

REFINEMENTS

In this section we discuss briefly certain stock market phenomena which you are likely to encounter at various times.

The first of these is the shake-out to which reference frequently is made in preceding pages. There are two types of this phenomenon: (1) What might be termed an ordinary shake-out and (2) the terminal shake-out.

A good example of a terminal shake-out appears on the chart of Anaconda Copper, Section 16M, Page 33, Feb. 26th to March 13, 1935. The text accompanying that chart (Pgs. 18 to 21) explains how to recognize this action as a terminal shake-out. Another typical illustration is given in the case of Atchison, Section 20M, Page 3, Item 2 and Page 5, Item 2. A third example is given by the accompanying figure chart of Allied Chemical (Page 6) which likewise shows:

Accumulation with a Terminal Shake-out. Accumulation in this stock evidently began around 55 in April, 1932 and continued on a scale down until the latter part of June when there was a sharp downward drive from 55 to 43. There were four support levels through May and June — from 50 to 47. Then, support was raised to higher levels — 48 being the prevailing figure until the final shake-out which occurred after the rally to 55.

That this was a shake-out was indicated by the fact that the stock, in rising to 55 had broken through the angular formation which was characteristic of it during the decline from the March, 1932 top at 87 (not shown on chart), About the middle of May the stock began to edge up through the upper boundary of the liquidating formation that prevailed theretofore and for several weeks after that the formation was practically, horizontal in the range 47-55. Preparation for a bull movement was completed by the terminal shake-out from 55 to 43. The bag holding for necessitous and panicky selling continued into July. This

exhausted the available supply of stock with the result that the price thereafter edged steadily upward.

Thus, the selling climax which ended at 43 was followed by relative dullness; by raising of the supporting points and drying up of volume on minor reactions. The last low point of 44 was due to the stock selling ex-dividend. Very shortly after that it got on the springboard at 47, then bulged to 49 and had a three point reaction which gave a splendid buying opportunity with a close stop. The springboard position was confirmed by ability of the stock to rise to 50 and above on increasing volume. Thereafter there was no doubt as to its prevailing trend and by July, 1933, it made good the best objective forecast by accumulation across the 55 level on the 1 and the 3 point charts by rising to 135.

From the above and preceding examples we may formulate the following general definition:

A Terminal Shake-out is a rapid or precipitous downward movement, occurring at or near the end of a period of preparation for an advance. In the case of deliberate manipulation, the purpose of the terminal shake-out is to scare holders of stock into selling out; to catch stops which may have been placed on long positions below the previous line of supports in the accumulation zone, in other words, mop up as much cheap stock as possible; and to encourage short selling around the bottom on the part of the public. After the bag has thus been held for the weak holders and amateur shorts, the strings are pulled to lock in these shorts and to shut out the sold out bulls. This may be done either by a gradual or by a rapid recovery in the price.

It makes no practical difference whether a shake-out is due to manipulation or panicky selling on the part of distressed longs. In either case, the selling that forces the sharp downward acceleration of the price movement is due to supply of poor quality. And the ensuing recovery is caused by the superior quality of the demand which is taking advantage of frightened sellers.

An ordinary shake-out has substantially the same characteristics as the terminal shake-out. The principal difference is that the word "terminal" is used to distinguish a sharp downward thrust which occurs after extensive preparation for a rise and the similar phenomenon which appears at other points in the price movement as, for instance, an exaggerated selling climax (Sect. 7M, Pg. 53, Dec. 16th). A minor selling climax terminating a reaction, such as shown at "U" on the chart, Sect. 9M, Pg. 9, likewise is in, the nature of a shake-out.

As the earmarks of shake-outs have been thoroughly explained in previous studies, the above discussion will serve our purpose here, which is to provide you definitions for future ready reference.

A thrust movement is the reverse of a shake-out. Thus, a sharp run up out of an area of distribution; or a temporary bulge through the top of a trading range, which fails to hold, is sometimes described as a thrust movement, upthrust or perhaps a terminal mark-up. For examples see the price movements recorded on the vertical charts, Sect. 7M, Pgs. 33 to 34, on these dates: Jan. 9th June 27th & 29th and Sept. 23rd & 24th. Note how inability to hold these various quick bulges or upthrusts, were indicative of weakness in each instance.

The next type of action we wish to call to your attention is the phenomenon of a sharp rally or advance out of an oversold position without the customary, or at least without immediately apparent, evidence of accumulation. A good example of this is found in American Telephone & Telegraph (Pg. 7). The figure chart alone will serve to illustrate our study, although the accompanying vertical chart (Pg. 8) reveals numerous symptoms of the change from weakness to strength which will be apparent to you from comparison with our previous review of Atchison (Sect. 20M).

The particular feature of the figure chart action of this stock is that unlike Allied Chemical, no long, compact horizontal trading range was formed before the recovery from the July lows got under way. Telephone's decline into

the 70s was one of the striking events of the 1929-1932 bear market. The last phase of the liquidating movement had continued for many months prior to July — since the stock left 135.

Then, in the lower 70s a formation began which, on surface appearances, indicated nothing more than a rally of 9 points from 71-73, or possibly 19 points on the basis of the broader line of 75-76. But the valuable feature of these indications (coming at a time when the averages and the majority of other stocks were lining up for big advances) lay in the fact that even the 9 point advance to 80-82 would, if it occurred, take the stock out of that diagonal, liquidating formation if it succeeded in touching 80 on the way up.

Therefore, it was not the width of this particular formation around 72-76 but the fact that the stock indicated a break through on the up side of that long bear market trend line which was the significant feature. And with such a possibility in mind, one would be justified in reappraising the whole formation down from 83, at the beginning of June and back up to 83 near the close of July, as a probable zone of support, with accumulation beginning on a scale down from the first 83 to the final low at 71. The stock made good the most conservative forecast of the 1 point chart, namely, 49 points (counted across the line of 83s), up from 71 by advancing steadily to 121 in September, 1932.

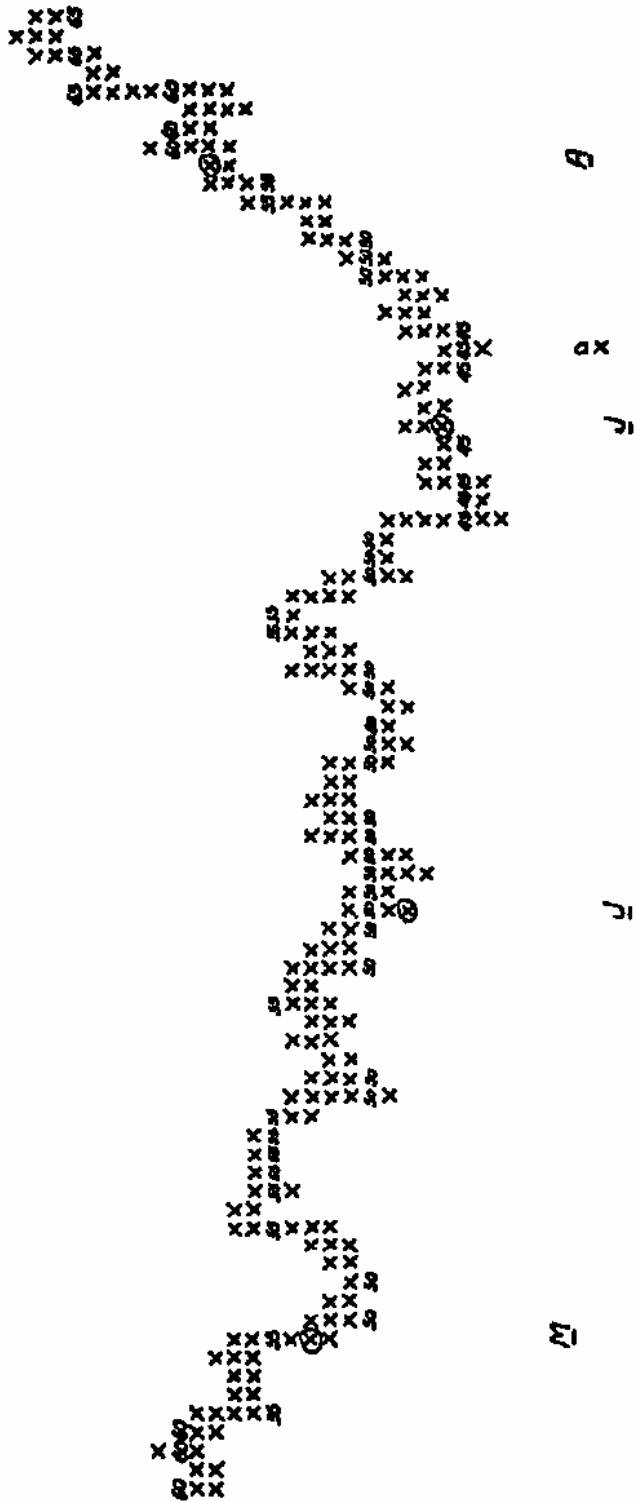
The 5 point figure chart gave a count of four on the 73 line, indicating 83-85; six on the 76 line, indicating 89-94 and twelve on the 83 line, indicating an optimum objective of 119. Previous formations on the 3 point chart did not break out of the bear market stride line, but a break through finally did occur when the stock reached 83 on the way up from the July, 1932 low. Further confirmation of the change in trend was given in the fact that for the first time in many weeks the stock was able to rally vigorously on increased volume.

The chart of Safeway Stores (Pg. 10) illustrates the vital necessity of studying volume behavior when attempting to judge the implications of figure

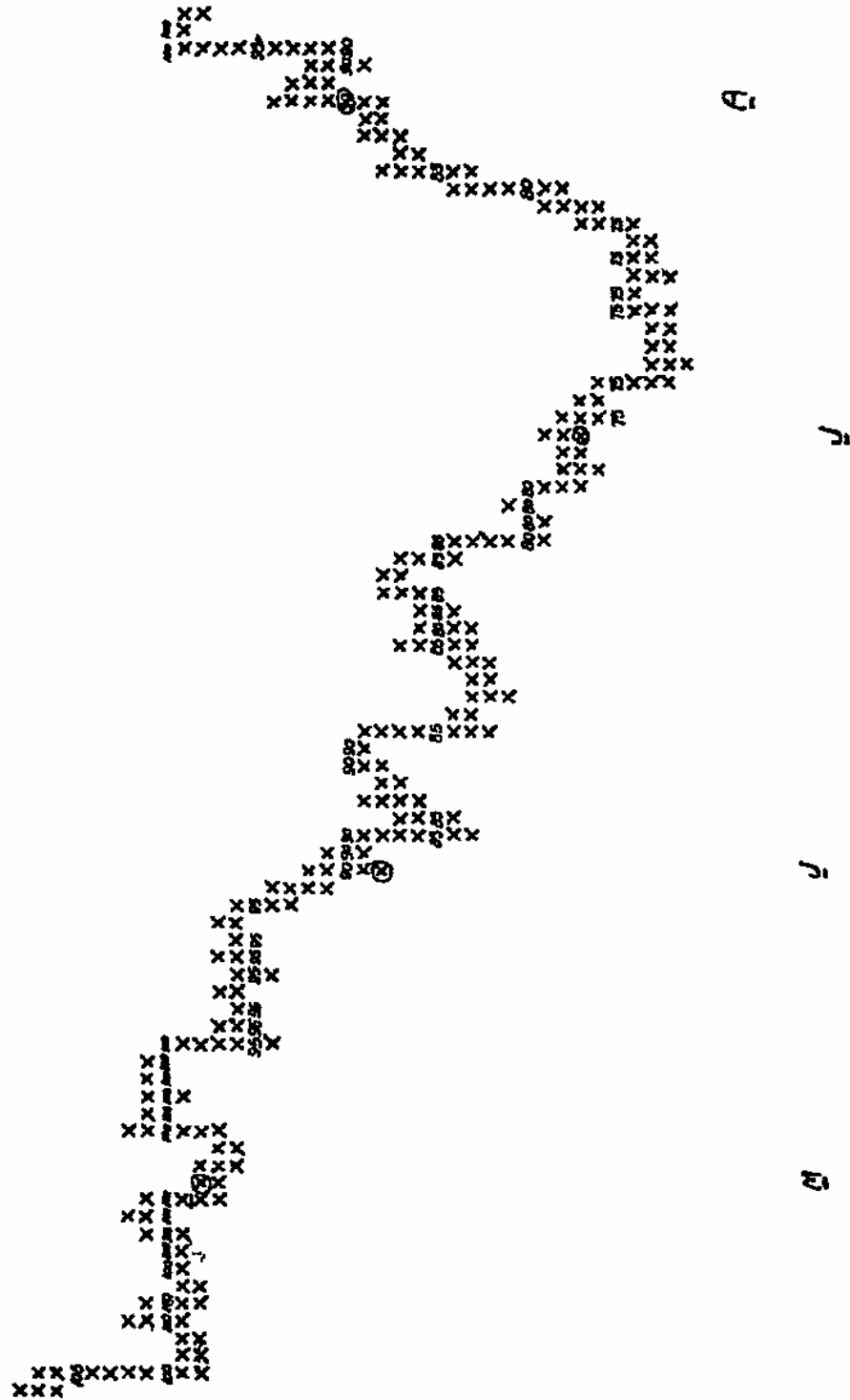
chart formations. Observe how an uninformed or calculating machine type of "chart fiend" might easily mistake the long horizontal formation on the one point figure chart (Pg. 9), in the range 37-42 during Jan.-Sept., 1955, as a "beautiful" base for a tremendous rise. Yet any intelligent student who took the precaution of making a real analysis of that formation by constructing a vertical chart, would immediately be put on notice that the stock was not acting right. Its behavior was not at all such as to confirm the mere figure chart presumption of "important accumulation."

Proper analysis of the vertical chart, on the contrary, plainly marked the figure chart formation (37-42) as an extended trading range wherein small changes in the forces of supply and demand were neutralizing each other for a considerable period (Sect. 15, Pg, 4; Par. 4) until, finally, supply gained the upper hand and brought about an abrupt collapse. Note how the characteristically sudden volume surges accompanying occasional rallies in this trading zone, plus the lack of consistency in price movements clearly forewarned an alert observer to forego long commitments in this stock, particularly as it remained persistently unresponsive to strength in the rest of the market after nearly eight months' supposed accumulation (that is, accumulation according to a purely superficial reading of the figure chart).

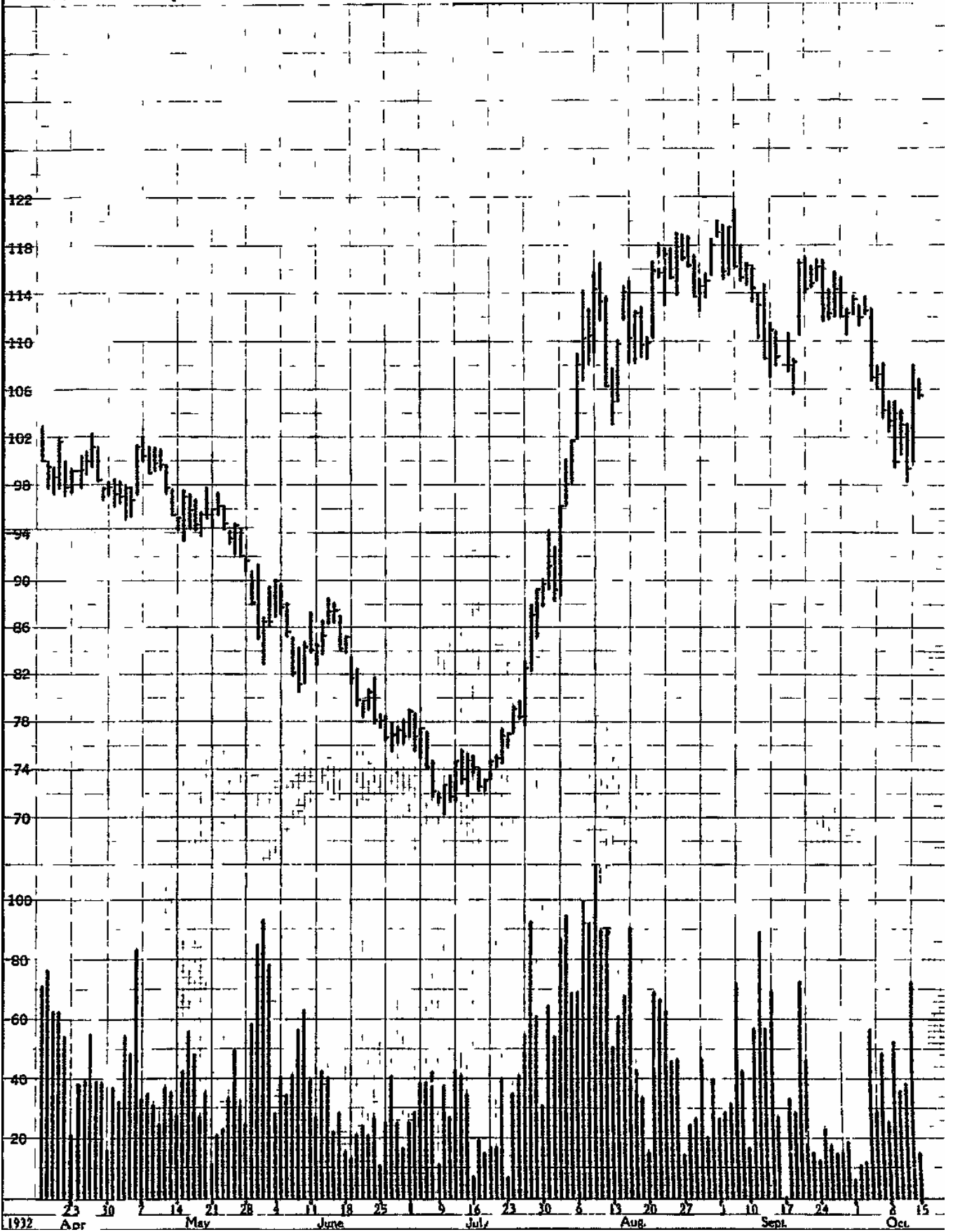
*ALLIED CHEMICAL
ONE POINT FIGURE CHART
APRIL - AUGUST, 1932*



*AMERICAN TELEPHONE
ONE POINT FIGURE CHART
APRIL - AUGUST, 1932*



American Telephone



Safeway Stores

