W. D. Gann (1878-1955)

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Trading Letter

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"Be just as willing to sell short as you are to buy. Let your object be to keep with the trend and make money."

–W. D. Gann

Gann's advice, one of his "Twenty-Four Never-Failing Rules" for success in the stock market, seems a little obvious at first. After all, why wouldn't we want to align ourselves with the prevailing trend in order to reap steady profits?

The truth of the matter is, however, that an amazingly small number of investors are willing to sell stocks short. Short selling is simply borrowing shares of stock at a high price in order to sell them without actually owning the shares, then later buying equivalent shares of the same stock at lower price so it becomes possible to replace the borrowed shares more cheaply.

The Short Interest Ratio, which measures the number of short shares outstanding versus the average number of shares traded and then expresses that relationship as the number of trading days needed to cover the positions, is a

psychological indicator that gauges bearish sentiment. It can be applied to an individual equity or to a market as a whole.

For the New York Stock Exchange, the highest Short Interest Ratio during the past five years has been 6.78. Its low was 3.82, and it is currently at about 5.10. These low numbers not only show a high degree of bullish sentiment for the stock market as a whole; they also reveal just how little short selling is actually going on relative to the overall activity of the entire market.

There are many possible explanations for the general reluctance to sell stocks short. One notion is that short selling somehow displays at lack of personal integrity, or at least a lack of trust in the solidity of the companies being traded. Buying a stock in a long position, the reasoning goes, is an expression of the belief that the stock will go up, the company will do well, and the fundamental outlook for the entire economy is essentially rosy. In contrast, selling a stock short implies a lack of belief, not only in the prospects for the particular company, but also in the positive potential of the economy as a whole. The implication is that short selling is somehow subversive or anti-American, since the short seller essentially wants companies to fail and implicitly hopes that the economy will collapse.

Short selling may also be somewhat suspect because it involves borrowing. The seller doesn't actually own the shares he is selling, and a short position is essentially an expression of indebtedness. If, for example, an investor's main motivation for being in the market is to get rid of personal debt, then the idea of accumulating more debt as a strategy for reaching that goal seems counter-intuitive to say the least.

Finally, and probably most importantly, short selling involves considerably more risk than taking long positions. When we buy a share of stock at $5 in the hope that it will go up in price, the maximum risk we have is $5, which is what we will lose if the stock becomes worthless. On the other hand, if we sell a stock short at $5, we can lose money if the stock goes up in price. If it goes up to $10 a share, we will lose $5 if we cover the short; but nothing can prevent the stock from going up to $12 a share, to $15, or even higher. Theoretically our risk in a short sale is infinite.

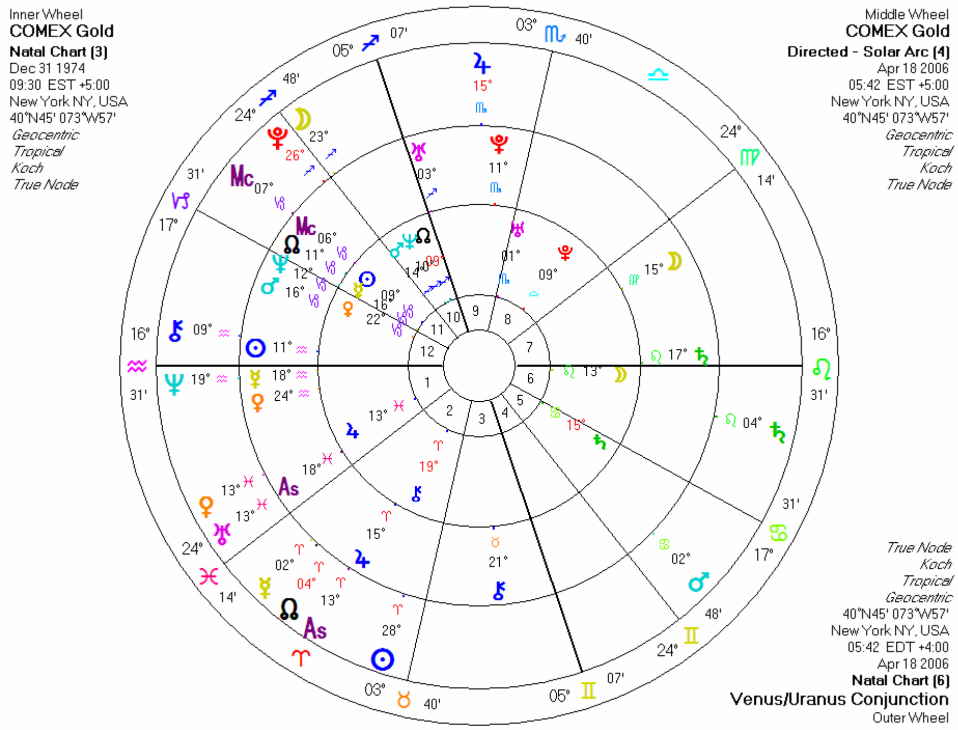
For W. D. Gann, however, none of these considerations seem to have been particularly relevant. As far as he was concerned, one of the most important skills for stock trading was the ability to recognize a price trend, regardless of the particular direction of that trend. Thus a short sale isn't an unpatriotic act, an unnecessary acquisition of debt, or an unmanageable risk. It's simply a way of capitalizing on the prevailing trend, or, as Gann put it, to "Let your object be to keep with the trend and make money."

April Insights

"The stock market averages and individual stocks follow a seasonal change in trend which varies in different years, but by knowing the important dates and watching them you will be able to determine a change in trend very quickly by applying all the other rules. The important dates are. . .
April 7 to 12, and 20 to 25. Not as important as January and February, but the latter part of April is often quite important for a change in trend." –W. D. Gann

Astro-Events This Month

Jupiter remains in retrograde motion throughout the month, slowing down expansionary energies and adding a bit of moderation to the market action as a whole. With Saturn going direct on April 5 and Vulcanus going direct on April 7, there's a lot of pressure on the markets during the last few trading days of the first week in the month. We can anticipate a change in trend then, most likely on April 7, since that date is also one which Gann mentioned as important. The Full Moon on April 13 coincides with a cardinal ingress by Mars, offering another opportunity for a trend change. Trading volume will be light at that time, however, thanks to Passover and Good Friday, so we may see a turning point in prices on April 11 or 12, dates that also coincide with Gann's monthly schedule. Later in the month, the big event is the April 18 Venus/Uranus conjunction, which activates Jupiter in the horoscope for COMEX Gold. We are thus looking for a short-term top in gold prices on April 18 or 19. The period just prior to the April 27 New Moon will be a final time to watch for possible trend changes in April.



For a detailed day-by-day Gann Plan calendar that can fine-tune your trading, be sure to subscribe to Tim Bost's FinancialCyclesWeekly newsletter. This astro-trading market letter has frequently been cited in Barron's, Bridge News, and other top financial publications. Each weekly email issue includes insightful market comments, news of global equities trading, U.S. equity trends, the strongest and weakest market sectors, a spiritual focus for the week, an update on the astrologically-based Financial Cycles Model Portfolio, and specific ideas for profitable stock trading in the week ahead. To get complete subscription details and other information about this widely-acclaimed newsletter, go to www.FinancialCyclesWeekly.com.

The GANN PLAN TRADING LETTER is edited by Tim Bost and published each month as a free service to traders who want to explore and apply the market methods of W. D. Gann and who wish to bring more emotional balance, esoteric knowledge, and spiritual wisdom into their trading.

The Gann Plan focuses on Geometry, Astrology, Nature, and Numbers to foster improved Psychology, Learning, Affluence and Nurturing. It understands that successful traders need health, patience, spirituality, knowledge, capital, and money management.

While this letter is inspired by W. D. Gann's approach to trading, the Gann Plan is not an attempt to duplicate the exact trading techniques that Mr. Gann used. Instead it strives to integrate modern tools and contemporary hypotheses with the knowledge and wisdom that W. D. Gann shared.

Comments, responses, and suggestions from readers are always welcome; to share your views, send an email to gannplan@timbost.com.