The Law of Supply and Demand

I had been in Wall Street 20 years when I discovered that it was possible to judge the future course of the market by its own action. . . . I stated my experience and observations in 1909 as follows:

> *I saw more and more that the action of stocks reflected the plans and purposes of those who dominated them. I began to see possibilities of judging from the very tape what these master minds were doing. My editorial work was proving a most valuable means of self-education. In gathering material that would benefit my readers, 1 was actively searching out the stuff that would aid me personally. While my subscribers were given the best of what I collected, there was much in material discarded which helped to build up what I might call a code of enlightened procedure for use in this greatest of all the world's games.*
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> *I had a friend who had been a member of the Exchange and who was well up on the technique of the market from the standpoint of the floor trader. We often discussed the difference between reading the tape simply to follow price changes (as most clients did) and reading the tape in order to judge the probable action of stocks in the immediate future.*
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> *Starting from the simple ground that the logical action of a stock was to decline when offerings exceeded the number of shares bid for, and to advance when the amount bid for was greater than the amount offered, we agreed that the quantity or volume of stock changing hands in each succeeding transaction was of great importance. Anyone who undertook to rend the minds of the momentary buyers and sellers was able to measure, to a certain degree, their eagerness or anxiety to buy or sell; also to measure the force of the buying power or selling power as shown by the number of shares; and to judge of the purpose behind the action, whether it was to buy without advancing the price, or to force the price up, or to mark it down, or to discourage buying or selling by others, as the case might be.*
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> *Each transaction carried with it certain evidence, although it was not always possible to interpret that evidence. All stocks no matter by whom they were owned, bought or sold, looked alike on the tape. But the purposes behind this buying and this selling were different and these might be fairly clear to those who understood market psychology.*
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> *Each transaction, although recorded only once, represented a meeting of minds; those of a buyer and a seller. This meeting of minds took place at a certain post on the floor of the Stock Exchange, even though the buyer might be in the far west and the seller in Europe.*
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> *Not all transactions were significant, but the interpreter must detect those which were. He must see that some indicated a purpose. Some one or some group was carrying, or attempting to carry, something through. He must take advantage of that.*

Continuing my studies of the tape, I realized that the Basic Law of Supply and Demand governed all price changes; that the best indicator of the future course of the market was the relation of supply to demand.

The Law of Supply and Demand operates in all markets in every part of the world. When demand exceeds supply, prices rise, and when supply is greater than demand, prices decline. This is true not only of stocks; it is constantly being demonstrated in markets for wheat, corn, cotton, sugar and every other commodity that is bought and sold; also, it is reflected in other markets such as real estate, labor, etc.

. . . the stock market, by its own action, continually indicates the probable direction of its immediate and future trend, and anyone able to determine this with accuracy should attain success in trading and investing. . . . The trend [is] simply the line of least resistance. When a stock [meets] opposition in its rise, it must either be strong enough to overcome this resistance (selling) or it must inevitably turn downward, and when, in its downward course, sufficient buying [is] encountered to halt the decline, it [will] turn upward. The critical moments in all these various phases of the market [are] these minor and major turning points, or else the points where the price [breaks].

. . .

Whenever you study the tape or a chart, consider what you see there as an <u>expression of the forces</u> that lift and depress prices. Study your charts not with an eye to <u>comparing the shapes</u> of the formations, but from the viewpoint of the <u>behavior</u> of the stock; the <u>motives</u> of those who are dominant in it; and the successes and failures of the buyers and sellers as they struggle for mastery on every move. The struggle is continuous. The tape shows all this in detail. The charts enable you to pick the market apart and study whatever portion or phase of it you choose.

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The tape is like a moving picture film. Every minute of the day it is demonstrating whether supply or demand is the greater. Prices are constantly showing strength or weakness: strength when buyers predominate and weakness when the offerings overpower the buyers. All the various phases from dullness to activity; from strength to weakness; from depression to boom, and from the top of the market down to the bottom – all these are faithfully recorded on the tape. All these movements, small or great, demonstrate the workings of the Law of Supply and Demand. By transferring to the charts portions of what appears on the tape, for study and forecasting purposes, one is more readily enabled to make deductions with accuracy.

. . . <u>prepare your mind for [this] by discarding most of the factors that you have heretofore employed</u> in forming your judgment and making your decisions, such as: tips, rumors, news items, newspaper and magazine articles, analyses, reports, dividend rates, politics and fundamental statistics; and especially the half-baked trading theories which are expounded in boardrooms and popular books on the stock market.

It is not necessary for you to consider any of these factors because the <u>effect of all of them</u> is boiled down for you on the tape. Thus the tape does for you what you are unable to do for yourself; it concentrates all these elements (that <u>other people</u> use as a basis for their stock market actions) into the <u>combined effect</u> of their buying and selling.

You draw from the tape or from your charts the comparatively few facts which you require for your purpose. These facts are: (1) price movement, (2) volume, or the intensity of the trading, (3) the relationships between price movement and volume and (4) the time required for all the movements to run their respective courses.

You are thus far better equipped than the man who is supplied all the financial news, statistics, etc., from the whole world.

I, therefore, claim that:

> You need never read anything on the financial page of your newspaper except the table of stock prices and volumes.
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> You need pay no attention to the news, earnings, dividend rates or statements of corporations.
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> You need never study the financial or the business situation.
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> You need not understand railroad or industrial statistics, the money market, the crop situation, the bank statements, foreign trade or the political situation.
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> You can absolutely ignore all the thousands of tips, rumors, reports and especially the so-called inside information that flood Wall Street.
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> You can discard all of these completely and finally.

UNLESS YOU DO THIS YOU WILL BE UNABLE TO GET THE BEST RESULTS FROM YOUR MARKET OPERATIONS.

--Richard Wycoff, 1931