

Copied from THE W.D. GANN MASTER STOCK MARKET COURSE which sold for \$2500US in 1954 which had the same buying power as \$22437 in 2017

**[MECHANICAL STOCK TRADING METHOD]
 METHOD FOR TRADING WITH THE OVERNIGHT CHART**

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The Overnight Chart and the method for operating it is purely mechanical. You use no judgement but simply follow rules and reverse your position when the Overnight Chart indicates it.

If you buy and sell and use stop loss orders according to rules, this Method will make a large amount of profits over a long period of time.

The Overnight Chart is taken from the daily high and low chart and the rule for keeping it is as follows:

- As long as a stock makes higher bottoms each day, you move the Overnight Chart up, but the first day it makes $\frac{1}{4}$ point or more under a previous day's bottom you move the Overnight Chart down to this level, but always recording the highest top reached before the Overnight Chart turns. Then as long as the Overnight Chart makes lower bottoms, you continue to move
- It down. Should it make a higher bottom and a lower top the same day, you would move it up to the top of that day because the Overnight Chart is based on bottoms.
- When there is a wide swing and the market runs up early in the day and makes a higher top than the previous day and then runs down later in the day and makes a lower bottom, you first move your chart up to the top, or highest point reached during the day, and then bring it down to the lowest level.
- Then suppose next day it makes a higher bottom, you move it up to the top of that day.
- You can use the Resistance Levels in connection with the Overnight Chart, but the only rule that I use in connection with the trading record on U.S. Steel, which will follow, is the halfway point, or taking extreme low and extreme high of the last move and dividing it by two to get the gravity center or half-way point. Then buy or sell when this point is reached and protect it with a 1 point stop loss order. The other trading indications are according to the Overnight Chart.
- When a stock reaches a new high where you have no Resistance Levels between a previous high and a previous low, you simply follow the Overnight Chart and reverse position when the rule indicates it.
- You should watch the daily highs and lows, on your daily chart around Permanent Resistance Levels as they will help you to determine a change in the major or minor trend on the Overnight Chart.

RULE 1: Buy or sell on double or triple tops or bottoms with a stop-loss order 1 point above the top or 1 point under the bottom. This is the rule that I use. However, many times you will make more money if you use a 3 point stop loss order but by using a 1-point stop loss order most of the time, the stop will not be caught very often and when it is, it will be time to reverse. The greatest advances and declines usually start from triple tops or bottoms, but remember that these triple tops or bottoms must be several weeks or several months apart to be of great importance. Triple tops or bottoms which are only a limited number of days apart do not mean such big moves as those that occur weeks or months apart.

RULE 2: When a stock reaches the same top or bottom the 4th time, especially if it is several weeks or months apart, it nearly always goes through. Therefore, when you buy or sell the 4th time at a bottom or top, you must always use a 1-point stop loss order over the top or under the bottom.

RULE 3: When the overnight Chart makes top or bottoms on Resistance Levels like the 1/2, 2/3 and 3/4 points, you should buy or sell with a stop loss order 1 or 2 points under these exact Resistance Levels. As a general rule, the stop should be 1 point.

RULE 4: When your stop loss order is caught, it indicates that the Overnight Chart has reversed, so you should reverse position and double up every time it is caught. You will make a great deal more money trading in this way, as will be shown by the trading operations which follow on U.S. Steel. In my trading, the only place where I do not reverse position, that is, double up when the stop loss order is caught, or the trend changes, is where there is no second top or bottom close enough for me to place a stop loss order if I reverse position. As a general rule, I place the stop loss order 1 point above a previous top or 1 point under a previous bottom.

RULE 5: The rule for pyramiding is to sell or buy half as much as your trading unit every 3 to 5 points apart, determining the distance according to the activity of the stock and according to previous Resistance Levels which are broken. Your 3rd trade in a pyramid should be one-half the amount of your 2nd trade, your 4th one-half of the 3rd, and so on. In this way, you take your greatest risk first, then when you make the 2nd, 3rd and 4th trades, you are reducing your trading units, therefore when a stop loss order is caught, your loss will be small on the last trade in the pyramid and large on the ones that you bought or sold the most of first. Suppose you are pyramiding a stock when it has declined or advanced 20 or 30 points and has a fast move up or down without making any change on the Overnight Chart. In nearly every case before the trend changes, the Overnight Chart will make a reverse move and allow you to place your stop loss order at least 3 to 5 points away from the bottom or top, but when you have a very large profit and the market has a sharp move one way or the other, and you have a pyramid, you do not want to lose any more of your profits than you can help. In this case, I usually pull my stop loss order down 5 points from the low level each day or, if on the up side, place it up 5 points under the high level, then when the market makes the first reverse move of 5 points, I am out on stops on all of the pyramiding trades.

RULE 6: For very active, fast moving stocks, especially when they are at high levels, you should wait for a change in trend on the Overnight Chart before reversing position. By a change in the Overnight Chart, I mean wait until it breaks a previous low level, or crosses a previous high level, in case you are operating on the down side.

RULE 7: After any big advance or decline, reverse position when Overnight Chart shows a change in trend, that is double up on changes and go with the trend. The big money is made by going with the trend. That is why every time the trend changes or a stop loss order is caught, we reverse position. If the trend has changed and it is time to sell out longs, it is also time to go short, and vice versa. For example: In fast moving markets, like the panic of October and November, 1929, when you pyramid on active stocks and make a large amount of money, if you 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 order, placing it about 5 points above the low level, because when a market is moving so fast as this, you should not wait for the Overnight Chart to show a change in trend by crossing a previous top before changing position. In fast moving markets you would also watch for the market to stop around important half-way points.

For example: U.S. Steel at 150 had reached the half-way point from 38 to 261 $\frac{3}{4}$. You would not wait until the Overnight Chart showed a change but when Steel got around 150, you would cover shorts and buy with a stop at 149, or if you use the 3-point rule, place stop at 147. Suppose Steel had broken this 150 level. When your stop loss order was caught at 149 or 147, whichever was used, you would have gone short.

RULE 8: Watch the daily, weekly, and monthly closing price. When a stock is active and closes for 3 days, 3 weeks or 3 months around the same price, then the trend changes, it will usually go a considerable distance in the direction in which it starts. However, it is not necessary to depend on this rule at all in connection with the Overnight Chart. I am only giving it to help those who study the daily, weekly and monthly charts.

RULE 9: In very weak or very strong markets watch for the first advance of 3 full points from any low level. By 3 full points I mean, for example, from 100 low, a rally to 103 would be 3 full points. Suppose the low was 99 $\frac{1}{2}$. We would not count 3 full points until the stock rallied to 103. Reverse this rule for a stock when it is advancing. Suppose it advances to 150- $\frac{7}{8}$ and has not had a 3 full point reaction for some time. Then it if declined to 147, I would consider it a 3 full point reaction and an indication that the minor trend was reversing. In this case, suppose the stock only declined to 147 $\frac{1}{2}$ or even to 147 $\frac{1}{4}$. We would not count it a full 3 point reaction, because full points are based on even figures.

No matter at what point or at what price you begin trading according to this Method, you must follow the rules and not risk more than 3 points on any one trade, then after that use the Overnight Chart and make your stop loss orders 1 point away from the top or bottom which I always do in my trading example which follows on U.S. Steel. Then when the stop loss order is caught, buy or sell double the amount, reversing your position. When you cover shorts on a stop loss order, you buy and go with the trend. In the same way when you sell out longs on a stop loss order, you reverse position and go short the same amount which keeps you with the trend.

PYRAMIDING

In my trading, I do not use or take advantage of other rules which I know which might help me at points. I make many trades when I know there is going to be a loss just to demonstrate that the Method will work over a long period of years and make money by reversing position every time and using stop loss orders and, at the same time, following the capital rule and not overtrading, always allowing \$3000 capital for each 100 shares traded in. If you start with \$300 capital, then trade in 10-share lots and never risk more than 3 points, or \$30, on each of your initial trades. Do not increase your trading unit on initial trades until your capital has increased so that the loss will be only 10% of your capital, if the loss comes. In pyramiding, it is different. When you make the 2nd or 3rd trade, you have a profit already and are risking part of your profits, but always keep these risks protected with stop loss orders according to the Overnight Chart, so that if your stop loss orders on a pyramid are caught, your total loss will not exceed 10% of your capital. A man who will follow this rule over a long period of years will not only keep his capital, but will make a fortune. This can be demonstrated on any active stock. Use as little human judgment as possible and you will make better success in trading. The Mechanical Method beats human guesswork, because it reverses at the time the trend reverses and doubles up and goes with the trend, while the man who is guessing or using human judgment will wait. You must have machine-like action in order to succeed, and must buy or sell according to the rules, regardless of what you think or hope. This is exactly what I always do in the trading operations which follow on U.S. Steel.