SMI

The Trend Letter

Tuesday, December 13, 1983

MARKET TRENDS

As has been the case now for quite some time, the market remains virtually trendless. From an intermediate and longer term standpoint, the Wyckoff Wave is locked in a trading range. Even on a short term perspective where there have been some indications of impending action, the market has been very reluctant to follow through on them. What this should tell us is that the market is not in a hurry. Therefore, we should not be in a hurry to initiate new positions.

The long term picture continues to indicate that important action is coming steadily closer. This is reflected by the respect being paid to the apex. This can only continue for a couple more weeks, however, before the Wave will be forced to break one way or the other. Since the previous important trend was up, an upside breakout from the apex is favored. However, there are no other indications to support this. As a rule, it is not a good idea to base any conclusion on just one indication. Therefore, the best course of action appears to be to let the break occur and then take a position later on a reaction or a rally.

The intermediate picture on the daily chart shows a very similar condition to that of the weekly chart. The same apex is clearly visible. It appears as though the break has to come during the next three weeks. The important difference in this time frame is that the previously established trend is horizontal. Therefore, a break to the upside is not favored. Of course, neither is a break to the downside. As a result, our indication has to come from something else.

Where does the market appear to have the most room? It is not on the upside. The action of the past several months has provided a brick wall of resistance for the market to overcome. If the market makes a run at this from a clearly oversold condition, which does not currently exist, it can push its way through. However, if the attempt to break through the resistance starts with something less than an oversold condition, the chances of success are small.

On the downside, there is more room for a break. The important support levels are at 3720 and 3640. Both of these are below the demand line of the apex. Therefore, a sizable break in the apex is possible before important obstacles are encountered. This suggests that a break to the downside is more likely.

The short term trend of the market is the most interesting at the present. This is because it is showing the most action. It also provides some of the clearest indications.

The short term trend of the market is clearly down. However, notice that a trading range has taken shape within the downtrend channel. The Wyckoff Wave is just about to challenge the supply line of the down trend. Since the market is not yet overbought, the price should be able to make the penetration, when this occurs, the trading range will have taken over from the down trend. A penetration of the supply line should also result in an upside breakout from the trading range. Therefore, at the same time that the trading range is taking control, the beginnings of a definable uptrend channel will start to take shape.

A short term rally in the market is also indicated by the divergence between the Wave and O.P. that has existed during the past week. The inability of persistent downside effort to produce a downward break in price points to a rally once the effort is reversed. It appears as though this is in the process of happening right now.

The final question to consider for the short term is how far can the market rally? There is a count at the 3825 level. It can be divided into three phases. The objective of th first is 3915. The second objective is 3990 and the maximum objective is 4085. Each of these objectives can be related to an important resistance level. Therefore any one may mark the end of the move. As the Wave approaches each objective, watch for the development of an overbought condition and signs of upside effort without result. If observed, the short term rally should be viewed as being at an end.

STOCK TRENDS

Although its trading range is only two points wide, Exxon has been unable to break out even though it has been trying now for four months. The latest developments have been a spring and an upthrust. These do not provide consistent indications, so the chances of a quick resolution of Exxons inability to get moving again do not look good. The spring, which occurred on November 21 resulted in a good positive response. The price rallied to the top of the trading range and promptly went into an upthrust position. It immediately fell back into the middle of the trading range and now appears ready to make a test of the upthrust. The way things are going in this stock, the test will probably come on increased volume, which will leave the future just as uncertain. For now, long term long positions may be held, but any other action is unwise.

General Electric has done very well on the upside during the past several weeks. Its figure chart suggests that a continued advance to sixty-six is possible. However, the recent price action makes that possibility questionable. The problem with the recent action is an inability to rally to the overbought line. A strong stock on its way to a higher objective should be able to rally to this line. A strong stock that is beginning to lose its strength will not be able to reach the overbought line. A weakening stock is going to have a much more difficult time reaching its upside objective. If G.E. continues to fall short of its overbought line by increasing margins, selling long position will be in order. It should be noted that the current position is also an upthrust of the previous high. The action that will result in closing out long positions may also be a test of the current upthrust. If so, the stock may be looked at for the short side. However, first consideration should be given to other weaker stocks that are not in well defined uptrend channels.

General Motors is in a down trend. It upthrusted the previous top, tested the upthrust several times and is now working on a downside objective of sixty-four to sixty-seven. This stock may provide an opportunity on the short side the next time the market becomes overbought. Recently, it touched the oversold line of the down trend as the price reached the halfway point of the previous rally. Not surprisingly, the price has since rallied. It is now approaching the supply line. There is no volume present to indicate that a breaking of the supply line is likely and the price is beginning to show signs of rounding over. If the market becomes overbought in the next few days, this stock should be considered for a short position. There is still the possibility of an additional eleven point drop.

IBM is similar to General Motors except for one important difference. On Monday, IBM penetrated the supply line of its down trend. This removes it from consideration as a short candidate for now. The reason is uncertainty. The action of the past several days may end up being nothing more than a halfway correction of the earlier reaction. Even so, the price is now out of its downtrend channel, so new short positions will have to await further developments. Current short positions may be held as long as the price stays below 126. If it exceeds the halfway point, use the next reaction to cover.

Merrill Lynch is gradually preparing for its next important move. At present, it is still working on the secondary test of the selling climax. Since volume is substantially reduced, the test should hold. After this, the stock can start building potential. Until then, it is not worthy of any serious consideration for new positions.

Pepsico may soon be ready for some additional buying. It has finally come off of its overbought position and is approaching the demand line of the uptrend. It is also in the vicinity of the halfway point. The one thing missing is a pattern of clearly lower volumes. This may develop in the days ahead. If so, Pepsico should be considered for additional long positions. These developments could take a couple weeks to get in place, so do not be in a hurry. This is a slower moving stock and therefore requires more patience.

UAL has a count to take it back to its former high. It has already rallied back to the halfway point of the earlier decline. The problem is that it has been stuck in this area for four weeks now. The price progress is beginning to flatten out. The ability to rally quickly is now gone. This suggests that UAL may have gone as far as it can for now and needs a more important correction. A return to the demand line would not be unreasonable. Someone seeking the more important gain can justify riding this out. The short term trader with a long position is in trouble, however. His trend is beginning to break down. These profits should be taken.

Union Carbide has been hit by a very sharp reaction during the past ten days. It is now approaching an oversold position and a downside objective. Therefore, some type of corrective rally may be anticipated. However, the trend is clearly down. Buying normal corrective rallies in a downtrend is seldom a wise decision. This stock has at least one lower objective and perhaps another much lower objective. They may not be reached, but as long as the trend is down, there is a possibility that they will be. For now, the stock should be played as though the lower objectives are going to be hit.

DECEMBER 7, 1983.

INDEX CHARTS
STOCK MARKET INSTITUTE, INC.

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- 50-Point Modified Wyckoff Wave
- 25-Point Modified Wyckoff Wave
- 3-Point of the 10-Point Modified WW
- 10-Point Modified Wyckoff Wave
- Two Point Modified O-P
- ½-Point Time Index
- Trend Barometer/O-P
- Intra-Day Wave Chart
- 5-Point Modified Wyckoff Wave

Group Indexes:

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- Drugs
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- Machinery
- Medical
- Metals
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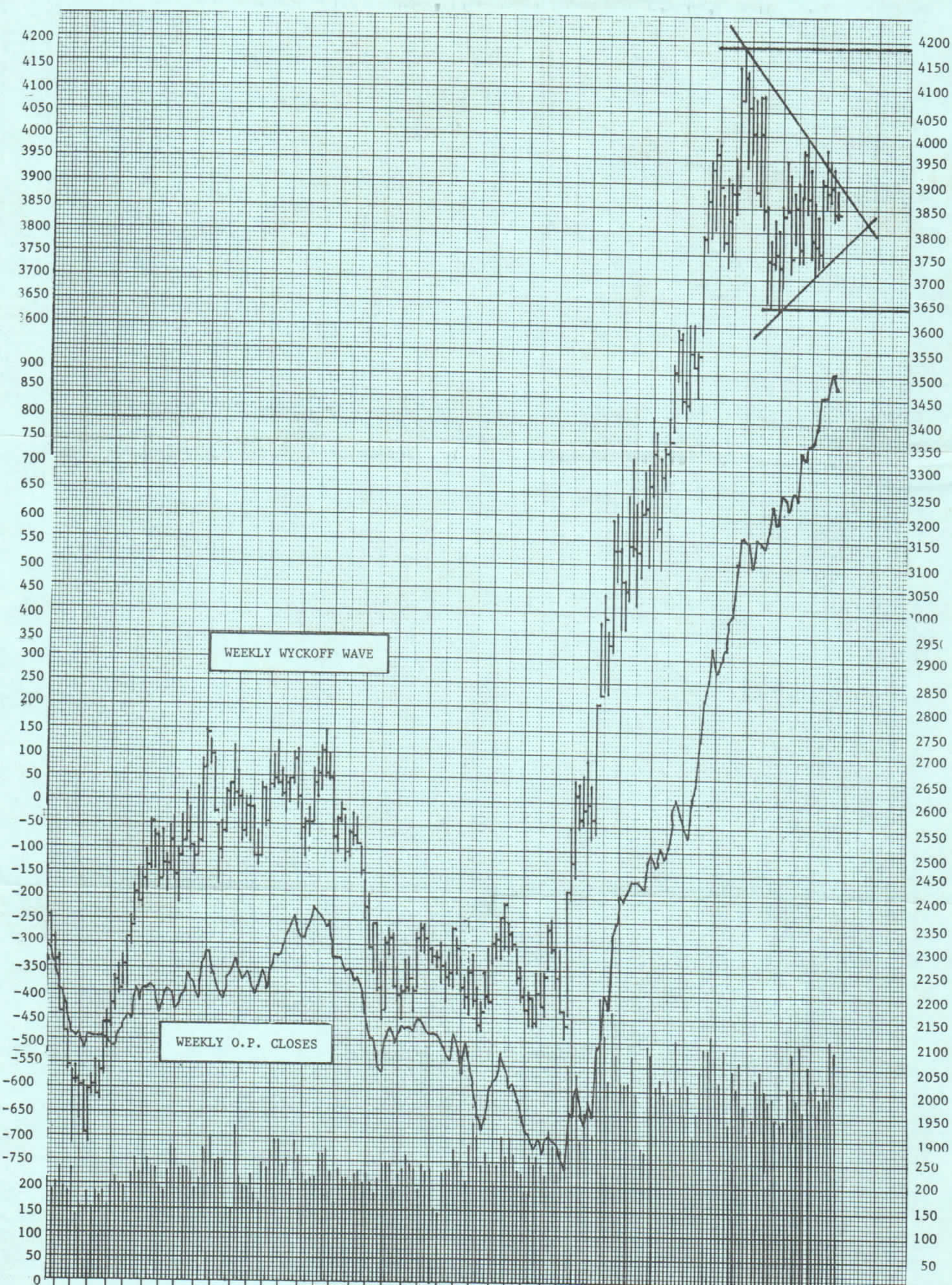

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INDEX CHARTS

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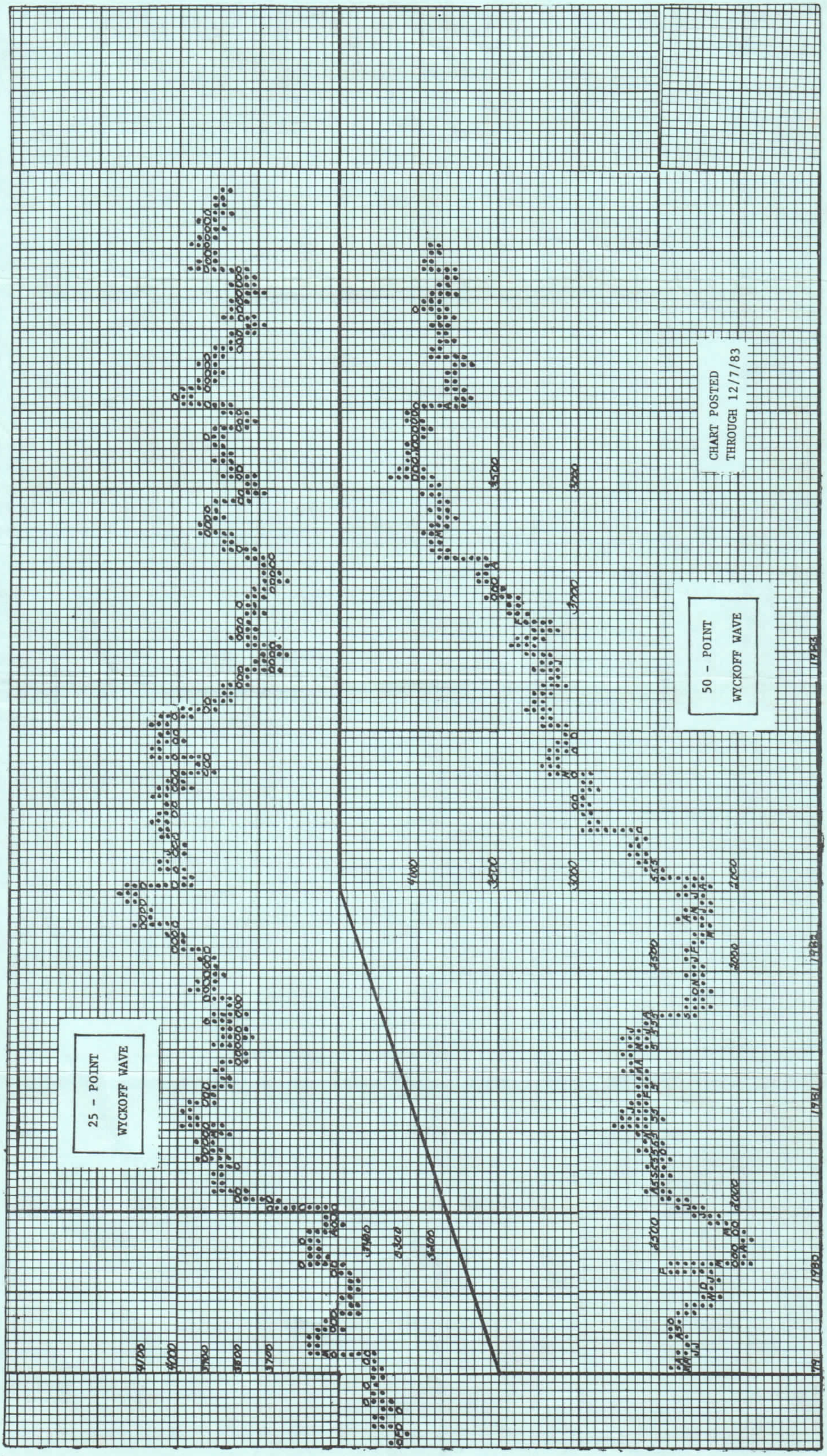

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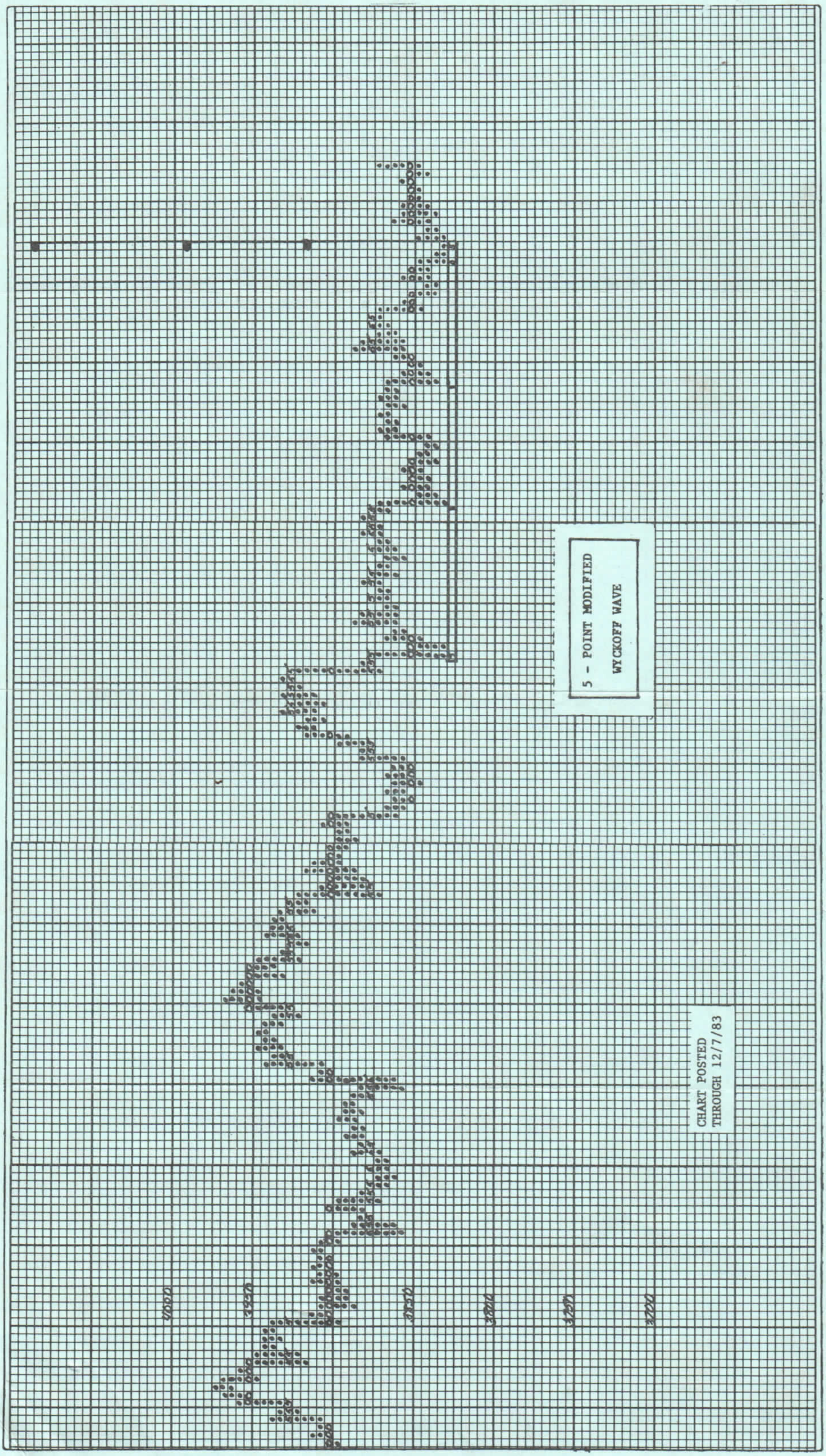

INDEX CHARTS

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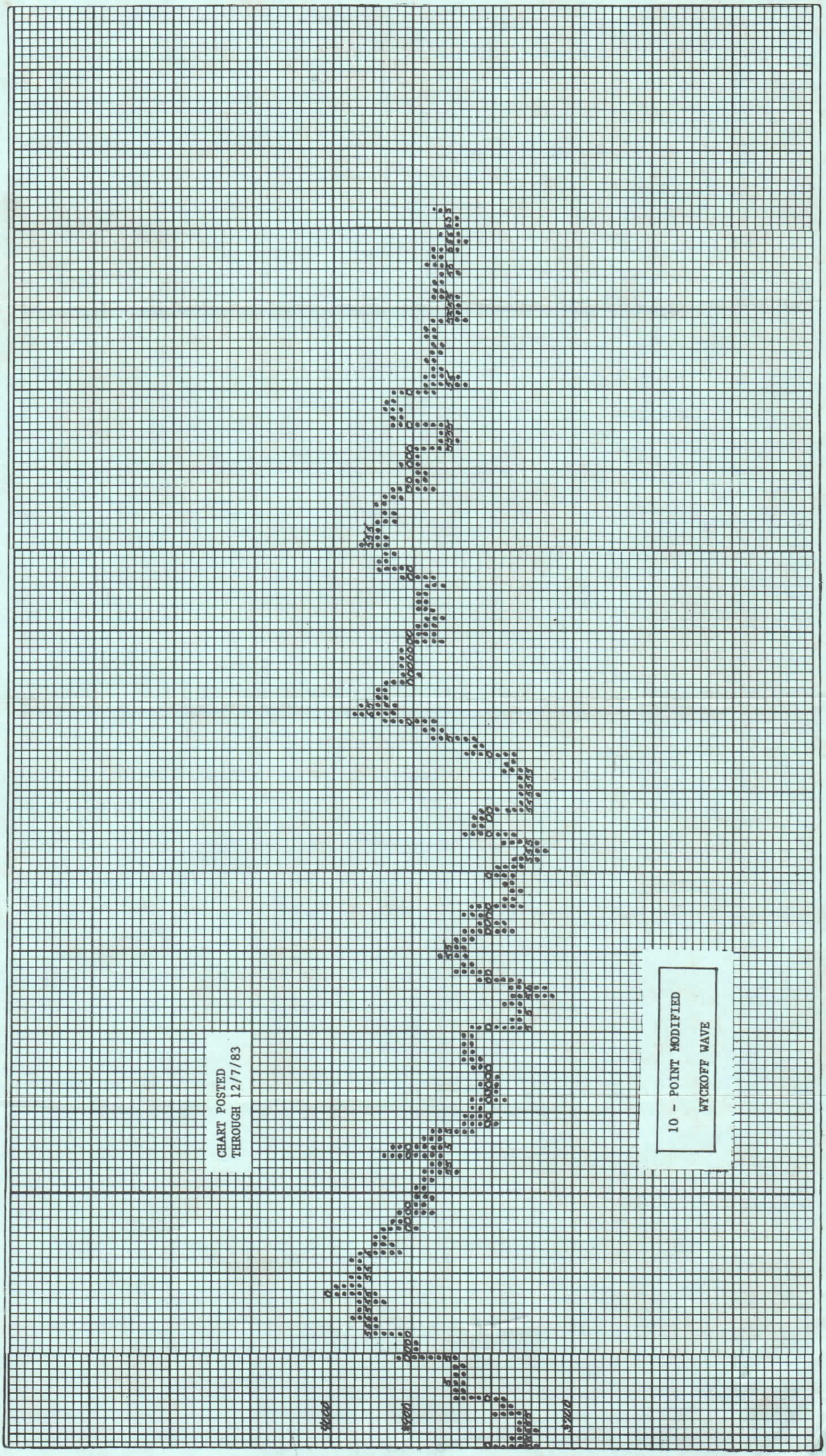

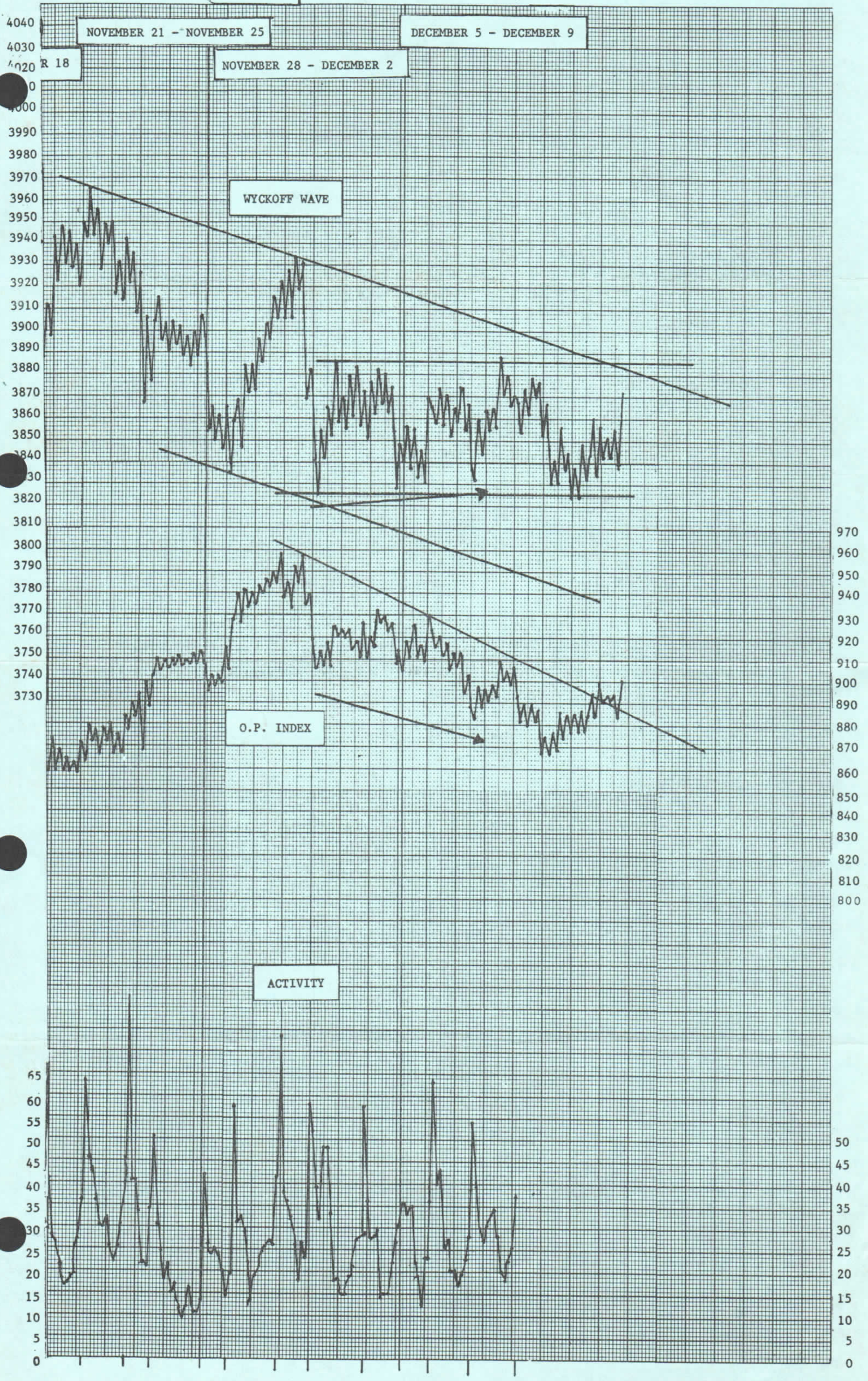
NOVEMBER 21 - NOVEMBER 25
DECEMBER 5 - DECEMBER 9
R 18
NOVEMBER 28 - DECEMBER 2
WYCKOFF WAVE
O.P. INDEX
ACTIVITY
4040
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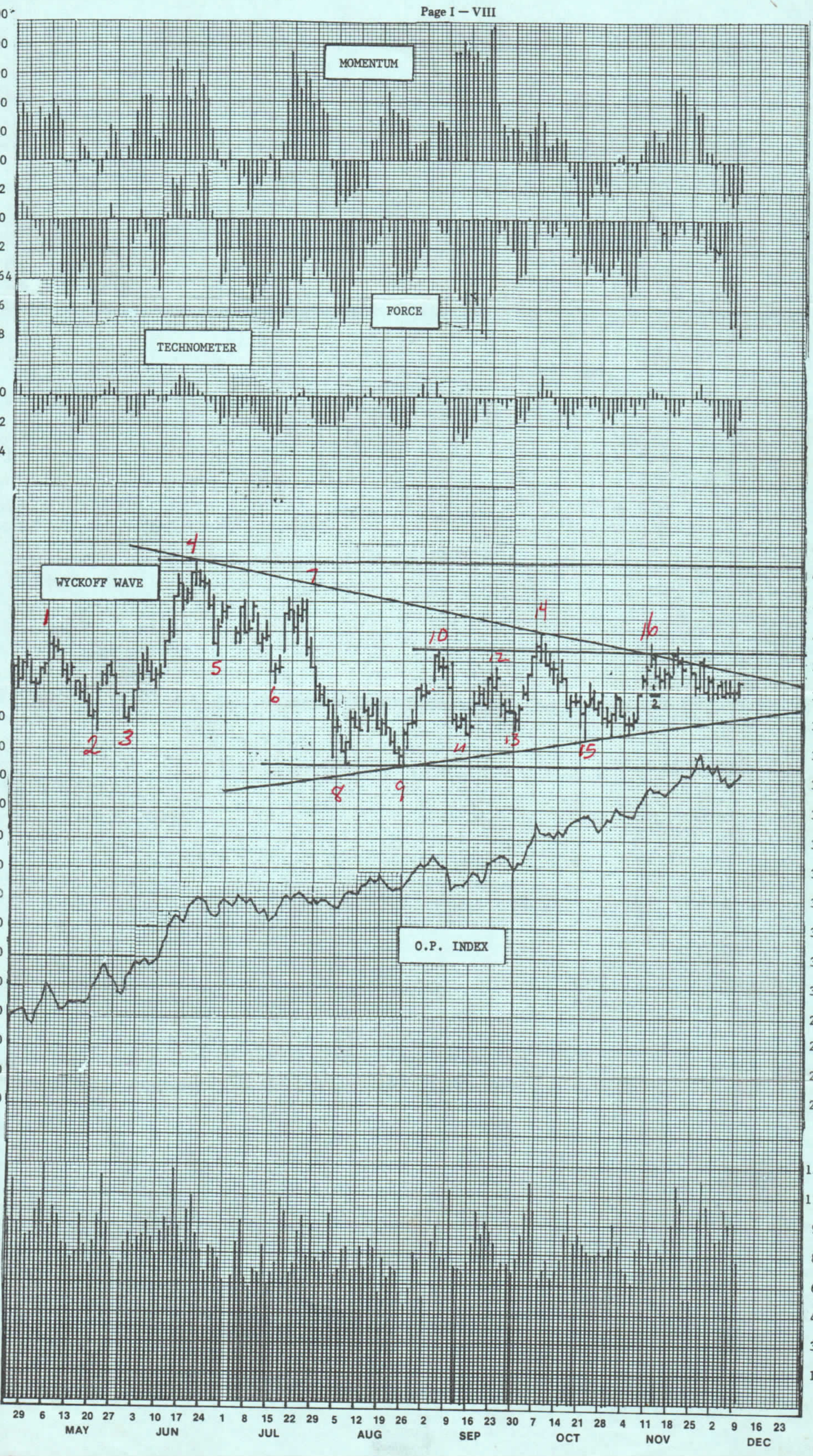

MOMENTUM
FORCE
TECHNOMETER
WYCKOFF WAVE
O.P. INDEX
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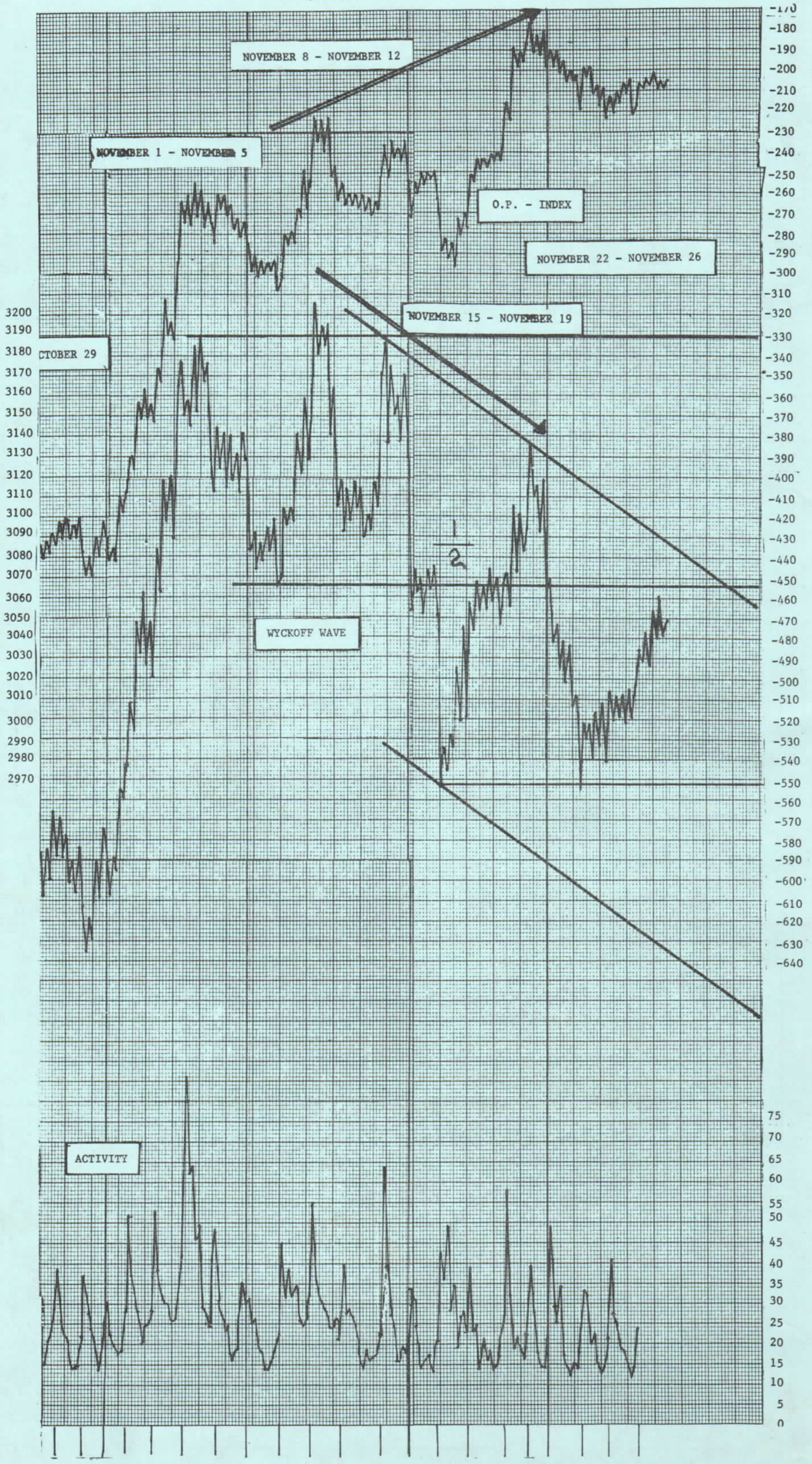
NOVEMBER 8 - NOVEMBER 12
NOVEMBER 1 - NOVEMBER 5
O.P. - INDEX
NOVEMBER 22 - NOVEMBER 26
NOVEMBER 15 - NOVEMBER 19
CTOBER 29
WYCKOFF WAVE
1/2
ACTIVITY
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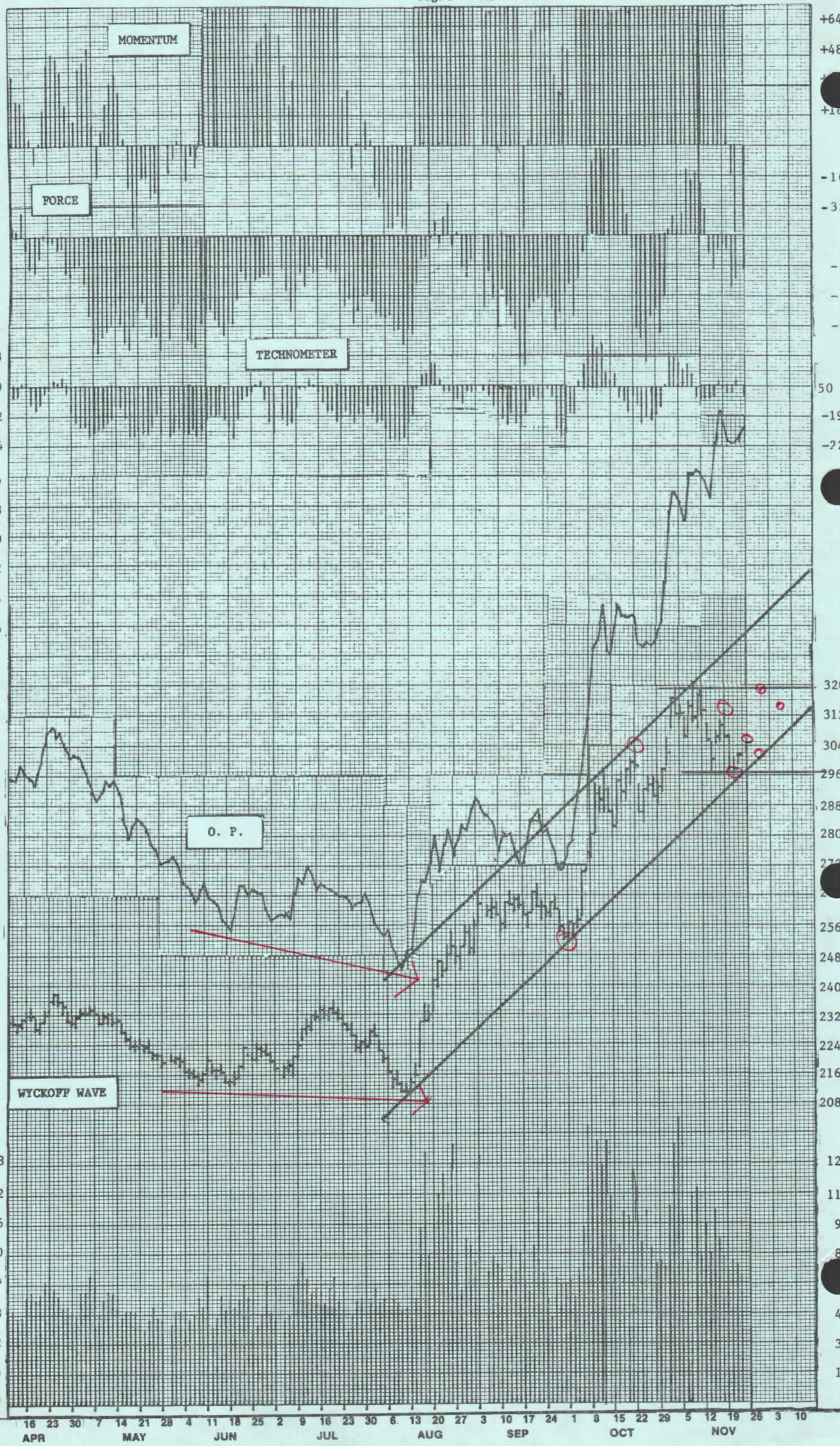

CHARTING SERVICE

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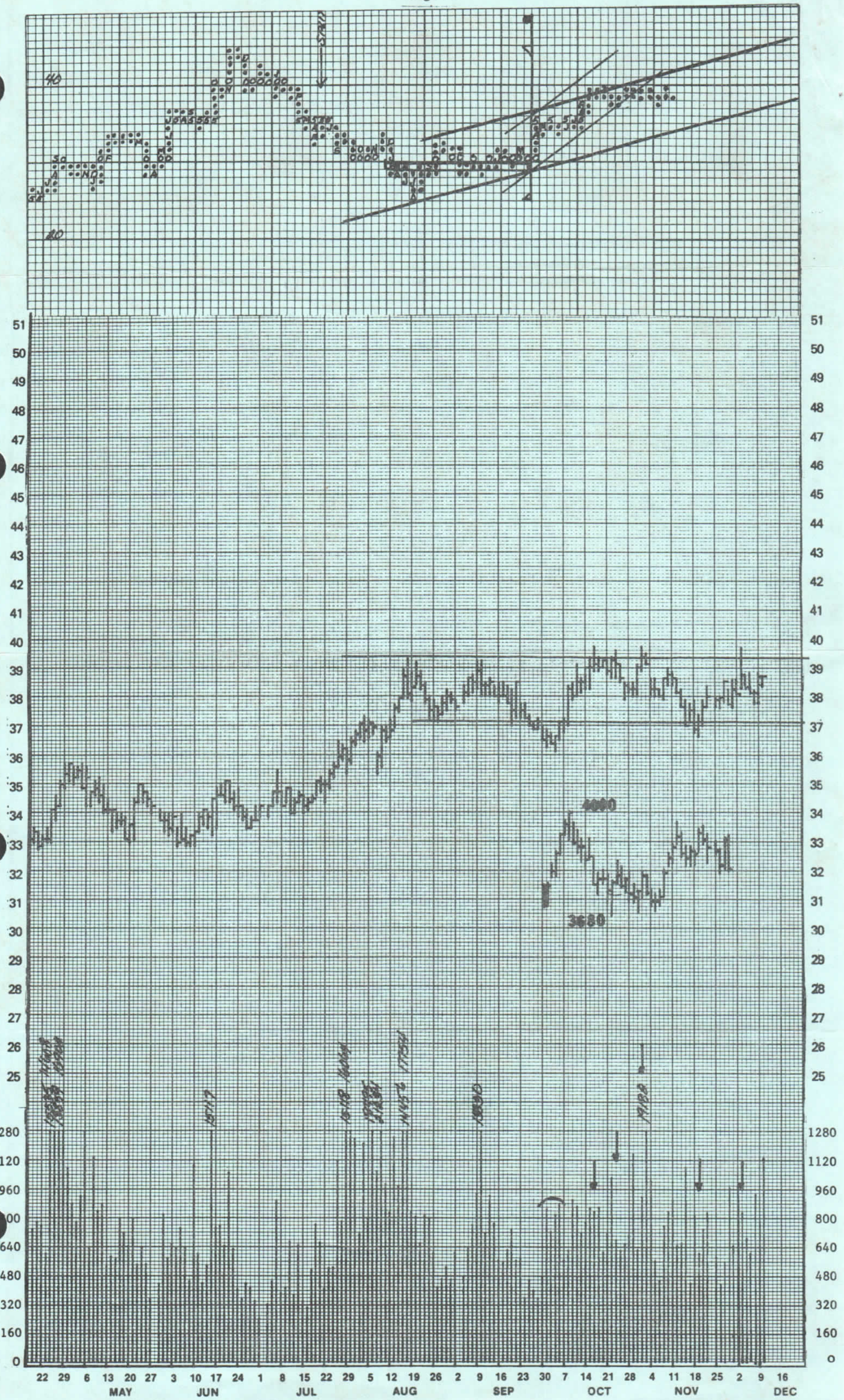
EXXON

OIL - INTEGRATED

(XON)
C.B.O.E. (p&c)



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CHARTING SERVICE

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GENERAL ELECTRIC (GE)

C.B.O.E. (p&c)

ELECTRICAL EQUIPMENT

SMI **CHARTING SERVICE**
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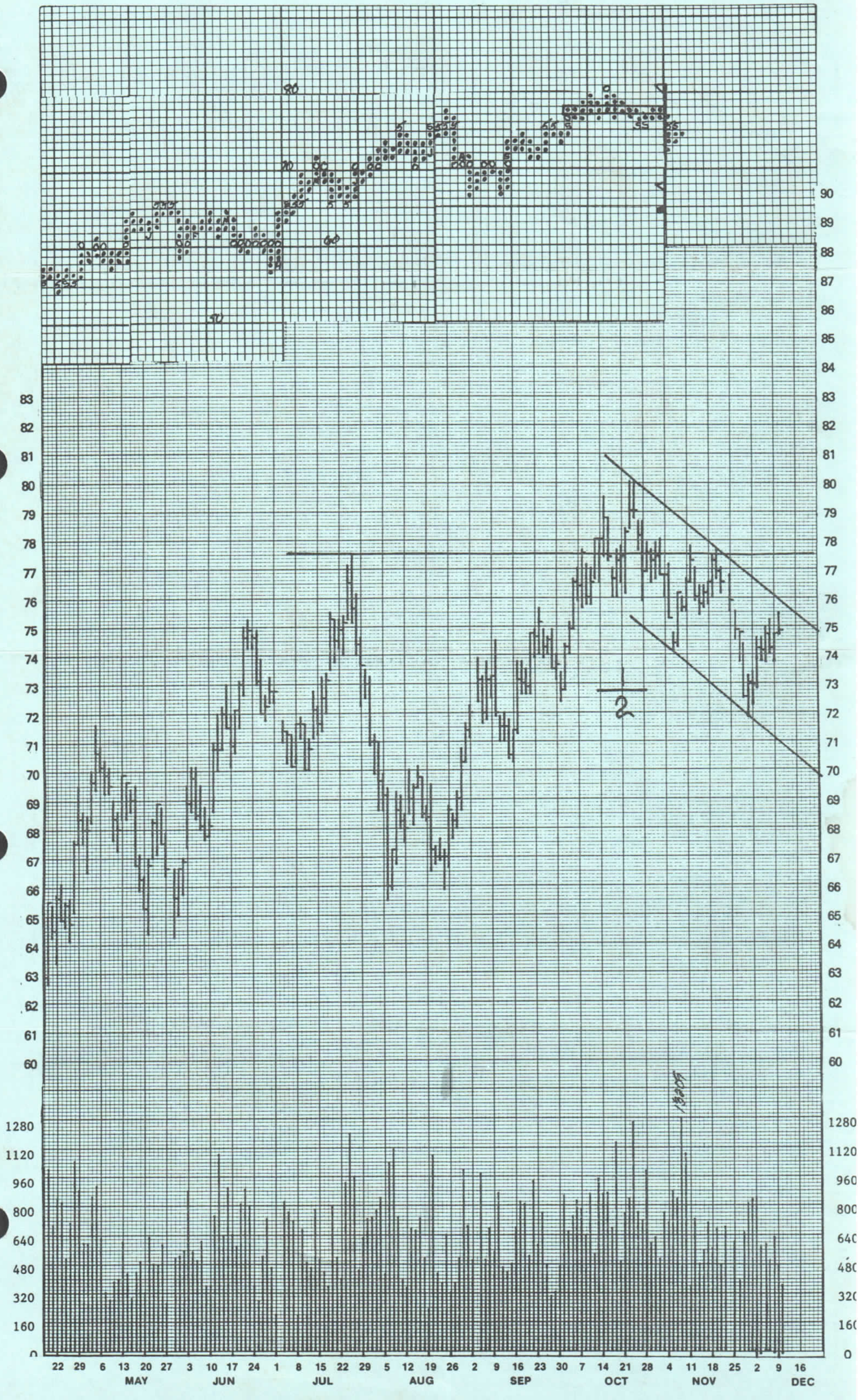
GENERAL MOTORS (GM)
AUTO
C.B.O.E. (p&c)



SMI **CHARTING SERVICE**
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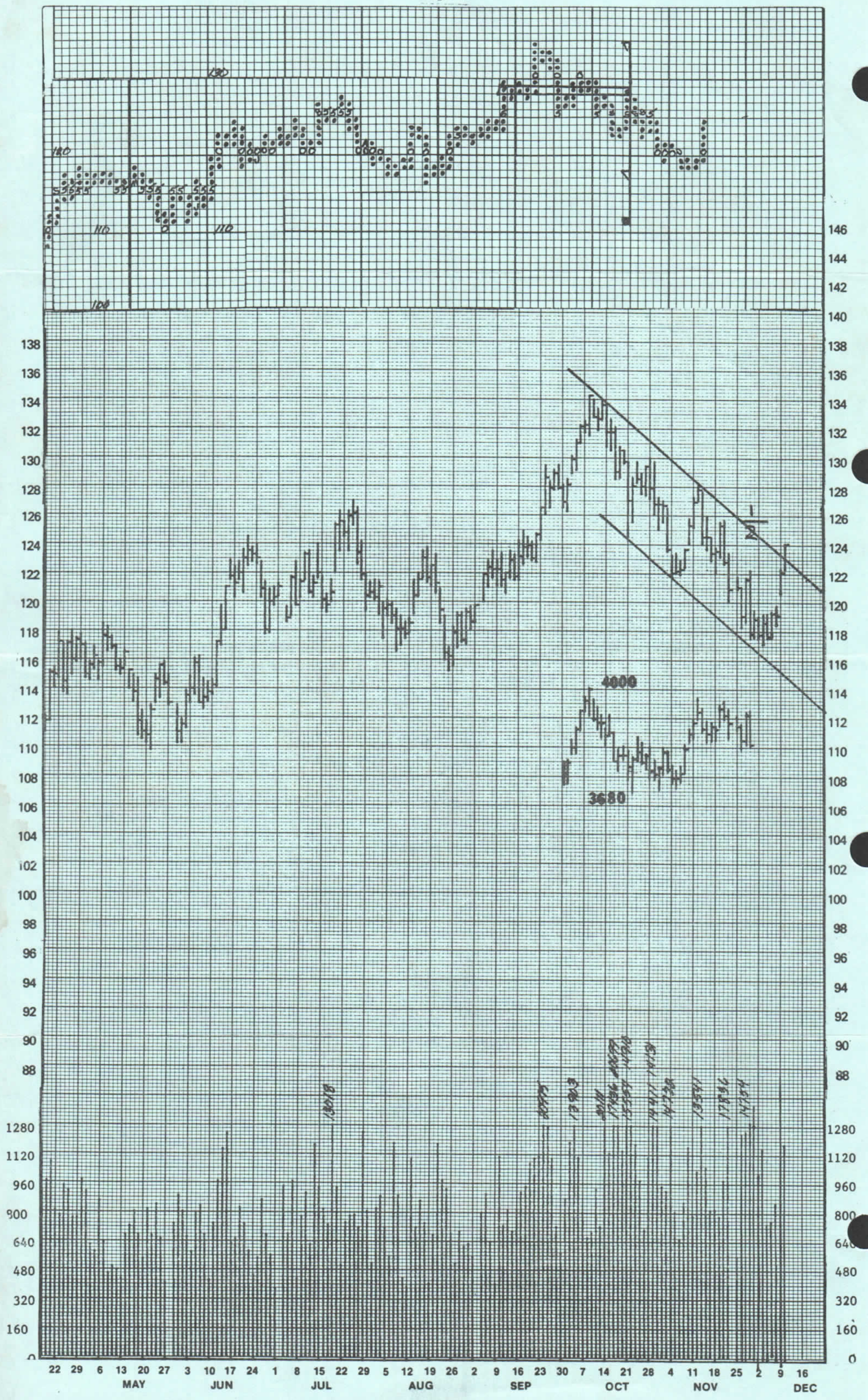
IBM
COMPUTERS

(IBM)
C.B.O.E. (p&c)



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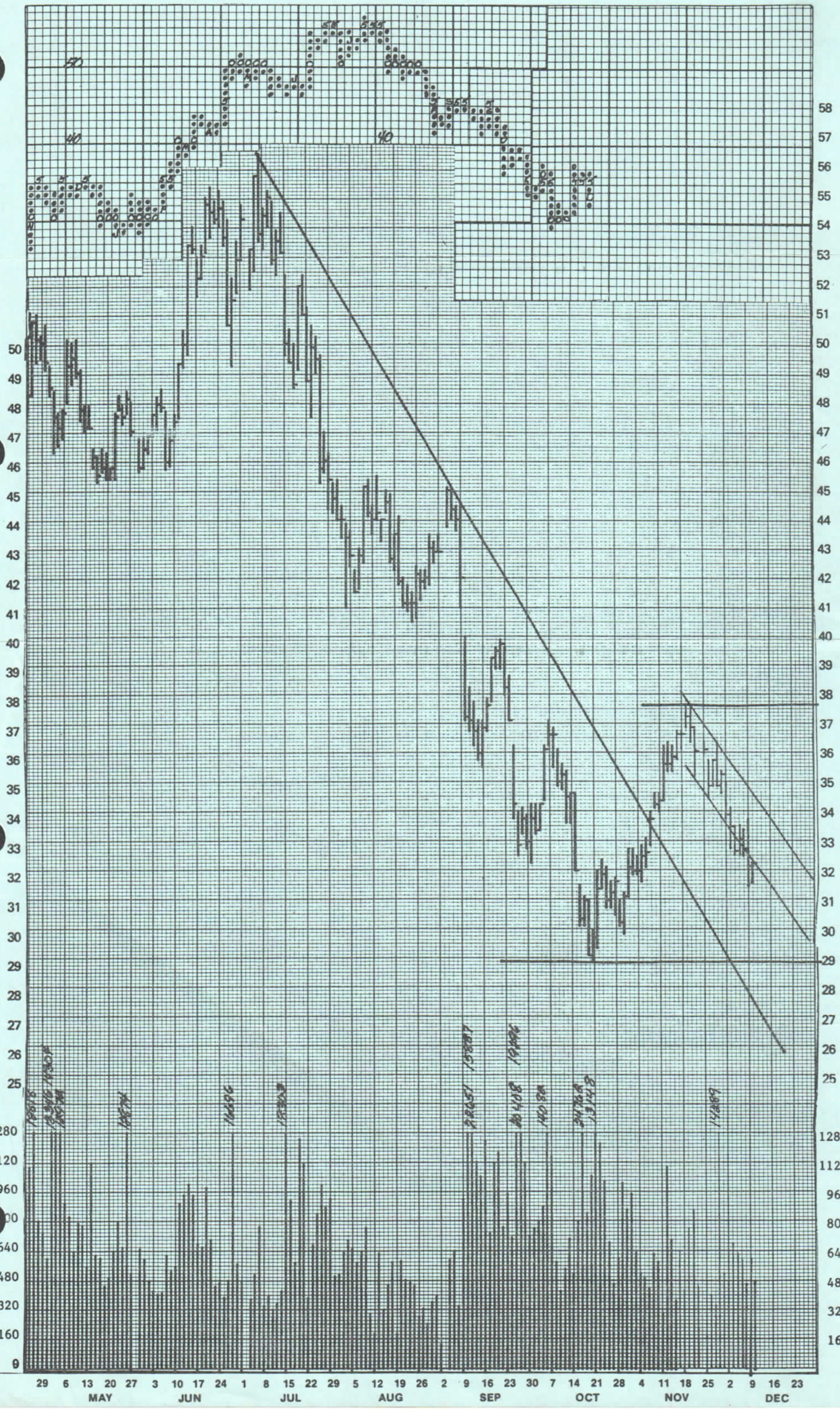
MERRILL LYNCH

BROKERAGE FIRMS

(MER)
A.S.E. (p&c)



CHARTING SERVICE

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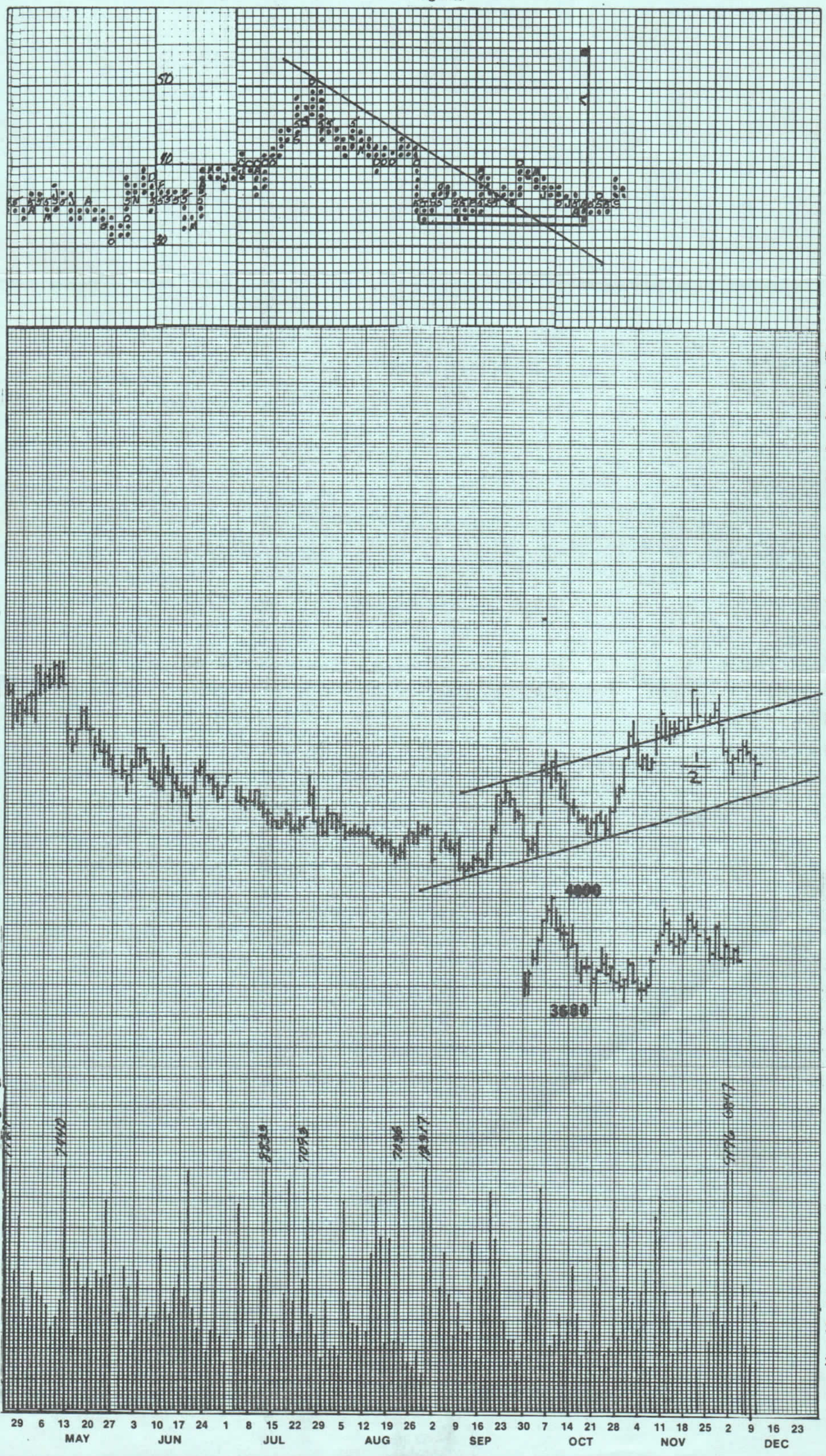
PEPSICO (PEP)

C.B.O.E. (p&c)

SOFT DRINKS



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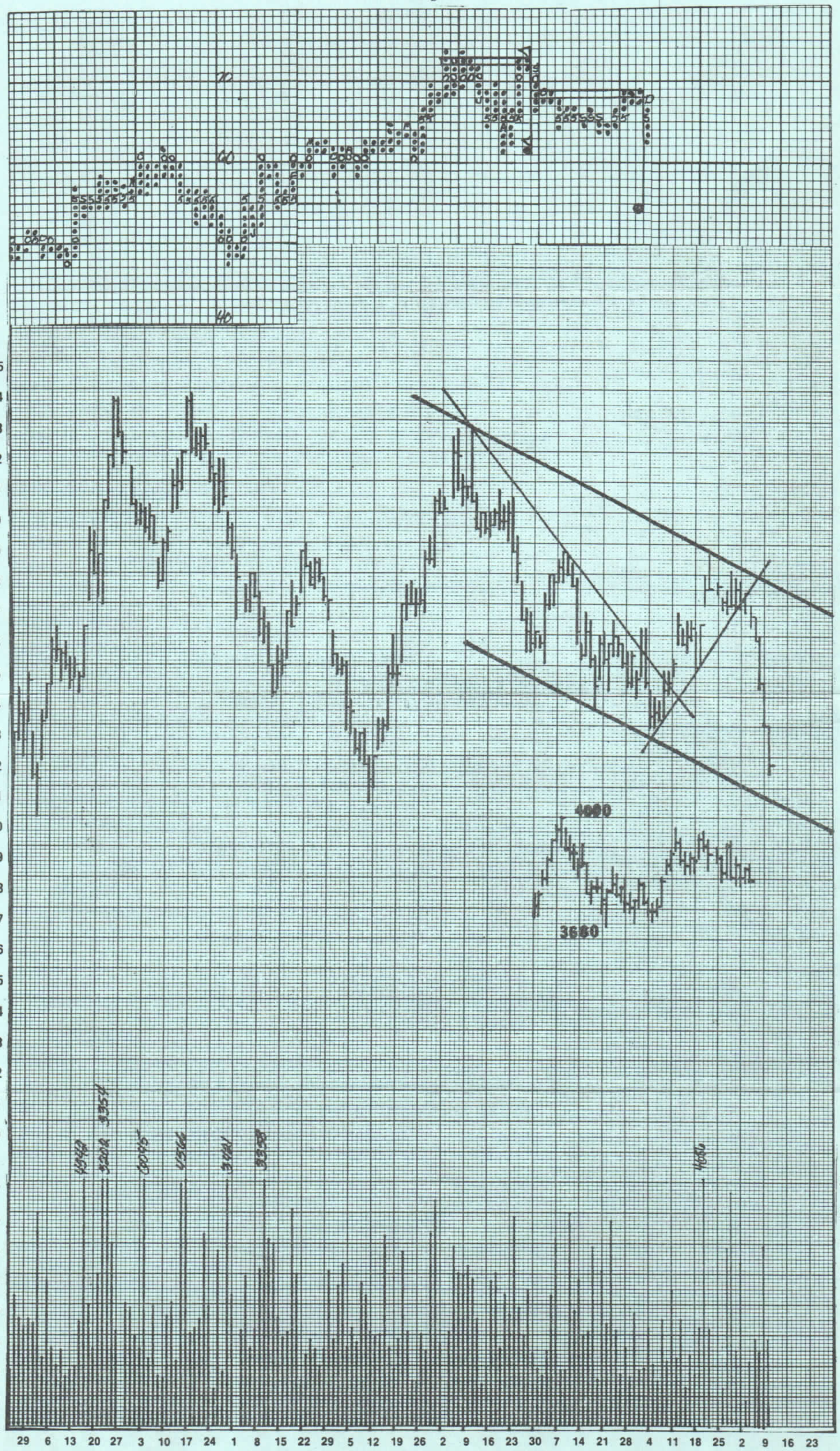
UNION CARBIDE (UK)
A.S.E. (p&c)

CHEMICALS



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U.A.L. INC. (UAL)
C.B.O.E. (p&c)
AIR TRANSPORT