The Trend Letter

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Beginning Friday, May 27, the Trend Letter message will again be available in a recorded format beginning two hours after the close the market and continuing throughout the next day. Calls may be placed at any time. The new number will be area code 602, 277-5387.

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Friday, May 27, 1983

MARKET TRENDS

During the past two weeks, the Wyckoff Wave declined by as much as seven percent. This must certainly be the start of the long awaited important correction, or is it? Seven percent at current levels is a pretty good jolt from the standpoint of points lost. However, it must be remembered that the market has been up as much as eighty-nine percent from its August low. When viewed from this perspective, seven percent seems relatively insignificant. What is significant, however, is that the important trend of the market is still up. As long as it is up, the market should not be sold short.

The weekly chart of the Wyckoff Wave shows us that as of the end of last week the long term uptrend was being tested. This week's action when posted will show a very slight penetration of the demand line followed by a rapid recovery. The ability to snap back indicates how powerful the uptrend is. When something has this much impact on the market, it should be clear how dangerous it is to try to fight it.

The meaning of the slight penetration of the demand line is more uncertain. An absolutely perfect testing of the support would have been more clearly positive, but the penetration that has occurred should not be confused with a breaking of the trend. There is no way it can be said that such a development has occurred. The significance that should be placed on the penetration is that of a warning. It is very common for a slight crack to be made in the demand line before a decisive breaking of the uptrend occurs usually on the next reaction. Before that occurs, it is not uncommon to see one final upward push to a new high. In this case, such a thrust may bring the clear cut buying climax that is thus far missing.

Those who are holding longer term long positions should not be paniced by the Wyckoff Wave's recent seven percent correction. There are only two developments at this point that should be taken as an indication of a potentially serious problem. Both refer to the action of the individual stocks and not the general market. If a long position is held in a stock that has used up its pre August base of potential and/or its reaccumulation base from November into January, there is reason for some concern. If the action of the stock has broken the intermediate uptrend formed from the January and April lows or the long term uptrend based on the August and January lows there is also reason for concern. If a stock has both reached its objective and broken an important uptrend, there is reason to take profits. Those who are looking to take long term positions should probably hold off for now. This is due to the fact that the Wyckoff Wave has reached its maximum upside objective range, which makes the future somewhat uncertain.

The objective range just mentioned is wide with an upper limit almost to 4200. There is no guarantee that this figure will be reached, but if the market can get itself into a position from which a rally may be anticipated, there should be room for one more short to intermediate term trade. The question is will that position be established?

The answer is that it already has. On Thursday, May 18, the Wave entered a double spring position. It held there through Friday on relatively low volume and then on Monday after one final attempt to move lower failed the initial positive response to the spring began. This spring position had a problem from its beginning and that problem still exists. The market was already relatively overbought on Monday. Therefore, when the market began to respond to the spring, it became clearly overbought almost immediately. This is not reason enough to avoid acting on the spring assuming proper protective measures are taken, but it is reason not to expect a straight line advance to a new high. This was confirmed by the action on Tuesday and Wednesday when the market experienced decreasing results from increased effort. Another confirmation came from the divergence that developed.

This results in a conflict that must be resolved. On the one hand, we have the spring that points upward, but on the other hand we have the divergence and overbought condition that point downward. The market cannot do both at once. However, taking things one at a time the conflict can be resolved in an orderly manner.

The market's most immediate problems are the overbought condition and the divergence. The divergence only tells us that the market should try the downside. It does not tell us anything about how successful the effort will be. Any effort on the downside will satisfy the divergence. Effort on the downside will also help eliminate the overbought condition. Therefore, the immediate problems are not that overwhelming. The important points are that the price hold up well as the downside is given a try and that the total volume contract on the way down. This will result in a very convincing test of the spring and a good opportunity to reenter the market on the long side in those stocks that still have upside potential and whose uptrends are still intact.

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Assuming we get the test of the spring that now appears likely, the rally that follows should represent the end of this phase of the advance. If we see a new high established, watch for it to be the buying climax. If no new high results, a trading range will already be in place. Once the trading range does take hold, intermediate traders should use it to clean house and prepare for the next move. Short term traders should continue to concentrate on the rallies in stocks that remain relatively strong unless or until the action within the trading range takes on a bearish character.

Stock Trends

At this point, we are looking for two things. One is a final rally out of the spring/test position and then a new trading range, which could become rather extended. Our examination of the stocks should be geared toward finding candidates with which to participate in both developments.

Exxon appears to be a candidate for trading both anticipated developments. However, due to its conservative character, it is probably best suited for a somewhat longer term trade through the duration of the anticipated trading range. The stock has two essential positive elements going for it at this point. One is a well defined uptrend, which has just survived a test. The other is the potential for a ten point move on the upside, which is substantial for a stock in this price range. Exxon may be considered for long positions during the market's testing of the spring position. This assumes that the volume remains relatively low and the uptrend is maintained. With an eleven point potential, stops may be placed as much as 3.5 points below the price.

The relative strength that had been present in General Electric has rotted out of the stock. It has gone into a trading range and broken an important intermediate uptrend. Its last reaction came on relatively high volume. These are reasons for short term and intermediate term holders of long positions to close them out on the next rally. The long term trend of the stock is still up and there are higher objectives. Therefore, long term investors can justify holding long positions. However, a stop around one hundred is in order. This stock is going to split next week. When they split, stocks often undergo character changes. A stop below the important support at 102 should provide a good measure of protection in case the change in character is to one that is more negative.

General Motors is a long candidate for the rally that is anticipated to follow the test of the spring. Its relative strength and count into the eighties also makes it a good candidate for trading when the market moves into a new trading range. Since the stock continues to look so positive, long term positions can be held. New long positions of a shorter term nature may be considered as the market tests its spring providing the uptrend based on the April and May lows is respected.

I.B.M. is beginning to look a bit tired. It is still showing more strength than General Electric, but its performance on the last reaction suggests a change is underway. This correction held at the halfway point, which is positive, but it brought out increased volume. Higher volume on a reaction usually indicates something is wrong. The stock responded nicely to the market's spring, but stopped abruptly when the resistance around the 116 level was encountered. There will probably be a test of this weeks low and then another run at the former high. If this fails to break through, a trading range will have taken hold and the advance will be over for a while. Long term investors can continue to hold for now. Short and intermediate term traders should consider using the next rally in the general market to take profits.

As a vehicle for new long term positions, Merrill Lynch cannot be advised. However, last week it went into a spring position. This makes it at least a short term candidate for the long side. At the spring, the upside potential was to 99. The stock is now too close to that figure to be bought. However, a testing of the spring seems likely. This will increase the potential and perhaps take the price back to the 93 to 94 area where it may be considered a buy.

Pepsico has a substantially higher objective. It is in an uptrend and positioned in that uptrend in such a way that long positions may be considered. However, the stock is much weaker than the market. It also still experiences increased volume on reactions. This mixed bag of indications is reason to stay away from the stock for now. Pepsico is probably preparing for a big move, but there is no indication that this move is imminent. It makes no sense to waste time in things that are not ready.

UAL is another poor candidate for the long side. It has an enormous potential, but is no higher now than it was back in December. This makes it relatively much weaker than the market. There is never a good reason to buy relative weakness. If the stock does jump the creek which does not seem likely, it can be bought on the back up for a very large advance. Without that jump, however, the stock is of no interest on the long side.

At the moment, Union Carbide is in an overbought position. Therefore, it cannot be bought right now. The overbought position must be corrected first. This may come in the form of a halfway correction, but the extreme strength in the stock appears to favor a trading range instead. Since the upside objective in this stock is around eighty, it is interesting from a short to intermediate term perspective. However, this will not be until the overbought position is removed. The stock should be watched for possible new action later. For now, existing positions may be held.

MAY 25, 1983.

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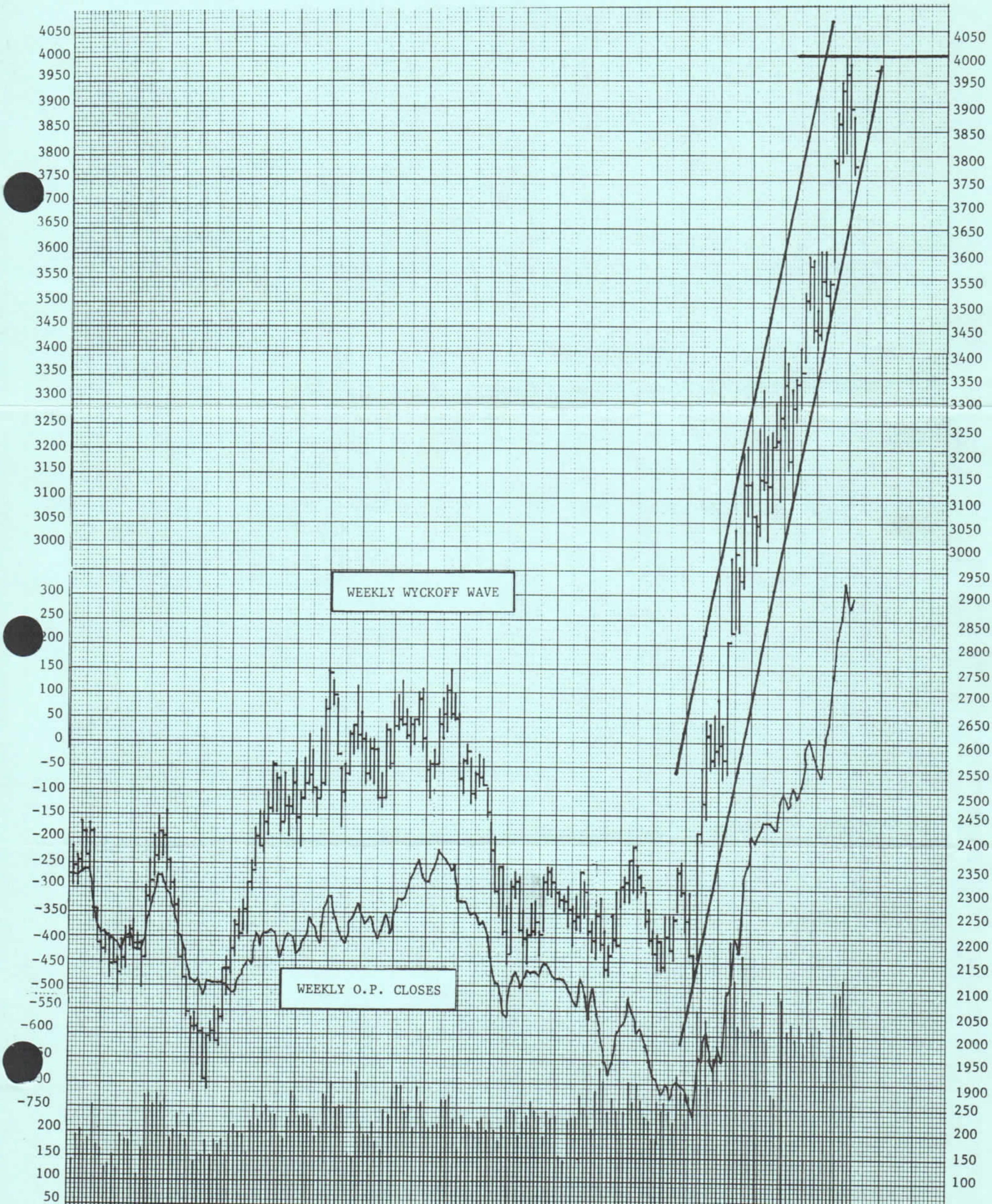

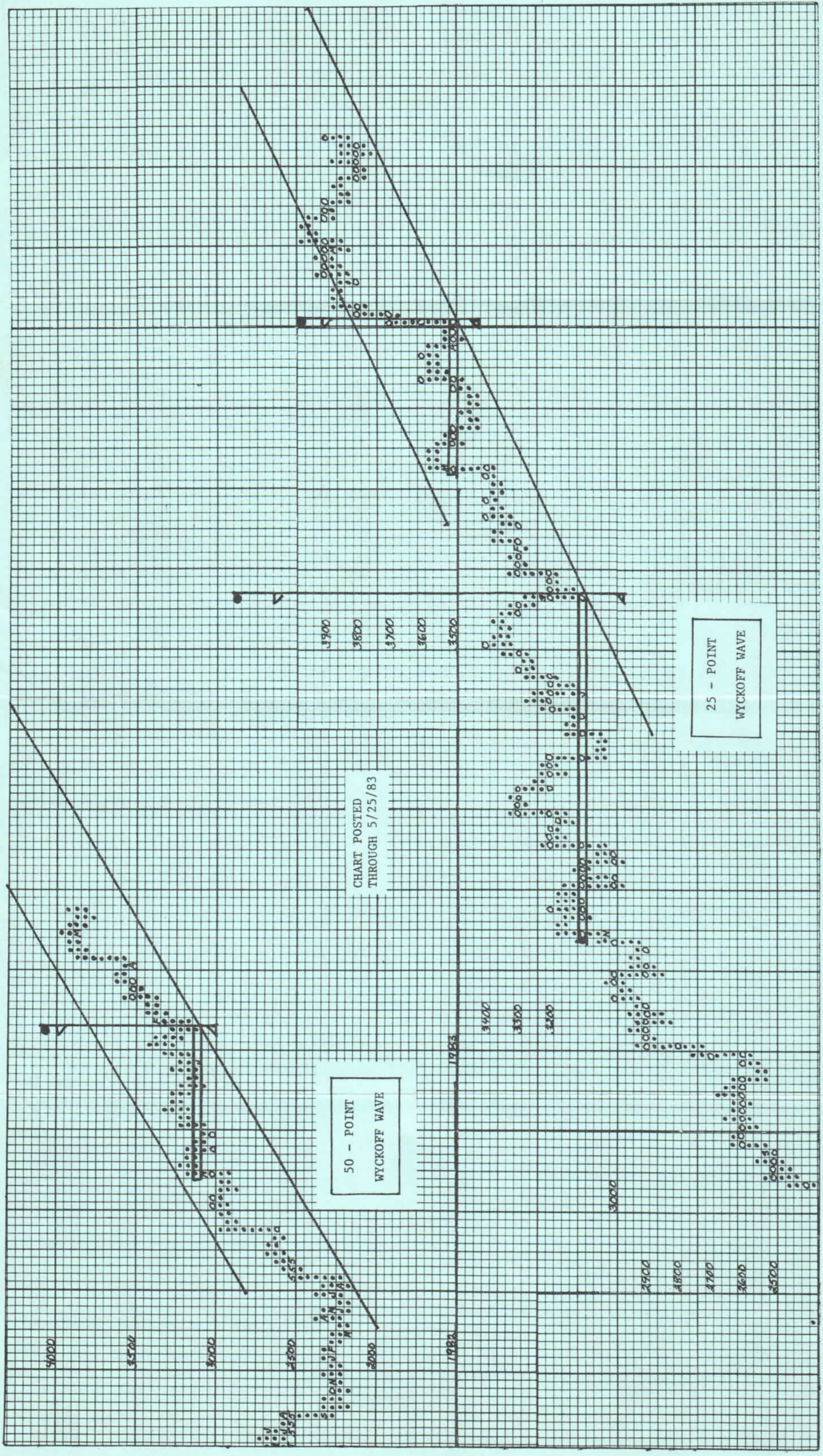
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The Pulse of the Market

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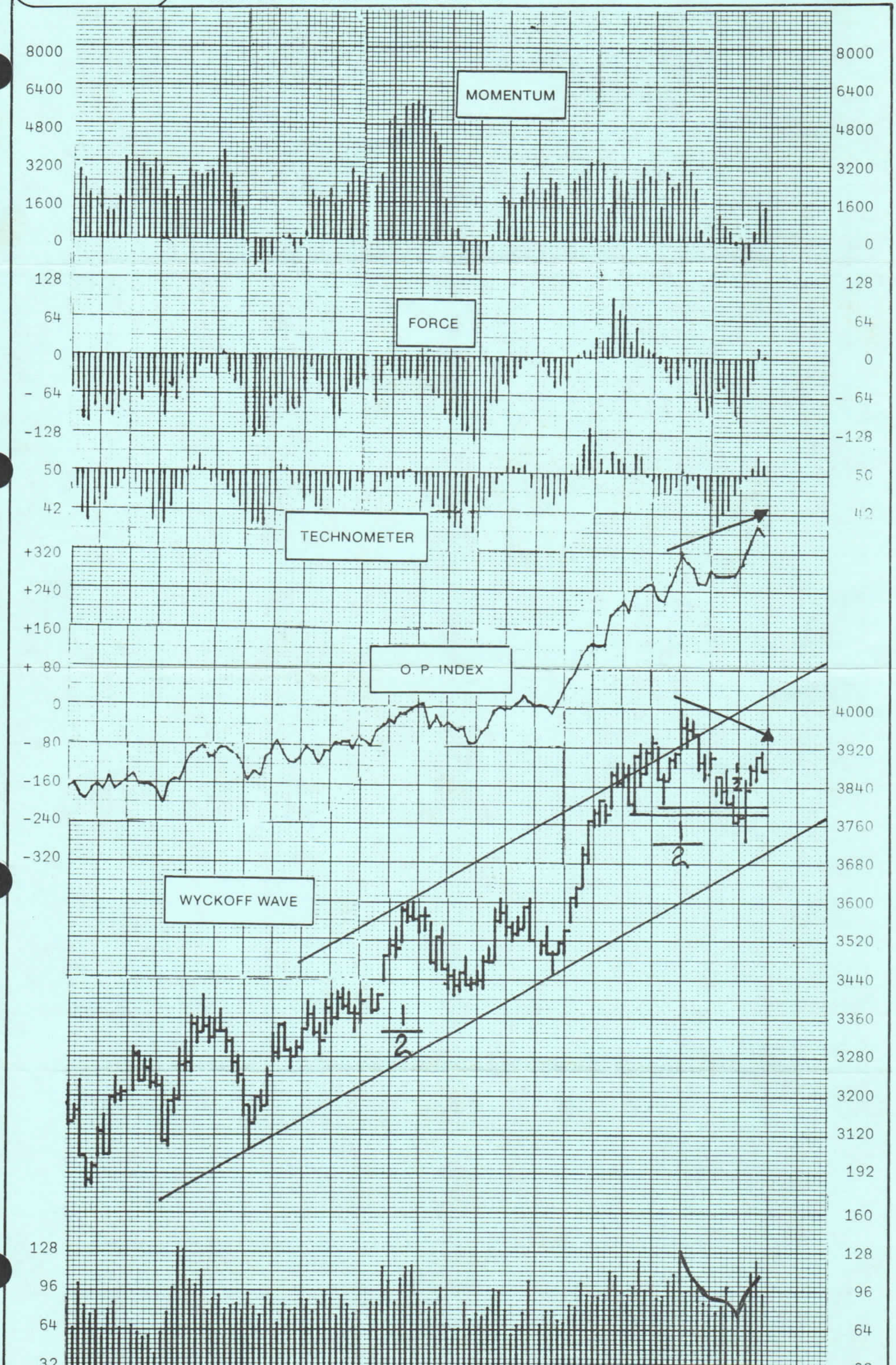
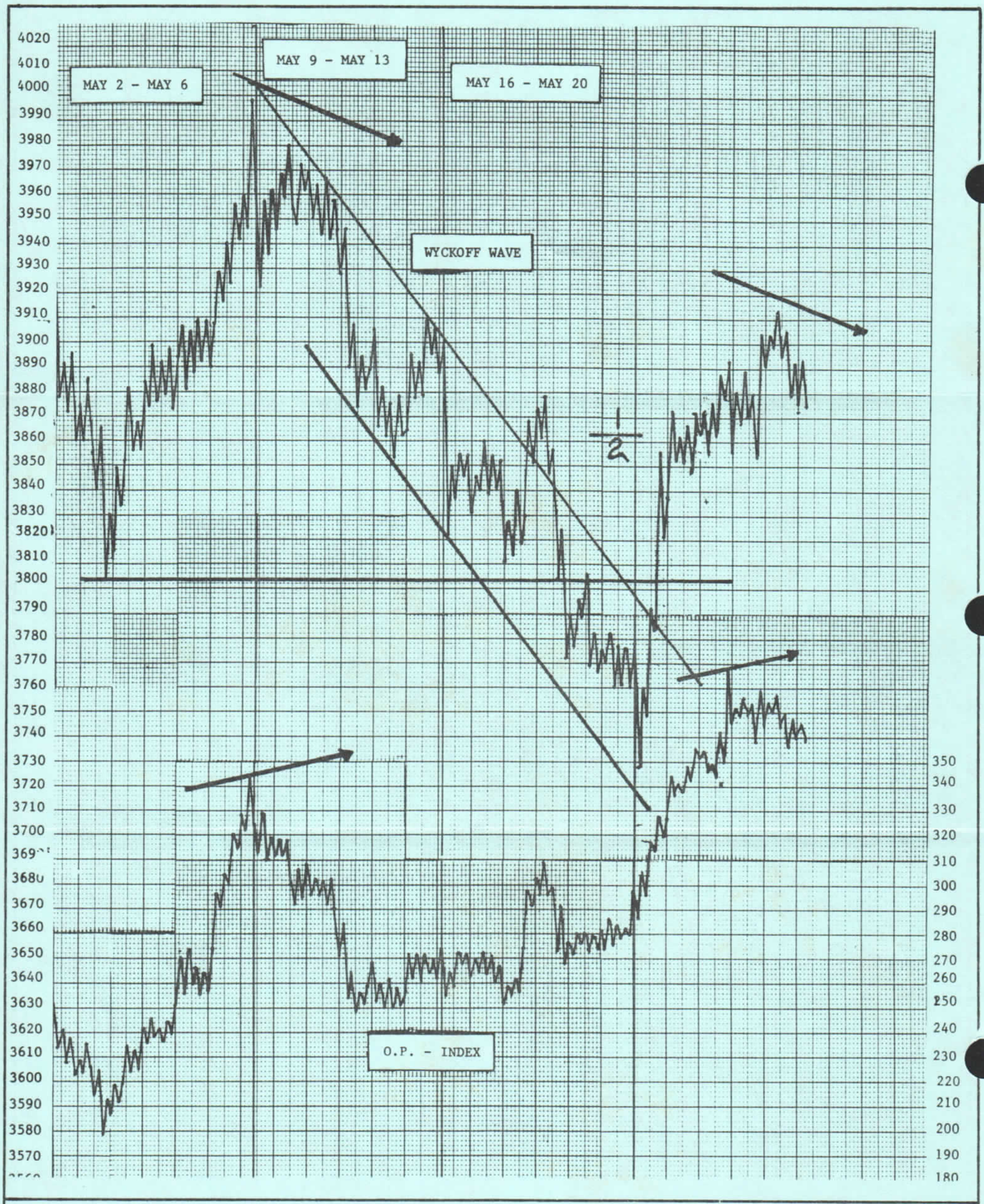
THURSDAY MAY 26, 1983

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MAY 9 - MAY 13
MAY 16 - MAY 20
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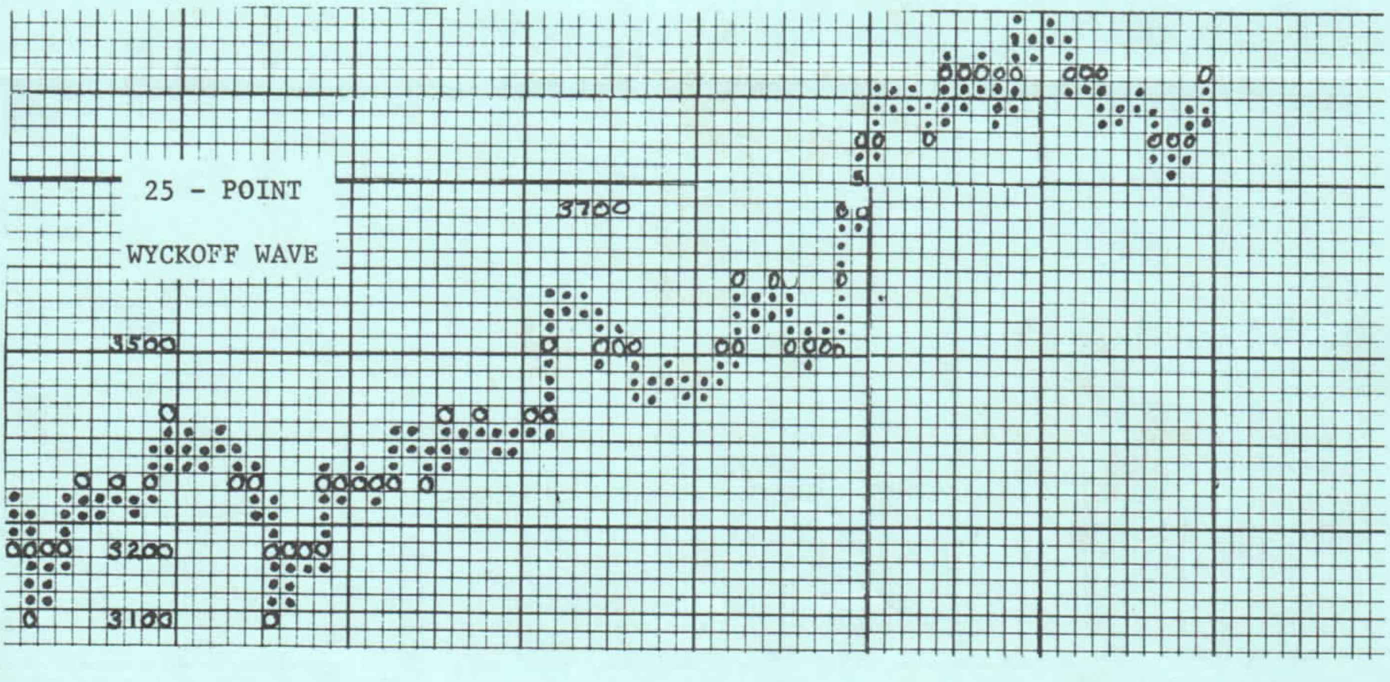
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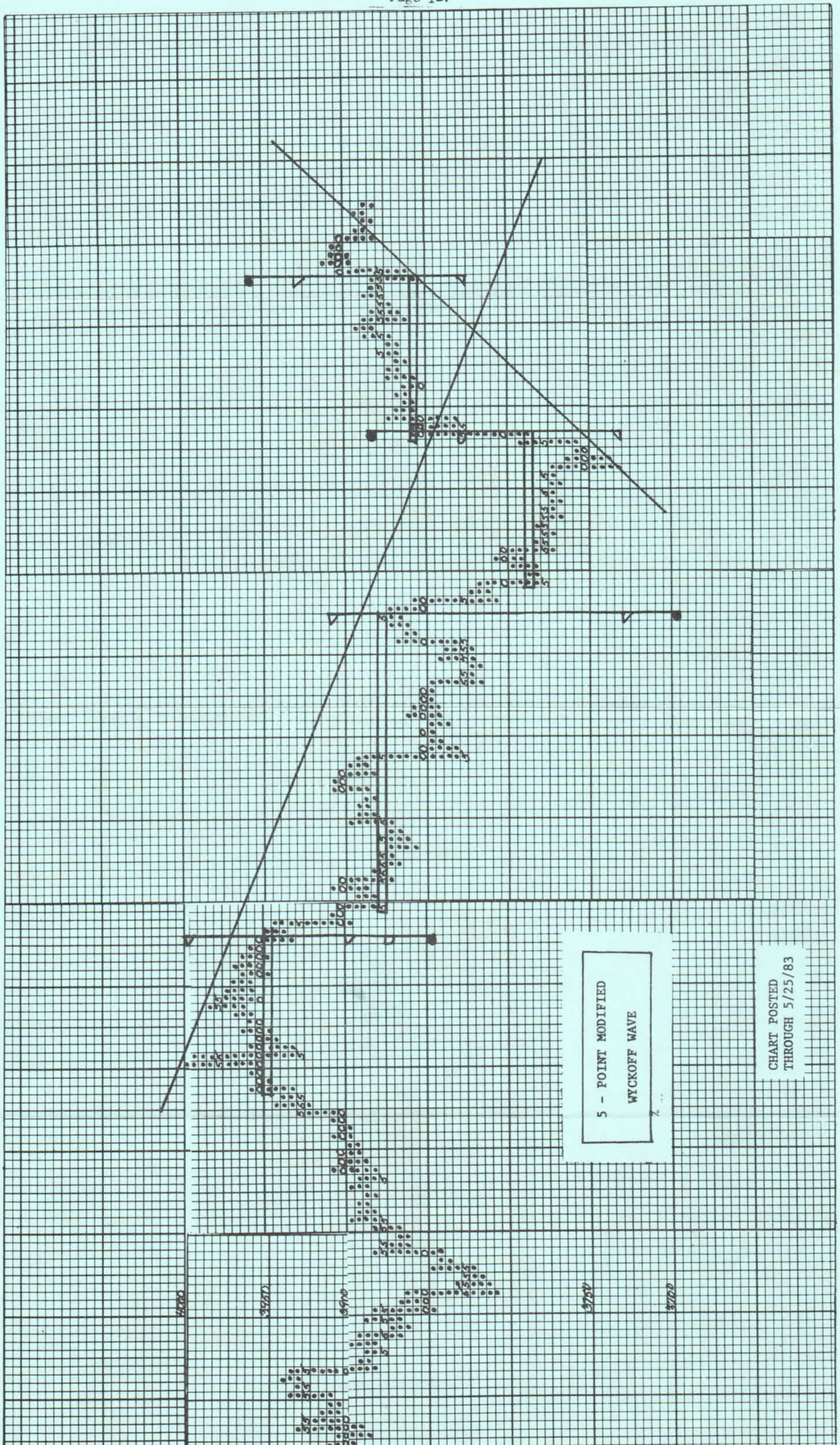
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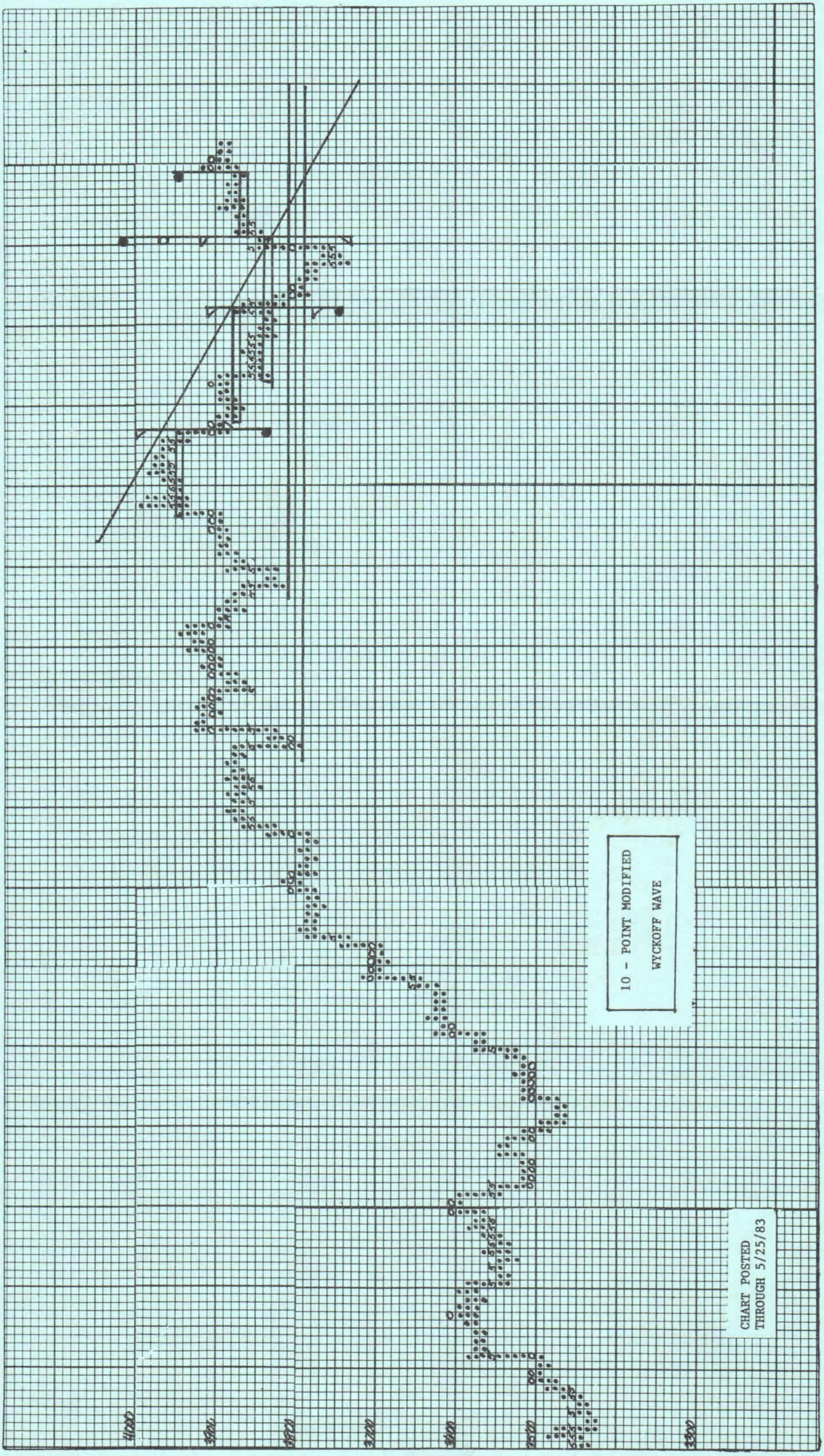
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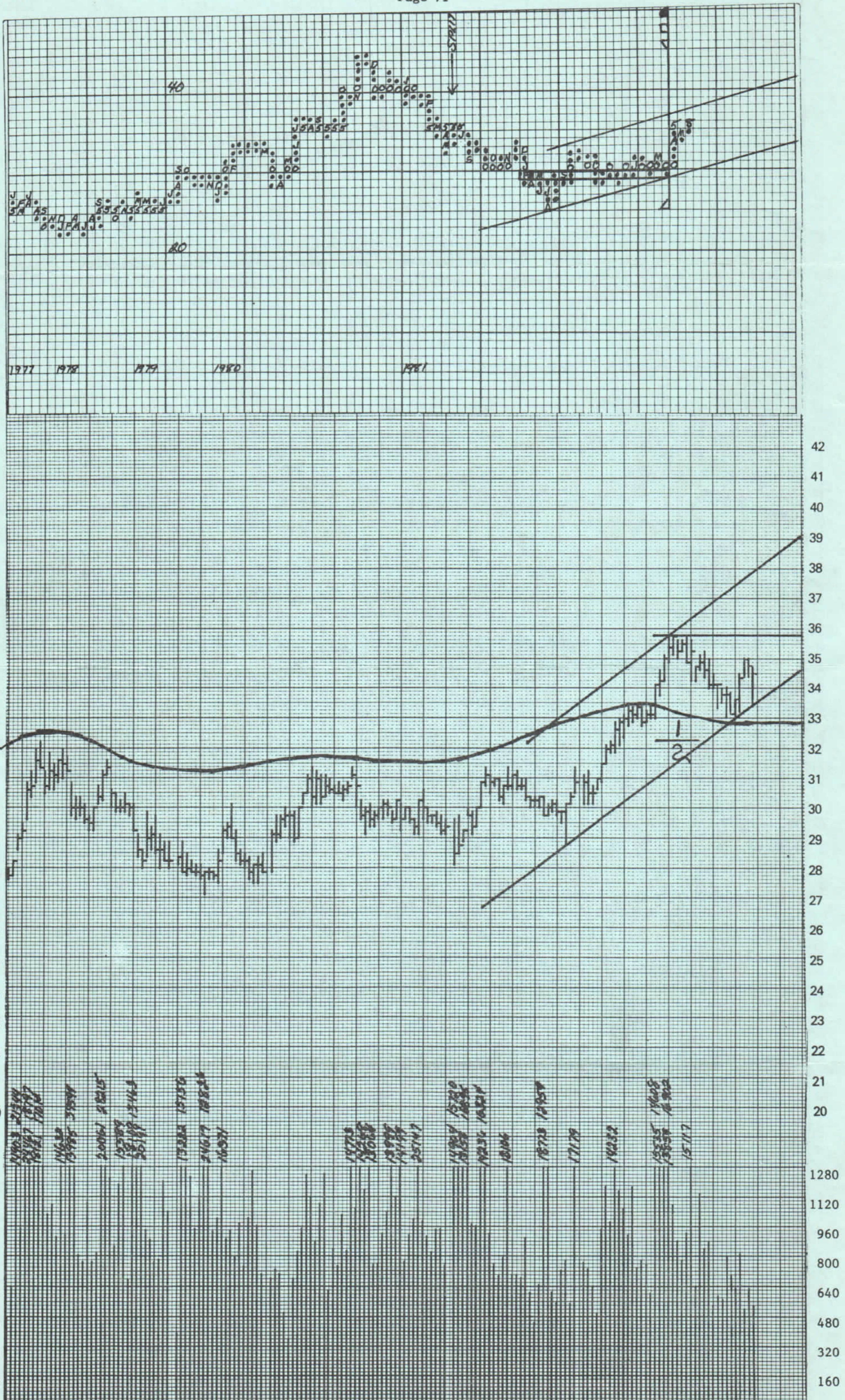
EXXON

OIL - INTEGRATED

(XON)
C.B.O.E. (p&c)



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GENERAL ELECTRIC (GE)
ELECTRICAL EQUIPMENT
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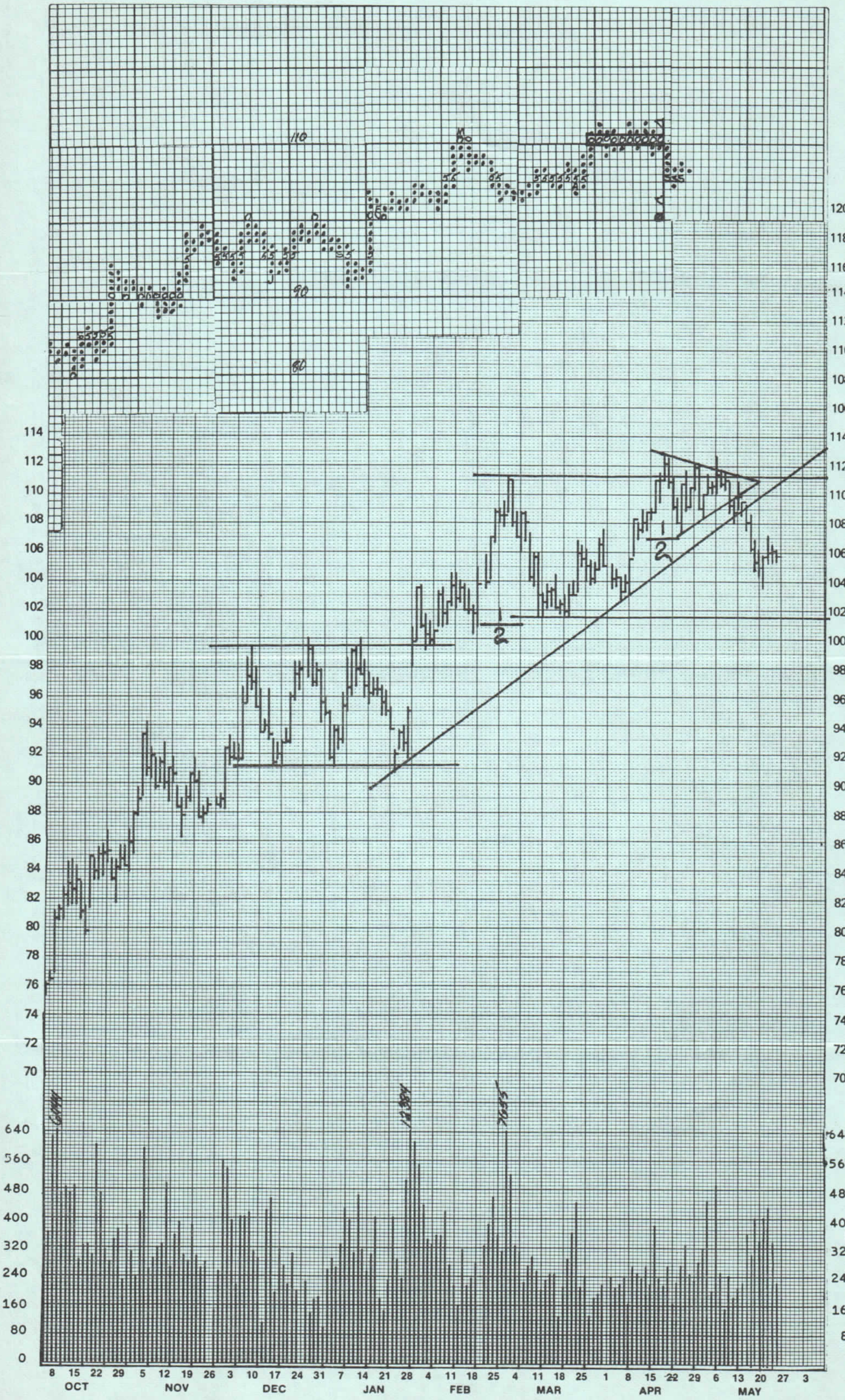

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GENERAL MOTORS (GM)

AUTO

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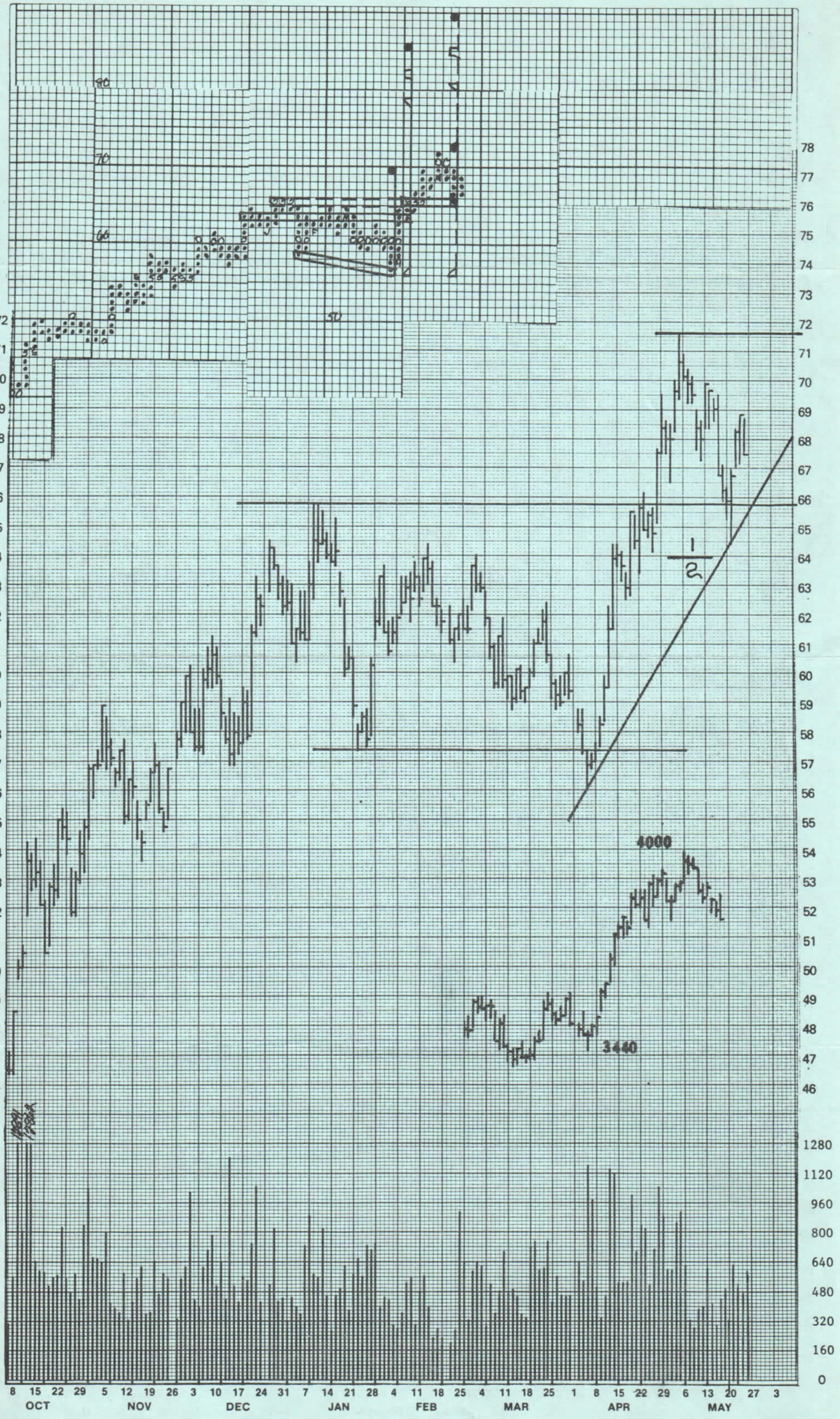

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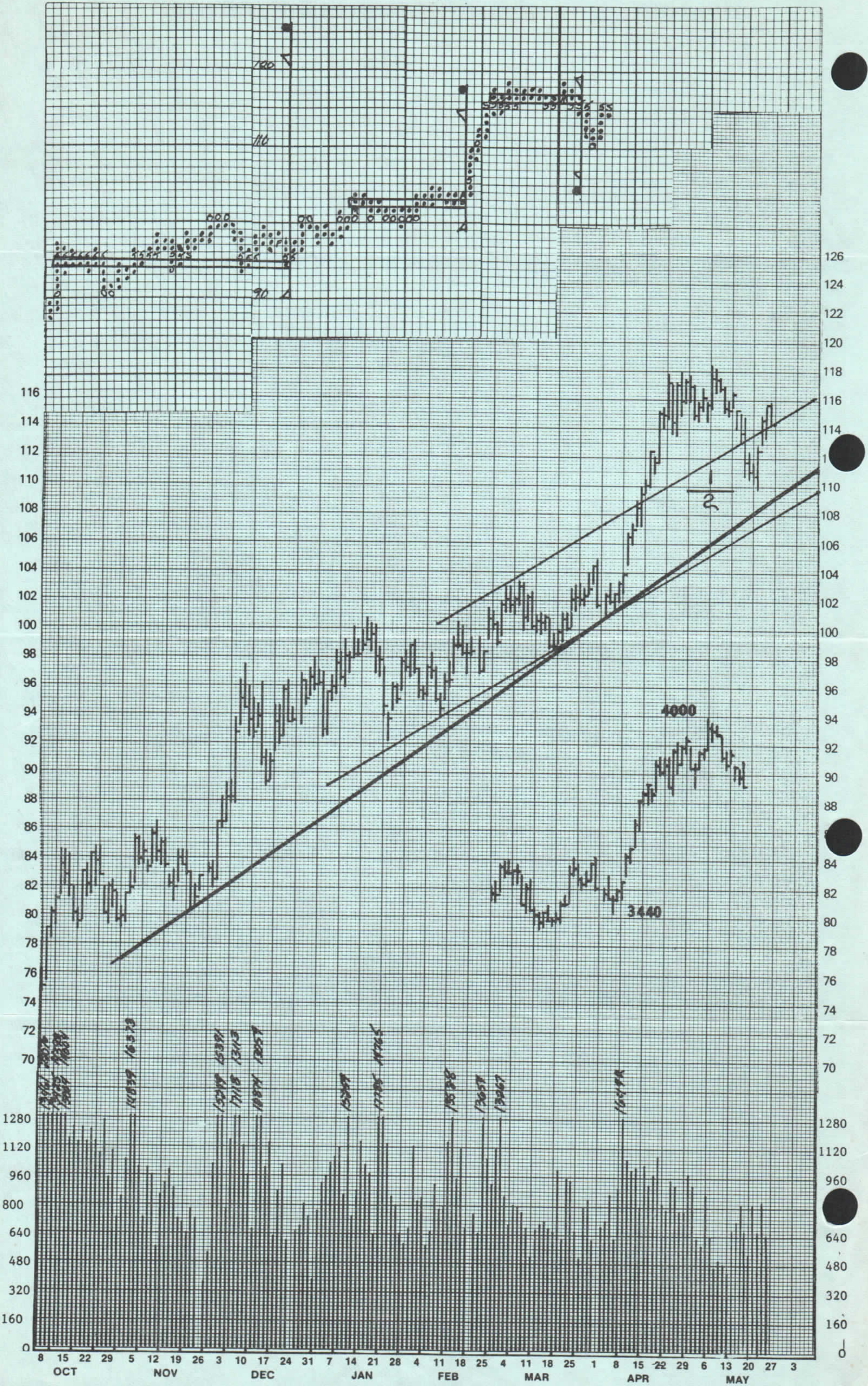
IBM
COMPUTERS

(IBM)
C.B.O.E. (p&c)



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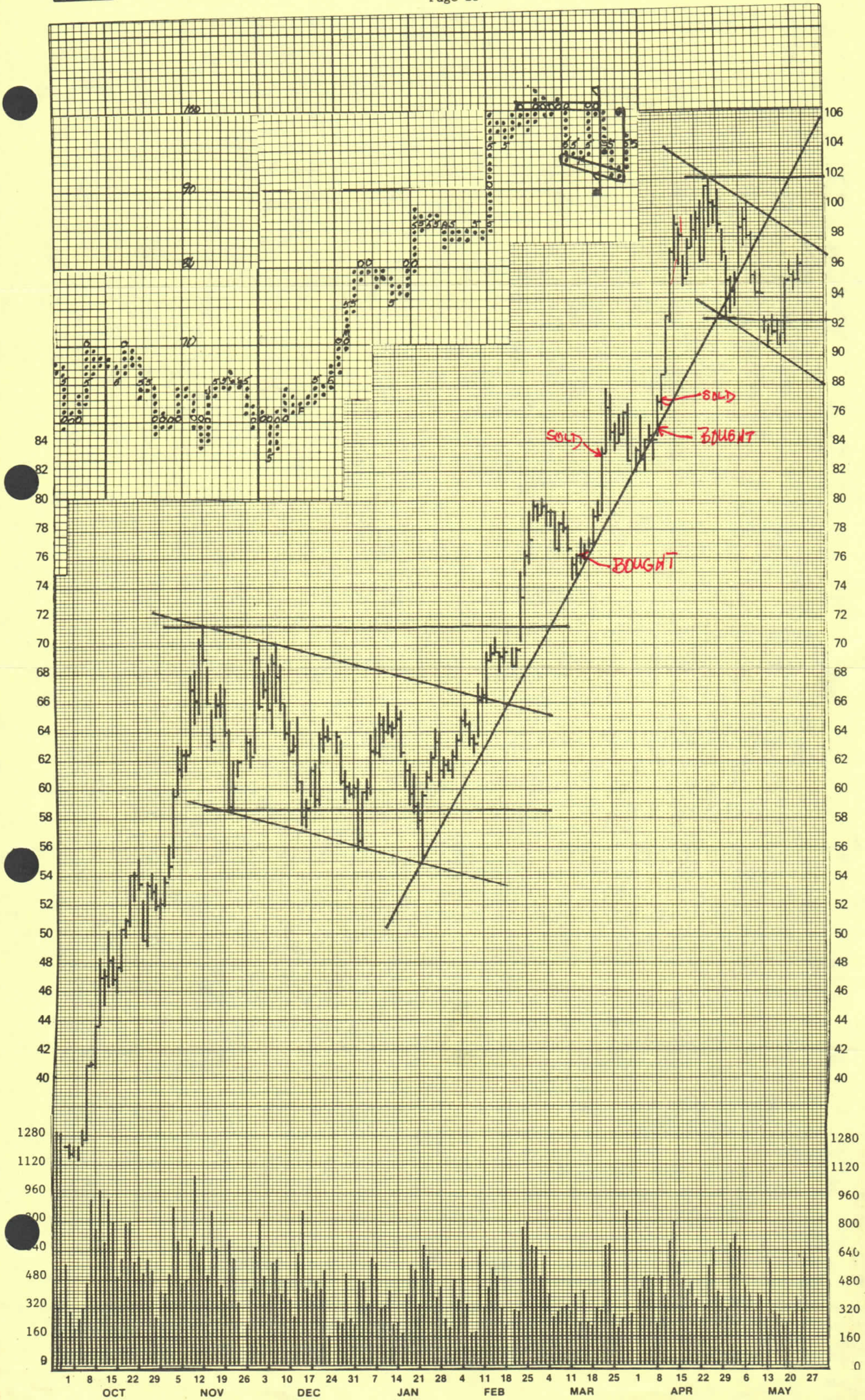
MERRILL LYNCH (MER)
A.S.E. (p&c)
BROKERAGE FIRMS



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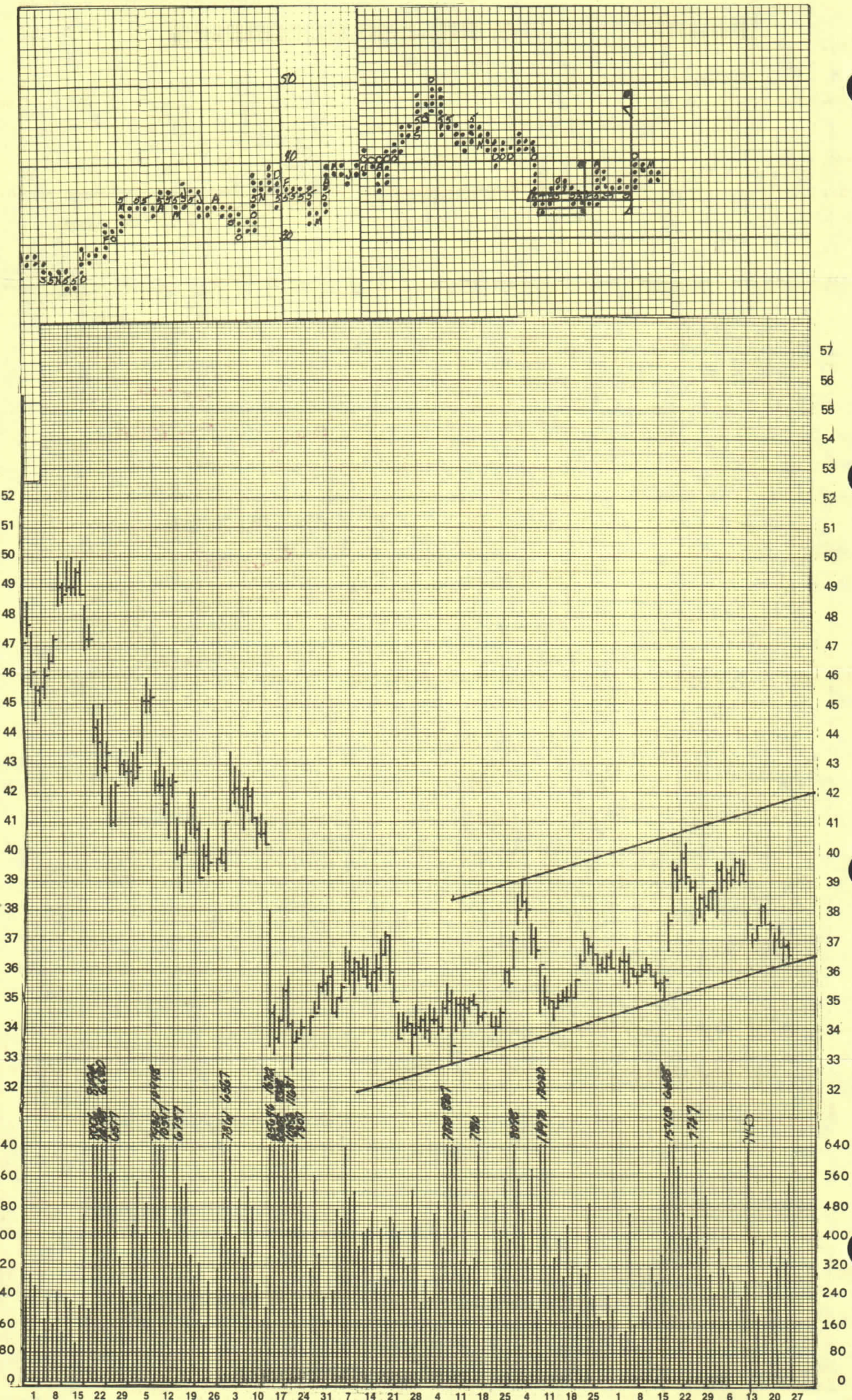
PEPSICO (PEP)

C.B.O.E. (p&c)

SOFT DRINKS



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CHARTING SERVICE

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U.A.L. INC.
AIR TRANSPORT

(UAL)
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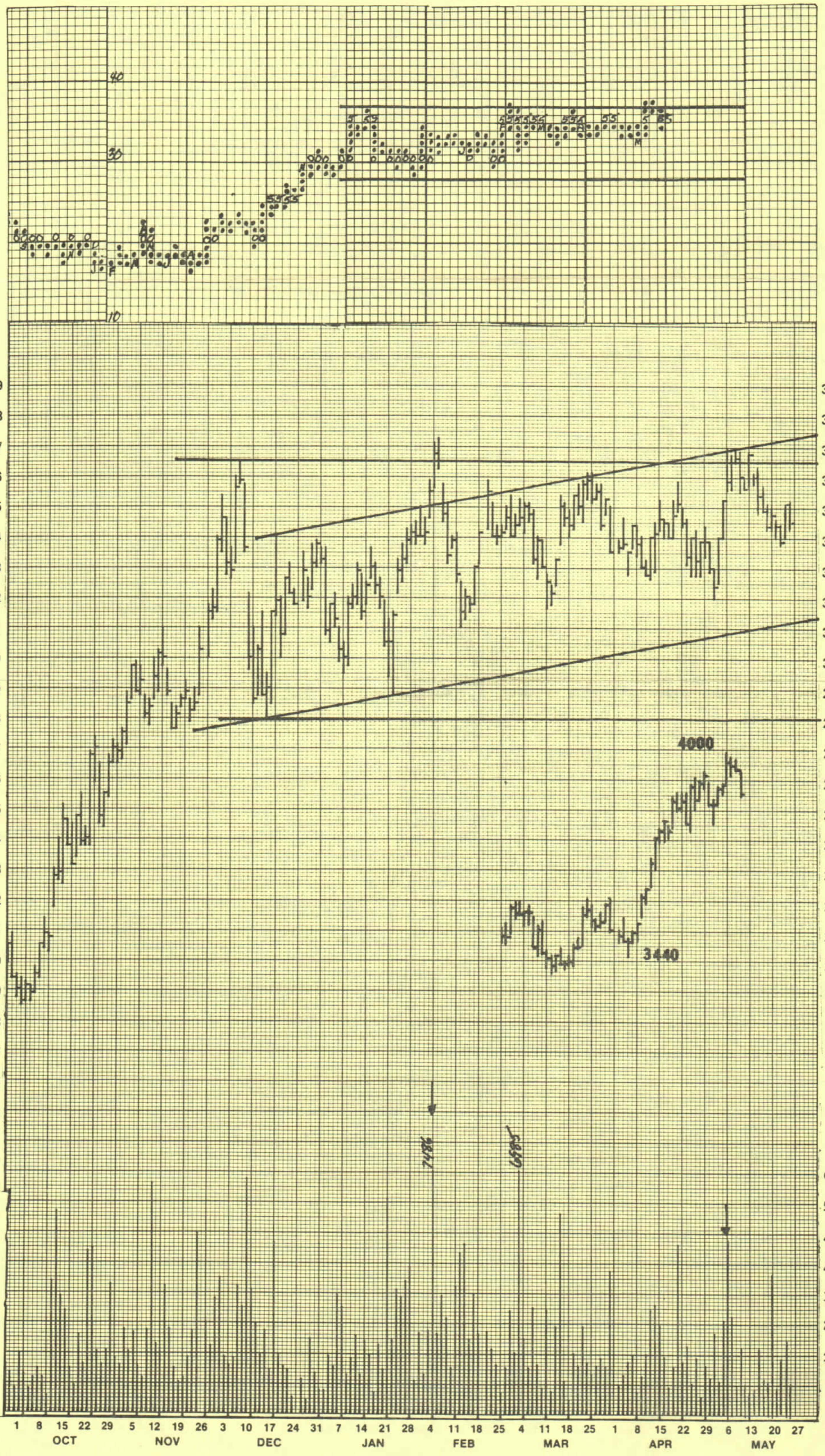

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UNION CARBIDE (UK)
A.S.E. (p&c)
CHEMICALS