



FIGURE 114.1. MO. Talk about your technician's delights. Altria Group throws off some pretty good delights here. A breakaway gap and run days to the downside. A down flagpole with flag. Pattern gaps. But *good* pattern gaps, really interesting. Then a triangle complete with a breakaway and an up flagpole with flag. Of course the nontechnician probably is suffering from nausea at this point. It's an ill roller coaster which bodes ill for everyone. And note well, a completely tradable situation for the alert short-term technician.

the last stage preceding a strictly limited final sell-off. The latter manifestation presumably betokens premature accumulation by interests who feel that prices have already gone low enough to suit their purposes. (They come out all right, of course, if they are able to hold on through the remainder of the Bear Swing and long enough for the next Bull Market to put prices back up again to profitable levels.)

Head-and-Shoulders Consolidations

All our references to the Head-and-Shoulders Formations up to this point (see Chapters 6 and 7) have considered that pattern as typifying a Reversal of Trend, and, in its normal and common manifestation, that is most definitely the Head-and-Shoulders function. But, occasionally, prices will go through a series of fluctuations which construct a sort of inverted Head-and-Shoulders picture, which in turn leads to *continuation* of the previous trend.

There is no danger of confusing such Continuation or Consolidation Formations with regular Head-and-Shoulders Reversals because, as we have said, they are inverted or abnormal with respect to the direction of the price



FIGURE 115. A Flag (end of November) which seemed for several weeks to have failed completely. However, prices rose quickly to $36\frac{1}{4}$ from their December 23 low, thus finally carrying through according to formula. Note Flat-Topped Broadening Formation which started the move.

trend prior to their appearance. In other words, one of these patterns that develops in a rising market will take the form of a Head-and-Shoulders Bottom. Those that appear in decline assume the appearance of a Head-and-Shoulders Top. By the time these price formations are completed (left shoulder, head and right shoulder evident), there is no question as to their implications. But at the head stage, before the right shoulder is constructed, there may be — usually is — considerable doubt as to what is really going on.

The volume pattern in Consolidations of this type does not follow the rule for Reversal Head-and-Shoulders. In a downtrend, for example, the Consolidation Formation resembled in its price contour a Head-and-Shoulders Top, but the attendant volume will diminish instead of increase on the left shoulder and head, as well as on the right shoulder. The same holds true for the "Bottom" Patterns that develop as Consolidation in an advance

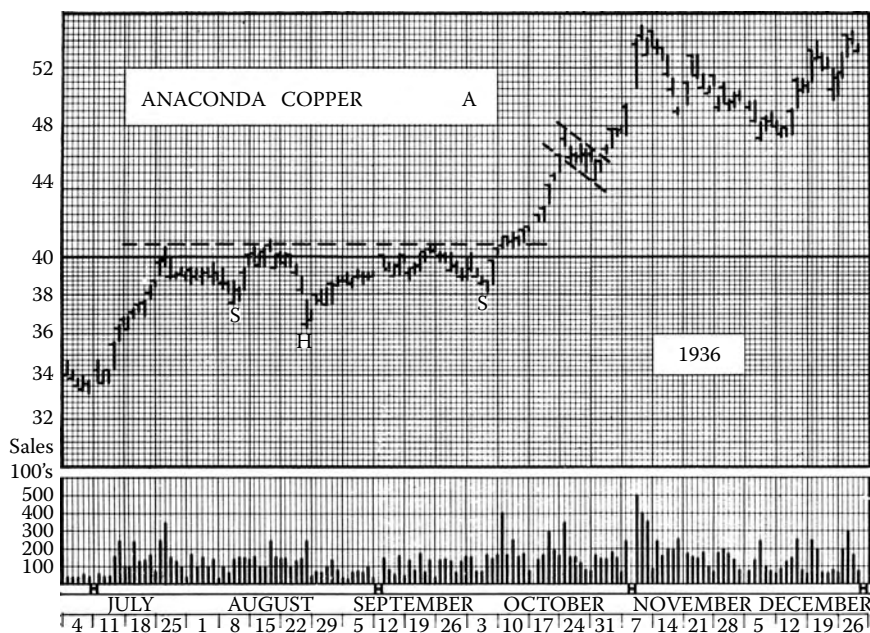


FIGURE 116. Typical of the form that Head-and-Shoulders Consolidation Patterns may take, both as to price pattern and volume, was this development in Anaconda. Measuring formula for the small Flag in October should be applied from the point of breakout through the Head-and-Shoulders neckline.

market. Breakouts, however, resemble in all respects those arising from Reversal Formations.

Head-and-Shoulders Consolidations of the Complex or Multiple-type very seldom appear on the charts. Theoretically, they might, of course, and should be as easy for the chart technician to handle as the simple forms.

The formula for determining the probable minimum price move (beyond the neckline) from a Head-and-Shoulders Reversal Formation was discussed in Chapter 6. To anyone familiar with the verities of stock market trends and the endless variety of pictures that the charts can present, it is amazing how accurately that formula works out, how often the first consequential move away from a Head-and-Shoulders Top or Bottom will carry through to the point (or a little beyond) implied by the measurement of the formation. But, the same formula applied to Consolidation Patterns of the Head-and-Shoulders form does not work out as well. Such patterns are usually quite "flat," and the ensuing move generally extends well beyond the measurement implied thereby, while, in some cases, it may not go quite as far. Consequently, the Head-and-Shoulders formula cannot be applied to Consolidation Areas with assurance that it sets up a definite and dependable objective; one has to look, in these cases, to a variety of other chart indications in order to appraise the probable proportions of the move to follow.

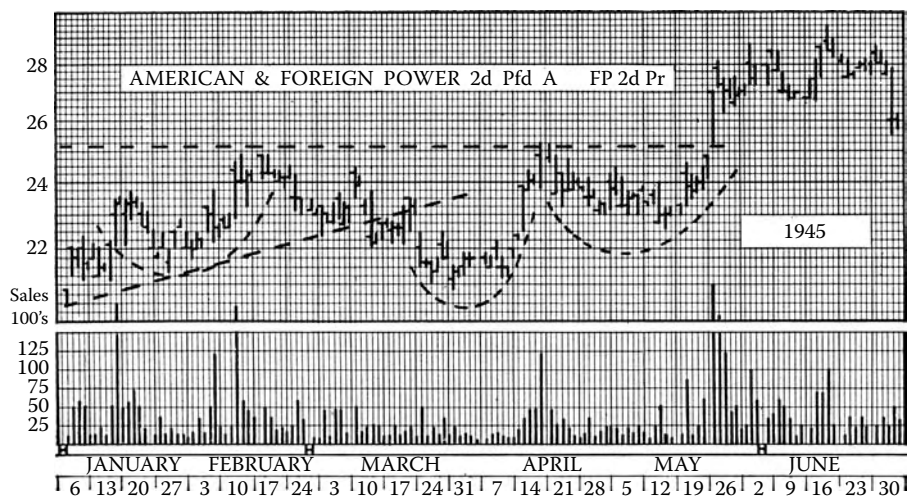


FIGURE 117. A 1945 Head-and-Shoulders Consolidation in which both of the shoulders and the head took a “Saucer” form. Compare price and volume trends. Prices advanced to $31\frac{1}{2}$ in July, came back again to $25\frac{1}{2}$ in August, and then shot up to 40 in November.

Scallops—Repeated Saucers

Our next chart picture differs from the Consolidation Formations previously discussed, in that it does not constitute a more or less definite area of Congestion or fluctuation to which one or more critical boundary lines can be affixed. We could, perhaps, take it up as well in a subsequent chapter under the general heading of normal trend action. Yet it is a pattern so characteristic of certain types of stocks and certain types of markets, and so nearly related to the principle of Consolidation for further advance, that it may better be treated here.

When a stock in which there is a large number of shares outstanding, and in which there is, at all times, a fairly active and “close” market emerges from a long-time Bottom (as exemplified by the past history of Radio Corporation and Socony Vacuum), it will often make a long Major Advance in a series of “Saucers.” These successive patterns, each of which resembles, in both price and volume action, the Reversal Formation described in Chapter 7 as a Rounding Bottom, are slightly uptilted. That is, the rising end always carries price a little higher than the preceding Top at the beginning of the Saucer. The net gain accomplished by each Saucering movement will vary from stock to stock, but there seems to be a strong tendency for it to amount to about 10 to 15% of the price of the issue. The total reaction from the left-hand lip of each Saucer to its Bottom level is usually a little greater, from 20 to 30%. And the length (duration) of the Saucers is normally 5 to 7 weeks, rarely less than 3. Thus, overall advance is slow but steady, in much the