reversals, the top and bottom patterns are fairly complete by the time that from one-fourth to one-third of the trend which follows the pattern has occurred. Thus, if a trader acts wholly upon the implication of such patterns in his trading operations, two thirds of practically every movement would be consumed in awaiting the development of successive reversal patterns; — and there would be many trends which were so short that they would offer little to no opportunity for profits.

This naturally brings us to the question of — "Well, if this is so, of what value is the study of these top and bottom patterns?"

The answer is — It contributes to a better understanding of price movements. In itself, the study of top and bottom patterns, it is not believed, will yield consistent or worthwhile profits. But as a general aid in acquiring a better "feel of the market", the study provides an additional avenue of observation worth the work involved. It takes very little time, in glancing through a portfolio of charts, for the eye is quick in seeing the really important reversal patterns.

Patterns Must Be Used in Conjunction With Other Technical Working Tools

The study of tops and bottoms, to be of greatest value, must be combined, and used in conjunction with the study of other working tools, such as Trend Lines, Moving Averages, Gaps, and particularly Volume, as well as the Dow Theory and the general market phenomena which we call "Breadth-of-the-Market" studies. Frequently, before a top or bottom pattern may be considered as completed, these other working tools come into play, and provide confirmation of the probability that a reversal is taking place.

In making the most of a study of reversal patterns, the market student or trader should try to relate the development of the cardinal patterns to the fundamental picture at the time. For example, in Chapters V and VI, we found that many major trends turned about in the Fall and Winter. Thus, if what appears to be a cardinal reversal pattern is developing, during this period; it might well be considered of greater importance than if it were appearing in the Spring or Summer.

In the same general way, if the amplitude and duration of an intermediate cyclical movement are sufficient to make it probable that a top or bottom might be expected, then the development of a reversal pattern may be regarded with greater conviction.

"One of the Best Trading Opportunities"

In the life of those who dabble in Wall Street, at some time or other there comes a yearning — "just to buy them right, once, if never again". For those who have patience, the study of top and bottom patterns will provide such an opportunity every now and then, — the chance does not arise every day, but when it does, a worthwhile opportunity, with small risk, becomes available. Let us look at Figure 27 (A). When, after an intermediate decline in either a bull or a bear market, such as A-B in the diagram, has proceeded for some time, and activity has shown a definite tendency to dry up, indication that liquidation is terminating, a minor rally like B-C sets in, with volume expanding on the upside. And when a minor decline, after cancelling a third to a half of the preceding minor advance (B-C) comes to a halt, with volume drying up again, a real opportunity is presented to buy stocks, with a stop under the previous low.

In eight out of ten cases wherein each of these specific conditions occurs, a rally, which will provide a worthwhile profit, ensues. In the other two cases, only small losses have to be taken. In trading this formation, the observer is depending upon the probability that either a head-and-shoulders, or double bottom, which are the two reversal patterns which occur most frequently, is developing.

The art in conducting an operation of this kind lies in:

a. Having the patience to wait until a decline of substantial proportions has developed;
b. Observing that all conditions laid down are present;
c. Having the courage to buy just as soon as the minor reaction which tests the bottom shows signs of terminating; and
d. Having the courage to get out with a fair profit (10-20 per cent), or at least protect it with stops.

Hourly charts of the averages, available for guiding the operation, repay the market student for all the efforts he puts into keeping them day after day, when they are of less practical use.

Similar opportunities occasionally develop for that small part of the trading fraternity which has the intestinal fortitude and temperament to sell stocks short. The case in reverse is laid out in Section B, of Figure 27.

An excellent case in point on the bull side appeared at the March 1935 bottom (see Charts 7, 8 and particularly Chart 11).

"Shall We Buy or Sell When a Previous Top or Bottom is Penetrated?"

The answer to this question has both its pros and its cons. We may argue that, if we wait until a previous top is penetrated, a substantial part of that movement is past, perhaps more than half of it. Comparatively speaking, there remains only a limited opportunity, and we run the risk that possibly a double top, with a slightly higher point, may form, and we will find that we have bought stocks very near the top. Dow Theorists will argue that, if both the averages confirm in breaking a previous high, a further advance of sufficient amplitude to be worthwhile, will probably ensue, and the signal is worth following.

On the other hand, we may argue that, if we are