THE MINOR TREND LINE

This is a most important study. The graph of U. S. Steel (Plate 12) looks somewhat complicated, but is really simple because it is intended to show chiefly one thing—the use of the Minor Trend Line.

The normal zone and its dotted center line are placed upon the chart as described on page 67. The sub-normal or investment zone is all space below the normal zone. The selling zone where long stocks are to be liquidated is the super-normal zone.

The minor trend line is a straight line that develops along the under side of the bottom tips of a chart during a major advance. It becomes very clear and decisive during the fast topmost action in a finishing major move.

The minor trend line appears most conspicuously in stocks or commodities having the heaviest mass volume of trading. It is a product of the mass mind. It shows brilliantly in U. S. Steel and therefore becomes a top indicator for all stocks. It also shows brilliantly in wheat, and therefore becomes a top indicator for grains.

This minor trend line enables one to hold long stocks until the market breaks below the line, as shown at the points marked “sell” on the chart in Plate 12. All stocks should be immediately sold out at that time.

Thus, the stocks bought down in the sub-normal zone, as shown by the triple zones chart, may be held until they rise into the super-normal zone to where they at last break below this minor trend line.

A BETTER WAY TO MAKE MONEY

The minor trend line is a very sensitive barometer for indicating major tops, and next to the triple zones is the most useful to investor and trader. In this chart is condensed five and a half years of the action of U. S. Steel. Anyone keeping a daily chart of U. S. Steel can readily place the minor trend line.

Simplified trading brings best results. Too much miscellaneous market matter will confuse the trader. The reader has, so far, learned just two main keys in this book. If he never learned another one and used these two keys as outlined, he would doubtless outclass many professional traders.

It will be noted in Plate 12 that U. S. Steel first dropped down to 50 in November, 1937; then, later, dropped to 38, its final low. By November, 1938, it had advanced to 71. U. S. Steel never gets far below its normal zone as may be seen in the chart. The decline in 1938 of 23 points below is one of the largest.

Immediately following this discussion of Plate 12 will be shown the actual daily movements from A to B and from C to D, etc., as shown in the chart. Every one of these is a major movement except the rise from K to L, which may be regarded as a big swing or “double top.” Nevertheless, the top at L was readily located by the use of the minor trend line as shown.

I am especially anxious that the reader should understand this as an entirely new system of trading which takes its indications, not from opinions, but from the mechanical action of the market itself.

Mechanical action is the mass trading mind at work.

What the mass trading mind does is correct. The prices it records must be accepted because it makes the market.

Tops and bottoms are turning places in mass thinking.

The purpose of the minor trend line is to detect the turning of the mass mind as near the top as possible. This turning
signal, given in U. S. Steel, becomes an effective means of detecting the tops of the other stocks.

The investor is able to buy any stock of his preference by watching for this steel stock to drop to its "investment area" or sub-normal zone, then buying his favorite issue. Then he sells out when U. S. Steel gives its selling signal in the supernormal zone with the minor trend line.

U. S. Steel underwent a Double Bull Move from March, 1935 to March, 1937.

The first bull move was from March, 1935 to April 9, 1936. The second one from May 5, 1936 to the high top on March 11, 1937.

The first bull move ending April 9 had all the characteristics of a major bull market. It went well above the normal zone, topped out according to "bull market law" (to be studied later on), and showed an excellent selling place by the minor trend line at 65. Then after an abrupt break of 18 points, U. S. Steel accumulated for a month and staged a second bull move, going much higher.

**What Happened?**

**What Stopped the Break About April-May, 1936?**

**Why Didn’t Steel Drop to the Sub-Normal Zone?**

Here's the answer: The steel rate remained high, at over 68%. Industrial production rose to 89.3, a new high. The Steel Institute reported steel business best in five years, wheat began a strong rise, and by early June the steel production rate jumped to around 80%, a new high for the year.

This field of bullish events was too much for U. S. Steel to withstand. It therefore began and completed a second bull move, one "on top" of the other, but the trader who sold out at 65 was aware of the bullish situation developing in time to reinstate trades for a new advance in steel shares.
Another remarkable thing happened that the investor should know.

*Most of the big active issues had completed the larger part of their bull moves* when U. S. Steel made that top on April 9, 1936.

After that most stocks went somewhat higher while U. S. Steel was in that big rise to March 11, 1937, but their biggest advance was over by April 9, 1936. Stewart-Warner (Plate 5) did not make a higher top. A.T.T. was near top.

The minor trend line is a by-product of bullish market action.

It is first defined on page 128, and is used for the first time in U. S. Steel chart (Plate 12).

It is most easily applied, most useful and most needed where there is fast upward action.

This line is unequaled for detecting tops for major advances in wheat and U. S. Steel.

Because it shows the tops for these two great leaders, it automatically shows the tops for all other stocks, for bonds and for grains.

The minor trend line gives the first dependable signal that top action is completed. How?

Whenever a rapidly advancing market halts and turns downward, breaking below the minor trend line, the signal of a decline is given.

When that signal is given, all stocks should be sold out at once or on any small rally.

The minor trend line enables the investor to hold long stocks—or wheat—until they show the top signal, no matter how high they rise above the normal zone.

Not all stocks show top formation adaptable to the minor trend, but the leaders do.

The owner of stocks should keep a chart of U. S. Steel. By placing the minor trend line under the lower points of the rising market, as shown, he will know when he should sell out other stocks. Most stocks develop a minor trend line of their own but will "stall" usually until U. S. Steel breaks through its minor trend line. Then the whole family of stocks will go down.

A graph of U. S. Steel made either with the perpendicular straight lines, like Plate 11, or the more elaborate style of Plate 8, will readily show where to place the minor trend line. But graphs should be made carefully.

The making of graphs is easy and takes but little time. They should be welcomed as an invaluable detail in the business of making money.

The details of investment and trading become simple when reduced to a clear, brief formula based upon market action.

First: You buy in the sub-normal zone or anywhere up through the normal zone.

Second: When above the normal zone, you watch for action that shows a minor trend line.

Third: You sell out as soon as the market breaks below the minor trend line.

That completes the buying campaign. If you wait for the inevitable break, you can again buy in the sub-normal zone and your money will buy much more of your stock. Note this on page 130. When the market is declining, you are making money because your cash will buy more of a stock.

You can sell short, if you wish, when the minor trend line is broken and take a profit on the short side, although this book is devoted to making money in stocks by buying them low and selling them high. The same instructions that enable the investor and in-and-out trader to make money on the long side will tell the short-seller where to make his short sales.
FOUR TOPS FOR U. S. STEEL AS DETECTED BY THE MINOR TREND LINE

**First Bull Move After the Depression**

Each of the four successive bull moves for Steel since the depression, including the "double bull move" of 1935 to 1937, will now be shown and how the minor trend line is applied to get the top signal.

Plate 13 shows the everyday action from the low of the depression to the first short bull market of 1932. This was a "six weeks" bull move or "42-day cycle" common to Steel and wheat. It is the shortest type of major move known.

A False Top was made as shown on the chart, and even though the stock had risen above the normal zone, the trader may know it was not the final top, because only sixteen days had elapsed since the stock started up. The balance of the advance ending September 7 developed the usual minor trend line slope so much needed to give the selling signal. When that signal was shown, it was time To Sell All Stocks.

The 42-Day Cycle, or "six weeks" bull move, means 42 calendar days—about 36 market days. Steel and wheat do not always follow the 42-day cycle but do so more frequently than not. Sometimes Steel will double the 42-day cycle, as it did in the fast break of late 1937. From the top 121/4, August 14, to November 8, when Steel touched 51, was 86 days, slightly over two of the 42-day cycles. A knowledge of cycles is helpful but not necessary to the trader.

The "Triple Zones" are shown with the dotted center line, all of which are easily placed, as previously described in preceding pages.
The decline represented by the dotted line in Plate 13 was not abrupt as the line seems to indicate. This decline was a complete bear market lasting from September 7, 1932 to the following March.

The ease with which the investor or trader can make money by following the zones and using the minor trend line is clearly illustrated above. The most difficult feat is not to forecast the moves of U. S. Steel, as that is done automatically by its own action. The difficult part is for the trader to hold on calmly until the moves are finished.

A BETTER WAY TO MAKE MONEY

U. S. Steel—and any other sound stock—was a safe purchase in the sub-normal zone and could be held until Steel was well up in the super-normal zone and near the end of a 42-day cycle. The final test is, of course, the minor trend line.

SECOND BULL MOVE AFTER THE DEPRESSION

These successive bull moves of steel are shown in detail with daily movements for each major advance to acquaint the reader with the usual style of top action.

This second move (Plate 14) went about 15 points higher than the 1932 bull move, therefore the center line is necessarily raised as the market rises above former top. The normal zone broadens and rises also.

As soon as the price breaks below the minor trend line as shown at the “selling signal,” the center line can be placed. It is the half-way point between the top and bottom of the move.

The normal zone covers one-third of the range, or from 38 to 52 in this move. The normal zone does not have to be exactly one-third. It should be nearly so.

This move of U. S. Steel again emphasizes the usefulness of the zones and the minor trend line. The entire stock market tops out when Steel makes top. The minor trend line gives the first signal that the advance is definitely over.

Therefore, the investor buys U. S. Steel—or any stock—when Steel is in the investment area. He holds his stocks until U. S. Steel moves up through the normal zone and into the super-normal zone. When making top Steel will form a chart structure under which the minor trend line is placed and which shows when U. S. Steel or any other stock should be sold out.

To make the minor trend line effective, it is necessary that the trader make his U. S. Steel chart with particular care. Accuracy here will bear fruit.
The importance of U. S. Steel as the chief guide in all securities trading becomes more apparent when it is seen how the general stock market seems to duplicate the movements of Steel (Plate 14).

There is some controversy as to whether U. S. Steel leads the market, or vice versa. The writer believes the public inadvertently follows U. S. Steel, whether it intends to or not. More attention is given to what Steel is doing than to any other stock. The ultimate result is that the general market is swayed by the actions of U. S. Steel, making it the virtual leader.

A BETTER WAY TO MAKE MONEY

THIRD BULL MOVE AFTER DEPRESSION

A full understanding of the habits and actions of U. S. Steel is more useful to the investor or trader than a whole compendium of market statistics.

The third bull move charted on Plate 15 was not a very large move, the actual range being about 25 points. This covered just about two "42-day cycles." However, I do not wish to stress these cycles too much, as they are not as dependable as the zones and the minor trend line.

For the third successive time, U. S. Steel had dropped below the normal zone, as shown in Plate 15, where it became a positive investment purchase. Nothing could be easier in the investment line than to buy below the normal zone and sell out above it.

What is the chief obstacle in following this zone plan? Nothing in the world but human impatience! Curbing one's impetuosity is a matter of financial culture.

The human urge to get on faster tempts the investor to overextend himself, to buy before the right zone is reached, or to hang on too long after the minor trend line is broken. The plan of operation by zones is the simplest possible—and the most profitable. But it must be followed religiously.

In Plate 15 the top-making action did not show as clearly as other moves in U. S. Steel because it was a slow, small bull move. Nevertheless, the minor trend line gave the signal.

The vertical rise from X to Y gave the first hint that this stock was soon to make top. There will be a later chapter on "Vertical Movements." They form one of the very useful subsidiary keys to the zones.

FOURTH BULL MOVE AFTER THE DEPRESSION

This major bull market from G to H was practically completed when it broke below the minor trend line at H. The
The break indicated by the dotted line in Plate 15 covered a full year.

The investor who sold out 100 shares of U. S. Steel around 57, as shown by the minor trend line at "Sell," would have found his funds increasing in value while the market was declining, as he could buy 200 shares with the same money when the stock reached 28 in March, 1935. (Continued in footnote on opposite page.)

A BETTER WAY TO MAKE MONEY

"secondary (dotted) minor trend line" is fitted to the "double top." Steel made at this time. The logical action for the investor who bought in the sub-normal zone between 28 and 38 would be able to sell out at H. He would have a 30- to 37-point profit at 67 where the minor trend line gives the selling signal.

U. S. Steel broke back rapidly from the top made April 9 (Plate 16), but a new high for steel production and for the business index caused a second bull move, or double bull move, to the high top made in March, 1937. There is no mechanical means of knowing that the stock was a purchase at the "30-day congestion" for another bull move. It did not go below the normal zone.

But the surprising fact is that most stocks made their highs or nearly so on this first bull move that topped out April 9, 1936.

For instance, American Smelting went up 60 points, while U. S. Steel rose from G to H, but added only 9 points more while Steel was rising from 55 to 126.

Again the investor would have won handsomely by selling out a line of stocks when U. S. Steel broke its trend line at H, according to the rule.

Nearly every major bull move of wheat and Steel tops out with a second top and a secondary minor trend line. Note Plates 13, 14, and 15.

The four bull moves for U. S. Steel shown here go far toward proving that successful investing can be made comparatively easy and quite profitable.

The venturesome trader, not averse to short-selling, would doubtless take a short position when the price broke below the minor trend line. However, a short-seller is necessarily a margin trader. It is difficult to criticize any trader who, in perfectly good judgment, sells an overextended stock short, yet it must be remembered that public taste is 80% to 90% for the long side.
The graph showing the fourth bull move of U. S. Steel since 1932 (Plate 16) again proves the potency of the Triple Zones as a means of locating the buying and selling areas for U. S. Steel (and therefore for any other stock); also the minor trend line as the final signal forecasting a break. This plan of investing and accepting profits is based wholly upon the easily charted action of the market which is the essence of mass opinion. The personal opinion of the keenest individuals can in no wise equal this mechanical method.

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U. S. STEEL THE COMMANDER-IN-CHIEF

This stock is given a whole section in this book because, like a general, it directs the movements of all the other stocks. You can hitch your financial wagon to this star. Why try with painful labor to sift out reasons why this stock or that stock is a good one to buy? They will all travel the same trend with U. S. Steel. You can watch U. S. Steel and tell when to buy Coca Cola, National Biscuit, or American Tobacco, issues totally unrelated to Steel.

This book could be filled with statistics about this famous leader, but it would be of no more help to the investor than a history of the pyramids.

To look back through the records to find when U. S. Steel paid dividends and when it passed them would be about as useful or helpful as learning the average annual rainfall of Timbuctoo.

It makes little difference whether it is paying dividends or not. It guides the destinies of all the rest. That is substantiated by studies of the four bull markets since 1932. U. S. Steel paid no dividend all this time until October, 1937, during the big break, when it paid $1 per share. Yet all this time the 1,300 to 1,400 stocks were being guided by this veteran steel stock.

People follow a leader in stocks just as they follow a leader in politics, or a general in the army, or a great churchman in religion. U. S. Steel happens to be the stock upon which the toga of leadership has fallen. It is a welcome truth to the investor. It greatly simplifies the safe buying and selling of
securities. By becoming proficient in the habits and actions of
U. S. Steel, the investor automatically acquaints himself with
the tops, bottoms and trends of all other stocks.

Simplify! Simplify! Make your stock transactions as
simple as the "simple life." Cramming the mind with irrele-
vant details is like filling the stomach with unnecessary food.
It lowers your effectiveness.

Adopt a sound plan of operation, such as using the zones
for buying and selling, and then stay by it.

It may seem rather slow at the start, but do you know any
other way by which the trader can start with so little funds
and realize so much as in the diversified plan shown in
Chapter 24?

The stocks will do these things all over again while the
public is watching them. Shortly before this writing, North
American Aviation dipped down to $3 per share (October 19,
1937) and was well into the sub-normal zone. This is the
"area of investment" as shown in the zone charts.

It dropped into its sub-normal zone because U. S. Steel
had descended into its sub-normal zone.

It was a splendid purchase according to the plan of trading
described here, and was again performing just as I have shown
how the other stocks have been performing since 1932—and
before.

Less than 90 days later this stock was selling at $10, or
A PROFIT OF OVER 200%.

And it should be remembered that, months previous, by fol-
lowing the charted action of U. S. Steel, you would have sold
out NV when it was around 15, above the normal zone, thus
preparing the way to repurchase it somewhere between $6 and
$3—its sub-normal zone.

The whole plan of this book is to help investors concen-
trate upon the few essential features of successful trading:
Skillful operations are based not upon copious knowledge of

stocks, but upon knowing a few vitally important things about
their habits of action.

Practically all stocks may be gauged, or estimated, by U. S.
Steel as the yardstick. If the investor wants to know whether
his stock or any stock is in a buying position, he should go
instantly to U. S. Steel for the answer. The Dow-Jones Indus-
trials may help him some, but Steel will give the answer.

In fact, U. S. Steel exercises such a paternal influence over
the whole family of stocks that it decides the trend of the Dow-
Jones Industrials most of the time. Compare any other
charted stock in this book with U. S. Steel, and you will see
that over the past five years their actions are a replica of the
actions of Steel.

Using U. S. Steel as a guide greatly simplifies trading. It
does more. The whole art of trading is made from a single
pattern.

Emerson says, "Every institution is the lengthened shadow
of some man."

It may be said with equal accuracy that the graph of every
stock is patterned from the shadow of U. S. Steel.

*In the midst of investment plans, take care to avoid dying
industries.*

*Silk yielding to rayon, street cars to busses, phonographs to
radios, old railway equipment to streamline trains.*

This is a matter of personal information and may be easily
acquired from any financial paper. Concerns that go into
receiverships or bankruptcy should also be avoided, as there
are plenty of sound stocks for investment.

At times certain groups of stocks will run well ahead of the
general list.

Copper stocks boom under war threats. Aircraft stocks
rise with air commerce developments. They run ahead of
Steel, but, nevertheless, make tops and bottoms with U. S.
Steel. The Dow-Jones Industrials include 30 stocks. Some of the larger advisory concerns take their averages from 50 to 100 stocks, but these will not serve the trader's purpose any better than a chart of U. S. Steel.

To show graphically how even the biggest stocks acknowledge the leadership of U. S. Steel, graphs are shown on the following pages quoting accurate tops and bottoms made by American Telephone and Western Union. These two stocks, though in vastly distant groups, have been making their turns for the last five years in complete obedience to U. S. Steel.

It is the opinion of the writer that U. S. Steel is far more important in determining trend of each individual stock. How?

First: The deep cause of market trends is in the dullness or activity of business.
Second: Since Steel enters deeply into human needs as described on page 123, it is first to feel a new business trend.
Third: U. S. Steel relays optimism or pessimism from the realm of business to the realm of securities.

For these reasons, U. S. Steel is a most sensitive barometer of trends known to the stock market. The investor can adopt it as the chief indicator for any and all stocks he intends to use.

Plate 17 shows with what fidelity American Telephone imitates the major movements of U. S. Steel. The tops and bottoms with dates are accurate. The intermediate movements are "filled in."

The value of U. S. Steel as a guide in buying and selling Am. Tel. & Tel. is instantly apparent. The investor pays little attention to the Telephone stock, but centers his attention upon U. S. Steel. When the latter is down in the sub-normal zone, then Telephone stock is a purchase no matter where it may be.

Note that on April 18, 1933, Telephone was a good purchase because U. S. Steel was well below its normal zone. The same condition existed in March, 1935, and again in March, 1938. Every holder of Amer. Tel. & Tel. should study U. S. Steel. Both of these stocks are in high favor with the investors of both Europe and America.

Although belonging to a very different group of stocks, Am. Tel. & Tel. stock displays almost perfect subservience to the movements of U. S. Steel. One needs but to note the dates of tops and bottoms to see this. In the cases where the top and bottom dates of American Telephone are different from those of U. S. Steel, it will be found, by the market records, that American Telephone was very close to its turns on the dates when U. S. Steel turned. In 1938 both stocks touched bottom on the same day—March 31.

If you ask when American Telephone should be bought, I would say, when U. S. Steel is down in the sub-normal zone, as it was on March 3, 1933. At that time American Telephone was not below its normal zone but was a purchase anyway—Because U. S. Steel Gave the Buying Signal.

The investor could follow every one of these major advances fully and correctly by watching U. S. Steel only. It is a better guide than the Telephone stock itself. And it is for all other stocks.

One of the surprising incidents noted in these two charts is that the top where our clients would get out of long U. S. Steel on April 9 enabled holders of American Telephone to sell out near that high top on February 14 (in A. T. T.). Even though U. S. Steel went much higher on its double bull move, the investor would have secured most of the advance in American Telephone.

Every holder of American Telephone should keep a chart of U. S. Steel and sell out on the big advances. Why carry the stock down to the depths again? If you sell out when
A BETTER WAY TO MAKE MONEY

U. S. Steel gives the signal, you can buy a lot more stock with the money on the next decline.

At this juncture it is well to remember that the best profits are in appreciation.

Buying stocks for appreciation of price is the most common practice. Even the careful investors, whose chief thought is earnings and dividends, must buy stocks at the lowest price available in order that the largest return possible will be secured on the money invested.

It is just as important that the investor buy stocks when in the sub-normal zone or investment area as for the speculator to do so. The investor selects well-seasoned sound stocks with a good financial structure and paying a dividend. He wishes to get a sure dividend and if possible an increase in the price of his stock.

The speculator selects an active stock, like the N. Y. Central, Bethlehem Steel, or Southern Pacific, and depends upon its activity to make returns so swift and large as to render dividends unimportant.

Both Investor and Speculator Can Use the Guidance of U. S. Steel to Great Advantage.

This fact is stressed repeatedly. It is of much importance.

It has been shown how American Telephone, one of the largest corporations in the world, follows the movements of U. S. Steel. Most of the 1,300 to 1,400 other stocks follow this leader. It is not an accident but a habit. It is a habit that can be capitalized by every earnest person who reads this book.

For the best profits select an active dividend-payer of the size you like to trade in. Bethlehem Steel is extremely active. It paid a dividend of $5 in 1937. You may get the dividend and the appreciation in price also.

For activity in a stock of moderate size, few stocks are better than Southern Pacific. It pays no dividend at the pres-
ent time, but for a stock of its price it is very active. The same money would buy three times as much Southern Pacific as Bethlehem Steel if bought in March, 1938, and its activity would make up for the loss of dividends, or even more. By actual calculation it is found that $2,000 invested in Bethlehem Steel at the bottom made in 1935, and sold at the 1937 top would have almost exactly equalled $2,000 invested in Southern Pacific for the same period, even though the railway stock paid no dividend.

Just because a stock does not pay a dividend is not an adequate reason for discrediting its value as an investment.

The chief point I would impress upon all investors and traders is that they should take U. S. Steel as the chief guide for making purchases and selling out. This regardless of whether the concern makes steel or breakfast foods, cosmetics or tractors, and regardless of whether it does or does not pay a dividend.

Plate 18 shows how another stock—Western Union—totally different from U. S. Steel, follows it with remarkable fidelity. It will be seen that the tops and bottoms of the major movements in this stock are almost on the same dates as the tops and bottoms of U. S. Steel.

But you ask, "Why not buy and sell a stock by its own zones without watching U. S. Steel?"

That is the next best thing to do, but some stocks will run ahead of U. S. Steel and will make better returns if held until the steel stock tops out.

Note how Western Union at April 9, 1936, ran far above its zone and how American Telephone ran very much higher by February 14, 1936. Also, see how Stewart-Warner (Plate 5) was making its final top when, by our plan of following U. S. Steel, all stocks were being closed out about April 9, 1936, as seen in Plate 12. U. S. Steel is a better measure for any stock than the stock itself.
A low-priced medium, like Western Union, though far removed from the steel group, can be safely and accurately used with U. S. Steel as the guide.

First have a chart of U. S. Steel to see when that stock is in the sub-normal zone.

In July, 1932, U. S. Steel was well down in its sub-normal zone. Therefore, you buy Western Union at—say 16; 100 shares would cost $1,600.

Then do nothing but wait for U. S. Steel to rise through its normal zone into the super-normal zone.

Sell out the Western Union when U. S. Steel breaks its minor trend line (Plate 13) or about 46.

Your total capital would then be $4,600.

The next March you again buy Western Union when U. S. Steel is in its sub-normal zone, or about 20 for the Western Union stock. $4,600 would buy 230 shares.

Again wait for U. S. Steel to rise into the super-normal zone and break the minor trend as in Plate 14.

Sell out your Western Union at about 75 for $17,350.

Put your money in the bank and wait for the old leader, U. S. Steel, to slump down into that sub-normal zone again. It is back there in October, 1933.

In October with your $17,350, you buy 480 shares of Western Union which you sell out when U. S. Steel breaks its minor trend line, as in Plate 15, say around 62. This sale brings your cash up to $29,760.

Naturally, you will make the next purchase in March, 1935, using U. S. Steel as your guide. $29,760 buys 1,180 shares at $25, about where you would get the Western Union stock. You would sell out at a huge profit around 80 (Plate 16). Your total cash is now $94,400.

Then you could repurchase at the very favorable price shown in March, 1938, on Plate 18.

MARKET POSITION VS. STOCK ANALYSIS

Which is best to know: The financial background of a stock, or its market position today?

An analysis of a stock tells you about everything except its market position.

Position tells the investor whether a stock is in the proper place to buy—or not. Also, whether a stock, already owned, should be sold or held.

Analysis of a stock increases knowledge and may bolster confidence, but affords no information as to WHEN TO BUY OR SELL.

A stock of the highest financial rating is not a safe purchase when in the super-normal zone. Note this fact by viewing any stock charted in this book.

American Telephone had a splendid financial rating on February 14, 1936 (see Plate 17), but was absolutely unsafe as a purchase at that time, as may be easily seen.

A stock of very low financial rating will prove a profitable purchase if bought in the sub-normal zone, while a highly rated stock will bring a loss if purchased in the super-normal zone.

The Triple Zones are used in this book for the sole purpose of showing the market position of any stock or commodity.

The attention of the investing public centers in U. S. Steel. By following this stock through its three zones, we have the best possible market indicator.

If an investor has ten stocks or fifty stocks, he can tell by the simple use of U. S. Steel and its zones when he should sell.
out. Then, regardless of whether the bear market be swift or slow, U. S. Steel will tell him when to repurchase the stocks.

The chief point I would impress upon readers of this volume is that the analysis of a stock is interesting but inadequate. Something else is needed and that something is Position. Look at any chart of stocks in this book and you will see how they ran up, time after time, to dizzy heights. Yet more people were buying them around these tops than at any other time.

And they were all wrong, sadly wrong. Why?

Because they had no good way to tell when their stocks were becoming too heavy. The analysis of any stock at that time naturally showed the issue at its best.

If they had owned this book and used this zone plan of trading, they could have taken a big profit, whereas many of them doubtless took a big loss.

The time-worn adage, "Buy low and sell high," is the best advice in the world, if the investor only knows when stocks are low and when they are high.

That question is readily answered by the use of the three zones and is carried to a greater stage of accuracy by the leadership of U. S. Steel and the use of the "minor trend line."

If you should ask me to describe the outlook for a stock which you happen to hold, I should answer by stating:

First: The position of U. S. Steel, whether in its normal, sub-normal or super-normal zone.

Second: The position of the stock you hold—that is, in what zone.

Third: The percentage of break or rise for your stock compared with the rise or break of U. S. Steel. This compares strength.

Fourth: Percentage which U. S. Steel has rallied if it is in the sub-normal zone, and the percentage your stock has rallied.
be judged only by the zone plan. Test every stock you hold or intend to buy in the light of U. S. Steel and its zones. There is no desirable substitute for this plan. It is the market's own verdict.

For the last several years there has been a steadily increasing interest in the charted action of stocks and, in fact, the price movements of every kind of security and article of commerce. The government bulletins have copious graph illustrations to clarify the action of markets. Financial papers are stressing the use of graphs and the chief reason is that charted action is immensely more dependable than the best human opinion. When you see your stock in a plain chart you have an honest picture of what it has done, but when that chart is plotted with the zones you have an excellent idea of What Your Stock Is Going to Do Next!

SYMMETRY OF ACTION

Concentrate upon U. S. Steel as the leader and indicator when buying any and all stocks. Whether it is earning profits or running at a loss, its action is a competent gauge of the action of other stocks.

To make this more easily understood, the Dow-Jones Industrials and Dow-Jones Rails are compared with U. S. Steel in the graph (Plate 19).

Stock traders fall into the fallacious belief that when any big stock develops strong action and large volume, it is the "leader." It is true that during a major advance various issues suddenly show speed. Chrysler became very active the first half of 1935, and Douglas Aircraft the last half of that year; yet neither one was a leader in any sense.

When the final record for the year was finished, U. S. Steel had furnished the only dependable starting indications. The start was in March of 1935.

What U. S. Steel did for the investor, following the plan of this book, was to tell him when these active stocks were safe to buy. As they developed speed on the way up, shrewd investors could add more to their lines if they wished; but it was our leader, U. S. Steel, that gave the correct buying indications.

And the reason was because the steel stock was deeply down into the investment area—its sub-normal zone. Of course, the in-and-out trader can profit handsomely by this same information, since he can take the long side on minor reactions and sell out on the rallies. In the long run stock traders will do far better to buy outright and hold for the
"long pull." Margin trading leads to using close "stops" and, therefore, frequent losses.

Position is first, last and all the time, the most important matter in the life of a stock deal. Don't hold stocks permanently. They may be a perfect purchase in January—and a sure sale in December.

That the action of the industrials, rails and of U. S. Steel shows great similarity is proved by the graphs in Plate 19. The probable explanation is that the public consciously or unconsciously relies upon U. S. Steel. Their trades are influenced by it. They first ask the broker, "What is Steel doing?" They then make their trades with this information fresh in their minds. The result is that all other stocks bought or sold reflect the action of U. S. Steel.

Therefore, the Industrials and Rails All Take on a Similar Style of Action to That of U. S. Steel.

The utilities also join as imitators of the big steel stock. Note the almost slavish following of U. S. Steel by American Telephone and Western Union in Plates 17 and 18.

U. S. Steel displays a sharper graph, with more decided tops and bottoms, than either the rails or the utilities. This fact adds to its effectiveness in deciding turns in the market. Not until U. S. Steel makes a clear start will the general market move out into major uptrend or downtrend.

One proof of the value of this zone plan is in the bull market top, April 9, 1936. This was not the final top for U. S. Steel but was a definite major top, and, according to our plan, investors might have sold out stocks as shown on Plate 12 at the minor trend line. But note this:

Other stocks ran up to a much higher point about April 9, 1936, as shown in the Dow-Jones Industrials.

Thus by selling out all other stocks around April 9, 1936, the investor would have secured almost their entire advances.
Steel went much higher, but the other stocks went very little higher. Stewart-Warner made its full top at that time (Plate 5).

Study the graph in Plate 19 carefully. Note how the dates of tops and bottoms synchronize. If other stocks did not make tops and bottoms on the exact date with U. S. Steel, they were very close to them.

THE DOW THEORY

Charles H. Dow, one of the founders of the Wall Street Journal, was the originator of the Dow-Jones Averages. He first constructed an average of industrials and one of rails. These date back to 1897. The utility averages came along about 1929.

The chief feature of the Dow theory is that the action of the industrials and rails corroborate each other, and that there is never a primary movement, and rarely a secondary movement, in which they do not agree. If, for instance, the industrials are rising to new highs, and the rails follow suit, also rising to new highs, it is a signal of bull trend, because the rails "confirm" the advance. If, however, the rails fail to confirm the advance, a reversal of the trend is indicated, and is "confirmed" when both industrials and rails begin to register new lows.

The primary movements are the bull and bear markets. The secondary movements are the intermediate smaller swings in either of the primary movements.

The theory is thus very simple. However, it is hardly adequate for the investor. It gives no hint of the real "position" of stocks, which is of the highest importance in successful trading.

For instance, on February 8, 1937, the rails "confirmed" the uptrend in the industrials by rising to a new high for the rails, though the industrials were at 188.66, or within 7 points of extreme top. This would naturally lead to buying of the industrial or rail stocks very near the top. (See the chart on page 158.)
Exactly the opposite course should have been taken, because the Triple Zone System shows clearly that all stocks were a sale right at the time the rails were "confirming" an uptrend. In using the Triple Zone System the investor need not wait on a long dragging market for rails to give their indication.

Comparing the Dow-Jones Theory with the Triple Zone System brings one to the following conclusions:

The Dow-Jones theory makes no attempt to show the position of the general market or any stock.

The Triple Zone System points out the position of all stocks or any stock at any time.

The Dow-Jones theory cannot be safely used as a means of determining when stocks should be bought or sold, because the rails may "confirm" a continuation of a major advance when near the top, as shown above.

In March, 1935, during a sudden finishing dip in the stock market, the rails "confirmed" downtrend, when U. S. Steel and other stocks were about to start a two years' major advance. Stocks declined only a few points—some not at all—before the big move began. To "confirm" downtrend near the bottom figures of a decline naturally deters the investor.

The Triple Zone System locates the actual investment area where U. S. Steel or any other stock is a safe purchase.

Furthermore, the Triple Zone Plan shows clearly and by strictly mechanical means the area where any stock should be sold out.

To make the selling more profitable, the "minor trend line" indicator is used to show the investor how high in the selling area his stock may be carried.

The point to be made is that while the Dow-Jones theory of the averages is useful, it is not sensitive enough as a barometer for the investor or trader, and does not give positions.

You may find out all there is to know about the stock you intend to buy, its field, history and finances, but the main question is, Shall it be bought—or sold—Now? The Triple Zone System furnishes an immediate answer.
MORE ABOUT AMERICAN TELEPHONE AND TELEGRAPH

This great American investment stock deserves special attention because of the 640,000 or more persons who hold its stock. The average amount held is about 29 shares (1938), the total shares being 18,686,794.

At the end of 1937, the company had approximately 15,327,000 phones in operation or nearly one for every share of the stock.

A further analysis of the stock shows the following amazing earnings:

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Income</th>
<th>Earned per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1929</td>
<td>$166,189,758</td>
<td>$12.67</td>
</tr>
<tr>
<td>1931</td>
<td>166,666,534</td>
<td>9.05</td>
</tr>
<tr>
<td>1936</td>
<td>174,826,414</td>
<td>9.36</td>
</tr>
<tr>
<td>1937</td>
<td>179,760,000</td>
<td>9.63</td>
</tr>
<tr>
<td>1938</td>
<td>154,161,000</td>
<td>8.13</td>
</tr>
</tbody>
</table>

It is to be noted that the earnings have varied little from the 1929 top down through the depression and up to the present.

Yet, American Telephone & Telegraph has undergone violent market movements. A critical analysis of this stock in November, 1936, just before the top was reached, would be very little different from an analysis made in January, 1938.

Nevertheless, in November, 1936, the stock sold at 190.

And, sixteen months later, March, 1938, it was down to 111.

Its huge earnings did not save it from decline; nor would an expert analysis in November, 1936, have saved an investor's money. Tens of thousands of men held their long stock at the 1937 top because it was making good earnings.

The Triple Zone System showed that A. T. T. should have been sold in April, 1936, when around 167-171, months before it made final top at 190 1/4 (Plate 17).

There is no virtue in taking a permanent position in any stock, not even in American Telephone, which is probably the chief of the “blue chip” stocks. To assume the position that you are buying for investment and are interested only in the dividend, is not sound reasoning. If the market did not fluctuate so widely, such reasoning would be good.

American Telephone, at this time, pays a dividend of $9 per annum. But the stock broke 49 points in 1937—over five times the amount of the dividend.

The Triple Zone System is primarily a blueprint of positions. When A. T. T. rose into the “pink cloud” region of the super-normal zone in 1936, as shown on the graphs, it was time to sell out. It required no deep intelligence to know this if you had a zone chart before you.

A financial writer in a recent magazine article asks why so many statistical organizations and financial experts missed the big 1937 break in stocks.

It was because they attempt to forecast markets on statistical detail and do not take into consideration the great emotional forces that sweep through the markets with the intensity of a tropical storm.

Stocks are incessantly obeying these powerful human impulses. Optimism sends stocks upward. Gloom sends them downward. They pass from the investment area to the selling area, before the public realizes a storm is on. Herein is the secret of the zones and their great value to the investor who uses them.

He takes advantage of the fine profit-making opportunities by purchasing in the sub-normal zone.
Then he takes advantage of the super-normal zone to realize the desired profits.

This continuous trek from the bottom zone to the top zone, and down again, is a permanent habit—permanent as human nature itself—and the investor who will take time to master this zone system will soon find that he has acquired a new proficiency in stock-trading.

THE POWER OF MASS EMOTION

The greatest actuating force in a capitalistic country is mass emotion.

This reaches its greatest intensity under the driving force of two unchanging human traits, THE DESIRE FOR GAIN or THE FEAR OF LOSS.

Men are impelled far more by emotions than by intellect. Fear grows with the swiftness of a contagion. Confidence develops like the slow blooming of a rose. Both are phases of human nature.

The slow-starting two years’ major stock market advance of 1935 to 1937 was nearly all lost in a 60 days’ tumultuous decline in the fall of 1937.

Rapid communication by air, telegraph and radio has greatly increased the intensity and speed of these emotional surges. Yet the general style of action remains the same.

Basic human nature does not change. This fact is of enormous value to the investor, because it leaves intact the two great major trends.

With all the changes that have occurred in stock market technique and action, there is no change whatsoever in the basic principle of trend, because trends are the product of stark, elemental human nature striving for profit or guarding against loss.

In the use of the Triple Zone System the individual investor capitalizes these emotional surges. With his stock charted before him, and its three zones laid off, he has a brilliant picture of the Position of his stock, and is able to make his trades with maximum intelligence.
In Plate 20 is shown a precipitate break of U. S. Steel from a high pinnacle in the super-normal zone down to the sub-normal zone. This break, though the swiftest in years, was in perfect accord with the Triple Zone System as described in this book. The fact is that these zones furnish a mechanical forecast not weakened by the frailty of human opinion.

On the whole, the stock market lost some 25 billion dollars in the break of 1937.

The Dow-Jones Industrials in Plate 21 show the precipitate break of the stock market to October, 1937. All but four points of this break was finished in a little over sixty days, being the most abrupt decline in thirty years.

It was an act of emotions, not of intellect.

All stocks went down together, the large and small, the active and dull, the “cats and dogs”—all tumbled under the wave of impetuous selling. Those which paid good dividends broke as wildly as the ones that had not paid a dividend in years.

One of the chief reasons for Plate 21 is to show how similar is the action shown by it to that of U. S. Steel on Plate 20. It is easy to reach the conclusion that the Dow-Jones action in Plate 21 is but a reflection of the way in which U. S. Steel, as the leader, influenced all stocks. The industrials were simply following U. S. Steel, and therefore made the Dow-Jones chart almost a duplicate of the U. S. Steel chart. A knowledge of this latter stock cannot be overemphasized.

This is a machine age. Steel enters intimately into every kind of human activity. Iron and steel form 93% of the total world volume of metal production. Steel and alcohol are probably the most used commodities of the human race.

A study of Plate 20 and Plate 21 proves the importance of adopting U. S. Steel as the best single indicator of market action.
A BETTER WAY TO MAKE MONEY

This simplifies investment procedure greatly.

First: We have the three zones.
Second: We select U. S. Steel as the best performer.
Third: We gauge all other stocks by Steel.

In March, 1938, expert economists were studying the stock market exhaustively, even fearsomely, to get some hint of what future action would be. But, our reader, viewing Plate 20 and seeing U. S. Steel down 23 points below its normal zone, would know that all stocks were in the investment area.
Bond prices advanced and declined with U. S. Steel during these three years but with very narrow movements.

A new sustaining force appeared in the bond market about 1934, which has remained effective and must be reckoned with until changed by future political events.

Expanding Government Debt, such as took place from the latter part of 1933 and onward, made it necessary to develop "controls" over the bond market, first to keep interest rates down, second to keep bond prices up. High-grade bond prices move opposite to interest rates. It is of great importance to the government, selling its bonds, that interest be low and the price of the bonds continue high.

A bank guarantee up to $5,000 on depositors’ accounts was enacted into law and helps to maintain the solvency of banks owning government bonds. The Reserve Bank was given important powers in the matter of supporting bond prices in the open market. Certain other methods of control exist, with the result that government bonds hold a remarkably high level even during severe crashes in the stock market.

Other bonds follow the action of government bonds to a large extent. Hence the well-supported prices of industrial bonds shown in the graph (Plate 22) from April, 1934, on up to January, 1938.

It is also noted that the action of bonds failed to follow the strong rise of stocks from March, 1936 to March, 1937. In fact, bonds held within a narrow range near top levels for that 12-month period.

This, too, was the result of "controls" possessed by the government. Banks were permitted to lower their holdings of U. S. bonds when the stock market was rising strongly. This meant much selling of bonds in the open market and a natural brake upon the rise of bond prices which would have taken place without such control.
A BETTER WAY TO MAKE MONEY

Until government borrowing became heavy, it was necessary to protect the government interest by controls. This can be seen by the action of bonds from 1930 to 1934. During the first part of this period they, like stocks, imitated very closely the action of U.S. Steel, as may be seen in the graph in Plate 22. But even in the dull movements, bonds show a strong tendency to trend with U.S. Steel.

Government "controls" as affecting the bond market have operated more satisfactorily than controls intended for the stocks. It is plain that a few thousand banks may be much more easily handled in the matter of bond dealings than several million people in their stock-trading.

So long as the government controls are used with skill, and so long as no runaway inflationary movement comes to upset financial tranquillity, bonds are likely to be especially satisfactory from the investor's standpoint.

But even under the best conditions and with the most satisfactory control from Washington, the bondholder can improve his position by selling either his government bonds or his industrial bonds when U.S. Steel is well above its normal zone and drops below that critical "minor trend line."

This plan will be especially opportune for those who hold industrial or rail bonds, since these are not so readily controlled from Washington and have only a sympathetic action with government bonds.

It is repeated here that the uses of steel and iron so thoroughly permeate human activities that their importance can hardly be exaggerated. During the distressing recession of late 1937, and early 1938, when business was badly upset and the President was calling in "big" business men and "small" business men for conferences as to what should be done, no information was as much desired or quoted as the actions, progress and outlook of U.S. Steel. It affects the values of commodities and securities to a very great degree.
Therefore, we conclude that even in the more stable field of bonds, better transactions can be made when the owner of bonds or the prospective buyer takes pains to purchase his securities when U. S. Steel is in its sub-normal zone and to sell them when U. S. Steel is well up into its super-normal zone.

PROFITS IN SMALL STEEL STOCKS

While U. S. Steel exercises a strong influence upon all stocks and an important influence on bonds, there is no group which follows the leader with such close imitation as other stocks in the steel group.

Plate 3 shows American Rolling Mill, one of the lesser but very active steel stocks. Other small steels are Otis, Truscon, Blaw-Knox, Colorado Fuel and Iron, Transue & Williams Co., Follansbee, and Republic Steel. While some of these are not strong financially, yet the fact that they have a part in the country’s foremost industry contributes to their permanency. For the most part they are good speculative ventures. As an example of a popular low-priced steel stock, Republic Steel is shown in the graph on Plate 23.

The method of trading is no different from that described in the previous pages, but as a great many investors wish to deal in the lower-priced stocks, this “small” steel stock is charted and followed through with a series of trades taking 100 shares as the initial lot.

Naturally the stock did not go down to the extremely low levels of 1932 and 1933, but it has descended into the sub-normal or investment zone every time U. S. Steel reached its sub-normal zone, which means five times, including that of 1932.

In November, 1937, Republic Steel dropped to 12 1/4. This was nearly 10 points down into the sub-normal zone and at an excellent level for purchase. In fact, the wise investor would buy his first lot about 18, then make a second purchase 4 or 5 points lower around 14 to 13.
The dotted center line and zone lines are made to rise perpendicularly instead of at a slope, as in Plate 12. This style of chart better fits the small, slower-moving stocks.

To show how this small stock may be used for the small investor with a few hundred dollars, or the wealthy investor with thousands of dollars, a condensed program of trading is given below. At the present time, Republic Steel is not paying a dividend. If it resumes dividend payments, it would give the investor an additional profit. With or without dividends, its action is excellent, and, being in the most popular industrial group, one need hardly hesitate to buy it.

Starting with the 1932 depression low and following the stock through to the 1937 low in November:

Investor No. 1 buys 100 shares at A for $300, sells
at B for $1,300
Then buys 300 shares at C for $1,200, sells
at D for $6,300
Then buys 630 shares at E for $6,300, sells
at F for $14,490
Then buys 1,400 shares at G for $14,000,
sells at H for $30,200

Investor No. 2 starts with 500 shares, $1,500, and
ends with $151,000

Investor No. 3 starts with 1,000 shares, $3,000, and
ends with $302,000

All of these trades are made with comparative ease and confidence when a chart of this stock and its big brother, U. S. Steel, are laid side by side with the three zones on them. The investor might not make these trades as favorably as they are stated in the table above, but if he did half as well he would be earning excellent profits.

It will be noted that our investor sold out on the top made about April 9, 1936. The reason is that this actually represents a major top, as is mentioned in the description of U. S. Steel.
He would have missed the fine finish to 47\(\frac{3}{4}\), but it is a matter of discipline that the investor accept fair profits at puzzling times rather than strain a point to make an uncertain further profit.

"Sounds all right but looks too easy," says a skeptical reader, "must be something 'fishy' about this. No one can make money in stocks with such dead-shot accuracy as all that and with so little cash at the start."

But why not? These graphs are actual pictures of live active stocks and what they have been doing for the last five or six years. Stocks were acting in the same manner fifty years ago, and will be acting in the same manner so long as there are markets and investors.

Political ebullitions disturb markets temporarily, but do not change the purpose for which markets were made. Those who say, "There's nothing permanent but change," mean there is nothing permanent but progress. Elemental human nature does not change. It is responsible for the major trends and that is what our investor is interested in most.

If there be failure in trading it is the fault of the trader, not the system. Impatience, overconfidence, doubt, are the enemies of success.

*Impatience is the wrecker of systematic plans.*

*Overconfidence saps the investor's resources.*

*Doubt kills opportunities.*

Thousands of men are trading successfully. Consciously or unconsciously, they are buying at the correct levels and selling out at proper levels. Doubtless they are doing this at the cost of deep study or because they are naturally shrewd traders.

What is accomplished by the Triple Zone System is the definite plotting out of the buying and selling areas for any stock, so that the investor can see at a glance where and why he should make a purchase or a sale.

If an investor were to use half his surplus in bonds and the other half in stocks by the zones, he would soon find his stock account running far ahead of his bond account.

Small stocks purchased for profit is one of the most popular fields of investment. It is a field that the great middle class of moderately well-to-do people can enter conveniently and comfortably.

Always there is a large number of substantial concerns with low-priced shares capable of doubling or trebling in price during a major advance of the big stocks. Hundreds of small stocks ranged from $5 down to as low as $1 per share in late 1937.

The great advantage of small issues is in the case with which a light volume of trading will lift their price.

A small stock may double in price in two or three days, but a big stock seldom or never. It requires months or years for a big stock to double.

In the 1935-37 bull market, Inspiration Copper advanced from 2$1/2 to 33 per share, an increase of 1,200%. During the same period, U. S. Steel rose from 27$1/2 to 126$1/2, or an increase of 327%.

One thousand dollars placed in Inspiration Copper would have returned the investor $12,200 if he could have bought at the bottom and sold at the top.

One thousand dollars placed in U. S. Steel at the same time and the stock sold at the top would have yielded only $3,536.

Small stocks are unequalled for the investing of moderate funds.

If placed at interest small funds yield little.

Placed in a very ordinary small stock at the opportune time, the same funds will yield profits far beyond anything possible by "investment."

The author knows of no plan equal to the use of small stocks by the Triple Zone Plan as a means of developing a
personal financial program and eventually arriving at the goal of wealth. But with small stocks *selection* assumes greater importance.

Intelligent speculation is largely personal self-government.

PART FOUR

BULL AND BEAR MARKETS
THE LAW OF BULL AND BEAR MARKETS

Most of the charted zig-zagging movements of the market are meaningless to the casual observer. Yet through all of them runs a thread which we call TREND.

Trend to the investor is like the vein of gold to the miner, who must follow the vein faithfully if he expects to get the yellow metal.

But trend in the market is subject to interruption. Or it may carry on in one direction longer than expected. Therefore, it is important that the investor be on the lookout for certain signs and signals that proclaim a halt or a change in the trend. Fortunately, these “signals” are easily understood when they are pointed out to the investor, and they are few in number.

To get these signals we go directly to the market itself as the court of last resort. The stark, flat opinion of the most astute person is futile as compared to market action, which is mass opinion and, like that of a jury, its verdict is final.

Already the reader has studied the Triple Zones, and in Plate 12 is shown how the “minor trend line” gives an approximate top signal for major tops. We can now proceed with the description of other useful indicators, but as a primary study there is presented for consideration one of the first basic conceptions of the market adopted by this author many years ago and which has not diminished in importance with later studies. The Fundamental Axiom:

IN THE MARKET MOVEMENTS OF STOCKS AND COMMODITIES THE PRICE ALWAYS PASSES OVER THE GROUND TWICE.
The effect of this natural force is felt in the "Law of Reaction," which may be stated briefly as follows: Action and reaction are the same but are in opposite directions.

In the market this law is well expressed by the certainty with which a bull market is followed by a bear market. The thoughtless enthusiast, watching a soaring bull market, exclaims, "All that goes up must come down." He is so sure that the price will come down again that he applies the law of gravity to it like the return of a ball to the earth after it has been thrown in the air.

But the "return" of market prices back over the ground they covered on the rise is for an entirely different reason. The rising market is caused by the desire for gain. The decline is caused by the fear of loss. These are laws of human nature, and are as sure as the laws of natural science.

In the Triple Zones the reader was shown how the market is constantly moving in round-trip cycles. That is, it starts from the sub-normal zone and runs up into the super-normal zone, tops out, then drops down to the starting area again. That completes a cycle.

The upward trip is a major advance or bull move. The downward trip is a bear move.

To understand these two major movements so that they may be used to better advantage in the business of making money, it is necessary to "take them apart" and learn what makes them start and stop.

It is plain that a purchase made in the sub-normal zone is eventually due to return a profit when the super-normal zone is reached, but this takes a considerable space of time. The investor has to see much desultory or adverse action, and will read a great deal of unsettling financial matter while his stock is in its major move. It is necessary that he understand that a major advance moves on its way with a sort of resistless power, and that no one need be disturbed by sudden adverse action during the trip. While, in a market sense, all that goes up must come down, it is equally true to say, "All that comes down must go up."

If doubtful about this, the reader can get an excellent confirmation of the fact in the "Seventy-five Year Wheat Chart" in Plate 35 (page 293).

The start of an "incubating" bull move is of high importance to the investor, because it is the incubating place for his next profit. It is, therefore, of primary importance to know that a major advance is divided into two stages. It is of secondary importance that a major decline or bear market is also divided into two stages. Stated concisely:

- A Major Advance is in two stages—
  - The first half, or slow stage.
  - The last half, or fast finishing stage.

- A Major Decline is in two stages—
  - The first phase, or fast break.
  - The second phase, or slow finishing break.

It is well that a newly-starting bull market works up slowly, as it gives the investor ample time to get in and time to build up his confidence in the move. He begins to feel more secure as his stock shows a profit, and he is able to sit comfortably during reactions.
THE BULL MARKET LAW—OR HABIT

As already stated, the law is as follows:

*A major advance or bull market in stocks or commodities divides into a first or slow half, followed by a fast or finishing half.*

Therefore, to estimate the final top of a major advance, watch for *fast action* to begin, then double the advance covered by the first stage. This will not be mathematically accurate but approximately so.

Plate 24 of the Dow-Jones Industrials shows that “fast action” begins at C in a swift rise above the top at B. Therefore, when the move was half through, it was possible to forecast the final top (even though fifteen months away) by simply doubling the advance from A to B. The first half lasted seven years. The finishing half lasted only fifteen months.

The investor who is posted on the Triple Zones and the Bull Market Law would be able to carry his long stocks from the bottom almost to the final top.

Furthermore, any investor who had sold out on the way up, or who has not yet bought, could quickly take a position, when fast action appeared, and secure a quick and very large profit in the finishing half of the bull market.

The bull market law does not prevail in all bull movements—only those big major advances in which public participation is heavy. Whatever major advance develops from the lows of early 1938 will likely follow the bull market law. It will be very valuable to the investor during any “inflationary period.”
A BETTER WAY TO MAKE MONEY

Another way to state the bull market law is: A major bull move will go twice as high as from the bottom to the top of the last swing before fast action begins. This law—or habit of bull markets—must be qualified by the statement that it applies accurately only to extraordinary major advances, not to the lesser “bull moves.” When it does appear, it is of great importance.

THE BEAR MARKET LAW—OR HABIT

Like the bull market law, this is not a precise natural law like that of gravity, but runs so true to form as to merit the dignity of a market law. It is of great value to the investor. He learns from his graph that stocks are going to have a swift, deep break from the top and that he should sell out all stocks and not be in a hurry to buy again. Here is the law:

A major decline or bear market divides into a first or fast phase, followed by a slower finishing phase.

The first phase is a speedy decline back over the ground covered by the last fast rise of the previous bull market, as from E to F.

The second phase starts from the top of the first big profit-taking rally, as seen at G, and breaks more deliberately to final liquidation, as at H.

Only large movements, attended by heavy public participation, follow the bull and bear market laws, this apparently being a mass mind demonstration.

Plate 24 covers eleven years, the largest major move known in stock market history. Yet the advance is divided almost exactly into halves as shown at B-C. Wheat and U. S. Steel in their larger movements follow the two laws—especially wheat.

Plate 24 may be interpreted thus:

From A to B represents investment buying.
From C to D represents promiscuous buying.
From E to G represents frenzied selling.
From G to H represents deliberate liquidation.
A knowledge of these two laws of the major movements is a wonderful help to investors, as it is in these extraordinary markets that fortunes are made. Yet it must be borne in mind that these bull and bear market laws or habits do not in any way modify or reduce the effectiveness of the Triple Zone Plan.

Individual Stocks, during a major advance of the general market, do not always have a bull move of their own. Most of them do. A considerable number will rise mildly and decline the same way without any particularly brilliant action.

There are too many stocks for all of them to have a major advance. The number of traders is too small to "bull" the entire list of 1,200 to 1,400 stocks.

Therefore, the best stocks get the volume and go through the biggest moves.

A few stocks are overpopular and will complete their major advances about the time the Dow-Jones Industrials are half-way up. In 1928 Chrysler was through at the half-way point shown in Plate 24, and had topped out around 139, the same point as the top reached in 1937, nine years later.

It is easy to make good selections when preparing to invest, because thousands of people are entering the market, and the stocks they select show the action looked for. If a stock shows good action early, it will attract a following and usually carry through the full major move.

Stocks of known good action are popular, such as New York Central, Bethlehem Steel, Radio, American Smelting and Refining, Chrysler, Inspiration Copper, etc. One can depend on these for good bull market performance.

The small stocks seem to move mincingly, but if their range is compared with big stocks, it will be seen that the smaller ones have very satisfactory action.

Plate 24 shows clearly that all stocks were an excellent purchase in the sub-normal zone at A, that every one of them
should be sold out in the super-normal zone, and that the market would again decline to the sub-normal zone at H.

The bull market law, in which a major move divides into two half-and-half phases, is found only in movements of extraordinary size under heavy volume. WHEAT answers this law most readily of anything quoted. Reference to this strange style of action is more for the reader’s information than for his use.

A Great Major Advance in U. S. Steel took place during the latter part of the eight years’ advance of the industrials shown in Plate 24. On account of the heavy trading in this popular stock, it followed the law of bull markets and divided almost perfectly in two half-and-half phases, as shown in Plate 25.

The only signal that a fast finishing rise is on the way is in the fast upward action originating at the point June, 1929. That was the investor’s signal that U. S. Steel would push on up more rapidly than ever, and would double its advance.

The man who acquaints himself with this Bull Market Law needs but one such profound move as this in his lifetime.

If he owned Steel stock and saw bull market action developing, he could double his holdings and, by doubling the first half of the advance, would be able to hold through for the full advance and Sell Out Near the Full Top!

It is readily noted in these graphs that a deep reaction happens about the half-way point. The fast upward action starts from the bottom of this mid-way reaction, as shown at June, 1929, in graph in Plate 25. From this low start the move goes upward with a rush, rising easily above the former top and on to a swift finish.

In Plate 25, U. S. Steel covered two years in reaching the half-way point, and only three months for the finishing half.

If any doubt exists in the investor’s mind as to whether top has been reached, he can apply a minor trend line under the topmost activities of the stock for greater certainty. (Note Plate 12.)

Not since the big move in 1929 has U. S. Steel executed a major move fitting the bull market law. Yet it has had several fine bull markets within the last five years as shown on Plate 12. This law or habit, though interesting, need not disturb the trading of anyone using the zones. Rather it is a help when and if it appears.
VERTICAL MOVEMENTS — THEIR POWER AND USEFULNESS

By vertical movements is meant a sharp rise or a sharp break in the market in which the price continues, with only small reactions, for a considerable distance in one direction.

Thus these vertical movements may be up or down.

In many instances they are very plain as the one in Plate 13, where U. S. Steel rose from 28 to 44 with very little intermediate reaction.

In other instances such moves are interspersed with a number of small reactions like the rise of New York Central from February, 1933 to July, 1933, shown in Plate 2. This is equivalent to a vertical rise regardless of the several reactions on the way up.

As stated on page 185, one of the first market maxims adopted by the author was the “fundamental axiom” that prices always pass over the ground twice.

This is especially true in the gigantic major bull markets as you have just seen. It is also true of lesser vertical movements.

A knowledge of this vertical movement is particularly useful when the movement occurs going through or above the normal zone. It shows the investor that the market is rapidly becoming one-sided, everybody buying, and that it will soon go into the top-making process, where the minor trend line gives the final signal for a decline.

A surprisingly large number of the lesser daily movements follow this law, that is, the price goes up for two, four or six points, then turns abruptly down to retrace the rise.

A BETTER WAY TO MAKE MONEY

The last fast stage of a bull market is always a vertical rise and is retraced by the first stage of the bear market, as seen in Plates 24, 25 and 26.

A brief study of the “vertical movements” will add to the expertness of a trader or investor, but these movements do not change the operation of the all-important zones, or of the minor trend line. They are refinements in the trading repertoire.

If the reader was holding long stocks and found prices pushing up through the top edge of the normal zone, he would be very anxious for signs and signals that would tell him that the end of the advance was near.

The vertical rise often takes place as a part of a finishing major advance. A specially fine example of a vertical rise may be seen in the graph of Inspiration Copper (Plate 7, page 103). Note the long rise to F. This is clear because it is not broken by any small reactions.

The vertical rise in Stewart-Warner from G to H, as seen on page 98 (Plate 5), is just as much a vertical rise as the one seen in Inspiration Copper, although it is interrupted by small reactions all the way up. This the author finds the most difficult part of a vertical movement for the investor to understand. He thinks there should be no reactions; else it is not a vertical rise.

Should there be a deep reaction of 50% to 60% of any rise, then that would kill the vertical feature of the move. The market is “adjusted.”

What is the cause of the vertical rise? It means an over-urgent demand for stocks. This may be due to short-covering, or to sudden bullish news, or to a “rolling market” where everybody wants to get in on something that looks good.

It very quickly places the market in an overbought position. The topping out is the next step. The man holding long stocks profits immensely and very rapidly when a vertical rise is being