

DETERMINING THE TREND OF THE MARKET BY THE
DAILY VERTICAL CHART
of the
New York Times Average of 50 Stocks (Sect. 7M)

The most important thing to know about the market is the trend. Since we aim usually to operate in harmony with this trend, a study of our Daily Trend Chart (daily vertical chart of a composite stock average) should be the starting point of all our deductions.

The accompanying chart includes the total volume of transactions of all stocks dealt in daily, as indicated by the vertical lines at the bottom of the sheet. These volumes must be considered in conjunction with a study of the price movement. The element of time, as previously explained, is represented by the daily additions to the chart from left to right. The closing figure of each day is indicated by a horizontal line across each of the vertical lines which represent the range from high to low.

A good way to impress upon your mind the principles involved in reading the chart is to cover all but the extreme left side of the chart, exposing only the first few days' plotting. As you read the instructions which follow, gradually slide the paper toward the right, revealing the price movement and volume one day at a time. This will have the same effect as reading the market just as if it were being recorded on the chart today and as if you didn't know what was coming next.

The story told by this chart is as follows: We use the period from December 8th to December 17th as our starting point, and without regard to the market history previously recorded. This interval of nine days marked a sharp acceleration of the previous major decline, culminating in a widening spread of the daily price range and a very marked expansion in the daily volume of trading as the market reached its low point -- thus reflecting the panicky selling which takes place under such conditions (see Footnote following).

The volume on the 8th was around 2,000,000. This increases to 5,000,000 on the day of the low point. Tape observers would have noted the fact that a large part of this volume occurred as the market recorded the extreme low and on the rally from the lows. This confirms the fact that the climax of the downward movement (*) has actually been passed, and gives us the starting point for our next forecast.

**The phenomenon of the Selling Climax is caused by the panicky unloading of stocks (supply) by the public and other weak holders which is matched against buying (demand) of (1) experienced operators; (2) the large interests and sponsors of various stocks who now either see an excellent opportunity to replace at low prices the stocks they sold higher up, or wish to prevent further demoralization by giving the market support temporarily; and (3) short covering by the bears who sense a turn.*

Stocks thus become either temporarily or more lastingly lodged in strong hands. An abnormal increase in volume is one of the characteristic symptoms of a selling climax, since supply and demand must both expand sharply under these conditions, but the supply is now of poor, and the demand of good, quality; and since the force of supply now will have been exhausted, a technical rally ensues.

If buying on the break (i.e., during the Selling Climax) was principally for the purpose of supporting prices temporarily and checking a panic, or relieving a panicky situation, this support stock will be thrown back on the market at the first favorable opportunity, usually on the technical rebound which customarily follows a selling climax. This, and other selling on the rebound, may increase supply sufficiently to drive prices through the lows of the climax day and bring about a new decline, that is, a resumption of liquidation.

On the other hand, should a secondary reaction occur after the technical rally above referred to, and prices hold around or above the climax lows while volume at the same time shrinks appreciably, we

have an indication that liquidation was completed and support is again coming into the market. Therefore, the market's behavior on these secondary reactions is usually indicative of the next important move.

In this connection, it should be noted that the same principles which apply to the large swings also apply to the smaller moves and to the day-to-day buying and selling waves. Thus, a careful examination of your Trend Charts, Group Charts, and charts of individual stocks over a period of time, will reveal numerous examples of the above phenomena, These will appear on a small as well as a large scale, however, you must allow for variations. That is, do not expect one selling climax to look exactly like another. The same basic characteristics may be observed; but the time and magnitude of price movement and volume, and the extent and sequence of price movements almost invariably will differ.

For example, the abnormal volume may last either one or several days; or the abnormal volume may precede the recording of the extreme low point one or more days. In other words, a selling climax may be completed in one day or be spread over a few days} and volume may reach unusual proportions on the day the low point is made or some days ahead of the final low.

We must now assume, in view of the above, that the trend is tentatively upward; but this is subject to confirmation by the appearance of higher support on the next reaction; that is, if on the next down swing, prices should break through the turning point of 135½ recorded on December 17th, it would be evident that liquidation was not completed and that support which turned the market upward on the 16th has been withdrawn (see previous Footnote). On the other hand, if, as happened to be the case, the buying support comes in around or at a higher level than 135½, we may conclude that demand is beginning to overcome supply (see previous Footnote), and that the next logical development for final confirmation of an important reversal will be the market's ability to rise above the top of the last rally, which was around 150, Dec. 18th.

On January 3rd these averages rise above 152, which gives final confirmation of an upward swing which might develop into a rise of substantial proportions.

In taking a position in the market, which, of course would be a long position, we have had, up to now, three opportunities:

- (1) On December 17th when the market gave indications of having completed a selling climax, and at the same time, as shown by the entry on our vertical chart for that day, was able to rally vigorously on increasing volume. This was the first time it had shown ability to rally aggressively and the first time increasing volume had been shown on an advance for some time past. On the basis of these tentatively bullish indications we are justified in establishing long positions if we can get in near enough to the lows so that when we place stop orders on our commitments two or three points under our purchase prices, our stops will be about 1 to 1½ or 2 points under the danger level, that is the lows of the climax day.
- (2) Our next buying opportunity is on December 29th when the market completes three days of lower support but the closing prices on each of these days are between 140 and 141, showing that the selling pressure is losing its force, since the net result of these three days' pulling and hauling is to leave the average almost unchanged following a considerable reaction. At the same time, lower volume on the reaction from December 18th's high, compared with the volume of the mid-December decline, confirms the inference that selling pressure is losing its force; buying power is overcoming it, as it now appears that the market has completed a typical secondary reaction (see previous Footnote) which has the effect of broadening the zone of support around the 136-140 level to sustain a proportionately more substantial advance than the first

recovery, we either buy on this reaction if we missed our first opportunity, or add to our holdings; with stops on these new positions, as before, under the danger point, that is, the lows of December 17th. The average is now "on the springboard".

- (3) On Jan 3rd the average goes into new high ground, overcoming the previous tops of December 18th, 19th, 20th and January 2nd. Volume tends to increase on the rally days, December 30th to January 3rd, an indication that is characteristic of a bullish trend. However, this is the least favorable of our three buying opportunities so far, since we would now be purchasing on an upwave, thereby materially increasing our risk, whereas previous commitments were established on downwaves, close to the danger point.

Having decided that the trend of the market is upward we must thereafter continue to trade on the long side until there are indications of a change in trend, or until the trend is in doubt. We must always be on our guard against any changes; and when the trend is in doubt we must take a neutral position, that is, be out of the market.

For the next several days, until January 9th, the market makes further progress on the bull side, recording 156½ on that day; but observe that the closing figures on the 6th, 7th, 8th, 9th and 10th are all within a range of about one point. That means the market made no upward progress as a net result of four days' activities following the 6th. The daily volume shows a tendency to taper off, which may mean a lessening of demand at the top of the swing to January 8th. This conclusion is partly confirmed by the shortening of the upward thrusts from the 3rd to the 7th, indicating that it was hard work advancing the market from 150 to 155. Buyers now seem reluctant to follow prices upward. On the day when the high of 156½ is recorded, the volume increases abruptly compared with the volume of the preceding sessions at the same time that the price runs up to a new high only to close near the day's low (*) and actually below that of the previous session. All of the foregoing is evidence of the approach of a corrective reaction, but we still hold our long position because, as yet, we have had no indications of important distribution.

** The action of the 9th is an illustration of a typical buying climax, which is the reverse of a selling climax. On this day, a poor quality of demand is being promptly overwhelmed by the superior force of supply of good quality. In other words, the bulls, realizing that they are encountering resistance to the advance, break the stalemate of the 6th to 8th by bidding prices up to attract those buyers who were too timid to come in before the advance to 155, but who now fear that the market may get away from them because it is "making a new high." Thus, there is a concerted rush of public demand which gives the larger and shrewder operators their opportunity to dump part of their lines on a broad and active buying wave, made to order for the purpose.*

Such a reaction begins on the 12th and the low point of it occurs on the 16th. Volume on the reaction diminishes appreciably compared with volume on the rise from the December 29th low, a bullish indication, showing that the selling pressure is light. On the 16th, the closing is nearly at the high point of the day -- a bullish indication which is the reverse of the bearish indication on the 9th. This is our first sign that the reaction is nearly over. (*) So here we have a new buying opportunity in expectation that the advance will be resumed. (**) Further confirmation of this comes in higher support on the 17th and in an almost complete drying-up in volume on a dip to the same low level on the 19th. The closing prices on the 15th, 16th, 17th

and 19th show support within a narrow zone, mostly around 147-8. We must, therefore, look for the advancing tendency to be resumed.

** Note that there is also an indication of a minor selling climax in the somewhat marked increase of volume on the 15th.*

*** To insure proper limitation of risk on purchases made at this level, our stops should be placed a point or so under the supporting points (lows) of the 16th. The stops on these new, and any previous, long commitments, should be raised to within a point or so of the January 16th to 19th supporting level after the rally of January 20th.*

Then follow four days, in each of which we see higher tops, higher bottoms and higher closing levels, accompanied by gradually increasing volumes -- bullish behavior. This brings the market up within a fraction of the high figure of January 9th where, on the 23rd, a volume surge after four days almost perpendicular advance warns us of a buying climax. But here, in any case, we may expect hesitation or reaction, due to the influence of the previous top -- January 9th.

Now observe that for the next thirteen sessions following the 23rd the market fluctuates within the range of 156-51, a very narrow range for the average. This is because it is called upon to absorb offerings representing stock purchased by over-anxious bulls who got hooked around the high level of January 9th, and perhaps other quantities bought on the way down in 1930 during the period not shown on this chart -- purchases made by people who are now eager to get out even.

Such absorption is evidently completed by February 9th when after closing almost at the top on the previous Saturday, an advance into new high ground, 160 5/8, is recorded. (*) Note how the speed of the advance tends to increase, the average gaining 9 points in two sessions -- 9th and 10th. (This is the mark-up forecast by item 3 in the footnote below.) See also how the volume increases to 4,000,000 shares and over on these two days, compared with a previous volume of 1,000,000 or 2,000,000 a day for thirteen days past. The exceptionally large volume of the 10th and 11th, plus the failure to record any material further gain on the high volume of the 11th, as usual, is an indication of some distribution and a setback. On the 11th the average makes a high of only one point above that of the 10th and closes at only a small fractional gain, on large volume -- a large supply overcoming demand.

**The probability that this lateral movement, or trading range, between 156-151 is an area of absorption rather than one of distribution may be determined: (1)from the fact that volume remains low on the reaction to January 29th and tapers off promptly on the reaction to February 2nd; (2)from the tendency of the price movement to narrow into a comparatively small range instead of reacting as much as halfway back to the January 19th low, which implies that stocks are not being pressed on the market; and (3)from the fact that after the recession to February 2nd, volume tends to build up consistently at the same time that there is a lifting of the supporting points from February 5th to 7th -- behavior typical of the completion of a period of accumulation or absorption prior to a mark-up.*

After the mark-up of February 9th, we raise the stops on our long commitments to a figure within a point or so of the lows of the Jan. 23-Feb. 7 trading zone, inasmuch as the Feb. 9th rise enables us clearly to define the 151 level as a new and critical line of support.

Now, as we watch the supporting points for the next five sessions (13th to 19th), we find that they are all around the 160-162 mark. Meanwhile, volume decreases promptly on the dip to 160. This says there is another advance coming; the market is not ready to turn downward yet. On the 17th there is an attempt to run the average up to a new high, which fails. The closing is almost on the bottom and volume increases noticeably over that of the three previous sessions. It looks at

first as if this might be a buying climax (Footnote, Pg. 3), preceding the end of the rise, so we bring the stops on our long trades up within one point of the February 14th low as a precautionary measure. We have now had a substantial advance, followed by six days lack of progress and comparatively high volume, which means that the market has reached a critical position.

But the average is immediately supported the next day and on the 19th the closing is nearly at the top. It thus shows ability to rally away from a possible danger zone and willingness to try to negotiate the resistance around the tops of the range at 166. The lower volume under these conditions may mean that the supply of stocks has become scarce; so we sit tight. Next day, the 20th, the average advances again into new high ground, absorbing the overhanging offerings on a volume increasing from around 2,500,000 to nearly 4,000,000 shares; on the 21st to a new high and a higher closing, with the volume up to 5,000,000 shares, thus far making progress in proportion with the expansion of volume. (*) On the 24th (holidays intervening) it registers a further gain of 2 7/8 points in price and a little over a point and a half in the closing figure, on a volume of 5,300,000 shares. We now become very suspicious of this advance on such large volume and particularly the failure (apparent on the next day) to hold a quick upthrust to a new high on such heavy turnover (which is characteristic of distribution), suspecting that this volume surge may be climactic. (**) Accordingly, we move our stop orders up within a point or two of the lows of the 24th. (***) Next day, February 25th, we observe a lower top and bottom and a

**The actual volume of Feb. 21st was 2,435,000 but in comparison with the volume of recent five-hour, and recent previous Saturday sessions it is clearly evident that this two-hour turnover is relatively large and consistent with the increase of Friday, Feb. 20th. Hence, in order more fairly to reflect the relative magnitude of this particular Saturday's volume -- in comparison with the full five-hour sessions -- we double the actual total and find that we have the equivalent of a 5,000,000 share day.*

***With volume running at the rate of 5,000,000 shares per day for three consecutive sessions, we conclude that the market's advance is attracting an expanding public following. This increased public participation creates an active demand (of poor quality) which facilitates unloading (supply of good quality) by large interests at prices advantageous to themselves.*

****Meanwhile, following the mark-up of February 21st, our stops were brought up under the February 14th low point.*

lower closing, as well as a loss of the two previous days' gain, which indicates that supply is overcoming demand and confirms the previous indication of a probable reaction. If our stops have not been caught, we now promptly close out all our long stocks; and select from our list of individual issues the best five or ten that are in the weakest technical positions, and sell them short with stops 1 to 3 points above the danger level, i.e., the high points of the advance.

After such a prolonged rise, we may expect a more substantial reaction than any we have had since the December-February bull move started; and perhaps an important decline because there have been evidences of distribution extending as far back as February 10th. On the 26th, the high, low and closing are almost identical with those of the previous day. The market, therefore, is making no further progress upside on heavy volume, but the demand is still enough to hold it within the previous range -- 168-173. On the 27th, however, we note a clearly lower top, bottom and closing, and some -- but not a very large -- shrinkage in volume to about 3,700,000 shares. The significant feature of this day's action is that it marks a pronounced change in the market's behavior. It is the first time since early December that

volume has remained so high on a reaction. Heretofore, volume has been shrinking promptly on setbacks.

The fact that prices cannot continue to advance into new high ground, combined with the comparatively high volume, leads us to conclude that the big fellows are unloading. And the relatively large volume on the reaction of the 27th indicates that they are filling up all the buyers on the way down from the highs with what they were able to sell in the range between 168-173.

We must bear in mind that prices have now advanced from 135½ to 173, 37½ points. This is a big rise in the averages, because such a rise indicates that many individual stocks used in making up the averages have advanced nearly double that amount. Also, the angle of the advance, as shown by placing a ruler along the line of bottoms from February 5th to the 18th is such that it is unlikely that this pace of acceleration of rise can be maintained. This is emphasized by an even sharper angle from the 18th to the 24th, when the supporting points were raised considerably away from the previously established diagonal support line. This sudden whooping up of prices, after such an advance, suggests the application of hypodermics which, combined with a high and expanding volume, increases the market's vulnerability to heavy realizing sales and likewise increases the danger of a general withdrawal of experienced operators who refuse to continue to buy at these levels. It is such conditions as these (created, as they are, by large interests who are managing the market) that are detected by floor traders and large outside professionals and recognized as indications of a turning point. The latter now add to the supply by getting out of their long stocks and taking short positions, thereby not only helping to assure a turning point but also placing themselves in a position to profit by that downward swing. (*)

**We should also suspect, when we see such "whooping up" tactics, that informed interests are in a hurry to wind up their campaign of distribution because they see some bad news or adverse conditions in the offing, events not yet apparent to the public, which draws its conclusions from the emphasis placed on all current "good news" and the befuddling atmosphere of bullish excitement in board-rooms.*

In your own experience, you must have observed that "bad news" very frequently comes out say a week or ten days after a decline following just such a violent bidding-up of prices. Financial writers then "explain" the break as being due to the bad news. But the logic of the situation is that large interests have already sold out their long stocks in anticipation of impending bad news, thus creating the supply which starts the market downward before the general public is aware that any bearish developments are imminent. Insiders may, in addition, take short positions in advance of the unfavorable news so they may have added buying power with which to support the market when a frightened public begins to sell in response to, and simultaneously with, the release of the "news."

We must act in harmony with these shrewd operators and put out more shorts, (with stop orders placed as before, above the Feb. 24th resistance point) as the action of the 27th gives us a new selling point. On March 2nd, after a little rally, the average declines 6 points from the high of that day and closes nearly at the bottom. If we have ignored all the previous warnings of a gradual weakening of the technical position, we cannot ignore this decisive breaking of the very backbone of the advance. This day's behavior shows definitely the heavy withdrawal of bids underneath the market and the volume (3,300,000) remains high -- very high in comparison with the volume on all previous reactions since December 8th -- indicating that very substantial lines of stock are still being pressed for sale by large interests. Having accepted some or all of the bearish indications of the foregoing six sessions, we conclude that the upward trend has terminated (at least for the time being), after running the greater part of December, January and February and that a change to a downtrend has begun. That is to say, we are entering a substantial

intermediate reaction which may develop into a decline of major proportions.(*) It looks now as if we were correct in our assumption that some distribution was accomplished as early as February 10th, but the main move upward was continued in order to facilitate unloading of stocks which had not topped out at that time.

**Under the conditions now existing, we should liquidate investment as well as long trading positions, for even though it may develop that the major trend will turn upward again later on, by standing aside with our investment funds liquid while the market is working out an important intermediate downward swing, we avoid the danger of carrying some or all of our investment stocks through a bear cycle. Thus, we insure ourselves against serious depreciation of capital and the ever present possibility that some of the stocks which we originally held might fail to recover on the next or succeeding advances.*

We shall have ample warning when the market is again stabilizing and preparing for a new bull movement. With buying power intact, investment positions can then be reestablished. And most probably we shall find that certain of the stocks we previously held will not be as desirable or as responsive to the next upward cycle as others which will become new leaders.

By such scientific handling of investment commitments, we may gain more through capital appreciation than we might lose in dividends in consequence of having stayed out of our stocks for as much as a year or more.

At this juncture we should be alert for opportunities to sell short more of such stocks as are shown by their individual charts and Group charts to be in a weak position. These should be sold short only on bulges, and the fact that the averages have declined from the top about ten points (although they may decline further) is indication of a part way rally which normally is likely to fall slightly short of recovering about half the recent decline.

The initial reaction of the downward swing ends on March 4th at around 159, a point at which the market was previously supported on February 14th. Here we have a reverse of the situation which existed on January 23rd. The sharp acceleration of the downward movement on March 2nd, 3rd and 4th creates an oversold position at the same time that the average touches a former support level, a condition that usually is conducive at least to an attempt at a rally due to the buying of traders and others who may believe that stocks are again cheap, and covering (buying in) of shorts on the part of bears who wish to cinch profits and stand aside, waiting to see how the market will meet a test of the former supporting level.

Our expectations of hesitation and a possible rally from this point are fulfilled as demand from the above sources brings a fairly vigorous run-up on comparatively light volume on the 5th. A further rally to a higher top and a higher bottom next day tends to confirm our anticipation of a possible turning point for more recovery; but the sudden increase of volume on the 6th may indicate the climaxing of the rebound, so we wait for clearer indications. Another higher low (marking the fourth day of no material progress on the down side) and a closing near the high on the 7th says that the volume of the previous session was climactic on the down, rather than on the up side. This demonstration of a change from technical weakness to technical strength brings in sufficient new demand to start the part way recovery we have been waiting for. However, we do not expect this recovery to carry much above 165 because large interests would not be willing to help the market far enough into the February distribution area to let the public out even.

Stated another way, our reasoning is that a part way recovery would now be a normal development; but the big fellows would be anxious to run the market back to the February tops only in the event they saw an opportunity of pushing prices far enough above those former highs to realize a profit on the offerings they would have

to take from the buyers who are "hung-up" with stocks at these levels. Even should they see such an opportunity, it is more likely that they would prefer first to tire out, or shake out, this overhanging supply. However, we reason further, that in view of the extent of the distribution as indicated by the heavy volume and breadth of the February campaign, the greater probability is that they will manage just enough recovery to discourage amateur shorts from selling and to keep the February buyers locked in while they, at the same time, distribute more stock on rallies to a lower top.

Meanwhile, we observe that the average, from February 24th to March 4th, recorded a total decline of 14 points from the high of 173. A normal recovery of less than half of this would be five or six points in the averages; or to 164 or 165 (approximately). On March 10th, the average actually recovers 7 points from the low, which is just halfway. Volume on this rally is not measuring up to the standard of the February rise; behavior which (1)marks the rebound as purely technical, and (2)indicates the exhaustion of buying power as a result of filling up all the buyers on the previous distributive movement, thus (3)confirming the probable accuracy of our other deductions.

Around the top of this rally, therefore, we take our additional short positions, selling at prices as close as we can to the danger points on the individual stock charts, so that our risk is limited to a minimum in every case. Further symptoms of progressive weakening of the market's position appear in the dip to March 13th. The volume (*) again remains comparatively high instead of shrinking appreciably as it did during the corrective reactions of December, January and the forepart of February; and on the 13th we find the average down to 158, which is a point lower than the previous supporting point of March 4th. This substantiates the correctness of our general bearish position and suggests further selling on subsequent rallies if we have not sold our full line.

** In judging volume behavior, allowance must be made for the fact that declining markets normally are accompanied by lower volume than advancing markets except, perhaps, at times when active liquidation is taking place. The reason for this is that bull movements attract a much greater public following than bear movements.*

In the following several sessions there is an irregular recovery to 166 with no material or consistent expansion of volume except for a sudden increase on the 19th. But this has the earmarks of a climaxing indication, confirmed by hesitation -- or lack of further upward progress -- on the next two days. We now also note that the average is faltering about a point below the top of the rally of the 10th, at a level where our previous deductions led us to anticipate just such a probability, we watch carefully for further developments, realizing that the average has reached a critical position. Should new demand fail to come in here, we may anticipate a decline in proportion with the extent of the primary distribution of February, to which there has now been added secondary distribution on this March rally. (Stops on our short positions may now be brought down within 1 or 2 points above the highs of March 10th to 25th.)

There is more lateral movement over the next three sessions, featured by a weak rally on the 24th and 25th (note the relatively small volume), making a total of six sessions during which the average has hesitated just under the lows of the February 20th-28th trading range. The market's inability to overcome the high of March 10th, and its failure even to equal that level is now clearly defined, affording final confirmation of the comparative safety of our short positions; likewise a clear

warning of the advisability of liquidation by investors who may not have sold out heretofore, since we now have all of the elements to corroborate the prospect of a substantial decline.

On March 26th, the average starts downward, plunging toward the recent line of 158-160 supports on steadily expanding volume over the next two sessions, which tells us, in advance, that these former lows will not hold. (*) From here on the down trend is unmistakable continuing almost without interruption. A brief rally on the 31st

**The volume surge of March 28th (4,200,000 shares if we consider this Saturday's volume as doubled) should not be mistaken for a selling climax. The distinguishing difference between this day's relatively large volume increase and previous volume surges is that the latter appeared after an extended or well-developed downward swing, whereas the comparatively high volume of March 28th accompanied the penetration of the March 4th to 27th trading range, 158-166; and therefore indicated a large increase in supply, stimulated by the breaking down of the line of supports around 158-160.*

To clarify this, we may set forth the following principle: A sudden or abnormal increase in volume, appearing after a given price movement has been in progress, usually indicates the end or the approaching end of that particular movement, up or down.

However, if unusual volume appears when the price is breaking through a well defined trading range, or zone of congestion, in that event the abnormal volume more probably indicates a continuation of the price movement in the direction of the break through. Thus, if the price works up to the top of a trading range and breaks out on large volume, the inference is that somebody is willing to absorb all of the offerings overhanging around the previous tops in the expectation of pushing the price to a higher level; and vice versa in the case of a break out on the down side of a trading area. Whether he or they will succeed in extending the movement and accomplishing the purpose intended will depend upon the existing condition of the market.

Therefore, you must not attempt to apply the above principle in a mechanical way, nor as a fixed, or hard and fast rule; but consider it only in conjunction with other contemporary technical manifestations.

and a small two-day rebound from the old January 28th-February 2nd supporting level around 152, on April 4th and 6th, emphasizes the weakness. (Note the immediate shrinkage of volume on these rallies.)

Next follow several days of holding within a narrow range from April 7th to 14th inclusive, as the average approaches the January 15th to 19th supporting points, with no evidence of any selling climax nor convincing rallying power. But as the average levels off and then drifts to a dead center on the 11th, we may reduce the stops on our short positions to a point or so above the level of a halfway recovery from the April 7th low, merely to guard against an unexpected change of trend. But instead of rallying vigorously away from this dead center, after six days' apparent support, the market tells us there is still no buying power by its inability to enlist higher support or materially expanding volume when it tries to follow up the advantage of the April 13th bulge.

On the 15th, a breaking down into new low ground confirms the above indications and affords an opportunity for increasing our short line by pyramiding with more short sales of the same or other stocks which promise to exhibit the greatest weakness. These sales can be protected by stop orders one or two points above the highs of the previous day; and the stops on our other shorts may now also be brought down to the same levels. The persistent increase in volume from April 11th to April 18th accompanied by declining prices is characteristic of a liquidating market, and so long as volume continues at about this level, or higher, there is little danger on the short side, with systematic stop loss protection, as above indicated.

There are occasional sharp rallies, evidently made by short covering, such as on April 30th and May 1st. This kind of buying kept the volume up to around

the 3 million share level but as will be seen by the performance of May 1st, such advances are quickly lost because when the numerous shorts have covered, no buying power remains to take the place of this demand and the market underneath proves to be hollow. (*)

**The volume surge of April 23rd implies a possible selling climax which suggests that in view of the extent of the decline to date and the fact that the average has now come down into the important December support area, we might expect a corrective rally to appear here.*

A normal rally would be about halfway back to the April 14th high point which, in this instance, would also be up to the small rally top of April 20th, or to about 146. Because of the previous bearish behavior of the averages and the likelihood that we are in a liquidating market, we do not regard this one day's slender evidence (that is, the high volume of the 23rd) nor the possibility of a corrective rebound as threatening to our short positions. However, if we wish, we may reduce our stops to a level one or two points above the part-way rally mark while we watch to see what the market will do next.

When it fails to rally as might be expected but instead sinks back almost immediately to close at the low points with no shrinkage of volume on the 25th, we recognize that it is vulnerable to fresh selling pressure.

The sharp rally of April 30th puts us on guard again, however, for now we observe that the downward thrusts have been shortening since the 28th -- that is, between the 27th and 30th, the bottoms show a tendency to round off or flatten out -- i.e., the rate of decline is diminishing. From the standpoint of the major trend, the breaking of the December lows, plus our other indications, are still bearish. But the slackening of downward progress, on comparatively heavy volume, also warms us to be on the lookout for a possible minor turning point, in other words, a belated technical recovery which may later prove to be the beginning of a more important change depending upon how the market behaves during and after the indicated recovery.

Observe how the rally beginning May 2nd and running to the 4th and 5th is accomplished on markedly decreased volume, showing that whatever demand exists in the expectation of a recovery from the firmer December supporting level, is not willing to follow prices up. Such support is more likely to be due to short covering than the re-entry of substantial buyers. The rally which begins May 7th lasts only three days until the 9th and that day's close is around the low, which shows that the bulls have exhausted their buying power. (*) From the 11th, the downward march of prices is resumed and the volume again increases on the down side, showing a breaking out of fresh liquidation. (Note the complete failure of any tendency toward hesitation or rally as the average touches the critical April lows. Compare this action with December 26th to 30th, and see Footnote Page 1.)

**Additional indications of the weak character of this recovery are given by the following: (1) the volume surge of May 8th which is confirmed as a minor buying climax by the prompt loss of that day's gain over the next two sessions, as (2) the average runs into resistance just under the temporary supports of April 17th to 21st -- resistance created by the offerings of buyers who mistakenly judged those lows to be a bottom and who are now anxious to get out even.*

On the up-wave to May 9th, therefore, we have another selling opportunity in anticipation of a resumption of the major decline on the secondary reaction to the April lows.

A low point is recorded around 113 on June 2nd, with the closing practically at the low. The only warning the average itself gave us of an upturn from this point was the small downward progress made on June 2nd in comparison with the previous day; the closing price on June 1st was 114 ½ and on the 2nd, 113 3/8, notwithstanding heavy dealing -- 3,300,000 shares. This showed resistance -- possible buying by substantial interests. Moreover, the market has now been declining steadily since the high point of February 24th when the average reached 173. The price of 113 is therefore 60 points down, which means that prices have shrunk about one-third from the high.

From our figure charts of the averages and the position of our group charts and of leading stocks on individual charts, and the action of our Wave Chart, we may

learn that a danger point to shorts is approaching. But for the purpose of this explanation of the vertical daily Trend Chart, we will assume that this is our only guide. So when the market suddenly reverses its form on June 3rd, recovers 9 points (from the low point) in the average and closes nearly at the top, with the volume of trading equal with that of the two previous days of heavy liquidation, we must, somewhere during the session of June 3rd, cover our shorts if we are still short. In any event, this should be done at the next day's opening. (*)

**Additional reasons for taking such action are that the pace of the decline on May 29th and June 1st became so sharply accelerated as to create an oversold condition which is dangerous to shorts; and the speed with which the market recovers the latter day's loss (on June 3rd) suggests that this last phase of the downward movement is probably in the nature of a shake-out.*

The averages have shown no preparation for a change in trend. This sudden change is like a hypodermic or a heart stimulant, administered to a patient who is dying. He suddenly revives. Of course, we all know that this change reflected the favorable sentiment due to President Hoover's plan of postponing reparation payments. But these things do not always show on the charts at the time they occur and we cannot consider them. We are learning to read the market without the aid of the newspapers. Having operated on the short side for the past three months, we have substantial profits, even though we cover at the high prices of June 3rd or around the opening of the 4th. We await developments in order to ascertain whether this bullish factor is sufficient to turn the tide; that is, turn the bear market into a bull market. With sufficient experience as a foundation for our judgement, we know that such violent changes in trend occurring within a few hours are not a lasting basis for bull operations.

The closing at the top, June 3rd, in itself indicates a further rally. On the 4th, there is a gain of nearly 5 points (over the previous day's high), making about 14 from the low point. The volume is still high, over 3,000,000. That is, we have good progress on high volume. But on the 5th, the gain in the average is only 3 points, and the volume decreases a little, showing that the buying power is less; buyers are reluctant to follow prices upward after such a steep rise. The closing price is below that of the previous day, which indicates that the day's net pressure, or supply of stocks, was greater than the demand. This looks as if the rally is over for the moment. On the 6th, there is a further loss of nearly 8 points, bringing the average down halfway from the top -- a normal reaction on reduced volume. On the 8th, after a further small recession, the average runs up and closes at the top, showing that the market met support at the 120 line. It recovers to 126, which is about two-thirds of the reaction. Although the volume is comparatively light, the speed of the rebound and the behavior just described says the balance is in favor of the bull side.

From the 8th to the 15th, a zone is established roughly between 130 and 120. On the basis of what this chart indicates, we are neutral, waiting to see whether, when the market works out of the zone, it will be on the up or down side. As the rallying days proceed, we observe a falling off in the volume which is not a bullish sign; also that on the 11th and 12th, the net gain (in the closing price) for the day on the up side is a point or less. The average seems to be meeting resistance again where the June 5th rally was checked. On the 13th, the range of the average narrows until it is less than 2 points, with a fractional net loss for the day. This is also a bearish sign -- the narrowing into dullness at the top of a 17 point rally, on a volume of only 540,000 shares (or about 1,000,000 if we double this Saturday turnover).

This bearish symptom is confirmed on the 15th by a little wider spread (from high to low), meaning more activity (greater willingness to follow prices down), a closing near the low and an increase in volume, showing slight increase in pressure. The bearish signs are then borne out by the following four sessions, ending on the 19th, with the volume remaining stationary around 1,000,000. However, volume does not increase on the downside; instead it tends to taper off as compared with volume on the rally from June 8th to 12th indicating light pressure; nor does the price break out of the 120 range; in fact it meets support on the 19th at around 122, which is about two points higher than the support on the previous low of the 8th. (*)

**Here we have a variation of the sequence of selling climax, technical rally and secondary reaction referred to in the Footnote, Pg. 3. Considering the action in broad perspective, observe that volume diminishes appreciably on the secondary reaction to June 19th, even more decisively than in the case of the secondary reaction to December 29th and in marked contrast with the increasing volume on the secondary reaction to May 14th which failed to hold. Also, the market on June 19th meets support well above the climax lows of June 1st and 2nd. Likewise compare the greater speed, spread and sustaining power of the June 3rd to 6th rebound with that of April 30th and May 1st.*

All now depends upon what the market does in the next day or two. If we have another downward session on increased volume, particularly if the average price goes below that 120 line of previous support (June 8th), we must conclude that chances favor a lower market (compare with behavior of May 14th and 15th); but if support continues around 122 on such small volume (compare with action of Jan. 15th to 21st), there may be a trading opportunity on the long side with a close stop.

Next day, June 20th, removes all doubts as to the immediate tendency of the average, for the market opens up a point and a half above the previous night's close and on a greatly increased volume (**) makes a rapid advance nearly to 131, putting the average into new high ground above the previous trading zone. The heavy volume emphasizes the importance of this. (See Footnote Pg. 9.) The gain in the average over the previous day's high is more than 7 points and the close is near the top. If we have been watching the tape during the day, or refer to our Wave Chart at the end of the day, we observe this sudden change and we either buy during the session of June 20th with a close stop or we wait until the price breaks through its former highs and buy around the closing price of that day or the opening of the following session, June 22nd, as the market's behavior to here tells us we may expect a quick mark-up. We are not justified in reestablishing investment positions, however, for as explained in Paragraph 1, Page 11, we do not have the basis for a lasting advance.

***The volume is obviously large for the two-hour session and hence should be doubled.*

June 22nd there is a higher opening and a gain of 7 points in the average, most of which is held for the day. The volume runs up to 4,600,000 shares -- the price is gaining in proportion with the rise in volume. A reaction on the 23rd shows that most of the gain of the previous day was lost, but the bullish indication therein is a shrinkage in volume to 2,600,000 shares -- nearly one-half the activity of the day before. That is our warning to sit tight.

The 24th recovers the loss; the average advances 8 points for the day and 3½ points above the June 22nd high, or to 141, and the volume is the highest thus far, over 5,000,000 shares. We begin to grow wary of the bull side because that volume in comparison with the trading of previous weeks indicates selling by large

interests. (That is, a probable buying climax.) We move our stops up within a point or so of the June 23rd low and await developments.

The 25th makes a further gain of 2 points in the average, then the price slumps about 6 points, closing a point from the low, on volume of 4,300,000 shares -- large supply overcoming an excited public demand coming in, as usual, on the top of the rise. This is distinctly bearish.(*). We therefore close out our long trading positions and examine our individual charts for stocks which are in a weak technical position so that we can get short on the next bulge.

**Note the shortening of the upthrusts, that is, the tendency of the high points to arch over, from the 24th to the 27th.*

June 26th shows a range of about 5 points -- a little narrower. Although the closing is near the top, the volume has fallen off to about 3,100,000 shares and the upthrusts are shortening. In the net, these indications are bearish. The outlines of a new trading zone have been tentatively established between 137 and 143.

On the 27th, the average bulges over a point, narrows its range to 3½ points and closes with a net gain of about 1½ points on a volume of about 3,800,000 (Saturday's volume doubled). This looks like bidding up to a new high in order to catch shorts, and selling on the way down. We therefore put out some shorts, protecting our commitments with stops 1 3/8 to 2 or 3 points above the high of June 27th.

On the 29th, the opening is lower and the price recedes from 144¾ (the previous day) to 140, closing near the low. We now observe that the average has spent four days moving sidewise, making no further progress after a steep rise from the June 2nd low and, following the 5 million share session of June 24th, there has been a steady decrease in volume. In view of our previous deductions, we interpret this to mean that there is a lessening of demand on the top of the rise. We also note that any further lateral movement or reaction would definitely break the upward stride established on the last phase of the advance from June 19th. Hence, we are ready to sell more stocks short if we can get them off on bulges.

On the 30th, the average declines nearly 3 points to 137 on volume (2,000,000) about the same as the previous day. The market is still in the 137-143 zone but has now definitely dropped out of the sharp upward angle in which it rose from June 19th to the 27th, showing exhaustion of buying power. Low volume on the two-day dip to the bottom of the range 137-143, however, suggests we may anticipate an effort to rally back toward the high at 144¾. The way the market behaves on the expected rally will probably help to confirm, or it may contradict, our position; so we await developments.

July 1st, there is a wider spread in the price, nearly 2 points higher closing, but volume shrinks to 1,700,000: bearish. On the 2nd, the market narrows to a 3 point range for the average and the closing is 1½ points lower on reduced volume -- increased dullness, lower close, and less volume indicate less power on the bull side. On the 3rd, there is another attempt to rally and the average reaches the old 143 supply line at the upper edge of the trading zone, closing about 3 points higher but volume is not measuring up to the standard of previous (late June) rally days. Nothing to be afraid of. (We sell more stocks short on this rally which is the

bulge we have been waiting for, placing stops, as before, above the danger point, that is, the high of June 27th.)

July 6th, a 2 point range for the average, closing nearly 2 points down on 1,000,000 shares. We read this as an indication that the rally of July 1st to 3rd could not be sustained and that the tendency toward narrow swings, heaviness and dullness is the result of the market's having become saturated with offerings. All bearish. (*)

**The average is now on the hinge and on the "springboard" for an important slump.*

July 7th, a rally at the opening, then a 7½ point break in the average on decisively increasing volume (3,000,000). The market is now out of its former trading zone on the down side and the volume indicates that liquidation is being resumed. Thus the rally from 113 (June 2) to 145 (June 27) has run its course after lifting the average into the lower edges of the old December, 1930 - January, 1931 support area, and we must assume that the next test of the market will be around the levels at which support was rendered (122) on June 19th. If the large interests who bought on June 2nd and 3rd, and who undoubtedly distributed their holdings during the high markets of the last week in June are willing to take them back near or above the previous low levels, it will be an indication of their confidence in the future and a sign that the bear market is over. If there is no such sign, we conclude that the bear market has been resumed and that the June recovery was only an interruption of the main trend. We are on the short side and shall occupy that position until we see some reason for changing it, either to neutral or the bull side.

A 2 point further loss on July 8th, a small rally on a 1,500,000 share volume during the 9th and 10th (as the average hesitates halfway back to the June 19th low), then a dropping off until, on the 15th, the average nearly touches 126 -- a 19 point decline from the top. On this day, prices spread over 4 points from high to low and close slightly above the middle of the 4 point range, on a 2,600,000 volume -- a minor selling climax. There is no follow through on the down side next day; instead, a quick rally and a high closing. Thus we have two indications which might lead to a rally. But that will be a normal occurrence after a decline of 19 points. It should, in fact, amount to 7 or 8 points from the low if it is to be a real rally. Halfway would be about 9½ points. Such a rally occurs from the 17th to the 21st and amounts to 9 points, thus affording another good selling level if we are not satisfied with the size of our short line. (*)

**So that you may understand better how to handle your investment funds and may recognize the hazards in carrying stocks up and down through intermediate bull and bear trends -- a procedure that causes so many investors heart-breaking losses -- the following general observations are introduced at this point:*

The relatively small volume on which the market is now declining tends to lull the public into a spirit of indifference toward the market. But, contrary to popular impression, the low volume accompanying the steady downward drift is of bearish and not bullish import.

This small volume is explained by the fact that the majority of people are "constitutionally" bullish. They can always be induced to buy stocks after the market has been advancing for some time, or when everybody else seems to be buying. But, as pointed out elsewhere (Footnote, Page 8), they fear to sell short and hence will not participate in a bear market as experienced operators do. Consequently, the volume of daily trading tends to grow smaller during the progressive states of a bear market.

To put it another way, the public which came into the market and bought freely around the tops of the February, 1931 rise and the June recovery, is not loaded up with stocks at the highs. Its buying power, accordingly, is exhausted. These people will not liquidate -- until compelled by necessity -- because on the one hand they fear the market might go up again and on the other they are wishing and hoping that it will. Instead of recognizing the danger and philosophically adapting themselves to the logic of the situation by cleaning house and accepting some losses so that they may have buying power to

repurchase profitably and advantageously when the time comes to be bullish again, they merely hang on and thereby magnify their errors. And those whose funds are not so tied up are too frightened to buy and much too timid to sell short.

Consequently, volume shrinks and the market becomes a professional affair, except when outcroppings of new weakness force the tied-up long holders to liquidate from time to time.

Thus we have both an explanation of a little understood market phenomenon and an example of the risks involved in: (1) failing to liquidate promptly on the early warnings of danger to bull positions (which appeared in this case in February); (2) refusing at least to protect long commitments with judiciously placed stop orders; and (3) the folly of yielding to a natural impulse to jump into the market when prices are away up and everybody else is excitedly buying.

Now the rally is over, for, on the 22nd, prices drop off again after approaching the lower edge of the recent 143-137 supply zone a second time (the first was on July 10th) and proceed toward the former low of 126, where we watch to see if any real support appears. It does not. The average goes to about 122½, recovers slightly, makes a new low August 10th around 120, rallies nearly 10 points after dipping briefly to the June 8th support point, narrows and dies out at the top (August 15th); swings back again to around 120 (August 24), recovers weakly and on small volume (under 1,000,000) from this critical supporting level until August 28th and 29th, when it begins a new downward march at a very sharp angle. The volume rises to around 2,000,000 and stays fairly constant at that figure after a break through 120, showing that the liquidation is again active and heavy. We have no reason to change our short position, but plenty of reason to pyramid every little while. (*)

**Stops on our short positions, meanwhile, have been moved downward as follows: To a level even with our original selling prices after the minor selling climax of July 15th; to a little above the high of July 21st after the decline to July 24th and 25th; to a point or so above the Aug. 15th resistance point after the drop to August 24th and 25th.*

Beginning on September 18th, the volume increases to 3,000,000 shares and on the 19th to nearly 5,000,000. This great increase in volume from less than 1,000,000 shares in late August to the equivalent of 5,000,000 shares on September 19th (Saturday's volume doubled) is our warning to move stops down close to the temporary rally tops of September 15th to 17th and be on the lookout for a sharp rally or turning point. Reason for this: Prices have receded from 145 to 98 without serious interruption. The abrupt extension of the decline, plus the unusually high volume of the 19th suggests that the market has reached an oversold condition. A sharp rebound should not surprise us at any time now and it probably is not far away for there has been no rally of any size since August 29th -- about three weeks. Seldom does the market run continuously in one direction for so long without a reversal of some sort.

September 21st, the average loses 4 points more, making a low of 94, but recovers 5 points by closing time and this makes it close above the previous day. The volume is 4,400,000 -- again unusually high and almost equal to the day before. This action, combined with the 8 point spread in prices for the day and the slightly higher closing leads us to cover our shorts with a view to putting them out again on a further rally; or, we may prefer to sit tight and depend on our recently reduced stops to keep our trades alive if the expected rally should fail to develop material proportions.

On the 22nd, the volume drops off to about 2,000,000 shares; the close is slightly lower and the range has narrowed. The net result of these three sessions is to leave the market practically unchanged at the third day's close. Downward progress seems to have been checked and the small volume on the dip back from

the high of the 21st, on Sept. 22nd, implies a lifting of selling pressure. After such a great decline within three weeks, this is an indication of more rally. This comes on the 23rd, and gives us an opportunity to sell short again while the market is still strong or when we see the rally is failing. Such an indication is given by the way it rallies on the 23rd. On this day, the average recovers to nearly 107, closing at 105½, but the volume falls off to under 3,000,000 shares and we therefore suspect that it is merely due to shorts who all tried to cover at once. Such a rally is too effervescent. It is not likely to last because it removes buying power which formerly existed, and leaves the market without support between the high point of the rally and the previous low.

The market acts just that way; on the 24th it loses 8½ points from the previous day's close and ends 3 points above the extreme low of the 21st. The constant volume, compared with the previous day, plus the rapidity with which the average yields nearly all of the previous three days' gain, confirms the fleeting character of the rallying power and the lack of important (good quality) demand.

We conclude that the market's inability to enlist worthwhile support and its tendency still to seek the lows will probably induce a fresh outpouring of liquidation should it break the line of support at 95. The situation is still critical on the 26th and 28th when a brief one-day rally (on light volume) and a dip back to 95 bring about a slab-sided, or downward slanting formation, judged by the tops of the 23rd to 28th, which suggests the pressure is downward. Volume decreases to under 1,500,000 on the 26th and 28th, but in view of the market's recent bearish action this looks more like a swing to a dead center preceding new weakness, than diminishing force of supply. Furthermore, the low closing of the 28th leaves the average hanging on the edge of the 95 supporting line. If it cannot rally promptly from here, there will be more decline ahead. Accordingly, should prices break through the low point of September 21st at 94 on increasing volume, we shall again sell more stocks short. We realize that after a big decline we may be taking chances in trying to get what may prove the end of a bear market, but we do not know when the real turn will come so we keep on playing the short side until the market itself tells us we are wrong or that the trend is changing.

New lows are the rule until October 5th when the average touches 79, closing within a point of the low and the volume is more than 3,000,000 shares. On the evidence of this chart alone, we find nothing that causes us to cover on this day, although the decline is again becoming sharply accelerated which warns us to become wary (refer to Footnote, Page 19, commenting on similar behavior May 27th to June 1st).

The low closing suggests lower prices the following session but the market fails to confirm this expectation, thereby giving us additional warning of a change. Instead of sagging, it opens slightly higher on the 6th, then advances steadily all day with only a 1½ point reaction at the close. The recovery in the average is about 11 points on that day, the most aggressive rebound since the long decline from 145 started. Also, there is a heavy increase in volume -- 4,300,000 shares; emphasizing the change. If we were not watching the tape that day (which would have told us to cover), or we had no Wave Chart to show us what the tape revealed, and our other charts (if any) gave us no indication of a reversal, we must cover our shorts after we have had a chance to examine the results of the day's activities.

We realize that the average has now declined from about 312 in

September, 1929, to 79 in October, 1931. We cannot expect this bear market to go on indefinitely. We do not immediately jump to the conclusion that a violent recovery is occurring; that a bull market is under way. We wait and study the action of the averages and our other records.

Over the next three sessions, there is a strong rebound from 79 to 99 -- 20 points. The rise to October 9th breaks the downward angle of the decline from the August 29th high point as will be seen by placing a ruler across this and the high of September 23rd. On the 10th, the market narrows; volume falls off to 800,000 shares. From what we have learned by our preceding study of this chart, we recognize the indication as a sign of a reaction which comes in the next two days when the average recedes to 88, a point over a normal halfway reaction. Observing on the 14th that the market dips back to the supporting points of Oct. 7th and 8th on comparatively light volume, we decide that if it is able to hold at this level or above the lows of Oct. 1st and 2nd, it will be completing a secondary reaction which would confirm the action of October 5th as a shake-out. Thus the market seems to be forming the outlines of a supporting zone with the low points of September 30th to October 14th (85-88) as its probable base.

Accordingly, we watch for an opportunity to establish long trading commitments with the idea that we may be able to make a play for a further recovery, provided we can secure the proper limitation of risk with stops placed close to the Oct. 5th and 6th, or under the Sept. 30th - Oct. 14th danger points. We do not take an investment position, however, because we should like to see a period of dullness in preparation for a real bull market which, normally, after such a decline, should begin somewhere about this level. To say positively that it will begin would be a pure guess. The market will tell us when it is time to take a long investment position.

On the 15th, after rallying to the previous day's high, the average reacts, but a decrease in volume, higher close and higher low tend to confirm this performance as completion of the secondary reaction from the October 9th rally top, thereby giving the cue to venture trading purchases. Accordingly, we now buy the few stocks we have selected for the purpose of catching the indicated further recovery.

Diminishing volume on the rally of the 17th and 19th, followed by climaxing indications on the next two days as the average reaches the previous resistance point, all tell us to anticipate another setback. We wait to see whether it promises to be brief or whether it may involve another test of the 85-88 support level. In the next three sessions, the market swings to a dead center, coming to an apex on the 24th. Four days' lateral movement, between the 21st and 24th, meanwhile breaks the rather steep angle of the advance from Oct. 5th. Apparently, buying power has been exhausted by the recovery to 100 or buyers are not yet ready nor willing to follow prices upward. Also, there is no increase in volume on the rally efforts of the 23rd and 24th. These indications are all bearish so we either raise our stops close to the lows of Oct. 23rd and 24th, or we get out of our long trades immediately and watch.

If our previous conclusions that a base of support might be forming around the 85-88 level are correct, the market's behavior on the reaction which now seems imminent may give an important confirmation of these deductions or it will contradict them and perhaps indicate a resumption of the bear market. Or, it may do neither. That is, the indications may not prove to be clear, in which case we shall have to

maintain a neutral position and expect a professional or trading market; in other words, a series of relatively small swings up and down in a narrow range, say between the recent lows and the recent tops, 79-100, until the market works into a position for its next important intermediate move.

When, on Oct. 28th, the volume gives a minor climaxing indication after the average has settled down to the former supporting line (around 88) with no increase in volume on the way down, Oct. 26th and 27th, we conclude that there is no further liquidation to worry about and that support is again coming in at this level. This is confirmed by decreasing volume and no net change in the closing price, following a small further recession next day, which shows there is no follow-through on the down side.

The zone of support has now broadened to provide a foundation for a more substantial recovery (though our other records still do not encourage us to take investment positions) so on the 30th we buy again for trading purposes, this time placing stops a point or so under the Oct. 14th and 29th lows. The average then records a series of rising supports and higher daily tops on moderate volume, until Nov. 9th when the appearance of climactic volume on a small further upthrust to the vicinity of the Sept. 23rd rally top tells us to get out of our long trades and go short; supply is overcoming demand as the average reaches the long bear market supply line running through the successive highs of July, August and September.

At the point where our chart ends, it appears at first glance that we are getting a reaction on slightly diminishing volume which, if the market has not exhausted the force of the demand stored up around the September-October lows, should encourage another rally effort. No such effort materializes, however. On the contrary, the average gives an indication of renewed weakness by dropping sharply to 95 on November 13th and eventually sinks through the October low with no semblance of rallying power and nothing more than a period of nine days' hesitation in a five point range from the end of November to the 8th of December (none of this is shown on the chart).

Again we have an illustration of the vital importance of employing stop orders to protect investment as well as trading positions at all times. For instance, assume we had mistaken the tentative formation of a base of support in October, 1931, as preparation for a real bull market, and had made investment purchases around the logical buying points of Oct. 28th and 29th. Suppose also that we had let our stops on these commitments remain undisturbed where we originally placed them, just under the 85-88 level. The worst that could happen to us now would be the automatic closing out of our positions at small losses about the middle of November. Thus we would have our capital still intact and liquid, ready to take advantage of the final turning point. But if we had no stops we might have carried these stocks down for seven more months of deflation and loss.

And so we conclude our interpretation of a period of very instructive market movements with one further observation: You may now see why study of the stock market cannot be reduced to rule of thumb procedure; why it is foolish to seek mechanical short cuts and to draw fantastic diagrams on charts.





