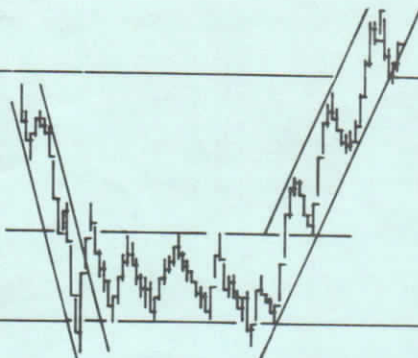




The Trend Letter

THE TREND LETTER

Friday, March 21, 1986

Market Trends

The long term and intermediate term trends of the market are obviously still pointed in an upward direction. Uptrends should only be played from the long side or from the neutral side lines. There is a point when the action in an uptrend becomes so poor that selective short positions can be justified in anticipation that the trend is about to be broken. However, this market is not at that point yet. Therefore, anyone attempting to pick the top is actually helping prolong the bull market. As long as the trend is up and potential remains, price is unimportant. If the position is favorable, the only thing to do is buy. If it is not, look for things to buy later. Any other approach to the current market is likely to prove unproductive.

The three most important words mentioned above are trend, potential and position. It is usually best to approach them in that order. Since it is obvious that the trend is up, attention can immediately be shifted to the potential. The market does not have any obvious long term potential remaining from a lower base, which is unfortunate. It does, however, have accumulated potential at the current levels. The ten, twenty-five and fifty point figure charts point to a range of 5200 to 5450 as being the next stopping place and possibly the end of the bull market. Although this objective is as much as four hundred points higher, it should be remembered that four hundred points now is not what it was at the beginning of the bull market. It is a relatively small percentage. Therefore, new long positions should be approached cautiously, but not necessarily avoided. In order to realize its four hundred point potential, many stocks will move a little. Some will not move at all. However, a few will move quite a bit. These are the ones that should be sought out.

The trend and potential of the market are saying buy, but its current positions is saying wait. Tuesday's action put the Wyckoff Wave in a potential upthrust position. Wednesday's inability to follow through on the upside tends to confirm this position. The market should now respond. The normal negative response is a reaction to at least the middle of the trading range on sustained or increased volume. If this occurs there may be something to worry about. However, if support is met in the top half of the range on reduced volume, get ready for another blast off to higher levels. This will be especially true if the action is accompanied by the development of an oversold condition.

If the response to the upthrust is negative, attention will shift to the character of the test. If it comes on lower volume and fails at or below the resistance level a very selective short position will be justified. This will be that one time in an uptrend when a short position may be considered. It should only be taken in a stock that has been a poor performer on the upside and only with a conservative stop.

The scenario just outlined is very similar to what happened back in January. At that time the upthrust was confirmed by a successful test. The market started to move toward the bottom of the range. However, instead of falling through the ice it went into a spring position. The same thing could happen this time. Therefore, there is a need to remain aware of it. If it does, close out short positions or increase their protection. There is no guarantee that the response to such a spring position will be good or that a test will hold. However, if it does fail, the opportunities on the short side following a fall through the ice will be so numerous that closing out a dangerous early short position will not matter.

If the possibilities facing the market seem more involved than usual it is because they are. This is normal in a maturing bull market. At this point there are so many players with so many different axes to grind that simplicity is a luxury that will not be available to the individual who wants to continue participating.

Although the possibilities are more involved, they are not beyond comprehension. If need be write them out in detail. Then, follow the markets action closely and eliminate the possibilities as the action unfolds. At some point the action will indicate on which possibility to base a trade. Chances are you will be right and realize a profit. However, remember that the market is *always* right. When it says you're wrong, you are wrong. Anyone who lets his ego get in the way of realizing this fact and responding accordingly will pay an unnecessarily high price. Just being aware of this trap is the best defense against falling in it.

Index Trends

The index trader should be especially careful. At present, all four are in positions that range from nearly overbought to extremely overbought. Therefore, none seems attractive for a new long position at this time due to the vulnerability to a reaction back to the bottom of the uptrend channel.

As the indexes begin to correct their overbought positions, watch for attempts to turn the former resistance provided by the overbought lines on the way up into support on the way down. This is relatively rare, but is most likely in a very strong market like the one currently in progress. The meeting of support should be accompanied by reduced volume and an oversold condition. Given this set of circumstances, a long position will be justified with a stop just below the former overbought line.

Stock Trends

During the past two months one could have used the dart board approach to stock selection and likely have come out ahead. The overwhelming majority of stocks have experienced advances with a portion of these clearly belonging to the spectacular category. The next four hundred points anticipated for the Wyckoff Wave probably will not be accomplished with such broad based gains. Therefore, more care should be put into stock selection.

One stock that should be considered for selection is Dow Chemical. Throughout the entire advance from last September this stock has been one of the best candidates for a long position. For the next phase of the advance it may well prove to be the best candidate.

In February, Dow corrected a seriously overbought position and met support at the former overbought line. This was an indication of growing strength and provided justification for defining a more accelerated uptrend. More recently, the stock appears to have jumped a creek in the fifty-one area. This makes it a likely candidate for a back up, which if successful will provide yet another buying opportunity. With an objective of 60 already in place, renewed upside progress from a back up could result in a profit of 15 to 20 percent. Although this would be only a modest return on a trade in the stock itself, it would make for a huge gain on an option position.

The figure chart of Exxon has an objective of 68 indicated on it. The reaching of this depends on the stock's ability to jump the creek. At the moment, it is in a potential upthrust position which makes a jump appear unlikely. The response to this position should be watched closely, however. If the price only drifts back to the bottom of the short term uptrend channel on relatively low volume, it will be responding in a way that makes a positive statement. It should then be in a good position to accomplish a jump on the next rally. If the response to the upthrust is normally negative, watch out. It likely will be signaling the beginning of a twenty point decline.

General Electric has a well defined intermediate uptrend channel and is not in an overbought position. It does not have much else, however. Its potential has been used up and it performed poorly in the recent run up in the general market. Therefore, it is not a good candidate for a long position.

General Motors has just entered an intermediate overbought position. The narrow spread on lower volume on Wednesday indicates a withdrawal of demand. Therefore, a return to the uptrend channel appears likely. A reaction back to the 81 area could be seen as a back up to the edge of a creek and provide a buying opportunity. The conservative upside objective of 93 would make a buy at eighty-one a marginal stock trade. If the stock can get through the resistance level at 85 and still looks good at 93, then look for an ultimate objective of 106 to 110.

The major uncertainty in the Wave remains, as it has been for some time, I.B.M. Since January, the stock has sprung itself into an upthrust and then upthrusted itself back into a spring. Its current action can be viewed as a test of the earlier upthrust or a response to the more recent spring. As a test it suggests relative weakness, calling for a fall through the ice. As a response it suggests strength, indicating the likelihood of a successful test. Overall the picture is one of confusion and best left alone. When the price falls through the ice or makes a successful test of the spring, it will be doing something clear cut and can be approached with greater confidence.

Merrill Lynch has gotten interesting again as a candidate for a long position. A spring position in January was followed by a test in February. The test also reconfirmed the intermediate demand line. After this a rally to the top of the trading range on increased volume appears to qualify as a sign of strength. Therefore, the recent halfway correction on reduced volume can be seen as an LPS, which means the stock should be ready to give the upside another try. It has the potential for a move to the 50 to 53 area, which should make it of interest to both short term and intermediate term traders.

Sears has performed well. It has a higher objective and potentially a much higher objective. However, it is currently in such an overbought position that some type of correction appears inevitable. Therefore, the stock is not a candidate for a long position. However, watch the correction for signs of support at the former overbought line. If it develops, Sears will be following in the foot steps of Dow, which will make it an excellent candidate.

UAL is in a short term down trend. This can be seen as the response to a major upthrust position. Therefore, the stock is not a good long candidate. However, it should be noted that support has been met on lower volume at the halfway point of the previous advance. Therefore, another attempt to rally is likely. However, this probably will become nothing more than a more important test of the upthrust. If so, the stock will become a short candidate. Unless the character of the general market's action deteriorates rapidly between now and then, a short position would be too dangerous to consider and should be avoided.



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Wednesday, March 12, 1986

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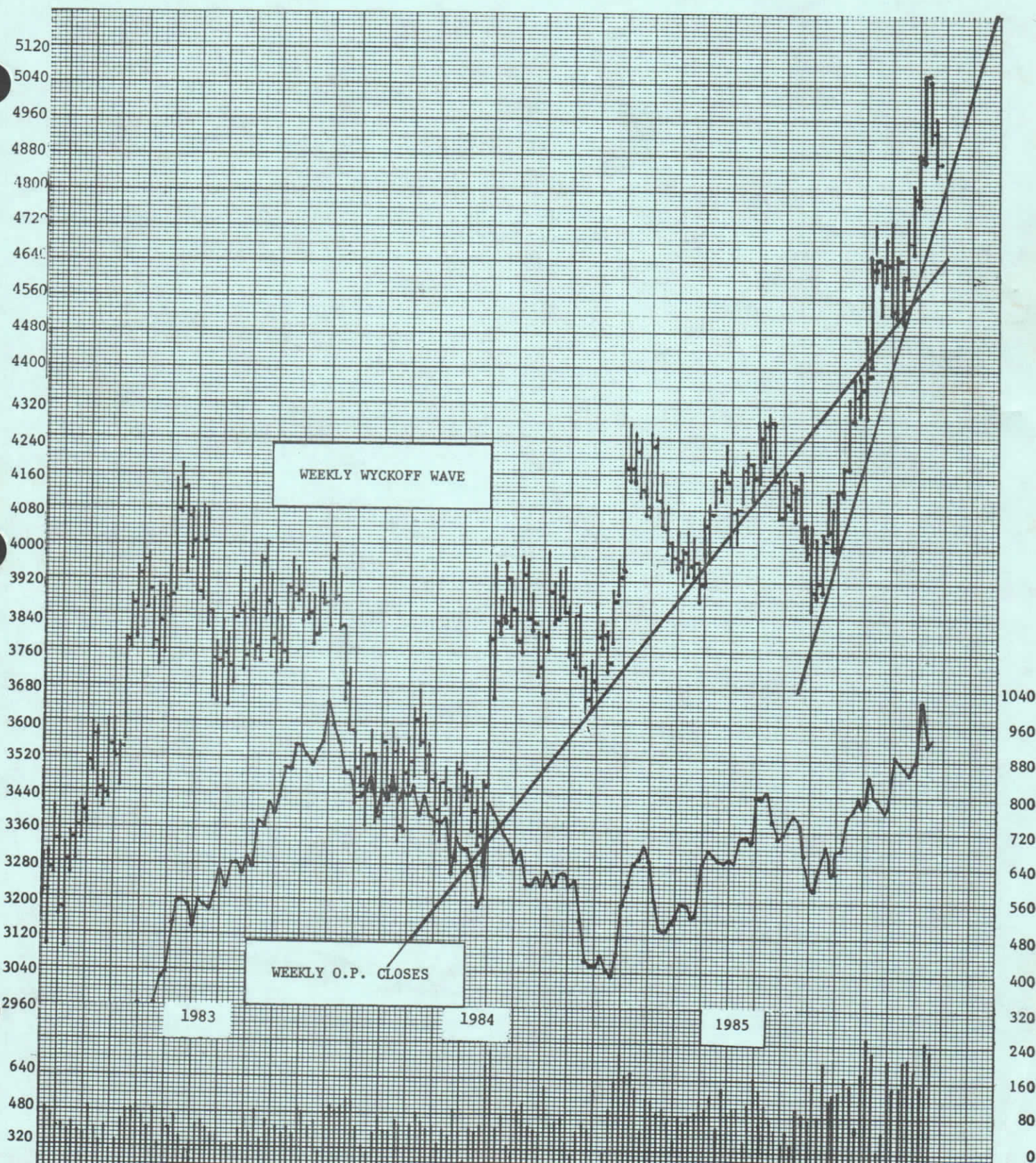
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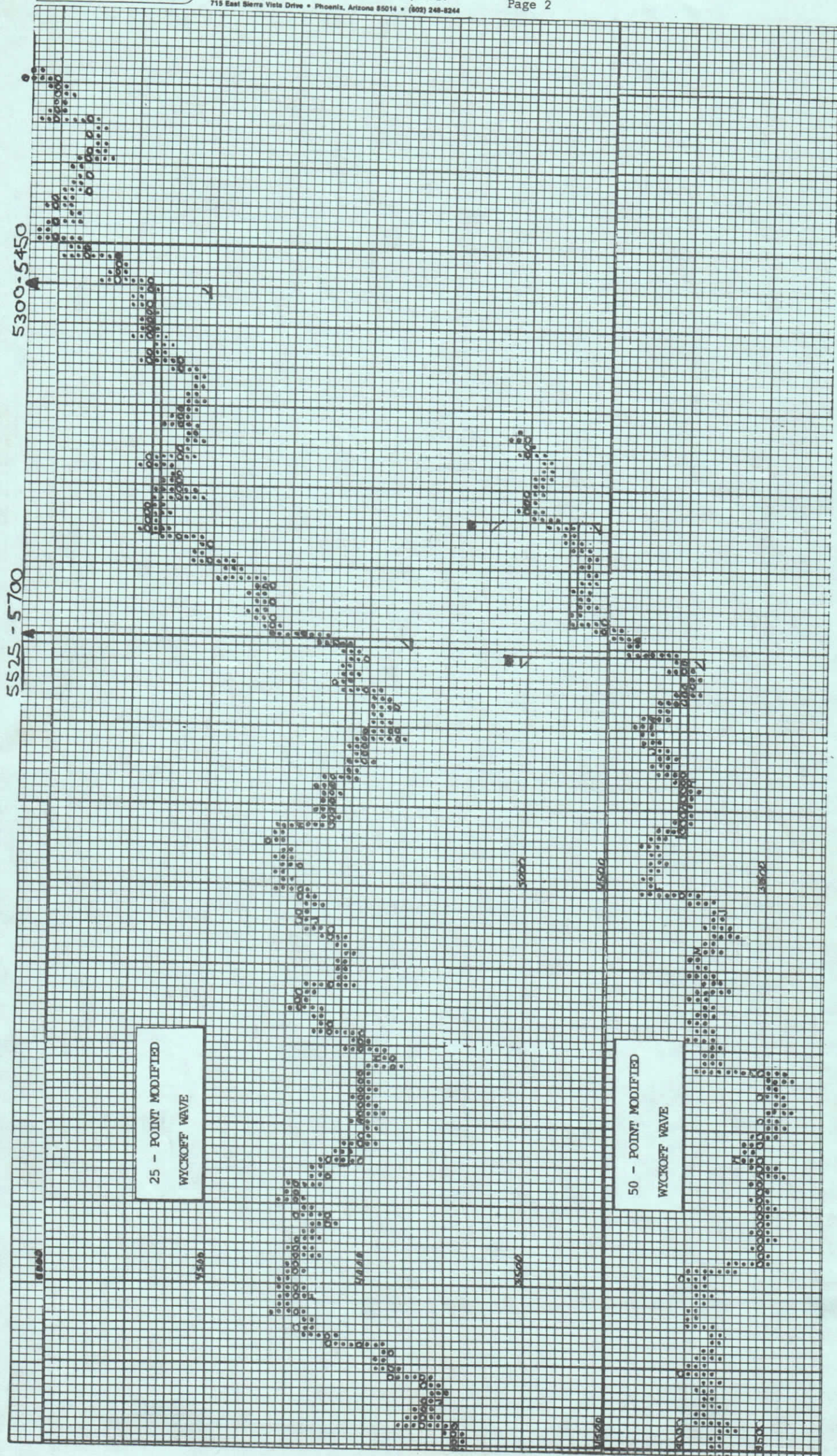
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50-Point Modified Wyckoff Wave
25-Point Modified Wyckoff Wave
10-Point Modified O.P. Index
Trend Barometer/O.P. Index
10-Point Modified Wyckoff Wave
5-Point Modified O.P. Index
Intraday Wave Chart
5-Point Modified Wyckoff Wave
2-Point Modified O.P.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

Group Indexes:
Aerospace
Airlines
Autos
Banking
Building Materials
Chemicals
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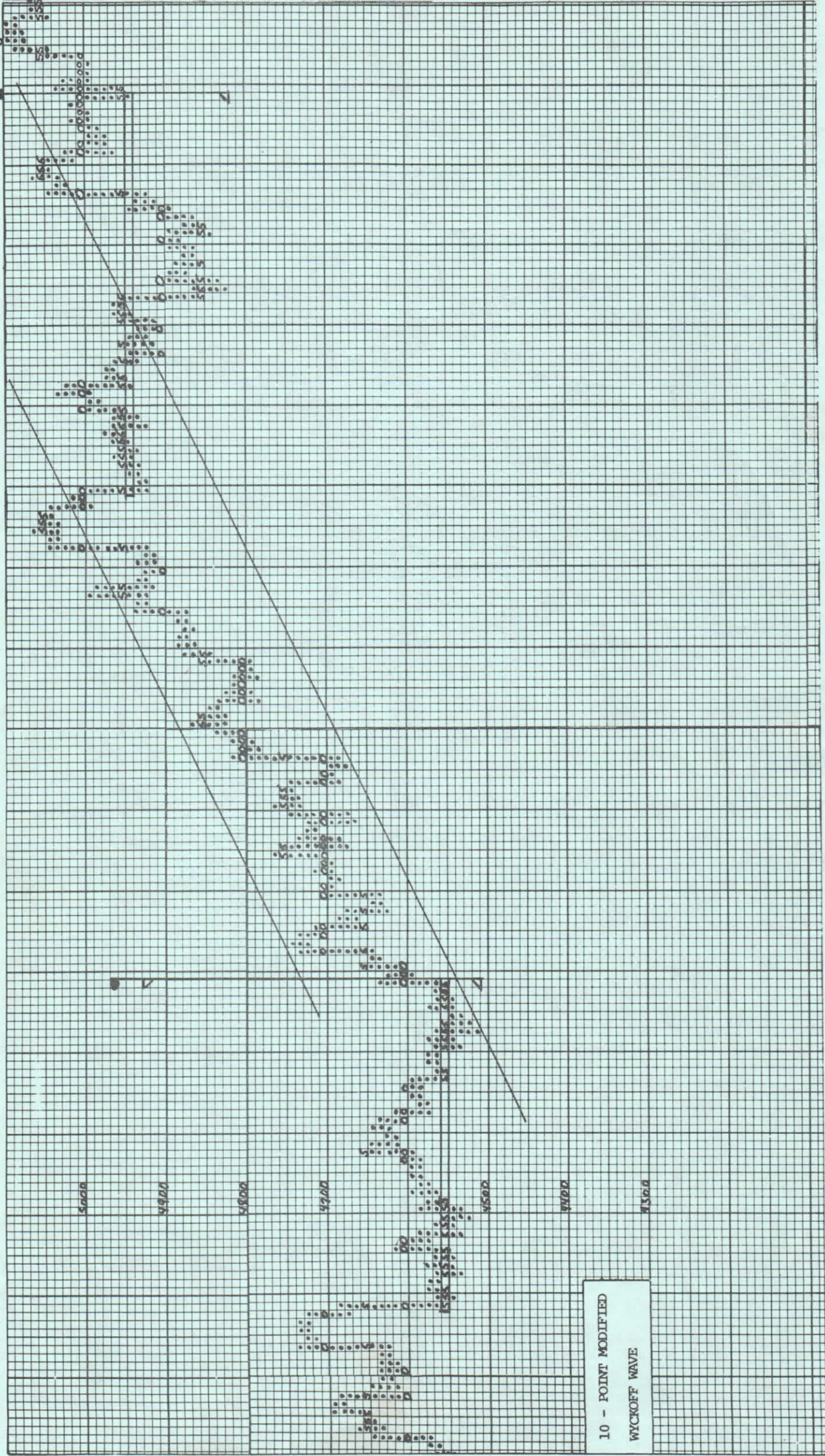




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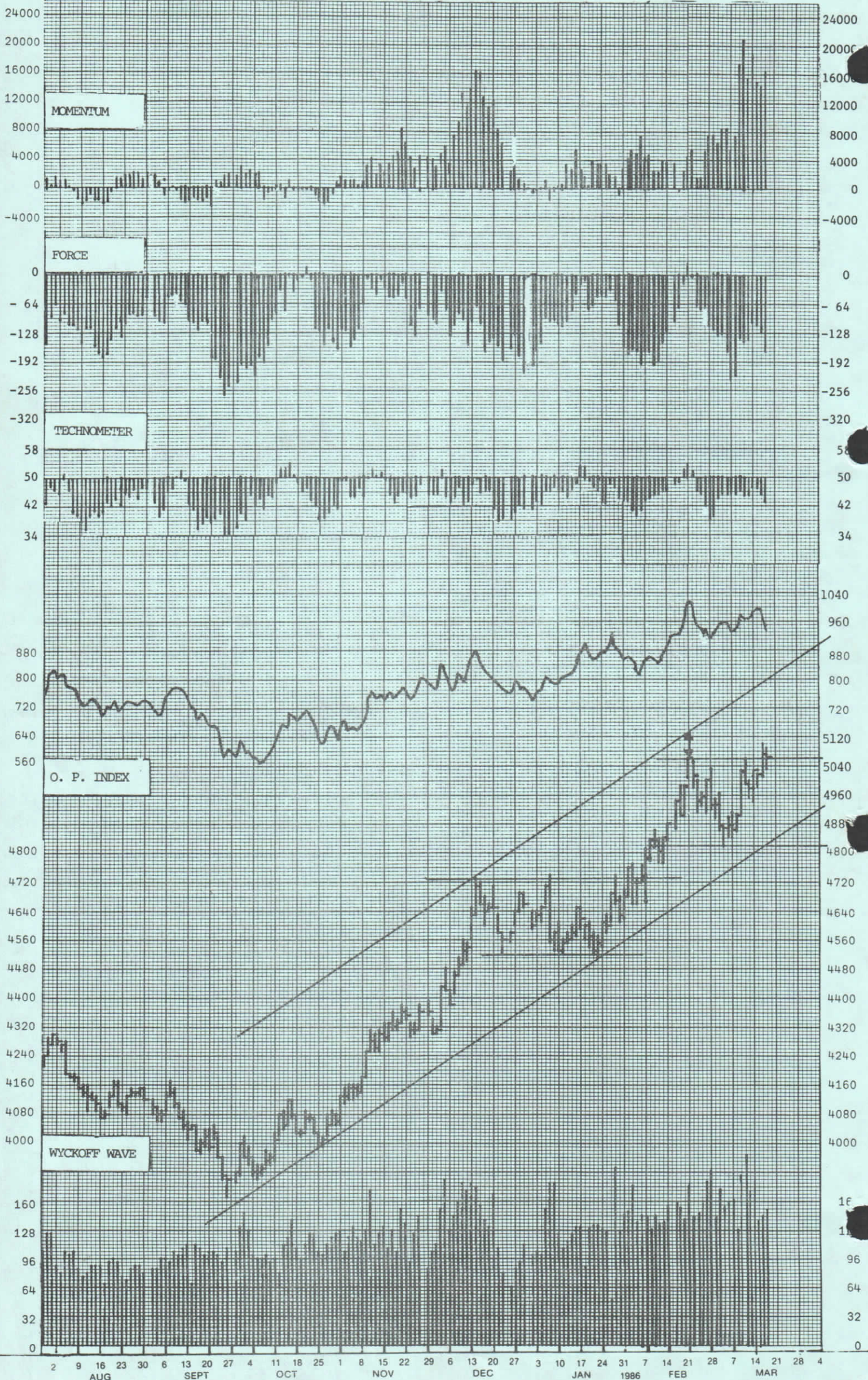
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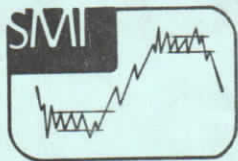


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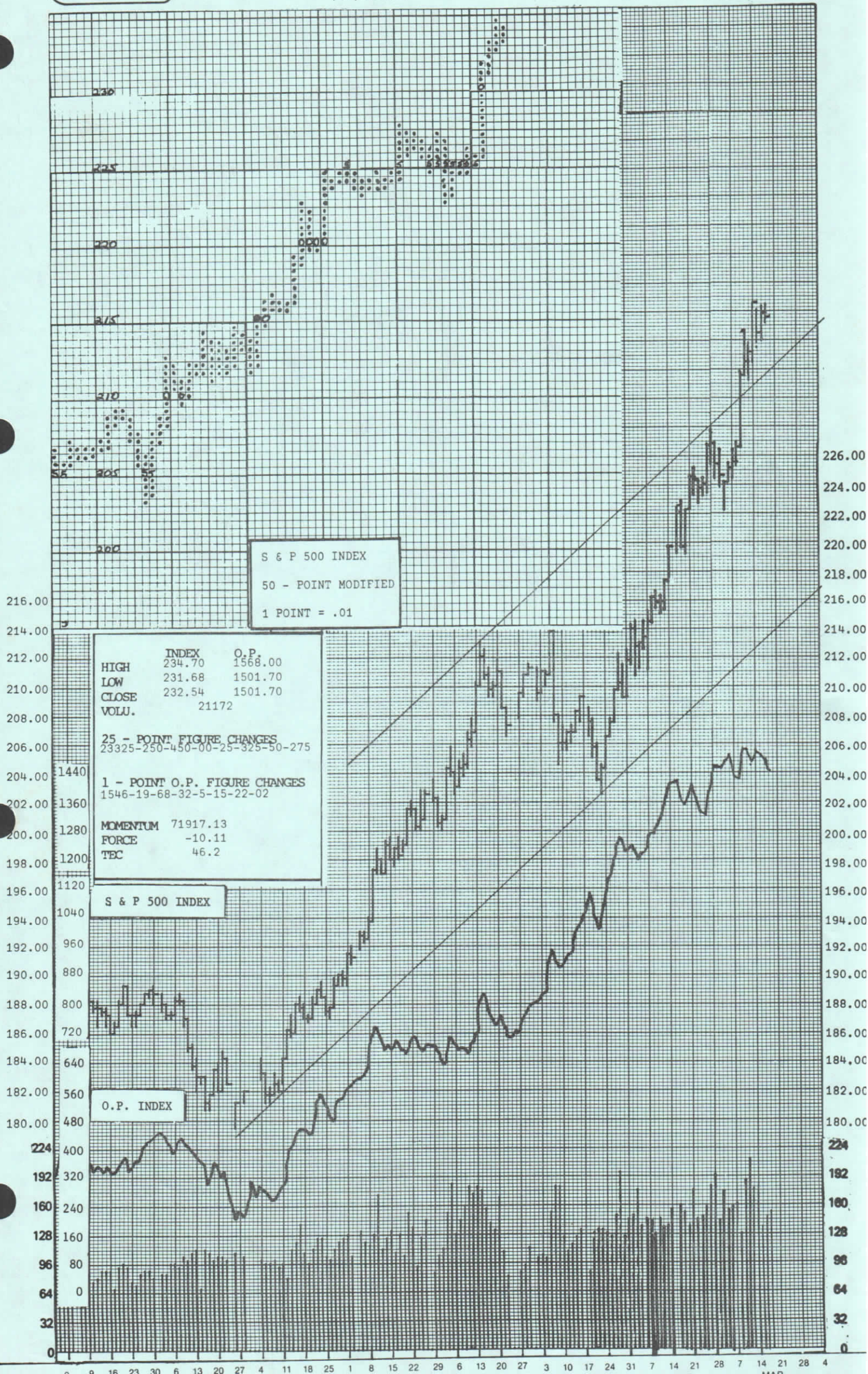


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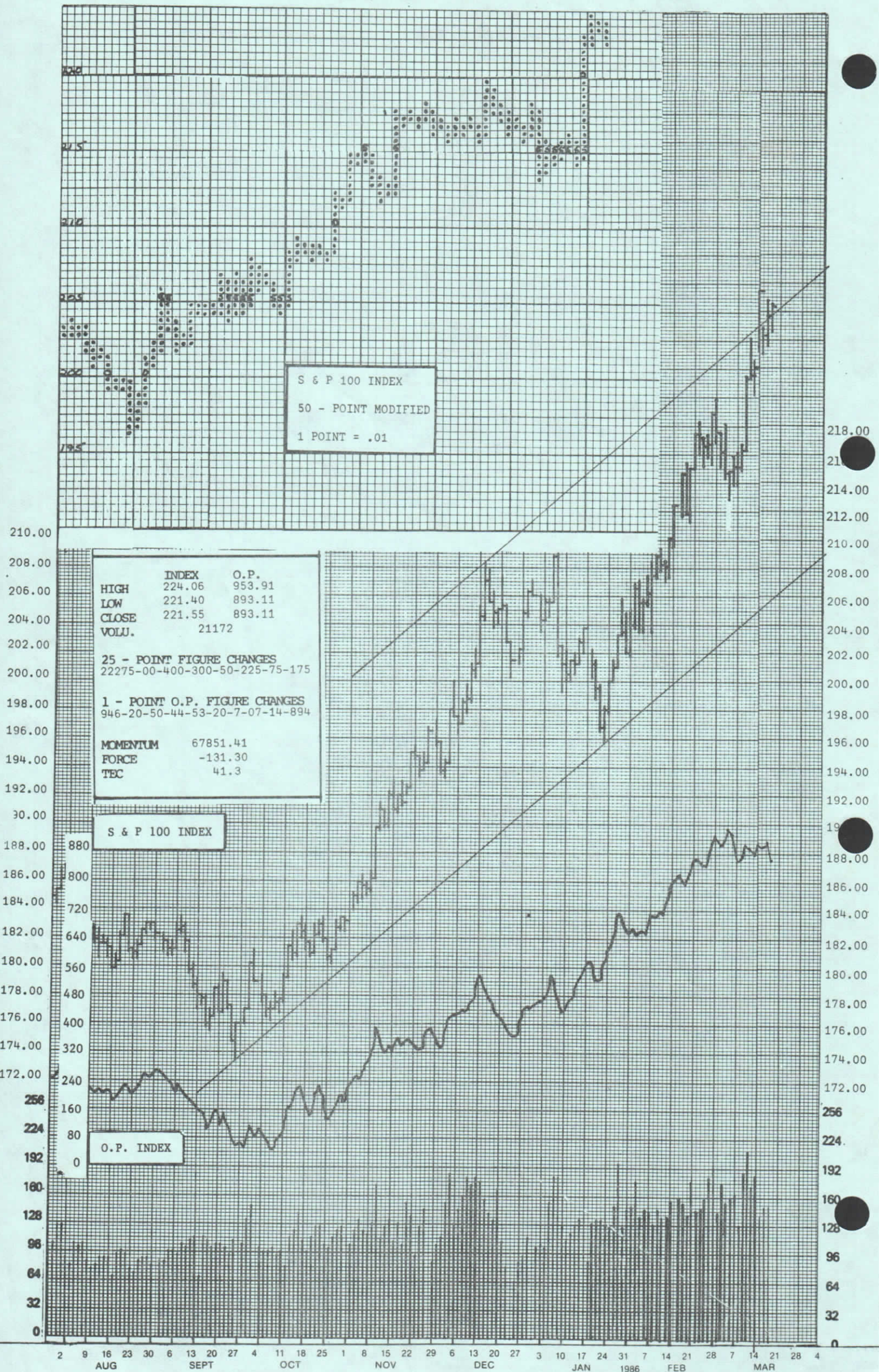


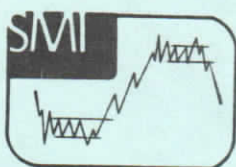
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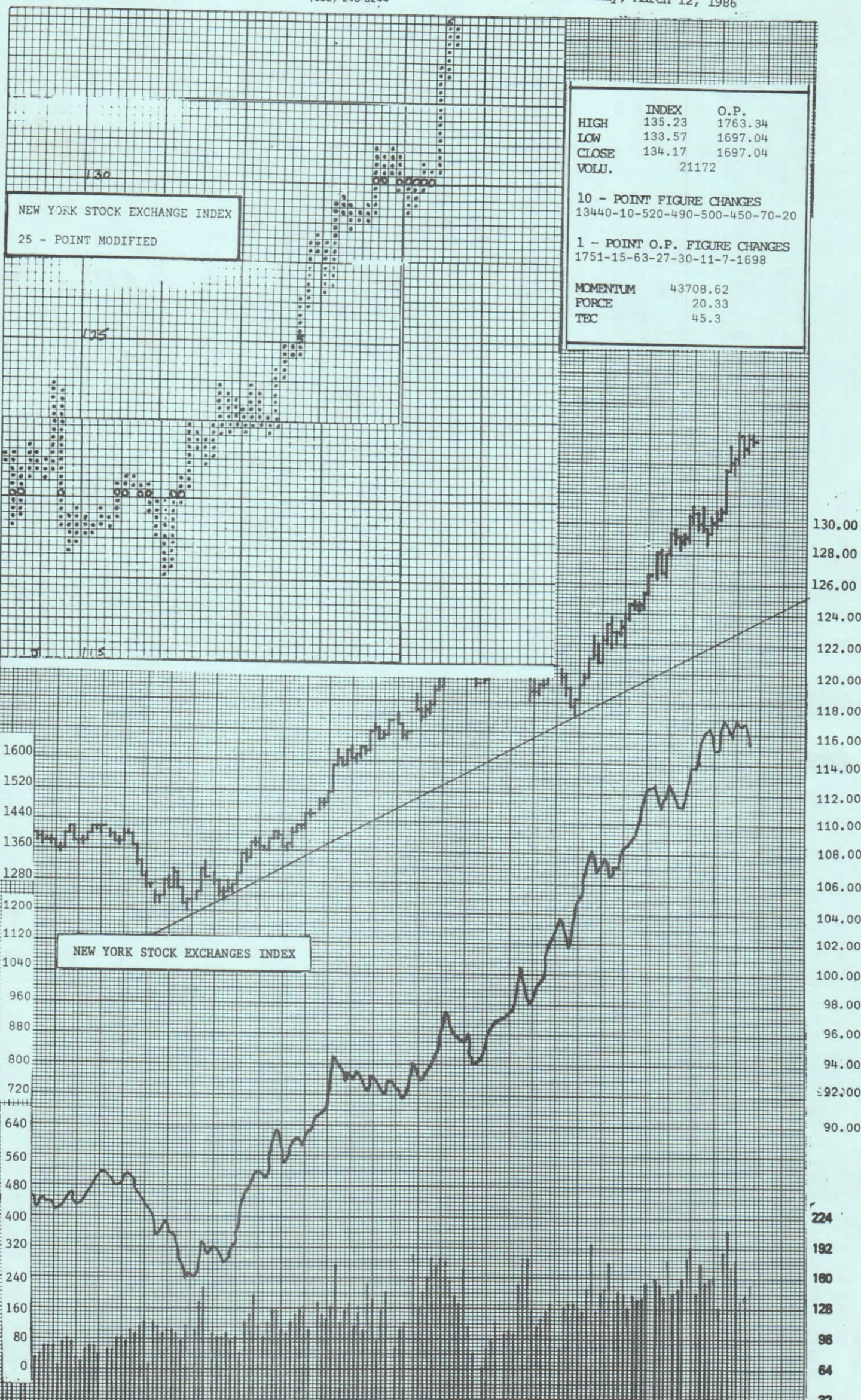


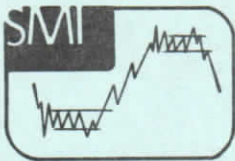
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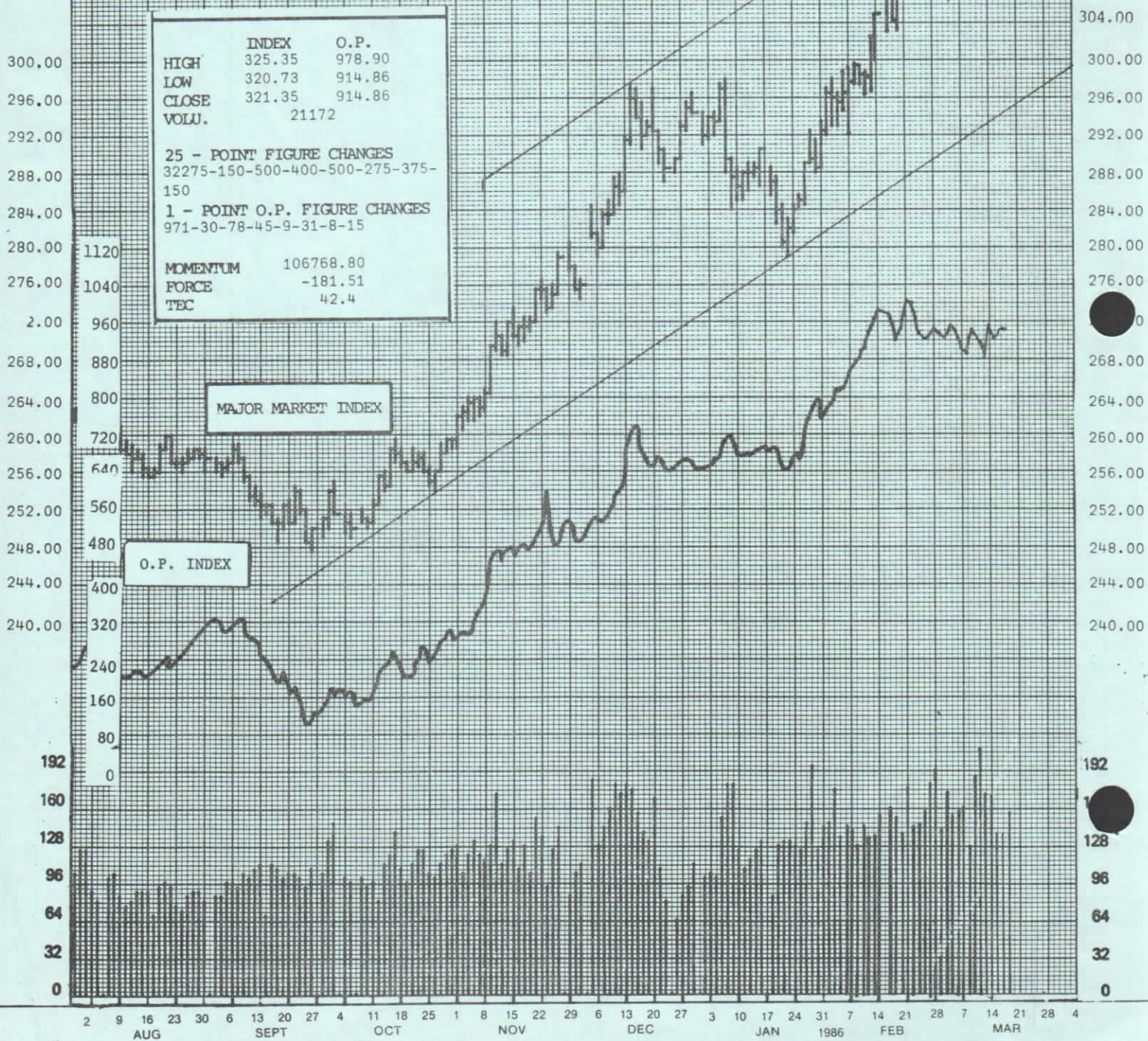
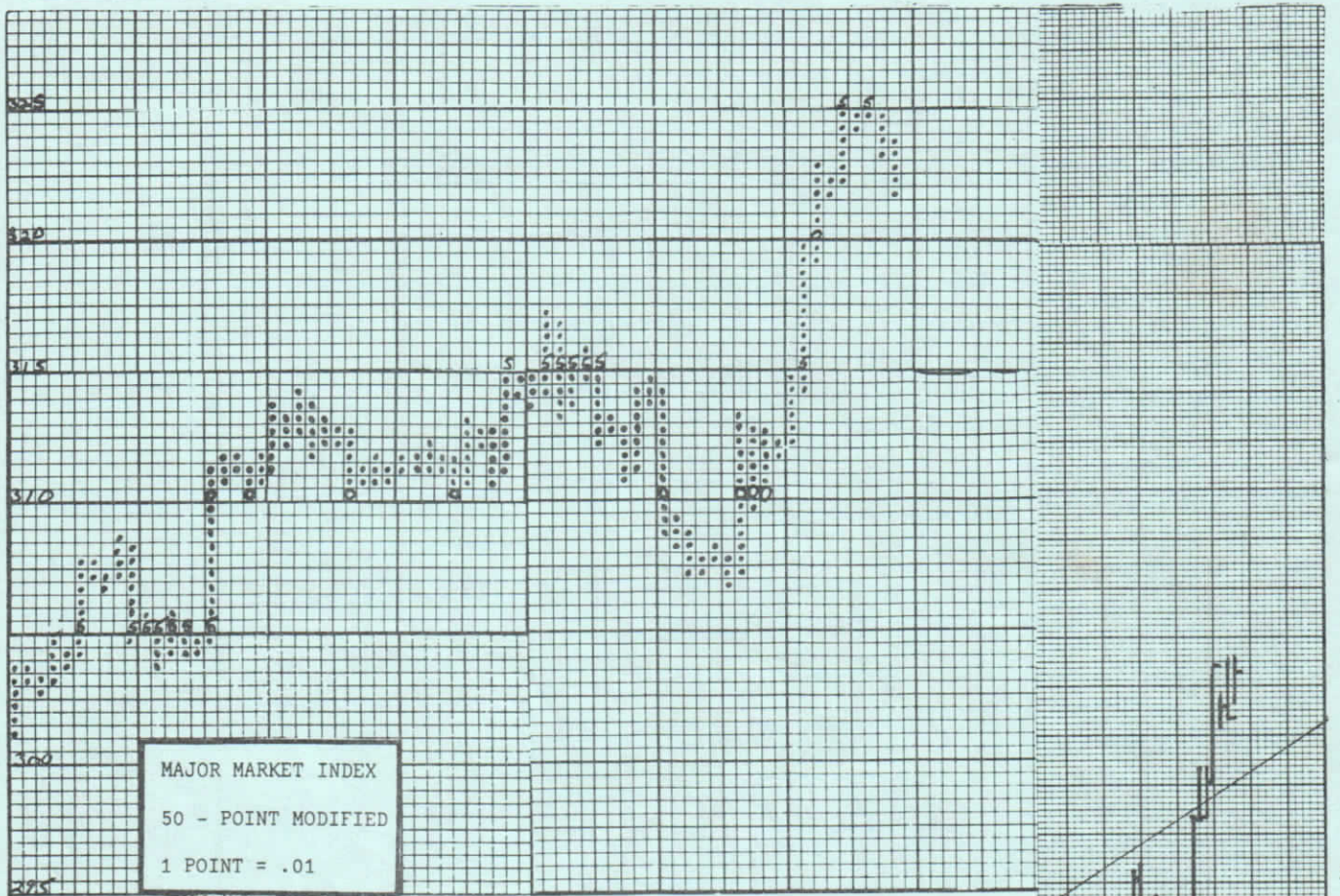


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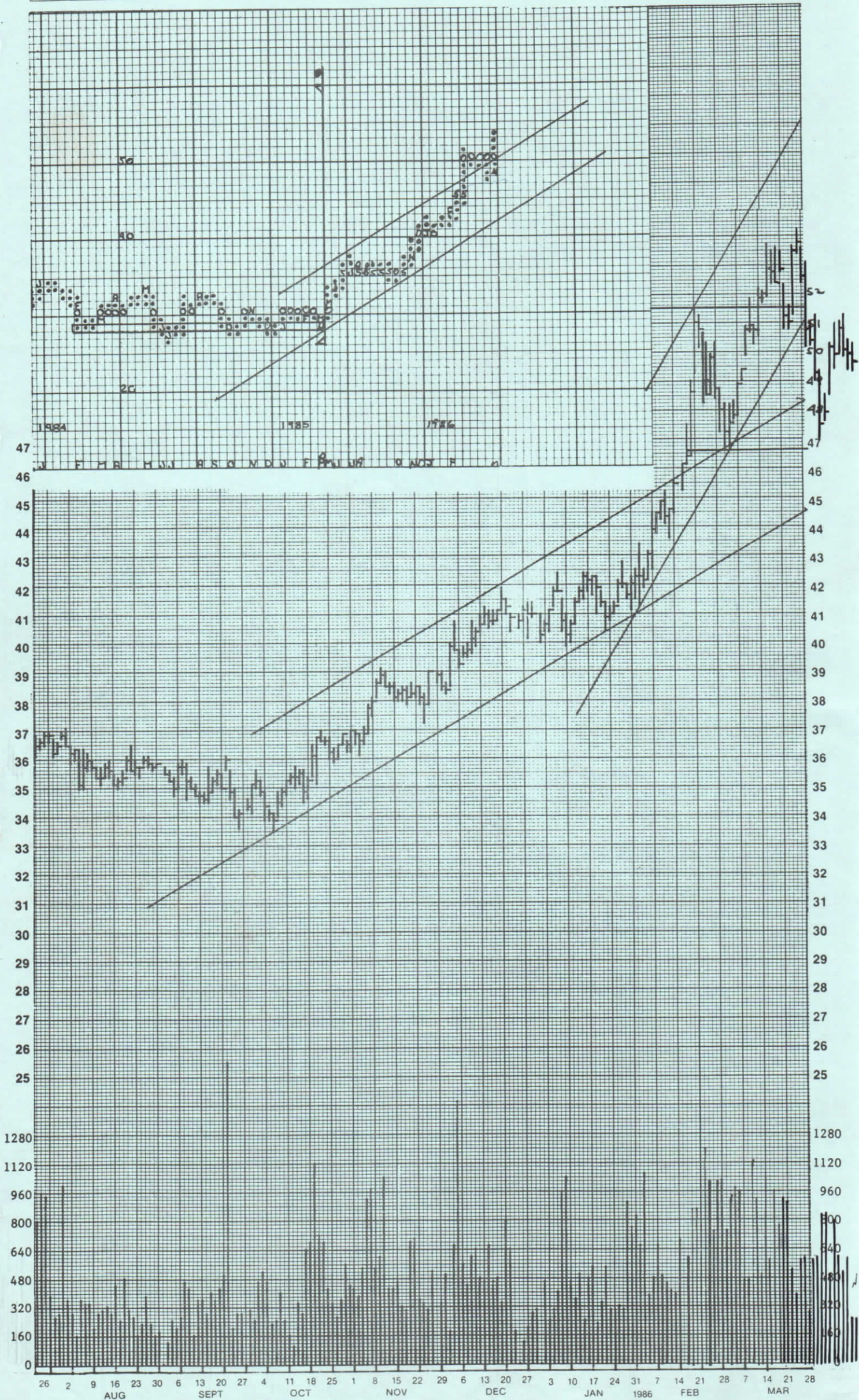
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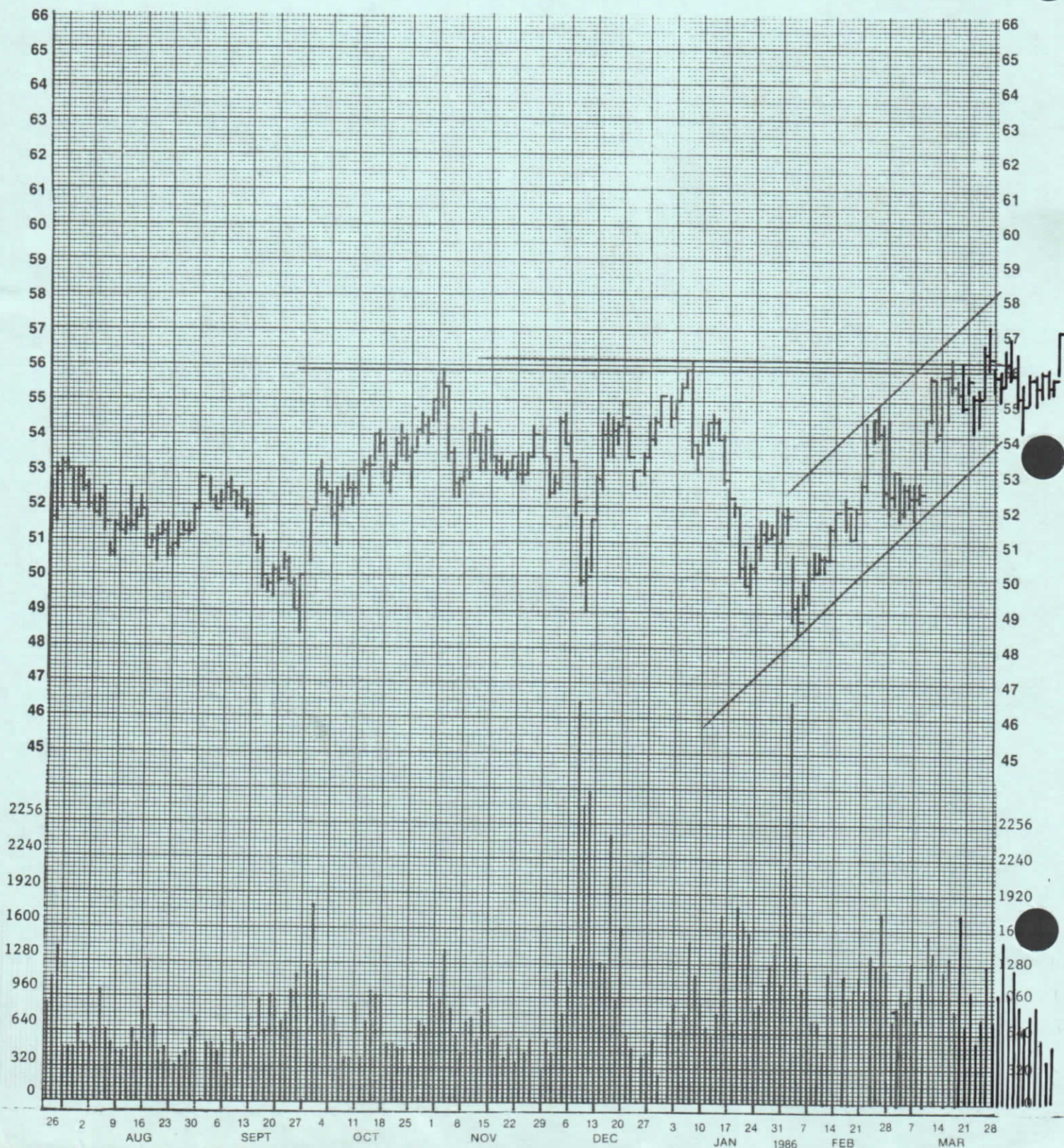
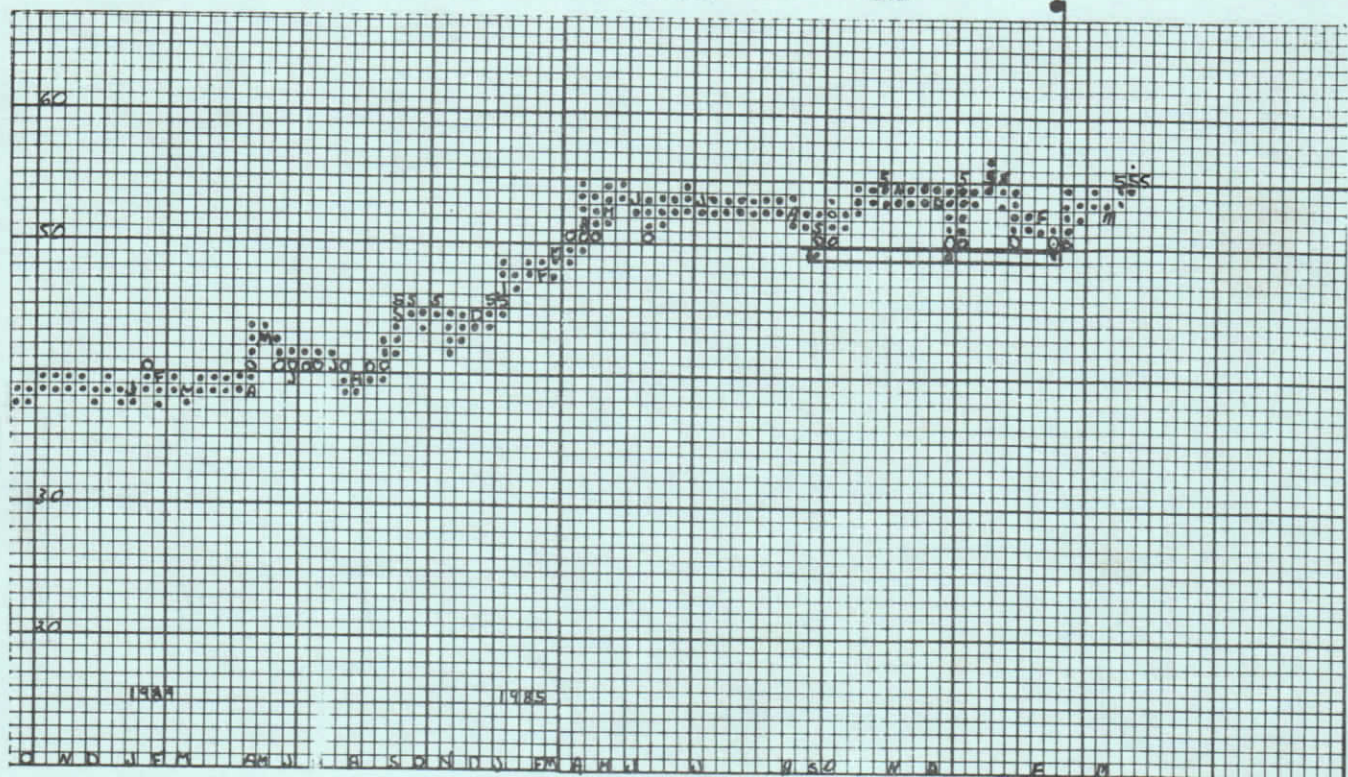
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EXXON

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CBOE (J-A-J-O)

OIL





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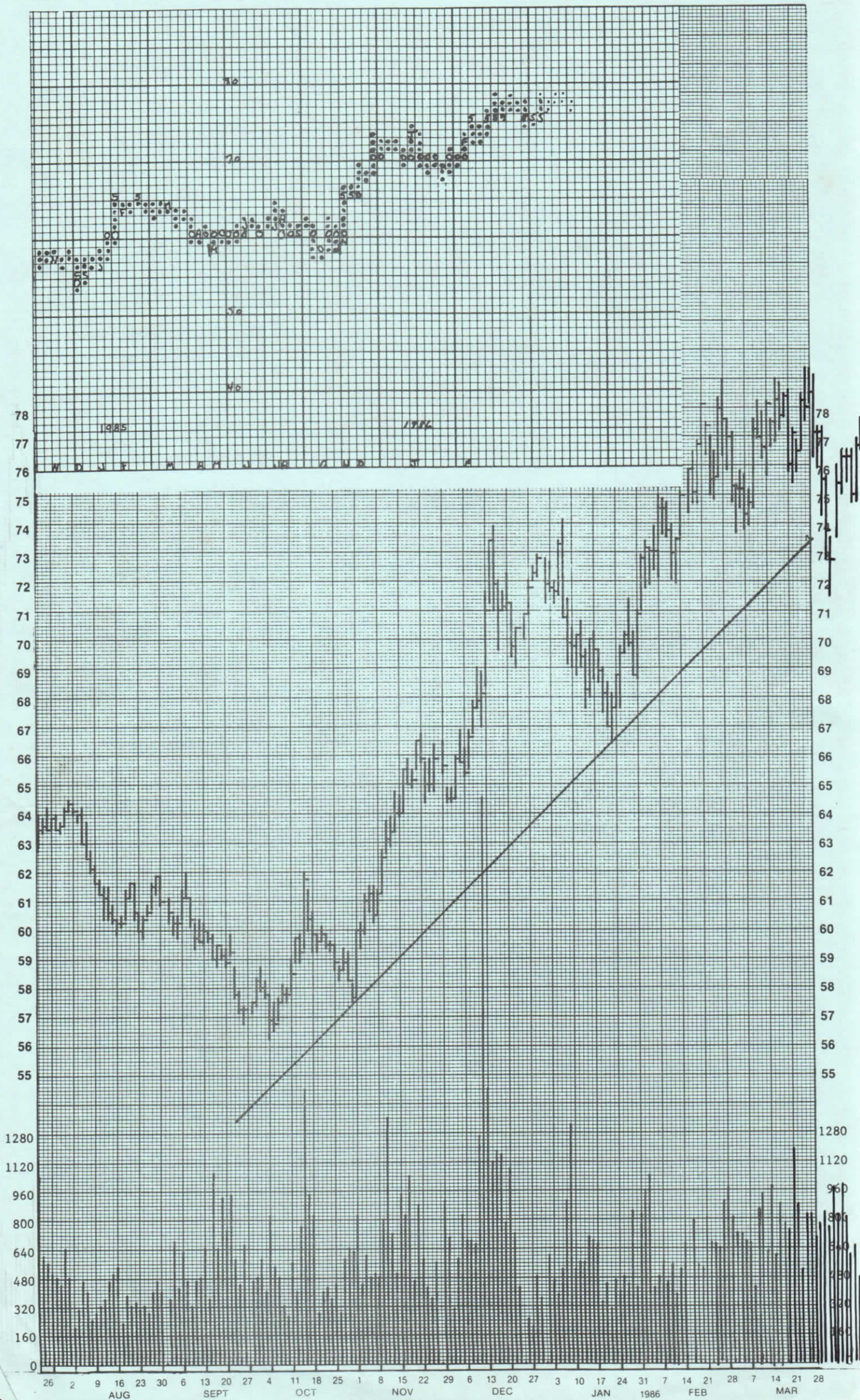
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GENERAL ELECTRIC

(GE)

CBOE (M-J-S-D)

ELECTRICAL EQUIPMENT





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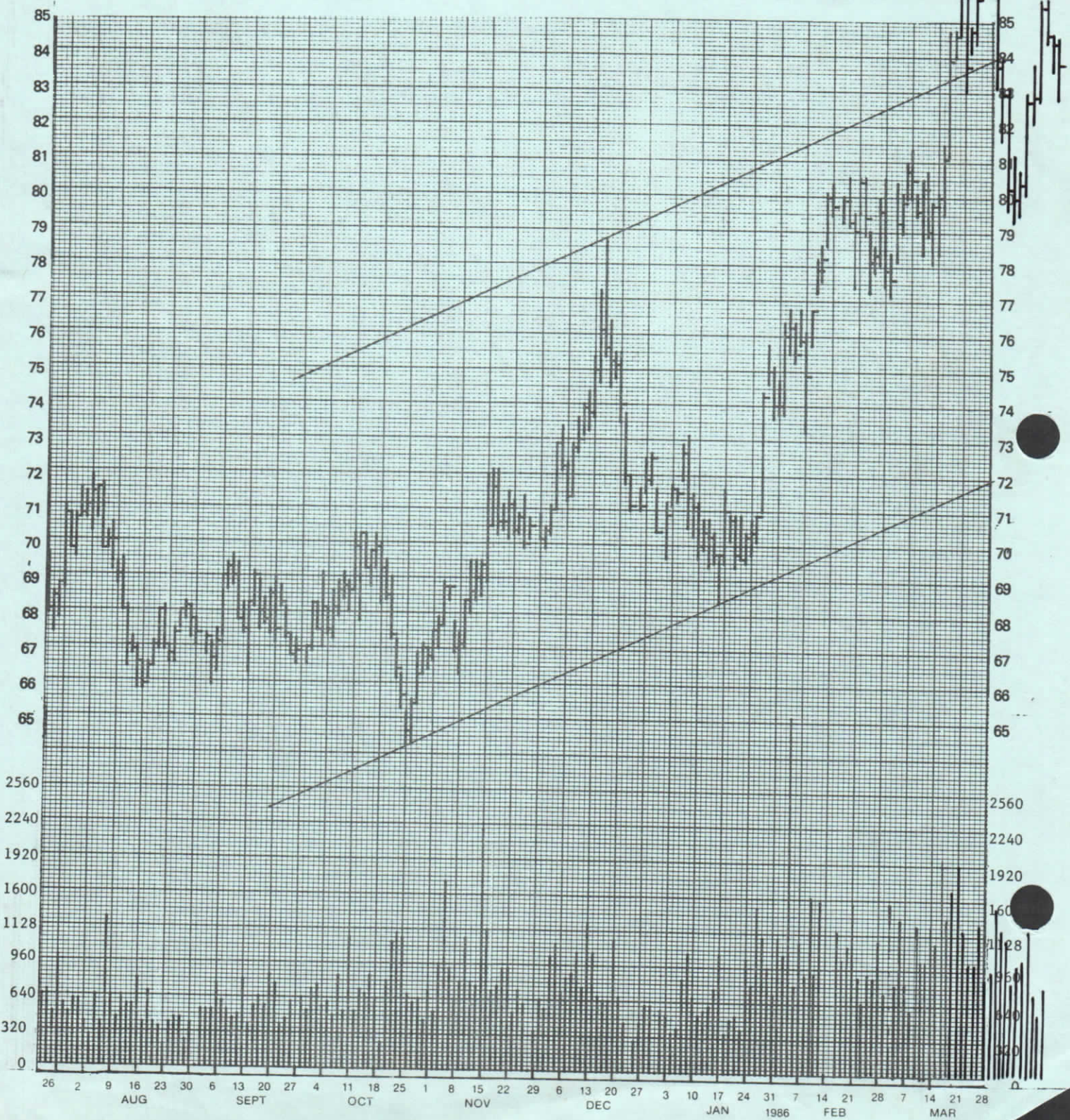
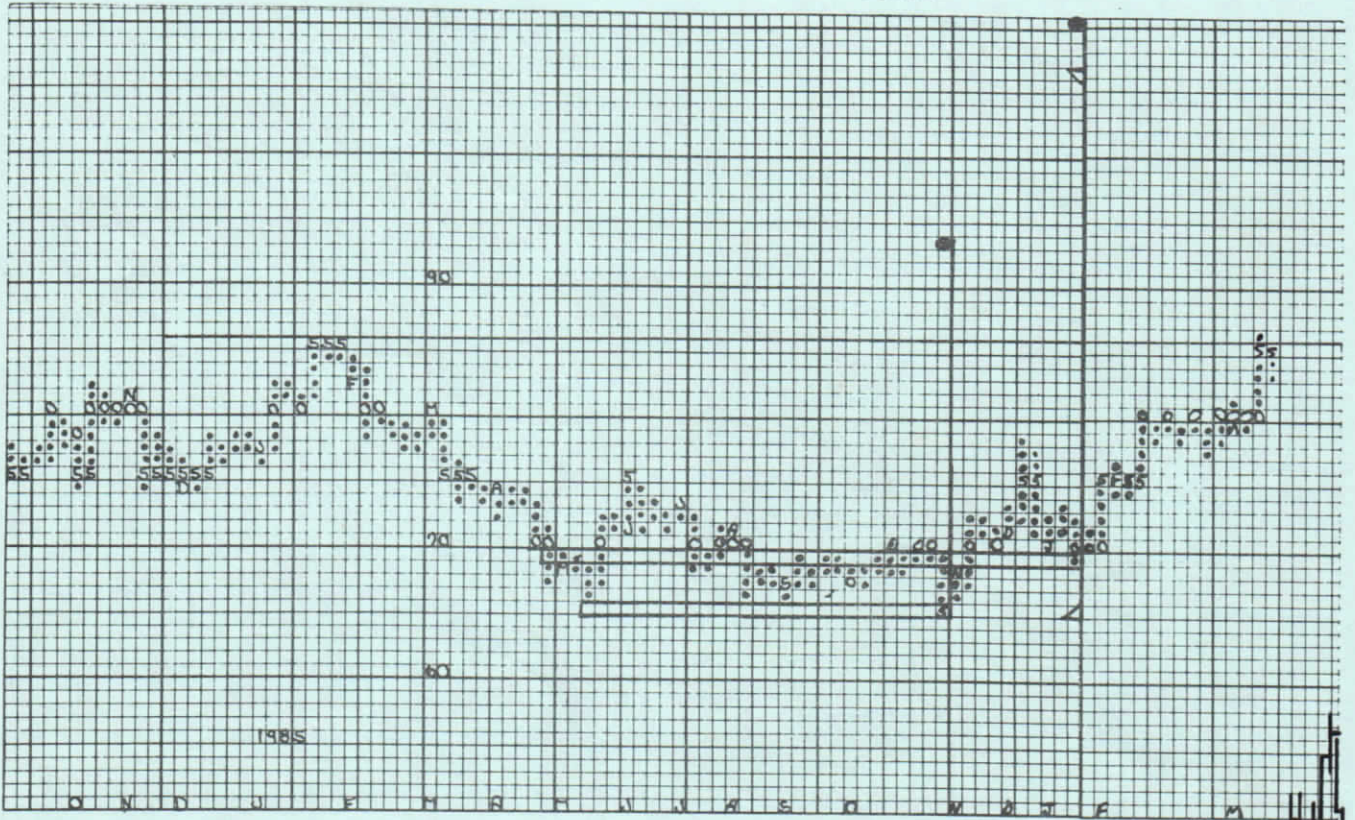
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AUTO





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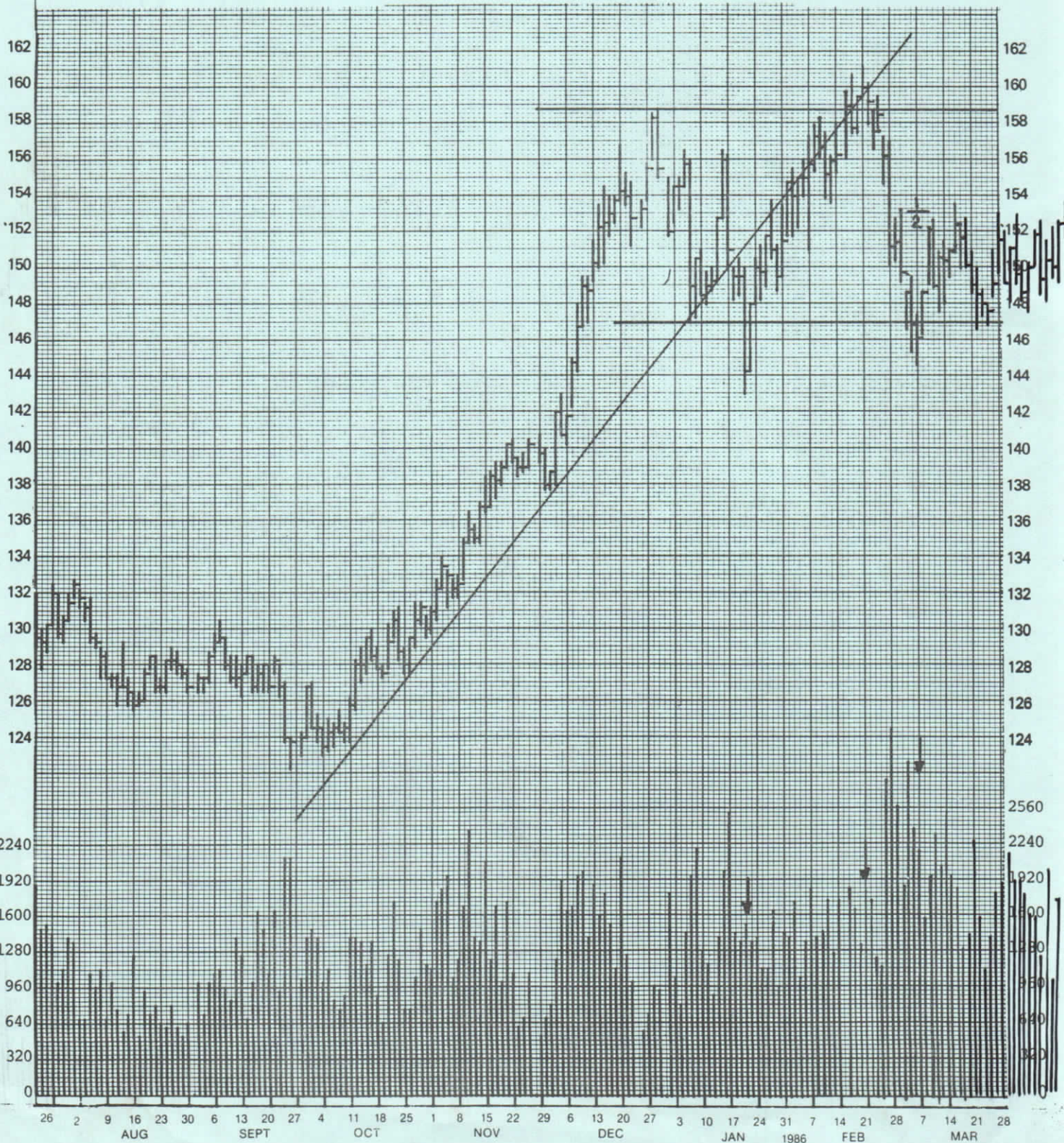
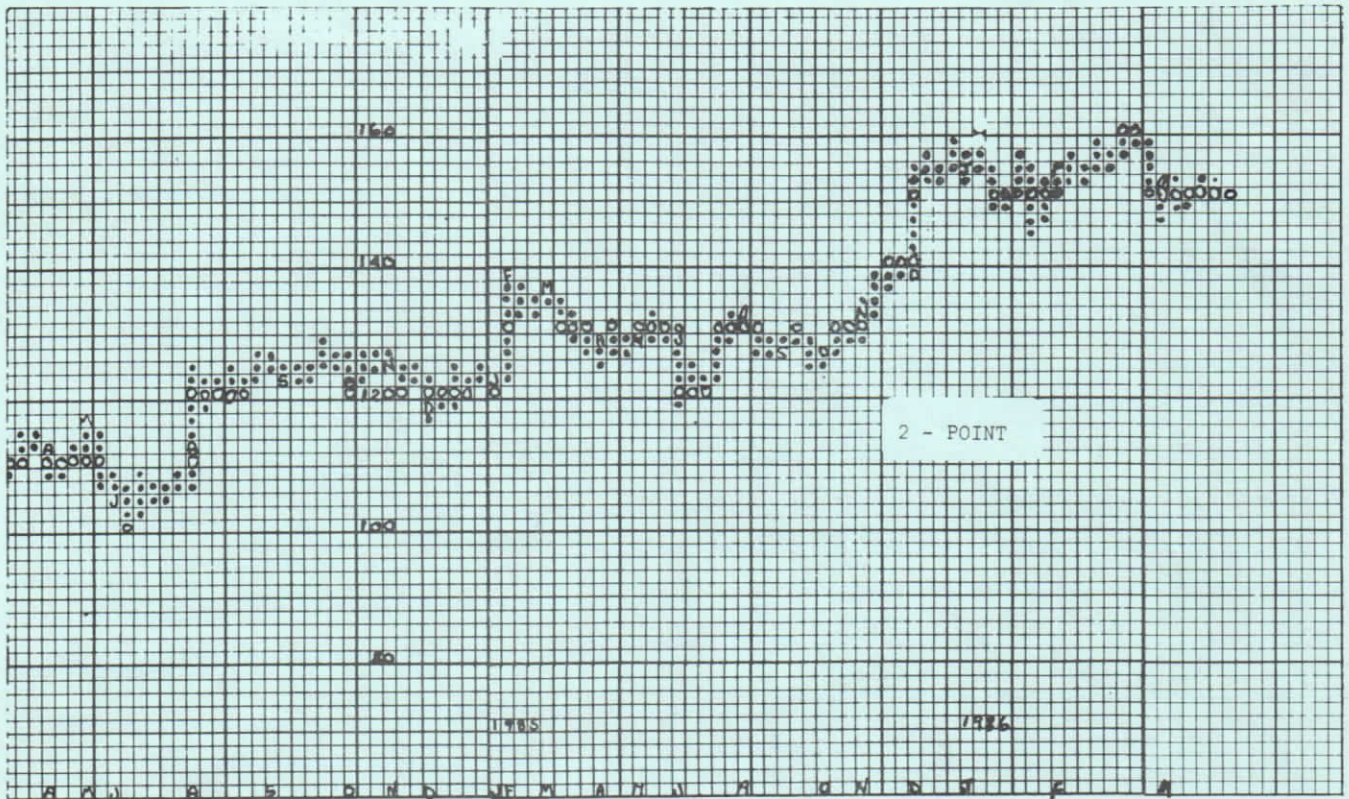
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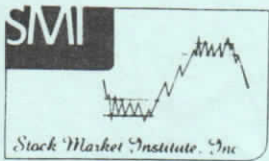
I.B.M.

(IBM)

CBOE (J-A-J-O)

COMPUTERS





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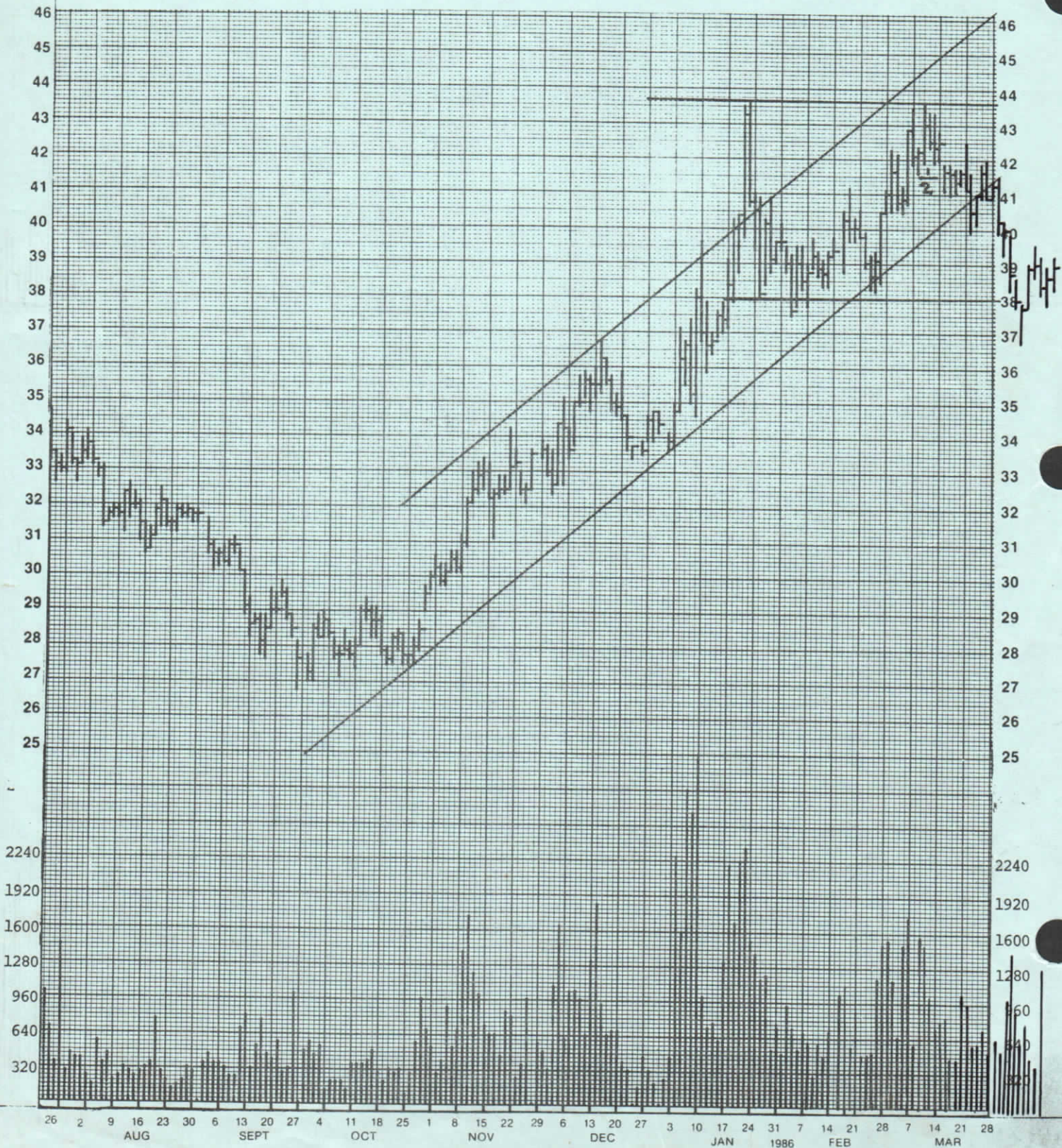
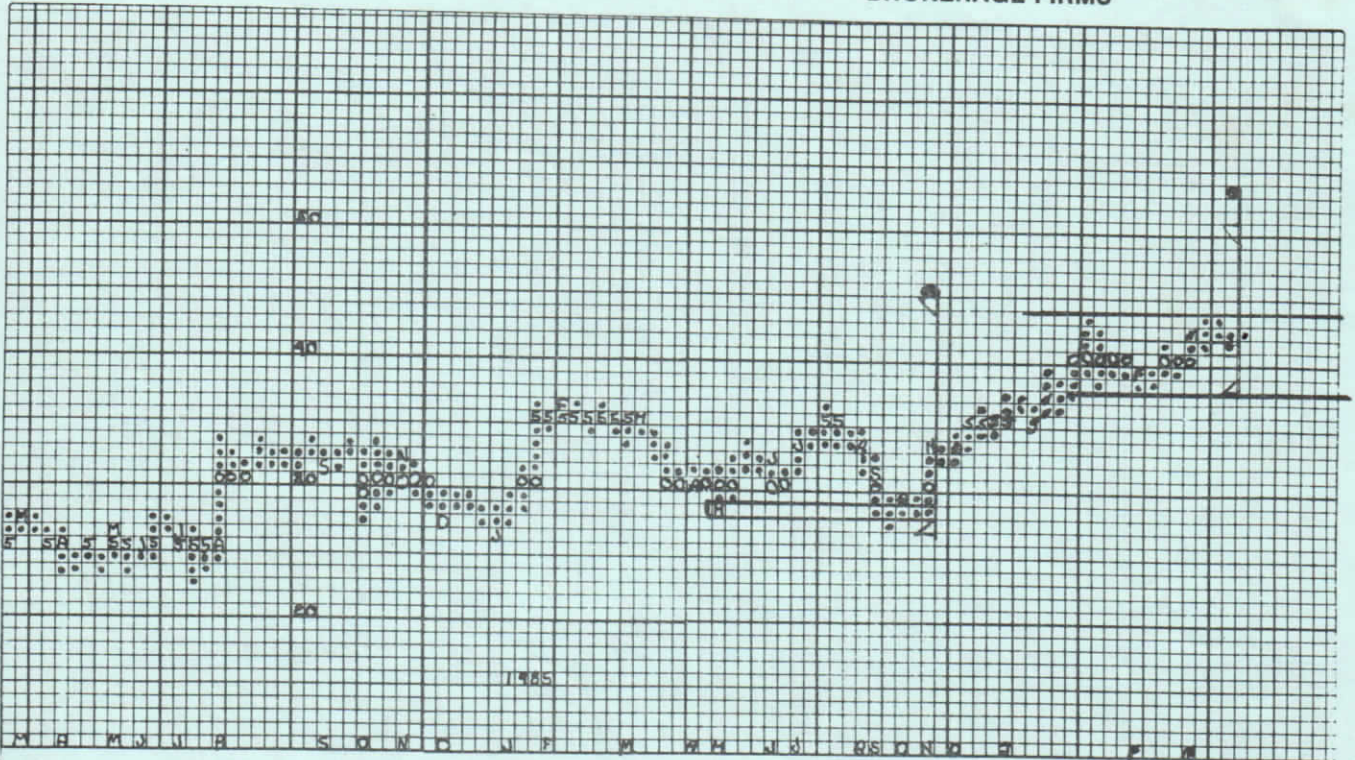
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MERRILL LYNCH

(MER)

ASE (J-A-J-O)

BROKERAGE FIRMS





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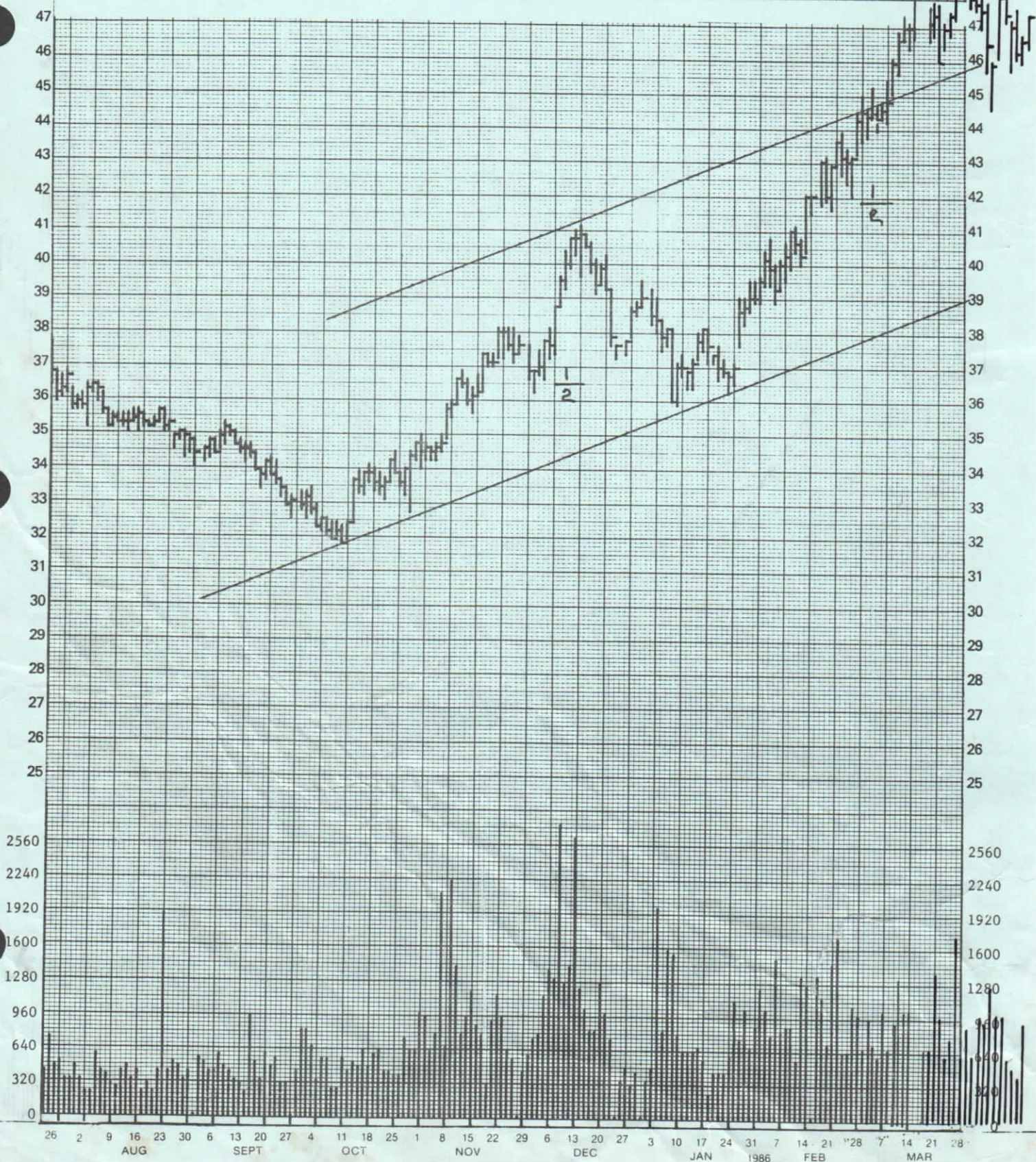
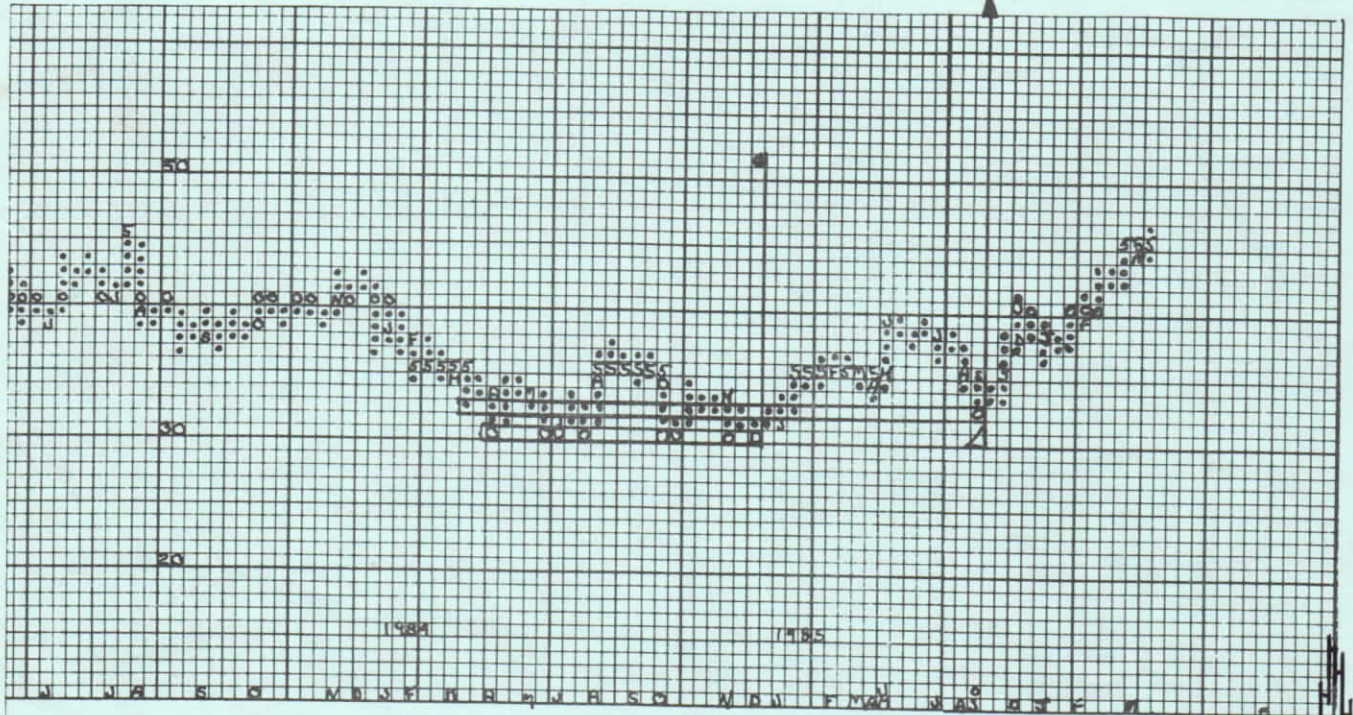
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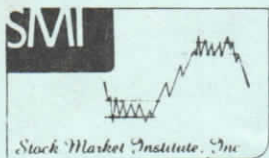
SEARS

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