

INDIVIDUAL CHART STUDIES - PART VI

VERTICAL CHARTS (Sect. 16M)

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

When a stock is in phases (I) or (II) it is said to be in a bullish position and when in phases (III) or (IV) it is in a bearish position. Or, its behavior may be such as to indicate that there is no active interest in it, that is, no campaign is underway or in preparation, in which event its position is neutral.

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

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

- (A) Comparative Strength and Weakness
- (B) Previous Points of Support and Resistance
- (C) Rate of Acceleration, or Angles of Advances and Declines -- Trend Lines
- (D) Shake-outs, Terminal Thrusts, Oversold and Overbought Conditions.

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

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

The Volume factor is vital in:

- (E) Identifying Buying and Selling Climaxes.
- (F) Judging the Quality of supply and demand around previous points of resistance and support, or around previous supply and supporting levels.
- (G) Judging the Quality of supply and demand (pressure and support) as the Price approaches established trend lines.
- (H) Identifying Shake-outs, Terminal Thrusts, Overbought and Oversold positions.
- (J) Identifying Zones of Accumulation and Distribution; and Judging when a stock is drifting, i.e., when it is in a Neutral Position or in a prolonged Trading

Range, wherein alternating rallies and reactions tend to neutralize each other.

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

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

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

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

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

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

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

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

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

In brief, figure charts are not efficient for determining the probable trend except perhaps in the hands of experienced, highly proficient, students. Accordingly, we require the vital assistance which vertical charts afford of bringing the Volume factor to bear on price movement phenomena. Vertical charts (or their equivalent – Sect. 4M) are necessary to determine which way the market, or a group, or an individual stock will go. They are likewise more effective than figure charts for

comparing strength and weakness; and for establishing trend lines. Also, vertical charts are best for anticipating the turning points of minor moves -- the swings of from 3 to 5 or, say 8, points; and for interpreting the action of very low priced stocks.

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

Our next study begins with Anaconda in a small trading range, $14\frac{1}{4}$ - $15\frac{1}{8}$, out of which it broke on increasing volume, Monday, July 16, in sympathy with liquidation in the general market. Pressure continues with no sign of rallying power until July 26th, when we see evidence of a selling climax in the abnormally large volume accompanying a sudden, sharp acceleration of the downward movement to \$10 a share. We conclude from this that demand is now overcoming supply; and with the stock in an oversold condition by virtue of the precipitous drop from $14\frac{1}{4}$ to 10, we may at least anticipate a technical rally.

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

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

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

Therefore, with these principles in mind and seeing the selling climax in Anaconda, we conclude that the stock is not yet a logical purchase for a large advance because a proper foundation has not been laid to overcome the old ceiling. We may try for a

part-way recovery to 15, but other stocks which do not have the barrier of an old supply level to contend with, are likely to offer better opportunities, at least at this particular juncture.

The above observations show how important it is for you to know something of the past market history of a stock, or a group, or the market before you make a commitment in it. However, to illustrate how you must handle your purchases or sales when your selections fail to work out as anticipated, let us assume that we had none of this past history to aid us in making our decision. Instead, assume we had bought Anaconda, July 27th, on the day following the indicated selling climax: First, with the idea of making a trading turn on a possible normal correction of the total decline from 15 to 10; second with the further object of keeping this trade alive if subsequent action shows that it is building a foundation for a worth while advance. Should its action turn out the second way, we can let our profit run at little risk, as we already have established a long position with a stop very close to the danger point -- in this case say at $9 \frac{3}{8}$ or about a half point under the July 26th low. (Since this is a low priced stock a half-point stop would be reasonable here.) Therefore, assume that we are long at about $10 \frac{1}{2}$.

The stock rallies a little further next day, (July 28th) but the rally is sluggish as shown by the very small volume and the small spread. This leads us to expect a reaction. Another reason for expecting a recession is that at the high point of Saturday's rally, the price touches the supply line A-B-C. This line is drawn through the high points of July 19th and July 23rd and thus approximately represents the angle of decline, or downward stride of the stock after it left the small trading range $14 \frac{1}{4}$ - $15 \frac{1}{8}$.

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

On July 30th and 31st, the price dips toward the climax low point, but the light volume tells us there is no renewal of the pressure which was in effect previously -- hence the low is not likely to be violated. When the price recovers the next day to $11 \frac{1}{2}$, we conclude that the downward stride A-B now has been broken; that the dip back to $10 \frac{1}{2}$ (July 31st) has tested the previous low; and that, since this reaction died out at a higher support, the five days' sidewise movement (July 26th to 31st), represents the formation of a sufficient base of support, or the development of sufficient demand, to induce a further rally. However, volume remains constant and very small as the rally continues to August 3rd, indicating that the few buyers are timid and unwilling to follow prices upward.

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

easily force the price through the critical low point of July 26th and thus release fresh liquidation.

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

In brief, everything now depends upon how the stock behaves when it reacts. Meanwhile, we have decided, in advance, that if the price recedes we may reasonably expect it to attempt to hold around 10½, where it was supported on July 31st. Failing that, we might expect an effort to hold if it should return to the low point of July 26th. Ability to hold around 10½, however, would be more to our liking. Therefore, depending upon the way the stock dips, we shall decide either to stick to our long trading position, or to get out forthwith regardless of any small loss we might have to take. It is much better to take a small loss than risk a large one if our stock does not act right.

However, on August 6th (Monday), after reacting to 10 5/8, the price immediately rallies to close at the day's high. Thus, we have a rather vigorous rebound from a previous supporting point; a rebound which follows promptly on the completion of a normal correction of the rally from 10 to 11¾ (July 26th to August 3rd); and a slight increase in volume which, under the circumstances, appears to be occurring on a rally thus indicating that the stock is developing technical strength.

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

The next two sessions bring higher bottoms, higher tops and higher closings with volume improved over that accompanying the rally to August 3rd. Also, by comparison with our general market average, the stock is strong.

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

At this point let us digress again for a moment to observe that, had we acted on the indication of a buying climax (August 9th) by closing out our long trade immediately we should have lost little or nothing because, within five weeks, the stock was right down where it had started from on July 26th and we should have gained nothing by

attempting to get the last point or half-point at the top of the move to August 13th, even though it stayed around the high point for two weeks thereafter.

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

On this reaction (August 14th to 18th) volume is very small, at the same time showing a distinct tendency to taper off as the price falls back halfway to the previous support point of 10 5/8 (the low of Aug. 6th). This says the stock will probably try to rally again. In the meantime, remember we have not disturbed the assumed long position which we took in July, that is, the long position which we took to try for an important advance. But now, when the price rallies abruptly toward the previous (August 13th) high at 13½ and volume increases suddenly on the top of this bulge to August 22nd, we again become suspicious of the bull side and watch carefully to see what the stock may do next. It reacts on diminishing volume the next day then rallies toward the previous high points over the next two sessions. But volume continues to shrink, thereby indicating exhaustion of buying power. It lacks the momentum necessary to overcome the resistance around 13½.

Here we are also impressed by the fact that the stock has made almost no progress since the volume surge of August 9th. Likewise, though it was relatively stronger than the general market for a time, since August 13th it has fallen out of step because the average has continued to register gains whereas Anaconda, instead of moving with the market, now is going sidewise. Consequently, when the average reaches its high of August 25th, Anaconda is merely rallying back to the point where it gave indications of meeting supply on August 9th and 13th. Meanwhile, the price seems to be working into a hinge position. The development of this apex may be seen clearly by drawing a line of support, F-H, through the successive low points of August 6th and 20th, as indicated on the chart. Obviously, with the price hedged between the trend line F-H and the flat line of tops across 13½ - 13 3/8, it will not take much of a downward thrust to break the angle of the support line F-H.

Also, reviewing the whole operation since the stock recovered from the July 26th low point, we are impressed with the fact that there has been little consistency in the expansion of volume on price advances. Rather, successive up waves since August 9th present the appearance of hypodermics engineered to fill up the few buyers who can be coaxed to rush in on such made-to-order bulges; and whatever demand previously existed has died out completely by August 25th as shown by the marked shrinkage of volume around this rally top. With so many bearish symptoms, we conclude that the stock has exhausted its possibilities on the up side, at least for the time being. Therefore, it is best for us to close out our long position if we have not previously done so, both the one taken for trading purposes only and the one taken for a possibly longer rise. The stock so far has been held in the range

12 - 13½ for two weeks. If it should start down now the setback may be fairly important. Hence we do not wish to lose what little profit we have; much less let the stock run against us when we have such plain warnings that it is not acting right.

Increasing volume as the price starts to react, Aug. 27th, confirms our bearish convictions. On returning to the last preceding support point around 12, we note two days' temporary hesitation (Aug. 31st and Sept. 1st) which is also taking place as the price comes to rest on the trend support line D-F, drawn through the low points of July 26th and Aug. 6th. Here we are entitled to expect a rally, or an attempt to rally, out of respect for the previous support point and the influence of the stride line D-F. That is, if the stock is technically strong, it is likely to indicate the fact by rallying to 12½ or better, for that would be normal at this juncture. But, should it fail to rally -- where a rally might logically be expected -- such action, of itself, would signal acute weakness.

Therefore, when on Sept. 4th it breaks the previous Aug. 20th low simultaneously (and markedly) violating our trend line, we stay bearish despite the continuing low volume. The stock's price action says plainly: Don't let this small volume fool you. I'm declining, not so much because of pressing liquidation, but because demand for me is of poor quality – nobody wants to support me.

A quick upthrust (Sept. 5th) on very small volume followed immediately by a downthrust which cancels the bulge, emphasizes the weakness. So we look for more decline, involving a test of the previous supporting points around 10½ and, if that fails, a test of the critical July 26th low.

The price now sags steadily with no sign of support over the next nine sessions. On Sept. 17th and 18th it comes to rest where it was supported previously around 10½ (July 31st and Aug. 6th). There is nothing in the volume behavior to tell us that the move may be climaxing here beyond a relatively slight increase on the 17th. But, in view of the consistently light turnover on the way down from 13½ we should already have concluded that the July lows are in little danger of being violated because that low volume shows the price is falling as a result of poor demand rather than because of active or increasing supply. In other words, it begins to look as if the sponsors had pulled out their bids and were allowing the stock to slide downward in hope of discouraging public interest, that is, in hope of discouraging outsiders from accumulating; and for the purpose of inducing long holders to unload "because the stock looks so weak."

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

Accordingly, observing that volume tends to shrink on the rally to 12 (Sept. 19th to 22nd) and that the price movement flattens out there over the next five sessions, we employ precisely the same reasoning as in the week ending Aug. 4th. A small

recession to Sept. 29th brings the price to a dead center. If it should now react further, either under the temporary supporting points of Sept. 24th and 25th, or beyond the halfway reaction mark (i.e., halfway back to 10½), we shall have to be prepared to close out our long position immediately. Another reason for doing so is the bearish implication of the stock's failure to participate fully in the rally of the market as a whole from Sept. 17th to 27th.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Actually, we are not ready to buy even yet, because while many of the symptoms of accumulation are present, other confirmatory indications which would give us the "go ahead signal" thus far have not appeared. For instance, the reaction to Dec. 4th over-ran the half-way mark. And, an indication that is still notably lacking is the stock's ability to respond convincingly to strength in the market as a whole. Thus, whereas the Average has been recording progressively higher tops and higher supports since mid-September, Anaconda is still repeatedly falling back to or toward the supporting level. Since Aug. 13th, every rally has stopped short of the previous upswing, as at 13 3/8, 12 5/8, 12, 11¾, 11½ and 11 3/8.

Under these conditions we must recognize that if it tries to advance now, in December, it will probably have serious difficulty contending with the old resistance area, 14-17, to which has been added the additional resistance created by the supply generated between say 12 and 13½, in consequence of the abortive August rise. Therefore, we should have to be prepared promptly to close out a position, taken around \$11 on Dec. 5th, if the action of the stock shows that its sponsors are unwilling to carry it through these overhanging offerings.

The appearance of climactic volume as the stock strikes the old September resistance point on Dec. 6th and 7th, makes us wary of the bull side. The gain in price is not in proportion with the expansion of volume—a bearish indication strongly confirmed when the stock falls back sharply, Dec. 8th, to wipe out that Dec. 7th peak-volume price-bulge. Assuming we wish to wait for further indications of weakness we might allow the stock to fall back halfway to its last low point, namely, 10½, to see how it will behave after a normal correction of the preceding rally. But when it shows confirmatory weakness in reacting beyond the halfway mark we must get out of our long stock, if any, without further ado.

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

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

this unwanted company by allowing the price to sag repeatedly thereby wearing out the premature bulls.

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

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

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

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

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

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

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

Since July the price has declined about 7 points, a very substantial shrinkage for such a low priced stock -- nearly 50%. The speed of the drop through 10 was such as to frighten even the most rugged holders into unloading, especially those who were lulled into a false sense of security because the stock so often heretofore rallied

from that critical level. Also, chances are that a lot of stops were caught on the break-through thus cleaning out more weak holders. Hence, if our interpretation of the action to date is sound the stock must now be in strong hands.

On the basis of the above general and detailed deductions we decide that now, at long last, we have a complete set of bullish symptoms and hence good grounds for taking a long position without qualifications or delay. Additional reasons for doing so are that the bag holding for frightened sellers (indicated by three days' lateral movement in a half-point range on relatively large volume, March 13th to 15th) in the face of general weakness elsewhere, puts the stock in the springboard position. That is, it will require only a small rise to break the downward stride in effect since Feb. 18th, in other words, the supply line K-M-O. Also, the precipitous decline from 11³/₄ to 8 has probably created an oversold condition; and around 8 the price is pulling away from the oversold position line L-N.

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

Accordingly, if we did not buy on the evidence of the selling climax around 8 to 8¹/₂, we do so either between March 18th to 20th, or around 9, at the point where the stock comes out of the downtrend supply line K-M-O. Our stop on any one of these trades, of course, should be at about 7 ³/₈, approximately ¹/₂ point under the extreme low point. We are taking a very small risk because if our analysis is correct, the stock should start upward without material delay or reaction; and if we are wrong, the loss involved in being stopped out will be too small to bother us or prevent us from trying again at the next favorable opportunity.

However, we are not wrong. On the contrary, the stock's behavior fully confirms our position by recording a series of persistently rising supports and rising tops accompanied by higher closings from March 18th to 23rd. Thus it advances as we expected it would. The light volume does not alarm us. Instead, it serves to strengthen our bullish conclusions because, under the circumstances as we reviewed them from the top of Page 11 onward, this light volume most probably signifies a scarcity of supply rather than a poor quality of demand; and past experience tells us that such light volume is a normal characteristic at this stage of a bull campaign. The managers do not want activity in the stock now. They do not wish to advertise it and attract an unwanted public following at these low levels. The public will be coaxed to come in later.

Briefly stated, the vigor of the rise from March 18th to 23rd contradicts our first natural inclination to believe that the price is rallying on small volume (which would not be bearish), and warns us to reconsider this volume manifestation in the light of the conclusions we have otherwise drawn. So reconsidered it is apparent that the stock is advancing because offerings have become scarce, hence the inference is bullish. This, in turn, strengthens our convictions that the stock has been thoroughly prepared for a very important advance inasmuch as tentative symptoms of accumulation have been present for eight months. If our deductions are correct and the advance is really starting, volume should begin to build up after the price has

risen some distance away from the low point. Likewise, it should move in harmony with or faster than the advance now getting under way in the market as a whole. The stock has been properly groomed to take a leadership position in that advance whereas heretofore, it wasn't ready.

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

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

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

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

And so the marking-up phase continues with alternating fast upthrusts and resting spells until May 16th when a peak volume tells us to be on the alert for a possible change. The advance may be culminating, at least for the time being. A 10 point rise has more than doubled the price within the comparatively short space of two months

and the advance is now pitched at a steep upward angle -- observe the readjusted trend lines R-T-U and V-W.

Having raised our stop to keep it about one point under each of the successive reaction lows of Apr. 3rd, Apr. 19th and May 8th, we must now decide whether we wish to close out our long position on a strong up wave, or bring our stop up to a point a little under the halfway reaction mark (between the high of 18 and the last point of support at 15 1/8, recorded May 15th) while we watch for confirmatory indications of distribution or evidence of unimpaired strength.

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

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

On May 27th the stock is on the hinge, having reached a dead center in the range 18-16½. If we did not sell short on the last bulge to 18 and a fraction, we do so here with our stop say one point above the extreme high of May, figuring that the advance is over for the present and there is likely to be a fair-sized reaction to correct the March-May advance, if not a more important change of trend.

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

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

Sharply diminishing volume, on May 31st and June 1st, indicates a lessening of the selling pressure. A closing at the top, June 1st, marks the failure of a further downward thrust which brings a quick rebound after the decline (or reaction) has been extended into the early May congestion area between 13 1/8 and 14¾. This

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

Reaction over the next four days is very abrupt. Hence, the stock develops an oversold position as the price touches the former June 1st supporting point, foreshadowing another rally effort. Also, observe that there is a volume surge on June 19th, followed promptly by a high closing the next day after the stock reaches a new low on this recession, all of which helps us to recognize this behavior as the climax of the reaction.

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

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

A normal rally, June 21st to 24th, dies out on low volume, cautioning us to look for more recession. A great deal now depends on how the stock acts when it returns to the supporting level. So when the 3-day recession, to June 27th, dies out with volume tapering off we read this to mean that there is not sufficient new supply, or pressure, on the stock to break the old supporting points. And, since the price now appears to be working out into another hinge position where it would require only a small rally to break the downward stride in effect since the May top was reached, we cover our shorts and reestablish our long position anticipating the development of a

new springboard position, reasoning that the stage is all set for a new advance. Since we can buy on a down wave here at a point where our risk can be limited with a close stop under the low points of May 8th, June 1st and June 20th, we have an ideal buying opportunity.

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

If our previous conclusions are correct, and reabsorption has been occurring around 14–16, this drift into dullness means an almost immediate resumption of the advance and the simultaneous breaking out into a springboard position. (*) The late buyers who were loaded up with stock in the range 16–18 have been scared into unloading on the dullness and (as they think) weakness of June.

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

For instance, note that the action of Anaconda during and after the distribution around 16–18, in many respects, is similar to the action of the N.Y. Times average as discussed in Section 7M, Page 10 through the top of Page 14. But, whereas the behavior of the index continued bearish after the decline to March 4, 1930, we now (June 26, 1934) see many symptoms in the behavior of Anaconda which tell us that, instead of preparing for a further decline, the stock more probably is being groomed for another advance.

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

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

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

volume, July 10th to 13th, prepare us for probable hesitation and a possible reaction when the price returns to the June rally top around 16 and a fraction.

However, the demand here seems fairly persistent as denoted by a series of higher tops and higher bottoms in a very narrow price range. Then, on July 15th, there is a sharp increase in volume which we take to mean that the sponsors are absorbing whatever offerings remain around the 16 high point. If we are in doubt about this interpretation and inclined to regard the volume surge of the 15th as a buying climax, we may raise the stop on our purchase at 14 to cost and wait for further indications. A further edging up brings the price movement out to a very distinct point or apex, July 17th. Three days' lack of progress here suggests a reaction which comes as anticipated on July 19th and 20th but volume immediately shrinks, a bullish sign. Accordingly, we hold our long position though we do not know that this reaction is over yet. But when the price starts up again, July 22nd, and in the next two days edges still higher with volume building up once more as it rallies, we are able to look back and see that the reaction (to the 20th) was extremely shallow, much less than normal. Hence, the high volume of July 15th was indeed absorption of overhanging offerings and so, in retrospect, it becomes apparent that our indications are all consistently bullish to date. During the next several sessions there is more hesitation. However, volume increases on rally days and shrinks on reactionary days while the price is held stubbornly against the old distribution range, 16½ – 18, where the stock, of course, is called upon to absorb offerings from the buyers who are now anxious to get out even.

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

Henceforth, the indications are all obviously bullish, such as gradually expanding volume indicating a revival of interest in the stock. The rise is temporarily checked by a three-day buying climax beginning Aug. 19th, but the ensuing reaction (to Aug. 31st) is accompanied by a prompt shrinkage in volume and the down swing levels off to about where we would expect it should, namely, in the vicinity of the May high points between 17–18. From here on it is a steady upward march to 30 where the advance is interrupted by a corrective reaction and reabsorption in the range of 26–30. This reabsorption eventually carried the stock up to 39¾ in April, 193[7], where the move culminated temporarily with the topping out of the general market.

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

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

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





