

# HOW TO TRADE LIKE W.D. GANN

## PART II

*ADVANCED LESSONS IN GANN'S  
MECHANICAL TRADING SYSTEM*

*VOLUME 1 – TEXT*

BY

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*COSMOLOGICAL ECONOMICS*

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## PREFACE

Everybody wants to FORECAST like W.D. Gann, but how many say they would like to be able to TRADE as he did? This book is aimed at those for whom making money is the primary objective of their trading. It was always a course on swing trading that Gann sold first to new students, for if the basis of profitability is there, more advanced techniques can be layered over the top.

I believe that some of the greatest gems of Gann's work are hidden in his trading examples. Here we see the mind of the man at work, analysing charts, saying where to buy and sell and place stop loss orders. We can begin to see the charts as he saw them. For even though he has simplified his trading methods so that ordinary men and women could apply them, they come from his own trading style, and he clearly stated that he used the methods in his own trading.

For those who study his writings carefully, there can be little doubt that Gann was a master trader. He was an expert form reader and tape reader, and used all sorts of techniques, such as geometrical angles, various number squares, astrology and so on to pinpoint trading opportunities. And then he knew what to do to turn that analysis into a profit.

Having achieved individual success during his early years in Wall Street, Gann then devoted his energies to building up an advisory business. He knew that the markets were a game wherein those with knowledge took money from those without it. As a result, he tried to spread knowledge about the markets and how they worked.

He knew that the average man or woman had neither the time nor the inclination to do the sort of work that he had done, so he worked for many years developing a system which was straightforward enough for any person willing to put in enough work to be able to master it. This was his 'mechanical method', and as the name suggests, it endeavoured to take the emotional factor out of trading and replace it with mathematical rules.

There are reports of Gann teaching a trading system as early as 1910, and he probably taught it to groups of students over the years. By 1930, he had developed it to the point of being able to put the rules down on paper, so that someone could study the method at home. The rules cover only a few pages, with the bulk of the lesson showing examples of how to apply the system on US Steel, which at the time was the largest stock on the New York Stock Exchange. He taught this method in classes, and continued to develop it.

Gann developed an improved version of the system for stocks in 1933, and published it in *New Stock Trend Detector* in 1936, along with a set of example trades on Chrysler Motors. In his next book, *How to Make Profits in Commodities*, published around the beginning of 1942, there is no discussion of a trading plan as such, but there is a set of trades on Soybeans covering 1940/41.

It wasn't until 1946 that a complete version of the method for trading commodities saw the light of day, and this was the most complete set of rules that Gann produced. The trading examples also take on a different flavour. Sometimes they are used to illustrate specific rules, such as the rules for determining a change in trend. And the explanations cover a wider scope.

Around 1949 and 1950, Gann published another updated version of the method, this time using the 2-Day Swing Chart. There is one lesson on Eggs and another on Soy Beans, and they appear to be techniques that he had worked to develop around that time.

Finally, in May 1954, barely a year before his death, Gann brought out two lessons for beginners, titled *Speculation, A Profitable Profession*. One was for stocks and the other for commodities. The lesson on stocks does give a trading example, but it is not included here, as the lesson on commodities (Soy Beans and Rye) is more detailed.

In summary, these are the lessons covered in this book:

- Chrysler Motors, 1925–1935
- Soy Beans, 1940–1941
- Rye, 1946 and 1925
- Cotton, 1946
- Eggs, 1949
- Soy Beans, 1950
- Rye 1951–1954
- Soy Beans, 1954

Hence, in this book, we will cover all of Gann's lessons on his mechanical trading method published after the one on US Steel that was the subject of the previous book. It is not essential to have read the earlier book, for this one is written to stand on its own. But by tackling the lessons in more-or-less chronological order, it is hoped that readers will be able to trace the evolution of Gann's own thinking over time.

In the first volume, a copy of Gann's original lesson was enclosed, so as to make the book stand on its own. This book similarly contains all the originals. However, I have not separated the trade results as I did last time. Sometimes Gann gives the results, and these have been left in the lessons as he wrote them.

Ultimately, any trader who is seriously interested in understanding how Gann traded would want to own a copy of all his books and courses. For those who have them already, these are the sources of the lessons covered here:

- *New Stock Trend Detector* (Chapter 1–3)
- *How to Make Profits in Commodities* (Chapter 4)
- *Commodities Course* (Chapter 5–9)

In any endeavour, one needs to walk first, before trying to run. Trading is no different. Gann put a lot of effort into teaching a system to students which would enable them to be consistently profitable. These were the entry-level lessons that he sold to prospective students. His idea was clearly that they should become profitable traders first, and then learn more advanced techniques later.

Even when discussing basic swing trading rules, Gann could not help communicating how he was reading the chart. If he says, 'buy here', or 'sell there', with no explanation, he drives the student (us) to ask why. We must assume – if we are to get any value out of his lessons at all – that he intended every trade he indicated to be tradeable *on the rules given*, i.e. without any more advanced techniques.

Chart reading was an integral part of Gann's style of trading. There are many examples of trades on US Steel which can only be understood by studying the position of the market as shown by the chart at that time. You will find many more in this book, beginning with the very first trade in Chapter 1.

Like the previous volume, I have worked through Gann's lessons in a linear fashion, beginning and the first page and continuing to the end. I've done it this way because that's how I always start, and it seems to me that readers will do the same thing, at least at first. This I call the analytical approach.

However, it then needs to be followed by a process of synthesis. Some of Gann's lessons, such as the discussion on Soy Beans in *How to Make Profits in Commodities* or the 1950 lesson on trading Soy Beans using the 2-day swing chart, jump all over the place. In some cases, it appears as though Gann wrote different parts of the lesson at different times, and then they were all bundled together for publication with no thought of logical order.

Also, I am sure that readers will find, as I have done, that an example of something Gann does on Soy Beans in 1950 will suddenly make clear something else that he did on Chrysler Motors in 1935. Or it will bring back something that you read in one of his other courses or books. In short, multiple passes through this material will generate the best results.

I have tried, to the extent that I can, to keep my own personality out of the commentary. Of course, this is unavoidable, but my aim is to lay out what Gann has done for the reader, without too much of 'I prefer to do it like this'. For this reason, the focus is on the examples that Gann wrote, rather than their application in current markets.

I also hope that I have pitched the book at the appropriate level. I am aware that there may be some readers who will have been studying Gann longer than I have, while others will be new to his work and may even be new to trading. I hope that I have managed neither to patronise the former by stating the obvious in excruciating detail, nor to leave the latter in mystery by leaving out a necessary explanation. For myself, I believe that it never hurts to revise the basics.

The purpose, then, of this book is to set before readers the way that Gann taught his own students to trade. Back in the day, Gann offered personal instruction on these courses, and for those studying by correspondence, he did his best to provide charts. These are not always available nowadays, but even where they are, they are often too vague or unclear to be of real assistance to those seeking to understand exactly what Gann was doing.

Here you will find charts illustrating every trade, showing (where they are stated) the buying and selling points. The context of every trade is shown too, as Gann frequently made reference to resistance levels in previous years. This has required the compiling of an enormous data set, covering many years in several different markets.

This work has not been my own. I have had the help of Trevor Bird, an indefatigable researcher, who not only enjoys the challenge of searching for old price data, but also has a desire for accuracy that leads him to check and double check the results and to find explanations for any discrepancies. He has collected the data for all the charts in this book.

I have endeavoured to make the charts detailed and clear. For most readers, they should be sufficient to understand all the trades that Gann discusses. At the same time, I know that some readers would appreciate having the data for themselves, so that they can make up the charts and work on them. I have therefore asked Trevor to put together a package for the markets that are

covered in these lessons. It is offered at a reasonable price for readers of this book, and you can find it at [www.auldtymadata.com](http://www.auldtymadata.com).

This data set contains the specific periods that Gann covers in each lesson. Longer ranges of data are also available for earnest researchers. However, it is entirely up to you whether you want to buy the historical data; the book contains the charts already.

In making up charts of historical markets, at times we encounter unusual problems. Until the early 1950s, most markets traded on Saturdays. Since no modern market has been open on Saturdays since that time, software programs may lack the ability to do things like creating a weekly chart that runs from Monday to Saturday.

I am grateful to Mathew Verdouw of Optuma, who responded instantly to my request for an alteration in the way that weekly charts are created. All the charts in the book are created on Optuma.

This book, like my last one, is published by the Institute of Cosmological Economics. I thank Brad Stewart for his enthusiasm and willingness to publish my work. There will be a discussion forum to which all readers will be invited, where both the material in Gann's lessons and their application to current markets can be discussed. My own experience with Gann's lessons is that every time I study them, I learn something new. I fully expect that many of you will have the same experience, and hope that we will be able to exchange our views and learn a lot more.

Finally, my appreciation goes to Jon Kirk and all our clients at *Inspired by Gann*. I have known Jon for more than 12 years, and he is the best 'Gann trader' I have met. We have presented several seminars together showing how we apply Gann's methods to the markets, and we each produce a weekly newsletter. Check us out at [www.inspiredbygann.com](http://www.inspiredbygann.com).

It is my hope that this book will make a contribution to a greater understanding of the work of W.D. Gann, and help to spread his reputation as a trader who saw that markets were governed by mathematical principles, and that these can be understood and applied as profitably today (perhaps more so) as they were when they were written.

Timothy Walker  
Chiang Rai, Thailand  
20 September 2021

# **Part One**

# **Chrysler Motors**



## Introduction

Gann's first written version of his mechanical method was completed in about June 1930. I surmise that he wrote it to coincide with the publication of *Wall Street Stock Selector*, so as to have a course to teach students who approached him after reading the book, although it is only his Forecasting course that he advertises in the Afterword to the book<sup>1</sup>. As detailed in my previous book, the lesson on US Steel that illustrates the method appears to have been updated on a few occasions, until it ends abruptly in early March 1931.

It seems that Gann ceased working on the original method after that point, and instead developed new rules. In *New Stock Trend Detector*, published in early 1936, he wrote:<sup>2</sup>

*Several years ago I originated a practical trading method and since 1932 have made some important improvements which I have tested in my actual trading.*

A Promotional Brochure written around the same time states:<sup>3</sup>

*W.D. Gann has devoted over 35 years to study and research and has spent over \$300,000 to develop a dependable method based on mathematical science that will determine the trend of stocks and commodities.*

To put it bluntly, Gann put his money where his mouth was.

In a promotional brochure which Gann issued in 1954, there is a testimonial from a Certified Public Accountant identified by his initials S.J.M.:<sup>4</sup>

*I bought the Method in 1930 and am using it with good results myself. I have bought and examined the new and improved Method and consider it about 100% better than your Method was in 1930.*

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1 *Wall Street Stock Selector*, Supplement, p. 39

2 *New Stock Trend Detector*, p. 88

3 *Scientific Stock Forecasting or Large Profits on Small Risks* [1936 Brochure], p. 1

4 *Why Money is Lost on Commodities and Stocks and How to Make Profits* [1954 Brochure], p. 10

It therefore seems probable that the *Chrysler Motors* method is the direct descendent of the *US Steel* method (to name the versions according to the stock used to illustrate them). Readers might therefore benefit from comparing the two, and we shall begin by looking at the two sets of rules to see where they differ. This comparison is not essential, however, for both lessons stand on their own.

The dust jacket for *New Stock Trend Detector* advertises ‘A Practical Trading Method, with Trades made in Chrysler for ten years past, which has been sold for \$500 to \$1,000.’ To give an idea of value, \$1,000 in 1936 would be worth around \$19,000 in 2021. By 1936 Gann had decided to give it away, including it as a chapter in the book, which sold for \$3.<sup>5</sup>

While this does indicate Gann’s generosity in trying to give the best of his work to help people be profitable in the markets, it also raises the possibility that what he revealed in the book may not be the sum total of what he taught in private instruction. As you will see when we get into the lesson, there is no mention of a swing chart at all in *Chrysler Motors*. All the trades are said to be based on the weekly bar chart. Yet there are many examples where Gann cannot have been using the bar chart to trail his stops, and must have been using a swing chart instead. Hence, we shall have to widen our thinking a little as we go through his trades.

All this preamble is to show that Gann took seriously the task of teaching people how to make money, that he used the methods himself to prove that they worked, and that he wanted students to be profitable first and then to learn his forecasting techniques second. Indeed, in Chapter 9 we will see a beautiful example of a trade that apparently uses only support and resistance, but which a different lesson reveals to have been based on geometrical angles, master charts and planetary positions. The latter supplements the former, but the basics must be mastered first.

## The Rules

The *US Steel* lesson contains 9 rules; that on *Chrysler Motors* has 7. There are many similarities between them, but also some important differences, so we will consider them by topic:

### Capital Required

Both methods suggest a capital of \$3,000 to trade 100 shares, never risking more than 10% of the capital on any one trade, which is equivalent to \$300 or 3 points (dollars) on a stock. Many stocks trade at similar levels today as stocks did in the 1930s, since stocks are usually split when the price gets over \$100. Therefore, these guidelines would work well today in many cases. But note that some stocks are not – in 2021 Amazon is trading around \$3,500 a share, and Alphabet (Google) at \$2,400. If you wanted to trade such stocks, you would need more capital.

In connection with Gann’s rule to never risk more than 3 points or 10% on any one trade, it is important to note that this does not mean placing a stop loss order 3 points behind a swing top or bottom. In the early trades, at least, Gann places his stop 3 points away from his entry price, which might not even be behind the swing top or bottom. For volatile stocks trading at high prices, a wider stop would be necessary. To illustrate, Apple is currently (May 2021) trading around \$130 a share. But the range of the average bar is \$2.50, or 2½ points, in size. This might cause the stop to be too close and be easily hit.

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5 1936 Brochure, op. cit., p. 14

Therefore, in calculating the starting capital required, you need to take into account the price level of the stock you wish to trade, as well as its volatility, or average daily range. It may well be that more capital is required than Gann suggests.

As capital increases, the trading size may also be increased. This is one of the keys to the returns which Gann demonstrates in his trading examples.

## Stop Loss Orders

In Rule 2 on *Chrysler Motors*, Gann spells out the placement of stop loss orders: 'let these orders be 1, 2 or 3 points away from the price at which you buy or sell.' There are some variations of where stops should be placed. At double tops and bottoms the stop should go 1 point beyond the top or bottom level, rather than 3 points from the entry price.

If there is a prolonged advance (which might suggest an impending change in trend), the stop may be moved 5 points below the *high* price of each daily bar, or alternatively 1 to 3 points under the low, or 1 to 3 points below the close. While this rule is essentially the same in both lessons, there is an important point to note in relation to *Chrysler Motors*, which we shall encounter more than once as we move on.

The improved method that Gann illustrates with the trades on Chrysler Motors uses the *Weekly High and Low* (i.e. bar) chart, which he calls 'the best chart for trading purposes'. However, Rule 2 concerning stop loss orders talks about using the daily chart when prices are 'advancing very fast and at high levels'. While this appears to be a method based on the weekly chart, you really need a daily chart much of the time, as we shall see.

## Buying and Selling Points

These are covered in Rules 1, 2 and 3 of *US Steel* and Rules 3 and 4 of *Chrysler Motors*. We may summarise them as follows, and for simplicity we will speak only about buying, since the selling rules are exactly the reverse:

- Double and Triple bottoms.
- Price holds 1, 2, 3 or more weeks around the same low level.
- Price crosses previous high levels by 1 to 3 points.
- Price crosses the high of a previous year by 3 points.
- Price advances above the highest price in its history.
- There is a reaction in a bull market of 2 to 3 weeks and the stock shows that it is making bottom by holding 2 to 3 days.

These are the rules in *Chrysler*, and they are more detailed than in *US Steel*. The latter has also:

- When price reaches the same level the 4<sup>th</sup> time, it usually goes through, so the stop should be an order to stop and reverse 1 point below the Triple Bottom.
- When the Overnight Chart makes bottom on Resistance Levels such as  $\frac{1}{2}$ ,  $\frac{2}{3}$  and  $\frac{3}{4}$ .

If you have already studied the lesson on *US Steel*, you know that the Overnight Chart is what is nowadays known as a 1-day swing chart. The *Chrysler Motors* method is based around the weekly chart, and does not refer to a swing chart at all. Gann is generally using the weekly bars, and sometimes the daily bars, for the placement of stops and the calculation of support points.

## Pyramiding

In the article on Gann published in *The Ticker and Investment Digest* in December 1909<sup>6</sup> Mr William E. Gilley, a business associate of Gann's, stated, 'he can compound money faster than any man I ever met'. Central to this ability was Gann's form reading, his willingness to take a trade as soon as he saw a signal, and also knowing where and where not to pyramid.

Pyramiding is an art in itself, and in Chapter 9 we shall see an example of how aggressively Gann would pyramid in his own trading. We might expect that the rules in the lessons are simplified versions of how Gann traded himself, and also that the trading examples would shed some extra light on his technique.

Pyramiding is covered by Rule 5 in both lessons. *US Steel* is more aggressive. It states, 'The rule for pyramiding is to sell or buy half as much as your trading unit every 3 to 5 points apart.' In *Chrysler Motors* there is more detail. When stocks are trading between 20 and 50, buy and sell every 5 points apart. But when they are trading between 80 and 100, the pyramids should be 10 points apart.

At the same time, *Chrysler Motors* is more aggressive when it says to halve the trading unit 'after you have bought or sold the fourth or fifth lot in a pyramid'. *US Steel* says to start halving the position size sooner: 'Your 3<sup>rd</sup> trade in a pyramid should be one-half the amount of your 2<sup>nd</sup> trade, and so on.' Generally, in *Chrysler Motors*, Gann uses the same trade size without decreasing it, unless he accumulates a large position during a long move.

Rule 5 of *Chrysler Motors* contains two very important warnings:

1. Never buy a second or third lot unless the first trade has moved in your favour.
2. Never average a loss. To average a loss is the greatest mistake that any trader can make.

## Reversing Position

This strategy is unchanged, and is the corner-stone of Gann's mechanical method. The trader is not supposed to sit out of the market waiting for signals, but to be in the market all the time, either long or short. When you are long, hold on until the chart gives a definite signal that the trend has changed. Then reverse positions when your stop loss order is hit and sell short. Hold the short position until the same happens, and then reverse positions and go long.

This again shows the importance of understanding the method clearly, and of becoming a skilled chart reader. Making a mistake in applying the rules to the chart could result not only in abandoning a profitable long position, but in going short at the wrong time and taking a loss. It is, I believe, for this reason that Gann wrote such lengthy trading examples (more than 15 years on *US Steel* and 10 years on *Chrysler Motors*). And it emphasises why we must study the rules and examples until we really can 'trade like WD Gann'.

## Volume

This is a new rule in *Chrysler Motors*; it does not appear in *US Steel* at all. Gann includes a whole section with rules on Volume in *New Stock Trend Detector*<sup>7</sup>. He repeated this chapter almost *verbatim* and expanded it into a full lesson as part of his *1939 Master Forecasting Course*<sup>8</sup>, and then

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<sup>6</sup> Vol 5, No. 2, December 1909

<sup>7</sup> Chapter VI, pp. 69–88

<sup>8</sup> *Volume of Sales*, 12 August 1939

brought it up to date in *45 Years in Wall Street*<sup>9</sup>. I refer the reader to these lessons, for there is not room to consider all of them here. They are mentioned only when they arise in the examples.

## Summary

The biggest difference between the mechanical method in the *US Steel* and *Chrysler Motors* versions is the change from the Overnight Chart (i.e. swing chart) to the Weekly Chart (i.e. bar chart). Most of Gann's lessons on his system were based around the swing chart.

The second difference is the expansion in the list of entry signals, and the inclusion of volume as a consideration.

Aside from those factors, there is a clear continuity of thought, which indeed continues throughout the subsequent lessons from later years. We will see how Gann's thinking evolved further as we go on through this book. Learning the rules and learning how to apply them is part of the process, but there is an even more important one, which Gann could only mention, not teach, as it is one that is personal to every trader.

## The Human Element

This is a recurring theme throughout almost everything that Gann wrote. 'The human element beats most traders. The market does not beat them.'<sup>10</sup> Later, he expands on this:

*They often see an opportunity but fail to act until it is too late. They are influenced by hope and fear. When they have a loss, they hold on and hope instead of getting out quickly. Then when they have profits, they close the trade too soon for no good reason, instead of waiting until there is a definite change in trend.*<sup>11</sup>

The basic philosophy is contained in the opening words of the *US Steel* lesson:

*The Overnight Chart and the method for operating it is purely mechanical. You use no judgement but simply follow rules and reverse your position when the Overnight Chart indicates it.*<sup>12</sup>

We shall see in the example on *Chrysler Motors*, exactly as we did in *US Steel*, that there is a good deal of space between what Gann calls 'mechanical' and what, say, a computer program would require. There is a good deal of art involved, especially in the ability to form read a chart correctly. The testimonials in Gann's advertising brochure show that even students who learned the method directly from him took time to master it. This will be equally true for us who have nothing but the written text and the examples to go on.

Having briefly surveyed the rules of the method, we are now ready to study the examples. First, however, a short introduction to the subject of this lesson, the stock *Chrysler Motors*, might help to provide some context for the trades.

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<sup>9</sup> Chapter X, pp. 99–103

<sup>10</sup> *New Stock Trend Detector*, p. 93

<sup>11</sup> *Ibid.*, p. 124

<sup>12</sup> *Method for Trading with the Overnight Chart*, p. 1

## Where To From Here?

**W**e have reached the end of our journey through Gann's lessons on swing trading. I hope that they have been a voyage of discovery for you, as they have for me. I had read them many times and even attempted to draw line charts from the prices that Gann quoted, but it was only when I obtained the actual price charts and plotted what Gann was doing against them that the picture started to become clear. In addition, many things that I observed when writing up the lesson on *US Steel* in the previous book became much more obvious when working on these subsequent lessons, for I began to see Gann's style.

I have written this book, as I explained in the Introduction, as a step-by-step study guide, working through Gann's text sentence by sentence, line by line, word by word. I did this because, for me, this is the necessary starting point in studying his work. This is, if you like, the work of analysis, but it must be followed by the process of synthesis. By going over his examples again and again, links become more apparent. A trade in one lesson reminds you of a similar trade in another, and by this means it is possible to get the principle he was using. From here, it is not a huge step to applying the methods to any market.

Gann's system is, in my opinion, deceptively simple. He says that you just follow the swing chart, yet he does so much more than that. He may place his stops 1 cent below a swing, or 2 or 3, or he might move them up 5 cents below the intra-day high. Or again, he may not move them at all, according to how he reads the chart and the market action at the time.

What, then, is the best way forward, now that you have been through the whole book? First, I would urge patience. Gann has given the benefit of 50 years of trading wisdom in these lessons, and we are not going to be able to digest them all instantly. Here, then, are a few ideas of how to proceed:

- Write down now, from memory, anything that stood out to you from Gann's lessons. Try to draw out as many points as you can recall. There doesn't have to be any particular order to them, but it will highlight what has made an impact on you.
- Think of your favourite trades from the lessons, and go back and review those.
- Start trying to find examples on current markets. Ask yourself, 'how would Gann have traded this?'

- Keep reviewing the lessons, until you gradually feel yourself absorbing Gann's style of thinking.
- Read (or re-read) Gann's books. His rules about how to read charts are in there, and his trading lessons regard them as assumed knowledge.
- Write out your own trading plan, using as many of Gann's rules as you feel are appropriate for you. Remember you can change or adapt them as you see fit, but you need to test whatever you select and make sure that it works.

I believe that the lessons on how to trade are the best starting point for anyone seeking to emulate Gann's achievements in the markets. While his own trading is obviously much more accurate in terms of picking and trading the turns, the rules he gives in these lessons are the foundation on which the advanced methods are built.

These advanced methods are covered in the various forecasting courses, the lessons on geometric angles, in the trades in the *Master Eggs Course* and in *Tunnel Thru the Air*, and in lessons like the *Soybeans Letter*, which we touched on briefly in Chapter 9. Hopefully, there will be an opportunity to write a further book on these lessons at some time.

Markets have changed a lot since Gann's day, and yet they haven't. The same rules that Gann discovered 50–100 years ago work every bit as well now as they did then. We have markets like currencies and stock indices and bond markets which didn't exist when Gann was trading, and even ones which did, such as Soybeans, trade in much greater price ranges. Opportunities for profit are, if anything, greater than Gann experienced.

Every trader is different. Gann did not trade the way Livermore did, and you and I are different again. Our risk tolerance is different. The amount of time we have to study the markets varies. Our personalities are not the same.

The task for everyone reading this book is to find a way to make it work for you. Perhaps you are new to trading, looking for a way to get started. Perhaps you are already a very profitable trader, making a very decent living from the markets, and you are searching for an idea or a gem that will improve your results even further.

We all come to this with different backgrounds and different objectives. Yet there is enough meat in these lessons to produce something for everyone. The credit for that goes entirely to Mr Gann; it was he who spent a lifetime researching the markets, writing courses and teaching his methods to help others find a way. My aim has been to bring his work to life so that it will speak to the modern reader, and if what I have written here can help you to increase your trading profits by many times the cost of this book, I shall be well satisfied.

# HOW TO TRADE LIKE W.D. GANN

## PART II

*ADVANCED LESSONS IN GANN'S  
MECHANICAL TRADING SYSTEM*

*VOLUME 2 – SUPPLEMENTARY MATERIAL*

BY

TIMOTHY WALKER

*COSMOLOGICAL ECONOMICS*



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## Notes on the Supplementary Materials

As in the previous book on Gann's *US Steel* lesson, the original texts of Gann's lessons are presented here together. Since they come from a number of different sources, this will make it easier to study the material in the main text. The commentary works its way step by step through Gann's lessons, so it will be easy to follow.

Unlike the book on *US Steel*, I have not footnoted discrepancies in prices or inaccuracies in the texts. There are a few occasions when I have corrected a spelling error, or omitted a duplicated paragraph, but mostly I have left the mistakes as they were. Generally, I have done the correcting in the commentary in the main text. Nor have I tabulated the profit results of the trades. In some of the lessons Gann does so himself, and I have left those in their places. The message is always the same: Gann starts with small initial capital (never more than \$3,000) and builds it into 5, 6 or 7-figure sums. Understanding *how* he does this is one of the goals in studying his method.

The first two lessons are taken from two of Gann's published books. The lesson on *Chrysler Motors* is from *New Stock Trend Detector*, published in 1936, while the one on *1941 Soy Beans* is from *How to Make Profits in Commodities*, published in 1942. They are thus, by definition, excerpts, and I elected to reproduce only the essential sections relating to the trading examples. In both cases, there are other discussions that are worth studying, and I encourage readers to refer to the books as well.

The remaining lessons are from the *Commodities Course*, and as such are complete in themselves, with the exception of the 1954 lesson *Speculation a Profitable Profession*, where only the parts relevant to the trades have been excerpted.

The lessons on the *Mechanical Method for Trading Grains* and the *Mechanical Method for Trading Cotton* are largely identical. Rather than give the same lesson twice, I have presented the *Grains* lesson, with the differences in the *Cotton* method detailed in footnotes.

Once again, all the charts from the main text are given here in full-page format. I know as a reader how frustrating it is to have to turn back to find a chart on an earlier page, and then to have to find one's place again. This way, you can keep the relevant chart open while reading, and the smaller copies in the text will show where each chart is discussed.

# New Stock Trend Detector

Chapter VII, pages 88–124

A Practical Trading Method

**T**o be profitable, a method for trading in the stock market must work in practice as well as in theory. Several years ago I originated a practical trading method and since 1932 have made some important improvements which I have tested in my actual trading. I am giving my readers the benefit of this valuable discovery.

With this method you use the Weekly High and Low Chart, which is the best chart for trading purposes, but when stocks are very active and selling at very high levels you can use the Daily Chart and apply the same rules to detect a change in trend, buying and selling levels, and points for stop loss orders.

I am giving the rules and making the trades on paper covering a period of more than 10 years to prove to you that big profits can be made by following these rules:

## **RULE 1 – Amount of Capital Required:**

To make speculation or investment a successful business, you must know the amount of capital required to begin trading and continue to trade. To be safe, I consider that at least \$3,000 should be used for trading in each 100 shares of stock and if you follow the rules you will make money. For trading in 10-share lots, a capital of \$300 should be used.

Never risk more than 10% of your capital on any one trade. If you have as many as two or three losses, then reduce your unit of trading, risking only 10% of your remaining capital. In this way you will never lose all of your capital and can continue to trade and make profits.

When profits have increased to the amount of your capital, say \$3,000, then you can increase your trading unit to 200 shares, but after you have accumulated a large amount of profits, keep a larger amount of capital behind each trade.

Safety must be your first principle at all times. When large profits have accumulated, establish a reserve fund for protection, placing this money in a savings bank, first mortgages or gilt-edge investments for income.

## **RULE 2 – Always Use Stop Loss Orders:**

Never fail to place a stop loss order on each trade that you make, and let these stop loss orders be 1, 2 or 3 points away from the price at which you buy or sell, and under any conditions – even when stocks are at very high levels – on your first trade never risk more than 5 points or \$500 on each 100 shares.

As a rule, a 3-point stop loss order is the safest to use as it will be caught less than any other.

After a prolonged advance, when stocks are advancing very fast and at high levels, if you have big profits, then follow up with a stop loss order 5 points below the high price of each day or 1 to 3 points under the low or closing price of the day. In case a stock is selling at very high levels, follow up with a stop loss order 10 points under the high price of each day.

When you make initial trades, never risk 10 points of your capital on any one trade. Five points must be the limit, and when it is possible, always try to make a trade where your risk is only 2 or 3 points.

Follow up profits with stop loss orders 1, 2, 3 or 5 points under each week's bottom on the long side, and follow down with a stop loss order 1, 2, 3 or 5 points above the top of each week on the short side.

### **RULE 3 – How to Detect Buying Points:**

Buy against double or triple bottoms and place a stop loss order 1, 2, or 3 points below them.

Buy when a stock holds 1, 2, 3, or more weeks around the same low level, and place a stop loss order 1, 2 and never more than 3 points under the lowest weekly bottom.

Buy when a stock crosses the previous high levels by 1 to 3 points. In most cases it is safer to wait until it advances 3 points above an old top before you decide that the trend has given a definite indication that it is going higher. Then, after it has crossed an old top by 3 points, it should not react 3 points under the old top. For example: If the old top is 50 and it advances to 53, then it should not react to 47 again. Therefore on a reaction to around 51 to 48, you should buy and place stop loss order at 47, or 3 points under the old top.

When a stock advances into new high territory, that is, crosses the highest price of its history, it usually indicates higher prices and is safe to buy. If it is going higher the stock seldom reacts 3 points under the old high level.

Watch the tops of previous years. When a stock crosses the top of a previous year by 3 points, it is nearly always safe to buy, especially if it reacts back to the old top or slightly under it.

In a bull market reactions only last 2 or 3 weeks before the main uptrend is resumed, therefore it is safe to buy at the end of two or three weeks' reaction after the stock shows that it is making bottom by holding 2 to 3 days.

### **RULE 4 – How to Detect Selling Points:**

Sell against double and triple tops and place a stop loss order 1, 2, or 3 points above them.

When old bottoms or low levels of previous movements are broken, sell short and place a stop loss order 1, 2, and never more than 3 points above the old bottom. It is always safest to wait until a stock breaks 3 points under an old bottom, then sell at the market or on a small rally and protect with a stop loss order 3 points above the old bottom.

Then, after a stock has broken to new low levels, follow down your short position with a stop loss order one point above the high of the previous week and watch for a point where there is an old bottom or previous low level to cover shorts and buy again.

As a rule, a rally in a bear market only lasts two to three weeks, therefore at the end of the second or third week, it is safe to go short with a stop loss order 3 points above the high of the previous week.

Watch the bottoms of previous years. When a stock breaks the bottom of a previous year by 3 points it is nearly always safe to sell short, especially if it rallies up to the old bottom or slightly above it.

### **RULE 5 – How to Pyramid:**

It is important to know how and when to pyramid. When stocks are at low levels, between 20 and 50, you can buy or sell every 5 points apart if your capital and margin warrant it, that is, when you have 5 points' profit on the first trade, buy or sell an additional amount and place a stop loss order so that you will not have any loss on the two trades if the market should reverse and catch the stop.

When stocks are selling between 80 and 200 per share, you should only buy or sell 10 points apart. After you make the first commitment, then wait until you have 10 points' profit, then buy or sell a second lot. After you have bought or sold the fourth or fifth lot in a pyramid, then you should decrease the trading unit. For example:

If you have been buying 100 shares each 5 or 10 points up and have accumulated 500 shares, then it is safer to reduce your trading to 50 shares every 5 or 10 points up. If you have been trading in 200 shares and have bought 4 or 5 lots, then reduce your trading to 100-share lots. Reverse this rule on the short or selling side.

The big money is made by always following the main trend of a stock. Never buy a second or third lot unless the first trade has moved in your favor.

Never average a loss. To average a loss is the greatest mistake that any trader can make.

### **RULE 6 – When to Reverse Position:**

By reversing position, I mean that if you have been buying and pyramiding, then, when there is a change in trend and an indication to sell out long stocks, you should also sell short. For example:

If a stock advances to around 75, where there is an old top, and holds 1 or 2 weeks, you should sell out longs and go short and place a stop loss order at 78 or 3 points above the old top. Then, if the stop at 78 is caught, you should cover shorts and go long again because you must keep with the trend all the time.

Apply the same rule when a stock is declining. When there is a change in trend and the time comes to cover shorts, then you should buy for long account again, just as I show in all the trades made in Chrysler Motors.

### **RULE 7 – Volume of Sales:**

By following the rules given in my books on Volume, you will be able to detect when tops and bottoms are reached and a change in trend takes place.

Nearly always when stocks are advancing rapidly and reach high levels, the Volume of sales increases. After the first quick, sharp reaction, there is a secondary rally, and if the main trend is going to turn down, the Volume will be smaller than it was on the advance when the final top was made. (See example of Volume on Chrysler at the end of this Chapter.)

After a prolonged decline, a decrease in Volume is an indication that liquidation has about run its course and a change in trend is due.

In panicky markets, when stocks have sharp declines, they often make bottom on large Volume and a rally follows on fair-sized Volume, then there is a secondary decline when the Volume falls off considerably.

Look up the Volume of each individual stock and judge its position according to the amount of stock outstanding. For example: General Motors with 44,000,000 shares must move much slower and require more time to advance a point than Auburn Motors or J.I. Case which have such a small number of shares outstanding. Chrysler Motors has only 4½ million shares compared with 44,000,000 of General Motors, which is the reason Chrysler made a greater range during 1932 to 1935 than General Motors.

### THE FOLLOWING OF RULES MAKES PROFITS

The human element beats most traders. The market does not beat them. Eliminate human judgement and guesswork. Do not buy or sell on hope or fear.

The man who will make up his mind to follow rules strictly to the letter will make profits. Prove to yourself that the rules work which I give you and then follow them. Buy or sell when the rules indicate that it is time to buy or sell and then do not close trades and take profits until the rules indicate that it is time for a change in trend; then make your trades accordingly and you will make a success.

### CHRYSLER MOTORS

To show you how to operate with this Method and prove that big profits can be made in actual trading by following the above rules, I am giving you below an example of trading, according to this Method, in Chrysler Motors for a period of 10 years. The buying and selling indications were based on the Weekly high and low Chart. Refer to charts pages 94-100. Starting on a capital of \$3,000, trading was confined to 100-share units until profits had accumulated. Trading in Chrysler began on the N.Y. Curb in the week ended November 28, 1925.

#### 1925

##### Week ended

- Nov. 28** Bought 100 shares at 46, protected with stop loss order at 43.
- Dec. 12** Advanced to 57¾, only three weeks' rally; sold off and closed the week at 53½, a sign of weakness.
  - 19** Sold out 100 shares long at 53½.  
Sold short 100 shares at 53½, with stop at 56½.
  - 26** Two weeks' decline to week ended January 2, 1926; then a New Year's rally.  
Moved stop down to 50. Stop caught at 50.

#### 1926

- Jan. 2** Bought 100 shares at 50 to cover shorts.  
Bought 100 shares at 50 for long account.
- 9** Rallied to 54⅝, two weeks' rally.  
Moved stop up to 51 or one point under the week's low.

# Speculation A Profitable Profession

A Course of Instructions on Grains

Pages 8–20

## RULES FOR TRADING IN COMMODITIES

**RULE 1.** Buy at new high prices or old top levels.

**RULE 2.** Buy when prices advance above old low price levels.

**RULE 3.** Sell when prices decline below old top levels or high prices.

**RULE 4.** Sell at new low price levels. As a general rule it is safer to wait until prices advance at least 2c above high levels and still more important to wait until they close above these levels before buying and at the same time it is safer to wait until prices decline  $\frac{1}{2}$ c below old levels and still safer to wait until they close below these old levels before making a trade.

**RULE 5.** Closing Prices. Wait to buy or sell until prices close above old highs or below old lows on the daily or weekly charts when markets are very active and moving fast; it is important to use the daily high and low chart and the closing price above highs or below lows. Prices may advance rapidly during the day but when it comes to closing time they may run off several cents and close lower than the previous day, and at the same time when there is a sharp decline, prices may go below the low of the previous day but when they close near the high levels; therefore, it is the closing price that is always important to keep up on the daily, weekly or monthly high or low charts. The longer the time period in days, weeks, months or years when prices exceed old highs or break old lows, the greater the importance of the change in trend and the move up or down. Remember the general rule, when prices advance to new high levels they generally react back to the old tops, which is a safe place to buy and when they decline below old lows, as a rule they rally back to the old lows, which is a safe place to sell. Always, of course, protect with STOP LOSS orders.

**RULE 6.** STOP LOSS ORDERS. Your capital and your profits must be protected at all times with STOP LOSS orders which must be placed when you make the trade and not later.

**RULE 7.** AMOUNT OF CAPITAL REQUIRED. It is very important to know exactly how much of your capital that you can risk on any one trade and never lose all of your capital.



When you make a trade you should never risk more than 10% of the capital you have to trade with, and if you have one or two losses, reduce your units of trading.

For trading in Rye and Soy Beans, you should have at least \$1500.00 for trading in 5000 bushels. Suppose you risk 3c a bushel on a trade; you would have to lose 10 consecutive times to wipe out your capital. You could hardly lose it this way just guessing and by following the rules it is impossible to lose all of your capital. For trading in Soy Beans, especially at high levels, you should have at least \$3,000.00 capital for each 5000 bushels that you trade in because it is often necessary to risk as much as 5c a bushel on Soy Beans. But the profits are much greater than anything you can trade in.

Should you wish to trade in job lots of 1000 bushels, or 2000 bushels, you, of course, can start on a capital of \$500.00 and limit losses not more than 3c on any trade and by following the rules, in many cases your risks will not be more than 1c a bushel. The same rules apply to Wheat, Corn, and Lard.

Oats move in a narrower range and require about half as much capital as Rye or Wheat to trade with.

**RULE 8. THIS RULE IS FOR BOTH BUYING AND SELLING:** When prices decline 50% of the highest selling level, you can buy with a STOP LOSS order of 3c below the low prices. Next strongest buying point is 50% between the extreme low and the extreme high. For example, May Rye, the highest price it ever sold was  $286\frac{1}{2}$ ; 50% of this is  $143\frac{1}{2}$  and when this level is broken by 3c it is in a very weak position. The lowest level May Rye ever sold was 30c per bushel; 50% of this  $286\frac{1}{2}$  and 30c is  $158\frac{1}{4}$ . The highest price that cash Rye ever sold was \$3.35; one half of this is  $167\frac{1}{2}$  and we have given an example of what happens when May Rye and the other options decline below  $167\frac{1}{2}$ ,  $158\frac{1}{4}$  and  $143\frac{1}{2}$ .

**SELLING LEVEL.** When prices advance after being far below the 50% point and reach it for the first time, it is a selling level or place to sell short, protected with STOP LOSS order of not more than 3c above the 50% price level. Example: Suppose that May Rye advances to  $143\frac{1}{2}$ . The first time it reaches this price, if the indications on the daily chart show it is making stop, it is a short sale with a stop at  $146\frac{1}{2}$ . The next point is  $158\frac{1}{4}$  which is 50% of the range between 30c and  $286\frac{1}{2}$ ; this is  $158\frac{1}{4}$ . When May rye advances to this point you would watch for resistance and sell short with a STOP LOSS order at  $161\frac{1}{2}$ .

After this point the next selling level is  $167\frac{1}{2}$  or 50% of 335. Next the range between 30c and  $335\frac{1}{2}$ ; 50% of this is  $182\frac{1}{2}$  which would be the strongest resistance and the most important selling level protected with STOP LOSS order at  $185\frac{1}{2}$ .

When you start trading be sure that you know all of the rules and that you follow them, and be sure that you place a STOP LOSS ORDER.

#### *WHERE TO PLACE STOP LOSS ORDERS:*

You must place STOP LOSS orders below the lows of swings and not just below the lows on the daily chart. STOPS must be above old tops or below old bottoms on a weekly or monthly chart. STOP LOSS orders placed below closing prices on the daily or weekly chart are much safer and less likely to be caught because you are moving your STOPS according to the trend. STOPS placed above closing prices on the daily or weekly chart are caught a smaller number of times than if you place them below a daily bottom or a daily top. The swings or reversals in a

market are the prices to place STOP LOSS orders one way or the other. It is of great importance to know where to place a STOP LOSS order properly. Grains selling below \$1 a bushel, a STOP LOSS order is as a rule safe and caught less of the time when you place it 1c below the bottom and especially 1c under closing prices, or 1c above closing prices. When prices are moving from \$1 to \$2 per bushel the STOPS should be at least 2c above highs or 2c below lows or 2c above closing prices or 2c below closing prices.

Prices at \$2 to \$3 per bushel. At this range of prices STOPS should be at least 3c under the lows or above the highs.

Prices \$3 to \$4 per bushel. At this range of high levels fluctuations are fast and wide and STOPS, to be safe, must be placed further away, at least 4c to 5c per bushel above highs or under the lows. It makes no difference where your STOPS are placed so long as it is safe and not caught until the time is right when there is a definite change of trend. At the end of high prices, from 3.50 to \$4 per bushel which seldom occurs, STOPS can be placed 1c to 2c below the daily closing price or at 1c to 2c above the daily closing prices. At extreme high prices you must depend on the daily high and low chart to give you the first indication of a change in trend which later will be confirmed by the weekly high and low chart of price moves.

When prices are selling at extreme high levels, follow all the rules in my book, HOW TO MAKE PROFITS TRADING IN COMMODITIES, and if you have taken my Master Forecasting Course, apply the rules on Great Time Cycles as well as the minor time periods.

Remember you can never have too much knowledge. Continue to study and learn more for knowledge can always be turned into profits later.

**WHAT TO DO BEFORE YOU MAKE A TRADE.** Check all records of prices, daily, weekly, monthly and yearly and note all time periods. Note when the prices are near some old high levels or near some old low levels of recent weeks or years. Then calculate just what your risk will be before you make the trade and after you make it, place the STOP LOSS order for your protections in case you are wrong.

**WEEKLY HIGH AND LOW CHART.** The weekly high and low chart is a very important trend indicator. When prices get above a series of weekly highs or lows, or decline below a series of weekly lows, it is of greater importance and indicates a greater change in trend which may last for many weeks.

**MONTHLY HIGHS AND LOWS.** When prices advance above or decline below prices which have occurred for many months past it means a greater change in trend which can last for several months.

**YEARLY HIGHS AND LOWS.** When prices advance above or decline below the prices made several years in the past, it is nearly always a sure sign of big moves which will last for a long period of time, or at least have a greater advance or decline in a short period of time, and when these old highs are crossed, or lows broken, always watch for a reaction to come back to around the old highs or slightly lower, and after they are broken, expect the rally to advance back to around the old highs or slightly below.

Study the yearly highs and lows and you will see the proof. Remember the greater the time period, when it is exceeded, the greater the move up or down.

We will prove the rules by starting with a capital of \$3,000 and trading in Rye, based on the rules given above. First, we are going to trade in May Rye and we must know something about the history of May Rye.

1951, July 23 low 169 holding  $1\frac{1}{2}c$  above the 50% price indicated strength and good buying because August 20 was low at 169, making two supports at this same time level. We are now buying 10,000 bushels at 169 and place STOP at  $165\frac{1}{2}$  or  $2c$  below the 50% point.

The market advances. September 20 we buy 10,000 more at 181 because it is above two tops or high levels. November 1951 we buy 10,000 more at 210 because the price is above an old top of 208 of April 3, 1951. 1951, December 10 and 12th, high  $221\frac{1}{2}$  and 221, a top against the high at 218. We had bought 10 at 169, 10 at 181 and 10 at 210. We sell all of these out at 219 which gives a total profit of  $94c$  per bushel or \$9,400. We now withdraw the capital of \$3,000 and start trading on the profits alone.

1951, December 12; we sell 20,000 bushels at 218 and place a STOP at  $223\frac{1}{2}$ . 1952, January, we sell 20,000 at 204 and move the STOPS down to 208. February 5, 11, and 27th and March 4 the lows are 194,  $192\frac{1}{2}$ ,  $193\frac{1}{2}$  and 193. We cover the shorts at 195 and buy 40,000 at 195, making a STOP at 190. The profits on these deals are \$8,200, added to the other profit gives \$17,600 to trade with.

1952, March high 211, a lower top. We sell 40,000 at 207 and sell short 40,000 at 207.

May 1 low 193, same low as March 4; we cover shorts at 194 making a profit of  $13c$  per bushel or \$5,200, added to \$17,600, gives \$22,800 capital. We stop trading in this May option because it will expire on May 20. We could trade in July, September or December but we wait for the May Rye for the 1953 delivery to start trading and show a trend and then we start trading again.

1952, July 23 high  $218\frac{1}{2}$  under the old top of  $221\frac{1}{2}$ . It declined to 207 on July 19, August 14 high 219, a second high and slightly below the 1951 high. We sell short 50,000 at 218 and place the STOP at  $222\frac{1}{2}$ . The trend moves down. August 18, 19th and 29th and September 20 prices are  $196\frac{1}{2}$ ,  $195\frac{1}{4}$ , the same as May 1952. Because we know that the seasonal trend is usually low in the latter part of August or early September, we cover all the shorts, 50,000 at 197 and buy 50,000 at 197 for long accounts and place STOP at 194. November 13 high  $213\frac{3}{4}$  a lower top than August 14, but we wait to sell until we get a definite indication. November 24 and 28th lows 204, we raise STOP to 203. This STOP was caught and we sold 50,000 longs at 203 and sold short 50,000 bushels. This gave us a total profit or working capital of \$26,300. We sold 50,000 short at 203 and raised the STOP to 209.

December the market broke the price of 195, the old low. We sold 25,000 more at 193 and made STOP on 75,000 at 196. 1953 January prices broke the lows of July 1952 at 190. We sell 25,000 at 188 making STOP on 100,000 at 193.

January 1953 – 12th – low 180. January 15 high 187, reduce STOP on 100,000 to  $189\frac{1}{2}$ .

February 13 low 171.

March 3 high  $182\frac{1}{2}$ , reduce STOP to 186.

Later in March the price broke 171 low. We sell 25,000 more at 166 when the price breaks the low of 169 of July 21, 1927 and it had broke 50% of  $335\frac{1}{2}$  which is  $167\frac{3}{4}$ , putting it in a very weak position with the main trend down.

May 11 low 154. We buy 125,000 at 156 to cover because the May option will expire about May 20. We now have a total profit of \$69,550 to work with. We can no trade safely on 100,000 bushels which gives  $70c$  per bushel margin and a loss of  $3c$  on 100,000 bushels would be \$3,000,

and if we lost for ten consecutive times we would still have more than half or 50% of our capital to trade with, which is perfectly safe.

We wait for May Rye for 1953 delivery to give an indication of what it is going to do.

1953, July 6. The option opened at 153, a new low. July 7 high 156 when it breaks 153 we sell 100,000 bushels at 152 and make the STOP 157. It declines very fast and we sell 25,000 more at 140 because it is  $3\frac{1}{2}c$  below the 50% of  $286\frac{1}{2}$  which is  $143\frac{3}{4}$ , the high of May 7, 1946 and we wait until the price is  $3c$  below this level which puts it in a very weak position before going short.

1953, July 28 low  $133\frac{1}{2}$ , August 6 high  $140\frac{3}{4}$  and 140; we make the STOP on 125,000 at 145, the decline continues and breaks the low of  $133\frac{1}{2}$ . We sell 25,000 more at  $131\frac{1}{2}$  and make STOP at  $142\frac{1}{2}$ .

August 13 low 121, August 17 high  $135\frac{1}{2}$ , reduce STOP to 137. August 28 and September 15 and September 23 low  $116\frac{1}{2}$ ,  $114\frac{3}{4}$ , 115. We know that the seasonal lows are often made in August and September and the trend turns up so we reduce the STOP to 121 on all the shorts. The STOP was caught and we buy 150,000 at 121. We now have a capital of \$127,500 to work with. We buy 100,000 at 121 and make STOP 114.

November 2, high 134, November 17 and 30th low  $133\frac{1}{2}$ , we make stop  $120\frac{1}{2}$ . December 14 high  $133\frac{1}{8}$ , a slightly lower top, we raise STOP to 129. STOP was caught. We sold 100,000 at 129 with  $8\frac{1}{2}$  profit which gives us a working capital of \$135,000. We sold short 100,000 bushels at 129 and placed the STOP at 136.

December 23 low 120. 1954, January 3 and 14th low  $120\frac{1}{2}$  and  $121\frac{3}{4}$ , a higher bottom. We buy 100,000 at 124, profit  $5c$  which now gives a capital of \$140,500. We buy 100,000 at 124.

1954, January 22-27th high 128, a lower top. We raise the STOPS to 124. STOPS were caught and we are out even losing only the commission.

We sold short 100,000 at 124 with STOP 125. March 29 low  $101\frac{1}{2}$ , April 2 high  $110\frac{1}{2}$ , we reduce the STOP to  $112\frac{1}{2}$ . April 19 high  $108\frac{3}{4}$ , we reduce the STOP to  $110\frac{3}{4}$ . April 30 low  $93\frac{1}{2}$  with the main trend still down and we would remain short with a stop at  $104\frac{1}{2}$  or  $3c$  above the low of March 29, 1954. We will assume that we covered shorts at 96, this would give us a profit of \$173,700 in 33 months starting with a capital of \$3,000. Suppose we cut this 50%, the profit would still be \$86,850. This is proof from the records based on rules that if you do not guess you can make large profits on small risks.

This also proves that no matter how low the price is you can make big profits by selling short and no matter how high the price is you can make money by buying so long as you are going with the trend up or down. The question naturally arises, "Why do not more people make fortunes trading in Commodities?" The answer is weakness of the human element. They trade on hope, fear, and think prices are too low to sell or too high to buy and if they do act they do different from what the rules indicate, but remember that there are always some big traders who do buy and sell no matter how low the price is or how high it is, and these are the people who make big money. The late Jesse Livermore traded this way and accumulated as much as \$15,000,000 at one time. Men like Dr. Crawford have the nerve to buy and sell at extreme low levels or extreme high levels where the trend is down and to make millions, while the man who fears or trades on hope does not have the nerve and he not only misses making big profits but he makes losses. If you expect to succeed you must learn to follow rules and after you have proved to yourself the rules will work, have the nerve to follow them and profits are assured.

## THE GREATEST ADVANCE IN MAY BEANS IN HISTORY

When I state the greatest advance I mean the greatest advance from low to high levels of any option.

BUYING CAMPAIGN IN MAY BEANS. We will start with a capital of \$3,000 and buy according to the rules outlined. August 20, 1953 May Beans low  $239\frac{1}{2}$ . We would buy 10,000 bushels at 240, place a STOP-LOSS order at 3c below, making a risk of 10% of the capital or \$300.00.

Why do we buy here? Because it was the same low as October 1948 and for the same mathematical rule. 1932 low 44c, 1948 high  $436\frac{3}{4}$ , 50% of this is  $240\frac{3}{8}$ , a sure buying level protected with a STOP LOSS order.

The May 1954 option opened at 256 and advanced to  $259\frac{3}{4}$  and then declined to  $239\frac{1}{2}$ .

1953, September 2, high 263, closed the same day at 259. While we now have an indication that prices are going higher we do not buy more but wait for the closing rule and for the price to close above 260, which was the high of the life of the option after it started.

September 16, low  $248\frac{3}{4}$ . We raise STOP to  $246\frac{3}{4}$  on the 10 bought at 240. During the week ending October 10 May Beans closed at 261. We now buy 10 more at 261 and raise the STOP on all of the beans to 255 or 1c below the low of the week.

The advance was rapid and for the week ending October 31, the price closed at 282, above the old low of 280 in February 1953. This was an indication of higher prices and as we have big profits we can buy 5,000 at 282 and raise STOPS to 275. Look up the record to see where the new old highs are so we will know when resistance should be made. We find these highs at  $341\frac{1}{4}$ ,  $313\frac{1}{2}$ , 311 and 309. These highs were made in 1952 and 1953, therefore, we would expect some reaction from around those levels.

1953, December 2, high  $311\frac{1}{4}$ , same high as December 1952. We sell out 25,000 at 310 giving a profit of \$12,300.00 and with the capital investment of \$3,000.00 makes a \$15,300.00 capital to operate on. We sell 25,000 short at 311 and place the STOP at 316. While we know the trend is up we expect a reaction from these old high levels. A fast decline followed December 17, low  $295\frac{3}{4}$  at old low levels of March, April and May 1953. We cover 25,000 bushels at 297 with a profit of 13c which gives a working capital of \$18,800.00. At this price we can figure safely 30% margin per bushel is enough of \$3,000 on 10,000 bushels or \$7,500.00 on 25,000. This is conservative trading.

We buy 25,000 for long account at 297 and place STOP at 293. The price starts up from December 17 low and makes higher bottoms and higher tops indicating up trend.

We follow the closing rule which is that when prices close above old highs that have been made months or years past it is an indication that prices must go very much higher.

1954, January 19, high  $315\frac{1}{2}$ , closed at  $314\frac{1}{2}$ , not yet enough above the old highs. We wait for close at  $316\frac{1}{2}$  to buy.

January 22, closed at 317. We buy 25,000 more at 317.

February 22, low  $309\frac{3}{4}$ , down for the last old top in 1953. We make STOPS at 307.

From previous records we know that the next old top is  $344\frac{1}{4}$  on February, 1951 so expect that this is the next price to watch.

February 24 and 25th, high  $340\frac{1}{2}$  and 342. Low for three days at  $335\frac{1}{2}$  we raise STOPS to  $333\frac{1}{2}$  until price goes above  $344\frac{1}{2}$ , the old top and an indication of higher prices.



March 4, high  $359\frac{3}{4}$ , closed at 359. March 5, low 349, March 8, low  $343\frac{1}{2}$ , at the old top level and a buying level. We buy 15,000 more at 345 and raise STOPS on all to 341.

March 19, prices crossed the previous high of  $359\frac{1}{2}$ , which was the high of March 4, indicating higher. March 19 we buy 15,000 more at 361. March 25, high 371. April 1, low  $354\frac{1}{2}$ , a higher bottom than March 11 and 16th. We raise STOPS to 352 on all our line of May Beans that was bought. April 9, prices make a new high closing at 375, indicating much higher prices.

April 13, high  $382\frac{1}{2}$ , April 14, low  $376\frac{1}{2}$ . Raise STOP to 373. April 15, high 388, closed at  $387\frac{1}{4}$ . We buy 10,000 more at 387.

April 20, high 402, closed at 396. We know that when it does close above \$4.00 it will indicate higher prices. We know the last high in May 1948 was 425 so the indications are that May Beans will reach somewhere near these old highs but now is the time to protect profits and not buy more.

April 27, high  $407\frac{1}{2}$ , closed at 402, under the high but above \$4.00, which indicated higher prices.

April 23, low  $298\frac{1}{4}$ , closed at  $403\frac{1}{2}$ . We now raise STOPS on all longs to 395.

April 27, high 422, within 3c of 425, the high of May 1948, and up from  $239\frac{1}{2}$  to 422. The price has advanced  $182\frac{1}{2}$  cents, the greatest in history.

April 27, after high of 422 the market declined fast and closed at 411, which was the lowest price of the day. We now place a STOP 5c below this low or at 406.

April 28, low  $406\frac{1}{2}$ , missed the STOP by  $\frac{1}{2}$ c. April 28, 29th and 30th, high  $317\frac{1}{2}$ ,  $315\frac{1}{2}$  and  $316\frac{3}{4}$ . When prices made  $316\frac{3}{4}$  on April 30 we raise STOP to  $411\frac{3}{4}$  or 5c per bushel down from this top because the prices have started to make lower tops and we must pull up STOPS and protect profits that have accumulated.

April 30, late in the day May Beans declined to  $410\frac{1}{4}$  and the STOP was caught. We sold out all longs at 411. Total profits \$92,600.00 in 8 months and 10 days time on a capital of \$3,000.00 and the trading was very conservative, the risks were conservative at all times.

This is proof beyond any doubt that prices are never too high to buy if you follow the rules and protect with STOP LOSS orders. When these great extremes occur, fortunes are made by men who have the nerve and the knowledge to follow the rules. In this campaign we have not done any guessing as to where to buy or sell. We have let the market prove itself. We have bought on definite rules and placed STOP LOSS orders based on definite rules and sold out at an extreme high level on a definite rule because the option was nearing the end or reaching the 1st of May when we do not trade in an option. This great advance in Soy Beans is no exception. It has happened in other commodities – Coffee, Cocoa, Cotton, Cottonseed Oil, Lard, Rye, Wheat, and Corn. If you will only learn the rules and when the market runs into these extreme levels, not try to guess where the highs are going to be but simply follow the trend and follow up with STOP LOSS orders and buy regardless of price when new highs are made, you cannot fail to make enormous amounts of money.

## Gann's Trade

*[Speculation A Profitable Profession, page 26]*

The July option made high on April 27 at 415 and sold at  $368\frac{1}{8}$  on May 12, 1954, down 47c per bushel. The writer sold July Beans short at 412 on April 30, and sold more at  $400\frac{1}{2}$ ; sold again at 396 and  $390\frac{1}{2}$  because prices were breaking the previous low levels and indicated a definite down trend. We covered shorts at 370 on May 12 because our daily high and low chart and hourly high and low chart indicated that the market was making bottom for a one to two day rally.

*[Why Money Is Lost On Commodities and Stocks And How to Make Profits, page 7]*

April 27, 1954, he sold July Soy Beans short at 412 and on May 5 bought in these beans at  $485\frac{1}{2}$ , making a profit of  $26\frac{1}{2}$ c per bushel in eight calendar days. He placed a stop loss order on the trade at 416, limiting the risk to 4c per bushel, and made  $26\frac{1}{2}$ c per bushel or a gain of  $6\frac{1}{2}$  time the risk. He sold more Soy Beans at  $400\frac{1}{2}$ ,  $395\frac{1}{2}$ ,  $390\frac{1}{2}$ ,  $392\frac{1}{2}$  and bought them in or covered shorts at 384, 387 and  $388\frac{1}{4}$ . After he covered the shorts July Soy Beans rallied to  $395\frac{3}{4}$  on May 6 and he again sold short at  $392\frac{1}{2}$  on May 7.

# CHARTS



Chart 1.2 – Chrysler Motors Monthly 1925–1935

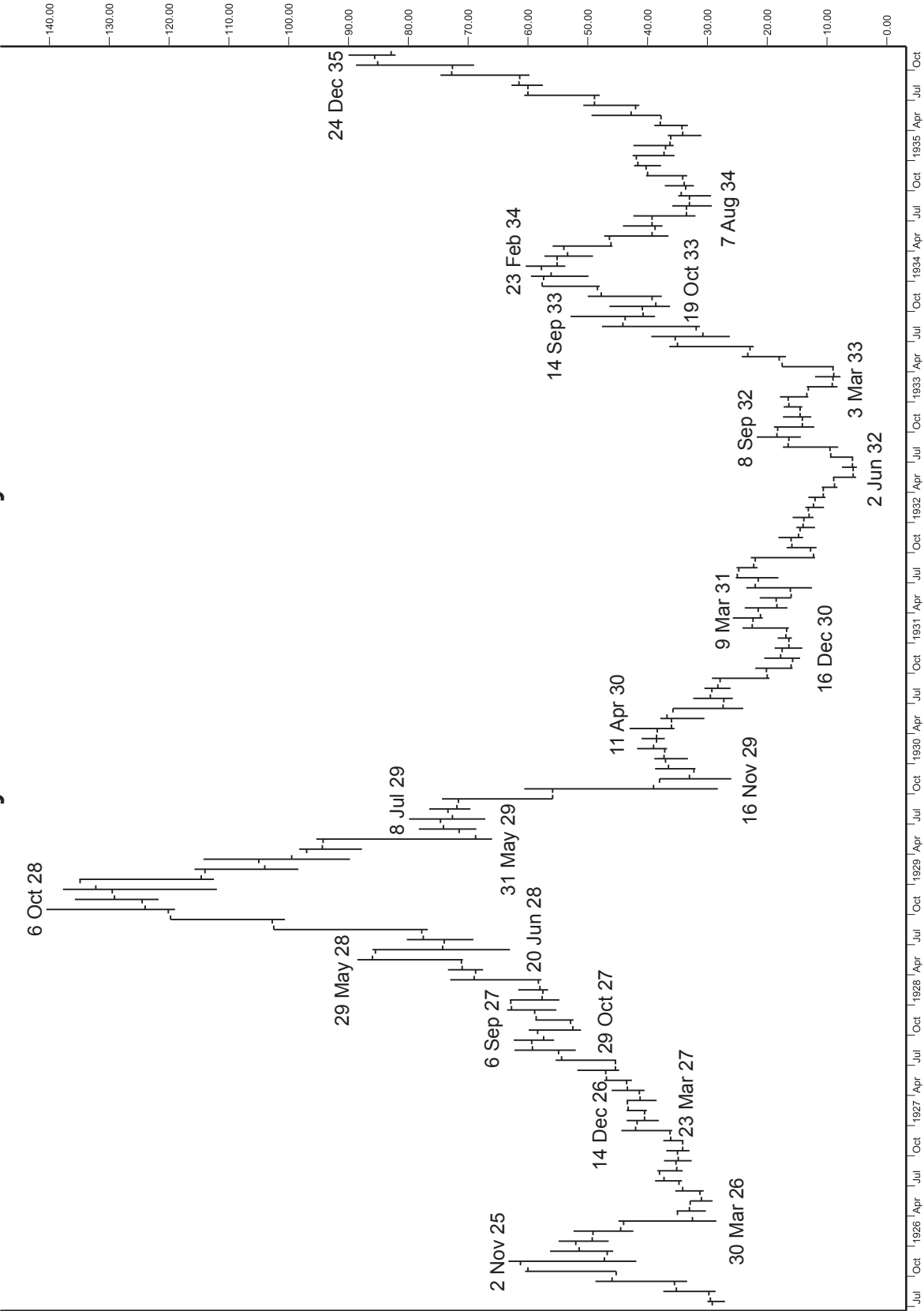


Chart 1.8 – Bull Campaign from 1926–1928

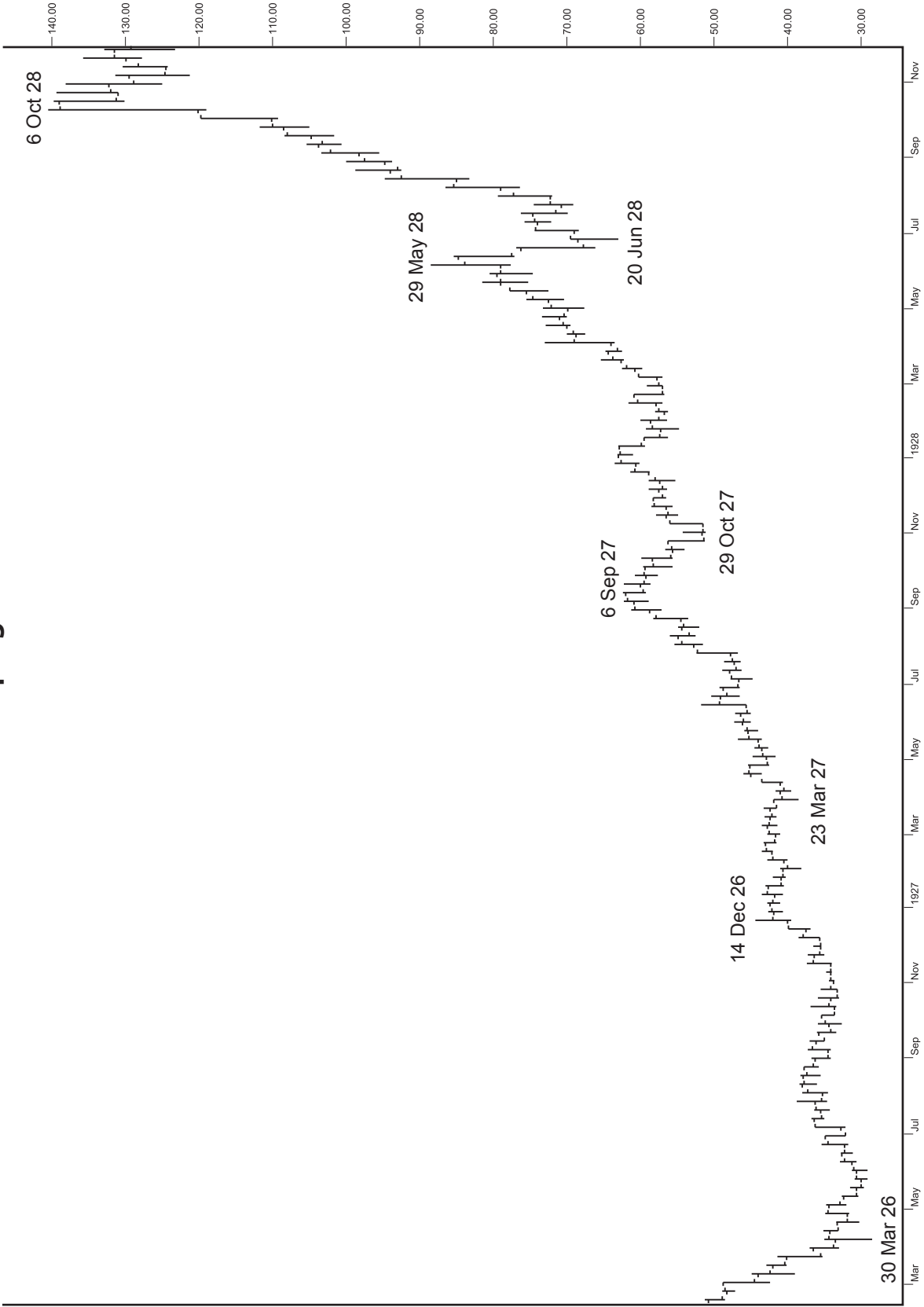


Chart 1.11 – Weekly Chart with Volume

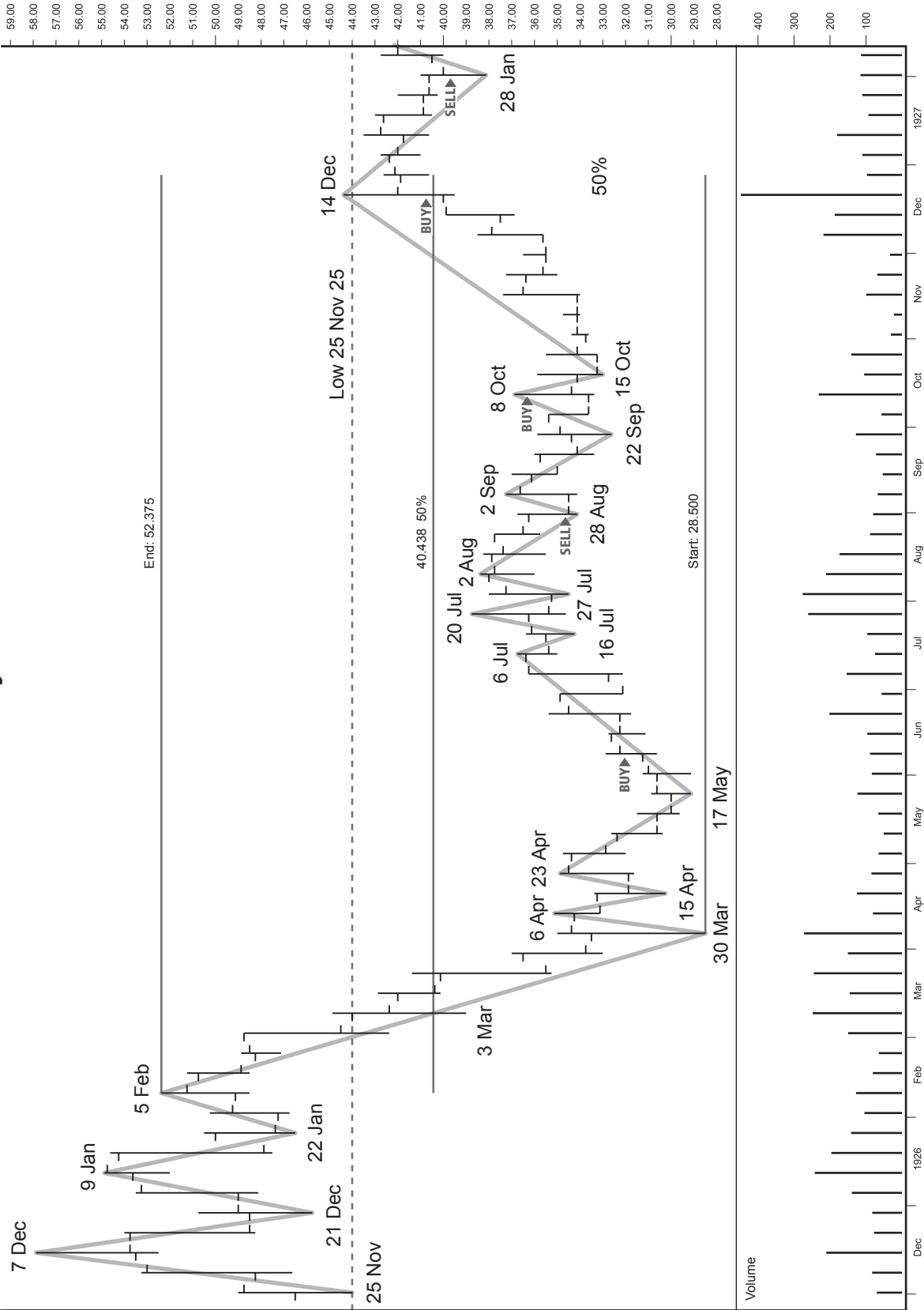


Chart 9.6 – May 1953 Rye June to November 1952

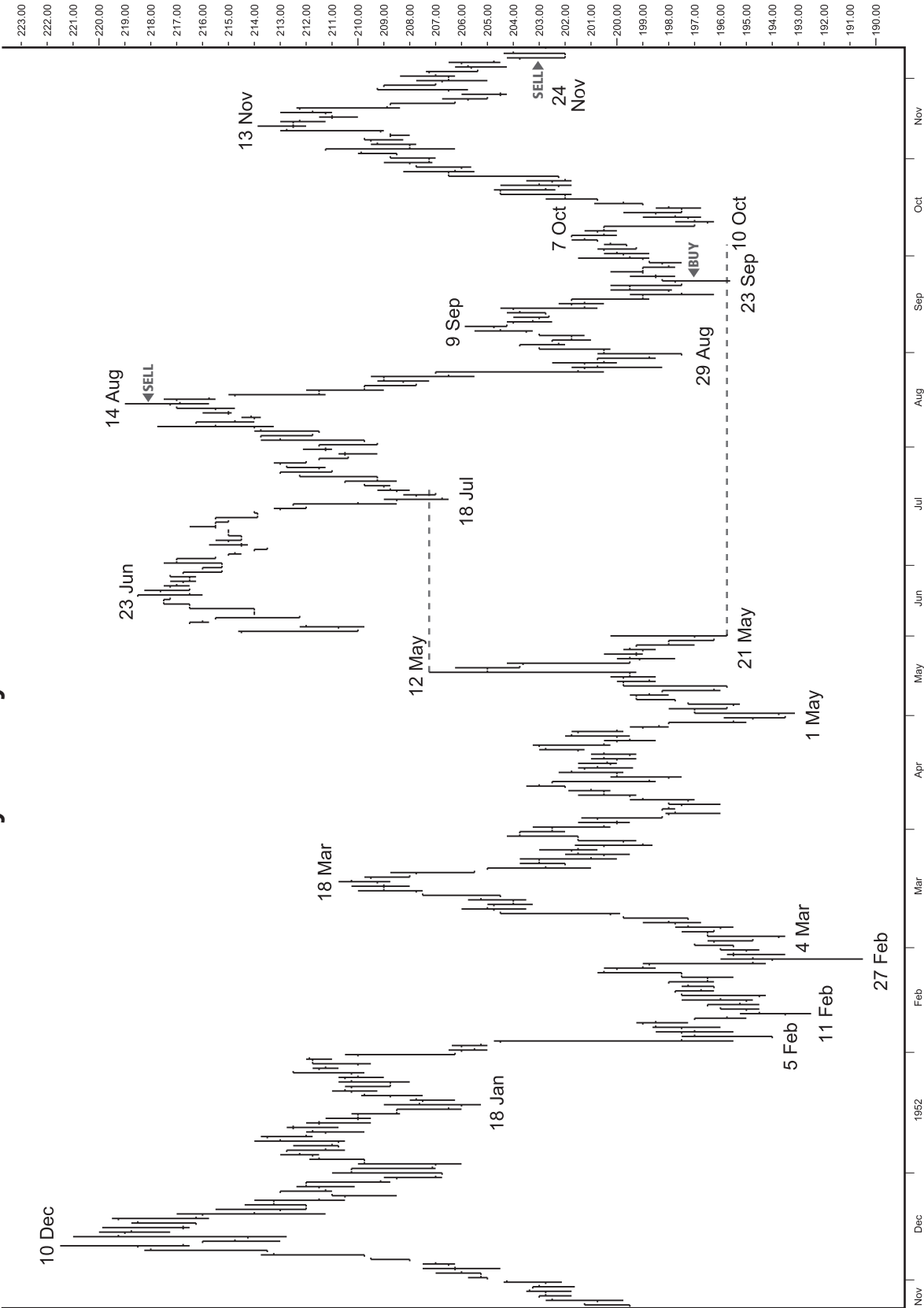


Chart 9.10 – May Soybeans Monthly 1936–1953

