warns us to reconsider this volume manifestation in the light of the conclusions we have otherwise drawn. So reconsidered it is apparent that the stock is advancing because offerings have become scarce, hence the inference is bullish. This, in turn, strengthens our convictions that the stock has been thoroughly prepared for a very important advance inasmuch as tentative symptoms of accumulation have been present for eight months. If our deductions are correct and the advance is really starting, volume should begin to build up <u>after</u> the price has risen some distance away from the low point (Sect. 10M, Pg. 5, Par. 2 to middle of Pg. 6; Sect. 19M, Pg. 13, Last Par.). Likewise, it should move in harmony with or faster than the advance now getting under way in the market as a whole. The stock has been properly groomed to take a leadership position in that advance whereas heretofore, it wasn't ready.

Again it justifies expectations by recovering to 10 1/2, March 28th. Volume, formerly erratic, now builds up more consistently. We sit tight as the price reaches 10 1/2-10 5/8, anticipating a little resistance here because it is encountering the offerings created by .premature buying around the old supporting level at 10-10 1/2. But at this point there is only a brief three-day setback on which volume immediately shrinks to very small proportions — distinctly bullish behavior. Those who want to get out may do so but the sponsors, obviously, are not selling. On the third day of the setback the price bounds away from the low point to close near the high for that session, confirming the strength. This gives us a new buying point if we wish to add to our line.

Then the advance is resumed with volume again building up steadily as the upward movement progresses. On returning to the old highs around 12 to 12 1/2, in the week ended Apr. 20th, the range again promptly narrows and volume immediately falls off during a shallow recession, telling us in advance that the offerings around those old tops were either dislodged in the Feb.-March slump, or they are being absorbed — the stock is in the second springboard position from whence we should expect the marking up phase to develop actively. (Note how it stays well above our trend support line P-R-S. Compare, its behavior on the two small setbacks, to Apr. 3rd and 18th, with U. S. Steel in Jan., 1937, Sect. 8M, Pg. 17. Compare also with observations in Footnote, Sect. 7M, Pg, 8.)

Therefore, instead of regarding the abnormally high volume of Apr. 25th as a climaxing indication, we read this to mean that the sponsors are taking all of the offerings encountered on the way up from 12 to 13 1/2 (Sect. 7M, Pg. 16, Pars. 1-3 of Footnote). Our reasons for this interpretation are: (l) The price movement shows a marked increase in spread from high to low, almost 2 points, and so by comparison with previous performance registers a gain in proportion with the expansion of volume; (2) In view of the extent of previous preparation it is unlikely the managers of the stock will be satisfied to distribute after a rise of only 5 1/2 points from the low; (3) Having reached the active marking up stage-of the campaign they are now "wading through" all resistance in order to get the stock up to its objective.

From here on volume runs to much higher proportions than during the period of accumulation, since public interest is aroused by the sudden burst of strength, April 25th, and by the great activity. (Sect. 14M, Pg. 10, Par. 1.) These outside buyers and the boardroom traders who have jumped in on impulse, as a result of seeing Anaconda "all over the tape," are given a dose of discouragement when it flattens out more or less over the next ten sessions. At the same time, the shorts and the bulls who missed the boat in March and earlier April are still given no chance to repair their blunder. That is, while the stock is resting to discourage the more recent buyers on the run-up to around 14, it is not allowed to react enough to let the second crowd (locked-in shorts and sold-out bulls) get aboard on a worth while reaction.

And so the marking-up phase continues with alternating fast upthrusts and resting spells until May 16th when a peak volume tells us to be on the alert for a possible change. The advance may be culminating, at least for the time being. A 10-point rise has more than doubled the price within the comparatively short space of two months and the advance is now pitched at a steep upward angle — observe the readjusted trend lines R-T-U and V-W.

Having raised our stop to keep it about one point under each of the successive reaction lows of Apr. 3rd, Apr. 18th and May 8th, we must now decide whether we wish to close out our long position on a strong up wave, or bring our stop up to a point a little under the halfway reaction mark (between the high of 18 and the last point of support at 15 1/8, recorded May 15th) while we watch for confirmatory indications of distribution or evidence of unimpaired strength.

On May 17th, we witness an upthrust which fails, the closing for that session being on the bottom. Volume remains comparatively high but the total gain in price is less than 1 point and the net gain only 1/8 point compared with nearly 2 points the day before: the advance is losing momentum — supply is overcoming demand.

A small two-day reaction accompanied by marked shrinkage in volume forecasts another rally which will give us the up wave we have been waiting for to close out our long position. Three days' higher bottoms, tops and closings bring the price into new high ground but only by a small fraction and volume no longer is measuring up to the former standard, showing that demand has been pretty well exhausted. Looking back briefly, we see the stock has now spent six days around the 17-18 level without making material progress on relatively large volume. The weakening force of demand and the increasing force of supply are causing a lateral movement which means that any pronounced reaction at this juncture would break the sharp angle of the last phase of the upward stride. (Sect. 15M, Pg. 2, Par. 3; Sect. 7M, Pg. 23, Par. 2.)

On May 27th the stock is on the hinge, having reached a dead center in the range 18-16 1/2. If we did not sell short on the last bulge to 18 and a fraction, we do so here with our stop say one point above the extreme high of May, figuring that the advance is over for the present and there is likely to be a fair-sized reaction to correct the March-May advance, if not a more important change of trend.

Extremely heavy volume on the reaction May 28th indicates that the sponsors of the stock, having worked it up to a high level and distributed part of their line around the high points, are now completing their distributive campaign by unloading on the way down. That is, they are filling up all of the buyers who wait for just such reactions, buyers who believe that because the stock was recently around 18 it ought to be cheap when it reacts a point or so. These last minute bulls, having failed to get in around the logical buying points in March and having feared to buy it on the way up, now erroneously assume they are finally getting aboard on the very reaction which is designed to take advantage of just such disregard for indications that should .be plain to any trained observer.

Meanwhile, we, observing that the setback from 18 is proceeding rather rapidly (May 28th to June 1st), conclude the stock is falling into an oversold position (Sect. 7M, Pg. 12, Par. 2). Hence, we look for support either in the upper fringes of the little trading shelf which developed early in May, or failing that next around 13 and a fraction where the stock was supported twice before, April 29th and May 8th.

Sharply diminishing volume, May 31st and June 1st, indicates lessening of the selling pressure. A closing at the top, June 1st, marks the failure of a further downward thrust which brings a quick rebound after the decline (or re-action) has been extended into the early May congestion area between 13 1/8 and 14 3/4. This action warns us of a probable minor turning point; the reaction is over and a rally is coming. A quick, two-day run-up, June 3rd and 4th, completes a normal or 50% recovery of the preceding loss (from 18 to 14). Volume remains constant at a comparatively low level on the rally (to June 4th) identifying it as a technical rebound. During the next three sessions falling volume on a dip back to 14 5/8 says there should be another rally effort, though the setback to June 7th carries a suggestion of weakness in running slightly beyond the limits of a halfway reaction. A sharp return to the high point at 16 1/8 is accompanied by a relatively large volume for a short Saturday session. So we conclude this sudden bulge is in the nature of a buying climax on the ground that, had the market been open for a full 5-hour session, volume on the basis of the two hours' turnover would have been approximately twice as great (see Footnote, Sect. 19M, Pg. 8.) Hesitation on the 10th and increased volume next day, on which the stock is unable to make further progress through the resistance at 16 1/8, imply that the recovery movement from the June 1st low is meeting a superior force of supply. A small recession over the next three days followed by small recovery to a slightly lower top on diminishing volume, confirms our expectations of a setback saying, as it does, that demand is dying out around the rally tops. Furthermore, the stock appears to be working out into a hinge position again. In view of the bearish price movement and volume relationships, a down turn out of this hinge must be anticipated which is likely to afford us a test of the June 1st support.

Reaction over the next four days is very abrupt. Hence, the stock develops an oversold position as the price touches the former June 1st supporting point, foreshadowing another rally effort. Also, observe that the volume surge of June 20th accompanied by a high closing after the stock reaches a new low on this recession, helps us to recognize this behavior as the climax of the reaction (see Pg. 25, Par. 1).

Having reduced the stop on our short position to a fraction above the mid-June rally top (when the stock slumped on June 17th) we now reduce it again say to 15 5/8 in order to allow for another 50% recovery of the immediately preceding decline. Lower tops on the rallies since the 18 level was reached suggest the stock may be in a down trend, brought about by the distribution in the range 17-18; likewise it is no longer responding well to a new advance in the Composite Average. But it has now been supported a second time around 14 and climactic volume on the reaction to June 19th indicates that the bag is being held for whatever selling is coming in here.

Accordingly, we must consider whether the reaction from 18 to 14 really represents a down trend or merely a correction of the long rise from 8 to 18. It may be that this reaction is a less than normal setback on which the stock is being reabsorbed, that is, consolidating its position in preparation for a new advance with the rest of the market. The way it behaves during the next few rallies and reactions should tell us what to expect.

A normal rally, June 22nd and 24th, dies out on low volume, cautioning us to look for more recession. A great deal now depends on how the stock acts when it returns to the supporting level. So when the 3-day recession, to June 26th, dies out with volume tapering off we read this to mean that there is not sufficient new supply, of pressure, on the stock to break the old supporting points. And, since the price now appears to be working out into another hinge position where it would require only a small rally to break the downward stride in effect since the May top was reached, we cover our shorts and reestablish our long position anticipating the development of a new springboard position, reasoning that the stage is all set for a new advance. As we can buy on a down wave here at a point where our risk can be limited with a close stop under the low points of May 7th, 30th and June 9th, we have an ideal buying opportunity.

Climactic volume on a further downward thrust, which is promptly checked around the former lows, June 27th, confirms the bullish indications. Prompt narrowing of the price range (June 28th & 29th, and July 1st) along with extreme shrinkage in volume, substantiates the change to strength and gives us our chance to buy almost at the bottom, around 14, on the extreme dullness here, dullness characteristic of the ending of one phase of a movement and the beginning of a new, i.e., the end of a chapter on the down side (Sect. 14M, Pg. 8, Par. 1).

If our previous conclusions are correct, and reabsorption has been occurring around 14-16, this drift into dullness means an almost immediate resumption of the advance and the simultaneous breaking out into a springboard position.(*)

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* It is important to recognize that, in a leveling-off movement of the sort now occurring in Anaconda, <u>the behavior</u> of the stock or an average in such a trading zone is what enables us to gauge its probable meaning. In other words, it is highly unsafe to jump at conclusions and to say that the stock will go up merely because you <u>guess</u> it is forming a base, or to say it will go down because you <u>guess</u> it is developing a new zone of supply.

For instance, note that the action of Anaconda during and after the distribution around 16-18, in many respects, is similar to the action of the N. Y. Times average as discussed in Section 7M, Page 10 through the top of Page 14. But, whereas the behavior of the average continued bearish after the decline to March 4, 1950, we now (June 26, 1934) see many symptoms in the behavior of Anaconda which tell us that instead of preparing for a further decline, the stock more probably is being groomed for another advance.

Though a considerable quantity of stock was distributed on the rise to 18, the interests operating in Anaconda have seen an opportunity to reaccumulate and begin a new bull campaign — or perhaps the first operator is out of it and another crowd is absorbing the stock, believing it can be lifted through the previous 18 level to a still higher objective.

The late buyers who were loaded up with stocks in the range 16-18 have been scared into unloading on the dullness and (as they think) weakness of June.

Moderately increasing volume on a comparatively vigorous rally, July 2nd, clinches our bullish conclusions. Reaction to a fractionally higher support is followed by a prompt recovery next day, as indicated by the high closing — bullish performance.

Another settling into extreme dullness, narrow range and narrow volume, July 5th, 6th and 8th, says the stock has become scarce, since it holds easily at a higher support. The weak holders are all out. This view is confirmed rather decisively, July 9th, by a quick run-up, a closing at the top and increasing volume. If, by any chance, we should mistake this for a buying climax, by waiting another day or two for confirmation, we would see that our first impression was erroneous because the price continued to advance immediately. Also, the stock is again responsive to bullish action in the Average. Shortening upward thrusts and a slight decrease in volume, July 10th to 13th, prepare us for probable hesitation and possible reaction when the price returns to the June rally top around 16 and a fraction.

However, the demand here seems fairly persistent as denoted by a series of higher tops and higher bottoms in a very narrow price range. Then, on July 15th, there is a sharp increase in volume which we take to mean that the sponsors are absorbing whatever offerings remain around the 16 high point. If we are in doubt about this interpretation and inclined to regard the volume surge of the 15th as a buying climax, we may raise the stop on our purchase at 14 to cost and wait for further indications. A further edging up brings the price movement out to a very distinct point or apex, July 17th. Three days' lack of progress here suggests a reaction which comes as anticipated on the 19th and 20th but volume immediately shrinks, a bullish sign. Accordingly, we hold our long position though we do not know that this reaction is over yet. But when the price starts up again, July 22nd, and in the next two days edges still higher with volume building up once more as it rallies, we are able to look back and see that the reaction (to the 20th) was extremely shallow, much less than normal. Hence the high volume of July 15th was indeed absorption of overhanging offerings and so, in retrospect, it becomes apparent that our indications are all consistently bullish to date. During the next several sessions there is more hesitation. However, volume increases on rally days and shrinks on reactionary days while the price is held stubbornly against the old distribution range, 16 1/2-18, where the stock, of course, is called upon to absorb offerings from the buyers who are now anxious to get out even.

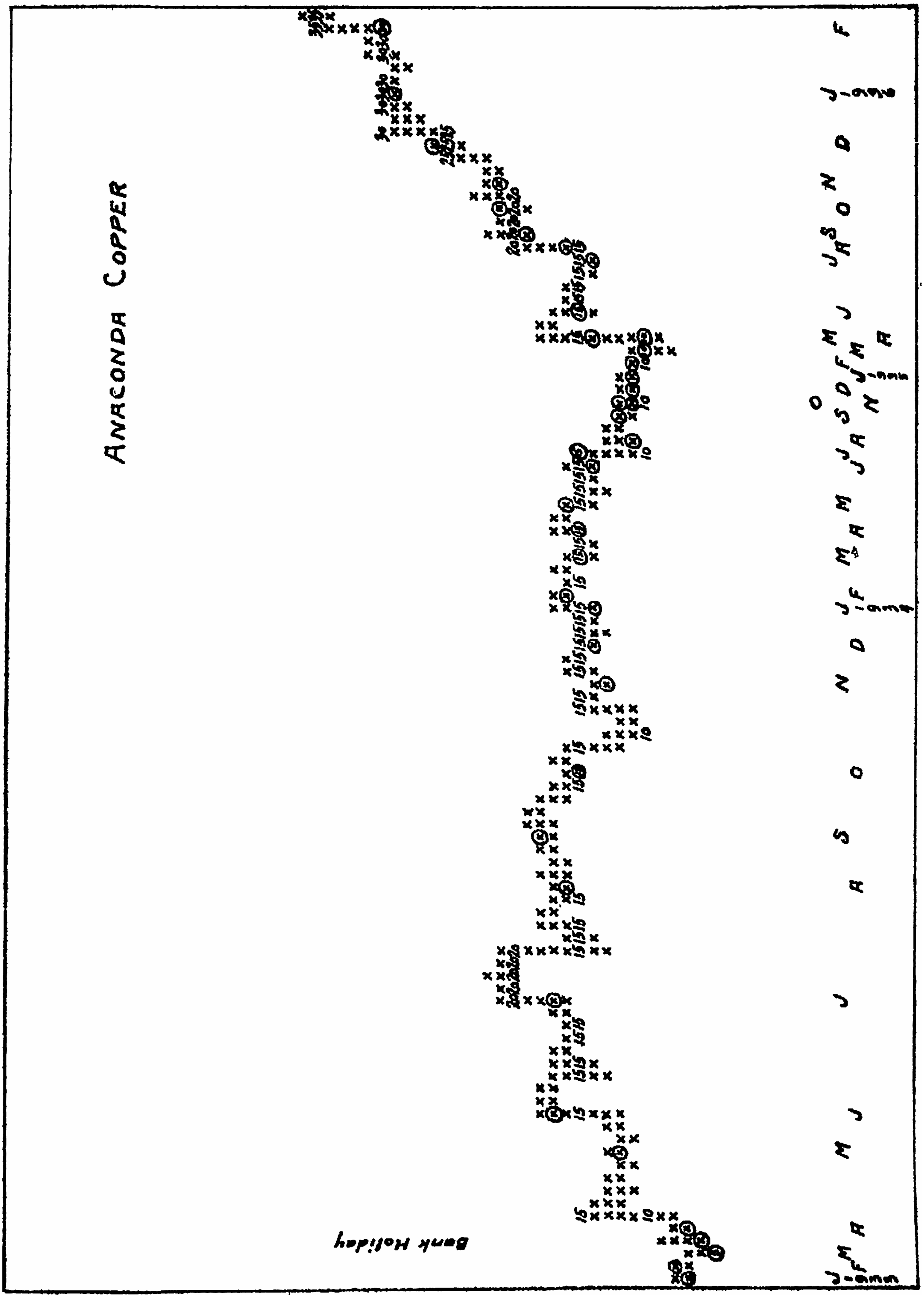
But up to August 3rd, the narrowing range and shrinking volume again tell us the stock is ready for another upward movement and since it has now spent three weeks or more absorbing the offerings which were existent around the May tops, the next maneuver probably will be an active mark-up. (Sect. 7M, Pg. 7, Par. 2 and Pg. 8, Par. 1 including Footnote.)

Henceforth, the indications are all obviously bullish, gradually expanding volume indicating a revival of interest in the stock. The rise is temporarily checked by a three-day buying climax beginning Aug. 20th, but the ensuing reaction (to Aug. 31st) is accompanied by a prompt shrinkage in volume and the down swing levels off about where we would expect it should, namely, in the vicinity of the May high points between 17-18. From here on it is a steady upward march to 30 where the advance is interrupted by a corrective reaction and reabsorption in the range of 26-30. This reabsorption eventually carried the stock up to 39 3/4 in April, 1936, where the move culminated temporarily with the topping out of the general market.

The above illustration demonstrates how you should read a vertical line chart and how volume studies should be employed in conjunction with price movement phenomena. It will be noted that the method of reasoning is identical with that used in the case of the trend chart of a general market average (Sect. 7M). But we especially wish to emphasize here how volume studies and the factor of comparative strength and weakness aid us to judge WHEN a stock is ready to move and WHEN it has completed its preparation for a move. The skilful trader and investor, by exercising patience and avoiding commitments in stocks until they are thus ready to move, materially increases the percentage of accuracy of his trades, reduces the risk of loss and, above all, avoids being tied up in stocks which will not move even in the strongest bull market. Failure to recognize the vital importance of proper timing and proper selection of stocks is probably a more productive cause of disaster to the majority of investors than any other»

Few people understand how to read vertical charts properly. That is decidedly to your advantage because if you will take the time and trouble properly to learn the principles outlined herein, you will be playing the game as large operators do — with and not against the insiders; and against instead of with, the public and the vast majority of uninformed boardroom traders.

Furthermore, you will be able to develop that flexibility of mind and capacity to anticipate the changes from strength to weakness and weakness to strength which occur at vital turning points, before the change of trend has developed to such an extent that you are no longer able to buy or sell with close stops. Operating in the way herein advocated, using good judgment, you should find that even though three out of five of your commitments may be started incorrectly and result in loss, you will still be able to make substantial profits because on the three losing trades your loss will have been limited to very small proportions; whereas, on the two successful ones you will let your profits run until you have extracted the maximum possible gain. Thus, even though your judgment might prove to be only 40% accurate, still with proper limitation of risk, logical timing and careful selection, it is no exaggeration to say that you should be able to secure a net return of from 20% to 45% or more per annum on your capital.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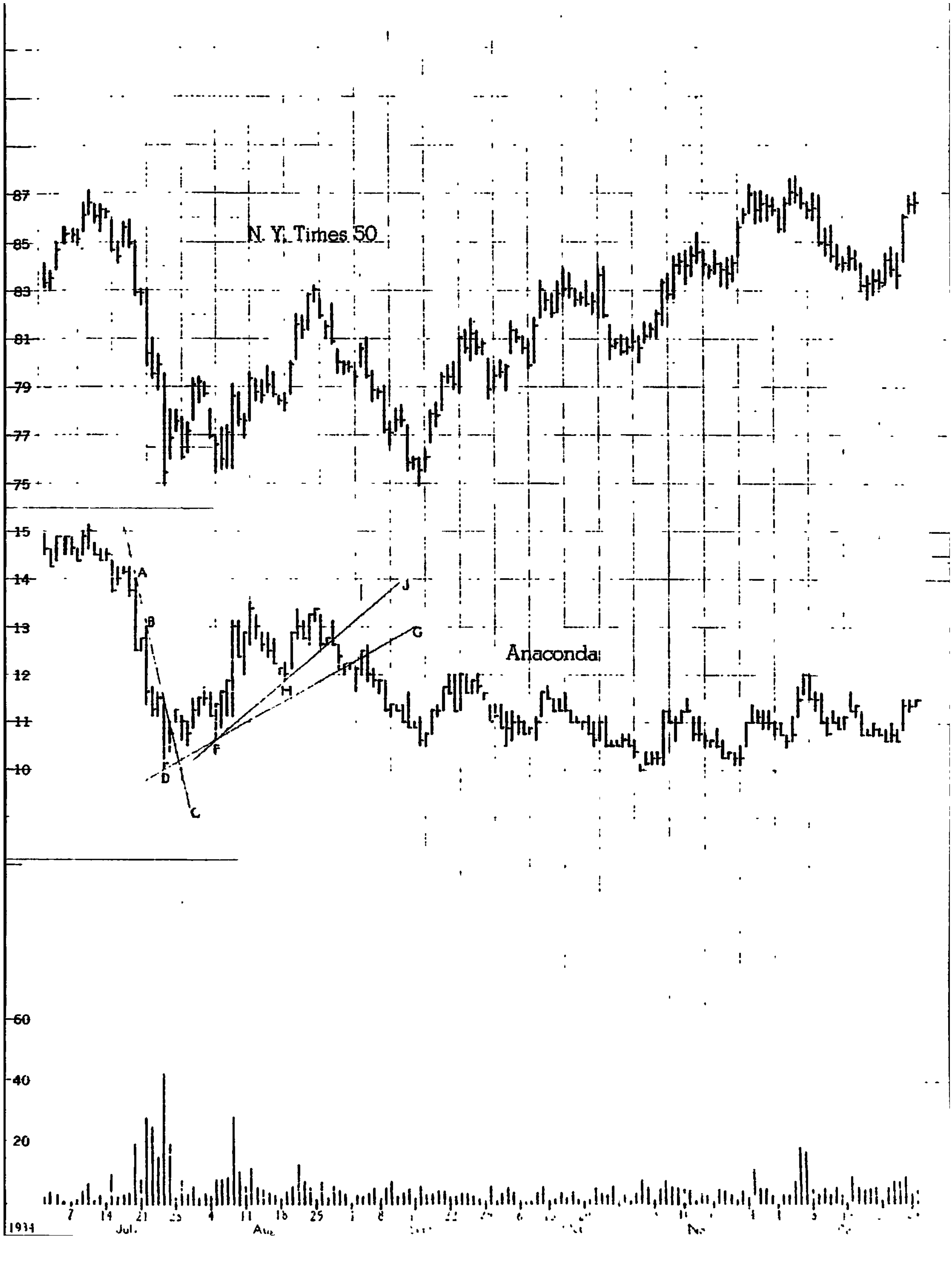

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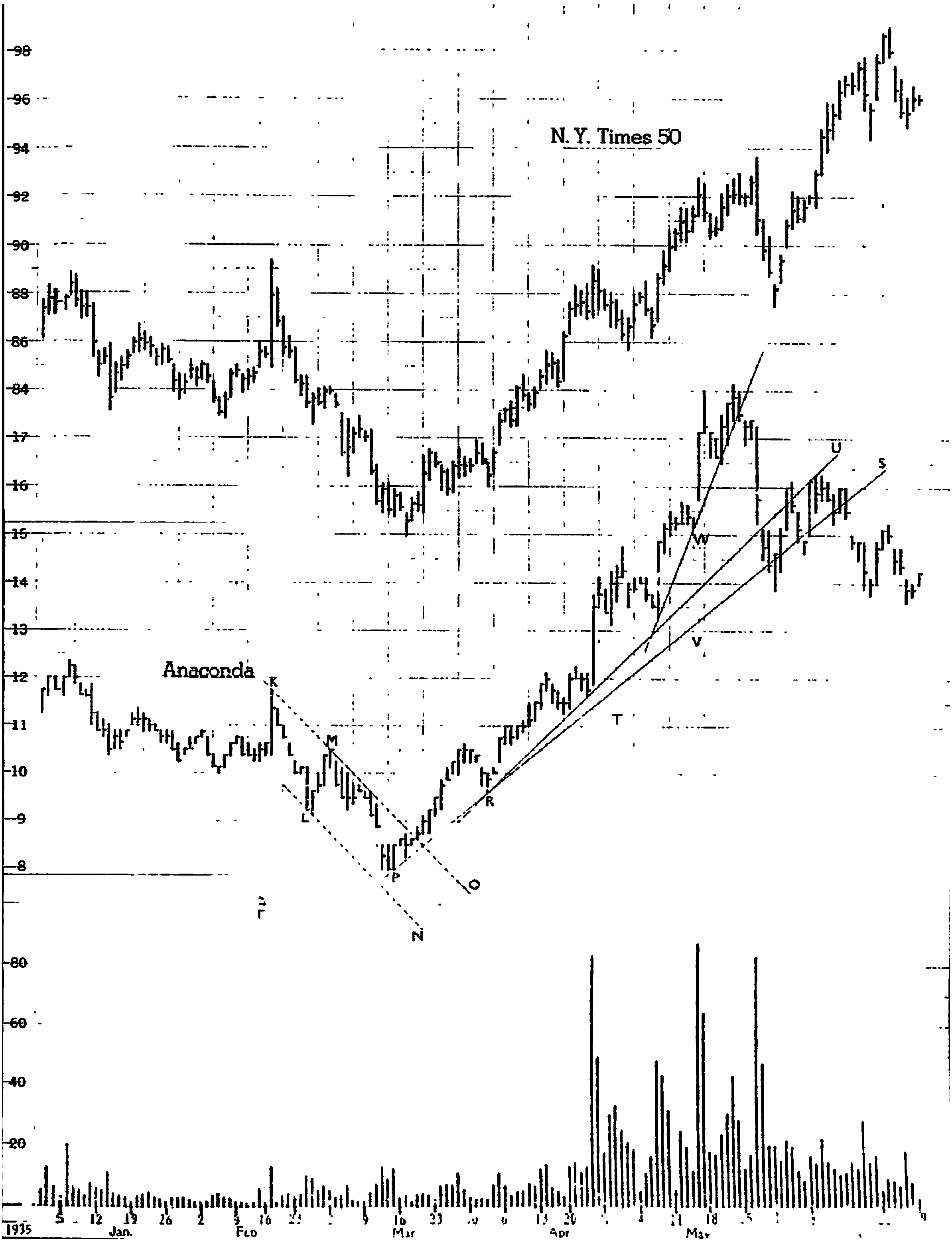
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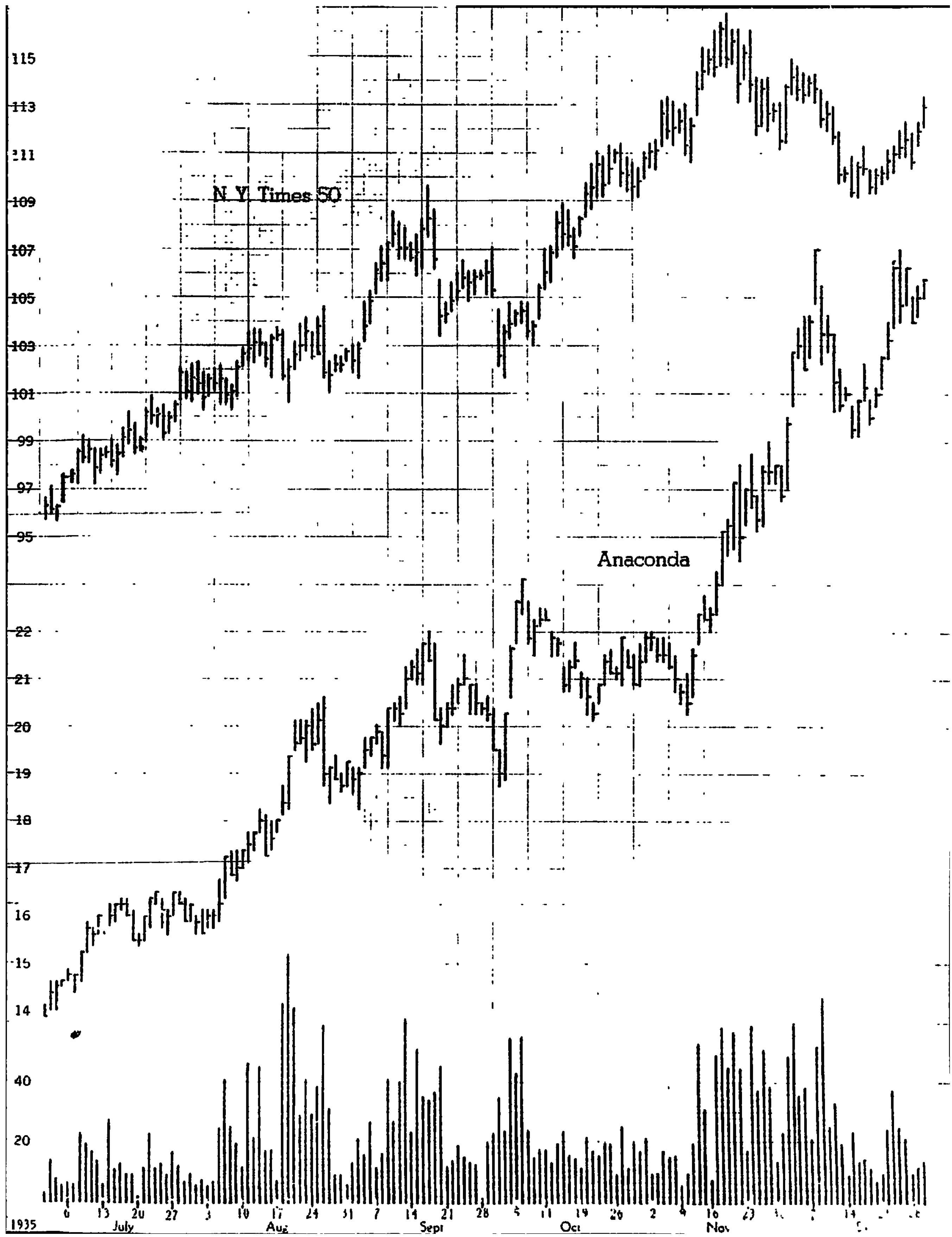
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INDIVIDUAL CHART STUDIES — PART VII

VERTICAL CHARTS

Our study of Anaconda — by concentrating on the one type of chart — was intended to focus your attention upon the principles to be followed in the use of the vertical chart alone; as well as to show how you can make an intelligent analysis of very low priced stocks for which it is usually impractical to employ, a figure chart because, for such issues, the figure chart is apt to be much too insensitive to give clear cut or timely indications. As a matter of fact, for reasons given elsewhere (Sect. 14M, Pg. 13, Par. 4) and popular belief to the contrary notwithstanding, relatively more experience, care and skill are required for successful speculation in very low priced stocks than in the actively sponsored higher priced issues as, for instance, old stand-bys like U. S. Steel.

At any rate, best results are secured when vertical charts and figure charts are used in combination. Figure charts afford a valuable insight to the probable distance a stock will move and hence provide the means of enabling us to make a complete and coordinated diagnosis — hence more effective forecasts.

The method of coordinating the study of both charts is the subject of our next illustration. For the purpose thereof we shall begin by assuming that it is now early June, 1936. Our trend chart (N. Y. Times Average, Pg. 20) shows the market to be headed for a strong further advance and we, having just arrived upon the scene, are searching out the stocks that may have been resting or those that have not yet participated fully in this phase of the bull market cycle.

From our 1 point chart of the Utilities Group (Pg. 23), we observe that this average appears to be on the hinge at 30-31, having ended the month of May with a rally to 31 after meeting support around the December 1935 absorption area of 28-29. Our Utilities Trend Chart (Pg. 20) shows the same thing, but brings out other conditions which are not apparent on the figure chart. Thus, the vertical chart reveals that the down trend from 35 (figure chart, Pg. 23) was initiated with a well defined buying climax, Feb. 17th, after which rallies were repeatedly stopped around the 33 level. By Apr. 30th, the group had worked out the force of this supply (four points across the 33 level) and mild symptoms of bag-holding for panicky sellers appeared in the period Apr. 27th to 30th synonymously with more decisive (indications of a turning point in the general market (see vertical charts, Pg. 20).

Around this level the 1 point chart of the Utilities Group formed a line of three entries at 30, indicating a rally to 32 which was made good May 27th (see vertical chart). Price movement and volume indications were bullish from May 2nd to 26th. On the latter date, a buying climax developed. But how (June 6th) we see that volume has been shrinking to very small proportions on a shallow recession — still bullish — and this brings the average to a dead center, forming the hinge previously mentioned, at 30-31.

With this much background, we now (June 6th) decide that the group is all set for a further quick move upward. Reexamining the 1 point chart, we find a line of five entries across the 31 level (March to June) indicating 34-36 as the next objective, and possibly 36-38 based upon the wider line of seven 31s (Jan. to June), provided no contradictory evidence appears in the meantime. Going back a little further and considering the line of ten 29s from November to May as a supporting level, we discover reasonable confirmation of the 38 objective. (*)

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* As a matter of instructive interest, it is worth noting that if we treat the drop from 22 to 15 (July, 1934 - Jan., 1935) as an extended shake-out, (Sect. 21M, Pg. 2, Par. 3) and hence consider the line of fourteen 22s (May, 1934 to Aug., 1935) as the main supporting level here, an optimistic estimate would give 56 as the maximum objective of this old accumulation area. The later absorption zones of 28-29 and 29-31, above mentioned, thus have done nothing more than substantially to confirm — but not materially raise — this originally indicated objective.

As of June 6th, with other stocks and groups of stocks in much better positions, we see little in this promised five to seven point rise to inspire great enthusiasm for Utilities as a group. At the same time, we recognize the probability that such a rise means some individual utility stocks are very likely to advance considerably more than the average. So there may be an opportunity here provided we can discover an issue or issues in preferred positions.

Accordingly, we thumb through our figure charts and by casual inspection single out Electric Power & Light (EL) as a stock that so far has shown relatively more strength than weakness. We study this chart (Pg. 23) in order to get a proper perspective of its recent behavior and background.

In March, 1936, it advanced to 16, thereby exhausting the indication of the base formation at the 5 level, 1934 to 1936, (14 points across added to the low point at 2). Since then, however, the price has not carried out the implications of heavy distribution around 15-16 (see vert. chart, Pg. 24). Despite the broadening formation in the range 14-16 (figure chart) the price has receded stubbornly and even during the April slump in the market and its group, the stock refused to react as much as halfway back to the last supporting point at 8. Likewise, when its group rallied to a lower top at 32 in May this stock showed comparative strength and hence a tendency to follow the general market, breaking away from the sluggish influence of its group by returning to the previous high point around 16. From this we conclude that the lateral movement (on the figure chart in the range 13-16) may turn out to be reabsorption, or consolidation of the advance from 2 to 16, instead of a supply zone.

Therefore, we keep EL under observation for confirmatory bullish symptoms. So far, as stated, it has behaved well, exhibiting more strength than weakness. As of June 6th, it appears to be on the springboard (vertical chart) but a review of volume behavior since March tells us that large offerings are likely to be encountered around 16 — it probably will have difficulty negotiating the resistance there. So while our preliminary studies have led us to select the stock for a possible purchase, we decide our choice may be premature — we may have to discard it, depending upon what develops in the next few sessions.

An abrupt volume surge, June 9th, admonishes us to become increasingly careful: if it is going through on the up side to make good immediately the 8 point advance which seems promised by the figure chart, the apparent marking up should continue forthwith on sustained volume, or at least it should not react enough to lose its momentum. An additional reason for distrusting our first bullish impressions is that the small spread from high to low on the abnormal volume of June 9th suggests lack of buoyancy, in other words, heavy churning without proportionate progress — hence an effervescent bulge rather than the beginning of a legitimate advance.

The probability that this is another false start, like that of Apr. 15th, is strongly confirmed when volume immediately fades away over the next few days and the stock then becomes sluggish, although the rest of the market is advancing aggressively.

Accordingly, we decide that until its action becomes more decisively encouraging, we shall have to search elsewhere among better behaving groups for stocks that are likely to experience worth while moves. Our reasons are, that in view of the number of times EL has approached the 16 level and failed to overcome the resistance there, and in view of the repetition of peak Volumes on each of these approaches, we should require pretty convincing evidence of a change in its habits to convince us that it can get going on the up side, despite the fact that our 1 point figure chart now shows nine entries in the 14-16 range.

For the purpose of this study, however, assume that we continue to keep our vertical chart up to date daily. As the days pass there comes a reaction to 14 7/8, June 25th, which is a little more than we should like to see if the stock is to make another nearby assault on the barrier at 16. Also, volume shows a tendency to expand on the dips, June 18th and 25th. July 1st brings a sudden increase on a recovery to the 16 level. Then volume expands gradually as the price rises to a new high at 17 5/8 (Pg. 25). Though it may seem as if this puts the stock on the springboard we doubt it because: (1) the turnover from July 1st to 9th is relatively light for EL (22,000 to 33,000 shares a day compared with 40,000 to 90,000 on the Jan.-Feb. advance), indicating that the rise to 17 like its predecessor of Juno 9th may not have enough momentum to overcome offerings generated on culmination of the rise in March when a turnover of approximately 92,000, 74,000, 73,000 and 71,000 shares occurred over four successive sessions, March 12th, 13th, 14th and 16th; (2) because on a volume of about 35,000 shares July 9th, the stock recorded a smaller relative gain than on 25,000 shares the previous day, the smaller gain on increased volume indicating disproportionate progress, that is, supply overcoming demand; (3) inability promptly to follow up the advantage of the breakthrough into new high ground with a vigorous mark up either in harmony with an aggressive advance in the general market, or in harmony with further upward progress in the Utilities Average which is now evidently endeavoring to make good our forecast of a rise to 36-38 (Pg. 2, Par. 2).

On the basis of these conditions, the volume surge of July 9th must be construed as a buying climax. Diminishing volume and narrow range over the next five sessions indicates a lessening of demand at the top of the rally — all of which foreshadows a reaction aid warns us again to avoid this stock. If it will not move upward in sympathy with a strong market, there is danger: it will react; decline more than the average if and when a reaction overtakes the market as a whole; or it may individually move counter to the main trend. In any event, we do not wish to take a position in any issue until, by its own action, it tells us plainly that it is ready to move decisively.

From July 14th to 24th a series of lowering tops and bottoms, generally lower closings, and very narrow swings, indicate a lack of aggressive support and a disposition to let the stock drift. Volume diminishes steadily as the price recedes. This at first glance might be interpreted as bullish behavior but for the fact that bulges to the 16-17 level have repeatedly climaxed on abnormal volume surges (April 15th, May 27th, June 9th and July 9th). Hence we must conclude this light volume represents discouraged selling on the part of a public following which has been disappointed by the repeated failure of numerous abortive rallies to follow through. Or, to look at the stock's action in another light, its sponsor's wish to shake off an unwanted public following acquired in the March upward push to 16 by dumping stock on every subsequent bulge (Sect. 16M, Pg. 4, Par. 3 and Pg. 5, Par. 1).

A quick small rally to a lower top accompanied by a sudden volume surge, July 27th, is not sustained the next day, confirming this viewpoint. Observe now that volume remains comparatively large as the price starts downward and continues to sag during the next four sessions — supply is increasing.

From hereon, we see nothing unusual in the action of the stock beyond the fact that the price comes to rest around the old supporting level of April-June, at 14 (see figure chart) where the movement narrows and for several weeks the price swings in a two point range on generally small volume. Occasional rallies to the top of this zone(at 16) are accompanied by sporadic volume surges after which demand immediately fades out and the price recedes with activity lapsing into extreme dullness.

On Oct. 7th, however, our interest in EL is revived by the appearance of unusual activity. A volume of 22,000 shares with only a small net change in price, after eight to ten weeks' exceptional dullness, since the recession from 17, challenges our attention. The 1 point figure chart shows the stock was held to the 13-17 range nearly seven months with no recent slip below the 14 line (which has now stretched out to a count of 13 points) and still no evidence of a normal, halfway correction of the last advance from 8 to 17.

Meanwhile, the bull market campaign has been resumed with a sharp mark up to a new high in the Composite Average. (Pg. 21.) EL has now passed through the phases of: (l) decline from a high point (at 17) in July; (2) narrow swings and apparently persistent support at the bottom of a broadening trading zone on (3) very small daily volume; (4) over a sufficiently long period of time to tire out all of the weak long holders; and (5) ability to hold stubbornly to the 14 supporting line instead of breaking to new lows as successive corrective reactions have swept over the market. Here is a set of conditions which may mark preparation for a worth while advance (Sect. 9M, Pg. 2, Par. 6 and Pg. 3, Par. 2).

We do not immediately act upon the indication of initial activity given Oct. 7th, however, because this volume surge means the stock has been very active on the tape during the day and thus probably has attracted a considerable company of boardroom traders. If the activity was started by inside bidding for all available offerings around this level, the sponsors probably will wish to shake off this unwanted following by allowing the stock to react and quiet down again. Or they may yet engineer a shake-out. Or, if they have all they want they will push it through the resistance at 16 promptly, whereupon there will still be time for us to get aboard. If it is not ready to go, we do not wish to be "hung up" for possibly several days or weeks, running the risk of being caught in a possible shake-out. So we wait patiently for further bullish indications.

The activity promptly quiets down and the price sags the next two weeks. Then on Oct. 22nd, there is a new flurry, or small rally, which looks like good buying. But the price fails to move upward appreciably, hence we conclude the supply of stock has not yet reached a condition of sufficient scarcity to mark the beginning of a move.

Looking back on the vertical, chart, observe that since the minor selling climax of Aug. 21st, there have been four fairly distinct volume surges which have lifted the price to or toward the 16 level where rallies have been promptly checked. On the last two dips (Oct. 14th & 28th) following such rallies, the price has shown a tendency to hold at higher supporting level, 14 5/8, compared with 14 in August and September. These are tentatively bullish indications. Following the last dip, Oct. 28th, volume shrinks to unusually small proportions — showing there is little stock for sale on reactions.

We might decide that this is the time and place to buy as the price has now moved to a dead center, almost to the middle of the range 14-16, and because the extreme dullness, or lack of activity, seems to mark the end of a chapter on the down side. (Sect. 14M, Pg. 8, Par. 1.) That would be the correct play in a stock whose previous habits were such as to indicate that it possessed continuously active sponsorship and hence the ability to move readily and promptly. In the case of EL, however, its recent habit has been to move sluggishly and to die out quickly after small rallies, while the behavior of the group, in failing repeatedly to follow the strength of the market as a whole, makes us treat all utilities with caution lest we become "tied up." Hence, in this particular case we prefer to wait for more convincing indications. Our reasoning is that since there has not yet been any evidence of consistent or sustained demand, there is danger the stock may again falter on a return to the ceiling at 16, registering another false start.

On Oct. 29th, a fairly vigorous rally lifts it out of the dead center or hinge position. The range this day is 1 1/8 points on a volume increasing to about 10,000 shares. Thus the price seems to bob up rather easily on comparatively light volume (Sect. 10M, Pg. 5, Par. 2). This seems to confirm our previous conclusion that the supply of stock around the low points is becoming scarce. But are we sure that the managers have all they want, and may not this prove to be another minor buying climax like those of Oct. 7th and 22nd? The next day or two should give us the answer, so we continue to wait. If accumulation has been under way and a marking up phase is beginning, the stock should push vigorously through the overhanging resistance at 16; or if it reacts again it should not fall back to its starting point at 14 1/2 because assuming accumulation has been completed, a logical maneuver now would be a fast mark up to lock out potential buyers and to trap any sleeping short interest. These trapped shorts for some time will refuse to cover, hoping for a sizeable reaction to extract them from an untenable position. Prospective buyers, having missed getting in at the bottom, will reason likewise: that they will wait for a good sized reaction on which to climb aboard. Chances are the "good sized reaction" will not occur until both crowds give up the idea of waiting for one. (Sect. 16M, Pg. 20, Par. 2.)

Therefore, when volume rises abruptly to more than triple that of the previous session and the range shortens next, day as the stock strikes the barrier at 16, notwithstanding a closing at the top we conclude the rise must continue without further delay, otherwise this peak volume means another flash-in-the-pan rally is climaxing. On the other hand, if this heavy volume means that the overhanging offerings are being absorbed, that the marking up is under- way, the stock should not fall back again.

Here then we may enter an order to buy EL on stop (Sect. 23M, Pg. 9, Par. 4) at 17 1/8 on the ground that if the marking up phase actually is begining we would prefer to buy on an up wave under the particular set of conditions here existing, because a break out of the long 14-16 trading range up side would put the stock on the springboard following 10 weeks' preparation and we should still be getting in close to the bottom, paying a modest premium for reasonable assurance that the move is really starting. But if the price should fall back, we will be free to await further developments.

A small recession and marked shrinkage in volume on the 31st leaves us in doubt whether demand is lessening at the top of the rally or volume is diminishing on a reaction. The next day settles this question for the stock continues to react, volume remaining constant. It is quite apparent now that the action of October 30th was a buying climax. The ensuing setback to 15 may be a normal reaction, but in any event it is a little too much to keep alive our expectations of an immediate mark up so again we wait to see what the stock will do next. It may hold at or above the critical 14 level, or be subjected to a shake-out. Nov. 3rd brings a quick further reaction to the 14 supporting line with a new volume surge. The run off from the last rally top has been abrupt so this may mean the down move is climaxing in an oversold position at the bid supporting level. If so, the chances are somebody is holding the bag for the sellers on this setback. The next few sessions, or the next day, will tell whether this increase in volume represents liquidation, that is, new weakness preceding a break through the bottom of the range.

There is no follow through on the down side, however. Instead, an immediate rally (which recovers nearly 75$ of the three previous days' loss on comparatively large volume) tells us to get ready for action — there is more strength than weakness here. Now, a3 we quickly scan the recent behavior of the stock we are impressed with the fact that it has entered a new phase. Despite the daily irregularity of volume turnover, the stock has become much more active during the past week than for nearly three months. Volume is more consistently large and price movements show resiliency, i.e., more frequent and wider daily ranges. This change from dullness, to activity is significant. Moreover, reviewing its action in comparison with our Trend Chart (Pg, 21) we find that while EL so far has shown no tendency to respond to strength in the general market, on the other hand, after being depressed from 17 to 14 (July to Aug.)

and held in a range with little activity, it has repeatedly refused to break under the 14 supporting level during periods of reaction in the market, as we would expect it to break if supply were constantly increasing on the rallies to 16. The Utility group (Pg. 21) still shows no clear evidence of ability to break out of its state of equilibrium. In fact, the group action alone is uninviting to participation on either the long or short side. But as we have just seen, notable differences are to be found between the action of EL and its group. Whereas the latter has apparently stabilized in a narrow zone between 34-36 after advancing from the 30 level, EL was run down from the 16-17 tops where the resistance formerly was too strong to be overcome and in recent weeks has disclosed numerous symptoms of preparation for an important advance through this old barrier. (Sect. 16M, Pg. 27, Footnote.)

This study would serve no helpful purpose if it failed to recognize the reactions which we normally would have, were we viewing the action of the market and these situations just as if the future were before us and we did not know what might happen next. Also, we are assuming that our first impressions are based on the figure charts before considering the vertical charts. In that case, with the general market starting up in a strong new advance (October), we at first might jump to the conclusion that Utilities, having rested in a range 34-35 for three months, now have built a foundation for a possible 4 point further rise (Pg. 23). Reference to the vertical chart, however, would tend more to contradict than confirm this expectation for the group's behavior indicates only spasmodic volume surges; and no consistency in either the price movements which remain narrow, nor any apparent disposition to follow the general market upward in successive advances.

At the same time, we are impressed with the fact that the apparent supporting line in EL, cross the 14 level (Pg. 23), has now stretched out to a total of 14 points implying possibilities of a rise to 28, provided the indications of the vertical chart should become sufficiently convincing to mark this long lateral movement as reabsorption or reaccumulation following the July retreat from 17 to 14. Also, recognizing that a persistently advancing general market tempts large operators and sponsors of various stocks to search out laggard issues, grooming certain of these individual stocks for distribution to the public; .and remembering that we must constantly be on the alert for such made to order opportunities, we would certainly study Electric Power carefully once again as we did in June. For so long as the action of the group is not contradictory or adverse to a campaign, an individual issue in such a group may do much better than its average. And, if we were making it our practice to scan the volume transactions of all stocks in our list of 200 from newspapers or our Daily Reports — even though we kept no vertical charts continuously for all of them — we should presently be placed on notice to examine the action of EL because of the "initial activity" indication given by the volume surge of October 7th.

From the standpoint of comparative strength and weakness, EL, and particularly its group, still promises nothing encouraging. But our analysis of the stock individually has now (Nov. 5th) become sufficiently convincing of bullish possibilities to justify venturing a long position if it shows any further symptoms of a bullish character. We do not know what form these may take, or whether they will materialize at all. The rally to Nov. 7th dies out on small volume. Nothing decisive next day; a fairly pronounced volume surge on the 10th which, in view of the low closing, looks like a buying climax; then a sag back to 14 1/4, on the last two days of which the range narrows to fractions and volume shrinks decisively.

Now we "sit up and take notice" for that gives the up signal and invites immediate purchase because our stop, which should immediately be placed at say 12 7/8, will involve a very small risk. This last dip adds two more points to the formation at 14 and another week's accumulation to the possible preparation in the range 14-16. The indicated 16 point move to 30 is well worth trying for. Little damage will be done if we are wrong or premature since our stop will cut any possible loss short at less than two points — so the odds are 8 to 1 in our favor. And, in view of the almost complete drying up in pressure revealed by very small volume and narrowing price range on the dip (Sect. 10M, Pg. 4, Line 7), chances are the worst that can happen is the stock will rally enough to let us out even if we don't like the way it behaves when it attempts to recover from this last recession.

A sharp rise on expanding volume almost immediately rewards our taking this logical business risk and confirms the accuracy of our timing. This day's performance, on first thought might be mistaken for another buying climax. We can afford to wait and see, for if that should prove to be the case, we can get out the moment the stock shows signs of falling back to the starting point again. However, chances are against this because the price spread now is much wider than on previous upward thrusts — showing progress in proportion with the rise in volume. This says the mark up is at last starting; that the increase in volume represents willingness to take all of the offerings encountered near previous rally tops around 16; and that the fast run up of nearly two points is a locking out movement (see Pg. 9, Line 7) designed to sew up the shorts and catch potential buyers asleep. The stock is on the springboard. (Sect. 7M, Pg. 8, Par. 1 and Footnote; and Sect. 16M, Pg. 22, Par. 1.)

Volume expands still more next day and the range narrows, but this is because the sponsors are called on to absorb more of the offerings around the tops of the range. So, instead of considering this a climaxing indication we look for a further advance. In case we did not buy before, but preferred to wait for just such a clear indication of a springboard (preceding the marking up process) we would go in now. Our stop in this instance should be at say 14 5/8 or 15 3/8 on the ground that if we are correct in expecting a mark up the stock should no longer fall back deeply into the area of accumulation nor beyond the part way reaction mark.

From here on, the bullish characteristics are unmistakable. The marking up continues aggressively with no reactions sufficient to let shorts cover or potential bulls purchase without bidding the price up, thereby helping the sponsor's marking up campaign along. Note how the price range narrows and volume tapers off promptly after the successive new upthrusts. These resting spells take the place of corrective reactions: The stock quiets down to digest its gains, showing its mettle by lapsing into dullness and holding stubbornly to the narrow range in the face of a sharp reaction in the general market, Nov. 23rd.-In fact, the upswing started (Nov. 16th) at the very time when chances of attracting an unwieldy public following around the lows would be negligible. (Note how U. S. Steel behaved similarly during Nov. 1936; Sect. 8M, Pg. 17.)

EL continues comparatively stronger than the market and much more aggressive than its group until Dec. 16th, when, following the first appreciable setback during the steep advance from 14, high volume fails to lift the price to a new high. This marks a distinct change of behavior. A quick upthrust next day and a closing near the low, volume diminishing, warn us to be on guard — supply is overcoming demand.

Having raised our stop after each successive previous mark up to bring it a point or so under the lows of the resting areas (Nov. 23rd; Nov. 30th to Dec. 8th; and December 11th) we now raise it to within a point of the Dec. 16th support and watch to see whether distribution will develop or the stock will digest its advance, as before, and then attempt to make good our figure chart objective of 30. A new phase may begin here. (Dec. 16th) since the activity is now feverish, as indicated by the heavy volume, widening daily range, and the price movement's tendency to level off with deeper reactions than heretofore. Our trend support lines, A-B and B-C help us to visualize the bearish implications inherent in any further sidewise movement. (Compare again with U. S. Steel, Sect. 8M, Pg. 17, around the March, 1937 top.)

A sharp reaction in the Composite Average induces only a shallow recession in EL to 23 1/4 around Christmas time. This breaks the angle of the advance from 18 5/8 (Dec. 8) to 23 3/8 (Dec. 19) but volume diminishes promptly and the reaction dies out above the main supporting line A-B. These developments say the stock is being supported and probably will rally again. Much depends upon how it recovers.

The 1 point chart now has a line of six 24s which seems to confirm the original objective of 30. However, volume on the Dec. 30th rally back to 25 1/2 is less than half the daily turnover on the preceding advance. In the light of our other tentatively bearish symptoms, (Pg. 14, P^r3. 2 and 3), we read this to mean that demand may be exhausted — hence an additional bearish indication causing us seriously to doubt the inference of our figure chart.

Meanwhile, the utility group has given the operators in EL no support; the average stays in that 33-36 range with no evident inclination to break out on the up side. Accordingly, we now either decide (l) that 12 points profit in six weeks is enough and that we prefer to let the other fellow" play for the possible last four points of the move in EL by closing out our commitment at the opening next day, thereby nailing down our profit; or (2) we may let our stop stand at the level to which we last raised it (say 22 1/8) until we can size up the stock's action a while longer.

An abrupt dip to 23 1/4, Jan. 2nd, encourages us to look for another rally since volume falls away sharply. Next three days, the price creeps upward on comparatively light volume suggesting the selling pressure has lifted, but on Jan. 7th, volume rises abruptly. We become very suspicious of this sudden run back, for the price is up around the previous tops and the volume is below the standard of the December advance. Next day, no material progress on almost the same volume turns our suspicion that distribution is being completed to conviction. If we fail to sell on the ensuing up wave (Jan. 9th) which brings an upthrust to a fractional new high with an immediate reversal and a closing near the low, we must do so at the next opportunity. A two days' reaction on comparatively large volume, followed by another quick upthrust to 26 5/8 on Jan. 14th lets us out. The action is becoming increasingly bearish. Thus the stock has spent seven days in the 24 1/2 - 26 5/8 range, without material progress (note the series of closings in an almost level range) on relatively large volume, in the face of an aggressive new mark-up in the general market and relative strength in its group. Twice it has been shoved up to a new high only to slide back and finish at the day's low — Jan. 9th and 14th.

All this says it has lost its stride — can't make 30 — and increases the chances for either a substantial reaction or a decline. We might now also sell it short with a stop one point above the January 14th high because, in addition to the above symptoms of change from strength to weakness, the evidence of preliminary supply around the December tops has been tentatively confirmed by the breaking of the upward stride from A to B and on Jan. 16th a rally effort falls to enlist any volume bringing the stock to a hinge position. From this point a reaction back to about 20 would be a normal expectation in view of the 12 point November-December rise.

The ensuing down swing, Jan. 18th - 30th, falls short of this expectation and repeated sharp shrinkage in volume on dips back to the 22 level early in February warns us to cover our short commitment. We do not consider the stock as a logical purchase again, however, until a line of seven 22s on the one point chart suggests that-there may be another attempt to carry out the old objective of 30, and a few weeks' churning in the 22-24 range (see vertical chart) may have tired out the buyers who were hooked on the December-January advances. Accordingly, when the stock works into a hinge position again on March 5th, we might venture to make another play on the long side, though we recognize that the spasmodic volume surges through February, and the comparatively large volume days in between, lack the characteristics of accumulation such as appeared during August to November, 1936. Furthermore, behavior of the Utility Group average, since topping out on heavy volume in January, has been distinctly bearish.

However, it will do no harm to emphasize again the business wisdom of cutting out of a bad situation instantly when you see you are wrong, in place of stubbornly wishing and hoping you will eventually be vindicated, and of recognizing the danger of sticking to one indication (in this case the figure chart objective of 30) to the exclusion of other controlling, modifying or contradictory indications. So let us assume that we purchased EL around 23 1/2, March 6th, with a stop under the January low point. We thus went long immediately following the low volume indication on the dip of March 5th, where the price comes to a dead center midway of the previous trading range. We are relying on the rounding upward of the supporting points since Feb. 22nd as a further indication that the stock is being worked up for a test of the former top, at 26.

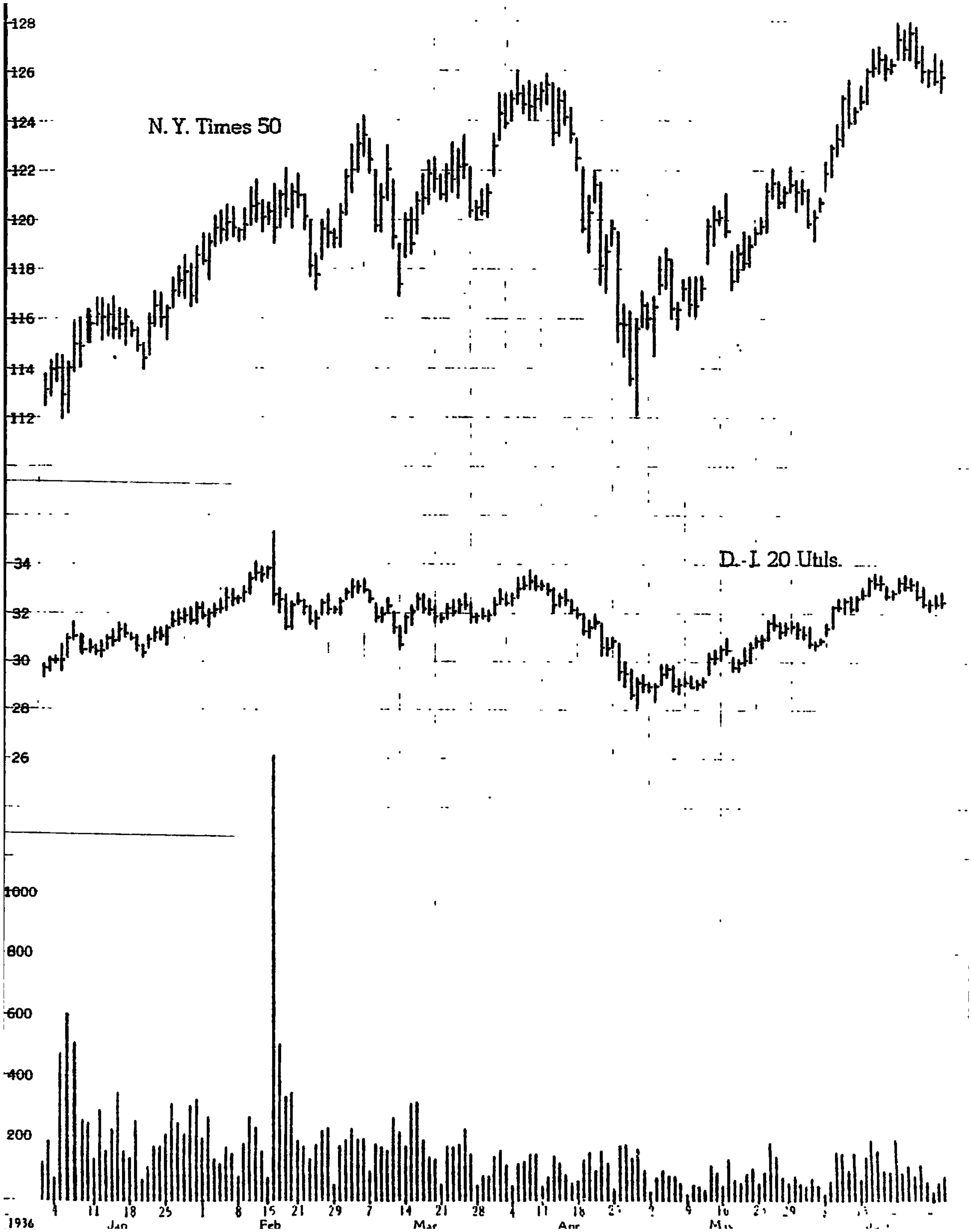
A marked increase in volume on the rise to 24 5/8, March 8th, gives us encouragement. A slight extension of the gain and a closing, near the top on increasing volume March 9th, also looks promising. But the 26 level is a critical resistance area and we do not quite like the suggestion of whooping up tactics implied in the volume, which is mounting to unusually large proportions, nor the perpendicular angle of the advance. This smacks too much of an effervescent run up or secondary distribution engineered perhaps to catch shorts or unload more long stock which could not be distributed at the primary distribution levels of December and January.

We decide that if a new marking up campaign is underway, the stock should hesitate and perhaps react after striking the old tops, but this reaction should not be much if it is going to be pushed on through that old supply level.

That is, we figure in advance, that should the price start to slip under 24 either here or after a further run up, we had better get out of our long position, forthwith. On March 10th, it makes 26. The volume is still very heavy, the range narrows, the upthrust is short, and the closing is at the low. This increases our suspicion that the rise from March 6th is a case of hypodermics, but we wait for confirmation in the way the stock behaves when it reacts. Volume is still too heavy as it slumps rapidly below 24 and finishes near the bottom. We have made a bad commitment. There is nothing to do now but get out if we failed to become sufficiently alarmed to sell out on the whooping up to 26, March 9th.

We do not sell short immediately, however, because having come down as fast as it went up the stock may now be temporarily oversold just as it was over-bought in consequence of the previous violent three days' bidding up to 26. After falling back to 22 7/8 on small volume, March 12th, the price recovers to close near the high. We conclude, from this quick reversal, that it is ready to rally out of the oversold position. A narrowing into small range and small volume over the next three days confirms the lack of follow through on the down side and strengthens the chances for a rally which comes on schedule, but develops fresh climactic indications and dies out well under the 26 high point.

Our Trend Chart, meanwhile, shows general weakening of the whole market's position, following a series of distributive movements as far back as November, 1936. Accordingly, we now decide to sell EL short for, while there is a limit to which lower priced stocks may fall, i.e., not so much room for low priced stocks to fall as higher priced ones, price alone is not our first consideration. We derive our profits from number of points movement up or down. The initial distribution in EL, according to our 1 point figure chart across the 25 line, implies a possible drop of ten points from 26. This is confirmed by secondary distribution across the later top — March — at the 24 line. Our stop above 26 limits our risk to less than two points if we sell short on the upwave accompanying the climaxing indication around. 25, March 19th. Whether it will make good the promised ten points down to 16, fall short of the indication or perhaps develop further supply and eventually exceed it, we must judge by subsequent behavior.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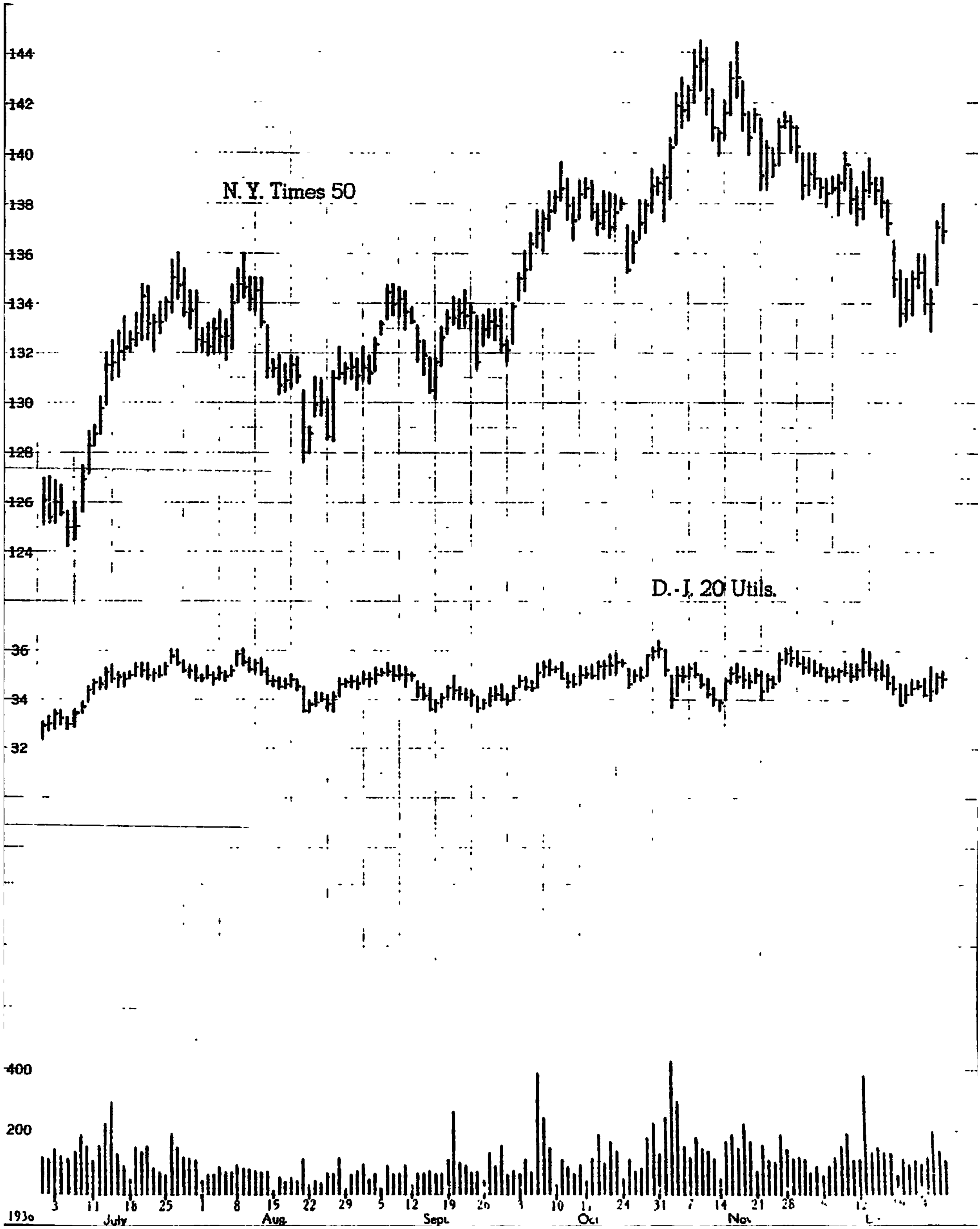
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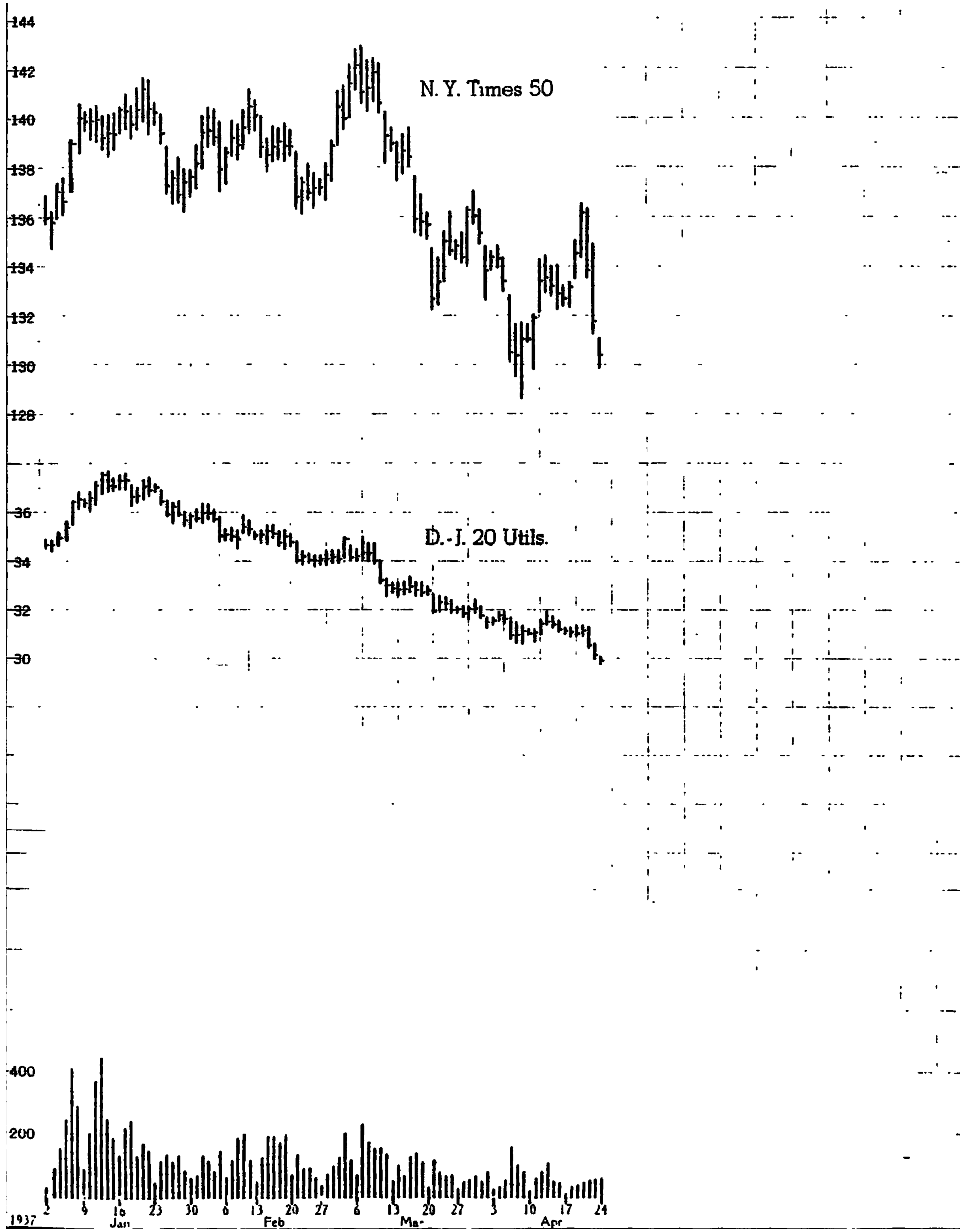
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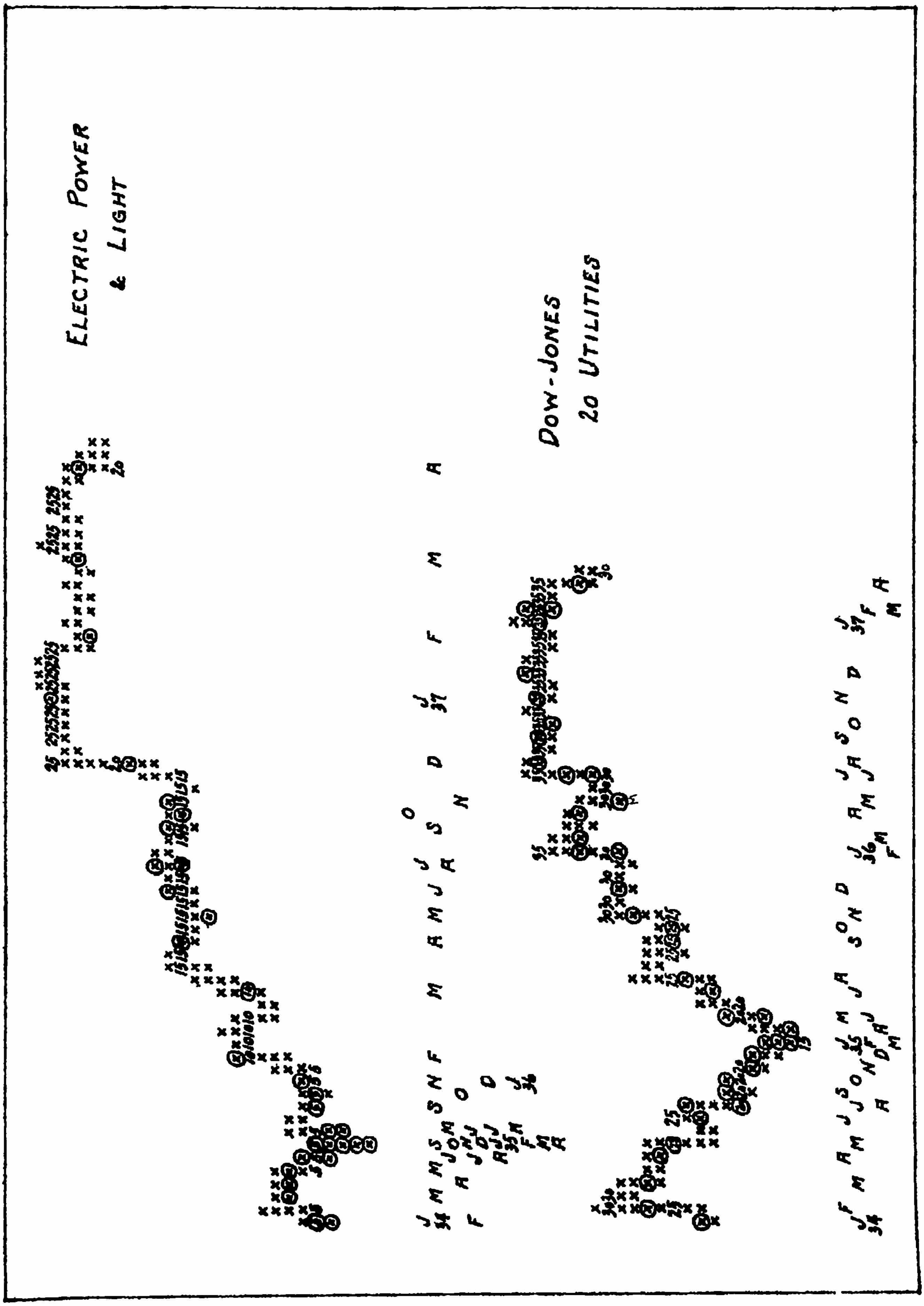
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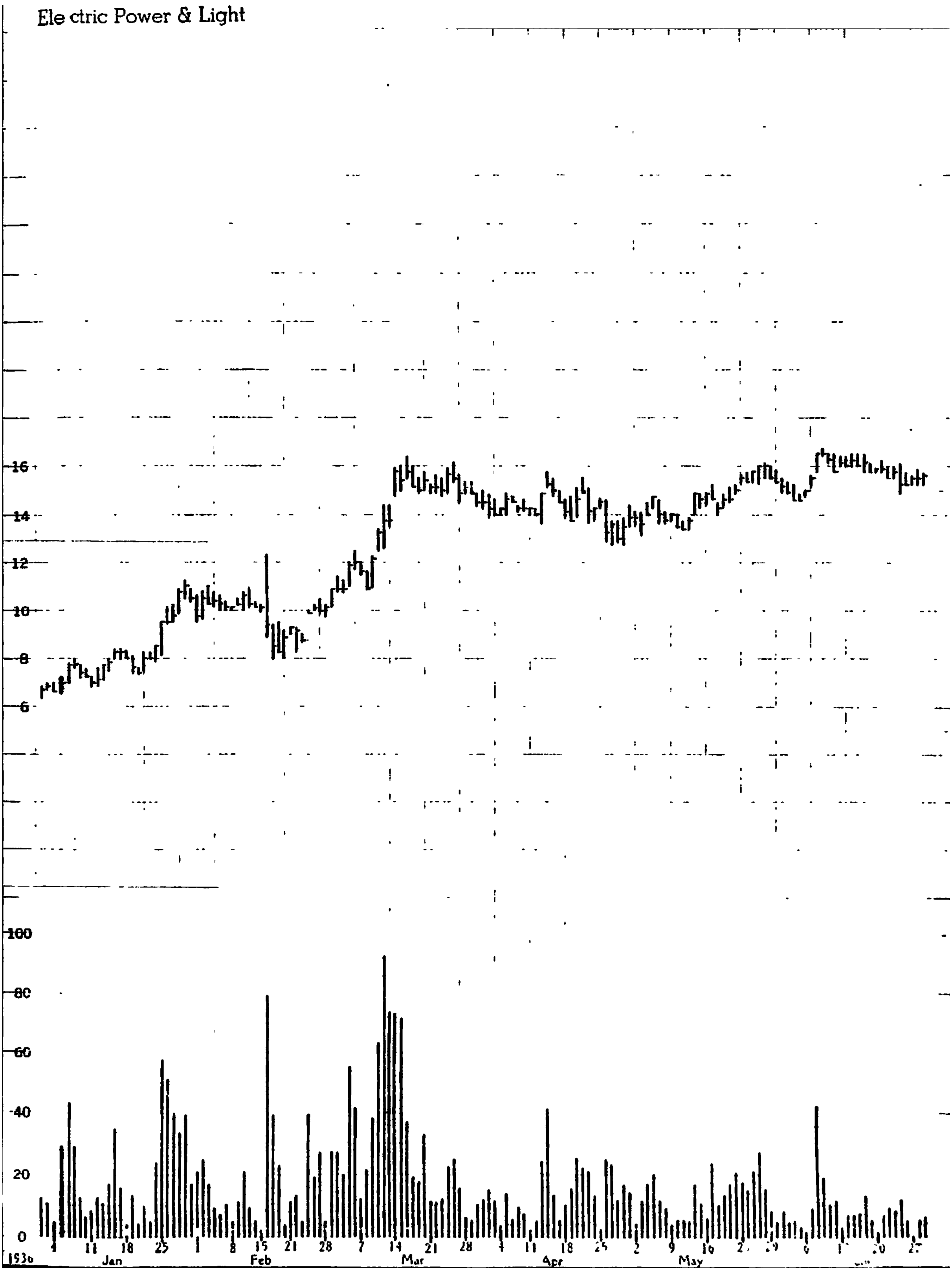

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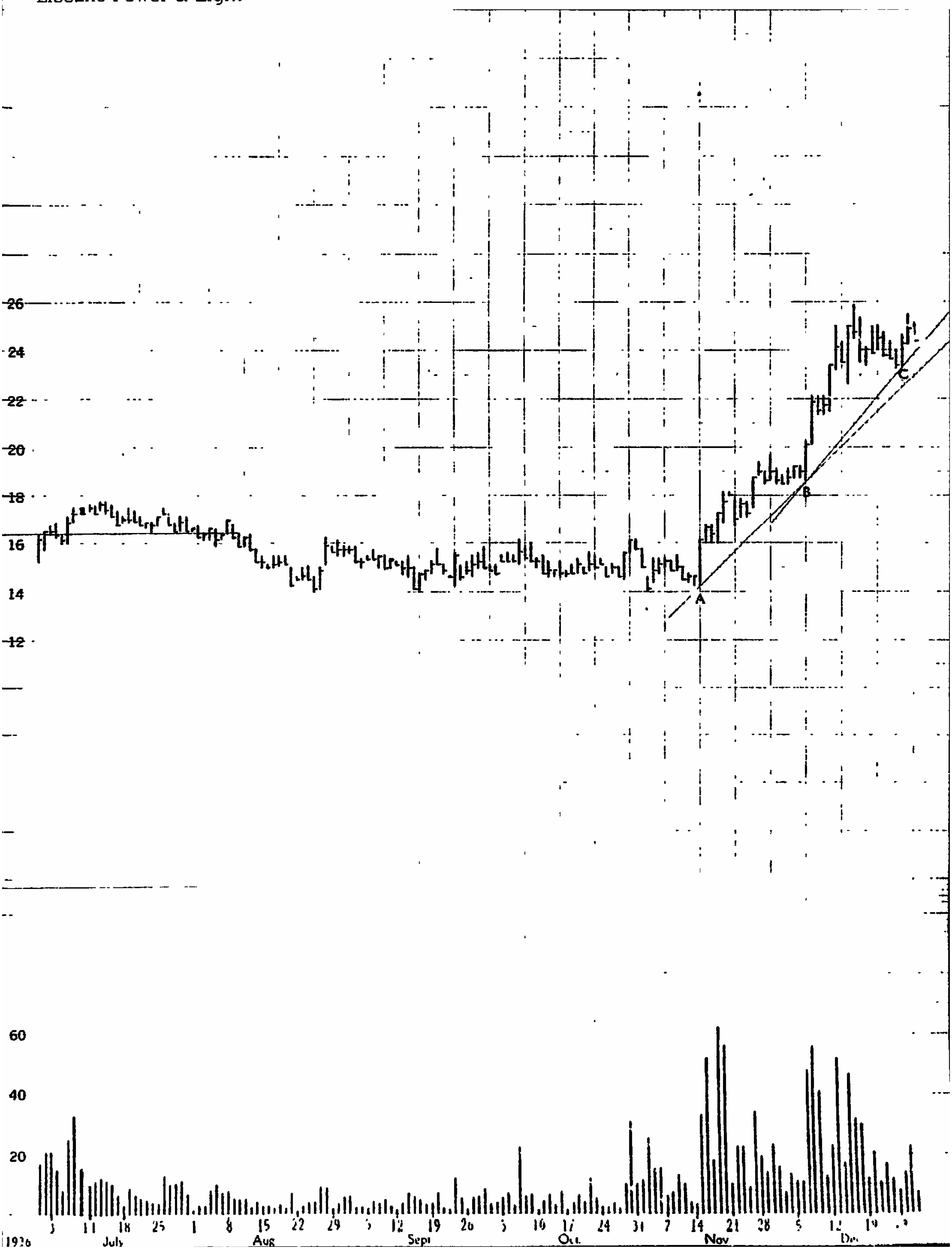

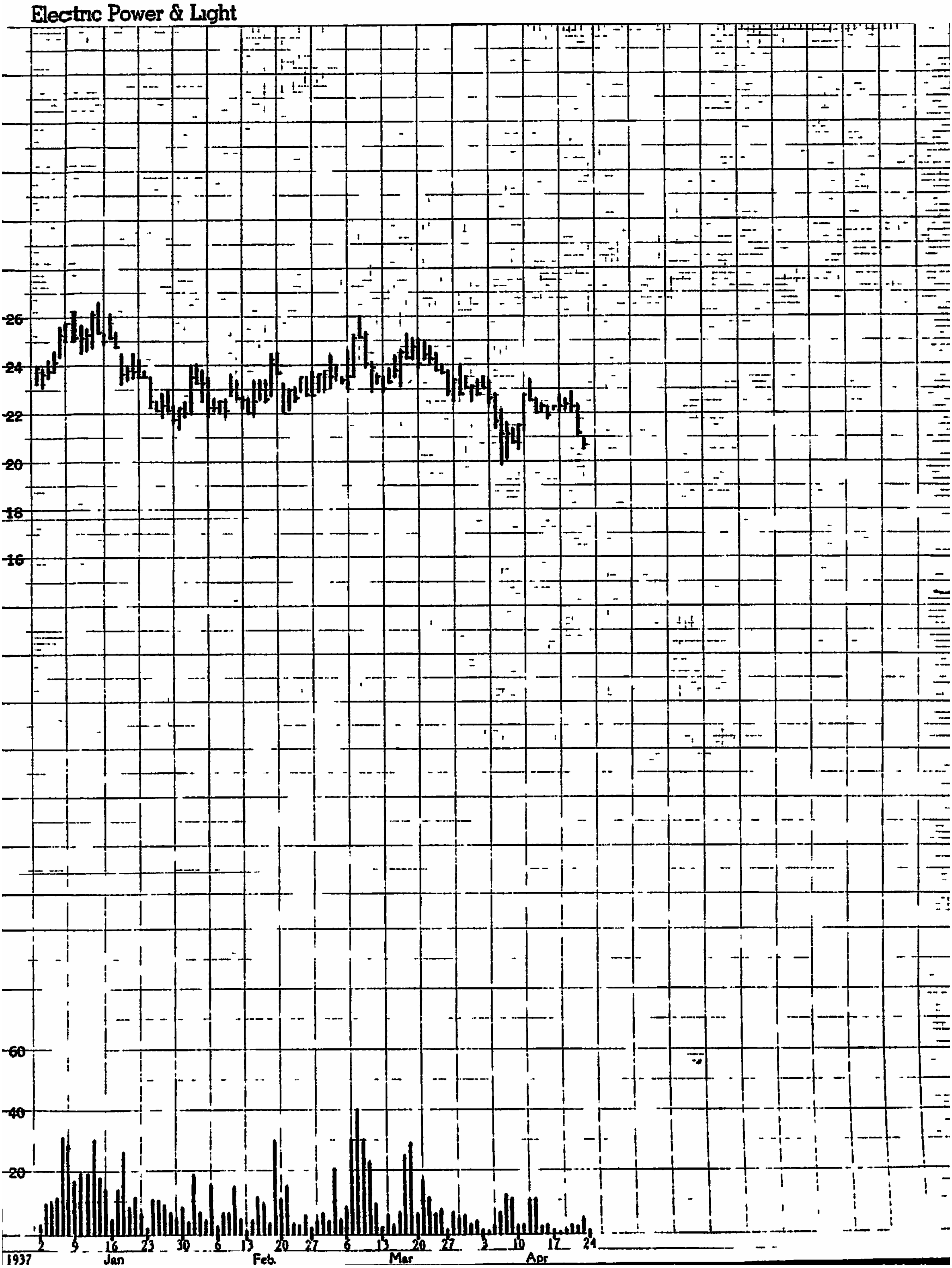
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