- 10. Indicator Analysis (Trend and Momentum)
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# Gould, Edson Beers

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**Edson B. Gould**

*Provided by George A. Schade, Jr., CMT*

Investment manager and *Forbes* columnist Kenneth Fisher wrote of Edson Gould:

> "Market technician Edson Gould always laughed at the idea of having a significant influence on the stock market, but his predictions were the most precise around. He pinpointed major bull markets and prophesied bottom-out markets as if he had his own peephole into the future. But in place of a crystal ball and wacky off-the-cuff schemes, his were smart, intensely researched and time-tested theories that made him a legend in the investment community."

### I. Biography

Edson Gould spent over 60 years working in and studying financial markets. Gould studied the arts at Princeton, engineering at Lehigh (from where he graduated in 1922), and finance at New York University. In 1922, after working for a short time at Western Electric, he joined Moody's Investor Service as an analyst and later was editor of Moody's *Stock Survey*, *Bond Survey*, and *Advisory Reports*. In 1948, he began at Arthur Wiesenberger & Company, where he developed and edited the well-known *Wiesenberger Investment Report* and became a senior partner. He also was Research Director at E. B. Smith (which later became Smith Barney), and worked for Nuveen.

In the early 1960's, he founded his publication *Findings & Forecasts*. In December 1969, Anametrics, Inc., an investment advisory firm, bought *Findings & Forecasts*. Gould edited *Findings & Forecasts* and

chaired the firm's investment committee. It was during this time that Gould attained his greatest fame. His 14-16 page reports had a high readership of some 2,500 subscribers.

Gould appeared three times on *Wall Street Week*. Louis Rukeyser welcomed him on November 12, 1976 (with guests Bob Nurock and Marty Zweig):

> "If there's a technical market analyst in Wall Street with a better track record than Edson Gould, we haven't found him yet in seven seasons of looking….his forecasts…have an immediate market impact that no other technician can match."

Technician Walter Deemer has related to me that Gould was the "hottest technician in the 1960's." Once after Gould issued a bullish report on SCM, an office equipment company, Gerry Tsai (the "gunslinger" manager made famous in Adam Smith's *The Money Game*) bought 25,000 shares and then another 25,000 shares until SCM moved past $60.00, which had been Gould's target price. According to Deemer, Gerry Tsai knew that Edson Gould was an analyst to follow.

In late 1976, he began managing the Edson Gould Fund, possibly one of the first mutual funds to be managed using technical analysis. In early 1977, the fund was holding "growth and glamour stocks" such as Ford, Citicorp, McDonalds, and Gannett, the kind of stocks that had lost their luster up to then. In fact, Gould maintained a "Glamour Stock Average," an index of growth stocks.

Gould's popular fame has centered on some of his uncannily accurate stock market forecasts. These forecasts were presented in major reports which he issued for the year ahead. Some of his better known forecasts were:

1. In 1962, Gould predicted that the DJIA would rise another 400 points but the great bull market that had started in 1942 would end in 1966. The bull market expired on February 11, 1966 at 1001.11, having risen from 93 in 1942.
2. In October, 1972, with the DJIA at 940, he said the DJIA would rise to 1040 - 1050 by year's end. The DJIA rose to 1051.70 on January 11, 1973.
3. On January 16, 1973, in a "special sale bulletin" he urged subscribers to sell, believing the bull move that had started in 1970 at 800 was over. By December 1974, the DJIA plummeted 497 points.
4. In November, 1979 in his report titled *The Sign of the Bull*, he wrote: "The 'unexpected'…is an intermediate-term DJIA move over the next several years to the 1200-1400 level, with an eventual move up to the 2500-3000 level by the mid-to late-1980's." These levels were reached in 1989. In *The Sign of the Bull*, he concluded: "[T]he…years ahead are quite likely to produce a new and exciting period - one that should meet the expectations of even the most optimistic bulls." We know what the stock market did after 1982.

Yet Gould was not perfect with all his forecasts. In January 1975, in a *Barron's* panel, he expressed the opinion that gold would move up to $258 "during the first half of the year, maybe the first three months" of 1975. Gold had just reached a high of $195.25 during the last week of December 1974. But it was in May 1979, four years later, when gold moved above $258.

Gould's interest in market forecasts can be traced to his early career. In early 1935, he told *Barron's* editors that 1937 would see a bear swing. The DJIA fell 32.82% in 1937. He wrote articles, published in *Barron's* in 1937 and 1941, under the name of Edson Beers. *Barron's* wrote:

> "In the spring of 1937.…Mr. Beers was practically the only one to write back that all purchases should be postponed until later in the year. His forecast of a bear swing during 1937, incidentally, was first made to *Barron's* in early 1935."

## II. What Factors Did Gould Consider?

The November1976 interview with Rukeyser is enlightening. Gould said:

> "[T]here are three factors that determine…the level of the stock market and the trend thereof. You can list them as economic, monetary and what I call psychological. Now, the monetary factors are always early, but they're very important. They give you the early warning of a change. The economic factors are always late.…And the so-called psychological factors that I use, they're concurrent."

***Monetary Factors***

Gould developed the Three Steps and a Stumble Rule, which states that shortly after the Federal Reserve raises either the discount rate or margin requirements or reserve requirements three consecutive times without a decline, the stock market is likely to suffer a substantial, perhaps serious, setback. The Federal Reserve sets these three monetary rates. The first signal occurred in November 1919. According to Ned Davis, between 1919 and April 2000, following a signal, the DJIA has declined a median 17.0% over a median period of 18 months. Gould had indicated that there would be a time lag after the signal.

After having had a very good record, after the 1989 signal, according to Davis, the rule's track record "has been mixed." Davis now tracks the changes in the federal funds rate. The reason is that the Federal Reserve began to rely less on the discount rate and to rely more by changing the fed funds rate, tightening or loosening bank reserves, or by buying and selling dollars.

In *Stocks for the Long Run*, Professor Jeremy Siegel also wrote that after 1990, investors should not count on the predictable effect of central bank policies as they had in the past. The effect of credit tightening actions is now well discounted in the market. In the March 8, 2004, issue of *Barron's*, there was an article based on Ned Davis' research showing DJIA changes for select periods following from one to six interest rate increases.

The important point is that Gould believed - as he wrote in December 1965 - that "the stock market is importantly a function of money and credit, and the monetary factors are among the earliest indicators of major turning points in the stock market." Today we understand the importance of the Federal Reserve's actions. Gould was one of the first technicians to try "to quantify and qualify the tightening credit situation" because he had learned that "at some point tightening money and credit … can increasingly become a cause of the next downturn" in the stock market.

***Psychological Factors***

Gould was influenced by French psychologist and sociologist Gustave le Bon's 1895 book on mass psychology *The Crowd: A Study of the Popular Mind*. The book "brought me the realization that the action of the stock market is nothing more nor less than a manifestation of crowd psychology. With this insight, an apparently irrational stock market became comprehensible."

In 1937, Gould wrote, "Men are today dominated in their business actions by the primary emotions of

greed and fear just as they have been for many thousands of years (psychology)…" Gould believed that stocks sell at the prices they do "because of what the mass of investors think they are worth." He believed that "the market is shaped by human emotions."

The Senti-meter was Gould's measurement of crowd psychology or the "definitive limits to sentiment" (he coined the term Senti-meter). The Senti-meter is the Price/Dividend ratio, or the price of $1.00 worth of dividends. It is a sentiment indicator. The premise of the Senti-meter is that while earnings might be illusory, dividends "are what the stockholder receives, that which he can spend," and therefore, of greater influence to investors. Kenneth Fisher has called the Price/Dividend Ratio "the single most powerful indicator of long term stock market direction I've seen. It's so simple, but inexplicably powerful."

Gould calculated the Senti-meter by dividing the DJIA each month by the dividends paid by the Dow stocks for the preceding twelve months. The Senti-meter looked like a thermometer. See Figure 1. Gould called the chart depiction of the ratio the "Senti-graph."

The Senti-meter demonstrated that there are "definable and measurable limits to the emotions of the crowd of investors," helped determine "the concurrent degree of long-term risk in the stock market," and afforded a "framework for making assumptions regarding the probable or potential extent of long-term moves in the stock market."

Gould interpreted a ratio above 30 to show a high level of enthusiasm (or what some would call an overbought market) which evidences a high and risky market. A ratio below 15 indicates worry, lower still fear, and below 10 panic (oversold markets), or price levels that historically have been great buying opportunities or "relatively safe" or "near riskless markets."

During the Depression, the Senti-meter fell to 10.02; the lowest ratio after 1900 had been 8.71 in late 1917. High readings in the 32 to 36 range occurred at market highs in the 1960's and earlier during the 1930's. The reading preceding the 1929 crash was 33.67.

According to stock market researcher Robert W. Colby, "The Sentimeter worked well as an indicator until the years 1991-2000, when the big bull market blew out all historical norms by a wide margin." Since 1991, the Price/Dividend ratio has been over 32, and today is around 50. To some commentators, this high ratio is more proof of a continuing stock market mania.

## III. Decennial Pattern

Edgar Lawrence Smith, with the assistance of Anthony Gaubis, pioneered the Decennial Pattern, and Smith's decennial chart was first published in 1939. The Decennial Pattern shows the annual per cent change for every year of a decade. The Decennial Pattern has been constructed for each full decade from 1881-1890 through 1991-2000.

Smith found that each decade showed three bull market cycles, each of approximately 40 months duration. The strongest bull market cycle was in the middle of the decade. The pattern shows that the 5th year is the strongest year of a decade; the 8th year is a very bullish year; the 1st and 10th years are the most bearish years; and the 2d, 3rd, 4th, and 6th years are good years. See Table 1 and Chart 1. In the annual *Stock Trader's Almanac*, Yale Hirsch updates his "Decennial Cycle" table.

In 1971, Edgar Lawrence Smith wrote that Gould had used Smith's chart of the Decennial Pattern, published in 1939, "as a basis for a correct appraisal of the probable course of stock prices in 1955." Gould wrote in a report titled *Omens for 1955,* issued in late 1954:

> "Our own view is and has been that September 1953 witnessed the beginning of a major bull market that should carry the DJIA well above 400 and last through 1955 and probably beyond…"

Between September 14, 1953, and April 6, 1956, the DJIA rose 103.9%. The DJIA was up 20.77% in 1955. Gould's forecast for 1955 was based on the Decennial Pattern's very strong bull market in the fth year of a decade. Smith concluded, "This, then, shows that an elementary study of periodic recurrences made in the early thirties and published in 1939 was still of use in 1954 to provide a sound appraisal for 1955."

Gould updated Smith's decennial chart through 1970 and published it in his 1974 stock market forecast. Gould's and Smith's charts were constructed using monthly average stock prices for each decade from 1881-1890 through 1961-1970.

The Decennial Pattern was a cornerstone of Gould's technical analysis, and it influenced others. In *The Right Stock at the Right Time*, Larry Williams wrote that after studying Gould's analysis of "the 10-year pattern for stock prices," he had "been handed, figuratively speaking, the keys to the kingdom of stock market forecasting."

## IV. Speed Resistance Lines

Gould developed Speed Resistance Lines ("SRL"). These lines show how fast a trend is moving up (down) based on a significant low (high) and a recent high (low). Visually, they are similar to Fibonacci fan lines, and sometimes are called One-Third and Two-Thirds Lines.

SRLs can be rising or falling. For a rising SRL, the vertical distance between a recent high and a noted low is divided into thirds. Straight lines are drawn from the noted low through the one-third and two-thirds points of the vertical distance. A falling SRL is drawn by dividing the vertical distance from a noted high to a recent low into thirds and drawing straight lines from the high through the one-third and two-thirds points on the vertical distance.

Often, the one-third and two-thirds lines act as support or resistance. An up trend that corrects down to the rising two-thirds line, for example, would indicate that the one-third line may be the next support level.

His well-known indicators may have lost some usefulness, but they were the result of careful study grounded in historical observations, and their usefulness may be confirmed again. We can learn much from Edson Gould's passion for the markets and intense manner of research.

In 1983, Gould retired to his 35-acre farm in Pennsylvania, where he died in March 1987, at age 85 years.

## Figure 1. SCHEMATIC OF EDSON GOULD'S SENTI-METER

| Limits of Emotions of | Yield | Price of $1 |
|---|---|---|

| **the Crowd of Investors** | **Basis** | **of Dividends** |
|---|---|---|
| Enthusiasm | 3% | $33 |
| ↑↑ ***High and Risky Market*** ↑↑ | | $30 |
| Confidence | 4% | $25 |
| Hope | 5% | $20 |
| Caution | 6% | $17 |
| ↓↓ ***Low and Near Riskless Market*** ↓↓ | | $15 |
| Worry | 7% | $14 |
| Fear | 8% | $12 |
| Panic | 10% | $10 |

*Based on Dow Jones Industrial Average prices and dividends.*

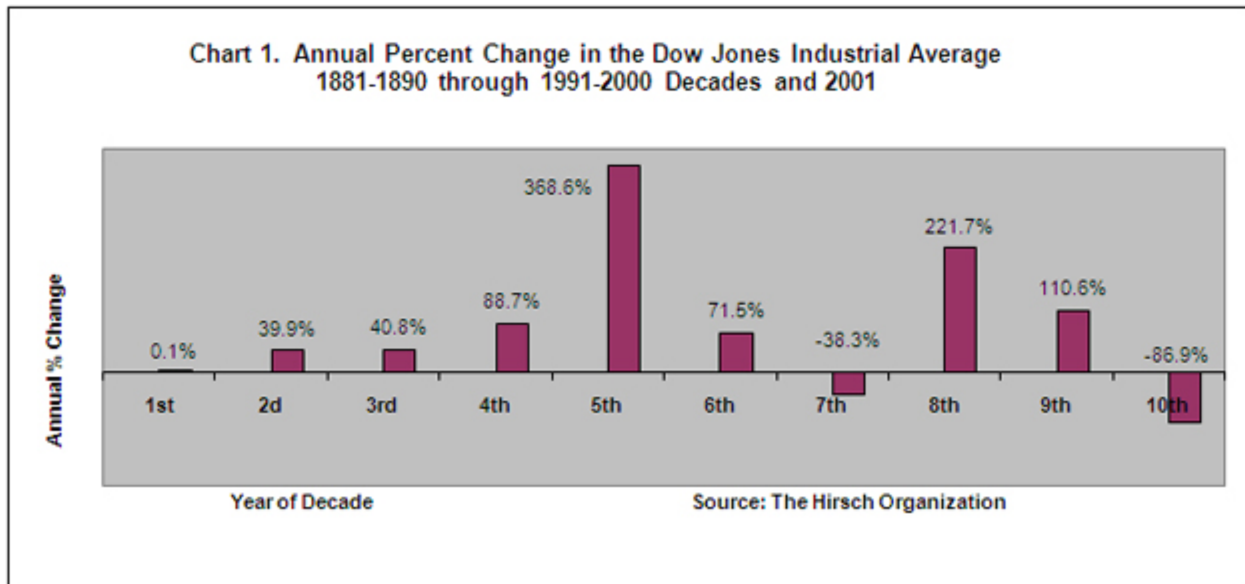
## Annual Percent Change in Standard & Poor's Composite Index 1881-1890 through 1981-1990 Decades

| Year of Decade | 1st | 2nd | 3rd | 4th | 5th | 6th | 7th | 8th | 9th | 10th |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | |
| Total Percent Change | 25% | 32% | 27% | 64% | 254% | 47% | -74% | 164% | 41% | -36% |
| | | | | | | | | | | |
| Up Years | 7 | 8 | 4 | 6 | 10 | 7 | 3 | 8 | 8 | 3 |
| | | | | | | | | | | |
| Down Years | 3 | 2 | 6 | 4 | 0 | 3 | 7 | 2 | 2 | 7 |

*Notes: (1) Based on average December prices. (2) No data recorded for 1881-1884 and 1986-1990.*
*Source: Williams, Larry, The Right Stock at the Right Time, p. 11 (2003)*

## Annual Percent Change in the Dow Jones Industrial Average 1881-1890 through 1991-2000 Decades and 2001

| 1st | 2nd | 3rd | 4th | 5th | 6th | 7th | 8th | 9th | 10th |
|---|---|---|---|---|---|---|---|---|---|
| 0.1% | 39.9% | 40.8% | 88.7% | 368.6% | 71.5% | -38.3% | 221.7% | 110.6% | -86.9% |




*Source: This article is based upon research done by George A. Schade, Jr., CMT. He can be reached at aljschade@aol.com.*

## Comments

No comments have been made yet.

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