

The Trend Letter

Tuesday, February 1, 1983

MARKET TRENDS

At this point, the trading range appears to have absolute control over the market with the only actions of any significance being played out in the short term time perspective. Since from a trading standpoint it is always best to go where the action is, an emphasis on the shorter term type of trading appears to be in order. However, this should not be taken as an excuse to ignore the intermediate and longer term trends. The current indecisiveness of the market may make longer term operations difficult or impossible, but this wandering is preparation for the next important move. Therefore it is wise to always have a feel for where the market is in its intermediate and longer term trends even if trading is being confined to the shorter term.

Until two weeks ago, the market was in a steeply inclined long term uptrend that could not be sustained long enough to truly qualify for the classification of long term. The recent reaction has proved this to be correct. There has now been a decisive break in the support of this trend, which came after the trading range that had formed was upthrust. The indication here is certainly one of an uptrend that has come to an end. Less certain, however, is the character of the next important development. It will be a correction to the uptrend, but will it be by way of the newly defined trading range or with a reaction back to the overbought line of the broader uptrend channel or perhaps lower? As of now, this question does not have a clear answer.

It appears as though the action last week was at least the beginning of an effort to test the earlier upthrust. If the volume fails to come in to lift the price through the resistance area, it is very likely that the test will hold. The follow through should then be some type of meaningful decline. Here, the natural inclination is to look for a major correction of the entire advance. A successfully tested upthrust does not suggest this, however. It only points out the probable direction. The potential magnitude is indicated by the figure chart.

The twenty-five point figure chart has enough built up potential to move the market a long way. In situations like this, it is very easy to get carried away and count too much. We should begin conservatively, which in this case means counting from the test of the upthrust, assuming it is successful, back to the upthrust itself. At this point, that amounts to 325 points. This is an interesting figure because if taken from the count line it puts the Wyckoff Wave in a potential spring position of the entire trading range. Of course, we need to see the spring actually develop before we make a judgment as to its likely result.

Although the weekly chart indicates a test of the earlier upthrusting is underway, it is the daily chart of the markets action that indicates whether the test is likely to hold. The signs are currently pointing in a direction that says it will hold. The factors involved in this conclusion are most evident from the action of Monday, January 31. The two that seem to stand out most clearly are the clearly overbought condition of the Technometer and the sharp reduction in volume. The impact of the overbought Technometer is obvious. The low volume is important because it is occurring at a place where it is clearly not bullish. The rally underway is either a test of the upthrust, or the beginning of a jump across the creek. In order for a jump across the creek to occur, volume needs to come in as the price passes through the area of resistance. This is not happening. Therefore a jump across the creek is unlikely, which leaves the test of the upthrust as the remaining possibility.

Another factor that warrants mention is the up count on the ten point figure chart. It appears to be at the 3190 level and has been completely consumed. The combination of no remaining upside potential and other factors that are barriers to upside progress makes for a convincing argument that the market will not be successful in this upside effort.

The short term view of the market as presented by the intraday adds nothing to contradict what has already been said. If anything, it tends to confirm the whole scenario. Notice that there has been a short term uptrend in progress for about a week. Also notice that the position in this trend is very near to being overbought, which warrants some type of correction. At this point, there is no count for a correction, but this is one of those cases where one is really not needed. The overbought condition is the cause and the anticipated correction will be the effect.

STOCK TRENDS

Some of the stocks in the Wyckoff Wave remain very strong. It just so happens that these include those stocks that have the largest multipliers. Therefore, a wide open break on the downside does not seem too likely unless the strength in these issues totally rotates somewhere immediately, which seems even less likely. Therefore, if the market does begin a reaction in the days ahead it probably will be more of a drifting reaction than one that plunges downward. Even so, there are stocks that can be looked at as short candidates for at least the short term.

Exxon is not one of the potential candidates for anything right now. The main problem here is that the stock is not normally a good short term vehicle. It usually moves too slow. Another critically important factor is the existence of an uptrend. To short a stock in a defined uptrend when the time frame of that uptrend appears to be the same as the anticipated short position represents a violation of one of the most basic Wyckoff concepts. Exxon is undoubtedly preparing for a major move, but there is no indication that the move is about to begin. Therefore, no action is warranted here.

General Electric, suggested as a possible short term long candidate when it was in a spring position, is one of the strong stocks in the Wave that should keep it from reacting with too much severity. Often there is a tendency

to view a stock like this as a prime candidate for a short term correction in an overbought market. While it is true that it is vulnerable to some type of correction, the relative strength present suggests the likelihood of a mild correction. Therefore, GE should not be considered for the short side at this time.

There may be an important change underway in General Motors. It appears as though the long upward march is beginning to give way to a trading range. The recent break in the price was the sharpest experienced since the stock left the forty-level. More importantly, however, it damaged the support line. The rally now underway is a testing of the prior high. If it holds, the trading range will be confirmed. None of this serves as evidence that a short position is in order, but it is reason for those who might be long for the intermediate term to reevaluate their position.

I.B.M. is another strong stock in the Wave, but its strength does appear to be vulnerable. The problem here is the character of the current rally. It is occurring on lower volume and seems to have lost what power it may have had. This makes it look very much like a test to the previous upthrust. The reason this stock cannot be considered a prime short candidate is the continuation of the uptrend. Shorting a stock in a defined uptrend is a risky proposition.

From a longer term perspective, Merrill Lynch is a very strong stock. However, since the current opportunities in the market do not appear to be long term, this strength is not much of a factor. Intermediate and short term there are some serious problems in this stock, which tend to make it a good candidate for the short side. Primary among these is the well defined intermediate down trend. Since it has already been stated here several times that trading against a trend is a mistake, the existence of the down trend makes this an intermediate short side candidate. In addition to the trend, there is also a significant build up of count to be consumed.

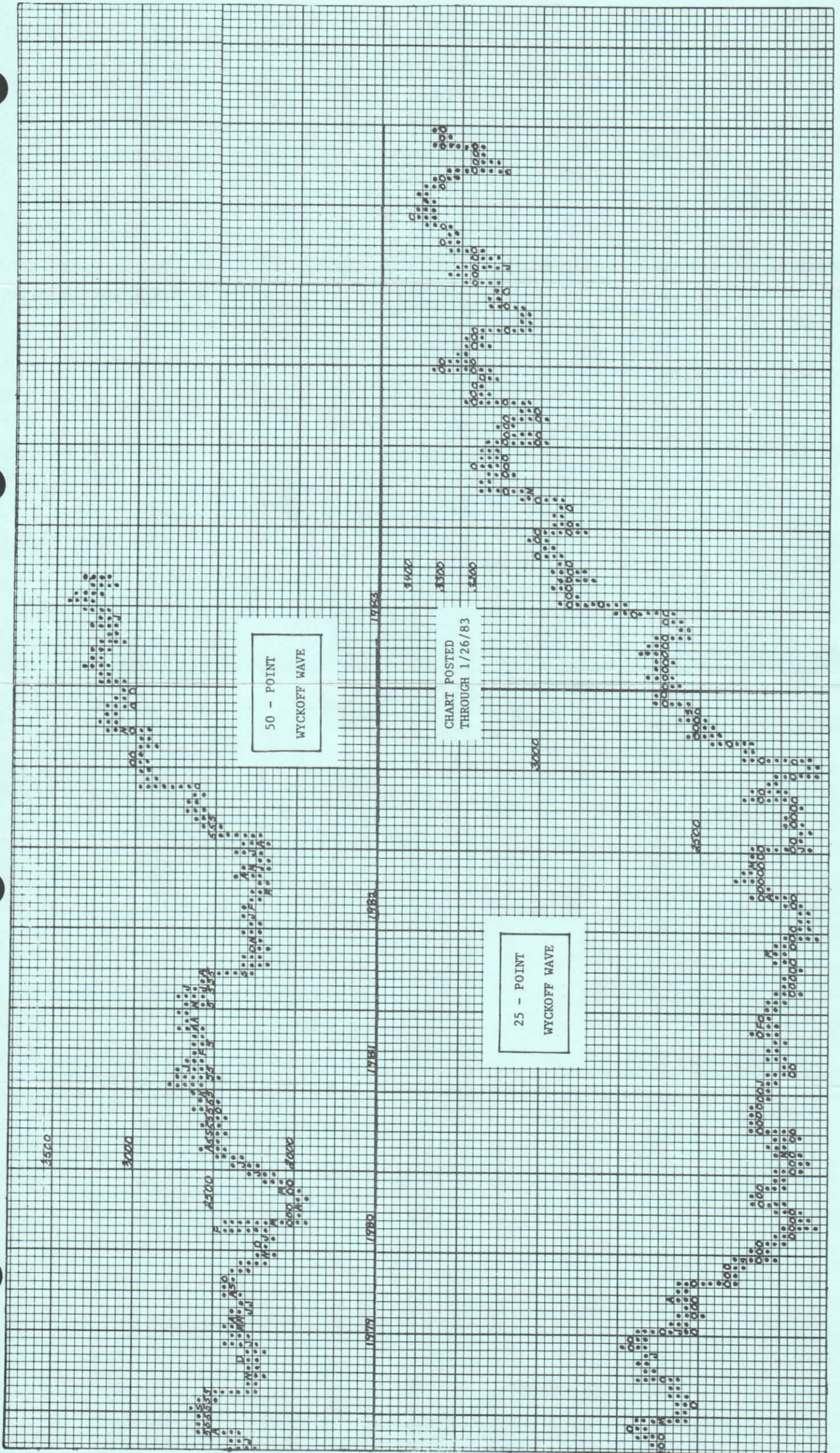
From the short term perspective, Merrill's problem is the sixty-four level. The last three rally efforts have all been stopped in the 64 area. This helps create an important resistance level, which should hold in the face of an overbought market. Therefore, MER must be considered as a good short term short candidate as well for perhaps as much as a move back down to the bottom of the trend channel.

One of our basic rules about short selling is to sell relative weakness. That being the case, Pepsico has to be considered a good short candidate. It does not have intermediate downside potential, but can be forced farther down into its currently indicated downside objective. This is based on its position in the down trend channel, which is ideal for taking short positions especially in an overbought market.

The trading range in UAL has a secondary resistance level similar to the one in Merrill Lynch. In the case of UAL, the resistance is at thirty-four, which is being upthrust at the moment. With the market overbought, this upthrust position presents itself as a good place to initiate a short position. The figure chart appears to indicate a ten point decline. However, support could come in to stop a decline at either thirty or twenty-eight.

Union Carbide does not have the reputation of being a volatile stock, but since November it has made two moves of a dozen points. A stock that moves this much should be a good trading stock. The last important rally failed to make a new high, which should mean that there is heavy resistance between sixty and sixty-one. The most recent reaction has held in the vicinity of the halfway point, which is positive but there is a problem as well. If the pull back to fifty-four is positive, it should be the beginning of a breakout into new high ground. The stock has started to move up, but the volume has started to move down. This is not positive. The decreasing volume on a rally in an overbought market makes this a candidate for the short side.

The S & P future, is paralleling the action of the Wyckoff Wave very closely. Since the Wave appears as though it should be shorted, the same is true of the S & P. We can see that there was a clear upthrusting action that is now being tested after a drop back to about the middle of the trading range on sustained volume. This is almost a perfect situation. The only thing lacking is declining volume on the test. The volume is somewhat lower than it was on the upthrust itself, which may be enough, but it would probably be a good idea to let the price bump its head against the resistance level for a few days before actually going short.

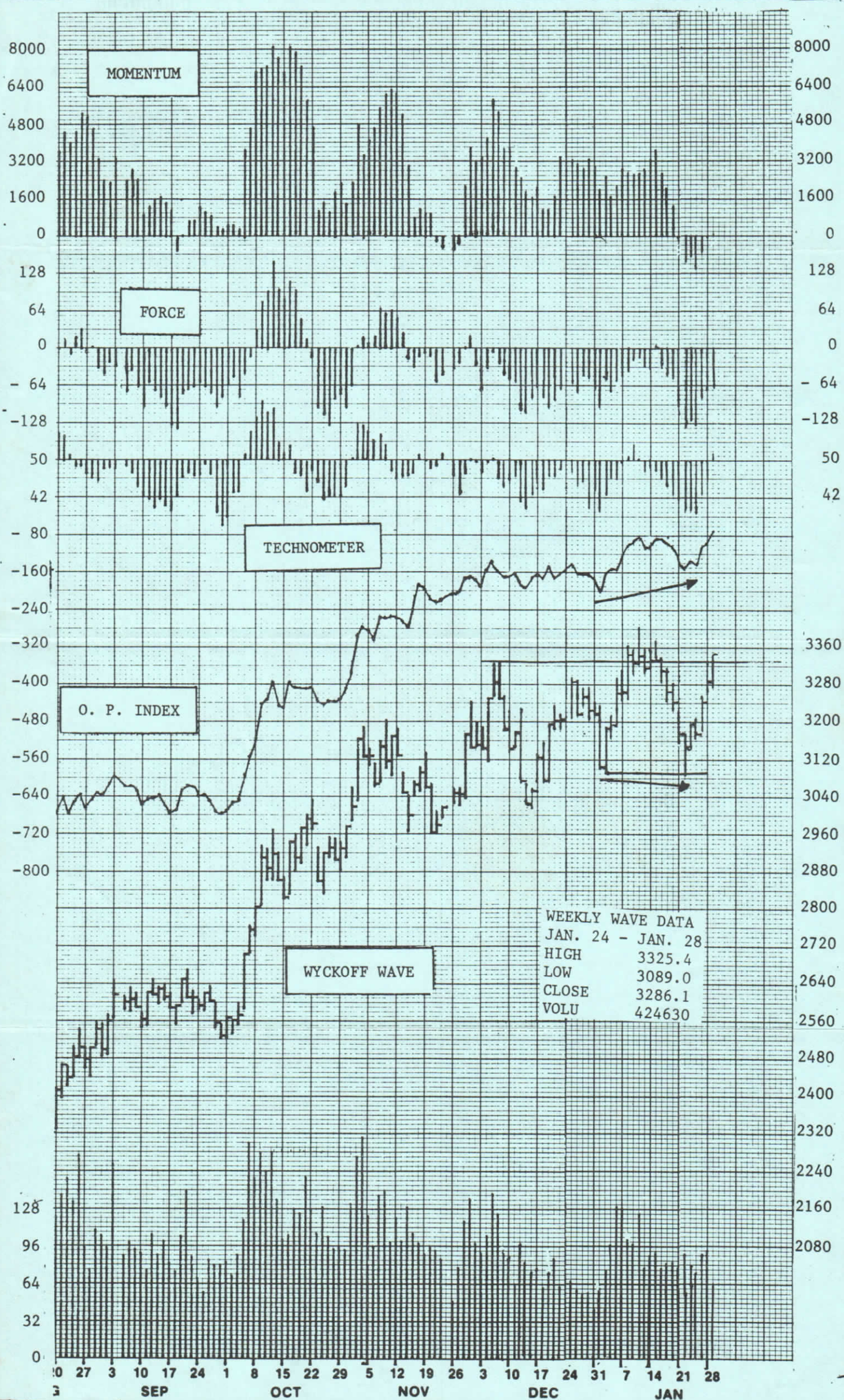




The Pulse of the Market

STOCK MARKET INSTITUTE

FRIDAY JANUARY 28, 1983



10 - POINT MODIFIED
WYCKOFF WAVE

CHART POSTED
THROUGH 1/26/83

XY 7

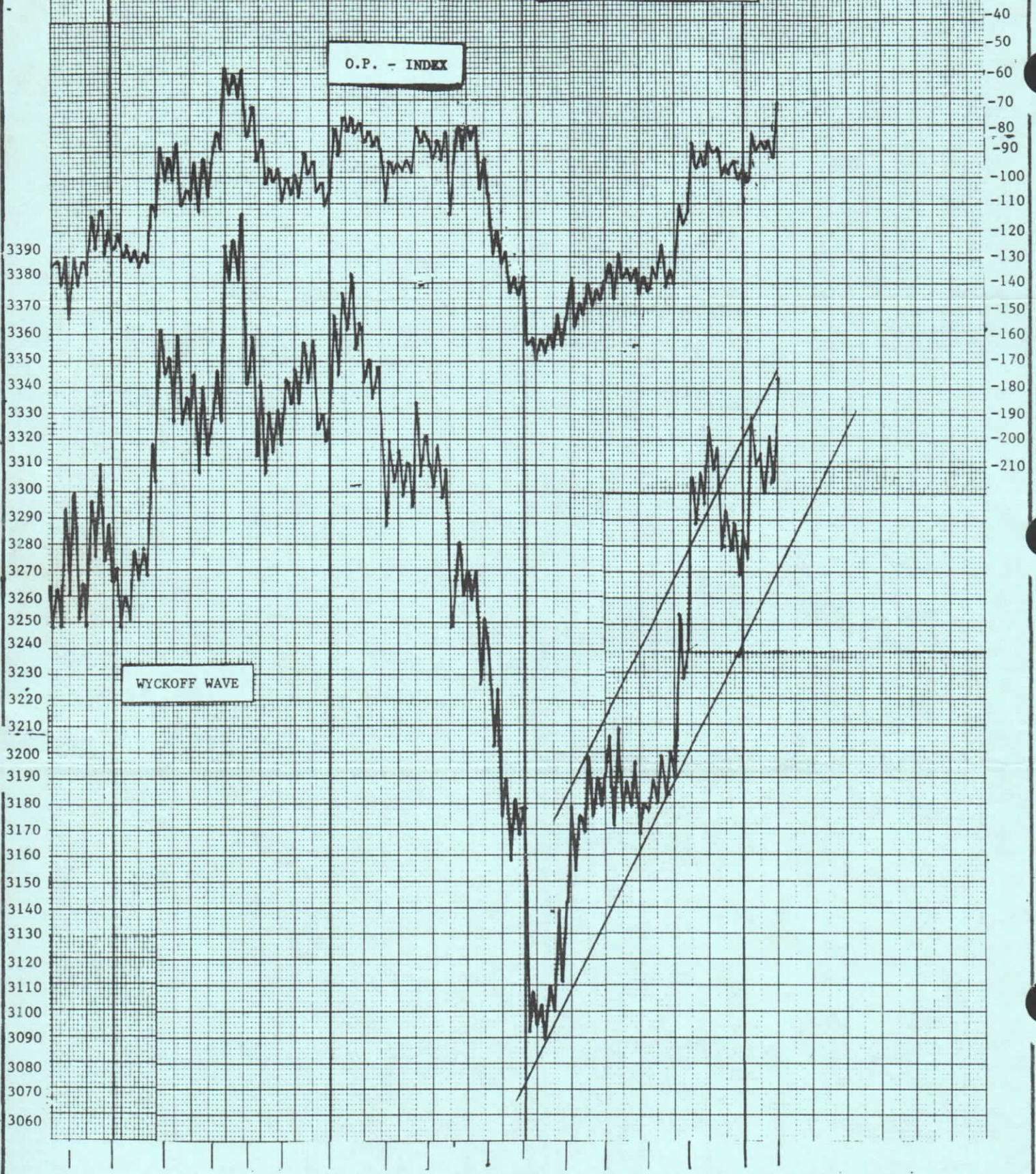
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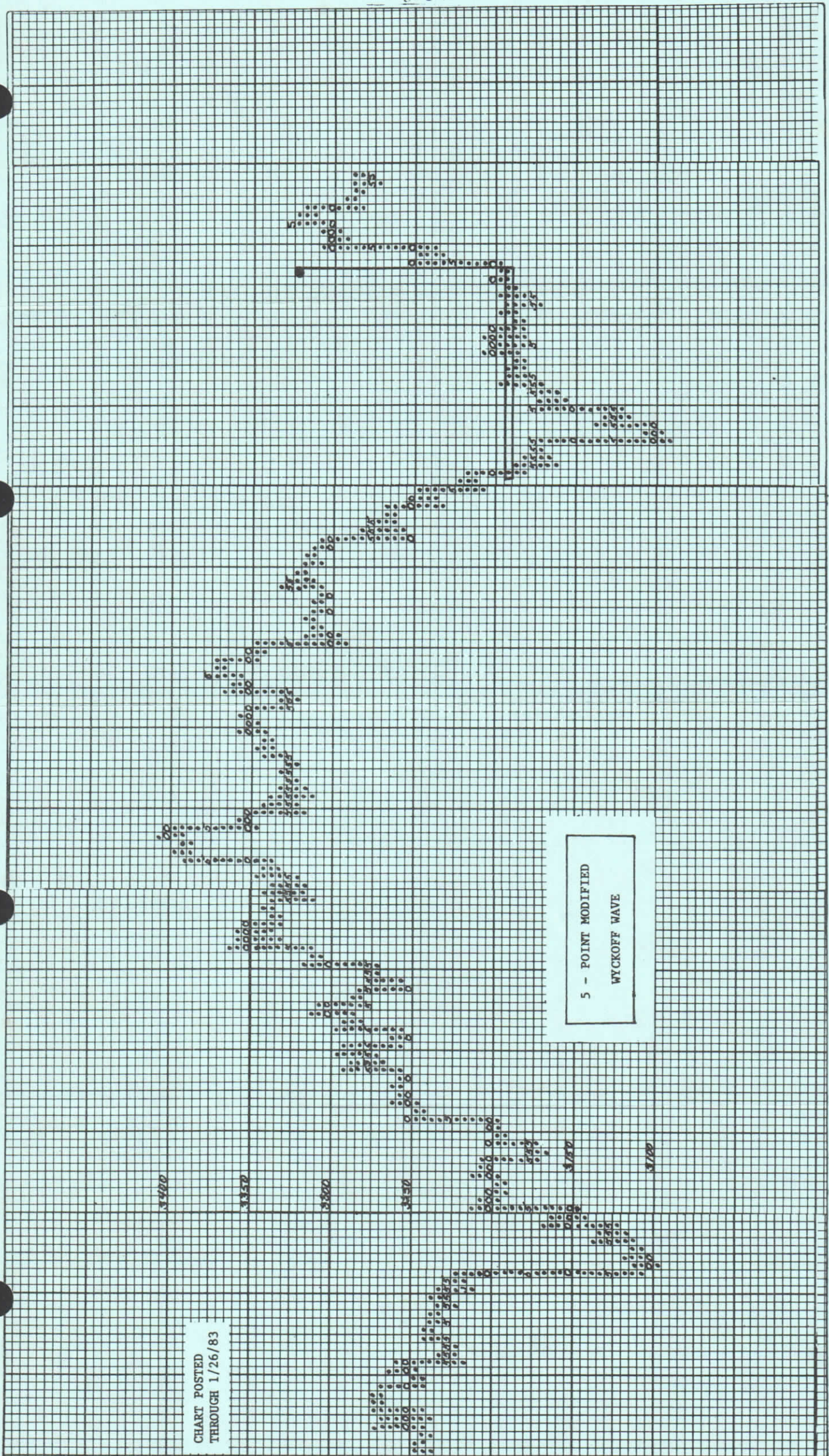
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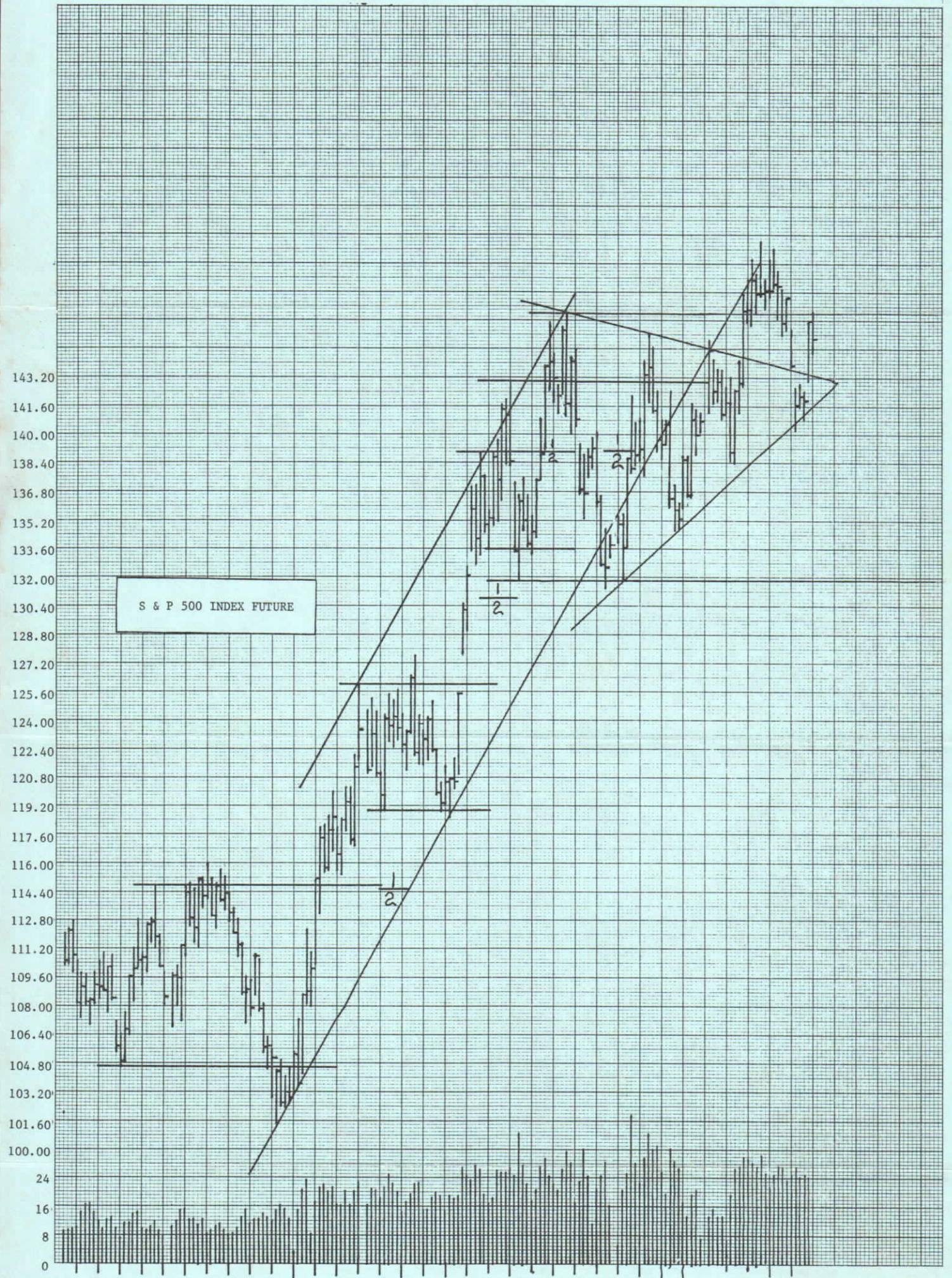
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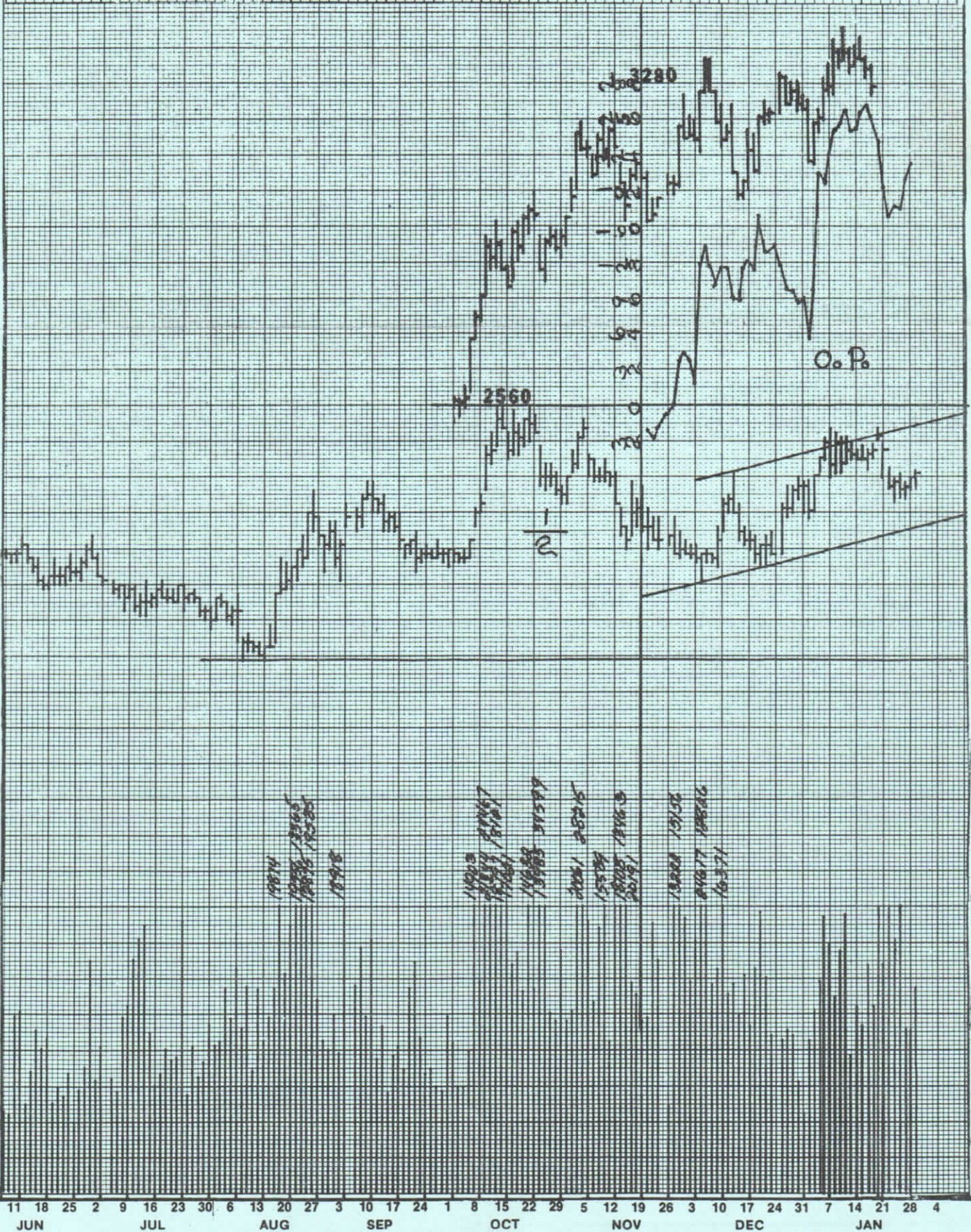
O.P. - INDEX

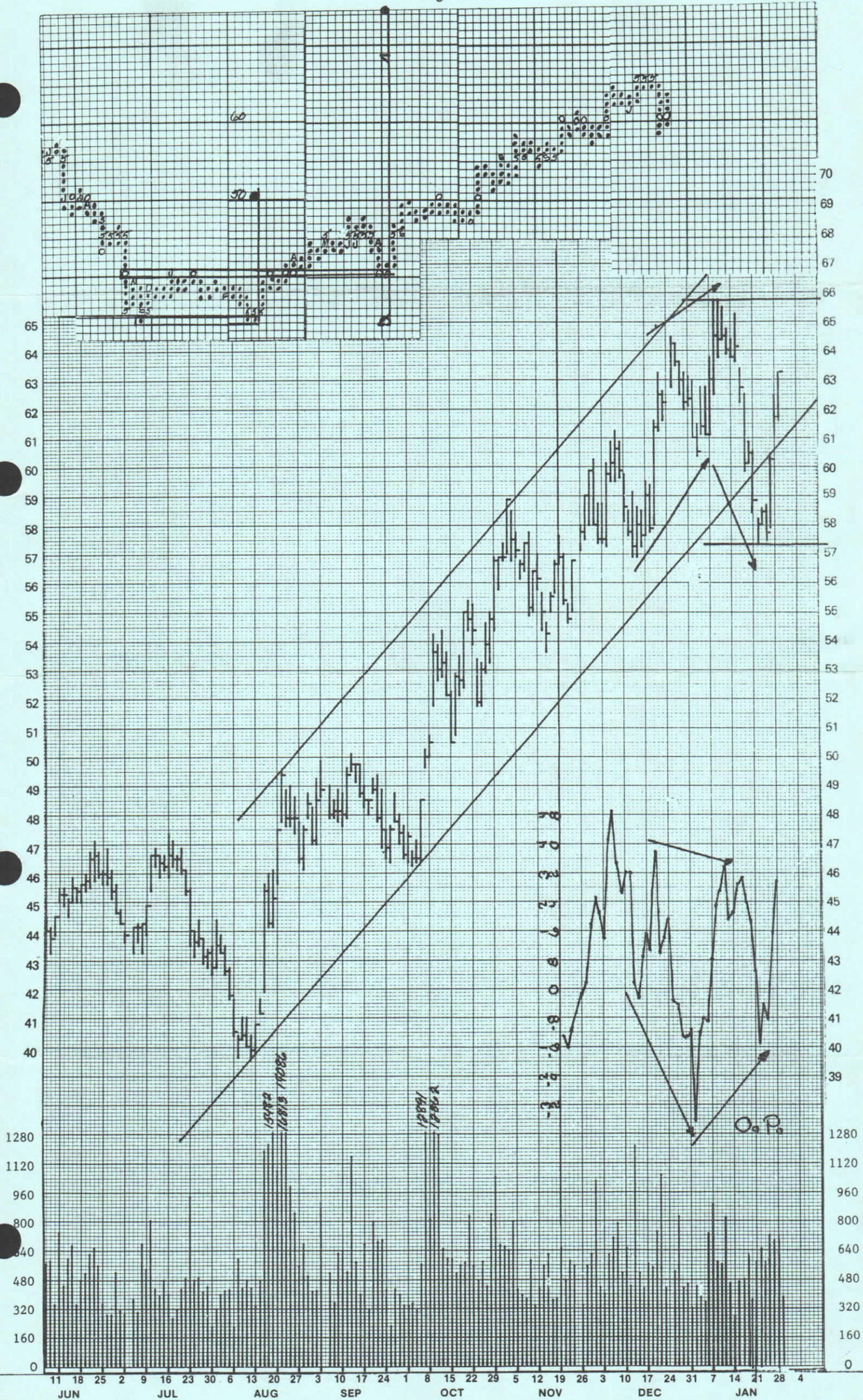
WYCKOFF WAVE

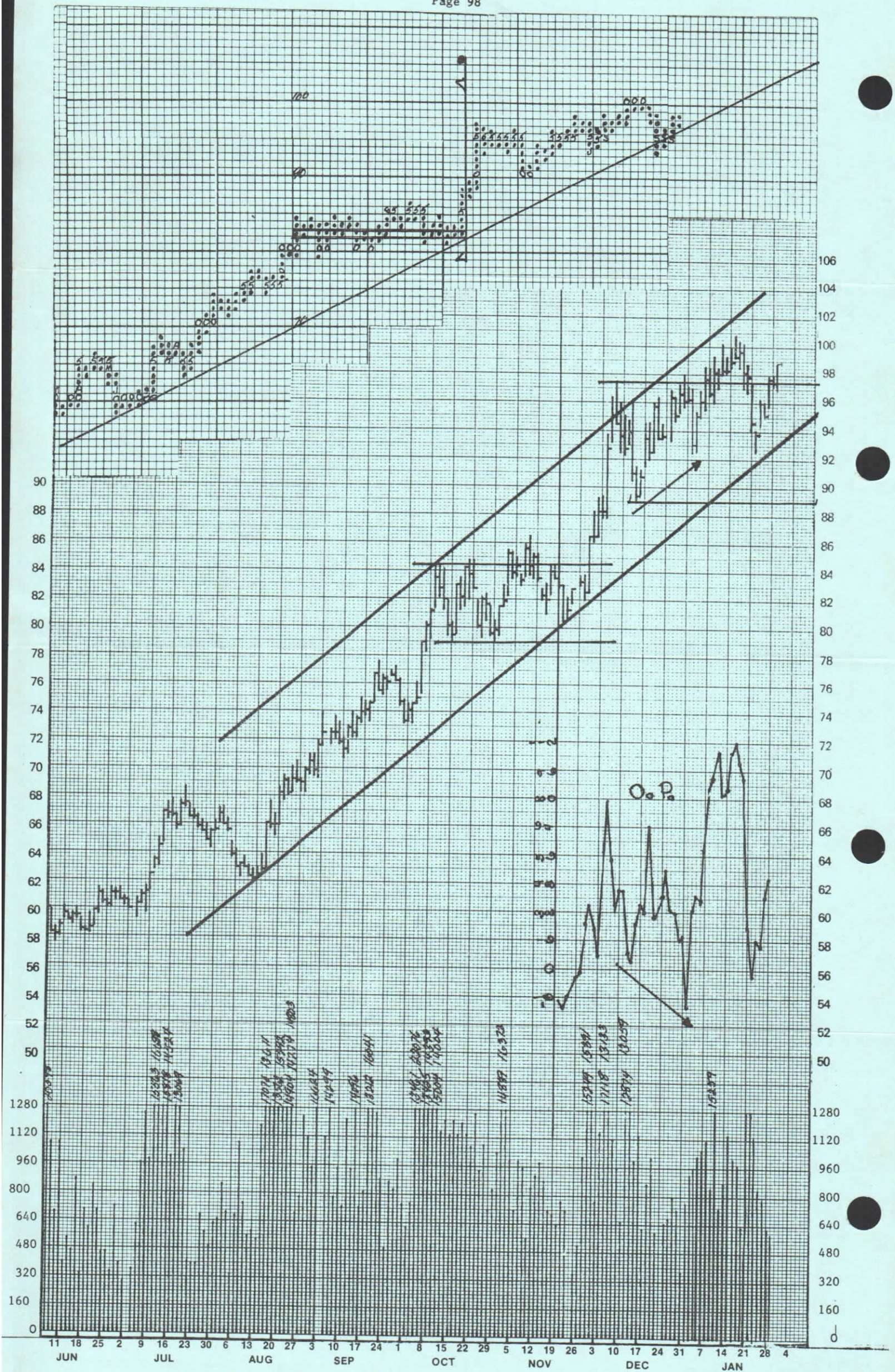




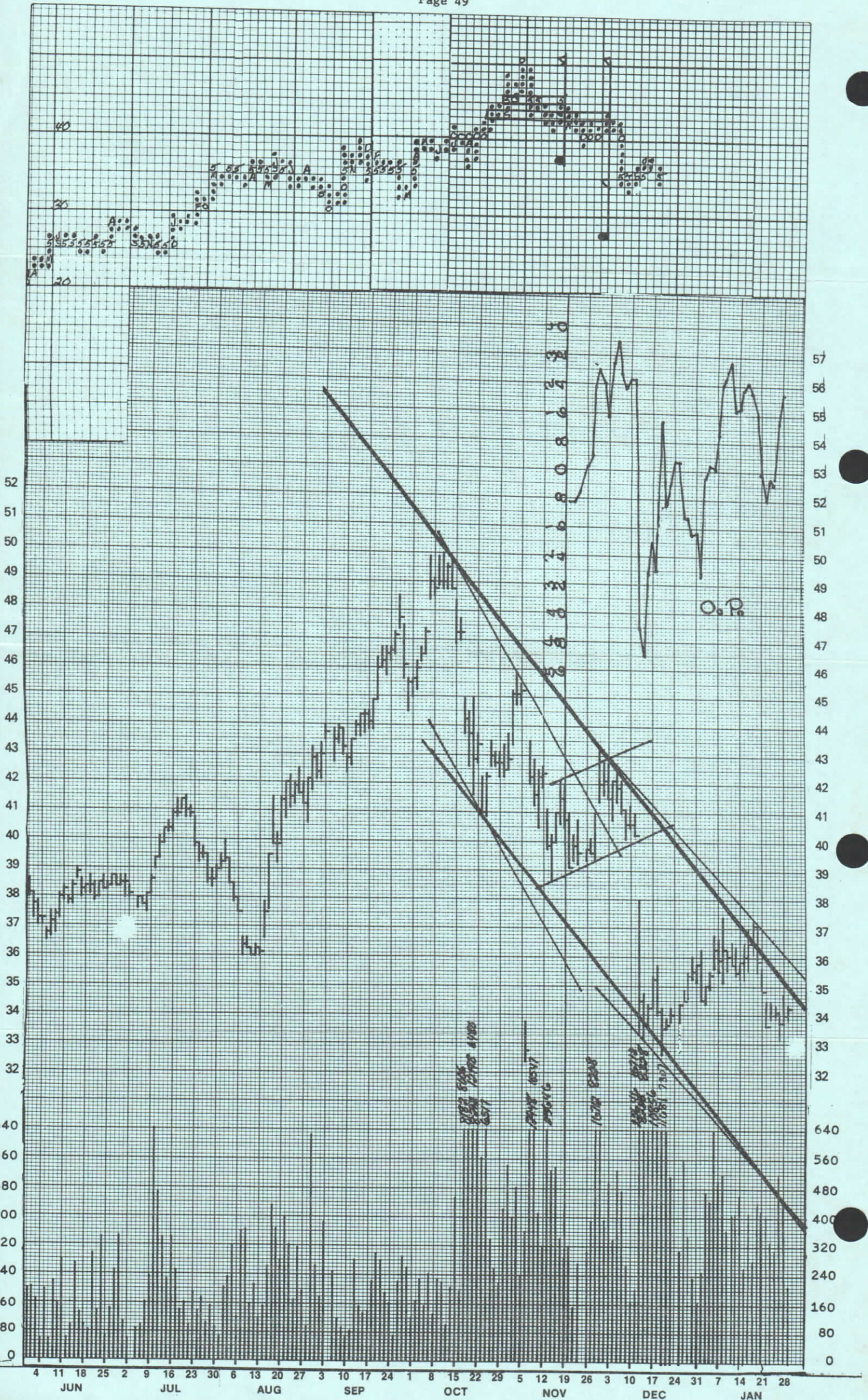


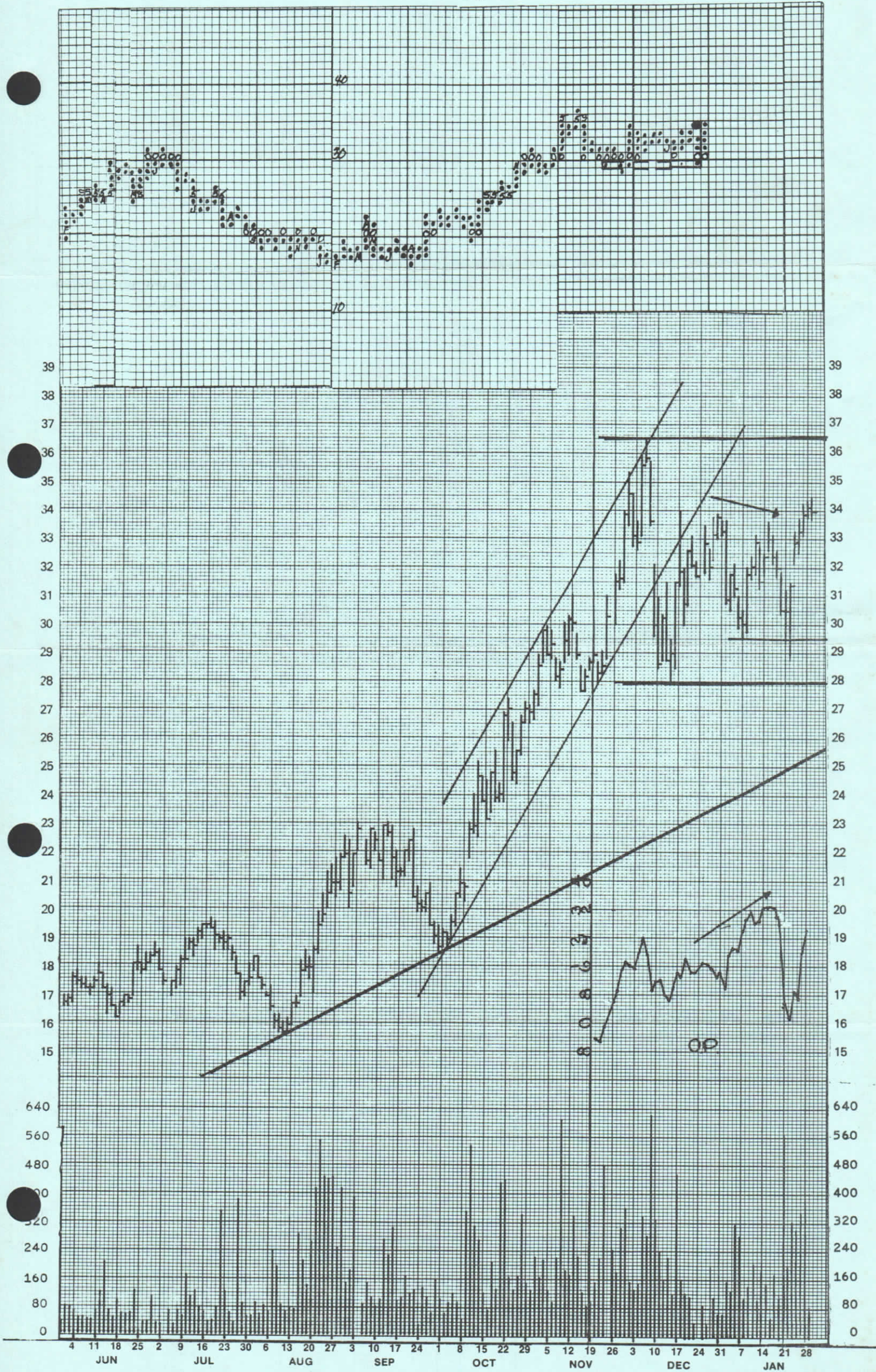








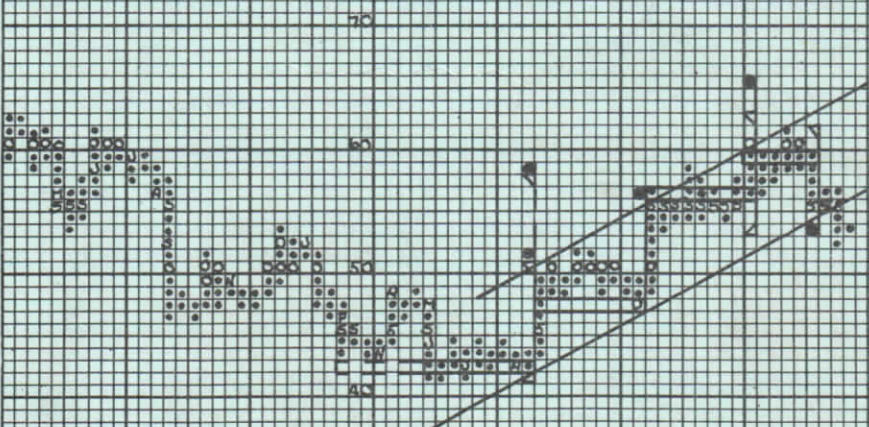


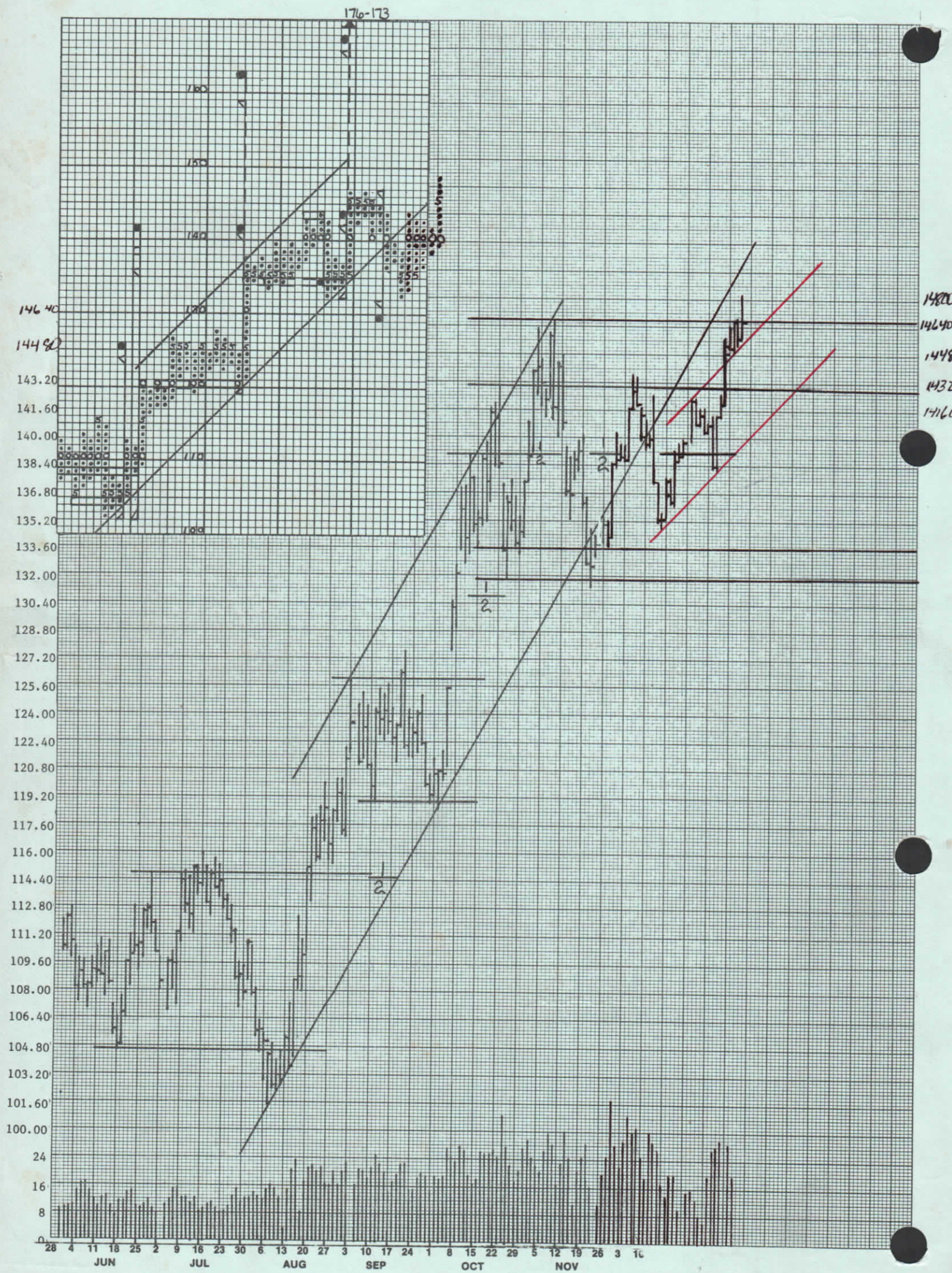


UAL, INC. (UAL)



UNION CARBIDE (UK)





HYPOTHETICAL ACCOUNT

Investment Funds		
	Initial funds	40,000.00
Nov. 18	Sell short 50 shares of IBM at 83.7. Stop 90.7. Objective 65.	4,193.75
	Commission	(61.63)
	Balance	35,744.62
Nov. 26	Sell short 50 shares of IBM at 82.7. Stop 90.7. Objective 65.	4143.75
	Commission	(60.86)
Dec. 6	Cover 100 shares IBM at 90.7.	(9087.50)
	Stopped out Commission	(84.26)
	Balance	39,043.25
Speculative Funds		
	Initial funds	10,000.00
Oct. 28	Buy 20 XON Jan. 30 puts at 1 ³ .	(2750.00)
	Commission	(65.00)
	Close out position if stock trades above 31 ¹ . Anticipated Objective 27 ⁴ .	
	Balance	7185.00
Nov. 3	Sell 20 XON Jan. 30 puts at 1 ⁰ .	2,000.00
	Stopped out Commission	(65.00)
	Balance	9,120.00

No matter how detailed we make these commentaries, it is unlikely that they can be all things to all people. You may have questions that go unanswered or an alternate opinion that you would like to have considered. Perhaps you are interested in a stock that is in the SMI "200" but that is not covered on a regular basis. We would like to provide additional assistance on these matters. This will be provided Monday through Friday between 8 AM and 9 AM (MST) and then again between 4PM and 5PM (MST) except Wednesday. If your question is about a stock not regularly followed in the Trend Letter, let us know which one it is in the morning and we will have an opinion for you that afternoon. This will give us time to take a close look at the situation. Of course you may call at any time, but these hours are going to be reserved for this purpose.



INDEX CHARTS

STOCK MARKET INSTITUTE, INC.

JANUARY 26, 1983.

SMI/WYCKOFF INDEX CHARTS

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

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

1/2-Point Time Index

Trend Barometer/O-P

Intra-Day Wave Chart

5-Point Modified Wyckoff Wave

Group Indexes

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.

