

BURTON H. PUGH, *Author*

(Deceased)

A BETTER WAY TO MAKE MONEY

A SIMPLE AND PRACTICAL PLAN OF INVESTING
AND TRADING IN THE STOCK AND
GRAIN MARKETS

By

BURTON H. PUGH

Editor of Market Forecaster Company; Author of "The Trader's
Instruction Book," "Science and Secrets of Wheat Trading,"
"Mastering Cotton," and Other Market Books

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INTRODUCTION

The making of money is a perpetual desire of the human race.

Every energetic person is, in some way, engaged in the business of making money with whatever abilities he may possess, and fortunate is he who finds the safer system or the better way.

Dame Fortune may smile upon the painstaking thrift that eventually accumulates a competence, but she delights in the swift, ingenious methods by which ambitious people more quickly arrive at their financial goal. If poverty irks and progress lags, they search for a swifter, better way to forge ahead.

That is what this book is about—a better way to make money—particularly in that great financial mart of the world, the New York Stock Market. If there is one thing upon which economists agree, it is that there is no property superior in value to the common stocks of our great industrial concerns.

But in stock-trading there is always a better way. Often it is the simplest way. Science is continually seeking for new ways to do things better and that is precisely what this book brings to the reader in the new TRIPLE ZONE SYSTEM of stock-trading.

The chief merit in this system is not that it is new but that it is better. It shows the reader that stock-trading can be made safer by a knowledge of these three zones which run through the life of every stock, and therefore more profitable. Furthermore, the system is simple, not intricate, something anyone can use without special training or technical education or any special gift of shrewdness.

The use of the Triple Zone System does not require any considerable time. The operator goes right along at his regu-

lar business, his job, his shop or position, but sets his money to working for him. "Nothing makes money like money."

Even a small amount of money will earn amazing profits if put to work in the right thing at the right time. The real cleverness in financial success is in giving your money its chance to work.

As the author set out to write this book a friend admonished him with these words:

"Market books have been published ever since the stock market was established. Chart systems and trend graphs innumerable have been devised. What good do you believe will be accomplished by adding one more publication to the long line?"

The answer to my friend or to any similar query is this: *There is a better way.*

For fifteen years the author has issued a daily market service that has brought him into close contact or correspondence with thousands of men. Personal interviews with all classes of traders have been frequent.

Two things stand out vividly in this experience. First, the eagerness of men to make money in the market, and second, their proneness to follow trivial market indications or the transient news of the day. I have seen men try, laboriously, to follow political trends or business cycles and become lost in a jungle of meaningless statistics. Still others attempt to "follow" some trader of prominence whose deals they seek to duplicate in the hope of winning success by imitation.

These men are eager and earnest to make money but they are on the wrong track. They surrender their personal initiative and miss the goal.

Many people, after sundry disheartening errors of trading, believe there is no such thing as "system" in the apparently erratic actions of the market. To these this new zone method is respectfully submitted with the belief that it will re-establish

their confidence—will show that there is law in the actions of the market as well as in the physical world about us.

This book contains a plan of action—immediate action if you want it. It is not a course in personal financial culture but rather a course in financial success. The plan is ready Now. Every stock you see quoted on the financial sheet is either in a favorable position or unfavorable position *at this moment*. That position is of great importance to any one or all who happen to own stocks and we believe the most accurate way to determine this position is by the use of this new TRIPLE ZONE SYSTEM.

It requires no deep intuition or painstaking study to apply this zone system to your stock or stocks; just the sort of common sense you use in your everyday business affairs.

However, in market practice, it is important to know the right thing even if it be simple. How important POSITION is could be related eloquently by numberless investors who made fortunes in bull market cycles, only to lose out in succeeding bear market cycles. They lost because they *did not understand how to interpret position*.

Other men fared better, but their success was due merely to good luck. They bought and sold active stocks in the correct zone positions and did not know it. The market plays no friends or favorites but yields its rewards to those who, either knowingly or unknowingly, make their trades in line with its cogent laws.

BURTON H. PUGH

PART ONE
THE CALL OF THE MARKET

THE DESIRE FOR FINANCIAL SUCCESS

If the reader who has purchased this book were to confide his innermost thoughts to some trusted friend, his chief concern would almost certainly be about his financial future, what he could do to make more money.

That is exactly what we are going to talk about in this book and the more we learn of the deep yearning of men for better things, as we delve into this subject, the more confident we are that this book is going to be a definite help to many people. It will greatly simplify the use of the market to those who have become bewildered in trading, will help the investor in making selections, and will be a welcome adviser for those who are now using stocks as a means of supplementing their home incomes.

Nothing re-establishes and promotes self-confidence in the hearts of men more than proving to the world that they can be successful financially. The old copybook gave us many fine maxims in its day about "early to bed and early to rise," "save the pennies and the dollars will take care of themselves," etc., but we all know that neither ourselves nor our neighbors can successfully adjust our lives to the old time rules in this hurly-burly age.

Whatever changes may have occurred in modern financial thought, the need of making money remains as fixed and certain as the wants of the race. Senator Ingalls of Kansas once said: "The need for money begins with the cradle and ends only with the grave." If anything has changed about the need of money it is the need of making money faster than in "the days of yore" that we may live the life that now is.

The stock and grain markets are the easiest of access of any institutions where men go to use their money for making profits. Their doors are open with an impartial welcome to all comers whether it be the man of wealth or the man with modest means. The place to cultivate financial skill is where it can produce the best results.

Why do people use the market?

Because the making of money—a living—is the chief business of life and the hardest.

Often the work we do is tedious and the hours long, yet we must work on. Jobs are difficult to get, especially for older people. Business slumps and shops become unprofitable, the professions are crowded, living costs rise; but along with these there is always the increasing need to make money. Under such conditions, a place where one can use his surplus funds and his own good wits to produce additional cash is as welcome as the flowers of June.

Wall Street, like all other great institutions of America, has been guilty of misconduct and subject to corrective legislation. Nevertheless, it goes right on serving the people because it is a national necessity built up through over a hundred years of service to meet the financial needs of a growing country. More wealth passes through it than all the banks in the country. More people are made rich or well-to-do by dealing in stocks than by any other single business in the world.

The importance of having a market place and of knowing how to use it is shown in the fact that single industrial institutions have 200,000 to 300,000 persons holding their securities.

The person who would profit by owning securities will secure his best results by a knowledge of their position in the market. It is the function of the Triple Zones explained in this volume to show this. If trading in wheat, the trader will find the movements of that popular commodity conform to

the principle of the zones as closely as the most active stocks. The shrewdest traders buy their wheat or stocks in a certain important zone. To know that zone is to share their opportunity.

People like the stock and grain markets because they are capable of making *quick profits*. There is nothing unethical about quick profits, even though they are the subject of much ponderous criticism. Everybody wants them. Quick profits are captivating. The desire for them is on the increase, quite naturally, with the faster tempo of living in this radio-aero-auto age. Quick wealth is always welcome though often lost quickly because the surprised owner doesn't know how to handle it. A systematic campaign of rapid, steady profit making is quite another thing. Its orderly acquisition educates the financial judgment. Cecil Rhodes made most of his huge fortune in less than two years—and kept it.

Furthermore, quick wealth is urgently needed. Life passes all too quickly at best. Saving and scraping for a competence is a drudgery consuming the most buoyant and pleasurable years of one's life, years that could just as well go to promoting culture, travel, research, and the conveniences that all people naturally crave.

Men rush to goldfields and virtually dig out the heart of mountains in search of the auriferous metal. No cost is counted, no work too hard, no privation too bitter if there is a profit to be made. Yet, strangely enough, only limited scientific effort has been devoted to learning the deep forces of the mass mind which make prices. Market students are continually diverted from making true evaluations of securities and commodities because they study the statistics made by prices instead of the psychology which makes prices.

KNOWLEDGE OF MARKET ACTION

What marvelous results could be attained in the business of making money if those who buy stocks would take a little time to learn a few simple facts about the market in which they are blindly reposing their faith.

Of the fifteen million or more people who own sixty billion dollars worth of stocks, only 2%, as estimated by statisticians, have more than a kindergarten knowledge of market-habits.

This fact alone shows the tremendous advantage a little study will give the ambitious person over the mass of indolent-minded investors.

In the wheat market, the percentage of market illiteracy is just as great. More people are engaged in the production and distribution of wheat and its products than any other single industry in the world. Yet, only a fraction of those using the market have any conception of the persistence and usefulness of the market-habits that rule this extraordinary grain.

It is an amazing fact that scarcely any grain dealer, even though experienced, will trust to his knowledge of the market. The minute he buys a carload of wheat he rushes into the market to "hedge" it with a short sale.

An extraordinary field of profit awaits the grain dealers and traders who take the precaution to learn the systematic use of a few basic traits of wheat market action.

Wherever men deal in securities or grains, the market is quietly taking the money of the thoughtless and bestowing it upon the thoughtful.

This situation will not be changed. It will likely go on for generations to come. But to the ambitious person eager to get

ahead and to acquire financial independence, it offers an exceptional opportunity to swing over to the winning side and profit handsomely thereby.

The student-investor will find no time more favorable than now. Regulations may restrict the action of the two markets for a short time, but back behind the scenes a vast amount of waiting capital is piling up to be used as soon as the wind blows fair again. The markets may mark time for awhile, but their habits are unchangeable.

Almost every man knows the habits of each member of his family and many of the habits of his neighbors. He even knows the habits of his dog and that all of those who possess habits will repeat them. Is it not wise, then, that the investor should take time out to learn the habits his market will repeat?

As you read and study this book you will discover it has something of deep personal value to you. Something you can use now and all the time. Perhaps one of its chief services will be to help you escape the bondage of "statistics."

Another service will be to acquaint you with the reliability of market action as a means of forecasting future movements. One of the best-known market experts of the country, with a list of several thousands of subscribers to his service, says he purposely avoids the reading of all financial news except the daily quotations and the Dow-Jones Averages.

All that is required of the user of the Triple Zones method is the same intelligence he would devote to his business affairs. No technical education, no course in economics is necessary, just a fair endowment of common sense and a willingness to follow a systematic financial plan.

Can you manage yourself?

Are you able to adopt a course of action and stick?

Can you hold steady and not be carried off your feet by every breath of futile opinion that sweeps across the market place?

If so, you have the basic qualifications for success, and furthermore, you are going to find an increasing delight in the plan which will unfold to you in the succeeding pages of this book. Anyone who has acquired funds which can be invested for profit is to be commended. To use those funds in promoting his welfare is thrift. To find a safer, more prolific way is wisdom.

There is a time in the frequent major cycles of stocks when a purchase is almost sure to render a profit. And at another time in the cycle a purchase would, with equal precision, render a loss.

One economic writer has, as his pet theory, that the right time to buy stocks is when the old timers don their hats, come out of seclusion and with their gold-headed canes amble down to the exchange to buy their securities. He says that these octogenarians sense the bottom of a market instinctively and that their impulses are so accurate as to amount to a forecast of a coming rise.

But this is only one of the frail indications by which professional men attempt to interpret the position of the securities market. There is a better, more conclusive way and it comes from the market itself, not from the opinion or judgment of any group of men. When the doctor wishes to learn the condition of his patient, he does not depend on the opinion of the relatives or the nurse; he examines the patient to learn his condition. It is equally logical that the prospective investor should go directly to the market to learn its *position*.

The Triple Zone method deals with market action only.

STOCKS—OR WHEAT

The reader will doubtless be interested in one or the other of the above two. While both markets are ruled by exactly the same laws of action, the use of the two markets is taken up separately in this book. Wheat, the world's greatest commodity, helps to confirm these laws of market action as seen in stocks. The movements of wheat and U. S. Steel are virtually in the same pattern. When you learn one, you have the general pattern of the other.

This does not mean that wheat and Steel go up or down together. They may work opposite and often do. But when wheat and Steel have been charted for a year or more back, it is found that they have followed the same general style of action. It gives a broad foundation for the very important technical developments which are set forth in this book.

A survey by the government in 1937 showed that there are 680 grain commission brokers and that the stock brokers number 6,000 or nearly ten times as many. At the time of this writing the average price of all stocks is about \$40, while the price of wheat is around \$1. Therefore:

A million-share day would represent.....	\$40,000,000
A 40-million-bushel wheat day.....	\$40,000,000

This would be an average day for either market and shows the relative value of the turnover for one day.

Whether the reader is interested in stocks or in wheat, he will probably fall into one of the four following classes:

Long pull or investor class

1. Wealthy persons, estate administrators, and treasurers with surplus for investment.

2. Persons with limited funds but busy with other work and wishing to put their money to work.

Short pull or in-and-out traders

1. Big traders, mills, and stock traders who are satisfied with moderate profits on large quantities.
2. Small traders in either stocks or grains who prefer to trade for limited quick profits.

Once the reader gets into step with the easy method of operating as outlined in subsequent pages, he will automatically adopt the style of trading that best suits him.

If large funds are to be used, the best policy will be to wait for the market to get into the proper zone, as illustrated further on. There is only one major position for initial long-pull trades.

Smaller long-pull traders can take exactly the same position. This will be done largely by professional persons, teachers or salaried people who do not want to trade actively but who are thrifty and want their surplus funds to be earning something. It makes an excellent financial program, requires very little time, and will become, with practice, a very interesting part of one's business life.

There is deep satisfaction in the knowledge that one's extra dollars are making money for him in addition to that earned by his hands or wits.

The short-pull trader is legion in number. Probably 80% of all who use the market fall into this class. Some are heavy traders, using large sums of money, while others are striving earnestly to make money with modest capital. They like "quick turns." Every conceivable rule for trading is seized upon greedily and tried. The time of day is watched by many traders. "The market will turn one way or the other at eleven o'clock," is one of these time-o'-day rules, though it is but a fragile fiction of the imagination.

Astrology is invoked by many market people in the belief that the influence of the planets, at certain positions, will jostle the mass mind into a sort of concerted optimism and make people buy, or jostle that mind into concerted pessimism and make people want to sell!

So anxious are people to find some talisman, some magic wand, that will help them secure the hidden riches of the market, that they will try anything from coin-flipping to crystal-gazing to secure the desired assistance. That famous exponent of astrology, Evangeline Adams, who wrote "The Bowl of Heaven," numbered her Wall Street patrons by thousands, among whom was the senior John Pierpont Morgan. But if we may believe her biographers, it was her personality and wisdom as well as her science that made her opinions so much sought in financial affairs.

Did you ever try to read one of the heavyweight financial books loaded down with erudite terms and stately sentences? Could you tell what the writer was driving at?

Didn't it seem as though the author was trying to say something and yet evading it? And if any opinion was to be reached about this or that security, or whether it was a safe purchase or not, you had to form that opinion yourself?

Go into a banker's or broker's office and see the enormous volumes of statistical matter, dozens of them, by which the reader is supposed to learn the history of the 1,200 to 1,400 different stocks. Some of the books have 2,000 pages choked with limitless statistics that no one could assimilate any more than he could memorize an unabridged dictionary. Yet this is just one of the ways by which men try to get at the value of the stock or bond in which they contemplate investing their money.

Do you know what surprises and exasperates an investor more than anything else?

It is to carefully choose a stock that has a dozen or more good reasons for going up, then put his money into it only to see it go down.

This is one of the most discouraging as well as the most common experiences of the investor or trader.

At a business men's luncheon the writer met two very engaging gentlemen. They were discussing the virtues of Chrysler as a long-pull investment. One had just purchased outright 150 shares of the stock then selling around \$117 per share. "It's far and away the best thing on the board," he said, "got a fine line, very popular and selling more cars than at any time in the company's history. Will earn \$13 this year, and I hear on the Q. T. that the new 1938 model will have a lot of gadgets on it that will simply smother competition. Anyway, I'm on my way to the mountains for a month's fishing. Going to put that stock away and forget it. Want something working for me while I play." He looked at his wrist watch, slapped on his hat and was off, as he said, to catch the next plane.

Sixty days later Chrysler was selling at \$57—some 60 points lower. Imagine his feelings on his return from vacation.

All the virtues and arguments one can enumerate will not make a stock a safe purchase if it is in the **WRONG POSITION!**

No stock wears a halo in a bear market. Note what it cost this man to learn this fact!

WHEAT—QUEEN OF COMMODITIES

Often in the financial news we hear of "King Cotton" or "King Corn," but the queen of all commodities is none other than Wheat. It is a world favorite, with active markets in Chicago, Kansas City, Minneapolis, Winnipeg, Liverpool, Buenos Aires, Calcutta and Sydney, Australia. Many people will deal in nothing else but wheat. Hence, a part of this book is devoted to trading in wheat. The latter part of the book is given exclusively to the grains—particularly wheat. The reason for touching upon the subject here is to familiarize the reader with an all-important fact. Here it is:

Everything in which the business world speculates follows a known pattern of action.

Market action is human nature in action.

What writers are pleased to refer to as "market laws" are nothing more than the persistence of a few unchangeable human habits in the use of the market. By perpetual recurrence they become laws.

All market movements or actions are based upon two deep-seated and entirely natural emotions. They are:

First: **THE DESIRE FOR GAIN.**

Second: **THE FEAR OF LOSS.**

This brings into the picture the fact that, regardless of profound attempts to analyze market movements, to explain them by statistics or logical deductions, they are founded *first of all upon elementary human emotions.*

Fortunately, this simplifies the method of trading greatly. It makes success easier because it enables the operator to brush

aside much cluttering market opinion and use two of the most profound forces known to the race. Just how we go about this will be explained in simple but careful detail later on in these pages.

It is essential to know at the start that any and every stock bought for "keeps," or for a quick profit, all bonds, wheat, cotton or any commodity quoted on the board, follows year in and year out a definite style of action based upon those age old emotions—THE DESIRE FOR GAIN OR THE FEAR OF LOSS.

Market action is not complex but surprisingly simple. Yet it is often made to appear complex by newspaper forecasters and market letter writers who sprinkle so many if's, may's and but's into their labored observations as to completely bewilder the reader and nullify the writer's opinions.

Simplicity of instructions is deeply appreciated by investors and traders, and the only way to offer simple instructions is to base them upon the few ironbound laws which govern market action. Multiplicity of reasons is confusing.

In twelve years of experience writing a forecasting service, I have found the three questions uppermost in the subscriber's mind are: WHAT—WHEN—WHERE? When a man gets his service letter, he scurries through it from top to bottom to get the quickest answer possible to these three questions. He wants to know what to buy, where to *buy in*, and when to sell, and the briefer you can make the advice the better he likes it.

One subscriber wrote that he would ten times rather have a service that was positive and be wrong than to have a service straddle the market so as to be right whichever direction it went.

But the more I have seen traders willing and anxious to trade, ready to take a chance at a "drop of the hat," the further I have veered away from taking chances toward a more positive and certain means of securing speculative profits of which the market has an unlimited abundance to offer.

One must expect to take some chances in trading. Chances are taken in any business. Unfortunately, the amateur entering the market seems to get the idea that the market is a "gamble" at best and that the only way to win is to hit it hard, then run. If successful, he is inspired to take a bigger chance. This is obviously wrong.

When you travel on the highway at a moderate speed with your automobile, you are taking some chances on a blow-out, or that possibly an intoxicated driver will run into you, but you greatly increase your danger when you speed up to 60 or 70 miles per hour.

Why increase your danger in the market place by indulging too heavily when it is against all intelligent judgment—including your own?

Why not make your money slowly and more surely to start with and satisfy your desire for larger operations by the increase of your trading funds? No business renders quicker profits than stock-trading, but take special care to be right. It can be done. That's what this book is about. It is just as safe for the big investor with his large funds as for the small investor with his small funds, but it should be remembered that in the search for profits a knowledge of the *position* of stocks is of gravest importance to investors, be they large or small, professional or amateur.

While preparing for larger operations it is best for the amateur to start with a small sum of money and learn the technique of trading before expanding. "Start little and grow big" is good advice for the new trader.

CARVE OUT YOUR OWN FORTUNE

Be independent of others. Here is a way by which you can work quietly and alone and have all the added power that comes from secrecy. An eminent authority says that the three requisites for personal success are :

First : Secrecy
Second : Determination
Third : Industry

You have the desire for financial success, that is why you bought this book. You are ready to go and the all-important matter to you now are the tools with which to work. You have doubtless read many books on how to acquire financial success, but have discovered that they invariably tell you how to *improve yourself* as the primary requisite for earning. So far as it goes that is well and good, but you are obliged to discover your own way to make money.

In the plan of this book you get an entirely different scheme. It is not a personal culture book, but shows you how to use the personal intelligence you already have in a business that already exists and that you can start any time because it is waiting for you.

And here's your set of tools :

The Stock Market or Grain Market

plus

A Systematic Way of Using Them

"Invent your own career," says Professor Erskine, a well-known psychologist. In his published articles, he relates many

stories of men and women who with little more than a toehold to start with devised some needed article or service that made them wealthy or famous or both.

But thrilling as the biographies of these ambitious persons are, it is notable that a lifetime was required to accomplish their aims.

Most people are not deeply concerned about making a career but are eager to make money. The greatest single human need is ready cash, and more cash. Years ago an astute psychologist in a study of the cravings of the average human being summed up his observations as follows :

First : Food
Second : Shelter
Third : Clothing
Fourth : Music

"All right," says the practical man, "money will buy all of them," and he goes ahead with money as his primary object just like everybody else.

Vash Young, reputed to be one of the world's foremost salesmen, wrote a best seller in his "A Fortune to Share." He told an intensely interested audience of readers that the business world has a fortune to share with anybody who has determination, personality, and some other cultivatable virtues to use on said world. That is fine and many people have profited well from the perusal of that book.

But not everybody can develop personality or the other requisites needed for high-powered earning. They have to make money with whatever blunt talents they possess. Therefore, the need is great for some way of making money with whatever abilities and means we have at hand. That's where the stock and grain markets come in and why the trader needs a personal plan of action.

What is the chief objective in one's lifework?

The answer—To make money.

Sounds very mercenary, doesn't it? You will be quick to register important objections to this, and I fully agree with you that culture, refinement, skill, learning and happiness are desirable and delightful. They are ideal. Yet they are secondary in the scheme of life. One may be an orator, artist or scholar, or the composer of entrancing music, but if he does not make money—and keep some of it—he is little more than a “tinkling cymbal.”

A person gets immeasurable satisfaction in the culture and experience of preparing for a profession, yet the real objective of the quest is none other than to secure compensation. And this is right. Beyond the Alps of labor lies “Heart's Desire.” Who doesn't build air castles and indulge in roseate dreams of a better day to come?

What this book tells you is that your financial journey can be greatly shortened and your arduous work lessened if you adopt a supplementary means of assisting yourself in the laudable desire to make a livelihood and as much more as possible.

This is not a suggestion that anyone should turn from a standardized, virtuous, old-line personal career upon which he is launched, but to show how it is possible to add a modern and intensely practical side line that will save valuable years of life in arriving at one's financial destination. And this by using none other than the nation's best property, the common stocks of American business institutions.

“Oh, yes,” someone says impatiently, “that sounds all right, but this stock market stuff is a perennial hoax. Ought to be named Skinner's Club, the place where unsuspecting mutts go to be flayed, sheared, or slaughtered outright. Over 90% of the people who use the market fail, so why should I contribute my little pile to this insatiable Moloch?”

And the complaint would be exactly right about those who fail. They are persons who have an ardent desire to make

money, but have no prearranged plan of action, no foundation on which to build. Their delinquency is the thoughtful operator's opportunity.

Get into the 10% class and you will be rubbing elbows with magnate, banker and business man, but keep in mind a very important fact. These financiers invariably use system.

Perhaps you have the self-discipline necessary as well as the desire and ability to follow any systematic plan of market operation, but your ready money is limited. The market with its millions looks too big and you feel too suppressed to enter it.

If you have that feeling, you may be assured that the market will welcome you as impartially with your hundreds as it does the rich operator with his millions and you can earn in proportion to him.

Is it worth your while to start modestly and by risking a small amount lay the foundation for something big?

Could you see your \$500 or \$1,000—or whatever the amount you have—doubled in a year and you keep calm?

Could you see your new sum double again or treble the next year and not get so ambitious that you would want to buy up the floating supply of stocks or the visible supply of wheat?

Could you stay at it for five years and see your \$1,000 grow to \$10,000—\$20,000—or \$30,000 without losing your fund of financial sense?

If so, the plan of this book is going to have some very inspiring news for you in the pages that follow.

Stick to your present job. Go right ahead in your profession or your regular work whatever it may be. The plan proposed herein is not intended to supplant your work but to supplement it. Have your surplus money working for you as well as your own hands and head. It will not help in the least to neglect your work in the belief that you can concentrate on this plan and make it work faster. You cannot move the market “one jot or one tittle,” so you might as well go ahead

in the even tenor of your way and let the market do its bit for you as it readily will.

A trade or profession rather serves as a balance wheel to a person. Gives him direction, constancy, and the habit of responsibility. These greatly enhance the value of a personal financial plan such as we are now considering. The plan cannot be hurried either by study or by personal eagerness.

This plan may be likened to the growing of a crop. The farmer prepares his land and plants his wheat. From then on nature takes the matter in hand and produces the crop.

In this financial plan, the client makes his preparation mentally, plants his dollars, and from then on relies upon the majestic movements of the market to produce the desired revenue.

The most careful preparation—a systematic plan—is one of the essentials of success. Remember the parable of the sower who “went forth to sow” and what became of his work? That parable applies equally well to the classes of traders who use the market today :

“Some seed fell by the wayside.” Thoughtless persons who unconcernedly buy “any old thing.”

“Some fell upon stony places.” In-and-out traders who grab for a quick profit—and often lose.

“Some fell among thorns.” People who have no personal opinion. Let others do their thinking.

“But some seed fell into good ground.” Thoughtful people with a deep purpose and plan. They are the ones who get yields of fifty- and hundred-fold.

It is comparatively easy for the reader or anyone to align himself with the good-ground class if he takes the precaution to “lift the lid” of the market and view the things that make the wheels go round.

Avoid becoming overposted on minor details of past history in stocks. It is better to have a profound plan than to have profound information. The life history of many concerns is as thrilling as the biography of a national hero, but too much of this will cloy the mind and distort true estimates of values. One forms a sort of attachment for a stock, or, as brokers say, they become “married” to an issue and cannot part with it. He clothes it with an exaggerated value and fails to sell out when it shows its profit.

In almost any exchange you will hear glib discussions by traders well-versed in stock lore. They know the history, finances, earnings, dividends paid or passed, the funded debt, cash in treasury, number of shares, receiverships and date for the next directors’ meeting of numberless stocks, but with all this cluttering knowledge they have no accurate conception of the actual technical position of a single issue—and position is everything.

They satisfy themselves with scraping together miscellaneous matter that everybody can read. They are merely gathering dead leaves.

If the trader knows *WHEN* to buy stocks, he has the most important information known to the business of investment and it cannot be determined by cluttering the mind with promiscuous statistical data.

Something entirely different is needed—a knowledge of the *POSITION OF THE MARKET AND OF THE INDIVIDUAL ISSUE IN WHICH YOU PROPOSE TO DEAL.*

A well-known financial expert says, “It is immeasurably more important to know *WHEN* to buy than *WHAT* to buy.”

And why is it so important to know when to buy?

Because virtually all stocks go up together or go down together. A few internally weak issues will be neglected and drift lower during a major advance, but these are exceptions. They are usually stocks in dying industries. Certain other

stocks with an apparently brilliant future will be persistently strong during a major decline. These become the "early birds" in the next bull market.

Stocks, for a long time, have followed a leader and that leader is U. S. Steel.

There are a number of other big issues like American Telephone, Westinghouse, International Harvester, etc., in the "council" of leading stocks, but at the head of them all is U. S. Steel. It is a common, but mistaken, habit of traders to pick out any specially active stock like Chrysler or Douglas Aircraft and designate it as the "leader" at certain times when they display great activity. Sometimes we see, in financial sheets, reference to certain "market leaders." This, of course, means various stocks which have impressed the public by their action.

The one grand sachem of the stock market is the old time leader, U. S. Steel. It can be shown in our charts that the action of the 30 Dow-Jones Industrials follow the same general pattern of action as U. S. Steel, hence we may take it that the industrials are only shadows of the big steel stock and that for an all-weather, all-around leader we may select U. S. Steel.

"I'M SCARED TO DEATH"

"But I'm scared to death of the Stock Market," is the common expostulation of eager but wary persons who feel the need of making money but fear the market will, in some way, deprive them of their cash.

Everybody has his repertoire of hard-luck stories about friends who have lost money in stocks or wheat, and the favorite expression is that they lost it in "playing the market."

And that is the secret of *why* they lost. They were "playing the market," not using it intelligently. The fellow at the other end of the deal, who was using it intelligently, not "playing the market," is the one who got the money.

Mortality in business is so heavy that 90% of all entering business eventually fail, but those failures pass unnoticed, while failures attributable to the stock or wheat markets are apt to receive wide advertising. If you could see the exhaustive analyses, the charts and columns of figures worked up by batteries of clerks in the back rooms of big investors and trust companies, you would get a broad hint of how seriously they take their investments in stocks. Later on we will show you that a large amount of this exhaustive work, though well intended, falls short of its purpose. The point to consider is that the capitalist doesn't play the market, he uses it. He works hard at the job.

It is an undeniable fact that indiscriminate trading in a hectic market will send one to financial oblivion quicker than any other known process. Also the market can catapult a person into riches with breathless suddenness, crowning him with a sort of Monte Cristo glamor in flaring headlines of the papers.

But this irresponsible, unsettling, aimless style of trading should be avoided like a pestilence. The market is beneficent and generous. It will yield abundantly if used correctly. You can take honey from a beehive if you treat the bees kindly, but if you treat them roughly, you will get stung. If you treat your cow gently, she will give down her milk in abundance contentedly, but treat her roughly and she will most likely kick you off the milk stool and upset the milk pail besides.

When a person enters the market he should be serious—mean business. He is using his hard-earned cash in it, why treat his trading as if it were a playboy's holiday? It is poor solace to say when you fail that "I was just taking a flyer in the market" and "knew I had only a gambler's chance." Deep down in your heart was a solemn prayer that this time Dame Fortune would smile on you.

And it wouldn't have hurt a bit had that trade come out with a fine fat profit.

Now let's capitalize this deep desire to make money. Let's arrange to use this surplus cash so that it will make money for you and not go up in the smoke of a "gambler's chance." To have an earnest desire to accomplish something worth while is one of the most powerful aids to success.

A famous psychologist very aptly defines prayer as "the soul's sincere desire." When a prayer is answered, it is largely the supplicant's sincere desire, his ardent effort to help his own cause, that brings the result. Now this sincerity of purpose can be used most effectively in producing wealth, and in no place will it bring swifter or more copious results than in the stock or grain markets.

But this desire must be guided—governed!

And system is the thing to do the governing.

Back of every business concern, mill, bank, chain store or factory is an organized operating plan or system by which *alone* they can achieve financial success. A personal financial

program in using the stock market can be made just as successful if it is given the dignity and care adopted by men in their business concerns.

"But what system?" the reader may ask. "How can there be any system applied to a thing so erratic and irresponsible as the stock market? It is up one day and down the next and no one seems to know where it is going or why."

Now that's just the kind of anxious inquiry that leads to knowledge and in this book we aim to give you a definite answer. Knowledge that produces cash is valuable. Someone has justly said: "A science is of small account that does not help people make money."

But let's pause long enough to say this: That the restless market *always* has a trend. It is always going to some destination. Like the brook on its way to the sea, it has to turn and twist around many obstacles, but eventually it arrives at its objective.

Market science advances like science in other fields. One of the most valuable things aimed at by this book is to make market operations simple and easily understood so that anybody can use them and know what he is about. It is of no small advantage to know there is something you can begin to use at once, now, today to help you on toward your financial goal.

It requires years to prepare for any of the chief money-making professions—if you happen to be young enough to enter a profession—while this plan opens the door to a business as dignified and as pleasant as you may ever want to know. And it is available to you now.

Get a financial outlook. There's magic in it. Nothing is so vitally stirring to the soul as the tonic of financial success. It is often the doorway to greater personal achievement.

Did you ever drop into an intolerable rut and feel like you were going round and round getting nowhere? If so you are

drifting—maybe slipping. You are losing valuable years of life.

There's a way to make a change for the better and without having to cultivate some new style of personal behavior as taught in books on "How to Succeed." You can succeed with your present accomplishments. Sincerity and eagerness to get ahead are qualities that will carry you far into the plan set forth in this book. No matter who you are or what your age or occupation may be, there is a way to enhance greatly your financial future, and, best of all, you can be about it at once.

First, it is necessary that one have some cash surplus available. It takes money to make money.

A modest working surplus of a few hundred dollars will naturally yield modest returns at first, but one of the attractive features of good market strategy is the rapidity with which small sums multiply.

A larger surplus of a few thousands put to work systematically will bring excellent results, and will very soon permit an expansive business in securities to almost any extent desired.

A big surplus fund up to fifty or a hundred thousand dollars or more opens the way to a very large investment operation suitable to wealthy persons, estates and treasury funds.

But in all cases the procedure is the same. A few deeply important things *must* be known. All the wit and wisdom of a Solomon or Socrates will not help you if you do not know a certain few important things about market movements. These vital things are laid before you in this book.

The plan of operation as offered herein is not set forward as a means of working miracles in the market, but as a guide to sensible method in your use of securities. Numberless market books are available teaching the technique of stock-trading, and some of them contain very excellent information. But most of them are too general in character.

One authority offers a suggestion that the investor should not buy stocks until the market was slack and had been falling for two or three months. Another offers a similar inconclusive suggestion that after a period of six months' extreme dullness the market is in position to buy. Then there are the lesser rules, such as "Never sell a dull market," "Never sell a stock where the company is having a strike," etc.

It is easy to tell the reader not to overtrade, take his profits, be patient, select issues cautiously, etc., but that doesn't help him much. What is most needed is an actual plan of operation laid out before him as tools are laid out for a workman.

7

BUY STOCKS OUTRIGHT

Buy outright and thus save 90% of the risk at the outset. In this way the stock is owned the same as if you had a deed to that much property. You are at liberty to hold or sell out at your own behest.

If you own your stock, you can hold it through a decline until your stock comes back.

If trading on margin and your funds run low, the broker can sell you out regardless of your loss.

When the terrific break occurred in the latter part of 1937, an excited trader came hurriedly to the office of a millionaire in a Kansas City office. He told the wealthy man that the "bottom had fallen out of the market" and U. S. Steel was way down to——

"Don't tear your shirt, neighbor, anybody who owns his stocks will not need to worry," the millionaire answered and went on calmly dictating a letter though he had thousands of shares of stocks.

Back in 1932, when stocks were having their first convalescent bull move, a friend of the writer bought Atchison Railway at 26.

The stock advanced to 64 but he held on.

It dropped back to 36, then went up to 80 in 1933.

Did he sell out? No, he wanted 100 for it.

It dropped back to 45 in 1933, then went up to 72.

Still he held on while it dropped slowly to 36.

In April, 1935, it began a rise that carried it up to 94¼ in 1937.

Did he sell out? Not at all. "He loved not wisely but too well." He still owns his Atchison which was selling in March, 1938 at 22¼.

Thus he has had four excellent profits in the stock which he bought correctly, but which he failed to sell out at the correct time because he had no definite system of selling. He accidentally bought his stock in the correct zone as will be shown later, but he had no knowledge of that equally important zone where stocks are a sale. Failure to know this cost him thousands of dollars.

But this brings out another point to be enlarged upon when we reach a later part of this book. Atchison traveled through four profit moves.

In 1932 he had a profit of 38 points. Failed to accept it.

In 1933 he had a profit of 54 points. Failed to accept it.

In 1934 he had a profit of 42 points. Failed to accept it.

In 1937 (March) a profit of 64 points. Failed to accept it.

In 1938 (March) he was 4 points in the red.

What a record of errors. It would appear that he made a determined and successful effort to fight off profits. His stubbornness cost him a small fortune and has lost him years of precious time. If he had known what the reader is to be shown in the succeeding pages, he could have engineered a very different campaign over the five years—in fact, would have been comfortably fixed and in position to absorb a large block of Atchison stock at the lows of 1938.

Those who invest in stocks by outright purchase may get the certificates of the shares and put them away for safe keeping if they wish. They are valuable property. They can be sold at any stock broker's office at a moment's notice. It usually takes one or two weeks to get the shares from New York after request is made for them. However, one can sell his

stock at a moment's notice without waiting for the certificates to arrive, should he suddenly decide to do so.

It very often happens that a stock that is paying a dividend will make payment during the time you hold the stock. In that case you get the dividend, thus adding to your revenue. But right at this juncture I will call the reader's attention to the fact that the major profits in stock market operations are not in dividends but in *price appreciation*.

A dividend-payer is desirable. A stock that is earning is prospering, gives promise of future increase of dividend. It induces buying by those who cling to the belief that a dividend-payer resists decline and holds better through breaks. A large number of speculators like to assume the rôle of "investors" when buying stocks, hence they select dividend-payers though deep down in their heart of hearts the increase in price of the stock is their chief concern. Whenever you hear an experienced trader refer to an issue as a "good stock," he means that, in addition to paying a dividend, it has the ability of good appreciation.

Nevertheless, dividends are very desirable. They are the "velvet" of one's stock transactions. A banker friend of the writer holding an excellent position takes a secret delight in stock-trading on the side. He admitted suavely that it was the real pleasure of his financial business. He would buy anything that paid a dividend and one of his ways of advertising his sagacity was to lay his dividend checks out on his desk where anyone could see them. He felt that the dividend checks clothed him with the dignity of an investor.

Yet the speculative urge in the mass trading mind overrides all other incentives. Few people, even the most careful investors, would buy a stock for its dividend if they thought it would not advance. All stocks go up or down with the major trends regardless of dividends. Here is how a list of popular stocks behaved during the severe break of late 1937.

U. S. Steel	broke 60%—no dividend
Chrysler	broke 63%—\$7 dividend
U. S. Industrial Alcohol..	broke 63%—pays no dividend
Atchison Ry.	broke 63%—\$2 dividend
Western Union	broke 70%—\$2.25 per year
Bethlehem Steel	broke 63%—\$5.00 (1937)

(U. S. Steel paid \$1 dividend October 26, after the break.)

Ask your friend who has bought a stock just why he happened to buy that particular issue. If it is advancing in price, he will tell you he bought it because he "knew it was a good stock." If his stock is declining, he will tell you he only "bought it for its dividend." It's the way men have of defending their judgment.

No man need censure himself for not buying correctly under the vague advices of any service so uncertain of its opinion that it attempts to "straddle" the market.

While at work on this subject the writer paused long enough to tune in on a radio broadcast from one of our big universities by three economic specialists of that institution discussing the business outlook. Ninety per cent of the discussion was about the stock market. It was frankly admitted that neither the economists nor the business men anticipated the big break of October, 1937, or know now why it happened or why the break was so severe.

These three experts plowed into business politics, Wall Street, "hot money," foreign currency, budget balancing, car loadings, touched lightly on market psychology, and finally came out "at the same hole where they went in."

Yet one item which they barely grazed—market psychology—is the most potent of all forces in the making of prices. Market action is human nature in action. Statistics are its *by-products*.

One can get far afield in the "dead pastures of statistics" trying to select a favorable issue by present analytical methods.

In Maeterlinck's "Bluebird" the wanderer traveled afar in hopeless search for happiness only to return discouraged and find the happiness he sought was at home. Let the ambitious reader come back to the one thing close at home—Human Nature—and concentrate on that as the dependable force in making money. By doing so he will find his market work surprisingly simplified, as will be shown in succeeding pages.

Time flies. In the financial life of a person time is a matter of deep concern for time is the very essence of life. The use of sound stocks with their swift action as a means of accumulating wealth appeals to everybody. That's why millions are dealing in them. It was recently reported that American Telephone stock alone was owned by over 600,000 different persons holding an average of about 29 shares each.

People with moderate funds need not wait for the painfully slow accretion of low interest yields, or for the meager savings left beyond the family budget. Time flies and life passes. The time to live is Now and the need for money is that we may live the life that now is.

The investor with his \$10,000 surplus, looking about for a place to use it, buys 4% bonds, his main object being safety of capital. In five years this sum has earned \$2,000. The bonds are supposedly safer than stocks, though not always.

But the man with moderate means being behind in the financial race is justified in buying stocks at somewhat greater risk, in order that their faster earning power will raise his \$1,000 up to the \$10,000 level of his more favored friend.

The procedure in either case is justified, but even then the man with the \$1,000 is more progressive. He can select a dividend stock and thereby has the chance of increasing his capital while drawing interest on it.

There has not yet been devised a way to exceed active well-selected common stocks bought outright as a means of rapid appreciation of capital, and this applies to the amateur as well

as to the seasoned investor or trader. These stocks can be selected as intelligently as the merchant selects the goods with which he stocks his shelves for which he sees a profitable sale.

Buying stocks outright has in it the attitude and intent of thrift. It puts you in the investor class, yet allows you to work for the speculative profits of short-term trading if you wish. It frequently happens that very shortly after a position is taken, your stock will favor you with a surprising rise. In such cases it is wise to accept profits and select another stock that has not yet had its "run," as these swift rallies are called. A stock usually slows down to "cool off" after one of these runs, and since it has yielded its profit it may be dropped and another stock selected.

If you buy 50 shares of New York Central at \$20 per share, then are able to sell out at a \$10 per share profit within a week, your profit would be 50% in a week's time, or at the rate of 2,600% per annum. That's enough for one quick deal and sometimes it happens that way.

When you buy outright you have full ownership and can remain calm during unexpected events in the market. When you buy on margin the broker has your money, somebody in New York has your shares, and you have only a promise to pay. When you buy outright you own everything.

While margin-trading is very common, it gets one far from the zone of safety. One of the easiest ways to avoid the bad habit of overtrading is always to **BUY STOCKS OUTRIGHT**.

MAKE YOUR DEALS RIGHT FROM YOUR HOME

Trading in stocks is simple enough. Anyone can give buying and selling orders to the broker directly from the home, or from business place, or anywhere a telephone is convenient. No need for visiting the exchange and it is, in fact, much better not to spend time at the exchange with its cross-fire of futile opinions. Think and act independently to insure the best results.

Those who are familiar with stock-trading will not need detailed instructions about how to proceed, but many are not so favored and will find the primary details of trading very helpful.

All trading must be done through a broker. If you are within comfortable distance of a broker, it will be well to visit his place and talk to him as to the details, while making arrangements with him to make your trades. You get a better understanding by conversation with the broker than is possible to set forth in the limited description that can be given here.

If you are ready to buy a stock, you have to put up the money with the broker for the purchase. He gives you a receipt for your cash and wires an order to New York making your purchase. Then he will order your shares sent to him for delivery to you.

For instance, if an order were given the broker to buy 30 shares of General Motors stock at \$40 a share for you, it would be necessary to pay the broker the full cost price \$1,200, plus the brokerage which, for a \$40 stock, is 17 cents per share.

The shares can be ordered out from New York if desired and will arrive, usually, within a week or ten days. Or if the

purchaser believes there is a prospect of an early sale for profit, he can delay having the shares delivered. In the meanwhile the broker will give the purchaser a receipt showing his ownership of the stock.

These are the simple initial requirements of what is a comparatively easy transaction. Details in stock-trading are neither numerous nor difficult.

The broker will gladly furnish his client with a list of commissions charged for stocks of different values. These lists should be kept on hand for easy reference. For convenience a list of commissions in force (November, 1938), are quoted below. Commissions are subject to change by stock market authorities.

Stocks: \$ 1 to \$ 1.87½.....	\$ 5	per	100	shares
\$ 2 to \$ 2.87½.....	\$ 6	"	"	"
\$ 3 to \$ 3.87½.....	\$ 7	"	"	"
\$ 4 to \$ 4.87½.....	\$ 8	"	"	"
\$ 5 to \$ 5.87½.....	\$ 9	"	"	"
\$ 6 to \$ 6.87½.....	\$10	"	"	"
\$ 7 to \$ 7.87½.....	\$11	"	"	"
\$ 8 to \$ 8.87½.....	\$12	"	"	"
\$ 9 to \$ 9.87½.....	\$13	"	"	"
\$10 to \$19.87½.....	\$14	"	"	"
\$20 to \$29.87½.....	\$15	"	"	"
\$30 to \$39.87½.....	\$16	"	"	"
\$40 to \$49.87½.....	\$17	"	"	"
\$50 to \$59.87½.....	\$18	"	"	"
\$60 to \$69.87½.....	\$19	"	"	"
\$70 to \$79.87½.....	\$20	"	"	"
\$80 to \$89.87½.....	\$21	"	"	"
\$90 to \$99.87½.....	\$22	"	"	"

For each additional \$10 or fraction thereof, \$1 per 100 shares additional.

Outside of these minor but necessary details, there is little advantage to be gained by one's presence at the brokerage

house. Use your own judgment, checking your operations constantly with methods taught in this book.

Market instructions are the most useful when they are farthest away from profusion and confusion. The successful operator is one who can decide upon a plan of trading that appeals to his reason, then says to himself, "This one thing I do."

It is worth while to be thorough in following this plan. You are working toward a financial future. In learning the professions you are *obliged* to be thorough. There is no drudgery in the business of dealing in stocks—rather the opposite is true—yet the largest dividends will come from thoughtful application of the basic principles as you acquire them. Don't be "unhorsed" by sudden breaks or rallies in the market. They are a part of the trend as much as hills are a part of the landscape. Keep calm. Preserve your equanimity and let your brain work. Indians cultivate presence of mind by being stoical.

There need be no interruption in your business, your job or your profession, and no diverting of your attention away from your habitual duties. It takes a very small amount of time to make the necessary trades over the telephone and to keep a record of the transactions. It will be a pleasure to keep an account book showing every transaction, its date and the amount of money used, profit, etc.

This business of buying and selling stocks gets to be very interesting, even fascinating, and especially since you are buying your shares outright and not on margin. The common stocks of good concerns are the cream of values for increasing income and may be bought or sold at a moment's notice.

If the reader has any doubt as to the popularity of common stocks for investment and revenue, he will be interested in knowing how our universities regard the value of stocks. It was recently stated in public print, on good authority, that:

Of Harvard's \$135,000,000 endowment fund, 38% is invested in common and preferred, mostly common stocks, 50.3% in bonds. Wellesley has 30.3%; Cornell 47.8% preferred and common, 31.1% bonds; and the M. I. T. 41.1% in common stocks. Yale received a third more from its endowment income than from students (tuition) in 1936.

There is no magic in market success; nothing complex about common sense and everybody knows it when he sees it used. Market wizards and professionals work at high tension and are apt to burn out. The man in earnest who will find the right way, then use it and stick to it, can, in the course of a few years, achieve results far in excess of the professional and will have learned the way of thrift by actual practice.

HELPING YOURSELF TO CASH

You can help yourself greatly in your financial objectives by keeping up your information about the particular stock or stocks in which you are dealing and in the actions of U. S. Steel. More will be said about steel in a later chapter. The groundwork of a careful financial plan is not in how much miscellaneous matter you can accumulate about the history of your stocks, but how carefully you study their positions as compared with the old-time leader, U. S. Steel.

Best of all market helps are graphs. These are easily kept and need but a few minutes per day to mark them up. Get the prices from your evening paper, that is, the open, high, low and close of your stocks, and mark them up like you see in the graphs farther on in this book. You will get an instant view of how your issues are progressing and how the leader is acting.

All other news is secondary to your graphs. They tell the true story of what's going on in the market. Other comments are opinion, *the graphs are facts*.

Chart or graph paper may be had at nearly any stationery store. It is ruled with the primary lines half-inch apart and with finer lines one-sixteenth inch apart. When a stock is charted, the primary lines each half-inch apart are \$1 apart. In charting wheat the lines are one cent apart. A little practice marking down the open, high, low and close of your stocks will be the best way to understand and use graphs.

Thousands of people are trading in the stocks and wheat every day. You get the value of their opinions in the action of the market itself.

Every lot of stocks bought and every thousand bushels of wheat bought leave their "finger prints" upon the market in the form of market action. Why devote long hours of valuable time to the difficult task of analyzing a stock to see whether it is good or worthless for trading when this has been done by thousands of others before you got to it?

Few men have the time or the information necessary to analyze a stock thoroughly. There are many stock services which do this capably, thus obviating such work. Hundreds of investors and trust companies who deal in millions of shares have whole batteries of stock analysts at the business of analyzing stocks and this has been going on for years. Whatever conclusion these investors come to or anyone else, the effect is registered in the market action of the stock.

Each stock has already been analyzed for you.

And here is a very important fact. When a major advance occurs in stocks, they will all go up.

When the major advance is finished, they will all top out for a decline.

When a major decline occurs, they will all go down together.

Dividend-payers and non-dividend payers will go up together, and it is difficult to tell which is the most popular. On the major advance from 1935 to 1937, New York Central, a non-dividend payer, advanced 360% of its starting price, while Atchison, a dividend-payer, advanced only 165% of its starting price.

Good dividend-payers are desirable to trade in if they have good action, because you may get the dividend in addition to an advance in price. However, it is poor policy to tie money up in a dull dividend-payer that may drag a year and pay only a small dividend.

Action, not dividends, is the secret of big profits in the stock market, and action is the product of those two great emotional forces mentioned in a previous chapter, the desire for gain and the fear of loss. Our business is to *use these two forces* as the chief interpreters of profitable movements rather than to rely upon the findings of stock analyses. The way to do this will come out fully, and probably with surprise to the reader, in Part Two of this book.

Profitable stock-trading is not difficult. Many people make it so by trying painfully and exhaustively to base their trading on the so-called "cold facts." Do not take the reams of statistical sawdust for your guide, but rather the safe dictation of the mass trading mind.

The soul of man cries out for better things, and on that restless tape of the ticker is written the indelible characters and figures that tell of his deep desires. These resolve themselves into patterns or movements which we call charts or graphs, and they are governed or produced by laws—the laws of human nature.

Before a snowflake is formed it consists of shapeless mist. Then it starts to congeal, and by the laws of crystallization it spreads out into a frost pattern of matchless beauty.

When you judge the position of the market or of any particular stock by the chart pattern it makes, you are basing your opinion upon the first laws of human nature. This simple knowledge of being able to interpret the market position will bring down more profit plums than all the analytical work of a staff of expert analysts.

This is because analysts put their faith in copious indigestible statistics and fail to take cognizance of the great heart—the mass mind—of humanity. Statistics are useful, but secondary. They are the by-products of past thought and past action. Statistics of the market look backward. Psychology of the market looks forward

There is no need of struggling through tangled jungles of abstruse statistics when we are able to go freed of restrictive details directly to the scene of action, the daily throbbing movements of the market, to get its symptoms and its conditions.

When a physician is called to the bedside of a person to diagnose his condition, he does not ask about the man's past history—he feels the man's pulse.

This is not intended to discourage the acquisition of information about the securities in which you are dealing or proposing to deal, if you have the time and disposition to do so; but to direct your first thought to what is far more important, the *market position* of your intended stocks. It is also much easier to locate these "positions." They are definite and clearly understood.

A well-fixed merchant in a western city decided to invest his surplus funds in stocks in the latter part of 1936. Election was past and the stocks on the upgrade. He bought five different issues. He was told by analysts that they were "good stocks," by which they meant that the stocks were making good earnings and paying a dividend. When this man bought his stocks, they happened to be in a *good position* as determined by the method of this book.

But there is a vast difference between being a "good stock" and being in a good position.

Dame Fortune smiled on him—for several months. The profits on his five stocks ran up to \$40,000 and they were still "good stocks"; in fact, he considered them better than ever because they had made him that very acceptable sum. When asked by a friend if he was going to accept profits, he almost flew into a rage.

"Emphatically, no!" he exclaimed, "sell stocks that are making money for me like this? Not on your life. I tried selling two of them last month, and had to buy them back again at a higher price. Why, man, these stocks are paying

dividends, piling dividends on top of their enhanced values. Why sell out stocks that have all this earning power, and where else could I put the money?"

Then came the disastrous break of late 1937.

At the bottom of the break this merchant was still holding on to his stocks which showed him a loss of \$20,000.

The dividends which these stocks paid were a mere drop in the bucket toward mitigating his loss. One of his stocks was Anaconda, paying a dividend of \$4.50 per annum. It rose to 69½, then broke to under 25—over \$45 per share.

The highly important thing this merchant did not know and which cost him \$60,000 not to know, was that *position* is by far the most important information one can acquire about a stock.

Therefore, the easily provable contention we make is the following startling statement—

A poor stock in a good position is more profitable than a good stock in a bad position.

First, last, and all the time, know the position of your stock. It is the best market knowledge you can possibly have in the vital business of making money—and the easiest information acquired as will be shown in the pages to follow.

One frequently hears amongst his friends the remark, "I have decided to take a position in the market." It is more to the point to allow some stock to get into the correct position, *then* buy that stock.

Watch the market for the active stocks. Many of the newspapers print the names and volumes of the most active stocks for each day. If a dividend-paying stock shows pronounced activity and is in the *right position*, as shown later on, it will be a good stock to buy, for it may pay the next dividend while you own the stock and help by that much.

But it must be borne in mind that the proper way to interpret the position of the stock you intend to buy is by means of a graph showing its past action and right up to the present.

Graphs are photographs of stocks. You see their positions instantly. An analyst may give you a minute description of a stock and its resources, yet you are uncertain as to whether it is a safe purchase or not. There is something lacking.

I might meet a friend of yours downtown and try to describe him to you, not telling his name. I would tell you he had brown hair, a pleasant smile, blue eyes, high cheek bones, a tan hat, a red necktie, was good-looking, well-dressed and knows you well.

Yet you are at loss to know who he could be.

Suddenly I remember he gave me his business card with his photograph thereon. Drawing it from my pocket and concealing his name I present it to you.

Recognition is instant.

"Oh, that's Billy Smith," you exclaim, "I might have known it was he you were describing."

And that's the difference between a stock analysis and a stock chart. The chart is the photograph.

Knowledge of *position* is of superlative importance in a stock. We might put it this way:

The dividend of a stock is important.

Its activity is more important.

Its position is most important.

The matter of dividends, activity and position are discussed at length in this chapter, as it is well to give less credence to the time-worn analytical methods of appraisal. People have for so long been accustomed to the wornout, erroneous ways of judging stock values that these errors have become almost standardized futility. This is simply because they are not aware or are not convinced that there is any other way.

Try studying the corporation reports, the rediscount rate, the stock market averages, the price of the pound sterling, the business index and commodity prices, and see if they give you definite information upon which to make a trade.

Read the medley of brokers' opinions in the daily financial news and note that they are about 50% bull and 50% bear. Can you risk a trade on these?

Pore over the strained efforts of financial page writers of the newspapers and note how the tone of their remarks trends upward *after* the market turns in that direction, and how these remarks grow pessimistic after the trend has hit downward trail. Can you get any consistent or consecutive help from these?

Someone has said, "There are three kinds of lies. Plain lies, damned lies, and statistics." Channing said, "There is nothing so fallacious as facts except figures." One editor with a sarcastic slant said, "If all the economists in the world were laid end to end they would not reach a conclusion."

But shining steadily through this fog of statistical uncertainty, there is one thing upon which the investor or trader may invariably depend—the charted action of the market itself. It cannot be read as easily as the financial sheet but it tells the truth.

To be able to interpret market action is a valuable accomplishment. This knowledge can be translated into financial revenue. The Triple Zone Plan of this book eliminates the unessential repetitions of the market and lays the essential trend of a stock—or grain—out clearly upon a map of three zones which are unescapable. Technicality is reduced to a minimum. The position of a stock as compared with its previous action, with other leading stocks and with the averages, is clearly shown. The owner of a stock knows where it has been, where it now stands and has an excellent forecast of where it is going.

CASH COMES GOOD AT FORTY (AND AT ALL OTHER TIMES)

Conditions have not changed as to the need for money. Those who succeed in securing enough money now are so few that the demand for more and more money is well-nigh unanimous.

A few years ago the nation was listening to persuasive lectures on "back to the simple life." Now there has been a complete change toward the conservation of life, or social security. This fact makes it more essential than ever that a person earn ample money so that he may keep himself solvent and participate to the largest extent possible in the more independent life.

New ways to make money are few. Business concerns found it necessary, during the depression of 1937–38, to retrench instead of expand, since the margin of profit was precarious. One food manufacturing concern, which did 29½% more business in 1938 than 1937, could not pay as much dividend as in 1937 because of added expenses—taxes and strike settlements. Yet it is necessary that more money be made in some way both by individuals and institutions. The result is that people automatically turn to the stock market. Since the depression has emphasized the fact that risks are sure, and often severe, in *any* business, they are willing to assume the risks of the stock market because of its promise of prompt results.

That brings before us the need for simplified knowledge in the field of stock-trading. Here is where the methods of this book will come effectively to your assistance. This is not an

invitation to promiscuous speculation, but a suggestion to merchandise with intelligence in the greatest money-making institution in the world, the New York Stock Market.

You can further conserve your funds by using only part of them in your market work. Stocks are fast workers. They make money rapidly when you are correctly in step with them. Half your surplus funds working in rhythm with market movements will make more money than your entire surplus could in any other way.

To be anxious to get ahead financially is laudable. In that our population is practically unanimous, but there is danger in attempting to smash ahead, to "crash the gates" and get to the desired goal ahead of the crowd.

Half of that trading fund you have available can soon be doubled by conservative buying and selling, as will be shown later in these pages, but even then there will be no gain in cutting loose from staid policies and going wholesale into the business of trading.

THE ROAD BACK

If you chance to be one of those persons who were financially crippled by the last depression and are gradually coming back, you are, first of all, to be commended for your fortitude since you can now make better headway in the rising tide of expansion—call it inflation if you wish—and no better way exists than to buy outright the stocks of good American concerns.

If you have even a few hundreds of dollars, you can make a fair start by selecting two to five of the smaller stocks and holding them for the advance which they will have when the big stocks are finishing a major advance. Big stocks and small stocks act differently from each other usually, but manage to make tops and bottoms about the same time and that is the essential thing to know.

A sober young man of substantial parents visited my office in May, 1936. He became interested in the graph of a low-priced rail, noting its good action of past years. He left without disclosing his intentions, but two days later wrote to me that he had bought 500 shares of that rail at \$3, paying \$1,500. He was quick to see the advantage of its low price because the graph showed how many times it had sold higher. The stock advanced to 6¾ early in 1937, doubling his money. By October, 1937, the rail stock had declined to \$1 per share, at which his \$3,000 would enable him to purchase 3,000 shares.

It is in this way that an ambitious person can rise from an almost obliterated business, recovering his financial position faster than in any other way. Fortunately, he can go farther—much farther—on this new financial journey. No

expansion is too great in a developing stock-market business so long as the operator keeps his feet on the ground and his mind centered upon systematic operation.

Furthermore, secrecy as to one's transactions will prove valuable. It is a reserve force that tends to give the operator judgment and balance. To disclose your operations dilutes your interest.

Among the ranks of the merchant class I have found a surprisingly large percentage who have invested some part of their funds in bonds or stocks, usually both. They are aware that often in the course of events something happens to send stocks soaring and nothing so enlivens the day's work as to have the market make one of these gratuitous contributions to his welfare.

The way to get these contributions is to "get set" for them. They happen frequently. They come unannounced but are none the less welcome.

LARGE FUNDS — LARGE RESPONSIBILITY

Men are often at a loss to find investment for estate funds, idle treasury reserves, or sums of personally owned money that ought, by all the rules of thrift, be earning something but for which there seems no safe employment. Interest rates are low and bonds that earn worthwhile returns sell at a high premium; old sources of investment are no longer available, or are no longer safe.

Billions of this kind of money are crying out for a safe place to work. "Nothing makes money like money," but in these days of disturbed business conditions it should be used where it can be liquidated promptly and withdrawn from active use.

Money can't be placed in farm mortgages or other real estate at present with any assurance of safety, nor is it possible to enter a business safely when almost every merchant is trembling lest his line of business be crimped by some political measure.

The usual vehicle for large funds is government bonds, but economists keep the investor worried over the statement that bonds will decline when and if inflation appears.

But no one will say that the common stocks of good American institutions are not safe to purchase when they get into a real bear market position as they have *five times since 1932*. The break, late in 1937, was just another golden opportunity for the man with estate funds or large cash holdings to invest. And the opportunity will continue good, with new and excellent opportunities blossoming out as the next phase of the market progresses. All roses do not bloom at the same time.

Neither has the buyer lost his big opportunity simply because he fails to buy his line of stocks around lowest figures.

Major advances take form slowly and rise leisurely with frequent setbacks caused by timid profit-takers. These reactions are welcome. They open select new buying places and permit the entrance of belated investors who feared they had missed their opportunity.

The large population of the country means that a rather bulky mass mind must be changed at each turn of the market. It may require months to accomplish a complete reversal of trend. Often it requires weeks to reverse a market that has had a minor reaction. During this time the in-and-out traders, of which there is a large number, are constantly trading for short-turn profits. We sometimes hear it called "churning," "market stalling," or "adjusting" itself. For the investor it has a very important meaning. It shows him usually a better position for making that belated investment or for taking on that intended additional lot. The profound major trends, either up or down, are often interrupted by sharp minor swings but are seldom if ever fully reversed.

BEATING INFLATION

You can beat inflation and make money at it!

No matter how feverish the market may seem under the impelling effect of supposed inflation, there will be periods of heavy profit-taking. The genus homo sapiens can stand prosperity or profits about so long, then he's got to "see the color of his money."

All along the several years of inflationary rise that will take place before final top, there will be drastic profit-taking spells like that of 1937. Sow your seed in the cold clammy ground of these periodical bear markets, and you will be able to harvest your crop in the bright sunshine of the next bull move. Both the bull and bear moves are sure to come—they always have.

You may be a person with a few hundreds or a few thousands which you would like to see working to help you on your financial journey. Your wages or salary will do little to help you protect yourself against inflation. It takes about so much to keep you and your family and to permit them to live decently.

But your surplus money can help you immensely!

It can work at the business of improving your finances while you are at the work of making a living. Even a modest surplus will make money far out of proportion to its size if it has the chance to work steadily and systematically. That's what we are to open up to you more fully in the pages to come.

Too many people jump in and out of the market with their stock-trading, trying to snatch a scrap of profit here and another scrap there.

To the professional short-turn trader who can spend all his time at the exchange, it is, of course, permissible and expected that he will try to secure these frequent fragmentary profits in an effort to compound them into larger funds, but this is not investment. Few are the ones who can afford to become "professionals" and, in the final wind-up of a financial campaign, the outright investor following the plan of this book will far exceed the results achieved by the less patient in-and-out trader.

Would you expect a workman to become an expert if you were to jerk him off one job and shove him into another one every few days? Let this valuable cash surplus that is working so faithfully for you, finish its job, make its profit, then turn to another.

GETTING OUT OF A PINCH

Every year scores of men come to my office who have run into a streak of business adversities and are turning to the market as the possible way out. They are skeptical but anxious.

"I'm afraid it's risky business," is the usual comment, "but I've just got to do something. My family are used to living well and they don't realize that I practically have my back against the wall."

These men know that the market has, at times, resulted in woeful loss to friends, but that it has also earned generous revenue for others. They are silently praying that a miracle will be worked in their behalf, baptising them with a copious shower of cash.

And they can have a miracle in their behalf if they will adhere with positive determination to a course of procedure that will permit the "miracle," but they must let the market perform its miracles in its own way, not in the way they would like them performed.

The worst fault is impatience. A man in a tight place may have been several years getting that way, but when the pinch comes he wants to get out of it in a hurry, in thirty or sixty days if possible.

He has a little surplus money he can use, so he decides to make a grand plunge into stocks or wheat hoping to make a "killing," and then get back to his business as usual.

Luck will almost certainly be against the man who follows this course, no matter how sincere and worthy he may be. Trading on a thin margin is about as safe as seeing how close you can drive your car to the edge of a thousand-foot preci-

pice. Very little stands between an earnest man and success if he will curb his impatience and give his depleted surplus a chance to work without being overloaded. Cash in the market is like leaven in the bread. If it is put in at the right time and with conditions favorable, it will expand to amazing proportions.

An automobile was once presented to me by an enthusiastic client, and it all happened in this way. The client, a business man well known in his community, had bought wheat on a declining market. The price went still lower, and he added more to his line believing the turn was near, but with unmerciful persistence the price went on down.

About that time he came to my office, his face seamed with lines of worry, and mournfully related his situation. He was \$13,000 loser and about at the end of his rope.

"What in Heaven's name can I do?" he queried anxiously, though it was apparent he had some vestige of hope left, or he would not have been searching a way out of his pinch.

"Have you any trading surplus left at all?"

"A little; not more than enough to trade in 5,000 bushels, but that's not a drop in the bucket to what I need if I'm ever going to get out of this jam."

"All right," he was told, "trade with what you have if you can't put up more."

He was a man who loved action. He had nerve—perhaps too much—for he had carried that wheat all the way down from the "selling zone." His face lighted up at the thought of another trial. "When do I start?" he asked.

"Right now, buy wheat." And he did.

Now it happened just then that wheat was in the easiest and surest place to begin a line of trading. It was in the *investment zone*, which the reader is soon to see pictured and described, but this trader did not know that the *position* of wheat was just right.

All I did was to give him a gentle push at the opportune time. He added more to his line as the price of wheat advanced. He was fortunate enough to be in one of those direct upward moves with traders roused to a high pitch of enthusiasm following the announcement that the Farm Board had just been granted a half-billion dollars with which to stabilize wheat prices.

A 65-cent advance occurred of which he secured a large share. "Miracles still happen," he said with fervent delight as he ended his trading campaign.

At the finish he had closed out his wheat at a price that meant the recovery of his lost \$13,000 and a profit of \$3,500 besides. The key to his final success was that he had the good luck to catch the wheat market in a perfect buying position and then had the nerve to act. Most traders become cowed by such a loss, and completely lose both initiative and judgment.

It has been my pleasure to see traders, on frequent occasions, take excellent profits from the market. Almost invariably these large profits are derived from purchases in the *investment zone*, whether they were aware of the importance of this position or not.

Thousands of men, after drifting into business difficulties, have lifted themselves out of the "red" quickly by a well-placed trade in wheat or stocks.

A trade made accidentally in the right position will, if he lets it alone, make him a profit even if the trader be a near "dumb-bell."

A trade made unwittingly in the wrong position will cause the trader a loss, if he lets it run, no matter how astute he may be.

Almost without exception the "fool's luck" that happens to beginners in the market is because they made their purchases, by good luck or accident, in that all-important investment zone, to which the reader will be introduced in a later chapter.

GETTING DOWN TO BUSINESS

The chief goal ahead is financial success. That's "what all the world's a-seeking." Our glorious American civilization will emerge triumphantly from the tide of radicalism born of the depression. Unsound leadership cannot long stand in the way of employer and employee, since the prosperity of both is dependent upon the success of business. The future is bright for the country, but the immediate need of the individual is to make money Now! If you are already "going good," that's fine; and we wish you all the success Dame Fortune will shower upon you.

But if you are anxious about the future and things are not going so well in your business, it is an excellent time to seek a way out and get going again. The old "slow motion" way of scrimping and saving to get ahead is much less favored in the present day of fast-moving events. We have faster speed in the air, on the water, and on land. The next great necessity is greater financial speed. Nothing can equal the stock and grain markets for this, and already thousands are turning to them for the solution of their financial needs.

But to attain success this great field of endeavor must be used according to its natural laws of action. Not analysis but market action is the key to what a stock or grain can do for you. What they can do for you is amazing when the simple laws of action are understood and intelligently followed.

The plan unfolded herein is for everybody. As I have said, when you deal in securities you are rubbing elbows with the man of the street, the magnate and millionaire. It is a free-for-all game and the wise speculator is the one who learns the great value of position.

If you have large funds under your care for investment, you will get a great deal of help from the study of positions. It is extremely useful to know when profits should be realized on those funds and withdrawn for reinvestment later.

If you hold a position and have accumulated something of a surplus, you will find this systematic plan of making these funds work for you can be made one of the pleasant features of your daily life.

If you happen to be an experienced trader in either stocks or wheat, you will be able to trade with a new zest and better profit when you see how positively and steadily the market will work in your favor when a very few important laws of market action are understood and followed.

It is well to question the old outworn means of evaluating stock and grains and search for new, swifter and more direct ways, to turn from ponderous statistics to a study of the nimble human emotions that pour forth in market quotations, in other words market action.

Research brings forth new knowledge, better ways, swifter methods, and tends to abolish old errors. Amazing changes in technique and process are going on in the mechanical world. This book presents in clear and concise language a new technique for financial operations, which the author believes is more practical than anything that has gone before.

Herewith the reader is offered a means of using our great securities and commodity markets by the systematic and easy interpretation of their market action, reduced to its simplest, most powerful forms.

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.

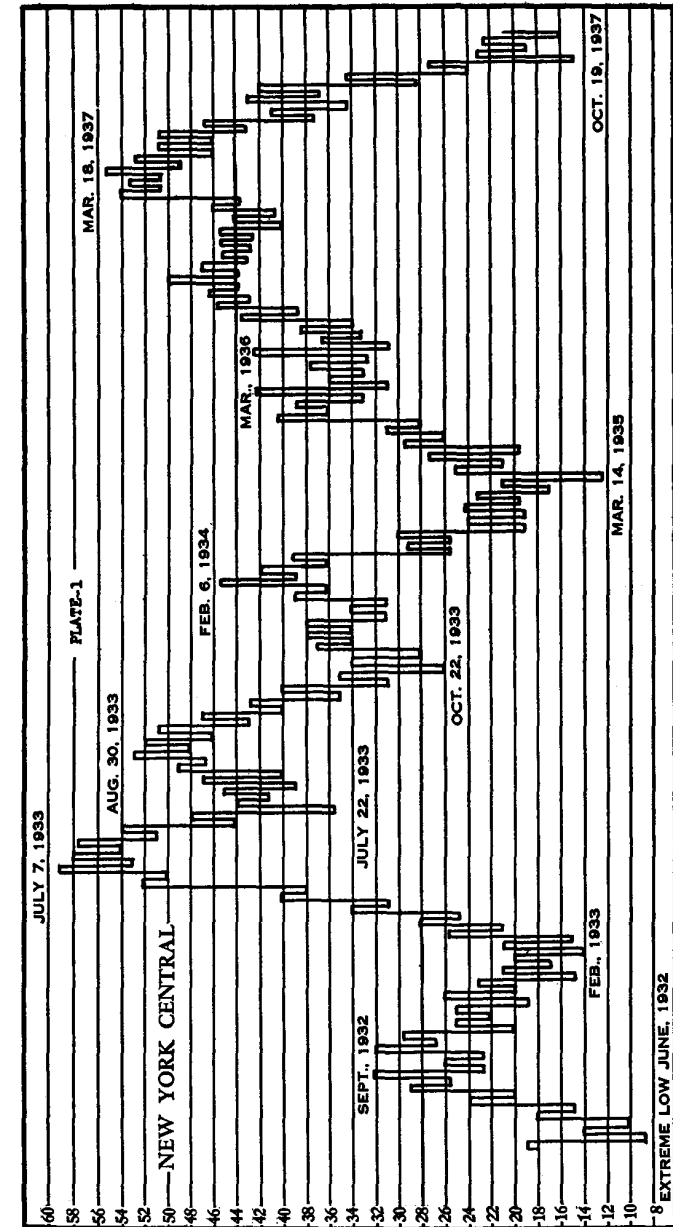
By POSITION is meant whether a stock is in a position to buy, or a position to hold, or a position where it should be disposed of.

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 it 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.

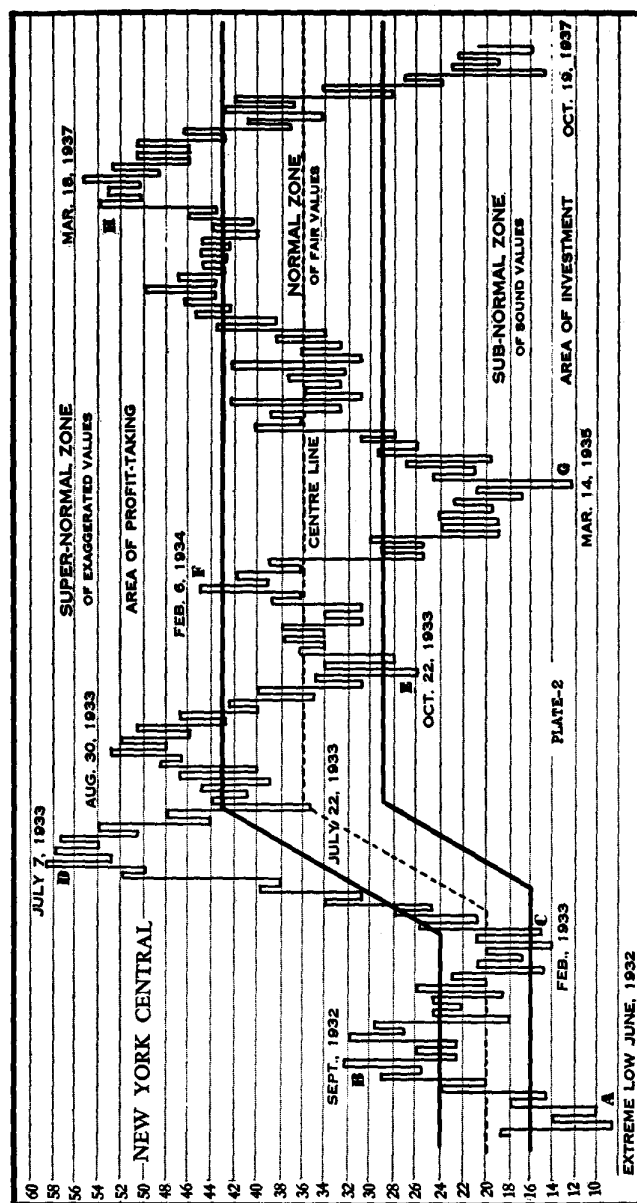
The dotted “center line” is the easiest part of this diagram for the novice to establish. It is nothing more than the center level between the top and bottom of each major advance. If a major rise goes higher than the previous one, the dotted center line rises just as you see in the chart when this stock 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 $32\frac{1}{4}$ was made, the dotted center



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 58½ 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.

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.

From a former page it is repeated that the first deeply useful idea the reader gets from the zones is that a stock starts from the lower zone and goes right up through the normal zone to the super-normal zone, then down again. Stocks are ceaselessly going through this bull and bear market cycle.

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 super-normal 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.

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.

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.

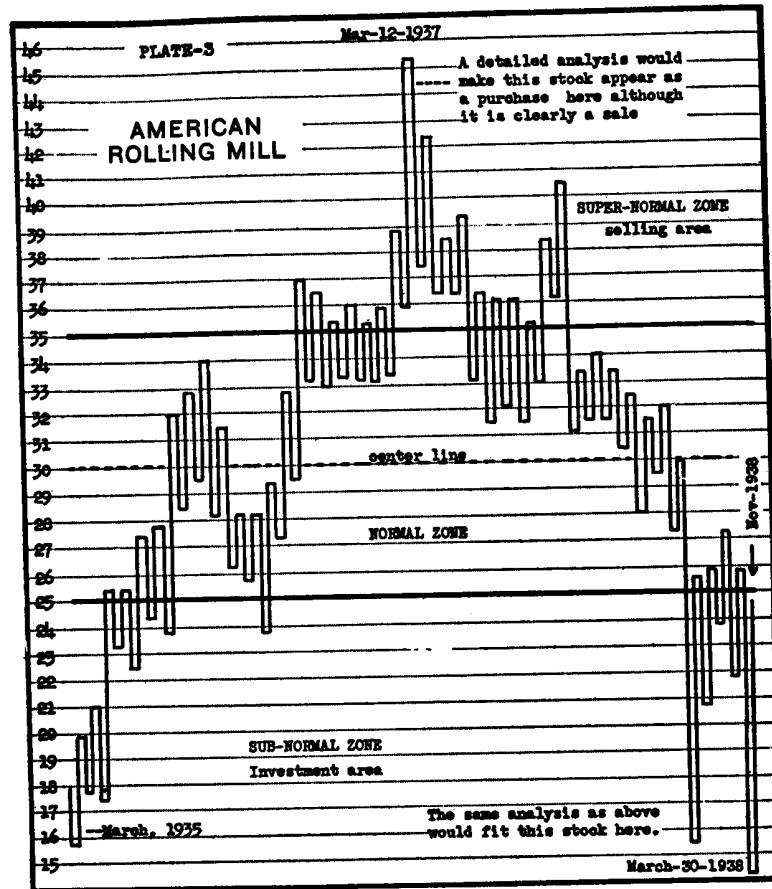
A BRILLIANT EXAMPLE

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 1936 was \$6,442,000 as against \$4,310,000 in 1935, and \$967,000 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 4½% 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 3½ 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 80'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.

Sometimes it is necessary to condense greatly a chart covering several years. In such cases we take the weekly highs and lows, as in the General Motors graph (Plate 10). For the years 1932 to 1935 the monthly highs and lows will suffice.

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 43½%, but in the same move Follansbee Steel, a small steel stock, advanced from 4¼ to 11½, 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 lilting 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, Octo-

ber 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 6¼ on October 19, 1937, and in three days sold back up to 12¼, 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.

	1932	1933	1935	1937
North American Aviation	1¼	9	25½	175½
Chicago & North Western	2	16	1¾	6¾
Cuban-American Sugar	¾	11½	5½	14¾
Electric Power & Light	2¾	15¾	1¾	26¾
Follansbee	2	19	2½	9½

	1932	1933	1935	1937
Otis Steel	1½	9½	4¼	24¾
Radio	2½	12¼	4	12¾
Miami Copper	1½	9¾	2¾	26¼
Mother Lode	⅛	2⅛	¼	3½

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 ⅛—12½ cents—per 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.

In the pages to follow, the reader will be shown charts of four popular low-priced stocks reasonably sound and active enough to make excellent profits. A large number of traders will deal in nothing but the low-priced issues.

RADIO

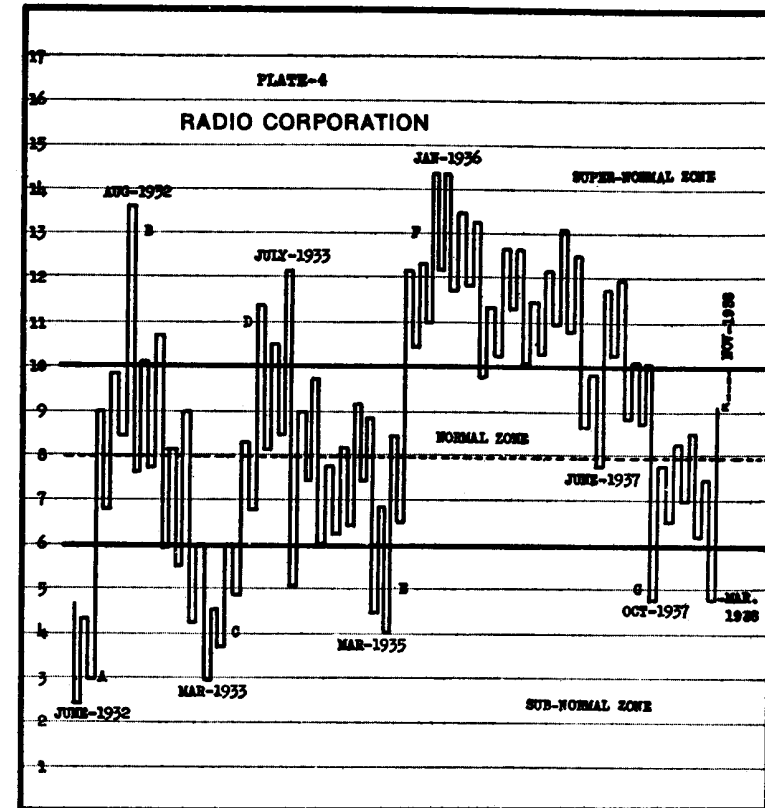
In the diversified list of four stocks now to be taken up, Radio will be first examined. The advantage of buying one lot each of several different stocks is that some will move out earlier, or rise faster or farther than others. Out of a list of four stocks, probably two will get away for their moves 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.....\$ 660
 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.

STEWART-WARNER

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.

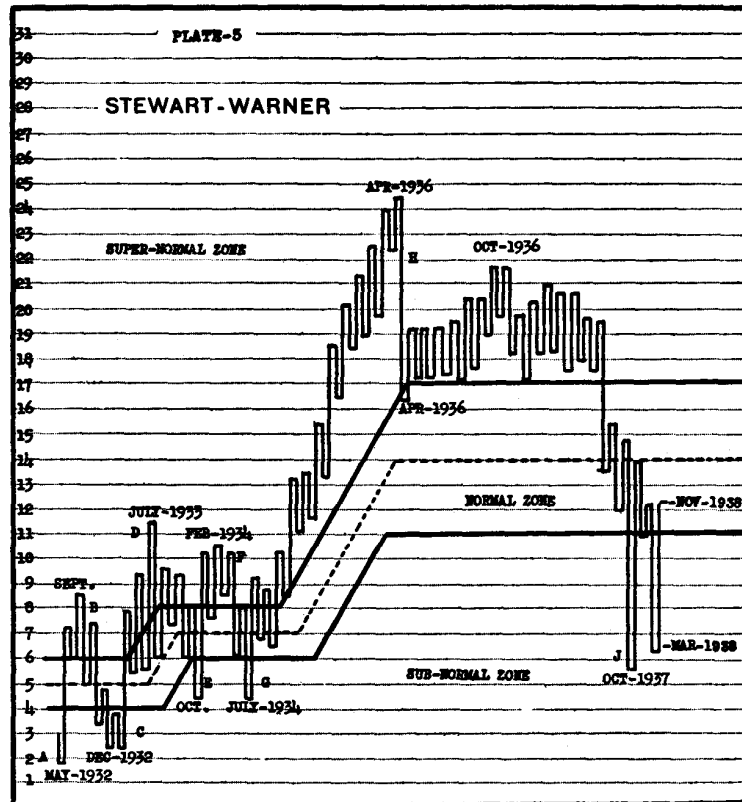
Dozens of other small stocks would answer in the place of the four we are describing. Every group has its small stocks, and often the small ones are as seasoned and stable as the big ones. Good selections are available for every major move. It is well to study what group is likely to enjoy an expanding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

REMINGTON RAND

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

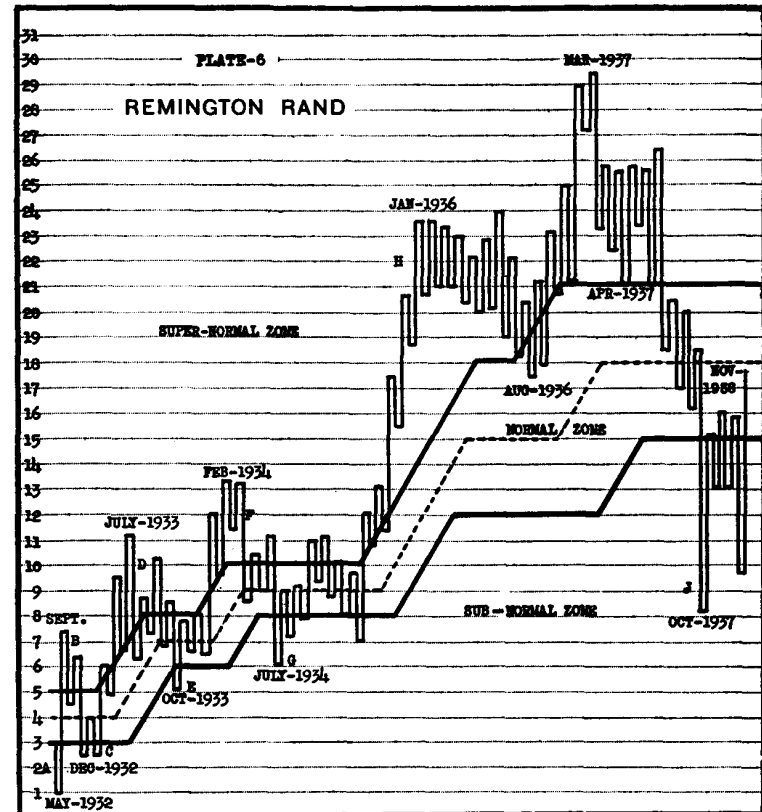
The reader will notice that the dotted center line, which is the middle line of each major move, is very easy to establish in every one of these stocks when one has a chart of the past years of the stocks. A once-over glance shows how each one invariably gets down below the normal zone in its bear moves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

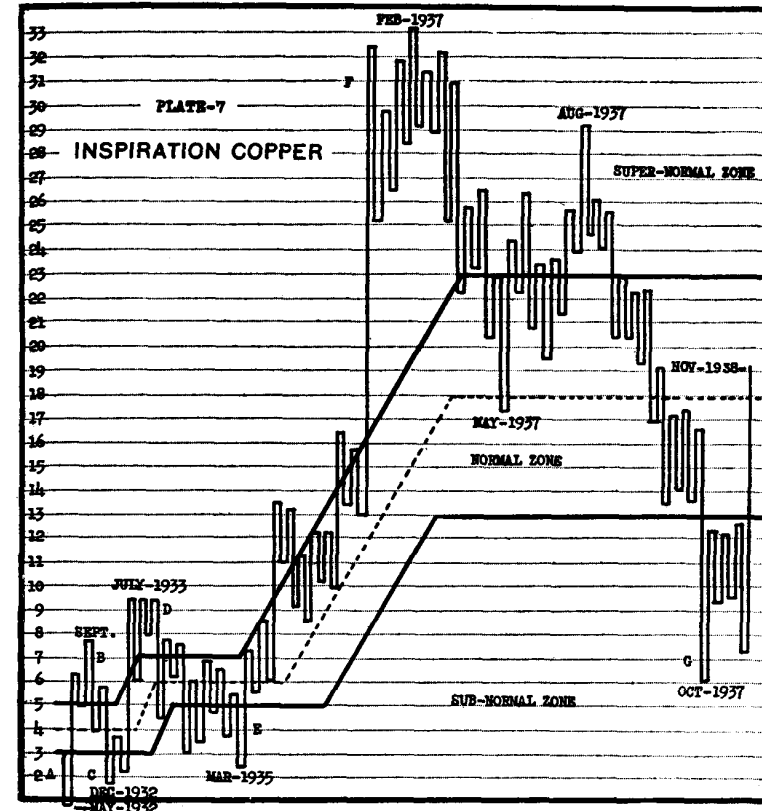
This is a well-known copper mining stock of the Southwest and popular in market circles. It sold up to $66\frac{1}{2}$ in 1929. Under any threat of major warfare this stock becomes very active. Business expansion, especially in the line of the utilities and electrical development, starts the stock into 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



INSPIRATION 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 $32\frac{1}{2}$ 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:

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.

FOUR WAYS OF MAKING CHARTS

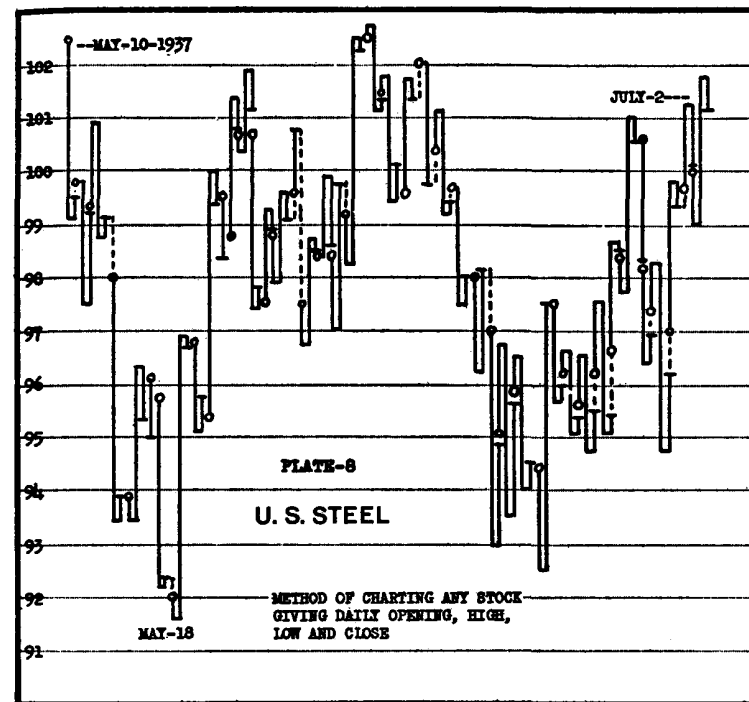
It is well to take special care in the study of the stocks you are buying or intending to buy. No other single indicator is equal to a good chart. Charts are as essential to the investor or trader as the stethoscope and thermometer are to a doctor.

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.

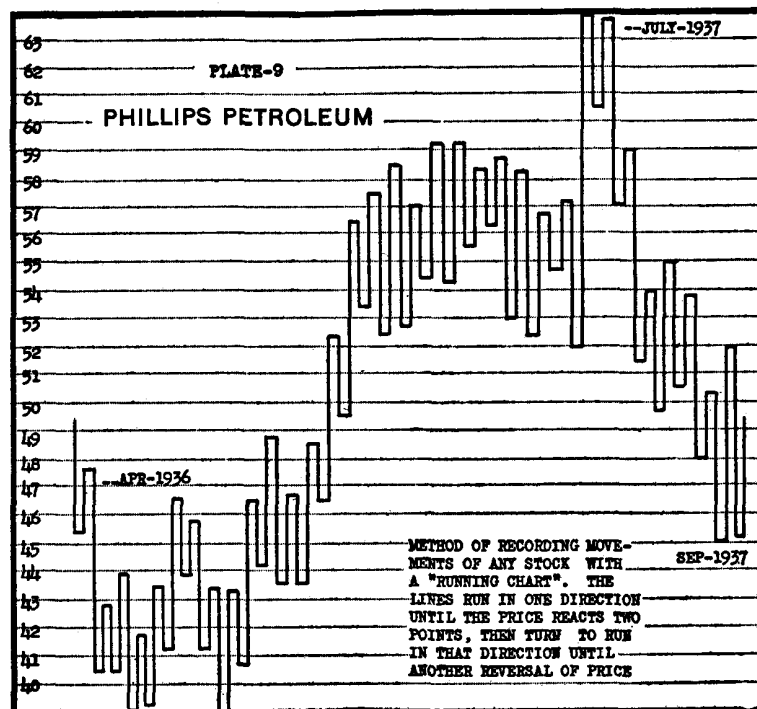
Daily papers usually have the market quotations which, in a few minutes, can be marked up on the charts. The entire business of keeping up charts and of transacting business in stocks should require a negligible amount of time for the individual.

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.

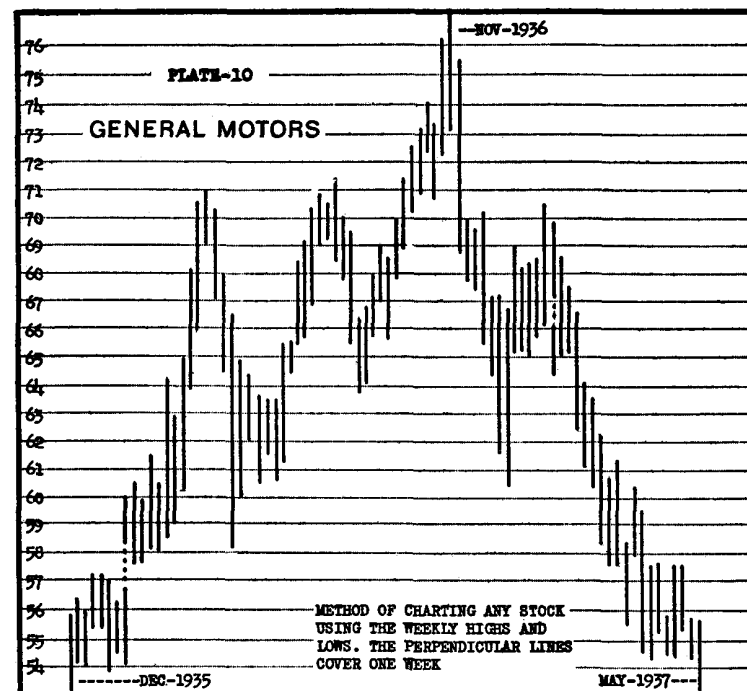


The "RUNNING CHART," as shown in Plate 9, enables one to condense much time into a small space and yet have all of the important tops, bottoms, and swings required for full effective market work.

Starting with any point like the beginning of this chart at $49\frac{1}{2}$, the chart line follows the price down to $45\frac{1}{2}$ where there is a rally that rises 2 points to $47\frac{1}{2}$. This rally is followed up, but would have been ignored if it had not been 2 points.

The price then drops from $47\frac{1}{2}$ to $40\frac{1}{2}$ 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.

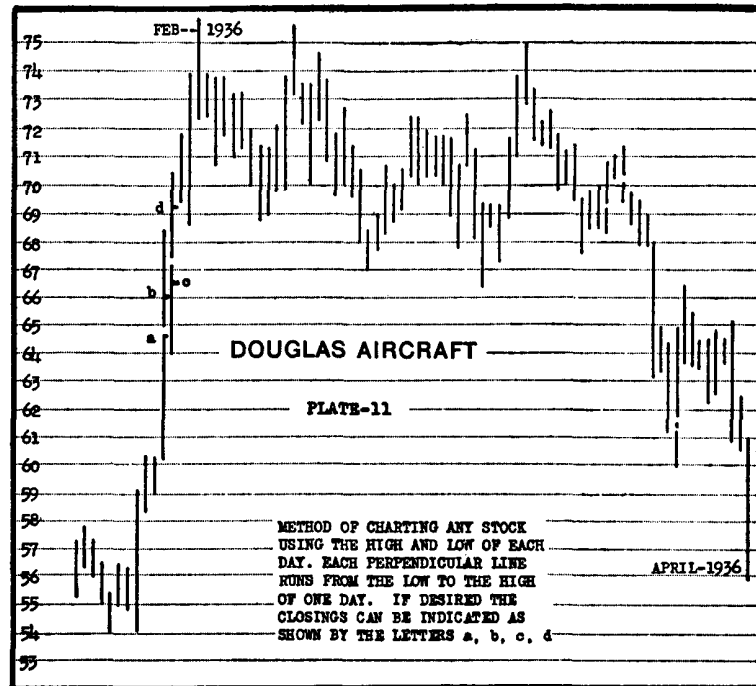
This style of chart or graph is particularly effective for condensing the past action of a stock and showing where to establish the normal zone and the dotted center line.



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.

Charts of bonds may be kept also but bond quotations would have to be obtained through some financial paper, as Barron's or the New York Annalist. The grain market quotations are available in almost any daily paper.



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 $\frac{1}{8}$, $\frac{1}{4}$, $\frac{3}{8}$, $\frac{1}{2}$, 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 over-worked 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 pen-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.

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.

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.

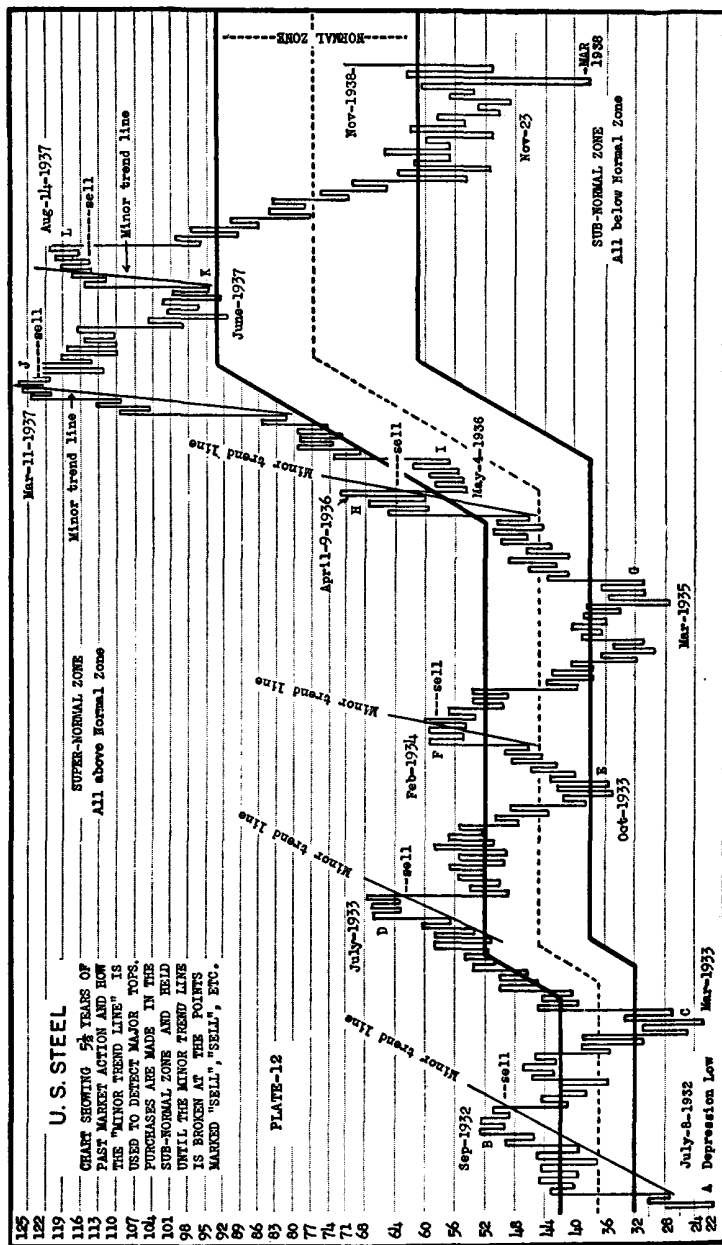
I am especially anxious that the reader should understand this as an entirely new system of trading which takes its indications, not from opinions, but from the mechanical action of the market itself.

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 super-normal 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 unequalled 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.

Remember this: No stock, for investment, is good enough to buy and "forget it." There is no such thing as a permanent investment by which the purchaser can draw down annual dividends and ignore the price of his stock. **PRICES ARE NEVER PERMANENT.**

FOUR TOPS FOR U. S. STEEL AS DETECTED BY THE MINOR TREND LINE

FIRST BULL MOVE AFTER THE DEPRESSION

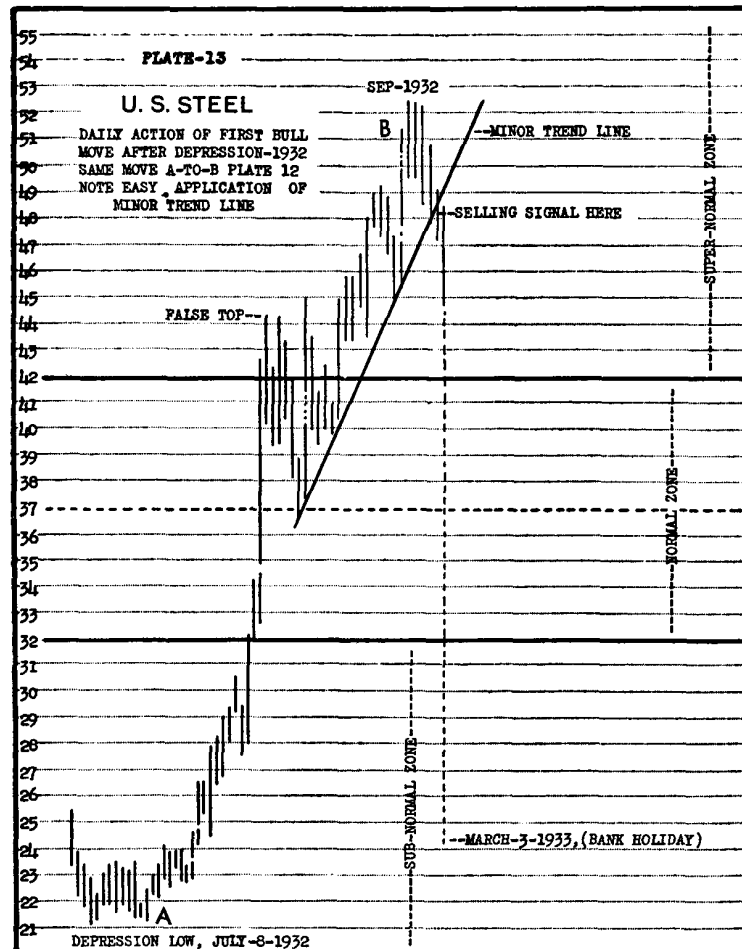
Each of the four successive bull moves for Steel since the depression, including the "double bull move" of 1935 to 1937, will now be shown and how the minor trend line is applied to get the top signal.

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 $121\frac{1}{4}$, 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.

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.

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.

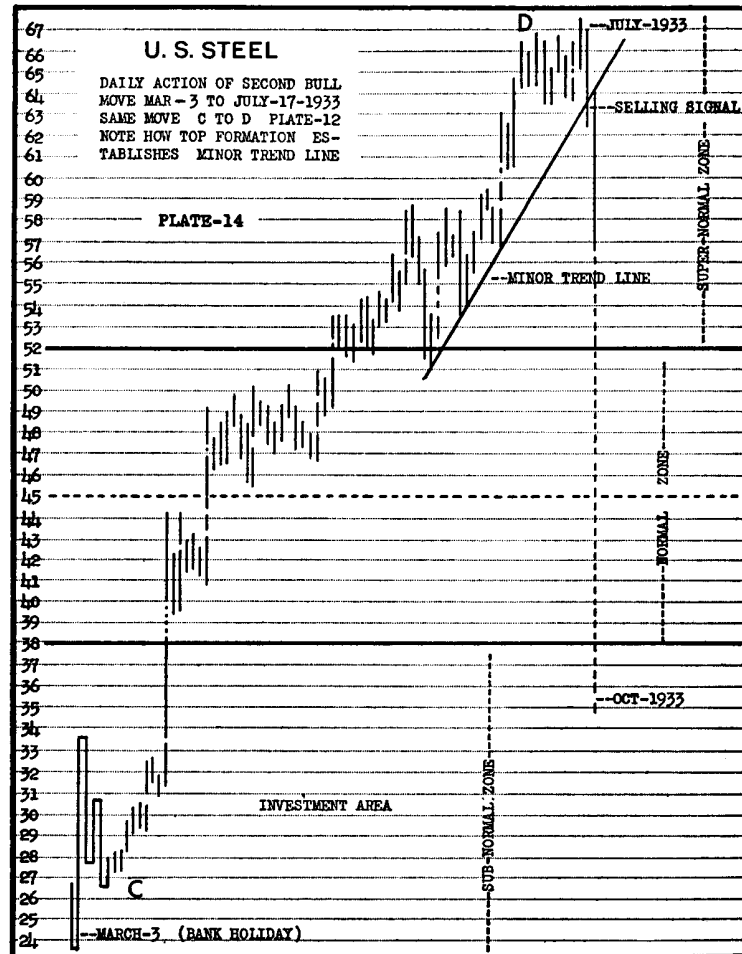
The human urge to get on faster tempts the investor to overextend himself, to buy before the right zone is reached, or to hang on too long after the minor trend line is broken. The plan of operation by zones is the simplest possible—and the most profitable. BUT IT MUST BE FOLLOWED RELIGIOUSLY.

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.

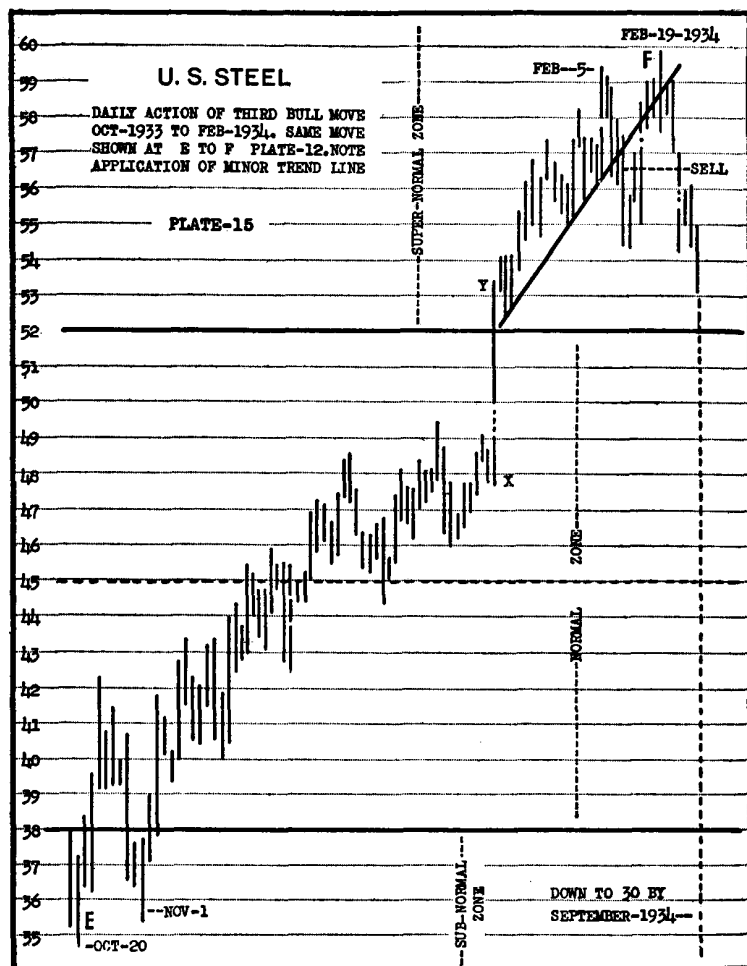
FOURTH BULL MOVE AFTER THE DEPRESSION

This major bull market from G to H was practically completed when it broke below the minor trend line at H. The



The 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.



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.)

"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.

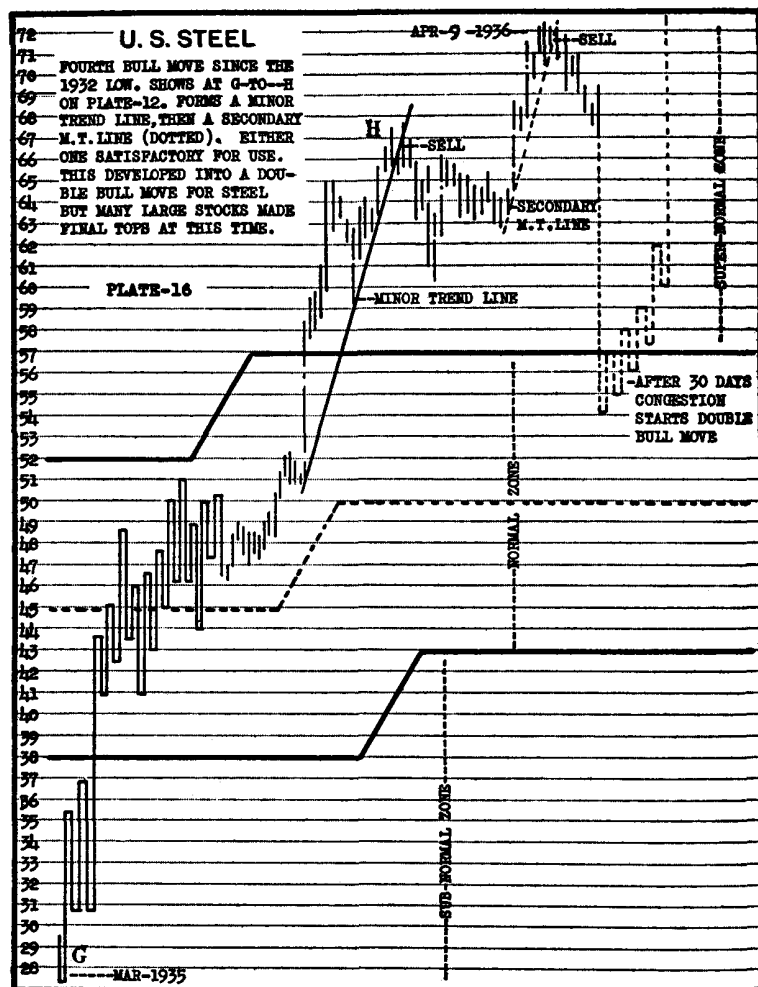
For instance, American Smelting went up 60 points, while U. S. Steel rose from G to H, but added only 9 points more while Steel was rising from 55 to 126.

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.

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 irrelevant 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 following 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 concentrate 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 Industrials 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.

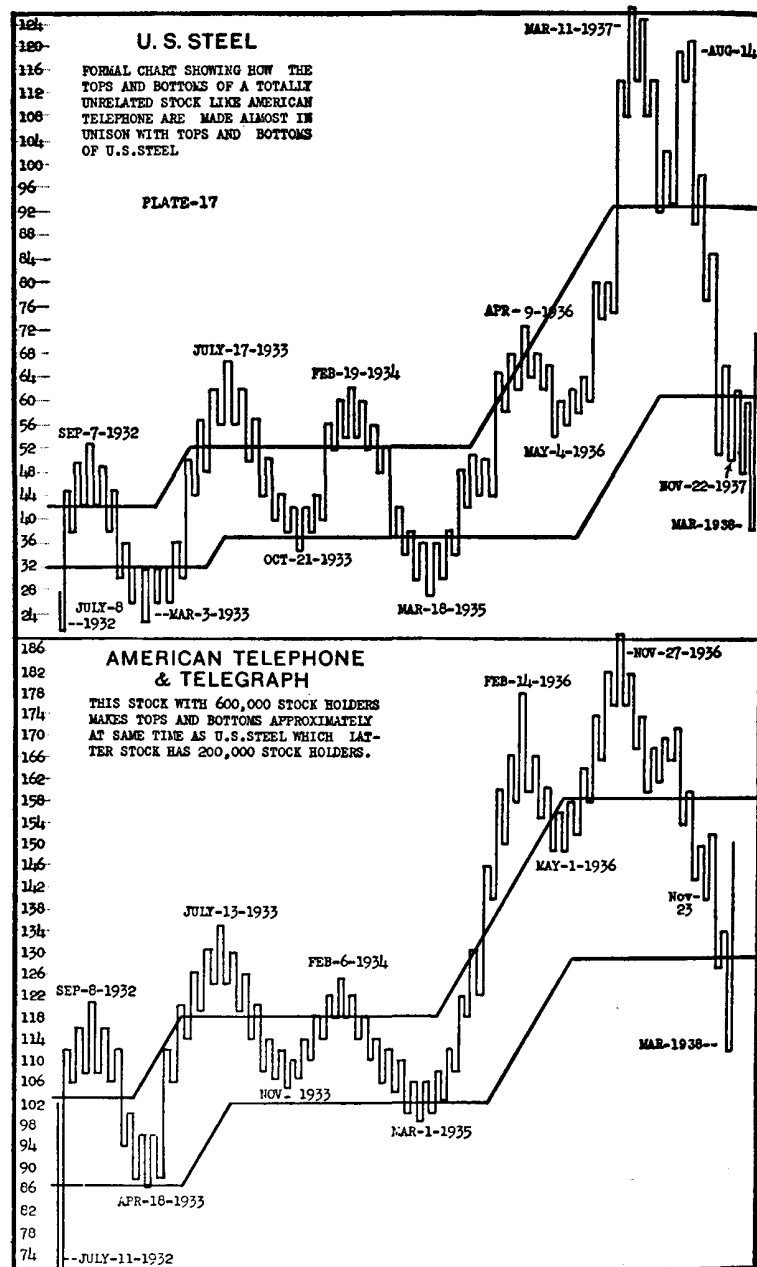
Although belonging to a very different group of stocks, Am. Tel. & Tel. stock displays almost perfect subservience to the movements of U. S. Steel. One needs but to note the dates of tops and bottoms to see this. In the cases where the top and bottom dates of American Telephone are different from those 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



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.

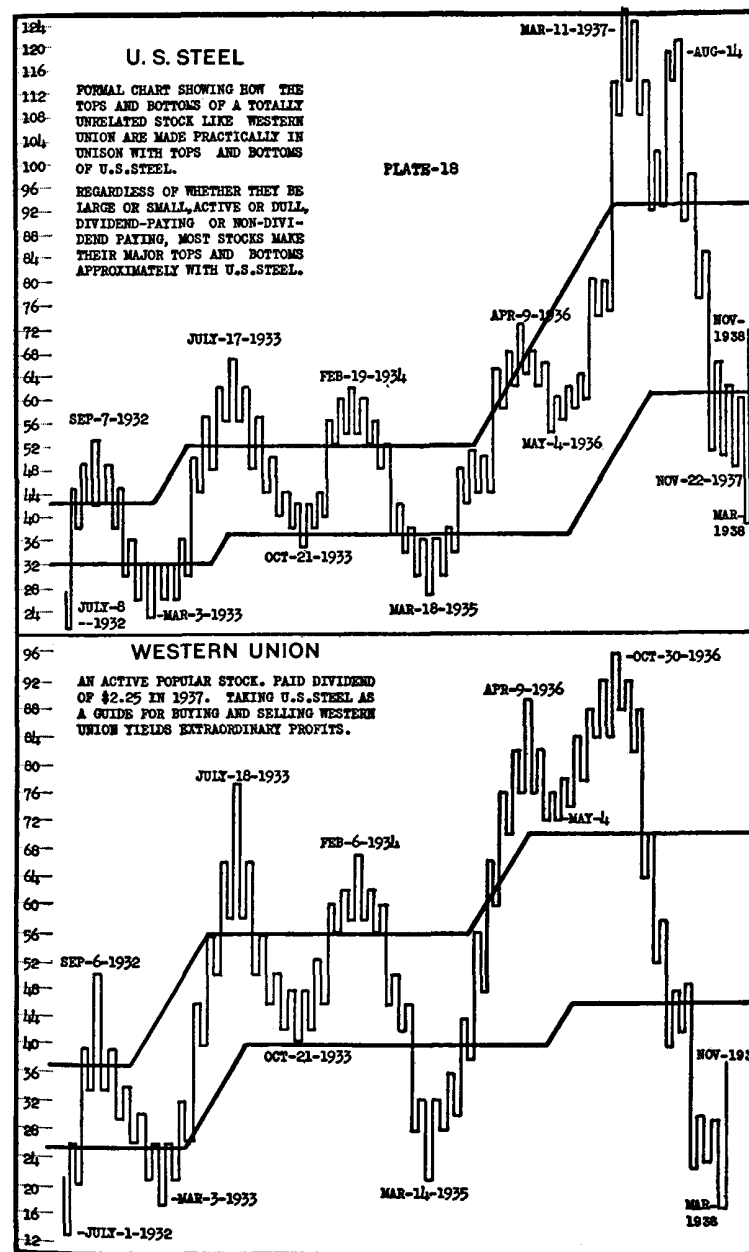
The chief point I would impress upon all investors and traders is that they should take U. S. Steel as the chief guide for making purchases and selling out. This regardless of whether the concern makes steel or breakfast foods, cosmetics or tractors, and regardless of whether it does or does not pay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

Personal opinion as to recent developments might be added, but the relative position of your stock is told far more accurately and eloquently by the four points noted above than by the opinions of a dozen experts.

Stock analysis is supposed to answer the question, What is a good stock to buy?

There is a constant search for "good stocks," or those which, by "analysis" or opinion, may advance faster than others.

The investor's first thought is for a stock with a good dividend, and next that it should have good powers of appreciation. In his opinion such issues are "good stocks."

This is why so many stock services make a specialty of analyzing the stocks held by any person. The owner is advised along with the analysis to "BUY," "SELL," or "SWITCH."

But it is hardly wise to advise the investor to buy any stock or switch to any other stock when U. S. Steel and the others are in the super-normal zone. All intelligence argues against such instructions. The actions of the stocks themselves show that they are in the top-making process and subject to a break.

It is just as unwise to advise an investor to sell out stocks when they—and U. S. Steel—are in the sub-normal zone.

It may be wise to switch to a stronger stock in the sub-normal zone, but never to switch when stocks are in the super-normal zone.

A "good stock" as shown by the zone system is one that does not break as deeply into the sub-normal zone as U. S. Steel does. You see this in American Telephone in November, 1933 and again in March, 1935 (Plate 17).

Atchison, American Smelting, and Westinghouse show, by the way they resist the declines of U. S. Steel, that they are stronger than the leader. Scores of other stocks, by the same reasoning, are exceptionally good to purchase. This can

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.

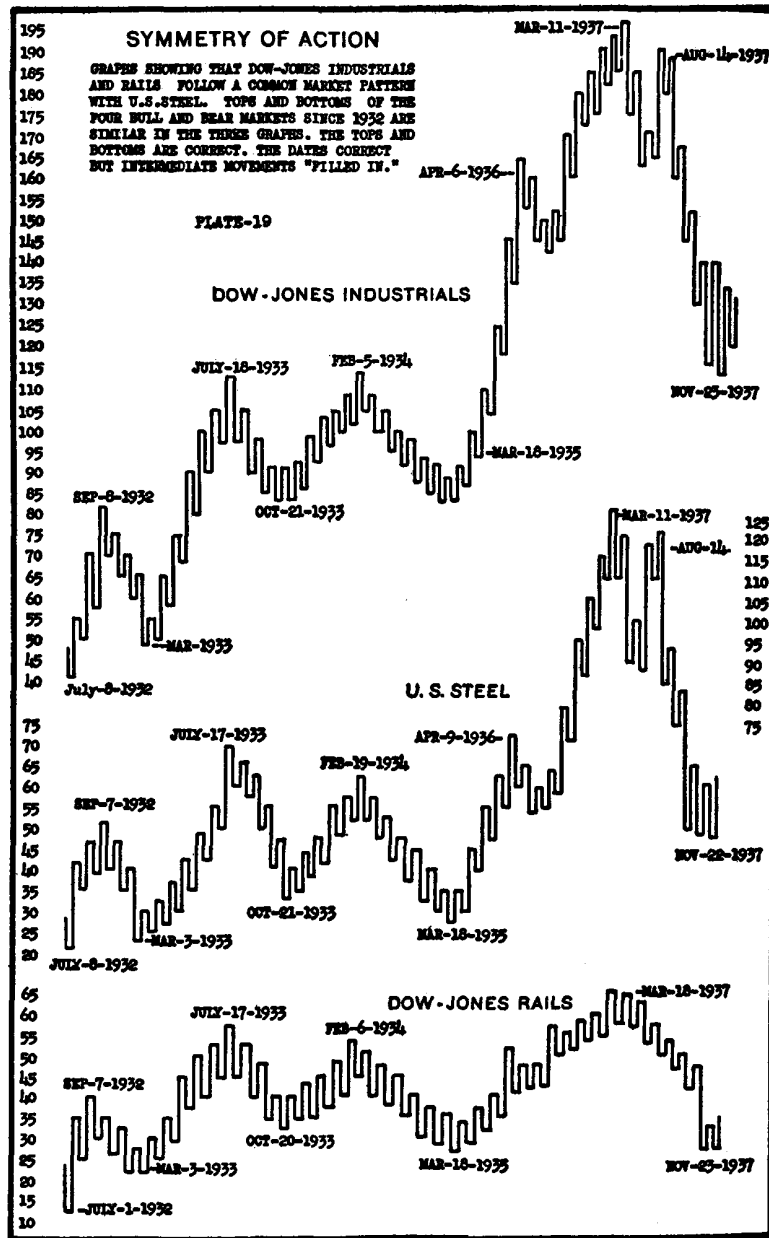
To make this more easily understood, the Dow-Jones Industrials and Dow-Jones Rails are compared with U. S. Steel in the graph (Plate 19).

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 up-trend. 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:

<i>Year</i>	<i>Net Income</i>	<i>Earned per Share</i>
1929	\$166,189,758	\$12.67
1931	166,666,534	9.05
1936	174,826,414	9.36
1937	179,760,000	9.63
1938	152,161,000	8.13

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 inves-

tor'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 $\frac{1}{8}$ (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.

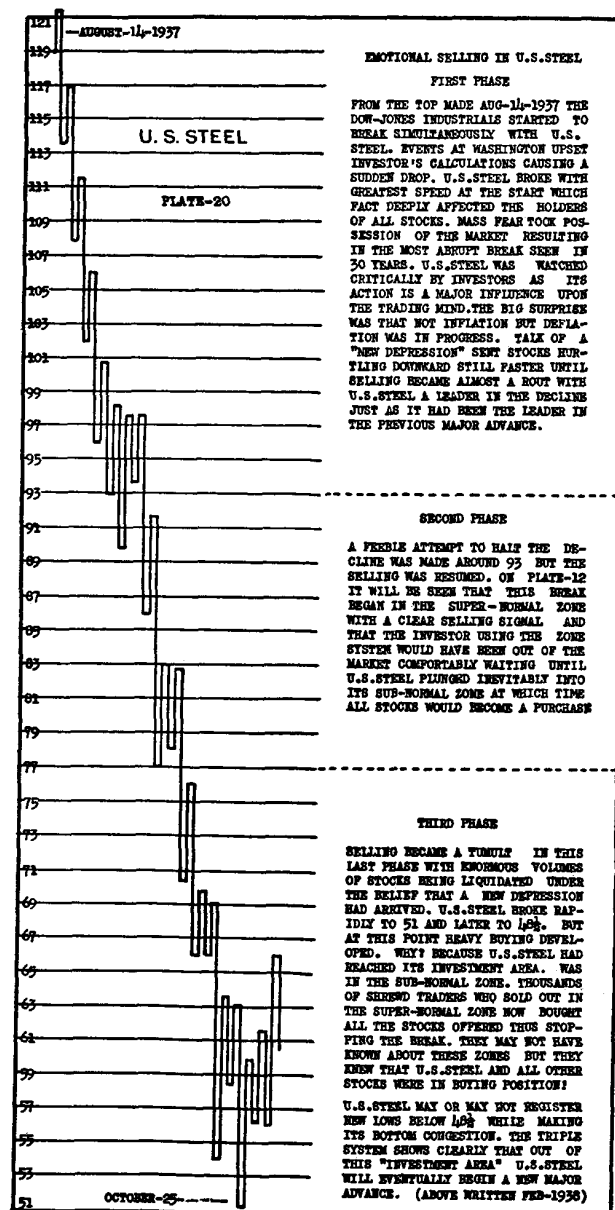
The slow-starting two years' major stock market advance of 1935 to 1937 was nearly all lost in a 60 days' tumultuous decline in the fall of 1937.

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.

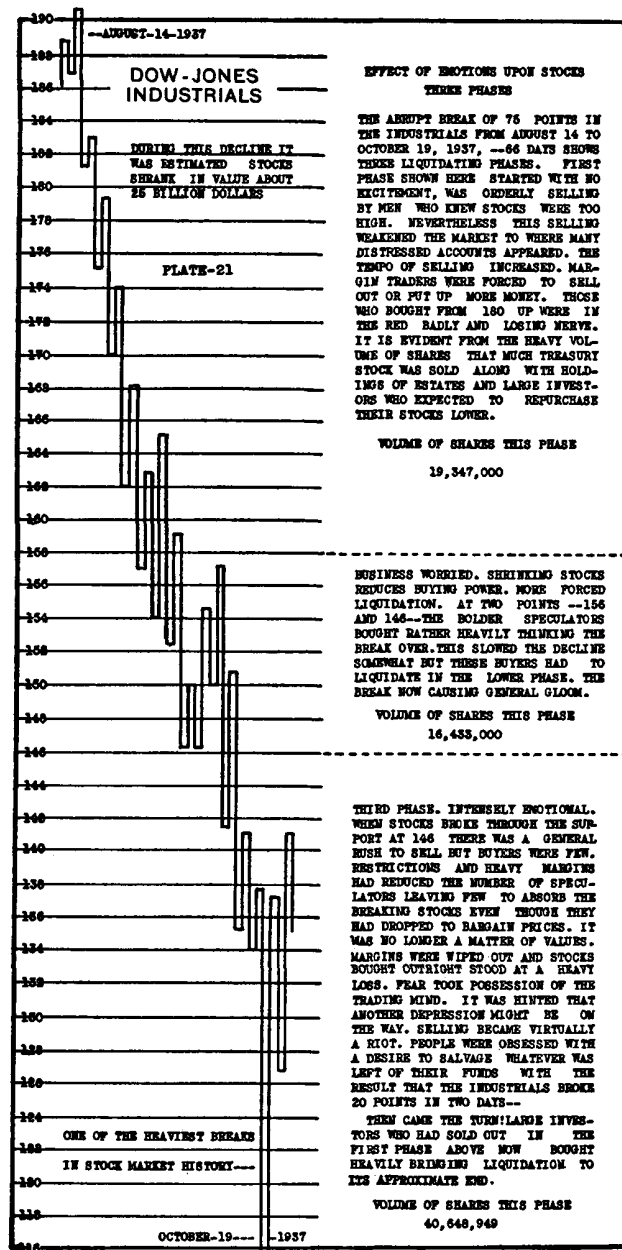
It was an act of emotions, not of intellect.

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.



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.*

BONDS

HOW THEY ARE AFFECTED BY STOCKS—HOW THEY ARE AFFECTED BY GOVERNMENT CONTROLS

Bonds have a very great advantage over stocks in their ability to resist declines in value. They are used as a medium of investment where it is desired or necessary to maintain safety of capital. Small earnings must be accepted as the price of safety.

The general belief is that there is very little speculation involved in the use of bonds by the investor. To show just to what extent bonds will vary in value as compared to a popular industrial stock, a graph is shown in Plate 22 covering a period of eight years from 1930 to 1938.

This compares the action of bonds with U. S. Steel.

From the dotted lines at the left of the graphs, it will be seen that the bonds declined steadily with U. S. Steel from 1930 until the extreme low, 1932. From then on until the middle of 1934, bonds imitated the action of U. S. Steel.

But U. S. Steel broke from 198¾ to 21¼, while the bonds only broke from 89.97 in 1930 to 51.94 about May, 1932.

U. S. Steel retained only 10.7% of its 1930 value, while bonds retained 57.7% of their value.

It is observed by the decline shown in the dotted lines and by the action from 1932 up to April, 1934, that the major bull and bear markets in U. S. Steel were causing similar bull and bear movements in the bonds. Then there was a "leveling off" of bond prices for the next three years—from April, 1934 to April, 1937.

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.

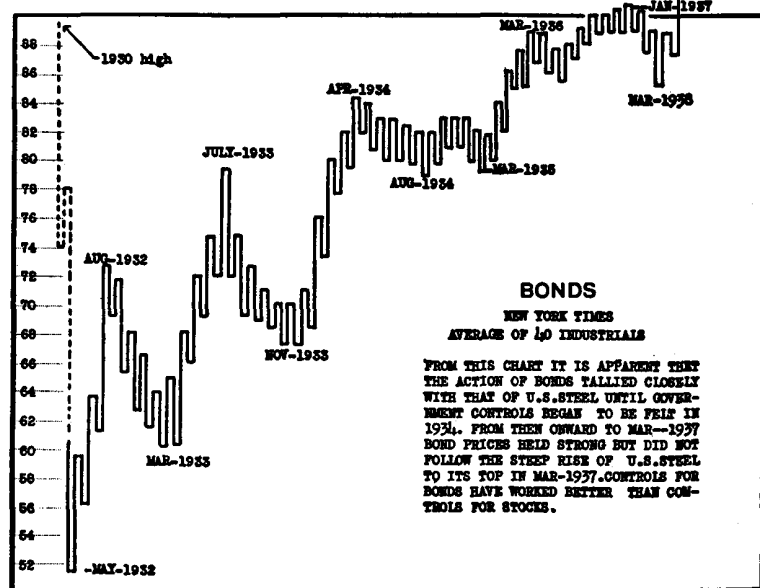
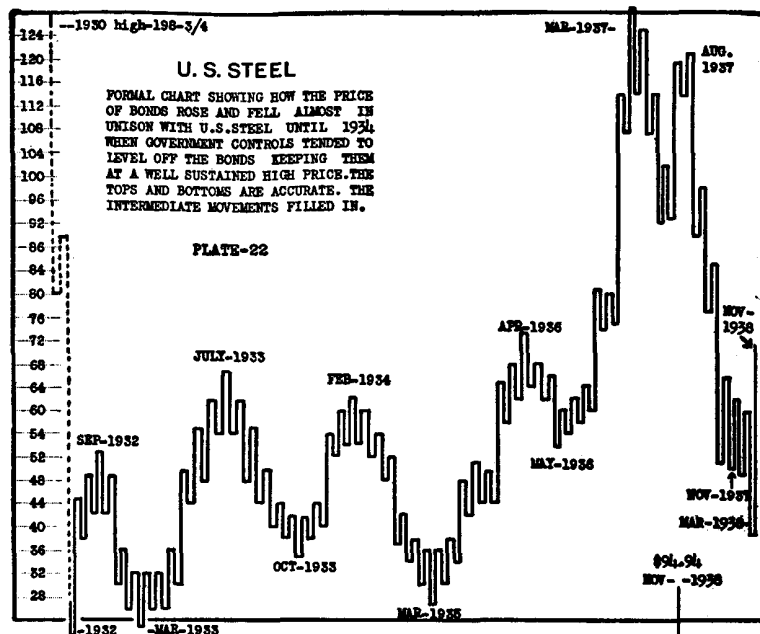
EXPANDING GOVERNMENT DEBT, such as took place from the latter part of 1933 and onward, made it necessary to develop "controls" over the bond market, first to keep interest rates down, second to keep bond prices up. High-grade bond prices move opposite to interest rates. It is of great importance to the 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.



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 $12\frac{1}{4}$. 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.

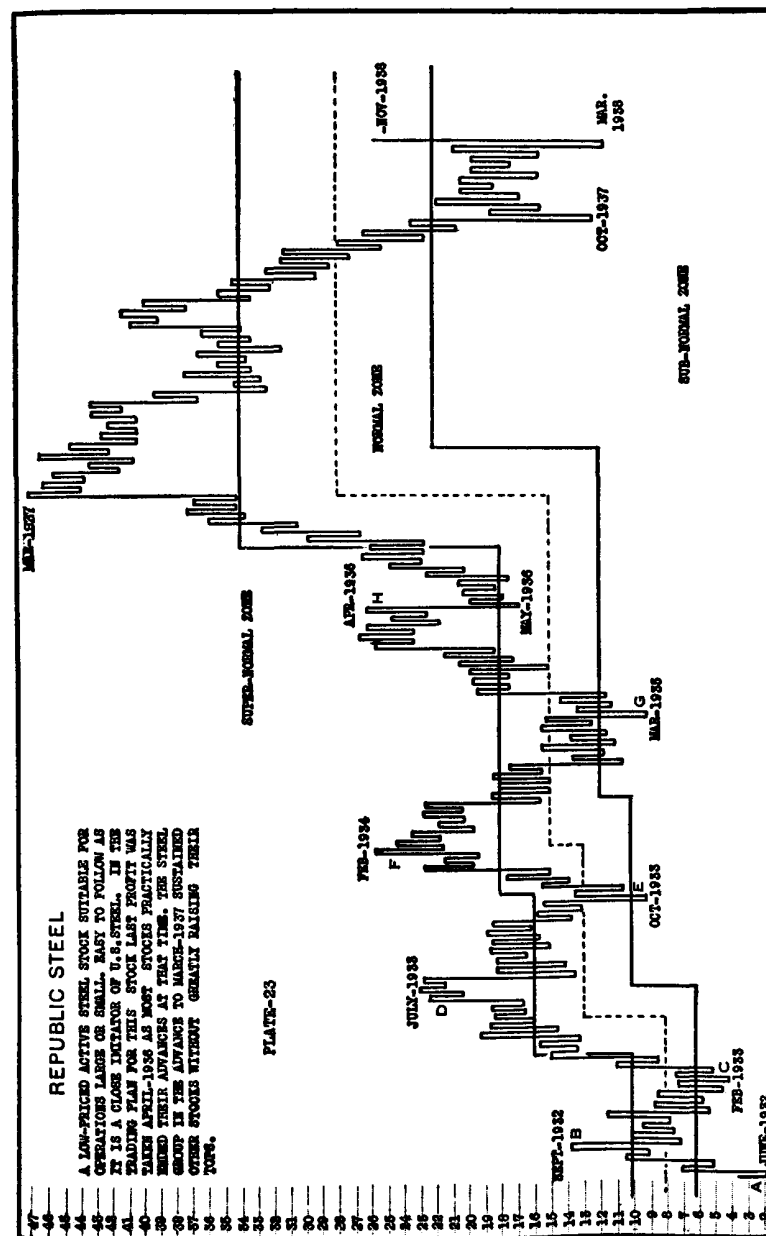
To show how this small stock may be used for the small investor with a few hundred dollars, or the wealthy investor with thousands of dollars, a condensed program of trading is given below. At the present time, Republic Steel is not paying a dividend. If it resumes dividend payments, it would give the 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 $47\frac{1}{4}$, 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 ease 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 $2\frac{1}{2}$ to 33 per share, an increase of 1,200%. During the same period, U. S. Steel rose from $27\frac{1}{2}$ to $126\frac{1}{2}$, 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.

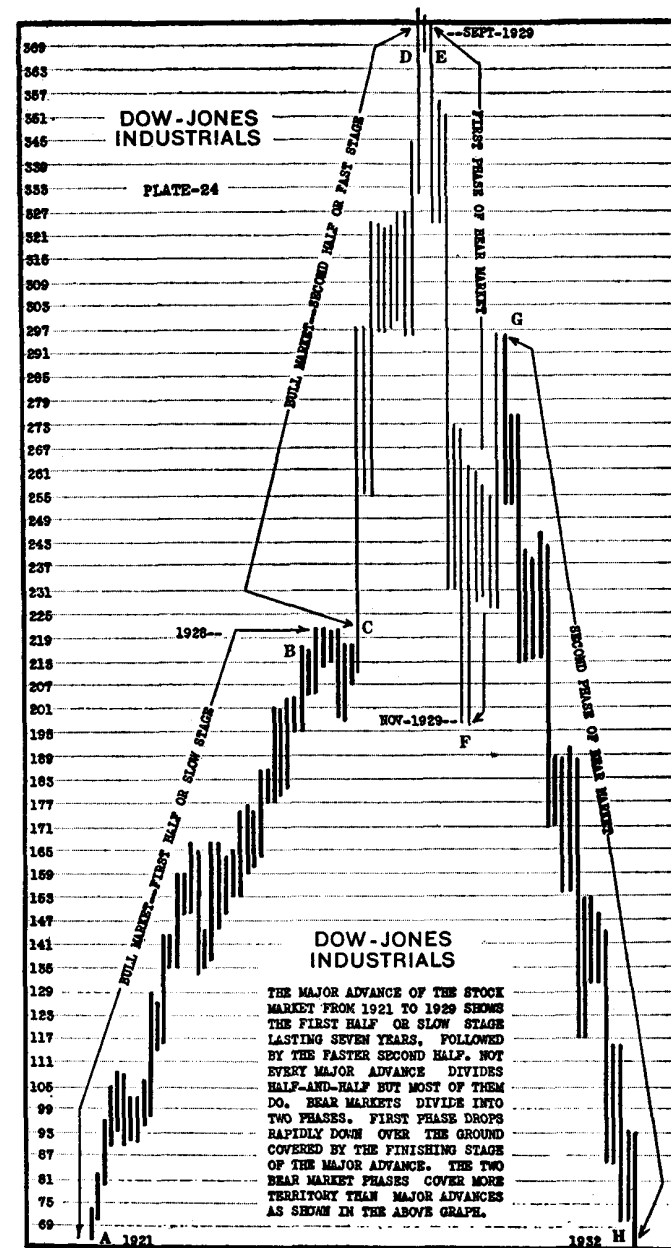
Therefore, to estimate the final top of a major advance, watch for *fast action* to begin, then double the advance covered by the first stage. This will not be mathematically accurate but approximately so.

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."



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.

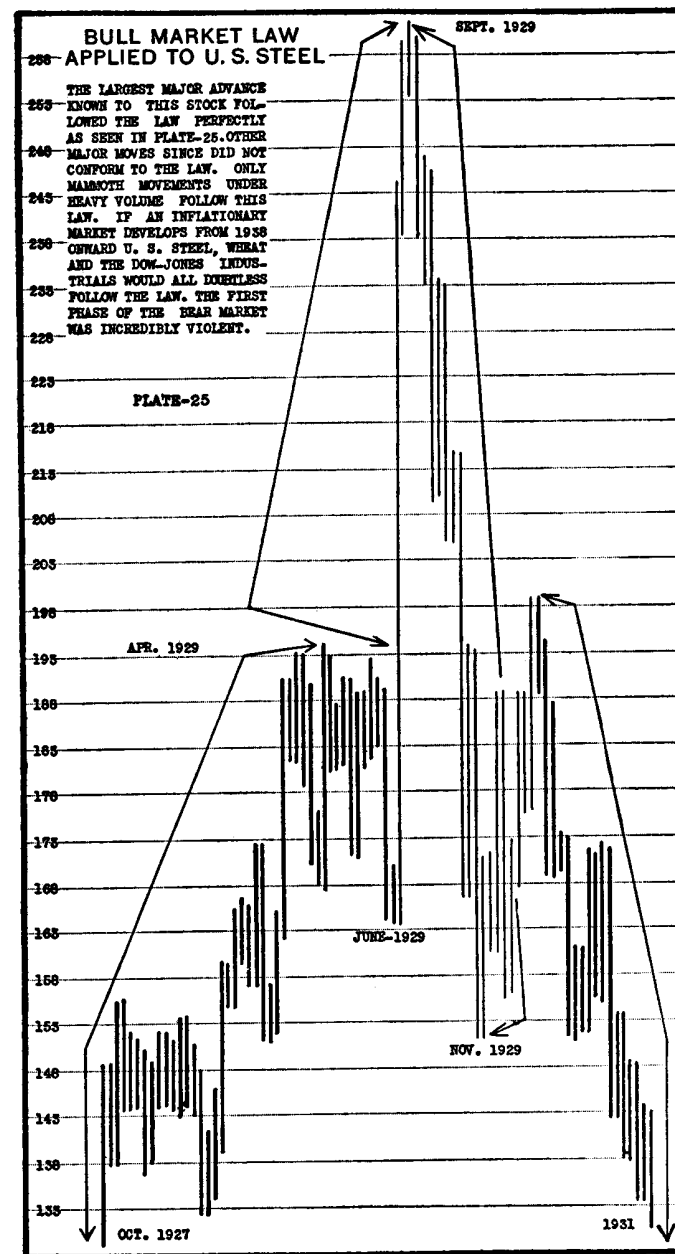
A few stocks are overpopular and will complete their major advances about the time the Dow-Jones Industrials are half-way up. In 1928 Chrysler was through at the half-way point shown in Plate 24, and had topped out around 139, the same point as the top reached in 1937, nine years later.

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.

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 "roiling 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

made, but it is time to be getting out. Then is the time to watch critically for the minor trend line top structure, so that long stocks may be sold out. If you cannot seem to locate a minor trend line, better sell out anyway.

Sharp vertical advances, after stocks are up in the super-normal zone, are a warning that the upward move is near exhaustion. "It won't be long now," says the professional bear trader.

The vertical rise may be in the form of several successive days, each one to new highs. Plate 16 shows an example of this where U. S. Steel rose from 52 to 65 in an advance of seven successive days.

Such vertical advances exhaust the buying power and produce another condition. A desire to accept profits is created. A large number of people discover that they have excellent profits and begin to sell out. This halts the advance.

A small top-making vertical rise happened after the November, 1938 election, when U. S. Steel rose five successive days to 71¼. This was a burst of emotional action in stocks. Everybody who owned the stock between 38 and 70 had a profit.

Since a large majority of traders are in the market for short turns, they are sure to start a selling movement after sharp rises.

Sharp vertical advances are started by the arrival of specially favorable news or some condition that kindles a fresh hope of profits to be made. But the majority of traders will begin to accept these profits when made and there is no stemming the volume of selling, once it sets in.

Vertical breaks are sometimes terrific, especially those which start near the top of a great bull market, such as the one of 1929 in stocks and the one of 1933 in wheat. The investor should study the use of the minor trend line assiduously when his stocks begin to rise feverishly into the rosy

areas of the super-normal zone. In this way he can avoid the fate of many a hapless investor.

As a bear market gets below the normal zone into the sub-normal, breaks will become less aggressive as traders are few and the volume light. It is then time to buy, and especially good purchases can be made if bought on a sharp dip of 5 to 10 points in the active issues—provided they are in their sub-normal zones.

AN EXCURSION IN PROFITS

The reader is invited to take a trip with us through the surprising activities of Atchison Railway, a stock of national popularity. He may want to use it some time. It is one of the best.

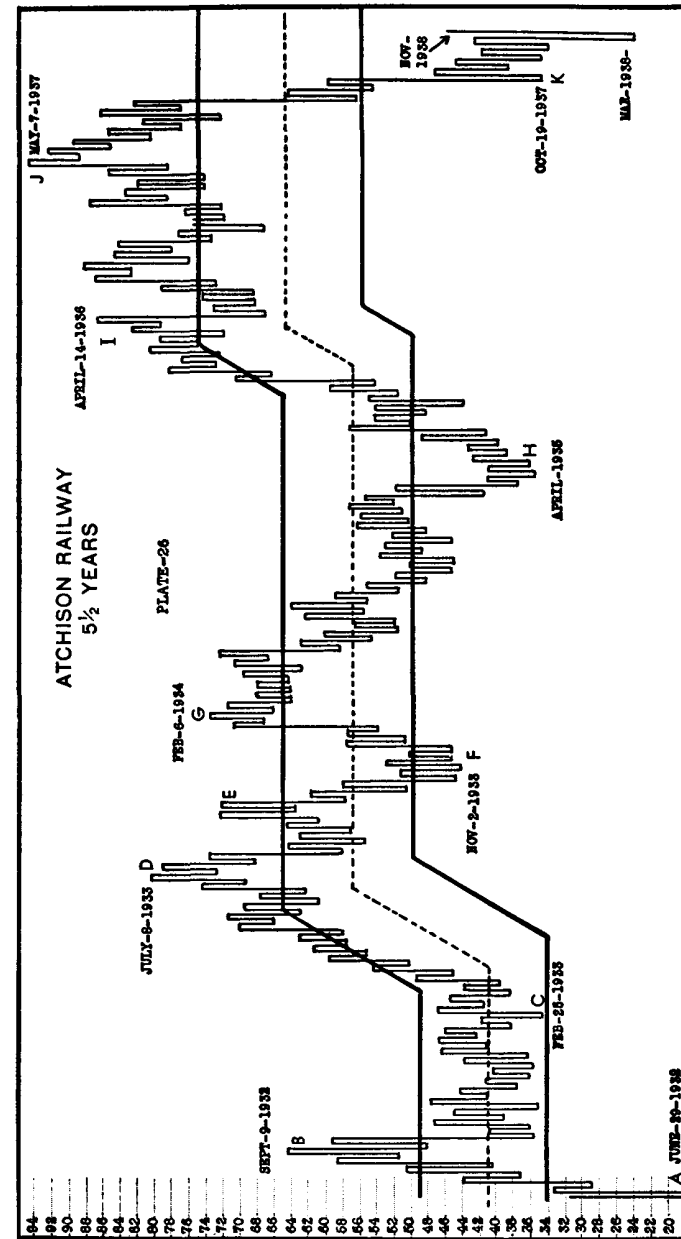
Being a big stock and with only 2,427,000 shares, it is capable of unusual activity. The more shares a stock has, the more buying and selling it requires to move it a point. The less shares, the more sensitive the action.

But besides taking an excursion in profits, the reader will be lifting the lid en route to view some extremely interesting secret habits of this stock and, in fact, of all stocks. Men are close-mouthed about their stock deals. "Your best friend won't tell you" what stocks he bought or where he bought them, but he cannot keep the ticker tape from telling his secret. Add one day's action to another and soon you have a chapter in the history of a stock.

Atchison is selected for our profit excursion, because it is not only fertile in profits but supplies abundant examples of the three basic types of action so necessary to the investor.

The reader is reminded that the *Triple Zones* are by far the most important, and that it is possible to trade with success using the zones only. However, there are times when a slow-laboring market tends to discourage or confuse the owner of stocks. He needs additional helps to keep him apprised of the progress of his deals.

Plate 26 contains nearly six years of Atchison—about 1,800 days. While the graph is greatly condensed, the tops, bottoms and dates are practically correct.



This is a true history of the action of Atchison, and if you could have actually started in the stock with 100 shares where we are going to take you aboard, you would have come to the end of your journey in 1937 with a considerable fortune.

But do not for a moment consider your opportunity lost. Atchison will repeat its performance and scores of other stocks will achieve equal movements. Early in March, 1938, we find Atchison is standing at 24. Only once before in six years has it been purchasable at this price—in 1932.

We turn back a few pages of time to 1932 and step into Atchison to the extent of 100 shares at about \$20 per share, at a cost of \$2,000. Starting from about the point A as noted in Plate 26, we go to our first destination at B. There you sell out the 100 shares at, say, \$60 per share and are ready to go back down to C on Atchison, not with the 100 shares, but with \$6,000 cash in your pocket.

That rise in Atchison from A to B was a small bull market and also a vertical rise. It got so far into the super-normal zone at B that our tourist knew well, from what has gone before in this book, that his 100 shares should be sold. Many people feel so good over their stocks after such a rise as this that they decide to put them away and “forget them.”

Never does an investor make a greater mistake.

If you had before you a daily graph of Atchison while it was making that top at B, you would see how well the “Minor Trend Line” (Plate 12) would have pointed out the selling place for you.

Then followed the long dull winter movements until February, 1933. Such inactive periods try the trader’s patience severely but the one who sticks gets the big reward. Note how quickly the money was doubled on the trip from C to D.

Without taking time for minor details of the trip, the most memorable points of interest would be that you went through the balance of the financial journey about as follows :

With \$6,000 you bought 170 shares Atchison around C.

Sold the 170 shares about D for 75..... \$12,750

With \$12,750 you bought 270 shares around F.

Sold the 270 shares about G for 70..... \$18,900

With \$18,900 you bought 500 shares around H.

Sold the 500 shares about I for 85..... \$42,500

Starting with an initial sum of \$2,000 you would finish with the very comfortable sum of \$42,500.

It is a fact that if you had known and used one thing only—the zone system—and had simply bought Atchison at the lower edge of the normal zone and had sold it at the top line of this zone, you would have come through with \$21,200.

By the use of the minor trend line and with the beneficent help of the famous old leader, U. S. Steel, it was possible to double the \$21,200.

Two highly interesting facts are notable with the closing days of 1937.

Atchison, around 24, is in the sub-normal zone and in a fine position to be purchased. Furthermore, our tourist has his \$42,500 and is in a fine position to buy it.

He could buy over 1,300 shares at \$28, or 1,800 shares at \$23 on its final dip to the March low.

The most difficult time to make a decision would be around the point C, when Atchison refused stubbornly to break below the normal zone. But this is overcome by using U. S. Steel as the guide. It was deep in the sub-normal at that time.

It would be possible to go through hundreds of stocks showing results similar to this “trip” in Atchison.

SHORT-SELLING

IS IT GOOD, BAD, SAFE OR UNSAFE?

The policy of this book is against short-selling, but since it is a controversial point with thousands of traders, some discussion of the subject is due our readers.

Short-selling is an integral part of speculation. It is also a feature of many large business transactions outside of the markets. When a contractor agrees to build a bridge for a certain sum, he is a short-seller. He may not have a bar of iron or a single bag of cement, and may not have an employee. Yet he sells a bridge to the county.

He knows where he can get all of the things needed for the bridge.

The short-seller of stocks *believes* he is going to be able to buy them cheaper and thus reap a reward. But here is the difference:

The first act of the contractor is to begin buying. He promotes prices.

The first act of the short-seller is to sell something. He depresses prices.

Whether there is anything moral or immoral in selling short in the speculative markets is a point of ethics too fine to have any appreciable effect upon the mass mind, but there is a certain *personal* retrogression in the short-selling habit that is definitely harmful.

You can buy stocks outright, but you cannot sell them short "outright." In short-selling the trader is trading purely on

margin. He is entirely outside the pale of the investor. The buyer of stocks owns something if he buys outright. The short-seller owns nothing but a hope or a guess.

It is contended that short-selling is useful, since it acts as a "cushion" in a breaking market, because the short-seller will eventually buy in his short trades and help halt a decline. This is true, but it makes the short-seller the "goat."

"But," says the short-seller, looking at the Atchison graph of Plate 26, "isn't it just as certain that you will make a profit by selling short at G and buying in at H, as to buy at F and sell out at G?"

And he is right.

He would make an equally good profit but would be cultivating an extremely bad habit. He would be reducing himself from the rank of investor to the status of a short-selling margin trader with a penchant for in-and-out trading. Briefly stated it may be put this way:

Margin-trading takes big risks for big profits.

Investing takes mild risks for mild profits.

It must be acknowledged that there are many who have developed a taste for short-selling and that they must be reckoned with in the market. Unquestionably, they have a valuable place in market action, though at times to their personal loss.

The *lure of quick profits* on the short side tends to draw traders into short-selling. The break in stocks from August, 1937 to December, 1937 was almost as much as the two years' previous bull market rise. This is seen in the graph of Plate 21. To make much money in a very short time is delightful to the operator but dangerous to his financial stability.

In viewing the ease with which the *market position* is determined by the Triple Zone System, it would be natural for the trader to attempt to follow the market both up and down,

since he has the zones to point out the buying and selling places, but there is danger in the fact that it may change a *stable-minded investor to a margin trader*. But if you *must* follow the short side, by all means use the zone system.

PART FIVE

YOUR HOME INVESTMENT PLAN

INVESTMENT DIRECTLY FROM THE HOME

So simple is the Triple Zone System in actual use that anyone may go about the business of investing his or her money directly from the home or office and without in any way disturbing his course of life otherwise.

There is no great risk in buying stocks when they are in their sub-normal zone, and it is easy to tell when they are in that zone as you have seen in the graphs of this book. Most of the stocks have been down in the sub-normal zone five times since 1932. In that time you would have had five times to invest and sell out for a profit.

Investment does not mean buying a stock and forgetting it. Investing is only half of the deal. Taking profits is the other half. When profits are made, they should be taken.

At this writing there are 640,000 persons owning shares of the American Tel. & Tel. Co. The average is 29 shares per stockholder. It is safe to say that thousands of these holdings have been permitted repeatedly to run far up into the super-normal zone without accepting profits, then back down to the sub-normal again.

If followed by the zone plan, the person with 29 shares could have increased his holdings to 52 shares, and could have sold out in the spring of 1937 for \$8,750. His trouble in making these sales and repurchases would have been almost nil.

The big business of life is making money for a living and for leisure. To accomplish this quietly and in ample amount without strain and without disturbing one's regular course of life is a matter of deep satisfaction to ambitious people.

To achieve this desired result, nothing is equal to trading in sound stocks with a competent system.

There is, therefore, offered here the Triple Zone System of this book as a *better way to make money* and, in the pages following, there is laid before the reader a home plan for selecting and using from one to several well-known stocks either singly or in a diversified plan.

To fit the purses of different people, a schedule is herewith outlined for using the zone plan taking different-sized lots as follows:

Trader A deals in one or more lots of 20 shares each.

Trader B deals in one or more lots of 50 shares each.

Trader C deals in one or more lots of 100 shares each.

The five charted stocks which follow are intended as examples. The operator can choose other issues if he prefers, as the trading plan is the same in all stocks, whether they be large or small.

Start with a single lot of 20 shares in one stock, if finances prohibit a larger program, but *always buy your stocks outright*. It is a matter of enviable thrift that a person of moderate means plans systematically to improve his financial status. Many large fortunes had small beginnings.

The difficult part of a personal financial program of stock-buying is to remain undisturbed through the occasional long periods of dull action. The market cannot be hurried. Impatience may induce you to shift to another stock or to sell out and upset your well-laid plan. Start your program with the intention of seeing it through.

STARTING FROM SCRATCH in your home investment plan, the first thing to do is to determine what stock or stocks you intend to use, and to procure graphs completed right up to date, so that you can gauge the position of the issues before you make your purchases.

The graphs in this book have necessarily been greatly condensed from office graphs 18 inches wide and 24 inches long. Larger stocks have still larger graphs.

The graphs that follow will serve to show you the plan of operating, but if you can obtain or make up accurate graphs for your future operations, it will be well to have them larger and more complete.

Our wish now is to have the reader go through the very simple details of the Triple Zone System as pictured in the following five graphs (Plates 27 to 32), making his theoretical purchases and sales so as to get the "swing" of the system. Right while he is going through the past history of these issues, he can be starting his *intended financial program*. That is, he can be making his purchases—if the position happens to be right—preparatory to following the next move through.

At the time of this writing, stocks have just touched slightly new lows (March, 1938) and, being well down in the "investment area," would be in an excellent position to start a home investment plan.

If, when this book comes to your hands, you wish to start your program, note first of all whether the stocks you select are, or have been recently, well down in the sub-normal zone or investment area, and if U. S. Steel also has been in its sub-normal zone. If so, it is a safe time to buy. Decide upon the amount of money you can conveniently use and make the start. If you cannot buy but one stock, go ahead. Perhaps you can take two or more the next time.

VANADIUM—FIRST SELECTION

This popular medium-priced issue in the steel group has the advantage of exceptional activity. A chart of the movement of the stock is shown in Plate 27. The dotted center line is run through the mid-way point of the first major advance from A to B. On page 67 is a description of the method of placing this center line and the heavy black lines of the normal zone. On June 1, 1932, Vanadium sold at $5\frac{1}{4}$, which was its low price for the depression. Chrysler sold at 5 about this time. This is the place to start.

The plan of trading is very simple. You make your purchases in the sub-normal zone and take profits when the stock reaches the super-normal zone. These zones are easily laid off when you have a graph of the past action of the stock.

It is assumed that the investor buys his first lot of Vanadium, say around 7, in the sub-normal zone.

Trader A buys 20 shares, paying.....	\$140
Trader B buys 50 shares, paying.....	\$350
Trader C buys 100 shares, paying.....	\$700

Having made these purchases, the three traders may hold until the stock rises *through* the normal zone to some such point as B, September 6, 1932. The approximate turning place for this top is determined by using a minor trend line on the Vanadium chart (that is, the full-sized chart) and by the minor trend line shown in U. S. Steel, seen in Plate 12.

Trader A sells out around 22 for.....	\$ 440
Trader B sells out around 22 for.....	\$1,100
Trader C sells out around 22 for.....	\$2,200

This is your first deal in Vanadium. You can now put your money in the bank and await the descent of Vanadium to the sub-normal zone again. It arrived there in March, 1933.

Moving ahead rapidly with our home investment program, you take advantage of the break below the normal zone shown at C to make a purchase, say at 9. Turning to Plate 12 it is noted that the leader, U. S. Steel, is also in the sub-normal zone at this time.

Again the reader should be reminded that all space below the normal zone is the sub-normal zone or "investment area." Whenever a stock declines to this area, it becomes a manifest purchase. Therefore:

Trader A buys 45 shares at 9, paying.....	\$ 440
Trader B buys 120 shares at 9, paying.....	\$1,100
Trader C buys 240 shares at 9, paying.....	\$2,200

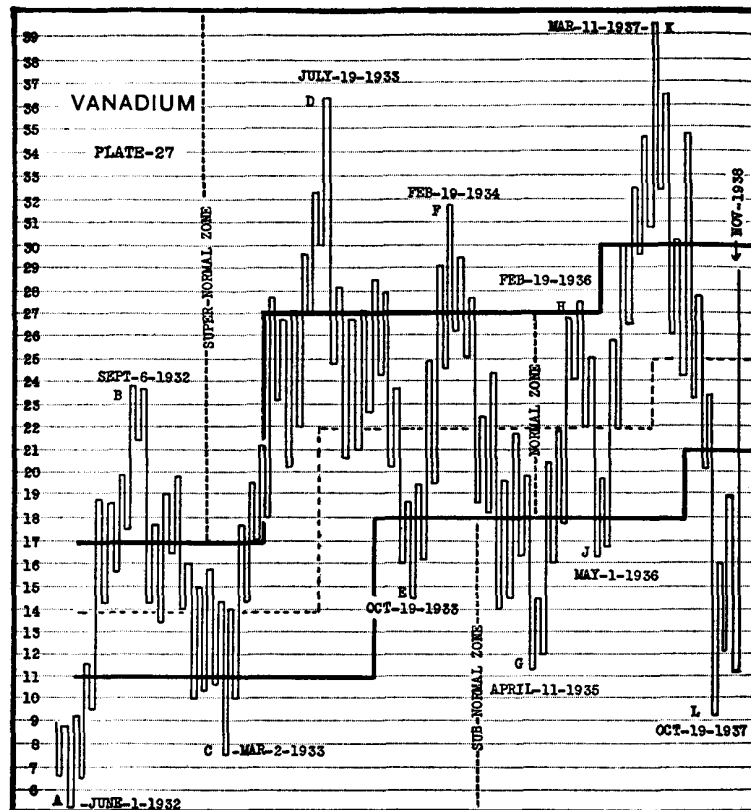
The profit comes swiftly, this time in four months. At point D Vanadium is up through the normal zone and 9 points up into the super-normal zone and clearly a sale with the confirmative help of the minor trend line (Plate 12). The profit is very satisfactory.

Trader A sells out at 34 around D for.....	\$1,530
Trader B sells out at 34 around D for.....	\$4,080
Trader C sells out at 34 around D for.....	\$8,160

With the simplest kind of systematic trading the home investor has, in little over one year, used two major movements, securing a profit of over 1,000%, and has owned his stocks outright through both deals.

The money can be placed in the bank to draw savings interest until Vanadium again descends to the sub-normal zone, which happened promptly as noted at October, 1933.

"Cutting across lots" to finish the Vanadium deal, now that you have the swing of this simple system of buying in the sub-



THE VANADIUM COMPANY is a producer of ferro-vanadium, ferro-silicon, ferro-chromium, largely used in almost every type of steel manufacture but particularly in automobile and naval construction. It also has by-products, the outlet for which are manufacturers of glass, linoleum, textiles, fertilizers, insecticides, ship motors, etc. Current assets were 8 to 1 of current liabilities in 1937, and the first six months showed an increase of 38% over the same period of the previous year. Number of shares of common stock 376,637 (no par). The company earned \$2.40 in 1937, and paid \$1 dividend. It is considered sound financially and with good outlook. (Plate 27.)

normal and selling in the super-normal zone, we will come quickly to the conclusion and see how we stand financially in March, 1937, some five years after the start in 1932.

All three traders would buy around E and sell around F, then buy at J to sell at K, which winds up the deal.

How does the investor stand at the end of the first five years? That is the all-important question. He is after profitable results—good results—and this is how he comes out at the finish:

Trader A sells out	340 shares around K for.....	\$11,900
Trader B sells out	950 shares around K for.....	\$33,250
Trader C sells out	1,900 shares around K for.....	\$66,500

This amounts to a profit of about 85 to 95 times the original investment. The income tax feature is less expensive, since the income is spread out over five years.

Admittedly this appears as an impossible feat, but it will be seen, by following the plan through on the graph, that the above is the correct result. We need not take the commissions into consideration as the dividends often more than pay these.

Vanadium is a very active stock and secures better results than many others at the same price.

Extra-cautious investors could adopt the plan mentioned on page 203, of buying at the bottom line of the normal zone and selling out at the top line of this zone and still make a good profit. In the case of Vanadium it would be between 500% and 600% profit on the invested capital in five years.

It is possible to make considerable errors, such as buying too soon or selling out too soon, and still earn an extraordinary profit.

In taking a diversified list of stocks, some stocks will far exceed others in money-making possibilities. Sudden new developments may start any one of the list into speedy action.

The older, "well-seasoned" stocks, however, have usually developed their characteristic action. The investor will do well to inspect graphs of a number of issues to ascertain their style of action before making purchases.

AMERICAN RADIATOR

This is a well-known stock in the housing group expected to enjoy a considerable period of increasing business under the new housing plans by the government and the natural construction development following a protracted business recession.

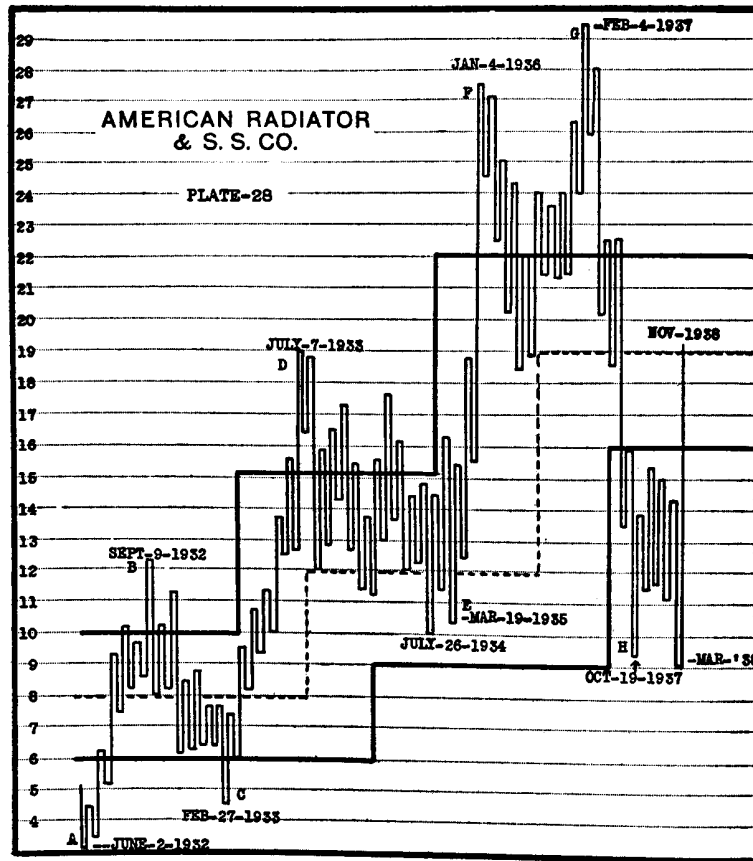
The plan of operating is exactly the same as in Vanadium. In studying the plan of home investment, it is necessary to go back to some favorable starting time, like the bottom made in 1932 (Plate 28), and follow up through the past action, step by step, just as the medical student must start with the rudiments of his intended profession and work up toward graduation.

But this investment plan is much simpler than the preparation for a profession. You can start the day or week your stock shows on the graph that it is properly down in the sub-normal or investment zone. You can, while running through the few pages covered by these five home investment stocks, be starting your purchases for the new campaign. It is seen that these stocks are all in the sub-normal zone or investment area ready for the new start.

American Radiator covers only one-third as much space on the graph as Vanadium. It shows three good trades while Vanadium shows five in the same period.

Without taking space to print all the details of trading, it is seen that three purchases are made at A, C, and E on the graph and are sold out at B, D and F.

In this stock the last trade is finished early in 1936, at which time many stocks ended their major moves.



AMERICAN RADIATOR is the largest concern making heating, plumbing and air-conditioning supplies in the country. The company is adding blowers, fans, tanks and similar conveniences to its line. It serves homes, office and business buildings, and on account of the belated expansion in housing is expected to enjoy a decided increase in business. It is one of the best prospects for a major advance. It has (1938) 10,045,087 shares common stock, no-par, and has marketable securities more than equal to its current liabilities.

The extra sound condition of this stock appeared in 1935, at E in the chart (Plate 28), when it refused to break to its sub-normal zone along with U. S. Steel and other stocks.

A BETTER WAY TO MAKE MONEY 219

Trader A invested \$ 80 in 1932. Sold out in 1936 for \$1,850.

Trader B invested \$200 in 1932. Sold out in 1936 for \$4,675.

Trader C invested \$400 in 1932. Sold out in 1936 for \$9,350.

About twenty times the investment made at the start.

TEXAS PACIFIC LAND TRUST

This concerning holding oil and grazing land, mostly in Texas, under a declaration of trust by holders of land grant bonds of the Texas Pacific Railway Co., has a low- to medium-priced stock, of good action and long standing. It fits well into our "home investment plan."

In a diversified selection of stocks the aim is to divide the risk and to increase the opportunities.

In a list of five stocks, there are almost sure to be one or two extra good profit-makers. The presence of these is what improves opportunity. Also, it is not likely that more than one or two will prove "dead heads," or meet business adversities. In this manner risk is reduced.

A selection of five popular low-priced stocks will fit investors of any size and is capable of making more money than the larger stocks of \$50 to \$100. A stock selling at \$5 may easily advance to \$10 in a few days, and thus give a 100% profit, while a \$50 stock may require six months or a year to double.

Special attention is called to the placing of the *normal zone*. Every new major advance, or any extra low major bear move, changes the dotted line. In Plate 29 the normal zone is one-third of the space covered by the first major move as seen from bottom to top, A to B. In small stocks, as well as the large, it is permissible to make the zone lines come on the dollar lines for convenience, as at 5 and 7.

The actual center for placing the dotted line is nearer 5 but for convenience it is placed at 6 which makes the normal zone lines come at 5 and 7. However, if the operator is using a large chart with dollar lines, one inch apart, he can place the dotted line and the zone lines in their exact place.

The point is that a small variation of this normal zone will in no way lessen the advantage in trading, and besides it eliminates the use of fractions.

A daily chart of Texas Pacific Land Trust, made on a larger scale than Plate 29, would spread it out much wider and would show the normal zone more clearly. It is necessary to condense greatly to get a five-year chart on one page here.

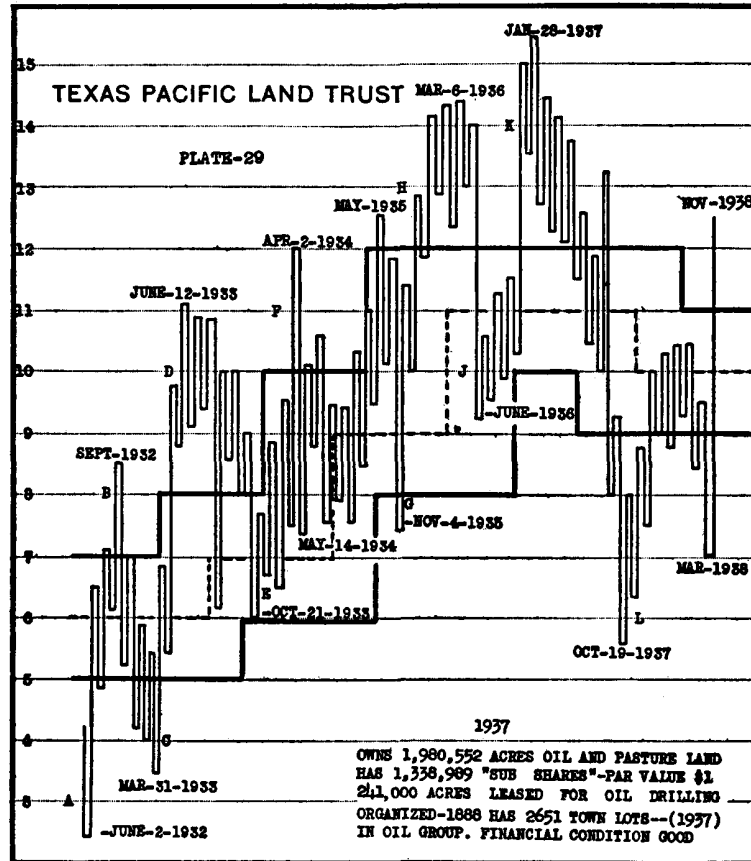
Five deals are possible in this stock over the same period in which Vanadium gave us four deals and American Radiator gave us three.

But its activity is within a narrow range; hence it is not nearly so profitable as Vanadium, which is a more "volatile" stock, as it runs rapidly from a low price to a fairly high figure.

The trader will hear much about this or that stock being "too speculative" and therefore to be avoided, but this is not borne out in practice. Profits come from action.

The active issues are made more active by trading. People who like the issues trade freely and rather heavily in them. Case Threshing is a good example of a fiery stock. Yet it runs as true to market laws as U. S. Steel does. The largest profits are made by *appreciation in price*. Crucible Steel and New York Central are old stocks famous for action and, though they pay no dividends at present, they would have been far more profitable than the slow issues, such as the tobaccos or Corn Products, over the past five years.

When you invest in shares, it is not with the idea of permanency, such as is felt when a real estate investment is made. You can sell your shares at a moment's notice, but not your house or lot. Shares are to be bought and the market watched. Prices move ceaselessly and visibly for your stocks, but not for your real estate or your farm mortgage. The Triple Zone System teaches the investor to make purchases of stocks when their next move will be in favor of the buyer, but he must sell out when the selling signal is given.



Following the simple routine of buying in the sub-normal zone and selling out in the super-normal zone, the three traders fare thus:

Trader A buys	20 shares at A	sells at B\$ 160
Then buys	40 shares at C	sells at D\$ 400
Then buys	60 shares at E	sells at F\$ 660
Then buys	80 shares at G	sells at H\$1,040
Then buys	100 shares at J	sells at K\$1,400

Starting with \$60, this trader ends with.....\$1,400

Trader B starts with 50 shares, ends with.....\$3,640

Trader C starts with 100 shares, ends with.....\$7,280

Note the excellent new buying position at L (Plate 29).

The most puzzling point to the investor for the whole five years of Texas Pacific Land Trust is as to whether he should buy around that date, June, 1936. Even U. S. Steel was not clear in its indication (the only time in five years), but several other stocks like Vanadium and Republic Steel showed a buying position.

The list of five stocks included in the home investment plan may be compared with graphs of other stocks in this volume to discover which may be used to the best advantage. In these you already have the zones plotted up to the time of this writing.

Of the 1,300-odd stocks now listed, there are probably 300 that represent the trading group. Financial journals select certain stocks which, in their judgment, have good prospects, but the investor, before buying, should first inspect a graph with the zones laid off thereon. It might tell a very different story. Remember that a stock will give its best "analysis" when squarely at the top of a big move. It is at this time that POSITION is immeasurably more important than the earnings or dividends of the stock.

The investor with a few hundred or a few thousand dollars to invest will do well to inspect the charted action of a dozen or more stocks. Take no one's flat opinion. Let the stock tell its own story, and get the truth. The position of a stock will be shown exactly in a graph, and a dozen experts could not furnish better information.

SELECT STOCKS WITH GOOD HABITS

In a list of five stocks you will have as many different styles of action. A stock "grows up" to have a character of its own, just as a child develops an individual character. In the five stocks selected for the home investment plan, you will find each one differing from the others.

One is volatile or active, like Vanadium, which runs swiftly to sharp tops and bottoms and makes extra good profits.

Another is somewhat ponderous, like American Radiator, which pauses a long time after each gain. It has virtue because of stability.

Still another stock is quietly active and moving in some direction all the time. Texas Pacific Land Trust is an example of a stock very little disturbed by flashy events that startle the general market.

Bendix Aviation is perhaps the most orderly of the five stocks. It has good action and is much traded in without going wild over its popularity. Such stocks are excellent money-makers.

Least interesting and profitable of the five is the Pure Oil Company chart. It takes a long time to get started, and goes to its destinations so deliberately that, for example, it gave the investor only two profits in the six years of its charted action. (See Plate 30, page 228.)

Selection is immensely important, but must be made from the charted action of a stock showing its characteristics for years back. To attempt to select good issues by reading their past earnings and financial set-up is unsatisfactory. You have the proof of this in the five well-known stocks in this home

investment plan. The careful investor will inspect the action of ten or a dozen issues before placing his money in any of them. He would not select an issue having dull action, like that of Pure Oil. It is placed in this list of five stocks as the type of stock *not* suitable to the plan.

Whatever style of action is possessed by a stock in its early existence is likely to cling to it for years or perhaps for its entire life. This is because of the temperament of the traders who happen to be attracted to the stock.

Case Threshing Machine Company started out as a "race horse" of the market years ago and has never lost its characteristic action, although it has passed through many surges of prosperity and adversity.

Lorillard Tobacco Company, a wealthy concern of long standing and with only 1,872,000 shares, undulates sedately and narrowly through the years, evoking only a mild interest in the minds of speculators.

The speculative energy must be reckoned with in the making of money. It is not to be avoided but to be favored. Choose active stocks that show they have the interest of an active speculating public. Bendix Aviation is an excellent example of a stock with good and profitable action. It may be expected to maintain its characteristic action indefinitely.

Search the list of stocks for such profitable performers as Bendix, Western Union, Vanadium, Bethlehem Steel, Douglas Aircraft, Inspiration Copper, Anaconda Copper, Deere & Company, New York Central Railroad, Republic Steel, and American Radiator.

When you trade by the zone plan you need have little fear that you are indulging in a "too speculative issue." When a so-called "speculative" stock breaks down to its sub-normal zone, you may be sure that it is drastically liquidated—much better than the "investment stocks"—and is therefore in better and safer position for a purchase.

Both investor and trader should remember that the *best profits are made in price appreciation*. Both are using the market for the purpose of making money. Therefore, the sensible thing to do is to search the big list of stocks for good movers that pay a dividend, but not to turn down a popular, active stock because its dividends are temporarily suspended.

PURE OIL COMPANY

The technical end of the depression of 1932 was in July, when U. S. Steel and the Dow-Jones Industrials finished their declines and began the first post-depression bull move lasting from July to September.

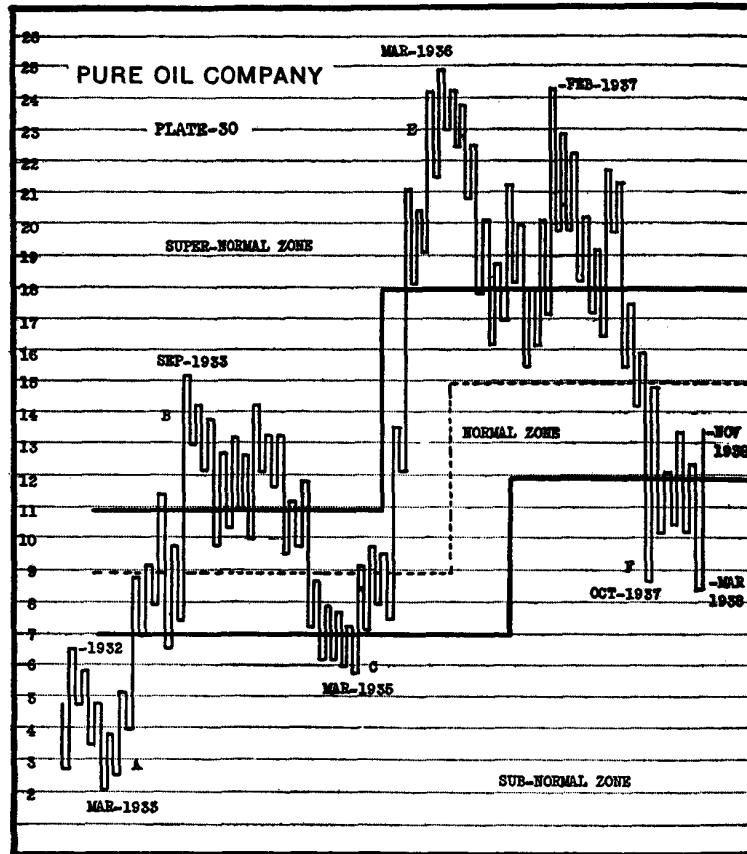
Pure Oil Company did not share the enthusiasm of other stocks in 1932, and covered a range of only about $3\frac{1}{2}$ points in the 1932 advance—too small to take advantage of. This would have been a hint to any investor making a selective list of prospects, to avoid Pure Oil, not on account of its finances but because of its action. If it was inactive in 1932 when others were active, it might be expected to fall behind others in its response to other major movements.

To make money for the trader and investor a stock must move upward to where it is a sale, then turn downward to where it is once more a purchase.

The more frequent these journeys from the sub-normal zone up to the super-normal zone and back down again, the more profitable and interesting is the stock.

It was possible to secure only two good profits from Pure Oil over the last six years. During the same period at least three good-sized profits were available in most other stocks and certain ones furnished four or five profits in as many major bull markets.

The stocks, large or small, which keep in fairly accurate step with the movements of U. S. Steel are amongst the best selections. Bendix Aviation, Vanadium, Atchison, and Anaconda are examples of good imitators of U. S. Steel, but there are many more of them to be found in the list of New York Stock Exchange stocks.



PURE OIL COMPANY is a complete unit in the oil industry and has an international business. It was organized under its present name in 1920, and has 3,892,031 shares of no-par common stock. The ratio of current assets to current liabilities was \$3.50 to \$1 as of August, 1937. It is a concern with ample capital, and enjoys a large business.

What is the most important thing for you to know about a stock which you contemplate buying?

Its present position.

All other things are of secondary importance, including its activity.

"INFORMATION WANTED" is the perennial request of investors. People holding stocks desire a frequent appraisal of their values. This is an intelligent request and if answered intelligently is of great help. All stock market services and analyses make a special feature of advising clients as to the "position" of their holdings and whether certain of their stocks should be sold, held or switched.

The chance for error in these analyses is great because the analyst is likely to rate the value of a stock by its favorable or unfavorable statistics *at the time of his analysis*.

It is perfectly natural that the rating of any stock will be the highest when it is up in the super-normal zone—*yet it is a sale there!*

It is also natural that a stock will show its poorest rating in a time of depression when the price is well down in the sub-normal zone—*yet it is positively a purchase there!*

Thus it would be easy to make an error in the proper buying place for a stock by analysis.

BUT IT IS ALMOST IMPOSSIBLE TO MISTAKE THE PROPER BUYING LEVEL WHEN USING THE TRIPLE ZONE PLAN.

With the zones you make your own analysis.

About the time of this writing stocks are having a drastic break. Every issue is in its sub-normal zone. U. S. Steel has touched 38, March 31, 1938, and the Dow-Jones Industrials 97.46. The rails, handicapped by adverse legislation, have sunk nearly to the lows of 1932. The public is in a state of fear,

asking whether we can ever get out of this precarious depression. The same questions were asked in 1932.

But through this emotional fog shines a silver lining. Market history tell us that a sub-normal position is always followed by a MAJOR ADVANCE.

BENDIX AVIATION CORPORATION

"Bendix" is popular with traders and is engaged in making an assortment of instruments and fixtures used by autos and airplanes. The more popular a stock is, the larger its volume of trading and the more accurately it will follow the emotional waves of buying and selling in the market.

Bendix stock shows four very excellent major bull movements from 1932 to 1936; in fact, one every year.

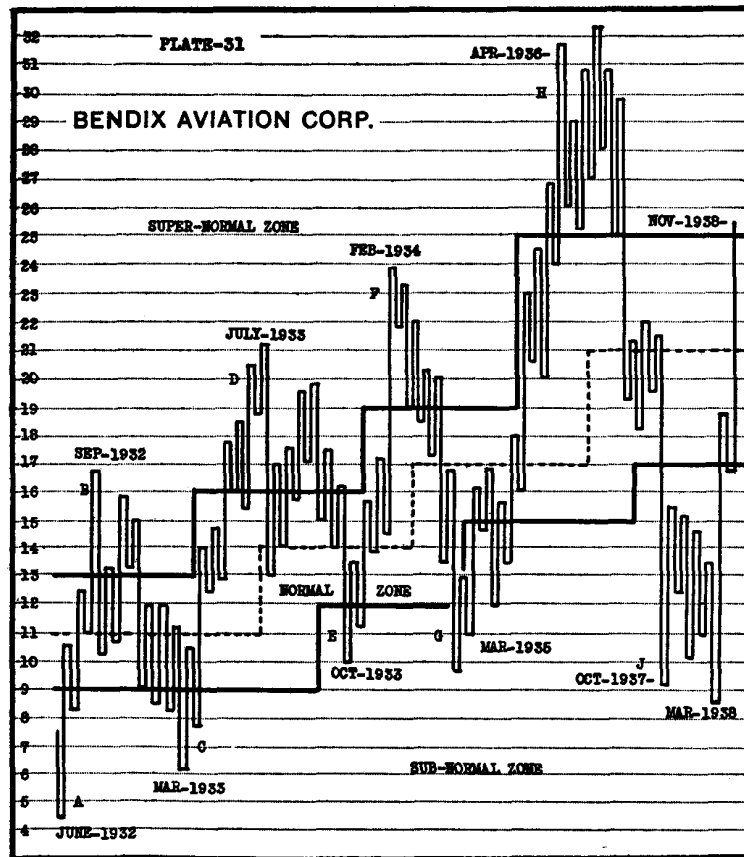
The most difficult feat for the investor and trader, and one in which he should school himself, is to have the moral fiber to buy stocks when they are down in the sub-normal zone. When they are thus low the news is full of gloom and forebodings. Men seem to fear some impending evil. This is the time to buy, and the zones show this faithfully.

Very few had the "nerve" to buy Bendix in 1932 around that \$5 price, but those who did buy had their money trebled very quickly.

It may be taken as a truth that most investors did not buy Bendix in any of these four bull moves until it was well up, almost through the normal zone.

Furthermore, it is highly probable that the most rapid or frenzied buying took place when Bendix was rising above the top edge of the normal zone. That is a universal habit in the market AND ENTIRELY WRONG!

The purpose of this Triple Zone System is to show WHY this is wrong, and how profitable and easy it is to buy right and sell right, and how this may be done with the charted action of stocks, irrespective of news, statistics, or other temporary influences.



BENDIX AVIATION CORPORATION makes auto parts, self-starters, carburetors, instruments, etc. Aircraft takes 15% of its business, particularly radio equipment. The company has close affiliation with General Motors, which holds 500,000 shares of Bendix Aviation Corporation (December, 1937).

Into the six years of Bendix charted in Plate 31 may have gone the study, thought and investments of ten thousand men. The Triple Zones show you how to organize and use this knowledge for your personal profit.

QUESTIONS THE READER MIGHT ASK

But these graphs cover only six years. Will stocks continue to perform this way in the years to come?

Amongst the oldest stocks are the railroads, some of which, like the Erie and the Union Pacific, are over forty years old. They have figured actively in major bull markets. These have, all the way back, the same type of action as the stocks shown in the graphs of this book. There is no way a stock may escape making its three zones.

What if a stock that has been carefully selected later meets adversity and is threatened with bankruptcy?

If a stock persistently declines while the Dow-Jones Averages are going up, get rid of it. There are a few such extraordinary situations which may arise, but only a few.

In stocks, should one avoid the "cats and dogs"?

Yes, but it should be remembered that all small or low-priced stocks are not necessarily of the "cat and dog" variety. Some low-priced issues are of excellent quality. Chrysler sold for \$5 in 1932. The real "cats and dogs" are low-priced bankrupt issues, or those in receivership or litigation. They usually have a small upturn in a major advance that invites buying. But there are plenty of sound stocks to trade in, without risking money in this low-grade stuff.

What if an investor first learns about the Triple Zone Plan and wants to start with it when the market is far on its way? Can he still get in safely?

He should promptly get graphs of the stocks in which he is interested to learn their position. If his intended stocks and U. S. Steel are on their way up from the sub-normal zone, they are a purchase for a further advance through and above the normal zone. Once stocks, especially U. S. Steel, have been well down in the sub-normal zone, they are practically sure to rise well into the super-normal zone.

Is a stock always a sale on reaching the super-normal zone?

Not immediately. A carefully made graph should be kept of the daily action of the stock and of U. S. Steel. From these it is often possible to follow an advance well above the normal zone by watching for the appearance of the minor trend line.

Why is the minor trend line so important?

Because it gives the earliest possible signal of the reversal of the market. It can be used only at the top of a move—not at the bottom. The swiftest part of an advance is after a stock gets above the normal zone. The minor trend line helps the investor to follow his stock close to the top limit. Plate 12 shows the use of the minor trend line.

From what groups of stock can the best selections be made?

Aim to get into groups having promise of special business development or volume. For threatened war the coppers, steels and chemicals are popular. For the developing air commerce the aircraft stocks, and accessory issues like Bendix, Sperry and Aero Supply are popular. When heavy relief expenditures are being made, the merchandise stocks—Sears Roebuck, Penney, Montgomery Ward, and Woolworth—are favored. Gold stocks are good if devaluation of the national currency is probable. If the new "housing" campaign thrives, American Radiator and Johns-Manville should prosper.

Why is U. S. Steel nearest to a perfect leader?

Because steel enters more nearly into every home and into universal needs than any other commodity. Steel is the world's greatest non-food commodity, while wheat is the world's greatest food commodity. These two commodities lead in their respective markets. Furthermore, the operator becomes proficient in the use of one stock as a leader. To attempt the use of even a half-dozen popular stocks will confuse rather than simplify one's trading.

What class of stocks is most profitable for the person with moderate funds?

The smaller or lower-priced issues which go down to around \$3 to \$5 during bear markets, then advance to \$20, \$30 or \$40 per share during bull movements. A \$3 stock may treble in price in a few weeks or less, while a \$40 stock may take a year or more.

What is the most difficult part in carrying out an investment program like the "home investment plan"?

Most difficult of all is to maintain one's patience during the dull periods when stocks seem to get nowhere. The investor may come to believe he has the wrong stocks, and may try to improve his chances by switching to other issues—which may be still worse. Dull periods are usually followed by faster action. Often a move that has dragged for six or eight months will suddenly develop speed and finish in a few weeks.

Why is margin-trading not advisable?

Because it makes the trader subject to greater risk financially and besides exposes him to the vagaries of personal temperament. A margin trader is badly upset by a moderate break that does not even ruffle the trader who owns his stock outright.

How much of one's surplus should be used in the purchase of stocks for appreciation in price?

If U. S. Steel and stocks generally are down in the sub-normal zone, one can use 60% of his capital. If prices have climbed up into the normal zone, it is well to employ one-half or less of funds.

When purchases are made, should the certificates be obtained?

Yes. You can then place them in a safety deposit box and close your account at the broker. You may want to use another broker next time. But keep your eye on the market. Be quick to take the stock certificate out of your safety box and sell it when it gets into the super-normal zone.

Briefly stated, what are steps from start to finish in buying a single stock for a prospective move?

While these instructions appear in different places throughout the book, they are repeated here in brief form:

1. Have money you can spare. Don't borrow it.
2. Select five or more stocks that appear good.
3. Secure graphs of all of them for inspection.
4. Determine which has had the best past action.
5. Note the POSITION of each—in which zone.
6. From a graph, note the position of U. S. Steel.
7. Buy any stock if U. S. Steel is in the sub-normal zone.
8. Take your time, buy on a reaction.
9. Ask the broker for certificates of all purchases.
10. Ignore market comment. Hold confidently for an advance.
11. Keep a chart of each stock. Mark it up daily.
12. Remain undisturbed during long dull periods.

13. When stock gets above the normal zone, be vigilant.
14. Market will become more active, but keep steady.
15. Keep trying to fit a minor trend line under U. S. Steel.
16. When U. S. Steel breaks below its minor trend line,
SELL OUT.
17. Put your money away and wait for the next break.

The investor will find the above list of instructions a pleasure to follow, because they are helping him to make money, and since it takes but a few minutes' time each day to mark up a chart, he can keep up a diversified list of several stocks and not miss the time so spent.

Should only stocks paying a dividend be bought?

Many large concerns and investors will buy only dividend-paying stocks as they must show some kind of returns for their investments. This makes dividend-paying stocks appear best. The Triple Zone System enables the investor to secure both the dividend and the speculative profits. However, the best dividend-payer may not equal in profit an active mover that pays no dividend. U. S. Rubber is a good example at the present writing.

CONDENSED RULES FOR THE CAREFUL TRADER

While there are scores of "do and don't" rules that apply to stock-trading, a few that specially fit the policies advocated in this book are given below :

1. At first trade purchase one-half of intended amount.
2. Buy outright and don't borrow the money.
3. Adhere strictly to the Triple Zone System.
4. Keep graphs of your stocks. They afford the best information available.
5. Don't hold stocks permanently.
6. Don't buy on margin. Weakens financial temperament.
7. Buy fearlessly when U. S. Steel is in the sub-normal zone.
8. Don't buy any stock until you know its POSITION.
9. Cultivate patience as an investor's virtue.
10. Don't buy stocks of concerns in receivership.
11. "Short turns" are for in-and-out traders, not investors.
12. Play for major moves and secure major profits.
13. Don't select new or little-known issues.
14. Watch active stocks. They are being favored.
15. When profits come, set aside your income tax.
16. Don't forget the certificates you put in safety deposit box.
17. Plan for your stock-trading as carefully as for your business.
18. Keep trading funds intact. They grow rapidly in later deals.

19. Browse through reams of market news and you'll return to the zones.
20. Men study hard to locate "position." The zones do it readily.

HOW DO YOU STAND NOW?

Perhaps you are holding stocks now and hardly know what to do about them.

Possibly they have been up and down many times, and always when they were high you expected them to go higher.

That is no discredit to you. It is fallacy as old as the market.

Every time your stock has a deep slump, you resolve that next time up you will certainly sell out.

But you have no map to go by, no charted position, no zones to show you that high region in which every major advance must come to its end.

Your broker, your friend and your market service are equally confused, because they, too, are unaware of the strange but inevitable obedience of all stocks to the Triple Zones.

Of the 640,000 stockholders having American Telephone, it is doubtful if one out of ten ever try to get the good profit the stock so often offers, then repurchase lower.

They accept a slow annual dividend when they could have a dividend and a high price besides.

A client told the author of his holding 500 shares of a certain well-known stock for ten years, which he even carried up to a dizzy height in 1929 without selling out. It sold for \$8 per share in the depression of early 1938.

That stock handled according to the Triple Zone System would have made him wealthy.

But he didn't know there was a better way!

The stock you hold now may seem good to you and worth holding, but unless you know its position as compared to U. S.

Steel and the general market, you are taking a risk. This may be just the time to sell out.

Check up on your stocks yourself. With a graph of their action and the normal zone laid off, you can make a truer analysis of your holdings than the best market adviser can possibly furnish.

"All right," says the reader, "I have shares of five different stocks. How shall I know by looking at their graphs whether they are in a satisfactory position or not?"

The process is simple. First, secure the graphs.

Next, lay off the normal zone, if this has not already been done on the graph.

You will note each stock has, time and again, been running up into the super-normal zone, then back down into the sub-normal zone.

The question is, Where does each stock stand now?

Let us take it for granted that they are all in their normal zone. Then note the following:

- If they have recently been down in the sub-normal zone, they are now *on the way up* and they can be held until they rise into the super-normal zone.
- If they have recently been up in the super-normal zone and are now in the normal zone, they are *on the way down and should be sold out*.
- If they are well up in the super-normal zone, it is time to consider selling out (but inspect a graph of U. S. Steel) to make the best sale.
- If your stocks are well down in the sub-normal zone and U. S. Steel is also well down in its sub-normal zone, hold them for a new advance. But be sure you sell out the next time they get into the super-normal zone.

The basis for the above analysis is that stocks are constantly traveling from the sub-normal zone, up *through* the normal

zone, into the super-normal zone, then down again. When a stock sets out on a trip, it usually finishes the journey. The more active the stock, the more easily it makes these "round trips."

It will be well for the investor who contemplates purchasing stocks to re-read the text descriptive of U. S. Steel and its graph (Plate 12, page 130).

While this steel stock is not always a perfect indicator of "turns" or tops, it is almost perfect as an indicator of POSITION. When it is well down in the sub-normal, there is no better argument for making a purchase of *any stock you like*.

Only a very few extra strong stocks will fail to follow U. S. Steel down to its sub-normal zone during bear markets. General Motors is one of the most persistently strong issues. In 1934 and 1935, it refused to decline below its normal zone even though U. S. Steel broke well below its normal zone, as may be seen in Plate 12.

On account of the company's huge business, extensive assets and good management, General Motors stock is much sought after by large investors, insurance concerns and treasuries of big corporations, who buy it for investment of surplus funds.

Investors of large means will naturally prefer the best concerns in well-known industries which pay a dividend and which show ability to earn even in times of depression. General Motors, du Pont de Nemours, and General Electric are in this class.

The smaller investor is naturally bent upon increasing his small capital as rapidly as possible and will, or should, select active stocks. It is feasible to pick active dividend-payers of medium or low price, but the most important feature of a stock for the small investor using the Triple Zone System is activity. Rapid profits come from rapid action.

There is such a large list of high-class concerns in permanent national industries, whose stocks are at any price, high or low, which the investor might want, that it is folly to select new or half-seasoned concerns in any business whatsoever.

WHAT IS THE GREATEST FINANCIAL FORCE?

It is the speculative urge.

And what is speculation? It is buying at a price with the intention of selling at a profit. Whether you are dealing in stocks, hardware or real estate, the purpose is the same.

The need for money is universal with people and draws from men their greatest physical efforts and their keenest mental abilities.

Stocks are rated more dangerously speculative than merchandising goods because they are so much easier to deal in. A person may deal in \$100,000 worth of stocks with almost no overhead expense, but it takes an extensive equipment to buy and merchandise goods to the value of \$100,000.

The desire to earn, have and enjoy money or its fruits is the greatest urge of the race. To make it honorably by the intelligent buying and selling of stocks for a profit is as laudable as selling goods or rendering personal services.

The largest institutions of the country are the direct result of good management.

The best management comes from organized method.

In the Triple Zone System of stock-trading, the author offers what he believes to be a new and simpler method of securing profitable results from that greatest financial institution in the world—THE NEW YORK STOCK MARKET.

PART SIX

THE TRIPLE ZONE SYSTEM APPLIED TO WHEAT

WHEAT — FROM THE PHARAOHS TO THE PRESENT

Wheat has been a river of gold flowing down through the history of man ever since he could chip his first ideas into imperishable stone, or scribble them in half-intelligible characters on parchments now found in tombs along the ancient Nile. It is the most fascinating commodity in the world, and is today the world's greatest food and its greatest article of commerce. So intimately has it worked its way into the business life of nations that its price is quoted in every important market center on the globe.

For the last ninety years, beginning with the opening of the Chicago Board of Trade in 1848, wheat has been, next to New York stocks, the most used speculative item in the business of the country. It is somewhat more highly "speculative" than stocks since it cannot be bought outright with the same convenience as stocks, and is therefore traded in "on margin."

Wheat enjoys by far the largest part of commodity speculation. Its market action is even more accurate than the action of stocks, since the mass trading mind in commodity speculation centers most of its efforts in a single leading grain.

Most of the time all other grains travel in the same direction as wheat, but not always.

In one matter the wheat market acts exactly like the stock market. Stated briefly it is this :

Once a major bull movement starts in wheat, no news or events will stop it until it has run its full course.

The Triple Zone System is entirely new—as new to wheat traders as to those who trade in stocks. The philosophy of the system is based on human trading habits, not what they trade in. It is as useful to the wheat trader as to the stock trader.

The chief difficulty confronting the forecaster is that he must attempt to forecast with accuracy a market that seems to be wholly erratic and irresponsible.

Better ways must be found for understanding and using the wheat market because millions of dollars in wheat values change hands daily. Senator Capper once pointed out that the entire United States wheat crop was traded in *sixteen times over in a single month*.

The stock trader can diversify for safety. The wheat trader has no such advantage.

The stock trader can buy stocks outright and put 10,000 shares in a small tin box. The wheat trader cannot buy outright conveniently unless he has an elevator and can pay the costs of storage.

Besides that, the grain trader must get out of one option over into another every few months.

But with all of these handicaps, wheat is immensely popular with the wide public as a trading medium, and is much sought when it sets out on one of its major bull movements.

In big active markets, volumes of 100 to 150 million bushels traded in during a single day are not uncommon. In such markets the “big traders” often deal in from one to several million bushels of wheat.

What I now intend to show is that wheat, being an excellent performer according to the three zones, can be used for making money as readily as the best of the stocks. Dull periods in wheat are always followed by extended periods of sharp activity.

If you happen to like wheat, or have been accustomed to wheat-trading, you will find the business very fascinating and

capable of excellent profits when the Triple Zone System is used.

If you are accustomed to stocks, you will naturally be inclined to devote your efforts to the stock market.

There is ample opportunity in either market, and anyone accomplishes more in a business that suits his taste. The eastern industrial sections of the country naturally turn to stocks, while the great Central West, with its vast grain acreage, turns to wheat. Canada is intensely “wheat-minded” because this grain forms the largest single source of Dominion revenue.

Some large fortunes have been made in wheat, and when such fortunes have been lost it has been because the owner of the money did not understand the fatal nature of a **WRONG POSITION**.

It is an amazing fact that nearly every loss of personal fortunes has been from the failure to realize that bull markets prevail with individuals and business institutions in the same manner as in the markets.

The first point to be impressed upon the grain dealer and grain trader is that *wheat prices run up and down through the three zones exactly the same as stocks*.

Wheat-trading is made vastly easier and safer by a knowledge of these three zones and the few secondary market factors that serve as accessories to the zones. The whole equipment of the “Triple Zone System” may be summed up into the following:

1. Market position found by the Triple Zones.
2. The simple laws of bull and bear markets.
3. Location and use of the minor trend line.
4. The “vertical movements” both up and down.

In this brief list of primary market factors, the wheat trader, speculator or investor will find about all of the tools needed to win success from the wheat market with its world-

wide ramifications and its ceaseless market movements. Wheat markets are open somewhere on the globe every hour of the twenty-four.

By means of the Triple Zones, the wheat trader is taught how to interpret and use two of the most profound laws of human nature :

1. THE DESIRE FOR GAIN.
2. THE FEAR OF LOSS.

Upon these two basic laws of human nature is founded the financial and material progress of the world.

The desire for gain makes men buy, barter, produce or speculate in order to improve their finances, and in so doing they send prices up buoyantly into the super-normal or top-most zone. A bull market is thus completed. Then comes a change of opinion.

The fear of loss makes men sell out commodities or stocks when prices appear topheavy, in order to conserve their cash and consolidate their financial position. A bear market is thus driven down to the sub-normal zone again.

No more brilliant examples of these two forces at work have ever been seen than the bull and bear market cycle in stocks and wheat from 1935 to 1938.

The point I wish to make is that, by the laws of human nature, prices are being continually driven from low to high and back again, and that this applies to everything in which men trade.

The three zones act as a thermometer for these "ups and downs" somewhat as a thermometer tells the temperature.

If you want to know how the temperature stands, the mercury tells you its position.

If you want to know how public opinion rates the value of stocks, the Triple Zones tell their position.

After all, trading in wheat or stocks is not difficult when you understand the principle of the three zones. Their first effect upon the operator is to free his mind of a vast amount of useless and confusing matter, entirely unessential to trading.

“FEATHER YOUR NEST WITH WHEAT”

MONEY is what everyone wants. People have to make money or else—

And in this business of making money, wheat has no superior in the speculative world. Every grain dealer and trader knows that, no matter how many errors they make. They come back resolved that next time they will make no error.

But getting right down to tangible facts, there is no substantial reason for the trader to lose money in wheat. Some errors are natural but his net result should be good.

One trade in 5,000 bushels of wheat which runs to a 3- or 4-cent profit in as many days will equal a fine month's salary. That's for the in-and-out trader.

But a purchase made in the sub-normal zone according to the Triple Zone System and sold by this system in the super-normal zone, will make a big year's salary, and often in a few months' time.

Take for example the most recent bull move—that one which started in June, 1936 and ended in April, 1937. Here is what could have been done :

A 5,000-bushel lot bought in the sub-normal zone and sold out on the “minor trend” signal up in the super-normal zone would have yielded.....	\$ 3,000
A 10,000-bushel lot would have yielded.....	\$ 6,000
A 20,000-bushel lot would have yielded.....	\$12,000
A 50,000-bushel lot would have yielded.....	\$30,000

This is not an unusual feat. There's nothing unreal or uncanny or fictitious about it. In fact, it is being done, and will

be repeated in the very next major advance staged by this popular grain. Wheat has one advantage over stocks in that it may be traded in with less margin than that used in stocks, but unless the trader is level-headed, it can also lead to a disadvantage—overtrading.

What I wish to do in the pages to follow is to show the reader how the Triple Zone System may be applied to wheat, how it discloses the true position of wheat—just as it shows the position of stocks—and how this Triple Zone equipment may be used as a full and complete method for successful trading in wheat.

It is folly for the wheat trader to warp his opinions with the flood of crop news which flows in a steady stream through the grain exchanges. If he is a keen observer, he will soon see that high wheat prices often happen during the actual harvesting of a big crop. This happened in July, 1937.

And, conversely, he will see very low prices prevail in a short-crop year, as happened in July, 1935. He is obliged to accept for the wheat market the same impelling forces that produce bull and bear markets in stocks.

It is the speculative urge, the intensity of optimism, confidence in recovery, the widespread belief that prices should be and will be higher and that one's finances can be improved by buying wheat for a rise, that causes bull wheat markets, not the status of the crop.

A somewhat sudden conviction that a bull wheat market is “toppy” or exhausted leads the wide public to sell out, and the bear market begins. Nor will it end its downward course until the last reluctant “die-hard” bulls have finally sold out. Liquidation is then complete.

The phrases “major advances” and “major declines” rather soften the somewhat gross words “bull” and “bear” but the American public has become so accustomed to linguistic brevities and slogans that it quickly accepts the bull and bear mar-

kets as instantly descriptive of the two styles of action. Our use of the two terms here is because of general public acceptance.

The smallest amount possible to trade in is 1,000 bushels. This is called a "job lot." Lots of 2,000 bushels, 3,000 bushels and 4,000 bushels are also termed "job lots." On these smaller lots the Chicago commission at present is \$3.50 per thousand bushels.

The smallest "round lot" is 5,000 bushels, on which the commission is \$12.50.

The margin required on wheat is usually about 10 cents per bushel. But brokers are at liberty to increase this sharply in very active markets or reduce it during dull markets.

The most careful traders use a margin of 20 to 25 cents per bushel.

Anyone may trade in large quantities up to several million bushels, but it should be remembered that the Grain Futures Act has a department at Chicago which requires all brokers to report daily concerning all traders holding 200,000 bushels or more. The aim is to keep the department apprised of large holdings. At present there is no limit on a trader's holdings but the limit of two million bushels is being considered.

In case of an erratic market, the trader holding a large amount would be urged by the department not to "dump" his wheat too fast. Again, he might be asked to liquidate in the orderly manner suggested by the department. All of these present arrangements are subject to variation or elimination.

WHEAT TRADING IS NECESSARILY "ON MARGIN"

It can hardly be otherwise, since the options expire within a few months and all trades must be closed out.

It is possible to switch over to a later option at the cost of another commission and any difference that may exist in the prices of the two options, but only a few do this.

Elevator companies and some few individuals with convenient storage equipment buy the actual grain and store it to hold for higher prices. This is speculation none the less. It takes much more capital and is supposed to be safer—but is not.

The very nature of wheat-trading would appear to make it chiefly a margin-trading, speculative business outside the pale of investment, but this is only partly true.

A purchase of wheat when well down in the sub-normal or "investment zone" taken in a distant option can nearly always be held for a big rise before the option expires, and in this way becomes as much an "*investment*" as if the trader bought New York Central down in its sub-normal zone and a few months later sold it at a higher price. On Plate 32 note the excellent position of wheat in November, 1938.

But one thing is imperative for either wheat or stocks, whether the operator considers them a trade, an investment or a speculative deal. They must be sold out when they reach the super-normal zone and show the selling signal.

It would be just as foolish to carry wheat up to its top and down again as to carry a stock through for its round trip. And yet thousands of people do just that.

The Triple Zone System, which is to be applied to wheat also, should be studied in the previous part of this book. It works exactly the same in both stocks and wheat, so that when one learns the principle on which it works, he will be ready to apply it to wheat or stocks with equal facility.

Wheat-trading can be made simple and should be followed as if you were dealing in a friendly market. Too many try to fight the market or "beat" it. Remember the market isn't trying to beat or defeat anybody. You can use it according to its simple, deeply-rooted laws and it will make you good profits, but if you misuse it the fault is yours and the grief is yours.

Find out what the market is doing. That is the first thing to learn when the desire to trade takes hold of you.

And how? will naturally be your pointed question.

Well, wheat is always traveling. It is, just like stocks, always going somewhere.

The way to find where wheat is and where it is headed for is to get a graph of the grain for a few years back and made right up to date, then fit the three zones to the graph in the same manner as if it were a stock graph.

If wheat happens to be down in the *sub-normal zone* when you stake off your zones, it means that the next major move for the grain will be right back up through the normal zone and into the super-normal zone.

If wheat happens to be already in the *super-normal zone*, get out of all longs (if it is under that minor trend line), and if you fancy the short side, you can sell and probably secure a major profit from the major decline.

If wheat happens to be already in the *normal zone*, you will find that it has just left either the lower zone or the top zone, and is headed for the opposite one. A glance at one of the wheat graphs (Plates 32-35) will make this clear.

Wheat, like stocks, is ceaselessly in transit from bottom to top and down again, but its round trips are more frequent.

SIX YEARS OF WHEAT

A six-year graph of wheat market action is very little different from a similar graph of a big stock like U. S. Steel or Atchison Railway. In Plate 32 will be seen a condensed graph of wheat back to the extreme low of 1932, which was the lowest price ever known for wheat in the United States. At the same time England was experiencing the lowest price for wheat in 500 years.

The first bull wheat market since the 1932 depression topped out in July, 1933. It had a range of about $77\frac{1}{4}$ cents and was the largest major advance since 1932. This move furnishes a good place to start the Triple Zones, which we do by first finding the half-way point between the bottom made November 25, 1932 and the top of July, 1933. It lies at $83\frac{1}{2}$, but it is preferable to use a cent line rather than place the dotted line on a fraction of a cent. Hence, we place the dotted center line at 83.

The range of this major advance from bottom to top was approximately $77\frac{1}{4}$ cents. This is found by taking the *composite low* of all options—that is, the average of the low points for all wheat options for the low day—as a starting point, and the *composite high* of all wheat options on the high day.

The composite low on November 25, 1932 was 45 and the composite high in July, 1933 was $1.22\frac{1}{4}$.

The range or ground covered was $77\frac{1}{4}$ cents. Divide this $77\frac{1}{4}$ -cent range by 3 to get the width of the normal zone. The result is a fraction over 26 cents. Thus the normal zone starts off with a width of 26 cents.

The next major advance is from October, 1933 to August, 1934. It has a range of only 44 cents which narrows the normal zone (about center of graph). The small major advance from E to F does not change the width of the normal zone but the next major advance does. The normal zone lies on each side of the dotted center line the same as in stocks.

As we enter this subject the reader may ask, "Is short-selling of wheat advisable?"

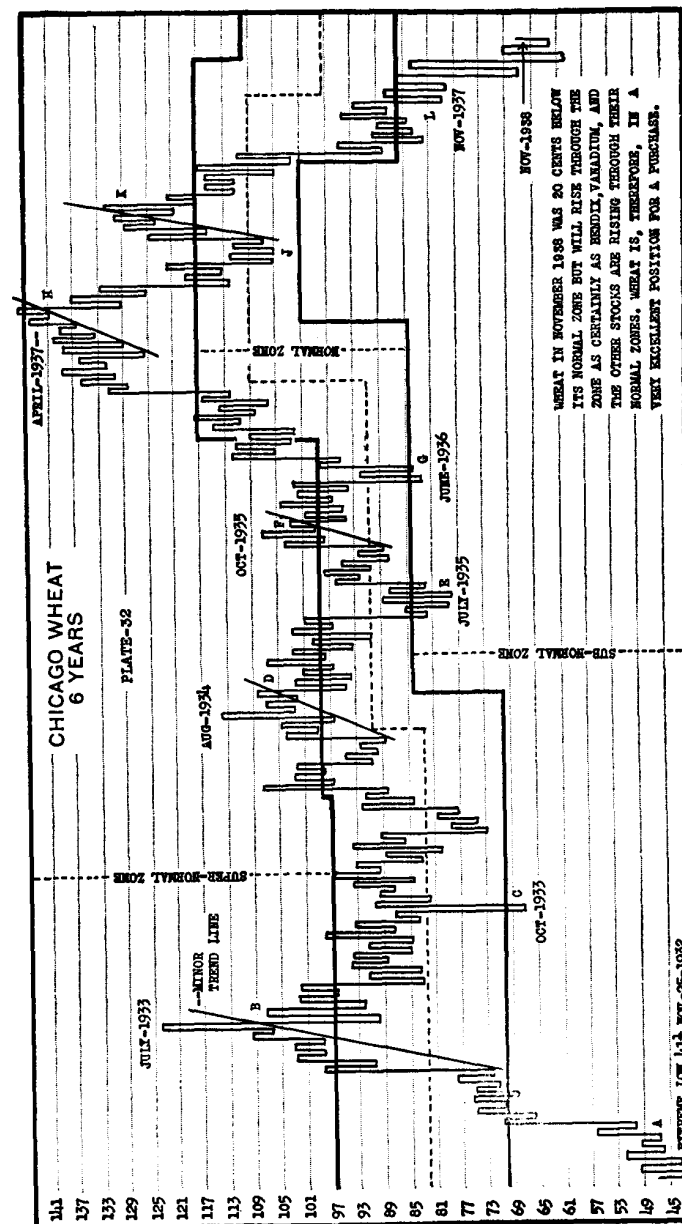
Wheat-trading is quite different from stock-trading. Wheat cannot be used for investment purposes as conveniently as stocks, though comparatively few do invest in the actual wheat and store it in elevators for later sale. From the investor's standpoint wheat is immensely more cumbersome than stocks.

A block of shares may be placed in a deposit box and kept with ease. A lot of wheat bought for investment must be placed in an elevator with monthly elevator charges and the expense of reconditioning the grain at times to prevent deterioration. This besides the natural shrinkage in grain.

Another feature in wheat-trading is that dealers on purchasing the actual grain immediately "hedge" the amount bought by a *short sale* in the same quantity. This is a universal practice by dealers and makes short-selling a part of the regular merchandising of wheat. It is, therefore, difficult to "out-law" short-selling in wheat even though short-selling may be regarded unethical in stocks.

Furthermore, the stock trader has the advantage of a wide variety of different stocks from which to select or in which to diversify for safety or for activity, while the wheat trader must stick to one medium only and make the best of it.

Short-selling in wheat, therefore, becomes a necessary part of the business of wheat-trading. And since this is the case, the use and understanding of the Triple Zone System takes on special importance. By the zones, either the buyer of wheat



futures or the short-seller can locate the position of the grain and govern his transactions thereby.

The use of both sides of the wheat market will be brought out fully in the pages that follow. Those who advocate short-selling in either wheat or stocks claim that it is as reasonable to depress a market which is too high as to support a market that has fallen too low.

The big major advance, starting in June, 1936 and ending in April, 1937, as shown in the graph, covered 50½ cents measured from the composite bottom to the composite top. The May option covered about 62 cents, but for more accurate laying of the normal zone the composite tops and bottoms are used.

The 26-cent rally from J to K is not a major advance, but is the big primary rally that comes in all bear wheat markets and in most stocks. You will see this same characteristic rally in U. S. Steel (Plate 12) at its August, 1937 top.

This six-year graph of wheat in Plate 32 is a sort of "master pattern" for all wheat movements. When you analyze it and follow its course from the sub-normal zone up through the normal and into the super-normal zone, then down again—time after time—you will discover a very significant fact. It may be stated thus:

World speculation in wheat is constantly driving the price from too low to too high and back again.

New York stocks, naturally, follow a similar course, but their support is derived mostly from the United States, while wheat is a commodity traded in the world over.

WHAT IS THE CHIEF FORCE THAT MOVES WHEAT?

Misconception of this force reigns almost complete over the wheat-trading mind. This is proved by the tons of wire news and crop data that pour in a stream through the grain

exchanges of the country. Every news item, no matter how small, is weighed in the trader's mind to determine what possible effect it might have upon the price.

In the meantime, wheat continues its course from extreme low to extreme high and back over the route again, regardless of whether the crops are large or small. Bearish events will not stop a bull market, nor bullish events a bear market.

IT IS THE SPECULATIVE FORCE that moves wheat, not crop conditions or political events.

When the majority of wheat traders believe that there is a friendly attitude toward the buying side of wheat, making it possible to advance the price, they will buy because of the natural DESIRE FOR GAIN, and there is no greater force known in the financial world.

WHY does a major advance always start from the sub-normal zone?

Because long experience has taught the speculating clientele that a low price has many friends, that a majority of the speculative-minded people will readily join in a buying movement regardless of what may be the crop outlook. They sense the fact that wheat is in the investment zone without knowing the zone.

Wheat always moves up out of the sub-normal zone in beginning a major advance.

And no matter what bearish crop news may develop while a major advance is in progress, it will go to its conclusion driven by that irresistible force, the desire for gain.

Take a simple example, shown in Plate 32.

A major advance started from a sub-normal position in June, 1936 at G *after it was known* that the United States crop prospect was good. This major advance went on to a brilliant finish in April in the face of a still bigger crop for 1937, the largest in six years. And the secondary top was made in July, 1937 at K, *after the big winter wheat crop was harvested.*

The all-important point to be made here is that a major advance will start from the sub-normal zone and not stop until it has ended its move in the super-normal zone.

These major bull moves are engineered, not by conditions, statistics or "professionals," but by *human habits*.

Therefore, the wheat trader can take a long position in wheat when the price is well down in the sub-normal zone and be comfortably assured that, regardless of further minor recessions, he can expect a very excellent advance in the price of wheat. His chief problem will be his ability to hold.

TRADING FOR "LONG PULL" is reduced to a very simple process by the use of the zones. The operator waits for wheat to drop below the normal zone. He then makes a purchase, taking about one-third of his intended amount. A second lot is purchased 5 or 6 cents lower than the first lot, if available, and a third lot 5 or 6 cents lower than the second lot if possible. These lots are to be well margined and held until wheat prices rise to the super-normal zone. Then they are sold out when the price breaks below the minor trend line, just as is shown in U. S. Steel graph in Plate 12. These minor trend lines appear at the top of all major advances and big upswings, and are shown in the diagonal lines seen at the tops of the major advances in Plate 32.

Purchases for "long pull" should be made in the most distant wheat options, as it is usually the lowest in price and it naturally has the longest time to run. A major advance may finish in six weeks or may run for several months.

TRADING FOR "SHORT PULL," or in-and-out trading, can best be carried out by following the trend as shown by the zones which locate the position of the grain. If wheat is well down in the sub-normal zone, its next major trend will naturally be upward, until it gets into the super-normal zone. The operator buys on any recession of 2 to 4 or 5 cents during the "churning" of prices down in the sub-normal zone, and

accepts about that much profit on his lots. As the move begins to work upward, he continues buying on the 2- to 4-cent reactions and selling out on "new highs" until wheat reaches pretty well into the super-normal zone and is breaking below the minor trend line, when he *reverses to the short side* and favors that side until the first stage of the bear market is ended. The stages of major moves will be described later (page 271). A major advance in stocks may run two or more years. A major advance in wheat rarely runs a year.

USE OF THE MINOR TREND LINE

Of the four market factors used in wheat-trading, probably the one most difficult for the amateur to use is the MINOR TREND LINE. It, too, will cease to be difficult after the student-trader has made a few attempts at placing it. An accurate, well-made chart drawn by ruler greatly facilitates the locating of the minor trend line and it will repay all the study and effort of the trader to master its use.

In Plate 32, it is shown at B, D, F and H how the market tops out, then drops below the diagonal minor trend line. This is the definite top signal and the only dependable one.

It should be remembered that an actual daily graph of wheat for any of the four tops (also the rally top at K) would be much more in detail than the tops shown in the condensed Plate 32. It is much easier to lay this line against the under side of the steep rise that terminates a major advance when every day's action is carefully charted.

While the minor trend line will detect the topping out of a major advance, it does not apply to major declines. It shows that much desired point in an advance where public opinion definitely reverses and becomes bearish. At that point profit-taking and selling become prevalent among the mass of traders, and nothing will halt the finish of the downward trend—not even the loss of a wheat crop in a major exporting country.

The minor trend line may be used under a large number of smaller upswings as a means of determining their tops. The reason why this peculiar line forms at an angle under a move is because we think of prices in eighths and graphs move sideways at even spaces—usually eighths. As the price moves up-

ward by eighths, it also moves sideways on the chart by eighths, hence the slope.

BIG PROFITS IN WHEAT can be made by the person who will trade with the same care and caution used by the investor in stocks. In stocks the investor can discipline himself by making his purchases outright. In wheat the trader must govern himself by sheer mental control. He has a more difficult task, but in return has greater opportunity.

Why is his opportunity greater?

Because it is legitimate to use either the long or short side of the wheat market.

The wheat trader, in full control of his personal emotions and habits, can make money with reasonable safety on both sides of the market.

Generally speaking, the successful wheat trader must be more expert than the successful stock trader, since he must trade on margin and be capable of using both sides.

Not all successful wheat traders use both sides, as there are a few who claim they are “not constituted for short-selling,” and so adhere to the long side, taking the major upswings only.

These “permanent bulls” will find the zone plan of great usefulness in locating the bottom of bear markets for making purchases and picking the tops in the super-normal zone. Of course, they will “lay off” during the long bear market declines and will thus lose both time and money.

The fatuous error made by the “permanent bull” type of wheat trader is that he attempts to use wheat as an investment and yet must trade on margin.

Wheat-trading is purely a profit-making effort in the speculative field, as wheat pays no dividend and makes profits only by the change in prices. Therefore, the logical grain trader is entitled to the use of both sides of the market, and should cultivate the technique necessary for using both sides.

MONEY MAY BE MADE BOTH WAYS—by the major bull markets and the major bear markets. To illustrate the way in which this is done, we will take the last six years of wheat as charted in the graph, Plate 32. The graph is too limited to show it, but wheat stood under 50 cents per bushel for weeks prior to the extreme low of $41\frac{1}{2}$ on November 25, 1932. It was in the sub-normal zone and therefore a purchase at A.

The trader takes the long side for bull markets and the short side for bear markets. He may trade in 1,000-bushel lots or 100,000-bushel lots according to his finances, but he should use a 20-cent margin no matter how well bought. As profits accrue, larger lots should be used; but *one of the best safeguards in wheat-trading* is to let margins increase faster than the size of the lots traded in. This is exactly opposite to the practice commonly followed.

We will start the trader off with a lot of 10,000 bushels.

MR. CAREFUL WHEAT TRADER with margin funds of.....	\$ 2,000
Buys 10,000 bu. around A at .50—Sells around B at 1.10.....	6,000
Accrued funds.....	8,000
Sells 20,000 bu. around B at 1.10—Buys in around C at .70.....	8,000
Accrued funds.....	16,000
Buys 40,000 bu. around C at .70—Sells around D at 1.05.....	14,000
Accrued funds.....	30,000
Sells 50,000 bu. around D at 1.05—Buys in around E at .80.....	12,500
Accrued funds.....	42,500
Buys 80,000 bu. around E at .80—Sells around F at 1.00.....	16,000
Accrued funds.....	58,500
Sells 100,000 bu. around F at 1.00—Buys in around G at .85.....	15,000
Accrued funds.....	73,500
Buys 150,000 bu. around G at .85—Sells around H at 1.40.....	82,500
Accrued funds.....	156,000
Sells 200,000 bu. around H at 1.40—Buys in around J at 1.07.....	66,000
Accrued funds.....	222,000
Buys 300,000 bu. around J at 1.07—Sells around K at 1.30.....	69,000
Accrued funds.....	291,000
Sells 400,000 bu. around K at 1.30—Buys in around L at .85.....	180,000
Accrued funds.....	\$471,000

The above trading campaign in wheat, even though it covered over five years, will seem impossible of such results, almost a half-million from the small beginning of \$2,000. Yet every move is laid out clearly in the chart, and every move of the market is in accord with the Triple Zone System.

GOOD FORTUNE FROM GOOD PLANNING

In the six-year graph of wheat market action is the blueprint of a fortune (Plate 32). The market will repeat this style of action so long as men trade in wheat futures. A study of the Triple Zone System is worth all the time one can devote to it as the personal opinion of anyone, no matter how expert, cannot compare with the zones in accuracy of forecast.

To make the system still easier to follow, the attention of the reader is called to several points in the chart as here noted.

The A to B bull move was on a large enough scale to have the bull market habits as shown in Plates 24 and 25. Therefore, the top could have been estimated at a much more favorable place than the point B shown by the minor trend line. However, a day-by-day chart of wheat for that move would have also shown a higher point for the taking of profits. It is better to be conservative in selecting profit points.

The advance from C to D was a rambling bull market too small to have distinct laws for the move. It has been pointed out that true bull market action comes only with heavy participation by masses of traders.

It will be noted that the price barely breaks under the normal zone line at C, E and G, thus necessitating prompt purchase. This might also prevent securing more than one lot of wheat. It is well to take a lot quickly under the zone as a second opportunity may not be afforded. However, even then, it is wise to take a conservative amount as a matter of good trading discipline. Margin-trading naturally makes men more concerned when prices decline even though in the sub-normal

zone. Hence, it is wise to make one's first purchase under the normal zone a small one.

The simple plan of buying just under the normal zone, then selling out just above the zone, would have returned a handsome profit; and an equally good profit would have been earned by selling short just above the normal zone, then accepting profits a little under the zone. However, in this case, the trader would have to margin well and hold steady during the bull markets, for wheat usually goes far through the normal zone on its strongest moves. The minor trend line is the thing that helped him find those distant tops.

Broadly speaking, a bull wheat market that starts deep in the sub-normal zone will go a similar distance into the super-normal zone on the upward trip. This is not always the case but, like a pendulum, when the market swings widely in one direction, it is likely to swing just as widely in the opposite direction.

In the bull move G to H (Plate 32), the use of the BULL MARKET LAW is extremely helpful. The first stage of the advance reaches 1.15 (in the May option). Hence, the trader has but to double this first stage to estimate the final top which was reached April, 1937.

Again, the reader should be reminded that the location of the dotted line is determined and the width of the normal zone estimated from the *composite* tops and bottoms of the options in force at the time these tops and bottoms are made. If three options are in force, add them together and divide by 3 to get the composite figure. This is about the only point in which wheat-trading differs from stock-trading.

Since wheat cannot be used as an investment plan in the same sense as stocks, it is legitimate and sensible to use the market to its limit, both up and down, provided all steps are followed by system. A knowledge of the three zones fortifies the mind of the trader. He makes fewer errors.

When wheat is in the sub-normal zone, its next trend will be upward, into the super-normal zone.

When wheat is in the super-normal zone, its next trend will be downward, to the sub-normal zone.

THE BULL AND BEAR MARKET CYCLE

This cycle is the most profitable action known to wheat-trading.

This big "round-trip" style of action in wheat can be planned for and used with gratifying success. Such moves come frequently. Thirteen of them have happened since 1921. The smallest bull move during that time was the one in 1931 of about 23 cents. The most extensive major bull move was in 1924-25 in which wheat covered a range of \$1.05.

At this writing the latest bull and bear market cycle in wheat started in mid-year 1936 and finished the "round trip" or full cycle in the spring of 1938. The range covered was about 63 cents.

This was one of the easiest for the trader because of its very accurate following of all the elements of a true cycle. It is to be expected that "market laws" which are based upon mass human emotions will not run mathematically true to form. However, they do run approximately true.

This advance started with wheat in the sub-normal zone in June, 1936, as seen in Plate 33. Many reasons were assigned for the cause of the move, but the chief point to the trader was that a major advance was due.

Why? Because wheat always starts a bull move from a position in the sub-normal zone.

Of course, there was other news which gave psychological assistance to the move. It was the year of the national election—1936—and the wheat and corn crops were both short. Yet the most powerful factor for a rise was that the trading public *wanted to make money*. The price was low. Wheat was in the

sub-normal zone. Whether people knew about these zones or not, they knew that the price was *too low*. Wheat is always too low when in the sub-normal, just as it is always too high when in the super-normal zone.

THE TWO GREAT ERRORS of wheat traders is failure to buy when wheat is in the sub-normal zone, and failure to sell out when it is in the super-normal zone. Only a few learn the secret of correct trading, and they are the ones who make profits.

This Triple Zone System is to help the studious trader in this business of profit-making. He need not be afraid that too many will become competent traders and "kill the market." People are too indolent mentally to perfect their technique of trading. They prefer the easier plan of guessing, and so long as they do this, the ambitious trader will be able to profit from their mistakes.

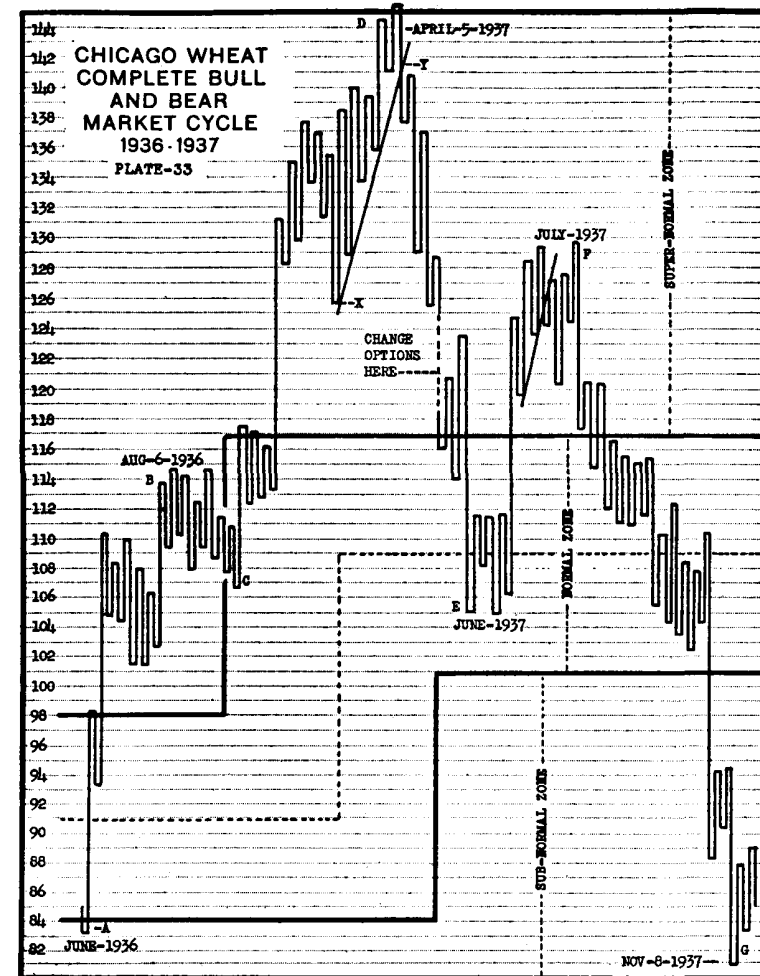
In Plate 33 will be seen a complete bull and bear market cycle in Chicago wheat.

The advance from A to B is the first stage of the major bull market here pictured. The break from B to C lasted over a month. Faster action begins at C, and by the bull market rule we are able to estimate that the final top will be twice the distance from A to B, or about 1.42 to 1.45.

When wheat prices get well above the normal zone line after rising through 98, we begin to follow it up with the dotted center line and begin to "feel" for the top with the minor trend line X-Y previously described herein. This watching for the slope of the advance under which the minor trend line forms enables us to follow prices on upward so as not to sell out too soon. We get about all of the move.

ON BREAKING THE MINOR TREND LINE at Y, we sell out all long wheat and sell short.

The first objective at which to take short profits on this short sale is right around 1.07 to 1.08—about even with the



Usually a major bull wheat move makes the first half of its advance slowly, as from A to B, and the last half swiftly, as from C to D. In this move the last half was longer but this is not important.

Bear markets, as from D to G, usually last much longer than bull markets. In a later decline this low bear market level shown at G was carried on to November, 1938, and reached a low of 60.

Many professional traders prefer the bear side because it lasts so much longer than a bull move. Short-turn, or in-and-out, traders find a bear market very prolific of short swings of 3 to 5 and 10 cents.

point C where the last fast rise began. This is the first stage of the bear market. First profit should be taken there without waiting for a further break to the sub-normal zone.

THERE IS ART IN THE GAME of following a big major movement through to the finish for all the cash it will yield. It looks like a simple matter with the entire charted move laid out with the zones, but a few special points are to be observed that are not wholly mechanical.

We will start the trader off with 10,000 bushels bought at, say, 84, near A, and with \$2,000 margin funds.

He is also aware that a Presidential election year is at hand and that business indices are rising.

His first concern will be when the market makes a temporary top around 1.10 and forms a congestion. Wheat has reached the super-normal zone and the trader has a good profit. His inclination will be to take profits and reverse to the short side. Yet there has not been any frenzied top action—and no minor trend line.

But here the law of bull markets, as described in Plates 24 and 25, comes into play. While the price is above the normal zone, it *has much farther to go* according to the bull market rule or law that the latter part of a bull market develops *fast action*.

Fresh speed appears at C after the election, and grows still more apparent as it crosses the top edge of the normal zone at 1.17. The trader can then estimate the top at twice as far as from A to B which figures about 1.42 to 1.45. This gives a clear objective ahead.

The trader can easily ride out the many small reactions along the way up, as his profit is large and his funds more than ample. As the market nears the 1.35 level, he begins to watch carefully for the place to apply the minor trend line.

This line appears at last well established at X–Y, and the trader can either take profits at 1.44, or wait until the break

is confirmed by the price going below the line X–Y at Y, or about 1.41.

The trader sells, say, at 1.44 and, having ample money, he sells 20,000 bushels short for the break.

“What break?” will be the reader’s natural query.

Again, it should be repeated that a bear market starts the moment a bull market ends.

That the first part of the decline will be rapid, and will go down to about the level from which the last fast upward stage of the bull market began as noted at C.

The first rapid break of wheat should be from D down to the vicinity of 1.07, or C. In fact, it went a little lower to 1.05, as seen at E.

This renders a profit of \$7,200 on the 20,000 bushels of wheat sold short at 1.44.

On the laws of the bear market the trader may safely *purchase 40,000 bushels* at 1.08 for the first big rally, which always happens in a major decline.

This rally will amount to 50% of the break from D to E—usually more—but can be tested for the top by using the *minor trend line* again as shown during July, 1937. This yields a profit on the 40,000 bushels of long wheat amounting to 18 cents, or \$7,200.

Once more it should be repeated that in wheat-trading the short side is as legitimate as the long side, since wheat-trading is not recognized as an investment proposition. It is purely a money-making business, hence our trader *sells short where he sold out his long wheat at 1.26*.

This time he sells 50,000 bushels short at 1.26 in July, 1937, with a 40-cent margin behind it as his funds have now increased to over \$20,000.

The bear market law says that wheat will sell back to approximately the 83–85 level, from which it started up in 1936

as seen at A. The profit is 42 cents per bushel, or the sum of \$21,000 for the last trade.

First purchase yielded a profit of.....	\$ 6,000
Next trade—short sale—a profit of.....	7,200
Third trade—purchase—a profit of.....	7,200
Fourth trade—short sale—a profit of....	21,000

Total profit\$41,400

A trader's first requisite is a graph showing wheat back for several years. Back to the lows of November, 1932 is ample. It is useless to waste time digging back through years long past. The action of wheat is the same farther back, because the trading habits of human beings are the same.

If you have the data for making up a chart, it should be made at once and the dotted center line and normal zone penciled off so that the position of wheat may be seen at once.

It is well to get your charts ready when wheat is very low and business conditions gloomy or crop prospects indicating heavy production. You may be able to buy wheat well down in the sub-normal zone.

May wheat, in 1937, went 28 cents *above* the normal zone. It is quite within probabilities that it will go 28 cents *below* the normal zone—or down to the lower 60's—before forming the usual bottom congestion.*

If wheat is in the sub-normal zone and well down when the trader first concludes to make a trade, he may as well buy at once, but should margin his holdings well and not be disappointed if he fails to buy near the bottom. No one can tell when the public will turn to wheat buying in numbers.

If wheat happens to be in the normal zone when trading is contemplated, it is all right to buy if wheat has recently come

up from the sub-normal. It is simply on the way up to the super-normal zone or well above it.

If the trader finds the trading clientele enthusiastic and the market *very active and in the super-normal zone*, he should not buy. He should wait for the minor trend line to form under the charted top action and sell wheat short when it breaks through that line. A stop loss is seldom necessary if lots are bought well down in the sub-normal zone; but when above the center line a "stop" should be kept on all trades both long and short 3 or 4 cents away.

* The extreme low for wheat in 1938 was 60.

THE WINNIPEG WHEAT MARKET

This excellent market at the big wheat center of Canada is not only used by Canadians but also many United States traders take advantage of it because of its superior activity. The daily action as well as the big swings in either direction is usually in a wider range than Chicago. For instance note this:

During the last bull market, 1936-37, Chicago wheat advanced a total of 63 cents, while Winnipeg wheat advanced a total of 77 cents.

From November low to January high, Chicago wheat advanced 14 cents—Winnipeg wheat 28 cents.

Many of the smaller swings at Winnipeg are double those at Chicago. This makes the Canadian market attractive to traders as *action is what counts*. There is nothing in the business world that will make cash faster than to be right in an active wheat market.

The chief concern of the wheat trader is naturally to be right and to *know that he is right*. The major movements are easy to get into favorably and you can stay in for most of the move if the basic theory of major moves is known. This does not mean that one has to have a scholarly or scientific insight into the causes of movements but to use a plan of trading that is clear to the common sense of anybody.

The Triple Zone System is the simplest way possible, and once the trader uses it and adapts his trading to it, he will have little difficulty in using the wheat market successfully. This refers to the major movements both up and down. In these lengthy swings the layman makes his best money. It should

be borne in mind that wheat-trading is not a means of investing money but is primarily a means of making money. Therefore, to help the reader arrive at a definite policy of wheat-trading, we repeat that anyone is justified in using both sides of the market. The market laws governing a bull market run no truer than the laws governing a bear market. Both are reasonably accurate and, therefore, may be used confidently.

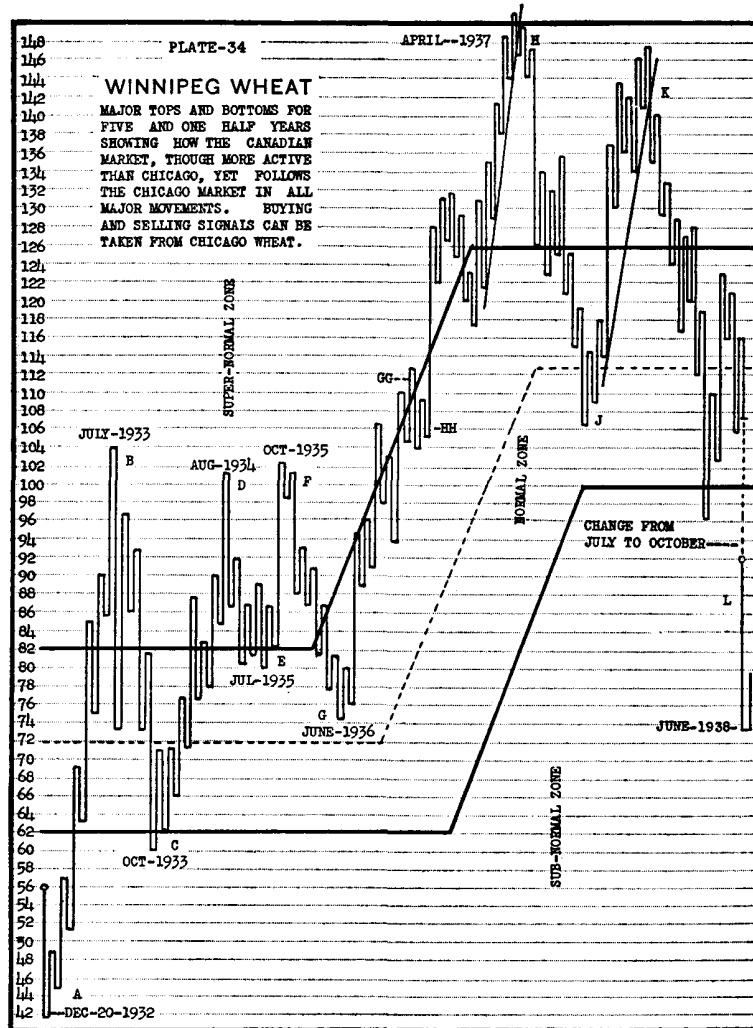
The chief difficulty always is the impatience of the individual or his lack of staunchness in carrying out a plan of operation. On page 266 is a detailed statement of a trading plan carried out over the full six years of the Chicago Market. The same process of trading in Winnipeg would have resulted in equal or larger profits. The hardest part of the program will be in holding one's self level over the long periods of time from one trade to another. For instance, the time covered in the decline of Winnipeg wheat from D to E (Plate 34) was nearly a year. It was necessary for the trader to sit patiently through all the crop and political news of a year before securing his profit.

As to the plan of operating in Winnipeg wheat, it is not different than operating in Chicago wheat, or any other United States markets. But the author advises the use of the Chicago wheat market as a means of more accurately determining the turns.

THE CHICAGO MARKET LEADS THE WORLD in the matter of making wheat prices, but this helps the trader since he has the signals given by both Chicago and Winnipeg markets in deciding turns.

Anyone using the Winnipeg market should keep a chart of the leading option of both Winnipeg and Chicago wheat, but *use the Chicago chart for determining the major tops and bottoms*.

In the stock market we use a graph of U. S. Steel in locating the buying and selling positions for any or all stocks. U. S.



The condensed chart of WINNIPEG WHEAT (Plate 34) shows the major tops and bottoms and how they correspond with the same tops and bottoms at Chicago. This graph contains the highs and lows of leading Winnipeg options (not composite) as the primary buying and selling signals are taken from Chicago wheat. A carefully followed zone chart of Chicago wheat is an indispensable means of picking the buying and selling places in the Winnipeg options.

Steel is the leader for stocks, while Chicago wheat is the leader for the grain markets everywhere.

FINE PROFITS were readily available in the extra big bull market that started in June, 1936, coincident with the start of the bull market at Chicago.

It was only necessary to determine that Chicago wheat was in the sub-normal zone in June, 1936, and that it stood at a vertical break of 20 cents, to know that Winnipeg October wheat was in a position to buy. It had not dropped below the normal zone but Chicago wheat had. The trader need wait for no other indication. Winnipeg wheat was a fine purchase around the level G.

Now there may be some doubt in the trader's mind about taking profits when the price emerges above the normal zone just below the point GG (Plate 34).

Here, again, is where the use of the *bull market law* comes into play. The rise of prices has been rather slow, indicating that the first stage only of a bull market has been seen up to the GG level.

Therefore, a further and faster rise is to be seen soon.

It will be known by a sudden change to swifter activity and this new swift action comes from the bottom of a reaction as at HH. The real fast action starts with the rise from HH and immediately the trader can estimate the final top at around 1.50 for the dominant option.

The first half of the bull market was completed at 1.12 after a rise from 74. Then came the temporary reaction—the lull before the storm.

Thus the first stage covered 38 cents.

Now add 38 to 1.12 and the result, 1.50, will be approximately the final top. It was reached about five months later. The trader, by using this known and fairly definite law of bull markets (see Plates 24 and 25), and who had bought wheat around G, would know that he could hold for the balance of

the major move to around 1.50. Thus he would get the full advance and a very excellent profit. A lot of 10,000 bushels bought at 75 and sold at 1.50 would yield \$7,500. The next step is a conservative short sale, on breaking that top minor trend line. A long bear market is to follow.

TRUST TO MARKET ACTION for market indications. Crop news is interesting but useless. Political measures are misleading. They represent attempted changes in this country only. Wheat is a world commodity traded in by all nations, and while Chicago is the leading market, it is balanced by big markets elsewhere in the world. No other commodity and no stock enjoys the world popularity attained by wheat.

Mass trading establishes market laws which are simply the laws of human nature registered in prices.

When the observer watches the wheat quotations during market days, he witnesses the composite opinion of *all who are trading in wheat*.

Therefore, it is wise and scientifically correct to draw all indications from the market itself.

We have all seen wheat rush upward in a roiling bull market with a known heavy crop being harvested. Furthermore, we have seen prices sink during drought and dust storms. These are incidents in the life of the wheat crop, but wheat prices are made in the minds of men—and these men are scattered world-wide.

The charted action is indispensable to the wheat trader, to the miller, or to anyone dealing in this grain or any of its products. Charts should be kept daily and made accurately. The center dotted line can be placed on any new chart by going back to the last major advance and taking the central point between the top and bottom of the last bull market.

This dotted center line should be run sidewise as the chart progresses, and turned upward when the price rises above the

top of the normal zone. The width to assign to this normal zone has been described in previous pages.

In the Winnipeg wheat chart (Plate 34) the October option was brought on the quotation board about 20 cents below the July option, as the May and July wheat at Winnipeg represents the old short crop of 1937, while the October option represents the new 1938 crop.

TRADING IN SPREADS is very common in the markets of both the United States and Canada. In these transactions the trader buys one option which he thinks may rise faster than another option, and sells the slower option. A larger amount of grain can thus be handled on moderate margins, the expectation being that a small widening of the spread will yield a good profit by virtue of having a large amount of grain.

But "spreads" are deceptive. They work opposite to the expected direction at least 50% of the time. It is more difficult to pick a profitable spread than to select a profitable position for buying a single lot. Furthermore, two commissions must be paid the broker in closing out a spread.

The spreading of two markets is common. In these deals the trader may buy a Winnipeg option and sell a Chicago option, expecting the options to widen out and thus yield a profit. To accomplish this successfully the trader must have a keen insight into the situation in two countries or two localities. Often the spread is between the Kansas City and Chicago markets or between Chicago and Minneapolis.

But the plan of spreading is difficult and not worth the trouble it costs. The broker likes spreads, quite naturally, since he gets two commissions and his own risk is lessened. The author's suggestion is to trade in less grain and avoid the precarious and doubtful business of spreading.

A purchase of Winnipeg wheat against a sale of Chicago wheat is little more than a guess that Canada will have a short crop and the United States a good one.

A purchase of Chicago wheat against a sale of Minneapolis wheat is based on the belief that the spring wheat country will have a better crop than the winter wheat belt. In either case the trader is making a bet upon crop conditions and weather. If one must trade in spreads, he should get a weather service.

IN - AND - OUT TRADING

This title, and its two synonyms short-turn trading and quick-profit trading, refer to the fascinating attempt wheat traders make to catch and take a profit from the smaller movements of the market.

Since the wheat market is constantly moving, there are many of these small swings. Especially are they frequent around the lower ranges of a bear market. The "public" abandons the market at such times, leaving it to local traders, grain dealers with their hedging operations, and to pit traders in the exchanges.

Bull markets come only when a large number of people enter the market for an extended rise. These major advances usually end in from six weeks to six months. Then comes the long decline and dragging market while conditions are maturing for the next bull move. Major bear markets work down deliberately, often requiring one or two years to reach final lows.

Many traders wish to take advantage of these small swings but find difficulty in doing so because of sudden unexpected reversals. A rally that sets out with great vigor, portending a 3- or 4-cent rise, may fizzle out within $1\frac{1}{2}$ or 2 cents, and, therefore, unless the eager trader can be convinced of the reversal, his small profit is gone.

In six months from November 8, 1937 to May 8, 1938, there were 58 of these small swings in Chicago wheat ranging from 11 to $1\frac{1}{2}$ cents in extent. By this is meant swings either up or down.

Note the extent of these swings:

11c swings....	1	7c swings....	2	3c swings....	17
10c "	1	6c "	1	2c "	17
9c "	1	5c "	5	1½c "	4
8c "	2	4c "	7		

It is notable that 41 out of the 58 swings, or over 70%, had a range of 2 to 4 cents.

To catch and use these small swings for a profit has long been the dream of ambitious traders, but has met with defeat and regrets all down the years.

Twenty years ago, a popular analytical writer in a market handbook had this sentence: "The fond hope cherished by every trader is that he will, some day, find the way to sit astride the daily movements and ride them through to a winning race."

The writer of that sentence expressed doubt that it would ever be accomplished, but showed under his argument that he nevertheless entertained a hope that such a plan might be invented. This is the intense desire of that class of the speculative public which is constantly trading or watching the grain market.

A large percentage of margin traders in stocks attempt to secure small swings of 5 to 10 points, and naturally run into the same obstacles experienced by wheat traders.

WHAT IS THE CHIEF DIFFICULTY in attempting to get these small swings? It is exactly the same difficulty met in all trading. *First*, the trader cannot determine when to buy for the small upswing; and *second*, he cannot tell when a rally is terminating.

This in-and-out, small swing trading is vastly helped by the Triple Zone System. Yet we suggest that all traders, large and small, adapt their trading to the zones as previously described herein, and not take chances in the doubtful occupation of snatching small profits from small movements.

It is probable that 80% of the traders using the grain markets are attempting to match their wits and intelligence against the subtle movements of the market, and steadfastly entertain the belief that they will hit upon a plan to harvest the huge crop of small movements that clutter up the lower ranges of a major bear market. Some day their much-longed-for plan may be evolved, but there is nothing in sight as yet.

MARKET NEWS in the daily papers and that which pours through the exchanges during market sessions is watched by traders for some indication by which they may venture a commitment. Little genuine help is derived from these sources.

During major bull markets, bullish news *appears* to be driving the market upward, because it keeps the attention of the public centered upon the rising prices. Let the wide public once become convinced that wheat prices are going to rise, and all kinds of news will be exaggerated to fit the public belief. Furthermore, those who gather and publish the news naturally like to serve an enthusiastic public. Hence, they are apt to ransack the country to obtain news fitted to the advancing trend.

When wheat is down in the sub-normal zone and is actually forming the bottom congestion, the news will be most intensely bearish. Strangely, however, the price will not break much but will drag for a long time through a series of those small swings discussed above. All the bearish matter that comes along fails to depress prices further. This is the best possible time to buy.

Conversely, when wheat is in the super-normal zone and the public trading actively in a boiling market, it will be found that bullish news by the ream is pouring through the markets. But there comes a time when this optimistic flood of opinions loses its effectiveness, the market buckles and gives way to a decline even with news vendors working at fever heat to rekindle the waning bull enthusiasm.

This is evidence that the bull move is over.

So long as the mass opinion held to the belief that prices could go higher, people fed greedily on the inspiring bullish news. But finally, the majority decides to take profits lest something happen to sweep them away. Then returns a manifestation of the old human habit, "the fear of loss," and the price of wheat goes down.

COMMISSION RATES at most United States wheat markets and at the Winnipeg market are about the same, as follows :

1,000 bushels of grain.....	\$ 3.50
5,000 bushels of grain.....	\$ 12.50
10,000 bushels of grain.....	\$ 25.00
100,000 bushels of grain.....	\$250.00

The tax at Chicago and other United States markets for some time was 3 cents per \$100 worth of grain but has recently been entirely abolished.

In regulating the grain market and to avoid the upsets caused by the heavy trading of professionals, the Grain Futures Commission at Chicago requires that all brokers report to the Commission their customers who hold 200,000 bushels or more.

This does not mean that traders are restricted to lots of 200,000 bushels or less, but the regulation is merely to enable the Commission to know who is holding large amounts of grain futures. The trader may buy a million bushels or more (at the present time), but his holdings must be reported. Furthermore, the Commission may, in case of excited markets, request the owner of a large amount to liquidate his grain in orderly fashion so as to avoid undue effect upon prices.

The immense size of the grain futures business at Chicago can be understood when it is seen that the value of wheat alone traded in during a single day of fair volume equals the value of all the stocks traded in during a fair day in Wall Street.

One of the favorable features of the wheat market is that it is a popular commodity the world over, and is traded in at large centers, like Liverpool, Rotterdam, Calcutta, Sydney, Buenos Aires, Winnipeg, Chicago, Kansas City, and many lesser places. No single country can restrict wheat-trading seriously. It will always be available to the trader.

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WHO'S TRADING?

To find out the extent of business on the Board of Trade and who is trading, United States Government officials selected a certain day in 1937 and gathered the following information regarding transactions for that day:

There were 632 brokerage houses doing business.
 On that day, 13,385 traders were in the market.
 Of these, 88% were speculating.
 They were found in all states of the Union.
 Traders in 28 foreign countries were participating.
 China, with 344 traders, had largest foreign list.
 Canada, with 326 traders, had less than China.
 Chinese traders held 10,000,000 bushels.
 Like United States traders, the Chinese favored the long side.
 Farmers were the largest group in the United States.
 In the farmer group, 1,500 were trading.
 Their average holdings were 3,600 bushels.
 Almost all farmers were on the long side.
 There were 802 housewives trading in wheat.
 Almost half the traders dealt in job lots.
 Three-fourths of the "long" traders were speculating.
 Of the "shorts," four-fifths were dealers hedging in short grain against purchases.

With this amount of trading in this country only, it can well be imagined what an immense amount of wheat is traded in during a single day in the world markets. A significant

point is that 88% of all United States traders are in wheat for speculative purposes. It is this fact which makes for volume.

Traders often attempt to judge the market by the volume of flour sales, exports, or domestic consumption of wheat. These are only light factors. Even on a dull trading day the speculative volume will usually be five or ten times as large as the actual wheat dealt in by dealers and exporters.

WHEAT PRICES FOR SEVENTY-FIVE YEARS

The remarkable history of wheat prices is shown on Plate 35, which depicts the cash value of wheat rather than the futures. But it runs so closely to the futures as to give a clear idea of continuous bull and bear market performance of wheat down through the last seventy-five years.

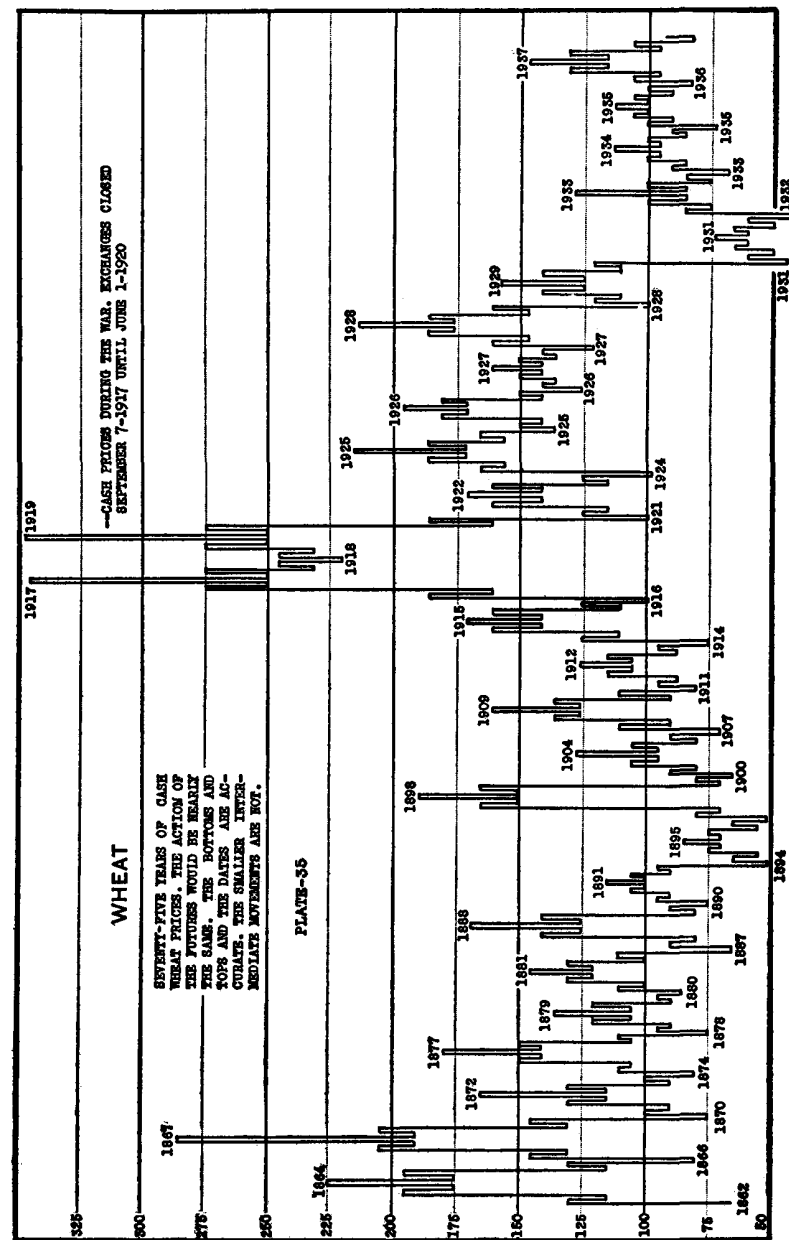
The tops and bottoms of this graph and the dates are approximately correct, but the lesser movements between tops and bottoms are merely put in to spread the major movements apart.

Some of these bull market tops are many years apart, as those of 1898 to 1904, while others are only a year apart. This style of chart had to be adopted to condense all these major movements into the space of a single page in this book.

Twenty-six bull markets occurred during the seventy-five years, and, of course, each one had its bear market. The tops of 1917 and 1919 do not represent two bull markets, but rather a "double top" to the big war market. The grain exchanges were closed from September 7, 1917 to June 1, 1920 because of the war. The high tops of 1917-19 represent the cash price.

The small bull market of 23 cents in 1931 is in sharp contrast to the huge tops of 1917-19.

In 1931 and 1932, wheat was at the lowest prices known in this country and in Europe. Having dropped to this extraordinary low, wheat is now stepping upward similarly to its action during 1900 to 1916. Another war is predicted, and if it arrives, we may see prices again mounting as they did during the great war.



The chief lesson for the trader in this seventy-five-year wheat chart is the fact that major bull and bear markets never cease. They are a part of wheat history.

Furthermore, it is seen that the lows of 1931 and 1932 are the lowest on record. In 1894-96 the price was near the same lows, with the result that the trend became more pronouncedly upward until it culminated in the war prices of 1917-19.

It is, therefore, quite within the logic of cycle action that wheat is now again setting forth on one of its long upward journeys that will culminate with another war. This journey may be interspersed with several major bull moves while in transit, but these can all be measured by the zones and used for their profits whether the move be upward or downward.

TURN KNOWLEDGE INTO CASH

Study plus determination equals money when you are talking of the wheat market. But be sure to devote your study to essentials. Financial libraries are cluttered with a vast tonnage of data that would never earn a dime for you if you knew it all by heart.

Centralize efforts upon the market itself. That means on market action. It's all there—all you need and can use.

In that "open, high, low and close" of wheat for one session is the concentrated essence of the opinion of hundreds or thousands of men—all whose deals entered that day's movement. They have weighed the evidence for you and have passed their verdict upon the value of wheat for that particular day.

Your chief business is not simply to add your little deal to the grand total of trading, but to determine to your satisfaction which way the mass mind is heading.

One day's movement, then another, and another, will eventually form themselves into a pattern, the same general pattern that has run through wheat movements since futures trading was begun ninety years ago.

In fact, the same kind of movements run through every commodity and through every stock listed in the speculative markets. Market action is human nature at the business of making prices.

Many "market rules" have been framed by studious traders, and some not so studious. Most of them are intended to snatch a fleeting profit from the market on some particular style of action that is repeated from time to time. The easiest rules are

the most popular, because they require the least thinking. And for the same reason, they are the most fallacious and expensive.

Adopt one system of trading and stick to it, just as you employ and stick to one physician in whom you learn to have confidence. Since you are trading for the sole and very laudable purpose of making money, it is well to cultivate skill in trading, in the same manner as you cultivate skill at your profession or business.

One of the most important points in your market education is to learn as early as possible that the customary and supposedly weighty market news is of very small importance. The news only looks important. Wheat, like stocks, derives its big swings from causes deep in human psychology, not from the leaves or "indications" floating on the surface of things. You may crave an opinion as to the trend wheat will take. You may pay a high price for the expression or advice of a market expert, but he can offer you but one opinion. On the quotation board every day is shown the compound opinion of several thousand men who *back their opinion with cash*.

A certain man in the United States has created for himself a very enviable name as a market specialist. One of the remarkable features of his work is that he will read no comment or news whatsoever relative to market events, but acquires his entire advisory information for a large list of subscribers *solely from the daily quotations*.

The Triple Zone System is a method for universal use. It can be followed at home or at the office or at the exchange. Once understood it is as easy as your routine of business.

SECRECY OF OPERATION should be a cardinal rule in the trader's repertoire of habits. It is a strange fact of psychology that when you disclose your carefully thought-out plans to others, you lessen your power and scatter your efforts. Make your deals quietly and your success will be self-advertising.

Once you let others in on what you are planning to do, your own interest seems to lag. You lack that driving power which remains yours as long as your cherished plans are kept a secret.

When Edison was perfecting some of his famous inventions, he scarcely left his shop, night or day, and slept only when nature drove him to sleep. But when he came out of that workshop, he brought something forth that astonished the world.

Your prosperity cannot be hidden. Use your wits, make your pile, and friends who once minimized your efforts and abilities will be your ardent admirers. Money commands authority everywhere. The reason is because it takes the best talents and virtues of the race to accumulate it.

It is worth all the efforts the individual can devote to a business if it will, at last, yield for him that thing most desired by all—FINANCIAL SUCCESS.

The writer has seen—and so have you seen—many deserving persons working industriously, annually and ineffectively at something which never brings them to the desired goal. Human energy of inestimable value is frittered away over inconsequential things, and the hopeful worker fails to reach the stimulating joy of accomplishment or the satisfaction of acquiring financial success.

Make your next trade in the market successful by planning for it well in advance. A good purchase at the proper time, in the correct zone, is as sure to yield a fine profit for you when trading in wheat as if you were dealing in merchandise over the counter—and with a minimum of overhead expense.

Lloyd George, in an address before an American audience, declared that the most vital plan for an individual—as well as a nation—was to "follow through." This is especially true of the market where it is so easy to let one's interest lag during dull periods and be carried off the charted course.

Listen to the words of Calvin Coolidge:

“Nothing in the world can take the place of persistence. Talent will not; nothing is more common than unsuccessful men with talent. Genius will not; unrewarded genius is almost a proverb. Education will not; the world is full of educated derelicts. Persistence and determination alone are omnipotent. The slogan ‘press on’ has solved and always will solve the problems of the human race.”

EPIGRAMS AND OBSERVATIONS

Enter the market with the belief that you *will win*.

Surrender no advantage to the natural human indolence. Money is made by aggressiveness and determination. If in doubt, learn more about what you are doing.

Don’t trade just because you can afford to lose.

Never was there a more fallacious argument held out to the prospective trader. Money is not to be lost, but to be conserved and multiplied by market practice. Trading is a business, not a sport. If one wants to play, why not take up golf or bridge. Taking a “flyer” in stocks is mere giddiness in trading. Better try the Irish Sweepstakes.

If trading in commodities, select one, preferably wheat, and learn all you can about its action.

All the crop news and political events will be of little use. If it were possible to trade successfully by good and bad weather conditions, it would be unbelievably easy to make money. When the news filters through ten or twenty thousand minds interested in wheat, the major opinion may be quite different from the opinion of an individual.

If trading in stocks, select a few of national reputation and learn their individual habits.

No need of picking out new or unfamiliar issues. Those which have survived through good and bad years over ten to thirty years are usually under good management. You can select a stock of any price to fit your purse or ideas from amongst the ample list of well-seasoned stocks.

First learn the trend of your stock or grain.

The way to do this correctly is to get a chart or graph covering the last few years of the stocks or grain; then lay off the three zones on it.

"Manipulation" of the markets is not serious.

Such attempted distortion of the market only intensifies market action and does not change the objectives sought by the so-called manipulators. All sober-minded men buy and sell to make profits or to prevent loss and so do the manipulators. Prices may be driven farther in a given direction, but they will reverse and return.

"Every action is followed by an equal and opposite reaction."

This natural law was discovered by Sir Isaac Newton 250 year ago. It figures importantly in market action, as it shows the habit of human nature to run to the two extremes, then return. The faster a market movement runs in one direction, the sooner it will retrace the action. It is highly important in major bull markets of both grains and stocks, as it shows the extent to which the reaction will return.

Read again about the "Fundamental Axiom" described on page 185.

This is the law of action and reaction applied to market movements. It will be readily understood that these movements in the market are the result of human trading habits, hence are close to the positiveness of natural laws. That makes the fundamental axiom more important and more easily understood.

"Market rules" intended to capture minor profits from the market are deceptive. If a correct way is every found, it will certainly fill a long-felt want.

Some market "experts" have developed as many as a score or even a hundred so-called "rules" for capturing the smaller erratic movements. They "work" once in a while but most of the time they go on losing money for the users.

Stick to your job, your shop or your profession.

It is possible to use the stock or grain market very conveniently by the Triple Zones and not lose a moment from your regular occupation.

"Practice makes perfect," is an old copybook adage that works well in the market place.

If a trade fails to come out right, the error will be found in the operator—not the market. It is a big thing to accomplish, this matter of taking profits from the market by the simple act of thought or judgment, and practice will greatly improve the technique of the trader. The writer has seen a woman trader completely outstrip her husband in trading even when both were deeply interested. The husband had his business to attend to while the wife, with more time to spare, devoted attention and practice to her market operations. A loss makes one thoughtful. It is the losses that makes the operator studious—not the profits. Take advantage of every slip to improve your knowledge of market action. It will be found that, no matter how erratic the action of either stocks or grains, they are still conforming to the laws of market movements. Practice is a great renovator. It enables us to discard wrong ideas.

Why do traders take a loss more readily than they will accept a profit?

There is a very simple *philosophy of loss* in all trading.

The reason traders lose readily is because there is no one to make them accept a profit, and there *is* someone to make them take a loss—the broker.

It is wise, therefore, to place one's self beyond the broker's possible "margin call" by using an extra large margin. It may not be needed, but you have it in case of an unexpectedly sharp move. A quick break is usually followed by a quick recovery. If you are frightened into selling out in a smashing break, you will likely see the grain you had come right back up over

the break. That is only one of the reasons for using a good margin. Another good reason is that you get the habit of not overtrading.

DIGNITY IN TRADING. There is as much dignity in buying and selling wheat futures as in the buying and selling of merchandise. It is as business-like to trade in stocks of a concern as to deal in the implements or goods manufactured by the concern.

Certain fragile-minded persons like to refer to traders as "grain gamblers," but such people are blissfully unaware that on the stock and bond markets rests the entire financial structure of the country and on commodity futures rest the prices of our vast agricultural industry. To stop these markets—as certain impractical persons would like to do—would be like stopping the flow of blood in the arteries of a man.

Trading is simply another form of business. Look down a city street at the buildings, the hurrying trucks, busses and conveniences of traffic. These are all designed for the sole purpose of making money. The street cars make theirs by a harvest of nickels and dimes, the skyscraper by the rental from its offices, and not one of these money-making schemes is one whit better or more dignified or more honest than the business of making money by wheat futures or by trading in the stocks of our national concerns.

Trading is a swifter way to make money and involves risk to a greater extent. Money can be made quicker by right trading and lost quicker by ill-advised trading. A mercantile business may be slower in going bankrupt but one can be as fully "busted" dealing in hardware or groceries as he can dealing in wheat futures.

Any person who will use the same care in his grain- or stock-trading as he does in his mercantile business will have equal success. The object of this Triple Zone System is to crystallize trading into a simple, easily followed plan.

Success is the most desirable thing in the world, but it is an eliminating contest. The one who wins must try and try until he is able to pass the test. Yet this vast institution that we term the "market" is not niggardly of its rewards. It may trample the thoughtless trader into the dust, but it will pour large treasure into the laps of those who work in sincere harmony with its laws.