

STUDIES IN TAPE READING

By Rollo Tape

A 1910 CLASSIC ON
TAPE READING &
STOCK MARKET TACTICS



Studies
In
Tape
Reading

By
Rollo
Tape

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Rollo Tape is the colorful nom de plume of one of the most astute students in the annals of stock market history, Richard D. Wyckoff. Mr. Wyckoff who for many years was publisher of the "Ticker Magazine" (the name was later changed to "The Magazine of Wall Street") probably contributed more to the study of the price movement than anyone else in America.

Of his many books on the stock market "STUDIES IN TAPE READING" remains as his most important work. Whether you are a seasoned professional or a neophyte to the ways of the market, the reading of this book cannot fail to be a most rewarding experience. Written in part over 50 years ago, this classic on the basic laws of the price movement is invaluable reference to today's market operator.

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Studies in Tape Reading

Introductory

THERE is a widespread demand for more light on the subject of Tape Reading. Thousands of those who operate in the stock market now recognize the fact that the market momentarily indicates its own immediate future; that these indications are accurately recorded on the tape; therefore those who can interpret what is imprinted on the narrow paper ribbon have a distinct advantage over the general public.

Such an opinion is warranted, for it is well known that many of the most successful traders of the present day began operations as Tape Readers, trading in fractional lots of stock with a capital of only a few hundred dollars.

Speaking of Joe Manning, one of the shrewdest and most successful of all the traders on the floor of the New York Stock Exchange, a friend of mine once said:

**Success of
Tape Readers**

Tape Reading

Joe Manning

“Joe and I used to trade in ten share lots together. He was an ordinary trader, just as I am. We used to hang over the same ticker.”

The speaker was, at the time he made the remark, still trading in ten-share lots, while I happened to know that Joe's bank balance—his active working capital—amounted to \$100,000, and that this represented but a part of the fortune built on his ability to interpret the language of the tape.

Why was one of these men able to amass a fortune, while the other never acquired more than a few thousand dollars at the same pursuit? Their chances were equal at the start so far as capital and opportunity go. The profits were there, waiting to be won by either or both.

Mental Qualifications

The answer seems to be in the peculiar mental qualifications, highly potent in the successful trader, but unpossessed by the other. There is, of course, an element of luck in every case, but pure luck could not be so sustained in Manning's case as to carry him through operations covering a term of years.

Livermore used to trade solely on what the tape told him, closing out everything before three o'clock. He traded from an office and paid the regular commissions, yet three trades out of five showed profits. Having made a fortune, he invested it in bonds and gave them all to his wife. Anticipating the 1907

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panic, he put his \$13,000 automobile up for a loan of \$5,000, and with this capital started to play the bear side, using his profits as additional margin. At one time he was short 70,000 shares of Union Pacific. His whole line was covered on one of the panic days, and his net profits were a million dollars!

By proper mental equipment we do not mean the mere ability to take a loss, define the trend, or to execute some other move characteristic of the professional trader. We refer to the active or dormant qualities in his make-up; viz., the power to drill himself into the right mental attitude; to stifle his emotions, such as fear, anxiety, elation, recklessness; to train his mind into obedience so that it recognizes but one master—the tape. These qualities are as vital as natural ability, or what is called the sixth sense in trading.

Some people are born musicians, others seemingly void of musical taste, develop themselves until they become virtuosos. It is the I WILL in a man which makes him mediocre or pre-eminent—in Wall Street parlance, “a dub” or “a big trader.”

Jacob Field is another exponent of Tape Reading. Those who knew “Jakey” when he began his Wall Street career, noted his ability to read the tape and follow the trend. His talent for this work was doubtless born in him; time and experience have intensified it.

Jacob Field

Tape Reading

Jim Keene

Whatever laurels James R. Keene won as operator or syndicate manager, do not detract from his reputation as a Tape Reader. His scrutiny of the tape was so intense that he appeared to be in a trance while his mental processes were being worked out. He seemed to analyze prices, volumes and fluctuations down to the finest imaginable point. It was then his practice to telephone to the floor of the Stock Exchange, ascertain the character of the buying or selling, and with this auxiliary information complete his judgment and make his commitments.

At his death Mr. Keene stood on the pinnacle of fame as a Tape Reader, his daily presence at the ticker bearing testimony that the work paid and paid well.

One might say: "These are rare examples. The average man never makes a success of Tape Reading." Right you are! The *average* man seldom makes a success of anything.

Success in this field usually results from years of painstaking effort and absolute concentration upon the subject. It requires the devotion of one's whole time and attention to the tape. He should have no other business or profession. "A man cannot serve two masters," and the tape is a tyrant.

One cannot become a Tape Reader by giving the ticker absent treatment; nor by running into his broker's office after lunch, or seeing "how the market closed"

Study
Necessary

Introductory

from his evening newspaper. He cannot study this art from the far end of a telegraph or telephone wire. He should spend twenty-seven hours a week at the ticker, and many more hours away from it studying his mistakes and finding the "why" of his losses.

If Tape Reading were an exact science, one would simply have to assemble the factors, carry out the operations indicated, and trade accordingly. But the factors influencing the market are infinite in their number and character, as well as in their effect upon the market, and to attempt the construction of a Tape Reading formula would seem to be futile. However, something of the kind (in the rough) may develop as we progress in this investigation, so let us preserve open minds.

What is Tape Reading?

This question may be best answered by first deciding what it is not.

Tape Reading is not merely looking at the tape to ascertain how prices are running.

It is not reading the news and then buying or selling "if the stock acts right."

It is not trading on tips, opinions, or information.

It is not buying "because they are going up," or selling "because they look weak."

It is not trading on chart indications or by other mechanical methods.

**What Tape
Reading is
Not**

Tape Reading

It is not "buying on dips and selling on bulges."

Nor is it any of the hundred other foolish things practised by the millions of people without method, forethought or calculation.

Tape Reading Defined

Tape Reading seems to us: The science of determining from the tape the immediate trend of prices.

It is a method of forecasting, from what appears on the tape *now*, what is likely to appear in the future.

Tape Reading is rapid-fire horse sense. Its object is to determine whether stocks are being accumulated or distributed, marked up or down, or whether they are neglected by the large interests. The Tape Reader aims to make deductions from each succeeding transaction—every shift of the market kaleidoscope; to grasp a new situation, force it, lightning-like, through the weighing machine of the brain, and to reach a decision which can be acted upon with coolness and precision.

Supply and Demand

It is gauging the momentary supply and demand in particular stocks and in the whole market, comparing the forces behind each and their relationship, each to the other and to all.

A Tape Reader is like the manager of a department store; into his office are poured hundreds of reports of sales made by the various departments. He notes the general trend of business—whether demand is heavy or light

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throughout the store—but lends special attention to the lines in which demand is abnormally strong or weak. When he finds difficulty in keeping his shelves full in a certain department, he instructs his buyers, and they increase their buying orders; when certain goods do not move he knows there is little demand (market) for them, therefore, he lowers his prices as an inducement to possible purchasers.

A floor trader who stands in one crowd all day is like the buyer for one department—he sees more quickly than anyone else the demand for that class of goods, but has no way of comparing it to that prevailing in other parts of the store.

He may be trading on the long side of Union Pacific, which has a strong upward trend, when suddenly a break in another stock will demoralize the market in Union Pacific, and he will be forced to compete with others who have stocks to sell.

The Tape Reader, on the other hand, from his perch at the ticker, enjoys a bird's eye view of the whole field. When serious weakness develops in any quarter, he is quick to note, weigh and act.

Another advantage in favor of the Tape Reader: The tape tells the news minutes, hours and days before the news tickers, or newspapers, and before it can become current gossip. Everything from a foreign war to the passing of a dividend; from a Supreme Court decision to the ravages of the boll-weevil is reflected primarily upon the tape.

**Advantages
of the Tape
Reader**

Tape Reading

The insider who knows a dividend is to be jumped from 6 per cent. to 10 per cent. shows his hand on the tape when he starts to accumulate the stock, and the investor with 100 shares to sell makes his fractional impress upon its market price.

The market is like a slowly revolving wheel: Whether the wheel will continue to revolve in the same direction, stand still or reverse depends entirely upon the forces which come in contact with its hub and tread. Even when the contact is broken, and nothing remains to affect its course, the wheel retains a certain impulse from the most recent dominating force, and revolves until it comes to a standstill or is subjected to other influences.

Manipulation

The element of manipulation need not discourage any one. Manipulators are giant traders, wearing seven-leagued boots. The trained ear can detect the steady "clump, clump," as they progress, and the footprints are recognized in the fluctuations and the quantities of stock appearing on the tape. Little fellows are at liberty to tiptoe wherever the footprints lead, but they must be careful that the giants do not turn quickly.

The Tape Reader has many advantages over the long swing operator. He never ventures far from shore; that is, he plays with a close stop, never laying himself open to a large loss. Accidents or catastrophes cannot seriously injure

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him because he can reverse his position in an instant, and follow the newly-formed stream from source to mouth. As his position on either the long or short side is confirmed and emphasized, he increases his line, thus following up the advantage gained.

A simon-pure Tape Reader does not care to carry stocks over night. The tape is then silent, and he only knows what to do when it tells him. Something may occur at midnight which may crumple up his diagram of the next day's market. He leaves nothing to chance; hence he prefers a clean sheet when the 3 o'clock gong strikes.

By this method interest charges are avoided, reducing the percentage against him to a considerable extent.

The Tape Reader is like a vendor of fruit who, each morning, provides himself with a stock of the choicest and most seasonable products, and for which there is the greatest demand. He pays his cash and disposes of the goods as quickly as possible, at a profit varying from 50 to 100 per cent. on cost. To carry his stock over night causes a loss on account of spoilage. This corresponds with the interest charge to the trader.

The fruit vendor is successful because he knows what and when to buy, also where and how to sell. But there are stormy days when he cannot go out; when buyers do not appear; when he is arrested, fined, or locked up by a blue-

**A Secure
Position**

Tape Reading

coated despot or his wares are scattered abroad by a careless truckman.

Periods of Loss

Wall Street will readily apply these situations to the various attitudes in which the Tape Reader finds himself. He ventures \$100 to make \$200, and as the market goes in his favor his risk is reduced, but there are times when he finds himself at sea, with his stock deteriorating. Or the market is so unsettled that he does not know how to act; he is caught on stop or held motionless in a dead market; he takes a series of losses, or is obliged to be away from the tape when opportunities occur. His calculations are completely upset by some unforeseen event or his capital is impaired by overtrading or poor judgment.

The vendor does not hope to buy a barrel of apples for \$3 and sell them the same day for \$300. He expects to make from nothing to \$3 a day. He depends upon a small but certain profit, which will average enough over a week or a month to pay him for his time and labor.

This is the objective point of the Tape Reader—to make an average profit. In a month's operations he may make \$4,000 and lose \$3,000—a net profit of \$1,000 to show for his work. If he can keep this average up, trading in 100-share lots, throughout a year, he has only to increase his unit to 200, 300, and 500 shares or more, and the results will be tremendous.

The amount of capital or the size of

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the order is of secondary importance to this question: Can you trade in and out of all kinds of markets and show an average profit over losses, commissions, etc.? If so, you are proficient in the art. If you can trade with only a small average loss per day, or come out even, you are rapidly getting there.

**Average
Profits**

A Tape Reader abhors information and follows a definite and thoroughly tested plan, which, after months and years of practice, becomes second nature to him. His mind forms habits which operate automatically in guiding his market ventures.

Long practice will make the Tape Reader just as proficient in forecasting stock market events, but his intuition will be reinforced by logic, reason and analysis.

Here we find the characteristics which distinguish the Tape Reader from the Scalper. The latter is essentially one who tries to grab a point or two profit "without rhyme or reason"—he don't care how, so long as he gets it.

The Scalper

A Scalper will trade on a tip, a look, a guess, a hearsay, on what he thinks or what a friend of a friend of Morgan's says.

The Tape Reader evolves himself into an automaton which takes note of a situation, weighs it, decides upon a course and gives an order. There is no quickening of the pulse, no nerves, no hopes or fears. The result produces neither

Tape Reading

elation nor depression. There is equanimity before, during and after the trade.

The Scalper is a bob-tailed car with rattling windows, a jouncing motion and a strong tendency to jump the track.

The Tape Reader is like a Pullman coach, which travels smoothly and steadily along the roadbed of the tape, acquiring direction and speed from the market engine, and being influenced by nothing else whatever.

Qualifications of a Tape Reader

Having thus described our ideal Tape Reader in a general way, let us inquire into some of the requisite qualifications.

First, he must be absolutely self-reliant. A dependent person, whose judgment hangs upon that of others, will find himself swayed by a thousand outside influences. At critical points his judgment will be useless. He must be able to say: "The facts are these; the resulting indications are these; therefore I will do thus and so."

Next he must be familiar with the technicalities of the market, so that every little incident affecting prices will be given due weight. He should know the history, earnings and financial condition of the companies in whose stock he is trading; the ways of the manipulators; the different kinds of markets; be able to measure the effect of news and rumors; know when and in what stocks it is best to trade; measure the forces behind them; know when to cut a loss and take a profit.

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He must study the various swings and know where the market and the various stocks stand; must recognize the inherent weakness or strength in prices; understand the basis or logic of movements. He should recognize the turning points of the market; see in his mind's eye what is happening on the floor.

**Knowledge of
Market**

He must have the nerve to stand a series of losses; persistence to keep him at the work during adverse periods; self-control to avoid overtrading; a phlegmatic disposition to ballast and balance him at all times.

**Nerve and
Patience**

For perfect concentration as a protection from the tips, gossip and other influences which abound in a broker's office, he should, if possible, seclude himself. A small room with a ticker, a desk and private telephone connection with his broker's office are all the facilities required. The work requires such delicate balance of the faculties that the slightest influence either way may throw the result against the trader. He may say: "Nothing influences me," but unconsciously it does affect his judgment to know that another man is bearish at a point where he thinks stocks should be bought. The mere thought, "He may be right," has a deterrent influence upon him; he hesitates; the opportunity is lost. No matter how the market goes from that point, he has missed a cog and his mental machinery is thrown out of gear.

Tape Reading

Silence, therefore, is a much needed lubricant to the Tape Reader's mind.

Seclusion

The advisability of having even a news ticker in the room, is a subject for discussion. The tape tells the present and future of the market. On the other hand, the news ticker records what *has* happened. It announces the cause for the effect which has already been more or less felt in the market.

Money is made in Tape Reading by anticipating what is coming—not by waiting till it happens and going with the crowd.

News

The *effect* of news is an entirely different proposition. Considerable light is thrown on the technical strength or weakness of the market and special stocks by their action in the face of important news. For the moment it seems to us that a news ticker might be admitted to the sanctum, provided its whisperings are given only the weight to which they are entitled.

To evolve a practical method — one which *any* trader may use in his daily operations and which those with varying proficiency in the art of Tape Reading will find of value and assistance—such is the task we have set before us in this series.

Our Task

We shall consider all the market factors of vital importance in Tape Reading, as well as methods used by experts. These will be illustrated by reproductions from the tape. Every effort will be made

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to produce something of definite, tangible value to those who are now operating in a hit-or-miss sort of way.