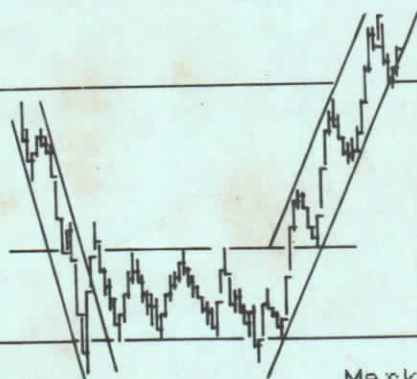


The Trend Letter

Thursday

December, 12 1985

Market Trends

In October, the market made an intermediate turn back to the upside after several months of downside progress. It appears as though the market is now trying to turn the current intermediate advance into a springboard to reignite the major bull market. Some might say that this has already occurred. Such a conclusion is premature.

The market's longer term future centers around the action of the past three or four weeks. Has this action been a jump across a major creek or a blow off type of action resulting in a major upthrust? At it's high last week the Wyckoff Wave was two hundred points above the top of it's trading range. This is certainly a big enough break to be a jump. The uncertainty comes from the manner in which the potential jump was accomplished. The week that resulted in the penetration of the resistance level had wide price spread and did close near the high. However, it had only a small increase in volume. The follow through in the weeks that followed was relatively poor. Neither repeated the price action of the first and while the price was making additional net upside progress the volume was declining. Therefore, there are some significant problems with the idea that a jump has occurred, which need to be corrected.

Fortunately, every potential jump across the creek is confirmed by a back up. This eliminates the need to buy the jump and run the risk of it turning into an upthrust. The first point to consider in the backing up process is when it is likely to begin. In view of the action on December 5th and 6th, which appears to have been short term climactic, the back up should begin immediately. The next point to consider is how far the back up can carry the price before it falls into the creek. In this case an idea back up would find support at 4280. However, a pull back to 4160 would not be acceptable. This is the halfway point of the rally from the October low. Meeting support in this area even though it is back in the trading range is acceptable.

The character of the price and volume action on the back up is perhaps more important than the level at which support is met. Relatively narrow price spreads and decreasing volumes are essential. This is especially true in this case where there is uncertainty about whether a creek has in fact been jumped. Should the back up carry the price back into the upper portion of the trading range, a clearly positive combination of price and volume action will be critical. It may be the only thing that indicates that new long positions should be taken. Failure of the price and volume action to respond in a positive manner will make entry back into the trading range much easier and continued negative action upon reentry could put the price back to the middle of the trading range or lower. If this occurs, the potential jump will become an upthrust and an intermediate turn back to the downside may be anticipated.

The market ended last week in a neutral condition from the standpoint of the Technometer. This suggests that as the market backs up to the creek it may become oversold quickly. This should help increase the odds of a successful back up. Also encouraging is the fact that the Momentum is still indicating a positive tone to the market with it's higher peaks and higher valleys. Unfortunately the Force is not confirming this positive tone. Therefore, caution is advised. Without a clearly positive tone to the market, a successful back up may develop followed by an inability to resume upside progress.

Assuming a constructive back up is completed, the market should be able to reach it's upside objective of 5000. This objective will be possible if the back up confirms the potential jump and

if the resumption of upside progress is able to easily pass through the peak of the jump.

Index Trends

The tradeable market indexes are all stronger than the Wyckoff Wave. This makes them potential candidates for new long positions, but not at their current levels. The problem at the present prices is twofold. One is that the potentials that existed at the beginning of the current advance have been exhausted. Therefore, although the indexes are relatively strong, they have no where to go unless some time is spent building new potential. The second part of the problem is that all of the indexes need to confirm their potential jumps with back ups. There is no reason to make long commitments just before a back up is likely. To do so would result in a waste of time and perhaps a waste of money if premature positions are stopped at.

Stock Trends

At this point, none of the stocks in the Wave looks negative. There are, however, substantial differences in how positive each looks. One that still looks very positive is Dow Chemical. It has nearly completed the first phase of it's upside objective, but there are two other phases that indicate substantially higher levels are possible. The relative strength of the stock is one reason for believing that the higher objectives are obtainable. This is a stock that should remain under consideration as a long candidate.

Exxon is perhaps the most negative stock in the Wave due to the uncertainty that surrounds it. The stock has enormous potential, but it is not at all clear in which direction it will be realized. This is because of an upthrusting action that occurred in November, which has now been successfully tested several times. A successfully tested upthrust should be followed by downside progress and not by other successful tests. Since the potential is so large, there is no need to be in a hurry to make a commitment. There will still be plenty of profit to make after the stock has given a clearer indication of it's intentions.

General Electric has the potential to rally an additional eight points. Currently, it is building support just above a prior resistance level. This is also occurring just above the overbought line of the previously defined uptrend. If the stock can hold in this area, the result will be an accelerated uptrend and likely a rapid advance to the objective. Watch for the market to indicate it is ready to try another run at the upside and consider a long position in GE on a reduced volume reaction in the 64 to 65 range.

Auto stocks tend to be market leaders. General Motors was one of the first to show weakness earlier in the year and began to show signs of good support several months before the market made it's intermediate turn to the upside. The stock has the potential to get back to 83. Therefore, it should be considered a potential long candidate especially in the 69 to 70 area. This is just above the halfway point. The last thrust upward was shorter than the previous one. This suggests some short term weakening and indicates a possible correction. The completion of a constructive correction will be the place to buy.

I.B.M. may be headed for as high as 160. First, however, it needs to correct it's overbought position and confirm the move above the 133 level. Watch for support at the bottom of the uptrend channel. This is the first place where new long positions will be advisable. If support does not develop here anticipate a deeper correction to the 132 to 134 area. Support in this area will indicate another buying opportunity. Prices lower than this will eliminate the stock from consideration.

Merrill Lynch appears to have experienced a short term buying climax. This eliminates it from consideration as an immediate long candidate. However, it may become one again later. If a climaxing action has occurred, the stock should move into a trading range. This will result in the development of new potential. When it confirms the higher objective already indicated, a resumption of upside progress will become likely. This is the point to consider a new long position.

Sears is too overbought to be considered a long candidate at this time. It needs to get back into the uptrend channel and test the demand line first. At this time, a neutral position on the stock appears in order.

UAL tried to break out of it's trading range last week and failed. This could become a problem that will eliminate the stock as a long candidate in spite of a higher objective. Two points should be watched closely. One is how quickly support is met at the 49 level. This is the middle of the trading range. Good support at this level will represent a potential last point of support and provide a place to buy. The second point to watch is the resumption of upside progress. If support does develop at 49, the rally that follows should jump the creek at 51.3. Anything less will be unacceptable and give reason to eliminate any long position.



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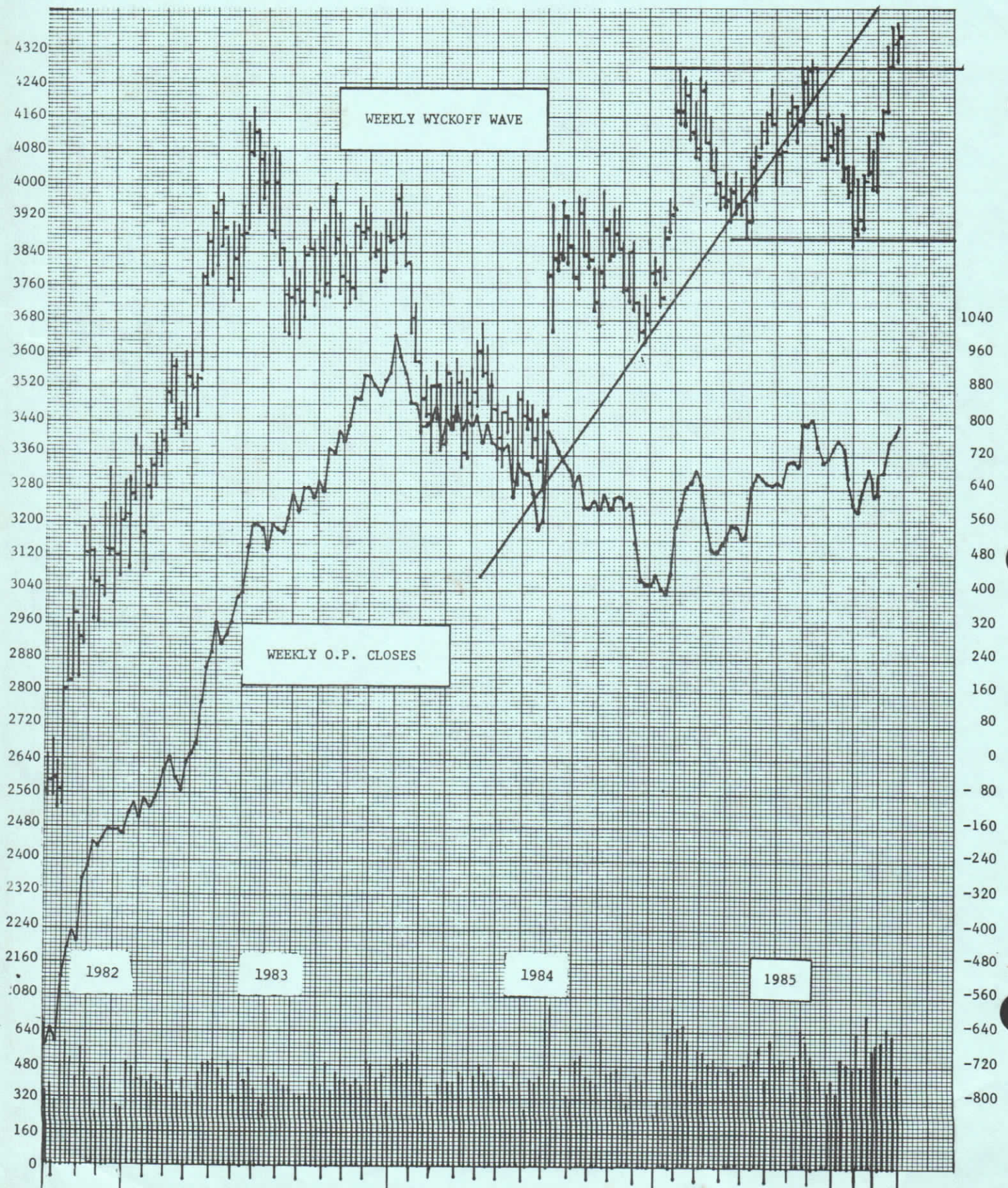
Weekly Wyckoff Wave
50-Point Modified Wyckoff Wave
25-Point Modified Wyckoff Wave
10-Point Modified O.P. Index
Trend Barometer/O.P. Index
10-Point Modified Wyckoff Wave
5-Point Modified O.P. Index
Intraday Wave Chart
5-Point Modified Wyckoff Wave
2-Point Modified O.P. Index
S&P 500 Index
S&P 100 Index
NYSE Index
Major Market Index

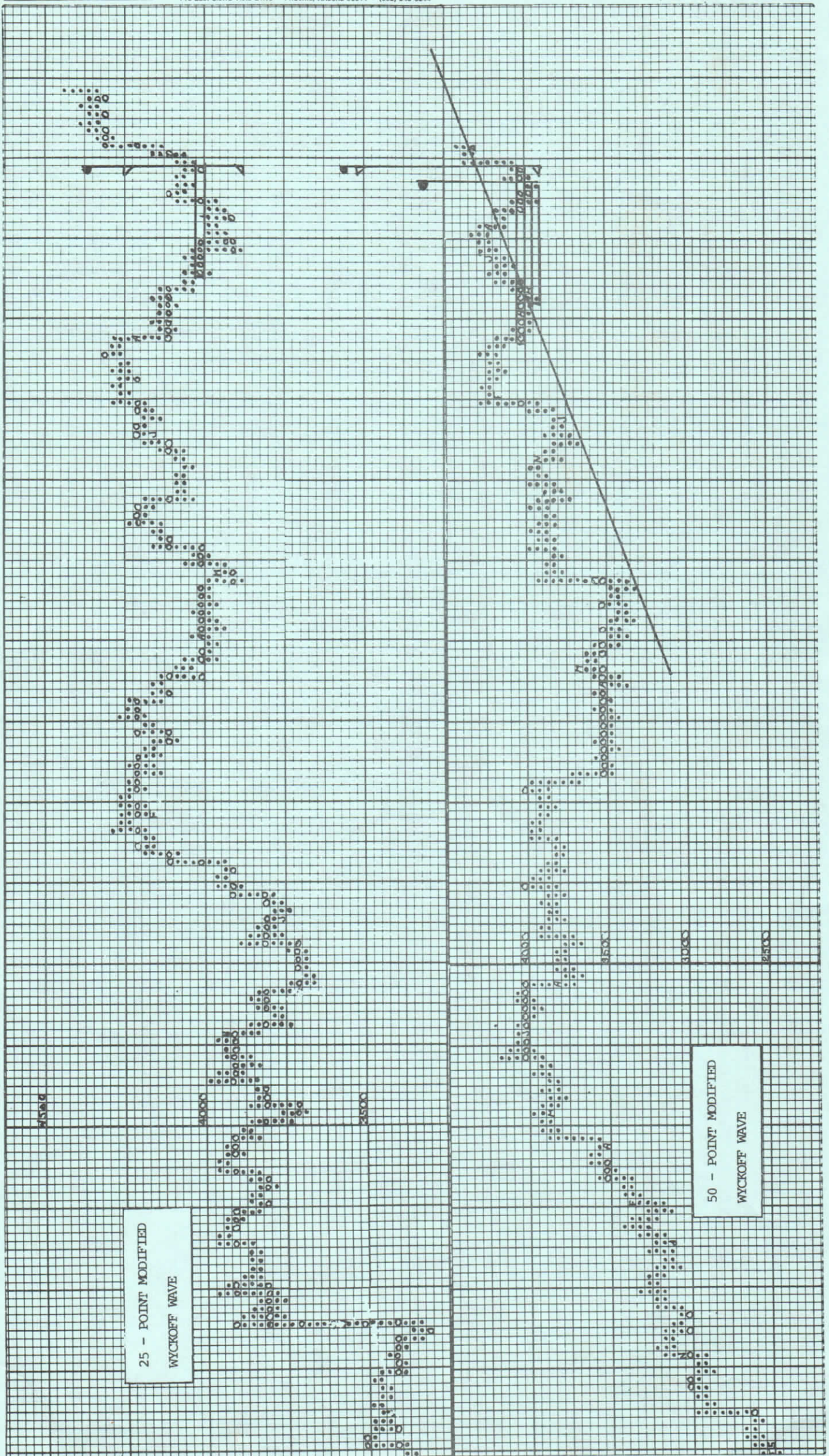
Group Indexes:

Aerospace
Airlines
Autos
Banking
Building Materials
Chemicals
Computers
Diversified
Drugs

Electronics
Gold and Silver
Insurance
Machinery
Medical
Metals
Office Equipment
Oil Exploration
Oils
Semi-Conductor

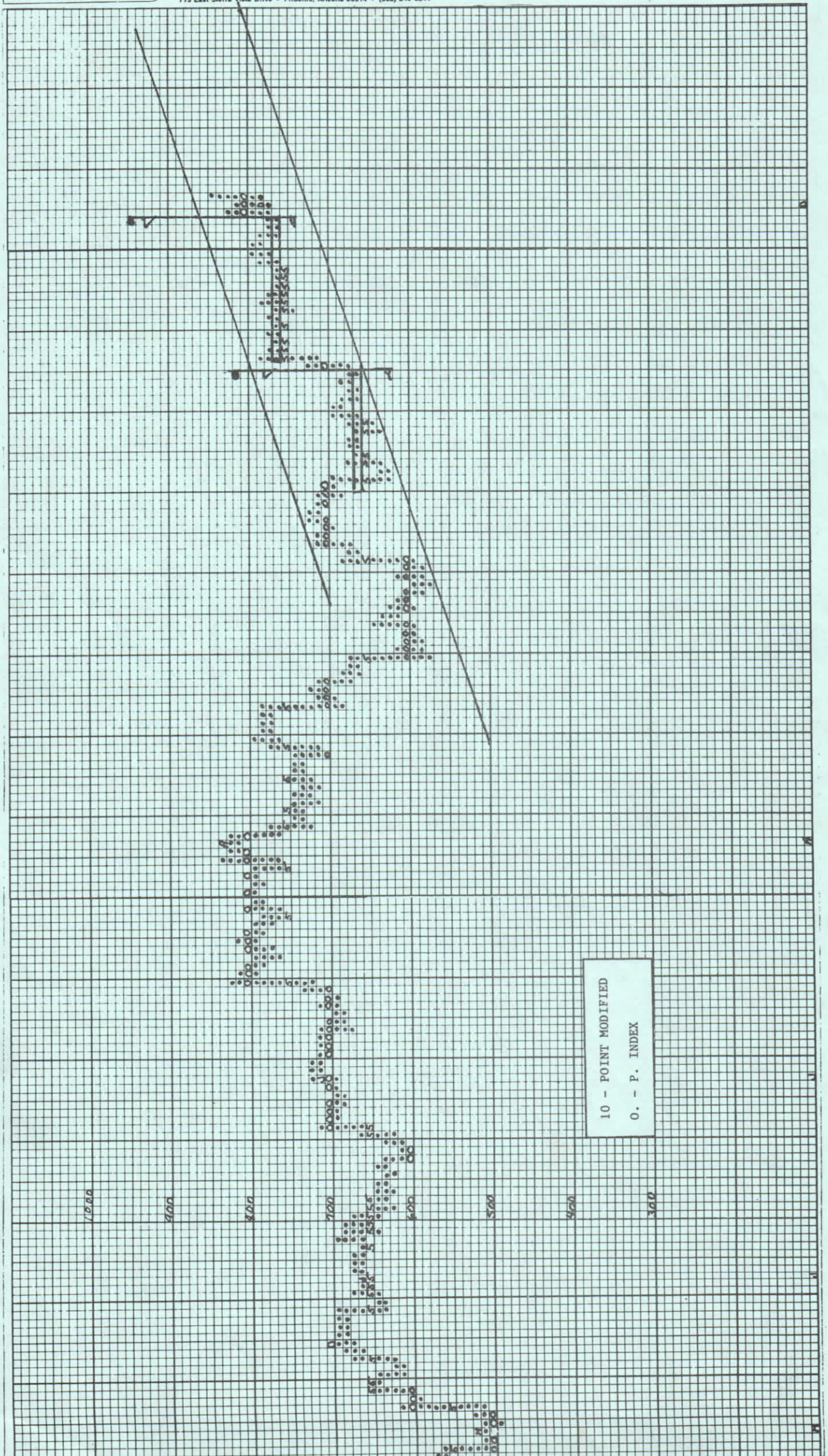
In our desire to insure the accuracy and reliability of these charts all statistical data is checked and cross-checked. However, even with this care, the completeness and accuracy cannot be guaranteed.





25 - POINT MODIFIED
 WYCKOFF WAVE

50 - POINT MODIFIED
 WYCKOFF WAVE

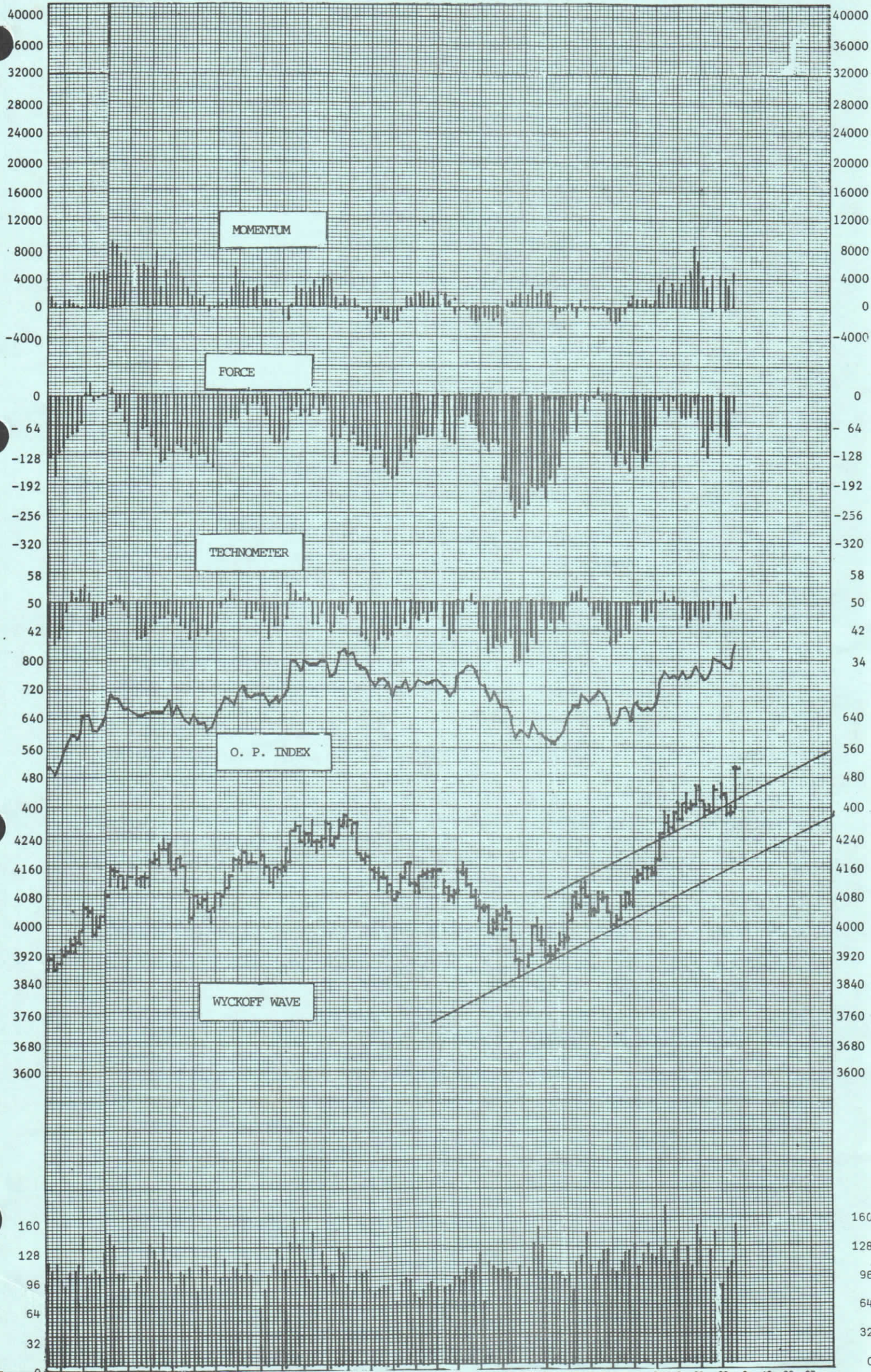


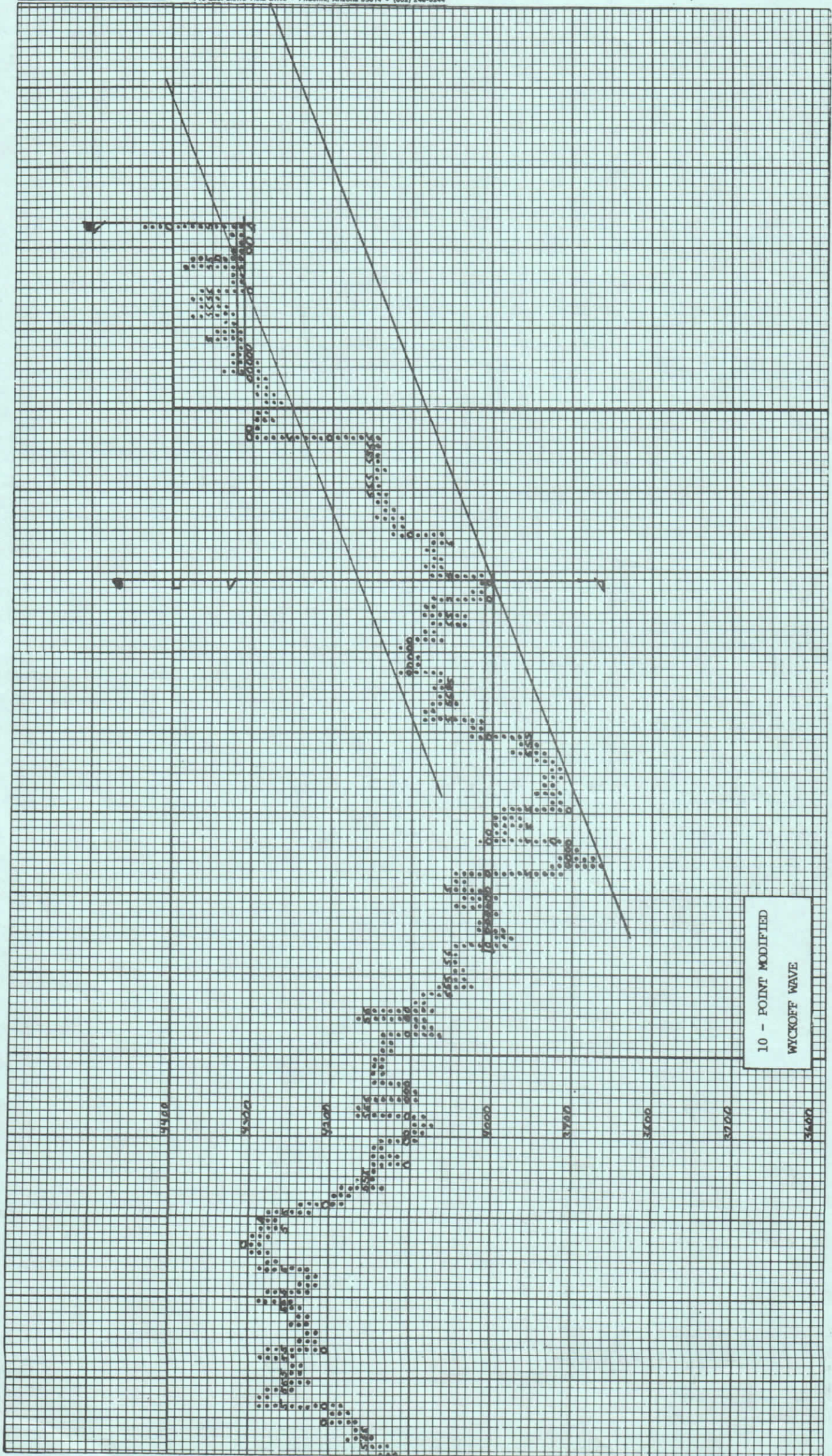


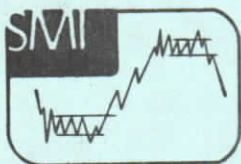
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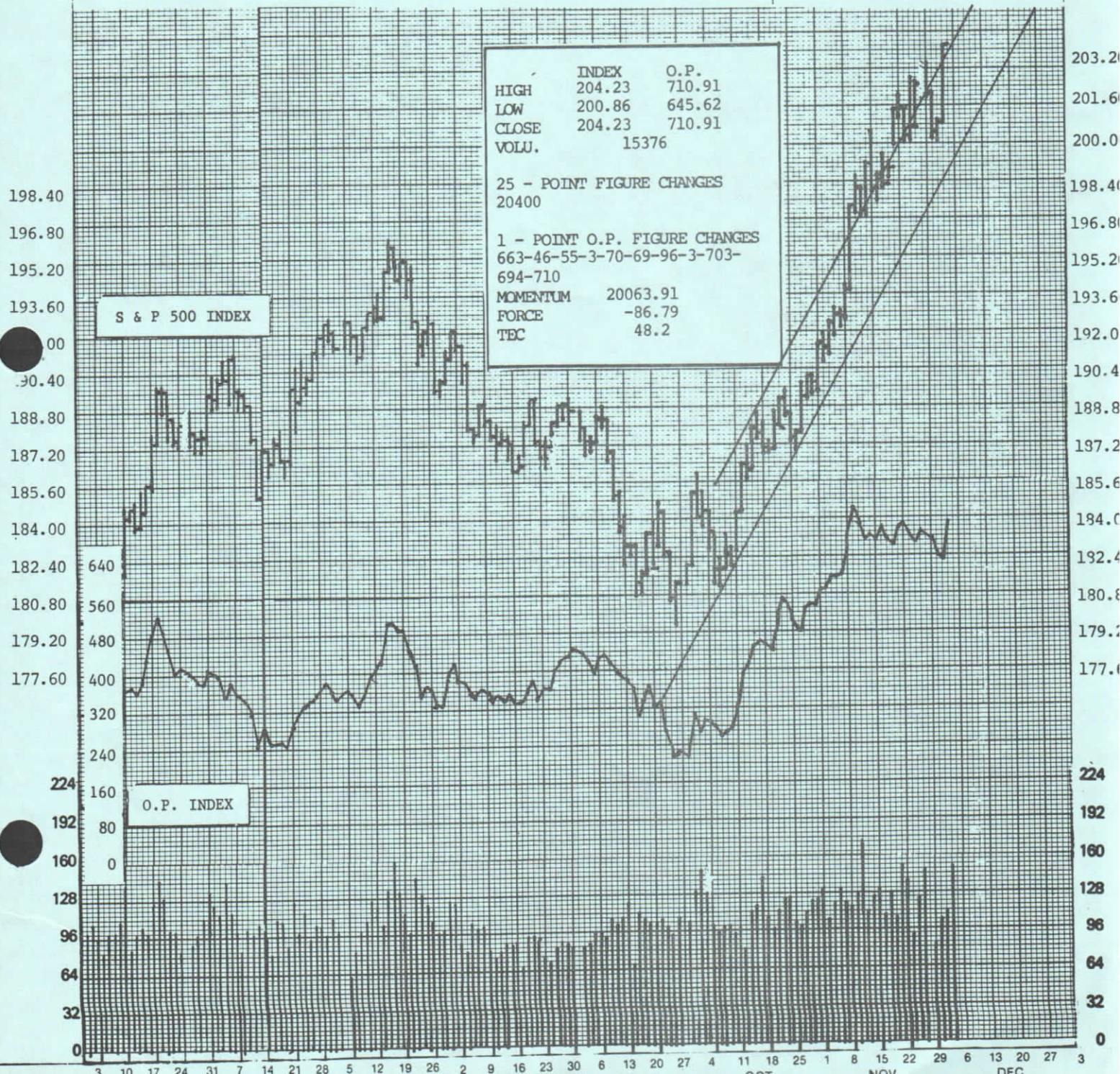
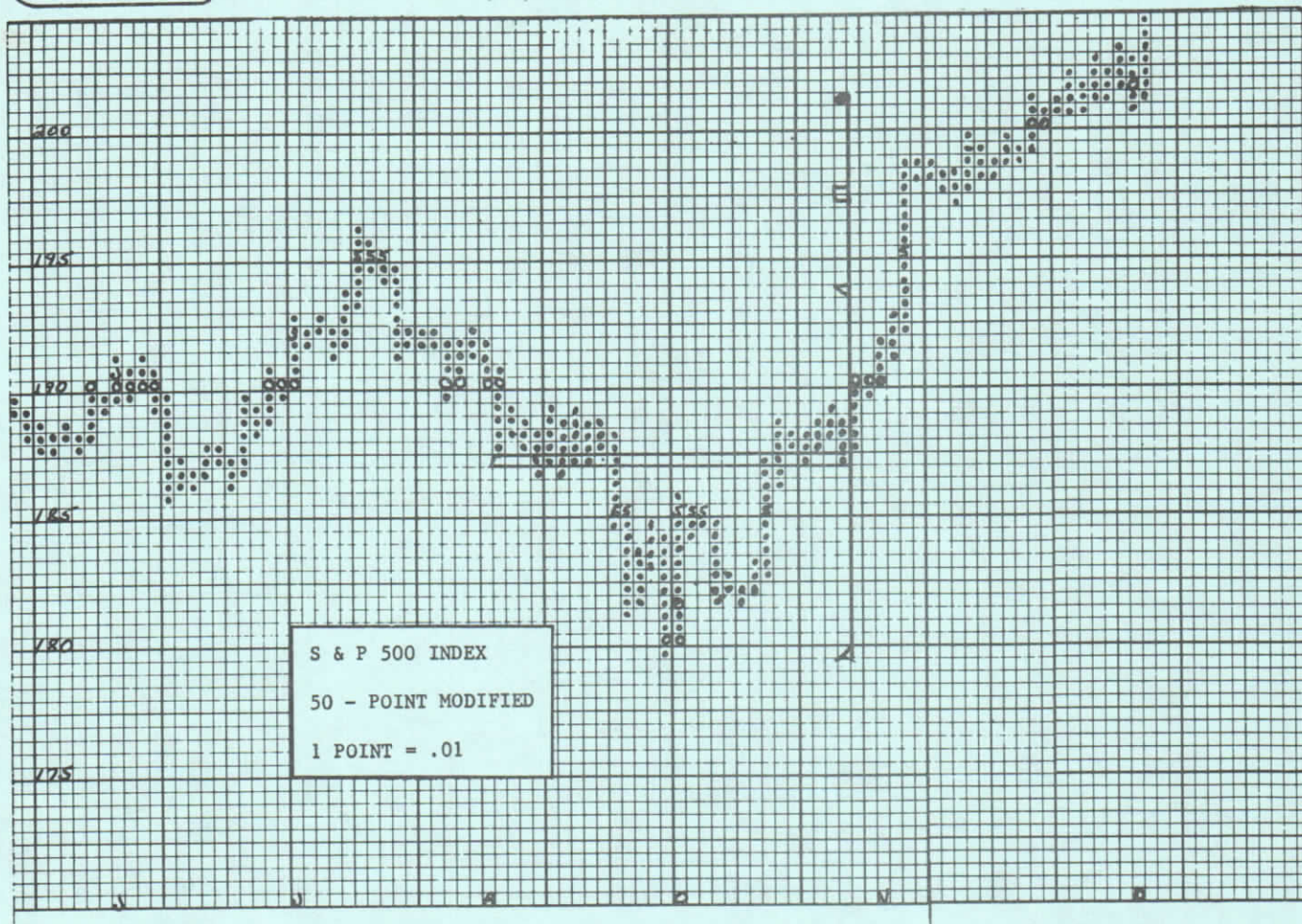
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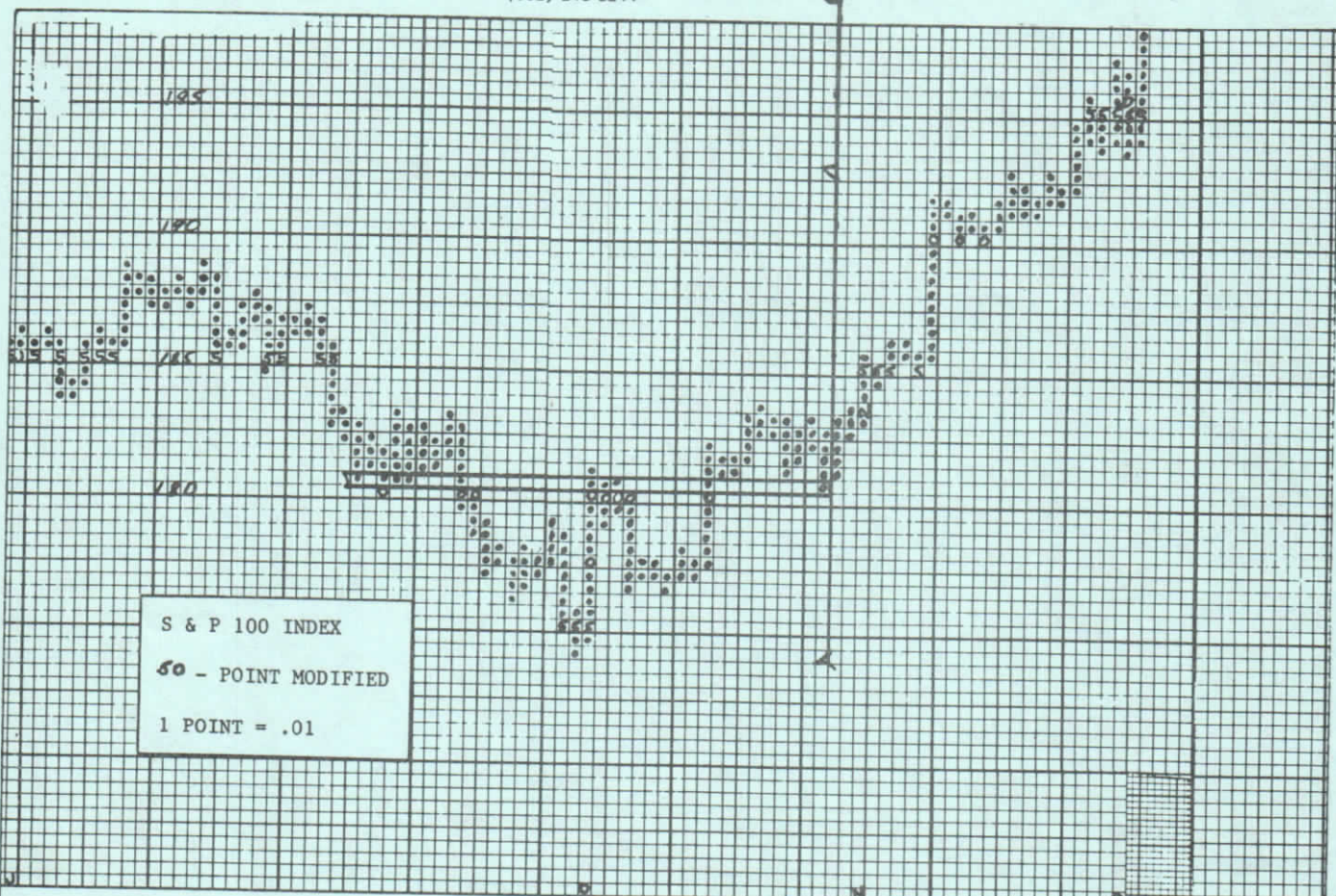
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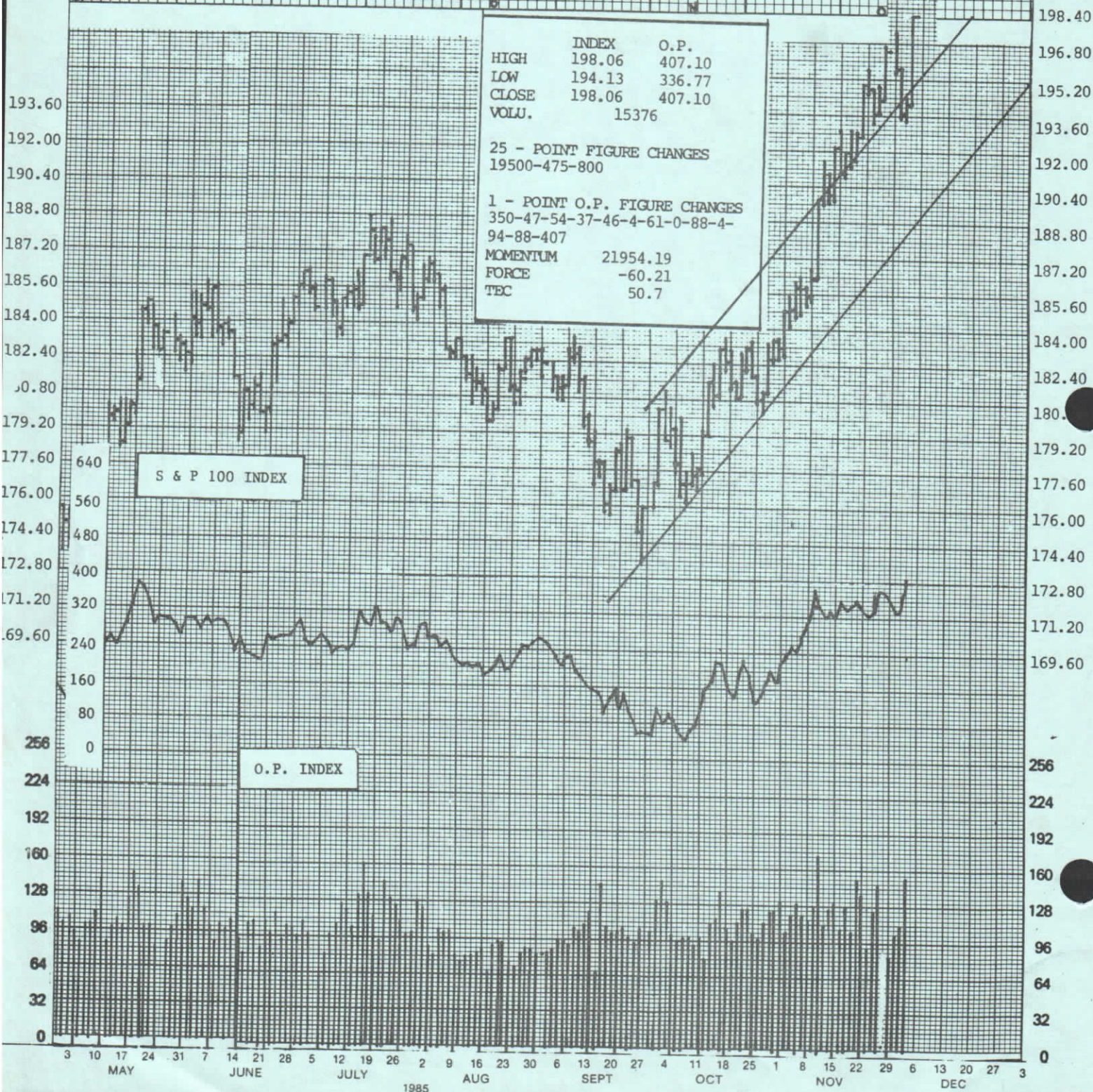
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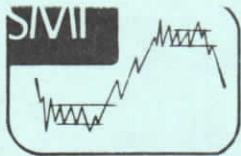


S & P 100 INDEX

50 - POINT MODIFIED

1 POINT = .01



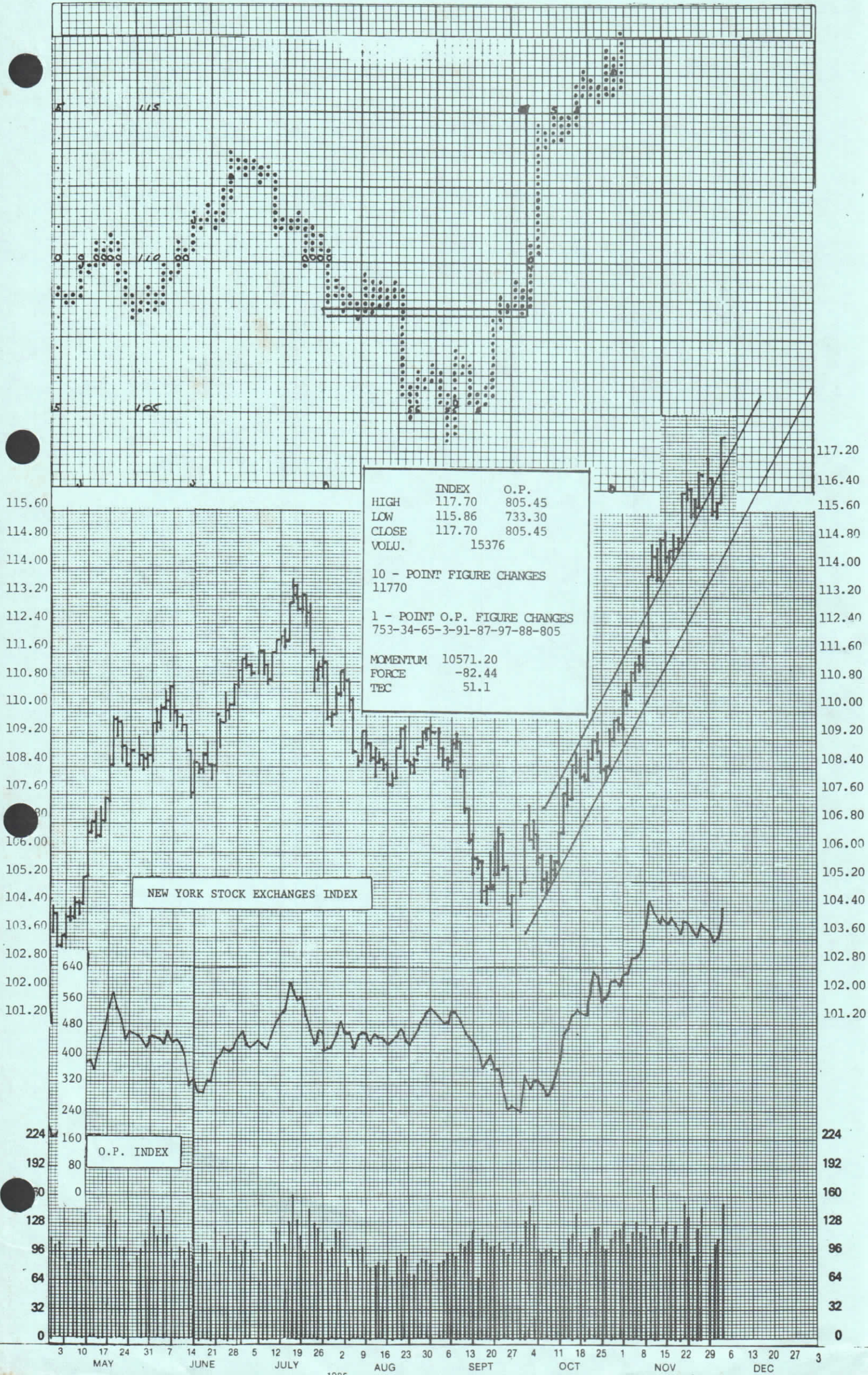


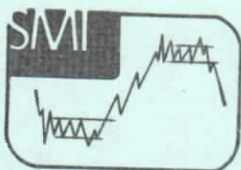
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MAJOR MARKET INDEX
50 - POINT MODIFIED
1 POINT = .01

273.60
272.00
270.40
268.80
267.20
265.60
264.00
262.40
260.80
259.20
257.60
256.00
254.40
252.80
251.20

280
278.40
276.80
275.20
273.60
272.00
270.40
268.80
267.20
265.60
264.00
262.40
260.80
259.20
257.60
256.00
254.40
252.80
251.20

	INDEX	O.P.
HIGH	281.30	536.16
LOW	275.90	483.69
CLOSE	280.79	532.84
VOLU.	15376	

25 - POINT FIGURE CHANGES
27700-675-28125-00

1 - POINT O.P. FIGURE CHANGES
507-484-92-0-503-497-525-1-
31-22-36-3

MOMENTUM	32459.56
FORCE	-65.77
TEC	49.4

MAJOR MARKET INDEX

O.P. INDEX

192
160
128
96
64
32
0

192
160
128
96
64
32
0

3 10 17 24 31 7 14 21 28 5 12 19 26 2 9 16 23 30 6 13 20 27 4 11 18 25 1 8 15 22 29 6 13 20 27 3

MAY JUNE JULY AUG SEPT OCT NOV DEC

1985



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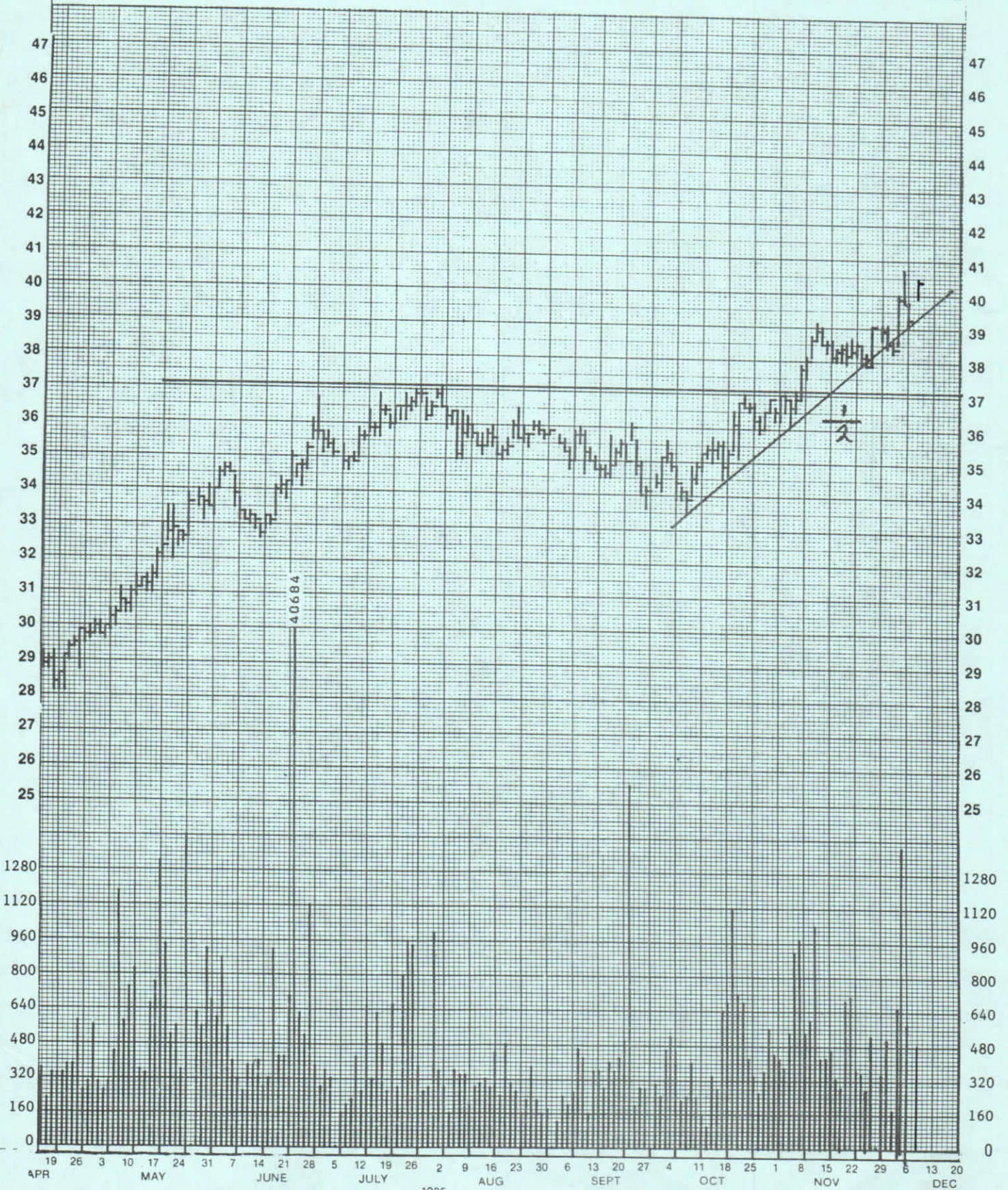
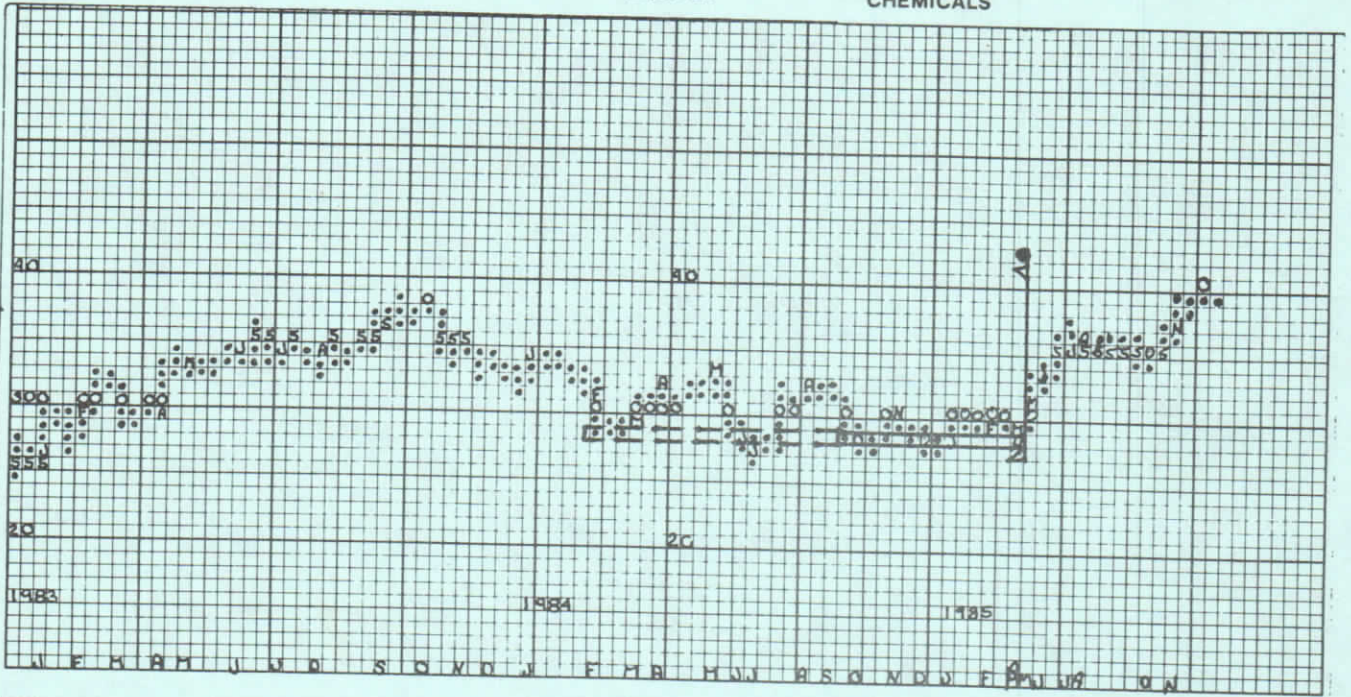
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DOW CHEMICAL

(DOW)

CBOE (M-J-S-D)

CHEMICALS





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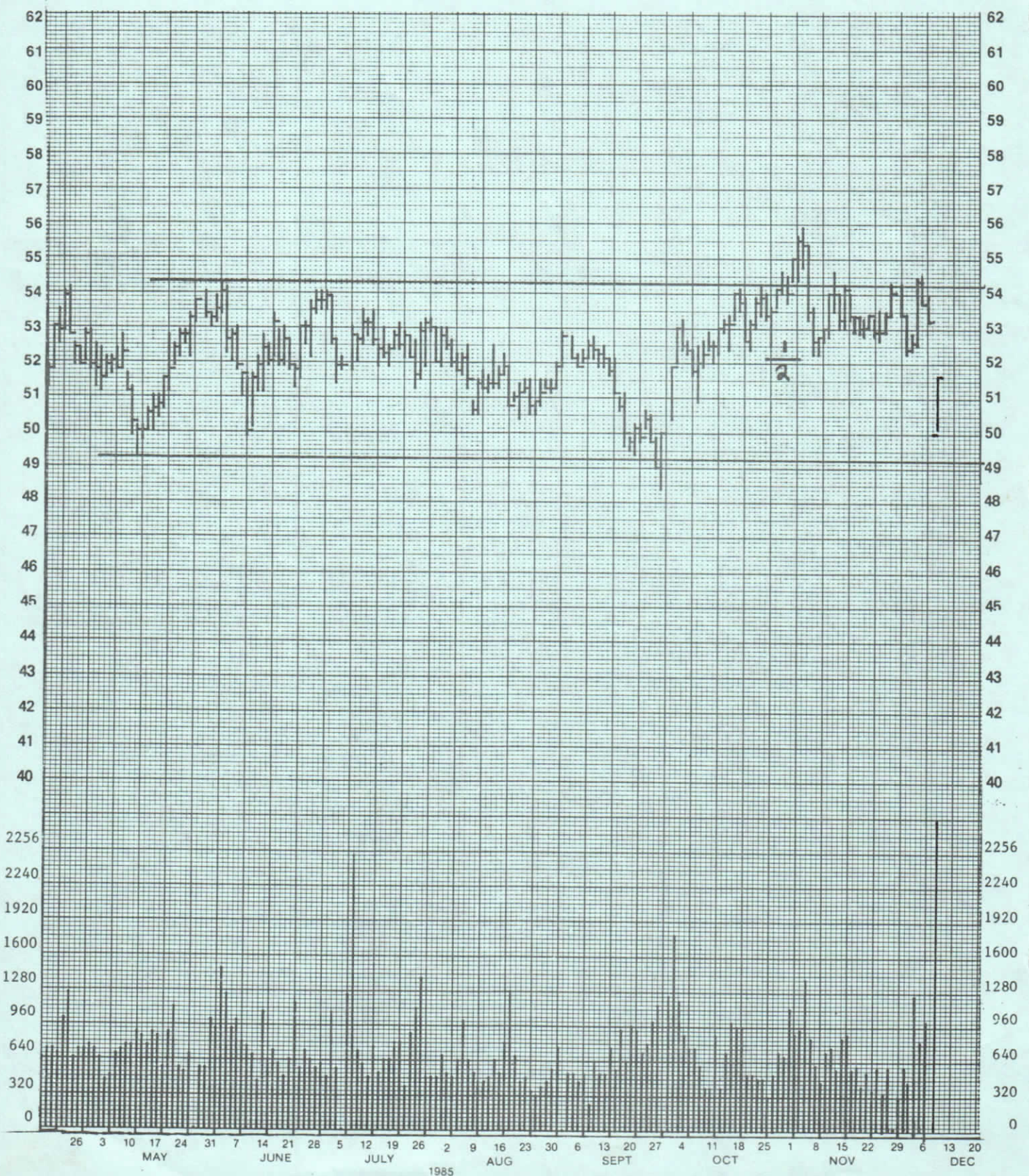
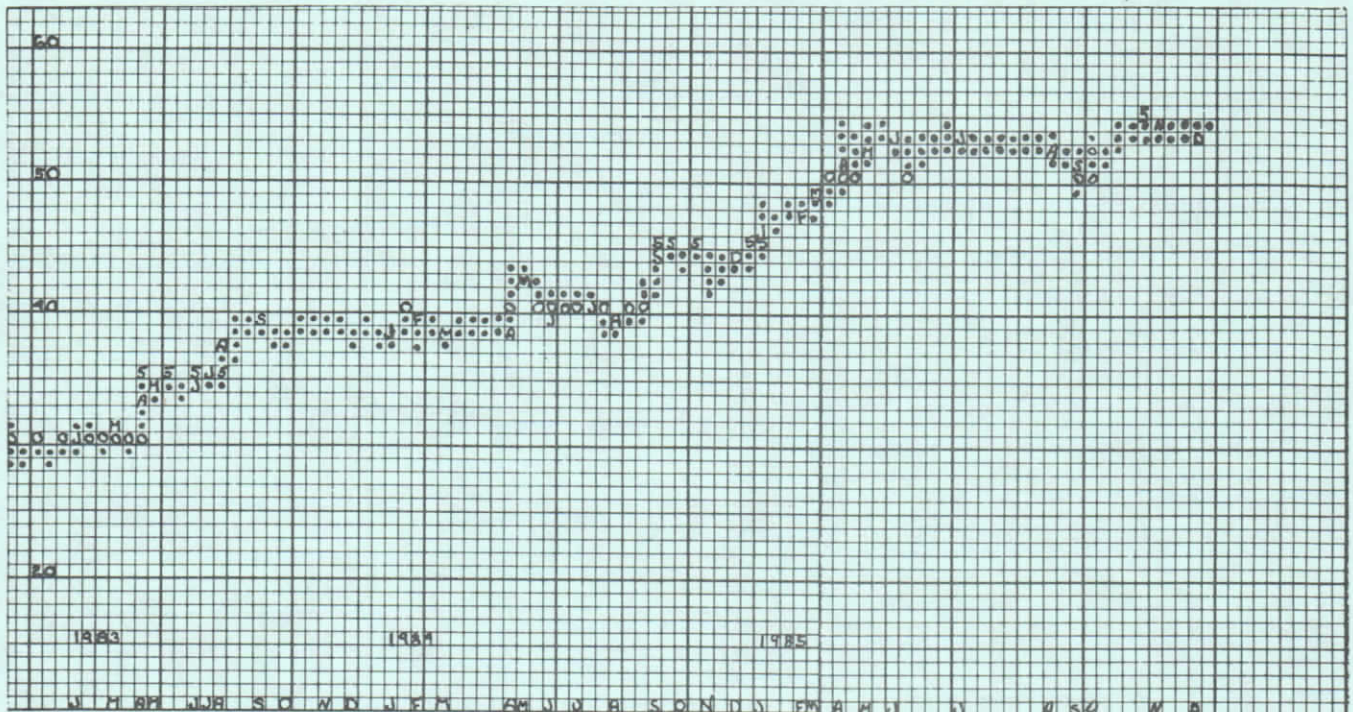
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EXXON

(XON)

CBOE (J-A-J-O)

OIL





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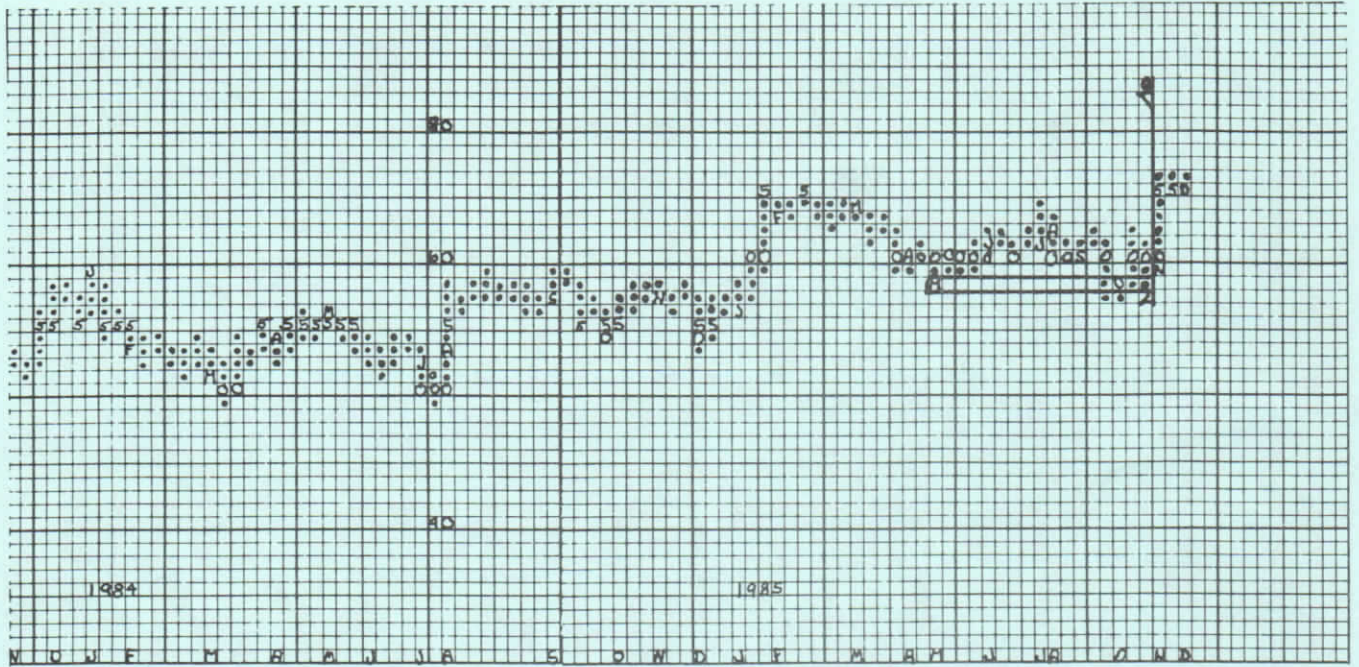
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GENERAL ELECTRIC

(GE)

CBOE (M-J-S-D)

ELECTRICAL EQUIPMENT





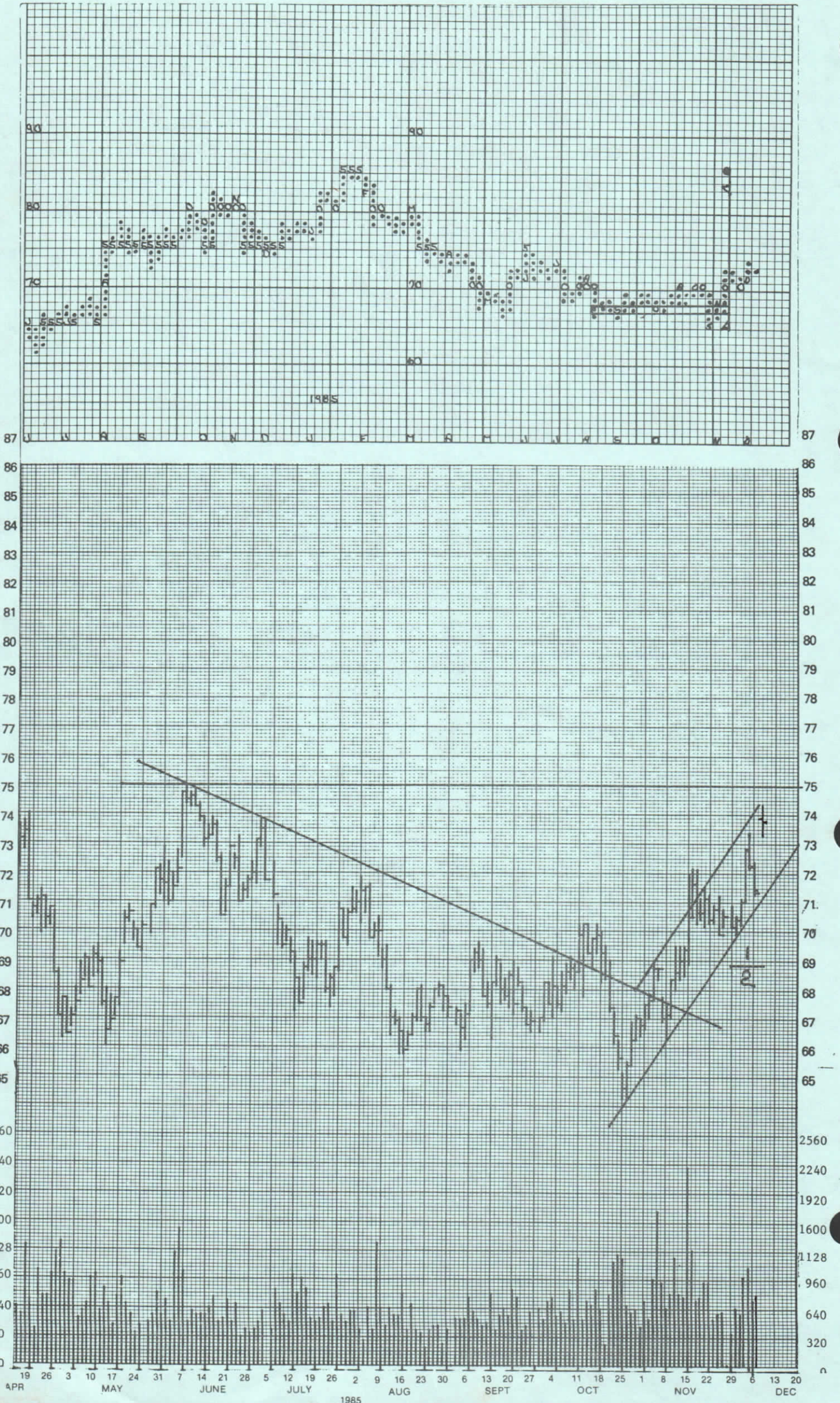
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GENERAL MOTORS (GM)

CBOE (M-J-S-D)

AUTO





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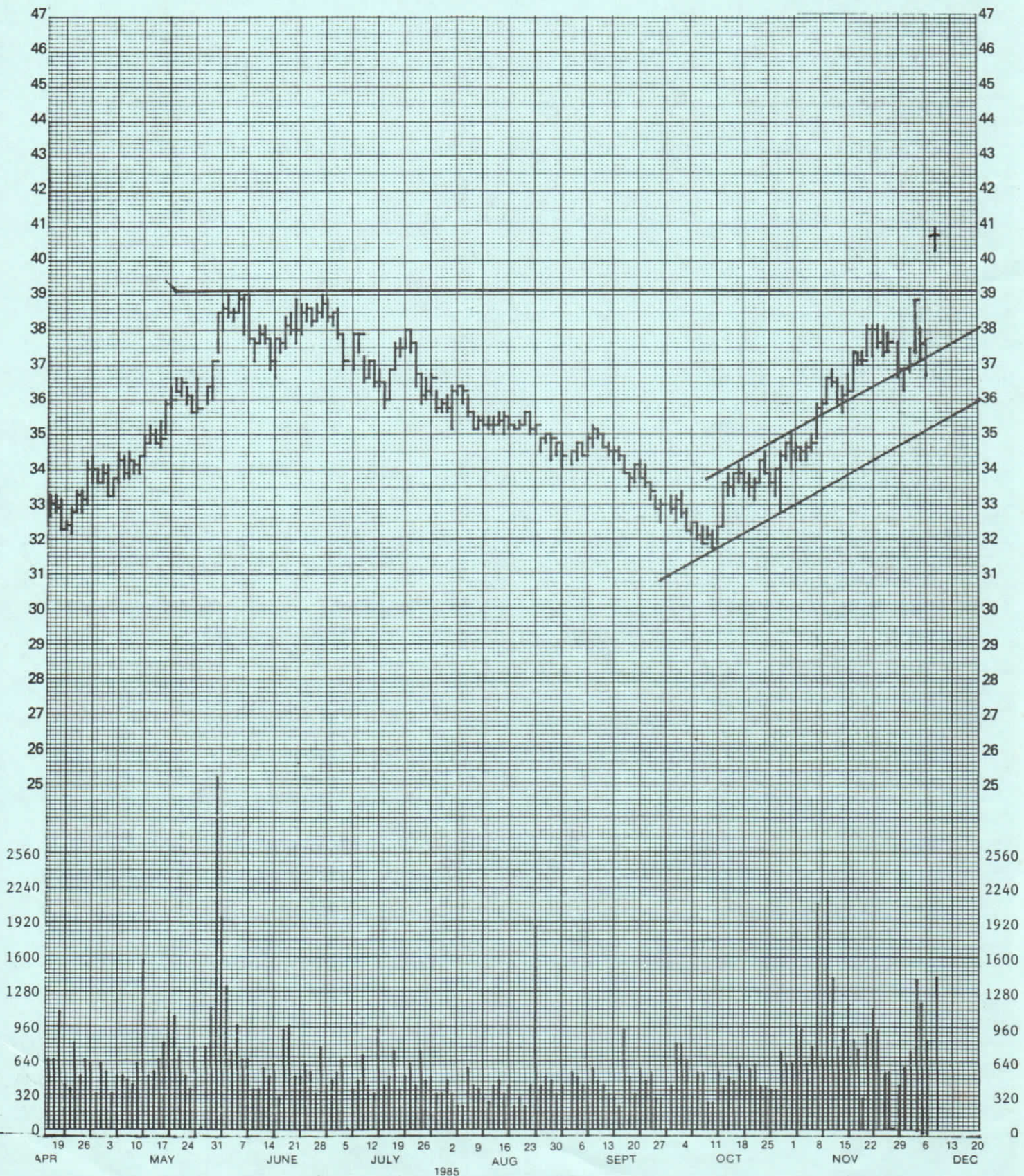
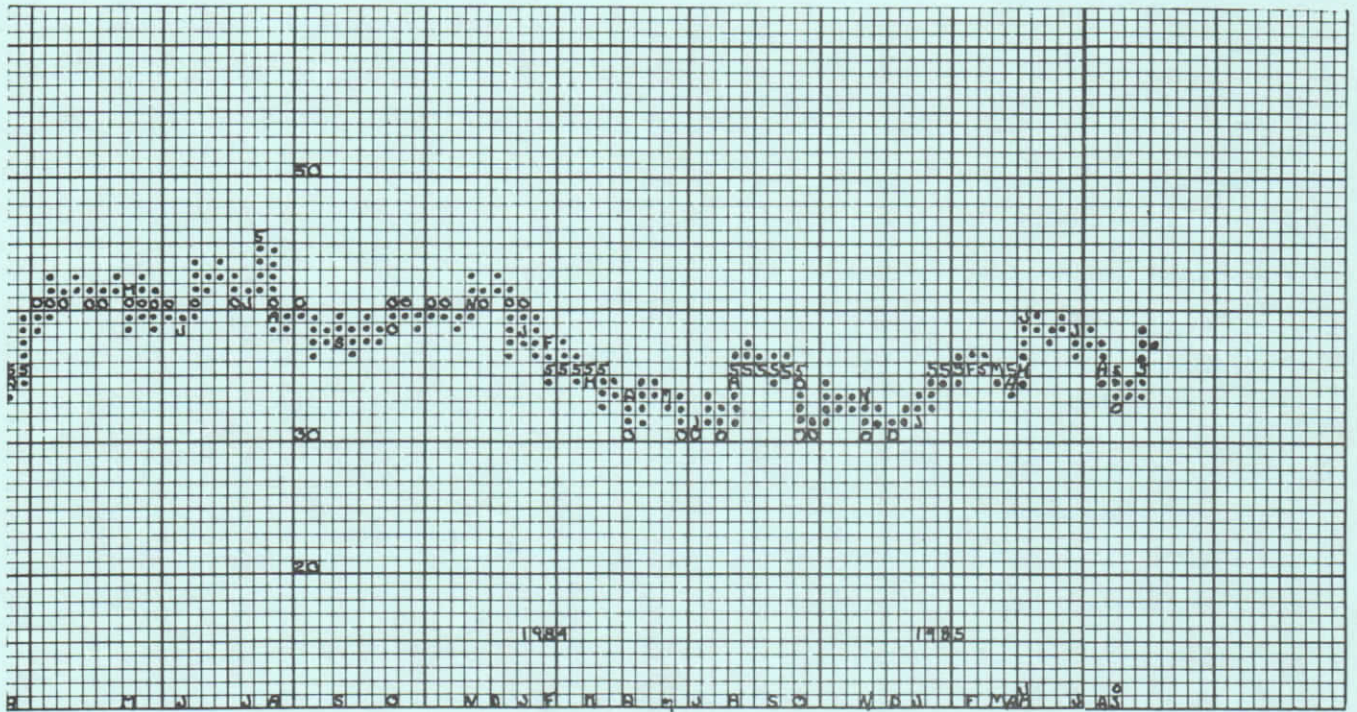
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SEARS

(S)

CBOE (M-J-S-D)

RETAILING





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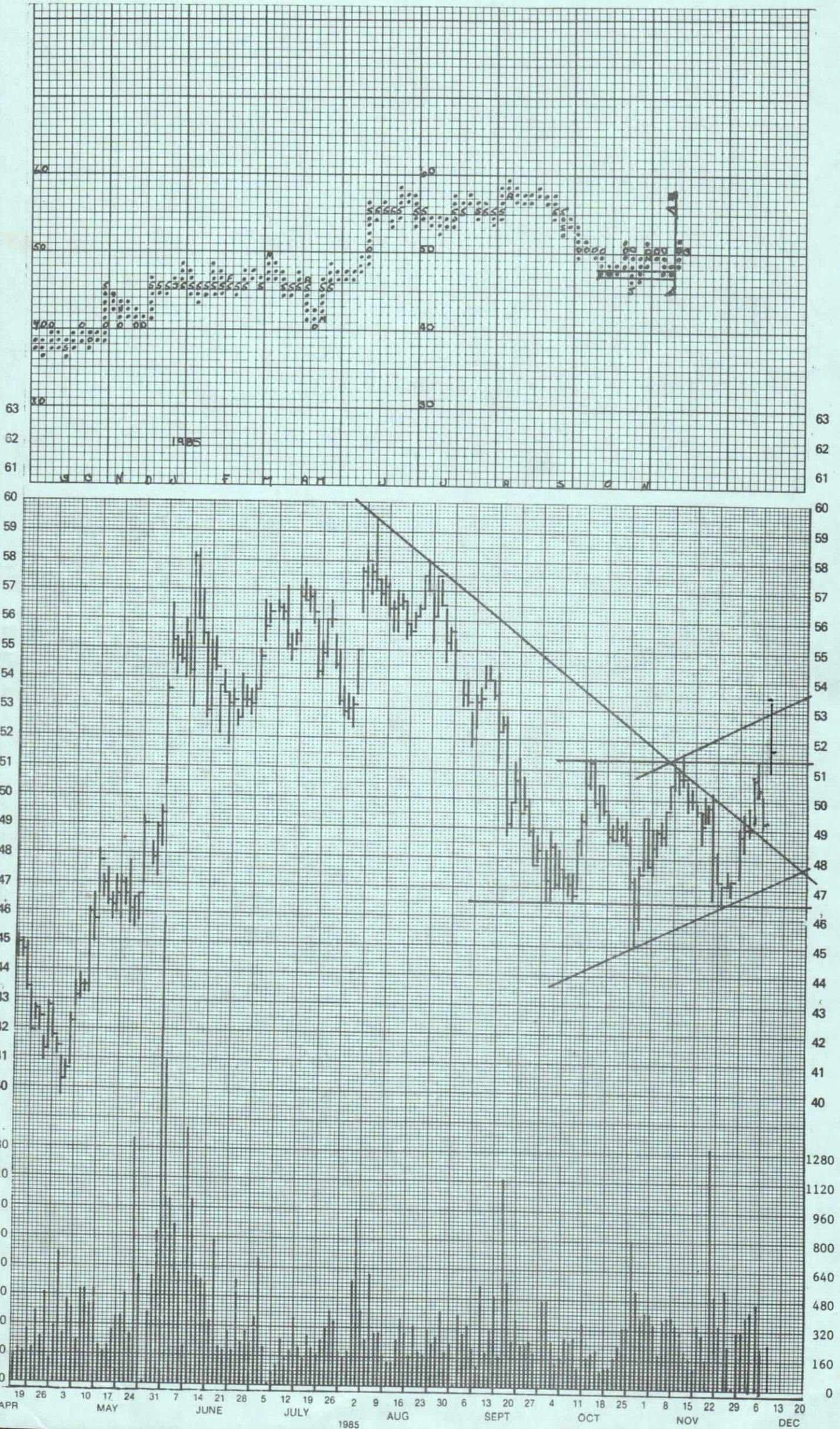
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U.A.L., INC.

(UAL)

CBOE (F-M-A-N)

AIRLINES





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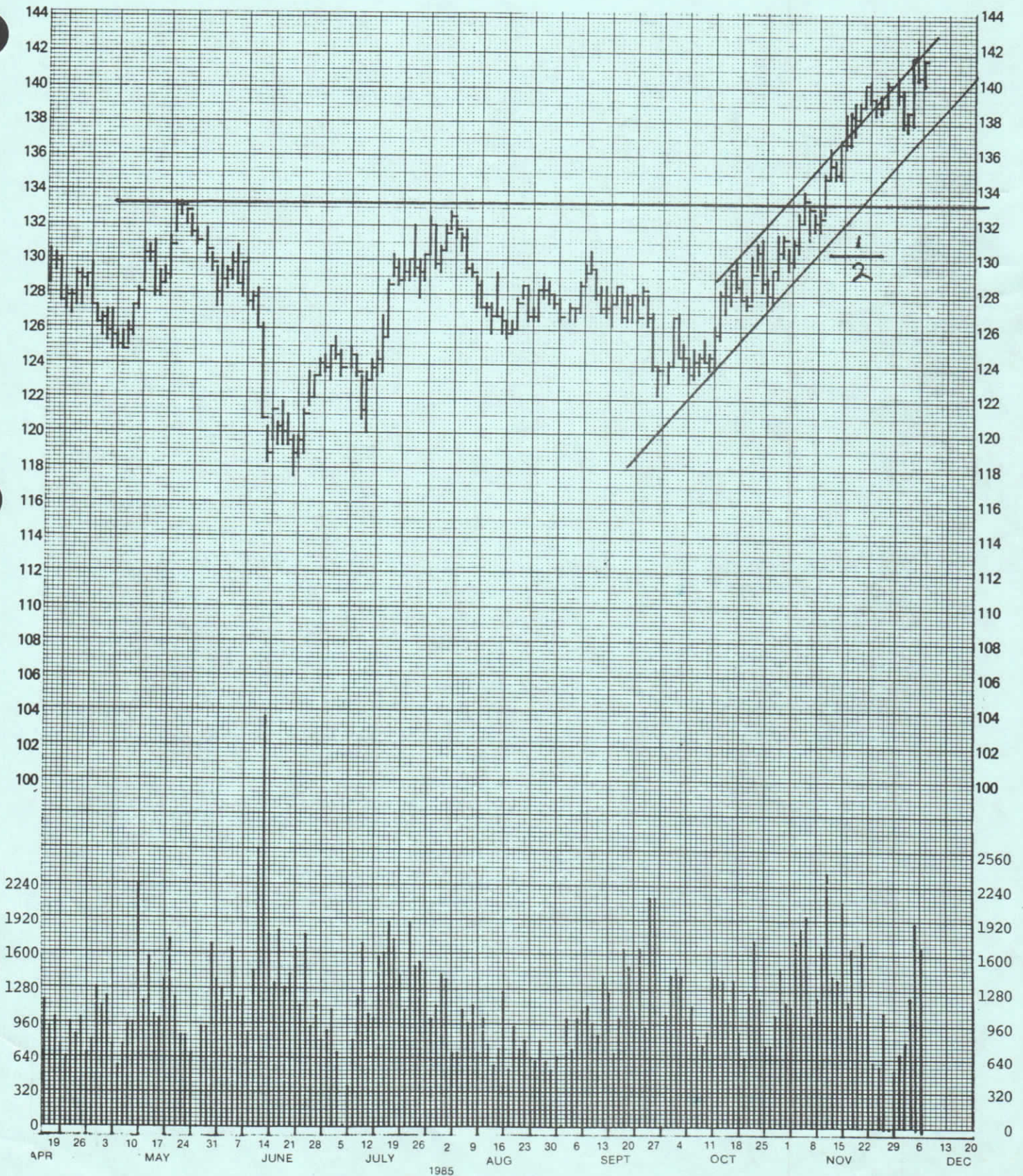
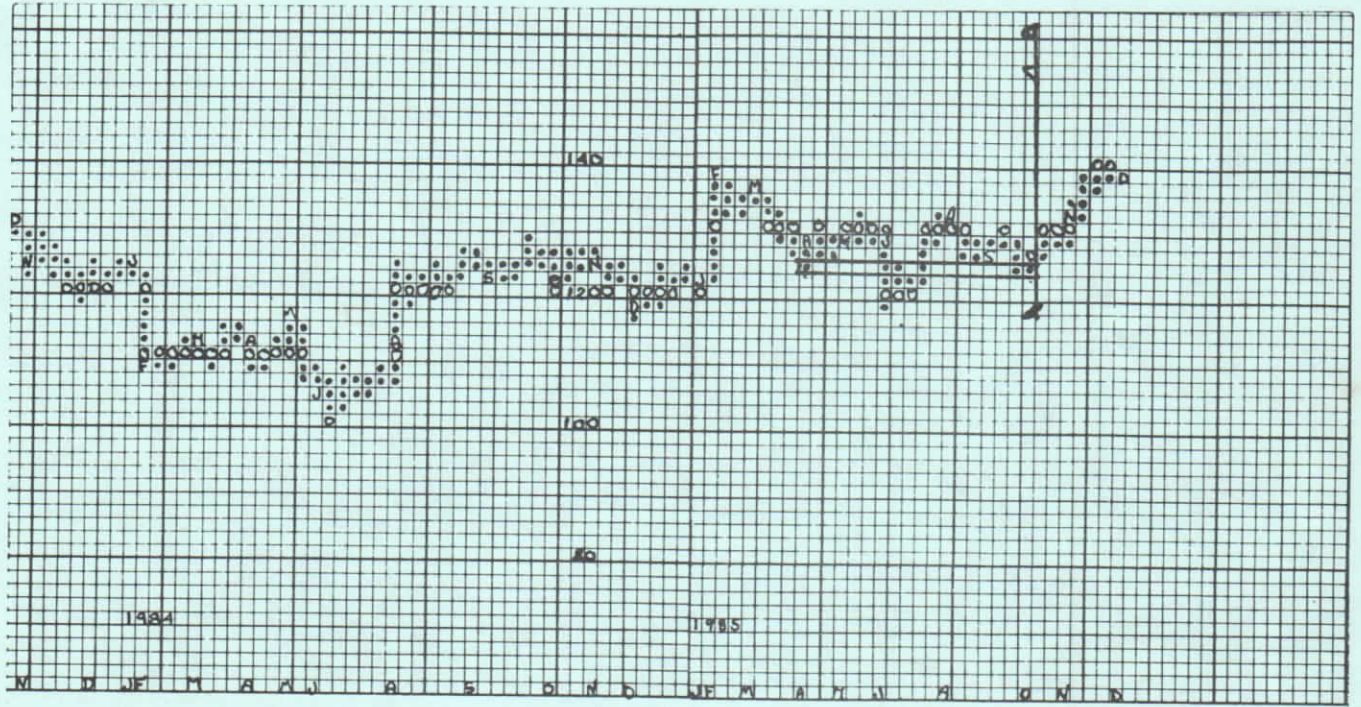
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I.B.M.

(IBM)

CBOE (J-A-J-O)

COMPUTERS





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MERRILL LYNCH

(MER)

ASE (J-A-J-O)

BROKERAGE FIRMS

