FOREWORD

by

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Besides brief mentions of the subject in market letters, the first substantive material I read on the Wave Principle was Bolton's 1960 book, *The Elliott Wave Principle — A Critical Appraisal*. It not only spelled out the nuts and bolts of the Wave Principle clearly, but included one of the very few great stock market forecasts, Bolton's prediction of a major top at Dow 999, which was met in 1966 almost precisely and which remained significantly unexceeded for seventeen years. That book started me on a long and exciting journey that is still in progress. It seems fitting to repay Bolton by making his work with the Wave Principle available to all those who want to review it.

Arthur Hamilton Bolton's main publication was his monthly advisory service, *The Bank Credit Analyst*, which was published by his firm, Bolton, Tremblay & Co., at an annual subscription rate of $50. Bolton was a pioneer in the study of the relationship between bank credit availability and stock market trends. His thesis was set forth most completely in the book, *Money and Investment Profits*, which was published by Dow-Jones Irwin in January 1967. Related pamphlets published through the years included "Introduction to Bank Credit Analysis," "The Principles of Bank Credit Analysis," "The Gold Problem," "Deposit Velocity — A Speculative Indicator?" and "Inflation and Common Stocks."

Bolton was a maverick intellectually. As he stated flatly in one letter, "I couldn't care less about what the orthodox proponents of the status quo have to say." It took that kind of independence to develop his bank credit theories as well as publicly to expound upon the Wave Principle. However, he was accessible as well, being clever enough to weave, as he put it, "the current 'in' thinking" into his exposition to allow the establishment to relax enough to give his work the serious consideration it deserved. Another of Bolton's strengths was his insistence upon intellectual rigor in analytical endeavor, which is evident throughout his writings. Bolton applied both his own theories on bank credit and Elliott's concepts of market pattern with an equal measure of thoughtful analysis. A particularly forceful example of his meticulous approach is a series of personal letters he exchanged with an economist/author who had claimed a new insight into the nature and meaning of debt. Bolton dissected the theory over many pages, enumerating its flaws with a surgeon's precision. The content of the Wave Principle was certainly subject to the same intense scrutiny from Bolton and not only survived it, but profoundly engaged his intellect.

Whether it was his radicalism, accessibility or intellectual precision that played the largest part, Bolton earned and maintained the admiration of the professional community. For his participation and achievements, the Financial Analysts Federation in 1987 (a Fibonacci 34 years after he published his first Elliott Wave Supplement and 21 years after his last) posthumously granted him its most prestigious accolade, the Nicholas Molodovsky Award, which has been presented on average only once every three years since 1968.

Bolton had the rare talent to produce fascinating work in both the fundamental and technical disciplines. It is his technical work, which has been unavailable for decades, that is the focus of this book.

In 1953, four years after he started the BCA in 1949, Bolton began sending subscribers annual "supplements" consisting of market commentary based upon the Wave Principle of R. N. Elliott. Those published in the 1950s were entitled simply, "Elliott's Wave Principle"; for the 1960s, Bolton changed the title to "The Elliott Wave Principle of Stock Market Behavior." The publication of the 1960 book apparently marked a time of change for Bolton, as he not only renamed the supplements, but also had a new photo taken for the BCA.

In all, Bolton wrote thirteen annual supplements. He also wrote the 1960 book, as well as five brief updates: the 1958 Postscript, the 1960 Postscript (first printed in the October 1960 *Bank Credit Analyst*), the 1962 Addendum, the 1963 Addendum and an update in the July 1965 BCA.

Three additional Elliott Wave publications were issued by the firm following Bolton's death: the 1967, 1968 and 1970 BCA supplements. They were written by A. J. Frost (1967 and 1970) and Russell L. Hall (1968), with additional theoretical material by Walter E. White.* There was no supplement published in 1969.

Frost's recollection that Bolton wrote furiously in a short span of time is undoubtedly true, as his sentence structure is sometimes complex and, particularly in the first few supplements, was sometimes in shorthand form, undoubtedly exactly as he had written it. The contrast in writing style between the first few supplements and the later ones shows a greater editorial care given the latter. For this book, we edited those earlier publications minimally, adding occasional verbs and commas and converting some numerals to text. Otherwise, however, the work is intact.

A basic outline of the Wave Principle was included in each original supplement. Other material was occasionally repeated in subsequent supplements as a ready reference.

For this project, we reprinted repeat material only once, when it first appeared. If the material was later edited, we either used the edited version if revisions were minor, or, if the revision was material or timely, repeated the section at the time of its revision. The 1960 book, despite some repetition of earlier material, has been reprinted in its entirety. "Appendix C" from that book, a list of extracts from previous annual supplements, has been omitted for the obvious reason that the full presentation is in this book. Nevertheless, to communicate Bolton's unmatched perspective in a brief space, we present a short extract from each issue in the final pages.

This volume features a few additional treats. We start with a short biography of "Hammy" Bolton by A. J. Frost. Included later are personal letters between Bolton and Charles Collins, including a March 1967 letter that Bolton wrote a week before he died. Also included is an article that appeared in the July 1957 edition of *Investor's Future* magazine. Though credited to Bolton, it may have been a collaboration between Bolton and famed odd-lot analyst and author Garfield A. Drew, since some of the same language appeared in Drew's book, *New Methods for Profit in the Stock Market*. The article was called "The Coming Tidal Wave," and began with a simple statement that is as true today as ever: "Perhaps the most outstanding theory, based on proven record, for accurately charting the long term future movements of stock market prices is Elliott's Wave Principle." Providing what is in retrospect powerful evidence for that claim, the author commented simply, "the new bull wave that started in 1949 is of tidal proportions." In the forty-four years prior to 1949, the Dow had recorded a miserable net gain of only 60%. In the 44 years since then, the Dow has climbed over 2000%. Only the Wave Principle was able, and is able, to predict such a change in fortune for a market.

As Frost recounts, the only significant market move that Bolton missed forecasting publicly at its commencement was the 1962 drop. However, he had predicted it several

times a year or so prior, and the break-of-trendline "stop" he provided in early 1962 would have kept any careful reader out of trouble. Moreover, the downside limit of "the 522 mark in the DJIA" that Bolton expressed in Chapter XII of his 1960 book was met quite precisely at the crash low of 524 in June, 1962. If this period saw a "mistake" on Bolton's part, it was such that lesser talents might have called it a success.

Most of the time, Bolton's forecasts displayed a brilliant grasp of the market's potential. For example, he targeted the Dow Jones Industrial Average with specific numbers only eight times in the thirteen years (more Fibonacci) that he wrote about the Wave Principle. Two were wrong and quickly abandoned when the market's correct course became clear. A third, which was based only on pattern, called for a decline in 1957 to 400; the actual bottom occurred at 419, a good forecast by most standards. However, from 1960 forward, he was nearly perfect in the five other forecasts (the last as refined by A. J. Frost). He called the downside limit of the 1962 decline to within two points. His forecast for a Dow top at 999 was precise to within 1%, six years in advance. One might disregard his comment that Dow 777, which was indicated by a Fibonacci relationship, was of secondary importance for a future high, but that level not coincidentally marked precisely the August 12, 1982 low at 776.92, the orthodox end of wave IV. His mention in early 1966 that important support lay at Dow 740 pinpointed that year's low to the dollar. As Collins summed up the outlook in early 1966, weeks from top tick in a 24 year advance, "Might not the A wave of [the bear market] carry to the 770-710 area, the C wave to around 524, with a sizeable intervening B wave?", a near perfect forecast of the 1966-1974 period. Indeed, Bolton and Collins' call for the ultimate wave IV low to occur "around 524" was based only on pattern, the 1962 low having occurred at 524. After Hammy's death, A. J. Frost in the 1970 Supplement refined the forecast using the Fibonacci ratio and called for a low at Dow 572, which was also hit precisely to the dollar, on December 9, 1974 at an hourly reading of 572.20.

Bolton used Dow numbers less specifically once, on June 28, 1965. He had concluded prematurely that the bull market was over and listed support levels at "800-830" and "710-750." The hourly low occurred the next day at 835.54, and after the February 1966 top, the 1966 low occurred at 740. Despite the imperfect market call, it was obvious that he knew how to apply the Wave Principle to determine support levels.

Specific forecasts are one thing; perspective is another, and the Wave Principle has no peer in providing a good one. Bolton's commentary throughout the 1950s continually stressed the Wave Principle's message for the multi-year outlook, that prices were "on the low side for some years to come... with lots of time and bullish amplitude ahead ...." His forecast graphics show that he was projecting a DJIA peak of approximately "1000 in 1965" at least as far back as 1953. Bolton's perspective, and particularly his steadfastness, stood in clear contrast to the recurring fear of crash and depression among many investors and the continually hedged and changeable views of the majority of economists and analysts.

Perhaps equally significant is that Bolton also continually recognized what the market was *not* going to do. He often stated that certain levels would not be exceeded on the downside, contrary to the views of many market watchers. For instance, he said in 1957, "It does not look under any circumstances we will drop below 400." In 1959, probably in response to numerous published forecasts calling for a repeat of the 1929-1932 experience, he commented that "any idea of returning to the 50 or 100 level DJIA would be pure fantasy." In his first Elliott Wave Supplement in 1953, he stated, with more reliability and accuracy than economists can even imagine, "no major depression of the 1929-32 variety is in the cards in our life-time." Knowing for certain what the market is not going to do is another great luxury provided by Elliott Wave analysis.

If Bolton had been asked to acknowledge a peer in market acumen, he undoubtedly would have named Charles J. Collins, money manager, editor of *Investment Letters* and writer of R. N. Elliott's first book. (For more on Collins, see the Foreword to *Elliott Wave Principle* by Frost and Prechter and the biography of R. N. Elliott in *The Major Works of R. N. Elliott.*) Bolton and Collins exchanged some 120 personal letters over a dozen years, from April 27, 1955 to March 29, 1967, an almost monthly correspondence. The two men met at least six times. The first meeting was in Montreal in August 1955; the last was in Detroit in February 1963, two months after Collins' "semi-retirement" in December 1962. Their relationship was one of professional independence and mutual respect, Bolton occasionally contrasting their discussions to input from the general crowd of "Elliott buffs." They often had the same wave counts for market moves, yet freely explained and discussed differences when they arose. Indeed, it was Collins' labeling of the Supercycle's components that eventually prevailed over Bolton's 21-year triangle idea. The 1966 Supplement contains a section by Collins that straightforwardly presented the correct long term stock market interpretation from 1932, which Bolton had then come to accept. That meeting of the minds set the stage for the continued success of the Wave Principle through the bear market of the 1970s, as analyzed by A. J. Frost, Russ Hall and Richard Russell.*

Skeptics should consider that each of Bolton's forecasts represented only one of countless outcomes which would have been possible if the market were walking randomly and if turning points were made by chance. Keep in mind also that the Wave Principle's forecasting success during this period was achieved despite stock splits, changes in the Dow's components and divisor, the assassination of one president and the resignation of another, the Vietnam War and a million other events. That the Dow qua Dow is patterned makes sense only in terms of social psychology. The precision in those patterns makes sense only if the

Wave Principle indeed governs the movements of the market.

Given the remarkable body of evidence herein, one must accept either that Bolton was the luckiest forecaster ever to have lived, or that he understood a profound truth about markets, and thus of human behavior. To this observer, the correct conclusion is inescapable. A. Hamilton Bolton knew what he was talking about, and he knew it because he understood the Wave Principle.

—Robert R. Prechter, Jr., 1993

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*Walter White's treatise is available in an Appendix to *Elliott Wave Principle* by Frost and Prechter. The final three BCA Supplements and Richard Russell's writings will be included in our companion volume, *The Elliott Wave Writings of A. J. Frost*.