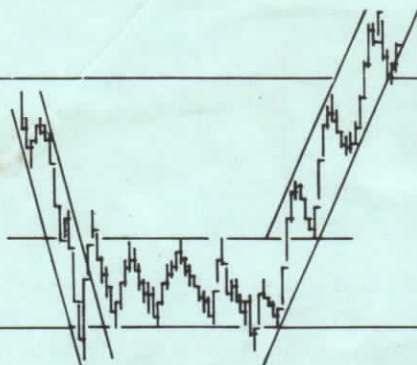
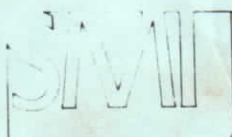




The Trend Letter

THE TREND LETTER
Friday, May 2, 1986

MARKET TRENDS

The long term trend of the market is still up. The trend channel of the major bull market can no longer be constructed on the weekly chart, but if it could be the Wyckoff Wave would be comfortably within it. Unfortunately, most investors are probably not interested in such a long term perspective. However, even the longer term uptrends that can be drawn on the weekly chart, which usually are of interest reflect strength. In fact, the recent attempt to take the market back into an uptrend channel from an overbought position that was supported at prior resistance implies a furthering of the market's strength. All this suggests the need for continued aggressive action on the long side. It is not a complete picture, however, and the part that it fails to reveal, suggests a higher level of caution than has been needed for several months.

A frequent cause of concern is a lack of potential. A market that does not have a clearly established course is unlikely to produce a meaningful effect no matter how strong the trend is. In this case, however, that is not the problem. Both the twenty-five and fifty point figure charts have substantial build ups in the 5000 to 5200 area. In view of the markets prior strength, the correct inclination is to count this potential to the upside. However, the market's action in recent days suggests that all or part of this potential may actually be for the downside. This is where the reason for concern lies.

It is true that the Wave has been able to make a solid rally back into the intermediate uptrend channel after a deep penetration of the demand line. This is typical of a strong market. However, it does not eliminate the fact that the penetration leaves the trend in a weakened state. This potential problem is laid to rest when a reaction following a regaining of the uptrend is supported by the weakened demand line. This occurred on April 23. The action that followed put the price well back into the uptrend, but well below the overbought line. If the market had truly regained its prior strength, it would have been able to rally to the overbought line. Instead, the continuation of the prior pattern set the stage for an additional test of the demand line.

A repenetration of the demand line leaves the market vulnerable to a significant correction. Any rally that follows and is accomplished without an increase in volume becomes a potential last point of supply. Such a rally could end at the intermediate demand line or either of the former support levels. Any one of these provides the basis for a down count, which could be as much as one thousand points.

Since there is a good possibility that the market is putting in an intermediate top at these levels, participation on the long side for the intermediate term is no longer justified. In addition, the character of the next rally must be watched closely. Without a significant improvement, the result will be the confirmation of a top and the first good short selling opportunity in months.

INDEX TRENDS

The tradeable market indexes remain stronger than the Wyckoff Wave as they have been for several weeks. This does not make any of them candidates for a long position, however. They are all either in, or correcting, overbought positions. However, since none has broken its demand line, short positions can not be justified either. No position will be possible until the demand lines survive a test, which would call for new long positions. Safe short positions are likely farther down the road. They may have to wait until the uptrends have been broken. The nearest opportunity on the short side is unlikely until trading ranges are established then upthrust.

STOCK TRENDS

The uncertainty in the Wyckoff Wave is clearly reflected in its component stocks. A good example is Dow Chemical. For approximately a year, DOW has been a stock that could be blindly bought and after a short holding period yield a profit. Those days now appear to be over. The recent rally to fifty-six and abrupt return to the trading range is especially disturbing. The action is an upthrust and follows a period of volatile price action, which in view of the upthrust position suggests distribution. Where the stock meets support on the reaction from the fifty-six level is crucial. If the price falls more than halfway back from the rally from the forty-seven level, it will be a normal negative response to an upthrust. The rally that follows will be the test. If it is stopped at 54, a sizeable down count will be in place for a correction of the entire advance.

Exxon is breaking its intermediate demand line. It does, however, still have a good support level under it at fifty-six. If it holds, the result will be a back up to the edge of an extremely important creek. There will then be justification for a redefining of the uptrend to a more sustainable trend channel. The stock should then be able to start working out its potential to the upside. The obvious potential problem with Exxon is the possibility that the fifty-six level will be unable to contain a back up if the general market has weakened considerably. If it cannot, any rally that follows will become the test of a major upthrust and a prime short sale.

General Electric is in an especially precarious position. Its action during the past week contains an obvious upthrust. The response has pulled the price back into the trading range and threatened the intermediate demand line. At this point, an attempt to resume upside progress that is stopped near the 79 level will become a test of the upthrust and leave the stock vulnerable to a fifteen to twenty point decline.

General Motors is already in a down trend, which developed following an overbought position in the broad intermediate uptrend. This week there was a test of the short term supply line that held, reconfirming the down trend. It would seem as though this should make GM a prime short sale. It does not, however. The problem is a lack of downside potential. What count there is has been just about used up. Therefore, the development of a trading range appears to be the most likely next step. The action of the next couple weeks may reveal that a trading range already exists between 79 and 89. If so, the width of the range, together with the volatility of the price, should result in a good short term trading vehicle.

IBM always warrants attention, and that is especially true when it has eighty points worth of potential as it does now. The stock has tried several times to leave the trading range and failed on each effort. This time, the attempt is going to come from an upthrust position that developed this week. Once the normal negative response has been completed, watch for a test that is stopped near 158. The negative statement this type of action would make, combined with the potential, would call for a short side.

Merrill Lynch is in a down trend and at the same time testing an earlier spring position. Although this is a combination that makes immediate action virtually impossible, it should eventually lead to an opportunity. In view of the down trend, buying the test of the spring is questionable. However, if the response to the test penetrates the supply line, an additional test later should result in a buying opportunity. However, beware of the response to the test that is stopped by the supply line. Action of this character will call for a trade on the short side.

The analysis of Sears is simple. It is the same as Merrill Lynch. The stock is in a down trend and the test of a spring position. Together, they cancel out the possibility of immediate action. Here again, however, the response to the test is the key to the next trading opportunity. There will be a bit of a wait involved, but the eventual opportunity should make it worthwhile.

UAL has no immediate trading opportunity. The strong uptrend should eliminate any thought of a short sale. However, the position in the uptrend makes a long position too risky. Therefore, there is nothing to do with the stock but wait. If it pulls back to the sixty area on low volume, the result will be a back up to the edge of a creek. At that point, it will be possible to measure a substantially higher objective and take a long position.



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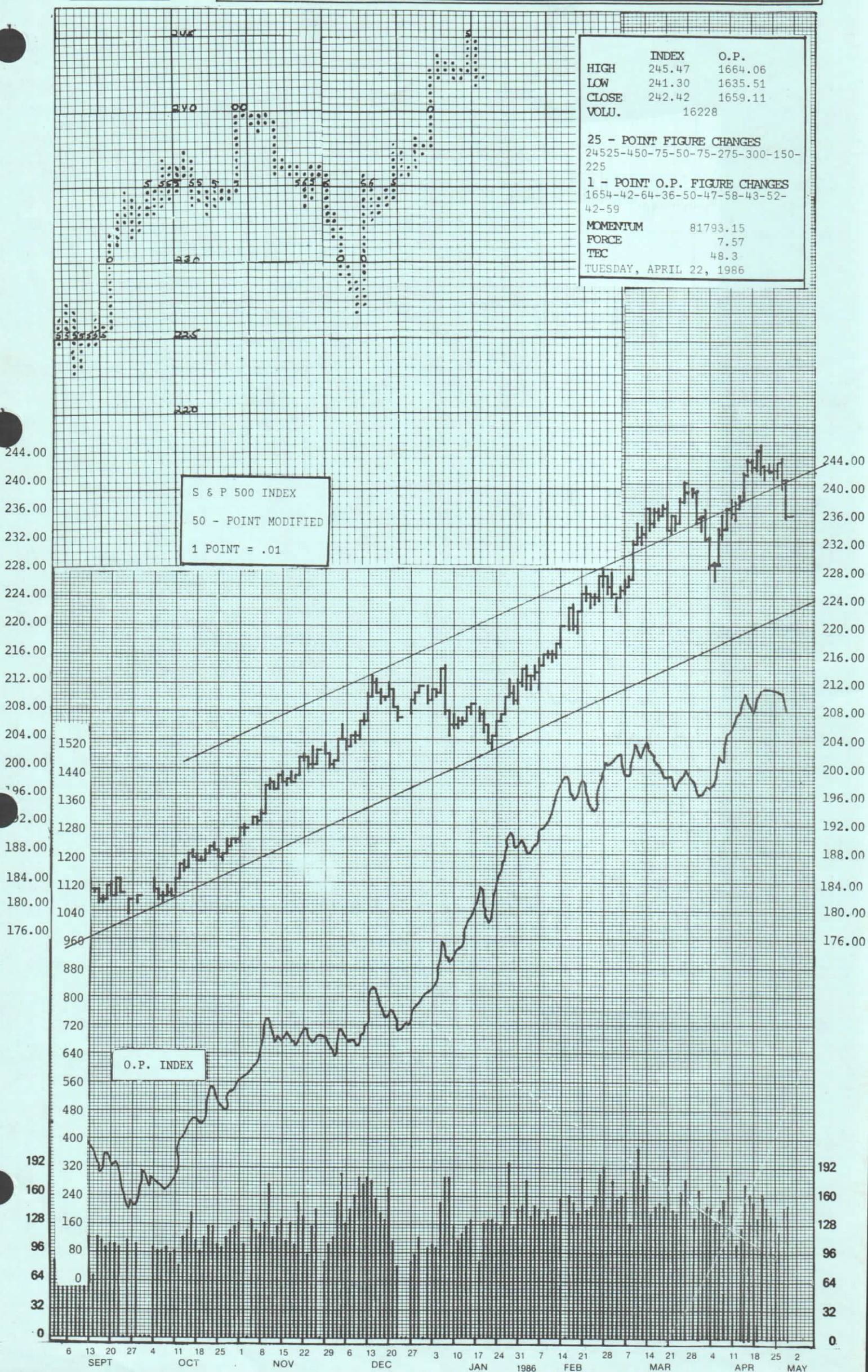
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	INDEX	O.P.
HIGH	245.47	1664.06
LOW	241.30	1635.51
CLOSE	242.42	1659.11
VOLU.	16228	

25 - POINT FIGURE CHANGES
24525-450-75-50-75-275-300-150-225

1 - POINT O.P. FIGURE CHANGES
1654-42-64-36-50-47-58-43-52-42-59

MOMENTUM	81793.15
FORCE	7.57
TEC	48.3
TUESDAY, APRIL 22, 1986	

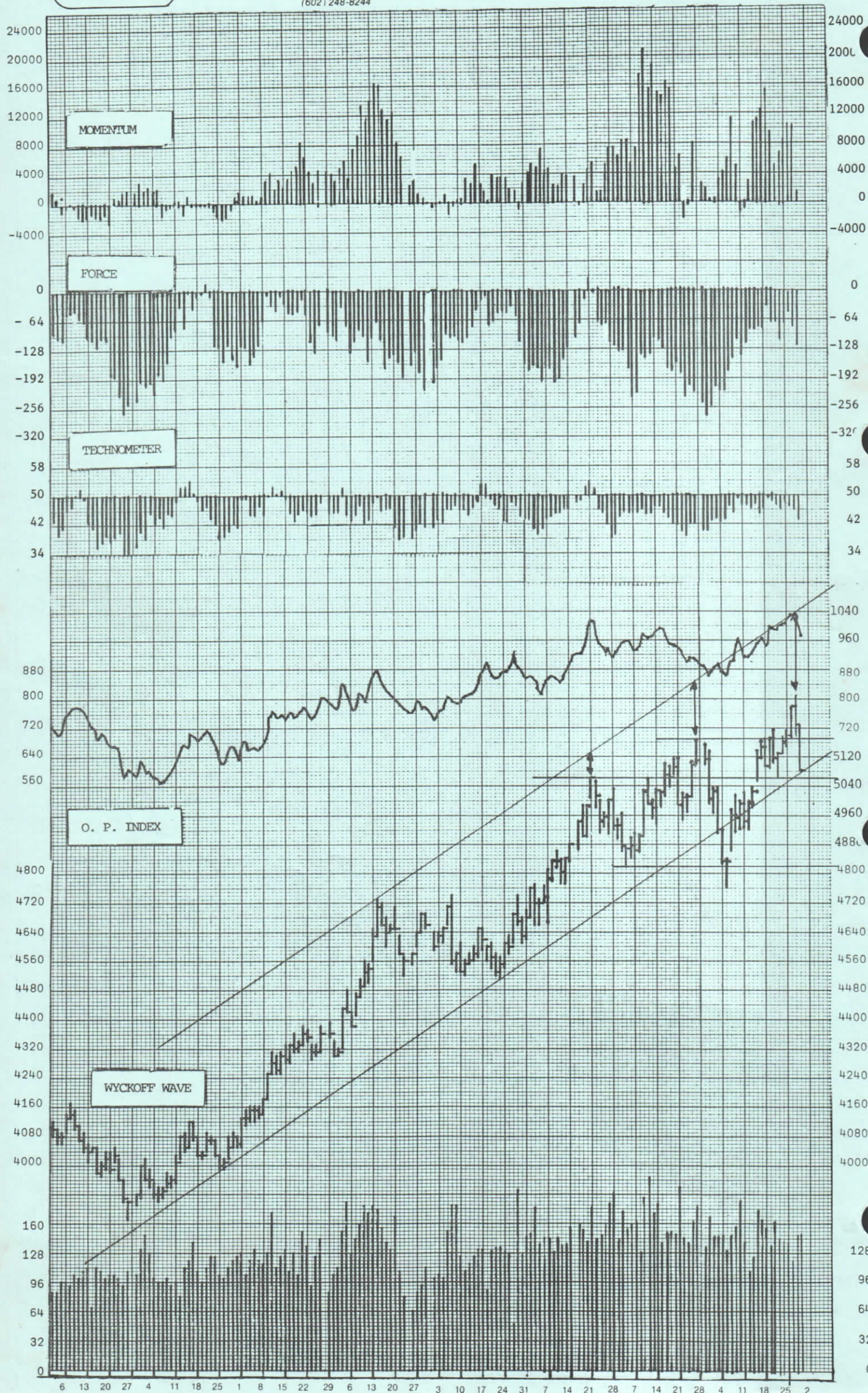


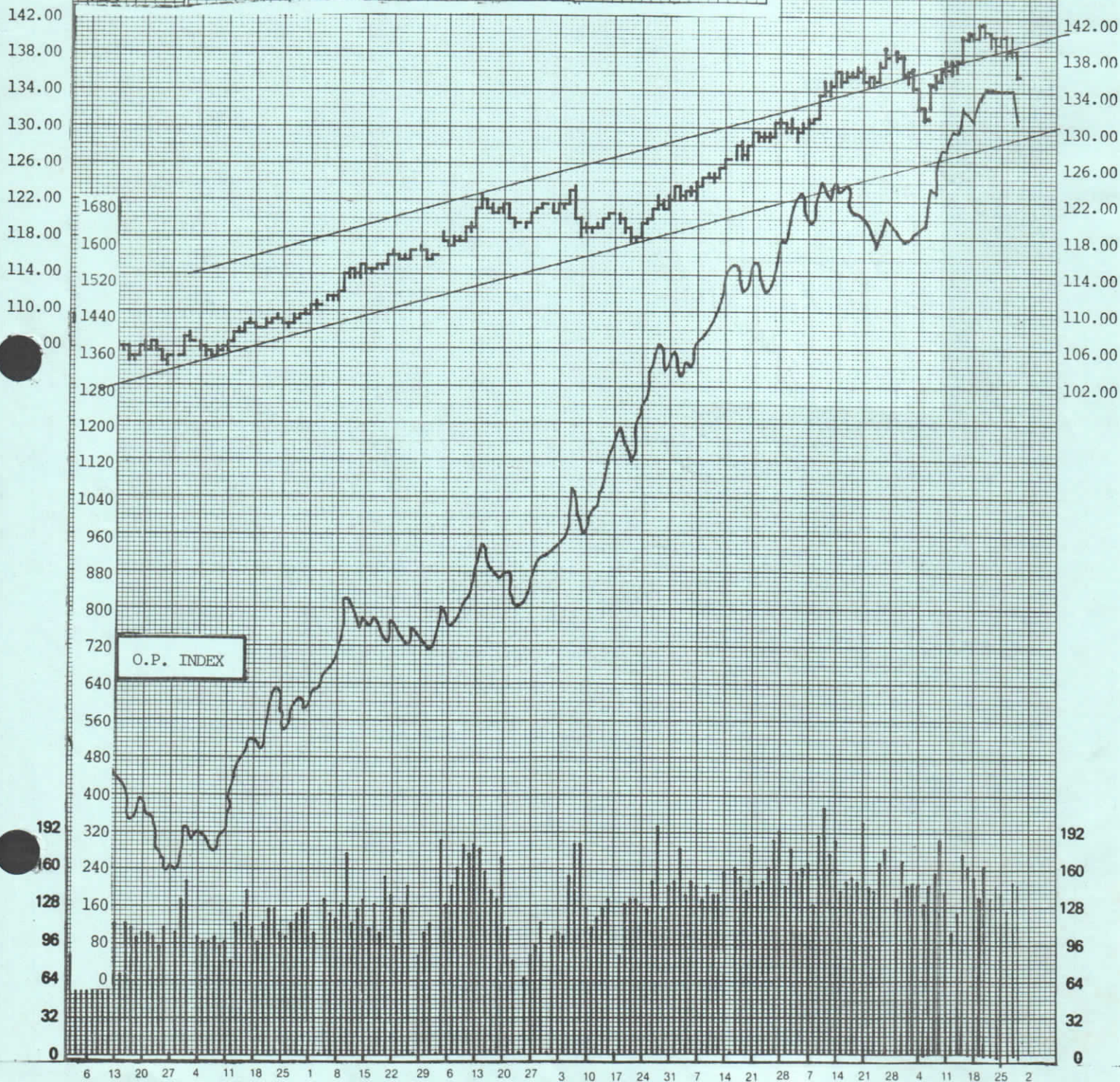
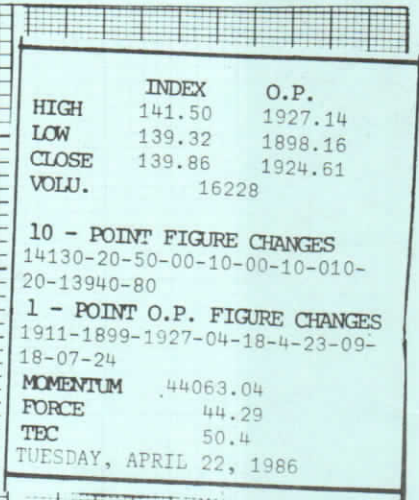


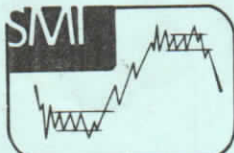
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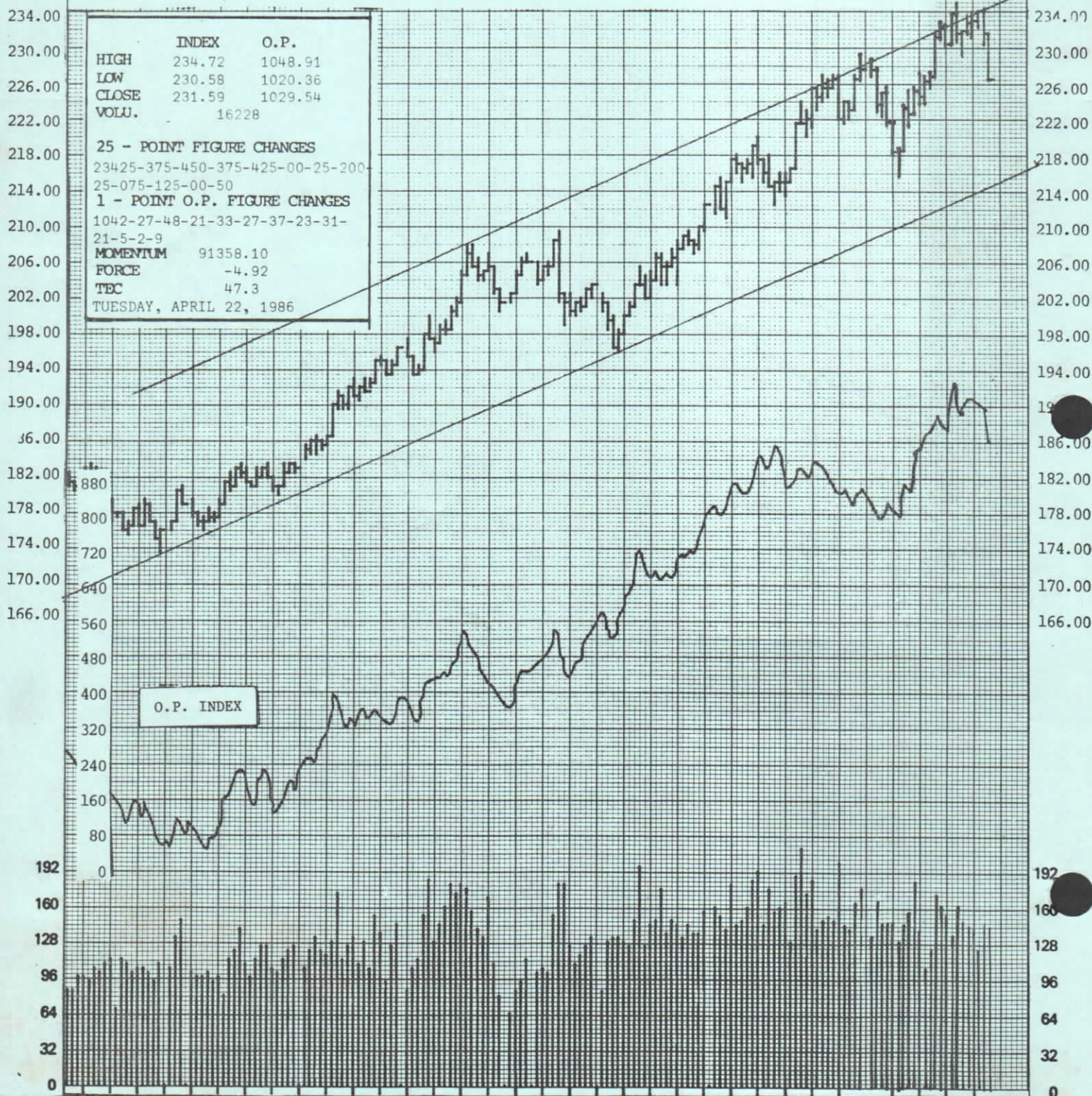
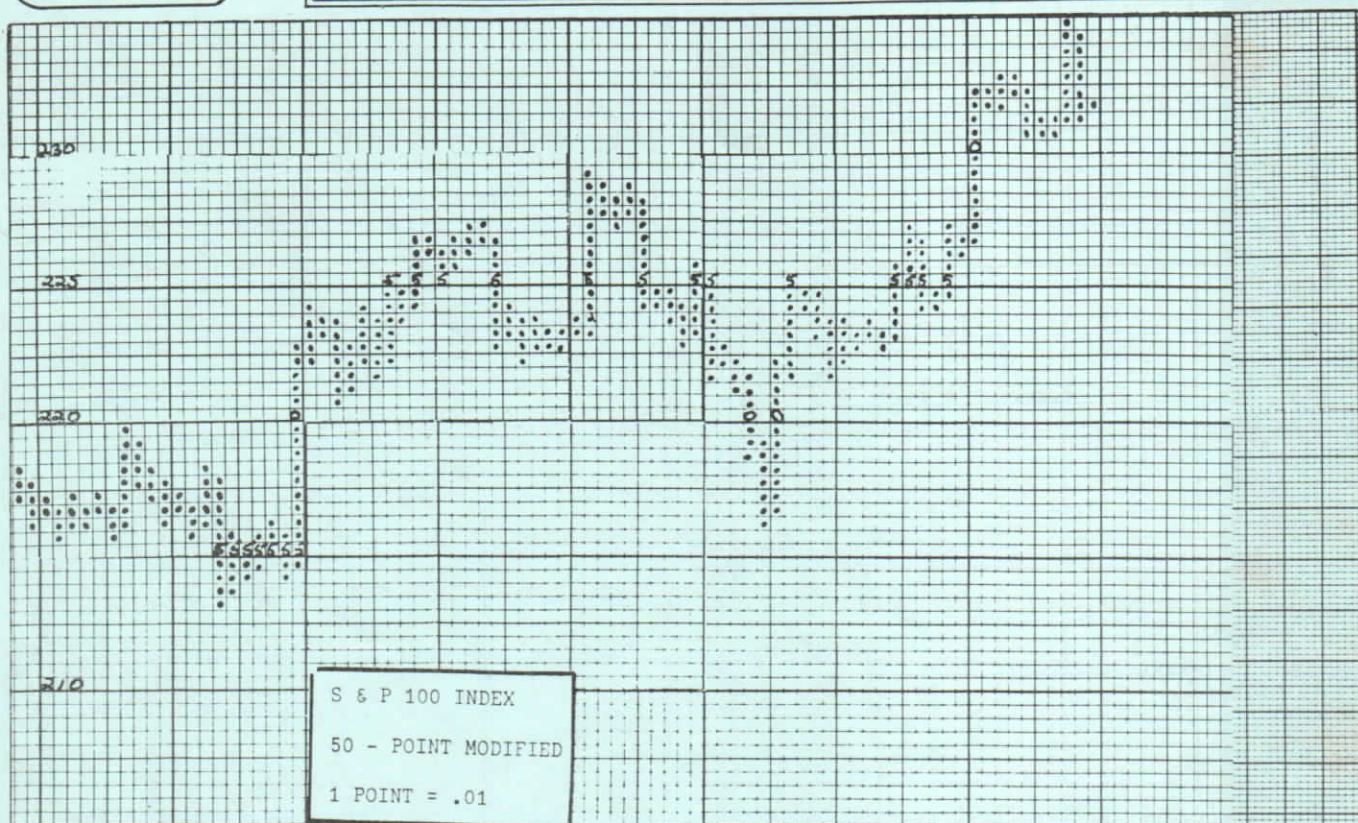
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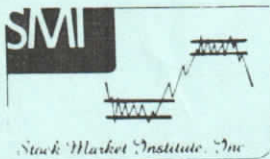






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STANDARD & POOR'S 100 INDEX (OEX)





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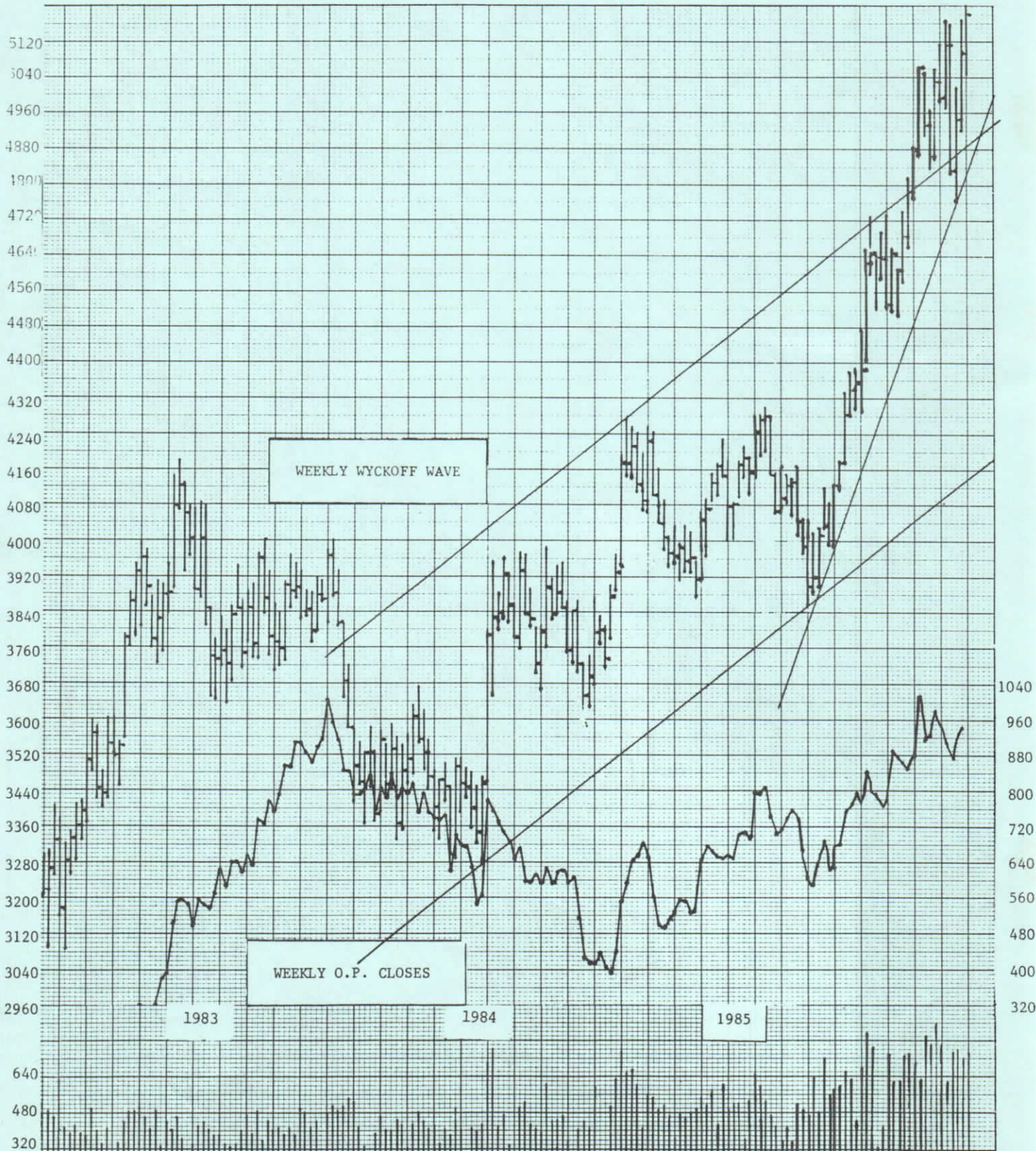
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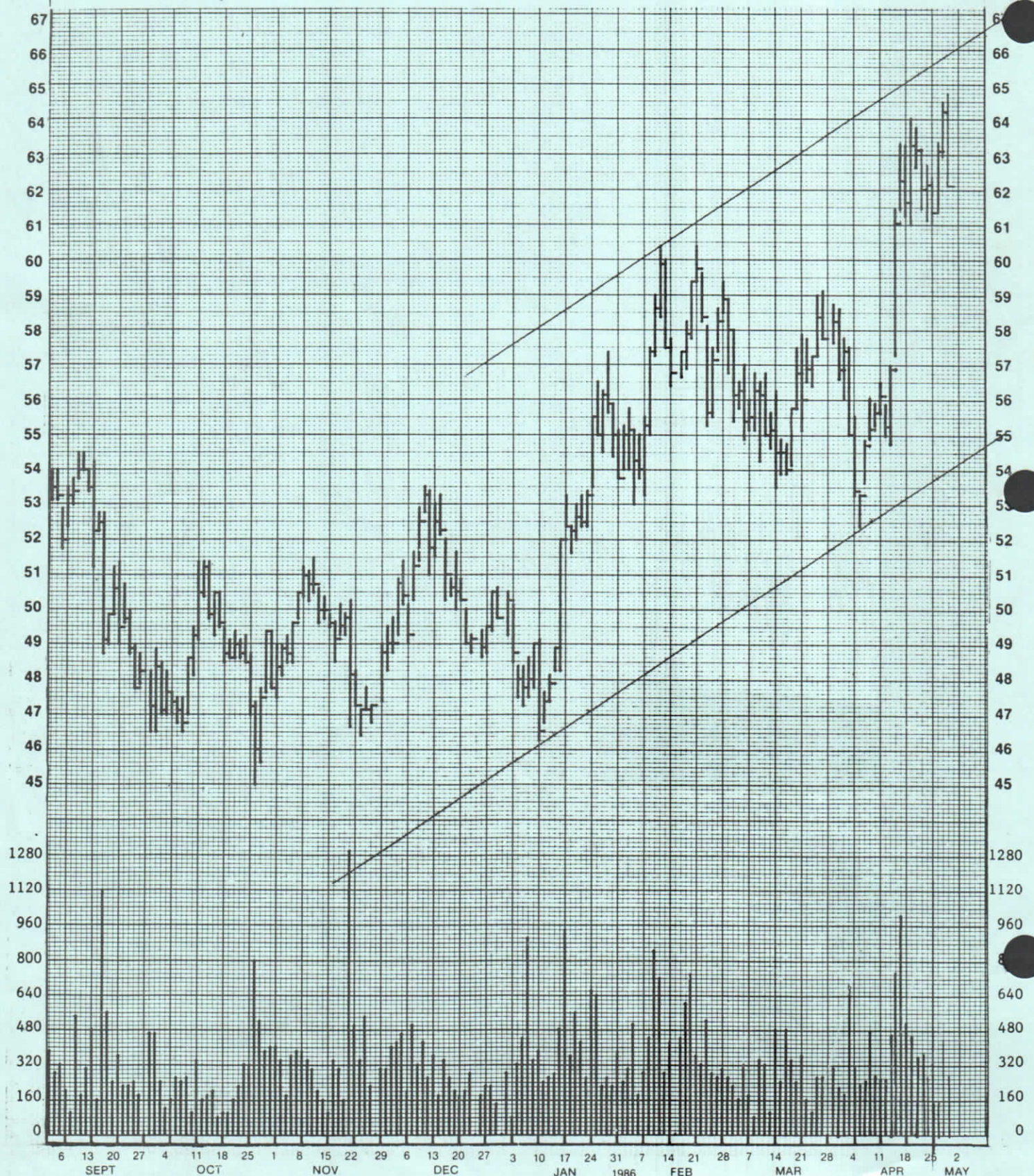
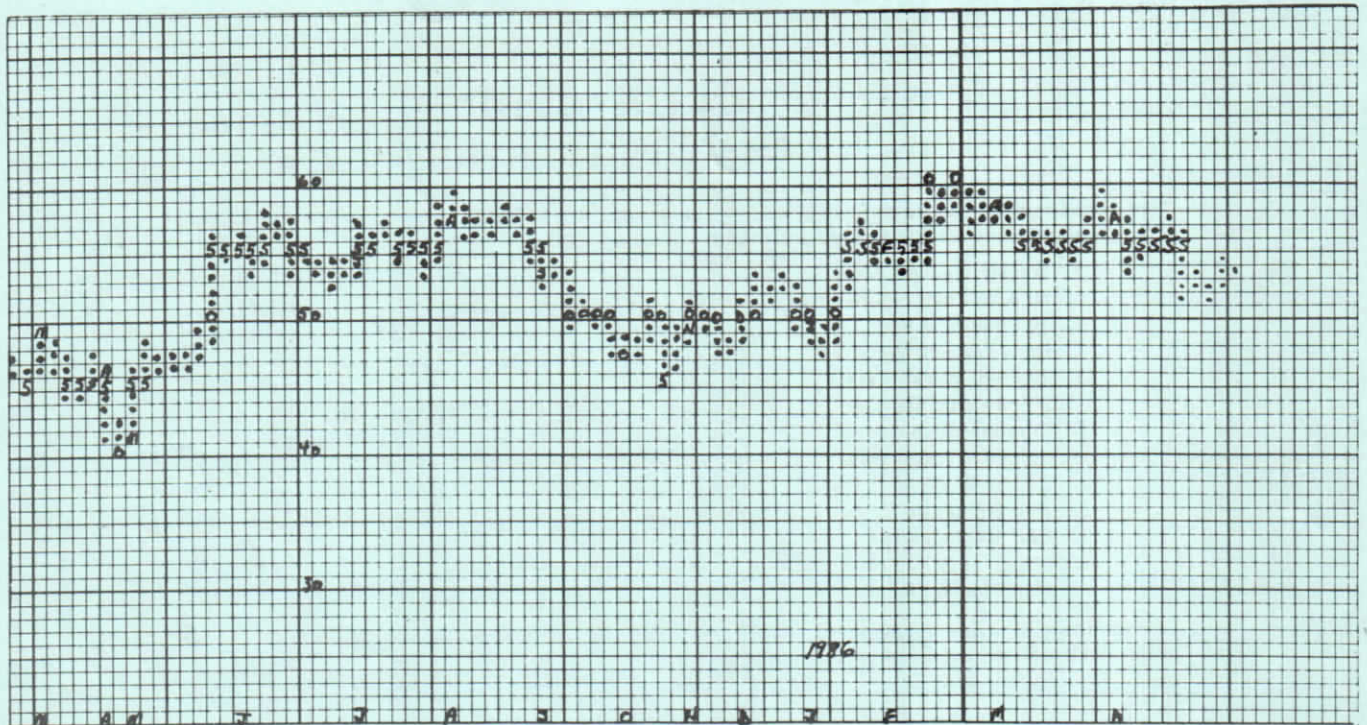
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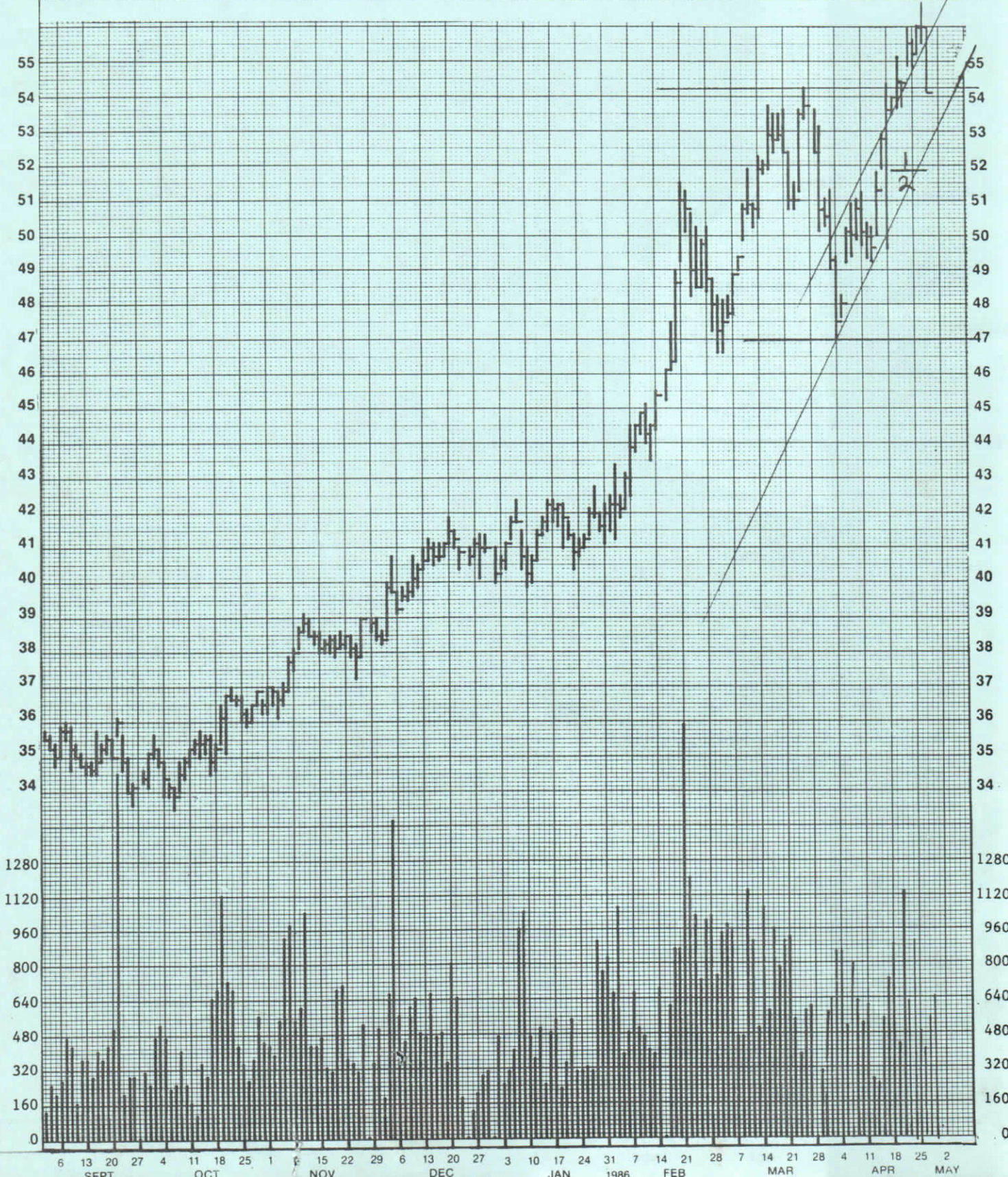
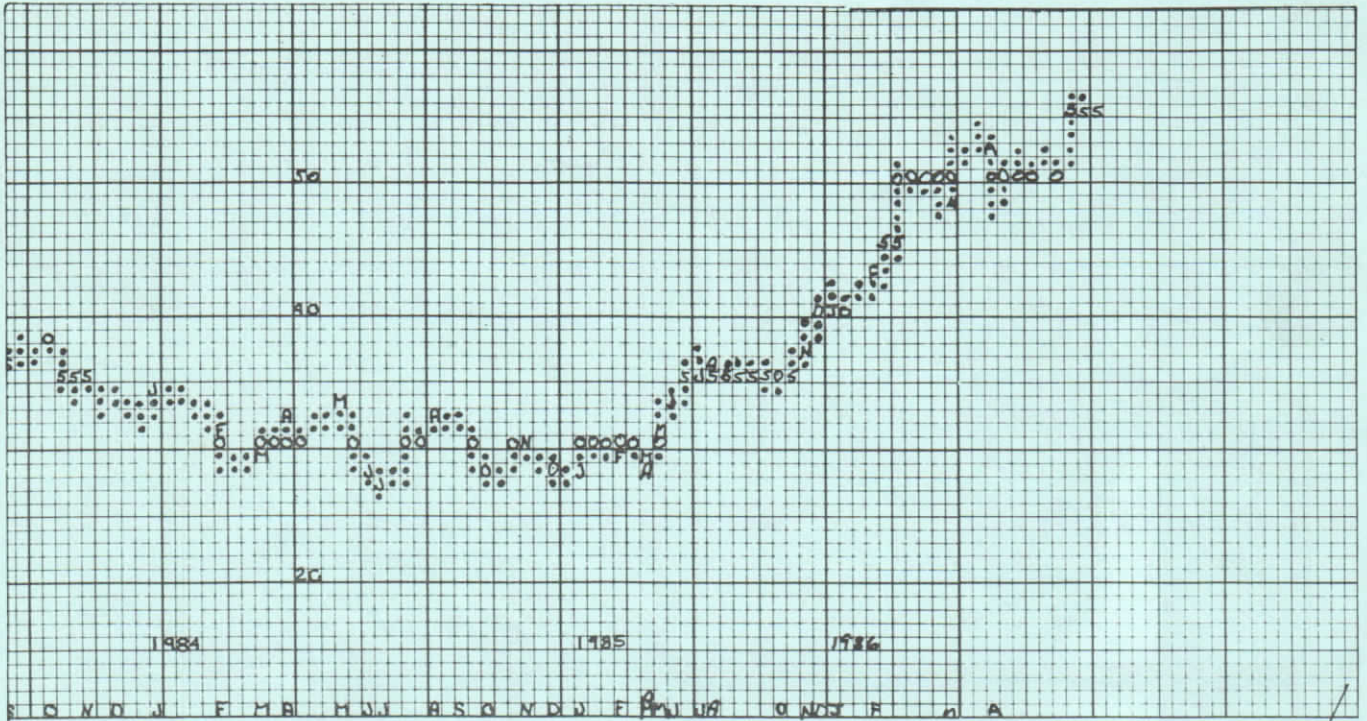
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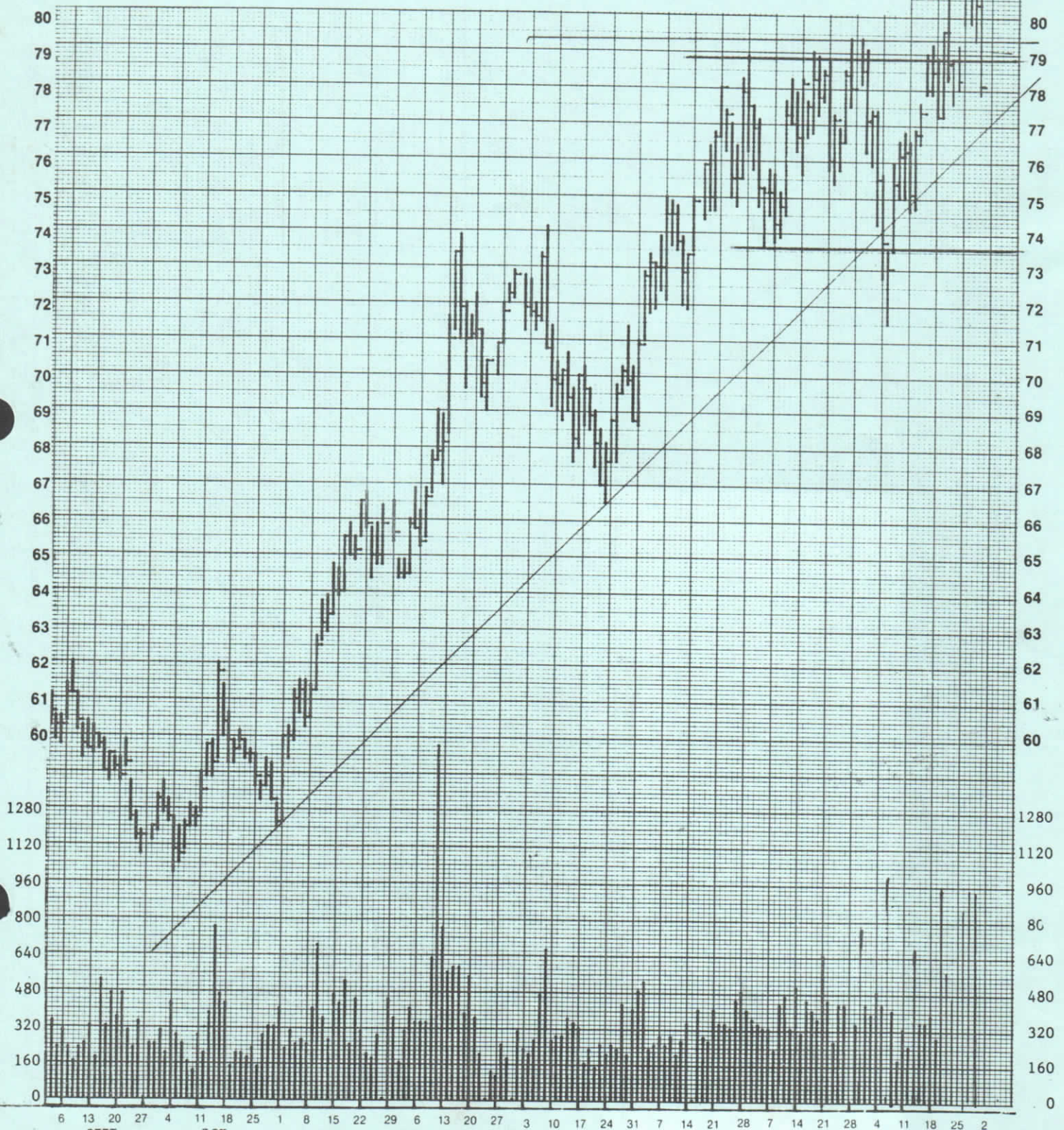
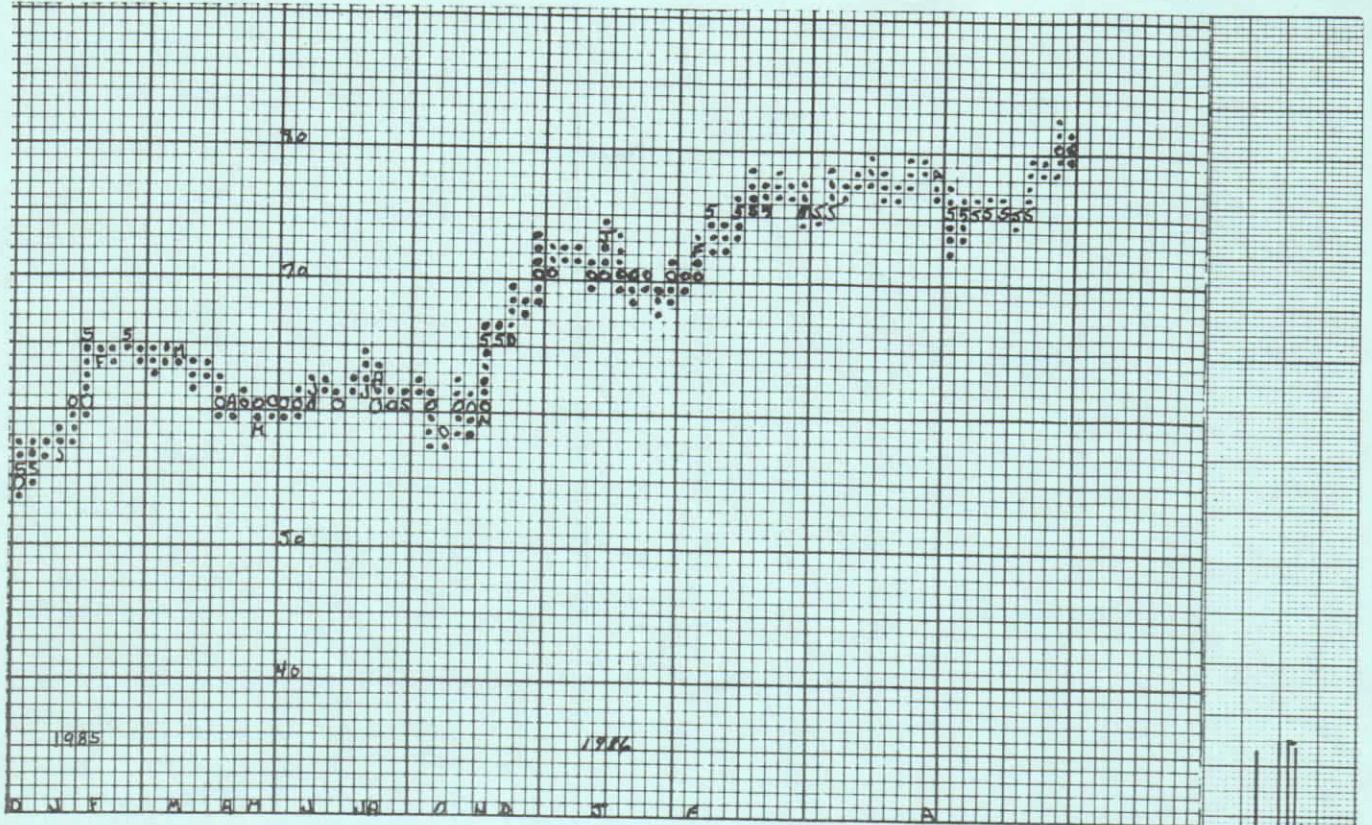
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(GE)

CBOE (M-J-S-D)

ELECTRICAL EQUIPMENT





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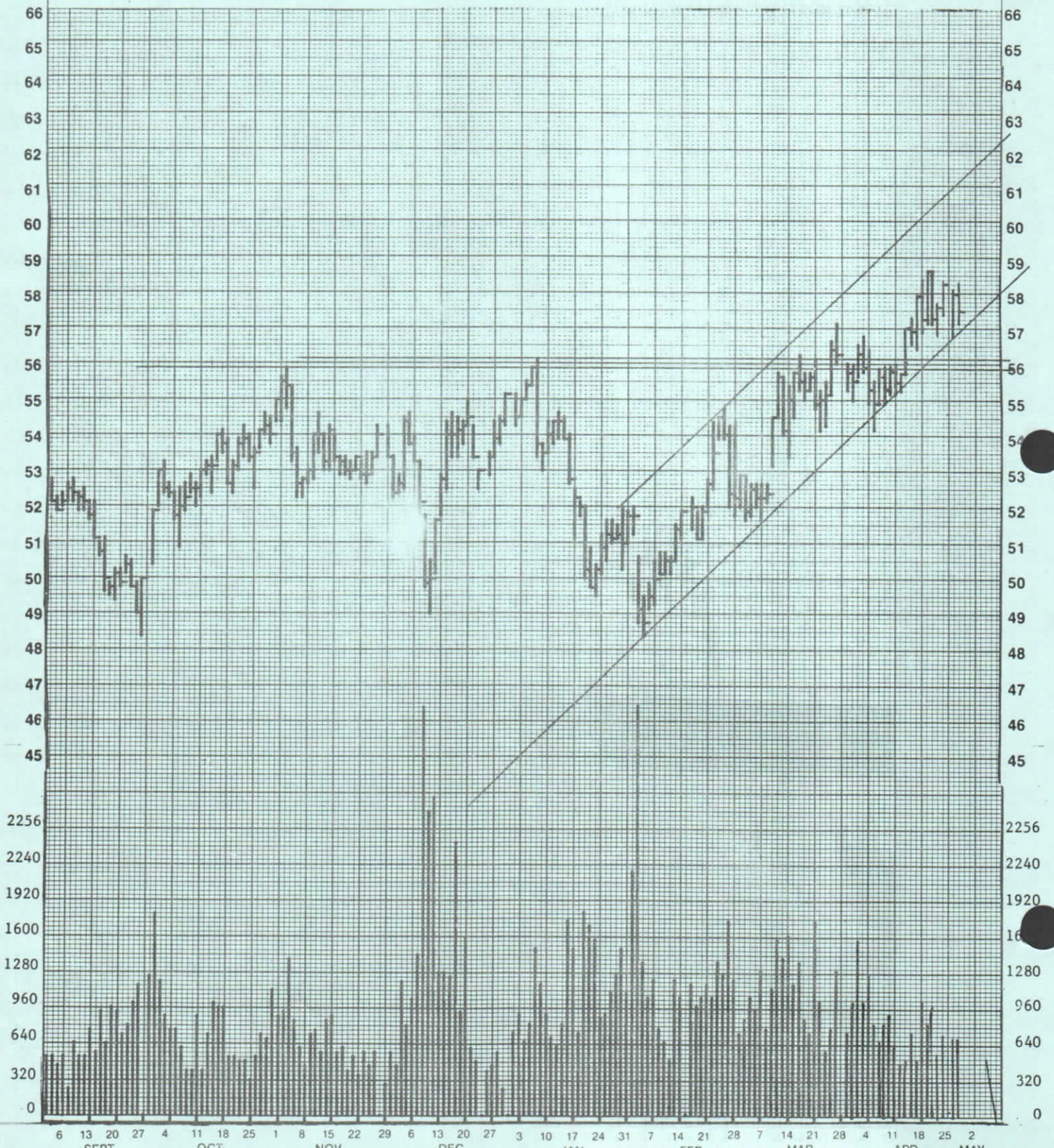
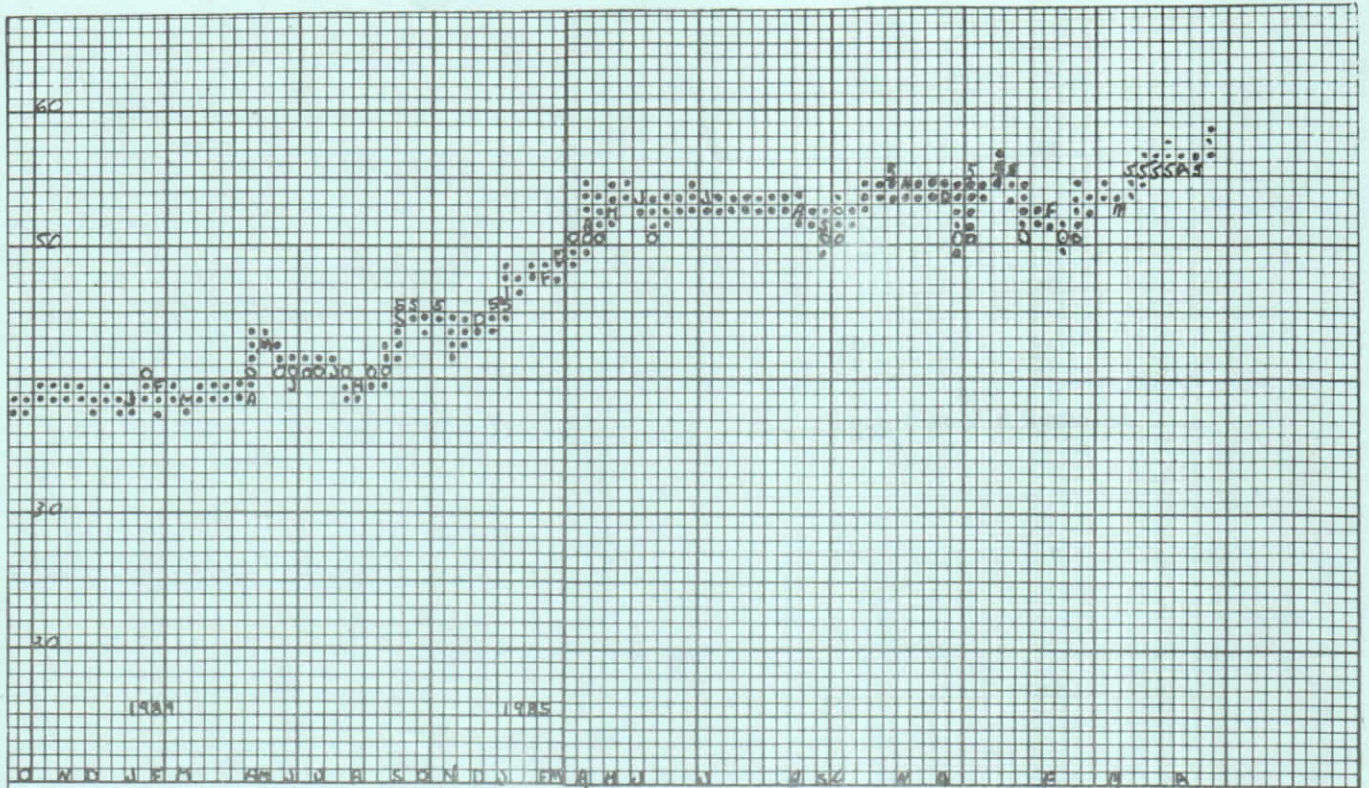
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OIL





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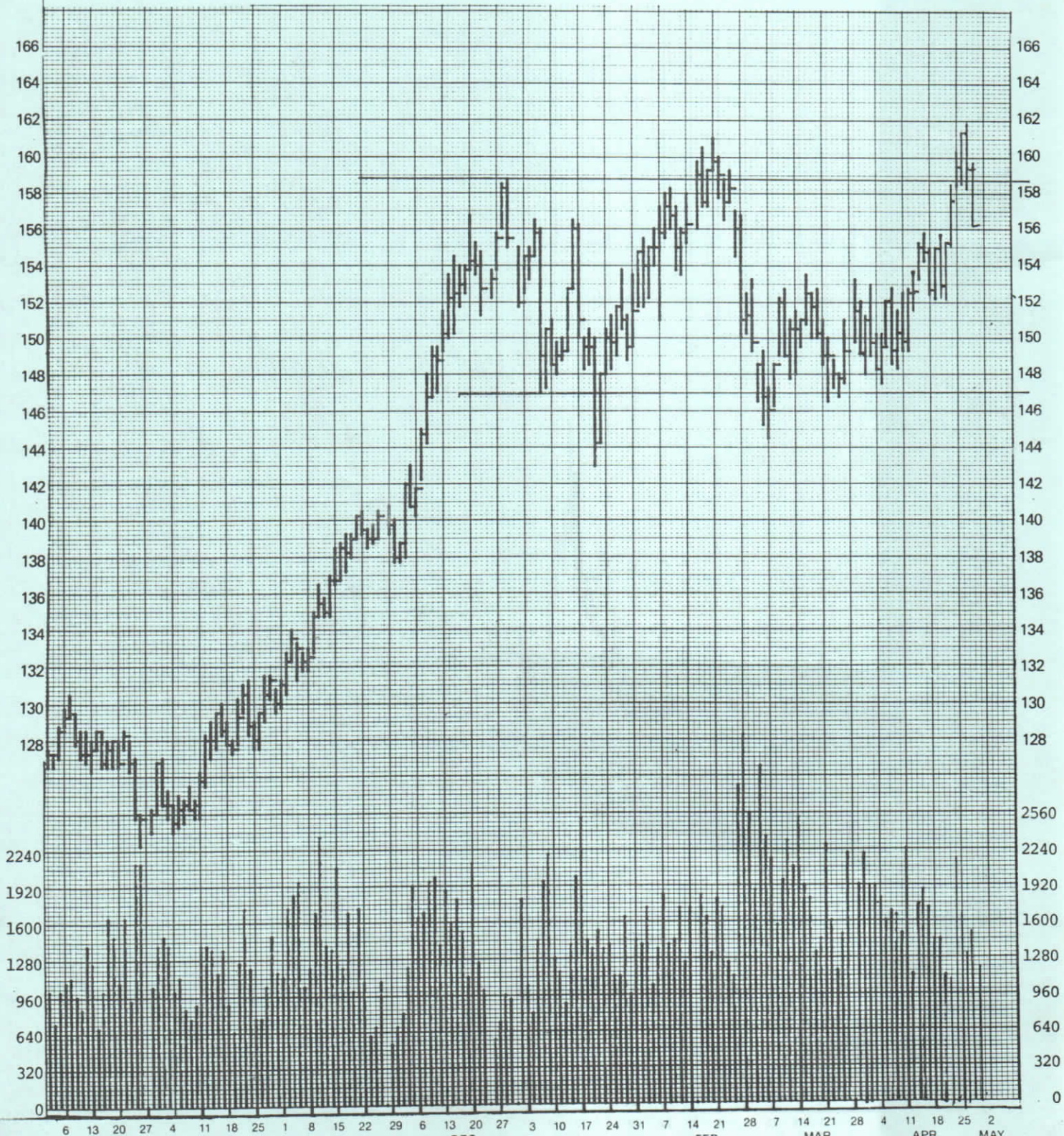
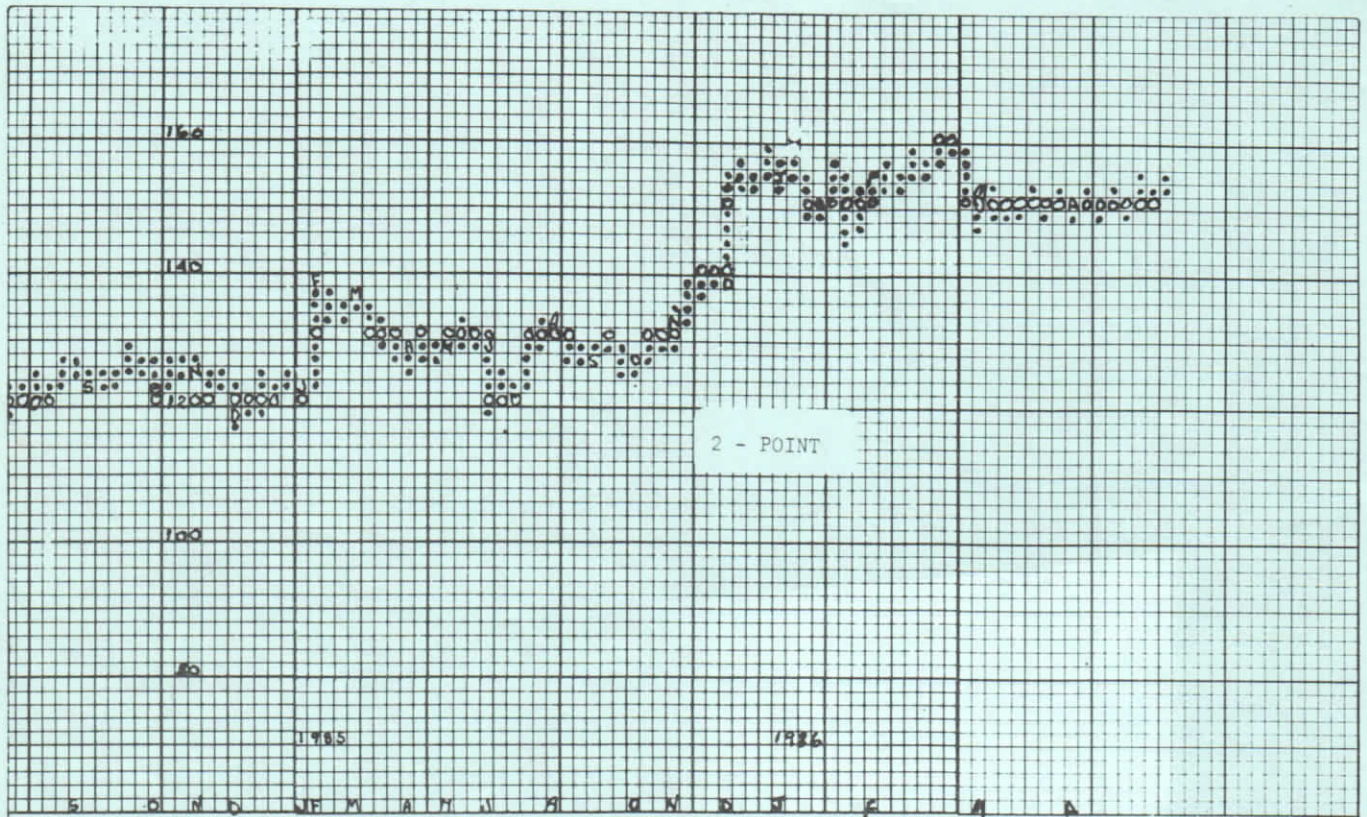
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COMPUTERS





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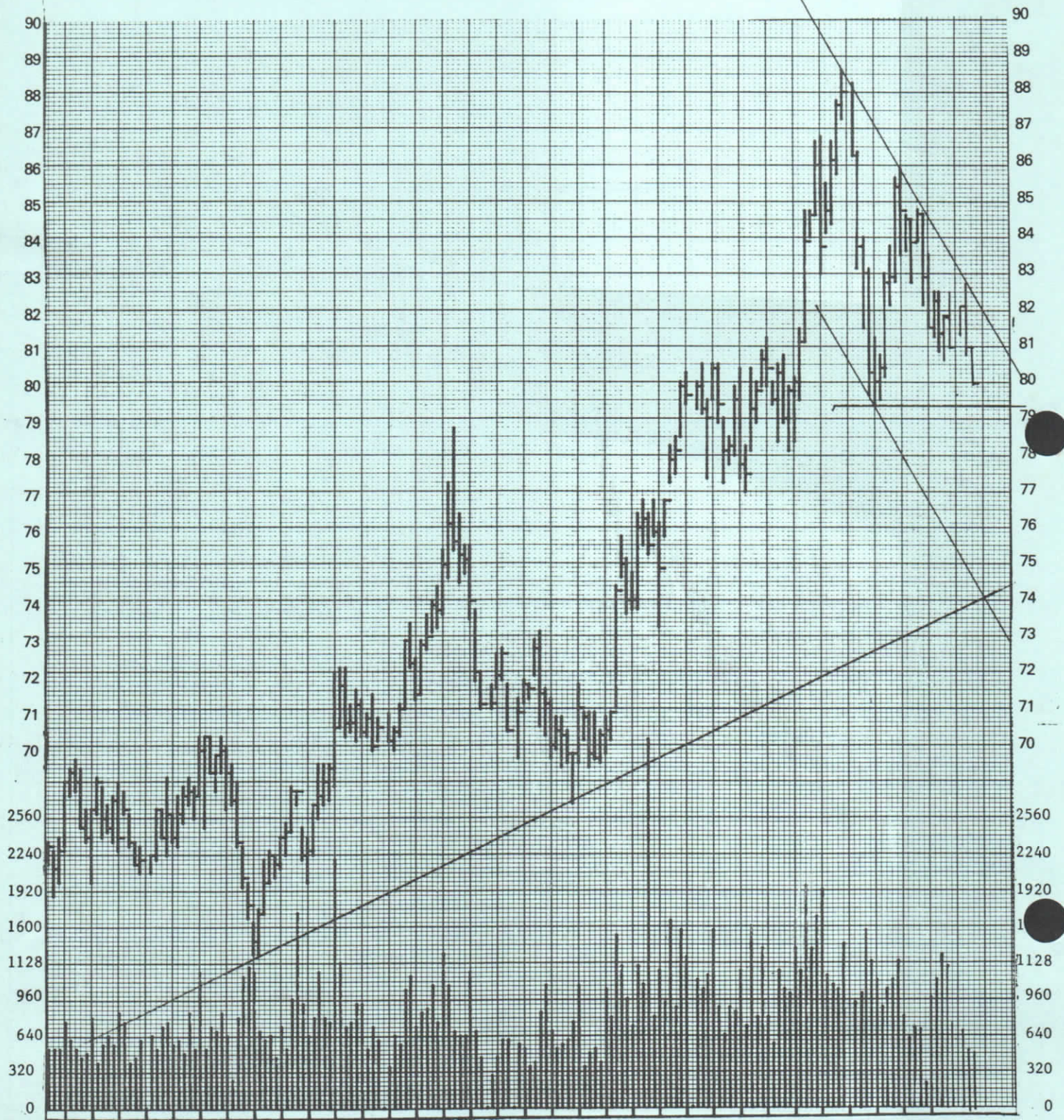
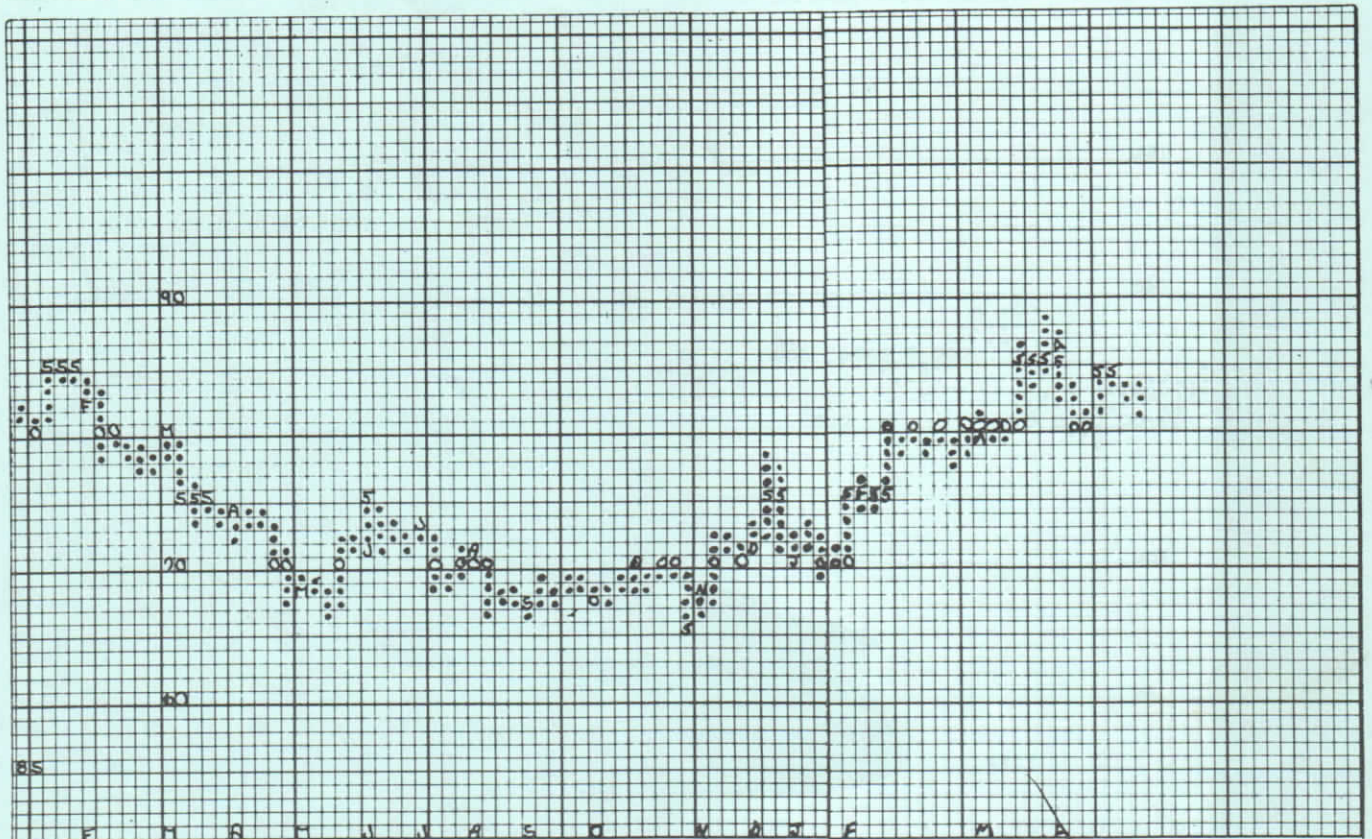
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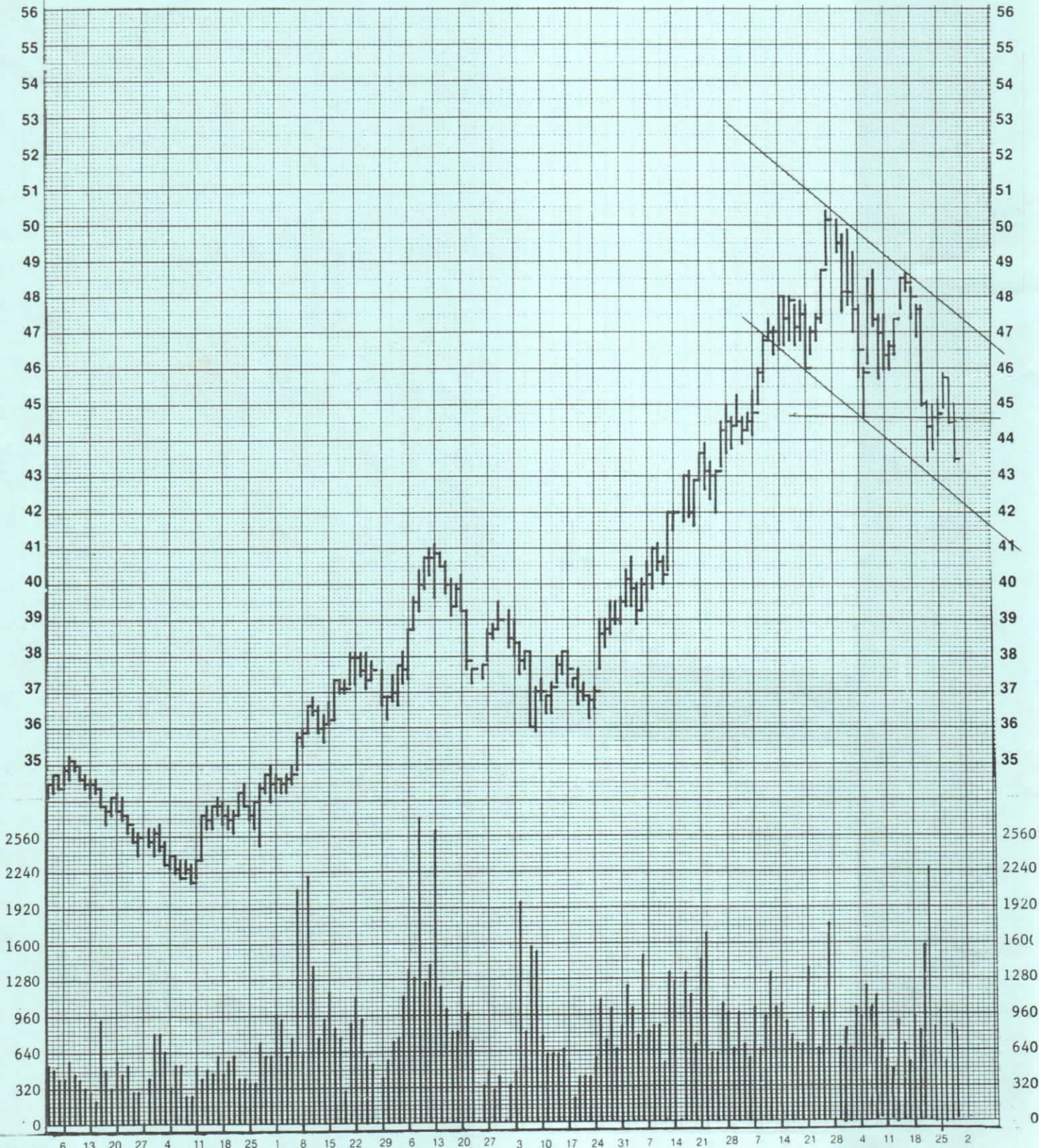
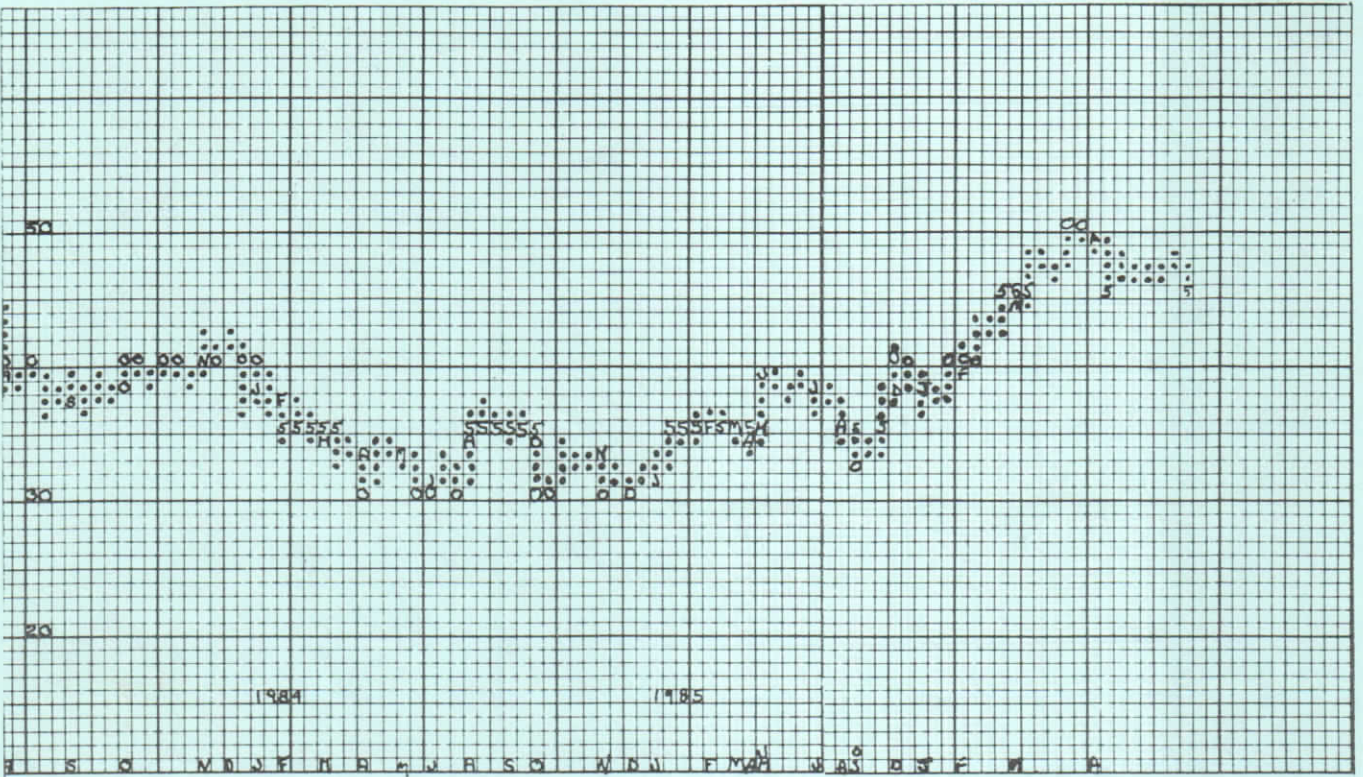
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SEARS

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CBOE (M-J-S-D)

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MERRILL LYNCH

(MER)

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