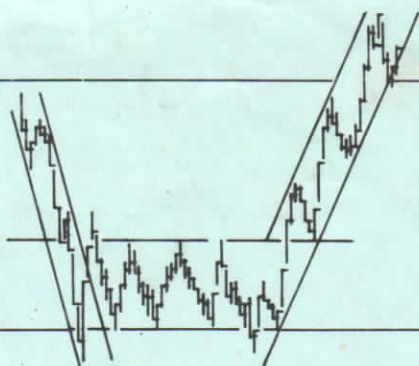




The Trend Letter

Thursday, April 18, 1985

MARKET TRENDS

When a major bull market is in progress, we may expect the market to perform in a bullish manner. What's more, we may anticipate this type of behavior not some of the time or most of the time, but all of the time. That being the case, what do we do when the market fails to perform as expected? Such a failure should raise a red caution flag. It indicates that something is not right and perhaps that something may be very wrong. This is where the market appears to be at the present time and is why its action warrants especially close attention in the weeks ahead.

A long term investor may be somewhat skeptical about the idea that the market's action is becoming less bullish than it should be. The weekly chart of the Wyckoff Wave appears to support this skepticism. The long term uptrend is still intact and is not even in danger of being violated. Even if the down counts on the fifty and twenty-five point figure charts are fully worked out, the long term demand line will not be penetrated. In fact, such a move if accomplished in a constructive manner could make the long term investor even more bullish. If this is true, where is the problem?

As we will see shortly, the problems referred to earlier are concentrated in the short and intermediate term pictures. There are two points, however, that the long term investor should keep in mind as possibly developing into major problems a little farther down the road.

One problem is the apparent upthrusting action that occurred back in January and February. Since the downside response to that action has come on decreasing volume and since it has not yet given back more than half the previous gain, the upthrust does not stand out as an obviously insurmountable problem. It may become one, however. If the counts are worked out, the Wave will fall below the halfway point. This will leave it a long way from the resistance level. A rally of poor quality from that level would result in a convincing test of the upthrust and give the long term investor a reason to take a neutral position.

The other point which should concern the long term investor is the failure of the O.P. to support the Wave on the upside. Its weakness on declines has been very effective at stopping reactions from doing too much damage. Its inability to then move in harmony with the Wave on the upside has made new progress since 1983 impossible to very difficult. This inability of the O.P. may prove fatal as the Wave tests the upthrust position.

The weekly chart of the Wave is of importance to the intermediate investor as well right now due to the fact that his trend has now gone on long enough to where it can no longer be properly defined on the daily chart. It is obvious that the action within this trend has reached a critical point. The Wave is testing the intermediate demand line at the halfway point of the prior advance. This is a classic picture. The only question now is whether it will produce a classic response, which would be a return to enthusiastic upside progress. The daily chart should help determine the most likely answer.

The more detailed picture of the daily chart is where the market's problems become most clearly visible. During the period from March 18 to April 8, the Wave moved lower as the O.P. moved higher resulting in a positive divergence. During the same period, the Force Index started trending up making it easier for the market to rally. At the end of these three weeks, the Wave was right on the demand line resulting in a dynamic situation that should have set the bull market off and running again.

Since April 8, the market has been rallying, but the quality of the rally has fallen way short of the position of the market suggested it should be. The Wave has had to struggle very hard for each point of progress on the upside. This inability to rally is negative. It suggests that the intermediate uptrend is about to be broken. In view of the overbought condition, the negative divergence, and return to a downward trend by the Force, the likelihood that the intermediate uptrend is about to be broken must be considered quite high.

If the short term rally from April 8 is viewed in isolation, it looks reasonably constructive. Both the Wave and O.P. are in uptrends and appear to be moving in harmony. The upside objective of the five point chart is 4090 indicating that the trend may continue for a while. Unfortunately, this trend cannot be viewed in isolation. The negative factors mentioned will have an impact in the days immediately ahead. The 4090 objective may not be met. Therefore, the short term trader who is long should be careful. His profits are more vulnerable than they might at first glance appear to be.

STOCK TRENDS

The stocks in the Wyckoff Wave continue to exhibit a wide range of characters. On the positive end of the scale there is Exxon, which is behaving in a manner totally consistent with a bull market. On the negative end there is General Motors whose action is more in line with that of an important bear market. The other six stocks lie somewhere inbetween these two extremes.

Dow Chemical's price is almost unchanged from where it was a month ago. Its position within the down trend has changed somewhat, however. It is now testing the supply line. In view of the condition of the general market, the supply line has a good chance of holding. If it does, a return to the bottom of the trading range or a move to the indicated objective of 25 appears likely. From a long term standpoint a move to twenty-five could be very positive. This is because it would put the stock in a major spring position, which might trigger an important advance out of the trading range.

Exxon continues to show strength. It is currently on the verge of an overbought position. Therefore, new action on the long side immediately is unwise. The indicated reaction in the general market may produce a corrective reaction in Exxon. If it returns to fifty on relatively low volume, it may be considered a long candidate again with its final objective of sixty.

A good candidate for the short side is General Motors. It has a well defined down trend channel and a lower objective as well as a much lower objective. It is now testing the supply line. Since the price has just come off the test of a spring, it should be rallying aggressively. Since it is not, the supply is likely to hold, leading to a resumption of downside progress.

The figure chart of General Electric indicates that its intermediate uptrend is not as vulnerable as that of the general market. It does have a lower short term objective, however, and a down trend channel in place to get it there. As the price gets closer to the supply line, look for a successful test and renewed downside progress. The three point potential discourages action on the short side, however.

IBM is in an upthrust position. It is meeting resistance below the halfway point of the prior decline and at the support level of the previous trading range. A count may be taken at the 130 level, which yields a wide objective range of 120 to 112. A short position and the condition of the general market can be justified. As it declines, watch the action around 124. If demand is going to come in to stop the decline, it should appear here.

The downside potential in Merrill Lynch may carry it down to twenty-six. It is already in a down trend and in the process of testing the supply line. The supply line is likely to hold. If the price can pass through 29.5 easily as it resumes downside progress, the objective should be reached.

Sears has a downside objective that may put it in a major spring position. This would be a six point decline from the current level. However, the stock is not a good short candidate at this time. The problem is its position in the downtrend channel. It is below the oversold line, which leaves it vulnerable to a rally. Therefore, there is too much risk involved in establishing a position at this time.

UAL is in an especially precarious position. It is on the verge of penetrating the demand line on the vertical line chart and a more important demand line on the figure chart. A short term down trend channel has already been defined. The supply line is in the process of being tested. It appears as though it should hold. A count can be taken at the forty-nine level for an objective of thirty seven. A larger count is possible at the thirty seven level. Its objective is 31. Either way, this appears to be a candidate for a short position. As it declines, watch the forty-three level and be prepared to close out positions should a spring develop.



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APRIL 17, 1985

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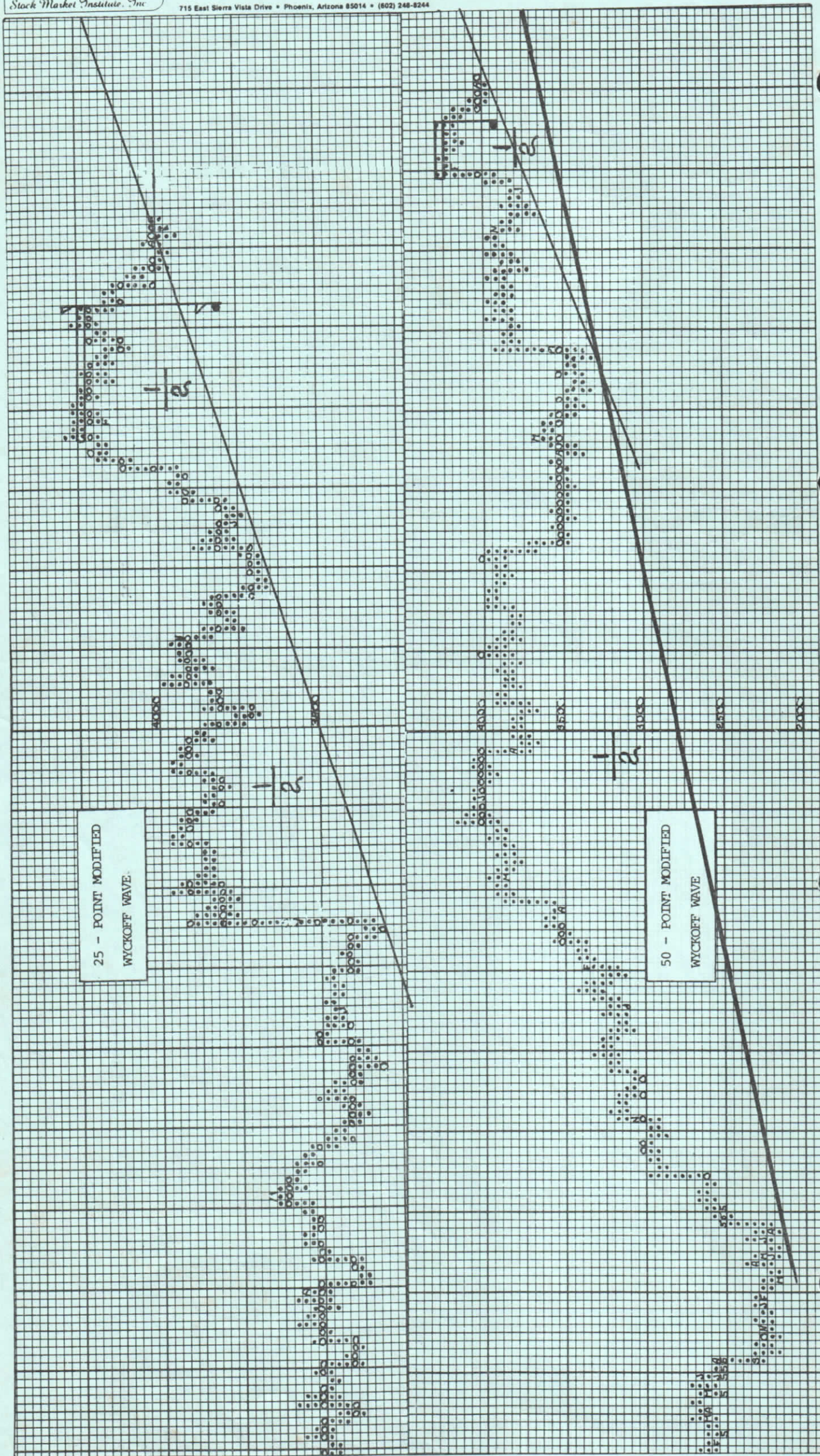
Weekly Wyckoff Wave
50-Point Modified Wyckoff Wave
25-Point Modified Wyckoff Wave
10-Point Modified O.P. Index
Trend Barometer/O.P. Index
10-Point Modified Wyckoff Wave
5-Point Modified O.P. Index
Intraday Wave Chart
5-Point Modified Wyckoff Wave
2-Point Modified O.P. Index

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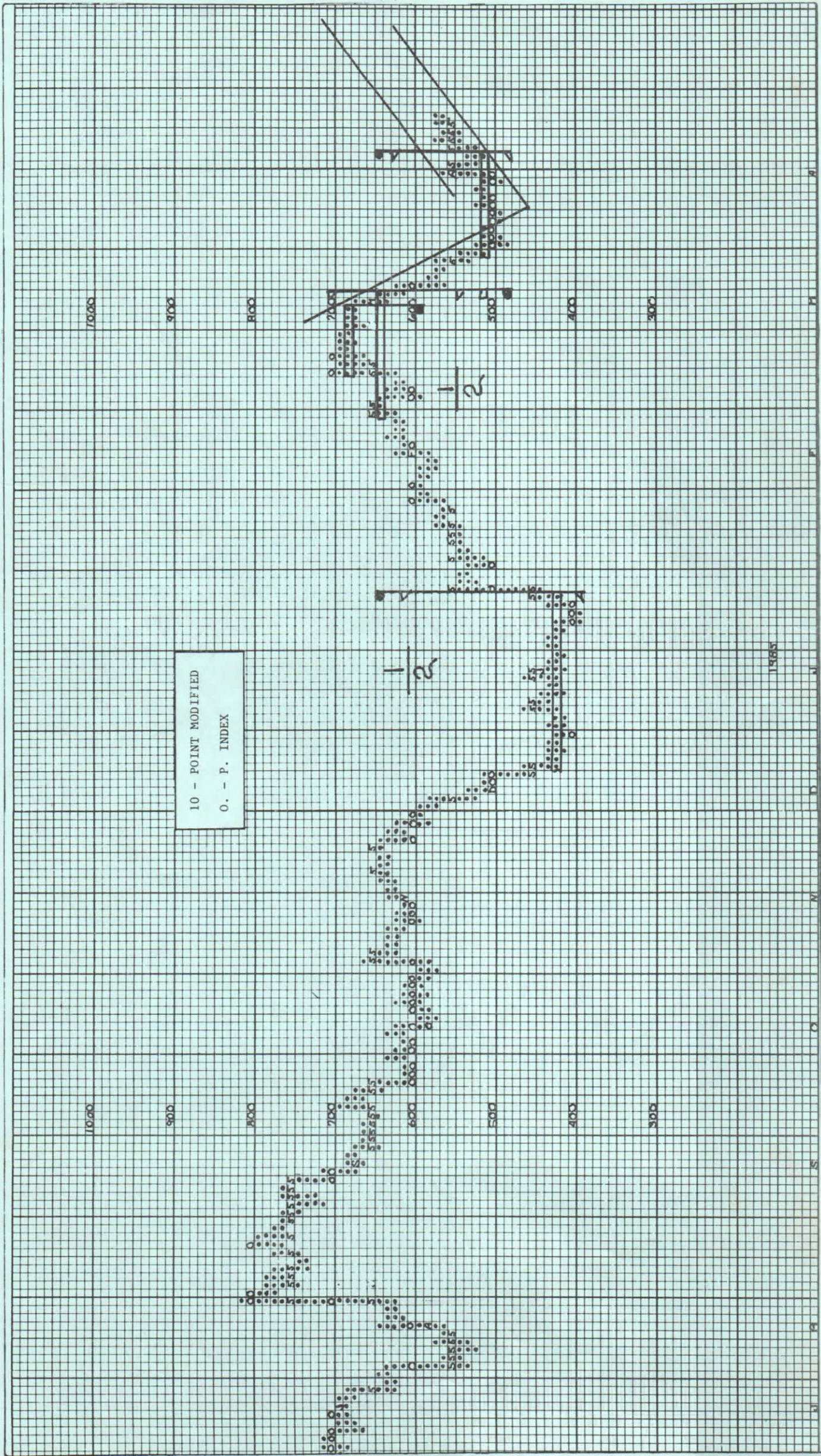


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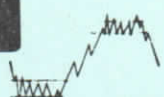
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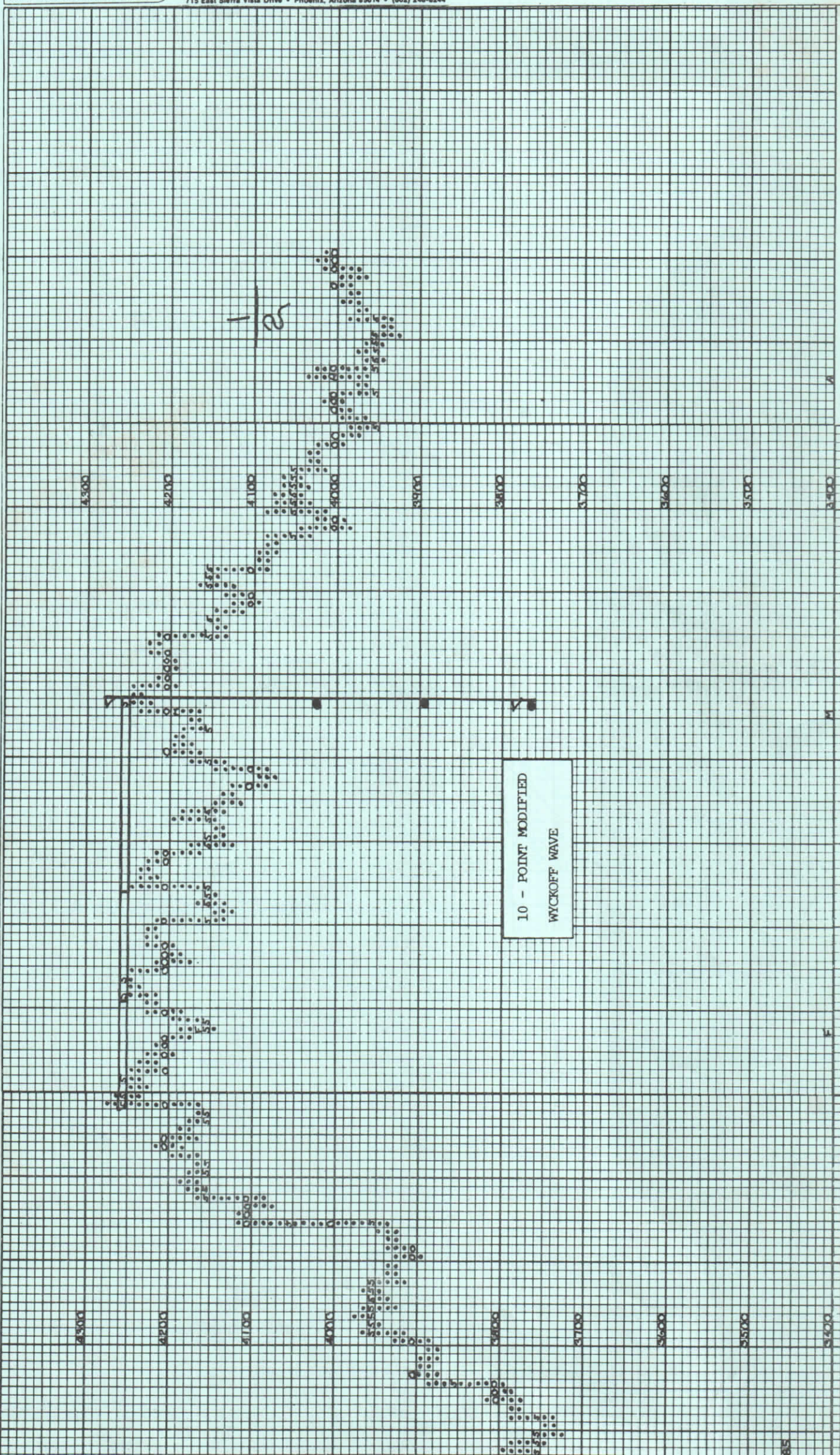


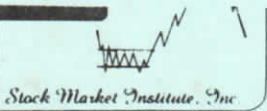
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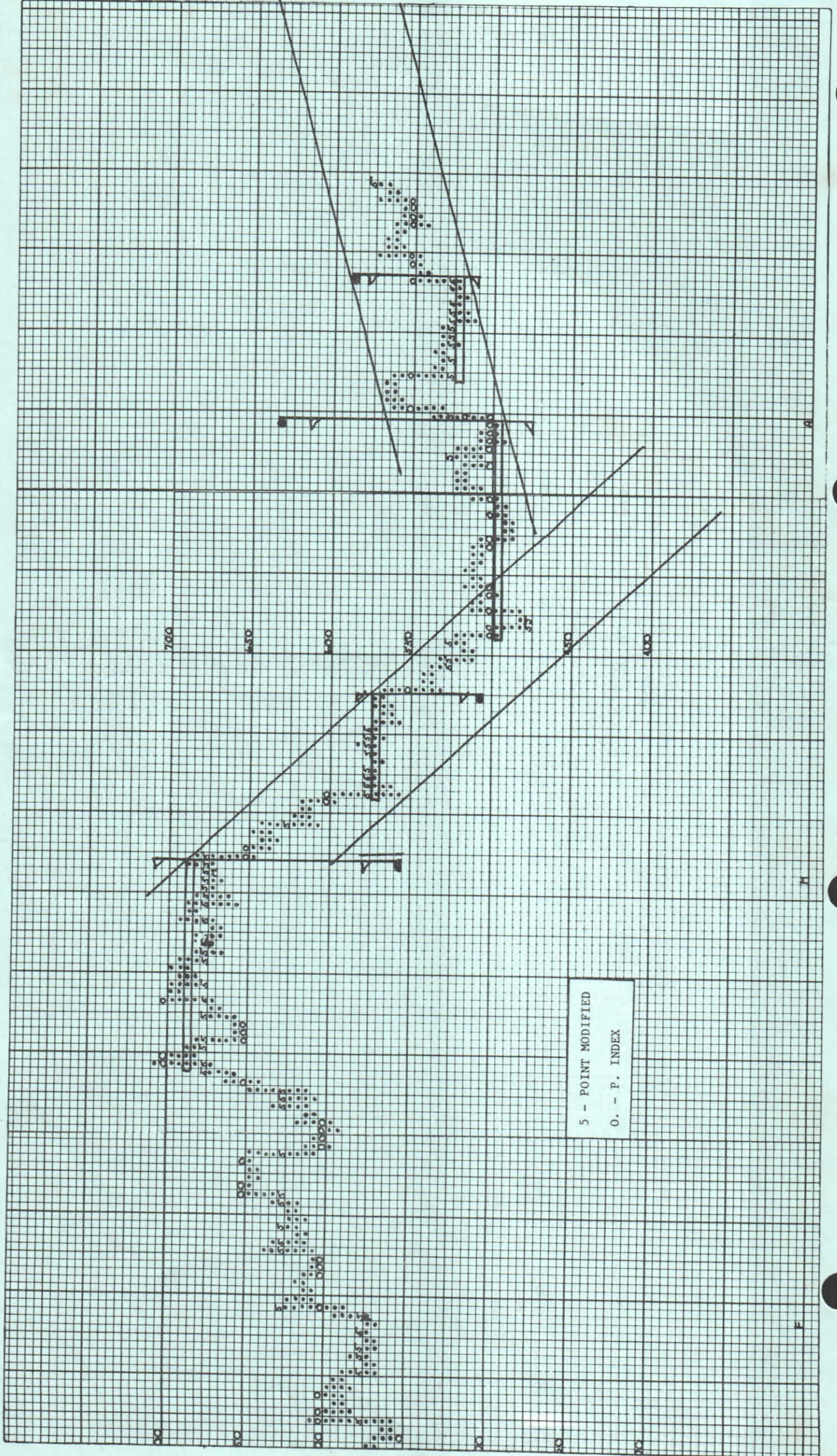




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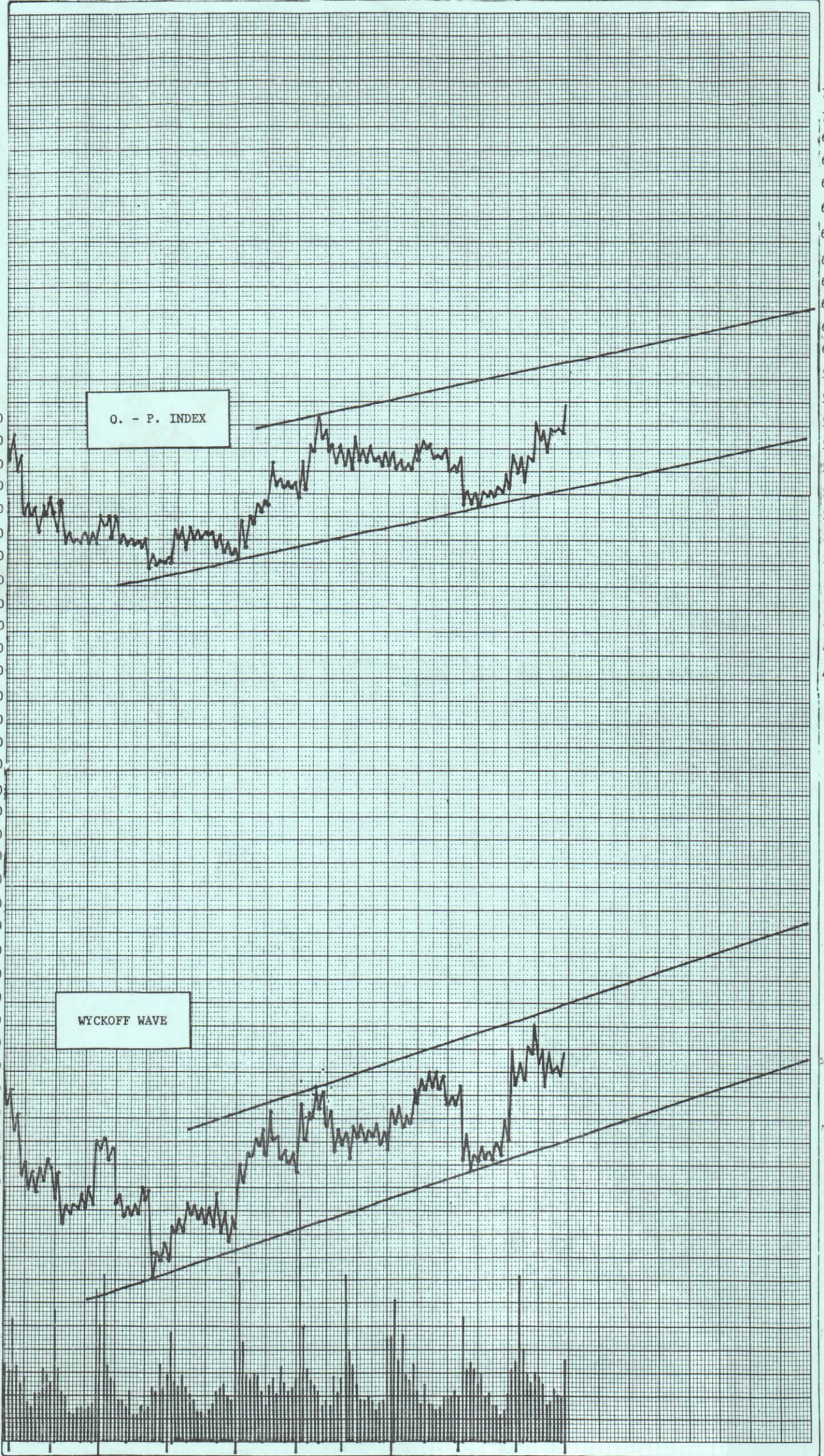
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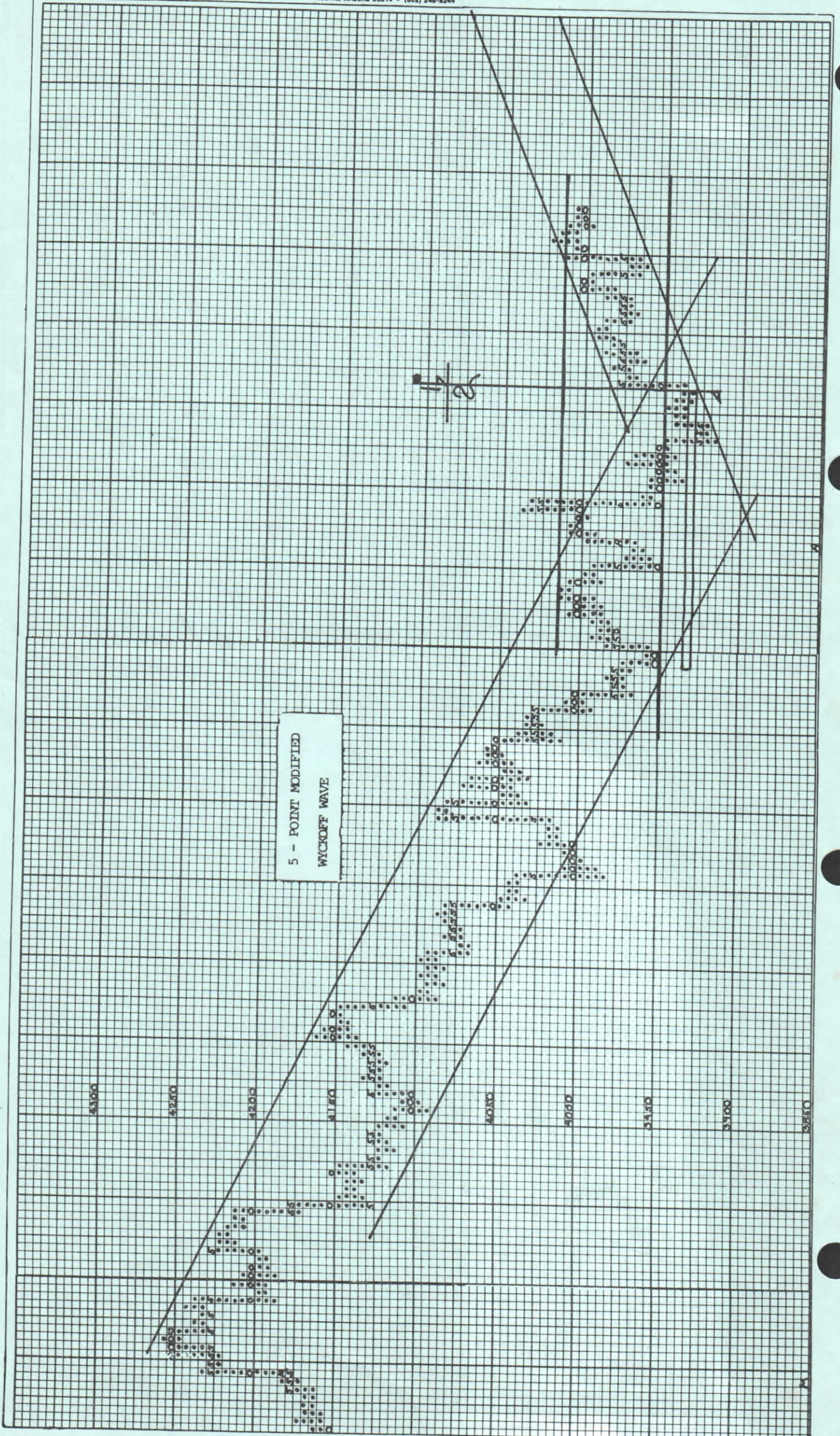
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O. - P. INDEX

WYCKOFF WAVE

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SMI

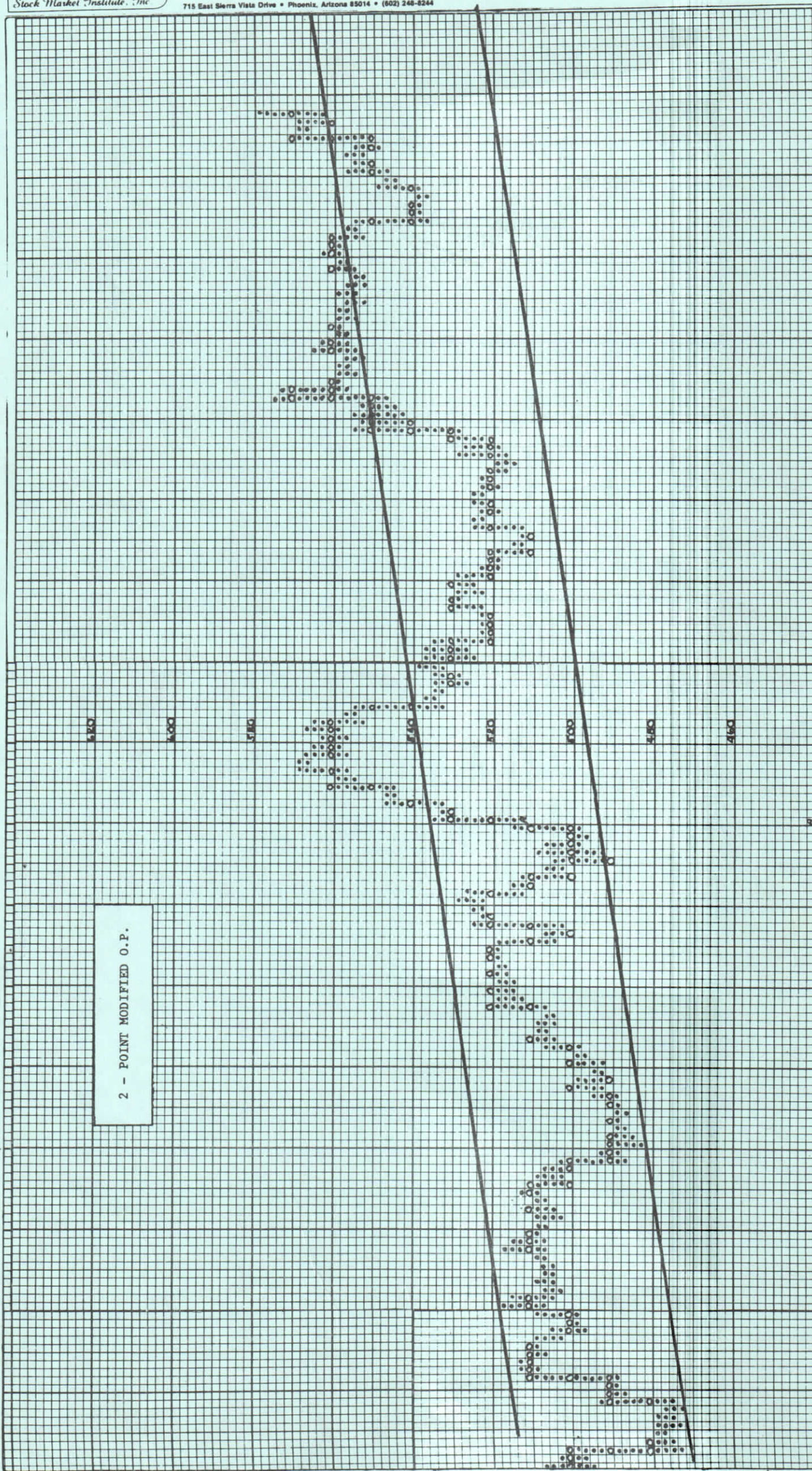


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2 - POINT MODIFIED O.P.



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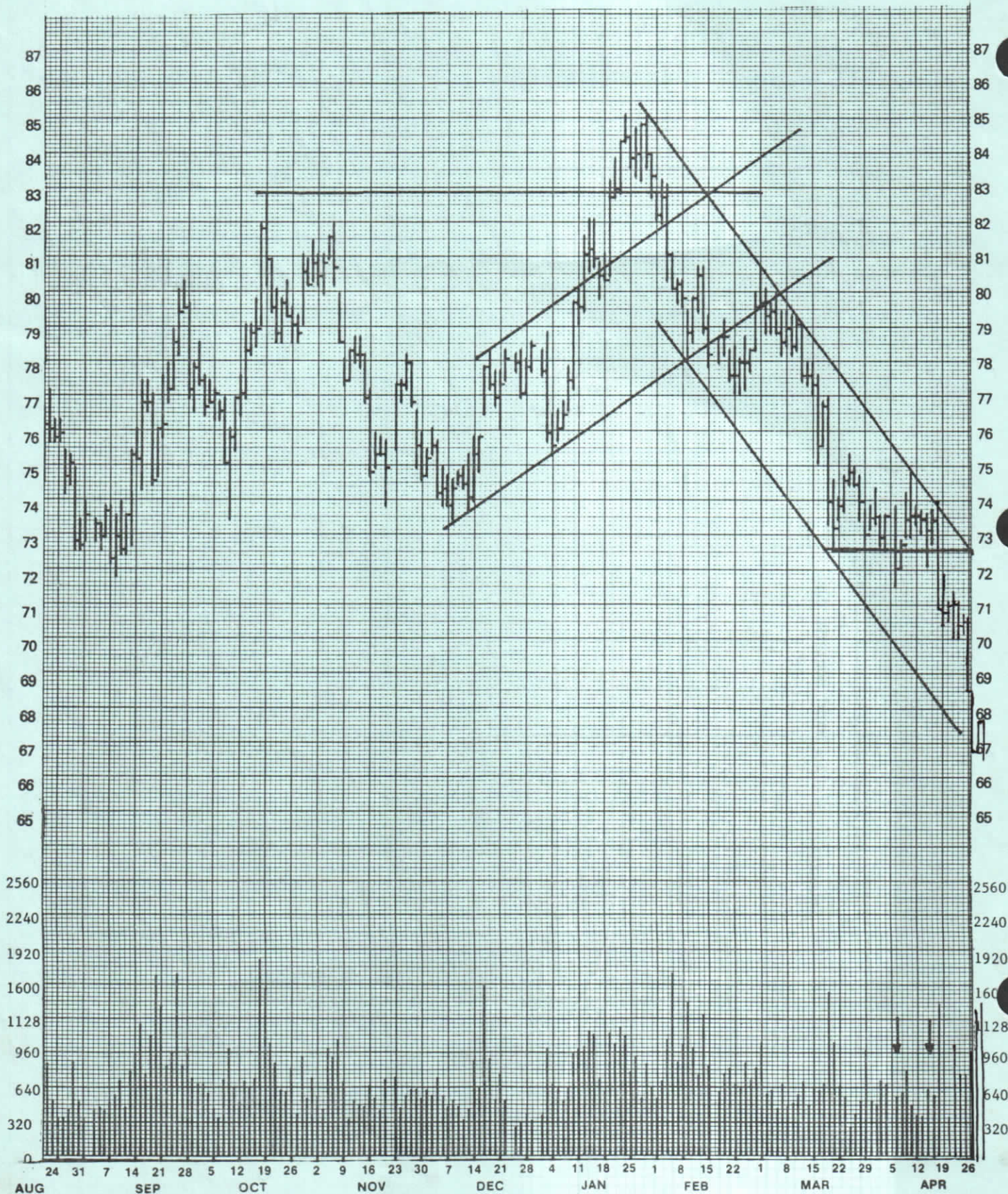
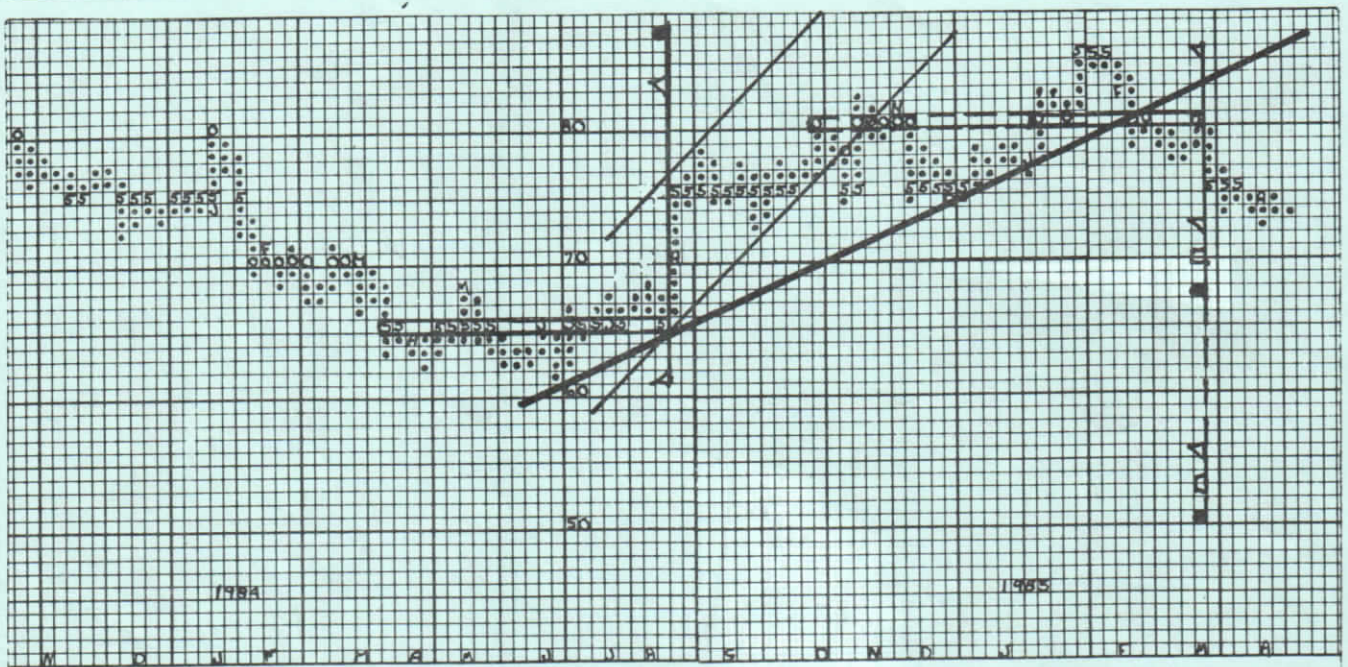
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GENERAL MOTORS

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CBOE (M-J-S-D)

AUTO





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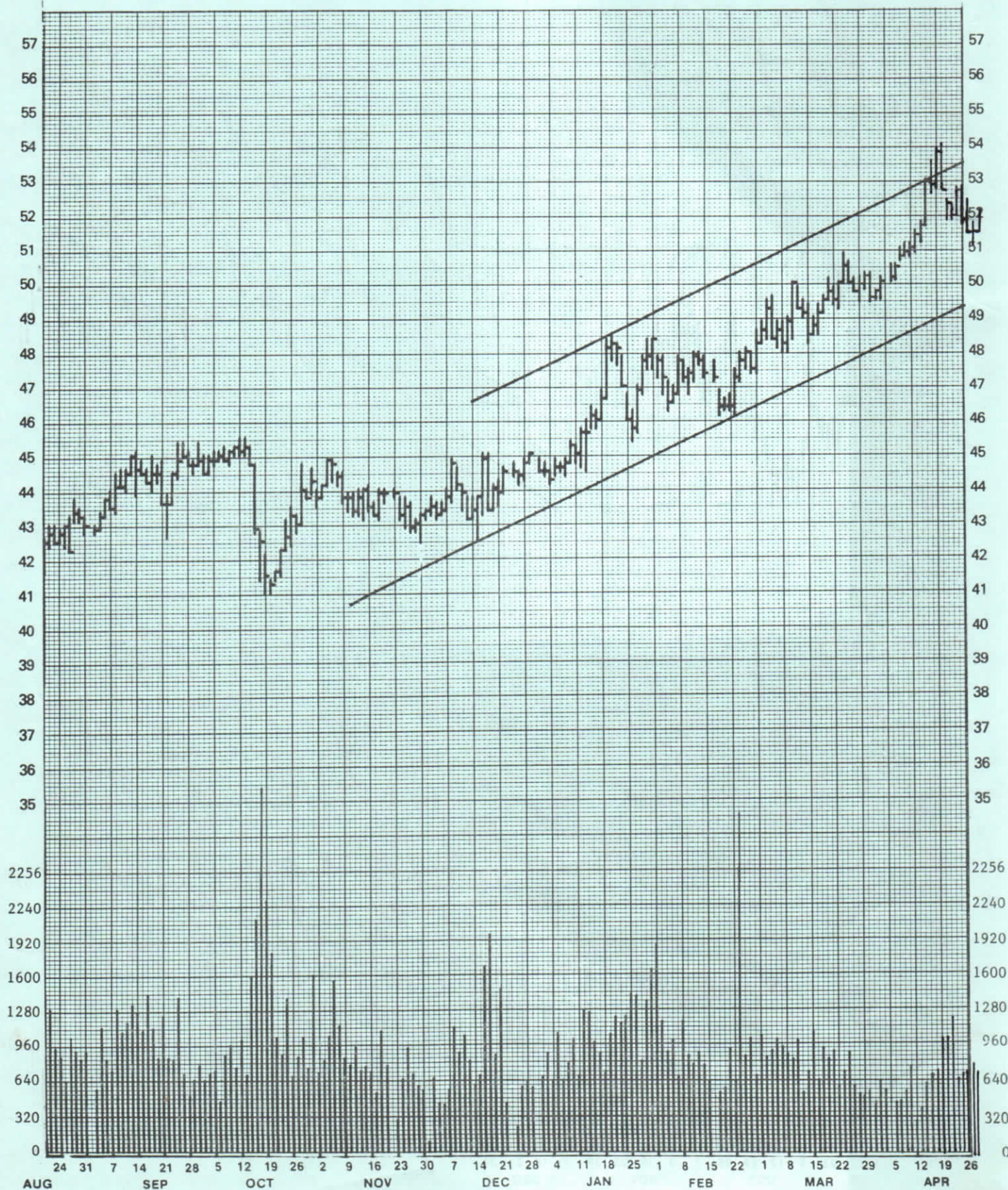
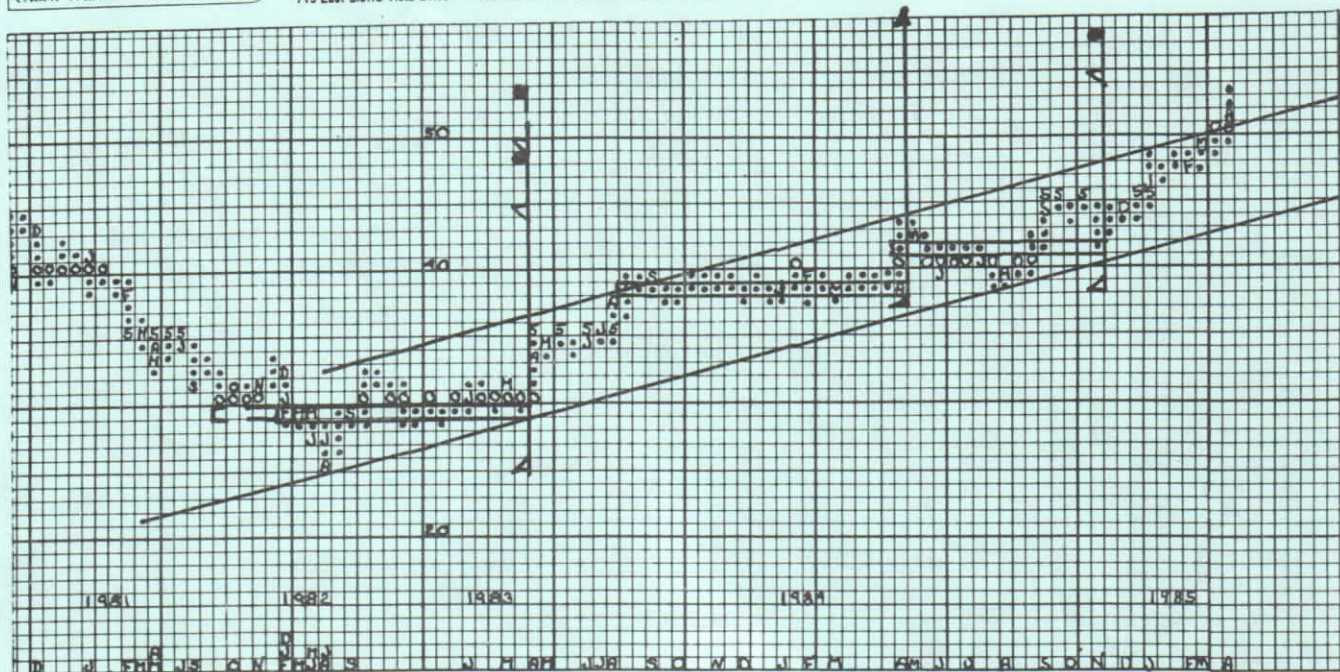
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EXXON

(XON)

CBOE (J-A-J-O)

OIL

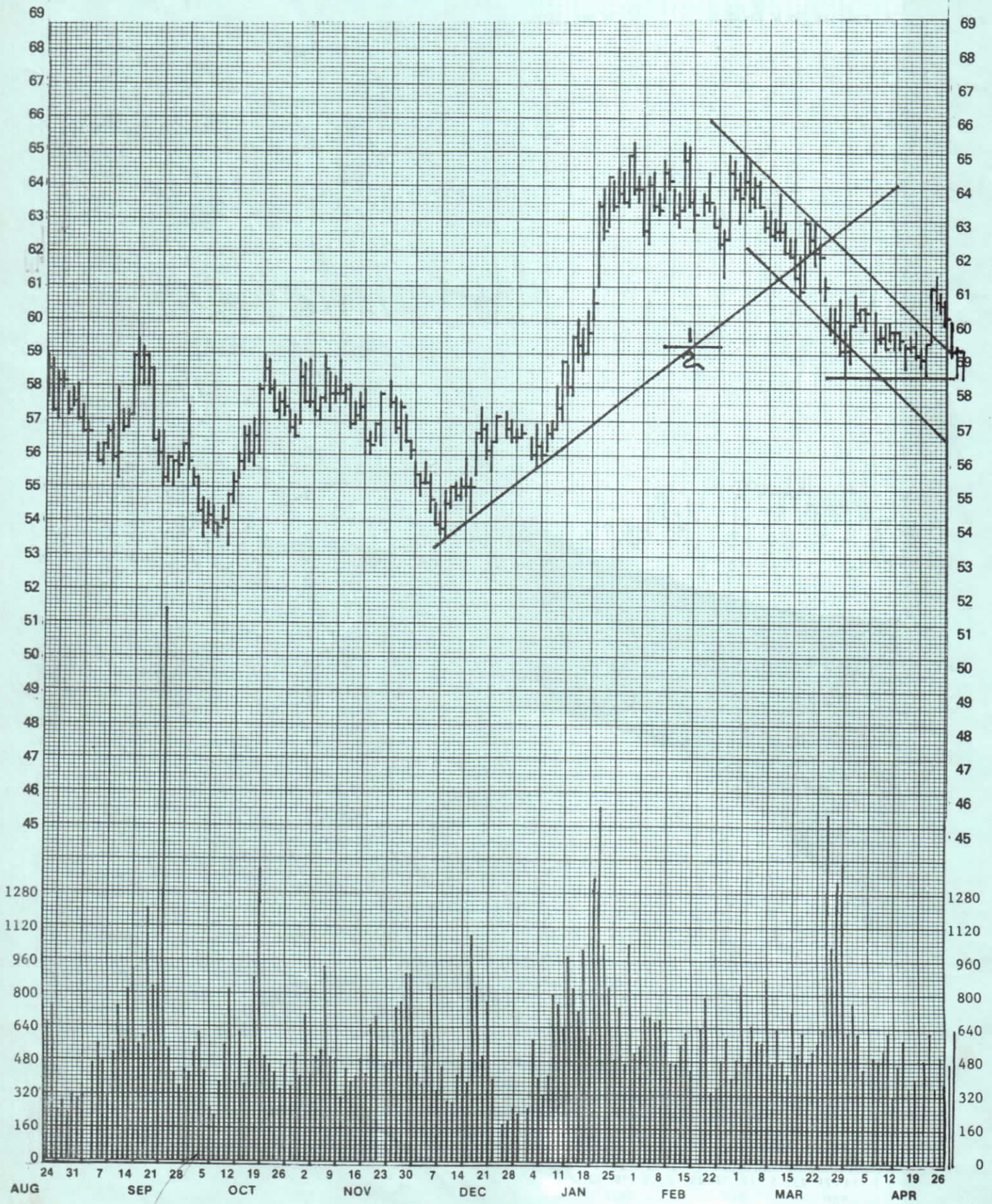
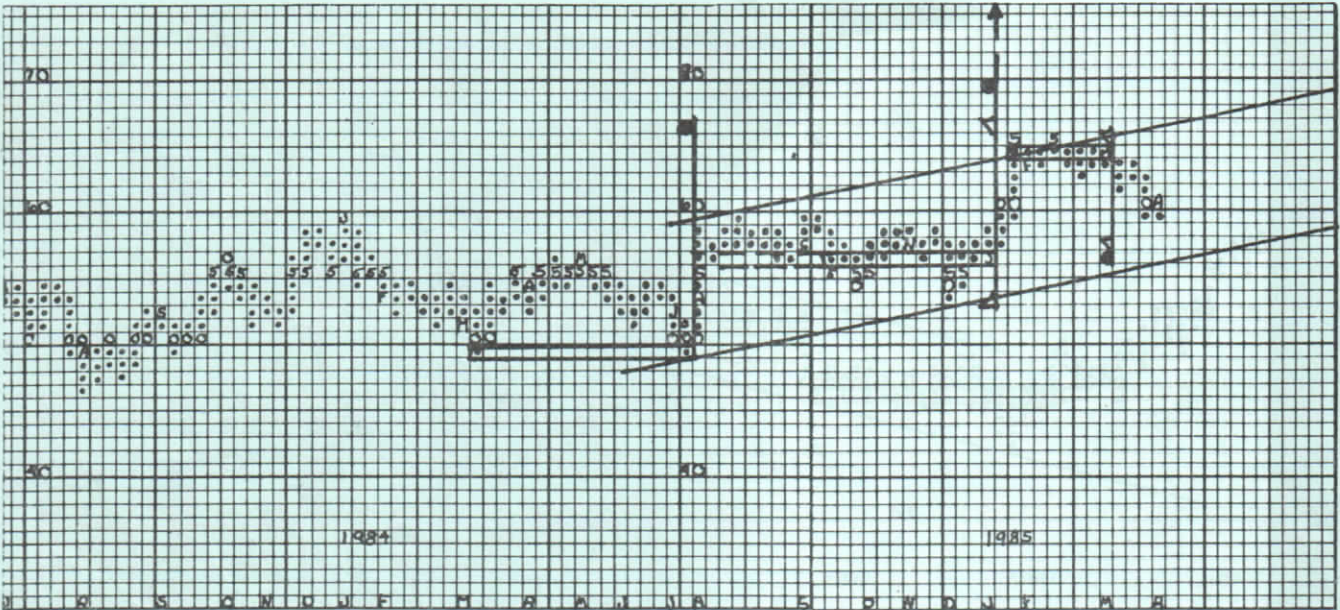


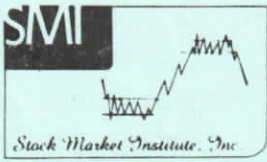


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GENERAL ELECTRIC (GE)
CBOE (M-J-S-D)
ELECTRICAL EQUIPMENT





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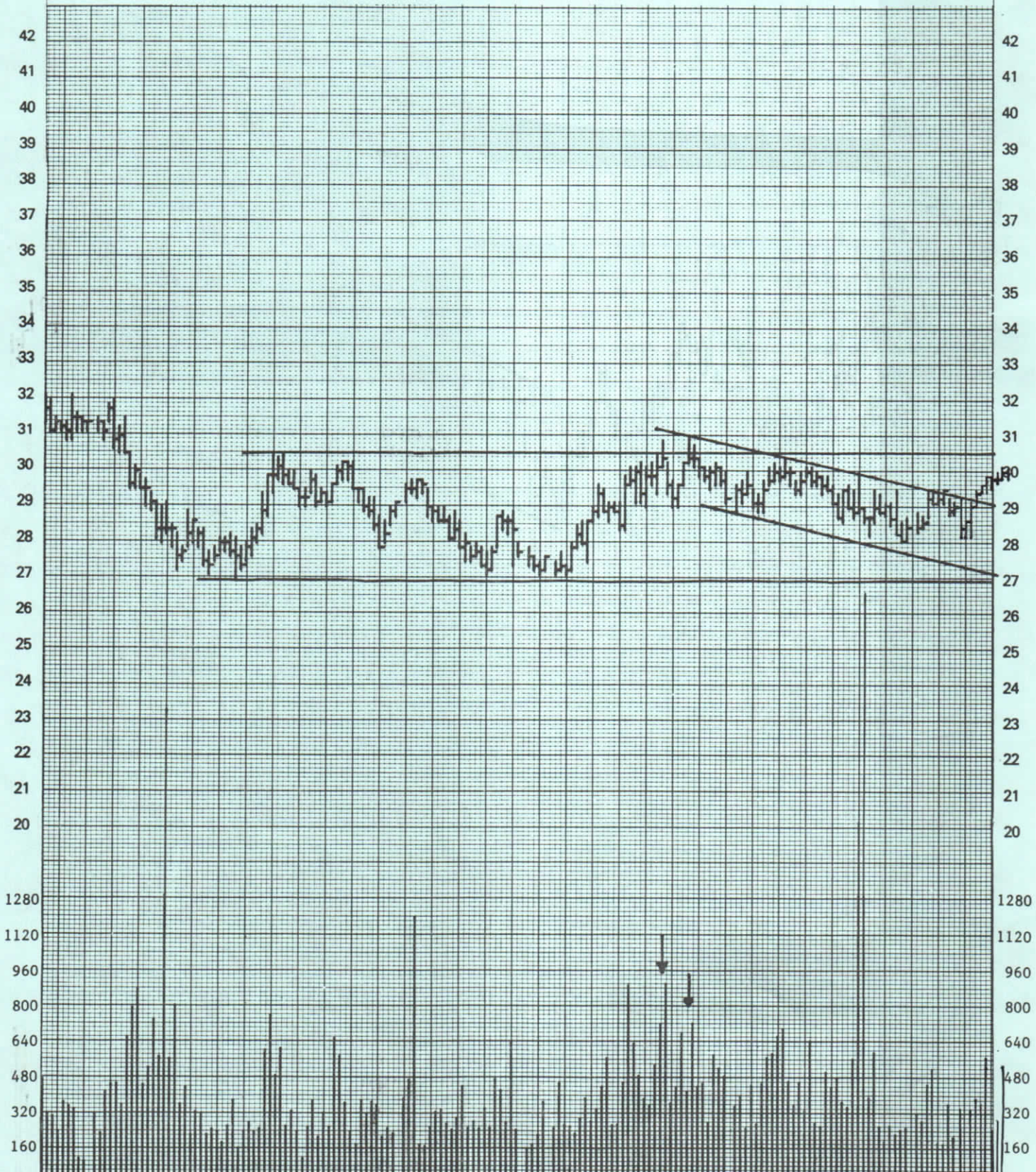
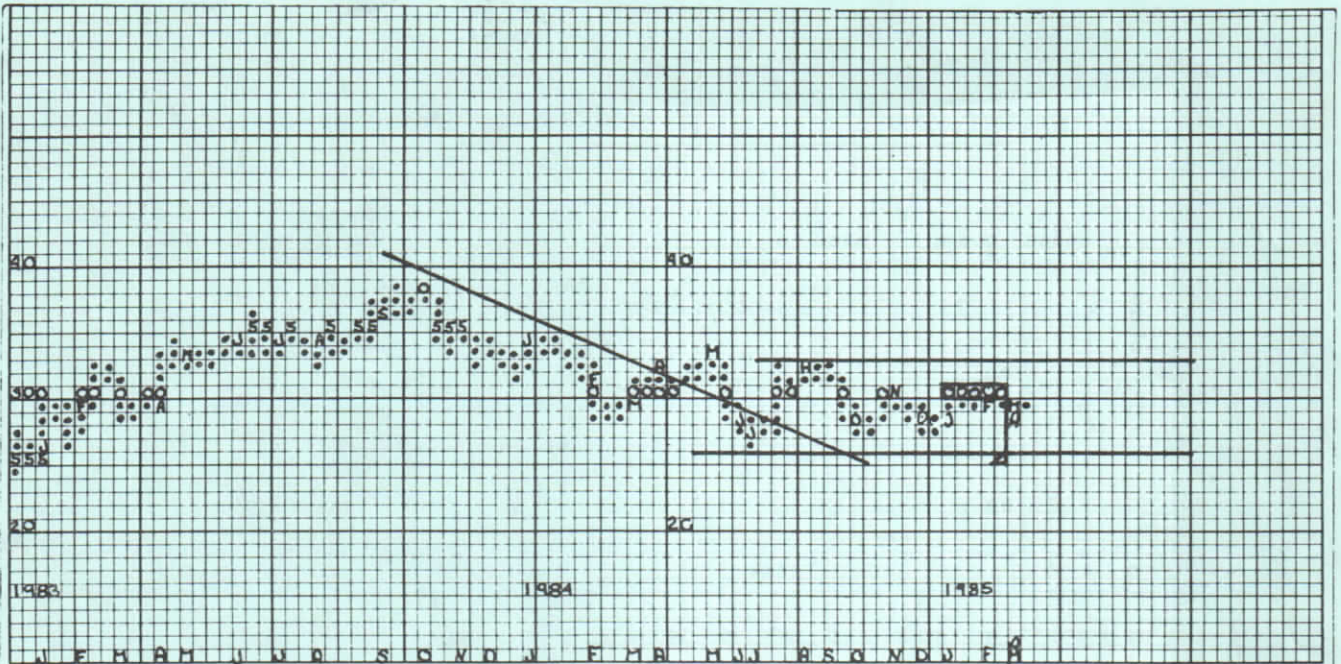
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DOW CHEMICAL

(DOW)

CBOE (M-J-S-D)

CHEMICALS





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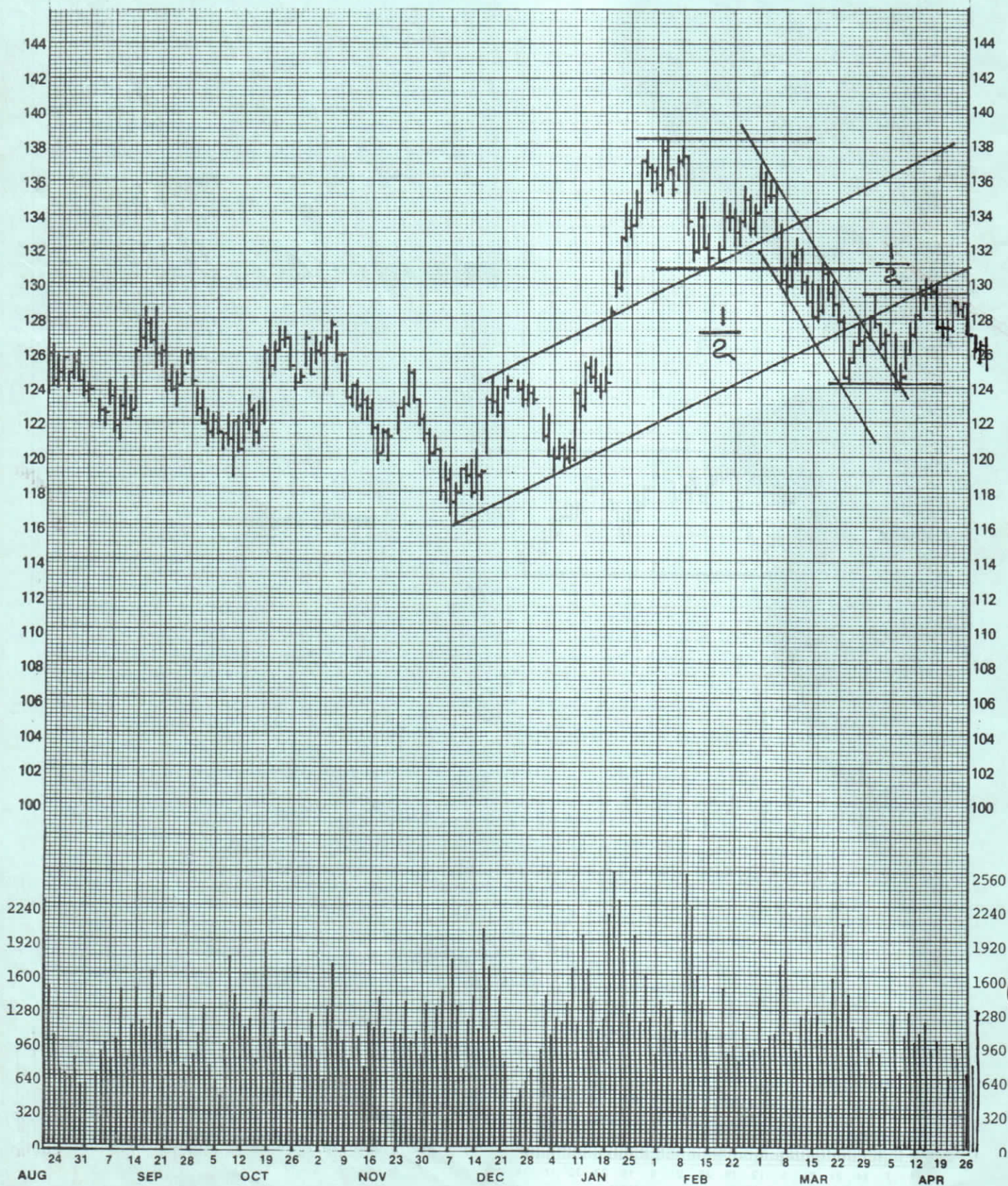
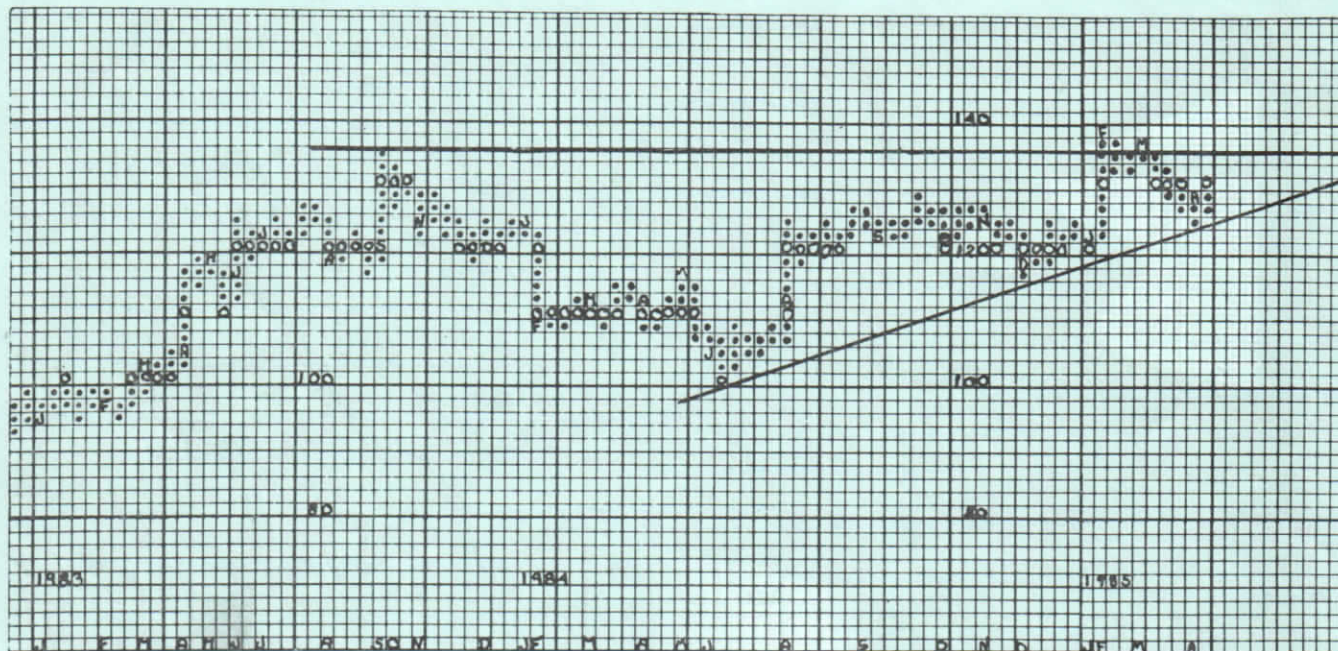
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I.B.M.

(IBM)

CBOE (J-A-J-O)

COMPUTERS





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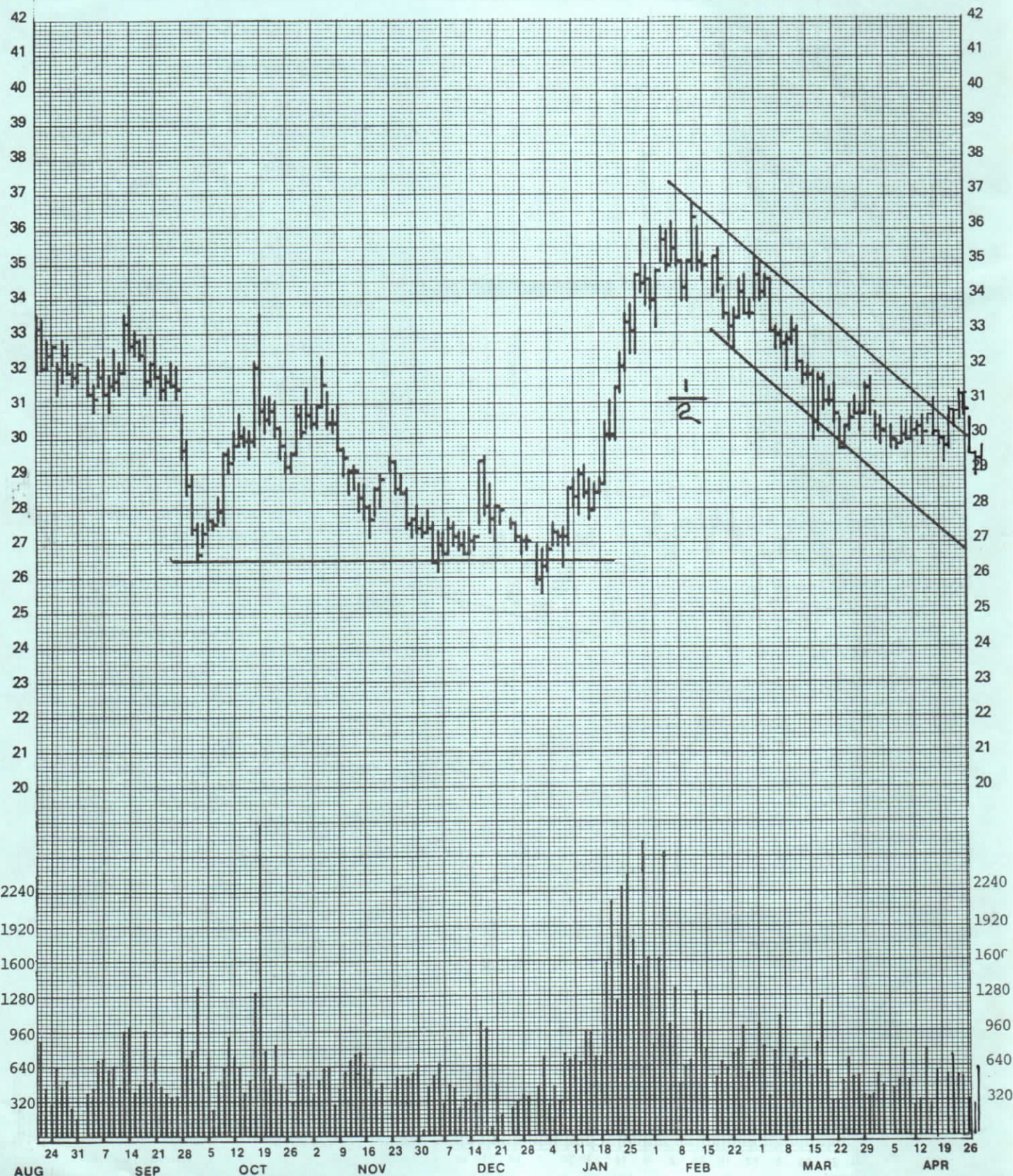
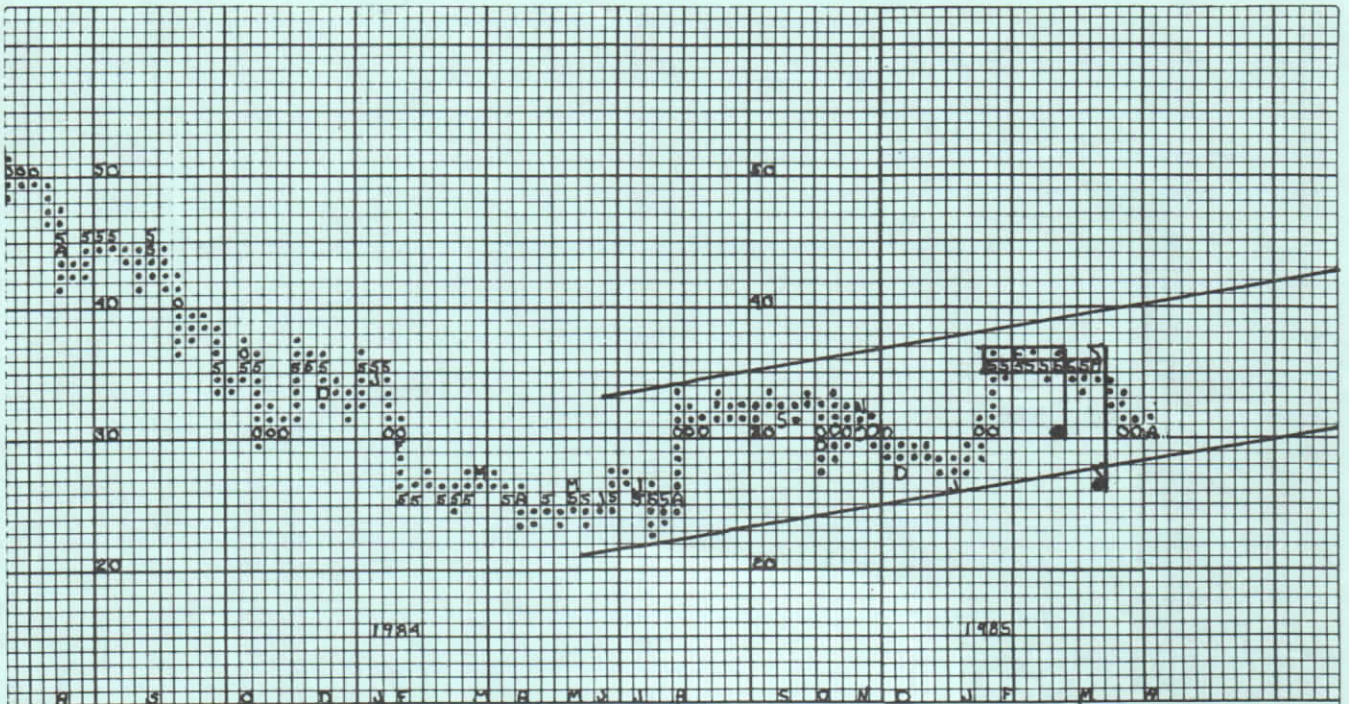
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MERRILL LYNCH

(MER)

ASE (J-A-J-O)

BROKERAGE FIRMS





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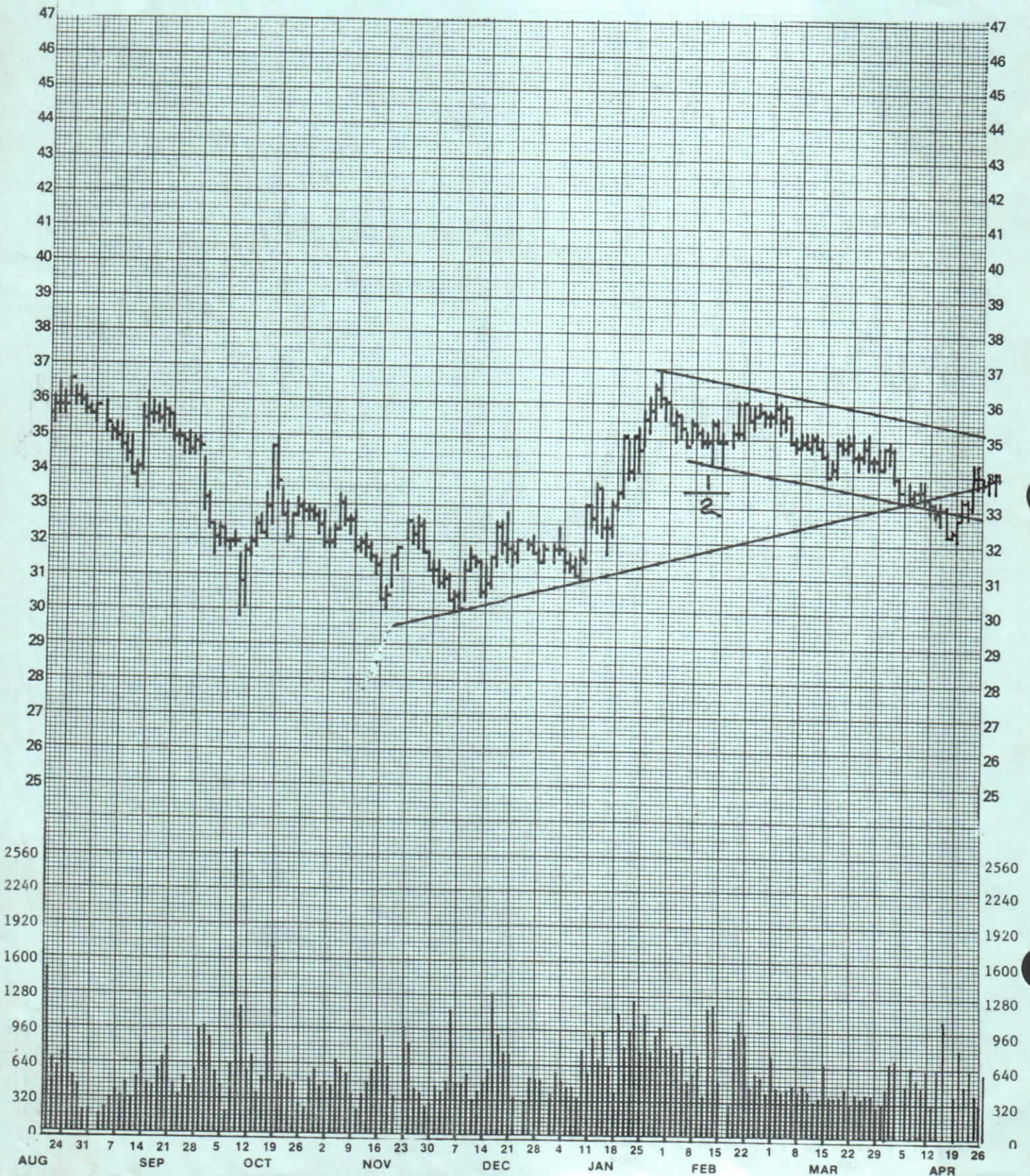
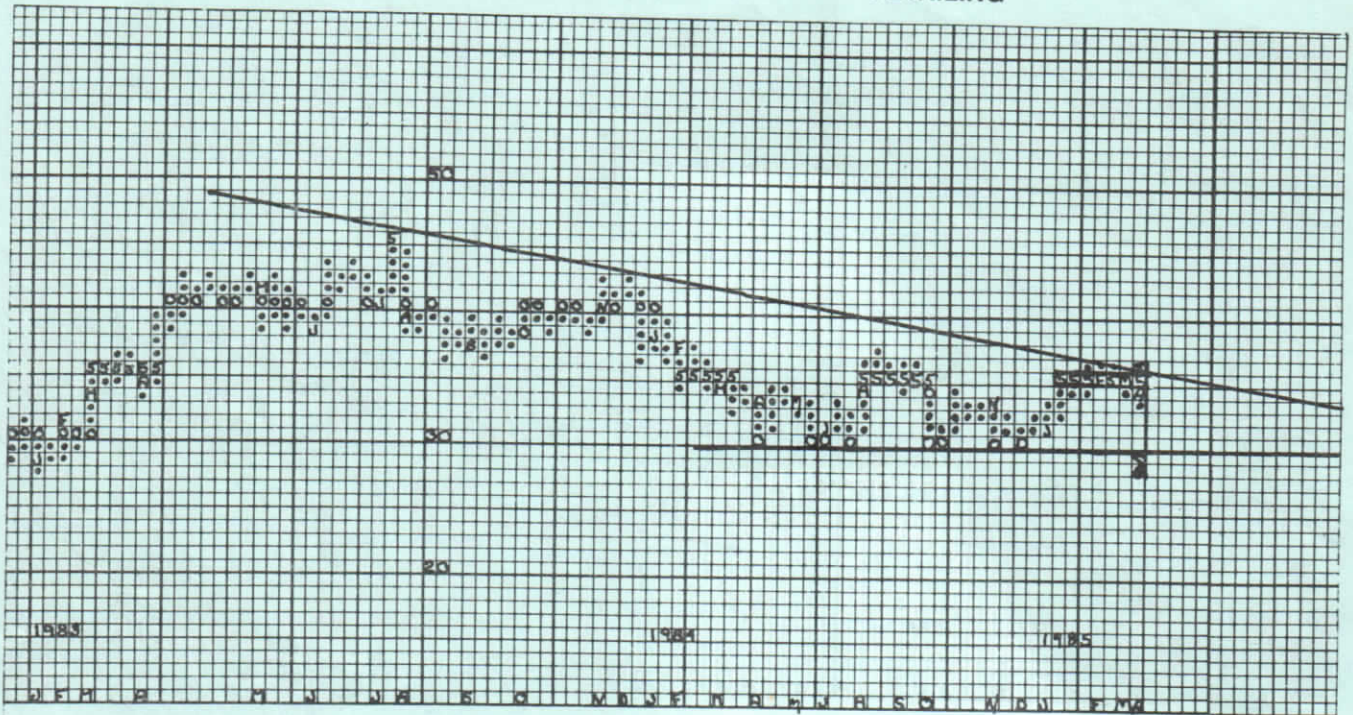
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SEARS

(S)

CBOE (M-J-S-D)

RETAILING





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U.A.L., INC.

(UAL)

CBOE (F-M-A-N)

AIRLINES

