SMI
# The Trend Letter

Monday, October 17, 1983

## MARKET TRENDS

The long term trend of the market is still neutral. Neither the support level of the trading range at 3650 nor the resistance level at 4180 appear to be in any immediate danger of being broken. Even the possibility of an important test of either level seems remote in the days ahead. Therefore, the long term investor has nothing to do but watch, wait and perhaps worry a little.

The need to worry is restricted to those who have remained long throughout the trading range. The potential problem with this lies in the enormous divergence between the Wyckoff Wave and O.P. Index. During the last four months, the Wyckoff Wave has lost about three hundred points while the O.P. has added approximately two hundred points. Why has so much effort on the upside been unable to move the price up? The answer to this question may be that the effort represents the flow of shares from strong hands to weak hands. If so, distribution is underway. When the effort is exhausted, prices will collapse. This explanation is the most negative possibility. It can happen in spite of the huge advance of the past year.

While it is true that the divergence must be corrected, it does not have to be resolved in the most negative way possible. Another possibility is a terminal shakeout prior to the beginning of a second leg to the bull market. A sharp break in prices probably to a level below the bottom of the trading range on high volume will drag the O.P. down with it. This in turn creates a situation where as prices recover from the shakeout they can move up in harmony with the effort and allow a strong and sustainable rally. At this point, this possibility appears to be the most likely.

A third possibility is that eventually the upside effort of the past four months will prevail and the Wyckoff Wave will explode through the top of the trading range. The problem with this possibility is that history works against it. Upside effort without result is historically negative. For things to be different this time, there must be so many dollars available to invest that they can soak up all the supply available and still be insufficient quantity to move prices up afterwards. This is not impossible, but very improbable.

The intermediate trend of the market is where the action is right now. The last rally broke the supply line of the down trend. The current reaction is the market's attempt to confirm the break. It does this by reacting on decreasing volume with narrow price spread, by becoming oversold at a higher low, and by resisting the temptation to fall back into the down trend channel.

In its first four days, the reaction has been orderly and constructive. Volume is well down from that experienced on the prior rally. In addition, the deterioration in the price has been gradual. At this point, only about half of the prior gain has been lost. Somewhat more disappointing has been the market's slowness to move into an oversold condition. The cause of this can be traced to premature intraday efforts to get upside progress going again. These tend to delay the actual resumption of upside progress, but are not especially negative. The most serious potential problem is the markets position in the trend. The Wave is nearing a buying position in its uptrend, but at the same time is coming very near to reentering the down trend channel. Some immediate support is needed to keep the overall situation positive. This should come in the days immediately ahead.

## STOCK TRENDS

### Exxon

The long term trend of Exxon is up. This fact is clearly revealed by the figure chart. Also revealed by the figure chart are the facts that another nine points of upside potential remain in the stock, but that the current position in the trend works against that potential being realized soon. Therefore, long term investors should either take their profits, or be prepared for a rather extended wait to see them significantly expanded.

The intermediate uptrend in Exxon, which has made it such a good long candidate during the past six months, is in trouble. The last three rallies have failed to reach the overbought line by increasing amounts. This is an indication of growing weakness. Another problem is the penetration of the demand line two weeks ago. This weakens the trend and sets it up to be decisively broken on the next reaction.

Notice the present position of Exxon in relationship to the resistance level at 39.3. It is on the verge of entering an upthrust position. This can easily be the beginning of the result to the negative indications mentioned above. There is a seven point potential at the thirty-nine level to take the price back to thirty-two. From a long term standpoint, this would be only a normal correction. However, from an intermediate standpoint it would be a disaster. Therefore, taking intermediate profits, or at least protecting them with a stop of 34.7 is in order.

### General Electric

The long term trend of General Electric is neutral. However, the wide trading range that it is now in makes it a good candidate for intermediate trading.

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The intermediate trend of the stock is up with an objective of fifty-five to fifty-eight. This means that the overbought position that developed on the recent rally to 56.1 may be the end of the move. Since then, the price has dropped rather quickly, but on declining volume. It is now near the demand line of the uptrend. This should provide enough support to produce a rally to test the fifty-six level. If it holds, a more important reaction back toward the bottom of the trading range may be anticipated. For now, the only trading opportunity to consider is on the long side for the short term.

## General Motors

The long term trend of General Motors is up. The intermediate and short term trends are also up. There is a problem, however. Late last week, the price entered an upthrust position, which shows little chance of developing into a jump across the creek. Therefore, a reaction appears likely. How big of a reaction is unclear. The upthrust action is likely to be tested. If so, a potential will be put in place from the test to the upthrust, which will point to a relatively minor setback. However, it is acceptable to count from the upthrust back to the point being upthrusted. This produces an eighteen point potential, which is hardly a minor setback. Due to the negative position of the stock and the potential to follow through on that position, profits should be taken out of the long side of General Motors and consideration should be given to a short term short position.

## I.B.M.

I.B.M. has an upside objective of 144 to 146. It is in an uptrend. Therefore, it is a candidate for the long side, but not at this time. There is an immediate problem that must be resolved first. Most of last week, I.B.M. was in an overbought position and in need of a correction. On Friday, the correction began on very heavy volume. This suggests that it will continue for a while. It would not be unusual to see a normal correction back to about 125. If accomplished constructively, such a move would be very positive for the longer term because it would prove that the stock has jumped out of the previously defined trading range.

Now is not the time to buy I.B.M. For the shorter term trader, it is time to consider taking profits. Since there is no count to indicate the objective of a short term decline, short positions are not recommended.

## Merrill Lynch

Without question, the trend of Merrill Lynch is down. Its maximum downside objective is 25 to 31. Thus far, the stock has been as low as 32.2, which it approached on very high volume. This may indicate a climax, but as yet there is no proof of this. The current reaction, which is occurring on decreased volume, will indicate if the decline has been halted. Even if it has, however, it should not automatically be assumed that accumulation has begun. Until the supply line of the down trend is broken, there is reason to remain on the short side of this stock in anticipation that it will reach its downside objective.

## Pepsico

For the long term investor, Pepsico continues to be the most interesting candidate. Its action since entering the spring position in mid September has been orderly and constructive. In recent days, the stock has been correcting an overbought position on reduced volume. As it approaches the demand line of the uptrend, it again enters a buying position. Since the market is also working its way toward a buying position, an opportunity to buy more of this stock is approaching.

## UAL, Inc.

UAL is trying to recover from its recent thirteen point decline. When compared to Merrill Lynch, UAL appears to be doing quite well in the recovery process. However, it has shown no signs of strong interest in the upside. On September 27, the price entered a spring position. This was tested a few days later and followed by a brief rally. The rally failed to break either of the supply lines that must be overcome if the recovery process is going to succeed.

The action of the past week can be seen as a more important test of the spring. It is occurring on very low volume, which is positive. A nine point potential is already in place. Therefore, the stock must be considered for a long position. If bought, a very close stop can and should be maintained. Once the price turns up again, it must break through the supply lines. If it cannot, close out any long position that may exist.

## Union Carbide

Union Carbide is like General Electric in that it has a very wide trading range, which should make it a good candidate for the short and intermediate term trader. For the long term investor, however, it may be more of a frustration than anything else.

When trading a trading range, there are only two places that are of any interest. They are the very top and the very bottom. At the moment, Union Carbide does not occupy either of these positions. Therefore, it is not a candidate for immediate action on either side.

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OCTOBER 12, 1983.

# INDEX CHARTS
## STOCK MARKET INSTITUTE, INC.

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- 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:

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- Computers
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- Electronics
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- Medical
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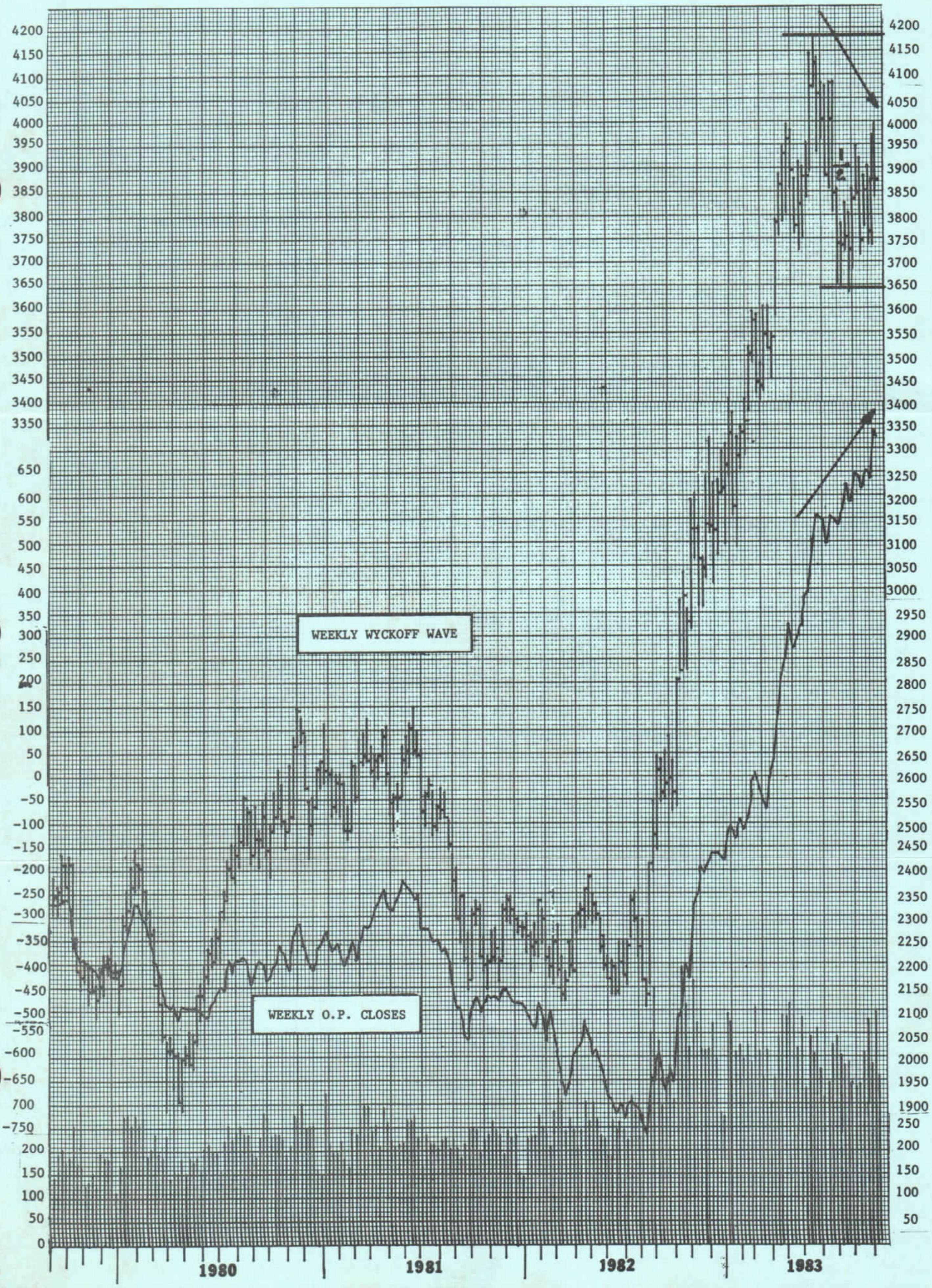

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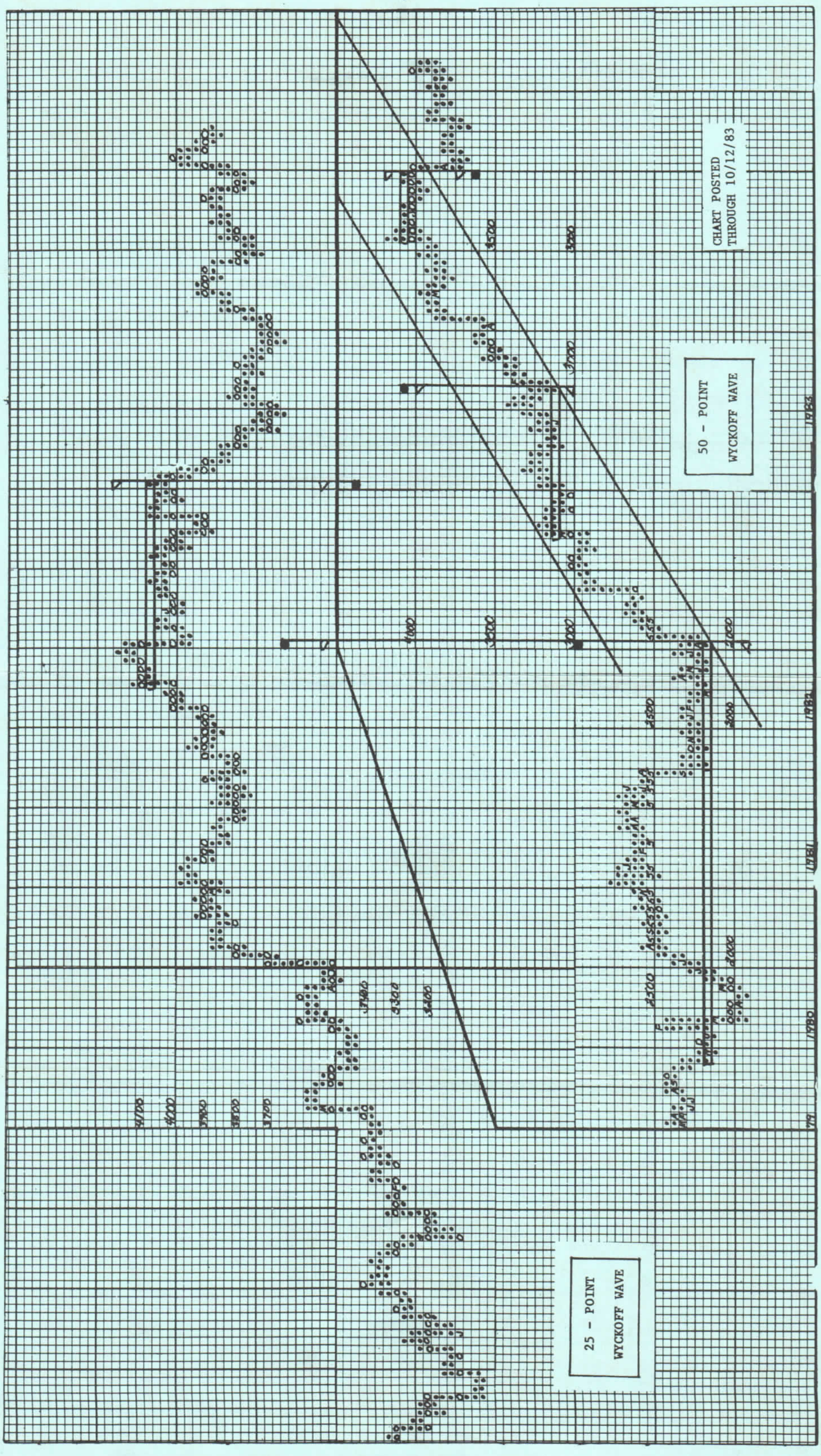

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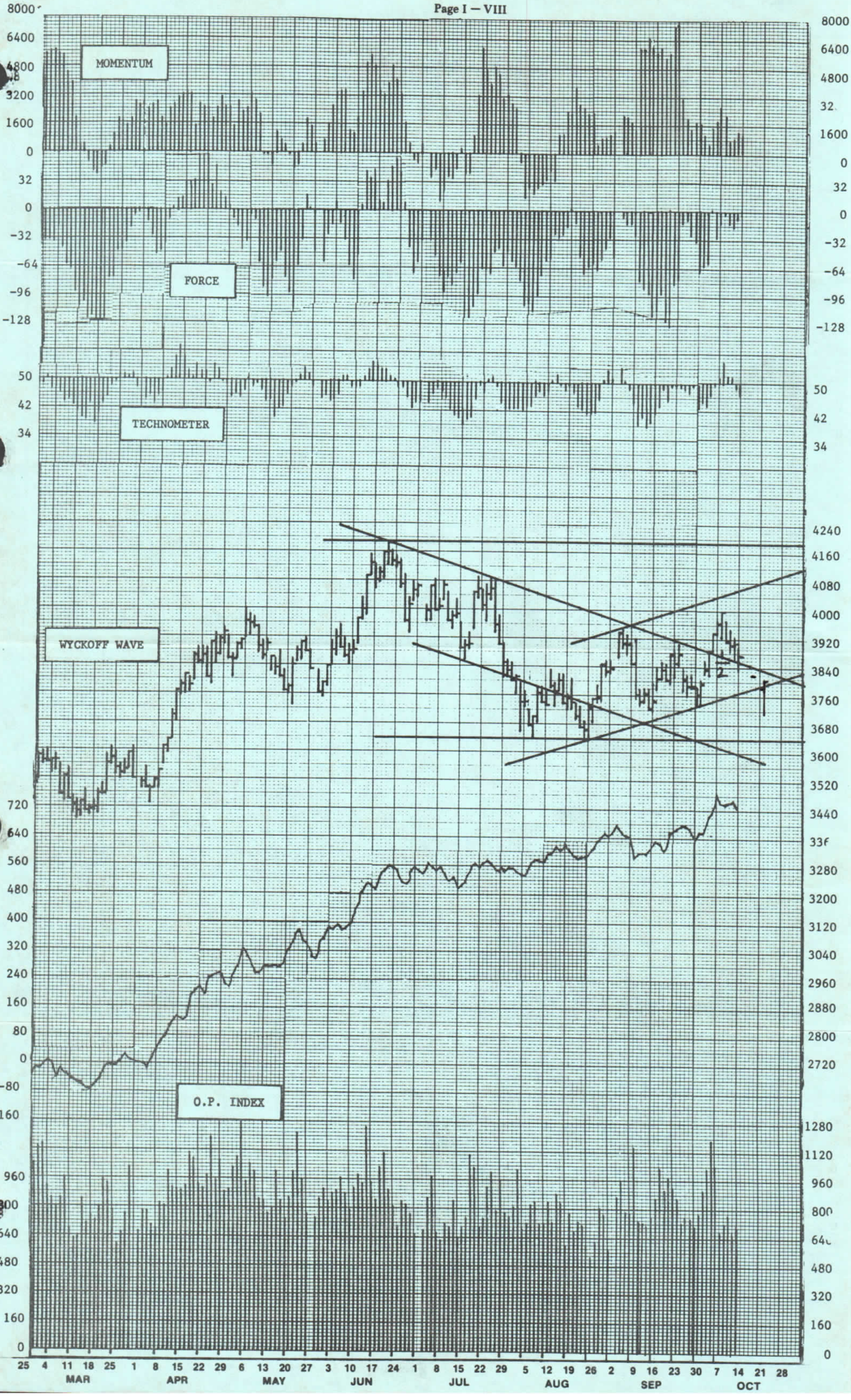

**CHARTING SERVICE**

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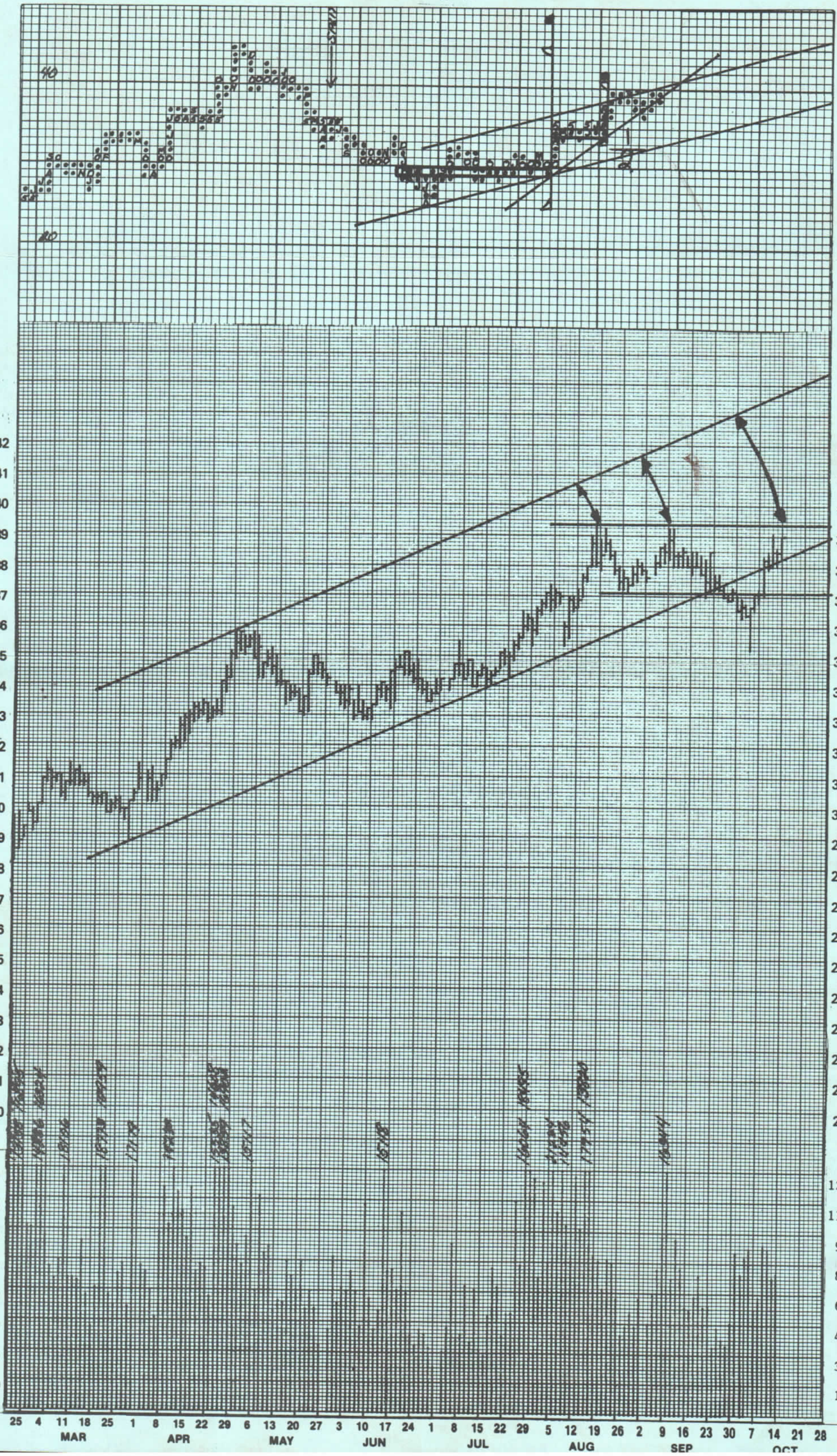
EXXON

OIL - INTEGRATED

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





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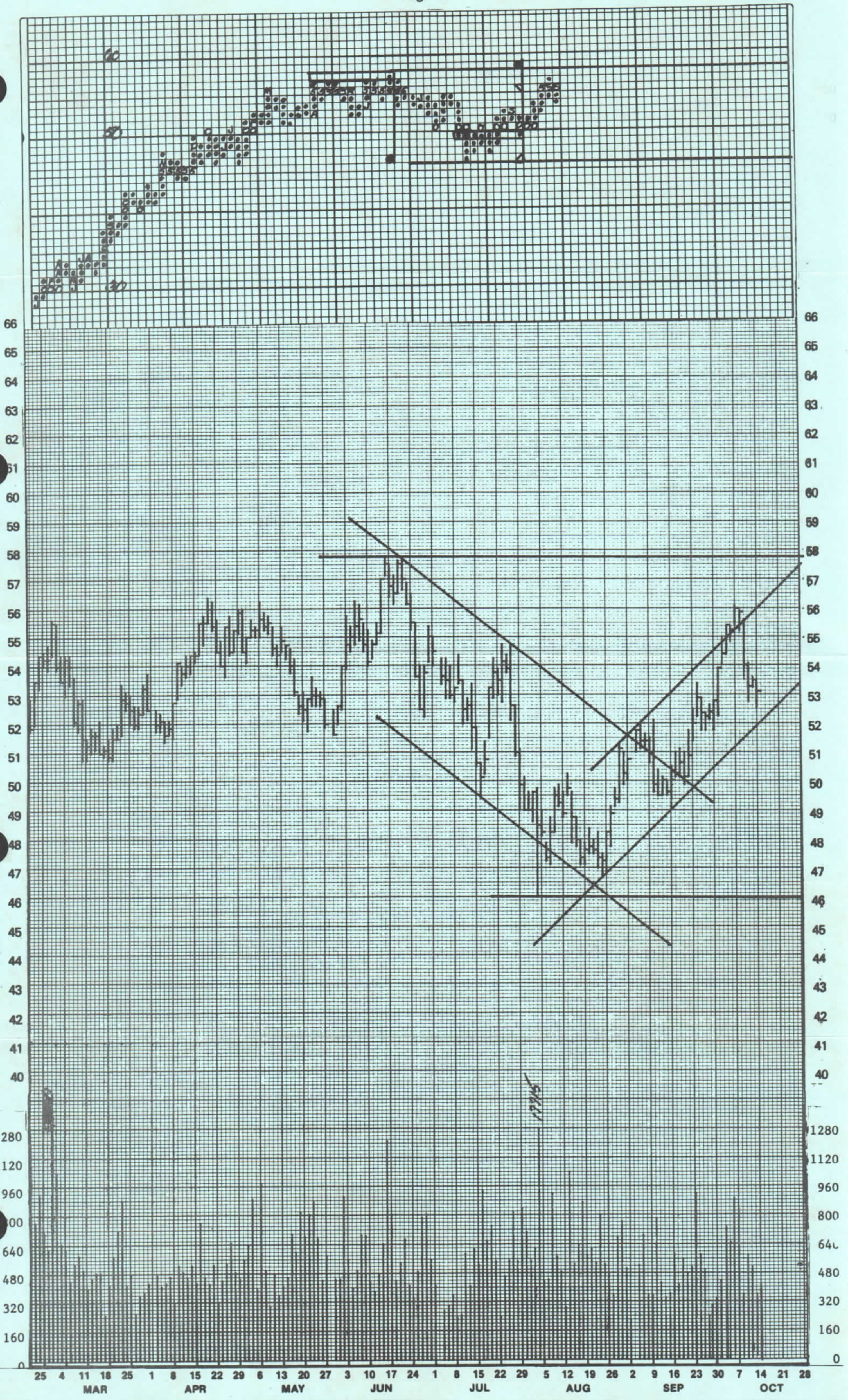
GENERAL ELECTRIC (GE)

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





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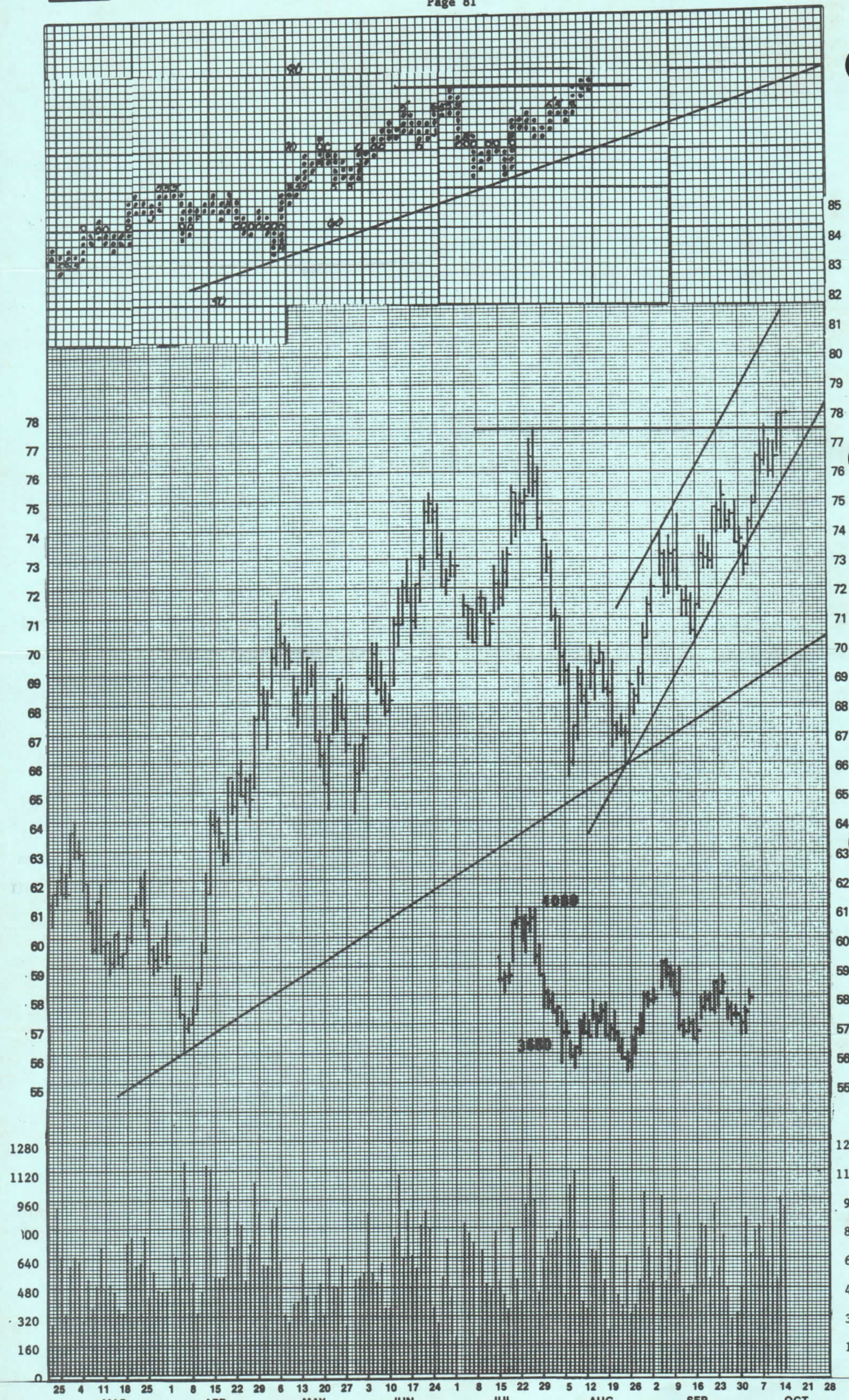
GENERAL MOTORS (GM)

AUTO

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





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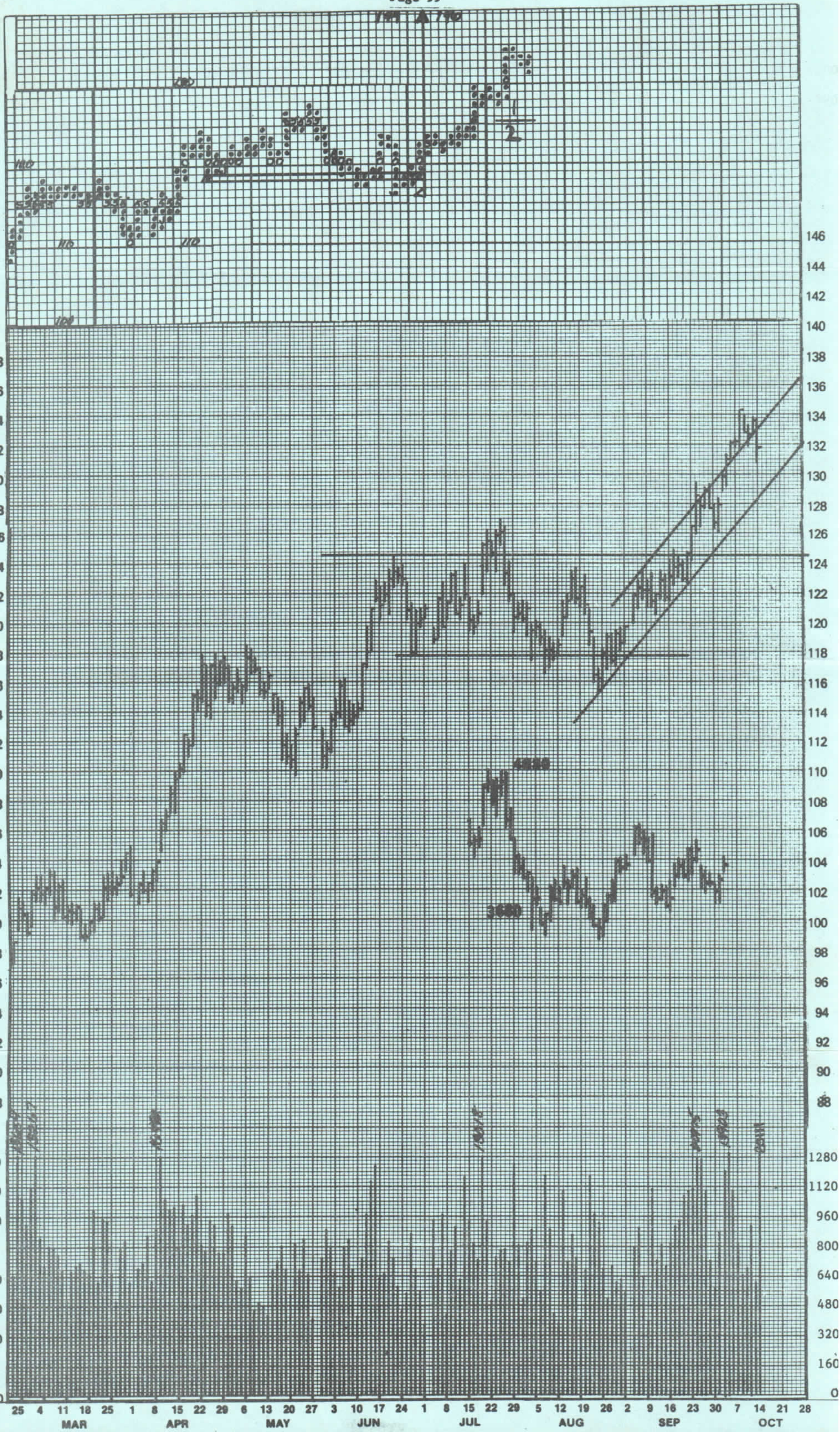
IBM

COMPUTERS

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





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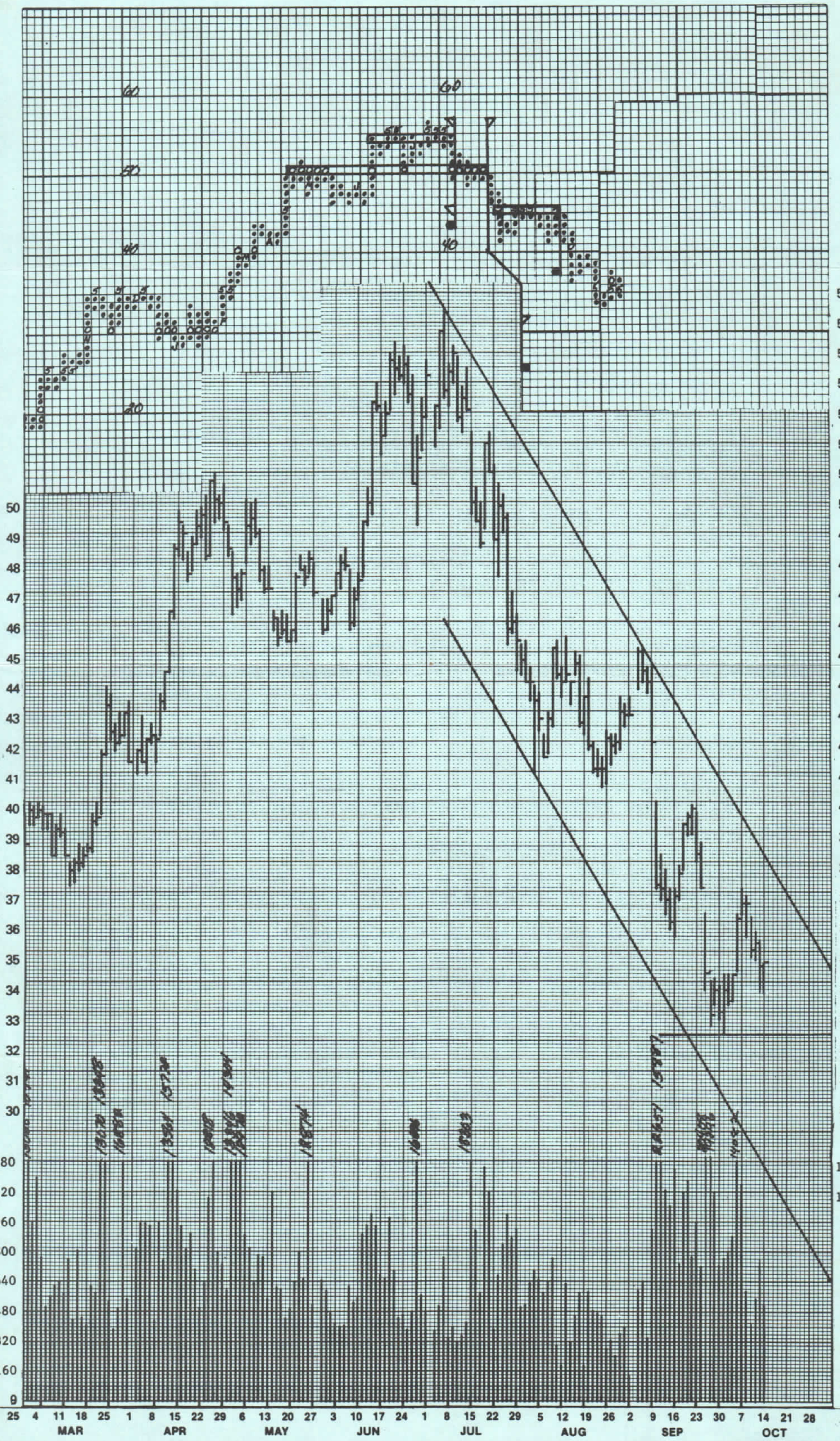
MERRILL LYNCH (MER) A.S.E. (p&c)

BROKERAGE FIRMS





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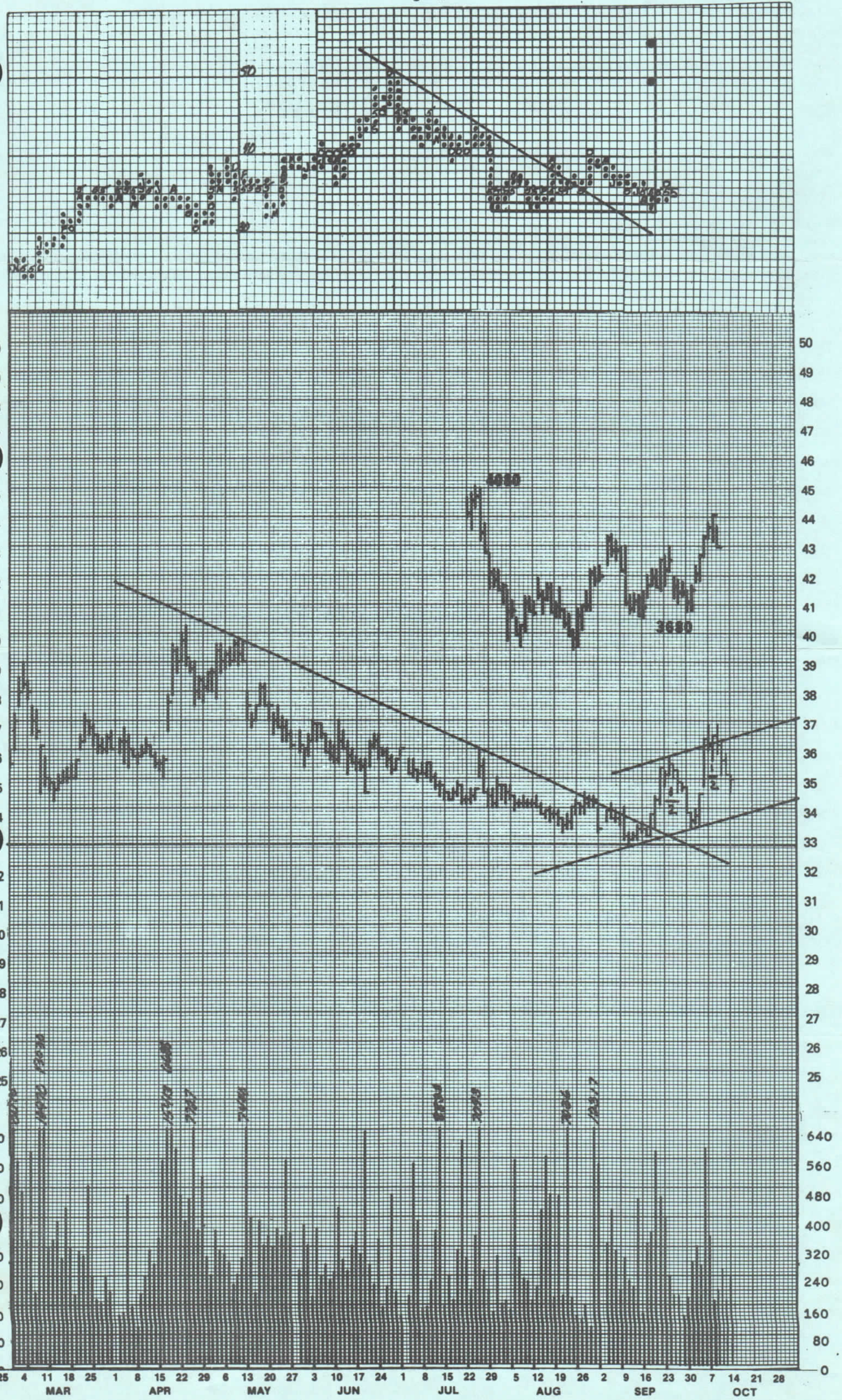
PEPSICO (PEP)
C.B.O.E. (p&c)
SOFT DRINKS





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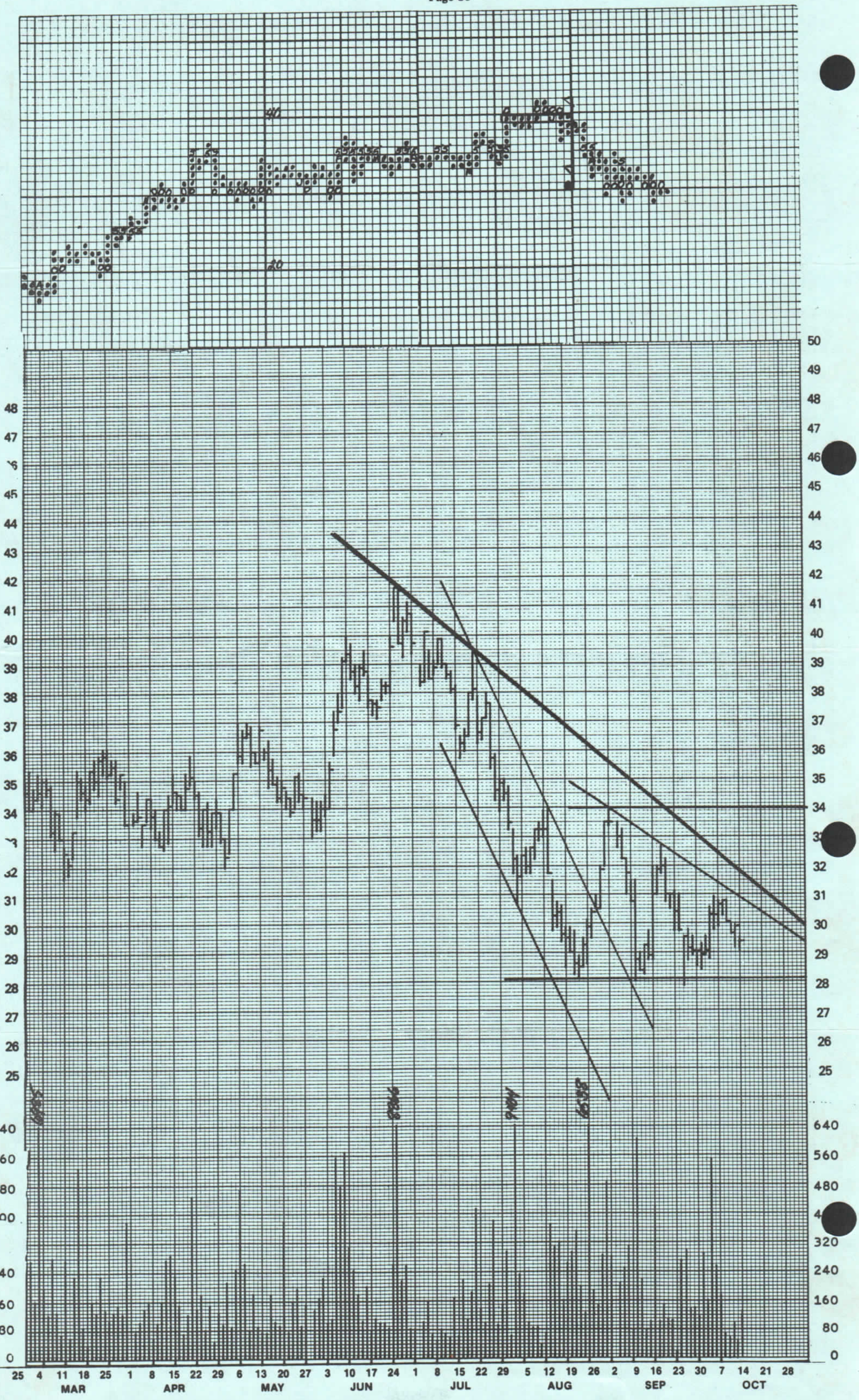
U.A.L. INC. (UAL)
C.B.O.E. (p&c)
AIR TRANSPORT





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