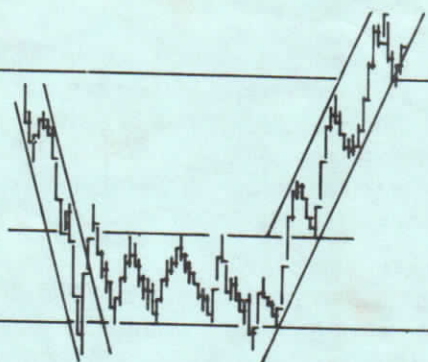




# The Trend Letter

Thursday, May 16, 1985

## MARKET TRENDS

The long term uptrend of the general market is still intact. The test of its demand line, which ended the week before last never really threatened the demand line. Last week's rally increased the distance between the bottom of the trend channel and the market's position. This insures that the long term trend will continue to be up for a while longer.

The fact that the long term trend is likely to remain pointed in an upward direction for a while is important to the long term investor. It helps justify any long positions he may still be holding. Equally important however, is the action within the trend. Here, there continues to be several potentially very serious problems. To begin with, it should be noted that in failing to reach the demand line on the last reaction, a new buying opportunity for the long term investor never really developed. In the final analysis, this may prove to be a blessing. This is due to what appears to be a growing inability to perform well on the upside, which may result in the demise of the long term uptrend in the relatively near future. If so, recent buying on the part of long term investors will prove to be a futile effort.

All of the problems facing the market from a long term standpoint have been mentioned before, but are worth reviewing. Perhaps most obvious among these is the inability to rally to the overbought line. A healthy bull market should have this ability. One that does not is vulnerable. In this case, the inability to reach the overbought line is made more ominous by the fact that the Wyckoff Wave no longer has the potential to reach the line even if it seemed to have the inclination to do so. The only way it can get this potential is to develop now with a new trading range. This is possible. There is room within the uptrend channel for it to develop. If it does, the next several months are going to be ones of very little action as the Wave moves within the area between the resistance level created by the 1983 top and the long term demand line.

Another serious long term problem is the upthrusting that occurred back in February. Following this, the Wave backed off on decreasing volume. This gave it another chance at the upside. It now appears to be getting that chance. The inability to back away from the upthrust on sustained volume means that the test may develop into a jump across the creek. The test began last week with a wide price spread and increased volume. The question now is whether this performance can be repeated as the Wave approaches and tries to pass through the resistance level. This is what will be needed to jump the creek. Anything less can be viewed as a successful test of the upthrust and a bad omen for the long term uptrend. Such a development may be used as justification for the long term investor to eliminate all remaining long positions and to give serious consideration to establishing short positions.

The final problem that needs to be reviewed is the recent strength in the O.P. This is actually a problem from both a long term and an intermediate term standpoint. It represents a strong upside effort. Unfortunately it is coming before the Wave reaches the creek. Therefore, it is being wasted. Instead of helping the potential test of the upthrust turn into a jump, the show of effort is helping confirm a test. If the upside effort is removed or exhausted before a successful jump across the creek is accomplished, the market will be in an extremely weak technical position.

At this point, the intermediate term investor may be wishing he had bought the week before last. This would have let him participate in last week's rally, which was primarily concentrated into Friday's rally. Any intermediate investor who did buy is taking a big chance. The weekly chart of the Wave shows that the intermediate demand line was penetrated resulting in a weakening of the trend. It is normal for this to be followed by a rally. However, the damage has already been done. It is also normal for the next reaction to produce a decisive breaking of the demand line and for the one after that to confirm the break. This is why buying on the penetration of the demand line represents an error. If the next reaction meets support at the demand line instead of producing a decisive break, action on the long side will be in order. Any positions already established on the long side should be monitored closely. They are vulnerable.

There are several developments on the daily chart of the Wave, which should be of concern to the intermediate investor. At the top of the list is the strength of the O.P. during the past two weeks. The last time this much upside effort was brought out, we were treated to the January rally. The rally of the past two weeks does not even come close to comparing to the January advance. This suggests that the recent effort has been wasted, which weakens the market.

Another problem worth noting is where the rally last week stopped. Note that it came to a halt just below the halfway point and the demand line connecting the December and January lows. In view of the upside effort being expressed, these two obstacles should have been overcome. The fact that they were not indicates that the market is not as healthy as the action last Friday may lead us to believe it is.



When the market rallied last Friday, it was on the verge of jumping a creek. The action since then has made it look more like an upthrust. On Tuesday, the price dropped back into the middle of the trading range on reduced volume from Friday. This tells us that a test of that high is needed and that it may develop into a jump at that time. Watch for narrowing spread and lower volume on the test. This will confirm an upthrust especially if it occurs in combination with an overbought condition. Long positions will become very vulnerable at this point and short positions may be considered.

There is one positive factor which should be mentioned to avoid the impression that the condition is totally negative. Both the Force and Momentum continue to trend upward. In view of everything else that has already been noted, do not look for this to produce strong upside progress. However, it should hinder downside progress at least temporarily. A collapse in the face of an upward trending Force and Momentum is not impossible, but unlikely.

The only individual who can justify being long is the short term trader. His trend has been up. It is still up, but even its future is now in doubt. The action at the end of last week produced a seriously overbought position. This was followed by a minor negative divergence and a reaction back to the demand line. Note that the demand line has suffered numerous penetrations. It likely will be broken soon. Therefore, exiting the long side of the market should be the short term traders first consideration at this point.

## INDEX TRENDS

Our analysis of the general market is given more credibility if it can be confirmed. The tradeable market indexes appear to be providing this confirmation. They may also provide a worthwhile candidate for a trade.

The S&P 500 (SPX) is clearly stronger than the Wyckoff Wave. This suggests that it might be a candidate for a long position. However, nothing in our analysis of the market favored the taking of a long position at this time. In addition, both the position and potential of the S&P 500 argue against long positions. As of yesterday, the upside objective range had been met. The index is also in an upthrust position and in an overbought position in the short term uptrend. This combination strongly suggests closing our long positions rather than taking them. Watch for a response to the upthrust and a test. This will allow for the development of some new potential. If the test is successful, a short term short position may be considered.

The S&P 100 Index (OEX) is also stronger than the Wave. This suggests that it might be considered for a long position. There is still some upside potential and as yet no major upthrust position. There is, however, an overbought position in the short term uptrend, which will make additional upside progress more difficult. The intraday chart reveals an attempt to reenter the short term uptrend channel, which met support at the overbought line. This allows us to define a more aggressive uptrend channel. For this reason, short term long positions in this index may be held a little longer, but the overall market analysis discourages any new positions.

The New York Stock Exchange Index (NYA) is a carbon copy of the SPX. It is overbought in its short term uptrend and in an upthrust position. It has also reached its upside objective. Therefore, the justifiable thing to do is to take a neutral position and await further developments. Anticipate a test of the upthrust and development of new potential. These will lead to a possible opportunity on the short side.

The weakest index is the Major Market Index. It most closely resembles the Wyckoff Wave. Therefore, *it is not a candidate for any action on the long side. It is the index most likely to produce an opportunity on the short side.* Specifically, watch for a test of the supply line. This should come on narrowing spread and lower volume. A potential is already forming, which should be able to move the index several points.

## STOCK TRENDS

Only one of the stocks in the Wyckoff Wave appears to have a chance to jump the creek and that is not a strong possibility. The stock is Dow, which has gotten above its resistance level at 30.7 and is holding there. The price action is not clearly a jump and the volume does not support the idea very well. The interesting point here is the ability to hold above the resistance level. If the stock meets support quickly on a reaction on relatively low volume it may be considered for a long position. However, it must be remembered that the market's action is against such action. Therefore be very careful.

Exxon has higher objectives. However, in recent weeks it has suffered its first serious setback. It may be preliminary supply. The stock's ability to rally from its current level is very important. If it cannot get through 54, a trading range will have taken control of the action. From a long term perspective, these need not be negative. It can result in building more support under the stock and a confirmation of a higher objective. A reason for concern will develop only if the next rally produces a climactic type of action. In this case, it would be time to start exiting the stock.

The action of General Electric is very important to the future of the Wave. GE has entered a trading range in the vicinity of the halfway point of the prior advance. An extremely strong stock would have resumed its advance following the halfway correction. The trading range is not a negative development in and of itself, however. It may be just a resting spell. At this point, the stock has tried to upthrust the range and to spring it. Neither action has been successful. Therefore, the best course of action appears to be to leave it alone for now. Existing positions that are protected with stops may be maintained.



The best candidate for action on the short side is GM. It has already dropped almost twenty points, which is a clear indication of weakness. It has the potential to drop an additional fifteen points. The problem with taking immediate action on the short side is the position in the trend. It needs to be closer to the supply line. Another possibility here is the development of a new trading range followed by an upthrust and then a resumption of the decline. This is not as negative as rallying to the supply line and then collapsing, but it is a possibility that should not be overlooked.

IBM is similar to GE. It has entered a trading range in the vicinity of the halfway point of the prior advance. This is neither positive or negative. Therefore a neutral position is in order. Although neither GE or IBM are ready to be traded now, they should be watched closely. The direction in which they leave their trading ranges will determine the direction of the market's next important move.

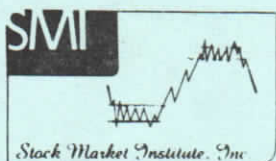
Merrill Lynch has tried to rally during the past two weeks. It made it to the halfway point of the prior reaction without much increase in volume. It has now stalled just below the halfway point. This is not a good sign. The top of the rally may serve as a second point for defining a more important down trend. Short term profits on the long side should be taken. No other action is warranted at this time.

Sears has broken its short term downtrend and defined an intermediate uptrend. This makes it a long candidate, but not in the current market environment, or in the stock's current position in the uptrend. Perhaps it may be considered seriously later, but for now a neutral position is justified.

UAL along with GM should be the other prime short candidate in the Wave. Until six days ago, UAL appeared to be a perfect short candidate as it rallied to its supply line. However, it then broke the supply line decisively and rallied to the resistance level. It should not have done this. However, since it has, the task now is to determine what it means.

The new show of strength suggests the prior reaction was a shakeout. If so, the stock should be ready to jump the creek. Its reaction on low volume just below the creek during the past four days supports this idea. Therefore, when it begins to rally again it had better jump immediately. Otherwise, all it will have done is broaden its top and produced an even better short sale candidate.





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MAY 15, 1985

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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

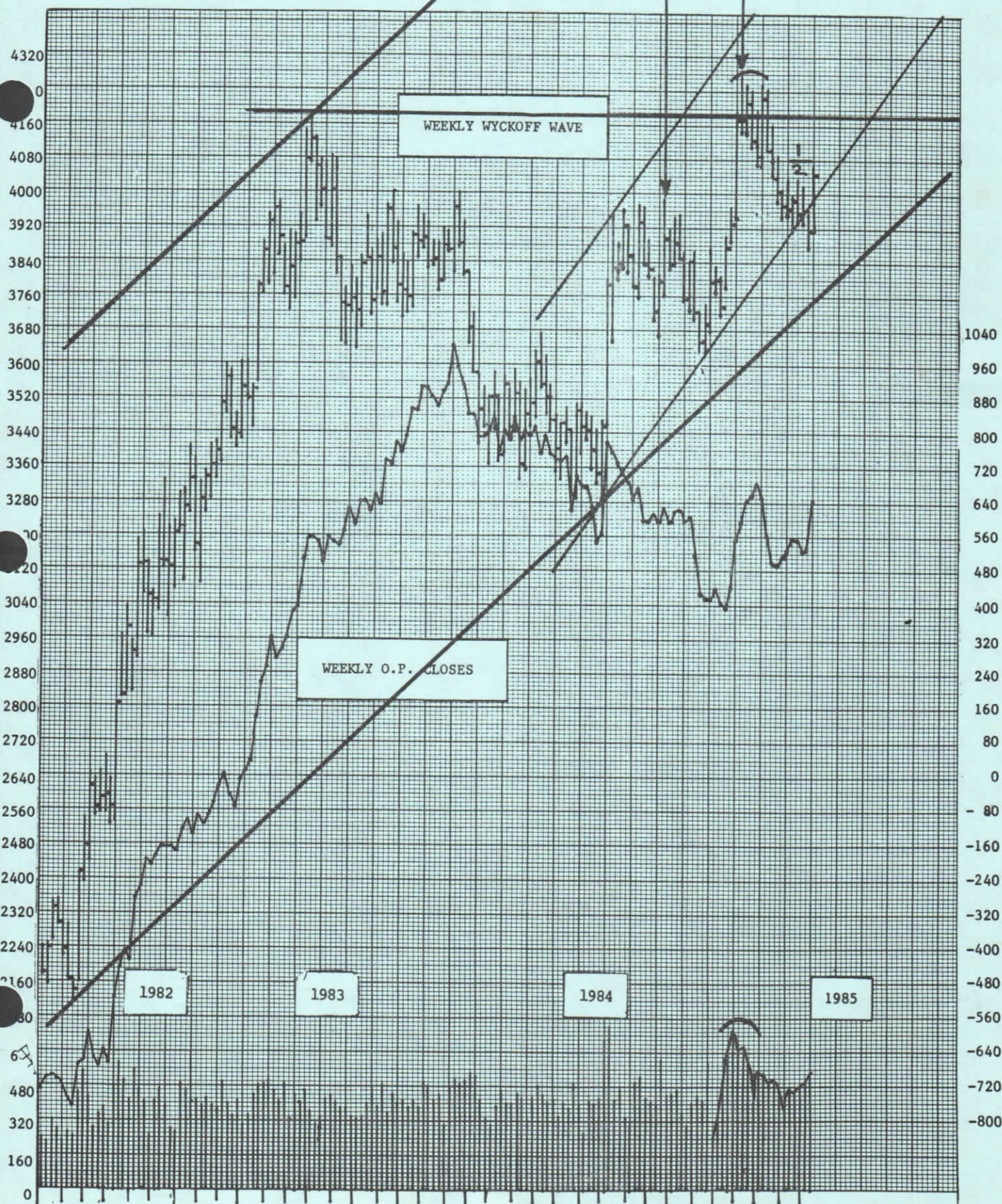
Office Equipment

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.

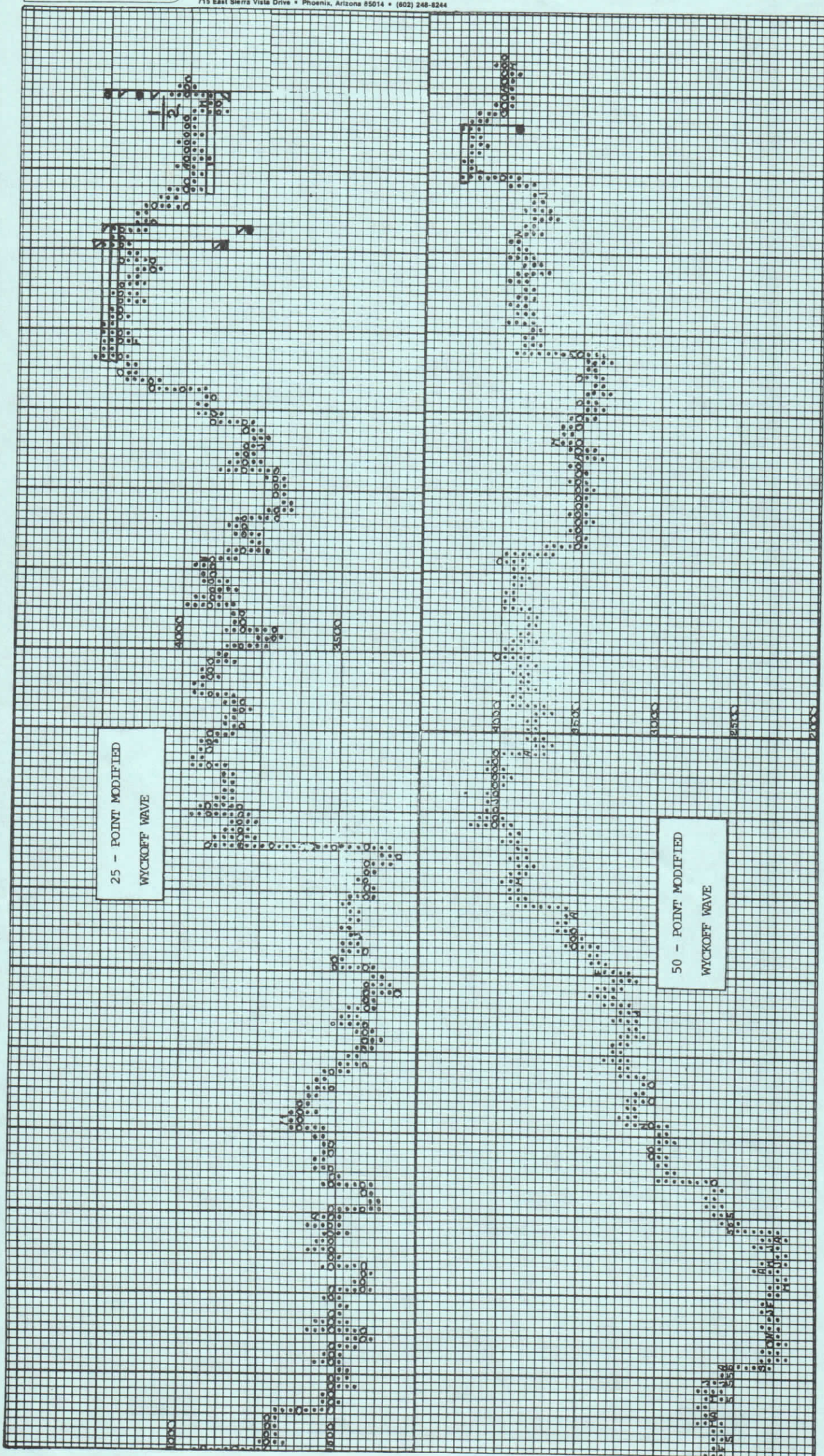




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25 - POINT MODIFIED  
 WYCKOFF WAVE

50 - POINT MODIFIED  
 WYCKOFF WAVE



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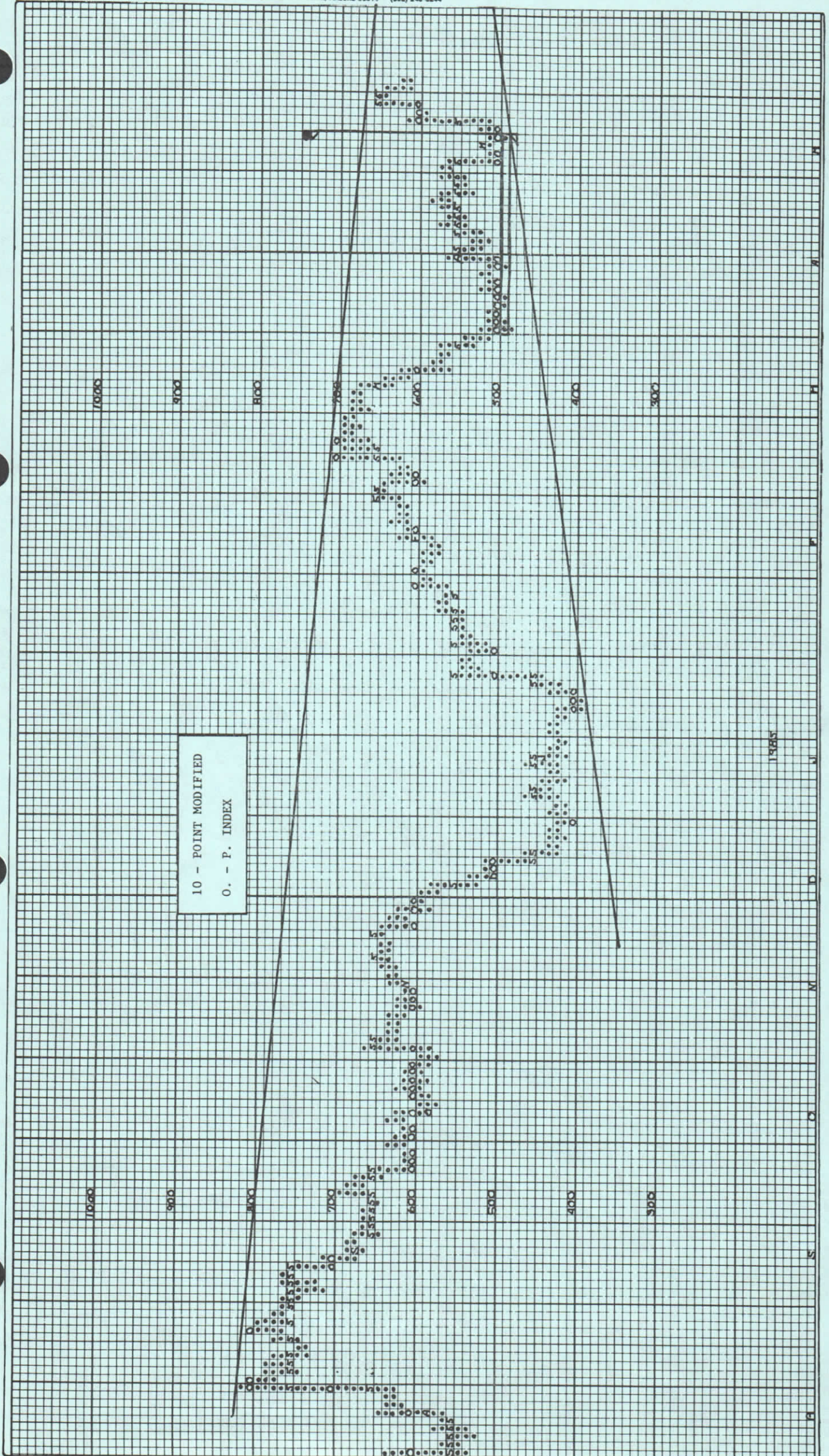


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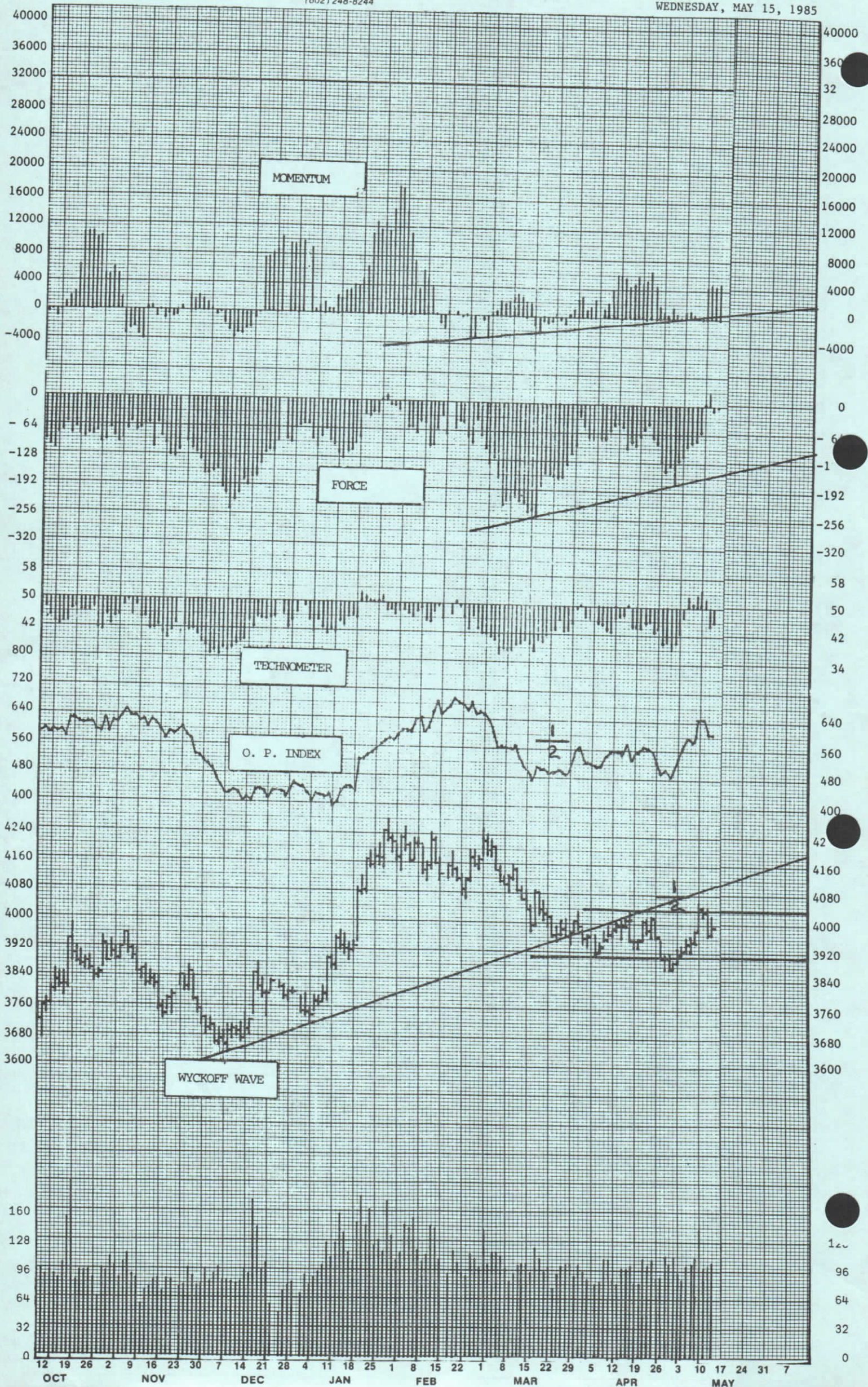






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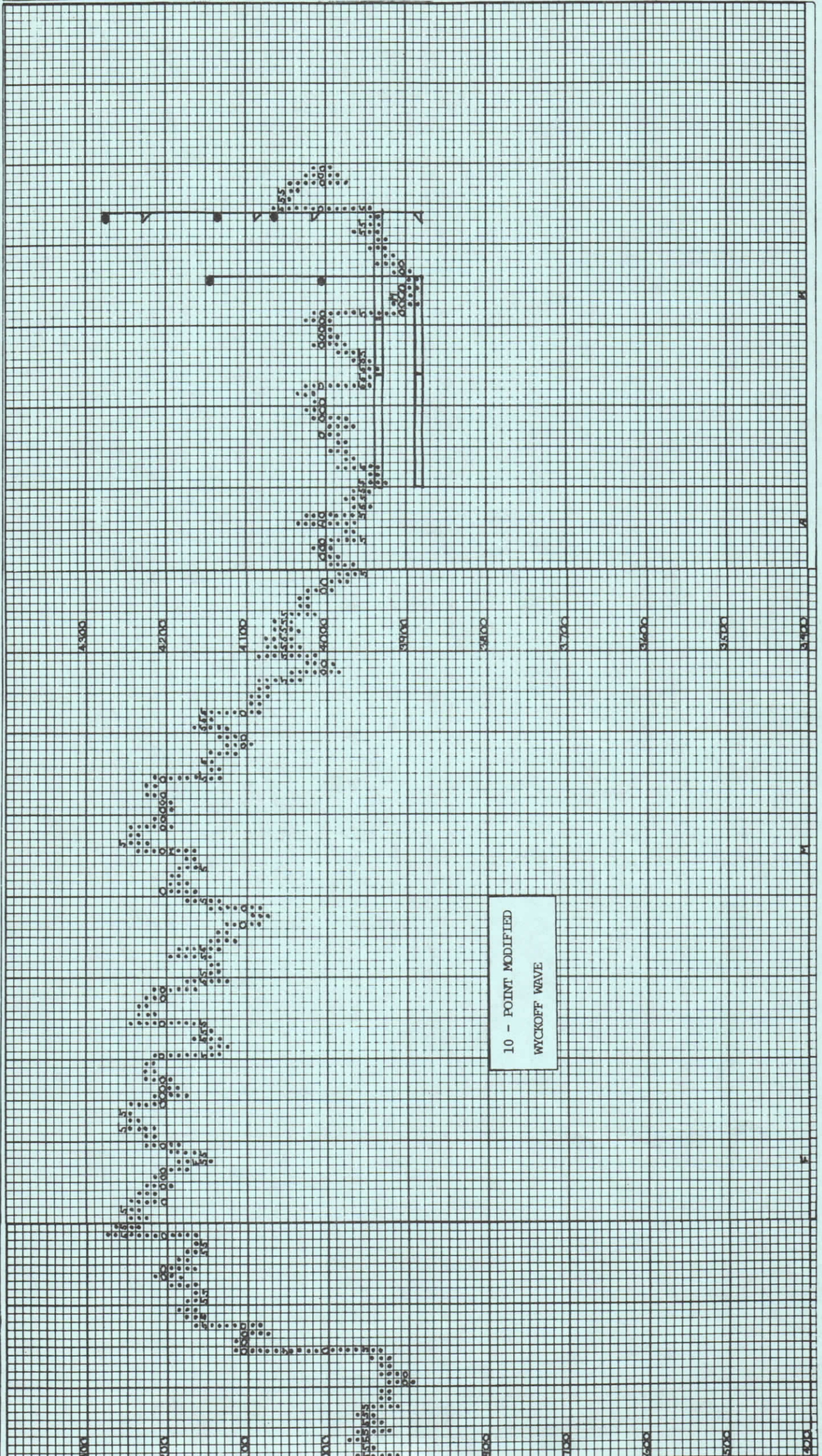


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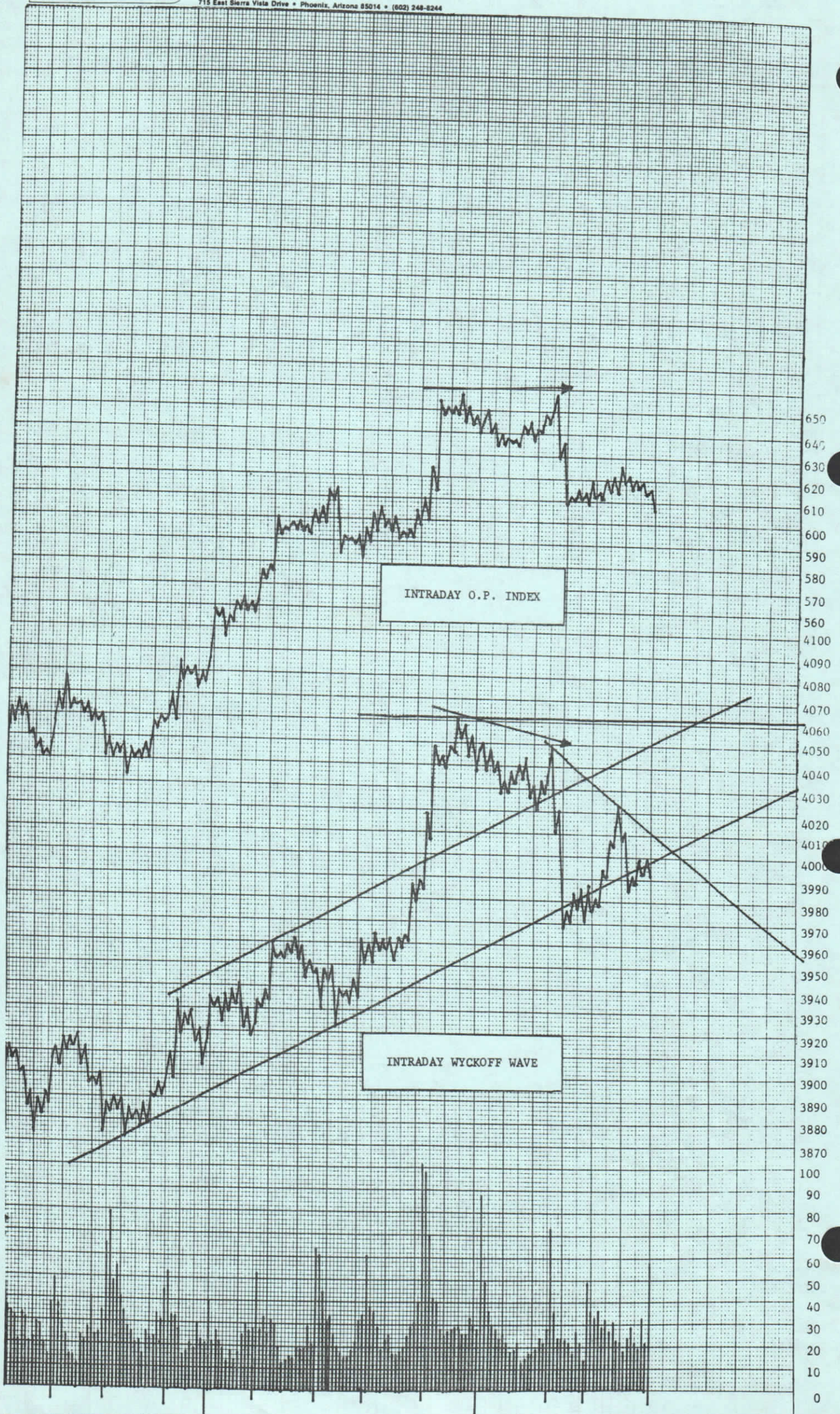


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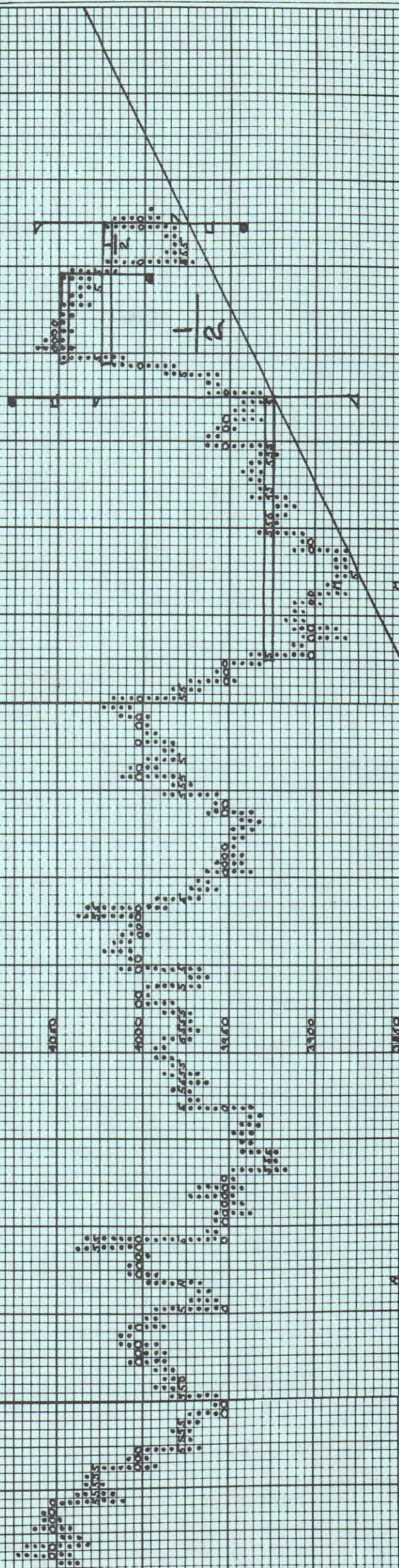




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5 - POINT MODIFIED  
 WYCKOFF WAVE





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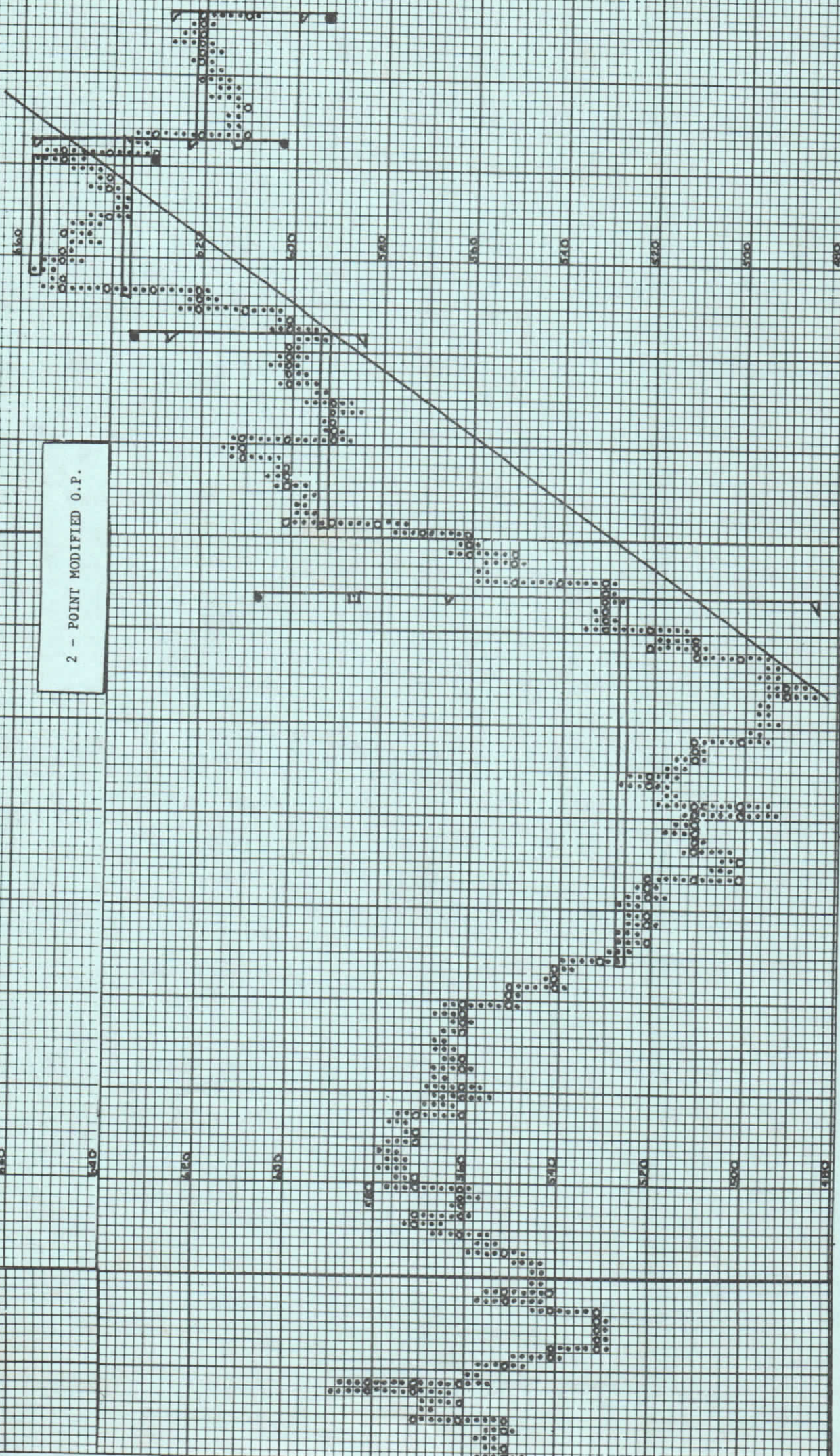
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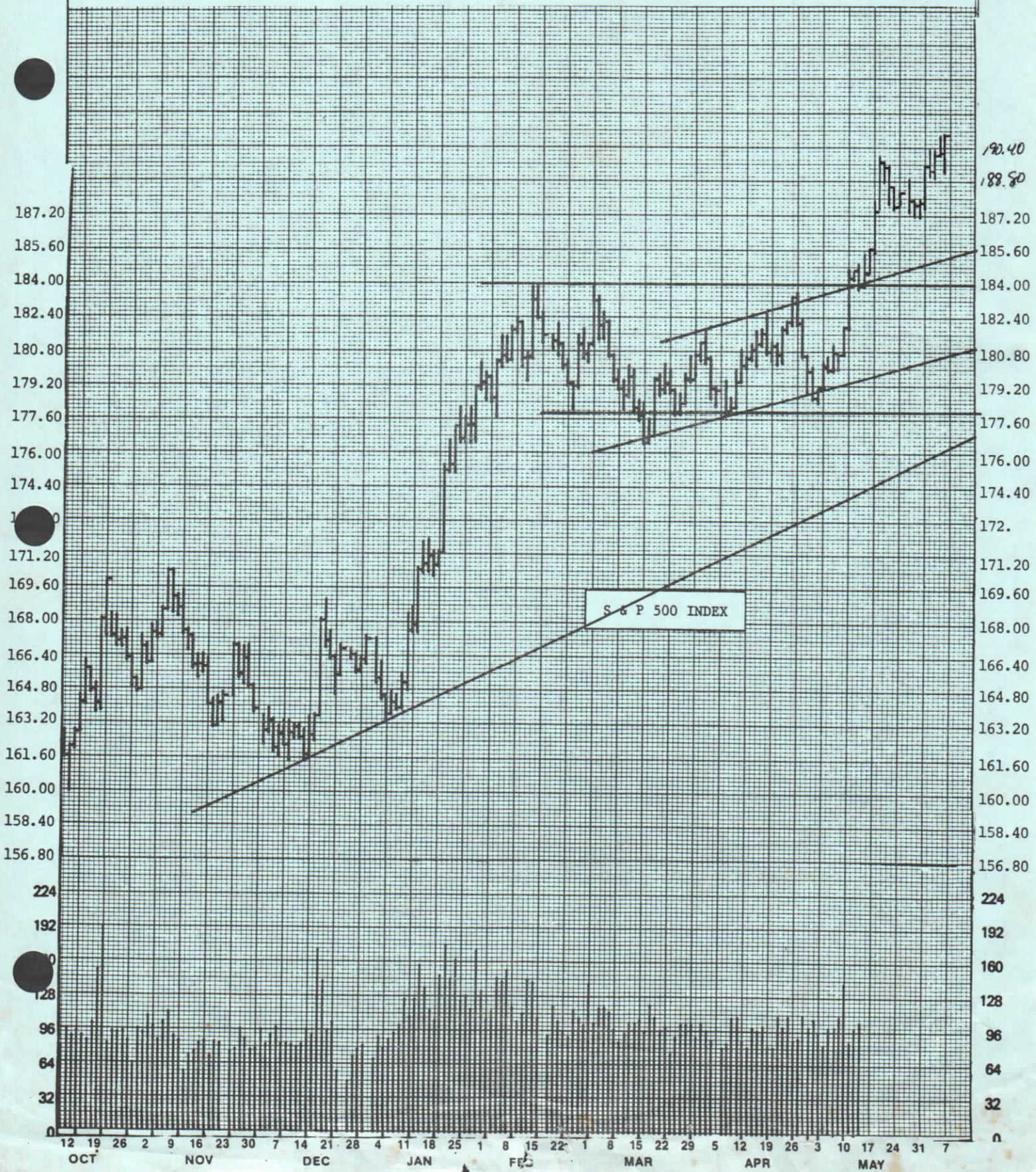
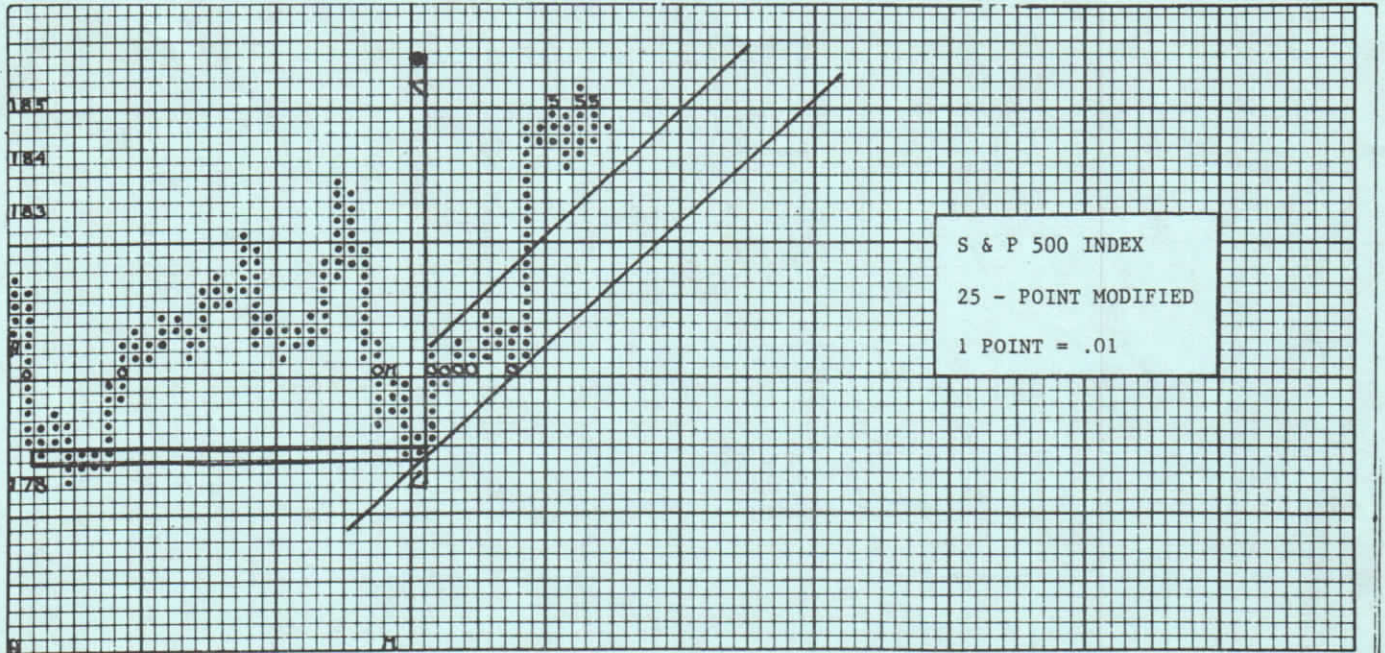
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2 - POINT MODIFIED O.P.





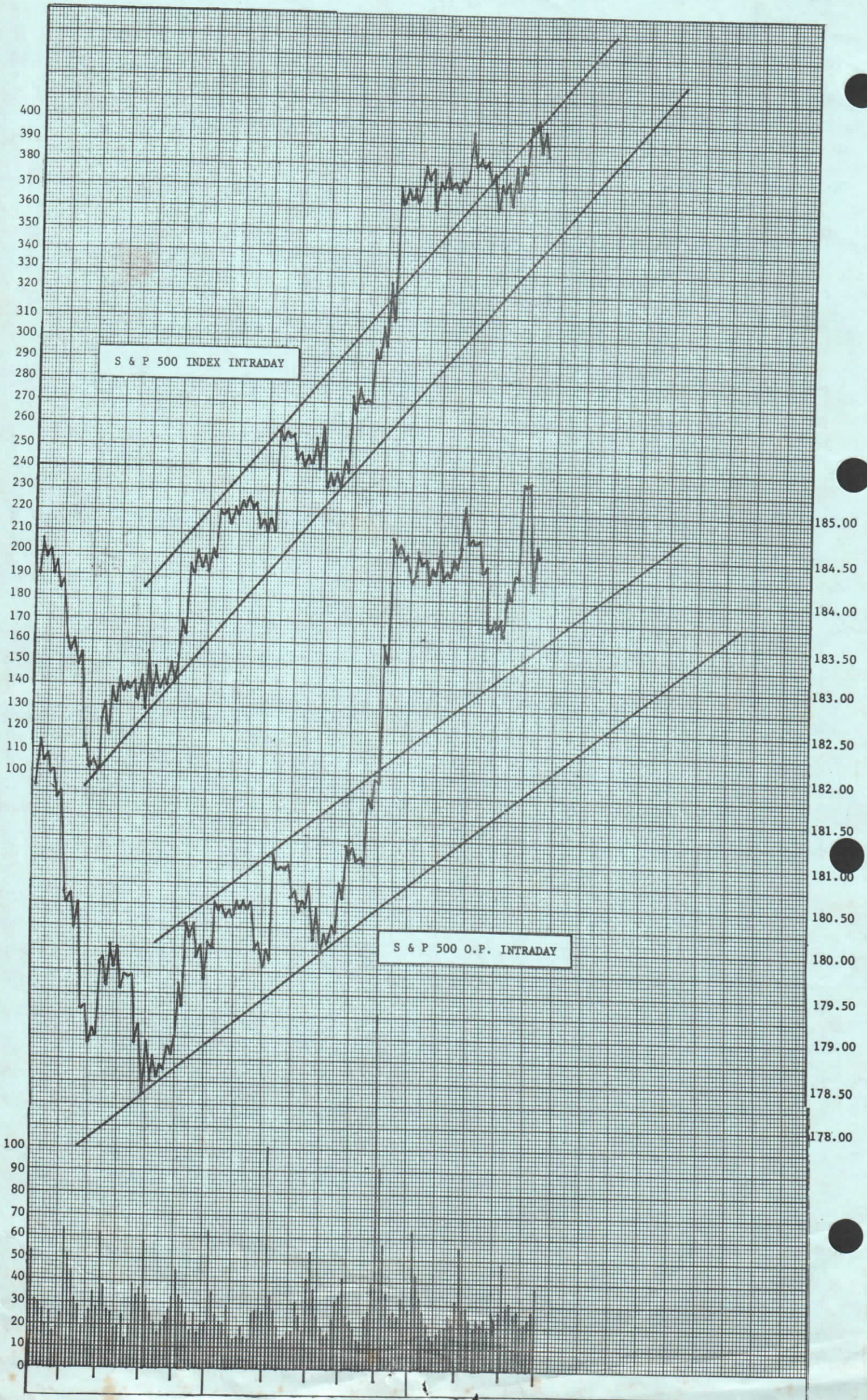




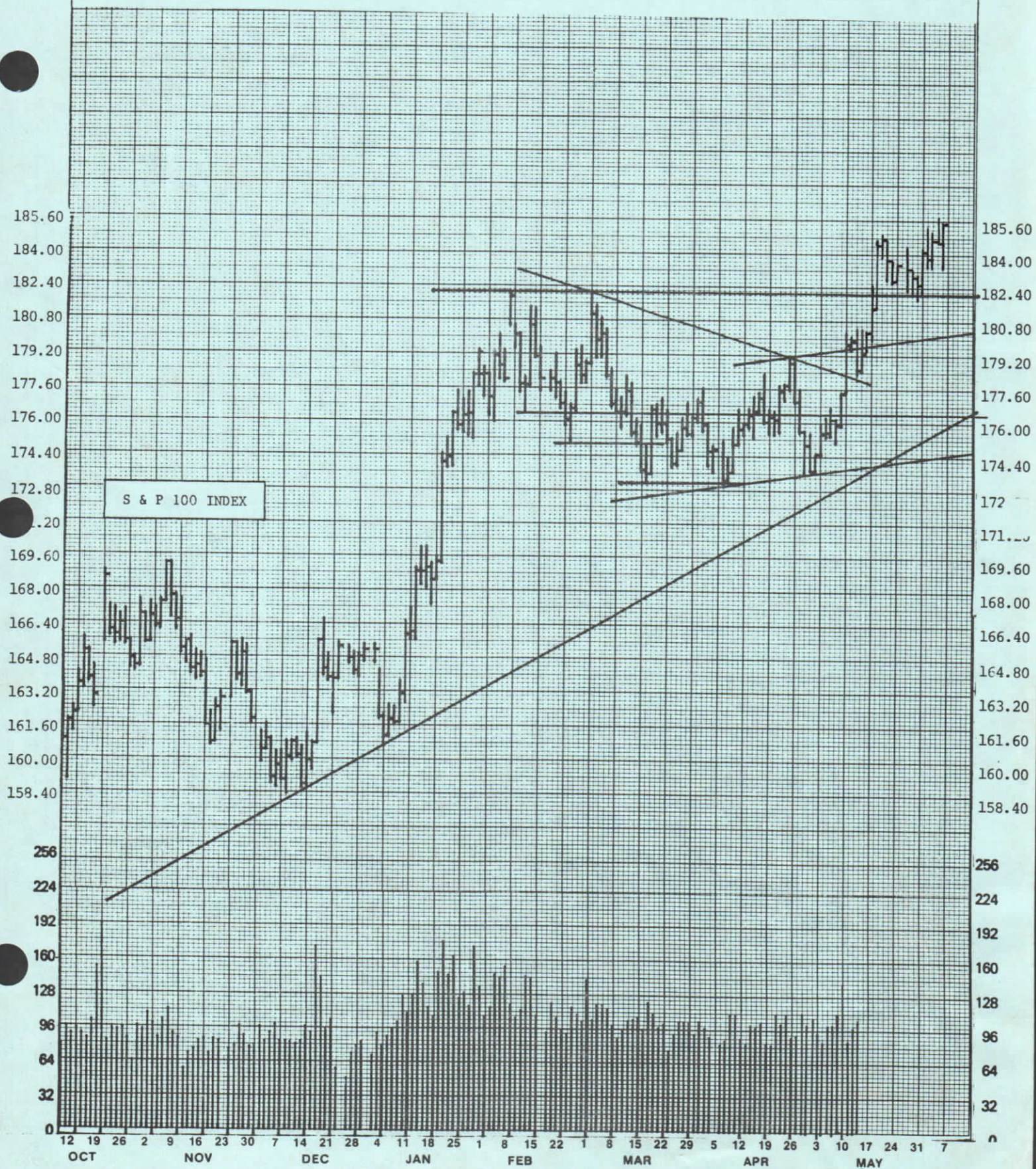
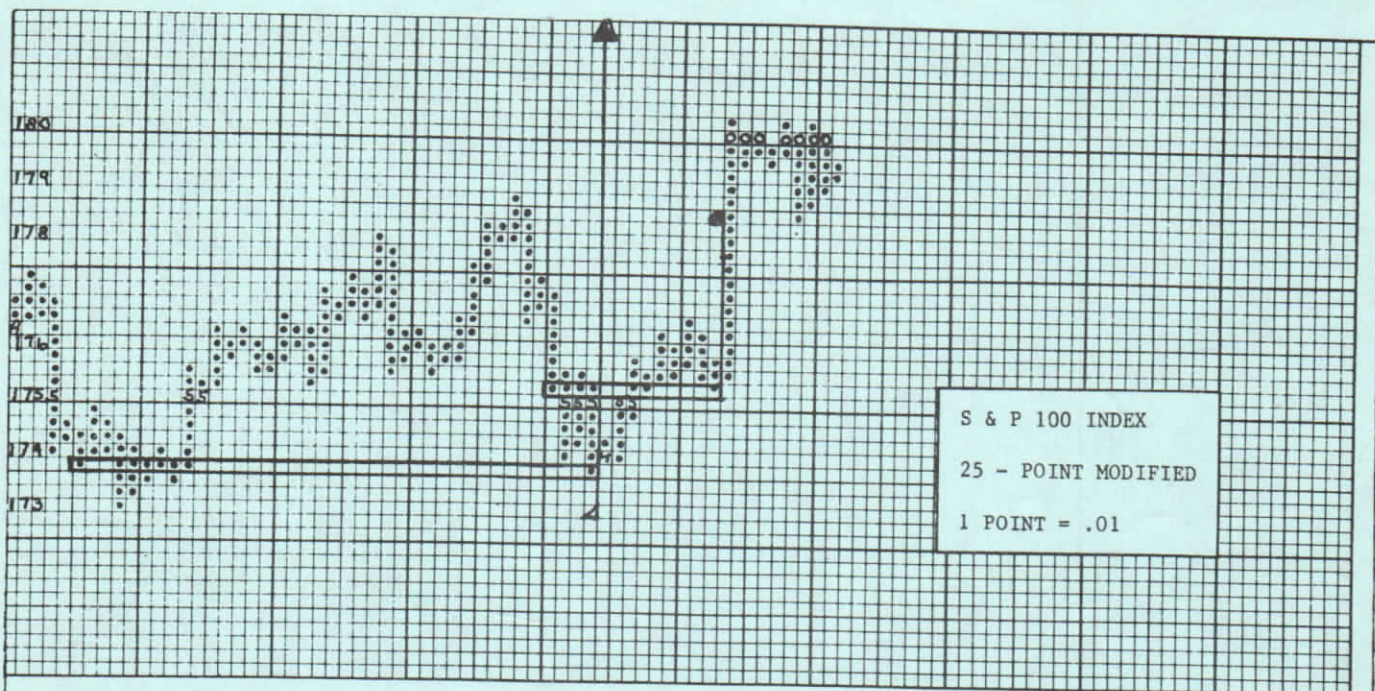


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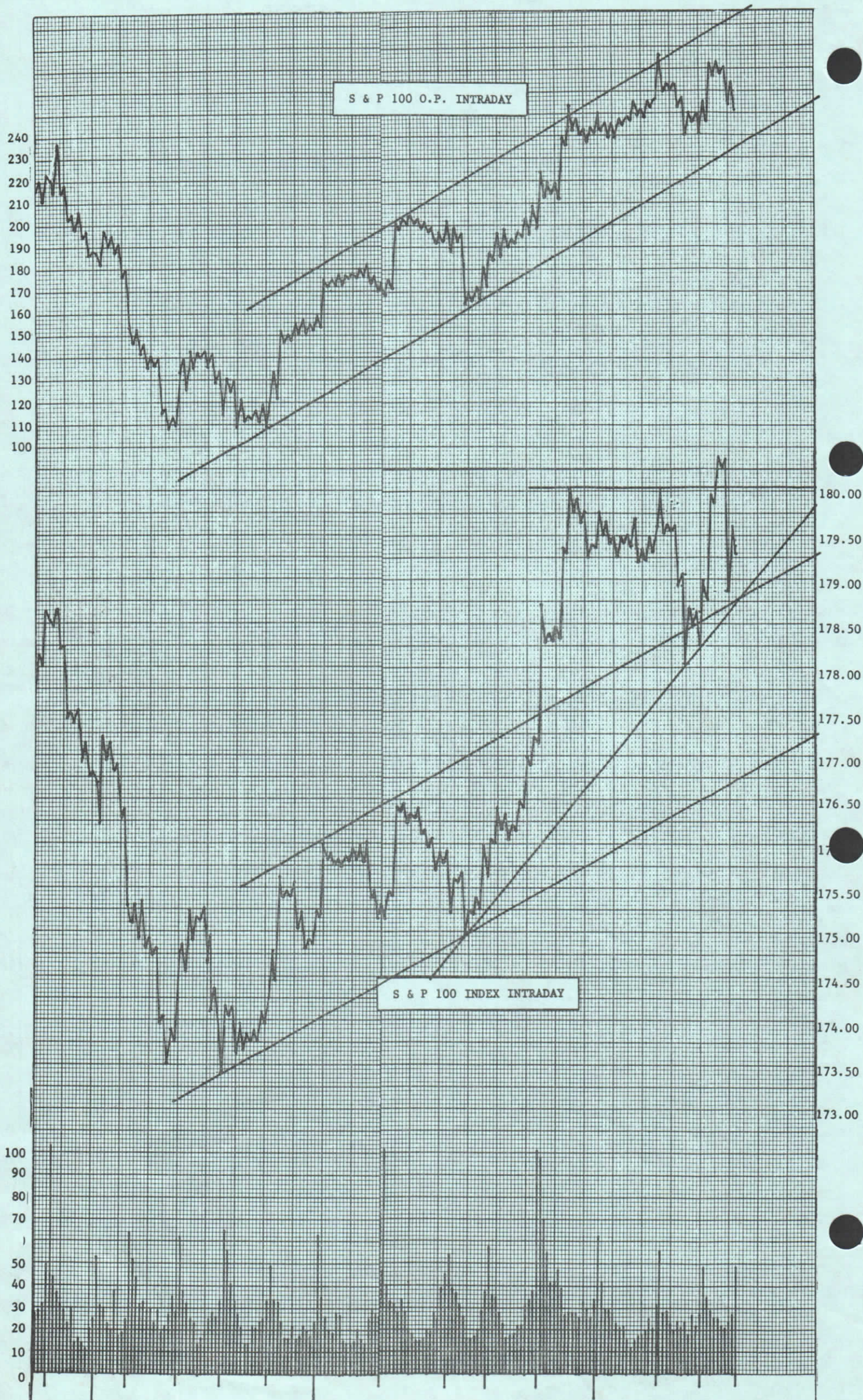
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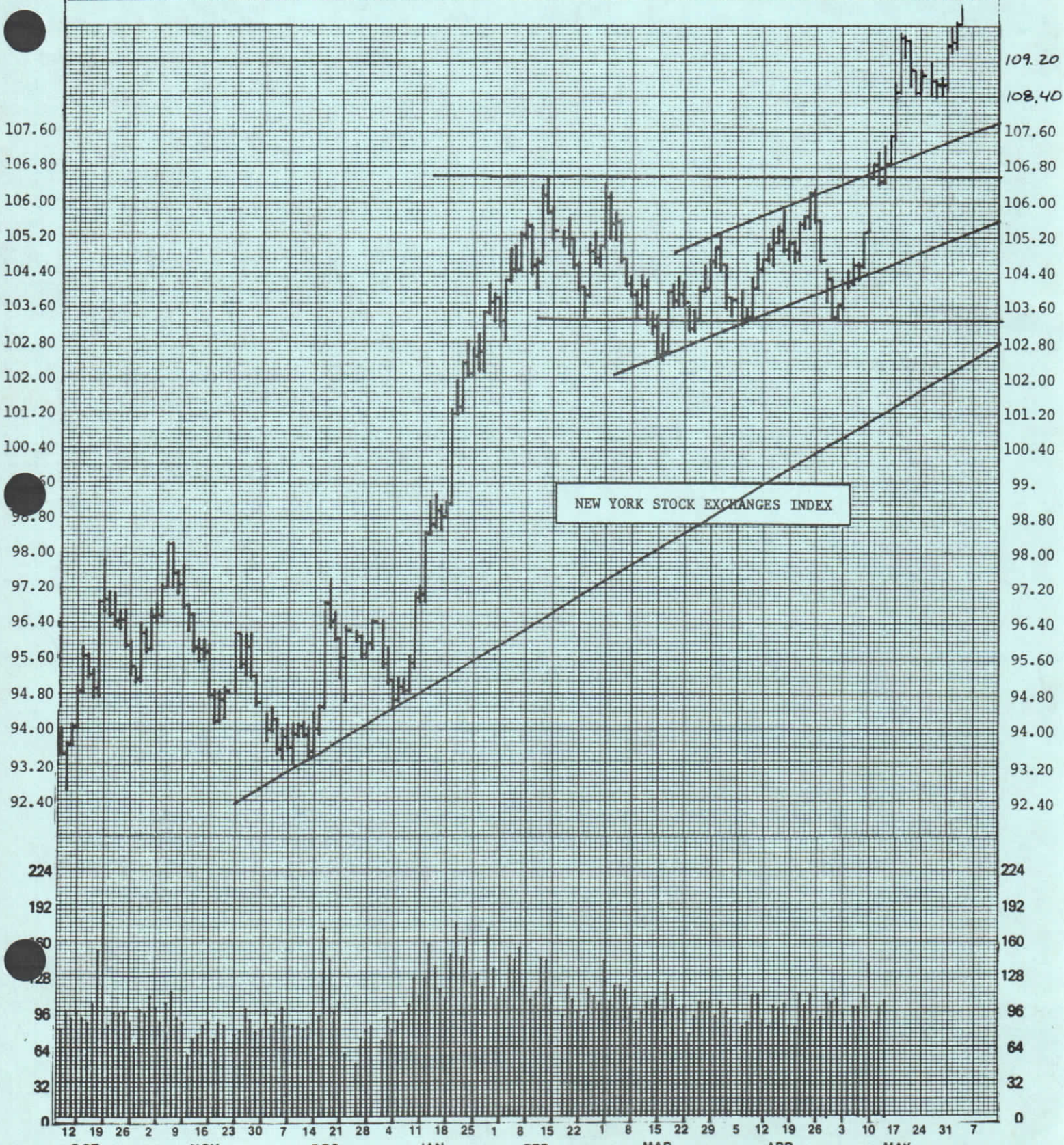
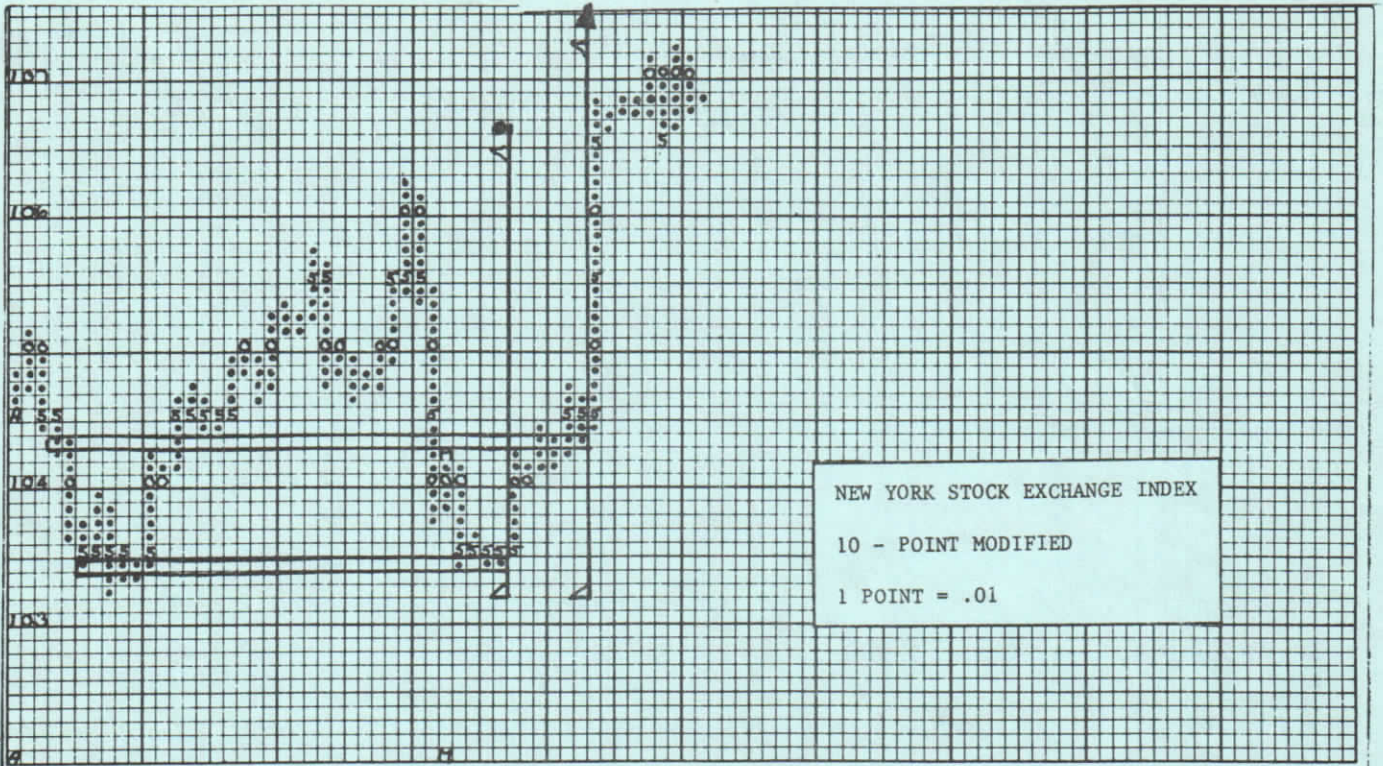






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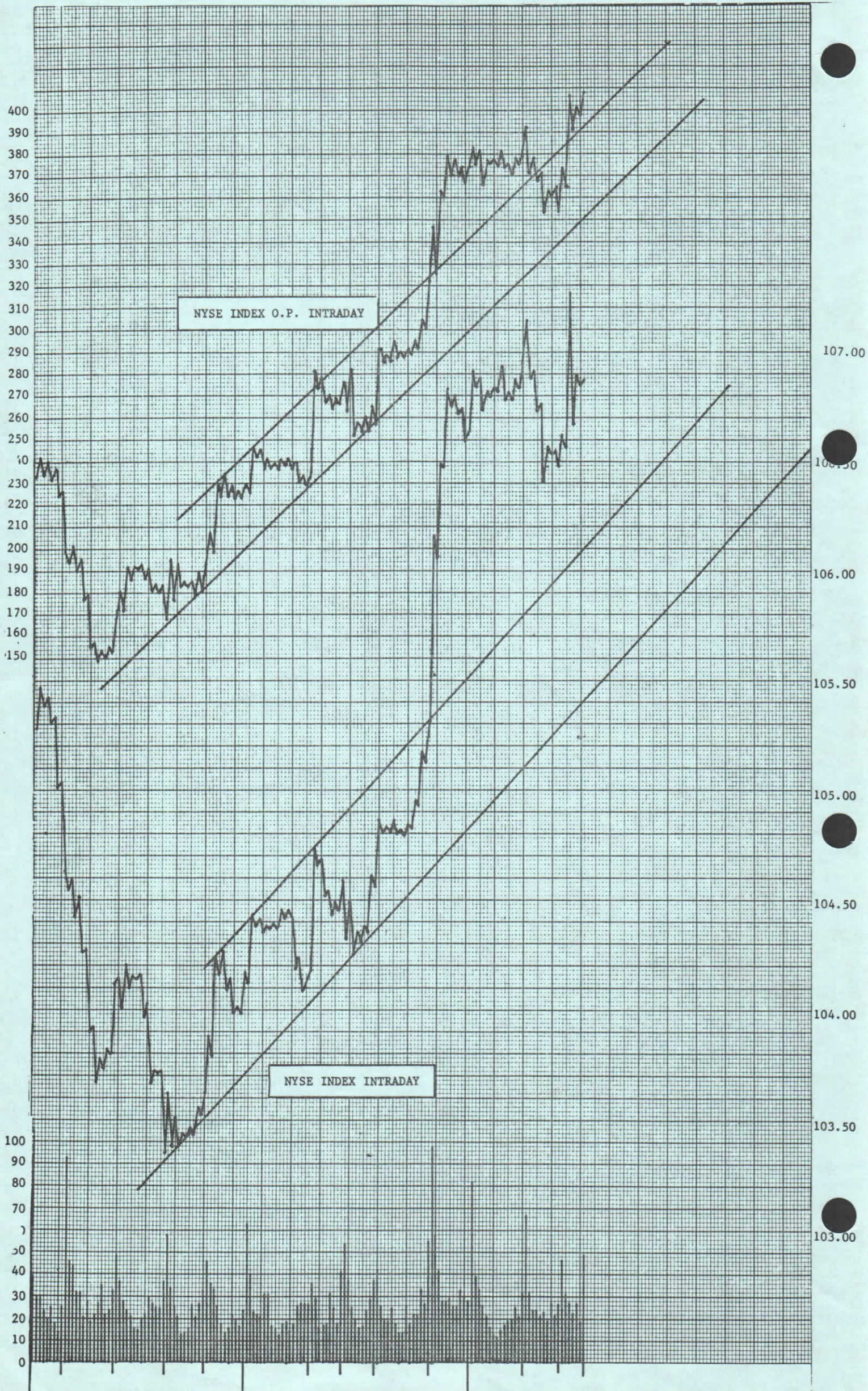






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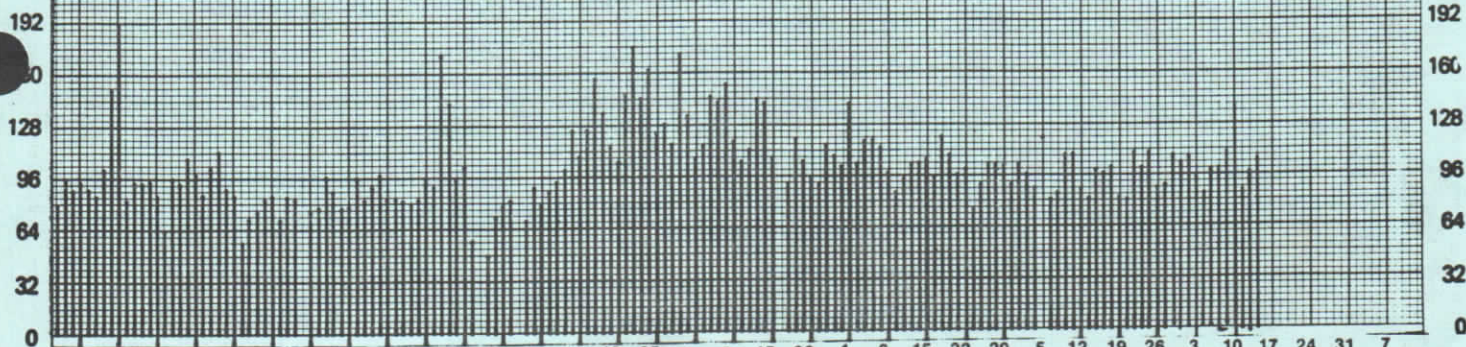
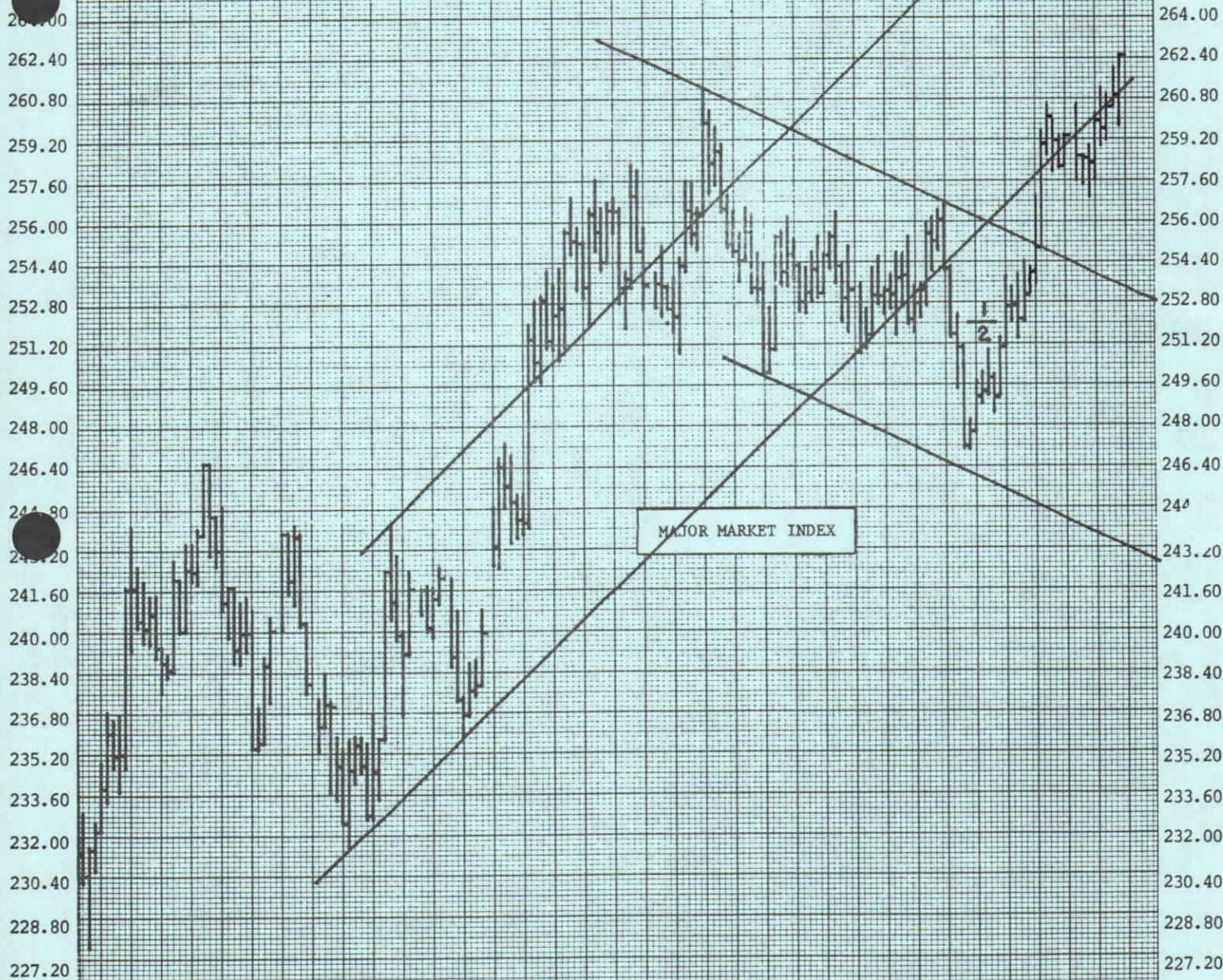
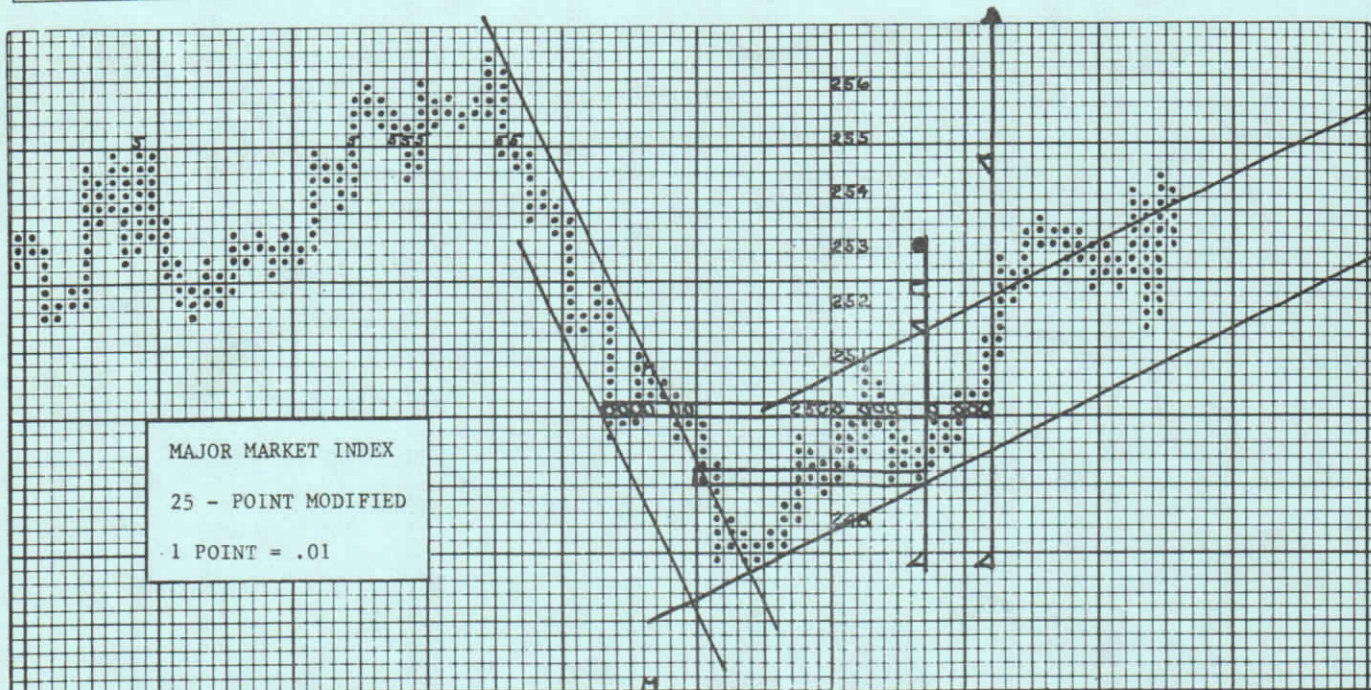


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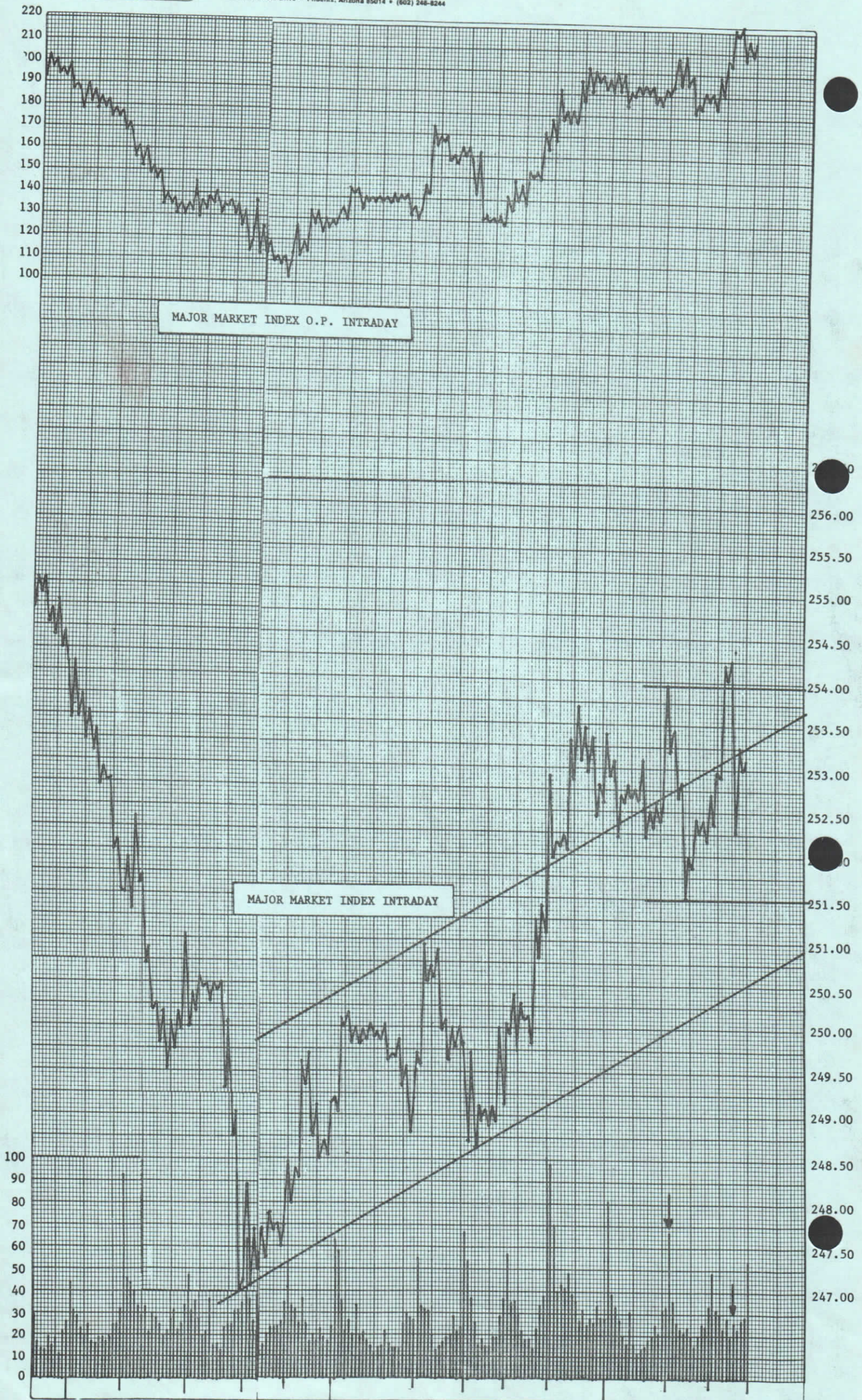
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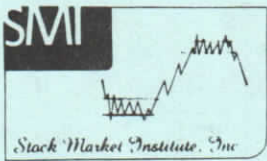
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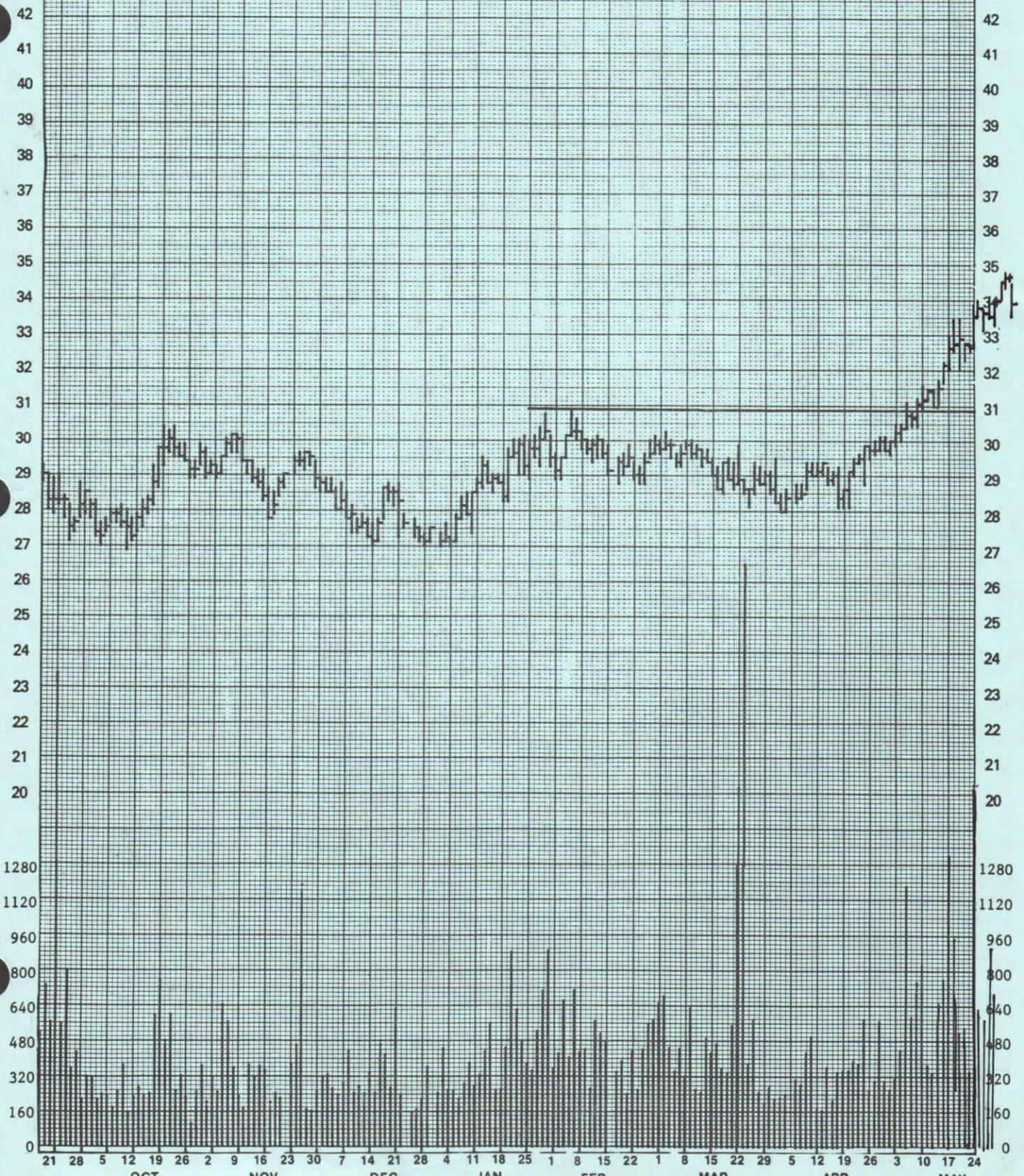
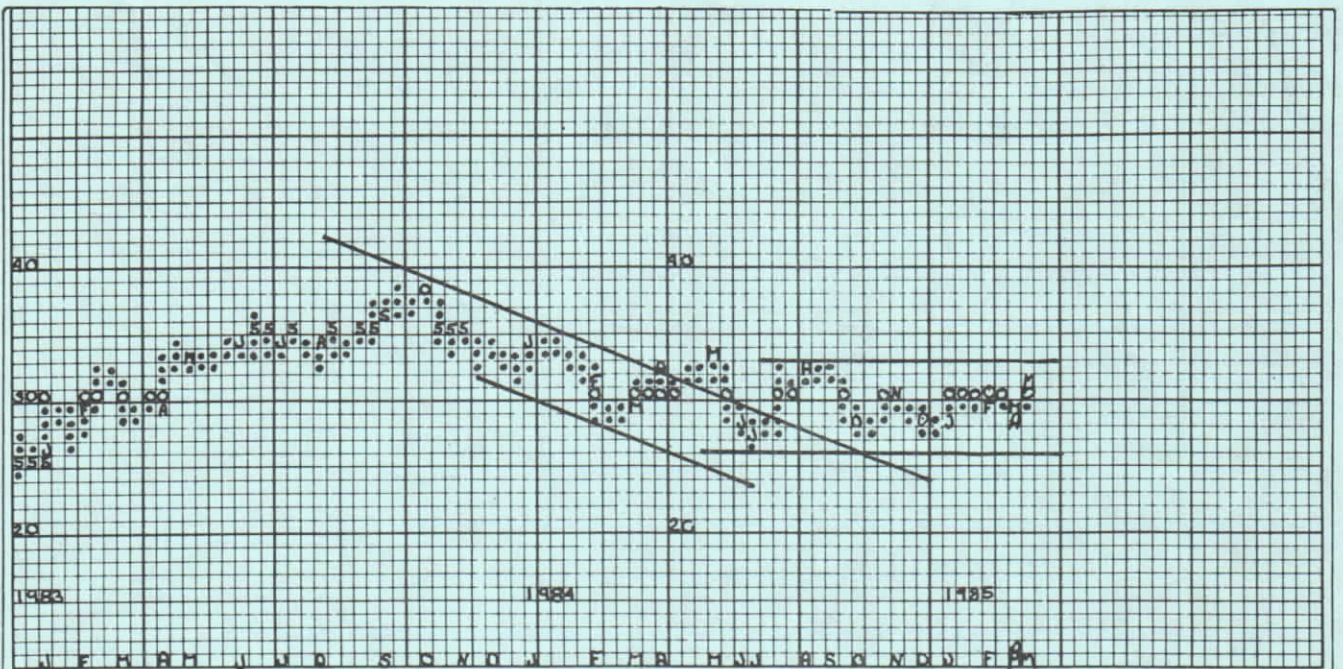
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DOW CHEMICAL

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CBOE (M-J-S-D)

CHEMICALS







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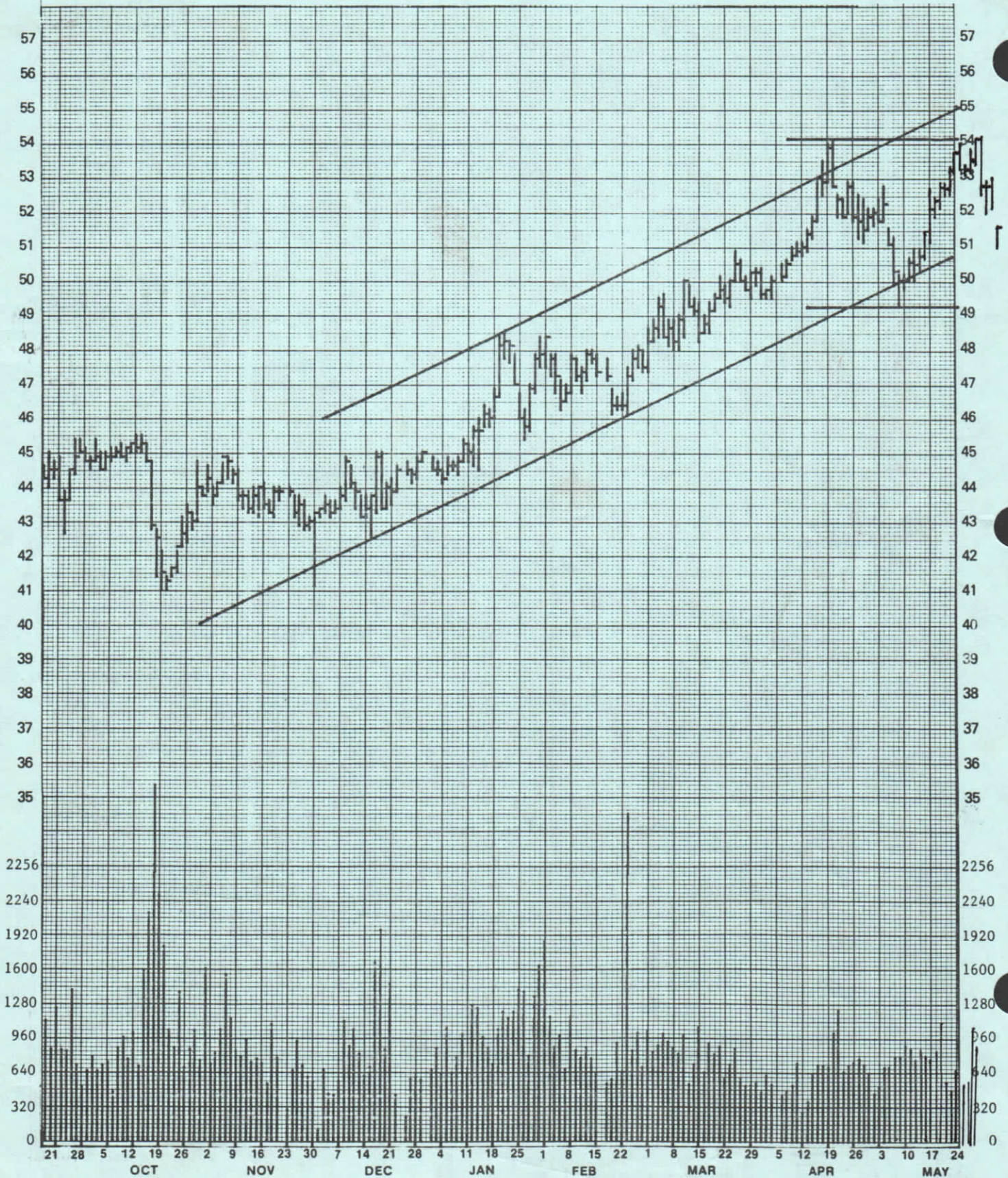
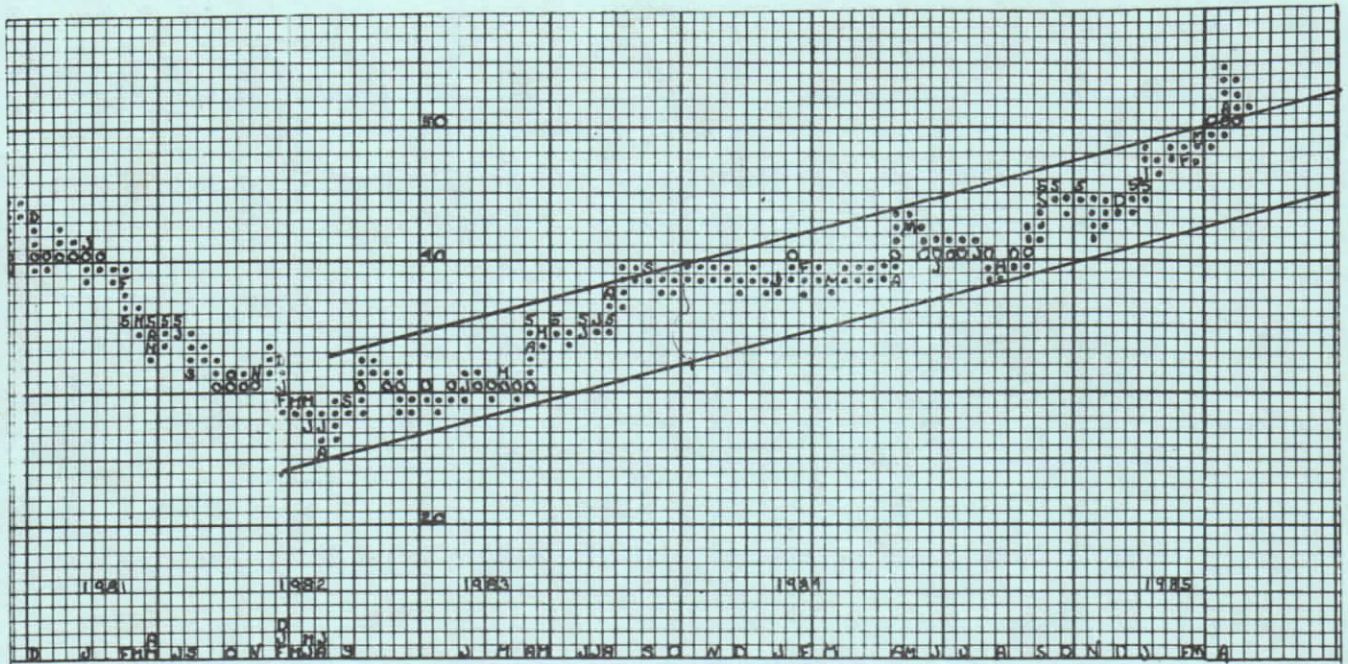
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EXXON

(XON)

CBOE (J-A-J-O)

OIL







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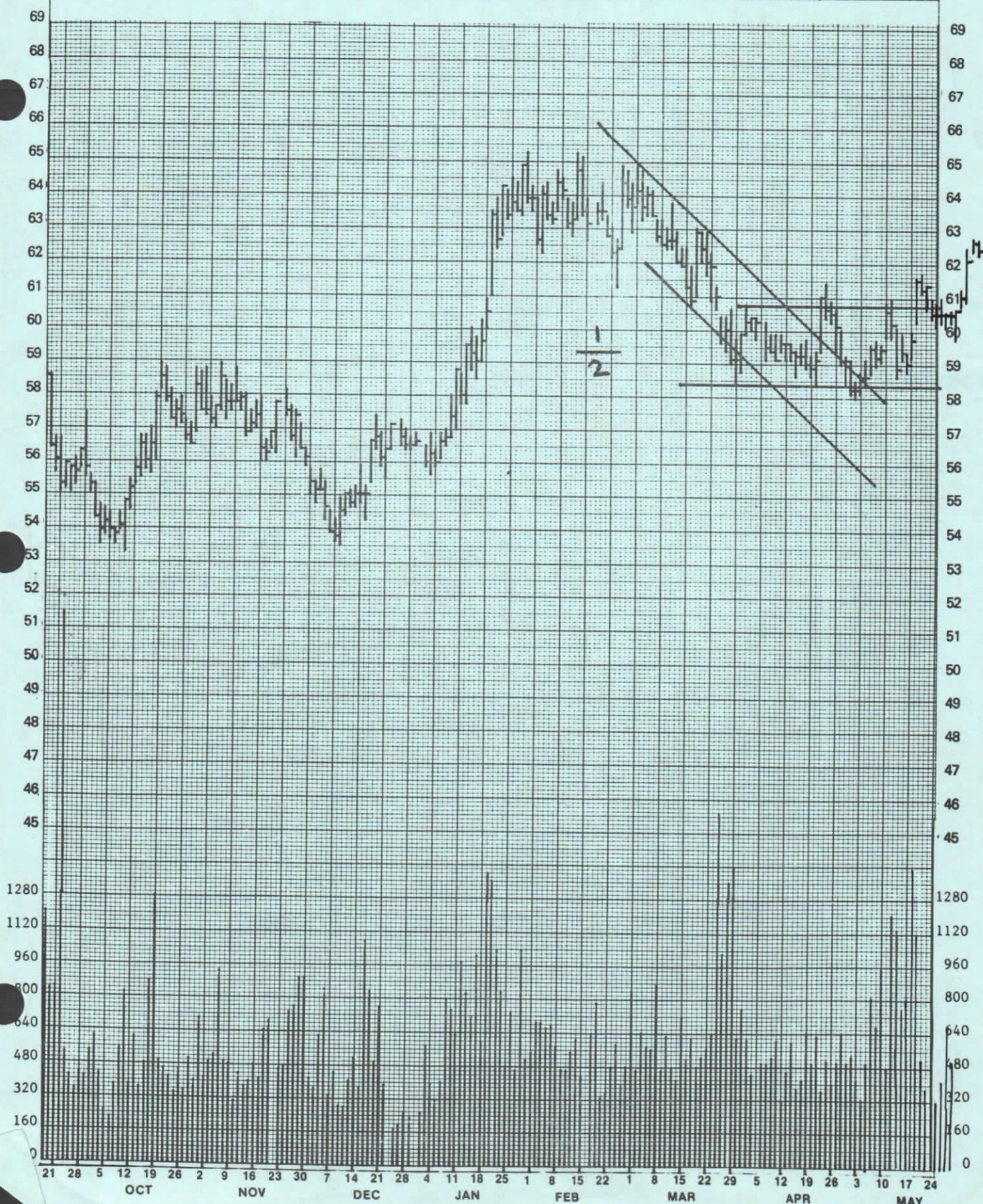
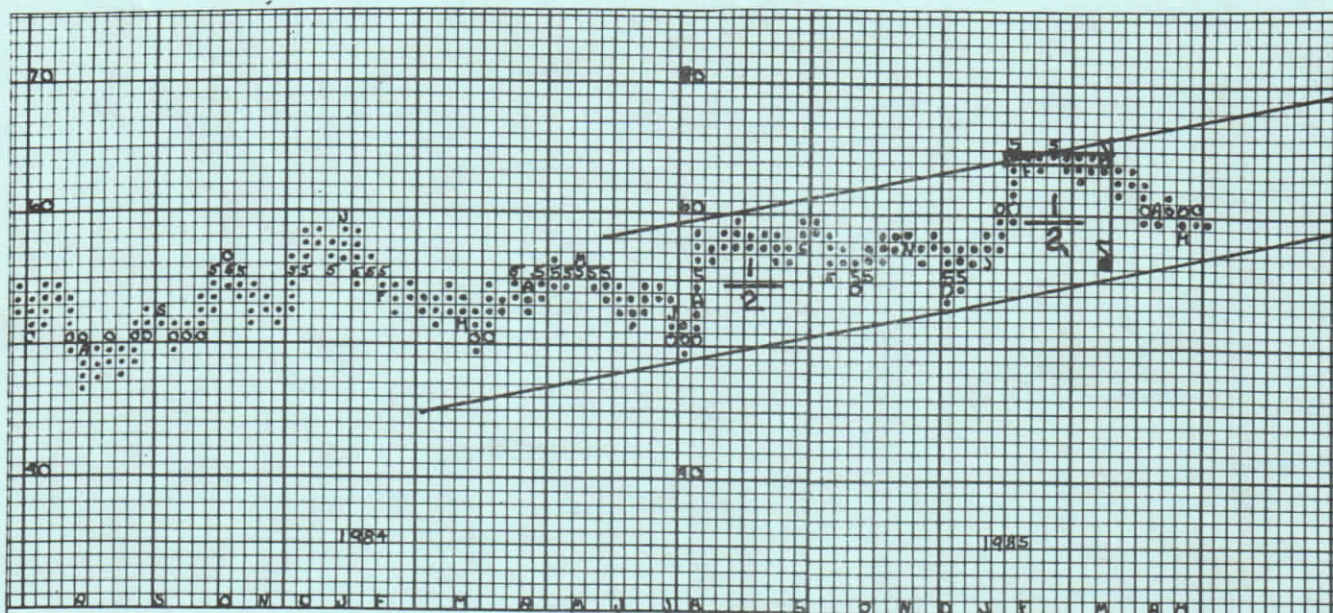
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GENERAL ELECTRIC

(GE)

CBOE (M-J-S-D)

ELECTRICAL EQUIPMENT







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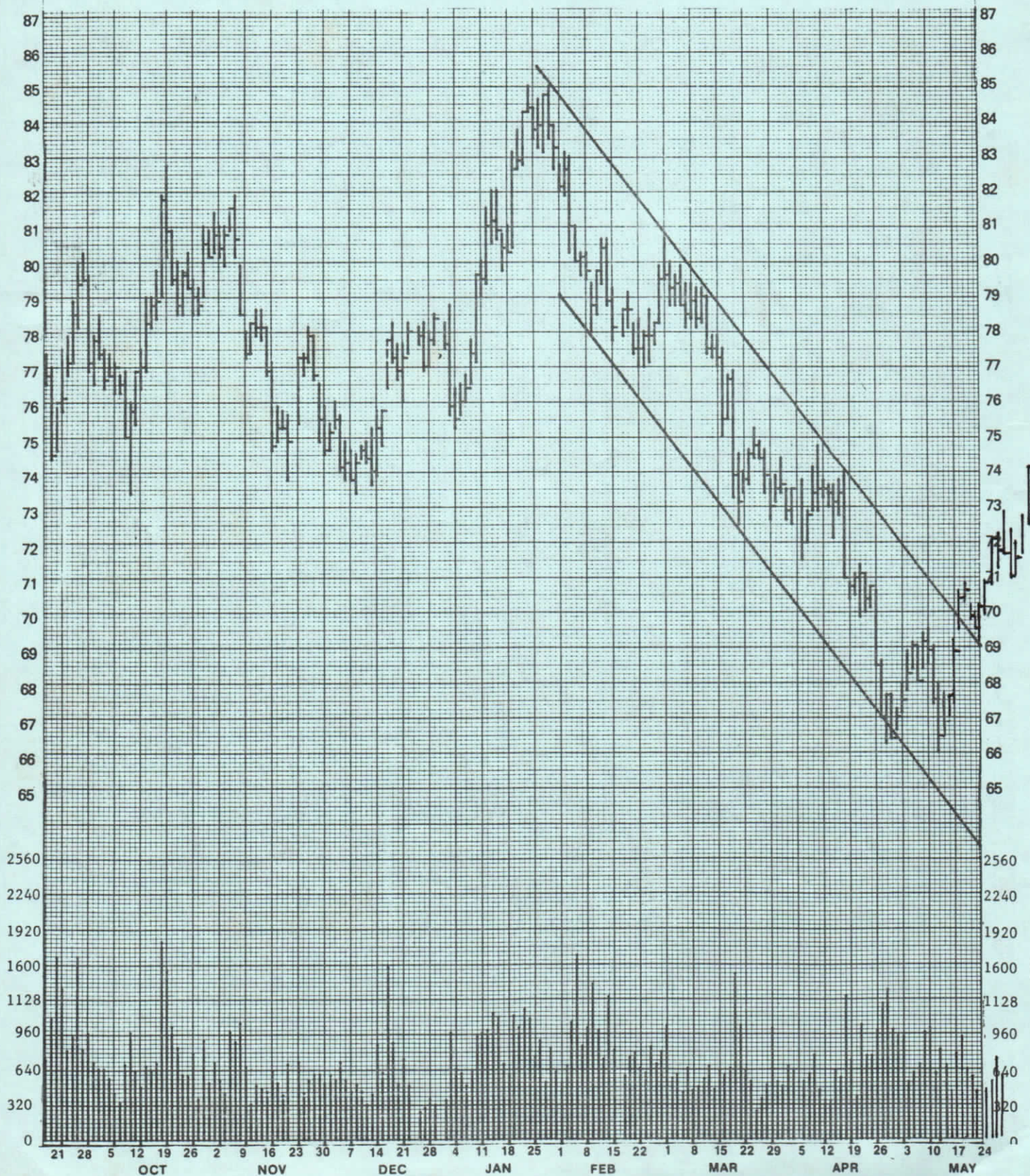
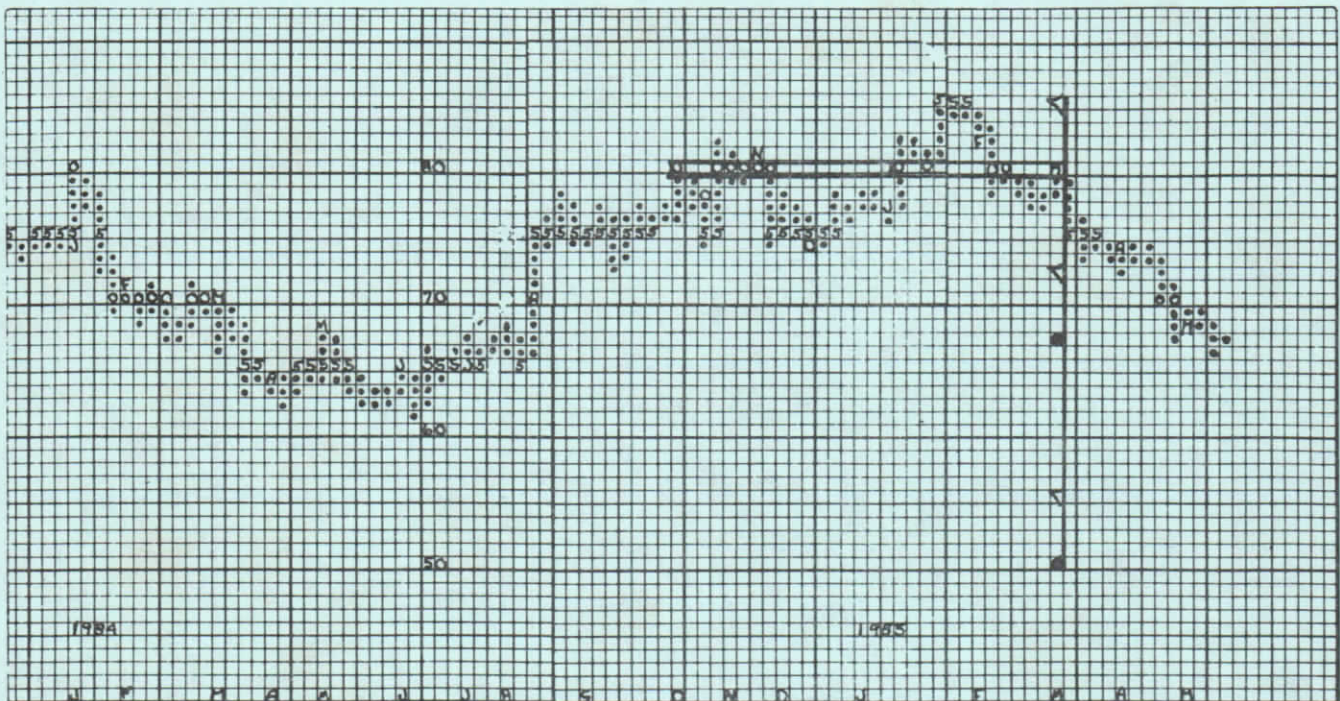
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GENERAL MOTORS

(GM)

CBOE (M-J-S-D)

AUTO







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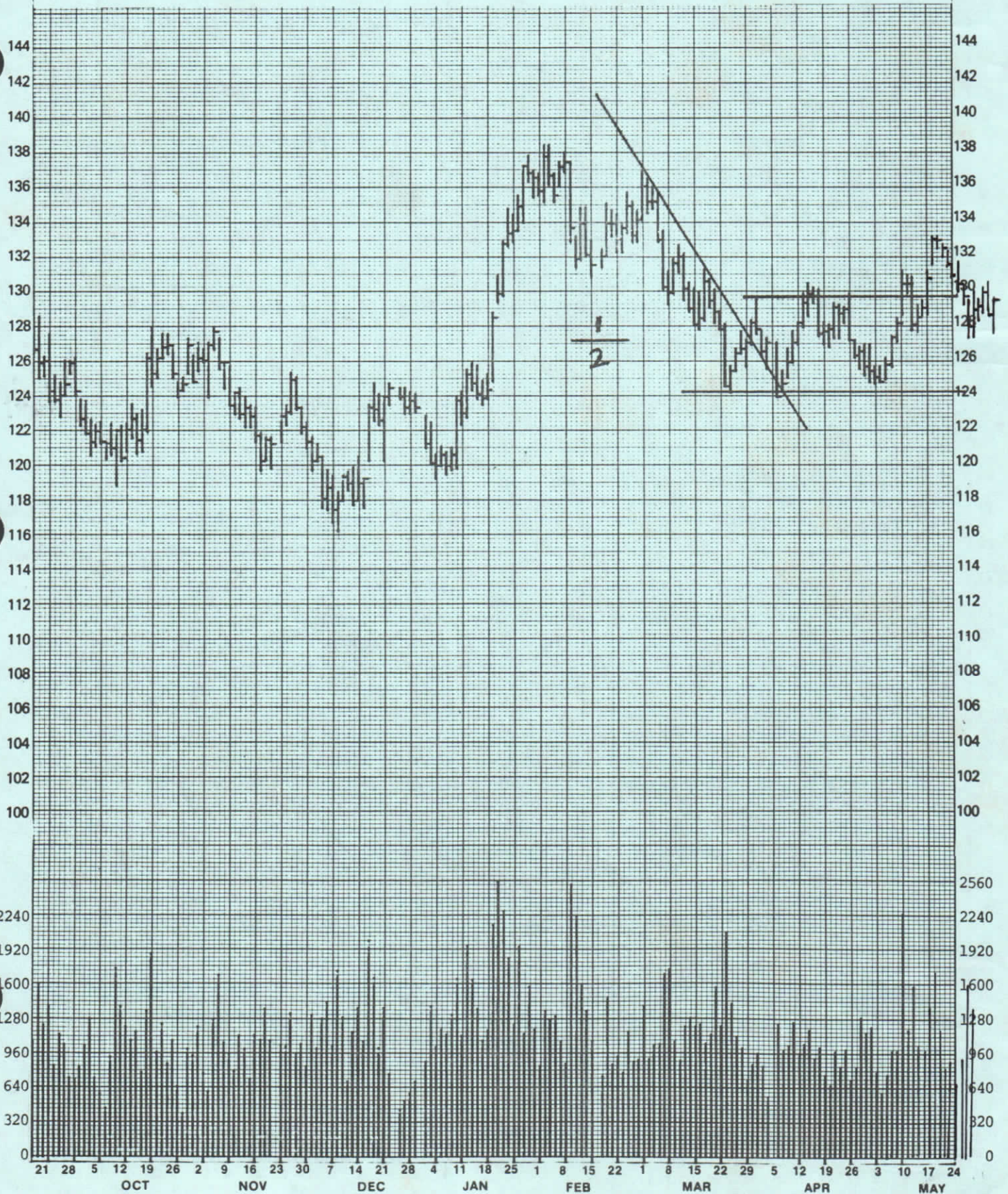
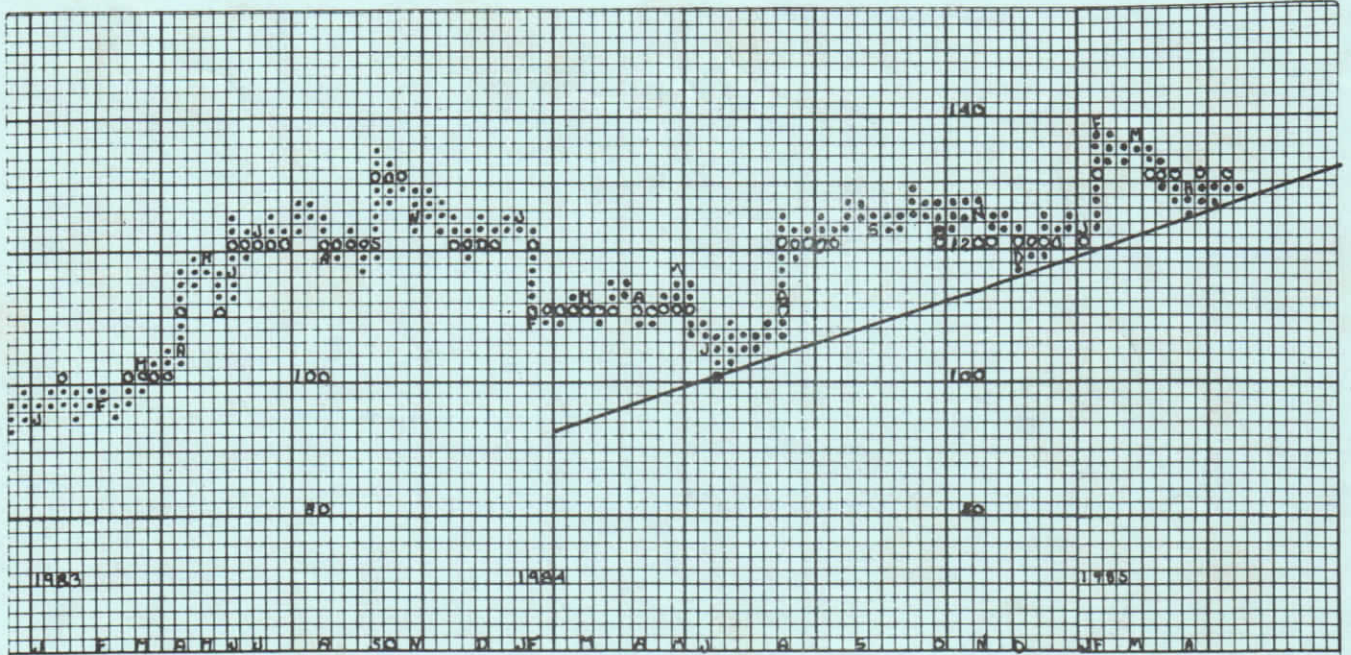
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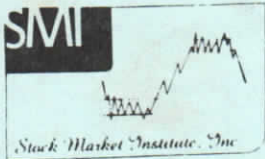
(IBM)

CBOE (J-A-J-O)

COMPUTERS







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MERRILL LYNCH

(MER)

ASE (J-A-J-O)

BROKERAGE FIRMS

