PART TWO

THE TRIPLE ZONE SYSTEM
THE TRIPLE ZONE SYSTEM

The waves of optimism or pessimism in the nation send prices into great emotional surges commonly known as bull markets and bear markets.

Bull markets invariably carry prices up to super-normal or exaggerated levels. Bear markets carry them down again and to sub-normal or undervalued levels. These are not the chance habits of men but the result of fixed traits imbedded in the psychology of the race.

Between the high, super-normal prices of stocks and the low, sub-normal prices is a middle area, or normal zone, a sort of "no man's land" of the market. Therefore, the major movements of stocks are constantly ranging through three zones of activity:

THE SUPER-NORMAL ZONE
THE NORMAL ZONE
THE SUB-NORMAL ZONE

These zones are the measure of trends.

It is of primary importance to the investor to know the trend of his market and only secondary in importance to know the conclusion of that trend.

By the use of these zones it is possible to locate the areas in which trends originate as faithfully as the weather bureau, with its charts and instruments, locates the areas where storms originate.

When a major uptrend ends a major downtrend begins.

The function of the Triple Zones is to determine the approximate areas in which major tops are being made, then
later the approximate areas in which major lows are being made. This is the most highly-prized information known to the investment world.

Profits are made from price changes. The greater the range of prices, the greater the opportunity for profits. By knowing the areas where stocks are at sub-normal values the investor can buy and hold tenaciously for the inevitable time when they reach super-normal values.

In this way it is possible to get a very large part of the major moves of a stock.

The middle or normal zone is least in importance of the three. While it reflects the nearest to just or average values, men do not let stocks stay long in this zone. It is a sort of "hurdle" over which a starting bull market jumps to the super-normal zone, or a bear market jumps to the sub-normal zone.

Yet this normal zone actually does serve an excellent purpose. It enables the holder of a stock to hold for a higher price, or it enables the prospective purchaser to wait for a better buying place.

**The Triple Zone System Is Wholly Mechanical.**

Statistics are notoriously faulty as a means of determining the trend of a stock.

Human opinion cannot be depended on. Of two equally capable market experts, one will forecast downtrend while the other will forecast uptrend.

Therefore, by using the Triple Zone System, we eliminate opinion and statistics and go straight to the market itself for indications.

*Whatever the mass mind does is correct.*

If the price of U. S. Steel declines 10 points, it is so decreed by the majority or mass mind and must be accepted. There is no alternative.

Market action is not new, but the way to interpret and use it for profit is imperfectly understood. It is a science in itself, the science of prices founded upon human thought and emotion. The action of prices is the record of the masses establishing values for their wares.

By the Triple Zone System, it is possible to tell not only how the mass mind views values now but how it is preparing to evaluate stocks next.
THE TRIPLE ZONES

Key to Market Position

The feature of this book is the "Triple Zones." From these zones, assisted by other lesser "keys," the "Triple Zone Trading System" has been developed and will now be laid before the reader and explained. This is termed the "Triple Zones" because the entire life action of a stock or commodity takes place within three well-defined zones. Each zone has its function and is important in itself. When a plot of these three zones is placed on the chart of a stock, its position can be instantly seen.

By Position is meant whether a stock is in a position to buy, or a position to hold, or a position where it should be disposed of.

To be instantly able to tell the position of a stock, how it is responding to the leader and to its group, is about the most useful achievement one can think of in the financial field. And it is not at all difficult of accomplishment.

A small fraction of the time one devotes to his regular occupation would be sufficient to give him an amazing grasp of stock-trading and of the values of securities and in no way interfere with his business.

Stocks are self-forecasting. They tell their own story. They tell their story in their charted action and in no other way. Their action is the composite financial judgment of men backed with cash.

You may decide to analyze a stock to determine whether it is suitable for purchase, but you are late. A thousand others
have already analyzed the stock and have registered their opinion of it in the action which it displays in the market.

And this prior analysis by others is of vast advantage to you. You have an immediate working pattern upon which to use your tools—these new tools which this book will furnish you. Your work will be greatly simplified and you will come to understand the great value of market position.

Plate 1 presents a chart of New York Central Railroad, one of the most popular of all stocks and yet moving within a modest range. This is a plain running chart in which the movement runs in one direction until it has had a reversal of 3 points when it turns in the opposite direction. Practically all movements of 3 points or more are shown here, thus allowing six years of the stock to be placed upon one page.

On this Plate 1 you find a simple chart in which New York Central seems to roam “up and down and round about” as irresponsibly as the “Calf Path” of Sam Walter Foss, yet is following an old trail as old as the market itself. Every advance shown there is built up by the “desire for gain” and every decline shows the market crumbling from “fear of loss.” These are the two primary forces that produce movements. Our business is to find how far optimism will carry the price before a top is made and next to determine when fear ceases and a bottom is established.

Therefore, we are chiefly concerned with turning points, the most essential of all trading knowledge.

Now there is nothing in this plain Plate 1 to give you the slightest cue to turns. You note a top was made in New York Central around 32 in September, 1932, and you also note that on the very next move the stock went up to 58 in 1933, or 26 points higher before it topped out. These movements are so productive of profit, when understood, that investors and traders will welcome a way by which they may be interpreted, and in Plate 2 that way is found.

THE TRIPLE ZONES CHARTED

In Plate 2 exactly the same chart is used as that of Plate 1 but a diagram of the three zones is laid upon the chart.

The dotted “center line” is the easiest part of this diagram for the novice to establish. It is nothing more than the center level between the top and bottom of each major advance. If a major rise goes higher than the previous one, the dotted center line rises just as you see in the chart when this stock advanced from February to July, 1933. From then it runs on straight ahead until there is a higher top or a lower bottom—then it changes, but simply keeps the middle position of the move between top and bottom levels.

Thus this line is self-placed and self-adjusted. It is the average value of the stock between the super-normal optimism that sends prices up to dizzy tops and the sub-normal pessimism that sends prices down to unwarranted lows.

On either side of this center line a zone is laid which is termed the “Normal Zone.” It amounts to a broad center line, but is better designated as a zone.

This normal zone starts very conveniently with the first major advance of 1932 which occurred in nearly all stocks. That was the first timid major advance of the stocks after the 1932 lows. This zone, of course, runs back through all stocks big and little for their entire existence, but the first 1932 move makes an extra good beginning place to start our studies.

How wide is the zone? It is one-third of the major advance from bottom to top. The first major advance of New York Central, starting with the move of 1932, covered 24 points. As soon as the top at 32 1/4 was made, the dotted center
A BETTER WAY TO MAKE MONEY

line could be located and stood at 20. It is well to place this
dotted line on the nearest dollar line—not at a fraction.

The normal zone for this 24-point move is 8 points wide,
this being one-third of the total bull move and is the way to
establish the normal zone for every major move.

On Plate 2 it is noted that the second major advance or bull
move carried New York Central from 14 on February 28, up
to 58 1/2 on July 7, 1933. The dotted center line and normal
zone follow this bigger advance upward until the top is made,
then the zone and dotted line run straight ahead to the right
so long as the stock remains approximately within the range
of this last major advance.

The normal zone from July 7, 1933 onward is one-third of
the rise from February to July, 1933.

While this stock dropped down slightly lower on March
14, 1935, this is not enough to change the normal zone. It may
be stated here that, for convenience, the normal zone should
always be a width that can be divided half and half, like 22,
24, 26, etc. It is entirely permissible to vary the width of the
normal zone a point so as to make it divisible by two.

A variation of one to two points in the normal zone does
not in any way affect its value.

Why is the zone made one-third of a major rise?

Because, by examining a large number of stocks, it is found
that major impulses, either up or down, will carry through a
middle or normal zone approximately that wide. This fact
gives the operator a chance to buy his stocks at an extra-low
price and to sell them at an extra-high price. The width of
the zone helps. It shows how far a stock must travel to get
through.

The Sub-Normal Zone is all space below the normal
zone. This is the investment area where stocks are to be
bought.
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Including 1932, stocks have had five bear markets. Almost every stock has been down in the sub-normal zone five times. Note this zone in Plate 2.

The first illuminating idea the reader gets as he views the three zones in Plate 2 is:

That stocks are constantly ranging from the sub-normal zone up through the normal to the super-normal zone, then down again.

Herein is the investor’s rich opportunity.

He has the buying place for his stocks plotted off with the clearness of a blueprint. It takes no deep wisdom, no expert advice, to see that stocks are a safe purchase each time they get down into the sub-normal zone.

And these are no small earnings that are made from purchases in the sub-normal zone. They are the profits that come from major advances. The investor can select good dividend-earning stocks, if he wishes, and thus secure both the dividend and the appreciation of his stock.

Every stock has its three zones. The same is true of all bonds and of every commodity quoted in the speculative markets. Wheat works beautifully by zones. When the investor or trader has his stocks charted and the zones laid off upon them, he can ignore all outside opinion and advice and make better bargains than the most skilled economist.

Besides this, the ambitious student of the Triple Zone System has another great advantage: very few people take the time or pains to make charts or keep them up, hence do not see these market positions as the reader sees them. The reader makes the good purchases and the good sales while the careless trader pays the price of his indolence by making the poor deals.

When stocks “hit bottom,” they are naturally in the sub-normal zone and a zone chart would show the break to be virtually over. Yet, the trading public becomes obsessed with a belief that the break is to continue. The average man refuses to buy. Skilled investors of experience and ample funds begin to buy freely in this sub-normal zone and it is their buying that stops a bear market.

This Triple Zone System is original with the author and is herewith published for the first time. Yet, unaccountably, the above experienced investors seem to sense when stocks are in their sub-normal or investment zone.

The inclination of minds lacking financial training is to sell around lows.

The inclination of minds trained by financial experience is to buy around lows.

And exactly the reverse sentiments inspire these two classes when the market is in excited top-making action. Experience then sells. Inexperience buys.

This is why the multiple losses of thousands of ill-advised smaller traders are constantly migrating toward the profit accounts of trained traders.

The reader will now begin to grasp the importance of market position in a stock. He will also realize the value of the zones in determining the position of a stock—whether it is a purchase, a sale, or neither.

It will gradually become imbedded in the reader's mind that, though the market is driven into great bull and bear surges by the emotional tides of the people, yet these surges can be measured with almost mathematical accuracy by the use of certain devices of which the Triple Zones are an example.

For those unacquainted with market dynamics it may be said briefly that:

Active buying tends to make prices advance.
Active selling tends to make prices decline.
Major advances are caused by an irregular but increasing volume of buying.

Major declines are caused by an irregular but increasing volume of selling.

The Super-Normal Zone is all of the space above the normal zone. By the time any stock or commodity gets above the top limits of the normal zone, the attitude and sentiment of the trading public tends to turn toward overconfidence. People begin to feel a new pride in their selection of stocks (though they all go up together). They are making money and don’t hesitate to tell their friends about it.

Naturally the friends are envious of this easy prosperity and believe all that is necessary is to buy some of the stocks that are enriching the others. Usually they have no knowledge of zones or positions. They are actuated by the desire for gain. The result is that the higher stocks get, the larger the amount of shares held by insecure hands and bought at exaggerated values.

The market continues to move higher. It goes up easily and almost perpendicularly:

Traders become overconfident and buy more stocks with their profits earned, thus overloading their margins. These latter purchases are at higher prices. Buying becomes so active and heavy that it raises the stock to new highs, as you see in New York Central in its advance from the top made September, 1932 to the top made July, 1933.

When a stock begins to reach new highs above the top of the previous major high, the center line is automatically raised taking the normal zone up with it. This is seen in the upward slope of the center line of New York Central from 20 to 36, Plate 2.

There is a way for the shrewd trader to follow these movements upward into the super-normal zone until the advance is near exhaustion. That will be charted and discussed in a later chapter. The point to note here is that bubbling enthusiasm pushes stocks higher and higher into this zone of exaggerated values—the super-normal zone.

This zone is quite wide for the big active stocks but, no matter how large or small the issue may be, it is measurable and has the same effect on all the issues which enter the zone.

The Dotted Center Line running through all zone charts is the half-way point between tops and bottoms of major markets. It is established by the market itself and has the great value of being definite and easy to locate. Also it locates the normal zone. We have to widen this normal zone as a stock goes into larger major movements, as you will note in the move of New York Central from February, 1933 to July, 1933.

The normal zone is located readily in 1932 by taking one-third of the full major move of that year. In the case of New York Central, the major move from the extreme low to the September top was about 24 points, thus making the normal zone 8 points wide. This is repeated here so it will be impressed on the reader’s mind.

In the next major move in 1933, it is noticed the center line goes up to 36, the middle of the rise, then the zone spreads out to become 14 points wide, or approximately one-third of the rise from February to July, 1933.

It is necessary to understand this widening of the normal zone in order to know what constitutes the super-normal zone. It is taken for granted that the earnest investor and speculator is taking pains to procure or make up charts of the stocks he intends to buy or has already bought.

Plate 1 is a chart of New York Central with no means of determining position. Yet, every move thereon is following a natural response to public trading.
Plate 2 is the same chart with the dotted center line and zones laid upon it. The chart is instantly changed. It becomes understandable. First of all, the observer discovers that below the normal zone the stock is always a purchase, and above the normal zone it is always a sale!

What questions do investors first ask about the stocks they contemplate buying?

Some will ask what group a stock belongs to.
Others will ask if it is earning anything.
Still others will ask, "Does it pay a dividend?"
A few will inquire into a stock's history.
Some will ask, "How high did it go in 1929?"

Many are interested in "small stocks," meaning low-priced issues such as Armour & Co., Transamerica, Packard, Radio, etc.

Very few will ask about the position of the stock as compared to U. S. Steel or other big stocks. The fact is traders want explicit information about unimportant details, but ignore the one thing most important of all, which is its present position.

Regardless of what group a stock belongs to, or how much its earning power, the first matter of importance is its position. The primary use of the three zones, as shown in Plate 2, is to tell whether a stock should be bought, held or sold out. The zones are a preliminary survey of boundary lines.

If it is desired to lay out a townsite in a new section, the first thing to do is to survey the land and stake off the roads, lots and boundaries. After that is done people can buy lots and locate safely. Before the survey it would be foolish to buy. These three zones with the dotted center line form the survey of the meanderings of a stock. The stock is "plotted" and positions are known. Buying can begin.
WHEN A BEAR MARKET ENDS A BULL MARKET BEGINS

And the reverse is true, that when a bull market ends a bear market begins. Stocks are never quiet. If not in decided uptrend or downtrend, they are in churning action preparing for their next trend.

Therefore, with the chart of New York Central before you and its zones laid off as shown in Plate 2, you are at once able to make two deductions:

First Deduction: Every time this stock dropped down into the sub-normal zone, it was a safe purchase.

Second Deduction: Every time the stock rose to the supernormal zone, it was a certain sale.

Not only was the stock a sale to take profits on purchases made in the sub-normal zone, but it was a profitable short sale for anyone who cared to take the short side of the market. (The policy of this book is against short-selling.)

Before going further the reader is asked to note that sometimes the stock barely cut down into the edge of the sub-normal zone. This is shown at the point October 22, 1933. And again the stock went deeply into the sub-normal zone as at March 14, 1935.

While New York Central was a purchase at the 26 level and earned an 18- or 19-point profit, yet the stock went much deeper into the sub-normal zone on the next trip down to March 14, 1935. If the stock had been bought again at 26, it would have shown some loss on the further drop to 14. How-

ever, a purchase anywhere in the sub-normal zone earned a big profit on the next rise.

Therefore, to get the best results it is wise to buy only part of one’s intended amount for the first trade. A good plan would be to buy one-third for the first deal, then take the next third 3 points lower, and the final third another 3 points down. This for a stock the price of New York Central.

This plan gives the investor a good average if he succeeds in securing the three lots. Large investors follow this plan. To illustrate, I quote from a wire bulletin observed at a brokerage house, on November 24, 1937:

“New York—A private investor here has recently invested $650,000 in common stocks, utility, copper, housing, rails, Telephone and American Can. If a further decline occurs he proposes to double his holdings of these stocks.”

Now the above “private investor” is buying at the right time. All of the groups he is buying into are in the Investment Area or Sub-Normal Zone. He is shrewd enough not to put all of his money into the first purchase, because experience has taught him that no matter how low prices have broken, it is possible they may break more.*

Another wise thing the above investor is doing is to diversify his holdings. Some groups move up ahead of the general list in a recovering market. He will be in on some “early risers” by having such a line as those above named. There will be a more detailed discussion of diversifying later on in the book. What is of special importance now is to note that even when buying a single stock, a better average position can be secured by buying only a part of one’s intended amount at the start. Since this sub-normal zone has consider-

* By the following March the Industrials had declined 15 points more, after which they advanced 62 points by November, 1938.
able width, it is usually possible to accumulate holdings on a scale down to excellent advantage.

It will be noted that the farther New York Central went above its normal zone during major advances, the lower it went below that zone during major declines. This is generally true of all stocks, except extra-strong issues.

Buy outright is the policy advocated by this book. Since the chief objective is to make money in a speculative market, it is well to take every possible step to insure safety of capital. When stocks are purchased outright in the most favorable position they can ever get into, one has almost a sure profit ahead if he holds for its rise to the super-normal zone. This is shown by the charts. It is not an opinion or a forecast, it is a demonstrated fact. But, if the trader insists on making purchases on margin, he will still find the zone system of immense value, and will enjoy a safety he has never known before. However, the margin trader must steel himself against the temptation to load up too heavily under the rising tide of success, or accept the dangers that attend margin-trading.

The better way is to make money a little slower at first by paying for stocks in full, then satisfying his desire for big profits by building up his funds to where he can buy heavily—and outright.

In the business of speculation, the help of the gods is with the man who will use System.

By this time the reader is beginning to realize that stocks, regardless of their apparent erratic action, are always moving according to a definite pattern. Some are big and others small. Some swift and others slow. Yet every stock has its three zones. They correctly tell the position of any stock. It is not a guess, the zones are a fact—a location.

And again I remind you that all of these movements, these charted actions and staked-off zones, are the product of prices produced by thought, by human emotions; they emanate from the unchangeable laws of human nature, and are therefore as reliable as the laws of natural science, gravity, freezing, thawing, etc. You can always depend upon human nature under distress or under pleasure to act consistently and in the same way—now or 100 years from now.
PROFITS IN PLENTY
LET THE MARKET DO THE WORK

A very excellent financial campaign suitable to persons with funds large or small is possible with a low-priced active stock, such as New York Central. Below is a fair example of what could have been accomplished from 1932 to 1937 by the use of the zone method. Of course, the keys given later in the book would be used to help determine selling levels, but a “preview” of a trading campaign in a single active stock, New York Central, can be given here as a “first lesson” for the reader.

Trader No. 1 can buy 10 shares at the start.
Trader No. 2 “ “ 100 “ “ “ “
Trader No. 3 “ ” 500 “ “ “ “
Trader No. 4 “ ” 1,000 “ “ “ “

No. 1 buys 10 shares at 10, sells at 30 for $300—A to B.
Then buys 20 shares at 15, sells at 55 for $1,100—C to D.
Then buys 40 shares at 27, sells at 44 for $1,860—E to F.
Then buys 100 shares at 18, sells at 50 for $5,000—G to H.

Follow the deals through on the chart (Plate 2), starting with the first purchase just above the “extreme low” of 1932. The first sale just under September, 1932.

Thus, a person with a surplus of only $100 could have raised that amount to $5,000 in five years by outright purchase—no margin-trading. This would be as truly an investment program as that of the larger traders whose results are shown below.

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Trader No. 2 would finish in 1937 with 1,000 shares which he would sell at 50 for .......... $50,000
Trader No. 3 would finish in 1937 with 5,000 shares which he would sell at 50 for .......... $250,000
Trader No. 4 would finish in 1937 with 10,000 shares which he would sell at 50 for .......... $500,000

Does this look too simple—too easy?
If it does, it is because it is so different from the hard toilsome way traders usually follow.

Of course, one may not be able to make purchases and sales as favorably as stated in the case of the four traders, but with the zones laid off clearly and a little knowledge of how to use them, anyone will be able to make an excellent profit campaign in a stock whether he buys and sells at the best prices or not.

After all, trading can be made very simple. In the preceding campaign in New York Central, the investor took only one trade at a time. Usually men add later purchases to their lines for larger returns. An experienced trader seeing the advantage of the zones could add two or more additional lots and take profits on the entire line at one time.

But the intention here is to reduce trading to its simplest and easiest form consistent with safety, as the mildest kind of successful trading will yield very large profits as compared with original capital used.

In this style of trading the investor owns his shares outright, not on margin.

There need be no interruption of one’s regular work. The time consumed in making the deals is very little. The market does the work. In fact, it is the only thing that will work for the investor in a big way while he does something else.

The effect of this deliberate, thoughtful plan of using the stock market for profit, without worry or hurry, has a stabilizing effect upon one’s financial habits and even his character.
A BETTER WAY TO MAKE MONEY

He learns to take a fair risk and use it to his advantage. His policy is to accept profits, not grab for them. He plans today for a profit that may not arrive for months, but knows when the time has come to realize. He is turning moderate risk into larger profit.

There is nothing unethical about taking risks in business. One of the largest kinds of commercial business bases its prosperity solely upon speculation. That business is life insurance.

It is amazing to contemplate the vast success of life insurance companies when we remember their whole business is that of speculating in human life—and every life a certain loss!

System does the work.

It will be understood by the reader that this example of the four traders in New York Central is stated here long before we learn other keys that go into the proper following of these movements and the reaping of the harvest. The “Triple Zones” are the base upon which safe and accurate trading is built and an early example is needed here to show the primary features of the method of the book.

It is a fact, however, that the thoughtful trader with no other key than the “Triple Zones” could make money safer and more swiftly than 90% of the reputedly successful traders. The keys that come later are refinements and supplements to this zone plan and, like the zones, are easy to understand.

So far nothing has been said about the profit to be made in short-selling. The buying side is so much more desirable and popular that most of our trading plans are for the purchase only of stocks. However, there are some who like to work on both sides. To such these instructions will be very helpful.

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A BRILLIANT EXAMPLE

The break in stocks late in 1937 brings us many examples of the value of the Triple Zone System over the usual “stock analysis,” so much used by persons in deciding upon a stock to purchase. One example is the popular steel stock, American Rolling Mill, which in Plate 3 is charted back some two and a half years to the start of its 1935-37 bull move. All stocks started up about that time—March, 1935, and practically all active stocks topped out two years later in March, 1937. The reason they all started up in unison and finished at the same time is because they were eagerly following a leader of which something will be said later on.

On Plate 3 you have before you the entire major advance or bull move of this stock with its center line and the three zones laid off.

According to the zone plan, this stock was in the buying or investment area anywhere from 16 to 25 starting with March, 1935. Our readers would have made their purchases here. They would have been confident of a rise to at least 35 or higher. But up in this super-normal zone they would be arranging to take profits. A burst of heavy buying sent the stock up rapidly from 36 to 45. Buying at this level according to our zone plan was wholly wrong. Yet an analysis of the stock would have led the prospective purchaser to believe the stock was safe to buy anywhere in the super-normal zone where those guided by the Triple Zone System are selling.

The writer saw scores of analyses of popular stocks that were in the act of topping out in March, 1937, when at their best and naturally these analyses were mostly bullish. In some
The analysis of a stock, however careful, is deceptive because it always makes a stock look best at the top. Below is a condensed analysis of the American Rolling Mill stock seen in financial news in Feb., 1937. A promising outlook but the stock was at top.

This concern, producer of high quality steel plates and sheets, is eighth in size of steel manufacturers. Automobile makers take fifth of output, construction and electrical equipment take a large part. Net income in 1936 was $6,442,000 as against $4,310,000 in 1935, and $657,000 in 1934. It had a deficit of $2,030,000 in 1932. Common stock was increased from 1,854,150 shares to some 2,868,535 shares in 1936. To provide for plant expansion, 450,000 shares of $100 par 4 3/4% preferred stock were sold. This was also partly used to retire $24,000,000 old preferred stock and debentures, leaving a funded debt of $3,800,000. After being omitted 3 1/2 years, common stock dividends were resumed late in 1935. 75 cents extra was paid in 1936.

Cases the analyst urged a stock be closed out to buy one that was more speedy. The amazing value of the zones as a means of locating buying levels is also shown in the chart, Plate 2.

How to Make a Mistake. Put yourself in the shoes of an investor in the early part of 1937, anxious to invest surplus cash in some desirable stock.

You decide upon the steel group because much is being said in financial news about the rapid increase in the demand for steel.

But U. S. Steel, up in the 8o's is too high to suit you and your eye at last falls upon American Rolling Mill. You can buy 100 shares of this stock for less than half the price of U. S. Steel.

You subscribe to some financial service and get an analysis of American Rolling Mill stock, by a professional. It would be perfectly truthful and about like the preceding analysis.

If you are like 90% of investors, you would have no chart of the stock and would consider the analysis as a sufficient reason for buying the stock. If you did chance to have a chart of the stock, you would have no knowledge of the zones or how stocks comport themselves in the zones. You would have only a hazy conception as to the stock's position.

Nevertheless, you would buy. Why not? “Everything is going up,” says the broker.

The chances are 50-50 you would buy during the strong advance between 36 and 45. Thousands did so because the volume was exceedingly heavy on this advance. Then comes the top and the sudden downturn.

According to the analysis it was a “good” stock. According to the zone plan it was a “bad” stock.

No stock is safe to purchase in this super-normal zone no matter how good their analyses may be. Seven months later the stock bought around $40 was worth $16 or $17.
What do you care about the $2.26 dividend it will pay when the stock that cost you $4,000 is selling down around $1,700?

This mistake is being made frequently by thousands of investors because they don't know the zone method of determining positions.

ABOUT MAKING CHARTS

It is imperative that the investor-trader have charts of the stocks in which he is about to place his money. Anyone can make charts with a little practice and it is a real pleasure to keep them up.

"For where your treasure is, there will your heart be also," says the good book, and nowhere is this philosophy truer than in the stocks where you have selected certain favored issues which you expect to become the harbingers of your good fortune.

It is necessary that these charts run back for several years, at least to 1935 and better still to 1932, the depression low for all stocks.

Getting the quotations for back years is difficult unless you have access to a public library. A goodly assortment of financial books are available there, and the New York Annalist is about the most convenient for securing the weekly "open, high, low, and close" for stocks. Newspapers also have them and often are kept bound at the newspaper offices where they are available for reference.

Jot down a list of stocks in which you are interested and when you get to a place where you can secure the quotations, copy them on sheets of paper and when you get home, chart them in the way that charts are made in this book.

The New York Central charts, Plates 1 and 2, are what we term "running charts." That is, we start in the direction the stock is moving and continue making the line in that direction until it reacts 3 points, then we chart that reaction. Sometimes
a fast move will run up (or down) 8 or 10 points before a
reaction occurs. Start with the low point of this stock and
follow it through for a way and you will see how it is made.
This method condenses a chart.

Chart paper can be had at most stationers.

Chart indications are simple. You can interpret them readily when you know what you are looking for. There are only a few important indications that really count, but they are absolutely essential to market success.

Thousands of financial institutions, banks, trust companies, services and estate managers chart stocks with the utmost care to get whatever indications they can, but most of the interpretations thus secured are too ponderous and complicated, too tied up with "if's" and "but's" and "averages."

In my fifteen years of issuing a market service, hundreds of chart indications have been studied and scores of rules have been carefully devised to make trading safer, but these have at last all been boiled down into the Triple Zone System.

Charts of stocks or of wheat, when made up like Plate 2, show the use of the zones with photographic clearness. That is why many charts are shown in this book. It is to be remembered that the Triple Zones are the most important of all market indications, but that the other keys, described further on, are essential as helps or refinements to the Triple Zone System.

Graphs or charts are the same. Several types are shown in the book. You can use whichever you like best. The most common style of chart is a straight line for each day showing the high and low. These upright lines are placed side by side and evenly spaced on regular chart paper. For our office purpose we chart the open, high, low and close for each day, as you will see in some of the charts. This gives a little added detail which we like, but the straight perpendicular lines will make a perfectly accurate chart.
LITTLE ROADS TO WEALTH — GOOD PROFITS IN SMALL STOCKS

This fascinating field of investment has grown very popular since the depression of 1932, because so many low-priced stocks, starting from $1 to $5 per share, have been able to double, treble or even quadruple their cost price, and do this in an amazingly short time.

For amount invested, a small stock, if selected in a promising group, will far outclass a big stock in the same group.

For instance, from January to March, 1936, U. S. Steel rose from 46 to 66, a gain of 43 1/2%, but in the same move Follansbee Steel, a small steel stock, advanced from 4 1/4 to 11 1/2, a gain of 180%.

This is just one of hundreds of instances where small stocks outclass the big ones in the matter of making profits.

Of course, one need not expect dividends from the small stocks. Many of them have been hard hit financially, though not much worse than their big brothers. These small issues are to be used for their speculative value with little regard for any possible dividend though sometimes even these pay a small dividend.

I have heard scores of investors bemoan the fact that they failed to take advantage of the low prices of 1932 when many well-known issues sold as low as $5 down to $1 per share. They look at Chrysler limping amongst the clouds, around 139, and think of the drab days of 1932 when they could have bought it at $5.

Evidently many of these investors were determined not to be caught napping again for, on the wild break of stocks, October 19, 1937, there was an equally wild rush to buy stocks at the very low prices to which they had tumbled in liquidation.

The small stocks were bought up as greedily as the old time “blue chip” stocks. Inspiration Copper, for instance, broke to 6 1/4 on October 19, 1937, and in three days sold back up to 12 1/4, a gain of 100% in record time.

Atchison broke to 35, then rallied sharply up to 47 on the same dates, but the gain in Atchison was only 34%. This is about one-third as well as the low-priced copper stock did.

Financial concerns and people with large funds naturally do not deal much in these low-priced issues, as they prefer big stocks with big assets, and, most of all, something that pays a good-sized dividend. Small stocks do not fit their purpose.

Often the small stocks are referred to contemptuously as the “cats and dogs” of the market. This chiefly by traders who like to deal in the big active issues.

Nevertheless, many people do well buying these small stocks, and there is always a demand for them. The ones that have shown good action in the past are the favorites. In the deep break of 1932 even the big stocks slumped into the “cat and dog” territory. No one need have any prejudice in purchasing low-priced issues.

Only a few stocks went “down and out” during the bleak depression days of 1931–1933. The small ones came back up and are “doing business as usual,” just like the old time “blue chip” stocks. Below is the surprising record of just a few of these small stocks.

<table>
<thead>
<tr>
<th>1932</th>
<th>1933</th>
<th>1935</th>
<th>1937</th>
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<tbody>
<tr>
<td>North American Aviation</td>
<td>1 1/4</td>
<td>9</td>
<td>2 3/4</td>
</tr>
<tr>
<td>Chicago &amp; North Western</td>
<td>2</td>
<td>16</td>
<td>1 1/2</td>
</tr>
<tr>
<td>Cuban-American Sugar</td>
<td>3/4</td>
<td>1 1/2</td>
<td>5 1/2</td>
</tr>
<tr>
<td>Electric Power &amp; Light</td>
<td>2 1/4</td>
<td>15 1/4</td>
<td>1 1/2</td>
</tr>
<tr>
<td>Follansbee</td>
<td>2</td>
<td>19</td>
<td>2 3/4</td>
</tr>
</tbody>
</table>
The big stocks can't begin to double and treble their values like these small ones. This fact increases the demand for the small ones and keeps them gratifyingly active.

Now it is a pleasing retrospect that no matter how small a stock may be—that is, how low-priced—it will run true to market laws just like the big high-priced stocks. The fact of the matter is:

Small Stocks Have Their Small Bull Moves right along with the big ones. They do not all start at the same time with the leaders, but they manage to make their miniature major moves by the time the big ones finish, and in fact are likely to top out about the time the general market reaches its crest.

Take the tiny little stock "Mother Lode," an affiliate of the Kennecott Copper Co. During the depression it sold down to 7/8—12 1/2 cents—a share, as may be seen in the list of stocks above, but since then has had its almost microscopic bull and bear markets with as much regularity as the big stocks.

This bull market habit of the small stocks is of great importance in using them, because it is only their bull moves that give them enough action to make them profitable. The trader can often trade in and out on the big swings of an active large stock, but this is impossible in the small ones. Hence our study of small stocks will be mostly regarding their major moves. However, these are immensely profitable and have doubtless enriched more people than has trading in the big stocks.

In the discussion of New York Central (Plate 2), the reader was shown how profitable it is to trade systematically in a medium low-priced active stock.
RADIO

In the diversified list of four stocks now to be taken up, Radio will be first examined. The advantage of buying one lot each of several different stocks is that some will move out earlier, or rise faster or farther than others. Out of a list of four stocks, probably two will get away for their moves weeks or months ahead of the others. It is a common habit of small stocks to remain inert until long after the big stocks are well up, then suddenly rush upward to their tops. Therefore, one may be a little more deliberate in taking a selected list of small issues.

In order to fit the needs of various-sized purses, four different-sized lots are used:

- Trader No. 1 buys 20 shares of each stock.
- Trader No. 2 buys 100 shares of each stock.
- Trader No. 3 buys 500 shares of each stock.
- Trader No. 4 buys 1,000 shares of each stock.

The buying and selling is made very simple since the zone plan is the chief indicator used. All of these small issues become a safe purchase when in the sub-normal zone. It may be taken for granted that the big active stocks will be down in the sub-normal or investment zone at the same time and ready to advance.

It is first advisable to learn from records at your brokers or from financial books in your library whether a stock is under bankruptcy regulations or not. Would avoid these even though they might be on the board. A small stock in receivership is not so bad. Management is often thus improved. The volume of trading in a stock indicates its popularity.

Radio (Plate 4) is a popular small stock enjoying a large volume of trading. While the range is small, it has, in the last five years, made three excellent moves. The center line and normal zone have not changed in the last five years. About all the trader needs to do is to have a chart and make his purchases below the normal zone and his sales above it.

- Trader No. 1 buys 20 shares at A, sells at B for... $260
- Then buys 60 shares at C, sells at D for... $600
- Then buys 130 shares at E, sells at F for... $1,690

- Trader No. 2 starts with 100 shares, ends with... $8,580
- Trader No. 3 starts with 500 shares, ends with... $45,500
- Trader No. 4 starts with 1,000 shares, ends with... $85,800
Not every purchase and sale can be made as good as those indicated by the letters on the charts, but by buying in the sub-normal and selling in the super-normal zone, you have the nearest possible to a "sure thing" the market can give you.

This concern manufactures automobile accessories as its chief business and is well known in its field. It is selected here because it is a small stock and suits a diversified small stock plan.

Dozens of other small stocks would answer in the place of the four we are describing. Every group has its small stocks, and often the small ones are as seasoned and stable as the big ones. Good selections are available for every major move. It is well to study what group is likely to enjoy an expanding demand for its goods.

Stewart-Warner is always good just preceding a business revival as motors start up first of all. Aviation stocks are good now because of expanding air traffic. Copper stocks are good for war, and electrical stocks for utility expansion. When building revival gets under way, the housing equipment stocks are especially active.

Every time the stocks get well below the normal zone and into the sub-normal, they prepare for a boom.* All major advances start from this "investment area." Select your small stocks from groups that have a prospect of exceptional expansion.

The reader's indulgence is asked at this juncture because of apparent incomplete instructions at this time. You will wonder how approximate tops are to be estimated and how one is to know when stocks are low enough in the sub-normal zone to buy, etc.

* This, written in December, 1937, has been strikingly confirmed in the booming stock market that started June 20, 1938.
STEWART-WARNER (Plate 5) had four major advances from 1932 to 1937. Radio had only three. This is because the 1934 bull move was small in most stocks and in some was hardly appreciable. This is one of our four stocks in the diversified list. Begin buying at A, sell at B, and continue on to the finish at H.

Trader No. 1 buys 20 shares at A, sells at B for $160
Then buys 50 shares at C, sells at D for $550
Then buys 110 shares at E, sells at F for $1,100
Then buys 220 shares at G, sells at H for $4,840

Trader No. 2 starts with 100 shares, ends with $24,200
Trader No. 3 starts with 500 shares, ends with $121,000
Trader No. 4 starts with 1,000 shares, ends with $242,000

There is much highly useful matter to come with the later keys. It is impossible to describe them or apply them all so early in the book. The principal lesson to learn now is the use of the Triple Zones as a means of detecting favorable positions for buying stocks and for the taking of profits.
REMINGTON RAND

This stock is small in price but represents a big concern. It is the largest manufacturer of office equipment in the world.

The reader will notice that the dotted center line, which is the middle line of each major move, is very easy to establish in every one of these stocks when one has a chart of the past years of the stocks. A once-over glance shows how each one invariably gets down below the normal zone in its bear moves and immediately becomes a purchase.

All the deep study and analysis you could devote to a stock would not give you half the help derived from this easy zone plan. All the technical knowledge of an expert analyst is not equal to a chart of a stock made up and laid off with these easily established zones as a means of determining where Any Stocks Should be Bought and Where Any Stock Should be Sold Out!

It will be seen in the chart (Plate 6) that Remington Rand had an unusually strong advance in 1934. This was because of the rapid increase of government bureaus which required office equipment. Inspiration Copper and Radio had no appreciable 1934 move. This is why a diversified list gives the investor an advantage over a single stock.

It will also be seen that while Remington Rand could be purchased at the start at $2, the same as Inspiration Copper, yet the final finish in the copper stock gave the investor a 9-point better profit than Remington.

The small trader profits as handsomely in proportion to the amount he has invested as does the big investor. The same patience is required of each.

REMINGTON RAND (Plate 6) has had four major advances or bull moves since the lows of 1932. The action was disappointing in that it made a premature top in January, 1936, which led us to accept profits at 22. It was a purchase in August around 18 according to a later key in the book, but the present plan is to show the use of the zones. Starting in 1932:

Trader No. 1 buys 20 shares at A, sells at B for $  140
Then buys 450 shares at C, sells at D for $  450
Then buys 90 shares at E, sells at F for $1,080
Then buys 150 shares at G, sells at H for $3,300

Trader No. 2 starts with 100 shares, ends with $ 20,240
Trader No. 3 starts with 500 shares, ends with $101,200
Trader No. 4 starts with 1,000 shares, ends with $202,400.
INSPIRATION COPPER

This is a well-known copper mining stock of the Southwest and popular in market circles. It sold up to 66 2/3 in 1929. Under any threat of major warfare this stock becomes very active. Business expansion, especially in the line of the utilities and electrical development, starts the stock into action; hence, it is one of the small, active stocks that lends itself well to a list of diversified issues.

Having only 1,152,000 shares, this stock can move rapidly under active trading. Stocks like Packard, with 15,000,000 shares, and Curtiss-Wright, with 7,428,000 shares, move more slowly and especially when trading is “thin,” as it had been during the winter and spring of 1937-38.

One of the reasons why J. I. Case Plow Co. is so active is because it has only 192,000 shares.

In the study of these four small stocks used in a diversified program, nothing has been said about the fact that every one of them (late 1937) is again down in the sub-normal zone, or investment area. This is seen clearly in the four charts. The investor who had been following this plan would have his funds liquid, ready to buy on the violent break of late 1937. And what a volume of stocks he could buy at the prices which ruled in March, 1938!

Now these profits look bizarre, almost impossible to the reader, yet it is plain that the simple buying of any issue below the normal zone and selling it above the normal zone would have made a fine profit without fail. And no money was used other than the original starting fund. The one thing that does not show up clearly is that it takes patience and orderly trading

Innovation Copper was one of the small stocks that rose sharply under the several “war scares” of 1935 and 1936. Plate 7 is a condensed chart of this stock. If the reader had a full daily chart of the stock he would see how, with the keys which follow, this stock could have been held through and the large profit of that swift rise to 32% taken almost in full.

Trader No. 1 buys 20 shares at A, sells at B for....$ 140
Then buys 70 shares at C, sells at D for....$ 630
Then buys 150 shares at E, sells at F for.......$4,650

Trader No. 2 starts with 100 shares, ends with..... $24,180
Trader No. 3 starts with 500 shares, ends with..... $120,900
Trader No. 4 starts with 1,000 shares, ends with..... $241,800
to follow a plan like this through to the end. But observe what it would mean to any man or woman eager to get ahead financially. If patience is a virtue in commercial life, it is even a greater virtue in the realm of stock-trading.

CAPITALIZE YOUR INTELLIGENCE

You are capitalizing your intelligence when you adopt and follow an organized financial plan such as this. The money invested at the start was mere pin-money for any of the four traders of the four diversified stocks.

"Thought, not money, is the real capital in business," says Harvey Firestone.

That's the real test in all trading, because one can make a fine start with only a small sum. The trait most urgently needed is that of remaining steadfast. Your fortune is in your head, not in your purse.

Sometimes it will seem to the investor that his stocks are all "dead ones." They move painfully slow for weeks on end. The broker urges him to get out and switch over to other issues; and if he does so in a moment of weakness, his plan and purpose are broken and may never be regained.

System in the market place is personal culture. It may prove to be the key to financial success.

Therefore, with all the power you possess, hold steadily to your position. The gods will be with you if you have the self-mastery to brush aside all temptations to quit. Stick through. The big money is at the finish, not at the half-way place.

Before you is an extremely simple example of a diversified trading program with four stocks. There is nothing in it that the most amateur trader cannot understand. Each trader starts with what would be an insignificant sum for him, and here's how their total funds summed up at the end of five years:

105
Trader No. 1 invested $180 and took out $14,480.
Trader No. 2 invested $900 and took out $77,200.
Trader No. 3 invested $4,500 and took out $388,600.
Trader No. 4 invested $9,000 and took out $772,000.

It is not expected that even the most careful investor will be able to make deals with the precision indicated in the four small stocks. If he should buy and sell at much less favorable figures, he would be doing a very profitable business. But with the use of the later keys described in the book, he will be able to select buying places deliberately and sometimes gratifyingly near the lows of his stock.

Then in following an advance he will learn that it is not necessary to sell out as soon as the stock emerges above the normal zone, but can be followed upward until certain useful signals are given where he can sell out. At times he will get almost an entire move, and at other times will sell out prematurely as in the case of Remington Rand.

The same style of zone action happens in all commodities and in all stocks, as well as in bonds.

The Triple Zones form the basis for intelligent investment. The later keys are refinements, means of getting the most out of a given move.

In the diversified list of four stocks, no note has been taken of possible dividends. Some small stocks, as Otis Steel, pay a substantial dividend and naturally add considerably to the investor’s profits, but the main profit comes from the increase in price of the stock itself.

What two things are greatly desired by investors?

First: A way to tell when an advance is becoming exhausted so that he can take profits.

Second: A way to tell when a break has run its course so that he can buy for the next rise.

The matter of determining tops and bottoms in the market is of greatest importance to investors and traders. The Triple Zone System accomplishes this by simple mechanical means absolutely devoid of opinion. The most expert forecaster could not equal the work of an amateur using the zone method.
FIVE WAYS OF MAKING CHARTS

It is well to take special care in the study of the stocks you are buying or intending to buy. No other single indicator is equal to a good chart. Charts are as essential to the investor or trader as the stethoscope and thermometer are to a doctor.

The four chief ways of making charts of stocks are shown in the four plates that follow. A good way for a person to get started is to get chart paper at once from his stationer, who will order it if he doesn't have it on hand; then begin making up charts of the stocks he expects to buy. It is well to keep a chart of U.S. Steel along with the others.

To get the highs and lows for previous years, it is possible to get a book free of charge from almost any broker. This will give a fair view of how the stocks have been acting. You can lay off the Normal Zone fairly well even in a rough chart made up from the annual highs and lows, but your best work will be done after you have kept up the charts for a few months.

Daily papers usually have the market quotations which, in a few minutes, can be marked up on the charts. The entire business of keeping up charts and of transacting business in stocks should require a negligible amount of time for the individual.

The large investor, estate manager, trust company, etc., will naturally take great pains to keep charts and any other records they believe to be useful. It is their business, and many of them have a whole corps of men assembling information on various issues and on bonds.

The "Open, High, Low, and Close" style of chart, as shown in Plate 8, is the most complete of all charts for a stock or grain, but it is a little more difficult to make. The small circle at the end of the line is the opening. The price may run in either direction from the opening and is followed to either the high or low of the day, whichever it may be. It makes no great difference whether the line is run from the opening up to the top or first down to the low. The result will be about the same. It is usually best to run the line from the opening first to whichever is nearest—the high or the low.

The dotted line between the close of any one day and the opening of the next is the "jump" which the market makes at the opening. The tiny cross-bar at the end of line is the close.
The "Running Chart," as shown in Plate 9, enables one to condense much time into a small space and yet have all of the important tops, bottoms, and swings required for full effective market work.

Starting with any point like the beginning of this chart at 49 3/4, the chart line follows the price down to 45 3/4 where there is a rally that rises 2 points to 47 3/4. This rally is followed up, but would have been ignored if it had not been 2 points.

The price then drops from 47 3/4 to 40 3/4 without as much as a 2-point rally. The plan is very simple. The opening and closing prices are ignored. In fact, they are the least important of any part of a chart.

This style of chart or graph is particularly effective for condensing the past action of a stock and showing where to establish the normal zone and the dotted center line.

Another way to condense the past action of any stock or of the Dow-Jones Averages is to cover the range of the week with a perpendicular line as in the chart shown in Plate 10. This enables one to place the center line and normal zone, but is not suitable for the active trader. Its chief value is to show the past action in condensed form. It is more condensed than the running chart.

This weekly style of chart is convenient for the reader who wants to run back through past quotations to find how a stock has been acting. For these past quotations, I like the New York Annalist because of its completeness. It has everything. This can be had at most public libraries in bound form. Back files of newspapers also contain the quotations.
The simplest and most popular chart is the Daily Highs and Lows made in the form of perpendicular lines as shown in the small section of Douglas Aircraft given in Plate 11. This is a little more condensed than the style of Plate 8 and has most of the features needed by the trader.

The regular chart paper for all of these charts has intermediate lines for 3/8, 3/4, 3/4, 3/4, etc., which makes it easier to draw the lines to the fractions of a point. In order to keep the engravings in this book clear and white for easy reading, we have only the dollar lines for stocks and the cent lines for grains.

As the reader gets farther along in the book, he will be able better to determine which style of chart he needs. It is well to make the charts accurately—with a drawing board if possible—as certain points are decisive mile-posts in a stock.
STOCKS ARE MADE TO BUY AND SELL

That is why there is a stock market. They are not intended to be bought and held, as you would buy a home and live in it indefinitely. There is a time to work and a time to play; also a time to buy stocks and a time to sell them.

Every bull market tells the investor-trader by blunt facts that there was a time when he should have bought stocks.

And every bear market tells him with equally cold hard facts, that there was a time when he should have sold out.

Unless you are planning to get a controlling interest in some institution, there is no sense in buying its stocks to hold. Buy them low and sell them high. If you are uncertain as to what is a low price for a stock, make up a chart of it, or get one from somebody who makes them, before you put a dollar into it.

Those three zones will tell you about 75% of all you ought to know about buying and selling positions, and you do not have to read an encyclopedia of financial news to get the information.

The other 25% of your buying and selling technique will come later in this book.

When the market is soaring and the trader’s mind turns to the Utopia he is going to inhabit, and the air-castle he is going to buy with the money he has not yet accepted for his stocks, it will be a very happy time in his experience if he will examine a Triple Zone chart of his stocks and see if they are “lilting” in the pink clouds of the super-normal zone.

It may bring him back to earth again. If he uses half his native wits, he will, by the use of those friendly zones, be able to come to a very definite and profitable decision about his stocks.

Whenever a stock gets above that normal zone a short distance, it is getting pretty warm. And when one gets up into the clouds, as Inspiration Copper did in Plate 7, or like American Rolling Mill in Plate 3, it is “hot money” for the owner holding it. It is dangerous to his financial welfare.

If he took advantage of the right position and bought his stock in the investment area or sub-normal zone, he has made a fine profit by the use of his judgment. He cannot afford to hang on to the stock, hoping it will again take wings and bear him higher into the stratosphere. It is time to sell.

If this is difficult to believe, look at every chart in this book, big ones and little ones, and they will tell you eloquently that once a stock has boomed its way up into cloudland, it is as certain to return to earth.

The only way to make money out of these stock deals is to buy them low and sell them high—but be sure to sell them.

A “good stock” that has made you a lot of money is not to be regarded with affection, as you would a favorite dog which you intend to keep into his old age.

Sell it and hitch your wagon to another star.

But don’t hitch your wagon to a new star until the said star is down in the sub-normal zone just peeping above the horizon. Like the evening star it, too, will eventually rise to the zenith.

Stocks often seem to move too slowly. They are deliberate when we are in a hurry. Yet if we are patient, they will eventually outrun our expectations. Of course, we all want to get on. Everybody is sincerely in pursuit of happiness, but too many are in pursuit of it at 80 miles an hour.

“There’s a good stock, a regular blueblood!” said a friend of the writer pointing to the Trans Lux tape where a string
of Douglas Aircraft quotations were bounding upward under "forced draught."

"I'm going to buy that one for keeps; put it away and forget it."

And he did. He took a round lot of 100 shares, the purchase price being 54. He perhaps wanted me to know that he was a man of decision. He certainly was when it came to buying. He paid for it outright.

Dame Fortune favored him with a rise of Douglas to 82. He was delighted, and, as usual with traders when success smiles, he was overconfident. His judgment had been vindicated, so he went about the forgetting business in earnest. He confided to me later that, after all, it was the dividend he wanted. It was to be an investment, not just a trade.

"It's plain as day," he said with emphasis, "that the next big business expansion is going to be in aircraft. What do you suppose will happen when every family has an airplane the same as it now has a car? And only a half-dozen overworked plants making planes. Why, it's a cinch Douglas will climb right up into the sky like one of their big planes!"

Douglas had a good business with earnings of $1.74 in 1936 and was expected to pay a fair dividend in 1937. On top of that his paper profit at 82 was 16 times the expected dividend.

Still lulled into forgetfulness by the rainbow promise of increasing air commerce, he ignored the fact that when stocks go down, they all go down together, the good and bad, the little and big, cats and dogs, to the zone from which they started. Nor did he care to listen to anyone who told him this.

Then came the big break of 1937. The zones clearly showed it was due. It was announced that the management of Douglas would advise passing the dividend, as new orders for planes made it necessary to use that cash for production.

By October, Douglas Aircraft had dropped down to 26½, less than half the 54 which he paid for the stock.

His intention was to select a good stock, do his part by purchasing it, then turn its fate over to the market and let the stock go on making money for him indefinitely. That is the dream of innumerable investors, and the most expensive dream a man could have.

Here is how the "buy it and forget it" plan came out in one short year:

The expected dividend of $117.40 vanished.
The one-time profit of $2,800 wiped out.
Over half the cost—$5,400—gone with the wind.

And why?

Because this man did not understand that when a stock gets up into the rarefied air of the super-normal zone, it is sure to collapse and go down, no matter how good the stock or how large the dividend it pays.

When a major bear market sets in, there is little distinction between the dividend-payers and those that pay nothing. They all go down together, finishing in that sub-normal zone where all bull markets are born.

Prices are not nearly as mathematical as people assume. A price is a thought, a mental estimate of what a stock, a bushel of wheat, or a piece of goods is worth to somebody. No matter what a thing costs, it is worth only what you can get somebody to pay for it.

The two greatest price-makers in the world should be re-examined from time to time. They are:

First: The Desire for Gain.
Second: The Fear of Loss.
And strange as it may seem this very emotional, sentimental ingredient, fathered by human nature, is the leaven of the market.

That is why it is possible to systematize the apparently erratic, irresponsible movements of the market into positive and useful laws of action.

Human nature is constant and dependable. What people do in the market this month or this year is what they have been doing ever since stock-trading began.

Why should men make the use of the market such an imponderable, incomprehensible thing by the accumulation of limitless statistics? It is right and necessary to know certain details of any stock or any business, in order that financial transactions may be consummated, but it is futile to try to forecast the future action of stocks by minor details that are needed only as matters of record.

How simple after all is this great thing we call "market action."

Look at the chart of New York Central, or any of the other charts, and you will see that they are busily doing the same thing year in and year out. They start down in that lower sub-normal zone and go up through the normal zone, and into the rosy region of the super-normal zone. Then they back down again to the lower zone. Stocks have been doing that since before you and I were born.

And you will note they do not tarry near the center line of fair values. That is not human nature. People are prone to be extravagantly optimistic or dolefully in the dumps. Stocks and wheat are constantly racing between the "pink tops" and the "blue bottoms," from one extreme to the other. They will always be doing this, and in this action is unlimited wealth for the men who realize this fact and will use it with confidence and decision.

"THIS ONE THING I DO"

As the versatile and congenial American begins to grow in financial stature through a successful initial trading campaign, he is almost sure to feel the urge to expand his operations. If stocks grow lifeless and drag for weeks in a rut, he may decide to try cotton or wheat or some other of the 28 quoted commodities.

His intention, of course, is to rush back to stocks as soon as they come to life—if his money is not then tied up.

Another slyly creeping enemy of the successful trader is the inclination to expand by taking a larger amount of stocks on margin. He reasons correctly that he can buy twice as many shares by putting up a 50% margin.

But the thing he fails or refuses to see is that he has no ownership in stocks bought on margin. The broker has his money, and somebody in Wall Street has his shares.

In margin-trading the operator can lose all of his money and have no shares.

In outright ownership of stocks the operator cannot lose all his money, and he does own his shares.

When a man sets out to use his surplus cash in the business of making more money, he will do well to remember the words of St. Paul, "This one thing I do." He should adopt a plan that is his size and stick rigidly to his plan until he has a real financial standing. Then he can enlarge by still following the original plan on a larger scale, but should never enlarge by going into margin-trading. Stocks bought outright in the sub-normal zone and sold in the super-normal zone will accumulate money with amazing rapidity.
MARGIN-TRADING is followed by numbers of people, especially those who prefer to trade in and out for moderate profits. During the early part of 1937, it was reported by Wall Street officials that 80% of all stocks traded in were being bought outright—only 20% on margin. The percentage of margin-trading probably varies between 20% and 25%, according to the activity of the market.

The purpose of this book is to point out the way to the safest possible trading. It is the writer’s belief that outright buying and selling of stocks by the simple use of the zones will far exceed in profits the most skillful trading by margin, either with or without a knowledge of the zones.

For those who prefer margin-trading the zones will be of immeasurable help. They will save many a margin trader from loss.

The other keys set forth later in this book will add as much to the efficiency of the margin trader as they do to the outright buyer.

It matters not how experienced you may be or how amateurish, the principles of trading in this book will help you immensely because they are basic. When you buy Remington Rand or New York Central in the easily located investment area or sub-normal zone, the wisest investor in Wall Street cannot do better.

And when you hold your stock until it reaches well into the easily located super-normal zone, to be sold out there, the shrewdest bank president behind a mahogany desk cannot do better. All the abstruse philosophy in the world is futile in the market unless it synchronizes with these amazingly simple but basic zones. These zones are not new. They have existed in every stock since the market began. But they are for the first time in market history being laid before you for your profitable use.

PART THREE

UNITED STATES STEEL
U. S. STEEL THE VETERAN MARKET LEADER
AND THE MOST SENSITIVE BAROMETER OF STOCK MARKET ACTION

Quietly, almost unbelievably, this majestic concern, wealthy beyond the imagination, exerts a decisive influence upon all other stocks from the highest to the lowest.

Steel enters into the intimate needs of the race in greater diversity than any other commodity. From the armored battleship to the skyscraper, the locomotive on down to the point which you dip into the ink, steel serves requirements that cannot be met by any other material.

Wheat is nearest to the universal food commodity of the world. Steel is nearest to the universal non-food commodity of the world.

It is, therefore, not strange that the financial mind turns instantly to the action of U. S. Steel for an indication of market direction.

All stocks yield to its spell no matter to what group they belong. If U. S. Steel has a bull market, so does National Biscuit, Allied Chemical, Phillips Petroleum, and other stocks entirely unrelated to steel.

Other speedier issues may run ahead of U. S. Steel for a short way but if this venerable leader halts, they will also halt. When the leader again marches ahead, virtually the entire battalion of other stocks will obediently march with it.

Financial thought is always deeply concerned as to whether stocks are about to go up—or down—hence people turn quickly
to the most reliable key to future action and that is U. S. Steel.

"What is U. S. Steel doing?" is the universal telephone question which brokers answer thousands of times daily. The most comforting news the owner of stocks can have is that U. S. Steel is rising.

The most desirable thing in the financial world is an accurate forecast of the stock market, and nothing equals U. S. Steel in furnishing an accurate forecast when the investor knows how its movements are to be interpreted.

This special study of U. S. Steel is here introduced because it is the best possible guide in the forecasting of any and all stocks. It furnishes early and valuable indications of major tops and bottoms not available anywhere else.

When U. S. Steel enjoys a good demand for its wares and the stock is advancing in price, it means that business optimism is increasing generally.

Business acts upon this stock as the weather acts upon the thermometer. U. S. Steel does not make better business, but is an accurate barometer of business. It relays optimism or pessimism from the realm of business to the realm of securities.

Because steel enters so intimately into our national life, the rate of its production becomes of direct importance. Hence, the "steel rate" or rate of capacity of the mills is a good index of the status of business. It is not an imperative need that the investor know the steel rate, as its effect is instantly registered in the graph of Steel where it is in condensed and usable form.

Everything that happens in business and in the steel group finds prompt expression in the action of U. S. Steel, making this stock a veritable lighthouse in the heaving sea of stocks.

The Dow-Jones Averages for the industrials, rails and utilities are sometimes helpful when the investor meets what seems a difficult forecast. They are of special value in big intermediate swings of the market, either in bull trends or bear trends, as is discussed in a later chapter. But U. S. Steel is so much more prompt and acute in its indications than the Dow-Jones Averages, that 90% of the help needed by the investor is better served by U. S. Steel.

It is extremely fortunate for traders that this stock serves so well in forecasting the stocks. It enables study to be concentrated upon one issue. The reader will be shown how it is possible to watch U. S. Steel and tell the day he should sell out any other stock.

The "forecasting" mentioned occasionally in these pages is that furnished by the mechanical action of the market in which U. S. Steel is singled out for its peculiar ability to show turns of trend. When the trader uses Steel, the zones and the other keys to be shown later, he himself is not forecasting; he is simply utilizing the actions of the market to forecast itself. Simple human opinion, no matter how keen the mind from which it comes, cannot compete with the mass opinion of the whole trading clientele recorded daily in the action of the stocks.

This study of Steel will greatly simplify the onerous details incident to the selecting, buying and selling of stocks. While no mathematically accurate indicator can be found for market actions, since they are based upon sentiment and emotion, yet we have in U. S. Steel a practical and nearly perfect indicator. It has been shown by the use of the zones that the buying zone for any stock may be easily located.

Now it is about to be shown that U. S. Steel may be used as a very sensitive barometer for indicating tops where long stocks should be sold out. This is fully as important as knowing where to buy. A line of stocks properly bought in the sub-normal zone may blossom out into a fortune at the top but it is not a fortune until it is "cinched."
What is the best kind of a stock to buy?

One that is active and pays a fair dividend. Good example—American Smelting and Refining.

What is the next best kind to buy?

An active non-dividend-paying stock, popular, seasoned and having sound assets. Good example—New York Central, U. S. Rubber.

What is the best trading policy for stocks?

A diversified list of active dividend-paying stocks for large investors.

A diversified list of small stocks that show brilliant action when big stocks are in a major advance for smaller traders.

What is of first importance for the trader to know?

Whether stocks are in correct buying position.

How can he learn the correct buying position?

By making a chart, or procuring one, that shows the past two or three years' action of the stocks in mind, then laying off the center line and the normal zone as shown in previous pages.

Is it worth the expense or trouble to make a chart?

A chart is indispensable for intelligent trading. It costs but a few dollars and is the smallest possible expense in an investment which may result in a profit of hundreds or thousands of dollars to the trader.

Should stocks be bought only in the sub-normal zone?

If they have been well down into the sub-normal zone, they may be purchased safely anywhere up an advancing movement until they emerge into the super-normal or selling zone.

Should stocks be sold at once on reaching the super-normal zone or held a while longer?

They should be held until U. S. Steel gives the signal to sell as will be shown in pages following.