

Some Observations

by Benjamin Graham

Reading E. F. Renshaw's article on "Stock Market Instability" in the July *Financial Analysts Journal*, I was reminded of an old idea of mine with respect to percentages of advance and decline in stock or commodity prices. This was a device which I called the "% of high", or "%h", which calculates the amount of advance against the final figure instead of the starting figure. This measure, like any other, is theoretically admissible if clearly indicated by the symbol. It has the obvious advantage of making an advance of X %h equivalent to an (ordinary) decline of X%; whereas—as is emphasized in Renshaw's text—by the age-old method "a loss of 50% in one period will necessitate a gain of 100% in some other period to merely recoup one's principal". The arithmetic of conversion is simple: A gain of X% (conventional) = a gain of $X/(X + 1)$ %h; e.g.:

$$+42\% = +42/1.42 \text{ %h} = +29.6 \text{ %h.}$$

Let me illustrate my point by adding %h figures to the second part of Renshaw's Table 1 (p. 82):

Cycle in:	Rise	Rise	Decline
	(Standard Basis)	(%h Basis)	
1871-1900	42.3%	29.7%h	24.1%
1900-1923	41.0	28.7	24.9
1923-1940	73.9	42.5	33.2
1940-1962	49.6	33.1	16.8

The standard basis for figuring % declines is, of course, "% of high".

Readers of the *Journal* might like to experiment a bit with this suggested technique, to see if it would not give a better idea of the relative amplitude of advances and declines, without any offsetting disadvantages of importance. (I am not suggesting that this be applied to figuring % of profit, return on capital, and the like.) ♦

BENJAMIN GRAHAM is a Founding Father of Security Analysis.