AN ACCOUNTANT'S REPORT ON

A New Technique Of Stock Market Forecasting

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INTRODUCTION

The purpose of this note book is to develop a stock market forecasting technique of such a nature that the forecaster may be thereby enabled to buy stocks about to increase in price, and later to sell them after the rise has taken place; or to sell stocks "short" which are about to decrease in price, and later to buy them in after the decline.

Also, it is expected that the technique herein developed will materially aid the forecaster in carrying on these operations with a reasonable degree of certainty, so that a fair profit will result from the transactions.

Bear in mind, always, that intellectual mastery does not mean practical mastery. A renowned musician, an expert violin player, may sit down with you in his studio and explain in detail exactly how he produces his music, and answer all your questions, until you understand the means of his playing as well as he does.

This intellectual understanding on your part will not create in you the ability to perform on the violin as the expert player does. Experience and practice are necessary.

So it is with a forecasting technique; it is not a pill that can be hastily swallowed, so as to bring relief to speculative indigestion. It is rather a direction, in which the effort of serious study may be expended until technical skill is acquired.

THE MEANING OF QUOTATIONS

The modern stock market not only furnishes a place where securities can be bought and sold but it also collects and causes to be published statistics, describing and explaining the transactions which have taken place on its trading floor. These statistics are popularly known as quotations.

Prices of securities move up and down, only as they are being bought and sold. People buy and sell stocks largely as a result of their judgments and emotions; their fears, hopes and expectations.

A purchase is made with the hope of an advance in price; the stock being bought from someone fearing a decline. The trading post is the focal point of the emotions of the multitude.

Here is recorded the net result of the conflicting judgments and emotions of all, whether they be officers, directors, or employes of the company, pool managers, insiders, outsiders, floor traders, board room traders, bulls, bears, lambs or suckers.

They have all come to the trading post, personally, or by their agents, and have made their marks, and those marks are the quotations.

Quotations may therefore be called the dynamic expression of the net result of all forces which have been brought to play on the selling price of a stock. Study the quotations therefore and you study all.

STATEMENT OF THE PROBLEM

Newspapers of today publish these quotations on the financial page. There is shown the highest and lowest price at which each one of a list of certain securities were sold, and also the closing, or last price of the day. The turnover, or number of shares which were bought and sold in making the prices named is also printed under the heading "sales" or "volume of sales".

Successive quotations of a stock going down bear a different relation to each other than the successive quotations of a stock going up. May we go a step further and conclude that successive quotations of a stock about to go up, would bear an entirely different internal relation to each other than the successive quotations of a stock about to go down.

Our problem is to discover this relationship and to use it as a guide in forecasting.

KINDS OF QUOTATIONS

Daily quotations are to be found on the financial pages of the various newspapers; weekly quotations in the Reviews and Sunday newspapers; and monthly quotations in the financial magazines.

During the past ten years many experimental trades have been made, and the results clearly indicate weekly quotations are best for forecasting purposes; sufficient detail is removed so that the main trend is clearly discernible; and yet sufficient detail remains so that the beginnings and endings of price movements can be determined a reasonable time after the start.

Reference is now made to the "weekly high and low" charts included in this note book. Four different stocks covering a period of ten years, from 1921 to 1931, are shown.

The name of the stock and date is at the top of the page. The high and low quotation for the week will be found on the vertical line below the date. The successive weekly high quotations are connected by the upper line, and the successive weekly low quotations are connected by the lower line. The distance between the lines represents the weekly trading range.

CHARTING VOLUME OF SALES

The third line represents the amount of stock bought and sold and is called the volume line. It moves up or down successively from week to week as the average price moves up or down. However, after the volume line once starts moving up, it continues moving up until in one week there is both a lower average price and a new weekly low, then it turns and moves down. The down movement continues until there is in one week a higher average price and a new weekly high.

For the purpose of making the volume line the half way point between the weekly high and low is called the average price.

When the low price of one week is below the low price of the preceding week it is called a new weekly low; likewise when the high price of one week is higher than the high price of the preceding week it is called a new weekly high.

The distance that the volume line moves up or down depends on the amount of stock bought or sold. A satisfactory scale is decided upon, and this continued. Usually a different scale is needed for each stock.

Suppose sales are reported of 866,000 shares. One method would be to drop the three naughts at the right, and move decimal two places to the left, leaving 8.66 or roughly 8-7/10 points to be moved up or down. The movement may also be half, a third, or twice this figure, depending on the space on the chart.

KINDS OF MOVEMENTS

It will be noted on the various charts that price, as represented by the weekly high and low lines, moves up and down; sometimes going up above the previous high; and at other times moving up, but not as high as in the preceding upward movement. Downward movements also vary; sometimes they are down big and at other times they are down little.

The volume line also moves up and down, and this movement, as in price, is either big or little as compared to the previous movement in the same direction.

The size of movements are figured by comparison. Each completed move becomes in turn the unit by which the advance or decline following may be measured.

As one examines the charts, the up and down movements of price and volume become familiar.

PURPOSE OF CLASSIFICATION

It is a truism that similar conditions bring about similar results; and likewise, that the same results are brought about by the same basic conditions. Apply this statement to our own immediate purpose and we may say that every upward price movement in stocks is brought about by essentially the same conditions; and every downward movement, also, by similar conditions.

Remembering that quotations are a condensed reflection of all forces brought to bear on the price of a stock, we see our problem to be largely one of classifying price movements so as to discover and label similar conditions.

We say the the market of today is a problem, all right; let us measure it, classify it, and label it; and then go back into the past and dig up numerous markets which have the same label.

If each of these markets which bear the same classifying label are followed by essentially the same results, we can reasonably conclude that a somewhat similar result will follow the present market.

METHOD OF WEEKLY HIGHS AND LOWS

Here is another approach to the problem. Examine the charts, and note the extent of the upward and downward movements. Most of them are of several weeks duration. The upward moves are first noticeable after a new weekly high is made. Downward moves first become noticeable after a new weekly low.

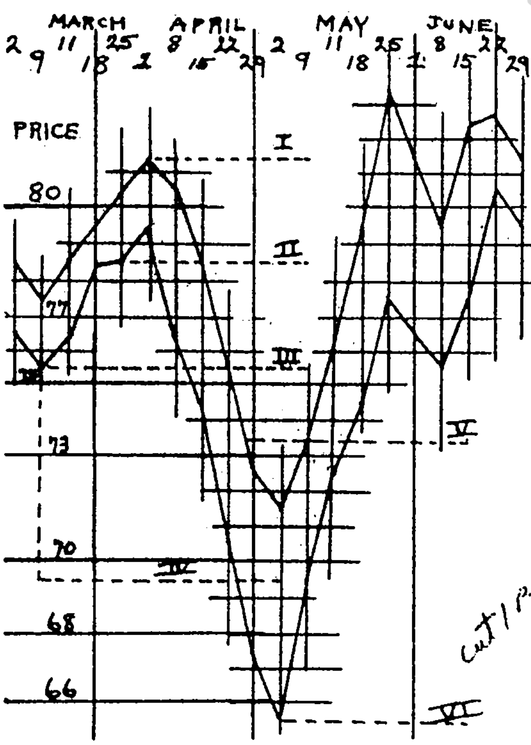
Go over all the charts and theoretically buy after each new weekly high and sell short after each new weekly low. Hold long stock until a new weekly low is recorded and short stock until a new weekly high is made. Note the large number of profits that will be recorded. Some of these movements last only a week or two and consequently there will also be numerous losses.

If a classification of up and down moves can be made, so that purchases will not be made when only a small rise is about to occur, and short sales will not be entered into at the beginning of a brief decline, the problem of forecasting will be at least partially solved.

EXPLANATION OF WEEKLY HIGH AND LOW CHART

The "Typical Weekly High and Low Chart" is made on essentially the same plan as the charts which have already been described. Several Price Movements on that Chart are listed below.

TYPICAL WEEKLY HIGH AND LOW CHART



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	Beginning Date	Price	Ending Date	Price
1st Up Move	March 9	75-1/2	April 1	81-1/4
2nd Up Move	May 2	65-1/2	May 25	83-1/4
3rd Up Move	June 8	75-3/4	June 22	82-3/4
1st Down Move	April 1	81-1/4	May 2	65-1/2
2nd Down Move	May 25	83-1/4	June 8	75-3/4

It is necessary to have under observation a completed Down Move and the following completed Up Move or, vice versa, before classification can begin. The second up move is therefore the first which can be classified. This is done by first referring back to the up move which preceded it, called above "First Up Move".

METHOD OF CLASSIFYING

Line I, is drawn horizontally through the top of the first up move and parallel to the bottom of the page.

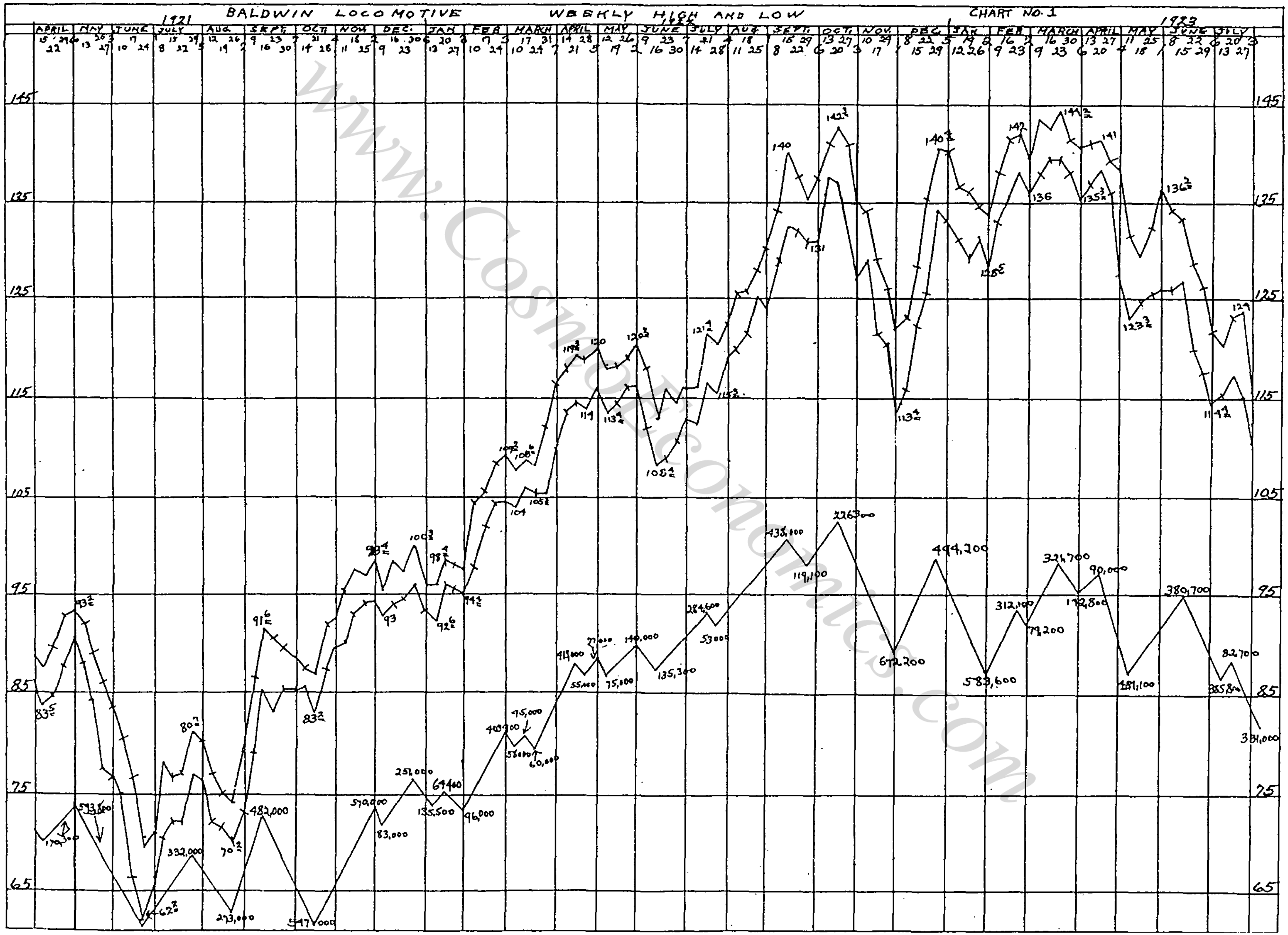
Line III, is drawn through the bottom of the first up move and parallel to Line I.

Line II, is drawn half way between Lines I and III and parallel to both of them.

Line IV, is drawn parallel to each of the other lines, and is as far below Line III, as Line III is below Line I.

Area between Lines I & II is called A
Area between Lines II & III is called B
Area between Lines III & IV is called C
Area beyond Line IV is called - D
} For classifying bottom of 2nd up move

Line VI is at the end of the first Down Move, and is correspondingly the same, as Line I was for the first Up Move.


BALDWIN LOCOMOTIVE
WEEKLY HIGH AND LOW
CHART NO. 1
1921
1922
1923
145
135
125
115
105
95
85
75
65