• *Report on Fats and Oils*

Footprints in the Sands of Time

TRADERS ATTEMPT to forecast commodity prices in all sorts of ways, from blind superstition to exacting punch card analysis. Somewhere in between these extremes lie the mechanical approaches to forecasting. Mechanical methods can be used either as a sole guide or as a supplement to conventional analysis. The tools range from complicated "power indices" to simple line-charts.

It is probably necessary for a successful trader to have at least a passing knowledge of charts and to follow the charts on the commodities that he is currently trading. This does not constitute an endorsement of them, simply recognition of the fact that so many traders do follow them that they can be a potent short-term market factor. Any trader who ignores a potent factor is asking for trouble. He simply is not as well informed as those against whom he is trading.

There are very nearly as many chart systems as there are chartists, and reactions to the same formations often differ. However there is enough agreement so that we can discuss general principles. The most widely used types of charts are vertical-line charts (Figure 1) and point-and-figure charts (Figure 2).

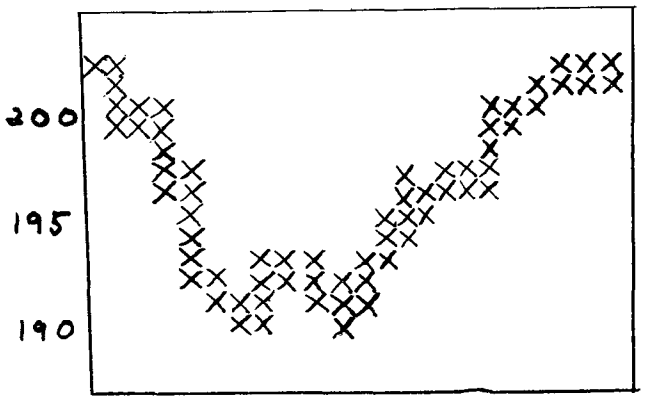

FIG. 1.

Moving average charts have less following than they once had, but many traders still use 3, 5, and 10-day moving average charts as checks on their usual systems. One reason for the popularity of vertical-line charts is their ease of construction. Only the day's high, low, and closing figures are needed, and these are readily available. Vertical-line charts are frequently supplemented by showing on the same chart volume (as in Figure 1) and/or open interest. (The theory is that certain formations gain or lose significance if accompanied by especially light or heavy volume or a big open-interest change.)

The letters on Figure 1 refer to some of the more commonly looked-for chart formations. A-B is a "gap," and tradition has it that the market will shortly reverse sufficiently to "close the gap." Another gap appears at C-D. These two gaps isolate the formation B-C, known as an "island" and considered to portend a major move. The areas E-F and F-G are fairly distinct "trends." Traders will tend strongly to stay "long" in an "uptrend" and "short" in a "downtrend" until such time as the trend shows signs of tiring or turning, a situation illustrated by the erratic action G to H. An uptrend "line" would normally be drawn along the lows, a downtrend line along the highs. Some chartists draw a "channel," a line along both highs and lows. The area I-J-K shows a typical "head-and-shoulders top." A bottom would be indicated by a "reverse head-and-shoulders," *i.e.*, upside down. In this case the break-out from the head and shoulders resulted in L, "a climax reversal," a new low followed by an higher close.

Note that the "climax" seems to be confirmed by the big volume for that day. M is a "flag congestion" area. The bunting portion of the flag is supposed to point in the direction of the subsequent break-out. N is a "pennant

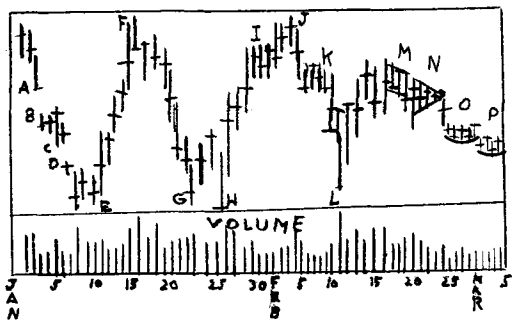

FIG. 2.

congestion," alternatively a "coil." This is felt to presage a strong move, direction unknown. O and P are part of a "scallop" formation, indicative that the market is trying to "bottom out."

"Point-and-Figure" charts are much more difficult to construct than line charts. Either the trader or a paid chart service must watch the tape constantly for every change equal to or larger than the magnitude required to call for a new "tick" (reversal) on the chart. Figure 2 is a "one-cent reversal" chart. On point-and-figure charts price action is *not* plotted against time. This is supposed to help reject meaningless action. The size of the "reversal" is entirely arbitrary and can be varied from time to time, depending on how fine a history of price movement is desired. Many chartists use point-and-figure especially for the "count," a mechanical way of guessing how far a move should carry. Because of the way they are constructed, formations as such seldom appear on a point-and-figure chart. The only exceptions are trends and head-and-shoulder shapes.

Charts have some other points of merit in addition to the above-mentioned aid in reading the minds of other traders. 1. Many traders need the aid in making decisions that charts offer. 2. Anything that tends to systematize a person's trading is usually to his benefit. 3. Charts frequently prevent traders from getting stubborn and fighting a market. 4. Despite the old joke that "the more lines on the chart, the more patches on the pants," there are many successful traders who religiously follow only these footprints in the sands of time.

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• *New Literature*

ARMOUR ALIPHATIC ORGANIC CHEMICALS. A 10-page catalog giving specifications and chemical composition of saturated fatty acids, oleic, unsaturated fatty acids, and 150 fatty acid derivatives. Armour Industrial Chemical Company, 110 N. Wacker drive, Chicago 6, Ill.

AMINCO HYGROMETER CATALOG. A 69-page publication containing descriptions and illustrations of moisture-detection, control, and alarm equipment. American Instrument Company, 8030 Georgia avenue, Silver Spring, Md.

SERVICES AND PRODUCTS FOR THE PROCESS INDUSTRIES. Includes tank cars, tank storage terminals, mixers, dryers, and nickel-alloy coating. General American Transportation Corporation, 135 S. LaSalle street, Chicago 90, Ill.

MELTING-POINT APPARATUS. A four-page bulletin, No. 133, on Hoover melting-point apparatus. Arthur H. Thomas Company, Box 779, Philadelphia 5, Pa.

CHEMSTOR GLASTEEL TANKS. Bulletin 975 describing storage tanks which combine glass for product protection and steel for strength. Pfaudler Company, 1097 West avenue, Rochester, N. Y.

PRODUCTS OF THE DOW CHEMICAL COMPANY. The 1959-60 general catalog. Dow Chemical Company, Midland, Mich.

TEFLON. Describes the complete line of beakers and other laboratory ware available in DuPont's Teflon. E. H. Sargent and Company, Dept. TW, 4647 W. Foster avenue, Chicago, Ill.