The Richard D. Wyckoff Method of Trading and Investing in Stocks



A COURSE OF INSTRUCTION

IN

STOCK MARKET SCIENCE AND TECHNIQUE

Based on forty-five years' practical experience of the man who pioneered in the art of judging the stock market by its own action. Mr. Wyckoff, by sheer force of intellect, rose from runner, to head of his own brokerage firm, thereby acquiring that intimate knowledge of market operations which peculiarly fitted him for an eminently successful career as stock operator, author, editor for nineteen years of a leading financial magazine (founded by him in 1907) and market adviser to thousands of traders and investors.

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CONTENTS

	Sect.	Page
How to Proceed		A-B
Foreword	1M	1-2
Basic Law	2M	1-4
Judging the Market by Its Own Action	3M	1-4
Forms of Charts	4M	1-27
Buying and Selling Waves	5M	1-3
Chart Records	6M	1-4
Determining the Trend of the Market - Composite. Averages	7M	1-35
Comparing Strength and Weakness - Group Averages	8M	1-25
How a Campaign is Conducted - Individual- Chart Studies - Part I	9M	1-10
How the Operator's Intentions may be Detected - Chart Studies II	10M	1-13
Figure Charts - Individual Chart Studies - Part III	11M	1-13
Figure Chart Studies - Individual Stocks - Part IV	12M	1-9
Figure Charts - N. Y. Times Average - Chart Studies Part V	13M	1-10
Market Technique - Volume Studies	14M	1-14
Significance of Trend Lines	15M	1-20
Vertical Line Charts - Chart Studies Part VI	16M	1-34
Vertical Line Charts - Chart Studies Part VII	17M	1-26
Selecting the Best Stocks - Position Sheet - Barometer	18M	1-19
How to Determine the Position of an Individual Stock	19M	1-14
Buying and Selling Tests	20M	1-7
Refinements	21M	1-10
The Wave Chart	22M	1-39
Stop Orders	23W	1-17
General Instructions - Cautionary Suggestions	24M	1-18
Market Philosophy - Cautionary Suggestions (Cont.)	25M	1-11
Addenda		A1-A7

HOW TO PROCEED WITH THE STUDY OF THE RICHARD D. WYCKOFF COURSE OF INSTRUCTION

The following is recommended as a plan of study which should facilitate your progress and enable you to get the most out of this Instruction:

1. Read through the entire Course casually without attempting to study any part of it. YOU will find numerous cross-references in the text. Disregard these for the present. Let your, first casual reading be for the purpose of gaining a general idea of the scope and presentation of the subject matter.

2. Read through the entire Course a second time, again, ignoring the cross-references. This time, weigh the meaning of each paragraph more carefully, but do not attempt to dwell upon any part or section for more than a few minutes yet. Let the purpose of this second reading merely be to impress upon your mind more firmly the ideas you absorb as you go along.

   If necessary, read the whole Course through a third time before you begin to concentrate on any particular part. By these repeated readings you will find that your memory will retain more firmly the ideas that are presented in each section. Then, when you do begin to study and analyze each paragraph intensively, you will have a clear understanding of the way in which the various parts, fit into, the complete philosophy of this Instruction.

   Bear in mind that everything in the Course is important. Nothing is superficial. Do not neglect those sections which are necessarily shorter, than others. Every paragraph is as much an integral part of the Course as any other paragraph.

3. On your second or third reading, mark any paragraphs that may not be clear to you.

4. Now study carefully Sections 4M and 6M and practice making vertical line and figure charts, as explained in Section 4M, until you are sure that you understand how to construct them properly. Should you have any difficulty or doubts concerning the method of making the 1 or 3 point figure charts or the vertical charts, consult our Coaching Staff — that is send us samples of the charts you have made in accordance with your understanding of the instructions and we shall be glad to check your work.

5. Next, study and analyze carefully Sections 5M to 25M, inclusive, again marking any portions of the text which may not be clear to you. Make full use of all cross-references and - footnotes as you go along. .The cross-references are indicated thus: "Sect. —, Pg. —, Par. —," which means that when you come to one of - these references you should turn to the Indicated section, page and paragraph and study it in conjunction with the text in the part of the Course where you are at the moment. Note that paragraph one begins on any given page, with the first indentation on that page.

For instance, turn to Page 2, Section 3M. Paragraph 1 begins with the

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fifth line from the top of the page, which reads "No one can deny, etc."; Paragraph 2 begins with the words "Tape Reading and Chart Reading, etc." The first four lines on the top of the page are the run-over from paragraph 5 on the preceding page.

In all cases where charts are discussed, follow the instructions given in Section 7M (Pg. 2, Par. 3) for studying them alongside of the reading matter in the Course.

6. Review the portions of the text you may have marked as suggested in items 3 and 5, above. If you still find that you do not understand them, send us a list of these questions (referring to the proper section, page and paragraph number) and any other questions, that I are puzzling you, so we may clear up your difficulties.

7. Next, practice making up a Position Sheet and the Technical Position Barometer, consulting freely the instructions contained in Sections 18M and 19M.

8. You will now be ready to test your ability to apply the principles you have learned from this Course by making a series of <u>paper</u> trades.

9. After you have completed the above steps, one by one, if you have trouble, in applying any of the principles, or if your paper trades do not develop according to expectations, you are urged to select a paper trade, that illustrates your difficulty and submit it to us. Be sure to include a statement showing when and at what price you bought or sold; where you placed your stop, the technical position of the stock as you understood it at the time you entered the trade; and an outline of the reasoning you employed in arriving at your decision to make the trade.

10. It will be advisable also for you to send us copies of your Position Sheets and Records of Paper Trades for review and criticism. Please use the short forms of these records which are furnished you for the purpose of securing this additional instruction. <u>Do not fail</u> to accompany these records with full outline of your own reasons for your decisions.

11. As you gain proficiency in the application of this Instruction and acquire experience in the interpretation of market action, you will find an occasional review of your Course extremely beneficial. As your knowledge of stock market technique increases, your Course will acquire increasing value as a reference work. Therefore, do not lay it away – but consult it often. It not only will refresh your memory of vital principles, but by constant review will awaken you to the discovery of refinements and principles that may have escaped your notice on earlier occasions.

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WARNING

Every paragraph - every line – in this Course is vital - it was put for a very definite purpose.

Do not neglect any part of it and do not attempt to operate in the market by this Method until you have thoroughly learned the whole of it.

FOREWORD

This is a method of judging the stock market by its own action.

It is intended for investors as well as for traders.

It has been planned and prepared for those who desire to safeguard their investment capital against, and to make money from, the fluctuations in the priced of stocks dealt in on the New York Stock Exchange or any other organized exchange.

It is applicable as well to bonds, preferred stocks and the leading commodity markets.

Anyone who buys or sells a stock, a bond or a commodity for profit is speculating if he employs intelligent foresight.

If he does not, he is gambling.

Your purpose should be to become intelligent, scientific and successful investor and trader.

This Method is for those who have had either little or no experience operating in the stock market, or for those who have had much experience but who have never been shown the real rules of the game.

Out of the very limited number who really understand the inner workings of the stock market, practically no one has been willing to show the public the real inside. I believe it is time for someone to step forward and do this.

The appalling losses, in securities, suffered annually by millions of people, are enough to make the angels weep.

These losses are the direct result of stock market plunging by people, most of whom do not realize what they are risking, and who have an amazingly small knowledge of the market.

That the American public needs help in its security market operations there can be no question. I believe the best way to help people is to show

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them how to help themselves; and so I am here offering the cream of what I have learned in forty years of active experience in Wall Street.

By the methods herein explained, I have made a great deal of money for myself and my clients and subscribers who numbered in excess of 200,000. By making this available to those who desire to learn the business or trading and investing in stocks — for it is a business just like law, medicine, or any other — I hope to be of still greater service, not only to my former patrons, but to others who have not had an opportunity to invest under favorable conditions.

After you have learned this Method, you can devote half an hour, an hour, all day or as much time, as you like, to forecasting the market, selecting the best stocks in which to make commitments and the best time to buy and sell.

You can learn from this how to develop independent judgment, so that you need never ask anyone's opinion or listen to anyone's tips, or take anybody's advice. You can so train your judgment that you will know just what to do and when to do it. When you are in doubt you will do nothing.

I do not claim that you can be invariably right. No one could. What I aim to do is to show you how to be right in the majority of instances. This will require close study and self-training on your part.

I will teach you how to read the market from your daily newspaper; from the tape of the stock ticker; from your charts, or any or all combined.

I will teach you to plan your stock market campaigns just as a general plans his battles.

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THE BASIC LAW OF SUPPLY AND DEMAND

I had been in Wall Street 20 years when I discovered that it was possible to judge the future course of the market by its own action. In my book, "Wall Street Ventures and Adventures Through Forty Years" (pg. 168) I stated my experience and observations in 1909 as follows:

"I saw more and more that the action of .stocks reflected the plans and purposes of those who dominated them. I began to see possibilities of judging from the very tape what these master minds were doing. My editorial work was proving a most valuable means of self-education. In gathering material that would benefit my readers, I was actively searching out the stuff that would aid me personally. While my subscribers were given the best of what I collected, there was much in material discarded which helped to build up what I might call a code of enlightened procedure for use in this greatest of all the world's games.

"I had a friend who had been a member of the Exchange and who was well up on the technique of the market from the standpoint of the floor trader. We often discussed the difference between reading the tape simply to follow price changes (as most clients did) and reading the tape in order to judge the probable action of stocks in the immediate future.

"Starting from the simple ground that the logical, action of a stock was to decline when offerings exceeded the number of shares bid for and to advance when the amount bid for was greater than the amount offered, we agreed that the quantity or volume of stock changing hands in each succeeding transaction was of great importance. Anyone who undertook to read the minds of the momentary buyers and sellers was able to measure, to a certain degree, their eagerness or anxiety to buy or sell; also to measure the force of the buying power or selling power as shown by the number of shares; and to judge of the purpose behind the action,

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whether it was to buy without advancing the price, or to force the price up, or to mark it down, or to discourage buying or selling by others, as the case might be.

"Each transaction carried with it certain evidence, although it was not always possible to interpret that evidence. All stocks no matter by whom they were owned, bought or sold, looked alike on the tape. But the purposes behind this buying and this selling were different and these might be fairly clear to those who understood market psychology.

"Each transaction, although recorded only once, represented a meeting of minds; those of a buyer and a seller. This meeting of minds took place at a certain post on the floor of the Stock Exchange, even though the buyer might be in the far west and the seller in Europe.

"Not all transactions were significant, but the interpreter must detect those which were. He must see that some indicated a purpose. Some one or some group was carrying, or attempting to carry, something through. He must take advantage of that."

Continuing my studies of the tape, I realized, that the Basic Law of Supply and Demand governed all price changes; that the best indicator of the future course of the market was the relation of supply to demand.

The Law of Supply and Demand operates in all markets in every part of the world. When demand exceeds supply, prices rise, and when supply is greater than demand, prices decline. This is true not only of stocks; it is constantly being demonstrated in markets for wheat, com, cotton, sugar and every other commodity that is bought and sold; also in other markets such as real estate, labor, etc.

I demonstrated this further in a series of articles entitled: "Studies in Tape Reading" which attracted wide attention as the first of their kind ever published anywhere, so far as I knew.

My basic idea in this series was that the stock market, by its own action,

continually indicates the probable direction of its immediate and future trend, and anyone able to determine this with accuracy should attain success in trading and investing.

Coming events, I claimed, were foreshadowed on the tape because large interests there disclosed their anticipation of advances or declines by their purchases or sales. So, too, with the manipulator who was endeavoring to raise or depress prices. If one were to become sufficiently expert, he could judge by the action of stocks what was in the minds of these large interests and follow them.

The trend was simply the line of least resistance. When a stock met opposition in its rise, it must either be strong enough to overcome this resistance (selling) or it must inevitably turn downward, and when, in its downward course, sufficient buying was encountered to halt the decline, it would turn upward. The critical moments in all these various phases of the market were these minor and major turning points, or else the points where the price broke through the opposition into a new field.

Further development of this method of judging the market from its own action resulted in my using it as a basis for predicting the probable course-of-the market, and this eventually led to my issuing weekly, "The Trend Letter" (first published in 1911) which had a most successful career for many years. In fact, the forecasts contained in this Letter were so accurate that a large following was developed. As a result of a series of successful campaigns we were not only overwhelmed with business but brokerage houses throughout the country passed along these advices to their clients. So many followers were thus gained that an undue effect was had on the quotations for the stocks in which we traded, and in certain cases the effect on the market was important.

All of the above in much more detail, is described in my book "Wall Street Ventures and Adventures Through Forty Years" which it is advisable for you to

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read. My reason for mentioning these facts is to show that this method of judging the market by its own action was highly successful, from the standpoint of profits realized for subscribers who followed my advices, as well as for many thousands of people who were not subscribers but who bought and sold when we did.

From the above you may judge how vital it is, in the stock market, as in every other field, to get down to the right principles.

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JUDGING THE MARKET BY ITS OWN ACTION

The business of Wall Street is to finance corporations and to sell the securities — stocks and bonds — which result from this financing. Some securities are good; others not so good. Those who manufacture and sell them to the public know their value best. The public has comparatively little idea of their real value, except seasoned securities — those which have been on the market for a long time and which, therefore, have established earning power and intrinsic value.

In every case the banker who does the financing and the dealers who help him distribute, have paid for their securities either in cash or in services, or underwritten them. The object is to market these stocks and bonds at as high prices as possible. This marketing is done through distributing houses and syndicates, by private sale, by public offering, and by means of listing on the stock exchanges.

In the latter case, the stock is advertised by making it active on the tape. If the price be advanced, and the transactions made large, the activity attracts buyers, and those who are handling the stock are thus able to dispose of their shares.

Sponsorship is continued after the market is thus made for a company's shares. The bankers operate for themselves, or others operate for them. After a stock is floated, its sponsors try to create a stable market and support the price as well as they can without taking back too much stock. When it is thoroughly distributed and enough people are interested in the stock to make a market which takes care of itself, under ordinary conditions, the original banker, syndicate or sponsor may discontinue operations and turn attention to some other which affords a new opportunity for money-making.

Other interests may begin operations in that stock. Generally speaking,

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there are usually one or more sponsors or large operators working in every stock. Sometimes there are many. These interests see opportunities for profit, accumulate a line, mark up the price when conditions are favorable, and then sell out. Or they may sell short, depress the price and cover.

No one can deny that in Wall Street the, big fish eat the little ones. Large operators could not operate successfully without the large number of people making up the public; that is, if there were only ten big interests in the market and no public, these ten could only make a profit by dealing with each other. It would be difficult for one crowd to deceive any of the nine others. But when the public enters the stock market, the large operator's game becomes easier for him.

Tape Reading and Chart Reading, enable one to detect and profit by these inside operations or manipulation; to judge the future course of stocks, by weighing the relation of supply and demand. This sometimes can be done from price movement alone, but if you consider also the volume of the transactions you gain an additional and vitally important helpful factor.

By accurately judging this supply and demand, you are able to decide the trend of the whole market and of certain stocks; also which stocks to buy or sell, and, what is even more important, when to do so.

You always aim to select the most promising opportunities; that is, the stocks which are likely to move soonest, fastest and farthest. You make no commitments without sound reasons, and you avoid undue risks.

Whenever you study the tape or a chart, consider what you see there as an expression of the forces that lift and depress prices. Study your charts not with an eye to comparing the shapes of the formations, but from the viewpoint of the behavior of the stock; the motives of those who are dominant in it; and the successes and failures of the buyers and sellers as they struggle for mastery on every move.

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The struggle is continuous. The tape shows all this in detail. The charts enable you to pick the market apart and study whatever portion or phase of it you choose.

Supply and demand may be studied on the tape of the stock ticker, and to even better advantage from charts.

The tape is like a moving picture film. Every minute of the day it is demonstrating whether supply or demand is the greater. Prices are constantly showing strength or weakness: strength when buyers predominate and weakness when the offerings overpower the buyers. All the various phases from dullness to activity; from strength to weakness; from depression to boom, and from the top of the market down to the bottom — all these are faithfully recorded on the tape. All these movements, small or great, demonstrate the workings of the law of supply and demand. By transferring to the charts portions of what appears on the tape, for study and forecasting purposes, one is more readily enabled to make deductions with accuracy.

And now that you are undertaking to learn this Method it is best that you prepare your mind for it by discarding most of the factors that you have heretofore employed in forming your judgment and making your decisions, such as: tips, rumors, news items, newspaper and magazine articles, analyses, reports, dividend rates, politics and fundamental statistics; and especially the half-baked trading theories which are expounded in boardrooms and popular books on the stock market.

It is not necessary for you to consider any of these factors because the effect of all of them is boiled down for you on the tape. Thus the tape does for you what you are unable to do for yourself: it concentrates all these elements (that other people use as a basis for their stock market actions) into the combined effect of their buying and selling. You draw from the tape or from your charts the comparatively few facts which you require for your purpose. These facts are: (1) price movement, (2) volume, or the intensity of the trading, (3)

the relationships between price movement and volume and (4) the time required for all the movements to run their respective courses.

You are thus far better equipped than the man who is supplied with all the financial news, statistics, etc. from the whole world.

I, therefore, claim that:

You need never read anything on the financial page of your newspaper except the table of stock prices and volumes.

You need pay no attention to the news, earnings, dividend rates or statements of corporations.

You need never study the financial or the business situation.

You need not understand railroad or industrial statistics, the money market, the crop situation, the bank statements, foreign trade or the political situation.

You can absolutely ignore all the thousands of tips, rumors, reports and especially the so-called inside information that flood Wall Street.

You can discard all of these completely and finally.

UNLESS YOU DO THIS YOU WILL BE UNABLE TO GET THE BEST RESULTS FROM YOUR MARKET OPERATIONS.

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FORMS OF CHARTS

Most of the principal moves in the market are made by large operators, well informed insiders, bankers and pools, whose work we must detect and follow. Practicably every stock has market sponsorship, although a stock's sponsors may not always be active in it (Sect. 14M, Pg. 12).

When important interests are accumulating a line of stock, a study of the transactions will frequently disclose the fact; not in every case, but in the majority. The more important the operations, the more easily are they discovered by studying the price movement, the volume, the activity and the behavior of stocks as the transactions appear on the tape.

An experienced tape reader can, without memoranda of any sort, carry in his head the movements of a number of stocks over many weeks and months and is able to give an opinion as to the present stage of the principal sponsor's operations. But there is a better way than this — an easier, more accurate and more reliable method of tracing these large, inside operations, so as to derive a profit and capital appreciation for the individual investor. I refer to the use of charts, or graphs, as some call them.

Charts are merely the tape transactions in graphic form. They record market history. All transactions appear first on the ticker tape, from which they are tabulated by the newspapers and printed in the morning and evening editions. You, can, from the tape, or preferably from the newspapers and your charts, secure all the information you need to study the market, and operate in it effectively and profitably.

Charts have actual forecasting value because they indicate supply and demand (pressure and support), the volume of trading and the time factor. They form a concrete record of the forces lifting and depressing prices. There is nothing so good for this purpose as charts. All the large interests in the

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Street for decades back have kept records of the market and of individual stocks in chart form. Whenever anyone says it is foolish to keep charts, or to use them in judging the market, you may put that person down as uninformed and either unwilling to learn or incapable of interpreting chart records intelligently.

Most of the popular prejudice against charts undoubtedly is due to the fact that many people mistakenly attempt to use charts mechanically — without judgment. They endeavor to draw diagrams or imaginary geometrical patterns on their charts, or apply arbitrary rules or systems such as “oscillators” and other impractical notions. Such methods are wrong. They lead only to errors, losses and discouragement. Therefore, you must remember this:- When <u>you</u> study charts look for the motive behind the action which the chart portrays. Aim to interpret the <u>behavior</u> of the market and of stocks not the fanciful patterns ("gaps," "horns," "flags," "pennants," etc.) which the charts may accidentally form.

One who understands how to interpret charts correctly can usually decide whether the whole market, or any single stock, or group of stocks, is most likely to advance, decline or stand still. Every market and every stock is always in a bullish, bearish or neutral position (Sect. 18M, Pg. 4, Par. 3). The person who can determine, with a high percentage of accuracy, the position in which the market, or a group, or a certain stock stands, holds the key to success in trading and investing.

<u>Selecting the Charts Best Suited to Your Purpose:</u> It may seem at first that an unnecessary number of charts are herein suggested, but remember that I am explaining this Method, without knowing just what experience, knowledge and practice you have had in the market.

I am describing to you all of the records that <u>may</u> be used, and depending upon your selecting therefrom what you find of most value for your individual requirements.

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It has always been my rule to reduce the number, of my own charts to the minimum. When I was doing by best work I discarded everything but a vertical line chart of the daily average of 50 stocks, with volumes, and the figure charts of about 150 leading stocks, depending for the balance of my deductions upon study of the stock ticker tape.

After you have studied and practiced with some or all of the charts I have suggested, you can select those you need for your individual purpose. If you do not have access to a stock ticker and desire to invest for the intermediate and major moves, it would be best for you to keep both types of charts mentioned below, together with the Wave chart of Tape Readings described in a later section.

In this Method we use three kinds of charts: Vertical Line Charts, Figure Charts and a Wave Chart.

VERTICAL CHARTS are made by drawing a vertical line to indicate the range of a stock, from high to low, in a single Stock Exchange session. This includes fractions; that is, the exact high and low points are recorded on the chart (see illustrations on pages 4 and 5).

The closing price for the day should be indicated by a short horizontal line, and each day's closing line may or may not be joined to that of the preceding day. The day's transactions represent all the pulling and hauling between bulls and bears for that session, and the closing price indicates the net result of the day's battle — a gain or a loss, therefore the closing marks (or lines joined, so that they make a continuous line) indicate the net progress of the market.

Volumes for each day's trading are recorded by a vertical line extending up from the bottom of the sheet, with a scale at the side. (See illustrations). On Saturdays the letter S may be placed above the volume for that day so that the volume of transactions for the two hour session may be distinguished from

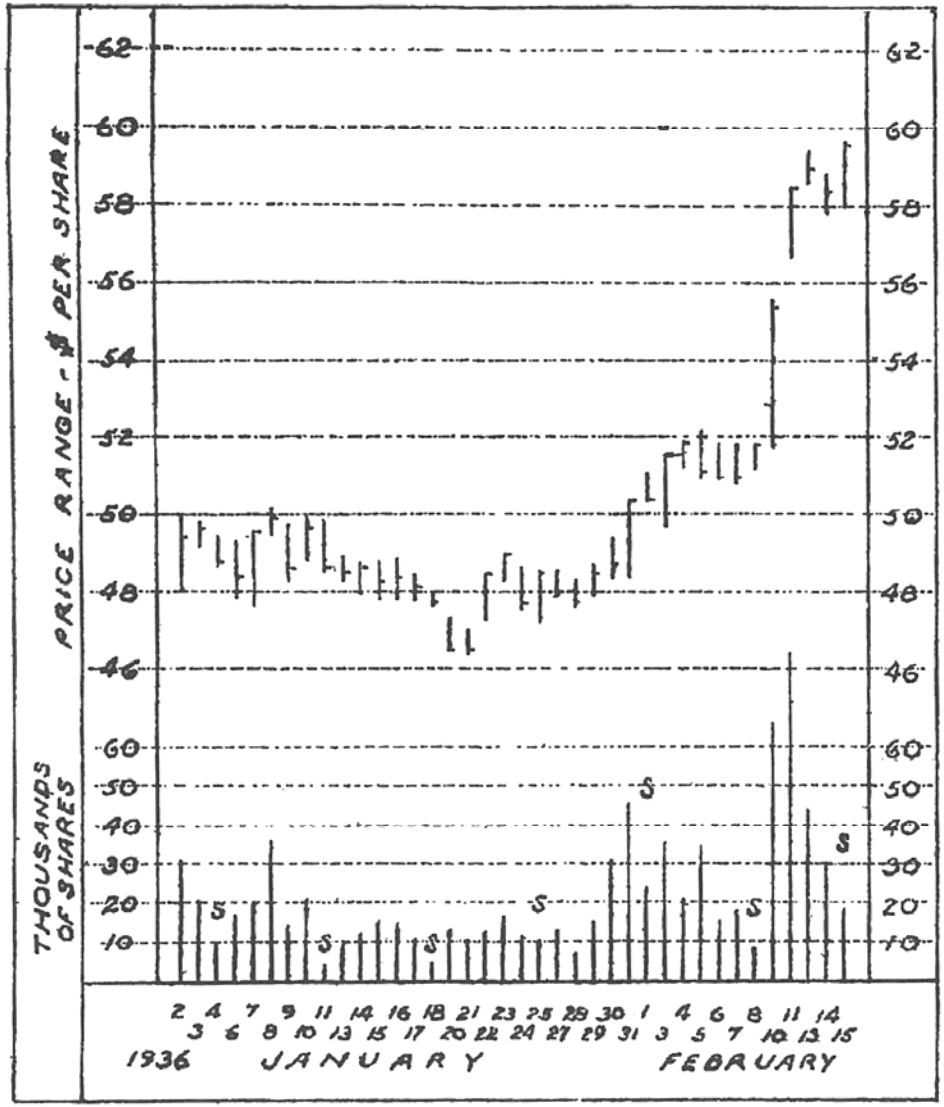
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SPECIMEN OF DAILY VERTICAL CHART

UNITED STATES STEEL

January 2 to February 15, 1936



DAILY PRICE RANGE AND VOLUME — U.S. STEEL

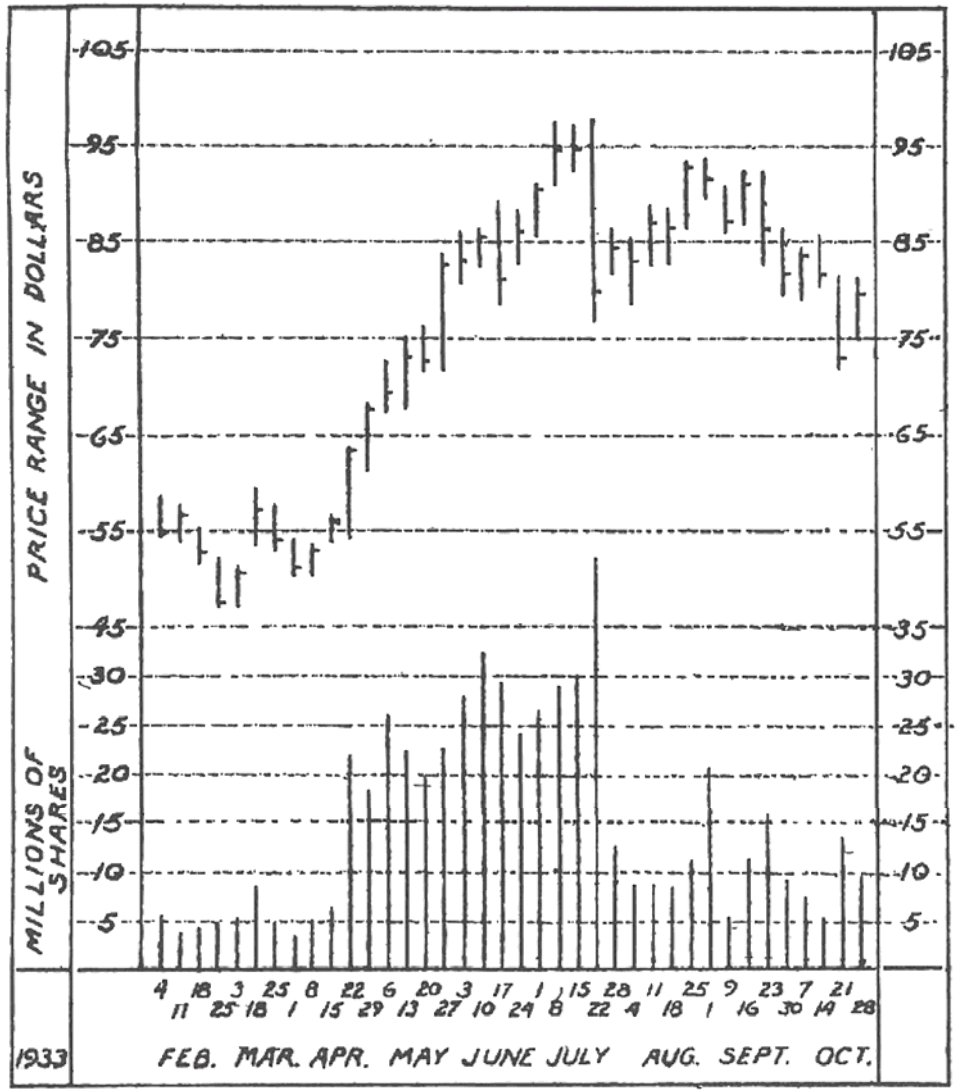
Date	High	Low	Last	Volume
Jan. 2	49 7/8	48 1/8	49 3/8	31,000
3	49 3/4	49	49 5/8	21,100
4	49 1/2	48 5/8	48 3/4	9,900
6	49 3/8	47 5/8	48 3/8	18,900
7	49 5/8	47 1/2	49 5/8	20,200
8	50 1/4	49 1/2	49 7/8	37,100
9	49 5/4	48 1/4	48 5/8	14,500
10	50	48 3/4	49 5/8	20,600
11	49 7/8	48 1/2	48 5/8	5,800
13	49	48 1/4	48 1/2	9,900
14	48 3/4	48	48 5/8	13,400
15	48 7/8	47 3/4	48 1/4	17,800
16	49	47 3/4	48 3/8	16,600
17	48 1/2	47 3/4	48 1/8	10,600
18	48	47 5/8	47 3/4	5,300
20	47 3/8	46 1/2	46 1/2	13,000
21	47 1/8	46 3/8	46 1/2	10,600
22	48 1/2	47 1/8	48 1/2	13,100
23	49	48 1/4	49	18,000
24	48 3/4	47 1/2	47 5/4	12,000
25	48 5/8	47 1/8	48 1/2	10,500
27	48 5/8	47 7/8	48	12,500
28	48 3/8	47 5/8	47 3/4	8,800
29	48 7/8	47 7/8	48 1/2	15,800
30	49 1/2	48 5/8	48 5/4	31,100
31	50 5/8	48 3/8	50 3/8	47,200
Feb. 1	51 1/4	50 3/8	50 3/8	25,600
3	51 5/8	49 5/8	51 5/8	36,400
4	52	51 3/8	51 7/8	21,700
5	52 1/4	50 7/8	511/8	36,000
6	51 7/8	50 7/8	51	12,100
7	51 7/8	50 3/4	51	18,600
8	51 7/8	51 1/8	51 7/8	9,700
10	55 5/8	51 7/8	55 3/8	66,200
11	50 1/2	56 5/8	58 I/2	82,400
13	59 1/2	58 5/8	59	44,400
14	59	57 3/4	58 3/8	30,300
15	59 3/4	58	59 5/8	19,000

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SPECIMEN OF WEEKLY VERTICAL CHART

N. Y. TIMES AVERAGE 50 STOCKS

February 1933 to October 1933 Inclusive



DAILY PRICE RANGE AND VOLUME				Volume
Week Ended	High	Low	Last	(-000)
Feb. 4	58.81	54.30	54.80	5,618
11	57.90	53.92	56.65	4,130
18	55.68	51.47	52.86	4,327
25	52.43	47.02	47.63	4,935
Mar. 3	51.63	47.03	50.50	5,365
18	59.93	55.32	57.04	8,671
25	57.92	52.92	54.07	4,977
Apr. 1	54.08	50.44	51.06	3,682
8	53.52	50.19	52.95	5,087
15	56.93	53.75	56.02	6,562
22	64.03	54.14	63.47	22,147
29	68.63	61.36	67.90	18,659
May 6	73.01	67.60	69.53	26,280
13	75.41	67.80	73.14	22,255
20	76.43	71.43	72.82	19,924
27	83.86	71.42	82.86	22,741
June 5	86.30	80.66	83.12	28,250
10	86.70	82.23	85.39	32,320
17	89.60	78.46	81.10	29,837
24	88.43	82.47	86.03	24,306
July 1	91.27	85.82	90.68	26,737
8	97.94	91.00	94.82	29,054
15	97.86	92.37	94.81	50,184
22	98.05	76.53	79.90	42,336
28	86.60	81.42	84.31	12,849
Aug. 4	85.51	78.57	83.08	8,609
11	89.11	82.24	87.06	8,728
18	88.65	82.76	86.61	8,495
25	93.14	86.79	92.96	11,165
Sept. 1	93.79	89.55	91.51	20,939
9	91.03	85.96	87.12	5,761
16	92.76	86.87	90.99	11,246
23	92.68	82.29	86.16	15,933
30	86.31	79.15	81.58	9,158
Oct. 7	84.49	78.99	83.67	7,741
14	85.62	80.38	81.82	5,476
21	81.38	71.91	72.97	13,738
28	81.20	75.06	79.71	9,829

the volume of the five hour sessions. (Sect. 19M, Pg. 6, Footnote.)

Advantages of a Vertical Chart: It is easily made from the transactions in your newspaper or from the data recorded on our Daily Stock Chart Reports. These show the price movement — highest, lowest and closing, and the volume. From this -price movement alone we are able to judge the supply and demand, the points of resistance and support, and the trend. The volume (number of shares dealt in) indicates the intensity of the trading and the quality of the buying and selling, and is a further essential aid in judging supply and demand.

The Time Factor is also important because it enables us to estimate the speed of the advances and declines — whether the buying or selling is urgent or leisurely; whether it is slow or rapid accumulation, or distribution. The studies which follow in succeeding sections will explain this in a practical way.

From the volume and the price movement we find the greatest aid: (a) in determining the direction of coming moves; (b)deciding when to buy or sell, when to go long or short; (c) when a stock is on the springboard, and (d) when a move is culminating.

Daily Vertical Charts are made to record the daily movements and volume of the averages, or groups or individual stocks. By the use of these charts, we are better able, to discern accumulation, distribution and other phases of manipulative (controlled) or uncontrolled moves in the market. By condensing them into weekly, and monthly vertical charts we are able to visualize the long time trend and to keep our perspective of the long range moves. However, the daily chart is most generally used because of its greater sensitivity and immediate historical value. In other words, weakly and monthly vertical charts aid us to judge the market's present position in relation to the general trend, that is, the major bull and bear cycles; but daily charts are more effective for timing commitments advantageously and for recognizing turning points.

FlGURE CHARTS are equally valuable, but it is best to use these in combination with vertical charts, so that all obtainable deductions may be made

therefrom. Figure charts take no account of fractions, nor do they take account of time or volume. They represent the movement of a stock from one full figure to the next full figure above or below, such as from 35 to 36 or 34. (See instructions for making figure charts, pages 9 to 14.) They are of great value in estimating the probable extent of supply and demand and the points of resistance and support.

From the general formations (not so-called patterns such as "saucers," "baskets," "fulcrums," etc., which are popular with some purely theoretical technicians) on the figure charts we are able to detect accumulation or distribution, and we see clearly marked, the lines of support and supply. We can also identify the marking up and marking down periods to excellent advantage by means of these charts.

The most valuable feature of Figure Charts, however, is their horizontal formations, which, in many cases forecast the approximate number of points a stock, or a group, or the average should move. (Sections 10M to 13M.)

It is in these horizontal formations, or congestion areas, on the figure chart that we find the greatest aid: (a) in determining how far a stock should go; (b) when it meets opposition, viz., when it has about reached the end of its move; and with the help of the vertical chart (c) determining the trend, and (d) when a stock is on the springboard.

Figure Charts may be made:

(1) From the fluctuations as they appear on the ticker tape.

(2) From the Report of Stock Sales on the New York Stock Exchange, a sheet that is published after the close of each session.

(3) From the Daily Stock Chart Reports which we will mail, to you each day, containing the one point fluctuations of more than 200 leading, active stocks. This service will be furnished gratis for six months.

(4) From the opening, highest, lowest and closing prices which appear in your daily newspaper; or from vertical charts.

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The Tape shows every transaction that takes place on the Stock Exchange floor. In order to build figure charts therefrom it is necessary to watch the tape continuously for five hours on five days a week, and two hours on Saturdays, so that every fluctuation in the full figures will be recorded on your figure chart. This is an easy matter if one is watching only a few stocks, but as the number increases, you may find it necessary to have some assistance.

The Sales Sheet, or Report of Stock Sale's, can be procured from Francis Emory Fitch, Inc. under authorization of a New York Stock Exchange member; it is available about 2 1/2 to 3 hours after the market closes. These sheets contain all the transactions that appear on the tape during the day, arranged so that one can easily run through the different prices at which all the stocks on the list are dealt in, beginning with the opening transaction and including all those that follow, in the order in which they occur. This is the equivalent of reading the tape one stock at a time. It requires but a few moments for each stock, to record the full figure transactions for a day. These sales sheets serve the same purpose as the tape when it comes to building figure charts. One can find them in his broker's offices in New York and he can stop in and get what he wants from them early the next morning following publication. Or, his broker will subscribe to these Sales Sheets for him and mail them to him.

Our Daily Stock Chart Reports contain every one point fluctuation in a selected list of more than 200 leading, active stocks; the New York Times, the New York Herald Tribune and the Dow-Jones averages; the Wyckoff Group Averages; and the principal commodities; together with the volume and daily price range data. This makes it possible for you to keep Vertical and Figure Charts on all or any number of the most representative stocks and averages with little trouble and expense. A further advantage of these reports is their accuracy and the prompt correction of errors which may occasionally occur but which generally are not corrected in other sources.

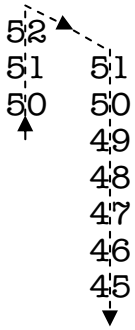
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The Figure Chart, as we have stated, takes no account of anything except the full figures. Fractions are discarded, as they are of no value in these calculations. If you start with a stock which is selling at 50, you pay no attention to any fluctuations except those of a full point or more from that figure. Your next entry after 50 would be either 51 or 49, and after the latter figure is recorded, you would record nothing until the stock sells at 50 or 48. When any full figure is skipped, that is, when there are no sales between say 50 and 53, you would record 51, 52 and 53 just as though there were sales at each of these full figures. But if it rose to only 52 7/8 you would not record 53 until it sold there.

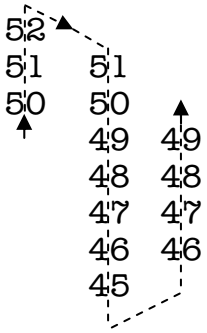
To Make a 1 Point Figure Chart, your procedure should be as follows:
The stock stands at 50. It goes to 52. You would, therefore, enter the 51 and 52 in the same vertical column as, and above, the 50, thus:

52
51
50

It then declines to 45, or even to 44 1/8, but does not touch 44. You would enter in the next column to the right 51, 50, 49, 48, 47, 46 and 45, thus:

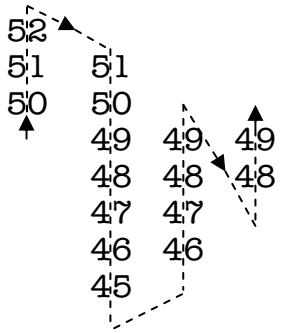


It rallies to 49 or to 49 7/8, but does not reach 50 therefore, you would enter in the third right-hand column 46, 47, 48 and 49, thus:

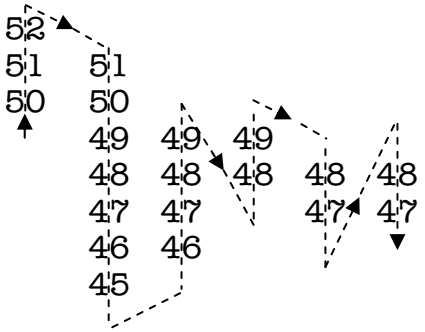


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A dip to 48 would call for an entry at that figure in the fourth right-hand column and a rally to 49 an entry of that figure just about the 48 thus:



Next a dip to 46 1/4, which calls for an entry of 48 and 47 in the fifth column. A rally to 48 3/4 and another dip to 46 1/8 requires two entries in the sixth column. And so on as per the illustration below, and in the charts shown elsewhere in this volume:



The dotted lines drawn through the figures show the course of the market. These lines, therefore, indicate how the chart should be made and how it should be read.

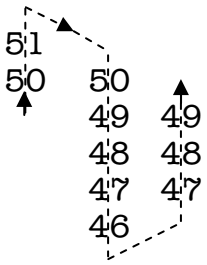
Dates are indicated on figure charts as follows: On the last day of each month a circle is put around the last entry which appears on the chart for that month, and the initial of the following month is entered a few spaces below the circle in the same vertical column. For example, turn to the 1 point figure chart of Bethlehem Steel on Page 12, Section 11M, and you will see that a circle is marked around the figure 69 in the second column which means that this was the last entry for the month of October, and just below that the letter N indicates that November begins here. A little further on there is another

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circle with D under it. The circle indicates the end of November and the letter D indicates that December begins here. Then the figure 51 is circled and below is an entry J-31, which means that 51 was the last entry in December, 1930 and January, 1931 begins here. The other months follow in the course.

When a stock sells ex-dividend this may be indicated by making all of the entries for that day in red, or some such distinguishing color. The amount of the dividend is then entered in the same vertical column below the graph. If no full figure change occurs on the day the stock sells ex-dividend, the list entry on the chart should be retraced in red, or some other distinguishing color.

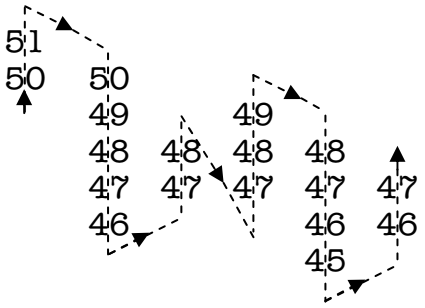
To make a 1 point Figure Chart from your newspaper: Suppose you take a stock which closed on Monday at 50. That would be your first figure on the figure chart. Your newspaper records the fact that this stock opened today, Tuesday, let us say, at 50 3/4 and went as high as 51 7/8; so you must record 51 on the figure chart.. It does not go to 52. The lowest for the day was 45 3/4; hence after it made the high at 51 it must have passed 46. You record on your figure chart 50, 49, 48, 47 and 46. The stick closed at 48 1/4, therefore it must have rallied from the low of 46 to 48 and you would record 47 and 48 on your figure' chart which would then look like this:



Assume that Wednesday's transactions will show that the stock opened at 46 1/2, made a high of 49 1/8, a low of 45 and closed at 47. Your figure chart would call for an entry at 47 because the stock closed on Tuesday at 48, and to open at 46 1/2 it must have passed 47, which is the same as selling there. You find that the high of Wednesday was 49 1/8, the low 45, but you do not know which occurred first unless you watched the tape sufficiently to tell whether the high point of Wednesday occurred before the low point or vice versa. If you

have not watched the tape, it would be well for you to ask your broker to look at his Sales Sheet and tell you when the stock was highest or lowest. Suppose the high point of the market Wednesday was in the morning. You must assume that your stock went to 49 1/2 after it touched 47. In this case you would make entries on the figure chart as follows: 48, 49. Then as the low of the day was 45, you must record 48 again, then 47, 46 and 45. And as the stock closed at 47 you would record 46 and 47.

When completed, your two-days' figure chart would look like this:



This is not so accurate a method as watching the tape, or using the Sales Sheet, or our Daily Stock Chart Reports; for your newspaper does not give you all of the fluctuations back and forth when a stock is oscillating, say between 45 and 47, once or twice in the day's session. But it is a reasonably good method if other means are not available.

How to make a 3 Point Figure Chart. The 3 point figure chart condenses the history recorded on the 1 point chart-by discarding all reversals of less than three points.

The following explanation will make this clear: Suppose we begin with a small section of a 1 point chart which shows a stock rising from 25 to 31, reacting to 30, then moving upward again to 32, as in Example A. In this, illustration, the rise from 25 to 32 is interrupted by a reversal of only one point.

Therefore, this reversal must be disregarded in making the 3 point chart which will simply show the net or total rise from 26 to 32 in one vertical column as in Example B.

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Example A 1 Point Chart		Example B 3 Point Chart
	32	32
31	31	31
30	30	30
29		29
28		28
27		27
26		26
25		25

Or suppose that the stock has moved straight up from 25 to 31, when its rise is interrupted by a reaction of two points to 29, after which it recovers and goes to a new high of 52, as in Example C. This reaction to 29 must be disregarded on the 3 point chart because it is a reversal of less than three points, so the 5 point chart (Example D) should show only the full movement from 25 to 32, the same as in Example B:

Example C 1 Point Chart			Example D 3 Point Chart
		32	32
31		31	31
30	30	30	30
29	29		29
28			28
27			27
26			26
25			25

Developing our 1 point figure chart a little further, let us say it appears as shown in Example E. Our 3 point chart would then appear as shown in Example F, because after the stock has moved up from 25 to 31 and reacted to 29, its advance to 32 is followed by a three point reversal which forces us to move over to the next right-hand vertical column on our 3 point chart.

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Example E
1 Point Chart

		32	
31		31	31
30	30	30	30
29	29		29
28			
27			
26			
25			

Example F
3 Point Chart

32	
31	31
30	30
29	29
28	
27	
26	
25	

Should the decline from 32 continue on the 1 point chart, without a swing of three points, or more in the opposite direction, we must continue to extend our entries in the second column of our 3 point chart until such a reversal of three points or more does occur, when we would move over to the next right — hand column, as in the following illustrations:

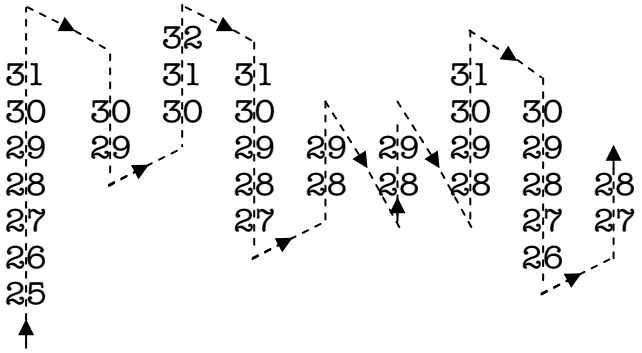
Example G
1 Point Chart

		32	
31		31	31
30	30	30	30
29	29		29
28			28
27			27
26			
25			

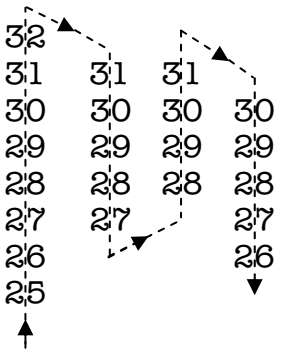
Example H
3 Point Chart

32	
31	31
30	30
29	29
28	28
27	27
26	
25	

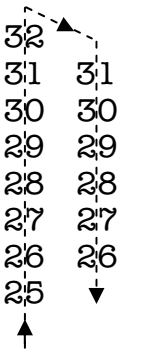
Example J
1 Point Chart



Example J
3 Point Chart



Example J
5 Point Chart



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For additional illustrations of the distinction between the 1 point and the 3 point chart compare the two graphs on Page 8, Section 9M, or remove Page 10, Section 13M from your binder and compare it with Pages 7, 8 and 9.

The 5 Point Figure Chart is constructed in the same manner by disregarding all reversals of less than five points. A 10 point chart would disregard all reversals of less than ten points.

It is VERY IMPORTANT that you learn how to make, read and fully understand a 1 point and a 3 point chart before you go any further with your studies, because if you do not understand these forms of charts, you will not get the full benefit from the forecasts that are possible under this Method.

We also wish to impress on you the importance of using your 3 point figure chart forecast to compare with your 1 point, especially in studying the more important, that is, the long range moves.

The purpose of the 1 Point Chart is to indicate immediate or shorter swing objectives. The 3 Point Chart is designed primarily as a guide to the general trend — to give you a broad perspective of the market and of individual stocks and to indicate the probable objectives of the large swings.

As the small swings eventually build up into large ones (Sect. 5M, Pg. 1, Par. 4), the objectives of the 1 point and of the 3 point charts frequently tend to confirm each other, but hot in all cases. When you find a marked difference between the indications of the two charts it is best to be guided by the more conservative indication.

The 3 Point Chart is most generally used in conjunction with the 1 Point Chart, but for very high priced or extremely volatile stocks, that is, the fast movers, the 5 Point Chart may prove more satisfactory.

The Volume of Sales is not recorded on Figure Charts.

TREND CHARTS: The purpose of a Trend Chart is to enable you to keep in harmony with the trend.

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There are two Trends to be considered in trading, as here advocated: (1) the Immediate Trend for active traders who endeavor to get in and out on the email swings, and traders on the floor of the New York Stock Exchange who, not paying any commissions, sometimes can make turns several times a day; (2) the Trend of the Intermediate Swings of 5 to 30 or more points; these include most of the managed campaigns.

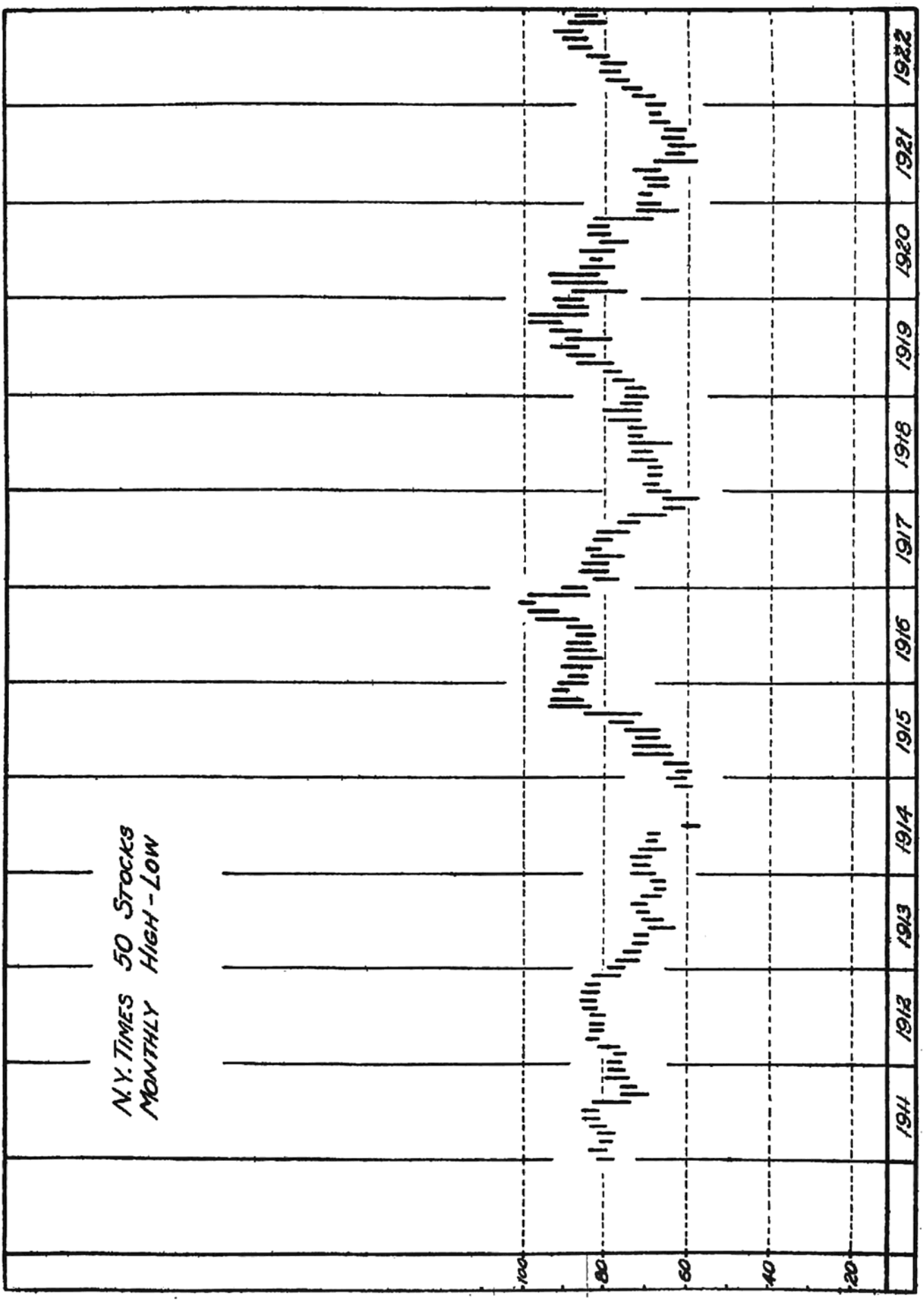
Trend Charts that is, vertical charts of the leading composite averages, may be kept in such a way as to show, on separate sheets, the daily and weekly or monthly movements in whatever group of average figures you may select. If one lives in New York, or near enough to secure the New York Herald Tribune or the New York Times every day, he will find his Trend Chart already made for him each morning in the financial page of these papers. The Wall Street Journal and other financial and daily papers in different parts of the country regularly or frequently carry similar charts. But there is a distinct advantage in keeping one's own records in a loose-leaf binder (this size or pocket size). As each entry is made on the Trend Charts and others, you can study the effect of the change you are recording — their relation to the smaller and larger movements that are under way and more particularly what they forecast.

The Trend is the line of least resistance.

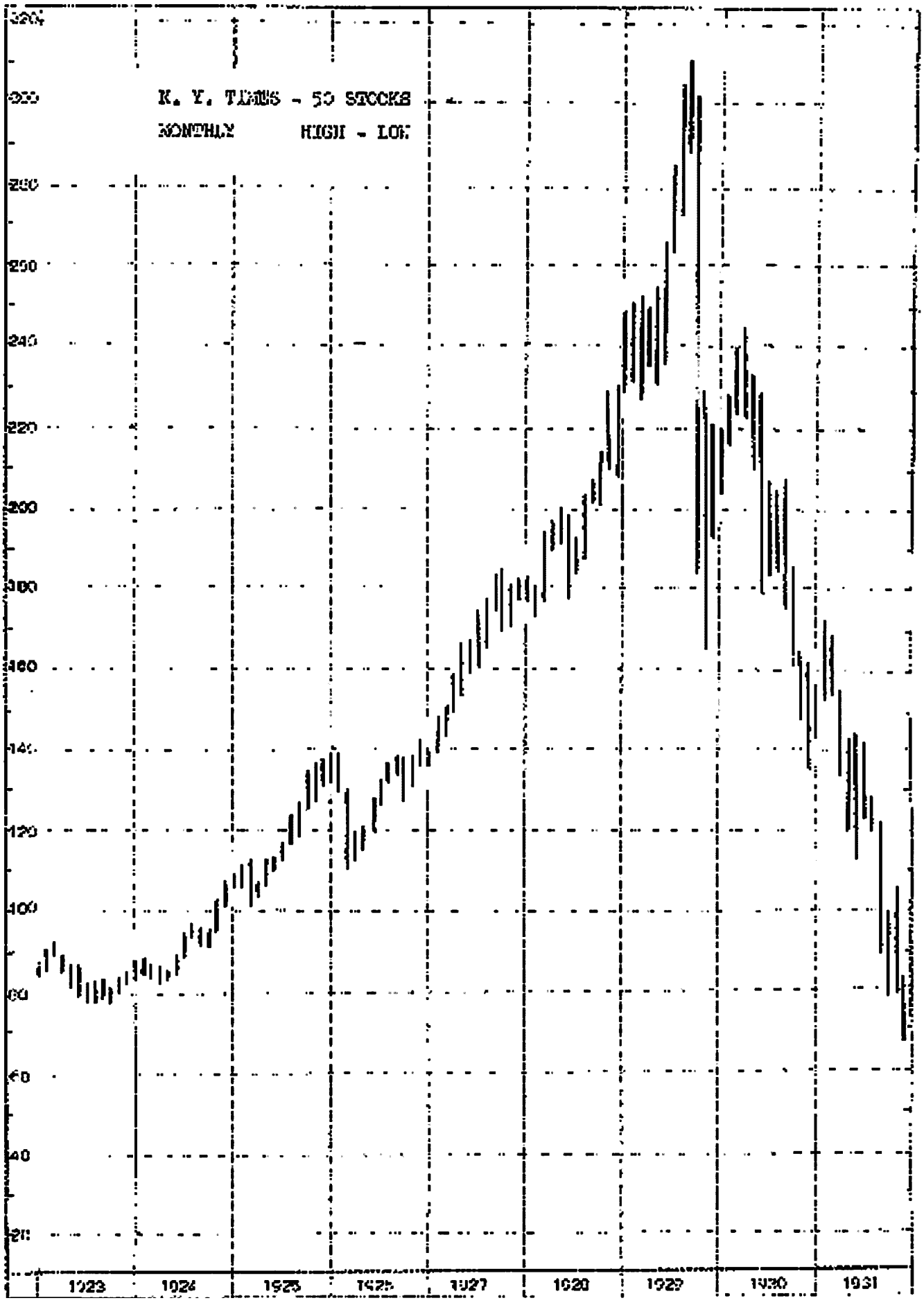
It is the most important thing to know about the market or an individual stock.

A bull market, or an upward trend, begins at the very bottom level of a panic or depression. A bear market starts at the topmost point of a boom. This of course, refers to the long trend, or the main swing in prices which, from bottom to top and from top to bottom makes a complete cycle. The cycles since 1911 are shown on the monthly Vertical (Trend) Chart of the hew York Times Average herewith.

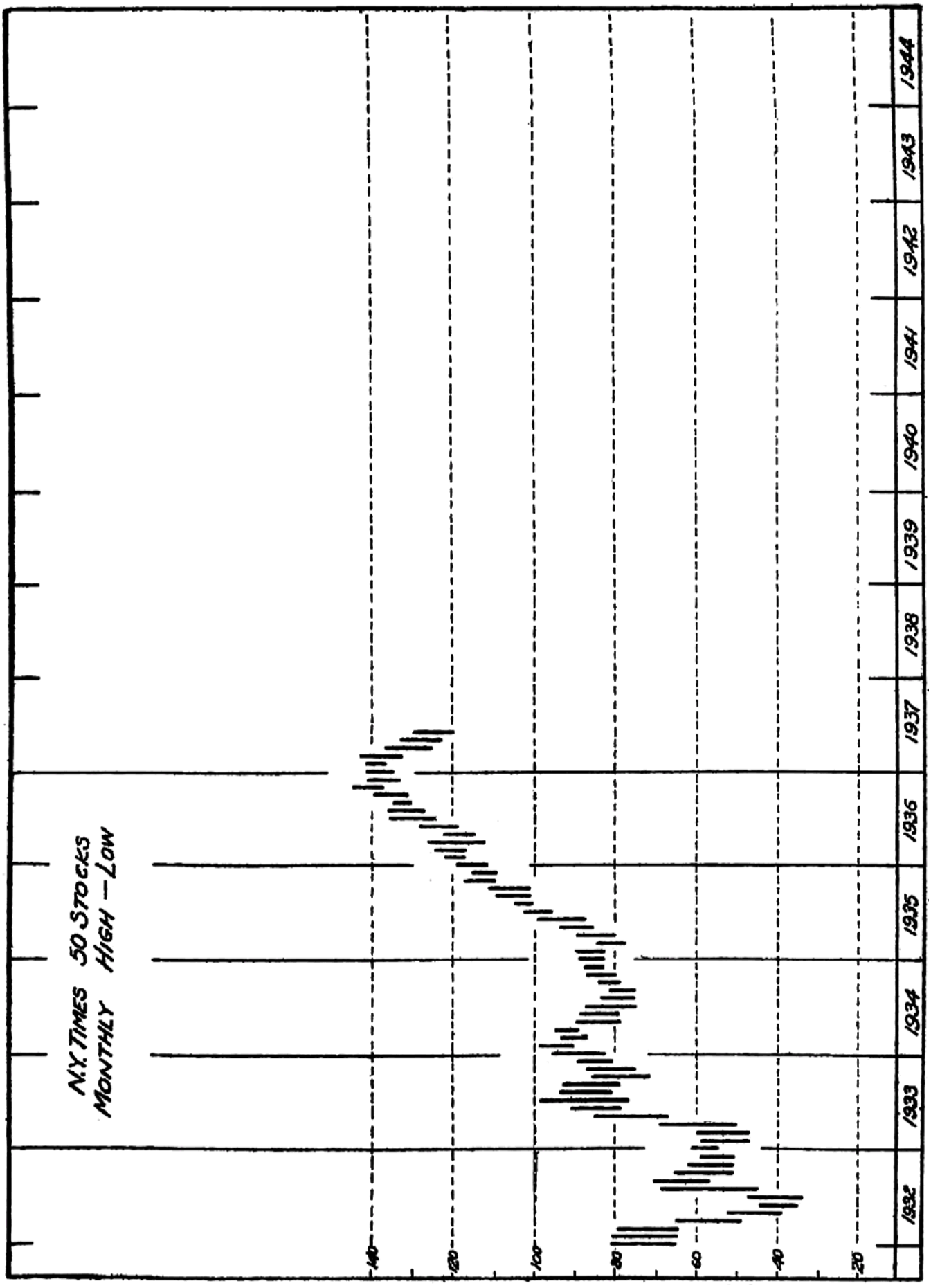
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In between these extreme tops and bottoms of the main moves, there occur a number of intermediate swings of 5 to 30 or more points. It is these intermediate swings which afford excellent opportunities for trading and investment profits; hence it is very important to know, first of all, whether a bull market (Uptrend) or a bear market (Downtrend) is under way, and, second, whether we are at the beginning, in the middle, or at the end of one of these intermediate swings, or in a period of transition between the main swings.

The best way to ascertain the above is to keep a Trend Chart (vertical chart of the averages), which is made up of the movements of a large number of stocks, such as the following:

	Industrials	Rails	Utilities	Total
New York Times	25	25	*	50
New York Herald Tribune	70	30	*	100
Dow-Jones & Co.'s Wall Street Journal	30	20	20	70
Standard Statistics Corp.	50	20	20	20

In addition, it is desirable to keep a Wave Chart (as described in Section 22M) to enable you to make a detailed daily analysis of what you see on your Trend Charts.

In a bull market most of your trades should be on the long side and in a bear market on the short side. If this rule be generally followed, it should considerably increase your chances for profit. If, in an up trend, you purchase a stock on a bulge and it afterward goes against you, the chances are the upward trend will give you a profit if you have patience. But if you go long in a down trend, and the market continues to decline, you are likely to have, an increasing loss.

There are, of course, exceptions to this rule. As is explained in Section 8M, all stocks do not move upward or downward together. Months before the

* The Times and Tribune Industrial Averages include a number of Public Utility stocks.

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market-of 1929 culminated in September, many individual stocks began to decline; so that while the main trend was upward judging by the averages of a large number of stocks, certain issues were being liquidated while others were making new highs. These stocks which started down early were the forerunners of the main turning point. Their down trends were clearly shown on the individual charts and by the action of the various group averages. In much the same manner, when a bear market is ending, some stocks and some groups of stocks stabilize and start upward ahead of others, moving much faster and farther than the average. Generally, however, stocks tend to move much more uniformly downward in declining markets, than upward in advancing cycles. (Sect. 8M, Pg, 6, Pars. 1-3.)

My claim that the market itself tells you what it is going to do is made good in the illustrations which follow in later Sections. By using the Figure Charts to record the movements of the popular averages, such as the New York Times 50, the Dow-Jones 30 Industrials, etc., we are able frequently to estimate how far the whole market is likely to move. And by using the Trend (Vertical) Charts we are able to judge what direction it will take. This claim is substantiated herein.

We gain an added advantage in estimating the direction and the <u>probable distance</u> of the more important moves of the market, or of individual stocks, or groups of stocks by condensing the figure chart movements into nothing less than 3 point reversals (Pg. 12, Par. 3).

The advantage of using these is especially illustrated in the 3 Point Figure Chart which indicates the 1929 turning point in the market (Sect. 13M, Pg. 10)

Your charts from which you study the Trend should be made, first in the form of vertical charts with volumes, then in the form of figure charts. Both are good by themselves but they are much better used in combination. Both may be on transparent paper, so that they can be laid over other charts when studying the comparative strength and weakness (explained in Section 8M) of groups or

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individual stocks; or you may easily compare them by laying one chart above another on your table or desk.

Individual stocks should be recorded on both vertical and figure charts, but if your time is limited and it is necessary to reduce the number of your records, then a good plan is to keep the bulk of your graphs in figure chart form together with a permanent file of your daily newspaper or our Daily Stock Chart Reports. By filing these reports in order, as you receive them, it is a simple matter to run back through the sheets for several days or weeks, scanning the price range and volume data to observe significant changes in the volume of trading. This procedure is the same as building a vertical chart in your mind. Thus, when you see that an interesting situation may be developing on one of your figure charts, you can readily bring the equivalent of a vertical chart to bear on it and thereby materially increase the accuracy of your deductions.

To give you a clear idea of the above method of forming mental pictures of vertical charts, we suggest you turn back to the table on Page 4. Cover the figures in the table (under the heading "Daily Price Range and Volume") with a sheet of paper so that only the first line is visible. Make a mental note of the price range and volume for this day, January 2nd. Then slide your paper down so the next line of figures can be read. By continuing in this manner, making mental note the impression you receive whenever there is a significant change in the price and the volume, or both, you will presently discover that you are able to visualize the action of the stock almost as clearly as you can by studying the chart at the left which was made from the figures in the table. For instance, observe in the table how the daily volume builds up while the price is rising from January 29th to 51st and how volume promptly shrinks on the reaction of February 6th to 8th. A little practice in scanning your newspaper or your Daily Report sheets in this way will enable you readily to detect such significant changes of behavior.

If the above procedure does not meet your requirements, another way of

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conserving time is to keep as many figure charts as you can handle conveniently, together with a file of your daily newspaper or Daily Stock Chart Reports as previously indicated. You can then quickly and at any time make up a vertical chart of any stock in your list, maintaining the chart until your interest in that stock ceased or it may have completed its indicated move. Should you follow this procedure you must record the history of the stock back for two or preferably three months; or for a period sufficient to show its action- around the last important supply or support level, in order to have an adequate background.

Vertical charts are essential for the proper timing of commitments and especially for detecting the minor turning points because there are times when figure charts may be unchanged, while the vertical charts at the same time show persistent supply or demand within a small range. Or the vertical charts may show an exceptionally large volume of shares changing hands, indicating the completion of a move. Or the volume might be shrinking, which under I certain conditions would indicate, at the top of the swing, a lessening of demand, or, at the bottom of a decline, a lessening of pressure. None of these indications is shown on the figure charts.

On the other hand, the figure chart may show many fluctuations on the full figures, while the verticals are unchanged. For example, if the high full figure of a stock on a certain day were 45 and the low 40, there might be sever al fluctuations back and forth between 42 and 43 on the figure chart, but no indication of this would appear on the vertical chart.

For these reasons it is vital to keep both forms of charts.

To define the trend of the market or a single stock, therefore, both the figure and the vertical chart (or its equivalent as suggested on the preceding page) should be used.

In deciding when to act, the tape or the Wave Chart of Tape Readings is the best guide. As indicated in "Buying and Selling Waves" (Sect. 5M), and as

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fully explained in Section 22M, the tape shows the psychological moment to buy or sell. If you cannot watch the tape, then you may use the Wave Chart to do this work for you.

THE WAVE CHART OF TAPE READINGS wag designed and originated by me, in 1916 in connection with my personal operations in the stock market. It is made to provide a condensed picture of every vital development in every stock market session. It gives a graphic representation of the day's tape action which enables us to study the market's behavior at leisure, just as if we were watching the ticker continuously and setting down every essential impression.

Thus, the Wave Chart is an invaluable aid whereby we may detect changes from technical weakness to strength, and vice versa, and so determine the tumbling points not only of the minor but also of the intermediate swings, frequently several days before the indications are given by the less sensitive popular averages.

The method of constructing and interpreting the Wave Chart will be taken up in a later section, as you must first complete your study of the next several chapters in order properly to understand the principles of the Wave Chart.

GROUP CHARTS: In the selection of the best stocks in which to trade, and invest Group Charts are of material assistance. These are made of about five (more or less) leading stocks in each industry — Oil, Steel, Motor, Copper, Sugar, Tobacco,. Retail Trade (merchandising), Building, Railroad Equipment, etc. There are so many different lines of business represented on the New York Stock Exchange that these groupings can be made to include as many as you like.

The purpose of these charts is to show which industries promise to improve or deteriorate, and to warn you to search in those groups for opportunities.

A better or poorer outlook for the steel industry or the motors, utilities or others, is immediately forecast by important operations of insiders, their bankers, and the large operators having affiliations with them. If the

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oil business, for example, has been very bad for a long time and the outlook begins to improve, these Group Charts will give you the cue. They tell you, in advance, whether or not the big interests are shaping their stock market positions for higher or lower prices in these stocks. When large interests begin to accumulate or distribute, you can and should do the same.

You can get along without these group charts if you prefer, as our method of detecting stocks in a bullish or bearish position (see "Position Sheet," Section 18M) covers the ground. A glance at the "Position Sheet" will show you whether the Steels, Motors, Oils or others are lining up for a small or a large advance or decline. This should serve your purpose.

The keeping of group averages involves quite a little clerical labor. Therefore, if your time is limited, you may find it more expedient to make up your group charts from the computations which you will find ready-made for you each day on our Daily Stock Chart Report, List #2. (See sample yellow, sheet supplied with your Course.)

However, if you wish to make these tip yourself, you have only to select the leading stocks in each group, enter their highest, lowest and closing prices, and volumes, each day in separate vertical columns. Add up the prices and divide by the number of stocks in the group. This will give you the average highest, lowest and closing price for the group. The volumes should merely be added together. They should not be divided or averaged.

Both Vertical and Figure Charts are used to record changes in the groups. The Vertical Group Charts may be placed one above another, on your desk or table, for purposes of comparison. Likewise, these Group Charts may be laid above any individual Stock Chart and its comparative strength or weakness instantly ascertained. (See illustrations, Section 8M.)

If some groups show greater weakness; than others, search these for the stocks to sell short. Those groups which indicate the greatest cooperative

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strength will show you where to look among the individual stock charts for the best stocks to buy when the right time comes.

These few suggestions will suffice for the present to indicate how these charts may be used to advantage.

For convenience and future ready reference, we summarize what has been set forth in the preceding pages, as follows:

VERTICAL CHARTS

What is Recorded	Deductions Therefrom	Indication
Price Movement (highest, lowest, closing; and opening if desired)	Supply and Demand. Points of Resistance and Support. Marking Up and Marking Down. Lines of Supply and Support. Changes of Stride and Progress of Movement. Comparative Strength and Weakness.	THE TREND, i.e., the direction of the price movement
Volume	Intensity of Trading. Increasing or Diminishing Pressure of Supply and Demand. Buying and Selling Climaxes.	WHEN to BUY. WHEN to SELL. WHEN to CLOSE OUT.
Time	Speed of Advances and Declines. Duration of Accumulation or Distribution.	WHERE to place Stop Orders
Closing Prices	Net Gain or Loss. Changes in Pressure Up or Down.	

FIGURE CHARTS

Price Movement	Supply and Demand. Points Of Resistance and Support. Marking Up and Marking Down.	The best opportunities.
General Formations	Accumulation or Distribution. Lines of Supply and Support. Marking Up and Marking Down.	Probable DISTANCE a stock, or a group, or the market should move.
Horizontal Formations	Probable Extent or Importance of Accumulation or Distribution.	

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WAVE CHART OF TAPE READINGS

Price Movement of the Market - Using Sensitive Leaders as an Index	Supply and Demand. Sentiment of Important Interests. Toward the Market. Critical Points of Resistance and Support. Development of Accumulation and Distribution Areas.	BEHAVIOR of the market at CRITICAL points in the Minor, INTERMEDIATE, and MAJOR Trends.
Volume of Trading on Alternate Buying and Selling Waves.	Changes in Pressure Up or Down. Quality and Urgency of Supply and Demand (by comparing Volume with Activity and Time) .	TURNING POINTS in the Minor, INTERMEDIATE, and MAJOR Trends,
Activity or Intensity of Trading.	Ability of Bull or Bear Forces to Attract Following on Advances and Declines, Rallies and Reactions.	
Time Or Duration of Small Buying and Selling Waves.	Speed of Advances and Declines, Rallies and Reactions. Character of Supply and Demand, Whether Urgent, Leisurely, Timid or Aggressive.	RESPONSIVENESS of the Market to Buying and Selling Impulses.
Price Changes from Wave to Wave.	Net Gain or Loss. Changes in Pressure Up or Down.	

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BUYING AND SELLING WAVES

Every upward or downward swing in the market, whether it amounts to many points, only a few points, or fractions of a point, consists of numerous buying and selling waves. These have a certain duration; they run just so long as they can attract a following. When this following is exhausted for the time being, that wave comes to an end and a contrary wave sets in. The latter may attract more of a following than the former. By studying the relationships between these upward and downward waves, their duration, speed and extent, and comparing them with each other, we are able to judge the relative strength of the bulls and bears as the price movement progresses.

All stock market movements, however large or small, are made up of buying and selling waves. The market does not rise and fall like the water in a tank which is being filled or emptied. It moves to a higher or lower level by a series of surges — a good deal like an incoming or outgoing tide, with successive waves higher or lower than those preceding.

The small buying and selling waves which occur during every stock market session run so many minutes (see Wave Charts, Sect. 22M). They are caused largely by the restlessness of active professional traders, much like the ripples produced by the wind upon the ocean. Traders must have activity; they make their livelihood by trading on fluctuations. Therefore, they engage in a ceaseless tug of war, trying to put prices up whenever the condition of the market is favorable, or drive them down when they find that the bulls are weak or have overextended themselves. The degree of success or failure attending their efforts enables us determine whether the market is growing stronger or weaker.

These small waves are part of the larger waves which run several days, and eventually make up movements of 3 to about 5 points. The 10 and 20 point moves are made up of 3 to 5 point waves, and the bull and bear markets are com-

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posed of many swings of 10 to 20 points or more.

You can easily confirm the above by examining any chart. It is important that you do this so as to impress upon your mind these numerous waves of various sizes, inasmuch as this will help you to understand the market. You will thereafter think in waves.

When you are looking for an opportunity to buy, watch for the down waves in the market and in your stock. After you have bought, you sit through a number of small, medium and good-sized waves, until finally you observe that it is about flood tide in that stock. Then watch for an especially strong up-wave and give your broker an order to sell your stock at the market.

The waves of the market furnish a clear insight into changes in supply and demand. By learning to judge all sizes of market waves, you will gradually learn to spot the time when a rising market or a rally, and the time when a declining market or a reaction has halted and is about to reverse. These are the turning points.

To be able to say when these turning points are occurring — at the bottom of a bear market, or at any important rallying point on the way down to the bottom, or at the top of a bull market, or at any important reactionary point on the way up, — is a mark of ability in an investor as well as a trader.

Remember: The market itself tells us everything we need to know about its probable future action. Every significant change in supply or demand is registered on the tape. When you have learned to analyze the market by its own action, as recorded on the tape or on your charts, then you will be proficient in the art of operating in stocks.

Of all the things that are most desirable to know about the stock market, these two are the most important:

(1) First, to be able to determine the final top of a bull market; and second, to determine the top of the intermediate swings, and finally the top of the minor moves.

(2) To be able to determine the final low in a bear market; the bottom of the intermediate swings, and the end of the minor moves.

Master this branch of the subject thoroughly, it is vital.

But there is one step more: Your education will not be complete until you can cover all your shorts and go long at the bottom of a panic, a depression or of an intermediate swing, and sell out all long stocks and go short at the top of a boom or an intermediate bull movement. This will be the result of practice, training, and experience. It requires great flexibility of mind and absolute control of your emotions. You can learn to do it if you will study and faithfully practice this Method.

CHART RECORDS

For the purpose of studying the Buying and Selling Waves referred to in Section 5M, we require a Trend Chart, or vertical chart of some representative general market average each as the New York Times 60 stocks (illustrated in Section 7M), "supplemented by a Wave Chart (fully explained in Sect. 22M). Our Trend Chart of a general market average is the medium through which we are enabled to study the larger raves of the market. It is our large scale road map from which we judge the market's present position in relation to its probable ultimate destination. The Wave Chart is our local map which shows the detail of the market's position in relation to these larger swings. Therefore, the Wave Chart helps us to detect the approach of turning points of the large waves, (intermediate swings) frequently two to four days in advanced

We cannot very well trade or invest in a total of 50 to 100 stocks simultaneously, and since all stocks do not move in complete harmony nor with equal speed at all times, we require some means of breaking down our large scale market map (general market average) into its component parts so that we may determine which sections or groups afford the most promising opportunities. For this purpose we must either employ the Position Sheet described in Section 18M, or we must use Group Charts as explained in Section 4M (Pgs. 24 and 25) and more fully explained in "Comparing Strength and Weakness" (Section 8M). Then, after we have decided which groups offer the greatest promise, we aim to select out of these groups the most desirable individual stocks.

In brief, we aim usually to trade in harmony with the trend of the market as a whole and in the most promising groups of stocks (Sect. 9M, Pg. l,. Pars. 1 & 2). Having narrowed our choice down to the most desirable group, we next must have facilities, for selecting the best opportunities from a large number of individual stocks. These will enable us to operate in the stocks that will

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move soonest, fastest and farthest, and to avoid being tied up in dull, dead stocks.

The amount of time at your disposal for stock market purposes will, of course, control the amount of work which you can do without over-working or interfering with your regular business or profession. In general, it is much better to limit your chart work so that the bulk of your time may be devoted to the study and interpretation of your records, than to keep too many charts. In other words, it is better to keep charts of 20stocks and study them thoroughly than to try to keep 200 charts and consume all your spare time in merely posting entries on them.

In any case, while you are acquainting yourself with the principles of this Method, it would be best for you to confine your chart records to the 20 charts supplied with your Course. As you gain experience and acquire proficiency in reading charts, you will find that you can readily expand the number you are able to maintain and interpret quickly.

For the average, and more advanced students, the following is recommended as a very satisfactory layout:

TYPE OF CHART	IN THE FOLLOWING FORMS
N. Y. Times 50 or Herald Tribune 100	One Point Figure Three Point Figure
Dow-Jones 30 Industrials Dow-Jones 20 Railroads Dow-Jones 20 Utilities Wyckoff Group Averages	Daily Vertical Line With Volumes
25 to 200 Individual Stocks	One Point Figure Three Point Figure
Wave Chart of Tape Readings	One Point Figure* Three Point Figure* Ten Point Figure* Continuous Line*

* The nature and method of keeping these charts are explained in Sect. 22M.

The above portfolio can be expanded either by increasing the number of individual 1 point and 3 point figure charts from the minimum suggested number of 25, to 200 or more, and by keeping part or all of these individual stocks in the form of vertical charts also. At the start, however, if you will make up and maintain vertical charts of a Trend Chart and the various most important group averages such as the Rails, Industrials, Utilities, Steels, Oils, Motors, etc., you can use these far the purpose of determining the trend of the market and of the several groups. Then, when you find from your vertical Group Charts, a group that offers promising opportunities, you may refer to your figure charts of the individual stocks in that group to decide which of these appear to be in the best position. Next, when you have narrowed your selection to the one or two most promising stocks in the group, it will be a simple matter to make up a vertical chart of those stocks, which you can study in order to time your purchases or sales to the best advantage. When you find the move in the group and in your individual stocks has been completed you may discontinue keeping the vertical charts of these stocks until a new opportunity appears to present itself to invest in those stocks (Sect. 4M, Pgs. 22 & 23).

In this way you can, if your time is limited and if you wish, save much of the work that would be required to maintain vertical charts every day for a large number of stocks.

However, the larger the number of charts you can keep., the greater will be the variety from which to make your selections and the broader your perspective of the whole market. Therefore, another good plan, if you can arrange it, is to hive someone else do your chart work for you — though you can learn more from your charts if you make most of them yourself.

The keeping of charts is a clerical job which calls for painstaking accuracy, but it is not difficult work for any bright boy or girl after the purely mechanical part has been explained. A student who is beginning to learn

mechanical drawing, for example, is receiving training in a school which demands that he be mathematically accurate. You will find such students highly satisfactory for chart work. They can be had at very small salaries.

If you have the time or the assistance, you may wish to keep your chart records on a more elaborate scale. In that case, you may find it helpful to add the following to your list:

Vertical Charts, with Volumes, showing weekly movements.

Vertical Charts, without Volumes, showing monthly movements.

The above should not be used exclusively (without daily charts) since they are not sufficiently sensitive to permit accurate timing. Too much vital detail may be lost in the condensation of the daily price movement and volume behavior in the weekly chart. The principal value of the weekly and monthly vertical charts lies in the historical background, that is, the perspective they afford of the long range move and old points of resistance and support. But even for these purposes, the 1 point and the 3 or 5 point figure charts are quite satisfactory.

Both the vertical and figure charts may be kept in a loose-leaf note book, of the size of this volume, or pocket size, or on larger sheets, say 11 by 16 1/2 inches, according to your individual preference. Far most students, charts of the size accommodated by a three ring loose-leaf binder holding sheets 8 1/2 by 11 inches, are most convenient.

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DETERMINING THE TREND OF THE MARKET BY THE DAILY VERTICAL CHART of the New York Times Average of 50 Stocks

As previously explained (Sec. 4M, Pg. 16, Par. 3, and Sec. 6M, Pg. 1, Pars. 1 & 3), 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.

No one has yet succeeded in devising a perfect average — one which unfailingly represents the action of the market as a whole at all times. In other words, it cannot be said that one average is consistently better than another. Investing and trading is an art rather than, a science, hence you must not undertake to make precise calculations nor expect precision in a general market average. It is important for you to know this so you will exercise judgment at all times in reading your Trend Chart, and so you will remember that the deductions you draw from it must frequently be adjusted to conform with what you see in the behavior of your Wave Chart, your Group Charts (or Position Sheet) and your charts of individual stocks.

Subject to the above qualifications, you will find the New York Times Average of 50 Stocks a generally satisfactory guide to the trend and position of the market as a whole. The New York Herald Tribune Average of 100 Stocks is another good average. You may prefer to keep both. If neither is available, you will find that almost any popular average, such as is printed in leading newspapers throughout the country, will suffice. Or, if necessary, you can make your own composite average by combining the three Dow-Jones averages (Industrials, Rails and Utilities) into a total of 70 stocks, provided you are located at a place where these averages are printed daily. To do this properly requires some adjustment of the figures which we shall be glad to explain on written request.

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Regardless of what average you use, the same line of reasoning as that explained herein should be followed in reading the indications given.

The accompanying chart (Pgs. 33, 34 & 35) includes the total volume of transactions of all stocks dealt in daily, as indicated by the vertical lines rising from 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 take the pages out of the binder and place them beside the text. Then, with another sheet of paper, 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 Sect. 4M, Pg. 23, Par. 1, 4th Line; Sect. 8M, Pg, 6, Par. 3; Sect. 16M, Pg. 4, Par. 1; and Footnote on next page.)

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

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movement (*) has actually been passed, and gives us the starting point for our next forecast. (A Wave Chart would show the details of this tape action, including the feverish activity around the day's low point.)

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 135 1/2 recorded on December 17th, it would be

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* 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.

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evidence that liquidation was not completed and that support which turned the market upward on the 17th has been withdrawn. (See Footnote, Pg. 3, Par. 3.) On the other hand, if, as happened to be the case, the buying support comes in around or at a higher level than 135 1/2, we may conclude that demand is beginning to overcome supply, (Footnote, Pg. 3, Par. 4) 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 sometime 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 (Sect. 23M, Pg. 3, Par. 1) on our commitments two or three points under our purchase prices, our stops will be about 1 to 1 1/2 or 2 points under the danger level, that is, the lows of the climax day. (Sect. 23M, Pg. 1, Par. 2 and Pg. 14, Par. 2.)

(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.

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At the same time, lower volume on the reaction from the December 18th 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 Footnote, Pg. 3) 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" — (see Sect. 14M, Last Par. Pg. 4 and Pg. 5).

(3) On January 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 up wave, thereby, materially increasing our risk, whereas previous commitments were established on down waves, close to the danger point. (Sect. 5M, Pg. 2, Par. 2.)

Remember that we are now studying the average or composite price of 50 stocks, which is our chief guide as to the direction of the trend. It is impractical for us to operate in all of these fifty stocks at the same time; therefore, we must select, when we wish to trade or invest, the individual issues which are showing the greatest technical strength at the time. For this reason we must turn to our Group Averages or our Position Sheet which enables us to select the best out of our list of individual stocks, in order to find the one, five, ten or more stocks which promise to yield the largest profits in the shortest time. (Sect. 6M, Pg. 1, Pars. 2 & 3.)

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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 such 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 an the bull side, recording 156 1/2 on that day; but observe that the closing figured 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. (Sect. 4M, Pg. 25, Par. 1, 6th Line.) 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 156 1/2 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.

Such a reaction begins on the 12th and the low point of it occurs on the

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* 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.

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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 now 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.

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 way 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 156-151, 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.

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* Note that there is also an indication of a <u>minor</u> 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 <u>after</u> the rally of January 20th.

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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 1 point above that of the 10th and closes at only a small fractional gain, on large volume — a large supply overcoming demand.

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. 6), preceding the end of the rise, so we bring the stops on our long trades up" within

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* 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 takers 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. (Sect. 10, Pg, 9, Par. 1 and Sect. 16M, Pg. 28, Par. 3 & Pg. 29, par. 1).

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.

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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 a 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 lower closing, as well as a loss of the two previous days' gain,

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*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. (See Footnote, Sect. 19M, Pg. 8.)

** With volume running at the rate of 5,000,000 shares per day for three consecutive sessions, we conclude that the market1 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 Feb, 14th low point.

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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 oh 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 unable to sell in the range between 168-173.

We must bear in mind that prices have now advanced from 135 1/2 to 173, 37 1/2 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 (see Section 15M) is such that it is unlikely that this pace of acceleration of rise can be maintained.

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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 those 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 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

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*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 boardrooms.

In your own experience, you must have observed that "bad news" very frequently comes out, say a week or ten days, <u>after</u> a decline <u>following</u> 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 <u>before</u> the general public is aware that any bearish developments are imminent. Insiders may, in addition, take short positions <u>in advance</u> 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."

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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. (Sect. 8M, Pg. 4, Par. 4 and Pars. 1 to 4, Pg. 5.)

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 an indication of a part-way rally which normally is likely to fall slightly short of the recovery of about half the recent decline.

The initial reaction of the downward swing ends on March 4th at around 159,

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* Under the conditions now existing, we should liquidate <u>investment</u> as well as long <u>trading</u> 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 nor 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.

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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. (Pg. 7, Par. 1.) The sharp acceleration of the downward movement on March 2nd, 3rd and 4th creates an oversold position (Sect. 14M, Pg. 3, Par. 3} 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

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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) (Sect. 14M, Pg. 4, Par. 2.) 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 oh 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

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* 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. (Footnote, Page 25; also Sect. 8M, Pg. 6, Pars. 1, 2 & 3.)

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further selling on subsequent rallies if we have not sold our full line.

In the following several sessions there is an irregular recovery to 166 with no material nor 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 de fined, affording final confirmation of the comparative safety of our short posi tions; 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

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*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

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on the down trend is unmistakable, continuing almost without interruption. A brief rally on the 31st 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 pow er. But as the average levels off and then drifts to a dead center on the 11th (Sect. 10M, Pg, 1, Par. 5), we may reduce the stops on our short positions to a point or so above the level of a half-way recovery from the April 7th low, mere ly to guard against an unexpected change of trend. But instead of rallying vig orously away from this dead center, after six days apparent support, the mar ket 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 indi cations and affords an opportunity for increasing our short line by pyramiding

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developed downward swing, whereas the comparatively high volume of March 28th accompanied the penetration of the March 4th to 27th trading range, 153-166; 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 mechan ical way, nor as a fixed, or hard and fast <u>rule</u>; but consider it <u>only</u> in con junction with other contemporary technical manifestations.

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with more short sales of the some 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. (*)

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* 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 rapid off or flatten out — i.e., the rate of declines diminishing. From the standpoint of the <u>major</u> 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 warns us to be on the lookout for a possible <u>minor</u> 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.

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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 former December supporting level, is not willing to follow prices up. Such support is more likely to be due to short covering than the reentry 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 3, Pars. 3 and 4.)

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 1/2 and on the 2nd, 113 3/8 notwithstanding heavy dealings — 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-recorded 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

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* 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.

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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. (*)

The overages 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 judgment 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

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* Additional reasons for taking such action are that the pace of the decline on May 27th 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. (Sect. 2M, Pg. 3, Par. 1.)

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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 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 half-way 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 125, 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 (Sect. 19M, Pg. 3, par. 3), waiting to see whether, when the market works out of this 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 not 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. How-

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ever, volume does not increase on the down side, 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. (*)

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 Par. 2, Footnote Pg. 16.) 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

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* Here we have a variation of the sequence of selling climax, technical rally and secondary reaction referred to in the Footnote, Pg. 5. 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.

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

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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 19 we do not have the basis for a lasting advance.

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 3 1/2 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.

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.

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

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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 3 1/2 points and closes with a net gain of about 1 1/2 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. (Sect, 23M, Pg. 1, Par, 2 and Pg. 14, Par. 2.)

On the 29th the opening is lower and the price recedes from 144 3/4 (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, fallowing the 5 million share session of June 24th, there has be ten 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. (See Sect. 15M, Pg. 2, Par. 3, and Sect. 16M, Pg. 23, Par. 4.) 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 bottom of the range 137-143, however, suggests we may anticipate an effort to rally back toward the high at 143. 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 1 1/2 points lower

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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. (*)

July 7th, a rally at the opening (which would be shown clearly by a Wave Chart), then a 7 1/2 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 ah 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.

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* The average is now on the hinge and on the "Springboard" for an important slump. (Sect. 10M, Pg. 12, Par. 2 and Sect. 14M, Pg. 6, Par. 2.)

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A 2 point farther loss oh 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 this 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 9 1/2 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. (*)

Now the rally is over, for, on the 22nd, prices drop off again after approaching the lower edge of the recent 145-137 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 122 1/2, recovers slightly, makes a new low August 10th around 120, rallies nearly 10 points after dipping briefly to the June 9th support point, narrows and dies out at the top (August 15th); swings back again to around 120

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* 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 heartbreaking 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 a 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 <u>after</u> the market has been advancing for some time, or when everybody else seems to be buying. But, as pointed out elsewhere (Footnote, Page 14 and Sect. 8M, Pg. 6, Pars. 2 & 3), 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 stages of a bear market.

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(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, snowing 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. (*)

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

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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 now 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 <u>might</u> go up again and on the other they are <u>wishing</u> and <u>hoping</u> 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.

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* 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.

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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 how 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 105 1/2, 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.

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The market acts just that way on the 24th it loses 8 1/2 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

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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 1 1/2 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 — 4,500,000 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. (See Sect. 15M.) 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 this 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 (Sect, 14M, Pg. 4, Par. 4). 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

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* A Wave Chart, as we shall learn from the instruction in Section 22M, would clearly portray and bring to our attention such significant changes in the market's action as are occurring here.

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this level or above the low of Oct. 1st and 2nd it will be completing a secondary reaction (Footnote, Pg. 3). 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 50th 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 <u>will</u> begin would be a pure guess. The market will tell us when it is time to take a long <u>investment</u> 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 tells 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 (Sect. 10M, Pg. 1, Par. 5) 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

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to 100 or buyers are not yet ready nor willing to follow prices upward (Sect. 15M,. Pg. 2, Par. 2). 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 (Sect. 19M, Pg. 3, Last Par.) 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

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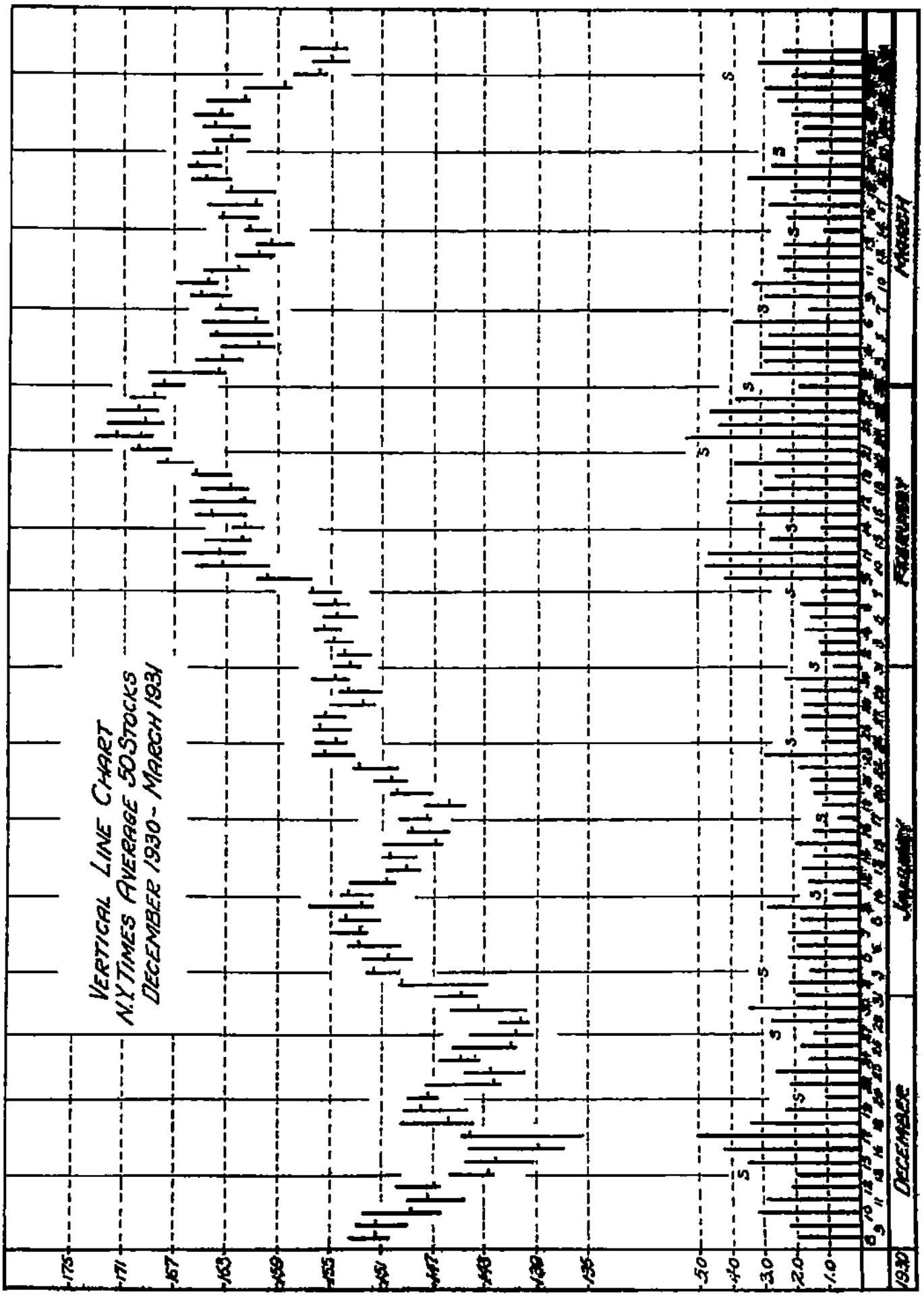
upthrust to the vicinity of the Sept. 23rd rally top tells us to get out of our long trades and go short; supply is overcoming demand as the average reaches the long bear market supply line running through the successive highs of July, August and September (see Trend Lines, Sect. 15M).

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 Nov. 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).

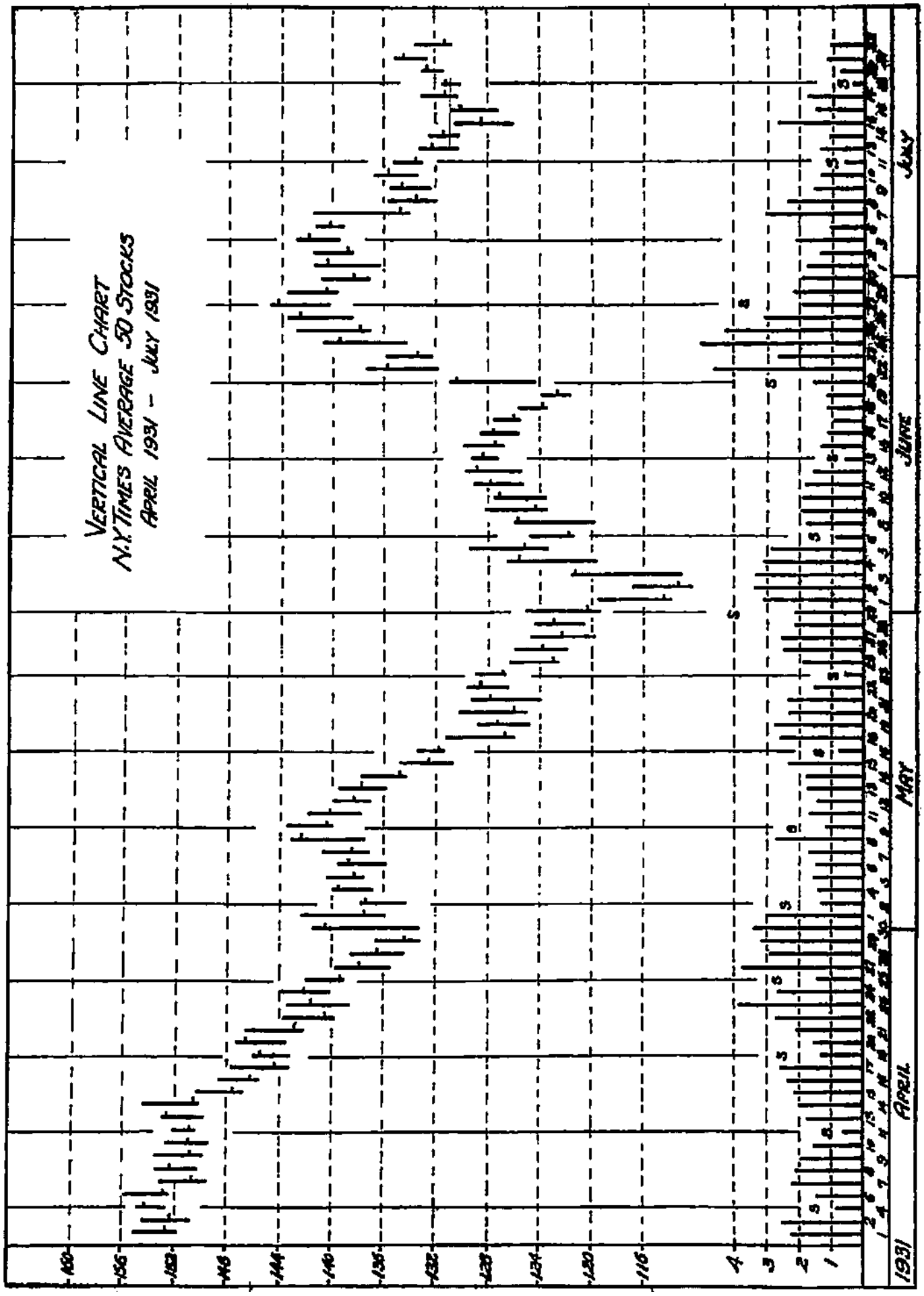
Again we have an illustration of the vital importance of employing stop orders to protect investment as well as trading positions at all times. For instance, assume we had mistaken the tentative formation of a base of support in October, 1931, as preparation for a red bull market, and had made investment purchases around the logical buying points of Oct. 28th and 29th. Suppose also that we had let our stops on these commitments remain undisturbed whore 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 chart.

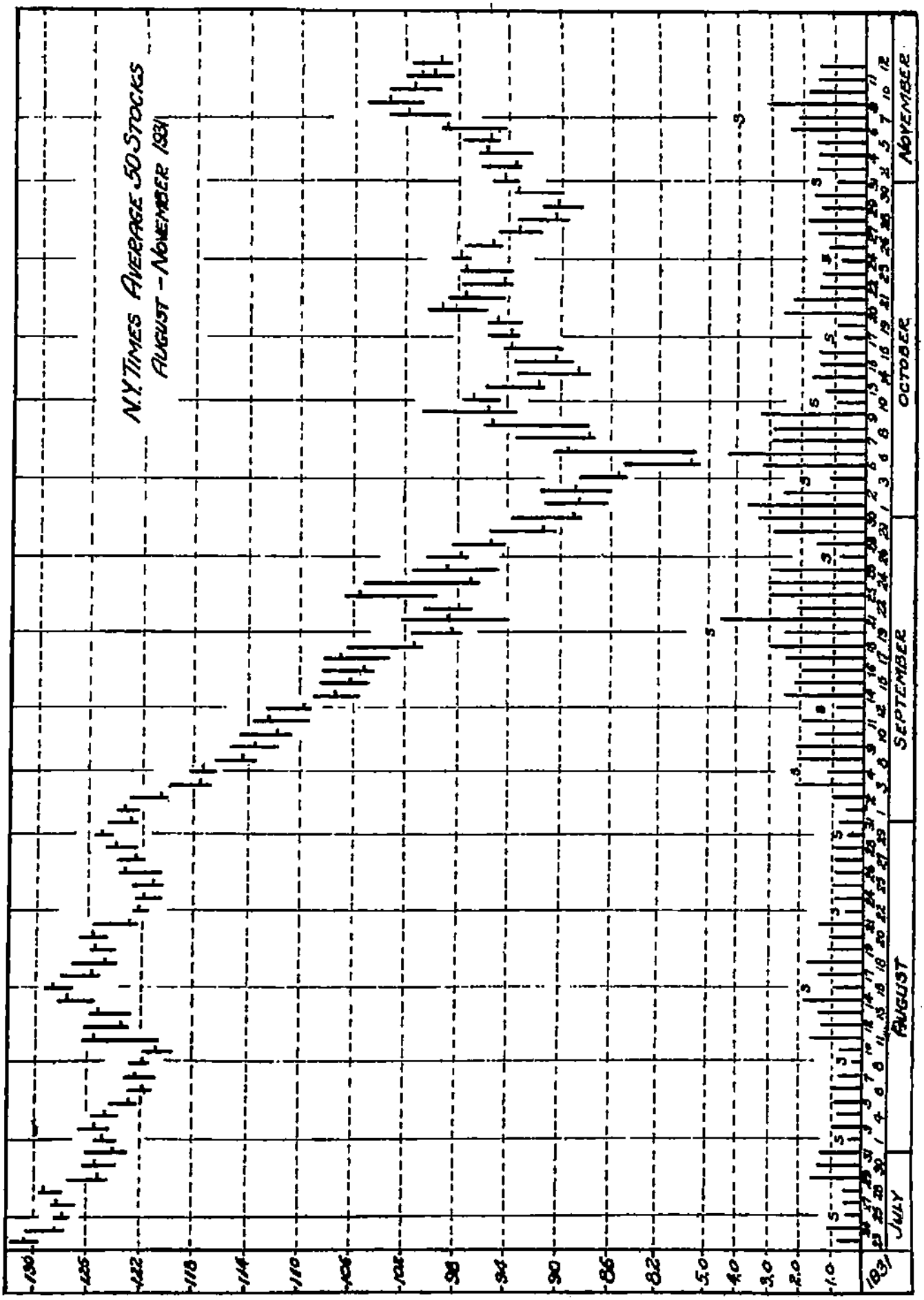
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COMPARING STRENGTH AND WEAKNESS

GROUP CHARTS

Having completed our study of the composite average, our next step should be to acquire an understanding of Group behavior because, in practice, after we amine the position and trend of the various groups and, finally, select from the best situated Groups those Individual Stocks which promise the best moves. (Sect. 6M, Pg. 1, Pars. 2 & 3; Sect. 7M, Pg. 5, Par. 2 and Sect. 9M, Pg. 1, Par. 1.)

If your Trend Charts are made on transparent paper they may be laid over other charts of groups or individual stocks to show which groups and which stocks are stronger or weaker than the general market, as represented by the averages. Or you may make these comparisons by laying one chart above another with the time scales in alignment so that each day of the week on one chart will be opposite, and correspond with, the same date on the other chart or charts you wish to compare. The illustrations which follow will make this clear.

<u>One of the best indications of the future course of a group or a stock its comparative strength when the rest of the market is weak, or its comparative weakness in a strong market</u>.

James R. Keene used to say: "Watch the stock that shows strong resistance to pressure when the market is weak, and buy those stocks for all you are worth." (Illustrated by action of U. S. Steel from Nov. 28, 1936 to Mar. 6, 1937. See chart oh Page 17 and note how Steel shows stubborn resistance to every down swing in the market — as represented by the N. Y. Times Average — and how it responds vigorously to every up swing until March 6th.)

The reason for this: Someone is trying to buy while the market is weak. He would not do this unless he has reason to believe that he can sell it later at a higher pride. So he takes advantage of the weakness in the rest of the

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market by holding the bag for all the offerings of other people who are prompted or compelled to sell.

When a stock is exceptionally weak in a strong market, we conclude that somebody knows something to its disadvantage and is forcing his offerings on a market that is otherwise strong. This may indicate need for urgency, based on fear or necessity; or it may signify the taking advantage of a strong market. (The chart of American Can, Page 18, illustrates the idea. From Nov. 17, to Dec. 12, 1936, the stock responds feebly to rallies and advances in the market but sinks rapidly with every down swing. From Jan. 9, 1937 onward it is again exceptionally weak.)

Large operators often test the market for a stock by buying 5,000 to 25,000 shares in order to see how easily they can buy it, or by selling a similar quantity to ascertain how well the market will absorb their selling. Thus they are able to decide which side shows the least resistance. If they find other people are trying to buy it and that the stock is rather scarce, they regard it as a bullish indication and take a long position. Or, if the price yields easily to pressure, they regard it as a bearish indication and take a short position.

A small operator is unable to test the market in this way before he takes a position, but by a close study of his charts, he is able to estimate the comparative strength or weakness of a stock and thus reinforce his judgment as to whether, considering the trend, it is time to buy or sell it.

When large interests are planning a campaign, in a stock, they "lay the foundation." That is, they accumulate or distribute a quantity according to the size of their venture and the anticipated profit to be derived therefrom. This quantity bears a relation to the estimated number of points profit. (Figure charts afford a means of judging this relation and hence frequently indicate the approximate objectives of such campaigns. See Section 9M, Page 4, Paragraph 3,

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and Page 6, Paragraph 2; also Section 10M, Page 3, Paragraphs 1 and 2.)

If a stock is below value, and these interests see a large profit ahead, they will take all they can buy at certain levels, then gradually raise their bid prices until they get all they want (Sect. 9M, Pg. 9, between the letters A and R shows this graphically). They buy preferably on reactions until such time as they are ready to mark up the price. Or if a stock is above value, and they see trouble ahead, they will sell all they can at certain levels, supporting the price on reactions and unloading on rallies until they are ready to let it drop. (Sect. 10M, Pgs. 10 to 12.) This is why these supporting points and the points of resistance (a phrase originated by me many years ago), are so important for you to watch.

In brief, when you see strong support in a stock, with the rest of the market weak, you know the buying is better than the selling — that insiders are probably doing the buying because they believe they can sell out later at a profit. And when you see the reverse, that is, strong resistance in a stock with the rest of the market advancing, you know the selling is better than the buying — insiders are selling because the outlook for that stock is turning sour, or because they believe they can later reaccumulate at a lower level.

When you see these indications on the tape or on your charts, follow them. That is, select, <u>the best</u> of them if there are many. To do this is to have the insiders working <u>with</u> you and <u>for</u> you. You are then playing the game as they play it. This is not a guarantee of profit, but if your judgment be good, and you choose the right time for action, you will find that you can realize a profit in the majority of instances.

Likewise, when an individual stock in any group is stronger than the Average of that group, this is an indication that such a stock is likely to move sooner and faster than the Average, provided its behavior otherwise confirms the indication. If it is weaker than its group, this'mayi signify that the stock is

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preparing to decline more rapidly than the Average.

The fact that, an individual stock may, be moving against the trend of its group does not destroy nor impair the value or effectiveness of the indications given by the Average in which it is included. On the contrary, such action, of itself, frequently conveys significant information which should not be ignored with respect to the behavior and position of that stock.

In like manner, by comparing the behavior of the various Group Averages with the action of the whole market — the way they respond or fail to respond to advances and declines, rallies and reactions in the Composite Average — you may gain valuable additional information on which to base your stock market campaigns. (See charts on Pages 21, 22 and 23.)

These comparisons are especially important because they help you to select the best opportunities and to avoid the slow movers ("sleepers") — thereby keeping your capital working at maximum efficiency.

Bear in mind that all stocks do not move at all times in harmony with the prevailing trend; nor do they all rise and fall together (see Sect. 4M, Pg. 20, Last Par. and the chart illustrations herewith). Bull markets usually begin with advances in the leaders, that is, the seasoned, higher grade, and higher priced issues (Sect. 22M, Pg. 4, Par. 3). This is so because the big interests, who are best informed as to prospects for approaching recovery, dominate these stocks and hence reflect their sentiments toward the market by their operations in the leaders. As the rise, in the leaders continues, large independent operators, taking their cue from the action of the leaders, are encouraged to begin bullish operations in the secondary issues and specialties. In due course, the public is attracted by bullish demonstrations in various parts of the list and by the revival of market activity, whereupon the lower priced and more speculative stocks come into line. Thus demand rotates from group to group as, for instance, from Steels to Rails to Coppers, etc., and from one stock to another.

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As the rise progresses, individual stocks and groups of stocks that have advanced too rapidly may rest and react while other stocks and other groups are brought forward. Thus bull markets are built up by a Process of Rotation. That is, demand shifts about from week to week, day to day and even from hour to hour. (A glance at the charts on Pages 19 & 21 to 23 will help you to grasp the idea.)

Price movements tend to become increasingly selective (mixed) after a prolonged advance because when the big follows see that some industries have about attained maximum prosperity, they will wind up their speculative campaigns in those groups and turn to those laggards in which there is still room for improvement.

When large interests are distributing at the tops of the intermediate or major swings (or on the way down from the extreme highs), they sometimes fool the public by rapidly marking up the prices of a few easily influenced stocks; or by applying hypodermics to a few of the leaders. These whooping up tactics maintain the atmosphere of bullishness so essential to keep the public in a buying mood while other stocks are being unloaded. (See action of U.S. Steel in March, 1937, Page 17, which exemplifies this principle.)

An indication that demand is being exhausted may be given when the majority of stocks respond sluggishly to such whooping up maneuvers; or when they tend to fall back quickly on repeated attempts to continue the process of rotation; or when the leadership of an advance shifts from the recognized leaders to the secondary issues and to the "cats and dogs"; or when representative stocks fail to follow the strength in a few hypodermically stimulated fast movers.

The Process of Rotation operates in much the same manner at the beginning and during the course of a bear market. That is, supply rotates to break down prices in one section of the list after another until offerings are finally exhausted. Likewise, selling pressure rotates while the market is in process of forming a bottom. Hence some stocks may reach their downward objectives sooner than others. Therefore, when we see that the early leaders of a decline are re-

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fusing to move materially lower, while supply is still rotating to other stocks, we have an indication that demand is overcoming supply. This helps us to determine the levels at which accumulation is taking place.

Supply in a falling market rotates more rapidly than demand in a rising market. This is explained by the fact that there is seldom (if ever) sufficient buying power to lift all stocks at once in bull movements, whereas, in bear movements, fear, necessity, or both, eventually compel holders to liquidate all stocks without regard to value. This characteristic difference may easily be seen by reference to the accompanying charts. (*)

Another reason why stocks fall more swiftly and uniformly than they advance is that the public long interest is always greater than the public short interest. Most people are willing to buy stocks but fear to sell short, although intelligently conducted short selling operations often yield more substantial profits and involve no greater risk than commitments on the long side. At any rate, those who are long of stocks greatly outnumber those who are short. Consequently, upward price movements are retarded by frequent profit-taking on the part of the numerous bulls, especially in stocks below the $50 class which attract the largest outside following. But downward movements are not so effectively retarded by profit-taking on the part of the relatively few bears.

And, because the public's attitude is unbalanced (leaning always toward the bull side), actual and potential demand for stocks is greater when the market goes up than when it goes down. In other words, the majority will buy while

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* The bull market which began with the recovery from the 1929-1932 "bear' market lows might be cited as a partial exception to these characteristics. Having been driven down to ridiculous extremes, stocks moved upward rapidly and relatively more uniformly on the July-August, 1932 rise than in succeeding years because the 1932 rebound was largely in the nature of a technical correction of an excessively oversold condition in practically all stocks.

We must be careful not to confuse the beginnings of a bull market with ordinary technical rallies in a bear market, however. In the case of such, rallies, which develop out of an oversold condition, the sensitive leaders and the faster moving speculative types of stocks may rally sharply out of a selling climax, whereas the majority of other issues are likely to rally sluggishly.

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the market is strong but this demand fades away when it is weak. In fact, the untrained trader and investor hangs on to his stocks through falling markets until prices reach a point where hope suddenly evaporates. Then he sells out in a-panic. The herd psychology that characterizes the Wall Street public often causes unskilled investors to reach this panicky state of mind simultaneously. Thus there is a concerted rush to sell which cleans out all of the weak holders at about the same time, relieving the market of pressure and reducing the supply quickly at that point. (See Selling Climaxes, Sect. 7M.)

The Principle of Rotation is operative also in group movements. Thus, strength or weakness in the lending stock of a group influences traders to buy or sell other stocks in the same group. This helps those who are conducting a campaign of accumulation or distribution to work their stock to the lower or the higher level at which they wish to acquire or unload their line. At the turning point in a falling market, the continuing weakness in other stocks creates the atmosphere of general pessimism, which induces the public to go on selling around the bottom. This affords large operators an opportunity to buy what they want without bidding prices up. Similarly, at the turning points in a rising market, the rotation of strength to other stocks in a group enables the large operator to unload the one he has marked up to its objective under cover of the activity and strength in the other issues, without forcing his offerings upon the market.

This explains why you so often see individual stocks in a group topping out, or rounding out a bottom, one after another and why all stocks do not necessarily touch their highs or lows together, on the same day or in the same week, or perhaps the same month. It likewise explains why some of the leaders of one phase of a bull market may not lead nor actively participate in its later stages. (Refer to the charts on Page 19 for an illustration of these observations.)

You must strive to take advantage of the above principles. Seek out the stocks in the strongest position when buying and the weakest to sell short. <u>Aim to pick the leader</u> of a group for your operations.

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It is a mistake to trade in the laggards in a group simply because the leader "is too high." (Compare the action of Crucible and U. S. Steel with Republic and Otis, Page 19.) Some of these other stocks may be in preparation for moves which will come after the leader is finished. (Illustrated by American Rolling Mill between Oct. 24 and Nov. 14, Pg. 19.) That gives you an opportunity to switch from the leader (when you see it may be near the end of its swing) to the next best issue or issues, that is, to those which may not have come fully into line with the advance in the leader. But in searching out these opportunities, you must be sure to weigh each situation carefully. The fact that a stock is moving sidewise around a low point (see Otis Steel, Pg. 19), while others in the group are going up, is, by itself, no assurance that this laggaîd must be under accumulation. Study its volume behavior. Note particularly whether the price shows a tendency toward rising supports (as in the illustration, Sect. 9M, Pg. 9, between M and S, for example) after it has been in the range for some time. If it does not show such a tendency, better leave it alone. A stock that persistently hugs a low line of supports (stays near the bottom of an apparent range of accumulation) and refuses to rally well when the rest of the market is strong, is very apt to be subjected to a shake-out (see study of Anaconda, Sect. 16M, Pg. 17, Par. 3 and Pg. 18, Par. 1), or it may be in a weak position.

Therefore, bear in mind that even though a group may be in a strong position, every stock in that group may not be desirable nor in a position to-move aggressively. Vice versa, in a weak group, some stocks may be in a relatively-stronger position than others, while some may be neutral.

Some people endeavor to compare strength and weakness by working out the relative daily gain or loss in percentages to secure a ratio or index number. This not only involves unnecessarily laborious calculations but creates the danger that you will acquire the habit of using mechanical methods thereby defeating

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your purpose, which is to develop judgment. Moreover, such schemes are neither sensitive nor reliable.

Judge the progress of stocks and compare strength or weakness directly from your charts as herein explained and as shown by the more detailed instructions which follow. From your vertical charts you can see immediately, by casual inspection, how a stock is behaving in relation to the general market averages and in relation to its own group. Changes in its action become apparent at once so that you can adjust your conclusions promptly. You do not have to wait until some impractical, complicated mathematical formula is worked out. In any case, your formula is likely to be upset or contradicted when it is too late for you to act to the best advantage.

The correct way to spot a change from comparative strength to weakness, or from comparative weakness to strength, and to judge whether a stock is behaving bullishly, bearishly or indifferently in relation to the market as a whole, is to observe how the stock responds to up and down swings in your Composite Average and Group Averages (*) as you make new entries of its price movement on your charts from day to day and week to-week.

For instance, turn to the chart of Electric Auto-Lite (Pg.20), covering the page with a blank sheet of paper so that the plottings may be exposed one day at a time as suggested in Section 7M, Page 2, Paragraph 3. You will observe that this stock shows a strong advance to July 12th, during which it rises more aggressively than the market as a whole, as represented by the Dow-Jones average of 30 Industrials. This is followed by a period of consolidation and a normal reaction on July 25th (half-way back to the July 1st low). On Aug. 12th ELO leads the market to a new high with a quick mark-up. A reaction to Aug. 20th

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* The N. Y. Times 50 stocks and N. Y. Herald Tribune 100 are Composite Averages. The Dow-Jones 30 Industrials, 20 Rails and 20 Utilities, are, in effect, Group Averages.

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brings the Average down to the lows of August 2nd and 8th, but ELO here gives a significant indication of comparative strength by holding above the lows it recorded at that time.

From here on until it reaches 38 3/4 on Oct. 21st the price rises consistently to new highs, with every up-wave in the Average. But what is especially informative, from the standpoint of comparative strength, is the stock's refusal to participate fully in reactions in the market as a whole. Note particularly the ascending line of supports (low points) after it leaves the Aug. 20th low.

During the sidewise movement of Sept. 12th to Oct. 1st which, at first glance has the appearance of a range of distribution, the stock signals further strength to come by rising to a new high with an up-wave in the Average. Thus, on Oct. 1st it moves into new high ground while the Average is rallying to a lower top. This bullish indication is confirmed when the down-wave of Oct. 3rd fails to follow the Average under the reaction low of Sept. 20th and the price holds instead at a higher support (29 1/8 compared with 28 3/8).

On Oct. 21st a new phase begins. Here, after a quick run-up to a new high, there are six days of hesitation and a narrowing of the daily price range, followed by a quick dip (to Oct. 31st) which is comparatively more extensive than the reaction in the Average to Oct. 30th. This change to comparative weakness is confirmed by a sluggish rally to a lower top on Nov. 7th in the face of the rise to a new high in the Average. Electric Auto-Lite's responsiveness to strength in the market then continues poor until Nov. 26th, at which time a change to strength is indicated by the leveling off of the low points (Nov. 22nd to Dec. 2nd) while the Average at the same time is recording a series of steeply descending bottoms, day by day.

Now compare the graph of Procter & Gamble (PGM) with the Industrial Average and with ELO. You will see immediately the contrast between a compara-

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tively strong and a comparatively weak stock.

From July 1st to 23rd, PGM moves in harmony with the market. But, after settling down to complete, a normal reaction (to 51) on Aug, 20th, it drifts sluggishly in a small range without appreciable lifting power while other stocks (such as ELO) and the market are steadily advancing to- the September highs. Since July 23rd there has been little to indicate a decisive trend in PGM on the basis of comparative strength or weakness except the fact that, following the corrective reaction to 51, the stock has failed to behave as well as it did in July, and now it is not responding readily to the bullish action, of the Average. This at least cautions us to become wary on the bull side of PGM.

When the general market reacts between Sept. 18th and 20th, we observe that PGM has developed a more definite symptom of weakness in that it responds promptly by becoming active on the downside. (Note the widening spread of the daily range from high to low.) Between Sept. 21st and Oct. 3rd the stock gives another bearish indication because, whereas the Average, ELO and other leading stocks complete this reaction well above their July and August supports, PGM now is almost back where it started from at the beginning of July.

From here on PGM shows very little rallying power (Oct. 3rd to 23rd) but, rather, a marked tendency to remain dull and sluggish around its August-September-October bottoms (at 51) notwithstanding a steady new advance in the Average. With the stock in this position, we must recognize that there is danger it will develop new weakness, or it may be subjected to a shake-out. (See Pg. 8, end of Par. 1). A brief, but weak, three-day bulge to a lower top (Oct. 21st to 23rd) marks the final attempt to rally away from a danger zone and makes the picture very ominous for the bulls in this stock. (Compare with action of N. Y. Times Average, Apr. 7th to 14th; Sect. 7M, Pg. 16, Pars. 1 & 2). And the immediate loss of this gain in the next two days in an otherwise strong market, says: "Get out now if you didn't do so before; and sell me short if you are so inclined.

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Applying the same line of reasoning to the chart of Commercial Solvents (CV), we see that here we have an illustration of a stock swinging at random and hence in a more or less neutral position. In other words, judged by the factor of comparative strength and weakness, CV shows no evidence of developing any consistent trend. Thus, after an abortive run-up (July 1st to 23rd), the stock alternates from moderate weakness (July 24th to Aug. 8th); to stability (Aug. 9th to Sept. 4th); to mild rallying power; then to weakness, to stability and back to temporary strength; and, finally, to a neutral position again in late November and December.

In order to demonstrate how the principle of Comparative Strength and Weakness may be applied in a practical way, let us now assume that it is early August, 1936 and that CV, ELO and PGM are the only stocks we are keeping under observation at this time. Assume also that we are just entering the stock market and have decided to take a long position, say about August 1st. Obviously, on the basis of what our charts show us, as above outlined, and without consideration of any other factors whatsoever, we would select ELO and PGM as logical purchases but we would have nothing to do with CV.

As the days go by, our observation of the comparative strength and weakness of these stocks tells us to stay long of ELO until October 21st; to close out and be neutral toward PGM not later than Sept. 19th because it is not acting right; and to continue to avoid CV. (*)

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* Two very common faults of most people — which you should eradicate immediately if you possess them — are: (1) Failure to wait until a stock acts just right before they jump into it, and (2) A habit of optimistic stubbornness which causes them to become wedded to their commitments instead of cold-bloodedly disposing of them when they no longer act right.

The case of CV demonstrates what can happen to an investor or a trader who is guilty of Fault No. 1. He may miss the whole of an important movement in the stock market by a careless choice of commitments, or by inability to wait until a contemplated issue behaves right.

The action of PGM is an object lesson in the folly of both faults. Grant that we had bought this stock about August 1st on the basis of its comparatively good behavior at that time and in the belief that it should advance as well as ELO. Obviously, we should cast prejudice, inertia and pride of opinion aside by

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From the above study you can see how the factor of Comparative Strength and Weakness oftentimes is highly informative, aiding us: (1) to select the best stocks for our purpose and avoid the wrong ones, (2) to detect turning points, thereby enabling us to time our purchases and sales to the best advantage and (3) to determine when preparation for a worthwhile move — up or down — is about completed.

Our next set of graphs (Pgs. 21 & 22) should be analyzed in the same way. But the particular point we wish to bring out in these illustrations is-the Principle of Rotation. Thus, note how the Oil and Rubber Groups (Pg. 21) start upward about Jan. 22nd, moving in harmony with the general market (Times Average) until Feb. 11th to 14th. Rubbers then react while the rotation of demand to other groups, as for instance, the Steels and Chemicals (Pg. 22) holds the Times Average in the range 119-122.

Meanwhile, preparation for an up-move continued in the Steel Group a week longer (to about Jan. 30th) while Oils and Rubbers were being marked up. Next, as Oils and Rubbers begin to meet resistance to the advance, demand shifts aggressively to Steels between Feb. 10th and 18th.

Oils and Rubbers complete their reactionary movement simultaneously, on March 9th, four days ahead of the Times Average. We take particular note of this, that is, the ability of these groups to hold around and above the low points of Feb. 25th while the Times Average is still sliding down to the March 13th low and a little under the Feb. 25th support, because such action not only gives an indication of comparative strength in Oils and Rubbers, but implies

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disposing of this stock the moment we see the subsequent change in its behavior. By its own action, the stock has said "get out" as early as Sept. 19th (Par 2, Pg. 11). Common sense should warn us that we have nothing to gain by staying with it any longer. On the contrary, we have much to lose. There is now grave danger that the stock may decline. And even though it may not move against us, but might remain dormant as did CV, there is still no advantage in allowing ourselves to become "hung up." The capital tied up in a stock that doesn't act right can yield no profits. Worst of all, it is not available for use where it can be made to produce a profit.

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also that they are likely to be among the leaders in the market's next upswing. (That is, provided their action otherwise is in conformity with the inference drawn from this one factor of comparative strength.)

Likewise, refusal of Oils and Rubbers to participate fully in the setback to March 14th, that is, their tendency to react relatively less than the market, helps us to diagnose the break in the Average (from March 6th to 14th) as a technical corrective reaction rather than the beginning of a bear trend. In other words, our reasoning at this point is as follows: The Composite Average did not give indications of extensive distribution on the rise to 124 and our studies of our other records generally do not indicate anything more than the probability of a corrective reaction in the market. Therefore, we conclude that the relative strength in Oils and Rubbers should be interpreted to mean that these groups are being supported or reaccumulated under cover of the rotation of offerings in other, groups (as for instance, Steels) which are still being allowed to react. And we conclude further that the comparative strength of these groups (March 9th to 14th) probably is the forerunner of a turning point in the market as a whole — a turn that is likely to come when other groups have completed their reactions in sufficient number to place a predominating percentage again in bullish positions.

In late March and early April, there is a significant change — the above conditions begin to be reversed. Thus, Oils are failing to make appreciable progress as demand rotates in that group from Mar. 19th to Apr. 7th. A further indication of increasing pressure appears when they respond hardly at all to the Mar. 31st-Apr. 6th run-up in the Times Average. Exhaustion of demand in the Oils is confirmed when the Group Average starts downward (Apr. 9th) while the Composite Average, the Steel, Rubber and other Groups, are still steady, strong or advancing. But as demand continues to rotate, we observe that these other groups also respond sluggishly to upward impulses — bearish indications

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(see Pg. 5, Par. 4). Steels falter and react a week ahead of Rubbers, having meanwhile been subjected to what-looks like an application of hypodermics (the fast mark-up from Apr. 1st to 6th), evidently designed to facilitate the distribution elsewhere. (Pg. 5, Par. 3.)

Rubbers continue to make steady progress, rotating to a new high, a week later than Steels and Oils and after those groups have already started downward. This late strength in the Rubbers helps to hold the Composite Average well up in the distribution range 126-123 to give the market the appearance of strength when, actually, the support underneath has become hollow as a result of the active rotation of supply from Oils, to Steels, to Rubbers, etc., successively. And, finally, the increasing weight of this selling pressure precipitates a general collapse, terminating April. 30th. Then the whole process starts over, again and, by studying our charts carefully, we are able to single out the stronger from the weaker stocks and groups of stocks, as before, by watching to see which ones offer the strongest resistance to the decline. Thus we see that the Rubbers, for example, react relatively much less than Oils, and Oils less than Steels, etc.

Additional charts are presented on Pages 23 to 25 in order to provide some further graphic illustrations of the principles developed in this Section. It is suggested that you use these as a basis for independent studies to test your own ability, to apply what you have learned.

The graphs on Page 24 show the advantage of comparing the action of an individual stock with the Average of the Group to which it belongs, as well as with the Composite Average. In this instance, note particularly how Auburn's failure to participate fully in group strength and its inability to respond as aggressively as before to a fresh upward surge in the general market during the week ended Apr. 4th, emphasizes the development of significant weakness and the weak character of the final rally to 51 3/4. This marks a decisive change in

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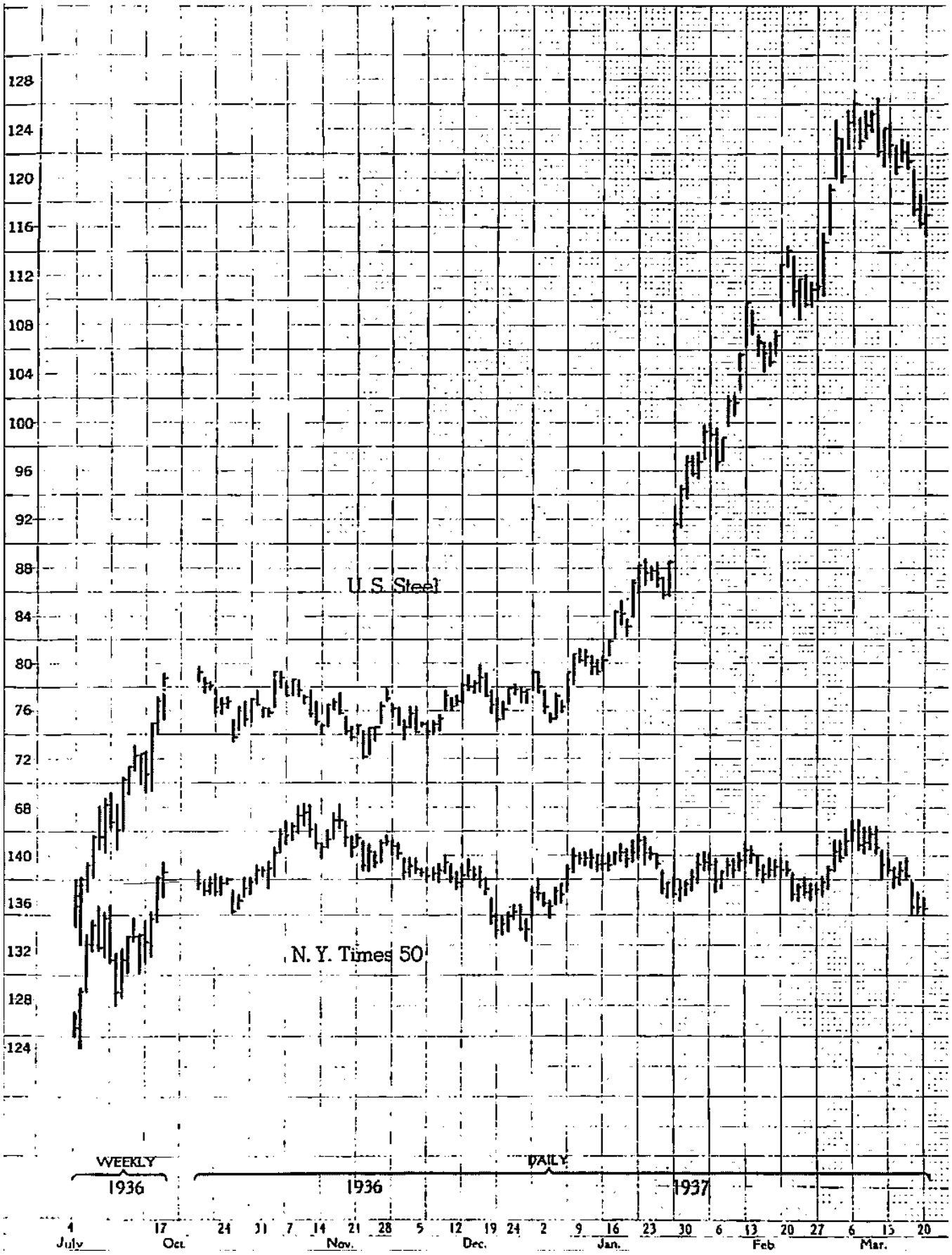
behavior, compared with previous performance. About Apr. 4th, the stock is on the hinge at 50 (Sect. 10M, Pg. 1, Par. 5) and the outcropping of acute, weakness becomes pronounced in the next four sessions, showing that the stock is on the springboard (Sect. 14M, Pgs. 4, 5, & 6) for an important slump. Distribution in the range 46-54 evidently was thorough since AAC continued extremely sensitive to reactions and highly indifferent to rallies in its group and in the market even after the excessively severe slump to Apr. 26th.

On Page 25 are presented two classic examples of weak stocks in a strong market. Note especially how the factor of Comparative Strength and Weakness reflected the bearish behavior of Penick & Ford, in spite of its thin market and small daily turnover. (Volume was generally less than 500 shares daily and only reached or crossed 1,000 shares on three occasions during the six months period shown on the chart).

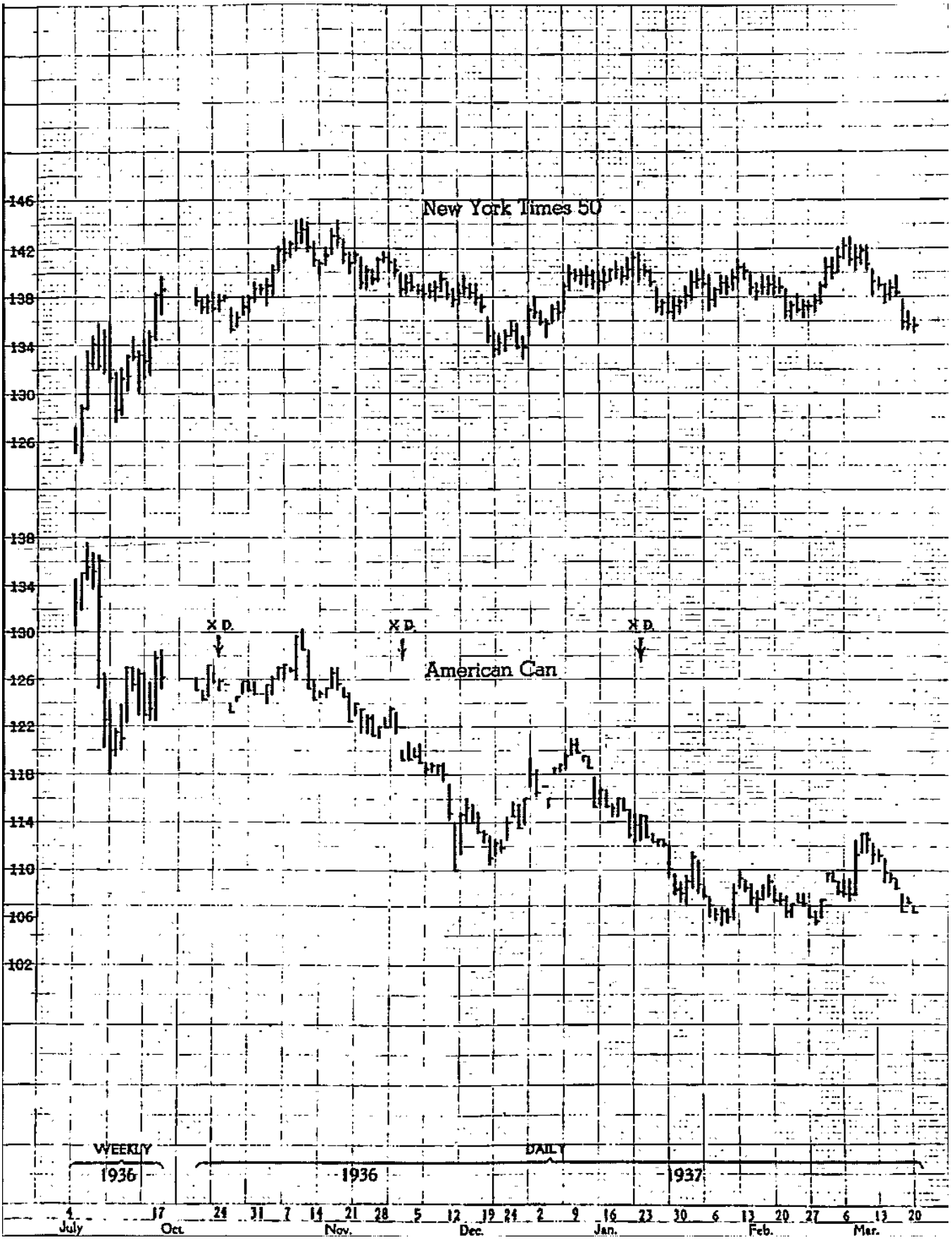
As you study these charts, remember that they are intended only to illustrate some typical cases. They should not be regarded as covering all possible conditions nor be used as exact standards of comparison. In brief, do not make the mistake of attempting to classify chart formations according to mechanical rules with the idea that you may discover automatic buying and selling signals from similar "patterns." You are being deluded if you believe that a system of drawing "triangles," "heads and shoulders," and similar imaginary geometrical diagrams on your charts will produce results or relieve you of the necessity of employing judgment and sound, practical reasoning.

One other word of caution: Comparative Strength and Weakness is a very valuable means of determining a stock's position and possibilities <u>but this principle must be used with due regard to the other contemporary technical manifestations</u> to be taken up in following sections.

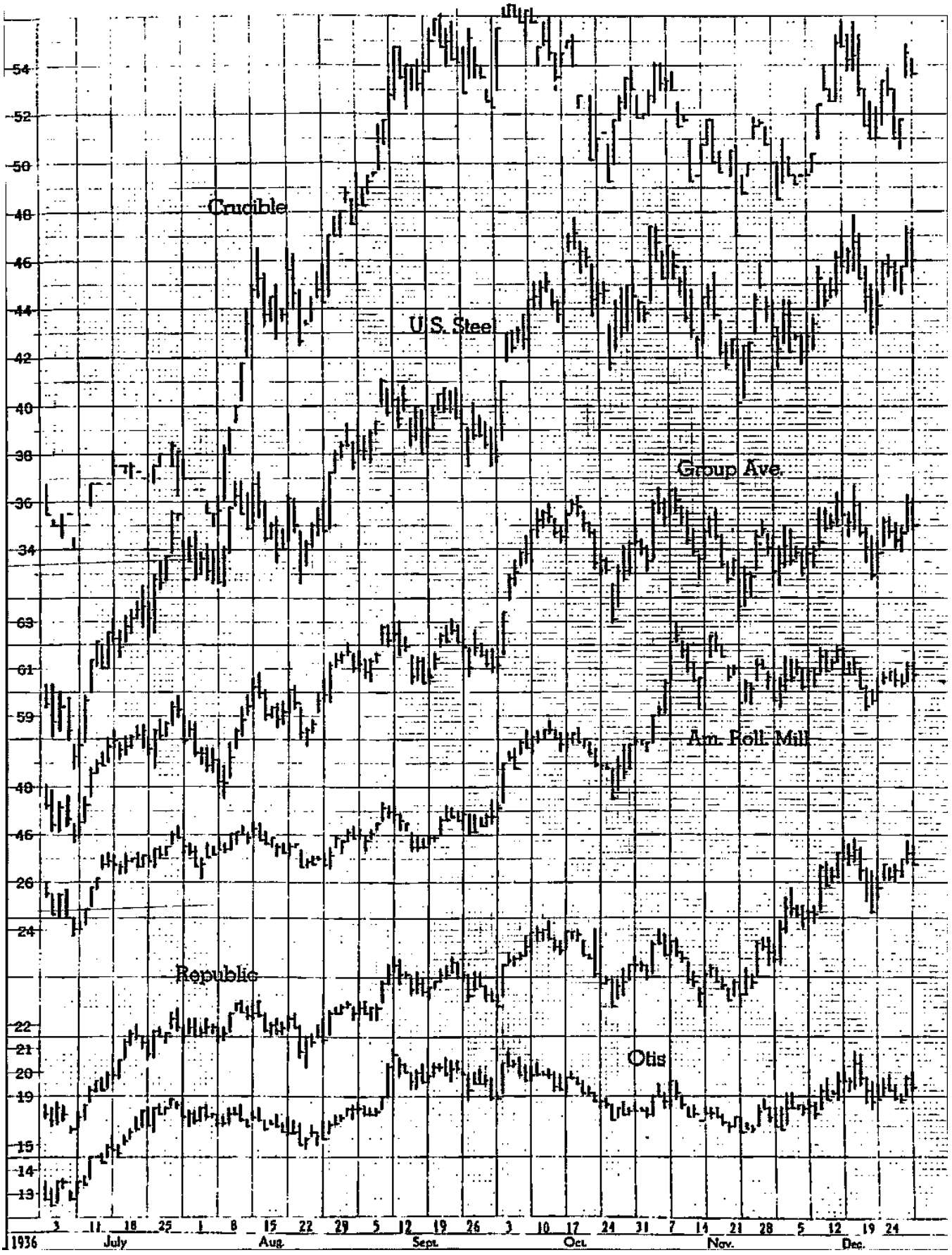
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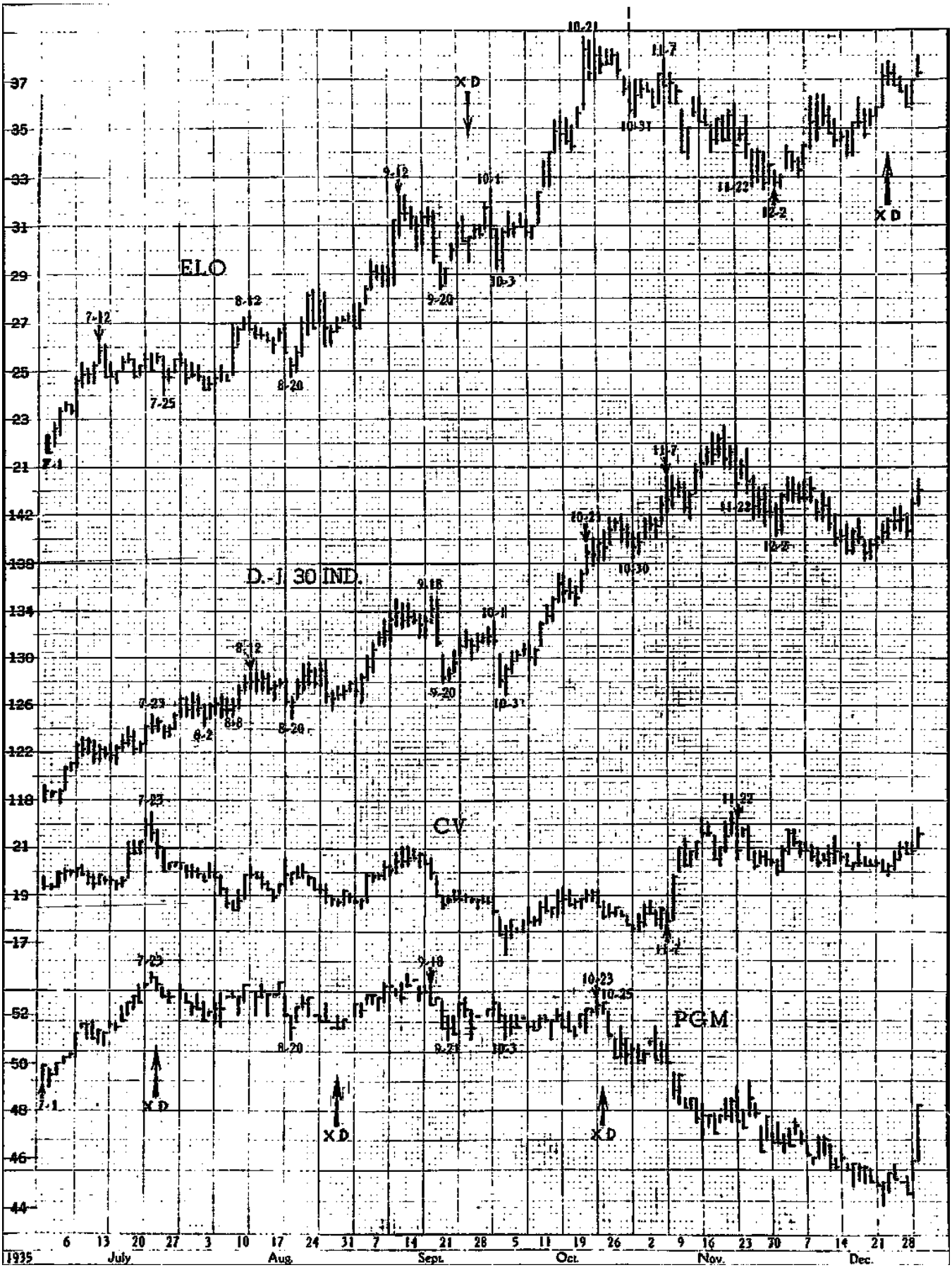
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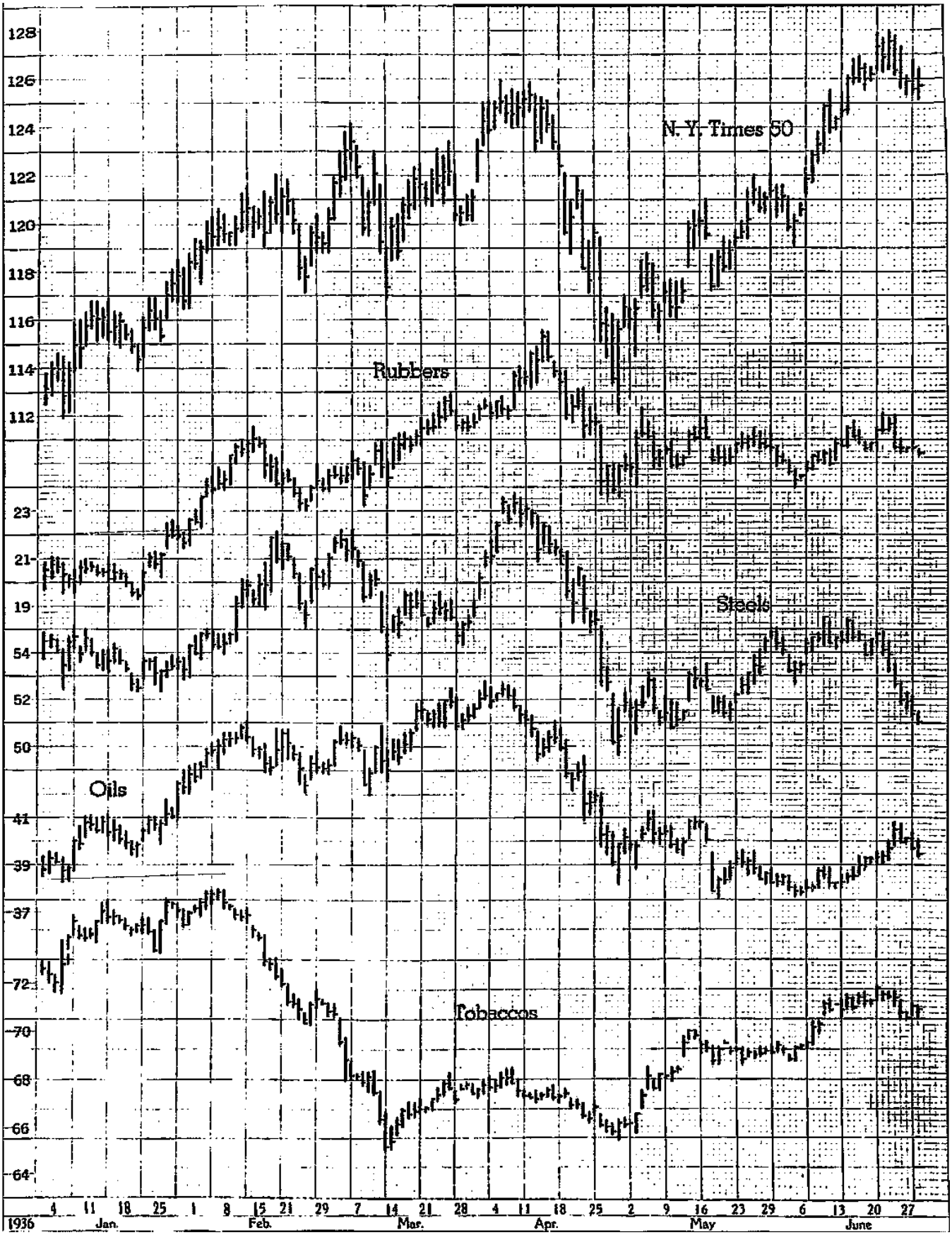
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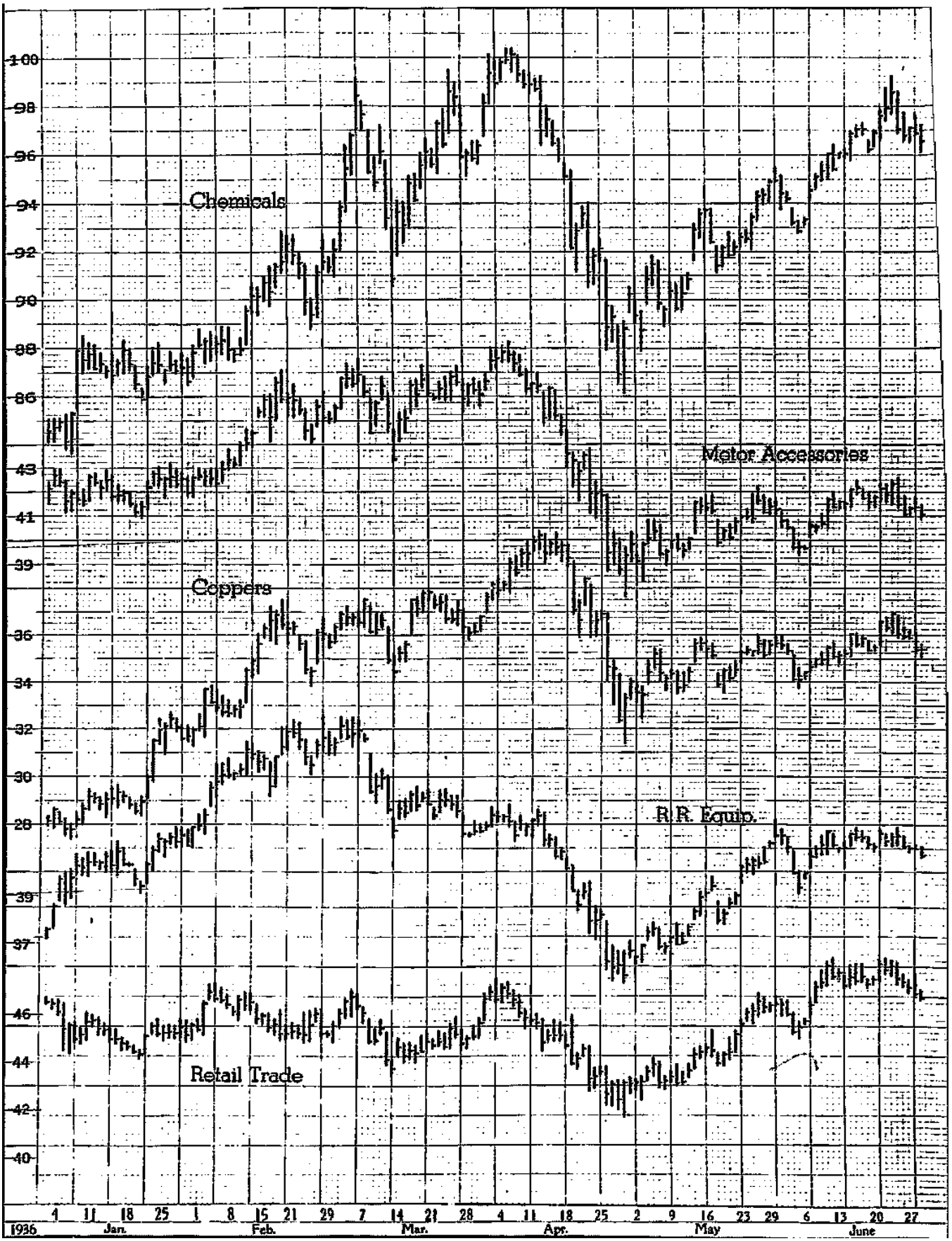
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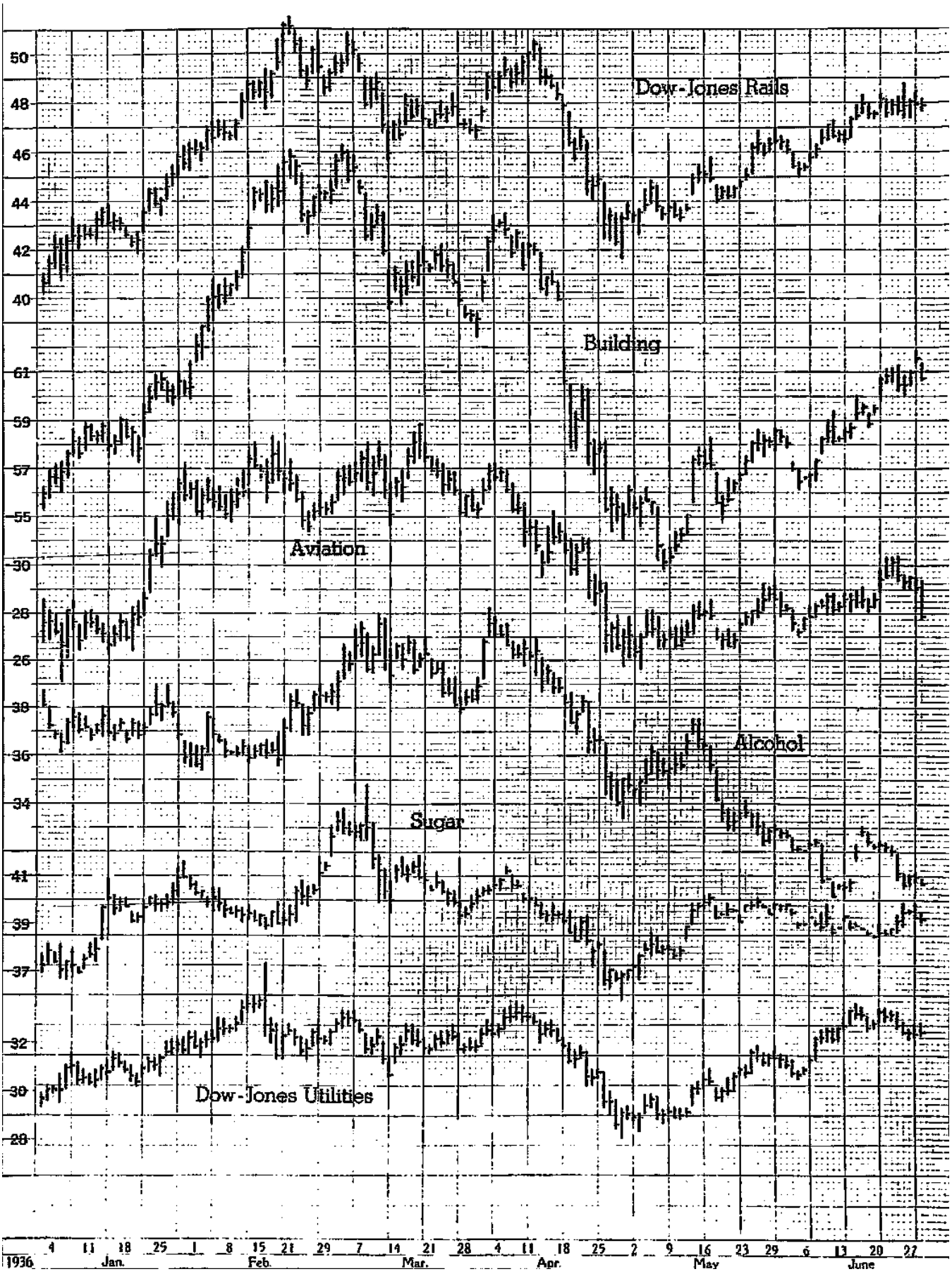
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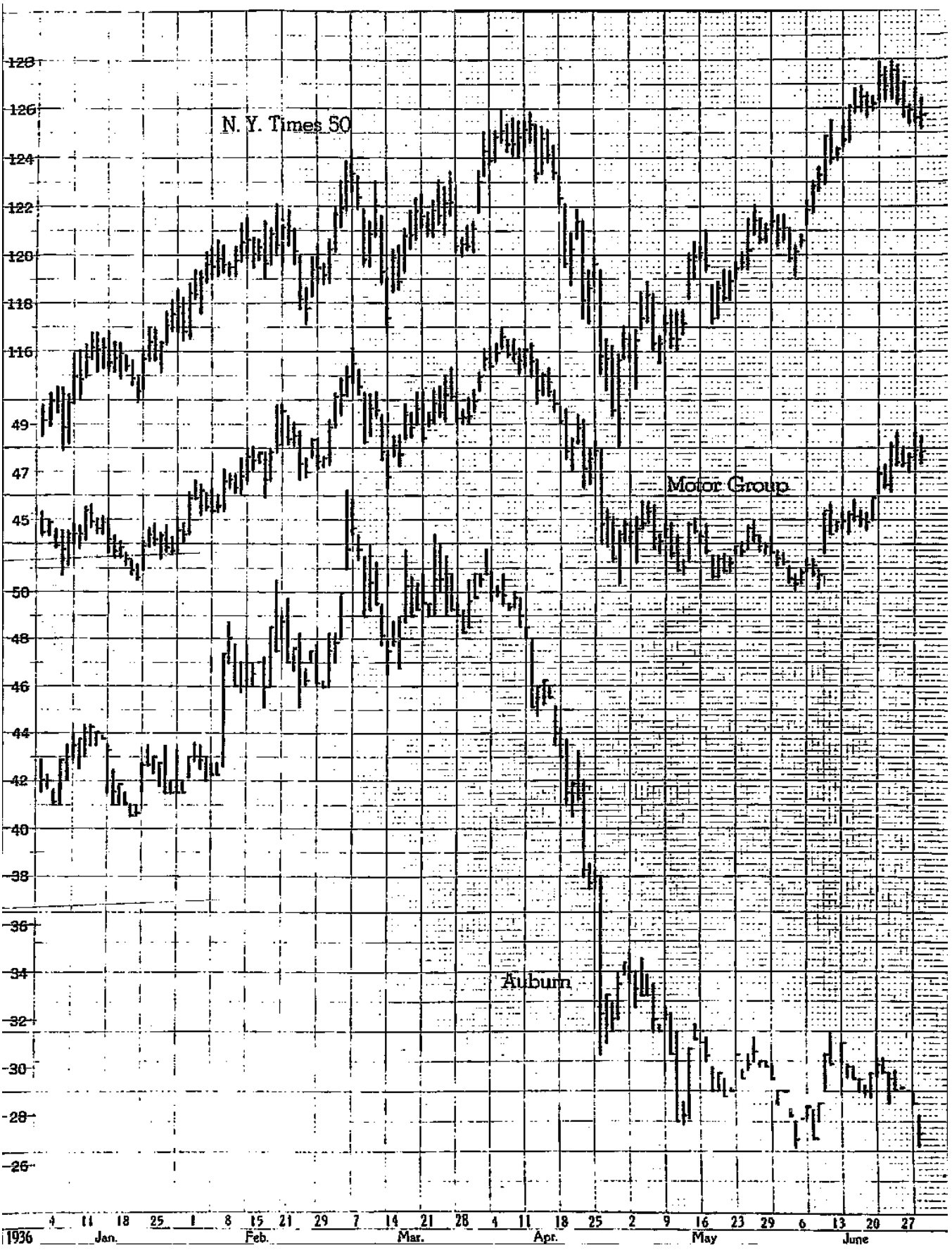
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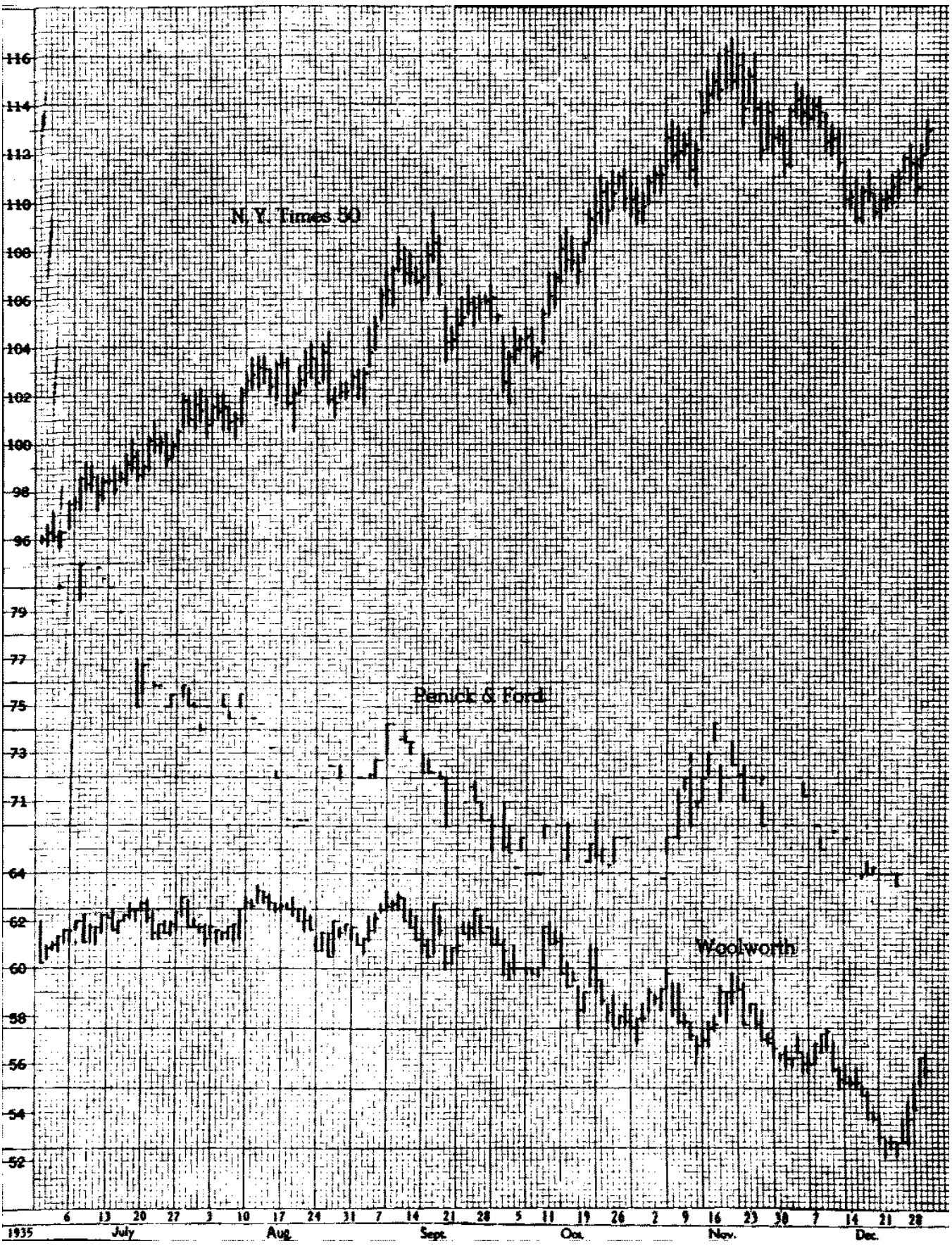
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HOW A CAMPANIGN IS CONDUCTED

INDIVIDUAL CHART STUDIES — PART I

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

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

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

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

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

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

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

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

The preparation of an important move in the market takes a considerable time. A large operator or investor acting singly cannot often, in a single day's session, buy 25,000 to 100,000 shares of stock without putting the price up too much. Instead, he takes days, weeks or months in which to accumulate

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his line in one or many stocks. He prefers to do this while the market is weak, dull, inactive and depressed. To the extent that they are able, he, and the other interests with whom he works, bring about the very conditions which are most favorable for accumulation of stocks at low prices. (Pg. 9, between A & M.)

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

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

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

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

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

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

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

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

A Typical Market Operation.

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

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

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

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

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

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

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

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

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

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

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

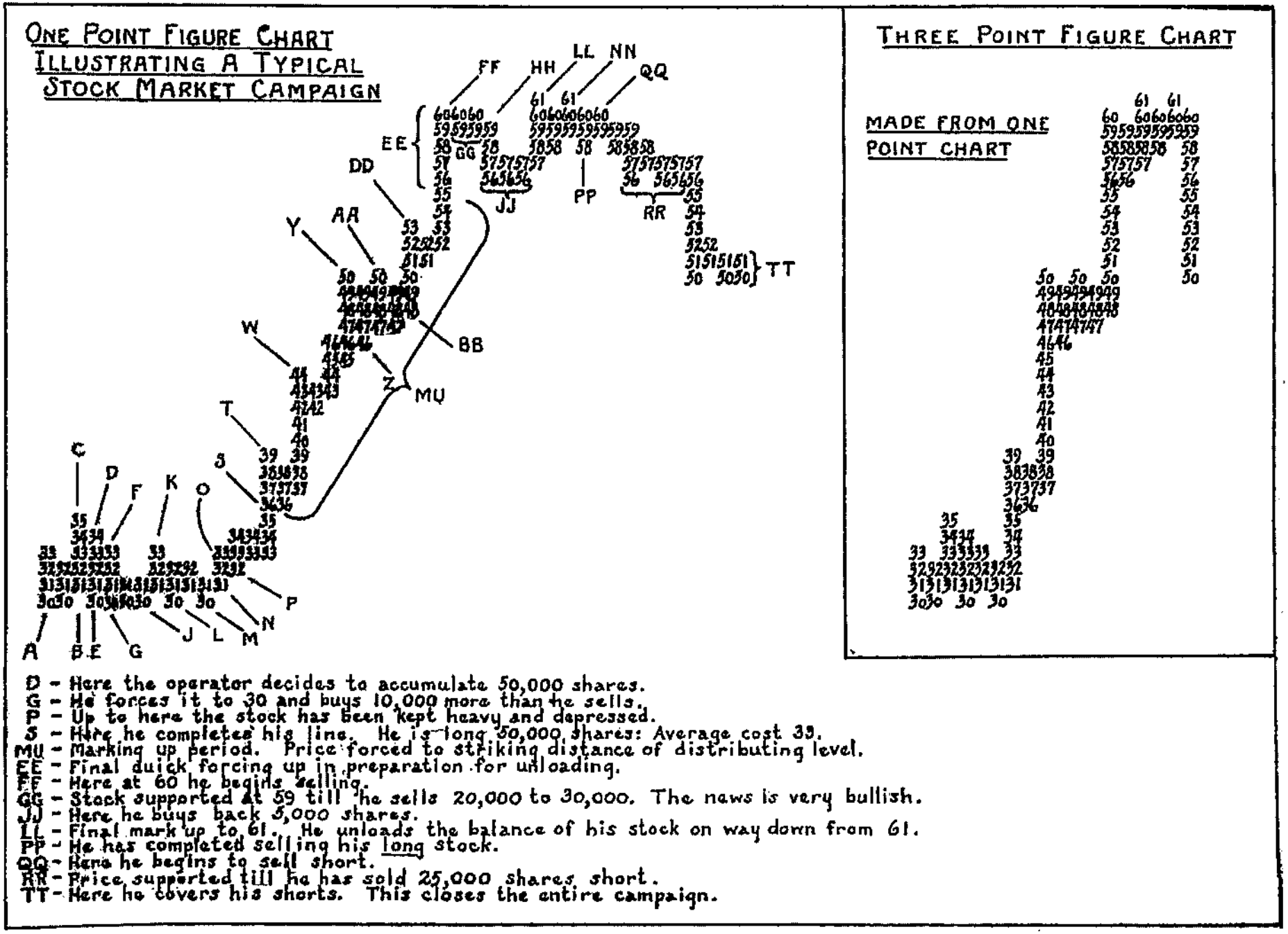
When the operator has sold all of his 25,000 shares short, he cancels all of his buying orders. The specialist in the stock then tells some of the more

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important floor traders that the stock is in a weak technical position and that there is no support for the next 8 or 10 points and they all get together and raid it down to 50, at which point the operator covers his shorts.

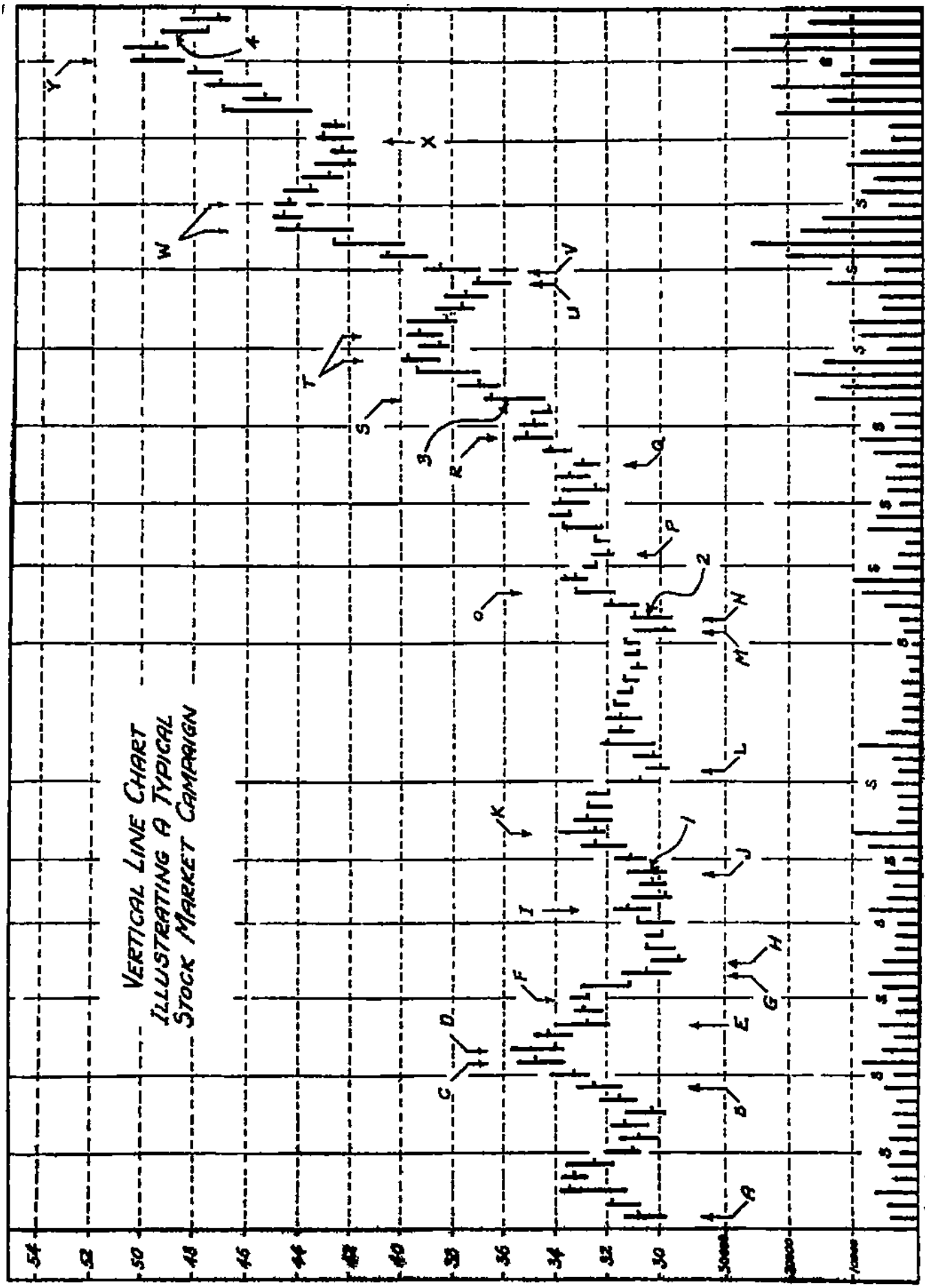
Charts made of the stock's fluctuations during this period are shown on the next three pages. These charts as well as those in Sections 16M and 17M will help you to understand how a market campaign develops and how its various phases are revealed graphically by charts. As you study the text in Sections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

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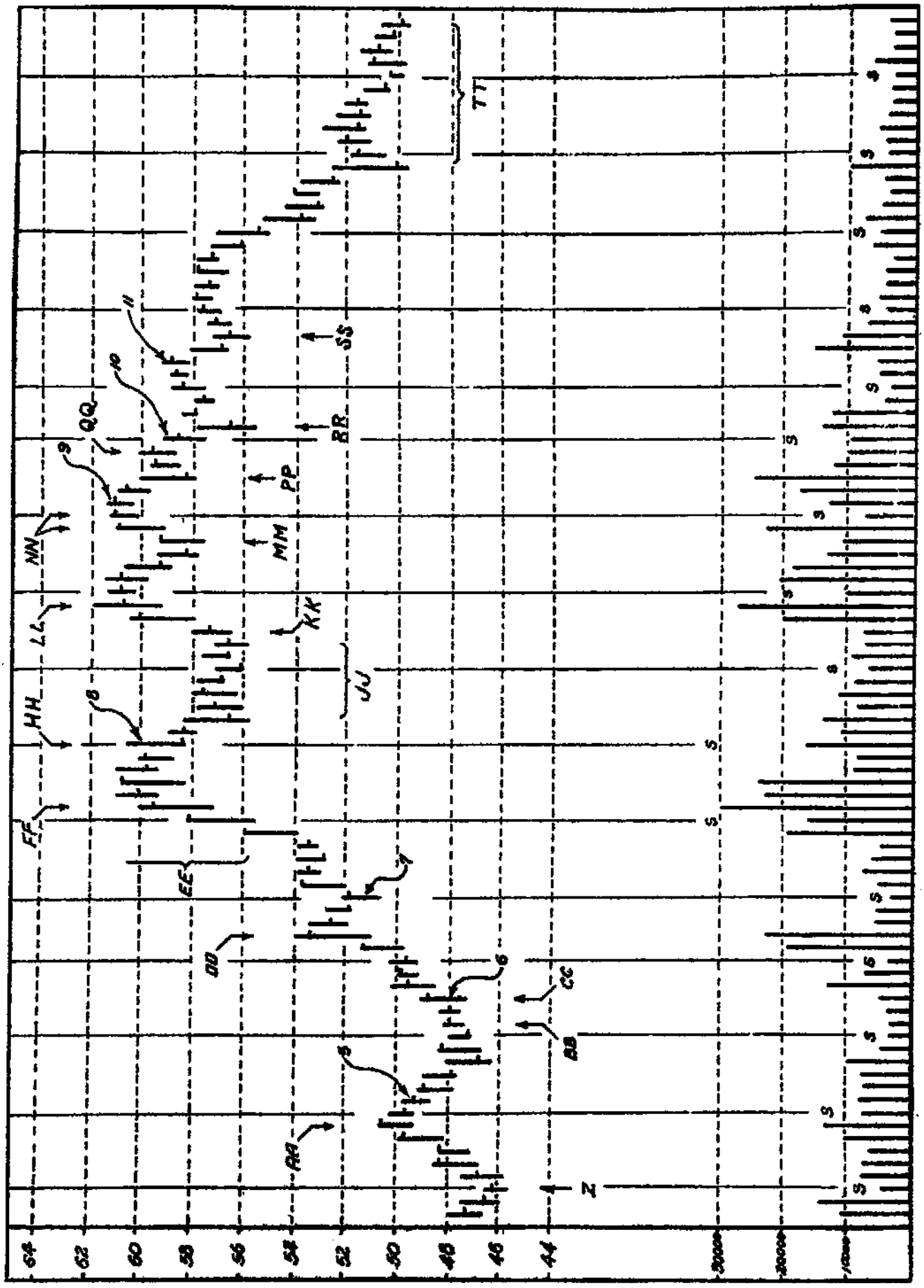


D - Here the operator decides to accumulate 50,000 shares.
G - He forces it to 30 and buys 10,000 more than he sells.
P - Up to here the stock has been kept heavy and depressed.
S - Here he completes his line. He is long 50,000 shares: Average cost 39.
MU - Marking up period. Price forced to striking distance of distributing level.
EE - Final quick forcing up in preparation for unloading.
FF - Here at 60 he begins selling.
GG - Stock supported at 59 till he sells 20,000 to 30,000. The news is very bullish.
JJ - Here he buys back 5,000 shares.
LL - Final mark up to 61. He unloads the balance of his stock on way down from 61.
PP - He has completed selling his long stock.
QQ - Here he begins to sell short.
RR - Price supported till he has sold 25,000 shares short.
TT - Here he covers his shorts. This closes the entire campaign.

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HOW THE OPERATOR'S INTENTIONS MAY BE DETECTED

INDIVIDUAL CHART STUDIES — PART II

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

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

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

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

Next, at E, it reacts 3 points to 32. After a rise of 5 points (30 to 35) this reaction is a little more than half-way, which shows that the pressure for the moment has turned to the down side. At 32 it is about in the middle of its range; 30 to 35. Now it rallies a point to 33, which brings the formation on the figure chart out to a sort of point. This will be clearer if you draw a line diagonally from the second 30 out to the last 33 and from the top

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of 35 down to the last 33 (under D). This gives the appearance of a wedge ending at 33. The appearance of the wedge, apex, or dead center, is made very clear on the vertical chart, at the letter F (Sect. 9M, Pg. 9) by drawing a line from the last 29 7/8 through 32 (E) and from 35 5/8 (D) to 33 5/8 (F). Past experience tells us that the stock, as a result of having come to a dead center, is preparing for an immediate sharp move which is likely to be downward because volume shrinks on the weak rally from 32 to 33 3/8 (see vertical chart at E to F).

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

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

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

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

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

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

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

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

He throws over some of his long stock on the bulge to 35 7/8 (see K,

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

You are now long:

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

100 shares at 30 with stop at 27 7/8

The stock again rises to 33 (O on the figure chart). Counting from left to right on the 30 line (A to N) you will find seven 30s and five blank spaces, an indication that the probable immediate rise should amount to 12 points from 30, or to 42. Your 3 point figure chart which is made up from the 1 point

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movements, but which eliminates all reversals of less than 3 points, (Sect. 4M, Pg. 12, Par. 3) now appears as follows:

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

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

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

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

The price touches 36, at S, and you buy your third 100 shares at that

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

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

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

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

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

At first it looks as though he intended to do this. There is a quick

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

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

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

The stock recovers to 48, then oscillates to a dead center (vertical chart at BB); 46 and 50 are the extremes of the range and 48 is the middle or apex. Here it is again on the hinge and you decide, from its volume behavior that the move is more likely to be up than down (compare with paragraph 5,

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page 1). Therefore, you cover your short stock and go long 100 shares (see 6 on vertical chart), reasoning that the operator either means to run it up again in order to distribute more stock at and above 50 or he has been absorbing stock around 46-48 for the purpose of marking it up to a much higher level. Thus, whichever way the stock breaks out of the range 46 to 50, it should have a considerable swing, either on the up or on the down side. Much depends on how it behaves on the indicated rally back toward 50. You will probably not be long in doubt.

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

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

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

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

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

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

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

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

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

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

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

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to sell, or the chart would not indicate 61.

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

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

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

The rally back to 61 (NN on vertical chart) is accompanied by another peak volume after which the range narrows and the stock hesitates, with volume shrinking at the top of the rally — all bearish; so this is where you sell as previously indicated. The next dip to 58 (PP) is a little quicker than the

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first one and the volume is very heavy, indicating that the operator is now filling up all "the buyers on reactions" with whatever stock he has left to unload.

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

```
      61    61
60    60 60 60  X    The x indicates where the
59 59 59 59 59  •    stock now stands on the 1
58 58 58 58     •    point chart and the dots
57 57 57             show how the chart will look
56 56                if the price falls to 58.
55
54
55
52
51
```

By placing an "x" on the 3 point chart at 60, as above, you see clearly that the stock is on the pivot at 60, and so you conclude that if the price should now start down again on increasing volume, the stock will have stepped on the springboard for an important slump. (Sect. 14M, Pg. 6, Par. 2.) So when it touches 57; you decide to sell more at once or wait for an upwave (as at the numeral 11) to do so, for now you have all the symptoms of a substantial downward swing. The line of supply on the 3 point chart has broadened to six 60s, forecasting a possible decline of 18 points. The tops of the rallies are con-

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sistently lower and the support at 58 has faded away. At 56 (RR) some shorts on the floor cover as the price touches the former supporting level (JJ) and this brings the little rally to 58 on which you sell again. It is less than halfway from the top at 61 to the low point so far, 56, and the volume is not at all impressive, so this tends to confirm the weakness.

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

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

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

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

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

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INDIVIDUAL CHART STUDIES — PART III

FIGURE CHARTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A quick sell-off to 48, under the previously established line of supports

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

About the first of January, the stock seems to be on a hinge at 51 (Sect. 10M, top of Pg. 2). Then it rallies to 54. But here (at 0) the price movement flattens out just under the previous high of 55. We conclude that if it is ready to go up it will not fall back to 50 again. A normal reaction from 54 would be to 51 (midway between 48 and 54). However, from a bullish viewpoint we would prefer not to see it recede even that much; its chances for overcoming the resistance around 55 will be much better if the price continues to rally away from the bottom of the small trading range 52-54, or higher.

Therefore, when it continues to hesitate, forming a line of six 53s and next comes to a hinge at the last 53 (under 0) we decide that its position has become critical and that a dip to 51 would imply weakness while a further sag to 50 would cancel our expectations of an early advance to 64. Hence, when the price actually does come down to 50 again, we must conclude that preparation for an advance has not been completed. Instead, there is a possibility that if the six point reaction indicated by the line of 53s at 0 should be materially exceeded, the next stopping places might be 44 and perhaps 40 — objectives taken along the wider line of ten 53s from M to 0; and fifteen 54s across the rally tops

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from 55 (i.e., from L to the right of 0).

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

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

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

But are we sure that this is a range of accumulation? At 0 the advance was checked at a price of 54, and then the stock fell off 8 points to a new low. At first glance, the action between L and P seem much like that at D to J, so there is a possibility the stock may be headed for an important further slump. The 54 top was lower than the previous 55, and the 46 bottom was lower than the previous 48. Is this not a downward trend? It may be, but the chances are against it because the indicated down swing at P, from 53-54, exhausted itself and was immediately followed by a sharp recovery which wiped out considerably more than half the loss. Since leaving K the stock has shown repeated tendencies to rally vigorously after being forced down to, and temporarily under, the 50 level. After the rally to 51 (left of Q) there is a dip to 49 (at Q) and a recovery to 52, followed by a return to 50 (R), which is the main supporting line where (at R) the stock again works into an apex. (Sect. 10M, Pg. 1, Par. 5.) Earlier at K, we had indications of preliminary support (Par. 3, Pg. 3) which have been followed by persistent rallies and reactions in an ever lengthening zone of congestion, or trading range (K to R). We observe also that the downthrusts, of minor selling waves, are being followed, by upthrusts (buying waves) of greater intensity and sustaining power than previously at H and J. (Review Sect. 5M, Pg. 1,

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Pars. 1 to 5 and Pg. 2, Par. 1.)

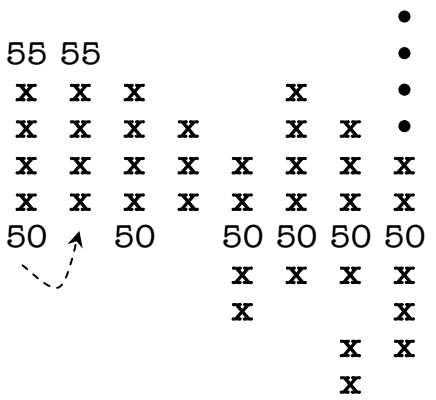
We therefore conclude that the quality of the demand in this area is superior, to the quality of the supply; that as somebody was steadily taking this stock in the weak markets of December and January they expected to sell or re-distribute it at a higher price, and that the sell-off to 46 was a deliberate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

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

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

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



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

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

The advance continues to 61 where it hesitates briefly due to the influence of the former congestion area 59-60, on the way down from 70-71 in November and December. Some of the buyers at this, former supporting level, who held on and carried their stock down through the slump to 50 and the long tiring out process thereafter are anxious to get out even on this February recovery. But offerings from this source, evidently, are not heavy because the stock reacts stubbornly (T) and is promptly supported on the dips to 58. (Sect. 7M,

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Pg. 7, Pars. 1 & 2 and Footnote, Pg. 8.) The five point rise indicated by the line of 58s (at T) is duly accomplished by a run-up to 63. Then the stock settles back, meeting higher support at 60 while it consolidates the advance from 50. A line of ten 60s indicates 68-70 as the next probable objective.

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

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

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

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

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

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

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

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

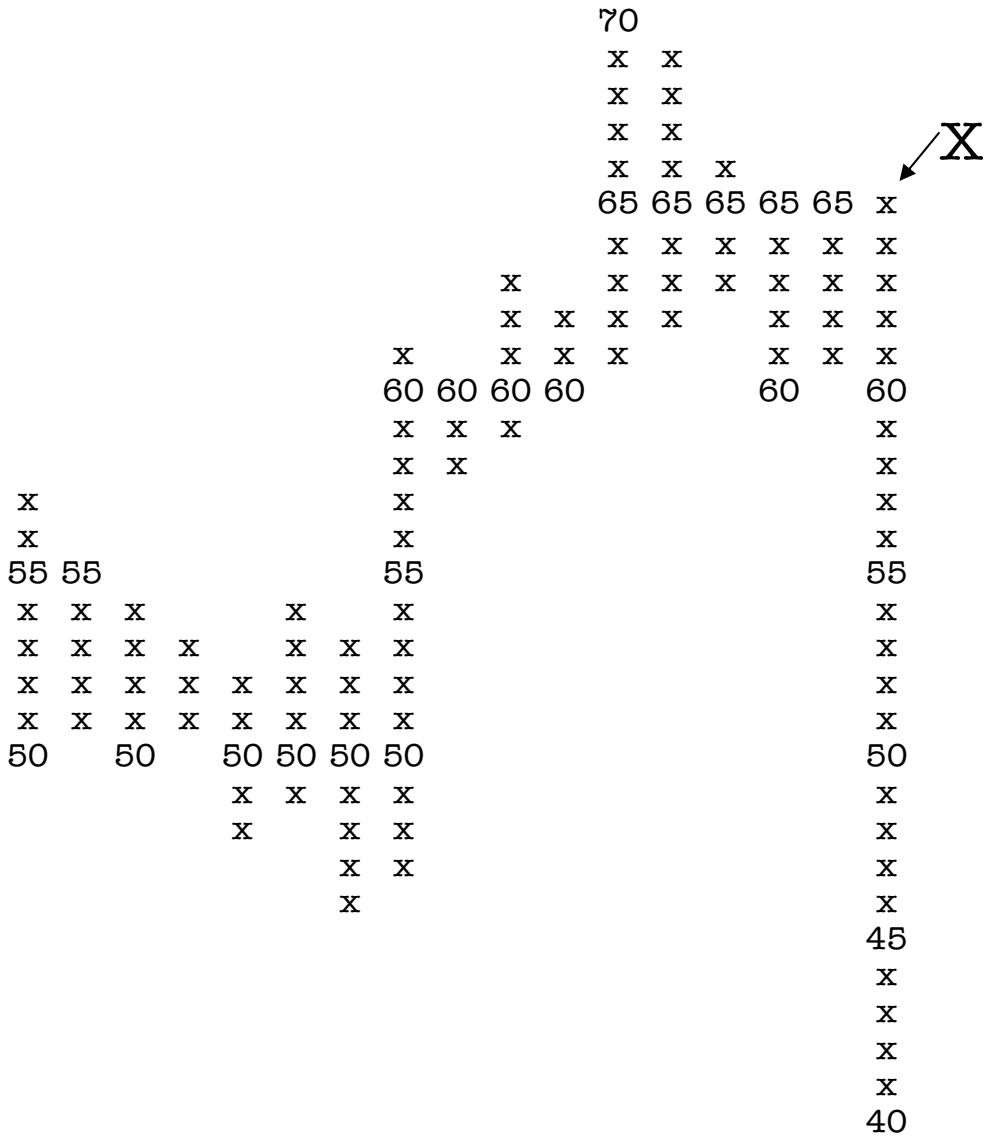
From the time the stock left 65 (X) on the lost down-turn it dropped like a plummet 25 points without a 3 point rally, indicating a refusal to support the price or to buy any of the stock until it reached the 40 level (see 1 point chart).

Note once more the forecasting value of the 3 point chart. On this chart the last phase of the rise from 60 to 70 has the appearance of the application

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

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



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

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

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

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

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INDIVIDUAL CHART STUDIES - PART IV

FIGURE CHARTS

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

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

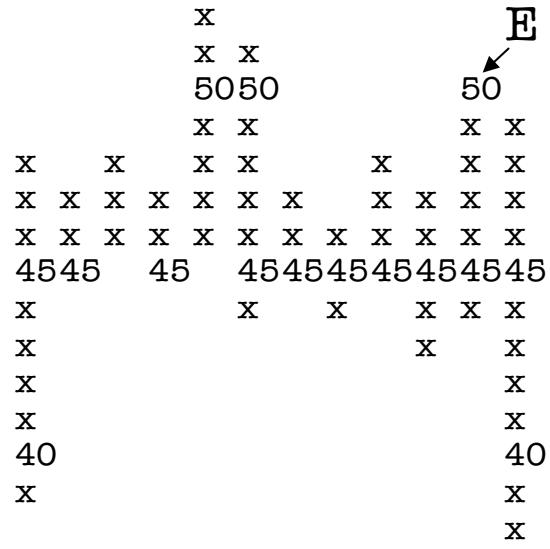
In February, Steel recovered from 138 to 152. A formation began at the 147 (A) level which indicated that the stock was running into considerable supply. (Sect. 11M, Pg. 8, Par. 1.) Distribution apparently began there, but having sold a quantity, those dominant in the stock evidently believed they could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

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

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further possible decline to 118-115.

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



From the price	148
Deduct 12 x 3	36
Indicating decline to	112

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

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

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

After a weak 5 point recovery to 115 (K) the price dropped into new low ground at 109 (M), and after a few more brief points of hesitation (N and O)

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around the 100 level, sank to 84 in June, 1931 — 63 points down! (*)

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

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

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

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

---

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

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

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

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

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

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

The rally from 63 is not based upon any substantial formation but appears to be due mostly to an oversold condition and short covering accompanied by some

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professional buying for a trading turn. This produces a recovery first to 71 (FF) and, following absorption around this level, a further rally to 73. A formation is built across the 71 line (FF to GG), amounting to 7, counting 1 blank, which seems to indicate another decline to 64; but the stock stops short of this, indicating that sufficient support is being met at 66-68 (HH) to produce another rally to 72. Then follows a new formation on the 70 line amounting to 7, but the lowering tops — first 72, then 71, and the gradual development of a hinge at 70, prepare us for a final decline to 63. This decline falls 1 point short of the indication by stopping at 64 on the full figure. In the last few days of October, a small base is made on the 65 line, sufficient to indicate another rally to 69.

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

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

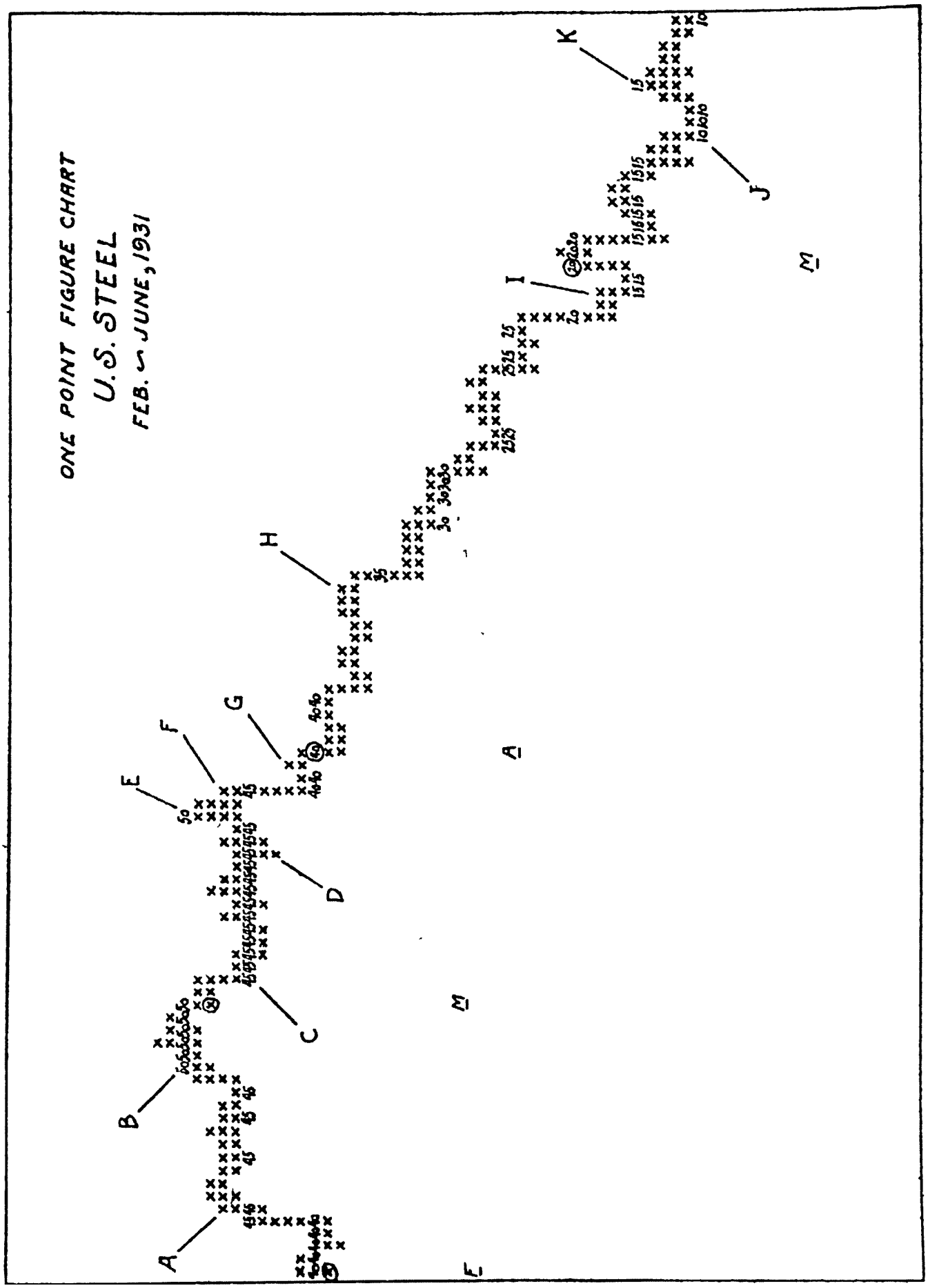
This formation, and the trading range developed on the 1 point chart, may work out as a final base for the beginning of a substantial rise in Steel, or it may develop into another downward swing of as much as 21 to 24 points on the 3 point chart — 24 on the one point (FF to JJ) — on the basis of the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

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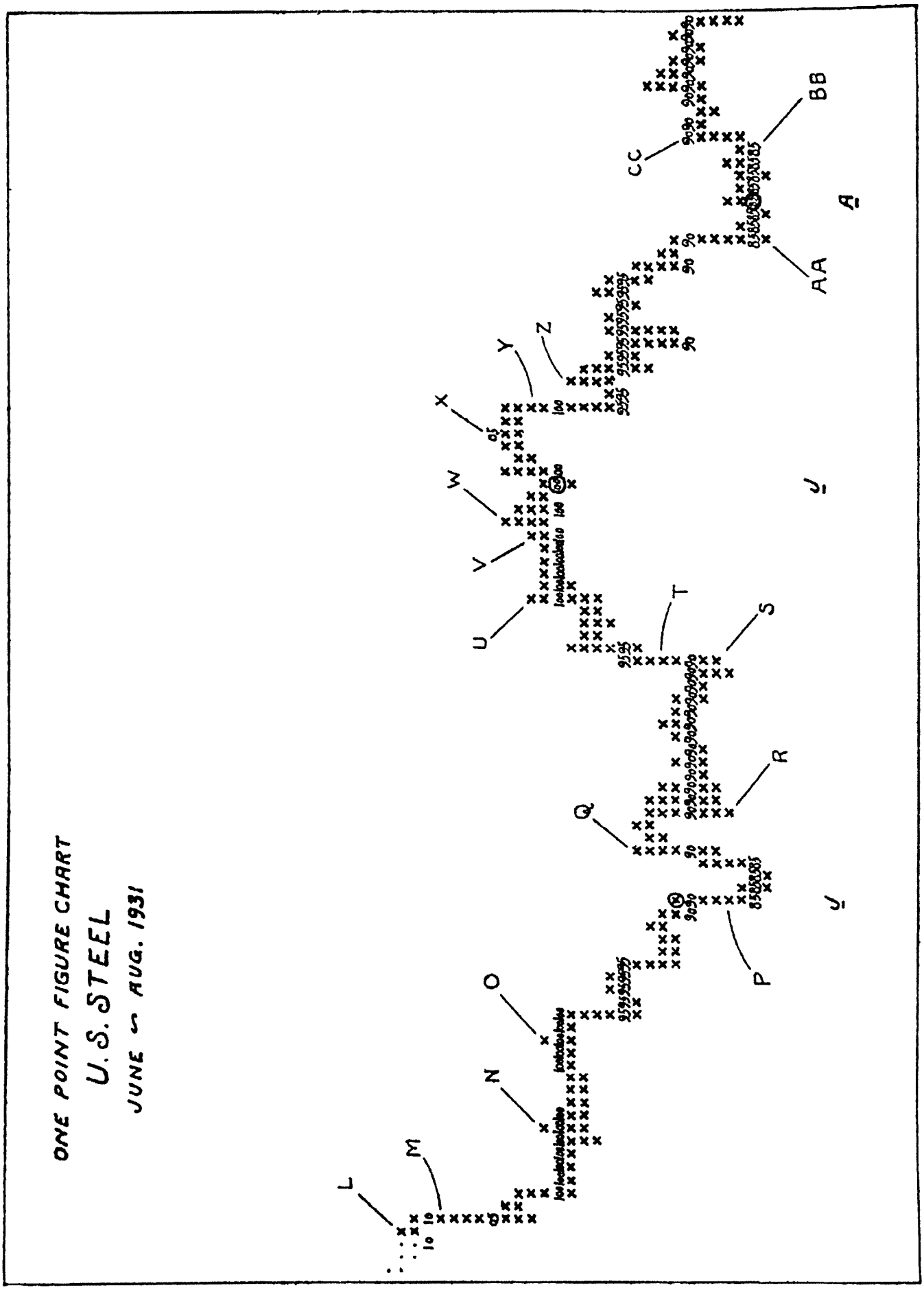
the zone narrowed to 6 points. By declining again to 64, the zone widened two points, making 8, but by its recovery from 64 to 69, the zone, or range of the stock, narrowed again to 5 points.

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

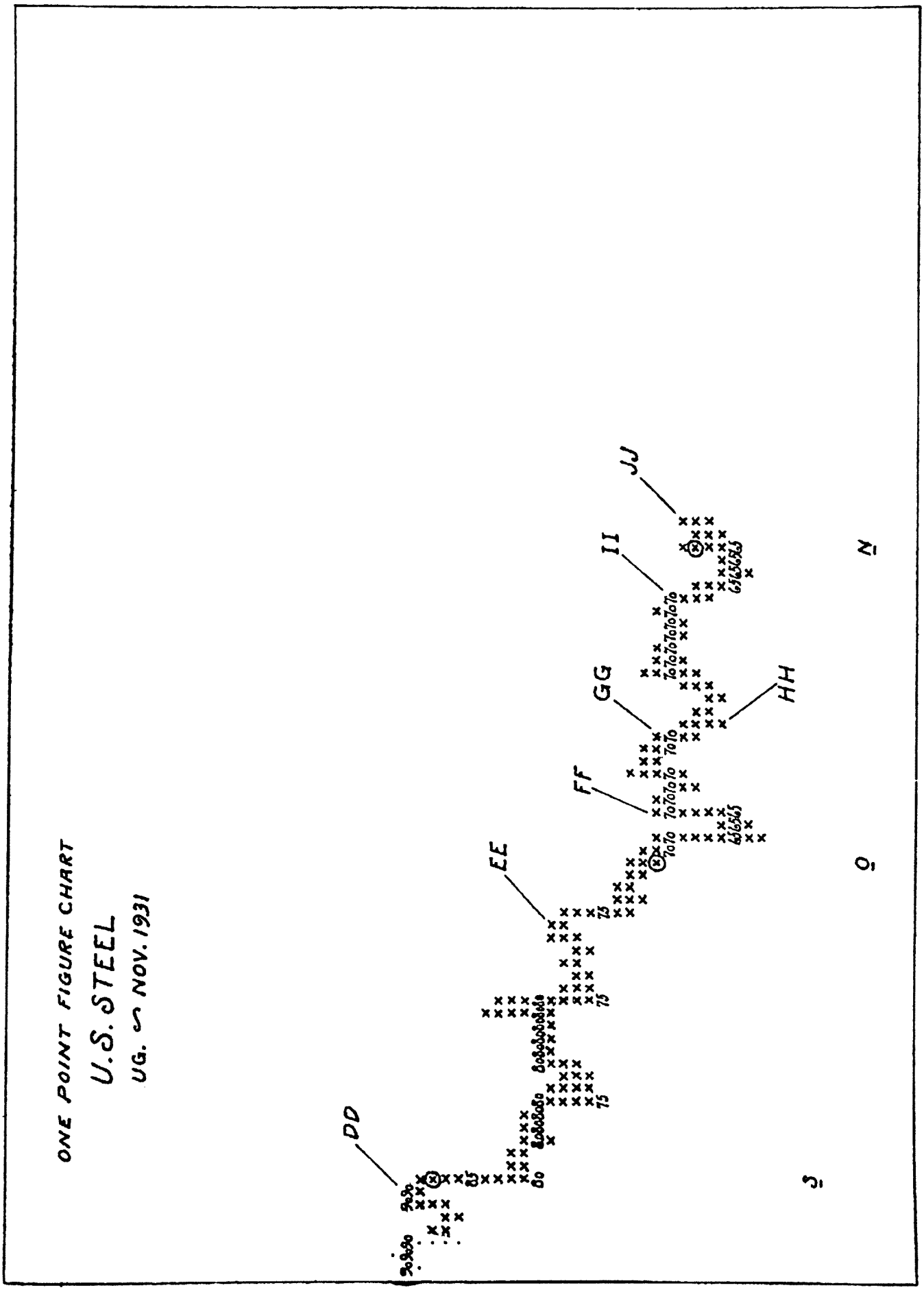
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INDIVIDUAL CHART STUDIES - PART V

FIGURE CHARTS

How the Figure Charts of the New York Times Average Foretold the Panic of 1929.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In brief, though the chances were against an advance, the market was saying to the reader of this 3 point figure chart of the New York Times Average of 50 Stocks: When I leave this 300 level, I am going either to 377 or to 264 and

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

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

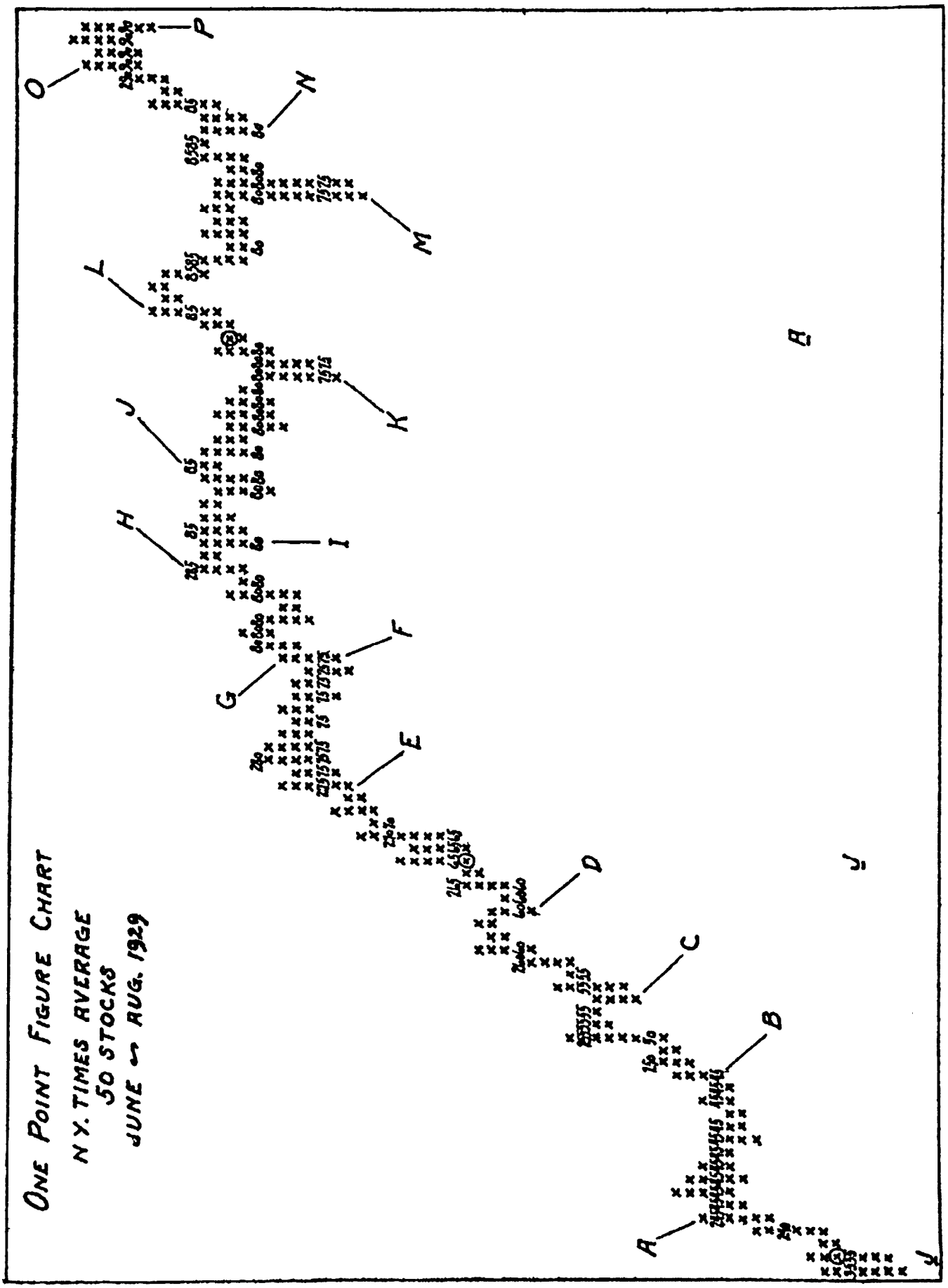
The formation at 299 (BB) was very brief — a line of only six on both the 1 point and 5 point charts — but if we take into consideration the entire width of the formation from the time the average first made 299 (at Q), we find that counting across there ore 44 on the 299 line of the 3 point chart, including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

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

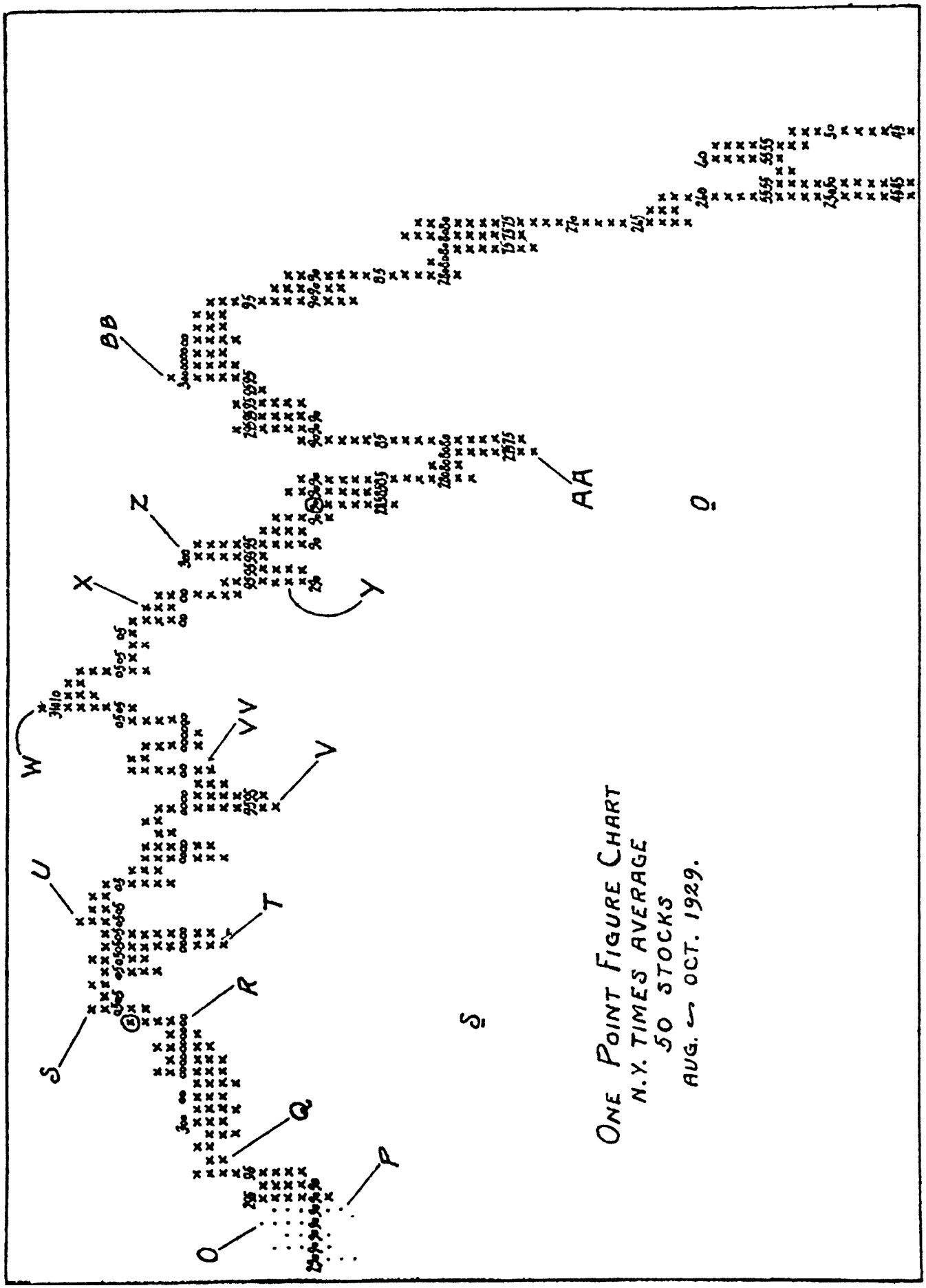
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* The relapse from W to AA is very pronounced; the patient's condition is growing steadily worse; evidently the last stimulant drew very heavily upon his reserve strength. But Doctor Bull is not ready to give up yet so he resorts to one more heroic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

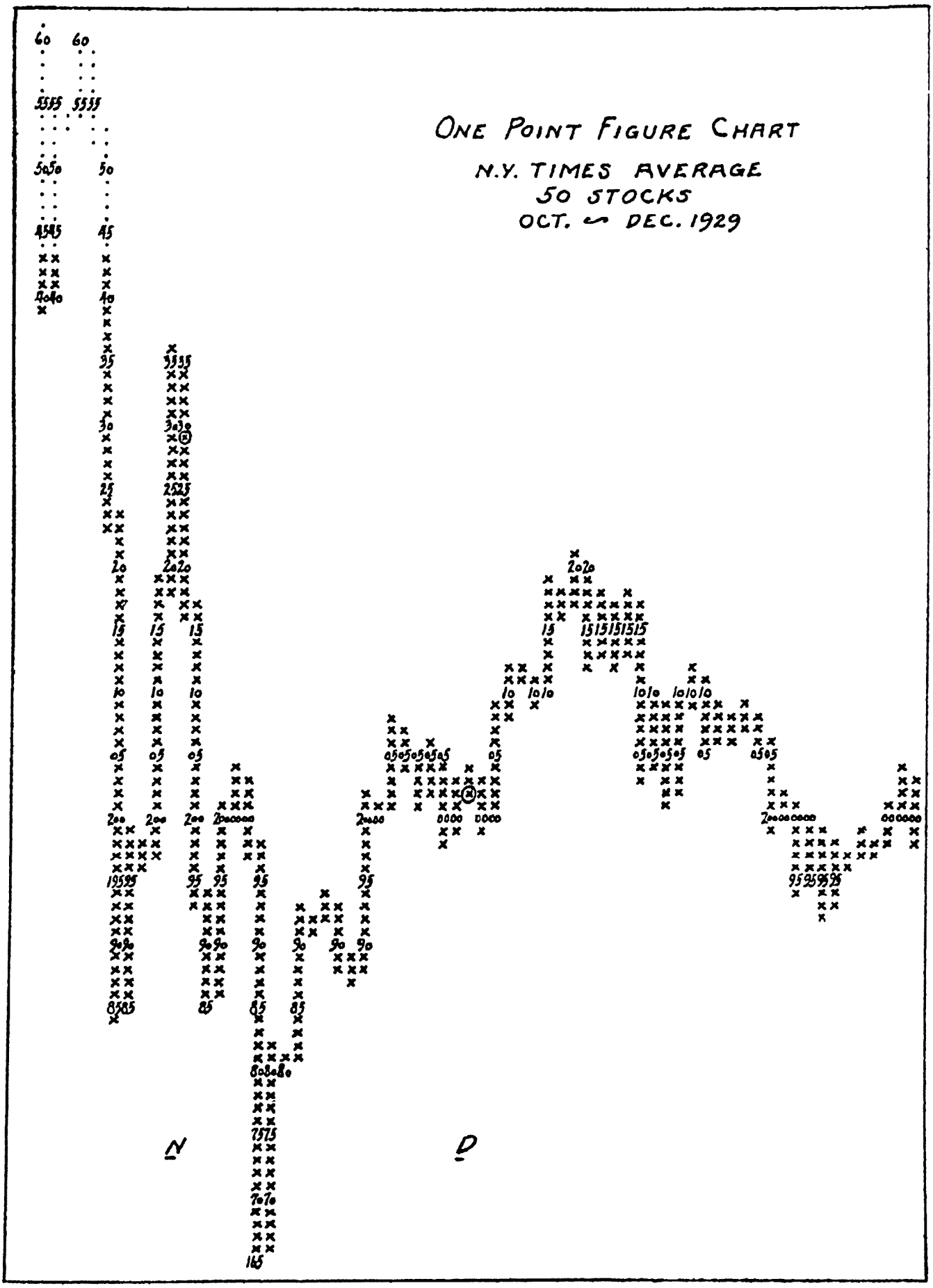
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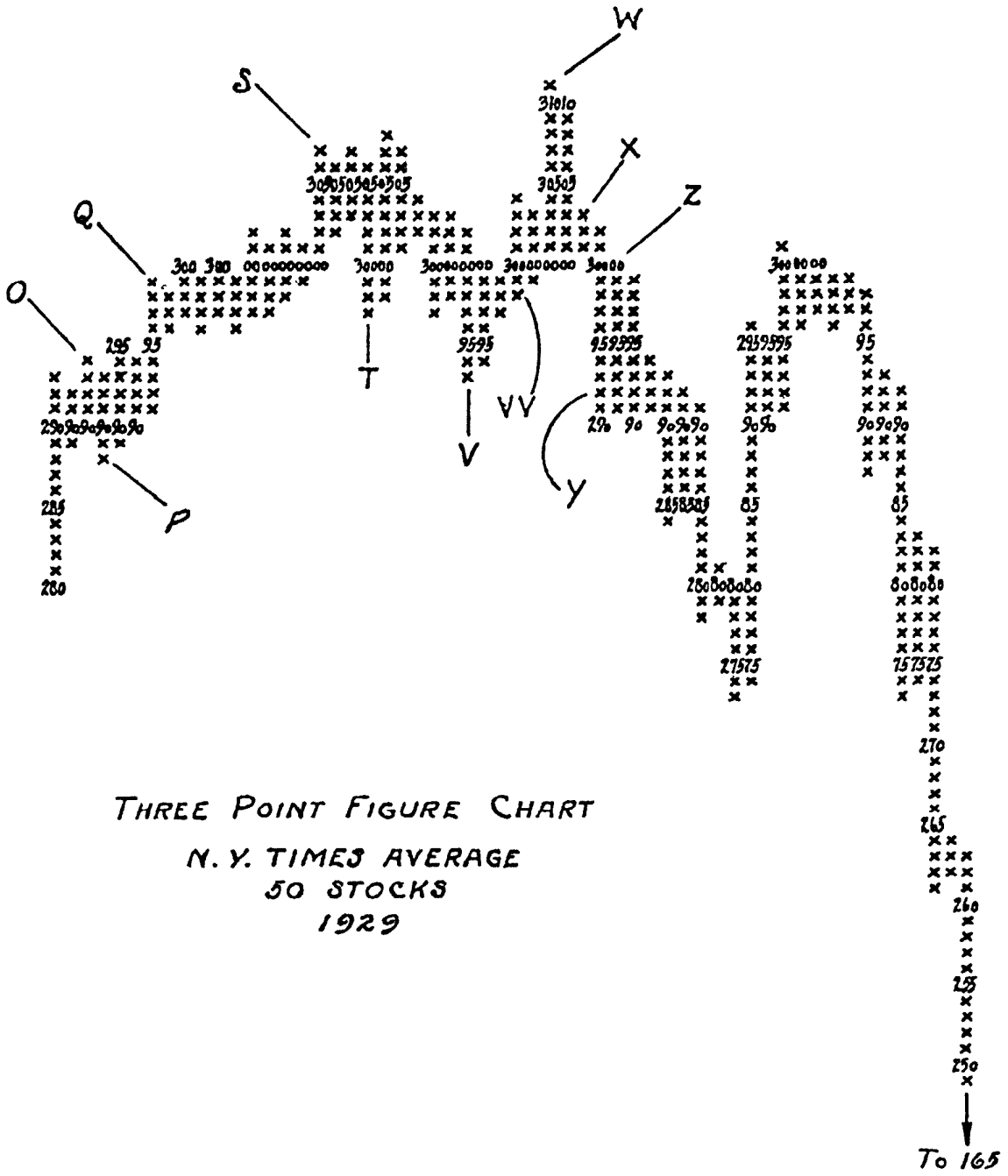
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THREE POINT FIGURE CHART

N. Y. TIMES AVERAGE
50 STOCKS
1929

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MARKET TECHNIQUE

Volume Studies

As a preliminary to further studies, we sum up, in the following general observations, what we have learned in preceding sections.

Supply and Demand. Always keep these facts in mind: Prices move up and down in accordance with the Law of Supply and Demand. This is true of the stock market as a whole, and of every individual stock which is dealt in on the exchanges. It is true of bonds and commodities.

When demand exceeds supply, the price rises.

When supply exceeds the demand, the price declines.

When supply and demand are equally balanced, the market or a stock, or a commodity stands still. By this is meant: It fluctuates within a narrow range.

Traders and investors are influenced to buy and sell as a result of the news, earnings, dividends, reports, hope, fear, and the tips and rumors that flood Wall Street every hour of the session. Whatever the cause of the buying and selling, the result is added pressure on the market, of support under the market. One's ability to judge the comparative support and pressure — supply and - demand — is the measure of one's success in trading and investing.

Some of the supply or demand may be artificial — a result of manipulation; but this is an advantage to the expert investor and trader because the manipulator, through his operations, helps to define the trend, which is the line of least resistance.

Technical Position. A market (or a stock) is said to be in a weak technical position on the bull side when the buying power has been exhausted, either in a small or a large way. A campaign of distribution exhausts buying power in a large way because much of the floating supply of stocks is then in the hands of

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traders and the public. Sponsors and large operators have sold. Those of the public who still hold these stocks are potentially bearish factors because, having bought, they must sooner or later sell, and their selling will bring pressure upon the market. (Sect. 9M, Pg. 6, Par. 3.)

This was the case in 1929. The whole market became saturated with stocks held by those who were looking for profit. Public buying power was exhausted.

When these holders started to sell, they found little market for their shares. As prices of stocks declined, more and more were, obliged to sell, or were scared into selling. The load of stocks on the market increased. Margins were impaired all through the list. (*) Every seller helped to force prices down and thus weakened so many hundreds of thousands of accounts. The effect of this was cumulative. Increasing pressure bore down upon the market, which was totally unable to absorb the gigantic offerings. The result was a collapse and a panic that affected everybody in every line of business throughout the world.

A weak technical position occurs in a proportionately smaller way when buying power is exhausted for the time being, as after an intermediate, or a minor up swing. A common form of this condition (on a smaller scale) may be seen in the examples previously referred to as overbought positions and buying climaxes. (For typical illustrations see Footnote, Sect. 7M, Pg. 6, and 3 point chart of Bethlehem Steel on the upthrust to 70, Sect. 11M, Pg. 10.)

A strong technical position develops when liquidation has run its course,

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* This sort of thing can happen again despite present day (1937) margin regulations. People can work themselves into panic regardless of whether they own securities outright or hold them on 55$ margin. Moreover, a panicky condition which would sufficiently impair even these wide margins might produce the same effects of cumulative liquidation as with lower margins, for when the point of exhaustion of high margins is reached, few traders are able to raise the funds needed to restore accounts to a sound marginal basis. They will then be compelled to sell, precisely as of old, when conditions are at their worst for the sellers.

In any case, the automatic restriction of accounts, which occurs when today's trader allows the market to run against him, freezes public buying power which is the same as impairing margins and capital under former requirements.

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either for the time being or more lastingly. Those who could be induced to sell or were obliged to do so, have sold. The majority of stocks are in the hands of experienced investors, bankers, sponsors, syndicates and large operators. The sellers are weak; the buyers are strong; that -is, able to carry what they have bought through whatever further declines occur. Such a condition usually prevails at the end of a big decline, a panic or depression, as in June, 1932. Sometimes the finishing-up stages of a decline — weak holdings being sold to strong buyers — require many months. The public, or such of it as has learned to operate on the bear side, is generally short at the bottom, just as it is predominantly long at the top because the public operates with its ears and emotions instead of with its thinking processes. These amateur shorts are potentially bullish factors because they must eventually cover (buy back) what they have sold short.

The same conditions, though on a proportionately smaller scale, are prevalent when supply is exhausted on an intermediate or a minor down swing. It is then that the market develops the characteristically oversold positions and selling climaxes already discussed. (Sect. 7M, Pg. 3, Footnote; Sect. 7M, Pg. 12, Par. 2; and Sect. 12M, Pg. 3, Par. 1.)

Oversold and Overbought Positions. As you can see from the immediately preceding paragraphs, oversold and overbought conditions are corollaries, respectively, of a strong and a weak technical position. In other words, an oversold position is substantially the same thing as a strong technical position; and an overbought condition is akin to a weak technical position. No precise definition can be given, whereby we may determine the exact points at which the market, or a stock, is definitely oversold or overbought. This must be determined as explained in previous references to these phenomena. The following loose definition will, therefore, serve our purpose:

Oversold Position. We consider the market, or a stock, as having de-

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veloped an oversold condition when, as a result of its failure to experience normal corrective rallies or adequate resting spells during a down swing — or because of the too rapid acceleration of a reaction or a decline — the price reaches a position where it becomes highly sensitive to short covering and to a general withdrawal of experienced sellers.

Overbought Position. We consider the market, or a stock, as having developed an overbought condition when, as a result of the too rapid acceleration of a rally or an advance — or because of the lack of intervening corrective reactions or resting spells during a prolonged advance — the price reaches a position where it is vulnerable to realizing sales and subject to the danger of a general withdrawal of experienced buyers.

Rallies and Reactions as Indicators. When, a stock rises 10 points, a normal reaction would be one-half, or 5 points. This does not mean that a stock must react 5 points after an advance of 10. It means that the extent of its reaction, after a rally or an advance is checked, should be regarded as one of the indications of its technical strength or weakness.

Strength is indicated by a smaller reaction than one-half.

Weakness is indicated by a reaction greater than one-half.

That is to say, when a stock declines 10 points, a normal rally would be approximately one-half, or about 5 points. A smaller rally would indicate technical weakness and a greater rally than one-half would indicate technical strength.

These indications should be closely studied. The tape is full of them every hour of the session and the charts reveal them from day to day, week to week, and month to month.

When a stock is "on the springboard": On the bull side a stock (or a group, or the market as a whole) is in this position following a period of preparation. This usually occurs at the bottom of a decline — though it also oc-

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curs after the price has been in a trading range, following consolidation of a previous advance in preparation for a new mark-up. The greater the decline, the more likely large operators will accumulate the stock and make it the basis for a bull campaign.

Preparation for a considerable rise usually requires several weeks or months, depending upon how much the operator wishes to accumulate and how much may be had from the sellers at prices he is willing to pay. As he adds more and more to his line, the floating supply of the stock (that is, the quantity for sale at that level — not locked up in investors' boxes) becomes less; any substantial demand for the stock would, advance the price. The operator opposes an advance (Sect. 9M, Pg. 2, Par. 6 and Sect. 10M, Pg. 2, Par. 3) until he has secured all the stock he believes he can got. His opposition consists of large selling orders placed with several brokers and through them with the specialists; so that it appears that a lot of the stock is for sale just above the present market. Floor traders and outside operators who work on stock market technique make inquiries before they buy any large quantity of stock such as: "How much is offered in the next five points up?" And while the specialists are not supposed to give out this information, it is often obtainable.

The day comes when the large operator decides that market conditions are favorable, and he is ready to let the price advance if it will; or advance it himself by purchasing more stock so as to complete his line. If he has completed his line, he will bid it up and whatever he buys (net) in this process, he will sell on the bulges so as not to increase his line above the desired number of shares. (Sect. 9M, Pg. 3, Par. 1.)

A stock is on the springboard on the bull side when the operator has completed his original line and is ready to let the stock advance (Sect. 10M, Pg. 4, Line 17). Up to that moment the supply has been artificial. He is ready to allow the demand to overcome supply. At this stage this is comparatively easy be-

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cause he has mopped up all the floating supply at that level.

Of all the times to take a position in a stock this is the best. By waiting for this psychological moment you avoid having your money tied up, paying interest on inactive long trades, and losing opportunities in other stocks. Nearly every day some stocks are on the springboard ready for a sharp move up (this may mark the beginning of an important rise), or prepared for a plunge downward, which may be the commencement of a decline of 10, 25 or 50 points.

A stock (or a group, or the market as a whole) is on the springboard on the bear side, of course, following a period of preparation, in this case distribution. This usually occurs at the top of an advance, but it also occurs after the price has been in a trading range, following a decline, in which further distribution is taking place in preparation for a new downward plunge.

Some people regard a stock (or the market) in this (springboard) position only when it breaks through an old line of resistance or support into a higher or lower field. I claim that the beginning of the springboard move is at the bottom of a range of accumulation, or in the upper levels of a range of distribution.

Examples of springboard positions have already been given in preceding pages: Section 7M, Page 5, Item 2; Sect. 7M, Pg. 8, Par. 1 and Footnote; Sect. 7M, Pg. 10, Par. 1, referring to action of the average Feb. 27th; Sect. 7M,. Pg. 15, Par. 3; Sect.7M, Pg. 20, Par. 2; Sect. 7M, Pg. 22, Par. 3 and Pg. 23, Par. 1; Sect. 8M, Pg. 16, 1st line; Sect. 10M, Pg. 4, Line 17; Sect. 10M, Pg. 5, Par. 3; Sect. 10M, Pg. 12, Par. 1; and Pg. 13, Par. 1. Other examples of springboard positions will appear in later studies.

A Study of Volumes. Much can be derived from a study of the volume of stock bought and sold in the whole market, as well as in groups of stocks and individual issues.

A small volume, that is, little activity in a stock, indicates that it is

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being neglected by traders and the public (illustrated by Safeway Stores, Sect. 21M, Pg. 4, Par. 4). When this small volume occurs at the bottom of a considerable decline, or at the bottom of a reaction or small dip, it usually indicates a lack of pressure; a drying up of the selling (illustrated by Times Average, Sect. 7M, Pg. 35, Jan. 16th to 19th and U. S. Steel Weekly Chart, Sect. 4M, Pg. 5, Jan. 18, 20 & 21).

Dullness may be induced for the purpose of accumulation (see Electric Power & Light, Sect. 17M, Pg. 25, Aug. to Nov.). Insiders may pull out all their orders to see what the stock will do if left to itself (Sect. 9M, Pg. 9, right of L and left of M). If they wish to buy, they take what is offered without bidding for it, never taking all there is, but always leaving some on the offered side to keep the price depressed: If 500 shares are offered at a certain price, they will take 200 or 300. They continue this process until they have acquired a substantial part of their line, after which they may begin to bid for all they can get up to a certain point (Sect. 17M, Pgs. 8 to 12, and chart Pg. 25) or until they see that they are attracting an outside following. Then they will withdraw their orders (Sect. 16M, Pg. 5, Par. 1) and let the stock sag and turn dull in order to deceive the public into thinking there is no further interest in it.

A small volume may have a different meaning at the top of a rise, or a rally, or a small recovery. This frequently is a bearish sign (Sect. 9M, Pg. 9, under K and Pg. 10, at QQ). It indicates that demand has been filled, or has dried up. The stock will probably go lower because demand is lessening and supply will likely overcome it.

There are exceptions to the above indications, however. Thus a small volume and narrowing into small price movement after a rise may mean that the stock is resting and digesting its previous gains, instead of reacting, prior to a further advance (Sect. 17M, Pg. 14, Par. 1). Therefore, in judging volume indications, we must always be careful to take into account the action preceding a par-

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ticular volume indication as well as all of the other technical influences prevailing at the time the volume indication is given.

Dull periods generally correspond to the end of a chapter in a book. A new chapter begins sooner or later.

An increase in volume of trading is usually very significant. When volume builds up fairly consistently on an advance (Sect. 7M, Pg. 35, Feb. 7 to 11; Sect. 9M, Pg. 9, Q to S), a further rise may be expected. On a decline, a tendency toward increasing volume or failure of volume to diminish materially usually forecasts lower prices (Sect. 7M, Pg. 33, Feb. 25 to Mar. 2 and Sect. 9M, Pg. 10, at PP).

An unusual increase, that is, a sudden surge in volume, generally indicates the culmination, or approaching culmination, of a movement. (See Buying and Selling Climaxes, Sect. 7M.)

Whereas bear markets generally terminate in narrow price movements to the accompaniment of low volume and listless trading, bull markets terminate in relatively wide price swings accompanied by high volume and more or less feverish activity.

It is the change from dullness to activity (regardless of the absolute, i.e., the actual volume), or the reverse, which is important; and the manner in which the change occurs. These changes put us on guard to watch for further indications which will either confirm or deny the direction of the trend in which the change occurs.

Suppose a stock were traded in at the rate of 2,000 shares a day for many days, within a range of 2 points. This would be merely a trader's market in that stock. But if it should break down through its former supporting line, and the volume should increase to 3,000 or 4,000 shares a day, this would be a relatively large change, indicating an increase in the supply sufficient to overcome the proportionately smaller demand. The volume of stock wanted by buyers may not have shrunk, but the increase in the quantity coming to market

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would be more than these buyers were able to absorb. So the price would decline, and the effect of its declining under these conditions would be to induce more people to sell, thereby adding to the supply.

If a stock advances 5 points on transactions of approximately 60,000 shares a day and on a two point reaction the volume drops off to about 15,000 shares, the indication is that comparatively little stock is for sale, and that it is merely having a resting spell. Those who want to get out can do so. Indication of a further advance would be a gradual dropping off of this volume during the reaction until hardly any trades in that stock appear on the tape (or volume becomes quite small on the chart). But when the volume again increases and the price advances, particularly if it goes through the former high, a considerable further upward move may be anticipated.

The above paragraphs are intended merely to give you the general idea of what to look for when studying volumes. It is not feasible to lay down fixed rules for interpreting increasing or decreasing volume. Such arbitrary rules would be more deceptive than useful or reliable. They would have to be qualified by too many exceptions. You will appreciate the reasons for this as you continue with your studies, if they have not already become apparent from what you have learned in Sections 7M and 10M. Remember: Stock market technique is not an exact science. Prices are made by the minds of men. In drawing deductions we must play the role of detectives, seeking clues by judging the psychological reactions of all of the buyers and all of the sellers — weighing their motives through observation of the circumstances leading up to and existing at the time a change in volume occurs.

Therefore, instead of attempting to formulate rules for the treatment of volume we shall develop this important subject more fully through additional practical illustrations in succeeding sections.

First, however, let us consider the following useful, if homely, analogy

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to further clarify the significance of volume behavior and the way to interpret it properly. Thus, volume is to the price movements of stocks as gasoline is to the automobile. If you step on the accelerator of your car, giving the motor more gas, the car will start to travel faster. The more gas you feed it the greater will be its momentum. Now, when your car has acquired considerable momentum, if you throw out the clutch and coast, your car will travel a considerable distance on its acquired momentum. On the other hand, should you merely give the accelerator a temporary tap, releasing it immediately, you will not give the car a great deal of momentum and hence it will not roll far if you allow it to coast.

This analogy applies to the stock market in the sense that, if volume increases temporarily, the price movement has been given little gas, hence that particular move is likely to die out quickly because it has not acquired momentum. On the other hand, if volume begins to expand, continues to increase consistently, growing larger and larger, then we have an indication that the public is participating; that the price movement is getting more and more gas; that it is building up momentum. Under these conditions, the movement naturally tends to perpetuate itself and does not reverse as rapidly or easily as in cases where the volume increases are small, temporary or isolated.

It follows from the above that the daily volume of trading affords a very good clue as to the extent of the public's participation or the willingness of traders and the public to follow a given price movement; and to the probable momentum of the movement. For instance, when the daily volume of trading in the market as a whole averages around, say 700,000 to 500,000 shares or less, the indication is that there is little public participation and that the trading has become largely professional. Accordingly, should volume increase suddenly in one day to, say, 1,000,000 or 1,250,000 shares, the strong probability is that this abnormal expansion, being temporary, will mark a temporary or perhaps a more

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important turning point. On the other hand, if volume tends gradually to build up from, say, 1,000,000 to 1,500,000 and then to, say, 2,000,000 shares — that is, builds up fairly consistently — then we have an indication that the public is coming into the market; that the price movement then in progress is likely to carry on for a considerable time; that the market is not likely to reverse its movement sharply or suddenly until its accumulated momentum is checked by the application of braking power, expressed in flattening out of the movement; that is, no material further progress with volume still relatively large.

The figures mentioned above, of course, are not meant to be used as a permanent standard of comparison against which you may measure the daily volumes of future markets. They are used merely to emphasize the principle that it is the relative change in the volume of trading, rather than the more magnitude of the daily turnover, that is significant. Thus, if a condition should arise wherein the daily turnover should run between 200,000 to 300,000 shares over a considerable period of time and a sudden increase should bring a rise to 500,000 or 700,000 in one day, that would then be a significant change. And, if volume should gradually build up to, say, 750,000 to 1,000,000 shares after such a period of 200,000 to 300,000 share days, such a consistent increase might indicate public participation, notwithstanding the fact that public participation in other years may have been measured in terms of four to five or more million shares (as in 1926-29); or two to four millions (as in the early 30s).

The whole theory of supply and demand is briefly but clearly shown in the above paragraphs. The principle is old; it is easy to understand. Very few people apply it.

Always remember this: An increase or decrease in volume is significant. Gradual or sudden increases or shrinkage will assist you in detecting turning points; determining the trend; when to open or close a trade; when to change your stops; when a move may be culminating or about to culminate.

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Volume of Individual Stocks. What has been said above about the market as a whole applies generally to the volume behavior of individual stocks and groups of stocks. However, since the action of individual stocks reflects the purposes of the interests who are dominant in them, we frequently find individual issues exhibiting habits or characteristics peculiar to themselves. (Sect. 9M, Pg. 2, Par. 2.) We must study these habits so we may take them into account when making deductions. For instance, some stocks tend to top out their moves on heavy volume, others on relatively light volume, some tend to bottom out on heavy volume, others on light volume. Again, there are many which may move more or less independently of the market for long intervals.

Types of Sponsorship. Some stocks are actively sponsored while others have passive sponsorship. Issues in the former category are those which are habitually active, tending to swing readily with rallies and reactions, advances and declines in the general market and having relatively heavy daily turnover — in short — the speculative favorites.

Passively sponsored stocks are those which are prone to swing in narrow ranges, participating sluggishly or not at all in the swings of the averages for long periods of time.

The actively sponsored stocks exert a considerable influence upon the market as a whole because traders watch the action of these issues for cues to the trend of the whole list. Passively sponsored stocks lack this quality of leadership.

Now and then certain passively sponsored stocks may be brought to life and whirled upward so that their sponsors can realize a quick turnover designed to reimburse them for the cost of maintaining a satisfactory market between moves — but the objectives of such campaigns are apt to be limited as a passive management is not so much concerned with speculative exploitation as with a desire to maintain the investment status of stocks under its wing.

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A stock may pass from one class to the other — but it usually takes the public at large a long time to sense the change. This explains why so many people continue to operate in, and eventually find themselves hung up with, onetime speculative favorites now become dormant. Sometimes also, a stock may pass from one category to the other and back again. A change in the character of sponsorship may be indicative of a change in the investment or the speculative quality of a stock. (Sect. 9M, Pg. 2, Pars. 1-5.)

The alert investor, who makes it his business to keep abreast of significant technical developments, is able to read the intentions of these dominant interests without prejudice; knowing that a stock, by its own action, by a change in its habits and especially by its volume behavior, will usually disclose what may be expected of it.

And, should he find it difficult to single out the individual stocks that are most likely to move soonest, fastest and farthest when he has arrived at a decision respecting the general market's trend, he will seek to secure a substantial slice of the indicated move by spreading his funds over five or more of those issues which, by their recent habits, have revealed active management.

Chances are that a reasonable percentage of these will move, inasmuch as an active sponsorship is likely to take advantage of the trend by pushing its favorite into public notice.

Price vs. Quantity. The sponsorship of most low-priced stocks is passive or inert because these issues attract the largest following. And this is so because the public nearly always thinks in terms of price and the maximum number of shares it is able to carry. Active managements dislike to move an issue in the face of a large following — they have nothing to gain by giving the public a free ride. The big fellows prefer to let outsiders in when it will serve their purpose best, namely, when they are actively marking up and distributing. If they see a chance for a good move, but find too much company in their stock, they

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will first try to shake out, or tire out the premature bulls.

Higher priced issues move more easily, as a class, than low-priced stocks for the above reasons. The public is afraid of high-priced issues and doesn't like them anyway because it can't load up with them.

Of course, experienced investors know that price alone is not a sound criterion of quality or value. A high-priced stock may not indefinitely remain a safe investment. But, as you acquire understanding, you will recognize that your only concern should be with the possibilities of a substantial change of price — hence with the number of points any stock may move. And so, instead of basing your selections, as most people do, on the maximum number of shares you can fit to your pocketbook, you will base them on the indicated maximum number of points profit you can see ahead, as shown by your own analysis.

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THE SIGNIFICANCE OF TREND LINES

To draw an analogy from the science of physics, we might say that when a stock (or the market) is being accumulated, it is storing up a force (of demand) which, when later released, provides the motive power for the ensuing upward movement. And, when the force of this accumulative demand is finally released, it gives the price movement a certain momentum which it tends to hold until it is turned off its course by weakening of the original force or by a new force sufficient to compel a change of trend. An indication that the force of demand may be dying out on a rise or encountering a superior force of supply is given when the price movement evinces a tendency to flatten out or arch over.

Conversely, in a zone of distribution, a force of supply is being stored up which eventually overpowers the weakening force of demand, driving the price downward until the force of supply is exhausted or demand is revitalized and builds up sufficiently to bring about a state of comparative equilibrium (trading range). Thus, a downward movement also acquires a certain momentum which it[1] tends to hold until it is turned off its course by weakening of the original force of supply or by a new force sufficient to compel a change of trend. An indication that the force of supply may be dying out on a decline or encountering a superior force of demand is given when the price movement shows a tendency to level off or round upward.

The stride (i.e., the momentum) of an upward movement is reflected in the angular upward climb of the daily vertical bars on our vertical line charts; and the pace of a downward movement by their angular downward pitch. The eye may not always see the pitch of these angular swings clearly because of the confusing effect of minor irregularities of the price movement as recorded on charts. Therefore, it is frequently helpful to employ Trend Lines for this purpose. Thus, examination of the accompanying charts will show how the angle of ascent

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or descent of prices may often be visualized more clearly by drawing straight lines through the successive tops or bottoms of the price path established during the minor, intermediate and major moves.

Occasionally, the momentum produced by the forces of demand and supply will become so plainly marked as to develop a well defined zone of activity; that is, the alternating buying and selling waves form a price path or channel whose upper and lower limits are easily identified by a series of tops and bottoms confined within parallel, or nearly parallel, lines. (See Pg. 14.)

Lines drawn as explained in the two preceding paragraphs are called Trend Lines. And for the reasons given on the preceding page, these trend lines serve to define the stride of the price movement, thereby frequently directing our attention either to possibilities of an approaching change of trend or to an actual reversal. For instance, when it appears that a movement is beginning to level out in the vicinity of an established trend line, such action may be regarded as a gesture warning us to search for other possible indications of an impending change of pace or a change of trend. In like manner, the intersection of an established trend line by the price path of a stock or an average may be <u>one</u> of the symptoms of an actual reversal of trend.

To repeat the above in another way so you may grasp the idea clearly:

(1) The threatened violation of a trend line often (but by no means always) may signify that the force of demand or supply which was formerly in effect is now becoming exhausted. This may either mean that the price movement is merely changing its rate of progress, or it may mean that the trend is definitely in danger of being reversed. Our decision either way must depend upon the other factors which are pertinent to a complete diagnosis.

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(2) The actual violation of a trend line often (but by no means invariably) may signify that the previously effective force of supply or demand has been overcome by a new force which is causing a new trend to develop. However, as before, we must look to the other accompanying symptoms for our decision as to whether this one indication alone (i.e., the violation of a trend line) may be accepted as true or false.

These instructions should be thoroughly understood because, unless you are careful, you may find you have a tendency greatly to exaggerate the importance of trend lines and an inclination to employ them in a purely mechanical way.

It is bad practice to buy a stock simply because it has penetrated an established supply line or broken out of an extended congestion area; or to sell it merely because it has violated a line of support or broken through the bottom of a trading zone, and for no other reason. Do not forget: The breaking of a trend line, by itself, is neither a conclusive nor an all-inclusive symptom. The significant thing is HOW the line is broken; the conditions under which the change of stride occurs. The behavior preceding such an indication must also be taken fully into account.

In short, the quality of the buying or the selling at and around the point of penetration determines whether the violation of an established stride may be regarded as evidence of a further movement in the direction of the breakthrough, or whether it means only temporary change. This admonition applies equally to the violation of former tops and bottoms and old levels of resistance and support.

After an average or a stock has moved some distance in a given direction, it may encounter sufficient resistance to that particular movement to cause it to modify its pace, or to rest. During the resting spell (lateral movement or

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trading range), the force that was originally operative may be renewed or even greatly strengthened with the result that the move will be resumed with greater momentum than before.

For instance, in the case of an advance, the angle of ascent may be leisurely for a time and then become pitched more sharply upward as the original force of demand is renewed by fresh buying from the sponsors of the move and the public, and perhaps by expanding enthusiasm of bullishly inclined traders and investors. Or, a rapid advance may be followed by further gains at a slower tempo.

Under these conditions it becomes necessary for us to relocate our trend lines to conform with the newly established stride. Thus it is apparent why you cannot accept the mere breaking of a trend line at its face value — why it is imperative for you to study contemporary technical manifestations in order to determine whether a conclusive indication is being given by the violation of the trend line alone.

You must also be careful to avoid drawing trend lines indiscriminately, especially on every minor move. The correct handling of trend lines calls for good judgment. With bad judgment, the use of trend lines will produce confusion and introduce fallacies into your reasoning.

The reason why you must be especially careful about trying to apply trend lines to minor moves is this: Every congestion area (horizontal formation) which develops on your charts cannot arbitrarily be regarded as either a zone of accumulation or distribution. Many of these formations may be nothing more than trading ranges which might be extended indefinitely; they may represent zones of comparative equilibrium; areas in which only small forces are at work, hence minor dips and bulges (small rallies and reactions) tend to neutralize each other. (See Sect. 14M, Pg. 12, Pars. 2, 3 & 5.) Bear in mind that a decisive price movement cannot be expected to occur until there is evidence that the forces of supply or demand have been built up, and then become unbalanced, sufficiently

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to generate a sustained swing. Therefore, take care to analyze the behavior of an average or a stock while it is forming these congestion areas to make sure that such formations actually do signify accumulation or distribution.

With the above mentioned controlling and modifying influences in mind, you will find an intelligent use of trend lines is frequently helpful in judging the points at which you may expect the price:- (1) To be supported on reactions; (2) to meet resistance on rallies; and (3) to approach a critical position in its travel from one level to another. They will also help you to foresee possibilities of an impending change of trend before it actually takes place.

Thus, as average prices, or prices of individual stocks, approach or touch these lines, we are given a strong hint to search for additional clues of a turning point. Special opportunities are frequently afforded the alert trader for buying or covering near a support line or an oversold position line; or for selling out or going short near a supply line or an overbought position line.

A Support Line is that line which identifies the angle of advance of a bull swing by passing through two successive points of support (the low points of two successive reactions). Example:- Lines A-C, E-G and N-P, Page 14.

A Supply Line is that line which identifies the angle of decline of a bear swing by passing through two successive points of resistance (top of rallies). Example:- Line J-L, Page 14.

An Oversold Position Line is that line which is drawn parallel to a supply line and passes through the first point of support (reaction low) which intervenes between two successive rally tops in a down trend. Example:- Line K-M, Page 14. Note that K is the first point of support intervening between the two successive tops, J and L.

An Overbought Position Line is that line which is drawn parallel to a support line and passes through the first point of resistance (rally top) intervening between two successive points of support in on up trend. Example:- Lines B-D, F-H, and O-R, Page 14.

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Because of the greater sensitivity of vertical charts and the fact that the extremes of rallies and reactions, advances and declines, are shown to the last fraction on these graphs, it is always best to locate trend lines first on the vertical charts. Then, by observing the points on the figure charts which most nearly correspond with the more important of our vertical chart trend lines, we are able to duplicate the latter correctly on the figure charts. A more complete explanation of the relative merits of vertical chart versus figure chart trend lines will be set forth presently (Pg. 11).

Meanwhile, the following will illustrate further how to establish trend lines in a logical manner and how to use them in a practical way. For the purpose of our first illustration, we reproduce a portion of the chart appearing in Section 9M, page 9. Referring to this reproduction (Page 15, this Section), it will be seen that after the reaction to G, we are able to distinguish two well defined rally tops, the first at 35 5/8 (D) and the second at 33 7/8 (K). Accordingly, if we draw a straight line through the extreme tops of these two rallies the moment the second high point (K) is distinguishable — which would be when the price has reacted to 30 1/8, near L — we find that the extension of this supply line to the right, across the page, helps to define the approximate limits of subsequent rallies until the price develops sufficient sidewise movement (out to M) to indicate an impending change of stride.

To express this in a different way: When we see that the lateral movement beginning at L is stretching out to the right at M, we are able to decide in advance that any material rally, developing out of this sidewise movement at its right-hand extremity, would have the effect of pushing the price up through our previously established down trend supply line D-K. Such a break-through would imply a change of stride of some importance since the stock has been hovering dangerously close to a critical support level (the line of 30s) and appears now to have reached a position from which it must soon show ability to

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rally, for otherwise it will be vulnerable to a bearish attack (Sect. 7M, Pg. 16, Par. 1, and Sect. 16M, Pg. 13, Pars. 2-4). If, however, it is able to rise through the supply line with some degree of power, that is, either with increasing volume, or by a material gain in price, or both, we shall have a fairly conclusive indication that the force of demand generated in the range of 30-35 (A to M) is finally being released — that a worth while upward move is probably beginning.

It is important to note that we are able to anticipate just such a breakthrough before its actual occurrence and to take a long position before the advance begins because our study of the stock's behavior in the formation A to M has already led us to conclude that it was in preparation for a substantial rise. (See Sect. 10M, Pgs. 2 to 4.) And the sharp shrinkage in volume on the last dip to the supporting level at 30 (M), plus the quick rebound to 31 1/4 (N) tells us that the available supply now has been largely exhausted — offerings have become scarce at this level — the operator has succeeded in creating a set of conditions which are ripe for springing the force of the demand that has been steadily accumulating.

The advance to R enables us to establish the trend support line M-Q which represents the angle, or rate of acceleration, of the first phase of the bull campaign in this stock. Extending this line to the right, we find that after the rise is temporarily accelerated by a sharp run-up to 40 (T), the price recedes for three days toward this line of support in what we conclude is a normal corrective reaction. We reason that if it recedes further, we may expect the price to hold on or around this line of support. It does hold, for on the quick further dip to 35 7/8 (at U) there is an immediate rebound, marked by a closing at the high, as the price almost touches our established trend line. Thus our trend line has given us a helpful hint, in advance, as to the point at which we might reasonably look for new demand (support) and the probable place where this particular reaction should end.

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After the mark-up to 46 7/8 (right of X), we must readjust our trend support line because the increasing momentum of the rise from X brings a new phase of the advance which implies that the operator may now be in a hurry to wind up his campaign. This new line, of course, runs from U to X, but, after penetrating the extension of this line (left of Z), the stock reacts only a little further and then quiets down, leaving us in doubt whether our trend line indication is a valid signal of weakness or whether it merely is evidence of a temporary condition requiring correction.

Meanwhile, we had an earlier warning that the swift pace of the advance from X to Y might not be sustained when the reaction to 47 1/2 broke the minor trend support line X-Y.

From Z onward we must wait until the stock gives some new decisive indications in the trading range 46-51 before we can again get any aid from trend lines because we have no basis for establishing new ones until another series of intermediate movements develop and we must avoid trying to establish trend lines on small fluctuation. To use trend lines on minor dips and bulges will introduce fallacies and lead to deceptive inferences.

Referring next to the vertical chart of American Tobacco B, Page 16, observe that the decline from the May 11th high point at A to the May 21st low at 60 proceeds at a downward angle whose pitch may be represented by a straight line drawn from A to the next rally top at B. Extending this line to C, we find that it helps call our attention to a possible change of trend when the sharp rally of June 14th penetrates this line decisively (at D).

Meanwhile, observe that after leaving 62 1/2 at B, the downward movement of the stock is sharply accelerated so it becomes necessary to draw a new trend supply line B-E to represent this change of pace. From the fact that this new decline is pitched almost perpendicularly, we conclude that the stock is dropping into an oversold position (Sect. 14M, Pg. 3, Par. 3). Hence, when the

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line is penetrated at F by a vigorous rally on heavy volume, after the down move reaches climactic proportions on June 1st, we have an indication that the force of the supply is being overcome by a superior force of demand and we may now anticipate the appearance of the customary technical rally which usually follows as a sequence of a selling climax (Sect. 7M, Pg. 3, Footnote). Note how this technical rally is checked (at G) as it approaches our initial supply line A-B-C, that is, within the limits of the initial down wave angle.

As shrinking volume is a normal characteristic of the technical rebound which follows a selling climax, when the price begins to hesitate at G in the vicinity of our supply line A-B-C, we are put on notice that this rally may be terminating. And so we are now prepared for the next normal sequence of events, namely, the appearance of a secondary reaction which will test the preliminary support around 44-45. This test may confirm the previous support (show that a good quality of demand exists around these levels), or it may show that support has been withdrawn (Sect. 7M, Pg. 3, Footnote). As volume remains low — or at least does not expand appreciably on the anticipated secondary reaction (June 7th and 8th) — and as the price makes no further progress on the down side during the next two days, and since the stock tends to enlist increasing volume on the rallies from higher support around 47 on June 9th and 10th, we have a set of indications implying that a broader base of support (accumulation) is forming: the force of demand is building up.

On our 1 point figure chart (pg. 17) there is now a base (across the 46 level) sufficient to sustain a possible 13 point recovery to 57-59. This indicates, in advance, that the next rally is likely to penetrate the supply line A-B-C on our vertical chart. If this expectation should be fulfilled, we shall have further confirmation of a change from technical weakness to technical strength.

In the meantime, having established a tentative support line from H to J,

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we note that the extension of this line is violated by the reaction of June 27th, at K. Is this a valid indication of further weakness? We are in doubt on June 27th because the volume increases somewhat sharply on the break-through. But since the increase is quite marked, we must consider whether this may prove to be a minor selling climax rather than a case of volume increasing on a decline. So we wait for a clearer indication. There is no follow through on the down side over the next few days. Instead, the price movement narrows, recording higher tops and bottoms; volume tends to increase on the rallies and decrease on recessions. Accordingly, we must conclude that the demand is still of better quality than the supply. Hence, when the price swings to a dead center on July 9th, having held for two weeks previously well above the June lows, we conclude definitely that the violation of our tentative support line H-J should be disregarded. The action of the stock shows accumulating strength, thereby saying that our first support line (H-J) merely represented a temporary rate of upward acceleration which could not be sustained until more energy (force) could be stored up — that is, until more of the floating supply of stock could be absorbed. This action, incidentally, again illustrates how other technical manifestations may deny the inferences which might be drawn from purely mechanical interpretation of trend lines.

After the confirmatory bullish indication is given by the rally of July 11th (Sect. 10M, middle of Pg. 4), we establish a new trend support line, H-K. But, meanwhile, note that if we have drawn a readjusted trend supply line through A and L, we are able to visualize clearly that the lateral movement of late June has had the effect of working the price into a broad apex, defined by the intersection of the supply line A-L and the support line H-K. Thus, in swinging to a dead center on July 9th, the stock is in a position to break away from this broad hinge position in a quick mark-up; it is stepping on the springboard ready to release the force of demand that has been accumulating in the range 44-54.

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As previously explained (Pg. 6, Par. 1), trend lines should always be located first on the vertical charts. This is advisable because the three factors of Price Movement, Volume, and Price Movement-Volume Relationships (Sect. 16M, Pgs. 1 & 2) determine when and where trend lines may logically be applied} and when it is inadvisable to attempt to apply them.

Sometimes, however, trend lines on the figure charts may direct attention to significant developments more strikingly than on the vertical chart a. For example, on the 1 point figure chart of American Tobacco B (Pg. 17), the significance of the apex formed by the supply line A-L and the support line H-K is revealed more strikingly than on the vertical chart (Pg. 16). Hence, it is well to duplicate your trend lines on the figure charts <u>after</u> you have determined their proper positions according to the vertical chart indications (Pg. 6, Par. 1). By comparing the supply line A-L on the vertical chart, Page 16, with the similarly lettered trend line of Pg. 17, and the support line H-K (vertical chart) with the corresponding trend line on the figure chart, you will see at once how to do this.

In case your figure chart trend line seems to give a different indication from that suggested by the corresponding vertical chart trend line, it is best to be guided by the inferences to be drawn from the .latter. Thus, note that the supply line A-B-G on the vertical chart of American, Tobacco B gives a correct impression of the technical position of that stock on the early June rally to G. The fact that this rally is checked in the vicinity of the supply line helps us to identify it as a probable technical rebound out of a selling climax (see Line 3, Pg. 9, through Par. 1). On the other hand, the corresponding supply line on the figure chart seems to give a much more positive, but misleading, indication because on the figure chart the down stride line A-B-C is actually penetrated — apparently quite decisively.

Differences of this sort may result from the circumstance that figure

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charts do not take account of the time factor as accurately as the verticals.

The charts of U. S. Steel (Pgs. 20 & 21) show additional examples of trend lines, illustrating how price movements sometimes follow regular channels as between the supply line A-C and the corresponding oversold position line B-D. The latter is located by drawing a straight line through B parallel to A-C. In other words, as soon as the down swing from 41 (A) has been sufficiently developed to enable us to identify the next succeeding high point at 35 (C), we draw the supply line A-C to mark the angle of downward acceleration. Then, at the same time, we draw a second straight line B-D, parallel to A-C, taking this latter line through the intervening low, or temporary support, point at 34 (B); extending this line (to D) so it may thereafter indicate the points at which ensuing down swings may cause the stock to become oversold.

Similarly, after the support line M-O has been established, we draw a parallel through the intervening rally top at N. This second line (extended to the right as at P), for sometime thereafter marks the limit of subsequent up waves, that is, the points at which the stock tends to become overbought. Hence the line N-P is an overbought position line.

In general, trend lines applied to major and intermediate price movements, of course, are more important than minor trend lines. Which is to say, that a decisive violation of an intermediate trend line usually implies possibilities of a relatively more extensive continuation of the move in the direction of the break-through than in cases where a minor trend line is conclusively violated. A notable exception to this presumption occurs when the market, or a stock, has worked into a position where indications of a change in the minor trend would be likely also to signal the beginning of a new intermediate or major trend.

The figure chart of American Tobacco B (Pg. 19) illustrates the location of typical trend lines on a 3 point chart showing how the stride of intermediate and major swings may be quickly and conveniently observed on this type of graph,

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which condenses a great deal of history into a small space. On this chart, we begin with a tentative trend support line A-B but later we must add the support line B-C because of the increasing momentum of the next phase of the bull movement. Similarly, the supply line D-E represents the initial momentum of a bear cycle and the supply lines E-F and G-H the increased pitch of the angle of decline in its later phases. The line a-b is the overbought position line for the A-B advance, and the line m-n is an oversold position line for the M-N decline.

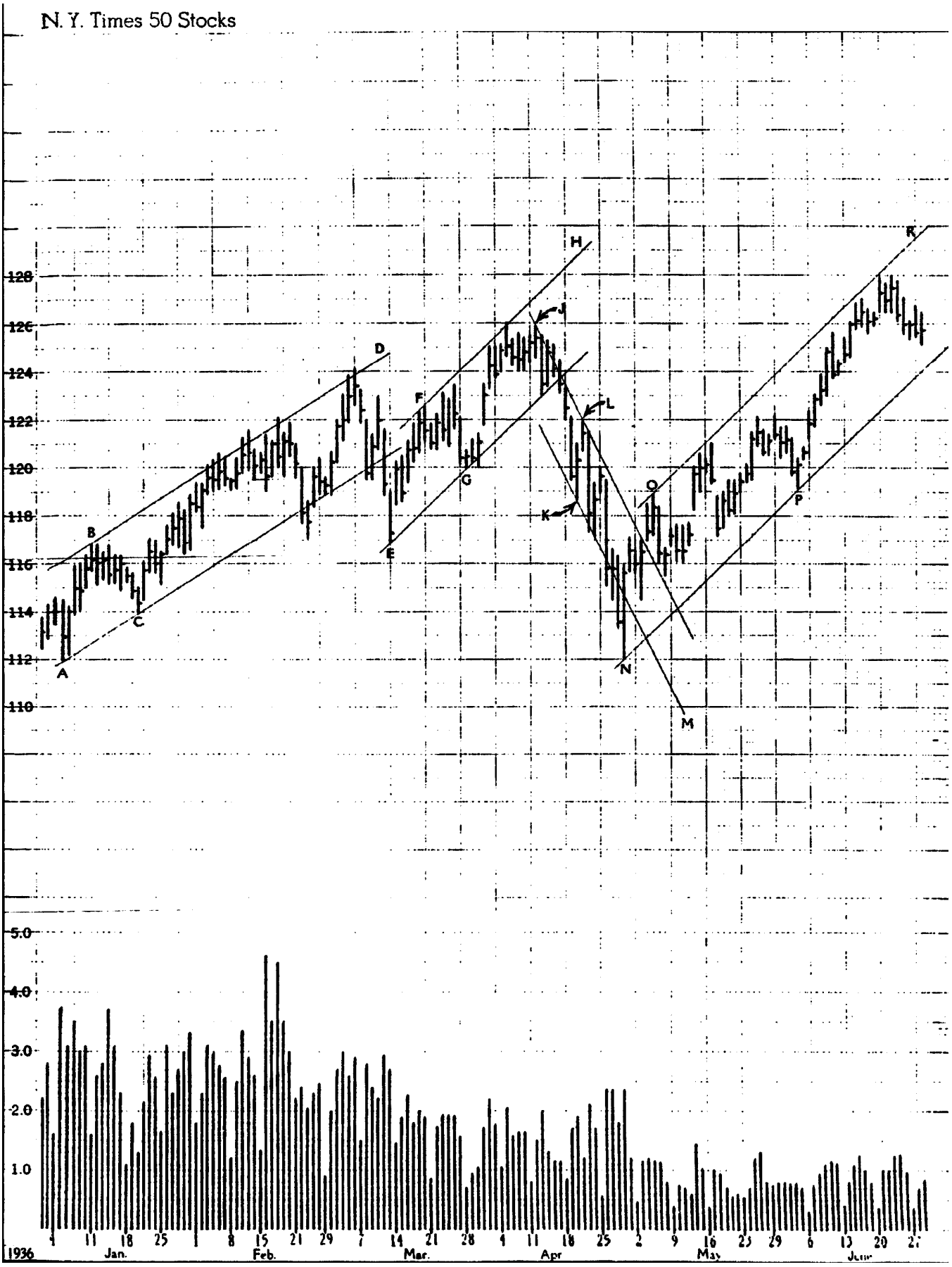
By studying the herein charts carefully, you will notice that when the price movement exhibits a tendency to stop short of, or pull away from an established oversold or overbought position line, such action frequently conveys a strong hint of an impending change of pace, or a change of trend. (See explanatory notes on charts, pages 32 to 35, Sect. 22M, for graphic illustrations of this principle.) However, the probable importance and extent of the implied change, as well as the validity of the indication, must be judged in the light of all other technical factors influencing the behavior of the stock (or average) under observation at the time the above mentioned action is observed.

Therefore, by employing discretion in the use of trend lines, taking care to weigh <u>all</u> of the factors involved in a <u>complete</u> diagnosis of market action, you will find that trend lines can be handled intelligently and to your advantage. But their principal value is in affording you hints, or clues, rather than positive indications.

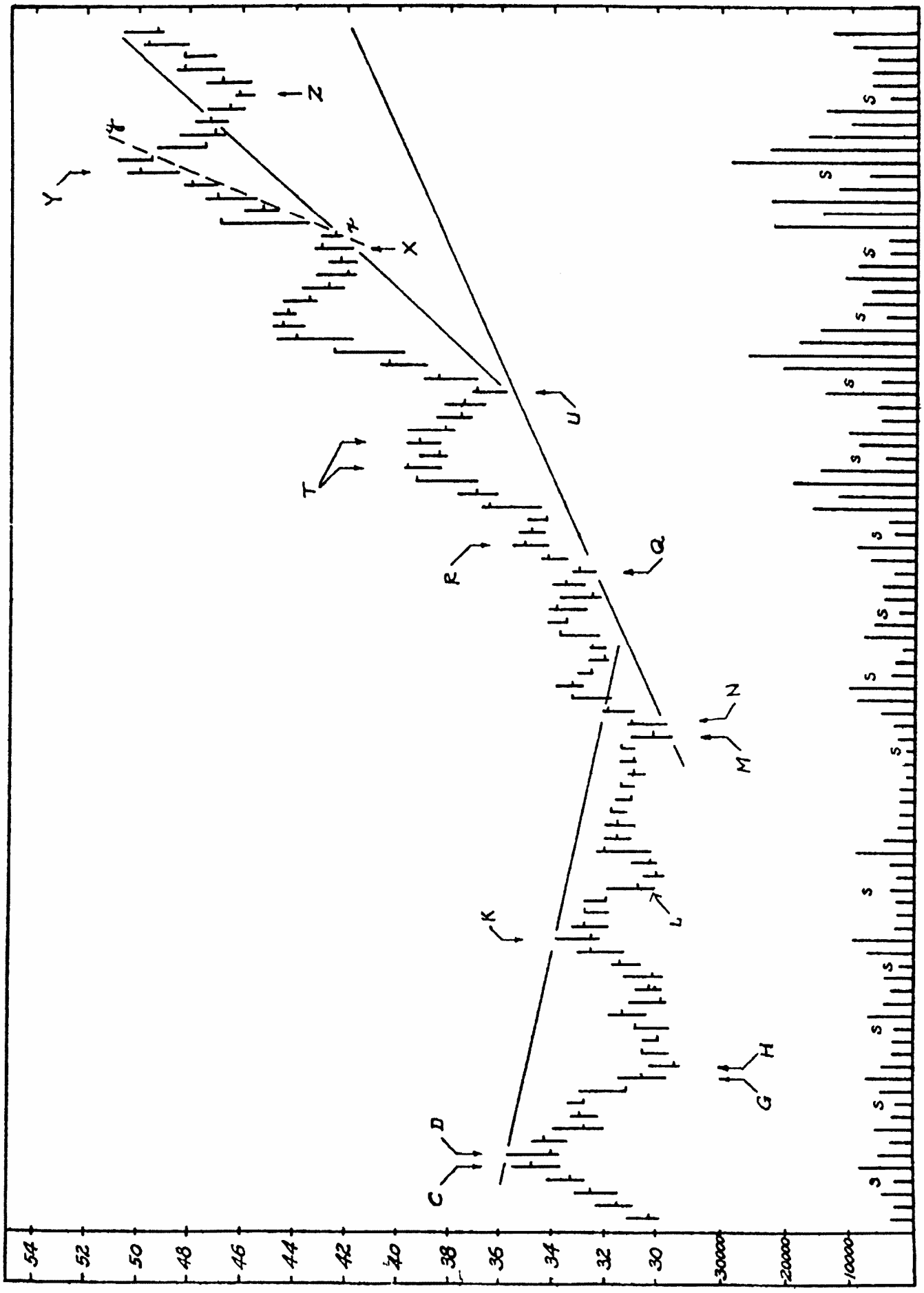
<u>Never</u> undertake to draw conclusive deductions from trend lines alone.

Let other people employ them as mechanical panaceas if they wish. YOU are studying the correct principles of market forecasting because you do not want to be in that "sucker" class of calculating machine forecasters.

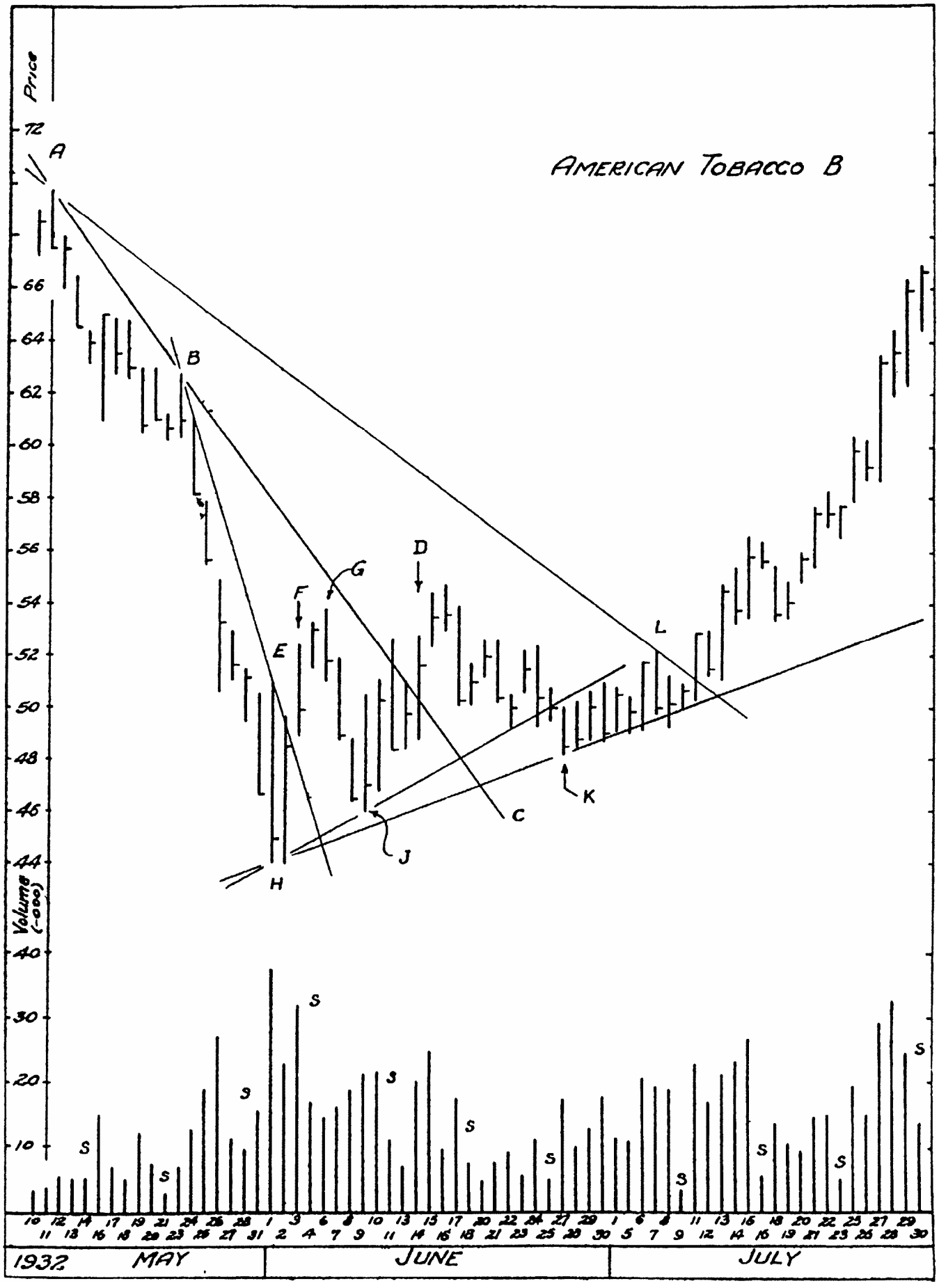
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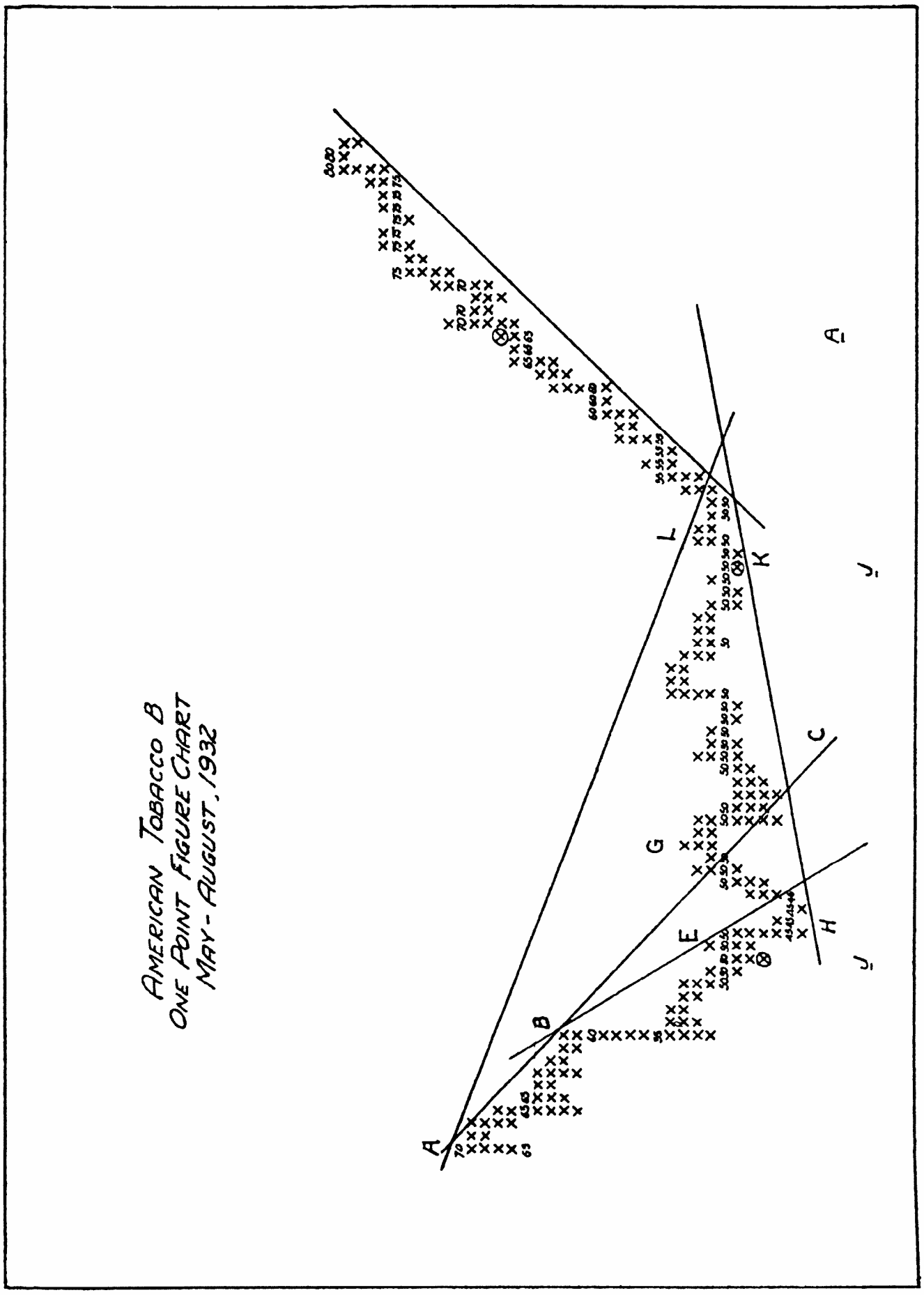
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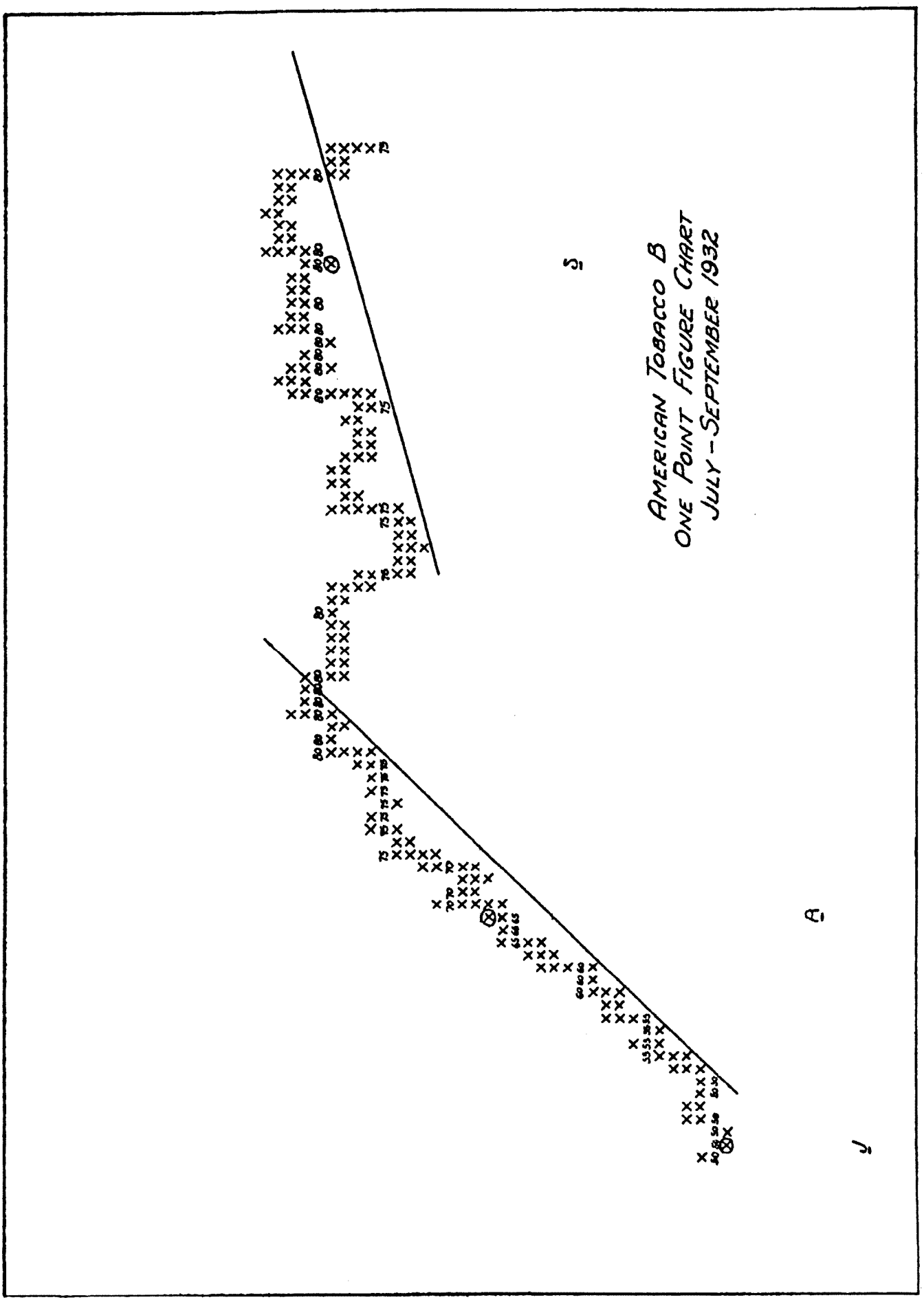
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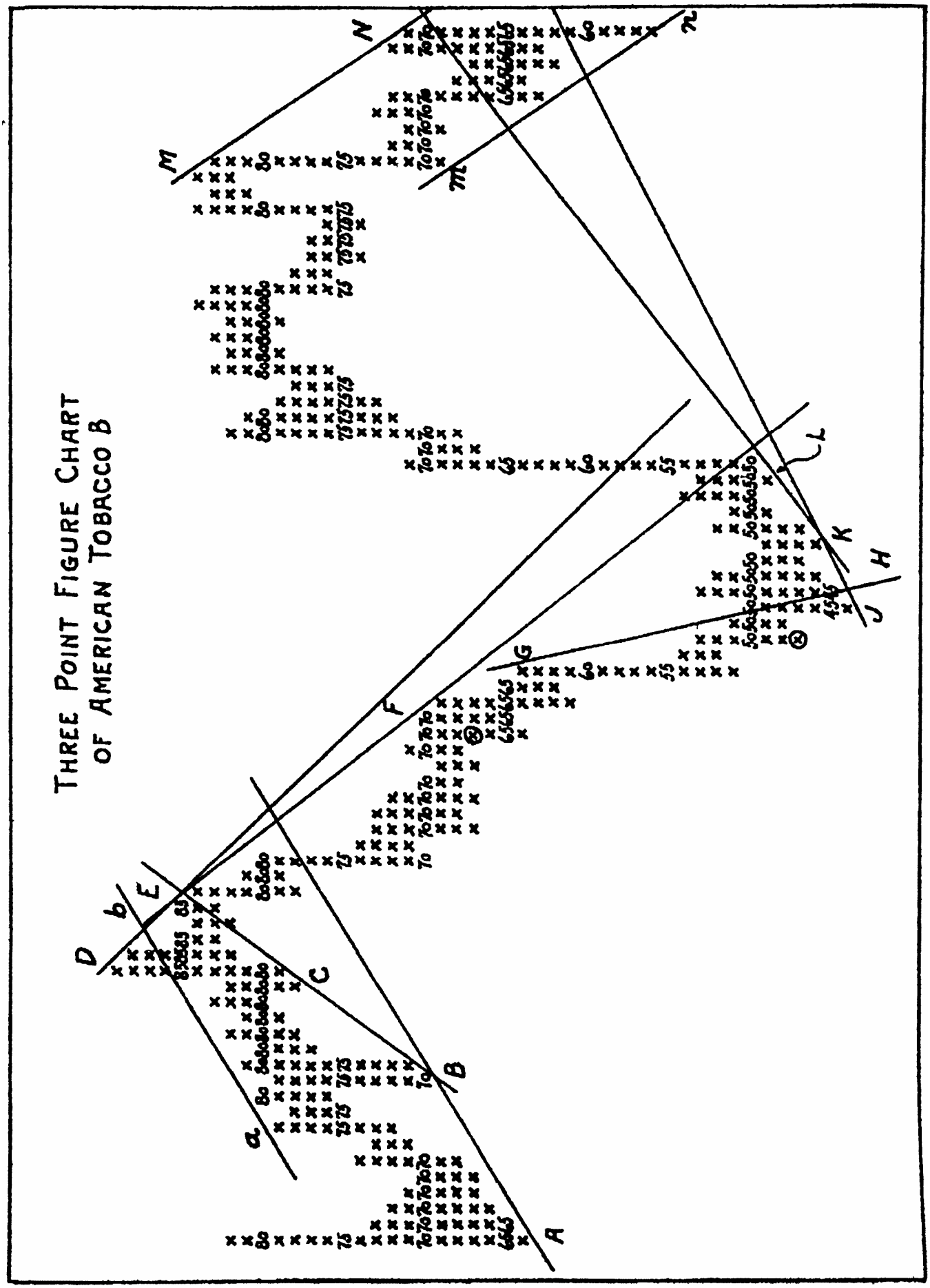
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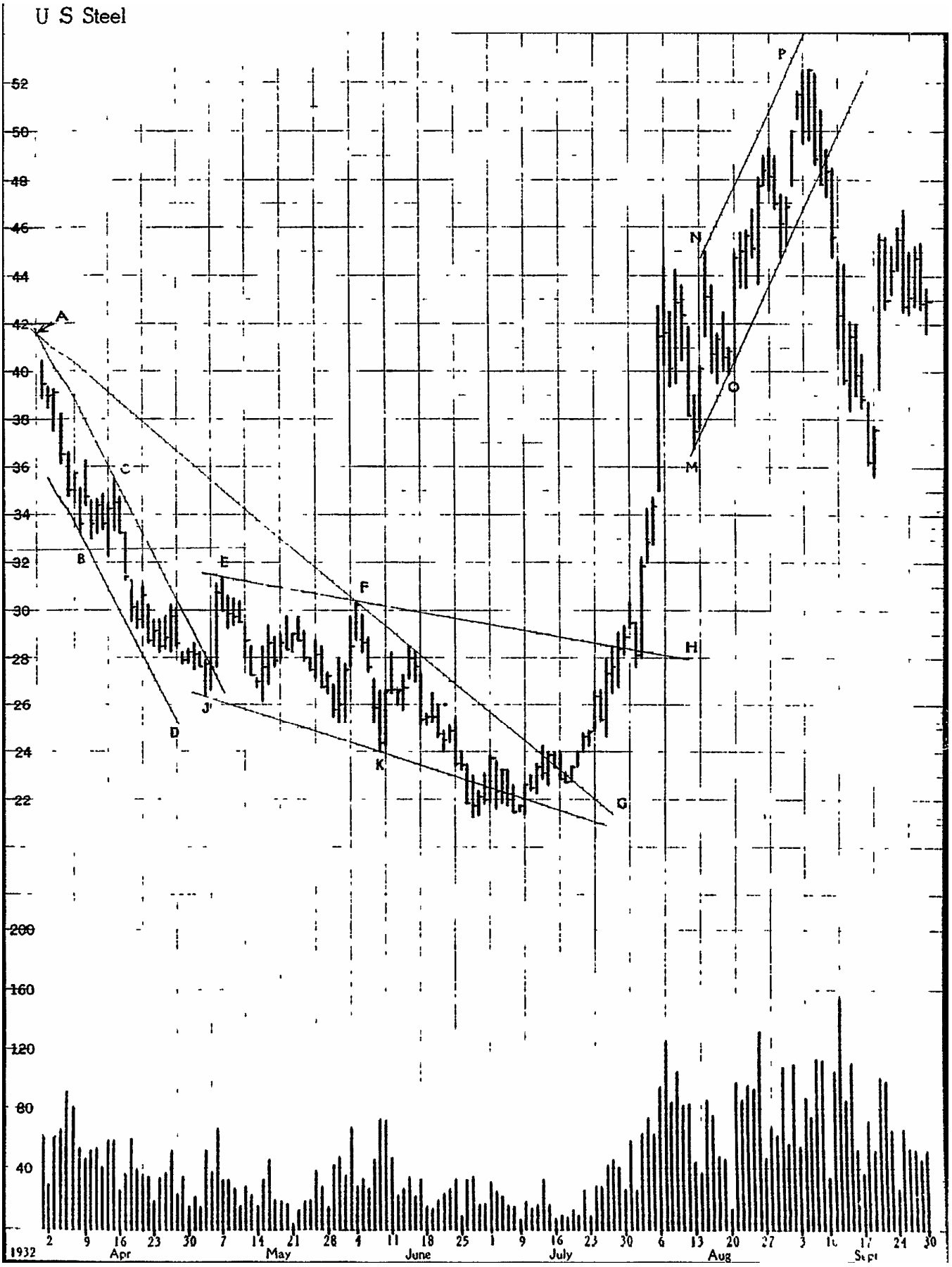


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INDIVIDUAL CHART STUDIES — PART VI

VERTICAL CHARTS

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

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

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

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

(A) Comparative Strength and Weakness.

(B) Previous Points of Support and Resistance.

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

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

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

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

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The Volume factor is vital in:

(E) Identifying Buying and Selling Climaxes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In the illustration to follow, we shall apply the above principles first

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

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

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

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

endeavor to shake then out; (Sect. 21M, Pg. 2, Par. 3 & Pars. 1 & 2, Pg, 3) or perhaps they may lay the foundation for a later advance by using both devices.

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

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

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

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

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

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

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

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

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

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

In brief, everything now depends upon how the stock behaves when it re-acts. Meanwhile, we have decided, in advance, that if the price recedes we may reasonably expect it to attempt to hold around 10 1/2, where it was supported on July 31st. Failing that, we might expect an effort to hold if it should return to the low point of July 26th. Ability to hold around 10 1/2, however, would be more to our liking. Therefore, depending upon the way the stock dips, we shall decide either to stick to our long trading position, or to get out forthwith re gardless

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of any small loss we might have to take. It is much better to take a small loss than risk a large one if our stock does not act right.

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

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

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

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

the stock will confirm the bearish implications of this sudden whooping up maneuver.

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

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

On this reaction (August 14th to 18th) volume is very small, at the same time showing a distinct tendency to taper off as the price falls back halfway to the previous support point of 10 5/8 (the low of August 6th). This says the stock will probably try to rally again. In the meantime, remember we have not disturbed the assumed long position which we took in July, that is, the long position which we took to try for an important advance. But now, when the price rallies abruptly toward the previous (August 13th) high at 13 1/2 and volume increases suddenly on the top of this bulge to August 22nd, we again become suspicious

of the bull side and watch carefully to see what the stock may do next. It reacts on diminishing volume next day then rallies toward the previous high points over the next two sessions. But volume continues to shrink, thereby indicating exhaustion of buying power. It lacks the momentum necessary to overcome the resistance around 13 1/2.

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

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

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stock so far has been held in the range 12-13 1/2 for two weeks. If it should start down now the setback may be fairly important. Hence we do not wish to lose what little profit we have; much less let the stock run against us when we have such plain warnings that it is not acting right. (Sect. 8M, Pg. 12, Footnote.)

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

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

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

The price now sags steadily with no sign of support over the next nine sessions. On Sept. 17th and 18th it comes to rest where it was supported previously around 10 1/2 (July 31st & Aug. 6th). There is nothing in the volume behavior to tell us that the move may be climaxing here beyond a relatively

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slight increase on the 17th. But, in view of the consistently light turnover on the; way down from 13 1/2 we should already have concluded that the July lows are in little danger of being violated because that low volume shows the price is falling as a result of poor demand rather than because of active or increasing supply. In other words, it begins to look as if the sponsors had pulled out their bids and were allowing the stock to slide downward in hope of discouraging public interest, that is, in hope of discouraging outsiders from accumulating; and for the purpose of inducing long holders to unload "because the stock looks so weak."

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

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

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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 shako-out or to the development of liquidation.

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

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

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

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

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

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

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

Therefore, when the price runs up abruptly in the next trading session, we are not surprised. But we do not regard this rebound as a bullish sign because

its abrupt character gives it the appearance of a short-covering movement, hence an effervescent rally. In any event, if the stock is really ready to go into an advance it will give us clearer indications by the way it behaves when it tries to negotiate the September and October rally tops.

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

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

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

Once more, merely for the sake of a clearer illustration, let us assume that we take a long position, this time around 11 (Dec. 5th). We might do this

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

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

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

Under these conditions we must recognize that if it tries to advance now, in December, it probably will have serious difficulty contending with the old

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

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

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

Again reviewing the situation broadly as it stands around the latter part of February, our impression of its action is that the stock's sponsors have been quietly accumulating, occasionally bidding the price up to get what quantities they cannot acquire around the extreme bottom, promptly checking all rallies produced by such demand in order to keep the price low and depressed. And, after each such buying flurry, the bids are pulled out. The stock is allowed to settle back and turn dull thus discouraging, public interest and the boardroom and

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other traders who are hooked in on these and former bulges. Expressed another way, we reason that an outside following evidently is attracted on the occasional rallies because volume increases suddenly on every upward surge, but the sponsors easily succeed in getting rid of this unwanted company by allowing the price to sag repeatedly thereby wearing out the premature bulls (Sect, 9M, Pg. 2, Par. 6).

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

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

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

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

Additional weakness is indicated by inability to develop any rallying

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

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

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

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

On the basis of the above general and detailed deductions we decide that

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

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

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

However, we are not wrong. On the contrary, the stock's behavior fully

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

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

Again it justifies expectations by recovering to 10 1/2, March 28th. Volume, formerly erratic, now builds up more consistently. We sit tight as the price reaches 10 1/2-10 5/8, anticipating a little resistance here because it is encountering the offerings created by .premature buying around the old supporting

level at 10-10 1/2. But at this point there is only a brief three-day setback on which volume immediately shrinks to very small proportions — distinctly bullish behavior. Those who want to get out may do so but the sponsors, obviously, are not selling. On the third day of the setback the price bounds away from the low point to close near the high for that session, confirming the strength. This gives us a new buying point if we wish to add to our line.

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

Therefore, instead of regarding the abnormally high volume of Apr. 25th as a climaxing indication, we read this to mean that the sponsors are taking all of the offerings encountered on the way up from 12 to 13 1/2 (Sect. 7M, Pg. 16, Pars. 1-3 of Footnote). Our reasons for this interpretation are: (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 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

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

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

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

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

A small two-day reaction accompanied by marked shrinkage in volume

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

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

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

Meanwhile, we, observing that the setback from 18 is proceeding rather

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

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

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a hinge position again. In view of the bearish price movement and volume relationships, a down turn out of this hinge must be anticipated which is likely to afford us a test of the June 1st support.

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

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

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

A normal rally, June 22nd and 24th, dies out on low volume, cautioning us to look for more recession. A great deal now depends on how the stock acts when it returns to the supporting level. So when the 3-day recession, to June 26th, dies out with volume tapering off we read this to mean that there is not

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sufficient new supply, of pressure, on the stock to break the old supporting points. And, since the price now appears to be working out into another hinge position where it would require only a small rally to break the downward stride in effect since the May top was reached, we cover our shorts and reestablish our long position anticipating the development of a new springboard position, reasoning that the stage is all set for a new advance. As we can buy on a down wave here at a point where our risk can be limited with a close stop under the low points of May 7th, 30th and June 9th, we have an ideal buying opportunity.

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

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

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* It is important to recognize that, in a leveling-off movement of the sort now occurring in Anaconda, 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 at 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 average continued bearish after the decline to March 4, 1950, we now (June 26, 1934) see many symptoms in the behavior of Anaconda which tell us that instead of preparing for a further decline, the stock more probably is being groomed for another advance.

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

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

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

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

However, the demand here seems fairly persistent as denoted by a series of higher tops and higher bottoms in a very narrow price range. Then, on July 15th, there is a sharp increase in volume which we take to mean that the sponsors are absorbing whatever offerings remain around the 16 high point. If we are in doubt about this interpretation and inclined to regard the volume surge of the 15th as a buying climax, we may raise the stop on our purchase at 14 to cost and wait for further indications. A further edging up brings the price movement out to a very distinct point or apex, July 17th. Three days' lack of progress here suggests a reaction which comes as anticipated on the 19th and 20th but volume immediately shrinks, a bullish sign. Accordingly, we hold our long position though we do not know that this reaction is over yet. But when the

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price starts up again, July 22nd, and in the next two days edges still higher with volume building up once more as it rallies, we are able to look back and see that the reaction (to the 20th) was extremely shallow, much less than normal. Hence the high volume of July 15th was indeed absorption of overhanging offerings and so, in retrospect, it becomes apparent that our indications are all consistently bullish to date. During the next several sessions there is more hesitation. However, volume increases on rally days and shrinks on reactionary days while the price is held stubbornly against the old distribution range, 16 1/2-18, where the stock, of course, is called upon to absorb offerings from the buyers who are now anxious to get out even.

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

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

The above illustration demonstrates how you should read a vertical line chart and how volume studies should be employed in conjunction with price movement phenomena. It will be noted that the method of reasoning is identical

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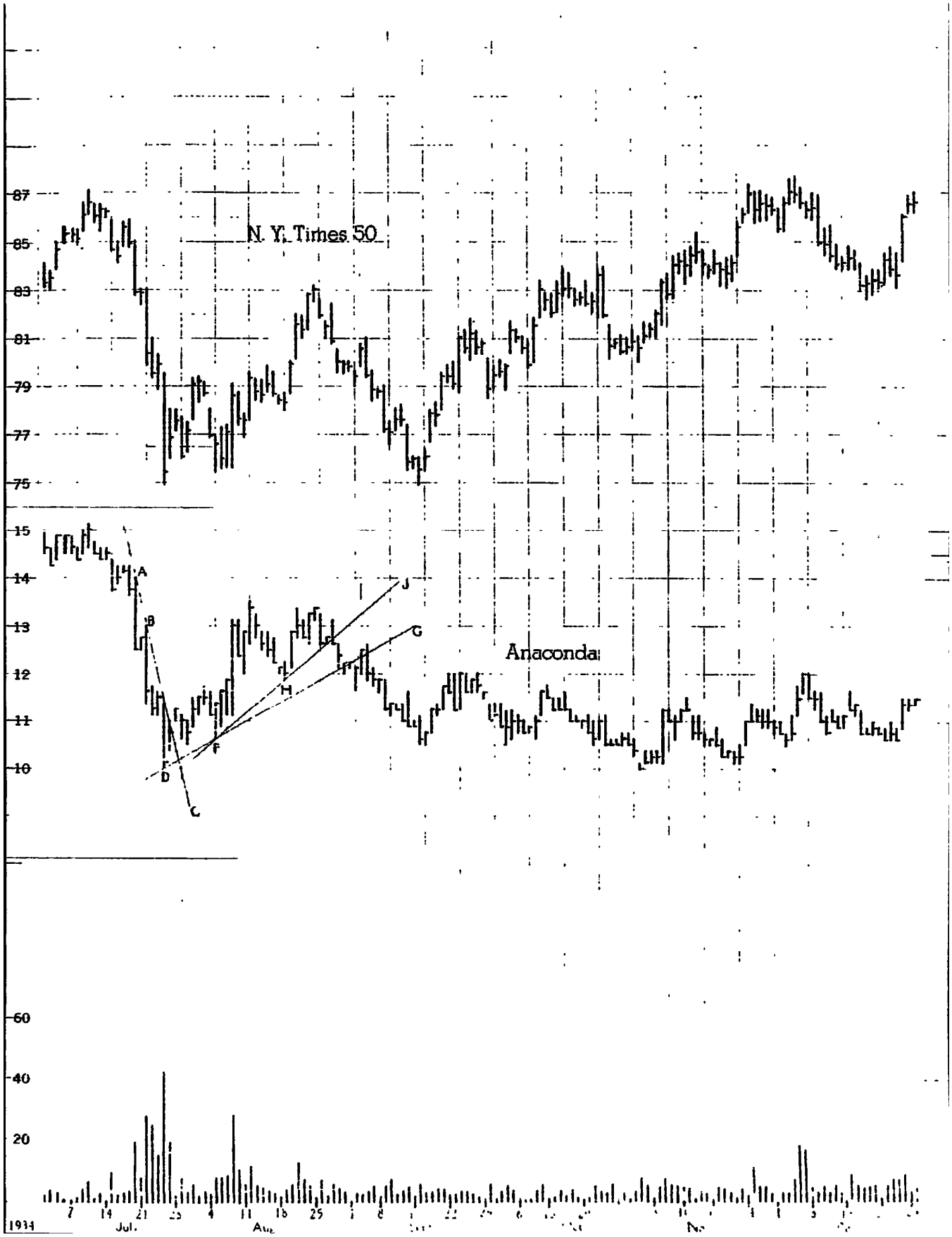
with that used in the case of the trend chart of a general market average (Sect. 7M). But we especially wish to emphasize here how volume studies and the factor of comparative strength and weakness aid us to judge WHEN a stock is ready to move and WHEN it has completed its preparation for a move. The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

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

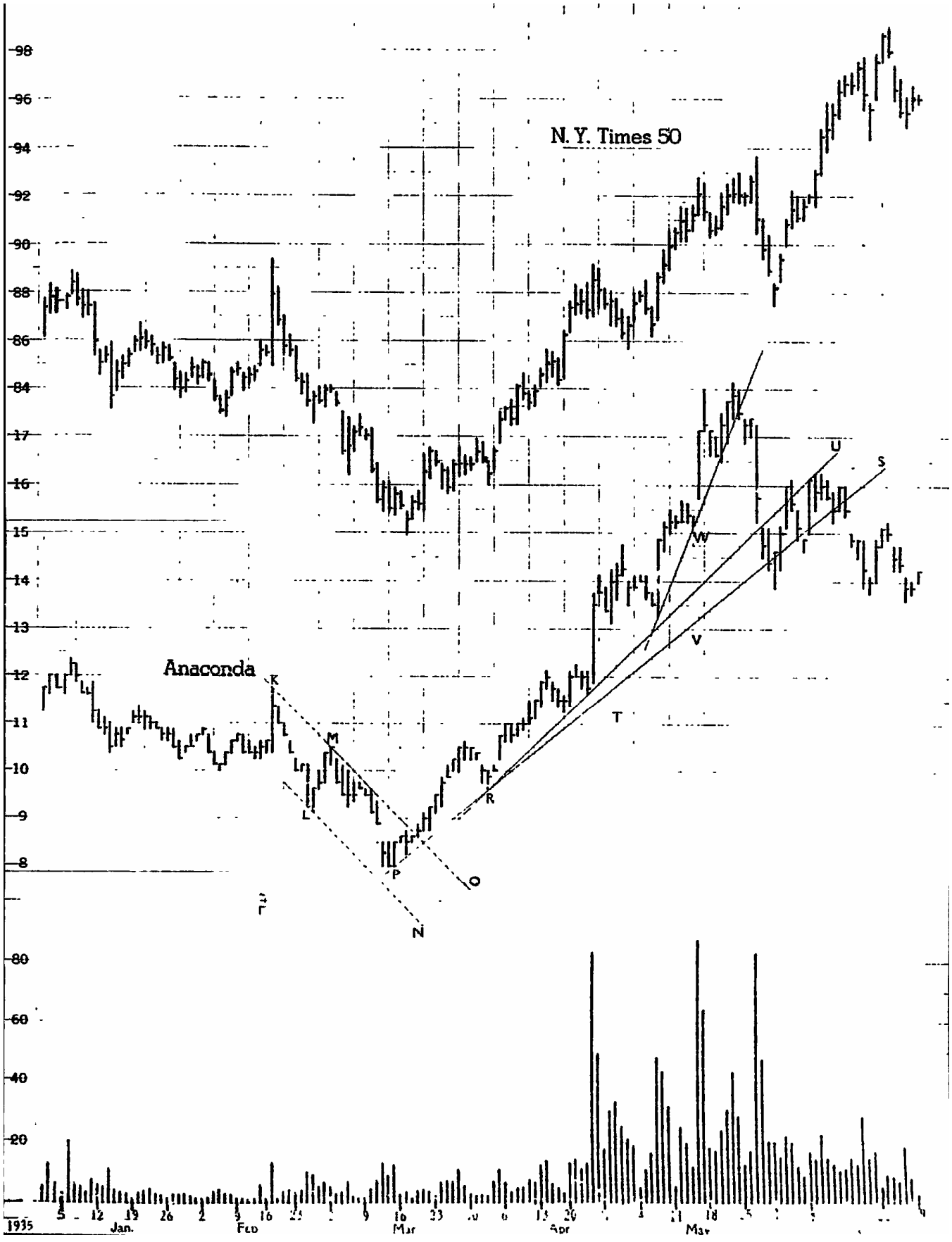
Furthermore, you will be able to develop that flexibility of mind and capacity to anticipate the changes from strength to weakness and weakness to strength which occur at vital turning points, before the change of trend has developed to such an extent that you are no longer able to buy or sell with close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

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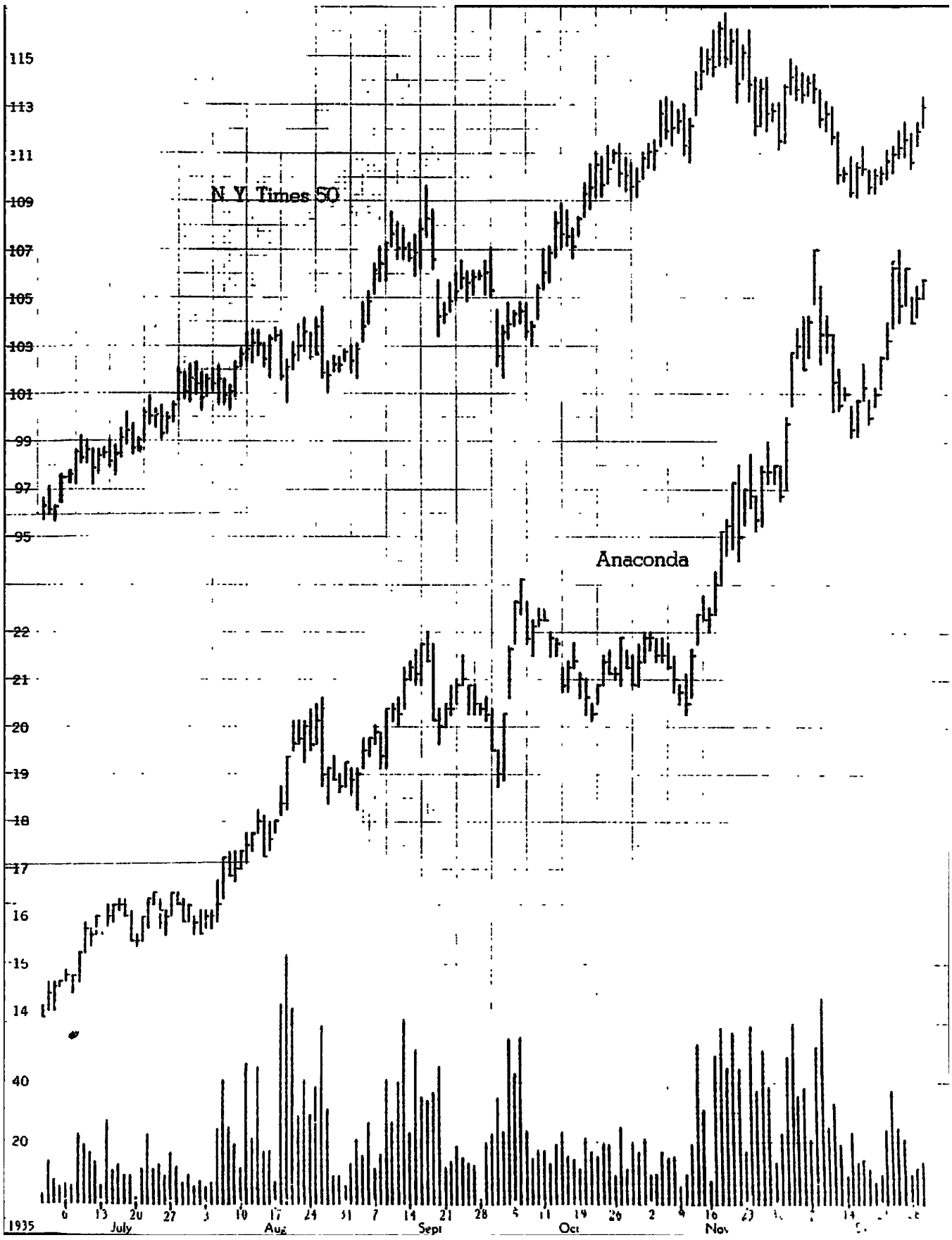
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INDIVIDUAL CHART STUDIES — PART VII

VERTICAL CHARTS

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

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

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

From our 1 point chart of the Utilities Group (Pg. 23), we observe that this average appears to be on the hinge at 30-31, having ended the month of May with a rally to 31 after meeting support around the December 1935 absorption

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

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

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

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

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

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

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

Therefore, we keep EL under observation for confirmatory bullish symptoms. So far, as stated, it has behaved well, exhibiting more strength than weakness. As of June 6th, it appears to be on the springboard (vertical chart) but a review of volume behavior since March tells us that large offerings are likely to be encountered around 16 — it probably will have difficulty negotiating the

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resistance there. So while our preliminary studies have led us to select the stock for a possible purchase, we decide our choice may be premature — we may have to discard it, depending upon what develops in the next few sessions.

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

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

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

For the purpose of this study, however, assume that we continue to keep our vertical chart up to date daily. As the days pass there comes a reaction to 14 7/8, June 25th, which is a little more than we should like to see if the

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

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

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

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

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

On Oct. 7th, however, our interest in EL is revived by the appearance of unusual activity. A volume of 22,000 shares with only a small net change in price, after eight to ten weeks' exceptional dullness, since the recession from 17, challenges our attention. The 1 point figure chart shows the stock was held to the 13-17 range nearly seven months with no recent slip below the 14 line

(which has now stretched out to a count of 13 points) and still no evidence of a normal, halfway correction of the last advance from 8 to 17.

Meanwhile, the bull market campaign has been resumed with a sharp mark up to a new high in the Composite Average. (Pg. 21.) EL has now passed through the phases of: (1) decline from a high point (at 17) in July; (2) narrow swings and apparently persistent support at the bottom of a broadening trading zone on (3) very small daily volume; (4) over a sufficiently long period of time to tire out all of the weak long holders; and (5) ability to hold stubbornly to the 14 supporting line instead of breaking to new lows as successive corrective reactions have swept over the market. Here is a set of conditions which may mark preparation for a worth while advance (Sect. 9M, Pg. 2, Par. 6 and Pg. 3, Par. 2).

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

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

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the beginning of a move.

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

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

On Oct. 29th, a fairly vigorous rally lifts it out of the dead center or hinge position. The range this day is 1 1/8 points on a volume increasing to about 10,000 shares. Thus the price seems to bob up rather easily on comparatively light volume (Sect. 10M, Pg. 5, Par. 2). This seems to confirm our previous conclusion that the supply of stock around the low points is becoming

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

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

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

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be free to await further developments.

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

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

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

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

At the same time, we are impressed with the fact that the apparent supporting line in EL, cross the 14 level (Pg. 23), has now stretched out to a total of 14 points implying possibilities of a rise to 28, provided the indications of the

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

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

Now we "sit up and take notice" for that gives the up signal and invites immediate purchase because our stop, which should immediately be placed at say 12 7/8, will involve a very small risk. This last dip adds two more points to the

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

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

Volume expands still more next day and the range narrows, but this is because the sponsors are called on to absorb more of the offerings around the tops of the range. So, instead of considering this a climaxing indication we look for a further advance. In case we did not buy before, but preferred to wait for just such a clear indication of a springboard (preceding the marking up process) we would go in now. Our stop in this instance should be at say 14 5/8 or 15 3/8

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on the ground that if we are correct in expecting a mark up the stock should no longer fall back deeply into the area of accumulation nor beyond the part way reaction mark.

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

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

Having raised our stop after each successive previous mark up to bring it a point or so under the lows of the resting areas (Nov. 23rd; Nov. 30th to Dec. 8th; and December 11th) we now raise it to within a point of the Dec. 16th support and watch to see whether distribution will develop or the stock will digest its advance, as before, and then attempt to make good our figure chart objective of 30. A new phase may begin here. (Dec. 16th) since the activity is now feverish, as indicated by the heavy volume, widening daily range, and the price movement's tendency to level off with deeper reactions than heretofore. Our trend

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support lines, A-B and B-C help us to visualize the bearish implications inherent in any further sidewise movement. (Compare again with U. S. Steel, Sect. 8M, Pg. 17, around the March, 1937 top.)

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

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

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

An abrupt dip to 23 1/4, Jan. 2nd, encourages us to look for another rally since volume falls away sharply. Next three days, the price creeps upward on comparatively light volume suggesting the selling pressure has lifted, but on Jan. 7th, volume rises abruptly. We become very suspicious of this sudden run back, for the price is up around the previous tops and the volume is below the standard of the December advance. Next day, no material progress on almost the

same volume turns our suspicion that distribution is being completed to conviction. If we fail to sell on the ensuing up wave (Jan. 9th) which brings an upthrust to a fractional new high with an immediate reversal and a closing near the low, we must do so at the next opportunity. A two days' reaction on comparatively large volume, followed by another quick upthrust to 26 5/8 on Jan. 14th lets us out. The action is becoming increasingly bearish. Thus the stock has spent seven days in the 24 1/2 - 26 5/8 range, without material progress (note the series of closings in an almost level range) on relatively large volume, in the face of an aggressive new mark-up in the general market and relative strength in its group. Twice it has been shoved up to a new high only to slide back and finish at the day's low — Jan. 9th and 14th.

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

The ensuing down swing, Jan. 18th - 30th, falls short of this expectation and repeated sharp shrinkage in volume on dips back to the 22 level early in February warns us to cover our short commitment. We do not consider the stock as a logical purchase again, however, until a line of seven 22s on the one point chart suggests that-there may be another attempt to carry out the old objective of 30, and a few weeks' churning in the 22-24 range (see vertical chart) may have tired out the buyers who were hooked on the December-January advances. Accordingly, when the stock works into a hinge position again on March 5th, we

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might venture to make another play on the long side, though we recognize that the spasmodic volume surges through February, and the comparatively large volume days in between, lack the characteristics of accumulation such as appeared during August to November, 1936. Furthermore, behavior of the Utility Group average, since topping out on heavy volume in January, has been distinctly bearish.

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

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

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

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

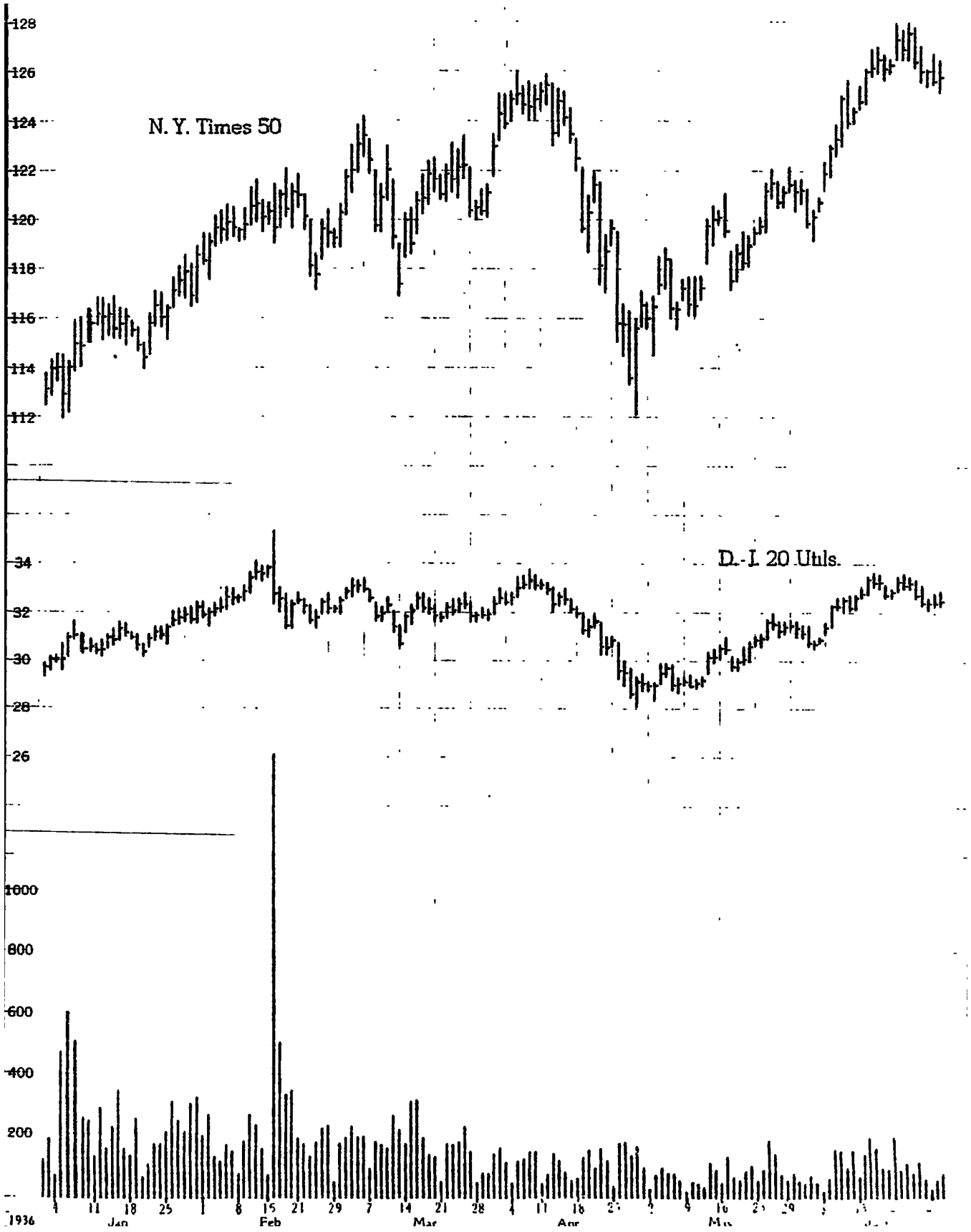
We do not sell short immediately, however, because having come down as fast as it went up the stock may now be temporarily oversold just as it was over-bought in consequence of the previous violent three days' bidding up to 26. After falling back to 22 7/8 on small volume, March 12th, the price recovers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

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

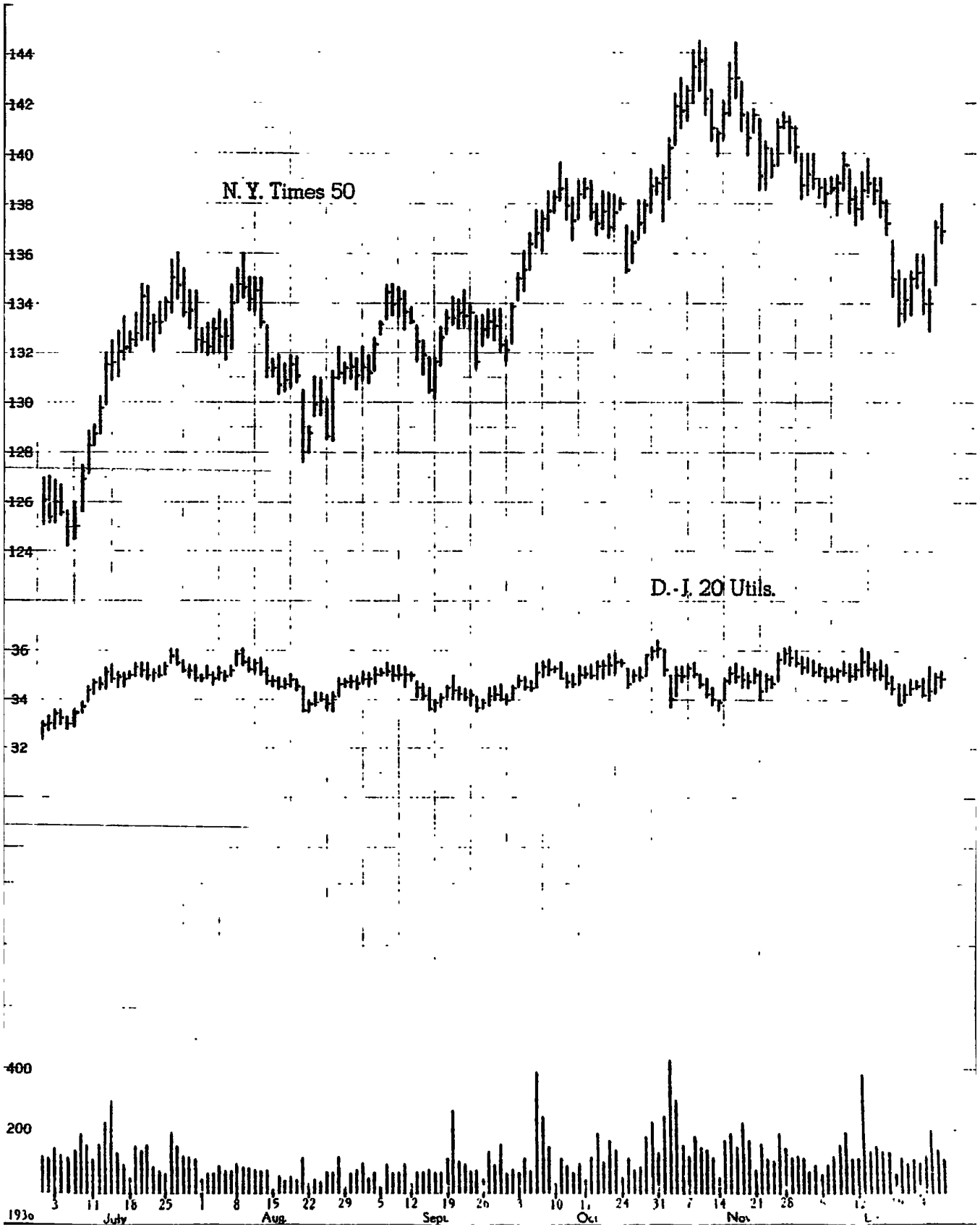
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nying the climaxing indication around. 25, March 19th. Whether it will make good the promised ten points down to 16, fall short of the indication or perhaps develop further supply and eventually exceed it, we must judge by subsequent behavior.

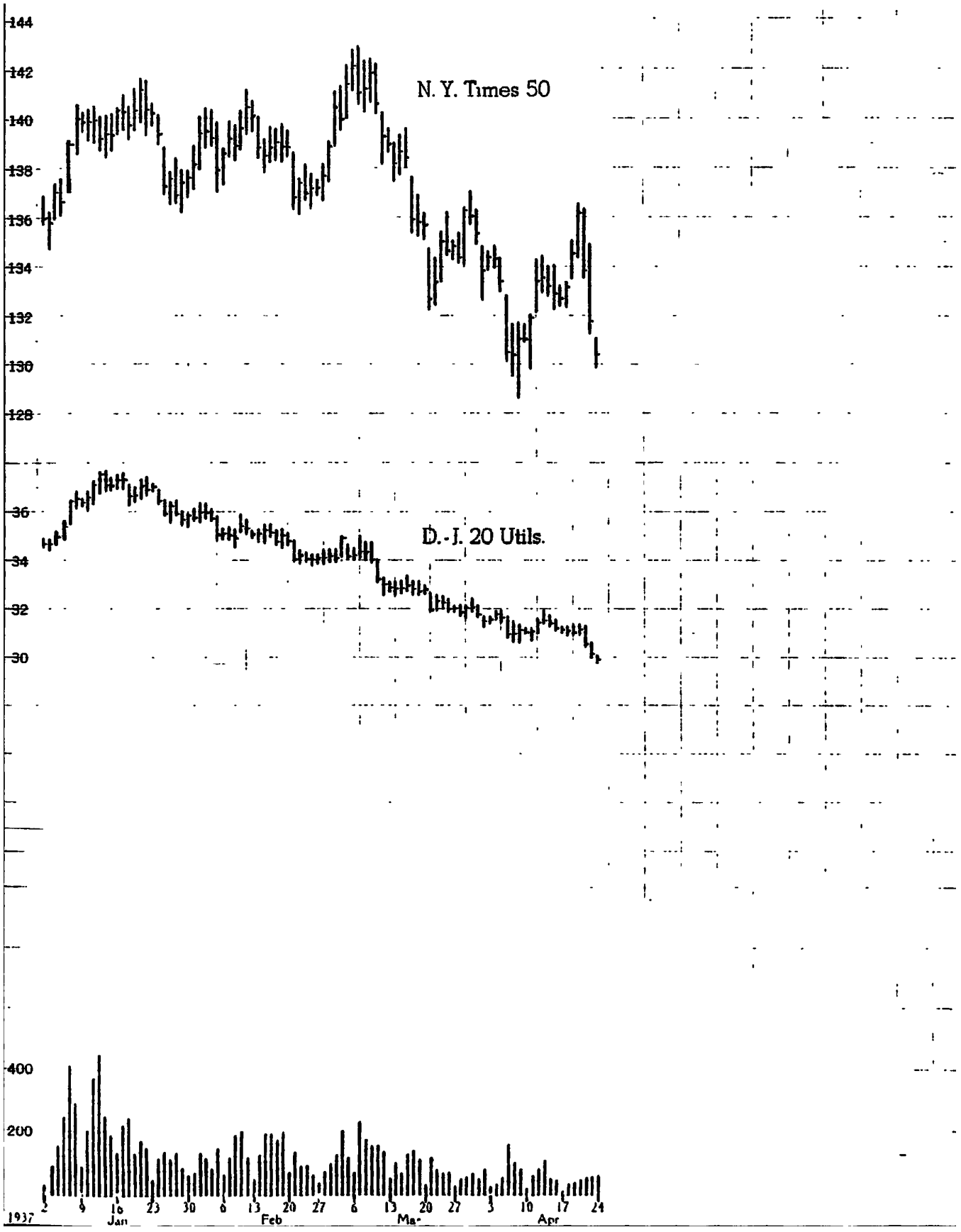
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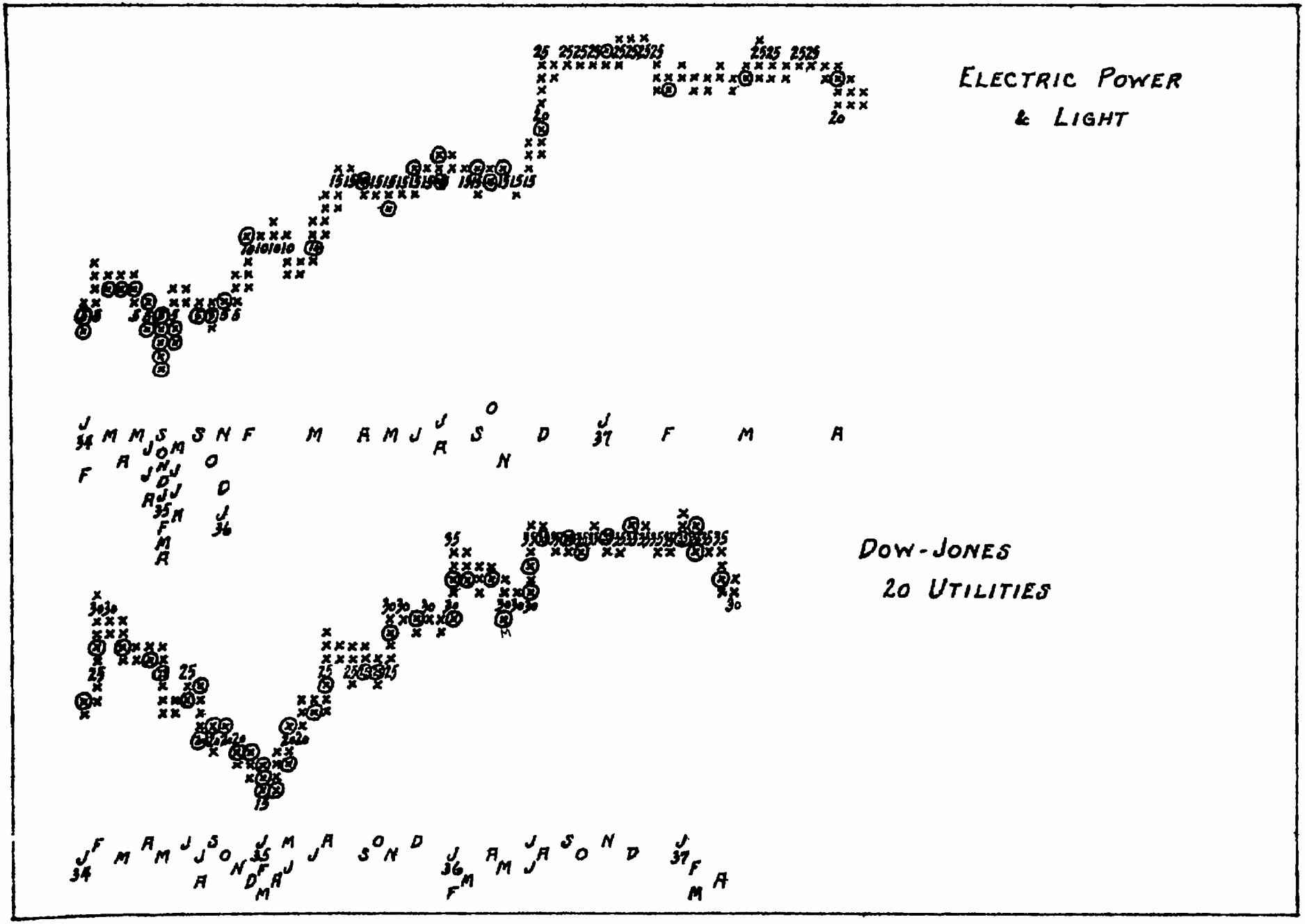
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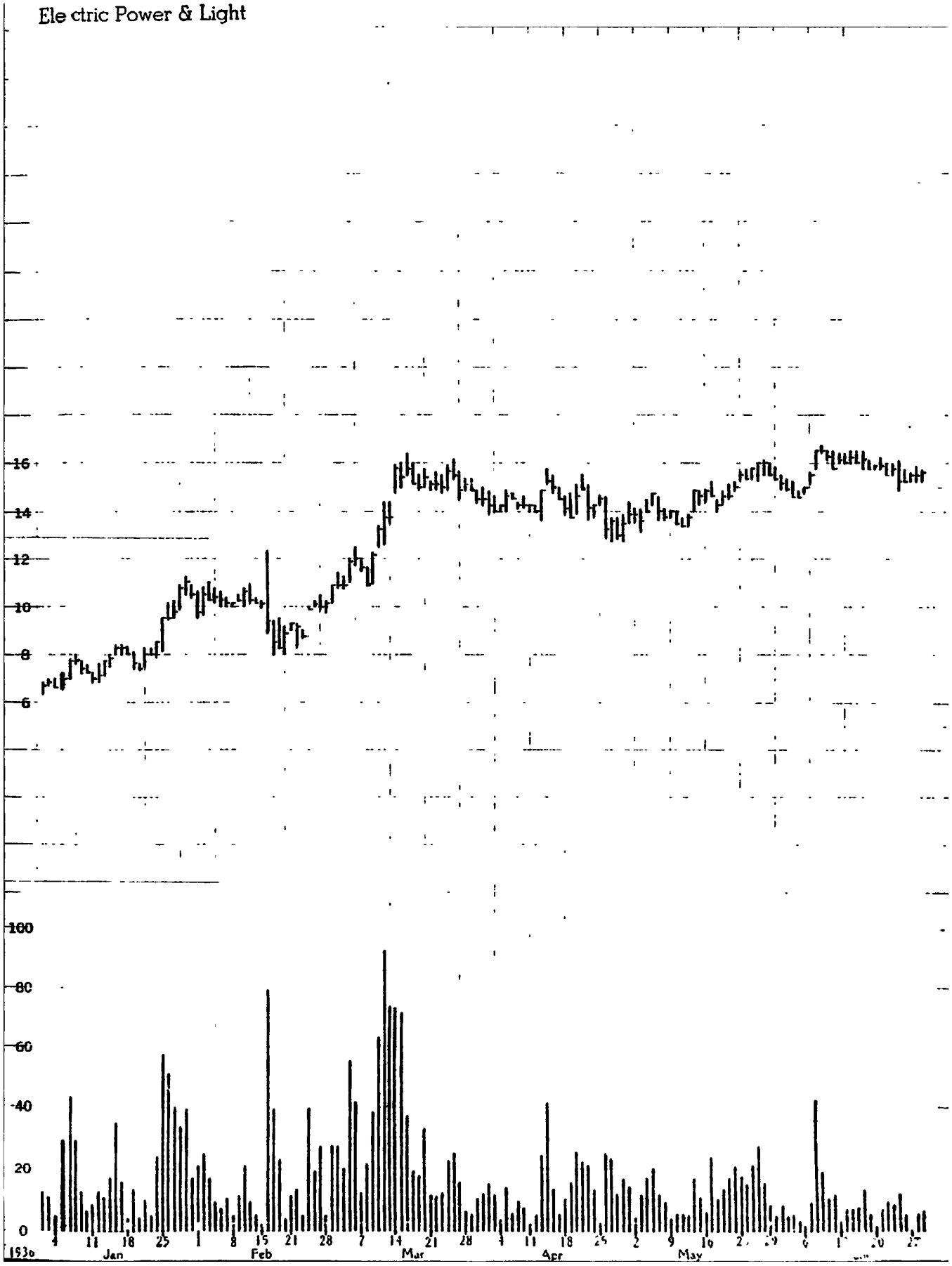
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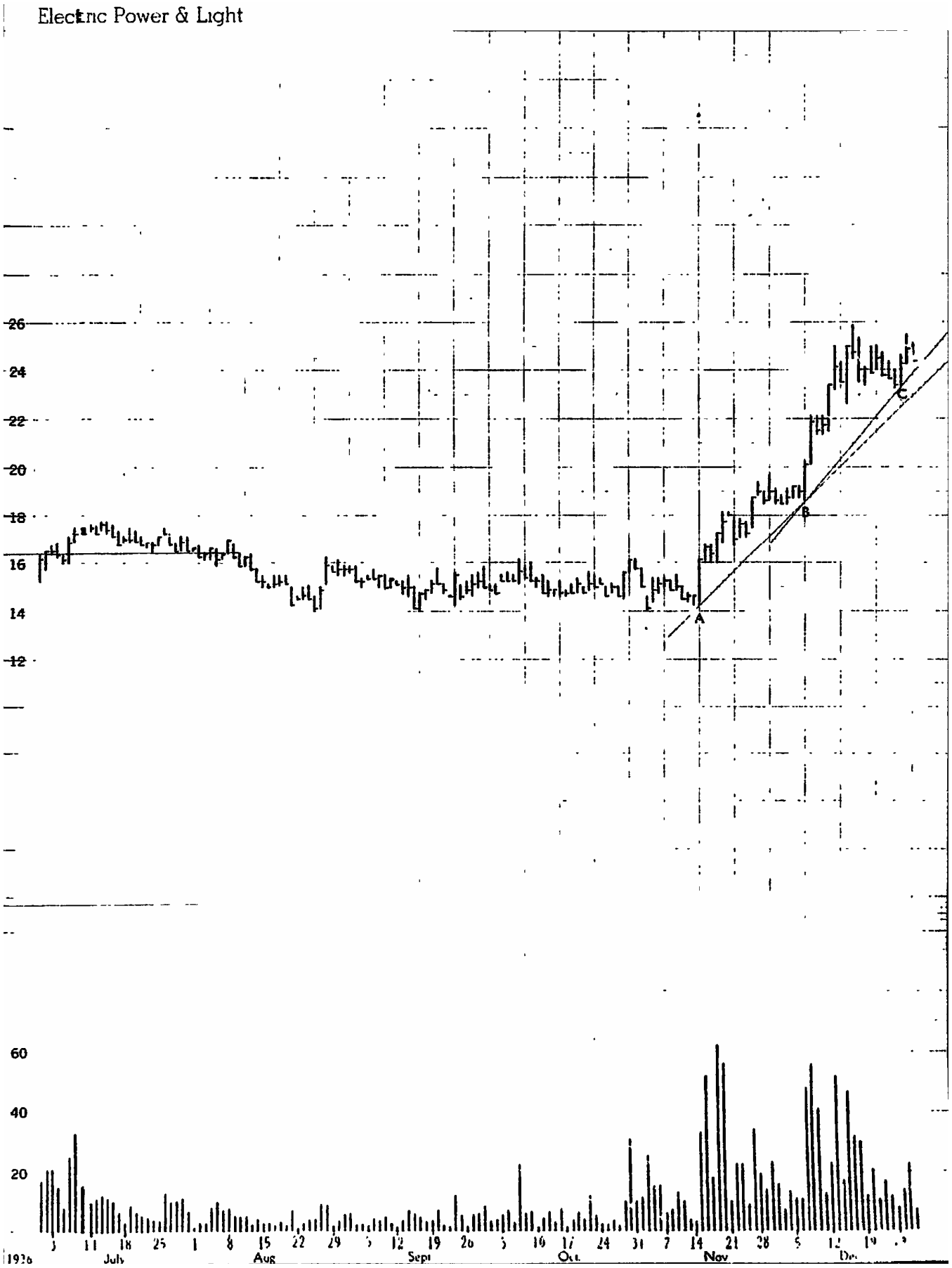
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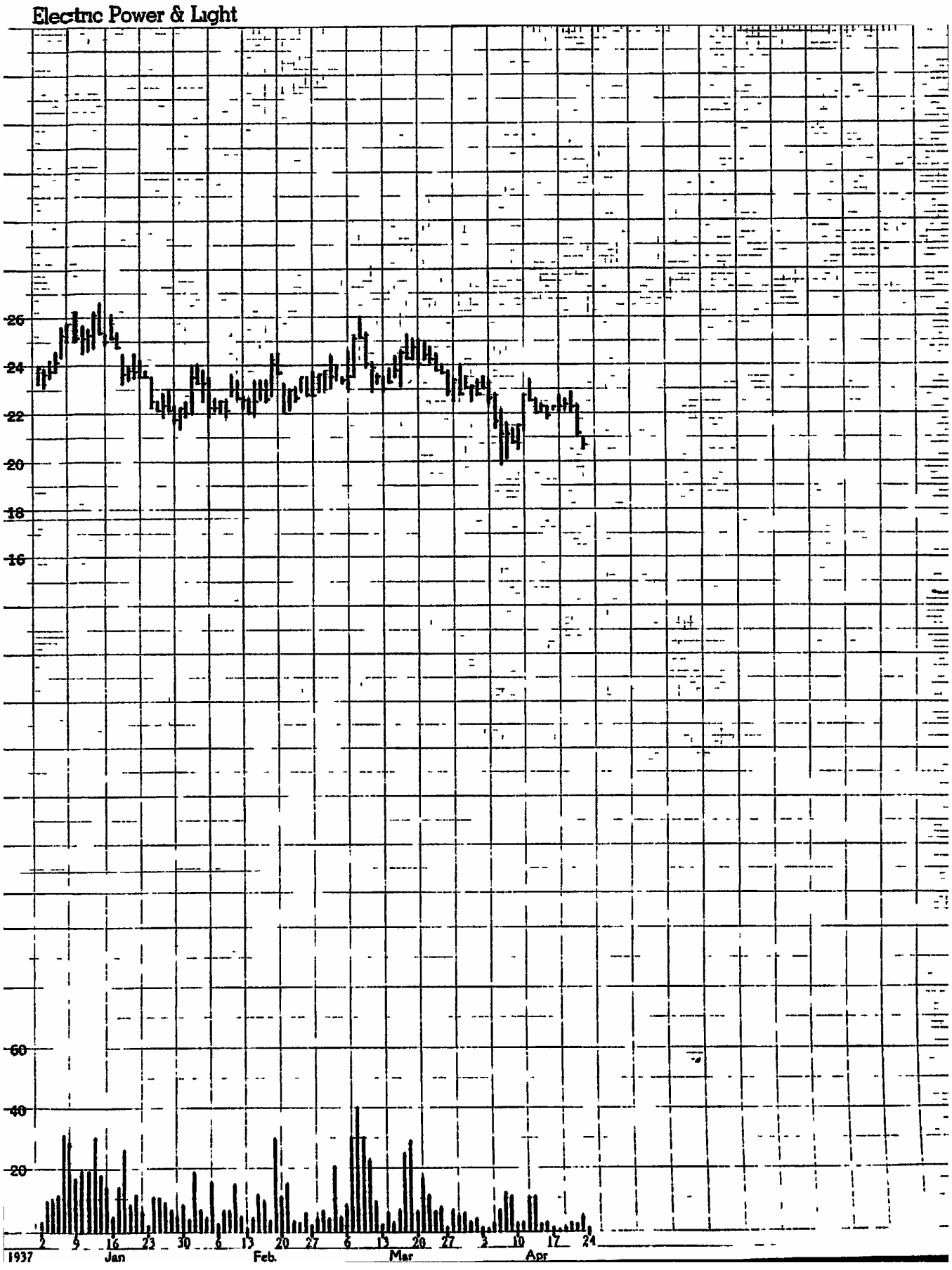
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SELECTING THE BEST STOCKS

The Position Sheet - Technical Position Barometer

There are two processes of reasoning by which we may arrive at a conclusion: (1) The deductive method which proceeds from the general to the particular and (2) The inductive method which works from the particular to the general.

In our previous studies we have explained the first or deductive method of arriving at our decisions. That is, we have shown how to determine the bullish or bearish possibilities of individual stocks by determining first the position and trend of the general market; then the position and trend of the various group averages; and finally the position and trend of individual issues, separating those which might be expected to move more rapidly than, or in harmony with, the market as a whole from those which seem likely to move against the trend or not at all.

We may, if we wish, employ the reverse of this procedure, namely, the inductive method of reasoning from the particular to the general. That is, we may form our conclusions by first analyzing the positions of individual stocks. Then by classifying these individual issues under their proper group headings, we can determine the position and trend of the various groups. Next, after we have decided whether the balance of probabilities in the groups is bullish or bearish, we are able to forecast the trend of the market as a whole.

Either approach is good by itself, though reasoning from the particular to the general requires the exercise of more skill and judgment and takes a little more time. It is best to employ both methods if possible, for then one will serve to check the other.

In any case, you must learn how to select the best individual opportunities, that is, the stocks which will move soonest, fastest and farthest if you would attain success in trading and investing. Therefore, it is necessary for

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POSITION OF 100 LEADING ACTIVE STOCKS.

Position 1	2		Position 3	4
		RAIL		
x		Atch		
x	x	B & O		
		Can Pac	x	x
		N Y Cent		
x	x	Ches & O		
x		Penn R R		
		Union Pac	x	x
		New Haven	x	x
		RAIL EQUIP		
		Amer Loco	x	x
		Baldwin	x	x
		Gen Ry Sig	x	
		Gen AmTank	x	
		Pullman		
		ELEC EQUIP		
x	x	Gen Elec		
	x	Wes'house	x	
		CAN		
x		Am Can		
		AIRCRAFT		
x		Un Aircraft		
		COPPER		
x		Anaconda		
x		Kennecott		
		STEEL		
		Am Ro Mills	x	
		Beth	x	x
		U S Steel	x	x
		OIL		
		Atl Ref		
x	x	S O N J		
x	x	S O Cal		
	x	Tex Corp	x	
11	7	TOTAL 1st Col.	12	7

Position 1	2		Position 3	4
		MOTOR		
x	x	Auburn		
		Gen Mot	x	
		Chrysler		
		TIRE		
		Goodyear	x	
		TRUCK		
		Mack	x	
		TOBACCO		
	x	Am Tob B	x	
	x	Lig Myers B	x	
	x	x Reynolds B		
		SUGAR		
		Am Sug		
		C Aguirre		
	x	So P Rico		
		FOOD		
	x	Borden	x	
		Nat Bis	x	
	x	Corn Prod		
	x	x Gen Foods		
	x	x Gold Dust		
	x	Hershey	x	
	x	Nat Dairy	x	
	x	x St Brands		
		CHEMICAL		
	x	Allied Chem		
	x	Air Reduc		
	x	Col Carbon		
		Un Carbide	x	
		Misc Mining		
	x	AmSmelting		
	x	x Int Nickel		
		Vanadium	x	
11	12	TOTAL 2nd Col.	11	0

Position 1	2		Position 3	4
		TEL & CABLE		
x	x	Am Tel & Tel		
		Int Tel & Tel		
		West Un	x	x
		TRACTION		
	x	Bkn Man Tran	x	
		GAS & POWER		
x	x	Am For Power		
		AmWater Wks		
	x	Bkn Un Gas	x	
		Col Gas		
		El Pow & Lt	x	
x	x	Con Gas		
x	x	No Amer		
		Nat Pow & Lt	x	
x	x	Pub S N J		
	x	United Corp	x	
	x	Un Gas Imp	x	
		MOTOR Access		
x	x	Bendix		
x	x	El Auto-Lite		
		Stew Warner		
		Timken	x	
		CHAIN Stores		
x	x	Drug, Inc.		
		Kroger	x	
	x	Macy	x	
x	x	Safeway		
	x	Woolworth	x	
		MAIL ORDER		
x	x	Montg Ward		
x	x	Sears Roe		
		MACH & MFG		
		Am MachFdry	x	
		Allis Chal	x	
		Fos Wheeler		
		Worth Pump	x	
11	17	TOTAL 3rd Col.	14	1

Position 1	2		Position 3	4
		FARM MACH		
	x	Case		
	x	Harvester		
		THEATRE		
	x	Loews	x	
		Paramount	x	
	x	Radio-Keith	x	
		MISC IND		
	x	Byers Pipe		
	x	U S Pipe		
		duPont		
		Eastman Kod	x	
		Warren B Pav	x	
x	x	Radio Corp		
		OFFICE EQ		
x	x	Burroughs		
		Int Bus Mach		
		Nat Cash Reg		
		BLDG		
	x	Am Radiator		x
		Johns-Man	x	x
		RESTAURANT		
	x	Childs1		
		Shattuck		
8	4	TOTAL 4th Col.	6	2

Position 1	2	SUMMARY	Position 3	4
11	7	1st Col.	12	7
11	12	2nd "	11	0
11	17	3rd "	14	1
8	4	4th "	6	2
41	40	TOTALS	43	10

THE TREND

1	2		3	4
		Averages		
	x	Indicate	x	
		Summary		
	x	Indicates	X	

Position should be:
Long ~~Short~~ ~~Neutral~~

Date Oct. 10 Hr. 3 P.M.

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you to study and acquire an understanding of the inductive method of judging the general market situation, as herein explained.

For this purpose we require a Position Sheet (sec specimen, Page 2). As will be seen, this sheet is drawn up in such a way that you may quickly and easily record upon it your analysis of each of the individual stocks for which you are keeping records. By listing these stocks on the sheet under their appropriate group headings, you can determine at a glance how the various groups stand after you have concluded your daily studios and made your entries on the Position Sheet.

For study purposes, a Position Sheet of only 20 stocks is ample. Later on, when you have progressed to the point where you have a good grasp of this Method and are ready to apply it to actual market operations, it will be best to keep a Position Sheet covering at least 50 individual stocks and, better still, a hundred or more. Far, in order to select the best opportunities, it is desirable to have a wide choice; and in order to judge the trend of the market as a whole by means of the Position Sheet, it is advisable to have a sufficient number of stocks to provide an adequate sample, that is, a representative cross section of the whole market.

If your time is limited, you may later on (when you thoroughly understand the market) decide that you can dispense with the Position Sheet since you can accomplish the same results through the use of Group Averages as previously explained (Sect. 4M, Pg. 24, Pars. 4 to 6 and Pg. 25, Par. l). But with an hour or more available each day, you can easily keep up a Position Sheet in addition to your other records and if you have the time, it should be kept. The Position Sheet is a very valuable aid in (a) <u>forecasting the movements</u> of groups of stocks; (b) selecting the best opportunities; (c) <u>judging the turning points</u> of individual stocks; (d) the trend of groups representing the various industries; and (e) <u>the trend of the market as a whole</u>.

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I devised this Method about fifteen years ago, (1916) and have since used it with great success.

To make up and maintain a Position Sheet, you may begin your analyses with the figure charts. Each day, as you receive your Daily Stock Chart Reports by mail, you can enter the changes in 50 to 100 or 200 stocks (or only 20 while you are learning) very easily on your figure charts, observing from these charts as they are extended by the addition of new entries, the technical position of each stock. Then, when you see by casual inspection of your figure charts, that some stock is working into what seems to be a promising position, make up a vertical chart of that issue, following the procedure outlined in Section 4M, Pages 22 and 23. This will enable you to observe its behavior in detail, applying all of the factors involved in a complete analysis.

Every stock is always in one of three positions: Bullish, Bearish or Neutral, but it is necessary to know to just what degree.

Decide by methods herein explained, which of these positions applies to each stock for which a chart is kept. Before you make a commitment, decide whether the position of the individual stock is in harmony with the trend of the general market. If not, look for others which are in line with the prevailing trend (Sect. 9M, Pg. 1, Pars, 1 & 2),

As you arrive at your conclusions respecting the positions of the individual stocks, place a cross or a check mark in the appropriate vertical column of your Position Sheet, opposite the name of that stock, as indicated in the specimen, Page 2.

Thus, your Position Sheet will record your analysis of each stock after you have decided, from your charts, whether it is in any one of the following five positions:

Position 1: The stock should have a short upward swing — a rise, roughly, of 10% to 15% of its present market price, that is, a rally or a minor move up.

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Position 2: The stock should have a long upward swing — an advance, equivalent in points to more than 10% or 15% of its current market price.

Position 3: The stock should indicate a short downward swing — that is, a drop equivalent, roughly, to 10% to 15% of its present market price — a reaction or minor move down.

Position 4: The Stock should indicate a long downward swing — a decline amounting to more than 10% or 15% of its current market price.

Neutral Position, or Position 5: No definite indication of a move in either direction; therefore, its position is neutral. No space has been provided on the Position Sheet for recording a neutral position; whenever a blanc space appears in all four columns, we consider the stock neutral.

Another way of designating Positions 1 and 3 would be to consider a stock, or the market, in these positions if it shows indications of a minor move, that is, a rally (Position 1) or a reaction (Position 3). In the case of a low or a moderately priced stack, this would ordinarily be a swing of from 5 to 5 or about 8 points, depending upon the habits of the stock.

Positions 2 and 4 might also be defined by saying that these positions exist when a stock shows indications of having an advance.(Position 2) or a decline (Position 4) amounting to 10, 20 or 30 or more points, that is, an inter-mediate move.

The percentage method of designating positions is preferable because a high priced stock (in the range, say, of $150 to $250) may have swings of from 10 to 15 points which would only be equivalent to trading rallies and reactions in that stock, hence a 1 or a 3 position, whereas a swing of as much as 10 points in a lower priced stock (in the range, say, of $50 to $70) would be the equivalent of an intermediate move, hence a 2 or a 4 position. As you make your decisions, enter them on the Position Sheet daily, as above described, or every two or three days, but at least once a week. Every day is best, because no matter what position a stock is in, it may change at any time. (Examples showing how to do this will follow.) Always be expecting a change.

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Sometimes a stock will be in a bullish position for a short upswing and in a bearish position for a long move down, such as American Radiator in the 4th column of the Position Sheet on Page 2. This means that its main trend is downward but it is due for a rally.

Westinghouse is in Positions 2 and 3 on the sheet (see first column under heading "Elec. Equip."), which shows that it indicates a long move upward, but at the time our entry was made on the Position Sheet, the stock was entitled to a reaction.

When a stock is in Positions 1 and 2, this means that we expect it to advance more than 10% to 15% of its present market price, without any material reaction; how many point1 depends upon what the figure chart indicates, but you should not go long unless, as explained elsewhere, there is a prospective profit of several times the amount of the indicated risk.

When a stock is in Positions 3 and 4, this means we expect it to decline substantially without any material rally.

A stock may be in Positions 1 and 2 simultaneously; or in Positions 3 and 4 at the same time. It may also be in Positions 3 and 2 simultaneously, as this would indicate: short move down before long move up; and it may be in Positions 1 and 4 simultaneously, indicating: short move up before long move down. But a stock cannot be in Positions 2 and 4, nor in Positions 1 and 3 simultaneously because these two combinations would be contradictory.

When a stock is in a neutral position with respect to its longer term indications, it may give evidence of small swings (rallies and reactions) which would cause us to place it alternately in Positions 1 and 3. Or, it may be in Position 2 or 4, but temporarily neutral with respect to its minor trend (positions 1 and 3) indications.

Positions 2 and 4 are the most important as they show which stocks promise long moves, that is, moves which promise a sufficiently large swing to

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justify the expectation that an intermediate swing is in preparation. These are the ones in which the most money can be made. Likewise, these are the ones which the average trader and investor should seek to capitalize. By average trader and investor is meant those who are not in a position to watch the market constantly all day long.

Positions 1 and 3 are less important but their value lies in telling you when rallies and reactions are coming, so that you can buy or sell to advantage. As your purchases should be made at the bottom of reactions whenever possible, and your sales at the top of rallies (Sect. 5M), these indications of short moves will aid you in selecting the right time to take a position. You can draw this to a fine point by watching your Wave Chart (Sect. 22M) in conjunction with your vertical line charts for the psychological moment. In fact, as already explained, (Sect. 16M, Pg. 3, Pars. 2 & 3) vertical charts are practically indispensable for determining the 1 and 3 positions because the volume indications afford the best means of judging the turning points of these minor swings. When you have attained proficiency, you may find that you frequently are able to trade for quick turns on these small swings, even though you may not be studying the market all day long nor trading from the tape. However, it is better not to venture short swing trading until you have had long practice and ample experience.

The Trend of the whole market may be judged from the Position Sheet in this way: Consider first the long moves as indicated by position 2 on the bull side and position 4 on the bear side, as these are the most important. For example, according to the entries made on our specimen Position Sheet, Page 2, we find that in the first vertical column we have 7 stocks in position 2; in the second column 12; the third column 17; and the fourth column 4. Entering these individual totals in the fourth column of the sheet, under the heading "Summary," we find that we have a grand total of 40 stocks in position 2.

On the bear side we find a total of 10 stocks in position 4, that is, in

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a position for a long downward swing: 7 in the first column; none in the second column; 1 in the third column; and in the fourth column 2.

Thus our grand total shows 40 stocks in a bullish position and only 10 bearish, or 4 to 1 in favor of the bull side. Therefore, we enter in the lower right-hand corner of the sheet: "Summary indicates" up by placing a cross mark under the sub-heading which indicates position 2. Having previously consulted our Trend Chart of the averages, we have learned therefrom that the indicated trend is up and so we enter a cross mark under the heading for position 2 in the proper space, opposite the line reading: "Averages indicate." As both of these sources agree that the trend of the market is upward, we decide that our position should be long, and so we indicate this in the lower right corner of the sheet by crossing out the words "Short" and "Neutral" which appear opposite the line: "Position should be."

Incidentally, if, when you make up your own Position Sheet, you should find that your Summary indicates an advance (Position 2) while your conclusion respecting the Trend Chart is that the market will decline (Position 4), or vice versa, you had better re-check your deductions carefully. Such a flat contradiction between the indications of the Position Sheet Summary and the Trend Chart is not likely to occur.

Having determined that we should operate on the long side, we next examine all the groups (as recorded on the Position Sheet) in order to find which group, is most unanimously displaying an upward trend. They stand as follows:

RAILS. This group is so evenly balanced that it does not invite any commitments.

RAIL EQUIPMENTS. These are mostly in a bearish position. American Locomotive and Baldwin indicate a long down swing; four out of five show a probable 3 to 5 point down swing. All this is contrary to the trend of the market, so we avoid taking positions in this group.

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ELECTRICAL EQUIPMENTS. General Electric is in the best position to buy, because both its short and long swings point upward. Westinghouse should react before it advances.

CANS. Cans are represented by only one stock, American Can, which offers only a short up swing.

Thus we follow along through the groups, finding in the Oil Group, Standard of New Jersey and Standard of California; in the Motors, Auburn; and in the Tobaccos, Reynolds B — all in positions 1 and 2 and, therefore, we regard them as possible candidates for purchase: But we do not decide which are the best purchases until we have gone over all the groups, selecting first the candidates and then the best of these after consulting the individual charts.

A glance at the Food Stocks shows us that seven out of eight are in a position to have long up swings. The same is true of a majority of the Gas and Power Stocks, 7 out of 11 being in position 2. Motor Accessories have 2 out of 4; and Chain Stores 4 out of 5 in Position 2. Both the Mail Order Stocks are also in that position.

Having gone through the entire list, we find that the groups in the strongest position are the Food, Gas and Power, Chain Store and Mail Order. So we decide to confine our operations to these groups because we thus get the benefit of what may be called group strength, explained thus: If seven stocks out of eight are in a very bullish position and indicate a long move, all or most of these are likely to respond to buying waves, and should tend to resist reactions, in the market, and if we buy the stocks in that group which seem in a position to move soonest, fastest and farthest, preferably one or more that may be on the springboard, we benefit by the lifting power inherent in the group.

We now make a list of the stocks in the above groups that are in positions 1 and 2. We find these to be as follows:

FOOD STOCKS: General Foods, Gold Dust, Standard Brands.

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GAS AND POWER STOCKS: American & Foreign Power, Consolidated Gas, North American, Public Service of New Jersey.

CHAIN-STORE STOCKS: Drug, Inc., Safeway.

MAIL ORDER STOCKS: Montgomery Ward, Sears, Roebuck.

If we desire a wider selection, we can include among our candidates the following: General Electric, Standard Oil of N. J. and Standard Oil of Calif., Auburn Motor, Reynolds B, International Nickel, American Tel. & Tel., Bendix, Electric Auto-Lite, Radio Corporation and Burroughs Adding Machine, because all of these stocks are in Positions 1 and 2 although their groups are not in so strong a position for the long upward swing as those mentioned above.

Bear in mind this is not the position of these stocks today, but one which prevailed a long time ago and has since changed. It is used for illustration only.

Next we take the charts of all these twenty-two stocks and favoring the four strongest groups, select whatever number of the very best we wish to purchase. We consider each stock in turn. Suppose we wish to buy five or ten stocks: After comparing them with each other and with our Trend Chart (following the principles outlined in Section 8M) we discard the weakest until only the five or the ten which represent our final choice remain. If we are keeping the Group Averages in vertical line chart form, a further comparison of our individual stock selections with these averages will materially aid us in making our final choice (Sect. 8M).

Having decided which stocks to buy, we make our purchases according to the condition of the market at the time we arrive at our decision as shown by a Wave Chart, and the technical position of each stock as shown by our individual vertical line charts. Our aim is to time all of our purchases so that we will be buying on the down waves in the general market in any case (Sect. 5M). But we may find, from our individual vertical charts, that the day to buy some of these stocks is not-the best day to buy others (Sect. 8M, Pgs.19, 20, 21, 22 & 23,

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comparing group movements), so we must also aim to time each individual commitment to the best advantage. If there is a stock ticker available and we have attained proficiency in tape reading, we may draw our timing down to a very fine point by watching the small hourly buying and selling waves for the right moment (fully explained in "Tape Reading and Active Trading" — Division 2 of this Course). However, the average trader and investor should not concern himself with such refinement. He will do much better by religiously remaining away from the stock ticker and avoiding brokers' offices (Sect. 24M, Pg. 7) since he can employ the Wave Chart very effectively for this purpose, making decisions in the quiet of his home in the evening or early morning, on the basis of each day's action as revealed in detail by a Wave Chart of Tape Readings (Sect. 22M, Pg. 2, Par. 3).

If our studies show the market is temporarily weak, or some of our individual selections show indications of receding before they advance, we wait for the reaction to run its course and then buy. But, if it appears that the market is gaining in strength and volume, and we judge that delay might cause us to pay higher prices, we buy at once at the market prices for these stocks.

In making changes on the Position Sheet, the simplest way is to rub out those which require alteration instead of making a new sheet. For that reason the crosses should be made in pencil and not in ink; hence, a single sheet will last a long time. However, before making any alterations in the individual positions or the summary for any given day, it is wise to tabulate this summary or make a chart of it for a permanent record, because this record may be used as a very valuable trend forecaster. For instance, consider the following tabulation, or record, of a daily Position Sheet summary which was kept during 1929. The figures in this table show how many stocks were in Position 1, how many in Position 2 and how many were in Positions 3 and 4 for each one of the dates indicated in the extreme lefthand vertical column of the table:

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DATE 1929	RALLIES (Position 1)	ADVANCES (Position 2)	REACTIONS (Position 3)	DECLINES (Position 4)
Mar. 1	156	149	63	10
2	125	143	68	11
4	100	132	110	12
5	97	130	110	12
6	105	132	81	13
7	101	132	81	14
8	89	130	96	15
9	86	127	106	16
11	98	120	104	17
12	106	111	100	18

From the above, it is readily apparent that by setting down the totals as they appear on our Position Sheet each day, in the fond of a table, these summarized totals will reflect our forecasts of changes in: the trend. For instance, scanning the third column of the table above and reading from the top (March 1) down (to March 12) we see at once that the number of stocks in a position to have a large move upward was gradually diminishing. At the same time, the number of stocks in position to have a long downward swing (see last column, representing Position 4) was tending to increase somewhat. This tendency to change affords a most significant picture of our constantly revised judgment of the present position and probable trend of the market as a whole. Thus, in the case of the above tabulation, the diminishing number of stocks in Position 2, together with the tendency toward increase in the number of stocks in bearish positions warns us to become wary of the bull side of the market as a whole, and especially so with respect to the individual stocks that are developing Position 4.

The second and fourth columns of our tabulation show how the number of stocks in Positions 1 and 3 are changing from day to day. These figures, of course, are also taken from our summarized totals as recorded upon the Position Sheet each day. They represent our judgment with respect to the probabilities for minor moves up and down (rallies and reactions) in the various individual stocks on which our completed Position Sheet is based. These totals, naturally, will change more frequently and less regularly than those representing positions

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2 and 4. But by scanning our table as before, and observing the effect of new daily additions, any tendency toward a persistent increase or decrease in potential rallies and reactions may be noted and from this we are able to judge whether the market's technical position is growing stronger or weaker. For example, in our illustration, note how the number of stocks in a position to rally (Position 1) was persistently diminishing; from March lst to 12th and how the number of stocks in a position to react (Position 3) tended persistently to increase, thus giving us advance warning of an impending setback in the general market.

As the Chinese say, "One picture is worth a thousand words." Thus, a chart or graph will reveal any significant trend in a series of related figures more readily than a tabulation. Therefore, instead of setting down our summarized Position Sheet totals in the form of a daily table, we prefer to plot these figures in the form of a chart, constituting what may be called a Technical Position Barometer.

Such a Barometer may be constructed quickly and conveniently on an ordinary sheet of cross section paper ruled ten squares to the inch, as illustrated by the specimen on the next page, which also shows the proper method of dividing the sheet into two parts. The upper half of the sheet should be used for plotting the figures which will form the curves representing the number of stocks in positions 1 and 3. The lower half of the sheet provides space for plotting the curves which will represent positions 2 and 4. The vertical scale at the extreme left of the sheet may be adjusted to conform with the number of stocks you are covering in your Position Sheet. For example, if your Position Sheet covers 100 stocks, mark off the scale of your Technical Position Barometer as shown in the specimen sheet, laying out the scale representing positions 1 and 2 to read upward from the zero (or base) lines, and downward for positions 3 and 4. If your Position Sheet covers, say, only 25 stocks, these scales should read upward from 0 to +25 and downward from 0 to -25.

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A sample of a Technical Position Barometer, constructed as above explained, is shown on Page 19. This Barometer is based on the daily analysis of 360 individual stocks during the period of late February to early August, 1929. The dates are indicated by the horizontal scale across the bottom of the chart. The changing totals of stocks in positions 1, 2, 3 and 4 are represented by the curves which run across the sheet from left to right.

These curves are drawn through the points on the graph paper where the vertical line, representing a given date, intersects the horizontal line corresponding with the number of stocks in a given position. So you will understand this clearly, turn back to the Table on Page 12. On March 1, our Position Sheet indicated there were 156 stocks in position 1. Now turn to the chart on Page 19. Find the date March 1 on the time scale running across the bottom of the chart. Then run your pencil up from the bottom of the chart to the upper base line above which you are to plot your curve representing the number 1 positions. Pause there a moment. Now move your pencil upward again until the point comes opposite the level which most nearly corresponds with the figure 156 in the scale of numbers at the left-hand margin of the chart. Put a dot here. Proceed in the same way to locate the dots for March 2nd, 3rd, etc. By connecting these dots you will make a curve which gives a graphic picture of the daily changes in your summarized total of stocks in position 1, as they appeared originally on your Position Sheet.

The curve for position 2 is located in the same way, that is, by placing a dot each day in the proper position on the graph paper, <u>above</u> the lower base line. But bear in mind that you must measure <u>down</u> from the upper base line to locate the curve for position 3 and <u>down</u> from the lower base line for position 4. A comparison of the dots on the Technical Position Barometer graph, Page 19, with the figures in the Table on Page 12 will illustrate the idea fully.

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The indicated number of rallies (curve 1) are plotted above the upper or minor move-base (6-0) line, and the indicated number of reactions (curve 3) below the same base line. In like manner, the indicated number of advances (curve 2) are plotted above the lower or major swing base line, and the indicated number of declines (curve 4) below the same base line. Thus we have a set of four curves which graphically indicate the daily changes in the number of stocks developing potentialities for minor and major moves as they are forecast by our Position Sheet. From these curves we can see at a glance whether the total number of stocks in positions for minor moves (Positions 1 and 3) or major swings (Positions 2 and 4) is increasing or decreasing from day to day, and thereby conclude that the market's position is becoming either stronger or weaker. We should be influenced in our trading or investment commitments accordingly. (Compare the indications of the Technical Position Barometer, Page 19, with the Trend Chart on Page 18; note how effectively it forewarns us of impending minor and intermediate moves in the market.)

The record of your Position Sheet nay be expanded, if you wish, by adding duplicate columns for each of the Positions 1, 2, 3 and 4, in which figures are inserted to indicate the number of points you expect each stock to move. The advantage of this procedure is that one can see at a glance which group and which stocks afford the greatest number of points probable profit on either side of the market, for either the minor or major swings.

A variation of this plan would be to indicate in red, or some other color, the probable number of points that a stock is likely to move, substituting these colored figures for the conventional check mark, or "x" which is used to designate the direction only. This would eliminate the necessity of the additional parallel columns.

As your Position Sheet analysis is adjusted from day to day, these figures indicating the probable extent of the moves should be changed to show the number of points remaining out of the original objective in each individual fore-

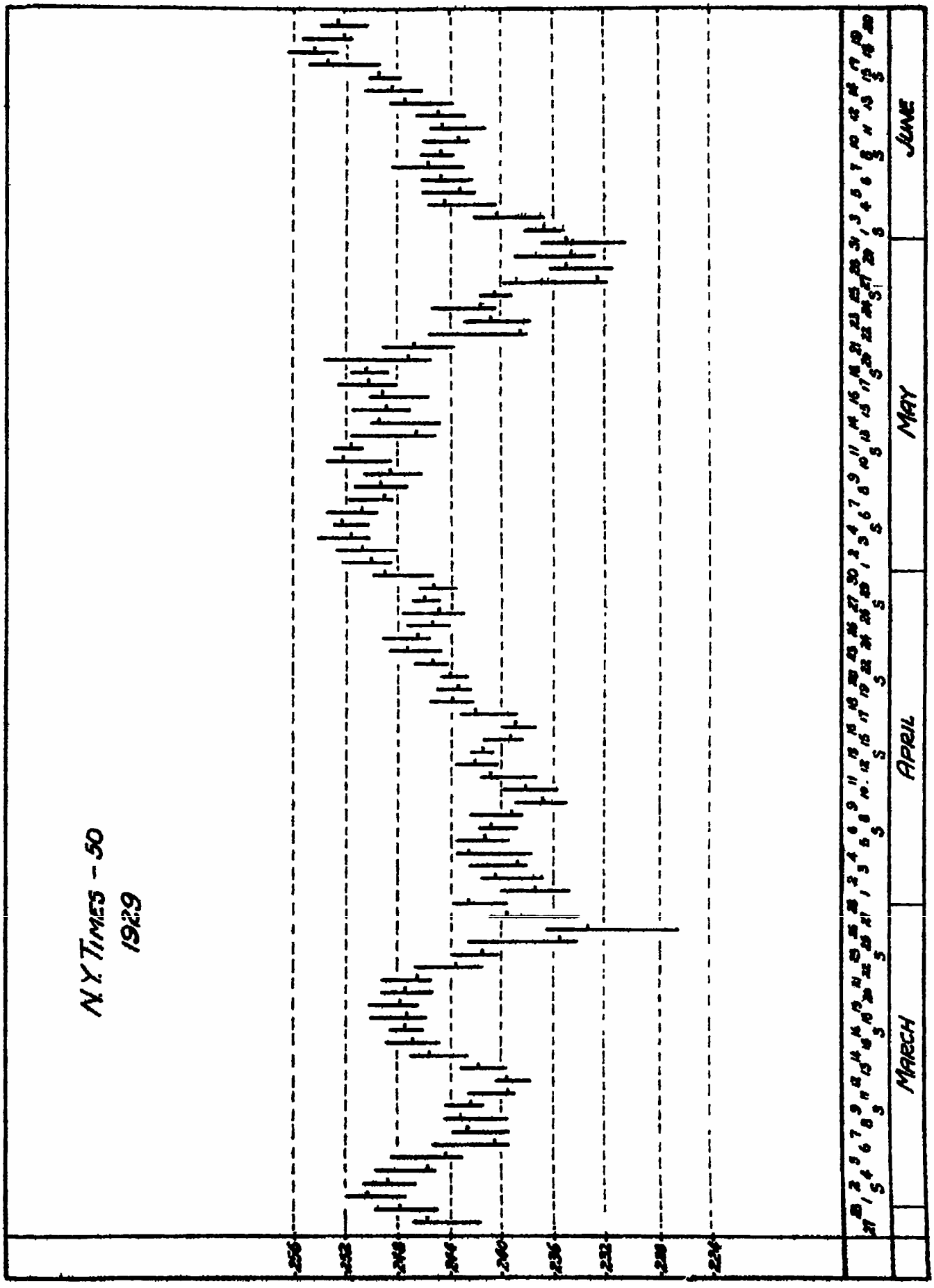
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cast. That is, the figures should be reduced (or increased if necessary) to show how many points advance or decline remain to be accomplished. Thus, your Position Sheet will constitute a continually readjusted record of the latest probabilities.

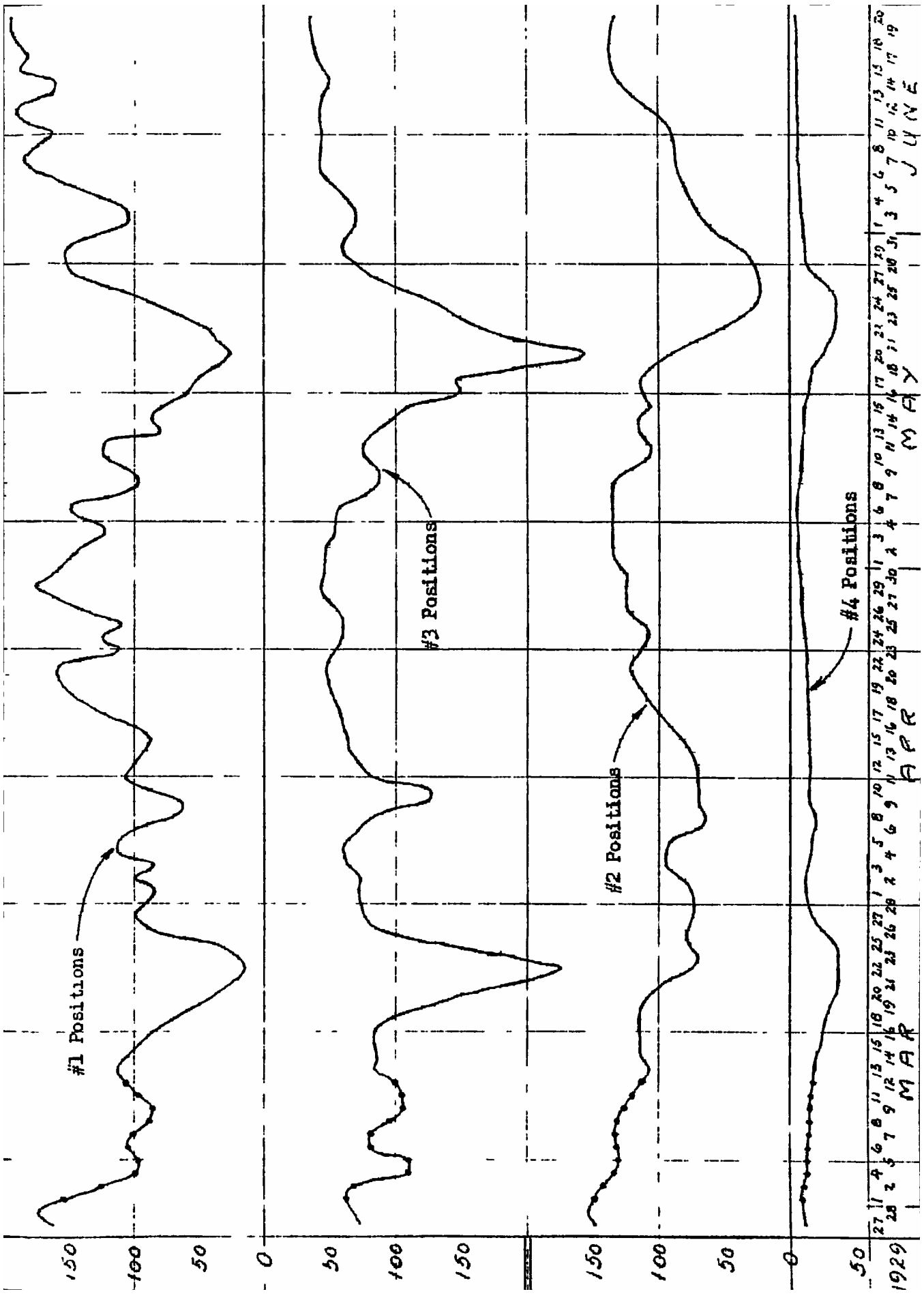
The easiest way to keep the Position Sheet in the least time is to have it before you when you make your daily entries on your charts. After noting the changes on the charts of each stock, consider for a moment whether that stock is in Position 1, 2, 3 or 4, and note it on the Position Sheet. If its position is neutral you, of course, make no entry at all on the Position Sheet. Thus, when you have finished entering the day's changes your Position Sheet is up to date. You then study the effect of these changes according to groups, noting whether any of the stocks you are in, long or short, are developing a stronger or weaker position. You note also whether any of the other stocks promise possibilities for timely long or short commitments.

Next note the total number of positions in each of the four vertical columns of the sheet and record these totals in the Summary. Then plot these totals on your Technical Position Barometer (as previously explained). It will require but a few moments to decide whether the trend shows a tendency to alter. If you are not keeping the Barometer, compare the grand totals in your Position Sheet Summary with those of the previous day and note the changes. You will readily see, by these means, whether the day's alteration has had any effect on the tendency of the whole market — whether it is more bullish or bearish; or if it is working into a doubtful position, which would mean that you should be neutral on the market, and out of all stocks.

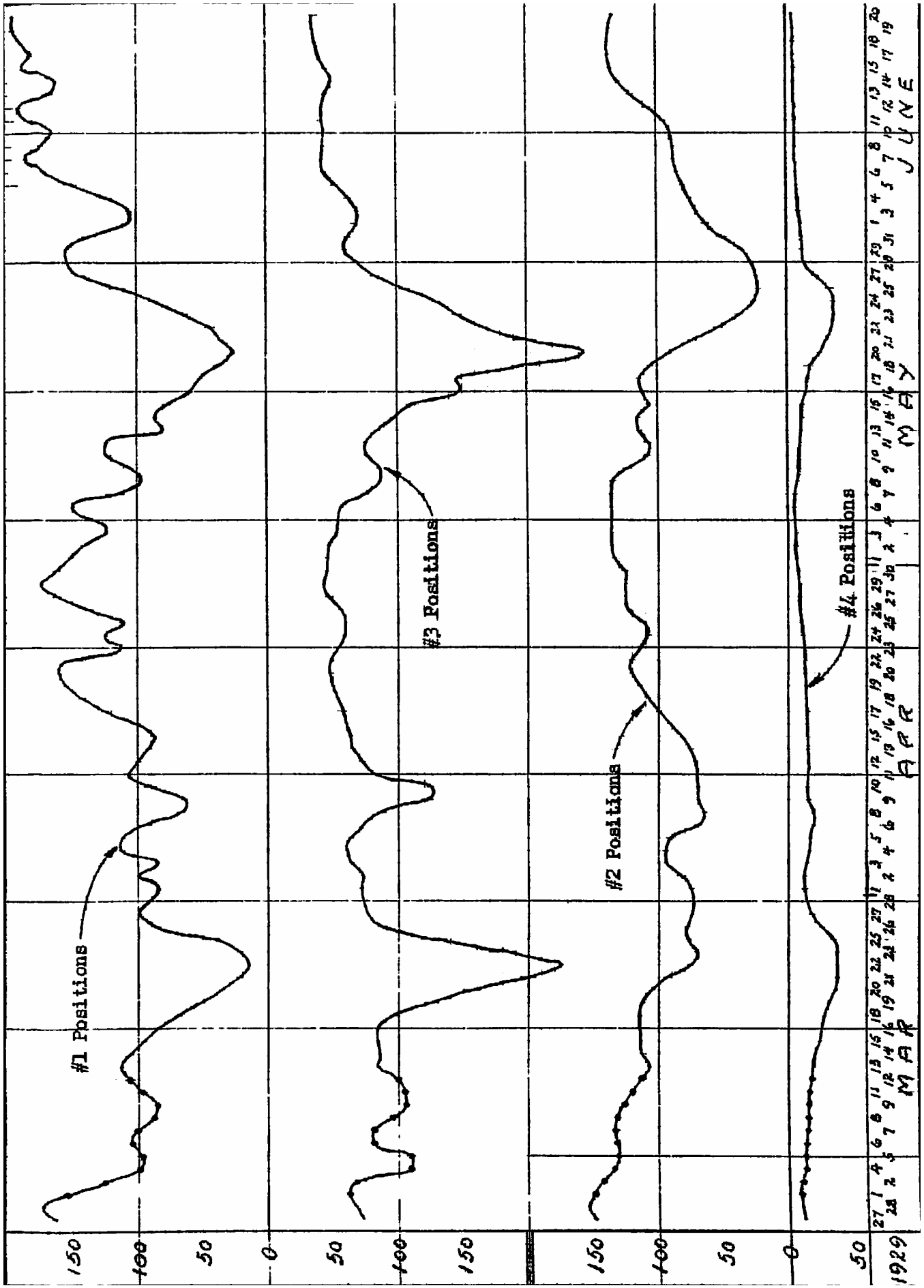
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HOW TO DETERMINE THE TECHNICAL POSITION OF AN INDIVIDUAL STOCK

The Position Sheet described in Section 18M requires the determination of the technical position of as few, or as many, stocks as we wish to include therein. In Section 18M, Pages 4 and 5, we explain the five different positions in which a stock may stand; or it may be a combination of these positions. The following examples will show how to determine in which (one or more) of the five positions any stock, or an average, stands at any time. In order to study these it is advisable to remove the charts from the binder.

In deciding these positions we must bear in mind the principles brought out in Section 14M and Section 16M, Pgs. 1 to 4, so it would be well for you to review these sections carefully before proceeding further.

As you will appreciate from this review, the turning points of the minor moves can best be judged from vertical charts. The figure chart, being less sensitive, is apt to develop indications of ah impending minor move sluggishly, or too late for you to anticipate the actual turning point; or, a substantial part of these minor moves may tie over before you can arrive at your decision. Therefore, you should determine Positions 1 and 3 by means of your vertical charts (or the equivalent — Sect. 4M, Pgs. 22 & 23).

Preliminary decisions may be made with respect to Positions 2 and 4 from your figure charts alone. As you acquire experience, you will find that you are able to judge these positions more and more accurately from the figure charts. But even then it is advisable to check your conclusions with the aid of vertical charts (or their equivalent).

On the Bull Side: In order to get into Position 1 a stock (or an average) must give indications of ability to develop a minor move upward. This may be: (1) in the nature of a rally from a low point; (2) at a level where the indicated

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minor move is the forerunner of a large advance; or (3) at a level in a trading range where the stock, by its own action, indicates the probability of a small move up through the previous tops of the range.

In order to get into Position 2 a stock (or an average) must give indications of preparation for a large advance. This may be: (l) at the bottom of a downward movement whore it gives evidence of being under accumulation; or (2) in a period of rest following a previous advance whore it gives evidence of absorption (reaccumulation) in preparation for a further advance. A stock may also be placed in Position 2 when, by its own action, it shows ability to advance persistently — recording a series of higher tops and bottoms on successive minor moves — even though there has been no apparent evidence of previous preparation for the advance (Sect. 21M, Pg. 3, Par. 4).

On the Bear Side: In order to get into Position, 3 a stock (or an average) must give indications of a probable small move downward. This may be: (l) in the nature of a reaction from a high point; (2) at a level where the indicated minor move is the forerunner of a large decline; or (3) at a level in u trading range where, by its own action, the stock has shown inability to rally and thus indicates the probability of a small move down through the previous supporting level.

In order to get into Position 4 a stock (or an average) must give indications of preparation for a large decline. This may be: (1) at the top of an advance where it gives evidence of being under distribution; or (2) in a period of rest after a previous decline where it gives evidence of meeting new supply (redistribution) in preparation for a further decline. Or, it may logically be placed in Position 4 when, by its own action, it gives indications of ability to decline persistently — recording a series of lowering bottoms and tops on successive minor moves — even though there has been no clear cut evidence of previous distribution (preparation) for the decline.

In brief, we assign a number 1 or 3 position to a stock whenever our judg-

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ment of its behavior leads us to anticipate a small move up or down — provided the extent of the indicated movement meets the requirements of the definitions given on Pages 4 and 5, Section 18M. Likewise, we assign a 2 or a 4 position whenever our analysis of a stock's behavior leads us to anticipate a large move up or down —provided the extent of the indicated movement fulfills the requirements of the definitions given on Page 5, Section 18M.

It is important to note that Position 1 may build up into Position 2 and Position 3 may build up into Position 4; but the reverse is not true. It may become necessary: (1) to cancel an established 2 or 4 position, or (2) to change these positions to Neutral, or (3) to transfer a stock from Position 2 to Position 4, and vice versa. But these positions should not be reduced to 1 or 3. For instance, suppose you have placed a stock in Position 4 in the expectation that it will decline 23 points. If it subsequently declines 18 points, do not reduce the originally established 4 Position to Position 3 simply because the stock may have only 5 more points to go. Leave it in Position 4 until you have reason to believe that it cannot fulfill the original indication; or until its action becomes doubtful (when you should change it to Neutral). Or, if it accomplishes its objective, continue to let the originally established position stand until the stock's action otherwise warns you of an impending change of trend.

The advantage of this last mentioned procedure is that, should a stock merely go into a resting spell after it has attained one objective and then show that it intends to extend that original objective, your previously assigned 2 or 4 position will continue properly to reflect its possibilities.

A Neutral Portion develops, as already explained, when there is no definite indication of a move in either direction; or when we are in doubt as to the ability of a stock to move decisively either way. This may be: (1) when it gives tentative, but not wholly convincing, indications of having exhausted its rally (Position 1) or reaction (Position 3) possibilities, that is, when it

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leaves us temporarily in doubt as to whether it may rally or react further, or reverse; (2) at a point in an advance (Position 2) or a decline (Position 4) where the price begins to hesitate or otherwise gives tentative, but not wholly convincing, indications of a possible change of trend; (3) when its price movement and volume indications are so contradictory or inconclusive as to leave us in doubt; and (4) when extreme dullness prevails in a narrow trading range, or the price is swinging up and down in a trading zone without giving indications of developing any well defined trend.

Contrary to what most people believe, a neutral position is important. It has advantages as fully as any other position because it is just as vital for you to know what stocks to avoid as it is to know which to buy or sell: to know when to stay out as well as when to go in.

It is a mistake to suppose that you must be in the market (long or short) all of the time. It is also wrong to believe that you must always be able to arrive at a bullish or a bearish conclusion and that you have no choice except between these two positions. (See Sect. 25M, Pg. 7, Par. 2.)

To take a position when you are in doubt, or when the indications are not clear, is to invite almost certain loss. It is true that there may be times when a neutral position may lose you an opportunity, but there are plenty of other opportunities coming along — daily, weekly or monthly. Have patience to watch and wait for these. Learn to bide your time so that, when you do make a commitment, you can do so with your stop order placed where the risk will be in proper proportion to the indicated probable profit. Should you miss a logical buying or selling opportunity, stay neutral until you get another chance to establish a logical position. In other words, do not run after a stock if it should got away from you merely because you fear it will never again give you a chance to get in. Let somebody else take the risk of playing with that stock while you wait for the next opportune moment to get into it — or search for another opportunity.

Most people take positions merely because they think they are missing op-

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portunities; because they fear the market may get away from them; or because they feel that a neutral position is a reflection upon their judgment. Those who operate in that way are running unknown and unnecessary risks.

There are situations which make it impossible for anybody to see the outcome with certainty (though you probably can find plenty of people who are willing to guess it for you — at your expense). A neutral position is always best in such periods of doubt and uncertainty. Do not fear to be out of the market entirely at such times. Such periods are frequent. The big interests do not attempt to force the issue when conditions will not favor their plans — so why should you? They frequently let the market rest to see what it will do when left to itself.

Nothing clears the mind like a shift to a neutral position after the completion of a campaign. (Sect. 25M, Pg. 4, Par. 3.)

Do not permit prejudice in politics nor prejudice due to personal commitments to bias your judgment. Never, under any circumstance, take a position in the market merely because you feel that you must make some money now, right away, because you need a new car or a new suit of clothes. If that is your only reason, you are likely to find yourself without a spare tire — or a shirt. Purchases and sales should be made only when they are indicated by technical considerations. Let the market be your boss. Obey its dictates. It will not be swayed by what you and I may want — by what we hope or fear.

Let us now endeavor to apply the above to our purpose, as expressed in the first paragraph of this Section:

Turning to the charts on Pages 8 to 10, Sect. 9M and reviewing the text in connection therewith, Section 10M, Page 1, Pars. 2 and 3, we see that this stock is in a neutral position during the first two weeks of the movement recorded on the vertical chart (duplicated on the figure chart by the first two columns of figures at the left of the page). It is neutral because, as yet, we have had no clear indications of a move in either direction; so far as we can tell from the

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limited background on our charts, thé stock seems to be in a small trading range between 30 and 34.

However, when it rises to 35 1/2 (at C on vertical chart) we have some basis for formulating a conclusion. Thus, we note that the price has now been rising steadily four successive days and on the last of these days there is a marked increase in volume which suggests a buying climax. The following session seems to confirm this, for, after making a fractionally higher top of 35 5/8 the price reacts, wiping out all of the previous day's gain and the closing is near the low. We therefore conclude the stock is due for a reaction. Accordingly, we may reflect this expectation by placing the stock tentatively in Position 3. We put it in that position tentatively, but not 'positively because we still have insufficient evidence to judge how much it might react. A normal reaction would be to about 32 (halfway back to 30). The one point figure chart (at C-D) shows a line of two 34s which confirms this, but to get into a definite 3 Position we should have grounds for expecting a setback of at least ,5, and preferably 4, points since the latter would fulfill our requirements of an approximate 10% shrinkage in price. (Sect. 18M, Pg. 5, Par. 2.)

After completing the more or less expected normal reaction to 32, the stock shows it is still in a weak technical position. That is, instead of rallying easily, the price goes into a narrow range with volume shrinking as it tries to rally. It has now worked into an apex or dead center (at F), as explained in paragraph 5, page 1 (Sect. 10M) which you should read over again at this point. Obviously our tentative Position 3 has now become definite for the reasons given just above and in the previous text. Moreover, our figure chart now shows a line of three 33s, forecasting a dip back to 30.

At G we prepare to cancel our 3 Position, but without actually doing so. Reasons for being ready to cancel it: (1) The last phase of the drop from D is precipitous, creating the possibility of an oversold position as the price strikes a previous supporting level; (2) volume has increased rather sharply on the drop

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to 29 5/9 thereby suggesting the possibility of a minor selling climax; and (3) next day, although the price makes a hew low (at H) and the closing is on the bottom, the downward thrust has shortened with volume still comparatively heavy, indicating that on this and the previous day somebody is holding the bag for the sailors — a large demand is overcoming large supply — the buying is of better quality than the selling; (4) the reaction has fulfilled the figure chart objective.

If the above reasoning is incorrect, that is, if it should later turn out that the increasing volume to G should have been interpreted to mean that liquidation is breaking out, we probably will be warned of this by the stock's inability to rally convincingly from the critical supporting level around 30. We are not likely to be long in doubt. Should it rally poorly, as it did previously at F, or should the price continue to decline on increasing volume, we must let our 3 Position stand. But if it quiets down and tends to hold, we must conclude that this means the break to a new low is failing to follow through.

Volume is low over the next two sessions and the price moves laterally in a narrow range. This looks as if the selling pressure were lifting — volume is diminishing at the bottom of the reaction. At first glance it might seem that the action at G is the same as at E. But the important difference is that the situation around G is much more critical since the stock is now at the bottom of a trading range where it has twice previously been supported, so if the support comes in here again we would have presumptive evidence of possible accumulation. Moreover, it may now be considerably oversold and hence in a position dangerous to shorts. The more expert of these shorts will be disposed to cover quickly if they find that no further offerings are coming into the market. Note also that the three days' sidewise movement (or lack of further progress on the downside — right of G) has put the stock in a position to penetrate the minor trend supply running from the high point at D through F. If it should begin to rally it will break the angle of this downward movement from 35 5/8.

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With the indications thus finely balanced between bullish and bearish possibilities, we decide to cancel our 3 Position and change it to Neutral, while we wait for further and more definite indications.

Our one point figure chart now shows a line of five 30s, (A to G) but we are not justified in accepting this as a basis for a recovery to 35 because, as our vertical chart analysis shows, too much still depends on what the stock will do next. If the demand around 30 is of better quality than the selling, chances are the stock will first stage a part-way (50%) recovery of the loss from D to H. This is not enough to put it in Position 1. Furthermore, we can judge better what its possibilities are by the way it rallies and by what it does if and when it reacts after such a normal technical recovery.

Next day it confirms our first suspicions (see Par. 3, Page 6) by rising through our minor trend supply line D-F. Volume is almost as large in the two-hour (Saturday) session as on the two preceding days. Relatively, therefore, volume has increased on the rally — a bullish sign. (*) We expect the rally to continue. It does next day, but a volume surge warns us to be on the lookout for another change, especially since (at I) the stock is close to completing the anticipated part-way recovery. It <u>may</u> rally further or react at once. We shall have to watch this next reaction carefully because the price is still close to the critical 30 level and, unless it continues to meet support, we shall have to restore the 3 Position.

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* While it is not well arbitrarily to double all Saturday volumes, situations of this sort frequently arise where mentally doubling the actual volume of a two-hour session will indicate the relative change of Saturday volume more clearly and afford a more significant basis of comparison with the full five-hour sessions.

A good way to do this is plot Saturday volumes on your vertical charts as they actually occur. Then place a small letter "s" above the vertical bar. Locate the "s" so that the top of the letter will come to the level where the vertical line would end if you doubled it. Or, you may prefer to use only the vertical bar to indicate Saturday volume, making the lower half solid to show the actual volume for that day, and the upper half dotted to show what it would be if doubled in all cases.

The first mentioned procedure has been followed in constructing all of the vertical charts in this volume. (Footnote continued on next page.)

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A quick reaction from I, cancelling all of two days' previous rise, before the stock can recover fully 50% of the loss from D to H, puts us on the anxious seat if we have been inclined to become bullish. Volume is less, but not decisively smaller and the low closing leaves the price hanging perilously hear the former lows. We are still Neutral but on the alert to swing with it whichever way it goes next.

Two more session pass and we now (at J) decide to become bullish and place the stock in Position 1. Our reasons: If it were the intention of the operator in this stock to drive it lower, instead of supporting it, he most probably would have followed up the advantage of the less than normal rally (to I) at once, utilizing this weak rally indication to frighten holders so they would be driven to liquidate on a drive through the previous low points G-H. Instead of following through on the down side (at J), the price comes to rest at a higher level; and on fairly constant volume it begins to move sidewise, with the low points (around J) tending to edge upward. This looks like good buying rather than good selling. Between G and J the stock has been nine days moving laterally around the bottom of the range 30-55. Thus it has laid a base which should support a more aggressive rally than the previous one (to I). On the one point chart, this

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The advantage of the above methods, as compared with arbitrarily doubling all Saturday volumes, may be seen by considering the two examples at F and at O on the vertical chart, Sect. 9M,; Pg. 9. By first considering the actual Saturday volume at F, our attention is immediately brought to the fact that the stock has worked out to a dead center or pivot, on impression that might be lost if the volume were arbitrarily doubled. Second, if we consider the volume as is, we see that it was very light on a rally. And third, on the other hand, if we consider the volume as being doubled, our reaction is still bearish because, on the basis of the doubled volume, we see that the price has recorded practically no gain on volume that is relatively high compared with the several preceding sessions. In other words, the price on this day has risen only an eighth of a point above that of the previous day and the range has narrowed as it tries to rally, denoting a shortening of an upthrust on relatively large volume.

Again, between O & P, note how by first considering the actual volume we get a clear impression of the true significance of the volume indication, which would be lost if the Saturday volume had been doubled arbitrarily. Thus, the actual volume shows a continuing and sharp shrinkage on a reaction, showing that there is little stock for sale on the setback (no pressure). These impressions and the appearance of another dead center, might be destroyed if the volume had been doubled as a matter of iron clad rule.

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amounts to a count of three 30s at J; and, if we take in the full width of the supporting level across 30 (A to J) we find it stretches out to a; total of 7 which would qualify for a Position 2. (Sect. 18M, Pg. 5, Par. 1.)

However, we do not put the stock definitely in Position 2, yet, because, as our studies so far have indicated (reread Sect. 10M, Par. 2, Pg. 2 down through Par. 3, Pg. 3) we are not convinced that the campaign of accumulation has been completed. Until there are additional indications of preparation and until we have reason to believe that tie period of preparation is nearing completion, we do not wish to become too enthusiastically bullish. We must recognize that there may be a number of tracing swings before the psychological time comes to buy, and we cannot be certain at this early stage of the campaign that a worth while advance may get under way. Should the stock immediately fulfill the limited 7 point objective we now have on the figure chart, that might be the end of the move and we should prefer a more substantial opportunity. Under these conditions Position 1 sufficiently reflects its possibilities.

On the day following J, the price rallies easily (indicated by the wider spread between high and low) on comparatively light volume, indicating .that the previous accumulation has created a scarcity of offerings. This rise takes the price out of the downward angle represented by our readjusted supply line D-I. It shows more strength by following through on the up side next day, with no hesitation around the previous (I) rally top.

But at K we cancel Position 1 and put it in Neutral again. It gets into Position 3 here because: (1) the rise from J to K has been abrupt, creating ah overbought condition; (2) the price is running into a resistance area — the former top between 34-35 at C-D; (3) the upthrust to 33 7/8 (K) cannot be sustained as indicated by an immediate reversal of this day's bulge — note the low closing; (4) volume is climactic on what appears to be the top of the rally; and (5) the stock has accomplished its Immediate (G-J) figure chart objective.

We have no indication as to how far it will react, except to estimate that

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it may go halfway back to 30. However, as we suspect the stock is under accumulation, we surmise the operator is more likely to let it go all the way back to 30 or thereabouts — that he probably will prefer to let it appear dull and weak for a while in order to shake off any outside following attracted by the run up to K. On this basis, we may, if we wish, put the stock in Position 3 instead of merely Neutral.

At L it goes into Neutral Position again, having fulfilled our surmise of a reaction back to 30. It stays in this position until it reaches M where a two weeks' dull sagging movement exhausts itself in a quick dip to the supporting level without bringing out any quantity of offerings, (as explained in Sect. 10M, Pg. 4, Line 7). You accordingly put the stock in Position 1 here on the strength of these bullish indications, reasoning that it is now ready to go up without further material reactions. You also put it definitely in Position 2 at this point.

The base on the one point figure chart has stretched out to a count of eleven on the line of 30s, including four blanks. The rally at N, next day, increases this to twelve 30s, including five blanks and the three point chart promises a rise of 21 points. With the stock in Positions 1 and 2 and on the springboard, ready to go, you, of course, buy as already explained in Sect. 10M, Pg. 3, Par. 1 and Pg. 4.

With the above detailed explanation as a foundation, you should have no difficulty in identifying subsequent changes of position. We will indicate these for you as they appear from here on with the recommendation that you determine the reasons for them yourself in order to get the necessary practice and thus firmly implant the principles above developed in your mind. Before doing this, review the preceding discussion carefully. At the same time, mark the various positions directly on the chart as you reread the text. Then mark the rest of the chart in the same way as you follow the further movements of this typical campaign from N onward.

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At O, minor trend Neutral, intermediate trend Position 2
At P, " " " " "
At Q, " Position 1, " " "
At R, " Neutral, " " "
At S, " Position 1, " " "
At T, " Neutral, " " "
At U, " Position 1, " " "
At W, " Neutral, " " "
At X, " Position 1, " " "
At Y, " Position 3, " " " (unchanged)

The stock gets into Position 3 at Y because of: (1) The excessively large volume appearing after a steep rise which (2) has brought the price up to the indicated 3 point figure chart objective and (3) the quick reversal on heavy volume, plus inability to make further progress in proportion with this heavy volume. Position 2 is allowed to stand for the time being as we cannot tell yet whether the operator will elect to complete his campaign by distributing the balance of his stock on the way down from 50 3/4; whether he may support it on a corrective reaction and then finish distributing on rallies back to or around the 50-51 level; or whether he — or some other interests — may reaccumulate for a new advance.

Also, our figure charts do not, as yet, show any evidence of a top forming which leads us to conclude that the 2 Position should be allowed to stand, pending further indications.

Volume continues very heavy as the stock starts downward from Y. At first this looks like a case of distributing on the way down from the high point, in which event it is possible the stock might drop some distance without first developing a congestion area (or horizontal formation) around the high point on the figure chart. Therefore, on the basis of what the vertical chart indicates we either cancel Position 2 and call it Neutral — but net Position 4; or, if we prefer, we may leave it in Position 2 but with a question mark behind this entry on our Position Sheet (thus:- x?) to show the doubt in our mind. Having

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taken profits on our long stock (see Sect. 10M, Pg. 6, Par. 4), we are quite willing to stand aside while we wait to see how it behaves on a further reaction. Our Position 3, meanwhile, will take care of the possibilities of a further setback.

As the reaction continues to 45 5/8 (at Z) and volume dries up there, showing the reaction is over, we look for a rally back toward the previous high so: At Z, the minor trend indicates Position 1 and Position 2 still stands.

At AA, the minor trend indicates Position 3 and Position 2 is changed definitely to Position 4.

At BB, it goes back into Position 1 and Position 4 is cancelled, becoming Neutral.

The support coming in at Z and again at BB suggests that the trading range 46-50 may turn out to be an area of absorption for a new advance of 12 points, see figure chart and review Sect. 10M, Last Par., Pg. 7 through Par. 3, Pg. 8. If you will now turn the vertical charts upside down and hold them against the light so you can see the picture in reverse, you will appreciate the reason for this more readily. Looking at the charts in reverse like this gives the clear impression that the minor moves to Z and BB merely mark-a resting spell preceding a further important swing in the direction of DD. You will find this plan of looking at your charts in reverse, so that a down move takes on the appearance of an upswing, and vice versa, frequently is very helpful in judging turning points. It enables you to see both sides of the, market without the prejudice which leads some operators to develop either a "bull complex" or a "bear complex" from always looking at things through the; same eyes.

At BB, the tendency of the bottoms of the daily price movement to round upward indicates that the market for this stock is now sold out. Hence the light volume means light demand is putting the price up, a condition that frequently is characteristic of such situations, where the short interest suddenly wakes up to the fact that it has sold itself "into the bag." These shorts first

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try quietly to cover without bidding the price up against themselves. But this cautious bidding finds offerings scarce and the price inclined to "sneak" up. Result: The shorts become apprehensive. Other traders, sensing the sold out condition, begin to buy quietly also, thereby increasing the anxiety of the shorts until the stock's manager takes advantage of their dilemma to run the price up. Thereupon, a scramble to cover ensues; demand become brisk end volume increases — but not until the rise is partly underway. Hence:

At CC, we place our hypothetical stock in							Position	1	and	Position	2.
At DD, the indications are that it is in							"	5	"	"	2.
At the numeral 7	"	"	"	"	"	"	"	1	"	"	2.
At FF,	"	"	"	"	"	"	"	3	"	"	5.
At KK,	"	"	"	"	"	"	"	1	"	"	5.
At LL,	"	"	"	"	"	"	"	3	"	"	5.
At MM,	"	"	"	"	"	"	"	5	"	"	5.
At NM,	"	"	"	"	"	"	"	3	"	"	5.

With the above illustrations before you, you should next practice assigning positions to the balance of the chart and to the situations discussed in Sections 7M, 16M and 17M. By reading the text of these sections over again, you can decide what positions are developing. Mark these on the charts as you go along. This will help to fix the idea of determining positions still more firmly in your mind. If you have any difficulty, consult us and we shall be glad to help you.

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BUYING AND SELLING TESTS

Coordinating Your Studies

In reading over the preceding Sections, it may seem to you that the analysis of the market's action and the behavior of individual stocks is quite complex, requiring a large expenditure of time and effort. This is a perfectly natural reaction and one that is common to all students taking up a new subject. Therefore, we caution you against any inclination to grow faint-hearted and to wish for short cuts. Only perseverance can bring understanding and ultimate success.

Instruction must necessarily go into detail in order to properly equip students. Even so simple a subject as arithmetic seems difficult to the novice after early enthusiasm wears off and he strikes the more complex phases of the science. But by constant study, practice and everlasting stick-to-it-iveness, he presently discovers that it all boils down to a matter of routine reasoning. The detailed steps of his early training become simple, sub-conscious, more or less automatic, mental procedure. Thus, he finds that it is no longer necessary to work out every little step in a problem nor to labor painfully from A to Z. Constant repetition so fixes the various principles in mind that he is able to function instinctively. And so he skips easily over intervening stops, from the outline of the problem to its solution, without undue effort.

In a word, from constantly applying the same basic principles and from practice in coordinating them, the novice becomes a proficient mathematician. The same is true in the stock market.

We now illustrate this by setting forth a condensed summary of the principal steps we have taken heretofore in interpreting our chart records. This

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summary also shows how to coordinate your reasoning processes. It will be explained by applying it to a specific case.

BUYING AND SELLING TESTS

These buying and selling tests outline in a general way the successive steps to be taken when determining the most advantageous buying and selling points with respect to the market as a whole and with respect to individual stocks or groups of stocks.

BUYING TESTS

Indication	Determined From
1. Objective Accomplished on Down Side	Figure Chart
2. Activity Bullish — volume increasing normally on rallies and decreasing on reactions	Vertical Chart
3. Preliminary Support	Vertical and Figure Charts
4. Stronger Than Market — responsive to rallies and resistant to reactions	Vertical Chart
5. Downward Stride Broken, i.e., supply lines penetrated	Vertical or Figure Charts
6. Higher Supports	Vertical or Figure Charts
7. Higher Tops	Vertical or Figure Charts
8. Base Forming	Figure Chart
9. Estimated Probable Profit Exceeds Indicated Risk	Figure Chart for probable objective. Vertical Chart for placing stop.

SELLING TESTS

1. Objective Accomplished on Up Side	Figure Chart
2. Activity Bearish — volume increasing normally on reactions and decreasing on rallies	Vertical Chart
5. Preliminary Supply	Vertical and Figure Charts
4. Weaker Than Market — responsive to reactions and sluggish on rallies	Vertical Chart
5. Upward Stride Broken, i.e., support lines violated	Vertical, or Figure Charts
6. Lower Tops	Vertical or Figure Charts
7. Lower Supports	Vertical or Figure Charts
8. Crown Forming (lateral movement)	Figure Chart
9. Estimated Probable Profits Exceed Indicated Risk	Figure Chart for probable objective. Vertical Chart for placing stop.

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The above buying tests would ordinarily be applied to an average or to a stock after a decline and the selling tests after an advance.

Before making any commitment, always make sure that the estimated probable profit as determined by the figure chart objective, is at least three times the risk involved in employing a properly placed stop. The vertical chart must be used to determine the logical points at which to place stop orders.

The charts of Atchison, pages 6 and 7, afford a typical illustration of: (1) The application of these buying and selling tests, (2) How to coordinate figure chart studies with the vital information given by vertical charts, and (3) The application of the principles explained in previous sections.

The charts are keyed to correspond with the comments below wherein the various indications, given by Atchison in its recovery from the oversold position of 1932, are briefly listed:

1. The speed and severity of the decline from $1 1/2, June 16th, to 17 7/8, June 28th, occurring without intervening corrective rallies, creates an oversold condition (Sect. 14M, Pg. 3, Par. 3).

2. The sudden or precipitous breaking of the previous supporting level around 24-25 has the appearance of a shakeout (Sect. 21M, Pg. 2, Par. 3), later confirmed by a rapid recovery as revealed by the 3 point figure chart.

3. An abnormal expansion of volume, appearing June 28th, after the sharp extension of the downward movement (Sect. 7M, Pg. 3, Footnote) indicates the climax of the movement and the development of Preliminary Support — Buying Test No. 3.

4. On the one point figure chart, the stock at 18 has fulfilled the objective indicated by supply across the line of 29s — Buying Test No. 1.

   Under these conditions, 1, 2, 3 and 4 above, the stock should be placed tentatively in Position 1 on your Position Sheet (Sect. 19M, Pg. 1, Par. 5) and if you have acquired sufficient proficiency to recognize these preliminary symptoms of a turning point, you may now venture a purchase somewhere around the low point, say at 19 with a stop under the danger point, say at 16 5/8. (Sect. 23M, Pg. 14, Par. 2.)

5. A quick rally to 20 3/8 on comparatively light volume implies a scarcity of offerings and confirms previous indications of a change from weakness to strength by breaking the downward stride from B to C — Buying Test No. 5. (Sect. 15M, Pg. 3, Par. 1.)

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The stock is also showing a tendency to rally easily in relation to the performance of the general market. Note the lifting of the low points from June 29th to July 1st while the Times Average is still responding sluggishly to the lifting of pressure — Buying Test No. 4. (Sect. 8M, Pg. 10, Par. 1.)

6. Evidence of preliminary support now becomes more clearly defined on the 1 point figure chart, so when the price reacts to) 18 5/8 on very light volume we either buy another lot with a stop as before, or, if we missed our first chance, we buy now. Also, we put the stock definitely in Position 1 on our Position Sheet.

7. Another fast rally on increasing, but still comparatively light, volume adds to the accumulating evidence of increasing strength — Buying Test No. 2: The stock is now more clearly stronger than the market which is still making new. lows. (Sect. 8M, Pg. 9, Last Line.)

8. The rally from 17 7/8 is checked by continuing weakness in the general market; it is chocked also as the stock touches the down trend supply line A-B. If it now reacts toward the supports around 18-18 1/2 on diminishing volume we will have another buying opportunity, with a stop placed as before, around 16 5/8. We cancel our Position 1 to reflect our anticipation of a probable setback.

9. Volume promptly tapers off on the reaction and the price holds at higher supports. The stock again is relatively and quite noticeably stronger than the market. Support on the line of 19 has stretched out to a count of five and on the line of 20s to six. The stock is again in Position 1.

   On July 9th the stock develops a perfect apex (note how the price movement and volume have narrowed into extreme dullness). A rally out of this hinge position will easily penetrate the supply line A-B (Buying Test 5) and put the stock on the springboard at 21 for still another buying opportunity if we have preferred to wait for all our indications to be fulfilled.

10. Here the price bobs up on comparatively light volume — bullish; penetrates the supply line A-B; responds promptly to an upturn in the market; adds one more point to the indicated immediate objective on the figure chart; and fulfills Buying Tests 6 & 7 by recording higher tops and higher bottoms, volume relationships meanwhile remain bullish. Also, the stock is now in Position 2 (Sept. 19M, Pg. 2, Par. 1) thus fulfilling Buying Tests 8 and 9.

Thus we have ten distinct buying signals around the low point. By comparing this study with previous ones, and applying what you have learned to these charts of Atchison, you will find numerous other significant symptoms in the action of the stock here and on the way up from the low point. (For instance, note how the stock rallies promptly on July 14th after completing a normal cor-

rection of the two days' rise from the July 9th support. See also how volume builds up consistently as the price advances out of the supporting area, July 9th to 15th.

Continuing bullish indications develop as follows:-

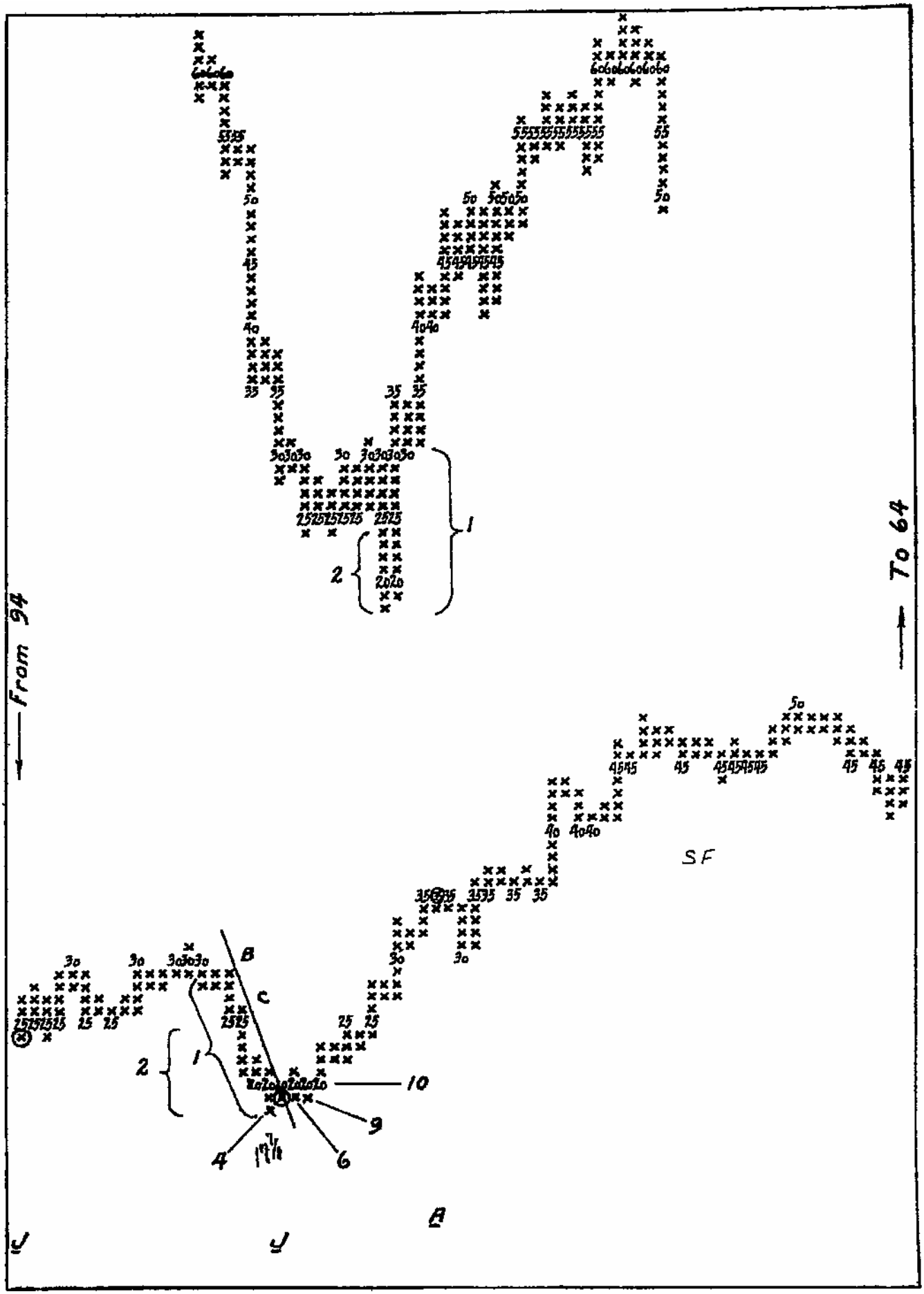
1. Prompt shrinkage in volume on a brief and less than normal recession from the resistance level around 25, July 18th and 19th; and similar behavior all the way up to Aug. 6th, which is as far as the vertical chart goes.

2. By the time the stock recovers to 25, July 21st, it is apparent, from reference to the 3 point chart, that the last phase of the drop, June 24th to 28th, was a terminal shake-out. (Section 21M, Pg. 2, Par. 5.) Hence, taking the line of 24-25 as representing the probable extent of accumulation we have, on the 3 point chart, indicated longer range objectives of 48-49; then higher up across the 28 to 30levels, possibilities of 60 to 64.

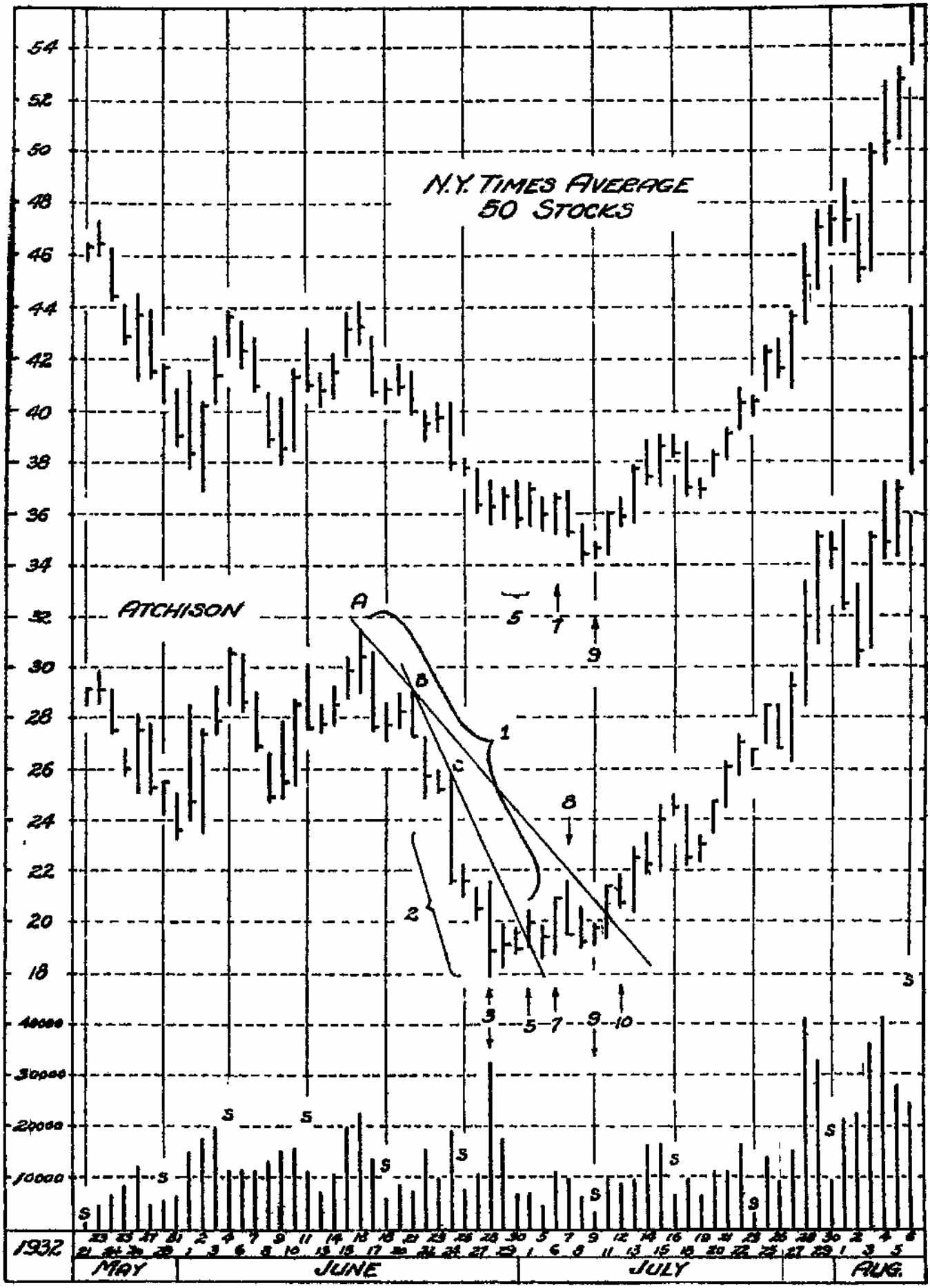
3. On the 1 point chart, meanwhile, we have indicated local objectives (or possible points at which the stock might be expected to encounter resistance to its advance) first at 28 on the basis of ten 22s added to 18; then thirteen 24s, indicating 37 as the next critical point to watch on the upside; and next twenty-nine 24s, including all the loose ends and blanks, indicating 54. Later, in the absorption area 45-49, new support across the line of 45 indicates an objective of 58, etc.

With the preceding comments as a foundation you should have little difficulty in applying the Buying and Selling Tests outlined on Page 2 to other situations as you encounter them from time to time in actual practice.

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REFINEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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the 70s was one of the striking events of the 1929-1952 bear market. The last phase of the liquidating movement had continued for many months prior to July — since the stock left 135.

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

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

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

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

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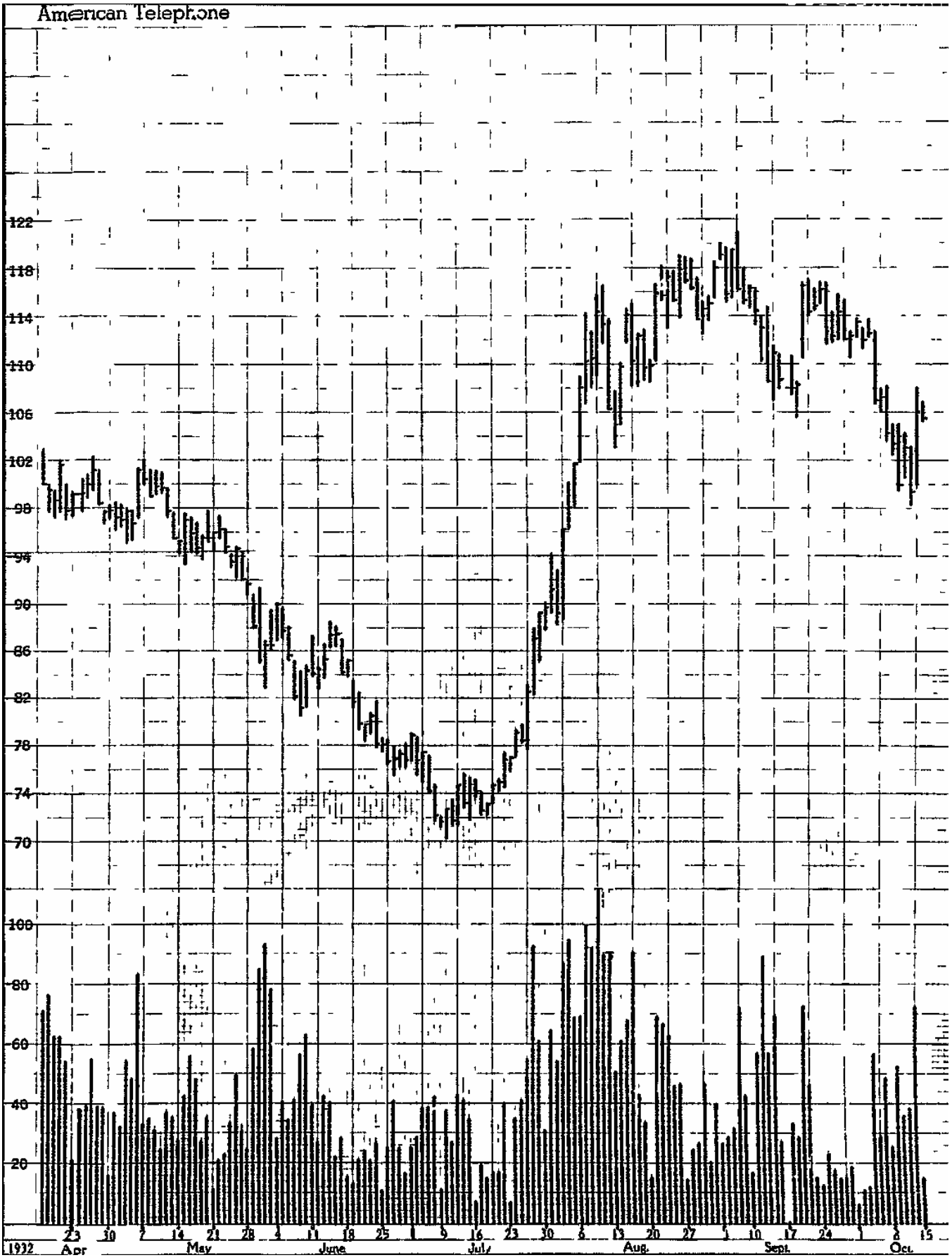
chart formations. Observe how an uninformed or calculating machine type of "chart fiend" might easily mistake the long horizontal formation on the one point figure chart (Pg. 9), in the range 37-42 during Jan.-Sept., 1955, as a "beautiful" base for a tremendous rise. Yet any intelligent student who took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

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

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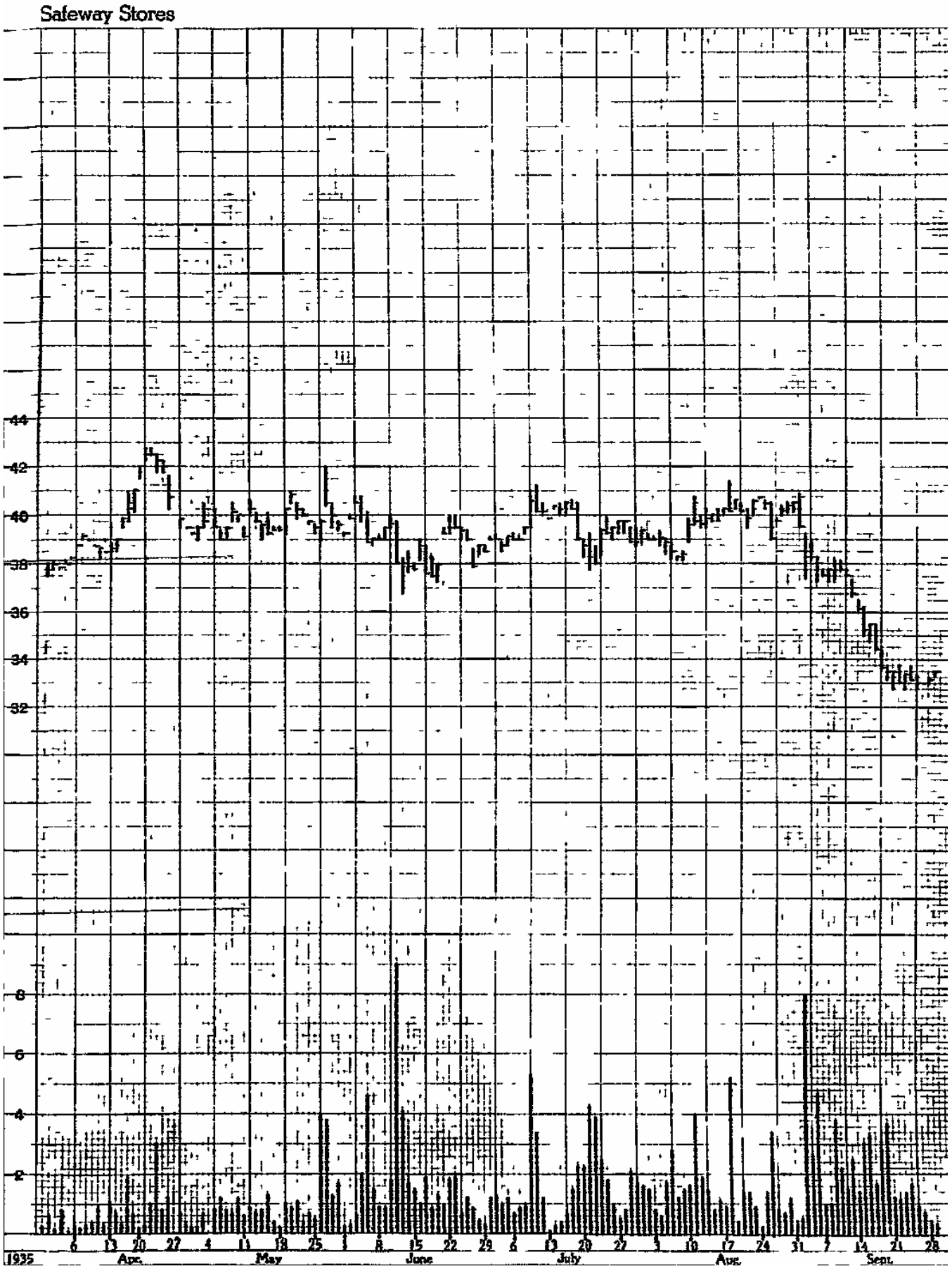
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THE WAVE CHART

The determination of the trend of the whole market is the starting point of all our deductions and all our Commitments. As explained in Section 5M, this trend is built up by the alternating small buying and selling waves which follow each other in endless succession throughout each day's trading. These little waves merge into medium sized waves and the latter, in turn, merge to make up the large swings, that is, the movements of 10 to 20 or more points.

Therefore, it is obvious that the market's behavior on the small waves must afford a very valuable indication of the future intermediate and major trends. (Sect. 4M, Pg. 27.)

One who is a proficient tape reader has an advantage in being able to watch the market all day long because such a person can study the interplay of the forces of supply and demand as reflected in the market's action on every one of these buying and selling waves. That is, he (or she) is able to judge what measure of success is attending the efforts of the floor and professional trader to advance or depress prices (see Sect. 5M, Pg. 1, Par. 3); judging also how individual stocks and groups of stocks respond to these buying and selling impulses. (Sect. 3M, Pg. 3, Pat. 3.)

The professional operators' success depends upon the extent to which they may be able to attract a following on these small waves. Their attitude is wholly impartial. It makes no difference to them whether the market moves up or down. They swim with the tide and if they catch a strong current, they ride along to its crest. You must learn to do the same. If they find the market responds sluggishly to demand, they will promptly sell and try to force prices down in order to bring out sufficient offerings to enable them to cover at a profit. Or, if the market resists pressure, they will follow the line of least resistance and buy, depending upon the sheep-like tendency of untrained board-

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room traders and the public to come in after the move has started and force prices sufficiently higher to permit them to unload with a profit.

As a result of this ceaseless struggle between bulls and bears, the market eventually reaches a position in its broader swings where these professional operators will uncover vital weaknesses or strength. When such a critical condition is reached, the crisis is usually revealed by significant developments in a comparatively short series (few days) of small buying and selling waves. Thus, when a period of accumulation is about completed, a study of the small waves of the market will usually disclose the growing scarcity of offerings which precedes the active marking up stage. Or, when a period of distribution is about ended, a study of the small buying and selling waves will usually reveal the imminence of the active marking down phase.

The tape reader is able to detect these critical stages at their very beginning and thereby gains the advantage of (1) greatly increased accuracy of timing of purchases and sales and (2) consequent reduction of risk. Those of us who have neither the time nor the inclination to study the tape five hours daily require some method of attaining the tape reader's proficiency by equally effective but more convenient means. This we can do very easily by the use of the Wave Chart. (Sect. 4M, Pg. 24, Pars. 1 and 2; Sect. 6M, Pg. 1, Par. 1.)

The Wave Chart has the following very important functions:

(1) It enables those who are not in a position to watch the market constantly throughout each stock exchange session to secure a condensed, easily understandable record of significant changes in supply and demand. This record can be studied at leisure, at whatever time is most convenient.

(2) It provides an instrument through which you may enlarge your understanding of the market's behavior at important turning points; develop tape reading ability if you wish; and acquire the skilled operator's intuition whereby he frequently senses the turns without conscious reasoning.

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(3) It gives certain vital information by means of which you may attain proficiency in judging turning points in the minor swinger. This is a great aid in determining the technical position (number 1 and number 3 positions — Sect. 19M) of the Composite Averages; and in timing commitments to best advantage.

(4) It supplies essential information about the market's behavior by means of which you can detect and forecast turning points in the intermediate and major swings — frequently warning you of coming changes two, three or four days and sometimes a week before they become apparent in the popular averages, such as the N. Y. Times 50, Herald Tribune 100, Dow-Jones, etc. This is a material aid in determining the number 2 and number 4 positions (Sect. 19M, Pg. 2.) of the Composite Averages; and in strengthening your decisions as to the best time to act when making commitments for the long moves.

(5) In short, it provides the means whereby you can substantially increase the accuracy of your judgment and the timing of your purchases and sales, enhance your understanding of the market's action at important turning points and hence your ability to forecast coming changes of trend before they are already well under way; and it affords an effective means of detecting the critical points in the market's travel from one level to another.

Even if you plan to become an active, day-to-day trader, it is better at first to learn to analyze the market's tape action from a Wave Chart rather than from the tape itself. The chart teaches you how to become a sound judge of the market, for by its use you become familiar with all the elements necessary in successful trading: judging the lifting power as compared with the pressure; the market's responsiveness or lack of responsiveness to the rotation of supply and demand; the speed of the advances and declines as measured by the net price change and the duration of the buying and selling waves; the character of the buying and selling as revealed by proportional changes in activity and volume on advances and declines; and more especially, the changes from strength to

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weakness, from weakness to strength, and back again.

All of these factors are revealed by the Wave Chart. It is the pulse of the market.

Practice with such a chart. Learn to judge the small daily movements and then you will be able to apply the same reasoning to the 3 to 5 point swings; to the 10, 20 and 50 point swings, and finally to the great swings that run over a period of years. In time you will become proficient in all kinds of markets.

As the waves of the market cannot be studied from the action of any one stock, and as it takes too long to compile and strike an average of a large group, it is best to use the aggregate price of five leading stocks as a basis for study of these buying and selling waves. There is an additional advantage in observing the behavior of these leading issues because the market seldom goes contrary to the trend of the leaders for a great while, though it may sometimes do so temporarily: They are used by large interests to influence the market toward higher or lower levels. In most cases such movements start with these stocks. Practically no important move starts without these leading stocks being immediately affected. (See "Comparing Strength and Weakness," Sect. 8M, Pg. 4, Par. 4.)

The selection of these five leaders depends upon which stocks were the most influential issues over the past several months. U. S. Steel is almost invariably one of these. Other good ones usually include stocks such as Allied Chemical, American Can, American Telephone, Chrysler, duPont, New York Central and Westinghouse Electric. But this group of five should be adjusted from time to time to meet changing market conditions, the object being to select those which are continuously active and which indicate real leadership. Changes in this group can be made as often as desired, without affecting the barometric value of the chart, by changing the scale, at the side of the chart. If a certain group of five leaders totals 390 and a substitution brings a new one which

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reduces the total price to 375, the whole scale can be shifted 15 points, and the picture of recent fluctuations will then bear its proper relation to those that follow.

How to Make a Wave Chart. Take a sheet of paper ruled in small squares, or an ordinary sheet of cross-section paper ruled 10 squares to the inch. Consider each vertical line a twenty minute interval in the time scale and each horizontal line one point in the price scale, which should be at the right of the chart. (See illustration, Figure 1, Page 6.)

At the opening of any day's session, figure the total price of the first sales of the five leaders, that is, add the prices of all five. Mark this opening price by a dot on the 10 o'clock line. Then watch these leaders until they have a small swing upward or downward. When that swing exhausts itself, put a dot on the chart at the proper time — that is, 10:10, 10:15, or whatever the time may be to the nearest five minutes. As soon as you have done this, add the price of these five leaders — say at the top of that swing, and then draw a diagonal line from your opening figure to the figure at which the first wave ended and at the proper place for that hour and minute on the chart. (The chart and explanation which follow will make this clear.)

In figuring the aggregate price of the five leaders on an up wave, you take the highest price each of them reaches on that wave when you add up their prices, including fractions. In the same way, on a down wave, you take the lowest prices each stock touches on that wave and add them together. You may find that only three or four of these stocks respond to a buying or selling wave, while one of them declines on an up wave or advances on a down wave. In that case, you may carry forward the price this stock recorded on the immediately preceding wave and add it into your new total; or, if it responds to the movements of the others in a little while, you may regard its previous momentary movement against the trend as in the nature of a delayed transaction, whereupon you wait until it establishes a price in line with the prevailing trend. Then

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add this price in with the others; that is, adjust your total to reflect the true trend.

If the prices of the five leaders total at the opening, say 380, put a dot on the chart at the point where the vertical 10 o'clock line intersects the horizontal price line representing 380, that is, at A on Figure 1. Suppose that the market then swings upward for a period of twenty minutes, hesitates, and begins to react. You now add the highest prices reached by the five leaders on that upswing, and find that your total is, say, 383. Accordingly, you place a dot on the chart where the 10:20 o'clock line crosses the price line at 383 (B) and draw a line diagonally upward from A to B. Next watch how long it takes for the reaction to run its course and note how far down the leaders go. Then add the lowest prices they touch on this down wave. Assume your new total is 381 and that the reaction lasted 15 minutes. You put a dot on your chart at the proper place on your chart (C) and draw a line diagonally downward from B to C. Continue in this manner until the closing of the market when you add the last prices of the day's session, placing a dot on the 3:00 o'clock line (O) on the accompanying chart. This closing price then becomes the starting point from which you carry forward your chart of the buying

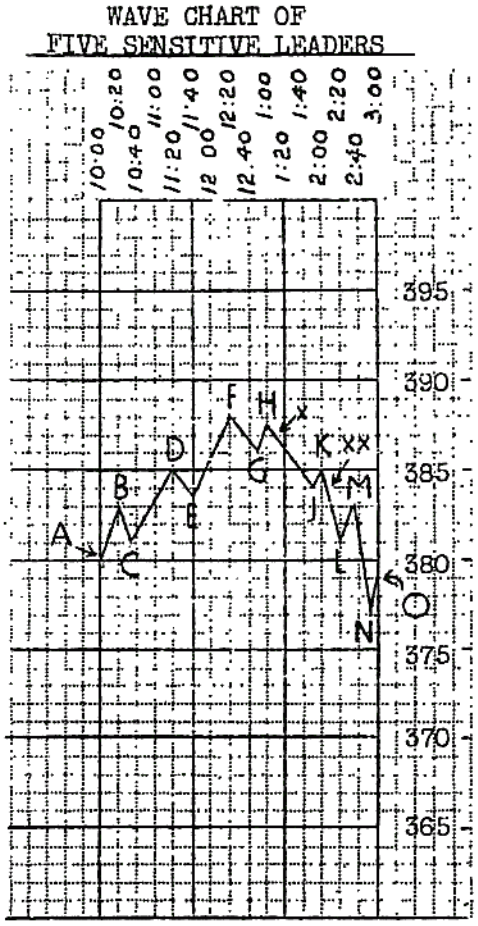


FIGURE 1

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and selling waves for the next and succeeding days. Thus you will have a continuous, zig-zag line which portrays the market's price action from one session to another, minute by minute and from hour to hour; and from this chart you are enabled to judge the factors of:

(1) Price movement — number of points advance or decline.

(2) Time elapsed in each movement — up or down.

(3) Comparative lifting power or pressure on each up and down swing.

Applying these factors to the chart on Page 6, Figure 1, the up wave from A to B was 3 points and the time elapsed was 20 minutes. The down wave from B to C is only 15 minutes and the decline 2 points, indicating that the buying power is greater and more sustained than the selling power. Demand is therefore greater than supply.

Suppose the next upswing (C to D) lasts 45 minutes and carries the total price of the five leaders to a higher level than the first advance — say to 385; this indicates an increase in the buying power because the rise was 4 points (C-D) compared with 3 (from the opening at A to B) and the buying wave C-D was sustained 45 minutes compared with 20 minutes (A to B). As the next reaction (D-E), 20 minutes, is only 5 minutes more than the first dip and amounts to only 1 1/2 points compared with the previous reaction of 2 points, you have a confirmation of the strength.

Follow these indications along and you find that the E-F wave lasts 40 minutes and lifts the price 4 1/2 points. Next, the F-G dip lasts 30 minutes — a little longer than the previous one (D-E) — and amounts to 2 points. This reaction shows a slight increase both in time and distance — 30 minutes and 2 points — compared with the preceding reaction of 20 minutes and 1 1/2 points. This warns you to be on the lookout for a change.

Merely to emphasize how the chart should be interpreted, let us now suppose that you are a day-to-day trader. When the rally G-H, only 1 1/2 points,

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begins to die out (in 10 minutes) you decide to act because this 10 minute bulge lasts only about one-fourth as long as the previous rise of 40 minutes and the price is not lifting as before. This shows that the buying power has practically exhausted itself on the preceding up-swing; the market is now failing to attract followers on the advance. You thus have a clear indication that supply is overcoming demand and the trend is turning downward.

Therefore, as the decline H-J begins on the tape, that is your cue (assuming you are an in-and-out trader) to sell out your long stocks, if any, and go short all of the five leaders (at X) with a stop on each about 2 points above.

We must assume for the sake of a clear illustration that the stocks you trade in are all of the five leaders. You should sell an equal amount of each of the five, but if you like — for simplicity — let us assume that it is one of the five.

The decline (H-J) runs 50 minutes — 20 minutes longer than the previous decline — and amounts to 3 1/2 points compared with 2 points (F-G). The short rally (J-K) lasting only 10 minutes emphasizes the weakness, because it amounts to only 1 point compared with 1 1/2 points (G-H) in the previous rally — the shortest so far, showing that there is practically no buying power left. If you did not go short as above stated, you should do so now, immediately after the market hesitates at K and begins to sag. If you did go short before, you might now sell a second lot at the point marked XX just below the bottom marked J which occurred at 1:50 P.M. at a price of 384.

Reduce your stops on the first lot to a price fractionally above the high made at 12:20 P.M., and stop your second lot at the same figure.

The decline (K-L) runs 20 minutes, but carries the aggregate price of the five leaders down 4 points. A 15 minute rally (L-M) says, when it dies out, that you are safe. Then there is a 20 minute decline of 6 points more (M-N).

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The price at the low point of the decline N which ends at 2:55 P.M. is 377. Here you may cover at the market price if your studies indicate that somewhere about this level the market should turn up again. If there is no such indication and you do not cover, your stops should be moved down so that most of your profit will be assured without shutting off the possibility of more profits.

This illustrates how the daily Wave Chart should be read from the standpoint of Price Movement, Time Elapsed and Comparative Lifting Power or Pressure; and how it may be used as a valuable aid in timing your commitments advantageously when you are looking for the logical buying and selling points on which to open or close your positions for the 10 to 20 or more point swings. (Sect. 7M, Pg. 2, Par. 5; Sect. 7M, Pg. 29, Footnote; Sect. 18M, Pg. 10, Last Par.)

The same reasoning (as above applied to the small waves) should be employed in your studies of the larger waves, that is, those which make up the market's minor, intermediate and major trends. (Sect. 5M, Pg. 2, Par. 3 to end of Pg. 3.) And the cumulative impressions you get from your day to day analysis of the Wave Chart will help you to observe how and where the small waves are merging into turning points for the big moves. (Pg. 1, Pars. 3 & 4 and Pg. 2, Par. 1.)

Thus far we have not considered the volume of trading nor the activity because it is better, first, to learn to judge the factors just enumerated — i.e., Price Movement, Time and Comparative Lifting Power or Pressure.

After you have mastered these, you should begin the study of volumes and the intensity of action (activity) in connection therewith (Pgs. 19 to 22). This will give you added understanding and power.

Since the average trader and investor does not have the time nor equipment necessary to secure the data for computing activity and volume, these significant figures are included in the Wave Chart of Tape Readings published by us daily for the convenience of subscribers and issued in the form of daily "Tape Readings" with detailed comment upon each day's market action. (See specimen

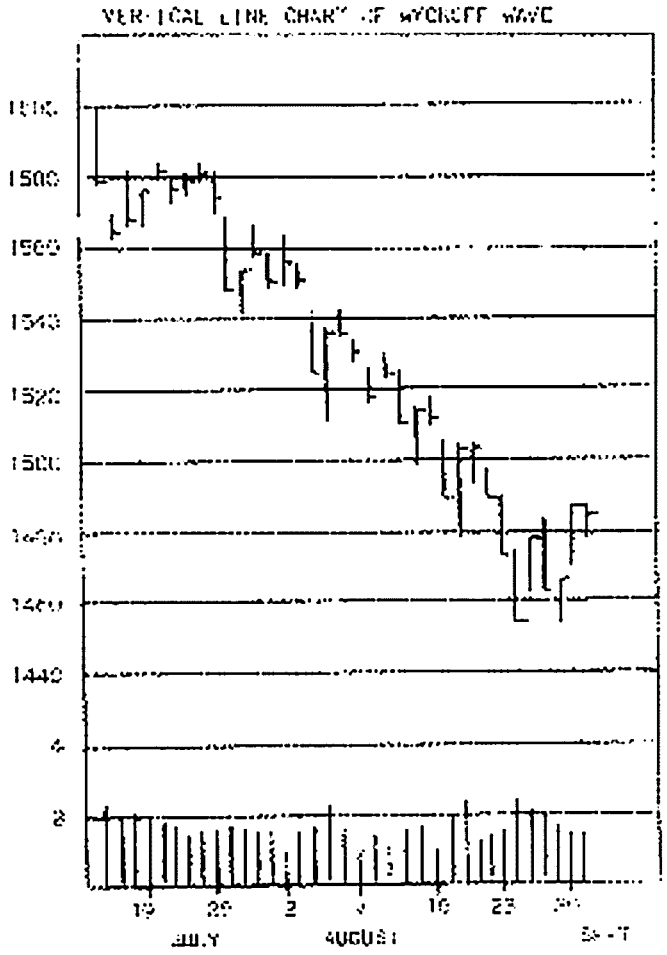
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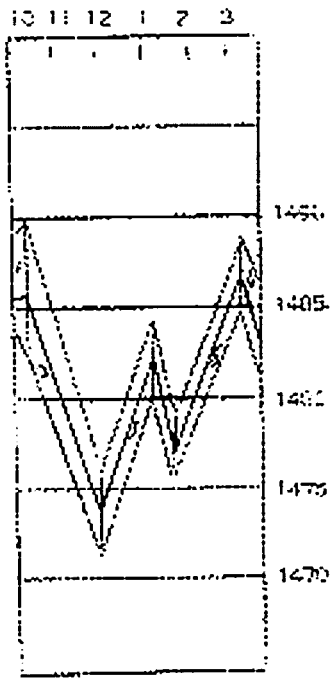
The Wyckoff Wave Chart of Tape Readings

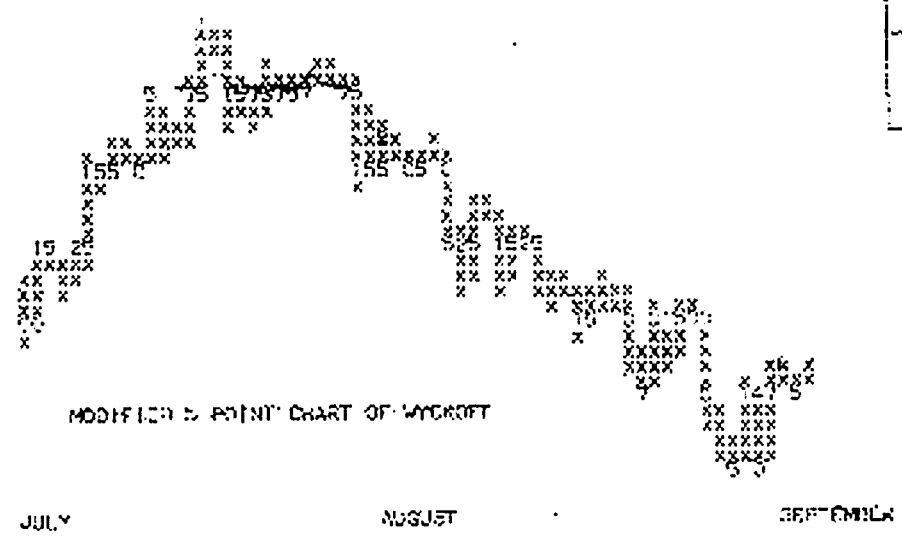
THE PULSE OF THE MARKET

TUESDAY SEPTEMBER 3, 1937

PER	TIME	DUR	PRICE		CHN	VOL	ACC	PC
OPENING			1486					
1.	10:20	20	1406½		+⅛	232	4	--
2.	11:55	95	1473¾	L	-12½	439	9½	1474
3.	1:10	75	1482¾		+9⅜	251	8	1482
4.	1:30	20	1476⅝		-5⅛	55	1½	1477
5.	3:10	100	1487	H	+10⅜	392	8	1487
6.	3:30	20	1483½		-3½	124	2½	1481







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blue sheet supplied in envelope with your Course.)

This service is furnished to each student, gratis, for a period of five months, as a part of his Course of Instruction; and begins six weeks after enrolment, unless you request it sooner. The purpose of withholding it two months is to give you an opportunity to become thoroughly acquainted with all of the principles of this Instruction before you undertake the practical application of the Wave Chart.

Below is a sample of the complete Wave Chart as made up by us. It shows at a single glance all of the vital information herein discussed:-

TAPE READINGS

The Pulse of the Market

A daily analysis of the buying and selling waves on the New York Stock Exchange from the tape of the stock ticker.

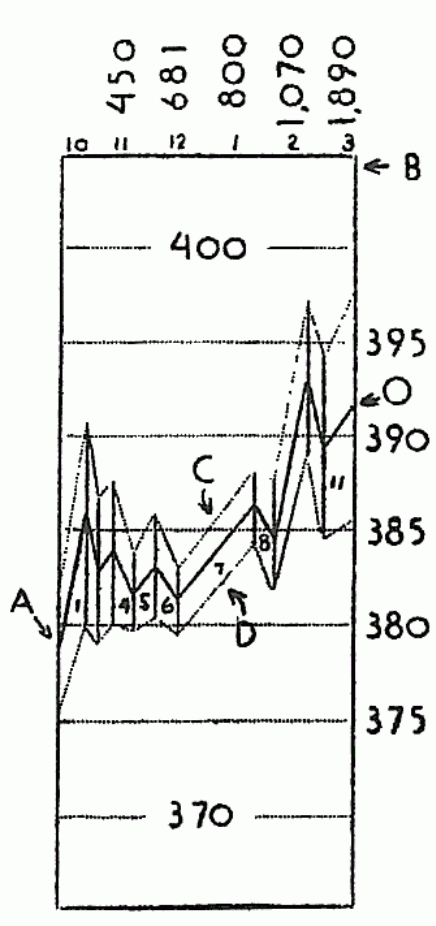


FIGURE 2

(1) PERIOD	(2) TIME	(3) DURATION	(4) PRICE	(5) CHANGE	(6) VOLUME (-000)	(7) ACTIVITY
OPENING.....			379½			
1	10:25	25	385½	+ 6⅞	271	5½
2	10:35	10	382¾	- 2¾	75	4
3	10:50	15	384	+ 1¼	88	4
4	11:15	25	381¾	- 2¼	82	2
5	11:35	20	383¼	+ 1½	120	3
6	12:00	25	381¼	- 2	68	2
7	1:20	80	386⅜	+ 5⅛	238	2
8	1:40	20	384¾	- 1⅝	76	3
9	2:15	35	393⅓	+ 8⅝	360	4
10	2:30	15	389¼	- 4⅛	186	5
11	3:00		391⅞	+ 2⅝	325	6

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(1) Price Trend. The solid line which zigzags from left to right across the chart (A to O, Figure 2) represents the buying and selling waves throughout each stock exchange session, as reflected in the price fluctuations of five leading active stocks. At this time, these stocks are American Telephone, du Pont, New York Central, U. S. Steel and Westinghouse Electric.

This portion of the chart is constructed in accordance with the method already explained on Pages 3, 4 and 5 of this Section. We use the aggregate or total price of the five leaders instead of the average because this makes a more sensitive indicator. The price scale is shown at the right of the chart. Each horizontal line represents a movement of five points in the total price of the five leaders. The chart is plotted on cross-section paper ruled ten squares to the inch, as in this illustration shown in Figure 1, Page 6, but for the sake of simplicity and convenience in reproducing the graph in printed form all of the small ruled squares which appear on the original copy are not drawn on the chart as we present it. Thus, only every fifth horizontal line, representing a 5 point swing, is shown in Figure 2 and on the blue sheet which we mail to you in the form of the Daily Tape Readings service. (See specimen.)

(2) Time. The time scale is divided into hourly periods as shown by the short vertical bars at the top of the graph (opposite the letter B, Figure 2) and each hour is marked above these short vertical lines.

(3) Volume. Above the time scale at the top of the graph is the share volume as it is reported on the ticker tape from hour to hour. However, as the market may swing up and down several times within any one hour, these figures as reported by the New York Stock Exchange do not reveal the volume of transactions accompanying each buying and selling wave. Therefore, in the table at the right of the Wave Chart graph, we record the approximate total volume of transactions occurring in all stocks on each separate buying and selling wave (see Column 6). These volume figures are reported to the near-

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est thousand. Incidentally, they are an exclusive feature of our Tape Readings service and are obtainable nowhere else.

(4) Activity. The market's activity, that is, the intensity of trading, is indicated by the small figures in Column 7 of the table and by the two irregular dotted lines which appear in the chart, running along, one above (C) and the other below (D) the solid line which represents the price path. The market's relative activity, that is, the pace of trading, is reflected in the size of the index numbers recorded ii the table (Column 7) which are proportional to the change of activity. Thus, an index number of 1 or 2 reflects dullness; a unit of 3 to 4, moderately active trading; and 6 to 7, high activity. In extremely active markets, when the tape is late, the activity index may rise to as high as 10 or more.

Changes in activity are shown graphically on the chart by measuring off, vertically, equal distances above and below the turning points of the price line. For example, in Figure 2, we draw a vertical line through the dot which represents the price of 385 1/2 at 10:25 A.M. at the end of Period 1. Since the activity for this period was 5 1/2 (see first line, column 7 in the table), we measure up 5 1/2 small squares or spaces on our cross-section paper from the dot at 385 1/2 and down an equal number so that the vertical line just mentioned extends equally above and below the turning point of the central price line at 385 1/2. Period 2 ends at 10:35 with the price at 382 3/4. Another vertical line is drawn through this turning point on the chart and the activity index for that period, which was 4 units, is measured off by running this vertical line up 4 spaces and down the same number from the price at 382 3/4. The ends of these vertical lines are then connected by the dotted lines to form small parallelograms. In this way the chart graphically portrays the changes in the market's activity on each buying and selling wave by the spread of the dotted lines at the top and bottom of each period. Consequently, when the ac-

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tivity is increasing, the dotted lines move further apart, as in Period 9. When the activity is decreasing, the dotted lines move closer together as in Period 6. Observe that in Period 7 the dotted lines are parallel, meaning that there was no change in the pace of trading in this period compared with the previous one, Period 6. (*)

It will be noted that the vertical bars which serve to measure off the activity index on the chart also mark the time at which each up and down wave ends. Hence the horizontal distance between these lines indicates the duration of each buying and selling wave, corresponding with the figures shown in Column 3 of the table.

The price rallies (up waves) and reactions (down waves) during the session are designated as periods, numbered consecutively on the graph from left to right in the order of their occurrence. Some of these figures are omitted from the chart because there is not always enough space in which to print, them on the

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* The quality of demand oh the more critical buying waves and the quality of supply on the more significant selling waves is an important factor in judging the trend. Thus, if it appears that transactions on an up wave are mostly in 100 share lots, the indication is that the rise is not likely to continue because such small lot trading would represent small fry operations, hence demand of poor quality. But if, on an up wave, transactions are predominantly in 1,000 to 2,000 or 5,000 share lots, the indication would be that demand is coming from important sources and hence is of good quality. The reverse of this reasoning applies in the case of a selling wave, small lots indicating poor, and larger lots good quality offerings.

By casually (not mathematically) comparing the activity with the volume and duration of the buying and selling waves, we are able to judge whether the supply or the demand is of good or poor quality. For example, suppose we have two buying waves each of 10 minutes duration and each showing a volume of 100,000 shares. And suppose that the activity index registers 5 on the first, but only 3 on the second wave. Obviously, demand must be of poorer quality on the first wave than on the second because, while the market is more active on wave number one, since time and volume are the same, this greater activity can be accounted for only by trading in smaller lots as compared with wave number two.

These comparisons should only be made when it appears that the action of the market is becoming critical. To make them for <u>every</u> buying and selling wave will result in confusion and needless expenditure of time and effort.

Incidentally, it should be noted that the activity index has no relationship to the price movement as recorded in the Wave Chart table, and it is only indirectly related to the time and volume figures because it represents the rate at which orders are flowing into the market, not a ratio between time and volume.

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stencil from which the graph is made.

The Table at the right of the graph contains a complete summary of each session's significant price, volume and activity change. These figures are the data from which the chart is constructed and are presented in the table in such form that the student may quickly analyze all of the relationships between time, volume, activity and net price change on each buying and selling wave.

Comments. Our detailed comments upon the day's market action are set forth in the text which appears underneath the graph and table (see specimen blue sheet furnished in separate envelope). These comments are intended to give a complete summary of all important technical developments, as they occur, during each day's session. It will be noted that each paragraph is numbered to correspond with the period numbers as they appear in the chart and the table. This is done so you may readily associate our comments with the proper buying and selling waves.

Having acquired an understanding of the construction of the complete Wave Chart, you are now ready to study its practical application to the purposes outlined on Pages 1 to 3 of this Section and Page 27, Section 4M. To secure the best results from your Wave Chart studies, you should make up 1 and 10 point figure charts of the price fluctuations of the five leaders and a 3 or a 5 point chart (see illustrations, pages 32 to 37). The 1, end 3 point charts are of great value in judging the turning points of the intermediate swings of the market, while the 10 point chart gives an excellent perspective of the major trend.

These figure charts may be made very easily and quickly from the figures on the blue sheet as they are recorded beneath the table under the heading "One Point Changes of Wyckoff Tape Readings." (See specimen blue sheet.)

Another good plan is to keep a continuous or running line chart of the

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Tape Readings by clipping the graph from these blue sheets as you receive them and pasting the daily charts side by side in a book or on a large sheet, with the price scale in adjustment over a period of several days or weeks, as illustrated on Pages 30 and 31, this Section; or it will be sufficient merely to paste the graphs side by side, folding them in accordion fashion when the record becomes too long. By keeping your daily charts in this way, you are enabled to observe significant changes in the forces of supply and demand as the small buying and selling naves merge into and build up the swings of from 3 to 5 points and then into the larger movements of 10 to 20 or 30 and more points over a series of daily stock market sessions. This continuous, or running record of charts pasted together also affords a valuable means of judging the market's behavior when you are coordinating your study of the volume and activity relationships with your analyses of the indications given by the 1 point and 3 or 5 point figure charts of the Tape Readings.

When you learn to coordinate all of the factors revealed by these records in combination and use them properly, it will greatly strengthen your judgment. You will find that, whatever the market does, it will in nearly every instance tell you what it is going to do — and what the market is going to do is the most desirable thing to know in Wall Street. Or it will leave you in doubt, and then you must do nothing.

Before taking up the interpretation of these records, however, we must consider the significance of volume, activity and support and pressure.

Your continuous line chart of the Tape Readings, pasted side by side, enables you to maintain a complete, running history of the market's behavior from which you can observe how the relationships between volume, price trend and activity are changing. From this you can judge whether the market is growing stronger or weaker. These relationships frequently become very important when the market, as represented by the action of the five leaders, is

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approaching former points of support and resistance.

Relationship of Activity, Volume and Price Trend. As previously, explained, changes in the market's activity on the alternating small buying and selling waves are indicated by the way the dotted lines come together or spread apart on the chart, a condition which is easy for the eye to detect. These comparisons, of course, may also be made by reference to the figures in the table (Column 7). Increasing or decreasing activity, accompanying a price rally or reaction during any period of the day, is immediately apparent from these comparisons.

Remember, that when the activity is increasing while the price is rising or the activity is decreasing while the price is declining, the indication is usually bullish — except under some conditions when the increase in activity is unusually, large. In these cases (unusually large increases accompanying an up or a down wave) the sudden increase may signal the culmination of a movement. When activity is increasing while the price is declining or the activity is decreasing while the price is rising, the indication is usually bearish.

Likewise, when volume is increasing while the price is rising or decreasing while the price is declining, the inference is usually bullish — unless the increase is unusually large, in which case the sudden increase may indicate the culmination of the particular movement accompanying the abnormal volume. (If you will here review what you learned from the reference to volume in Section 7M, the logic of this will be immediately apparent. See also volume studies, Sect. 14M, Pgs. 6-12.)

Similarly, when volume is increasing on the down waves and decreasing on the up waves, the indications are usually bearish — unless the volume surge is abnormal, in which case the abnormal volume may indicate the approach or the actual culmination of the movement.

Support and Resistance. A very important thing to observe from the

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chart of the five leaders is where they meet support on the declines. That indicates the level at which the dominating interests in these stocks are wiling to buy them and usually affords a strong indication of the attitude of these interests and of large operators toward the whole, market. (See Pg. 4.) Likewise, observe where the leaders meet resistance to advances. This indicates the level at which shrewd holders are selling, and if it appears that a large quantity of stock is coming into the market on these advances, this is a strong indication that insiders and large operators are taking advantage of a broad, active market to load the public up, with the stocks which they wish distribute. (Sect. 8M, Pg. 5.)

In trading, the value of any stock is the price you can get for it within one minute. Hence the price at which the insiders are willing to take it or sell it combined with the amount they appear willing to buy or sell at that price, is a strong indication of its immediate future.

Support and resistance may be studied either by reference to your continuous line chart or by reference to your one point figure chart of the five leaders; or hotter still by using both together.

The chart studies which follow will illustrate how to interpret the Wave Chart and how to coordinate all of the factors involved in its practical application to your own market operations, either as an investor or as a trader. To simplify your approach to these studies, we begin by enlarging on our study of the Wave Chart for a single session (Pgs. 6 to 9) by adding the factors of Volume Activity and Support and Pressure to the factors of time elapsed, price movement and comparative lifting power or pressure, which were discussed in pages 7 to 9.

In this next illustration, Figure 3, merely for the sake of emphasizing what to look for and to show how experienced operators judge the market assume again that you are a day to day trader, making your deductions from a Wave Chart as a stock market session progresses from its opening to the close.

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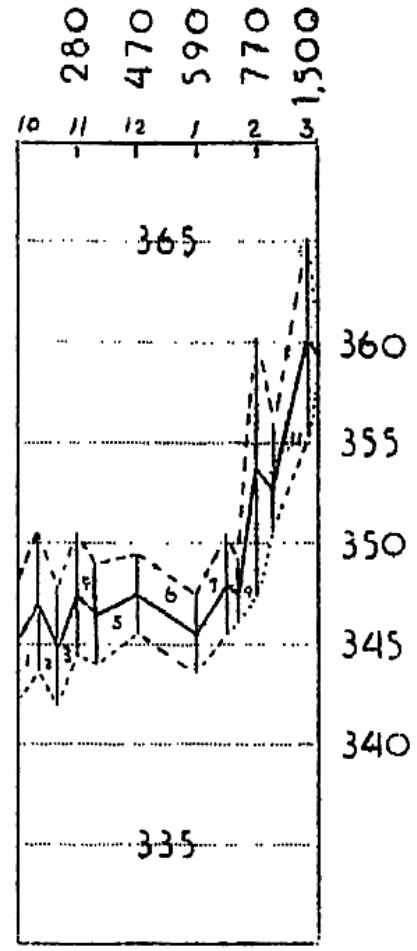


FIGURE 3

PERIOD	TIME	DURATION	PRICE	CHANGE	VOLUME	ACTIVITY
Opening.....			345			
1	10:20	20	347	+ 2	142	3½
2	10:40	20	344⅞	- 2⅛	65	3
3	11:00	20	347⅜	+ 2½	73	3
4	11:20	20	346½	- 0⅞	55	2½
5	12:00	40	347½	+ 1	135	2
6	1:00	60	345½	- 2	120	2
7	1:30	30	348	+ 2½	72	2½
8	1:45	15	347½	- 0½	23	1½
9	2:00	15	353¾	+ 6¼	85	6½
10	2:15	15	352¾	- 1	53	2½
11	2:50	35	360⅛	+ 7⅜	597	5
12	3:00	10	359¾	- 0⅜	80	2

In this illustration, it will be seen that volume and activity are both of very small proportions on the little buying and selling waves from 10 o'clock to 1:00.P.M. The day starts with a small rally which is promptly followed by a small dip. Bulls and bears are evidently well matched during this part of the session since neither faction has been able to move the market far in either direction. Supply and demand are in equilibrium. Your position, therefore, should be neutral while you are waiting for a clear indication.

After the first dip in Period 2, the bulls try to put prices up (Period 3), but they fail to attract a following as shown by the failure of activity to increase on the up wave and their inability to lift the price index much above the 10:20 A.M. high. Demand peters out on this rally to the previous (10:20 A.M.) top. A small dip in the fourth period brings out very

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little stock, however, and the reaction fades out at a higher support, i.e., above the 10:40 A.M. low. This encourages the bulls to try again (Period 5). Once more they fail to attract a following. Note how the rally dies out in dullness around the two previous tops (activity in period 5 is the smallest so far). So now, the bears endeavor to break the deadlock by offering stocks down (Period 6) until 1 o'clock. This maneuver meets no better success. The time elapsed is longer on this wave than on the previous swings, but activity fails to increase and the volume is light which tells us the supply is of poor quality, only small fry traders are selling (Footnote Pg. 14), so we may expect the price to hold around the former supporting levels of periods 2 and 4. This expectation is confirmed when the price index actually halts above the morning low and the market turns dull there.

We now have a tentatively bullish signal since it appears from our observations thus far that the bears are unable to bring out offerings on reactions. Furthermore, the market has come to a complete standstill which warns us to be ready for a change. That is, at the end of period 6 it is on the hinge. Everything now depends upon the ability of one side or the other to rouse a following, either by breaking down the support or by pushing prices up through the forenoon top. We judge that the stalemate will be broken by an advance because the bears seem to have failed in their weak 1 o'clock drive; the selling on this down wave was of very poor quality, only 120,000 shares in 60 minutes against 135,000 shares in 40 minutes on the preceding up wave. Hence if we are trading for the short swings this is our cue to buy, though we may prefer to wait for more positive indications.

Now it is the bulls' turn to try their strength again. This time (Period 7), demand is a little stronger. Volume is comparatively larger (72,000 shares in 30 minutes compared with 120,000 shares in 60 minutes during the preceding down wave) showing improvement in the quality of the buying — larger

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lots of stock are changing hands. Prices rise above the previous highs (showing better lifting power) and activity increases a trifle as they advance, indicating the market is now attracting a following on the up side as it struggles to advance.

We may expect the leaders to hesitate and perhaps react (which they do) as the price index comes up to, or toward, the tops of periods 1, 3 and 5 since the market was turned back from these levels on three previous occasions. But if activity falls off on this next selling wave, the bulls are likely to become aggressive.

We do not have long to wait. Prices sag only fractionally in the next fifteen minutes (Period 8) as the market pays its respects to the forenoon resistance levels. Volume is very light and activity dries up almost completely on the dip. This is what we have been looking for. If we failed to buy on the first tentative bullish indications we must do so now on this convincing performance. The extreme dullness (low activity) and small volume accompanying the recession tells us there are few offerings coming into the market; there is no longer any pressure; stocks have become scarce at this level. The supply that was holding previous rallies in check has been exhausted or it has been absorbed on the small earlier reactions. Therefore, we step in with confidence and buy. Other shrewd traders, seeing the lack of pressure and the scarcity of supply, may be expected to buy also, thus helping the bulls along.

A sharp rise in period 9 promptly confirms our judgment. Any question as to the validity of this upward move is settled by the increase in activity as prices rise through the previous tops. The bulls have now attracted sufficient following to drive the bears into a retreat. Volume is expanding in proportion with the activity as the price rises sharply, showing that demand is of good quality, and growing urgent. (Footnote, Pg. 14.)

Shortly before 2 o'clock, the bulls rest momentarily because at this

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point the price index has risen to a level where the market encountered supply, on the preceding Friday and Saturday (not shown on chart). If the supply around these former highs is still formidable, the market is likely to fall back quickly, forcing the bulls to give up their gains. But it doesn't fall back. Instead, it recedes very stubbornly as evidenced by prompt shrinkage of volume and activity. Also, the small net change in price and brief duration of the reaction confirm the indications that the previously overhanging supply has been absorbed or dislodged. As there obviously is no pressure on the market yet, and few offerings to be taken at this level, we stay long and wait for the bulls to push on again as they try for a higher objective. This they attain just before the close.

In the above and the preceding example, explaining, Figure 1, the Wave Chart principle was considered only from the standpoint of one day's action.

You are now ready to take up the next and most vital function of this chart which is its application to the market's longer swings of 10 to 20 or more points. For this purpose you should use the daily graphs pasted side by side, together with the 1, the 3 or 5, and the 10 point figure charts of the price fluctuations of the five leaders.

Not every day's Wave Chart will give as decisive indications as those we have just discussed. Hence, do not make the mistake of expecting every one of your daily charts to yield positive evidence. There may be some days on which the action seems contradictory or confusing. You must make allowances for that by waiting until you get another clear indication. But at important turning points in the trend you generally will find that the market reaches a critical condition in which its action on certain days will convey very vital information (Pg. 2, Pars, 1 & 2) and it is at these points that the Wave Chart attains its greatest value.

For instance, just as the action on the small waves in periods 1 and 5,

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Figure 3, left us uncertain of the immediate trend, whereas the market's behavior in period 6 and 7 became sufficiently critical to warn us of a material! changer so in the case of the larger movements, the market's action for several days may be indecisive but eventually there comes a time when its behavior over one or more full sessions will warn you of an important change in the intermediate trend if you are alert and properly trained.

APPLYING THE WAVE CHART TO THE LARGER MOVES.

If you now will look at the one point figure chart on page 32, just under the letter A, you will observe ,that the five leaders are swinging up and down in a range between 409 and 419. This action took place on the rebound from the low of July 21, following the distributive campaign in the summer of 1933. This trading range, under A, is developing just under the July, 1933 tops. Reference to the running line chart of the five leaders (Pg. 30) shows that the total daily share volume ail the top of the August rise is comparatively heavy, though considerably less than the daily turnover accompanying the rise and subsequent distribution in July (when volumes reached the 6 to 9 million share mark). This of itself indicates that the public's buying power, or the market's power of absorption, now (August, 1933) has been materially weakened as a result of previous speculative excesses and in consequence of the severe July 18th to 21st slump.

This August recovery had brought the market back up into a very formidable resistance area. Our problem at this point, therefore, is to determine whether it promises to go into new high ground or whether this recovery will develop into a campaign of secondary distribution, completing the primary distribution of July.

For the purpose of this study, assume that it is now Tuesday evening, Aug. 29, 1933 and we have our records for the past few weeks before us. Comparing the one point figure chart of the five leaders at A, page 32, with the daily

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Wave Charts for August 25 to 28, page 30, it is immediately apparent that the market (as represented by the five sensitive leaders) is attempting to advance under difficulties. Thus, the price movement (as represented by the zig zagging solid line) shows a tendency to flatten out or run sidewise. The action is feverish (Sect. 14M, Pg. 8, Par. 4) as shown by the comparatively high activity. Also, there is a lack of progress on relatively heavy volume.

The figure chart at the same time indicates that the bulls are finding it difficult to hold the market up. At 409 (under the letter A, Pg. 32) the price index broke through the previous support (or the lows) of 412. This action corresponds with period 3, Aug. 28, on the chart page 30. They try to check this selling drive on the part of the bears by bringing up their reserves for a counter attack and succeed in forcing the price up again. But here (around 416-18 on the figure chart) they falter. Apparently, they have exhausted their ammunition for the figure chart shows a leveling off under the previous high point at 419; indicating inability to continue the advance.

Now let us apply the microscope to this portion of the figure chart by referring to our running line graph, page 30. On Aug. 28 there is a shrinkage in volume around the top — 2,120,000 shares compared with 3,500,000 the day before. During the latter half of the session (Periods 5 to 9) activity has failed to increase on the up waves. These are bearish indications confirming the weakening of the bulls' attacking power, since heretofore (Aug. 24 & 25) the Wave Chart shows that activity has consistently increased on the up waves. Likewise, activity previously has either shrunk or failed to expand on the down waves. This says that whereas the bulls previously were able to attract a following on advances and sellers were reluctant to follow prices downward, now the buyers are becoming timid. The Wave Chart thus shows accumulating evidences of a change from weakness to strength.

As the session of Aug. 28 closes, demand is still sufficient to hold the price index in the range 416-18. But next day, sensing the fact that buyers have

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now become reluctant, the bulls make one more desperate effort to carry on their campaign. On the morning of the 29th, they succeed momentarily in breaking through the bears' line of resistance, forcing the market to a new high. This brings the price up to 421 on the figure chart (under A) . The public and the boardrooms, hailing this break-through as a signal of victory for the bulls, jump in to help create a broad, active market on which they exhaust the remaining buying power. Activity reaches climactic intensity as the shrewder bulls and smart bears unload all these buyers will take (shown by the fact that in period 3, the leaders promptly lose all they gained on the initial bulge with volume and activity still very high). Here we have a good illustration of an upthrust (Sect. 21M, Pg. 3, Par. 3) that has failed and in so doing, marks the culmination of this particular advance.

Having recognized preceding symptoms of a possible turning point, we regard this action in periods 1 to 3 of August 29 as the critical stage at which the intermediate trend has changed form bullish to bearish. Behavior of the Wave Chart through the balance of the session strongly substantiates this conclusion. The outpouring of supply which stopped the bulls' forward rush in period 2 continues unabated thereafter. Volume and activity are undiminished as prices slump between 10:30 and 10:40, indicating that sellers are unloading all they can "at the market." Between 11 and 12 o'clock (period 4) pressure lifts while the sellers rest to size up their position and allow the bulls to venture a counter attack. This takes the form of a normal rally which lays bare the weakness of the counter attackers, since activity immediately contracts on the recovery — the buyers are all loaded up and can't take on any more stock.

This is the Second time a rally has failed to attract good quality demand in this very critical area (the first was in period 4, Aug. 28), so the bears are encouraged to resume the offensive. They clinch their victory by bringing out a fresh deluge of offerings in period 5, on which the price index

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breaks Monday's support around 409. Just under this level, pressure lifts once more to permit another rally. The weakness of the bulls' position is again confirmed when the rally falls a little short of normal and activity fades out — further evidence of more decline ahead.

On the next downward drive, however, there is a lessening of activity (Period 7). The bears are a little wary now as the price is coming down close to the Aug. 24 low. Furthermore, the decline from the early morning high has been very steep and severe. Under these conditions we may expect another technical rally as floor traders cover shorts put out on the early morning bulge. Our one point chart also indicates that the leaders have reached their immediate objective, since we have a line of supply across the 418 level (see A, Pg. 32) calling for a drop to 406-403.

Examining the results of these four days' tape action (Aug. 24 to 29) in the quiet of our home on Tuesday evening or Wednesday morning, and reasoning as above briefly outlined, we see that the Wave Chart is warning us of an impending change of trend of considerable importance. It is telling us that during these few days, the market has developed accumulating symptoms characteristic of distribution. And since this, distribution is occurring under the earlier July tops, it very probably represents a maneuver on the part of the bull forces to complete the unloading of stocks which they didn't succeed in, dumping a month or more earlier. Hence, after we have had a chance to examine the results of Tuesday's action, we decide to close out our long positions, if we have any, and go short the next day (Aug. 30).

We are not impressed with the character of the rally in period 8, Aug. 29, for while the lifting power seems good from the standpoint of ground covered, this rebound looks more like short covering by traders, or perhaps another desperate rally engineered by the bulls who still have some stocks left to unload before the decline gets fully under, way. Note that activity again fails to ex-

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pand on this up wave, making the third time there has been inability to attract a good quality of demand on the up side. With so many, indications of progressive weakness, we decide that this final rally indicates the market has been thoroughly saturated with supply. Under such conditions we cannot expect the bull forces to overcome the resistance around 415 (see figure chart). Rather, the hurry up character of this last bulge tells us they are probably taking advantage of a temporarily oversold condition, the help of short covering, and some new buying by floor traders who see a chance to scalp a quick profit on the long side, to wind up their campaign as quickly as possible.

Observe that our 5 point figure chart (Pg. 36) shows a line of seven 418s and ten 415s, indicating a decline to either 400 or possibly 391. This would mean an important slump in the other averages and probably a serious decline ahead in those individual stocks and groups of stocks which our other records show to be in weak positions.

Following the action along from here, on the one point figure chart, observe that some support appears around the 401-400 level, about where our 3 point chart said it should. But offerings come in again on the indicated 12 point rally to 413 and a new line of supply forms across the 410 level on the 1 and 3 point charts, stretching out to 20 points on the former and from 24 to 33 on the latter. The price index more than makes good the most conservative objective by dropping to 390 where the charts show indications of sufficient new demand to support a recovery to 408 or 416. Then (at C, Pg. 32) there is more distribution around the 415-419 level, followed by a collapse to 399 (under D), and a hypodermically stimulated rise to a secondary top 417 (D) which sets the stage for the intermediate downward trend to 321 (Pg. 34, under H).

By studying the continuous line chart (Pg. 31) in conjunction with the 1 and 3 point figure charts at K, Pg. 35; and by applying the principles already outlined, you will see how the Wave Chart again revealed the vital details

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of the market's action, as its behavior became critical, in advance of an important reversal of the intermediate trend, this, time as a base was formed for a substantial advance. It is suggested you make this detailed study for yourself, consulting our Coaching Staff if you encounter any difficulties.

You will note that the 1 point figure charts, pages 32 to 35 carry trend lines and comments which are designed to aid you in understanding how to interpret the significant information afforded by these records when you begin to receive them daily from us as explained in paragraph 6, page 9. From these notations it will be seen that the principles employed in reading the action of the five leaders are identical with those used in analyzing any other chart (Sects. 7M to 21M).

On Page 38 we present additional graphs to illustrate how the daily Wave Charts, when pasted side by side, reveal vital details of the market's action at critical stages; and to show how the cumulative impressions you get from studying these charts day by day afford important clues to impending changes of trend.

Observe, for instance, how the Wave Charts for Sept. 3rd and 4th, by fanning out the vertical bars representing the Times average (above the letter A) disclose certain significant details of the market's tape action which cannot be seen by examination of the composite average alone. According to the latter, the market seems to be rallying from the low point of Aug. 31 on very small volume. It is important to know whether this low volume means that offerings have become scarce as a result of the preceding reaction; or whether the small volume signifies poor demand, hence the forerunner of a further decline.

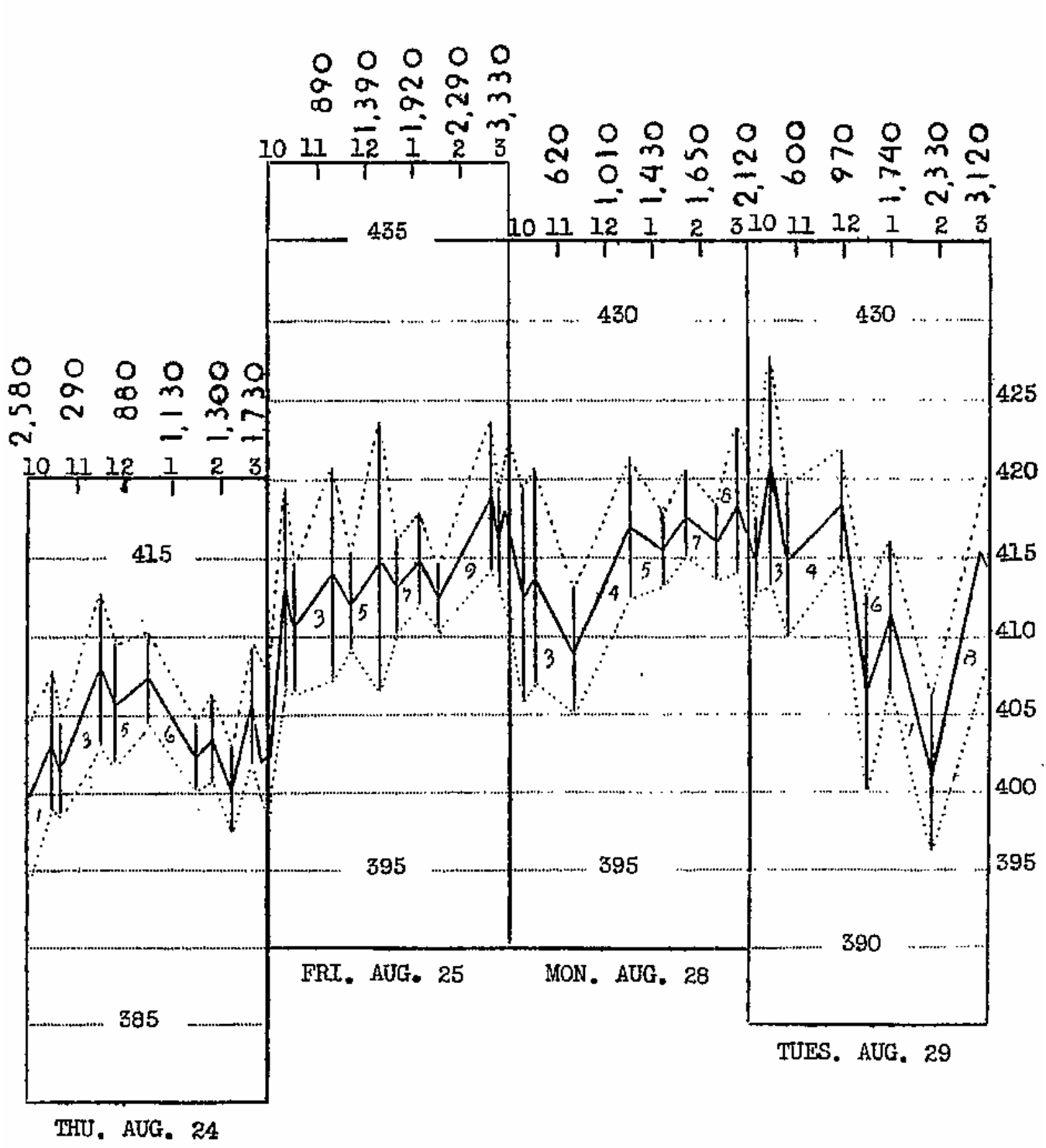
Examination of the Wave Charts for Sept. 3rd and 4th shows clearly that no offerings are coming out on successive down waves during these two sessions because the activity remains very small. In other words, the low activity indi-

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cates that the bears are failing to bring out any liquidation or selling of good quality in their efforts to drive the market down through the critical Aug. 28th-29th supports. Hence we must conclude that stocks have become scarce and so we interpret the September setback as a technical reaction which has been completed, thereby preparing the market for a new rise.

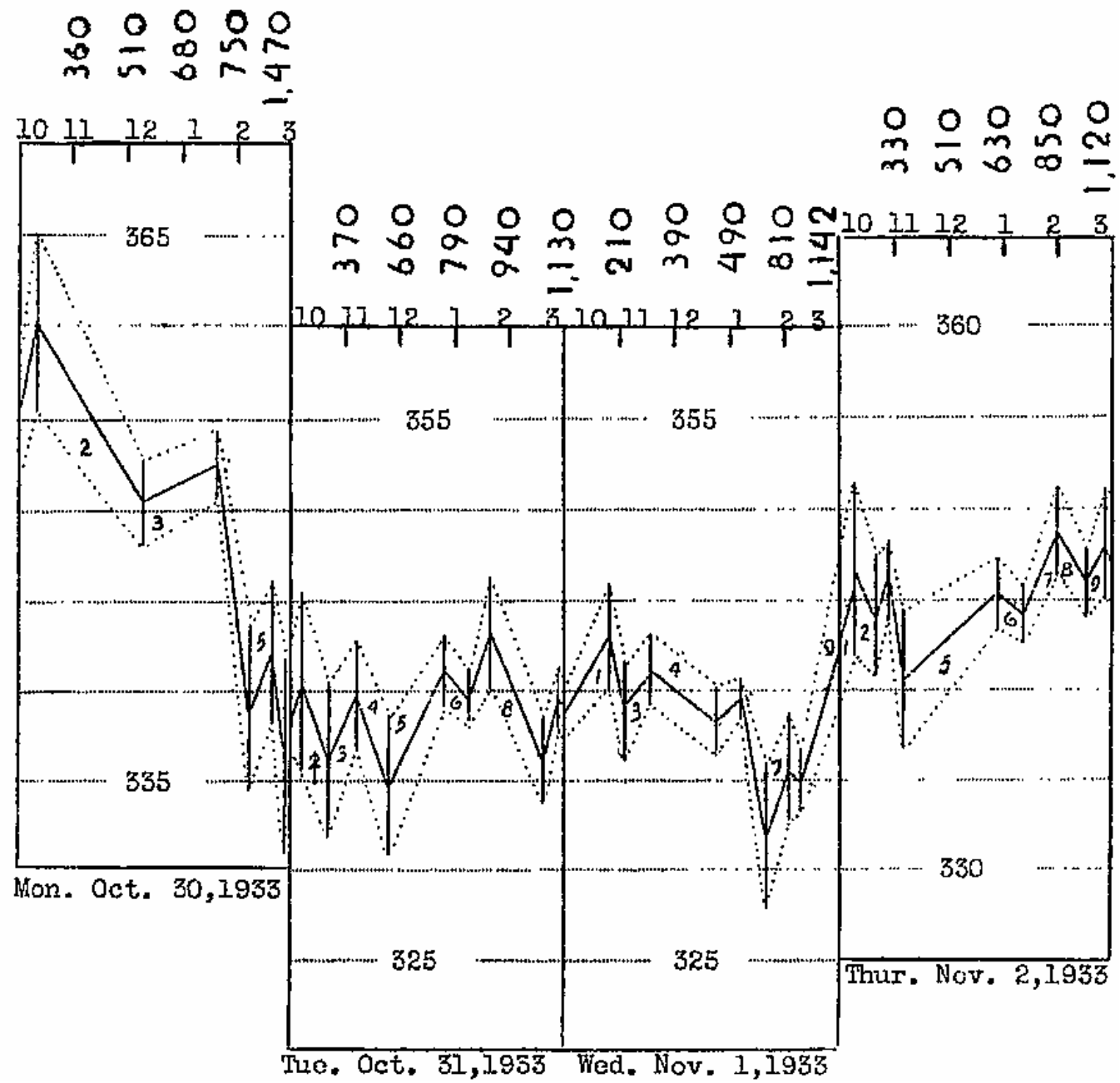
Conversely, when the Composite Average reaches the new high around 109 (under B), examination of the daily Wave Charts for Sept. 17th to 19th shows clearly the inability of the bulls to attract a further following. Note especially how the opening bulge of Sept. 19th is immediately checked at a lower top add how this upthrust is promptly met with a deluge of offerings as shown by the continuing high activity on the down wave in period 2. That performance marks the culmination of the rise and the beginning of a substantial reaction.

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Illustrating zone of distribution; inability to absorb supply and development of weakness; and showing how the Wave Chart reveals significant details of the market's tape action, preceding a turning point in the intermediate trend. (Compare with one point figure chart at A, Page 32.)

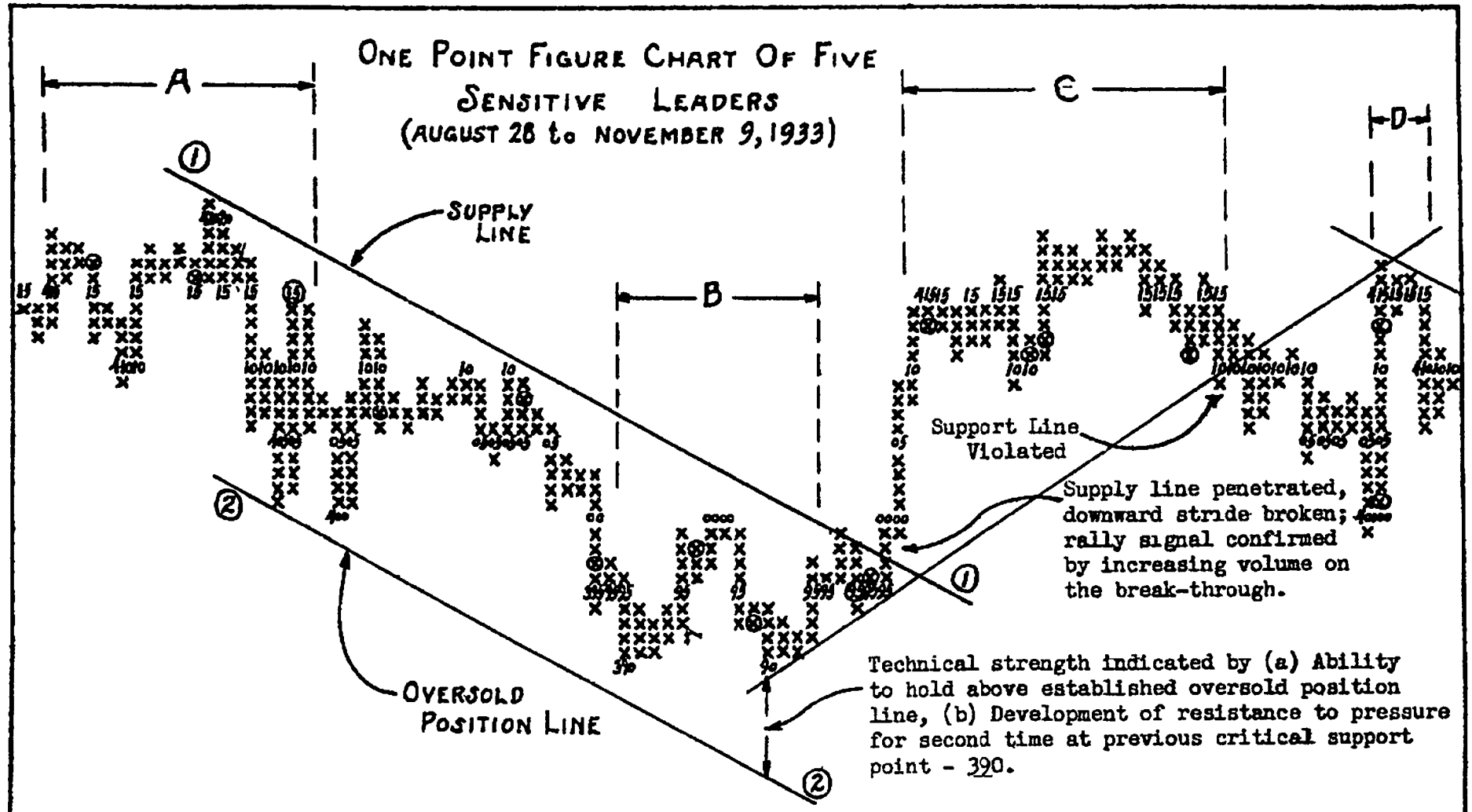
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Illustrating zone of support; ability to absorb offerings and development of strength; and showing how the Wave Chart reveals significant details of the market's tape action, preceding a turning point in the intermediate trend. (Compare with one point figure chart at K, Page 35.)

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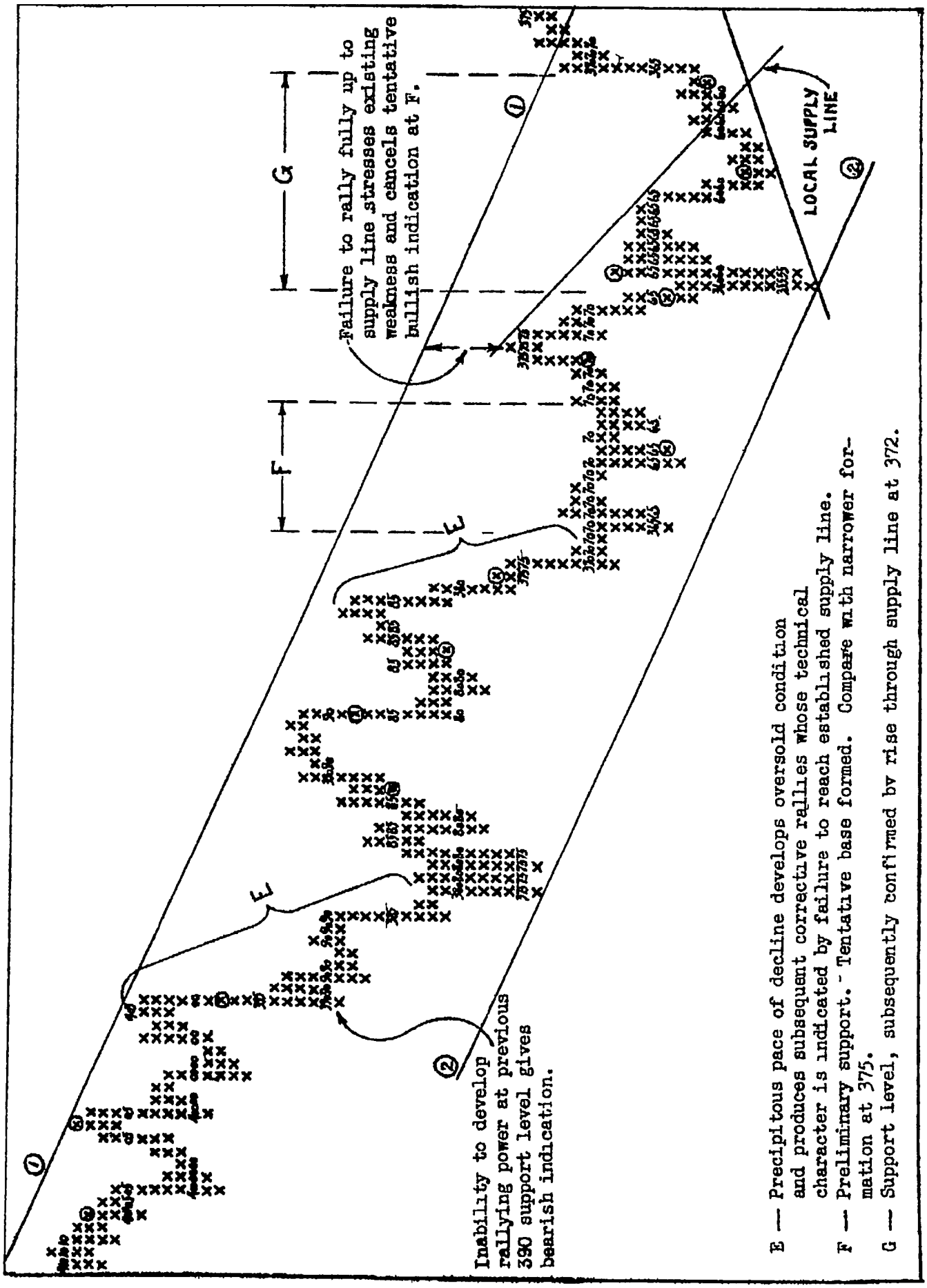
A - Zone of Supply:- Weakness indicated by inability to absorb offerings just under range of July tops; failure to make progress on heavy volume; diminishing activity on successive buying waves (see detailed action on continuous line chart, pg. 30).

B - Zone of Temporary Support.

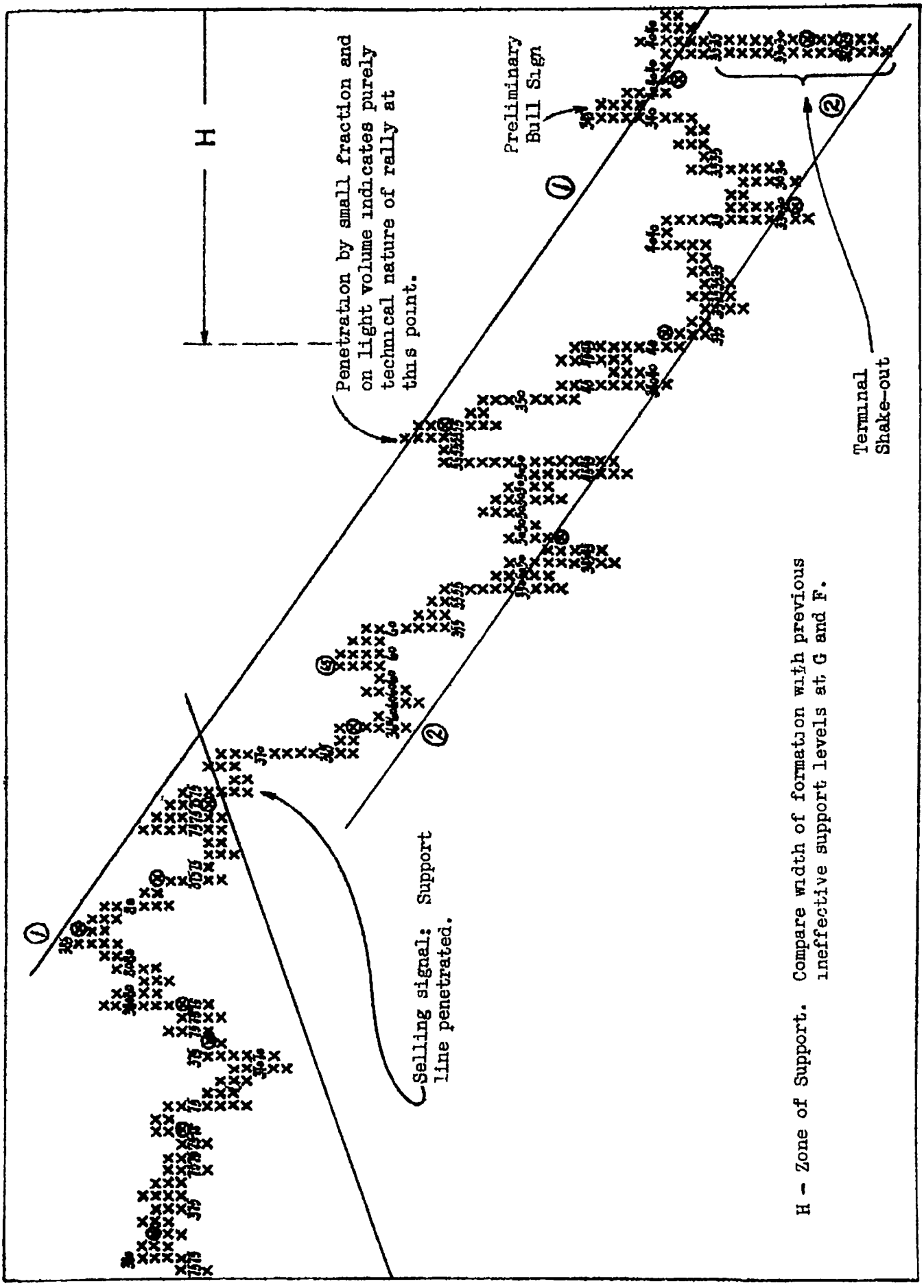
C - Zone of Supply:- Selling signals set by inability to absorb offerings at previous critical supply level.

D - Quick upwatd thrust to catch shorts. Brief duration of rally to third lower top emphasizes increasing weakness of market's whole position after distribution at A and C.

Note:- Small circles indicate end of each day's session, thus:- ⓧ .



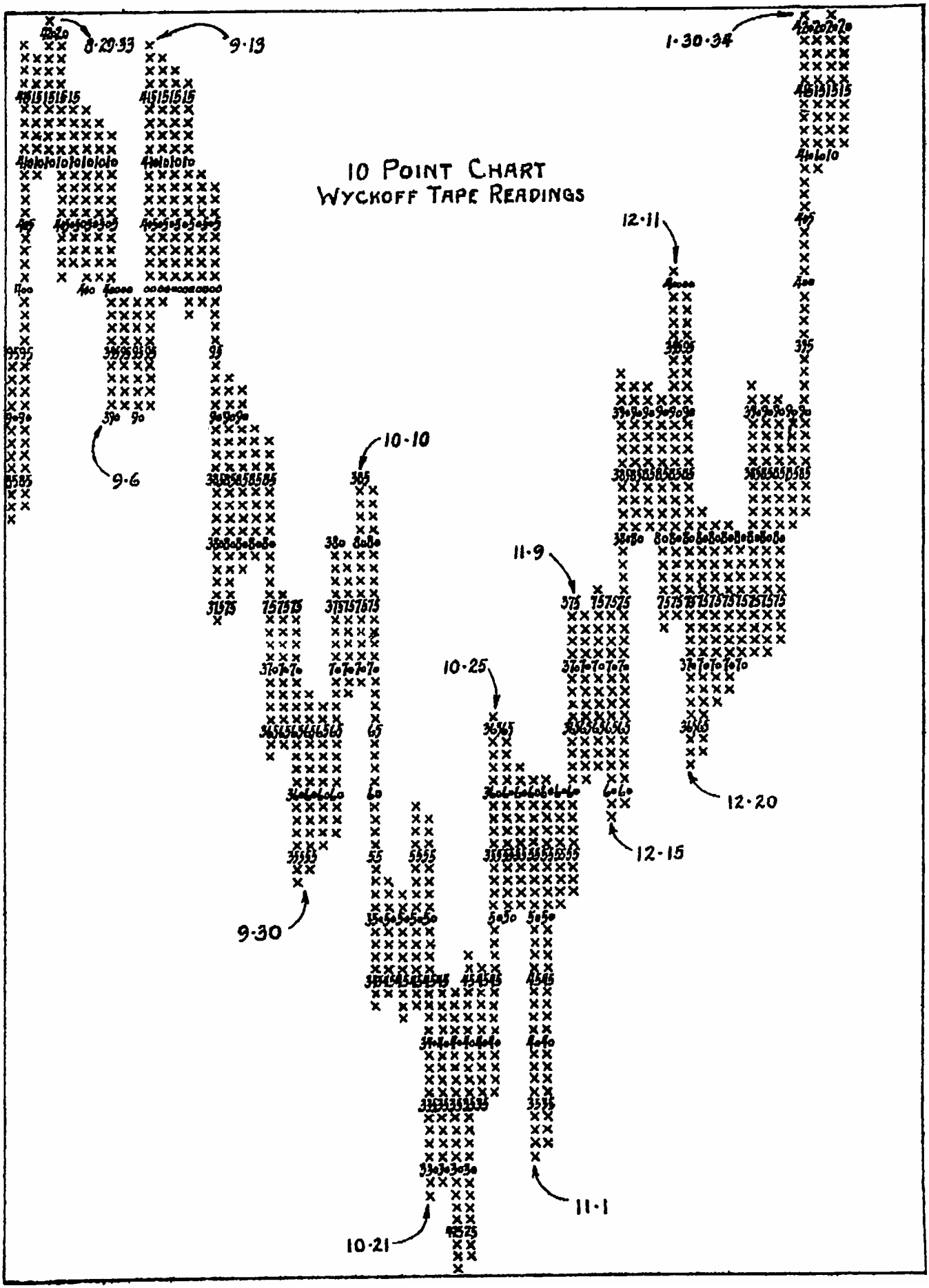
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HOW TO ESTIMATE DAILY CHANGES IN THE TIMES AVERAGE FROM THE RICHARD D. WYCKOFF WAVE CHART OF TAPE READINGS

Some of our students have asked us how they may overcome the difficulty which arises from the fact that, because our Daily Figure Chart Report is mailed immediately after the close of the market, the report of the New York Times and Herald Tribune averages is necessarily delayed one day.

We therefore offer the following suggestion, which provides a method by which you can arrive at a satisfactory estimate of the high, low and closing prices of the N.Y. Times Average of 50 stocks, each day. This method will enable you to keep your daily vertical line chart of the Times average up to date, before the opening of the market the next day.

First, note that price changes in our daily TAPE READING PRICE INDEX (which appears in the fourth column of the table to the right of the Wave Chart) bear a fairly constant ratio to price changes in the N. Y. Times average. This ratio is approximately 4 1/2 to 1. That is, an approximate change of 4 1/2 points in the Tape Readings price index is roughly equivalent to a change of one point in the Times average.

Therefore, if you divide the high, low and closing prices of the Tape Readings price index by 4 1/2, you will get a rough approximation of the high, low and closing prices of the Times average. Note, however, that this ratio varies somewhat, from time to time. This results from the fact that the Tape Readings index is extremely sensitive. Hence, it may sometimes swing more sharply than the more sluggish Times average.

In order to compensate for these possible variations and adjust the ratio from day to day, all you need to do is to divide the closing price of the Tape Readings Index for a given day by the closing price of the Times average for that same day. The result will be the ratio which you should use to determine the high, low and close of the Times average for the next day from the Tape Readings index for this following day.

For example, on January 18, 1934, our Tape Readings price index closed at 404 3/8. The New York Times average for that same day closed at 90.44. Dividing 404 3/8 by 90.44, we get a ratio of 4.47.

Now, looking at the fourth column of the table of Tape Readings for the next day, January 19, we find that the index recorded a high of 414, a low of 407 3/8 and closed at 411 1/2. Dividing each of these figures by our ratio of 4.47, we get 92.6, 91.1 and 92.1, respectively, as our estimated high, low and close for the Times average. This compares with the official figures of 92.95 high, 90.76 low and 92.43 close, a reasonably satisfactory approximation.

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STOP ORDERS

The first rule in successful trading and investing is: Cut losses short.

E. H. Harriman, who was once a broker on the floor of the Stock Exchange, said: "If you would be a successful trader in stocks, kill your losses." As a floor trader he used to close out a trade if it went 1/2 to 1 point against him. You, who pay full commissions and are not on the floor, cannot cut your losses as closely as this but you can limit them. You can safeguard your investment and trading commitments against crippling losses, against the tragic consequences of riding stocks up and down through one intermediate market cycle after another until eventually you have nothing but a collection of "has been" performers whose only last remaining solace to your damaged bank account is your hope that they "might some day come back."

The way to do this is: First, never make a commitment whether for investment or speculation until you have decided, in advance, where the danger point exists in that stock. Second, calculate the possibilities for profit if the stock should confirm your judgment by moving in your favor. Third, determine whether the indicated probable profit outbalances the indicated risk by at least three to one. Fourth, place a stop order (under the danger point on a long commitment and above it on a short sale) the moment your buying or selling order is consummated.

Should you have a stock under observation and believe it affords a logical buying or selling opportunity, have patience to wait until it works into a position where it meets the first three conditions above named before you make your purchase, (or sale if you contemplate selling it short). Or, if these conditions cannot be met, look around for another opportunity where they do exist. In other words, test the validity of any proposed commitment by noting, in advance, where your stop order must be placed so that you will always be operating with

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the odds at least 3 (or more) to 1 in your favor. It pays to wait for these opportunities.

In the stock market you must be constantly on your guard: Always be expecting something to happen. Danger is present in every trade, whether it be for investment or speculation.

But when you place a stop order on every commitment, you limit this risk. You insure yourself against letting a little loss run into a big one. In short, you "kill your losses." Also, you are always "Foot loose and fancy free." Your capital is never tied up in losing ventures; you are not waiting for soured performers to come back. You are always set and ready to swing into new opportunities because your investment and trading accounts will not become restricted by impaired margins. Your funds will not become frozen assets.

You decide in advance that you will risk just so much on your judgment that a commitment will be profitable, and you are out automatically when you are wrong. With good judgment, you are not likely to be wrong three times in a row. But assume this does happen and you are using stops which cut your losses to an average of 2 points on each trade. You still have capital intact to take the fourth position on which you will need to make only 8 points to come out ahead of the game. But if, on your first trade you let a loss run to 10 points or more because you failed to use a stop order, it may take only the one venture to tie up your account and put you out of business; or at best, you will be a long time getting back on your feet.

No one can trade (or invest) without losses, which are a part of the operating expenses of trading, along with the broker's commission, the transfer taxes and interest charges. Instead of becoming irritated when your stops are caught, you should be thankful. Say to yourself: My judgment was wrong when I started this trade and a few points lost is better than the 10 or 20 points I might have lost had I not placed a stop order.

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There is nothing mysterious or complicated about a stop, order. A Stop Order, or a Stop Loss Order as it, is generally called, is simply an order, given to a broker, to be executed whenever a 100 share lot (or more) of that stock sells at a stipulated price. If you buy a stock at 50 and wish to limit your risk to, say, 2 points, you give your broker an order: "Sell 100 shares XYZ at 47 7/8 Stop." (See Pg. 12, Par. 2.) This means that if and when the price, touches 47 7/8, he is to close out (sell) that 100 shares of XYZ at the market so as to stop your loss. Or, if you sell XYZ short at 50 and wish to limit your loss to 2 points, you give the broker an order: "Buy 100 XYZ at 52 1/8 Stop." This means that if and when the price rises to 52 1/8, he is to cover (buy back) that 100 shares at the best price obtainable after the stipulated figure has been reached. Thus, the addition of the word "Stop" to your order distinguishes it from an ordinary "Buy" or "Sell" order.

Stop orders are usually considered "Good till cancelled," which means good till cancelled or executed, and the technical term is GTC. If your broker does not make it a rule to keep all stop orders GTC, specify that you wish your stop orders so considered. You do this because you want to protect your commitments so long as they are outstanding.

You may, if you prefer, mark your stop orders "Good this week" (GTW) or "Good this month" (GTM), instead of GTC. The advantage in limiting open orders (that is, orders that cannot, be executed except at or when a stipulated price is reached) is that you might forget to cancel a GTC order and later find to your chagrin that the GTC order is still standing after you have changed your position. If you make it a practice to limit your orders to a week or a month, they must be renewed by you at or before the beginning of the next week or month — provided, of course, they have not been executed previously. This will reduce the possibility that a forgotten GTC order may turn up unexpectedly when it is no longer wanted. However, you must not fail to renew such GTW or GTM stop

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orders on stocks in which you are still committed, long or short.

The stop order is the greatest protection against danger.

Stop orders are a form of insurance against large losses; against errors of judgment; and unforeseen contingencies. You pay insurance premiums on policies protecting your home against fire. Of course, you can take a chance that your house will not burn down, but to save a small premium you would risk a large loss. It is the same with stop orders. Trace back all your large losses in past years and you will see that they have resulted from your failure to place stop orders.

Many people say: I do not believe in stops. Probably this is because a number of their stops have been caught from time to time. That is chiefly because they do not understand the market, have never studied it properly, and so do not know how or when to begin their trades at the point of least risk; neither do they know how to handle stops judiciously. Of course, even with the best of judgment some stops are bound to be caught; without good judgment the majority very likely will be caught.

Other people fail to use stops because they think the specialists influence the market so their stops will be executed. This happens only in stocks having very thin markets; or in dull, professional markets; or when a lot of stops are bunched around the same levels so that it pays the floor traders to gun for these stops. In active stocks in which there is a large volume of trading, this is no ground for failing to use stops.

We cannot too strongly urge you: (1) To enter stop orders, "Good till countermanded" (or as suggested on the previous page), immediately upon making every commitment; (2) to move these stops to cover commissions and taxes as soon as you can safely do so; (3) to protect profits to the utmost by moving these stops judiciously as the market goes in your favor, as explained in preceding chart studies.

The closer you can get your stop, the more you reduce your risk. But

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there is another point about this: The smaller your stop, the greater the percentage of your profit compared with the amount of your risk. To illustrate: If a stock should indicate a decline of 10 points and you can play it on the short side by selling close to the danger point (Sect. 7M, Pg. 4, Par. 2, and Pg. 10, 5th Line) with a 1 point stop, your possible profit is ten times your risk. That is much better than making a trade with a 2 point stop in which the probable profit is 5 points; for in such a case your expected profit is only 2 1/2 times the risk.

By making both a rule and a habit of placing stop orders invariably as soon as a commitment is made, you can operate with much loss, concern. You need not feel that you must hang over a ticker to see what your stock is doing. You can go about your regular business. The moment your broker receives that order he becomes personally responsible for its execution. If for any reason he fails to execute the order, he must make good to you any loss occasioned by reason of his failing to carry out your instructions.

If you file with your broker, when you begin trading with him, a letter instructing him to consider all of your stop orders good until countermanded and if you receive from him a letter in reply, acknowledging and accepting these instructions, he can never claim that he "thought your stop was good for the day only." Of course, you will not do this if you follow the plan of renewing your open orders weekly or monthly.

The use of stop orders will increase your mental poise. This is a very great requisite (Sect. 25M, Pg. 1, Pars 1 & 2). Dixon G. Watts, one of the most successful cotton operators of half a century ago, wrote this among the fundamental principles which lead to success in speculation:

"Act so as to keep the mind clear, its judgment trustworthy."

Your mind will be clear if you decide on the amount of your risk when you start to operate. But if you neglect to place a stop, and leave yourself open

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to a loss out of proportion to your possible profit, your mind is apt to become confused and you are likely to do the wrong thing at a critical time.

Therefore: Never abandon the use of stop orders.

You may think you have so much money you cannot lose it.

Thirty million people thought that in 1929. Very few used stop orders.

I know, or know of, several who lost $100,000,000. They did not use stop orders.

Do not let anyone dissuade you from the use of stop orders. Now and then, well meaning brokers may imply disapproval of stops. This is because they have been so long accustomed to dealing with the haphazard operations of the untrained public that they are apt to think in the" same terms as the mass.

Stop orders are used:

(1) To limit risk
(2) To reduce risk
(3) To insure profits
(4) To begin new trades at prices above or below the present market.

Stop orders are used to limit risk, as already explained, by placing a stop order immediately, as soon as a commitment is made.

Stop orders are used to reduce risk when the action of the stock enables you to move the stop closer to the market price than it was originally. If you have an opportunity to do this without jeopardizing your trade, it should be done. It is better to risk 1 point than 2 or 3, but do not be too hasty in moving the stop up or down. Watch for the support and resistance points to develop so that you can use these as a guide when placing or changing your stop orders.

Of course when you can move your stop order to cover cost or selling price and commissions, there is no risk; your expectancy is then 100$ of the indicated profit.

A good rule is to move your stop on a long trade if you can do it with safety 1/2 or 3/4 point above your cost price as soon as the market permits, or, in the case of a short trade, a half or three-quarters point below your selling

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price. The 1/2 point is usually sufficient to cover the commissions on a round (100) share lot and 3/4 point on an odd (less than 100 shares) lot.

Stop orders cannot always be executed exactly at the stop price, especially in the case of round lots. If a stop stands at 58 on a long trade, the broker must sell your stock the moment the first trade is made at 58. If at the time the best bid is 57 3/4, he must sell your round lot at 57 3/4 if he cannot induce the bidder to pay 57 7/8. In the case of an odd lot, if the stop stands at 58 and a round lot sells at that figure, your stop will be executed on the basis of the round lot price, that is, at 57 7/8 (the round lot price less the odd lot dealer's differential). Bear this in mind: A stop order is an order to buy or sell <u>at the market</u> when the stop price is reached (see Par. 1, Pg. 3). So never blame your broker if he cannot get you out exactly at the price at which you have placed your stop.

Stop orders cannot always be executed satisfactorily in stocks which have a small floating supply, or in those having thin markets. This is evidenced by their wide swings, their skipping large fractions or points between sales, combined with a very small number of shares traded in. In such stocks you are more or less at the mercy of the sponsors and the specialist in the stock. The latter is employed by your broker because the broker cannot himself stand in one crowd (i.e., at one post on the Exchange) just to watch your stop order; therefore, you may find in thin market issues your stops at 70 executed at 69 or 68; in very bad markets perhaps at 65.

The large swings in these stocks make them look inviting because, above all things, most people like to get action. However, you will find in the long run it is more satisfactory to deal in the leading stocks where stop orders can be executed exactly at your price or very close to it. These stocks are very much less inclined to skip large fractions or points, and, therefore, you can get in and out at a figure close to the last sale.

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Stop orders are used to insure profits. One can never tell when a contrary move in the market will wipe out a paper profit. Rarely should a profit of even 3 points be allowed to run into a loss. This applies to investment, as well as to trading commitments.

Remember: The element of risk is present in every commitment. There is no such thing as a "permanent" investment. Failure to recognize this fact is one of the most productive sources of loss to investors who annually lose more in vanished paper profits and shrinkage of capital than they gain in the form of dividends. The worst offenders in this respect are those who allow profits of 10 to 30 points to shrink from one to two-thirds because they neglected to safeguard their commitments. When the market turns they hesitate to get out because they think "it is only a reaction." As profits shrink, they hold on because they think of what they might have made by getting out sooner and this leads them to hoping that the market will come back. Later on, they fear to sell because stocks have declined so far they "are due for a recovery" and they "hate to get out at the bottom," or the financial writers, still dazzled by the hangover effects of the late bull movement, mislead them into believing "this is only a healthy intermediate reaction in a major bull market."

Eventually, the paper profits become paper losses. And then the investor consoles himself with the dangerously comforting thought that "it is only a paper loss." How many people do you know who were not ultimately driven to converting just such "paper" losses into actual ones, in the aftermath of every big bull market?

How much better it is to recognize that 10 points profit on most stocks is more than you can take out of those stocks by holding for a full year's dividends. If you take 15 or 20 points, you can afford to close out your holding's and remain out of the market for three years, if necessary, before the dividend return can catch up with the profits you have taken.

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Therefore, protect your profits with stop orders.

An initial move of 10 points in your favor, if it started from the point of accumulation or distribution, will usually be followed by a contrary movement of 3 to 5 points (Sect. 14M, Pg. 4, Par. 2). You must allow for that contrary-movement in judging where to place your stop. The greater the initial move, the greater the expected rally or reaction. Even though you expect a probable move of 20 points in your favor, make sure that you nail some of the 10 points you have on paper. The move may have been just a flash in the pan. A rise from 60 to 70 is no guarantee that the next move will not be down to 50.

Stop orders may be used to begin new trades above but not below the present market. However, it is best that you do not undertake to employ stop orders for this purpose unless you have had a great deal of experience and know exactly what you are about. Otherwise, there is danger you will be whipsawed.

A buy stop would be used to begin a new trade on the long side above the present market. Such stops can be placed on the floor, through your broker, in the regular way.

A sell stop would be used to begin a new trade on the short side below the present market. Owing to a ruling of the Stock Exchange, selling stops cannot be used to open new trades under the market. Therefore, if you desire to take a short position "on stop" it will be necessary to use an office stop: That is, instruct your broker or your customers' man to watch the stock and sell it short at the market when he sees that the price on the tape has touched the figure you have specified. Thus the Stock Exchange requirement will be met, as this will be a market order on the short side, and not a stop order placed on the floor to begin a new short trade. In following this procedure, you, of course, must rely upon the alertness of your broker to see that the stock is sold immediately after it touches the price you have instructed him to act upon.

A buying stop is used under conditions where you have reasons to believe

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that the fulfillment of a required rally indication would be likely to initiate a further rise or the beginning of an important advance with no further material reaction; and where it appears that unless you catch the initial move immediately on the day the required indication appears, you might miss it or be compelled to pay a higher price by waiting (Sect. 17, Pg. 9, Par. 2). These conditions may prevail: (1) When a stock is near the end of a period of accumulation or absorption and seems ready to step on the springboard. (2) When a stock is on the hinge, that is, at a dead center. (3) When a stock has been in a trading range and it appears that if it can overcome previous resistance it will go into a definite mark up.

You reason that if the stock touches a certain figure on the up side, it will be ready to go, whereas, if it fails to reach that figure, you prefer to stand aside waiting until it does give the up signal. For instance, suppose you have seen the accumulation in the hypothetical stock charted on Page 9, Sect. 9M. You observe that whenever the price dips to around 30, it is strongly supported. You believe that at M a quick rise to 32 would be an indication that it is on the springboard for an immediate further rise, whereas a break to 29 or 28 on increasing volume would result in a further immediate sharp decline. You are undecided which it will do and you cannot watch the market to see how it will behave. Believing it is more likely to rise than fall, you instruct your broker: "Buy 10 ZYX at 32 1/8 Stop." If the price does not touch 32 1/8 your order will not be executed. But if it reaches that figure, whether you are watching the market or not, you will be long of the stock at or about that figure. Hence, if it should continue on up to 33 or 34 the same day, you would be in near the inception of the move and would avoid buying on a further bulge.

The disadvantage of this procedure is that since your risk begins the moment a new trade is made for you, you must place* a new stop order immediately to protect your purchase, just as you place a fire insurance policy on a house

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when you buy it. This second stop, which is to limit your risk, would have to be under 28 and since your buy stop necessarily must be executed on an up wave, you have increased your risk, as compared with the first procedure of buying at 30, etc, (as explained on Pg. 4, Sect. 10M). Thus, if the move to 32 1/8 should prove to be a flash in the pan and the stock fail to fulfill all its previous indications by turning downward, your trade would be closed out with a relatively large loss on the execution of your protective sell stop under 28.

A selling stop is the reverse of a buy stop and is used to begin a new trade on the short side when you have reason to believe that a reaction to a certain price would be likely to signal the beginning of a further down swing or the beginning of a large decline, with no further material rally.

The advantage of a selling stop is the same as in the case of a buying stop. You use it under conditions where you believe that the indicated down move is not likely to start unless and until a certain price is reached. And, when that price is reached, you figure that the decline will continue rapidly so that it is better to act on what is the equivalent of an automatic selling order than to risk a chance that you .might miss catching the beginning of the move, or risk having the price slide rapidly away from you if you should wait, for the required indication to be fulfilled.

The disadvantage of such a stop is the same as in the case of the buy stop, namely, you may be whipsawed by having your protective buy stop (which must be placed immediately to limit risk on the short sale you have just made) caught in the event you have misjudged the indications.

Sometimes when you are <u>long</u> of a stock close to a danger point, you reason that if it should break through that danger point you wish to be short instead of long. Say you are long 100 at 61 and the danger point is 59 3/4; it is your opinion that if it breaks through the latter figure you must get out of your long stock and go short. You instruct your broker: "Sell 200 XYZ at 59 3/4 Stop, and

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when sold, put a 2 point stop on the 100 shares I will then be short."

The reverse of the above procedure might be followed if you are short of a stock close to a danger point (on the up side) and you reason that you wish to be long instead of short if it should break through the resistance point. Say you are short 100 at 73 and the resistance point is 75. In that event you would give your order to: "Buy 200 XYZ at 75 1/8 Stop, and when bought, put a 2 point stop on the 100 shares I will then be long."

It is better not to place stop orders at even figures such as 90, 83, 72, 41, etc., because there is usually an accumulation of orders at the even figures, and when it is to their advantage, sponsors, specialists and floor traders try to get a stock up or down to these even figures so that these orders will be filled. Therefore, if you are long of a stock at 65, do not place your stop at 64 or 63, but at 63 5/8 or 62 7/8 instead. Then if the stock declines say to 64 there may be quite a lot wanted at that figure; more in fact than is offered for sale, and so long as the demand at 64 is greater than the supply, your trade is protected. Only when all the buyers are supplied at 64 and at least 100 shares dealt in at 63 5/8 will your stop be caught.

This technical point is based on an analysis of a large number of orders placed by the public. Full figures are the most used in the placing of orders. Next to the full figures, the half points are most often stated, such as 25 1/2, 50 1/2, etc. Next to the half points, the quarter points. Least of all, the fractions 3/8 and 5/8.

From the above we observe why it is to our advantage to place stops on long trades at the so-called odd fractions below the full figure, and on short trades at the odd fractions above the full figure.

The proper methods of placing stops to protect commitments when first made, and of moving stops to reduce risk and then to protect profits have been fully exemplified in the chart studies presented in preceding sections. From these

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practical illustrations, it will be noted that it is unwise to follow arbitrary rules, such as placing a stop 2 or 3 points away from the price at which a commitment is made.

Arbitrary stops of 2, 3 or more points should be used only when the tape or the chart does not show a support or resistance level, or a support or resistance point, nor otherwise give an indication as to where your stop might logically be placed.

Remember, your object should be to place your stops as close to the danger point as you can get it with reasonable safety. In the case of very high priced stocks, this may be 3 to 5 points under a supporting point or level, or 3 to 5 points above a resistance point or level, or it may be the same number of points under or above the level of a part way (50%) reaction or rally mark; or the same (approximate) number of points under a clearly defined trend support line or above a clearly defined trend supply line. In the case of moderately priced stocks it may be approximately 2 to 3 points and in the case of low priced stocks, say in the ranges under $50, approximately 1 to 2 points.

The number of points you will risk in placing a stop should also be governed by the type of operation you are engaged in. Thus, in short swing trading operations where you may be trying for the 3 to 5 point moves, your initial stop ; must be placed much closer to the danger points and should be moved to reduce risk more quickly than in the case of commitments made for the intermediate, swings of 10 to 20 or more points. The difference is that in the case of short swing trades, you are trying for smaller indicated profits and a more rapid turnover of capital; hence to keep the proper limitation of risk you must crowd your stops closer than in the case of long swing operations where you wish to allow for normal corrective rallies and reactions, or changes of stride, without being kicked out of your position on minor reversals of an established trend. All of which sums up into saying: In handling stops, be influenced by the purpose for

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which you made your commitment originally, and adjust your stops thereafter in accordance with the subsequent behavior of the stock and the market as a whole.

Always keep in mind that: Stop orders should NEVER be changed so that your risk is increased. All changes should be made for the purpose of reducing risk or eliminating risk or making sure of part of your paper profits.

Nowadays so many traders make a practice of placing stops exactly 1 point above or below an old resistance or support level on the even (full) figures that it is better to place your stops from 1 3/8 to 2 5/8 points away, from these levels and at the odd fractions, as already stated. Thus you will, in many cases, be out of range of specialists and floor traders who "gun" for these stop orders.

After a stock has moved well away from the point at which you took a long or a short position, you must remember that the further it moves, the nearer it is coming to the reactionary or rallying point, or the turning point for a swing in the opposite direction. The more it goes in your favor and the more it approaches the point (objective) where, you estimate, it should rally or react or turn completely, the closer your stop order should be to the market price.

If you calculate that there should be a 15 point move in your favor, do not hold out for the last point. If you are 10 or 12 points to the good on paper, crowd the stop order right behind the price when you see indications of hesitation or preliminary signs of a reversal. The more the stock hesitates and seems ready to reverse, the closer your stop should be.

In some cases, such as the above, it may be better to be stopped out on a close stop than to close it out yourself, for when you close a trade you shut off the possibility of further profit. But if you move your stop within a point or so of the market price, or to whatever figure the action of the stock itself indicates is best, the way is open for more profit and you have assured yourself most of what has already accrued.

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However, the handling of stops efficiently is like everything else in the stock market, it is a matter of developing good judgment. Generally speaking, you will find it more satisfactory to close out your trades yourself, on your judgment of behavior, in preference to letting your stops take you out. This is because a stop on a long trade must necessarily be executed on a down wave, that is, on weakness and a stop on a short trade necessarily must be caught on an up wave, that is, on strength. With good judgment, you aim to begin long trades and cover short sales on down waves and to close out short trades or close out long commitments on up waves. The difference between what you get in using good judgment to begin and close out positions and all owing them to be closed out on stop, nevertheless, should not be counted as a loss. Rather, it is merely another item in the operating expenses of an investor or trader, namely, the insurance premium paid to guard against greater losses — a very small premium and a very convenient insurance which is available in few other lines of merchandising.

Of course, even the very best judgment in making commitments and the best logic in handling stops cannot prevent having them caught at awkward places. In such instances, that is, where you see you have been stopped out prematurely, it pays to reestablish your original position if you find that the action of your stock subsequently justifies going right back into it. But you must set your stop on the reestablished commitment just as if it were an entirely new position and without regard to the price at which you previously went in or were stopped out.

There are three reasons for the too frequent catching of .stops:-

(1) Starting trades too soon. This may be the result of impatience — hence poor timing or failure to wait for reasonably conclusive indications — or failure to observe the principles set forth in Paragraphs 2 and 3, Page 1.

(2) Bucking the trend.

(3) Improperly placing and adjusting your stops.

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If you find your stops are being caught frequently, go over your trades carefully to determine whether the fault may be attributed to any or all of the above causes. Then review the instructions herein and all preceding references to stop orders so you may discover your errors and thus avoid repeating the same mistakes in the future.

Should it appear that your commitments are started right and your stops reasonably well placed, then the frequent catching of stops should be taken as a warning that you are not operating in harmony with the trend of the market. Thus, if you persist in selling stocks short in a rising market you are bound to expose your stops to the danger of being touched off on bulges. Conversely, if you repeatedly buy on what you believe are reactions only to discover that your stops are consistently caught, this should be taken as an indication that you are operating on the wrong side of the market — the trend is down and those presumed "reactions" in reality are waves of liquidation. Such errors of judgment sometimes lead students to abandon the use of stops. Nothing could be more dangerous.

Some active traders prefer to use mental stops. We suspect that many of them do not watch the market continuously; they forget that the market may go badly against them when they are not studying the tape. And on occasions the tape is many minutes behind the market. A mental stop is of no use under such conditions. Do not use mental stops unless you are watching the market continuously. If you cannot do this, leave instructions with your order clerk to close out your trade "at the market" when a certain price appears on the ticker tape. You may get more or less than that price; but if you will follow this plan you will not sustain a large loss if you are wrong. And everyone must expect to be wrong a considerable percentage of the time, especially when he is learning to trade.

<u>NEVER</u> abandon the use of stops. Instead, if your stops are too frequently

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caught, close out all your commitments. Get out of the market entirely and stay out until your judgment clears, until you have located the cause of your difficulty through consultation with our Coaching Staff and know how to correct it: In brief, until you understand the market and are able to apply the instructions contained in this Course.

Not to use stop orders is to discard one of the most vital parts of this Method. The secret of success in any business is the limitation of losses. Not to use stop orders is to express such confidence in your judgment as to indicate that you cannot be wrong.

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GENERAL INSTRUCTIONS

CAUTIONARY SUGGESTIONS

Your undertaking to learn this Method is evidence that you intend to reverse the rule of the public which is to monkey with the stock market buzz-saw before it knows what makes the wheels go round. As in any other business or profession, art or science, it is essential that you lay a sound foundation by serving an apprenticeship before you begin actual practice. If you were studying to become a dentist, you would not begin by immediately pulling patients' teeth. If you wish to become a lawyer, you do not begin by trying cases before the court (even if the Bar Association would let you). Your clients would soon discover your inexperience and you would have to suck other fields, It is the same way with the stock market. You must study first, then acquire experience by serving an apprenticeship before you begin your actual practice with real patients which, in this Instance, are your own dollars.

The way to lay a solid foundation for success is to begin by:

Trading on Paper. This is an inexpensive way to gain experience and to test your ability to apply what you have learned. Some people object to paper trading on the ground that it is like playing poker without stakes, there is no thrill in it. Very well: We ask you to remember that the biggest thrill of all comes when you make your first series of actual trades, with money, and find that they were correct. There will be more thrills as you continue to make successful commitments and discover that you never again are taking big chances nor suffering disastrous losses. If you wish to forego the satisfaction of stock market success for a little temporary excitement, you may disregard this admonition to start by making trades on paper without taking any risk. But if you wish to attain the thrill of achievement, you will begin by trading on paper.

Do this until you find that you are learning what and when to buy or sell. When you decide a certain stock is either a purchase or a short sale, write it

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down in a record book just as if you were writing an order to your broker. Then ascertain either by telephoning your broker, or by looking in your newspaper that evening or the next morning, at what price your order would have been filled. Give yourself the worst of it if you are in doubt. Mark this price down in the book. Add the commission for buying or selling. When you close out this transaction, figure the commission and the tax on the sale or purchase. Calculate the net profit or lass. Then add, in the loss column, interest at 6% on the amount the stock cost (if it was a long commitment), just as if you had actually bought it through a broker.

Study your losing paper trades and compare them with the successful ones so you may locate the cause of your mistakes. Try to correct these when you make the next series of commitments. After making fifty or a hundred such trades on paper without risk, you will know whether or not you are learning to select the right stocks at the right time. Do not fail to study your weak points.

When making trades on paper, place a stop order on each commitment immediately, the same as with factual money. On a paper transaction it is just as important to do this as on actual purchases and sales, for you want to know when your judgment is wrong, and the penalty for wrong judgment is loss.

After you have completed a successful course in trading and investing on paper, you will be ready to operate with money, but not before. Do not be impatient, to begin trading or to get results. Lay a strong foundation for your future by understanding thoroughly before you make even a single paper commitment. Continue your paper transactions long enough to be certain of your judgment before you venture a dollar.

Do not let anything or anybody lead you to make hasty commitments with real money. If you have subscribed to the Course with this idea and have not the

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capital to see it through, get yourself into that position before you make your first transaction with cash. Nothing should urge you to begin hastily and to be under a nervous financial strain.

Operating with actual money is more of a test of your ability than paper trading, for when your money is at stake you will be more or less at the mercy of the two devils of stock market followers — Hope and Fear.

Therefore, when you start actual operations it is advisable to begin with ten or fifteen share lots no matter how large your capital may be. Remember that you are learning the business. You should not try to make money at this stage. It is vital for you first to train yourself. Bear in mind that you do not need any capital to learn how to trade and invest according to this Method. Knowledge of stock market technique is far more valuable than capital in the beginning.

The longer you study the Course, the more expert you will become. Do not expect to be a full-fledged operator in a few weeks or months. Bull markets sometimes run for years before a bear market comes along. Even the more experienced traders can forget the tricks they have learned in the last bear market before another one develops; and the reverse is equally true. Therefore, if you start at the beginning or in the middle of one cycle, it may take a long time before you will have the opportunity to learn how to handle your transactions in the other. Hence, you should strive to perfect your judgment by constant practice. Avoid concentrating on one feature of the Course to the exclusion of others. Learn the whole Course. Get the benefit of all of it.

Overtrading is a form of financial suicide. It is the second greatest mistake made by the public. After you have gone far enough with your paper transactions to warrant actual trading and investing, begin with small lots. Provide sufficient capital to keep your mind at ease. If actual results are not as good as in your paper trading, go back to paper trading, then resume later with real money. Try to build up your capital out of profits.

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If you make money at the start, wait until you have ample capital before you deal in larger lots. It is much better to creep before you try to walk. There will be plenty of time for you to operate in larger lots after you become more expert. The market will always be there, and the main thing at the beginning is to proceed in such a way that you will build a solid foundation for future successes. If you overtrade at this, or any other stage, that is, spread yourself out too thin, you will be handicapped and perhaps discouraged and defeated by your early experiences. This happens to most people who operate without learning stock market technique; they lose their capital before they know how to trade or invest. I emphasize this so it will not happen to you.

Trade in equal lots of stock. Success in active trading means making a series of transactions in equal amounts of stocks with the result that, after paying commissions, interest and taxes, profits exceed losses.

The man does not live who can make a profit on every transaction.

A loss on a trade is punishment for wrong judgment. The more accurate a trader's judgment, the less losses he will have. For example, one hundred percent judgment in selecting opportunities means that after a trade is made the price of the stock bought or sold does not go as much as one-eighth against you. That is the standard which you should strive to equal, and the nearer you come to it, the greater your net profit at the end of the year.

The reason for having the number of shares equal in active trading operations is this: Most people will have twenty-five or fifty shares of this and one hundred or five hundred of that. Usually they aim to make a killing by loading up with the very lowest priced stocks, i.e., the most speculative and hence the riskiest issues. Result: The losing trades oftenest will be in those of which they have the most, and profits will come on the small amounts. Sound practice demands a series of trades in equal amounts; as you become more expert you will find your profitable trades running several times your losing trades, measured in points and fractions.

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If you aim to operate on an investment basis, that is, make commitments for the intermediate and major swings, you may prefer to divide your capital so that, instead of carrying equal lots of stock you will have approximately the same number of dollars invested in each issue. That is all right provided you stick to the better class stocks and do not unbalance your position by placing an unduly large percentage of your funds in "cheap" stocks.

Whether you are trading for short or long swings, it is better to diversify your commitments than to concentrate on one or two issues. In other words, spread your capital over three, five, ten or perhaps twenty of your best selections; how many will depend upon the amount of money you have available. Say you have picked five candidates, and assume that five is the maximum number of commitments you will normally carry at one time. Even with the best judgment, one of these may go wrong and another may fail to make good as you anticipated. But chances are your profits on the other three will more than offset your losses and you will have at least "one good horse in the running." However, if you take on, say, 100 shares of just one of your candidates instead of twenty shares of each, you may find that it is just your luck to be in the poorest performer of the lot.

On the other hand, diversification can be carried to extremes as much as concentration. Thus, if you have too many commitments to watch, your judgment may be warped by worry, or lack of time in which to keep an excessively large number of open trades under careful observation.

Of course, the above does not mean that you must make all five of your commitments at once. As explained elsewhere (Sect. 8M, Pg. 7, Par. 2), the day on which you make your first transaction may not be the best time to enter any one or all of the others. Suppose five is your usual limit and you have taken on one or two of your selections; in that case do not complete your line by putting the rest of your capital in those first two stocks. Keep the rest in reserve until you see that the right time has come to get into the others. It

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may happen, that after you have made your fourth commitment, you will not like the way your fifth choice is behaving. In that event, you will pass it up, keeping - this much of your operating fund on hand until you do find a stock that is acting in the manner which would justify your selling it short, or buying, as the case may be.

Where to study the market. This Method may be followed either in a small private office, or in one's study at home after business hours, or elsewhere in spare time.

If you plan to make active trading your profession (as explained in the "Tape Reading and Active Trading" division of this Course), the best way to study the tape is in a private office, preferably one which you lease for your own use. It may be a very small office, for all you need is a ticker, a telephone, a desk and a chair. If you do not put your name on the door, nobody will call and bother you. Just have the word "Private" painted there; then other folks will keep out.

If your commissions warrant it, your broker will be glad to furnish you with a private office and all equipment at no cost to you.

Your broker's Customers' Room is probably the worst place you could select either for study or for actual operations, regardless of whether the market is your profession or merely your avocation. You cannot concentrate on the very difficult and intricate subject of tape reading when the broker and his assistants are rushing around with orders; when other people are gossiping about the market, asking foolish questions, passing along tips, and shouting out every 1,000 share transaction as it comes across the Trans-Lux. All these influences tend to confuse your judgment. They are just as damaging, just as misleading to the investor as to a trader. Learn a lesson from the hen: She goes off into a quiet nest and there, in a little while, produces the egg. It is the egg of profit which you must learn to lay, and experience will prove that this is best

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done, in solitude. (See also Sect. 25M, Pg. 2, Pars. 1 & 3.)

Judging the stock market is a task which requires a careful balancing of one's faculties. If one's judgment is pulled this way or that by the numerous, influences which are present in a brokerage office, it is almost impossible to keep from being biased. By working in silence and seclusion these1 confusing conditions are done away with.

Another objection to operating in a broker's office is the gradually acquired tendency to trade too often. You see people all about you buying and selling. The customers' man comes to you with his latest bit of news or gossip. The news ticker rouses your curiosity and leads you astray. Everything about the place encourages you to trade frequently; to act on emotional impulses and to go off half-cocked.

It is much better for you to make one commitment a month and realize a profit from it than to trade every day and show a net loss. In the kind of operating which is most profitable, the day to buy is not always the day to sell. If, as I have shown, the important movements in the market take time to prepare and carry through, it must be evident that if you wish to benefit by them you must have patience. It is difficult to have patience in a broker's office; this is comparatively easy when, in your private office, or in the evening, you devote an hour to a study of the market and the planning of your moves.

If you have no private office and no time to devote to the stock market except after office hours, you are perhaps just as well off, even as an active trader, and certainly so if you are more inclined to investment operations. You find in your evening newspaper the complete record and the net results of the day's battle between the bulls and bears. From this record (*) and a Wave Chart

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* That is, from the table of prices and volumes. DO NOT fritter away your time reading the financial news and gossip columns. The less you know of this stuff the better off you will be. Much of this material may be colored by the opinions and prejudices of the writers whose business is journalism, not forecasting. The financial reporter's function is to gather news of current

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you can, in a little while, obtain the comparatively few facts that are necessary to compile your own individual records. It is from these records of your own that you can, in the silence of your own room at home, plan your campaigns. You then mail, telegraph or telephone instructions to your broker. You need pay no further attention to the market until the next evening, when you see the results of the day's transactions. These will either confirm or contradict your previous judgment, or throw doubt upon it, in which latter case you close out your commitments and take a neutral position.

Devoting an Hour, a Day to the Market. The best results I ever had in judging the market and trading were when I could devote only one hour a day to study of the market, planning my campaigns and giving instructions. Busily engaged in affairs that prevented my studying the tape throughout the session, I found, as stated in my book, "Wall Street Ventures and Adventures," (Page 211): "It was not until some time afterward that I realized that being limited to one hour in the middle of each day was an advantage in my concentrated study of the position of the market and its action. Had I been an active trader, this would not have been true, but in defining the trend of the market, anticipating the important turning, points, and selecting the best stocks for making the most profits in the shortest time, the hour-a-day method was ideal. Each hourly section was compared with those of the preceding days. The comparative strength or weakness, the response of the market to bullish or bearish influences, the nature of the manipulation, and the evident purposes of the manipulators became more clear thus in comparisons of hours side by side."

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happenings; you cannot expect him always to know when a bit of news or gossip may be inspired by some one with an axe to grind. Furthermore, he strives to give the public what it usually wants, namely, the best explanation he can concoct for any given rise or fall in the market. That satisfies the majority, but it is of no value to you. You want to be in or out before the apologies and explanations start. Anyhow, did you ever stop to think how many thousands of other people are reading the same news item at the same time, and reacting to it in the same way? You do not want to go with that crowd, but against it.

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Years ago, as I stood at the ticker watching James R. Keene, the famous stock operator, do his own trading, I observed that he would make a close scrutiny of the tape for two or three minutes, and then he would pace up and down his office for about the same interval. Each time he returned to the ticker he would observe the changes that had taken place in the character of the market and the action of certain stocks. He saw, on the tape, a series of pictures which he closely analyzed and weighed. As he walked back and forth during the intervals he would further consider his observations and form his conclusions.

I suggest that a certain hour each day be devoted to a study of the market by those who cannot give more time to the subject. For the average man who is engaged in his regular line of business, an hour in the late afternoon or evening should be sufficient. On the average I think one who follows this plan will be more successful than those who spend all day in a brokerage office, but probably not as successful as those who can devote all of their time to a study of the tape in combination with the charts in the seclusion of their own private office.

In my case, during the period above mentioned, when I was following the hour-a-day plan, I had an understudy who watched the market closely and called my attention to any special features that occurred while I was absent. A boy kept the charts. One day I said to this boy: "What you are learning here should be worth a million dollars to you some day." That was fifteen years ago. I was right. He has since made more than a million dollars, largely from, what he learned at that time.

Selling Short is something that many people cannot do as easily as they can trade on the long side. This is such a great handicap that I advise trading on paper until you can sell short as readily as you can take a long position: that is, with an equal amount of mental ease.

One who can operate only on the long side of the market is, only half a

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trader. He sees everything through the eyes of a bull. He thinks everything is always going up. He never can see any money on the short side. The truth is, a chronic bear has a better chance of making money than a chronic bull.

The speculative public is made up mostly of bulls. The speculative public loses on a colossal scale every year except in riotous bull markets, and even than this money is only lent to them for the time being. Wall Street history proves that chronic bulls mostly lose their profits and more besides. A great part of these losses could be turned into profits if they could see the short side and the many advantages of operating that way when the proper time arrives.

It is not what you make but what you keep that counts.

Many hesitate to sell, short for fear of a corner. If one were to investigate the number of corners that have occurred in the last fifty years, he would find that there is not one chance in a million of being caught in a corner, and that one chance can be eliminated by placing a stop order on every trade immediately after it is made.

It is an old Wall Street saying: "Stocks are put up but they fall down." The biggest and quickest money is on the short side. In the panic of October and November 1929, the decline, in two months, wiped out the gain of the previous fourteen months. This means that a short seller, acting at the right time, made big and quick money by taking advantage of a bad technical situation and an overloaded public. Had there been more shorts at that time, the market would not have had such a demoralized break. A tremendous balance wheel would have existed had a good portion of the traders taken the short side" in the upper levels of the 1929 market, say in July, August and September. This would not only have prevented prices being marked up so extravagantly, it would also have supplied a great buying power on the way down — to a certain degree a protect-tion against the wide breaks between prices.

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The average man's commercial training requires him to buy before he sells. In stock trading one must get accustomed either to selling first or buying first. It makes no difference which, in the final result, but the object is to sell at a higher price than you buy.

When you sell short, your broker borrows a certificate for the same number of shares as you have sold, and with this he makes your delivery. To the broker who loans him the certificate, he in turn loans the market value thereof in cash, as security.

At times, when it is difficult to borrow certain stocks, it is necessary for you to pay a premium for the use of such certificates. These premium rates are published on the news tickers, also in the financial papers and usually in the daily papers. When a premium is thus charged, it is an indication that there may be an excessive short interest in that stock; but that is no guarantee the stock will not go down and it need not worry any one who uses a stop order.

A trader must be careful to avoid selling short stocks which have a very thin market, for these are likely to open some morning several points above the previous night's closing price, thus resulting in stop orders being executed at much higher figures than anticipated.

There are times, too, when the New York Stock Exchange forbids short selling or puts restrictions on such sales, so that the short seller is at a disadvantage. On such occasions it is best to postpone trading until normal market conditions prevail and thus avoid such handicaps.

Selecting Stocks. Search the market continually for the best stocks in which to trade. Your charts will show you which these are.

Favor the stocks which are the mediums for the largest operations. These usually offer the best action, the greatest facilities for getting in and out close to the last sale, and the most safety in the use of stop orders.

Do not get into a stock just because it is in a bullish position or sell

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it short just because it is in a bearish position. Wait until it gets to the end of its period of preparation and is out on the end of the springboard, ready to go. Let other people play with it until that time. Thus your money will be kept active. You will avoid getting tied up in dull stocks, long before they are ready to make money for you. You will avoid being kicked out of your, trades because you got in too soon.

Try to get almost immediate action for your money; not that you can expect a stock to move just because you bought or sold it, but because it is bad practice to hold a position for many days or weeks without getting anything out of it.

Try to select the stocks that indicate they will move soonest, fastest, and farthest.

Limit your losses and let your profits run. This is one of the fundamental principles in Wall Street trading. Unless you can follow it you had better not start.

The reason why the public loses so much money in the stock market is that most people reverse this rule; they take small profits and let their losses run, often until they go broke.

When deciding upon a trade, decide also how much risk you will take. Reason thus: The action of this stock indicates that it should move in my favor ten or fifteen points. I am therefore justified in risking three points; my prospective profit must always be several times the amount of my risk. I must place a stop so many points from the price at which the trade is made. If the stock moves in my favor, I will move the stop so that the risk will be reduced, then eliminated; then, if the market permits, and a paper profit appears, I will move the stop farther so that a part of this profit will be assured.

The above means: If you are wrong, run quickly. When a stock goes against you, you are wrong to just that extent. It is no sin to be wrong, but to

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let a lose run into big figures often leads to failure and disaster. Just think how much money the public would have saved in the decline of 1929 to '31 if the risk on each trade or investment had been limited.

After you have traded for a while, if you find that your stops are being caught too frequently, it will mean that you are not careful enough in starting your trades. Thereafter decide to use more discrimination. Refuse all but the best opportunities. Wait for them. Take your positions as close as you can to the danger points, as shown on your charts or on the tape. Place your stops according to the requirement of the situation (Sect. 23M). Study your mistakes and profit by them. Know every minute why you are starting a trade, why you are holding it, and why you should close out.

Placing Orders. In nearly all cases it is best to place your orders "at the market," except in the case of stop orders, of course. As a rule, limited orders are inadvisable, but not in all cases.

When you have watched a stock go through a period of preparation for a substantial move, and you observe that it is suddenly becoming very active at day 85 1/2, it is a mistake to place an order at 85 1/2, or any other limited price, because your broker may not be able to get it at that figure; it may not be obtainable under 85 3/4 or 86. In trying to save a fraction, you might miss the whole move.

If you are waiting for an opportunity to sell a stock on a rally, or buy it on a dip, and your chart shows you that the trade should not be made unless it goes to about your figure, it is all right to use limited orders. A case would be: A stock advances from 86 to 90 after going through all thel stages of preparation, and you believe, judging from its own action and that of the rest of the market, it should react a point or two before it goes on upward. You might then place a limited order at 88 1/4 (just above the full figure for reasons explained under the heading "Stop Orders").

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If you are placing orders for execution the next day or are unable to watch the tape or your charts during the day, limited orders are all right in certain cases. However, if you figure, during the evening, that a certain stock is in a bearish position or on the edge of a sharp decline, tell your broker to sell it short at the market price at the opening. Do not use limited orders in such cases.

A limited order always means that it is to be executed at that price or better; in the case of a buying order, at a lower price than the figure stated; in a selling order, at a higher price if possible.

Do not straddle. It is bad practice to be long of one stock and short of another unless you are so proficient and so experienced that nothing will "rattle" you.

When a down trend is indicated, you should be short.

When the decline has run its course, you should cover: if there are indications of a reversal in trend, you should go long at the same time.

If only a small rally is indicated, you should do nothing until the real buying time is indicated. If an important rally is forecast, you should cover and at the top of the rally, if you judge that the trend is still downward, you should again sell short.

But do not try to catch every turn in the market, Wait for the best openings.

In my most successful short swing trading campaigns I took a position on an average of once a month. Five or six of these campaigns showed losses. These were small, because a stop order was always placed on each trade. Result: A very satisfactory net profit at the end of the year. The profitable trades ran into substantial figures — usually several times the risk.

Judging the Market from your Newspaper without the aid of tape or charts: After you have practiced with the wave chart and the others explained in

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this method, you can readily apply the same principles, and study the action of stocks as indicated in your daily newspaper. (Section 4M, Pgs. 22 and 23.)

Take a few of the leading stocks for study purposes and observe how they act in relation to the rest of the market; whether they are well supported on declines; whether they lead or follow in rallies; how the volumes compare with the whole market; whether these volumes are light or heavy on advances and declines, etc.

One after the other consider all the important technical points explained herein and apply them as often as you can whenever you have spare time.

If you have figure charts and can give sufficient time to the subject, you will find that you can memorize them. The way to do this is to look steadily at a chart for a few moments, just as if your eye were a camera and you were thus taking a mental picture of it. This will aid you in studying the market, when you have, no charts handy. From your newspaper you can see what changes would be made on your charts when the time comes to make your entries thereon.

Dividends. It is bad practice to buy a stock just before it sells ex-dividend, merely for the sake of getting the dividend. Many people do this, in the mistaken belief that they are securing an additional profit and as a result of this kind of buying there are occasional bulges in a stock the day before a dividend comes off, but this gain is just us likely to be lost in the succeeding sessions.

In a bull market the dividend will frequently be recovered in the market price, within a day or two following the ex-dividend date but in the long run these gains are absorbed in the average trend; hence, buying to get the dividend is based on a fallacy and is simply a gamble that it will be recovered, almost immediately.

If you are short of a stock on the day it soils ex-dividend, you must pay the amount of the dividend, or, rather, your broker will charge it against your account. But that should not bother you because if your short position is sound

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the stock is likely to lose the full amount of the dividend. Thus, in a bear market, when the dividend comes off the price, a stock usually declines more rapidly than the average trend. That is, on the ex-dividend date, the stock may not only sag off by the amount of the dividend, but may also lose several points more owing to offerings from those who hold the stock just long enough to secure the dividend.

Therefore, in making commitments, either on the long or the short side, it is best to disregard ex-dividend dates.

*Pyramiding. There are certain points, as indicated by the tape or your charts, when it is good practice to pyramid, protecting each additional lot with a stop order. These are explained on the charts.

There are certain other times when the preparation has been completed for a quick and important move in, a stock; when it is out on the springboard, as we call it, and is giving almost positive evidence that the psychological moment has arrived for a pyramiding play. At such times there are two good ways of pyramiding:

(l) By making your initial short sale (or purchase) 300 shares (or 30 or any multiple number of shares) and, as the market goes in your favor, adding to your line 100 (or 10) shares for each one point. Your trade should be started so that your initial stop order will be about three points or less away from your first sale price. A stop order should also be placed about three points away from the selling price for each additional lot. The stop on the 300 shares should be lowered one point for each point the stock declines. The stops on the 100 share lots should be so moved that none of them will be above the stop price on the 300 lot.

(2) 1 By starting with 100 shares, add 10 shares for each one point the stock goes in your favor. Have a stop on each and every lot. Move all stops the

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* This explanation is intended to illustrate the principle involved. Pyramiding is no longer practicable on the long side under present day (1937) high margin requirements.

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same way as in the first operation above described.

Closing pyramid trades should be done the same as any other trades — when the action of the stock on the tape, or on the chart, tells you it is time to close.

Never get the idea that because a stock shows a clear indication of going up or down, it is time to pyramid. There are only certain conditions under which this form of operation is comparatively safe. I say comparatively because no one can ever make a trade in the stock market with any guarantee or positive assurance of success.

As above stated, the ideal time for pyramiding on the short side is when the pressure on a stock is so heavy, and the support beneath it so light, that it shows positive signs of sudden and drastic decline. Or, on the long side, when sudden and insistent demand for a stock shows such irresistible lifting power, as shown on the tape or your charts, that it seems about to be driven suddenly and strongly upward.

There should be evidence of a 10 to 15 point move at least to justify pyramiding.

Orders to buy or sell for the additional lots should be placed "on stop" so that when the price touches the buying or selling prices the pyramiding orders will be executed automatically.

Averaging. Never increase your line when a trade goes against you.

Letting a stock run against you more than a few points is bad practice. Letting it run to where you think it desirable to buy or sell more to average your cost is worse practice.

If your judgment was wrong in the first instance, a stop order should have let you out with a small loss. If you had no stop, and the price goes against you, it proves more than ever that your judgment was wrong. Why persist in using wrong judgment?

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You may think a stock is cheap at 90 and still cheaper at 80, but remember that it may go to 25 or 10. Neither a trader nor an investor has any business to be in a stock after it goes few points against him. So eliminate the idea of averaging. Never average in trading.

Closing Your Trades. This should be done on positive tape or chart indications. Just as there must be good reasons for beginning a trade, there should be other good reasons for staying in it and closing it.

The market constantly tells you what to do: Be long; be short; be neutral.

When it says "be neutral" you should close your commitment, whether there be a profit or a loss in it.

If you don't get out on the rises, rallies or booms, you will have no money with which to buy in the slumps, panics and depressions.

And when you are short, if you don't cover when they are weak, you will probably lose your best chance.

James R. Keene once said to me:

"The best time to buy stocks is when they are all going down together, and the best time to sell is when the whole body of stocks is strong."

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MARKET PHILOSOPHY

Cautionary Suggestions Continued.

The two elements vital to success in the stock market are: (1) Knowledge of the principles taught in this Course and (2) Ability to apply these principles correctly. A famous operator, Dixon G. Watts, expressed the idea many years ago by saying that the qualities essential to the equipment of a speculator (and an investor) are: Judgment, self-reliance, courage, prudence and pliability. To these should be added another quality, patience. In brief, rigid self-control is half the battle.

We can train you to develop good judgment, but you must train yourself to act upon your decisions and to carry them to a successful conclusion. By this is meant that you must operate with no emotion's whatever. Be just as indifferent, hard boiled and level headed in opening and closing actual commitments as you would if they were merely paper trades. You can do this if you will be honest with yourself. Make a searching analysis of your own mental processes. Study your psychological shortcomings. To know them is to beat them. If you find you do not possess courage, self-reliance, patience, prudence and pliability, cultivate those qualities. <u>It is folly to be in the market without them.</u>

When you make a commitment, your attitude should be that it is just an ordinary business transaction involving risks common to any other business venture. If it turns out profitably, well and good. If it results in loss, no serious harm will be done because you have limited your risk with a stop order; and you know in advance that no business can be conducted without occasional setbacks, so you are prepared to accept them philosophically.

Thus you will waste no time regretting losses or lost opportunities. The only value of a mistake is the lesson it may teach. Hence the only thought you will give to your errors will be studying the reasons, for them. Regrets can

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teach you nothing but they can produce a great deal of mental anguish which will upset your self-control.

Once you have acquired complete control of your emotions, you will, he surprised to find how greatly that strengthens your, judgment. The better your judgment, the greater will be your confidence in yourself and your contempt for the opinions of others. Right here let us caution you to remember that another vital element in your success will be your ability to play a lone hand.

Decisions arrived at by committees or groups are no better than the worst opinion of the weakest thinker of the lot. It is a peculiar fact, in the stock market at least, that a loud mouth goes with a lame brain, but leather lungs sway more people than sound logic. That statement may seem harsh, but you will recognize its truth later if you do not see it now.

Neither should you seek confirmation of your decisions by consulting others whom you may regard as experts, unless you are positive they speak the same language as you, that is, understand and follow the same principles. Even then, be careful. One person may see the market with the eyes of an investor, another through the eyes of the day-to-day trader. You may consult both and get conflicting opinions, each of which is sound for that particular individual's requirements, but not for your purpose. Again, you may have made a close study of a certain stock. You ask another, who knows little about its behavior because he; has not followed it, what he thinks. To be sociable he gives you an offhand opinion which throws you off balance. Result: You take a loss or miss an opportunity. In fact, we know of cases where two equally skilled operators have had diametrically opposed positions at the same time, one long, the other short, in different stocks of course. Both made profits. But had they compared notes, consulting each other for an opinion on the market, the outcome would have been confusion, hence opportunity lost and mental poise upset. Therefore, make it your practice to <u>draw your own conclusions and keep them to yourself.</u>

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A stock market operator must be as hard boiled as a five-minute egg.; cold blooded as a fish; deaf to all gossip; blind to news; and dumb as a door knob when it comes to discussing the market with others.

Capital and Courage are two things necessary before you begin actual trading. You must have capital and you must have the courage to act on your own decisions.

As you continue your study and practice, you will gain confidence and this should give you the necessary nerve when you see an opportunity. If at any time you find yourself powerless to move because you haven't the nerve to trade, make your trades on paper; but only until your confidence returns. Better still, take a vacation from the market. Do nothing for some days or weeks. When you return to it, you will find your judgment improved.

Prudence. Do not let successes lead you to trade in unduly large amounts in proportion to your capital. If you have $10,000 available, see what you can do by venturing not more than $1,000 in a series of trades in small amounts of stock. Do not touch the other $9,000 until you have proven whether or not you have been successful with the $1,000. If you should lose the $1,000, try again with the next $1,000; do not use all the rest of it.

It is a good plan to have a column in your record of transactions in which you enter the causes of any losses that occur. Study these. This will aid you toward success.

Your transactions may be small at first but this start is very important to you. "As the twig is bent, the tree's inclined."

Suppress all anxiety to make a lot of money. Do not aim to make a killing; try rather to realize a consistent return on your capital — 20% to 45% or more per annum is not an unreasonable goal. You will be surprised how rapidly you can build if you do not aim too high at the start. Concentrate upon learning to play the game — not the way it is played by the public but by the professionals

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Play it, not like an outsider, but an insider. Try to get the big fellow's point of view. Reason out what you would do if you were in his place. If you were trying to buy you would force the price down as low as you could. When it came time for you to sell, you would spread bullish tips and print optimistic news items through your press agent in order to induce other people to buy; thus you would create a good market on which to sell. That is the game as the large operator plays it, and when you understand how he works and you, trace his movements on your charts, you are making him work for you and profiting by his efforts. Thus you continually increase your chances .to win.,

Never risk any more money than you can afford to lose.

If you use money that you cannot afford to risk, your judgment will be warped. Fear of loss will cause you to use bad judgment. Hope that you will make a profit will cause you to hang on when you should close out.

Pliability. If you cannot act without hope or fear; if you cannot trade without having your judgment distorted by these factors, wait until you have a certain amount of money that you can afford to risk and the time to devote to the market. Then you can be calm, cool and collected. By practicing on paper meantime, you can further prepare yourself for your real campaigns.

When in doubt, get out! Nothing clarifies the mind more than to be in a neutral position — out of the market. The reason: An investor or trader is biased by his open trades. If he is long, he thinks his stocks should rise because he is long; his hope often overbalances his judgment. If he is short he often fears that a rally will catch his stop orders. Livermore says: "Instead of hoping, he must fear; instead of fearing, he must hope. He must fear that his loss may develop into a much bigger loss, and hope that his profit may become a big profit. It is absolutely wrong to gamble in stocks the way the average man does." (*)

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* Reminiscences of a Stock Operator by Edwin Lefevre. Page 131.

Whenever you find hope or fear warping your judgment, close out all your positions at the market price, regardless of whether you have a profit or a loss. Then keep out of the market a few days, a week or longer — until you feel that you can go back again and be guided by your judgment instead of your hopes and fears. These two emotions are the cause of many failures in stock trading.

Until you can learn to trade and invest without hope or fear you will not meet with all the success you should.

During the years when I conducted an advisory service, I found that one of the important elements in my success was the practice of keeping out of the market for days or weeks at a time when the trend was in doubt. Subscribers often complained of this; they claimed that they were paying for the service by the year and that in telling them to do nothing I was depriving them of opportunities for trading. I replied by stating that the best advice I could give was: Do nothing. I had not agreed to keep them in the market all the time. My aim was to show a large profit at the end of the year after deducting losses, commissions and other expenses.

I know a number of people who do not make a commitment more than a few times a year. They usually clean up. I recall one year in which I was very busy with some other matters and could not give attention to my personal trading, but I did make commitments three times during that year. There were no losses on any of these three trades. All showed profits. These amounted to seven times the capital originally employed on margin and no additional margin was required.

Prospective Profits. Do not fix your mind upon any stated amount of profit that you hope to make on any commitment. Your chart will indicate the possibilities before you enter your order. Never say you will make twenty points out of this stock, because such an expression is merely registering hope, it may lead you to hang on too long. Even the biggest bankers, manipulators and operators never know how a trade is coming out. The market situation is changing

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constantly. Before you have been in a commitment twenty-four hours there may be reasons why you should not only close it out, but reverse your position. You must be so flexible that you can turn readily according to your indications.

Never pit your judgment against that of the market. Today's trading trend may be one thing and tomorrow's another. The thing to cultivate is ability to sense and to follow a trading trend whichever way it leads.

Patience. If you find that you have been taking five point profits when you might have had ten or twenty points in several cases, it is probably due to lack of patience. Your charts will show that you should not have gotten out when you did; that you should have waited until you had definite indications that your stock had completed its swing and was ready for a reverse movement.

Patience is an indispensable factor in the market: Patience to wait for opportunities; to see them develop; to wait for a substantial profit. Livermore said he became a big and successful trader only when he learned to hold his position through rallies or reactions until he had sound reasons for closing his trades.

Don't be in a hurry to get into the market simply because you have surplus cash available. Wait until you see a real opportunity. Suppose you do have $5,000 idle for even as long as three months. The interest on that sum at 6% would be $75 which you lose by not investing it. One good commitment a year will make you profits of many times that amount but a hasty trade can set you back twelve months' interest, to say nothing of the shock to your confidence.

Likewise, once you have made up your mind that the market is topping out don't be in a hurry to climb back into a stock out of which you have just taken a substantial profit. What if it does go a few points higher? Let the other fellow gamble for the last eighth. Chances are you can buy it back again, if it acts right, at lower prices than you sold even if you have to wait six months or a year.

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Have patience to wait out a situation until you see it is ripe for an aggressive move. Then act promptly. Do not debate whether it would be better to wait for positive proof of the correctness of your decision. By the time you are 100% certain, the move will have started and your opportunity slipped away. If this does happen, don't make the mistake of running after the move which has escaped you, for in that case your judgment is consciously or unconsciously biased by your first error and chances are you will not thereafter act with a clear mind. It is best to say: The higher it goes the less I want that stock (if you were bullish), or: The lower it goes the less I want to sell it short (if you were bearish); so I'll just look ground for the next opportunity.

Never get the idea that you must be in the market all of the time. In fact, it is a good plan to operate so that your funds will be completely liquid at intervals and your position neutral. The purpose of this is to prevent you from going stale; to keep a fresh, clear perspective.

Never make a commitment in any stock unless and until you have made a thorough study of its position, its background and present behavior. If you have no charts of that stock, make them before you go ahead.

Do not go into a stock merely because you think it may be good; or because you "hear something good (or bad)" about it; or a friend has been advised to buy; or your broker "hears" big people are picking it up or selling it, as the case may be.

If you must lean on advisory services, check up their recommendations and opinions for yourself before you act blindly; and don't hesitate to disagree with them. Their judgment may be no better than yours right now, and when you have thoroughly assimilated this Method, your judgment will probably be far superior.

Self-reliance. NEVER ASK YOUR BROKER or anyone else what he thinks of the market, or what he advises you to do or whether he approves of what you

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plan to do. Form your own opinion. Try to make it so accurate that you will gain more and more confidence in it. Learn to have no respect for anyone's else opinion but your own. If you follow anyone else, your own judgment will weaken and that is the opposite of what it should do. By constantly cultivating a more accurate judgment, you will continually add to your earning power.

Make it your invariable rule that you will never allow either your broker or your customers' man to express his opinions; and you will allow him to quote prices only when you specifically ask for them. Make it your fixed policy — and have this clearly understood — that he is to do nothing more than take your orders and confirm their execution. See that he stops right there.

When you ask another person what he thinks, or which stock he believes best to buy or sell, you are taking his judgment or mixing his judgment with your own. In most cases, his opinion is nothing more than a guess. Your opinion can be based on facts, as shown on the tape, or on your charts. It will become more and more sound as you practice the rules herein suggested. Study, practice, trade and develop your judgment, your foresight and your self-reliance. New students especially should not ask a broker: "What's the market doing?" That leads him to express an opinion and immediately the student's judgment is biased.

Although brokers are constantly being asked for opinions and advice, they would much prefer not to give either. As Arthur Brisbane once wrote:

"When advice is good, its origin is forgotten and the buyer rejoices in his own intelligence. If bad, the giver of the advice is hated."

A broker prefers customers who know what they want to do and when to do it; who never ask advice; who give their orders in a clear and intelligent way. A broker has his hands full executing orders and financing the accounts of his clients. To ask him what to buy or sell, or to expect him to tell you just what to do, is an imposition for which he is not compensated by the small commissions you pay on each transaction.

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Do not mix fundamentals; statistics; opinions, formed from newspaper headlines concerning domestic or world political conditions, or conversations with your banker, your broker or business associates with technical conditions. To do so will distort your perspective and impair your judgment.

Do not judge the market by what you see from occasional glimpses at the tape. In the first place, unless you are an active trader and able to devote five hours a day to reading the tape continuously, you should not look at the stock ticker at all. But if you do have occasion to call on your broker, stay away from the tape. It is very bad practice to drop in at lunch time to see how the market is doing. That's just like hopping into the movies to see a five reel thriller and being called out at the end of reel two when the villain is about to tie the heroine on to the railroad tracks. You go away thinking she, is done for, not knowing that reel three may bring our hero on the scene in the nick of time with a posse from the sheriff's office.

Take care that you do not confuse minor swing with intermediate trend indications, nor short swing trading with trading or investing for the long moves. If you make a trade for say a five point move on the basis of tape indications, you must close out that trade on tape indications. On the other hand, if you take a position for a possible 10 to 15 point move on the basis of your chart indications, close it out on what the chart shows, do not run into a broker's office and throw your commitment overboard on what you suppose to be a tape indication. Short swing trading requires an advanced technique (explained in the division "Tape Reading and Active Trading") which is not strictly applicable to intermediate trend trading. Hence, if you confuse the two you are sure to be whipsawed. That is, you will always be jumping in on bulges and out on reactions. You will succeed only in paying brokers more in commissions than you will ever take out in profits for yourself.

Above all, DO NOT MIX YOUR METHODS.

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Occasionally we find a new student who is endeavoring to combine this Instruction with all or part of other ideas and theories (particularly some of the popular, new day "studies" of geometrical chart "patterns") which he has previously acquired. It is sheer folly to suppose that you can hope to discover any easy short cuts to practical market operations. The very nature of the art is such that it cannot be reduced to a basis of rigid formulas functioning along mechanical or mathematical lines. In short, you cannot solve your market problems with a calculating machine.

Our experience shows that those who set aside all other methods, ideas and theories (especially the Dow Theory) secure the best results. One case was like this: A student correctly forecast a rise in the market and accurately indicated the number of points that a group of leading stocks should advance. But when the rise was only half over he decided, on the basis of the Dow Theory, that the market should decline and not only sold out his long stocks but went short at that point. Result: He missed about half the advance, operating contrary to the trend as indicated by our teachings. He not only lost money but he lost an opportunity to get out of his stocks at the clearly indicated tops and to make a handsome profit on the short side in the decline which followed (which decline was not indicated, again on the basis of the Dow Theory, until the market was nearly at bottom once more).

Those students who have nothing to unlearn make the most rapid progress because they follow the Course 100% and soon find themselves on a paying basis. Therefore, we hope you will not mix our Instruction with any other for the above and the following reasons: It is practical, being founded, upon principles employed by <u>real</u> operators, men who have had professional experience and not merely smatterings of beautiful theories picked up as market letter writers, statisticians and self-styled "experts." It is complete in itself. It covers all your requirements in all phases of the market. It has been tested in all

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kinds of markets through more than quarter of a century, in fact, the underlying principles of this Course are as old as the market itself. It has made a great deal of money for many thousands of people. It will not stand mixing with any other so-called method; to do this is like going to two doctors, getting their prescriptions mixing the two together in one battle and taking a dose in the hope that it will cure you. You really should give one doctor a fair chance by taking his medicine when and as prescribed. Indeed, we claim that, unless you learn and apply this Instruction, you had better quit the market and stick to a business or a profession which you do understand.

Do not be impatient to begin trading or to get results. Lay a strong foundation for your future by understanding thoroughly before you make even a single paper trade. Continue your paper trading long enough to be certain of your judgment before you venture a dollar.

In some instances, students start trading on some feature of the Course before they have even read it through once. In fairness to themselves and to us they should follow instructions. These are: Read, study and learn the Method. Practice on paper until you are proficient. Then begin trading in small lots.

We asked one subscriber who is a doctor and who insisted upon trading almost immediately, "How long did you study medicine before you actually began to practice?" "Five years," replied the doctor. "Then would it be too much if we requested, for your own good, that you study the Course for three months before you make your next trade?" "That seems quite reasonable," he admitted.

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ADDENDA

The material contained in the following pages and in Sections 24M and 25M is as vital a part of this Course as the technical studies set forth elsewhere.

We urge you to read these last three sections over and over again until you have practically committed them to memory. Then refresh your memory by reviewing them at intervals.

You are asked to do this because we find that students who have acquired proficiency in technical details often spoil good trades; by failing to keep Market Psychology fresh in their minds at all times.

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WHY WE DO NOT GIVE ADVICE.

We are not in the advisory business. Our charter does not authorize us to issue advices on the stock market, and it is also against our policy.

Our business is teaching the Science of Trading in Stocks. We assist you in developing your own judgment. Our object is to make you independent of us so that eventually you will not have to ask us a question. When you reach that point, you will thoroughly understand the Method.

If we were to tell you when to buy or sell, and which stocks, we should be handicapping instead of helping you. Quality of judgment cannot be measured by any one piece of advice. If we tell you what to do and we are right, it would not prove that we have a good Method; nor if we are wrong, would it prove that ours is a poor Method. Good judgment can only be demonstrated by the giving of a long series of advices and basing trades thereon, in which the majority yield profits.

A bullish indication given today may be absolutely wrong tomorrow. Not only can the trend of the market change at any moment, but the technical position of any stock can do the same. Therefore, unless advices are followed up, and the adviser indicates whether the market confirms or contradicts their accuracy, they are of no value.

Advices to be of any value, were they given, should also carry correct stop order figures. And the market must be continuously watched so that stops can be moved according to directions. Merely to say, "Buy this stock," therefore, is to give a small section of what should be a continuous series of advices on a single trade. A small and incomplete piece of advice is of no value whatever. Both from the standpoint of the giver and the taker it is worse than useless.

Queries sent to us should state your interpretation and we will endeavor to make helpful suggestions. All interpretations are subject to confirmation or contradiction by subsequent market action. If we should at any time express an opinion as to the position of a stock, or the market, it must be understood that this is solely for the purpose of improving the quality of your judgment and that IT APPLIES TO YOUR PAPER TRADING ONLY. Our opinion should NEVER be regarded as advice to make actual trades or to take a position in the market. We are <u>teaching</u> — not advising.

When you have completed your paper trading, your judgment will be sharpened to the point where you can depend upon yourself and you will not then need any coaching from us. You can test your position by asking yourself this question: "Have I made a long series of paper trades which show more net profits than losses? If so, I am ready to trade with real money; otherwise, I have not yet acquired sufficient understanding of this Instruction to warrant my making actual trades."

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In coaching we show you all the fine points in the operation of our Method and help you to learn how to- interpret every phase of the market itself. As a subscriber, you are entitled to this assistance without any charge whatsoever.

With your cooperation we can make our coaching service (either by personal conference or correspondence) one of the most valuable parts of the Richard D. Wyckoff Course of Instruction. We suggest that you number your questions (keeping a copy for yourself) so that we can reply according to number. If you will carefully word your questions or problems you will facilitate our replies and enable us to give you clear, concise answers or discussions. We prefer these to be typewritten on full sized letterheads to facilitate handling and filing.

A most comprehensive result will be secured If you will send us complete details relating to one or two of your typical paper trades at a time, whereupon you will receive from us a thorough discussion of the problem, designed to illustrate the application of all important principles involved. (See Pg. B, "How to Proceed," Par. 9.)

Take full advantage of our coaching service. Call on us for assistance as often as you like. As this Course of Instruction, may determine-your financial future, it is sufficiently important to warrant a personal visit to these offices if practicable for you. We cordially invite this action on your part. You will find the time and expense involved negligible items compared to the satisfaction that is sure to result.

Almost daily we confer with students and prospective subscribers from points as distant as San Francisco, Mexico City, Vancouver, B. C. They come to learn the extent to which this Instruction will aid them, or to benefit by our personal coaching which is one of the features of our Course. None has ever gone away disappointed.

We shall be glad to answer any and all of your questions from the time you first enroll. But we strongly recommend that you avoid making long trips to our office for personal coaching until you have made some progress with your studies on your own account. That is, wait until you have studied the Course from beginning to end a few times so that, when you do make a trip to the New York office, you will have a proper basis for assimilating individual instruction.

HOW, WHEN AND WHERE TO SECURE THE ADVANTAGES OF PERSONAL COACHING.

All students of our Course should communicate directly with the New York office in connection with all questions involving detailed discussions of technical problems, whenever this is possible.

The New York office maintains a technical department that is in a position to discuss technical problems in considerable detail, and this department

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maintains a file of correspondence which is likely to present a clear understanding of the student's record of progress, thus giving the instructor an advantage, owing to his familiarity with the student's previous difficulties and his general knowledge of the Course. Such direct contact is calculated to obviate difficulties and misconceptions that might arise through attempts, to secure instruction from others who are neither authorized nor competent to give such instruction, or who are operating under disturbing conditions, or in an atmosphere that is likely to impair judgment or involve prejudices or fallacies growing out of local or transitory influences.

The technical department, in the New York office, believes that for every market situation there is an interpretation that is likely to be the most logical and consistent under the circumstances, and we desire that our students secure the benefit of whatever discussion or reasoning may be available in connection with the problem at hand.

Bear in mind also that the home office has a file of complete technical records and other facilities that help to supply the latest and most significant facts involved in a logical interpretation of the latest manifestations of the law of supply and demand.

POSITION SHEET

Subscribers often ask for our Position Sheet. We do not issue this sheet. We find it much better practice for you to send us your calculations on the technical positions; then we indicate whether these are right or wrong. The value of this practice in determining the positions cannot be overestimated. If we were to give you our estimate of these positions you would be deprived of an important advantage which can be gained only by working it out for yourself.

To facilitate your progress in determining the positions of individual stocks you should use our "Subscriber's Position Sheet" (which lists twenty active representative sticks and suggestions regarding its use). Decide to the best of your ability the position of each individual issue listed thereon and then record it as indicated. Be sure to explain the reasons for each of your deductions; this is very important. Unless you give your reasons we have no opportunity to correct any misinterpretation, miscalculation or wrong judgment on your part. Please do not send us Position Sheets covering more than these 20 stocks. We cannot possibly do justice to an inquiry which requests us to review a long list.

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ARE YOU APPLYING THE SOUND PRINCIPLES SET FORTH IN THIS COURSE?

ARE YOU OVERLOOKING OR IGNORING ANY OF THEM?

Analysis of an unsatisfactory period in the early trading operations of a subscriber disclosed abuses that prompted the following constructive comment and suggestions, which are submitted for your information and guidance.

Dear Mr. E_____:-

We have examined the record of your trading during the past several months and find, among others, the following errors in your procedure and practice:

1. You concentrated on the figure charts of individual stocks, basing your trades on these alone.

2. You did not make all trades in harmony with the trend of the market as indicated by the averages.

3. You did not complete a period of successful paper trading before trading with real money.

4. You frequently took your position too late; that is, after the move was well under way, or actually completed.

5. Your eagerness to make profits warped your judgment.

6. You were frequently impatient and acted too soon.

7. You did not properly estimate the distance a stock should move before making trades.

8. You failed to keep up your Position Sheet, and selected your stocks on hunches rather than on cold calculation.

9. After you were in the market you discontinued paper trading of which you were still much in need.

10. You frequently bought on bulges instead of waiting for reactions.

11. You made two or three trades on the same day. This with insufficient study and practice increased the percentage against you.

12. You abandoned the use of Vertical Line Charts which should have been studied in combination with your Figure Charts, at least in the stocks in which you were trading.

13. In one case, Atchison, you bought after it had risen over 20 points above the level where several buying indication appeared. Naturally, your stop was caught.

14. You falled to place stops and move them according to instructions.

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15. On several occasions you called up your broker and permitted him to express opinions, whereupon you acted on his suggestions with the result that you sold at the bottom when you should have done nothing; you bought when you should have sold; and you permitted his offhand opinions to scare you out of your own perfectly sound decisions.

16. On another occasion, you allowed yourself the luxury of reading a market letter which said stocks are bound to go up "when Congress adjourns" and thereby frightened yourself out of a logically taken short position.

17. You listen to friends who speak glibly of "double tops," "Island gaps," and similar chart pictures from which they pretend to forecast without giving logical reasons why these accidental formations should have any forecasting value whatsoever.

These are the principal reasons why you have met with difficulty. They may be summed up in one sentence: <u>You did not practice the Method as it is set forth in the Course of Instruction</u>.

We suggest that you begin again. First restudy the whole Course. Then trade on paper, following instructions to the letter. Make hundreds of paper trades if necessary, until you find that your judgment is improving — until you have a good percentage of profits over losses. Then begin to trade in small lots of actual stock until you can increase your unit of trading (number of shares) out of profits.

It is necessary for you now to unlearn much that you have been doing, just as you would correct bad habits in golf by beginning to do what the pro tells you. Gradually you will build up your ability to follow the proper procedure as stated in the Course and then you should begin to make money. Unless you can follow these suggestions we advise you to stop trading altogether, and abandon the idea of becoming a successful operator in the stock market. Such a decision would be deeply regretted by us, as we are confident that if you will follow the Course exactly, success will be your reward, as it has been in the case of other students who were no better Qualified at the start than you were.

Cordially yours,

RICHARD D. WYCKOFF, Inc.

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DAILY PROCEDURE.

1. Keep your Wave Chart and Trend Charts (Composite Average and Group Averages) at the beginning of your chart books. Consult these first, so that you will have a clear impression of the trend of the market as a whole. You cannot get this from a study of one or a few stocks. You must rely on the Wave Chart and the averages to indicate whether the next swing will be up or down and whether it will go far enough to warrant your taking a position. For this purpose keep both the vertical charts of the averages, with volumes, and the figure charts of the same. Combined, these will give you a, sound basis for your forecasts.

2. Next make the daily entries on your figure charts of each stock and on your vertical line charts. If your time is limited keep down the number of stocks.

3. As you enter the changes for the day, have your Position Sheet beside you and note thereon whether each stock is now in position 1, 2, 3 or 4. You need not make a new sheet each day; use a pencil and erase where alterations are necessary.

4. When you have completed your chart changes and revised the Position Sheet, add the columns and observe from your summary whether that confirms the trend indications of your averages. Plot these summarized figures on your Technical Position Barometer Chart. These changes in the totals are important because they warn you of the approach of a change in trend. They are best shown on a Barometer Chart, but a tabulation of the totals is also simple and effective.

By following this procedure the best results should be obtained.

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CONCLUSION.

In this Course Mr. Wyckoff and the Institution he founded have taken you into their confidence by giving you the best of all the ideas, plans, methods and technique that you need for common sense trading and investing. Work out from these your own procedure, depending upon the amount of time and capital you wish to devote to the market; what you aim to accomplish; how you wish to trade or invest, and the way in which you can make the most profits.

You ask how much time it will take? The answer is: As little or as much as you choose. But as you learn this Instruction, you will find it profitable to devote more and more of your time to it. You can, from what you learn here, make trading in stocks your profession if you so desire.

After you have thoroughly educated yourself in the practical use of these principles, and you have the benefit of long practice and experience, you will probably find that you are gradually developing intuition.

Intuition enables one to judge a situation without conscious reasoning.

Some people possess this faculty to a greater degree than others. It develops in stock trading just as it does in any other line of business or profession. It is the reward for long and patient study, close application, deep concentration.

There was a time when Mr. Wyckoff was unable to judge the market because he did not know all that he learned later. It could not be found in books. He had to search this all out, bit by bit. It required years and years in the face of many discouragements.

We now put into your hands tools that served him so well. What you do with them depends upon yourself. We shall be glad to take up with you, at any time, your personal problems relating to the application of this Course to your individual requirements; also to receive your criticisms and suggestions.

The stock market is the greatest game in the world. The wealthiest, most expert and most powerful individuals, corporations, bankers and investment trusts are engaged in it. They employ sums running into billions of dollars.

Like them you must be sharp, shrewd, clever and industrious.

Success to you:

WYCKOFF ASSOCIATES, Inc.

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