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It is believed that the Action-Reaction principle, with supplementary indicators, gives safer, surer, more profitable investment guidance than any method yet devised. Action-Reaction Signals make it possible to know with far greater certainty -

WHAT TO BUY

WHEN TO BUY

HOW LONG TO HOLD

WHEN TO SELL

WHAT TO AVOID

Action-Reaction Signals spot new purchases at low points and sales at highs, not vice-versa. The method should produce smaller, less frequent losses and larger, more consistent profits for long-term investors. It is a "natural" for intermediate trend traders whose objective is to exploit swings ranging from four weeks to several months. And, under appropriate conditions it indicates:

WHAT TO SELL SHORT

HOW LONG TO STAY SHORT

WHEN TO COVER

In three different but interrelated ways, Action-Reaction charts show which stocks are strong and which are weak. In a typical Action-Reaction pattern, a purchase is made in a strong stock at a low point as an intermediate reaction is ending, just prior to resumption of its major advance.

Once a purchase is made, the Action-Reaction principle is employed to check the upward zig-zag course of the ensuing rise for clear-cut and repeated reassurance that the underlying supply-demand condition continues strong. One can even anticipate those extended and spectacular spurts of strength which, in the past, have proved so mystifying.

When underlying weakness first begins to appear, Action-Reaction charts reveal approaching trouble more clearly than other methods. Sales are usually made at the termination of an intermediate upswing at a high level, often in the area of a major top and just prior to a decline into new low ground.

In a long rise, the Action-Reaction method frequently "pin-points" several ascending intermediate low areas where new or additional purchases may be made with a maximum of safety and for a maximum expectation of near-term profit.

Similarly, in a long decline, Action-Reaction will usually point specifically to a number of descending intermediate tops as areas in which to complete selling or to sell short.

ACTION-REACTION WILL NOT ALWAYS SIGNAL ALL TOPS AND ALL BOTTOMS

The foregoing claims are, indeed, sensational. More often than not, they can be fulfilled. It should be emphasized, however, that Action-Reaction is not a mechanically perfect robot which automatically and unflinchingly signals all tops and all bottoms.

All stocks will not always produce the kinds of patterns which permit precise, specific and easily recognizable action formations at top and bottom areas. A buying signal may not be as close to absolute low as might be desired. A sell signal might come sooner or later than the actual top.

Surprise developments which suddenly inject contrary influences will temporarily throw the rhythms out of gear and reduce profits or cause actual losses until automatic readjustment is accomplished. It is doubtful, however, that any method ever will be found for predicting the unknown or unanticipated event. These are the occasional hazards which are inherent in all investment.

But even after making full allowance for the times when Action-Reaction charts do not "talk out loud," they do talk out loud so much oftener, so much more clearly and so much more accurately than other procedures that their virtues will be recognized as almost priceless by the majority of investors.

ACTION-REACTION SIGNALS

USE NEWTON'S THIRD LAW

Statisticians and analysts have long accepted the self-evident theory that the market itself "hides" all the reasons which cause its trends; that if one could find an effective method of analyzing market action the ultimate in profitable investment could be achieved.

This hypothesis is obvious. Buyers and sellers of stocks are constantly expressing their opposing judgments of everything that is known which affects security values; general and specific, tangible and intangible, private and public. It is the net pressure of these purchases and sales which determines the future trend. If some means could be found of appraising these pressures and observing changes from negative to positive (and vice-versa) as they occur, investment losses would be cut to a minimum and profits would approach maximum. The Action-Reaction method, with its supplementary indicators, offers this kind of guidance.

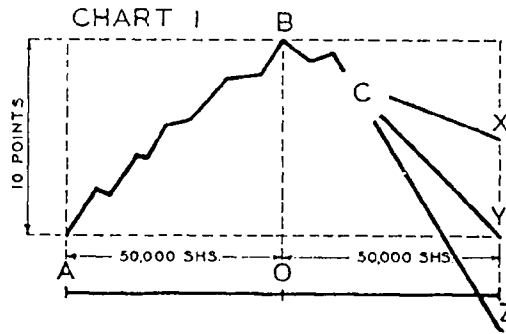
Action-Reaction makes use of Newton's third law of physics which says, "For each and every action, there is an equal and opposite reaction." In our use we have to modify this law by saying that for every action, there tends to be an equal and opposite reaction.

More specifically, if a given stock advances (an action) on a turn-over of, say, 50,000 shares and an intermediate decline (reaction) then begins, it will tend to continue until another 50,000 shares shall have turned over, whereupon the price trend will usually turn upward again.

Time consumed is not important; it is volume that counts. Our assumed 50,000 share intermediate advance may be completed in twelve weeks but it might take thirty weeks before the compensating decline totals 50,000 shares and a new upswing gets under way. Time is without significance. A given stock may trade only 100 shares one day and 2,000 shares the next. Time does not give us equivalent units for measuring and forecasting termination of actions and reactions. Volume does give us equivalent (share) units and permits scientific measurement and prediction.

Volume measurement of actions and reactions not only signals tops and bottoms more accurately than has thus far been possible, it also reveals whether the underlying supply-demand condition is positive or negative. This can be illustrated with a simple diagram as shown on the next page.

A stock advances ten points from A to B. The change in points is measured in the usual way on a vertical scale. In Action-Reaction



charts, however, we want to know about volume of trading and this is plotted horizontally. Price-closings for inactive weeks are charted only a little distance to the right; active weeks are extended in proportion.

So our stock has advanced ten points from A to B on 50,000 shares (from A to O) and then starts downward. By the time it reaches C it is evident that an intermediate reaction has started. It will normally stop when share turnover equals the 50,000 shares traded in the prior advance - and we simply extend line A-O the same horizontal distance (50,000 shares) consumed in the rise to mark the expected termination point.

When our price-volume plotting of the reaction has consumed this second 50,000 shares of trading, price may be resting at X, above the previous low, or at Y which is equal to it, or at Z which is under it.

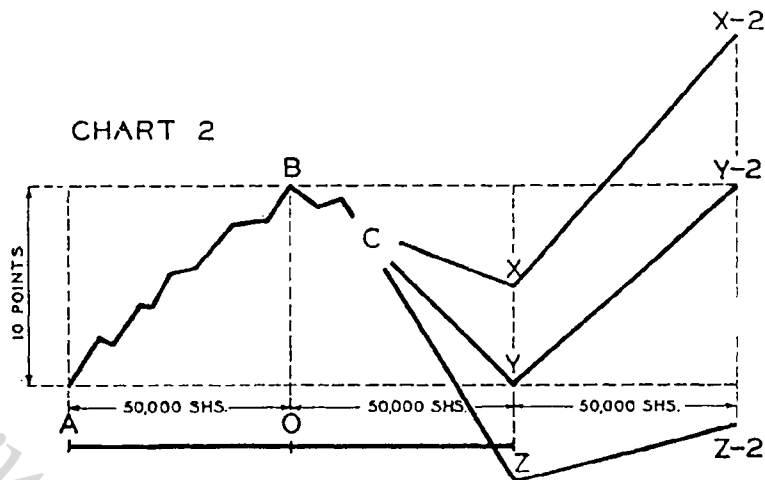
Now, if the reaction ends at Y, the supply-demand condition is in balance, or neutral. The same number of shares required to raise the stock ten points also lowered it ten points.

Or, if price reaches Z on 50,000 shares of decline, it can only mean that the stock lost more in points per unit of volume than had been gained in the advance and its supply-demand relationship is negative.

But, if price ends at X, it reveals a strong supply-demand condition because fewer points per unit of volume were lost on the way down than had been gained on the way up.

WE BUY "STRONG" STOCKS AT THE RIGHT TIME

Irrespective of whether our hypothetical stock stops at X, Y or Z, it will then tend to rise in a new "action" and it happens time and again. Points, X, Y and Z, therefore, constitute low areas where purchases can be made with a reasonable expectation that profits should quickly accrue.



Obviously, however, we do not buy a stock which ended at Z. Its unsatisfactory supply-demand factor warns of a poorer-than-average gain, as suggested in the above chart at Z-2. Nor could we get too excited by a stock ending at Y where a neutral condition prevails and only average performance can be expected. But we very definitely would select a stock ending at X. Its "strong" supply-demand relationship promises to produce a greater-than-average gain in its next anticipated rise as suggested at X-2.

Our story thus far has primarily emphasized those Action-Reaction signals in which declines are appraised against prior advances. Similar interpretations apply to reverse combinations; that is, the volume and price action in advances as compared with prior declines. For example, in chart 2, the advance Y-Y2 exactly equalled the previous B-Y decline in both shares traded and price change and the supply-demand condition is neutral. The advance Z-Z2 recovered only a fraction of the previous loss and this situation, obviously, is weak. Advance X-X2 gained more than its preceding loss and reflects strength.

This explains our completely logical adaptation of Newton's third law in what we call the Action-Reaction method. It scientifically locates on the chart a spot at which a future buying area will appear, usually in a low "springboard" area just prior to a new upsurge. These same volume plottings make it possible to know - not guess - whether a stock is strong or weak and in what degree. Selection is easy, not a difficult and confusing problem.

Thus, a follower of Action-Reaction Signals achieves consistently better timing in his purchases and consistently better selection. A good start has been made toward clinching consistently larger capital gains through selling at high prices the "strong" stocks which were bought low.