

# The Trend Letter

Wednesday, September 1, 1982

## MARKET TRENDS

Opinions about the market almost always come in extremes. Market action, however, usually does not. Occasionally, though, it does, and when it does, the need for caution and patience becomes even greater. This is because extreme action on the part of the market tends to bring out an even greater emotional extreme on the part of investors and traders. It can be very difficult for most and unfortunately impossible for many to avoid being swept away with such a powerful tide. Those who are likely to have many problems because they have ceased to be guided by good sound reasons and instead have turned to reasons that just sound good. The market may give these individuals a small profit immediately, but will it let them keep it and will it grow into something meaningful? In most cases it will not. Only those who return to a reasoned approach are likely to end up as winners in the end.

On August 12, the Wyckoff Wave entered a spring position. The reasoned approach to evaluating such a development would be to conclude that a rally was about to occur. It did. By August 16, the market had rallied about seventy points. Also on that day, the Wyckoff Wave began to react. It closed at the low for the day. A reasonable response to this would have been to conclude that the test of the spring needed due to the lack of truly low volume on the spring action had begun. This is always a critical time. Those who are daring enough to buy on the spring must be alert. The test will justify their actions, but only if it is successful. If it is not, corrective measures are needed immediately. Those who wait for the test must also be alert so as not to miss it, and face the prospect of having to buy much later at higher prices.

Normally, the testing of a spring takes several days. This time it did not work that way. Instead of continuing to drift lower the next day, the market began what has come to be a historic rally. Was the action during the closing hours of August 16 a test of the spring? Action since then says it was. Could this fact have been determined at the time? Probably not. Should the market have been chased as so many did? The answer to this is definitely not. In spite of the historic character of the rally, it is not the only one that the market will ever have. If its impact proves to be long lasting, the result is likely to be a major advance also of historic proportions. There is still plenty of time to get positioned to participate in that.

Although Wyckoff students may want to debate whether the action of August 16 was a test of the spring, there seems little doubt that the market has now jumped a major creek. The next step is the back up, which should be more obvious than the test of the spring. It appears as though the jumping of the creek occurred at about the 2350 level. The halfway point of the rally is at 2320, a back up to this area would be normal. However, if the recent strength is for real, the market may become oversold before a normal back up is completed and then be ready to resume the advance. For this reason, the progress of the back up must be monitored closely. Assuming it is successful, which cannot be guaranteed at this point, the future could hold upside objectives of 2650, three thousand, or even higher.

From a short term standpoint, however, the next important move is down. If the back is normal, the Wyckoff Wave may give up as much as one hundred fifty points. This is enough to make a good short term profit. The critical question is when to short. The rally thus far has had three thrusts and has experienced a lessening of new progress on each. This suggests that the advance is fading, but it is not enough to justify a short position. What is needed is an inability to make a higher high. Since the action of last Thursday now appears to represent a buying climax, a failure to make a new high at this point would be a secondary test of that climax and justify a new trading range between approximately 2440 and 2540. This is the earliest that a short term short position can be justified. If one is taken, an important point to watch afterward will be for an inability to break out of the new trading range on the downside. This would suggest that the new trading range is actually reaccumulation and require a prompt reversal of positions.

## STOCK TRENDS

In view of what now seems reasonable for action from this point forward, stocks should be looked at as to their short term potential on the downside and for their longer term potential on the upside. Since many stocks have made good gains in the past two weeks, good reactions may now seem in order, but we must be careful about such a conclusion. The strongest stocks may not back up that much. There may also be a tendency to look most favorably at those issues that have not moved that much as candidates for the long side. This also is questionable because a stock that has not moved at this point may not move.

Exxon's advance from a percentage standpoint has approximately paralleled that of the market. Unlike the Wyckoff Wave, however, Exxon's rally was stopped by an important resistance level. Since then, it has backed off about halfway and now appears ready to try the upside again. If the resistance at 29.5 continues to hold, this should be a good short term short candidate. Its value as a longer term long candidate is still questionable, however. There is a great deal of damage that needs to be repaired here and one healthy rally will not accomplish it.

General Electric lived up to its past record of strength on the recent rally by advancing more than ten points. However in the process it has gotten itself rather badly overbought and in need of some type of correction to get it back into the major uptrend. A halfway correction would accomplish that, but a stock this strong is likely to be reluctant to react. Therefore, GE should not be considered a prime candidate for a short term short position. However, when the back up has been completed the higher objective to perhaps 81 may once again make this a good candidate for the long side.



General Motors is a big question mark. It did do well on the recent rally and has higher objectives well into the fifties. The problem here is the move down to forty prior to the recent rally. This did provide a second point for defining a major uptrend, but it was not in character with the strength of the previous action. This suggests that the future in this stock is probably not going to be such a straight path upward. The rapid retreat from the overbought position of last week makes it a candidate for a short term short position when the high is tested. Its future as a long candidate is less certain. The higher objective means it must be considered, but how seriously depends on the character of the next correction. If support is met around 44.4, serious consideration should be given. However, if it takes the long term support line to support the price, there may be better candidates.

I.B.M. is in both an intermediate and a longer term uptrend. The upside objective is at least 74 to 76. Depending upon the character of its correction of recent gains, a new up count may be possible at the sixty-three level. This could result in an eventual objective above 90. Of more immediate concern, however, is its likely participation in a back up. Its strength on the recent rally was not as great as that of General Electric, so a good correction is more likely here. Good support does exist at 66 though, which is not that far below the current level. Therefore, other stocks should provide a better opportunity.

Periodically, the leadership in the Wave changes. For quite some time it has been in GE, GM and IBM. As noted, these issues remain strong, but others have now come along to take over the position of strongest. One of these is Merrill Lynch. After a twelve point advance, a correction is in order, but the strength now present here may keep it from being of normal proportions. Therefore, this is not a good short candidate. Any action here seems best aimed at the long side after a correction and creation of a new count.

Pepsico should be avoided as a short term short candidate, but it is a prime prospect for the long side. This is mainly due to its well defined major uptrend and substantially higher objective. A correction here that holds at the thirty-nine level in combination with a constructive back up in the general market should be considered a buying point.

UAL is another stock that comes with a big question mark. It has had an impressive rally, but like Exxon, that rally has been stopped by an important prior resistance level. Since it seems unable to push its way through this, a retreat into an oversold condition to build new momentum for an additional effort is in order. Since the stock is well on its way to being oversold already, it may not have to back up very far to become oversold. Consequently a short position appears unwise. For the longer term, a long position after a correction is worth considering due to the potential upside objective of 29.

Even though it has used up its immediate upside potential, the final stock in the Wave, Union Carbide should not be considered as a short. This stock has taken over a new leadership position. It is now in need of a correction because of the overbought and divergent conditions. However, if it can hold at about forty-six on that correction, the potential for a major advance will be in place.

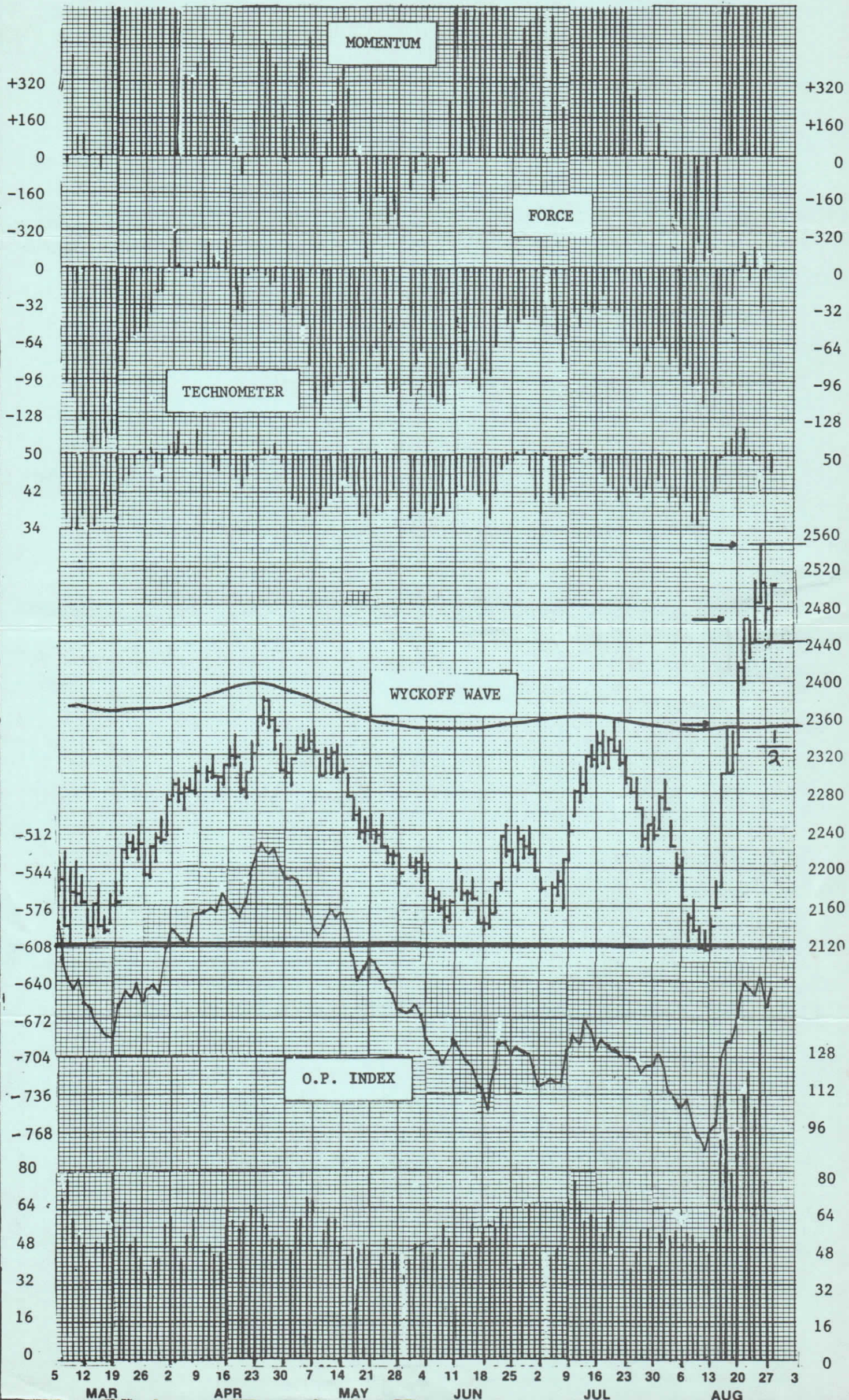




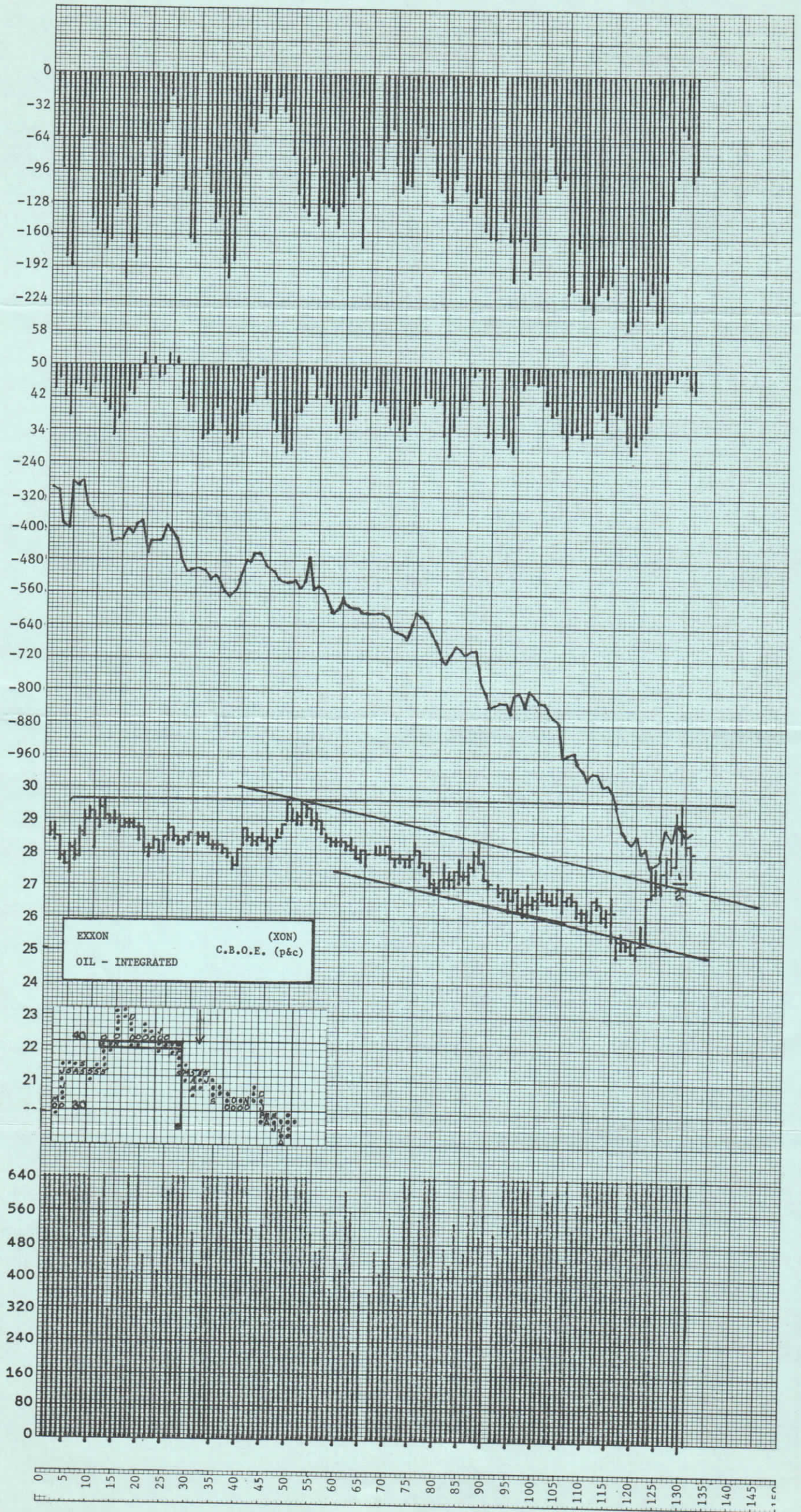
# The Pulse of the Market

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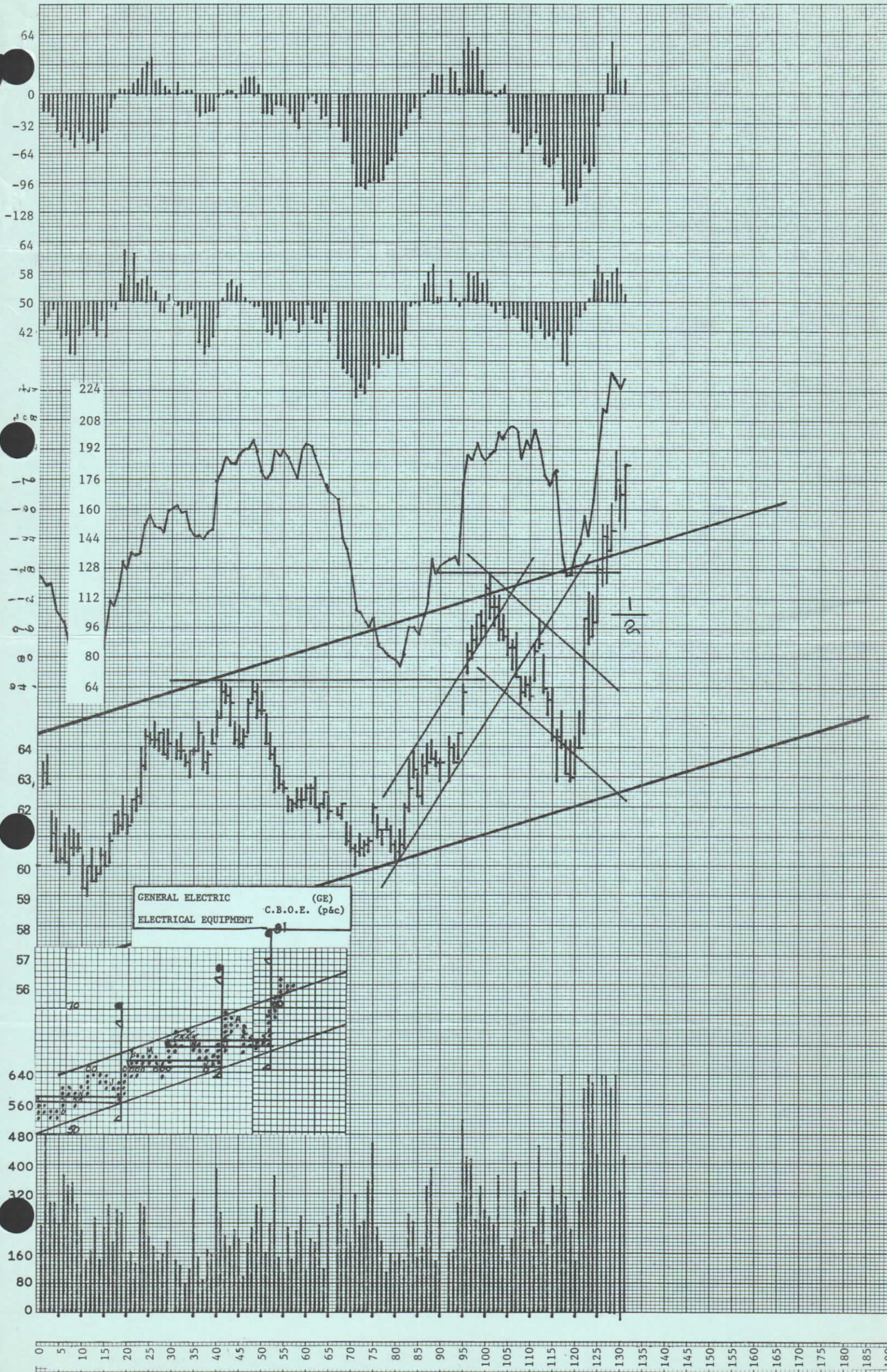




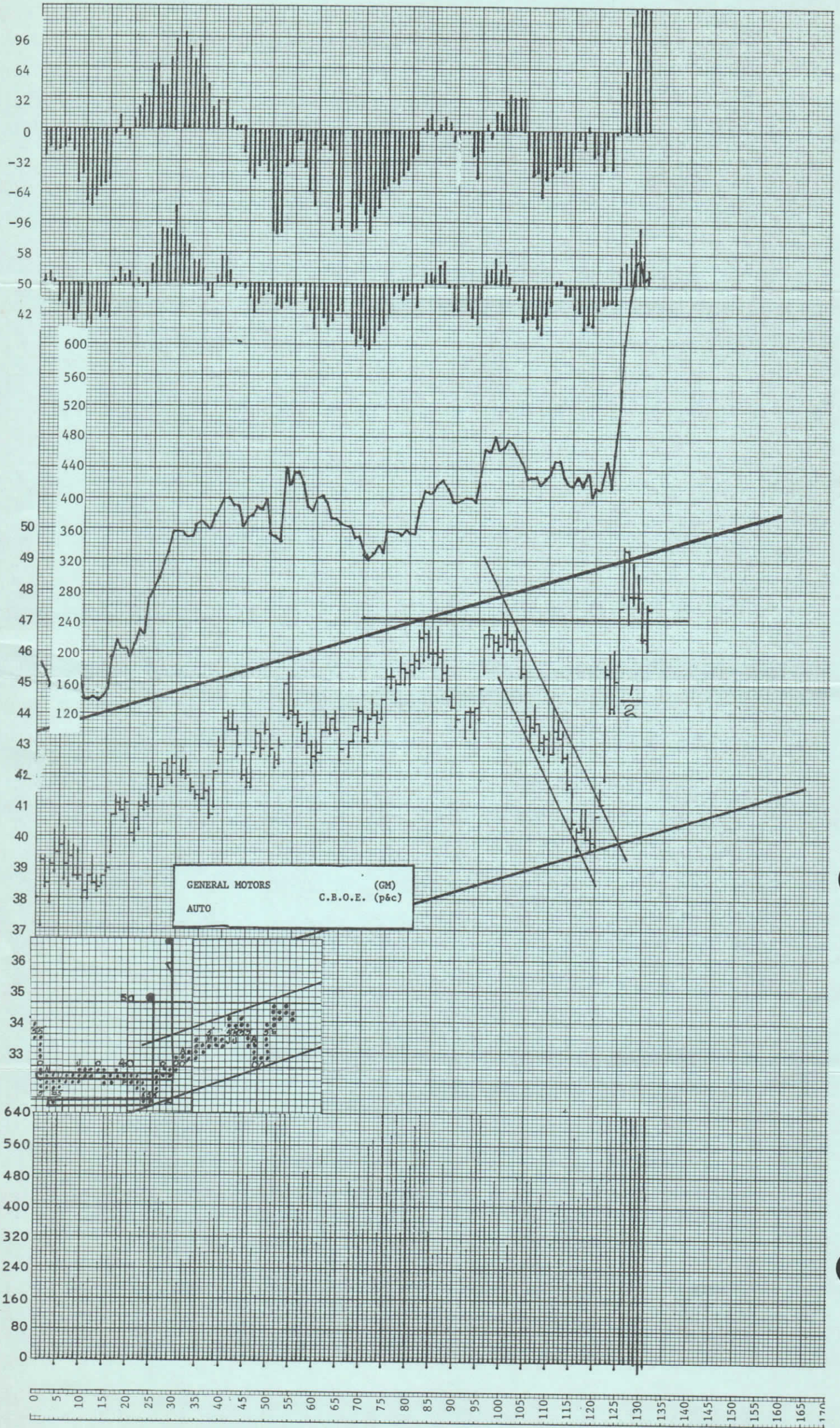




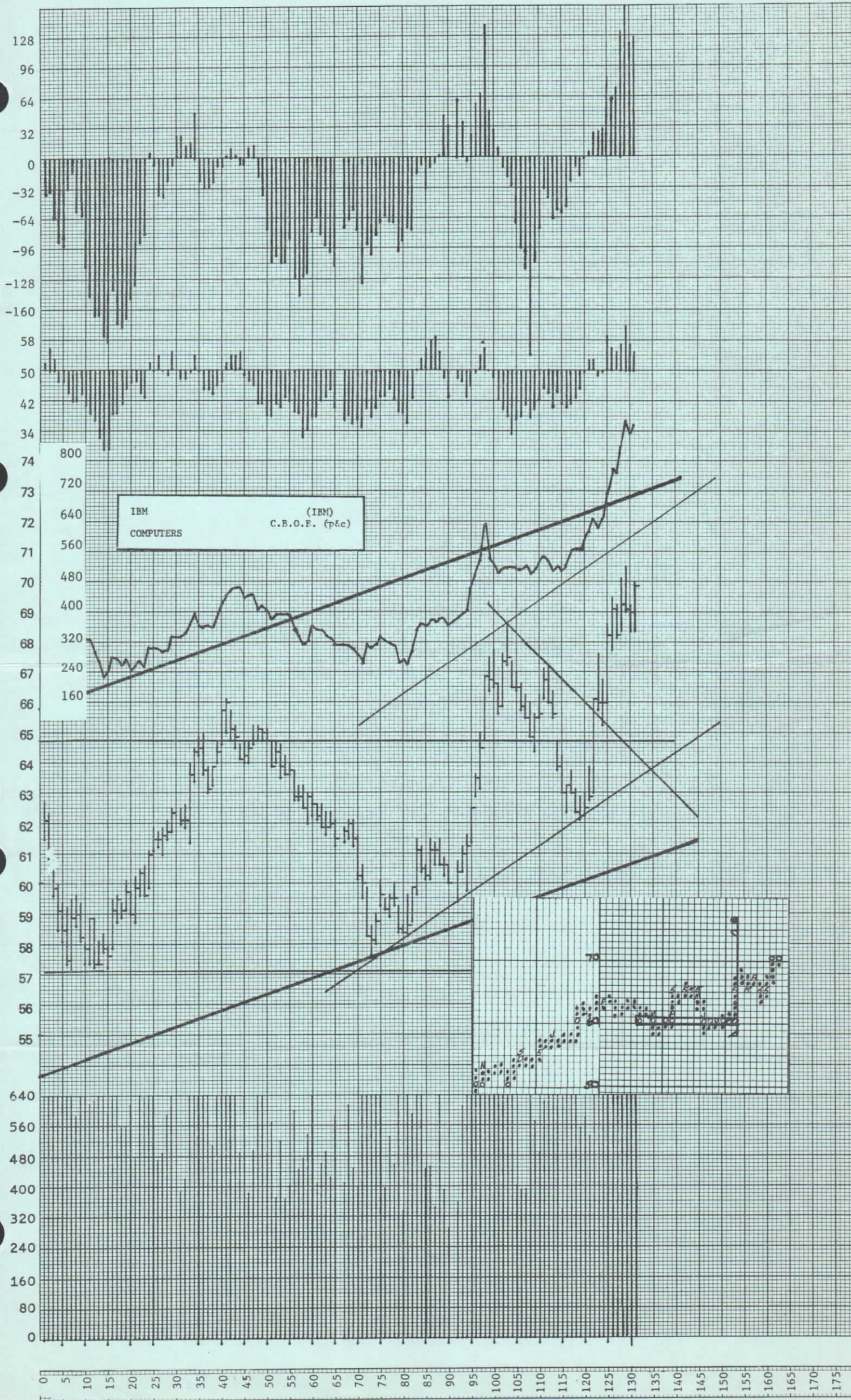
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