CHAPTER ONE

MY MILLION DOLLAR STOCK MARKET CONCEPT

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MY MILLION DOLLAR STOCK MARKET CONCEPT

A cold wind was blowing through Wall Street in the Fall of 1971. After a dramatic 100 point rally ignited by President Nixon's announcement of Wage & Price Controls, the market suddenly reversed itself and began to plummet. Things looked bad. The DJIA had just broken its support point and fallen to a new low. Many analysts announced that we had begun a Bear market.

I didn't think so. That was because a few of the select indicators I keep were giving bullish readings for the stock market. Reflecting back upon it, I'm certain I was as influenced emotionally by the break to new lows as anyone. Things looked dismal. I felt a knot in the pit of my stomach. But when I turned to look at my indicators, the ones I will be discussing in just a few more chapters, I noticed they were in a distinct bullish area. Their message was clear: they were telling us to buy stocks. So I did.

SELECTING STOCKS TO OUT PERFORM THE MARKET

Within just a very few days, the market began one of the strongest advances it had made for many years. Shortly before the market began its tremendous 22% up-move from the 800 area to the 960 area, I bought four stocks for my own account.

The four stocks I purchased showed a net increase of over 52% in value during the next six months, whereas the popular averages increased only 22%. Had one purchased and held the same amount of these four stocks as I purchased at the November low point, he would have had a profit of slightly over $308,000.00 some 5 1/2 months later.

I am giving you these facts to show why I believe my stock selection is of value and to substantiate some of the things I am going to be discussing with you.

With a little bit of luck in calling important market turning points, one should be able to buy stocks that show about the same percentage moves as the DJIA. However, when you consider the four stocks I selected for my own portfolio showed a gain almost three times greater than the Dow, it does appear there is predictive value to the system.

I could go beyond what happened in my own personal account. You see, at that time I was also writing a stock market letter and, of course, made specific recommendations with our buy signals sent out during the first part of November, and again, just a few days before the low point was reached.

The stocks we were recommending at that time were Federal National Mortgage at 75 and AMF at 38. Levitz we recommended in the 80 area, North American Mortgage at 35, MacDonald's at 61, Pickwick at 37, Syntex at 66, Burroughs at 131, and IBM at 292. On the 16th of November, we also advised purchasing Lennar Corp at 45, Ponderosa Systems at 57, American Research & Development at 44, Walt Disney at 104, and Polaroid at 90. As you can tell from the number of recommendations we made at this time we were indeed quite bullish on the market.

Exactly five months later, this uniquely selected portfolio showed a sizeable gain. Ponderosa Systems, which had split two for one, was selling on an adjusted basis at 118, up 61 points. Syntex was selling for 115, up 49 points, American Research & Development was selling for 70, up 26 points, Disney for 165 up 61 points, Polaroid for 132, up 42 points. Federal National Mortgage, which had run up as high as 108 on an adjusted basis for a stock split, was selling at 97, up 21 points on the adjusted basis. AMF was selling at 66, up 28 points. Levitz, which had run up as high as 162, was selling at 135, up 55 points. North American Mortgage was selling for 34, down 1 point, MacDonalds at 102, up 41 points, Pickwick for 48, up 11 points, Burroughs for 175, up 44 points; International Business Machines for 395, up an incredible 103 points. The only stock to show a sizable loss was Lennar Corp. which was then selling at 36 down 9 points. The initial portfolio value was $115.5 per share. Five and a half months later the value was $168.8. The portfolio had increased 46.1%. Keep in mind that this was during a period of time when the market itself, as measured by any of the popular averages, was up about 20%. Our specially selected stocks performed twice as well as the averages.

I believe this is conclusive evidence that my stock selection system, the one you are about to learn, does have the unique ability to select stocks that are going to out-perform the market on both the long and short sides. What happened in my account, the $308,000.00 profit I mentioned earlier, was not a random event due to luck or my good looks. It was due to my stock selection system that has been proven time and time again to have significant forecasting value.

Making money in the stock market is far from simple. Don't let the above few paragraphs lull you into feeling Wall Street is an easy path to instant riches. It isn't. . . just like anything of value, it takes hard concerted work to be successful. But let me also point out that I have been able to consistently make money trading stocks in my own account as well as in public recommendations in the advisory service I used to publish, "Williams Reports."

WHY THE WORD FORECASTING IS IMPORTANT - My abilities to usually call market turns and individual stocks is the direct result of a good deal of study and research into the marketplace. In the beginning, I tried to latch on to other peoples' supposedly successful methods.

When it comes to making money in the market, I'm not proud . . . I'll try any halfway logical method or system to generate profitable trades. That means I've read all the books on fundamentals, methods and technical systems. In fact, I even dabbled a bit in some interesting research on stock market and astrological relationships.

It wasn't long before I learned that if a system is to be profitable it must forecast what will happen in the future.

That little sentence is the real key to understanding the stock market. If an index or approach is to work, it is because it has forecasting ability. In examining various market theories, my first thought is to study the basics of the system to see if the raw data has forecasting significance. If not, the method cannot work! Along the road to the discovery of my key to the stock market, I tried and studied many, many different approaches. I'd like to share a few of my views on the more common systems for stock market trading and investing in an effort to help you separate the wheat from the chaff.

WHAT I LEARNED ABOUT CHARTS

At some point in his life, every market participant, be he trader or investor, takes a look at charts and reads a few books on how to chart your way to wealth. I found the only people charting their way to wealth were the authors of the books! Try for the life of me, I could not find a workable charting program, formation, or whatever other mysterious forecasting element was supposed to exist on the charts.

In today's mail I received a flyer from one of the widely followed chart services. Their central advertising claim is that charts could help traders and investors because, as they said, "Charts are a natural for stock trading, since they give the full results of all supply/demand factors. They reflect insider buying and selling, "smart money" accumulation and distribution, important news before it is published — in fact, everything that anybody knows or does."

This is the general view of those entrenched in the chartists' camp. They feel charts, through various formations and configurations, reflect the true supply/demand picture and thus have forecasting value. There are many books on charting and almost as many chart formations or patterns as there are stocks. But, by and large, most chartists look for a few basic chart patterns.

Chart 1

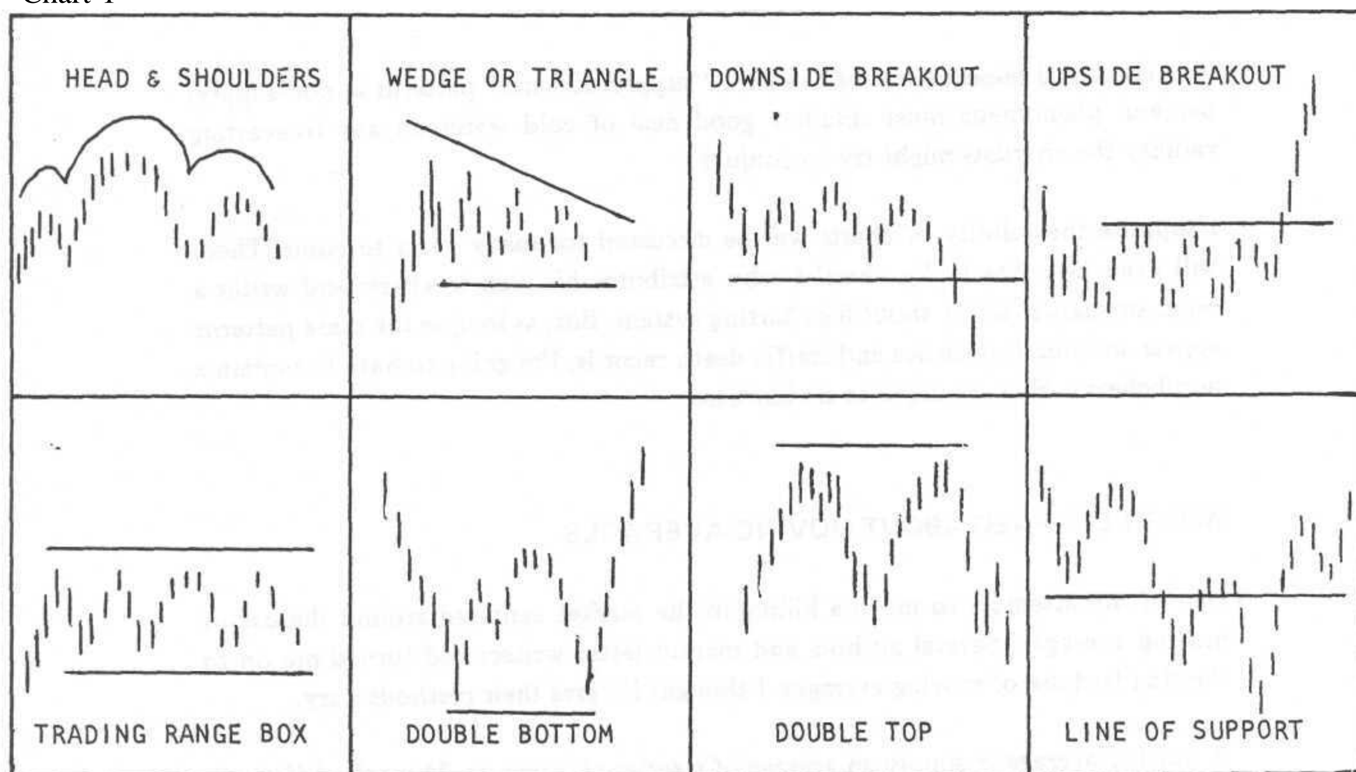


Chart one shows several of the more basic chart formations such as the head and shoulders, boxes, diamonds and a pennant. You will find these patterns illustrated in any of the books on stock market charting.

Keep in mind that charting is based on the assumption that a chart correctly depicts the supply/demand battle. As such, charts enable one to spot developments that depict a bullish or bearish supply/demand pattern. Supposedly, these patterns repeat and forecast future market or stock action. It's certainly a nice concept.

But two things bother me about the frayed-cuff chartists . .. First of all, I do not know of any chartists who are really very wealthy or doing exceptionally well in the market. To quote economist Paul Samuelson, "They all have holes in their shoes." Seriously, of the thousands of people I know in the market, I cannot show you one chartist who is making money!

More importantly, when I notice charts of other activity, such as rainfall in New York City, traffic deaths in Los Angeles, or the reproduction rate of Canadian Lynx, those same darned supply/demand patterns show up on the charts!

This is incredible . . . when charting series of numbers that have no relationship to supply/demand (certainly we cannot argue there is a supply/demand relationship to the number of deaths in L.A. County) the same head and shoulders, wings, wedges and upper case Outer Mongolian breakouts occur.

The continual re-occurence of the same "supply/demand" patterns in non-supply/demand phenomena must splash a good deal of cold water on any forecasting validity the chartists might try to conjure.

I suppose the validity of charts will be discussed for many years to come. There will even be some lucky chartist who attributes his luck to charts and writes a book or market letter about his charting system. But, as long as the same patterns appear in rainfall statistics and traffic death records, I'm going to have to remain a non-believer. You are urged to do likewise.

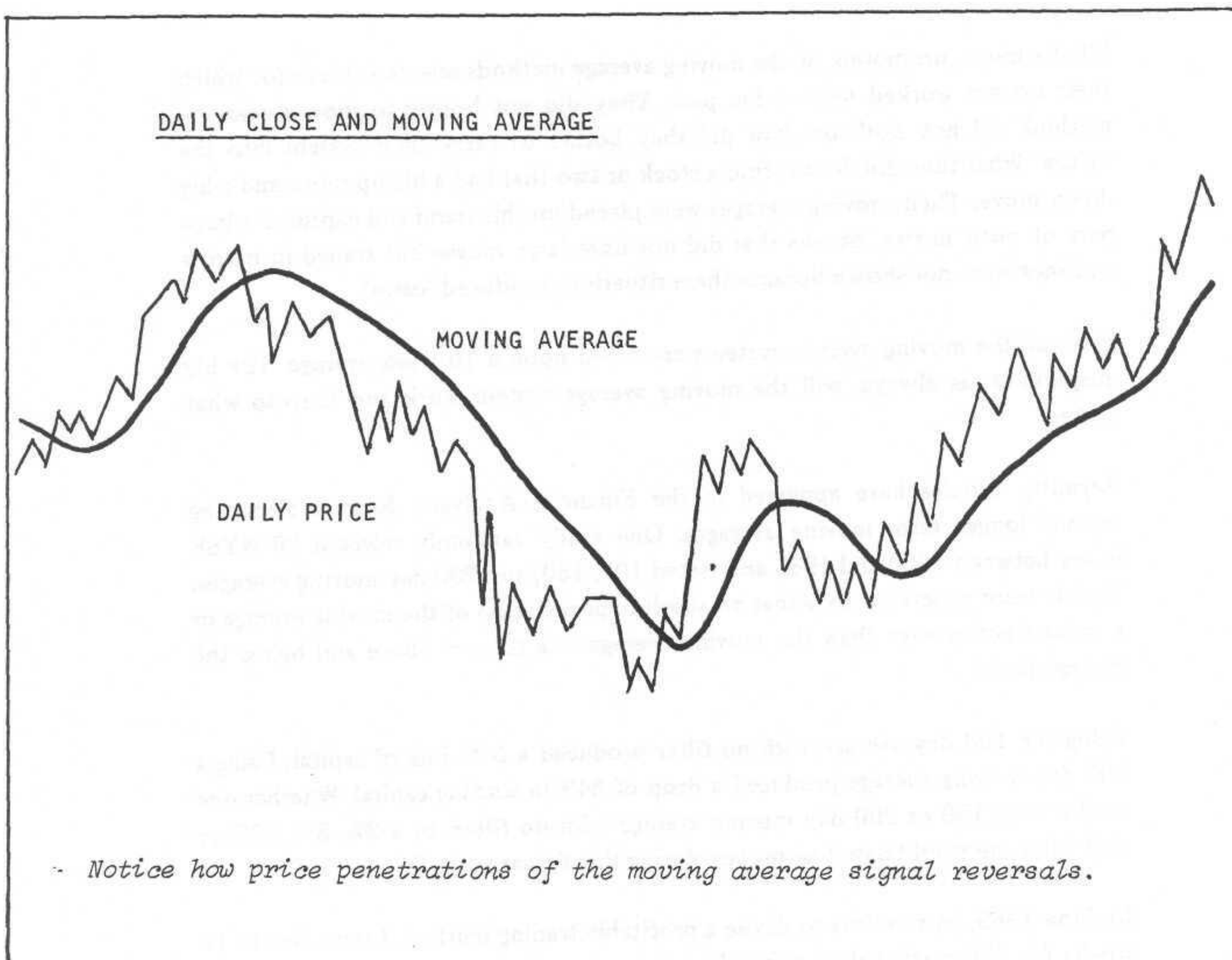
WHAT I LEARNED ABOUT MOVING AVERAGES

One of my attempts to make a killing in the market centered around the use of moving averages. Several authors and market letter writers had turned me on to the standard use of moving averages. I thought I'd give their methods a try.

A moving average is simply an average of a series of numbers. The only difference is that the average changes each day as we add the new day's information and subtract the data or information for the number of days ago for which we are running the average. Thus, in a 20 day average we add up all values for the last 20 days and divide by 20. To make this a "moving average" we wait until tomorrow's close, add that figure to our sum and subtract the figure from 21 days ago and divide by twenty.

As with any mathematical average, the resulting values represent a smoothing of the raw data. Take a look at the chart shown here and you can get a better feel and understanding for moving averages than I can tell you in thousands of words.

Chart 2



One thing you'll quickly notice is that a moving average acts as a trend line or band of resistance and support to the raw data. Also, when the raw data rises above the moving average, it continues moving up. When the raw data falls below the moving average, the up trend has been reversed and the raw data moves sharply lower.

The usual moving average methods are based on penetrations of the moving average. Thus, if a stock's price rises above its 10 week moving average, a buy signal is given and when it falls below a 10 week moving average, a sell signal is produced. On paper, and with some stocks, the method appears absolutely phenomenal.

Funny thing though, try as I might I couldn't make any money using the moving average system. I was perplexed. I re-read the rules, but again, I lost money. Finally a bolt of lightening hit me ... the moving average method worked great when it worked .. . but when it didn't work, Oh Brother!

What's more, promoters of the moving average methods selected stocks for which their system worked best in the past. They did not bother to show stocks the method did not work on. Nor did they bother to carry their system into the future. What they did do was find a stock or two that had a big up move and a big down move. Their moving averages were placed on this trend and captured a large part of both moves. Stocks that did not have large moves but traded in narrow confines were not shown because these situations produced losses!

Most of the moving average systems are based upon a 10 week average. The big question is, as always, will the moving average system work and if so to what degree?

Recently articles have appeared in the Financial Analyst's Journal discussing various longer term moving averages. One study randomly selected 30 NYSE issues between 1960 and 1966 and tested 100,150, and 200 day moving averages. Signals were generated by either an absolute penetration of the moving average or a percentage greater than the moving average — a filter — above and below the average itself.

Using the 100 day average with no filter produced a 57% loss of capital. Using a 200 day moving average produced a drop of 34% in starting capital. Whether one used a 100, 150 or 200 day moving average with no filter, or a 2%, 5%, 10% or 15% filter, he would have lost money during this 6 year period!

In June 1969, in an effort to devise a profitable trading method, I ran a test of 10 stocks for 450 market days using shorter term moving averages of 3, 4, 5, 7 and 10 day durations with filters of -3%, -1%, +1% and +3%.

With the benefit of hindsight and the use of what was at that time the world's largest computer, I was still not able to devise a profitable trading strategy based upon the moving average method!

THREE NEW WAYS TO USE MOVING AVERAGES - If moving average systems are of little value, as the above statistical research demonstrates, is there still some way they can be used? I think so.

To my way of thinking, there are three good ways to use moving averages. The first method is to simply observe the trend of the moving average and as long as the trend of the moving average is up, assume the stock will go higher. When the trend of the moving average is down, assume the stock will go lower. In other words, trade the long side of a stock only when the moving average is up and trade the short side only when the trend of the moving average is down.

Another way to use the moving average draws upon the penetration of moving average by price itself. At first glance this seems contradictory because I've just shown that such penetrations do not produce very reliable signals.

What I'm suggesting is that you act upon signals from moving average penetrations if, and only if, other technical or fundamental criteria have been met. In other words, once you are certain a stock is bullish or bearish because of another factor, you can then act on signals from the moving averages. In short, you need to weed out the bad moving average signals. This is done by developing a set of criteria that must first be met before you will act upon any moving average signal. In fact, the moving average signal is the final indication to take action as it simply announces that the trend has been reversed.

A third way to use a moving average involves using it to measure a stock's momentum or cyclical harmonics. This is a more involved topic and will be discussed in detail later on.

WHAT I LEARNED ABOUT FUNDAMENTALS

It stands to reason that if a company's fundamental position is one of great bullishness, the stock price will stage a handsome advance. The only problem here is identifying what fundamentals are bullish, or bearish, for that particular company, industry and market situation at the time. Or, so it seems.

Some of the most powerful fundamental situations have never advanced or declined while some of the most fundamentally bearish stocks doubled and trippled in value!

Several years ago, there was a hot little number on Wall Street called Four Seasons. Fundamentally the stock was a short sale and many knew it. But the fundamentals did not prevent the stock zooming, from 20 to over 100! About two years after the big run up, the fundamentals caught up with the company and they filed for bankruptcy. But in the meantime, the fundamentalists that shorted the stock in the $20, $30, $50, $60 and $70 area were clobbered and they too "filed" for bankruptcy.

General Motors is another good case to study. The long term outlook for GM can't be too bad. Yet GM made its all time high in 1965 and has never participated in any substantial up move since then. Time and time again you'll see many fundamentally bullish stocks take nosedives while the fundamentally bearish stocks fly to the moon!

HOW TO TELL IF A STOCK IS FUNDAMENTALLY SOUND - In all of my research I have found only two reliable measures of fundamental value. One concerns itself with yields, the other with the company´s growth rate.

CHECK THE YIELD — The first and most important fundamental statistic is the stock's yield. Generally speaking, a low yield is bearish for a stock and a high yield is bullish. But just what is a low yield for any given stock? This is best obtained by checking the stock's historical 10-20 year record. Almost without exception, you'll quickly see that all major tops in the stock come at a time of low yields and usually this low yield will be about the same at all tops.

By the same token, all the stock's important lows will usually be found when the stock is at a high yield and always about the same general level. Thus we can estavlish overvalued and undervalued levels of yield for each stock based upon that stock's historical record.

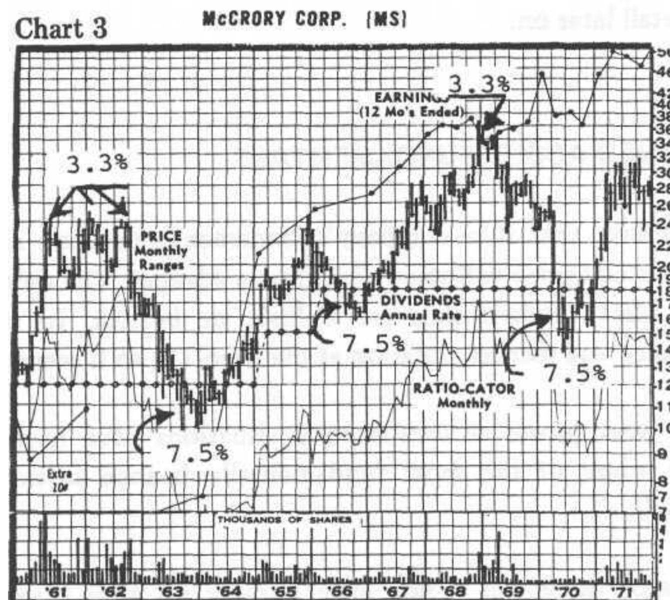


Chart 3 shows one such example. Notice how all the tops come at low yields of just about the same valuation.

And the bottoms? It's just the reverse, all the bottoms come at a time of high yields and all the bottoms are marked by the same general level of undervaluation and high yield.

Short sale selections should come from stocks showing very low historical yields. Long candidates come from the high yielding stocks.

Remember, the higher low yield for one stock, say IBM, will not be the high or low yield for another stock, say G.M. It's all relative to each stock's individual historical record.

HOW TO DETERMINE A COMPANY'S GROWTH RATE - There are a good many ways to look at a company's fundamental growth. The most typical are the P/E ratios. Another method seeks to establish the company's growth rate while others look at net sales. All are, to some degree, helpful but usually do not give us adequate figures to compare one stock with another.

The payout time formula solves this.

This simple formula is nothing more than the number of years it will take earnings per share, compounded at the firm's current growth rate, to reach the price of the stock. Let's say the earning per share is $1.50, the growth rate is 20% per year, and the current price is $30.00. It will take about 16 years for the compounded earnings to equal the stock's current market value.

Lets's take another stock with earnings per share of $1.00, a growth rate of 15% and current market price of $3 a share. In terms of the annualized growth, this does not appear to be as good a buy. But its payout is only some 9 years! It represents a better buy. The lower this payout figure is, the better a fundamental buy you have located.

HOW I DISCOVERED THE MILLION DOLLAR CONCEPT

As you can tell, I've spent a good deal of money and effort on research trying to crack the market's mystique. One thing that always fluttered around the back of my mind while I looked at charts, moving averages, point and figure charts, and fundamentals was this: all these things do not, in and of themselves, make prices move up or down.

No matter how bullish the technical structure of a stock is or how impressive its rate of growth and yield figure, these things do not and cannot be guaranteed to influence prices!

Then it hit me ... the only thing that can possibly make a stock go higher is an imbalance of buyers and sellers. It is as simple as that. When there are more buyers than sellers, prices will advance. Conversely, when there are more sellers than buyers, prices will go down . . . regardless of the fundamentals!

As simple as the concept sounds it took several years of research to arrive at a meaningful way to break down the relationships of buyers and sellers as well as methods to identify the difference between professional and amateur buying.

Realizing it was the imbalance of buyers and sellers that influenced prices, I began studying the various groups of people in the market, such as the odd letters, specialists, floor traders, etc.

Through this process, I discovered a reliable method that breaks down each day's buying and selling activity in any stock into the approximate number of shares bought and sold that day. This method, actually a precise formula, tells me at the end of each day about how many shares were on the buy side and how many shares were on the sell side. From these figures, I can begin analyzing the supply/demand battle.

I also discovered there is one certain chart pattern that indicates if a stock is under professional accmulation or distribution. This is a very simple pattern and has nothing to do with traditionally known chart formations. The comparative pattern graphically tells us what stocks have been under heavy buying and are in strong hands as well as the stocks that have been undergoing professional selling and are in weak hands.

A 13 POINT GAIN JUST LAST WEEK - Let me first tell you that my two phase method for analyzing accumulation and distribution is not infallible. It has made few errors, but, by and large, the method has worked wonders for me.

Just last week McDonalds Corp, the hamburger people, appeared to be under heavy accumulation in my work despite a sharp market break. My figures said the stock was ready for an upmove. I put in my order for 1,000 shares at 49%. All measures of accumulation were impressively bullish despite the soft market. This stock had been priced for an upmove.

As I write this, 7 market days later, MCD is selling at 62, up over 13 points from my buying indications which came at the 49-50 range. My million dollar, two part concept, is based upon the central tenent that stock prices advance if, and only if, there are more buyers than sellers and decline if and only if there are more sellers than buyers.

We analyze the buying/selling syndrome in two statistically valid ways to detect professional accumulation and distribution. The exact formulas and patterns will be given to you in a moment, but first you must understand the importance of the supply/demand bearing on forecasting stock prices.

THE TWO METHODS I USE TO IDENTIFY ACCUMULATION & DISTRIBUTION

As I've said, the only thing that will push the price of a stock higher is a preponderance of buyers. Conversely, the only thing that will drive prices down is a preponderance of sellers.

My study into the accumulation/distribution area was prompted by an old timer's casual remark in a board room. At the time, I was trying to figure out what tape reading was all about. I spent just about every market hour watching prices chatter by on the ticker. I wasn't making much progress and certainly wasn't finding it possible to "read" the tape.

This particular board room was frequented by a somewhat daffy old gal who was always going to buy or sell stock, but never did. She must have missed the boat by just a day, or a point, on hundreds and hundreds of big winners. At least that's what she claimed, and I'm inclined to believe her. It was unfortunate.

One day, a stock she had been following, widely touted as being a super strong stock, began to fall. In a matter of minutes it was down three points. By the end of the day it was off five dollars. The next day gave the lady no relief as the stock continued to fall despite the fact the market was rallying!

The pressures of losing were getting to her, and she said out loud, to no one in particular, "Why in the hell is that stock going down?"

My old timer friend, sitting in the back row, loudly said that he knew exactly why this hot number was going down!

Well, that was just too much for the little lady to take. She scurried back to the fellow, demanding he tell her exactly why the stock had been plummeting. It was obvious she was upset that the fellow hadn't told her sooner. However, her anger was tempered by the fact that someone finally was going to give her the secret to her stock's activity.

The old timer, I'll call him Don, had been a broker for many years. He lived through the crash (many brokers didn't), and in the process had acquired a great deal of insight into people and the market. Of those of us in the board room he was the only one with substantial amounts of money, making him the resident guru.

Don could contain himself no longer. He leaned far, far back in his chair and bellowed out, "Any fool can tell you why your stock has been going down . . . there've been more sellers than buyers!"

Everyone roared! Old Don had "taken in" another trader. The gal didn't think it was funny though, and insisted she be told how to know when there are more sellers than buyers. For that Don had no answer.

The episode I've just described was one of the turning points in my career. For years I had tried many, many stock selection and timing systems. But upon reflection, I saw that none of them attempted to break down and identify the amount of buying or selling taking place in the market. They were all based on something else . . . something that might effect stock prices from time to time, but the special forecasting ingredients were not always present.

Don had hit the nail on the head! Indeed, stocks move due to an imbalance of buyers and sellers. All I needed to do was develop a method to measure these components. I'm not going to bore you with the myriad of techniques I fooled around with before I finally arrived at what I feel are the two best ways of identifying professional accumulation and distribution. My very first studies revealed that there are many types of buyers and sellers in the marketplace, but that only a few, a group I've labeled "the professionals", were worth following.

DISCOVERING THE PROFESSIONALS

There's an age old question in the market that would give ample thought for the greatest of all the masters of Zen Budhism. Usually these monks meditate upon probing, seemingly unanswerable questions. But imagine giving them the market's most difficult question, "For every buyer there *is a* seller. Therefore, how can prices change, as buying and selling is allways equal?" I'm no Zen monk, and believe me it was confusing to ponder upon this unique supply/demand relationship. My research eliminated much of this confusion as I soon discovered that the one for one relationship has little bearing on prices. Instead, I learned it is more important to notice at what time and price buyers are wiling to move into or out *of* a stock. That´s part of the secret!

A specific example may help. In the Spring of 1971, I recommended Bausch & Lomb in my advisory service when the stock appeared to be under accumulation in the $50 area. In the service we rode it up to $150, for a 100 pt. gain! Then in the 150-180 area, additional buying came into the stock; but this was not professional buying, it was uninformed buying. We knew this because the stock already had doubled in value! Professionals, the really smart people, were buying in the $30 to $60 range. Those were the people who took the largest gains — the smartest investors.

We also shorted Bausch & Lomb at 180-190 and had the pleasure of seeing it topple, slamming down to the 60 level. The same situation held true on the downside. People buying the stock in the 180 area were the uninformed, the last to get aboard, if you will.

The point I'm trying to get across is that in analyzing the buy sell relationship, you must take two things into consideration. They are:

1. WHERE THE STOCK HAS BEEN
2. WHERE THE STOCK CAN GO

Another important thing to notice about buying or selling is what is taking place in the market itself. Those investors or traders aggressively accumulating stock on days the market is down are indeed courageous in their views. The normal reaction to a down day is to stop buying. This is best seen in volume trends. As the market moves lower, daily volume continues to diminish.

So, when we spot buying taking place in spite of a down market, we have a sign that someone knows what he´s doing, and we´re going to want to follow,this type of informed trader as much as we can.

COMPARATIVE STRENGTH, THE SECRET TO FOLLOWING ALL STOCKS

Many people have been amazed that I can follow just about all stocks traded and in an instant tell if the stock has been under basic accumulation or distribution. There's really nothing to it other than an understanding of the preceding paragraph.

You see, to spot professional accumulation, all we need to do is find an example of steady and determined buying in the face of a weak stock market. When this happens we have a good idea that professional buying is taking place.

Professional selling will show up when we see consistent and determined selling in the face of a strong market. That is, when the market is surging up, but selling pressures enter a particular stock we can bet that we have a stock undergoing professional, informed selling.

The effect of buying and selling is easiest to see in the price trends of individual stocks. You will be shown other ways to fine-tune and fully analyze accumulation and distribution, but it's imperative for. you to remember that the effects of buying and selling will first be exhibited in the prices themselves.

THERE'S A PATTERN TO EVERYTHING - ESPECIALLY ACCUMULATION

Realizing the first visible signs of accumulation or distribution appear in a stock's price puts us far ahead of the pack. Now we can begin to concentrate on identifying accumulation and distribution in terms of patterns with the aid of simple stock charts.

As the many followers of my service know, I'm not particularly "big" on chart formations and traditional chart signals. In fact, it's my opinion for the most part, chartists "know not what they do." But that doesn't rule out the intelligent use of charts.

HOW TO USE STOCK CHARTS

Remember, we want to detect professional accumulation and distribution. We've established that the best way to do this is to find individual stocks whose price action differs from the overall market. This can be done easily by taking a chart of any of the popular averages, Dow Jones Industrial, NYSE Composite or the Standard & Poor's and simply comparing the market average configurations to any individual stock's price trends.

In an instant you can analyze virtually any stock by comparing its action to the action of all stocks, as represented by a broad market average!

To further simplify this evaluation technique, I've devised what I call the accumulation and distribution patterns. All you have to do is take note of the market average and the action of any stock to see if the accumulation pattern is present. If so, you have a potential candidate for a buy. If the distribution pattern is present, you have a potential short sale.

THE ACCUMULATION PATTERN

To detect accumulation, we look for bullish divergence between the market itself and the stock we are attempting to analyze. Bullish divergence can best be seen when a stock fails to be as severely affected by selling pressures as the broad market. Another way of putting this is that a stock exhibits accumulation when it does not match the market's downward moves. Instead, the stock holds up better than the averages on market down moves and rallies stronger on market rallies.

This is quickly discernable on chart 4. You can see from our example of Telex in the summer of 1969. Notice that the Dow Jones Industrial Average repeatedly declined to new lows, stair stepping down and down and down.

Chart 4

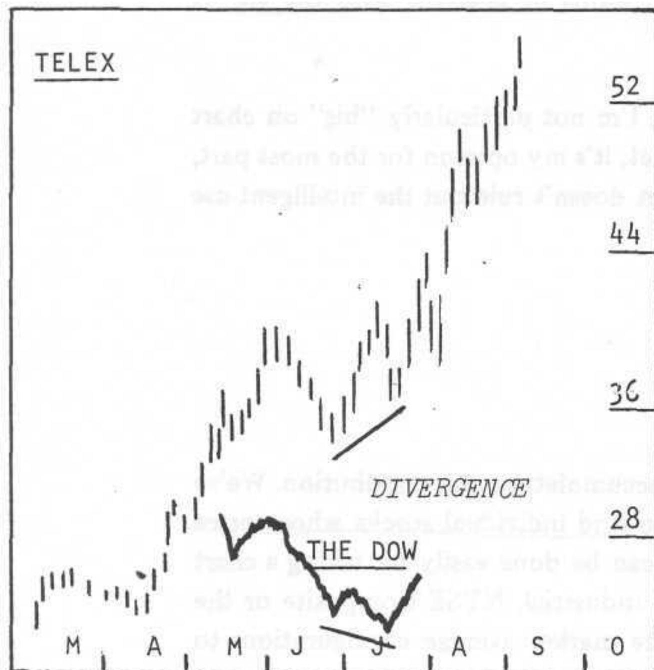
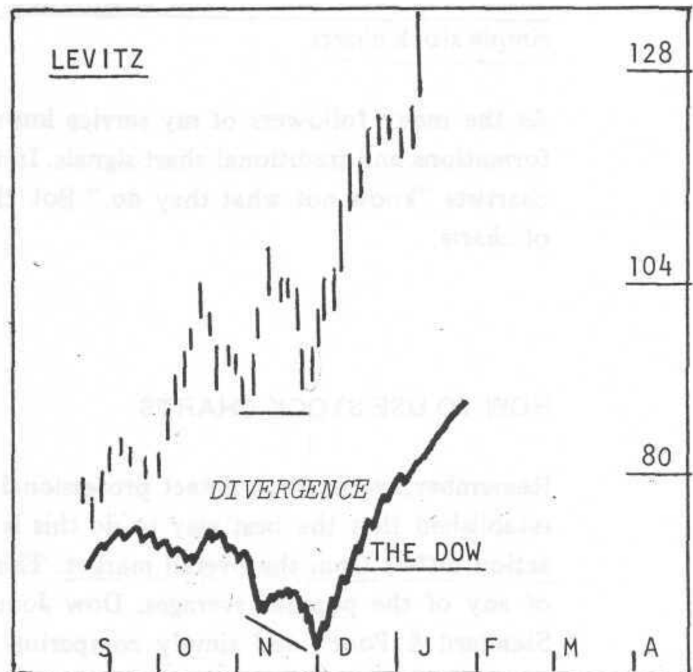


Chart 5



However TC not only failed to move to progressively lower prices, it actually held above its intermediate term lows while the market fell below its corresponding points. This is a sign of extremely strong accumulation! Study it well.

In spite of a very weak market, the holders of this stock did not panic. They held onto their stock even though the market was taking a clobbering. Thus, we can assume these people had special knowledge. Severe weakness did not disturb their positions for they knew higher prices were on the way.

Additionally, new buyers were willing to come in and hold up the existing price structure. In short, while most all other stocks were declining, someone, somewhere, had bullish convictions strong enough to step in and buy this stock regardless of overall market conditions.

What more could we want? Current holders of the stock simply refused to sell, while flurrys of weakness were quickly met with additional buying. As they say, the stock was in strong hands. It was under professional accumulation.

Another good example of the accumulation pattern can be seen in chart 5 of Levitz Furniture as compared to the Dow Jones Industrial Average. Notice again we se the market falling to new lows. But this time, instead of seeing the individual stock price merely hold its own, as with TC, Levitz not only held its own, but kept moving up making higher highs and higher lows on each successive stock market move.

Let's analyze the situation once more. While the market was moving to new lows, the Bears could not force the price of Levitz down. Why? That's an important question.

Referring back to what I mentioned earlier, remember that a stock moves up only if there are more buyers than sellers. What was the situation with Levitz? Were there more buyers than sellers? Obviously, yes. Were these strong or weak buyers? Very strong! After all, on just small market rallies, (which were actually only reactions in a general downtrend) Levitz was able to zoom to new highs.

SOME POINTERS

I use daily charts to compare stocks with the market. There is no need to keep the charts yourself. There are scads of chart services and I'm listing the ones I like at the end of this chapter. All you need to do is get a clear sheet of tracing paper and make a tracing of the market average and then overlay this with the stock's price average. You then have an excellent comparative basis with which to begin your analysis.

The greater the divergence between the market and your stock, the larger move you should expect the stock to make once it begins. I guess what I'm really saying here is that divergence of a few days will forecast moves of a few days duration. Divergence of a few weeks will forecast moves of a few weeks and divergence of a month or more will forecast extended, long lasting moves.

It is particularly important that you compare your stock with the market at critical junctures. (By this, I mean important market reversal points.) The fact your stock has held up better since last Thursday is not as significant as the fact the stock has held up and performed much better since the last important top and bottom.