

Wyler Series

on

STOCK SPECULATION

VOLUME 1

(Second Edition)

THE APPLICATION OF SCIENTIFIC PRINCIPLES

TO

STOCK SPECULATION

by

JOSEPH A. WYLER

Consulting Chemist and Chemical Engineer.

Registered Patent Attorney. Director of Research.
Member of the American Chemical Society. Formerly a Member of the Chemists' Club of New York City. Member of Honorary Fraternities: Phi Beta Kappa, Tau Beta Pi and of Sigma Xi.



Joseph A. Wyler.

Introduction

The primary purpose of this volume is to provide scientific methods for extracting profits from the price movements of stocks listed on the organized stock exchanges.

The methods have been rigorously tested and found useful.

It must, of course, be emphasized that stock price movements are subjected to many unrelated influences and that the effect of the latter may, at times, be of short duration and of minor significance. Consequently, it is necessary to understand the methods and their relation to cause and effect phenomena present in stock price movements. Without this understanding there can be no sound basis for their application.

Due to the unwillingness of most speculators to carry out detailed observations and calculations, the author is presenting methods which may be designated "Practical" rather than theoretical.

For those wishing to base their decisions upon a firmer theoretical basis, Chapter V has been added.

The author cannot emphasize too strongly that it is necessary to understand the methods and to grasp the significance of the various calculated factors before attempting to interpret the nature of the forces involved in stock price movements.

This volume is intended to be a forerunner of Volume II, entitled "Trading and Trending," of this Series.

Contents

	Page
Introduction.....	
Chapter I—General Principles.....	1
Chapter II—Basic Calculated Factors and Helpful Concepts.....	7
Chapter III—Basic Stock Price Structures.....	19
Chapter IV—Strategic Formations.....	59
Chapter V—Theoretical Considerations.....	97
Appendix—Sayings and Proverbs.....	169
Index.....	171

CHAPTER I

General Principles

Speculation, as practised on the organized stock exchanges, is of a multitudinous nature, and there are as many "Methods" as there are speculators. However, successful speculation over a period of years, or a lifetime, requires specific knowledge related in a cause and effect manner to the price movement of a given stock.

To the serious student of stock speculation, it soon becomes apparent that there are more unknowns associated with stock price movements than there are knowns, and it is therefore necessary to find some means for detecting and measuring the composite effects of the knowns plus the unknowns.

To the author, this means is based upon the determination of the internal structure of the stock price movements in terms of certain definite, measurable and understandable factors, which can be shown to be directly related, in cause and effect manner, to the price trends.

We must look to the internal forces which underlie stock price movements.

The task is to detect and to measure these forces and to record their nature in visible form.

To begin with, the price at which a given stock is selling is not an accident. It is the result of supply and demand. It is the result of the interplay of forces; and these forces originate in the minds of human beings and manifest themselves at the time a sale is made.

As a generalization, the movement of stock prices is based upon the Law of Supply and Demand, and the

latter may be interpreted to the effect that when the supply of stock exceeds that of the demand, the price will go down, and when the demand exceeds that of the supply, the price will go up. Also, the price at which a stock is selling will remain constant until it is compelled, by some external force, to change in magnitude.

The force with which we are here concerned, originates in the mind of a human being and manifests itself in the form of an action of buying or of selling. The actual buying or the actual selling transmit the force which compels the stock to change in price. If the stock does not change in price, as a result of a sale, there is still an application of force, and the latter may be considered to be building up potential energy at this point.

In order to convey a clearer understanding of the nature of the phenomena underlying stock price movements, we start with a definition of the term "Force."

Generally speaking, the term "Force" means a push or a pull. However, for our purposes we must have a more specific definition. It must be one expressible in terms of numbers which may be used in arithmetical processes. By the term "Force", as used herein, we mean any discernible action upon the price of a stock. This action is detected by any movement in the price of a stock, or, if there is no movement, by the pressure applied to the stock's price.

The speculator must interpret the force involved in terms of its magnitude and its direction.

In order to record or express this force in visible form, it is necessary to know:

1. The point of application.
2. The change in price.
3. The direction of the price movement.

For present purposes, the point of application of a force is the price at which the stock changed hands on the preceding sale; the change in price as a result of this force is the distance (in terms of dollars and cents) the price moved; and the direction is either up or down (positive or negative), or zero (neutral).

The data may be conveniently shown as follows:

Table 1

Sale No. Force No.	Price At Which Sold	Volume of Stock Involved
1.	45	200 shares
2.	$45\frac{1}{4}$	200 shares
3.	$45\frac{1}{4}$	200 shares
4.	$44\frac{1}{2}$	500 shares

In this series of transactions, Sale No. 1 establishes:

1. 45 as the point of application of Force 2.

Sale No. 2 establishes:

1. $45\frac{1}{4}$ as the point of application of Force 3.
2. $\frac{1}{4}$ point as the price movement, resulting from Force 2.
3. That Force 2 is positive (+).
4. That 200 shares of stock were associated with the $\frac{1}{4}$ point price movement.

Sale No. 3 establishes:

1. $45\frac{1}{4}$ as the point of application of Force 4.

2. 0.0 dollars as the price movement resulting from Force 3.
3. That Force 3 is neutral.
4. That 200 shares of stock were associated with a price movement of 0.0 points.

Sale No. 4 establishes:

1. That Force 4 is negative (—).
2. That 500 shares of stock were associated with a downward price movement of $\frac{3}{4}$ of a point.

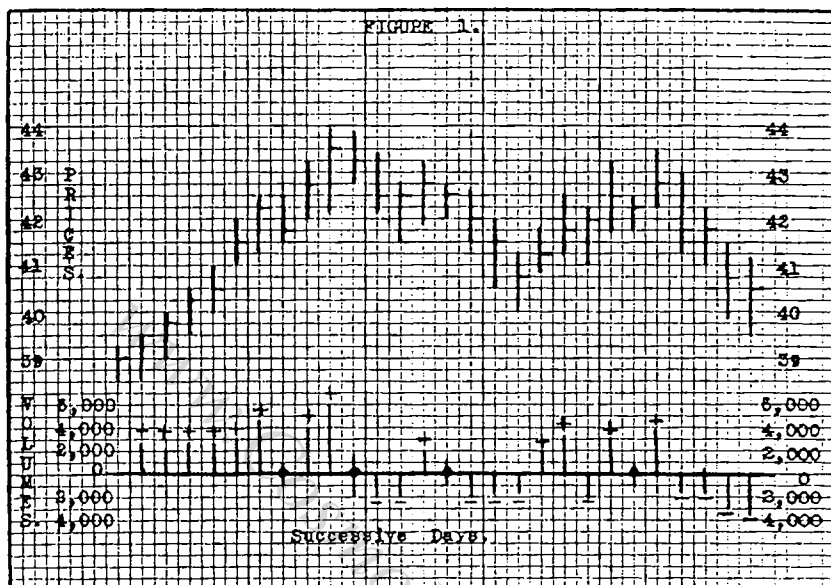
However, this data does not convey a complete picture of the nature of the forces involved. It is necessary to make certain calculations based upon these figures.

For the active speculator, the author has developed the following technique for recording stock price movements, which, although not scientifically accurate, has proven itself sufficiently accurate for every day use.

The method is shown in Figure 1.

As shown in Figure 1, the writer has found it useful to plot:

1. The daily high and low, and the closing price for each stock, as well as the corresponding daily volume. The vertical line joining the high and the low for each day constitutes the price bar.
2. To indicate, with the volume bar, the nature (plus, negative or neutral) of this volume. The latter is also known as the Mass.
3. To indicate that, when a given day's action provides a price bar, in which the high for the day is higher than that for the day preceding and the low for the day is the same, or



higher, than that for the day preceding, we have a plus bar; and, when a given day's action provides a price bar in which the low for the day is lower than that for the day preceding and the high for the day is the same, or lower, than that of the day preceding, we have a price bar of a negative nature; and, when a given day's action provides a price bar in which the high and the low for the day are within the confines of the high and the low of the preceding day, we have a neutral price bar.

The plus, minus and neutral signs indicate that the forces involved are plus, minus or neutral, respectively.

It should be noted that the time intervals, such as, one hour, one week, or one month, etc., may be used in place of the daily time interval, as desired.

CHAPTER II

Basic Calculated Factors and Helpful Concepts.

Using the data of the type shown herein, it is possible to think in terms of:

1. The Volume (Mass) of stock associated with each day's action.
2. The "Velocity" of the stock for each day.

The "Velocity" is the total range in price for the day and may be expressed in terms of points per day. It is equal to the length of the price-bar.

3. The "Momentum" for the day.

This is equal to the product of the mass times the "Velocity" and may be either positive or negative in nature. It may be expressed in terms of sh.pts/day or in any other equivalent units. It consists of the number of shares involved per day multiplied by the points moved per day. It is often important to know if the momentum is due mainly to the mass factor or to the velocity.

4. Kinetic Energy.

By "Kinetic Energy" is meant energy of motion. To the speculator, its interpretation is that "Velocity" begets "Velocity." It may be calculated by means of the formula: $K = \frac{1}{2}MV^2$, where:

M = the "Mass" involved and

V = the "Velocity" of the price movement.

5. Work Done.

“Work Done” is the product of the “Mass” times the distance moved. For present purposes, we use the length of the price-bar as the distance moved. The “Work Done” may be either positive or negative, depending upon whether the given day’s action is positive or negative. If the price does not change, no “Work” is done.

6. Acceleration.

“Acceleration” is the rate of change of velocity of the price movement with respect to each unit of time of one day. In principle, if a stock has moved from 40 to 42 on a given day, the “Velocity” is two units per day. If on the next day the stock moves from 42 to 45, the velocity for this day is considered to be 3 units. The latter is one unit more than 2 and the “Acceleration” is considered to be 1 unit. An increase in “Acceleration” denotes an increase in the “Force” acting upon the stock and is helpful in case of volatile stocks. It becomes an indicator of the approach of a reversal in trend. The unit of acceleration is points per day per day, or, dollars and cents per day per day.

This factor, while of significant usefulness for the professional trader, requires detailed data and calculations, and is not recommended for the individual trader, without suitable computers. See Chapter V for a more detailed discussion.

It should be noted that the numerical representation for acceleration may be

either positive or negative. When negative, it is referred to as "Deceleration."

7. Force.

"Force" is the product of the "Mass" times the "Acceleration." It should be noted that "Force is the product of the "Mass" times the "Acceleration," whereas, "Momentum" is the product of the "Mass" times the "Velocity." Also, "Work Done" is numerically equal to "Momentum" when the time interval is identical. However, the term "Work" expresses an amount of energy expended, independently of the time interval involved in passing from one price level to another. It is not directly related to the "Velocity."

For the present, it should suffice to emphasize that "Force" consists of "Acceleration" multiplied by the "Mass" associated with each corresponding value for Acceleration." Also, since "Force" consists of two factors, any change in the relative proportion of one with respect to the other, provides an indication of a corresponding change in the internal nature of the forces involved and thus serves to alert the speculator of a possible impending price reversal.

8. Power.

By "Power" is meant the rate of doing "Work." It is "Work" per unit of time. If there is no "Work" there is no "Power"; and there is no work if the price of the stock does not change. Energy is thus expended without producing work.

The purpose of obtaining numerical values for these factors is to have a basis for understanding the internal nature of the forces causing the price movements. These numerical values enable the speculator to quantitatively evaluate price movements in definite terms, to compare these values with those of similar movements of the past and, therefore, to determine their significance in the stock's price movement.

These values are not scientifically accurate, but experience has shown that they do have a cause and effect relation to stock price movements and are therefore useful to the individual trader, who is not in a position to base his calculations upon each sale, and to composite the values algebraically.

Helpful Concepts

In addition to these Basic Calculated Factors, the individual speculator may utilize the following concepts:

1. Critical Volume.
2. Consistent Move.
3. Limited Maximum Energy Level.
4. Reversal Point.

Critical Volume

By "Critical Volume" is meant an exceptionally high volume of stock changing hands per unit of time (in the present case, per day). This can readily be determined from the plotted data over a period of months or years. It is the number of shares transacted in a given day, which, by comparison with the stock's past action, is distinctly larger than the average number of shares transacted per day and, which volume in the past has signalized the top of a move (or bottom of a decline), or the approach of a top (or of a bottom), or the formation of a Consistent Move. This Critical

Volume is often three to ten times as high as the average daily volume of the stock in question.

The practical significance of the Critical Volume is that it alerts the speculator to the fact that an unusual expenditure of energy is now taking place, that a reversal point in the price trend may soon be approaching; and, that it provides the speculator with calculable data related to the internal condition of the forces involved, and therefore provides buying and selling opportunities.

Consistent Move

A "Consistent Move" is defined as a stock price movement consisting of at least three successive days of action, each of which, in an uptrend, represents a higher level of prices, as shown in the following figure, or, in a downtrend, represents a lower level of prices.

See: Figure 2.

The characteristics required for a Consistent Move are:

1. At least three successive advancing (Or declining) days.

An advancing day is one in which the high and the low are each higher than the corresponding points of the preceding day.

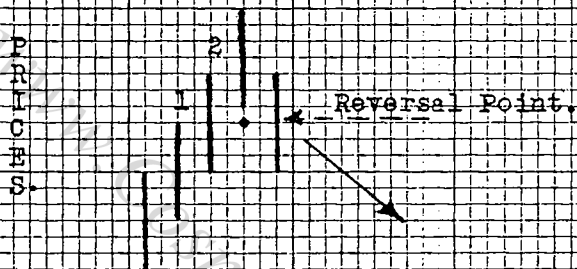
A declining day is one in which the high and the low are each lower than the corresponding points of the preceding day.

Also, in an upward move, if the low for the day is identical with the low of the preceding day, and the high for the day is higher than the high for the preceding day, we also have an advancing day.

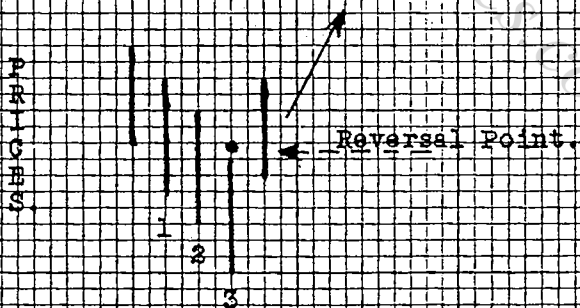
FIGURE 2.

CONSISTENT MOVE.

3.



Successive Days.



Similarly, in a downward move, if the high for the day is identical with the high of the preceding day, and the low for the day is lower than the low of the preceding day, we also have a declining day.

2. The closing prices are irrelevant.

The closing prices are not considered for the purpose of arriving at the conclusion of whether or not a consistent move is or is not established.

3. A consistent move may consist of any number of successive advancing or successive declining days, over and above three.

The basic significance of a consistent move is that it is a clear-cut expression of the nature of the energy expended over the interval of time represented by the move, and when considered in combination with the volume, or mass, associated with each day's price movement, as well as with the calculated factors, as momentum, velocity, work, etc., it furnishes the speculator with useful, relative, quantitative figures for comparison with similar movements in the past, and thus to detect the internal changes which are taking place in the stock's price movement, which, in turn, are used to detect reversals in the price trend.

The Use of the Consistent Move for Trading

The consistent move is the ideal move for trading purposes, since it does not usually require as detailedly an examination as is required for other types of moves.

Figure 3 shows, graphically, the basic data needed for the application of this move.

In the chart, days 1 to 4, inclusive, form a consistent move upward. Then, days 4 to 7, inclusive, form a

downward consistent move; days 7 to 10, inclusive, form an upward consistent move; days 10 to 14, inclusive, form a downward consistent move; days 14 to 20, inclusive, do not form a consistent move, but they do not interfere with the evaluation of the move; days 21 to 25, inclusive, form an upward consistent move, etc.

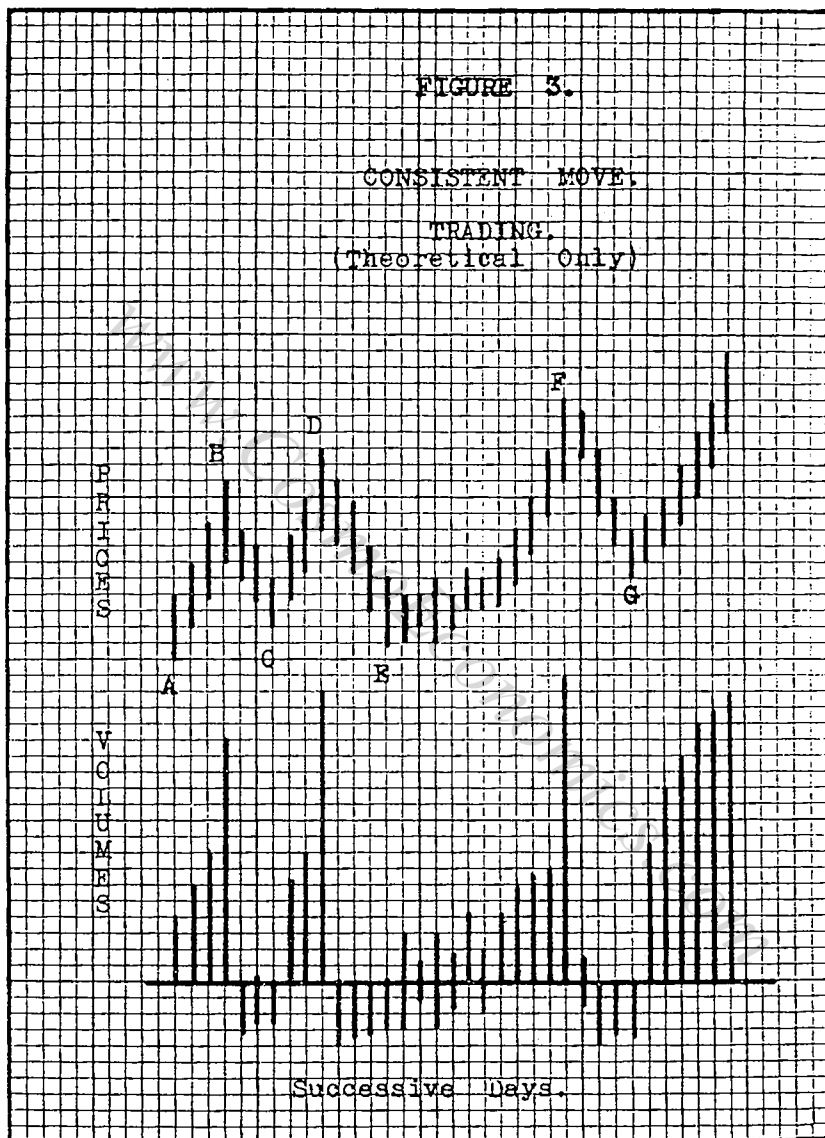
Thus,

1. Days one to four, inclusive, form a tertiary move.
2. Days four to seven, inclusive, form a downward tertiary move and thus form a tertiary unit. (A-B-C-).
3. The upward tertiary move, A-B, involves a higher energy output than the downward tertiary move, B-C.
4. The latter energy relations hold out for each successive tertiary unit (C-D-E, E-F-G.).
5. The daily factors:
 - (a) Volume (mass).
 - (b) Velocity.
 - (c) Work.
 - (d) Momentum.

show an increasing development as the upward move continues and a decreasing tendency as the downward move develops.

6. The reversal points are clear and definite.

These factors show that the consistent move is a meaningful formation. It represents a special type of energy expenditure—one in which the forces involved are expressible in quantitative terms, and in which the total, the maximum and the minimum energy involved per unit of time are shown.



It is important to note the energy relationships existing for the upward tertiary moves (A-B, C-D, E-F) and for the downward tertiary moves (B-C, D-E, F-G).

Although the present discussion is purely hypothetical, it serves to point out the method of approach used to detect the nature of the forces producing stock price movements and to provide a cause and effect technique for stock speculation. With an understanding of the preceding discussion we are in a better position to deal with realities in stock price movements.

See Chapter IV for actual applications.

Limited Maximum Energy Level

By "Limited Maximum Energy Level" is meant the concept that each stock can call forth only a limited amount of energy from its environment, over a given interval of time. This energy level is not an absolute quantity. It is a relative quantity, but it is recognizable, measurable and capable of characterization in terms of one or more of the following factors:

1. Mass.
2. Momentum.
3. Velocity
4. Work Done.
5. Power.
6. Acceleration.
7. Force
8. Consistent Move.

The "Maximum Energy Level" serves to establish reversal points, and, when combined with certain of the factors listed, provides a firmer basis for making decisions.

The author again wishes to point out that the methods used to calculate these factors are not scientifically accurate, and that, until a reasonably priced

computer is available for handling each sale, these methods are recommended for the individual speculator, since they correlate stock price movements and involve a minimum of routine work.

Reversal Point

By “Reversal Point” is meant an empirical point which serves to decide that a reversal in trend has taken place. The author submits a definition for “Reversal Point” as related to consistent moves only.

In a given stock price movement, which has already formed a consistent move, and which, by virtue of this move, or, by its immediate price action after this move, is characterized by the following:

1. Having associated with it a critical volume.
2. A high velocity or acceleration.
3. A high momentum.
4. Establishes a sale of one eighth or one quarter point below the low of the preceding day, which is part of an upward consistent move or a sale at one eighth or one quarter point above the high of the preceding day, which is part of a downward consistent move, we have the establishment of a “Reversal Point” at this break-thru point.

Other types of reversal points will be defined at appropriate opportunities.

For the professional trader, these factors and concepts mark only the beginning. Much more detailed analysis is advisable. Consequently, we are submitting additional techniques for determining the internal nature of stock price movements and of the forces involved in their formation.

Wyller Series

on

STOCK SPECULATION

VOLUME II

TRADING AND TRENDING

by

JOSEPH A. WYLLER

Consulting Chemist and Chemical Engineer
Registered Patent Attorney, Director of Research.
Member of the American Chemical Society. Formerly a Member of the Chemists' Club of New York City. Member of Honorary Fraternities: Phi Beta Kappa, Tau Beta Pi, and Sigma Xi.

Contents

	Page
Introduction.....	1
Chapter I—General Principles for Trading and Trending.....	5
Chapter II—Trading.....	41
Chapter III—Trending.....	59
Chapter IV—Interpretation of Geometrical Patterns and Combinations of Patterns.....	123
Chapter V—Special Techniques in Trading and Trending.....	175
Appendix—Sayings and Proverbs.....	211
Index.....	213 to 215

TRADING AND TRENDING

Introduction

The present volume of the “WYLER SERIES ON STOCK SPECULATION” is intended to provide a scientific basis for “Trading” and for “Trending”; and, also to provide additional groundwork for long pull speculation which, in turn, will be the subject of Volume III of this series.

This volume is addressed mainly to professional traders, investment managers and the like, and covers only that phase of speculation ordinarily referred to as the “Technical Condition of the Market.”

It is assumed that the speculator does not have access to computers, and for one reason or another, is not interested in detailed calculations as a basis for making his decisions. Consequently, this volume is devoted to graphical methods.

Also, Volume II will contain some repetition of the theory given in Volume I, and will also give more detail relating to the theoretical foundations, wherever it is thought advisable or necessary to convey a clearer understanding of the reasons for a given course of action.

As pointed out in Volume I, the price of a stock is not an accident. It is the result of supply and demand which, in turn, receive their impetus as a result of the decision-making processes taking place in the minds of human beings. In other words, the actions of buying and selling cause the changes in the price of a

stock; the price is pushed up, or it is pushed down, or maintained at a given level. Also, an application and an absorption of energy is involved in each transaction, even if the price does not change, and this energy is supplied by the activities of the minds of human beings. Consequently, to the author, the price at which a stock is selling, is not simply a number. It is a representation of an equilibrium existing, at any given instant, between the forces causing the stock price movement; and, as such, is subject to certain universal laws relating to natural forces based upon vibrational energy.

In other words, the number corresponding to the price of a stock indicates the level at which an equilibrium between the forces involved has been established, and since these forces originate in the minds of human beings, the number itself should be looked upon as the point of equilibrium of the many latent forces which determine the selling price of a stock.

Thus, the selling price of a stock is not a fixed, inert quantity. It represents a condition of flux determined by the activities taking place in the minds of human beings.

The task of the trader and of the trender is to detect, measure and interpret the sum of these various unknown forces. The author's methods for accomplishing this are based upon the cause and effect relationships underlying a stock's price movement. The further task is to determine and utilize the internal nature of and changes in the various attributes of the forces involved and to accomplish this in a timely manner.

For this purpose it is helpful to understand and apply such terms as:

Mass (^{Volume} <u>Velocity</u>)	Work Done
Velocity	Kinetic Energy
Momentum	Potential Energy
Acceleration	Inertia
Force	Impulse
Energy	
Power and Certain Derived Factors.	

With these as a basis, the speculator will be in a position to understand the internal nature of the tertiary and the secondary moves and units, per se, and also the cumulative and resultant force effects developed by the combining of the latter moves and units.

For the initial steps in this direction, the reader is referred to Volume I of this series.

Trading and trending should be based upon an understanding of the forces producing the tertiary moves, the tertiary units, the secondary moves and units and, to some extent, the primary moves and units. With this phenomena understood the speculator is in a position to detect and interpret the cumulative and resultant forces which underly the longer term price movements, and also to lay the foundations for longer term speculation.

Thus, it can be said, the proper study of long pull speculation begins with the interpretations of the tertiary, secondary and primary moves and units, per se, and involves for its application, the detection and interpretation of the resultant forces existing during and, as a result of, the primary moves, taken in succession and cumula-

tively. The latter is best accomplished by using the various derived factors discussed in Volume I.

These factors provide a more detailed insight into the various aspects of the forces involved than is possible by the use of graphs alone, although, with experience, the speculator can, by means of charts, readily visualize the approximate composite result of these factors.

As previously mentioned, the present volume is devoted mainly to graphical methods of analysis and applications, and the reader is referred to Volume I for the basic details covering the various derived factors and their theoretical significance. Also, it should be clear that the graphical methods have their limitations and that the use of the various derived factors in combination with the charts is recommended for the professional speculator.

The author wishes to emphasize that the methods used herein do not predict stock prices. They follow them. They follow them by observing and recording the cause and effect phenomena taking place as the price movement develops. The methods observe the effect and determine its cause. They record these in quantitative terms and compare the latter with those of similar phenomena having taken place in the past. Consequently, the methods provide a continuous picture of the internal nature of the forces causing stock price movements and are therefore able to detect and evaluate, promptly, any significant changes which may take place in this internal nature. The latter then serves to make proper decisions.

CHAPTER I

General Principles for Trading and Trending.

“Trading” and “Trending” are closely interwoven and are therefore, in this chapter, discussed simultaneously.

By “Trading” is meant making buying and selling commitments aimed at establishing profits primarily from the tertiary moves and secondarily from the secondary moves.

By “Trending” is meant making buying and selling commitments aimed at establishing profits primarily from the secondary moves and secondarily from the primary moves.

In performing either of these operations, it is necessary to maintain the proper attitude of mind, i.e., to accept the teachings of the action of the market itself. The task then becomes one of detecting, measuring and interpreting the internal forces causing stock price movements.

With this as a basis, there are three “Cardinal Principles” which must continuously be borne in mind. These are:

1. Buy only on the dips and sell only on the bulges.
2. Always go with the trend, never against.
3. Cut your losses short and let your profits run.

All other actions performed by the speculator must be held subservient to these three principles.

To the author, these “Cardinal Principles” are absolute “Musts.” They are the ultimate basis and represent the minimum criteria for all actions. They serve as a rudder in guiding the speculator thru an ocean of images, both true and false. However, these three principles are not, per se, sufficient to maintain the speculator on a true and successful course. The recognition and the interpretation of the many aspects of the forces involved in the price movements, and the application of specific procedures based upon these forces are necessary.

PRINCIPLE NO. 1

**Buy only on the dips and sell only
on the bulges.**

This principle, of course, does not mean that you should buy on every dip and sell on every bulge. It does mean, however, that when you sell, you should do so on a bulge; and when you buy, you should do so on a dip in the stock's price movement.

This principle is primarily applicable to trending, although it has its place in trading operations, per se. Also, its application is based upon the internal nature of the forces causing the price movement. In the present discussion, we are aiming to point out the nature of the forces and their corresponding price patterns which should be used as a basis for applying Principle No. 1.

It should be noted that the “New High-New Low Rule”: “Buy on a New High and Sell on a New Low” has an important place in the technique of a trader. However, this rule applies

only to a narrow area of the field of speculation, and there are specific technical conditions which are prerequisites for its application. The task of the speculator is to be prepared to use the "New High-New Low" technique when these technical conditions make their appearance. See: Chapter 5, entitled, "Special Techniques."

Since the application of the "New High-New Low Rule" involves much greater risks than does the application of Principle No. 1, the present discussion is confined to the application of the latter.

In order to apply Principle No. 1, it is necessary to have a clear idea as to what is meant by the terms: "Dip" and "Bulge."

By a "Dip" is meant a negative unit, or a specific portion thereof; and, by a "Bulge" is meant a positive unit, or a specific portion thereof; provided each unit is of such a nature to be classed as a tertiary, or a secondary, or a primary unit. In this manner, dips and bulges become "Tertiary Dips," "Tertiary Bulges," "Secondary Dips," "Secondary Bulges," etc.

Thus, Figure No. 1 illustrates what is meant by a "Dip" and by a "Bulge."

Figure 1, Chart (a) represents a dip in an uptrend.

BCD represents a negative unit, of depth d , in an uptrend.

It should be noted that CD is a particular segment of the move CE, which completes the unit BCE. The dip is represented by BCD.

FIGURE NO. 1.

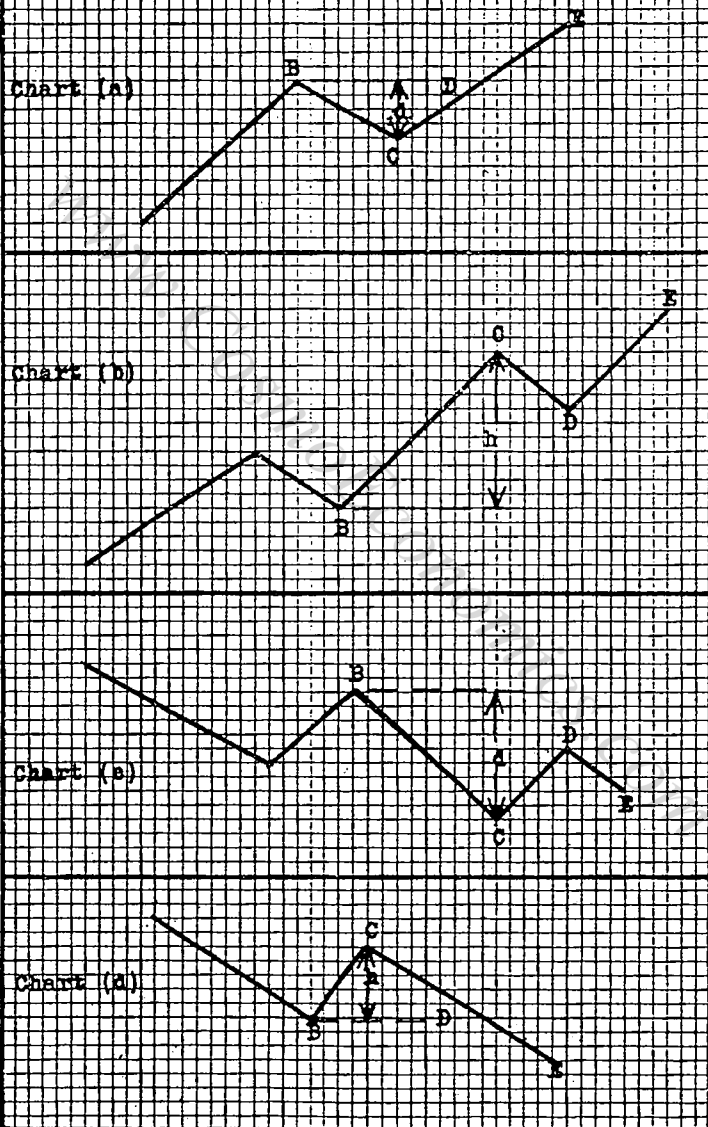


Figure 1, Chart (b) represents a bulge in an uptrend.

BCD represents a positive unit, of altitude h . BC is the whole positive move for the unit BCD. The bulge is represented by BCD.

Figure 1, Chart (c) represents a dip in a downtrend. BCD represents a negative unit, of depth d . BC is the whole negative move for the unit BCD. The dip is represented by BCD.

Figure 1, Chart (d) represents a bulge in a downtrend. BCD represents a positive unit, of altitude h . BC is the whole positive move for the unit BCD. CD is only a particular segment of CE. The bulge is shown by BCD.

If the dip BCD is a secondary unit, it is called a "Secondary Dip" and, similarly, we have a "Primary Dip."

In applying Principle No. 1 to trading and to trending, it is necessary to bear in mind that Principle No. 2, i.e., "Always go with the Trend, never Against." is to be applied simultaneously. In other words, as a general course of action, do not buy on a dip in a downtrend secondary move when the purpose is to trend. The risks are too great, since it can be shown statistically that a bulge which may be expected in a downtrend will rarely be of sufficient height to enable the speculator to extract a profit, after allowing for commissions, etc. It is statistically better policy to await the reversal of the downtrend before buying and to then buy on the dip in the ensuing uptrend.

Similarly, when trending, do not sell on the bulges in an uptrend secondary move, with the

objective of buying back at a lower price on the ensuing dip. It is more often the case that, when an uptrend secondary move is once under way, the price movement will proceed without the formation of worthwhile dips. This, of course, does not mean that new, original buys should not be made on the dips in an uptrend. It means that existing buys should not be disturbed until a reversal in the secondary trend is indicated and a new bulge has formed in the reversed price movement developing. The sale of the long stock is made on the bulge after the uptrend has been reversed. See Chapter 3.

However, there are occasions in an uptrend secondary move, when clear-cut, statistically favorable opportunities for trading within the move, present themselves. In such cases, the long stock may be sold on the bulge and repurchased on the ensuing dip. The technique for success in this type of trading is given in Chapter 5.

The principle, "Buy on a Dip and Sell on a Bulge," is a controlling one and its application should be thoroughly understood before attempting to apply it.

Principles No. 1 and No. 2 also apply to short selling, that is, when trending in a downward move, sell short on a bulge, but do not cover on the ensuing dip for the specific purpose of again selling short on the ensuing bulge. Stay with the trend, remain short and await the next uptrend before covering the trending short. The latter should be carried out on the dip after the uptrend has been established.

There are, however, occasions when trading

short sales can profitably be made on a bulge in a downtrend secondary move and covered on the ensuing dip. See Chapter 5.

In Figure 2, we have a representation of a primary move AB , consisting of two secondary units plus a positive secondary move. Thus, we have two secondary units, AB^1A^1 and $A^1B^2A^2$, and a secondary move A^2B . The figure also shows a number of tertiary units superimposed upon secondary moves.

A purpose of Figure 2 is to show the nature of the risks involved, if the speculator attempts to extract profits out of individual dips in an uptrend, or, out of the individual bulges in a downtrend, by selling on a bulge in an uptrend secondary move with the objective of buying back on the ensuing dip in this move, or, by buying during a downtrend secondary move, with the objective of selling this same stock on the ensuing bulge in this downtrend. It should be apparent that the risks are greater than normal.

In Figure 2, we have:

AB is a positive primary move. It is also a portion of a primary bulge.

AB^1 and A^1B^2 are positive secondary moves and each is a part of a secondary bulge in an uptrend.

B^1A^1 and B^2A^2 are negative secondary moves and each is a part of a secondary dip in an uptrend.

AB^1A^1 and $A^1B^2A^2$ are positive secondary units in an uptrend primary move.

A^2B is a positive secondary move, serving as an extension of the primary move.

VH is the altitude of the primary move AB and of the primary unit which eventually forms.

Vh is the altitude of the secondary move AB^1 and therefore of the secondary unit AB^1A^1 .

Vd is the vertical depth of the negative secondary move B^1A^1 .

As illustrations of the reversal points for secondary moves, we have the secondary trend reversal from B^2 and the secondary trend reversal from A^2 .

At B^2 we have the highest point of the secondary move A^1B^2 and the beginning of the development of the negative tertiary move B^2a^2 , followed by the positive tertiary move a^2b^2 ; and the latter, followed by the negative tertiary move, b^2c^2 , which turns out to be a trend reversal indicator as it passes thru the level of a^2 (a^2s) and thus transforms $a^2b^2c^2$ into a transition unit and converts the tertiary move B^2a^2 from a negative move in an uptrend to a negative move in a downtrend. a^2b^2 becomes a positive tertiary move in a downtrend, completes the negative tertiary unit $B^2a^2b^2$ and also develops the first dip in the new trend (downward); with the transition indicator move b^2c^2 forming the first leg of the next dip.

At A^2 we have the lowest point of the secondary move B^2A^2 and the beginning of the development of the positive secondary move A^2B .

Thus, we have the development of the positive tertiary move A^2h^2 , followed by the negative tertiary move h^2i^2 and the positive tertiary move i^2j^2 , etc.

As move i^2j^2 passes thru the level of h^2 , (h^2s^2), it becomes a trend reversal indicator and thus transforms the tertiary unit $A^2h^2i^2$ into a transition unit and converts the tertiary move A^2h^2 from a positive move in a downtrend into a positive move in an uptrend, and also provides the basis for the decision that a reversal in trend is now established.

The negative secondary move B^2A^2 is now at an end and a positive move from point A^2 is now under way.

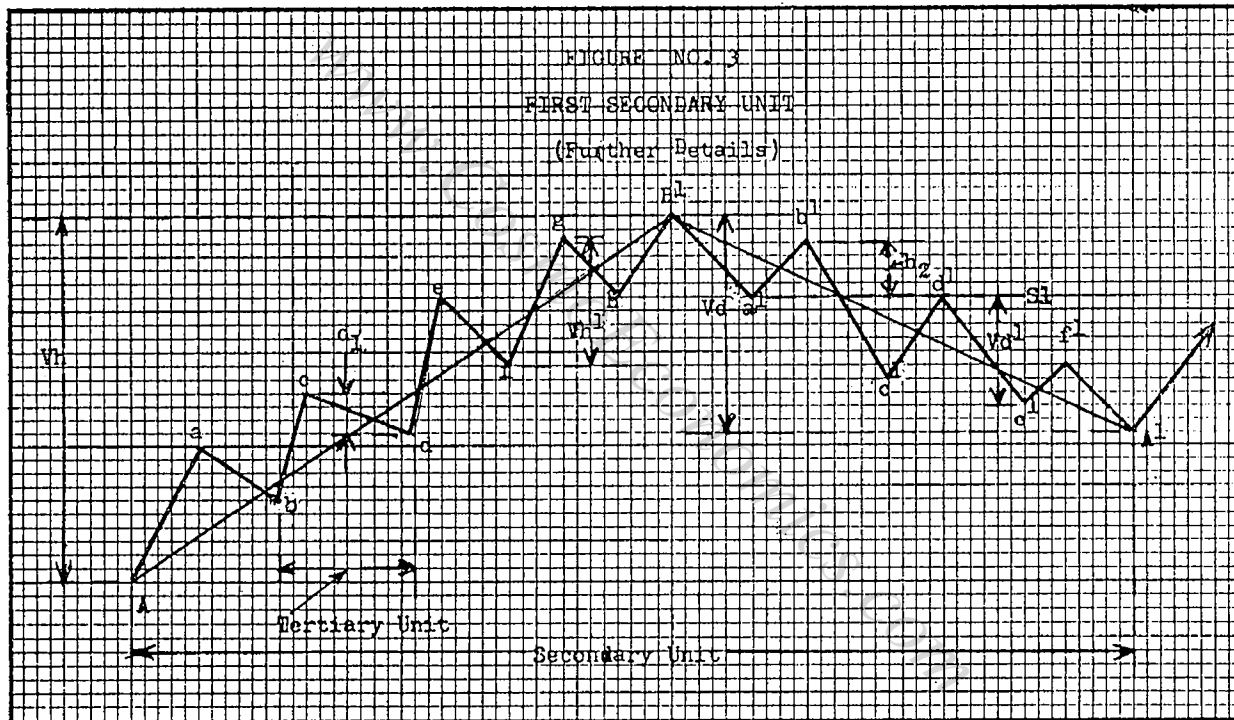
Figure 3 is given to present the secondary unit AB^1A^1 of Figure 2 in clearer detail. Thus, we have the following tertiary units:

Aab
bcd
def and
fgh

in succession, plus the positive tertiary move hB^1 , forming the secondary move AB^1 .

We have a similar situation on the negative secondary move B^1A^1 .

On the positive move AB^1 we have a series of bulges and dips in which the depths of the dips are distinctly less than the altitudes of the bulges (d_1 as compared to Vh^1); and, on the negative move B^1A^1 the altitudes of the bulges are distinctively less than the depths of the dips (h_2 as compared to Vd^1).



Returning to Figure 2, we have the secondary unit, $A^1B^2A^2$, as illustrating the method used by the trender for deciding when a given secondary move is to be considered as reversing the direction of the preceding secondary move.

B^2A^2 , of Figure 2, is the secondary move now under consideration. Thus, the dip $B^2a^2b^2$, as formed, is considered to be a dip in an uptrend move, A^1B^2 . The negative tertiary move b^2C^2 passes thru the level of a^2 and, therefore, becomes a trend reversal indicator. Its effect is that $a^2b^2c^2$ becomes a transition unit and converts the unit $B^2a^2b^2$ to a dip in a downtrend. The move b^2c^2 becomes the negative move of the ensuing dip in the downtrend.

Similarly, considering the positive secondary move A^2B (Fig. 2.) in the same manner as B^2A^2 , the tertiary bulge $A^2h^2i^2$ becomes a positive unit (a bulge) in an uptrend move as soon as i^2j^2 passes upwardly thru the level of h^2 (h^2s^2) and becomes a transition indicator move. It thus leads to the conclusion that the negative secondary move is now reversed and a positive secondary move is now under way.

A speculator participating in a secondary move (Fig. 3.), from A to B^1 , selling near the apex of any tertiary unit, such as bcd , with the expectation of buying back at a profit, near the bottom of cd , would have to have a dip of a depth of at least equal to the commissions plus taxes, etc. A statistical study of this type of procedure will usually show that it is unprofitable, unless the tertiary move just before the dip meets certain requirements as to critical volume, velocity, momentum, etc.

The same type of observations apply to the negative secondary moves and, therefore, the policy of covering shorts on the tertiary dips with the objective of selling short again on the ensuing bulge, is not a sound one, except where the tertiary dip just before a given bulge meets certain requirements as to the factors listed immediately preceding.

This type of trading will be discussed at an appropriate place in this volume.

In buying on the dip in an uptrend, it is important to distinguish between trading and trending, bearing in mind that trading is concerned mainly with the tertiary move and only secondarily with the secondary. Consequently, it is necessary to understand the internal nature of each tertiary move under consideration, its bearing upon the dip or the bulge of which it is a part and the nature (up or down) of the secondary move in which the dip or the bulge are participating.

For this purpose, it will be found helpful to understand the various types of dips and bulges with which we are concerned. Thus, we have:

Type 1. Dip in an uptrend.

Type 2. Dip in a downtrend.

Type 3. Dip in a trading range.

and the following types of bulges:

Type 1. Bulge in an uptrend.

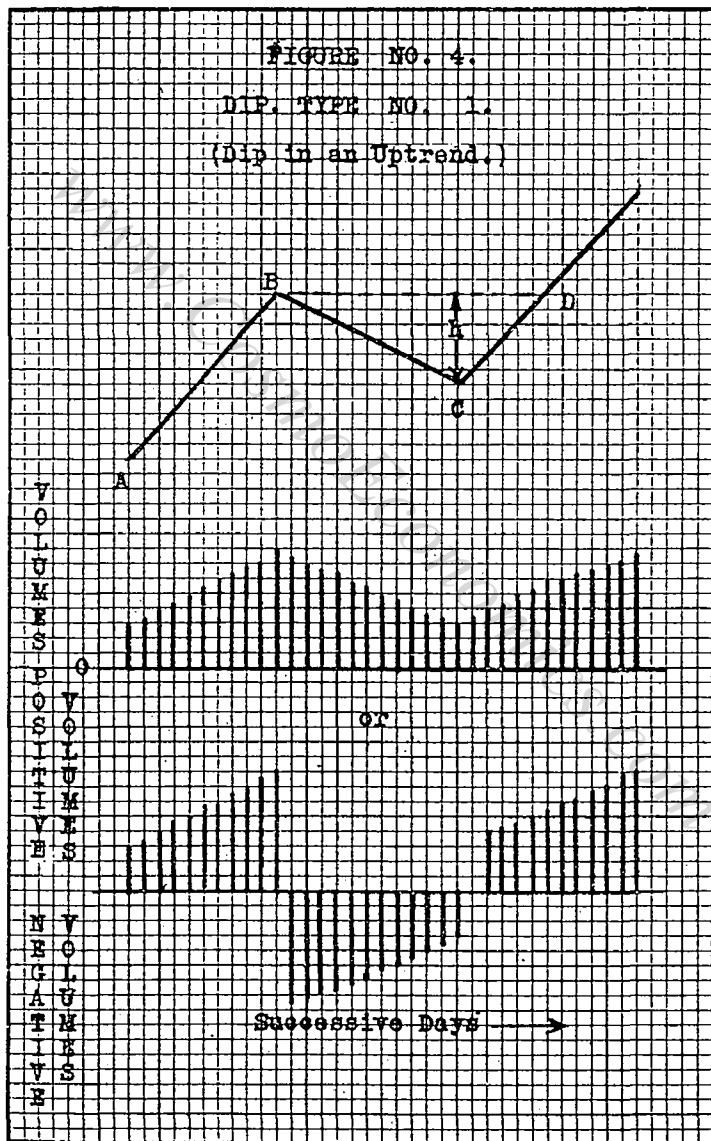
Type 2. Bulge in a downtrend.

Type 3. Bulge in a trading range.

DIP. TYPE NO. 1

(Dip in an Uptrend)

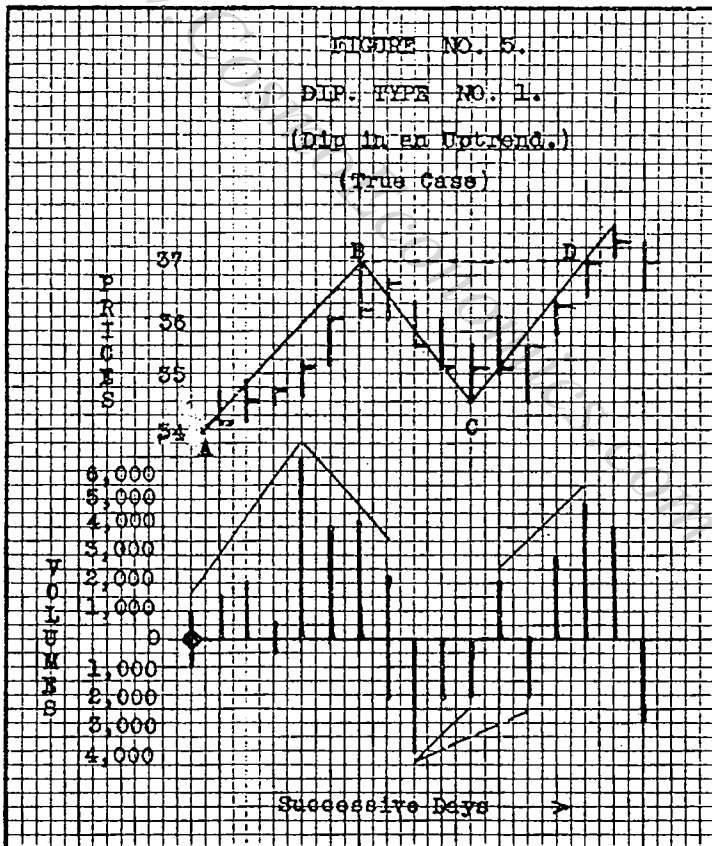
This type of a dip is shown in Figures 4 and 5.



The dip, itself, is represented by BCD.

Its important characteristics are:

1. The nature of the forces producing the positive tertiary move AB.
2. The nature of the forces producing the negative move BC.
3. The depth, h, of the latter.
4. The nature of the forces which actually produce the reversal point, at C, in the price trend.



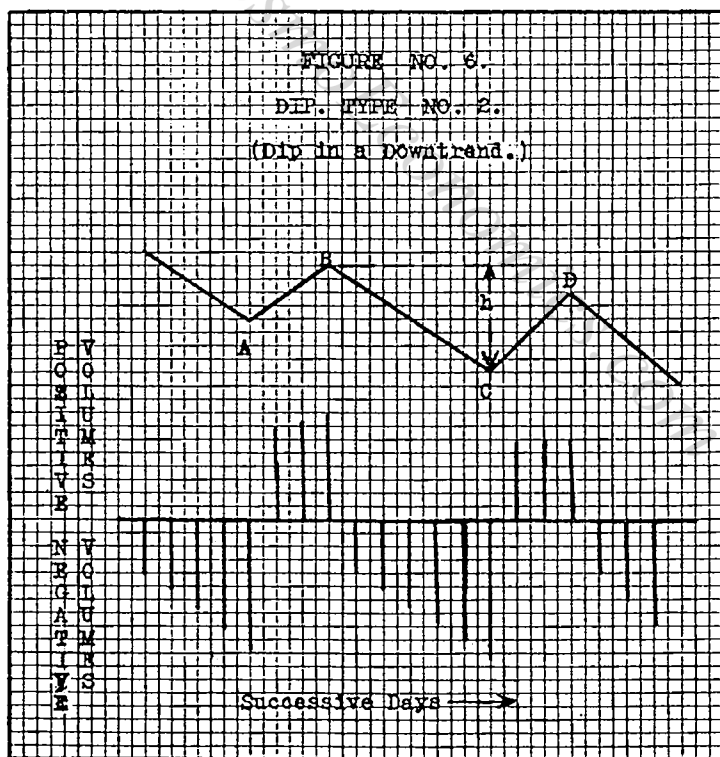
5. The nature of the forces immediately after the reversal point has been established.
6. Whether the tertiary unit, BCD, displays selling forces which become weaker as the tertiary move BC develops and stronger as the buying forces develop the move CD.

See Chapter 2 for a more detailed discussion.

DIP TYPE 2

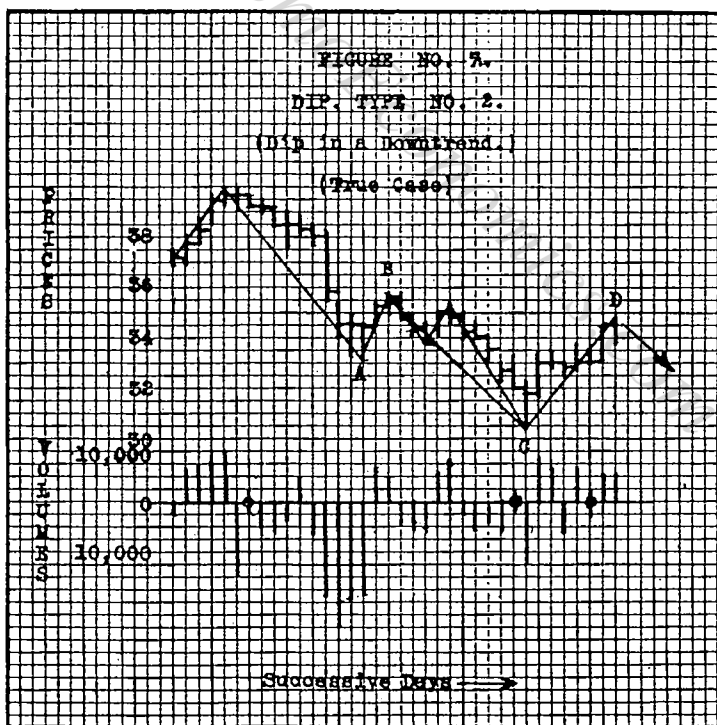
(Dip in a Downtrend)

This type of a dip is shown in Figures 6 and 7.



The dip, itself, is represented by BCD and its important characteristics are:

1. The nature of the forces producing the positive move AB.
2. The nature of the forces producing the negative move BC.
3. The depth, h, of the latter.
4. The nature of the forces which produce the reversal point at C.
5. The nature of the forces immediately after the reversal point has been established.



6. Whether the negative move approaching A displays selling forces of increasing magnitude, as A is approached; whether the bulge AB displays buying forces of less energy than those displayed by the negative move as it approached A, and whether the move BC displays an increase in energy consumption as it approaches the low point C.
7. Whether the positive move upward from C is taking place on low energy.

See Chapter 2 for more detailed discussions.

DIP TYPE 3

(Dip in a Trading Range)

This type of a dip is shown in Figures 8, 9 and 10.

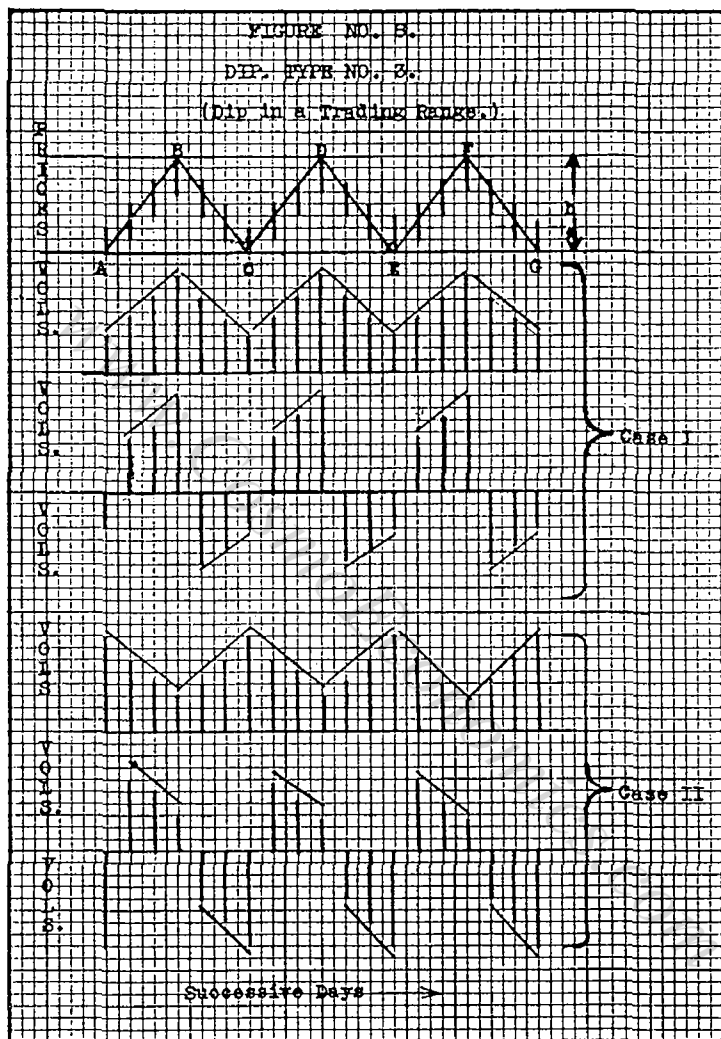
The important characteristics to note are:

1. The nature of the forces producing the positive tertiary moves AB, CD and EF; and of those producing the negative tertiary moves BC, DE and FG.

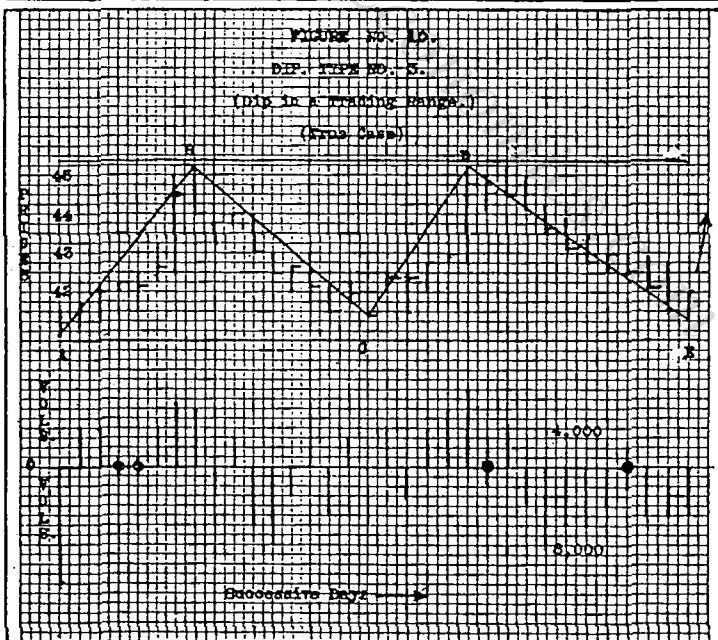
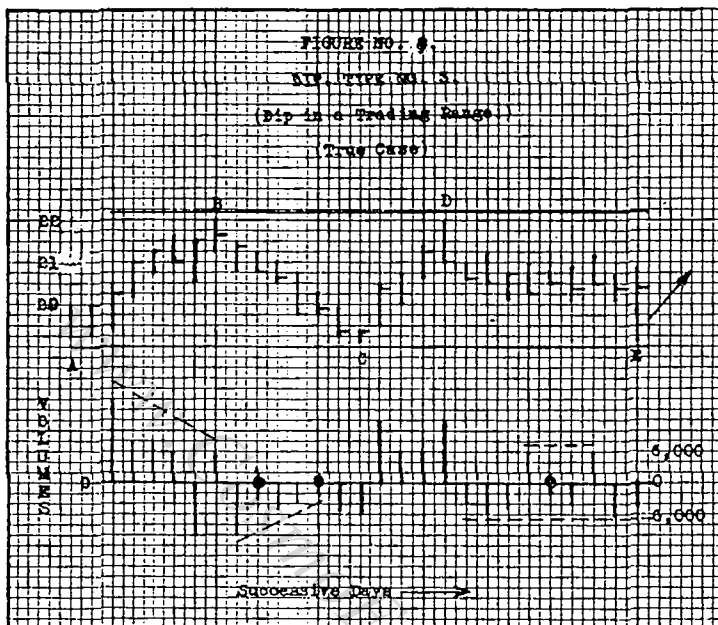
It should be noted that the nature of the forces of Case 1 is the reverse of that for Case 2.

2. The altitude h.
3. The nature of the forces at the reversal areas.
4. The relation of the trading range to the price movement immediately preceding and its effect upon the price movement immediately following.

See Chapter 2 for more detailed discussions.



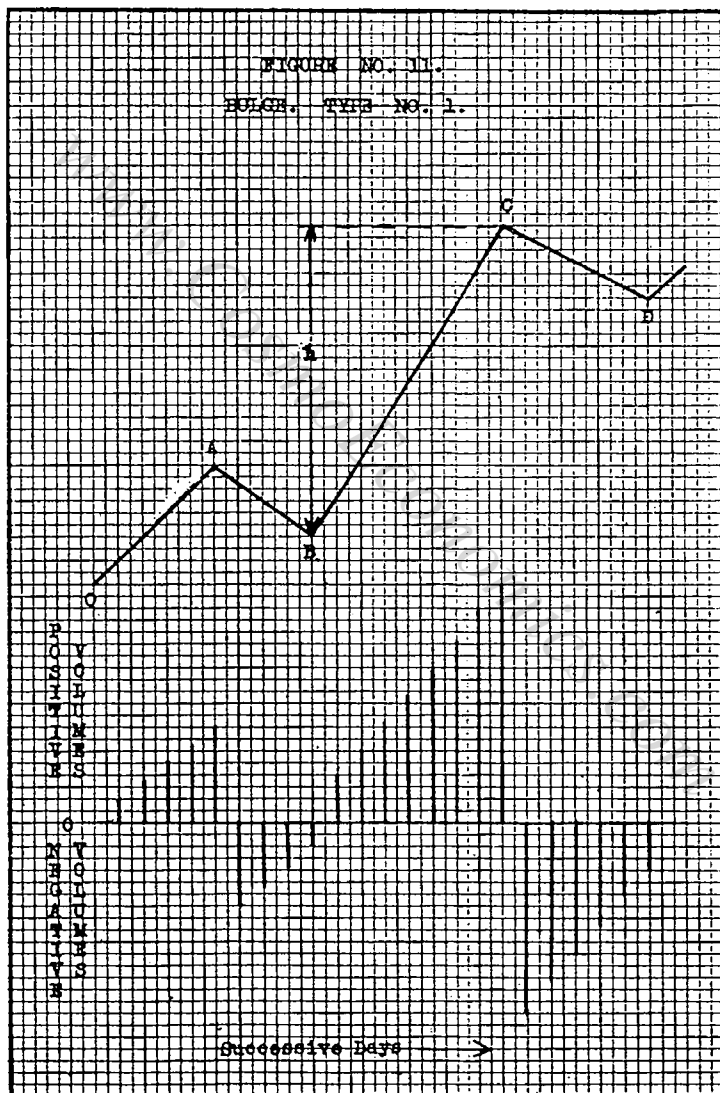
The purpose of the cases shown in Figure 8 is to point out various types of mass characteristics which may be expected to manifest themselves during the formation of the several units of a trading range.



BULGE TYPE 1

(Bulge in an Uptrend)

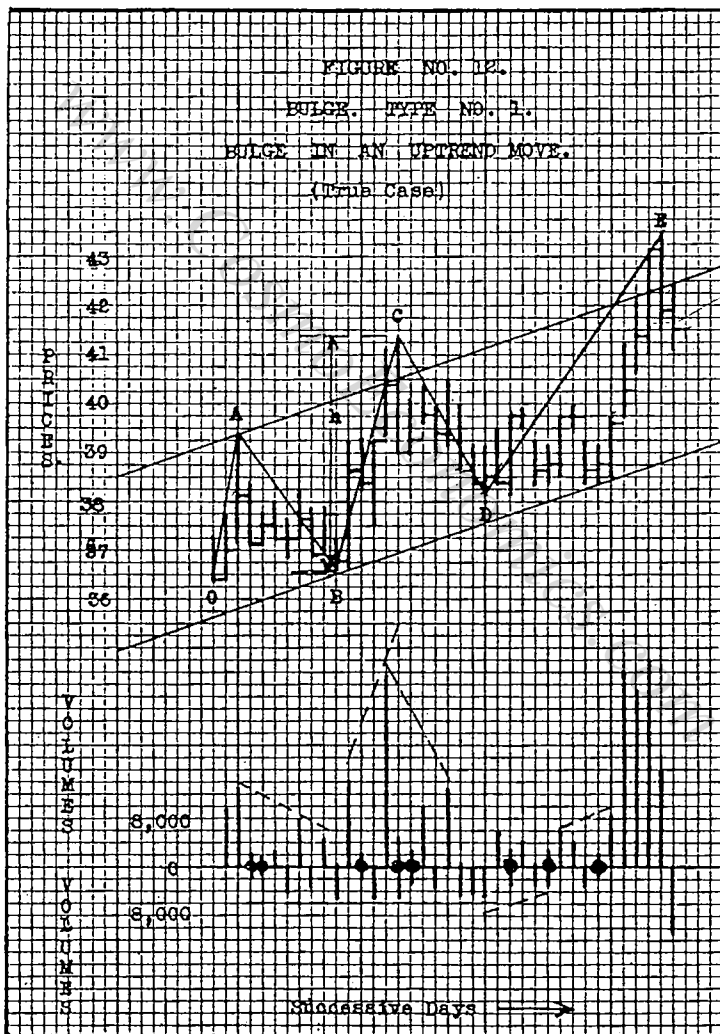
This type of a bulge is shown in Figures 11 and 12.



The bulge under consideration in Figure 11 is represented by BCD.

The important characteristics to note are:

1. The nature of the forces producing OA.



2. The nature of the forces producing the negative tertiary move AB.
3. The nature of the forces producing the positive move BC.
4. The altitude h .

The bulge under consideration in Figure 12 is represented by BCD.

The important characteristics to note are:

1. The nature of the forces producing OA.
2. The nature of the forces producing the negative tertiary move AB.
3. The nature of the forces producing the positive move BC and the negative move CD, etc.
4. The altitude h .

See Chapter 2 for more details.

BULGE TYPE 2

(Bulge in a Downtrend)

This type of a bulge is shown in Figure 13 and is represented by ABC.

The important characteristics are:

1. The nature of the forces producing the negative move OA.
2. The nature of the forces producing the positive move AB.
3. The nature of the forces producing the negative move BC.

- See Chapter 2 for a more detailed discussion of bulges in general.



BULGE TYPE 2

(*Bulge in a Downtrend*)

(*Actual Case*)

This type of a bulge is shown in Figure 14 and is represented by BCD.

The important characteristics are:

1. The nature of the forces producing the move AB.

