The meaning of technical analysis has always been understood

Daniel L. Chesler
http://www.chesler.us

For years we have been criticized (and worse) by some people for attempting to advance a definition of technical analysis into the financial community which explicitly denies the inclusion of any data not generated from the buying and selling of securities. Some of our detractors include famous technicians, while others sit on the Boards of Very Famous Technical Analysis Associations, bless their twisted souls. The meaning of technical analysis however has always been very clear and un-ambiguous, assuming one is willing to pay respect to well over a century of precedent.

The following is an adaptation of material that first appeared as a continuing series of articles in the Magazine of Wall Street, ca. 1920. Publisher, Richard Wyckoff obtained the original material through exclusive interviews with Jesse Livermore at a time when Livermore was perhaps the single most formidable factor in the stock market. This particular part of the interview was titled "How Livermore Reads the Tape." The interview impressed us as an uncanny, narrative description of modern technical analysis. We therefore took the liberty of reformatting and modifying the original text by replacing all original terms such as "tape reading" and "Livermore" with terms such as "technical analysis" and "technical analyst."

* * * * * *

Everyone familiar with Wall Street knows that the stock market does not drift about aimlessly, even though it does reflect the attitude of many people, for the public is unorganized and few of those who participate in the great game know what their neighbors are doing. But the large interest and the leading operators have a very clear idea of what they believe certain stocks should sell at or can be made to sell at, and their efforts to induce buying or selling or inactivity at certain levels are problems for the tape reader and technical market analyst to solve.

Technical analysts judge the probable future course of the market by the market's own action. The tape means much to the technical analyst, for it shows the real purpose behind the bit of propaganda skillfully press-agented for public consumption.

The tape is a moving picture with no two flashes alike; the picture changes about every two seconds. Each alteration bears a certain relation to what has passed and casts the shadow of what is coming. To read and mentally assimilate these stock market flashes and apply rapid-fire horse-sense to them continuously through a four or five-hour session, to extract the essential facts and sense the purpose and probable outcome of what is happening, is the technical analyst's daily job.

These are some of the things the technical analyst studies:

- Whether opening prices are above or below the previous closing
- Which markets are showing weakness or strength at the opening
- Which groups are strongest and weakest
- Whether former leaders are hesitating and which others are coming to the fore
- The power of the strongest or weakest groups to act as a stimulus or to retard the rest of the market
- Probable meaning of this weakness or that strength, the volume of trading in the whole market; whether it is increasing or decreasing compared with yesterday, last week, last month
- The way in which leaders and secondary leaders respond to stimulation or pressure
- Nature of the buying or selling, whether mostly manipulative, professional or public
- Swiftness or sluggishness of the advances or declines and the frequency with which these occur; which lasts the longest; their distance apart
- How the market and certain stocks act at the points of resistance, its ability to absorb selling or to supply stocks
- Whether the principal institutions are accumulating, marking up or distributing
- Whether there is evidence of very much inside operating; whether it is heavy or light
- What the floor traders are doing
- General position of these professionals-long or short, light or extended
- Character of the securities being absorbed or liquidated by the public
- Influences to which they respond; ability of the market to sustain itself without artificial stimulation or pressure
- Changes in its condition when the bulls suddenly abandon their tactics
- Which stock in a certain industry is acting the best or the worst
- Are insiders taking their time or trying to force a certain situation
- Whether certain stocks go up easily or whether they show a lack of supporting orders and therefore break badly under little pressure
- Whether insiders are buying openly or under cover; cautiously or boldly, and why
- When the small or large swings run their courses
- Relative position of the market today compared with previous days, months and years
- Which issues have stopped going with the trend or have begun a reverse movement
- And most important of all: when it is time to act (commit) in a big or small way

These are only a few of the main considerations which help to form the technical analyst's judgment as to whether his present or contemplated commitments are right or wrong; whether he should maintain his position, flop to the other side or get out of the market altogether.

Long practice at the business has put so keen an edge on his judgment that it is almost intuitive. He expects the tape to tell him what is going to happen far in advance of the event, for what is known to one or more persons operating in the stock market is more or less certain to be indicated by their own transactions or those growing out of the situation thus disclosed. He knows that the first thing a person does when he discovers something which may alter the value of certain securities, is not to print it on a news ticker but to buy or sell the stock himself, and then tell his friends about it. That is one kind of "news" the technical analyst looks for on the tape in his continuous study of the action of the market.

The psychological condition of the Street, meaning the reaction taking place in the minds of the public, as a result of various developments that come to hand from hour to hour, has a very tangible effect upon the market. No one who is operating in a large or small way, or is attempting to float securities or accumulate them, can afford to ignore this highly potent factor, and its effect upon supply and demand. Some large interest may be attempting to buy 50,000,000 shares of a certain stock, and the attitude of the public or numerous investors is such that the latter are induced to liquidate their holdings. The selling of, say, 500,000 shares from this source would be sufficient to nullify the effect of the large interests' accumulation and the market would consequently decline instead of advance. From this it will be seen why the psychological conditions are so important, for no one can anticipate the effect of any special developments on the public mind. Judging these conditions – anticipating the probable effect of them – is one of the technical analyst's most important considerations.

It would be an error to say that he is not concerned with the small intermediate swings, for he is deeply interested in every kind of a movement that appears on the tape. He carefully observes the development of the swings running from five to twenty points and occupying periods of from a week to sixty days, and he studies intently the two, three and five-point dips and rallies, for all of these play their part in forming that vast stream known as the stock market which, though frequently altering its course, follows the line of least resistance until its journey upward or downward is ended. Just as the panics announce to him that it is time to cover and go long, so the topmost section of bull markets exhibit earmarks that a practiced eye may discern. He watches for these because he endeavors to see them before anyone else, and particularly in advance of the institutions and other large operators whose strategy he undertakes to solve.

Being intimately acquainted with all the booms and panics that have occurred during the past 100 years, he possesses what might be known as an educated perspective. Hence, while other people are saying the country is going to the dogs, and emphasizing their opinions by closing out or selling short, he watches carefully for what he terms the psychological buying moment. Every little thing that happens means much – the pounding by the bears, the public liquidation, the hopeless trade reports – speak volumes. But what he is most deeply interested in is the way in which the selling is absorbed – the resistance that it encounters at different levels; the volume of trading, the hysterical efforts of the various interests who are trying to depress prices; the tactics they use, and the lies they tell. Each factor has its weight, especially at this particular stage of the game. And it is a game, the greatest in the world, played by millionaires and billionaires whose knowledge, power and resources are employed in the anticipation of the worldwide changes in conditions that govern the main swings in the prices of securities from low to high and back again. Knowing that any one or set of individuals, no matter how rich or how powerful, is only partly intelligent, he strives to discern the concrete expression of all those millions of minds.