THE BASIS OF MY FORECASTING METHOD

By

W. D. GANN

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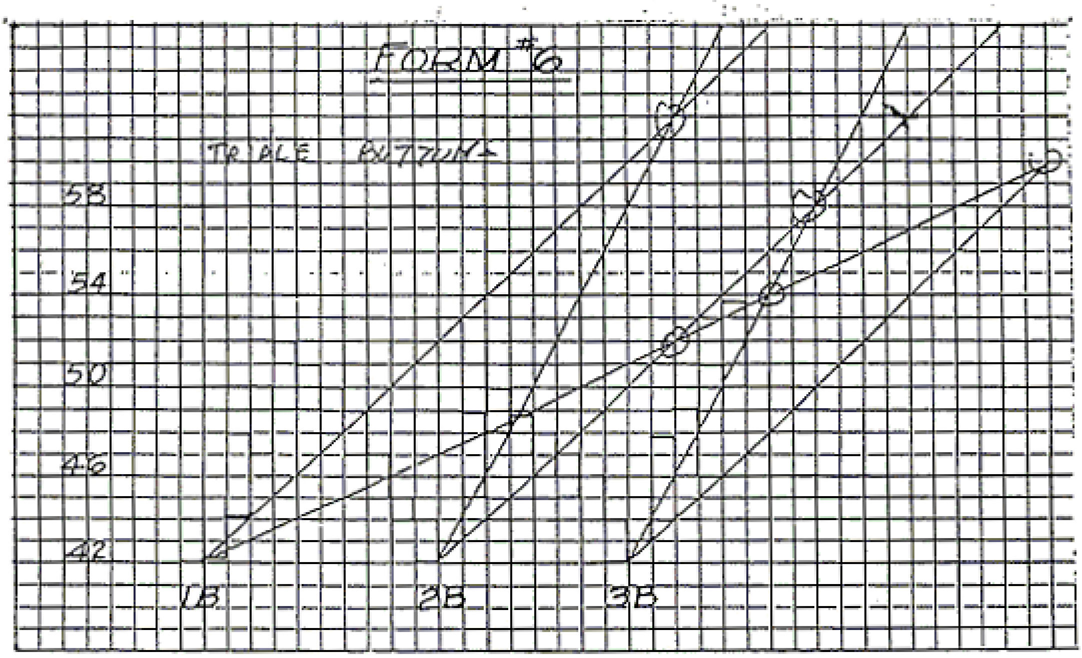
absolutely accurate. Then you can begin to study the rules for determining the trend according to the position of the stock on angles.

DOUBLE AND TRIPLE TOPS OR BOTTOMS

ANGLES CROSSING EACH OTHER: When there is a double bottom several days, weeks or months apart, you draw angles from these bottoms, which are near the same price levels. For example: From the first bottom draw a 45° angle and from the second bottom draw an angle of 2 x 1- then when these angles cross each other, it will be an important point for a change in trend. Note on chart marked Form #6 that I have drawn the 45° angle from the first bottom "1B" and the angle of 2 x 1 on the right hand side of the 45° angle. Then, from the second bottom "2B" I have drawn a 45° angle and the angle of 2 x 1, which gains 2 points per day, week or month, on the left hand or bull side of the 45° angle. You will note that the angle of 2 x 1 from the second bottom crosses the angle of 2 x 1 on the bear side from the first bottom at 48, and that when the stock breaks under these angles, a change in trend takes place and it goes lower.

Note that the angle of 2 x 1 from the third bottom "3B" crosses the angle of 2 x 1 on the bear side from the first bottom at 53½ and crosses the 45° angle from the second bottom at 58. This would be a point to watch for change in trend. I have placed a circle where these angles from the different bottoms come together

Apply this rule to double tops and triple tops in the same way. It is not necessary for the tops or bottoms to be exactly at the same price level, but near the same level. Remember, always draw 45° angles from all important tops and bottoms.



PARALLEL ANGLES

Parallel angles or lines run from important tops and bottoms. As previously explained, the 45° angle is the most important and should be drawn from all important tops and bottoms. If a stock starts advancing, we draw a 45° angle from the bottom- then if the stock makes top, declines and makes a higher bottom- then advances and makes a higher top, we draw a 45° angle from the first top, running the line up. This will give the oscillation or width of fluctuation in a parallel between the 45° angle from the bottom and the 45° angle running up from the top. Often a stock will advance to the 45° angle from the first top, fail to cross it, then decline and rest on the 45° angle from the first bottom- then advance again, working up for a prolonged bull campaign between these parallel angles.

When the angles are very far apart, you can draw another 45° angle equi-distant between them, which is often a strong support angle from which a stock will rally, but when it breaks under, it declines to the bottom parallel.

Parallels can form between the angles of 2 x 1 or 4 x 1 just the same as between 45° angles, which often occurs in slow-moving stocks.

GEOMETRICAL ANGLES OR MOVING-AVERAGE LINES DRAWN FROM "O"

When a stock reaches bottom and starts up, you have been instructed to draw angles from this exact low point, which shows the support in time periods, but there are other angles that later on will be just as important and sometimes more important than the angles drawn from the bottom of a stock. These are the angles that begin at "O" or zero and move up at the same rate that they move up from the bottom. The starting point must be on the same line that the bottom is made on as the time period begins from this bottom, but the angles move up from "O". These angles should be started every time a stock makes a bottom, especially on weekly and monthly charts, and should also be carried up on important movements on the daily chart. Example: See chart marked Form #7 on page 14.

If a stock makes low at 20, as shown on the chart, starting the 45° angle from "O", when will this angle reach 20? Answer: It will reach 20 in 20 days, 20 weeks or 20 months from the bottom or its starting point. In other words, in 20 days, 20 weeks, or 20 months, it will be up 20 from "O" and at the price where the stock made bottom. Then the angle will continue on up at the same rate, and later, when the stock breaks under the 45° angle from the actual bottom made at 20 and breaks the other support angles drawn from the actual bottom at 20, the next important point for support will be the angle of 45° moving up from "O". When this angle is broken, it is in the weakest possible position and indicates much lower prices, but this depends on how high the stock is selling and how much it has declined at the time it breaks the 45° angle from "O". These angles drawn from "O", especially the 45° angle, proves when Price and Time are balancing or when the stock is squaring out from its bottom.

"O" ANGLES STARTING AT THE TIME TOP IS MADE

When a stock reaches extreme top on a daily, weekly or monthly chart and the trend turns down, you should start an angle of 45° from "O" moving up from the exact space and date that the top is made. This will prove the square of the time period. It is very important when this angle is reached and indicates a change in trend. It is the last strong support and when broken, it will indicate much lower prices.

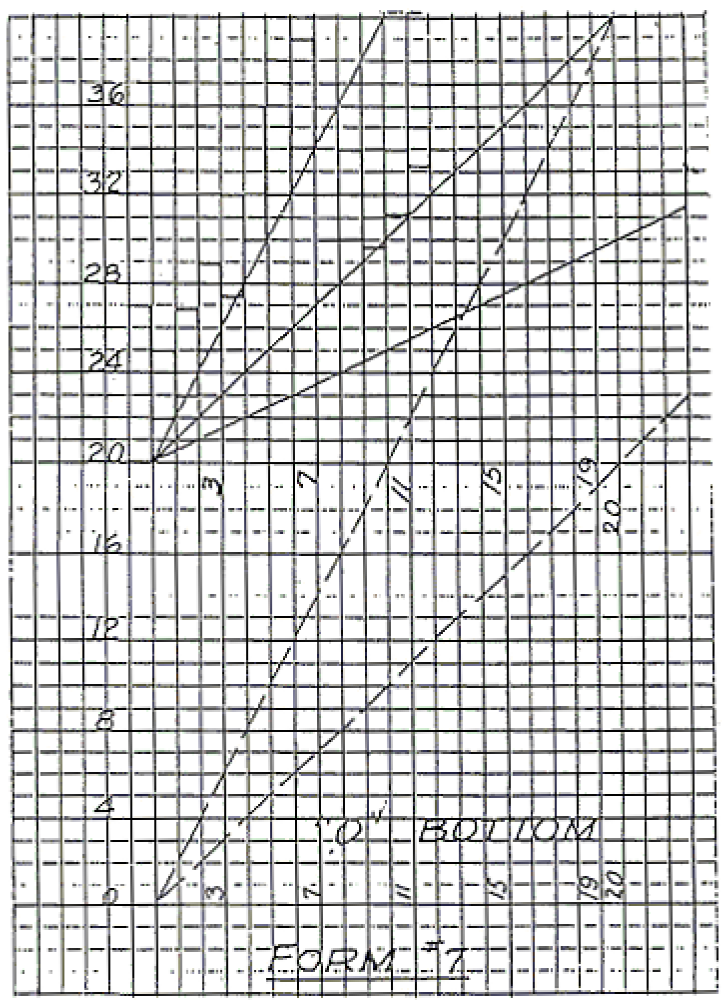
I have instructed you in each case to first draw the 45° angle from bottom, top and from "O" at bottom and top, but this does not mean that you must not use the other angles. All of the other angles can be used from "O", but the 45° angle is the first and most important. After this angle is broken, then you can use the other angles. It is not necessary to carry all of them along until you need them, but on the monthly chart, after a long series of years, those other angles should be carried along when the stock begins to approach the levels where they would be broken or where the stock would rest on them and receive support.

<u>45° ANGLE FROM "O" TO TOP AND BOTTOM:</u> When a 45° angle moving up from "O" reaches the line or price of the bottom, it is very important- then again when it reaches the point of the extreme high price, it is very important for a change in trend.

You should carry 45° angles and other angles up from "O" from all important first, second, and third higher bottoms, especially those where very much time has elapsed between these bottoms. You should also start the angle of 45° up from "O" from the first, second, and third lower tops, especially those which show much time period elapsed. These angles are the most important to be carried on the weekly and monthly charts.

Never overlook keeping up the angles from "O" because they will tell you when Time is squaring out with Price from tops and bottoms and will locate support angles or moving-average lines at a point on the bear side after the first 45° angle from a bottom is broken. You could not locate this support point in any other way except by the angles from "O".

You should go back over past records and bring up these angles and square out different tops and bottoms so that you can prove to yourself the great value of using these angles.



ANGLES FROM TOPS DOWN TO "O" AND UP AGAIN

A 45° angle starting down from any important top on a monthly or weekly chart should be continued down until it reaches "O" and then started up again at the same rate. After a long number of years between important tops and bottoms, this angle coming down and going up again is important. A 45° angle can also be continued down from any important bottom to "O" and then started up again. This will show the squaring of Price with Time from either top or bottom.

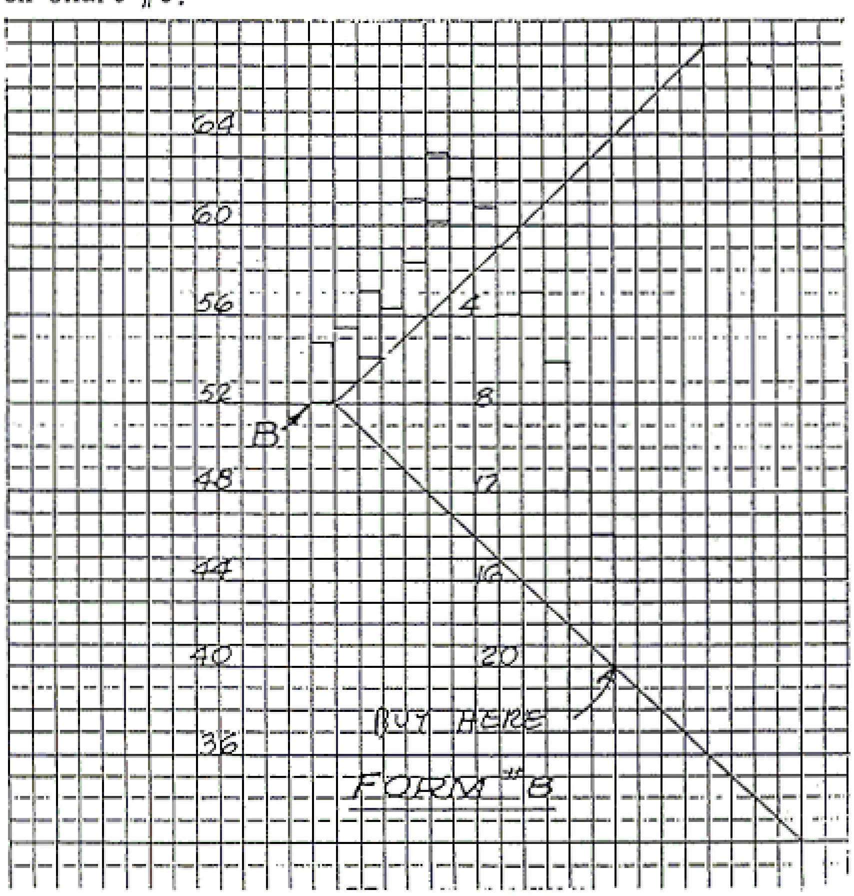
Angles can be started from "O" at the time any important time cycle runs out. For example: U. S. Steel made extreme low in 1904. May, 1924 would be the end of a 20-year cycle or 120 months. In May, 1924 Steel made top at 109 against a 45° angle beginning at "O" at the time bottom was made at 38 in February, 1915. On account of the importance of this top and a 20-year cycle running out here, we would start a 45° angle and other angles, if we need them, from "O" in May, 1924.

May, 1931 would end a 7-year cycle of 84 months from 1924. The 45° angle running up from "O" in May, 1924 crossed at 84 in May, 1931. Note that Steel made low at $83\frac{1}{8}$ in June, 1931. In June, 1924 Steel made the last low at $94\frac{1}{4}$, showing the importance of the end of the 20-year cycle. The 45° angle moving up from "O" in June, 1924 crossed at 84 in June, 1931, and Steel declined and rested on this angle.

TWO 45° ANGLES FROM THE SAME BOTTOM

As we have previously explained, the 45° angle moves up at the rate of one point per month and moves down at the rate of one point per month.

Refer to example on Chart #8:



You will note that the low on this chart is shown as 62 and the stock moves up to a high of 63. A 45° angle is drawn up from the bottom, and after the stock reaches top and starts to work down, it breaks the 45° angle, getting under it at a price of 59. You will note that I have drawn another 45° angle down from the bottom at 52. At the point where the stock breaks under the 45° angle moving up from 52 to the 45° angle moving down from 52, the distance in points is 16, therefore the angles have widened until the stock could decline 16 points, if it went straight down, before it reached the 45° angle moving down from the bottom.

Note that I have shown on the chart that the stock continues down until it reaches 40, where it rests on the 45° angle from the bottom at 52. This would indicate the strongest support point and at least a temporary rally, especially as the stock is down 23 points from the top. Later you will find under "Resistance Levels" that $22\frac{1}{2}$ to 24 points is a strong support point.

U. S. STEEL: Take the extreme low point of U. S. Steel at $111\frac{1}{4}$ in January, 1927. Start a 45° angle on the monthly chart moving up at the rate of one point per month- then start a 45° angle moving down at the same rate. This shows the spreading of the angles and what can happen when Steel breaks under the 45° angle coming up from that bottom and the point where it can decline in extreme panicky markets, like 1931 and 1932.

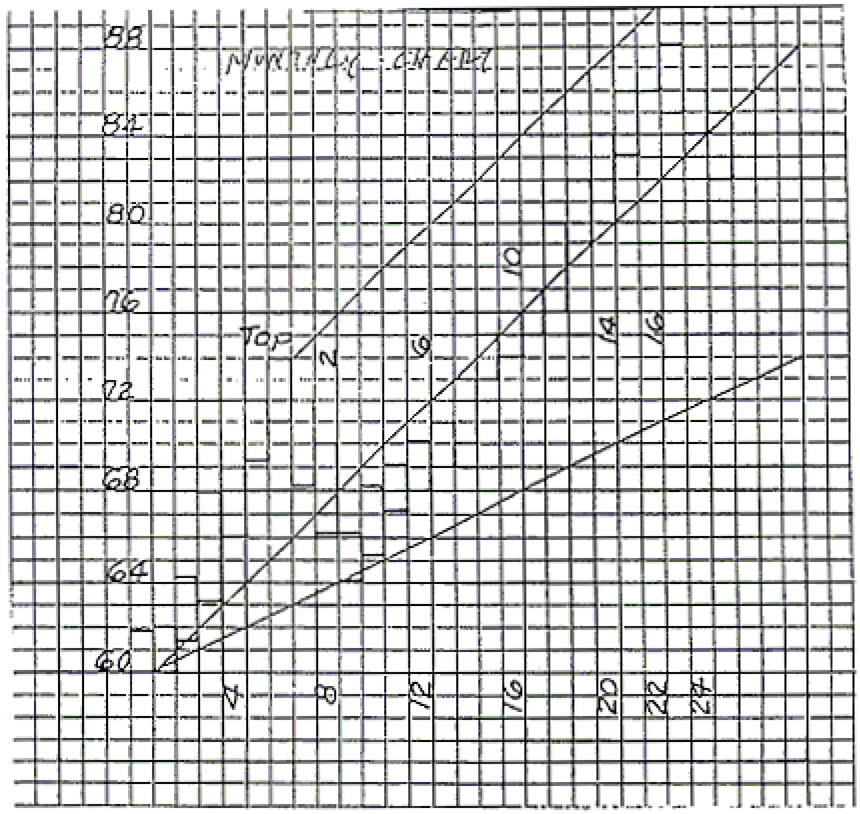
The 45° angle coming up from the low of January, 1927 crossed at 156 in October, 1930. When U. S. Steel broke this angle it went right on down to $134\frac{3}{8}$ in December, 1930, where it rested on the angle of 2 x 1 from this bottom of January, 1927- then rallied to February, 1931, and at the time it broke under the angle of 45° from $111\frac{1}{4}$, it was on the 45th month, another indication of a sharp, severe decline. Here we look at the 45° angle moving down from $111\frac{1}{4}$ and find it is 90 points down from the 45° angle moving up from $111\frac{1}{4}$. These angles separate at the rate of two points per month and being 45 months from the bottom, the stock would have to decline 90 points to strike the 45° angle moving down from the bottom. The angles being so wide apart indicated that the stock could have a wide-open break. This happened in December, 1931, when Steel broke under the 45° angle moving down from $111\frac{1}{4}$, putting it into a very weak position- in fact, in the weakest position that a stock can get in until it can recover this angle. In June, 1932, when U. S. Steel declined to $21\frac{1}{4}$, it had dropped under the 45° angle moving down from the last low of $113\frac{3}{8}$ made in March, 1925, and closed two months below this angle before it started to recover angles.

This shows that when a stock gets into a very weak position by dropping under important angles moving down from bottoms, after having broken strong angles moving up from bottoms, it can decline to very low levels. These extreme fluctuations and declines have happened in the past and will happen again in the future. This proves the squaring out of Time on the down side or the balancing up of Price and Time.

Here is another illustration of the balancing of Price with Time: The angle of 45° moving up from "0" from the bottom at $21\frac{7}{8}$ from October, 1907 crossed at 262 in September, 1929 and Steel advanced to $261\frac{3}{4}$, which shows that in 262 months from the bottom in 1907 Steel had advanced an equivalent of one point per month. By striking the 45° angle and failing to cross it, it indicated that the Time was up and that the stock was turning downtrend for a prolonged bear market.

ANGLES OR MOVING-AVERAGE LINES FROM ONE TOP TO THE NEXT TOP

Refer to example on Chart #9 on page 17.

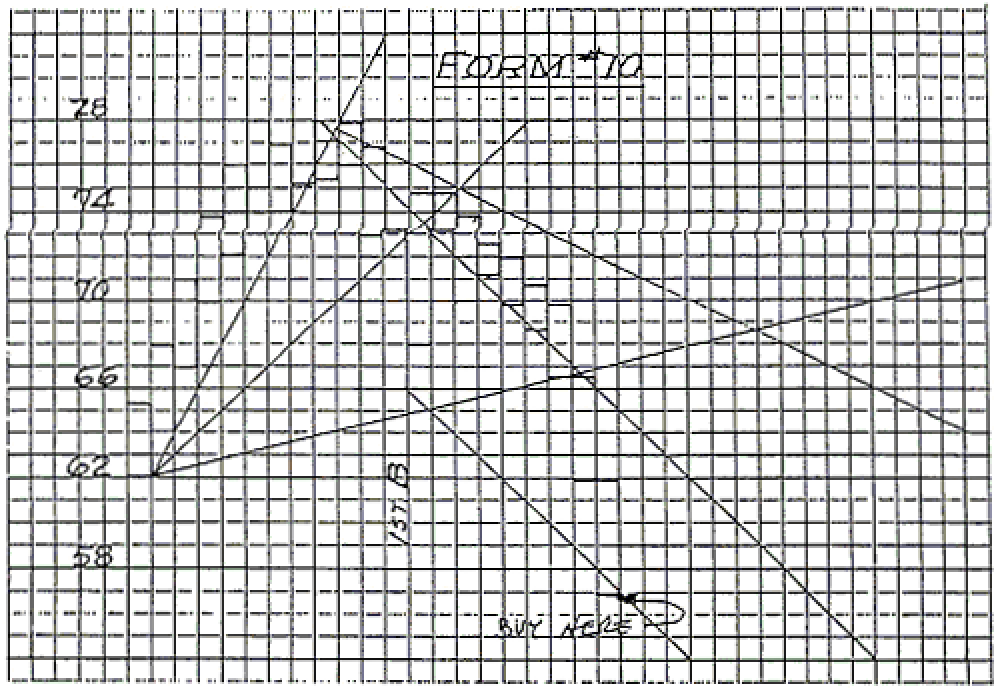


You will see that we have started the bottom at 60. The stock advances six months to 74, to a point marked "T" and makes top--reacts for three months to 64, breaking the 45° angle but resting on the angle of 2 x 1 from the bottom--then starts advancing and finally crosses again the 45° angle from 60, getting into a stronger position, having regained this angle. In order to determine where it might meet resistance, as it is in new high territory, we draw a 45° angle from the top at 74. The stock advances to 90 on the 22nd month from the bottom, striking the 45° angle from the first top at 74, on the 16th month from the first top. Being 16 points up above the first top, the Time equals the advance in the Price above the first top. The 45° angle shows that this is a strong Resistance point and a place to go short with stop one to three points above the 45° angle. A decline starts and in the third month the stock again breaks under the 45° angle from the bottom (at 60) at a very high level. In other words, it is 24 points up from the bottom and is now in a much weaker position, because it is so far from the base of support, and indicates a decline again to the angle of 2 x 1 (marked in green).

Don't overlook this rule: After a stock has advanced to a new high level, then declines to the old top at 74, this may be a support point unless it breaks 3 points under it. If it does and also breaks the angle of 2 x 1, it will be in a weaker position and the next point to watch for support and a rally would be the next bottom at 64.

ANGLES FROM BOTTOM OF FIRST SHARP DECLINE

When a stock that has been advancing for some time, makes top and holds for several days, several weeks or several months, then turns the trend down and has a sharp, severe decline, there is always a rally after this first decline. It usually makes a lower top on this secondary rally and then starts to work lower again. The bottom of the first decline is a very important point to draw angles from, especially the 45° angle moving down, as I have done on the chart marked Form #10.



This chart shows the stock rallying up to around 75, where the 45° angle coming up from the last bottom crosses the angle of 2 x 1 coming down from the top. Then the decline started and at 66 the stock broke back under the angle of 45° from the top, which put it in a very weak position. It declined to the angle of 45° coming down from the bottom of the first sharp decline. This would be the squaring out of time from the bottom and would be a place to buy for a rally. A stock will often decline and drop a little below this angle from the bottom--then if it holds for several days or weeks under this angle or on it, it is a place to buy for a rally.

On a Monthly Chart always carry this angle down from the bottom of the first sharp decline, as it often becomes very important later on in a campaign.

After a stock has been advancing for some time and then has a sharp break lasting 2 to 3 days, 2 to 3 weeks, or 2 to 3 months--then rallies and afterward breaks under the lows of this first sharp break, it indicates that the main trend has turned down and that it is going lower.

Apply the same rule when a stock has been declining for a long time and then makes a sharp, quick recovery for 2 to 3 days, 2 to 3 weeks, or 2 to 3 months, then reacts and then crosses this first rally point that it made, an indication of higher prices.

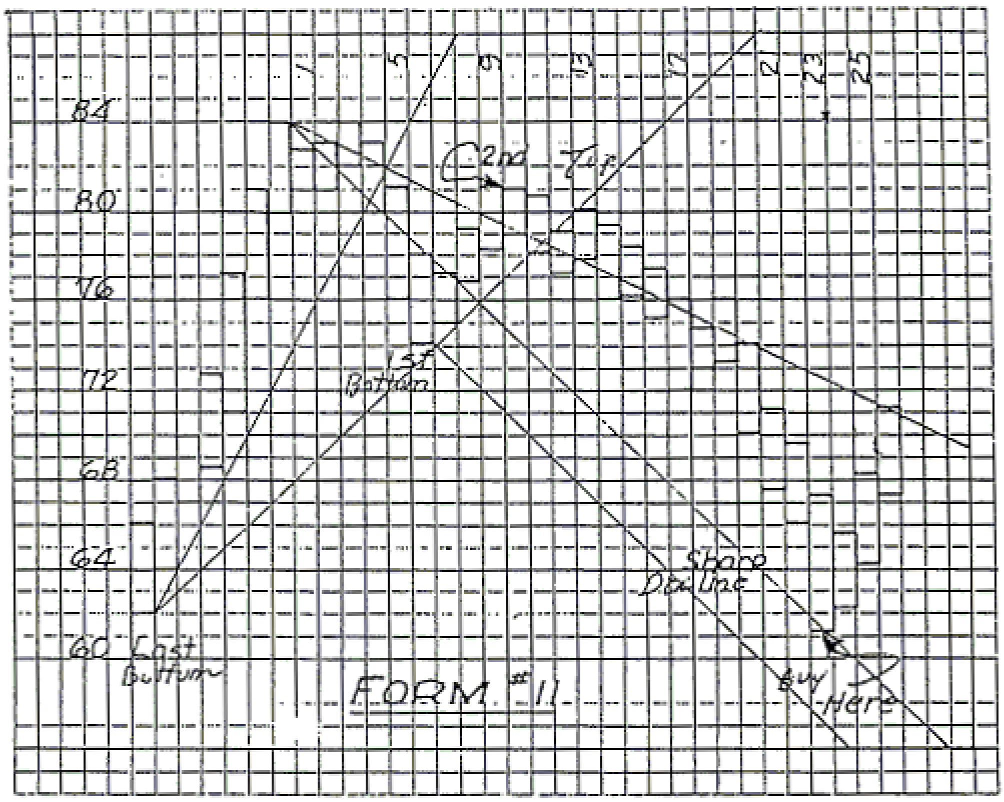
LAST SWING IN A BULL OR BEAR MARKET

It is important to draw angles from the point where the market starts up and makes its last run in a bull market. Refer to Chart #11 on page 19.

In this example note point marked "last bottom". In the last stage of the bull market a fast advance follows to a price of 84. We have drawn the angle of 2 x 1 (a gain of 2 points per day, week or month) and the 45° angle from this bottom. When the angle of 2 x 1 was broken, it indicated that the trend had turned down. The stock declined and rested on the 45° angle--then rallied and made a second lower top-- then broke the 45° angle-- declined sharply and rested on the 45° angle drawn from the top at 84, which indicated that Time and Price had squared out or were equal. This would be a point to buy, with a stop loss order 2 to 3 points under this angle, for a rally back to the angle of 2 x 1 from the top, as shown on the chart.

In very active fast-moving markets a stock may stay above the angle of 4 x 1 or the angle of 8 x 1 from the "last bottom," but on the daily or weekly chart after this first acute angle is broken, it indicates that the trend has turned down.

Always remember that after a prolonged advance, when the main trend turns down, it is safer to wait for rallies and sell short than to buy against the trend.



All of these rules are reversed at the end of a bear market or sharp decline. It is important to note when the market starts down from the last top or rally and makes its last run to bottom. Draw angles from this last top and watch when the market reaches these important angles and crosses them. For example:

On March 9, 1932 the Dow-Jones 30 Industrial Averages made last top at 90, from which a decline followed, with very small rallies, reaching bottom at 41 on July 8, 1932. Note on the weekly chart that the angle of 2 x 1 from the top at 90 crossed at 50 in the week ending July 30, 1932 and after they crossed this level they never declined to 50 again, and advanced to 81 in September, 1932. The crossing of this angle was the first definite indication that the main trend had turned up.

It is also important to review the major swing from November 9, 1931, when the Averages reached a high of 119½, to the low at 40¼ in July, 1932. This was the last big swing of the bear market, a decline of 79 points. The half-way point of this was at 80. In September, 1932 the Averages rallied to 81-- then after they reacted to 50 and advanced, getting above the half-way point, and crossed 81, they indicated an advance to 119 anyway. After they crossed the half-way point the second time and advanced above 81, they never sold down to it again until they advanced to 149¼ in November, 1935.

After a stock has been advancing for a long time, in the last run when there is a lot of momentum, it may cross angles from previous tops or bottoms, then fall back under them, which is an indication of weakness. When a stock has a sharp decline and is making bottom, it will drop under important angles and then recover quickly, getting above them, which shows that it is getting into a strong position and changing trend.

ANGLES FROM HIGHER BOTTOMS AND LOWER TOPS

What rule should be followed when stocks make higher bottoms and lower tops?

As stocks advance and make higher bottoms on the monthly, weekly or daily chart, you should always draw angles from higher bottoms. Then, in the last section of a bull market, if these important angles are broken from the last bottom, you know that the trend has turned down.

Apply this same rule as a market declines. Draw the angles from each lower top and watch the angles until the stocks again cross the 45° angle from a second, third, or fourth lower top. The second lower top or second higher bottom is always very important to draw angles from and to measure Time from as well.

Example: Dow-Jones Industrial Averages—
- September 3, 1929 - Extreme high-
- November 13, 1929 - Bottom of first sharp decline-
- April 17, 1930 - Big rally in bear market, second lower top-
- July 8, 1932 - Extreme low, final bottom-
- September 8, 1932 - Top of first sharp advance after bear market ended-
- February and March, 1933 - Second higher bottom from which bull market was resumed.

These are the most important tops and bottoms to draw angles from.

SECTIONS OF MARKET CAMPAIGNS:

All market campaigns, up or down, move in 3 to 4 sections. When an advance starts, the market runs for several weeks or several months and then halts for several weeks or months, moving up and down over a range of 5 to 20 points, according to the price of the stock--then the advance is resumed and the stock crosses the high level of the first section, moves higher, halts again, and reacts for a period of time-- then crosses the top of the second section and moves up again for another period of time and halts for the third time, which is a very important point to watch as markets often culminate at the end of the third section and a bigger decline follows, Most markets run out in three important sections or campaigns. However, after resting and reacting, if a stock crosses the third top, it will then move up to the top of the fourth section. This fourth advance may be a shorter period of time than the previous sections, or in some cases may consume a greater period of time, especially if the stock is very active and high-priced. This fourth top is very important and generally marks a culmination and a reversal for a bigger decline.

For example: On March 12, 1935 CHRYSLER MOTORS declined and made low at 31--

FIRST SECTION of the advance carried the stock up to 49⅜ on May 16- then the stock declined to 41¼.

SECOND SECTION-- On June 27 the advance started and the stock advanced to new high levels, reaching 62⅜ on August 10, which was top of the second section- then there was a reaction to 57½ and a resting period.

THIRD SECTION-- Then there was another advance which started August 28. The stock crossed the top of the second section and reached high at 74 on September 11, top of the third section. Then followed a reaction to 68 on September 21.

FOURTH SECTION-- In October the top of the third section was crossed and on November 18 Chrysler reached 90, top of the fourth section, where it held for 5 weeks in a 6-point range while distribution was taking place. This was a most important point to watch for a final top and a change in trend. Then the trend turned down.

Reverse this rule in a bear market. Watch the action of the market when it makes the third and fourth decline. But, remember, in a bear market when rallies come, they may make only one section or one move or in extreme cases only make the second section- then reverse and follow the main trend down.

You will find it very helpful to study and watch these various sections of a campaign and by applying the angles from tops and bottoms you can detect the first minor and major changes in trend.

STRENGTH OR WEAKNESS DENOTED BY POSITION ON ANGLES

The angles on the Monthly and Weekly Charts are of greater importance than those on the Daily Chart because the daily trend can change quite often, while only the major changes are shown according to the angles on the Monthly and Weekly Charts.

Always consider the distance a stock is from its beginning point when it breaks any important angle or crosses any important angle. The further away from the beginning point, the more important the change in trend, whether this is crossing an angle from the top or breaking under an angle from the bottom.

WHEN A STOCK IS IN THE WEAKEST POSITION:

A stock is in the weakest position when it has completed distribution and broken under a 45° angle from an important bottom on the weekly or monthly chart. It is also in the weakest position when it has broken under the half-way point between any important top or bottom. The longer the time period has run and the higher the price, the weaker the position. For example: