

## A Defense Against Manipulation

**Portfolios heavy with under-performing stocks almost never outperform the market. Ignat's Law**

**“Stocks are manipulated to the highest point possible and then sold to the public on the way down.”**

*Reminiscences of A Stock Operator*

by  
Edwin Lefevre  
p240

[A](#) collection of recent newsletters is available on the web site.

**Market Dynamics**

[www.clayallen.com](http://www.clayallen.com)

7325 S. Jackson St.  
Centennial, CO 80122

Phone: 303-804-0507

[clayallen@msn.com](mailto:clayallen@msn.com)

In the “good old days”, stocks were regularly manipulated up and down by the major players in a stock. It was sort of a rich man’s gambling game that was played with much cunning and stealth. Inside information and false reports to the press were very much a part of the game. The best description of manipulation can be found in chapters 20 and 21 of “Reminiscences of a Stock Operator” by Edwin Lefevre that was first published in serial format in the Reader’s Digest in 1923 and later published as a book.

The lore of Wall Street has it that point and figure charting developed and evolved as a method to track the manipulation of a stock. Richard Wyckoff wrote about “figure” charting during the time of World War One.

This charting technique could be used by investors large and small to record the movements of a stock price and when certain patterns appeared on the chart, the investor could conclude that the manipulation was continuing or that the manipulation had stopped. Active traders often posted the P&F charts from the movements of the price as reported on the ticker tape.

It was critical for the investor to know when the manipulation had been completed. In a bullish manipulation, the stock was manipulated to the highest price possible and then the pool would take its profits. The realization of the profits of the manipulation could be a tricky operation. Large amounts of stock needed to be quietly sold but it was required that the stock maintain the appearance of strength until the pool was completely out of its position.

The liquidation of the large position involved buying and selling by the pool operator in such a way as to constantly reduce its position in the stock. Aggressive buying could be used to produce a quick advance in the price of

the stock and that advance would draw in buying by the unsuspecting public. The jump in the price would be followed by slow but steady selling in large size as stock was fed out to the public. The stock was allowed to fall back in price after the jump and this controlled reduction in the price induced bargain hunters to buy the stock in anticipation of the next advance.

This process of selling the pool’s position to the public received the title of distribution. This process of brief rallies and slow declines produced a pattern on the point and figure charts that showed horizontal movement back and forth across the chart as alternating columns of Xs and Os recorded the movements of the price that often revealed equal price levels where the declines would stop and similarly equal price levels where the rallies would stop.

When the liquidation of the pool’s position was complete, there was no longer any need for the pool to support the stock after a slow decline in the price and the prior support levels would be violated. This was the chart pattern that told the P&F analyst that the manipulation was over and a lower low confirmed that the pool’s activities were complete and the stock was now free to fluctuate on its own. Without the buying support of the pool, the trend of the price was now down.

After the crash of 1929, manipulation was outlawed and certain tactics, e.g. wash sales, that were used by manipulators were banned. It is interesting that there have been few prosecutions for manipulation in all the years that have passed since it was outlawed.

But the interesting fact is, that the patterns of distribution that appeared on the P&F charts are still seen on a regular basis today just as they were many years ago.. I have been charting stocks for a long time and the tops that appear on many stock P&F charts still indicate an end to the upward manipulation of the price. The manipulations of today seem to be the result of large numbers of investors openly acting in concert versus a small number of investors acting in a manipulative pool. The activities are very different but the resultant price patterns remain the same. W. Clay Allen CFA