SMI
The Trend Letter

Monday, November 29, 1982

MARKET TRENDS

The action of the past two weeks has provided little in the way of encouragement for the bulls. This should be good news for the bears. Certainly the fact that the Wyckoff Wave is now about one hundred fifty points below its recent high is reason for some encouragement. However, net change from one point in time to another is never the whole story. At best, it is only half and pehaps less than that in terms of overall importance. The really critical factor is the how. Thus far, the market's weakness has not been totally convincing. The promise of a more significant correction is there, but the confirmation is not expecially solid. For this reason, new positions must be approached very cautiously. Until the market produces a downward break on sustained volume, the possibility remains that the market will change its mind about the downside resulting in the need to give back short positions already established.

One of the reasons for increased caution can be seen in the weekly chart of the market's action. Generally the redefining of trend channels is something that is done only sparingly because of the potential for abuse. However, a set of circumstances that usually justifies some adjustment is the penetrated overbought line that is transformed to a support line after being tested on low volume. The action of the past two weeks appears to have fallen into this category.

Two weeks ago a sharp decline back to the overbought line was supported and gave way to a respectable bounce. The volume was somewhat lower. Last week, on substantially lower volume, a less enthusiastic run at the overbought line was made and the line again held. This suggests that support is beginning to build, which will make new downside progress more difficult. Does this mean that a more important correction of pehaps normal proportions should now be discounted? The answer here is no. The support we seem to be seeing develop around 3000 may have an impact on the timing of a correction to the advance from August, but it is not at this point enough of a reason to conclude that a correction will not happen.

At this point the only conclusion justified is that an important new trading range is starting to take shape. The bouncing off the 2960 level probably will develop into some type of test of the top, which will confirm the trading range. Whether we should redefine the long term uptrend will depend on events within the trading range. For now, redefining the trend is not warranted. Doing it may lead to confusion in the weeks ahead.

The trading range that appears to be in the process of forming on the weekly chart of the Wyckoff Wave is seen as being more solidly in place when viewed on the daily chart. The reaction down to November 16 provides the basis for defining the support level of a trading range. The resistance was previously established on the move up to 3200. The rally on decreasing volume to November 19 can be seen as a test that confirms the trading range. The low volume and failure to reach the resistance level provides a negative indication. These indications need to be noted because their cumulative effect will determine the direction of the break from the trading range.

After November 19 as the market resumed downside progress, it was in a position to provide another negative indication. Unfortunately, it failed to do this. Once a trading range has been established, increased volume on reactions gives a negative signal. The move down to last Tuesday brought out less volume resulting in a positive indication. In response to the positive indication, the market spent the second half of last week in a rally effort. We can see that this brought out still less volume and shows less of an ability to rally. The result is another negative indication. If we tally up the score, we find it to be negative indications two positive indications one. Of course this is not the way to come to a conclusion because it does not allow for the relative importance of some indications. We can, however, go so far as to say that an upside explosion appears unlikely.This is important because the action of last week produced an additional development which tends to complicate the picture.

Last weeks low penetrated the low of the previous week by a very small amount. This earlier low is being used as the support level of the trading range. Therefore, last weeks low resulted in a spring position from which a very modest positive response has begun. If this were August or October, the market would be exploding upward. The fact that it is not indicated how the character of the market has changed. It suggests that this time there will be a test that can be detected before it is history. Because of the position of the market within the two trends now impacting on its action, this test stands to be very important.

There are only two possible outcomes of the test. One is clearly negative. The other could go either way depending on its character. The negative test is the one that fails to hold at the support level. If this happens, it will penetrate the intermediate uptrend and brighten the prospects of short positions already in place.

What happens if the test holds? The market will have another and probably more important attempt to rally. From a very short term standpoint this will be positive. Beyond that, however, the meaning is less clear. Exactly how the test develops may be very important. For example, if it is extended over several days and returns the Wave to the support level, the intermediate demand line will be penetrated. A good rally will probably still occur, but the penetration of the uptrend weakens it and leaves the future uncertain. On the other hand, a very shallow test may respect the demand line. This would be more positive and make it difficult to justify remaining short. The action immediately ahead will be very important.

The long term picture presents a very simple picture. The intermediate view is more complicated, but presents a limited number of possibilities. The short term picture adds to the complexity. It is much more negative than anything considered thus far.

The short term trend is neither up nor horizontal. It is clearly down. The developments over the past three weeks contain many of the elements of a classic picture and should be outlined for future reference.

During the week of November 1 the market rallied aggressively into a buying climax. The automatic reaction was completed on November 8 resulting in a new trading range. Note that this range is different than the one previously discussed on the daily chart.

After the automatic reaction we can see that the pace of events began to quicken. First came the rally to confirm the trading range. It made a new high, which was a problem. However, the failure to follow through on that new high and the return to the lower half of the trading range suggest an uptrust. This was confirmed on November 12. The test of the upthrust set in place the potential for a decline to 2900.

The chart reveals that the picture became more negative during the week of November 15. The important development here was the fall through the ice at the bottom of the trading range. Later in the week came the rally back, which made up more than half the previous decline. This is an important flaw in what had been a classic picture. In spite of this, the market resumed downside progress probably in response to the enormous divergence that had developed between the Wave and O.P.

The rally back provided the basis for a downside objective to 2700. After the ice has been borken and there has been a rally back, the bulk of the decline should occur. The bottom of the fall through the ice should not provide significant support. Here is where things start to go wrong. Significant support including a spring position was provided. If this support is allowed to stand on the next reaction, hopes of reaching 2700 soon will be greatly diminished. Short term short positions will have to be terminated and long positions to replace them will be in order.

STOCK POSITIONS

The positions of the eight stocks in the Wyckoff Wave vary widely. This probably accounts for the complexity seen in the general market picture. Exxon, for example, is very much in harmony with the negative indications of the market. This stock is clearly in a down trend. The problem is that the trend appears to be short term in nature with no clear indication as to the downside objective. In view of the possibilities facing the market over the days ahead, a short term short position is questionable. Since the trend is down, long positions in any time frame are not justifiably.

General Electric closely parallels the position of the general market. It is still in an intermediate uptrend, but over the shorter term has shown more weakness than at any time since August. Since the uptrend is in tact, intermediate long positions previously established can still be held. It is true that all upside objectives have been reached, but it is also true that a new build up of potential is underway. If the uptrend holds and the market gets in a position from which another significant rally effort seems likely, intermediate long positions stand to benefit further. In this scenerio, new long positions of a short term nature would be in order.

No new action in any time frame can be justified in General Motors. From an intermediate standpoint both the position in the uptrend and the lack of a good count make new long positions to risky. The fact that the short term down trend has just been broken rules out any short term short positions. The poor position in the uptrend is also an obstacle to short term long positions. However, these positions may become possible a little later.

IBM remains the stock with the most significant potential. Its count indicated that intermediate positions can be considered. Since the stock has broken its intermediate uptrend, it is relatively weaker than the market. Therefore, it is a candidate for a short position. Two such positions have already been suggested. One came as the uptrend was about to be broken. The second was made as the breaking of the uptrend was being confirmed. A third position may be possible on a rally back following a fall through the ice at seventy-nine. The maximum downside objective is 65. However, there is a first phase objective at seventy-seven, which likely will be reached on any fall through the ice.

Merril Lynch is the most volitile stock in the Wave right now. Therefore, it presents the best possibility for quick profit. Unfortunately, it also presents the biggests risk of quick loss. For this reason the stock must be approached very cautiously. At this point, one uptrend has been broken, but an earlier one has been able to provide good support. The breaking of the one trend was accomplished as a short term downside objective was being fulfilled. The stock is now rallying in an effort to confirm the break. If successful, a new and very wide trading range will be in place. This should open the door to a variety of short term trades. Intermediate positions, however, will remain out of the question until the count is broadened.

There is no weaker stock in the Wave than Pepsico. Ordinarily this would make it a prime short candidate. That is not possible this time for two reasons. One is that the downside potential has been almost exhausted. The other is indications of support coming in at the intermediate support line. A rally off this support is likely. However, the relative weakness in the stock discourages any short term participation on the long side. A better approach appears to be to let the stock rally and then possible take a short position based on the character of the rally and the available potential.

UAL is in no way a condidate for a short position at this time. The recent support encountered as the price reacted back to the overbought line of the uptrend on low volume has justified defining a more aggressive uptrend. The fact that an important upside objective has been reached might seem to work against further upside progress, but more ambitious upside objectives are available. The next count to be taken is at the seventeen level. It indicated further upside progress to thirty-five or thirty-six.

Union Carbide is similar to Pepsico. It is very weak. However, it also has used up what downside potential was available and has found support at an important demand line. For these reasons action on the short side is not possible. Action on the long side even of a short term nature is also questionable. The reason is the weakness already expressed. The stock may rally, but is may not rally very far. If short term long positions become necessary, other stocks present better opportunities.

INDEX CHARTS

STOCK MARKET INSTITUTE, INC.

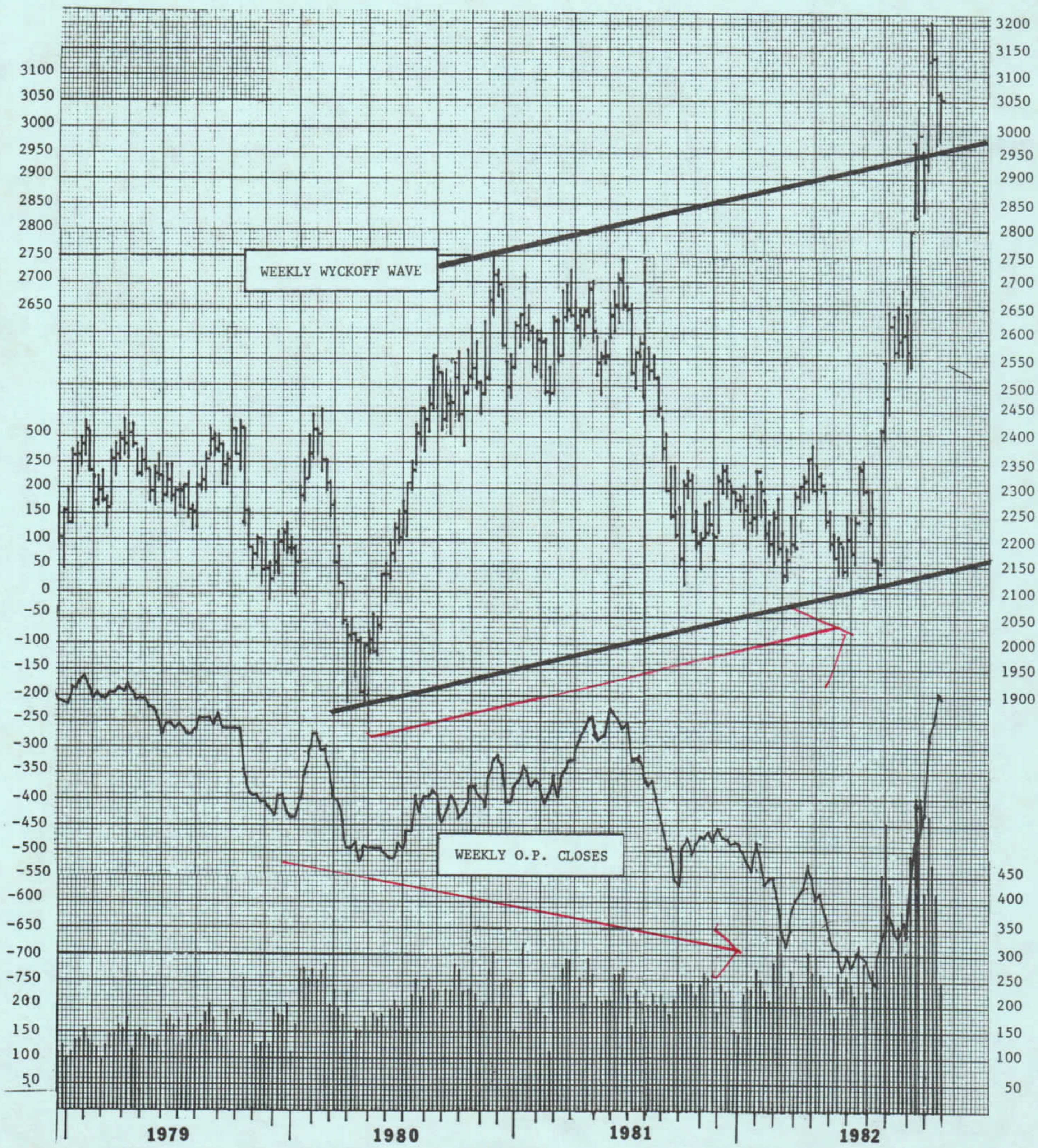
NOVEMBER 24, 1982.

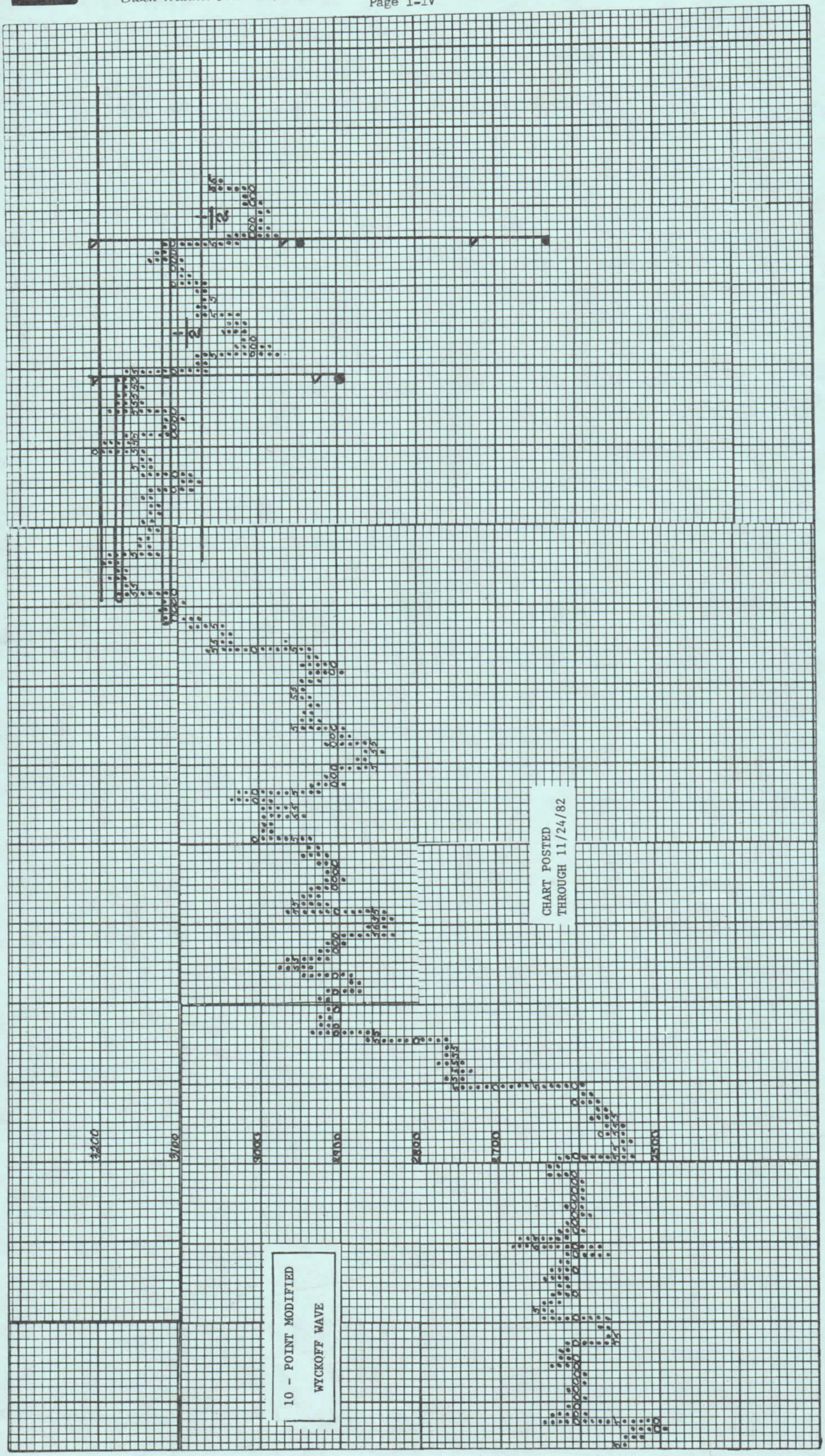
SMI/WYCKOFF INDEX CHARTS

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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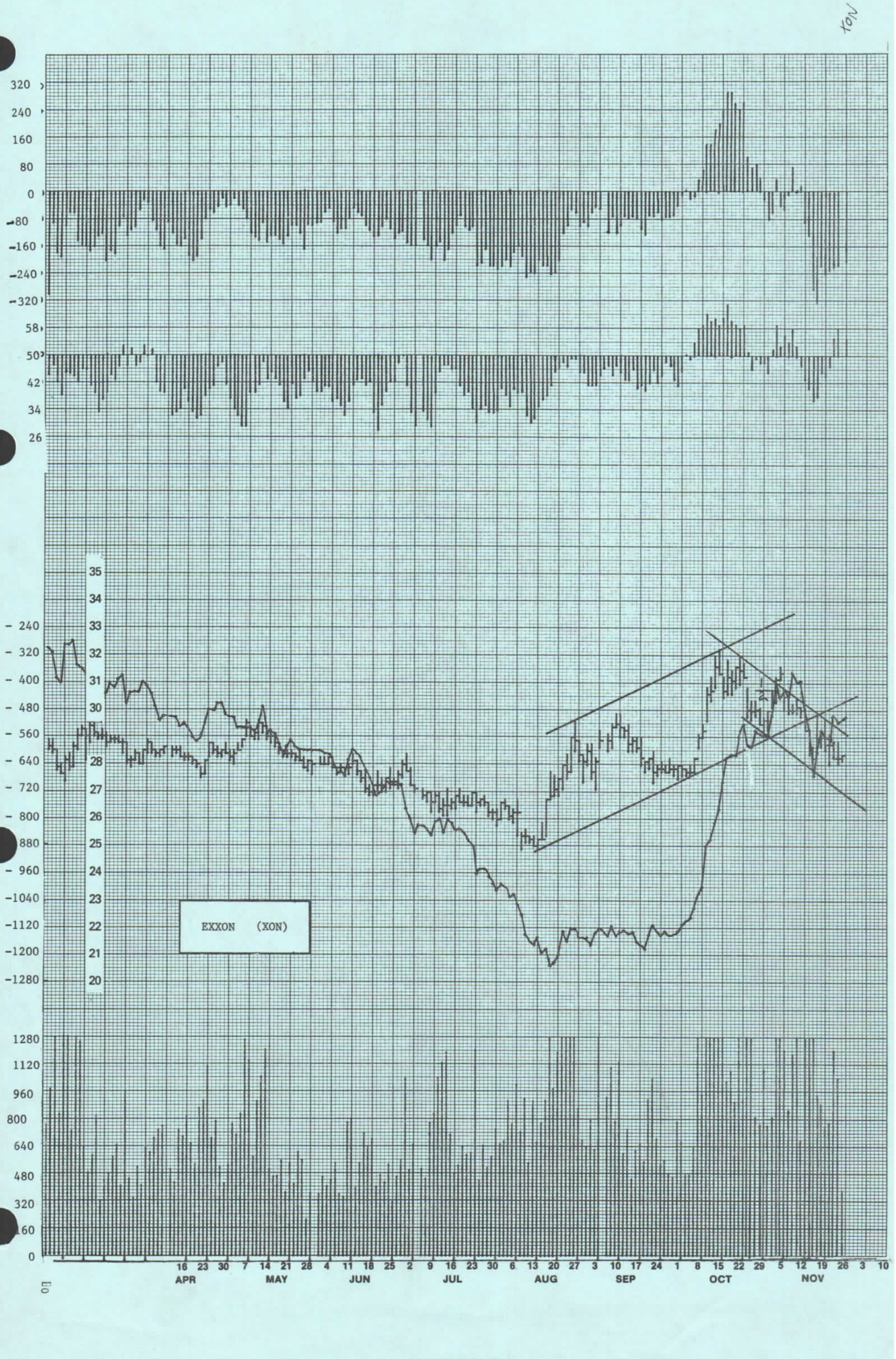
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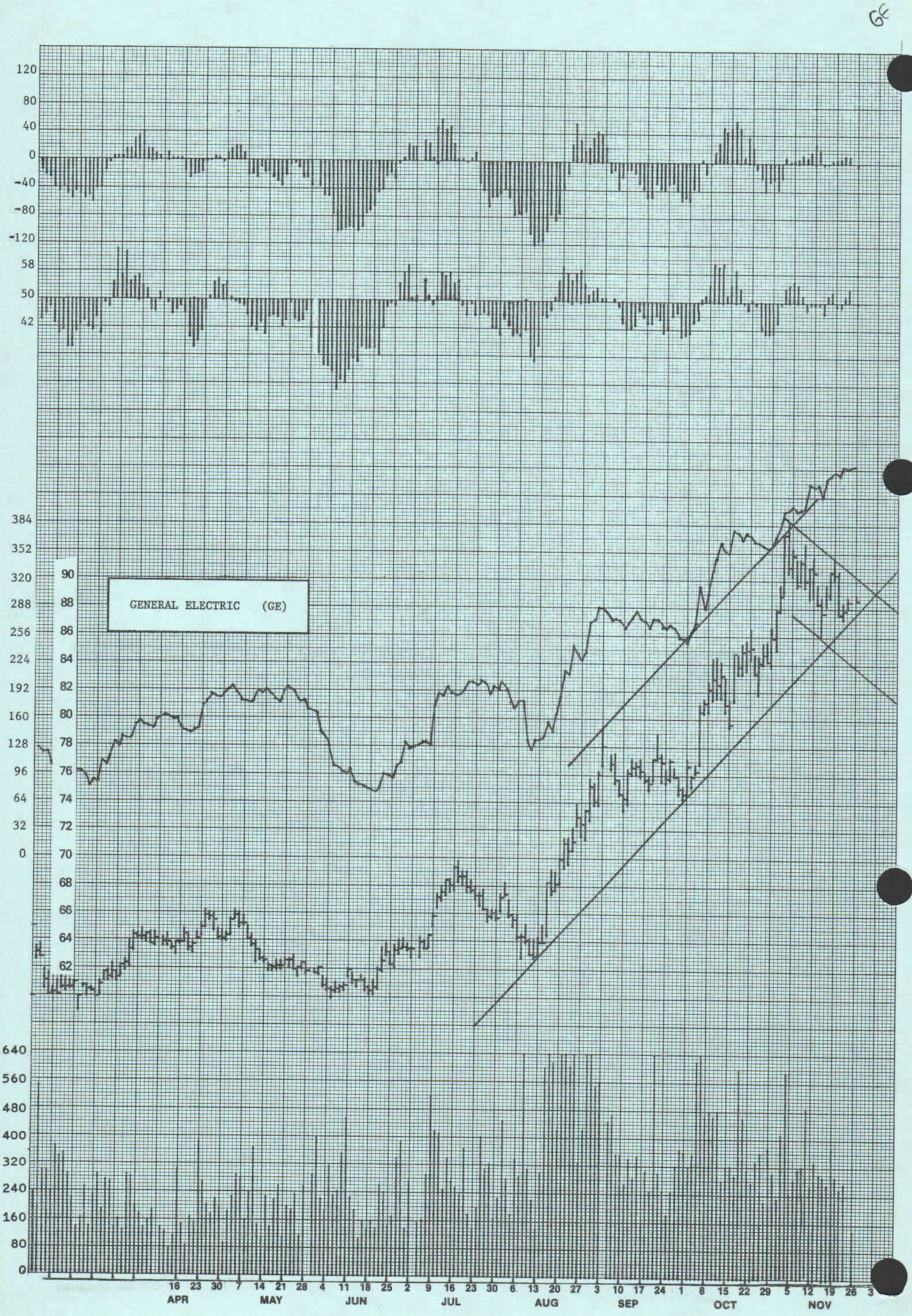
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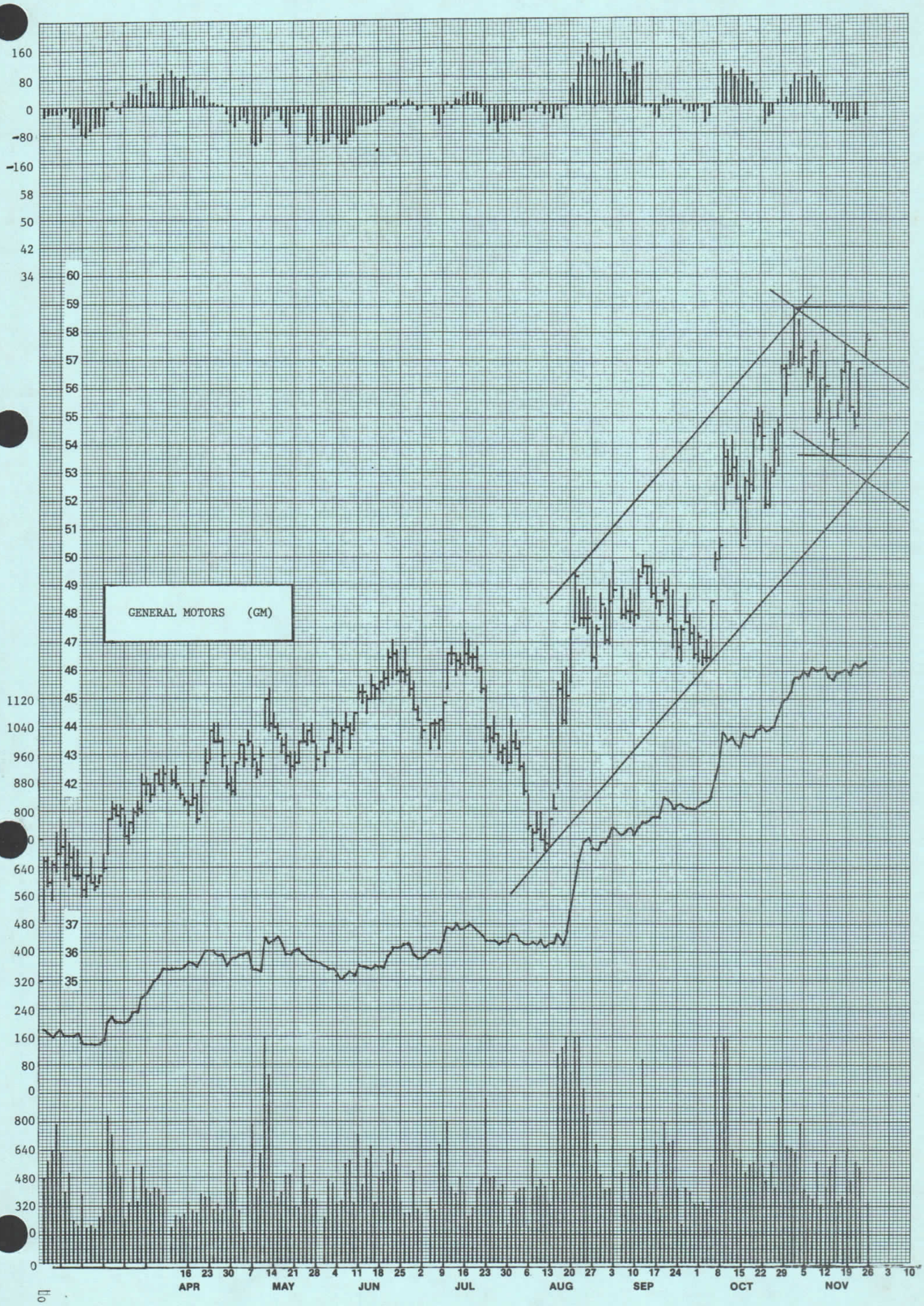
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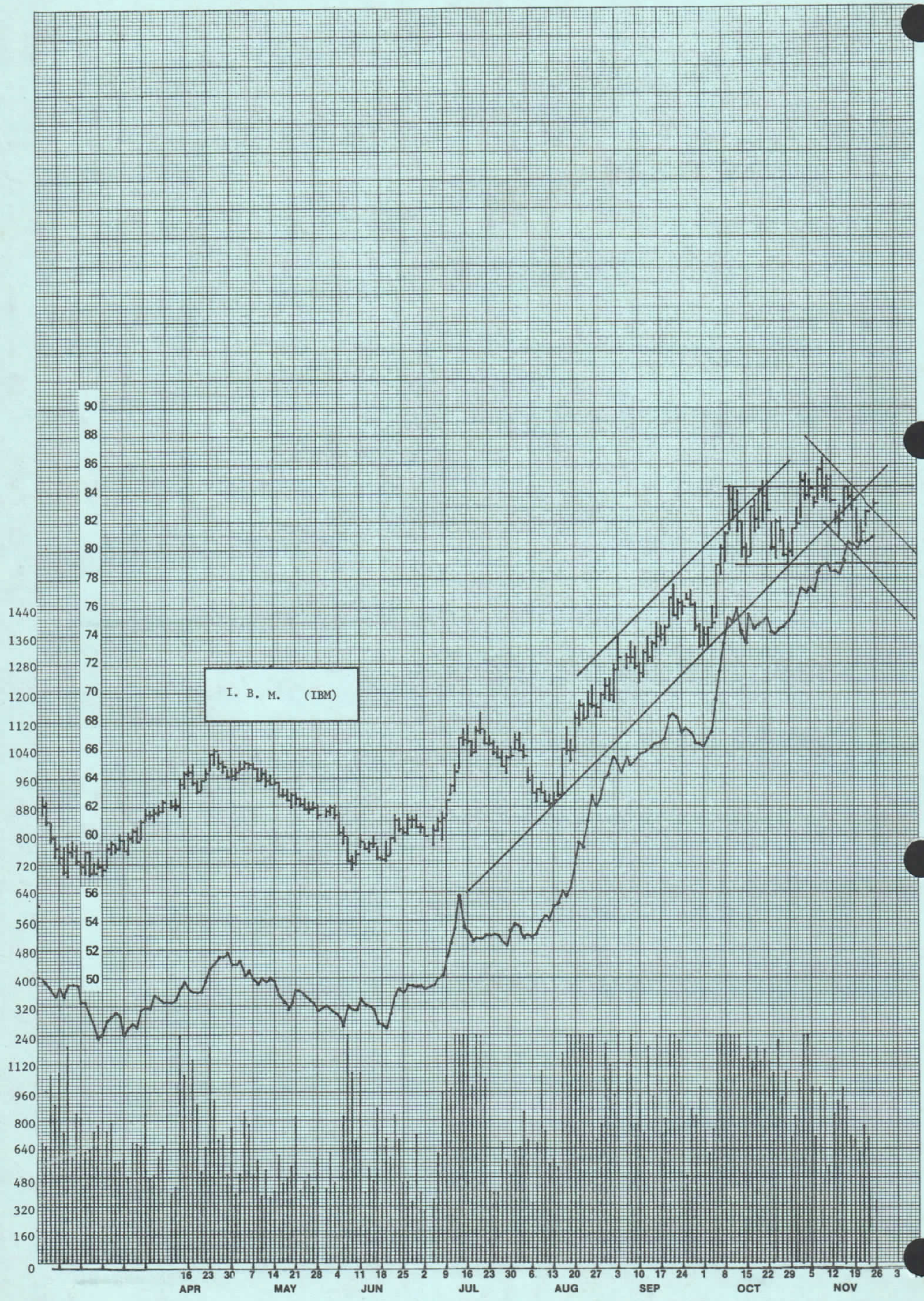
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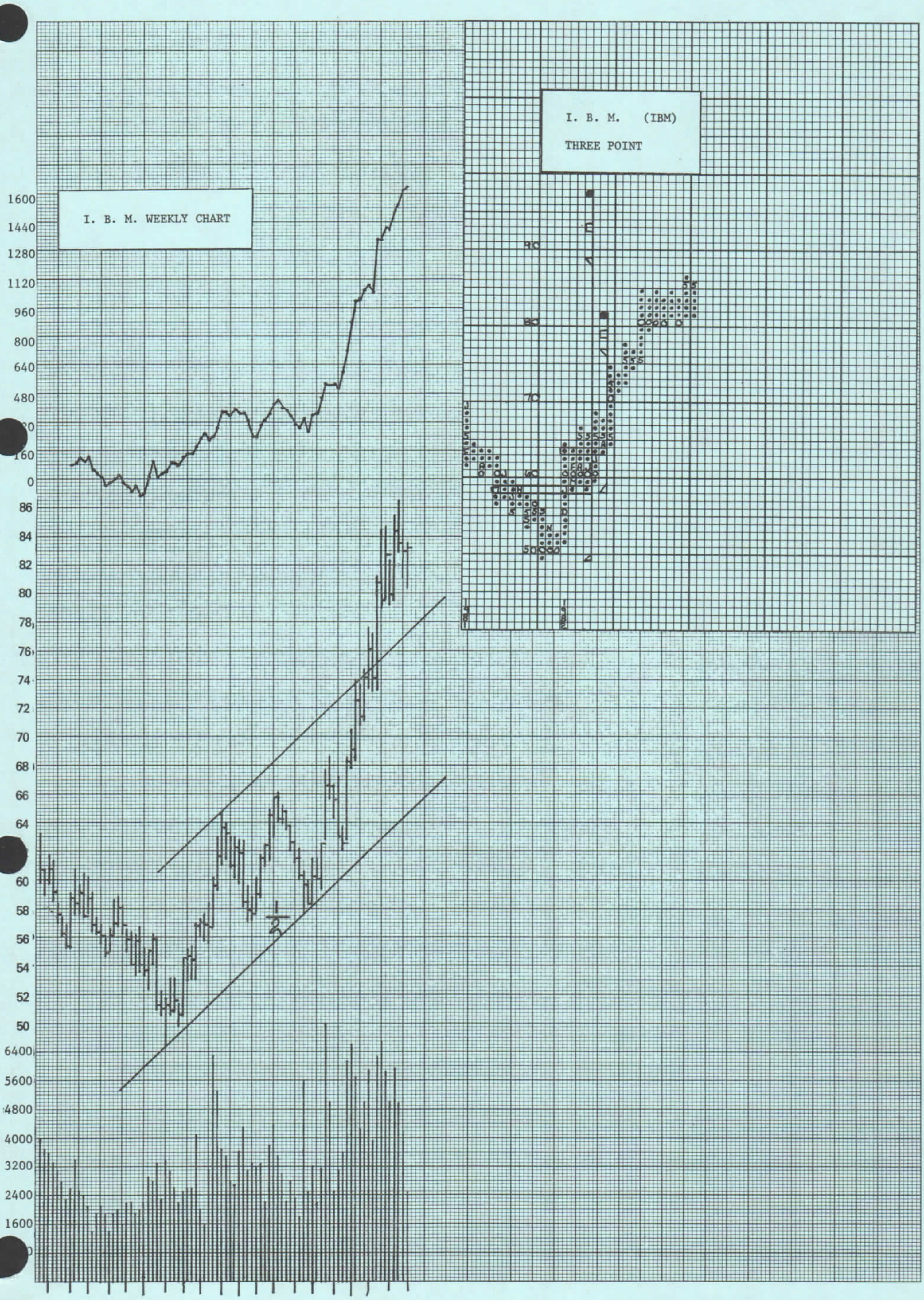
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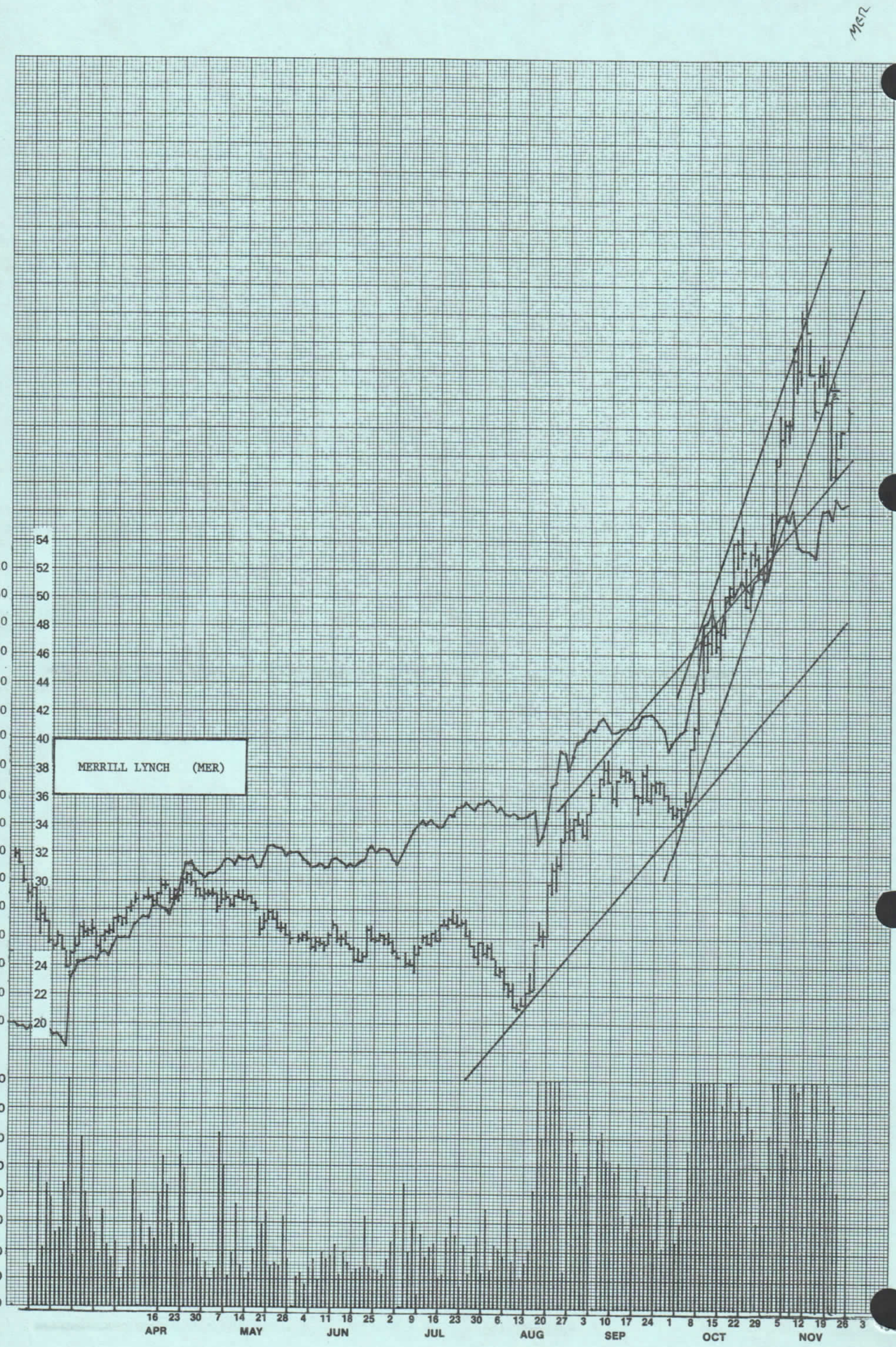

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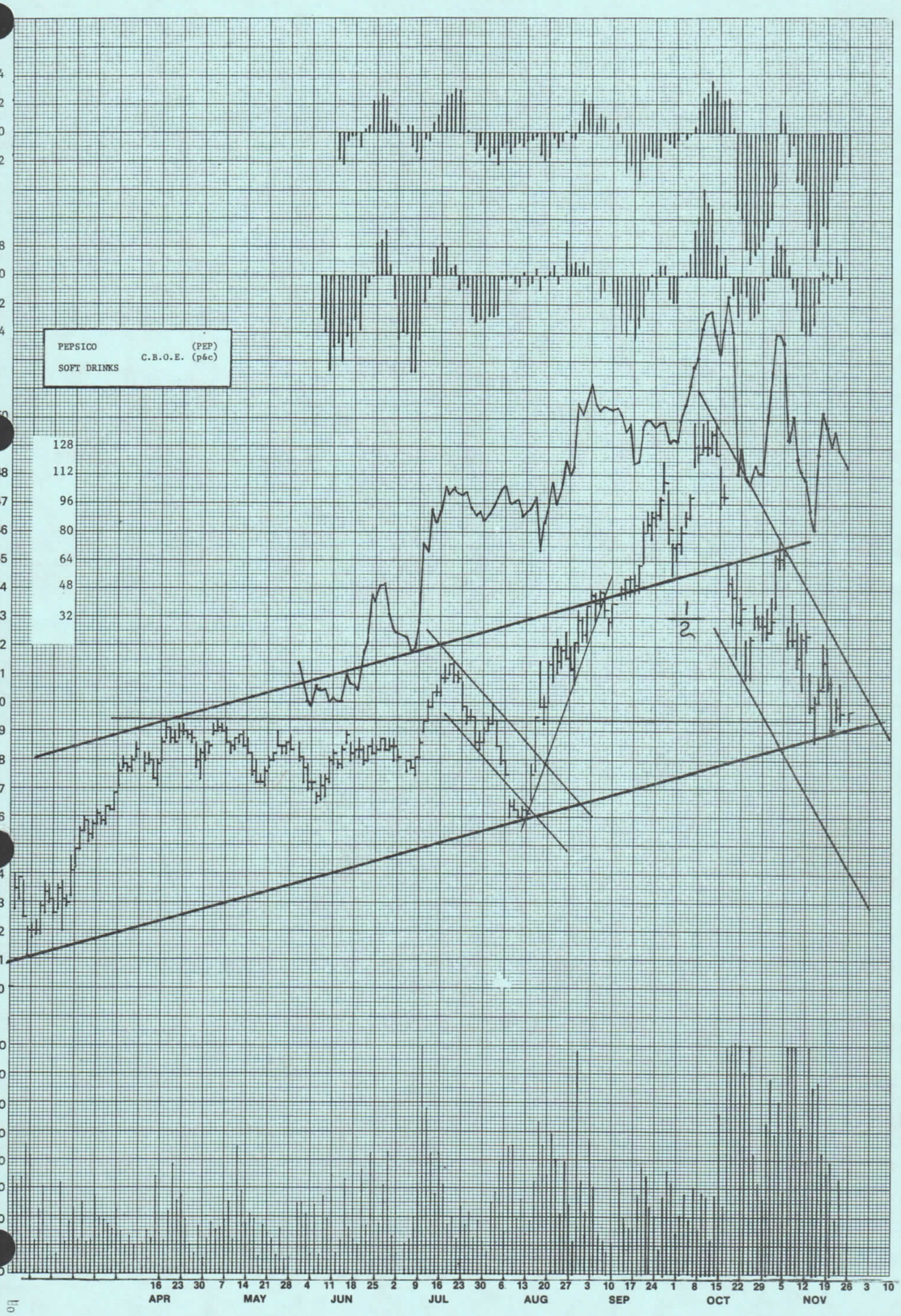

PEPSICO (PEP)
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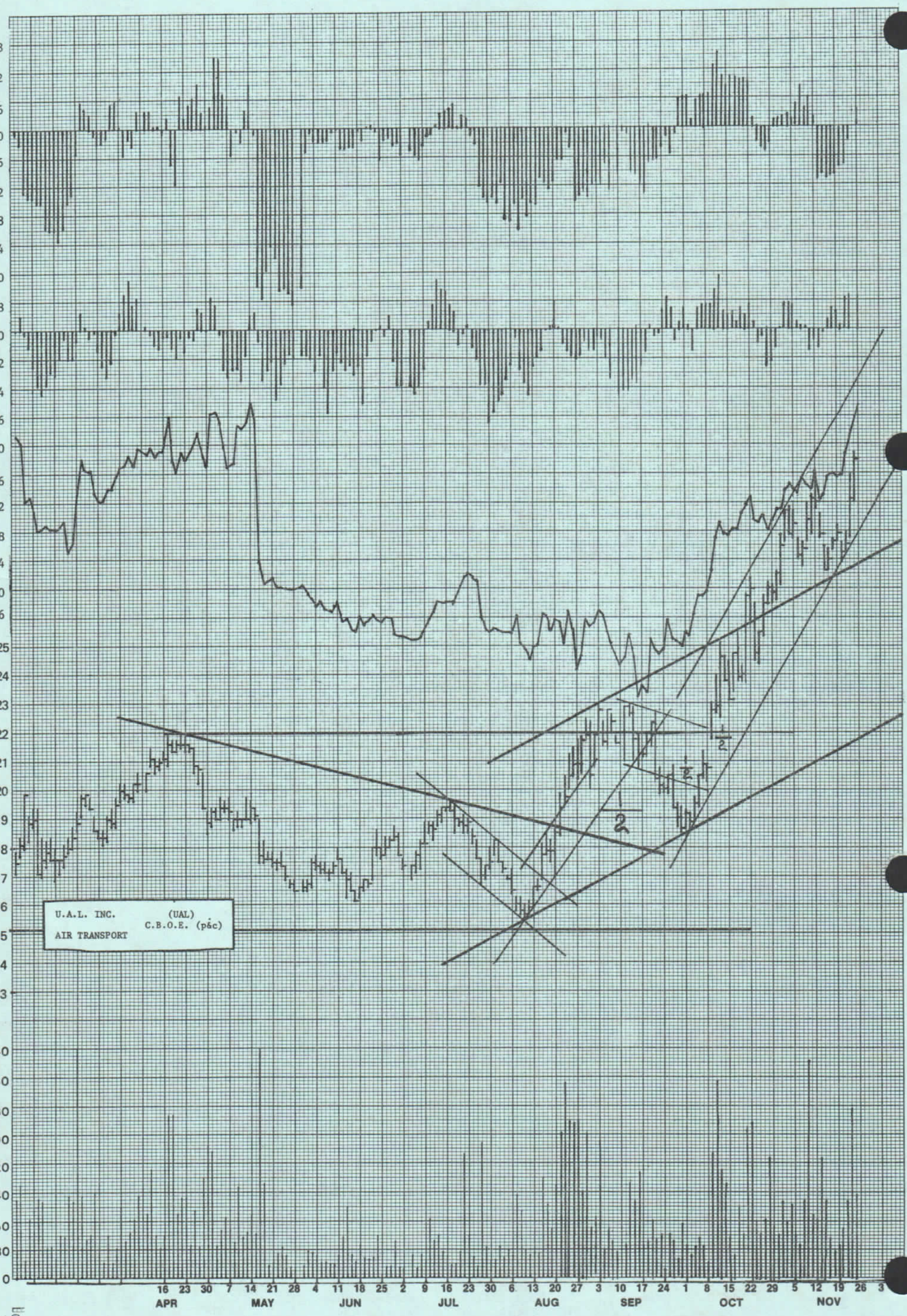

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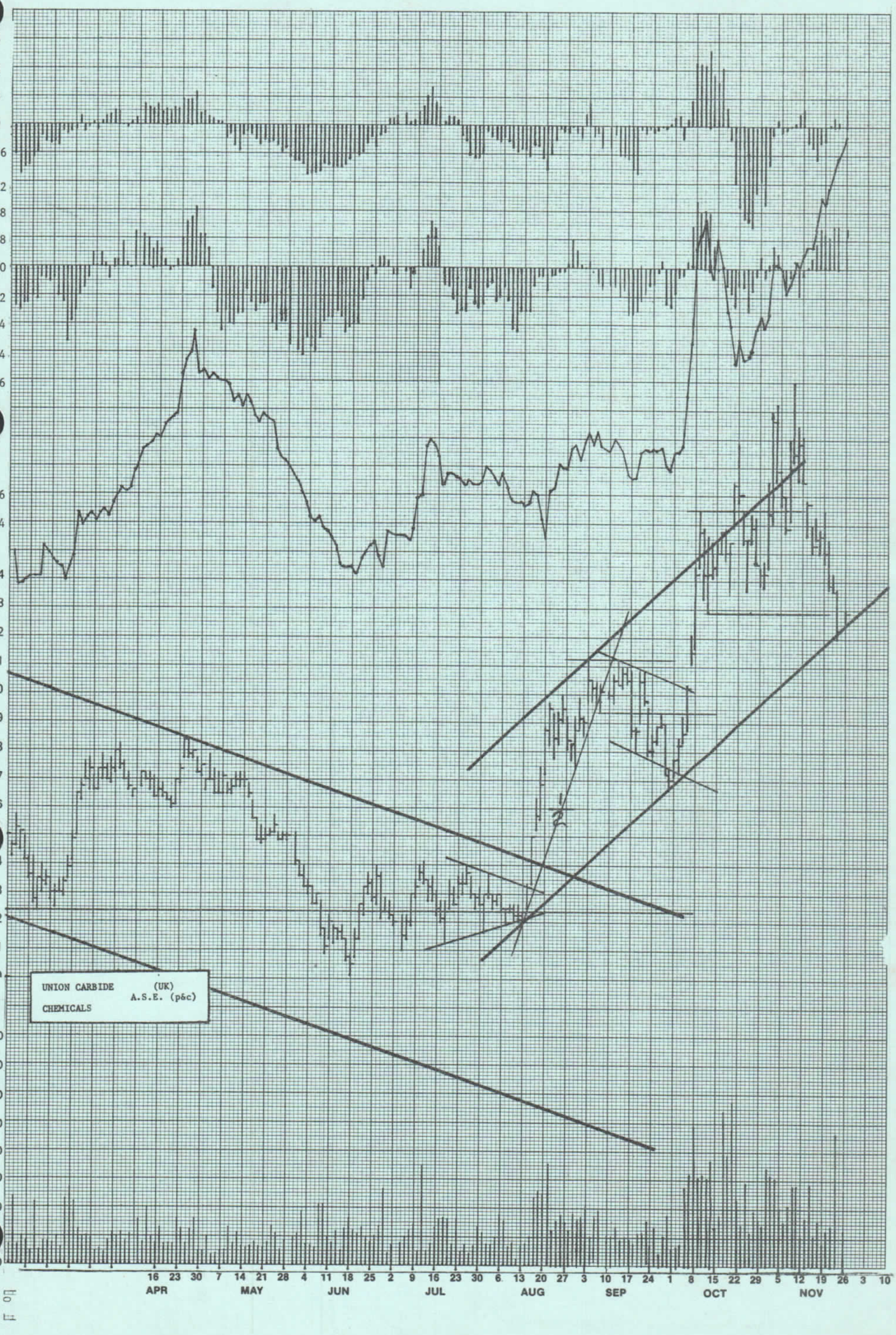
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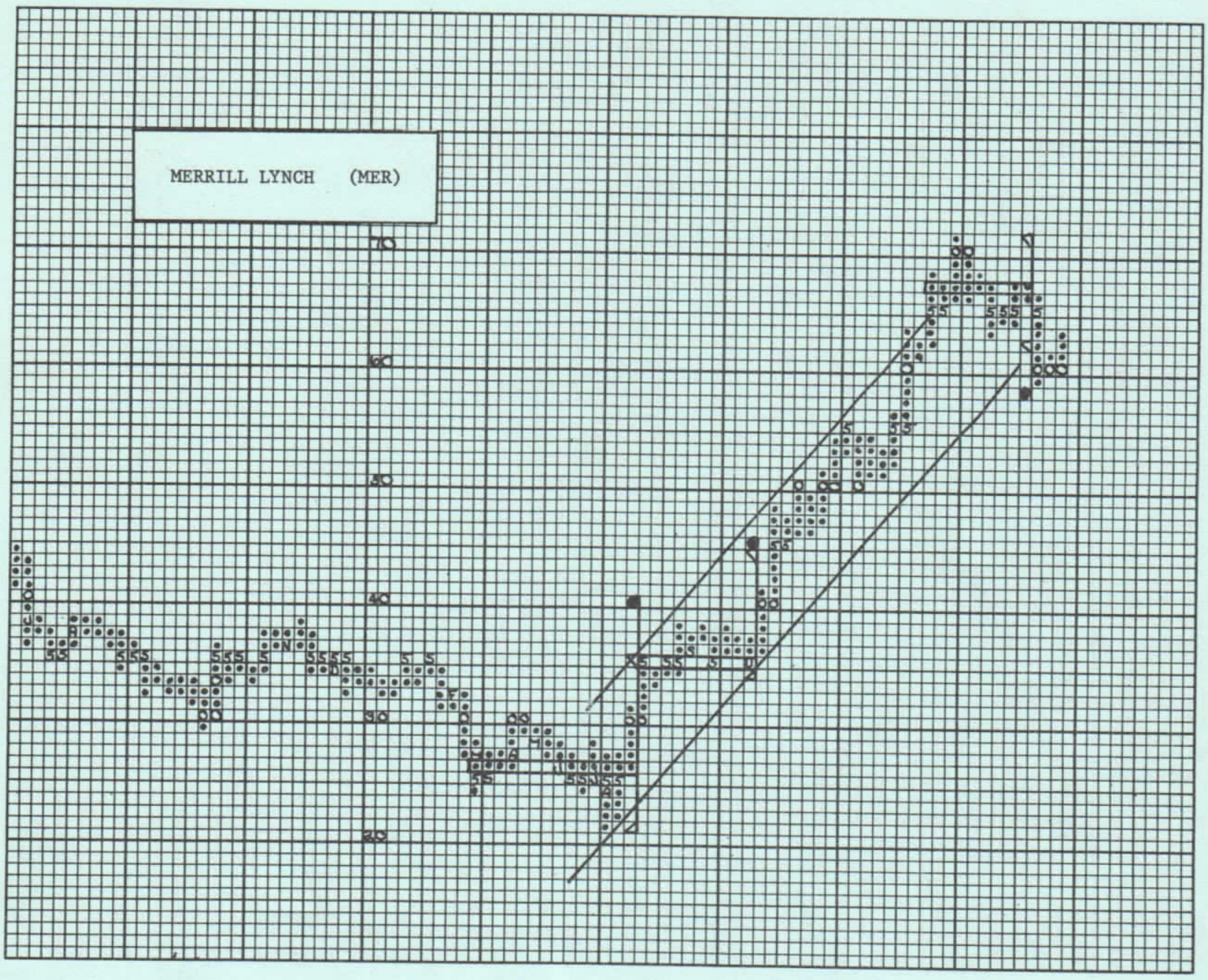
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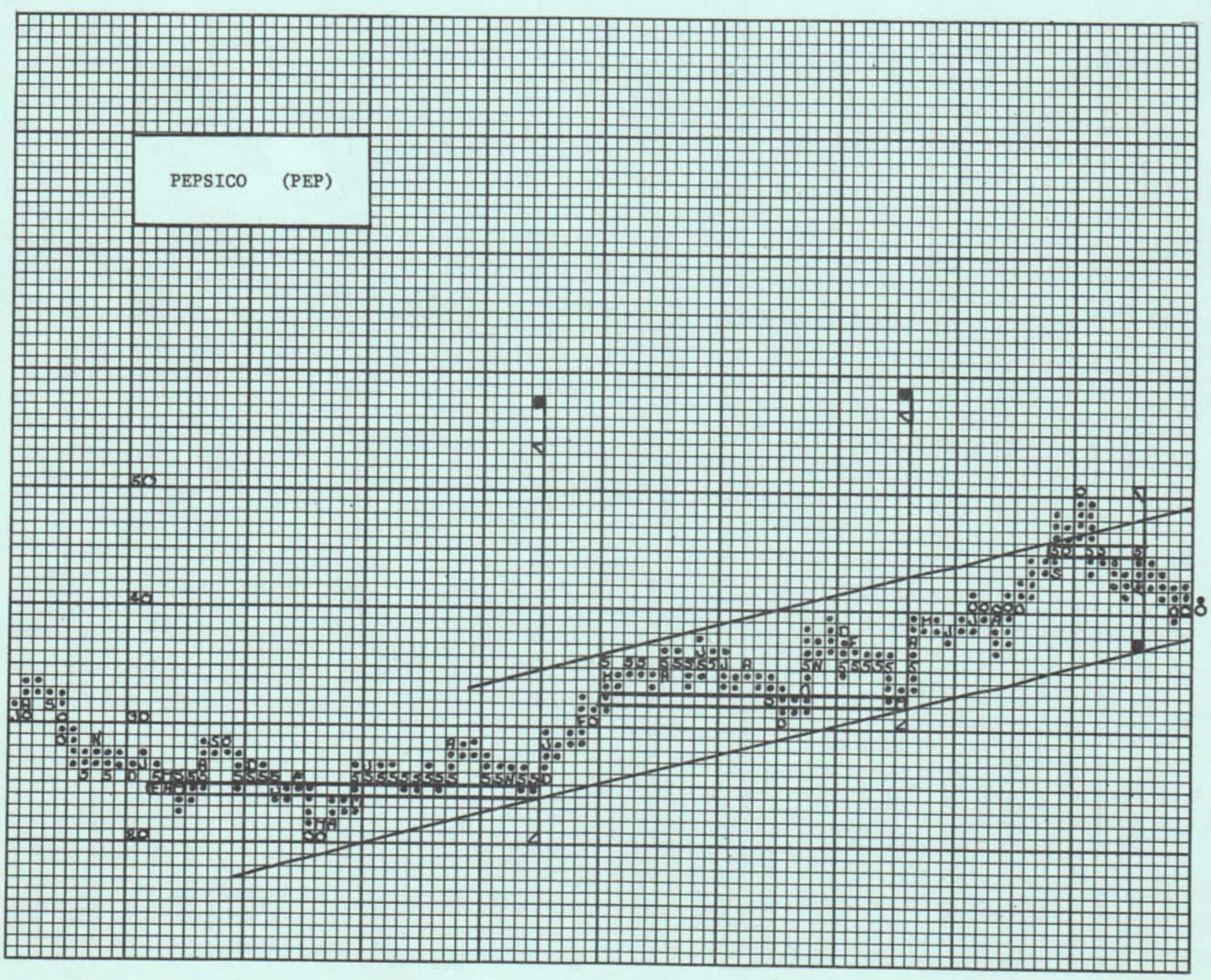
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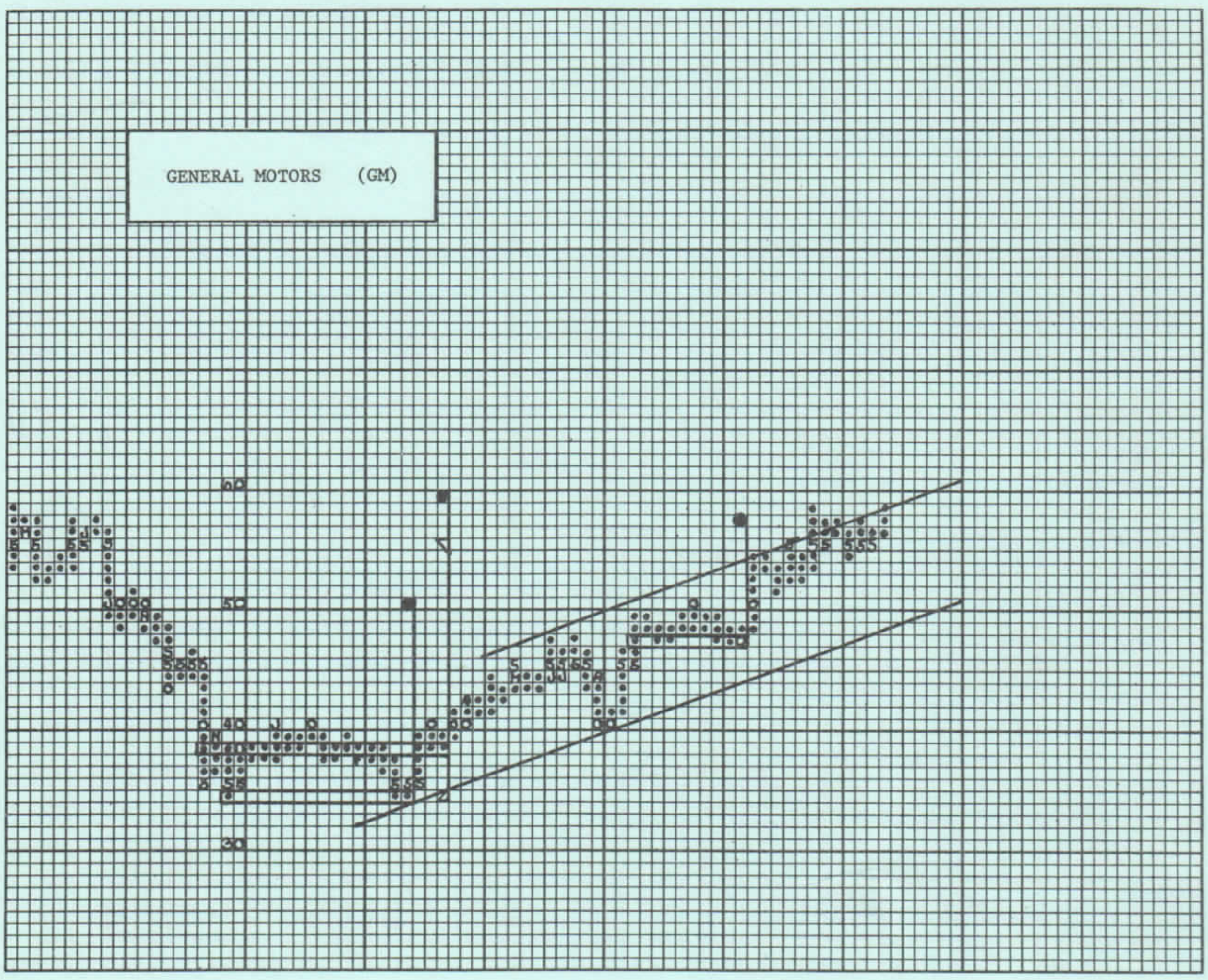
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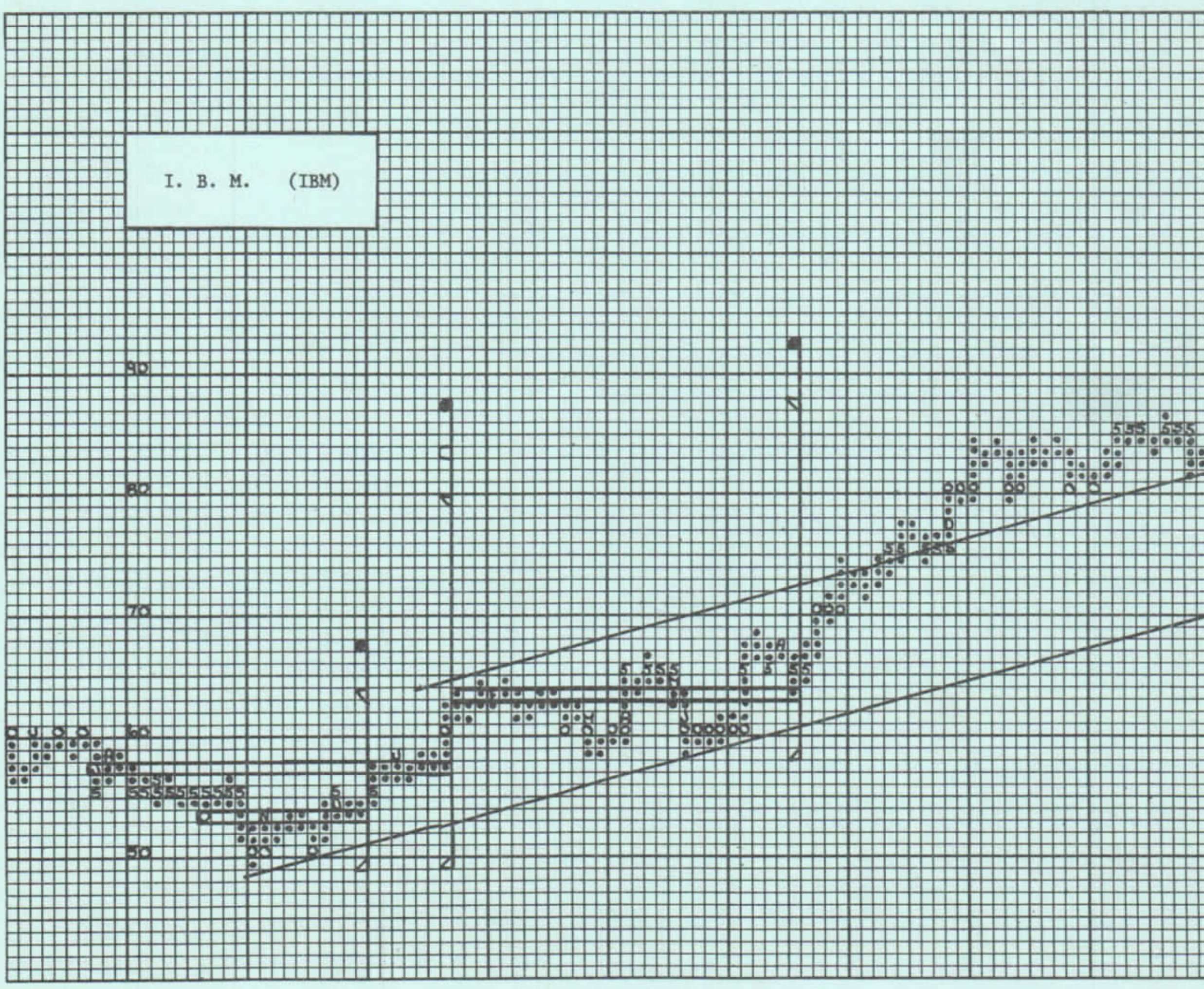
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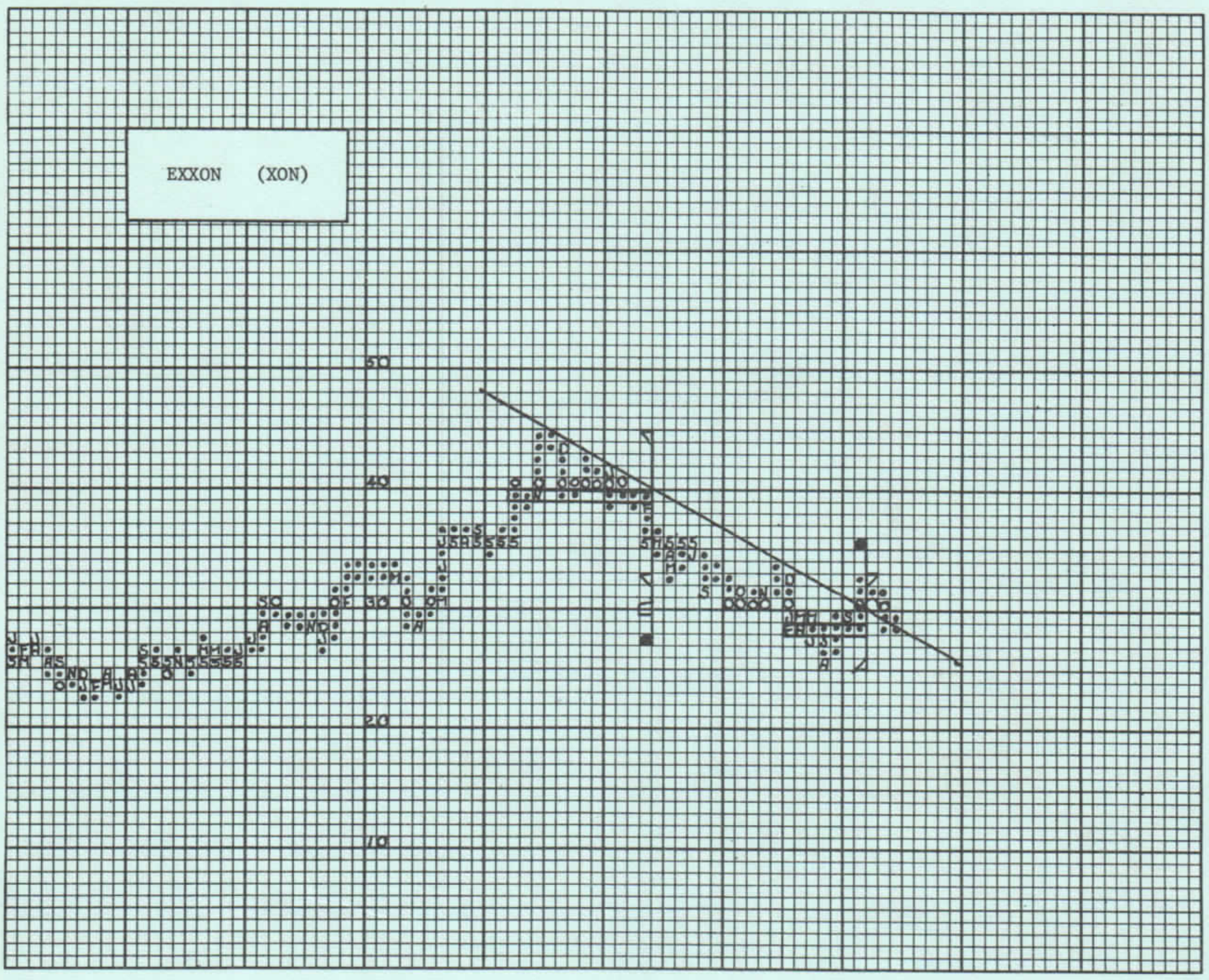
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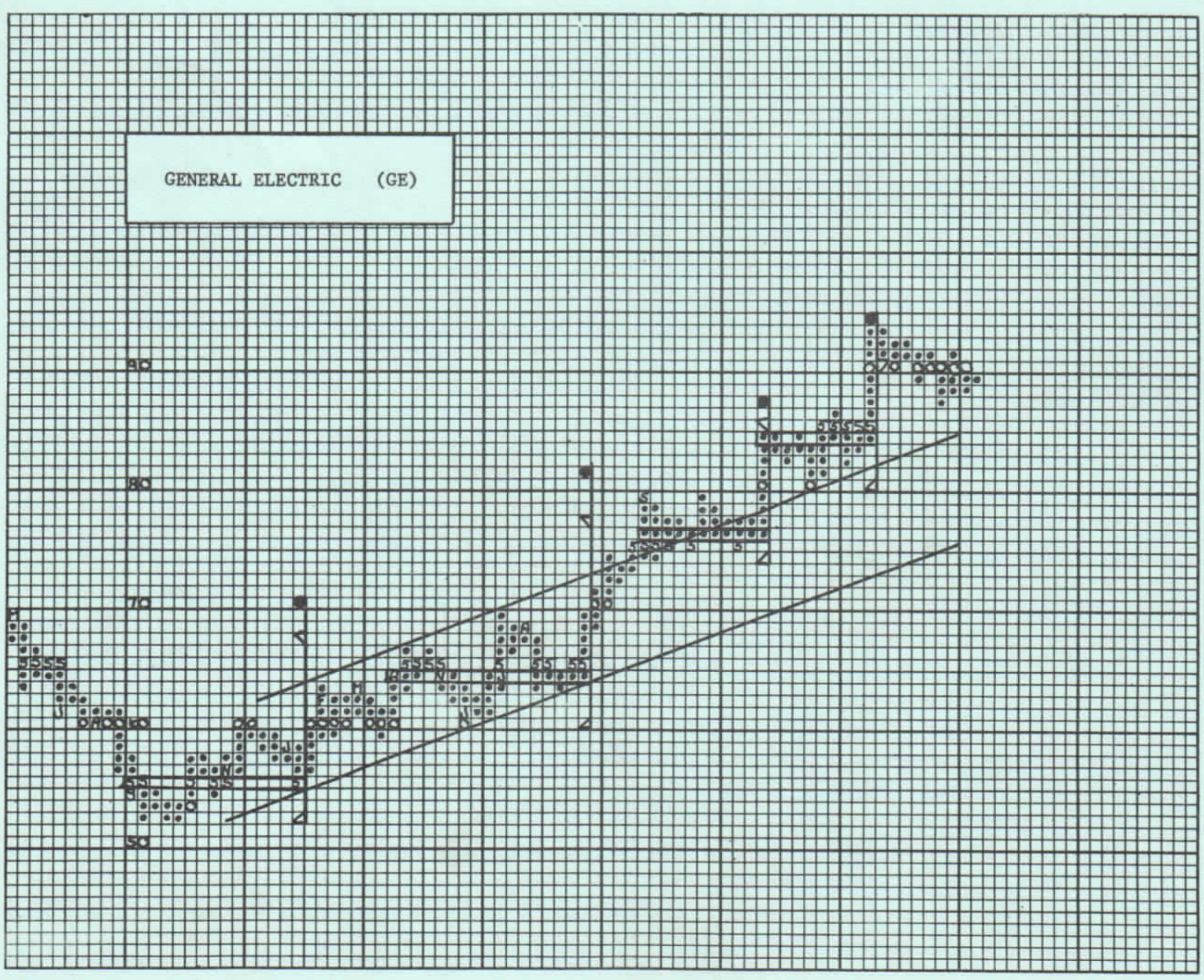
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S&P INDEX FUTURE

There are two ways to look at the S&P future. One is as an indication of future market action. The other is as a very speculative stock subject to the indications given by the general market. The first of these should be avoided. The second is acceptable.

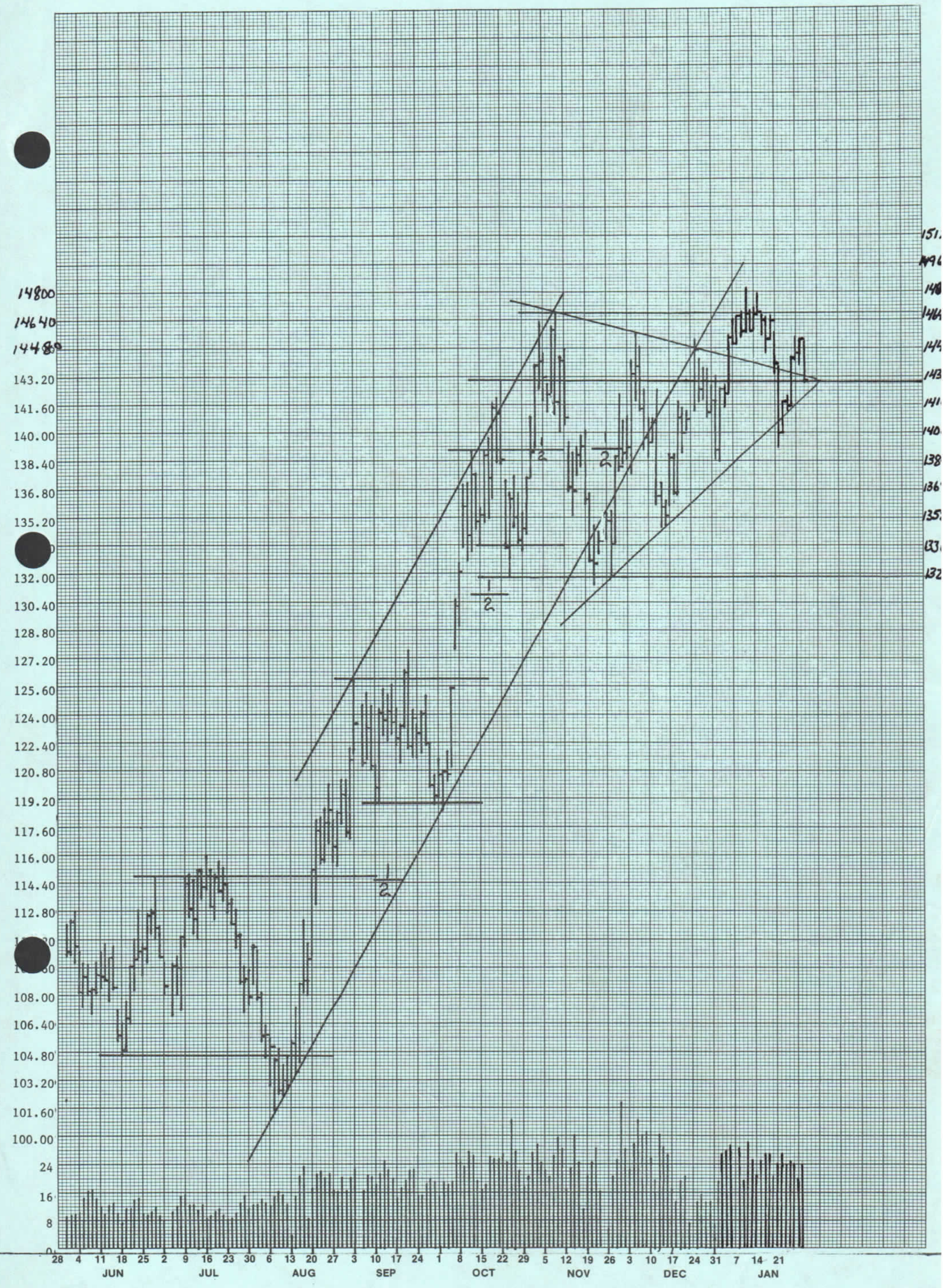
We know that the market is on the verge of breaking its intermediate uptrend. However, we also know that very recent action may prevent this from happening immediately and instead lead the way to a meaningful rally. The S&P has already penetrated its demand line. Therefore, its uptrend has been weakened. This makes it vulnerable. A halfway rally back to about 139 might result in a beautiful shorting opportunity if the volume is reduced.

More immediate than any prime shorting opportunity is the result of last Tuesdays spring position. An initial positive response is underway. However, the volume indicated a test is likely. If the test holds, as much as a six point rally may develop. Six points in this vehicle is very attractive. However, the bigger opportunity appears to still be building and may be for the downside. Sometimes it is difficult for traders to reverse positions quickly. As a result, taking advantage of a small opportunity results in missing a bigger one. Therefore, watching the character of the rally form the spring instead of trying to participate in it may prove more profitable in the long run. However, the determining factor of exactly how to handle this situation has to be the traders knowledge of himself.

HYPOTHETICAL ACCOUNT

	Investment Funds	
	Initial funds	40,000.00
Nov 18	Sell short 50 shares of IBM at 83.7. Stop 90.7. Objective 65.	(4,193.75)
	Commission	(61.63)
	Balance	35,744.62
Nov 26	Sell short 50 shares of IBM at 82.7. Stop 90.7. Objective 65	(4143.75)
	Speculative Funds	
	Initial funds	10,000.00
Oct 28	Buy 20 XON Jan 30 puts at 1^{3}	(2750.00)
	Commission	(65.00)
	Close out position if stock trades above 31^{1}. Anticipated objective 27^{4}.	
	Balance	7185.00
Nov 3	Sell 20 XON Jan 30 puts at 1°. Stopped out	2,000.00
	Commission	(65.00)
	Balance	9,120.00

No matter how detailed we make these commentaries, it is unlikely that they can be all things to all people. You may have questions that go unanswered or an alternate opinion that you would like to have considered. Perhaps you are interested in a stock that is in the SMI "200" but that is not covered on a regular basis. We would like to provide additional assistance on these matters. Beginning December 1, this will be provided Monday through Friday between 8AM and 9AM(MST) and then again between 4PM and 5PM(MST) execpt Wednesday. If your question is about a stock not regularly followed in the Trend Letter, let us know which one it is in the morning and we will have an opinion for you that afternoon. This will give us time to take a close look at the situation. Of course you may call at any time, but these hours are going to be reserved for this purpose.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