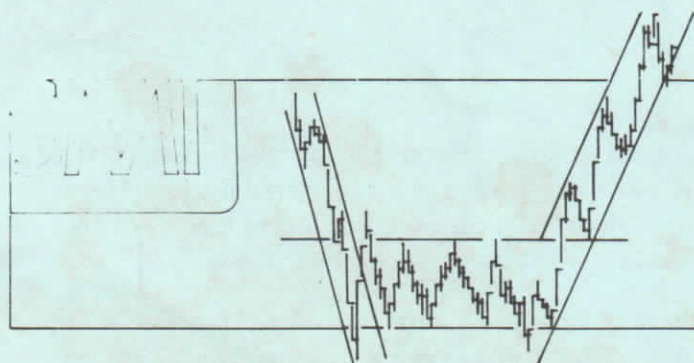




The Trend Letter

THE TREND LETTER
Friday, August 8, 1986

MARKET TRENDS

The intermediate trend of the market is down. However, the next good trading opportunity is most likely to be on the long side. Although this sounds like trading against the trend of the market, it really is not, providing the trader keeps everything in its proper perspective. The anticipated trade on the long side will be a short term trade within the down trend. It will likely result in an even better trading opportunity on the short side.

There are several factors that indicate the likelihood of a tradeable short term rally. One of the most important of these is the position in the intermediate down trend channel. On Monday, the Wyckoff Wave entered an oversold position in this down trend. It is normal to see such a position corrected with a rally that retraces as much as half of the previous decline. Notice that in this case such a rally could be extended over many weeks and still keep the price within the bigger down trend channel. Therefore, it is possible to have a good sized short term rally and end up with a prime short selling opportunity.

Other factors indicating the market's vulnerability to a rally can be found in the O.P. and the Trend Barometer. The O.P. has been exerting an almost continuous downside effort on the market since the beginning of June. This has pushed it to its lowest levels of the year. The price has responded to this effort but not to the same degree. The result is too much effort for the amount of decline realized. This indicates the likelihood of a turn.

The positive indication by the Trend Barometer is coming primarily from the Force. Several weeks ago the Force kept applying more and more downside pressure on the market until the price finally broke. However, since then the pressure has been coming off. This should make it difficult to hold the price down at its current level. This is especially true if a more clearly oversold condition develops and the market starts to respond to that condition.

The indications of a rally are all interesting but meaningless if there is no potential to fuel a rally. Fortunately, there is and it can be seen best on the ten point chart of the Wave. The count appears to be at the 4640 level indicating a move of two hundred points. This would take the Wave to just below the halfway point of the last decline, which would be a perfectly normal correction.

In view of the indications mentioned, short term long positions appear to be in order. The important thing to remember is that they are intended to be short term in nature and likely will give way to an even better shorting opportunity in the near future.

INDEX TRENDS

All of the market indexes may be considered for short term long positions. They have all reached their short term downside objectives and have started to break down the supply lines of their short term down trends. In addition, each has some upside potential to fuel a rally. However, the XMI clearly has much more potential than the others. This may not all be worked out but the fact that it is there gives this index the edge and makes it the best candidate for a short term long position.

STOCK TRENDS

Three of the stocks in the Wyckoff Wave appear to be worthy of consideration for a short term long position. Not included in these three is Dow Chemical. Dow is not in an oversold position. Therefore, there is still room for additional downside progress. In addition, this also indicates the possibility of further downside progress and further discourages long positions.

Exxon is one of the stocks that should be watched for an opportunity to establish a long position. Its action over the past few days has clearly been a jump across the creek. A back up may be expected to take the price back to approximately 62.2. If this is accomplished in a constructive manner, long positions will be justified in anticipation of at least the conservative upside objective of 69 being reached.

The second stock in which a long position may be considered is General Electric. In the past two weeks the stock has been in spring position and successfully tested that spring. It has also penetrated the short term supply line. One more pull back will confirm the breaking of the supply line and set a count line. It will also provide an additional opportunity to establish a long position for the anticipated rally.

General Motors was positioned very near its intermediate oversold line about a week ago. However, since then it has rallied into the middle of its down trend channel. This is not a good place to be considering a position of any kind. The risk for the reward is too high.

Although not as good as XON or GE, IBM may also be considered for a short term long position. This is based on two factors. One is the minor spring position that developed on Wednesday. The other is the inability to react to the oversold line during the past three weeks. This is normally an indication of a trend.

From a short term stand point, Merrill Lynch cannot be considered for a long position. It is trying to stop its decline with shorter downward thrusts as it reaches an important halfway point and by breaking its intermediate supply line. These are encouraging first steps in a potential turning process but provide no reason to anticipate a strong short term rally. Therefore, long positions cannot be justified.

Sears is not a good candidate for a long position. It has a much lower objective. It is not in an oversold position and has not broken its down trend. It appears much more like a stock that should be sold short but the condition of the general market discourages this. Therefore, no action is in order.

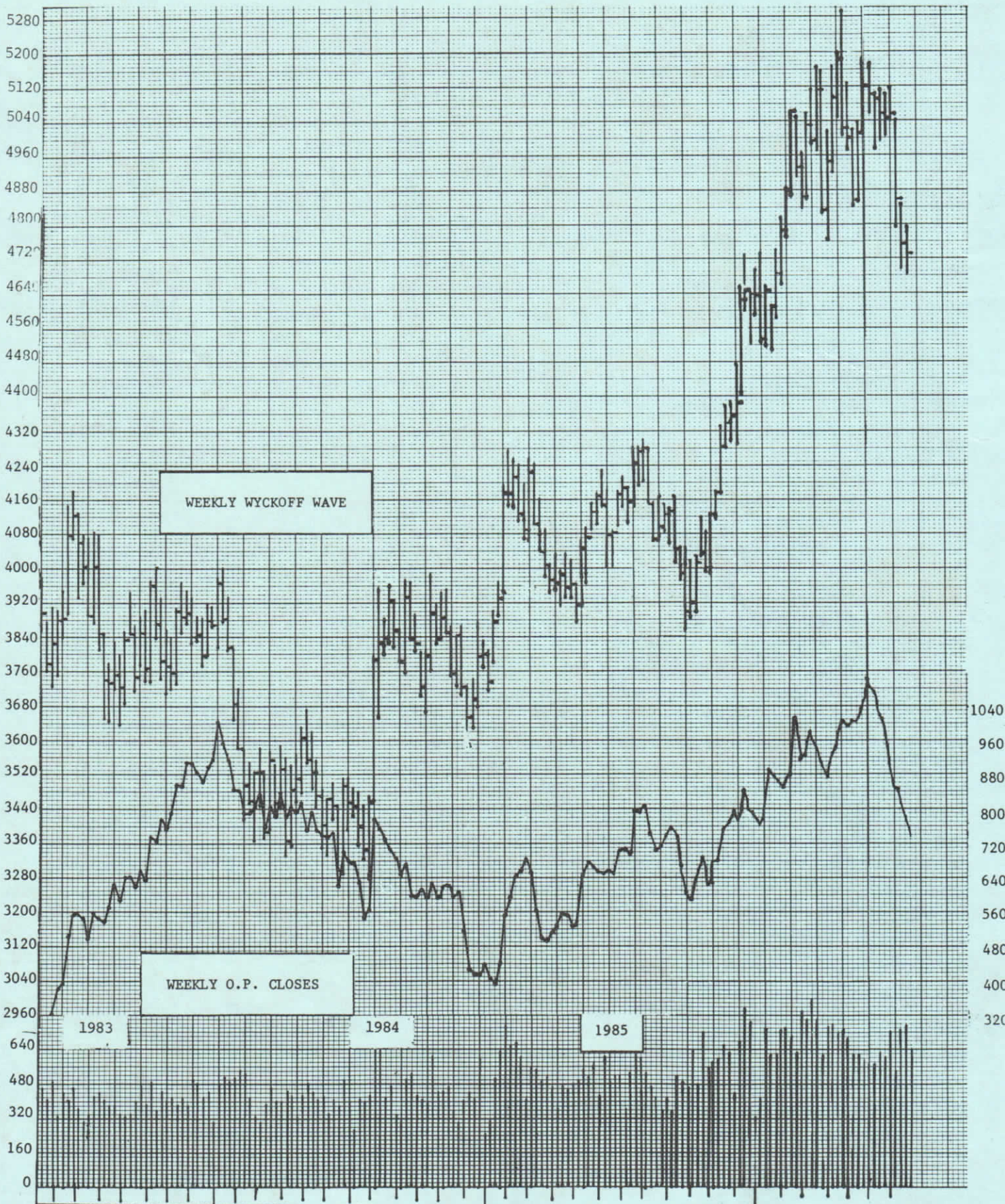
UAL is not included among the three potential long candidates. However, for the more aggressive trader it may be given some consideration. The justification is the oversold position. The last two times this happened there were corrective rallies. The problem with these was that they were weaker than might have been expected and ended abruptly. This type of behavior can turn even a good trade into a no profit situation very quickly. Until the stock's action settles down it appears best to avoid it. Concentrating on the three stocks that appear to provide the clearest short term opportunities should provide the best results.

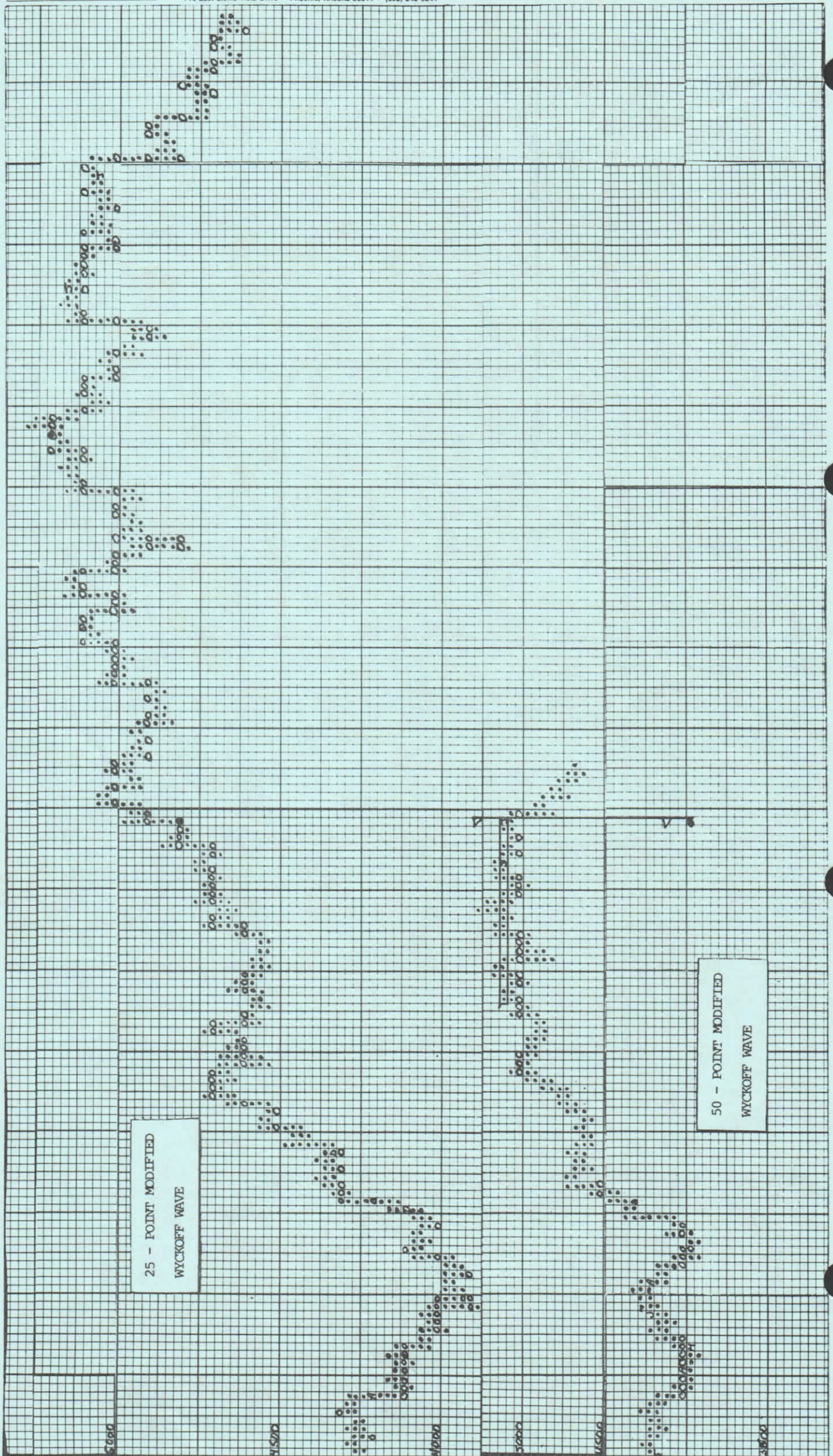
INDEX CHARTS
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This set of SMI Index Charts is published weekly and is available only to subscribers of SMI's DAILY STOCK REPORT/PULSE OF THE MARKET or SMI's CHARTING SERVICE. It contains the following charts:

- | | | |
|--------------------------------|--------------------|------------------|
| Weekly Wyckoff Wave | Group Indexes: | Electronics |
| 50-Point Modified Wyckoff Wave | Aerospace | Gold and Silver |
| 25-Point Modified Wyckoff Wave | Airlines | Insurance |
| 10-Point Modified O.P. Index | Autos | Machinery |
| Trend Barometer/O.P. Index | Banking | Medical |
| 10-Point Modified Wyckoff Wave | Building Materials | Metals |
| 5-Point Modified O.P. Index | Chemicals | Office Equipment |
| Intraday Wave Chart | Computers | Oil Exploration |
| 5-Point Modified Wyckoff Wave | Diversified | Oils |
| 2-Point Modified O.P. Index | Drugs | Semi-Conductor |
| S&P 500 Index | | |
| S&P 100 Index | | |
| NYSE Index | | |
| Major Market Index | | |

In our desire to insure the accuracy and reliability of these charts all statistical data is checked and cross-checked. However, even with this care, the completeness and accuracy cannot be guaranteed.





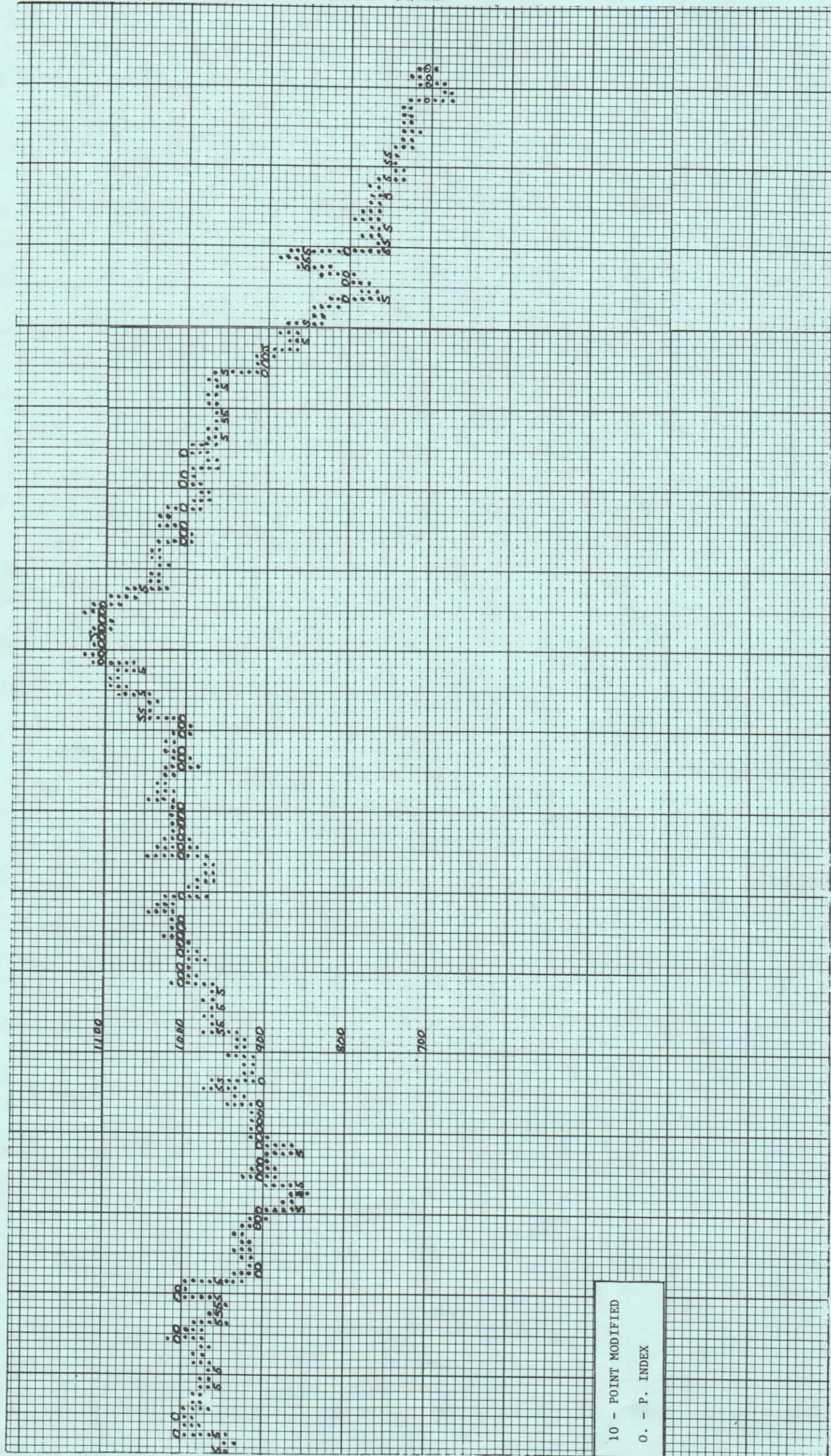


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Page 3



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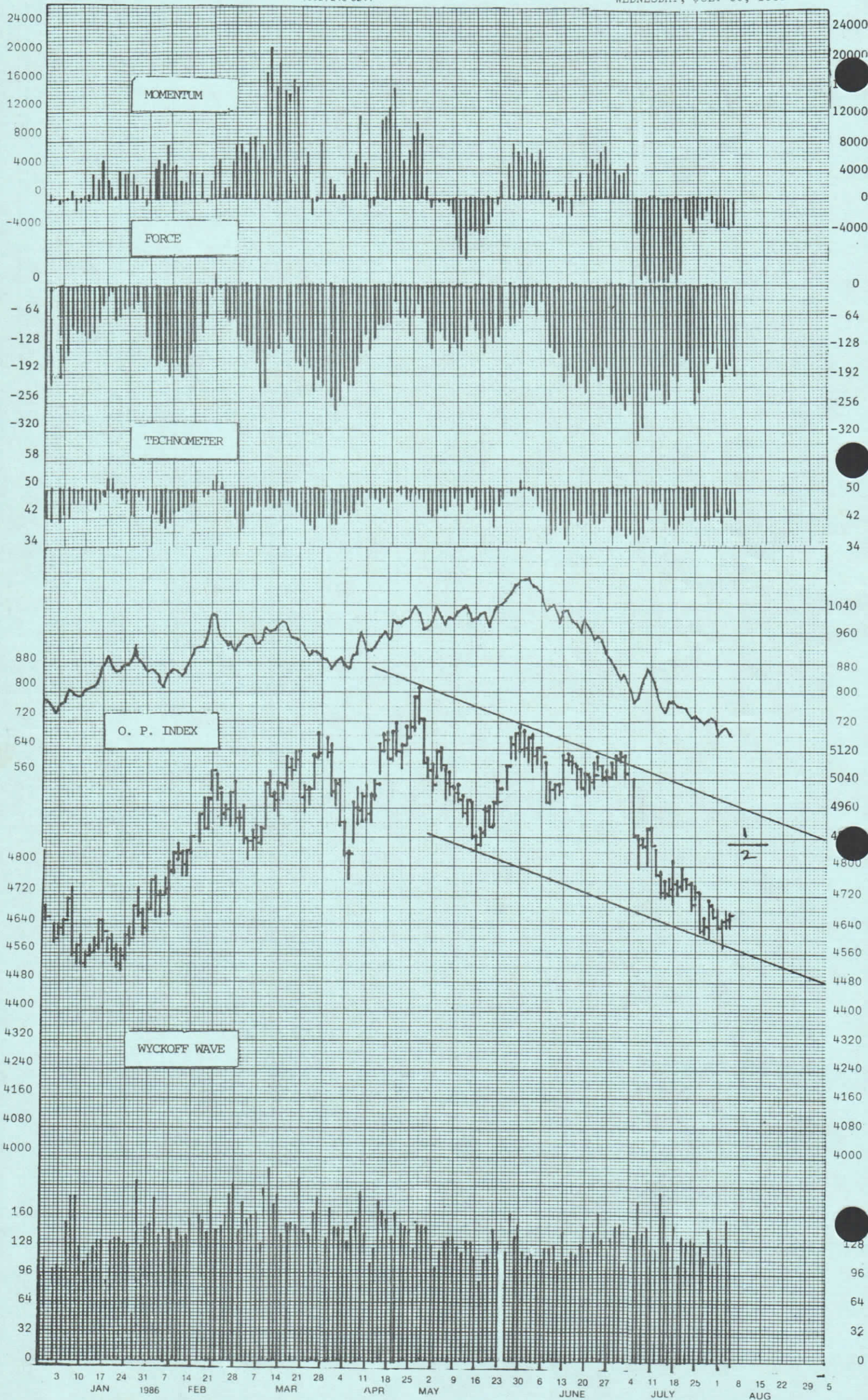
O. - P. INDEX



The Pulse Of The Market

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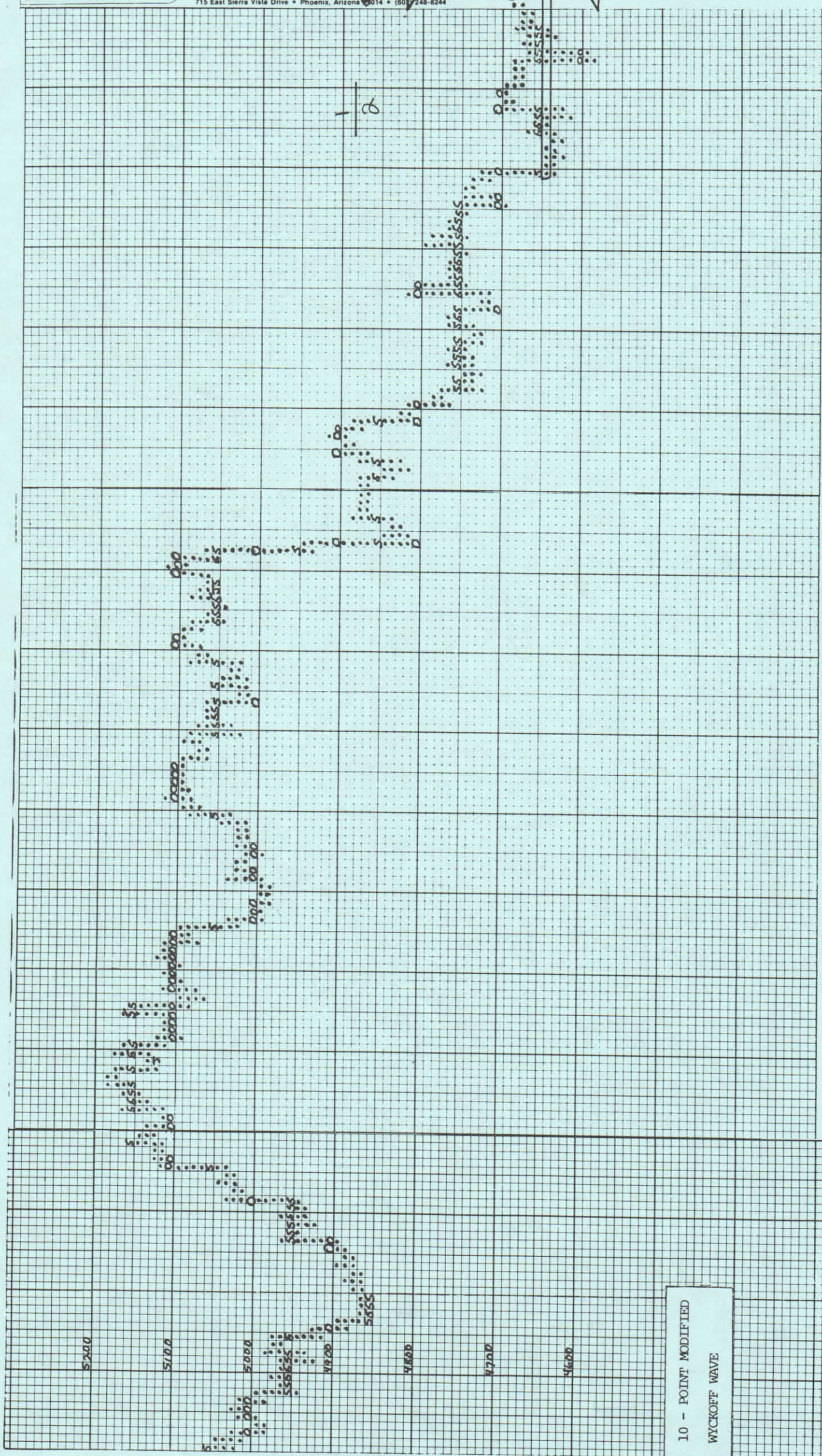
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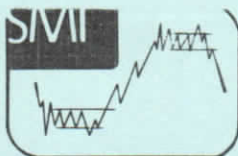
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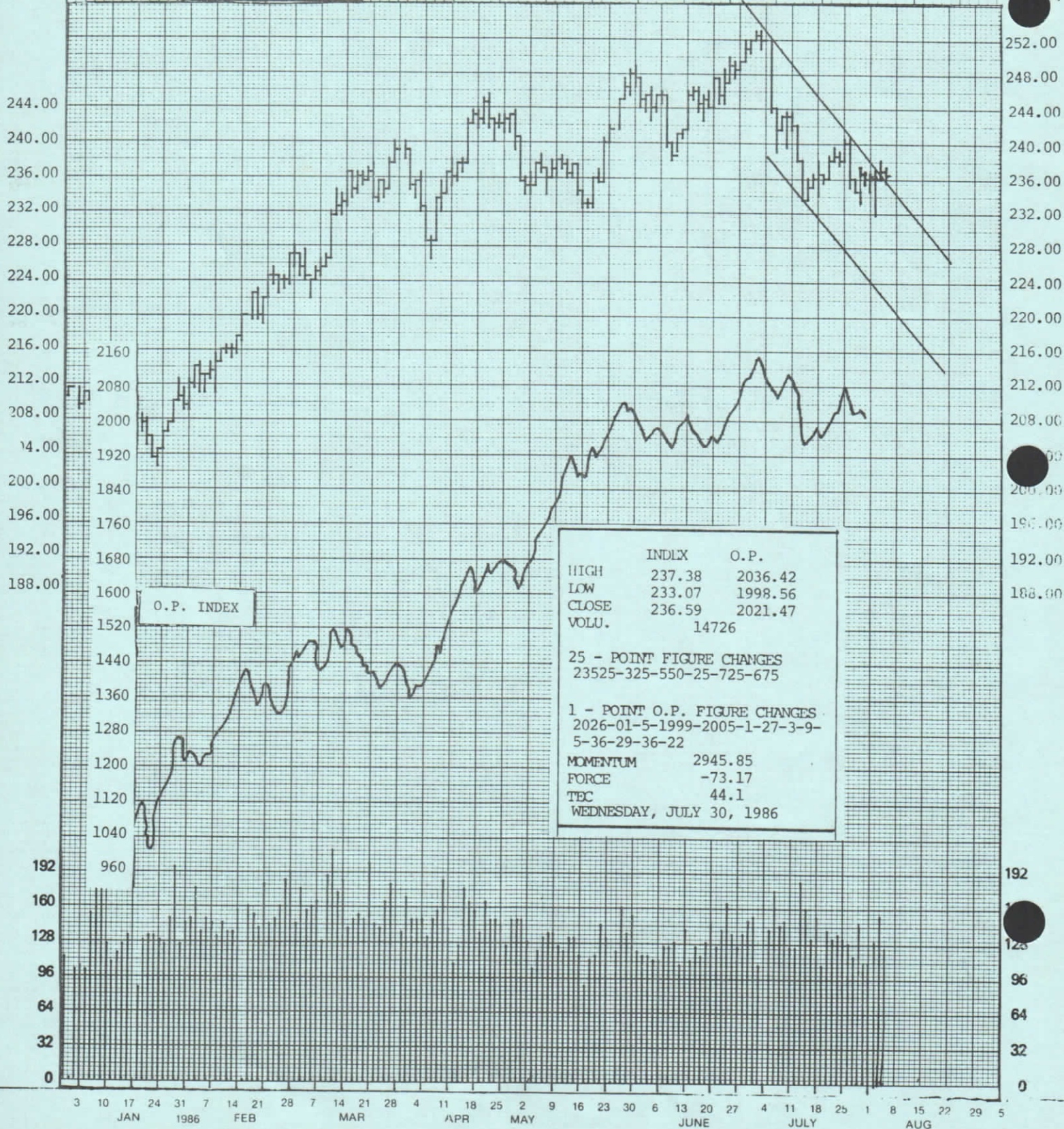
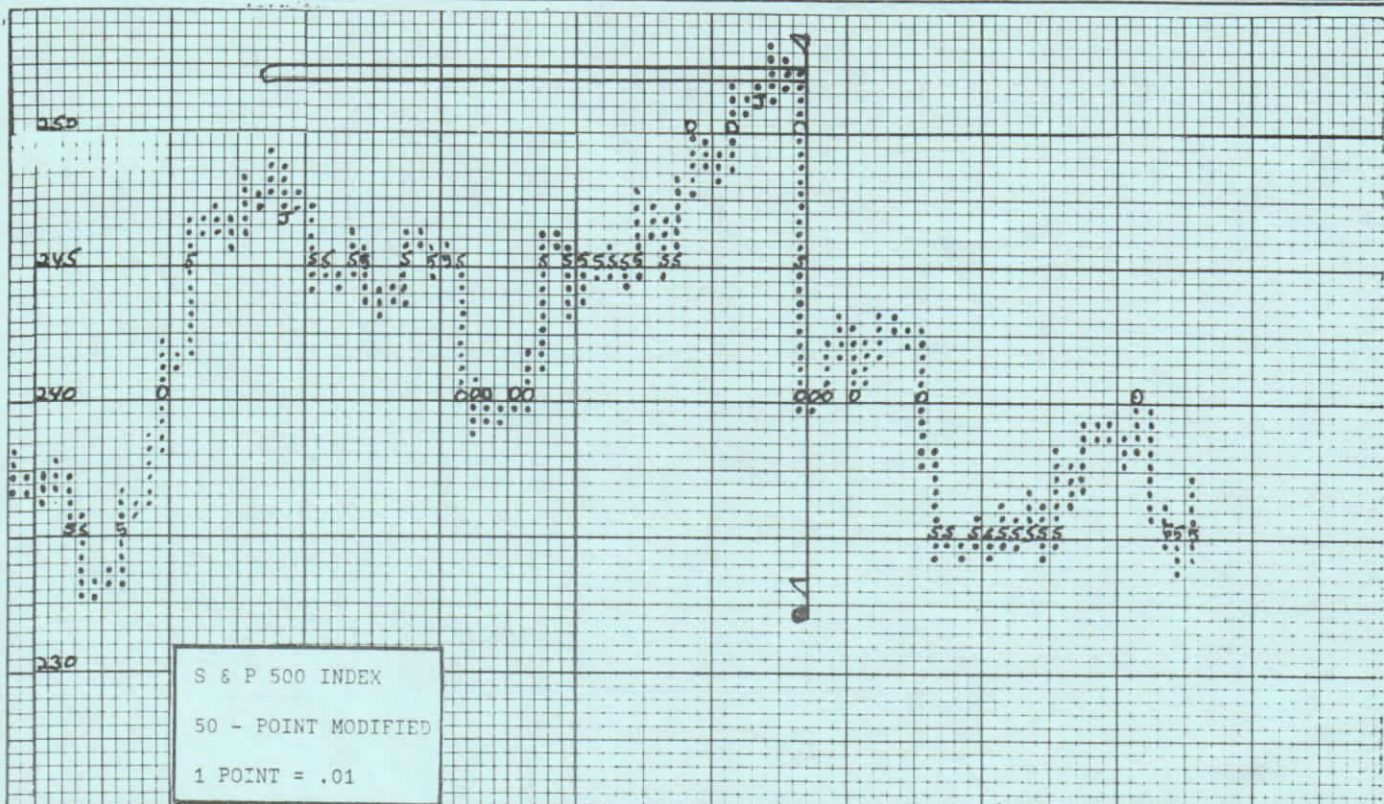
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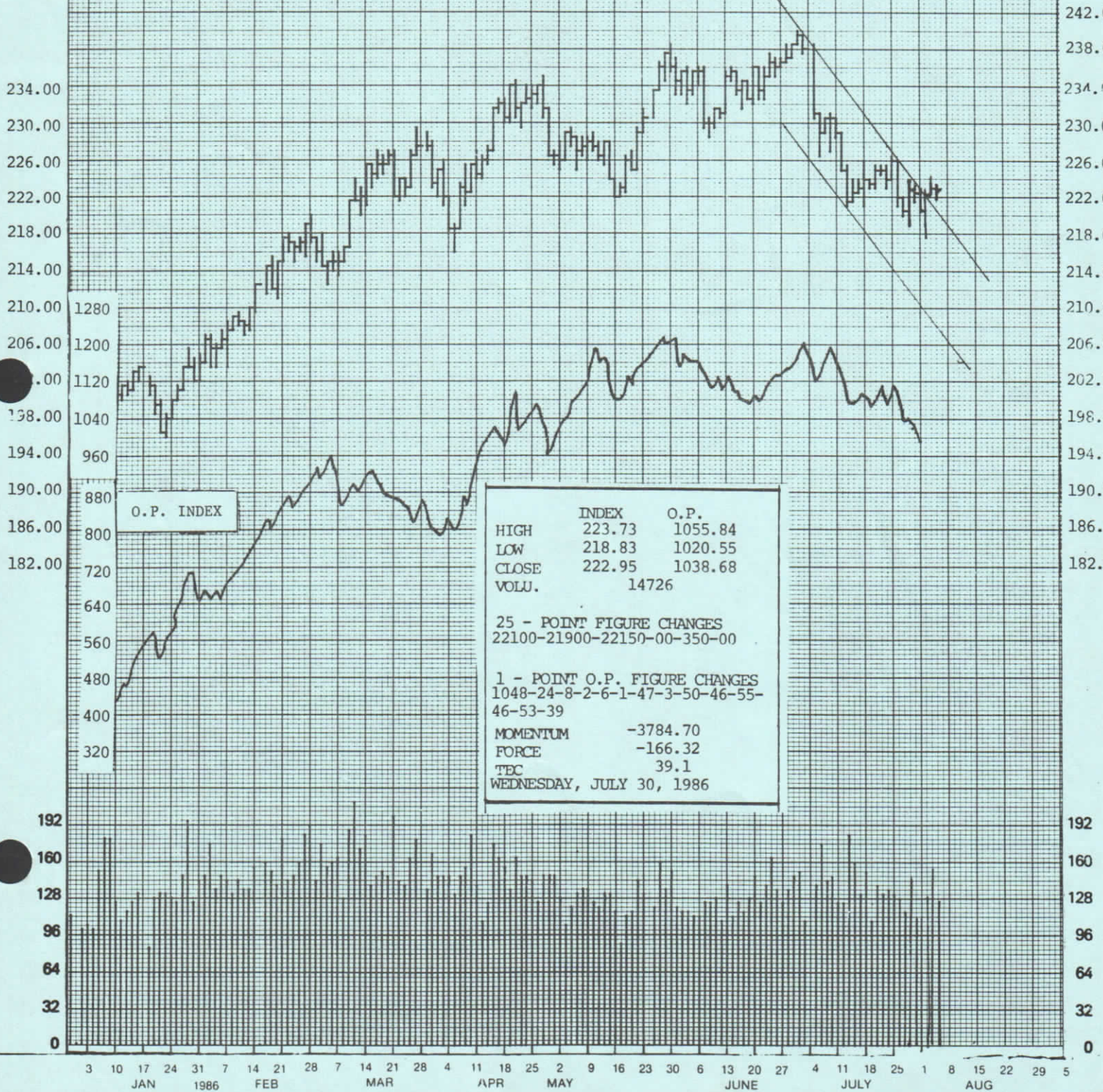
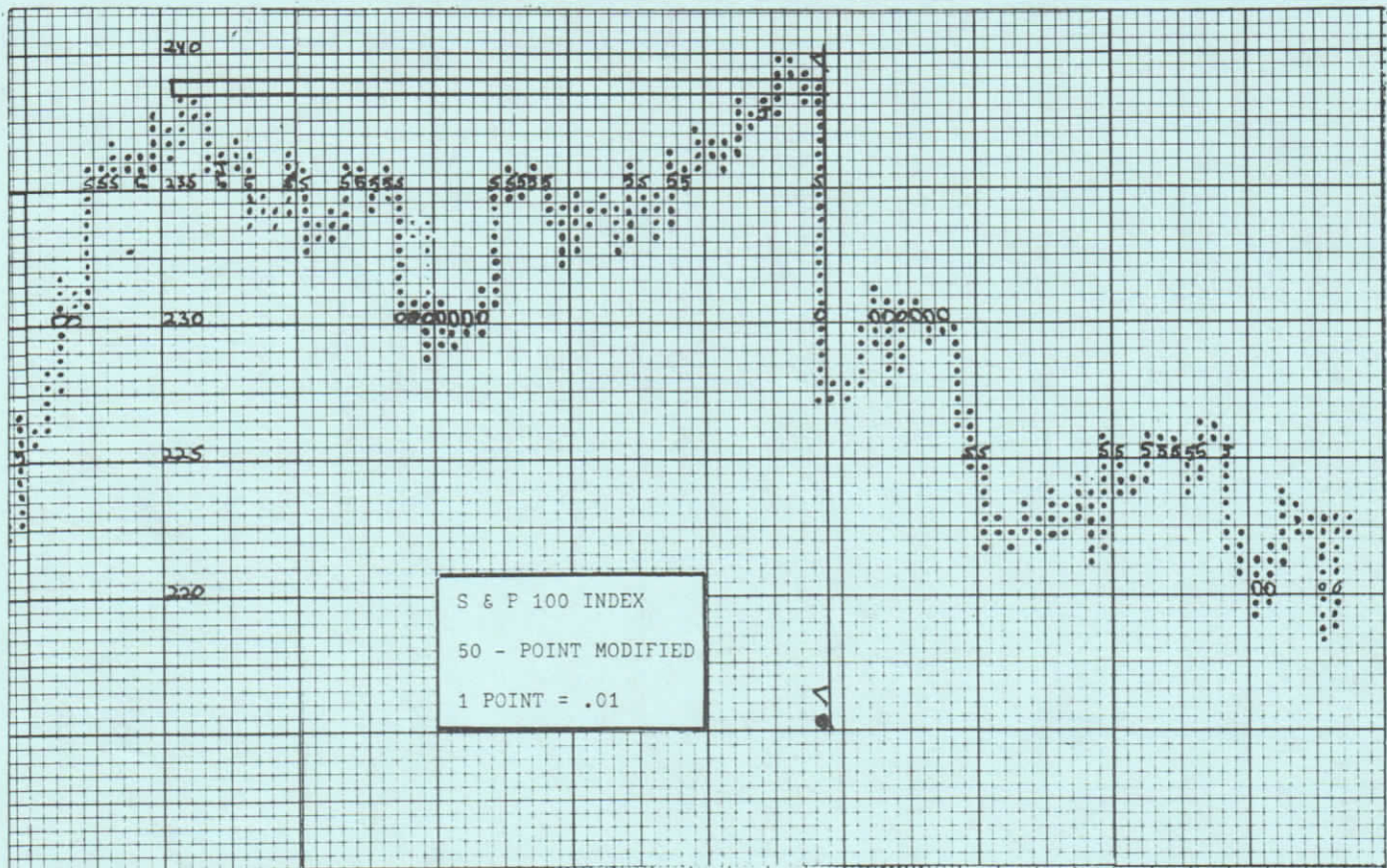
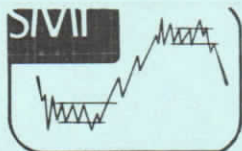


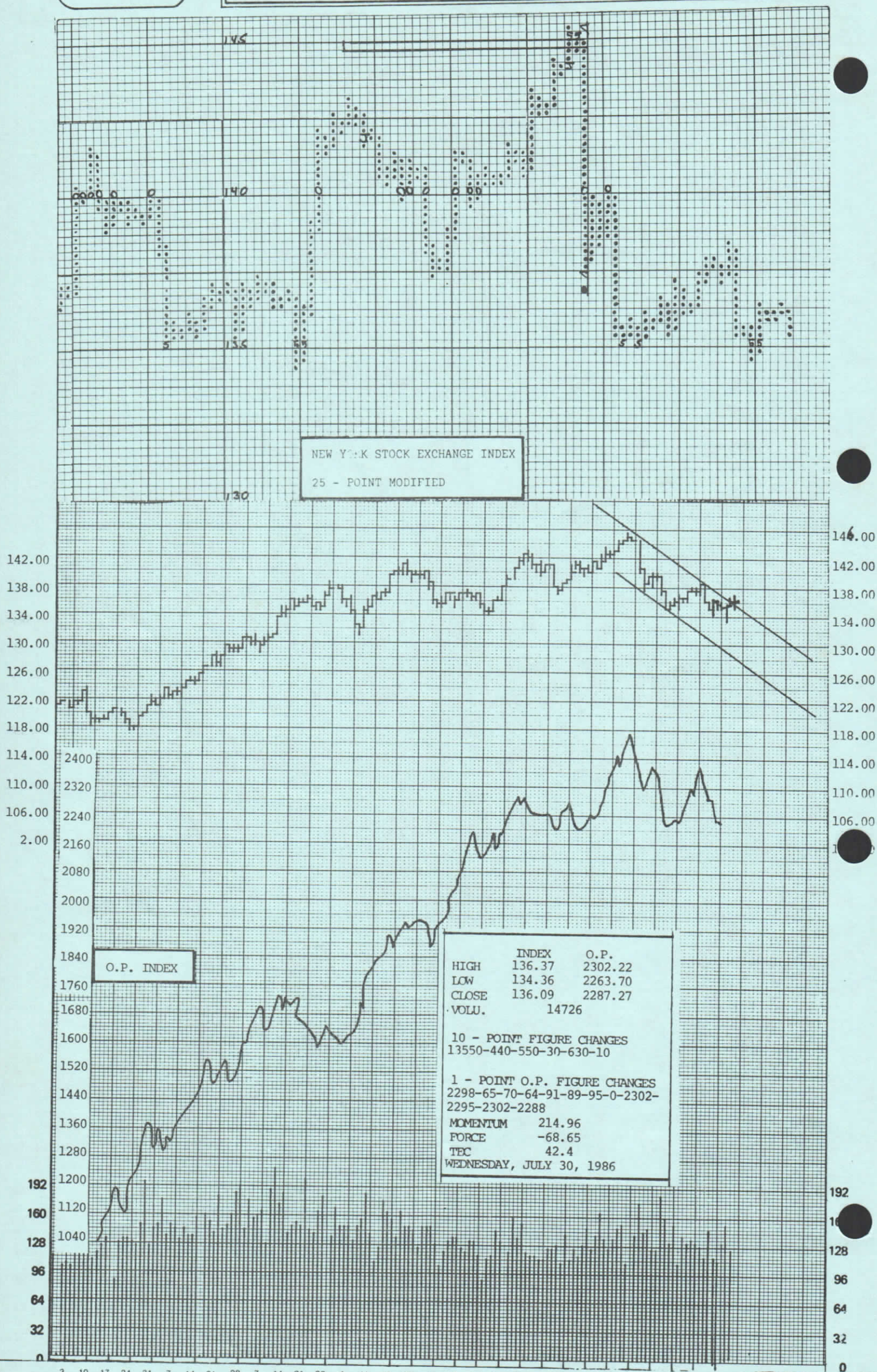
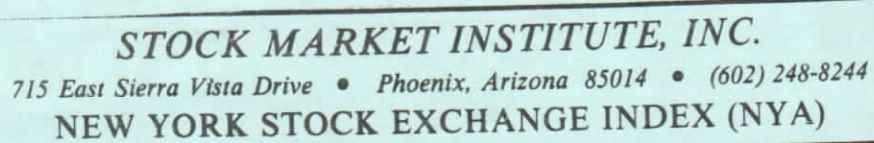
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STANDARD & POOR'S 500 INDEX (SPX)





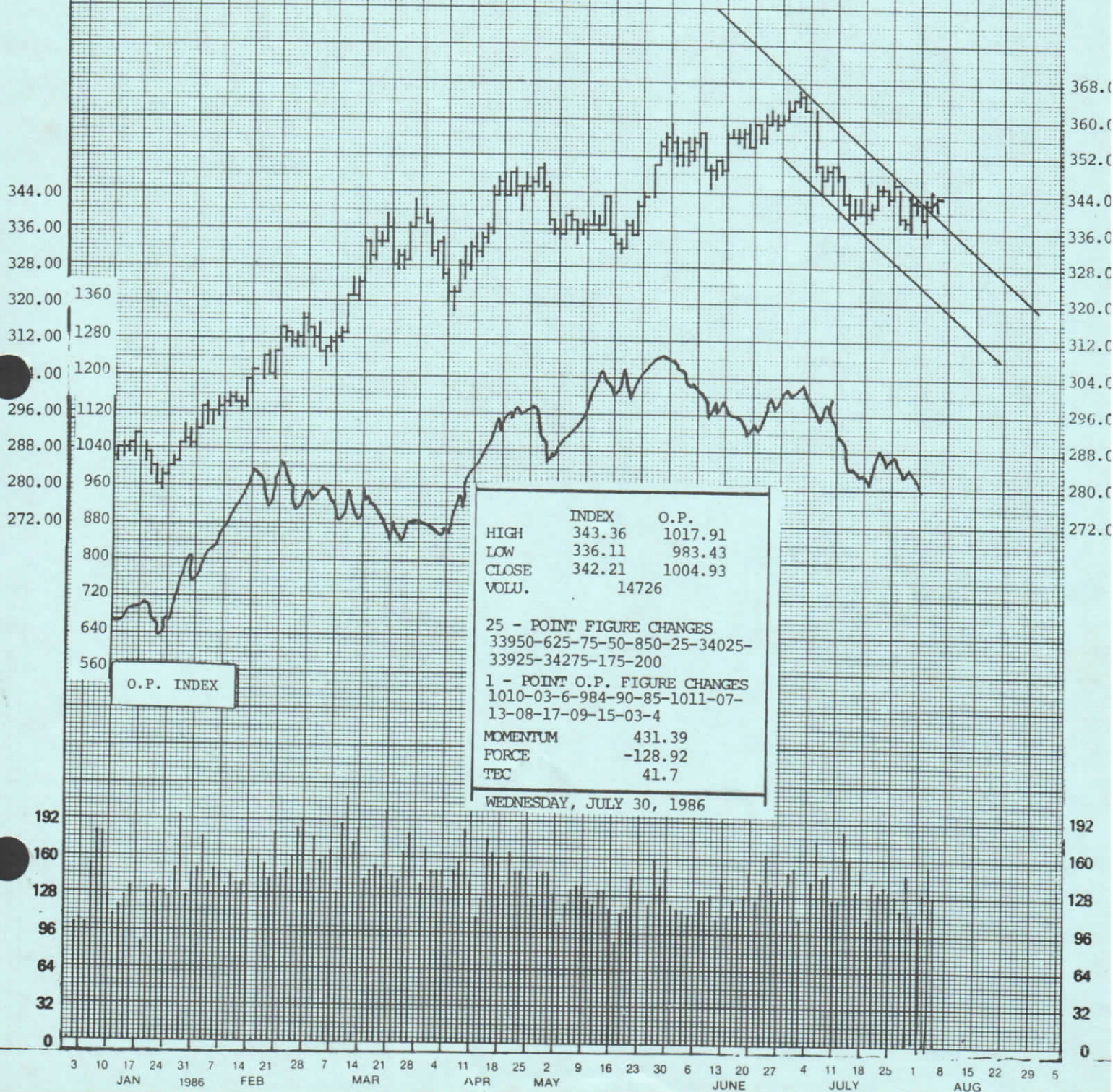
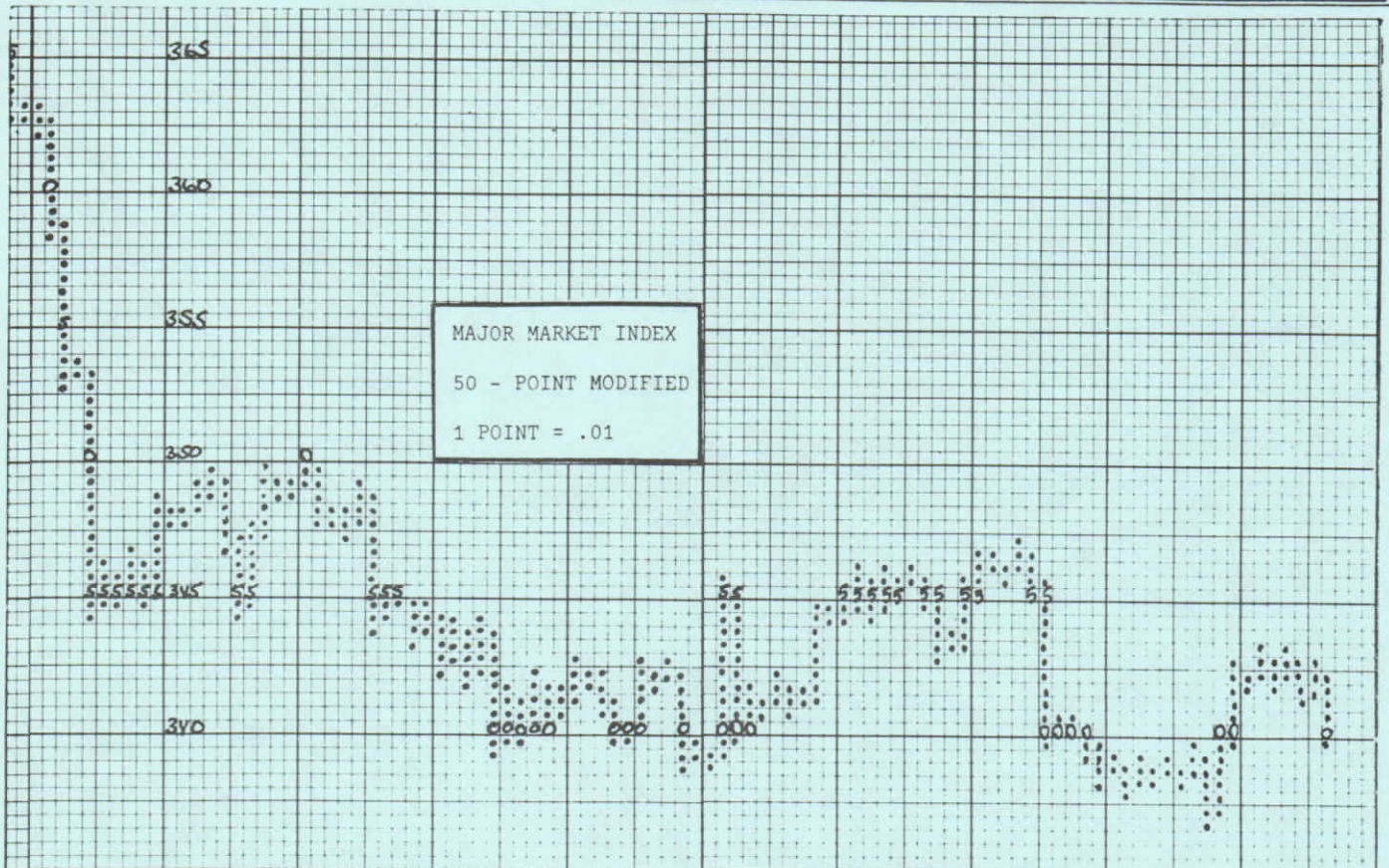


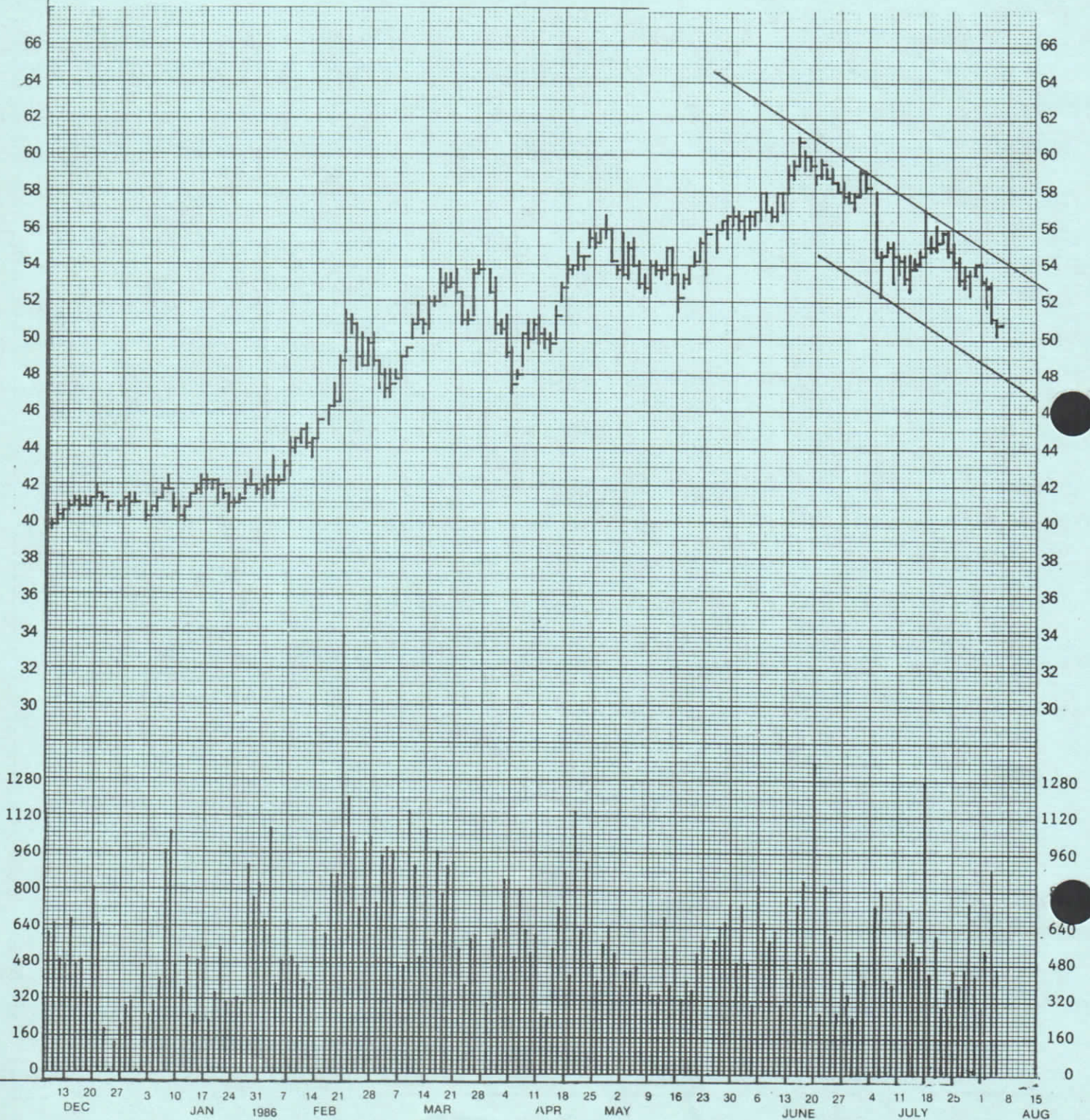
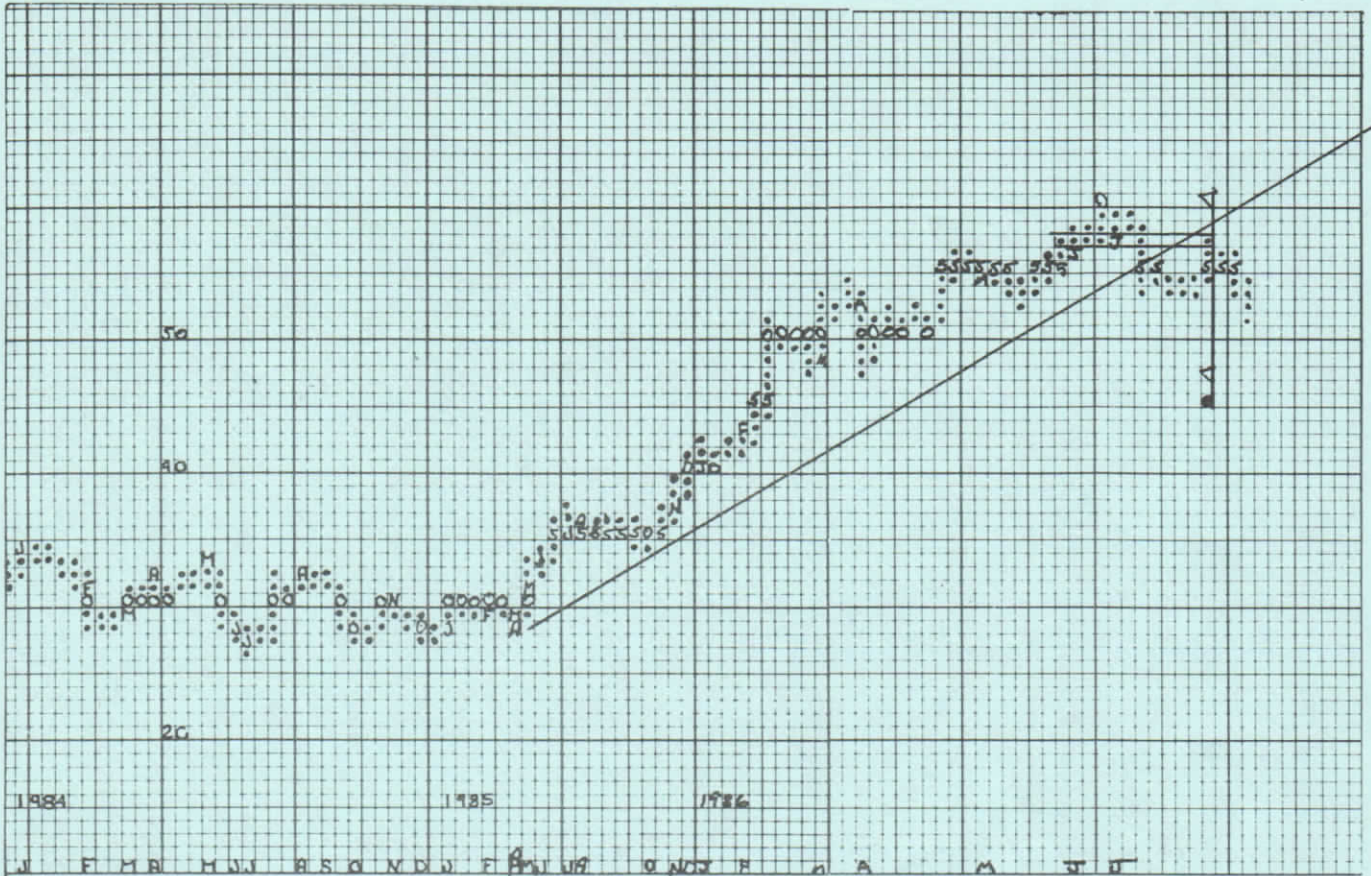


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MAJOR MARKET INDEX (XMI)







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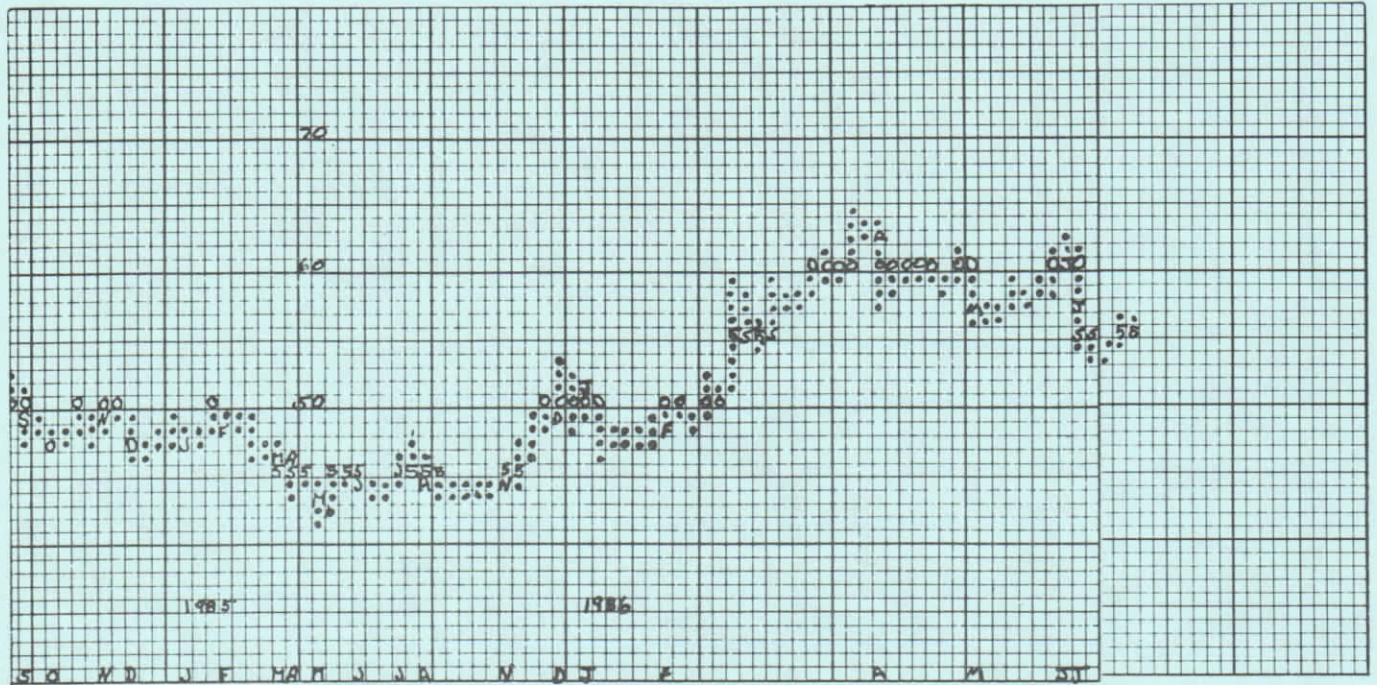
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EASTMAN KODAK

(EK)

CBOE (J-A-J-O)

PHOTO/OPTICAL





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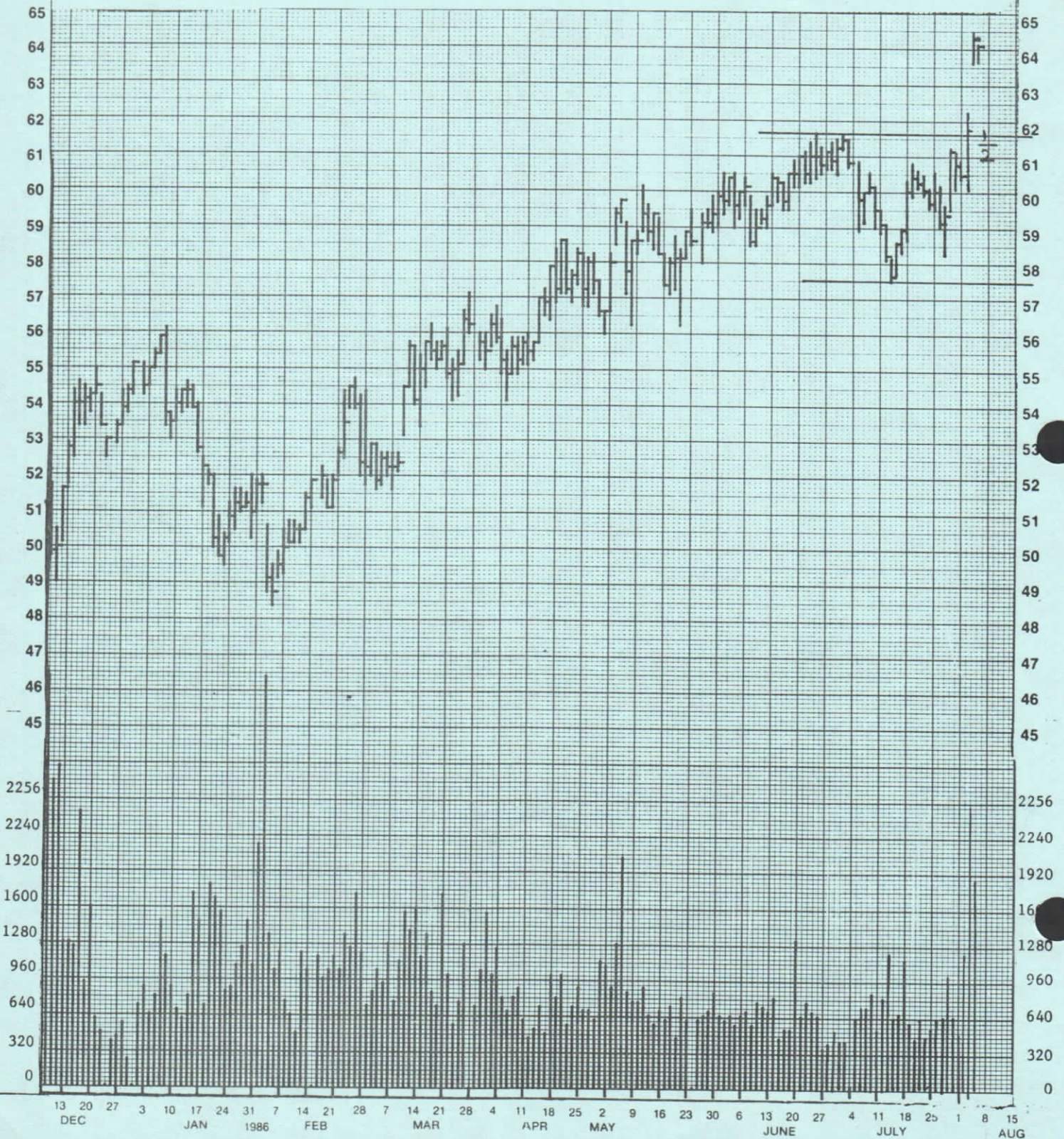
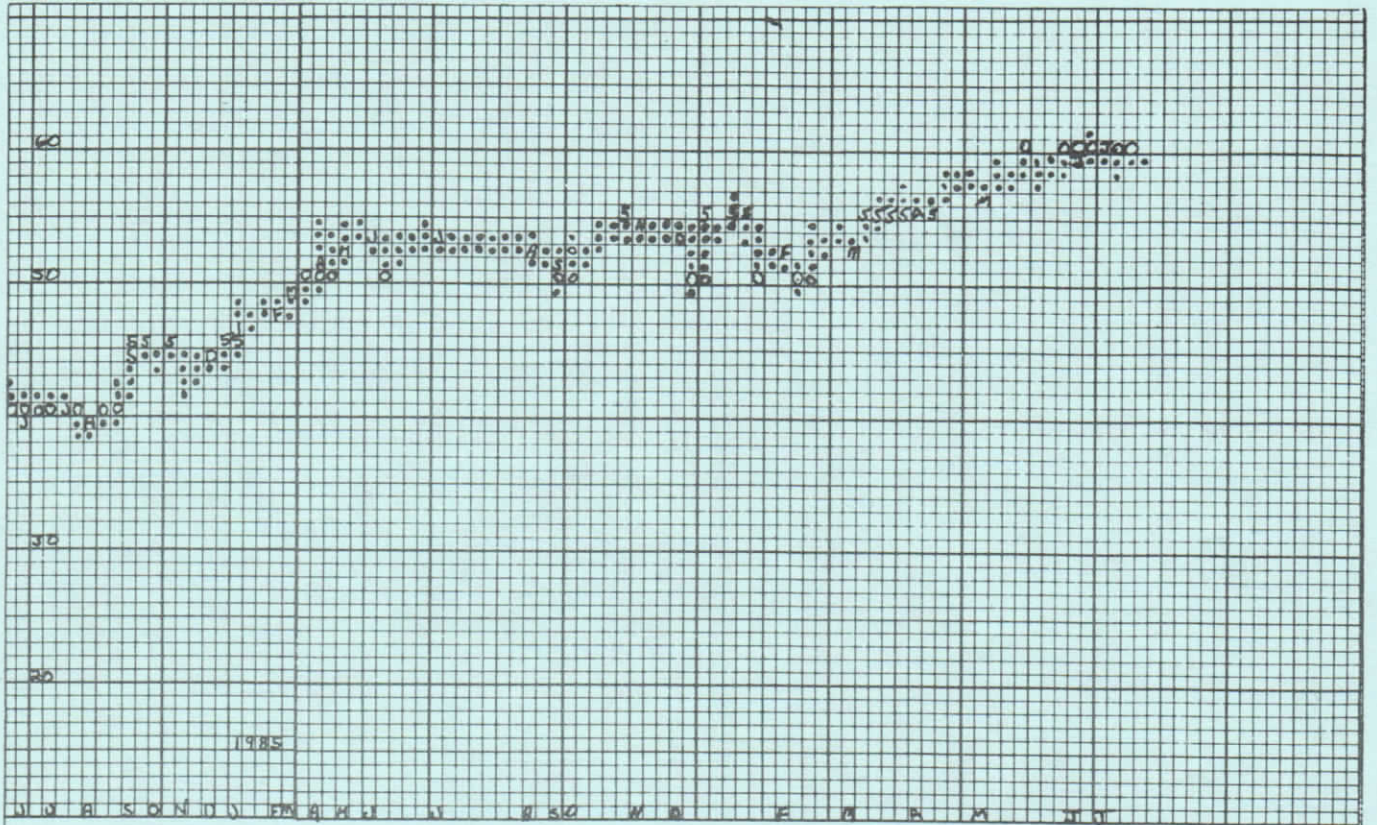
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EXXON

(XON)

CBOE (J-A-J-O)

OIL





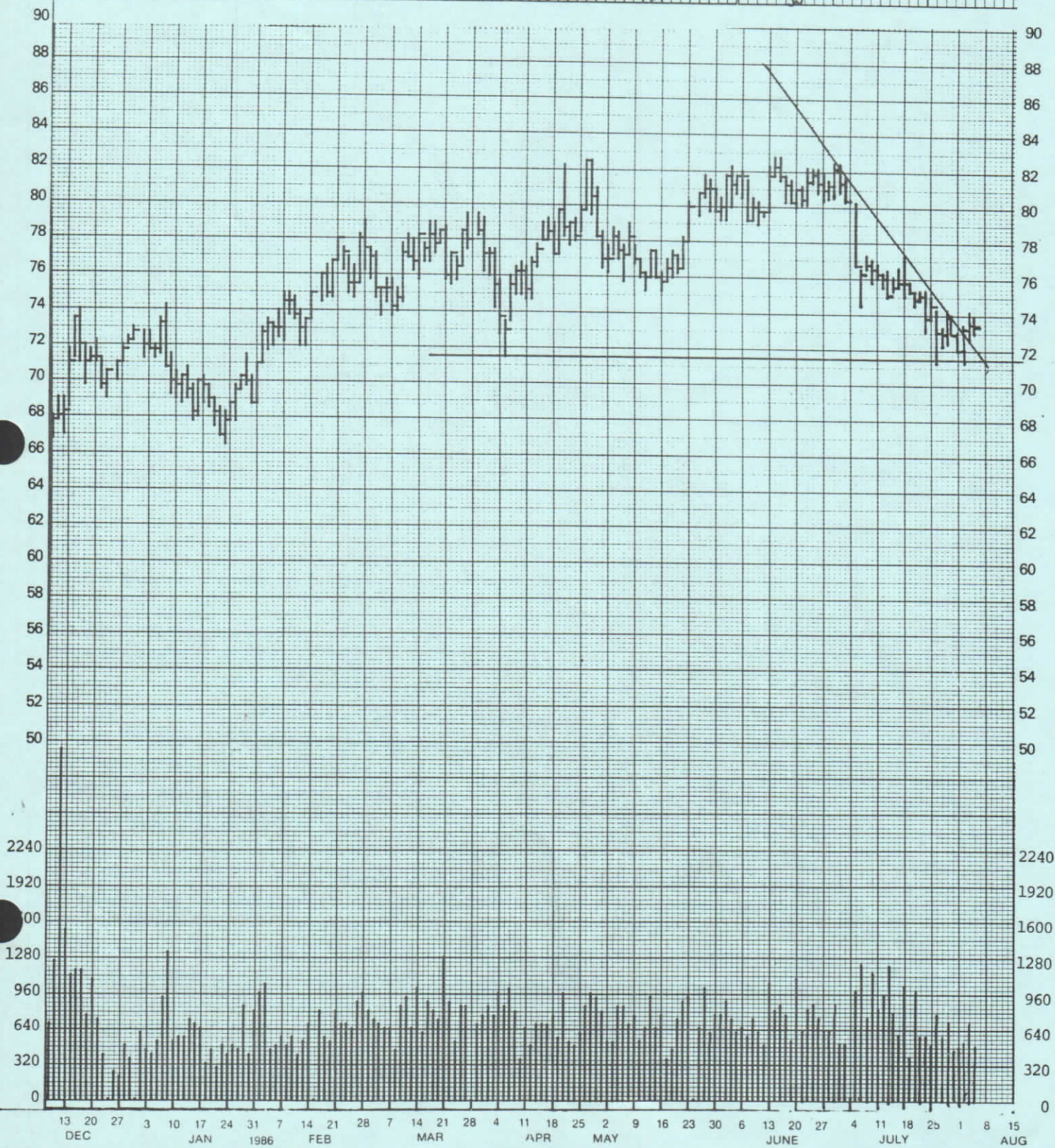
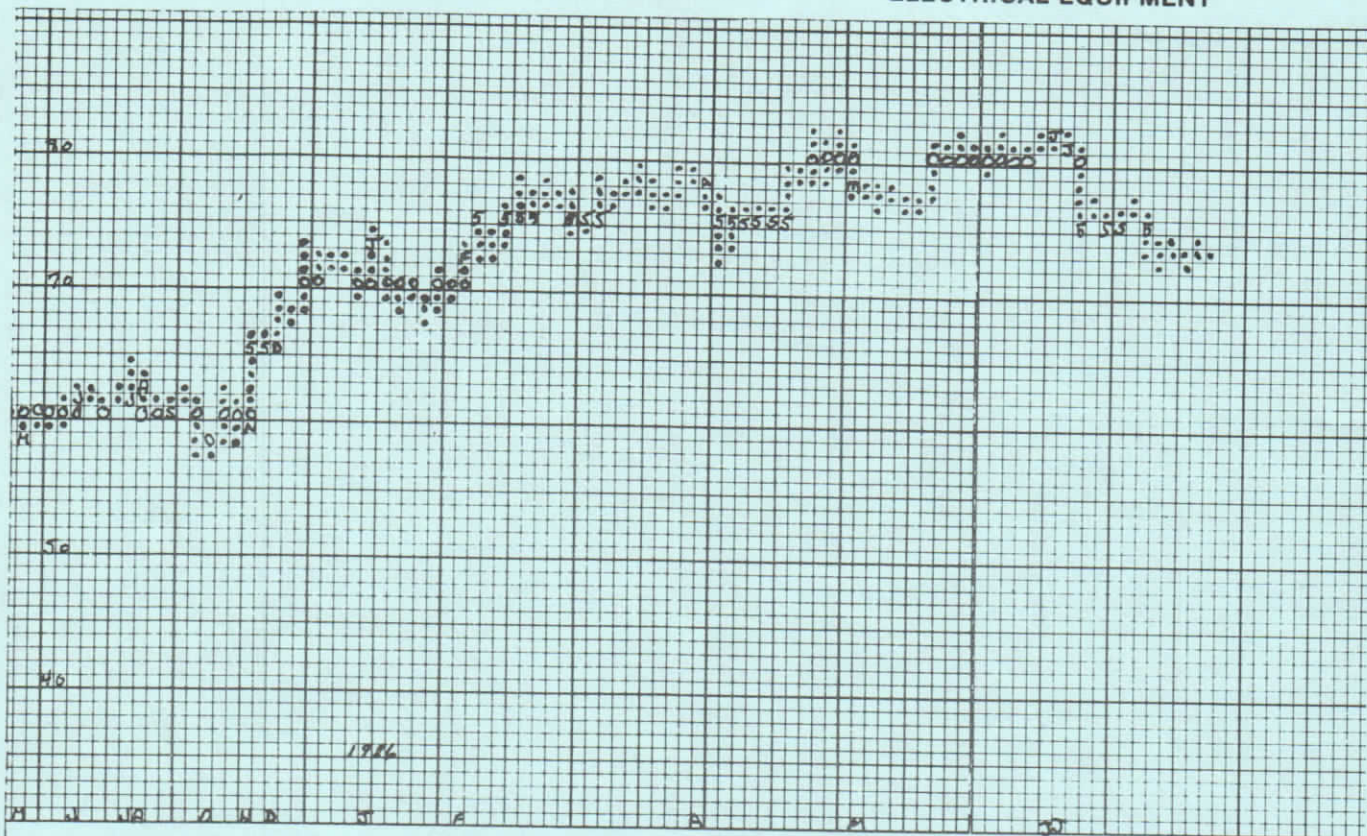
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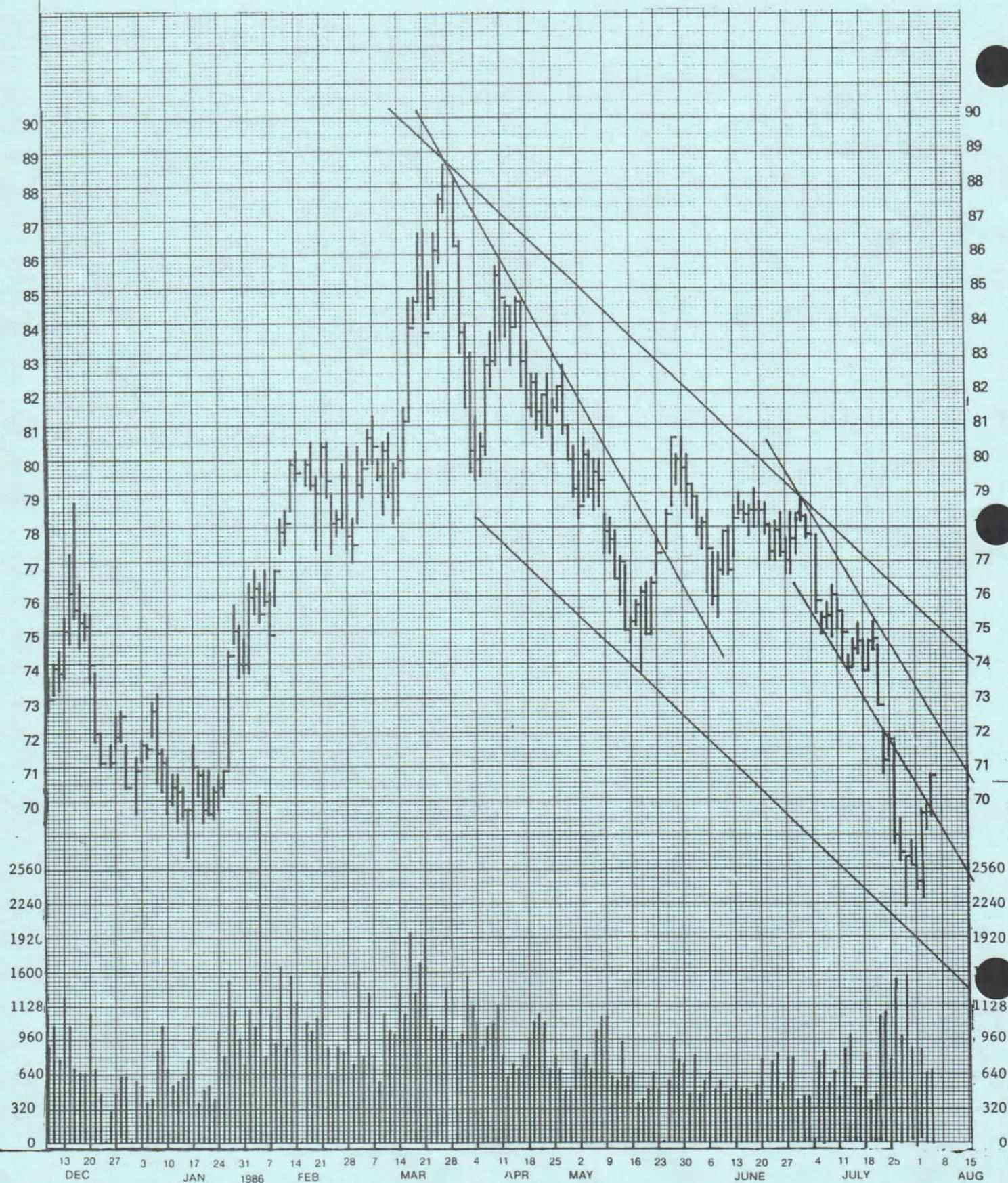
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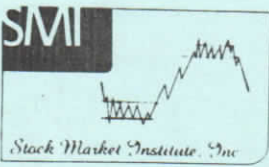
GENERAL ELECTRIC (GE)

CBOE (M-J-S-D)

ELECTRICAL EQUIPMENT







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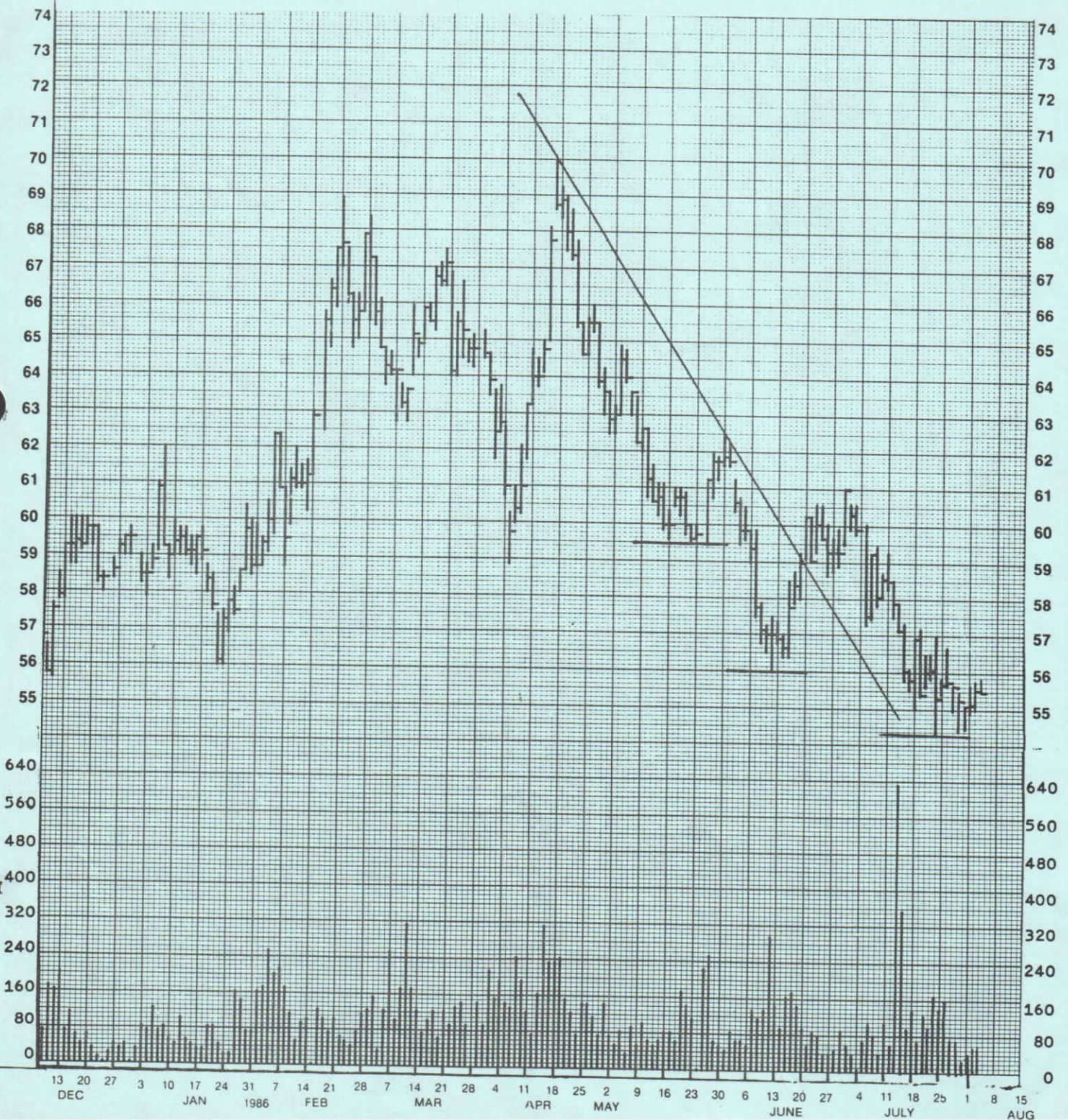
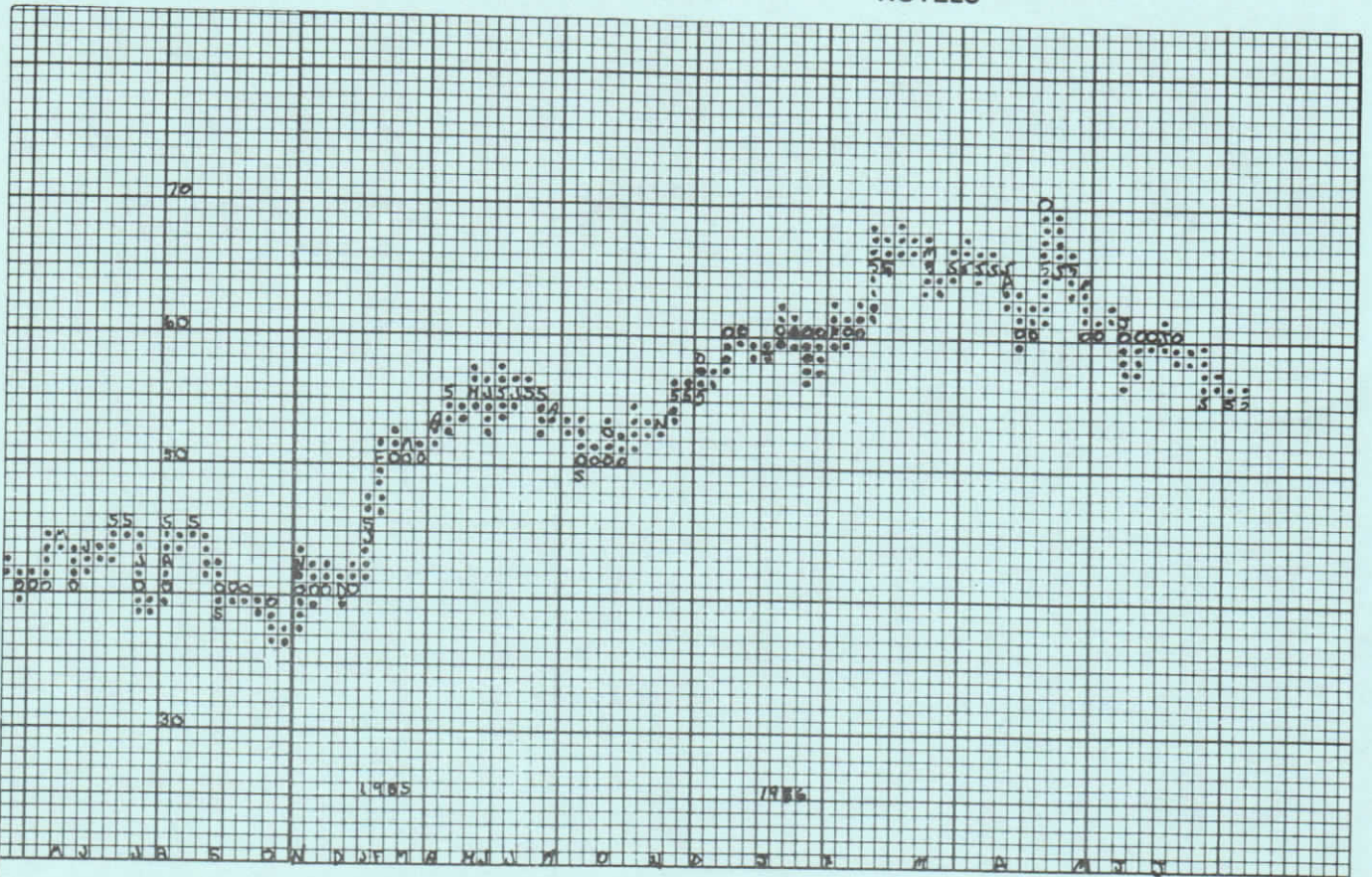
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(HIA)

CBOE (F-M-A-N)

HOTELS





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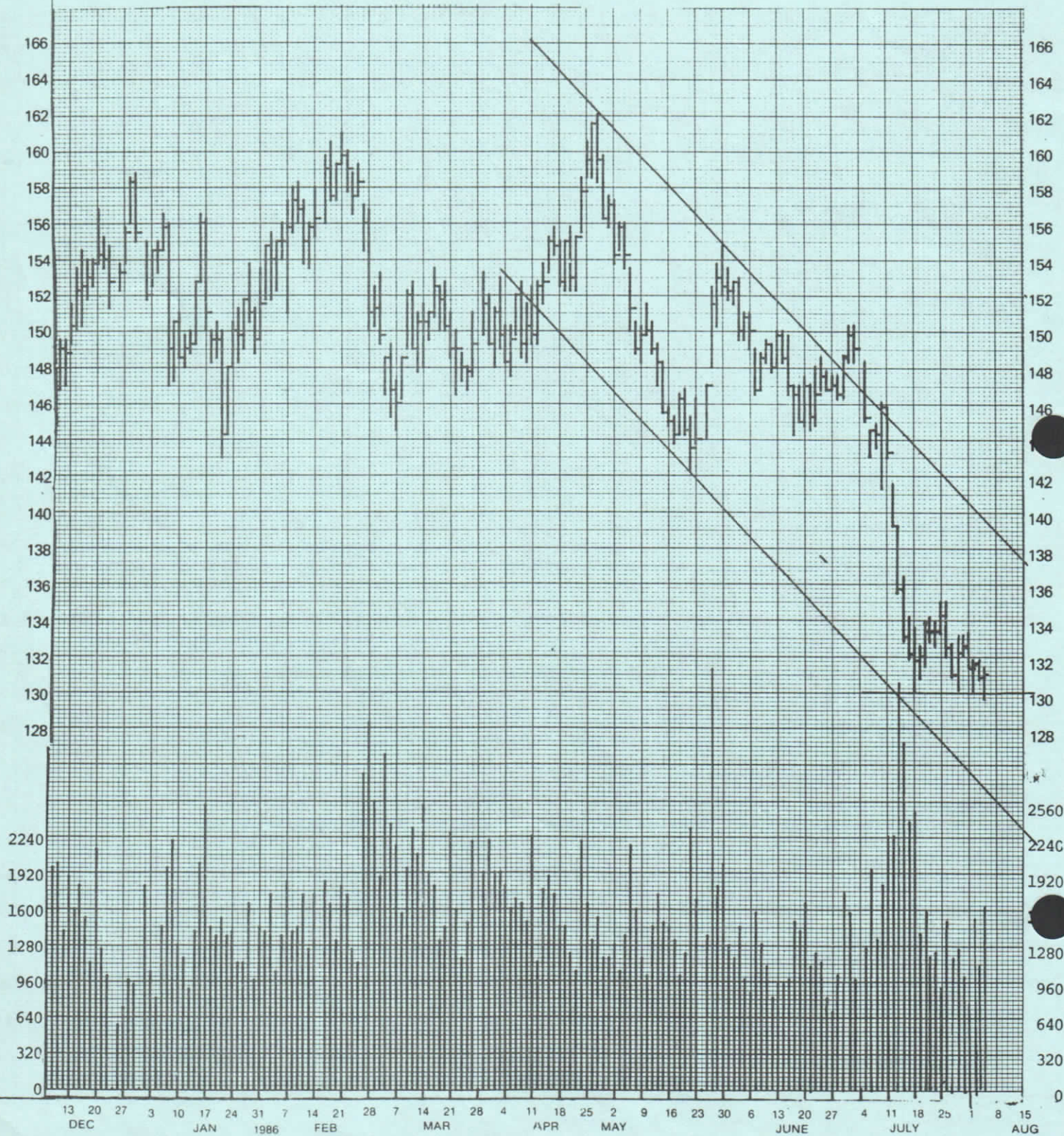
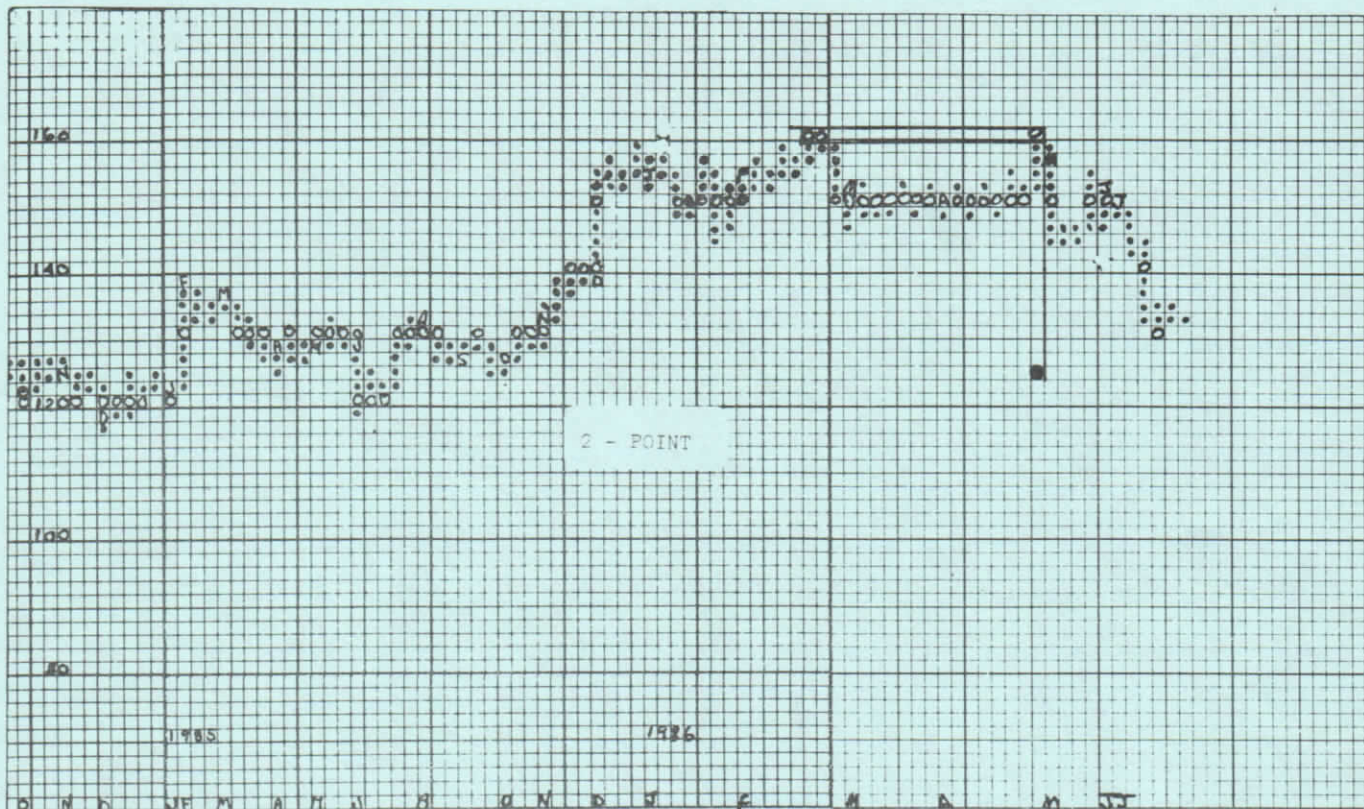
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I.B.M.

(IBM)

CBOE (J-A-J-O)

COMPUTERS





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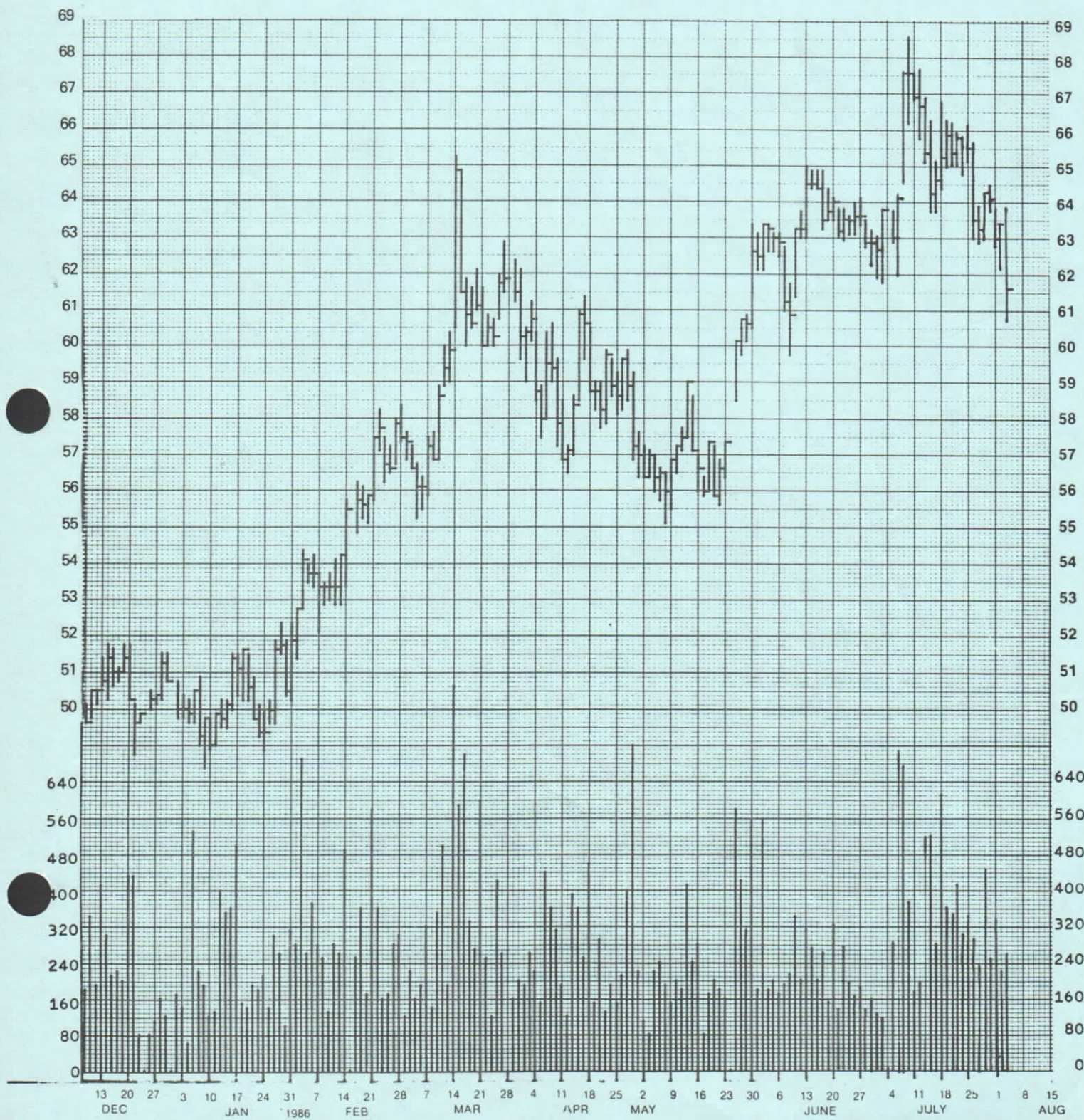
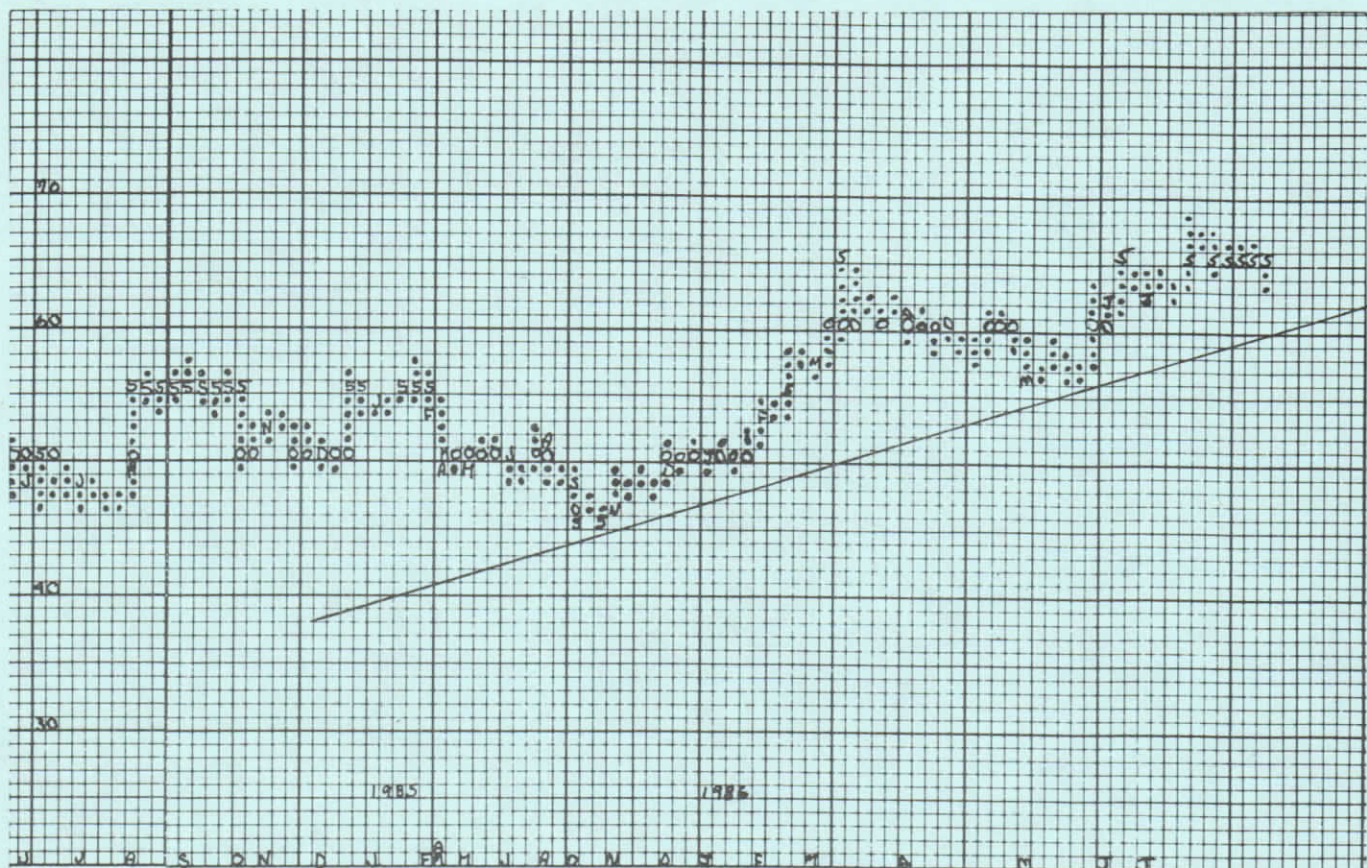
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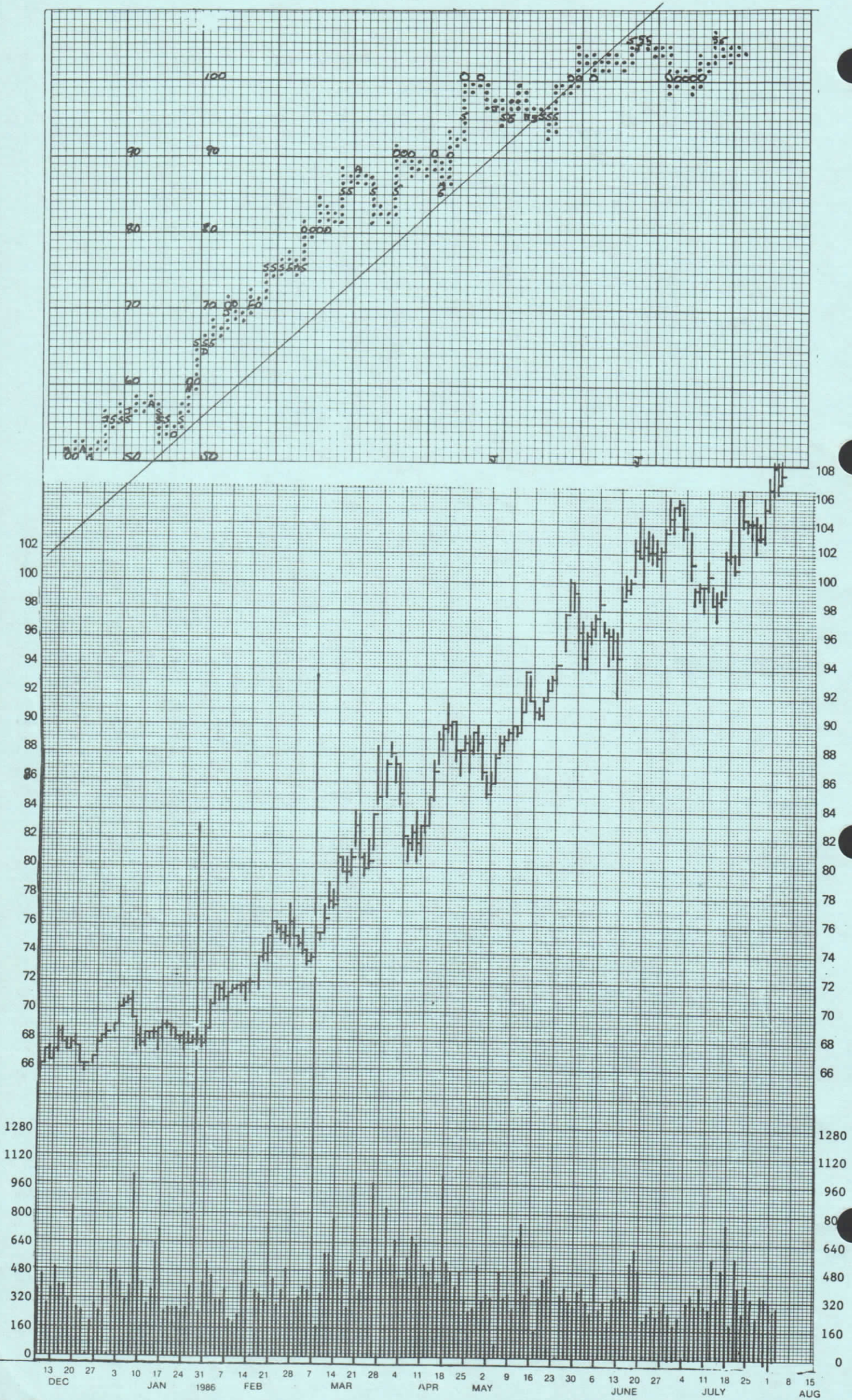
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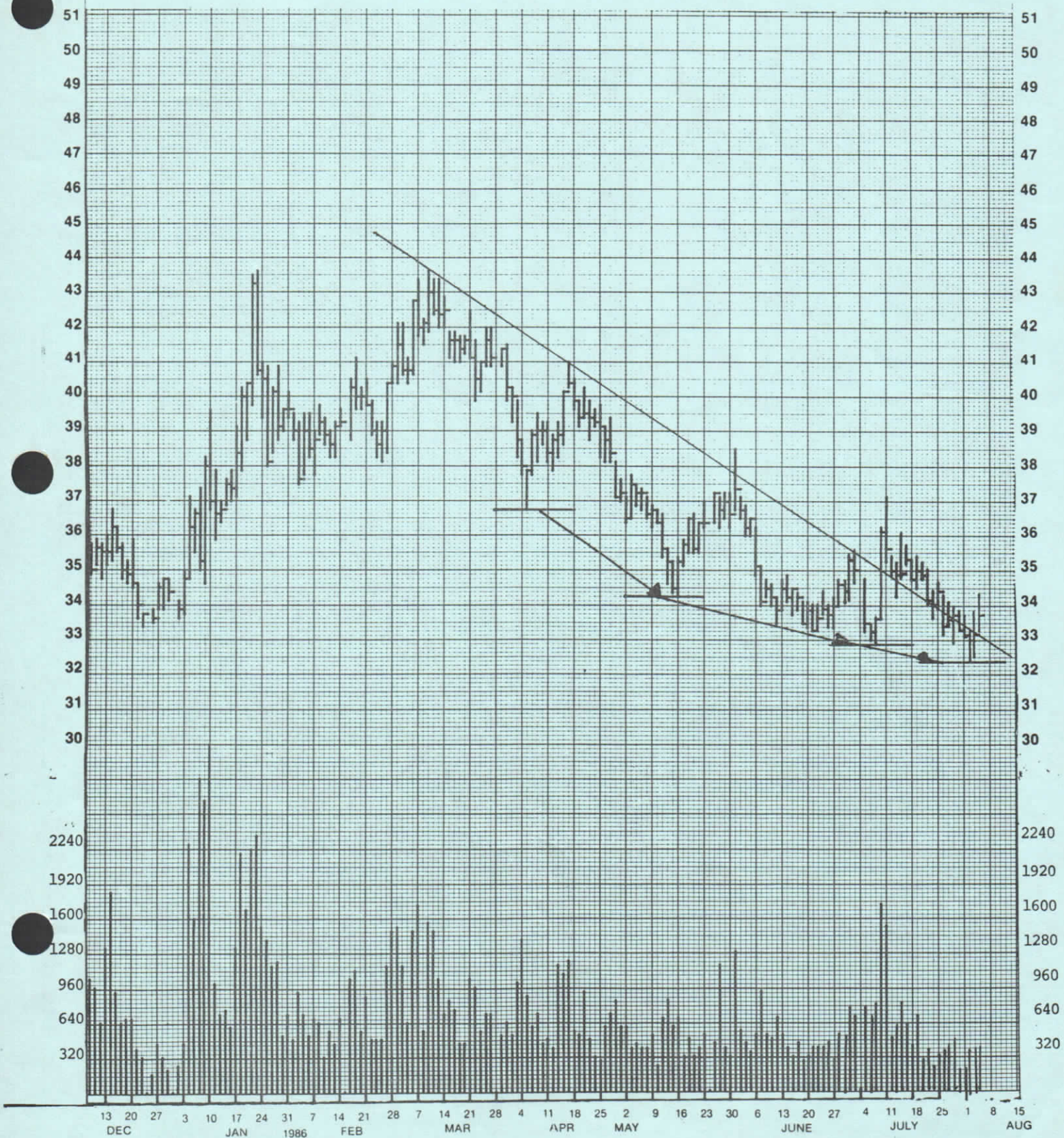
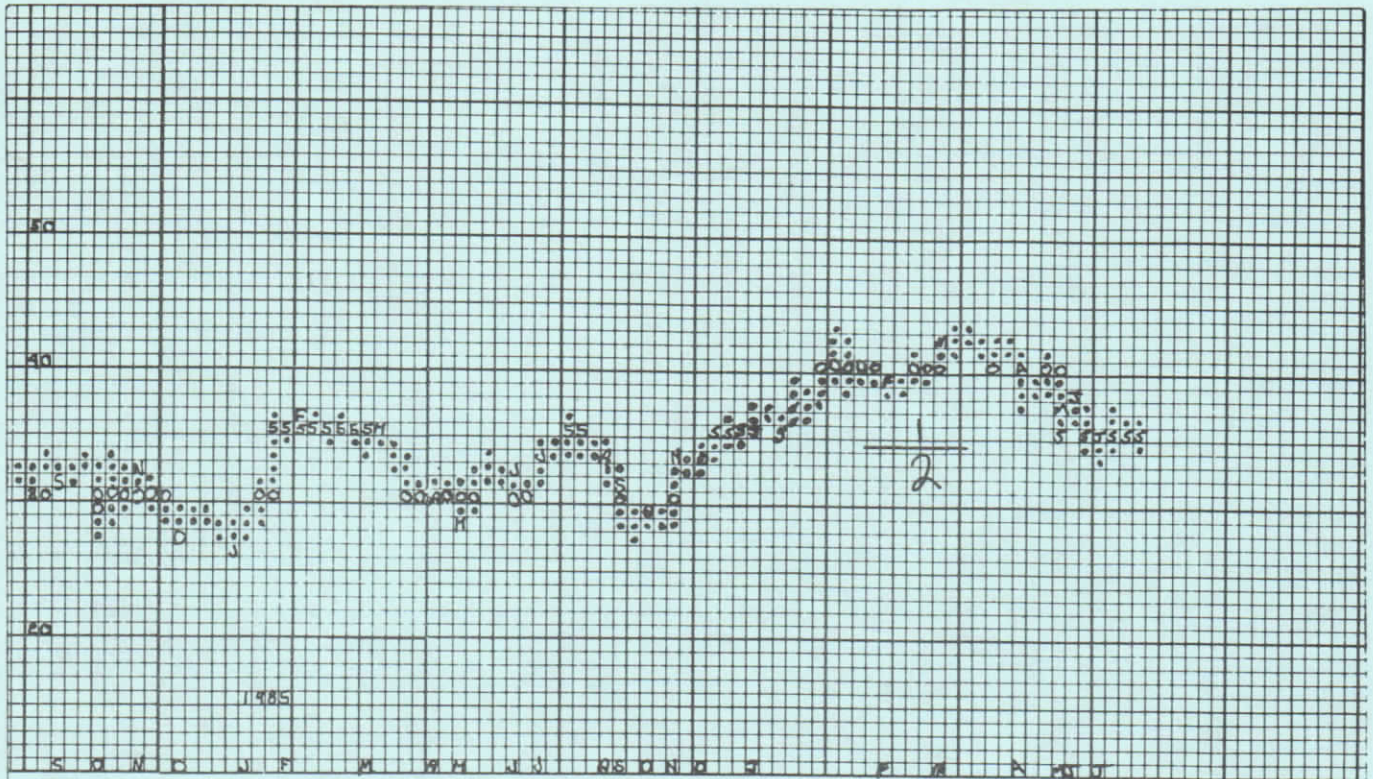
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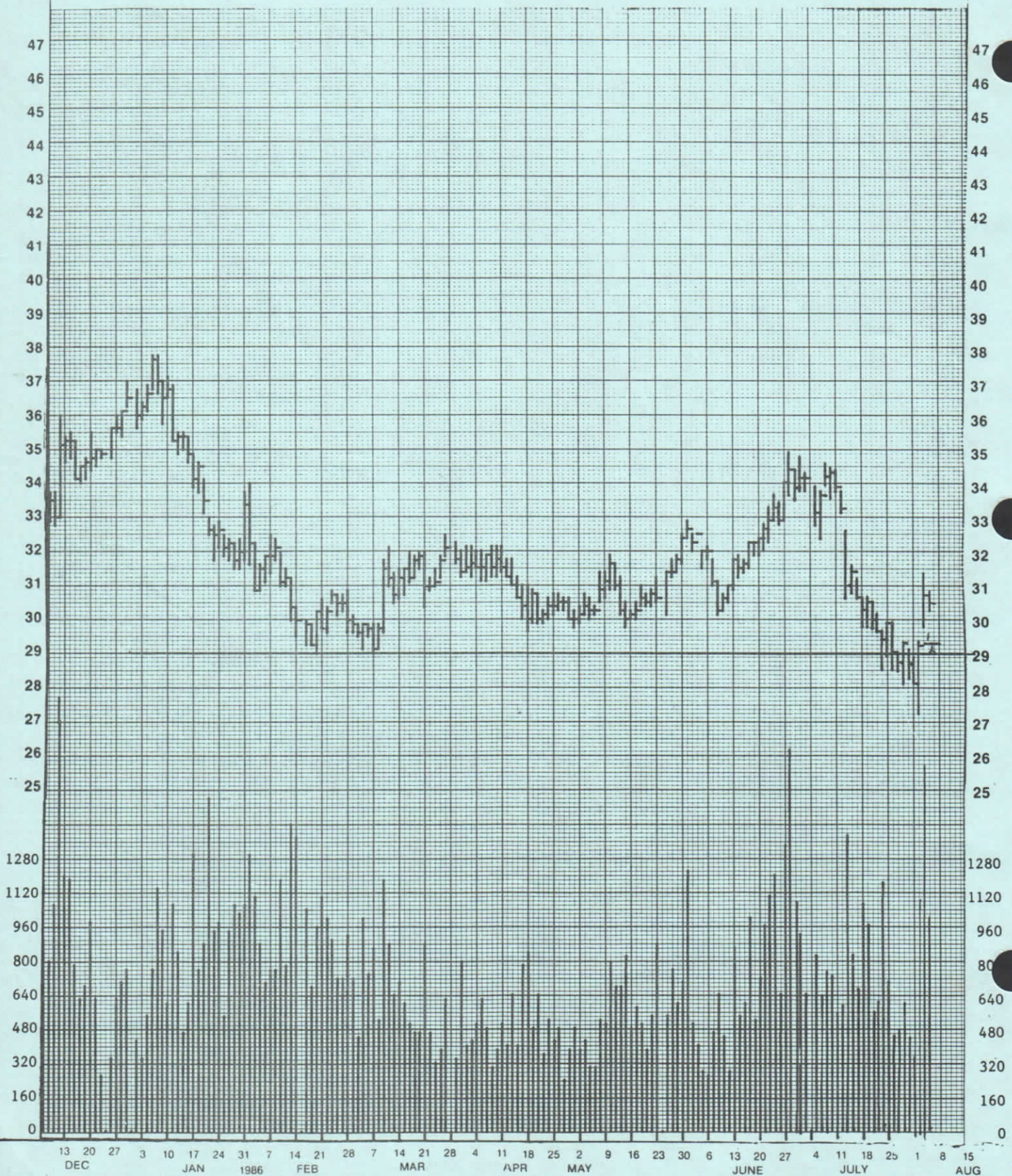
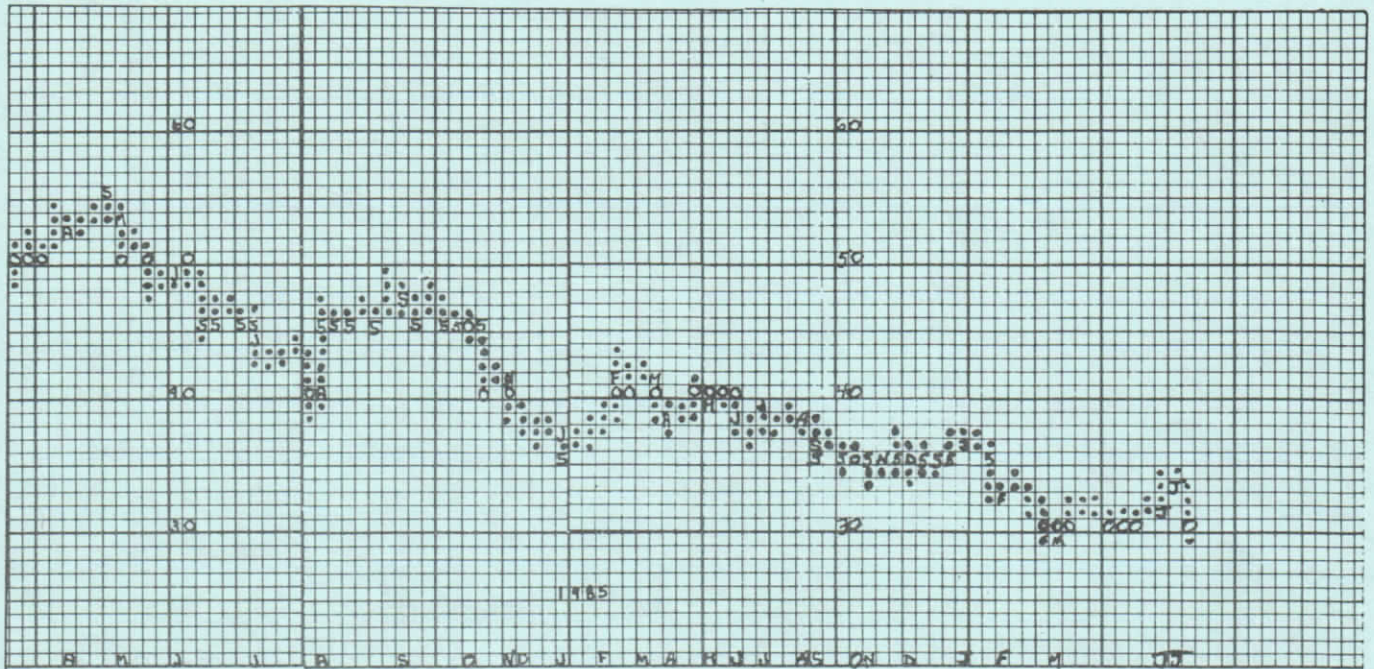
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PAPER











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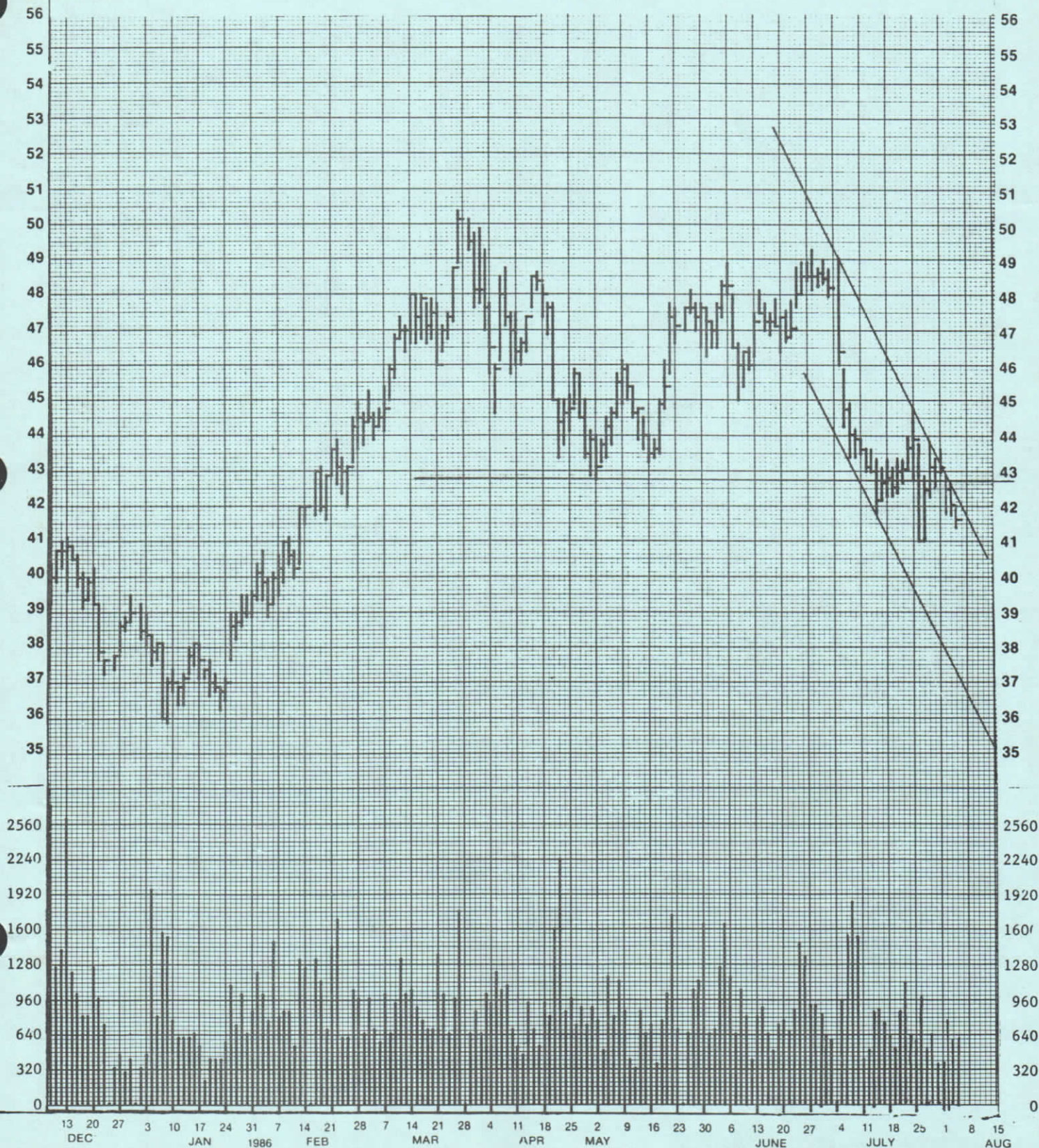
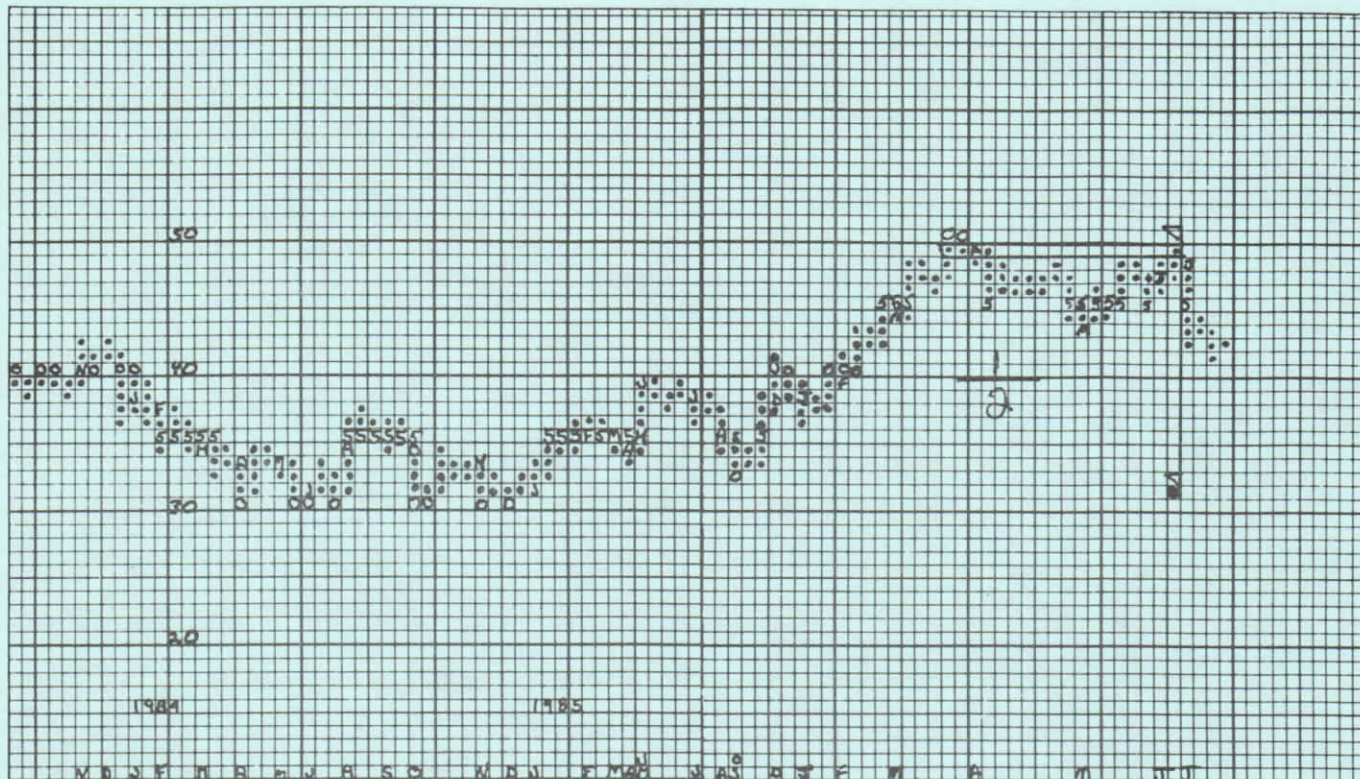
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SEARS

(S)

CBOE (M-J-S-D)

RETAILING





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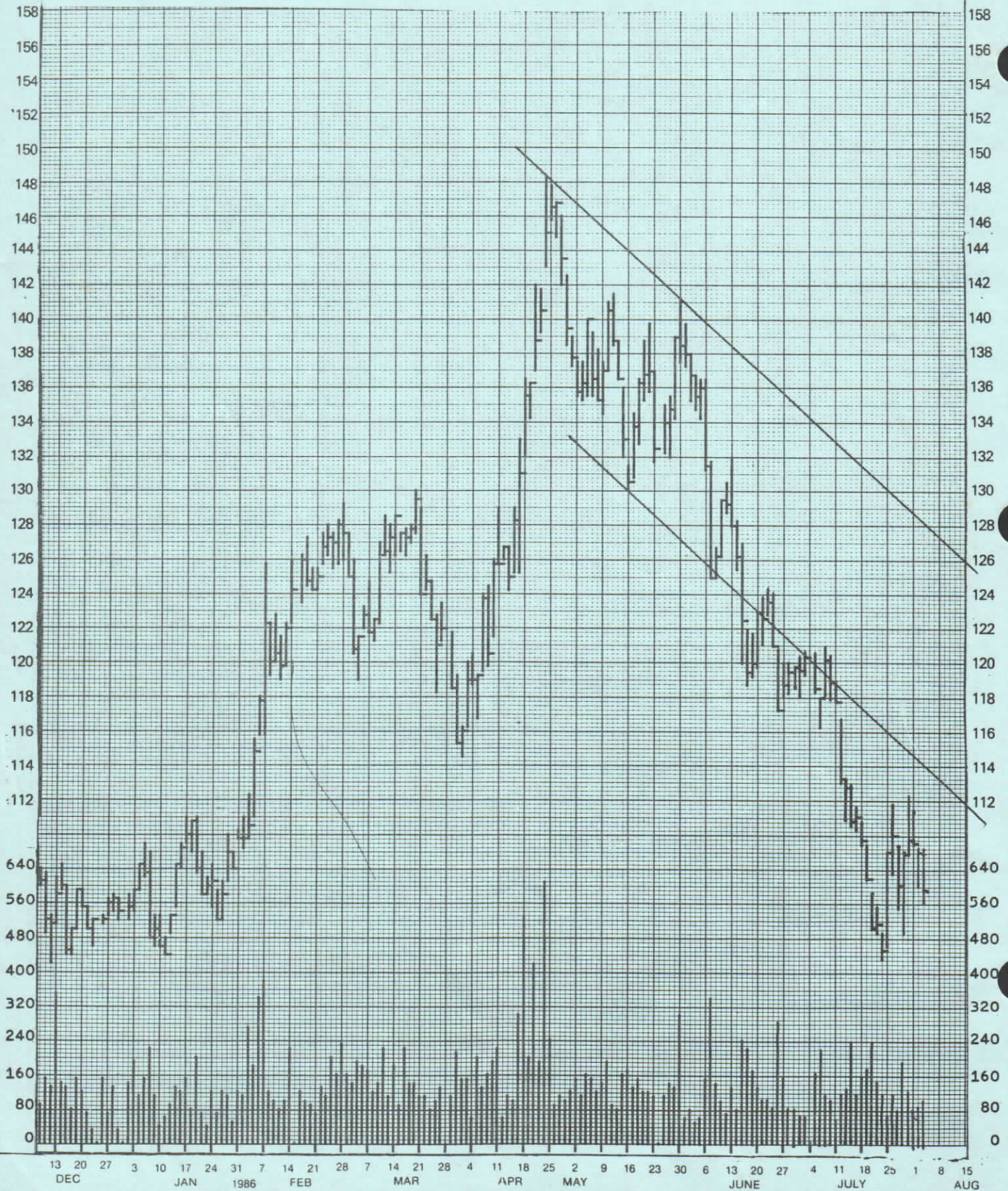
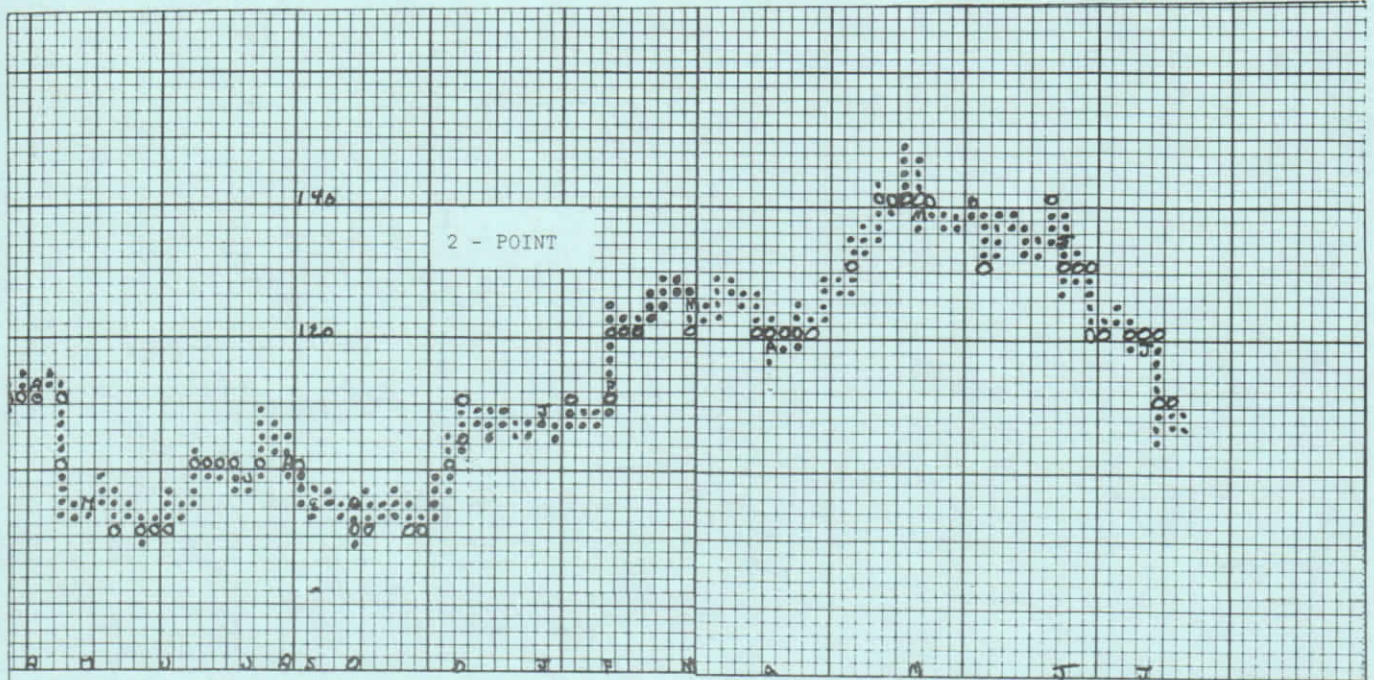
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U.A.L., INC.

(UAL)

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AIRLINES

