ONE WAY POCKETS

An interesting book written in 1917. Too bad I didn't discover this when I was a teenager.

The following are condensed excerpts from the book, "One-Way Pockets".

The start of a bull move begins in two ways

BUY after a protracted period of dullness and narrow fluctuations, the market breaks through the trading area with increased volume on the advance. The reverse is true for shorting.

BUY after a period of declining prices or dullness, or the market advances or refuses to go down following BAD NEWS. The market should absorb the news for an entire day and should be bought only after the market advances above the point where the news was received.

What to buy

Two or three active stocks is recommended but *don't pick the ones that have shown the greatest weakness*. *The issues to select are the active ones that have declined the least*.

News

Stocks sold on news will bring the lowest prices of the day because each seller is competing with other sellers who have learned the news at the same time.

Stop orders

Place your stop order one point below the low that occurred at the bottom of the latest range and the reverse is true for shorts. A stop order will prevent a poor guess from turning into a serious loss.

First correction

Don't make the mistake of trying to anticipate the top no matter how firmly you believe that the advance has gone "too fast" or "too far".

It's at this stage of a bull market that those who have guessed right on the trend try to trade the secondary reaction. Don't short sell at this stage of the advance and don't sell long stock.

This correction is not likely to wipe out more than half of the previous advance. Your position should be strong enough to increase your commitment when the market shows the first sign of resistance on the downside.

The correction may catch the stop loss orders placed by traders a few points under the top. Having done this, it usually rallies so quickly that the traders have no opportunity to buy back in except at higher prices.

The first selling point

Because it's impossible to determine whether the market is going higher, you should sell on the recovery to the former high. The stock should be bought on the correction and kept until the trend is clear.

The process of increasing your position on the corrections and decreasing it on the recoveries should be repeated as long as the market continues to advance into new high territory.

The great distribution

The time will come when instead of resuming the advance stocks will mark time in the vicinity of the previous top. The old leaders will be replaced and give the unwary speculator the impression that the bull-move has resumed. Stocks that are being distributed will have sharp but short-lived advances followed by a gradual decline. The entire market will have a highly irregular appearance. *Before this stage is reached the market usually has several successive days in which the volume is very high with intense speculative excitement.*

The topping action is similar to that displayed on several other occasions but the public is now a large buyer. Their orders are placed in active stocks several points below the top and *the demand moves the market back and forth within a trading range. This is the great distribution stage.* Its duration depends upon the extent of the previous advance, the volume being offered for sale and the buying capacity of the public.

When these symptoms are observed and the market fails to advance to new *ground, sell all stocks. Not only is this the time to sell long stock but it is also the time to open a position in shorts.*

Covering shorts too soon

Short that are placed early in a bear market are invariably covered too soon and resold at lower prices. It's the same as long stock bought at the start of a rising market that is quickly sold and later repurchased at higher prices.

Cover your shorts when the market no longer goes down on bad news or when it moves up through a trading area as described in the start of a bull movement.