SMI

The Trend Letter

Friday, March 4, 1983

MARKET TRENDS

Many important developments have occurred in the market during the past several weeks. Except for those affecting the very short term, the developments all appear to have a great deal of positive potential. Even the negative factors facing the short term picture can result in a positive situation if they can be constructively resolved. For now, though, the most bullish situation appears to exist for the long term.

The long term trend of the market is up. This has been clear for some time. However, it appears as though the strength is much greater and more persistent than had been thought. It is true that the initial very steep uptrend defined by the August and October lows has been broken. However, two attempts to bring the market back into the much more gradual uptrend defined by the 1980 and 1982 lows have failed. Both times, the market has met support quickly. As a result of the second failed attempt to begin an important correction, there is now an uptrend channel in place that is both aggressive and sustainable. How far the market may be able to advance during the life of this trend is indicated by the twenty-five and fifty point figure charts.

The indications for the first phase of the advance given by the two long term figure charts were not in harmony. The fifty point chart pointed to 2950 while the twenty-five point chart was pointing to 3575. At this point both objectives have been fulfilled, but only after several months of uncertainty as the Wyckoff Wave moved around in the range between the two objectives. This uncertainty does not appear to be present in the indications of the objective of the second phase. Combining the indications of the two charts we arrive at a range of 3950 to 4175 with the 4050 level being the most likely target.

The move indicated by the longer term figure charts will carry the Wyckoff Wave deeper into uncharted waters. However, it may not be carried there immediately. The intermediate picture of the daily chart suggests that there is some unfinished business that needs to be tended to before substantially higher levels are reached.

On Thursday, February 24, the Wyckoff Wave jumped an important creek that runs just above the 3400 level. This was the necessary first step on the way to 4000, but it is the second step, which has not occurred as yet, that really matters. This, of course, is the back up. From what we can see on the daily chart, there are several indications that say the back up will occur soon. The most important of these is the position in the uptrend.

The jumping of the creek has resulted in a penetration of the intermediate uptrend's overbought line. This warrants some type of correction. A back up to the edge of the creek would do just fine. It would release the overbought position, which should again open the door to upside progress. In addition the back up provides important proof that the indicated objectives in the four thousand area are at least possible.

The back ups we have seen since the beginning of the advance have been very quick. In some cases, the duration has been less than one day. This might result in a tendency to expect the same quick response to the presently indicated back up. Such expectations lead to premature action. Although another one day back up is possible, it is not likely. This back up is probably going to be more normal, which means spread over several days. It is also possible that in spite of the overbought position the back up is not quite ready to begin. This is based on the fact that both the five and ten point figure charts indicate slightly higher objectives and by the fact that an overbought position on the shorter term uptrend does not yet exist. If we can see the market extend its rally a little further, establish a second overbought position while aggravating the first and reaching the indicated objectives, the likelihood of an immediate back up should be greater. This scenerio will also give the market more room in which to back up, which can be important in the success of the back up.

Positive developments in the market have been piling up in recent days. However, it is the one that is not yet on the pile that will give the signal to buy. The creek lies at about 3420. The back up should hold at this level although a somewhat larger decline back to the halfway point is possible. More important than exactly where the back up stops is its character. Narrow daily price spreads and decreasing volume are the positive indications that encourage buying. Anything else points to a back up that is going to fail and one where no action is warranted. In view of the effort that has been made to accomplish the jump, anything less than a clearly constructive back up will look very poor. The market probably cannot jump this creek twice. It needs to be successful on this effort.

STOCK TRENDS

The possibility of a constructive back up from the picture given by the general market appears to be very real. However, when viewed from the standpoint of the individual stocks, the potential character of the back up looks much less certain. The problem is that the stocks are not all moving together. There are a couple that are very strong and probably account for the jump. The others have lagged behind. The success of the back up will depend on how much strength the strong stocks can retain and how little additional weakness is shown by those that have lagged behind.

Exxon is one of the stocks that has lagged behind. There is a potentially positive development here, however. The stock appears to be trying to break the gradual down trend that has been underway for six months. Once the supply line of this trend is broken, the more important resistance at thirty-two can be tackled. Until this is broken down, Exxon does not represent a good buying opportunity. It may be bought on a back up following the jump across the creek for a move into the forties.

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The most consistently strong stock in the Wave is probably General Electric. At this point, it has done everything the general market has done and has also accomplished a very constructive back up. It is now well on its way to the objective of 116. The problem with this stock from the standpoint of someone looking to take a position is the nearness of the objective. This is a short term move and only for short traders.

General Motors has a previously established higher objective of 69 to 75. It is now in a trading range and working itself to the point of an apex. The potential in the current trading range is now about fifteen points, which means an intermediate move is coming. The apex suggests it is coming soon. The condition of the general market and the previously established trend of the stock favor a break on the upside. The problem is that the stock has been weaker than the market lately. Therefore, immediate action appears unwise. As the price works itself further into the apex, watch for an overbought or oversold condition in the general market. An overbought market in combination with the divergence in the stock will be negative and warrant action on the short side. An oversold market should prompt action on the short side.

In almost every instance, the Wyckoff Wave only makes important moves when both General Electric and IBM are moving in harmony. They have both been moving higher, but the advance in IBM has failed to bring a jump across the creek. At the moment, IBM is in what appears to be an upthrust position in a market that is relatively overbought. Therefore, it should not be bought. It may be shorted for a short term trade as the general market backs up to the edge of the creek. If it is shorted, watch for narrow price range and a substantial decline in volume just below the top of the trading range. If these develop, cover immediately. Otherwise, look for a drop back to 96 or below.

Most of the time, a stock that must go through repeated springs to get something going on the upside never gets anywhere because the spring simply wears out. This did not happen to Merrill Lynch. The last spring position in this stock worked. The stock has now jumped the creek. Unfortunately, it has also used up its upside potential, so buying now would be a mistake. The creek here is at seventy-one. If the market backs up constructively, chances are Merrill Lynch will also.

Pepsico is undergoing a possible change in character. After being the weakest stock in the Wave for months, it has started to show an ability to rally. For the short term a move up to 42 to 43 is possible. For the longer term, however, there are still problems. The indicated rally is only a halfway correction of the move down from fifty. This is normal down trend behavior. Buying the stock now would be a mistake. If the action of the past couple days is a jump, short term long positions can be justified on the back up. There is no basis for expecting a major advance at this time.

If a short position is desired for the market's attempt to back up to the creek, a good candidate is UAL. While the market has been making new highs, this stock has been confirming an earlier upthrust. It is also in divergence with its O.P. Given an overbought general market a short position for a six point decline appears to be in order.

Perhaps the most confusing stock in the Wave is Union Carbide. It is possible that the fifty-five level can be counted for a longer term advance into the seventies. The problem with this is that the price is currently in an upthrust position. Therefore, a move into the seventies is not likely immediately. The upthrust position must be resolved first. For the short term, a short position is possible. At this point, it is too early to make any other commitment.

The S&P future should be looked at as a stock. As such and when compared to the Wyckoff Wave, it is not revealed as a good long candidate. Since the beginning of the current rally, the Wyckoff Wave has advanced 17%. The S&P future has gone up only 9%. This puts the future in a relatively weak position and makes it a poor candidate for a long position. Therefore, given a constructive back up by the Wave, the resulting indication to buy should probably be directed at some other index future.

Since the S&P future is weaker than the Wyckoff Wave and since the Wave is due for a back up, should the future be considered for a short position? Based on this information alone, the answer is yes. However, there is one additional piece of information that should not be overlooked. The trend is still up. This increases the risk on the short side. It is true that the performance within the uptrend has been deteriorating. Therefore, it may be vulnerable to being broken. A short position can be taken in an overbought market. However, such a position should be closed out immediately if the support line of the uptrend is approached on decreasing volume with narrow price spread.

MARCH 2, 1983.

INDEX CHARTS

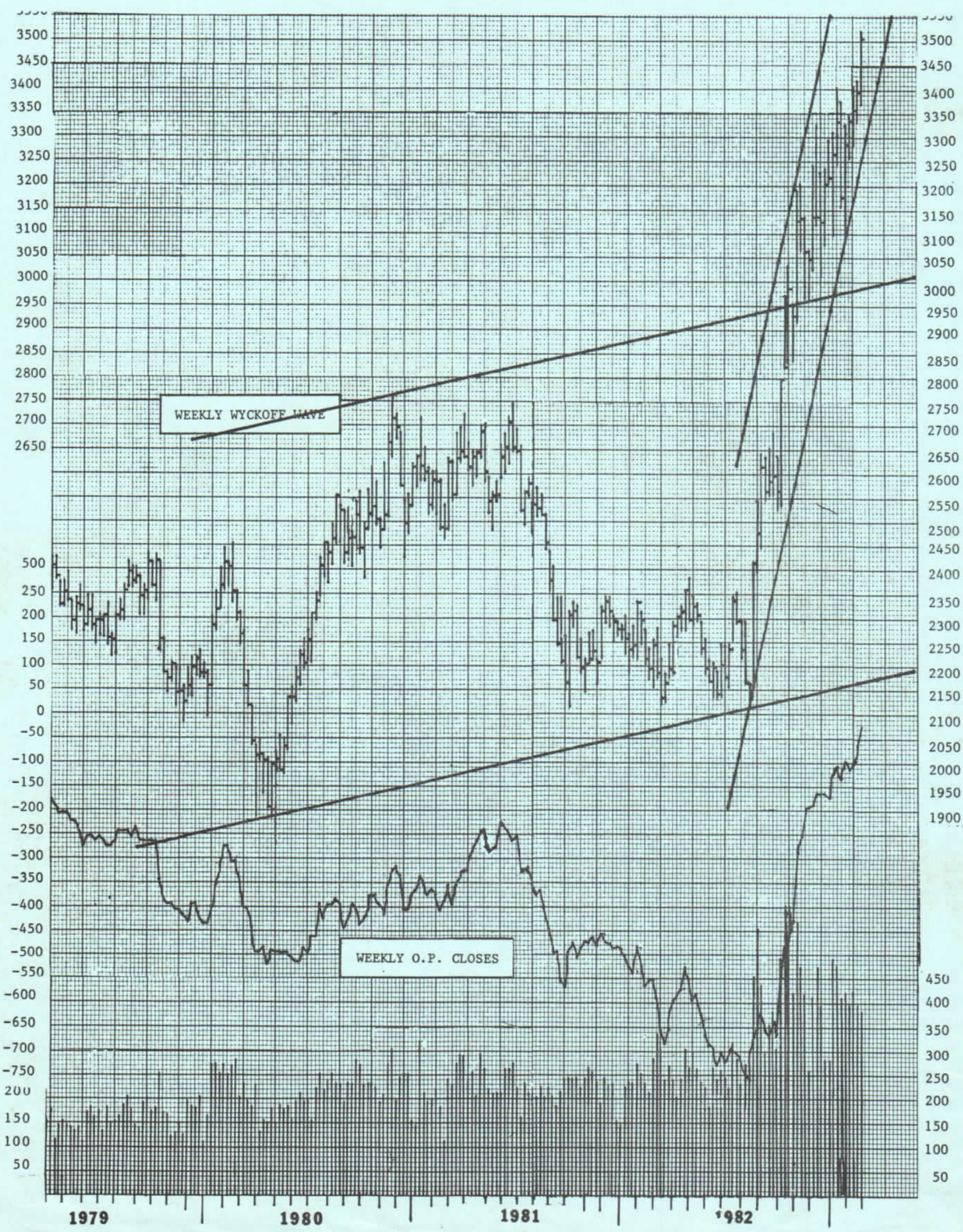
STOCK MARKET INSTITUTE, INC.

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
- ½-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.



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INDEX CHARTS

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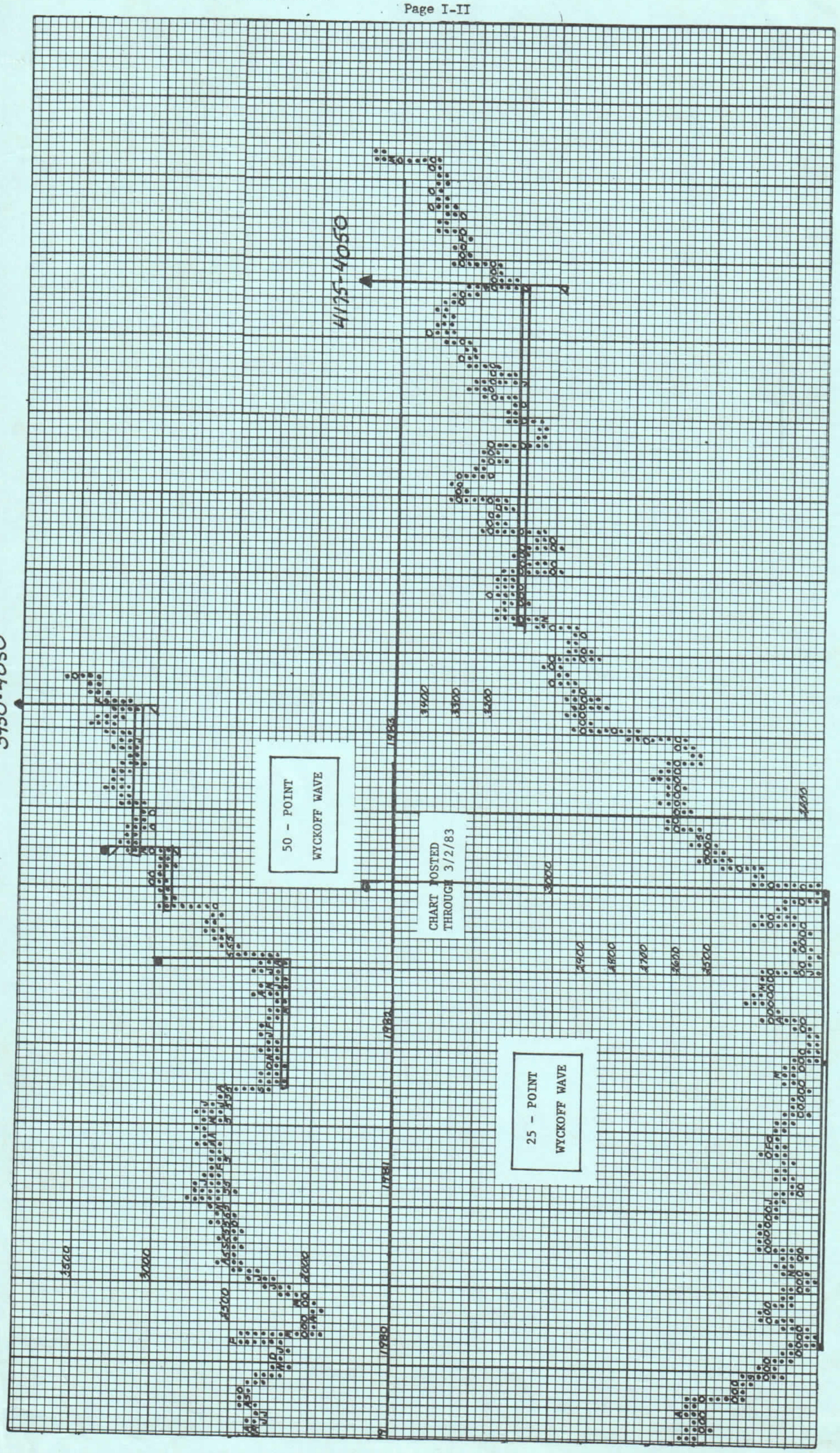

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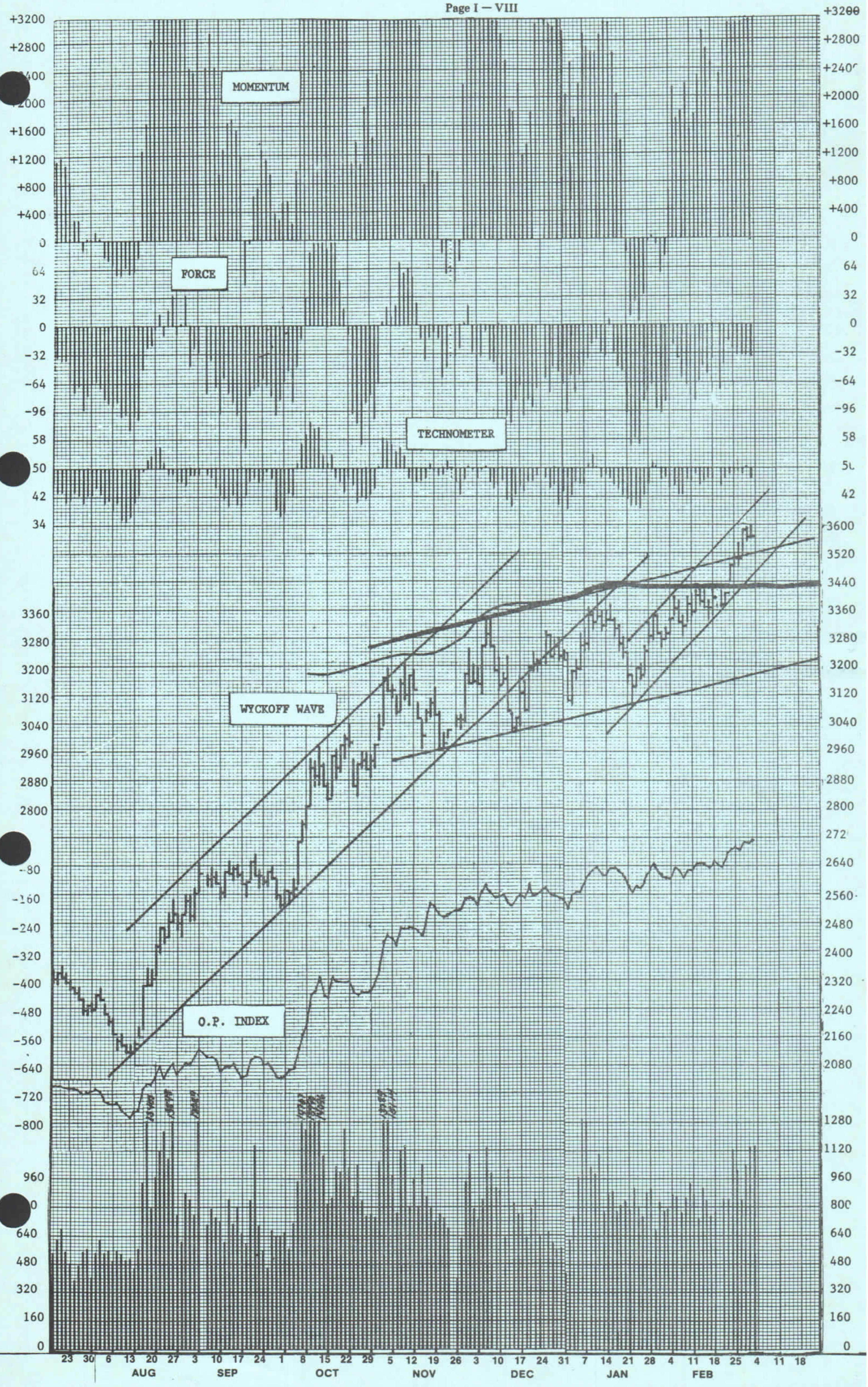

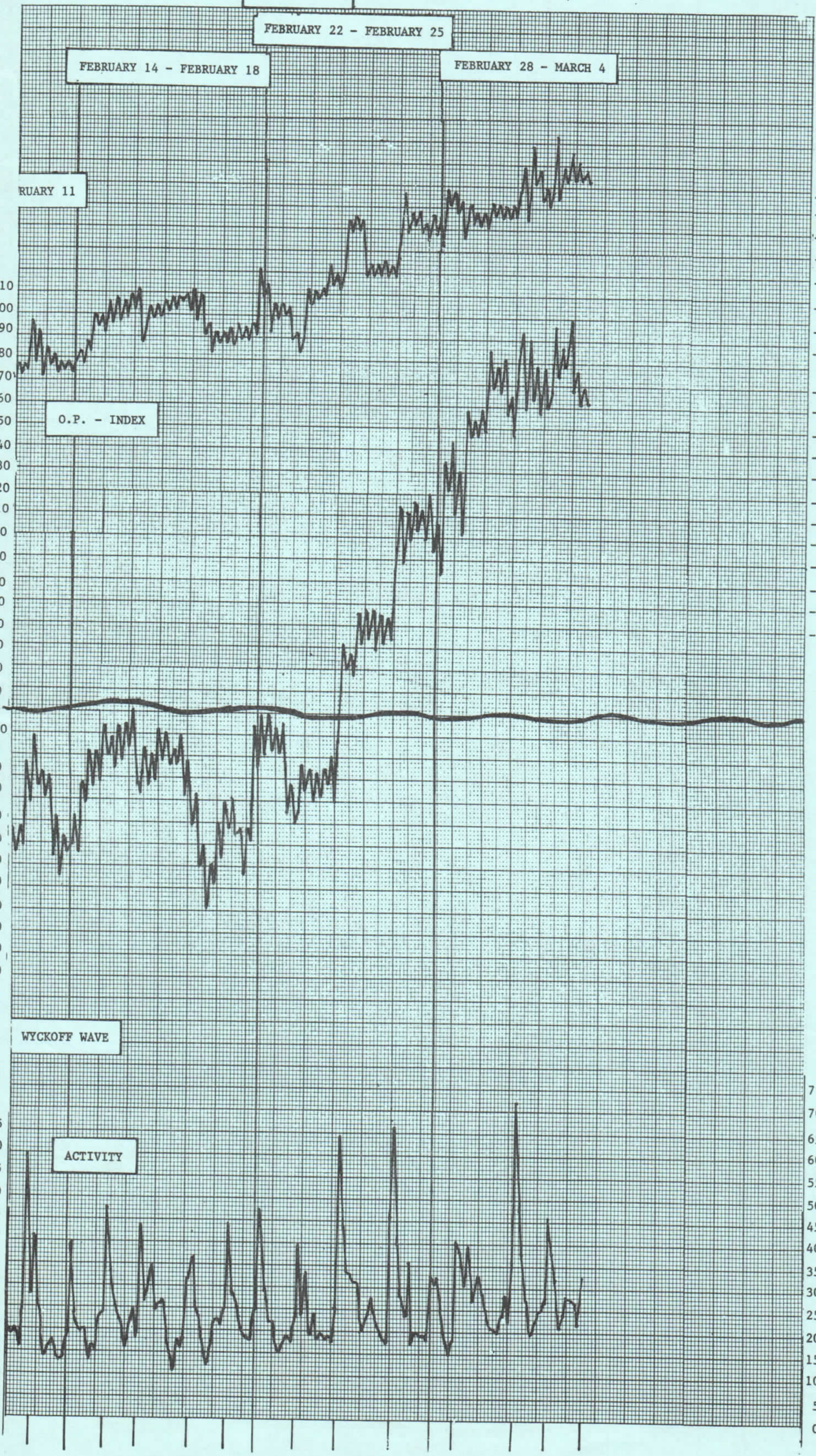
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FEBRUARY 14 - FEBRUARY 18
FEBRUARY 28 - MARCH 4
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O.P. - INDEX
WYCKOFF WAVE
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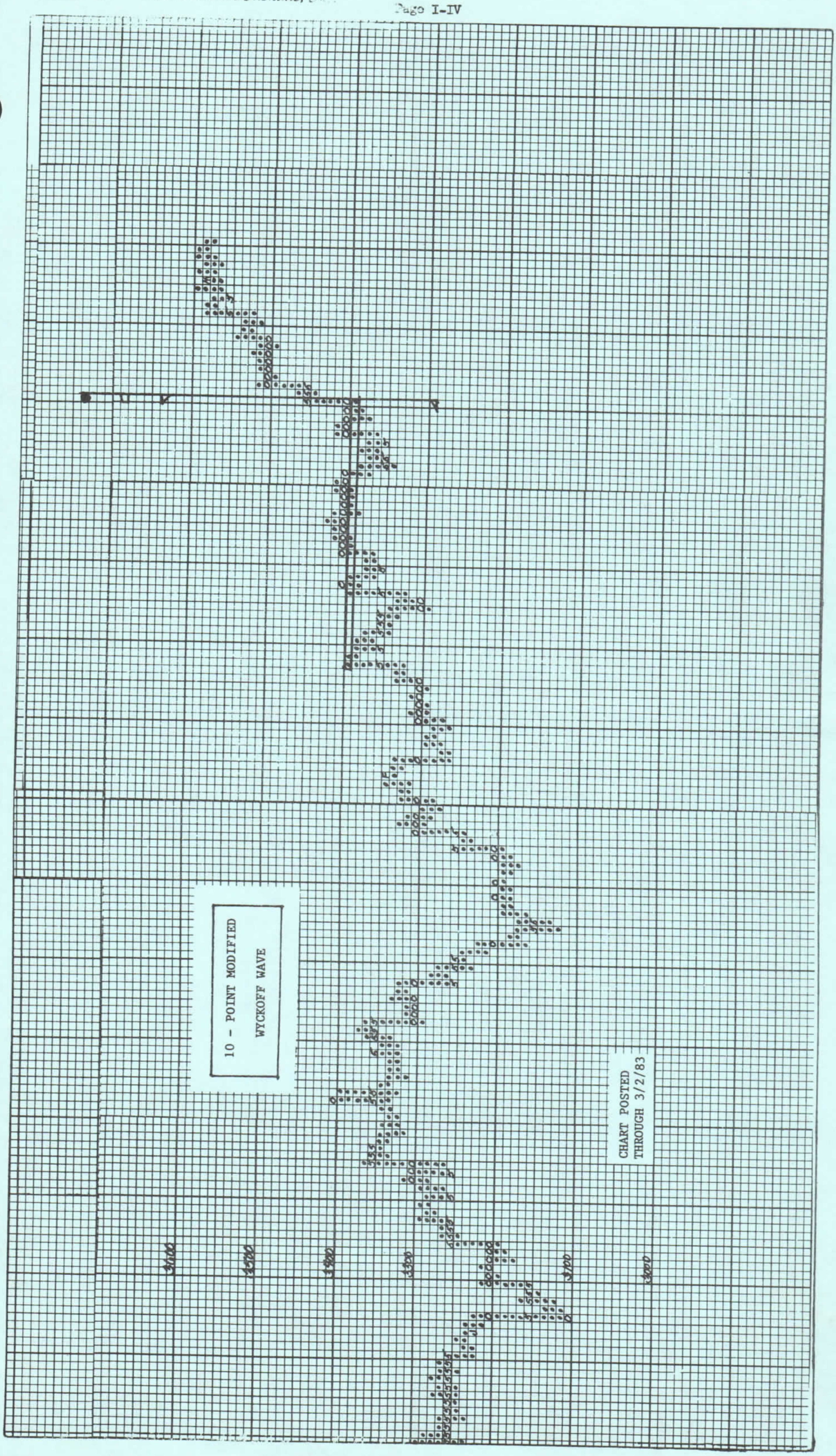
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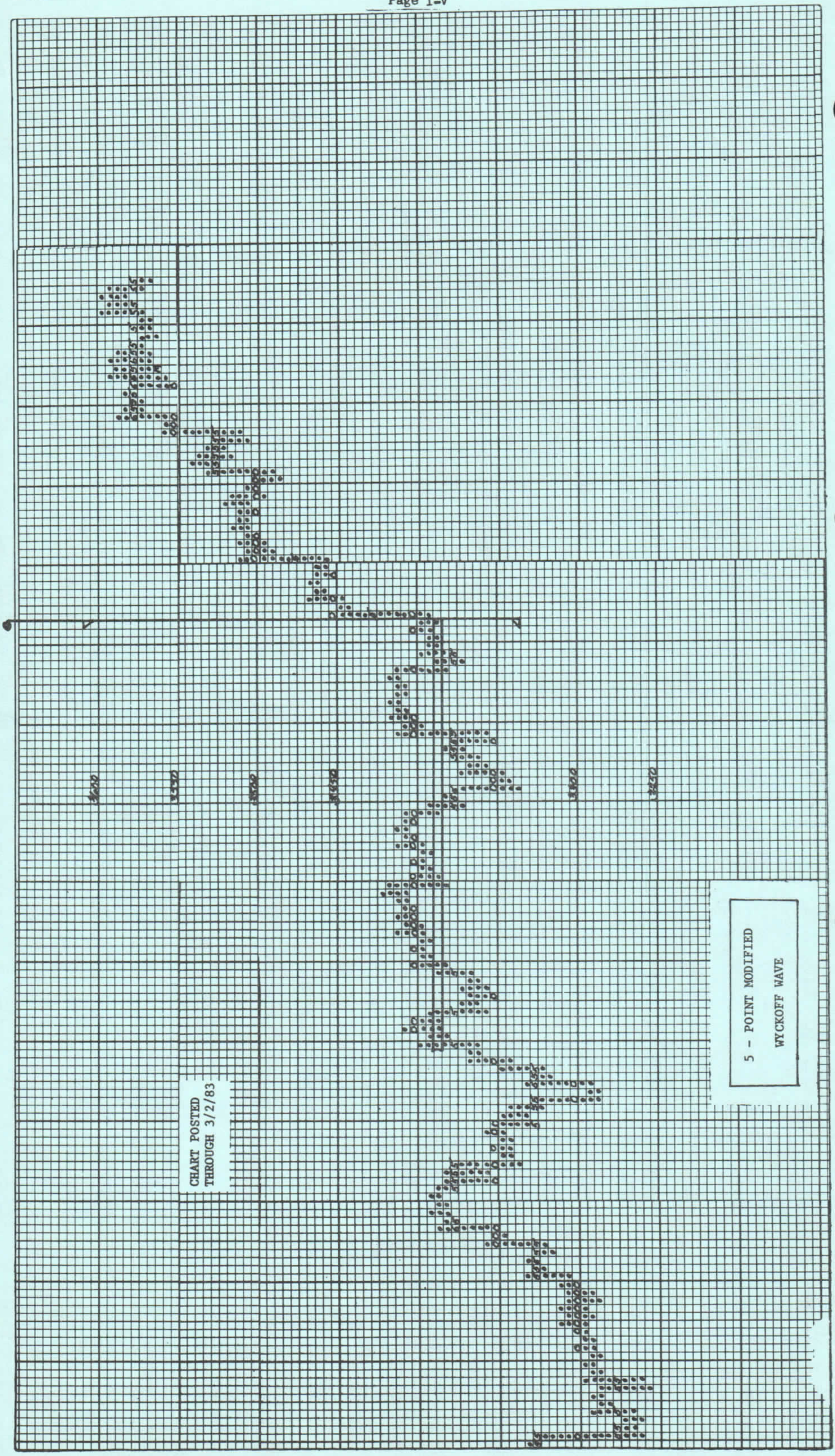
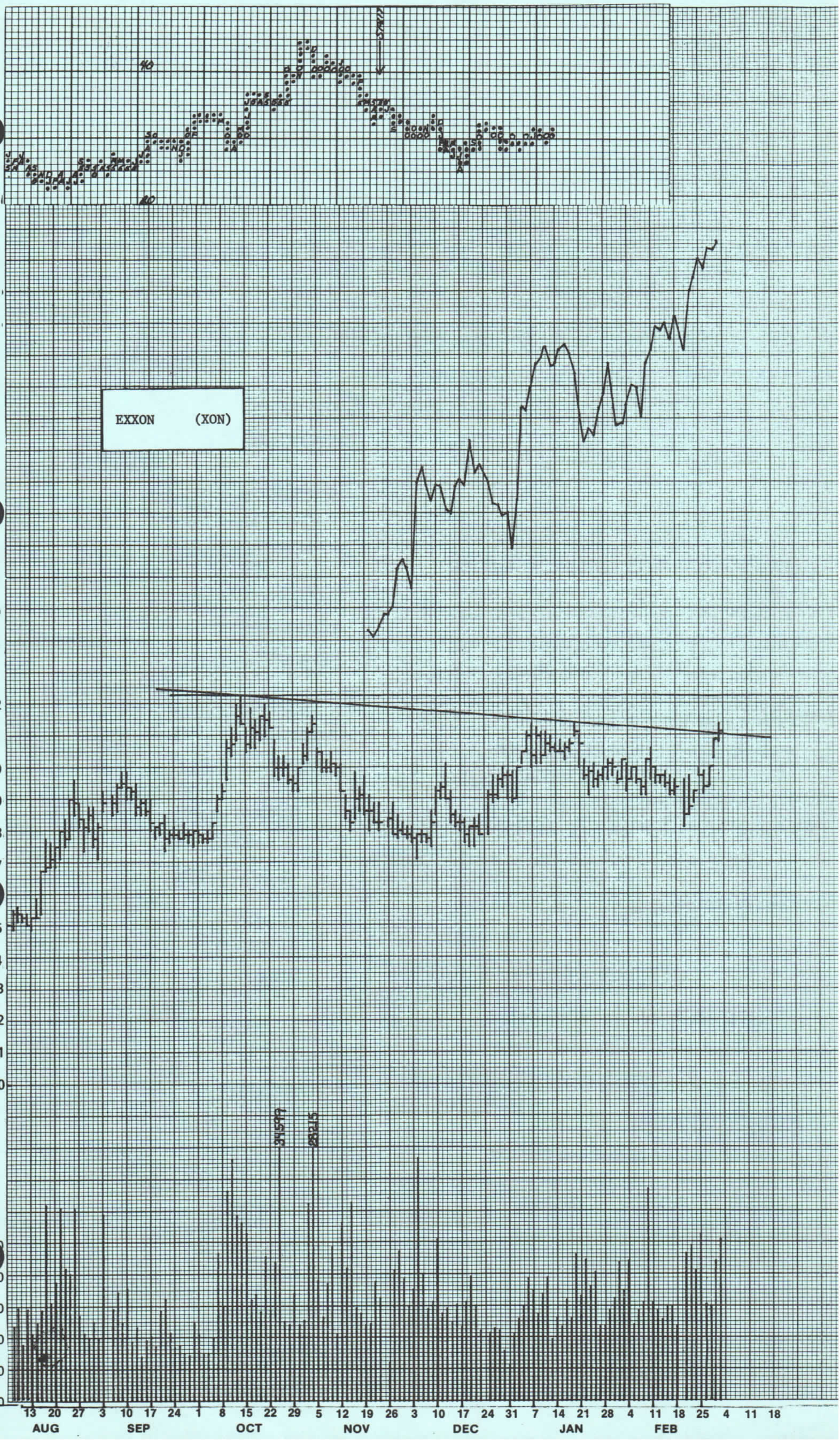
INDEX CHARTS

Stock Market Institute, Inc.





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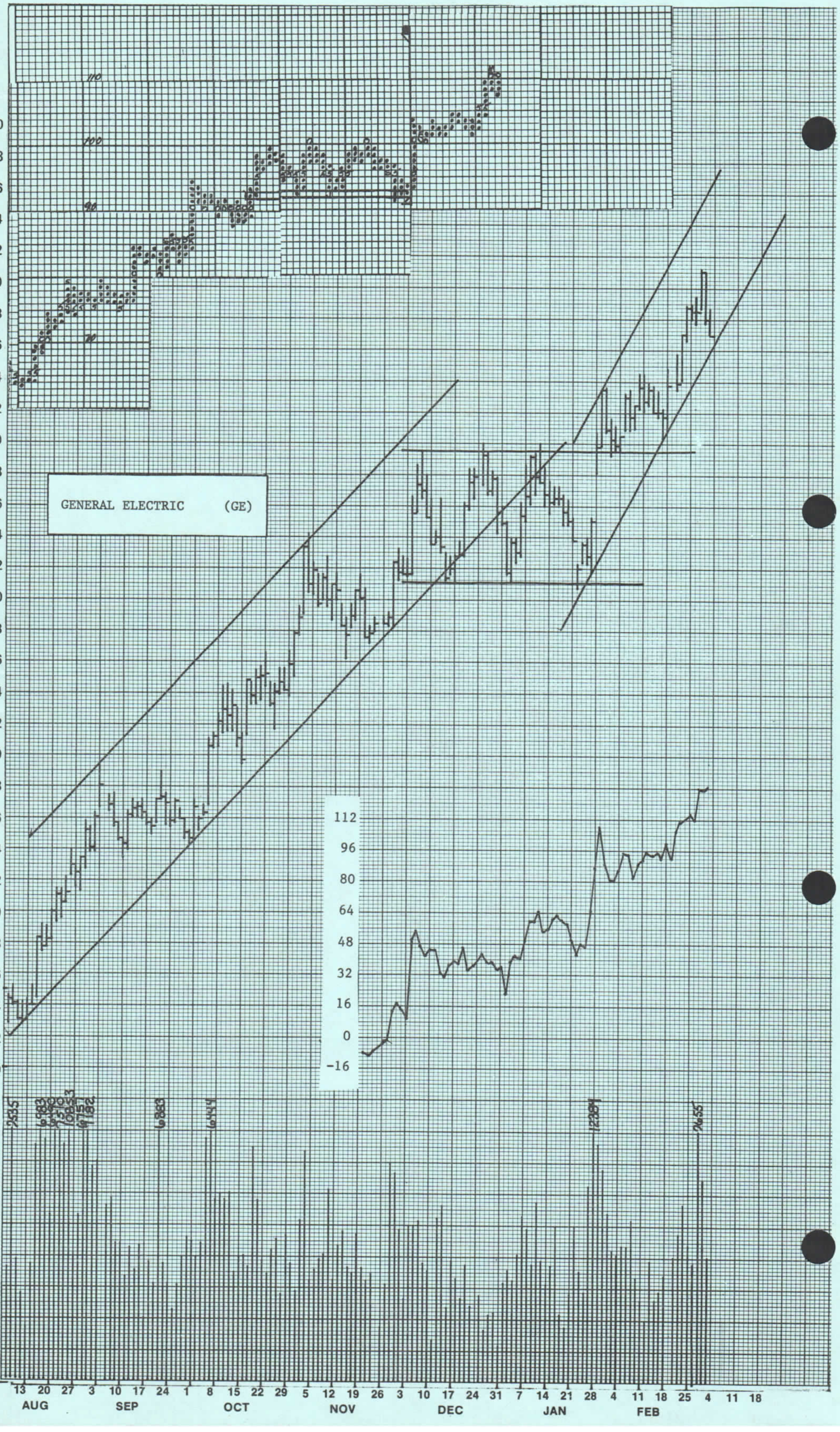
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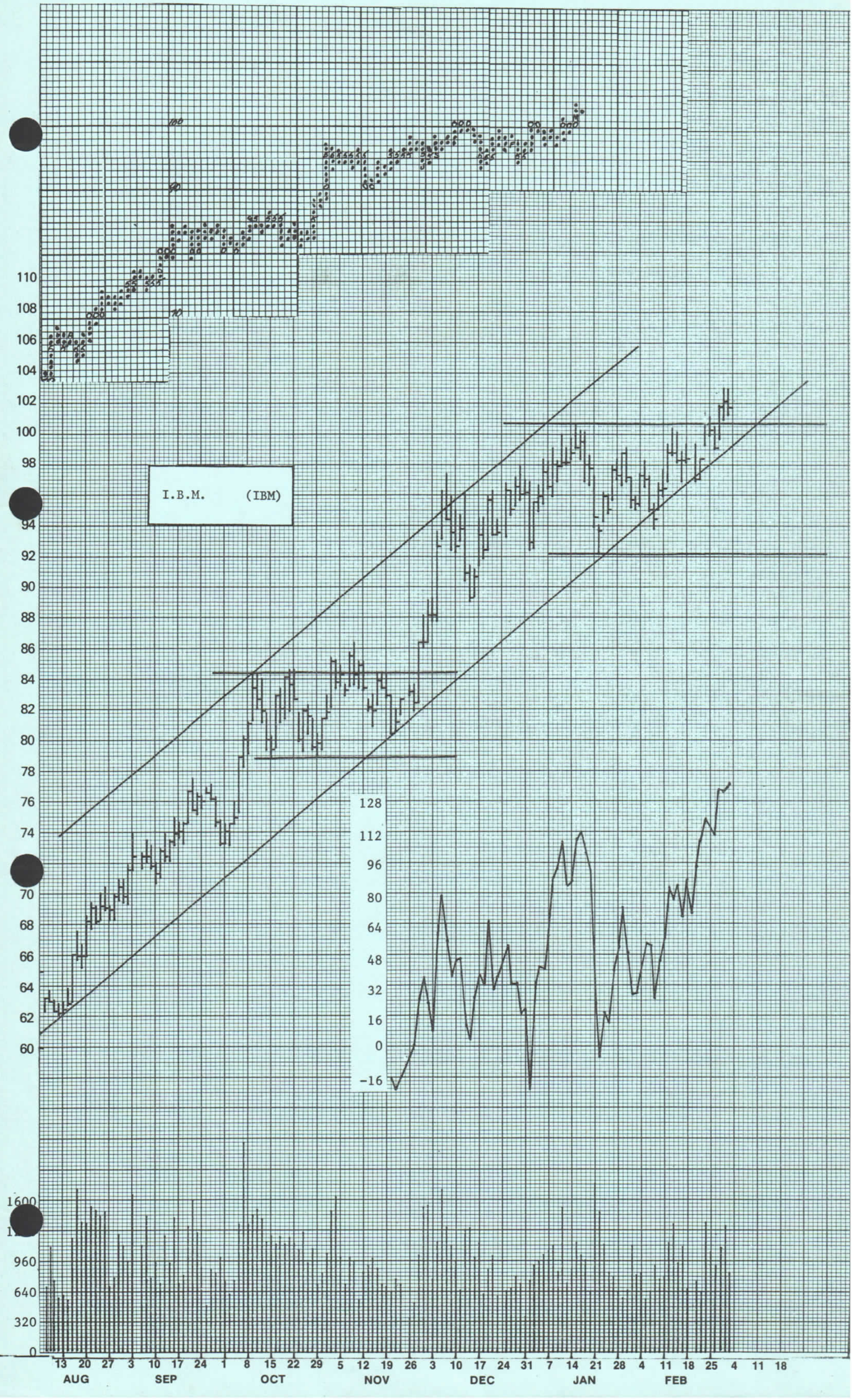

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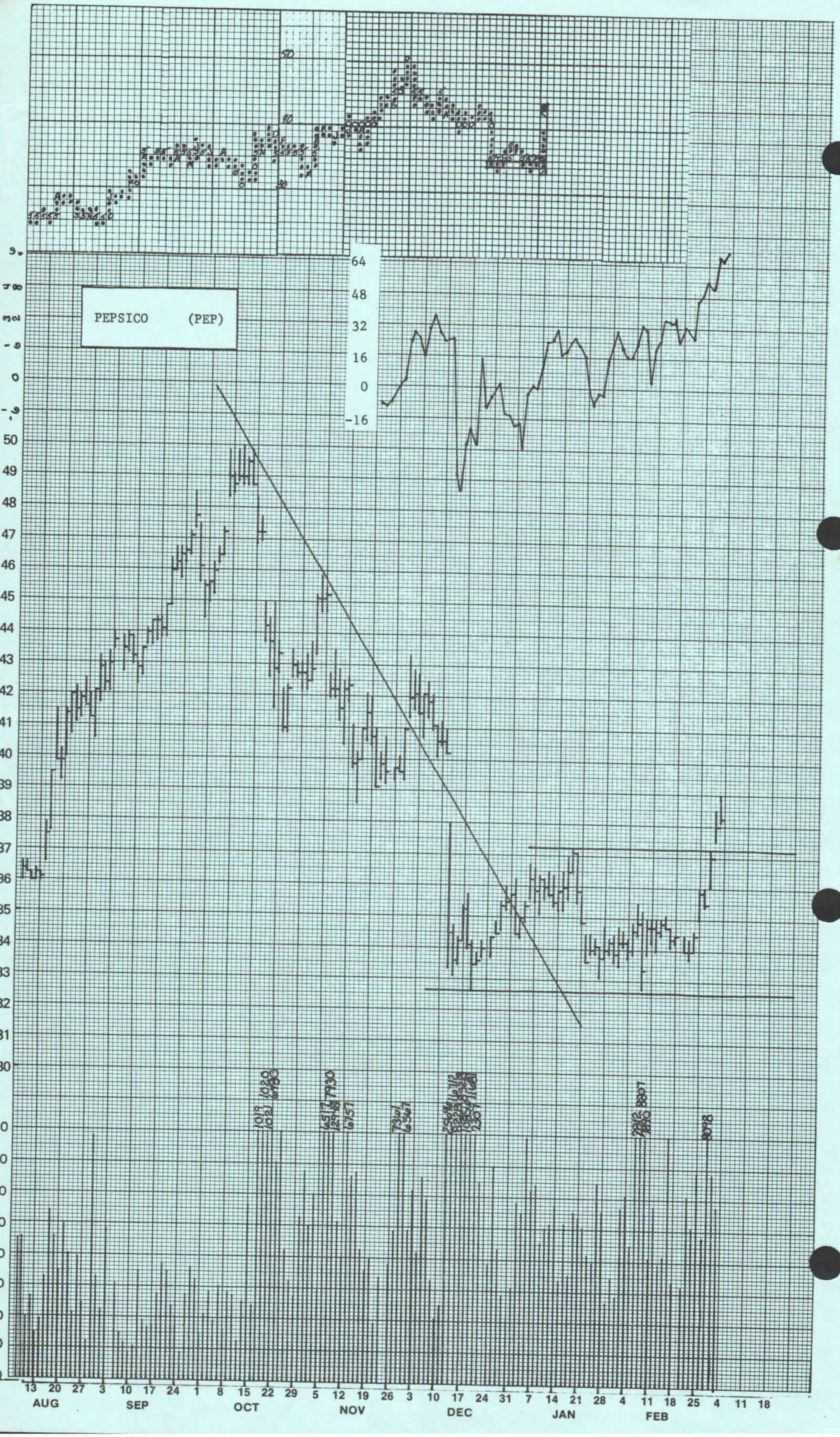

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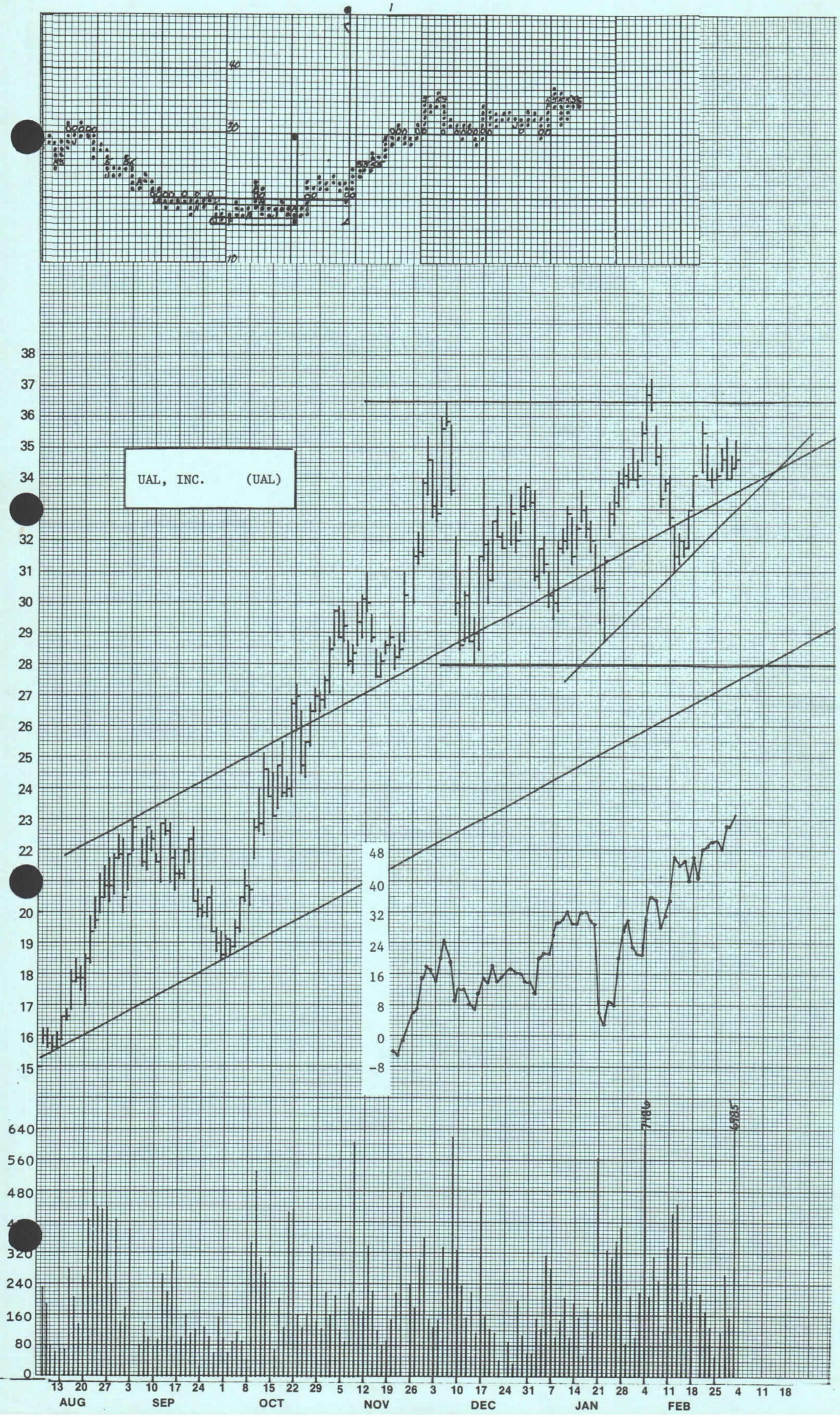

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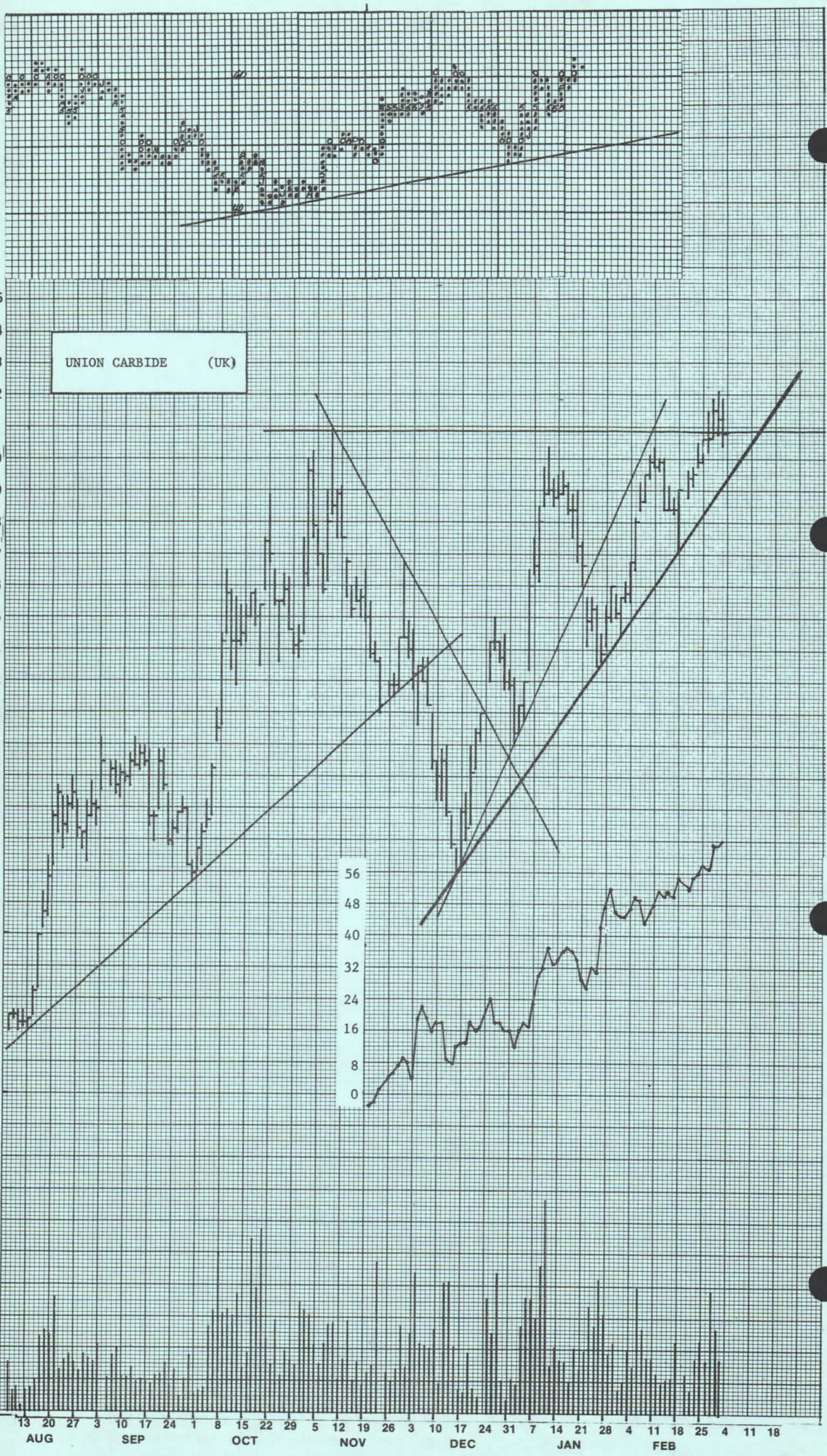
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