HOW A CAMPANIGN IS CONDUCTED

INDIVIDUAL CHART STUDIES — PART I

After we have determined the position and probable trend of the general market and have examined the action of the various groups to see which are most likely to go with and to lead the market as a whole, we must single out those individual stocks which are in the best position for our purpose; which is to operate in harmony, with the indicated trend. There may be times when we will see an opportunity to trade in an individual stock against the trend»of the market as a whole. That is, we may find an issue whose action is so clearly indicating weakness in an otherwise strong market as to justify our undertaking to sell it short, and vice versa in a comparatively weak market, for, as we have seen from our studies in Section 8M, all stocks do not move in harmony with the-prevailing trend of the market at all times.

It requires a high degree of skill and experience to know when and where it is safe to buck the general trend with long or short trades of individual stocks and fully developed self-control to execute, maintain and carry such trades to a successful conclusion. Therefore, it is best for you to operate in harmony with the prevailing trend and not undertake to make commitments on both sides simultaneously until you have attained proficiency by thoroughly learning all of the principles taught in this Method and know how to coordinate these principles.

When you have learned to take a wholly impartial viewpoint, unbiased by news, gossip, opinions and your own prejudices, you will realize that the stock market is like any other merchandising business. Those who understand it buy only when prices are low with the idea of selling when they are high; and they operate only in the stocks or commodities which they can move best so they may secure the highest possible rate of turnover of inventories.

For the above reasons, in addition to the factor of comparative Strength and Weakness, we must learn how to judge the equally vital factors of Price Movement and Volume behavior of individual stocks and all of the phenomena associated therewith (see Sect. 16, Pgs. 1 & 2). To do this requires a knowledge of what goes on behind the scenes.

A stock carries the earmarks of its chief sponsors. Its action usually indicates the character, methods and ability of those who operate heaviest in it. (Sect. 14M, Pg. 12, Pars. 2-4 and Pg. 13, Pars. 1-3).

Like individuals, stocks have certain characteristics with which one becomes more and more familiar as he studies intensively their past and current movements. The market is made by the minds of men, and all the fluctuations in the market and in all the various stocks should be studied as if they were the result of one man's operations.

Let us call him the Composite Man, who, in theory, sits behind the scenes and manipulates the stocks to your disadvantage if you do not understand the game as he plays it; and to your great profit if you do understand it.

Not all of the manipulators' moves can be detected. Not all of the moves are made by manipulators. In fact it does not matter to the tape reader or the chart reader whether the moves are real or artificial; that is, the result of <u>actual</u> buying and selling by the public and bona fide investors or <u>artificial</u> buying and selling by large operators. Most of the important, moves in the market are prepared, executed and concluded, and it is my business to show you how a large number of these trading and investment opportunities may be spotted in time to take advantage of them.

The preparation of an important move in the market takes a considerable time. A large operator or investor acting singly cannot often, in a single day's session, buy 25,000 to 100,000 shares of stock without putting the price up too much. Instead, he takes days, weeks or months in which to accumulate his line in one or many stocks. He prefers to do this while the market is weak, dull, inactive and depressed. To the extent that they are able, he, and the other interests with whom he works, bring about the very conditions which are most favorable for accumulation of stocks at low prices. (Pg. 9, between A & M.)

When he is ready to go forward with his campaign he waits for a favorable market and then proceeds to mark the price up, gradually or rapidly, as the situation warrants. (Pg. 9, from N to Y and Pg. 10, from BB to FF.)

If he knows of some favorable announcement that will appear in thirty or sixty days, his operations will be timed so that the rise will culminate about that time. You have often noticed that a stock will sell at the highest price for many months on the very day when a stock dividend, or some very bullish news, appears in print. This is not mere accident. The whole move is manufactured. (*) Its purpose is to make money for inside interests — those who are operating in the stock in a large way. And this can only be done by fooling the public, or by inducing the public to fool themselves.

When an operator washes to attract buying from the public he advertises his stock on the tape by making many transactions, great activity, and by trading in a large number of shares. This creates what is termed a "broad market" (exemplified on large scale by the Chart, Sect. 7M, Pg. 33, Feb. 10th to Mar. 2nd and Sect. 9M, Pg. 10, between FF and NN; and on small scale by Buying Climaxes; Jan. 9th, Sect. 7M, Pg. 33). Great activity and breadth induces trading in large quantities by big operators on the floor and outside. Such a market enables the manipulator to unload a large line of stock. When he wishes to accumulate a

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* Some people might object to this statement on the ground that regulation of the stock market has eliminated pool operations.

Even though pool operations and old-fashioned manipulation are banned by law, for our purpose in studying, understanding and correctly interpreting market action, we must consider any operation a "manufactured" movement wherein the buying or the selling is sufficiently concerted and coming from interests better informed than the public as to produce the same effects as pure manipulation.

line, he raids the market for that stock, makes it look very weak, and gives it the appearance of heavy liquidation by sending in selling orders through a great number of brokers (illustrated on large scale by Sect. 7M, Pg. 33, Dec. 16 & 17; and Sect. 9M, Pg. 9, D to G. Sect. 9U, Pg. 9, at M and at U exemplify the idea in the case of smaller scale maneuvers).

You say all this is unethical, if not unscrupulous. You say it is a cruel and crooked game. Very well. Electricity can be very cruel, but you can take advantage of it; you can make it work for your benefit. Just so with the stock market and the Composite Man. Play the game as he plays it. I am telling you the rules. I am giving you the inside view.

The large operator does not, as a rule, go into a campaign unless he sees in prospect a movement of from 10 to 50 points. Livermore once told me he never touched anything unless there were at least 10 points in it according to his calculations.

<u>A Typical Market Operation</u>.

Suppose a stock is fluctuating between 30 and 35 and an operator believes that it should sell at 60 in the next few weeks or months. And say he decides to accumulate, if he can, 50,000 shares between 50 and 35. (*) First he picks up what he can in the market by placing buying orders, say from 33 down to 30, on a scale. Then he forces the price down to around 30 by offering large amounts of stock and inducing floor traders and other people to sell their long holdings or go short because the stock looks weak. By putting the price down, he may sell 10,000 shares and buy 20,000; hence he has 10,000 shares long at the lower prices of his range of accumulation. By keeping the stock low and depressed, he discourages other people from buying it and induces more short selling. He may, by various means, spread bearish reports on the stock. All this helps him to

* This number of shares would be a small amount for interests operating in any important stock. It might apply to one of the less important issues in which such a volume would have a marked effect. However, the quantities mentioned are merely for purposes of illustration.

buy. When he is thus buying and. selling to accumulate, he necessarily causes the price to move up and down, forming the familiar trading ranges, or congestion areas, which appear frequently on figure Charts. Finally he completes his line.

The stock now stands at 35, and, as he has absorbed 50,000 shares below that figure and other operators have observed his accumulation and have taken on considerable lines for themselves, the floating supply of the stock below 35 is greatly reduced. At 36 the stock is prepared for the "mark-up." It is ready to go up as soon as he is willing to allow it.

Its action on the tape, or on the vertical chart, reveals the operator's intentions. The formation on the figure chart shows this, too, for reasons that will be explained (Sect. 10M).

Next, suppose the above operator has, by means of his own manipulation, aided by favorable market conditions, been able to mark the price of his stock up to 50, and that he knows of the intention of the company's management to make a favorable announcement five days hence. In these intervening five sessions on the Stock Exchange, he will mark the price of that stock up with increasing rapidity. If the announcement is to be made after the close of the market on the fifth day, he will run the price up from say 56 to 60 on that day and close it at the highest point it has touched in the whole campaign, with great activity in the stock and a large volume of trading.

The process of distributing calls for much publicity so that the attention of the public will be attracted to the stock. The rise to 50 started a whole crop of rumors. Brokers who are close to the bankers or the management of the company have been trying to find out what is going on to make the stock so strong. Insiders have hinted vaguely that "something good is coining out," and without knowing just what this expected favorable news is, the brokers have put their clients into it. Considerable outside public following has been gained during the rise. The market for the stock is broadening.

When the announcement appears in the papers that evening and next morning many people are thereby induced to place buying orders and the market absorbs, that morning, 20,000 or 30,000 shares of the operator's holdings. After this the price may recede a few points, but he, having sold a large part of his line, is willing to take a small percentage of it back at 57 to 56, and after this has been accomplished, and the activity has quieted down, he will mark the price up to 60 or 61 again. At that point he either turns seller, and markets the balance of his stock on the way down; or he works it up and down in a range of a few points from the top, till he has completed his selling.

This process of working a stock up or down within a certain range means nothing to most people, but to the tape readers and those who know how to interpret charts, it is evidence of important selling and in many cases, marks the culmination of the move. I will show you how this appears on some of the charts.

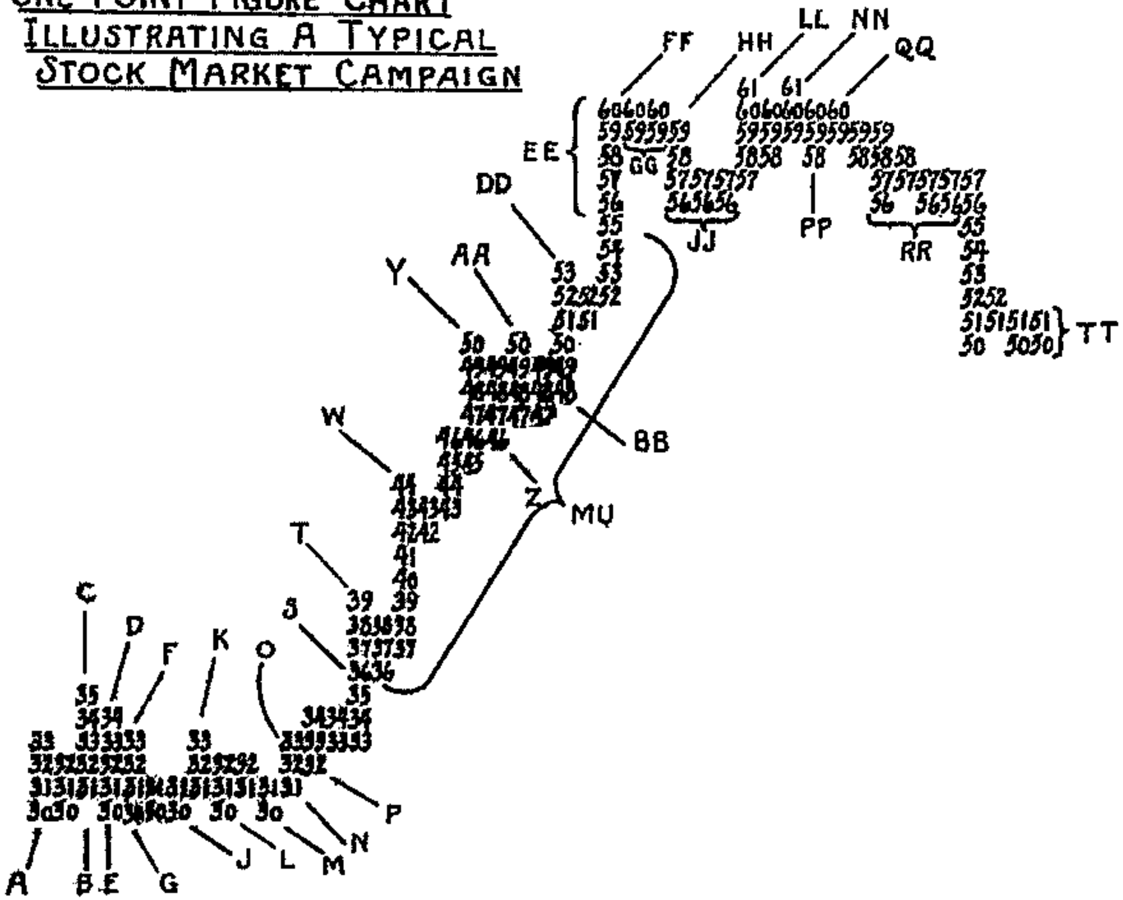
The operator has now disposed of his entire line and as the news, is now known to the public and many people have bought and thus taken the stock off his hands, the stock may be regarded as technically in a weak position, for it is in what is called "weak hands." By this I mean it is held mostly by those who have bought at the top of a 30 point rise, when the news was bullish; most of these purchases being made on margin, the holders can be shaken out or tired out.

The operator now sees a chance to make a turn on the short side, so while the market is in this range of say 56 to 60, and after he has completed selling his long line, he sells short, say 25,000 shares. In doing this he makes the stock swing back and forth over this range, keeping good-sized supporting orders in around 56 to fool the floor traders, the specialists and the public, who see on the floor and on the tape evidence of his support on the reactions. Thus they are led to believe the stock is going still higher.

When the operator has sold all of his 25,000 shares short, he cancels all of his buying orders. The specialist in the stock then tells some of the more important floor traders that the stock is in a weak technical position and that there is no support for the next 8 or 10 points and they all get together and raid it down to 50, at which point the operator covers his shorts.

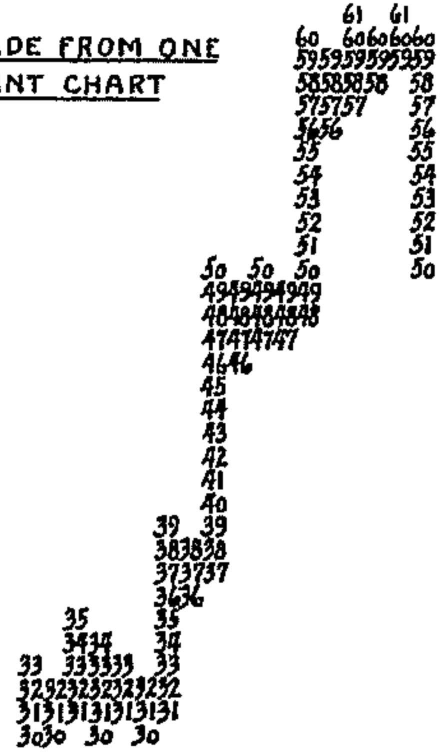
Charts made of the stock's fluctuations during this period are shown on the next three pages. These charts as well as those in Sections 16M and 17M will help you to understand how a market campaign develops and how its various phases are revealed graphically by charts. As you study the text in Sections 10M, 16M and 17M, which explains how to interpret these records, be sure that you have the principles of this Section (9M) constantly in mind.

ONE POINT FIGURE CHART ILLUSTRATING A TYPICAL STOCK MARKET CAMPAIGN

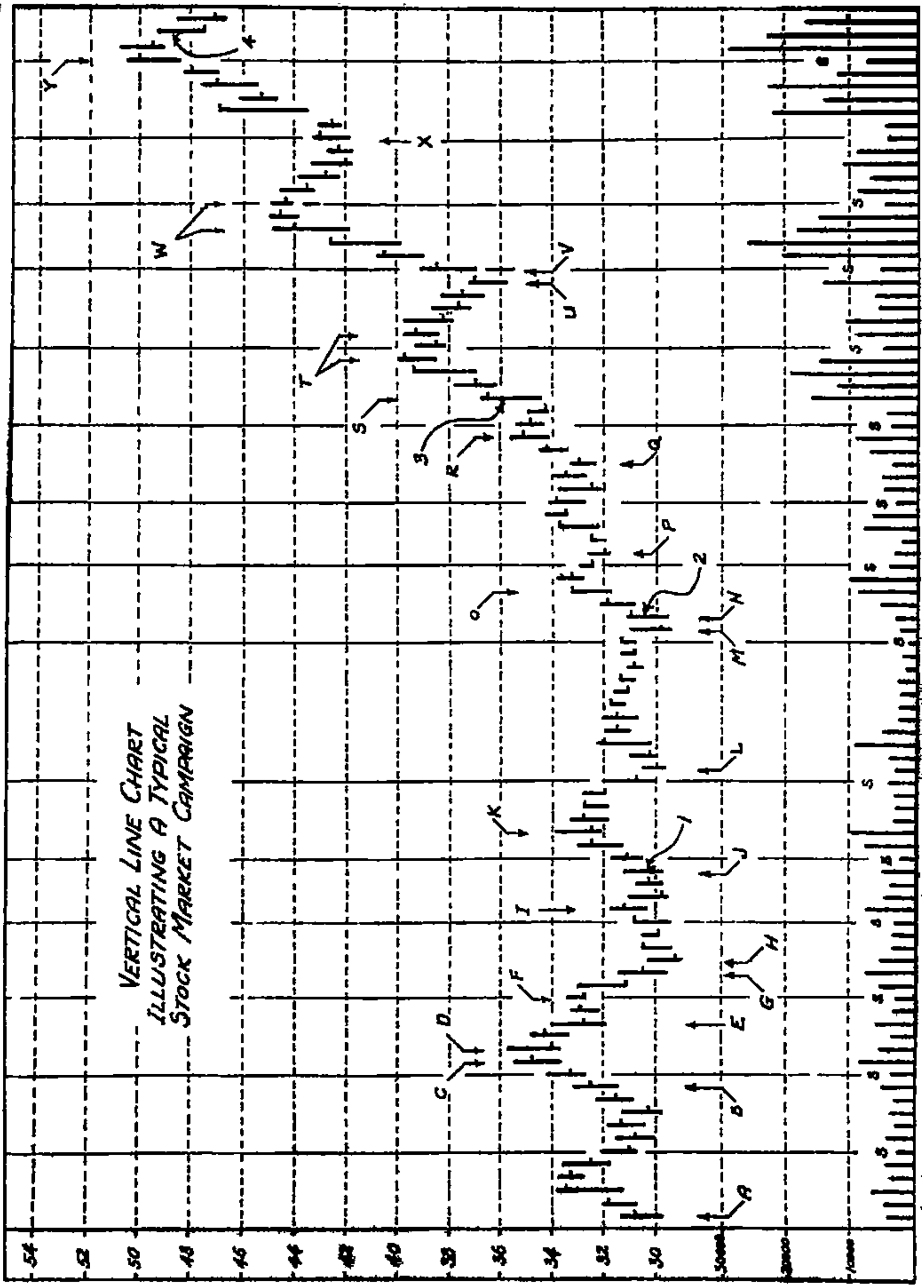


THREE POINT FIGURE CHART

MADE FROM ONE POINT CHART



D - Here the operator decides to accumulate 50,000 shares.
G - He forces it to 30 and buys 10,000 more than he sells.
P - Up to here the stock has been kept heavy and depressed.
S - Here he completes his line. He is long 50,000 shares: Average cost 33.
MU - Marking up period. Price forced to striking distance of distributing level.
EE - Final quick forcing up in preparation for unloading.
FF - Here at 60 he begins selling.
GG - Stock supported at 59 till he sells 20,000 to 30,000. The news is very bullish.
JJ - Here he buys back 5,000 shares.
LL - Final mark up to 61. He unloads the balance of his stock on way down from 61.
PP - He has completed selling his long stock.
QQ - Here he begins to sell short.
RR - Price supported till he has sold 25,000 shares short.
TT - Here he covers his shorts. This closes the entire campaign.


VERTICAL LINE CHART
ILLUSTRATING A TYPICAL
STOCK MARKET CAMPAIGN
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52
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42
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34
32
30
5000
3000
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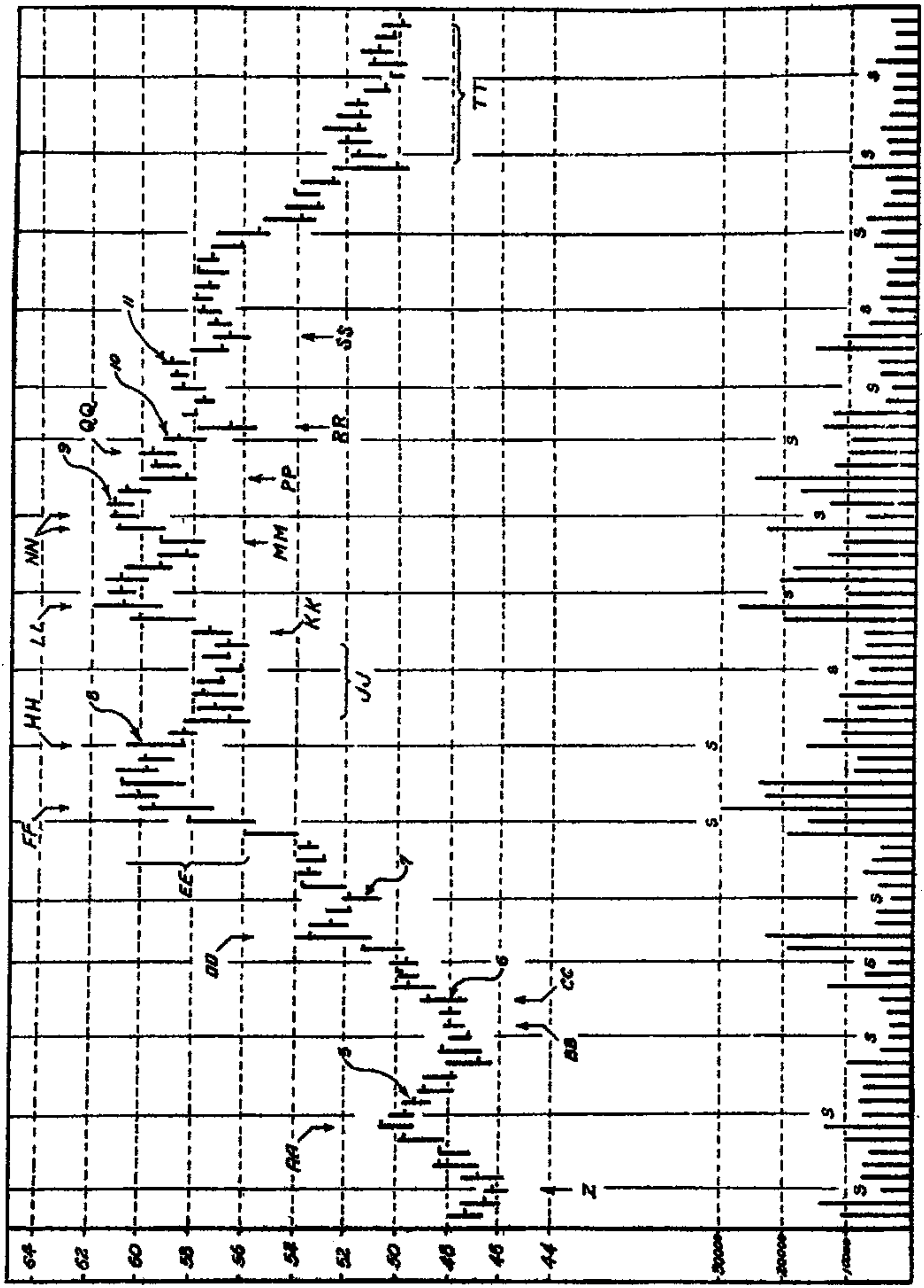

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HOW THE OPERATOR'S INTENTIONS MAY BE DETECTED

INDIVIDUAL CHART STUDIES — PART II

Let us suppose that we knew nothing about the stock in which the campaign was previously described and that this stock was merely one of the 100 stocks of which you are keeping figure charts. And suppose that you begin keeping this figure chart at the same time that the manipulative operation begins; that is, when the stock is selling in the lower 30's (see figure chart, Sect. 9M, Pg. 8).

As the days go by you note on your chart the rise from 30 to 31, 32 and 33 (above A); then the decline to 32, 31 and 30. This is just an ordinary fluctuation within a range of a few points .and it makes-no impression on you.

Then the stock recovers to 31 and 32, then to 33 (B). So far it has indicated more strength than weakness. Twice it has risen from 30 to 33. It is now on the upper edge of the supply line, 33, having come-away from its supporting line, 30. No preparation for an important move in either direction seems indicated up to now.

The stock rises to 34, then to 35 (C). Demand is greater than supply. As the stock's action on the figure chart has now attracted your attention, you make up a vertical chart so you may watch further developments in detail.

Next, at E, it reacts 3 points to 32. After a rise of 5 points (30 to 35) this reaction is a little more than half-way, which shows that the pressure for the moment has turned to the down side. At 32 it is about in the middle of its range; 30 to 35. Now it rallies a point to 33, which brings the formation on the figure chart out to a sort of point. This will be clearer if you draw a line diagonally from the second 30 out to the last 33 and from the top of 35 down to the last 33 (under D). This gives the appearance of a wedge ending at 33. The appearance of the wedge, apex, or dead center, is made very clear on the vertical chart, at the letter F (Sect. 9M, Pg. 9) by drawing a line from the last 29 7/8 through 32 (E) and from 35 5/8 (D) to 33 5/8 (F). Past experience tells us that the stock, as a result of having come to a dead center, is preparing for an immediate sharp move which is likely to be downward because volume shrinks on the weak rally from 32 to 33 3/8 (see vertical chart at E to F).

The price now drops to 30, at G, (29 1/8 on the vertical chart at H) which is the former supporting level. It is still within the 30-35 range (figure chart). So far, it has shown no conclusive indications of an important move either way.

Next it recovers a point to 31 (figure chart), goes back to 30, then it does the same thing again, making three times it has recently been supported at 30. Demand at 30 is strong enough to overcome supply. With this much of a formation on the chart we should rather buy than sell. Why? The line of figures at 30 and 31 shows the beginning of a fairly strong base and volume is tending to shrink on these reactions to 30 (see vertical chart).

The last two 31s (figure chart) indicated that if this stock is being accumulated, the leading operator did hot want it to advance above 31. Why not? If his object was to sell the stock he should have been glad to see it advance. But when he continued on different occasions to stop it from going to 32, we must assume that he is trying to accumulate. We decide that if he lets it go to 32 it will be either because he wants to buy all there is between 31 and 32, or else he cannot stop it from going to 32 without losing too much stock. This somewhat confirms our bullish interpretation of what appears on the charts so far.

Now look at the figure chart formation (at J); especially the base which rests on the 30s and broadens out on the 31 line (A to J).

These horizontal formations are very important. They not only show the levels at which support and accumulation take place on the down side, but they have a corresponding value in helping us to discover distribution at the top of the swings. (The logic of this was explained in Sect, 9M; see also Sect. 4M, Pg. 7, Pars. 1-3, and Sect. 8M, Pg. 2, Last Par, and Pg. 3, Par. 1.)

Observe that there are now five 30s and six 31s (A to J). If we were to add to this the one blank space on the 31 line we would have seven 31s. Past records prove that in many cases the number of times a figure is repeated on a base line like this often indicates that the stock will advance 7 points from 30, This is figured by adding the two blank spaces to the five 30s, making seven. As 7 plus 30 equals 37, this stock thus far has theoretically prepared for an advance to 37. There is nothing sure about this. It is an indication which <u>frequently</u> enables one to calculate roughly the distance, that is, the number of points the stocky should move in the expected direction. I have found it to possess great value.

We now decide that someone is accumulating this stock for a rise of say 7 points. We might buy 100 shares for a trading turn at, say, 30 1/2 (at the small numeral 1 on the vertical chart) though we are not convinced that the operation is very important because the big fellows do not go into a stock for 7 points. They require a range of 4 to 5 points at least in which to accumulate, and a similar range in which to distribute; hence, they have not room to turn around and get a piece out of the middle of a move unless it extends to about 15 points or more. So while we may have taken on a little of this stock at 30 l/2, on the strength of the showing made thus far, we watch for further developments.

The stock does go to 32, then rises another point to 33. This is even more, important. If this operator has bought all the stock he wants, it will go up. If not, he will back it down again.

He throws over some of his long stock on the bulge to 35 7/8 (see K, vertical chart) and thus backs it down to 30 (L). Here you watch closely because you have placed a stop order under 28 on what you bought at 30 1/3 (Sect. 23M, Pg. 1, Par. 1; Pg. 6, 7th & 8th Lines; Pg. 14, Par. 2), and you want to see whether the operator takes all there is at 30. If so, he confirms the indication that his purpose is to buy more. The stock rallies to 31 and 32 (figure chart). The rally was 2 points after a decline of 3 points; that is, over halfway — another bullish indication. Then a slow sag ending in another quick dip back to the old 30 supporting line (see vertical chart at M). The tape or your vertical chart shows that very few shares are sold on this dip. The volume is lighter than in any previous reaction to 30. You conclude from this that the operator has about mopped up all there is between 32 and 30 (Sect. 9M, Pg. 2, Par. 6.) If you did not previously purchase around 30 you buy now for a long move up as soon as you see this dull, weak reaction, or add 100 shares more to your holdings (see 2 on vertical chart) with a stop at the same price as your first lot. You now have succeeded in taking a position close to the danger point; that is, close to the lowest levels at which it has been supported, therefore your risk is limited to the minimum. Moreover, the stock is <u>on the springboard</u> for it has oscillated to a dead center, or hinge, at 30 (at M, vertical chart), and appears to have completed preparation for an important advance. Now if volume increases as the stock recovers, you will have a final confirmation of the soundness of your bullish position.

You are now long:

100 shares at 30 1/2 with stop at 27 7/8.

100 shares at 30 with stop at 27 7/8

The stock again rises to 33 (O on the figure chart). Counting from left to right on the 30 line (A to N) you will find seven 30s and five blank spaces, an indication that the probable immediate rise should amount to 12 points from 30, or to 42. Your 3 point figure chart which is made up from the 1 point movements, but which eliminates all reversals of less than 3 points, (Sect. 4M, Pg. 12, Par. 3) now appears as follows:

		35				
		34	34			
33		33	33	33		33
32	32	32	32	32	32	32
31	31	31	31	31	31	31
30	30		30		30	

Count the 30 line on this chart and you find there are seven 30s, including three blanks. Multiply this by 3, because it is shown on a 3 point figure chart, and you get 21 as the indicated number of points which the stock should eventually rise from 30. Thus you anticipate an ultimate advance to 51.

You do not know whether the operator has all he wants but you have seen from the tape or your vertical chart that the stock is growing scarce. The price dips to 32 on very small volume (see P, vertical chart) and snaps back quickly to a now high, 34, showing that little or no stock is to be had under 33 and that the operator has raised his buying limits by taking what there is up to 34. You now raise the stops on your 200 shares to, say, 30 5/8 as the rise to 34 gives you a chance to protect your trades at cost (Sect. 23M, middle of Pg. 6), and also identifies the dip to P as a supporting point.

The operator next makes it react to 33 and when it again rallies to 34 he checks it again and forces it back to 33. (Here is another buying point if you missed it before.) The tape or your vertical chart shows that he apparently is working hard to keep it down without losing any stock, but it bobs up on light volume to 34 (R on the vertical chart). This is the old top made early in the operation. It may be held here or made to react. You decide that if it goes to 36 you will buy another 100 at 36 for at that price the stock will again be on the springboard for a sharp mark-up which should give you immediate action. The operator cannot hold it down any longer unless he is willing to sell a loti of stock.

The price touches 36, at S, and you buy your third 100 shares at that price (see 3 on the vertical chart). Because the stock has made a resistance point on its last reaction to around 34 (vertical chart at right of R) you place your stop at 32 7/8, and raise the stops on your first two hundred to the same figure.

You are now long 300 shares at an average of about 33, counting buying and selling commissions; and the stock, judging by the chart, is in a beautiful position. On increasing volume, it rises 3 points more to 39 (T on vertical chart). Then it reacts 3 points to 36 — a half-way reaction from 33 (figure chart), which is normal (Sect. 14M, Pg. 4, Par. 2). You stand pat.

There is still a light volume on the tape (U & V on the vertical chart) when the stock recovers the 3 point reaction, sells at 39, then goes to 40 on increasing volume. In view of the fact that a rise to above 50 is promised, you now raise your stops on all 300 to a fraction under 35. This assures you a profit on the first two lots and a small loss on the third lot.

The stock makes a new high of 44 (figure chart), which is 8 points up from the last low of 36. It is reasonable, therefore, to expect a 4 point reaction, but as no distribution is apparent at 44 (W on vertical chart), you do nothing. The reaction is only 2 points instead of a normal 4 points. This is an indication of further strength to come.

The marking up continues. As soon as the price touches 46, you raise all your stops to a fraction below 41, say 40 5/8. There is a brief 1 point reaction, the smallest of all; and a quick run-up to 50. This is so close to the figure you anticipate (51) that you sell out all your 300 shares; or you move your stop up to 48 7/8, whichever you like, so that you can only lose a very small part of your paper profit. Suppose your stop is caught at the numeral 4: You are out, with about 16 points profit on 300 shares, and you watch to see whether the operator distributes at 50 or under.

At first it looks as though he intended to do this. There is a quick reaction of 4 points to 46. This is not surprising in view of the steep 15 point rise with only 3 intervening reactions. The stock recovers to 50 (AA) and there hesitates. Now let us suppose you take this hesitation, and the high volume which appeared on the first rise to 50 (Y) to mean that the operator is distributing. So you sell short 100 shares at 49 (see numeral 5 on vertical chart, Sect. 9M, Pg. 10) with a stop above 51. If you ask me whether that was a correct play or not, I will say that considering the extent of the rise, the high volume and the formation now appearing on the figure chart, your chances for profit or loss are about even. Your figure chart shows a supply at 49 and 50 and a row of four figures on the 49 line, which indicates another reaction to 46. The stock has hedged itself within a range of 50 high and 46 low. It now stands at 49, and looks as if it would have more than the 4 point reaction (50 to 46) which recently occurred. It goes to 48, then 47. Now you have a formation on both the 1 point and the 3 point figure charts which looks like this:

50		50	
49	49	49	49
48	48	48	48
47	47	47	47
46	46		
45			

This formation, at first glance, indicates a reaction of 12 points from 50 because there is a line of four of these 50s (including two blanks) on the 3 point chart. But there is nothing sure about this indication. Remember this: <u>A chart indication means that a stock is probably going so far in a certain direction only so long as its behavior continues to conform with the original indication. You must always be on the alert for changes and be expecting your chart indications to be reversed.</u>

The stock recovers to 48, then oscillates to a dead center (vertical chart at BB); 46 and 50 are the extremes of the range and 48 is the middle or apex. Here it is again on the hinge and you decide, from its volume behavior that the move is more likely to be up than down (compare with paragraph 5, page 1). Therefore, you cover your short stock and go long 100 shares (see 6 on vertical chart), reasoning that the operator either means to run it up again in order to distribute more stock at and above 50 or he has been absorbing stock around 46-48 for the purpose of marking it up to a much higher level. Thus, whichever way the stock breaks out of the range 46 to 50, it should have a considerable swing, either on the up or on the down side. Much depends on how it behaves on the indicated rally back toward 50. You will probably not be long in doubt.

The stock now rallies further to 49, then to 50. You raise your stop on the lot you just bought to cover cost plus commissions — and watch.

The next point or two either way is decisive. If it reacts again from 50 it will tend to confirm your judgment that the stock is being distributed, and if it should go to 47, that would make an additional downswing on the 3 point chart which would indicate still lower prices than the 12 points down previously indicated at 50.

It does not react from 50. Instead it goes on up in a quick bulge to 51 1/4 (vertical chart), a new high. You may regard this advance to 51 as one of those false moves which occur a point above the formation such as your figure chart now shows — that it is planned just to catch the shorts with 1 point stops above the old tops. You are wrong. The price advances to 53 (at DD). Now look at your figure chart and you will find that it show quite a different formation:

					53
					52
					51
	50		50		50
	49	49	49	49	49
	48	48	48	48	48
	47	47	47	47	
46	46	46			
45	45				
44					
43					

Instead of confirming the appearance of distribution, you find a series of higher supports; viz., at 46, then at 47, then at 48 (45 5/8, 46 1/4, 47 1/8 and 47 l/4 on the vertical chart, Z to CC). These supporting points indicate the prices at which the manipulator was willing to take, whatever stock was offered on the reactions. Without much delay in any case, he has persistently raised those supporting points. He now seems to be in a hurry. He is not trying to sell. He is apparently willing to buy to support the price. If he had been trying to sell he would have thrown over a wad of stock the second or the third time the price touched 50. Instead he supports it around 47 (Z and BB), then drives it through the old top to 51, 52 and 55.

Instead of indicating that the stock is going back into the 30s (as judged by the 49-50 line), we must consider that on the reactions a line of four figures was formed at 47 (5 point chart), which multiplied by three, means 12 points up from 46 or 47, or an indicated objective of 58-59; and on the 48 line we have five figures times three, which equals 15 points. Add this to 46-47 and you have an indicated objective of 61-62. Thus the operator has again shown his intentions, for his series of higher supports is now followed by a new high, and a possible 12 to 15 points more on the up side from the reaction to 46. Therefore you are justified in adding to your long position if you can buy on a reaction anywhere near 50. A possible 8 to 12 points is worth going after.

Fortune favors you and on a dip to 51 you buy another 100 shares (at 7 on the vertical chart), placing your stop at 49 3/8. The operator does not disappoint you, because you have read his purpose correctly in the action of the stock. He puts it to a new high at 54, then to 55. Now comes the quick mark-up of 4 points from 56 to 60 (EE). You, realizing the move approaches culmination, so far as your figures indicate, keep your stops say 3 points below the highest figure it touches. So when the run-up to 60 comes you find yourself with a stop under 57, which assures you about 7 points profit on your last two trades.

From the moment the stock touches 60 you see a very large volume appear on the tape or your vertical chart (at FF). A dip to 59 (58 1/4-on the vertical chart), a rally to 60; more volume; big churning of the stock. You raise your stops to a fraction under 58 and when the stock again rallies to 60 and you see the large volume continuing, you either sell it out (numeral 8 on the vertical chart), or let the stops stand, where they are caught on the third dip.

The large volume around the top is your indication that the operator is getting out. That means he has concluded the marking up period. The stock has reached the point he intended it should. The important announcement which he anticipated when he went into the deal (at 30 to 35) has now been published and the public who did not know anything about it 30 points lower is now buying the stock on the "good news." It is this demand which he anticipated. That is why he accumulated the supply of the stock away down and supported the price at 46-47. His supply is now overcoming the public demand. It looks like a turning point. (Sect. 9M, Pg. 3, Pars. 2 & 3.)

The line of four tops at 60, including one blank (FF to HH), now shows on the 1 point figure chart that the stock should react four points to 56. You do not sell it short. That is not enough for you to make a turn, as your possible profit must be three or four times the amount of your risk.

The heavy volume continues for four days (vertical chart at FF) without advancing the price. Then there is a quick reaction to 56 (at JJ). Support is met at this figure and the stock quiets down for a while (shown on vertical chart in the narrowing of the daily price movement and the shrinking volume). The line of four on the 57 line (figure chart) gradually forms, which indicates a rally to 60 or 61. You do nothing. You reason that if the manipulator had sold out completely he would not be interested in seeing it rally again; hence, there would be no support at 56. You assume, therefore, that he has more stock to sell, or the chart would not indicate 61.

The extent of the rise — 30 points from 30 to 60 — has attracted some short sellers who sell on rallies with stops above 60. Quite a few stops accumulate there. The stock runs up to 61 7/8 with a high volume surge (vertical chart at LL) and catches all these stops, at the same time hooking the "sucker" type of buyers, who operate mechanically on the theory that <u>any</u> rise to a new high constitutes an automatic "buy signal." Then it reacts to 58, volume remaining much higher than on previous reactions — a distinctly bearish indication. Here your 3 point figure chart looks like this:

```
          61
60        60  60
59  59    59  59
58  58    58  58
57  57    57
56  56
55
54
53
52
51
```

The line of tops at 60 (including the blank spaces in the second column) counts four. Multiply it by three and you have 12 points as the indicated decline from 61 or 60. In other words, the stock says it may go back to 49 or 48. Let us see whether it tells the truth this time. Anyhow you have evidence from the behavior of the stock, as recorded on your vertical chart, that this formation on the figure chart represents the development of a sufficiently important supply zone to justify your taking a short position. You wait for an upwave and you sell it short around 60 1/2 (vertical chart at 9) with a stop at 63 5/8, about 1 1/2 points above the high point of 61 7/8.

The rally back to 61 (NN on vertical chart) is accompanied by another peak volume after which the range narrows and the stock hesitates, with volume shrinking at the top of the rally — all bearish; so this is where you sell as previously indicated. The next dip to 58 (PP) is a little quicker than the first one and the volume is very heavy, indicating that the operator is now filling up all "the buyers on reactions" with whatever stock he has left to unload.

A weak rally from the supporting level of 58 (PP) confirms the soundness of your bearish position and gives you another selling point. The high full figure on this rally is 60 (QQ). Now the stock is distinctly sluggish. This shows that most of the buyers have-been filled up; there is not sufficient demand to rally it back to 61 again. With such strong indications of distribution around 60, you sell more (at 10, vertical chart). Your reasons are: The tops of the rallies have been lower — 61 7/8, 61 1/4 and 60, which is a sign of increasing pressure; volume has been tending to increase on the down side; and the relatively light volume on the bulge to 60 (QQ) has brought the stock to a dead center, approximately in the middle of the range 58-61. Now your 3 point figure chart looks like this:

```
      61    61
60    60 60 60  X
59 59 59 59 59  •
58 58 58 58     •
57 57 57
56 56
55
54
55
52
51
```

The x indicates where the stock now stands on the 1 point chart and the dots show how the chart will look if the price falls to 58.

By placing an "x" on the 3 point chart at 60, as above, you see clearly that the stock is on the pivot at 60, and so you conclude that if the price should now start down again on increasing volume, the stock will have stepped on the springboard for an important slump. (Sect. 14M, Pg. 6, Par. 2.) So when it touches 57; you decide to sell more at once or wait for an upwave (as at the numeral 11) to do so, for now you have all the symptoms of a substantial downward swing. The line of supply on the 3 point chart has broadened to six 60s, forecasting a possible decline of 18 points. The tops of the rallies are consistently lower and the support at 58 has faded away. At 56 (RR) some shorts on the floor cover as the price touches the former supporting level (JJ) and this brings the little rally to 58 on which you sell again. It is less than halfway from the top at 61 to the low point so far, 56, and the volume is not at all impressive, so this tends to confirm the weakness.

The price recedes again to 56 and after a couple of 1 point rallies — 56, 57; 56, 57 — it goes down again and makes 55. This puts what appears to be a final clinch on your indications of a sizeable downward swing and gives you a new selling point, 55, because this is below all the previous supports at 56 and shows the stock is getting into new low ground, with promise of an important slump. That is, it is on the springboard now for a fast mark-down.

You now move the stops on your short trades down a fraction above 58 (see vertical chart) because 57 is the last supply line.

The price steadily recedes to 50 where you see evidence of covering between 50 and 52, and as the movement levels off at 50 (TT) you bring your stops down to 55 5/8, then to 52 1/8 (see vertical chart), or cover on further weakness.

The above illustration shows how to read a 1 point and a 3 point figure chart in combination with the vertical chart. The operation, from which these charts are built, is purely hypothetical; it is not taken from the charts of a campaign which actually happened in the market. Nevertheless, it is an example of a typical stock market campaign. This is the only way you can study such an operation from behind the scenes and recognize from other charts similar moves made by large operators and "insiders."

In succeeding sections, other factors involved in such analyses will be developed more fully; with particular reference to instructive refinements. (Sect. 15M, Pg. 6, Par. 2 to Pg. 8 and Sect. 19M, Pg. 5, Par. 5 to end of section.)

INDIVIDUAL CHART STUDIES — PART III

FIGURE CHARTS

The figure chart illustrations which follow are taken from the actual transactions as they occurred on the New York Stock Exchange. They were transferred from the tape and from the averages to these charts. In these illustrations, we shall consider only the figure charts without regard to other contemporary records or evidence.

The dates are indicated as explained in Section 4M, Page 10. The best way to study these charts is to take the sheets out of the binder and place them beside the text, covering each chart page with a blank sheet of paper which you will slide from left to right to got the effect of reading the chart just as if you were recording the changes from day to day.

<u>The Bethlehem Steel Chart</u> (Pages 12 & 13), showing the 1 point movements beginning about November 1, 1930, forms a very interesting study, illustrating the basic principles involved in figure chart analysis. Within a range of about 25 points there were a number of clearly defined manipulative movements, with considerable forecasting value. (*)

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* The question naturally arises whether, under governmental regulation of the markets, the repression of manipulative practices (old time pool operations are now unlawful) may have interfered with the workings of the age-old, natural Law of Supply and Demand.

The answer, obviously, must be an unqualified NO. And the reason it is no is that, while regulation may tend to reduce the total volume of transactions and the market's activity, — thus making the market thin — such reduction cannot affect supply to a greater extent than demand, or vice versa; nor can it eliminate the cyclical swings; of prices from one extreme to the other.

In the long run, if demand is reduced, supply must be reduced proportionately. To cut off the one would be to destroy the other because there must be two parties to every transaction — a buyer as well as a seller. Unless someone buys, no other can sell.

It makes no difference who the parties to a transaction may be — whether they are bona fide investors, speculators or dyed-in-the-wool pool operators. Price fluctuations are not determined by the identities of the buyers and sellers but by the unbalancing of the forces of supply and demand. As shown in Section 2M, prices rise only when the force of the demand is greater than the force of supply

Starting the month of November at around the 70 level (A) and without considering what preceded it, there is a perpendicular decline of 12 points from 71 to 59 (B), creating on oversold condition (Sect. 7M, Pg. 13, 3rd line; Sect. 14M, Pg. 2, Par. 4 & Pg. 5, Pars. 1 & 3). At 59-61 the price shows a tendency to bounce up and down in a narrow range, an indication that the force of the decline has been broken and the stock may now be preparing for a rally or a recovery. After it touches 60 seven times (C) it begins to rally. Then it comes back to 60 for the eighth time, thus indicating a probable rally to 68.

After completing a normal correction of the decline, that is, a rally halfway back to 71 (D), the price falls back quickly to 61 and recovers to 66 (E). Here its tendency to level off and to go into a narrow range tells us that the rally is meeting supply and the stock is probably being held within the 64-66 range while the distribution is being completed. A line of eight entries forms across the 66 level and stretches out to a count of eleven on the wider line of 65s (including the blanks), forecasting a slump to 58 and possibly to 55 should the support at 64 fail — a distinctly bearish possibility since a break to 58 or 55 would carry the stock through the previous supports at 60-59 to a new low.

At the last 65 (F) it is on the hinge (Sect. 10M, Pg. 1, Par. 5), so when

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and contrariwise. To maintain a stable or unchanging price level, it would be necessary to keep these opposing forces in constant equilibrium. Even a market controlled wholly by simon-pure investment buying, and selling must still fluctuate and be responsive to the Law of Supply and Demand.

You can verify the above by reviewing the record of the stock markets since the advent of the SEC in 1934. Their behavior, in all vital respects, has been the same as of old, notwithstanding the presumptive elimination of manipulation, and the reduced average daily turnover (as compared with the extreme activity of 1927-1929).

An understanding of manipulative, procedure, in any-event, helps us to judge the motives, the hopes, fears and, aspirations of all the buyers and sellers whose actions today have the same net effect upon the market as 30 many pool operations would have. So if we are squeamish about the tern "manipulator" we may substitute the words "Composite Operator" with the same force and affect.

the price slides off to 63 (G) we have an indication that the supply at 66-64 is coming into effect, threatening a slump into new low ground.

Following a further reaction at the beginning of December, the influence of the previous supporting point at 61 induces a brief rally into the range 64-66 which is immediately checked at a lower top (H). This spreads out the supply on the 64 line to a count of 13 points, with possibilities of a 16 point decline inferred in the still broader line of 63s.

Insufficient support is met on the return to the former supporting level (I) at 60-59 (indicated by failure of any rebound to appear at this critical point), and the stock slumps through to its first indicated objectives around 58-55 (at J). Here a brief lateral movement fails to induce any rally which tells us in advance that we may anticipate a further drop to our next objective — around 50 (66 minus the 16 points indicated at 63).

At the 50 level, a new phase begins. Hero at K, as at B, the steep pitch of the decline from 66 (F to K), without intervening corrective rallies, brings about an oversold condition (Sect. 14M, Pg. 3, Par. 3). Hence, when the price movement begins to flatten out and then records a rally to 53, we read this to mean that there is evidence of sufficiently good demand to bring a recovery to 55 — possibly 56. Ability to carry out this indication would have the effect of breaking the angle of the decline from H to J, thus giving a tentatively bullish inference to be added to our other two indications, namely, (1) attainment of an objective on the down side, and (2) a suggestion of preliminary support at K. (See Sect. 20M, Pg. 3, Items 1, 2 & 4.)

The rally to 55 dies out after exhausting the force of the demand at 50 and meets resistance on approaching the former small trading range or shelf of congestion at I-J. However, during the balance of December, the bag is held practically at 50 (M) for all the bears and the income tax sellers.

A quick sell-off to 48, under the previously established line of supports at 50 first implies the development of new weakness and a further decline. But an immediate sharp recovery of this loss (the rebound to 52 at N), identifies it as a probable shake-out (Footnote Sect. 7M, Pg. 19 and Sect. 21M, Pg. 2, Par. 3). And as this dip to 48 exhausts the indication of the supply encountered across the line of six 53s, on the rally to 55 (under L) we look for another rebound. The stock has now been supported seven times at 50 with, one slip below that figure. If we consider the figure chart alone, without regard to any other evidence, we might regard this as indicating sufficient preparation for a rise of 13 points, counting seven 50s and six blanks. For the sake of a complete illustration, let us assume that we do regard the broadening formation in the range 50-55 as a base of support for a nearby advance.

About the first of January, the stock seems to be on a hinge at 51 (Sect. 10M, top of Pg. 2). Then it rallies to 54. But here (at O) the price movement flattens out just under the previous high of 55. We conclude that if it is ready to go up it will not fall back to 50 again. A normal reaction from 54 would be to 51 (midway between 48 and 54). However, from a bullish viewpoint we would prefer not to see it recede even that much; its chances for overcoming the resistance around 55 will be much better if the price continues to rally away from the bottom of the small trading range 52-54, or higher.

Therefore, when it continues to hesitate, forming a line of six 53s and next comes to a hinge at the last 53 (under O) we decide that its position has become critical and that a dip to 51 would imply weakness while a further sag to 50 would cancel our expectations of an early advance to 64. Hence, when the price actually does come down to 50 again, we must conclude that preparation for an advance has not been completed. Instead, there is a possibility that if the six point reaction indicated by the line of 53s at O should be materially exceeded, the next stopping places might be 44 and perhaps 40 — objectives taken along the wider line of ten 53s from M to O; and fifteen 54s across the rally tops from 55 (i.e., from L to the right of O).

A steep drop to 46 (at P) and a prompt rebound which recovers more than half the loss from 54 to 46 is confirmed as another shake-out by a brief dip to the old supporting line around 50 (Q) and more rallying power, expressed in a further rebound to 52.

So far there has been persistent buying around 50 with only two slips below that, both of which have the appearance of shake-outs (M and P), and now, about February 1st (at R), we have a substantial line of figures at the 50 level.

If we take in all the loose ends and count the blanks it amounts to 25, indicating a rise from 47, or 50, to possibly 72 and perhaps 75.

But are we sure that this is a range of accumulation? At O the advance was checked at a price of 54, and then the stock fell off 8 points to a new low. At first glance, the action between L and P seem much like that at D to J, so there is a possibility the stock may be headed for an important further slump. The 54 top was lower than the previous 55, and the 46 bottom was lower than the previous 48. Is this not a downward trend? It may be, but the chances are against it because the indicated down swing at P, from 53-54, exhausted itself and was immediately followed by a sharp recovery which wiped out considerably more than half the loss. Since leaving K the stock has shown repeated tendencies to rally vigorously after being forced down to, and temporarily under, the 50 level. After the rally to 51 (left of Q) there is a dip to 49 (at Q) and a recovery to 52, followed by a return to 50 (R), which is the main supporting line where (at R) the stock again works into an apex. (Sect. 10M, Pg. 1, Par. 5.) Earlier at K, we had indications of preliminary support (Par. 3, Pg. 3) which have been followed by persistent rallies and reactions in an ever lengthening zone of congestion, or trading range (K to R). We observe also that the downthrusts, of minor selling waves, are being followed, by upthrusts (buying waves) of greater intensity and sustaining power than previously at H and J. (Review Sect. 5M, Pg. 1, Pars. 1 to 5 and Pg. 2, Par. 1.)

We therefore conclude that the quality of the demand in this area is superior, to the quality of the supply; that as somebody was steadily taking this stock in the weak markets of December and January they expected to sell or re-distribute it at a higher price, and that the sell-off to 46 was a deliberate shake-out for the purpose of giving the stock the appearance of weakness so as to facilitate inside accumulation; also to discourage any bull following in the early stage of the next manipulated rally and perhaps likewise to encourage the building up of a weak public short interest on the break to a new low.

In view of the bullish conclusions we have reached as a result of our interpretation of the action to date, and assuming we are employing only the figure charts for our deductions, we now decide to make a purchase at or around 50 (R) with a stop either a point or two under the low of 46, or, if we wish to limit our risk more closely, at, say, a little under 48. The latter would allow for a possible normal correction of the rally from 46 (P) to 52 (where February begins). As the one point chart shows a rather rapid lifting of the supporting points on the recovery from 46 (P to R), we read this to mean that the supply of stock has become scarce as a result of more than a month and a half of accumulation and reason that this rounding upward indicates it is ready to go into the marking-up phase. That is, if our timing is accurate, we are not likely to see it below 50 again.

Since we see possibilities of a move to 72 or 75, a long trade with a four point stop would be a logical business risk; and this is a sensible time and place to take a position because at R the stock appears to be on the springboard. (Sect. 9M, Pg. 2, Par. 6 and Pg. 3, Par. 1; Sect. 10M, Pg. 4, Line 17; and Sect, 14M, Pg. 4, Last Par.) Thus, we see that it appears to have completed a considerable period of preparation for an upward move and at R it is on the pivot, or hinge, from whence it should soon move in our favor.

Let us condense these 1 point movements into a 3 point chart and see how it looks:

```
                             •
55 55                        •
 x  x  x           x         •
 x  x  x  x        x  x      •
 x  x  x  x  x  x  x  x  x
 x  x  x  x  x  x  x  x  x
50    50    50 50 50 50      Dots above 52
             x  x  x  x      explained below.
             x           x
                      x  x
                      x
```

The dots on the 3 point chart show how the chart would look if the stock should confirm our judgment by rising to 55; and if it should make 56 there would be no question about its being in a bullish position. Meanwhile, counting the number of figures and blanks on the 50 line of the 3 point chart, we find that they total eight. Multiply by three and we have 24 — which practically confirms the forecast of the 1 point chart.

The stock advances to 55 (1 point chart), which means that it has recovered all of its recent decline and confirms our judgment that it is ready to go forward. After a small dip to 54 it develops the second, springboard position at 56 (S) for a probable fast mark-up (Sect. 10M, Pg. 5, Par. 3). On a purchase here, our stop should be, say, a little under 53 on the ground that if our conclusion that the stock is now being marked up is correct, it should continue to advance rapidly without falling deeply back into the upper limits of the range 50-55.

The advance continues to 61 where it hesitates briefly due to the influence of the former congestion area 59-60, on the way down from 70-71 in November and December. Some of the buyers at this, former supporting level, who held on and carried their stock down through the slump to 50 and the long tiring out process thereafter are anxious to get out even on this February recovery. But offerings from this source, evidently, are not heavy because the stock reacts stubbornly (T) and is promptly supported on the dips to 58. (Sect. 7M, Pg. 7, Pars. 1 & 2 and Footnote, Pg. 8.) The five point rise indicated by the line of 58s (at T) is duly accomplished by a run-up to 63. Then the stock settles back, meeting higher support at 60 while it consolidates the advance from 50. A line of ten 60s indicates 68-70 as the next probable objective.

Now comes the rush up to 68 (U), support at 67, and another lift to 70. It is rather hard work advancing the price to 70 and there is an ample supply there — all indicated by the shortening of the upthrusts from 68 and the tendency of the movement to flatten out in a narrow, range as the stock encounters the resistance of the former (November) high. (Sect. 7M, Pg. 6, Par. 2, Line 7.)

Just below 70, the 69 line stretches out to eight, counting one blank, which-says: "Get out and go short. I can't make 72 or 75 I am going back to 61." Accordingly, we sell short with a stop, say two points, above the highest point in the range.

It looks as if those who were handling this stock sold it down steadily until it reached 64 (V), where, after several small rallies develop at the half-way reaction mark, the price slumps off again and finally makes 60 (at W). So the stock told the truth at 69.

Some demand comes in around 60 (W), probably from traders venturing to feel for a bottom in view of the previous support at T (Sect. 7M, Pg. 12, Par. 2). This demand is sufficient to stimulate a quick rally to 65 where the price falters at a lower top (X) and an apex forms. A break to 62 warns us that more distribution was accomplished on the five point rally to 65 and the line of four 64s (at X) says another 61 is ahead with possibilities of a drop to 52-50 on the basis of the wider line of 64-65 (V to X). When the stock fails to stop at 61 and is able to recover only 2 points at instead of a normal four points, we must assume that a further decline is coming and that it is probably headed for 52-50; possibly 44-40 on the basis of the even wider line of twenty-six entries across 64 (U to X).

Meanwhile, following the rally to 65 (X) we have reduced our stop to, say, 66 5/8. The weak rally to 59 (Y) gives us a new resistance point for adjusting our stops downward so, when the price falls to 56, we lower our stop to a fraction above 60 (Sect. 7M, Pg. 16, Par. 1). The stock next goes right down to 52 where again the best it can rally is 2 points (Z). It hangs above the old 50 supporting level (K to R) with no evidence of material rallying power; indicating that, hew supply is coming in along the line of 53 (Z-AA), which promises a further slump into new low ground, 44-43.

From here it is a rather steady march down to 40 without a 3 point rally. Approaching 50 (BB)-and 46, (CC) there is some hesitation but the steadily lowering bottoms (48, 46 and then 45) indicate virtually no support and the downward slanting tops from the last 53 (AA) onward, show steadily increasing pressure which implies, in advance, a probable break through the Dec.-Jan. supporting area which is likely to uncover a rush of liquidation when these critical old lows are violated.

Reviewing the operation from the 3 point chart (next page), we find that those who were running this campaign held the bag for Bethlehem Steel around 50 in January and December, knowing that they were in a bear market, but that there was a probability of a rally on which they could unload.

When more favorable market conditions prevailed during February, they marked the price up to 70 and unloaded all they could. What they had left was sold on the way down. In all probability they also sold a considerable quantity short.

From the time the stock left 65 (X) on the lost down-turn it dropped like a plummet 25 points without a 3 point rally, indicating a refusal to support the price or to buy any of the stock until it reached the 40 level (see 1 point chart).

Note once more the forecasting value of the 3 point chart. On this chart the last phase of the rise from 60 to 70 has the appearance of the application of hypodermics since the quick bulge to 70 was not sustained but gave way immediately to a slump which cancelled the whole of the rise from 61 in short order. (Sect. 7M, Pg. 11, Line 3 and Footnote, same page.) Evidently the sponsors of this stock felt that there was relatively little time in which to get out from under, so they ran the price up in a quick thrusts above the main distribution level 63-65 to catch as many shorts as possible and to load up the public, which can easily be stampeded into buying on such apparently strong advances. (Such a maneuver also creates an overbought condition — see Sect. 14M, Pg. 1, Last Par., and Pg. 4, Par. 1.)

5 Point Chart of Bethlehem Steel — December, 1930 to April 1931:

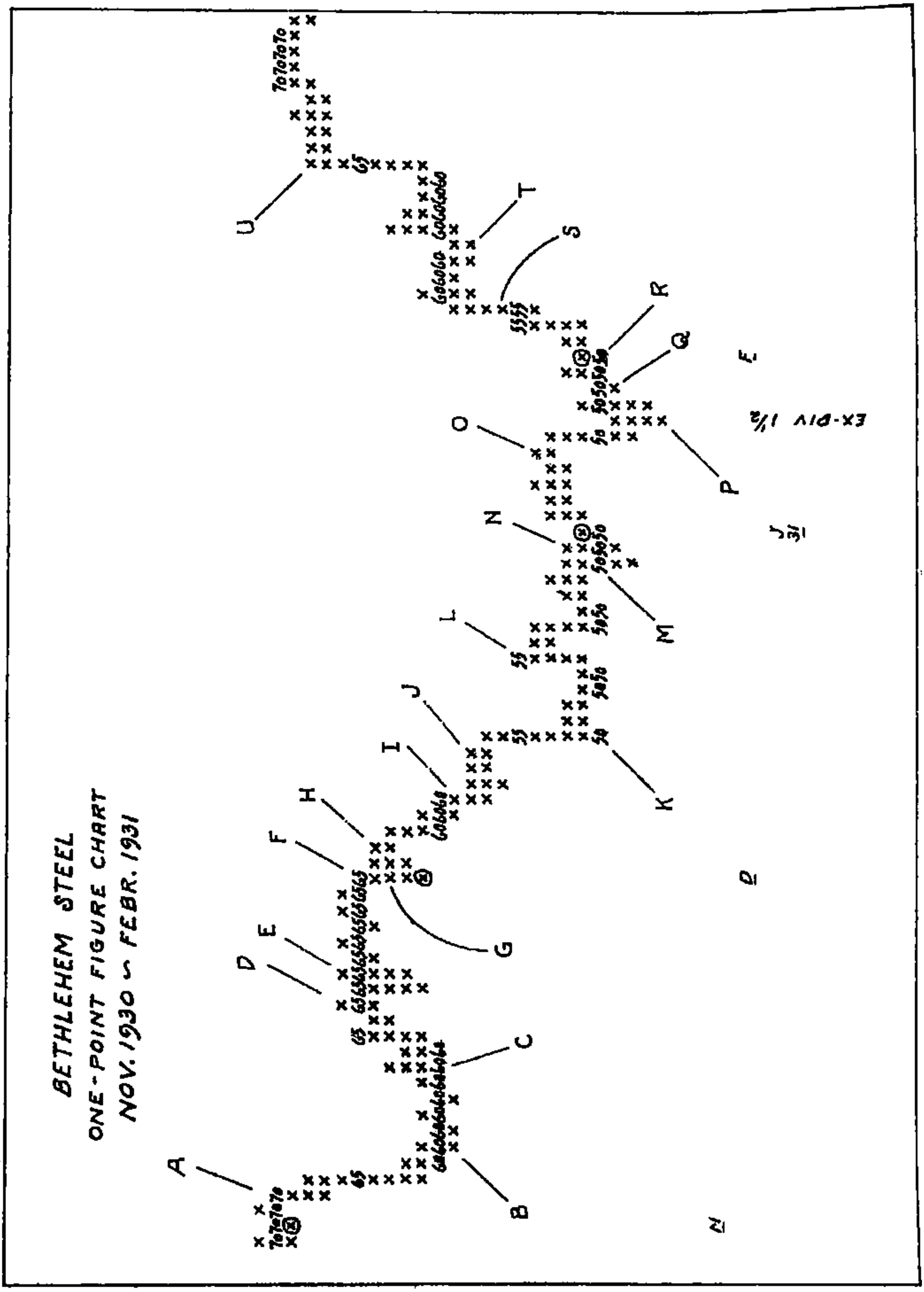
```
                                            70
                                            x   x
                                            x   x
                                            x   x                    X
                                            x   x   x
                                            65  65  65  65  65  x
                                            x   x   x   x   x   x
                                    x       x   x   x   x   x   x
                                    x   x   x   x       x   x   x
                            x       x   x   x           x   x   x
                            60  60  60  60              60      60
                            x   x   x                           x
                            x   x                               x
x                           x                                   x
x                           x                                   x
55  55                      55                                  55
x   x   x           x       x                                   x
x   x   x   x       x   x   x                                   x
x   x   x   x   x   x   x   x                                   x
x   x   x   x   x   x   x   x                                   x
50      50      50  50  50  50                                  50
                x   x   x   x                                   x
                x       x   x                                   x
                        x   x                                   x
                        x                                       x
                                                                45
                                                                x
                                                                x
                                                                x
                                                                x
                                                                40
```

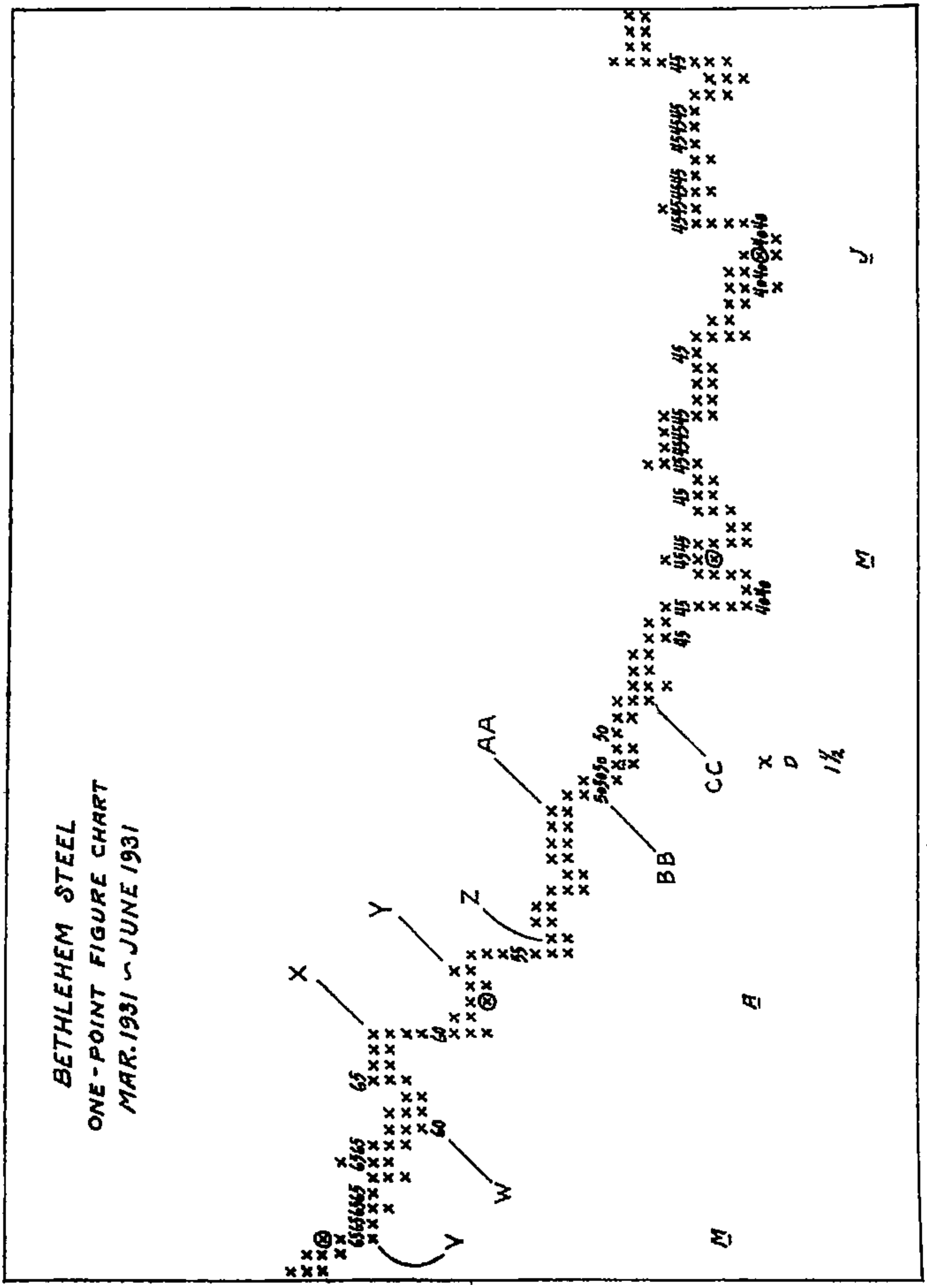
Count the number of crosses on the 65 level (the first solid line of supply on the 3 point, chart) after the stock fails to rally above 65 again on its recovery from the last reaction to 60. The total is five. Multiply by three and the result is fifteen, indicating a decline to 50. But supply on the line of 63s stretches out to a total of 24 points (8 X 3), indicating a further drop to around 39, should support fail to appear (as the 1 point chart shows it did fail) at our first objective of 50.

This illustration serves again to emphasize the importance and significance of the 3 point chart. Note that the 1 point chart pictures a steady but angular decline, checked only by temporary resting spells or small rallies (from X down to 40) on which more stock was laid on the market, while the 3 point chart (Pg. 10) shows a vertical drop from 65 to 40 and identifies the abortive run-up to 70 as a terminal thrust. (A terminal thrust is the reverse of a terminal shake-out; Sect. 21M, Pg. 3, Par. 3.)

This radical difference in the appearance of the two charts reflects emphatically the fact that the stock was unable to rally as much as three points at any time during its decline and was totally unable to hold even momentarily at former natural supporting points (T and K to R on the 1 point chart), on the way down.

Thus the 3 point chart brings out a condition that is not always immediately apparent from a casual glance at the 1 point chart. It is important to observe and remember in this connection that the inability of a stock to reverse its trend <u>three full points</u> or more, or to rally emphatically from former supporting levels, is often highly significant, and should seldom be ignored, but should be carefully considered in connection with other contemporary technical manifestations.


BETHLEHEM STEEL
ONE-POINT FIGURE CHART
NOV. 1930 ~ FEBR. 1931


BETHLEHEM STEEL
ONE-POINT FIGURE CHART
MAR. 1931 ~ JUNE 1931

INDIVIDUAL CHART STUDIES - PART IV

FIGURE CHARTS

The next two studies are intended to illustrate additional principles involved in figure chart analysis without repeating the detailed points which were covered in the preceding illustration. To test your understanding of what you have already learned, and your ability to apply your knowledge, it is suggested that you incorporate these previously explained details for yourself in the discussions which follow.

On Pages 7, 8, and 9, we have a 1 point figure chart of U. S. Steel covering the period from February to October, 1931. This chart begins with Steel around 140 following the recovery from the low level of December, 1930; this occurred in the early part of 1931.

In February, Steel recovered from 138 to 152. A formation began at the 147 (A) level which indicated that the stock was running into considerable supply. (Sect. 11M, Pg. 8, Par. 1.) Distribution apparently began there, but having sold a quantity, those dominant in the stock evidently believed they could attract more buying by lifting it to a level of 150 and above, and so we see a continuation of the line of distribution at the 150 level (B).

By early March, this price could no longer be sustained and the stock dropped back to the 145 level again (C). Here there were increasing signs of weakness. The first supporting point was 145, then 144, and finally 143 (D). Taking first the width of the line across 149-150 as a basis (B to E), we find that this totals 23, promising a decline to 129 (152 minus 23) and possibly 126 (149 minus 23). Next, considering that the stock distributed from 147 (A) up to 152 was all part of tie same selling campaign, we find that the 147 level is repeated 34 times (A to F), including the blanks. This indicates a further possible decline to 118-115.

A 3 point chart of this formation (below) shows 148 repeated 12 times, counting five blanks, which forecasts a decline to 112, and confirms the 1 point chart.

```
        x             E
        x x
        5050        50
        x x         x x
x   x   x x     x   x x
x x x x x x x   x x x x
x x x x x x x x x x x x
4545  45  45454545454545   From the price          148
x         x   x   x x x    Deduct 12 x 3            36
x                 x   x    Indicating decline to   112
x                     x
x                     x
40                    40
x                     x
                      x
```

As to the final bulge to 150 (at E):

It is usual after distributing a large quantity of stock at a certain level to find a number of shorts attempting to take advantage of the expected downswing and so it is customary for those handling such a campaign to give the stock a run up in order to catch these shorts before allowing the downward swing to become apparent. (Sect. 11M, Pg. 9, Last Par.) When this stock was ready to break, the rise of 5 points from 145 to 150 (E) occurred (see 1 point chart). After that the downward course was almost uninterrupted except for a few small rallies until the price of 110 (J) was reached.

From the time the stock touched 140 (under F), the chart formation was like a series of steps down to 110 (J). A trader who took a position on the short side at 147-148 could have made 37 points profit on this decline. By pyramiding, this profit could have been greatly increased; (Sect. 24U, Pg. 16, Par. 2.)

After a weak 5 point recovery to 115 (K) the price dropped into new low ground at 109 (M), and after a few more brief points of hesitation (N and O) around the 100 level, sank to 84 in June, 1931 — 63 points down! (*)

After such a long decline, we are naturally alert for signs of a possible turning point. Therefore, when the price recovers to 94 (Q) early in June we watch carefully to see whether a change may occur, as this is the first vigorous rebound since the long downward movement started. Also, it has the effect of breaking the angle of the last phase of the decline from 112 (L) to 101 (O) as well as the angle of decline for the whole movement from the 150 level. (Compare with Bethlehem Steel, Sect. 11M, Pg. 3, Par. 3; and Sect. 7M, Pg. 29, Par. 2.)

Following the rally to 94, the stock settles back again but is twice supported above the early June low of 84 (R and S), moving in a range between 87 and 93. Gradually it works out a line of 13 in this range (R to S), coming close to the apex of the range at the last 90. At 92 (T), the indication becomes positively bullish and confirms a probable immediate rise of 13 points from 87-88, that is, to 100-101. The stock makes 102, reacts and then narrows to a range of 100-101. Reexamining the formation developed during the fore part of June, and taking in all the blanks and loose ends across the line of 87-88 (P to S), we find there is also a possibility of a further recovery to 107.

The stock rallies to 102 again (V), then makes 104 and finally rallies to 105. Note that the successive tops, 102, 104 and 105 (U, V, W and X), were made under difficulties (Sect. 11M, Pg. 8, Par. 1); that is, the stock was being forced or held up while it was being distributed in the 100 to 105 range, under the May 110-115 congestion area.

The width of this zone of distribution is 10 on the 104 line (W to X); 16 on the 102 (U to X) line and is extended 4 more points on the 93 line. Thus

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* Note the intermediate supply levels at 142-138 (G to H) in April; and-118-112 (I to L) in May. Note also the tendency to overrun down-side objectives and the inability to fulfill indicated objectives on rallies — characteristics symptomatic of a bear trend.

the indication is that the stock may go all the way back to 84, should support fail at 94 and at 88.

At the last 103 (under X) it is on the hinge, so when the price breaks to 102 (Y), the stock tells us it is ready to go down. We now also observe that it has given an additional bearish indication by stopping at 105 on the way up, thereby falling short of making good the full objective of 107 indicated by the support (P to S) in June.

The price breaks to 95, rallies 4 points (Z) compared with a normal 5 points, then falls back after this brief bulge to the 16wer edge of the distribution zone 99-105 (U-Y), and develops a new supply area, counting 11 points on the 97-96 level, substantially confirming the 84 objective which it then reaches, thus fulfilling its prediction.

At 84-85 (AA to BE) there is accumulation sufficient to indicate an 8 point rally. This is fully borne out by a recovery to 93. At 90 (CC to DD) a line of distribution amounting to 14 figures and blanks across, indicates that Steel next probably will recede to 76. It sinks to 80, meets a little support, then drops to 75. Again the chart made a correct forecast in advance. Then the foundation for a rally is laid with a line of four at the 77 and 78 levels, indicating a rebound to 81 or 82. The stock actually rises in a fast bulge to 84 where it encounters offerings. The straight drop back to 75 stands in evidence of its continued weakness.

After two attempts to rally (to 78), the price finally reaches 79 (EE) on the third effort, where it is arrested and turn3 weak again, this time going through the old 75 supporting line. The weakness continues for another dozen points until the low full figure of 63 is recorded in the first few days of October.

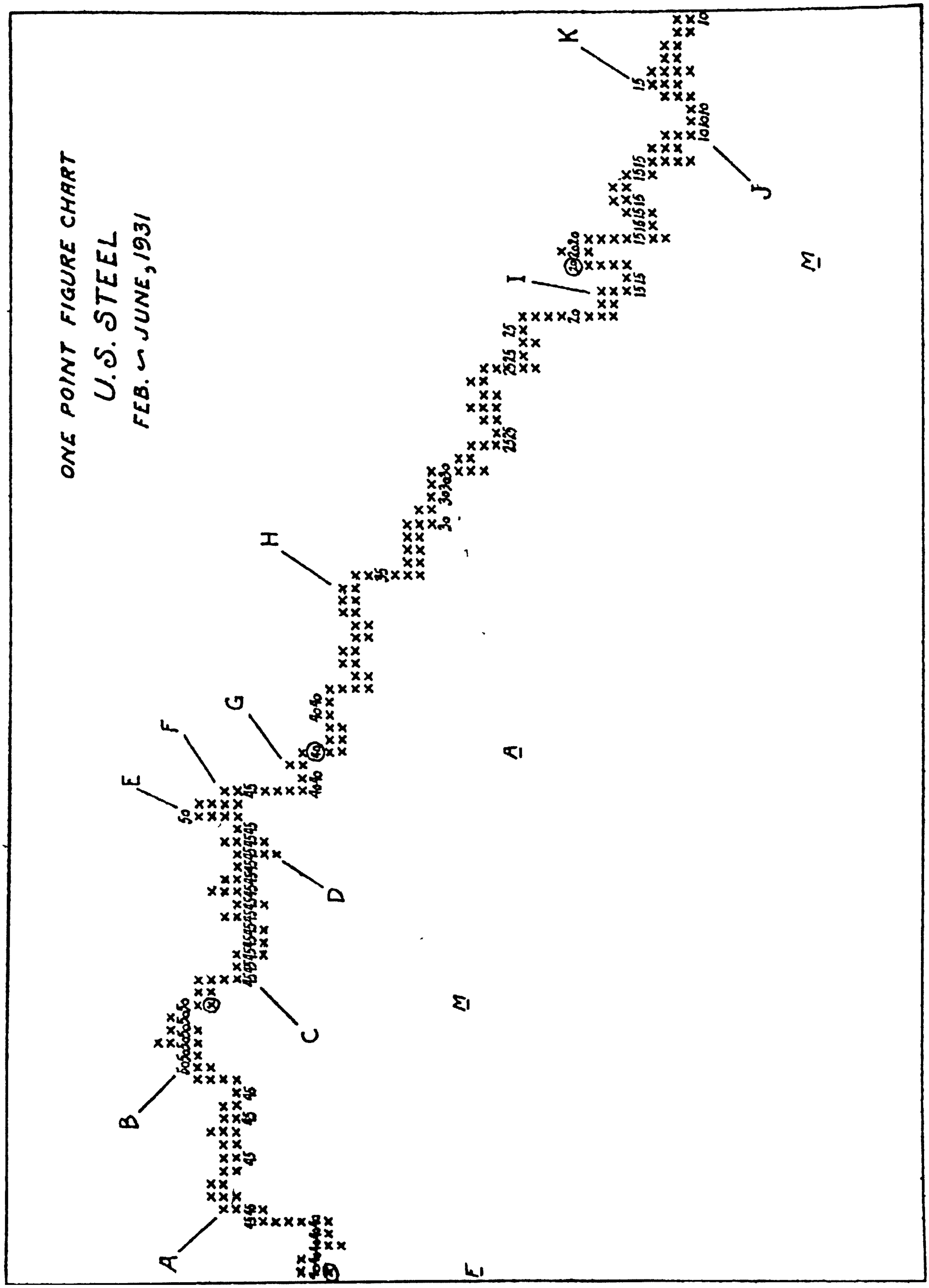
The rally from 63 is not based upon any substantial formation but appears to be due mostly to an oversold condition and short covering accompanied by some professional buying for a trading turn. This produces a recovery first to 71 (FF) and, following absorption around this level, a further rally to 73. A formation is built across the 71 line (FF to GG), amounting to 7, counting 1 blank, which seems to indicate another decline to 64; but the stock stops short of this, indicating that sufficient support is being met at 66-68 (HH) to produce another rally to 72. Then follows a new formation on the 70 line amounting to 7, but the lowering tops — first 72, then 71, and the gradual development of a hinge at 70, prepare us for a final decline to 63. This decline falls 1 point short of the indication by stopping at 64 on the full figure. In the last few days of October, a small base is made on the 65 line, sufficient to indicate another rally to 69.

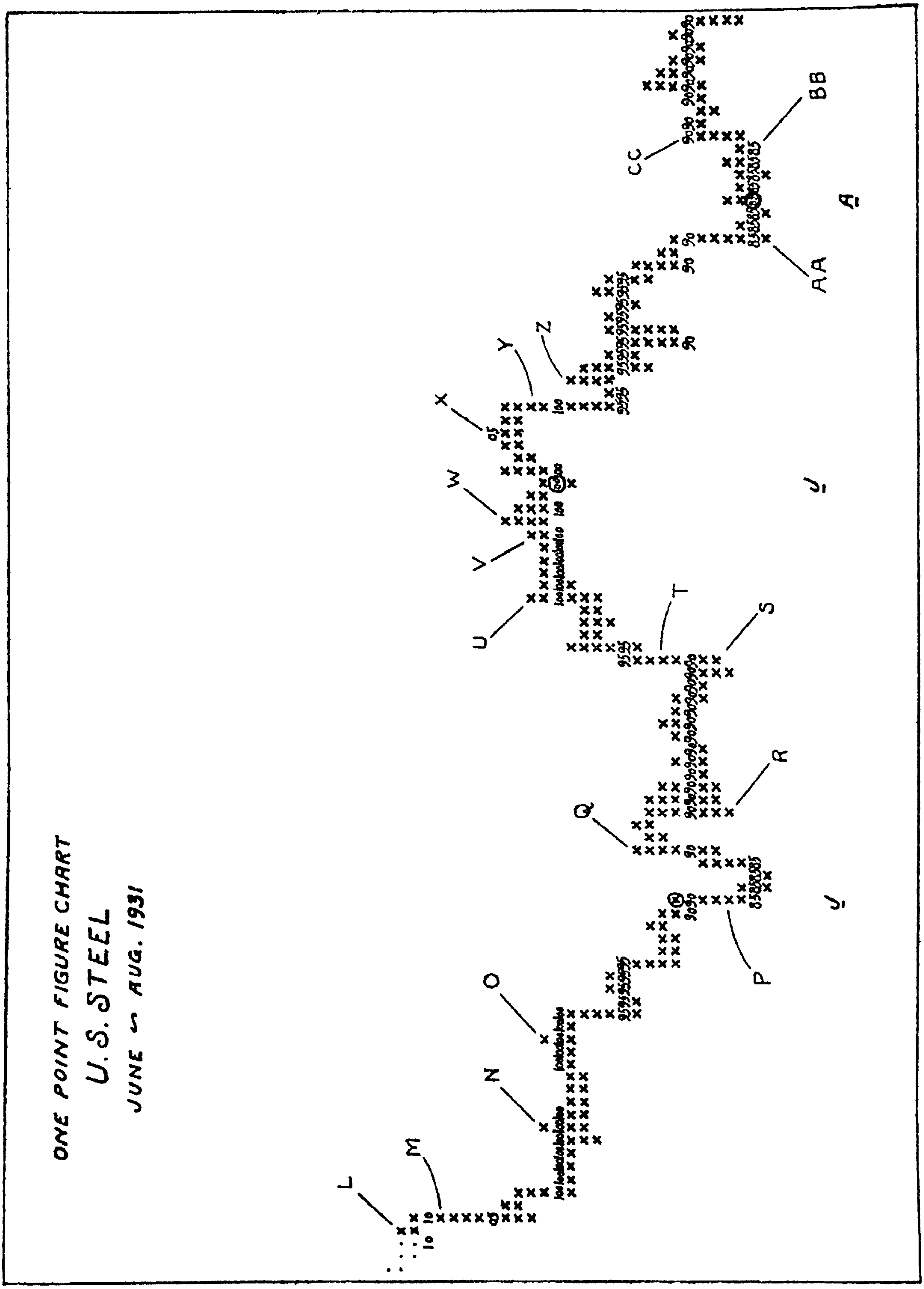
The 3 point chart of this stock at the levels below, 75 appears as follows up to November 1st:

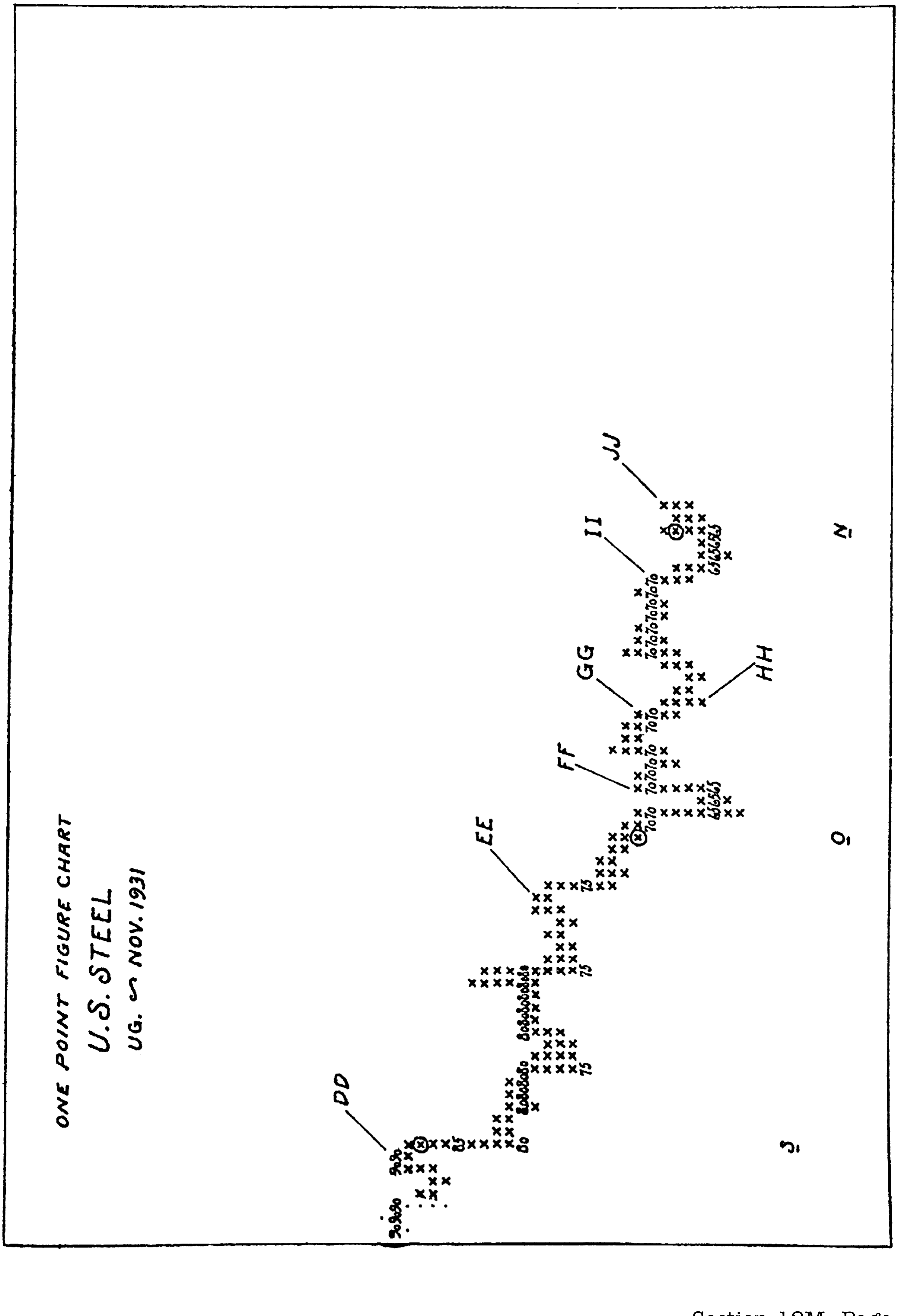
```
          x
          x  x  x
    x     x  x  x  x
70 70 70 70 70 70 70
 x  x  x  x  x  x  x
 x  x  x     x  x  x  x
 x  x        x  x  x  x
 x  x        x     x  x
65 65             65 65
 x  x              x
 x
```

This formation, and the trading range developed on the 1 point chart, may work out as a final base for the beginning of a substantial rise in Steel, or it may develop into another downward swing of as much as 21 to 24 points on the 3 point chart — 24 on the one point (FF to JJ) — on the basis of the formation thus far developed. The reason for this follows: From the low point of 63 there was a recovery of 10 points to 73, these figures marking the lower and up-per boundaries of a 10 point zone. Then from 73 down to 66 — the next point of support — the zone narrowed to 7 points. From 66 to the top of the next rally, the zone narrowed to 6 points. By declining again to 64, the zone widened two points, making 8, but by its recovery from 64 to 69, the zone, or range of the stock, narrowed again to 5 points.

Thus, within the month of October, 1931, this stock has gradually worked itself out toward a point so that if its oscillations continue to narrow, it will form a hinge, say about 66. It 3hould then soon tell us, by the way it behaves when it tries to recover or-react from there on, which way it will go and how far.


ONE POINT FIGURE CHART
U.S. STEEL
FEB. – JUNE, 1931


ONE POINT FIGURE CHART
U.S. STEEL
JUNE ~ AUG. 1931
L
M
N
O
P
Q
R
S
T
U
V
W
X
Y
Z
AA
BB
CC


ONE POINT FIGURE CHART
U.S. STEEL
UG. ~ NOV. 1931
DD
EE
FF
GG
HH
II
JJ
S
O
N

INDIVIDUAL CHART STUDIES - PART V

FIGURE CHARTS

<u>How the Figure Charts of the New York Times Average Foretold the Panic of 1929.</u>

The figure chart accompanying this discussion, pages 7, 8 and 9, shows the 1 point movements in the average price of 50 stocks, according to the New York Times, from June to October, 1929.

The first important formation to which I desire to call your attention is around the 244-245 level (A-B). (The first figure of each number is dropped for convenience in making the chart.) Here the average, after making a false move up to 48, and another down to 42, gradually works out a horizontal formation at 44 and 45. When the market leaves 45 for the last time and works up to 47, then 49 and 50, we have a clear indication, from the twelve times that the price crosses the 44 level (including one blank space), that the average is likely to advance to about 254-56 before encountering substantial resistance.

The 3 point chart of the range at this level would appear as follows:-

```
                        50
                         x
         x               x
         x   x           x
 x       x   x   x       x
45  45  45  45  45  45  45
 x   x   x   x   x   x   x
 x   x       x       x   x
 x                   x
 x
```

This shows seven entries on the 45 line, including two blanks, indicating a rise of 21 points, or to 63-64. The market more than made good on both of the above prognostications for the average rose to 80. In this connection <u>the important fact is that the 5 point forecast calls for an advance into new high</u>

ground above the top of the last substantial rally to the 54 level (not shown on chart) early in May. (*)

The action of the average between 73 and 80 (E to F) indicates the probability of a considerable decline, for the 77-78 mark is recorded nine times, and as this formation stretches out on the 75 line, we observe a weakening of the support and an increase in the pressure, as indicated by the two rallies to 78 after the 80 top is made and the lowering bottoms from 75 to 74, then to 73.

On the final 75 (at F), the market is on the hinge, but instead of following out its previous indications, it contradicts them by refusing to break down to the critical level of 72 (which would be halfway between the top of the advance to 80 and the last important support level at 64 above D) and rises to 77, then 78 (G), thereby suggesting it may try for 84 (eleven 74s — E to F — added to 73). The rise continues to a new high at 81; then 82 and 85.

Between 85 and 80 another formation begins which is broader than the former one, 84 being recorded ten times (H to J) including the spaces; indicating a reaction to 75-74. This is actually accomplished (K). However, the average does not break through the important support level at 73 (the previous July low at F, recorded on the setback from 80), and the market is thereby given a new lease of life.

Then follows a sharp recovery, without building a base, to a new high of 88 (L), which holds only a very short time, because the rally was based mostly on short covering and is promptly followed by a reaction to 80. Next a rally to 84 is followed by a slump to a new low at 72 (M) and an immediate sharp recovery of

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* Note that when the average fulfils the indication of the 1 point chart by going back to this former (May) high at 54, its less than normal reaction to 51 (at C) and the brief hesitation there tells us, in advance, that it is likely to go on and try for the higher objective of 63-64. Similarly, at this level (D) and again when it exceeds the indication by advancing to 66, we are warned to expect a further advance by the small extent of the supply and the strong support indicated by the brief duration and extent of the reactions.

13 points. This break to 72 was the result of a determined professional drive which might have started a general collapse, had it not been for the fact that it failed to induce sufficient liquidation to accomplish this purpose. Furthermore, the drive succeeded in catching stop loss orders placed around the former 74 level (K) in sufficient quantity to permit covering important lines of shorts at a satisfactory profit.

Observe the angle at which the market rose from 45 (B) to 80 (above E). Roughly it was an angle of more than 45 degrees, and see how the price began to falter after it touched 80. Also note that it was much more of a struggle for prices to gain the 5 points, 80 to 85 (at H), than for the average to rise from 45 to 80. Supply was increasing steadily.

The recovery from 74 (K) to 88 (L) was evidently forced, for that high level was not long sustained. The whole of the rise, and more, was lost (at U), owing to the professional activities above outlined.

Then came more hypodermics (N to O) and a further gain was made to 90, then 93, 94 and 95 on successive bulges. The market worked within a range of 88 to 95 for some time and finally went out of that range on the up side (Q) after making a base formation of seven 90s on the 1 point chart, which is the same for a 3 point chart, owing to the amplitude of the trading swings at this level. Hence, the indication is for a further rise of 7 times 3, or 21 points above the 88-90 level, to 309-311. (*) This eventually proved to be the final top of the

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* The moment we have a clear indication that the market is headed upward for a new advance, we check back on the 1 point chart to weigh the implications of the July-August trading range (between I and N). On the basis of figure chart analysis alone, this indication is given when the market stubbornly holds (at P) the rise to 93, 94 and 95 in the range 88-95 (O-P). Since the two slips below the July-August trading zone (to 74 at K and 72 at M) appear to be in the nature of shake-outs, we conclude that absorption took place in this range around 78-80 (I to N). Support evidently came in at the first 80 following the reaction from 85, (H to I) and continued out to the last 80 or 81 (at N). The entries and spaces on the 80 line total 34, which, added to 278 gives 312. Thus we have a close check on the objective of 311 indicated at the 290 level (under O) and again a little later on at the 296-300 level (Q to R).

market. (Compare the 1 point chart, Pages 7 and 8, and the 3 point chart, page 9, at these levels.)

Above the 90 level (P) the formation encouraged continued trading on the long side, because tops and bottoms of the swings were successively higher. After the average advanced to the 300 level it developed a formation between that figure and 296, with a tendency to move higher (out to R). The line of ten at 96 (above Q), broadening to twelve and thirteen at 299 and 300 on the 1 point chart (to R), indicated 306-311 and thereby confirmed the previous indication of the 3 point chart at the 290 level.

After reaching 307 (S) the market met sufficient offerings to force the average back to 297 (T), but not through the support level (Q) at 296. A vigorous short-covering rally carried the average to a new high at 308 (U) where the supply of stock again arrested the market's progress, and a series of lower tops on the rallies (U to V) indicated a down trend. The recession continued to within a few points (V) of the critical level at 290. Then followed an 11 point rally from 293 to 304, a normal setback to 299, and a second spurt of 11 points to 311, a new high record for all time (W). The bull campaign ended right then and there at the 311 mark.

After the pinnacle was reached, and a brief rally occurred from 300 to 303 (at X), the whole picture became very ominous for the bulls. (*) The range of the market from the last low, 293 (V) to 311 (W) was gradually swinging to

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* Observe that beginning in July, the market began to exhibit symptoms characteristic of important distribution. The amplitude of the swings in the average is wide and the movements are becoming increasingly erratic, following a long and sustained advance from the May lows. The frequent application of hypodermics (K-L, T-U and V-W) seems required to maintain prices at the distribution level. But when the effects of these stimulants wear off, there are equally violent relapses (L-M, U-V and W-Y). Also, price movements were becoming extremely selective, that is, the upward surges in the average were brought about largely by rotating demand from one fast moving, high priced stock to another to keep up the appearance of great strength, but the main body of stocks responded sluggishly and numerous other issues were topping out ahead of the average. (Sect. 8M, Pg. 4, Par. 4; Pg. 5, Pars. 1-3 and Sect. 4M, Pg. 20, Last Par.)

an apex at about 300 (under X). (This shows clearly on the 5 point chart, Pg.10). From this level we should expect a very important move in one direction or another, whichever way the market breaks out of that 293-311 range.

From the evidence thus far, the probabilities are distinctly bearish and this is confirmed by the immediate return to 300 after the weak three point rally to 303. (Compare the 1 point chart at X with the 3 point chart. The latter plainly emphasizes this weakness, for a normal rally would be to 305 or 306 — halfway back to 311.) The count across the 307 line on the 1 point chart was now 28 (S to W), forecasting a down turn to 283 or to 279 (311 minus 28 and 307 minus 28). Below 307 a series of broader supply lines at 304, 302 and finally 299-300 indicate successive objectives of 279 or 272, then 272 and 263, and next — across the full line of 300 (above the letter Q out to X) — 47 points, down to 264 or to 253.

The 3 point chart, at the 307 level (S-W), confirms the last mentioned indication for the count across the 307 level is 16, which, multiplied by 3, indicates 48 points down.

For the sake of *a* complete illustration of figure chart principles, let us suppose at this point that we were considering the alternative possibility of a new advance, in the event that the market were to break out of the 293-311 range on the up-side. On the 1 point chart we have a line of 33 across the 296-7 (August) supporting level (Q-W) to sustain an up move to 329-30 and possibly more if the line of 300 (out to X) should hold. With the corresponding line of 296-8 as a basis, the indication on the 3 point chart is 69 points up (23 times 3) to 365 or 367; and perhaps 81 points (27x3) to 377-9 if we include the blanks across to the last 300 at X.

In brief, though the chances were against an advance, the market was saying to the reader of this 3 point figure chart of the New York Times Average of 50 Stocks: When I leave this 300 level, I am going either to 377 or to 264 and then probably to 227 — for supply on the 300 line now amounts to a total of 84 points. Watch me when I start out of this range and go with me. The average was unable to hold at the 300 level, nor at 293, instead, it started down from its critical position and made 290. At 292 (Y), 291 or 290, we were justified in getting out of all of our long stocks and taking the short side of the market. The rally to 300 (Z) which followed, was quickly lost again and the market receded to the 90 level almost immediately a second time. Here was confirmation that the trend pointed downward. The rally to 300 (Z) added four more down units to the down formation on the 1 point chart, and six on the 3 point.

When the first bad break come in early October, the average declined to 273 (AA). Then, as if to contradict all the chart had previously said, there was a recovery of 28 points to 301 (BB), evidently engineered for the purpose of scaring in all the shorts before the real decline. (*)

The formation at 299 (BB) was very brief — a line of only six on both the 1 point and 5 point charts — but if we take into consideration the entire width of the formation from the time the average first made 299 (at Q), we find that counting across there ore 44 on the 299 line of the 3 point chart, including 18 blank spaces. Multiply this 44 by 3, and we have an estimated decline of 132 points from 299, which is the equivalent of 167 as the indicated objective point to which the average would probably decline.

This was correct within 2 points as the panic culminated with the average at 165!

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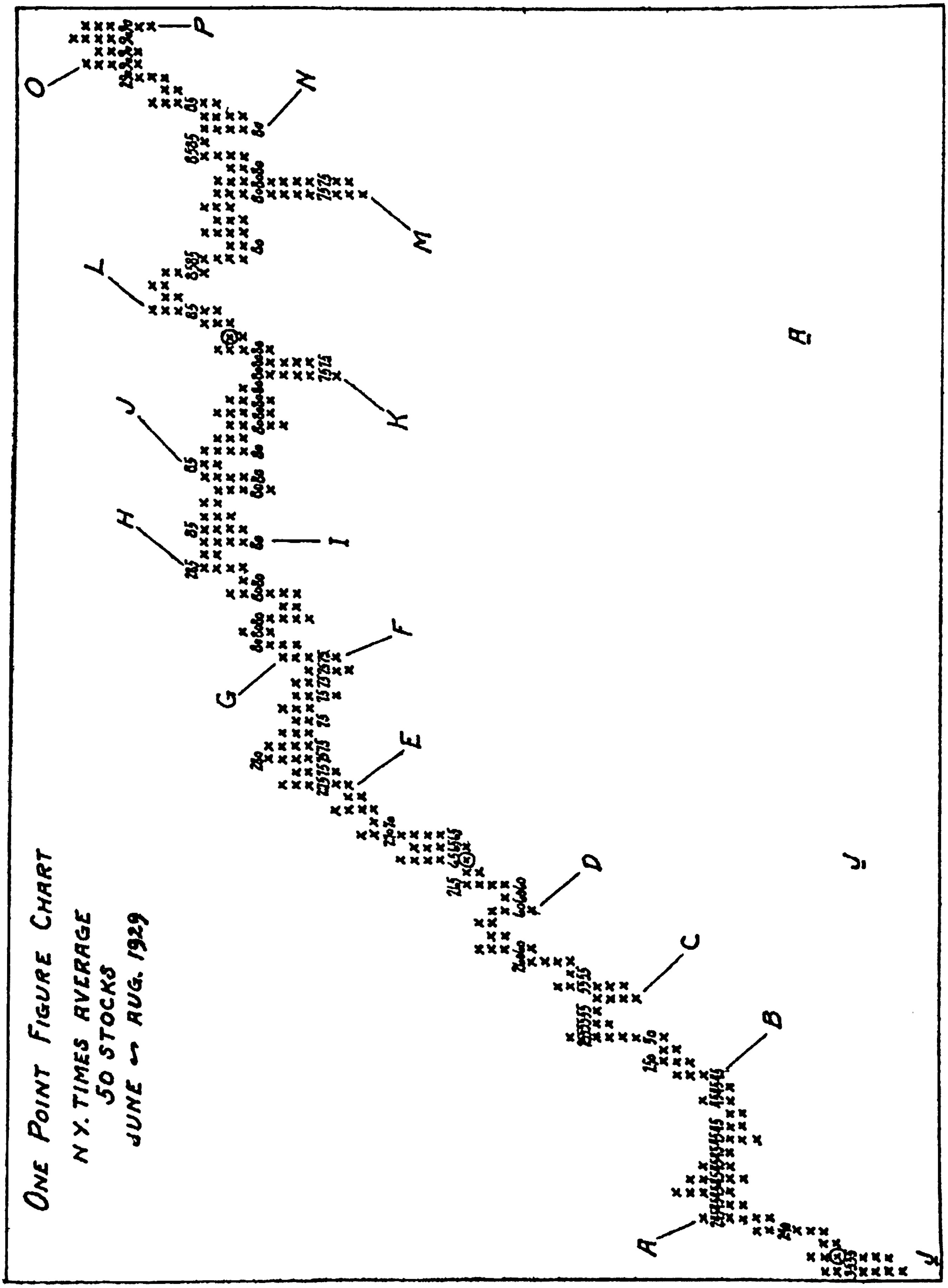
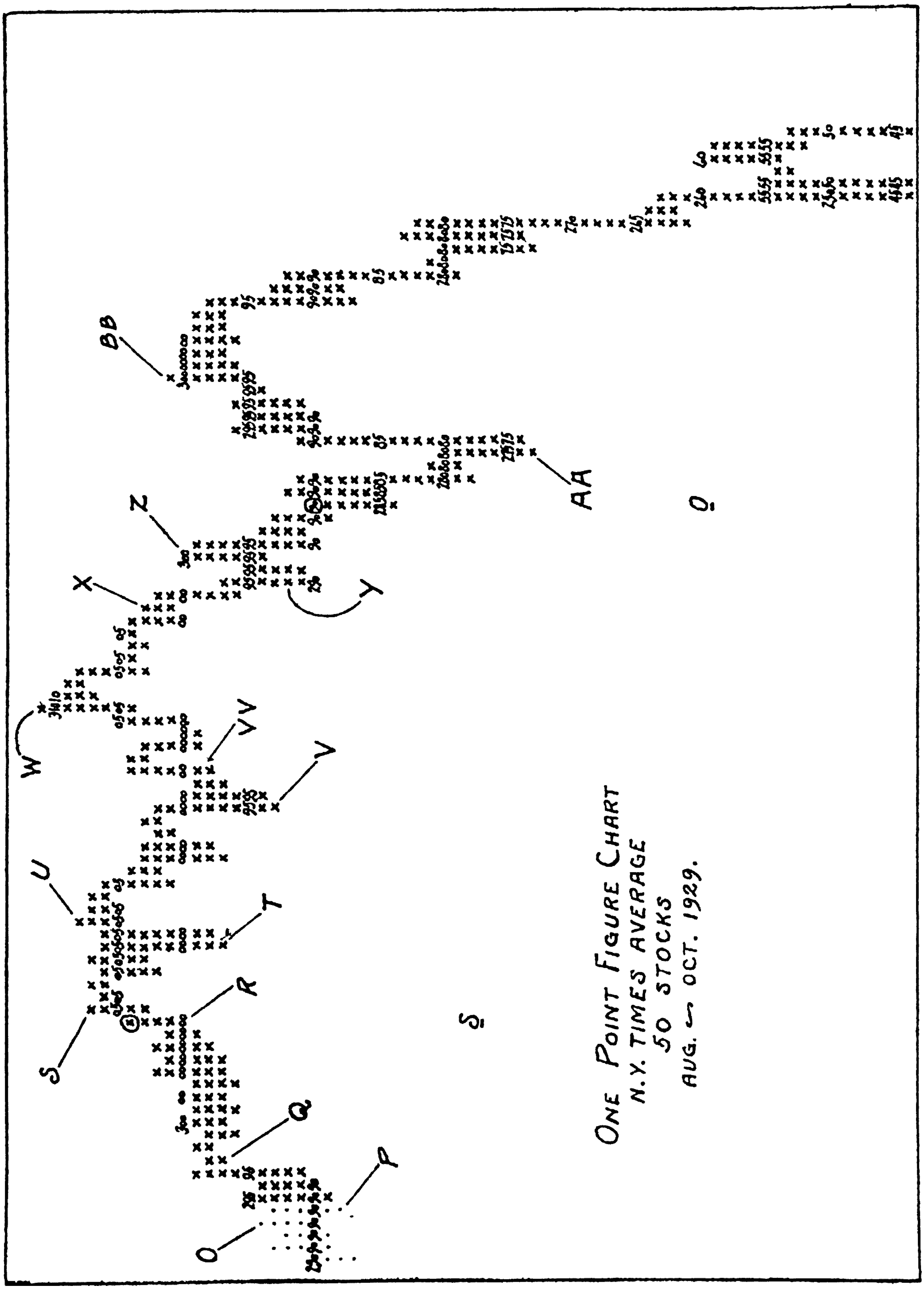
* The relapse from W to AA is very pronounced; the patient's condition is growing steadily worse; evidently the last stimulant drew very heavily upon his reserve strength. But Doctor Bull is not ready to give up yet so he resorts to one more heroic treatment which brings the rally to BB and precipitates the final relapse. In other words, the market having become so saturated with supply as a result of heavy distribution during August and September, indicates the exhaustion of buying power by sliding rapidly down from 311 to 273. Here the decline is checked with the aid of short covering and new buying induced by the return to the old supporting levels of 73 and 74 in July and 72 in August. This helps to engineer the recovery to BB where secondary distribution completes the bull campaign.


ONE POINT FIGURE CHART
N.Y. TIMES AVERAGE
50 STOCKS
JUNE — AUG. 1929


ONE POINT FIGURE CHART
N.Y. TIMES AVERAGE
50 STOCKS
AUG. — OCT. 1929.
O
P
Q
R
S
T
U
V
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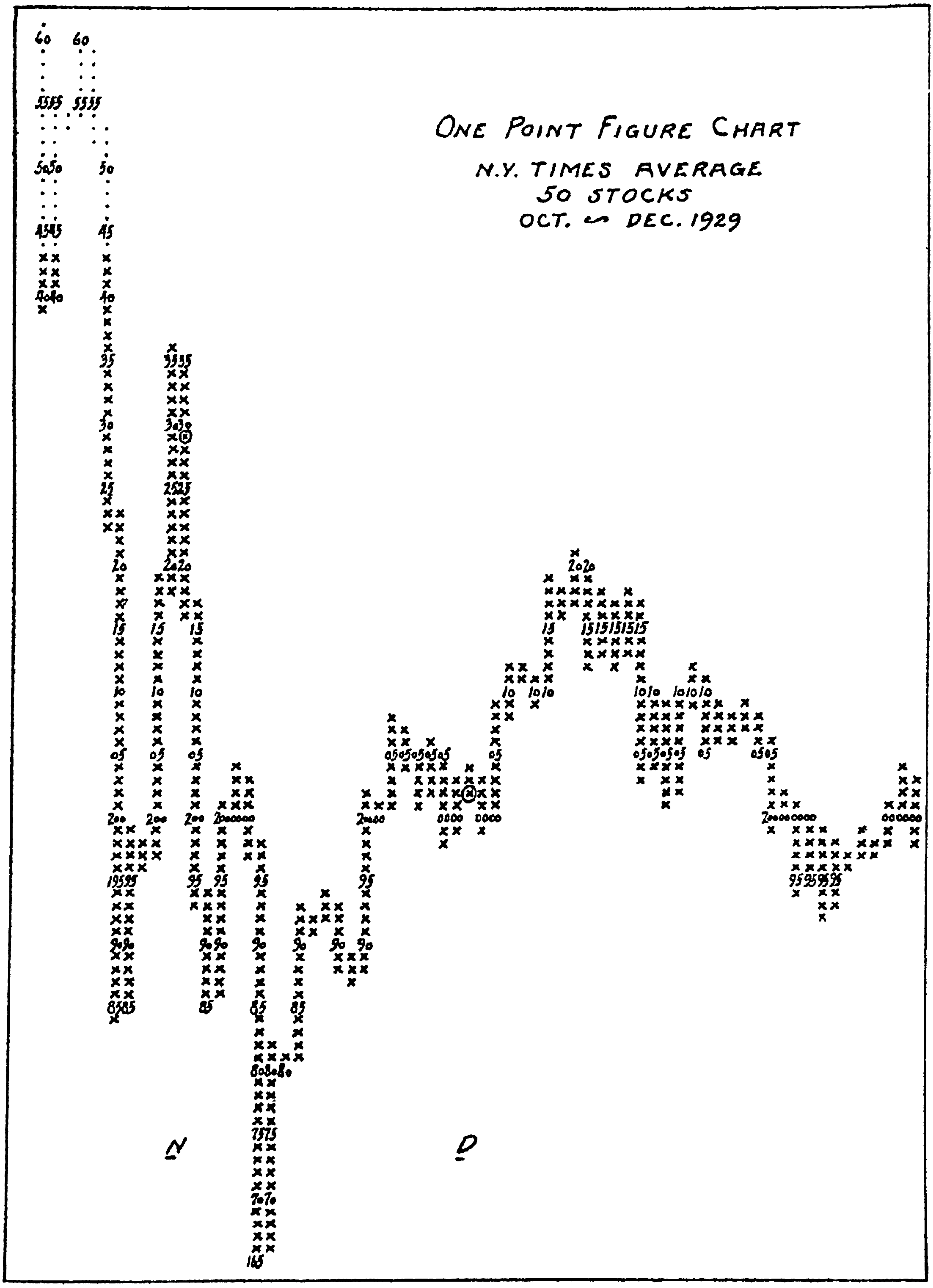
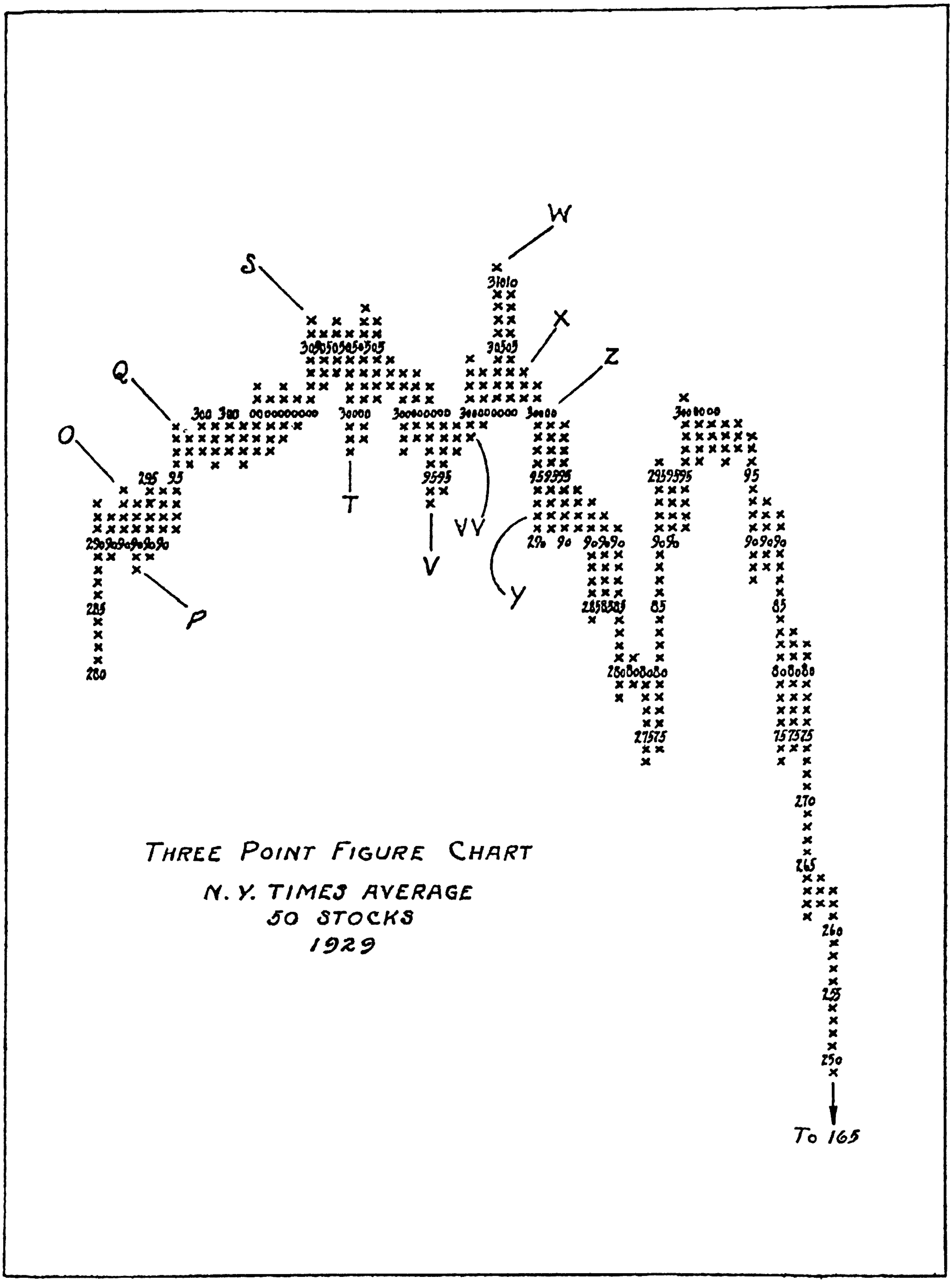
W
X
Y
Z
AA
BB


ONE POINT FIGURE CHART
N.Y. TIMES AVERAGE
50 STOCKS
OCT. – DEC. 1929
N
D



THREE POINT FIGURE CHART
N. Y. TIMES AVERAGE
50 STOCKS
1929