

Book Review

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On the Shoulders of Giants

TECHNICAL ANALYSIS OF STOCK TRENDS

By Robert D Edwards and John Magee - 709 pages - \$229.95

Hardback – ISBN 0814406807

In every discipline there are seminal books that forever change the way we look at the world. In the field of technical analysis, Edwards and Magee published such a book in 1948. I first read it in the late 1960s and it started me on the journey of understanding how markets work. Since then, countless others have read this book, which is now in its eighth edition.

Sir Isaac Newton said in a letter to Robert Hooke in 1675 that “If I have seen further it is by standing upon the shoulders of giants”. What was true of Newton in physics is equally true of Edwards and Magee. Technical analysis began with the foundation laid by Charles Dow, who was truly the “father of technical analysis”. In turn, Dow’s ideas were greatly further developed by Richard Schabacker, the brother-in-law of Robert D Edwards.

Edwards and Magee took Schabacker’s work and built it into a structure for analysing markets that still stands to day as the pre-eminent book, with many inferior imitators. It is a few years since I had last read the book, using it these days mainly as a reference. However, re-reading it for this review, I am struck by how relevant it still is. Truly, we are privileged to stand on the shoulders of these two giants of technical analysis.

When an original book is so good, the first question is why do we need another edition – the eighth? I must admit that I was sceptical, especially as the price is daunting. However, on balance I think that Richard McDermott, who edited the seventh edition and WHC Bassetti, who has edited the eighth edition have enhanced the book. I will still treasure my fifth edition, the last to be revised by Magee, for sentimental reasons, but I will be using the new edition as my main reference.

The original work of Edwards and Magee has been retained faithfully. Some references that are no longer relevant to modern markets have been updated. Bassetti has been careful to ensure that we know what he has added or changed. His changes and additions certainly enhance the original work as far as today’s reader is concerned.

This book is about what is more commonly called “charting”. There is an appendix dealing with some aspects of modern number based indicators that are in common use today. I have learned, write about and use these number based indicators that are so popular today. However, the longer I work in the stock market, the more I find myself coming back to the enduring power of the

analysis of the actual price chart. The indicators are seductive in their promise, but it is inescapable that they remain derivatives of price, designed to clarify price action, but no more. That so many find them difficult is because of the failure to understand that they only assist the understanding of the price chart. The assumption is that we have already done the basic work on the chart - the basics of Edwards and Magee. Those who neglect this first step of analysing price do so at their peril.

However, only the first part of the book deals with charting. The often overlooked, or neglected, second part is John Magee's invaluable discussion of trading tactics. This would stand on its own as a second book.

Some will dismiss this classic book as expensive. It is, but it is also priceless.

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