HOW TO TRADE

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After you have thoroughly mastered all of the lessons, be sure you are right before you make a trade. Never guess. Trade on scientific indications only.

WHAT YOU MUST KNOW BEFORE YOU START TRADING:

You must know exactly how to apply all the rules; how to draw the geometrical angles or moving-average lines from tops and bottoms; how to square Time with Price; how to bring on the important 45° angles or lines, which represent a moving average. You must know where to place a stop loss order and must look up what cycle the year is in, that is, determine from the Master Forecasting Chart whether it is a bull or bear year, whether the main trend should be up or down.

Before you make a trade, either buying or selling, consider the position of each individual stock on the monthly chart; next consider the weekly chart and then the daily chart. If they all confirm an uptrend, it is a cinch to buy, provided you have located the point at which to place a stop loss order. On the other hand, if the cycle shows that it is a bear year and the monthly, weekly and daily charts show downtrend, then it is the time to go short, but again you must look for the most important point—where to place the stop loss order so that it will not be more than 3 points away and closer if possible.

WHAT TO LOOK UP BEFORE YOU MAKE A TRADE:

Following are the most important points that you must consider before buying or selling a stock:

1. Annual Forecast determines year of Time Cycle, whether bull or bear year, and main trend of the general market, up or down.

2. Cycle of individual stock, whether up or down year.

3. Monthly position on angles from tops and bottoms and time periods.

4. Weekly position on time periods from tops and bottoms and on angles from tops and bottoms. See if it is squaring out Time from top or bottom.

5. Daily position on angles from important tops and bottoms and time periods. See whether a stock is near square of recent top or bottom.

6. Resistance Levels on price. See whether the stock is near any half-way point or other points of support or resistance.

7. Look to see if stock has held for several days, weeks or months around same level and whether it is about ready to cross or break important angles from tops or bottoms.

8. Look up volume of sales. See whether a stock has increased or decreased volume over past few days or weeks.

9. Look up space or price movement, up or down, for past movements. Find out what was the greatest advance or decline for past few weeks or months. For example: If a stock has reacted 5 points several times and at the time you

look it up, you find it is 3 points down from the last top and the trend is up on monthly, weekly and daily with the price near a support angle, you could buy with a stop loss order 2 to 3 points away; then if the stock broke back over 5 points, the previous reaction limit, it would show a change in trend and you should be out of it.

10. Remember, the most important factor to depend on to determine the position of a stock is Geometrical Angles. Be sure to bring up the angles from "0" from recent tops and bottoms.

11. Never overlook the fact that you must have a definite indication before making a trade.

12. Most important of all--Always locate the point at which to place a stop loss order to limit risk.

PRACTICE TRADING ON PAPER:

After you feel sure that you have mastered all the rules and know exactly how to determine the trend of a stock and the place to begin trading, then to make yourself doubly sure and establish confidence, practice trading on paper until you thoroughly understand how to use the rules and when to use them. If you make mistakes trading on paper, then you would make mistakes at that time in actual trading and you are not ready to begin trading. When you feel that you are competent to start trading, apply all of the rules and trade only on definite indications. If you are not sure of the trend or the buying and selling price and not sure where to place a stop loss order, then wait until you get a definite indication. You can always make money by waiting for opportunities. There is no use getting in partly on guesswork and losing.

WHEN TO CLOSE A TRADE:

After you start actual trading, when you make a trade, don't close it or take profits until you have a definite indication according to the rules that it is time to sell out or buy in or to move up the stop loss order and wait until it is caught. The way to make a success is to follow the trend always and not get out or close a trade until the trend changes.

WHEN TO WAIT AND NOT TRADE:

It is just as important to know when not to enter the market as it is to know when to enter it. The time not to make a trade is when you find a stock has been holding in a narrow trading range for some time, say, a 5-point or a 3-point range, but has not broken under bottoms previously made or crossed tops previously made. A stock may stay for weeks or months or even years in a trading range and will not indicate any big move or change in trend until it crosses a previous top or breaks a previous bottom. If a stock is inactive in this position it is no time to start trading in it.

Another time not to make a trade is when a stock has narrowed down between two important angles--has not broken under one or crossed the other. Wait until it gets out in the clear and gives a definite indication before you trade.

After a prolonged decline stocks nearly always narrow down and hold in a trading range for some time. Then you should wait until the angles from the bottom are broken or the angles from the top are crossed and the stock breaks over an old top before you make a trade. In other words, at all times trade when you have a definite, well-defined trend.

CAPITAL REQUIRED FOR TRADING

Before you do any trading, you must know the amount of capital required to make a success trading and the exact amount that you must risk on any one trade in order to always have capital left to trade with.

You can begin trading in 10 shares, 100 shares, 1000 shares or any other amount, but the main point is to divide your capital properly and to distribute the risks equally to protect your capital.

Whatever amount of capital you use to trade with, follow this rule: Divide your capital into 10 equal parts and never risk more than 10% of your capital on any one trade. Should you lose three consecutive times, then reduce your trading unit and only risk 10% of your remaining capital. If you follow this rule, your success is sure.

As a general rule, I have always considered it advisable to use at least $3,000 capital for every 100 shares of stock traded in and to limit risks to 3 points or less on every trade. In this way you will be able to make 10 trades on your capital and the market would have to beat you 10 consecutive times to wipe out your capital, which it will not do. You should try to make trades at a price where it will only be necessary to use one to two-point stop loss orders, which will cut down the risk.

If you want to start trading in small units of stock, use a capital of $300 for each 10 shares and never risk more than 3 points on the initial trade. Try to make the first trade, if possible, where your stop loss order will not be more than one or two points.

ALWAYS FOLLOW RULES: Decide this important point before you start trading. If you do not intend to follow the rules strictly, do not begin trading. Never allow guesswork or the human element to enter into your trading. Stick to the "Capital" rule and under no condition risk more than one-tenth of your capital on any one trade. Follow the mathemtical rules and you will make a success.

PYRAMIDING

You should only pyramid or increase your trading in active markets where volume is above normal. The position on angles and volume of activity will show you when to pyramid. You should never begin pyramiding until a stock has gotten into a strong position on angles or into a weak position on angles, or until it has broken out of a trading range by crossing old tops or breaking old bottoms.

HOW TO PYRAMID:

If you are trading in 100 shares, after you have made your first trade with a risk limited to 3 points or 10% of your capital, then do not pyramid, or buy or sell a second lot, until the market has moved at least 5 points in your favor; then when you buy or sell a second lot, use a stop loss order not more than 3 points away on both trades.

Example: We will assume that after buying the second lot, the trend reverses and the stop loss orders on both trades are caught 3 points away from where you bought the last lot. This will give you a loss of 3 points on the last trade and a profit of 2 points on the first trade, or a net loss of only one point. On the other hand, if the market continues to move in your favor, your profits will be twice as much after buying the second lot.

Whe the market has moved 5 points more in your favor, you buy a third lot, moving up the stop loss orders on the first and second lots and placing a stop on the entire lot of three trades not more than 3 points away and closer, if possible.

Continue to pyramid as long as the market moves 5 points in your favor, always following up with stop loss orders. When a stock selling between 5 and 75 a share has moved 15 to 25 points in your favor, you should begin to watch for a change in trend and be careful about buying or selling another lot on which you may have to take a loss.

THE RUN OR PYRAMIDING MOVE:

The big money in pyramiding is made in the run between accumulation and distribution, that is, after a stock passes out of the zone of accumulation. Pyramids should be started after double or triple tops are crossed and the stock clears the zone of accumulation. Then, when you get into this run, buy every 5 points up, protecting with a stop loss order not more than 3 points away from the last trade.

Reverse this rule in a declining market: After double or triple bottoms are broken and the stock clears the zone of distribution, sell every 5 points down, protecting with stop loss orders not more than 3 points above the last trade.

FAST MARKETS AND WIDE FLUCTUATIONS:

When stocks are very active and moving very fast, selling above $100, then you will find it best to make trades 7 to 10 points apart. The angles and price Resistance Points as well as old tops and bottoms will determine points to place stop loss orders with safety.

In fast-moving markets, like the panic of October and November, 1929, when you pyramid on active stocks and have very large profits, you should follow down, with a stop loss order about 10 points away from the market. Then, after a severe decline reduce stop loss orders, placing them about 5 points above the low level. When a market is moving as fast as this, you should not wait for the stock to get into a strong position on angles. Reverse this rule in an advancing market.

SAFEST PYRAMIDING RULE:

One of the safest rules to use for pyramiding when stocks are selling at extremely high levels or extremely low levels is to start with 100 shares and when the market moves 5 points in your favor, buy another 50 shares; then when it move 5 points more, buy or sell 30 shares; then on the next 5-point move in your favor buy or sell 20 shares, and continue to follow the market up or down with this amount until there is a change in the main trend.

WHEN NOT TO PYRAMID:

Safety is the first consideration in starting or continuing a pyramiding campaign in a stock. Mistakes are made by buying or selling a second lot too near the accumulation or the distribution point. After a big move up or down, you must always wait for a definite change in trend before starting a pyramid.

Never buy a second lot for a pyramid when a stock is near a double top or sell a second lot when a stock is near a double bottom.

A stock often holds several days or weeks in a range of 10 to 12 points, moving up and down, not crossing the highest top or breaking the last bottom made. As long as it remains in this range, you should not pyramid. When it gets out of this range, crossing the highest top or breaking the lowest bottom, then it will indicate a bigger move and you should start to pyramid.

Always check and double check, follow all the rules, study the major and minor time cycles for forecasting, the angles from tops and bottoms, the Resistance Points of Price between tops and bottoms. If you ignore one important point, it may get you wrong. Remember, the whole can never exceed all of its parts, and all of the parts make up the whole. If you leave out one of the parts or one of the rules, you do not have a complete trend indicator.

W. D. Gann

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