SMI

The Trend Letter

Thursday, April 15, 1982

MARKET TRENDS

After surviving a near disaster in mid March, the market has gone on to recover almost everything it lost from the end of January. Although this show of price strength is encouraging, its longer term impact should not be overemphasized. If assessed objectively, it seems clear that the current rally has very little likelihood of breaking the top out of the trading range. This conclusion is based on a number of usually reliable indications.

One of the factors working against an upside breakout are the various counts that can be taken on the ten point chart of the Wyckoff Wave. Only one of them points to the possibility of a significant penetration above the resistance level. However, even it would be hard to see as a jump across the creek. Rather, all of the possible penetrations indicated by the various counts appear to suggest upthrust action. Of course, this would not be positive and could set the market off on another slide back towards the bottom of the trading range.

Other negative indications can be found in the Trend Barometer and the Wave-O.P. relationship. Several points about the Barometer are worth noting. Perhaps most obvious is the continuing relatively overbought condition of the Technometer, which has to be seen as an indication of a reaction. We can also see that the level of interest in the upside has cooled substantially. This occurring as the resistance level is approached should lessen the chances of a breakout. The only positive factor in the Barometer is the positive Force. This development is usually able to postpone any indicated reaction. An important point to watch in regards to this is whether the overbought condition of the Technometer can be worked out while the Force remains positive. If so, a very positive situation would exist.

A final point worth noting is the lack of harmony between the Wave and O.P. This existed in the extreme on the way down from the January high and was probably an important factor in turning the market at the bottom of the trading range. The problem is that as the Wave has rallied away from the support level a lack of harmony has continued. This time, however, instead of being too much volume or effort for the result we are seeing too little. This suggests that the recent rise in prices is not adequately supported. It is vulnerable to a reaction and actually could benefit from one as long as volume did not come in strongly in the process.

There seems to be two ways to play the current situation. One is to go with the short side for the reaction that seems needed. If this is done, it must be with the understanding that the positions could be very short term in nature should the reaction be constructive and show signs of support at the halfway point. The second course of action is to wait for the reaction to run its course. If its character is positive, the plan would be to buy on the possibility of a last point of support prior to a more important advance. At this point, either course of action is acceptable and it would be possible to follow both.

STOCK TRENDS

As has been the case throughout the entire trading range, there is no consistency among the Wave stocks. One thing this does is increase the likelihood that the trading range will continue. It also suggests that both courses of action mentioned earlier should be able to be followed with these stocks. At the same time, though, it also tells us to be very careful in making selections. Random trading among the eight stocks will likely produce very poor results.

For most of the last six months, perhaps the most uninteresting stock in the Wave has been Exxon. The downside pressure on this stock has remained constant throughout this period with prices gradually giving way to it. This will not continue forever. Eventually the pressure will ease and the price will start to recover. The problem here is the timing. A premature commitment of the long side could result in a very long wait. For this reason, it would be best to wait until the stock actually shows a willingness to advance and then to buy on a reaction.

The present situation in Exxon appears to offer the possibility of an advance in the near future. This is based on the refusal of the price to give in to the downward pressure over the past six weeks. It is further based on the development of an apex, which says that something should happen soon. This combination could get the price moving again. If it does, we can then start considering Exxon for the long side.

General Electric, which is currently the most important stock in the Wave, remains one of its strongest components. Recently, it was in a very overbought condition, which is in the process of being worked out. This appears to be occurring constructively in keeping with the overall strength in the stock. Thus far, it has only given up a point. General Electric should not be seriously considered as a short candidate for the expected short term reaction. It may, however, be considered for the long side once the market has worked itself out of its present situation. The possible upside objective appears to be seventy.

Another stock which should not be considered for the short side is GM. This is due to the relative strength shown over the last two months. The upside objective in this case appears to be fifty. That means given another buying opportunity in the near future the stock should be a prime candidate. Between now and then, it is not likely that the price will run away on the up side. The stock is badly overbought at the moment and the extreme lack of harmony between the price and O.P. in recent action calls for a cooling off period.

I.B.M. presents a problem. From an intermediate standpoint, it is clearly a very strong stock. Therefore, considering it for the short side should be unwise. The problem with this is that the recent action has not been totally consistent with the previous strength. The break from the January high was much more severe than was

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the case with the other strong stocks. As the price has been rallying back from its March low, it has now started feeling the effects of the resistance from the previous top. Although the price and O.P. appear to be in harmony on this rally, the overbought condition and faltering volume seem to be saying that the prior top will hold. Therefore, the stock should be a candidate for a short term reaction as it attempts to test the fifty-eight area.

A prime short candidate for any reaction should be Merrill Lynch. It has lower objectives, which point to levels below twenty. The stock is also overbought. In addition, the price O.P. relationship is so badly out of harmony that the price could be vulnerable to a very sharp break at almost any time. At the very least, it needs to make a more important test of the twenty-four area.

Pittston can also be considered a short candidate, but not a prime one. The problem here is the sluggishness that usually comes with low price. Since we are only looking for a short term reaction at this point, it is questionable whether the stock would give up enough ground to make a short position even in an option worthwhile.

There is no question that UAL has been one of the strongest stocks in the Wave over the past few months. Its uptrend is proof of that. Also clear is the fact that the stock is now overbought on both its uptrend and Technometer. These two factors warn against any action on the long side at this time. However, the proven strength in this stock makes it a relatively poor short candidate. It should be watched as a potential buy around nineteen after a set back.

The UAL chart shows a development the significance of which is hard to explain. Notice that the O.P. experienced a tremendous decline during the first two-thirds of the rally. This seems to be saying that many shares were sold during this period perhaps in an effort to get out even. These shares were taken up very willingly, however, which is indicated by the fact that the price held firm. When the selling had been completed, the buying must have continued because this is when the best gains were made. Apparently, all those who sold early in the rally made a mistake. It is unlikely that the stock will give them much of a chance to get back in to correct their error.

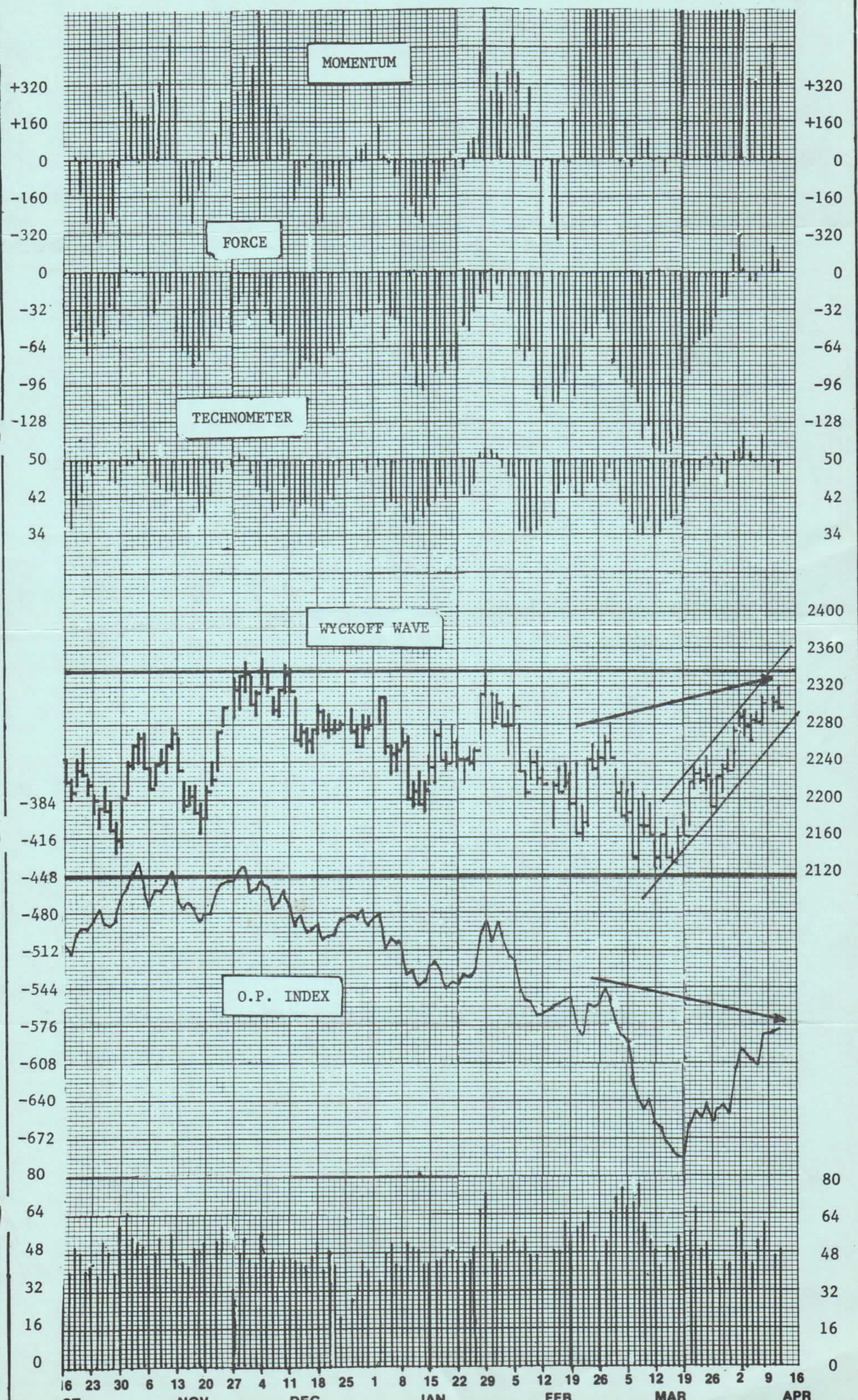
Union Carbide should be a candidate for participation in a reaction. Its low needs to be tested and there is need for additional preparation before an important advance can begin. Also favoring a correction is the divergent action between the price and O.P. in the past few weeks. The price shows no sign of giving in to the upside effort. This almost always leads up to a decline in price.

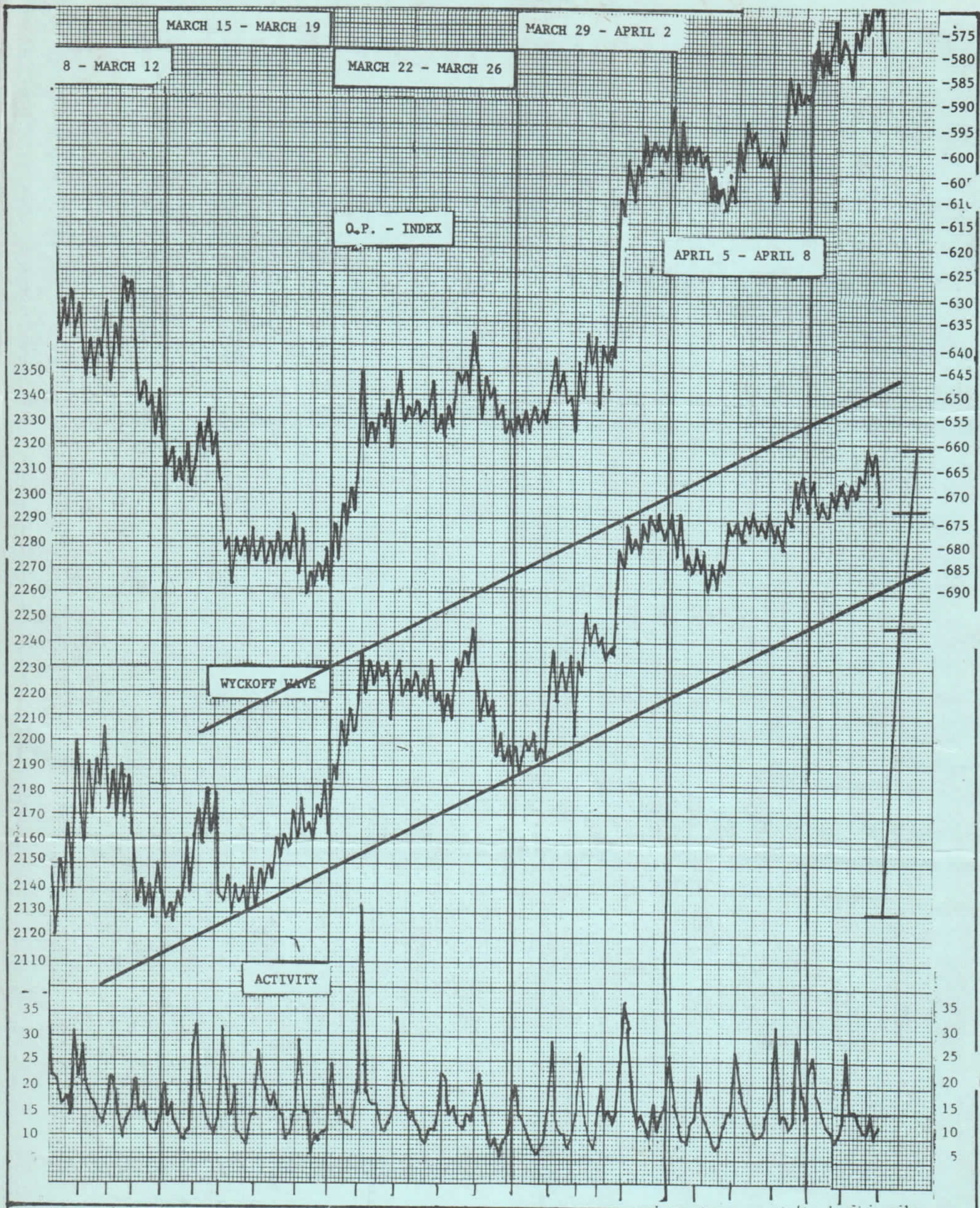
This review should serve to illustrate how diverse the stocks are right now. That is why caution is so important. Before jumping in, decide how the game is going to be played. Then concentrate only on those issues that appear willing to play with you. Stay away from those that seem intent on playing against you. Your chances of winning with those is almost zero.

The Pulse of the Market

STOCK MARKET INSTITUTE

TUESDAY APRIL 13, 1982

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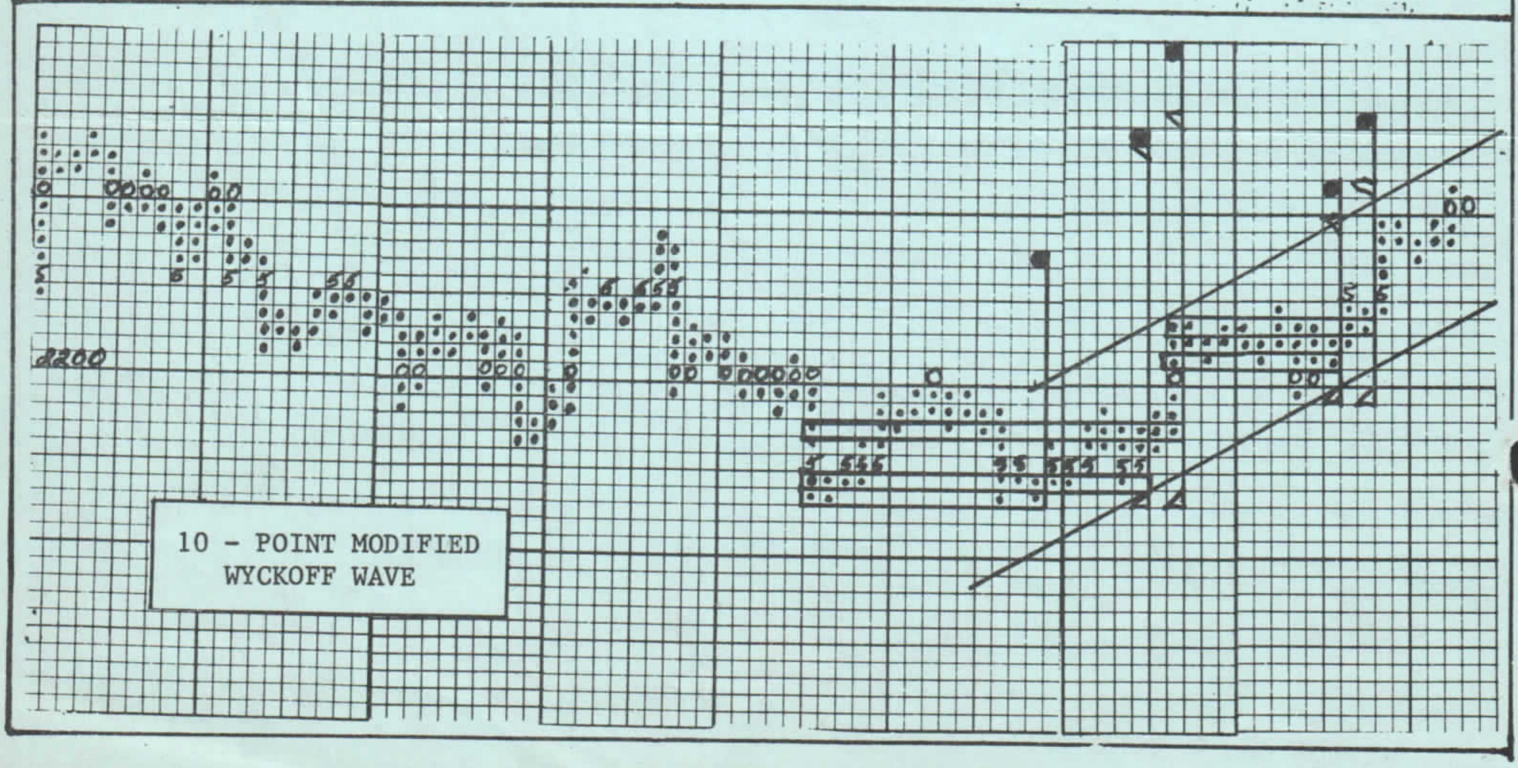
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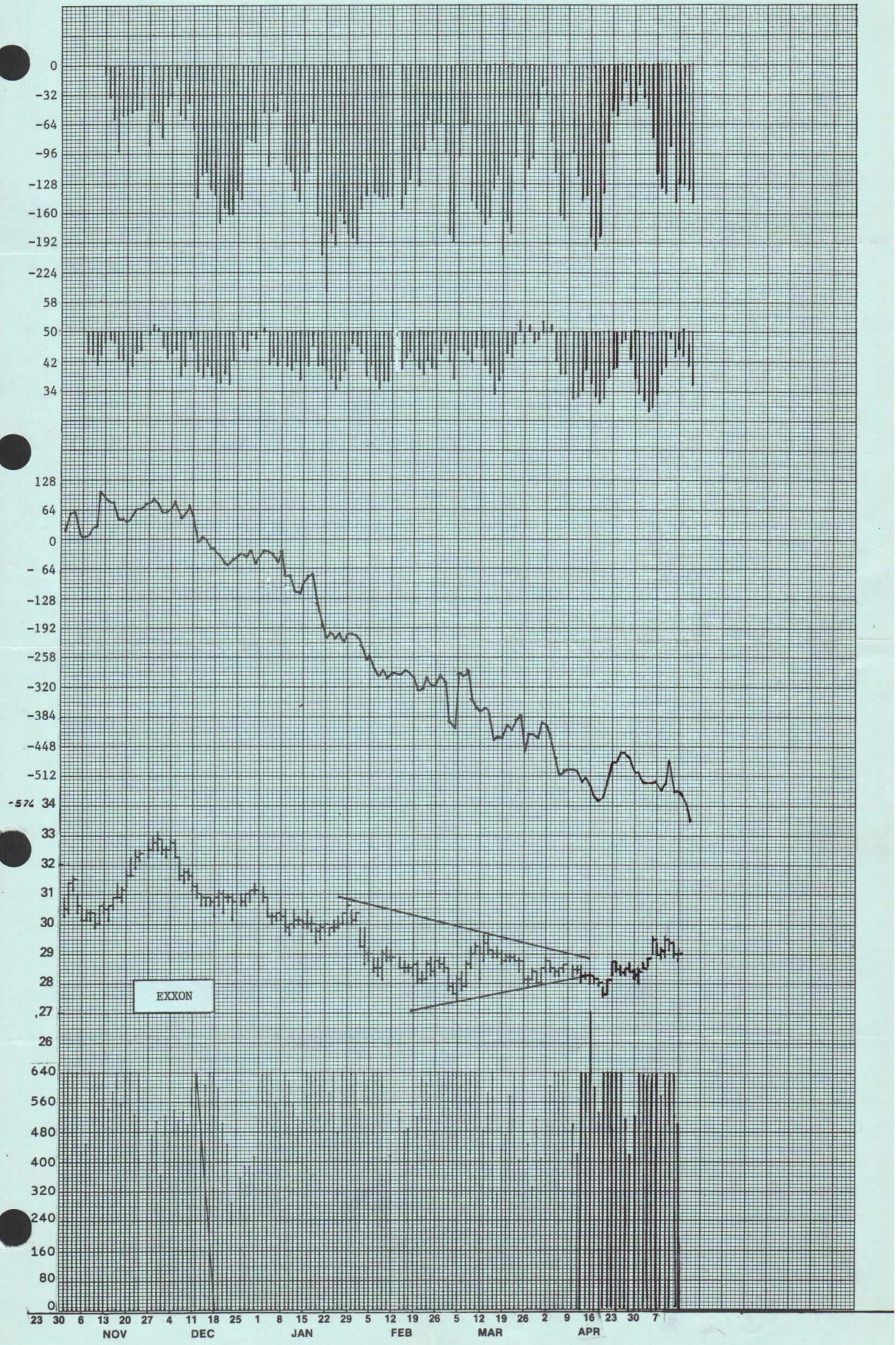

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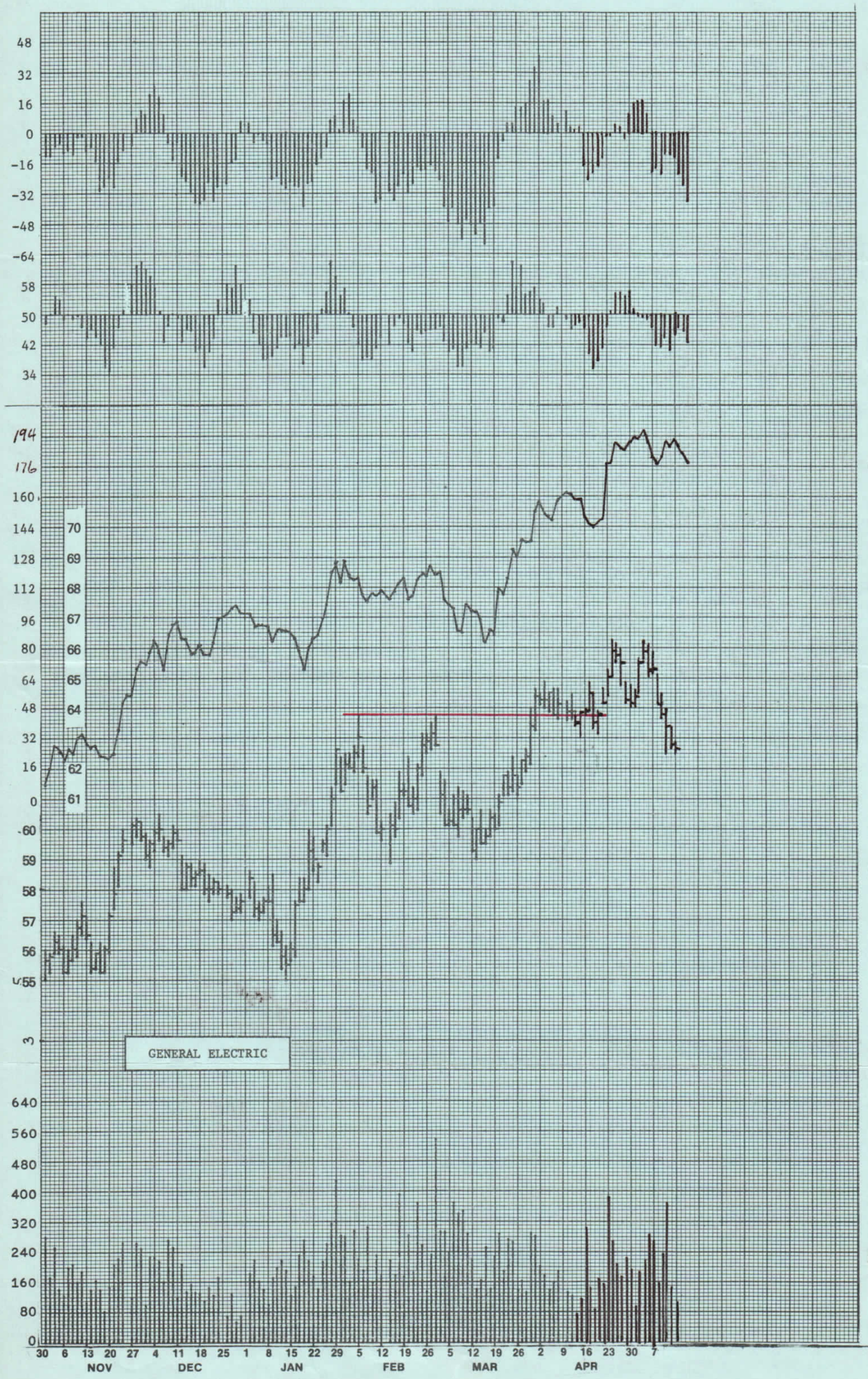

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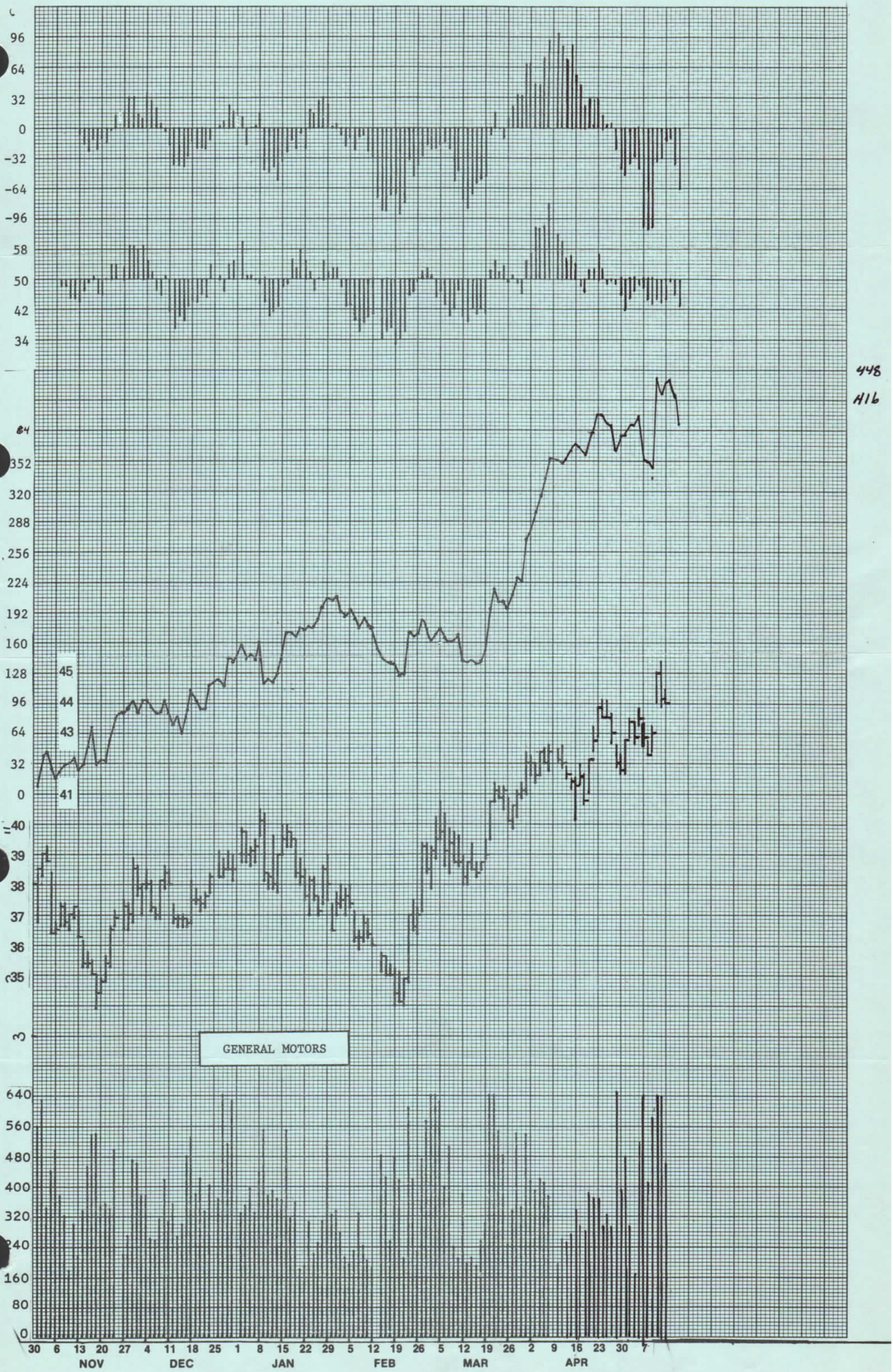
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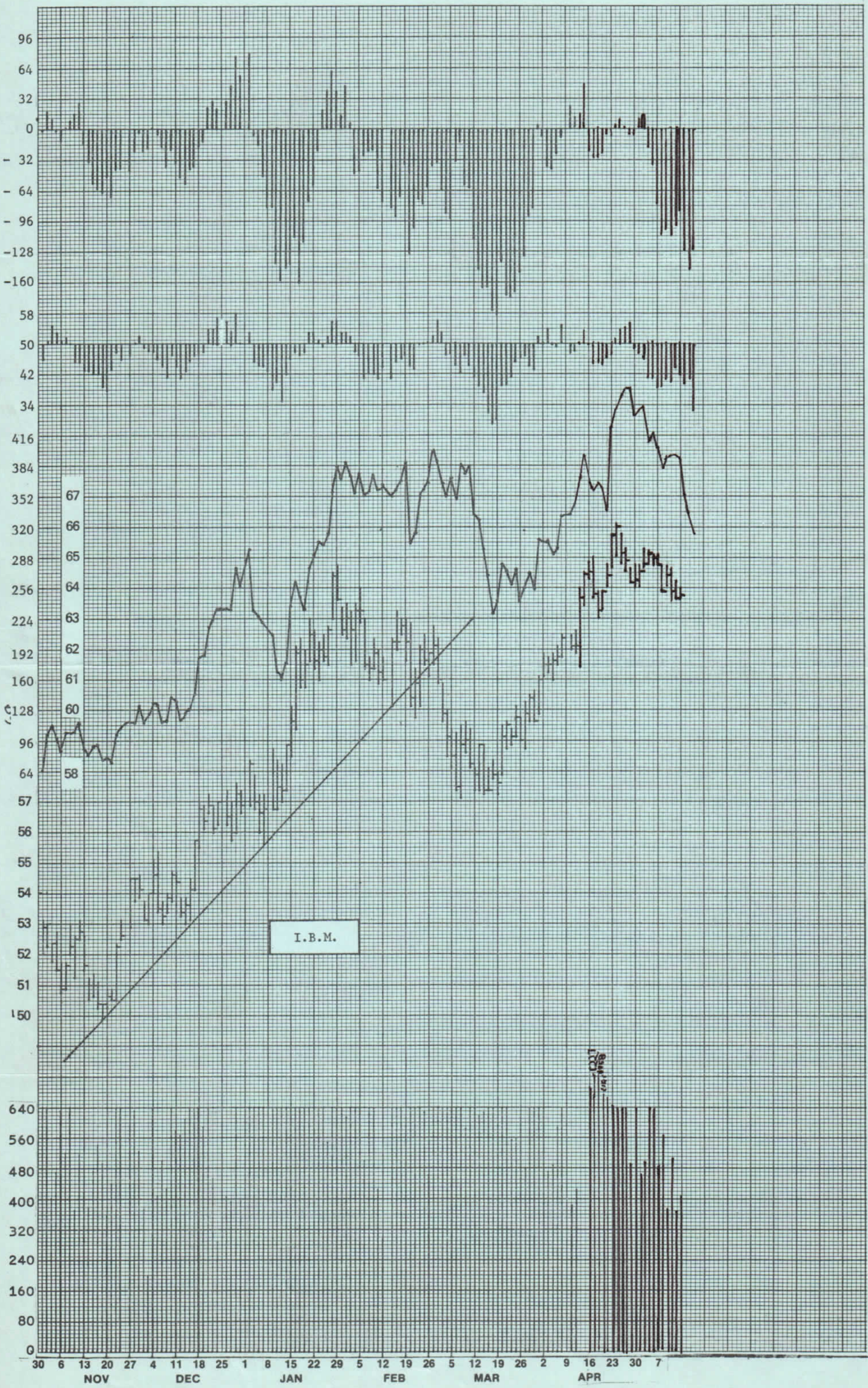
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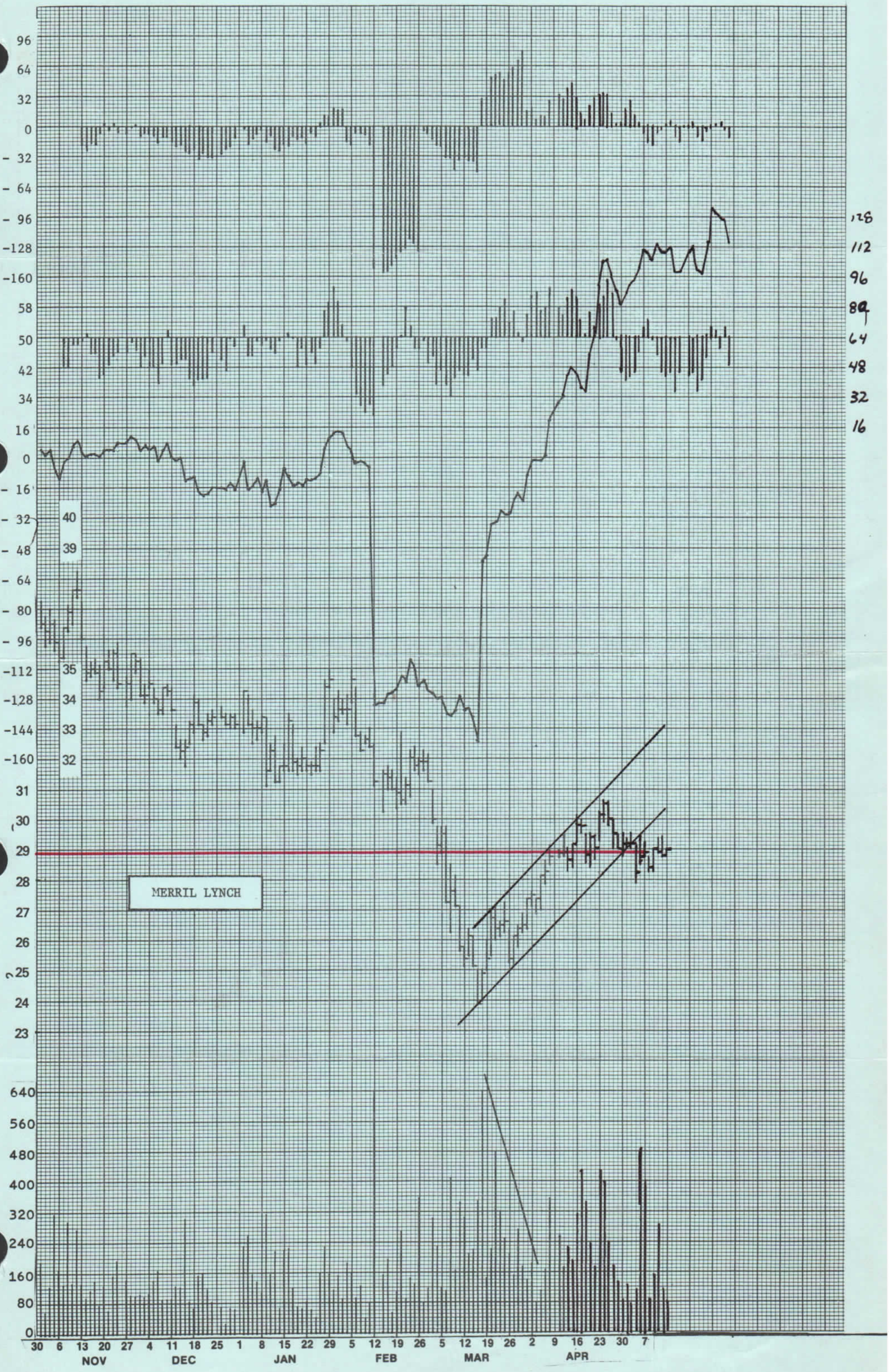
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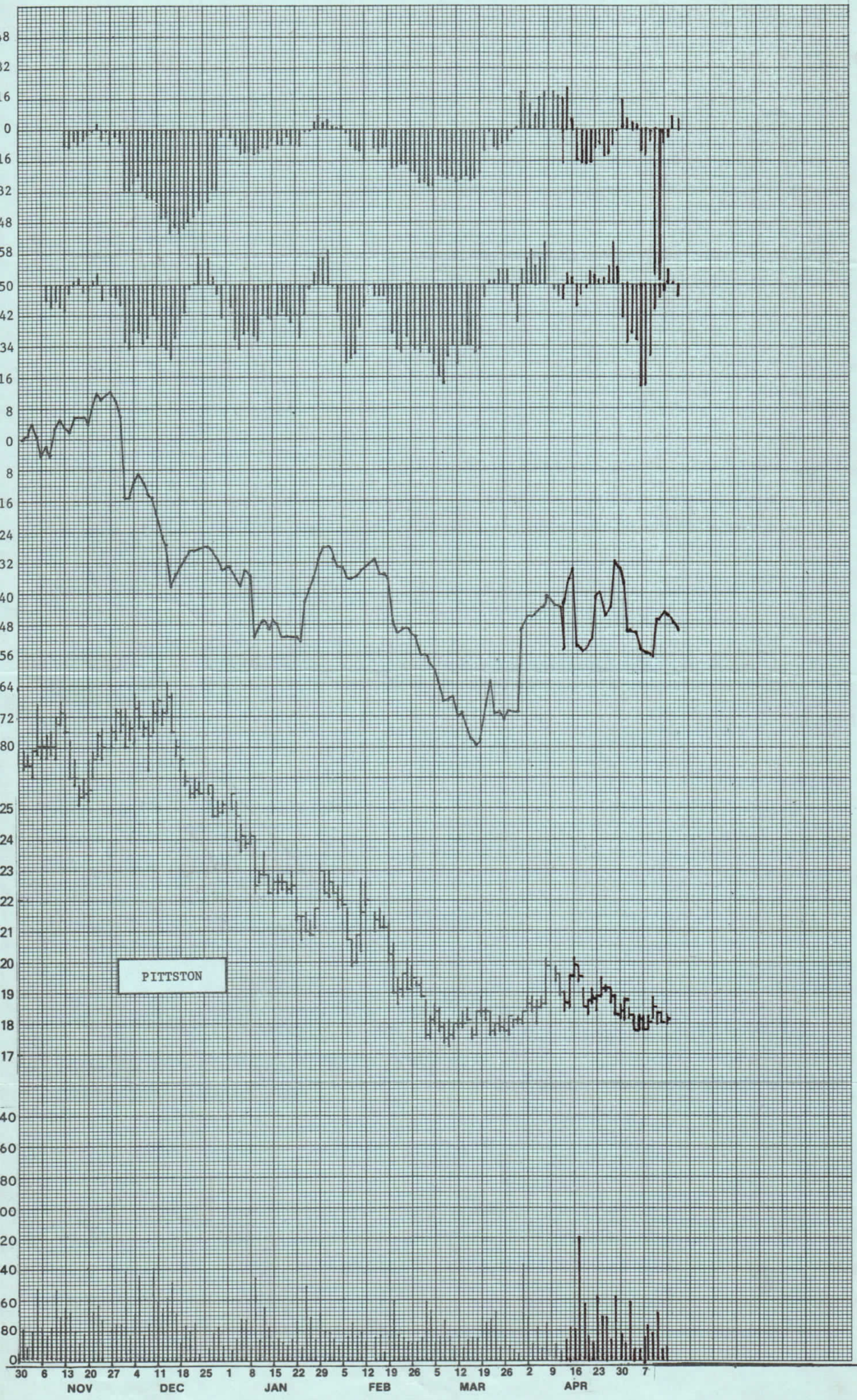

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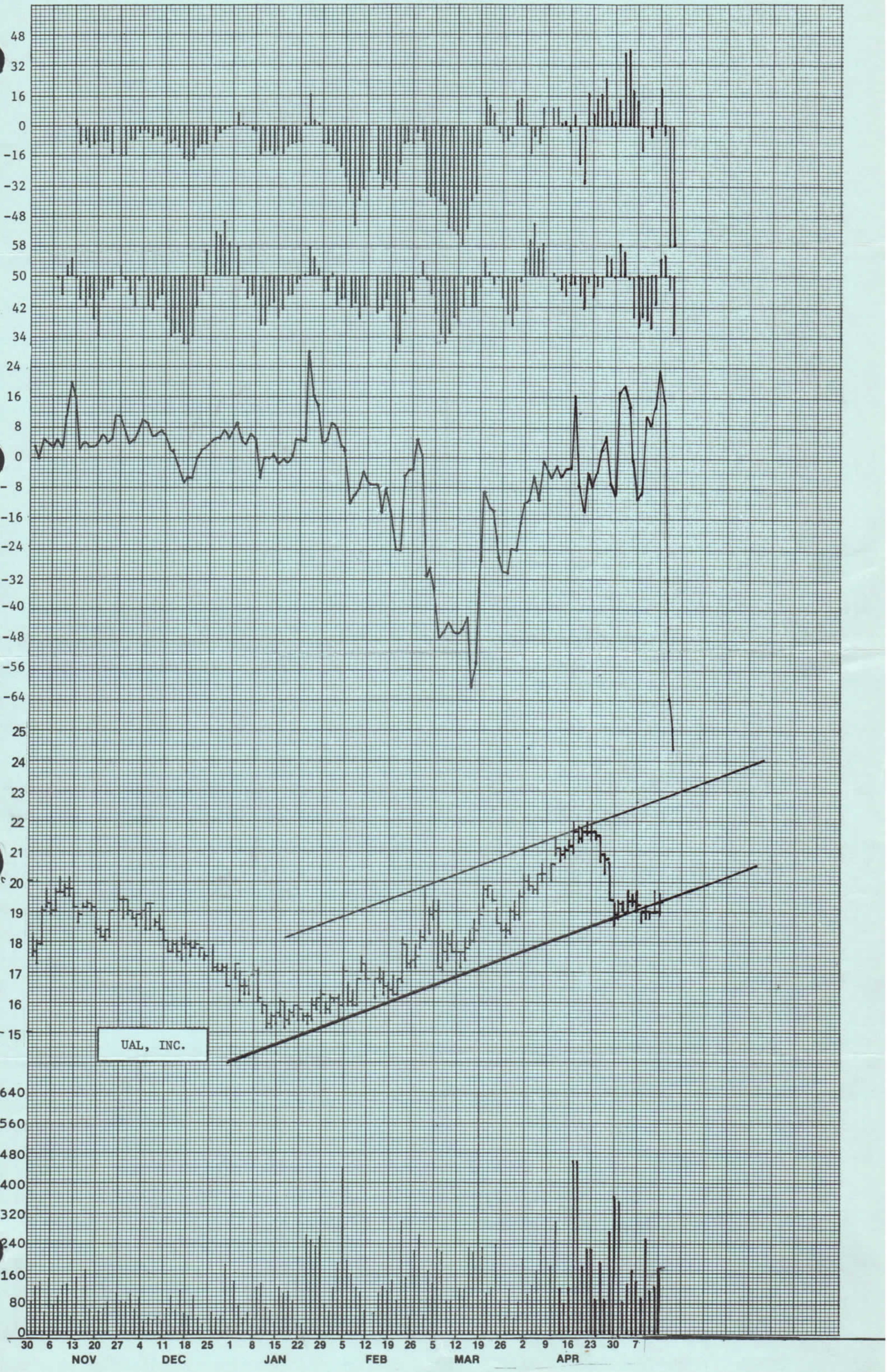

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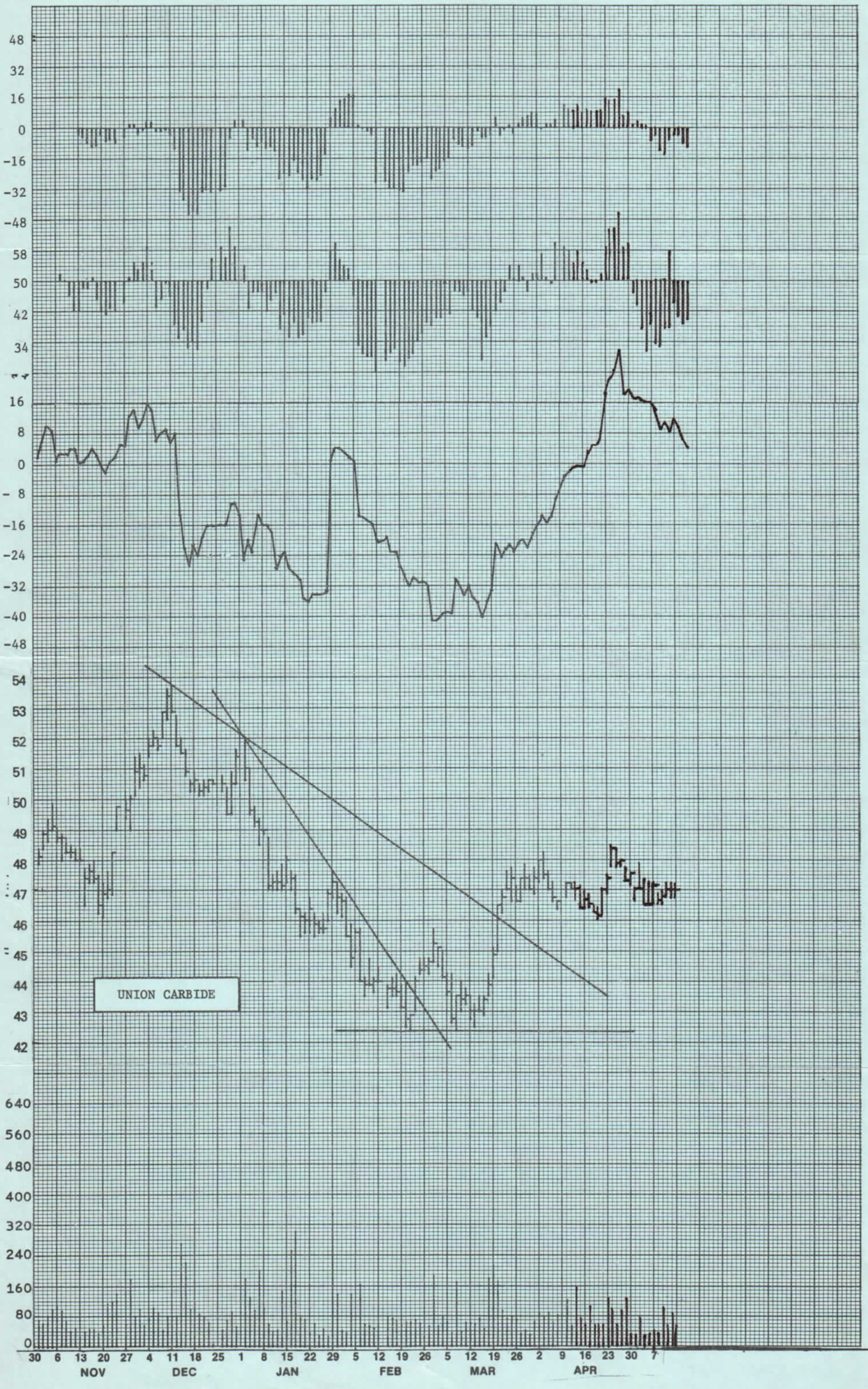

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