

WALL STREET STOCK SELECTOR

A REVIEW OF THE STOCK MARKET
WITH CHARTS, RULES AND METHODS
FOR SELECTING STOCKS

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FOREWORD

The aim and object of every trader who enters Wall Street is to make money, yet it is a well known fact that a large percentage of traders lose money. There are many reasons for their losses. One of the most important is that they do not know how to select the right stocks to buy and sell at the right time. I expect to give rules provable and practical which will help traders to study and learn how to select the proper stocks to buy and sell with a minimum of risk.

The main object of this book is to bring TRUTH OF THE STOCK TAPE up to date and give the investor and trader the benefit of seven more years of my experience, which has been valuable to me, and if the reader will profit by my experience, it will prove valuable to him.

In this life we must have some definite aim or hope to attain happiness. Money will not bring all of it. Neither can we always help others with money. The best way that I know of to help others is to show them how to help themselves. Therefore, knowledge and understanding properly imparted to others is the greatest good that we can do for them and at the same time do good for ourselves. Thousands of people have written me that I have helped them through TRUTH OF THE STOCK TAPE. I believe the WALL STREET STOCK SELECTOR will give you more knowledge, will bring you more happiness through money gained, than any other book. If it does, I will be well repaid for my labor.

W. D. GANN.

New York, N. Y., April 24, 1930

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CHAPTER I

NEW ERA IN STOCKS OR CHANGED CYCLES

During 1927, 1928, and the first half of 1929, there was much talk of a new era in the stock market and the great value of the Federal Reserve Bank in preventing panics. Many economists, bankers, large financial operators, and business men said that the day had passed when there would be panics caused by money conditions such as had happened in 1907 and previous years. At the same time these people were talking about the millennium in financial affairs and the stock market, but they seemed to have forgotten what happened in 1920 and 1921. The decline of 1920 and 1921 following the great bull campaign of 1919 was due to "frozen loans" and tight money. The Federal Reserve Bank was in existence at that time, but that did not prevent Liberty Bonds from declining to around 85 and stocks from selling to the lowest levels on averages since 1914 before the World War began. I quote an article which appeared on November 28, 1927, in one of our leading newspapers. This article was headed "Goodbye, Business Cycle."

"The bugaboo of a 'business cycle' has lost much of its terror-inspiring influence. Scientific management seems to have overcome it. Years ago much was heard of recurring periods of prosperity and depression, and so-called prophets of business, mostly self-styled, were wont to discourse on 'business cycles,' to the great alarm of industry and finance. These prophets proclaimed that business moved like the waves of the ocean and that the higher the waves the deeper the gulf between them. They said that the same was true of business, and for a long time they had the country scared to their own considerable profit from their necromancy.

"But the spell has been broken and the pall of their prophecies has been dispelled. Business men in all lines are freed of the fetish. They realize

that 'the business cycle' was a scarecrow. They know that there is no occasion for such a thing if business is held to an even keel. All that is necessary to so hold the rudder is common sense, co-operation and good judgment. There remain a few 'cycle' croakers, but their throats are hoarse from ineffective incantations, and business is going on in a highly prosperous way with no 'cycle' upheavals in lo, these many years, and with no threat of one. Business has seen greater boom times but never was on a more substantial basis, because business men have learned how."

It is easy to see how confident this writer was, how he winds up his article by saying, "Business has seen greater boom times but never was on a more substantial basis because business men have learned how." This writer was honest and conscientious: of that I have no doubt, but he was either ill-informed or incompetent. He had not gone far enough back in the past to know that history repeats in the stock market and in business.

Late in the Fall of 1929 the worst stock market panic in history occurred and was followed by a slump in business, thus proving the theory that cycles do repeat, and while we may have been in a seeming new era we were only repeating an old cycle or condition which always follows years after wars.

HOW TRADERS WERE FOOLED ON CYCLES

Many of the old-time veterans of Wall Street made just as bad mistakes in the 1921 to 1929 Bull Campaign as the rankest lamb.

Many people who had never studied the records of stock markets further back than 1901 to 1921—and some of them never reviewed them that far back—had the idea, from what other people wrote or said, that a bull market never lasted more than two years. This was the wrong idea which cost many traders heavy losses. After stocks advanced from 1921 to 1923, declined in 1924 and started up again after Mr. Coolidge was elected, and advanced in 1925, traders considered that according to the old rule the bull campaign was over and went short, with the result that they took heavy losses. They continued to fight the market at different times during the bull campaign, thinking that every time the market advanced to a new high level, it would

be final top. Certain stocks continued to advance into 1929. Many of these veteran traders made the final mistake, which was worse than any of the first mistakes, of getting bullish at the end of the 1929 Bull Campaign and buying stocks, with the result that they suffered heavy losses in the panic which followed.

There are now over 1500 stocks listed on the New York Stock Exchange against about half this number in 1924. New groups have developed; new leaders have come to the front; new millionaires have been made under new conditions and old millionaires have been unmade. The old-time leaders of the stock market, who failed to change with conditions and applied the old rules, have gone broke. It is reported that Livermore measured the average swing of stocks in 1924 and 1925 and found them too high, according to rules he had previously used; then he went short of the market, lost a fortune, retreated, tried the market again in 1927 and again failed to properly gauge the right time to sell stocks and finally retreated and attacked in 1929, and made a fortune in the panic.

PANICS FROM 1814 TO 1929

Before going into details of the cause of this greatest Wall Street panic, it is important to review the other panics in the United States and in Wall Street over a long period of years and what caused these different panics.

Many factors contribute to the cause of panics. The principal and most important cause of all panics is high money rates, which are due to overextended credit and over-speculation. Some of the other causes are undigested securities, both stocks and bonds, or low prices of commodities and foreign exchange, overtrading both in business and the stock market, bank failures, exports and imports, price of silver, copper, iron and other basic commodities. If prosperity runs for a long time and stock market prices continue to advance over a period of years, the public becomes over-confident; moves in the markets and business reach the gambling stage. Everybody becomes optimistic and gets the gambling fever and continues to buy until everything is over-

done and prices reach a level not warranted by business conditions or the earnings of the corporations of the various industries. When this stage is reached, money gets scarce; banks get loaded up with loans on stocks after a great rise and liquidation has to follow.

The panic of 1814 was due to poor export business and overextended loans. The 1818 panic was again due to money conditions. The banks were overextended. The panics of 1825 and 1826 were due to high money, high discount rate in England, and a decline in commodities, especially cotton. The 1831 panic was caused by high money rates, too rapid expansion in loans and overextended business operations. The panic in 1837 to 1839 was caused by overspeculation and tight money conditions. Banks had to cease making specie payments. In 1839 the largest number of banks failed of any time up to that time. The 1848 panic was due to an increase in the number of banks and paper money in circulation and to low price of commodities, especially wheat, corn, and cotton, which this country at that time was largely dependent upon for prosperity. The 1857 panic was one of the worst in history up to that time. This was again due to too much paper money in circulation. For every dollar in gold and silver, there was about \$8 worth of paper money circulating. There were a large number of bank failures and banks had to suspend payments. The 1861 panic was due to the Civil War. The 1864 panic was due to war, business depression and tight money. Stocks had also had a big advance, which had tied up a large amount of money in loans. In 1869 the panic was mostly a Wall Street panic. The "Black Friday" occurred in September, 1869. This was due to a long wave of speculation, which followed the Civil War and stocks had advanced to extreme high prices. The money rate at that time was the highest of any time since 1857 and 1860. The 1873 panic was one of the worst panics after the Civil War and was due to a large extent to conditions brought about by the war. However, overspeculation was one of the prime causes for this, also high money rates at that time advanced to the highest level since 1857. On September 18, 1873, the failure of J. Cook, National Trust Company, Union Trust

Company and other banks brought about serious financial conditions. On September 20, 1873, the New York Stock Exchange closed for the first time in its history and remained closed for 10 days until September 30. The rate of discount at this time was 9 per cent and banks suspended payments. The 1884 panic was due to overspeculation in stocks; gold flowed out to Europe and reserves were very low. There were big failures at this time, among them the failure of Grant & Ward. Call money had been high for several years preceding this panic, reaching a high of 30 per cent in 1882, 25 per cent in 1883, and 18 per cent in 1884. The panic of 1890 was largely influenced by overspeculation and high money rates. In 1889 call money reached a high of 30 per cent and in 1890 was up as high as 45 per cent. Commodities had reached the lowest levels since the Civil War, which helped to bring about business depression. The failure of Baring Brothers in London precipitated this panic. The 1893 panic was again brought about largely by high money rates. Call money rates in 1892 were up as high as 35 per cent and in 1893 as high as 15 per cent. Business failures were numerous due to low prices of commodities, principally wheat, corn, and cotton. The 1896 panic was due to the Bryan Silver scare and the fear that the gold standard would be disturbed. However, the low price of commodities had much to do with bringing about this panic, as general business conditions were poor and had been for several years. Call money rates reached 125 per cent, the highest rate up to that time since the Civil War. Average price for stocks reached extreme low on August 8, from which they started up, and after the election of McKinley, the McKinley boom followed, which was the biggest stock boom in this country up to that time. The 1901 panic occurred on the Stock Exchange on May 9, which was due to the Northern Pacific corner. While stocks rallied after this panic, the general list continued to work lower for several years. In 1903 and 1904, the period of depression was due primarily to undigested securities and to Government attacks upon the railroads. Call money rates reached 15 per cent in 1903 and went back as low as 1 per cent in 1904, and did not get higher than 6 per cent

during the year. Business conditions again improved in the latter part of 1904, after the election of Roosevelt, and a bull market followed in 1905 and 1906 when stock market prices reached the highest since the McKinley boom started. The 1907 panic, known as the "rich man's panic," was due to high money rates, overspeculation, trust-busting and to the use of the "big stick" by the late Theodore Roosevelt and legislation against the railroads. Call money went as high as 125 per cent in October, 1907, when the panic was at its height. Banks were forced to suspend payment of currency all over the country. The 1910-1911 panic or period of depression was caused primarily by the Sherman Anti-Trust Act and was known as a period of trust-busting. The Standard Oil Company was ordered to dissolve and a suit brought to dissolve United States Steel Corporation, which later failed. Call money rates reached a high of 12 per cent in 1910. Stock prices reached the lowest levels in July. Money conditions were easier in 1911, the call rate failing to get above 6 per cent. The 1914 panic, which resulted in the closing of the New York Stock Exchange from July 31 to December 15, was due to the outbreak of the World War, but there would have been a panic and business depression in this country if war had not broken out, because commodity prices had reached the lowest levels for many years and business conditions were generally poor. Money rates had been high in 1912, call money reaching 20 per cent and getting as high as 10 per cent in 1913 and 1914. Europe was a large holder of our stocks at the outbreak of the World War and it was this liquidation that forced the New York Stock Exchange to close. Money and business flowed into this country as a result of this war and commodity prices advanced, which helped business here and a boom followed. Market prices reached high in the Fall of 1916; speculation was overdone and call money reached a high of 15 per cent. Liquidation started, which resulted in the panic of 1917. This was due to overspeculation, resulting from the war boom. After the war was over another wild wave of speculation broke out in this country in 1919, culminating in November, and was followed by a panicky decline. Money rates were as high as 30 per

cent in October and November, 1919, and 25 per cent in the Fall of 1920. The panic of 1920 and 1921 was due principally to "frozen loans" and decline in commodity prices. Merchants all over the country were loaded up with goods bought at high prices and banks were loaded up with loans. After the panic of 1921 a long period of prosperity followed. Call money did not get above 6 per cent at any time from 1922 until 1928, and during 1924 and 1925 call money rates were down as low as 2 per cent. 1923 and 1924 cannot be considered as panic years either in Wall Street or in the stock market. They were simply periods of reaction, or resting periods, from which the big stock boom was resumed. Business conditions steadily improved after the election of Mr. Coolidge in November, 1924. A long period of easy money and expansion in business helped to bring about the greatest bull campaign in stock market history, lasting for the longest period of time of any since the bull campaign which culminated in September, 1869, and the McKinley boom from 1898 to 1906.

1929 Wall Street Panic.—The cause of this panic was due to wild gambling not only by the people in the United States, but by people in the foreign countries. The whole world was gambling in the stocks of the United States. People were buying right and left regardless of price. Fortunes were made on paper in a short period of time. Everybody from the chambermaid to the multi-millionaire was in the stock market. People had ceased to work and were watching the stock ticker. New millionaires were being made in a short time. People had neglected their business because they thought it was easier to make money in the stock market. Never was there a time before in history where a speculative wave was more overdone than this one. Brokers' loans continued to mount until they reached over 8 billion dollars. It has been conservatively estimated that the total loans on all stocks outstanding in the United States exceeded 30 billions of dollars. At the top, when high prices were reached, the total value of all stocks traded in on the New York Stock Exchange exceeded 100 billion dollars. Bond prices started to decline in 1928 and money rates started to advance, which was the first warning that the bull

campaign was nearing its end. Call money rates were as high as 13 per cent in 1928 and went to 20 per cent in 1929. Warnings issued by the Federal Reserve Bank went unheeded. The largest number of new securities were floated in 1929 of any year in the history of the New York Stock Exchange, all of which required large amounts of money to finance. The last stage of this greatest bull market had been so rapid that a reaction, an orderly decline, or an orderly wave of liquidation was impossible. When everybody had bought to capacity and started to sell, there was no one else who wanted to buy and a collapse was inevitable. The decline was the greatest in history and the public suffered the greatest losses. However, this was a rich man's panic as well as the poor man's, and the multi-millionaire suffered along with the "lamb." Profits of 5, 10, 25, and 100 million or more were wiped out in the short period of less than 3 months. The big traders were just as unable to get out of stocks as the little fellow, because there was no one to buy the stocks that they had to sell. On September 3, the day that the market averages reached extreme high, sales were around $4\frac{1}{2}$ million shares; then when the decline started on September 5, sales were around $5\frac{1}{2}$ million shares. They had not been running above the 5 million share mark for some time before the market reached top. On October 4, which was the bottom of a reaction, sales were $5\frac{1}{2}$ million. On the first big panic day, October 24, sales were 12,894,000 shares; on October 29, the day of the greatest panic, sales were 16,410,000; on October 28, sales were 9,112,000; on October 30, 10,727,000; on November 12 sales were 6,452,000, and on November 13, the day averages reached bottom, sales were 7,761,000 shares. After this bottom, sales did not exceed $5\frac{1}{2}$ million shares until April 3, when they reached near the 6 million share mark again.

It is interesting to note the movement on averages from September 3, when the Dow-Jones 30 Industrials reached the high of 381, to October 4, the bottom of the first decline when Averages reached 325, a decline of 56 points in 30 days. A quick rally followed to 363 on October 11, up 38 points. On October 29, the Averages declined to 231,

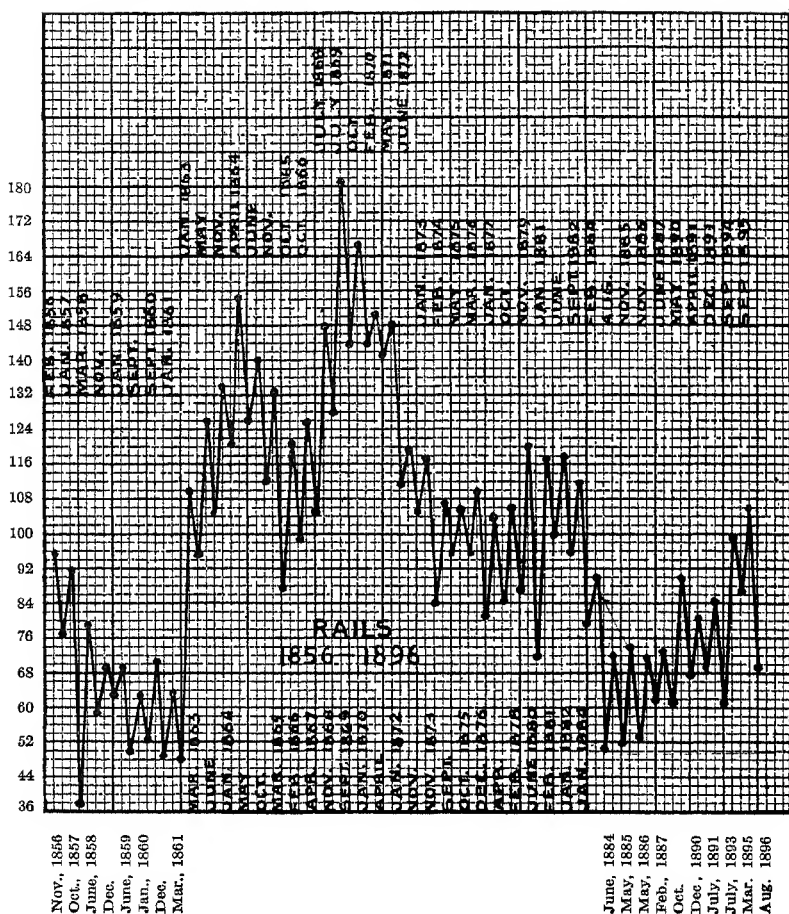
down 132 points from October 11 and 150 points from September 3; after a 2-day rally, Averages reached 273, up 42 points. On November 13 made extreme low at 199, down 74 points from October 31 and 181 points from the top of September 3. A rally followed to December 9, carrying the Averages to 263, up 64 points from the bottom. Then followed a decline to December 20, when the Averages reached 231, down 32 points from December 9. After that the reactions were small and prices worked higher from every reaction until April 17, 1930, when the Averages reached 294, up 95 points from the extreme low made on November 13, 1929.

HOW CYCLES REPEAT

The 1929 stock market panic was due largely to money conditions brought about by overextended loans and undigested securities. A study of conditions following the Civil War and a review of stock market prices will show any man that the conditions which have existed since the great World War have not been vastly different, nor has the stock market been vastly different. Before this bull market ended last August, talk was heard in every part of the country that this bull market had lasted longer than any in history and had fooled the wisest and best of men. The fact that it fooled everybody was true, but the fact that it had lasted longer than any other bull campaign was not wholly true, as the following review of past market movements will prove.

Railroad Averages.—I have made up an average on railroad stocks from 1856 to 1896 in order that you may see where prices were before the Civil War started and what happened after the Civil War. In comparing conditions before and after wars, the best barometer and guide is the stock market. Chart No. 1 on page 10 shows you the yearly high and low prices of railroad stocks from 1856 to 1896. A bull campaign culminated in 1856 when these averages reached 96. A panic followed in 1857, carrying these same averages down to a low of 37. In 1858 the high was 79 and the low 59. In 1859 the high was 70 and the low 53. In

CHART No. 1.—W. D. Gann Railroad Averages. 1856-1896.



1860 the high was 70, the same as in 1859, and the low was 54, one point higher than 1859 low. In 1861 the high was 65 and in March the lowest record was made with the price down to 48. War was declared in April, 1861, but you can see that stock market prices had discounted the war and started to advance soon afterwards. In June, 1862, the averages crossed 70, which was the high level in 1859 and 1860, and in September crossed 79, the last high which was made in 1858. The bull campaign continued and in January, 1863, the averages crossed the high level of 1856. The up trend continued to April, 1864, when top was reached at 154. A fast decline followed and in March, 1865, the low was again reached at 88, down 66 points in one year's time. In October, 1865, the averages rallied to 121. In February, 1866, declined to 100. Advanced to 125 in October, 1866, then followed a decline which culminated in April, 1867, when the low was 104. This was a higher bottom than the low of 1866. From this low another big advance started and the final high was reached in July, 1869, when the averages were top at 181, up 77 points from the low of April, 1867. The last stage of the 1869 Bull Campaign was wild and active, with an advance of about 33 points on averages in the last three months of this final grand rush.

The bull campaign which really began in March, 1861, lasted until July, 1869, subject to reactions just the same as we had in the bull campaign from 1921 to August, 1929. The bull campaign from 1861 to 1869 was 8 years and 4 months. The bull campaign from August, 1921, to August, 1929, lasted 8 years. You can see by the records previous to the Civil War and following the Civil War that the bull campaign at that time lasted slightly longer than the bull campaign from 1921 to 1929.

A decline started in August, 1869, and the real panic took place in September, and a "Black Friday" occurred on September 24, 1869. The stock Averages declined 30 points during the month of September, reaching a low of 144. In October a quick rally followed, making high of 167. This was the last high and stocks started working lower with nothing but small rallies until the panic of 1873, when the

averages sold at 84, down 97 points from the high of July, 1869. A rally followed which culminated in February, 1874, the averages reaching 107. In September, 1874, they declined to 95; rallied to 106 in May, 1875; and again declined to 95 in October, 1875. In March, 1876, the averages again rallied to 110. A decline followed to December, 1876, when the low recorded was 81, down 100 points from the high of July, 1869. After this a bull campaign followed, lasting until November, 1879, when the averages reached 119. Another decline set in, which culminated in June, 1880, with the averages down to 73. From this low level, a sharp advance followed culminating in January, 1881, with the high at 118, just one point under the high of November, 1879. In May and June, 1881, the averages made the same high level again. From this top, a long bear campaign followed to June, 1884, when the low reached was 51. In August, there was a rally to 72 and in March, May, and June, 1885, the averages reached bottom at 52, one point higher than the extreme low of the previous year. In November, 1885, the averages rallied again to 73 and in May, 1886, again declined to 53, which was the last low. From this low level, a creeping bull market started which gradually worked higher until May, 1890, when the averages reached 89. A bear campaign followed which resulted in the panic of 1893, the bottom being reached in July with the averages down to 61. This same low was again recorded in December, 1893. An advance followed which culminated in September, 1895, with the averages at 106. From this top the Bryan Silver panic, which culminated in 1896, followed. On August 8, 1896, stocks reached the lowest level which they had recorded since the Civil War, or the lowest since July, 1869, when top was made after the Civil War. In 1896 many stocks went into the hands of receivers. Stocks like New York Central, which made high in 1869, continued to work lower until bottom was reached in 1896.

From 1896 to date the Dow-Jones Averages on Railroad and Industrial stocks are the most reliable guides to the trend of the market. These Averages were reviewed in **TRUTH OF THE STOCK TAPE** from 1896 to 1922.

In 1928 when they crossed the high level of 1906, which was the highest price in history, you should then have looked up the high prices of the individual stocks which made up this group of averages and noted the ones that had crossed the high level of 1906. For example: Atchison, New York Central, and Union Pacific, which crossed the 1906 tops, were among the rails which made the biggest advances, while St. Paul and other stocks, which did not reach this level, advanced very little compared to the advances in Atchison, New York Central and Union Pacific.

It is well for traders to know these things and to know that what has happened in the past can happen again. You should never hold on and hope. When you see that you are wrong, place a stop loss order or get out and take a quick loss. Hundreds of thousands of people were fooled in the bull market which culminated in 1929 and hundreds of thousands will be fooled before many stocks which were top in 1929 will reach bottom. The only way to protect yourself against heavy losses is to get out before it is too late. Stubbornness will not help in the stock market. In fact, nothing helps you when you are wrong, except to get out and wait for another opportunity or to get right on some other stock.

SECTIONS OF A BULL CAMPAIGN

A bull market, as a rule, moves in sections or waves. The campaign from 1921 to 1929 moved in sections as follows: The bottom for the Dow-Jones 20 Industrial Stock Averages was reached in August, 1921, and the move started up. The first section of the bull campaign culminated in March, 1923. Then there was a reaction or a small bear campaign. Some stocks made bottom in May, 1924, and others made bottom in October, 1924. From this reaction in a bull market, the second section of the bull campaign started and the advance continued until November, 1925, but this was only a reaction in a bull market. The bull campaign was resumed and the third section of the advance lasted from April to August, 1926; then there was a two months' reaction to October, 1926, from which the upswing

was again resumed. In October, 1927, top was made for another quick, sharp reaction, but it only lasted for one month. However, many stocks rested and reacted until February, 1928, when they started up again and there was a fast advance culminating in January and February, 1929. This can be considered the end of the third section of the bull campaign. A panicky decline followed in March and low levels were reached on March 26, 1929. Stocks held in a narrow, trading range or accumulated for about two months. The fourth or last section of the bull campaign started in May, 1929. This was the final grand rush. Many stocks made the biggest advance of any time in history in the same period of time. From May until September 3, 1929, the Averages of the Dow-Jones 30 Industrial stocks went up 90 points. From the culmination of this bull campaign, which was made with only a few active, high-priced stocks, in which big traders were operating, a great deluge followed and in a little over two months' time, the Averages declined 182 points, the biggest decline in history with the greatest losses to the public and pool operators that had ever been recorded. The total loss in quoted values was over 40 billion dollars.

Industrial Averages.—This group of Dow-Jones Averages was reviewed from 1896 to 1922 and a monthly and a yearly high and low chart shown in TRUTH OF THE STOCK TAPE. The high in October, 1922, was 103 and the low in November, 1922, was 92. From this low level an advance followed which culminated in March, 1923, when the Averages reached 105, only 2 points above the 1922 high and still 4 points under the 1920 high, which level they would have to cross to indicate higher prices. A decline followed and in October, 1923, the Averages reached a low of 86. Around this level there was big accumulation, holding in a range from 86 to 88 for 5 months. A rally followed and in January and February, 1924, reached a high of 100. Then declined to May, 1924, making a low of 88½, where the Averages held for 3 months, making the same low level each month. This was 2 points above the 1923 low level, which showed good support and indicated that stocks were going higher. August, 1924, high

105, same high as March, 1923. A moderate reaction followed to October, 1924, when the low reached was 100. There was a rally at the end of this month and the Averages closed at 104 and in November opened at 104 and quickly crossed 105, the highest level for over 2 years, a sure indication for much higher prices. At this time you should have selected the stocks in the strongest position in this group and should have bought them to hold for the long pull. After the election of Mr. Coolidge in November, 1924, stocks started to advance rapidly and before the end of November the Averages had crossed 109, the high of 1920, another good sign for much higher prices. The next high point was 120, the high of 1919, which was the highest in history. This level was crossed in December, 1924, another good indication of a big advance to follow. March, 1925, high 125; a quick decline followed and late in March the low reached was 115. Here there was good support and prices started to move up again. In May the Averages crossed the March high of 125 and each month the bottoms and tops were higher until February, 1926, when the Averages reached a high of 162. This was a sharp top, and a sharp, quick decline followed in March when there was really a panicky break, many of the active stocks declining 75 to 100 points. The low on the Averages was 135. This was only one month's reaction, the same as March, 1925. The market held in a dull, narrow range for about 2 months while accumulation was taking place and in June the main trend turned up again. August, 1926, the averages reached a high of 166, just 4 points above the January, 1926, high, but an indication that they were going higher later. A quick decline followed lasting nearly 2 months, getting down to a low of 146 in October, 1926. The advance was resumed, big accumulation showing in the active leaders, and in May, 1927, the Averages crossed 166, another indication for much higher prices and in October reached a high of 199. Good selling always appears around the even figures, like 100, 200 and 300. A decline quickly followed and before the end of the month the Averages had declined to 179. But a rapid advance followed this break. In January, 1928, the Averages crossed 200. Getting above the even

figure was a sure sign for much higher prices. They made 203; then had a small reaction in February, making a low of 192, and in March a rapid advance started and prices crossed 203. Top was reached in May and June, 1928, when the price was 220. A quick decline followed to 202 in June. The Averages failing to break the even figure of 200 showed good support and indicated higher prices. There was a big accumulation in July and in August a wild, runaway market started and continued until February, 1929, when the Averages made a high of 222. A decline followed in March and the Averages reached 196. Then followed a sharp, quick advance and in April the Averages made a new high at 227. A decline started in the early part of May from a sharp top and there was a sharp decline down to a low of 194 in the latter part of May, holding just 2 points under the low of March, 1929, a good indication of bottom. In June a rapid advance started with public utilities and late movers leading this advance. The Averages continued to work higher each month, making higher bottoms and higher tops until September 3, 1929, when the final top was reached with the Averages at 381, the highest price in history. This was a sharp top made on heavy volume of sales in most of the active stocks. A quick, sharp decline followed. September 5, low 370, followed by a quick rally on September 7 to a high of 377, making a lower top; September 9 declined to 367, a sign of weakness and an indication for much lower prices; September 11 a quick rally to 371; September 12 a low of $366\frac{1}{2}$, another sign of weakness; September 16 rallied to 372, failing to get much above the last high level; September 19 broke 366, a sign that the big decline was on; October 4 reached a low of 326; a sharp rally followed to October 11, when top was made at 362, making lower top than the previous one. From this top a panicky decline took place and on October 29 the low reached was 231. A fast rally, lasting only 2 days, followed to October 31, making a high of 273. Liquidation broke out again and a sharp decline followed, reaching final bottom November 13, when the averages made a low of 199, down 182 points from the high of September 3, 1929. This was the fastest decline ever re-

corded, and will go down in history as Wall Street's greatest panic. A rapid recovery followed to December 9 when the high was 263. Then followed a decline to December 20, reaching a low of 231. Note that the low for the Averages on October 29 and on December 20, were at the same level, being 32 points higher than the extreme low made in November, 1929. This was a sign for higher prices later. From this bottom a slow advance followed with only small reactions. On February 5 and 14, 1930, the Averages made temporary top at 272; then declined to February 24, making a low of 263. The advance was resumed and on April 17, reached a high of 294.

The Dow-Jones 30 Industrial Averages are a good guide to the trend of the active stocks in this list, but remember that you must study the individual stocks and see if they conform to the change in trend of the Averages. If a stock shows opposite trend, play it that way. Watch the Averages when they get dull and narrow and see if the volume is very small at the bottom or the top, which is a sign for a change. Then watch when the market is very active at bottom and top and see if the volume increases right along. As soon as the volume begins to show a decrease, then look for a change in trend and a reverse move to follow.

CHAPTER II

TWENTY-FOUR NEVER-FAILING RULES

In order to make a success trading in the stock market, the trader must have definite rules and follow them. The rules given below are based upon my personal experience and anyone who follows them will make a success.

1. Amount of capital to use: Divide your capital into 10 equal parts and never risk more than one-tenth of your capital on any one trade.
2. Use stop loss orders. Always protect a trade when you make it with a stop loss order 3 to 5 points away.
3. Never overtrade. This would be violating your capital rule.
4. Never let a profit run into a loss. After you once have a profit of 3 points or more, raise your stop loss order so that you will have no loss of capital.
5. Do not buck the trend. Never buy or sell if you are not sure of the trend according to your charts.
6. When in doubt, get out, and don't get in when in doubt.
7. Trade only in active stocks. Keep out of slow, dead ones.
8. Equal distribution of risk. Trade in 4 or 5 stocks, if possible. Avoid tying up all your capital in any one stock.
9. Never limit your orders or fix a buying or selling price. Trade at the market.
10. Don't close your trades without a good reason. Follow up with a stop loss order to protect your profits.
11. Accumulate a surplus. After you have made a series of successful trades, put some money into surplus account to be used only in emergency or in times of panic.
12. Never buy just to get a dividend.
13. Never average a loss. This is one of the worst mistakes a trader can make.
14. Never get out of the market just because you have lost patience or get into the market because you are anxious from waiting.
15. Avoid taking small profits and big losses.
16. Never cancel a stop loss order after you have placed it at the time you make a trade.
17. Avoid getting in and out of the market too often.
18. Be just as willing to sell short as you are to buy. Let your object be to keep with the trend and make money.
19. Never buy just because the price of a stock is low or sell short just because the price is high.

20. Be careful about pyramiding at the wrong time. Wait until the stock is very active and has crossed Resistance Levels before buying more and until it has broken out of the zone of distribution before selling more.
21. Select the stocks with small volume of shares outstanding to pyramid on the buying side and the ones with the largest volume of stock outstanding to sell short.
22. Never hedge. If you are long of one stock and it starts to go down, do not sell another stock short to hedge it. Get out at the market; take your loss and wait for another opportunity.
23. Never change your position in the market without a good reason. When you make a trade, let it be for some good reason or according to some definite plan; then do not get out without a definite indication of a change in trend.
24. Avoid increasing your trading after a long period of success or a period of profitable trades.

When you decide to make a trade be sure that you are not violating any of these 24 rules which are vital and important to your success. When you close a trade with a loss, go over these rules and see which rule you have violated; then do not make the same mistake the second time. Experience and investigation will convince you of the value of these rules, and observation and study will lead you to a correct and practical theory for success in Wall Street.

SAFETY OF CAPITAL

Your first thought must be how to protect your capital and make your trading as safe as possible. There is one safe, sure rule, and the man who will follow it and never deviate from it will always keep his money and come out ahead at the end of every year. This rule is divide your capital into 10 equal parts and never risk more than one-tenth or 10 per cent of your capital on any one trade. If you start with \$1000 you should not risk more than \$100 on your first trade, and the way to limit your loss is to place a stop loss order. It is much better to have 10 shares of stock and lose 3 points or \$30 than to have 100 shares and lose \$300. You can always find new opportunities to make profits, so long as you have capital to operate with. Taking heavy risks in the beginning endangers your capital and impairs your judgment. Trade in such a way that you will not be disturbed mentally by a loss, if it comes.

STOP LOSS ORDERS

I feel that I cannot repeat too many times the value of using stop loss orders because it is the only safety valve to protect the investor and trader. An investor or trader will place a stop loss order and one time out of ten the stop will be caught at the exact top or bottom. After this he always remembers that and says, "If I place a stop loss order, they will just go down and catch it, or just go up and catch it and then the market will go the other way." So he does not use the stop loss order the next time. His broker often tells him that stop loss orders are always caught. The trader forgets that nine times out of ten the stop loss order was right and would have prevented big losses by getting him out at a time when the market was going against him. The one time that the stop loss order gets you out wrong it makes up for it in the next nine times that it gets you out right. So don't fail to use a stop loss order.

CHANGING YOUR MIND

A wise man changes his mind; a fool never. A wise man investigates and then decides, and a fool just decides. In Wall Street, the man who does not change his mind will soon have no change to mind. When once you have made up your mind to make a trade and you have a reason for it, do not change without a reason. The most important thing that I refer to is changing stop loss orders, or cancelling stops when the market is going against you. The first thing to do when you make a trade is to place a stop loss order, which is for your own protection. Once you have placed a stop, you have acted wisely and used good judgment. To change your mind from this decision is foolish and to cancel your stop, once you have placed it, is not based on good judgment but on hope, and hope can lead to nothing but losses in Wall Street. Nine times out of ten, when once you place a stop loss order, if you never cancel it, it will prove to be the best thing that ever happened, and the man who adheres to this rule will make a success. I reiterate, if you cannot follow a rule, do not

start to speculate because you will lose all, and one of the rules that you must follow and never deviate from is to **PLACE A STOP LOSS ORDER AT THE TIME YOU MAKE A TRADE AND DO NOT CANCEL IT.**

OVERTRADING

History repeats because of the weakness of human nature. The greed for quick fortunes has cost the public countless millions of dollars. Every experienced stock trader knows that overtrading is his greatest weakness, but he continues to allow this weakness to be his ruin. There must be a cure for this greatest weakness in trading, and that cure is **STOP LOSS ORDERS.** The weakest point must be overcome, and the stop loss order is the cure for overtrading.

PROTECT YOUR PROFITS

It is just as important to protect profits as it is to protect your capital. When once you have a profit on a trade, you should never let it run into a loss. There are exceptions to this rule, and the amount of the profits should determine where stop loss orders should be placed. The following is about the safest rule that I can give you to use under average conditions. When once a stock has moved 3 points in your favor, place a stop loss order where you will be even if it is caught. In very active, high-priced stocks, it will pay you to wait until a stock shows a profit of 4 to 5 points; then move your stop loss order up to where you will have no loss should the market reverse. In this way, you will have reduced your risk to a minimum and the possibility of profits will be unlimited. As the stock moves in your favor, continue to follow up with a stop loss order, thus protecting and increasing your profits.

WHEN TO ENTER THE MARKET

It is very important to know when to buy or sell, and you must have some rule or some sign as your indication for the time to place your order to buy or sell. When you

think the market is reaching bottom or top, you will find that 7 times out of 10 you will be wrong. It is not what the market does today or what you think it is going to do that is important; it is exactly what the indications are that it will do at a later date when you expect to make profits.

When a stock reaches low levels or high levels and you want to take a position, wait until it shows a sign that the trend has turned up or down. At times, you may miss the bottom or top by waiting, but you will save money by not making your trade until you have reason to believe that you are going with the trend and not against it.

One of the most important things that you should keep in mind is not how much profit or how much loss you are going to make. You should leave the money part out of the question. Your object should be to keep right on the market. Go with the trend of the market. Study all the time to determine the correct trend. Do not think about profits. If you are right on the market, the profits will come. If you are wrong, then use the old reliable protector, a stop loss order.

BUYING OR SELLING TOO SOON OR TOO LATE

Investors often get out of the market too soon, because they have held stocks for a long time, waiting for activity and higher prices, and then sell out on the first move up into new territory, which is a mistake. See *Swing Charts* on Atchison, American Tel. & Tel. and New York Central on page 113.

There is another type of investor who always gets out of the market too late, because when the big advance comes, he holds on and hopes that the stock will go higher than it ever does. It never reaches the price at which he wishes to sell. The first quick break comes, and he decides that if the stock advances again to its former high level, he will sell out. The stock does advance but fails to get as high, then declines still lower, and he again fixes a price in his mind at which he will sell, but this is only a "hope" price, and he sees the stock drift lower and lower until finally, in disgust, he sells out after the stock has had a big decline from

the top. It is always well to wait until you can see a change in the trend before selling out, but when once you do see that the trend has changed, then sell out without delay. A good rule for this kind of a trader is to follow up with stop loss orders, even if it is 10 to 20 points away.

DELAYS DANGEROUS

Action, not delay, makes money in Wall Street. There is no use hoping, as that will not beat the game. Men who gamble on hope always go broke. You must stop hoping and start thinking. Then, after you think, unless you act at the proper time, good thinking is useless. Knowing when to act and not doing it will not help any. Delays are always dangerous. The longer you hope and delay taking action in the market, the worse your judgment gets and the surer you are to make mistakes. Stagnation is death and destruction. Action is life. Being right or wrong and not acting will never save your money or help you to make it. Remember, delays are always dangerous. It is much better to take action now than to trust to uncertain time. You should never trade when sick or depressed. Your judgment is always bad when you are below normal physically. One of the rules of a successful speculator should be to keep good health, for health is wealth.

WHEN TO PYRAMID

There are two ways of pyramiding. One is to buy more or sell more just as soon as the market breaks into new territory or makes a new high or a new low. In a fast running market, you can continue to buy or sell every 3, 5 or 10 points up or down when the market is moving in your favor, all depending on the stock or your method of pyramiding. My method is to determine the reaction levels and how many points a stock has reacted from temporary top levels or rallied from temporary bottoms. Find out whether these reactions are running 3, 5, 7, 10, or 12 points; then buy or sell your 1st, 2nd, 3rd, or 4th lot for pyramiding on reactions from the top, waiting for 3, 5, or 10 points

according to the past reaction. Reverse the rule in a bear market. If you had followed this rule on General Motors from 1924 to 1929, you would find that your pyramid would have been safer than buying or selling the stock every so many points apart.

My time rule, which will help you in pyramiding, is to determine the time of the first important reaction. For example, General Motors reacted only 3 weeks from the time it started up in 1924 and was good to buy every time it reacted 2 to 3 weeks from any top, until it made the final top and the main trend turned down. Determining the time of the reactions and measuring them this way will greatly increase your profits and enable you to follow the main trend of the stock, sometimes for several years, and you can often make 100 to 200 points profit. This time rule, like other rules, works best on active high-priced stocks and should only be applied in active markets.

A pyramid should always be followed up with a stop loss order, no matter what method you use, because your profits must be protected. The more profit you have, the more room you can give the market to fluctuate, or have its reverse moves or reactions, that is, you can place your stop loss order further away from the market so that a natural reaction will not disturb your pyramid. For example, suppose you have followed a stock up and have 100 points profit on your original purchase. If the stock has had a previous reaction of 20 points, it could again react 20 points without changing the main trend, therefore your stop loss order could be 20 points under the market, because if it was caught, you would not be losing part of your capital, but only a part of your paper profits, while in the early stages of your pyramid your stop loss order would have to be closer in order to protect your original capital.

HOW MUCH PROFIT TO EXPECT

Most traders expect too large profits from the business of speculation. They do not stop to figure what a gain of 25 per cent a year means over a period of 10 to 20 years. Starting with \$1000 a gain of 25 per cent per year for 10

years equals \$9,313.25. \$10,000 increased at the rate of 25 per cent a year amounts to \$93,132.70 in 10 years. You can see how easy it is to accumulate a fortune in a reasonable length of time if one only is conservative and does not expect too much. Many traders come to Wall Street with the idea that they can double their money in a week or a month. It cannot be done. There are exceptional opportunities at times, when a large amount of money can be made in one day, one week, or one month, but these big opportunities are few and far between, and when once you have one of them and make big profits, do not let hope run away with your judgment and expect to continue to make profits right along on such an enormous scale. Remember that the market makes normal moves most of the time and that you must take normal profits the greater part of the time. Many traders buy or sell a stock without any thought of how much profit there is a possibility of them making and never think about the possibility of a loss. This should be one of your rules: Never buy or sell a stock when you don't think you can make more than 3 to 5 points' profit unless you use a stop loss order of only 1 to 2 points. It does not pay, on an average, to risk 3 to 5 points' loss for a possible gain of 3 to 5 points. Try to make a trade where you have opportunities, or at least where there is a promise of greater profits than losses. There is no use getting into a stock when you think there is only a chance of making 3 to 5 points, because you can be wrong and lose that much or more. It is better to wait until stocks cross Resistance Levels one way or the other and get in where the opportunities are for greater profits and longer swings. Scalpers do not make money; they simply get scalped. Remember that to make a success your profits must always be greater than your losses, and your rule must be to cut losses short and let your profits run.

HOW TO ANSWER A MARGIN CALL

When you make a trade and put up the required margin at the time and later the stock goes against you and the broker calls for more margin, the thing to do in most cases is not to put up more margin, but sell out at the market or

buy in in case you are short. If you put up more margin, let it be on a new trade and one which you have a good reason for making when your judgment is better. Nine times out of ten after a customer puts up margin the first time, he will hold on until there is a second margin call and a third and put up as long as he has money to put up and lose all of his capital on one trade. If the broker has to call you for margin, there is something wrong, and the best thing to do is to get out.

JOINT ACCOUNTS

Never have a joint account or trade in partnership with others if you can possibly avoid it. When two men have an account together, they may agree upon the right time to buy for long account or the right time to sell short and may be exactly right when they agree to make the trade, but here is where the hitch comes—when it comes to closing the trade they will seldom ever agree on the time and price to take profits. The result will be that they will make a mistake in getting out of the trade. One man will hold on because the other one does not want to get out and finally the market reverses and the trade goes against them; then they hold on and hope, and finally take a loss on what was a trade that they started together profitably. It is hard for one mind to work on the stock market and keep right, but it is much harder for two to agree and work in the market. The only way that two could make a success with it would be for one to do the buying and selling and the other to do nothing but place the stop loss orders. Stop loss orders will protect both of them when they make mistakes. It is a bad rule for a man and his wife to have a joint account together. The action of getting in and out of the market should be up to one man, who should learn to act and act quickly and not be influenced by a partner in a speculative deal.

WHAT TRADERS DON'T WANT TO KNOW

The average trader does not want to hear a painful truth. They want something in accordance with what they

hope for. When they buy a stock they believe all the news, rumors, views and lies that are bullish, but just let some report come out that is bad or let someone tell him something unfavorable about the stock he has bought and he refuses to believe it. It is the truth that will help him and truth that he should want to hear, not something that will build up his hopes and cause him losses later. A trader after he has made a mistake, says "I am going to do different next time," but he doesn't and that is why we always have old lambs in Wall Street to lead the young lambs down the same lane to losses that the old lambs have followed. Real inside truth about losses in Wall Street is seldom ever told. Traders, big and little, always talk about their profits and brag about their successful trades, but keep quiet about their losses. Therefore, the innocent lamb, when he comes to Wall Street, is led to believe that there is nothing but profits to be made, instead of hearing the other side of the story of how losses are made in Wall Street, which is a thing that would really help him and prevent him from making the same mistake. The new lamb should know that failing to place a stop loss order and overtrading have been the cause of over 90 per cent of the failures in Wall Street. Therefore, in order to make a success he must act in a way to overcome the weak points which have caused the ruin of others.

HUMAN ELEMENT THE GREATEST WEAKNESS

When a trader makes a profit, he gives himself credit and feels that his judgment is good and that he did it all himself. When he makes losses, he takes a different attitude and seldom ever blames himself or tries to find the cause with himself for the losses. He finds excuses; reasons with himself that the unexpected happened, and that if he had not listened to some one else's advice, he would have made a profit. He finds a lot of ifs, ands, and buts, which he imagines were no fault of his. This is why he makes mistakes and losses the second time.

The investor and trader must work out his own salvation and blame himself and no one else for his losses, for

unless he does, he will never be able to correct his weaknesses. After all, it is your own acts that cause your losses, because you did the buying and the selling. You must look for the trouble within and correct it. Then you will make a success, and not before.

One of the main reasons why traders make losses is because they do not think for themselves and allow others to think for them and advise them, whose advice and judgment is no better than their own. To make a success, you must study and investigate for yourself. Unless you change from a "lamb" to a thinker and seek knowledge, you will go the way of all lambs,—to slaughter under the margin caller's axe. Others can only help you when you help yourself, or show you how to help yourself.

I can give you the best rules in the world and the best methods for determining the position of a stock, and then you can lose money on account of the human element which is your greatest weakness. You will fail to follow rules. You will work on hope or fear instead of facts. You will delay. You will become impatient. You will act too quickly or you will delay too long in acting, thus cheating yourself on account of your human weakness and then blaming it on the market. Always remember that it is your mistake that causes losses and not the action of the market or the manipulators. Therefore, strive to follow rules, or keep out of speculation for you are doomed to failure.