HOW TO TRADE LIKE W.D. GANN

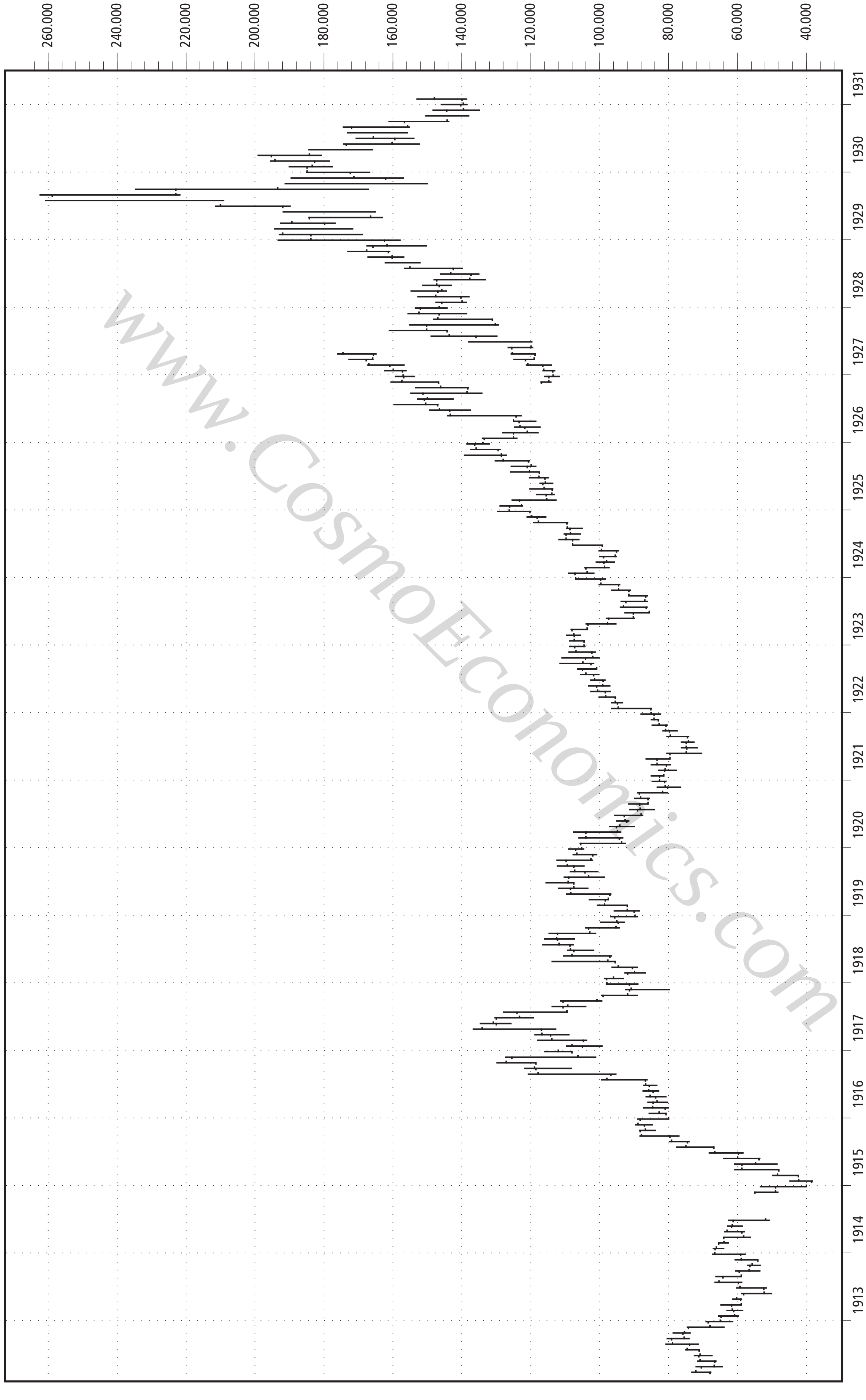
AN EXPLORATION OF THE MECHANICAL TRADING LESSON ON U.S. STEEL

VOLUME 1 - TEXT

TIMOTHY WALKER

COSMOLOGICAL ECONOMICS

CONTENTS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What This Book Is About

This book originated out of a search for a text that would examine in detail the works of WD Gann. In the course of this search, I read many very good books written by experienced traders and authors, but I found that all of them discussed only parts of Gann, usually in relation to the author's own personal trading methodology. In the end, I realised that if I wanted such a book I would have to write it for myself, and I determined that the first step would be to acquire the price data in order to construct the charts. Most of Gann's lessons contain actual market examples, and I figured that these must be a key to understanding what he had written.

Accordingly, the intention of this book is to flesh out Gann's original text and to develop and to some degree discuss some of the messages implicit in his writing. Most of his work was published in the latter half of a career that spanned more than 50 years. As such there are many points that would have been so obvious to him that he didn't mention them and very probably didn't even notice them. By highlighting some of these I hope to convey, to the extent I am capable, how he interpreted a chart and what he wanted his students to do as traders. Although written nearly a century ago, his words are every bit as relevant in today's markets.

In time I hope to write similar commentaries on all of Gann's courses and books. But for now I had to start somewhere, and I selected one of his earliest lessons, entitled *Mechanical Stock Trading Method: Trading with the Overnight Chart*. It was written in 1930 and is today published as part of the *WD Gann Stock Market Course.* I chose this one firstly because it was a course that Gann himself sold for traders new to his methodology, and secondly because it is full of gems of trading wisdom that would be largely missed without a chart.

You might ask how a book on a beginners' lesson could be called *How to Trade Like WD Gann*? The answer is that the trades in this lesson, and there are over 300 of them, are the trades he thought people using his methods should take. We have very few examples of actual trades that Gann took, but he could not fail to put his imprint on these teachings.

Before getting into the lesson itself, I will give some background information to the man Gann himself, and look at the circumstances that led to the writing of the course.

Who Was WD Gann[1]

William Delbert Gann was born on 6 June 1878 in Lufkin, Texas. He grew up on a farm and had a strong religious upbringing, which gave him a lifelong dedication to hard work.

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1 Source, *The Remarkable W.D. Gann,* by John L. Gann Jr. (his grandson).

In 1949 his friend Clarence Kirven wrote '*he is the only man I ever knew who I thought had worked as much as Mr. Thomas Edison*.'[2]

After working in a brokerage in Texarkana, he moved to New York City in 1903. He married twice and had four children: Nora, Macie, Velma and John. The eldest daughter, Nora, was said to have absorbed so much information from her father that many regarded her as a 'Cotton clairvoyant'.[3] She could predict whether the price of Cotton futures would be higher or lower with uncanny accuracy.

Gann worked over the next few years to perfect his system of forecasting markets. It was certainly not an easy road. He wrote that '*in getting my experience, I have been broke over 40 times*.'[4] But he never gave up, and his success in forecasting and trading began to be noticed.

In December 1909 an interview was published in *The Ticker and Investment Digest* in which Gann spoke about his discovery of a 'law of vibration' which governed the rise and fall in the value of stocks and commodities. For the rest of his life he not only traded for his own account but developed trading systems for others to use. He wrote several books, which he published himself, and a large number of courses which he taught privately to students.

His public forecasts were not limited to the stock market. In 1918 he forecast the date for the end of World War I and the abdication of Kaiser Wilhelm of Germany. He forecast the election of several US presidents, although not always correctly. In 1936 he predicted that Franklin D Roosevelt faced a heavy defeat, but instead he won in a landslide.

Perhaps his most famous forecast was published in November 1928 when he said that in September 1929 '*one of the sharpest declines of the year is indicated. There will be loss of confidence by investors and the public will try to get out after it is too late…A "Black Friday" is indicated and a panicky decline in stocks with only small rallies…You should sell short and pyramid on the way down*.'[5] To say that no one saw the Wall Street Crash coming is therefore not quite accurate.

In 1932 Gann became the first private American to own an aluminium plane, which he used to fly over crops. His pilot was the pioneering aviatrix Elinor Smith.

His son John worked in his business before joining the US Army in World War II. In 1943 Gann's second wife, Sadie, died, and he married a third time. After the war John returned to the business briefly, but then left to start out in business on his own.

When Gann died in 1955 his estate showed that he left only a small sum of money. Since then there have been stories that he never made any money from trading but only from the sale of his books and courses. Rumours abound, including that Gann's neighbour in Florida, an international lawyer, advised him to move his money overseas and set up a trust.[6]

Perhaps we shall never know the full story. But anyone who has taken the trouble to study Gann's writings, and who has seen the incredible accuracy of his techniques in the markets, has proof enough of the value of his work.

Gann's Writings

In 1911 Gann wrote what he described as a 'small book', entitled *Speculation A Profitable Profession*. Although this book does not appear to have survived, it was the beginning of a long writing career. Gann is almost unique in the long history of great traders in Wall Street in that he not only

2 *45 Years in Wall Street*, Introduction, 1949.

3 The Fort Worth Star-Telegram, July 9, 1914, p.1.

4 *Truth of the Stock Tape*, 1923, p.22.

5 1929 Annual Stock Forecast, p.36.

6 Gannsghost Yahoo Group, post 1609.

wrote extensively on his methods but also taught them to others. Since all his work was based on practical experience, there is a rich vein of knowledge for the dedicated student.

In 1923 he published his next book *Truth of the Stock Tape*. By this time he had been publishing Annual Forecasts for some years and had an extensive subscriber base for his trading advisory services. He stated at the end of that book that he was willing to teach his forecasting methods, and he wrote a course on forecasting the stock market around this time.

By 1930, when he published a follow-up volume entitled *Wall Street Stock Selector*, he wanted to be prepared for readers who would come to him for instruction. He prepared two courses. The first, which is the subject of this book, was a mechanical trading method. It was designed to teach people how to trade, without requiring much knowledge of market moves. The second he described as 'a post-graduate course', intended for students who had studied the rules in his books and wanted 'to know how to forecast according to my Master Time Factor, and determine the years when stocks will have big advances and reach final tops and also the years and the cycles when panicky declines are indicated.'[7]

The Mechanical Stock Trading Course

This lesson appears to have been originally completed on 7 June 1930, around the time that *Wall Street Stock Selector* was published. Gann updated it over the next several months, with the final addition made on 4 March 1931.

The first few pages contain instructions for drawing a swing chart, called by Gann the Overnight Chart. Then follow 9 Rules for trading the Method. The rest of the course consists of an application of these rules to trading US Steel, covering a period of 16 years. Buying and selling points are included, together with the placement of stops, as well as profit and loss calculations.

Because it would have been impossible in 1930 to produce 15 years of daily prices in chart form, Gann simply listed the important highs and lows in his text. While this is sufficient to illustrate his rules, it obscures a lot of information which only becomes apparent when the actual chart is viewed. This book contains charts covering all the trades, and this gives us the chance to observe many subtle signals as to how Gann traded certain patterns.

Why did Gann find it necessary to illustrate his rules with over 15 years' worth of trades? His stated reason was *'to demonstrate that the Method will work over a long period of years and make money by reversing position every time and using stop loss orders and, at the same time, following the capital rule and not overtrading'*. But with nearly 30 years of market experience himself, Gann could not help but fill these examples with indications of how he himself would have traded.

One such case occurs in Chapter 3 when US Steel approached $100 for the first time. There is nothing in the rules about this situation, but a careful consideration of the trades shows how Gann was reading the market. The lesson is full of examples like this, enabling a glimpse of the mind of this great trader.

I have tried to draw out this information as often as possible, but of course these are only my opinions. Every reader will have his or her own unique insight. There are many actions that Gann takes which at first sight appear difficult to comprehend, or to have been taken with the benefit of hindsight. My approach has been to treat everything as a deliberate move by Gann and to try to understand what he is trying to teach us, his students. However, you

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7 *1929 Annual Stock Forecast*, p. 39.

may come to a different conclusion. My aim is to place the material before you and to get you thinking.

I also discovered that the term 'mechanical' was used rather loosely by Gann. While he says in the instructions that *'you must have machine-like action in order to succeed'* and to *'use as little human judgement as possible'*, his analysis of the actual trading examples reveals a lot that is the product of his years of experience in the markets.

Gann's text unfolds as a continuous narrative, moving from long to short and back to long again. There is no discussion of bull and bear markets and only the occasional indication of a significant turning point. I have split the lesson up into the individual trades, of which there are 322. These are numbered sequentially for easier reference. With only a couple of exceptions, the exit price of one trade is automatically the entry price for the next. In other words, Gann continuously reverses position.

I have also broken the book up into chapters, with each chapter corresponding to a significant phase in the market, such as a bull or bear cycle or a sideways move. At the end of each section I have summarised that period and drawn some conclusions. While this is somewhat arbitrary, it does help to see the varying effectiveness of the system in different market conditions.

The charts accompanying the text generally cover more than one trade. To keep them readable the period of each chart is between 3 and 6 months, which enables the reader to see what the general direction of the market was at that time. The overnight chart has been drawn over the bar chart, as Gann instructed. This has been done manually, as the rules for drawing the swing chart are slightly different from what Gann taught in later courses, and thus from what is programmed into modern software. There may be errors, particularly around outside days, so feel free to use your own interpretation of the rules if you feel it appropriate.

The buy and sell points are marked on each chart. In order to keep the charts relatively clear, only important information such as a 50% retracement level or a previous significant high or low has been included. All the dates referred to by Gann are indicated. Occasionally there is a longer term chart to illustrate the position in the bigger picture.

In order to avoid turning pages back and forth to compare the text with the charts, I have provided a separate collection of every chart in an enlarged format. I encourage you to make as many notes as you like on these charts, so as to reinforce the learning.

Basics Required

It is assumed that the reader will already be familiar with the basics of the stock market and of technical analysis. The rules for swing chart construction are covered in the next chapter, since they are part of Gann's lesson and contain some differences from the way many people draw swing charts today. Apart from that, I refer the reader to any of the excellent books, courses and training organisations that teach these basic elements.

The United States Steel Corporation

Gann chose US Steel as the stock to demonstrate his method. At the time of its incorporation in 1901 it was the largest corporation in the world. In the early years of the 20th Century the stock captured the public's imagination, and the story of its foundation even found its way into Napoleon Hill's *Think and Grow Rich,* written over 30 years later.

Gann frequently used it for illustrations in his books and courses. He said, *'I use U.S. Steel for an example in many cases, not because my theory or rules cannot be proved by other stocks, but because Steel is one of the best known stocks to the general public and they understand more about its movements.'*[8]

The rules in this lesson can be taken and applied to any market, and will work in commodities as well as stocks.

Gann's Lesson

When Gann published *Wall Street Stock Selector* in June 1930 the carnage of the Great Crash of October 1929 was still very fresh in people's memory. It had been followed by a rally from the low of November 1929, which petered out in April 1930. This was only a few months before Gann wrote up the later trades. There is thus some great insight to be gained into what he was thinking at the time.

Gann always brought his writings as up to date as possible and usually included the position of the market on the last day before it went to print. You can see that on 7 June 1930 he leaves the reader with the latest trade and the option of where to place the stop loss order.

He continued to update the lesson, until the text finally comes to a halt in early March 1931. This makes the last section particularly interesting, as it meant that Gann was writing about these trades as they were happening. You can see how he considered both options for the possible future direction of the market, up or down.

Student Testimonials

The following letter, from a student of this course, a Certified Public Accountant whose initials were 'S.J.M.', was printed by Gann in a Promotional Booklet that he issued in 1954[9]:

> *…the Method, as you demonstrated it, is absolutely fool-proof. It requires simply the original capital as provided for by the Method, which is plainly stated in the rules, and thereafter to follow the simple instructions explicitly without any human-made deviations from the rules. If the user of this Method will only remember this one simple suggestion of mine, there is no question nor any doubt but that it will make money for the user.*
>
> *…I bought the Method in 1930 and am using it with good results myself.*

Another, from 'C.K.', who we might reasonably assume to be the same Clarence Kirven mentioned at the start of this chapter, says of Gann's Method:

> *'In my opinion, it is the only one with which one can make money in the market and keep it. If you will follow his method and the rules he lays down, you will also make a success and I can assure you without it you will make a failure.'*[10]

A Note on Prices

Historical price data for the early 1900s is not readily available. After trying various sources without success, including the US Steel Corporation itself and the Archive section of the New York Stock Exchange, I accepted that I would have to collect the prices from the newspapers, where it was published daily. All prices and dates quoted in this book are from

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8 *Wall Street Stock Selector*, p.119.

9 *Why Money Is Lost On Commodities and Stocks And How To Make Profits,* May 1954, p.10.

10 *Ibid*, p.9.

the *New York Times*. There are many cases where these differ from the ones Gann lists. This will undoubtedly cause some confusion when reading Gann's original text. In terms of dates, the discrepancy is usually only a day or so, and the variance in prices is usually small, although there are a few glaring exceptions. I made the decision to stick with the *New York Times* data because that is what is on the charts. Hopefully the message will not be impaired.

In some cases there are typing errors in the original text, and I have made notes of these in the footnotes that accompany that booklet. Sometimes months are incorrectly named, but if you compare the text with the commentary and the charts, the correct dates and prices will be clear.

Also, there are times when Gann listed trades at prices which never occurred. This happened particularly on ex-dividend dates. The original lesson contained no charts, and Gann simply listed significant tops and bottoms in his text. Probably in order to keep things simple, all stops are simply recorded as being 1 point under swing bottoms. When the stop was caught, he said it was caught at that price.

However, there were times when the market gapped down because of the dividend, and hence never traded at Gann's stated price. I assume that, as there were no charts, he did this deliberately in order to keep it straightforward for his readers.

On the charts I have marked the Buy or Sell points at the first available trade price, which would be the Open of the day. I have not altered any subsequent pyramids in the same trade, even though their price is based on the first entry price. I felt it would make things too complicated.

For an example of this, look at Chart 4.1. There is a gap down at the last bar on 1 February 1917. Gann quotes a price of 109½, which would be right in the middle of the gap. As you can see, the entry is marked as being at the open of that day.

The dividends are fairly easy to spot, as most of the large price gaps occurred on those days. At the time US Steel used to pay four dividends a year. Gann made no allowance for the impact of the dividends on trading or on the profits from the trades.

The other point on prices is the minimum fluctuation or tick size. In 1930 stocks did not trade in cents in the dollar as they do now. Rather there were 8 ticks to the dollar (which was commonly referred to as a 'point'). Therefore, 1 tick would equal 12½ cents, or $0.125 and 1 point equals $1.00.

In Conclusion

I hope that this excursion into trading from 1915 to 1931 is both enjoyable and enlightening. It certainly has been for me. There are plenty of elements in this lesson that can be adopted into any trader's trading plan. At the end of the book that will be your job.

The world has changed a lot in 80 years, but human nature has not, and Gann's rules work as well in the markets of today as when he wrote about them all those years ago.

The Mechanical System

The basic premise of this lesson is that trader has no knowledge of the position of the market or of time and price analysis. Although Gann mentions a few of these in the text, the system is designed to be implemented regardless of what the market is doing. The exception is 50% price resistance levels, but even here the discussion is brief.

The method is based around the Overnight Chart, which today is often called a Swing Chart. The aim is to use this to determine the trend, and then to stay with the trend. The trader is in the market continually, reversing positions from long to short and back to long again. In the entire 16 years covered by the lesson, there is only one time when Gann steps aside and waits for the market to confirm its next move. His purpose is to teach a mechanical trading system, involving a few simple rules, which can be applied to any market and will make money if followed correctly over a long period of time. The aim is to remove as much as possible any decision making on the part of the trader.

The lesson opens with the following statement: *'The Overnight Chart and the method for operating it is purely mechanical. You use no judgment but simply follow* rules.' This statement cannot be understood in the strict sense that a computer, programmed with the rules, would produce the same trades that Gann does. Indeed, no two traders covering the same trades would probably make exactly the same moves. To begin with, as we will see, there are several ways of determining where to place stop loss orders. There is discretion involved in decided when to pyramid. As the examples demonstrate, Gann was using a lot of his skill in form reading the chart.

It is important to understand this from the beginning, because the gold in this lesson is the insight into the mind of one of the greatest traders who ever operated in Wall Street. He spent a lot of time and money developing a system that he could teach to traders, and he put a lot of himself into the trades he discusses.

Let us begin by going through this section of rules. Gann begins by giving the rules for constructing the overnight chart, followed by the Nine Rules of the trading system.

Swing Chart Rules

The starting point is the daily high and low chart, which we know today as a bar chart, and which shows the open, high, low and close of each day. This is used to create the swing chart, or overnight chart, which is drawn over the top of the bar chart. The first section gives the rules for drawing the overnight chart.

There are 4 types of bars on a price chart. They are:

Intra-Day Prices

In our modern times of computerised trading platforms, live intra-day prices are easy to obtain. In 1930 these had to be viewed on the Ticker Tape, which recorded every transaction during the day. A few traders, such as Gann himself, and Jesse Livermore, had one in their office. But most traders would have to sit in a brokerage office to watch the tape, and many did.

The examples on US Steel make it clear that Gann is acting on intra-day signals and expects the student to watch the market while it is open. He clearly uses market orders to reverse position at double bottoms at significant support levels. He uses them to great effect during the Crash of 1929, although in actual fact this would not have been possible on some of the major crash days. Sometimes the volume of transactions was so great that the ticker tape was as much as 3 hours behind the actual trades on the floor of the Exchange.

For a modern-day trader life is much simpler, and Gann was perhaps rather ahead of his time in imagining that every trader could have access to live prices.

Capital and Risk

Gann advised his students to start with a capital of $3,000. As the first trade involves buying 100 shares at $38, Gann obviously intends that some form of leverage be used. In 1930 this would have been buying the shares on margin, which was done through the broker. The modern trader has several different options for leveraged trading.

The rule for risk is to have a maximum of 10% of your trading capital at risk on any one trade. Most of the time Gann sticks to this, and the times when he doesn't are probably slip ups due to covering such a large number of trades. There are occasions where the rule for risk indicates that stops would have to be placed closer to the market than behind swing tops and bottoms. These are discussed, but could also give some food for thought.

Modern Application

Virtually all of these rules can be applied to markets in the 21st Century. I encourage all readers not only to test them, but also to consider additional rules that might be added to the system. Gann states that he has other rules that would avoid some of the unsuccessful trades, and there is no reason why they can't be incorporated.

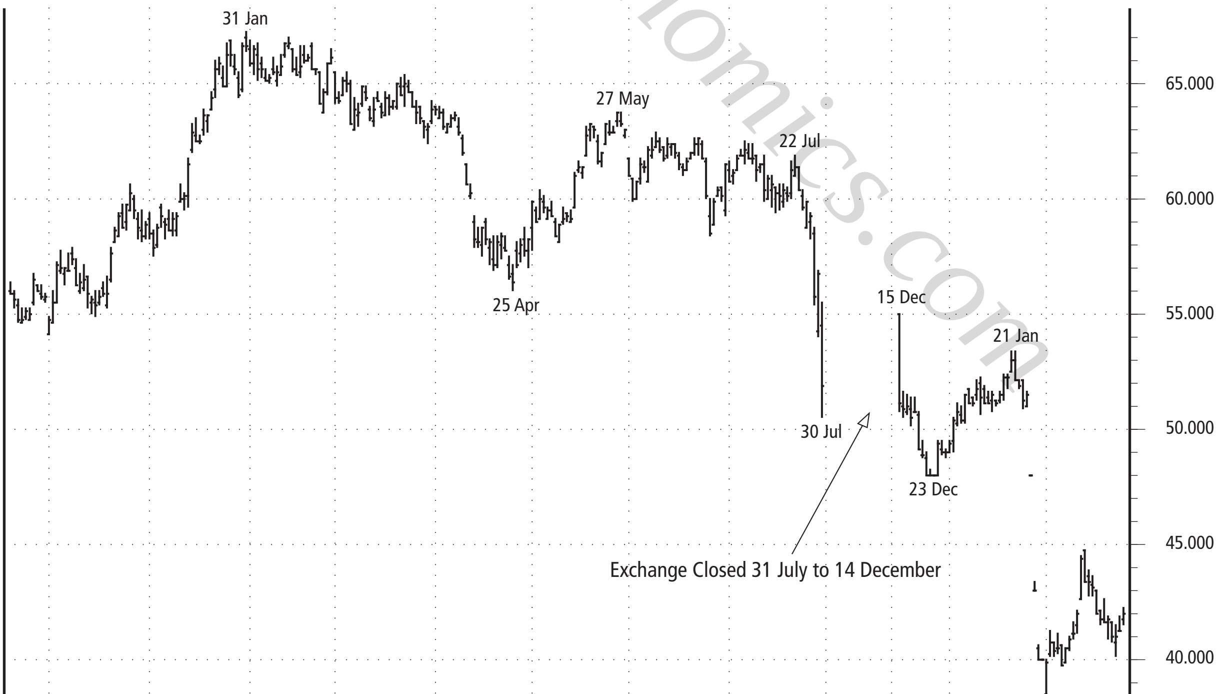
Summary

The Rules provide an outline for trading, but they are only the curtain-raiser. We now embark on a journey through history, trading the largest stock in the world through some of the most turbulent market periods, guided by the hand of the Master.

The Outbreak of War

In the early part of 1914 the stock market had been declining, but not spectacularly. US Steel made a top on 31 January at 67¼, effectively the same top it made in August and September 1913. It gradually worked its way lower to 56 in April, rallied in May and sat in a narrow range until the latter part of July.

On 28 June the heir to the throne of the Austro-Hungarian Empire was assassinated in Sarajevo. There was little reaction from the markets during July, until the final week, when it suddenly became obvious to everybody that war was about to break out and that all of Europe would be drawn into the conflagration. There was a rush on European exchanges to liquidate stocks, which caused the major exchanges to close. On 30 July the New York Stock Exchange followed suit to prevent a similar panic. On this day US Steel closed at 51⅞.



Although the United States was not at this stage involved in the War, the New York Stock Exchange remained closed until December 1914. Trading in US Steel resumed on 15 December, when it opened at 55. It made a low of 48 on the 23rd, and rallied to a high of 53⅜ on 21 January 1915. On the 26th the US Steel Corporation announced that it was not going to pay its dividend, and the price plummeted. The Exchange imposed daily price limits to prevent it falling even further than it did.

It is so often the case that, when bad news comes out, it is time to buy. In this case, the bad news caused a precipitous fall first, so when the buy signal came it was time to act.

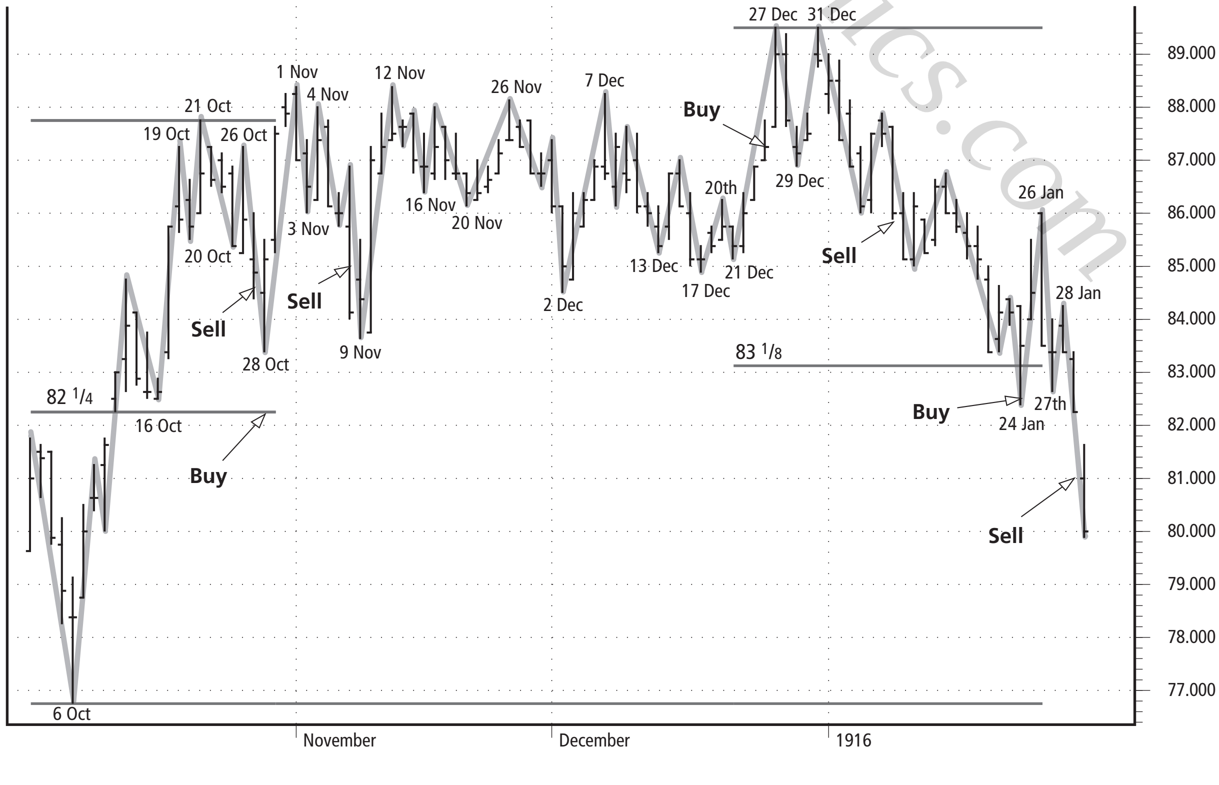
Sideways Consolidation

October 1915 to June 1916

Making money is always easier in a market that is trending. Chapter 1 illustrated a period of 9 months where US Steel was nearly always in a strong trend. There were a few sideways periods, such as the distribution in late April or the accumulation in June, but mostly price was always moving. Even the reactions were sharp and gave tradeable ranges.

The next 9 months were very different. Instead of an advance of 50 points, price confined itself to a 10-point range, with only occasional bursts of activity. The profit results quoted by Gann tell the story. From February to October 1915, capital increased from $3,000 to $40,123. From October 1915 to June 1916 it only moved to $46,020 (actually less because he made a calculation error). This contrast is even greater when you consider that the position size was not constant. Trade 1 was initiated with 100 shares and the position size gradually increased until it reached 700 in Trade 5. In other words, the returns on the early trades were even more significant

Chart 2.1 – Trades 6 to 11



Trade entry was at 85¼ (1 point above the 4 February high) and stops at 81⅛ (1 point under the 5 February low). This gives a risk of 4⅛ points. One way to handle this would be to reduce the position size, but here Gann has kept the position size at 1,000 shares.

There is no swing caused by the outside day on 16 February because it only went ⅛ point higher than the previous day, and Gann's rules state to move the swing chart on a move of ¼ point or more. The same situation occurred at the small up day on the 23rd.

Because of the double bottom on 17 and 24 February he moves the stop up from below the low of the 5th to 1 point under the higher of the two lows. This was caught on the 28th. This reduced the loss somewhat, but it was still over 10% of capital.

Trade 14 – 28 February to 1 March 1916 (Short)

On 1 March prices went 1 tick below the 31 January low and then rallied. Not only was this a double bottom, but the price had found support at the level of the 1912 high. It was a case of an old top becoming a bottom. Chart 2.3 illustrates this.

As soon as prices started to rally, Gann covered shorts and bought. His price was 80¼, again only ½ point off the intra-day low. This quick action enabled him to take a small profit from this trade, just as the market reversed.

Again the stop is placed 1 point below entry, rather than below the low.

Trade 15 – 1 March to 13 April 1916 (Long)

A strong rally ensued off the double bottom. Stops would be moved under each higher bottom. Despite the strong reversal from the 17 March high, the market made a higher bottom on the 22nd. This is a common occurrence, that there will be a higher swing bottom after the top is in place, enabling stops to be moved closer. In fact there were several more swing bottoms before the stop was eventually hit, as well as a number of lower tops. But these were not giving any clear

Chart 2.3 – Weekly Chart showing support at 1912 top level

CHAPTER 5

America Enters the War

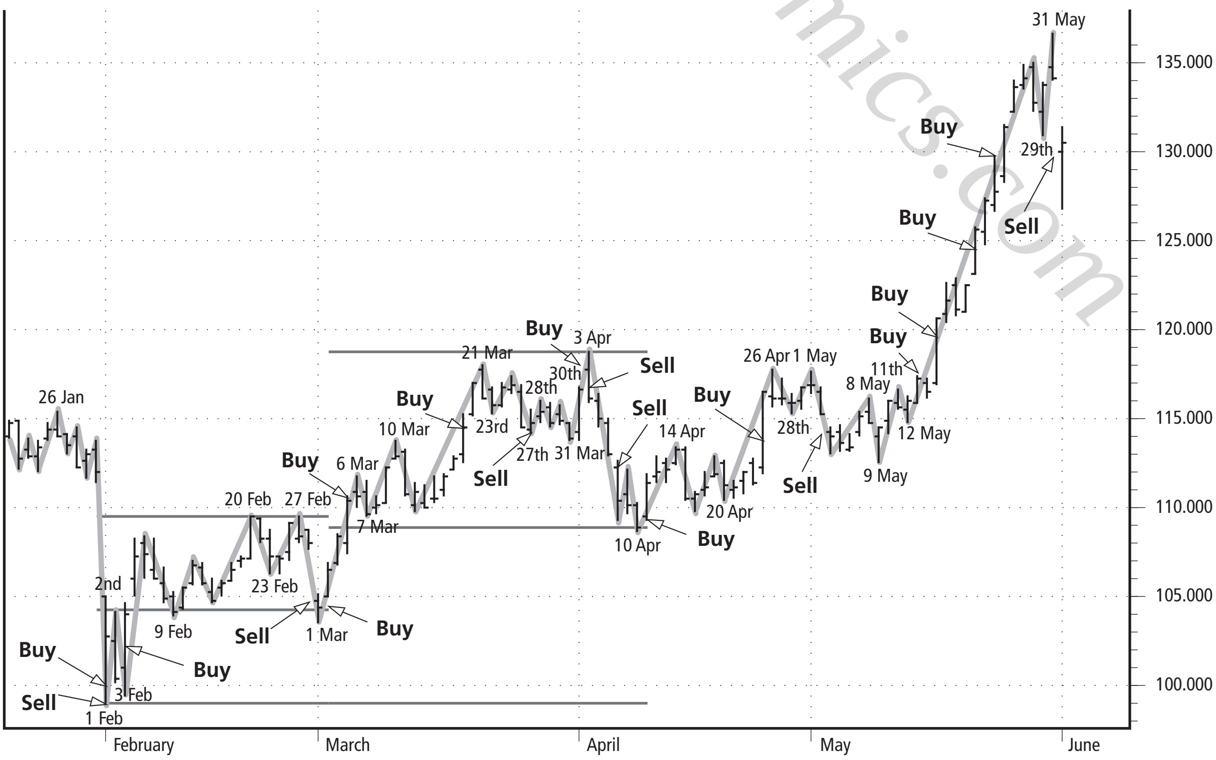
February to May 1917

When a market has been in a down-trend for some time, it is often the case that bad news heralds the *end* of the decline. US Steel had made its top on 27 November 1916. The rally from the low on 21 December failed to make much headway, because the time cycle had not yet run out. Time was up on 1 February 1917, and the panic caused by the war news, while it made a new low, actually signalled a resumption of the bull market, which now entered its third and final phase, up to the top on 31 May (119 days later).

Trade 35 – 1 February 1917 (Long)

Gann uses this trade to illustrate that the rules do not always work out perfectly. But he also shows that they give you the tools to navigate your way out of trouble. The crucial point though, which

Chart 5.1 – Trades 35 to 45



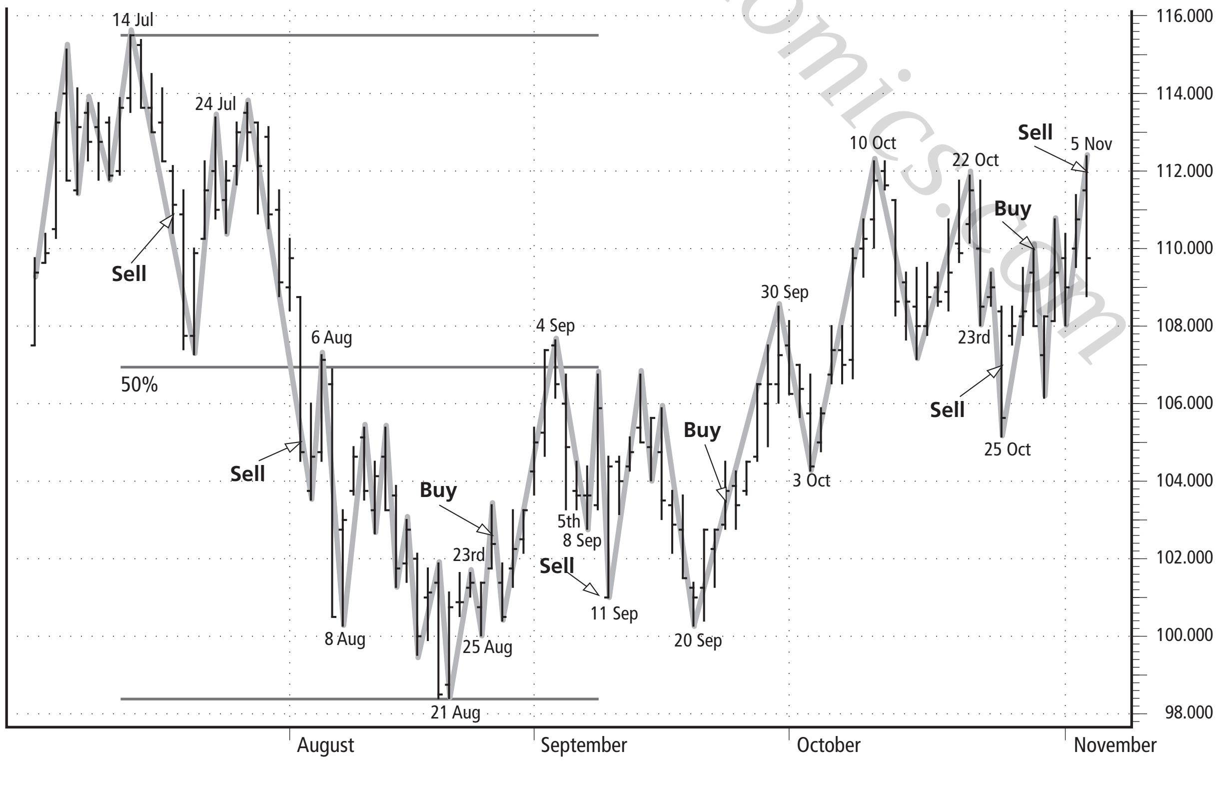
The Great Recession

July 1919 to June 1921

The years 1920 and 1921 were years of severe recession. After a major post war boom in stock and commodity prices, a widespread collapse occurred and there was great hardship economically across the country. While stocks recovered relatively quickly, many commodities did not surpass their 1920 highs for decades.

US Steel had already experienced one bear market after the extreme high was made on 31 May 1917. There the market lost over 56 points in less than 7 months. The rallies in 1918 and 1919 managed to retrace only about 62.5% of these losses. After the last top at 115½ in July 1919 a more protracted bear campaign began, which saw prices work gradually lower over the next two years, although the total decline in price was less than the previous down move.

Chart 10.1 – Trades 92 to 97



CHAPTER 13

The Roaring Twenties

June 1924 to May 1927

This chapter is long and covers a long period. The broad trend was up but there were pauses and reactions. As Gann's text gives little information other than the buying and selling points and the dates and prices of turns, we have to speculate as to a lot of his reasons. But he does show that there is more to a bull market than buying and holding.

Trade 149 – 12 June to 22 August 1924 (Long)

The 3-point rally from the 6 June low saw the trade opened on the 12th. The initial stop would be below the low. The day after you entered there was a higher swing bottom and you would move the stop under that. The market then consolidated for the next several days, and you would leave the stop there.

Chart 13.1 – Trades 149 to 152

CHAPTER 18

The Wall Street Crash

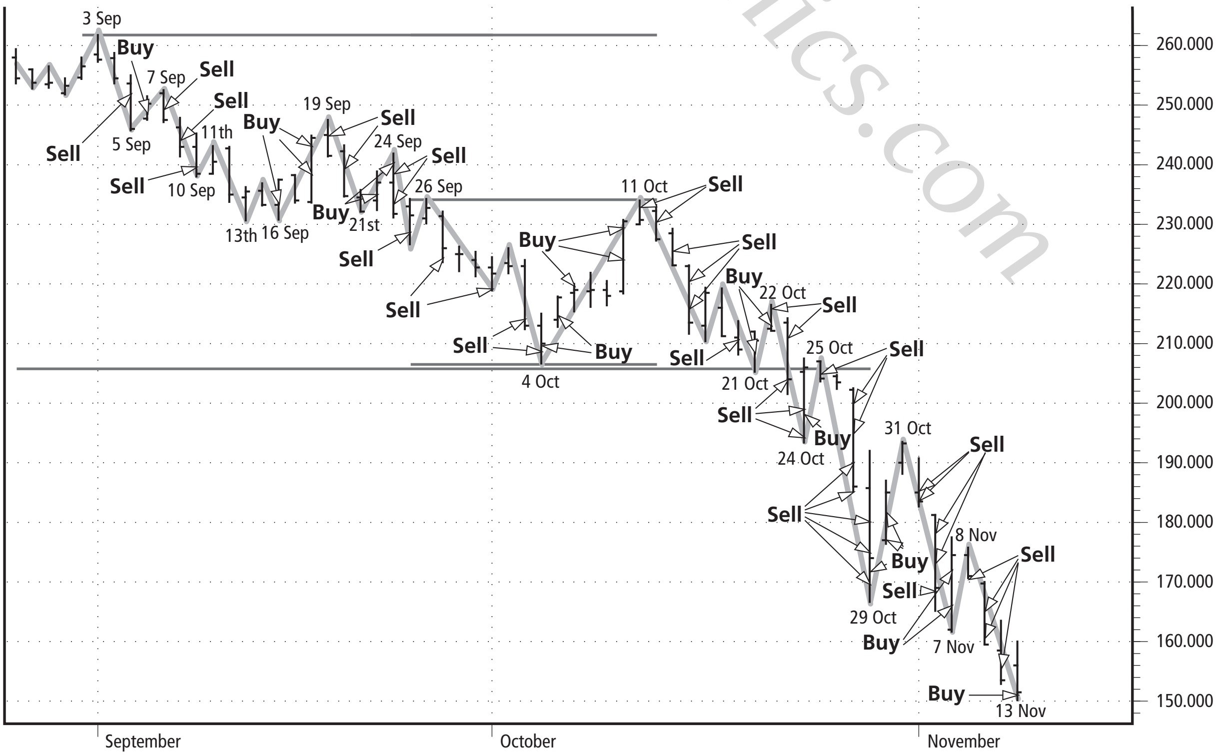
September to November 1929

There is one great disadvantage in computer generated charts; the perspective of magnitude is lost. If you own *Wall Street Stock Selector*, I would encourage you to go to pages 68-71 and make up a chart for yourself of the period from 1 May to 31 December 1929. Make the price scale 1 point in price for 1 trading day, as Gann would have done. In this way you will get a truer idea of what went on in the period we are going to look at now.

Trade 250 – 5 to 6 September 1929 (Short)

Perhaps the first thing you will notice about Chart 18.1 is that it is very squashed. There are so many trades that it might have been preferable to divide it into two charts. However, this was such an important time in the market history that it is better to be able to see the entire crash unfold on a single chart.

Chart 18.1 – Trades 250 to 266



CHAPTER 20

The Great Depression Begins

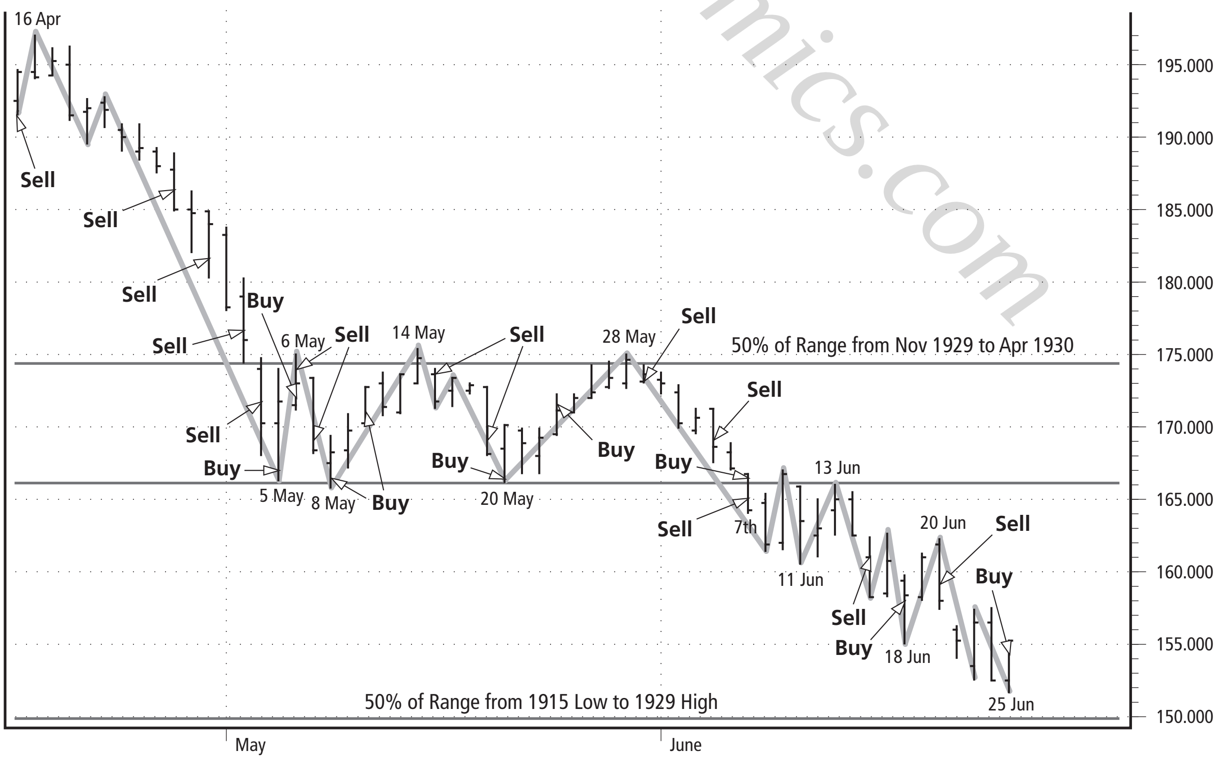
April to December 1930

The bear market which resumed in April 1930 was not a spectacular collapse like the Fall of 1929 had been. Rather the market began to work its way lower and lower in an inexorable grind that lasted for the next two years.

Trade 284 – 15 April to 5 May 1930 (Short)

The short trade is entered on 15 April at 191¾, and the stop must have been above the highest high of 198¾ on the 7th. A stop 3 points above entry would have been caught the next day. But after the move got underway there was very little reaction and you would have to switch to keeping it 3 points above the low of each day. There were no reverse moves of 3 points on the rest of the way down, so you would have been safe doing this.

Chart 20.1 – Trades 284 to 294



CONTENTS

HOW TO TRADE LIKE W.D. GANN

An Exploration of the Mechanical Trading Lesson on U.S. Steel

Volume 2

Supplementary Material

Timothy Walker

Cosmological Economics

Notes on the Supplementary Materials

In this volume you will find Gann's original text, entitled *Mechanical Stock Trading Method: Trading With the Overnight Chart*. I have reorganised the presentation of this text to fit in with the present work. While nothing has been altered of Gann's work, some changes have been made in the layout.

Gann recorded the results of trades in the body of the text of the lesson. For the first three years, until January 1918, he noted each trade as it occurred. After that time he presented the trade results in blocks every 12 months or so. I have removed all of these and placed them in a separate Table at the end. This enables the text to flow without interruption. I have also referenced the records to the Trade numbers for easy reference.

In both the text and the table, I have included Notes where there are significant mistakes or discrepancies in the original material. Some of these are typographical, while others show differences in price data. Only the errors which have an impact on the trades are noted. There are many more than the ones I have listed. The dates and prices of highs and lows stated by Gann are frequently different to the prices I obtained from the *New York Times*. In most cases the difference was not more than 1 or 2 ticks in price or 1 day. I have not noted any of these, but you will see some slight differences between Gann's original and the main text of this work, since all the charts are compiled using the *New York Times* data and the text has been based on these.

Similarly, in the Table of trade results, there are several calculation errors. However, most of these are small, and the major ones are noted. But none of them alters the overall message that Gann's system produced outstanding profits over a period of time. You will find it instructive to reference these results as you work through the trades.

Also included in this volume are enlarged copies of all the charts in the main text. These will make it easier to see exactly what was happening, particularly in some of the charts where a lot of information is included and the other copy may be a bit small. These larger versions are also intended to be written on, so that you can make notes on these charts while leaving the charts in the main book clear and unmarked.

T.W.

Method for Trading with the Overnight Chart

The Overnight Chart and the method for operating it is purely mechanical. You use no judgement but simply follow rules and reverse your position when the Overnight Chart indicates it. If you buy and sell and use stop loss orders according to rules, this Method will make a large amount of profits over a long period of time.

The Overnight Chart is taken from the daily high and low chart, and the rule for keeping it is as follows:

As long as a stock makes higher bottoms each day, you move the Overnight Chart up, but the first day it makes ¼ point or more under a previous day's bottom, you move the Overnight Chart down to this level, but always recording the highest top reached before the Overnight Chart turns. Then as long as the Overnight Chart makes lower bottoms, you continue to move it down. Should it make a higher bottom and a lower top the same day, you would move it up to the top of that day because the Overnight Chart is based on bottoms. When there is a wide swing and the market runs up early in the day and makes a higher top than the previous day and then runs down later in the day and makes a lower bottom, you first move your chart up to the top, or highest point reached during the day, and then bring it down to the lowest level. Then suppose next day it makes a higher bottom, you move it up to the top of that day.

You can use the Resistance Levels in connection with the Overnight Chart, but the only rule that I use in connection with the trading record on U.S. Steel, which will follow, is the half-way point, or taking extreme low and extreme high of the last move and dividing it by two to get the gravity center or half-way point. Then buy or sell when this point is reached and protect it with a 1 point stop loss order. The other trading indications are according to the Overnight Chart.

When a stock reaches a new high where you have no Resistance Levels between a previous high and a previous low, you simply follow the Overnight Chart and reverse position when the rule indicates it.

You should watch the daily highs and lows on your daily chart around Permanent Resistance Levels as they will help you to determine a change in the major or minor trend on the Overnight Chart.

RULE 1: Buy or sell on double or triple tops or bottoms with a stop-loss order 1 point above the top or 1 point under the bottom. This is the rule that I use. However, many times you will make more money if you use a 3 point stop loss order but by using a 1-point stop loss order most

U.S. Steel Trades According to Overnight Chart

1915 – 1930

This trading plan requires $3,000 to start with, to trade in 100-share lots. My rule is never to risk more than 3 points or $300 on any one trade. I protect all trades with stop loss orders. Follow the rules for Resistance Levels and the rules for using the Overnight Chart. When I pyramid, or buy or sell a second lot, I limit my risk so that I will not lose more than 10% of my original capital. In other words, when I buy or sell a second lot, I place stop so that my loss will not exceed $300.

The following operations are based on trading according to the Overnight Chart and the use of Resistance Levels to determine buying and selling points:

1915

February 1, low 38, February 3, high 41½ – a 3-point rally indicated a buying point. Either buy at market or on a reaction. We buy 100 shares at 41. On February 5 it declined to 38¾[1], then crossed 41½, the top of February 3, and turned Overnight trend up. Stop would now be at 36½ or 3 points under 39½. Trend continued up to 45 on February 13, then declined to 40¼ on February 24, making a higher bottom than February 5. Raise stop to 38½ or 2 points under 2 bottoms close together.

March 8th high 46, then made 3 bottoms around 43½ to 44¼ on March 5, 13 and 18. Here raise stop to 42½ or one point under three bottoms. Then we buy more at 47 when it goes one point above top at 46. Trend continues up to 49¾ on March 29; again made three bottoms around 47¾ to 48¼; raise stop to 46¾. Then we buy more at 51 and raise stop on three lots to 48. The advance continued to 58 on April 10, reacted to 55¼ on April 13. We raise stop to 52¼ or three points under.

April 19 made top 60¾, reacted to 56¾ on April 24. Raise stop to 55¼, last bottom. April 26 high 59¼, April 27 low 57, a third higher bottom. Raise stop to 56 on all three lots. April 29 high 60⅝, just ⅛ under top of April 19. April 30 low 58½. Raise stop to 57½.

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1 *The New York Times* gives a price of 39¾. Gann's text is unclear, and possibly it should read 39½, as this price is mentioned 2 lines later. Henceforth, whenever prices are stated in footnotes, they will refer to those quoted in the *New York Times*.

TRADE SUMMARY

TRADE	BUY/ SELL	SHARES	ENTRY	EXIT	LOSS	PROFIT	EXPENSES	TOTAL CAPITAL
								3,000.00
1	Buy	100	41			1650.00		
		100	47			1050.00		
		100	51	57 1/2		650.00	100.00	6,250.00
2	Sell	200	57 1/2			1,800.00		
		200	54 1/4	48 1/2		1,150.00	116.00	9,084.00
3	Buy	200	48 1/2			6,725.00		
		100	50 1/2			2,162.50		
		200	56 1/2			3,125.00		
		200	67			1,075.00		
		200	72	72 3/8	75.00		225.00	21,871.50
4	Sell	400	72 3/8			1,750.00		
		300	69 3/8	68 1/2		252.50	175.00	23,698.00
5	Buy	700	68 1/2			11,200.00		
		300	72			3,750.00		
		300	78 1/2	84 1/2		1,800.00	325.00	40,123.00
6	Sell	700	84 1/2	82 1/2		1,400.00	175.00	41,308.00
7	Buy	1000	82 1/2	85		2,500.00	250.00	43,558.00
8	Sell	1000	85	87 1/4	2,250.00		250.00	41,058.00
9	Buy	1000	87 1/4	85 3/4	1,500.00		250.00	39,308.00
10	Sell	1000	85 3/4	82 1/2		3,250.00	250.00	42,308.00
11	Buy	1000	82 1/2	81 3/4		250.00	250.00	42,308.00
12	Sell	1000	81 3/4	85 5/8	3,537.50		250.00	38,520.50
13	Buy	1000	85 5/8	81 1/2	4,125.00		250.00	34,145.00
14	Sell	1000	81 1/2	80 1/4		1,250.00	250.00	39,520.00 * 1
15	Buy	1000	80 1/4	83		2,750.00	250.00	42,020.00
16	Sell	1000	83	80 1/4		2,750.00	250.00	*2
17	Buy	1000	80 1/4	85		4,750.00	250.00	46,520.00
18	Sell	1000	85	85 1/4	250.00		250.00	46,020.00
19	Buy	1000	85 1/4			10,500.00		
		300	90 1/2			1,575.00		
		300	94	95 3/4		525.00	400.00	58,220.00
20	Sell	1000	95 3/4	97	1,250.00		250.00	56,720.00
21	Buy	1200	97	99		2,400.00	300.00	58,820.00
22	Sell	1200	99	98		1,200.00	300.00	59,720.00
23	Buy	1200	100 1/2			18,600.00		
		600	105 1/2			6,300.00		
		600	110 1/2			3,300.00		
		300	115 1/2	116		150.00	675.00	87,395.00
24	Sell	1200	116			9,000.00		
		600	111	108 1/2		1,500.00	450.00	97,045.00

CHARTS

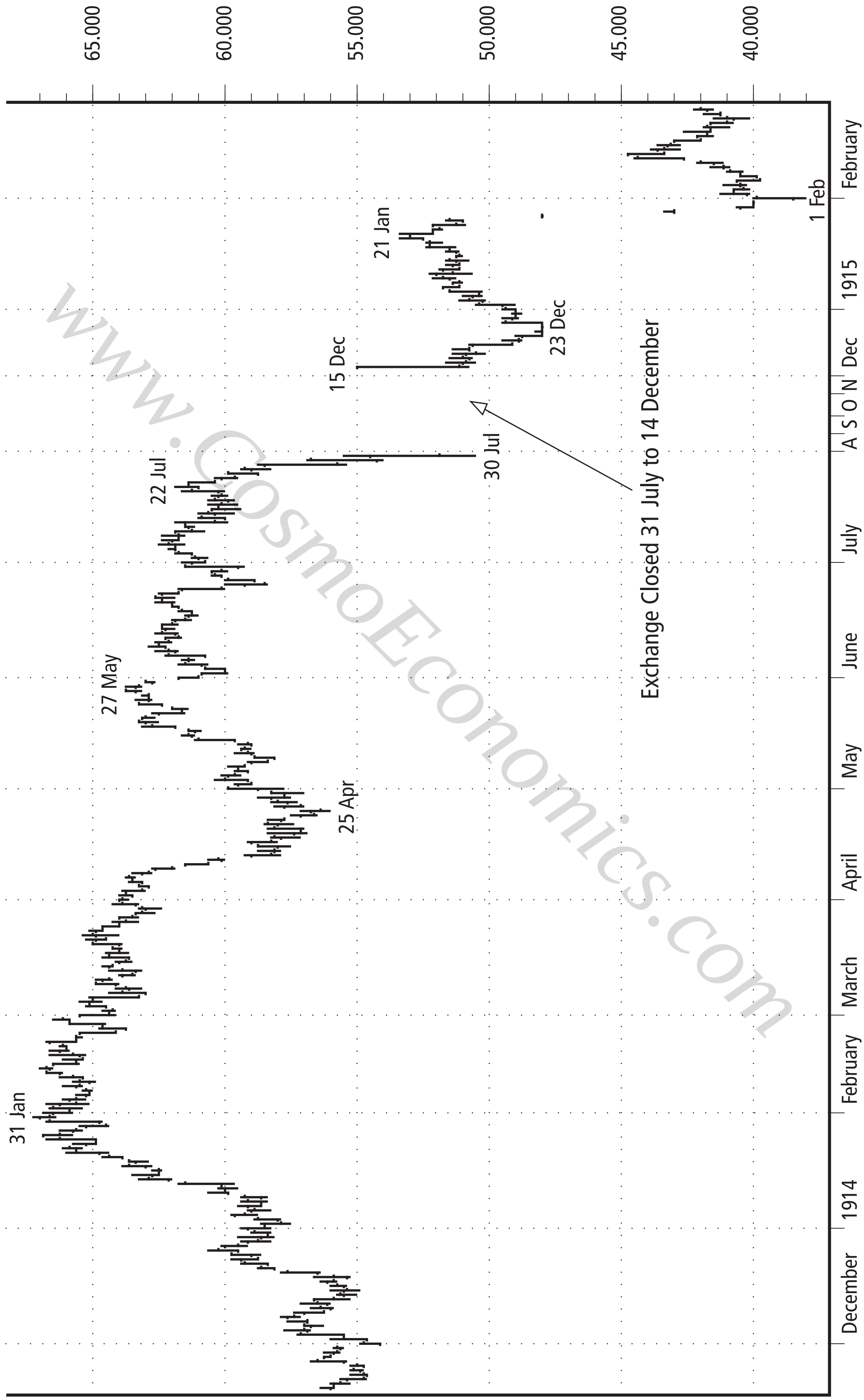
65.000
60.000
55.000
50.000
45.000
40.000
31 Jan
27 May
25 Apr
22 Jul
30 Jul
15 Dec
23 Dec
21 Jan
1 Feb
Exchange Closed 31 July to 14 December
December
1914
February
March
April
May
June
July
A S O N Dec
1915
February

Chart 21.1 – Trades 313 to 322

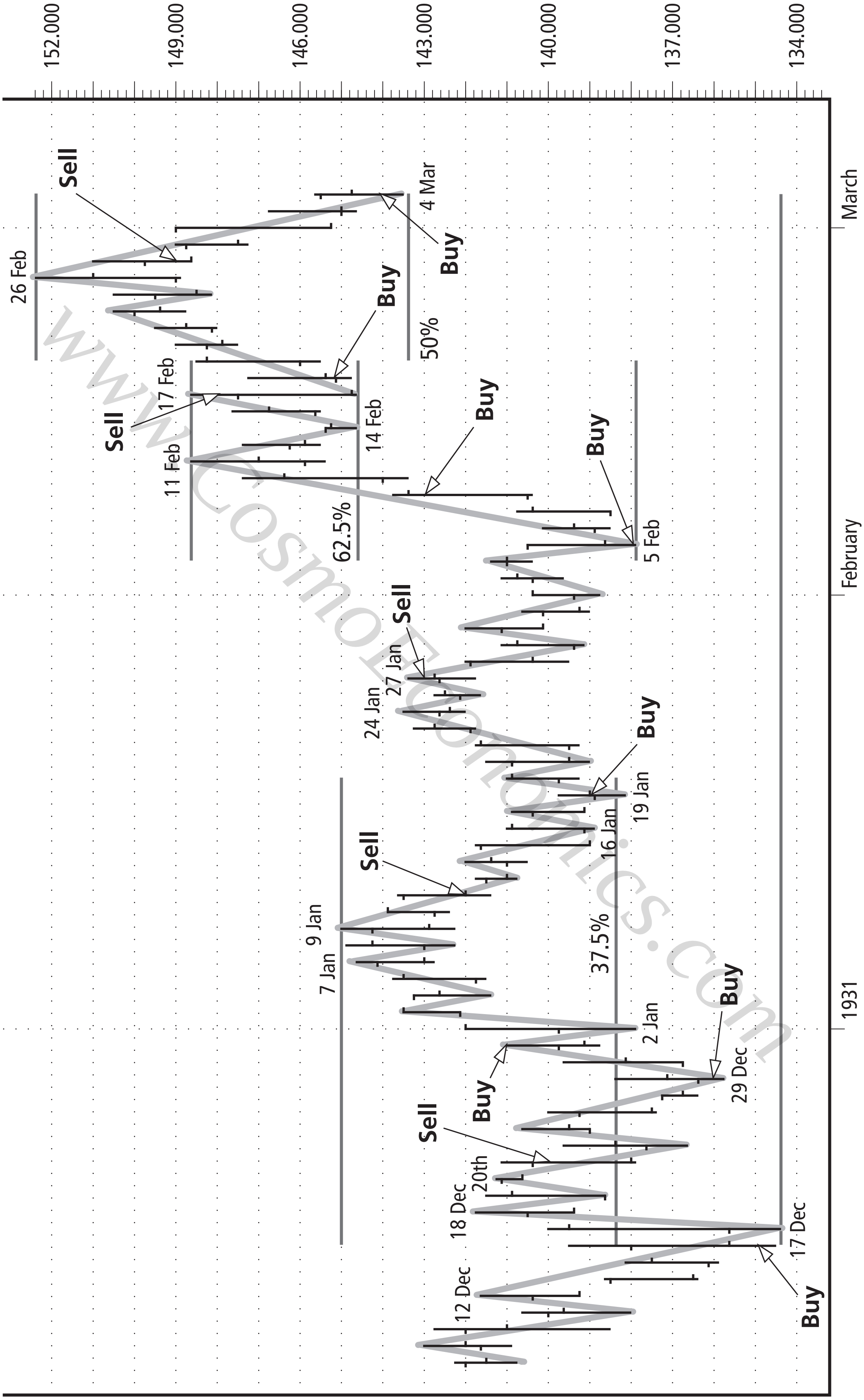

Chart 21.2 – Trade 321